

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

material under item 5 of the agenda

**SUBSTANTIATED REPORT OF THE MANAGEMENT BOARD OF CEZ ELECTRO
BULGARIA AD**

pursuant to Art. 114a, Par. 1 of Law on Public Offering of Securities

Re: Expediency and Terms and Conditions of Realisation of Deal in Accordance with Art. 114, Par. 1, item 2, prep. last in conj. with item 1, letter "b" of the LPOS

1 GENERAL INFORMATION REGARDING THE DEAL

1.1 General Description of the Deal

The deal represents an agreement for the provision of services against consideration by and between CEZ Electro Bulgaria AD (hereinafter referred to as the "**Company**") and CEZ Bulgaria EOOD, a company incorporated and existing under the laws of the Republic of Bulgaria, having its seat and address of management at: Sofia, Mladost Region, 159, Tsarigradsko shose Blvd., BenchMark Business Centre (hereinafter referred to as "**CEZ Bulgaria**").

The Company and CEZ Bulgaria are related parties within the meaning of §1, item 13, letter "b" of the Additional Provisions of the Public Offering of Securities Act (hereinafter referred to as the "**LPOS**"). The person under whose joint control the Company and CEZ Bulgaria are is the Eastern European Electric Company B.V. (the Netherlands), a limited liability company, incorporated and operating under the laws of the Netherlands, registered with the Business Register at the Chamber of Commerce of the Netherlands under No. 75462788, having its seat and registered address at: Netherlands, Basisweg 10, 1043 AP Amsterdam (hereinafter referred to as "**EEEC**"). The control is such in the sense of §1, item 14, letter "a" of the Additional Provisions of the Public Offering of Securities Act and is expressed in the direct ownership by the EEEEC of 69.34% of the share capital of the Company and 100% of the share capital of CEZ Bulgaria .

Given the above and taking into account the fact that CEZ Bulgaria, in addition to being a party related to the Company, is also a party to the transaction, the persons interested in the transaction are:

- EEEEC within the meaning of Art. 114, para. 7, item 2 of the LPOS;
- CEZ Bulgaria within the meaning of Art. 114, para. 7, item 1, proposal one of the LPOS; and
- Mr. Karel Král and Mr. Christo Babbev within the meaning of Art. 114, para. 7, item 3 of the LPOS, given their capacity as members of the Management Board of CEZ Electro Bulgaria AD and Managers of CEZ Bulgaria EOOD.

Under the terms and conditions of the deal the Company assumes or could assume liabilities to CEZ Bulgaria, where the total amount of those liabilities exceeds or could exceed 2% of the lower of the values of the Total Assets on the latest prepared two Balance Sheets of the Company, at least one of which has been audited and which have been disclosed publicly following the procedure of Art. 100r of the LPOS.

Economic Essence of the Deal

1.1.1 Services Necessary for the Licensed Activities of the Company

The day-to-day operation of the licensed activities of the Company as: (i). end-supplier of electricity; (ii). last-resort supplier of electricity; and (iii). trader of electricity, necessarily requires the use of services in various areas, including, among others, finance and accounting; human resources; public relations and communications; customer care; legal; facility management; business and management consultancy (the latter hereinafter referred to as the “Services”). The absence of any of these services, of the timing and quality determined by the Company, would jeopardize the on-going performance of the Company above the standards of the law, its license and the policies of the EEEC Group.

1.1.2 Shared Service Centre

1.1.2.1 Reasons for organizing the activity of the Company by assigning Services to Shared Service Centre

The Energy Act provided for an obligation for electricity distribution companies to separate legally and organizationally the activities related to electricity distribution and operational management of distribution networks from electricity supply and other activities of electricity distribution companies until the end of 2006. This legal obligation required restructuring of the Bulgarian companies from the CEZ Group then. The restructuring was carried out taking into account both the requirements of Bulgarian legislation and the requirements of EU law. One of the main provisions of the regulatory framework, which determines the structuring of activities in the field of electricity, is that *“common services are those that after the restructuring are provided by both the distribution company and the supply company, and possibly other companies. Duplication of common services would lead to a significant increase in costs without corresponding additional revenue, so it is reasonable to centralize their provision.”*

This situation has laid the legal and economic basis for the establishment and operation of shared service centres as a model for resource provision (including services) in the electricity sector.

During the restructuring, in 2006 the Company was established as a new company for electricity supply. At the same time, service activities such as: accounting and control; information and communication technologies; Human Resources; Public Relations; regulatory management; logistics; management of tangible assets; Customer Relationship Management were separated from the energy companies (the Company and CEZ Distribution Bulgaria AD) and centralized in CEZ Bulgaria EAD, which operates the CEZ Group's shared services centre at the time (hereinafter referred to as “SSC”).

The model of outsourcing of shared services to SSC was applied by the companies of the Group for 10 years - from the beginning of 2007 to November 2017. On November 1, 2017 expired the duration of the contracts for the provision of services and for the selection of suppliers concluded between CEZ Bulgaria and the Company.

CEZ Electro, with the support of the independent consultant A.T.Kearney GmbH, performed a financial analysis of all possible options for obtaining the services described above. The results showed that if the activities were insourced or outsourced, the costs for each of the services would increase. According to the procedures provided for in the current legislation, on 29.06.2017 a General Meeting of the Company was convened and held, at which draft new contracts for the provision of services by CEZ Bulgaria were proposed for approval, which would replace the existing contracts after their expiration and bring the volume, scope, and prices of the services, in accordance with the current needs of the Company and the market conditions. On the General Meeting on June 29, 2017, there was no authorizing resolution on the proposal made by the management.

The company notified the EWRC by letter Ent. № E-13-47-55 of 15.09.2017 for the resolution of the General Meeting, respectively for the possible restructuring options and what would be the effect on the operating costs of the final supplier in case of change of the current model.

Based on the financial analysis the Management Board selected and implemented the model of insourcing, as part of the processes are outsourced to external companies - ICT, printing, printing and delivery of invoices, collection of payments from customers.

1.1.2.2 Activities of the SSC

The SSC concentrates the provision of uniform types of service to multiple companies from the EEEEC Group in order to avoid the duplication of activities and to achieve economies of the scale.

More than 464 employees and managers are working in the SSC to provide the Services. In providing the Services to the Company, the SSC - CEZ Bulgaria does not use as a sub-contractor neither the mother company EEEEC, nor its daughter companies. The companies – sub-contractors, which the SSC has contracts with, are selected within tender procedures. The costs of the SSC under the contracts with the sub-contractors are re-invoiced to the other companies from the EEEEC Group without a mark-up, while these companies retain the effect of the scale-based lower prices.

In any case, the responsibility and the risk of sub-contracting third parties for the provision of the Services related to the activities to the Company, is borne by CEZ Bulgaria. The sub-contracting is not related to additional cost and to deterioration of the quality of the out-sourced services. Savings and effectiveness are achieved both by the initial out-sourcing of part of the activities to independent suppliers and the subsequent negotiation of unit prices with these sub-contractors with the aim for a continuous decrease of the cost.

