

**ANNUAL REPORT
OF THE COMPANY**

KA Contracting ČR s.r.o.

FOR THE YEAR ENDED DECEMBER 31, 2010

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1. Analysis of Past Performance

In 2010 KA Contracting ČR s.r.o. ("Company") generated total sales of CZK 546.7 million resulting mainly from the operation of its District Heating and Combined Heat and Power plants in the Czech Republic. Compared to 2009 this represented a decrease of 1.5%.

In 2010 the Company had to deal with two major challenges. On the one hand the Company faced to an about 25% decrease in power price. On the other hand they had to cope with a breakdown of a power plant in January 2010. That plant got back in operation in December 2010.

The annual power production reached 53.8 GWh, a decrease of roughly 6.0%. Caused by relatively low prices, power sales reached CZK 87.4 million in 2010, representing a decrease of 30.3 % in comparison to 2009.

The volume of heat production in 2010 increased due to the colder than average winter and in spite of that ongoing tendency of energy saving especially in the real estate and industrial sector. Overall heat consumption in 2010 therefore was 796.7 TJ, 7.7% over 2009 level. The heat sales totaled at CZK 361.1 million representing an annual increase of 4.1% compared to 2009.

Furthermore in 2010 the Company booked risk provisions and other reserves which in comparison to year 2009 meant a negative influence to EBIT in the amount of CZK 18.1 million, for impairment of assets and construction in progress was detached CZK 9.0 million. A substantial part of this amount was related to the biomass based project in Beroun, whose preparations have been closed.

As a consequence of the above situation the Company finished the year 2010 with an operating result of CZK 65.7 million, a decrease of 30.3 % in comparison to 2009. Earnings after tax went down from CZK 51.5 million in 2009 to CZK 23.8 million in 2010.

Financing costs stayed on the level of 2009.

Investments in 2010 were lower than planned totaling at CZK 76.4 million (incl. CZK 21.3 million financial investment in KA Contracting SK s.r.o.). This was mainly caused by further delays in the public permitting procedures for several power generation projects.

Overall, the economic environment was slightly better than in 2009, but remained relatively weak in 2010. Therefore, the Company focused its investments mainly on upgrading its existing production infrastructure. Furthermore the Company is continuing the preparation of several projects.

2. Information on Significant Matters

2.1. Summary of Projects as of December 31, 2010

	Project	Installed Capacity (MW)
1	Rumburk	16
2	Louny	9
3	Votice	4.7
4	Příbor	5.6
5	Odolena Voda	9.05
6	Svitavy	20.7
7	Břeclav	10.4
8	Valašské Meziříčí	42.2
9	Blansko	21.5
10	Beroun – Králův Dvůr	53
11	Náchod	115.3
12	Velké Albrechtice I	1.3
13	Velké Albrechtice II	0.9

KA Contracting applies different models of asset operation, including operation through own personnel, as well as leasing assets to third parties, which then operate the equipment with own personnel under the technical and financial control of KA Contracting.

More complex installations are typically operated using own personnel.

2.2. Outlook

In 2011, KA Contracting will continue to work on its project portfolio in the area of combined heat and power, also based on the application of renewable energy. The Company will stay

focused on CHP projects based on district heating operations. The realization of projects is under way; due to delays in permitting management currently expects 3 projects to begin construction during 2011. These projects will be under commercial operation in late 2011.

Based on management's observation the current economic development in Central Europe in 2011 shows a slight positive trend. Nevertheless KAC CR does not envision a significant increase in demand for heat and power; market prices for power and fuel were until few weeks ago at relatively low levels. Because of the actual worldwide development a remarkable increase of power price as well as fuel prices has been seen to observe in the last few weeks. The management assumes that the market will show that higher price level, comparing with 2010, over the year 2011.

KA Contracting will continue to analyze and pursue opportunities for external growth. The Company is assessing a number of potential acquisition opportunities in the Czech and Slovak Republics; currently market prices are staying at attractive levels.

The Company pursues project development in the area of renewable energy as well as the development of conventional CHPs. KA Contracting received all permits for the biomass based project in Velke Albrechtice and will bring these projects to final investment decision in 2011.

In 2010 the price development on the CO₂ emission trading markets remained weak again due to the overall situation of the global economy. Prices stayed at moderate levels and due to the failure to agree a "post Kyoto" contract scenario it is currently unclear where these markets are heading. However, management believes, that the mid-term trend towards lower CO₂ emissions remains intact. Therefore, the Company will continue to decrease its overall carbon footprint. This will be done through the application of efficient combined heat and power applications and the use of renewable energy sources.

In 2010 the Czech government decided to implement a "Gift-tax" for allocated EUA in the years 2011/12. That means for the Company higher annual costs of roughly CZK 4.0 million.

2.3. Investments in Research and Development

KA Contracting made no investments into research and development in 2010.

2.4. Environmental Activities

In 2010, the Company continued to invest in environmental activities.

KA Contracting invested in improvement of coal-ash settling basin to increase the safety. The Company also further developed the project of biomass usage at the CHP plant in Nachod to reduce CO₂ emissions.

In Velke Albrechtice the upgrade of CHPs was realized including a new mixing tank to secure higher utilization of biomass fermentation.

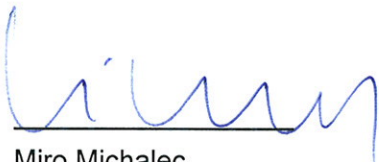
Overall, the Company spent in 2010 CZK 12 million on projects which will reduce its impact on the environment.

2.5. Employment Issues

The level of employment remained on the level of the year 2009, the headcount per end of the year was 80 employees.

2.6. Subsequent Events

There were no events after the balance sheet date that would have a significant impact on the Financial Statements as of December 31, 2010.



Miro Michalec
Statutory Representative

16 May 2011



Frank Mattat
Statutory Representative

16 May 2011

APPENDIX 1

AUDITOR'S REPORT



Independent auditor's report

to the sole shareholder of KA Contracting ČR s.r.o.

Report on the Financial Statements

We have audited the accompanying financial statements of KA Contracting ČR s.r.o., identification number 25115171, with registered office at Truhlářská 13-15, Praha 1, post code 110 00 ("the Company"), which comprise the balance sheet as at 31 December 2010, the income statement, statement of changes in equity and cash flow and notes, including a summary of significant accounting policies ("the financial statements").

