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POLICY ON TRANSACTIONS WITH RELATED PARTIES

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SUMMARY

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AIM

In accordance with the Code of Ethics and Professional Conduct, the Organization commits to carry out its operations in terms of integrity and transparency.

The aim of the Policy on Related Parties Transactions is:

- I. to identify, manage, monitor and report transactions with related parties with respect to Romanian Tax Code provisions and other legal requirements in force on transfer pricing, as well as OECD guidelines on transfer pricing, as The Romanian Tax Code recommends,
- II. to obtain a reasonable assurance regarding the prices of the related parties transactions so as to ensure the prices are fair considering the rights and obligations of the parties, compared to other offers existent on the market, according to Law no. 24/2017 and CNVM Regulation no. 1/2006 provisions in force, and also
- III. to protect the companies from conflicts of interests, ethical breaches and any other issues of noncompliance that could impair the related party transactions and harm the Organization reputational, commercially, financially or could lead to legal sanctions, affecting its prestige and financial results, on both short and long term.

APPLICABILITY

This policy is applicable to all Personnel of Electrica S.A., its subsidiaries or other entities inside the Group with legal personality, in all the activities performed for analyzing and approving transactions with related parties, within or on behalf of the Organization.

This Policy provisions does not represent exemptions from the legal provisions in force. The Personnel have the obligation to comply with applicable laws.

DEFINITIONS

Affinity – the connection between the spouse and the relatives of the other spouse; the spouse's relatives are in the same line and the same degree, affinity to the other one.

Beneficiary – party involved in a transaction receiving and paying the value of goods / products, services or works provided by the other party involved in the transaction.

Business partners – all the persons and legal entities the Organization maintains or initiates a business relationship with, including institutions or state authorities whose decisions can influence the Organization's operations.

Conflict of interests – the situation in which the organization's personnel has a direct or indirect¹ personal interest, contrary to the interest of organization, so it affects or can affect the objectivity and impartiality in decision making or timely fulfilment of their duties during the job performance.

Code – the Code of Ethics and Professional Conduct.

Comparability analysis – information regarding: characteristics of the property or services transferred, the contractual terms and conditions, business strategies pursued and economic circumstances of the transaction with related party; comparable transactions (description of the

¹ For the purposes of this Policy, if, for example, an executive with mandate contract within the Organization is also director in a services providing company outside the Organization to enter into a contract with the Organization, this represent a conflict of interest situation and the mandated executive must declare it and refrain from any decision-making process regarding that services provider (offer evaluation, award contract, signing services acceptance protocol, confirming invoiced services, etc.).

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companies selection process, the information sources used, presentation of the financial indicators used and their values, description of comparability adjustments made if case may be, list of comparable companies and eliminated companies mentioning the reasons for eliminating those).

Comparison range – the range of prices or results for comparable transactions between independent comparable companies after eliminating extreme results from the comparison margin.

Comparison margin – the range of prices or results for comparable transactions between independent comparable companies.

Competitive procurement procedures – the procurement procedures completed using SEAP/SICAP (www.e-licitatie.ro) platform or the procurement procedures carried out in accordance to internal procedures, which involved at least one eligible bidder who is not a Related Party (Affiliate) and whose offer was not declared nonacceptable or noncompliant regardless of the evaluation criteria used.

Coordination personnel – managers and any other persons working within or on behalf of the Organization, with decisional power and/or coordinating and controlling an activity, according to the organizational chart of the Organization or other internal documents, paid or not, no matter the legal form of the agreement they have with entities inside the Organization.

Cumulative Value – represents the summed value of:

- a) all transactions related to a specific framework agreement or contract;
- b) all transactions related to framework agreements or contracts with identical object and same counterpart, regardless their individual value, concluded during a financial year;
- c) all transactions related to agreements that are closely linked to one another by the fact that they are concluded in order to achieve the same final objective, even preserving their own individuality, concluded during a financial year.

Decision Maker – person that holds the approval responsibility for a Transaction according Delegation of Authority Policy (DoA).

