

RWE Distribuční služby

Content

ANNUAL REPORT 2010



Key Ratios (CAS)

	2010
Total sales (CZK m)	2,306
EBITDA (CZK m)	302
Operating result (CZK m)	270
Profit before taxation (CZK m)	271
Profit after taxation (CZK m)	215
Investments (CZK m)	23
Number of employees (converted to FTE)	1,552

The term “Company” used in the text refers to the company name RWE Distribuční služby, s.r.o.

Abbreviations used

AG	Aktiengesellschaft (public limited company)
a.s.	Public limited company
CAS	Czech Accounting Standards
CC	Competence Centre
CEO	Chief Executive Officer
CFO	Chief Financial Officer
COO	Chief Operating Officer
DSO	Distribution System Operator (RWE GasNet, SMP Net, VČP Net)
GIS	Geographical Information System
High pressure	Pressures up to 4 MPa
IT	Information Technology
OHS	Occupational Health Safety
SLA	Service Level Agreement
s.r.o.	Limited liability company
Very high pressure	Pressures over 4 MPa
RWE CZ Group	RWE Group in the Czech Republic
RWE GasNet	RWE GasNet, s.r.o.
SMP Net	SMP Net, s.r.o.
VČP Net	VČP Net, s.r.o.

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1 THE MANAGING DIRECTOR'S STATEMENT

Ladies and Gentlemen,

Year 2010 was the third year of the existence of the company RWE Distribuční služby, s.r.o. (hereinafter referred to as "the Company"). Its primary objective was, much like in the past, reliable and safe operation of all gas facilities comprising assets of the distribution system operators of the RWE CZ Group. In compliance with the Company's long-term strategy, large attention was paid to unifying and increasing effectiveness of carried out activities and to costs management.

In the area of operation and dispatching management of distribution systems of companies RWE GasNet, VČP Net and SMP Net, being the main Company's customers, all planned ratios were met. The same applies to compliance with plans – from factual and financial point of view - concerning metering, network operation management, network construction and documentation.

As for gas supply, several extraordinary situations in operation occurred in 2010. The most serious situations were caused by floods in Northern Moravia in June and flash floods in Liberec region in August, disrupting gas supply to four thousand customers; due to extensively damaged gas facilities, the state of emergency was declared. Thanks to professionalism and devotion of our employees and partner companies, consequences were gradually rectified and gas supply was renewed within the shortest possible time.

An especially challenging project of centralization of the distribution dispatching centre was completed. At the end of 2010, extended and modernized dispatching centres were launched to operation in Ústí nad Labem and Brno that took over management of distribution systems of all operators in the RWE CZ Group.

With the objective to facilitate and speed up communication in the area of provision of services to external subjects, the electronic Contact system was put into operation, enabling interested parties to find direct contact details of competent persons responsible for topics concerned in a simple and quick manner. Customers wishing to be newly connected to the distribution system may use the extended portfolio of almost ninety contractors as of 2010.

The Company paid extraordinary attention to its employees' safety and protection of health at work. Although no serious industrial injury occurred in the Company in 2010, the final injury ratio was higher than in the preceding year. Strong emphasis will be therefore laid on compliance with the principles of safe work and on utilization of all possibilities to prevent industrial injuries. In the area of personal policy and internal communication, key problems included stabilization of employees' structure and further increase of their qualification. Based on positive assessment of the application,

the Company was granted significant financial contribution from the European Social Fund to be used for the project "Academy for Gas Industry Specialists" dealing with education of gas sector specialists that will train several hundred employees.

Finally, I am satisfied that in 2010, the Company complied with all its obligations, met customers' requirements and achieved very good financial results. I would like to use this opportunity and express my thanks to all staff for their contribution to this success.

A handwritten signature in blue ink, appearing to read 'Tichý', with a stylized flourish at the end.

Tomáš Tichý
Managing Director, CEO

Managing Directors as at 31 December 2010

Tomáš Tichý

Managing Director, CEO

Date of birth:

31 March 1947

Education:

Czech Technical University, Prague, Faculty of Mechanical Engineering

Membership of bodies of other companies:

Chairman of the Board of Directors Jihomoravská plynárenská, a.s.,

Chairman of the Supervisory Board JMP Net, s.r.o.,

Member of the Supervisory Board GASFINAL, a.s.*

Any other business activities:

None



Dušan Malý

Managing Director, CFO

Date of birth:

21 March 1974

Education:

University of Economics, Prague, Faculty of Finance and Accounting,

MBA at ESCP-EAP in Berlin

Membership of bodies of other companies:

Deputy Chairman of the Board of Directors

Jihomoravská plynárenská, a.s.,

Deputy Chairman of the Supervisory Board JMP Net, s.r.o.

Any other business activities:

None



*On 1 January 2011 the company entered into liquidation.

Pavel Káčer

Managing Director, COO

Date of birth:

29 June 1958

Education:

Technical University, Brno, Faculty of Mechanical Engineering

Membership of bodies of other companies:

None

Any other business activities:

None



Changes in the Company's governing bodies during 2010

No changes occurred in the Company's governing bodies during 2010.

2 MANAGEMENT REPORT FOR 2010

2.1 General Information

Company name:	RWE Distribuční služby, s.r.o.
Registered office:	Plynárenská 499/1, Brno, PSČ 657 02
Company No.:	27935311
Legal form:	Limited liability company

The Company's Establishment and Inception

The Company was established on 26 July 2007. It is incorporated in the Commercial Register administered by the Brno Regional Court, Section C, File 57165.

The sole member of the Company is RWE Transgas, a.s., with its registered office at Prague 10, Strašnice, Limuzská 12/3135, 100 98 Company No. 26460815.

Object of Business

1. Lease of real estate, residential and commercial premises
2. Production of electric power
3. Services relating to work safety and health protection in the workplace
4. Accounting consulting, bookkeeping, and tax administrative services
5. Technical and organizational fire prevention services
6. Construction, reconstruction and demolition of structures
7. Construction design
8. Installation, repair, inspection, and testing of specialty electric equipment
9. Installation, repair, inspection and testing of specialty gas equipment and a gas vessels filling
10. Production, trade and services not specified in annexes 1 to 3 to the Trades Licensing Act

2.2 Results

Revenues, Expenses, Profit

In 2010, the Company earned CZK 215,154 thousand in net profit. Profit before taxation in 2010 amounted to CZK 271,322 thousand.

Sales of own products and services in 2010 amounted to CZK 2,306,174 thousand, including CZK 1,719,180 thousand in revenues from SLAs and CZK 586,994 thousand in proceeds from services related to gas facilities.

Assets and Liabilities

The balance of the Company's assets as at 31 December 2010 amounted to CZK 579,893 thousand, i.e. an increase by CZK 53,675 thousand compared to 2009. The most significant asset increase – by CZK 66,323 thousand – concerned receivables from companies of RWE Group by title of the so-called cash-pooling against RWE Transgas, a.s. The most significant liability increase – by CZK 112,847 thousand – concerned the financial result for the current accounting period. On the contrary, reduction occurred in case of short-term liabilities and other provisions.

Investments

During the year 2010, the Company executed investment projects in the framework of the approved investment plan. The Company purchased assets, mainly gas processing machinery and equipment, with the total value of CZK 22,938 thousand. All the Company's investment projects were executed in the Czech Republic and financed using the Company's own resources.

The scope of planned investments has been optimized from the viewpoint of needs and resources until the year 2013. Projects foreseen in the approved mid-term plan mainly include investments into gas processing machinery and equipment. All investments will be made solely in the Czech Republic.

Risk Management

All risks are recorded in the Risk Catalogue. In addition, they are entered into the risk matrix, which allows identifying the most serious risks from the viewpoint of the probability of their occurrence and the extent of potential damage. In 2010, the Risk Committee comprising management representatives did not identify any risks liable to jeopardize the Company's existence.

