

APPROVED
by resolution of the Audit Committee
of the JSC Ditton pievadķēžu rūpnīca
(Audit Committee minutes
No.2017/01 dated 28.02.2017 and
No 2017/04 dated 31.08.2017)

AUDIT COMMITTEE REGULATION

of 31 August 2017

- NEW EDITION -

Issued pursuant to

- 1) Financial Instruments Market Law of the Republic of Latvia*
- 2) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014*
- 3) Audit Services Law of the Republic of Latvia*
- 4) Articles of the Association of JSC Ditton pievadķēžu rūpnīca*

§ 1

The Council of the JSC Ditton pievadķēžu rūpnīca, hereafter – Company, performs the functions of the Audit Committee. All Council members are Audit Committee members. The terms of office of Audit Committee members, the same as terms of office of Council members, are five (5) years according to the Articles of the Association of the Company, if shareholders` meeting shall not decide otherwise. Before election, each Audit Committee member shall submit to the shareholders` meeting a written consent to fulfil these duties, which shall be annexed to the scope of documents of the shareholders` meeting, when electing the Audit Committee/Council of the Company. Each Audit Committee member has the right of withdrawal from Audit Committee by submitting a written notice to the Company. Each Audit Committee member may be withdrawn by decision of the shareholders` meeting. The powers of the Audit Committee member shall immediately expire with the day when his powers of Company Council member come to the end.

When carrying out the duties of the Audit Committee member, as well as after termination of this powers, as a holder of the inside information the Audit Committee member has been granted rights, obligations and limitations in accordance with the Financial Instruments Market Law of the Republic of Latvia, Regulation (EU) No.596/2014 of the European Parliament and of the Council and Regulation on the inside information.

Other procedures on election and withdrawal of Audit Committee are listed in the Financial Instruments Market Law and in the Commercial Law of the Republic of Latvia.

§ 2

All Audit Committee members shall meet the independence criteria set out by:

- (a) Financial Instruments Market Law of the Republic of Latvia
- (b) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014
- (c) Commercial Law of the Republic of Latvia
- (d) Independence criteria for executive members of the Company developed by JSC NASDAQ OMX
- (e) Resolutions of shareholders` meetings of the Company.

The Company and Audit Committee/Councils shall declare information on compliance of Audit Committee/Council members with independence criteria written above in the Corporate Governance

Report, which is an integral part of the regular Company's Annual statement and is disclosed in the Central Storage of Regulated Information System, on websites of the Exchange and of the Company www.dpr.lv.

The Audit Committee members are not entitled to perform their duties, if they fail to comply with independence requirements. Each Audit Committee member is obliged to report to the Company on obstacles violating his independence not later than within three (3) days they occurred and shall terminate his Audit Committee member's duties.

The assessment of Audit Committee members' conformity to the independence criteria is in competence of the shareholders' meeting. When receiving information on one or more members non-complying with independence standards, the Management Board shall convene shareholders' meeting not later than within three (3) months to assess the conformity of the Audit Committee to the independence criteria and re-elect it, in case the Audit Committee's independence is not respected.

§ 3

The Financial Instruments Market Law, containing main aspects as follows, prescribes the Audit Committee's responsibilities and duties:

- (a) overseeing drawing up of the Company's financial statements;
- (b) monitoring the process of the statutory audit of the annual accounts done by sworn auditor
- (c) reviewing and monitoring the independence and objectivity of an official auditor in terms of the Audit Services Law of the Republic of Latvia and Regulation (EU) No. 537/2014 of the European Parliament and of the Council, incl. services prohibited while auditing annual accounts pursuant to Section 5 of Regulation (EU) No. 537/2014 thereof.
- (d) participating in selection of a sworn auditor in accordance to Financial Instruments Market Law and Audit Services Law of the Republic of Latvia and Regulation (EU) No. 537/2014 of the European Parliament and of the Council, reviewing and making recommendations to shareholders' meeting on the appointees in accordance with the certified auditor assessment, examining compliance of the auditor service with requirements of quality assurance by the competent supervisory authority (Ministry of Finance of the Republic of Latvia);
- (e) reviewing credibility and objectivity of the Company's Annual Report to the actual state of company's position and the Company's internal control, risk management systems and internal audit procedures;
- (f) reporting to shareholders' meeting regarding the execution of the Audit Committee's activities while monitoring annual report of the Company, incl. Audit Committee's judgements and recommendations to the Annual Report concerning credibility and objectivity of the Annual report of the Company, audit procedures and independence of the sworn auditors, the effectiveness of the company's internal audit process, suggestions for improving the effectiveness and the rectification of the deficiencies detected by the Audit Committee;
- (g) to perform other procedures within its scope of responsibility, objectives and duties in light of the facts.

