

**ANNUAL REPORT  
OF THE COMPANY**

**KA Contracting ČR s.r.o.**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

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## **1. Analysis of the performance figures for the preceding period**

In 2011, KA Contracting ČR s.r.o. (the "Company") accounted for total revenues in the amount of CZK 503,500,000, achieved primarily from the operation of its heat and combined heat and power plants in the Czech Republic. Compared to 2010, this value represents a decline of 7.9 %.

In 2011, the Company had to come to terms with two substantial problems. The first was a breakdown of the turbine at the Company's largest heat plant. During the second quarter, the consequences of this failure were being removed, and due to increased efforts, the shortfall in power production was eliminated by the end of the year. The second problem was the protracted and complicated launch of power production from renewables, after technology had sustained damage due to extreme weather in 2010. Planned production figures were reached during 3th quarter 2011.

Annual sales of electrical power reached a volume of 58.9 GWh, which is an increase of approx. 9.4 % compared to the previous year. Thanks to better prices, revenues from power sales in 2011 amounted to CZK 100,500,000, which is 15.0 % more than 2010.

By contrast, the volume of heat supplied in 2011 was in decline, due to the above-average temperatures in winter and the continuing trend of reduced consumption of energy by customers. Total heat consumption in 2011 amounted to 681.3 TJ, which is 14.5% less than in 2010. Revenues from heat sales totaled CZK 314,000,000, a year-by-year decrease of 13.0 %.

As a consequence of the above-described situation, the Company closed 2011 with operating results in the amount of CZK 80,500,000, a 22.6% increase compared to 2010. After-tax earnings rose from CZK 23,800,000 in 2010 to CZK 44,500,000 million in 2011.

Financial costs were down by 14.2% compared to 2010.

The volume of investments in 2011 roughly compares to 2010, and amounted to CZK 66,500,000.

Overall, one may say that the economic conditions in 2011 were more favorable than in 2010. The Company was thus able to focus on investing, in particular into upgrading its existing infrastructure of means of production. The Company also continued preparatory work on a number of projects.

## 2. Information on matters of importance

### 2.1. Overview of projects as at 31 December 2011

	project	installed capacity (in 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

The company operates the individual projects by drawing upon its own workforce or, as the case may be, by renting facilities out to third parties who then operate these facilities using their own employees (though under the technical and financial supervision of the Company).

More sophisticated facilities are as a rule operated using the Company's own employees.

### 2.2. Future development

In 2012, the Company will continue to implement its projects in the area of combined heat and power generation (CHP), based primarily on the use of renewable energy sources. The Company will continue to focus on, and further implement, CHP projects to do with the supply of long-distance heating. In the light of the protracted license issuing procedure, the management of the Company expects to be able to commence construction work on three projects in the course of 2012, whose commercial operation could be launched at some point between 2012 and 2015.

In the view of the Company's management, the current economic development in Central Europe shows a moderately positive trend. However, the Company does not expect demand for heat or electric power to grow significantly – up until very recently, the market prices for power and fuel remained on a rather low level. Responding to the current global situation in the wake of the nuclear catastrophe in Japan, the price of electricity for future years surged by leaps and bounds. The management therefore expects these prices – which are higher than those in 2011 – to dominate the market throughout 2012.

The Company remains committed to assessing the opportunities for further external growth and, where expedient, making active use of these opportunities. The Company is currently reviewing a number of potential acquisition targets in the Czech Republic and the Slovak Republic, given that the current market prices fluctuate around what is still an attractive level.

The Company also continues preparatory work on projects in the area of renewables as well as in the area of traditional centralized (district) heating. The Company has already obtained all requisite approvals for being able to continue the implementation of a biomass project in Velké Albrechtice.

In 2011, the development of prices in the markets for emission allowances has been adverse, under the impact of the global economic situation. Prices were generally on lower levels, and it remains unclear to this day where these allowances markets are headed. That being said, the management is confident that the current mid-term trend towards further cuts of greenhouse gas emissions is here to stay. For this reason, the Company will continue its efforts to reduce the volume of released emissions. It shall achieve this goal through efficient cogeneration methods and through the use of renewable energy sources.

### **2.3. Investment into research and development**

In 2011, the Company made no investment into research or development activities.

### **2.4. Activities related to the environment**

In 2011, the Company continued to invest into environmental initiatives.

Specifically, the Company has made further investments into modernizing the sludge lagoon at the Náchod CHP plant, in the interest of improving flood safety. The Company also

performed preparatory work on a new project for using biomass as a fuel in co-generating heat and power in Náchod, with the aim to reduce CO<sub>2</sub> and SO<sub>2</sub> emissions.

In Velké Albrechtice, pipe grinders were installed which break up the structure of incoming batches, thus reducing the energy demands of reactor mixing and improving the quality of fermentation.

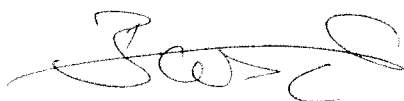
All told, the Company invested CZK 6,100,000 into projects which contribute to mitigating the impact of the Company's operations on the environment.

## **2.5. Employment-related matters**

The staffing situation at the Company has remained all but unchanged, compared to 2010. As at the end of the year, the Company had 77 employees.

## **2.6. Events past the balance sheet date**

As at 1 January 2012, the ownership interest in the Company owned by KAC Dezentrale Energien was sold to RWE Transgas a.s. No other events occurred after balance sheet date which could have material impact on the financial statements compiled as at 31 December 2011.



