

AS VALMIERAS STIKLA ŠKIEDRA REMUNERATION POLICY OF THE SUPERVISORY BOARD AND MANAGEMENT BOARD

Approved by the Shareholders Meeting on June 28, 2019.

The Policy is published on the Company's website
<https://www.valmiera-glass.com>



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1. DEFINITIONS

Company – joint stock company “VALMIERAS STIKLA ŠĶIEDRA”, registration No. 40003031676 (Republic of Latvia).

Management Board – the Management Board of the Company.

Supervisory Board – the Council of the Company.

Shareholders – the stockholders (shareholders) of the Company.

Fixed remuneration – the base remuneration of the members of the Management Board and the Supervisory Board in exchange for their services in respect to the reported financial year. Fixed remuneration encompasses any emoluments due for participation in the meetings of the Supervisory Board, Management Board and the Shareholders.

Variable remuneration – the financial annual bonus awarded or due to the members of the Management Board and the Supervisory Board during the reported financial year, in addition to the Fixed remuneration, as a result of the fulfilment of a predetermined performance criterion. Variable remuneration is aimed at aligning remuneration with performance actually achieved by the Company.

Benefits – in addition to the Fixed remuneration and Variable remuneration, the Company may offer a range of non-financial perquisites, including insurance, Company car and mobile telephone for business use.

Remuneration – all forms of (fixed and variable) remunerations or benefits made directly by or indirectly, but on behalf of the Company in exchange for professional services rendered by the members of the Management Board and Supervisory Board.

Deferral period – the period after the award of the Variable remuneration and before the vesting of the Variable remuneration during which the members of the Management Board and the Supervisory Board are not the legal owners of the Variable remuneration awarded. The Deferral period is not necessarily applicable to all Variable remuneration.

Policy – “Remuneration Policy of the Supervisory board and Management Board” of the Company.

Report – clear and understandable overview of the Remuneration of the Management Board and the Supervisory Board.

2. INTRODUCTION

The Policy is an element of the Company's system of corporate governance, established for the benefit of the Company and its Shareholders and is directed towards building a competitive, high performing and innovative Company with an entrepreneurial culture that attracts, retains, motivates and rewards high-performing individuals. Promotion and support of positive outcomes across the economic and social context in which the Company operates and promotion of an ethical culture and responsible corporate citizenship are essential and is one of the main goals of the Company.

The Company has designed and integrated the Policy in conformity with the provisions on Remuneration as set out in the European Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC, in the "Corporate Governance Principles and Guidelines" issued by NASDAQ Riga OMX AS in 2010 and Financial Instrument Market Law and the Commercial Law of the Republic of Latvia.

3. PURPOSE AND GENERAL PRINCIPLES

- 3.1. The Policy establishes the main principles of the Remuneration and applies to the Management Board and the Supervisory Board.
- 3.2. The overall objective of the Policy is to set a balance between the Fixed and Variable remuneration, in relation to the strategic objectives and the risk management of the Company.
- 3.3. Additionally, the objective of the Policy is to disclose clear, understandable, comprehensive and comparable information on the Remuneration.
- 3.4. The procedures used to adopt and implement the Policy are consistent with and supportive of effective risk management.
- 3.5. The Policy is defined in accordance with the corporate governance model, adopted by the Company and with the comprehensive “best practice” approach.
- 3.6. The Policy is in line with the business strategy, objectives, values and long-term interests of the Company and the interests of Shareholders, and incorporates measures to avoid conflicts of interest.
- 3.7. Implementation of the Policy should be rendered in a transparent manner.
- 3.8. The Company shall pay Remuneration to the Management Board and Supervisory Board in accordance with the terms that have been approved at the meeting of the Shareholders.
- 3.9. Each of the members of the Supervisory Board and the Management Board is required to get acquainted with the Policy and sign a declaration of agreement, before issuing a written consent to the Company to hold office in the Supervisory Board or the Management Board.
- 3.10. Remuneration must be designed in a way that avoids conflicts of interests and shall be in line with the Company’s policies and procedures that establishes provisions regarding the avoidance of conflicts of interest.
- 3.11. If a conflict of interest is determined, the members of the Management Board are excluded from participating in the determination of its own Remuneration.