According to item 2.6.2. of the license for supply of electricity from SLR and item 2.7.2 of the license for ES, CEZ Electro may contract to assign the performance of certain parts of the licensed activity or other related activities to third parties, if the contract ensures that the implementation of the assigned activities is in accordance with the requirements of the license, the Energy Act and other applicable bylaws and administrative acts and at costs not higher than those for which the licensee would perform these activities himself.

With the aim to perform its licensed activities at minimum economically substantiated cost, the Company undertook a number of activities and projects for the decrease of the cost. One of the options for optimization was out-sourcing towards the shared services to CEZ Bulgaria. In this way was achieved a higher quality at lower cost and smaller number of the personnel.

1.1.2.3 Effectiveness of the SSC

The out-sourcing of the administrative and general activities in a SSC has the following advantages:

- economies of the scale – the increase of the volume of the provided administrative and general activities in one company leads to improvement of the process and the skills of the employees, which subsequently leads to the reduction of cost;
- avoiding the doubling of activities;
- decrease of the number of administrative personnel;
- better management and process co-ordination;
- improvement of quality of the provided services due to specialization.

The sub-contracting by the SSC is done on market conditions within competitive procedures. The concentration of a number of provided services for all of the companies from the Group allows the attainment of lower prices of the shared services.

1.2 Management and Officers of the Company and External Advisors Engaged with the Deal

The following persons have been engaged with the deal:

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

Dimcho Stanev Stanev and Christo Borissov Babbev (members of the board Karel Král and Christo Babbev could be considered interested persons within the meaning of Article 114, paragraph 7, item 3 of the LPOS)

Finance Director of the Company:

Rozelina Kostova

Director of Legal and Regulatory Activities of the Company:

Maria Yovcheva-Panayotova

Director of Investor Relations of the Company:

Radoslav Dimitrov

Prepared Documentation for transfer pricing of the Services under the Contract

Deloitte Bulgaria EOOD

1.3 Information with Regard to the Approval of the Report

This presented Substantiated Report is approved by the Management Board of the Company (hereinafter referred to as the “MB”) and represents a material under item 5 of the agenda of the Extraordinary General Meeting of the Shareholders of the Company scheduled for 18 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 was prepared on the basis of Art. 114a, para. 1 of LPOS and contains what is required according to Art. 33, Par. 1 of Ordinance № 2 of November 9, 2021 on Initial and Recurring Disclosure of Information in Public Offering of Securities and Admission of Securities to Trading on a Regulated Market, in force as from 01.01.2022, issued by the Financial Supervision Commission, as follows:

- (i). description of the proposed Deal, including its subject-matter, value, beneficiaries, as well as of the other essential terms and conditions of the Deal, which are necessary to provide complete information and avoid misleading of the shareholders;
- (ii). the trade names of the parties to the proposed deal;
- (iii). the trade names of the parties, which qualify as interested parties under Art. 114, Par. 7 of the LPOS, the reasons to qualify as such and the grounds of their interest;
- (iv). the market valuation of the proposed deal under Art. 114a, Par. 6 of the LPOS; and
- (v). description of the economic benefits of the Company of 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 SLA.

The Report contains all of the essential terms and conditions of the SLA, necessary for the adoption of an informed and substantiated resolution by the GM with regard to the authorization of the MB on the entering into the SLA.

In the absence of approval by the GM, the MB would not have the powers to enter into the SLA. In the event that the SLA would anyway be concluded in the absence of such approval, then it would have been null and void pursuant to Art. 114, Par. 12 of the LPOS.

3 ESSENTIAL TERMS AND CONDITIONS OF THE SLA

3.1 *Parties to the SLA and Interested Parties*

The parties to the SLA are CEZ Bulgaria, as the supplier of the Services, and the Company, as the client of the Services. As stated above, the parties to the SLA are related parties and the persons interested in the transaction are the EEEEC, pursuant to Art. 114, para. 7, item 2 of LPOS and CEZ Bulgaria, on the grounds of Art. 114, para. 7, item 1, proposal one of the LPOS, as a related party and party to the transaction, Mr. Karel Král and Mr. Christo Babbev, pursuant to Art. 114, para. 7, item 3 of the POSA, as members of the Management Board of the Company and Managing Directors of CEZ Bulgaria.

The interest of EEEEC in the SLA arises from its capacity of a majority shareholder of the Company and a sole shareholder of CEZ Bulgaria, and is manifested in the following:

- (a). efficient supply of the Services to the Company – of quality, which would allow the performance of the obligations of the Company as a license-holder and as a publicly-traded company at a price, which may be reasonably expected to be the lowest for the Company at such quality;
- (b). optimisation of the cash-flow of the Company; and
- (c). maintenance of stable financial condition of the Company.

CEZ Bulgaria's interest derives from its status as a person related to the Company within the meaning of §1, item 13, letter “b” of the Additional Provisions of the LPOS and a party to the transaction and is reduced to the creation of receivables from the Company as a result of the contract.

Given the quality of the members of the Management Board of the Company - Karel Král and Christo Babbev, Managing Directors of CEZ Bulgaria, it is possible to consider them as interested parties within the meaning of Art. 114, para. 7, item 3 of the POSA.

3.2 *Subject-Matter of the SLA*

The subject-matter of the SLA is the provision of the Services against consideration. The Services are specified by main categories, where each main category includes a different number of sub-categories describing in detail each respective service.

3.2.1 Main Categories of Services

- I. Customer Care;
- II. Finance and Accounting;
- III. Human Resources;
- IV. Public Relations and Communications;

- V. Legal;
- VI. Facility Management;
- VII. Business and Management Consultancy;
- VIII. Selection of Suppliers;

3.2.2 Sub-Categories of the Service

The sub-categories of the Services are listed below:

3.2.2.1 *Customer Care Services*

The customer care services include all operations for the realization of the contractual relationship between the Company and electricity consumers by way of: (a). call centre service; (b). personal service in trade centres and customer offices; (c). liaising with customers; (d). invoicing;

The operations include, essentially:

- direct interfacing with customers (service of information requests; settling claims; consultations related to the electricity sale);
- entering into and servicing electricity sale agreements (execution; settling requests for change of tariff; settling requests for change of the identification details; settling requests for termination);
- archiving and managing of archive information, both on a hard copy carrier and a soft copy carrier, which information is related to the services provided by the Company, in accordance with the requirements of the Company;
- scanning and importing into the Client Information System of incoming, internal operational and outgoing documentation, related to the execution of the services;
- invoicing (generating, printing and delivery of invoices for the sale of electricity on the grounds of measured and validated readings, in accordance with the contractual relations of the Company with clients, the General Terms and the statutory requirements of the internal legislation) and delivery of invoices;

3.2.2.2 *Finance and Accounting*

The finance and accounting services include the following key operations in the field of: (a). financial and management accounting; (b). cash operations; (c). tax and insurance; (d). preparation of financial statements and methodologies; (e). cash collection; (f). collection of receivables:

- accounting of primary revenue and expenditure documents (purchases and sales; cost centres and internal orders);
- accounting for relationships with customers and suppliers;
- accounting for staff costs;
- preparation and ordering of cash transfers to suppliers;

