

**LITGRID AB**  
**REMUNERATION POLICY FOR THE EXECUTIVE AND MEMBERS OF THE BOARD**

**Introduction**

When determining the remuneration for the management bodies, the guiding principle that the size of remuneration and its payment arrangements should promote the creation of long-term and sustainable value of the Company and the whole EPSO-G UAB corporate group is followed; moreover, it should correspond to the workload of separate Company bodies and their members; conform to the relevant position in the market as much as possible, i.e. be competitive in comparison with remunerations offered in the labour market for professionals of their areas; guarantee the compensation for the assumed responsibility; ensure the independence of independent board members; encourage the attraction of professionals of their area for the governance of the Company.

While establishing the remuneration for activities performed in the Company bodies, it should be taken into consideration that the Company has strategic significance to the national security which determines the fact that Company bodies tackle difficult issues related to the strategic goals, perform activities significant to the whole society, and govern infrastructure and assets of great value. Specialists of the highest level are required to reach these strategic goals, as these specialists shall ensure proper activities of the Company and effectively work towards the established goals; thus, as a means to attract specialists of their areas to take up positions in the Company bodies, a competitive remuneration shall be established that corresponds to the established market conditions and sector's practices.

When hiring the Company executive, the general conditions for recruitment and remuneration determination are considered additionally. During the process of determining the remuneration for the Company executive, it is intended that his/her remuneration would significantly depend on the successful strategy of the Company and the implementation of its goals.

Since the Company is a subsidiary of the state-owned enterprise EPSO-G UAB, the remuneration conditions regulated by the legislation and recommendations of Public Enterprise "Stebēsenos ir prognozių agentūra" are taken into account.

**Aim:** To establish general, clear, and transparent principles of the remuneration for the executive and board members as well as a remuneration system based on those principles, the usage of which would ensure effective management of operating costs and at the same time would create incentive for the Company executive and board members to contribute to the mission, vision, values, and goal implementation of the Company.

**Scope of application:** By following this Policy, competent Company bodies make respective decisions concerning the size of remuneration for the Company executive and board members, the annual budget of board activities as well as the additional expenses of the board dedicated to the assurance of its activities.

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## 1. Applied Terms and Abbreviations

<b>Remuneration Policy or Policy</b>	This Remuneration Policy for LITGRID AB executive and board members with all its annexes, amendments, and supplements (if any).
<b>NRC</b>	The Nomination and Remuneration Committee operating on the scale of the Corporate Group
<b>Company</b>	LITGRID AB
<b>Company Executive</b>	Chief Executive Officer
<b>EPSO-G</b>	The governance Company EPSO-G UAB of the Corporate Group
<b>Corporate Group</b>	The corporate group controlled by EPSO-G constituted of EPSO-G and companies that are directly or indirectly controlled by it.
<b>Fixed Part of the Remuneration (FPR)</b>	The main remuneration of the Company Executive established in the contract of employment; paid each month.
<b>Variable Part of the Remuneration (VPR)</b>	Part of the remuneration paid together with the FPR for the Company Executive based on the activity assessment results of the Company Executive.
<b>Remuneration Threshold</b>	Minimum and maximum limits of the Fixed Part of the Remuneration established for the Company Executive.
<b>Position Level</b>	A relative unit by which the position of the Company Executive is assessed, and which reveals its comparative weight with other similar positions in the market.
<b>GMS</b>	General meeting of shareholders

## 2. General Provisions

- 2.1. The project of the Policy is prepared by the Company Executive. According to the NRC recommendation, the Company board analyses and assesses the Policy project and with all their comments and proposals submit it for the GMS approval. The GMS confirms the edited version of the Policy at least once in 4 years. Whilst changing the Policy, all remuneration reports that have been approved after the last GMS voting for the Policy are provided.
- 2.2. Each year, a report on remuneration paid under this Policy is prepared. The Company Executive is responsible for the preparation of this report. During the Company board meeting in which the annual report of the Company is approved, the Company board confirm the remuneration report (this report can be a part of the annual report). The report which is approved by the Company board can be submitted to the GMS that decides if it should assent to the remuneration report. The GMS assent does not exclude the board from liability of the made decision. The Company Executive ensures that the Remuneration Policy report shall be published on the website of the Company.
- 2.3. EPSO-G Nomination and Remuneration Committee operating on the scale of the Corporate Group:
  - 2.3.1. assesses the remuneration size and remuneration structure of Company Executive and board members;
  - 2.3.2. provides a recommendation to the Company board on the Policy project;
  - 2.3.3. is responsible for the explanation (if any questions arise) of the Policy provisions, submission of recommendations on the Policy implementation and operation, as well as the assessment and supervision of the Policy efficiency;
  - 2.3.4. supervises how the Company is complying with the existing provisions concerning the publication of information related to remuneration.
- 2.4. The Company shall publish this Policy on its website. Together with the Policy, the GMS is announced in which this Policy, voting results, and GMS date are approved as established in the Law on Companies of the Republic of Lithuania.

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- 2.5. Corporate Group Remuneration Policy and Corporate Group activity assessment policy approved in the Company are applied to the Company Executive unless this Policy indicates otherwise.

