

## **Remuneration Principles of Management Board Members**

### **1. Scope of regulation**

This document specifies the grounds and principles of remuneration of management board members of AS Tallinna Vesi (hereinafter also *ASTV*) and provision of benefits and advantages related to office (hereinafter also *Remuneration Principles*).

### **2. Legal regulation**

- 2.1. The Remuneration Principles have been established, among other things, for the compliance with the requirements of subsection 135<sup>2</sup> (1) of the Securities Market Act.
- 2.2. In accordance with subsection 314 (1) of the Commercial Code (CC), the amount of the remuneration payable to a management board member and the procedure for payment thereof are determined by a resolution of the supervisory board. Pursuant to subsection (2) of the same section, upon determining the remuneration procedure of a management board member and the amount of fees and other benefits, and upon entry into a contract with a management board member, the supervisory board must ensure that the total amount of the payments to be made by ASTV to the management board member reasonably complies with the duties of the management board member and the economic situation of ASTV.
- 2.3. Pursuant to subsection 314 (3) of the CC, if the economic situation of ASTV significantly deteriorates and further payment to a management board member of the fees established for or agreed upon with the member, or further allowing of other benefits to the member would be extremely unfair to ASTV, ASTV may require the decrease of the fees and other benefits. If decrease of fees or other benefits is required, the management board member has the right to extraordinary cancellation of the contract entered into with him or her upon one month's advance notice of cancellation.
- 2.4. Pursuant to the procedure for supervisory board committees, the Remuneration and Nomination Committee (hereinafter the Committee) makes a proposal to the supervisory board for determining the remuneration and other financial advantages of management board members, considering that ASTV remunerates management board members in a fair and responsible manner, taking into account the criteria set out in the Remuneration Principles. The Committee reviews the grounds of remuneration of the management board at least once a year.

### **3. General remuneration principles in ASTV**

The general remuneration principles proceed from the long-term goals of ASTV, considering thereby the performance results of ASTV and the legitimate interests of investors and creditors as well as the duties of a particular management board member, his or her activities at the position, the activities of the management board as a whole, as well as the future plans of ASTV and the labour and salary market conditions of executives on the labour market.

### **4. Grounds and principles of determining remuneration of management board member**

- 4.1. The share of the basic salary in the remuneration reasonably complies with the duties of the management board member;
- 4.2. The basic salary forms a sufficiently large share of the total remuneration, which makes it possible not to determine or pay the performance pay, as appropriate;
- 4.3. The basic salary is such that motivates a management board member to act in the best interests of ASTV and as a result of which the management board member refrains from acting in his or her own interests or in the interests of third persons;
- 4.4. The basic salary of a management board member is determined taking into consideration the previous work experience of the management board member as well as the remuneration of chief executives of a similar position and liability on the labour market;
- 4.5. The basic salary of a management board member is determined in the contract of the management board member, and it is paid monthly.
- 4.6. The input to amending the basic salary is the situation on the labour and salary market. After the resolution of the supervisory board adopted on the proposal of the Committee, the basic salary may be adjusted according to the situation on the labour and salary market within a calendar year as of the agreed date.
- 4.7. If the circumstances set out in clause 2.3 of the Remuneration Principles exist, the salary of a management board member is reduced on the basis of a resolution of the supervisory board adopted on the proposal of the Committee. The resolution must be substantiated.

## **5. Grounds and principles of determining performance pay of management board member**

- 5.1. The share of the performance pay reasonably complies with the duties of the management board member;
- 5.2. The maximum amount of the performance pay forms 25% of the annual gross basic salary of the management board member.
- 5.3. The performance pay is such that motivates a management board member to act in the best interests of ASTV and as a result of which the management board refrains from acting in his or her own interests or in the interests of third persons;
- 5.4. Performance pay is paid on the basis of the results of the calendar year preceding its payment and as an incentive pay of the next calendar year, except if the performance pay is paid to a resigning management board member. The payment is made after the results of the financial year have been approved, as a rule in the middle of March.
- 5.5. The performance pay of a management board member is calculated being guided:
  - 5.5.1. to the extent of 80% by the financial and production results of the year preceding the payment of the performance pay, the goals established to the management board member by the supervisory board of ASTV and the achievement thereof;
  - 5.5.2. to the extent of 20% by the achievement of personal goals of the management board member.

Respective goals are reviewed in January and approved by the Committee.

Payment of the performance pay is decided by the Committee. The payment is made in March. If the results specified in this clause do not achieve the goals established, the Committee may decide not to pay the performance pay to a management board member.

## **6. Grounds and principles of determining benefits and other advantages related to work of management board member**

A management board member has the right to the following benefits, which form part of the remuneration package of a management board member unless otherwise agreed:

6.1. Company car

A management board member has a company car with a monthly limit of use. The amount of the limit is approved by the Committee.

6.2. Severance pay

- 6.2.1. The amount of the severance pay of a management board member is his or her basic salary of six months if the management board member is removed for reasons independent of him or her or if the management board member wants to resign due to a breach of the contract by ASTV who has not eliminated the breach within reasonable time after receiving a corresponding notice.
- 6.2.2. No severance pay is paid if a management board member is removed due to his or her breach of the contract, incl. he or she has either caused damage or loss to ASTV, is no longer trustworthy or is punished pursuant to criminal procedure.
- 6.2.3. The amount of the severance pay of a management board member is his or her basic salary of three months if he or she is removed due to his or her state of health, where he or she has been unable to perform his or her duties for three months or more.
- 6.2.4. Upon expiry of the contract of a management board member, the amount subject to payment is the performance pay specified in clause 5.2 of the Remuneration Principles. The rules applicable are those set out in clauses 5.4 and 5.5. The performance pay of a resigning management board member is calculated in proportion to the time during which he or she worked in the last calendar year.