



JSC Latvijas Gāze

REMUNERATION POLICY FOR BOARD AND COUNCIL MEMBERS

Approved by decision adopted by the Shareholders' Meeting on March __, 2020

This Policy is published on the Company's website www.lg.lv



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DEFINITIONS

Company	AS (Joint Stock Company) Latvijas Gāze, reg. No. 4000300642
Board	Company's Board of Directors
Council	Company's Supervisory Council
Shareholders	Owners of the Company's shares
Fixed Remuneration	Fixed portion of Remuneration (gross), which comprises base salary, fees and other benefits based on certain factors rather than the performance of the relevant Board and Council members
Variable Remuneration	Variable portion of Remuneration (gross), namely annual bonuses and possible single payments granted to Board members in addition to their Fixed Remuneration for a financial year
Remuneration	All forms of Fixed and Variable Remuneration and Extraordinary items awarded by the Company, directly or indirectly, in exchange for professional services rendered by Board and Council members
Policy	This Remuneration Policy for Board and Council members of the Company
Remuneration Report	Report on remuneration awarded or paid to Board and Council members in the previous financial year or due to every existing or former Board and Council member for the previous financial year
Extraordinary items	Extra compensations that may be granted by the Company in addition to Fixed Remuneration and Variable Remuneration, such as indemnity for non-competition, severance payments, redundancy payment etc. based on either the applicable law or an individual contract
KPI	Key performance indicators

1. GOALS AND BASIC PRINCIPLES OF THE POLICY

1.1. This Remuneration Policy is based on the Directive (EU) 2017/828 of the European Parliament and of the Council as regards the encouragement of long-term shareholder engagement and Section 59³ of the Financial Instrument Market Law of the Republic of Latvia, which implements the requirements of the said Directive. The purpose of the Policy is to lay down the core principles of Remuneration for the Company's Board and Council members and it is binding on and applicable to all Board and Council members of the Company.

1.2. The Company's policy in terms of remuneration is to keep, attract, motivate, and develop professional and talented members of the management bodies to accomplish the Company's long-term and short-term goals and sustainability.

1.3. The objective of the Remuneration Policy is to establish a Remuneration system that meets the following requirements:

1.3.1. adequacy and competitiveness of Remuneration in the labour market;

1.3.2. coherence and consistency of Remuneration;

1.3.3. commensurateness of Remuneration with the performance and professional contribution of the Board and Council member.

1.4. The Remuneration of Board and Council members shall be fair, and it shall be awarded for the actual and proper execution of their duties. The Remuneration shall be linked to the actual performance of both the Company and the particular individual.

1.5. The Remuneration of Board and Council members shall be commensurate with the remuneration of other employees of the Company.

1.6. The Policy is elaborated and published with a view of enhancing the Company's corporate transparency and visibility and providing the existing and potential shareholders of the Company with better opportunities for monitoring the Remuneration of Board and Council members.

1.7. Before giving the Company a written statement of consent to serve as a Board or Council member, every Board or Council member shall get acquainted with this Policy (available on the Company's website).

2. REMUNERATION STRUCTURE

2.1. Remuneration consists of:

2.1.1. **Fixed Remuneration** or fixed payments including those set out in the contract for the performance of the professional duties, which mainly reflects the individual's professional experience, position, duties, level of responsibility and seniority;

2.1.2. **Variable Remuneration**, a possible variable payment awarded in a financial year in addition to Fixed Remuneration and / or another single payment reflecting the operational performance and its consistency provided that certain KPI's pre-defined for the specific individual are attained;

2.1.3. **Extraordinary items** that may be granted by the Company in addition to Fixed Remuneration and Variable Remuneration pursuant to this Policy.

2.2. There is no share-based Remuneration envisaged by the Company.

Fixed Remuneration

2.3. Fixed Remuneration of Board and Council members is set on the basis of the following criteria:

2.3.1. position;

2.3.2. professional skills;

2.3.3. official duties;

2.3.4. level of responsibility, including responsibility for the work process and resources, which reflects the amount of work, processes, business units and financial resources whose management is vested in the individual appointed to the relevant position and responsibility for decisions, which reflects how comprehensive and significant decisions made by the individual appointed to the relevant position are;

2.3.5. additional skills and expertise that are essential for the operations of the Company;

2.3.6. impact of the labour market and the Company's financial position.