Executive Positions – positions occupied by persons working within or on behalf of the Organization, with decisional power and/or coordinating and controlling an activity, entrusted directly by the Board of Directors, through a contract of mandate.

Extreme results – segments of maximum and minimum resulted following the division of the comparison margin into 4 segments.

Functional analysis (F.A.R. analysis) – functions performed, assets employed and risks assumed by the parties for the transaction completion.

Group – a parent company that controls one or more subsidiaries and all its subsidiaries.

Organization – the ensemble of Electrica S.A.'s structures, its subsidiaries, and other entities inside the group, with legal personality.

Personal interest – any material advantage or of another kind², pursued or obtained directly or indirectly by Electrica's personnel, for themselves or for others, by using their reputation,

² For the purposes of this Policy, a benefit of another kind could be a reputational benefit, for example if an executive with mandate contract within the Organization is also president of a nonprofit foundation that submit an application

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influence, facilities, relations, information they have access to, as a result of performing their duties.

Person that controls a legal person – natural person or legal person that owns directly or indirectly, including holdings of related parties, the majority, by value or by number, of the participation titles or voting rights or that has the right to nominate/ revoke the majority of the members inside the highest governance body that administrate, manage or supervise the legal person.

Personnel/ Electrica’s personnel – The management, employees and any other persons working within or on behalf of the Organization, with or without decisional power, paid or not, no matter the legal form of the agreement they have with Electrica S.A, its subsidiaries and other entities, with legal personality, inside the group.

Related Party/Affiliate – natural person or legal entity whose relationship with the Reporting entity is defined by at least one of the following cases:

- (a) The natural person or its spouse, or its relative/relative by affinity up to third degree:
- (i) owns directly or indirectly, including holdings of related parties, a minimum of 25%, by value or by number, of the participation titles or voting rights in the Reporting entity;
 - (ii) holds a Director position (according to Companies Law no. 31/1990) or Executive Positions inside the Reporting entity;
 - (iii) holds a Government Official position, a Director position (according to Companies Law no. 31/1990) or Executive Positions inside a legal entity that owns directly or indirectly, including holdings of related parties, a minimum of 25%, by value or by number, of the participation titles or voting rights in the Reporting entity;
 - (iv) owns directly or indirectly, including holdings of related parties, a minimum of 25%, by value or by number, of the participation titles or voting rights of a legal entity that administrates the Reporting entity.
- (b) The legal person:
- (i) is part of the same Group of companies with the Reporting entity (meaning that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) owns directly or indirectly, including holdings of related parties, a minimum of 25%, by value or by number, of the participation titles or voting rights in the Reporting entity;
 - (iii) is a joint venture of the Reporting entity;
 - (iv) and the Reporting entity are joint ventures of the same legal entity;
 - (v) controlled by a natural person identified in (a);
 - (vi) has as Director Position (according to Companies Law no. 31/1990) or Executive Positions a person identified in (a)(i) or a person identified in (a)(i) holds Director Position (according to Companies Law no. 31/1990) or Executive Positions inside its parent company.

Relative – (1) natural - is the connection based on the filiation of a person from another or that of several people having a common ancestor; (2) civil – is the connection that results from the adoption completed in respect to terms provided by law. Relative is in “straight-line” in the situation of a filiation of a person from another, and can be ascending or descending. Relative is in “side-line” when several people have a common ancestor. Family relationship is established:

a) “straight-line” considering the number of births, thus, children and parents are immediate

for obtaining financing from the Organization there is a conflict of interest situation and the mandated executive must declare it and refrain from any decision-making upon this financing request.

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relatives, nephews and grandparents are second-degree relatives; b) “side-line” considering the number of births, coming up from one common ancestor and down to the other relative, thus, the siblings are second degree relatives, uncle or aunt and nephew, of third degree, cousins, of fourth degree.

Reporting entity – the legal person that reports its Transactions with Related Parties.