### 3. Constituent Parts of the Remuneration of the Company Executive and Principles of their Determination

- 3.1. Two key parts constitute the remuneration of the Company Executive: the fixed part and the variable part.
- 3.2. **The Fixed Part of the Remuneration (FPR)** is the remuneration established in the contract of employment, which is paid every month; it constitutes the biggest and the most significant part of the remuneration for the Company Executive that is approved by the Company board.
- 3.3. The basis for establishing the Fixed Part of the Remuneration is the Position Level of the Company Executive, approved by the Company Board. Remuneration Thresholds are approved together with the Position Level. For the purpose of assessing and determining the Position Level of the Company Executive, the Corporate Group shall select a method that is acknowledged in the international practices and widely applied in the Lithuanian market.
- 3.4. The starting point of the Remuneration Threshold of the Position Level is the average meaning (median) of the base salary, paid to this Position Level, in companies operating in Lithuania and participating in the market research of all remunerations, while, in comparison with the starting point, the Remuneration Thresholds of the base salary are established in the 80 – 120% limits (taking into account the special nature of Company's activities or labour market situation, wider limits can be selected by a reasoned decision of its board). Deviation from these limits is allowed only in reasoned exceptional cases. The starting point of the remuneration and the specific remuneration of the Company Executive are established by assessing both general corporate executive remuneration level of similar size and/or remuneration level of corporate executives of companies with strategic significance to the state.
- 3.5. FPR can variate in the limits of the Remuneration Threshold based on the experience and competence of the Company Executive as well as his/her activity results. Limits of the Remuneration Threshold are established by following good practices of remuneration management in order to ensure the fairness of remuneration. Remuneration Thresholds can be determined and overviewed each year considering the data of independent research on remuneration and market tendencies as well as assessing the recommendations of the Government of the Republic of Lithuania on the remuneration for executive employees of state-managed companies.
- 3.6. **The Variable Part of the Remuneration (VPR)** is determined in order to encourage the Company Executive to aim for the best annual results by implementing strategic and long-term goals. The maximum allowed VPR is equal to 30% of annual FPS amount. Specific and maximum VPR size for the Company Executive is established by the Company board.
- 3.7. The Variable Part of the Remuneration is allocated once a year and paid when the Company board assent to the audited financial results of the Company and they are approved by the GMS of the Company as well as made public.
- 3.8. The Variable Part of the Remuneration is paid in accordance with achieved annual goals of the Company, established by the board, that reflect the implementation of the strategy as well as the compliance with the values and leadership principles of the Company Executive having a significant impact on forming an innovative organisational culture that encourages employee involvement. VPR is paid following the employee assessment policy of EPSO-G UAB Corporate Group after assessing the fulfilment of annual goals of the Company (that have the weight of 80%) and the compliance with values and leadership principles (that have the weight of 20%) and when the general value of the compliance with annual goals is  $\geq 70\%$ . If the financial results of the Company are seen as unsatisfactory, the board can decide against the payment of the VPR.
- 3.9. The goals of the Company Executive shall be formulated in the manner that:
- 3.9.1. the established goals would reflect the main and most significant results of the Company;
  - 3.9.2. it would be clear what exactly and until when he/she has to achieve;
  - 3.9.3. they would be measurable and would have indicators based on which, by discussing and assessing their fulfilment, it would be possible to evaluate the level of their achievement most accurately;

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- 3.9.4. qualitative and complex goals aiming for as precise as possible and more objective assessment could be split into separate stages by clearly indicating expectations, deadlines, etc. related to them.
- 3.10. The achievement of each goal is evaluated by a specific percentage. Achievement of a specific goal is assessed proportionally to the achievement of quantitative and/or qualitative indicators established for the accomplishment of this goal. By assessing the achievement of goals, additional facts can be taken into account: (a) time needed to reach the goal; (b) resources; (c) scope of the implemented works, (d) impact of circumstances to the implementation of the goal, etc. A goal is recognised as in line with the expectations if its achievement is evaluated in the  $\leq 95 - 110$  % limits. Accordingly, the goal is considered as exceeding the expectations if it is evaluated higher than the top limit of this interval, while it is only partially in line with the expectations when the evaluation is below the limit of this interval. The  $<70\%$  value of the goal achievement is viewed as not corresponding to the quantitative and qualitative expectations related to this goal. Respectively, compliance with values and leadership principles is evaluated by a specific percentage.
- 3.11. If working relations with the Company Executive are terminated before the end of the period for which the VPR or FPR is calculated and the annual results of the Company are not yet approved, the VPR is paid proportionally to the period for which the VPR is calculated, when the general value of annual goal achievement by the Corporate Executive is  $\geq 70\%$  based on the tentative Company goal achievement indicators when the employment is terminated.
- 3.12. Remuneration by providing the Company Executive with the shares of the Company is not applicable.
- 3.13. By ensuring good practices of social responsibility and transparency, the Company regularly makes information about the average remuneration of the Company Executive, including VPR, public, as it is indicated in the policy of transparency and communication of activities of EPSO-G Corporate Group.

