

Internal Information

CEZ has today signed implementation agreement under largest-ever foreign investment of Czech firm

Within the scope of the establishment of a joint venture for a project to construct a new power plant Gacko II, modernize the present power plant Gacko I and expand mining in an adjacent mine, which will supply both plants with its production, CEZ Power Company and the Serbian power company ERS have today signed an implementation agreement in Gacko.

The implementation agreement was signed by Martin Roman, Chairman of the Board of Directors and CEO of CEZ, Vladimir Schmalz, director of the mergers and acquisitions section of CEZ, Pantelija Dakic, CEO of ERS, and Vlastimir Savicic, director of Gacko power plant in the presence of Milorad Dodik, Prime Minister of the Republic of Serbia (Bosnia and Herzegovina). At the same time a symbolic foundation stone of the new power plant Gacko II was tapped.

„The planned investment into the construction of the plant in Bosnia and Herzegovina is another step towards the fulfilment of our vision of becoming the leader in the electricity market in Central and Eastern Europe. The final sum will also represent the highest-ever foreign investment of a Czech firm, as well as it is the largest direct foreign investment that has flown into the Republic of Serbia in Bosnia and Herzegovina up to now,“ said Martin Roman, Chairman of the Board of Directors and CEO of CEZ.

Under the implementation agreement, the investment of the present power plant Gacko I and the coal-mine into NERS joint venture is governed as a contribution on the part of ERS (assessment will be carried out on December 31, 2007) and, further, an increase in the fixed capital to EUR 400m as a contribution on the part of CEZ. The investment into the Gacko project will reach ca EUR 1.4bn and it will be financed by project funding. Its final structure will be known at the turn of this and next year.

Investments into a new modern power plant with a planned capacity of 600 – 700 MW in the same locality and into expansion of the adjacent coal-mine will be made by the medium of NERS, where CEZ has a 51 % share. The future investment should amount to EUR 1.4bn (roughly 38bn CZK). It is the largest foreign investment in Bosnia and Herzegovina, which should bring development of the entire region.

Whithin its foreign expansion, CEZ Power Company has already succeeded in Bulgaria, by acquisition of three distribution companies and Varna power plant, in Romania, by acquisition of the majority stake in the distribution company Electrica Oltenia. Last year CEZ Group's production portfolio was enlarged by two Polish power companies Elcho and Skawina.

Attachement:
GACKO PROJECT

Construction of New Unit Gacko II – 600 – 700 MW

A building design of a supercritical condensing generating unit has been chosen as the basic one. A Feasibility Study is now also considering a few other construction scenarios of the new resource in terms of its capacity, basic parameters and used boiler technologies. When analysing these scenarios, it is necessary to take into account the volume and quality of coal in the new coal-mine, conditions of foundation engineering, but also the fact that the territory lies in a seismic area.

The new power plant will be built using the most modern technologies and will be designed to meet ecological limits set under the European Union. A modern, top technology solution, represented by a high-performance (46.6 %) and reliable generating unit, will be used. It is assumed that the project will use the same technologies as CEZ uses for its newly planned units in the Czech Republic and consequently synergies in the areas of project solutions, supply or longstanding maintenance.

The project itself and related studies are now already being worked up by a common team. The product will be a concrete structural design of the new unit and acquisition of all permits necessary for the commencement of building. The commencement of building is assumed to take place in 2009.

Reconstruction of Gacko I power plant – 300 MW

CEZ in co-operation with skilled employees of Gacko I and supplying organizations are now analyzing the present technical conditions of the plant. As a result, options for the future development of the present plant will be drawn up. Proposed options for the development will be appropriately adjusted according to the analysis of thermal cycle. Outcome will be a plan for reconstruction of the present plant which will enhance efficiency and reliability of the resource and enable the plant to operate until the end of its planned life span, that is roughly until 2025. Due to the reconstruction, the plant will also be able to meet ecological limits.

It is under consideration to reconstruct the present thermal power plant after the new plant is put into operation in 2014. That will mean meeting all emission limits valid in the Republic of Serbia, and further it will enhance efficiency of the present plant by at least 3 % up on the present level in order to meet the „BAT“ criteria for existing soft-coal-fired power plants set by the European Commission.

In case the analysis of the present technical conditions of the plant shows that only partial reconstruction of the present resource to ensure its operation until 2025 is not possible, an option of complex retrofit of the plant after the launch of the new resource will be considered.

Coal-mine Expansion

The coal-field near Gacko is a part of a field in the north-eastern Bosnia and Herzegovina. The present opencast mine is situated on the south-east edge of Gacko, in the immediate vicinity of the power plant. The „A“ deposit, which is depleted today, was opened as the first along with the original construction of Gacko I. Following its depletion, the „B“ deposit was opened. At the current consumption of roughly 2 million tonnes per year, the present coal reserves at the „B“ deposit will be depleted during the years 2009 to 2010. That is the reason why it is needed to open a new deposit, „C“, which will supply the present as well as the new power plant. Mechanization equipment from „A“ and „B“ deposits will be gradually moved to the „C“ deposit after mining in the „B“ deposit is discontinued and the equipment is modernized and overhauled. An increase in coal-mining capacity in the new deposit accompanied by investments into new technology will help to utilize significant economies of scale and reduce cost per tonne. Coal-mining must be preceded by strip mining, when overburden is removed. It is supposed to start at the „C“ deposit already in 2009. In connection with opening of the new mine, a by-pass of the rivers Gračanica and Musnica will be solved.