- preparation of financial statements and declarations for the purposes of corporate taxation, taxation of individuals and TSIPC;
- preparation of documents and declarations for VAT and excise taxation and reporting;
- preparation of documents and declarations under the LTFA;
- preparation of monthly and annual financial statements;
- preparation of budgets, forecasts, short-term and long-term business plans at the company level;
- preparation of management reports and financial and economic analysis;
- cash flow forecasting and analysis against actual data;
- communication with the tax and customs administration in connection with tax audits and inspections;
- communication with auditors in connection with the audit of financial statements;
- preparation of insurance reports and management of insurance policies; and
- tax consulting services.
- acceptance of cash payments from customers to intermediaries (the Company's customers are provided with the opportunity to pay in cash in shopping centres and intermediaries, the amounts due for electricity supply and related services according to the price list);
- administration of non-cash payments by customers for electricity supply and related services;
- management of receivables from customers for electricity supply (complex management of receivables from customers in arrears of the obligation for consumed electricity, as well as receivables from services under the Price List, by implementing measures for collection of receivables, reminders, assignment of interruption of electricity supply, out-of-court collection of receivables, regular monitoring, subsequent analysis and preparation of reporting information).

3.2.2.3 Human Resources Services

The human resources services (referred to hereinafter as the “**HR Services**”) include the following key operations:

- human resources consultations;
- personnel planning and organisational structure;
- administration at all development stages of employees;
- remuneration, motivation and promotion of employees;
- personnel administration;
- planning and management of budgets relating to human resources;

- administration of employer in-house documentation;
- negotiations with trade unions;
- documenting and reporting obligatory medical check-ups;
- control and administration of exit forms of employees for the equipment provided to them;
- documenting and reporting obligatory technical trainings and trainings for ensuring health and safety working conditions;
- documenting and reporting additional trainings; and
- preparation of analysis and reports for movement and expenses of personnel.

3.2.2.4 Public Relations and Communication Services

The public relations and communication services (referred to hereinafter as the “PR Services”) include the following key operations:

- presentation of the Company in media;
- PR consultations;
- monitoring of publications and press-clipping;
- assistance for development and fulfilment of in-house communication strategy;
- management of corporate communications; and
- management of communications.

3.2.2.5 Legal Services

Legal services include: servicing of corporate management and control bodies, legal representation, consulting, preparation of documentation and assistance in negotiations and implementation of bylaws, internal documents, contracts with suppliers and customers and compliance administration in the areas of:

- corporate agenda and governance;
- commercial and finance matters;
- contractual relationships;
- employment; and
- litigation.

3.2.2.6 Facility Management, Transport and Record Keeping Services

The facility management, transport and record keeping services include the following key operations:

- analysis of the needs for administrative premises and assistance in providing premises;

- office planning and assistance in providing office furniture and parking spaces;
- management of contracts for maintenance, supply of utilities and repair of rented premises;
- management of the control for access and maintenance of the security of the administrative premises;
- management of contracts for insurance, maintenance, repair and fuel supply of vehicles;
- processing of incoming, outgoing and internal correspondence;
- record keeping and archiving services;
- provision of archives and acceptance of documents subject to archiving. Providing information from documents received in the archive.

3.2.2.7 Business and Management Consultancy Services

The business and management consultancy services include advisory and administration in the following areas: (a). project management; (b). regulatory management; (c). internal audit; and (d). coordination of commercial activities, with the following specific key operations:

- assistance and administration of projects in the implementation phase, consisting of organizing the project documentation, preparation of analyses and reports regarding the status of the completed tasks;
- operational and regulatory assistance in relation to the economic aspects of energy activities, including activities related to the liberalization of the energy market;
- consulting on regulatory issues and managing compliance with regulatory requirements;
- compliance activities and consulting aimed at adding value and improving the organization; and

3.2.2.8 Selection of Suppliers Services

The selection of suppliers services are the following:

- maintaining a database of potential suppliers;
- keeping a registry of the implementation of supply orders;
- preparation of reports and other documentation for the selection procedures;
- preparation of agreements with suppliers;
- updating the terms and conditions of the supply arrangements by preparation of annexes and addenda;
- organization of the individual stages of the selection procedures; and
- document archiving.

Supplier Selection Services do not include any activities related to the purchase of electricity, hiring of employees or related supplies.

3.3 *Price of the SLA*

3.3.1 Transfer Pricing Compliance

The unit fixed prices of the Services under the SLA are determined by pricing method and amount in accordance with transfer pricing documentation. The requirements of Ordinance No. H-9 dated 14 August 2006 on the Order and the Manners of Implementation of the Methods on Determination of Market Prices, as well as of the Principles of Determination of Market Prices of the Organisation for Economic Co-Operation and Development and of the Transfer Pricing Guidelines. More detailed information is provided in item 4.1. Transfer pricing documentation.

3.3.2 Pricing Method

The contract is based on the principle of “pay-as-you-consume” and has the following characteristics:

- customer-oriented (not service-oriented) - adapted to cover all services that the Company needs (and not just a separate range of services), except for limited types of services (mainly ICT services) provided by centres for specific services;
- contains clearly defined terms and conditions for specification, quality (including, above all, in terms of terms, form and content of supplies and where possible - the result) and price of the Services, respectively the rented office space;
- distinction between the many degrees of urgency and the effect of the specific service on the licensing activities of the Company - each with corresponding objectives for response / authorization and penalties for incorrect implementation;
- combining outsourcing of both expert processes and business processes;
- lack of binding of the Company with mandatory volumes or prices of the Services;
- is paid for a specific number of performed services measured as number of performed transactions, hours worked and other numerical measures.

Through the SLA the Company will enjoy the benefits of outsourcing activities within a corporate group through the management of SSC for Bulgaria.

The unit fixed prices of the Services under the SLA are determined under the method of *transactional net profit (i.e., operational cost plus rate of net mark-up)*. The relevant costs with regard to the provision of the Services are the following:

- (a). cost for salaries, social / medical contributions and other personnel costs;
- (b). cost for depreciation of long-term assets;
- (c). cost of materials and services (mainly payments to the ultimate suppliers); and
- (d). other costs (mostly related to business trips).

The relevant costs do not include any costs, which are not directly relevant to the provision of the Services (e.g. finance costs, foreign and local corporate tax).

The prices of the services are calculated and compared at the current volume of the activities by processes and at the level of the expenses for 2021.

The mark-up is determined as a percentage of the total value of approved expenditure, in accordance with the current local transfer pricing documentation described above, and amounts to, depending on the specific category of Services, as follows:

Amount of the Mark-Up (%)	Type of Service
4	PR Services
5	finance and accounting services; HR Services; customer care; legal services; business and management consultancy services; and selection of suppliers
6	facility management services

In the course of operating the SLA the levels of the mark-up would be periodically adjusted as indicated in Section 4.1. above.

