

Annual Report 2007



Key Ratios

	2007
Total sales (CZK m)	1,659
EBITDA (CZK m)	1,044
Operating result (CZK m)	644
Profit before taxation (CZK m)	652
Profit after taxation (CZK m)	1,040
Investments (CZK m)	144
Number of employees (converted to FTE)	9

RWE Gas Storage, s.r.o. is hereinafter also referred to as “Company” or “RWE Gas Storage”.

In 2007 RWE was the first energy group in the Czech Republic to subscribe to the energy efficiency concept, thereby supporting the European Union’s and Czech Government’s efforts to arrest the increasing consumption of energies and contribute to the safe and sustainable development of society.

The purpose of the *Šetřím energii [Saving Energy]* project (www.setrimenergii.cz) is to inspire the general public to behave more responsibly in their energy consumption. The project provides many tips and gives extensive advice geared towards options for thermal insulation and overcladding on buildings which have a significant potential for energy savings. The photographs that illustrate the text of this Annual Report show examples of modern architectural approaches that are not only beautiful but also expedient and that allow the structure to blend with its surroundings.

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1 Directors' Statement



For the RWE Group's business of underground gas storage operation, 2007 was another successful year.

In particular, with effect from 1 May 2007 the RWE Group in the Czech Republic demerged its storage system operator and included it in RWE Gas Storage, s.r.o. (by way of contributing the respective part of its business to the new company); this was another long step towards the RWE Group's growth in the gas storage business and also to improving the transparency of the natural gas market. RWE Transgas, a.s. contributed its six underground gas storage facilities at Dolní Dunajovice, Tvrdonice, Štramberk, Lobodice, Třanovice, and Háje, to the Company. This step having been taken, the Company also met the requirements for the legal unbundling of the gas trading licence holder from the holder of the licence for the operation of underground gas storage facilities, which is contained in the proposed amendment to Directive 2003/55/EC and Regulation (EC) 1775/2005.



With their overall capacity of 2,321 million cubic metres, the Company's underground gas storage facilities significantly underpinned the security of gas supplies in the Czech Republic. Thanks to the mild 2006/2007 winter season, the Company was able to deal with some new safety aspects of the operation of its facilities. It launched several long-term proactive measures to improve operating safety, including aerial monitoring of wells and collecting pipelines, installed subsurface safety valves, and disposed of a third-party well that constrained the use of the Company's own storage capacities.

As at 31 December 2007 the Company provided gas storage services to four customers; they had in place natural gas storage agreements covering the Company's entire storage capacity.

In 2007 the Company registered a significant surplus of demand for its storage services; it intends to use this information when planning the development of new storage capacities. The Company is considering investing in new storage capacities of up to 770 million cubic metres in the Czech Republic by 2012. However, it will be feasible to carry such plans out only where it will make economic sense in view of the regulatory environment and where competition with projects pursued by other Storage System Operators (SSOs) both in and outside the Czech Republic will allow this.

The Company also helped to enhance transparency on the Czech gas market, primarily by publishing more information about its storage capacities, changes in gas stores, and the use of capacities. The Company meets the requirements contained in Guidelines for Good TPA Practice for Storage System Operators (GGPSSO) issued by the European Regulators Group for Electricity and Gas (ERGEG), and it is an active member of Gas Infrastructure Europe, where it holds the vice-presidency of Gas Storage Europe.

The Company continues to support the development of the secondary storage capacity market both in the Czech Republic and on the European scale. It is playing an active role in the development of the first pan-European organised secondary storage capacity market (store-x Storage Capacity Exchange GmbH), which offers gas traders a one-stop platform for buying and selling storage capacity.

The year 2007 was quite taxing for us in all respects. I would therefore like to extend sincere thanks to all of our employees and partners for the professionalism with which they tackled all tasks and challenges.



Andreas Frohwein
Managing Director, CEO



Lubor Veleba
Managing Director, CCO

Directors of the Company as at 31 December 2007

Andreas Frohwein

Managing Director, CEO

Born: 12 December 1966

Education: Universität Gesamthochschule Essen, Technische Hochschule Aachen

Membership of other administrative, governing and supervisory bodies:

Kavernenspeicher Staßfurt GmbH Supervisory Board Chairman

Any other business activities: None

Lubor Veleba

Managing Director, CCO

Born: 7 May 1969

Education: Vysoké učení technické, Brno; Cass Business School, London

Membership of other administrative, governing and supervisory bodies: None

Any other business activities: None

2 Report of the Company's Supervisory Board for 2007

Members of the Supervisory Board were appointed to their office on 21 June 2007 upon a decision adopted by the Company's sole member, RWE Transgas, a.s., acting in the capacity of the General Meeting.

At their first meeting on 5 September 2007 Supervisory Board members elected Dr Werner Roos as their Chairman and Mr Martin Herrmann as their Vice-Chairman.

On 6 March 2008 the Supervisory Board reviewed the Company's annual financial statements as at 31 December 2007 and the Directors' proposal for profit distribution.

In performing its supervisory activity the Supervisory Board did not find anything at variance with generally applicable legal regulations, the Company's Memorandum of Association, or the decisions of the sole member acting in the capacity of the General Meeting. The Supervisory Board recommends that these annual financial statements, including the Directors' proposal for profit distribution, be approved.

6 March 2008



Dr Werner Roos

Chairman, Supervisory Board

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Supervisory Board of the Company as at 31 December 2007

Dr Werner Roos

Chairman

Born: 3 January 1949

Education: Rheinisch-Westfälische Technische Hochschule Aachen, Electrical Engineering

Membership of other administrative, governing and supervisory bodies:

RWE Energy AG Board of Directors member; Chairman of the RWE Transgas Net, s.r.o.

Supervisory Board; Vice-Chairman of the EWR AG and Luxempart-Energie S.A.

Supervisory Boards; Member of the Cegedel S.A., Cegedel Net S.A., SAG GmbH, Société
Electrique de l'Our S.A., VSE AG and RWE Transgas, a.s. Supervisory Boards

Any other business activities: None

Martin Herrmann

Vice-Chairman

Born: 3 July 1967

Education: Westfälische-Wilhelms-Universität, Münster, Economics

Membership of other administrative, governing and supervisory bodies:

Chairman of the RWE Transgas, a.s. Board of Directors; RWE Energy Czech Republic, s.r.o.

Managing Director; Chairman of the Jihomoravská plynárenská, a.s., Severomoravská

plynárenská, a.s., Východočeská plynárenská, a.s., Severočeská plynárenská, a.s.,

Středočeská plynárenská, a.s. and Západočeská plynárenská, a.s. Supervisory Boards,

Vice-Chairman of the RWE Transgas Net, s.r.o. and RWE Interní služby, a.s. Supervisory
Boards

Any other business activities: None

Andreas Böwing

Member

Born: 11 April 1955

Education: Universität Münster, Law

Membership of other administrative, governing and supervisory bodies:

