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ANNUAL REPORT 2011

RWE GAS STORAGE



Key Figures

	2011
Total sales (CZK m)	4,050
EBITDA (CZK m)	2,975
Operating result (CZK m)	2,375
Profit before taxation (CZK m)	2,386
Profit after taxation (CZK m)	1,930
Investments (CZK m)	1,070
Number of employees (FTE)	222

Wherever used in the text, the term Company or RWE Gas Storage refers to RWE Gas Storage, s.r.o.

Abbreviations

a.s.	Public limited company
AG	Aktiengesellschaft (public limited company)
BCM	Business Continuity Management
OHS	Occupational Health and Safety
EU	European Union
FTE	Full-Time Equivalents
GGPSSO	Guidelines for Good Third Party Access Practice for Storage System Operators
HAZOP	Hazard and Operability Study
HR	Human resources
FP	Fire protection
UGS	Underground gas storage
s.r.o.	Limited liability company

In all matters of interpretation of information, views or opinions, the Czech version of the annual report takes precedence over the English version.



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PRESENTATION PART

1 STATEMENT OF THE MANAGING DIRECTORS

Dear Ladies and Gentlemen,

2011 was a year of record-high revenues and outstanding operating and net earnings for RWE Gas Storage. Unlike in the previous year, our Company was not affected by floods or other extraordinary events. However, we had to tackle far-reaching changes on the energy market which have had a direct impact on our activities and continue to affect our business.

The most negative factor for us is the lasting low spreads between the price of natural gas in the summer and winter periods, which reduces demand for storage capacity and its attractiveness. As a result, the storage prices achieved in recent auctions were considerably lower than in prior year. The recent slight growth of spreads may indicate the beginning of a favorable trend, but prices continue to be far below their levels before 2010.

The Company is preparing for new conditions in the changing marketplace by seeking cost savings and increasing efficiency. This initiative, implemented under the FIT program, focuses on reducing operating and supply costs and finding additional revenues.

Despite the current complex situation on the market, we have increased storage capacity sales by 2% compared to 2010 and sold all firm storage capacity for the years 2012 and 2013.

As part of investment projects subsidized under the European Energy Program for Recovery, we have successfully completed most of the work necessary for expanding the storage capacity at UGS Třanovice. As a result, the capacity of Třanovice will more than double next year. We have finished the first stage of a project aimed at expanding UGS Tvrdonice where a portion of the new storage capacity has been already put into operation. We passed successfully an audit by the European Commission which verified the entitlement to claim the subsidy.

The Company continued to perform extensive underground well repairs and installations of subsurface safety valves at our facilities in Štramberk, Tvrdonice, Třanovice, Lobodice, and Dolní Dunajovice. A total of 36 wells was repaired overall.

In 2011, the Czech Republic implemented the EU's 3rd Energy Package by amending the Energy Act, where the most important new requirements include the ownership unbundling of underground gas storage operators from gas traders and ensuring non-discriminatory third-party access to storage capacity. Our Company meets the requirements set out in the amendment. RWE Gas Storage continues to be an active member of Gas Infrastructure Europe, an association of European gas infrastructure operators, where we are represented on the organization's board in appreciation of our active involvement.

Throughout the year 2011, RWE Gas Storage was meeting all obligations to its customers and providing comprehensive and reliable gas storage services, for which a big thanks goes to our employees. Also worth mentioning is the fact that there were no work accidents in the reported year. We thank all our employees and partners for their efforts in 2011 and, at the same time, take this opportunity to ask them to help us fulfill the ambitious goals the Company has set for 2012.



Andreas Frohwein
Managing Director, CEO



Lubor Veleba
Managing Director, CCO

Managing Directors as at 31 December 2011

Andreas Frohwein

Managing Director, CEO

Date of birth:

12 December 1966

Education:

Universität Gesamthochschule Essen;

Technische Hochschule Aachen

Membership in the bodies of other companies:

Managing Director – RWE Gasspeicher GmbH

Other business activities:

None



Lubor Veleba

Managing Director, CCO

Date of birth:

7 May 1969

Education:

Brno Technical University;

Cass Business School, London

Membership in the bodies of other companies:

None

Other business activities:

None



2 REPORT OF THE SUPERVISORY BOARD FOR 2011

The Supervisory Board continuously monitored the Company's business activities, its results and the Managing Directors' performance of their powers and responsibilities in the past period. In 2011 the Supervisory Board held two ordinary meetings and had a quorum at all times. At its meetings the Supervisory Board discussed all matters for which it is responsible under the relevant legal regulations, the Company's Memorandum of Association, and the decisions adopted by the sole Member of the Company acting in the capacity of the General Meeting, including the documents that the Supervisory Board requested from the Managing Directors as part of its supervisory activity. Managing Directors commented on these documents when they were discussed by the Supervisory Board.

In performing its supervisory activity the Supervisory Board did not find anything inconsistent with generally applicable legal regulations, the Company's Memorandum of Association, or the decisions of the sole Member of the Company acting in the capacity of the General Meeting.

On 6 March 2012, the Supervisory Board reviewed the Company's financial statements for the period ended on 31 December 2011, including the auditor's report and the Managing Directors' proposal for the distribution of profit, including the amount and the manner of profit distribution.

Concurring with the auditor the Supervisory Board concluded that the financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

The Supervisory Board recommends to the General Meeting to approve the annual financial statements for the period ended on 31 December 2011 and the Managing Directors' profit distribution proposal for 2011.

The Supervisory Board expresses its gratitude to all employees for their work performed for the Company in 2011.

Prague, on 6 March 2012



Martin Herrmann

Chairman, Supervisory Board

The Supervisory Board as at 31 December 2011

Martin Herrmann

Chairman of the Supervisory Board

Born:

3 July 1967

Education:

Westfälische Wilhelms-Universität, Münster, Economics

Membership of bodies of other companies:

Chairman of the RWE Transgas, a.s. Board of Directors; Managing Director of RWE East, s.r.o.;

Chairman of the Jihomoravská plynárenská, a.s., Severomoravská plynárenská, a.s.,

Východočeská plynárenská, a.s. and RWE Energie, a.s. Supervisory Boards;

Member of the NET4GAS, s.r.o., RWE Supply & Trading GmbH, Budapesti Elektromos Művek Nyrt.

and ÉMÁSZ Nyrt. Supervisory Boards

Any other business activities:

None

Thomas Rappuhn

Vice-Chairman of the Supervisory Board

Born:

28 December 1959

Education:

Technische Universität Clausthal, Petroleum Engineering

Membership of bodies of other companies:

Chairman of the RWE Dea AG Board of Directors

Any other business activities:

None

Dr Jürgen Gröner

Member of the Supervisory Board

Born:

4 January 1965

Education:

Universität Essen, Power Engineering, Doctorate in Power Engineering

Membership of bodies of other companies:

Member of the MITGAS Mitteldeutsche Gasversorgung GmbH, rhenag Rheinische Energie

Aktiengesellschaft and EVO Energieversorgung Oelde GmbH Supervisory Boards

Any other business activities:

None

Dr Wolfgang Peters

Member of the Supervisory Board

Born:

12 June 1953

Education:

University of Hamburg, Doctorate in Law;
Executive MBA, California State University Hayward

Membership of bodies of other companies:

Member of the RWE Transgas, a.s. Board of Directors

Any other business activities:

None

Dirk Simons

Member of the Supervisory Board

Born:

9 December 1966

Education:

Technische Hochschule Aachen, Economic Science

Membership of bodies of other companies:

Vice-Chairman of the RWE Transgas, a.s. Board of Directors

Any other business activities:

None

Šárka Vojíková

Member of the Supervisory Board

Born:

22 September 1967

Education:

Grammar school in Prague, a social law college in Prague

Membership of bodies of other companies:

Member of the RWE Transgas a.s. Supervisory Boards

Any other business activities:

None

3 MANAGEMENT REPORT FOR 2011

3.1 Results

Revenues, Expenses, Profit

In 2011, the Company recorded CZK 4,875 million in total operating income, including proceeds from the sale of fixed assets and other operating revenues, and CZK 2,500 million in total operating expenses, including taxes, fees, and other operating charges.¹ The Company's operating profit in 2011 amounted to CZK 2,375 million, a 44% increase on the year 2010. This difference was mainly due to the establishment of a provision for well repairs in 2010

The result from financial operations was a profit of CZK 11 million. Profit before taxation amounted to CZK 2,368 million.

Net profit after taxation for the accounting period totaled CZK 1,930 million.

Assets

As at 31 December 2011, the Company's assets totaled CZK 19,978 million. Fixed assets in the amount of CZK 16,817 million (CZK 16,656 million in tangible fixed assets and CZK 160 million in intangible fixed assets) accounted for approximately 84% of total assets.

