

ANNUAL REPORT

KA Contracting ČR s.r.o.

2012

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1. Corporate Information

1.1. General Information

Company name: KA Contracting ČR s.r.o.
Registered office: Truhlářská 13-15
Prague 1
Postal Code 110 00
Company No.: 251 15 171
Legal form: Limited Liability Company
Share capital: CZK 280,000,000
Shareholder: RWE Transgas, a.s. (RWE Supply & Trading CZ, a.s. from
1 January 2013); ownership interest: 100%

1.2. Establishment and Incorporation

KA Contracting ČR s.r.o. was established on 21 March 1997. On 16 October 1997, it was registered under the business name of Harpen ČR, s.r.o. by Harpen AG, the Company's sole shareholder with its registered office at Voßkuhle 38, 440 19 Dortmund, Germany.

In 2006, RWE KAC Dezentrale Energien GmbH & Co. KG with its registered office at Voßkuhle 38, 440 19 Dortmund, Germany became a new sole shareholder of the Company. In the same year, the Company's business name was changed to KA Contracting ČR s.r.o.

On 1 January 2012, the entire ownership interest in the Company was transferred to RWE Transgas, a.s.

1.3. Governing Bodies

Statutory Representatives of KA Contracting ČR s.r.o. in 2012:

Pavel Bartl

CEO & CFO, Services Division

Born: 18 March 1965

Education: University: Czech Technical University, Faculty of Mechanical Engineering; CIMA-A

Membership in the bodies of other companies: RWE Plynoprojekt, s.r.o. – Statutory Representative, KA Contracting SK, s.r.o. – Statutory Representative

Other business activities: None

Ing. Viktor Kalina
COO, Operations Division
Born 12 February 1967
Education: Czech Technical University, Faculty of Mechanical Engineering
Membership in the bodies of other companies: KA Contracting SK, s.r.o. – Statutory Representative
Other business activities: None

2. Management Report

In 2012, KA Contracting ČR s.r.o. ("Company") recorded CZK 527.2 million in total revenues, representing a 4.7% increase from 2011, where majority was generated by the operation of heat plants and cogeneration power stations in the Czech Republic.

In 2012, the Company had to deal with two challenges. The first was a turbine defect at the Company's largest heat plant in Náchod, where we only partly succeeded in compensating the resulting shutdown due to the time when the incident occurred – in the fourth-quarter. The second concerned complications in electricity generation from renewable energy resources was caused by a partner's bankruptcy.

Annual electricity sales reached 58.1 GWh, which corresponds to the level of sales in 2011. Power sales in 2012 made CZK 113.2 million. The average electricity sales price remained at the 2011 level.

Heat supplies grew slightly, mainly thanks to the climatic conditions in 2012. Total heat consumption amounted to 714.7 TJ, representing a 4.9% increase from 2011. Heat sales reached CZK 326.4 million, rising by 3.9% in comparison to prior year.

Due to the above difficulties and the fact that an investment in the Náchod Heat Plant of CZK 17.9 million had to be written off, the Company's operating profit fell by 41.6% in comparison to prior year, amounting to CZK 47.0 million. Profit after tax dropped from the CZK 44.5 million recorded in 2011 to CZK 19.05 million in 2012.

There was a 15.4% year-on-year decrease in financial expenses.

Investments declined in comparison to prior year, amounting only to CZK 39.7 million in 2012.

Overall, the economic situation in 2012 was comparable to that of 2011. The Company focused on integration into RWE Group in the Czech Republic, the merger with RWE Plynoprojekt, and investments into modernizing production infrastructure. The planning of several upcoming projects continued.

Another reportable transaction was the sale of KAC Dezentrale Energien's ownership interest in the Company to RWE Transgas a.s. as of 1 January 2012. Following the deal, new Statutory Representatives were appointed, and the Company was fully integrated into the RWE Group in the Czech Republic. The transaction required amendments to internal guidelines, extensive changes in subcontracting arrangements, and process modifications in all areas of the Company's business. Simultaneously, preparations of the planned merger with RWE Plynoprojekt, s.r.o. as of 1 January 2013 proceeded. As a result of this merger RWE Plynoprojekt, s.r.o. ceased to exist and its assets were vested in the Company.

3. Facts and Figures

3.1. Summary of Projects in 2012

| | Project | Installed capacity (MW) |
|----|----------------------|-------------------------|
| 1 | Rumburk | 16.00 |
| 2 | Louny | 9.00 |
| 3 | Votice | 4.70 |
| 4 | Příbor | 5.60 |
| 5 | Odolena Voda | 9.05 |
| 6 | Svitavy | 20.70 |
| 7 | Břeclav | 10.40 |
| 8 | Valašské Meziříčí | 42.20 |
| 9 | Blansko | 21.50 |
| 10 | Beroun – Králův Dvůr | 53.00 |
| 11 | Náchod | 115.30 |
| 12 | Velké Albrechtice I | 1.30 |
| 13 | Velké Albrechtice II | 0.90 |

Projects were executed by the Company's own staff or through lease arrangements with third parties that use their employees to operate the Company's facilities under our technical and financial supervision.

Most facilities featuring higher complexity are operated by the Company's specialists.

3.2. Outlook

On 1 January 2013, the Company merged with RWE Plynoprojekt, s.r.o. and the latter ceased to exist. The merger included the takeover of 19 employees, small-size heat plants, cogeneration and tri-generation units, as well as ten CNG stations, expanding the Company's portfolio of heat and electricity production services by the addition of motor fuel trading.