#### **4. Remuneration Paid to the Members of the Company Board**

- 4.1. Remuneration for activities in the Company board can be paid only to those members of the board that comply with at least one of the conditions indicated below and if payment of remuneration to such members of the board is not prohibited by the Lithuanian legislation:
- 4.1.1. for independent members by determining their independence under applicable existing regulations and internal documents;
- 4.1.2. for members that are not state officers or employees of an institution representing the state and which are not employed at the Corporate Group.
- 4.2. Remuneration is paid only for the activities in the Company board, i.e. if the member of the board resigns from his/her position, if the term is over or if the member is suspended from his/her position, no benefits are paid; nevertheless, the member of the board is paid the remuneration that is proportional to the time of his/her duties if the member of the board resigns from his/her position, his/her term ends, or he/she is suspended from his/her duties before the end of the respective month for which the remuneration should be paid to the board member.
- 4.3. The fixed monthly remuneration (before the deduction of taxes), paid to the members of the Company board, is indicated below (a higher amount is applied corresponding to the indicated circumstances):
- 4.3.1. EUR 1,750 (one thousand seven-hundred-fifty euros) for board members that also occupy member positions in at least one board committee formed in the Corporate Group;
- 4.3.2. EUR 1,400 (one thousand four-hundred euros) for board members that do not occupy member positions in any board committees formed in the Corporate Group;
- 4.3.3. EUR 2,150 (two thousand one-hundred-fifty euros), based on the additional administrative functions of the chairman, for the board chairman that also occupies a member position in at least one board committee formed in the Corporate Group as well as for a chairman of a committee that also is a board member of the Corporate Group;
- 4.3.4. EUR 1,800 (one thousand eight-hundred euros), based on the additional administrative functions of the chairman, for the board chairman that does not occupy member positions in any board committees formed in the Corporate Group.
- 4.4. In the case, when a member of the Company board is selected as the member and/or chairman of the board committee formed in the Corporate Group or the member of the Company board is

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suspended/resigns from the position of a member/chairman of the board committee formed in the Corporate Group, the remuneration of such member of the Company board is changed without a separate decision from the Company's GMS in accordance with the remuneration sizes for members of the Company board established in this Policy that depend on the position of the Company board members in the board committee formed by the Corporate Group or the position of the chairman of the Company board.

- 4.5. Not less than 10% from the general activity budget approved by the Company board is allocated to additional expenses of the Company for the assurance of board activities. Funds for ensuring the Company board activities are employed when organising collective training and cooperation sessions for the members of the board, or when collective events of the board are organised in some other forms and knowledge as well as good practices are exchanged. The budget allocated for the collective training of the Company board members is not used for individual training sessions of separate members of the Company board.
- 4.6. The Company board accounts for its activities by submitting an annual report of its activities, information on made decisions, and assessment of annual activities (can be a part of the annual report) to a regular GMS.
- 4.7. Fixed remuneration, established in Point 4.3 of the Policy and paid to the members of the Company board, does not depend on financial or non-financial results of the activities. No variable part of remuneration or other benefits are paid to the members of the Company board. Remuneration by providing the members of the Company board with the shares of the Company is not applicable.

## **5. Contracts Drawn up with the Company Executive and Board Members**

### *Contract of employment concluded with the Company Executive*

- 5.1. As established in the Law on Companies of the Republic of Lithuania, a fixed-term contract of employment is concluded with the Company Executive for the term of 5 years. The same person cannot be the Company Executive for longer than 2 terms in a row.
- 5.2. Conditions of the contract of employment, formulated together with the Company Executive, taking into account the recommendation of the NRC operating on the scale of the Corporate Group, are approved by the Company board.
- 5.3. Contract of employment with the Company Executive can be revoked without no warning by suspending the Company Executive from his/her duties under the Law on Companies of the Republic of Lithuania. In the case of the termination of the employment contract, under the decision of the board, a benefit can be paid to the Company Executive, except for cases, when the suspension of the Company Executive has been determined by their wrongful actions or the contract of employment is terminated on the initiative of the Company Executive without providing any important reasons. Size of the benefit is determined by the contract of employment of the Company Executive, subject to recommendations of NRC which might be provided separately or by approving a standard form of contract of employment.
- 5.4. In the contract of employment of the Company Executive, no agreements on a supplementary pension or early retirement are not negotiated.

### *Contracts concluded with the Company board members*

- 5.5. Before starting their positions in the board, contracts on the activities on the board are drawn up with the Company board members in which their rights, obligations, and liabilities are established. Standard conditions of the contracts with board members are approved by the GMS.
- 5.6. A board member can resign from his/her position before the end of the term if he/she informs the Company in writing about his/her resignation at least 14 days in advance. A board member can also be suspended from the position of the board member by a GMS decision. If the board member resigns, as well as in those cases when a board member is suspended from his/her position, the settlement with the member of the board is made as established in Point 4.2 of the Policy in question.
- 5.7. In the contracts of employment of the Company board members, agreements on supplementary pensions or early retirement are not negotiated.