Information on Research and Development Activities

The Company does not carry out research and development of new products.

Company's Organizational Units Abroad

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

2.3 Business Activities

The Company provides the services mainly to the distribution system operators within the RWE CZ Group. On the basis of concluded SLAs with the RWE companies GasNet, VČP Net and SMP Net, the Company ensures operation and maintenance of gas facilities for these companies, metering of gas consumption and quality, including connection and disconnection of customers, network construction, operational network management and creation and administration of documentation. Important activities, from the point of view of security and reliability, are the dispatching management of operated networks and ensuring for non-stop emergency service. Within the approved long-term strategy, the Company started to offer these services also over and above the approved SLAs.

Network Operation and Maintenance

In 2010, the Company continued with harmonization for processes and individual activities within network operation and maintenance; the harmonisation is aimed at improvement of quality and efficiency of provided services – and in particular on increasing the reliability and safety of gas facilities operated by individual DSO:

Scope of operated gas facilities				
	RWE GasNet	SMP Net	VČP Net	Total
Length of gas pipelines in km	21,130	13,753	11,303	46,186
Number of gas pressure regulating stations for transmission and distribution	1,296	603	458	2,357
Number of corrosion protection stations	407	310	106	823

The Company provided for all the inspection activities, maintenance and repairs according to the schedules. Improvement in quality of provided services was proven in the decrease of unrepaired failures and leakages. As at 31 December 2010 the number of unrepaired leakages was decreased by more than 54% in the year-to-year perspective. Also the number of non-removed underground leakages of gas, which pose the highest risk to operated gas networks, keeps decreasing. Certainly, all the leakages are handled within time limits required by the legislation. Organization and management of emergency services maintain the high standard of performance. Last year the time necessary for the emergency service staff to reach the location of failure reported to the 1239 line was significantly shortened. Such time was shorter than 60 minutes in more than 97% of cases.

Scope of activities performed by the operation and maintenance				
	RWE GasNet	SMP Net	VČP Net	Total
Number of planned inspection activities	43,487	48,432	20,500	112,419
Number of removed gas leakages	14,281	10,673	7,301	32,255
Number of rectified failures without gas leakage	30,576	23,328	11,531	65,435
Number of call received at the 1239 line				35,346
Number of on-site actions of emergency service	13,682	9,797	3,525	27,004

In the course of 2010, there were solved five extraordinary events marked as emergency. During these emergency events the natural gas supply to 4,312 customers was disrupted. In most cases the gas supply was renewed within 48 hours, except for floods in Liberec region, where on 7 August 2010 the state of emergency was declared for the entire Liberec district in accordance with the RWE GasNet Emergency Plan. On 3 September 2010 the state of emergency was limited only to the town of Chrastava and was fully called off on 24 September. Due to the floods in Liberec region, the gas supply was disrupted for 3,997 customers. Gas supply to most customers was restored by 17 August 2010. Renewal of gas supply to the remaining customers was subject to finalisation of instigated investment actions that had to be coordinated with other network administrators due to the demolitions of damaged buildings, cleaning and repairs. Not only the employees of CC Hradec Králové, but the staff of the entire Company participated in removal of the floods consequences.

Violation of gas facilities by third parties remain permanent problem. Last year as well as the year before that, there were 368 cases when the operated gas facilities were damaged by third parties, followed by the gas leakage. Cost of rectification for such damages exceeded CZK 7 million.

Last year, great emphasis was placed on increasing the effectiveness of Company's own employees work carried out when handling repairs and maintenance. This effort was significantly demonstrated in the volume of services purchased from suppliers, which in the year-to-year perspective dropped by CZK 46 million, i.e. by 16%, whereas the existing number of employees was retained and the number of non-removed leakages and failures was decreased. The Company intends to continue with this trend also in the coming years.

Centralization of distribution dispatching centres within the RWE CZ Group was completed in the second half of 2010. This centralization also involved reorganizing of Dispatching Division within the Company. Dispatching centres in Ostrava, Hradec Králové, Pilsen and Prague were cancelled. The Ústí nad Labem centre is now used for managing the distribution systems of operators RWE GasNet and VČP Net. As part of centralization the transfers from remotely controlled and monitored gas pressure regulating stations for transmission and distribution were unified. As at 31 December 2010, monitored were 1,118 RWE GasNet stations and 409 VČP Net stations.

Metering and Technical Services

As regards the metering, the Company had to continuously respond to the legislative requirements and also to the large quantity of change of suppliers to the end customers, especially as a consequence of open market. Within the requested deadlines the Company provided for readings for all customers, along with arranging for source data necessary for the invoicing of gas consumption. Performed were the exchanges of metering equipment for the purposes of official verification, controls or calibration, de-assembly of metering equipment at debtors' premises, unauthorised consumptions were handled, etc.

In Small customer and Household category, attention was paid to quality of meter reading, meaning an increase in number of physically carried out meter reading compared to customer's own meter reading.

In the course of the year, the pilot project “Smart Metering” was launched, specifically in the Northern Bohemia, in Málkov municipality.

Number of tasks performed as part of metering and technical services				
	RWE GasNet	SMP Net	VČP Net	Total
Diaphragm gas meters up to G 6	133,848	126,480	54,116	314,444
Gas meters above G 6	5,650	3,040	2,306	10,996
Electronic metering systems	8,343	9,431	5,516	23,290
Readings at customers in categories of Large and Medium Customers	24,422	8,416	10,724	43,562
Readings at customers in categories of Small Customers and Households	791,647	691,247	349,235	1,832,129
Unauthorised consumptions	13,263	5,117	2,988	21,368

Network Construction

The Company arranged for preparation and execution of gas facilities constructions in accordance with DSO investment plans. In 2010, preparation of total 403 ventures in the total value of some CZK 1,082 million was completed for these distribution system operators. As for execution, 881 construction projects in total value of CZK 1,079 million were completed.

Number of prepared structures				
	RWE GasNet	SMP Net	VČP Net	Total
Number of prepared structures	188	125	90	403
Value of prepared structures (in thousand CZK)	512,983	306,653	261,715	1,081,351

Number of completed structures				
	RWE GasNet	SMP Net	VČP Net	Total
Number of completed structures	578	165	138	881
Value of completed structures (in thousand CZK)	619,739	278,219	180,899	1,078,857

Overview of the most significant construction projects completed in 2010:

- Complete mass installation of gas supply in Brandov municipality and construction of new very high pressure regulating station Brandov;
- Completion of mass installation of gas supply in Žehušice municipality, the locality Za Humny I., Part 4;
- Reconstruction of high pressure gas pipeline No. 4, section Radimek - TU 4/15 and section TU 4/16 – Radimek;
- Reconstruction of local networks in Příbram, Bratří Čapků street;
- Reconstruction of low pressure local network Liberec, Na Ladech;
- Reconstruction of high pressure gas pipeline DN 500 Suchá – Albrechtice, II. stage.

Services provided in the network construction area included expert supervision of gas facilities construction carried out by other investors, which will be subsequently operated by DSO. In 2010 this supervision was carried out for 3,694 constructions.

During the year the Company responded to the new investment strategy of DSO, which anticipated significant increase of investments into the network reconstruction in the next three years. Number of projects in preparation has considerably increased and the Company thus had to enhance its capacity in the area of preparing the network construction.

Since last year, the Company is offering these services also outside the DSO group. A new customer became the company RWE Gas Storage, s.r.o., for which the Company ensures selected services in the area of preparation and execution of one of the most important construction projects within the RWE CZ Group "Extension of underground gas storage reservoir Třanovice".

