



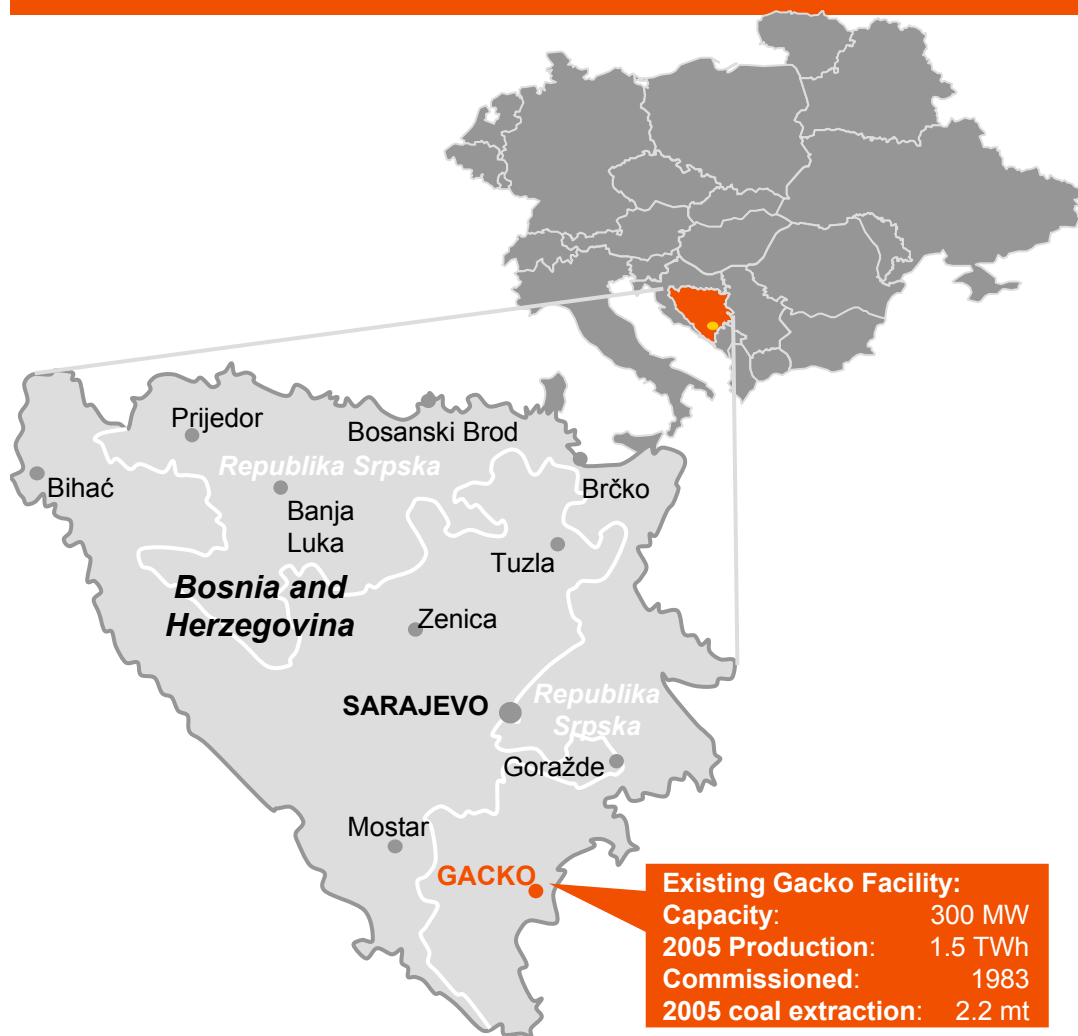
Gacko

BRIEF STORY

December 11, 2006



IN DECEMBER 2006 CEZ SIGNED AGREEMENTS WITH THE GOVERNMENT OF REPUBLIKA SRPSKA AND POWER COMPANY ERS TO DEVELOP GACKO POWER PLANT



Details of the arrangement

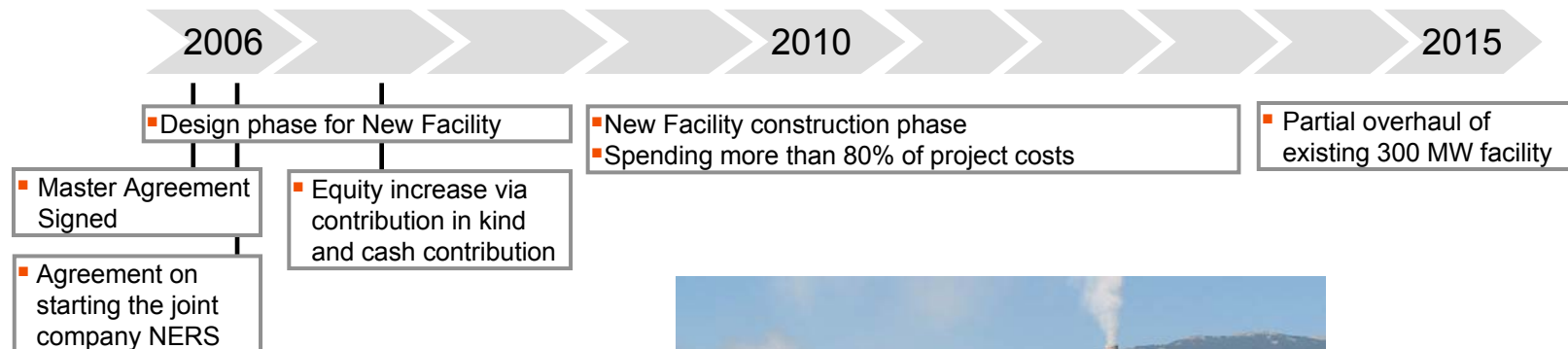
- In March 2006 the government of Republika Srpska in Bosnia and Hercegovina (BiH) approved a master agreement between CEZ and ERS (ELEKTROPRIVREDA REPUBLIKE SRPSKE, a.d.) setting framework for further cooperation in development of Gacko site
- Based on the master agreement above on December 4, 2006 CEZ and ERS signed an agreement on creating a joint company Nova Elektrarne RS (NERS). At the same time CEZ and representatives of the Government of Republika Srpska signed Declaration on future investment
- NERS will have initial registered capital of approx. EUR 400,000¹ with CEZ having 51% stake.
- At a later stage the equity of NERS will be increased via contribution in kind and cash; the ownership structure is expected to be unchanged
- NERS will invest around EUR 1.4 bn into Gacko project in 2007 – 2015
- The investments above will include the following:
 - Construction of a new facility; installed capacity 600 – 700 MW
 - Extension of existing mining operations (expected output to triple between 2007 and 2015)
 - Environmental upgrade of existing 300 MW facility
- Additionally the existing 300 MW unit will undergo complete overhaul after 2025
- The investments will be financed by the mixture of cash contribution of CEZ, debt financing and cash generated by existing Gacko plant; exact financing structure yet to be designed
- Long term power purchase agreement considered for part of the expected power production