Pavel Bartl  
Statutory representative



Viktor Kalina  
Statutory representative

4 May 2012

## **ANNEXE**

### 1. Independent auditor's report

#### 1.1. Auditor's report on the Financial Statements



English translation

## ***Independent auditor's report***

### **to the shareholder of KA Contracting ČR s.r.o.**

We have audited the accompanying financial statements of KA Contracting ČR s.r.o., identification number 251 15 171, with registered office at Truhlářská 13-15, Praha 1 ("the Company"), which comprise the balance sheet as at 31 December 2011, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

#### *Statutory Body's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

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

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

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

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





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

*Opinion*

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

30 March 2012

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

Tomáš Bašta  
Statutory Auditor, Licence No. 1966

Translation note

This version of our report 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 our report takes precedence over this translation.

## **ANNEXE**

- 1.2. Auditor's Report on the Annual Report and on the Report on Relations between Controlled and Controlling Parties



English translation

## ***Independent auditor's report***

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

We have audited the financial statements of KA Contracting ČR s.r.o., identification number 251 15 171, with registered office at Truhlářská 13-15, Praha ("the Company") for the year ended 31 December 2011 disclosed in the annual report in annexe 2 and issued the opinion dated 30 March 2012 and disclosed in annexe 1.1.

### **Report on the Annual Report**

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2011 is consistent with the financial statements referred to above. The Statutory Body is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

#### *Auditor's Responsibility*

We conducted our verification procedures in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the verification procedures to obtain reasonable assurance about whether the other information included in the annual report which describes matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that the verification procedures performed provide a reasonable basis for our opinion.

#### *Opinion*

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2011 is consistent, in all material respects, with the financial statements.

### **Report on review of the Report on Relations**

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2011 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Body of the Company. Our responsibility is to express our opinion on the Report based on performed review.

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Shareholder of KA Contracting ČR s.r.o.  
Independent auditor's report

## **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.

4 May 2012

PricewaterhouseCoopers Audit, s.r.o.  
represented by

Tomáš Bašta  
Statutory Auditor, Licence No. 1966

#### Translation note

This version of our report 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 our report takes precedence over this translation.

## **ANNEXE**

### **2. Financial statements and Notes**

# ***KA Contracting ČR s.r.o.***

Financial statements

31 December 2011

## **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.

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

Identification number: 25115171

Legal form: Limited Liability Company

Primary business: Heat and electricity production and distribution

Balance sheet date: 31 December 2011

Date of preparation of the financial statements: 30 March 2012

## BALANCE SHEET

(in thousand Czech crowns)

Ref. a	ASSETS b	31.12.2011			31.12.2010
		Gross 1	Provision 2	Net 3	Net 4
	<b>TOTAL ASSETS</b>	<b>1,876,830</b>	<b>(819,291)</b>	<b>1,057,539</b>	<b>1,081,338</b>
<b>B.</b>	<b>Fixed assets</b>	<b>1,542,650</b>	<b>(801,572)</b>	<b>741,078</b>	<b>782,030</b>
<b>B. I.</b>	<b>Intangible fixed assets</b>	<b>21,007</b>	<b>(9,002)</b>	<b>12,005</b>	<b>20,929</b>
B. I. 1.	Software	4,813	(4,002)	811	968
2.	Royalties	16,000	(5,000)	11,000	12,200
3.	Other intangible fixed assets	-	-	-	7,761
4.	Intangible fixed assets in the course of construction	194	-	194	-
<b>B. II.</b>	<b>Tangible fixed assets</b>	<b>1,498,573</b>	<b>(792,570)</b>	<b>706,003</b>	<b>738,660</b>
B. II. 1.	Land	5,564	-	5,564	5,559
2.	Constructions	148,357	(71,192)	77,165	77,750
3.	Equipment	1,237,384	(690,622)	546,762	547,087
4.	Other tangible fixed assets	135	-	135	135
5.	Tangible fixed assets in the course of construction	54,143	-	54,143	81,350
6.	Advances paid for tangible fixed assets	-	-	-	1,035
7.	Adjustment to acquired fixed assets	52,990	(30,756)	22,234	25,744
<b>B. III.</b>	<b>Long-term investments</b>	<b>23,070</b>	<b>-</b>	<b>23,070</b>	<b>22,441</b>
B. III. 1.	Investments in associates	23,070	-	23,070	22,441
<b>C.</b>	<b>Current assets</b>	<b>330,571</b>	<b>(17,719)</b>	<b>312,852</b>	<b>295,198</b>
<b>C. I.</b>	<b>Inventories</b>	<b>24,799</b>	<b>-</b>	<b>24,799</b>	<b>22,385</b>
C. I. 1.	Raw materials	21,041	-	21,041	11,138
2.	Work in progress and semi-finished products	-	-	-	10,247
3.	Prepayments for inventory	3,758	-	3,758	1,000
<b>C. III.</b>	<b>Short-term receivables</b>	<b>66,400</b>	<b>(17,719)</b>	<b>48,681</b>	<b>62,827</b>
C. III. 1.	Trade receivables	35,900	(17,719)	18,181	19,190
2.	Taxes and state subsidies receivable	3,928	-	3,928	295
3.	Short-term advances paid	25,853	-	25,853	20,803
4.	Estimated receivables	-	-	-	21,820
5.	Other receivables	719	-	719	719
<b>C. IV.</b>	<b>Financial assets</b>	<b>239,372</b>	<b>-</b>	<b>239,372</b>	<b>209,986</b>
C. IV. 1.	Cash in hand	135	-	135	221
2.	Cash at bank	239,237	-	239,237	209,765
<b>D. I.</b>	<b>Prepayments and accrued income</b>	<b>3,609</b>	<b>-</b>	<b>3,609</b>	<b>4,110</b>
D. I. 1.	Prepaid expenses	3,609	-	3,609	4,110

