

# **Joint Stock Company**

## **“Ditton pievadķēžu rūpnīca”**

### **Remuneration Policy**

**New edition**

Approved:  
in the regular shareholders' meeting dated 18. 06.2020.  
(Protocol Nr.1)

Daugavpils  
2020

## **Remuneration Policy of the Management Board and Council members**

*Issued and adopted pursuant to:*

- 1) Financial Instruments Market Law;  
Directive (EU) No 2017/828 of the European Parliament  
and of the Council of 17 May 2017;*
- 2) Commercial Law of the Republic of Latvia;*
- 3) Labour Law of the Republic of Latvia;*
- 4) Articles of the Company.*

### **§ 1. Aims and Objectives of Remuneration Policy of the Management Board and Council members.**

**1.1.** The Aim and Objective of the Remuneration Policy are to balance priorities and interests of the Management Board and Council members (hereinafter also – **Company's Management Institutions**), shareholders and potential investors of the JSC "Ditton pievadķēžu rūpnīca" (hereinafter – **Company**) in the field of remuneration of Company's Management Board and Council by creating a system of Company's management incentive to achieve Company's goals, mission and dynamic development with high level of it's incomes from operating activities and high profit level.

**1.2.** The Remuneration Policy is regarded as a mechanism to achieve these goals based on systematic procedures for of determination of remuneration of Company's Management Institutions, where both long-term and short-term Company's interests are considered, and foremost Company's interest to engage high qualified managers and employees by remuneration matching their potential and contribution to the Company, interests of the Company' Management Institutions foremost to receive remuneration matching with their participation into the Company's management, interests of Company's shareholders and potential investors by giving an opportunity to determine general principles, procedures and criteria of remuneration of Company's Management Institutions members, considering efficiency of Company's commercial activity, receipt of dividends and efficiency of Company's activity management.

**1.3.** The Remuneration Policy as a mechanism is intended to execute Company's strategy adopted by the shareholders, to promote its long-term interests, stability, effectivity and development considering ideology, principles and provisions of human resources remuneration in the Company.

**1.4.** To reach the declared goals the Remuneration Policy provides opportunity of procedures for operative and dynamic corrections of remuneration of Council and Management Board, increasing it in case the Company reaches high efficiency of operating activity and high incomes, in such a way stimulating Company's management institutions, and making corrections or decreasing of remuneration of Council and Management Board according to the real economic and financial situation in the Company, to efficiency of it's operative activity and indices.

**1.5.** The Remuneration 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 Management Board and Council members.

## § 2. General principles and procedures of the Remuneration Policy

### 2.1. Form of civil law relations of Council and Management Board members.

(a) The Council and Management Board members shall be elected or leave the position (recalled) in accordance with legal acts and the Articles of the Company; it is not regulated by this Remuneration Policy.

(b) Rights of the Council and Management Board members to the remuneration start on the next day after their election to the appropriate Company's Management Institution. Rights of the Council and Management Board members to the remuneration expires on the day of expiration of their term of office pursuant to the Articles of the Company or Commercial Law of the Republic of Latvia, or on the day of submitting a written application to the Company for leaving the position, or on the day of election of a new membership of the appropriate Company's Management Institution, or on the day, when term of office of a particular Council or Management Board member is terminated by the resolution of the competent authority of the Company (shareholders' meeting, Council).

(c) An individual employment agreement (contract) or authorization contract shall be concluded with the Management Board member for the duration of his term of office, where the chairman of the Council is acting on behalf of the Company. In the Civil Law contract with the Management Board member remuneration is determined pursuant to the Remuneration Policy.

(d) The Civil Law Contracts with Council member are not concluded and the Council member executes his competence and powers pursuant to the legal acts, Articles of the Company, resolutions of the shareholders and internal administrative documentation of the Company. Remuneration to the Council member is paid pursuant to this Remuneration Policy. The Council member is entitled to withdraw from remuneration of the Council member during election, as well as anytime during his term of office by submitting a written notice to the Company.