Significant Associate/Shareholder – any person holding rights related to shares that cumulated represents at least 10% of the of the shared capital or at least 10% of the outstanding voting securities.

The arm's length principle (ALP) – the principle according to which the pricing, terms and conditions for transactions between related parties are set so as to be similar to those between independent companies on an equal footing.

Transfer Pricing Documentation – documentation that presents the framework for business transactions between affiliated companies, highlighting how the pricing and conditions of transactions are set so as to be similar to those between independent companies, based on comparability analysis and functional analysis, elaborated according to the national Tax Code.

Transaction – a relationship governed by a legal act involving a transfer of resources, services or obligations between two or more natural or legal persons.

THE PRINCIPLES OF THE POLICY

1. Identifying, Monitoring and Reporting Relevant Transactions with Related Parties

- 1.1. The Organization sets up and updates whenever necessary a permanent **Related Party Register** with all the Affiliates.
- 1.2. Transactions with Cumulative value under 50,000 EUR are considered **Minor Transactions** and will not be subject to monitoring/reporting process.
- 1.3. Any transaction with a Cumulative value equivalent to or higher than 50,000 EUR but under 250,000 EUR is a **Relevant Transaction**.
- 1.4. Any transaction with a Cumulative value equivalent to or higher than 250,000 EUR but under 3,000,000 EUR is a **Medium Impact Transaction**.
- 1.5. Any transaction with a Cumulative value equivalent to or higher than 3,000,000 EUR is a **Major Impact Transaction**.
- 1.6. The Personnel involved in completing Transactions with Related Parties has to inform the Ethics&Compliance department/officer regarding the transaction, considering the timing set by the rules of enforcement.
- 1.7. The Organization registers all Relevant or Impact Transactions with Related Parties completed during a calendar year (reporting period) in a **Related Parties Transactions Register** that will be annex of the **Annual Report (Directors' Report)**.
- 1.8. Transactions with Related Parties will be analysed biannually by the financial auditor of the company with regard to the fair price considering the rights and obligations of the parties compared to other offers existent on the market, according to Law no. 24/2017 and CNVM Regulation no. 1/2006 provisions in force.
- 1.9. The Organization elaborates biannually and annually reports on conflicts of interest in relation to Relevant or Impact Transactions with Related Parties assessment.

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2. Avoiding and Preventing Conflicts of Interests in relation to Transactions with Related Parties from Becoming Effective

- 2.1. The Organization prohibits initiating or completing Transactions with natural persons that are Related Parties, excepting those for household utilities, regardless of the Transaction value.
- 2.2. In case of all transactions between legal persons within the Organization that are Related Parties, the interest is to comply with The Arm's Length Principle.
- 2.3. Transactions between legal entities within the Organization, that are Related Parties, will not generate/consume potential conflicts of interests as long as they are concluded under The Arm's Length Principle.
- 2.4. Transactions between Affiliate legal entities within the Organization are concluded under The Arm's Length Principle if the value/financial indicator (margin/result/price) of the transaction is inside the comparison range, fact certified by the market conditions analysis for that specific transaction.
- 2.5.
 - 2.5.1. For all **Relevant Transactions** between Affiliate legal entities within the Organization, the parties will have the obligation to carry out ex-ante the Comparability Analysis and the Functional Analysis included in the Transfer Pricing Documentation, according to the specific methodologies, internally or with an external consultant, upon the Decision maker request.
 - 2.5.2. For all **Medium and Major Impact Transactions** between Affiliate legal entities within the Organization, the parties will have the obligation to carry out ex-ante the Comparability Analysis and the Functional Analysis included in the Transfer Pricing Documentation, according to the specific methodologies, with an external consultant.
 - 2.5.3. For all **Relevant or Medium and Major Impact Transactions** between Affiliates, in case within Electrica Group there are Comparability Analysis and Functional Analysis included in the Transfer Pricing Documentation, performed according to the specific methodologies by an external consultant during the past 12 month, for a similar transaction, the external consultant report will be used by the parties and there will be no obligation to carry out different analysis for them.
 - 2.5.4. According to the specific transfer pricing methodology, namely OMFP 442/2016, transactions between related parties are considered to be under the market value principle if the financial indicator of the transaction /value of the transaction (margin/result/price) falls within the comparison range. In the functional and comparability analysis related to the Transfer Pricing File, the comparison interval consists in establishing the lower value, the median value (the central trend of the market) and the higher value.
 For all **Relevant Transactions, Medium and Major Impact Transactions** between Related parties, the transaction value (margin/result/price) will be set at the level of the median value resulted from the functional and comparability analysis related to the Transfer Pricing File.
 By exception, setting the transaction value at a value between the lower and the median value will be done only with the prior approval of the management of both related parties involved in the transaction.
- 2.6. For all **Relevant Transactions, Medium and Major Impact Transactions** between Related parties, the contracts concluded will include the following mandatory clause:
"Taking into account the affiliation relationship between the two companies, as defined in the contract, the parties take into consideration the compliance with the market value principle in determining the transfer prices used in the present transaction by admitting and specifically