Ref. a	LIABILITIES AND EQUITY b	31.12.2011	31.12.2010
		5	6
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>1,057,539</b>	<b>1,081,338</b>
<b>A.</b>	<b>Equity</b>	<b>517,080</b>	<b>471,935</b>
<b>A. I.</b>	<b>Share capital</b>	<b>280,000</b>	<b>280,000</b>
A. I. 1.	Share capital	280,000	280,000
<b>A. II.</b>	<b>Capital contributions</b>	<b>920</b>	<b>291</b>
A. II. 1.	Assets and liabilities revaluation	920	291
<b>A. III.</b>	<b>Reserve fund and other reserves</b>	<b>15,377</b>	<b>14,189</b>
A. III. 1.	Legal reserve fund	15,377	14,189
<b>A. IV.</b>	<b>Retained earnings / Accumulated losses</b>	<b>176,267</b>	<b>153,702</b>
A. IV. 1.	Retained earnings	176,267	153,702
<b>A. V.</b>	<b>Profit / (loss) for the current period</b>	<b>44,516</b>	<b>23,753</b>
<b>B.</b>	<b>Liabilities</b>	<b>539,642</b>	<b>608,501</b>
<b>B. I.</b>	<b>Provisions</b>	<b>21,334</b>	<b>19,868</b>
B. I. 1.	Tax-deductible provisions	17,383	14,021
2.	Income tax provision	1,661	3,559
3.	Other provisions	2,290	2,288
<b>B. II.</b>	<b>Long-term liabilities</b>	<b>369,273</b>	<b>436,854</b>
B. II. 1.	Trade payables	3,669	1,048
2.	Liabilities - subsidiaries / controlling parties	344,500	413,400
3.	Deferred tax liability	21,104	22,406
<b>B. III.</b>	<b>Short-term liabilities</b>	<b>149,035</b>	<b>151,779</b>
B. III. 1.	Trade payables	19,412	29,592
2.	Liabilities - subsidiaries / controlling parties	68,900	68,900
3.	Liabilities to employees	2,335	2,579
4.	Liabilities for social security and health insurance	1,186	1,319
5.	Taxes and state subsidies payable	519	8,239
6.	Short-term advances received	15,245	-
7.	Estimated payables	41,438	41,150
<b>C. I.</b>	<b>Accruals and deferred income</b>	<b>817</b>	<b>902</b>
C. I. 1.	Deferred income	817	902



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## INCOME STATEMENT

(in thousand Czech crowns)

Ref. a	DESCRIPTION b	Accounting period	
		2011 1	2010 2
I.	Sales of goods	-	1,133
A.	Cost of goods sold	-	1,133
+	Gross profit	-	-
II.	Sales of production	503,486	546,710
II. 1.	Sales of own products and services	513,733	536,463
II. 2.	Change in inventory of finished goods and work in progress	(10,247)	10,247
B.	Cost of sales	288,613	327,038
B. 1.	Raw materials and consumables	194,734	219,132
B. 2.	Services	93,879	107,906
+	<b>Added value</b>	<b>214,873</b>	<b>219,672</b>
C.	Staff costs	55,699	55,071
C. 1.	Wages and salaries	38,569	37,856
C. 2.	Emoluments of board members	1,772	1,736
C. 3.	Social security and health insurance costs	13,299	13,174
C. 4.	Other social costs	2,059	2,305
D.	Taxes and charges	4,515	1,821
E.	Depreciation of fixed assets	99,163	91,990
III.	Sale of fixed assets and raw materials	25,685	17,741
III. 1.	Sale of fixed assets	25,657	15,944
III. 2.	Sale of raw materials	28	1,797
F.	Net book value of fixed assets and raw materials sold	24,737	16,953
F. 1.	Net book value of fixed assets sold	24,737	15,243
F. 2.	Net book value of raw materials sold	-	1,710
G.	Increase / (decrease) in operating provisions	(1,090)	(2,540)
IV.	Other operating income	68,895	48,399
H.	Other operating charges	45,899	56,780
*	<b>Operating result</b>	<b>80,530</b>	<b>65,737</b>
X.	Interest income	752	928
N.	Interest expense	23,399	27,001
XI.	Other financial income	41	215
O.	Other financial expense	2,571	3,503
*	<b>Financial result</b>	<b>(25,177)</b>	<b>(29,361)</b>
Q.	Tax on profit or loss on ordinary activities	10,837	12,623
Q. 1.	- current	12,139	11,530
Q. 2.	- deferred	(1,302)	1,093
**	<b>Profit or loss on ordinary activities after taxation</b>	<b>44,516</b>	<b>23,753</b>
***	<b>Net profit / (loss) for the financial period</b>	<b>44,516</b>	<b>23,753</b>
***	<b>Net profit / (loss) before taxation</b>	<b>55,353</b>	<b>36,376</b>

**KA Contracting ČR s.r.o.**Statement of changes in shareholders' equity  
Year ended 31 December 2011

<b>(CZK'000)</b>	<b>Share capital</b>	<b>Legal reserve fund</b>	<b>Revaluation reserve</b>	<b>Retained earnings</b>	<b>Total</b>
<b>As at 1 January 2010</b>	<b>280,000</b>	<b>11,613</b>	-	<b>156,278</b>	<b>447,891</b>
Fair value gains	-	-	291	-	291
Contributions to reserve fund	-	2,576	-	(2,576)	-
Net profit for the current period	-	-	-	23,753	23,753
<b>As at 31 December 2010</b>	<b>280,000</b>	<b>14,189</b>	<b>291</b>	<b>177,455</b>	<b>471,935</b>
Fair value gains	-	-	629	-	629
Contributions to reserve fund	-	1,188	-	(1,188)	-
Net profit for the current period	-	-	-	44,516	44,516
<b>As at 31 December 2011</b>	<b>280,000</b>	<b>15,377</b>	<b>920</b>	<b>220,783</b>	<b>517,080</b>

