

## CORPORATE GOVERNANCE REPORT

### I INTRODUCTION

Joint Stock Company Latvijas kuģniecība Corporate Governance Report for 2008 (hereinafter the Report) has been prepared in compliance with Article 56.<sup>2</sup> of Law on Financial instruments market, Article 15.14 of NASDAQ OMX Riga 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 NASDAQ OMX Riga. The Report has been prepared by Joint Stock Company Latvijas kuģniecība (hereinafter Latvian Shipping Company or Company) Management Board and reviewed by Latvian Shipping Company Supervisory Council.

The Report discloses the information on the compliance with the corporate governance principles in 2008 based on the “comply or explain principle as recommended in the Corporate Governance Principles and Recommendations on their Implementation issued by the NASDAQ OMX Riga. In 2008 Latvian Shipping Company complied in fact with all of the corporate governance principles, except some formal nuances, referred to in the Corporate Governance Principles and Recommendations on their Implementation issued by the NASDAQ OMX Riga.

Information mentioned in the Article 56.<sup>2</sup> Par Two Clause 5. and 7. and Article 56.<sup>1</sup> Par One Clauses 3., 4., 6., 8. and 9 of Law on Financial instruments market are provided in the Consolidated Annual Report of Latvian Shipping Company, which is published on Latvian Shipping Company website [www.lk.lv](http://www.lk.lv).

The Report has been submitted to the Riga Stock Exchange together with Latvian Shipping Company Annual Report for 2008, as well as published on Latvian Shipping Company website [www.lk.lv](http://www.lk.lv).



Imants Sarmulis  
Chairman of the Management Board  
Joint Stock Company Latvian Shipping Company

Riga, 7 April 2009

## CORPORATE GOVERNANCE REPORT *(continued)*

### II PRINCIPLES OF GOOD CORPORATE GOVERNANCE

#### A. SHAREHOLDERS' MEETING

Shareholders exercise 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.

*According to the Articles of Association Latvian Shipping Company has issued 200 000 000 (two hundred million) dematerialized bearer shares. The nominal value of each share is 1 LVL (one lat). All shares are of the same category and have rights to receive dividends, liquidation quota and voting rights at the shareholders' meeting; therefore, Latvian Shipping Company applies this best practice provision.*

- 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 as possibly larger a number of shareholders have the possibility to acquaint themselves with it and to express their opinion on it. The information on the policy of profit distribution of the Issuer shall be included in the Report and published on the Issuer's website on the Internet.

*According to the Commercial law Latvian Shipping Company Shareholders' meeting makes a decision on the payment of dividends. According to the "Joint Stock Company "Latvian Shipping Company Strategy till 2015, the strategic goal of Latvian Shipping Company is to ensure the growth of the company's value through increasing the Latvian Shipping Company Group's equity and retaining the Group's position among the world's top ten handy-size and middle-range tanker owners at the same time preserving its leading position in the North European market. Such a main strategic goal indicates the necessity to reinvest the Group's profit in the development of the Latvian Shipping Company Group, thus increasing the value of Latvian Shipping Company in future. In order to comply with requirements the Commercial law of the competency of management and supervisory instructions, "Joint Stock Company "Latvian Shipping Company Strategy till 2015 has been approved by the Management board with acceptance from the Supervisory Council of Latvian Shipping Company. Information about this document is published on Latvian Shipping Company website on internet; therefore, Latvian Shipping Company applies this best practice provision.*

- 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 organise 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.

## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **1. Ensuring shareholders' rights and participation at shareholders' meetings** *(continued)*

*Latvian Shipping Company complies with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information, as well as invites other persons who in compliance with the procedure stipulated in legislative acts call, announce and organise a shareholders' meeting to comply with them; therefore, Latvian Shipping Company applies this best practice provision.*

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.