Current and other assets in the amount of CZK 3,160 million made up some 16% of total assets of which receivables accounted for 95%.

Liabilities

Equity totaled CZK 15,705 million, amounting to roughly 79% of total liabilities.

Long-term liabilities (mainly deferred tax liability) and short-term payables accounted for 44% and 28% of liabilities, respectively.

In 2011, the Company received a total of CZK 202 million in subsidies from the European Commission under the European Energy Program for Recovery.

Investments

In the course of 2011, the Company carried out investment projects in accordance with the approved investment plan. We acquired assets with the total value of CZK 1,070 million.

¹ All figures are based on Czech accounting standards (CAS).

Investment activities conducted in the reported year focused on expanding the storage capacity of the Třanovice UGS, where CZK 856 million was invested. The project mainly consisted of reconstructing the facility's central complex and constructing a compressor building, where four new turbo compressors were installed. Ten new operating wells were drilled and connected to collection pipelines and the piping network of the Třanovice storage facility. Currently, the control system is being fine-tuned, tests are being completed, and finishing work is being done in the central complex.

As part of the Tvrdonice UGS expansion project executed in 2011, two wells were repaired, and modifications were performed in the central complex while the facility was shut down. Additional 15 million cubic meters of new storage capacity will be available next year. The Company has obtained all the necessary permits from the Czech Mining Office to build a new storage unit for a further enlargement of the Tvrdonice UGS.

The ongoing installation of subsurface safety valves in all operating wells continued in 2011 in accordance with the plan of repairs. Overall, 36 subsurface safety valves were installed in the storage facility's wells. At the Lobodice UGS, we launched an investment project consisting of the installation of a new compressor that will allow operating the facility in a more flexible manner. At the Háje UGS, we completed the first stage of an investment project aimed at improving the safety of storage wells and fitting them out in accordance with amendments to mining laws. At the Dolní Dunajovice UGS, we modified the compressor safety and surveillance system as well as components ensuring compressor safety.

All investment projects were executed in the Czech Republic and financed exclusively using the Company's own resources and the expansion of the Třanovice and Tvrdonice storage facilities was in part funded using subsidies provided by the European Commission under the European Energy Program for Recovery. Executed investment projects conformed to the planned use of the Company's virtual storage capacity and had no effect on services provided to customers.



Co-financed by the European Union

European Energy Programme for Recovery

3.2 Sale of Capacity

Offered Services, Storage Capacity, Customers

As in previous years, RWE Gas Storage offered its reliable services in a fully transparent and non-discriminatory manner to all customers throughout 2011. Due to the growing number of customers and their varied preferences and requirements, we further expanded the number of storage products and related services in the reported year; additional new services will be introduced in the following year.

The trend of low spreads between summer and winter gas prices continued in 2011, resulting in a considerable reduction of the prices achieved in all seven storage capacity auctions through which the Company offered close to a half billion cubic meters of storage capacity – including all the new storage capacity developed by expanding UGS Třanovice with a working gas volume of 290 million cubic meters. At the end of the third quarter, RWE Gas Storage organized a market survey (Open Season) to assess demand for additional storage capacity the result of which did not support the development of new storage capacity. The Company is therefore currently preparing a review of the project based on the survey's results, with a new Open Season with modified parameters planned for the beginning of 2012.

In the year under review, the Company registered an increase in demand for interruptible injection and withdrawal capacity. This capacity is offered to gas traders through our online portal with the possibility of making flexible day-ahead reservations. However, we continued to provide storage capacity mainly in the standard bundle of working gas volume and injection and withdrawal capacity together with cost-free services allowing clients to transfer and lease contracted capacity and gas between their respective agreements.

The Company continued to publish on a daily basis extensive operating data about its virtual storage that go beyond the requirements of the Gas Market Rules. In addition, we fine-tuned the nomination portal and increased its attractiveness to all customers by making its structure more transparent and by simplifying the user interface.

The Company's virtual storage capacity on 31 December 2011 totaled:

Working gas volume (million m ³)	2,601
Maximum injection volume (million m ³ /day)	29.9
Maximum withdrawal volume (million m ³ /day)	39.9

The Company currently has storage agreements with 16 clients that include both domestic and foreign customers, with the latter occasionally having to face administrative obstacles due to complex legislation.

Thanks to its active involvement in Gas Storage Europe, an association of storage operators from across Europe, the Company has actively participated in shaping European gas legislation, including an amendment to the voluntary GGPSSO issued by the Council of European Energy Regulators.

Regulatory Affairs

Third Energy Package

The year 2011 brought to a conclusion the process of transposing the EU's 3rd Energy Package (Directive No. 2009/73/EC on common regulations for the internal natural gas market and Regulation No. 715/2009 on conditions for access to natural gas transmission networks) by way of an extensive amendment to the Energy Act which mainly requires ownership unbundling of storage operators from gas traders. The Company complies with all requirements set out in the amendment.

Together with the implementation of the 3rd Energy Package in 2011, the Company introduced a Compliance Program with the aim of ensuring equal and non-discriminatory treatment of all gas market participants who use or intend to use the Company's services. A Compliance Officer has been appointed to oversee the implementation of the program and its fulfillment throughout the Company.

Amendment to the Gas Market Rules

In 2011, the government approved an amendment to the Gas Market Rules (Decree No. 365/2009). The amendment, which entered into force on 1 January 2012, relaxes the rules for storage capacity auctions and allows the Company to offer additional storage services, such as temporary working gas volume.

3.3 Underground Gas Storage Facilities

The Company operates six underground gas storage facilities: Dolní Dunajovice, Háje, Lobodice, Štramberk, Třanovice and Tvrdonice. Five of the six UGSs are located in Moravia, where gas is stored in natural geological structures that formerly contained primary deposits of natural gas and crude oil. The cavern UGS Háje is used to cover peak consumption of natural gas in the industrial centers of the Central Bohemian Region and in the City of Prague.

As regards the operation of its underground storage facilities, RWE Gas Storage provides services with a focus on efficiency, reliability, availability, flexibility and the maximum achievable level of operating safety. For this purpose, the Company continued to install subsurface safety valves in 2011. A total of 36 subsurface safety valves was installed in Dolní Dunajovice, Štramberk, Lobodice, Třanovice and Tvrdonice, and preparatory work was completed at UGS Háje for the installation of safety valves in 2012. Wells that underwent underground repairs, including the above-mentioned installation of subsurface safety valves, are compliant with the EN 1918 standard that defines requirements for the operating safety of wells.

In connection with the ongoing improvement of safety, security studies were carried out using the HAZOP methodology in all locations. The studies have resulted in numerous recommendations and measures of both technical and organizational nature, some of which were implemented by the end of 2011.

The RecipCOM system designed by Hoerbiger was successfully installed and put into operation at UGS Dolní Dunajovice, enabling online monitoring of compressors. The system provides valuable data for subsequent diagnostics of all technical components and contributes to the optimization of maintenance tasks. Currently, all the Company's piston compressors are fitted with this monitoring system.

A project involving the installation of an electric piston compressor at UGS Lobodice was approved in July 2011. This unit will ensure that natural gas injection into the facility will be independent of the pressure in the transmission system, thus increasing the flexibility of injection operations. By the end of 2011, we commissioned construction blueprints and signed a agreement for the delivery of a compressor in 2012.

During the reported year, the Company also expanded customer service and began offering dispatching services in the German language in addition to Czech and English.

3.4 Corporate Social Responsibility

Grant Program

The RWE Gas Storage grant program continued to work successfully for the fourth year. As in previous years, grants were disbursed in 2011 to the regions and municipalities in places where the Company conducts business. As part of the grant program, the Company offers municipalities assistance in improving the living conditions for citizens and recovering from natural disasters. Through assistance with regional focus, the Company aims at stimulating healthy growth in municipalities and contributing to the improvement of regional relations. By doing so, the Company proudly supports the idea of corporate social responsibility.

In 2011, we received 84 applications for financial assistance, with 27 projects selected in three rounds to which the Company allocated a total of CZK 4.9 million in grants. The selected projects included:

- Construction and renovation of playgrounds as well as school and sporting facilities in Třanovice, Dolní Věstonice, Český Těšín, Horní Domaslavice and Těrlicko
- Reconstruction and modernization of classrooms in kindergartens and elementary schools in Dolní Dunajovice, Rybí, Milín, Mikulov and Horní Věstonice
- Support for fire and rescue services
- Construction and renovation of cultural facilities, libraries, etc.

The Company will continue the grant program in 2012.

