

TO
the Extraordinary General Meeting of CEZ Electro Bulgaria AD
scheduled for 18th April 2022

material under item 4 of the agenda

SUBSTANTIATION REPORT
OF THE MANAGEMENT BOARD OF CEZ ELECTRO BULGARIA AD
pursuant to Art. 114a, Par. 1 of Law on Public Offering of Securities

Regarding: *Expediency and Terms and Conditions for Realisation of Deal in Accordance with the Provisions of Art. 114, Par. 1, item 2, last proposal in relation to item 1, letter "b" of the Law on Public Offering of Securities*

1 GENERAL INFORMATION REGARDING THE DEAL

1.1 General Description of the Deal

The deal represents an agreement, under which CEZ Electro Bulgaria AD participates as a sub-coordinator in the standard balancing group, whose coordinator is CEZ Trade Bulgaria EAD, a company established and operating pursuant to the laws of the Republic of Bulgaria, with seat and management address at: Sofia, zip code 1000, Triaditsa region, 2 Pozitano square, 7th floor, office 7 (hereinafter referred to, respectively, as the "Agreement", the "Company", "StBG" and "CEZ Trade").

The Company and CEZ Trade qualify as *related parties* pursuant to §1, item 13, letter „b” of the Additional Provisions of the *Law on Public Offering of Securities* (hereinafter referred to as the "LPOS"). The legal entity, which exercises joint control over the Company and CEZ Trade, is Eastern European Electric Company B.V. (the Netherlands), a company established and operating pursuant to the laws of the Kingdom of the Netherlands, registered within the Trade Registry of the Kingdom of the Netherlands under number 75462788, having seat at: the Kingdom of the Netherlands, Amsterdam and a correspondence address at: Basisweg 10, 1043AP, Amsterdam, the Kingdom of the Netherlands (hereinafter referred to as "EEEC"). The control is of the type in the meaning of §1, item 14, letter „a” of the Additional Provisions of the LPOS and is manifested through the direct holding by EEEEC of 69,34% of the share capital of the Company and of 100% of the share capital of CEZ Trade.

Based on the above, and having in consideration the fact that CEZ Trade, except as a related to the Company person, is also a party to the deal, the following persons could qualify as interested parties with regard to the deal:

- EEEEC in the meaning of Art. 114, Par. 7, item 2 of the LPOS;
- CEZ Trade in the meaning of Art. 114, Par. 7, item 1, first proposal of the LPOS; and
- Mr. Karel Král in the meaning of Art. 114, Par. 7, item 3 of the LPOS in view of his capacity of a member of the Management Board of the Company and a member of the Board of Directors of CEZ Trade Bulgaria EAD.

Pursuant to the deal, liabilities to CEZ Trade will arise for the Company, the total value of which could exceed 2% of the lower value of the assets pursuant to the last two prepared balance sheets of the Company, at least one of which has been audited and which have been publicly disclosed on the grounds of Art. 100r of the LPOS.

1.2. Balancing and Balancing Energy

Based on the relevant license issued by the Energy and Water Regulatory Commission in accordance with the Energy Act (hereinafter referred to as "EA"), the Company operates as an electricity trader. The Regulatory changes resulting from the liberalization of the energy market gradually increase the strategic

importance and economic weight of this particular type of business among all other licensed operations of the Company (apart from being a *trader*, the Company also operates as an *end-supplier* and *supplier of last resort* of energy). Only the changes, which occurred as from 1st October 2020, which substantially allowed small businesses the option for choice of energy supplier, have led to more than a *double* increase in the quantities of energy¹ sold by the Company as a *trader*. The Agreement refers exclusively to the Company's business as a *trader* (and not to its activities under either of the other two licenses).

Pursuant to Art. 96a, Par. 1 in connection with Art. 39, Par. 1, item 5 of the EA, being a trader of electricity, makes the Company also qualify for the capacity of a *coordinator of a standard balancing group*. Hence, the statutory *responsibility of the Company for balancing*. (Art. 57, Par. 1 of the Electricity Trading Rules, hereinafter referred to as the “**ETR**”) is invoked. Balancing is the sale / purchase of energy in the presence of surplus or shortage of the actual consumption against the forecast, as well as the technical actions accompanying such supply, which result from the statutory mechanism of forecasting, ordering, delivery, metering and payment of the energy. The corresponding energy is *balancing energy*.