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accepting the possibility of adjusting the price of the contract, at the end of each fiscal year, based on the transfer pricing documentation prepared in accordance with the legislation in force at the time of the analysis.”

This clause may not be included in the sectorial/public contracts concluded under the sectorial/public procurement legislation, if it is not possible or would contravene/contradict with the provisions of the relevant legislation.

- 2.7. In case of transactions between Affiliate legal entities within the Organization, the professional activity related direct or indirect interests of the Decision makers inside those legal entities cannot generate potential conflicts of interests³.
- 2.8. In case of transactions with legal persons outside the Organization that are Related Parties, provisions of the *Policy regarding the avoidance and combating conflicts of interest* in force will be followed.
- 2.9. Transfer Pricing Documentation prepared at company level will include documentation for all transactions with Related Parties for which the annual cumulative material thresholds are reached, according to legal requirements in force.
- 2.10. In case of transactions between Related Parties for which the price of the transaction is set by a Regulator according to applicable legal provisions or regulations in force, the market condition analysis or the Comparability Analysis and the Functional Analysis included in the Transfer Pricing Documentation are not required, regardless of the Transactions' value.
- 2.11. In case transactions between Related Parties are concluded following Competitive procurement procedures, ex-ante market condition analysis or ex-ante Comparability Analysis and Functional Analysis included in the Transfer Pricing Documentation are not required, regardless of the Transactions' value.

RULES OF ENFORCEMENT

3. Identifying, Monitoring and Reporting Relevant Transactions with Related Parties

- 3.1. Ethics&Compliance Department in collaboration with the Ethics&Compliance Officers of the legal entities within the Organization set up and maintains up to date electronically the Related Parties Register that includes all Affiliates, providing it to interested parties upon request.
- 3.2. In case of Transactions with natural persons that are Related Parties, carried out for accessing household utilities, provisions of the *Policy regarding the avoidance and combating conflicts of interest* in force will be applied.
- 3.3. For **Minor Transactions** between Related Parties, the CFO⁴ of each legal entity within the Organization involved in the transaction performs the market conditions analysis, electronically validating the transaction in accordance with The Arm's Length Principle.
- 3.4. For all **Relevant, Medium and Major Impact Transactions between Related Parties**, the Responsible Personnel of each legal entity within the Organization involved in the Transaction, submits to the Decision-maker and the Ethics&Compliance Department/Officer the Comparability Analysis and the Functional Analysis included in the Transfer Pricing Documentation, according to the specific methodologies.
- 3.5.
 - 3.5.1. For all **Relevant Transactions** between Related Parties, the Decision maker requests the CFO/the responsible Personnel to carry out ex-ante the Comparability Analysis and the Functional Analysis included in the Transfer Pricing Documentation, according to the

³ For example: in case a person holds both an executive position/employee position in a legal entity within the Organization and a director position in another legal entity inside the Organization and has to decide regarding a transaction between the two related parties, there will be no conflict of interest, according to this Policy provisions, as long as the transaction is concluded under market conditions or under a regulated price (2.9.).