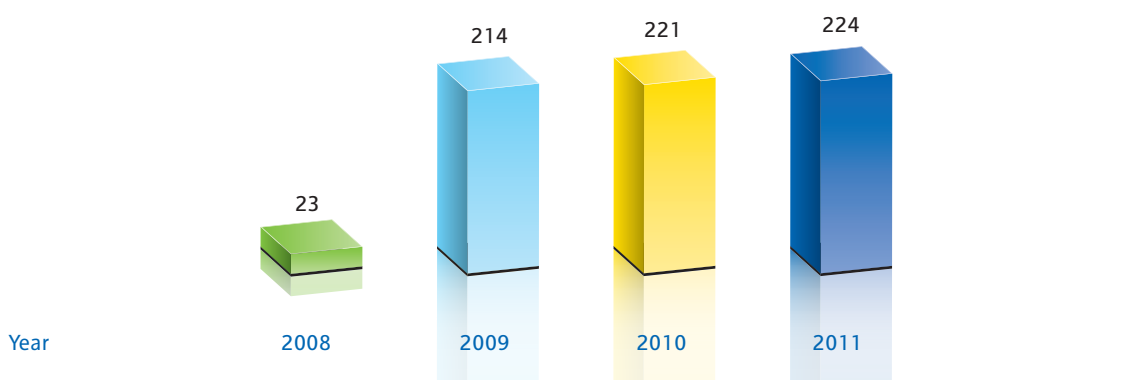
3.5 Human Resources

The streamlining of standards for the management of human resources (HR) within the RWE Group in the Czech Republic culminated in 2011 with a project which transformed HR-related processes and the organizational structure of human resources. From now on, RWE Transgas as the managing company will provide services to all RWE member companies in the Czech Republic from a single centralized HR department. The availability of HR services to all employees is guaranteed by such measures as the new HR Hotline, a contact point that handles all employee inquiries, and the digitization of numerous HR processes allowing access to data via the HR Portal.

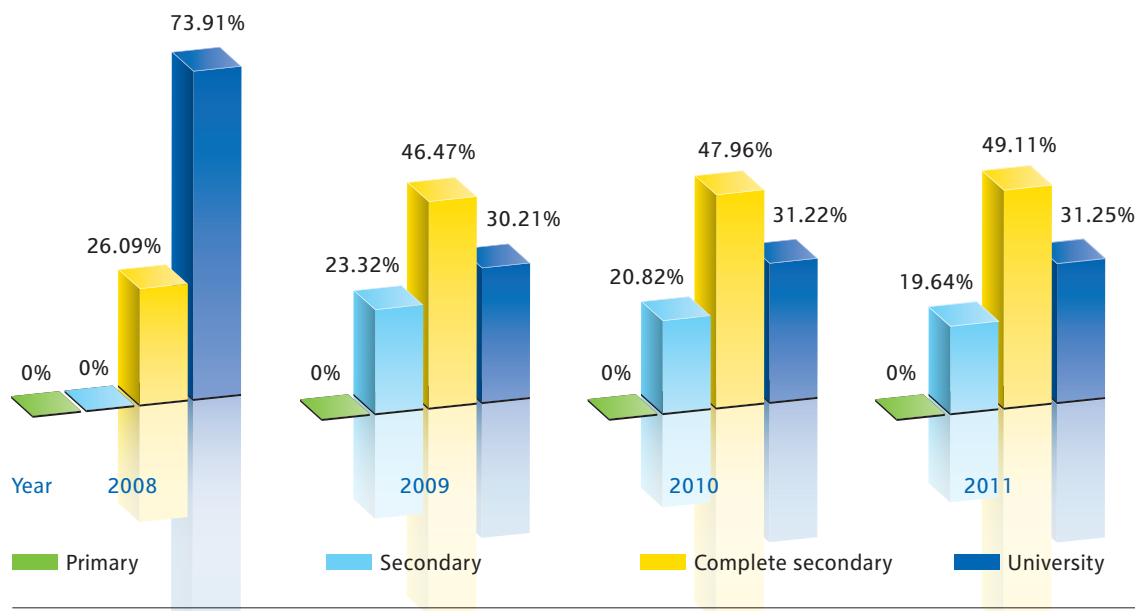
In 2011, the Company took part in the group-wide Diversity project implementing gender diversity measures with the aim of increasing the proportion of women in management positions, harmonizing work and family life, and facilitating the return of women from maternity leave.

Moreover, the Company's management pays close attention to the ongoing optimization of the workforce structure from the viewpoint of employees' specialization.

Employee Headcount Development



Employee Structure by Education



Wages

The development of wages reflected the guidelines agreed in the Collective Bargaining Agreement, conforming to the plans of the Company's management in the area of human resources management.

Social Policy

The key document defining working conditions and social benefits of employees was the RWE Group Collective Bargaining Agreement signed for the years 2010 and 2011 according to which the Company fulfilled all its obligations.

The Company provided sizeable support for cultural, sporting, and educational interests of employees and members of their families, paid contributions for retirement and life insurance programs, and offered employees various possibilities of using premium medical services.

Employee Training and Career Development

In 2011, the Company spent 5.19% of wage costs on the training and personal development of its workforce. 665 training projects have taken place with a total of 2,781 participants. The average annual training cost per employee including e-learning training courses was CZK 30,172.

3.6 Occupational Health and Safety, Fire Prevention, Security, and Environmental Protection

Occupational Health and Safety (OHS) and Fire Prevention (FP)

Since its establishment, the Company has achieved excellent results as regards the number of workplace accidents, a trend confirmed by the year 2011 when no work injury was recorded.

RWE Gas Storage has implemented an effective preventive healthcare system including the scope and frequency of preventive checkups. None of the Company's employees has been diagnosed with or endangered by an occupational disease.

To improve occupational health and safety, the Company has implemented a system of inspection rounds by supervisors. We implemented the 'Minutes for Safety' program in all parts of the workplace in the second half of 2011. The program was designed based on suggestions and measures proposed by employees in a company-wide OHS survey.

Occupational health and safety as well as environmental protection are reviewed regularly by means of internal audits and inspections. In addition, OHS-related issues are discussed at all management meetings.

As in previous years, OHS reviews were conducted in 2011 in close cooperation with the trade unions. Apart from assessing workplace conditions and work-related amenities, these inspections help ensure the continuing improvement of working conditions and environment.

By executing a business continuity management project (see below for details), the Company has continued to deepen cooperation with fire-prevention authorities. As in the previous year, leading representatives of various authorities including the Directorate General of the Fire Rescue Service took part in a joint training course for mine rescue personnel in Lozorno, Slovakia.

Security and Business Continuity Management

In 2011, the Company extensively reviewed its crisis management and business continuity management policies. A business continuity management project was executed to identify threats at the level of the Company as a whole as well as in its individual departments, which pose a risk to key processes, including substitute or alternative energy sources and procedures that allow processes to continue on a temporary or limited basis.

The findings were used to modify crisis management and contingency plans of the entire Company and all its individual units.

Furthermore, we have secured compliance with all relevant legislative requirements, including the application of best practices employed in the energy sector. We also took an active part in the process of defining standards for critical infrastructure elements, both in the Czech Republic and abroad.

Environmental Protection

As in previous years, we paid close attention to environmental protection in 2011. By conforming to the requirements that stem from our ISO 140001 environmental management system and by ensuring that all employees charged with environmental duties as well as all other employees maintain a responsible attitude, we met all targets and legal requirements in the area of environmental protection.

The Company was given no fines or penalties by environmental protection authorities. This is especially valuable in light of the fact that an extensive capital construction project was completed in 2011 at UGS Třanovice and UGS Tvrdonice in connection with increasing their storage capacity.

The Company received a permit to release carbon dioxide (CO₂) for the purposes of operating UGS Třanovice. State-of-the-art technologies were employed in the enlargement of this facility to prevent any further deterioration of air quality in the Moravian-Silesian Region. The Company currently operates two underground storage facilities authorized to release CO₂. The quantity of CO₂ is regularly verified by an independent organization.

Routine operation included repairs and removal of leaks in intercepting traps. All storage facilities received new anticorrosion paint at the inlets of injections-extraction wells and underwent a review of well tightness, which will contribute to a higher operating security and protection of the atmosphere from greenhouse gases.

As regards cleanup of old environmental damage, the Company continued planned post-remediation monitoring of underground water in the locality. The monitoring results have shown that the cleanup work was successful.

All data pertaining to the Company's environmental protection activities are available to the general public in the Integrated Pollution Register.

3.7 Subsequent Events

No events occurred after the balance sheet date that would have a material impact on this annual report.

3.8 Outlook

New Products

In 2012, the Company plans to introduce new products including the possibility to buy temporary working gas volume and secondary storage capacity auctions.