**KA Contracting ČR s.r.o.**

Cash flow statement

Year ended 31 December 2011

<b>(CZK'000)</b>	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
<b>Net profit on ordinary activities before tax</b>	<b>55,353</b>	<b>36,376</b>
<b>A.1 Adjustments for non-cash movements:</b>		
A.1.1 Amortisation/Depreciation of fixed assets	99,163	91,990
A.1.2 Change in provisions	(1,090)	(2,540)
A.1.3 Profit from disposal of fixed assets	(920)	(701)
A.1.4 Net interest expense	22,647	26,073
A.1.5 Other non-cash movements	(11,546)	15,711
<b>A* Net cash flow from operating activities before tax, changes in working capital and extraordinary items</b>	<b>163,607</b>	<b>166,909</b>
<b>A.2 Working capital changes:</b>		
A.2.1 Change in receivables and prepayments and accrued income	14,732	(30,753)
A.2.2 Change in short-term payables and accruals and deferred income	(669)	16,423
A.2.3 Change in inventories	(2,414)	(11,850)
<b>A** Net cash flow from operating activities before tax and extraordinary items</b>	<b>176,594</b>	<b>140,729</b>
A.3 Interest paid	(23,399)	(27,001)
A.4 Interest received	752	928
A.5 Income tax on ordinary activities paid	(14,037)	(13,669)
<b>A*** Net cash flow from operating activities</b>	<b>139,910</b>	<b>100,987</b>
<b>Cash flows from investing activities</b>		
B.1 Acquisition of fixed assets	(69,902)	(74,583)
B.2 Proceeds from the sale of fixed assets	25,657	1,717
<b>B*** Net cash flow from investing activities</b>	<b>(44,245)</b>	<b>(72,866)</b>
<b>Cash flows from financing activities</b>		
C.1 Change in long- and short-term liabilities	(66,279)	(67,851)
<b>C*** Net cash flow from financing activities</b>	<b>(66,279)</b>	<b>(67,851)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>29,386</b>	<b>(39,730)</b>
<b>Cash and cash equivalents as at the beginning of the year</b>	<b>209,986</b>	<b>249,716</b>
<b>Cash and cash equivalents as at the end of the year</b>	<b>239,372</b>	<b>209,986</b>

## **1. General information**

### **1.1. 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, zip code 110 00, Truhlářská 13-15. The Company's business activities are the production and distribution of heat, the production and distribution of electric power, the lease of real estate, both residential and non-residential premises without provision of services other than basic services related to lease. Identification number of the Company is 251 15 171.

The Directors as at 31 December 2011 were as follows:

<b>Name</b>	<b>Position</b>	<b>Note</b>
Miro Michalec	Statutory Director	appointed on 18 June 1997
Frank Mattat	Statutory Director	appointed on 16 November 2009
Pavel Bartl	Statutory Director	appointed on 1 April 2011

Proxies as at 31 December 2011 were as follows:

<b>Name</b>	<b>Position</b>	<b>Note</b>
Stanislav Sádovský	Proxy	appointed on 12 February 2003
Viktor Kalina	Proxy	appointed on 12 February 2003

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.

On 31 December 2011 Mr. Frank Mattat was dismissed from his position of statutory representative based on the decision of sole shareholder. On 1 February 2012 was appointed Mr. Ing. Viktor Kalina as Statutory Director, on the same date, his position of the Proxy had been discontinued.

On 1 February 2012 Mr. Dipl.- Ing. Miro Michalec was dismissed from the position of Statutory Director. As at the date of the financial statements preparation, all changes are incorporated in Commercial Register.

## **2. Accounting policies**

### **2.1. Basis of preparation**

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

### **2.2. Intangible fixed assets**

All intangible assets with a useful life longer than one year and a unit cost of more than CZK 60,000 are treated as intangible fixed assets.

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

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

<b>Intangible fixed asset</b>	<b>Estimated useful life</b>
Software	3 years
Royalties	15 years
Other intangible fixed assets	6 years

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

**KA Contracting ČR s.r.o.**

Notes to financial statements  
Year ended 31 December 2011

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

Intangible fixed assets with a unit cost less than CZK 60,000 are expensed upon acquisition.

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

Emission rights are recorded by the Company in group "Other intangible fixed assets". Emission rights allocated 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 purchased emission rights are initially recorded at cost, which includes all costs related with its acquisition.

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 CO<sub>2</sub> emissions in the period. If at the end of the reporting period the Company has sufficient amount of emission rights to cover the total estimated actual CO<sub>2</sub> emission for the period, a provision is created.

The Company applies FIFO method to the disposal of emission rights.

Sales of emission rights are recorded as operating revenue and are stated at selling prices, at the same time their value is deducted from the value of assets.

A provision for impairment is created when the carrying value of emission rights is greater than its estimated recoverable amount.

### **2.3. Tangible fixed assets**

All tangible assets with a useful life longer than one year and a unit cost of more than CZK 40,000 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, except for land which is not depreciated, 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.