2.4. Fixed Remuneration of Council members includes the salary.

2.5. Fixed Remuneration of Board members includes the salary as well as may include non-business or non-assignment related other benefits and perquisites, such as medical and / or other private insurances, representation costs, the use of a company car and mobile device for private purposes subject to certain limits and similar.

2.6. There are no contributions for additional pensions envisaged by the Company for Board and Council members.

Variable Remuneration

2.7. Variable Remuneration may change depending on the Company's financial and non-financial indicators (KPI's), and it is related to the Company's short-term and long-term targets and measurable performance. Variable Remuneration is defined in a manner facilitating the achievement of the Company's long-term targets, certain actions by Board members and the attainment of desired results. Variable Remuneration depends on the individual performance of Board members, the attainment of targets and the overall financial performance of the Company.

2.8. Variable Remuneration is set according to the following basic principles:

2.8.1. Variable Remuneration is linked to the attainment of certain targets;

2.8.2. the Company's and relevant person's individual KPI's (compliance with internal regulations, standards and limits etc.) are assessed when setting Variable Remuneration;

2.8.3. Variable Remuneration is paid only when the Company's overall financial situation so permits and it is reasonable, considering the relevant business unit's and specific individual's performance;

2.8.4. the annual maximum threshold of Variable Remuneration may not exceed 50% of annual Fixed Remuneration.

2.9. The Company's overall performance may be reflected by the following KPI's:

2.9.1. the Company's financial performance based on annual results;

2.9.2. achievement of budget and trade forecasts;

2.9.3. promotion of the Company's products in existing and new market segments, expanding the customer network, decrease in the number of complaints, introduction of new products;

2.9.4. risks control, analysis and management, commercial transactions made and contracts signed, financial settlements, supplies etc.;

2.9.5. achievement of the Company's targets and strategy;

2.9.6. implementation of the sound corporate governance;

2.9.7. implementation of the effectiveness and development plans (digitalization of primary and support processes etc.).

2.10. A personal contribution may be reflected by the following KPI's:

2.10.1. the actual scope of duties, workload and time contributed to serve the Company's interests;

2.10.2. responsibility for the Company's operations and decisions;

2.10.3. involvement in the implementation of the Company's projects, goals and tasks;

2.10.4. development of new products and new business segments.

2.11. Variable Remuneration may consist of the following payments in monetary form:

2.11.1. annual bonuses for the Company's performance of the previous reporting year;

2.11.2. single payments for special achievements or events.

2.12. The performance is measured once per year on the basis of the Company's audited Annual report to determine the annual bonus.

2.13. Single payments for achievements or events special to the Company or its group – attraction of new key customers, entry into new markets, development and implementation of new lines of activity, creation of solutions that substantially improve the Company's operational efficiency etc. – may be awarded in order to facilitate the Company's development and growth in both the domestic and regional markets.

2.14. There is no specific mechanism to reclaim the Variable Remuneration already paid. For damages caused to the Company the Board member is liable in accordance with the Commercial Law, the Civil Law and other applicable laws and regulations of the Republic of Latvia.

2.15. The Company may not defer the payment of Variable Remuneration.

Extraordinary items

2.16. No severance payments are defined for Board and Council members. However, such payments may be paid out on the basis on the member's position and the length of the contractual relationship and not exceeding the six-month salary set for the relevant individual.

2.17. If a non-compete agreement is signed with a Board member, the non-compete payment is paid out on the basis of the particular agreement.

3. TERMS OF OFFICE OF THE BOARD AND COUNCIL AND TERMINATION CONDITIONS

3.1. The terms of office of the Board and Council shall conform to the Commercial Law and the Company's Articles of Association.

3.2. The Council may recall a Board member if there is an important reason to do so. Important reasons shall in any case include a gross misuse of powers, non-performance or poor performance of duties, inability to manage the Company and causing damage to the Company's interests.