4. GOVERNANCE

- 4.1. In line with the corporate governance of the Company the Management Board is responsible for drafting the Policy.
- 4.2. The Management Board submits a clear and understandable Policy draft to the Supervisory Board and the Supervisory Board shall advise the Management Board on the content of the Policy.
- 4.3. The Management Board submits the Policy and all the amendments in the Policy or any new policies regarding Remuneration to the meeting of the Shareholders in accordance with the procedures defined in the laws and regulations.
- 4.4. The Policy and all the amendments in the Policy or any new policies regarding Remuneration are adopted by the meeting of the Shareholders with a majority of votes of the Shareholders.
- 4.5. The vote by the meeting of the Shareholders on the Policy and all the amendments in the Policy or any new policies regarding Remuneration is binding.
- 4.6. Shareholders must ensure that the Policy is publicly disclosed in accordance with section 0 of the Policy.
- 4.7. If the meeting of the Shareholders does not approve the proposed Policy or the amendments of the Policy or any new policies regarding Remuneration, the Company may continue to pay Remuneration to its Management Board and Supervisory Board with its existing practices or the existing approved policy and shall submit a revised policy for approval at the next meeting of the Shareholders.
- 4.8. The Policy must be submitted for the approval by the meeting of the Shareholders at least every four years from the day the previous Policy was approved.
- 4.9. If a decision on the amendments of the Policy have been taken by the meeting of the Shareholders, it shall be deemed that with the amendments approved, the Policy is approved in a new wording.
- 4.10. The Management Board shall conduct an ongoing review of the Policy and the outcomes of the meetings conducted with Shareholders investors and their proxy advisors, in order to keep it in line with the best corporate governance practices, market trends and to maximize the Shareholder consensus on the amendments in the Policy or any new policies regarding Remuneration.

5. REMUNERATION STRUCTURE OVERVIEW

- 5.1. Remuneration consists of:
 - 5.1.1. Fixed remuneration;
 - 5.1.2. Variable remuneration;
 - 5.1.3. Benefits.
- 5.2. Fixed remuneration primarily reflects relevant professional experience, position, organisational responsibility, seniority, education, job complexity, duties and scope of responsibility and it must represent a sufficiently high proportion of the total Remuneration to allow the Company to withhold Variable remuneration of Remuneration when necessary.
- 5.3. The Variable remuneration may alter. It depends on the financial and non-financial performance of the Company and is anchored to the short-term and long-term goals of the Company. Additionally, it depends on corporate social responsibility, on the nature of work and measurable performance.
- 5.4. The maximum limit of the Variable remuneration does not exceed 200 % of the Fixed remuneration.
- 5.5. The Variable remuneration is paid if it is sustainable according to the financial situation of the Company as a whole and justified according to the performance of the business unit, the fund and the individual concerned.
- 5.6. Remuneration pay and employment conditions of employees of the Company must be taken into account when establishing the Remuneration to the Supervisory board and the Management Board. The Remuneration of the Supervisory board and the Management Board should be proportionate to the remuneration of other employees of the Company.
- 5.7. Remuneration of the Supervisory Board and the Management Board should be fair and for a real and qualitative performance of duties. Therefore, the Remuneration should depend on the actual performance of the Company and one's results.
- 5.8. Variable remuneration should indicate the Company's performance in general and personal investment of the Supervisory Board and the Management Board into the Company's performance. Indicators of:
 - 5.8.1. the Company's performance, in general, is reflected in:
 - 5.8.1.1. financial performance of the Company on the basis of quarterly and annual results;
 - 5.8.1.2. the positive dynamics of the Company's development;
 - 5.8.1.3. the implementation of business plans adopted by the Company both in the part of long-term planning and in the part of short-term planning and specific projects;
 - 5.8.1.4. the fulfilment of economic, budget and production forecasts;
 - 5.8.1.5. the development of relations of productive forces and production, including in the part of production quality, labour productivity, the fulfilment of planned profitability, resources and material saving, etc;
 - 5.8.1.6. the ensuring of promotion of the Company's products to existing and new market segments, development of consumers and suppliers' network, reduction of reclamations level, the introduction of new types of products;

- 5.8.1.7. control, analysis, management and minimization of risks of financial-production activity, concluded business transactions and contracts, financial settlements with partners, supplies etc.;
- 5.8.1.8. investment activity by attracting investors of all forms and opportunities for the realization of the Company's projects;
- 5.8.1.9. performance of the Company's goals and mission in accordance with its tasks, opportunities and Shareholders' decisions;
- 5.8.2. personal investment is reflected in:
 - 5.8.2.1. the actual scope of responsibilities, workload and performance time in the interests of the Company;
 - 5.8.2.2. professionalism and competence of the members of the Supervisory Board and the Management Board;
 - 5.8.2.3. participation in decision-making of the Supervisory Board and the Management Board, managing and/or monitoring of specific projects and/or directions, their success and effectiveness;
 - 5.8.2.4. level of responsibility for the Company's activity and decisions taken;
 - 5.8.2.5. level of integration into common projects, goals, tasks, missions of the Company, including into management of financial-business activity and relevant risks; management of spheres of personnel, labour and environmental protection, security; ensuring of the legal protection of the Company; ensuring of certification (ISO) of the products and production etc.
- 5.9. Remuneration pay must reflect the external factors, which affect determination and changes of Remuneration, which can include
 - 5.9.1. laws and regulations and other statutory acts, which determine legal conditions and restrictions in respect of appropriate procedures;
 - 5.9.2. actual situation in the local labour market, the relation of demand and supply of labour recourses and market value resulting from it.