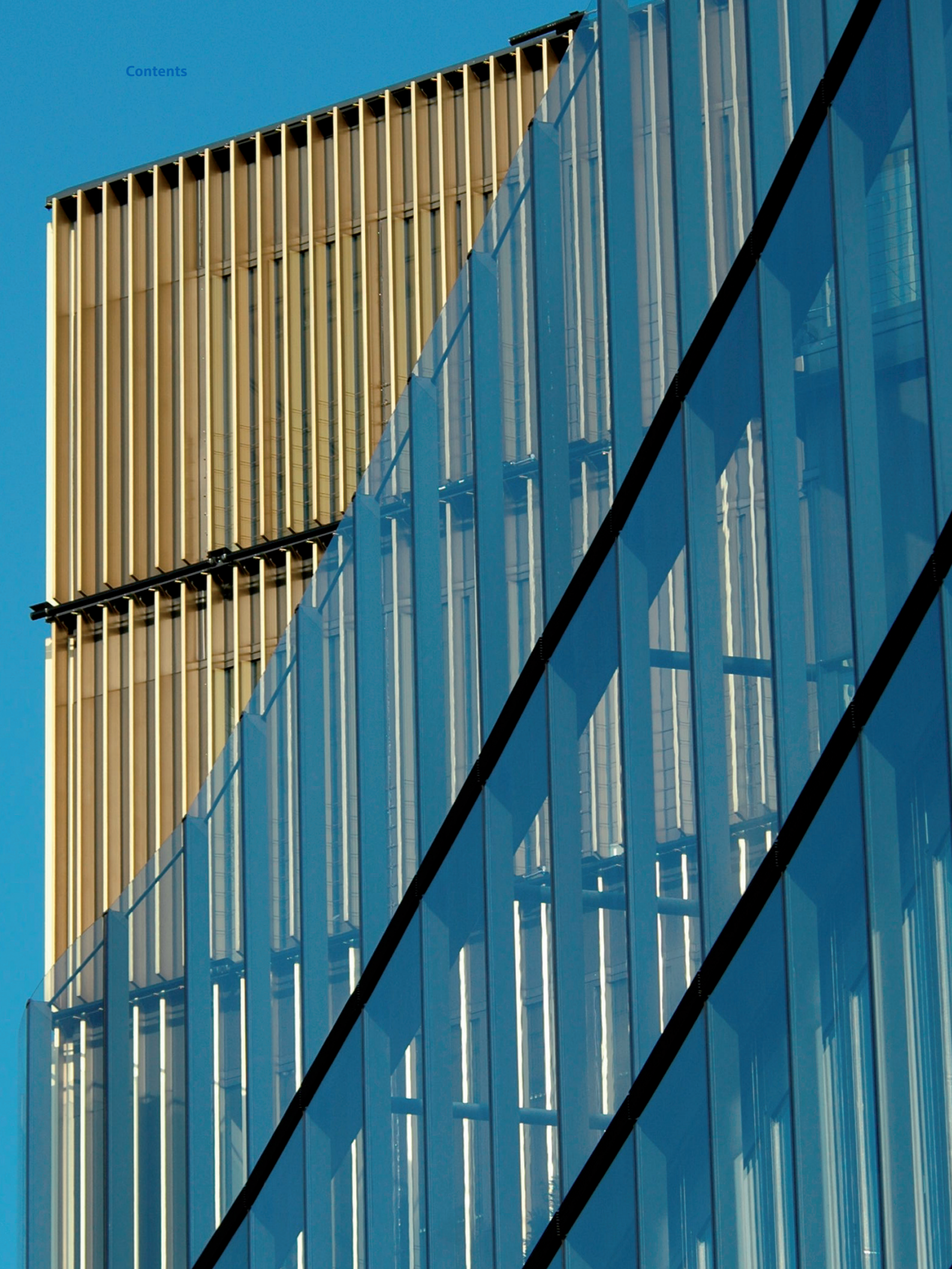
RWE Transgas Net, s.r.o. Supervisory Board member

Any other business activities: None

Tomáš Čumpelík**Member****Born:** 27 May 1975**Education:** SPŠ, Štětí**Membership of other administrative, governing and supervisory bodies:**

Vice-Chairman of the MERO ČR, a.s. Supervisory Board; Member of the OSINEK, a.s. and THERMAL-F, a.s. Board of Directors

Any other business activities: None**Dr Frank-Detlef Drake****Member****Born:** 17 December 1962**Education:** Universität Hannover and University of Wisconsin-Madison, Mechanical Engineering and Technology**Membership of other administrative, governing and supervisory bodies:** RWE Gas Midstream GmbH Director; Member of the RWE Transgas, a.s. Board of Directors**Any other business activities:** None**Šárka Vojíková****Member****Born:** 22 September 1967**Education:** Grammar school in Prague, a social law college in Prague**Membership of other administrative, governing and supervisory bodies:** Member of RWE Transgas, a.s. and RWE Transgas Net, s.r.o. Supervisory Boards**Any other business activities:** None



3 Management Report for 2007

3.1 Results

Revenues, expenses, profit. Between 1 May 2007 and 31 December 2007 the Company's operating revenues, including proceeds from the sale of fixed assets and including other operating revenues, totalled CZK 1,660 million, and its operating expenditure, including taxes and charges and other operating expenditure, totalled CZK 1,016 million. The Company's operating result for 2007 therefore amounted to CZK 644 million.

The financial result ended up in a profit of CZK 8 million and profit before taxation was therefore CZK 652 million. For the accounting period under review the overall result exceeded CZK 1,040 million, mainly thanks to a high deferred tax.

Structure of assets. As at 31 December 2007 the Company's total assets were worth CZK 17,626 million. Fixed assets worth CZK 16,824 million (of which, tangible fixed assets CZK 16,790 million and intangible fixed assets CZK 34 million) accounted for about 95% of total assets.

Current and other assets of CZK 801 million accounted for approximately 5% of total assets and 95% of them were receivables.

Structure of shareholder's equity and liabilities. The Company's equity amounted to CZK 14,491 million and accounted for about 82% of total shareholder's equity and liabilities. In 2007 the Company financed all of its activities using its own resources.

Long-term payables (the deferred tax liability) and short-term payables accounted for 71% and 23%, respectively, of liabilities.

Risk management. The Company's risk management complies with its internal guidelines, which are fully in line with RWE's strategy in this area. The Risk Catalogue contains all the identified risks, assessed by the probability of their occurrence and potential damage. The Company strives to prevent all potential risks by taking a proactive approach.

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Investment. In 2007 the Company's capital expenditure amounted to CZK 144 million.

These investments were mainly channelled to preparations for upgrading the parameters of underground gas storage facilities, and improving their efficiency and optimising their operation, and also to improvements in safety and reliability.

In 2007 the Company refurbished the drying column and central control system at the Třanovice facility; in addition to improving gas quality at the point of exit from the plant, these steps also help to make the economics of operation during gas withdrawal more effective. At the same time the monitoring well was newly completed to become an injection/withdrawal well, and a project was started for monitoring wells over the Háje facility (a cavern in granite), which will make it possible, if needed, to gradually raise the maximum pressure.

In terms of safety, an important innovation is the installation of subsurface safety closing valves in all production wells of storage facilities. The purpose of this long-term capital investment project is to raise the safety standard to a level on a par with the latest technical knowledge and exceeding statutory requirements in respect of well completion and gas storage operation.

An upgrade of the control and safety system was started at the Lobodice facility. After completion, the current radio-wave communication between wells and the collecting centre will be replaced by fibre optics, control systems on wells and the collecting centre will be replaced, and protection of these installations will be improved. To provide for a higher level of operating reliability, clean burning of waste vapours was put in place at the Tvrdonice facility. The Dolní Dunajovice facility started the first of the two stages of replacing triethylene glycol regeneration boilers. The refurbishment of façades and thermal insulation of buildings, which no longer met the requirements for economical operation, were completed in the central areas of the Tvrdonice and Štramberk facilities.

All the investments were made in accordance with the planned operation of the virtual gas storage, and therefore contractually specified parameters were not affected.

Organisational units abroad. As at 31 December 2007 the Company did not have any organisational units abroad.

Science and research. In 2007 the Company did not pursue any scientific or research activities.