3.3. Council members may be dismissed based on relevant decisions of the Meeting of Shareholders.

4. REMUNERATION REPORT

4.1. The Board shall annually draw up a Remuneration Report, which forms a part of the Annual Report of the Company.

4.2. The Remuneration Report shall present information identifying every Board and Council member (the member's name, surname and position) and at least the following information about every Board and Council member's remuneration:

4.2.1. the total Remuneration broken down into components and the relative share (percentage) of Fixed Remuneration and Variable Remuneration;

4.2.2. an explanation of how the total Remuneration conforms to this Policy, how it promotes the Company's long-term performance and how the performance indicators have been applied in setting the Remuneration;

4.2.3. the annual change of Remuneration of each member of the Board and Council, of the Company's performance and of average remuneration on a full-time equivalent basis of other employees of the Company for the last five financial years in a comparable format;

4.2.4. remuneration received from another company of the same group under the Law on Annual Reports and Consolidated Annual Reports;

4.2.5. information on cases where the Company has exercised its right to bring a claim for damages against a Board or a Council member;

4.2.6. information on any deviations from the Remuneration Policy, including the explanation of the nature of the exceptional circumstances and the indication of the specific elements derogated from.

4.3. if any of the requirements referred to in paragraph 4.2. above is not applied, this shall be clearly indicated and explained in the Remuneration Report.

4.4. The Remuneration Report shall not include any special categories of the personal data of Board and Council members, for example, data concerning the marital status. In this case the Remuneration Report presents components of remuneration relating to the individual's marital status and indicates only the amount of the remuneration awarded, without stating the grounds for the respective award.

4.5. The Board shall draw up the Remuneration Report as a separate component of the Annual Report and submit it together with other components of the Annual Report to the Meeting of Shareholders for consideration. The Remuneration Report shall contain the Board's explanation of how the voting at the Meeting of Shareholders and the opinions expressed by the Shareholders about the Remuneration Report for the previous financial years have been taken into account.

4.6. A certified external auditor shall check whether the Remuneration Report is drawn up in accordance with the Law on Audit Services and issue a report as to whether the Remuneration Report contains the information referred to in the legal acts and this Policy and whether there are any material inconsistencies between the financial information presented in the Remuneration Report and the Annual Report.

4.7. The Company shall ensure that the Remuneration Report is published on the Company's website immediately after the Meeting of Shareholders and is available free of charge for at least 10 years after the date of publication.

5. DEFINITION, REVIEW AND IMPLEMENTATION OF THE POLICY

5.1. The Policy shall be approved and, if necessary, revised by the Shareholders' Meeting of the Company at least once in four years.

5.2. In order to prevent the risk of conflict of interest, the Company's Meeting of Shareholders shall supervise the implementation of the Policy in respect of the Remuneration of the Council members, and the Council – in respect of the remuneration of the Board members. If any conflict of interest is identified, the Board and Council members may not participate in the setting of their Remuneration.

5.3. The standing working group of the Company's Council – the Advisory Group (or similar) – shall, within its competence, advise the Council in matters of Remuneration and manage the processes of selection of Board members, including giving its opinion on the Remuneration applicable to Board members.

5.4. The Board shall ensure that the Policy approved by the Shareholders' Meeting, which also includes the voting date and results, is published on the Company's website immediately after

the Shareholders' Meeting and is publicly available free of charge for at least as long as it is applicable.

5.5. Until a new Remuneration Policy is approved by the Meeting of Shareholders, the Company shall pay Remuneration to Board and Council members according to the previous Remuneration Policy.

5.6. If, for objective reasons, it is not possible to precisely follow this Policy, e.g., due to changes in the Company's corporate governance structure, then during the transition period until the approval of an updated or new Remuneration Policy the principles of this Policy shall be applied to the extent possible.

5.7. On an exceptional basis, the Company may apply a temporary derogation from this Policy in respect of the components of the Variable Remuneration if necessary for securing the Company's long-term interests, sustainability or solvency. The Meeting of Shareholders shall be entitled to decide upon temporary derogations in respect of the Remuneration of Council members, and the Company's Council – in respect of the Remuneration of Board members. The decision on a temporary derogation shall be duly motivated, specifying the reason of the decision, the Company's benefit from the decision, and the duration of the temporary derogation. The duration of the temporary derogation may not exceed one year.