3.4 *Duration of the SLA*

The SLA will enter into force on the first day of the month following the month, in which CEZ Bulgaria has organized its internal processes so as to ensure the implementation of the Services, and will remain in force and effect for a period of five (5) years.

3.5 *Estimated Fee under the SLA*

The estimated fee under the SLA within the period of 5 (five) years is forecasted, as follows:

Estimated Fee	5-Year Period
Amount (BGN '000)	93,600

3.6 *Required Permit from the Energy Regulator*

If at any time in the course of performing the SLA the applicable law requires permit from the Energy Regulator for the provision of any Services under it, then the respective services will be ordered and provided only after the obtaining of such permit. In the event that such permit is required, but is not obtained in a timely manner in accordance with the law, then the SLA will be terminated forthwith as from the respective moment.

In the context of the possible necessity for a permit is borne in mind mostly the requirement of Art. 92, Par. 1, item 3 of Ordinance No. 3 dated 21 March 2013 on the Licensing of Activities in the Energy Sector (or another provision of a legislative act, which amends, supplements or repeals the referred one). That provision stipulates that: „*The Energy Regulator provides permit for the consummation of deals of value exceeding 10% of the assets of the license holder (i.e. of the Company – insertion ours) pursuant to the last audited Annual Financial Statements*”. The said threshold is dynamic, i.e. the Company is required to make annual calculations of the threshold and – in the event that it would be possibly exceeded – to initiate proceedings for the obtaining of a permit from the Energy Regulator.

The management of the Company intends to apply the said provision in a conservative manner by exercising monthly control over the total value of the Services under the SLA on an aggregation basis starting from the beginning of supply.

3.7 *Estimate of the Value of the SLA against the Thresholds under the LPOS*

Under the SLA, the Company will receive the Services and will rent premises, which will lead to *creation of liabilities* in the meaning of Art. 114, Par. 1, item 2 of the LPOS. The total value of the SLA is estimated to reach the thresholds, determined in the aforementioned legal provision.

Due to the qualification of the Company and CEZ Bulgaria as *related parties* and the qualification of EEEEC as *interested party* with respect to the SLA, the applicable threshold is the one under Art. 114, Par. 1, item 1, letter "b" and Art. 114, Par. 1, item 2, last proposition of the LPOS, namely: *2% of the lower value of the assets on the last audited or the last prepared Balance Sheet of the Company, at least one of which has been audited and which have been disclosed to the public in accordance with the procedure of Article 100m of the LPOS.*

At the time of preparing the Report, the relevant latest reports of the Company are:

statement	balance sheet date	total assets (thousand BGN)	threshold 2% of total assets (thousand BGN)
last audited	31.12.2020	339,983	6,800
last prepared	31.12.2021	333,793	6,676

From the comparison between the abovementioned threshold and the estimated price of the SLA, it can be concluded that the SLA falls within the scope of Art. 114, Par. 1, item 2, last proposition in relation with Art. 114, Par. 1, item 1, letter (6) of the LPOS, due to which it 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*".

3.8 *Provisional Character of the Value of the Services under the SLA*

At the moment of the preparation of the Report, it is impossible to estimate with precision any total value of the Services under the SLA. This is because the orders for the Services under the SLA will be made on a monthly basis in a different volume corresponding to the current needs of the Company for the respective period. Based on historical information the MB estimates that the referred threshold could be reached by the supplies under the SLA within the second quarter of the duration of the SLA.

3.9 *Terms of Payment of the Services*

The remuneration for the Services under the SLA is paid on the basis of monthly invoices following the signing by the Company and CEZ Bulgaria of a Protocol of Delivery-Acceptance of the Services provided in the respective period. The payment will become due as of the date of the signing of that protocol and will have to be done not later than 15 calendar days following the date of the issue of the invoice.

3.10 *Beneficiaries of the SLA*

The SLA is concluded as beneficent to both parties.

3.11 *Other Essential Terms and Conditions of the SLA*

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

3.11.1 General Terms

- The Services are provided with resources (including, but not limited to, materials, technical and employment), whose economic owner is CEZ Bulgaria.
- The specific type and volume of the Services is determined by the Company through periodic orders.
- The Company is not committed to ordering any minimum volume for any of the Services at any moment of the duration of the SLA. Neither is the Company committed to reaching any level of value, periodical consideration or total consideration. The Company holds full control of the scope and value of the SLA, which allows it to tailor them to its own specific needs at any moment.
- The quality of the Services corresponds to procedures, methods and rules approved by the Company. The Company has the possibility to control and exercise constant inspections with regard to the technical parameters of the Services.
- In the provision of the Services, CEZ Bulgaria is obliged to ensure the security of the systems and the protection of the data in accordance with the statutory requirements and the applicable Security Policy of the Company in the area of the information and the information systems.
- In the event of default or deficiency in quality of the Services, CEZ Bulgaria will owe the Company penalty depending on the type and materiality of the case. CEZ Bulgaria will be held liable for damage incurred by the Company in result of the quality of the Services (including, but not limited to, sanctions imposed by competent administrative authorities and payments to suppliers).
- On top of the general grounds for termination, the Company will have the right to unilaterally terminate the SLA by written notice to CEZ Bulgaria also in any of the following cases:
 - with an immediate effect – in the event of substantial breach of the SLA by CEZ Bulgaria; and
 - by 3-month prior notice – by each of the parties to the SLA without cause.
- The SLA is regulated by Bulgarian law.
- Any disputes relating to the SLA will be submitted for resolving by the competent Bulgarian court.

3.11.2 Specific Terms

- In the event of delayed payment by more than 30 calendar days of the business and management consultancy services, customer care, facility management, transport and record keeping, financial and accounting services, HR and PR services, legal services and supplier selection services, the Company will owe CEZ Bulgaria interest for delay at the amount of the basic interest rate plus 10% (ten per cent) per year.

4 **MARKET VALUATION**

4.1 *Transfer Pricing Documentation*

As required by Art. 114a, par. 6 of the LPOS, the SLA, if approved by the GM and entered into by the MB, should be at a price equal to the market value of the Services.

The market value of the Services is determined by the independent advisor Deloitte Bulgaria EOOD – a leader in the area of providing professional tax advice, including transfer pricing matters. The value is set forth in a written study prepared under the requirements for transfer pricing study (hereinafter referred to as the “**Transfer Pricing Study**”). It takes into consideration the traditional references to sources and databases of transnational character.

The Local File of the Transfer Pricing Documentation for the fiscal year 2020 of CEZ ICT, as prepared in June 2021 by Deloitte Bulgaria EOOD, analyses the transfer pricing policy applied to dealings with affiliated parties and whether or not the results of such policy would be aligned with the arm's length principle. The documentation reviews the transactions between CEZ ICT and its related parties done in 2020 from the perspective of the functions performed, the assets used and the risks borne by either party and analyses whether the pricing of those transactions is aligned with the principle of independent business dealings. The Analysis is done in compliance with:

- Ordinance № H-9 dated 14 August 2006 on the Order and the Manners of Implementation of the Methods on Determination of Market Prices issued by the Minister of Finance;
- the Transfer Pricing Guidelines, as announced on the web-site of the National Revenue Agency (www.nap.bg) in 2010; and
- the Guidelines of the Organisation for Economic Co-Operation and Development on Transfer Pricing for Multinational Enterprises and Tax Administrations.