*Latvian Shipping Company discloses information according to the Law on Financial Instruments Market and the rules issued by "NASDAQ OMX Riga. Latvian Shipping Company announces the general meetings of shareholders at least 30 days advance, at first publishing relevant information in Latvian and English at the central storage of regulated information, internet home page of "NASDAQ OMX Riga and Latvian Shipping Company and then publishing relevant notifications about calling up the general meetings of shareholders at newspapers "Latvijas Vēstnesis and "Neatkarīgā Rīta Avīze, as well as by sending the information to Latvian Central Depository, which then transmits the information further to financial instruments account operators. In the notification about calling up the general meetings of shareholders the following information is included:*

- 1) the firm name and legal address of the company;*
- 2) the place and time of the meeting;*
- 3) the type of the meeting (annual or extraordinary);*
- 4) the institution, which calls up the meeting;*
- 5) the actions, which have to be performed by the shareholders till the meeting in order to participate and vote;*
- 6) the agenda;*
- 7) the place and time, where and when shareholders can get acquainted with draft decisions on the items of the agenda; as well as other items to be reviewed at the meeting;*
- 8) the total amount of shares with voting rights.*

*Latvian Shipping Company provides every person, who is entitled to vote at the general meetings of shareholders, with the notification about calling up the general meetings of shareholders, form of power of attorney in computerized way, and ensures that form of power of attorney is available at internet home page of Latvian Shipping Company also after the notification about calling up the general meetings of shareholders is given. According to the Commercial law shareholders who represent at least one twentieth from the company's share capital have rights to within 7 days after publication of the notification to ask the institution which calls up the meeting, to include an additional item in the agenda of the meeting. Latvian Shipping Company notifies about inclusion of the additional item in the agenda of the meeting at least 14 days before the meeting by firstly publishing relevant information in Latvian and English at the central storage of regulated information, internet home page of "NASDAQ OMX Riga and Latvian Shipping Company and then publishing relevant notifications about inclusion of the additional item in the agenda of the meeting at newspapers "Latvijas Vēstnesis and "Neatkarīgā Rīta Avīze, as well as sending the information to Latvian Central Depository, which then transmits the information further to financial instruments account operators.*

## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **1. Ensuring shareholders' rights and participation at shareholders' meetings** *(continued)*

*The draft decisions of the shareholders meeting are available at least 14 days before the shareholders meeting at first publishing then in Latvian and English at the central storage of regulated information and then at internet home page of "NASDAQ OMX Riga. If at the shareholders meeting it is planned to make decision about amendments in the constitutive documents of the company, the draft amendments in Latvian and English are distributed at least 30 days before the meeting by publishing relevant information in Latvian and English at the central storage of regulated information and internet home page of "NASDAQ OMX Riga. Latvian Shipping Company invites shareholders in due time to submit and include in the draft decisions shareholders proposals for election of members of the Supervisory Council and the audit committee, as well as other proposals of shareholders, if received. Additionally, according to the Commercial law, if shareholder at least seven days before shareholders meeting submit to the management board written request, the management board no later than three days before the shareholders meeting provides him all the requested information about items of the agenda.*

*Latvian Shipping Company considers that until now the time and place of the shareholders meetings has not restricted the attendance of a meeting by shareholders, as the time and place of the meetings are chosen considering predictable amount of shareholders, which could attend the meeting. Latvian Shipping Company has never changed the time and place of the announced shareholders meeting; therefore, Latvian Shipping Company applies this best practice provision.*

- 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.

*See explanation for Clause 1.4. Latvian Shipping Company applies this best practice provision.*

- 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.

*See explanation for Clause 1.4. Latvian Shipping Company applies this best practice provision.*

- 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.

*See explanation for Clause 1.4. Latvian Shipping Company applies this best practice provision.*

## CORPORATE GOVERNANCE REPORT *(continued)*

### 1. Ensuring shareholders' rights and participation at shareholders' meetings *(continued)*

- 1.8. In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for Supervisory Council elections. The candidates to the Supervisory 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.