3.2 Natural Gas Storage

Capacity and storage customers. As at 31 December 2007 the Company's storage capacity was as follows:

Working volume (mcm)	Maximum injection rate (mcm/day)	Maximum withdrawal rate (mcm/day)
2,321	26.35	35.70

In 2007 the Company provided gas storage services to a total of four storage customers and significantly contributed to better transparency on the liberalised Czech gas market. Completely in keeping with the respective Energy Regulatory Office (ERO) public notice and GGPSSO guidelines, it published, *inter alia*, information about storage capacities, aggregated outflows/inflows, capacity use in percentage terms, and, for the sake of clarity as regards storage prices, also a tool for calculating indicative prices.

Services. The Company provided services related to gas storage in its virtual underground gas storage, which is understood to be gas injection into, subsequent storing of the gas in, and finally withdrawal of this gas from the facility.

Storage capacity was primarily offered as a combination of the operating volume and injection/withdrawal rate; the Company also offered both injection and withdrawal rates separately for the spare portion of the respective capacity.

Under the respective ERO public notice the Company offered three basic types of contract:

- Annual firm gas storage agreements, with a minimum term of one storage year;
- Short-term firm gas storage agreements, with a minimum term of one gas day;
- Short-term interruptible gas storage agreements, with a minimum term of one gas day.

During 2007 the Company modified its Storage Code two times, mainly to respond to changes in the ERO public notice on gas market rules.

The Company also actively promoted the secondary storage capacity market. It was one of the founding members of the Internet gateway supporting the secondary storage capacity market (store-x Storage Capacity Exchange GmbH). It also offered its customers an additional opportunity for secondary purchase and sale of storage capacity, in the form of an electronic bulletin board.

As a result of the low prices for gas storage in the Company's virtual gas storage and its limited capacity, the entire capacity was contractually committed in 2007 and, moreover, the Company registered significant demand for its storage capacities, which it was unable to meet in full.

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In March 2007 two potential storage users lodged a complaint against the Company on the grounds of its failure to allocate the required storage capacity to them as from 1 April 2007. In administrative proceedings conducted by the Energy Regulatory Office the complaint was partially granted; however, the dispute continues.

Gas Storage Europe. The Company played an active role in Gas Storage Europe, which brings together SSOs from all over Europe. Among other things, the Company contributed to the periodically updated list of aggregate gas stores in Europe, and also to the database of planned storage investments in Europe.

3.3 Underground Gas Storage Facilities

The Company operates six underground gas storage facilities at Dolní Dunajovice, Tvrdonice, Štramberk, Lobodice, Třanovice and Háje. At the end of October 2007 all of the Company's facilities were filled to their maximum capacity and completely ready for the winter season.

The most up-to-date control methods are employed in the operation of the Company's storage capacities. The equipment operated at the facilities is monitored on-line by control systems that check and control all processes in terms of their running within the preset limits and also actively optimise them at each individual stage. One of the key functions of these control systems is to detect and automatically respond (by closing/opening valves, stopping machines in operation, reducing the pressure in parts of equipment, etc.) to potentially imminent dangerous situations, either without the operator's intervention or in co-operation with the operator.

Systematic equipment maintenance planning and performance is a very important factor in preventing dangerous conditions. Wherever feasible, preventive maintenance is applied to achieve the highest possible level of reliability.

The Company develops the various concepts of its maintenance strategies in co-operation with renowned Czech and foreign universities.

Continuous operation of the commercial dispatch control centre, which is used as an active communication and trading tool for the Company's customers, was started in 2007.

Another major step was the complete installation of an expert system as a tool helping to continuously optimise and control storage operations, combining the requirements of the gas dispatch control centre, storage capacity trade, and the operating use of the plants' parameters in terms of safety, performance, capacity and technology. This expert system is used at the level of both dispatch control and operation of the various storage facilities.

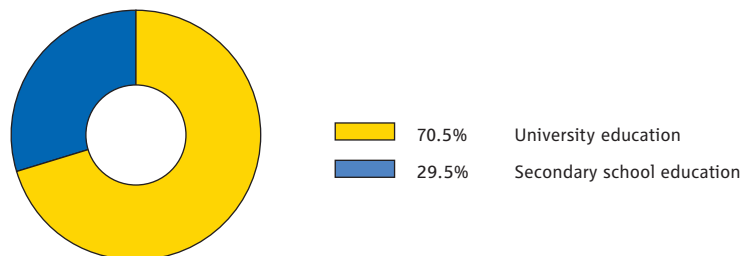
Aerial photography is one of the important activities commenced in 2007 that are intended to improve the safety of storage facilities, in particular with a view to the hermetic sealing between gas lines and wells. Comparing maps of the Company's gas pipelines with aerial photographs showing chlorophyll density helps to identify locations with potential leaks over the length of the pipelines, which is approximately 150 km.

Well Hr-6 closed down again. At the Tvrdonice storage facility, in the place where the well Hr-6 had been situated and closed down once before, signs of leakages from this mining work were monitored. In its decision the Brno District Mining Office ordered the Company to close down (plug permanently) this well again, using the latest technologies to prevent it from posing threat to natural gas storage in the future. The Company carried out the technical work itself, related to the new closedown of the well, in 2007; the well was closed down safely, thereby providing for its full safety.

3.4 Human Resources

Employees. Under Section 338 of the Labour Code, seven RWE Transgas employees were transferred to the Company effective from 1 May 2007. As at 31 December 2007, the Company registered a total of 17 employees, including three in managerial positions.

Employee Structure by Qualification in 2007



Wages. In 2007 wages developed fully in line with the management's plans for human resource management, the applicable principles of remuneration, and the principles contained in the Collective Agreement.

Professional training and career development. In 2007 the Company focused on maintaining and upgrading its employees' qualifications, largely through their participation in technical seminars on underground gas storage facilities and language courses in the Czech Republic and abroad.

On the whole, 32 educational events were organised in 2007, which were attended by 38 employees. Average annual expenses on education, training and development amounted to CZK 16,341 per employee.

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Social policy. The Company supports, in particular, its employees' cultural, educational and sports activities, and significantly contributes to their pension fund schemes.

The Company, as the employer, and the trade union organisation entered into a new Collective Agreement that guarantees above-standard working and social conditions for the employees in 2008 and 2009.

3.5 Environmental Protection

In keeping with the RWE Group's corporate policy in the Czech Republic, the Company has adopted rules for its responsible approach to environmental protection, and implemented the guidelines into the system of the Company's fundamental governing documents. In 2007 environmental protection was outsourced.

All legislative requirements were met, thereby minimising the potential risks and reducing the environmental load in all aspects of environmental protection.

The Company is successful in reducing the impacts on the environment caused by the operation of its process equipment, thanks to the support provided by authorised operating staff to standardised corporate processes, and checks of the environmental impact of every operating event and capital investment project.

In 2007 groundwater monitoring was started, and all statutory requirements were met in the areas of water management and air pollutant emissions. The Company also complies with all the statutory requirements on chemical substances and preparations and on the prevention of serious accidents.

In respect of air pollutant emissions, the Company reported and published the actual values of its CO₂ emissions, which did not exceed the limit of the emission allowances allocated by the National Allocation Plan. The Company actively joined the trading in surplus allowances within the whole Group. The Company also develops and operates its underground gas storage facilities with full regard to reducing atmospheric emissions.

The relevant authorities have not censured or applied penalising measures to the Company to date.

Old environmental burdens are being removed under an agreement on the settling of pre-privatisation environmental liabilities between the National Property Fund of the Czech Republic and Transgas a.s. All the rights and obligations under this agreement have been assigned to the Company.

3.6 Subsequent Events

On 15 February 2008 the ERO issued its decision at the level of the second instance on the failure to allocate the required storage capacity as of 1 April 2007, whereby it reversed its decision of 5 October 2007 and remanded the case to the first instance for consideration.