6. PERFORMANCE MEASUREMENT

- 6.1. Only Variable remuneration is a subject to performance measurement.
- 6.2. Performance assessment is based on range of business metrics set by the Management Board on an annual basis to ensure that they are appropriately stretching for the delivery of the threshold, target and maximum performance. These performance measures may include but is not limited to underlying sales growth, underlying operating margin improvement.
- 6.3. Variable remuneration is based on a combination of the assessment of the performance of the individual and of the overall results of the Company. Such assessment includes financial and non-financial criteria.
- 6.4. Performance is normally measured over the financial year.

7. "CLAWBACK"

- 7.1. The Company reserves the right to demand full or partial repayment from the member of the Management Board or the Supervisory Board who has been already paid full or partial Variable remuneration in the following conditions:
 - 7.1.1. fraudulent conduct by the member of the Supervisory Board or the Management Board;
 - 7.1.2. misleading information by the Supervisory board or the Management Board to Shareholders;
 - 7.1.3. performance criteria for which the data used in the calculation is manifestly incorrect.
- 7.2. The activation of recoupment claims (or withdrawal of Variable remuneration awarded but not yet paid) must take place, once appropriate verification has been completed, within three years of payment (or award) in cases of error, and within five years in cases of fraud.
- 7.3. The Deferral period of Variable remuneration is at least 3 years long.
- 7.4. In order to determine whether the deferred Variable remuneration should vest or should be adjusted due to risks and errors that have appeared since the member of the Supervisory Board or the Management Board was awarded its Variable remuneration, a risk assessment will be performed. The adjustment is the so-called "malus". The malus will be applied in case of:
 - 7.4.1. a significant downturn in financial performance;
 - 7.4.2. evidence of misbehaviour or severe error by the staff member;
 - 7.4.3. a significant failure in risk management;
 - 7.4.4. significant changes in the Company's overall financial situation.
- 7.5. The clawback clauses can be activated also in case of a contract termination.

8. PAYMENTS IN RELATION TO TERMINATION

- 8.1. Term of Contracts with the members of the Supervisory Board and the Management Board corresponds to the duration of their appointments to the respective position.
- 8.2. A member of the Management Board or of the Supervisory Board may be recalled by a decision of the Shareholders. The Supervisory Board may suspend any member of the Management Board from his or her position until the meeting of Shareholders but not for longer than two months.
- 8.3. A payment *in lieu* of notice can be made to the member of the Supervisory board and Management Board, to the value of no more than 6 months Fixed remuneration unless the Shareholders, find this manifestly unreasonable given the circumstances or unless dictated by applicable law.
- 8.4. A payment *in lieu* of notice may include redundancy remuneration for loss of office, and may be subject to a non-competition clause in the contract. In particular, in the following situations, additional payments made, because of the early termination of a contract, should be considered as severance payment:
 - 8.4.1. the Company terminates the contracts of to the member of the Supervisory board and Management Board because of a failure of the Company;
 - 8.4.2. the Company and a member of the Supervisory board or the Management Board agree on a settlement in case of a potential or actual dispute, to avoid a decision on a settlement by the courts.
- 8.5. The payment for non-competition agreements, if the Company doesn't withdraw restrictions contracted in Non-competition agreements, may not exceed 60 % of last three years average received Fixed remuneration.
- 8.6. The payment for termination of contract shall not exceed the amount of a two-year Fixed remuneration.
- 8.7. Payments related to an early termination of a contract should not be awarded in the event of dismissal for «just cause» and resignation not justified by a reduction of delegated powers. However, this does not affect all the indemnities that are due in accordance with the laws and regulations.

