

## Internal Information

### **CEZ to Acquire Energotrans and to Sell Its Stake in MIBRAG**

**The CEZ Group is going to acquire Energotrans, a company supplying heat from Melnik to Prague, and to sell its 50% equity stake in MIBRAG, a mining corporation, to the other shareholder, holding contractual right, Energeticky a prumyslovy holding. This transaction has been approved by all competent CEZ Group's bodies.**

The divestment of the 50% ownership interest in MIBRAG will be closed once it has been approved by the competent anti-trust authorities. Another pre-condition to the transaction is the completed transfer of a 100% stake in Energotrans to CEZ. The combined transaction also includes the sale of a project for the construction of Profen, a new coal power plant to be erected in the mine of MIBRAG, also to Energeticky a prumyslovy holding. No further transaction details will be published.

In the energy sectors where the CEZ Group does business, compared to its competitors it is exposed to market risks in a greater extent. Presently, the group primarily generates power, but the revenue from this business activity is subject to the electricity market price fluctuations in wholesale markets. Strategically, the CEZ Group needs to build up its positions in regulated activities, i.e., distribution and heat generation. These sectors generate stable revenues regardless of the market development. Therefore, for CEZ it is strategically more important to concentrate on the heat generation and distribution sector.

Moreover, following the German political decision to discontinue their use of nuclear energy, which was reached within two months, from the strategic point of view the German market is now all the more risky for CEZ. The German officials have also declared that they intend to replace their discontinued nuclear power plants with primarily renewable sources and gas, which is evidenced by the first steps they have taken (refer to the agreement made between RWE and Gazprom).

For example, two years ago, the opposition of the public forced RWE to give up their plans to build a coal power plant near Ensdorf in Saarland. Similarly, EnBW has abandoned its power plant construction project planned close to Mannheim. Over the past four years, German energy corporations have given up plans for the construction of more than ten coal units. The last example from this year is the situation around the coal power plant in Datteln, Nordrhein-Westfalen. This plant has become a symbol of the fight between major energy groups and local civic initiatives. The E.ON group had planned to invest EUR 1.2 billion and has already spent EUR 900 million in capital expenditures. A 180-meter high cooling tower has been erected, a boiler house and numerous auxiliary buildings. But the environmentalists have managed to have the construction partially stopped by means of various lawsuits.

For all these reasons, when no agreement could be found regarding the originally announced sale of the Chvaletice power plant, then this scenario was logically put on the agenda, no matter how interesting return on investment CEZ has gained over the short time of holding a stake in MIBRAG.

CEZ has been interested in Energotrans for several years in connection with the planned CCGT in Melník, which should in the future also supply heat to Prague.

Energotrans is a company fully owned by Prazska teplarenska and operates the Melnik-I lignite power plant with an installed capacity of 352 MW.

CEZ' management approved the plan to build a new 800 MW CCGT in Melnik in late April 2009. This project aims to construct a power plant that will in the near future be able to substitute the output of ageing coal power plants in this location. The existing units will be gradually shut down after 2015.

The location is very suitable to build a CCGT since there is the complete required infrastructure, including possibilities of connection to the gas pipeline system. Gas power plants generate significantly lower quantities of the emissions of sulfur oxides, nitrogen oxides and dust than coal power plants. CO<sub>2</sub> emissions are lower too. This will significantly reduce the emissions in the entire region of Central Bohemia. Presently, CEZ operates 3 coal units in the location, two with the capacity of 110 MW and one 500 MW unit. Energotrans operates coal units in the same location with a total installed capacity of 352 MW.