Under the Commercial Law of the Republic of Latvia Audit Committee does not fulfil the duties and responsibilities of the Company Council. The Council's duties and responsibilities should be performed in an independent manner from Audit Committee's duties and responsibilities and at separate Council meetings.

§ 4

In carrying out its responsibilities, objectives and duties the Audit Committee has to interact with:

- (a) Management board;
- (b) Company's Sworn auditor;
- (c) Independent experts, if Management board or Council (Audit Committee) have involved them;
- (d) Company's internal audit bodies (if such are established);
- (e) Company's employees.

When interacting, the Audit Committee shall be entitled to receive any information on Company's operations required for the fulfilment of the auditor's responsibilities.

In order to report to the next coming shareholders' meeting and under the terms set in legal provisions of the Republic of Latvia and of the European Union, Audit Committee is entitled within its purview to request from the Management board and/or sworn auditor to submit in writing the information as follows:

- (a) Independence statement of the body;
- (b) Statement of compliance of the Annual report with the current Company's position;
- (c) Acknowledgement that drawing up and auditing of the Company's Annual Account comply with legal provisions which regulate these procedures, that bodies had access to Company's documents and conditions created ensured appropriate communication process within these procedures;
- (d) Explanation of terms used in Management and/or Audit report.

§ 5

Audit Committee (and its members) shall act pursuant to following regulations when carrying out its duties, purposes and responsibilities:

- (a) Legal norms of the Republic of Latvia and of the European Union, as well as Internal regulations of the Company specified in this Audit Committee Regulation;
- (b) Declaration on Mission statement and business objectives of the JSC DITTON Driving Chain Factory, and on evaluation of these processes, as well as resolutions of shareholders' meeting of the Company;
- (c) for the benefit of development and of priorities of Company's commercial and economic activities in practical business area, and of protection of Company's shareholders' interest on the financial instruments market share;
- (d) such principles as independence, corporate ethics, competence and conscientiousness;
- (e) Regulation on the inside information, on procedures for the management and public disclosure of the Inside information (incl. maintenance of the insider list) and on insiders dealings with financial instruments and Regulation on the trade secret of JSC Ditton pievadķēžu rūpnīca;
- (f) Audit Committee's purpose and missions;
- (g) methodology of carrying out Audit Committee's purposes and duties approved at Audit Committee meetings (Annex 1);
- (h) current Audit Committee's action plan and meeting schedule approved at the Audit Committee meeting.

§ 6

In order to organize Audit Committee work its members shall designate an Audit Committee Chairman, and a Deputy chairman when needed, by majority vote at their first meeting. A Council chairman may be elected as an Audit Committee Chairman.

The Chairman of the Audit Committee:

- (a) ensures convocation and conduction of Audit Committee meetings;
- (b) oversees drawing up of documents regarding agenda and issues for consideration dealt with at Audit Committee meetings;
- (c) confirms with signature written requests, conclusions and other documents of the Audit Committee (except of Audit Committee minutes), in case none other acceptance procedures are submitted;
- (d) ensures management and storage of the Audit Committee's documents;
- (e) runs Audit Committee meetings.