The documentation shows that the most appropriate transfer pricing method is the *Transactional Net Profit Method* (TNPM), which compares the rate of the net profit on a controlled deal, calculated as the ratio between the net profit and a selected basis (sales revenue, operating expense, assets), with a comparable rate of net profit, calculated on the same basis on a deal between non-affiliated parties. By using publicly accessible information are identified independent third parties, which do comparable transactions with a disclosed rate of net profit. The TNPM is, therefore, selected as the most suitable method for testing the market compliance of the pricing of the transactions under review. After consideration of the profile of the Company and review of the analysed deals, it is determined that the Rate of Net Profit is the most appropriate indicator for the purpose of the analysis. The market level of the Rate of Net Profit, as confirmed in the Local File of the Transfer Pricing Study, are set put in Section 4.3 hereinbelow.

In line with the tax laws and the regulations of the preparation of Transfer Pricing Documentation, contained in Chapter VIII „a“ of the Tax and Social Security Procedure Cide, the local file of CEZ ICT is updated annually and the results of the economic analysis are applied to the pricing of the truncations between the related parties. As at the moment of preparing this present Report, Pricewaterhouse Coopers Bulgaria EOOD have been assigned to prepare the update of the Local File of the Transfer Pricing Documentation for the fiscal year 2021 for CEZ ICT.

As far as the Local File of the Transfer Pricing for the financial year 2020 does not form part of the materials under item 5 of the agenda of the General Meeting, it is available to the shareholders of the Company who wish to get acquainted with it in its entirety through the Company's Investor Relations Director at the following contact details:

1784 Sofia
Mladost Region
159, Tsarigradsko Shosse Blvd.
BenchMark Business Centre
phone: +359 2 895 83 89

email: radoslav.dimitrov@cez.bg

4.2 *Functional Analysis*

The description of the risks related to the SLA and their allocation between the Company and CEZ Bulgaria is, as follows:

4.2.1 Market Risk

CEZ Bulgaria will bear significant market risk with regard to the SLA. Although CEZ Bulgaria has a guaranteed client (the Company, and other Bulgarian companies of the EEEEC Group), CEZ Bulgaria will employ on its own behalf significant tangible and intangible assets exclusively dedicated to the provision of the Services.

4.2.2 Exchange Rate Risk

Neither of the parties to the SLA will undertake significant exchange rate risk related to the execution of the SLA.

4.2.3 Credit Risk

Neither of the parties to the SLA will undertake significant credit risk related to the execution of the SLA.

4.2.4 Interest Risk

CEZ Bulgaria shall bear the interest risk with regard to the provision of the Services corresponding to the time-gap between the average term of payment of the services by clients (about 1.5 – 2 months following their supply) and the average term of payment to the employees and the suppliers to CEZ Bulgaria.

4.2.5 Inventory Risk

Neither of the parties to the SLA will undertake significant inventory risk related to the execution of the SLA.

4.2.6 Risk related to Quality

CEZ Bulgaria will bear the risk with regard to the quality and the timely supply of the Services. That risk represents the accrual of penalties in cases of non-compliance with the quality parameters of the SLA and in the event of delay.

4.2.7 Cost Increase Risk

CEZ ICT and the Company will bear the risk of increase of the costs.

4.3 *Amount of the Mark-Up*

The Transfer Pricing Study contains an analysis on the comparability of the terms and conditions of providing the Services under the SLA with the terms and conditions, under which identical or substantially similar services are provided between non-related parties in an environment, which is identical or substantially similar from competition point of view.

Based on the results of the analysis, the applicable transfer pricing method is the *Transactional Net Profit Method*. That method consists of the comparison between a net profit rate of a taxable person in

a controlled deal (or deals, which would suitably be grouped) with a net profit rate, which that same person realizes in a comparable non-controlled deal. The net profit rate is the return on total cost (rate of operating profit) determined by way of dividing the operating profit by the total operating cost.

Further, the analysis established that the average rate of net profit (return on total costs) realised by companies comparable to CEZ Bulgaria providing services in the relevant areas is within the following boundaries (the so called "inter-quartile range"):

Customer Care Services, Finance and Accounting Services, HR Services, Legal Services, Business and Management Consultancy Services, Selection of Suppliers Services:

	Minimum	Lower Quartile	Median	Upper Quartile	Maximum
Rates of Net Profit (return on total costs) (%)	-27,78%	1,19%	2,38%	6,59%	28,55%

PR Services

	Minimum	Lower Quartile	Median	Upper Quartile	Maximum
Rates of Net Profit (return on total costs) (%)	0,49%	1,55%	5,05%	16,79%	33,51%

Facility Management Services

	Minimum	Lower Quartile	Median	Upper Quartile	Maximum
Rates of Net Profit (return on total costs) (%)	-3,29%	0,47%	3,27%	7,52%	11,45%

Adopting a conservative approach, the management of the Company contemplates an amount of the mark-up on the different type of Service as shown in item 3.3.2 of the Report, which would result in fitting into the median rate of net profit (return on total costs). That amount of the mark-up corresponds to the main requirement for compliance with market levels – the rate of net profit falls within the inter-quartile range between the lower quartile and the upper quartile and does not deviate from the acceptable price levels from tax perspective.

5 ECONOMIC BENEFIT TO THE COMPANY

5.1 General Information

The opinion of the MB is that the SLA will be economically beneficial to the Company in the sense that it would utilize a combination of strategic benefits (in substance – synergies in the EEE Group) and financial benefits (in substance – savings from capital and operational expenses), as follows:

- Strategic Benefits:
 - (i). the general benefits of corporate outsourcing in SSCs;
 - (ii). the general benefits of one-stop shopping of services; and

(iii). the specific benefits of tailored supply of a comprehensive package of services provided by CEZ Bulgaria.

- Financial Benefits:

- (i). savings of operational expenses;
- (ii). cash flow optimization.

The SLA ensures to the Company the optimal balance between price and quality of the Services, as it benefits from the advantages of the SSC (narrowly-specialized experts; tailored to the needs of the Company; and synergies on a group level), while realizing significant savings from the costs of the Services.

5.2 *Strategic Benefits*

5.2.1 Benefits of Shared Service Centre

SSCs in general represent a particularly efficient option for the procurement of services to businesses, which interface end-consumers, because:

- the management and staff of the business does not focus on procurement and targets the operational effort exclusively on:
 - core activities (quality of supply of electricity and value for money to customer) – that would be particularly important to the Company in the period from 2022 to 2025, which is critical to developing a stable and diversified portfolio of clients on the Free Market;
 - digitalization and innovation; and
 - speed to market;
- SSCs ensure higher quality of service compared to in-sourcing, as they invest predominantly in expertise of personnel, which narrowly specializes into 1 service line – the Company would thus be in avail of better professional resources (including, but not limited to, expert and technical capacity);
- SSCs allow an increase in the flexibility to handle the changing business environment by leveraging the capacity of the service providers; and
- SSCs servicing multiple clients of a specific service line realize economies of the scale.