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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**Sole shareholder of KA Contracting ČR s.r.o.
Independent auditor's report**

Report on the Financial Statements (continued)

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.

Report on Other Legal and Regulatory Requirements

Report on the Annual Report

In addition 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 which are included in this annual report in notes number 1 and 2. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.



**Sole shareholder of KA Contracting ČR s.r.o.
Independent auditor's report**

Report on Other Legal and Regulatory Requirements (continued)

Report on the Annual Report (continued)

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.

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 Body of the Company. Our responsibility is to express our opinion on the Report based on performed review.



**Sole shareholder of KA Contracting ČR s.r.o.
Independent auditor's report**

Report on Other Legal and Regulatory Requirements (continued)

Report on review of the Report on Relations (continued)

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.

16 May 2011

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers Audit, s.r.o.' followed by a stylized signature.

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

A handwritten signature in black ink, appearing to read '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.

APPENDIX 2

FINANCIAL STATEMENTS AND NOTES

Company name: KA Contracting ČR s.r.o.

Identification number: 25115171

Legal form: Limited liability company

Primary business: Heat distribution

Balance sheet date: 31 December 2010

Date of preparation of the financial statements: 16 May 2011

BALANCE SHEET

(in thousand Czech crowns)

Ref.	ASSETS		31/12/2010			31/12/2009
			Gross 1	Provision 2	Net 3	Net 4
a	b					
		TOTAL ASSETS	1,808,455	(727,117)	1,081,338	1,109,702
B.		Fixed assets	1,491,298	(709,268)	782,030	806,433
B. I.		Intangible fixed assets	29,005	(8,076)	20,929	19,532
B. I.	1.	Software	5,244	(4,276)	968	1,037
	2.	Royalties	16,000	(3,800)	12,200	13,400
	3.	Other intangible fixed assets	7,761	-	7,761	4,910
	4.	Intangible fixed assets in the course of construction	-	-	-	185
B. II.		Tangible fixed assets	1,439,852	(701,192)	738,660	785,761
B. II.	1.	Land	5,559	-	5,559	5,559
	2.	Constructions	139,208	(61,458)	77,750	86,364
	3.	Equipment	1,155,249	(608,162)	547,087	596,804
	4.	Other tangible fixed assets	135	-	135	136
	5.	Tangible fixed assets in the course of construction	85,676	(4,326)	81,350	66,763
	6.	Advances paid for tangible fixed assets	1,035	-	1,035	880
	7.	Adjustment to acquired fixed assets	52,990	(27,246)	25,744	29,255
B. III.		Long-term investments	22,441	-	22,441	1,140
B. III.	1.	Investments in associates	22,441	-	22,441	1,140
C.		Current assets	313,047	(17,849)	295,198	298,435
C. I.		Inventories	22,385	-	22,385	10,535
C. I.	1.	Raw materials	11,138	-	11,138	5,797
	2.	Work in progress and semi-finished products	10,247	-	10,247	-
	3.	Goods for resale	-	-	-	3,638
	4.	Prepayments for inventory	1,000	-	1,000	1,100
C. III.		Short-term receivables	80,676	(17,849)	62,827	38,184
C. III.	1.	Trade receivables	37,039	(17,849)	19,190	8,841
	2.	Taxes and state subsidies receivable	295	-	295	7,340
	3.	Short-term advances paid	20,803	-	20,803	22,003
	4.	Estimated receivables	21,820	-	21,820	-
	5.	Other receivables	719	-	719	-
C. IV.		Financial assets	209,986	-	209,986	249,716
C. IV.	1.	Cash in hand	221	-	221	276
	2.	Cash at bank	209,765	-	209,765	249,440
D. I.		Prepayments and accrued income	4,110	-	4,110	4,834
D. I.	1.	Prepaid expenses	4,110	-	4,110	4,704
	2.	Accrued income	-	-	-	130

Ref. a	LIABILITIES AND EQUITY b		31/12/2010	31/12/2009
			6	7
TOTAL LIABILITIES AND EQUITY			1,081,338	1,109,702
A.	Equity		471,935	447,891
A. I.	Share capital		280,000	280,000
A. I. 1.	Share capital		280,000	280,000
A. II.	Capital contributions		291	-
A. II. 1.	Assets and liabilities revaluation		291	-
A. III.	Reserve fund and other reserves		14,189	11,613
A. III. 1.	Legal reserve fund		14,189	11,613
A. IV.	Retained earnings / Accumulated losses		153,702	104,762
A. IV. 1.	Retained earnings		153,702	104,762
A. V.	Profit / (loss) for the current period (+/-)		23,753	51,516
B.	Liabilities		608,501	660,927
B. I.	Provisions		19,868	26,641
B. I. 1.	Tax-deductible provisions		14,021	13,688
	2. Income tax provision		3,559	9,281
	3. Other provisions		2,288	3,672
B. II.	Long-term liabilities		436,854	503,612
B. II. 1.	Trade payables		1,048	-
	2. Liabilities - controlling entities / subsidiaries		413,400	482,300
	3. Deferred tax liability		22,406	21,312
B. III.	Short-term liabilities		151,779	130,674
B. III. 1.	Trade payables		29,592	14,398
	2. Liabilities - controlling entities / subsidiaries		68,900	68,900
	3. Liabilities to employees		2,579	4,189
	4. Liabilities for social security and health insurance		1,319	891
	5. Taxes and state subsidies payable		8,239	4,910
	6. Short-term advances received		-	4,488
	7. Estimated payables		41,150	32,898
C. I.	Accruals and deferred income		902	884
C. I. 1.	Deferred income		902	884

IDENTIFIKACE AUDITORA
PricewaterhouseCoopers Audit, s.r.o.
Kateřinská 40/466
120 00 Praha 2
IČ 40765521, auditorské osvědčení 021

Company name: KA Contracting CR s.r.o.