*See explanation for Clause 1.4. Latvian Shipping Company applies this best practice provision.*

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

*See explanation for Clause 1.4. Latvian Shipping Company applies this best practice provision.*

- 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.

*Latvian Shipping Company does 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; therefore, Latvian Shipping Company applies this best practice provision.*

- 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 shareholders' meeting and the procedure for solving any organisational 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.

*At the shareholders meetings of Latvian Shipping Company the chairman of the meeting which is elected according to the Commercial law, suggests to determine the regulations for the discussions and decision making during the shareholders' meeting which is in force only in case the shareholders meeting approves them with majority of votes; therefore, Latvian Shipping Company applies this best practice provision.*

- 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.

*See explanation for Clause 1.11. Latvian Shipping Company applies this best practice provision.*

- 1.13. Since, if a long break in a meeting is announced, the right of shareholders to dispose of freely with 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 be stipulated also in the regulations on the course of meeting. A break of meeting may be a lunch break, a short break (up to 30 minutes) etc.

*See explanation for Clause 1.11. Latvian Shipping Company applies this best practice provision.*



## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **1. Ensuring shareholders' rights and participation at shareholders' meetings** *(continued)*

- 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.

*At the shareholders meetings of Latvian Shipping Company the secretary (recorder) takes minutes of the meeting, in the minutes the following is included:*

- 1) the firm name of the company;*
- 2) the institution, which called up the meeting and time, when notification about calling up the shareholders meeting was published;*
- 3) the place and time of the shareholders meeting;*
- 4) the amount of subscribed share capital, paid-up share capital and share capital with voting rights;*
- 5) the represented share capital and represented shares with voting rights;*
- 6) the name and surname of the chairman of the meeting, secretary, vote counters and shareholders, who are entitled to approve that the minutes of the meeting are correct;*
- 7) the agenda of the meeting;*
- 8) the process and scope of the discussion of the items of the agenda;*
- 9) the decisions made, specifying votes submitted "for and "against each decision;*
- 10) the objections of members of Supervisory Council, management board, auditor, liquidator or shareholders.*

*The minutes of the meeting are signed by the chairman of the meeting, secretary and at least two shareholders, who are entitled to approve that the minutes of the meeting are correct. The list of shareholders and the documents related to the meeting are attached to the minutes; therefore, Latvian Shipping Company applies this best practice provision.*

### **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 possibly many Supervisory 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 fulfil 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.

*Latvian Shipping Company members of the management board, auditor as well as members of the Supervisory Council participates in the shareholders meetings; therefore, Latvian Shipping Company applies this best practice provision.*

- 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 Council members. If a Supervisory 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.

## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **2. Participation of members and member candidates of the Issuer's management institutions at shareholders' meetings** *(continued)*

*Latvian Shipping Company invites to participate at the shareholders meetings official candidates whose election is planned at the meeting. If a Supervisory Council member candidate or auditor candidate is unable to attend the shareholders' meeting due to an important reason, Latvian Shipping Company at its best effort discloses all the substantial information on the candidate before the shareholders' meeting; therefore, Latvian Shipping Company applies this best practice provision.*

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.

*During shareholders' meetings of Latvian Shipping Company, the participants have the possibility to obtain information on officials or official candidates who do not attend the meeting and reasons thereof. In the minutes of the meeting the information on officials who attend and who do not attend the meeting are recorded; therefore, Latvian Shipping Company applies this best practice provision.*

## **B. 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 Issuers shall clearly and expressively determine the obligations and authorities of the Management Board and responsibilities of its members, thus ensuring a 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 includes also the responsibility for the realisation 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 Council and the shareholders' meeting. In fulfilment 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 interests of all the shareholders, taking into account the common interests of the Issuer and its associated companies (or affiliates).