(e) In the event that Company's Management Board or Council execute their powers and competences in smaller composition as it is specified in the Articles of the Company, as well as in the event that the Council member withdrew from remuneration, unused part of remuneration of the Council and Management Board members remains at the disposal of the Company and shall not be divided between the Council and Management Board members.

(f) Taxes related to payments of remuneration of the Council and Management Board members shall be calculated and paid pursuant to the legal acts and are not regulated by this Remuneration Policy.

### 2.2. Composition and procedures for calculation of remuneration of the Council and Management Board members.

(a) Remuneration of the Council and Management Board members includes:

- fixed part (monthly fee);
- variable part (share of profits);
- extraordinary items.

(b) Fixed part of remuneration (monthly fee) shall be calculated according to the following formula:

$A_p = A_v \times K$ , where  
 $A_p$  – fixed part of remuneration;  
 $A_v$  – average wages (salaries) in the Company;

K – coefficient, which shall be determined by resolution of the shareholders' while approval of the actual edition of the Remuneration Policy.

(c) Amount of average wages (salaries) in the Company is calculated as average of wages (salaries) in the Company in previous four years considering data about these wages published in the Annual reports of the Company for the previous four years.

*Note: by calculating the amount of average wages (salaries) articles (b), (d) and (g) of the paragraph 3.1. of the Remuneration Policy are considered.*

(d) Coefficients for calculation of fixed part of Council and Management Board members are set on the basis of the following criteria:

- position;
- professional skills;
- official duties;
- level of responsibility, including responsibility for operating 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 made by the individual appointed to the relevant position;
  - additional skills and expertise that are essential for the operative activity of the Company;
  - impact of the labour market and the Company's financial position.

(e) Calculation and amount of the fixed part of remuneration of the Council and Management Board members set until future amendments to the Remuneration Policy is given in Appendix 1 to the Remuneration Policy.

(f) Variable part (share of profits) of remuneration shall be determined and calculated in the following way:

- Share of profits for the Council: in amount of 5% from Company's profit for the year, but not more than EUR 5 000,00;
- Share of profits for the Management Board: in amount of 5% from Company's profit for the year, but not more than EUR 5 000,00.

Share of profits shall not be paid from Company's profit for the year and is formed in the Company's budget as expenses for remuneration of members of Company's Management Institutions.

(g) Council and Managements Board members are entitled to receive share of profits starting upon approval of the Annual report. Share of profits or variable part of remuneration shall be paid each month in equal parts within 12 (twelve) calendar months starting upon the moment of entitlement to receive share of profits. Amount of share of profits shall be determined for each Company's Management Institution particularly. Amount of share of profits inside each Company's Management Institution (for each Council member or each Management Board member) shall be determined basing on composition of the Council and Management Board pursuant to the Articles of the Company and shall be calculated in equal parts for the members of the relevant Company's Management Institution.

(h) Only the Management Board and Council members are entitled to receive share of profits or variable part of remuneration, who executed their functions, competence and duties on the moment of approval of the Company's Annual report and entitlement of the Council and Management Board members to receive this part of remuneration. In the event that the Council or Management Board member leaves his position or is recalled before the whole amount of variable part (share of profits) of remuneration payable to this Council or Management Board member according to the conditions

of the article (f) is paid to him, the rest part of variable part (share of profits) of remuneration shall be paid to these Management Board or Council member within one calendar month.

**(i)** Rights to calculate and to pay variable part (share of profits) of remuneration to the Council and Management Board members are valid and the Company has to execute them, subjects to the following criteria and conditions:

- equity of the Company according to the Annual report exceeds fixed assets of the Company, including after payment of dividends to the shareholders;
- the Company closed the reporting year with profit after payment of taxes;
- profit of the Company is not routed in order to cover loss of the previous three years;
- no significant risks for operating activity of the Company in the next periods are stated in the Annual report and Auditor's report;
- a resolution on payment of dividends was taken on the shareholders' meeting.

Shareholders' meeting is entitled to take a particular resolution on payment of variable part (share of profits) of remuneration to the Management Board and Council members in the event, if the shareholders' will decide to route profit to the development of the Company instead of dividing it.