The ETR require that the metering of the quantities of shortages and surpluses be done on a current basis, where the individual positions of each participant in the collective balancing group are netted-out (i.e. off-set against each other up to the size of the smaller quantity), whereby the remainder forms a position of net shortage or surplus of the participant. After settling the relationship of the group as a whole, on the one hand, with the independent transmission operator – the Electricity System Operator EAD (“**ESO**”), on the other hand, the individual position of each group member is settled accordingly with the group coordinator. In the event of shortage, such *settlement* would constitute the creation and payment of liabilities of the participant to the coordinator.

ESO organizes the centralized balancing market by purchasing and / or selling electricity from / to the trading participants - suppliers of balancing energy, in order to balance the deviation from the planned / agreed schedules for generation and consumption of electricity.

Depending on its market position and the vision of the management of economic benefit, the Company may do the balancing: (a). independently, i.e. being a trader / coordinator, to enter into a balancing agreement with ESO, thus creating and paying to ESO its liabilities for balancing energy in the event of shortage; or (b). as a sub-coordinator / participant in the StBG of another coordinator. **The objective criterion for the efficiency and profitability of each of the alternative solutions is what savings the managerial decision would allow, in comparison to the balancing liabilities, which the respective entity would incur to ESO.**

The table below² presents historical data on the trading book of the Company for the period 2019 - 2021, as well as the possible positive effect for the Company from the merger with CEZ Trade. The data for the second half of 2021 are simulated, because the Company is not a member of the balancing group of CEZ Trade as of 01.08.2021:

		Y 2019	Y 2020	Y 2021
Selled quantities	MW per hour	302 143	618 333	1 143 730
Positive financial effect of the merger of imbalances*	BGN thousand	742	1 150	2 944

* for the calculation of the effect for the year 2021 has been simulated the participation in the StBG of CEZ Trade

At the annual regular general meeting of the Company, held on 22nd June 2021, to the shareholders was presented an authoritative decision by the nature of the currently proposed one. Due to the lack of such a decision adopted at that time, the Company was forced to leave the StBG of CEZ Trade.

At the extraordinary general meeting of the Company, held on 29th December 2021, to the shareholders was presented an authoritative decision by the nature of the currently proposed one, which provided for a lower maximum total value of the Company's liabilities. Then was noted that pursuant to the Rules for Amendment

¹ Resource: the interim and annual statements of the Company – 618 333 MWh for the year 2020 compared to 302 143 MWh for the year 2019.

² Resource: the interim and annual statements of the Company for the year 2019 and 2020 and forecast of the Company for the second half of the year 2021.

and Supplementation of the ETR, published in the State Gazette, issue 110 as of 24th December 2021 has been hindered the possibility for merger of standard balancing groups and the proposed deal suggested such merger. At the time of preparation of the present substantiation report there are no amendments to the legal framework that regulates the conclusion of the proposed deal, therefore the deal cannot be concluded now, even in case of approval by the General Meeting. Despite the above, taking into account the interest of the Company in concluding the deal and the dynamic regulatory changes, which could lead to a new amendment to the ETR and abolition of the legal ban on merging standard balancing groups, it is proposed to be adopted a decision by the General Meeting to authorize the Management Board of the Company to conclude the proposed deal with CEZ Trade. The decision is conditioned by the abolition of the current legal ban on merging standard balancing groups. The economic benefit of the deal presupposes its quick conclusion after the possible favorable change of the legal framework, without wasting time for the technical provision of a complete authorization procedure by a separate General Meeting. The conclusion of the deal will be made only after a reassessment that the same (or even greater) commercial and financial benefits for the Company can be realized as indicated in this report.

1.3. Economic Essence of the Deal

The economic comparison between the balancing options is contained in item 6 of this present report (hereinafter referred to as the “**Report**”). The essentiality of the Agreement (by which the Company would implement the most beneficial balancing option) is determined by the fact that through it:

- (a). the Company will receive the balancing energy under terms and conditions conducive to the full and accurate fulfilment of its licensing obligations; and
- (b). the Company will achieve optimization of balancing energy costs for its customers on the free market.