The Audit Committee Chairman may resign from position any time by submitting written notice to the Audit Committee, in such case a new Audit Committee Chairman shall be designated by Committee members at the next meeting. In the absence of the Audit Committee Chairman his duties shall be performed and the meeting shall be chaired by one of the Audit Committee members or by the Deputy chairman, if such is elected.

The Audit Committee meetings take place separately from Company Council meetings.

§ 7

The Audit Committee members exercise their duties and powers when

- a) communicating with persons mentioned herein in order to carry out Audit Committee`s duties, purposes and responsibilities;
- b) obtaining and evaluating documentation required in order to carry out Audit Committee`s duties, purposes and responsibilities;
- c) submitting conclusions, considerations or suggestions to the Company (addressed to the Management Board or shareholders` meeting) and/or to the Auditor at the Audit Committee meeting within the limits of own competences and powers.

The Audit Committee conclusions, considerations or suggestions step into force at the moment, when they are adopted by Audit Committee resolution and comprised in minutes of the Audit Committee meetings. The Audit Committee resolutions are binding to all Audit Committee members irrespective of one`s vote regarding the particular matter. The Audit Committee resolutions are not subject to appeal and might be recalled solely by the other Audit Committee resolution.

§ 8

When the Audit Committee meeting shall take resolution regarding its powers, duties, purposes and responsibilities, the Audit Committee shall be summoned:

- a) in accordance with action plan and meeting schedule of the Audit Committee approved or
- b) at the request on any Audit Committee member or
- c) at instigation of the shareholders` meeting, if it shall assign a concrete tasks to the Audit Committee.

The agenda of the Audit Committee meeting shall be determined by the authority/person who initiates the corresponding Audit Committee meeting. This aspect put no limitation to any Audit Committee member to change the agenda of the meeting already convened.

The Audit Committee resolutions are adopted by simple majority, but not less than three votes of Audit Committee members. Each member of the Audit Committee has one vote with right to object to the Audit Committee's resolution and reflect it in the minutes. The Audit Committee meeting may take place, if at least three members are present maintaining the quorum for resolution mentioned above. When the quorum for decisions is not possible, the meeting of the Audit Committee shall be adjourned. In case of equality of votes, the decision is made with priority voting right possessed by the Audit Committee Chairman.

Other procedures on conducting Audit Committee meetings, participation of the persons invited, as well as drawing up of the minutes and maintenance of their availability are set in Procedures for preparing and running Audit Committee meetings (Annex 2).

§ 9

When performing duties, the Audit Committee members shall act independently and autonomously and report to the entire Audit Committee at the Audit Committee meeting. The following resolutions may be done only by the joint decision of the Audit Committee members:

- a) on approval of the Audit Committee Regulation, as well as of its annexes;
- b) on approval of Audit Committee action plan and meeting schedule;
- c) on acceptance of the content of Audit Committee written report to shareholders` meeting;
- d) on appointment of Audit Committee Chairman;
- e) on specification of Audit Committee mandates, of responsibilities and duties of particular Audit Committee members, if Audit Committee will consider the following procedures as necessary.

The Audit Committee Chairman presents a written report to the shareholders` meeting, if none of Audit Committee members was assigned for this, when approving the report at the Audit Committee meeting. Upon shareholders` request, he shall provide additional description regarding the execution of the Audit Committee`s activities as well.

The duties of Audit Committee members comprise the compliance with internal ethical standards, acceptance of the Audit Committee's decisions without any comment and compliance with restrictions, in case some mandates and responsibilities have been delegated to designated members of the Audit Committee. Upon leaving its position, the Audit Committee member shall be obliged:

- (a) to deliver to the Company all the Company's documents received to carry out its responsibilities;
- (b) to hand on to the Company documents drawn up for Audit Committee (finished and in-progress);
- (c) to ensure saving of the Company's inside information which he has received for work-related purposes as an Audit Committee member, incl. on digital devices;
- (d) to disclaim any use of Company's inside information on their own or third-party interests on the financial instruments market.