Identification number: 25115171

Legal form: Limited liability company

Primary business: Heat distribution

Balance sheet date: 31 December 2010

Date of preparation of the financial statements: 16 May 2011

INCOME STATEMENT

(in thousand Czech crowns)

Ref. a	DESCRIPTION b	Accounting period	
		2010 1	2009 2
I.	Sales of goods	1,133	-
A.	Cost of goods sold	1,133	-
+	Gross profit	-	-
II.	Sales of production	546,710	555,257
II. 1.	Sales of own products and services	536,463	555,257
2.	Change in inventory of finished goods and work in progress	10,247	-
B.	Cost of sales	327,038	329,913
B. 1.	Raw materials and consumables	219,132	211,730
2.	Services	107,906	118,183
+	Added value	219,672	225,344
C.	Staff costs	55,071	54,941
C. 1.	Wages and salaries	37,856	39,282
2.	Emoluments of board members	1,736	1,601
3.	Social security and health insurance costs	13,174	12,143
4.	Other social costs	2,305	1,915
D.	Taxes and charges	1,821	1,695
E.	Depreciation of fixed assets	91,990	87,248
III.	Sale of fixed assets and raw materials	17,741	-
III. 1.	Sale of fixed assets	15,944	-
2.	Sale of raw materials	1,797	-
F.	Net book value of fixed assets and raw materials sold	16,953	-
F. 1.	Net book value of fixed assets sold	15,243	-
2.	Net book value of raw materials sold	1,710	-
G.	Increase / (decrease) in operating provisions	(2,540)	(21,711)
IV.	Other operating income	48,399	43,476
H.	Other operating charges	56,780	52,339
*	Operating result	65,737	94,308
X.	Interest income	928	2,805
N.	Interest expense	27,001	30,604
XI.	Other financial income	215	-
O.	Other financial expense	3,503	2,095
*	Financial result	(29,361)	(29,894)
Q.	Tax on profit or loss on ordinary activities	12,623	12,898
Q. 1.	- current	11,530	10,521
2.	- deferred	1,093	2,377
**	Profit or loss on ordinary activities after taxation	23,753	51,516
***	Net profit / (loss) for the financial period	23,753	51,516
***	Net profit / (loss) before taxation	36,376	64,414

KA CONTRACTING ČR S.R.O.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

YEAR ENDED 31 DECEMBER 2010

	Share capital <u>CZK'000</u>	Statutory reserve fund <u>CZK'000</u>	Retained earnings <u>CZK'000</u>	Revaluation reserve <u>CZK'000</u>	<u>Total</u> <u>CZK'000</u>
As at 1 January 2009	280,000	9,601	106,774	-	396,375
Apportion to statutory reserve fund	-	2,012	(2,012)	-	-
Net profit for 2009	<u>-</u>	<u>-</u>	<u>51,516</u>	<u>-</u>	<u>51,516</u>
As at 31 December 2009	280,000	11,613	156,278	-	447,891
Apportion to statutory reserve fund	-	2,576	(2,576)	-	-
Net profit for 2010	-	-	23,753	-	23,753
Gains from revaluation of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>291</u>	<u>291</u>
As at 31 December 2010	<u>280,000</u>	<u>14,189</u>	<u>177,455</u>	<u>291</u>	<u>471,935</u>

KA CONTRACTING ČR S.R.O.

CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER 2010

	<u>2010</u>	<u>2009</u>
	CZK'000	CZK'000
<u>Cash flows from operating activities</u>		
Net profit on ordinary activities before tax	36,376	64,414
A.1 Adjustments for non-cash movements:		
A.1.1 Depreciation and amortisation of fixed assets	91,990	87,248
A.1.2 Change in provisions	(2,540)	(21,711)
A.1.3 (Profit) / loss from disposal of fixed assets	(701)	-
A.1.4 Net interest expense / (income)	26,073	27,799
A.1.5 Other non-cash operations	<u>15,711</u>	<u>-</u>
A* Net cash flow from ordinary activities before tax, changes in working capital and extraordinary items	166,909	157,750
A.2 Working capital changes:		
A.2.1 Change in receivables and prepayments	(30,753)	64,240
A.2.2 Change in short-term payables and accruals	16,423	552
A.2.3 Change in inventories	<u>(11,850)</u>	<u>(1,100)</u>
A** Net cash flow from ordinary activities before tax and extraordinary items	140,729	221,442
A.3 Interest paid	(27,001)	(30,604)
A.4 Interest received	928	3,014
A.5 Income tax on ordinary activities paid	<u>(13,669)</u>	<u>(4,332)</u>
A*** Net cash flow from ordinary activities	<u>100,987</u>	<u>189,520</u>

KA CONTRACTING ČR S.R.O.

CASH FLOW STATEMENT (continued)

YEAR ENDED 31 DECEMBER 2010

	<u>2010</u>	<u>2009</u>
	CZK'000	CZK'000
<u>Cash flows from investing activities</u>		
B.1	Acquisition of fixed assets	(74,583) (56,203)
B.2	Proceeds from sale of fixed assets	<u>1,717</u> <u>-</u>
B***	Net cash flow from investing activities	<u>(72,866)</u> <u>(56,203)</u>
<u>Cash flows from financing activities</u>		
C.1	Change in long- and short-term liabilities	(67,851) (68,900)
C***	Net cash flow from financing activities	<u>(67,851)</u> <u>(68,900)</u>
	Net increase in cash and cash equivalents	(39,730) 64,417
	Cash and cash equivalents as at the beginning of the year	<u>249,716</u> <u>185,299</u>
	Cash and cash equivalents as at the end of the year	<u>209,986</u> <u>249,716</u>

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

1 GENERAL INFORMATION

(a) Introductory information about the Company

KA Contracting ČR s.r.o. ("the Company") was incorporated on 21 March 1997 and has its registered office at Prague 1, 110 00, Truhlářská 13-15. The Company's identification number is 251 15 171. The Company's business activities are the production and distribution of heat, the production and distribution of electric power, the purchase of goods for resale and sale, the lease of real estate, both residential and non-residential premises without provision of services other than basic services related to lease.

The directors as at 31 December 2010 were as follows:

Statutory body:

	<u>Position</u>	<u>Note</u>
Miro Michalec	Executive	appointed on 18 June 1997
Holger Linke*	Executive	appointed on 27 May 2004
Frank Mattat	Executive	appointed on 16 November 2009 registered 23 March 2010

* On 31 January 2011 Mr. Holger Linke was recalled from his position of statutory representative based on the decision of the sole shareholder.

Proxy:

Stanislav Sádovský	Procuration	appointed on 12 February 2003
Viktor Kalina	Procuration	appointed on 12 February 2003

Organisational structure:

The Company is structured into the following divisions: Operations and Sales, Economics and Administration. These divisions are further divided into the following departments: Operations, Corporate Development, Legal and Human Resources Department, and Finance.