The Company expects the above effects to place it in a situation that is more economically advantageous than the situation, in which it would have balanced itself off.

1.4. Management and Officers of the Company and External Advisors Engaged with the Deal

The following persons have been professionally engaged with the Agreement:

Management Board of the Company consisting of three members, namely:

Dimcho Stanev Stanev and Christo Borissov Babbev (the member of the Board Karel Král could be qualified as an interested party pursuant to the meaning of Art. 114, Par. 7, item 3 of the LPOS).

Director Products and Purchase of Electricity of the Company:

Zornitsa Yordanova

Director of Legal and Regulatory Activities Directorate of the Company:

Maria Yovcheva-Panayotova

Investors Relations Director of the Company:

Radoslav Dimitrov

The Report is approved by the Management Board of the Company (hereinafter referred to as the “MB”) and represents a material under item 4 of the agenda of the Extraordinary General Meeting of the Company scheduled for 18th April 2022 (hereinafter referred to as the “GM”).

2 TO THE ATTENTION OF THE SHAREHOLDERS AND VOTE-HOLDERS

Dear Shareholders and Vote-Holders,

The Report is elaborated pursuant to Art. 114a, Par. 1 of the LPOS and has the scope of contents, as required by Art. 33, Par. 1 of *Ordinance № 2 dated 09.11.2021 on the initial and subsequent disclosure of information in public offering of securities and admission of securities to trading on a regulated market*, in force and effect as of 01.01.2022, issued by the Financial Supervision Commission, as follows:

- (i). description of the Agreement, including its subject matter, value, its beneficiaries, as well as of the other essential elements of the Agreement, which are necessary to provide complete information and to avoid misleading of the shareholders;
- (ii). the trade names of the parties under the deal;
- (iii). the trade names of the parties, which qualify as interested parties in the deal pursuant to Art. 114, Par. 7 of the LPOS, the legal grounds and explanation of the reasons why they are interested parties;
- (iv). the market valuation of the deal under Art. 114a, Par. 6 of the LPOS (inasmuch as such is possible as of the moment of the preparation of the Report given the essence of the Agreement); and
- (v). description of the economic benefits of the Company from the proposed deal.

The Report aims to present to the attention of the shareholders of the Company the essential terms and conditions and the expediency of the Agreement.

The Report contains all of the essential terms and conditions of the Agreement, which are necessary for the taking of informed and justified resolution by the GM with regard to the authorization of the MB for the entering into the Agreement.

In the absence of an authorizing resolution by the GM, the MB would not have the powers to enter into the Agreement, and in case the Agreement would, nevertheless, be concluded in the absence of such approval, then it would have been null and void pursuant to the explicit provision of Art. 114, Par. 12 of the LPOS.

3 ESSENTIAL TERMS AND CONDITIONS OF THE DEAL

3.1 Parties and Interested Persons

The parties to the Agreement are CEZ Trade, as the coordinator of StBG, and the Company, as the sub-coordinator in this StBG. As it was mentioned above, the parties to the Agreement qualify as related parties, and as parties interested in the deal qualify EEEEC, on the grounds of Art. 114, Par. 7, item 2 of the LPOS and CEZ Trade, on the grounds of Art. 114, Par. 7, item 1, first proposal of the LPOS, as a related party and a party to the deal, Mr. Karel Král, on the grounds of Art. 114, Par. 7, item 3 of the LPOS as a member of the Management Board of the Company and member of the Board of Directors of CEZ Trade.

The interest of EEEEC in the Agreement arises from its capacity of a majority shareholder of the Company and a sole owner of the share capital of CEZ Trade and is manifested in the following:

- (a). efficient supply to the Company of balancing energy in a way, which would allow the performance of the obligations of the Company as a licensed trader, and at the minimum possible balancing costs;
- (b). optimisation of the cash-flows of the Company; and
- (c). maintenance of stable financial condition of the Company.