Other assets of the Company are depreciated as follows:

<b>Tangible fixed asset</b>	<b>Estimated useful life</b>
Buildings and constructions	12 – 30 years
Fixture and furniture	4 years
Computers, cars	3 – 5 years
Machines	5 – 10 years

Low value tangible fixed assets with a unit cost more than CZK 20,000 and less than CZK 40,000 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 2,000 are recorded in operating records and are subject to stocktaking.

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

Repairs and maintenance expenditures of tangible fixed assets are expensed as incurred. In accordance with the Act on Reserves provision is recorded for the cost of significant necessary repairs that are expected to be incurred in future periods as estimated by management of the Company. Technical enhancements of tangible fixed assets 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.

#### **2.4. Investments in subsidiaries and investments in associates**

Investments in 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.

#### **2.5. Inventories**

Purchased inventories are stated at the lower of cost and net realisable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost 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.

#### **2.6. 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.

## **2.7. Receivables**

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

## **2.8. Cash and cash equivalents**

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.

## **2.9. 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.

Investments in subsidiaries and associates and other investments and securities denominated in a foreign currency, which are not accounted for at fair value are translated at the exchange rate published by the Czech National Bank as at the balance sheet date. Any translation difference is recognised in equity, with the exception of held-to-maturity investments, where the translation difference is recognised in the profit and loss account.

## **2.10. Revenue recognition**

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.

## **2.11. Leases**

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

## **2.12. 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.

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

### **2.13. Employment benefits**

The Company recognises a provision relating to untaken 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 independent pension funds.

### **2.14. Interest costs**

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

### **2.15. Deferred tax**

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

### **2.16. 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 Notes 14.

### **2.17. Cash flow statement**

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

### **2.18. Subsequent events**

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

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



**KA Contracting ČR s.r.o.**Notes to financial statements  
Year ended 31 December 2011**3. Intangible fixed assets**

(CZK'000)	1 January 2011	Additions / transfers	Disposals	31 December 2011
<b>Cost</b>				
Software	5,244	67	(498)	4,813
Royalties	16,000	-	-	16,000
Intangible fixed assets in the course of construction	-	194	-	194
Other intangible fixed assets	7,761	58,235	(65,996)	-
<b>Total</b>	<b>29,005</b>	<b>58,496</b>	<b>(66,494)</b>	<b>21,007</b>
<b>Accumulated amortisation</b>				
Software	4,276	224	(498)	4,002
Royalties	3,800	1,200	-	5,000
Other intangible fixed assets	-	-	-	-
<b>Total</b>	<b>8,076</b>	<b>1,424</b>	<b>(498)</b>	<b>9,002</b>
<b>Net book value</b>	<b>20,929</b>			<b>12,005</b>

Other intangible fixed assets include as at 31 December 2011 the amount CZK nil (as at 31 December 2010: CZK 7,761,000) relating to emission rights.

(CZK'000)	1 January 2010	Additions / transfers	Disposals	31 December 2010
<b>Cost</b>				
Software	5,059	185	-	5,244
Royalties	16,000	-	-	16,000
Intangible fixed assets in the course of construction	185	(185)	-	-
Other intangible fixed assets	4,910	56,844	(53,993)	7,761
<b>Total</b>	<b>26,154</b>	<b>56,844</b>	<b>(53,993)</b>	<b>29,005</b>
<b>Accumulated amortisation</b>				
Software	4,022	254	-	4,276
Royalties	2,600	1,200	-	3,800
<b>Total</b>	<b>6,622</b>	<b>1,454</b>	<b>-</b>	<b>8,076</b>
<b>Net book value</b>	<b>19,532</b>			<b>20,929</b>

**4. Tangible fixed assets**

(CZK'000)	1 January 2011	Additions / transfers	Disposals	31 December 2011
<b>Cost</b>				
Land	5,559	162	(157)	5,564
Buildings, halls and other constructions	139,208	9,188	(39)	148,357
Equipment	1,155,249	88,387	(6,252)	1,237,384
Other tangible fixed assets	135	-	-	135
Tangible fixed assets in the course of construction	85,676	(31,533)	-	54,143
Advances paid for tangible fixed assets	1,035	-	(1,035)	-
Adjustments to acquired assets	52,990	-	-	52,990
<b>Total</b>	<b>1,439,852</b>	<b>66,204</b>	<b>(7,483)</b>	<b>1,498,573</b>
<b>Accumulated depreciation</b>				
Buildings, halls and other constructions	61,458	9,756	(22)	71,192
Equipment	608,162	84,514	(2,054)	690,622
Adjustments to fixed assets in the course of construction	4,326	-	(4,326)	-
Other tangible fixed assets	-	-	-	-
Adjustments to acquired assets	27,246	3,510	-	30,756
<b>Total</b>	<b>701,192</b>	<b>97,780</b>	<b>(6,402)</b>	<b>792,570</b>
<b>Net book value</b>	<b>738,660</b>			<b>706,003</b>

**KA Contracting ČR s.r.o.**Notes to financial statements  
Year ended 31 December 2011

(CZK'000)	1 January 2010	Additions / transfers	Disposals	31 December 2010
<b>Cost</b>				
Land	5,559	-	-	5,559
Buildings, halls and other 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 fixed assets in the course of construction	67,839	23,591	(5,754)	85,676
Advances paid for tangible fixed assets	880	155	-	1,035
Adjustments to acquired assets	52,990	-	-	52,990
<b>Total</b>	<b>1,399,051</b>	<b>54,669</b>	<b>(13,868)</b>	<b>1,439,852</b>
<b>Accumulated depreciation</b>				
Buildings, halls and other constructions	52,531	8,927	-	61,458
Equipment	535,948	78,098	(5,884)	608,162
Adjustments to fixed assets in the course of construction	1,076	3,250	-	4,326
Adjustments to acquired assets	23,735	3,511	-	27,246
<b>Total</b>	<b>613,290</b>	<b>93,786</b>	<b>(5,884)</b>	<b>701,192</b>
<b>Net book value</b>	<b>785,761</b>			<b>738,660</b>

Adjustment to acquired assets in 2003 amounting to CZK 52,990,000 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 2011 depreciation of the adjustment to acquired assets in the amount of CZK 3,510,000 was recorded as expenses (31 December 2010: CZK 3,511,000).