The Company has noticeably improved the quality of services related to the valuation of construction and assembly work. As a result, in cooperation with the Procurement Department of RWE Interní služby, s.r.o., there were set up new rules for reporting the cost saving for execution of constructions. Due to the joint effort of employees in both companies the overall cost saving achieved in the area of construction and assembly work amounted to 3.8% compared to the previous year.

Operational Network Management

In the area of operational network management, the Company provides services related to the administration and technical management of the distribution system of individual operators, especially issuing positions on gas and other structures as part of the construction approval proceedings, determining conditions for connection to the distribution system, administration of technical documentation, representing DSO in communication with building authorities and dealing with ownership issues related to gas facilities.

In 2010, the Company issued almost 97 thousand positions for construction approval proceedings. As regards the conditions for connection, the year-to-year reduction by 16% was achieved, amounting to the final number of 16.5 thousand issued conditions for connection to the distribution system. More than 5 thousand newly built or reconstructed gas facilities were taken over for operation. Time limits and qualitative requirements ensuing from regulations and from SLAs concluded between the Company and DSOs were observed for all the issued positions and conditions for connection:

Overview of activities carried out within the operational network management				
	RWE GasNet	SMP Net	VČP Net	Total
Number of issued positions	47,286	28,984	20,534	96,804
Number of issued conditions for connection to the distribution system	9,181	4,215	3,192	16,588
Number of taken over gas facilities	2,382	1,570	1,083	5,035

During 2010, projects were launched aimed at improving the processes in the area of connecting new consumption points to the distribution system and enabling the applicants to submit the relevant applications in electronic form. We improved cooperation with municipalities as regards sharing information on the investment constructions in preparation; it resulted in better coordination of planned repairs and reconstructions of gas facilities with the construction activities that the municipalities plan in the same locations.

Network Documentation

The main mission of Network Documentation is processing and administration of digital plans, including technical and economic and organizational information on gas facilities. In 2010, 25,900 new construction projects and updates were entered in GIS. There is a consequent activity encompassing provision of digitalised source data for gas facilities to third parties. In 2010, there were 6,638 such requests for data cleared, which represents approximately the 15% increase compared to year 2009.

Year 2010 was marked with significant project of introducing electronic administration of requests for data change in GIS – in the JIRA software. This system shall accelerate the handed over information and especially increase the quality of data in GIS. Refinement on the positioning of high pressure pipelines in North Bohemia was finalised 2010. Currently the absolute positioning preciseness for high pressure pipelines in this region ranks among +/- 0.5 m.

2.4 Communication Activities

In 2010, the main external communication activities focused on providing information relating to ensuring safe and reliable operation of customer's gas equipment. The emphasis was mainly placed on preventive maintenance and observing basic operational rules. In addition to maintenance and servicing, the topic of gas facilities demarcation and its free provision was communicated.

In the area of communication with customers, a new communication channel, the so-called Contact system, was launched, simplifying search for up-to-date contact data of employees responsible for individual activities in localities concerned. Due to the user-friendly environment, the Contact system became in several months intensively and regularly used instrument, e.g. for filing applications for information on existence of gas facilities or request for demarcation.

Within the internal communication, unification of operational printed documents continued. Regular and timely information flow towards all Company employees had a positive impact on performance of day-to-day tasks and creation of uniform identity of provided services.

2.5 Human Resources

Employees

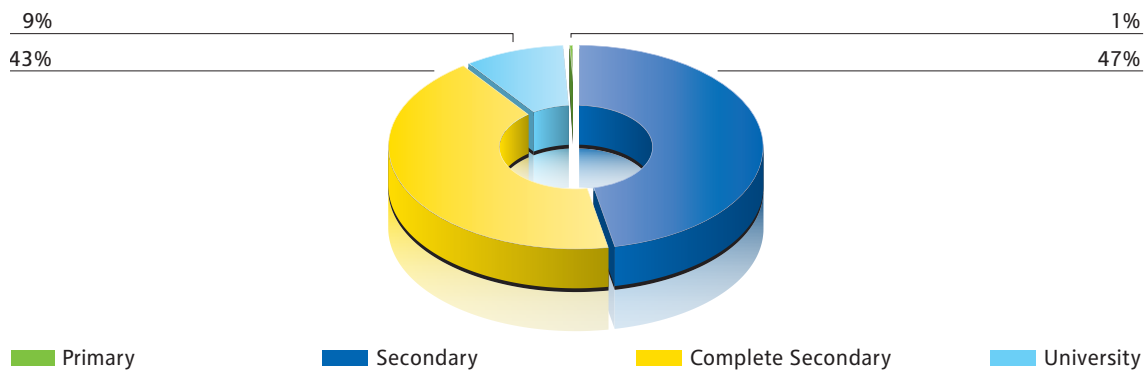
The average employee headcount (full-time equivalent) in the Company in 2010 was 1,552 workers, i.e. increase by 1 worker compared to 2009.

Wages

Wages developed in 2010 in accordance with the Company's business strategy and the remuneration and salary growth principles agreed under the Collective Agreement. Average wage in 2010 amounted to CZK 29,753.

Employee Training and Career Development

Employee Structure by Education in 2010



Employee Training and Career Development

In 2010, the Company placed emphasis on obligatory legislative and gas sector training and concurrently it focused on improving language proficiency, soft skills and IT knowledge, and deepening of technical professional knowledge of its employees, including the use of modern experience-based learning methods. The Company continued to support possibilities of increasing and deepening qualifications of employees also under part-time study programs.

The Company organized training programs focused on educating talented employees and lower-level and middle-level management, such as "Educational Program for Talented Employees", "Academy for Foremen and Foremen-Specialists" and "Management Academy".

The Company was granted financial support from the European Social Fund for the project "Academy for Gas Industry Specialists". This project was submitted on the basis of the announced invitation "Training is a chance" within the Human Resources and Employment Operational Programme.

The Company further continued already established close cooperation with selected schools and universities.

Social Policy

The Company further developed and supported its social program for employees. Within the new Benefit program, the Company provided higher contributions for individual recreation, cultural and sporting events and use of healthcare and educational facilities, as well as pension or life insurance. The Company also enabled employees and their family members to use Company's recreational facilities.

In spring and autumn of the year 2010, the Company provided employees with free vitamin packages within the preventive medical care and in the course of November and December, free flue vaccination was provided.

2.6 Information Technologies

Comprehensive IT services were contractually ensured by the service company RWE Interní služby, s.r.o. The main task in the IT area in 2010 was optimization of transmission routes for operation of Central Distribution Dispatching.

Important steps included launching of Management Information System (MIS) a launching of data boxes within the Document Management System (DMS).

IT security policy in the Company was increased by accessing RWE IT systems through the application Single Sign On (SSO) and extension of the systems protection. Employee services were integrated in HR portal.

In connection with TELCO service, transfer, or unification of communication infrastructure of dispatching systems within the technology network was completed, and optimization of data tariffs for reading equipment and long-distance transfers continued.

In compliance with RWE standards, multifunctional press services were successfully optimized for the Company as the complete compensation for out-of-date local equipment.

2.7 Occupational Health and Safety and Environmental Protection

Occupational Health and Safety

In the course of 2010, no extraordinary event occurred in the area of occupational health and safety and fire prevention, during which the employees' health or the Company's assets would have been exposed to serious direct threat. The Company registered 11 industrial injuries resulting in absence from work. The most frequent cause of those injuries was fall of employees while walking or when getting out of a motor vehicle.

The system of the rules set up in the area of OHS as well as in fire prevention has been regularly checked within the checks carried out in compliance with valid legislation. These checks have been supplemented by thematic controls and internal audits. In the course of 2010, the state administrative authorities competent for the area of occupational health and safety carried out 3 targeted controls and 2 controls were carried out by the trade union UNIOS, namely in localities Opava, Karviná, Šumperk and Votice. No serious defects were ascertained during these controls.