Note

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

2 ACCOUNTING POLICIES

(a) Basis of preparation

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

(b) Intangible fixed assets

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

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

Intangible fixed assets are amortised applying the straight-line depreciation method over their estimated useful lives as follows:

Software	3 years
Other intangible fixed assets	6 years

Other incorporeal rights are amortised applying the straight-line method over their estimated utility.

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

Intangible fixed assets with a unit cost less than CZK 60 thousand are expensed upon acquisition.

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.

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

2 ACCOUNTING POLICIES (continued)

(b) Intangible fixed assets (continued)

Emission rights are recorded by the Company in group "Other intangible fixed assets". Emission rights allocated free of charge to the Company by the National Allocation Plan are recorded in the account "Other intangible fixed assets" and also in the liability account "Taxes and state subsidies payable" upon their being credited to the Register of Emission Rights in the Czech Republic.

Emission rights allocated are recorded at replacement cost.

The emission rights liability is released into "Other operating income" based on matching with relevant expenses.

Consumption of emission rights are recorded monthly in "Other operating expenses" on the basis of estimated actual CO₂ emissions in the period.

The actual costs method can be applied to the disposal of emission rights.

Sales of emission rights are recorded as revenue from sale of long-term assets and are stated with reference to the selling prices.

(c) Tangible Fixed Assets

All tangible assets with a useful life longer than one year and a unit cost of more than CZK 40 thousand are treated as tangible fixed assets.

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

Tangible fixed assets are depreciated applying the straight-line method; leased projects are depreciated over the lease term - from 10 to 20 years depending on the contract's duration. Assets used in projects operated by KA Contracting ČR s.r.o. itself are depreciated based on the life time of the project.

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

2 ACCOUNTING POLICIES (continued)

(c) Tangible Fixed Assets (continued)

Other assets of the Company are depreciated as follows:

Computers, cars	3 – 4 years
Fixtures and furniture	4 years
Machines	5 – 10 years
Buildings	12 – 30 years

Sundry tangible fixed assets with a unit cost more than CZK 20 thousand and less than CZK 40 thousand are depreciated over a period of 36 months.

Tangible assets with a useful life exceeding one year, which are not considered fixed assets according to the Company's internal regulations, are treated as inventory. Such assets with a purchase price exceeding CZK 2 thousand are recorded in operating records and are subject to stock taking.

Repairs and maintenance expenditures relating to tangible assets are expensed as incurred. In accordance with the Act on Reserves, provisions are recorded for significant necessary repairs, which are expected to be incurred in future periods, as estimated by management. Property enhancements are capitalised.

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

Differences arising upon the acquisition of Teplárna Náchod represent the difference between the fair value of the enterprise acquired, in accordance with the Commercial Code, and the aggregate carrying amount of assets and liabilities acquired as recorded in the accounts of the original owner (dissolved enterprise). Such differences are amortised on a straight-line basis over a period of 15 years.

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

2 ACCOUNTING POLICIES (continued)

(d) Investments in controlled entities/subsidiaries and investments in associates

Investments in controlled entities/subsidiaries represent ownership interests in enterprises that are controlled by the Company (“the subsidiary”).

Investments in associates represent ownership interests in enterprises over which the Company has significant influence, which is the power to participate in the financial and operating policy decisions, but not control (“the associate”).

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

(e) Inventories

Purchased 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, customs duty, etc.). Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The first-in-first-out method is applied for all disposals.

Inventories generated from own production cannot be stored (heat and electric power) and therefore are not recorded as inventories.

Inventories generated from own production, i.e. work-in-progress, are stated at the lower of production cost and estimated net realisable amount. Production cost includes direct and indirect materials, direct and indirect wages and production overheads.

(f) Unbilled heat and advances for heat received

The Company offsets the amount of anticipated unbilled heat receivable with the total amount of advance payments received for heat from individual customers. The unbilled heat is therefore recorded in the balance sheet only as a net asset or a net liability (see Note 8). The final net value approximates the amounts of amount receivable / payable in relation to customers.

2 ACCOUNTING POLICIES (continued)

(g) Receivables

Receivables are stated at the nominal value less a provision for doubtful amounts.

A provision for bad debts is created on the basis of an ageing analysis and individual evaluation of the collectability of the receivables. A provision for doubtful debts is created on the basis of an ageing analysis and individual evaluation of the credit worthiness of the customers. Receivables from related parties have not been provided for.

(h) Cash and cash equivalents

Cash and cash equivalents include cash in hand, stamps and vouchers and cash in banks, including bank overdrafts.

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

(i) Foreign currency translation

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

All monetary assets and liabilities denominated in foreign currencies have been translated at the year-end exchange rate as published by the Czech National Bank. All foreign exchange gains and losses from translation of receivables are recognised in the profit and loss account.

(j) Revenues

Revenues from the sale of heat are recorded on a monthly basis, via anticipated receivables derived on basis of energy consumption. Settlement of the estimated figures is performed in the following year.

Revenues from leases are also recorded via anticipated receivables on a monthly basis based on lease contracts. Settlement is performed towards the end of the accounting period.

2 ACCOUNTING POLICIES (continued)

(k) Leasing

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

(l) 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 also recognises tax deductible provisions relating to significant future repairs of fixed assets as defined by the Act on Reserves.

(m) 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 takes into account an expected average ratio of payments for social and health insurance and payroll expenses when creating the estimated payable.

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.

(n) Interest Costs

Interest costs on borrowings to finance the acquisition of tangible and intangible fixed assets are capitalised during the period of completion and preparation of the asset for its intended use. Other borrowing costs are expensed.

(o) Deferred Tax

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

2 ACCOUNTING POLICIES (continued)

(p) 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 15.

(q) 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.

(r) 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.

