Joint-stock company
„DITTON PIEVADĶĒŽU RŪPNĪCA"
Reg.No.40003030187

STATEMENT
ON CORPORATE GOVERNANCE PRINCIPLES
FOR YEAR 2011

(Annex to the Report on Corporate Governance of the Annual Report 2011)

Daugavpils

2012

STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

I GENERAL INFORMATION

Corporate Governance Principles and recommendations on their implementation have been developed by JSC "NASDAQ OMX Riga" (hereinafter – Exchange). Current wording of the Principles of Corporate Governance (hereinafter – Principles) applied are approved on 19 May 2010 and effective from 1st June, 2010.

The Principles are adopted to the activity of the JSC "Ditton pievadķēžu rūpnīca" (hereinafter – Issuer) as much as possible, though in the part of the Principles the Issuer has no practice in their application, as there have not been such events, where these Principles would act.

Report on Principles of Corporate Governance means that influence of aims and tasks included into Principles have a maximum priority on appropriate events and procedures.

Report has been prepared in compliance with "comply or explain" principle, but there is no information on the essence of advancement of events and procedures of proper Principles described in this report owing to their large volume, but concerned investors and persons can obtain an additional information on the websites of the Exchange, Issuer and at the Issuer's Company.

By implementation of the Principles the Issuer is guided by:

- *goals, mission, interests and priorities of the Issuer and shareholders in accordance with Declaration on objectives and mission of the activity and development of JSC "Ditton pievadķēžu rūpnīca" and evaluation of these processes (hereinafter – Declaration);*
- *goals, interests and priorities of potential investors;*
- *normative acts of Latvia and EU regulations, including Financial Instrument Market Law, Commercial Law, Civil Law, Group of Companies Law, Labour Law, Law on Annual Reports (as well as set of related laws, Cabinet regulations and EU regulations, which regulate the Issuer's financial-economic activity and accounts), Law On Sworn Auditors, Personal Data Protection Law, Law on Exchanges, and Regulations of the Cabinet of Ministers of the Republic of Latvia and of the Exchange (hereinafter – AS „NASDAQ OMX Riga") which regulate this sphere.*

The Issuer ensures application of the Principles on the basis of hierarchy of legal force of legal acts, which is determined in theory and praxis of law, as well as by normative acts (Law on Procedures for the Promulgation, Publishing, Coming into Force and Validity of Laws and Other Acts Adopted by the Saeima, State President and Cabinet of Ministers"), which allowed to resolve procedures of application of laws and regulations and/or contradictions between laws and regulations with different legal force, as well as an equal legal force and general and special legal norms.

By application of the Principles the Issuer has been basing on three-stage system of administration and responsibility in a joint stock company, which includes:

- *shareholders, who exercise their rights in shareholders meetings,*
- *the Council of the Issuer elected by shareholders,*
- *the Management Board of the Issuer elected by the Council,*

who all have their own competence, rights and duties.

Relying on this structure, the Issuer has expounded in the Principles information on fulfilment of the Principles by the Issuer's institutions of public representation and administration – the Council and the Management Board. In accordance with their status and competence the Council and the Management Board inform on how the Principles are applied by the shareholders, but do not explain reasons by which the shareholders are guided by doing so.

The definition "There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer" accepted in respect of certain Clauses of the Principles means that conditions mentioned in this Clause have been fulfilled by obeying requirements and procedures of statutory acts of the Republic of Latvia and regulations of EU in the most optimal and rational way for the Issuer, but in case if these procedures are detailed in laws and regulations – in full compliance with these regulations; besides there are no violations or deviations from relevant legal acts detected and there have not been any actions, claims, complaints etc. against the Issuer due to possible violations or deviations from these legal acts.

II PRINCIPLES OF GOOD CORPORATE GOVERNANCE

SHAREHOLDERS' MEETING

Shareholders realize their right to participate in the management of the Issuer at shareholders' meetings. In compliance with legal acts the Issuers shall call the annual shareholders' meeting as minimum once a year. Extraordinary shareholders' meetings shall be called as required.

1. Ensuring shareholders' rights and participation at shareholders' meetings

The Issuers shall ensure equal attitude towards all the shareholders – holders of one category of shares. All shareholders shall have equal rights to participate in the management of the Issuer – to participate at shareholders' meetings and receive information that shareholders need in order to make decisions.

1.1. It shall be important to ensure that all the holders of shares of one category have also equal rights, including the right to receive a share of the Issuer's profit as dividends or in another way in proportion to the number of the shares owned by them if such right is stipulated for the shares owned by them.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*

1.2. The Issuer shall prepare a policy for the division of profit. In the preparation of the policy, it is recommended to take into account not only the provision of immediate benefit for the Issuer's shareholders by paying dividends to them but also the expediency of profit reinvesting, which would increase the value of the Issuer in future. It is recommended to discuss the policy of profit division at a shareholders' meeting thus ensuring that as possibly larger a number of shareholders have the possibility to acquaint themselves with it and to express their opinion on it. The Report shall specify where the Issuer's profit distribution policy is made available.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
The shareholders have made decision to consider the issue about profit distribution separately, independently and every year depending on performance and economic situation of the Issuer. Suggestions in respect of profit distribution and their grounds are presented by the Council and the Management Board to the meeting of shareholders in the Council report and Management report, and they are reflected also in disclosed draft resolutions.

1.3. In order to protect the Issuer's shareholders' interest to a sufficient extent, not only the Issuers but also any other persons who in compliance with the procedure stipulated in legislative acts call, announce and organize a shareholders' meeting are asked to comply with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. This principle refers to responsibility of other persons. In 2011 other persons did not convene the Issuer's shareholders' meetings.*

1.4. Shareholders of the Issuers shall be provided with the possibility to receive in due time and regularly all the required information on the relevant Issuer, participate at meetings and vote on agenda issues. The Issuers shall carry out all the possible activities to achieve that as many as possible shareholders participate at meetings; therefore, the time and place of a meeting should not restrict the attendance of a meeting by shareholders. Therefore, it should not be admissible to change the time and place of an announced shareholders' meeting shortly before the meeting, which thus would hinder or even make it impossible for shareholders to attend the meeting.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*