Cost-saving Measures

In response to the unfavorable situation on the natural gas market, the Company strives to reduce costs and improve efficiency. In line with these efforts, we have launched a project entitled FIT Storage, which mainly concentrates on reducing operating expenses and the cost of purchased services as well as on generating additional revenues. Cost saving measures will be of long-term and sustainable nature, and they will be implemented throughout the Company.

3.9 The Company's organisational units abroad

In 2011, the Company did not have an organisational unit abroad.

3.10 Persons responsible for the 2011 Annual Report of RWE Gas Storage

The undersigned hereby affirm that the disclosures in this Annual Report are true and that no material circumstances have been omitted or distorted.



Andreas Frohwein
Managing Director, CEO



Lubor Veleba
Managing Director, CCO



FINANCIAL PART

4 FINANCIAL PART

4.1 Financial Statements

BALANCE SHEET (in thousand Czech crowns)					
Ref.	ASSETS		31. 12. 2011		
			Gross	Provision	Net
	TOTAL ASSETS		22,745,526	(2,767,359)	19,978,167
B.	Fixed assets		19,583,934	(2,767,359)	16,816,575
B. I.	Intangible fixed assets		234,311	(73,880)	160,431
B. I. 1.	Research & development		101,278	(42,759)	58,519
	2. Software		27,414	(23,490)	3,924
	3. Royalties		101,707	(7,631)	94,076
	4. Other intangible fixed assets		13	-	13
	5. Intangible fixed assets in the course of construction		3,899	-	3,899
B. II.	Tangible fixed assets		19,349,623	(2,693,479)	16,656,144
B. II. 1.	Land		101,066	-	101,066
	2. Constructions		15,329,223	(2,136,393)	13,192,830
	3. Equipment		1,504,886	(557,086)	947,800
	4. Other tangible fixed assets		634	-	634
	5. Tangible fixed assets in the course of construction		2,413,814	-	2,413,814
	6. Advances paid for tangible fixed assets		-	-	-
C.	Current assets		3,160,098	-	3,160,098
C. I.	Inventories		17,315	-	17,315
C. I. 1.	Raw materials		17,315	-	17,315
C. III.	Short-term receivables		2,994,730	-	2,994,730
C. III. 1.	Trade receivables		405,654	-	405,654
	2. Receivables – subsidiaries / controlling parties		2,573,359	-	2,573,359
	3. Taxes and state subsidies receivable		-	-	-
	4. Short-term advances paid		2,267	-	2,267
	5. Estimated receivables		13,433	-	13,433
	6. Other receivables		17	-	17
C. IV.	Financial assets		148,053	-	148,053
C. IV. 1.	Cash in hand		382	-	382
	2. Cash at bank		147,671	-	147,671
D. I.	Prepayments and accrued income		1,494	-	1,494
D. I. 1.	Prepaid expenses		1,414	-	1,414
	2. Accrued income		80	-	80

BALANCE SHEET – continued (in thousand Czech crowns)			
Ref.	LIABILITIES AND EQUITY	31. 12. 2011	31. 12. 2010
	TOTAL LIABILITIES AND EQUITY	19,978,167	19,204,271
A.	Equity	15,704,710	15,049,321
A. I.	Share capital	13,450,709	13,450,709
A. I. 1.	Share capital	13,450,709	13,450,709
A. III.	Reserve fund and other reserves	323,814	256,719
A. III. 1.	Legal reserve fund	323,814	256,719
A. V.	Profit / (loss) for the current period	1,930,187	1,341,893
B.	Liabilities	3,934,795	3,823,807
B. I.	Provisions	1,082,658	1,083,024
B. I. 1.	Tax-deductible provisions	185,208	173,269
	2. Income tax provision	82,621	78,047
	3. Other provisions	814,829	831,708
B. II.	Long-term liabilities	1,732,833	1,832,956
B. II. 1.	Trade payables	30,843	4,817
	2. Deferred tax liability	1,701,990	1,828,139
B. III.	Short-term liabilities	1,119,304	907,827
B. III. 1.	Trade payables	453,654	517,575
	2. Liabilities to employees	8,437	8,703
	3. Liabilities for social security and health insurance	5,128	5,387
	4. Taxes and state subsidies payable	596,550	259,808
	5. Estimated payables	52,464	115,269
	6. Other payables	3,071	1,085
C. I.	Accruals and deferred income	338,662	331,143
C. I. 1.	Accruals	-	2
	2. Deferred income	338,662	331,141

INCOME STATEMENT (in thousand Czech crowns)

Ref.	DESCRIPTION	Accounting period	
		2011	2010
II.	Sales of production	4,049,969	3,934,815
II. 1.	Sales of own products and services	4,049,969	3,934,815
B.	Cost of sales	923,757	620,708
B. 1.	Raw materials and consumables	244,236	217,675
2.	Services	679,521	403,033
+	Added value	3,126,212	3,314,107
C.	Staff costs	185,543	176,046
C. 1.	Wages and salaries	130,041	121,248
2.	Emoluments of board members	180	155
3.	Social security and health insurance costs	47,876	45,517
4.	Other social costs	7,446	9,126
D.	Taxes and charges	5,632	6,858
E.	Depreciation of fixed assets	600,265	603,023
III.	Sale of fixed assets and raw materials	798,951	518
III. 1.	Sale of fixed assets	798,951	468
2.	Sale of raw materials	-	50
F.	Net book value of fixed assets and raw materials sold	762,880	23,365
F. 1.	Net book value of fixed assets sold	762,880	23,365
G.	Increase / (decrease) in operating provisions	(4,940)	831,409
IV.	Other operating income	26,269	6,475
H.	Other operating charges	27,280	28,963
*	Operating result	2,374,772	1,651,436
IX.	Gain on revaluation of securities and derivatives	-	27,113
L.	Loss on revaluation of securities and derivatives	-	14,086
X.	Interest income	8,258	10,125
N.	Interest expense	1	2
XI.	Other financial income	9,729	16,350
O.	Other financial expense	6,524	31,588
*	Financial result	11,462	7,912
Q.	Tax on profit or loss on ordinary activities	456,047	317,455
Q. 1.	- current	582,196	500,210
2.	- deferred	(126,149)	(182,755)
**	Profit or loss on ordinary activities after taxation	1,930,187	1,341,893
***	Net profit / (loss) for the financial period	1,930,187	1,341,893
***	Net profit / (loss) before taxation	2,386,234	1,659,348

STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

Year ended 31 December 2011				
	Share capital (CZK'000)	Legal reserve fund (CZK'000)	Retained earnings (CZK'000)	Total (CZK'000)
As at 1 January 2010	13,450,709	165,962	1,815,133	15,431,804
Contributions to reserve fund	-	90,757	(90,757)	-
Profit distribution paid	-	-	(1,724,376)	(1,724,376)
Net profit for the current period	-	-	1,341,893	1,341,893
As at 31 December 2010	13,450,709	256,719	1,341,893	15,049,321
Contributions to reserve fund	-	67,095	(67,095)	-
Profit distribution	-	-	(1,274,798)	(1,274,798)
Net profit for the current period	-	-	1,930,187	1,930,187
As at 31 December 2011	13,450,709	323,814	1,930,187	15,704,710

CASH FLOW STATEMENT

Year ended 31 December 2011		
	2011 (CZK'000)	2010 (CZK'000)
Cash flows from operating activities		
Net profit on ordinary activities before tax	2,386,234	1,659,348
A.1 Adjustments for non-cash movements		
A.1.1 Amortisation / depreciation of fixed assets	600,265	603,023
A.1.2 Change in provisions	(4,940)	733,628
A.1.3 (Profit) / loss from disposal of fixed assets	(36,071)	22,897
A.1.4 Net interest (income)	(8,257)	(10,123)
A.1.5 Other non-cash movements	1,293	3,425
A* Net cash flow from operating activities before tax, changes in working capital	2,938,524	3,012,198
A.2 Working capital changes		
A.2.1 Change in receivables and prepayments and accrued income	78,704	(109,695)
A.2.2 Change in short-term payables and accruals and deferred income	251,818	62,908
A.2.3 Change in inventories	(10,920)	(4,895)
A** Net cash flow from operating activities before tax	3,258,126	2,960,516
A.3 Interest paid	(3)	-
A.4 Interest received	8,207	10,159
A.5 Income tax on ordinary activities paid	(577,622)	(597,991)
A*** Net cash flow from operating activities	2,688,708	2,372,684
Cash flows from investing activities		
B.1 Acquisition of fixed assets	(1,078,075) ¹	(894,259) ¹
B.2 Proceeds from the sale of fixed assets	798,951	468
B*** Net cash flow from investing activities	(279,124)	(893,791)
Cash flows from financing activities		
C.1 Change in long- and short-term liabilities	-	92,789
C.2 Changes in equity		
C.2.1 Profit distribution paid	(1,274,798)	(1,724,376)
C*** Net cash flow from financing activities	(1,274,798)	(1,631,587)
Net increase / (decrease) in cash and cash equivalents	1,134,786	(152,694)
Cash and cash equivalents as at the beginning of the year	1,499,175	1,651,869
Cash and cash equivalents as at the end of the year	2,633,961	1,499,175

¹ Part of capital expenditures was covered by grants received, see Note 8.