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

3 INTANGIBLE FIXED ASSETS

Cost

	<u>1 January 2010</u>	<u>Additions /</u> <u>transfers</u>	<u>Disposals</u>	<u>31 December 2010</u>
	CZK'000	CZK'000	CZK'000	CZK'000
Software	5,059	185	-	5,244
Royalties	16,000	-	-	16,000
Intangible assets in the course of construction	185	(185)	-	-
Other intangible fixed assets	<u>4,910</u>	<u>56,844</u>	<u>(53,993)</u>	<u>7,761</u>
Total	<u>26,154</u>	<u>56,844</u>	<u>(53,993)</u>	<u>29,005</u>

Accumulated Amortisation

	<u>1 January 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 2010</u>
	CZK'000	CZK'000	CZK'000	CZK'000
Software	4,022	254	-	4,276
Royalties	<u>2,600</u>	<u>1,200</u>	<u>-</u>	<u>3,800</u>
Total	<u>6,622</u>	<u>1,454</u>	<u>-</u>	<u>8,076</u>
Net book value	<u>19,532</u>			<u>20,929</u>

Other intangible fixed assets include as at 31 December 2010 the amount CZK 7,761 thousand (2009: CZK 4,910 thousand) relating to emission rights.

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

3 INTANGIBLE FIXED ASSETS (continued)

Cost

	<u>1 January 2009</u>	<u>Additions /</u>	<u>Disposals</u>	<u>31 December 2009</u>
	CZK'000	<u>transfers</u>	CZK'000	CZK'000
		CZK'000		
Software	4,955	104	-	5,059
Royalties	16,000	-	-	16,000
Intangible assets in the course of construction	104	81	-	185
Other intangible fixed assets	<u>3,916</u>	<u>37,955</u>	<u>(36,961)</u>	<u>4,910</u>
Total	<u>24,975</u>	<u>38,140</u>	<u>(36,961)</u>	<u>26,154</u>

Accumulated Amortisation

	<u>1 January 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 2009</u>
	CZK'000	CZK'000	CZK'000	CZK'000
Software	3,722	300	-	4,022
Royalties	<u>1,400</u>	<u>1,200</u>	<u>-</u>	<u>2,600</u>
Total	<u>5,122</u>	<u>1,500</u>	<u>-</u>	<u>6,622</u>
Net book value	<u>19,853</u>			<u>19,532</u>

KA CONTRACTING ČR S.R.O.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

4 TANGIBLE FIXED ASSETS

Cost

	<u>1 January 2010</u>	<u>Additions /</u>	<u>Disposals</u>	<u>31 December 2010</u>
	CZK'000	<u>transfers</u>	CZK'000	CZK'000
		CZK'000	CZK'000	
Land	5,559	-	-	5,559
Buildings, halls and constructions	138,895	313	-	139,208
Equipment	1,132,752	30,611	(8,114)	1,155,249
Other tangible fixed assets	136	(1)	-	135
Tangible assets in the course of construction	67,839	23,591	(5,754)	85,676
Advances paid for fixed assets	880	155	-	1,035
Adjustments to acquired assets	<u>52,990</u>	<u>-</u>	<u>-</u>	<u>52,990</u>
Total	<u>1,399,051</u>	<u>54,669</u>	<u>(13,868)</u>	<u>1,439,852</u>

Accumulated Depreciation

	<u>1 January 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 2010</u>
	CZK'000	CZK'000	CZK'000	CZK'000
Buildings, halls and constructions	52,531	8,927	-	61,458
Equipment	535,948	78,098	(5,884)	608,162
Adjustments to assets	1,076	3,250	-	4,326
Adjustments to acquired assets	<u>23,735</u>	<u>3,511</u>	<u>-</u>	<u>27,246</u>
Total	<u>613,290</u>	<u>93,786</u>	<u>(5,884)</u>	<u>701,192</u>
Net book value	<u>785,761</u>			<u>738,660</u>

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

4 TANGIBLE FIXED ASSETS (continued)

Cost

	<u>1 January 2009</u>	<u>Additions /</u>	<u>Disposals</u>	<u>31 December 2009</u>
	CZK'000	<u>transfers</u>	CZK'000	CZK'000
		CZK'000	CZK'000	
Land	5,559	-	-	5,559
Buildings, halls and constructions	138,585	310	-	138,895
Equipment	1,113,400	19,352	-	1,132,752
Other tangible fixed assets	136	-	-	136
Tangible assets in the course of construction	30,204	37,635	-	67,839
Advances paid for fixed assets	845	35	-	880
Adjustments to acquired assets	<u>52,990</u>	<u>-</u>	<u>-</u>	<u>52,990</u>
Total	<u>1,341,719</u>	<u>57,332</u>	<u>-</u>	<u>1,399,051</u>

Accumulated Depreciation

	<u>1 January 2009</u>	<u>Additions</u>	<u>Disposals</u>	<u>31 December 2009</u>
	CZK'000	CZK'000	CZK'000	CZK'000
Buildings, halls and constructions	43,643	8,888	-	52,531
Equipment	462,598	73,350	-	535,948
Adjustments to assets	-	1,076	-	1,076
Adjustments to acquired assets	<u>20,225</u>	<u>3,510</u>	<u>-</u>	<u>23,735</u>
Total	<u>526,466</u>	<u>86,824</u>	<u>-</u>	<u>613,290</u>
Net book value	<u>815,253</u>			<u>785,761</u>

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

4 TANGIBLE FIXED ASSETS (continued)

Adjustment to acquired assets in 2003 amounting to CZK 52,990 thousand originates from the purchase of the Náchod Heating Plant; it is depreciated using the straight-line method over a period of 15 years. As at 31 December 2010 depreciation of the adjustment to acquired assets in the amount of CZK 3,511 thousand were recorded as expenses (31 December 2009: CZK 3,511 thousand).

No assets of the Company are pledged.

The Company uses assets under finance lease contracts that are recorded as tangible fixed assets in the financial statements after the expiration of the lease and transfer of the legal title to the lessee.

The leases may be analysed as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
	CZK'000	CZK'000
Amounts paid on current finance lease contracts	1,264	5,044
Outstanding amounts payable within one year	216	438
Amounts payable after more than one year	—	<u>150</u>
Amounts paid and payable on current contracts	<u>1,480</u>	<u>5,632</u>

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

5 INVESTMENTS IN CONTROLLED ENTITIES / SUBSIDIARIES AND INVESTMENTS IN ASSOCIATES

Investments in subsidiaries and associated undertakings represent investments into ownership interest.