3.7 Outlook

Investment. The Company intends to increase its current capacity by a total of 770 million cubic metres of operating volume by 2012. However, these projects are conditional on the return on investment that can be expected in the regulatory environment (uncontrolled market prices), the development of competing projects in the Czech Republic and abroad, and the mutually competing projects within the RWE Group.

Updated market rules. On 13 December 2007 the ERO promulgated an amendment to its public notice no. 524/2006 on the Gas Market Rules; the amendment entered into force on 1 January 2008 and also has a bearing on SSOs. Among other things, it introduces monthly and daily contracts and sets forth the time limits and rules for storage capacity allocation.

Amendments to the EU's energy legislation. On 19 September 2007 the European Commission presented its proposal for the third energy package, the purpose of which is to amend the European legislation currently in place for the gas industry, thereby ensuring, *inter alia*, a better functioning of the single gas market and increasing security of supply. The package, expected to enter into force in 2009, sets forth, in particular, the obligation of the legal unbundling of SSOs and a legally binding nature of the so far voluntary GGPSSO guidelines.



4 Financial Part

4.1 Financial Statements

BALANCE SHEET

(in thousand Czech crowns)

ASSETS	as at 31 December 2007			as at 1 May 2007
	Gross	Provision	Net	Net
TOTAL ASSETS	18,026,267	(399,833)	17,626,434	17,118,078
Fixed assets	17,224,172	(399,833)	16,824,339	17,080,836
Intangible fixed assets	37,606	(3,661)	33,945	33,078
Research & development	28,439	(2,161)	26,278	24,677
Software	8,654	(1,500)	7,154	7,746
Other intangible fixed assets	21		21	50
Intangible assets in the course of construction	492		492	605
Tangible fixed assets	17,186,566	(396,172)	16,790,394	17,047,758
Land	84,643		84,643	83,842
Constructions	15,851,833	(319,663)	15,532,170	15,834,415
Equipment	1,161,696	(76,509)	1,085,187	1,108,986
Tangible assets in the course of construction	88,394		88,394	20,515
Current assets	800,971		800,971	37,242
Inventories				18
Raw materials				18
Short-term receivables	763,144		763,144	37,224
Trade receivables	246,803		246,803	
Intragroup receivables	14,512		14,512	
Receivables from shareholders/owners				37,224
Taxes and state subsidies receivable	3,094		3,094	
Advances paid	498,706		498,706	
Anticipated assets	20		20	
Other receivables	9		9	
Financial assets	37,827		37,827	
Cash in hand	232		232	
Cash at bank	37,595		37,595	
Accruals and deferrals	1,124		1,124	
Prepaid expenses	849		849	
Accrued revenue	275		275	

BALANCE SHEET – continued

(in thousand Czech crowns)

LIABILITIES AND EQUITY	as at 31 December 2007	as at 1 May 2007
TOTAL LIABILITIES AND EQUITY	17,626,434	17,118,078
Equity	14,490,950	13,450,709
Share capital	13,450,709	16,105,720
Share capital	13,450,709	16,105,720
Retained earnings		(2,655,011)
Accumulated losses		(2,655,011)
Profit (loss) for the current period (+/-)	1,040,241	
Liabilities	2,928,166	3,667,369
Provisions	176,065	176,418
Tax-deductible provisions	175,967	176,418
Other provisions	98	
Long-term liabilities	2,081,771	2,660,126
Trade payables	2,197	5,115
Deferred tax liability	2,079,574	2,655,011
Short-term liabilities	670,330	830,825
Trade payables	112,848	4,481
Intragroup liabilities	65,000	
Liabilities to shareholders/owners		826,294
Liabilities to employees	817	
Liabilities for social security and health insurance	588	
Taxes and state subsidies payable	1,759	50
Anticipated liabilities	489,296	
Other payables	22	
Accruals and deferrals	207,318	
Accruals	35	
Deferred revenue	207,283	

INCOME STATEMENT

(in thousand Czech crowns)

	Accounting period 8 months ended as at 31 December 2007
Sales of production	1,659,466
Sales of own products and services	1,659,466
Cost of sales	596,756
Raw materials and consumables	37,519
Services	559,237
Added value	1,062,710
Staff costs	9,237
Wages and salaries	6,546
Emoluments of board members	140
Social security costs	2,395
Other social costs	156
Taxes and charges	1,809
Depreciation of long-term assets	400,591
Sale of long-term assets and raw materials	243
Sale of long-term assets	243
Change in operating provisions and complex prepaid expenses	(353)
Other operating income	112
Other operating charges	7,932
Operating result	643,849
Interest income	8,469
Interest expense	76
Other financial income	61
Other financial expense	127
Financial result	8,327
Tax on profit or loss on ordinary activities	(388,065)
– current	187,372
– deferred	(575,437)
Profit or loss on ordinary activities after taxation	1,040,241
Net profit (loss) for the financial period	1,040,241
Profit or loss before taxation	652,176

CASH FLOW STATEMENT**Period of 8 months ended 31 December 2007**

(CZK'000)

	Period of 8 months ended 31 December 2007
CASH FLOWS FROM OPERATING ACTIVITIES	
Net profit on ordinary activities before tax	652,176
Adjustments for non-cash movements:	391,602
Depreciation of fixed assets	400,591
Change in provisions	(353)
Profit from disposal of fixed assets	(243)
Net interest expense (income)	(8,393)
Net cash flow from ordinary activities before tax, changes in working capital and extraordinary items	1,043,778
Working capital changes:	5,662
(Increase)/decrease in receivables and prepayments	(747,033)
Increase/(decrease) in short-term payables and accruals	752,677
(Increase)/decrease in inventories	18
Net cash flow from ordinary activities before tax and extraordinary items	1,049,440
Interest paid	(76)
Interest received	8,469
Income tax on ordinary activities paid	(190,466)
Net cash flow from ordinary activities	867,367
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of fixed assets	(914,948)
Proceeds from sale of fixed assets	243
Net cash flow from investing activities	(914,705)
CASH FLOWS FROM FINANCING ACTIVITIES	
Change in long- and short-term liabilities	(2,918)
Net cash flow from financing activities	(2,918)
Net increase/(decrease) in cash and cash equivalents	(50,256)
Cash and cash equivalents at the beginning of the year	-
Cash and cash equivalents at the end of the year	(50,256)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**Period of 8 months ended 31 December 2007**

(CZK'000)

	Share capital	Retained earnings	Total
As at 1 May 2007	16,105,720	(2,655,011)	13,450,709
Decrease of share capital (redemption of retained loss)	(2,655,011)	2,655,011	-
Net profit/(loss) for the current period	-	1,040,241	1,040,241
As at 31 December 2007	13,450,709	1,040,241	14,490,950

4.2 Notes to Financial Statements

Period of 8 months ended 31 December 2007

1 General Information

RWE Gas Storage, s.r.o. ("the Company"), was incorporated on 1 May 2007 in Commercial Register and has its registered office at Prague 10–Strašnice, V Olšinách 75/2300, Czech Republic. The main business activity is gas storage. Identification number of the Company is 278 92 077.

The registered office until December 2007 was at Praha 10–Strašnice, Limuzská 12/3135, Czech Republic. This change was incorporated into the Commercial Register with the effect from 13 December 2007.

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

The Company was incorporated and share capital was established by a non-cash contribution of a part of the sole shareholder business as further described in Note 2.

The Statutory representatives as at 31 December 2007 were as follows:

	Position	Date of appointment
Lubor Veleba	Statutory representative	1 May 2007
Andreas Frohwein	Statutory representative	19 May 2007

Mr Ivan Cestr was registered as statutory representatives in the Commercial Register on 1 May 2007, and his appointment ceased on 18 May 2007.

