



# REMUNERATION POLICY

No. POL019

VERSION 2.0

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REMUNERATION POLICY

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## I. PURPOSE AND OBJECTIVES

- I.1. The following Remuneration Policy (hereinafter referred to as the "Policy") defines Klaipėdos Nafta, AB (hereinafter referred to as the "Company"):
  - I.1.1. the principles for determination, payment and promotion of remuneration of members of the Supervisory Board, members of the Board and members of Committees and the Head of the Company;
  - I.1.2. the principles and procedures for making decisions related to remuneration.
- I.2. The Objectives of the Policy:
  - I.2.1. Implementing the principle established in the business strategy of the Company for 2020-2030 maintaining that remuneration shall be fair and understandable, to ensure comprehensible and transparent procedure for determination and payment of remuneration of the Company's bodies, and the Company's competitiveness in the market, to encourage the managing bodies of the Company to help implement the purposes set forth in the Company strategy;

## II. REFERENCES

- II.1. The policy has been prepared following:
  - II.1.1. The Law on Companies - <https://e-seimas.lrs.lt/portal/legalAct/en/TAD/TAIS.106080/asr>;
  - II.1.2. The description of the procedure for granting remuneration to members of the boards of directors of state-owned enterprises and municipal enterprises and the civil liability insurance for board members <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/3d064b61788e11e59a1ed226d1cbceb5/asr>;
  - II.1.3. The description of the Procedure for the Execution of State Property and Non-property Rights in State-Owned Enterprises, approved by Resolution No. 655 of June 6, 2012;
  - II.1.4. The order of the Lithuanian Government „On the wages of the managing employees of state-owned enterprises”. - <https://e-seimas.lrs.lt/portal/legalAct/lt/TAD/TAIS.179051/asr>
  - II.1.5. The articles of Association of the Company;
  - II.1.6. Other applicable laws and by-laws regulating the determination and award of remuneration to the Company's bodies.

## III. CONCEPTS AND ABBREVIATIONS

- III.1. Remuneration shall mean all monetary remuneration for work, including fixed and all variable parts, unless otherwise specified in the Policy.
- III.2. A fixed part of the remuneration shall mean the monthly remuneration paid for the performance of duties under an employment contract or civil contract.
- III.3. Variable part of the remuneration shall mean the part of the remuneration is determined and paid depending on the achievement of the results defined in time (monthly, or yearly).
- III.4. Strategic goals shall mean the goals set in the Company strategy approved by the Supervisory Board.
- III.5. The Company body shall mean the Supervisory Board, the Board, the Committee and the Chief Executive Officer of the Company.

- III.6. The collegial body of the Company shall mean the Supervisory Board, the Board or the Committee.
- III.7. The Committee shall mean an advisory body formed by the Supervisory Board or the Board.
- III.8. The sole managing body shall mean the Chief Executive Officer of the Company.
- III.9. GMS shall mean General Meeting of Shareholders.