As at 31 December 2010:

	<u>Cost</u> CZK'000	% of <u>capital</u>	Net equity as at 31 December 2010 <u>(Unaudited)</u> CZK'000	Net profit for the year 2010 <u>(Unaudited)</u> CZK'000
<u>Czech entities</u>				
Teplo Rumburk s.r.o.	1,080	98.2	6,604	942
CZT Valašské Meziříčí s.r.o.	40	20.0	2,142	867
TEPLO Votice, s.r.o.	20	20.0	1,740	(698)
KA Contracting SK, s.r.o.*	<u>21,301</u>	<u>85.0</u>	<u>23,757</u>	<u>(1,303)</u>
Total investment	<u>22,441</u>		<u>34,243</u>	<u>(192)</u>

* Financial statements of KA Contracting SK, s.r.o. were audited by 31 December 2010.

KA Contracting SK, s.r.o. is a company established in 2010 and its purpose is to build and subsequently operate new biomass heat plant on the premises of Teplaren Radvan. The heat produced by this plant will be distributed to the network of its future customer.

As at 31 December 2009:

	<u>Cost</u> CZK'000	% of <u>capital</u>	Net equity as at 31 December 2009 <u>(Unaudited)</u> CZK'000	Net profit for the year 2009 <u>(Unaudited)</u> CZK'000
<u>Czech entities</u>				
Teplo Rumburk s.r.o.	1,080	98.2	5,604	2,754
CZT Valašské Meziříčí s.r.o.	40	20.0	1,275	604
TEPLO Votice, s.r.o.	<u>20</u>	20.0	<u>2,483</u>	<u>247</u>
Total investment	<u>1,140</u>		<u>9,362</u>	<u>3,605</u>

There are no differences between the percentage of ownership and the percentage of voting rights in any subsidiary and associated undertaking displayed above.

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

6 INVENTORIES

	<u>31 December 2010</u>	<u>31 December 2009</u>
	CZK'000	CZK'000
Raw materials	11,138	5,797
Goods for resale	-	3,638
Advances paid for inventory purchases	1,000	1,100
Work in progress	<u>10,247</u>	-
Net book value	<u>22,385</u>	<u>10,535</u>

Inventory represents mainly coal, light fuel oil and barleys determined for combustion.

Work in progress of CZK 10,247 thousand recorded as at 31 December 2010 represents the balance relating to planned delivery of Banska Bystrica preparatory phase that is being carried out for KA Contracting SK, s.r.o. This phase of the project will be billed to the counterparty 31 January 2011.

7 RECEIVABLES

	<u>31 December 2010</u>	<u>31 December 2009</u>
	CZK'000	CZK'000
<u>Short-term receivables</u>		
Trade receivables		
- current	7,635	4,926
- overdue	<u>29,404</u>	<u>26,502</u>
	37,039	31,428
Provision for doubtful receivables	<u>(17,849)</u>	<u>(22,587)</u>
Net book value of trade receivables	19,190	8,841
Taxes and state subsidies receivables	295	7,340
Advances paid	20,803	22,003
Anticipated assets (see Note 8)	18,291	-
Anticipated assets – insurance claim accrual	3,529	-
Other receivables	<u>719</u>	-
Short-term receivables net	<u>62,827</u>	<u>38,184</u>

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

7 RECEIVABLES (continued)

Short-term advances paid are advances paid for the purchase of gas.

Prepayments for corporate income tax amounting to CZK 8,123 thousand for the year 2010 are netted off with the provision for income tax – see Note 10 - Provisions.

Prepayments for corporate income tax amounting to CZK 3,582 thousand for the year 2009 are recorded as a part of receivables on the row “Taxes and state subsidies receivables” in the Balance sheet assets.

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

Changes in the provision for doubtful receivables:

	<u>2010</u> CZK'000	<u>2009</u> CZK'000
Opening balance as at 1 January	22,587	39,747
Charge/ (released) during the year	4,456	(2,048)
Written off during the year	<u>(9,194)</u>	<u>(15,112)</u>
Closing balance as at 31 December	<u>17,849</u>	<u>22,587</u>

8 ANTICIPATED RECEIVABLES – UNBILLED GAS / ADVANCES RECEIVED

The Company recognised the following amounts of unbilled heat and advances received for heat sold:

	<u>31 December 2010</u> CZK'000	<u>31 December 2009</u> CZK'000
Anticipated receivables from unbilled heat, supplies of hot water and electric power	306,431	291,955
Advances received for heat	<u>(288,140)</u>	<u>(296,443)</u>
Anticipated assets / Advance received	<u>18,291</u>	<u>(4,488)</u>

KA CONTRACTING ČR S.R.O.**NOTES TO FINANCIAL STATEMENTS****YEAR ENDED 31 DECEMBER 2010****9 EQUITY**

The Company is fully owned by RWE KAC Dezentrale Energie GmbH & Co. KG, Vosskuhle 38, 44141 Dortmund, incorporated in Germany and the ultimate holding company is RWE AG, incorporated in Germany. Share capital of the Company is fully repaid.

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

The net profit of CZK 51,516 thousand for 2009 was approved and allocated by the General Meeting of Shareholders on 25 June 2010 as follows:

	<u>2010</u>
	CZK'000
Allocation to Statutory fund	2,576
Allocation to Retained earning	<u>48,940</u>
Profit for the year 2009	<u>51,516</u>

10 PROVISIONS

	Litigation	Statutory	Income tax	Provision for	
	<u>provisions</u>	<u>reserves</u>	<u>provisions</u>	<u>untaken</u>	<u>Total</u>
	CZK'000	CZK'000	CZK'000	holidays	CZK'000
Opening balance as at 1 January 2009	1,630	19,074	5,875	2,283	28,862
Charge for the year	-	955	9,281	2,542	12,778
Used in the year	<u>500</u>	<u>6,341</u>	<u>5,875</u>	<u>2,283</u>	<u>14,999</u>
Closing balance as at 31 December 2009	1,130	13,688	9,281	2,542	26,641
Charge for the year	-	8,947	11,682	2,088	22,717
Used in the year	(930)	(8,614)	(9,281)	(2,542)	(21,367)
Income tax provision	<u>-</u>	<u>-</u>	<u>(8,123)</u>	<u>-</u>	<u>(8,123)</u>
Closing balance as at 31 December 2010	<u>200</u>	<u>14,021</u>	<u>3,559</u>	<u>2,088</u>	<u>19,868</u>

The calculation of income tax and deferred tax is described in Note 12 Income Tax.

Statutory reserves represent provisions relating to repairs of tangible fixed assets created as defined by the Act on Reserves.