The members of the Supervisory Board as at 31 December 2007 were as follows:

	Position	Date of appointment
Dr Werner Roos	Chairman	5 September 2007 (appointed as a member on 21 June 2007)
Martin Herrmann	Vice-Chairman	5 September 2007 (appointed as a member on 21 June 2007)
Šárka Vojíková	Member	21 June 2007
Tomáš Čumpelík	Member	21 June 2007
Andreas Böwing	Member	21 June 2007
Dr Frank-Detlef Drake	Member	21 June 2007

The Company is organized as follows: The general meeting of associates is the supreme body of the Company. Statutory representatives are the body governing the Company's activities and acting on its behalf. The Supervisory Board is the controlling body of the Company and was established on 21 June 2007.

2 Contribution of Part of the Business

RWE Transgas, a.s., the sole shareholder of the Company, carved out part of its business activity related to the underground gas storage operations on 1 May 2007. The Company took over the role of the gas storage operator from its sole shareholder on 1 May 2007.

Share capital of the Company in the amount of CZK 16,105,720 thousand represents non-cash contribution of part of the business of the sole shareholder of the Company. This contribution was valued using independent appraiser valuation number 2006/35/13 by applying this revaluation to individual items of assets and liabilities.

Fixed assets and inventory contributed to the Company are recorded at replacement costs in the balance sheet as at the date of the contribution. The date of contribution is the same as the date of the Company establishment. The Company used valuation of the independent appraiser for determination of the replacement cost.

Other assets and liabilities contributed to the Company are recorded in the balance sheet as at the date of the contribution in their carrying amount. This amount is based on the accounting records of the sole shareholder as at 30 April 2007. Carrying amount of these items approximates their fair value.

Deferred tax liability contributed to the Company was not reflected in the independent appraiser valuation and it was subsequently calculated as a difference between fair value of contributed assets and liabilities and their tax value. Deferred tax liability initially recorded was netted against the accumulated losses.

The following assets and liabilities were contributed on 1 May 2007:

	Contribution of part of the business CZK'000	
	Fair value	Historical cost (net)
Research & development	24,677	24,444
Software	7,746	3,666
Other intangible fixed assets – emission rights	50	50
Intangible assets in the course of construction	605	605
Intangible fixed assets	33,078	28,765
Land	83,842	26,230
Buildings, halls and constructions	15,834,415	6,004,688
Equipment	1,108,986	698,911
Tangible assets in the course of construction	20,515	20,515
Tangible fixed assets	17,047,758	6,750,344
Fixed assets	17,080,836	6,779,109
Inventories	18	-
Short term receivables	37,224	37,224
Current assets	37,242	37,224
TOTAL ASSETS	17,118,078	6,816,333

	Contribution of part of the business CZK'000	
	Fair value	Historical cost (net)
Tax deductible provisions	176,418	176,418
Trade payables	5,115	5,115
Deferred tax liability	2,655,011	182,596
Long-term liabilities	2,836,544	364,129
Trade payables	4,481	4,481
Liabilities to shareholders	826,294	826,294
Taxes and state subsidies payable	50	50
Short-term liabilities	830,825	830,825
LIABILITIES	3,667,369	1,194,954
NET VALUE OF CONTRIBUTION	13,450,709	5,621,379

Net value of the contribution is lower in comparison to the independent appraiser's value due to the recognition of deferred tax liability in the amount CZK 2,655,011 thousand.

3 Accounting Policies

a) Basis of preparation. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic and Czech Accounting Standards. The financial statements have been prepared under the historical cost convention except as described further.

b) Intangible fixed assets. Purchased intangible fixed assets are recorded at cost. All research costs are expensed. Development costs are capitalised as intangible assets and are recorded at the cost. All other development costs are expensed as incurred.

Intangible fixed assets are amortised applying the straight-line method over their estimated useful lives. The Company applies amortization period of 4 years (unless the agreement or licence conditions state shorter or longer period).

A provision for impairment is established when the carrying value of an asset is greater than its estimated recoverable amount.

Intangible assets, with a useful life longer than one year and a unit cost of less than CZK 60 thousand, are expensed upon consumption and are kept in off-balance sheet evidence until the end of their use.

Subsequent expenditure on intangible assets exceeding CZK 60 thousand per year is capitalized.

Emission rights are held under the "Other intangible fixed assets". Emission rights allocated by the National Allocation Plan free of charge to the Company are held under the "Other intangible fixed assets" and also under the "Taxes and state subsidies payable" when entered to the Register of emission rights in the Czech Republic. Emission rights allocated are recorded at replacement cost.

Consumption of emission rights is recorded at the date of preparation of financial statement on the basis of estimate of actual CO₂ emissions in the period to "Other operating charges". The weighted average method is applied by the Company to account for disposals of the emission rights. Sales of emission rights are accounted for within the accounts of other operational revenue and are stated at selling prices. In case of shortage of emission rights at year end a provision is established for expected consumption in the following year.

A provision is established when the book value of emission rights exceeds their estimated recoverable amount.

c) *Tangible fixed assets.* Acquired tangible fixed assets are recorded at cost, which include costs incurred in bringing the assets to their present location and condition.

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

Buildings and constructions	45–60 years
Plant, machinery and equipment	4–30 years
Furniture and fittings	4–8 years
Motor vehicles	4–8 years

The Company applies different depreciation rates for accounting and tax purposes.

Repairs and maintenance expenditures relating to tangible assets are expensed as incurred. Subsequent expenditure relating to tangible fixed assets exceeding CZK 40 thousand per year is capitalized.

Tangible assets, with a useful life longer than one year and a unit cost higher than CZK 10 thousand but lower than CZK 40 thousand are depreciated using the straight-line method over their estimated useful life.

A provision for impairment is established when the carrying value of an asset is greater than its estimated recoverable amount.

d) Inventories. Inventories are stated at the lower of cost and net realizable amount. The cost includes the appropriate overheads incurred to bring the inventory to its present condition and location (mainly transport, customs duty, etc.). The weighted average cost method is applied for all disposals.

e) Receivables. Receivables are stated at the nominal value less a provision for doubtful amounts. A provision for bad debts is established on the basis of an aging analysis and individual evaluation of the recoverability of the receivables. A provision is not established for doubtful amounts from related parties.

f) Cash and cash equivalents. The Company has prepared a cash-flow statement following the indirect method. 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, long-term deposits with a termination term of less than 3 months.

The Company uses so-called Cash-pooling within the group. A receivable (liability) that arises from Cash-pooling is presented in the Cash Flow statement as a part of the item Cash and Cash equivalents.

g) Foreign currency translation. Transactions denominated in a foreign currency are translated and recorded at the fixed exchange rate determined for the month period at the first day of the period.

All monetary assets and liabilities denominated in foreign currencies have been translated at the year-end exchange rate as published by the Czech National Bank. All foreign exchange gains and losses on monetary assets, receivables and liabilities are recorded in the income statement.

h) Expense and revenue recognition. Expenses and revenues are recognized in the period to which they relate.

The Company recognizes as revenue all income from fees collected for the rent of storage capacity. Cost of sales includes mainly the cost of operating and maintenance of storage capacity.

i) Provisions. Provisions are recognised when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are also created for the cost of repairs of fixed assets in accordance with the Act on Reserves, and provisions for the cost of land recultivation, which is created in order to provide for future expenses related to the removal of land contamination resulting from operational activities, in accordance with the Act on Mining. Provisions are created in the amount of the expected outflow in current terms and their amounts are reviewed and updated on a regular basis.

j) Pension and life plans. The Company provides contribution for pension and life insurance to its employees which is recognized as an expense. Further regular contributions are made to the state to fund the national pension plan.

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

l) 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 subsidiaries and associates of these shareholders;
- members of the 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.