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 can be analysed as follows:

(CZK'000)	31 December 2011	31 December 2010
Amounts paid on existing finance lease contracts	1,480	1,264
Outstanding amounts payable within one year	-	216
Amounts payable after more than one year	-	-
<b>Amounts paid and payable from existing contracts</b>	<b>1,480</b>	<b>1,480</b>

## 5. Investments in subsidiaries and investments in associates

As at 31 December 2011:

	Cost (CZK'000)	Carrying value (CZK'000)	% of capital	2011 net profit/(loss)* (CZK'000)	Net equity as at 31 December 2011* (CZK'000)
<b>Czech entities</b>					
Teplo Rumburk s.r.o.	1,080	1,080	98.2	(105)	6,501
CZT Valašské Meziříčí s.r.o.	40	40	20.0	1,546	3,687
TEPLO Votice, s.r.o.	20	20	20.0	50	1,737
<b>Foreign entities</b>					
KA Contracting SK, s.r.o.*	21,010	21,930	85.0	(3,519)	20,951
<b>Total</b>	<b>22,150</b>	<b>23,070</b>			

\* Unaudited

**KA Contracting ČR s.r.o.**

Notes to financial statements  
Year ended 31 December 2011

As at 31 December 2010:

	Cost (CZK'000)	Carrying value (CZK'000)	% of capital	2010 net profit/(loss)* (CZK'000)	Net equity as at 31 December 2010* (CZK'000)
<b>Czech entities</b>					
Teplo Rumburk s.r.o.	1,080	1 080	98.2	942	6,604
CZT Valašské Meziříčí s.r.o.	40	40	20.0	867	2,142
TEPLO Votice, s.r.o.	20	20	20.0	(698)	1,740
KA Contracting SK, s.r.o. **	21,010	21 301	85.0	(1,303)	23,757
<b>Total</b>	<b>22,150</b>	<b>22 441</b>		<b>(192)</b>	<b>34,243</b>

\* Unaudited

\*\* 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 Radvan Heating Plant. The heat produced by this plant will be distributed to the network of its future customer.

There are no differences between the percentage of ownership and the percentage of voting rights in any subsidiary and associate.

## 6. Inventories

(CZK'000)	31 December 2011	31 December 2010
Raw materials	21,041	11,138
Advances paid for inventory purchases	3,758	1,000
Work in progress	-	10,247
<b>Net book value</b>	<b>24,799</b>	<b>22,385</b>

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

Work in progress of CZK 10,247,000 recorded as at 31 December 2010 represents the balance relating to planned delivery of Banská Bystrica preparatory phase that is being carried out for KA Contracting SK, s.r.o. This phase of the project was billed to the counterparty on 31 January 2011.

## 7. Receivables

(CZK'000)	31 December 2011	31 December 2010
Trade receivables		
- current	12,824	7,635
- overdue	23,076	29,404
<b>Total trade receivables</b>	<b>35,900</b>	<b>37,039</b>
Provision for doubtful receivables	(17,719)	(17,849)
<b>Net book value of trade receivables</b>	<b>18,181</b>	<b>19,190</b>
Other receivables	719	719
<b>Total other receivables</b>	<b>719</b>	<b>719</b>
Taxes and state subsidies receivables	3,928	295
Advances paid	25,853	20,803
Anticipated assets – unbilled heat (see Note 8)	-	18,291
Anticipated assets – insurance claim accrual	-	3,529
<b>Net book value of short-term receivables</b>	<b>48,681</b>	<b>62,827</b>
<b>Total net book value of receivables</b>	<b>48,681</b>	<b>62,827</b>

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

**KA Contracting ČR s.r.o.**Notes to financial statements  
Year ended 31 December 2011

Prepayments for corporate income tax amounting to CZK 10,421,000 for the year 2011 (as for 31 December 2010: CZK 8,123,000) are netted off with the provision for income tax – see Note 10 - Provisions.

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

The change in the provision for doubtful receivables can be analysed as follows:

<b>(CZK'000)</b>	<b>2011</b>	<b>2010</b>
<b>Opening balance as at 1 January</b>	<b>17,849</b>	<b>22,587</b>
Charge/(release) for the year	(85)	4,456
Written off during the year	(45)	(9,194)
<b>Closing balance as at 31 December</b>	<b>17,719</b>	<b>17,849</b>

## **8. Anticipated receivables / payables – unbilled gas / advances received**

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

<b>(CZK'000)</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
Anticipated receivables from unbilled heat, supplies of hot water and electric power	265,059	306,431
Advances received	(280,304)	(288,140)
<b>Anticipated assets / Advances received</b>	<b>(15,245)</b>	<b>18,291</b>

## **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 sole shareholder approved the financial statements for 2010 and decided about the allocation of profit earned in 2010 of CZK 23,753,000 on 29 June 2011.

