



**CORPORATE GOVERNANCE REPORT OF  
THE JOINT STOCK COMPANY  
“LATVIJAS BALZAMS”  
FOR 2008**

RIGA 2009

## CONTENTS

I Introduction .....	3
II PRINCIPLES OF GOOD CORPORATE GOVERNANCE IMPLEMENTED BY LATVIJAS BALZAMS IN 2008 .....	4
A. SHAREHOLDERS' MEETING .....	4
1. Ensuring Shareholders' Rights and Participation at Shareholders' Meetings .....	4
2. Participation of Members and Member Candidates of the Issuer's Management Institutions at Shareholders' Meetings .....	6
B. MANAGEMENT BOARD .....	7
3. Obligations and Responsibilities of the Management Board .....	7
4. Management Board Composition and Requirements for the Management Board Members .....	8
5. Remuneration of Management Board Members .....	8
6. Identification of Interest Conflicts in the Work of the Management Board Members .....	9
C. SUPERVISORY BOARD .....	10
7. Obligations and Responsibilities of the Supervisory Board .....	10
8. Supervisory Board Composition and Requirements for Supervisory Board Members .....	12
9. Remuneration of Supervisory Board Members .....	13
10. Identification of Interest Conflicts in the Work of the Supervisory Board Members .....	14
D. DISCLOSURE OF INFORMATION .....	15
11. Transparency of the Issuer's Business .....	15
12. Investor Relations .....	15
E. INTERNAL CONTROL AND RISK MANAGEMENT .....	17
13. Principles of the Issuer's Internal and External Control .....	17
F. REMUNERATION POLICY .....	18
14. Remuneration Policy of the Issuer .....	18

## **I Introduction**

This Corporate Governance Report of the Joint Stock Company "Latvijas Balzams" for the year 2008 is prepared on the basis of Paragraph 20.4 of JSC "Riga Stock Exchange" Rules "On Listing and Trading of Financial Instruments on the Markets Regulated by the Exchange" and "Corporate Governance Principles and Recommendations on their Implementation" issued by the JSC "Riga Stock Exchange". The Report was created by the Management Board of the Joint Stock Company "Latvijas Balzams" (hereinafter – Latvijas Balzams).

The Report is prepared on the implementation of corporate governance principles in 2008, and it is done taking into consideration the "comply or explain" principle recommended in the "Corporate Governance Principles and Recommendations on their Implementation" issued by the JSC "Riga Stock Exchange". In 2008, Latvijas Balzams complied with the majority of corporate governance principles encompassed in the "Corporate Governance Principles and Recommendations on their Implementation" issued by the JSC "Riga Stock Exchange" and the majority of non-compliance situations are explained.

This Report is to be submitted to the JSC "Riga Stock Exchange" on 30 April 2009.

30 April 2009

JSC Latvijas Balzams  
Chairman of the Board

Karlis Andersons

## **II PRINCIPLES OF GOOD CORPORATE GOVERNANCE IMPLEMENTED BY LATVIJAS BALZAMS IN 2008**

### **A. SHAREHOLDERS' MEETING**

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

#### **1. Ensuring Shareholders' Rights and Participation in Shareholders' Meetings**

**The Issuer shall ensure equal treatment 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.

*- AS Latvijas balzams (hereinafter – LB) ensures compliance with this principle.*

1.2. The Issuer shall prepare a policy for the profit distribution. 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 distribution at a shareholders' meeting thus ensuring that the largest possible number of shareholders have the possibility to acquaint themselves with it and to express their opinion on it. The information on the profit distribution policy of the Issuer shall be included in the Report and published on the Issuer's website on the Internet.

*- At the moment, LB has not developed a profit distribution policy. Profit of year 2008 has been switched to raise company's competitiveness. LB regularly reinvests profit into company development (2007). During financial year 2006 a part of profits has been switched to dividend payments.*

1.3. In order to protect the Issuer's shareholders' interests 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 the shareholders with the required information.

*- LB ensures compliance with this principle.*

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 shareholders as possible 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.