1.5. The Issuers shall inform their shareholders on calling a shareholders' meeting by publishing a notice in compliance with the procedure and the time limits set forth in legislative acts. The Issuers are asked to announce the shareholders' meeting as soon as the decision on calling the shareholders' meeting has been taken; in particular, this condition applies to extraordinary shareholders' meetings. The information on calling a shareholders' meeting shall be published also on the Issuer's website on the Internet, where it should be published also at least in one foreign language. It is recommended to use the English language as the said other language so that the website could be used also by foreign investors. When publishing information on calling a shareholders' meeting, also the initiator of calling the meeting shall be specified.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Notice about convening of the shareholders meeting is published after there is a full package of materials on the announced agenda at the Issuer's disposal, to ensure that the shareholders can immediately get acquainted with them. In 2011 the notices about convened shareholders' meetings have been published on the website of the Exchange, in the CSRI-system, Company's website and in a local newspaper.*

1.6. The Issuer shall ensure that compete information on the course and time of the meeting, the voting on decisions to be adopted, as well as the agenda and draft decisions on which it is planned to vote at the meeting is available in due time to the shareholders. The Issuers shall also inform the shareholders whom they can address to receive answers to any questions on the arrangements for the shareholders' meeting and the agenda issues and ensure that the required additional information is provided to the shareholders.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. All information is provided in the notice on convening the meeting. Additional information on the agenda has been provided by the Issuer to shareholders at their request under the Commercial Law and the Declaration. Refer also to comment on the Clause 1.5.*

1.7. The Issuer shall ensure that at least 14 (fourteen) days prior to the meeting the shareholders have the possibility to acquaint themselves with the draft decisions on the issues to be dealt with at the meeting, including those that have

been submitted additionally already after the announcement on calling the meeting. The Issuer shall ensure the possibility to read a complete text of draft decisions, especially if they apply to voting on amendments to the Issuer's statutes, election of the Issuer's officials, determination of their remuneration, division of the Issuer's profit and other issues.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Draft resolutions have been duly published on the websites of the Exchange, Company and in the CSRI-system.*

1.8. In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for council elections. The candidates to the council and candidates to other offices shall be nominated in due time so that the information on the said persons would be available to the shareholders to the extent as stipulated in Clause 1.9 of this Section as minimum 14 (fourteen) days prior to the shareholders' meeting.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. In 2011 the Issuer didn't elect a new Council; accordingly this principle has not been applied. Refer also to the comment on Clause 1.9.*

1.9. Especially, attention should be paid that the shareholders at least 14 (fourteen) days prior to the shareholders' meeting have the possibility to acquaint themselves with information on council member candidates and audit committee member candidates whose approval is planned at the meeting. When disclosing the said information, also a short personal biography of the candidates shall be published.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
Procedures for prior disclosure of information about Council member candidates and audit committee member candidates whose election in accordance with Article 296 of Commercial Law and Article 54.[1] of Financial Instruments Market Law has been attributed to responsibility of shareholders, but not of the Council or Management Board, have been developed and offered to the shareholders for fulfilment in their interests in the Regulations on the convening and course of shareholders' meeting. If there is such information received from the shareholders in accordance with Regulations on the convening and course of shareholders' meeting, it is included in the draft decision and published on the websites of the Exchange, Issuer and in the CSRI-system. In 2011 the Issuer didn't elect a new Council; accordingly this principle has not been applied.

1.10. The Issuer may not restrict the right of shareholders to consult among them during a shareholders' meeting if it is required in order to adopt a decision or to make clear some issue.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*

1.11. To provide shareholders with complete information on the course of the

shareholders' meeting, the Issuer shall prepare the regulations on the course of shareholders' meeting, in which the agenda of shareholders' meeting and the procedure for solving any organizational issues connected with the shareholders' meeting (e.g., registration of meeting participants, the procedure for the adoption of decisions on the issues to be dealt with at the meeting, the Issuer's actions in case any of the issues on the agenda is not dealt with, if it is impossible to adopt a decision etc.). The procedures adopted by the Issuer in relation to participation in voting shall be easy to implement.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. In 2011 the Issuer has prepared Regulations on the convening and course of shareholders' meeting (hereinafter – Regulations) and they have been approved in the shareholders' meeting.*

1.12. The Issuer shall ensure that during the shareholders' meeting the shareholders have the possibility to ask questions to the candidates to be elected at the shareholders' meeting and other attending representatives of the Issuer. The Issuer shall have the right to set reasonable restrictions on questions, for example, excluding the possibility that one shareholder uses up the total time provided for asking of questions and setting a time limit of speeches.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
The possibility to ask questions to officials, particularly, to the reporters, present shareholders, is ensured by the Regulations. Refer also to the comment to Clauses 1.8 and 1.9.

1.13. When entering the course and contents of discussions on the agenda issues to be dealt with at the shareholders' meeting in the minutes of shareholders' meeting, the chairperson of the meeting shall ensure that, in case any meeting participant requires it, particular debates are reflected in the minutes or that shareholder proposal or questions are appended thereto in written form.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*

2. Participation of members and member candidates of the Issuer's management institutions at shareholders' meetings

Shareholders' meetings shall be attended by the Issuer's board members, auditors, and as possibly many council members.

2.1. The attendance of members of the Issuer's management institutions and auditor at shareholders' meetings shall be necessary to ensure information exchange between the Issuer's shareholders and members of management institutions as well as to fulfill the right of shareholders to receive answers from competent persons to the questions submitted. The attendance of the auditor shall not be mandatory at shareholders' meetings at which issues connected with the finances of the Issuer are not dealt with. By using the right to ask questions shareholders have the possibility to obtain information on the circumstances that might affect the evaluation of the financial report and the financial situation of the Issuer.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
The attendance of the officials at the meeting is ensured by procedures stated in Latvian laws, Articles of the Issuer and the Regulations and it is recorded in the minutes of the meeting.

2.2. Shareholders' meetings shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall in particular apply to council members. If a council member candidate or auditor candidate is unable to attend the shareholders' meeting due to an important reason, then it shall be admissible that this person does not attend the shareholders' meeting. In this case, all the substantial information on the candidate shall be disclosed before the shareholders' meeting.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Procedures for introducing official candidates are stipulated in the Regulations.*
In 2011 the Issuer didn't consider any issues on election of officials.

2.3. During shareholders' meetings, the participants must have the possibility to obtain information on officials or official candidates who do not attend the meeting and reasons thereof. The reason of non-attendance should be entered in the minutes of shareholders' meeting.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
Not-attendance of any person whose presence at the meeting is necessary is reflected in the minutes of the meeting.
Refer also to the Regulations and comments to Clauses 1.8, 1.9 and 1.12.

Summary: *In 2011 there have not been any violations of principles regulating convening and holding the meeting of shareholders, nor complaints and shareholders' claims about infringement of their rights.*

BOARD

The board is the Issuer's executive institution, which manages and represents the Issuer in its everyday business, therefore the Issuer shall ensure that it is efficient, able to take decisions, and committed to increase the value of the company, therefore its obligations and responsibilities have to be clearly determined.