**(j)** Payment of shares of profits can be terminated by resolution of competent Company's institution (shareholders' meeting, Council) in the event of significant reason. Anyway significant loss determined in financial reports for 3, 6 and 9 months, claims submitted to the Company with a request for financial costs, administrative acts engaging to make payments, opening insolvency and/or legal defence procedures will be considered as significant reasons.

**(k)** Extraordinary items for the Council and Management Board members can include the following payments:

- whole payments set as particular payments to the employees of the Company pursuant to the Labour Law, including compensation on the event of termination of labour contract or concluding agreement on restriction of competition;
- payments and compensations set as liabilities of the Company pursuant to the Labour Law, Collective agreement and individual agreements with the Council and Management Board members, including reimbursement of expenses for performance of duties and rights of the Audit Committee members (not more that 50% of fixed part) due to business trips in interests of the Company, such as representation costs, reimbursement if expenses to the Council and Management Board members for usage of personal property (motor-vehicles, means of communication) according to the limits stated in Company's internal rules (if applicable);
- payment of one-time rewards within the program of the general reward of Company's employees;
- payment of remuneration according to the personal contract or agreement with the Council or Management Board member, in the event that this contract or agreement does not include activity, which this Council or Management Board member executes as a member of this institutions due to the legal acts and Articles of the Company.

**(l)** Unless otherwise stated payment of remuneration to the Council and Management Board members shall be made according to the procedures, terms and conditions of procedures of wages payment in the Company.

**(m)** Other forms types and procedures of remuneration of the Council and Management Board are not applicable in the Company.

### **§ 3. General provisions, procedures and formalities of the Remuneration Policy. Consideration and settlement of disputes. Responsibility and competence.**

#### **3.1. General provisions of the Remuneration Policy.**

(a) The adopted and actual Remuneration Policy in the Company is valid since July 1 2020.

(b) Remuneration Policy shall be revised and amended or supplemented if necessary:

- at least once in four years after the actual Remuneration Policy is approved by the shareholders' meeting;
- at the request of shareholders or Company's Management Institutions, in case of significant events or circumstances which affect proportionality of the remuneration paid to the Council and Management Board members.

(c) For the development of a new draft edition of the Remuneration Policy or development of draft amendments or supplements to the existing Remuneration Policy the Company establishes Remuneration Committee, which consist of one Council and one Management Board member. In the event that the shareholder or potential investor initiates Amendments to the Remuneration Policy, a person who has submitted proposal of these amendments shall be invited to participate in the Remuneration committee.

(d) New edition of the Remuneration Policy or amendments or supplements to the existing Remuneration Policy shall be approved by the ordinary shareholders' meeting convened by the Management Board and becomes valid pursuant to the terms and procedures stated in the Remuneration Policy. In the event of such essential and important circumstances and conditions that it is necessary and/or reasonably to make amendments to the actual Remuneration Policy according to the requirement of the Management Board, Council or shareholders, the Management Board is required to convene an extraordinary shareholders' meeting pursuant to the procedures of the Regulations on the convening and course of shareholders' meetings of the JSC „Ditton pievadķēžu rūpnīca” or to include amendments or supplements to the existing Remuneration Policy as a particular issue of the next shareholders meeting.

(e) In the event that Management Board convenes an extraordinary shareholders' meeting due to the reasons stated in the Article 271 of the Commercial Law or due to withdrawal of authority of all Council members and election of a new composition of the Council or due to the event that the Council withdraws authority of the whole Management Board due to the reason stated in the Article 306 of the Commercial Law, the Management Board is required to include approval of the amendments or supplements to the existing Remuneration Policy as a particular issue of the next shareholders meeting.

(f) Drafts of new edition of the Remuneration Policy and of planned amendments or supplements to the Remuneration Policy shall be disclosed with draft resolutions of the convened shareholders' meeting. Shareholders are entitled to submit proposals and corrections to the Remuneration Policy according the legal acts and Regulations on the convening and course of shareholders' meetings of the JSC „Ditton pievadķēžu rūpnīca”.