*According to the Articles of Association, the Management Board of Latvian Shipping Company consists of five members. The chairman of the Management Board has full representation rights and he can represent the company singly without special authorization an independently from other members of the Management Board. Other members of the Management Board have rights to represent the company only together with at least one other member of the Management Board. The decisions of the Management Board of Latvian Shipping Company are made at the meetings of the Management Board, by at least three of the members voting "for. Referring to the Commercial law, members of the Management Board of Latvian Shipping Company fulfill their duties as honest and careful master. Quarterly the Management Board in writing reports on its activities to Supervisory Council and at the end of the year to the shareholders meeting. In the report the following is disclosed:*

- 1) the results of commercial activities of the company;*
- 2) the business conditions, cost-effectiveness, turnover, securities movements of the company;*
- 3) the considerations which can affect the companies business condition;*
- 4) the planned policy of the commercial activities of the company for the next accounting period.*

*The Management Board informs the Supervisory Council also about other important aspects of activities of the Company; therefore, Latvian Shipping Company applies this best practice provision.*

## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **3. Obligations and responsibilities of the Management Board** *(continued)*

- 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 be also available at the registered office of the Issuer.

*The powers of the Management Board are stipulated in the Management Board Regulations, which are elaborated on the basis of Articles of Association of Latvian Shipping Company and rules of the Commercial Law. The Management Board Regulations are available in the registered office of Latvian Shipping Company; therefore, Latvian Shipping Company applies this best practice provision.*

- 3.3. The Management 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.

*According to the Commercial law, the Management Board of Latvian Shipping Company is executive institution which manages and represents the company. The Management Board superintends and manages the companies business. It is responsible for commercial activities of the company, as well as for the accounting which complies with the legislation. The Management Board manages the property of the company and acts with its assets according to the laws, articles of association and decisions of the shareholders meetings; therefore, Latvian Shipping Company applies this best practice provision.*

- 3.4. The Management 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 fulfilment 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, ensuring also that the internal audits are carried out and the disclosure of information is controlled.

*The Management Board of Latvian Shipping Company currently acts accordingly in order to execute "Joint Stock Company "Latvian Shipping Company Strategy till 2015. Latvian Shipping Company has worked out internal system, which provide performance of 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. Similarly Latvian Shipping Company selects senior managers, determine their remuneration and control their work and their replacement, if necessary, complying with the adopted personnel policy. The Management Board of Latvian Shipping Company timely and qualitative submits all the reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled. The internal audit is carried out by Internal Audit department of the company which is overseen by the Supervisory Council; therefore, Latvian Shipping Company applies this best practice provision.*

- 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.

*In annual reports, the Management Board confirms that the internal risk procedures are efficient and that the risk management and internal control have been carried out in compliance with the determined control procedures throughout the year; therefore, Latvian Shipping Company applies this best practice provision.*



## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **3. Obligations and responsibilities of the Management Board** *(continued)*

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 Council for approval.

*The Management Board of Latvian Shipping Company has developed and with the permission of the Supervisory Council approved "Joint Stock Company "Latvian Shipping Company Strategy till 2015; therefore, Latvian Shipping Company applies this best practice provision.*

### **4. Management Board composition and requirements for Management Board members**

A Management 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 Management Board, it shall be observed that every Management Board member has 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.

*The Supervisory Council of Latvian Shipping Company observes that every Management Board member has appropriate education and work experience before they are elected, as well as sets the requirements for every Management Board member, which specifies the skills, education, previous work experience and other selection criteria. All the members of the Management Board of Latvian Shipping Company have appropriate education and previous experience in respective area; therefore, Latvian Shipping Company applies this best practice provision.*

4.2. On the Issuer's website on the Internet, the following information on every Issuer's Management 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.