The interest of CEZ Trade arises from its capacity of a related party to the Company in the meaning of §1, item 13, letter "b" of the Additional Provisions of the LPOS and a party to the deal and is manifested in occurrence of receivables against the Company, as a result of the concluded agreement.

In view of the participation of the member of the Management Board of the Company – Mr. Karel Král in the Board of Directors of CEZ Trade, it is possible that he may be considered an interested party within the meaning of Art. 114, Par. 7, item 3 of the LPOS.

3.2 Subject-Matter

The subject-matter of the Agreement is:

- (1). inclusion, participation and exclusion of the Company as a sub-coordinator in the StBG with CEZ Trade being the coordinator;
- (2). determination, in the relations between the Company and CEZ Trade, of the basic principles for the calculation of the individual imbalance of the Company and balancing as the sub-coordinators in the StBG of CEZ Trade;
- (3). completion of physical and financial settlement by CEZ Trade as coordinator of the StBG after receiving the data from ESO; and
- (4). allocation of the financial effect of the StBG between CEZ Trade and the individual sub-coordinators inside the group, after CEZ Trade, as the coordinator, has paid ESO the costs / revenue for balancing energy in the event of shortage / surplus.

The implementation of the specified subject-matter also implies the performance of the technical actions, which are customary to the sale and delivery of balancing energy. That includes the obligations allocated between the parties in the following areas:

- determination of energy schedules;
- transfer of title and risk related to the balancing energy;
- metering of electricity delivered; and
- acceptance and delivery,

which obligations are executed in accordance with the related registrations with the ESO.

The reporting of the balancing energy positions is done for a period - calendar month. Depending on whether the Company has a surplus or shortage of energy for the respective period, it should receive, or pay accordingly, the price of the balancing energy. Thus, on a current basis, the Company's liabilities to CEZ Trade or vice versa are formed, which are netted-out, and in the event of a negative net position of the Company for the period, it undertakes to pay CEZ Trade the value of such position.

3.3 Duration

The Agreement enters into force and effect on the first day of the month following the month when the regulatory changes related to the abolition of the regulatory ban on merging standard balancing groups are adopted and remains in force for a period of 5 years.

3.4 Price

The unit price of the energy for imbalances (in BGN / MWh) is determined on the basis of the price of energy for surplus / shortage of ESO, calculated according to the ETR, respectively for surplus / shortage of the StBG, according to certain formulas. Based on the formulas, the financial effect of the netting-out of imbalances is allocated across the coordinator and the individual sub-coordinators in the StBG on the basis of the *General Principles for Allocation of Imbalances*.

The information of how unit prices are calculated is a *protected trade secret* of CEZ Trade as a coordinator. It is of key importance for the achieving and maintaining the position of CEZ Trade as a market leader - coordinator of one of the largest balancing group in Bulgaria. Public disclosure of this information could cause significant damages to both, the coordinator and the sub-coordinators in its StBG, including the Company. In view of this and on the grounds of Art. 33, Par. 2 of Ordinance № 2 dated 09.11.2021 on the initial and subsequent disclosure of information in public offering of securities and admission of securities to trading on a regulated market, this information is not contained in the disclosed version of the Report, but may be provided to the FSC.

What the Company would achieve by allocating the financial effect amongst the participants in the StBG in accordance with the specified formulas for determining the unit price, is that it would pay for the necessary quantities of balancing energy in the event of shortage at prices, which are significantly lower than those of ESO, which the Company would have had to pay, if it had done the balancing on its own.

The price of balancing energy is different in each reporting period, as its size is directly affected by the number and size of the balancing groups of sub-coordinators in the StBG of CEZ Trade, as well as by the accuracy of the forecast schedules of each of them.

3.5 *Total Value of the Supplies of Balancing Energy in the Event of Shortage*

The value of the supplies of balancing energy in the event of shortage according to the Agreement is determined, to the maximum extent, by the volume of the Company's operations as an energy trader. Due to the fact that this volume is dynamic and is expected to grow during the term of the Agreement, the Company cannot precisely forecast the total value of the liabilities under the Agreement.