KA CONTRACTING ČR S.R.O.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

11 LIABILITIES

		<u>31 December 2010</u>	<u>31 December 2009</u>
		CZK'000	CZK'000
<u>Short-term liabilities</u>			
Trade payables	- current	22,616	7,621
	- overdue	<u>6,976</u>	<u>6,777</u>
Total trade payables		29,592	14,398
Liabilities in the RWE Group		68,900	68,900
Emission rights		7,761	4,910
Tax liabilities		478	-
Liabilities to employees		2,579	4,189
Other payables	- current	1,319	891
Advances paid (see Note 8)		-	4,488
Anticipated liabilities		<u>41,150</u>	<u>32,898</u>
Total short-term liabilities		<u>151,779</u>	<u>130,674</u>
<u>Long-term liabilities</u>			
Liabilities in the RWE Group		413,400	482,300
Retention rights		1,048	-
Deferred tax liability		<u>22,406</u>	<u>21,313</u>
Total long-term liabilities		<u>436,854</u>	<u>503,613</u>
Total short- and long-term liabilities		<u>588,633</u>	<u>634,287</u>

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.

The liabilities in the RWE Group are described in Note 15.

Other short-term due liabilities include liabilities for social insurance and contributions to the state employment policy in the amount of CZK 970 thousand (2009: CZK 655 thousand) and liabilities for health insurance in amount of CZK 349 thousand (2009: CZK 236 thousand).

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

11 LIABILITIES (continued)

Anticipated liabilities are mainly represented by unbilled purchases of energies (inclusive coal) in the amount of CZK 27,445 thousand (31 December 2009: CZK 23,985 thousand).

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.

12 INCOME TAX

The income tax expense consists of the following:

	<u>2010</u>	<u>2009</u>
	CZK'000	CZK'000
Current tax expense	11,682	9,281
Deferred tax expense	1,093	2,377
Adjustment of prior year tax expense	<u>(152)</u>	<u>1,240</u>
Total	<u>12,623</u>	<u>12,898</u>

The income tax was calculated as follows:

	<u>2010</u>	<u>2009</u>
	CZK'000	CZK'000
Net profit before taxation	36,376	64,414
Non-tax deductible expenses	81 144	21,904
Non-tax deductible income	(54,661)	(33,476)
Difference between tax and accounting depreciation	<u>(1,377)</u>	<u>(6,437)</u>
Net taxable profit	<u>61,482</u>	<u>46,405</u>
Corporate taxation at 19% (2009: 20%)	<u>11,682</u>	<u>9,281</u>

Income tax 2010 is recorded as a reserve – see Note 10.

For 2010 and 2009 the deferred tax was calculated at tax rate of 19%.

KA CONTRACTING ČR S.R.O.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED 31 DECEMBER 2010

12 INCOME TAX (continued)

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

	<u>31 December 2010</u>	<u>31 December 2009</u>
	CZK'000	CZK'000
<u>Deferred tax liability:</u>		
Difference between accounting net book value and tax net book value of fixed assets	<u>(25,061)</u>	<u>(24,578)</u>
	<u>(25,061)</u>	<u>(24,578)</u>
<u>Deferred tax asset:</u>		
Accounting provisions for receivables	2,220	2,568
Reserves and emission permits	<u>435</u>	<u>698</u>
	<u>2,655</u>	<u>3,266</u>
Net deferred tax liability	<u>(22,406)</u>	<u>(21,312)</u>

13 REVENUES STRUCTURE

Revenue from ordinary activities has been generated as follows:

	<u>2010</u>	<u>2009</u>
	CZK'000	CZK'000
Sales of heat	366,526	346,835
Sales of electric power	87,373	125,349
Lease of equipment	78,311	78,831
Sales of other services	<u>4,253</u>	<u>4,242</u>
Total sales of own products and services	536,463	555,257
Sales of assets	15,944	-
Sales of materials	<u>1,797</u>	<u>-</u>
Total other revenues	<u>17,741</u>	<u>-</u>
Total	<u>554,205</u>	<u>555,257</u>

* All revenues were realised in the Czech Republic apart from revenue relating to the sale of emission rights of CZK 14,227 thousand that was realized abroad and is reported as sale of fixed assets. See note 15.

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

14 EMPLOYEE ANALYSIS

	<u>2010</u>	<u>2009</u>
<u>Employee numbers</u>		
Number of members of statutory bodies, which are employees	3	2
Average recalculated number of other members of management	2	2
Average recalculated number of other staff	<u>74</u>	<u>76</u>
Total	<u>79</u>	<u>80</u>

The Company's management includes Statutory Representatives and Proxy.

	<u>Management</u>	<u>Other staff</u>	<u>Total</u>
	CZK'000	CZK'000	CZK'000
<u>2010</u>			
Wages and salaries	10,545	27,311	37,856
Board emoluments	1,736	-	1,736
Social security costs	2,047	11,127	13,174
Other social costs	<u>19</u>	<u>2,286</u>	<u>2,305</u>
Total	<u>14,347</u>	<u>40,724</u>	<u>55,071</u>
<u>2009</u>			
Wages and salaries	6,858	32,424	39,282
Board emoluments	1,601	-	1,601
Social security costs	1,508	10,635	12,143
Other social costs	<u>-</u>	<u>1,915</u>	<u>1,915</u>
Total	<u>9,967</u>	<u>44,974</u>	<u>54,941</u>

Other transactions with the Company's management are described in Note 15 – Related Party Transactions.

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

15 RELATED PARTY TRANSACTIONS

The Company was involved in the following related party transactions:

	<u>2010</u>	<u>2009</u>
	CZK'000	CZK'000
<u>Sales of services</u>		
TEPLO Rumburk	14,750	14,760
CZT Valašské Meziříčí	33,503	33,471
TEPLO Votice	4,334	4,334
RWE Innogy Cogen	14,227	-
KA Contracting SK	<u>10,247</u>	<u>-</u>
Total revenues	<u>77,061</u>	<u>52,565</u>
Purchases of gas	115,457	111,696
Loan interest	27,001	30,603
RWE Innogy Cogen	13,023	-
Others	<u>-</u>	<u>10</u>
Total costs	<u>155,481</u>	<u>142,309</u>

The Company's balances with related parties were as follows:

	<u>31 December 2010</u>	<u>31 December 2009</u>
	CZK'000	CZK'000
Paid operating advances	15,689	16,002
Trade receivables	<u>2,408</u>	<u>1,534</u>
Total receivables	<u>18,097</u>	<u>17,536</u>
Work in progress	<u>10,247</u>	<u>-</u>
Trade payables	-	-
Other payables	15,004	14,292
Loans payable	<u>482,300</u>	<u>551,200</u>
Total payables	<u>497,109</u>	<u>583,028</u>

The Company leases equipment to TEPLO Rumburk, s.r.o., CZT Valašské Meziříčí s.r.o., and TEPLO Votice, s.r.o., which are related parties to the Company.