3. Obligations and responsibilities of the Board

The Issuers shall clearly and expressively determine the obligations and authorities of the board and responsibilities of its members, thus ensuring a successful work of the board and an increase in the Issuer's value.

3.1. The board shall have the obligation to manage the business of the Issuer, which includes also the responsibility for the realization of the objectives and strategies determined by the Issuer and the responsibility for the results

achieved. The board shall be responsible for the said to the council and the shareholders' meeting. In fulfillment of its obligations, the board shall adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. In 2011 shareholders have adopted the Declaration by which the Management Board guides itself in its activity. Before to start performance of duties the Management Board members submit to the Council a written consent and acknowledgment about absence of obstacles for holding a post and interest conflicts.*

3.2. The powers of the board shall be stipulated in the Board Regulations or a similar document, which is to be published on the website of the Issuer on the Internet. This document must be also available at the registered office of the Issuer.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. The powers of the Management Board members are stated by the Commercial Law and Articles of the Issuer. In addition, in 2011 the Issuer has developed Regulations of the Management Board, which have been approved by shareholders' meeting. Regulation are published on the website of the Issuer.*

3.3. The board shall be responsible also for the compliance with all the binding regulatory acts, risk management, as well as the financial activity of the Issuer.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*

3.4. The board shall perform certain tasks, including:
1) corporate strategies, work plan, risk control procedure, assessment and advancement of annual budget and business plans, ensuring control on the fulfillment of plans and the achievement of planned results ;
2) selection of senior managers of the Issuer, determination of their remuneration and control of their work and their replacement, if necessary, in compliance with internal procedures (e.g. personnel policy adopted by the Issuer, remuneration policy etc.);
3) timely and qualitative submission of reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. When exercising the powers the Management Board guides itself by the Declaration, Regulations, Remuneration Policy, the business plan, certification and internal control system and other internal documents of the Issuer.*

3.5. In annual reports, the board shall confirm that the internal risk procedures are efficient and that the risk management and internal control have been carried out in compliance with the said control procedures throughout the year.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. The mentioned information is included in*

the annual report.

3.6. It shall be preferable that the board submits decisions that determine the objectives and strategies for achievement thereof (participation in other companies, acquisition or alienation of property, opening of representation offices or branches, expansion of business etc) to the Issuer's council for approval.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
In cases specified in laws and Articles of the Issuer, as well if there is a shareholders' decision adopted on such requirement, the Management Board is asking for the consent of the Council to perform certain activities.

4. Board composition and requirements for board members

A board composition approved by the Issuer shall be able to ensure sufficiently critical and independent attitude in assessing and taking decisions.

4.1. In composing the board, it shall be observed that every board member has appropriate education and work experience. The Issuer shall prepare a summary of the requirements to be set for every board member, which specifies the skills, education, previous work experience and other selection criteria for every board member.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
Election of the Management Board member takes place taking into account their education, professional experience and in accordance with Commercial Law, Civil Law and Labour Law. Refer also to the comments on Clauses 3.1 and 3.2.

4.2. On the Issuer's website on the Internet, the following information on every Issuer's board member shall be published: name, surname, year of birth, education, office term, position, description of the last three year's professional experience, number of the Issuer's or its parent companies/subsidiaries shares owned by the member, information on positions in other capital companies.

Comment: *Information on members of the Management Board is systematically submitted to and updated, if new members are elected, on the websites of the Issuer, Exchange and in the CSRI-system, and in the Issuer's reports in accordance with the norms and procedures of statutory acts of the Republic of Latvia.*

4.3. In order to fulfill their obligations successfully, board members must have access in due time to accurate information on the activity of the Issuer. The board must be capable of providing an objective evaluation on the activity of the Issuer. Board members must have enough time for the performance of their duties.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. The Management Board members have no restrictions for obtaining information on the Issuer's activity and management. There are no any claims or complaints on restrictions in fulfilment of their duties received by the Council and Issuer from the Management Board members.*

4.4. It is not recommended to elect one and the same board member for more

than four successive terms. The Issuer has to evaluate whether its development will be facilitated in the result of that and whether it will be possible to avoid a situation where greater power is concentrated in hands of one or a number of separate persons due to their long-term work at the Issuer. If, however, such election is admitted, it shall be recommended to consider changing the field of work of the relevant Board member at the Issuer.

Comment: *In validity period of the Principles the Issuer had no practice of its application. None of the Management Board members has been elected for more that four successive terms.*

5. Identification of interest conflicts in the work of board members

Every board member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances and willing to assume responsibility for the decisions taken and comply with the general ethical principles in adopting any decisions connected with the business of the Issuer.

5.1. It shall be the obligation of every board member to avoid any, even only supposed, interest conflicts in his/her work. In taking decisions, board members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Before to start performance of duties the Management Board members submit to the Council a written consent and acknowledgment about absence of obstacles for holding a post and interest conflicts.*

5.2. On the occurrence of any interest conflict or even only on its possibility, a board member shall notify other board members without delay. Board members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the board member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements.

For the purposes of these Recommendations the following shall be regarded as persons who have close relationship with a board member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the board member has had a common household for at least one year. For the purposes of these recommendations the following shall be regarded as persons who are connected with a board member: legal persons where the board member or a closely related to him/her person is a board or council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
The Council and the Issuer have not received any notices on interest conflicts from the side of Management Board members.

5.3. Board members should not participate in taking decisions that could cause an interest conflict.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*

The Council and the Issuer do not have information on such decisions at their disposal.

COUNCIL

In compliance with legal acts a council is the institution that supervises the Issuer and represents interests of shareholders between meetings in cases stipulated in the law and in the statutes of the Issuer, supervises the work of the board.

6. Obligations and responsibilities of the council

The objective of the Issuer's council is to act in the interests of all the shareholders, ensuring that the value of the Issuer grows. The Issuer shall clearly determine the obligations of the council and the responsibility of the council members, as well as ensure that individual council members or groups thereof do not have a dominating role in decision making.