- *LB ensures compliance with this principle.*

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 also be published on the Issuer's website on the Internet, where it should also be published in at least one foreign language. It is recommended to use the English language as the said other language so that the website could also be used by foreign investors. When publishing information on calling a shareholders' meeting, also the initiator of calling the meeting shall be specified.

- *LB ensures compliance with this principle.*

1.6. The Issuer shall ensure that comprehensive 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 shareholders' meeting and the agenda issues and ensure that the required additional information is provided to the shareholders.

- *LB ensures compliance with this principle.*

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.

- *LB ensures compliance with this principle.*

1.8. In no way may the Issuer restrict the right of shareholders to nominate representatives of the shareholders for Supervisory Board elections. The candidates to the Supervisory Board 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 a minimum 14 (fourteen) days prior to the shareholders' meeting.

- *LB ensures partial compliance with this principle.*

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 Supervisory Board member candidates whose approval is planned at the meeting. When disclosing information on the Supervisory Board member candidates, also a short personal biography of the candidates shall be published. Since the nomination of the Supervisory Board member candidates has to be very careful, it is recommended that the Issuer discloses the said information as soon as possible.

- *LB ensures compliance with this principle.*

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

- *LB ensures compliance with this principle.*

1.11. To provide shareholders with comprehensive 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 the 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.

- *LB does not ensure compliance with this principle. Meetings are organized so that all the above-mentioned information is available and can be explained in case it is necessary (generally, the attendance level at shareholders' meetings is low, and the introduction of such regulations is not efficient).*

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 the asking of questions and setting a time limit for speeches.

- *LB ensures compliance with this principle.*

1.13. Since, if a long break in a meeting is announced, the right of shareholders to freely dispose of their shares is hindered for an undetermined time period, it shall not be recommended to announce a break during a shareholders' meeting. The conditions upon which it is possible to announce a break shall also be stipulated in the regulations on the course of meeting. A meeting break may be a lunch break, a short break (up to 30 minutes) etc.

- *LB partly ensures compliance with this principle, since it does not use meeting course regulations.*

1.14. When recording the course and contents of discussions on the agenda issues to be dealt with at the shareholders' meeting in the minutes, 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 proposals or questions are appended thereto in written form.

- *LB ensures compliance with this principle.*

## **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 Management Board members, auditors, and as many Supervisory Board members as possible.**

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 not discussing the finances of the Issuer. 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.

- *LB ensures compliance with this principle.*

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 Supervisory Board members. If a Supervisory Board 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 essential information on the candidate shall be disclosed before the shareholders' meeting.

- *LB does not ensure compliance with this principle.*

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 for non-attendance should be entered in the minutes of shareholders' meeting.

- *LB does not ensure compliance with this principle.*

## **MANAGEMENT BOARD**

The Management 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 profit-oriented, therefore its obligations and responsibilities have to be clearly determined.

### **3. Obligations and Responsibilities of the Management Board**

**The Issuer shall clearly and unmistakably determine the obligations and authorities of the Management Board and responsibilities of its members, thus ensuring the successful work of the Management Board and an increase in the Issuer's value.**

3.1. The Management Board shall have the obligation to manage the business of the Issuer, which also includes the responsibility for the realization of the objectives and strategies determined by the Issuer and the responsibility for the results achieved. The Management Board shall be responsible for the said to the Supervisory Board and the shareholders' meeting. In fulfillment of its obligations, the Management Board shall adopt decisions irrespective of their personal interests or interests of the shareholders that control the Issuer and be guided by the interests of all the shareholders, taking into account the common interests of the Issuer and its associated companies (or affiliates).

- *LB ensures compliance with this principle.*

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

- *LB ensures partial compliance with this principle. The powers of the Management Board of LB are determined by the statutes and regulations of the Commercial Law. LB statutes are available at the LB office and at the LR Company Register.*

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

- *LB ensures compliance with this principle.*

3.4. The Management Board shall perform certain tasks, including:

- 1) corporate strategies, work plan, risk control procedure, assessment and advancement of the 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, complying with the personnel policy adopted by the Issuer;
- 3) timely and qualitative submission of reports, also ensuring that the internal audits are carried out and the disclosure of information is controlled.