## **IV. THE GENERAL PRINCIPLES FOR DETERMINING THE REMUNERATION**

- IV.1. When determining the Remuneration of the members of the Supervisory Board, the Board, the Committee and the Chief Executive Officer of the Company, it shall be taken into account that the Company is an entity of strategic importance for the national security. It should also be appreciated that the Company's bodies deal with complex issues related to the Strategic Objectives, carry out activities of public interest and manage infrastructure and assets of high value. This determines that the Company needs top-level specialists who would ensure proper functioning of the Company and effectively pursue the Strategic Objectives set out for the Company. Therefore, in order to attract professionals in their field to the positions of the Company bodies, a competitive remuneration for the members of the Company bodies should be established in accordance with conditions of the market and industry practice.
- IV.2. The Remuneration to be paid must:
  - IV.2.1. promote the creation of long-term and sustainable value of the Company, to be fair and understandable;
  - IV.2.2. comply with the workload of the individual organs of the Company and their members;
  - IV.2.3. be competitive with the salary levels in the labour market of the respective field;
  - IV.2.4. ensure the indemnification of the liability assumed by the individual members of the Company bodies;
  - IV.2.5. promote the attraction of high-level professionals in their field to the management of the Company.
- IV.3. Civil legal relations are established between the members of the collegial bodies of the Company and the Company and are formalised by means of a civil contract. Members of the collegial bodies of the Company shall not be considered as employees of the Company and shall not be subordinate to or accountable to the employees of the Company.
- IV.4. Remuneration of a member of the collegial body of the Company may be reduced proportionally or not paid at all on the basis of a decision of the body of the Company that elected him or her if the member of the collegial body of the Company fails to perform his or her duties, i.e. does not participate in the meetings of the collegial body of the Company, does not express an opinion on the agenda items, does not vote on them, etc. The chairman of the collegial body of the Company shall oversee that the members of the collegial body of the Company properly perform their duties and shall inform the collegial body of the Company that elected him or her on improper performance of duties and in case of the collegial bodies of the Company elected by the GMS, he or she as well shall inform the Chief Executive Officer. The member of the collegial body of the Company, who determines improper performance of the duties of the chairman, shall inform the bodies of the Company referred to in this Item. The Remuneration reduced and / or unpaid for improper performance of duties shall not be compensated.

- IV.5. In the event when the member of the Board of Supervisors and (or) the member of the Board, with exception to the member of the collegial body that are public servants, holds a position in the Committee, such a person shall receive the cumulated payment, i.e. the member of the Supervisory Board and (or) the member of the Board receives the remuneration for the activity in the Supervisory Board or Board, and the for the activity in the Committee.
- IV.6. In case of resignation or removal from office of a member of the collegial body of the Company, no severance pay shall be paid. In such cases, the member of the Supervisory Board, the Board or the Committee shall be remunerated for the time actually dedicated on the activities of the member of the Supervisory Board, the Board or the Committee.
- IV.7. The legal relationship between the Sole Managing Body and the Company is formalised by an employment contract for a term of 5 (five) years. The employment contract between the Sole Managing Body and the Company shall terminate on the grounds provided for in the employment contract and / or the Labour Code of the Republic of Lithuania.
- IV.8. In order to ensure a competitive rate of the Remuneration for the Sole Managing Body, the collegial body of the Company, which determines its remuneration, conducts regular remuneration analysis.
- IV.9. In the event of the resignation or dismissal of the Sole Managing Body, the principles set out in the employment contract and the Labour Code of the Republic of Lithuania shall apply to the payment to the employee.

## V. REMUNERATION STRUCTURE

- V.1. Possible elements of the remuneration to the collegial management body are as follows:
  - V.1.1. The fixed part of the remuneration is the monthly remuneration.
- V.2. Possible elements of the remuneration to the Sole Managing Body:
  - V.2.1. The fixed part of the remuneration is the monthly remuneration.
  - V.2.2. The variable part of the remuneration that may be paid for the annual results of the Company. Possibility of deferral on payment of remuneration and recovery of the variable part of remuneration is not applicable in the Company.
- V.3. The following table shows the maximum possible values of the remuneration:

	THE TOTAL REMUNERATION	
	FIXED PART OF REMUNERATION (monthly remuneration (MA))	VARIABLE PART OF REMUNERATION (annual bonus for the annual results of the Company)
Chief Executive Officer (CEO)	MA	4MA

Chairman of the Supervisory Board	1/3MA(CEO <sup>1</sup> )	<i>undefinable</i>
Member of the Supervisory Board	1/4MA(CEO)	
Member of the Supervisory Board (public servants)	1/5 MA (CEO)	
Chairman of the Board	1/3MA(CEO)	
Member of the Board	1/4MA(CEO)	
Member of the Board (public servant)	1/5 MA (CEO)	
Chairman of the Committee	1/6MA(CEO)	
Members of the Committee	1/8MA(CEO)	