The forecasts of the management of the Company, based on historical data until the year 2021 and the estimates for the year 2022, are that the Company's costs for imbalances, if it would be in the group of CEZ Trade to be in amount to cca. BGN 5,5 million for the year 2022 in particular, and for the following years to not exceed BGN 6,5 million per calendar year. For the sake of comparison, if balancing is done at the ESO prices, the costs for 2022 alone would be expected to exceed BGN 9 million³.

3.6 *Assessment of the Value against the Thresholds under the LPOS*

By virtue of the Agreement, the Company will purchase and pay for balancing energy (in the presence of a net shortage position for the reporting period), which will constitute an *"occurrence of liabilities"* in the meaning of Art. 114, Par. 1, item 2 of the LPOS. Therefore, the economic substantiality of the Agreement for the Company should be assessed against the threshold set in the abovementioned provisions of the law.

Due to the affiliation between the Company and CEZ Trade, on the one hand, and the interest of EEEEC and CEZ Trade in the Agreement, on the other hand, the applicable threshold is the one under letter "b" of Art. 114, Par. 1, item 1 and Art. 114, Par. 1, item 2, last proposition of the LPOS, namely: *2 per cent of the lower value of the assets pursuant to the last two prepared balance sheets of the Company, at least one of which has been audited and which have been publicly disclosed on the grounds of Art. 100m of the LPOS.*

As of the moment of preparation of the Report the relevant latest financial statements of the Company are:

Financial Statements	Balance Sheet Date	Total Assets (BGN thousand)	Threshold 2% of Total Assets (BGN thousand)
last audited	31.12.2020	339,983	6,800
last prepared	31.12.2021	333,793	6,676

When comparing the abovementioned threshold with the estimated total value of the balancing energy in the event of shortage for the whole period of the Agreement, it is evident that the Agreement falls within the

³ Resource: forecast of the Company for the year 2022 and for the next 4 years.

scope of Art. 114, Par. 1, item 1, letter “b” in relation to item 2, last proposition of the LPOS, due to which its conclusion is subject to preliminary approval by the GM.

In the present item of the Report the term “*Balance Sheet*” is used as a synonym of a “*Statement of Financial Position*”.

3.7 Terms of Payment of Electricity

The settlement between CEZ Trade and the Company concerning the balancing energy supplied will be done on an ongoing basis for each calendar month. Invoicing of imbalances is based on out-netting. The Company's liabilities to CEZ Trade (i.e. the value of the net position in the event of shortage) should be paid by the 14th day of the month immediately following the reporting period.

3.8 Beneficiaries of the Agreement

The Agreement is concluded as beneficent to both parties.

3.9 Other Essential Terms and Conditions

The MB considers the following as essential terms and conditions of the Agreement, to which the shareholders and vote-holders of the Company should pay specific attention:

- The coordinator takes responsibility for balancing the net position of the sub-coordinator after internal netting-out of the positions for each of the sub-groups.
- The physical and financial settlements are done not earlier than 1 working day after receiving data from ESO.
- The financial effect of the StBG of netting-out the imbalances is allocated amongst the participants in compliance with the principle that everyone participates in the allocation and the principle of transparency of the calculation of the imbalances.
- Each of the coordinator and the sub-coordinator shall comply with the regulatory requirements and conditions for participation in the balancing energy market, including the financial guarantee and payment of the dealings of balancing energy.
- The coordinator and the sub-coordinator announce their daily delivery schedules in accordance with the requirements of the ETR and the instructions of ESO.
- Where requested by the coordinator, the sub-coordinator shall provide security to its liabilities, whose amount is determined on the basis of the estimated volume of imbalances, such security being of type and character, as usually applied by the coordinator to the members of the StBG.
- Each of the coordinator and the sub-coordinator may terminate the Agreement by 30-day advance notice to the other in writing, without cause.
- The Agreement is regulated by Bulgarian law
- Any disputes relating to the Agreement will be resolved based on mutual agreement between the parties, as in the event of failure to achieve such, the disputes will be submitted for resolution to the Arbitration Court at the Bulgarian Chamber of Commerce and Industry.

4 MARKET EVALUATION

The indicative market evaluation of the Agreement is for estimated expenses of the Company for imbalances for the period 2022-2026, based on simulative data of the Company, in the amount of BGN 32,5 (thirty-two point five million leva) million. The alternative costs, which would have been applicable without the Company entering into the Agreement, were shown above. Due to the application of such costs in a way determined by the ESO without discrimination to any of the trading participants in the market, it is undisputable that the estimated size of such alternative costs is justified and market-level.