*Latvian Shipping Company has published on its website on the Internet the above mentioned information; therefore, Latvian Shipping Company applies this best practice provision.*

4.3. In order to fulfil 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.

*The Management Board of Latvian Shipping Company on an ongoing basis follows the commercial activities of the company. Quarterly the Management Board in writing reports about its activities to Supervisory Council but at the end of the year to the shareholders meeting, providing objective evaluation on the activity of Latvian Shipping Company; therefore, Latvian Shipping Company applies this best practice provision.*

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 to change the field of work of the relevant Management Board member at the Issuer.

*No one of the members of the Management Board of Latvian Shipping Company has been elected for more than four successive terms; therefore, Latvian Shipping Company applies this best practice provision.*

## CORPORATE GOVERNANCE REPORT *(continued)*

### 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 Council shall revise the remuneration on a regular basis in compliance with the policy of remuneration adopted by the Issuer.

*The remuneration for Management Board members is clearly determined and transparent. The Supervisory Council of the Company revises the remuneration on a regular basis; therefore, Latvian Shipping Company applies this best practice provision.*

- 5.2. In determining 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 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.

*The variable part of remuneration for the members of the Management Board is determined by the Supervisory Council, taking into consideration the contribution of the members of Management Board in the achievement of the results; therefore, Latvian Shipping Company applies this best practice provision.*

- 5.3. In determining the remuneration of Management Board members, the Issuer's Supervisory Council shall comply with the remuneration policy adopted by the Issuer. In assessing the work of Management Board members, the Supervisory Council 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.

*In assessing the work of the Management Board members, the Supervisory Council is taking into account the work tasks of every Management Board member, the financial situation of Latvian Shipping Company, and other indices that are important in assessing the work of the Management Board members; therefore, Latvian Shipping Company applies this best practice provision.*

- 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.

*Latvian Shipping Company has not issued share options; therefore, Latvian Shipping Company applies this best practice provision.*

- 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.

*The total remuneration paid to the members of the Management Board for the current and previous reporting year is disclosed in the Annual Report; therefore, Latvian Shipping Company applies this best practice provision.*

## CORPORATE GOVERNANCE REPORT *(continued)*

### 6. Identification of interest conflicts in the work of Management Board members

Every Management Board member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances and wishing 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.

- 6.1. It shall be the obligation of every Management Board member to avoid any, even only supposed, interest conflicts 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.

*While taking decisions, the Members of the Management Board of the Latvian Shipping Company are guided by the interests of the company and they do not use the cooperation offers proposed to the Latvian Shipping Company to obtain personal benefit; therefore, Latvian Shipping Company applies this best practice provision.*

- 6.2. On the occurrence of any interest conflict 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 close relationship or is connected with the Management 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 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 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.

*On the occurrence of any interest conflict or even only on its possibility, the Management Board member of the Latvian Shipping Company is notifying other Management Board members without delay. Management Board members of the Latvian Shipping Company is notifying on any deal or agreement the company is planning to conclude with a person who has close relationship or is connected with the Management Board member in question, as well as is informing on any interest conflicts occurred during the validity period of concluded agreements; therefore, Latvian Shipping Company applies this best practice provision.*

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

*Management Board members are not participating in taking decisions that could cause an interest conflict; therefore, Latvian Shipping Company applies this best practice provision.*

## CORPORATE GOVERNANCE REPORT *(continued)*

### C. SUPERVISORY COUNCIL

In compliance with legal acts a Supervisory Council 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 Council

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

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

*The Supervisory Council of Latvian Shipping Company consists of twelve members, who are elected for the three year term of the Supervisory Council. The functions of the Supervisory Council are stipulated in the Supervisory Council Regulations, which are elaborated on the basis of Articles of Association of Latvian Shipping Company and rules of the Commercial Law. The Supervisory Council Regulations are available in the registered office of Latvian Shipping Company; therefore, Latvian Shipping Company applies this best practice provision.*

7.2. In the Supervisory Council report appended to the Issuer's annual report, the Supervisory Council 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.