Material transactions and outstanding balances with related parties are disclosed in Notes 13 and 14.

m) Equity. The statutory reserve fund may be only used to cover potential losses of the Company. The Company is required by its Articles of Association and by the Commercial law to transfer 10% of net profit in the first year and 5% of its annual net profits in the following years to the statutory reserve fund until the balance of this reserve reaches 10% of the share capital.

n) 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 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.

4 Intangible Fixed Assets

Cost

	1 May 2007 CZK'000	Additions CZK'000	Transfers CZK'000	Disposals CZK'000	31 December 2007 CZK'000
Research & development	24,677	-	3,762	-	28,439
Software	7,746	-	908	-	8,654
Intangible assets in the course of construction	605	4,557	(4,670)	-	492
Emission rights	50	-	-	(29)	21
Total	33,078	4,557	-	(29)	37,606

Cost of intangible fixed assets as at 1 May 2007 represents contribution of part of the business by the shareholder at this date. The contribution is recorded at fair value and is described in Note 2 – Contribution of part of the business.

The Company did not purchase any emission rights in 2007.

Accumulated depreciation and net book value

	1 May 2007 CZK'000	Additions CZK'000	31 December 2007 CZK'000
Research & development	-	(2,161)	(2,161)
Software	-	(1,500)	(1,500)
Total	-	(3,661)	(3,661)
Net book value	33,078		33,945

5 Tangible Fixed Assets

Cost

	1 May 2007 CZK'000	Additions CZK'000	Transfers CZK'000	Disposals CZK'000	31 December 2007 CZK'000
Land	83,842	-	801	-	84,643
Buildings, halls and constructions	15,834,415	-	18,177	(759)	15,851,833
Equipment	1,108,986	-	52,710	-	1,161,696
Tangible assets in the course of construction	20,515	139,567	(71,688)	-	88,394
Total	17,047,758	139,567	-	(759)	17,186,566

Cost of tangible fixed assets as at 1 May 2007 represents the contribution of part of the business by the shareholder at this date. The contribution is recorded at fair value and it is described in Note 2 - Contribution of part of the business.

Accumulated depreciation and net book value

	1 May 2007 CZK'000	Additions CZK'000	Disposals CZK'000	31 December 2007 CZK'000
Buildings, halls and constructions	-	(319,663)	-	(319,663)
Equipment	-	(77,268)	759	(76,509)
Total	-	(396,931)	759	(396,172)
Net book value	17,047,758			16,790,394

6 Inventories

As at 1 May 2007 inventories in the amount of CZK 18 thousand were included in the contribution of part of the business (Note 2 - Contribution of part of the business).

As at 31 December 2007 the Company had no inventories.

7 Receivables

		31 December 2007 CZK'000	Contribution of part of the business 1 May 2007 CZK'000
Trade receivables	- current	246,626	-
	- overdue	177	-
		246,803	-
Advances paid		498,706	-
Other receivables	- current	17,635	37,224
Net total short-term receivables		763,144	37,224
Net total receivables		763,144	37,224

Outstanding receivables have not been secured.

Trade receivables as at 31 December 2007 include mainly receivable from RWE Transgas, a.s. for sale of underground gas storage capacity in the amount of CZK 243,305 thousand.

Advances paid as at 31 December 2007 include mainly advances to RWE Transgas Net, s.r.o. for operating and maintenance of underground gas storages in the amount of CZK 498,470 thousand.

Provision for doubtful receivables was nil as at 31 December 2007.

8 Equity

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

9 Provisions

	Tax-deductible provisions CZK'000	Other provisions CZK'000	Total CZK'000
Opening balance as at 1 May 2007	176,418	-	176,418
Charge for the year	50,049	98	50,147
Used in the year	(50,500)	-	(50,500)
Closing balance as at 31 December 2007	175,967	98	176,065

The Company has created tax-deductible provision for repairs of tangible fixed assets in the amount of CZK 38,250 thousand (1 May 2007: CZK 50,500 thousand) and tax-deductible provision for the cost of land reclamation in amount of CZK 137,717 thousand (1 May 2007: CZK 125,918 thousand). This provision is created in accordance with the Act of mining to provide future expenses for removal of the land contamination resulting from the operational activities.

As at 31 December 2007 tax advance payments in the amount of CZK 190,466 thousand was decreased by income tax provision in the amount of CZK 187,372 thousand and classified as Current assets – Taxes and state subsidies receivable.

For the analysis of the income and deferred tax, see Note 11.

10 Liabilities

	31 December 2007 CZK'000	Contribution of part of the business 1 May 2007 CZK'000
Trade payables - current	112,848	4,481
Liabilities to shareholders/owners - current	-	826,294
Intragroup liabilities	65,000	-
Anticipated liabilities	489,296	-
Other payables - current	3,186	50
Total short-term liabilities	670,330	830,825
Trade payables	2,197	5,115
Deferred tax liability	2,079,574	2,655,011
Total long-term liabilities	2,081,771	2,660,126
Total short- and long-term liabilities	2,752,101	3,490,951

Liabilities to shareholders/owners in the amount of CZK 826,294 thousand as at 1 May 2007 represents difference between fair value of non-cash contribution of part of the business to the share capital of the Company as at 1 May 2007, stated based on Report of independent appraiser as at 31 August 2006 and updated valuation of non-cash contribution based on parameters and assumptions valid as at 30 April 2007. The Company agreed with the sole shareholder to settle their mutual rights and obligations in the way that the cost of the non-cash contribution to share capital of the Company will equal to the fair value of non-cash contribution stated based on parameters and assumptions valid as at 31 August 2006. The amount of CZK 826,294 thousand was paid to the sole shareholder in 2007.

Anticipated liabilities as at 31 December 2007 include mainly accrual for operation and maintenance of underground gas storages performed by RWE Transgas Net, s.r.o. in the amount of CZK 475,180 thousand.

The company had no overdue liabilities as at 31 December 2007.

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

11 Income Tax

The income tax expense consists of the following:

	31 December 2007 CZK'000
Current tax expense	187,372
Deferred tax expense	(575,437)
Total	(388,065)

Current tax can be analysed as follows:

	Period from 1 May until 31 December 2007 CZK'000
Net profit before taxation	652,176
Non-taxable revenues	(453)
Difference between accounting and tax depreciation	127,810
Non-deductible costs	1,184
Net taxable profit	780,717
Income tax rate	24%
Corporate taxation at 24%	187,372

The deferred tax liability is calculated at 21% (the rate enacted for 2008), 20% (the rate enacted for 2009) and 19% (the rate enacted for 2010) depending on the period when temporary difference is expected to crystallise. Deferred tax liability can be analysed as follows:

	31 December 2007 CZK'000	Contribution of part of the business 1 May 2007 CZK'000
Deferred tax liability:		
Difference between carrying value accounting and tax base of fixed assets	(2,079,574)	(2,655,011)

As at 1 May deferred tax liability in the amount of CZK 2,655,011 thousand was calculated as difference between fair value of the assets and their tax base (determined based on their original cost).

Change in income tax rates in year 2007 was performed based on Income tax law amendment. Effect of changed income tax rates of CZK 541,796 thousand has been charged to the Income statement.

12 Revenue Analysis

Sales of own products and services have been generated as follows:

	Period from 1 May until 31 December 2007 CZK'000
Sale of storage capacity - domestic	1,685,265
Other	1,201
Total	1,659,466

13 Employee Analysis

Employee numbers	Period from 1 May until 31 December 2007 CZK'000
Average number of employees who are members of management	1
Average number of other members of management	1
Average number of other staff	8
Total	10

No employee of the Company was a member of Supervisory Board during the period ended on 31 December 2007.