5 FUNCTIONAL ANALYSIS

The description of the risks associated with the balancing and their allocation between the Company and CEZ Trade is, as follows:

5.1 *Market Risk*

CEZ Trade will bear market risk with regard to the performance of the mandatory balancing for the Company.

The Company will bear market risk with regard to the participation in the StBG. Given the balancing prices through ESO, the current market levels and the available options for the Company to exit the StBG without significant costs, this risk is negligible.

5.2 *Exchange Rate Risk*

In connection with the execution of the Agreement and given that the calculation and payment of the liabilities under it is done exclusively in Bulgarian leva, neither of the parties to it will undertake significant exchange rate risk.

5.3 *Credit Risk*

In connection with the execution of the Agreement and given the short maturity of the liabilities under it, neither of the parties to it will undertake significant credit risk.

5.4 *Interest Risk*

In connection with the execution of the Agreement and considering the interest on the overdue liabilities under it being equal to the statutory interest, neither of the parties to it will undertake significant credit risk.

5.5 *Inventory Risk*

In connection with the execution of the Agreement and given the specifics of the balancing energy as a commodity, neither of the parties to it will undertake a significant inventory risk.

6 ECONOMIC BENEFIT TO THE COMPANY

The position of the MB of the Company is that the Agreement is economically beneficial for the Company in the sense that it provides the optimal solution for minimizing its costs for imbalances.

The MB has carried out an analysis of the alternative solutions - independent balancing by the Company and balancing through participation in another balancing group (not the one of CEZ Trade). A summary of the results of the analysis is provided hereinbelow:

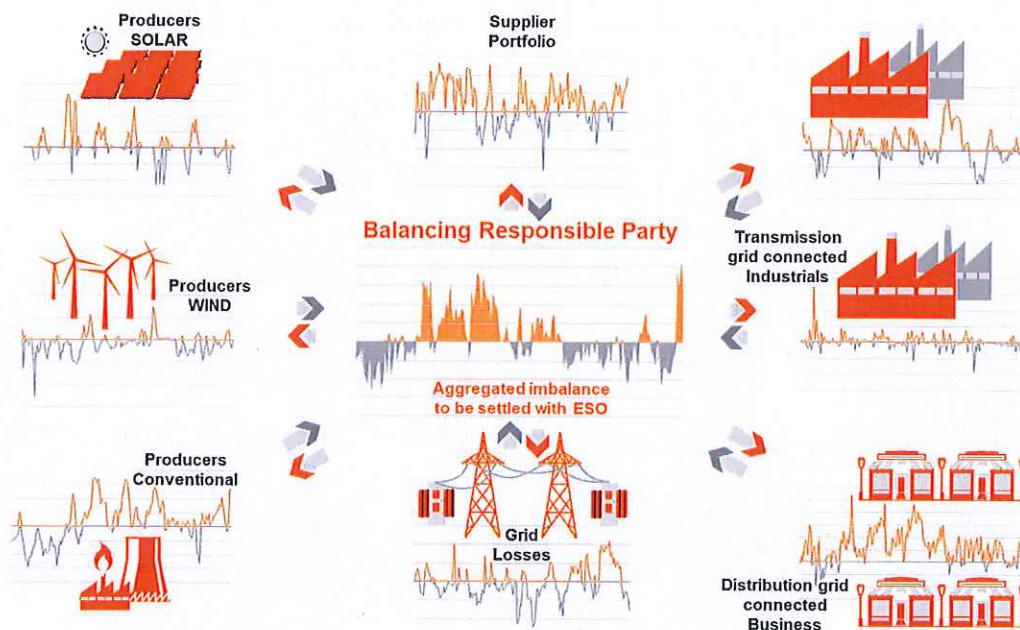
6.1 Independent Balancing

In this option, the costs of the Company for imbalance (BGN / MWh) would increase by > 30%. The energy that the Company sells to end customers under its license as a trader shows a steady upward trend. In view of this, a proportional increase of the costs for imbalances can also be anticipated.