In 2013, the Company will continue projects in the segment of combined generation of heat and electric power (CHP) with a view to taking part in the ongoing renovation of heat production facilities in the Czech Republic. Furthermore, focus will concentrate on CHP projects involving long-distance heating control systems. Due to delays in permit application processing, the beginning of the construction stage of three projects is expected to be postponed until sometime in 2013. Commercial operation will be launched during 2013-2015. Other plans include developing the recently acquired network of CNG stations by expanding the business portfolio and building two to three new facilities.

Although the current economic development in Central Europe shows a slightly positive trend, the Company's management does not expect a major rise in demand for heat and electricity, as market prices for fuels and electric power remained at a very low level until recently.

The Company will continue to seek and exploit opportunities for business ventures. A variety of potential acquisitions in the Czech Republic are being assessed in view of the currently attractive market prices. Furthermore, plans are being drafted for CHP and traditional long-distance heat supply projects.

In 2012, emission allowance prices continued to develop unfavorably due to the global economic situation. With prices hovering at low levels, the future development of the emission allowance market is unclear. Since the management's forecasts suggest that the current mid-term trend of greenhouse gas emission reduction will continue, the Company will continue its efforts aimed at lowering emissions by deploying effective solutions for the cogeneration of heat and electricity and the use of renewable energy sources.

3.3. Investments into Research and Development

No investments into research and development were made in 2012.

3.4. Environmental Protection

In 2012, the Company continued to invest into environmental protection. A decision was made to reconstruct the Náchod production facility with a view to improving the efficiency of heat and electricity cogeneration and reducing overall emissions in the locality. Further, solid particle pollution was reduced considerably by the replacement of fabric filter hoses at the Náchod Heat Plant.

Boiler K2 in the Břeclav facility was refurbished to increase heat production efficiency. Throughout 2012, the Company invested CZK 5.3 million into projects aimed at reducing the adverse environment impact of its operations.

3.5. Human Resources

The Company's staffing level remained stable. Headcount (FTE) declined year-on-year from 77 to 73 employees.

3.6. Subsequent Events

A merger with RWE Plynoprojekt, s.r.o. came into effect on 1 January 2013 with the Company being the successor company.

Effective as of the same day, Mr. Lukáš Roubíček was appointed the Company's Statutory Representative based on a decision made by the Company's sole shareholder, RWE Transgas, a.s., on 19 December 2012.

The parent company, RWE Transgas a.s., was renamed RWE Supply & Trading CZ, a.s as of 1 January 2013.

Pavel Bartl
Statutory Representative

Viktor Kalina
Statutory Representative

22 March 2013

APPENDIX

1. Independent Auditor's Report

1.1. Auditor's Report on the Annual Report and the Report on Relations between Related 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 25115171, with registered office at Truhlářská 13-15, Praha 1 ("the Company") for the year ended 31 December 2012 disclosed in the annual report in Appendix 2 and issued the opinion dated 19 February 2013 and disclosed in Appendix 1.2.

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 2012 is consistent with the financial statements which are included in this annual report in Appendix 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.

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 2012 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 2012 (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.

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.

22 March 2013

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.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, 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.

APPENDIX

1.2. 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 2012, 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 about 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.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

19 February 2013

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.

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APPENDIX

2. Financial Statements

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

Identification number: 25115171

Legal form: Limited Liability Company

Primary business: Lease of non-residential premises, heat and electricity production and distribution

Balance sheet date: 31 December 2012

Date of preparation of the financial statements: 19 February 2013

BALANCE SHEET

(in thousand Czech crowns)

| Ref. a | ASSETS b | 31.12.2012 | | | 31.12.2011 |
|------------|---|------------------|------------------|----------------|------------------|
| | | Gross 1 | Provision 2 | Net 3 | Net 4 |
| | TOTAL ASSETS | 1,981,997 | (917,474) | 944,523 | 1,057,539 |
| B. | Fixed assets | 1,589,076 | (900,938) | 688,140 | 741,078 |
| B. I. | Intangible fixed assets | 22,367 | (10,631) | 11,836 | 12,006 |
| B. I. 1. | Software | 5,008 | (4,331) | 677 | 811 |
| B. I. 2. | Royalties | 16,000 | (6,200) | 9,800 | 11,000 |
| B. I. 3. | Other intangible fixed assets | 1,359 | - | 1,359 | - |
| B. I. 4. | Intangible fixed assets in the course of construction | - | - | - | 194 |
| B. II. | Tangible fixed assets | 1,513,641 | (890,407) | 623,234 | 706,003 |
| B. II. 1. | Land | 5,609 | - | 5,609 | 5,564 |
| B. II. 2. | Constructions | 156,956 | (81,249) | 75,707 | 77,165 |
| B. II. 3. | Equipment | 1,257,478 | (774,891) | 482,587 | 546,762 |
| B. II. 4. | Other tangible fixed assets | 135 | - | 135 | 135 |
| B. II. 5. | Tangible fixed assets in the course of construction | 40,473 | - | 40,473 | 54,143 |
| B. II. 6. | Adjustment to acquired fixed assets | 52,990 | (34,267) | 18,723 | 22,234 |
| B. III. | Long-term investments | 23,070 | - | 23,070 | 23,070 |
| B. III. 1. | Investments in associates | 23,070 | - | 23,070 | 23,070 |
| C. | Current assets | 299,449 | (16,536) | 282,913 | 312,852 |
| C. I. | Inventories | 28,324 | - | 28,324 | 24,799 |
| C. I. 1. | Raw materials | 21,144 | - | 21,144 | 21,041 |
| C. I. 2. | Advances paid for inventory | 5,180 | - | 5,180 | 3,758 |
| C. III. | Short-term receivables | 250,450 | (16,536) | 233,914 | 48,681 |
| C. III. 1. | Trade receivables | 31,357 | (16,536) | 14,821 | 18,181 |
| C. III. 2. | Receivables - subsidiaries / controlling parties | 187,061 | - | 187,061 | - |
| C. III. 3. | Taxes - receivables from the state | 2,508 | - | 2,508 | 3,928 |
| C. III. 4. | Short-term advances paid | 28,793 | - | 28,793 | 25,853 |
| C. III. 5. | Other receivables | 731 | - | 731 | 719 |
| C. IV. | Financial assets | 22,675 | - | 22,675 | 239,372 |
| C. IV. 1. | Cash in hand | 12 | - | 12 | 135 |
| C. IV. 2. | Cash at bank | 22,663 | - | 22,663 | 239,237 |
| D. I. | Prepayments and accrued income | 3,470 | - | 3,470 | 3,609 |
| D. I. 1. | Prepaid expenses | 3,445 | - | 3,445 | 3,609 |
| D. I. 2. | Accrued income | 25 | - | 25 | - |

