

Remuneration Policy for Directors and Executive Managers

Preamble

The current Policy is based on the following corporate decisions:

- Electrica OGMS Resolution no 1/09.02.2018;
- Electrica BoD decisions no. 27/15.12.2017 and 6/26.04.2018.

When preparing the proposals to be submitted for BoD's endorsement and GMS approval, the best practice used at international and national level, as well as the fiscal changes recently introduced within the Romanian legislation, were taken into consideration.

According to the Corporate Governance Code of Electrica, the Nomination and Remuneration Committee established within the Board has the following responsibilities as regards remuneration:

- (i) making recommendations to the Board in relation to the remuneration, incentive and severance compensation policies of the Company;
- (ii) advising the Board on the structure of the remuneration framework for Board members;
- (iii) making recommendations to the Board in relation to the remuneration of the General Manager and other executive managers, including the main remuneration components, performance objectives and appraisal methodology;
- (iv) making recommendations to the Board on the remuneration of subsidiary board members and the general limits of remuneration for subsidiary management;
- (v) monitoring compensation trends within industries relevant to the Group;
- (vi) overseeing the remuneration process of the general managers and executive managers in the subsidiaries according to the Nomination and Remuneration Policy.

In this context, in 2018, based on the NRC recommendations, the BoD endorsed and submitted for GMS approval two proposals on updating the Remuneration Policy of the members of the Board of Directors, and respectively on revising the remuneration limits of executive managers, in order to counterbalance the negative impact of the fiscal changes.

The Remuneration Policy for Directors and Executive Managers is subject to annual review of NRC and describes the main pillars of remuneration, as well as the terms, conditions and non-financial benefits approved by the corporate bodies of Electrica.

The Directors and the Executive Managers are remunerated for the work done with a fixed monthly indemnity and a variable component. The variable component is either paid according to their involvement in supporting the BoD activity (in case of the Directors) or according to achievement of the objectives and the key performance indicators set in the mandate agreements of the Executive Managers.

1. Scope of the Policy

The scope of this policy is to set the remuneration principles and framework for Directors and Executive Managers to be applied while conducting their activity.

2. Objectives of the Policy

The objectives of this policy are:

- i. To establish clear guidelines and thresholds on remuneration matters;
- ii. To establish the remuneration structure;
- iii. To set the correlation matrix between remuneration levels in ELSA.

3. Principles of the Policy

The principles governing this policy are:

- 3.1. The remuneration structure is defined separately for BoD and the executive management.
- 3.2. The remuneration structure and thresholds were set based on national and international benchmark and good practices, respectively:
 - 3.2.1. the remuneration system includes fixed and variable component based on performance, in line with market practice; additionally, it also include non-financial benefits;
 - 3.2.2. the benchmarks were established based on compensation data from several international companies of comparable size in the energy sector, in Romania, but, also, compared to other industries (e.g. Oil & Gas industry) and other countries in SEE;
 - 3.2.3. most companies' practice to choose the range between the median and upper quartile in order to be attractive on the competitive market , an interval that is still not excessively high;
- 3.3. The variable component is composed of:
 - 3.3.1. a short term variable remuneration (variable salary), attributed for the collective and individual contribution of the executive managers to the company's objectives, determined yearly based on performance criteria;
 - 3.3.2. a long term variable compensation – a package of options of virtual shares – considered as compensation tool for executives managers with the aim of promoting added value and contribution over medium to long term;
 - 3.3.3. for BoD members – both the international norm and the fact that Electrica is a listed company on both Bucharest Stock Exchange and London Stock Exchange, provide an attendance fee for BoD members participating to BoD meetings and to BoD committees' meetings.
- 3.4. The recommended levels of remuneration according to the benchmark finalised in 2015 (net, both fixed and variable components):
 - 3.4.1. Lower quartile for CEO level for fixed component, and upper quartile for variable component;
 - 3.4.2. The variable remuneration for the executive managers is linked to the achievement of the KPIs cascaded from the CEO to each level of management. The KPIs level will be defined at the beginning of each year. At the end of each

year, the BoD will review the executive managers' achievement of KPIs for the respective year and will decide on the final amount to be paid as variable remuneration.

3.4.3. Lower quartile for non-executives directors (BoD members) - to align to international best practices in terms of mechanism and to Romanian market in terms of the value regarding remuneration of BoD members; a fixed remuneration and an meeting attendance fee increased by 20% for the Chairman of Board and for the Chairmen of the different Committees of the Board.

3.4.4. Median quartile for CEO-1 and CEO-2 levels (executive managers and managers), to align with median levels on the market;

3.5 The importance of the Company on the energy market – Electrica is a strategic company in the energy sector, with potential of becoming a regional player;

3.6. The need to attract and retain in the BoD specialists and senior managers with broad experience in a wide range of activities, not only in the energy sector, nationally and internationally;

3.7 The 2017 amendments to the fiscal Romanian legislation both on staff taxation and social security contributions (GEO no. 3/2017) and those that entered into force as of January 1st, 2018 (GEO no. 79/2017 and subsequent legal acts), have had a significant negative impact on the net income of the directors and executive managers.