6.1. The functions of the council shall be set forth in the council regulation or a document equated thereto that regulates the work of the council, and it shall be published on the Issuer's website on the Internet. This document shall be also available at the Issuer's office.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. The work and functions of the Council are regulated by norms and procedures of statutory acts of Republic of Latvia, Articles of the Issuer, resolutions adopted in shareholders' meetings, as well as the Declaration and Regulations of the Council, adopted by the Issuer and approved by the shareholders' meeting in 2011, which is available on the Issuer's website on the internet.*

6.2. The supervision carried out by the council over the work of the board shall include supervision over the achievement of the objectives set by the Issuer, the corporate strategy and risk management, the process of financial accounting, board's proposals on the use of the profit of the Issuer, and the business performance of the Issuer in compliance with the requirements of regulatory acts. The council should discuss every of the said matters and express its opinion at least annually, complying with frequency of calling council meetings as laid down in regulatory acts, and the results of discussions shall be reflected in the minutes of the council's meetings.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. The concerned matters are considered in the Council meetings not less than once a quarter when approving performance results and financial statements. For deciding on current matters, determination of strategy, risks and development there is a practice of common meetings of the Management Board and the Council applied, and the Council considers issues on consent to the activities of the Management Board (refer also to comment on Clause 3.6). On these issues the Council provides information in its report to the annual report.*

6.3. The council and every its member shall be responsible that they have all the information required for them to fulfill their duties, obtaining it from board

members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the council chairperson shall contact the Issuer's board, inter alia the board chairperson, on a regular basis and discuss all the most important issues connected with the Issuer's business and development strategy, business activities, and risk management.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
The Council members have no restrictions for obtaining information on the Issuer's activity. There are no any claims or complaints on restrictions in fulfilment of their duties received by the Issuer from the Council members.
Please also refer to comment on Clause 6.2.

6.4. When determining the functions of the council, it should be stipulated that every council member has the obligation to provide explanations in case the council member is unable to participate in council meetings. It shall be recommended to disclose information on the council members who have not attended more than a half of the council meetings within a year of reporting, providing also the reasons for non-attendance.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. The Council members are given a possibility to express their opinion on the issues of the agenda in case one will be absent. In the minutes of the Council meetings the reason of absence is recorded if there was such.*

7. Council composition and requirements for council members

The council structure determined by the Issuer shall be transparent and understandable and ensure sufficiently critical and independent attitude in evaluating and taking decisions.

7.1. The Issuer shall require every council member as well as council member candidate who is planned to be elected at a shareholders' meeting that they submit to the Issuer the following information: name, surname, year of birth, education, office term as a council member, description of the last three year's professional experience, number of the Issuer's or its parent companies/subsidiaries shares owned by the member, information on positions in other capital companies. The said information shall be published also on the Issuer's website on the Internet, providing, in addition to the said information, also the term of office for which the council member is elected, its position, including also additional positions and obligations, if any.

Comment: *Information on members of the Council is systematically submitted to and updated, if new members are elected, on the websites of the Issuer, Exchange and in the CSRI-system, and in the Issuer's reports in accordance with the norms and procedures of statutory acts of the Republic of Latvia.*

7.2. When determining the requirements for council members as regards the number of additional positions, attention shall be paid that a council member has enough time to perform his or her duties in order to fulfil their duties successfully and act in the interests of the Issuer to a full extent.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Before to start performance of duties the Council members submit a written consent and acknowledgment about absence of obstacles for holding a post and interest conflicts.*

7.3. In establishing the Issuer's council, the qualification of council members should be taken into account and assessed on a periodical basis. The council should be composed of individuals whose knowledge, opinions and experience is varied, which is required for the council to fulfil their tasks successfully.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Assessment of the Council's activity is annually submitted by the shareholders' meeting.*
The shareholders are entitled to early termination of powers of the Council or its individual members by their decision in cases specified in the Commercial Law, if they prove their non-compliance with requirements set out in the Principles.

7.4. Every council member in his or her work shall be as possibly independent from any external circumstances and have the will to assume responsibility for the decisions taken and comply with the general ethical principles when taking decisions in relation to the business of the Issuer.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. The Issuer has no information on its disposal about violation of this Principle.*

7.5. It is impossible to compile a list of all the circumstances that might threaten the independence of council members or that could be used in assessing the conformity of a certain person to the status of an independent council member. Therefore, the Issuer, when assessing the independence of council members, shall be guided by the independence criteria of council members specified in the Annex hereto.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Independence criteria have been brought to the notice of shareholders as it falls within their competence.*

7.6. It shall be recommended that at least a half of council members are independent according to the independence criteria specified in the Annex hereto. If the number of council members is an odd number, the number of independent council members may be one person less than the number of the council members who do not conform to the independence criteria specified in the Annex hereto.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Independence criteria have been brought to the notice of shareholders as it falls within their competence.*

7.7. As independent shall be considered persons that conform to the independence criteria specified in the Annex hereto. If a council member does not conform to any of to the independence criteria specified in the Annex hereto but the Issuer does consider the council member in question to be independent, then

it shall provide an explanation of its opinion in detail on the tolerances permitted.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Independence criteria are brought to the notice of shareholders as it falls within their competence.*

7.8. The conformity of a person to the independence criteria specified in the Annex hereto shall be evaluated already when the council member candidate in question has been nominated for election to the council. The Issuer shall specify in the Report who of the council members are to be considered as independent every year.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Independence criteria have been brought to the notice of shareholders as it falls within their competence. The Issuer does not have shareholders' Report on the independence of the Council members.*

8. Identification of interest conflicts in the work of council members

Every council member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances. Council members shall comply with the general ethical principles in adopting any decisions connected with the business of the Issuer and assume responsibility for the decisions taken.

8.1. It shall be the obligation of every council member to avoid any, even only supposed, interest conflicts in his/her work. When taking decisions, board members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Refer also to comment on Clause 7.2.*

8.2. On the occurrence of any interest conflict or even only on its possibility, a council member shall notify other council members without delay. Council members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the council member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements.
For the purposes of these recommendations the following shall be regarded as persons who have close relationship with a council member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the council member has had a common household for at least one year. For the purposes of these recommendations the following shall be regarded as persons who are connected with a council member: legal persons where the council member or a closely related to him/her person is a board or council member, performs the tasks of an auditor or holds another managing office in which he or she could determine or affect the business strategy of the respective legal entity.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. The Issuer has not received notifications*

from the Council members and/or third persons about interest conflict.

8.3. A council member who is in a possible interest conflict should not participate in taking decisions that might be a cause of an interest conflict.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
The Issuer does not have information on such decisions at its disposal.