- *LB ensures compliance with this principle.*

3.5. In annual reports, the Management 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.

- *LB ensures compliance with this principle.*

3.6. It shall be preferable that the Management 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 Supervisory Board for approval.

- *LB ensures compliance with this principle.*

#### **4. Management Board Composition and Requirements for the Management Board Members**

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

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

- *LB ensures compliance with this principle. LB Management Board members have the education and work experience appropriate for their sphere of activities.*

4.2. On the Issuer's website on the Internet, the following information on every Issuer's Management Board member shall be published: given 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 held in other capital companies.

- *LB does not ensure compliance with this principle.*

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

- *LB ensures compliance with this principle.*

4.4. It is not recommended to elect one and the same Management 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 of the field of work of the relevant Management Board member at the Issuer.

*- LB ensures compliance with this principle.*

## **5. Remuneration of Management Board Members**

**For every Management Board member a fair and commensurate remuneration shall be determined. The principles for the determination of remuneration shall be clear and transparent.**

5.1. The remuneration for Management Board members shall be clearly determined and transparent. The Issuer's Supervisory Board shall revise the remuneration on a regular basis in compliance with the policy of remuneration adopted by the Issuer.

*- LB partly ensures compliance with this principle. LB Management Board members do not receive additional remuneration for fulfillment of own obligations.*

5.2. In determining the remuneration of Management Board members and the variable part in the remuneration structure, it is recommended to peg it to previously determined long-term and short-term objectives. If the variable part of remuneration is pegged only to the short-term results, it will not facilitate the interest of the Management Board members in the long-term growth of the Issuer and the improvement of results. It is recommended that the amount and structure of remuneration depends on the business results of the Company, share price and other events connected with the Issuer.

*- LB partly ensures compliance with this principle. LB Management Board members do not receive additional remuneration for fulfillment of own obligations.*

5.3. In determining the remuneration of Management Board members, the Issuer's Supervisory Board shall comply with the remuneration policy adopted by the Issuer. In assessing the work of Management Board members, the Supervisory Board shall take into account the work tasks of every Management Board member, the financial situation of the Issuer, and other indices that are considered to be important in assessing the work of Management Board members.

*- LB partly ensures compliance with this principle. LB Management Board members do not receive additional remuneration for fulfillment of own obligations.*

5.4. If a Management Board member gets share options that give the member the right to obtain shares of the Issuer as remuneration, the Issuer shall comply with the conditions for granting options as stipulated in the regulations of the Stock Exchange.

*- LB has not issued any share options.*

5.5. When disclosing information on the total amount of remuneration paid to Management Board members of the Issuer, the Issuer, if possible, shall be asked to disclose the information on previous reporting years too, if such information has not been disclosed previously. Disclosure of information on previous years is especially important in order for investors to be able to evaluate the policy of remuneration applied to the Management Board members in the long-term and the linking of the development indices of the Issuer with the changes in the remuneration systems.

*- LB ensures partial compliance with this principle. In the annual report of LB information on the amount of remuneration paid to Management Board members and company managers is disclosed for the current and corresponding previous reporting year.*

## **6. Identification of Interest Conflicts in the Work of the Management Board Members**

**Every Management Board member shall avoid any conflict of interests in his/her work and be maximally independent from any external circumstances and wishing to assume responsibility for the decisions taken and comply with general ethical principles in adopting any decisions connected with the business of the Issuer.**

6.1. It shall be the obligation of every Management Board member to avoid any, even only supposed, conflict of interests in his/her work. In taking decisions, Management 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.

*- LB ensures compliance with this principle.*

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

For the purposes of these recommendations the following shall be regarded as persons who have a close relationship with a Management Board member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Management 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 Management Board member: legal persons where the Management Board member or a closely related to him/her person is a Management Board or Supervisory Board 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.