| Ref. a | LIABILITIES AND EQUITY b | 31.12.2012 | 31.12.2011 |
|------------|--|----------------|------------------|
| | | 5 | 6 |
| | TOTAL LIABILITIES AND EQUITY | 944,523 | 1,057,839 |
| A. | Equity | 493,845 | 517,080 |
| A. I. | Share capital | 280,000 | 280,000 |
| A. I. 1. | Share capital | 280,000 | 280,000 |
| A. II. | Capital contributions | 920 | 920 |
| A. II. 1. | Assets and liabilities revaluation | 920 | 920 |
| A. III. | Reserve fund and other reserves | 17,603 | 15,377 |
| A. III. 1. | Legal reserve fund | 17,603 | 15,377 |
| A. IV. | Retained earnings / Accumulated losses | 176,267 | 176,267 |
| A. IV. 1. | Retained earnings | 176,267 | 176,267 |
| A. V. | Profit / (loss) for the current period | 19,055 | 44,616 |
| B. | Liabilities | 448,488 | 539,541 |
| B. I. | Provisions | 16,332 | 21,334 |
| B. I. 1. | Tax-deductible provisions | 7,883 | 17,383 |
| B. I. 2. | Income tax provision | - | 1,661 |
| B. I. 3. | Other provisions | 8,449 | 2,290 |
| B. II. | Long-term liabilities | 295,817 | 369,273 |
| B. II. 1. | Trade payables | 2,689 | 3,669 |
| B. II. 2. | Liabilities - subsidiaries / controlling parties | 275,600 | 344,500 |
| B. II. 3. | Deferred tax liability | 17,528 | 21,104 |
| B. III. | Short-term liabilities | 136,339 | 149,035 |
| B. III. 1. | Trade payables | 12,234 | 19,412 |
| B. III. 2. | Liabilities - subsidiaries / controlling parties | 68,900 | 68,900 |
| B. III. 3. | Liabilities to employees | 2,382 | 2,335 |
| B. III. 4. | Liabilities for social security and health insurance | 1,228 | 1,186 |
| B. III. 5. | Taxes and state subsidies payable | 5,872 | 519 |
| B. III. 6. | Short-term advances received | 7,379 | 15,245 |
| B. III. 7. | Estimated payables | 38,344 | 41,438 |
| C. I. | Accruals and deferred income | 2,190 | 817 |
| C. I. 1. | Accrued expenses | 1,461 | - |
| C. I. 2. | Deferred income | 729 | 817 |

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

Identification number: 25115171

Legal form: Limited Liability Company

Primary business: Lease of non-residential premises, heat and electricity production and distribution

Balance sheet date: 31 December 2012

Date of preparation of the financial statements: 19 February 2013

INCOME STATEMENT

(in thousand Czech crowns)

| Ref. a | DESCRIPTION b | Accounting period | |
|-----------|---|-------------------|-----------------|
| | | 2012 | 2011 |
| | | 1 | 2 |
| II. | Sales of production | 527,184 | 503,486 |
| II. 1. | Sales of own products and services | 527,184 | 513,733 |
| 2. | Changes in inventories of finished goods and work in progress | - | (10,247) |
| B. | Cost of sales | 307,788 | 288,613 |
| B. 1. | Raw materials and consumables used | 207,292 | 194,734 |
| 2. | Services | 100,496 | 93,879 |
| * | Added value | 219,396 | 214,873 |
| C. | Staff costs | 52,822 | 55,699 |
| C. 1. | Wages and salaries | 38,259 | 38,569 |
| 2. | Emoluments of board members | 144 | 1,772 |
| 3. | Social security and health insurance costs | 12,746 | 13,299 |
| 4. | Other social costs | 1,673 | 2,059 |
| D. | Taxes and charges | 4,435 | 4,515 |
| E. | Depreciation and amortisation expense | 103,871 | 99,163 |
| III. | Sales of fixed assets and raw materials | 2,819 | 25,685 |
| III. 1. | Sales of fixed assets | 2,771 | 25,657 |
| 2. | Sales of raw materials | 48 | 28 |
| F. | Net book value of fixed assets and raw materials sold | 2,535 | 24,737 |
| F. 1. | Net book value of fixed assets sold | 2,535 | 24,737 |
| G. | Changes in operating provisions | (4,523) | (1,090) |
| IV. | Other operating income | 31,464 | 68,895 |
| H. | Other operating expenses | 47,496 | 45,899 |
| * | Operating result | 47,043 | 80,530 |
| X. | Interest income | 392 | 752 |
| N. | Interest expense | 19,802 | 23,399 |
| XI. | Other financial income | 27 | 41 |
| O. | Other financial expenses | 2,085 | 2,571 |
| * | Financial result | (21,468) | (25,177) |
| Q. | Tax on profit or loss on ordinary activities | 6,520 | 10,837 |
| Q. 1. | - current | 10,096 | 12,139 |
| 2. | - deferred | (3,576) | (1,302) |
| ** | Profit or loss on ordinary activities after taxation | 19,055 | 44,516 |
| *** | Net profit / (loss) for the financial period | 19,055 | 44,516 |
| *** | Net profit / (loss) before taxation | 25,575 | 55,353 |