*In the Supervisory Council report appended to the Latvian Shipping Company annual report, the Supervisory Council is providing 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 company, as well as any other information as regarded by it to be necessary; therefore, Latvian Shipping Company applies this best practice provision.*

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

*The Supervisory Council of Latvian Shipping Company on the ongoing basis carries out supervision of the Management Board including supervision over the achievement of the objectives set by the company, the corporate strategy and risk management, the process of financial accounting, Management Board's proposals on the use of the profit of the company, and the business performance of the company in compliance with the requirements of regulatory acts; therefore, Latvian Shipping Company applies this best practice provision.*

## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **7. Obligations and responsibilities of the Supervisory Council** *(continued)*

7.4. The Supervisory Council and every its member shall be responsible that they have all the information required for them to fulfil 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 Council 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.

*The Supervisory Council of Latvian Shipping Company has all the information required for it to fulfill its duties. The chairman of the Supervisory Council of Latvian Shipping Company at least once a week meets chairman of the Management Board in order to discuss all the most important issues connected with the company's business and development strategy, business activities, and risk management. The information to the Supervisory Council of Latvian Shipping Company is also provided by Internal Audit department on regular basis; therefore, Latvian Shipping Company applies this best practice provision.*

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

*The Supervisory Council Regulations of Latvian Shipping Company does not envisage provisions requiring the members of the Supervisory Council to inform about reasons for not attending a Supervisory Council meeting. Although, usually the member of the Supervisory Council in due time informs chairman of the Supervisory Council in due time, if he/she is unable to participate in Supervisory Council meeting, providing also the reasons for non-attendance; therefore, Latvian Shipping Company applies this best practice provision.*

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

*In order to effectively perform its duties, the Supervisory Council from among the members of the Supervisory Council has established five committees – Finance committee, Legal and company reorganization committee, Strategic development committee, Fleet supervision committee and Audit committee. All committees consist of three members and their main task is to provide advisory functions and particularly to evaluate questions which are in the area of competency of the Supervisory Council. For important and sophisticated questions the committees can ask the opinion of experts. The members of the Supervisory Council do not receive an additional remuneration for their work at the committees. The committees submit their conclusions to the Supervisory Council for the decision making, while the Supervisory Council takes the final decisions; therefore, Latvian Shipping Company applies this best practice provision.*

7.7. Prior to making a decision on establishing a committee, the Supervisory Council should assess the possible benefits and the planned costs of its work, if any. The Supervisory Council itself shall determine the structure and the number of committees which the Supervisory Council considers to be required to optimise its work. The Supervisory Council 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.



## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **7. Obligations and responsibilities of the Supervisory Council** *(continued)*

*See explanation for Clause 7.6. Latvian Shipping Company applies this best practice provision.*

- 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 Council 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 Council. Supervisory Council committees do not substitute the Supervisory Council and their decisions should be treated as recommendations. The establishment of committees does not release the Issuer's Supervisory Council from the responsibility for the decisions taken. The task of committees shall be to prepare proposals for Supervisory Council decisions, while the final decisions are taken by the Supervisory Council.

*See explanation for Clause 7.6. Latvian Shipping Company applies this best practice provision.*

### **8. Supervisory Council composition and requirements for Supervisory Council members**

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

- 8.1. The Issuer shall require every Supervisory Council member as well as Supervisory 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 Supervisory 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 Supervisory Council member is elected, its position, including also additional positions and obligations, if any.

*Latvian Shipping Company requires above mentioned information from members of the Supervisory Council and publishes it at internet home page taking into consideration the regulations of the Personal Data Protection Law; therefore, Latvian Shipping Company applies this best practice provision.*

- 8.2. When determining the requirements for Supervisory Council members as regards the number of additional positions, attention shall be paid that a Supervisory 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.

*Latvian Shipping Company applies this best practice provision.*

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

*Latvian Shipping Company assesses and takes into account the qualification of Supervisory Council members; therefore, Latvian Shipping Company applies this best practice provision.*

- 8.4. Every Supervisory 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.

## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **8. Supervisory Council composition and requirements for Supervisory Council members** *(continued)*

*Referring to the Commercial law, members of the Supervisory Council of Latvian Shipping Company fulfill their duties as honest and careful master; Latvian Shipping Company appeals the Supervisory Council members in their work to be as independent as possible from any external circumstances and to assume responsibility for the decisions taken and comply with the general ethical principles when taking decisions in relation to the business of the company; therefore, Latvian Shipping Company applies this best practice provision.*

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

*The Supervisory Council members of Latvian Shipping Company are nominated for election in the Supervisory Council and acting in compliance with the Commercial Law, according to which the Supervisory Council members are independent and unaffected in the decision-making process.*

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

*See explanation for Clause 8.5.*

8.7. As independent shall be considered persons that conform to the independence criteria specified in the Annex hereto. If a Supervisory Council member does not conform to any of the independence criteria specified in the Annex hereto but the Issuer does consider the Supervisory Council member in question to be independent, then it shall provide an explanation of its opinion in detail on the tolerances permitted.

*See explanation for Clause 8.5.*

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

*See explanation for Clause 8.5.*

### **9. Remuneration of Supervisory Council members**

The remuneration for Supervisory Council members shall be commensurate and the principles for the determination of remuneration shall be clear and transparent.

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

*Shareholders' meeting of Latvian Shipping Company has determined remuneration for the members of the Supervisory Council; therefore, Latvian Shipping Company applies this best practice provision.*

## CORPORATE GOVERNANCE REPORT *(continued)*

### 9. Remuneration of Supervisory Council members *(continued)*

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

*When examining the Supervisory Council's report, the annual general meeting of shareholders assesses also the work of the Supervisory Council; therefore, Latvian Shipping Company applies this best practice provision.*

9.3. The total amount of the remuneration of Supervisory Council 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 Council members, as well as specify separately the amount of the wage paid to Supervisory Council members and the variable part of the remuneration, if any, paid to Supervisory Council members. The variable part of remuneration shall mean any payments other than wage paid to Supervisory Council 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.

*The total amount of remuneration paid to the members of the Supervisory Council is determined by the decision of Shareholders' meeting of Latvian Shipping Company and is disclosed in the Annual Report. Latvian Shipping company does not include in the remuneration of the Supervisory Council members any payments other than wage and has not issued any share options; therefore, Latvian Shipping Company applies this best practice provision.*

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

*The payment of the variable part of remuneration to the members of the Supervisory Council is related to the fulfillment of strategic goals of Latvian Shipping Company and the results of the commercial and financial activities for the respective period; therefore, Latvian Shipping Company applies this best practice provision.*

9.5. When disclosing information on the total amount of remuneration paid to Supervisory Council 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 Council members in the long-term and the linking of the development indices of the Issuer with the changes in the remuneration systems.

*The total remuneration paid to the Supervisory Council for the current and previous reporting year is disclosed in the Annual Report; therefore, Latvian Shipping Company applies this best practice provision.*

## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **10. Identification of interest conflicts in the work of Supervisory Council members**

Every Supervisory Council member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances. Supervisory 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.

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

*Latvian Shipping Company appeals when taking decisions, the Supervisory Council members to guide by the interests of the company and not use the cooperation offers proposed to the company to obtain personal benefit; therefore, Latvian Shipping Company applies this best practice provision.*

10.2 On the occurrence of any interest conflict or even only on its possibility, a Supervisory Council member shall notify other Supervisory Council members without delay. Supervisory 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 Supervisory 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 Supervisory Council member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Supervisory 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 Supervisory Council member: legal persons where the Supervisory Council member or a closely related to him/her person is a Management Board or Supervisory 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.