4.2 Notes to financial statements

Year ended 31 December 2011

1 GENERAL INFORMATION

1.1 Introductory information about the Company

RWE Gas Storage, s.r.o. ("the Company") was incorporated on 1 May 2007 and has its registered office at Prague 9 - Prosek, Prosecká 855/68, Czech Republic. The Company's primary business activity is gas storage. Identification number of the Company is 278 92 077.

The Statutory Representatives as at 31 December 2011:

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

The members of the Supervisory Board as at 31 December 2011:

	Position	Date of appointment
Mr Martin Friedrich Herrmann	Chairman	5 March 2010 (member since 21 June 2007)
Mr Thomas Rappuhn	Vice-Chairman	5 March 2010 (member since 4 February 2010)
Mr Jürgen Grönner	Member	4 February 2010
Mr Wolfgang Peters	Member	1 April 2008
Mr Dirk Simons	Member	14 October 2010
Ms Šárka Vojíková	Member	21 June 2007

No personnel changes have occurred during 2011 in the Company's bodies.

The Company is organised as follows:

The general meeting of associates is the supreme body of the Company. The 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.

Governance of the Company is divided into two departments titled as follows:

Strategic Asset Management and Sales, Finance/Services. These departments are managed by the individual Directors.

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. Derivatives are shown at fair value.

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.

Technical improvements on intangible fixed assets exceeding CZK 40,000 per year are capitalised.

Purchased intangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition. All research costs are expensed. Development costs of which results are intended for trading are capitalised as intangible fixed assets and recorded at the lower of cost and the value of future economic benefits.

Development costs are capitalised as intangible fixed assets and recorded at the lower of cost and the value of future economic benefits. All other development costs are expensed as incurred.

Intangible fixed assets are amortised applying the straight-line method over their estimated useful lives as follows (unless the agreement or license conditions state shorter or longer period):

Intangible fixed asset	Estimated useful life
Software	3 years
Other intangible fixed assets	6 years

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

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

Emission rights are accounted for as "Other intangible fixed assets". Emission rights allocated through the National Allocation Plan to the Company free of charge are accounted for as "Other intangible fixed assets" with double entry to the liability account "Taxes and state subsidies payable" upon their being credited to the Czech Register of emission rights. The allocated emission rights are recorded at a replacement cost.

The emission rights liability is released to "Other operating income" to match it with relevant expenses.

Consumption of emission rights is recorded to "Other operating expenses" as at the balance sheet date on the basis of estimate of actual CO₂ emissions in the period. The Company applies first-in-first-out method for the disposals of the emission rights. Sale of emission rights is recorded as other operational revenue and is recorded in the amount of sales price. In case of shortage of emission rights at the 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.

2.3 Tangible fixed assets

All tangible assets with a useful life longer than one year and a unit cost of more than CZK 10,000 are treated as tangible fixed assets.

Repairs and maintenance expenditures of tangible fixed assets are expensed as incurred. Technical improvements of tangible fixed assets exceeding CZK 40,000 per year are capitalised.

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

Tangible fixed assets, except for land which is not depreciated, are depreciated applying the straight-line method over their estimated useful lives as follows:

Tangible fixed asset	Estimated useful life
Buildings and constructions	45–60 years
Plant, machinery and equipment	4–30 years
Furniture and fittings	4–8 years
Motor vehicles	5–8 years

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

Tangible fixed assets, with a useful life longer than one year and a unit cost more than CZK 10,000 but lower than CZK 40,000 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. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

2.4 Subsidies

The Company accounts for the subsidies as other liabilities in the moment of their receipt if there is absolutely no doubt that the subsidy will be received, e.g. when the Company receives the document which approves the subsidy payment.

2.5 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.

2.6 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, deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets.

The Company uses so-called cash-pooling within the group. A receivable (liability) that arises from cash-pooling is presented in the Cash Flow statement as a part of the item Cash and Cash equivalents if it is due within three months after the balance sheet date.

2.7 Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the fixed exchange rate determined by the Company as at the first day of the month.

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.

2.8 Derivative financial instruments

Derivative financial instruments including foreign exchange agreements are initially recognised on the balance sheet at cost and subsequently are re-measured at their fair value. Fair values are obtained from quoted market prices, discounted cash flow model or option pricing models as appropriate. All derivatives are presented in other receivables or in other payables when their fair value is positive or negative, respectively.

Changes in the fair value of derivatives held for trading are included in gain or loss on revaluation of securities and derivatives.

2.9 Expense and revenue recognition

The Company recognises 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 underground gas storages. Sales are stated net of discounts and Value Added Tax.

2.10 Provisions

The Company recognises provisions relating to probable future obligations or expenditures, when the purpose of the obligations or expenditures is known but the precise amount, or the time when the obligation or expenditure will crystallise, is not known. The Company also recognises tax deductible provisions relating to significant future repairs of fixed assets as defined by 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 remove of land contamination resulting from operational activities, in accordance with the Act on Mining. However, provisions are not created for future operating expenditures or for expenditures directly related to future revenue transactions.

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

2.11 Employment benefits

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. Pension and life insurance contribution is recognised as an expense.

2.12 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.

2.13 Related parties

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

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

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

2.14 Subsequent events

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

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

3 INTANGIBLE FIXED ASSETS

Cost					
	1 January 2011 (CZK'000)	Additions (CZK'000)	Transfers (CZK'000)	Disposals (CZK'000)	31 December 2011 (CZK'000)
Research & development	94,160	-	7,118	-	101,278
Software	24,591	-	2,823	-	27,414
Royalties	631	-	101,076	-	101,707
Intangible fixed assets in the course of construction	9,682	105,234	(111,017)	-	3,899
Emission rights	300	1,006	-	(1,293)	13
Total	129,364	106,240	-	(1,293)	234,311

Accumulated amortisation					
	1 January 2011 (CZK'000)	Additions (CZK'000)	Transfers (CZK'000)	Disposals (CZK'000)	31 December 2011 (CZK'000)
Research & development	(27,401)	(15,358)	-	-	(42,759)
Software	(17,056)	(6,434)	-	-	(23,490)
Royalties	(489)	(7,142)	-	-	(7,631)
Total	(44,946)	(28,934)	-	-	(73,880)
Net book value	84,418				160,431

Cost					
	1 January 2010 (CZK'000)	Additions (CZK'000)	Transfers (CZK'000)	Disposals (CZK'000)	31 December 2010 (CZK'000)
Research & development	91,365	-	2,795	-	94,160
Software	23,233	-	1,552	(194)	24,591
Royalties	508	-	123	-	631
Intangible fixed assets in the course of construction	2,819	11,333	(4,470)	-	9,682
Emission rights	198	921	-	(819)	300
Total	118,123	12,254	-	(1,013)	129,364

Accumulated amortisation					
	1 January 2010 (CZK'000)	Additions (CZK'000)	Transfers (CZK'000)	Disposals (CZK'000)	31 December 2010 (CZK'000)
Research & development	(13,022)	(14,379)	-	-	(27,401)
Software	(9,604)	(7,474)	-	22	(17,056)
Royalties	(152)	(337)	-	-	(489)
Total	(22,778)	(22,190)	-	22	(44,946)
Net book value	95,345				84,418

During 2011 and 2010 the Company did not purchase any emission rights.