Statement of changes in shareholders' equity
 Year ended 31 December 2012

| (CZK'000) | Share capital | Legal reserve fund | Revaluation reserve | Retained earnings/ Accumulated losses | Total |
|-----------------------------------|--------------------------|-----------------------------------|--------------------------------|--|----------------|
| As at 1 January 2011 | 280,000 | 14,189 | 291 | 177,455 | 471,935 |
| Fair value gains | - | - | 629 | - | 629 |
| Contributions to reserve fund | - | 1,188 | - | (1,188) | - |
| Net profit for the current period | - | - | - | 44,516 | 44,516 |
| As at 31 December 2011 | 280,000 | 15,377 | 920 | 220,783 | 517,080 |
| Fair value gains/(losses) | - | - | - | - | - |
| Contributions to reserve fund | - | 2,226 | - | (2,226) | - |
| Dividends paid | - | - | - | (42,290) | (42,290) |
| Net profit for the current period | - | - | - | 19,055 | 19,055 |
| As at 31 December 2012 | 280,000 | 17,603 | 920 | 195,322 | 493,845 |

Cash flow statement
 Year ended 31 December 2012

| (CZK'000) | 2012 | 2011 |
|--|------------------|-----------------|
| Cash flows from operating activities | | |
| Net profit/(loss) on ordinary activities before tax | 25,575 | 55,353 |
| A.1 Adjustments for non-cash movements: | | |
| A.1.1 Amortisation/Depreciation of fixed assets | 103,871 | 99,163 |
| A.1.2 Changes in provisions | (4,523) | (1,090) |
| A.1.3 (Profit)/loss from disposal of fixed assets | (237) | (920) |
| A.1.4 Net interest expense/(income) | 19,410 | 22,647 |
| A.1.5 Other non-cash movements | 17,893 | (11,546) |
| A* Net cash flow from operating activities before tax, changes in working capital and extraordinary items | 161,989 | 163,607 |
| A.2 Working capital changes: | | |
| A.2.1 Changes in receivables and prepayments and accrued income | 5,628 | 14,732 |
| A.2.2 Changes in short-term payables, accrued expenses and deferred income | (5,982) | (669) |
| A.2.3 Changes in inventories | (1,525) | (2,414) |
| A** Net cash flow from operating activities before tax and extraordinary items | 160,110 | 176,594 |
| A.3 Interest paid | (19,802) | (23,399) |
| A.4 Interest received | 392 | 752 |
| A.5 Income tax on ordinary activities paid | (14,236) | (14,037) |
| A*** Net cash flow from operating activities | 124,464 | 139,910 |
| Cash flows from investing activities | | |
| B.1 Acquisition of fixed assets | (46,701) | (69,902) |
| B.2 Proceeds from the sale of fixed assets | 2,771 | 25,657 |
| B*** Net cash flow from investing activities | (43,930) | (44,245) |
| Cash flows from financing activities | | |
| C.1 Changes in long- and short-term liabilities | (69,880) | (66,279) |
| C.2 Changes in equity: | | |
| C.2.1 Profit distribution paid | (42,290) | - |
| C*** Net cash flow from financing activities | (112,170) | (66,279) |
| Net increase/(decrease) in cash and cash equivalents | (29,636) | 29,386 |
| Cash and cash equivalents as at the beginning of the year | 239,372 | 209,986 |
| Cash and cash equivalents as at the end of the year | 209,736 | 239,372 |

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 2012 were as follows:

| Name | Position | Note |
|---------------|-----------------|------------------------------|
| Pavel Bartl | Chairman | appointed on 1 April 2011 |
| Viktor Kalina | Chairman | appointed on 1 February 2012 |

Proxy as at 31 December 2012 was as follows:

| Name | Position | Note |
|--------------------|-----------------|-------------------------------|
| Stanislav Sádovský | 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.

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:

| Intangible fixed asset | Estimated useful life |
|-------------------------------|------------------------------|
| 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.

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 allowances are presented by the Company as other intangible fixed assets.

Emission allowances allocated to the Company by the National Allocation Plan are recorded to the account of other intangible fixed assets and to the account taxes and state subsidies payable upon being credited to the Company in the Register of Emission Allowances in the Czech Republic .

Emission allowances allocated to the Company free of charge are recorded at replacement cost. Emission allowances purchased by the Company are recorded at cost, which includes costs incurred in bringing the assets to their present location and condition.

The consumption of emission rights are recorded monthly in "Other operating expenses" on the basis of estimated actual CO₂ 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 CO₂ emission for the period, a provision is created.

The first-in-first-out method is applied for all disposals of emission allowances.

Sales of emission allowances are recorded as other operating revenue and are stated at the selling price. At the same time, their book value is disposed from assets.

A provision for diminution in value is created when the carrying value of emission allowances 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.

Purchased 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:

| Tangible fixed asset | Estimated useful life |
|-----------------------------|------------------------------|
| 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 13 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.

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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.

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.

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, 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 and finished goods, 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 year-end exchange rate as published by the Czech National Bank. 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 its future income tax payable which is presented net of advances paid for the income tax. If advances paid 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 expense

Interest expense 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:

- parties, which directly or indirectly control the Company, their subsidiaries and associates;
- parties, which have directly or indirectly significant influence on the Company;
- members of the Company's or parent company's statutory and supervisory boards and management and parties close to such members, including entities in which they have a controlling or significant influence; and/or
- subsidiaries and associates and joint-venture companies.

