

Internal Information

CEZ Successful in Arbitration for Gacko and Awarded Damages

The arbitration panel upheld ČEZ' claims in an arbitration initiated in 2009 on the grounds of breached contractual conditions in a project for the reconstruction of an old power plant and the construction of a new power plant of Gacko in Bosnia and Herzegovina. The project was then stopped still before the major capital expenditures were expended. ČEZ is to receive damages totalling approximately EUR 7,5 million.

The arbitration panel imposed an obligation on the state-owned company of Elektroprivreda Republike Srpske (Bosnia and Herzegovina) to purchase from ČEZ its equity stake in their joint holding company of Nove Elektrane Republike Srpske for a purchase price of EUR 2 million plus contractually defined interest. Moreover, ČEZ is going to receive the same amount (EUR 2 million) plus late-payment interest as liquidated damages. Together with damages of EUR 2.2 million already collected, ČEZ will in total receive a compensation of app. EUR 7,5 million. At the same time, the arbitration panel reject all of the claims lodged by the Serbian counterparty.

"This is our second winning arbitration of the two we initiated, which proves that we are able to successfully defend our rights, even when investing outside the European Union," said Tomáš Pleskač, Member of the Board of Directors and Head of International Division. The first arbitration ČEZ won against Bulgaria in January 2009.

ČEZ initiated the arbitration proceeding in May 2009 due to a breach of the counterparty's obligations arising from the Implementation Contract of 16 May 2007. For this reason, the Gacko project was stopped still before any major capital expenditures were expended. "Our strategy is conservative; we always try to control all risks inherent in projects in a less stable business environment. This is what we did in this case as well, and I'm glad that an independent panel of arbitrators has upheld our position," Pleskač added.

In 2006, an investment agreement was made between the Republika Srpska (a part of the federation of Bosnia and Herzegovina) and ČEZ, a.s., based on which a joint holding was to be formed with Elektroprivreda Republike Srpske for the purpose of reconstructing the existing Gacko thermal power plant, revitalizing the adjacent coal mine, and building a new Gacko II thermal power plant. ČEZ held a 51% stake in the joint holding of Nove Elektrane Republike Srpske while Elektroprivreda Republike Srpske held the remaining 49%.