4. ELSA Policy

4.1 Board of Directors

The BoD members' remuneration has as main pillars a monthly fixed remuneration and an attendance fee for participating at meetings, as follows:

- i. The fixed monthly remuneration will be maintained at the same net level corresponding to the gross level approved by previous corporate decisions (2015 and 2016), differentiated for the Chair and the BoD members, respectively EUR 3630 gross for the BoD members and EUR 4985 gross for the Chair.
- ii. Attendance fee to the BoD and its committees' meetings, differentiated for the BoD/committees members and the committees' Chairs, respectively EUR 1200 gross for the BoD/committees members and EUR 1445 gross for the committees' chairs. However, if the Board of Directors composition changes, either as effect of registering a vacancy of one or more Director positions, or as effect of applying the cumulative voting method, the Director appointed as such will be entitled to receive the remuneration fee for the Board/committees meetings attended. ~~The annual number of meetings to be remunerated is limited to 12 for BoD and to 6 of each committee. Additional committee meetings can be organized only in exceptional situations, according to the chairs' decision, who are responsible to efficiently organize the bodies' agenda and activity. However, only one such additional meeting shall be remunerated, for each committee.~~
- iii. Reimbursement of every reasonable expenses related to the execution of the mandate.
- iv. The Administrators will benefit from a professional insurance policy "directors & officers liability" type, having an insured value amounting of EUR 10 million / person / event, according to market terms. The professional insurance policy will cover a post-term period, respectively up to 3 (three) years, for events that occurred as a result of the activity carried out by the Administrators, during their term of office. The company shall bear and pay the cost of the premiums of this insurance~~A "directors & officers' liability" insurance policy, supported by the company, the insured value amounting to EUR 10 million, according to market terms.~~

- v. Same medical services and/or medical insurance package contracted by the Company for the employees (if any).
- vi. Other legal expenses sustained by the Director in defending against a third party claim made against the Director in relation to the performance of its duties, the Articles of Association, the BoD Charter or the Legal Framework shall be borne by the Company, to the extent not already covered by the directors & officers liability insurance policy in force at the time

vii. A compensation in case of unjustified revocation.

viii. The Administrators will benefit from a Compensation of non-competition in the amount of 12 Gross Fixed Monthly Remuneration, the clause producing effects on the territory of the European Union. The non-compete compensation can only be applied in case the Administrators will no longer hold any position within the Company and / or within the Electrica Group after the termination of the Mandate Contracts.

4.2. The Executive Management

4.2.1. The general remuneration limits for ELSA CEO

The remuneration of ELSA CEO will be comprised of: (a) a fixed monthly remuneration, (b) a variable yearly remuneration or remuneration element or variable compensation depending on the achievement of the performance objectives and (c) a package of options of virtual shares (herein "OAVT"), as follows:

- a. The fixed monthly remuneration of the CEO will be between EUR 9,000 and 13,050 gross. The BoD within the limits approved by the GMS will decide the final amount.
- b. The variable yearly compensation of the CEO will be between 30% and 50% of the fixed yearly remuneration. The BoD within the limits approved by the GMS will decide the final percentage. The attribution of the variable yearly compensation (partially or fully) will depend on the achievement by the CEO fully or partly, of the KPIs set for the respective year.
- c. The CEO will receive at the beginning of the term an OAVT package. The value of the OAVT package will be between 150% and 200% of the fixed yearly remuneration. The CEO is entitled to cash in the value of the OAVT package only at the end of the term according to the mandate agreement.
- d. The Executive Managers will benefit from a professional insurance policy "directors & officers liability" type, having an insured value amounting of EUR 10 million / person / event, according to market terms. The professional insurance policy will cover a post-term period, respectively up to 3 (three) years, for events that occurred as a result of the activity carried out by the Administrators, during their term of office. The company shall bear and pay the cost of the premiums of this insurance

4.2.2. The general remuneration limits for ELSA executive managers (mandate appointed by the BoD)

The remuneration of ELSA executive managers with mandate appointed by the BoD will be comprised of: (a) a fixed monthly remuneration, (b) a variable yearly compensation depending on the achievement of KPIs and (c) a package of options of virtual shares (herein "OAVT"), as follows:

- a. The fixed monthly remuneration of an executive manager will be between EUR 6,980 and 11,700 gross. The BoD will decide the final amount.
- b. The variable yearly compensation of an executive manager will be between 15% and 40% of the fixed yearly remuneration. The BoD will decide the final percentage. Payment

of the yearly variable compensation (fully or partially) depends on full or partial achievement of the KPIs in the respective year.

- c. Each executive manager (unless appointed on interim or on a short-term basis) will receive at the beginning of the term an OAVT package.

The value of the OAVT package will be between 60% and 160% of the fixed yearly remuneration. The executive manager is entitled to cash in the value of the OAVT package only at the end of the term according to the mandate agreement.

- d. The Executive Managers will benefit from a professional insurance policy "directors & officers liability" type, having an insured value amounting of EUR 10 million / person / event, according to market terms. The professional insurance policy will cover a post-term period, respectively up to 3 (three) years, for events that occurred as a result of the activity carried out by the Administrators, during their term of office. The company shall bear and pay the cost of the premiums of this insurance

4.2.3. At the beginning of the mandate of the executive manager, the Board of Directors will set up long-term KPIs (for the duration of the term). At the end of the term, the BoD will review the achievement of the long-term KPIs by the executive manager mandated by the BoD (KPIs of the term) and will adjust the final value of the OAVT package paid out to the manager, including the CEO.

ELSA/ Company	Societatea Energetica Electrica SA
(O)GMS	(Ordinary) General Shareholders Meeting
BoD / Board	Board of Directors
KPI	Key Performance Indicator
CEO	Chief Executive Officer/ General Manager
NRC	Nomination and Remuneration Committee