9. REPORT

- 9.1. The Management Board draws up a clear and understandable annual report on Remuneration granted or paid within the previous financial year, or that is owed for the last financial year to each current and to former members of the Management Board and the Supervisory Board.
- 9.2. Introduction part of the Report should include:
- 9.2.1. A general overview of the last financial year, including information about the general performance and events of the Company under the reported financial year.
 - 9.2.2. A brief highlights summary, which should include the key elements regarding the Remuneration for the reported financial year, such as any key events in the Company's business environment affecting the Remuneration and the key changes in the composition of the Management Board and the Supervisory Board, in the Policy, compared to the preceding reported financial year.
 - 9.2.3. The highlights summary should be followed by a more comprehensive overview where the Company can present further and more detailed information about the most relevant facts and developments in the performance and business environment as well as the major decisions that may have affected the Remuneration in the reported financial year.
- 9.3. The Report shall contain information on Remuneration of each member of the Management Board and the Supervisory Board:
- 9.3.1. The total Remuneration that is split out by component, the relative proportion (per cent) of Fixed and Variable remuneration during the accounting year.
 - 9.3.2. An explanation of how the total Remuneration complies with the adopted Policy, including how it contributes to the long-term performance of the Company and information on how the performance results of the Company criteria were applied.
 - 9.3.3. The annual change of Remuneration over at least the five most recent financial years presented together in a manner which permits comparison:
 - 9.3.3.1. Remuneration of the members of the Management Board and the Supervisory Board;
 - 9.3.3.2. of the performance of the Company;
 - 9.3.3.3. of average remuneration on a full-time equivalent basis of employees of the Company other than the members of the Management Board and the Supervisory Board.
 - 9.3.4. Any Remuneration received from any Company belonging to the same group, an annual account and consolidated annual account within the meaning of the Financial instruments market law, when applicable.
 - 9.3.5. Information on cases where the Variable Remuneration was reclaimed.
 - 9.3.6. The compensation received by a member of the Supervisory Board or member of the Management Board that has left office in the reporting year.
 - 9.3.7. The total value of any tangible benefits received as Remuneration and is not subject to the 9.3.1–9.3.6 clauses.
- 9.4. It must be provided explicitly in the Report, if any of the requirements indicated in the Paragraph 9.3. of the Policy does not apply.

- 9.5. the Report does not contain any special categories of personal data of the members of the Management Board and the Supervisory Board such as racial or ethnic origin, political opinions, religious or philosophical beliefs, or trade union membership, and the processing of genetic data, biometric data for the purpose of uniquely identifying a natural person, data concerning health or data concerning a natural person's sex life or sexual orientation or personal data which refer to the family situation of the members of the Management Board and the Supervisory Board. In this case the Variable remuneration associated with family status must be included in the Report presented in the format of table.
- 9.6. The Management Board prepares the Report as a separate component part of the annual statement and submits it together with other component parts of the annual statement for examination to the meeting of the Shareholders. The Management Board in the Remuneration report must explain how the vote by the meeting of the Shareholders and the Shareholders opinions on the Report of the previous financial year has been taken into account.
- 9.7. If the Management Board prepares an annual statement and the consolidated annual statement, it must only prepare one Report.
- 9.8. A sworn auditor shall check whether the Report is prepared and in accordance with the Law on Audit Services shall provide a view of a sworn auditor on, whether the information required by the law and section 9 of the Policy is included in the Report and whether significant discrepancies have been identified in the Report in relation to the financial information included in the annual statement.
- 9.9. When the shares of the Company are admitted to trading on a regulated market, the Management Board must prepare the Report on the financial year, that starts after the day that the shares of the Company are admitted to trading on a regulated market. Therefore, the comparison mentioned in the clause 9.3.3. of the Policy must be provided for the period of the last five financial years, that starts after the day the shares of the Company are admitted to trading on a regulated market.

10. DISCLOSURE

The Policy is publicly disclosed, without delay, after the vote by the Shareholders at the meeting of the Shareholders together with the date and the results of the vote and remains publicly available, free of charge, at least as long as it is applicable. The results of the vote include at least the information about the number of votes of the Shareholders with the voting rights present, number of votes given according to the number of the Shareholders with the voting rights and the amount of the equity capital represented at the meeting of the Shareholders with the number of the votes given, and as well as the number of votes given "for" and "against".

The Policy is publicly disclosed on the web-site of the Company <https://www.valmiera-glass.com> and a paper version shall be available upon request to the Company;

The Company ensures that the Report is publicly available immediately after the meeting of the Shareholders on the Company website, free of charge, for a period of 10 years from the day it was made public. The Company may keep the information in the Report publicly available for a longer period, provided that the Report no longer contains the personal data of the members of the Management Board and the Supervisory Board or any other natural person.

The Report in a paper version will be made available upon a request to the Company.