



Korea South East Power Co. Ltd
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TO: Mr. Do-Soo JANG, CEO
CC: Mr. Kyung-Il PARK, New Business Team
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08 November 2012

Subject: Risks in the Plomin C coal power plant project, Croatia

Dear Mr. Do-Soo Jang,

We understand that KOSEP is among the shortlisted companies who have been invited to submit binding offers for the Plomin C coal power plant in Croatia by the end of this year.

However, we would like to inform you of the increasing risks regarding this project and to invite you to reconsider whether it is in KOSEP's best interest to be involved.

Legal challenges

Last Monday, 29 October, Zelena akcija (Friends of the Earth Croatia) together with Green Istria and local residents from the Plomin area, filed an official appeal against the Environmental Permit for Plomin C. The complaint centred on the project's clear incompatibility with the Istria County spatial plan, which stipulates that any new unit at Plomin must run on gas, and that the total capacity at the site cannot exceed 335 MW. The existing Plomin 2 plant which is planned to continue running during the lifetime of Plomin C is already 210 MW. Other issues in the appeal include the environmental impact assessment's insufficient treatment of the health and climate impact aspects of the project.

On the same day we learned that the County Prefect of Istria had also filed a legal appeal against the approval.

Uncertain economic feasibility

In summer of this year, prof.dr.sc Enco Tireli, who worked at Croatian state electricity company HEP for more than 15 years and was construction manager for Plomin 2, publicly released his calculations showing that a new 500 MW coal powered unit at Plomin would be uneconomical and that a gas unit would be more profitable. He has since updated his calculation and we enclose it for your information. He estimates that a coal power plant of 500 MW would have an internal rate of return of just 1.34 percent while a gas plant of the same size would have an IRR of 4.792 percent. The Croatian government and the project sponsor, HEP, have failed to publicly respond to prof.dr.sc Tireli's claims.

Local opposition to the project

Due to their negative experiences with pollution and lack of local development benefits from Plomin 1 and 2, many people in the local area around Plomin are heavily opposed to the Plomin C project. This led the Istria County Assembly to hold a special thematic meeting on the topic on Monday 29 October, at which it requested the Croatian government and HEP to adhere to the County Spatial Plan and to hold a local referendum on the project.

We believe that KOSEP would benefit from reconsidering its interest in this project and choosing other investments that would bring mutual benefits for the company, the host communities and the environment.

We remain at your disposal if you wish to discuss this issue further.

Yours sincerely,

Bernard Ivčić, President of Zelena akcija / Friends of the Earth Croatia, bernard@zelena-akcija.hr