As the supplier - CEZ Bulgaria is designated to service exclusively the Bulgarian companies of the EEE Group, the Company would, on top of the above general benefits, achieve an overall reduction of costs, for the following reasons:

- as far as operations interact between distribution (which is at CEZ Distribution Bulgaria AD, a sister-company) and end-supply (which is at the Company), such interaction would be implemented on the uniform level of the SCC, which would avoid doubling operations;
- through the SCC would be channelled the most significant part of the supply chain (purchase → distribution → supply → payment), which would enable a smooth co-ordination of processes; and

- the Company would have its stake of the usual synergies, which arise in SSCs in the utility sector, and would be otherwise available to the remaining members of the EEE Group.

In result of the above, the SLA would to a maximum extent ensure the performance of the licensed obligations of the Company.

5.2.2 Avoiding Disadvantages by One-Stop Shopping

Procuring the Services directly from the market, rather than from a SSC, would inevitably entail cost of resources for non-core processes, such as:

- separate management for the Services individually;
- maintenance of staff dedicated to liaising exclusively with the outside supplier of 1 specific service only; and
- need for follow-up integration at the level of the Company of the results / deliverables from multiple non-coordinated suppliers.

The above disadvantages would be eliminated by the SLA and the provision of the Services from a SSC, which would – from the perspective of the Company – guarantee one-stop shopping. That may not be achieved by way of supply directly from the market.

5.2.3 Company-Tailored Supplier

The SSC is created and periodically shaped to meet particularly the needs of the Bulgarian companies of the CEZ Group, including the Company. This is particularly efficient where the consideration for the Services is based on cost of service, as irrelevant or non-value costs are eliminated in full as pricing components.

5.3 *Financial Advantages*

5.3.1 Financial Analysis

The MB of the Company performed a financial analysis of all possible options for the procurement of the Services, where were compared the conditions of:

- the SLA;
- procurement of the Services by technical and personnel resources of the Company (i.e. **“Full In-Sourcing”**) while using services from third parties only for certain specific activities.

The financial analysis is done by employees of the Company.

The present Report of the MB contains summarized results and conclusions of the Financial analysis.

5.3.2 Activities Performed in the Financial Analysis

The activities performed in the financial analysis of the possibilities provided by the SLA, and through Full In-Sourcing, are, as follows:

Activity	Result
Analysis of the processes and the sub-processes (the Services) with regard to their specifics and	Segregation of groups of services - see item 5.3.5.2 below, as the financial conditions of each

Activity	Result
the technical possibility for their in-sourcing as per the proposed agreement	of them are considered separately
Development of detailed variations of the possible options	Determining of variations for the Services
	Comparison of potential options
Defining of comprehensive calculation model for comparing the costs of performing the Services	Presence of objective criterion for comparison of the costs
Defining of time-period for the comparison	Measurement as of the present market moment (the beginning of 2022) and reflection of the market dynamics for 12 months backwards (for the entire 2021)

5.3.3 Comparison Criteria of the Financial Analysis:

In the financial analysis the SLA is compared with the provision of the Services performed with own technical and human resources of the Company - Full In-Sourcing. The comparison was made according to the following economic criteria:

- (i). valuing the synergies from the SSC through analyses of operations in the activities for savings of the scale and avoiding duplication;
- (ii). valuation of the Services performed with the Company's own technical and human resources;
- (iii). the analysis was made at the current volume of process activities and at the level of costs for 2021.

According to the prevailing metrics standard, the comparative analysis of the cost of the Services is done based on the *full-time equivalent (FTE)* criterion – a measure equal to 1 man occupied professionally with the provision of the Services within one full business day in the year. The synergies of the SSC are calculated based on the above coefficient.

5.3.4 Key Output Assumptions

The financial analysis is based on the following key output assumptions:

- The costs of processes for Full In-Sourcing of these processes by the Company are calculated and compared with the costs of the same services according to the proposed SLA. The costs for the Services were compared in each of the two cases.
- Full insourcing and outsourcing to SSC should not be absolute as a model for the provision of all Services, because some specific actions related to the Services (aspects of the Services) are currently already outsourced, which is inevitable due to their nature (e.g. external suppliers provide elements of the PR service as ultimate suppliers or external suppliers providing elements of the Services for printing and delivery of invoices and collection).
- The division of activities in the SSC (which also provides services to other companies of the Group) and their allocation specifically to the Company is carried out taking into account the actual volume and intensity of the Services.

- The eventual transfer of processes to the SSC by the Company transfers assets and personnel, which leads to the respective legal, tax and accounting consequences.

5.3.5 Results of the Financial Analysis

5.3.5.1 Comparison of the costs of the Services (summarized differences)

The comparison of the costs of the Services under the SLA and at their in-sourcing is summarized in the below table¹:

	SLA	In-Sourcing
Total annual costs	18,720	20,565
Excess of costs over the SLA	n/a	1,845

All amounts in the table are in BGN '000 (thousand Bulgarian Leva).

Summary:

For in-sourcing of the Services their cost would be in the amount of up-to BGN 1.8 million per year higher than expected under the SLA.

5.3.5.2 Comparison of Costs by Service (breakdown by processes)

The breakdown of the costs of the Services by process is, as follows²:

No	Process	SLA	In-Sourcing
1.	Customer care incl. client centres, contact line, invoicing and delivery of invoices, customer satisfaction	9 768	10 597
2.	Collection of amounts for invoiced electricity and monetary transactions	4 145	4 259
3.	Receivables management (debts)	2 439	2 402
4.	Financial accounting, reporting and methodology, tax and insurance management	1 221	1 352
5.	Legal and regulatory services (including lawsuits against debtors)	514	1 054
6.	Human Resources	135	483
7.	Public Relations	73	81
8.	Facility management, transport and record keeping	74	81

¹ Source: Company's internal data

² Source: Company's internal data

9.	Corporate management services incl. Supply Management, Internal Audit, Project Management, etc.	351	256
TOTAL:		18 720	20 565

All amounts in the table are in BGN '000 (thousand Bulgarian Leva).

5.3.6 Reasons for the Higher Cost of In-Sourcing

The advantages of the SLA over the In-Sourcing of the Services (as-is status) and the synergies of the proposed SLA are mainly due to:

- The employees in the SSC of the Group, servicing a specific process, are more in number, which allows their specialization and profiling in a specific area of the process. This will lead to higher quality of service because the specialization of different specialists in SSC will be used. Specialists work in the independent performance of the process in the Company (current status), who must cover all activities for management of a specific process. At SSC, the specialists in the Group will provide Services based on hours worked and reported /documents/ number of calls received / number of issued invoices or other numerical meters and so only a specific number of their hours will be directed as expenses to the Company.
- The overall organization of the processes in the SSC will be performed by the head of the respective process in the SSC, who has expertise, and its costs are directed according to the specific services provided to the Company (i.e. incomplete man-days),
- Profit from economies of the scale because all conditions with third parties will be negotiated on a larger scale because they also cover services for other companies in the Group.