*- LB ensures compliance with this principle.*

6.3. Management Board members should not participate in taking decisions that could cause conflict of interest.

*- LB ensures compliance with this principle.*

## **SUPERVISORY BOARD**

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

## **7. Obligations and Responsibilities of the Supervisory Board**

**The objective of the Issuer's Supervisory Board 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 Supervisory Board and the responsibility of the Supervisory Board members, as well as ensure that individual Supervisory Board members or a group thereof do not have a dominating role in decision making.**

7.1. The functions of the Supervisory Board shall be set forth in the Supervisory Board regulation or a document equated thereto that regulates the work of the Supervisory Board,

and it shall be published on the Issuer's website on the Internet. This document shall be also available at the Issuer's office.

*- LB ensures partial compliance with this principle. Rights and obligations of the LB Supervisory Board are determined by the statutes and regulations of the Commercial Law. LB statutes are available at the LB office and at the LR Company Register.*

7.2. In the Supervisory Board report appended to the Issuer's annual report, the Supervisory Board shall provide overall information on its work in the relevant year of reporting, information on the compliance with the principles of corporate governance in the business of the Issuer, as well as any other information as regarded by it to be necessary.

*- LB ensures partial compliance with this principle. The Supervisory Board provides its report during the general shareholders' meeting.*

7.3. The supervision carried out by the Supervisory Board over the work of the Management 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, Management 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 Supervisory Board should discuss every of the said matters and express its opinion at least annually, complying with frequency of calling Supervisory Board meetings as laid down in regulatory enactments, and the results of discussions shall be reflected in the Supervisory Board's report.

*- LB ensures compliance with this principle. The LB Supervisory Board performs its supervisory function in accordance with the Commercial Law and LB statutes.*

7.4. The Supervisory Board and every one of its member shall be responsible that they have all the information required for them to fulfill their duties, obtaining it from Management Board members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the Supervisory Board Chairperson shall contact the Issuer's Management Board, inter alia the Management 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.

*- LB ensures compliance with this principle.*

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

*- LB does not ensure compliance with this principle. However, this has not hindered the performance of Supervisory Board functions in any way, since in case of necessity other information exchange mediums are used in order to enable Supervisory Board members to participate in Supervisory Board activities.*

7.6. The supervision carried out by the Supervisory Board over the Management Board shall be especially important in spheres where the possibility that conflicts of interest might occur is large: appointment of Management Board members, determination of the remuneration of Management Board members, and audit of the Issuer. To facilitate more efficient work of the Supervisory Board and the division of work duties among its members, the Supervisory

Board may establish separate committees (audit, nomination (appointment), remuneration and other committees).

*- LB does not ensure compliance with this principle, since LB is a relatively small enterprise and creation of such committees would unnecessarily complicate the decision-making process.*

7.7. Prior to making a decision on establishing a committee, the Supervisory Board should assess the possible benefits and the planned costs of its work, if any. The Supervisory Board itself shall determine the structure and the number of committees which the Supervisory Board considers to be required to optimize its work. The Supervisory Board shall inform the Issuer's shareholders on establishing a committee, inform on it in the Report, and publish information on it on the Issuer's website on the Internet.

*- LB does not ensure compliance with this principle, since LB is a relatively small enterprise and creation of such committees would unnecessarily complicate the decision-making process.*

7.8. If a decision is taken to establish one or more committees, the work of the committees may be financed only within the Supervisory Board budget approved by the shareholders' meeting. Assignment of individual tasks to committees may in no way be considered as an assignment of the functions of the Supervisory Board. Supervisory Board committees do not substitute the Supervisory Board and their decisions should be treated as recommendations. The establishment of committees does not release the Issuer's Supervisory Board from the responsibility for the decisions taken. The task of committees shall be to prepare proposals for Supervisory Board decisions, while the final decisions are taken by the Supervisory Board.