⁴ CFO, Financial Director, Economic Director, Shared Services Manager or assimilated positions

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specific methodologies, internally or with an external consultant, according to the risks involved by each Transaction, the analysis report being part of the Substantiation/Opportunity Note.

- 3.5.2. For all **Medium and Major Impact Transactions** between Related Parties, the CFO/the responsible Personnel have to carry out ex-ante the Comparability Analysis and the Functional Analysis included in the Transfer Pricing Documentation, according to the specific methodologies with an external consultant, the analysis report being part of the Substantiation/Opportunity Note.
- 3.5.3. In case within Electrica Group there are Comparability Analysis and Functional Analysis included in the Transfer Pricing Documentation, performed according to the specific methodologies by an external consultant during the past 12 month for a similar transaction, the external consultant report will be used by the Related parties involved in a **Relevant, a Medium Impact or a Major Impact Transactions** attached to the Substantiation/Opportunity Note and there will be no obligation to carry out different analysis for them.
- 3.5.4. The related party involved in a **Relevant, a Medium Impact or a Major Impact Transactions that acts as the Seller** will request an external consultant to perform the Comparability Analysis and the Functional Analysis included in the Transfer Pricing Documentation, according to the specific methodologies, and will bear the entire costs, and the resulting analysis report will be included in the Substantiation/Opportunity Note elaborated by each of two related parties.
- 3.6. Based on the received notes and information, Ethics&Compliance Department/Officer communicates by e-mail, to the Personnel involved in transaction, the opinion regarding potential conflicts of interests and the measures to be taken in order to avoid those from becoming effective, if case may be.
- 3.7. Ethics&Compliance Departments/Officers sends to the ELSA's Ethics&Compliance Department all received notes and information and also the provided opinions in maximum 7 working days from receiving/sending them.
- 3.8. Ethics&Compliance Department registers annually, based on the received notes and information, all Relevant and Impact Transactions with Related Parties completed during a calendar year (reporting period) in **The Related Parties Transactions Register**.
- 3.9. Biannually, in term of 30 days after the end of the semester, Ethics&Compliance Department, The Legal Department and the Internal Audit Department elaborate analyses reports on conflicts of interest in relation to Relevant Transactions with Related Parties registered in **The Related Parties Transactions Register** until the end of the semester.
- 3.10. Annually, in term of 90 days after the end of the year, based on **The Related Parties Transactions Register**, Ethics&Compliance Department, The Legal Department and the Internal Audit Department elaborate an **Assessment Report on conflicts of interest in relation to Relevant Transactions with Related Parties**.
- 3.11. The summary of the Assessment Report on conflicts of interest in relation to Relevant Transactions with Related Parties is, along with the Related Parties Transactions Register part of the Annual Report (Directors' Report).

4. Managing Relevant Transactions with Related Parties

4.1. Major Impact Transactions

- 4.1.1. Related Parties Transactions with a Cumulative value **equivalent to or higher than EUR 3 million** are considered **Major Impact Transactions** and are approved by the Board of Directors, based on the ARC Committee recommendations (if formed) or alternatively the Internal Auditor Opinion, and are signed by joint signature on behalf of the company by the CEO and the Executive manager / managers who requested the resource and the CFO (endorser), except for the cases specified otherwise by means of resolution of the

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Board of Directors. Exceptions are made to legally binding documents of operational nature with an amount higher than 3 MEUR that have been included in the income and expenses budget approved. These will have the same regime with the one applicable to the legally binding documents involving an amount between 1 MEUR and 3 MEUR, according to article 2.1.1 of the Delegation of Authority v5.

4.1.2. The decision makers (ARC Committee/ Internal Auditor) will be informed upon Major Impact Transactions based on a Substantiation Note at least 7 working days before the Board of Directors Meeting that has on the Agenda the transaction approval.