As a part of the business contribution at 1 May 2007, 7 employees of the Company's shareholder were transferred to the Company and another employees were recruited. All legal and labour rights and obligations to transferred employees were passed to the Company.

Management includes Statutory representatives.

Period from 1 May until 31 December 2007	Management CZK'000	Other staff CZK'000	Total CZK'000
Wages and salaries	1,624	4,922	6,546
Social security costs	569	1,738	2,307
Other social costs	18	226	244
Bonuses to the members of statutory bodies	140	-	140
Total	2,351	6,886	9,237

Other transactions with the Company's employees are described in Note 14 – Related party transactions.

14 Related Party Transactions

Profit transfer agreement was concluded with RWE Transgas, a.s. on 14 November 2007. Based on this agreement the Company is committed to transfer its annual profit after contribution to statutory reserve fund to its shareholder. The shareholder is required to settle a loss of the Company that could not be settled from the statutory reserve fund or other Company's available funds.

The Company was involved in the following related party transactions:

Purchases	Period from 1 May until 31 December 2007 CZK'000
RWE Transgas, a.s. (services, gas)	44,478
RWE Transgas Net, s.r.o. (services)	477,332
Other	10,045
Total purchases	531,855

Sales to RWE Transgas, a.s.	Period from 1 May until 31 December 2007 CZK'000
Storage capacity	1,635,270
Interests	7,894
Total sales	1,643,164

Other sales	Period from 1 May until 31 December 2007 CZK'000
Other	1,203
Total other sales	1,203

All transactions were realized on arm's length basis.

The following related party balances were outstanding at:

Receivables	31 December 2007 CZK'000	Contribution of part of the business 1 May 2007 CZK'000
Trade receivables:		
RWE Transgas, a.s.	243,305	-
Total trade receivables	243,305	-
Advances paid:		
RWE Transgas Net, s.r.o.	498,470	-
Other	180	-
Total advances paid	498,650	-
Other receivables:		
RWE Transgas, a.s.	-	37,224
Other	8	-
Total other receivables	8	37,224
Loans receivable:		
RWE Transgas, a.s.	14,512	-
Total loans receivable	14,512	-
TOTAL RECEIVABLES	756,475	37,224

Payables	31 December 2007 CZK'000	Contribution of part of the business 1 May 2007 CZK'000
Trade payables:		
RWE Transgas, a.s.	44,488	-
RWE Plynoprojekt, a.s.	6,134	1,704
Others	3,269	-
Total trade payables	53,891	1,704
Liabilities to sole shareholder:		
RWE Transgas, a.s.	-	826,294
Total liabilities to sole shareholder	-	826,294
Unbilled anticipated payables:		
RWE Transgas Net, s.r.o.	475,180	-
Other	450	-
Total unbilled anticipated payables	475,630	-
Loans received:		
RWE Transgas, a.s.	65,000	-
Total loans received	65,000	-
TOTAL PAYABLES	594,521	827,998

The loans receivable and payable bear interest at market interest rates. Trade receivables and payables arose under the same terms and conditions as with unrelated parties. Receivables from related parties are not provided for.

Company cars are made available for use by management in total acquisition costs of CZK 3,659 thousand.

The Company provides foreign members of management with accommodation, in 2007 rent totalled CZK 543 thousand.

Share option bonus plan has been provided to the management, in 2007 provision for this plan was created in the amount of CZK 98 thousand.

Total remuneration for members of the Supervisory Board was CZK 140 thousand.

Besides the above disclosed remuneration and benefits, there was no other cash or non-cash consideration provided in 2007 to the Company's shareholder, members of the Company boards and management.

15 Commitments

Capital commitments contracted by the Company as at 31 December 2007 were at total amount of CZK 34,020 thousand.

16 Contingent liabilities

The management of the Company is not aware of any significant unrecorded contingent liabilities as at 31 December 2007.

17 Subsequent Events

No events have occurred subsequent to the year-end that would have a material impact on the financial statements as at 31 December 2007.

18 Cash Flow Statement

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

	31 December 2007 CZK'000
Cash on hand and in transit	232
Cash in bank	37,595
Restricted cash in bank	(37,595)
Liability arising from Cash-pooling	(50,488)
Cash and cash equivalents	(50,256)

Statutory approvals

These financial statements have been approved for submission to the general meeting by the Company's statutory representatives:

13 February 2008



Andreas Frohwein
Statutory representative



Lubor Veleba
Statutory representative

Translation note

This version of the accompanying documents is a translation from the original, which was prepared in 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 original language version of our report takes precedence over this translation

5 Independent Auditor's Report

5.1 Auditor's Report on the Financial Statements



ENGLISH TRANSLATION

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF RWE GAS STORAGE, S.R.O.

PricewaterhouseCoopers Audit, s.r.o.
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120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
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We have audited the accompanying financial statements of RWE Gas Storage, s.r.o. ("the Company"), which comprise the balance sheet as at 31 December 2007, the income statement, statement of changes in equity and cash flow statement for period of 8 months then ended and notes, including a summary of significant accounting policies ("the financial statements"). Details of the Company are disclosed in note 1 to these financial statements.

Statutory Directors' Responsibility for the Financial Statements

The Statutory Directors are responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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Shareholder of RWE Gas Storage, s.r.o.

Independent auditor's report

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2007, its financial performance and its cash flows for period of 8 months then ended in accordance with Czech accounting legislation.

13 February 2008

PricewaterhouseCoopers Audit, s.r.o.

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

Petr Šobotník
Auditor, Licence No. 113

Translation note

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

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



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ENGLISH TRANSLATION

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF RWE GAS STORAGE, S.R.O.

Report on the Annual Report

We have audited the annual report of RWE Gas Storage, s.r.o. ("the Company") for consistency with the financial statements for the year ended 31 December 2007 which are included in this Annual Report on pages 19–39. The Statutory Directors are responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit 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 the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company for the year ended 31 December 2007 is consistent, in all material respects, with the financial statements referred to above.

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

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Shareholder of RWE Gas Storage, s.r.o.

Independent auditor's report

Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2007 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Directors of the Company. Our responsibility is to review the accuracy of information included in the Report.

We conducted our review in accordance with the International Standard on Review Engagements 2400 and related application guidance of the Chamber of Auditors of the Czech Republic for review of the report on relations. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

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.

17 March 2008

PricewaterhouseCoopers Audit, s.r.o.

represented by Partner

Petr Šobotník

Auditor, Licence No. 113

Translation note

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

6 Report of RWE Gas Storage, s.r.o. on Relations between Related Parties as at 31 December 2007

Since RWE Gas Storage, s.r.o. (hereinafter “the Company”) as a controlled person did not enter into any controlling agreement effective in 2007, the Company has, under Section 66a, subsection 9 of Act No. 513/1991, the Commercial Code, as amended, drawn up this Report on Relations between the Company and Controlling Persons and between the Company and Other Persons Controlled by the Same Controlling Persons (hereinafter “Related Parties”) for 2007, to the extent these Related Parties are known to the Company. This Report is an integral part of the Company’s Annual Report for 2007 and the Company’s members will have this Report available by the same time and under the same conditions as the annual financial statements.

1 Controlling persons

Throughout the past accounting period the Company was controlled by the following persons:

a) Directly

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

b) Indirectly

- RWE Gas International B.V., registered office at Diamantlaan 15, 2132 WV Hoofddorp, the Netherlands, which was the sole shareholder of RWE Transgas a.s.;
- RWE Energy Aktiengesellschaft (hereinafter “RWE Energy AG”), registered office at Rheinlanddamm 24, 44139 Dortmund, Germany, which was the sole member of RWE Gas International B.V.; and
- RWE Aktiengesellschaft (hereinafter “RWE AG”), registered office at Opernplatz 1, 45128 Essen, Germany, which was the sole shareholder of RWE Energy AG.