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.

3. Intangible fixed assets

| (CZK'000) | 1 January 2012 | Additions / transfers | Disposals | 31 December 2012 |
|---|-----------------------|----------------------------------|------------------|-------------------------|
| Cost | | | | |
| Software | 4,813 | 195 | - | 5,008 |
| Royalties | 16,000 | - | - | 16,000 |
| Intangible fixed assets in the course of construction | 194 | (194) | - | - |
| Other intangible fixed assets | - | 36,567 | 35,208 | 1,359 |
| Total | 21,007 | 36,568 | 35,208 | 2,367 |
| Accumulated amortisation | | | | |
| Software | 4,002 | 329 | - | 4,331 |
| Royalties | 5,000 | 1,200 | - | 6,200 |
| Other intangible fixed assets | - | - | - | - |
| Total | 9,002 | 1,529 | - | 10,531 |
| Net book value | 12,005 | | | 11,836 |

| (CZK'000) | 1 January 2011 | Additions / transfers | Disposals | 31 December 2011 |
|---|-----------------------|----------------------------------|------------------|-------------------------|
| Cost | | | | |
| 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) | - |
| Total | 29,005 | 58,496 | (66,494) | 21,007 |
| Accumulated amortisation | | | | |
| Software | 4,276 | 224 | (498) | 4,002 |
| Royalties | 3,800 | 1,200 | - | 5,000 |
| Other intangible fixed assets | - | - | - | - |
| Total | 8,076 | 1,424 | (498) | 9,002 |
| Net book value | 20,929 | | | 12,005 |

As at 31 December 2012, other intangible fixed assets include CZK 1,359,000 relating to emission allowances (as at 31 December 2011: CZK 0).

4. Tangible fixed assets

| (CZK'000) | 1 January 2012 | Additions / transfers | Disposals | 31 December 2012 |
|---|------------------|--------------------------|---------------|------------------|
| Cost | | | | |
| Land | 5,564 | 45 | - | 5,606 |
| Buildings, halls and other constructions | 148,357 | 9,759 | 1,160 | 156,956 |
| Equipment | 1,237,384 | 25,974 | 5,880 | 1,257,478 |
| Other tangible fixed assets | 135 | - | - | 135 |
| Tangible fixed assets in the course of construction | 54,143 | 3,915 | 17,585 | 40,473 |
| Advances paid for tangible fixed assets | - | - | - | - |
| Adjustments to acquired assets | 52,990 | - | - | 52,990 |
| Total | 1,498,573 | 39,693 | 24,625 | 1,513,641 |
| Accumulated depreciation | | | | |
| Buildings, halls and other constructions | 71,192 | 11,214 | 1,157 | 81,249 |
| Equipment | 690,622 | 87,617 | 3,348 | 774,891 |
| Adjustments to fixed assets in the course of construction | - | - | - | - |
| Other tangible fixed assets | - | - | - | - |
| Adjustments to acquired assets | 30,756 | 3,511 | - | 34,267 |
| Total | 792,570 | 102,342 | 4,505 | 890,407 |
| Net book value | 706,003 | | | 623,234 |

| (CZK'000) | 1 January 2011 | Additions / transfers | Disposals | 31 December 2011 |
|---|------------------|--------------------------|----------------|------------------|
| Cost | | | | |
| 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 |
| Total | 1,439,852 | 66,204 | (7,483) | 1,498,573 |
| Accumulated depreciation | | | | |
| 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 |
| Total | 701,192 | 97,780 | (6,402) | 792,570 |
| Net book value | 738,660 | | | 706,003 |

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 2012 depreciation of the adjustment to acquired assets in the amount of CZK 3,511,000 was recorded as expenses (as at 31 December 2011: CZK 3,510,000).

No assets of the Company are pledged.

The Company expects drawing of a subsidy of CZK 11,800,000 from the EKO-ENERGIE programme for construction of a cogeneration unit in Odolena Voda. Request for the payment was submitted 4 February 2013. If approved, the payment is expected within 3 months after the request submitting.

Liabilities arising from lease contracts were settled as at 31 December 2012.

| (CZK'000) | 31 December 2012 | 31 December 2011 |
|---|------------------|------------------|
| Amounts paid on existing finance lease contracts | - | 1,480 |
| Outstanding amounts payable within one year | - | - |
| Amounts payable after more than one year | - | - |
| Amounts paid and payable from existing contracts | - | 1,480 |

5. Investments in subsidiaries and investments in associates

As at 31 December 2012:

| | Cost (CZK'000) | Carrying value (CZK'000) | % of capital | 2012 net profit/(loss)* (CZK'000) | Net equity as at 31 December 2012* (CZK'000) |
|------------------------------|-------------------|--------------------------------|-----------------|---|---|
| Czech entities | | | | | |
| Teplo Rumburk s.r.o. | 1,080 | 1,080 | 98.2 | (283) | 6,218 |
| CZT Valašské Meziříčí s.r.o. | 40 | 40 | 20.0 | 935** | 4,622 |
| TEPLO Votice, s.r.o. | 20 | 20 | 20.0 | 862 | 2,558 |
| Foreign entities | | | | | |
| KA Contracting SK, s.r.o.* | 21,010 | 21,930 | 85.0 | 5,384 | 26,335 |
| Total | 22,150 | 23,070 | | | |

* Unaudited

** before tax

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) |
|------------------------------|-------------------|--------------------------------|-----------------|---|--|
| Czech entities | | | | | |
| 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 |
| Foreign entities | | | | | |
| KA Contracting SK, s.r.o.* | 21,010 | 21,930 | 85.0 | (3,519) | 20,951 |
| Total | 22,150 | 23,070 | | | |