4.1.3. The Substantiation Note includes at least the following:

- i) Related Party identification data
- ii) The object and the conditions of the transaction, the undertook obligations,
- iii) Information upon Transaction necessity and opportunity
- iv) Information regarding the transaction counterpart selection procedures , if case may be
- v) The external consultant Report on the Comparability Analysis and the Functional Analysis performed for the Transaction according to Transfer Pricing Documentation methodologies and guidelines.
- vi) Elements generating potential conflicts of interests and measures for eliminating/preventing those from becoming effective, if case may be.

4.2. **Medium Impact Transactions**

4.2.1. Related Parties Transactions with a Cumulative value equivalent to or higher than 250,000 EUR but under 3,000,000 EUR are considered **Medium Impact Transactions** and are approved at/or CEO/ Executive managers level, according DoA, based on an Opportunity Note.

4.2.2. The Decision makers will be informed upon Medium Impact Transactions at least 30 working days before the Transaction approval date and the Opportunity Note will be submitted at least 7 working days before the approval date.

4.2.3. The CFO/the responsible Personnel have to carry out the Comparability Analysis and the Functional Analysis included in the Transfer Pricing Documentation, according to the specific methodologies, with an external consultant.

4.2.4. The Opportunity Note will include at least:

- i) Related Party identification data
- ii) The object and the conditions of the transaction, the undertook obligations,
- iii) The reasons for the transaction necessity
- iv) Information regarding the transaction's counterpart selection procedures, if case may be
- v) The external consultant Report on the Comparability Analysis and the Functional Analysis performed for the Transaction according to Transfer Pricing Documentation methodologies and guidelines.
- vi) Elements generating potential conflicts of interests and measures took for eliminating/preventing those from becoming effective, if case may be.

4.3. **Relevant Transactions**

4.3.1. Related Parties Transactions with a Cumulative value equivalent to or higher than 50,000 EUR but under 250,000 EUR are considered **Relevant Transactions** and are approved at Executive managers level, according DoA, based on an Opportunity Note.

4.3.2. The Decision makers will be informed upon Relevant Transactions at least 30 working days before the Transaction approval date and the Opportunity Note will be submitted at least 7 working days before the approval date.

4.3.3. The Decision maker will sent to the responsible Personnel the request to carry out the Comparability Analysis and the Functional Analysis included in the Transfer Pricing Documentation, according to the specific methodologies, internally or with an external consultant, compliance with this request being mandatory.

4.3.4. The Opportunity Note will include at least:

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- i) Related Party identification data
- ii) The object and the conditions of the transaction, the undertaken obligations,
- iii) The reasons for the transaction necessity
- iv) Information regarding the transaction's counterpart selection procedures, if case may be
- v) The Report on the Comparability Analysis and the Functional Analysis included in the Transfer Pricing Documentation, carried out for the Transaction in line with the specific methodologies, internally or with an external consultant, according to the Decision maker request.
- vi) Elements generating potential conflicts of interests and measures taken for eliminating/preventing those from becoming effective, if case may be.

4.4. If breaches of the provisions of this Policy are found after the transaction is concluded the Ethics&Compliance Department/Officer informs the General Manager/CEO and the Board of Directors that will analyse the impact of the decision according to the Organization's interest and will decide upon the necessary measures.

REPORTING OF NON-COMPLIANCE

Electrica adopts and implements a policy regarding Whistleblowing, based on principles outlined in the Code of Ethics and Professional Conduct. Any employee, customer, supplier, contractor and sub-contractor of the Organization who is related to its operations, may lodge under conditions that ensure the confidentiality of his identity, notifications or complaints on any action of an employee or a person acting on behalf of the Organization that would violate the law or internal rules on business ethics and conduct of the Organization, including the provisions of this Policy.

The notification of any breach from this policy may be submitted according to the whistleblowing procedure, at <http://www.electrica.ro/procedura-de-raportare-a-abaterilor-etice/>