

	AB Lietuvos Geležinkeliai Remuneration and Performance Management
REMUNERATION POLICY	No. M/FN12/LG/1 Version 01

APPROVED
by Decision No. SPR-VL(LTG)-23/2023
of November 21, 2023
of the Board of AB “Lietuvos Geležinkeliai”

REMUNERATION POLICY

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1. Introduction

1.1. The Remuneration Policy is a document describing general principles for remuneration and performance management in the group of companies of AB Lietuvos Geležinkeliai (hereinafter – LTG). The purpose of the Remuneration Policy is long-term solutions directed to the well-being of employees and the implementation of certain strategic directions:

- offer a competitive remuneration package by attracting and retaining employees with the required competences;
- ensure equal opportunities and non-discrimination in performance and remuneration management;
- ensure the internal fairness principle in remunerating for similar functions;
- increase engagement;
- encourage employees to develop their competences;
- uphold the principles of transparency and responsible governance;
- contribute to efficient personnel cost management and create value for the shareholder.

1.2. The Remuneration Policy is applicable to all LTG Group employees.

2. Definitions

Definition, abbreviation	Description
AVA	LTG Group's Remuneration and Executive Selection Committee, LTG Functional Committee
Business Unit	A company which is a part of the LTG Group (except LTG)
Collegial bodies	LTG / Business Unit Management Boards
Employee	An individual, employed in LTG / Business Unit
High level manager	Managers with the general position group A. In most cases they are under the direct subordination of LTG CEO / Business Unit CEO / LTG functional manager
HR Business Partner	Employee of LTG People and Culture who is responsible for human resources management in LTG / Business Units
Internal communication tools	Sections and news feeds dedicated to the remuneration policy area on the internal intranet, e-mails, remote and live presentations, records of presentations, internal documents and legal acts placed in the internal document management system
Job function, sub-function	Job function defines the nature of work and the specifics of the competitive environment in which particular positions operate. If necessary, more specific area of activity - a sub-function – can be indicated
LTG	AB Lietuvos Geležinkeliai
LTG functional manager	LTG executive manager under the direct LTG CEO subordination and with position group T
LTG Group	A group of companies consisting of LTG and legal entities under direct or indirect control of LTG.
Manager	LTG Group employee who makes decisions related to subordinate employees
Market salary information	Information from the salary survey recognized in international practice and widely used in the market, as well as information collected during employee selection, employee turnover rate, information from publicly available economic surveys and other sources
Pay grades	Pay ranges with the minimum and maximum monetary amounts of the basic salary assigned to position corporate level. Between the minimum

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	and maximum is the median (the middle of the salary range). As well it can be used intermediate monetary amounts, for instance, pay rates.
Position corporate level	Attributes that include position group, numerical value, job function or job sub-function
Position group	A group of numerical steps methodically assigned to position during the evaluation and corporate level assignment, which is denoted by a letter and a general name (e.g., position group A - "High level Managers"; position group F - "Operational/services staff, skilled workers")
Remuneration Specialist	Employee of Remuneration and Performance Management team of LTG People and Culture and / or employee of LTG Competence Centre, supervising areas, related to remuneration or performance management
SAK	LTG Group's Nomination and Remuneration Committee, Advisory Committee to LTG Board
Strategy and business efficiency specialist	Employee of the Strategy and business efficiency team of LTG Strategy and Business Development, supervising areas, related to goals setting based on key performance indicators and the achievement evaluation

3. General provisions

3.1. Remuneration components and their amounts depend on the position corporate level. The position corporate level is the basis of the remuneration system that defines the remuneration package.