The Company places strong emphasis on proper fitting of employees with personal protective equipments and control of their use. The Company systematically collects employees' comments and suggestions for their improvement.

Environmental Protection

Same as in the previous years, under the applicable contractual agreements (SLA), the Company provided environmental protection services to nine RWE CZ Group companies.

The Company continued implementation of the ISO 14001 Environmental management system the implementation of which commenced in 2008. The Company committed itself to comply with legislative requirements, as well as to increase knowledge of its employees with regard to significance of the environmental protection and possibilities of use of environment-friendly technologies. It is the aim to transfer this positive and responsible approach to the environment also to suppliers and to create such conditions that would enable suppliers the maximum protection of the environment. In the past period works were carried out with regard to process documentation required under the ISO standard concerned that will create the base for further development of the environmental protection of the Company.

During operation of the natural gas distribution system, no extraordinary events with possible negative impacts on the environment were registered. In 2010, administrative authorities imposed no fines.

2.8 Outlook

Securing reliable and secure operation of gas distribution systems within the RWE CZ Group will remain our primary task in the coming period. Our attention will be further focused on performance of all planned indicators in the area of operational network management, metering, network documentation and construction.

The Company will continue implementation of its strategy in the area of modern technologies utilisation and in the area of further development and extension of service portfolio, even also outside the RWE CZ Group. The most important instrument used for improvement of quality and effectiveness of provided services and for permanent improvements in financial results of the Company will be the consistent cost management.



3 FINANCIAL PART

3.1 Financial Statements

BALANCE SHEET (in thousand Czech crowns)					31. 12. 2010			31. 12. 2009
Ref.	ASSETS	Gross	Provision	Net				Net
	TOTAL ASSETS	663,196	(83,303)	579,893				526,218
B.	Fixed assets	166,911	(79,320)	87,591				86,384
B. I.	Intangible fixed assets	583	(354)	229				351
B. I. 1.	Software	168	(163)	5				61
	2. Other intangible fixed assets	392	(191)	201				267
	3. Intangible fixed assets in the course of construction	23	-	23				23
B. II.	Tangible fixed assets	165,217	(78,966)	86,251				84,922
B. II. 1.	Constructions	32	(3)	29				30
	2. Equipment	124,758	(72,862)	51,896				58,351
	3. Tangible fixed assets in the course of construction	-	-	-				103
	4. Advances paid for tangible fixed assets	9,921	-	9,921				-
	5. Adjustment to acquired fixed assets	30,506	(6,101)	24,405				26,438
B. III.	Long-term investments	1,111	-	1,111				1,111
B. III. 1.	Other long-term investments in securities	1,111	-	1,111				1,111
C.	Current assets	496,054	(3,983)	492,071				438,794
C. I.	Inventories	6,710	(2,275)	4,435				6,278
C. I. 1.	Raw materials	6,710	(2,275)	4,435				6,278
C. II.	Long-term receivables	6,881	-	6,881				11,890
C. II. 1.	Long-term advances paid	106	-	106				110
	2. Other receivables	124	-	124				264
	3. Deferred tax asset	6,651	-	6,651				11,516
C. III.	Short-term receivables	482,323	(1,708)	480,615				420,410
C. III. 1.	Trade receivables	90,794	(1,708)	89,086				91,040
	2. Receivables – controlling entities / subsidiaries	368,906	-	368,906				302,583
	3. Taxes and state subsidies receivable	-	-	-				559
	4. Short-term advances paid	1,693	-	1,693				1,598
	5. Anticipated assets	20,617	-	20,617				24,375
	6. Other receivables	313	-	313				255
C. IV.	Financial assets	140	-	140				216
C. IV. 1.	Cash in hand	140	-	140				216
D. I.	Accruals and deferrals	231	-	231				1,040
D. I. 1.	Prepaid expenses	193	-	193				979
	2. Accrued revenue	38	-	38				61

BALANCE SHEET – continued (in thousand Czech crowns)

LIABILITIES AND EQUITY		31. 12. 2010	31. 12. 2009
TOTAL LIABILITIES AND EQUITY		579,893	526,218
A.	Equity	297,654	181,057
A. I.	Share capital	75,000	75,000
A. I. 1.	Share capital	75,000	75,000
A. III.	Reserve fund and other reserves	7,500	3,750
A. III. 1.	Statutory reserve fund	7,500	3,750
A. V.	Profit (loss) for the current period (+/-)	215,154	102,307
B.	Liabilities	282,239	345,161
B. I.	Provisions	71,997	88,931
B. I. 1.	Income tax provision	18,496	14,287
	2. Other provisions	53,501	74,644
B. III.	Short-term liabilities	210,242	256,230
B. III. 1.	Trade payables	90,523	133,492
	2. Liabilities to employees	36,647	36,047
	3. Liabilities for social security and health insurance	20,853	20,151
	4. Taxes and state subsidies payable	16,854	5,222
	5. Short-term advances received	11,330	33,018
	6. Anticipated liabilities	30,678	25,901
	7. Other payables	3,357	2,399

Content

INCOME STATEMENT (in thousand Czech crowns)

Ref.	DESCRIPTION	Accounting period	
		2010	2009
II.	Sales of production	2,306,174	2,239,465
II. 1.	Sales of own products and services	2,306,174	2,239,465
B.	Cost of sales	1,197,632	1,269,891
B. 1.	Raw materials and consumables	130,692	129,343
2.	Services	1,066,940	1,140,548
+	Added value	1,108,542	969,574
C.	Staff costs	822,324	791,652
C. 1.	Wages and salaries	566,047	571,586
2.	Social security and health insurance costs	219,887	198,202
3.	Other social costs	36,390	21,864
D.	Taxes and charges	803	1,206
E.	Depreciation of long-term assets	31,638	26,812
III.	Sale of long-term assets and raw materials	-	597
III. 1.	Sale of long-term assets	-	509
2.	Sale of raw materials	-	88
F.	Net book value of long-term assets and raw materials sold	-	796
F. 1.	Net book value of long-term assets sold	-	379
2.	Net book value of raw materials sold	-	417
G.	Increase / (decrease) in operating provisions	(22,204)	14,724
IV.	Other operating income	1,094	87
H.	Other operating charges	7,092	7,182
*	Operating result	269,983	127,886
X.	Interest income	1,635	3,615
N.	Interest expense	6	14
XI.	Other financial income	34	135
O.	Other financial expense	324	346
*	Financial result	1,339	3,390
Q.	Tax on profit or loss on ordinary activities	56,168	28,969
Q. 1.	- current	51,303	29,727
2.	- deferred	4,865	(758)
**	Profit or loss on ordinary activities after taxation	215,154	102,307
***	Net profit (loss) for the financial period	215,154	102,307
***	Net profit (loss) before taxation	271,322	131,276

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended 31 December 2010				
	Share capital CZK'000	Statutory reserve fund CZK'000	Retained earnings CZK'000	Total CZK'000
As at 1 January 2009	75,000	-	71,648	146,648
Contribution to reserve fund	-	3,750	(3,750)	-
Profit distribution paid	-	-	(67,898)	(67,898)
Net profit for 2009	-	-	102,307	102,307
As at 31 December 2009	75,000	3,750	102,307	181,057
Contribution to reserve fund	-	3,750	(3,750)	-
Profit distribution paid	-	-	(98,557)	(98,557)
Net profit for 2010	-	-	215,154	215,154
As at 31 December 2010	75,000	7,500	215,154	297,654