## **VI. PRINCIPLES FOR DETERMINING THE REMUNERATION OF THE MEMBERS OF THE COLLEGIAL BODIES OF THE COMPANY**

- VI.1. In accordance with this Policy:
- VI.1.1. the GMS shall decide on the rate of the Remuneration to the members of the Supervisory Board;
  - VI.1.2. the Supervisory Board shall decide on the rate of the Remuneration for the members of the Board and the members of the Committee;
- VI.2. If the functions of a member of the collegial body of the Company require reasonable expenses related to the performance of the functions of a member of the collegial body, the Company undertakes to cover or reimburse such reasonable costs, if they have been previously discussed with the Company **and the documents proving such costs are provided.**
- VI.3. The contract with a member of the collegial body of the Company is valid until the earliest of the following dates:
- VI.3.1. Term of office of a member of the collegial body of the Company terminates;
  - VI.3.2. A member of the collegial body of the Company is recalled from the collegial body of the Company or all collegial body of the Company is recalled;
  - VI.3.3. A member of the collegial body of the Company resigns or cannot continue to hold office;
  - VI.3.4. A member of the collegial body of the Company ceases to be a member of the collegial body of the Company on any other grounds.

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<sup>1</sup> MA(CEO) – Average monthly salary of the Company Chief Executive Officer, including fixed and variable parts of the remuneration

- VI.4. Upon termination of the contract on any grounds, a member of the collegial body of the Company shall be compensated for the time actually **dedicated** on the activities of the member of the collegial body of the Company until the day of termination or expiration of the contract.

## **VII. THE PRINCIPLES FOR DETERMINING THE REMUNERATION OF THE CEO OF THE COMPANY**

- VII.1. Procedure for determining wages of state-owned enterprises managing employees (Chief Executive Officer) is implemented in the order of the Lithuanian Government „On the wages of the managing employees of state-owned enterprises“.
- VII.2. The reward system is formed using the Hay Group methodology, determining the weight of the position and assigning a level to the position.
- VII.3. In order to ensure the competitiveness of remuneration and to promote the achievement of results, the remuneration (fixed and variable components of remuneration, including the supplementary / increased part of the annual bonus for exceeding budgeted indicators) focuses on the 50th and 75th percentiles interval of the remuneration market of the foreign capital companies operating in Lithuania.
- VII.4. The Board of the Company shall determine the following to the Chief Executive Officer of the Company:
- VII.4.1. Fixed part of remuneration (monthly salary);
- VII.4.2. The variable part of the remuneration and the procedure for its payment;
- VII.4.3. Pursuant to the GMS approved rules for granting of shares of Klaipėdos Nata, UAB, to pay out a portion of the annual bonus in the Company's shares, thus providing an additional incentive to achieve the Company's objectives and Strategy, to grant the right to ownership of a part of the Company and a possibility of participation in its management.
- VII.5. In case the Company does not reach the annual targets or attains them only partially, the variable part of the Remuneration shall not be paid to the Chief Executive Officer of the Company or it shall be reduced proportionally according to the results of the Company.
- VII.6. Upon termination of the employment contract on any grounds, the Chief Executive Officer of the Company shall be accounted for in accordance with the grounds established under the employment contract and the Labour Code of the Republic of Lithuania.
- VII.7. The principles for determining the remuneration of the Chief Executive Officer of the Company shall apply *mutatis mutandis* to the remuneration process of the Company's employees.

## **VIII. POLICY IMPLEMENTATION AND CONTROL**

- VIII.1. The Policy shall take effect from the moment of its approval.
- VIII.2. The policy is approved and modified by a decision by GMS.
- VIII.3. The Policy shall be submitted for approval to the GMS at least every 4 (four) years, also if there are substantial changes to the Policy. In the case of a change of Policy, all Policy Reports approved since the last GMS vote on the Policy shall be submitted to GMS.
- VIII.4. Where it is proposed to amend the Policy approved by the GMS but the GMS does not approve the new Policy, the Remuneration shall be paid to the CEO, the Board, the Supervisory Board

and the Committee members in accordance with existing policy and the proposed new Remuneration Policy shall be submitted to be approved in another GMS.

- VIII.5. Substantial changes to the Policy must be described and explained when changing the Policy. If the Policy being changed has already been discussed at the GMS meeting but it has been rejected, the arguments must be stated in the GMS decision.
- VIII.6. The CEO of the Company is responsible for the implementation of the Policy.