6.2 Participation in Balancing Group

The very concept of participation in a balancing group implies the realization of benefits for the participants in the group due to the synergy between them. The balancing costs are reduced by the netting-out (when some participants are in shortage, while others are in surplus).

An indicative model of the mechanism of work of the group is presented in the scheme below:



Under the current market conditions, the participation in a group would be inevitably more cost-effective for any participant, if compared to balancing through ESO, and the larger the group, the greater the options to reduce the costs for imbalances.

The participation in StBG will allow the Company to realize the following strategic advantages:

- reduction of balancing costs by reason of the synergies;
- reduction of the risk of increasing the prices for imbalances; and

- market advantage in terms of the final prices for customers.

6.3 *Benefits from the Participation Specifically in the Balancing Group of CEZ Trade*

The StBG of CEZ Trade is one of the biggest balancing groups in Bulgaria and as at the date of preparing the Report features the following volume and profile:

- ✓ aggregate average load exceeding 700 MW / hour with annual consumption of circa 6 TWh;
- ✓ comparable size of the participants in terms of load and imbalances, which would be appropriate to the aggregated profile of CEZ Electro, that being a necessary condition to the achievement of optimum results;
- ✓ stable and foreseeable balancing costs, which would enable better planning and budgeting of the costs for balancing energy by the participants;
- ✓ financially secured group with guarantee made available by CEZ Trade to ESO for the amount of BGN 22 million;
- ✓ reliable IT systems for the management of the group of terms of exchange of data, calculation, verification, data storage, energy management, settlement and balancing; and
- ✓ optimized unit cost of imbalances per MWh in the range of 25-40% for the different participants, if compared to the price, which would have been payable at the balancing cost of ESO.

The comparison of the **specific economic impact positive to the Company** from the participation in the StBG of CEZ Trade is shown in the table below:

		Y 2019	Y 2020	Y 2021
Imbalance costs (in the group of CEZ Trade)*	BGN thousand	753	2 372	6 393
Expected expense (in cases of balancing under prices of ESO)	BGN thousand	1 494	3 522	9 337
Positive financial effect for CEZ Electro Bulgaria AD	BGN thousand	742	1 150	2 944

* - the value has been calculated through simulation of the participation in the StBG of CEZ Trade

The estimated positive effect (i.e. the reduction of costs for imbalances), being at the amount of BGN 2 944 thousand for the year 2021, is expected to change for each next years by the size of the estimated growth of the operations of the Company under its license for trader. The current environment on the electricity market and the historical trend justifies the expectation of the management of the Company that both changes are in the direction of increase.

Seen from the reverse-angle perspective, failure by the Company to participate in the StBG of CEZ Trade and balancing itself before the ESO would lead to an increase of the balancing costs, where the negative impact incurred for the year 2022 alone would amount to not less than BGN 2,7 million.

7 **DRAFT RESOLUTION**

In view of the above, the MB proposes to the GM to take the following decision, contained in the invitation for the GM:

“The General Meeting, on the grounds of Art. 114, Par. 1, item 2, last proposal, in connection with Art. 114, Par. 1, item 1, letter “6” and Art. 114a, Par. 6 of the LPOS, authorizes the Management Board of the Company to enter, in accordance with the rules for representation of the Company before third parties, into an agreement for the participation of the Company as a sub-coordinator with its sub-group in the standard balancing group (“StBG”) of CEZ Trade as a coordinator and for the balancing of the portfolio of the Company under its license for trade with electricity, on the following essential terms and conditions:

(a). parties to the agreement:

The parties to the agreement are: (1). CEZ Trade as coordinator of the StBG, which assumes the responsibility for balancing of the net position of the Company as a sub-coordinator with the position of CEZ Trade, as well as with the positions of the other sub-coordinators in the StBG of CEZ Trade; and (2). the Company as a sub-coordinator in the StBG with CEZ Trade as the coordinator

(b). subject-matter of the agreement:

The subject-matter of the Agreement is: (1). inclusion, participation and exclusion of the Company as a sub-coordinator in the StBG with CEZ Trade being the coordinator; and (2). determination, in the relations between the Company and CEZ Trade, of the basic principles for the calculation of the individual imbalance of the Company and balancing as the sub-coordinators in the StBG of CEZ Trade; (3). completion of physical and financial settlement by CEZ Trade as coordinator of the StBG after receiving the data from ESO EAD; and (4). allocation of the financial effect of the StBG between CEZ Trade and the individual sub-coordinators inside the group, after CEZ Trade, as the coordinator, has paid ESO EAD the costs for balancing energy in the event of shortage. The liabilities of the Company to CEZ Trade for payment of balancing energy in the event of shortage are netted-out on a current basis against those of CEZ Trade to the Company for balancing energy in the event of surplus. Where the Company has negative net position for the respective period, the Company shall pay CEZ Trade the value of such position.

(c). price of the energy for imbalances:

The unit price of the energy for imbalances (in BGN / MWh) is determined for each separate reporting period on the basis of the price of energy for surplus / shortage of ESO EAD, calculated according to the Rules for Electricity Trade, respectively for surplus / shortage of the StBG, according to the formulas applied by CEZ Trade for all sub-coordinators in its group.

The financial effect of netting-out the imbalances is allocated amongst the coordinator and the individual sub-coordinators in the StBG on the basis of the General Principles for Distribution of Imbalances, based on transparent calculation of the effect and allocation of the effect amongst all participants in the StBG, where bigger than zero (in netting-out).

(d). maximum total value:

The maximum total value of the liabilities of the Company to CEZ Trade for energy for imbalances shall not exceed BGN 6,5 million per calendar year. The measurement of the value of the liabilities under the agreement against the threshold under Art. 114, Par. 1, item 1, letter “6” of the LPOS is based on the maximum total value for the entire duration of the agreement.

(e). duration of the agreement:

The agreement enters into force and effect on the first day of the month following the month when the regulatory changes related to the abolition of the regulatory ban on merging standard balancing groups are adopted and remains in force for a period of 5 (five) years.

(f). beneficiaries of the agreement:

CEZ Electro Bulgaria AD and CEZ Trade Bulgaria EAD.

(g). *other essential terms and conditions of the agreement:*

The agreement contains the rights and obligations of the parties, which are immanently inherent to the balancing process in the StBG in alignment with the applicable regulatory requirements, such rights and obligations being allocated in a manner, as customary to the coordinator-sub-coordinator relationship.

The physical and financial settlements are done not earlier than 1 working day after receiving data from ESO EAD.

Each of the coordinator and the sub-coordinator shall comply with the regulatory requirements and conditions for participation in the balancing energy market, including the financial guarantee and payment of the dealings of balancing energy.

The coordinator and the sub-coordinator announce their daily delivery schedules in accordance with the requirements of the Electricity Trading Rules and the instructions of ESO EAD.

Where requested by the coordinator, the sub-coordinator shall provide security to its liabilities, whose amount is determined on the basis of the estimated volume of imbalances, such security being of type and character, as usually applied by the coordinator to the members of the StBG.

The invoicing of the energy for imbalances is done on a monthly basis taking account of netting-out. The liabilities of the Company to CEZ Trade shall be paid not later than the 14th day of the month immediately following the reporting period.

Each of the coordinator and the sub-coordinator may terminate the agreement by 30-day advance notice to the other in writing, without indicating any cause.

The decision is conditioned by the abolition of the current legal ban on merging standard balancing groups.”

8 NOTICE OF ABSENCE OF VOTING RIGHTS OF THE INTERESTED PARTIES WITH VOTING RIGHT

The shareholder EEEBC is hereby notified that pursuant to Art. 114a, Par. 5 of the LPOS that shareholder shall not be allowed to vote on the proposed draft-resolution by reason of its capacity of an interested party by virtue of Art. 114, Par. 7, item 2 of the LPOS.

Members of the Management Board of CEZ Electro Bulgaria AD:

The signature was placed, but removed on the grounds of Art. 5, Par. 1 of Regulation (EU) 2016/679.

Dimcho Stanev

The signature was placed, but removed on the grounds of Art. 5, Par. 1 of Regulation (EU) 2016/679.

Christo Babhev