CASH FLOW STATEMENT

Year ended 31 December 2010		2010	2009
		CZK'000	CZK'000
Cash flows from operating activities			
Net profit on ordinary activities before tax		271,322	131,276
A.1	Adjustments for non-cash movements	7,948	38,720
A.1.1	Depreciation of fixed assets	31,638	26,812
A.1.2	Change in provisions	(22,204)	14,724
A.1.3	Profit from disposal of fixed assets	-	(130)
A.1.5	Net interest income	(1,629)	(3,601)
A.1.6	Other non-cash movements	143	915
A*	Net cash flow from operating activities before tax and changes in working capital	279,270	169,996
A.2	Working capital changes	(36,172)	(30,738)
A.2.1	Change in receivables and prepayments	6,907	31,664
A.2.2	Change in short-term payables and accruals	(45,981)	(64,292)
A.2.3	Change in inventories	2,902	1,890
A**	Net cash flow from operating activities before tax	243,098	139,258
A.3	Interest paid	(6)	(14)
A.4	Interest received	1,658	3,717
A.5	Income tax on ordinary activities paid	(47,094)	(54,149)
A***	Net cash flow from operating activities	197,656	88,812
Cash flows from investing activities			
B.1	Acquisition of fixed assets	(32,852)	(22,917)
B.2	Proceeds from the sale of fixed assets	-	509
B***	Net cash flow from investing activities	(32,852)	(22,408)
Cash flows from financing activities			
C.2	Changes in equity	(98,557)	(67,898)
C.2.6	Profit distribution paid	(98,557)	(67,898)
C***	Net cash flow from financing activities	(98,557)	(67,898)
Net increase/(decrease) in cash and cash equivalents		66,247	(1,494)
Cash and cash equivalents as at the beginning of the year		302,799	304,293
Cash and cash equivalents as at the end of the year		369,046	302,799

3.2 Notes to Financial Statements

Year ended 31 December 2010

1 GENERAL INFORMATION

RWE Distribuční služby, s.r.o., ("the Company") was incorporated on 26 July 2007 and has its registered office at Brno, Plynárenská 499/1, 657 02, Czech Republic. The Company's business activities are specialized construction activities, preparation works for constructions and assembling, repairs, revisions and tests of designated gas equipment, real estate administration and maintenance. The Company's identification number is 27935311.

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

The statutory representatives as at 31 December 2010:

	Appointed on
Mr Tomáš Tichý	6 September 2007
Mr Dušan Malý	1 January 2009
Mr Pavel Káčer	1 October 2009

The Company is organised as follows:

Statutory representatives represent the statutory body that controls the Company's activities and acts on behalf of the Company.

Administration of the Company is divided into three divisions: The Network Services Division, Operations and Maintenance Division and Services Division.

The Company is located in three competency centres in Ostrava, Hradec Králové and Pilsen.

The Company ensures operation and maintenance of 46.2 thousand km of gas network, 2,356 regulatory stations and ensures administration of 1.7 million gas meters and other metering equipment.

The main target of the Company is to provide mainly technical services to gas distributors and regional gas companies within RWE CZ Group. This concerns ensuring of operation and maintenance of distribution networks, administration, construction and documentation of networks and metering.

Translation Note

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

2 ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic and have been prepared under the historical cost convention.

(b) Intangible and tangible fixed assets

All intangible and tangible assets with a useful life longer than one year and a unit cost of more than CZK 60 thousand (CZK 10 thousand) are treated as intangible and tangible fixed assets.

Purchased intangible and tangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition.

Company has not carried out research and development activities in 2010 and 2009.

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

Software	4 years
Other intangible fixed assets	6–7 years
Constructions	30 years
Machinery and equipment	3–15 years

The depreciation rates used differ from those allowable for taxation purposes.

Annual accounting depreciation of tangible fixed assets with unit cost value higher than CZK 40 thousand and intangible fixed assets with unit cost value higher than CZK 60 thousand differs from the annual depreciation for taxation purposes.

In case of tangible fixed assets with unit cost value of CZK 10,001–40,000 accounting depreciation corresponds with tax depreciation.

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

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

Repairs and maintenance expenditures of tangible fixed assets are charged to expenses as incurred. Enhancements of intangible and tangible fixed assets are capitalised.

Adjustment to acquired fixed assets represents the difference between the valuation of purchased part of a business and the aggregate carrying amount of assets and liabilities acquired as recorded in the accounts of the original owner. Such differences are amortised on a straight-line basis over a period of 15 years.

(c) Other securities and investments

The Company classifies securities and investments, other than investments in subsidiaries and associates as trading, held-to-maturity or available-for-sale. Currently the Company holds only available for sale investments.

Securities and investments intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements, are classified as available-for-sale. These investments are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, in which case they are included in current assets. Management determines the appropriate classification of investments as at the time of purchase and the classification is reviewed on a regular basis.

All securities and investments are initially recorded at cost, including transaction costs. Held-to-maturity investments are subsequently accounted for at amortised cost. Other investments are subsequently accounted for at fair value. The fair value is determined as the market value of the securities as at the balance sheet date. Measurement of non-traded securities is based on management estimates based on recognised models or valuation techniques.

(d) Inventories

Inventories are stated at the lower of cost and net realisable amount. Cost includes the appropriate overheads incurred to bring inventory to its present state and location (mainly transport costs etc.). The weighted average cost method is applied for all disposals.

A provision is created for slow-moving and obsolete inventory based on an analysis of turnover and individual evaluation of inventories.

(e) Receivables

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

(f) Cash and cash equivalents

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

The Company uses so-called cash-pooling within the RWE CZ 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.

(g) Foreign currency translation

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

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

(h) Revenue recognition

Sales are recognised as at the date the services are rendered and are stated net of discounts and Value Added Tax.

(i) Provisions

Provisions are recognised when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

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

(j) Employment benefits

The Company recognises a provision relating to unpaid holidays.

The Company recognises an estimated payable relating to rewards and bonuses of employees. The Company provides for an estimate of the average ratio of social and health insurance payments and gross wages of the employees.

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

(k) Interest costs

All interest expenses are expensed.

(l) Deferred taxation

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

(m) Related parties

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

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

Material transactions and outstanding balances with related parties are disclosed in Note 14 Related party transactions.

(n) Cash flow statement

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

(o) Subsequent events

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

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

3 INTANGIBLE FIXED ASSETS

Cost				
	1 January 2010 CZK'000	Additions / transfers CZK'000	Disposals CZK'000	31 December 2010 CZK'000
Software	168	-	-	168
Other intangible fixed assets	392	-	-	392
Intangible fixed assets in the course of construction	23	-	-	23
Total	583	-	-	583

Accumulated amortisation				
	1 January 2010 CZK'000	Additions CZK'000	Disposals CZK'000	31 December 2010 CZK'000
Software	107	56	-	163
Other intangible fixed assets	125	66	-	191
Total	232	122	-	354
Net book value	351			229

Cost				
	1 January 2009 CZK'000	Additions / transfers CZK'000	Disposals CZK'000	31 December 2009 CZK'000
Software	450	-	282	168
Other intangible fixed assets	392	-	-	392
Intangible fixed assets in the course of construction	23	-	-	23
Total	865	-	282	583

Accumulated amortisation				
	1 January 2009 CZK'000	Additions CZK'000	Disposals CZK'000	31 December 2009 CZK'000
Software	137	103	133	107
Other intangible fixed assets	60	65	-	125
Total	197	168	133	232
Net book value	668			351

4 TANGIBLE FIXED ASSETS

Cost	1 January 2010	Additions /	Disposals	31 December 2010
	CZK'000	transfers CZK'000	CZK'000	CZK'000
Buildings, halls and other constructions	32	-	-	32
Equipment	101,843	23,026	111	124,758
Tangible fixed assets in the course of construction	103	(103)	-	-
Advances paid for tangible fixed assets	-	9,921	-	9,921
Adjustment to acquired fixed assets	30,506	-	-	30,506
Total	132,484	32,844	111	165,217