*- LB does not ensure compliance with this principle, since LB is a relatively small enterprise and creation of such committees would unnecessarily complicate the decision-making process.*

## **8. Supervisory Board Composition and Requirements for Supervisory Board Members** **The Supervisory Board structure determined by the Issuer shall be transparent and understandable and ensure sufficiently a critical and independent attitude in evaluating and taking decisions.**

8.1. The Issuer shall require every Supervisory Board member as well as Supervisory Board member candidate who is planned to be elected at a shareholders' meeting that they submit to the Issuer the following information: given name, surname, year of birth, education, office term as a Supervisory Board 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 held in other capital companies. The said information shall also be published on the Issuer's website on the Internet, providing, in addition to the said information, also the term of office for which the Supervisory Board member is elected, its position, including also additional positions and obligations, if any.

*- LB ensures partial compliance with this principle.*

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

*- LB ensures compliance with this principle.*

- 8.3. In establishing the Issuer's Supervisory Board, the qualification of Supervisory Board members should be taken into account and assessed on a periodical basis. The Supervisory Board should be composed of members whose knowledge, opinions and experience is varied, which is required for the Supervisory Board to fulfill their tasks successfully.
- *LB ensures compliance with this principle.*
- 8.4. Every Supervisory Board member in his or her work shall be as independent as possible 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.
- *LB ensures compliance with this principle.*
- 8.5. It is impossible to compile a list of all the circumstances that might threaten the independence of Supervisory Board members or that could be used in assessing the conformity of a certain person to the status of an independent Supervisory Board member. Therefore, the Issuer, when assessing the independence of Supervisory Board members, shall be guided by the independence criteria of Supervisory Board members specified in the Annex hereto.
- *LB ensures partial compliance with this principle. LB Supervisory Board members are nominated for election to the Board in accordance with regulations of the Commercial Law, and they represent interests of shareholders in between shareholders' meetings. Supervisory Board members are independent during the decision-making process as according to the Commercial Law and are responsible for losses caused to the company.*
- 8.6. It shall be recommended that at least a half of the Supervisory Board members are independent according to the independence criteria specified in the Annex hereto. If the number of Supervisory Board members is an odd number, the number of independent Supervisory Board members may be one person less than the number of the Supervisory Board members who do not conform to the independence criteria specified in the Annex hereto.
- *LB ensures partial compliance with this principle. LB Supervisory Board members are nominated for election to the Board in accordance with the regulations of the Commercial Law, and they represent interests of shareholders in between shareholders' meetings. Supervisory Board members are independent during the decision-making process as according to the Commercial Law and are responsible for losses incurred to the company.*
- 8.7. As independent shall be considered persons that conform to the independence criteria specified in the Annex hereto. If a Supervisory Board member does not conform to any of to the independence criteria specified in the Annex hereto but the Issuer does consider the Supervisory Board member in question to be independent, then it shall provide an explanation of its opinion in detail on the tolerances permitted.
- *LB ensures partial compliance with this principle. LB Supervisory Board members are nominated for election to the Board in accordance with regulations of the Commercial Law, and they represent interests of shareholders in between shareholders' meetings. Supervisory Board members are independent during the decision-making process as according to the Commercial Law and are responsible for losses incurred to the company.*
- 8.8. The conformity of a person to the independence criteria specified in the Annex hereto shall be evaluated already when the Supervisory Board member candidate in question has been nominated for election to the Supervisory Board. The Issuer shall specify in the Report who of the Supervisory Board members are to be considered as independent every year.

- *LB ensures partial compliance with this principle. LB Supervisory Board members are nominated for election to the Board in accordance with the regulations of the Commercial Law, and they represent interests of shareholders in between shareholders' meetings. Supervisory Board members are independent during the decision-making process as according to the Commercial Law and are responsible for losses incurred to the Company.*

## **9. Remuneration of Supervisory Board Members**

**The remuneration for Supervisory Board members shall be commensurate with results of tasks and the principles for the determination of remuneration shall be clear and transparent.**

9.1. If remuneration is paid to a Supervisory Board member for the tasks fulfilled by him or her, it shall be stipulated in the Issuer's remuneration policy.