§ 10

Written report of the Audit Committee to the shareholders' meeting may not withdraw or repeal legal power of documents as follows:

- (a) Company's Annual report with annexes;
- (b) Management and Council reports;
- (c) Auditor's report;
- (d) Public information on the Company disclosed in the Central Storage of Regulated Information System, on the websites of the Exchange and of the Company www.dpr.lv.

The written Audit Committee report to the shareholders' meeting is annexed to the Protocol of the regular shareholders' meeting of the Company and is available for shareholders together with the minutes pursuant to provisions un procedures prescribed by Commercial Law of the Republic of Latvia.

§ 11

The Company shall cover costs related to the Audit Committee performance by providing:

- a) rooms, incl. the required technical equipment, for Audit Committee meetings, communication and work with Company documents;
- b) Company's working staff to attend meetings, prepare and execute Audit Committee documents;
- c) Audit Committee members' training fees under condition that
 - it is required to improve qualification and knowledge level in accordance with Audit Committee's duties, purposes, responsibilities and powers, and
 - it is not related with acquisition of special, additional or higher education;
- d) costs of experts invited by the Audit Committee in order to examine special cases, what cannot be done by Audit Committee members because of a lack of professional competence or specific knowledge
- e) costs of delivery and receipt of documents.

There is no extra provisions for remuneration of Audit Committee members. The remuneration of Audit Committee members shall be in accordance with the Remuneration policy of the Council and Management board members of the Company.

§ 12

Audit Committee performance and internal control evaluation shall be recognized as good case practice. Assessment of Audit Committee might be performed:

- a) by specific persons and/or authorities (including those, which are not related to the Company) authorised by the resolution of the shareholders' meeting of the Company to carry out this procedure;
- b) by authorities and supervisory authorities within the limits of their competences and powers.

Any assessment is subject to review and approval at a shareholders' meeting. Under the Commercial Law, the independent assessment of the Audit Committee might be used by the shareholders' meeting to recall mandates of Company Council.

The internal evaluation and monitoring of Audit Committee shall be carried out continuously reviewing:

- a) independence of Audit Committee members;
- b) compliance of Audit Committee members herewith, as well as with Regulation on the inside information, on procedures for the management and public disclosure of the Inside information (incl. maintenance of the insider list) and on insiders dealings with financial instruments adopted pursuant to Financial instruments Market Law of the Republic of Latvia and Regulation (EU) No.596/2014 of the European Parliament and of the Council and Regulation on the trade secret of the Company adopted pursuant to Commercial Law;
- c) engagement of Audit Committee members in its activities, when accepting and preparing respective resolutions and documents.

Any claims and mistrust against members of the Audit Committee members addressed from Audit Committee, Auditor, Management board or shareholders shall be settled at the shareholders` meeting of the Company.

§ 13

Under the provisions of the Commercial Law of the Republic of Latvia, the Audit Committee is not included into the system of administrative authorities of the Company. The Audit Committee is not the authority that acts in the name of the Company in public. The Audit Committee shall act solely in own name and represent only itself. The resolutions and documents of the Audit Committee are not conductive or binding to shareholders` meetings, supervisory and executive authorities of the Company. The conclusions, considerations and arguments of the Audit Committee presented in the report to the shareholders` meeting, as well as in informative message (document) to the Company or its authorities, shall not limit the rights of shareholders` meeting, supervisory and executive authorities of the Company and shall not infringe their rights, competences and independence. To the same extent interaction with independent sworn Auditor, such as exchange of documents, written requests or considerations, is not conductive or binding to the Audit Committee and sworn auditor, shall not limit their mandates and shall not infringe one`s rights and independence.

The Audit Committee bear no responsibility, if its report to the shareholders` meeting or informative message to the Company or Auditor with considerations, arguments and conclusions of the Audit Committee might be interpreted or evaluated by third parties, including shareholders and Management of the Company irrespective of their status, incorrect or wrongly.

§ 14

The liability of the Audit Committee members is outlined in the legal acts of the Republic of Latvia and of the European Union.

Done at Daugavpils, 31 August 2017