(g) Amendments or supplements to the Remuneration Policy are included into the text of the Remuneration Policy starting from the day of their approval by the shareholders' meeting, final text is a new actual edition of the Remuneration Policy. In the event that by the amendments to the Remuneration Policy only the amount of fixed part (monthly fee) of remuneration set out in the Appendix 1 to the Remuneration Policy is corrected, shareholders are entitled to approve a new edition of this Appendix 1 and extend the Remuneration Policy as actual for the next four years.

**(h)** Procedures of approval of the new edition of the Remuneration Policy are regulated by the legal acts and Regulations on the convening and course of shareholders' meetings of the JSC „Ditton pievadkēžu rūpnīca” and are not regulated by this Remuneration Policy.

### **3.2.** Transitional provisions of implementation of the Remuneration Policy in the Company.

**(a)** Fixed part (monthly fee) of remuneration shall be paid to the Council and Management Board members according to this edition of the Remuneration Policy starting from 1 July 2020 under provision that it does not make worse the amount of this Remuneration Policy according to the existing practice. This condition is valid until termination of terms of office of Council and Management Board members of the existing Company's Management Institutions.

In the event of election of a new Council or Management Board member or re-election of the existing Council or Management Board members (extension of authorities) the payment of fixed part (monthly fee) shall be made according to the actual edition of the Remuneration Policy starting from the day of election of this new member of the Council or Management Board member or re-election of the existing members of the Company's Management Institutions.

**(b)** Variable part (share of profits) and extraordinary items of remuneration according to the terms and conditions of this Remuneration Policy shall be calculated and paid starting from the Annual reports for the year 2021. However, it does not delay payment of the variable part or extraordinary items (one-time rewards, compensations and bonus) of remuneration pursuant to the existing Company's practise before this Remuneration Policy becomes effective.

### **3.3.** Procedures and formalities of the Remuneration Policy. Consideration and settlement of disputes. Responsibility and competence.

**(a)** Considering that the Remuneration Policy contains basic provisions for remuneration payment to the members of Company's Management Institutions, including those member who have concluded labour agreements (contracts) with the Company, the members of the Company's Management Institutions:

- shall be made aware with the Remuneration Policy (newly elected members of the Council and Management Board – before their election to this positions);
- in the notice pursuant to the Articles 296 and 305 of the Commercial Law of the Republic of Latvia about acceptance to be elected to the position of the Council or Management Board member states their acceptance that the Remuneration policy will be applied to the remuneration of the Council or Management Board members pursuant to the conditions of the Remuneration Policy.

Denunciation from the remuneration pursuant to the Remuneration Policy is considered as initiative to leave this position.

**(b)** Shareholders and members of Company's Management (Council, Management Board) declare, that will take all reasonable and proportional actions for proper implementation of the Remuneration Policy, to regulate possible conflicts, disputes and disagreements in scope of the Remuneration Policy through alignment and compromises in interests of the Company, members of the Council and Management Board, shareholders.

Due to this declaration conflicts of interests, disputes and disagreements within the scope of the applying of Remuneration Policy and payment of Remuneration to the Council and Management Board members shall be settled by:

- Conciliation commission consisting of equal number of the Council and Management Board members, who are not involved in the conflict and/or whose interests are not effected by this conflict; in the event that in the scope of the existing Remuneration Policy the Conciliation commission shall not develop resolutions acceptable for the Company, its shareholders and/or

members of the Company's Management Institutions or if there are several alternatives of settlement of the conflict of interests, disputes and disagreements or this settlement obviously requires corrections of the Remuneration Policy, authorities of their settlement shall be transferred to the shareholders' meeting;

- anyway and irrespective of applied procedure of conflict of interests, disputes or disagreements the Company or members of the Council or Management Board are entitled to submit the dispute to the civil court of general jurisdiction of the Republic of Latvia according to the existing legislation of Latvia and European Union; resolution on submitting such dispute to the court on behalf of the Company shall be taken by the shareholders' meeting.