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

15 RELATED PARTY TRANSACTIONS (continued)

In 2010, the Company entered into quality swap agreement exchanging 40,578 pieces of EU Emission Allowances for the same amount of Certified Emission Reductions. The transaction was realized with RWE Innogy Cogen. All Certified Emission reductions obtained by this transaction were put into consumption in 2010 and their final balance as at 31 December 2010 recorded within intangible fixed assets amounts therefore to CZK 0.

The Company purchases gas from related parties in the RWE group. The Company provided advances for the purchase of gas in the total amount of CZK 15,689 thousand as at 31 December 2010 (as at 31 December 2009 CZK 16,002 thousand).

For balance of CZK 10,247 thousand relating to work in progress as at 31 December 2010 see Note 6 – Inventories.

The Company is a 100% subsidiary of RWE KAC Dezentrale Energien GmbH & Co. KG.

On 21 June 2007, the Company concluded the agreement to obtain the loan with related party RWE from the company Scaris Limited in the total amount of CZK 689,000 thousand, due as at 21 June 2017. The loan interest rate is 5.228% p.a. Total unpaid part of the loan as at 31 December 2010 amounts to CZK 482,300 thousand (as at 31 December 2009: CZK 551,200 thousand). The short term part of the loan amounts CZK 68,900 thousand as at 31 December 2010 and 2009.

The loans payable bear interest at market interest rates. Trade receivables and payables from these transactions arose under the same terms and conditions as with unrelated parties.

Neither the member nor the management received any loans, credit, or other payments in 2010 and 2009.

Company cars are made available for use by management for business purposes. The gross value of lease instalments paid for the said vehicles totalled CZK 256 thousand in 2010 (2009: CZK 528 thousand).

KA CONTRACTING ČR S.R.O.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

16 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 annual report of the ultimate holding company RWE AG.

17 CONTINGENT LIABILITIES

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

18 SUBSEQUENT EVENTS

There were no events after the balance sheet date, which would have a significant effect on the Financial Statements as at 31 December 2010.

16 May 2011



Miro Michalec
Statutory Representative



Frank Mattat
Statutory Representative

APPENDIX 3

REPORT ON RELATIONS

3. Report on Relations between Controlled and Controlling Parties in the Fiscal Period of 2010

Compiled in accordance with Section 66a(9) of the Commercial Code

Company:

KA Contracting ČR, s.r.o., ("Company")

Registered office: Truhlářská 13/15, 110 00 Prague 1

Identification Number: 2511 5171 ("Company")

3.1 Reference Period

This Report is compiled for the period starting on 1 January 2010 and ending on 31 December 2010.

3.2 Member Structure in the Reference Period

Section 66a of the Commercial Code specifies that unless it is demonstrated that a different party holds the same or a higher number of voting rights, a party holding a minimum of 40% of voting rights in a certain party is considered a controlling party.

During the reference period starting on 1 January 2010 and ending on 31 December 2010, the Company was controlled by the following parties:

Directly

- RWE KAC Dezentrale Energien GmbH & Co. KG with its registered office at Vosskuhle 38, 44141 Dortmund, Germany, which held an ownership interest corresponding to 100% of the Company's share capital.

Indirectly

- RWE Innogy Cogen GmbH with its registered office at Kruppstraße 5, 45128 Essen, Germany, which was the sole member of RWE KAC Dezentrale Energien GmbH & Co. KG
- RWE Innogy GmbH with its registered office at Karolingerstraße 94, 45141 Essen, Germany, which was the sole member of RWE Innogy Cogen GmbH
- RWE Aktiengesellschaft with its registered office at Opernplatz 1, 45128 Essen, Germany, which was the sole member of RWE Innogy GmbH

During the reference period starting on 1 January 2010 and ending on 31 December 2010, the Company hold

- a 98.2% ownership interest in and was the controlling party of TEPLŮ Rumburk, s.r.o. with its registered office at Lesní 92, Rumburk, Identification Number: 2540 7104.
- a 85% ownership interest in and was the controlling party of KA Contracting SK s.r.o., with its registered office at Zvolenská cesta 1, Banská Bystrica, Slovak Republic, Identification Number: 45 650 829

3.3 Overview of Agreement Entered into during the Reference Period

In accordance with Section 66a of the Commercial Code, this section contains an overview of agreement signed by the Company, the controlling party, and related parties during the reference period.

Contracts of multi-element services of gas supplies which were closed in past with the companies of the RWE Czech Republic group were terminated in 2010. Based on a new tender, the new frame contract of the one year period about multi-element service gas supply with the RWE Key Account CZ, s.r.o. Supply points out of licensed area of RWE were included into the frame contract regarding the tender results.

The Company closed contracts with RWE Innogy Cogen GmbH regarding centralized cash management, services agreement and contracts concerning sales of EU Emission Allowances and purchase of the same quantity of Certified Emission Reductions.

The above agreements were entered into under arm's length terms and conditions, where performance and payment correspond to customary business practices, including contracts signed in preceding accounting periods. Consequently, the Company is not liable to incur any damage by performing these agreements.

3.5 Overview of Other Legal Acts

The Company did not complete any legal acts in relation to the controlling party or related parties, did not adopt any measures, did not provide any supply, and did not make any payment that would be adopted or effectuated in the interest or at the request of the controlling party or related parties.

3.6 Summary

This Report on Relations is a report in the sense of Section 66a of the Commercial Code, as amended, i.e. it is a written report on the relations between controlling and controlled parties and other parties controlled by the same controlling party.

This Report on Relations has been compiled in accordance with the current wording of the Commercial Code, particularly Section 66a of the Commercial Code.

Prague, 31 March 2011

KA Contracting ČR s.r.o.



Miro Michalec

Statutory Representative



Frank Mattat

Statutory Representative