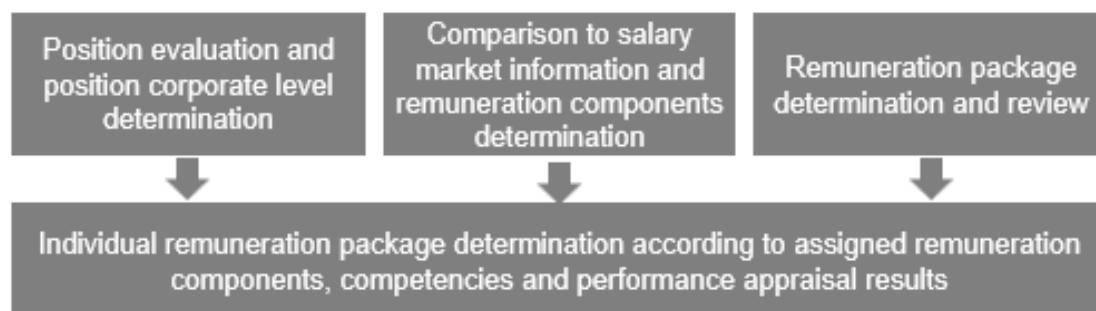


Figure 1. Stages in determining remuneration

3.2. Components of Employee's remuneration within the LTG Group are specified in Figure 2:

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TOTAL REMUNERATION	Remuneration type	Description	Employees and managers	High level managers (position group A)	LTG functional managers (position group T)	LTG CEO & Business Units CEO (position groups H&T)
	basic salary	monthly salary or hourly wage established in employment contract	✓	✓	✓	✓
	other payment, related to work and time-off	bonus for qualification, payment for break time during routes, etc.	✓			
	payment for the other than usual working-time arrangements	payment for overtime work, work at night, etc.	according to local legal acts and internal documents which detailing this type of payment			
	variable pay	variable pay component for achieving short-term goals according to schemes applied to particular positions or teams	✓			
	incentive for extra-mile	incentive is awarded at the employer's initiative for achieving extra miles and strategic initiatives, as well as according to schemes applied to particular positions / teams	✓	✓	✓	✓
	incentive for annual results	annual incentive is awarded at the employer's initiative for achieving LTG Group / Business Unit / function annual results and personal efforts	✓	✓	✓	✓
	incentive for longer than one-year period goals	incentive for achieving longer than one-year period goals according to the approved schemes	positions with dedicated longer than one-year period goals			
	remuneration for the members of collegial bodies	remuneration for the members of collegial bodies determined by the shareholder	employees delegated to members of collegial bodies by the shareholder's decision			
	ELEMENTS OF ADDITIONAL EMPLOYER VALUE	wellbeing benefits	✓	✓	✓	✓
		car allowance for managers		✓	✓	✓
	NON-FINANCIAL REWARD	organisational culture, events, personal development and assistance for others, ambassadors' initiative and clubs, possibility to work at a strategic company	✓	✓	✓	✓

Figure 2. Remuneration components

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3.3 The individual remuneration package of the employee depends on the position corporate level, the results of performance evaluation, an experience and competences.

3.4. The decision matrix related to the implementation of the provisions of Remuneration Policy is presented in Annex 1.

3.5. To ensure the transparency and clarity, the Remuneration Policy is published on the LTG Group website, while the detailed guidelines, principles, explanations, technical solutions for its implementation are described in the internal documents and legal acts of the LTG Group / Business Unit and are announced to employees through internal communication channels.

3.6. On the websites of the LTG Group companies in Lithuania, data on the remuneration of company's CEO and members of collegial bodies are publicly published and regularly updated. As well as data on the average salary of employees by general position groups and gender.

3.7 The Head of the Remuneration and Performance Management team of LTG People and Culture function is responsible for organizing the implementation of the provisions of the Remuneration Policy and disseminating related information to LTG Group employees.

4. Determination of position corporate level

4.1. The position evaluation (determination of position corporate level) ensures a consistent comparison of all positions within the LTG Group based on the uniform principles.

4.2. For position evaluation LTG Group choose a method, which is recognized in international practice and widely used in the market. According to this method, subject to a detailed analysis of the responsibilities assigned to a position, the scope of problems to be addressed and the know-how required, as well as job function in which position is performing, a position corporate level (importance) is assigned. All LTG Group positions with assigned corporate levels form LTG Group positions structure (map).

4.3. According to demand the external consultants can be involved in LTG CEO or other positions evaluation.

4.4. Determination of position corporate level or it's revision (after changes of organisational structure or position functions) is based on actual position description and internal comparison with other positions.

5. Determination of pay grade

5.1. Depending on the position corporate level, and market salary information, the pay grades for each position corporate level are determined. If the market salary information indicates that the salary level for a certain job function / sub-function is significantly higher / lower than the general salary market median, this may be taken into account when setting the pay grades.

5.2. In Lithuania the LTG Group focuses on the basic salary median of all companies operating in Lithuania (local and international) participating in the market salary survey. In other countries than Lithuania LTG Group employee's salary should correspond to local market practice and the targeted market position according to strategic goals.

5.3. The pay grades of LTG CEO / Business Unit CEO are determined in a complex way considering salary market situation, thresholds as recommended by the Government of the Republic of Lithuania to state-owned companies, recommendations and decisions from shareholder, other legal acts regulating issues related to remuneration, practice of other state-owned companies.

5.4. During determination of pay grade, it must be ensured that the maximum and minimum amount does not differ from the median by more than 20 percent.

5.5. The step between medians of two adjacent corporate levels (e.g., between 15 and 16) in the same job function / sub-function can be 3-20 per cent.

5.6. The pay grade for each corporate level shall be reviewed by Remuneration Specialists annually based on salary market movement analysis.

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6. Basic salary

6.1. A rate below the median should be used to determine the basic salary of newly recruited staff who have not yet acquired the required qualification and experience, the median salary rate - to determine the basic salary of employees whose qualification and experience correspond to the established requirements, and the maximum rate – to determine the basic salary of employees with expertise, highest level of qualification and best performance appraisal.