- *LB ensures partial compliance with this principle. LB Supervisory Board members do not receive additional remuneration for fulfillment of their obligations.*

9.2. When examining the Supervisory Board's report, it shall be recommended to also assess the work of the Supervisory Board at the current shareholders' meeting. Shareholders shall assess the work of the Supervisory Board based on the Supervisory Board's report and other information provided by the Supervisory Board available to shareholders and which allows assessing the quality and usefulness of the tasks performed by the Supervisory Board. If the work of the Supervisory Board is assessed, the assessment shall include an assessment on the Supervisory Board composition, its work organization, and the ability to act as a united entity, as well as an assessment on the competence of every Supervisory Board member. Also the efficiency of the work of every Supervisory Board member and Supervisory Board committees, if any, shall be assessed. When deciding on the remuneration of Supervisory Board members, shareholders shall take into account the assessments made.

- *LB ensures partial compliance with this principle.*

9.3. The total amount of the remuneration of Supervisory Board members shall be disclosed by the Issuer in the Report. The Issuer shall be obliged to disclose the total amount of the remuneration paid to Supervisory Board members, as well as specify separately the amount of the wage paid to Supervisory Board members and the variable part of the remuneration, if any, paid to Supervisory Board members. The variable part of remuneration shall mean any payments other than the wage paid to Supervisory Board members, e.g.: remuneration paid depending on the financial results of the Issuer (premiums), share options that give the right to the Issuer's shares, participation in pension plans etc.

- *LB ensures partial compliance with this principle. LB Supervisory Board members do not receive additional remuneration for fulfillment of their obligations.*

9.4. When determining the remuneration of Supervisory Board members and planning the variable part in the remuneration structure, it usually should be pegged to the previously determined short- and long-term objectives.

- *LB ensures partial compliance with this principle. LB Supervisory Board members do not receive additional remuneration for fulfillment of their obligations.*

9.5. When disclosing information on the total amount of remuneration paid to Supervisory Board members, the Issuer shall be asked, if possible, to disclose the information on previous reporting years too, if such information has not been disclosed previously. Disclosure of

information on previous years is especially important in order for investors to be able to evaluate the policy of remuneration applied to the Supervisory Board members in the long-term and the linking of the development indices of the Issuer with the changes in the remuneration systems.

- *LB ensures partial compliance with this principle. LB Supervisory Board members do not receive additional remuneration for fulfillment of their obligations.*

#### **10. Identification of Interest Conflicts in the Work of the Supervisory Board Members**

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

10.1. It shall be the obligation of every Supervisory Board member to avoid any, even only supposed, conflicts of interest in his/her work. When taking decisions, Management 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.

- *LB ensures compliance with this principle.*

10.2. On the occurrence of any conflict of interest or even only on its possibility, a Supervisory Board member shall notify other Supervisory Board members without delay. Supervisory Board members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has a close relationship or is connected with the Supervisory Board member in question, as well as inform on any conflicts of interest 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 Supervisory Board member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Supervisory 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 Supervisory Board member: legal persons where the Supervisory Board member or a closely related to him/her person is a Management Board or Supervisory Board 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.

- *LB ensures compliance with this principle.*

10.3. A Supervisory Board member who is in a possible interest conflict should not participate in decision taking that might be a cause of a conflict of interest.

- *LB ensures compliance with this principle.*

#### **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 the Issuer’s relations with its potential and existing investors and other parties interested in the business of the Issuer.

## **11. Transparency of the Issuer’s Business**

**The information disclosed by the Issuer 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.**

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

*- LB ensures compliance with this principle.*

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

*- LB ensures compliance with this principle.*

11.3. The Issuers should appoint a person who would be entitled to contact the press and other mass media on behalf of 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.

*- LB ensures compliance with this principle.*

11.4. The Issuers should ensure timely and compliant with the existing requirements preparation and disclosure of the 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.

*- LB ensures compliance with this principle.*

## **12. Investor Relations**

**Considering that shares 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.**

12.1. The main objectives of the IR are the provision of accurate and timely information on the business of the Issuer to participants of the finance market, as well as the provision of feedback, i.e. receiving responses from the existing and potential investors and other persons. In the realization of the IR process, it shall be borne 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.