4 TANGIBLE FIXED ASSETS

Cost					
	1 January 2011 (CZK'000)	Additions (CZK'000)	Transfers (CZK'000)	Disposals (CZK'000)	31 December 2011 (CZK'000)
Land	91,926	-	9,606	(466)	101,066
Constructions	15,931,221	-	234,185	(836,181)	15,329,223
Equipment	1,399,617	-	105,499	(230)	1,504,886
Other tangible fixed assets	634	-	-	-	634
Tangible fixed assets in the course of construction	1,783,039	940,649	(309,874)	-	2,413,814
Advances paid for tangible fixed assets	15,022	24,394	(39,416)	-	-
Total	19,221,459	965,043	-	(836,877)	19,349,623

Accumulated depreciation					
	1 January 2011 (CZK'000)	Additions (CZK'000)	Transfers (CZK'000)	Disposals (CZK'000)	31 December 2011 (CZK'000)
Constructions	(1,740,208)	(469,886)	-	73,701	(2,136,393)
Equipment	(455,937)	(101,445)	-	296	(557,086)
Total	(2,196,145)	(571,331)	-	73,997	(2,693,479)
Net book value	17,025,314				16,656,144

Cost					
	1 January 2010 (CZK'000)	Additions (CZK'000)	Transfers (CZK'000)	Disposals (CZK'000)	31 December 2010 (CZK'000)
Land	88,519	-	3,647	(240)	91,926
Constructions	15,853,812	-	102,174	(24,765)	15,931,221
Equipment	1,309,500	-	92,539	(2,422)	1,399,617
Other tangible fixed assets	634	-	-	-	634
Tangible fixed assets in the course of construction	764,149	1,217,250	(198,360)	-	1,783,039
Advances paid for tangible fixed assets	-	19,763	-	(4,741)	15,022
Total	18,016,614	1,237,013	-	(32,168)	19,221,459

Accumulated depreciation					
	1 January 2010 (CZK'000)	Additions (CZK'000)	Transfers (CZK'000)	Disposals (CZK'000)	31 December 2010 (CZK'000)
Constructions	(1,270,382)	(471,659)	-	1,833	(1,740,208)
Equipment	(347,675)	(109,174)	-	912	(455,937)
Total	(1,618,057)	(580,833)	-	2,745	(2,196,145)
Net book value	16,398,557				17,025,314

Tangible fixed assets additions contain mainly investments to expansion of storage capacity of underground gas storage facility in Třanovice.

Disposals of tangible fixed assets mainly consist of sale of gas cushion with the net book value of CZK 753,771,000. The gas cushion was sold to RWE Transgas, a.s. and related revenues amounting CZK 792,237,000 are disclosed in Note 14.

5 RECEIVABLES

	31 December 2011 (CZK'000)	31 December 2010 (CZK'000)
Trade receivables		
– current	405,654	395,129
– overdue	-	834
Total trade receivables	405,654	395,963
Other receivables		
– current	2,586,809	1,613,135
– overdue	-	-
Total other receivables	2,586,809	1,613,135
Short-term advances paid	2,267	1,362
Net book value of short-term receivables	2,994,730	2,010,460

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

Trade receivables as at 31 December 2011 include mainly receivable from RWE Transgas, a.s. for sale of storage capacity in the amount of CZK 374,266,000 (as at 31 December 2010: CZK 381,113,000) and for the Company Pražská plynárenská, a.s. in the amount of CZK 12,716,000.

Other receivables as at 31 December 2011 include mainly cash-pooling receivables from RWE Transgas, a.s. (see Note 14 Related party transactions) in the amount of CZK 2,573,359,000 (as at 31 December 2010: CZK 1,498,716,000).

The provision for doubtful receivables was nil as at 31 December 2011 and as at 31 December 2010.

6 EQUITY

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

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

The sole shareholder approved the financial statements for 2010 and decided about the allocation of profit earned in 2010 of CZK 1,341,893,000 on 23 March 2011.

7 PROVISIONS

	Tax deductible provisions (CZK'000)	Income tax provision (CZK'000)	Other provisions (CZK'000)	Total (CZK'000)
Opening balance as at 1 January 2010	161,332	175,827	12,237	349,396
Charge for the year	11,937	78,047	827,364	917,348
Released in the year	-	-	(2,852)	(2,852)
Used in the year	-	(175,827)	(5,041)	(180,868)
Closing balance as at 31 December 2010	173,269	78,047	831,708	1,083,024
Charge for the year	11,939	82,621	16,780	111,340
Released in the year	-	-	(2,014)	(2,014)
Used in the year	-	(78,047)	(31,645)	(109,692)
Closing balance as at 31 December 2011	185,208	82,621	814,829	1,082,658

As at 31 December 2011 the Company has created tax-deductible provision for the cost of land recultivation in the amount of CZK 185,208,000 (as at 31 December 2010: CZK 173,269,000). This provision is created in accordance with the Act of mining to provide for future expenses for removal of the land contamination resulting from the operational activities. The Company has created a provision for employment benefits in the amount of CZK 16,780,000 (as at 31 December 2010: CZK 3,375,000), a provision for share option plan in the amount of CZK 49,000 (as at 31 December 2010: CZK 1,333,000) and a provision for the change of safety valves amounting to CZK 798,000,000 (as at 31 December 2010: CZK 827,000,000). As at 31 December 2011 income tax provision in the amount of CZK 580,413,000 (as at 31 December 2010: 501,329,000) was decreased by tax advance payments in the amount of CZK 497,792,000 (as at 31 December 2010: CZK 423,282,000) and classified as Liabilities – Income tax provision.

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

8 LIABILITIES

	31 December 2011 (CZK'000)	31 December 2010 (CZK'000)
Trade payables		
– current	453,654	517,575
– overdue	-	-
Total trade payables	453,654	517,575
Other payables		
– current	613,186	274,983
– overdue	-	-
Total other payables	613,186	274,983
Anticipated liabilities	52,464	115,269
Total short-term liabilities	1,119,304	907,827
Trade payables	30,843	4,817
Deferred tax liability	1,701,990	1,828,139
Total long-term liabilities	1,732,833	1,832,956
Total short-term and long-term liabilities	2,852,137	2,740,783

Short-term and long-term trade payables as at 31 December 2011 in the amount of CZK 484,497,000 (as at 31 December 2010: CZK 522,392,000) represent mainly payables from acquisition of tangible fixed assets and services related to the extension of the underground gas storages.

Anticipated liabilities as at 31 December 2011 and 31 December 2010 include mainly accruals for operation expenses.

Other liabilities contain mainly payable from grants received from the European Energy Programme for Recovery in the amount of CZK 459,776,000 (2010: CZK 257,670,000) for expansion of storage capacity of underground storage facilities in Tvrdonice and Třanovice. Capital expenditure grants are recorded in the cash flow statement as a reduction in the acquisition of fixed assets.

The Company had no overdue liabilities as at 31 December 2011 and 2010.

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.

Trade and other payables have not been secured over any assets of the Company. The Company has payables due after more than 5 years in the amount of CZK 647,000 (2010: CZK 647,000).

9 DEFERRED REVENUE

	31 December 2011 (CZK'000)	31 December 2010 (CZK'000)
Deferred revenues	338,662	331,141

Deferred revenue includes mainly deferred revenue for sale of storage capacity to RWE Transgas, a.s. in the amount of CZK 311,889,000 (2010: CZK 317,594,000).

10 DERIVATIVE FINANCIAL INSTRUMENTS

Certain derivative transactions, although providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under Czech accounting rules. Therefore, they are presented as trading derivatives.

As at 31 December 2011 and as at 31 December 2010 the Company had no trading derivatives.

Changes in fair value of trading derivatives are recorded in the income statement:

	31 December 2011 (CZK'000)	31 December 2010 (CZK'000)
Changes in fair value of derivative instruments	-	13,027
Gains from forward instruments	1,377	11,954
Losses from forward instruments	82	(15,746)
Total	1,459	9,235

11 INCOME TAX

The income tax expense can be analysed as follows:

	2011 (CZK'000)	2010 (CZK'000)
Current tax expense (19%)	580,413	501,329
Deferred tax expense	(126,149)	(182,755)
Adjustment of prior year tax expense based on final CIT return	1,783	(1,119)
Total income tax expense	456,047	317,455

Current tax can be analysed as follows:

	2011 (CZK'000)	2010 (CZK'000)
Net profit / loss before taxation	2,386,234	1,659,348
Non-taxable income	(34,083)	(13,377)
Difference between accounting and tax depreciation	188,069	136,929
Non-deductible costs	527,975	872,247
Gifts	(13,390)	(16,574)
Net taxable profit	3,054,805	2,638,573
Corporate income tax at 19%	580,413	501,329

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

Deferred tax liability can be analysed as follows:

	31 December 2011 (CZK'000)	31 December 2010 (CZK'000)
Deferred tax liability arising from		
Difference between carving value accounting and tax base of fixed assets	(1,856,897)	(1,985,696)
Total deferred tax liability	(1,856,897)	(1,985,696)
Deferred tax asset arising from		
Other provisions	154,907	157,557
Total deferred tax asset	154,907	157,557
Net deferred tax asset / (liability)	(1,701,990)	(1,828,139)

12 REVENUE ANALYSIS

Revenue from operating activities can be analysed as follows:

	2011 (CZK'000)	2010 (CZK'000)
Sale of storage capacity		
– domestic	4,009,573	3,927,148
Other	40,396	7,667
Total sales of own products and services	4,049,969	3,934,815
Sale of fixed assets	798,951	468
Other	26,269	6,525
Total	4,875,189	3,941,808

13 EMPLOYEES

	2011	2010
Members of Statutory bodies who are employees	1	1
Average number of other members of management	6	6
Average number of other staff	215	215
Total number of employees	222	222

No employee of the Company was a member of Supervisory Board in 2011 and 2010.