<b>(CZK'000)</b>	<b>2011</b>
Allocation to Legal reserve fund	1,188
Allocation to Retained earnings	22,565
<b>Profit for the year 2010</b>	<b>23,753</b>

## 10. Provisions

(CZK'000)	Litigation Provisions	Legal reserves	Lack of emission rights	Income tax provision	Provision for untaken holidays	Total
<b>Opening balance as at</b>						
<b>1 January 2010</b>	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	-	-	-	(8,123)	-	(8,123)
<b>Closing balance as at</b>						
<b>31 December 2010</b>	<b>200</b>	<b>14,021</b>	<b>-</b>	<b>3,559</b>	<b>2,088</b>	<b>19,868</b>
Charge for the year	-	7,450	300	12,082	2,386	22,218
Released in the year	(200)	(668)	-	-	(2,484)	(3,351)
Used in the year	-	(3,420)	-	(3,559)	-	(6,979)
Income tax provision	-	-	-	(10,421)	-	(10,421)
<b>Closing balance as at</b>						
<b>31 December 2011</b>	<b>-</b>	<b>17,383</b>	<b>300</b>	<b>1,661</b>	<b>1,990</b>	<b>21,334</b>

For an analysis of the current and deferred income tax, see Note 12 – Income tax.

Statutory reserves represent provisions relating to repairs of tangible fixed assets created as defined by the Act on Reserves. This amount includes provision for waste disposal.

The Company has created a provision for lack of emission rights in the amount of CZK 300,000 adequate to 1,721 t CO<sub>2</sub> (as at 31 December 2010: CZK nil).

## 11. Liabilities

(CZK'000)	31 December 2011	31 December 2010
Trade payables		
- current	15,565	22,616
- overdue	3,847	6,976
<b>Total trade payables</b>	<b>19,412</b>	<b>29,592</b>
Liabilities in the RWE Group	68,900	68,900
Emission rights	-	7,761
Tax liabilities	519	478
Liabilities to employees	2,335	2,579
Advances received (see Note 8)	15,245	-
Anticipated liabilities	41,438	41,150
Other payables		
- current	1,186	1,319
<b>Total other payables</b>	<b>1,186</b>	<b>1,319</b>
<b>Total short-term liabilities</b>	<b>149,035</b>	<b>151,779</b>
Long-term borrowings	-	-
Other long-term payables	-	-
Liabilities in the RWE Group	344,500	413,400
Retention rights	3,669	1,048
Deferred tax liability	21,104	22,406
<b>Total long-term liabilities</b>	<b>369,273</b>	<b>436,854</b>
<b>Total short-term and long-term liabilities</b>	<b>518,308</b>	<b>588,633</b>

Trade and other payables have not been secured against any assets of the Company and are not due after more than 5 years.

**KA Contracting ČR s.r.o.**

Notes to financial statements  
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The liabilities in the RWE Group are described in Note 14.

Other short-term due liabilities include liabilities for social insurance and contributions to the state employment policy in the amount of CZK 830,000 (as at 31 December 2010: CZK 970,000) and liabilities for health insurance in amount of CZK 356,000 (as at 31 December 2010: CZK 349,000).

Anticipated liabilities are mainly represented by unbilled purchases of energies (inclusive coal) in the amount of CZK 25,472,000 (as at 31 December 2010: CZK 27,445,000).

The Company has not recorded any balances representing unused emission rights on the account "Taxes and state subsidies payable", as at the balance sheet date (as at 31 December 2010: CZK 7,761,000).

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 can be analysed as follows:

<b>(CZK'000)</b>	<b>2011</b>	<b>2010</b>
Current tax expense	12,082	11,682
Deferred tax expense	(1,302)	1,093
Adjustment of prior year tax expense based on the CIT return	57	(152)
<b>Total income tax expense</b>	<b>10,837</b>	<b>12,623</b>

Current tax can be analysed as follows:

<b>(CZK'000)</b>	<b>2011</b>	<b>2010</b>
Net profit before taxation	55,353	36,376
Non-tax deductible expenses	9,343	81,144
Non-tax deductible income	(9,546)	(54,661)
Difference between tax and accounting depreciation	8,439	(1,377)
Net taxable profit	63,589	61,482
<b>Corporate income tax at 19%</b>	<b>12,082</b>	<b>11,682</b>

Estimation of income tax in 2011 and 2010 is recorded as a reserve – see Note 10.

The deferred tax was calculated at 19% (the rate enacted for 2010 and subsequent years).

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

<b>(CZK'000)</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Deferred tax liability arising from:</b>		
Difference between accounting net book value and tax net book value of fixed assets	(23,774)	(25,061)
<b>Total deferred tax liability</b>	<b>(23,774)</b>	<b>(25,061)</b>
<b>Deferred tax asset arising from:</b>		
Accounting provisions for receivables	2,235	2,220
Reserves and emission permits	435	435
<b>Total deferred tax asset</b>	<b>2,670</b>	<b>2,655</b>
<b>Net deferred tax (liability)</b>	<b>(21,104)</b>	<b>(22,406)</b>

### 13. Employees

	2011	2010
Members of Statutory bodies who are employees	3	3
Average number of other members of management	2	2
Average number of other staff	72	74
<b>Total number of employees</b>	<b>77</b>	<b>79</b>

The Company's management includes Statutory Directors and Proxies.

(CZK'ooo)	Management	Other staff	Total
<b>2011</b>			
Wages and salaries	7,428	31,141	38,569
Board emoluments	1,772	-	1,772
Social security costs	1,784	11,515	13,299
Other social costs	-	2,059	2,059
<b>Total staff costs</b>	<b>10,984</b>	<b>44,715</b>	<b>55,699</b>
<b>2010</b>			
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	19	2,286	2,305
<b>Total staff costs</b>	<b>14 347</b>	<b>40 724</b>	<b>55,071</b>

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

### 14. Related party transactions

All material transactions with related parties are presented in this note. Additional information relating to the transactions not under standard market conditions and which is necessary to understand the overall financial situation of the Company, are disclosed.