* Unaudited

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

6. Inventories

| (CZK'000) | 31 December 2012 | 31 December 2011 |
|---------------------------------------|------------------|------------------|
| Raw materials | 21,144 | 21,041 |
| Advances paid for inventory purchases | 5,180 | 3,758 |
| Net book value | 26,324 | 24,799 |

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

7. Receivables

| (CZK'000) | 31 December 2012 | 31 December 2011 |
|--|-------------------------|-------------------------|
| Trade receivables - current | 10,011 | 12,824 |
| - overdue | 21,346 | 23,076 |
| Total trade receivables | 31,357 | 35,900 |
| Provision for doubtful receivables | (16,536) | (17,719) |
| Net book value of trade receivables | 14,821 | 18,181 |
| Receivables - subsidiaries / controlling parties | 187,061 | - |
| Other receivables | 731 | 719 |
| Total other receivables | 731 | 719 |
| Taxes and state subsidies receivables | 2,508 | 3,928 |
| Short-term advances paid | 28,793 | 25,853 |
| Net book value of long-term receivables | 233,914 | 48,681 |
| Total net book value of receivables | 233,914 | 48,681 |

Short-term advances paid represent mainly advances paid for the purchase of gas and electricity.

Prepayments for corporate income tax amounting to CZK 12,132,000 for the year 2012 (as for 31 December 2011: CZK 10,421,000) 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:

| (CZK'000) | 2012 | 2011 |
|--|---------------|---------------|
| Opening balance as at 1 January | 17,719 | 17,849 |
| Charge for the year | 992 | (85) |
| Written off during the year | (2,175) | (45) |
| Closing balance as at 31 December | 16,536 | 17,719 |

8. Receivables / payables – unbilled gas / advances received

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

| (CZK'000) | 31 December 2012 | 31 December 2011 |
|--|-------------------------|-------------------------|
| Receivables from unbilled heat, supplies of hot water and electric power | 276,741 | 265,059 |
| Advances received | (284,120) | (280,304) |
| Anticipated assets / Advances received | (7,379) | (15,245) |

9. Equity

The Company is fully owned by RWE Transgas a.s., incorporated in the Czech Republic and the ultimate holding company is RWE AG, incorporated in Germany.

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

The sole shareholder approved the financial statements for 2011 and decided about the allocation of profit earned in 2011 of CZK 44,516,000 on 16 May 2012.

| (CZK'000) | 2012 | 2011 |
|--------------------------------------|---------------|---------------|
| Allocation to Legal reserve fund | 2,226 | 1,188 |
| Allocation to Retained earnings | - | 22,565 |
| Dividend paid to RWE Transgas | 42,290 | - |
| Profit for the year 2011/2010 | 44,516 | 23,753 |

10. Provisions

| (CZK'000) | Provision for pension liabilities | Legal reserves | Income tax provision net of advances | Other provisions | Total |
|------------------------------|---|-------------------|--|---------------------|---------------|
| Opening balance as at | | | | | |
| 1 January 2011 | 2,088 | 14,021 | 3,559 | 200 | 19,868 |
| Charge for the year | 2,386 | 7,450 | 12,082 | 300 | 22,218 |
| Released in the year | (2,484) | (668) | - | - | (3,351) |
| Used in the year | - | (3,420) | (3,559) | (200) | (6,979) |
| Income tax provision | - | - | (10,421) | - | (10,421) |
| Closing balance as at | | | | | |
| 31 December 2011 | 1,990 | 17,383 | 1,661 | 300 | 21,334 |
| Charge for the year | 4,365 | 2,900 | 9,653 | 4,502 | 21,420 |
| Released in the year | (2,408) | (5,021) | - | - | (7,429) |
| Used in the year | - | (7,379) | (1,661) | (300) | (9,340) |
| Income tax provision | - | - | (9,653) | - | (9,653) |
| Closing balance as at | | | | | |
| 31 December 2012 | 3,947 | 7,883 | - | 4,502 | 16,332 |

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.

Advances for income tax of CZK 9,653,000 (total advances for income tax paid amounted to CZK 12,132,000) paid by the Company as at 31 December 2012 (as at 31 December 2011: CZK 10,421,000) are netted off with the provision for income tax of CZK 9,653,000 as at 31 December 2012 (as at 31 December 2011: CZK 12,082,000).

Other provisions as at 31 December 2012 are represented by a provision for prepayments of inventory of CZK 4,502,000 (as at 31 December 2011: CZK 300,000 related to provision for lack of emission rights).

11. Liabilities

| (CZK'000) | 31 December 2012 | 31 December 2011 |
|---|------------------|------------------|
| Trade payables - current | 8,944 | 15,565 |
| - overdue | 3,290 | 3,847 |
| Total trade payables | 12,234 | 19,412 |
| Liabilities in the RWE Group | 68,900 | 68,900 |
| Tax liabilities | 5,872 | 519 |
| Liabilities to employees | 2,382 | 2,335 |
| Advances received (see Note 8) | 7,379 | 15,245 |
| Anticipated liabilities | 38,344 | 41,438 |
| Other payables - current | 1,228 | 1,186 |
| Total other payables | 1,228 | 1,186 |
| Total short-term liabilities | 136,339 | 149,035 |
| Liabilities in the RWE Group | 275,600 | 344,500 |
| Retention rights | 2,689 | 3,669 |
| Deferred tax liability | 17,528 | 21,104 |
| Total long-term liabilities | 295,817 | 369,273 |
| Total short-term and long-term liabilities | 432,156 | 518,308 |

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

The liabilities in the RWE Group are described in Note 14 - Related party transactions.