The Company's management includes statutory directors, other directors and senior staff members directly reporting to them.

	Management (CZK'000)	Other staff (CZK'000)	Total (CZK'000)
2011			
Wages and salaries	11,048	118,993	130,041
Social security costs	3,526	44,350	48,776
Other social costs	191	7,255	7,446
Bonuses to the members of statutory bodies	180	-	180
Total staff costs	14,945	170,598	185,543
2010			
Wages and salaries	11,461	109,787	121,248
Social security costs	4,024	41,493	45,517
Other social costs	175	8,951	9,126
Bonuses to the members of statutory bodies	155	-	155
Total staff costs	16,658	159,388	176,046

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

14 RELATED PARTY TRANSACTIONS

Profit/loss 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:

	2011 (CZK'000)	2010 (CZK'000)
Purchases		
RWE Transgas, a.s. (services, interests, fixed assets)	128,239	147,239
NET4GAS, s.r.o. (services, gas, fixed assets)	40,706	29,127
RWE Interní služby, s.r.o. (services, fixed assets)	76,617	71,710
RWE Plynoprojekt, s.r.o. (services, fixed assets)	17,471	16,398
RWE Aktiengesellschaft (financial assets)	82	29,832
RWE Dea Aktiengesellschaft (fixed assets)	21,233	22,679
Other RWE Group companies	5,438	12,593
Total purchases	289,786	329,578
Sales to RWE Transgas, a.s.		
Storage capacity	3,761,350	3,788,296
Other sales (fixed assets, interest)	805,588	9,443
Total sales	4,566,938	3,797,739
Other sales:		
NET4GAS, s.r.o. (services, fixed assets)	161	1
RWE Aktiengesellschaft (financial assets)	1,377	39,066
RWE Gasspeicher (services)	11,340	5,873
Regional distribution companies	35,053	-
Other RWE Group companies	-	1,914
Total other sales	47,931	46,854

All transactions were realised on arm's length basis.

The following related party balances were outstanding as at:

	31 December 2011 (CZK'000)	31 December 2010 (CZK'000)
Trade receivables		
RWE Transgas, a.s.	375,435	381,113
NET4GAS, s.r.o.	42	1
Other RWE Group companies	22	326
Total trade receivables	375,499	381,440
Advances paid		
RWE Interní služby, s.r.o.	1,226	359
Other receivables:		
RWE Transgas, a.s.	80	28
RWE Interní služby, s.r.o.	76	879
Total other receivables	156	907
Cash-pooling receivables		
RWE Transgas, a.s.	2,573,359	1,498,716
Total receivables	2,950,240	1,881,422
Trade payables		
RWE Transgas, a.s.	4,712	33,242
RWE Plynoprojekt, s.r.o.	16,011	1,178
Other RWE Group companies	7,636	7,235
Total trade payables	28,359	41,655
Anticipated payables / accruals and deferrals		
RWE Transgas, a.s.	311,889	322,143
Other RWE Group companies	2,910	22,284
Total anticipated payables / accruals and deferrals	314,799	344,427
Total payables and accruals and deferrals	343,158	386,082

Cash-pooling receivables and payables bear interest at market interest rates. Trade receivables and payables arose under the same terms and conditions as with unrelated parties. Provision for receivables from related parties are not provided for.

Company cars are made available for use by management in total acquisition costs of CZK 5,892,000 (2010: CZK 5,708,000).

The Company provides foreign members of statutory bodies with accommodation, in 2011 rent amounted to CZK 432,000 (2010: CZK 432,000).

Share option bonus plan has been provided to the management, as at 31 December 2011 provision for this plan was created in the amount of CZK 49,000 (as at 31 December 2010: CZK 1,333,000).

Besides the above disclosed remuneration and benefits, there was no other cash or non-cash consideration provided in 2011 and 2010 to the Company's shareholder, members of the Company boards and management.

15 FEES PAID AND PAYABLE TO THE AUDIT COMPANY

The information about fees for audit services is included in the consolidated financial statements of the ultimate parent company of the Group.

16 COMMITMENTS

Capital commitments contracted by the Company as at 31 December 2011 were at total amount of CZK 102,611,000 (as at 31 December 2010: CZK 1,087,222,000).

17 CONTINGENT LIABILITIES

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

18 CASH FLOW STATEMENT

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

	31 December 2011 (CZK'000)	31 December 2010 (CZK'000)
Cash on hand and in transit	382	459
Cash in bank	147,671	76,228
Restricted cash in bank	(87,451)	(76,228)
Receivable / (liability) arising from cash-pooling	2,573,359	1,498,716
Total cash and cash equivalents	2,633,961	1,499,175

19 SUBSEQUENT EVENTS

No events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2011.

10 February 2012



Andreas Frohwein
Statutory Director



Lubor Veleba
Statutory Director

5 INDEPENDENT AUDITOR'S REPORT

5.1 Auditor's Report on the Financial Statements



To the shareholder of RWE Gas Storage, s.r.o.

We have audited the accompanying financial statements of RWE Gas Storage, s.r.o., identification number 27892077, with registered office at Prosecká 855/68, Praha 9 - Prosek ("the Company"), which comprise the balance sheet as at 31 December 2011, the income statement, statement of changes in equity and cash flow statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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**Shareholder of RWE Gas Storage, s.r.o.
Independent auditor's report**

Auditor's Responsibility (continued)

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

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

Opinion

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

10 February 2012

A blue ink signature that reads 'PricewaterhouseCoopers Audit, s.r.o.' in a cursive script.

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

A blue ink signature that reads 'Tomáš Bašta' in a cursive script.

Tomáš Bašta
Statutory Auditor, Licence No. 1966

Note

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

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



To the shareholder of RWE Gas Storage, s.r.o.

We have audited the financial statements of RWE Gas Storage, s.r.o., identification number 27892077, with registered office at Prosecká 855/68, Praha 9 (“the Company”) for the year ended 31 December 2011 disclosed in the annual report on pages 24–47 and issued the opinion dated 10 February 2012 and disclosed on pages 48–49.

Report on the Annual Report

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

Auditor's Responsibility

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

Opinion

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

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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 2011 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Body of the Company. Our responsibility is to express our opinion on the Report based on performed review.

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.

9 March 2012

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers Audit, s.r.o.'.

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

A handwritten signature in blue ink, appearing to read 'Tomáš Bašta'.

Tomáš Bašta
Statutory Auditor, Licence No. 1966

Note

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

6 RWE GAS STORAGE, S.R.O. REPORT ON RELATIONS BETWEEN RELATED PARTIES AS AT 31 DECEMBER 2011

Because RWE Gas Storage, s.r.o. (hereinafter the 'Company'), as a controlled entity, has not entered into a controlling agreement which would be in effect in 2011, the Company has compiled this report on relations between the Company and controlling parties and between the Company and other parties controlled by the same controlling parties ('related parties') for 2011 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 2011. The Company's members 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 member of the Company

b) Indirectly

- RWE Gas International N.V. with its registered office at 5211 AK'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 that were controlled by the same controlling parties in the last fiscal reporting period. This report has been compiled based on information provided by the controlling parties and other information available to it. The controlling structure and ties between companies within the RWE Group as at 31 December 2011 are shown on the third page of the cover of this Annual Report.

3. Agreements signed between the Company and Related parties, services rendered, and related compensation

In the last fiscal reporting period, the Company and related parties signed the agreements listed in Annex No. 1. The Company has not incurred any losses by performing these agreements, including agreements signed in preceding accounting periods. For this reason, there was no need to secure compensation for losses or to enter into agreements to this effect. The value of services rendered and related compensation between related parties in the last accounting period is specified in Note 14 of the Notes to the Financial Statements as at 31 December 2011.

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

In the last fiscal reporting period, the Company did not make 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 accounting 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 accounting 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, where their execution or adoption took place during or prior to the last fiscal reporting period.

7. Confidentiality

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

8. Conclusion

This report was created and approved by the Company's Managing Directors on 6 March 2012, and it has been presented for examination to the Company's auditor who reviews the Financial Statements in accordance with the law.