The Company was involved in the following related party transactions:

(CZK'ooo)	2011	2010
<b>Revenues</b>		
Sales of services:		
TEPLO Rumburk	14,750	14,750
CZT Valašské Meziříčí	33,601	33,503
TEPLO Votice	4,334	4,334
RWE Innogy Cogen	24,005	14,227
KA Contracting SK	11,964	10,247
<b>Total</b>	<b>88,654</b>	<b>77,061</b>
<b>Costs</b>		
Purchase of gas	101,279	115,457
Loan interest	23,399	27,001
RWE Innogy Cogen	9,085	13,023
<b>Total</b>	<b>133,763</b>	<b>155,481</b>

**KA Contracting ČR s.r.o.**

Notes to financial statements  
Year ended 31 December 2011

The following related party balances were outstanding as at:

<b>(CZK'000)</b>	<b>31 December 2011</b>	<b>31 December 2010</b>
<b>Receivables</b>		
Paid operating advances	18,960	15,689
Trade receivables	578	2,408
<b>Total</b>	<b>19,538</b>	<b>18,097</b>
<b>Work in progress</b>	<b>-</b>	<b>10,247</b>
<b>Liabilities</b>		
Trade payables	763	-
Other payables	18,960	15,004
Loans payable	413,400	482,300
<b>Total</b>	<b>433,123</b>	<b>497,304</b>

The Company leases equipment to TEPLO Rumburk, s.r.o., CZT Valašské Meziříčí s.r.o., and TEPLO Votice, s.r.o., for which the Company is a related party with decisive, respectively ultimate influence.

In 2011, the Company entered into quality swap agreement exchanging 27,052 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 2011 and their final balance as at 31 December 2011 recorded within intangible fixed assets amounts to CZK nil. At the same time 30,000 pieces of EUA emission rights was sold to RWE Innogy Cogen.

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 25,493,000 as at 31 December 2011 (as at 31 December 2010: CZK 15,689,000).

For balance of CZK nil relating to work in progress as at 31 December 2011 (31 December 2010: CZK 10,247,000) see Note 6 – Inventories.

As for 31 December the Company was 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 689,000,000, 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 2011 amounts to CZK 413,400,000 (as at 31 December 2010: CZK 482,300,000). The short term part of the loan amounts CZK 68,900,000 as at 31 December 2011 (31 December 2010: CZK 68,900,000).

The loans payable bear interest at market interest rates. Trade receivables and payables from related parties arose under standard trade terms and conditions.

Neither the shareholder nor the management members received any loans, credit, or other payments in 2011 and 2010.

Company cars are made available for use by management. The gross value of lease instalments paid for the said vehicles amounted to CZK 150,000 in 2011 (2010: CZK 256,000).

## **15. Fees paid and payable to the audit company**

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



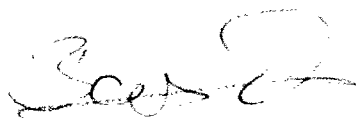
## **16. Contingent liabilities**

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2011 and 2010.

## **17. Subsequent events**

At 1 January 2012 the shareholdings of the Company owned by the KAC Dezentrale Energien were sold to RWE Transgas a.s. In connection with this ownership change the Company is newly participant of so called cash-pooling system within the RWE Group.

30 March 2012



Pavel Bartl  
Statutory Director



Viktor Kalina  
Statutory Director

## **ANNEXE**

### **3. Report on Relations between Controlled and Controlling Parties**

### **3. Report on Relations between Controlled and Controlling Parties in the Fiscal Period of 2011**

*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

#### **3.1 Reference Period**

This Report is compiled for the period starting on 1 January 2011 and ending on 31 December 2011.

#### **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 2011 and ending on 31 December 2011, the Company hold

- a 98.2% ownership interest in and was the controlling party of TEPLO 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: 4565 0829

### **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.

Based on a tender, the new frame one year period contract for 2012 about multi-element service gas supply has been closed with the RWE Key Account CZ, s.r.o.

Furthermore, multi-element contracts on power supply for all supply points of the Company were terminated and based on a tender; the one year contract for 2012 on multi-element service power supply has been closed with the RWE Key Account CZ, s.r.o.

According to the highest price offer, the one year contracts valid for 2012 on power selling from two Company points (Břeclav, Velké Albrechtice) has been closed with the RWE Key Account CZ, s.r.o.

The Company closed two contracts with RWE Innogy Cogen GmbH regarding (1) centralized cash management and services agreement and (2) trading agreements covering the sales of the EUA's (European Allowances) and the purchases of the same amount of the CER's in 2011 furthermore purchase of CER over limit.

The transactions realized between related parties in 2011 and amount of balance of receivables, obligations and the loan with related parties are presented in the Appendix to the final accounts – see the Note 14 in the Notes to the financial statements.

The Company has closed two contracts with the controlled party (KA Contracting SK, s.r.o.) in the current period. The subject of the contract on cooperation is to define the conditions of cooperation on constructing and operating of heat sources. The subject of the contract for work is to develop the preparing phase of the project of the new heat source.

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 unjustified advent neither damage by performing these agreements.

### **3.4 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 excluding above.

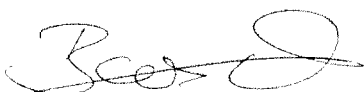
### 3.5 Summary

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, 30 March 2012

KA Contracting ČR s.r.o.



Pavel Bartl  
Statutory representative



Viktor Kalina  
Statutory representative