Accumulated depreciation	1 January 2010	Additions	Disposals	31 December 2010
	CZK'000	CZK'000	CZK'000	CZK'000
Buildings, halls and other constructions	2	1	-	3
Equipment	43,492	29,469	99	72,862
Adjustment to acquired fixed assets	4,068	2,033	-	6,101
Total	47,562	31,503	99	78,966
Net book value	84,922			86,251

Cost	1 January 2009	Additions /	Disposals	31 December 2009
	CZK'000	transfers CZK'000	CZK'000	CZK'000
Buildings, halls and other constructions	32	-	-	32
Equipment	79,697	22,956	810	101,843
Tangible fixed assets in the course of construction	84	19	-	103
Adjustment to acquired fixed assets	30,506	-	-	30,506
Total	110,319	22,975	810	132,484

Accumulated depreciation				
	1 January 2009	Additions	Disposals	31 December 2009
	CZK'000	CZK'000	CZK'000	CZK'000
Buildings, halls and other constructions	1	1	-	2
Equipment	19,337	24,559	404	43,492
Adjustment to acquired fixed assets	2,034	2,034	-	4,068
Total	21,372	26,594	404	47,562
Net book value	88,947			84,922

Adjustment to acquired fixed assets resulted from the purchase of part of the business – Divisions of distribution – from individual regional gas companies – Severočeská plynárenská, a.s., Severomoravská plynárenská, a.s., Středočeská plynárenská, a.s., Východočeská plynárenská, a.s., Západočeská plynárenská, a.s. as at 1 January 2008.

The Company does not have any assets acquired via finance or operating lease.

5 OTHER SECURITIES AND INVESTMENTS

Other securities and investments as at 31 December 2010 and 2009 are represented by 12% share in Association for creation and use of a digital technical map of the city of Pardubice.

6 INVENTORIES

Inventories as at 31 December 2010 and 2009 consist in particular of spare parts for repairs of gas distribution system.

The Company created provision for inventories as at 31 December 2010 in the amount of CZK 2,275 thousand (as at 31 December 2009: CZK 3,334 thousand).

7 RECEIVABLES

Receivables outstanding as at 31 December 2010 and 2009 have not been secured and none of them are due after 5 or more years.

Receivables – controlling entities/subsidiaries as at 31 December 2010 and 2009 represent cash equivalents from cash-pooling, see Note 17 Cash flow statement.

Anticipated assets as at 31 December 2010 are represented mainly by receivables from unbilled project preparation and realization of constructions in the amount of CZK 20,617 thousand (as at 31 December 2009: CZK 24,375 thousand).

The overdue receivables as at 31 December 2010 amounted to CZK 2,506 thousand (as at 31 December 2009: CZK 6,434 thousand).

The provision related to doubtful receivables as at 31 December 2010 was CZK 1,708 thousand (as at 31 December 2009: CZK 1,710 thousand).

8 EQUITY

The Company is fully owned by RWE Transgas, a.s., based in Praha 10, Strašnice, Limuzská 12/3135, 100 98, identification number 26460815, registered in the Commercial Register kept with the Regional Court in Praha, section B, insert 7240. The ultimate holding company of RWE CZ Group is RWE Aktiengesellschaft, with the seat in Opernplatz 1, 45128 Essen, incorporated in Germany.

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

The sole shareholder approved the financial statements for 2009 and decided about the allocation of profit for 2009 of CZK 102,307 thousand on 17 March 2010 as follows – CZK 3,750 thousand was used as contribution to statutory reserve fund and CZK 98,557 thousand was paid to shareholders.

9 PROVISIONS

	31 December 2010 CZK'000	31 December 2009 CZK'000
Income tax provision	18,496	14,287
Other provisions		
Provision for restructuring	21,971	39,970
Provision for liabilities to employees	21,507	18,222
Provision for untaken holiday of employees	9,576	15,544
Provision for management's option share plan	447	908
	53,501	74,644
Total provisions	71,997	88,931

Income tax provision as at 31 December 2010 represents the difference between the estimated income tax of CZK 52,218 thousand (as at 31 December 2009: CZK 32,337 thousand) and advances paid for income tax in the amount of CZK 33,722 thousand (as at 31 December 2009: CZK 18,050 thousand).

10 PAYABLES

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

Short term advances received as at 31 December 2010 in the amount of CZK 11,330 thousand are represented by items related to project preparation and realization of constructions (as at 31 December 2009: CZK 33,018 thousand).

The overdue payables as at 31 December 2010 amounted to CZK 37 thousand (as at 31 December 2009: CZK 755 thousand).

Liabilities to related parties are disclosed in Note 14 Related party transactions.

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

11 INCOME TAX

Income tax expense consists of the following:

	2010	2009
	CZK'000	CZK'000
Current tax expense (2010: 19%, 2009: 20%)	52,218	32,337
Adjustment of prior year tax expense	(1,073)	(2,610)
Additional tax return for 2009	158	-
Deferred tax expense	4,865	(758)
Total income tax expense	56,168	28,969

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

Deferred tax asset can be analysed as follows:

	31 December 2010	31 December 2009
	CZK'000	CZK'000
Deferred tax from		
- Accelerated tax depreciation of fixed assets	(4,108)	(3,467)
- Provision for inventories and receivables	594	801
- Other provisions	10,165	14,182
Net deferred tax asset	6,651	11,516

12 REVENUE ANALYSIS

Revenue from operating activities (all domestic) has been generated as follows:

	2010 CZK'000	2009 CZK'000
Revenues from sale of electricity	68	100
Revenues from services	2,306,106	2,239,365
Revenues from sale of long-term assets and raw material	-	597
Other operating revenues	1,094	87
Total	2,307,268	2,240,149

The major part of the Company's revenues from services consists of revenues from inspection of regulatory stations, repairs, maintenance of gas pipelines and gas fixtures.

13 EMPLOYEES

	Employee costs		Average number of employees during the year	
	Year ended 31 December 2010 CZK'000	Year ended 31 December 2009 CZK'000	2010	2009
Members of management	4,441	10,027	3	3
Other staff	817,883	781,625	1,549	1,548
Total	822,324	791,652	1,552	1,551

The Company's management includes statutory representatives.

14 RELATED PARTY TRANSACTIONS

	Year ended 31 December 2010 CZK'000	Year ended 31 December 2009 CZK'000
Costs		
RWE Transgas, a.s.	14,838	8,155
Regional gas companies	65,281	61,432
Other gas distribution companies	670	1,312
Other related companies within RWE CZ Group	481,359	482,313
Interest expense:		
RWE Transgas, a.s.	6	14
Total	562,154	553,226

	Year ended 31 December 2010 CZK'000	Year ended 31 December 2009 CZK'000
Revenues		
Regional gas companies	647	1,106
Other gas distribution companies	2,279,685	2,225,647
Other related companies within RWE CZ Group	5,446	4,160
Interest income:		
RWE Transgas, a.s.	1,635	3,615
Total	2,287,413	2,234,528

The following related party balances were outstanding as at:

	31 December 2010 CZK'000	31 December 2009 CZK'000
Receivables		
RWE Transgas, a.s.	368,911	302,583
Regional gas companies	2,823	110
Other gas distribution companies	82,674	82,965
Other related companies within RWE CZ Group	1,369	413
Accrued income		
RWE Transgas, a.s.	38	61
Total receivables and accrued income	455,815	386,132
Payables		
RWE Transgas, a.s.	2,933	2,773
Regional gas companies	6,526	5,725
Other gas distribution companies	11,374	33,146
Other related companies within RWE CZ Group	55,026	52,920
Total payables	75,859	94,564

Receivables and payables arose under standard market conditions.

Company cars are made available for use by Managing Directors and other management.

Total remuneration for statutory representatives was CZK 670 thousand for the year ended 31 December 2010 (2009: CZK 670 thousand). This remuneration is part of the employee costs.