Summary: *In 2011 there were no violations of principles recorded regulating activity, rights and obligations, and interest conflicts of the Council and the Management Board. Complaints, claims and objections have not been made against the Council and the Management Board members.*

DISCLOSURE OF INFORMATION

Good practice of corporate governance for an Issuer whose shares are included in the market regulated by the Stock Exchange means that the information disclosed by the Issuer has to provide a view on the economic activity of the Issuer and its financial results. This facilitates a justified determination of the price of financial instruments in public circulation as well as the trust in finance and capital markets. Disclosure of information is closely connected with investor relations (hereinafter - the IR), which can be defined as the process of developing Issuer's relations with its potential and existing investors and other parties interested in the business of the Issuer.

9. Transparency of the Issuer's business

The information disclosed by the Issuers shall be provided in due time and allowing the shareholders to assess the management of the Issuer, to get an idea on the business of the company and its financial results, as well as to take grounded decisions in relation to the shares owned by them.

9.1. The structure of corporate governance shall be established in a manner that ensures provision of timely and exhaustive information on all the substantial matters that concern the Issuer, including its financial situation, business results, and the structure of owners.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
Information is disclosed in compliance with the Financial Instruments Market Law and rules of NASDAQ OMX Riga on the websites of the Exchange, Issuer and in the CSRI-system.

9.2. The information disclosed shall be checked, precise, and unambiguous and prepared in compliance with high-quality standards.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
The Issuer does not have information at its disposal regarding incorrectness or inaccuracy of disclosed information.

9.3. The Issuers should appoint a person who would be entitled to contact the press and other mass media on behalf on the Issuer, thus ensuring uniform distribution of information and evading publication of contradictory and untruthful information, and this person could be contacted, if necessary, by the Stock Exchange and investors.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Such persons who are entitled to provide information about the Issuer, including disclosing information on the website of the Exchange and in the CSRI-system, are appointed and identified in the contracts with JSC „NASDAQ OMX Riga, also with the auditor.*

9.4. The Issuers should ensure timely and compliant with the existing requirements preparation and disclosure of financial reports and annual reports of the Issuer. The procedure for the preparation of reports should be stipulated in the internal procedures of the Issuer.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. Procedures of preparing financial reports are specified in laws, regulations of the Cabinet of Ministers of the Republic of Latvia and/or accounting standards and internal normative acts. Reference to the applied normative acts is given in the annual report.*

10. Investor relations

Considering that financial instruments of the Issuers are offered on a regulated market, also such activity sphere of the Issuers as investor relations (hereinafter - the IR) and the development and maintaining thereof is equally important, paying special attention to that all the investors have access to equal, timely and sufficient information.

10.1. The main objectives of the IR are the provision of accurate and timely information on the business of the Issuer to participants of finance market, as well as the provision of a feedback, i.e. receiving references from the existing and potential investors and other persons. In the realisation of the IR process, it shall be born in mind that the target group consists not only of institutional investors and finance market analysts. A greater emphasis should be put on individual investors, and more importance should be attached to informing other interested parties: employees, creditors and business partners.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*

10.2. The Issuer shall provide all investors with equal and easily accessible important information related to the Issuer's business, including financial position, ownership structure and management. The Issuer shall present the information in a clear and understandable manner, disclosing both positive and negative facts, thus providing the investors with a complete and comprehensive information on the Issuer, allowing the investor to assess all information available before the decision making.

Comment: *There is an optimal practise applied in accordance with legislative*

acts of the Republic of Latvia and European Union, and internal documents of the Issuer.
This information is enclosed in the Issuer's regularly published statements, notifications and available on the websites of the Exchange, Issuer and in the CSRI-system.

10.3. A number of channels shall be used for the information flow in the IR. The IR strategy of the Issuer shall be created using both the possibilities provided by technologies (website) and relations with mass media and the ties with the participants of finance market. Considering the development stage of modern technologies and the accessibility thereof, the Internet is used in the IR of every modern company. This type of media has become one of the most important means of communications for the majority of investors.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*

10.4. The basic principles that should be observed by the Issuers in preparing the IR section of their websites:
1) The IR section of website shall be perceived not only as a'store of information or facts but also as one of the primary means of communication by means of which it is possible to inform the existing and potential shareholders
2) all the visitors of the IR section of website shall have the possibility to obtain conveniently all the information published there. Information on websites shall be published in all the foreign languages in which the Issuer normally distributes information so that in no way would foreign investors be discriminated, however, it shall be taken into account that information must be disclosed at least in Latvian and English;
3) It shall be recommended to consider a solution that would allow the existing and potential investors to maintain ties with the Issuer by using the IR section of website - submit questions and receive answers thereto, order the most recent information, express their opinions etc.;
4) the information published on websites shall be updated on a regular basis, and the news in relation to the Issuer and its business shall be published in due time. It shall not be admissible that outdated information that could mislead investors is found on websites;
5) after the website is' created the creators themselves should assess the IR section of the website from the point of view of users - whether the information of interest can be found easily, whether the information published provides answers to the most important questions etc.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. In 2011 formation of Investor Relations section as such on the website of the Issuer was not topical considering that in this case the information for shareholders, which is fully available, would be duplicated, and also information which can be obtained by concerned persons on the websites of the Issuer, Exchange, CSRY-system.*
The IR section will be established if there will be specific investment programs or projects, issue of shares etc..

10.5. The Issuer shall ensure that at least the following information is contained in the IR section of website:

1) general information on the Issuer - history of its establishment and business, registration data, description of industry, main types of business;
2) Issuer's Report ("*comply or explain*") on the compliance with the principles of corporate governance;
3) Number of issued and paid financial instruments, specifying how many of them are included in a regulated market;
4) information on shareholders' meetings, draft decisions to be examined, decisions adopted – at least for the last year of report ;
5) Issuer's statutes;
6) Issuer's board or council regulation or a document equated thereto that regulates its work, as well as the Issuer's remuneration policy (or a reference where it is made available) and the shareholders' meeting procedure regulation, if such has been adopted;
7) Information on the performance of the Issuer's Audit Committee;
8) information on present Issuer's council and board members (on each individually): work experience, education, number of the Issuer's shares owned by the member (as at the beginning of year; the information shall be updated as required but at least annually), information on positions in other capital companies, and the term of office of board and council members;
9) Issuer's shareholders which/who own at least 5% of the Issuer's shares; and information on changes of shareholders;
10) Financial reports and annual reports of the Issuer prepared in compliance with the procedure specified in legal acts and the Stock Exchange regulations;
11) Any other information to be disclosed by the Issuer, e.g. information on any substantial events, Issuer's press releases, archived information on Issuer's financial and annual reports on previous periods etc..

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. In 2011 formation of Investor Relations section as such on the website of the Issuer was not topical considering that in this case the information for shareholders, which is fully available, would be duplicated, and also information which can be obtained by concerned persons on the websites of the Issuer, Exchange, CSRY-system.*
The IR section will be established if there will be specific investment programs or projects, issue of shares etc..