The decrease of the costs of each of the Services in the SLA, is a result of the effect of various Service-specific factors, as follows:

Process / Sub-Process	Factors for Reduce of Costs
Cash Collection	In SSC, the administration of payment files sent and received by collection intermediaries (payment service providers, banks, etc.), which also requires on-call time, is achieved with less human resources, as files for both companies are processed at the same time. More opportunities for substitutions and shifts will be created, the difficulties of communication between different companies at work will be reduced as similar files with similar characteristics, requirements and terms are processed. Contact with payment counterparties is easier for both companies. One contact person works with all intermediaries. There will be one process manager in the SSC and the Company will partially bear its costs as its costs will be directed according to the specific services provided to the Company (i.e. incomplete man-days). Profit from economies of scale - all conditions with intermediaries will be negotiated on a larger scale, as they include collection of receivables and other companies in the group. In any case, external suppliers are selected on a competitive basis.

Process / Sub-Process	Factors for Reduce of Costs
Receivables Management (debts)	Check-ups regarding customer complaints usually require cooperation between the Company and other licensees, such as CEZ Distribution Bulgaria AD. The separation of work in both companies has led to an increase in the volume of work for both companies, the need for additional communication, and an increase in the number of notifications sent. Upon concluding the SLA, an employee of the SSC may make the necessary check-ups for both companies and respond where permissible. This saves customer response time. When servicing this activity by the two companies separately, a partial inspection is currently being carried out by one company and a formal request is being made to the other, where employees can review the same application. Thus, the processing time increases, and the risk of communication gaps and incomplete consideration of the client's case increases. At present, applications, interruption orders, status checks, etc. are sent between the companies. In the SSC, the whole process will be able to be performed chronologically, taking into account the specific requirements of the energy legislation. This will ensure automation, process continuity and elimination of additional activities. The process will also provide an opportunity for direct control of the implementation of interruptions, analysis and reporting. The "power outage" instrument is very important for the collection of the Company's receivables. In SSC it will be easy to check the status and assess the implementation of further measures - judicial / out-of-court collection. At SSC, the same employees will carry out the overall organization of processes, change processes and IT systems, resolve specific cases, prepare documents requiring higher qualifications, which will lead to synergies and, consequently, reduce the number of man-days and costs. The overall organization of the process, changes in the process and the information system (analysis, definition, application, testing, approval and implementation of requests for changes in information systems), resolution of specific cases, preparation of documents requiring higher qualification will be performed by the head of the process in SSC, and its costs will be directed according to the specific services provided to the Company (i.e. incomplete man-days). Profit from economies of scale - in the SSC all conditions with intermediaries for judicial and out-of-court collection will be negotiated on a larger scale, as they also cover the collection of receivables of other companies in the Group.
Cash Management	The flexibility of SSC employees allows substitutability between them and specialization in specific activities. Process management in SSC incl. management of new processes /new banking services/ and contact with all banks regarding banking services and obtaining financing will be performed by the head of the process at SSC, and its costs are directed according to the specific services provided to the Company (i.e. incomplete man-days). Profit from economies of scale - all conditions with banks will be negotiated on a larger scale since they also cover the activities of other

Process / Sub-Process	Factors for Reduce of Costs
	companies in the Group.
Financial accounting, reporting and methodology, tax and insurance management	The SSC will have the opportunity to apply uniform rules and controls in the accounting of processes related to the purchase and sale of energy in accordance with energy, tax and accounting legislation, which will increase the quality of services provided compared to their independent performance, reduction of the costs for licenses for the use of software and reduction of costs related to external training of the staff will occur, as the trainings can be internal, thus achieving higher efficiency in managing the same processes in different Companies. Synergy will be achieved through the specialization of employees in specific areas. This leads to detailed knowledge of the specific process (accounting for suppliers, payments from customers, receivables, staff costs, etc.), interchangeability and increase the competencies and efficiency of employees. Raising and maintaining the qualification of employees through training is for all companies served, and the costs are shared between the companies served by SSC, which leads to savings. There are shared communications with external and control institutions for all companies served. The overall organization of the process is now done by the head of the process in the Company, while in SSC this head will lead the process for other companies, and its costs are directed according to the specific services provided to the Company (i.e. part-time). Communication with external contractors and institutions will be performed by the same employees for more than one company, which will reduce the cost of services provided for the company.
HR	In the independent performance of the process, the Company employs specialists who must cover all activities for Human Resources Management. At SSC, the specialists in the group provide Services on the basis of worked out and reported documents concerning employment or selection / training, which are dedicated to the activities of the Company. Employees at SSC specialize in a specific area of human resource management (administration of labour relations, remuneration processing, trade union relations, management of social benefits and training, development programs, planning and budgeting of human resources). The quality of the service would be higher, because the specialization of various specialists in SSC will be used, and at the same time only a specific number of their hours will be directed as expenses to the Company. The overall organization of the process will be performed by the head of the process at SSC, and its costs are directed according to the specific services provided to the Company (i.e., incomplete man-days). Profit from economies of scale, when negotiating the terms of contracts with third parties such as training, social benefits, etc. activity-related services.
Customer Care – Trade Centres	When servicing both companies from SSC, there is a “one-stop-shopping” effect, since each employee, authorized by the respective company, is acquainted in detail with the processes and serves all services offered to the clients by the respective company - licensee - the

Process / Sub-Process	Factors for Reduce of Costs
	Company or CEZ Distribution Bulgaria AD. The activities will be carried out in compliance with the specific requirements of the energy legislation. This is primarily customer-oriented, and in addition it would greatly facilitate and increase the quality of customer service, as when visiting a shopping centre, the client is not aware in advance which company offers the service depending on his request. Currently, the division of the Company's counters and CEZ Distribution Bulgaria AD leads to an increased number of employees as it is necessary to have at least two employees from each company in each shopping centre. The overall organization of the process will be performed by the head of the process at SSC, and its costs are directed according to the specific services provided to the Company (i.e., incomplete man-days). "One-stop shopping" will lead to a significant reduction in repetitive processes both in the IT system and for the client and notifications for the implementation of specific services by the client will be created chronologically according to the logic of the process. Profit from economies of scale, when negotiating the terms of contracts with third parties such as leases, security, etc.
Customer Care - Invoicing	The SSC will create an opportunity for greater specialization and at the same time some of the activities will be able to be used by other companies in the Group. This will create an opportunity to share costs in the Group. The overall organization of the process will be performed by the head of the process at SSC, and its costs are directed according to the specific services (number of billing documents) provided to the Company, i.e. and they will be shared with other companies to which SSC provides services. No resources or additional time will be required for data import and verification and for the daily exchange of information between the two companies, as is currently the case. The risk of inconsistencies, omissions and delays in the need for communication between different companies will be reduced. Profit from economies of scale, which would lead to deterioration of the terms and conditions under contracts with third parties, such as agreement for enveloping and delivery of invoices.
Customer Care – Call line	The synergies in the proposed SLA are: Unified telephone line for customer service of both companies in compliance with the specific requirements of energy legislation. Fast, easy and convenient way to connect the customers of the two companies. Comprehensive service within one call without the need to terminate, transfer a call. Currently, the two companies are served by one telephone line, with two separate menus for calls on the activities of the respective Company. This increases the number of calls because customers often do not know which company to go to, for example in the event of a power outage. This also leads to inconvenience for customers. Receiving and servicing incoming customer inquiries and signals