¹ KM 800,000; KM = convertible mark, local currency in Bosnia and Hercegovina pegged to EUR at a fixed rate of 1KM = 1.95583 EUR



THE JOINT COMPANY – NERS – WILL SPEND AROUND EUR 1.4BN IN 2007 – 2015 ON THE GACKO PROJECT

Expected timeline of the project



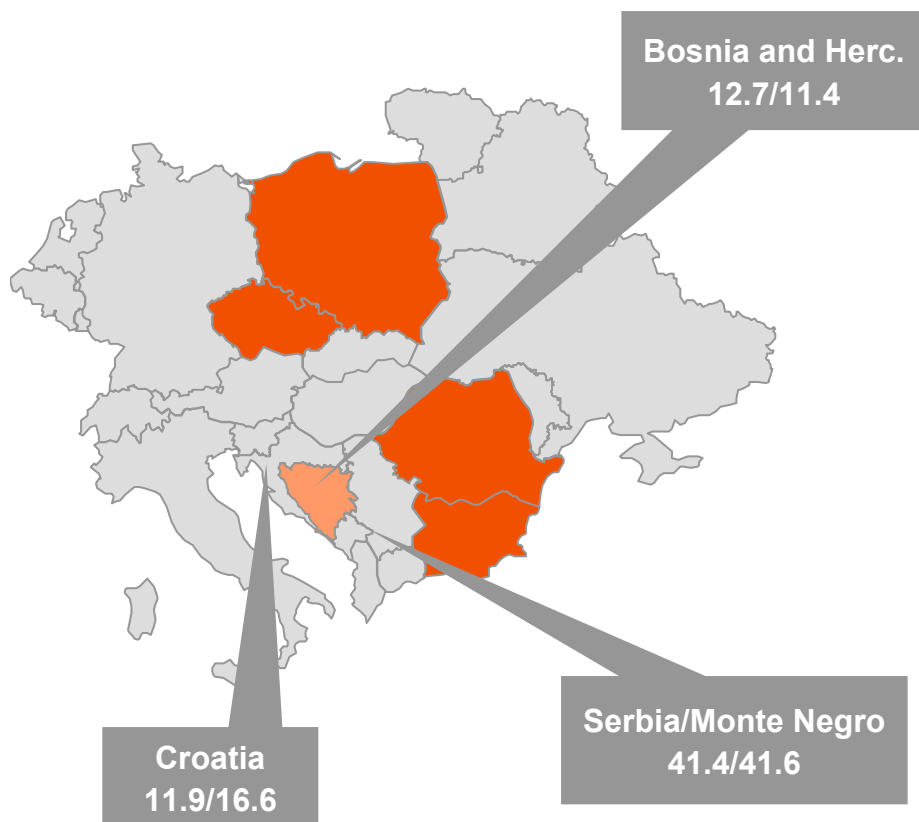
Existing Gacko facility (300 MW)



SELECTED DETAILS ON BOSNIA AND HERCEGOVINA

Power balance in the region (2005)

TWh (production/consumption^x)



^x source: UCTE

MW	out of that ERS:	
Installed Capacity:	4,052	1,346
Hydro	2,095	746
Coal	1,957	600

TWh	2004	2005
Generation	12.7	12.7
Hydro	6.0	6.0
Coal	6.7	6.7
Consumption	10.7	11.4
Export	2.0	1.3

	2004	2005*	2006*	2007*
Real GDP growth (%)	6.2	5.0	5.3	5.3
Industrial production growth (%)	12.4	10.0	10.0	10.0

* Economist Intelligence Unit

- In May 2006 the energy regulator of Bosnia and Hercegovina (BiH) adopted a decision on power market liberalization.
- According to this the whole market excluding households will be liberalized as of January 2009; households to be liberalized as of January 2015.
- The schedule is conditioned upon on „*the circumstances and development of the electricity market in BiH, the electricity markets in the countries of South-East Europe and BiH's inclusion in the single European energy market.*”
- The decision above is not reflected in BiH legislation.