2 Other Related Parties

The Company requested the above controlling persons to provide a list of the other persons that were controlled by the same controlling persons in the past accounting period. The Company has drawn up this Report on the basis of the information provided by the controlling persons and other information available to it. The scheme of the relations between and control of companies along the relevant line within the RWE Group as at 31 December 2007 can be found on the third cover page of this report.

3 Agreements executed between the Company and Related Parties and performance provided and accepted

The Company and Related Parties executed agreements specified in Appendix 1 in the past accounting period. The agreements were executed under arm's length terms and conditions, and the performance and payments under these agreements, and also agreements entered into in previous accounting periods, reflect customary business relations. For this reason, no damage has been caused to the Company by performing under these agreements. There was therefore no need to secure any compensation for damage or enter into any agreements thereon. The values of the performance and payments between Related Parties in the relevant accounting period are shown in Note 14 of the Notes to the financial statements as at 31 December 2007.

4 Other legal acts made in the interest of Related Parties

In the last accounting period the Company entered into an agreement on profit transfer with its parent company, RWE Transgas, a.s.; the agreement is listed in Appendix 1.

5 Measures adopted in the interest or upon suggestion of Related Parties

The Company did not adopt or carry out any measures in the interest or upon suggestion of Related Parties in the past accounting period.

6 Non-existence of damage

In the past accounting period the Company did not suffer any damage caused by agreements in place with Related Parties, or other legal acts made in the interest of Related Parties or measures carried out in the interest or upon suggestion of Related Parties, which had been executed or adopted before the past accounting period.

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7 Confidentiality

This Report does not disclose any information that is subject to the Company's trade secret.

8 Conclusion

This Report was drawn up and approved by the Directors of the Company on 15 February 2008 and it has been presented for review to the Company's auditor, who reviews the financial statements under a separate law.

At Prague, on 15 February 2008

Directors of RWE Gas Storage, s.r.o.



Andreas Frohwein
Director, CEO



Lubor Veleba
Director, CCO

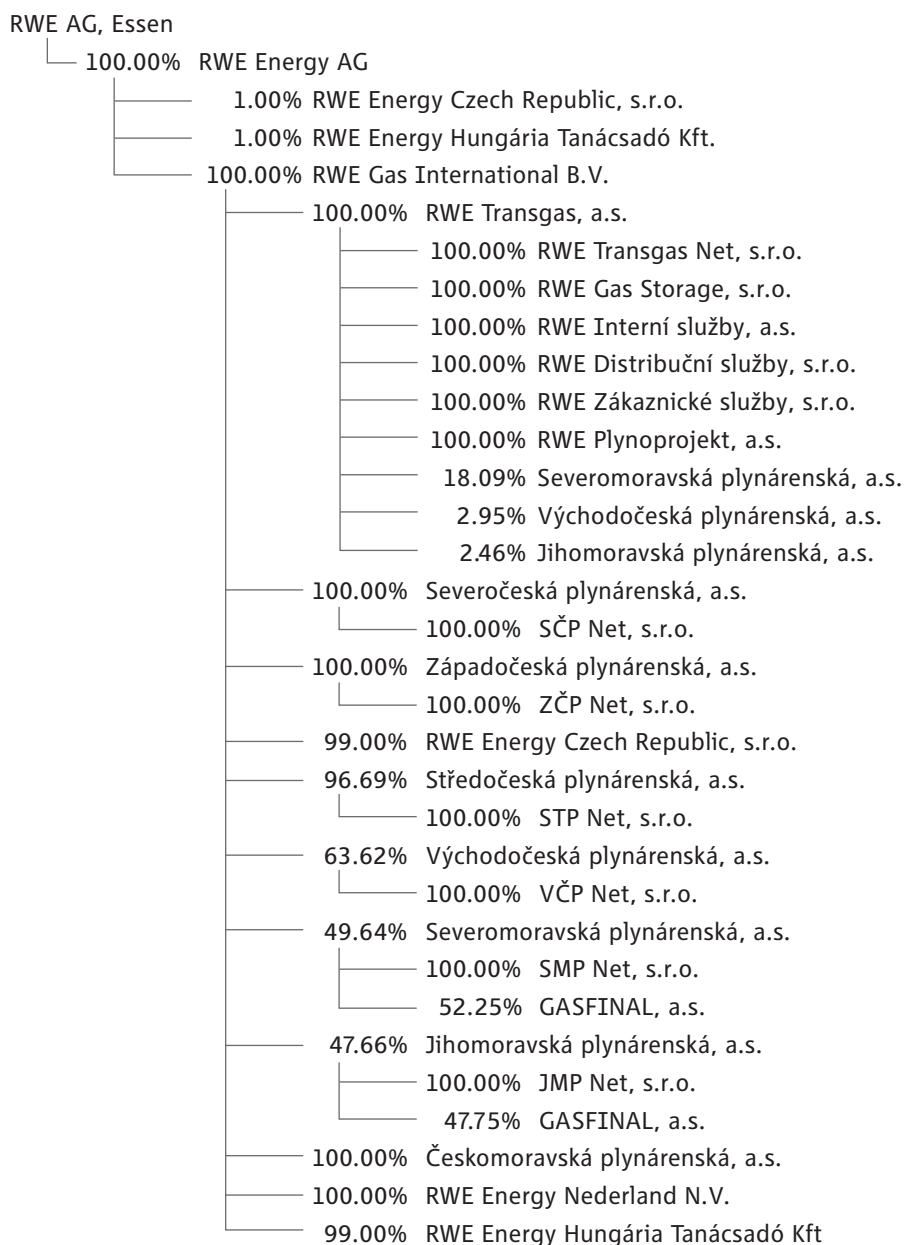
Appendix 1

Contracting party	Type of agreement / Purpose of agreement	Number of agreements
RWE Transgas, a.s.	Vehicle lease agreement	4
	Agreement on the assignment of rights and obligations	1
	Agreement on the contribution of a part of business	1
	Agreement on financial settlement for the contribution of a part of RWE Transgas business to RWE Gas Storage registered capital	1
	Agreement on personnel management service provision	1
	Agreement on translation and interpreting service provision	1
	Agreement on the transfer of PÚ Dolní Dunajovice II	1
	Gas purchase agreement	1
	Agreement on accounting service provision	1
	Addendum 1 to the loan agreement	1
	Loan agreement	1
	Agreement on tax administration service provision	1
	Agreement on commercial space lease and service provision	1
	Agreement on catering service provision	1
	Agency agreement on advisory service procurement	1
	Agreement on profit transfer	1
	Storage agreement	3
	Addendum 1 to the storage agreement	2
	Cash Pooling agreement	1
	Addendum 2 to the Cash Pooling agreement	1
	Agreement of controlling service provision	1
RWE Systems Consulting GmbH	Process development and interface management	1
RWE Energy AG	Agreement on dispatch control service provision	1
RWE Transgas Net, s.r.o.	Agreement on the connection of the transmission system and UGS facilities	1
	Agreement on the operation, maintenance and development of the storage system	1
	Agreement on the provision of the Compliance Officer service	1
	Agreement on dispatch control service provision	1
	Agreement on investment engineering services	1
RWE Plynoprojekt, a.s.	Contract for work	20
	Addendum 1 to the contract for work	1
RWE Interní služby, a.s.	Agreement on information technologies	1
	Addendum 1 to the agreement on the provision of procurement and logistics services	1
	Purchase orders	16
	Agreement on the provision of procurement and logistics services	1
	Contract for work, "Prague – agreement on structured cabling"	1

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Notes

Scheme of the relations between and control of companies along the relevant line within the RWE Group as at 31 December 2007



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