*- LB ensures compliance with this principle.*

12.2. 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 the mass media and the ties with the participants of the 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.



*- LB ensures compliance with this principle.*

12.3. The basic principles that should be observed by the Issuers in preparing the IR section of their websites:

- 1) The IR section of the 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 conveniently obtain 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 against; 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 the 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.

*- LB ensures partial compliance with this principle. LB uses the Stock Exchange and mass media as the main information distribution channels.*

12.4. 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 the industry, main types of business;
- 2) Issuer's Report ("comply or explain") on the implementation of the principles of corporate governance;
- 3) the 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 Management Board or Supervisory Board regulation or a document equated thereto that regulates its work, as well as the Issuer's remuneration policy and the shareholders' meeting procedure regulation, if such has been adopted;
- 7) Description of the tasks of Supervisory Board committees, if such have been established, as well as information on the work performed by the committees;
- 8) information on the present Issuer's Supervisory Board and Management Board members (on each individually): work experience, education, number of the Issuer's shares owned by the member (as at the beginning of the year; the information shall be updated as required but at least annually), information on positions held in other

capital companies, and the term of office of the Management Board and Supervisory Board 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.

- *LB ensures partial compliance with this principle.*

## **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 Management Board to identify the shortcomings in the administration of the Issuer as well as facilitates that the Supervisory Board's task - to supervise the work of the Management Board - is fulfilled efficiently.

### **13. Principles of the Issuer's Internal and External Control**

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

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

- *LB ensures partial compliance with this principle. Since LB is a relatively small enterprise, it does not have a permanent structural unit responsible for internal audit. In 29<sup>th</sup> of April year 2009 shareholders meeting has elected revision committee in accordance with law defined functions.*

13.2. 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 characterize the most essential potential and existing risks in relation to the business of the Issuer.

- *LB ensures compliance with this principle.*

13.3. Auditors shall be granted access to the information required for the fulfillment 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.

- *LB ensures compliance with this principle.*

13.4. 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.

- *LB ensures compliance with this principle.*

- 13.5. 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.
- *LB ensures partial compliance with this principle, carrying out assessments on an irregular basis.*
- 13.6. 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.
- *LB ensures compliance with this principle.*

## REMUNERATION POLICY

### **14. Remuneration Policy of the Issuer**

**The policy of the remuneration of Management Board and Supervisory Board members – type, structure and amount of remuneration - is one of the spheres where persons involved have a potentially greater risk to find themselves in a conflict of interest situation. To avoid it, the Issuer should determine a clear remuneration policy.**

- 14.1. The Issuers are called on to develop a remuneration policy in which the main principles for the determination of remuneration, possible remuneration schemes and other essential related issues are determined. The preparation of the remuneration policy should be made a responsibility of the Issuer's Supervisory Board, which during the preparation of a draft policy must consult with the Issuer's Management Board. The remuneration policy or its most significant parts shall be published like any other essential information associated with the activity of the Issuer.
- *LB ensures compliance with this principle.*
- 14.2. Schemes of variable remuneration that include the Issuer's shares or share options as remuneration as well as any essential amendments thereto should be examined also at shareholders' meetings, adopting the relevant decisions, if necessary. Considering the aforementioned, shareholders should be provided with all the necessary information prior to the meeting.
- *LB does not ensure compliance with this principle, since its remuneration policy does not provide for payment of additional remuneration neither to the Management Board members, not to the Supervisory Board members for fulfillment of their respective obligations.*
- 14.3. Remuneration schemes that include the Issuer's shares as remuneration may theoretically cause loss to the Issuer's 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.
- *LB ensures compliance with this principle. LB does not use remuneration schemes that provide for use of LB shares as remuneration.*
- 14.4. When preparing the remuneration policy, 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.
- *LB does not ensure compliance with this principle. LB does not use remuneration schemes that provide for the use of LB shares as remuneration.*