6.2. The individual basic salary may be reviewed periodically or in the event of a career change (where a position corporate level is upgraded or downgraded), also, in the case of business continuity risk arises or other objective reasons.

6.3. The periodic basic salary review is conducted once per year, normally in March-April. The periodic basic salary review is performed considering the market movements information, the renewed pay grades, the current basic salary of the employee, employee's performance appraisal results, and the possibility of LTG / Business Unit to allocate financial resources necessary for that. The purpose of the periodical salary review is to offer employees a competitive salary. Also, if salary market is changing very rapidly, the decisions to execute an intermediate salary review for particular position or groups of positions can be made.

6.4. If the employee returns from long-leave absence (e.g., from parental leave) to previous or new position, the basic salary should be reviewed in line with position pay grade, employee's competences and readiness to fulfil the requirements. The basic salary should be not less than the minimum of pay grade.

7. Variable pay

7.1. In order to focus on result - oriented behaviour and achievements based on concrete performance indicators or comparison to normative, short-term (monthly or other shorter than a year period) variable pay can be introduced to a certain structural unit, positions or their groups. Variable pay schemes can be applied for employees who directly perform in operational activities, sales, customer service, or other important and clearly measured LTG Group indicators.

7.2. The variable pay scheme for a certain unit, positions or their groups is initiated, coordinated with related parties, the performance indicators identified, communication plan prepared and implementation is ensured by the functional managers. Variable pay schemes are introduced after the consideration with the responsible Remuneration Specialist - after assessing the effectiveness of such schemes, compliance with the general remuneration management principles, forecasting impact and costs.

7.3. When introducing the variable pay scheme, the decision on annual incentive is made simultaneously. The variable pay scheme attributes as maximum bonus opportunity, periodicity, indicators and other conditions, affect the decision if the annual incentive is applied or not.

8. Incentive for extra-mile

8.1. Incentive for extra-mile is awarded at the employer's initiative for achieving extra-miles and strategic initiatives. LTG CEO / Business Units CEO / HR Business Partner can nominate employees who performed important tasks ahead of schedule; significantly affected the results of the LTG Group / Business Unit; implemented strategic projects; submitted innovative proposals or initiatives, the implementation of which would bring additional value to the LTG Group / Business Unit or otherwise contribute to the improvement of efficiency, financial indicators, organization processes.

8.2. Argumentative proposals for nomination are evaluated and approved by AVA (collegial decision).

8.3. Incentive for extra-mile also can be defined in a particular scheme, focused into continuous activities and employees, involved in such activities.

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9. Goals setting and performance appraisal

9.1. All LTG Group employees have annual goals. After the end of the year their performance are appraised considering the achievement of annual goals and LTG Group values.

9.2. LTG Group employees' goals can be individual or general. Individual goals are set to employees whose performance can be monitored and evaluated individually. General goals are usually set for operative employees whose activities are monitored as a team effort.

9.3. The annual goals of LTG CEO, Business Units CEO and LTG functional managers (position groups H and T) are set based on key performance indicators. This scheme is mathematical, with thresholds for achieving goals, and the final achievement is expressed as a percentage.

9.4. The mathematical scheme of goal achievement is not applied for other employees (except for the employees listed in point 9.3). Their annual performance result is summarized according to the expectations scale.

9.5. In order to ensure objectivity and the consistency in understanding of evaluation criteria, the annual performance results of the employees of the LTG Group can be calibrated. The calibration group discusses the reasoned preliminary performance assessment of employees under their subordination, agrees on expectations level, shares feedback and makes final decisions about annual performance results. The calibration group is a group of managers of a certain LTG / Business Unit function or parallel structural units and from the same structural subordination level.

9.6. Employees can submit the appeal in cases where the employee and his manager disagree on the employee's annual performance result.

9.7. In addition to annual goals, a separate decision related to goals for longer than one-year period can be approved by the LTG Board / Business Unit Board and / or LTG CEO. This scheme is mathematical for certain positions, with thresholds for achieving goals and the final achievement is expressed as a percentage.

10. Incentive for annual results

10.1. Incentive for annual performance results is awarded at the employer's initiative. It is awarded for good performance and the achieved LTG Group / Business Units goals. Also, annual incentive is directed to motivate employees for goals achievement in the future. When allocating the funds for the incentive payment, the contribution of the employee to the achievement of the annual goals of the LTG Group / Business Unit is taken into account.

10.2. The maximum incentive opportunities depend on the position corporate level and the employee' annual performance. The maximum incentive opportunities, depending on the position corporate level, vary from 1.4 to 3.6 of the monthly basic salary (from 11.67% to 30% of the annual basic salary). The maximums incentive opportunities can be paid to employees if LTG Group / Business Unit and personal results exceptionally exceed expectations.