*On the occurrence of any interest conflict or even only on its possibility, the Supervisory Council member is notifying other Supervisory Council members without delay; therefore, Latvian Shipping Company applies this best practice provision.*

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

*A Supervisory Council member who is in a possible interest conflict is not participating in taking decisions that might be a cause of an interest conflict; therefore, Latvian Shipping Company applies this best practice provision.*

## CORPORATE GOVERNANCE REPORT *(continued)*

### D. 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.

#### 11. 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.

11.1 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.

*The structure of corporate governance of Latvian Shipping Company is established in a manner that ensures provision of timely and exhaustive information on all the substantial matters that concern the company, including its financial situation, business results, and the structure of owners; therefore, Latvian Shipping Company applies this best practice provision.*

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

*Latvian Shipping Company applies this best practice provision.*

11.3 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.

*Latvian Shipping Company has appointed the person who is entitled to contact the press and other mass media on behalf on the company, 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; therefore, Latvian Shipping Company applies this best practice provision.*

11.4 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.

*Latvian Shipping Company ensures timely preparation and disclosure of financial reports and annual reports of the company which are in compliance with the existing requirements. The procedure for the preparation of reports is stipulated in the internal procedures of the company; therefore, Latvian Shipping Company applies this best practice provision.*



## CORPORATE GOVERNANCE REPORT *(continued)*

### 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 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.

*Latvian Shipping Company applies this best practice provision.*

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 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.

*For the information flow in the IR Latvian Shipping Company uses possibilities provided by technologies (website), relations with mass media and ties with the participants of finance market; therefore, Latvian Shipping Company applies this best practice provision.*

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 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.

*Latvian Shipping Company observes above mentioned basic principles in preparing the IR section of its website; therefore, Latvian Shipping Company applies this best practice provision.*

## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **12. Investor relations** *(continued)*

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 industry, main types of business;
- 2) Issuer's Report ("comply or explain") on the implementation of 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 Management Board or Supervisory Council 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 Council committees, if such have been established, as well as information on the work performed by the committees;
- 8) information on present Issuer's Supervisory Council 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 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 Management Board and Supervisory 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.

*The Management Board and Supervisory Council regulations are available in the registered office of Latvian Shipping Company. Considering that the work of committees of the Supervisory Council was commenced recently, information about their performance is not included in the website yet; therefore, the Latvian Shipping Company partly applies this best practice provision.*

## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **E. 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 Council'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 its 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.

*Latvian Shipping Company has defined the procedure of internal control; therefore, Latvian Shipping Company applies this best practice provision.*

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

*Latvian Shipping Company has characterized the most essential potential and existing risks in relation to the business of the company; therefore, Latvian Shipping Company applies this best practice provision.*

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

*Latvian Shipping Company applies this best practice provision.*

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.

*Latvian Shipping Company applies this best practice provision.*

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.

*The internal audit department of Latvian Shipping Company constantly performs independent audits in order to evaluate activities of the Latvian Shipping Company Group, including compliance with approved procedures. Also the external auditor approved by the general meeting of shareholders performs independent audits in order to evaluate activities of the Latvian Shipping Company Group, including compliance with approved procedures; therefore, Latvian Shipping Company applies this best practice provision.*

## **CORPORATE GOVERNANCE REPORT** *(continued)*

### **13. Principles of the Issuer's internal and external control**

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.

*Each year the general meeting of shareholders of Latvian Shipping Company approves the auditor for the audit for the next year's Annual report; therefore, Latvian Shipping Company applies this best practice provision.*

## **F. REMUNERATION POLICY**

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

The policy of the remuneration of Management Board and Supervisory 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 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 Council, 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 the activity of the Issuer.

14.2. Schemes of variable remuneration that include 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.

14.3. Remuneration schemes that include 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.

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.

*The remuneration to Latvian Shipping Company management bodies is determined in accordance with the Commercial Law, Articles of Association of Latvian Shipping Company and decisions of management bodies of Latvian Shipping Company. Latvian Shipping Company up to now has not issued share options; therefore, Latvian Shipping Company applies this best practice provision.*