Other short-term due liabilities include liabilities for social insurance and contributions to the state employment policy in the amount of CZK 840,000 (as at 31 December 2011: CZK 830,000) and liabilities for health insurance in amount of CZK 388,000 (as at 31 December 2011: CZK 356,000).

Anticipated liabilities are mainly represented by unbilled purchases of energies (inclusive coal) in the amount of CZK 24,118,000 (as at 31 December 2011: CZK 25,472,000).

The Company has recorded balances representing unused emission rights on the account "Taxes and state subsidies payable" as at the balance sheet date in the amount of CZK 1,359,000 (as at 31 December 2011: CZK 0).

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:

| (CZK'000) | 2012 | 2011 |
|--|--------------|---------------|
| Current tax expense | 9,653 | 12,082 |
| Deferred tax expense | (3,576) | (1,302) |
| Adjustment of prior year tax expense based on final CIT return | 443 | 57 |
| Total income tax expense | 6,520 | 10,837 |

Current tax can be analysed as follows:

| (CZK'000) | 2012 | 2011 |
|--|--------------|---------------|
| Net profit before taxation | 25,575 | 55,353 |
| Non-tax deductible expenses | 9,820 | 9,343 |
| Non-tax deductible income | (3,615) | (9,546) |
| Difference between tax and accounting depreciation | 19,025 | 8,439 |
| Net taxable profit | 50,805 | 63,589 |
| Corporate income tax at 19% | 9,653 | 12,082 |

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 2011 and subsequent years).

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

| (CZK'000) | 31 December 2012 | 31 December 2011 |
|--|------------------|------------------|
| Deferred tax liability arising from: | | |
| Difference between accounting and tax net book value of fixed assets | (20,265) | (23,774) |
| Total deferred tax liability | (20,265) | (23,774) |
| Deferred tax asset arising from: | | |
| Accounting provisions for receivables | 1,987 | 2,235 |
| Reserves and emission permits | 750 | 435 |
| Total deferred tax asset | 2,737 | 2,670 |
| Net deferred tax liability | (17,528) | (21,104) |

13. Employees

| | 2012 | 2011 |
|---|-----------|-----------|
| Statutory representatives who are employees | 2 | 3 |
| Average number of other members of management | 1* | 2 |
| Average number of other staff | 71 | 72 |
| Total number of employees | 73 | 77 |

*not an employee

The Company's management includes Statutory Directors and Proxy.

| (CZK'000) | Management | Other staff | Total |
|--------------------------|---------------|---------------|---------------|
| 2012 | | | |
| Wages and salaries | 3,871 | 34,532 | 38,403 |
| Board emoluments | - | - | - |
| Social security costs | 1,050 | 11,696 | 12,746 |
| Other social costs | - | 1,673 | 1,673 |
| Total staff costs | 4,921 | 47,901 | 52,822 |
| 2011 | | | |
| 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 |
| Total staff costs | 10,984 | 44,715 | 55,699 |

14. Related party transactions

The liabilities towards other companies within the consolidation group as at 31 December 2012 amounted to CZK 361,475,000 (as at 31 December 2011: CZK 433,123,000).

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 2012 amounts to CZK 344,500,000 (as at 31 December 2012: CZK 413,400,000). The short term part of the loan amounts CZK 68,900,000 as at 31 December 2012 (as at 31 December 2011: CZK 68,900,000). This loan was transferred to the new lender RWE AG by agreement dated 25 September 2012. This loan is included in the above disclosed balance of liabilities towards other companies within the consolidation group.

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 2012 and 2011.

Company cars are made available for use by management. The gross value of lease installments paid for the said vehicles amounted to CZK 0 in 2012 (2012: CZK 150,000).

In accordance with Section 39 (10) of the Decree 500/2002, the Company uses the option to limit the disclosure of its transactions and balances with related parties to liabilities towards other companies within the consolidation group and transactions with Company's boards and its top management.

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 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 2012.

17. Cash flow statement

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

| (CZK'000) | 31 December 2012 | 31 December 2011 |
|--------------------------------------|-------------------------|-------------------------|
| Cash on hand and in transit | 12 | 135 |
| Cash in bank | 22,663 | 239,237 |
| Receivable arising from cash-pooling | 187,061 | - |
| Cash and cash equivalents | 209,736 | 239,372 |

18. Subsequent events

As at 1 January 2013, the Company merged with RWE Plynoprojekt, s.r.o. KA Contracting ČR, s.r.o. is the successor company.

As at the same date, the decision of the sole shareholder RWE Transgas, a.s. dated 19 December 2012 to appoint Lukáš Roubíček as statutory representative of the Company came into effect. Registration form of the change was submitted to the Commercial Register on 7 February 2013.

As at 1 January 2013, the business name of the Company was changed to RWE Supply & Trading CZ, a.s. The change was reflected in the Commercial Register on 1 January 2013.

No other events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2012.

19 February 2013

Pavel Bartl
Statutory Director

Viktor Kalina
Statutory Director

APPENDIX

3. Report on Relations between Related Parties

KA Contracting ČR s.r.o. Report on Relations between Related Parties for the Year Ended 31 December 2012

Because KA Contracting ČR s.r.o., a company with its registered office at Truhlářská 13-15, Prague 1, Company No. 25115171 ("Company"), has not entered into a controlling contract as a controlled entity that would be in effect in 2012, the Company has compiled this report on its relations with controlling parties and with other parties controlled by the same controlling party ("related parties") in 2012 insofar as such parties are known to the Company. The report was compiled in accordance with Section 66a(9) of Act No. 513/1991 Coll., the Commercial Code, as amended, and it constitutes an integral part of the Company's Annual Report for 2012. The Company's sole shareholder will have the report available at the same time and under the same conditions as the Financial Statements.