Summary: *General information on the Issuer can be obtained by the investors on the websites of the Issuer, Exchange, in the CSRI-system, in the internet, mass media, as well by submitting a free-format written request to the Issuer.*
Specialized information about the Issuer is systematically provided to potential investors during specialized thematic exhibitions of the branch both in the EU (Hanover (Germany), Brno (the Czech Republic), Poznan (Poland), Birmingham (the United Kingdom), Jönköping (Sweden) and Riga (Latvia)) and outside the EU – CIS (Moscow, Minks).
Formation, contents and maintaining of the website is determined by the investors' information need, and it is updated whenever necessary.

INTERNAL CONTROL AND RISK MANAGEMENT

The purpose of internal control and risk management is to ensure efficient and

successful work of the Issuer, the truthfulness of the information disclosed and conformity thereof to the relevant regulatory acts and business principles. Internal control helps the board to identify the shortcomings and risks in the management of the Issuer as well as facilitates that the council's task - to supervise the work of the board - is fulfilled efficiently.

11. Principles of the Issuer's internal and external control

To ensure successful work of the Issuer, it shall be necessary to plan regular its controls and to determine the procedure of internal and external (audit) control.

11.1. To ensure successful operation, the Issuer shall control its work on a regular basis and define the procedure of internal control.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*

11.2. The objective of risk management is to ensure that the risks connected with the commercial activity of the Issuer are identified and supervised. To ensure an efficient risk management, it shall be necessary to define the basic principles of risk management. It is recommended to characterise the most essential potential and existing risks in relation to the business of the Issuer.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. In the realization procedures there is legislation of the Republic of Latvia and the European Union taken into account, as well as principles of risk management and control set out in the Declaration.*

11.3. Auditors shall be granted access to the information required for the fulfilment of the auditor's tasks and the possibility to attend Supervisory Board and Management Board meetings at which financial and other matters are dealt with.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
The Issuer has not received any claims from the auditor on failure to provide information or his hampering in access to information.

11.4. Auditors shall be independent in their work and their task shall be to provide the Issuer with independent and objective auditing and consultation services in order to facilitate the efficiency of the Issuer's business and to provide support in achieving the objectives set for the Issuer's management by offering a systematic approach for the assessment and improvement of risk management and control processes.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
In 2011 functions of the auditor have been performed by SIA „Deloitte Audits Latvia", and their activity and independence are regulated by regulatory acts of the Republic of Latvia and European Union.

11.5. It shall be recommended to carry out an independent internal control at least annually in order to assess the work of the Issuer, including its conformity to the

procedures approved by the Issuer.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
Refer also to comments on section 12.

11.6. When approving an auditor, it is recommended that the term of office of one auditor is not the same as the term of office of the Management Board.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*

Summary: *1. The Issuer's goals, mission, procedures of its risk and activity management, as well as processes of their control and analysis are set out in the Declaration.*
2. Risk control and management are functions and tasks of the Management Board and the Council. For more detailed information refer to the Declaration, comments on Clauses 3.1 and 6.2, the management report and Council report of the annual report.
3. An independent internal audit has been carried out by the Audit Committee established by the Issuer (refer to section 12).
4. Independence of auditors is ensured by the "Law On Sworn Auditors" and regulatory acts of EU through their legal status independently from the Issuer and the Principles.
5. The Council and the Management Board report on analysis and management of risks and other important events, which significantly influence the Issuer's activity, in quarterly and annual reports, and these circumstances are being considered at shareholders' meetings along with approving the annual report as well.

12. Audit Committee

The Audit Committee shall be established by a resolution of the Issuer's shareholders' meeting, and its operations and scope of responsibilities shall be set as guided by the legislation.

12.1. The functions and responsibility of the Audit Committee should be specified in the regulation of the committee or a comparable document.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. The functions, powers and responsibility of the Audit Committee are stated in laws of LR, Articles of the Issuer, and minutes of the committee.*

12.2. To assure an efficient functioning of the Audit Committee, it is recommended that at least three of its members have adequate knowledge in accounting and financial reporting, because issues related to the Issuer's financial reports and control are in the focus of the Audit Committee's operations.

Comment: *The powers and composition (2 members) of the Audit Committee are determined by laws of LR and decision of shareholders, and they are comprised by Articles of the Issuer. Election of the Committee has been carried out in conformity with the requirements of statutory acts.*

12.3. All Audit Committee members shall have access to the information about the accounting principles practiced by the Issuer. Board shall advise the Audit Committee as to the approaches to significant and unusual transactions, where alternative evaluations are possible, and shall ensure that the Audit Committee

has access to all information that has been specified in the legislation.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. According to the report of the Committee it has received all necessary information about the Issuer. The Issuer has not received any claims from the Audit Committee on their hampering in obtaining information.*

12.4. The Issuer shall ensure that its officials, board members and staff release the information to the Audit Committee that is necessary for its operations. The Audit Committee should also be entitled to carry out an independent investigation in order to identify, within its scope, any violations in the Issuer' activities.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer. The Audit Committee informs the shareholders' meeting on the performance of the above mentioned. Refer also to comment on Clause 12.3.*

12.5. Within its scope, the Audit Committee shall adopt resolutions, and is accountable to the shareholders' meeting for its operations.

Comment: *There is an optimal practise applied in accordance with legislative acts of the Republic of Latvia and European Union, and internal documents of the Issuer.*
The Issuer does not have information on any violations of competence of the Audit Committee and its reports are disclosed at shareholders meeting.

REMUNERATION POLICY

13. General principles, types and criteria for setting remuneration

The policy of the remuneration of board and council members – type, structure and amount of remuneration - is one of the spheres where persons involved has a potentially greater risk to find themselves in an interest conflict situation. To avoid it, the Issuer shall develop a clear remuneration policy, specifying general principles, types and criteria for the remuneration to be awarded to the board or council members.

13.1. The Issuers are called on to develop a remuneration policy in which the main principles for setting the remuneration, possible remuneration schemes and other essential related issues are determined. While preparing the remuneration policy Issuer should ensure that the remuneration of management and supervisory board members is proportionate to the remuneration of the Issuer's executive and managing directors and other employees.