Process / Sub-Process	Factors for Reduce of Costs
	received on the telephone line, 7 days a week, 24 hours a day. Possibility for flexible and fast redirection of resources in activities with sharply increasing volume (increased accidents, electronic invoices, marketing and sales campaigns, declaration of meter readings, and other initiatives of the companies), greater possibility for on-call and substitutions. The established coordination function will not be needed to communicate with the other companies in the group, The overall organization of the process will be performed by the head of the process at SSC, who has the greatest expertise, and its costs are directed according to the specific services provided to the Company (i.e. incomplete man-days).
Customer Care – Customer Satisfaction	When processing each client's case by an employee of the SSC, it will be possible for the client's case to be processed from start to finish without being transferred between individual companies, depending on the specifics of the case. Currently, one customer complaint often has to be answered by the two companies separately. Centralization to the SSC will eliminate customer dissatisfaction with receiving partial responses from various companies. The larger number of employees in the SSC will allow greater specialization of individual employees, as well as better coordination between the individual units compared to the coordination between the two companies so far. This will make the activities more efficient, and the number of man-days paid will be reduced. The overall organization of the process is now done by the process manager at the SSC, and its costs are directed according to the specific services (number of directed calls) provided to the Company (i.e., incomplete man-days). No additional communication between companies will be required, as is currently the case, and the response time will be reduced. The risk of delays and omissions will be reduced.
Legal Services	The synergies in the proposed SLA are: In similar cases, regardless of whether it is a matter of resolving a customer issue, an opinion on the implementation of regulations, new legislation, etc., an opinion will be prepared, which will then be used by all or several of the affected companies, and the costs of preparation will be shared according to allocation keys. The principle of working with external law offices is similar. The savings will come from the fact that in similar cases a certain law firm gets appointed, and it offers lower prices because it is assigned cases from several companies in the group and thus savings in volume are achieved. Due to the larger number of employees, the SSC has a greater opportunity for specialization, lawyers are strictly profiled - the large volume of work for all companies requires more human resources, which in turn allows profiling. The costs will be directed to the Company only for specific activities performed by individual

Process / Sub-Process	Factors for Reduce of Costs
	employees.
Regulatory Services	According to the proposed SLA, it will be possible to use the analyses of the regulatory requirements and proposals for changes in the regulatory framework of the SSC team, such as the hours worked and, accordingly, costs to be shared between the two companies. For regulatory activities related to price applications, etc. related to the regulation of the activity, the synergy of the proposed Agreement is due to the experience of employees in the field of pricing, knowledge of regulatory legislation and relevant administrative procedures. When preparing opinions relating to several companies in the group, the costs of these opinions are shared and savings are made, as in the case of legal services. Better communication is also achieved with the relevant institutions, as well as between companies, when necessary (for example, the quantities of projected electricity for price applications to the Energy Regulator, the determination of regulated prices between the two companies should be coordinated). The overall organization of the process will be performed by the head of the process at SSC, who also has expertise, and its costs are directed according to the specific services provided to the Company.
PR	The SLA proposes that the SSC team provides the Company with a comprehensive service, including internal communications, media communications, communications with shareholders and institutions. Members of the team specialize in specific areas and can provide expertise in various areas, directing to the Company only part of their costs. Currently, the activity is performed by a single employee of the Company, who covers all areas of public relations (internal communication, communication with the media, communication with shareholders and institutions, etc.). The overall organization of the process will be performed by the head of the process at SSC, who has expertise, and his costs will be directed according to the specific services provided to the Company (i.e., part-time). Profits on economies of scale will also be achieved, which will lead to improved conditions under contracts with third parties.

6 DRAFT RESOLUTION

With regard to the abovementioned, the MB proposes to the General Meeting to adopt a resolution, as it is contained into the Invitation to 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 a Contract for provision of services under the following significant terms and conditions:

(a). parties to the contract:

CEZ Electro Bulgaria AD as a customer and CEZ Bulgaria EOOD as a supplier.

(b). subject-matter of the contract:

provision against consideration of: customer care services, finance and accounting services, HR services, PR and communication services, legal services, facility management, transport and record keeping services, business and management consultancy services; selection of suppliers services, which services are necessary for the usual activities of CEZ Electro Bulgaria AD as an End Supplier, Last Resort Supplier of electricity and a Trader of electricity

(c). price of the services:

The prices of every service are determined in the amount in accordance with the transfer pricing documentation.

The services shall be reported and paid on a monthly basis after their approval.

(d). expected total remuneration of the contract:

The expected estimated total remuneration under the Contract over a period of 5 (five) years is prognosticated, as follows:

BGN 93.6 million (ninety-three million and six hundred thousand leva)

(e). duration of the contract:

The Contract enters into force and effect on the first day of the month following the month when CEZ Bulgaria has organized its internal processes so as to ensure the implementation of the Services and remains in force for a period of 5 (five) years.

(f). beneficiaries of the contract:

CEZ Electro Bulgaria AD and CEZ Bulgaria EOOD

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

The specific type and volume of services are determined by CEZ Electro Bulgaria AD with periodic requests for services.

The Company is not obliged to order any minimum volume of Services at any time during the performance of the Contract. Also, the Company is not obliged to reach any value, periodic or total

remuneration. The Company has full control over the volume and value of the Contract, which allows it to bring it in line with its own needs at any time.

The quality of the services corresponds to the procedures, methodologies and rules approved by CEZ Electro Bulgaria AD.

The services are provided with resources (including, but not limited to, material, technical and personnel), whose economic owner is CEZ Bulgaria.

In performing of the Services, CEZ Bulgaria is obligated to ensure the security of its systems and data protection in accordance with the legal requirements and the current Company's Policy for security in the field of information and information systems.

In case of non-performance or poor performance of the Services, CEZ Bulgaria owes the Company a penalty depending on the type and severity of the non-performance. CEZ Bulgaria is liable for damages caused to the Company resulting from the quality of the Services (including, but not limited to, sanctions imposed by the competent administrative authorities and payments to suppliers).

In addition to the general grounds for termination, the Company has the right to unilaterally terminate the Contract by a written notice to CEZ Bulgaria in each of the following cases:

- with an immediate effect - in case of significant non-fulfilment of the Contract by CEZ Bulgaria; and

- with a three months' notice - by each of the parties to the Contract without giving a specific reason.

The contract is regulated by Bulgarian law.

Disputes concerning the Contract are referred to the competent Bulgarian court for resolution."

7 NOTICE OF ABSENCE OF VOTING RIGHTS OF THE INTERESTED PARTIES

The shareholder Eastern European Electric Company B.V. (Netherlands) 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 Babbey~~ /