In Prague on 6 March 2012

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



Andreas Frohwein
Managing Director, CEO



Lubor Veleba
Managing Director, CCO

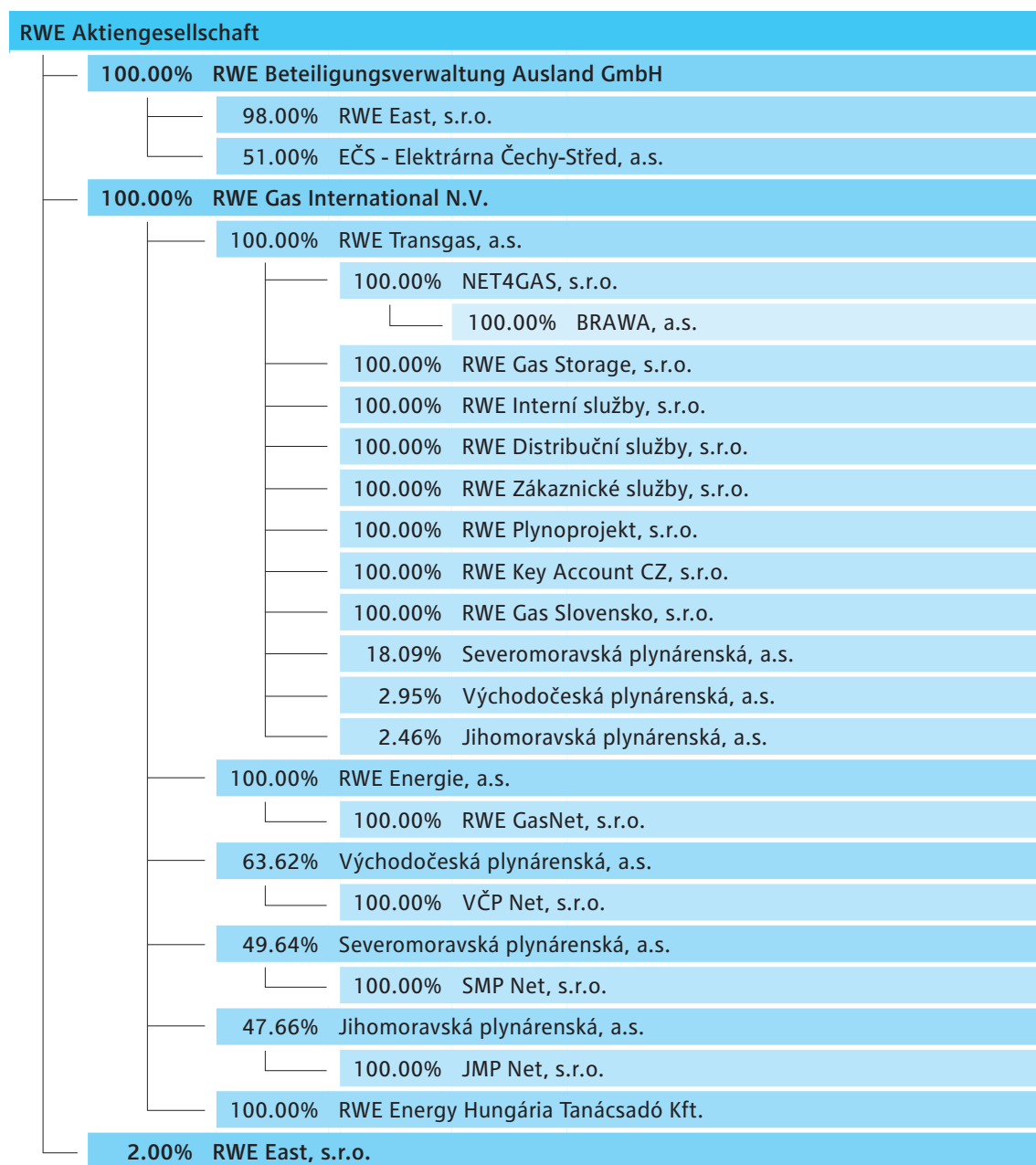
ANNEX NO. 1

Contracting party	Contract type/subject matter	Quantity
RWE Transgas, a.s.	Annex No. 6 to Loan Agreement	1
	Annex No. 7 to Loan Agreement	1
	Consent to Assignment of Rights and Acceptance of Obligations under an Agreement on the Use of Work	1
	Annex No. 4 to Purchasing Services Agreement	1
	Annex No. 4 to Consulting – PaO Services SLA Agreement	1
	Annex No. 5 to Consulting – PaO Services SLA Agreement	1
	Annex No. 3 to Consulting – TG Governance SLA Service Agreement	1
	Annex No. 2 to ArGUS Consulting	1
	Annex No. 3 to Mandate Agreement	1
	Agreement Terminating Commercial Lease Agreement	1
	Agreement Terminating Human Resources Services Agreement	1
	Sales of Cushion gas 2011 via RST 150 mc	1
	Amendment no. 1 – Sales of Cushion gas 150 mcm	1
	Amendment no. 2 – Sales of Cushion gas 150 mcm	1
	Amendment no. 3 – Sales of Cushion gas 150 mcm	1
	Agreement on compensation of Costs for providing Withdrawal Flexibility in April 2011	1
	Agreement on compensation of Costs for providing Withdrawal Flexibility in April 2011 Amendment no. 1	1
	Agreement on compensation of Costs for providing Withdrawal Flexibility in April 2011 Amendment no. 2	1
	Agreement on compensation of Costs for providing Withdrawal Flexibility in April 2011 Amendment no. 3	1
	Agreement on compensation of Costs for providing Withdrawal Flexibility in April 2011 Amendment no. 4	1
	Human Resources Management Services SLA Agreement	1
	Gas purchase for internal consumption 2011	2
	Agreement on compensation of Costs for providing Extraordinary Injection Flexibility in October 2011	1
	Facility Management Services Agreement	1
	Transport Services Agreement	1
JMP Net, s.r.o.	Purchase Agreement – Purchase of Odorization Station Type A1 Lobodice	1
RWE Key Account CZ, s.r.o.	Low-Voltage Electricity Supply Agreement 2012-2014	1
	High-Voltage Electricity Supply Agreement 2012-2014	1
RWE GasNet, s.r.o.	Gas Recirculation Services Agreement	1

Contracting party	Contract type/subject matter	Quantity
NET4GAS, s.r.o.	Annex No. 1 to Agreement on Investor and Engineering Services	1
	Cancellation of Agreement on Investor and Engineering Services	1
	Annex No. 5 to Agreement on Servicing and Technical Work on UGS – Termination	1
	Annex No. 4 to Commercial Lease Agreement	1
	Annex No. 5 to Commercial Lease Agreement	1
	Termination of Agreement for dispatching services	1
	Purchase of Main Closing Valve for the Háje UGS Inlet	1
	Contract for Work – Lease Agreement with NET4GAS	1
	Cancellation of Contract for Work – Lease Agreement with NET4GAS	1
	Gas purchase agreement- additional purchase (2011)	1
	Contract for Work – Třanovice Machinery Warranty Tests	1
	Gas Sale Agreement (2012)	1
RWE Plynoprojekt, s.r.o.	Mine Rescue Service Agreement	1
	Annex No. 2 Reconstruction of Třanovice UGS CA St. No. 7183 PD from PNP	1
	Annex No. 3 Reconstruction of Třanovice UGS CA St. No. 7183 PD from PNP	1
	Annex No. 2 Reconstruction Třanovice UGS CS St. No. 7182	1
	Annex No. 1 to Methanol Unit Purchase Agreement	1
	Annex No. 1 to Třanovice UGS Development Agreement St. No. 7183	1
	Annex No. 1 to AD PNP Mandate Agreement	1
	Contract for Work – Two Methanol Units	1
	Contract for Work – Třanovice UGS Enlargement, Material Supply Inspection	1
RWE Interní služby, s.r.o.	Agreement Terminating Translation and Interpreting Services Agreement	1
	Agreement Terminating Transport Services Agreement	1
	Agreement Terminating Facility Management Services Agreement	1
	Annex No. 5 to Mobile Telephone and IP Telephone Lease, Logistics, and Billing Services Agreement	1
	Annex No. 6 to Information Technology Services Agreement	1
	Annex No. 3 to Commercial Sublease Agreement	1
	Annex No. 4 to Master Agreement on Provision of "BCD Travel" Services	1
	Annex No. 5 to Master Agreement on Provision of "BCD Travel" Services	1
	Consent to Assignment of Rights and Acceptance of Obligations under Agreement on the Use of Work	1

Contracting party	Contract type/subject matter	Quantity
SMP Net, s.r.o.	Gas Recirculation Services Agreement	1
	Sale of Třanovice High-Pressure Pipeline	1
RWE Distribuční služby, s.r.o.	Annex No. 1 to Mandate Agreement	1
RWE Gasspeicher, GmbH	Amendment No. 6 to Contract on Provision	1
	Amendment No. 7 to Contract on Provision	1

Scheme of the relations between and control of companies along the relevant line within the RWE Group as at 31 December 2011



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