10.3. Actual incentive amounts for the calendar year depend on actual achievement of LTG Group / Business Unit goals. It means that incentive of all employees is linked to the success of the LTG Group / Business Unit.

10.4. The results of the achievement of the annual goals of LTG CEO, Business Units CEO, LTG functional managers (position groups H and T) are calculated by comparing the actual achievement with the thresholds and the incentive opportunity. The maximum incentive opportunity (30% of the annual basic salary) can be paid when to the upper threshold is achieved – targets are exceptionally exceeded. No incentive is awarded if the minimum goal threshold is not achieved. When calculating the final annual incentive, the achievement of team leadership or other set goals is also evaluated.

10.5. Annual incentive payout is proceeded after the LTG Board / Business Unit Board decisions on the formation of the annual incentive fund are made and additional conditions are executed (if they were raised). Normally the annual incentive is paid in April-June.

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11. Incentive for longer than one-year period goals results

11.1. Incentive for longer than one-year period goals results is awarded at the employer's initiative. LTG Board / Business Unit Board / LTG CEO can approve longer than one-year period goals for certain positions. Principles of such goals achievement evaluation and link to incentive opportunity should be defined separately.

12. Elements of additional employer value and non-financial reward

12.1. Elements of additional employer value include benefits' package to strengthen employee's motivation and contribute to the emotional and physical well-being of employees, improving the balance between work and time-off.

12.2. Car allowances are dedicated to certain level management and replace a company car. More detailed cases are described in the Policy of Vehicle Management.

12.3. Non-financial reward is focused on increasing employee engagement, cooperation, teamwork, personal development and internal career.

13. Remuneration for the members of collegial bodies

13.1. Remuneration for the members of LTG / Business Unit collegial bodies and members of LTG Management Board committees complies with the acts of the Republic of Lithuania applicable to state-owned companies and is determined by the decision of general meeting of shareholders.

13.2. Remuneration for the members of LTG / Business Unit collegial bodies is determined in the activity contract of the member of the collegial body and is applied for the entire term. The remuneration is not dependent on the LTG / Business Units performance. Other conditions, which do not conflict with legal acts, may be determined in the contract of activity of a member of a collegial body (e.g. the procedure for reimbursement of expenses incurred in the performance of the activities of a member of a collegial body).

14. Final provisions

14.1. The Remuneration Policy takes effect from January 1st, 2024.

14.2. The Remuneration Policy and its amendments are approved by the LTG Management Board

14.3. The LTG Management Board / Business Unit Management Board has a discretion to make reasoned decisions related to the LTG Group employee's remuneration and / or performance management, deviating from the provisions provided in the Remuneration Policy and / or internal documents defining its implementation.

14.4. A review and update of the Remuneration Policy is initiated and amendments to it are coordinated by The Head of the Remuneration and Performance Management team in LTG People and Culture function.

14.5. The Remuneration Policy is reviewed ones per year to evaluate the necessity of renewal, or in cases of significant changes in LTG's long-term strategy, remuneration components, labor law, Collective agreement.

14.6. The Remuneration Policy is applied to the extent that it does not conflict with the laws of the country and / or other valid legal acts.

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Annex 1

Decision matrix

	Remuneration Specialist	Manager	LTG CEO	AVA	Audit Committee	Business Unit Management Board	LTG Management Board	Shareholder
Determination of position corporate level								
LTG CEO (<i>position group H</i>)							✓	
Business Unit CEO (<i>position group T</i>)						✓		
LTG functional managers (<i>position group T</i>)				✓				
High level managers (<i>position group A</i>)				✓				
Other employees and managers	✓							
Remuneration determination / salary review								
Members of collegial bodies								✓
LTG CEO (<i>position group H</i>)							✓	
Business Unit CEO (<i>position group T</i>)						✓		
LTG functional managers (<i>position group T</i>)				✓				
High level managers (<i>position group A</i>)		✓						
Internal Audit Manager							✓	
Other employees and managers		✓						
Goals setting and performance appraisal								
LTG CEO (<i>position group H</i>)							✓	
Business Unit CEO (<i>position group T</i>)						✓		
LTG functional managers (<i>position group T</i>)			✓					
High level managers (<i>position group A</i>)		✓						
Internal Audit Manager					✓			
Other employees and managers		✓						

Proposals for decision makers are formed by Remuneration Specialist.

Proposals for LTG Management Board / Business Units Management Boards related to annual / longer than one-year period goals setting and the achievement evaluation are formed by Strategy and business efficiency specialist.

Recommendations for decision makers on provided proposals can be formed:

- by HR Business Partner – for Managers
- by SAK, Audit Committee (regarding Internal Audit Manager) – for LTG Management Board
- by AVA, LTG CEO – for Business Unit Management Board