(c) Responsibility and competence of the Company, the Management Board or the Council is specified by:

- existing legal acts of Latvian Republic and European Union;
- this Remuneration Policy;
- resolutions of the shareholders meeting.

In the event that due to the non-compliance or improper performance of the Remuneration Policy losses were caused, they can be recovered pursuant to the legal acts of the Republic of Latvia.

(d) Remuneration Policy shall be applied to the extent that it complies with legal acts of the Republic of Latvia and European Union, as well as with goals and objectives of the Remuneration Policy in the field of competence delegated to the Company and shareholders. In the event that there are contradiction or non-conformities of particular conditions of the Remuneration Policy with the actual legal act, including due to amendments to these acts made after adoption of the Remuneration Policy and in the event that some rights, procedures, liabilities or interests are not regulated by the Remuneration Policy, legal acts of the Republic of Latvia and European Union are applied.

#### **§ 4 Remuneration Report**

(a) Each year the Management Board of the Company shall draw up Remuneration Report as a separate part (component) of the annual report and submit it to the ordinary shareholders meeting. The Remuneration Report shall contain information identifying each member of the Council and Management Board (name, surname and position) and at least the following information on remuneration of each member of the Management Board and Council:

- the total remuneration broken down into components and the relative share (percentage) of fixed remuneration and variable remuneration;
- an explanation of how the total remuneration conforms to this Remuneration Policy, how it promotes the Company's long-term performance and how the performance indicators have been applied in setting the remuneration;
- the annual change of remuneration of each Management Board and Council member, 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;
- remuneration received from another company of the same group under the Law on Annual accounts and Consolidated Annual Accounts;
- information on cases where the Company has exercised its right to bring a claim for damages against the Management Board and Council member;
- 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.



In the event that any of above mentioned requirements is not applied, this shall be clearly indicated and explained in the Remuneration Policy. The Remuneration Report can contain other information too, which reflects by the Remuneration Policy and legal acts of the Republic of Latvia and European Union provided expenses for remuneration paid by the Company to the members of Management Institutions.

(b) Before shareholders' meeting the Company submits the Remuneration Report with the Annual report to the certified Auditor whose duty is to check and establish the issuance of the Remuneration Report and establish that information of the Remuneration Report complies with the actual remuneration of the members of the Company's Management Institutions and requirements of legal acts of the Republic of Latvia and European Union.

(c) The Company ensures disclosure of the Remuneration Report on website of the Company immediately after shareholders' meeting, which approves the Annual report of the Company and provides its availability and storage on the website not less than 10 years from the day of disclosure. The Company ensures availability of the Remuneration Report for the longer period of time after data of natural person will be excluded.

(d) The Company provides disclosure of the Remuneration Report starting from financial year 2020 and approval of the Annual report for the year 2020.

(e) Other procedures and formalities of the Remuneration Report are regulated by legal acts of the Republic of Latvia and European Union.

## **§ 5 Coordination of the Remuneration Policy**

(a) Remuneration Policy is agreed by the Management Board of the Company, Protocol No. 02/2020, dated on 07.05.2020.

(b) ) Remuneration Policy is agreed by the Council of the Company, Protocol No. 227, dated on 07.05.2020.

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**Calculation of fixed part (monthly fee) of the Council and Management Board members of the JSC Ditton pievadķēžu rūpnīca**

/valid from 1 July 2020/

Position in the institution	average wages in the Company, EUR (section 2.2, article (c) of the Remuneration Policy)	Monthly fee	
		Coefficient	Amount, EUR
1. Management Board			
1.1. Chairman of the Management Board	591, 00	5,00-5,50	3 100,00
1.2. Management Board member	591, 00	2,30-2,50	1 400,00
2. Council			
2.1. Chairman of the Council	591, 00	2,85-3,00	1 725,00
2.2. Deputy Chairman of the Council/C members	591, 00	1,00-1,25	650,00

*Note: Amount of basis of the average wages of the Company is set according to the Annual reports for the years 2016, 2017, 2018 and 2019.*

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