15 FEES PAID AND PAYABLE TO THE AUDIT COMPANY

The information relating to the fees paid and payable for services performed by the audit company PricewaterhouseCoopers Audit, s.r.o., is included in the consolidated financial statements of the parent company RWE Aktiengesellschaft.

16 CONTINGENT LIABILITIES

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2010.

17 CASH FLOW STATEMENT

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

	31 December 2010 CZK'000	31 December 2009 CZK'000
Cash on hand and in transit	101	140
Cash in bank	-	-
Cash equivalents included in short-term investments	39	76
Receivable arising from cash-pooling	368,906	302,583
Cash and cash equivalents	369,046	302,799

18 SUBSEQUENT EVENTS

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2010.

11 February 2011



Tomáš Tichý
Statutory representative



Dušan Malý
Statutory representative

4 INDEPENDENT AUDITOR'S REPORT

4.1 Auditor's Report on the Financial Statements



To the shareholder of RWE Distribuční služby, s.r.o.

We have audited the accompanying financial statements of RWE Distribuční služby, s.r.o., identification number 27935311, with registered office at Plynárenská 499/1, Brno (“the Company”), which comprise the balance sheet as at 31 December 2010, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies (“the financial statements”).

Statutory Representative's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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Phone: +420 251 151 111, Fax: +420 251 156 111, www.pwc.com/cz*

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

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**Shareholder of RWE Distribuční služby, s.r.o.
Independent auditor's report**

Auditor's Responsibility (continued)

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2010, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

11 February 2011

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers Audit, s.r.o.'.

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

A handwritten signature in blue ink that reads 'Tomáš Bašta'.

Tomáš Bašta
Statutory Auditor, Licence No. 1966

Note

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

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



To the shareholder of RWE Distribuční služby, s.r.o.

We have audited the financial statements of RWE Distribuční služby, s.r.o., identification number 27935311, with registered office at Plynářská 499/1, Brno (“the Company”) for the year ended 31 December 2010 disclosed in the annual report in chapter 3 and issued the opinion dated 11 February 2011 and disclosed in chapter 4.

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 2010 is consistent with the financial statements referred to above. The Statutory Representative 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 2010 is consistent, in all material respects, with the financial statements.

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**Shareholder of RWE Distribuční služby, s.r.o.
Independent auditor's report**

Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2010 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Representative of the Company. Our responsibility is to express our opinion on the Report based on performed review.

Scope of Review

We conducted our review in accordance with Audit standard 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the Report is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

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

10 March 2011

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers Audit, s.r.o.'.

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

A handwritten signature in blue ink that reads 'Tomáš Bašta'.

Tomáš Bašta
Statutory Auditor, Licence No. 1966

Note

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

5 RWE DISTRIBUČNÍ SLUŽBY, S.R.O. REPORT ON RELATIONS BETWEEN RELATED PARTIES AS AT 31 DECEMBER 2010

Whereas RWE Distribuční služby, s.r.o. ("Company") has not entered into a controlling contract as a controlled entity that would be in effect during 2010, the Company's Managing Directors have compiled this report on relations between the Company and controlling parties and between the Company and other parties controlled by the same controlling parties ("related parties") for 2010, insofar as such persons are known to the Company. The report was compiled in accordance with Section 66a(9) of Act No. 513/1991 Coll., the Commercial Code, as amended. The report constitutes an integral part of the Company's Annual Report for 2010, and the Company's members will have the report available at the same time and under the same conditions as the annual financial statements.

1. Controlling Parties

Throughout the last fiscal reporting period, the Company was controlled by the following parties:

a) Directly

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

b) Indirectly

- RWE Gas International B.V. with its registered office at Diamantlaan 15, 2132 WV Hoofddorp, Kingdom of the Netherlands, was the sole shareholder of RWE Transgas, a.s.,
and
- RWE Aktiengesellschaft ("RWE AG") with its registered office 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 by the Company's Managing Directors based on information provided by the controlling parties and other available information. The ties and the controlling structure between companies within the RWE Group as at 31 December 2010 are shown on the third page of the cover of this Annual Report.

3. Contracts Signed by the Company and Related Parties, Services Rendered and Payments Received

In the last fiscal reporting period, the Company and related parties signed the contracts listed in Annex No. 1. No damage was caused to the Company by executing these contracts, including contracts signed in preceding accounting periods. For this reason, there was 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 fiscal reporting period is specified in Note 14 of the Notes to the Financial Statements as at 31 December 2010.

4. Other Legal Acts Completed in the Interest of Related Parties

During the last fiscal reporting period, the Company completed no legal acts in the interest of related parties.

5. Measures Adopted or Implemented in the Interest or at the Request of Related Parties

During the last fiscal reporting period, the Company did not adopt or implement any measures in the interest or at the request of related parties.

6. Non-Existence of Damage

In the last fiscal reporting period, no damage was caused to the Company 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 in the past or preceding fiscal periods.

7. Confidentiality

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

8. Summary

This report was approved by the Company's Managing Directors on 7 March 2011, and it has been presented for examination to the Company's auditor who reviews the financial statements in accordance with the special Act.

Brno, 7 March 2011



Tomáš Tichý
Managing Director, CEO



Dušan Malý
Managing Director, CFO



Pavel Káčer
Managing Director, COO

ANNEX NO. 1

Contracts Signed between the Company and Related Parties in the Last Accounting Period		
Contractual party	Contract type/subject matter	Quantity
RWE Interní služby, s.r.o.	Annexes Nos. 5 and 6 to Information Technology Services Agreement	2
	Agreement on Termination of Central Payroll Processing Services Agreement	1
	Annexes Nos. 3 and 4 to Facility Management Services Agreement	2
	Annex No. 4 to Mobile Telephone and IP Telephone Lease, Logistics, and Billing Services Agreement	1
	Annex No. 3 to Purchasing and Logistics Services Agreement	1
	Annex No. 3 to Security Management Services Agreement	1
	Agreement on Provision of Translating and Interpreting Services	1
	Order	4
RWE GasNet, s.r.o.	Annex No. 5 to Security Management Services Agreement	1
	Agreement on Termination of Gas Facility Construction Planning Services Agreement	1
	Gas Facility Operations Management Services Agreement	1
	Agreement on Termination of Gas Facility Operations Management Services Agreement	1
	Annex No. 1 to Metering Services Agreement	1
	Agreement on Termination of Metering Services Agreement	1
	Agreement on Termination of Network Documentation Services Agreement	1
	Annex No. 1 to Technical Dispatching Services Agreement	1
	Agreement on Termination of Technical Dispatching Services Agreement	1
	Agreement on Termination of Network Operation and Maintenance Services Agreement	1
	Agreement on Termination of Gas Facility Construction Services Agreement	1
	Agreement on Termination of Agreement on Gas Facility Construction Supervision Services for Third-Party Investors	1
	Technical Dispatching Services Agreement	1
	Network Operation and Maintenance Services Agreement	1
	Network Documentation Services Agreement	1
	Gas Facility Operations Management Services Agreement	1
	Metering Services Agreement	1
Gas Facility and Non-gas Assets Construction Planning Services Agreement	1	
Annexes Nos. 2 and 3 to Commercial Lease Agreement	2	
Jihomoravská plynárenská, a.s.	Annexes No. 4, 5 and 6 to Commercial Lease Agreement	3
	Order	2