Comment: *In accordance with the corporate governance principles the Issuer has developed Remuneration Policy of the Management Board and Council members, which in compliance with the Articles of 268 and 300 has been approved in the shareholders' meeting (Protocol of the shareholders' meeting No.1 from 31.05.2011).*

13.2. Without limiting the role and operations of the Issuer's management bodies responsible for setting remuneration to the board and council members, the drafting of the remuneration policy should be made a responsibility of the

Issuer's board, which during the preparation of a draft policy should consult with the Issuer's council. In order to avoid conflicts of interest and to monitor the management board remuneration policy, the Issuer should appoint a responsible person having sufficient experience and knowledge in the field of remuneration for development of the remuneration policy.

Comment: *Remuneration policy has been developed by participation of all governing bodies of the Issuer, and it has been accordingly approved by decisions of the Management Board, the Council and shareholders' meeting (Refer also to the comment on Clause 13.1).*

13.3. Should the remuneration policy contain a remuneration structure with a variable part in the form of the Issuer's shares or share options or any other payments, including premiums, it should be linked to previously defined short-term and long-term goals and performance criteria. If remuneration depends on fulfillment of short-term goals only, it is not likely to encourage an interest in the company's growth and improved performance in the long-term.
The scope and structure of the remuneration should depend on the business performance of the company, share price and other Issuer's events.

Comment: *Remuneration Policy complies with this principle.*

13.4. While setting the variable part of remuneration, Issuer should set limits on the variable component(s). The non-variable part of remuneration should be sufficient to allow the Issuer to withhold variable part of remuneration when necessary.

Comment: *The non-variable and variable parts of remuneration are set in accordance with the Remuneration Policy.*

13.5. Where a variable part of remuneration provides Issuer's shares, share options or any other acquisition rights thereof, it should be desirable to prescribe a minimum non-used period of time.

Comment: *The non-variable and variable parts of remuneration are set in accordance with the Remuneration Policy.*

13.6. Remuneration policy should include provisions that permit the Issuer to reclaim variable part of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated. Such provision should be included in contracts concluded between the respective executives and the Issuer.

Comment: *The non-variable and variable parts of remuneration are set in accordance with the Remuneration Policy.*

13.7. Remuneration schemes that include Issuer's shares as remuneration may theoretically cause loss to the Issuer's existing shareholders because the share price might drop due to a new issue of shares. Therefore, prior to the preparation and approval of this type of remuneration, it shall be required to assess the possible benefits or losses.

Comment: *In validity period of the Principles the Issuer had no practice of its application.*

13.8. When preparing the remuneration policy where a variable part is in the form of the Issuer's shares or share options, the Issuer shall be obliged to disclose information on how the Issuer plans to ensure the amount of shares to be granted in compliance with the approved remuneration schemes – whether it is planned

to obtain them by buying on a regulated market or by issuing new shares.

Comment: *In validity period of the Principles the Issuer had no practice of its application.*

13.9. While drafting the remuneration policy and envisaging awarding options entitling to the Issuer's shares, the Stock Exchange rules regarding distribution of share options should be taken into account.

Comment: *In validity period of the Principles the Issuer had no practice of its application.*

13.10. While setting remuneration principles with regard to board and council members, they should include general approach as to compensations, if any, in cases when contracts with the said officials are terminated (termination payments). Termination payments should not be paid if the termination is due to inadequate performance.

Comment: *In validity period of the Principles the Issuer had no practice of its application.*

13.11. It is recommended to set an adequate maximum amount of the termination payments which should not be higher than two years of the non-variable part of remuneration.

Comment: *In validity period of the Principles the Issuer had no practice of its application.*

<u>14. Remuneration Report</u>

A clear and complete report on the remuneration policy with regard to the management body members of the Issuer should be made available to the shareholders. Public disclosure of the said information would allow the existing and potential shareholders to carry out a comprehensive evaluation of the Issuer's approach the remuneration issues; consequently, the Issuer's responsible body shall draft and made public the Remuneration Report.

14.1 The Issuer is obliged to make public the Remuneration Report – a complete report on the remuneration policy applied to the members of the Issuer's management bodies. Remuneration Report may be a separate document, or may integrated in a special chapter of the Report prepared by the Issuer as recommended by Clause 9 of the Introduction of the present Recommendations. The Remuneration Report should be posted on the Issuers website.

Comment: *Remuneration Policy of the Council and Management Board members as a separate document approved in the shareholders' meeting is available for investors and third persons on the Issuer's website on the internet. Remuneration Report for the reporting period is included into the Issuer's Annual Peport (appendix 27) and is available on the websites of the Issuer, Exchange and in the CSRI-system.*

14.2. Remuneration Report should contain at least the following information:

1) Information as to the application of the remuneration policy to board and council members in the previous financial year, specifying the material changes to the Issuer's remuneration policy compared to the previous reporting period;

2) The proportion between the fixed and variable part of the remuneration for the respective category of officials, including information with regard to vesting

periods of variable part of remuneration;
3) Sufficient information as to linking the remuneration with performance. To consider the information sufficient, the report should contain;
- An explanation how the choice of performance criteria contributes to the long term interest of the Issuer;
- An explanation of the methods applied in order to determine whether performance criteria have been fulfilled;

4) Information about the Issuer's policy with regard to the contracts with the members of the Issuer's management bodies, the terms and conditions of the contracts (duration, notice deadlines about termination, including payments due in case of termination);
5) Information about the incentive schemes and the specifications and reasons for awarding any other benefits;
6) A description of any pension or early retirement schemes;
7) An overview of the remuneration paid to or any benefits received by each individual that has been board or council member in the reporting period – disclosing at least the information required in Clauses 14.5, 14.5 and 14.7 below.

Comment: *Principles, legal and commercial grounds for formation and structuring of the Council and Management Board members remuneration are stipulated in the Remuneration Policy of the Council and Management Board members, which has been approved in the shareholders' meeting and is available on the Issuers' website on the internet. Funds structured in accordance with the Remuneration Policy are reasonable and sufficient for remuneration of the Council and Management Board members and complies with their requirements and interests.*

14.3 To avoid overlapping of information, the Issuer, while preparing its Remuneration Report, may omit the information required in Clauses 14.2 1) to 7) above, provided it is a part of the Issuer's Remuneration Policy document. In such case, Remuneration Report should have a reference to the Remuneration Policy, together with an indication where it is made available.

Comment: *Refer to the comment on Clause 14.2.*

14.4 If the Issuer believes that, as a result of following the provisions of Clause 14.2 of these Recommendations sensitive business information might become public to the detriment of the Issuer's strategic position, the Issuer may not disclose such information and give the reasons.