1. Controlling Parties

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

- a) Directly
 - RWE Transgas, a.s. with its registered office at Limuzská 12/3135, 100 98 Prague 10, Company No. 26460815, the sole shareholder of the Company
- b) Indirectly
 - RWE Gas International N.V. with its registered office at 5211AK's-Hertogenbosch, Willemsplein 4, Kingdom of the Netherlands, the sole shareholder of RWE Transgas, a.s.; and
 - RWE Aktiengesellschaft ("RWE AG") with its registered address at Opernplatz 1, 45128 Essen, Federal Republic of Germany, the sole shareholder of RWE Gas International N.V.

2. Other Related Parties

The Company has requested the above controlling parties to provide a list of other parties controlled by the same controlling parties in the last reporting period. This report has been compiled based on data provided by the controlling parties and other available information. The controlling structure and ties between RWE Group member companies in the year ended 31 December 2012 are shown in Annex No. 1 to this report.

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

Based on a request for proposals to supply natural gas to the Company's facilities, a One-Year Master Agreement on Associated Natural Gas Supply Services was signed with RWE Key Account CZ, s.r.o. for the year 2012.

Notices were served to all current suppliers to terminate associated electricity supply services agreements for the Company's facilities. Based on a request for proposals, a One-Year Master Agreement on Associated Electricity Supply Services was signed with RWE Key Account CZ, s.r.o. for the year 2012.

In consideration of the highest offered price, One-Year Electricity Purchase Agreements were signed with RWE Key Account CZ, s.r.o. for the Company's two electricity generating plants (Břeclav, Velké Albrechtice).

A Loan Agreement, subsequently amended by Annex No. 1, was signed with RWE Transgas, a.s. (the beneficiary).

A Purchase Agreement was signed with KA Contracting SK, s.r.o. (the buyer) under which the Company sold two tractor-mounted trailers.

A Human Resources Management Service Level Agreement was signed with RWE Transgas, a.s. (the provider).

A Commercial Sublease Agreement was signed with RWE Service CZ, s.r.o. (the subtenant).
A Transport Service Level Agreement was signed with RWE Transgas, a.s. (the provider).
A Vehicle Fleet Management Service Level Agreement was signed with RWE Transgas, a.s. (the provider).

A Loan Agreement was signed with RWE Česká republika a.s. (the beneficiary).

A Purchase Agreement was signed with RWE Interní služby, s.r.o. (the buyer) under which the Company sold movable assets (mainly computer equipment).
A Finance Service Level Agreement was signed with RWE Service CZ, s.r.o. (the provider).

The Company did not incur any losses in performing these agreements, because the agreements were entered into under arm's length terms, where services rendered and payments received conform to standard business conditions. For this reason, there was no need to secure compensation for losses or to make arrangements to this effect.

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

In the last reporting period, the Company did not complete any legal acts in the interest of related parties.

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

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

6. Non-Existence of Damage

In the last reporting period, the Company did not incur any losses under agreements with related parties, other legal acts completed in the interest of related parties, or measures carried out in the interest or at the request of such parties, regardless of whether executed or adopted during or prior to the last reporting period.

7. Confidentiality

This report does not contain any information constituting the Company's trade secret.

8. Summary

This report was approved by the Company's Statutory Representatives on 15 February 2012.

In Prague on 18 February 2013

Pavel Bartl

Statutory Representative

Viktor Kalina

Statutory Representative

KA Contracting ČR s.r.o. Report on Relations between Related Parties

Ties and Control Structure between RWE Group Member Companies in the Year Ended 31 December 2012

RWE Aktiengesellschaft

- 100.00% RWE Beteiligungsverwaltung Ausland GmbH**
 - 98.00% RWE East, s.r.o.
 - 51.00% EČS - Elektrárna Čechy-Střed, a.s.
- 100.00% RWE Gas International N.V.**
 - 100.00% RWE Česká republika a.s.
 - 100.00% RWE Zákaznické služby, s.r.o.
 - 90.00% RWE Gas Storage, s.r.o.
 - 49.00% RWE Service CZ, s.r.o.
 - 100.00% RWE Gas Slovensko, s.r.o.*
 - 100.00% RWE Transgas, a.s.**
 - 10.00% RWE Gas Storage, s.r.o.
 - 100.00% RWE Interní služby, s.r.o.
 - 100.00% RWE Plynoprojekt, s.r.o.***
 - 100.00% RWE Key Account CZ, s.r.o.
 - 100.00% KA Contracting ČR s.r.o.
 - 85.00% KA Contracting SK, s.r.o.
 - 98.20% TEPLO Rumburk, s.r.o.
 - 15.00% KA Contracting SK, s.r.o.
 - 100.00% RWE Grid Holding, a.s.
 - 100.00% RWE Distribuční služby, s.r.o.
 - 100.00% NET4GAS, s.r.o.
 - 100.00% BRAWA, a.s.
 - 100.00% RWE Energie, a.s.
 - 100.00% RWE GasNet, s.r.o.
 - 66.57% Východočeská plynárenská, a.s.
 - 100.00% VČP Net, s.r.o.
 - 67.73% Severomoravská plynárenská, a.s.
 - 100.00% SMP Net, s.r.o.
 - 50.12% Jihomoravská plynárenská, a.s.
 - 100.00% JMP Net, s.r.o.
 - 100.00% RWE Gas Transit, s.r.o.
 - 100.00% RWE Hungária Tanácsadó Kft.
- 2.00% RWE East, s.r.o.**

* Not registered in the Commercial Register as at 31 December 2012

** The company has been renamed RWE Supply & Trading CZ, a.s. as of 1 January 2013

*** The company was wound up without liquidation as of 1 January 2013 as a result of a national merger by acquisition, with KA Contracting ČR s.r.o. as the acquiring company