Content

Contractual party	Contract type/subject matter	Quantity	
RWE Transgas, a.s.	Human Resources Services Agreement	1	
	Internal Audit Services Agreement	1	
	Annexes No. 3 and 4 to Loan Agreement	2	
	Annex No. 3 SLA Consulting – P&O Services Agreement	1	
RWE Transgas, a.s., NET4GAS, s.r.o.	Agreement on Assignment of Rights and Obligations	1	
SMP Net, s.r.o.	Annex No. 5 to Security Management Services Agreement	1	
	Annex No. 5 to Technical Dispatching Services Agreement	1	
	Agreement on Termination of Agreement (Annex No. 6 Technical Dispatching Services)	1	
	Agreement on Termination of Agreement (Annex No. 5 Gas Facility Construction Services)	1	
	Agreement on Termination of Agreement (Annex No. 5 Gas Facility Construction Planning Services)	1	
	Agreement on Termination of Agreement (Annex No. 5 Gas Facility Construction Supervision Services for Third-Party Investors)	1	
	Gas Facility Construction Planning Services Agreement	1	
	Agreement on Termination of Agreement (Annex No. 5 Network Operation and Maintenance Services)	1	
	Network Operation and Maintenance Services Agreement	1	
	Agreement on Termination of Agreement (Annex No. 5 Gas Facility Operations Management Services)	1	
	Gas Facility Operations Management Services Agreement	1	
	Annex No. 6 to Metering Services Agreement	1	
	Agreement on Termination of Agreement (Annex No. 7 Metering Services)	1	
	Metering Services Agreement	1	
	Agreement on Termination of Agreement (Annex No. 5 Network Documentation Services)	1	
	Network Documentation Services Agreement	1	
	VČP Net, s.r.o.	Annex No. 4 to Security Management Services Agreement	1
		Annex No. 5 to Technical Dispatching Services Agreement	1
		Agreement on Termination of Agreement (Annex No. 6 Technical Dispatching Services)	1
		Technical Dispatching Services Agreement	1
Agreement on Termination of Agreement (Annex No. 5 Gas Facility Construction Services)		1	
Agreement on Termination of Agreement (Annex No. 5 Gas Facility Construction Planning Services)		1	
Agreement on Termination of Agreement (Annex No. 5 Gas Facility Construction Supervision Services for Third-Party Investors)		1	
Gas Facility Construction Planning Services Agreement		1	

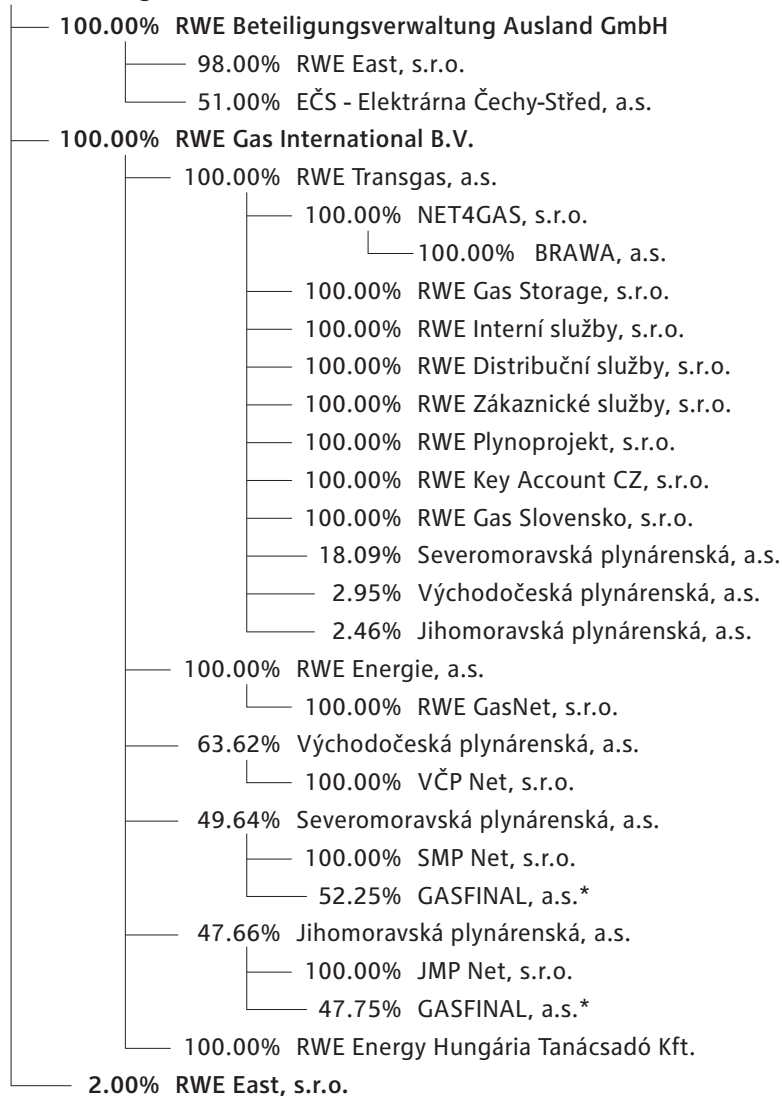
Contractual party	Contract type/subject matter	Quantity
VČP Net, s.r.o.	Agreement on Termination of Agreement (Annex No. 5 Network Operation and Maintenance Services)	1
	Network Operation and Maintenance Services Agreement	1
	Agreement on Termination of Agreement (Annex No. 5 Gas Facility Operations Management Services)	1
	Gas Facility Operations Management Services Agreement	1
	Annex No. 6 to Metering Services Agreement	1
	Agreement on Termination of Agreement (Annex No. 7 Metering Services)	1
	Metering Services Agreement	1
	Agreement on Termination of Agreement (Annex No. 5 Network Documentation Services)	1
	Network Documentation Services Agreement	1
RWE Zákaznické služby, s.r.o.	Annex No. 3 to Security Management Services Agreement	1
Východočeská plynárenská, a.s.	Annexes Nos. 4, 5 and 6 to Commercial Lease Agreement	3
	Annex No. 3 to Security Management Services Agreement	1
Severomoravská plynárenská, a.s.	Annex No. 3 to Security Management Services Agreement	1
	Annexes No. 4, 5 and 6 to Commercial Lease Agreement	3
RWE Gas Storage, s.r.o.	Mandate Agreement on Technical and Engineering Activities	1
JMP Net, s.r.o.	Annex No. 4 to Security Management Services Agreement	1
RWE Plynoprojekt, s.r.o.	Order	18
RWE Energie, a.s.	Annexes No. 4, 5 and 6 to Commercial Lease Agreement	3
	Annex No. 3 to Security Management Services Agreement	1
	Purchase Agreement	1
RWE Interní služby, s.r.o., RWE Gas Storage, s.r.o., JMP Net, s.r.o., Jihomoravská plynárenská, a.s., RWE Key Account CZ, s.r.o., RWE Plynoprojekt, s.r.o., RWE IT Czech s.r.o., RWE Energie, a.s., SMP Net, s.r.o., Severomoravská plynárenská, a.s., NET4GAS, s.r.o., RWE Transgas, a.s., VČP Net, s.r.o., Východočeská plynárenská, a.s., RWE Zákaznické služby, s.r.o., RWE GasNet, s.r.o.	Association Agreement for Award of Contract for RWE Group Vehicle Fleet Operating Lease	1

Content

Contractual party	Contract type/subject matter	Quantity
RWE Interní služby, s.r.o., RWE Gas Storage, s.r.o., JMP Net, s.r.o., Jihomoravská plynárenská, a.s., RWE Key Account CZ, s.r.o., RWE Plynoprojekt, s.r.o., RWE IT Czech s.r.o., RWE Energie, a.s., SMP Net, s.r.o., Severomoravská plynárenská, a.s., RWE Transgas, a.s., VČP Net, s.r.o., Východočeská plynárenská, a.s., RWE Zákaznické služby, s.r.o., RWE GasNet, s.r.o.	Association Agreement for Award of Contract for RWE Paper Document Archivation	1

Scheme of the relations between and control of companies along the relevant line within the RWE Group as at 31 December 2010

RWE Aktiengesellschaft



* On 1 January 2011 the company entered into liquidation.

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