Comment: *Amount of information disclosed in the Remuneration Policy of the Council and Management Board members about principles and grounds for formation and structuring of this remuneration corresponds to the Issuer's interests in compliance with principles of the Declaration, commercial secret and prevention of unreasonable losses, as well legislative acts of the Republic of Latvia and personal interests of the Council and Management Board members. Refer also to comment on Clause 14.5.*

14.5 The following remuneration and other benefits related information about each board and council member should be disclosed:
1) Total amount paid or outstanding (salary) for the year;
2) Remuneration and other benefits received from any company associated with the Issuer. For the understanding of this Clause, "associated undertaking" is a company according to the definition in Paragraph 1 of the Law on the Financial

Instruments Market;
3) Remuneration paid as profit distribution or bonus, and the reasons for awarding such remuneration;
4) Compensation for fulfillment of duties in addition to the regular job responsibilities;
5) Compensations and any other payments received by or to be received by board or council member who has left the position during the accounting period;
6) Total value of any other benefits apart from those listed under Clauses 1) to 5) received as remuneration.

Comment: *1. The Issuer does not regard it appropriate to the goals and mission of the Issuer to make more concrete the Remuneration Report in respect of each separate Member of the Management Board and the Council owing to following reasons:*
1) Existing and potential shareholders have the right to become acquainted with a general information regarding total expenditure for remuneration for the Management Board and the Council to evaluate the Issuer in relation to economic performance, but it is not necessary to encode remuneration of each several member of the Management Board and the Council received in the course of year;
2) Disclosing the remuneration of each several member of the Management Board and the Council contradicts legal acts of LR ("Personal Data Protection Law") and this information can not be disclosed without their consent according to requirements of normative acts.
2. Remuneration for the members of the Management Board is a component of the Issuer's general principles of labour payment, in its turn a labour payment fund, its determination (constant and variable components), reckoning to cost price of commodity products, percentage from total expenditure and other aspects is a component of the Issuer's financial analytics and pricing, and unjustified access by the third persons to this information can create prerequisites for unfair competition and other unfavourable economic consequences.
Taking into account that none of the companies of our specialization working in the Issuer's business discloses publicly such information, the Issuer also does not see it as useful to make such information publicly available.

14.6 The following information should be disclosed with regard to the shares and/or share options or any other incentive schemes resulting in ownership of the Issuer's shares:
1) the number and holding conditions of shares or share options entitling to the Issuer's shares granted over the reporting period to the members of Issuer's management bodies;
2) the number of options exercised during the reporting period, entitling to the Issuer's shares, specifying the price and the number of shares obtained, or the unit value held by the member of the Issuer's management board in a share-related incentive scheme as at the end of the reporting year;
3) The number of non-exercised options entitling to the Issuer's shares as at the end of the reporting year, the share price in the contract, expiry date and the key rules for exercising the option;
4) Information changes, if any, introduced during the reporting period with regard to the provisions of the contracts on options entitling to the Issuer's shares

(such as changes in the option exercising rules, change of expiry date etc.).

Comment: *The Issuer does not apply such practice. Should the shareholders decide on applying such practise, it shall be reflected by making amendments to the Remuneration Policy.*

14.7 The following information should be disclosed with regard to savings or contributions to pension schemes of private pension funds:
1) the amount of contributions made by the Issuer, to the benefit of individuals, to a pension scheme or schemes, and the rules for disbursement of the pension capital;
2) the participation rules, including termination of participation, to the respective pension scheme, applicable the concrete individual.

Comment: *The Issuer does not apply such practice. Should the shareholders decide on applying such practise, it shall be reflected by making amendments to the Remuneration Policy.*

14.8 Remuneration schemes involving awarding with the Issuer's shares, share options or any other tools resulting in ownership of the Issuer's shares shall be approved by the annual general meeting of shareholders. Shareholders' meeting, while resolving on approval of the remuneration scheme, need not resolve on its application to concrete individuals.

Comment: *The Issuer does not apply such practice. Should the shareholders decide on applying such practise, it shall be reflected by making amendments to the Remuneration Policy.*

Common comment regarding Remuneration Report *Pursuant to the Article 19 of the Commercial Law the information on remuneration of the Management Board and Council members in rest part, which is not defined in the Remuneration Policy, is attributed to the commercial secret. According to the Article 283 Part 2 of the Commercial Law, the joint stock company, including with free public circulation of financial instruments, has the right to refuse to disclose such information not only to potential shareholders, but also to the existing ones. On the basis of the above mentioned norms the Issuer has exclusive rights on this commercial secret and none of the third persons can oblige the Issuer to relinquish them and act in violation of these exclusive rights. The shareholder, if he was refused to disclose this information, is entitled to put in issue this refusal in the court of LR independently in the appropriate manner as stated in the Commercial Law without participation of the third persons as intermediaries. Hierarchy of legal norms entitles us to be guided by them and keep this information closed.*

ANNEX III
INDEPENDENCE CRITERIA OF SUPERVISORY BOARD MEMBERS

As independent shall be regarded a Supervisory Board member of the Issuer who:

1) has not been a Management Board or Supervisory Board member of the Issuer, its associated company or a shareholder that controls the Issuer in the previous three years and does not hold the said office also within the time period when holding the office of a Supervisory Board member. A company associated with the Issuer shall mean a company which is included in the consolidated financial report of the Issuer or the consolidated report of which the Issuer is included in;
2) is not the Issuer's, its associated company's or a shareholder's which controls the Issuer employee, except in cases when the Supervisory Board member candidate in question

has been appointed for election to the Supervisory Board as a representative of the Issuer's employees;

3) in addition to the remuneration he or she receives as a Supervisory Board member, he or she does not receive or has not received any substantial additional remuneration from the Issuer, its associated company or a shareholder that controls the Issuer;
4) neither directly or indirectly represents the shareholders that control the Issuer;
5) neither as of the approval nor within the last year prior to approval as a Supervisory Board member neither directly nor directly has been in substantial business relations with the Issuer, its associated company or a shareholder that controls the Issuer neither directly nor as a partner, shareholder or a senior manager;
6) within the last three years has not been an internal controller, auditor or employee at a company which is the external auditor of the Issuer, its associated company or a shareholder that controls the Issuer;
7) is not a Management Board member or another managing employee at a company at which the Issuer's Management Board member performs the functions of a Supervisory Board member and if he or she has not any other essential relations with the Issuer's Management Board members by participating in other companies or organisational units (mutually connected control relations);
8) has not been the Issuer's Supervisory Board member for more then 10 (ten) successive years;
9) is not a family member (for the purposes of this clause a family member is a spouse , a parent, or a child) of a Management Board member or a person to whom the criteria specified in sub-clauses (1) to (8) of this Annex apply.