

## Corporate governance report

### I INTRODUCTION

Joint Stock Company Latvijas kuģniecība (hereinafter Latvian Shipping Company or Company) Corporate Governance Report for 2010 (hereinafter the Report) has been prepared in compliance with Article 56.2 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 on July, 2008. The Report has been prepared by Joint Stock Company (hereinafter Latvian Shipping Company or Company) Board and reviewed by Latvian Shipping Company Council.

The Report discloses the information on the compliance with the corporate governance principles in 2010 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 2010 Latvian Shipping Company complied only with some of the corporate governance principles referred to in the Corporate Governance Principles and Recommendations on their Implementation issued by the NASDAQ OMX Riga. It was the main reason why the significant changes were made in the composition of the Board and the Council at the end 2010. The existing Board is in the position that such a behavior and attitude to the shareholders never should happen again.

On behalf of the Board I can assure that in 2011 we will do our best to comply with the corporate governance principles, respecting rights of all the shareholders and other stakeholders.

Information mentioned in the Article 56.2 Par Two Clause 5. and 7. and Article 56.1 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 NASDAQ OMX Riga together with Latvian Shipping Company Annual Report for 2010, as well as published on Latvian Shipping Company website [www.lk.lv](http://www.lk.lv).



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Paul Thomas  
Chairman of the Management Board of  
Joint Stock Company Latvian Shipping Company  
Riga, 14 June 2011

## Corporate governance report (continued)

### II PRINCIPLES OF GOOD CORPORATE GOVERNANCE

#### A. SHAREHOLDERS' MEETING

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

*Starting in January the Company's largest shareholder, joint stock company "Ventspils nafta", and other shareholders repeatedly requested the convocation of an extraordinary shareholders meeting. The purpose was to make changes to the Council and replace the Board in order to ensure that in the future these bodies acted in the best interests of all shareholders of the company. After many requests, and after several scheduled meetings were cancelled, a shareholders meeting finally took place on December 17th. In general in 2010 Latvian Shipping Company did not comply with this best practice provision and the reason for it was activities of the Board and the Council most probably to delay their dismissal.*

#### 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. However, in 2010 Latvian Shipping Company disregarded request of the largest shareholder, joint stock company "Ventspils nafta" who owns 49.94% of shares and votes to convoke an extraordinary shareholders meeting, therefore, Latvian Shipping Company did not comply with this best practice provision.*

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

*Latvian Shipping Company has not prepared dividend policy. According to the Commercial law Latvian Shipping Company Shareholders' meeting makes a decision on the profit distribution and payment of dividends. Latvian Shipping Company did not comply with 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 organize a shareholders' meeting are asked to comply with all the issues referred to in these Recommendations in relation to calling shareholders' meetings and provision of shareholders with the required information.

*In 2010 the Enterprise Register of Republic of Latvia has not convened shareholders meeting according to request of the largest shareholder joint stock company "Ventspils nafta" who owns 49.94% of shares; therefore, Latvian Shipping Company did not comply with 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.

## Corporate governance report (continued)

In 2010 shareholders of the Latvian Shipping Company were not provided with possibility to receive in due time and regularly all the required information about the Company, as, for example, audited annual report for 2009 was disclosed only in December, however, the deadline set out in the law is April 30.

The place of the shareholders meeting ("Lejastiezumi", Renda civil parish, Kuldīga region which is summer recreation facility more than hundred kilometers from Riga, where the headquarters of the company are located) last year in severe winter was chosen opposite the recommendations – it substantially restricted the attendance of a meeting by shareholders.

Therefore, Latvian Shipping Company did not comply with 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 general explanation for chapter "Shareholders' meeting"; Latvian Shipping Company did not comply with this best practice provision.

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

See general explanation for chapter "Shareholders' meeting"; additionally, the Company ignored request of the shareholder joint stock company "Ventspils nafta" to answer the questions about items included in the agenda of the extraordinary shareholders meeting, as well as the draft decisions of the shareholders meeting were not disclosed in due time as prescribed by the law (at least fourteen days prior to the meeting); therefore Latvian Shipping Company did not comply with 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 comply with 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 1.6., additionally, the Company ignored and not disclosed the draft decisions that were submitted additionally already after the announcement on calling the meeting by the shareholder joint stock company "Ventspils nafta"; therefore Latvian Shipping Company did not comply with this best practice provision.

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

See general explanation for chapter "Shareholders' meeting"; Latvian Shipping Company did not comply with 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 Council member candidates and audit committee member candidates whose approval is planned at the meeting. When disclosing the said information, also a short personal biography of the candidates shall be published.

See general explanation for chapter "Shareholders' meeting"; Latvian Shipping Company did not comply with this best practice provision.

## Corporate governance report (*continued*)

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

*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 complied with this best practice provision.*

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

*In order to ensure smooth process of shareholders' registration for the meeting and in due time solve possible problem situations, Latvian Shipping Company has determined that shareholders of Latvian Shipping Company shall inform the Management Board of Latvian Shipping Company about the representatives and authorised persons of shareholders who shall participate in the meeting, by submitting copies of the power of attorneys or the documents certifying the authorisation at least 5 (five) days before the day of shareholders' meeting.*

*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 complied with 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.

*The extraordinary shareholders meeting on December 17, 2010 was attended only by one member of the Board and some of the candidates to be elected at the shareholders' meeting, therefore, Latvian Shipping Company partly complied with this best practice provision.*

- 1.13. Since, if a long break of meeting is set, 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.

*No breaks were announced during the Company's extraordinary shareholders meeting held on December 17, 2010; therefore, Latvian Shipping Company complied with this best practice provision.*

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

*Regarding minutes of the Company's extraordinary shareholders meeting held on December 17, 2010, the chairperson of the meeting ensured that in case any meeting participant required it, particular debates were reflected in the minutes or that shareholder proposal or questions were appended thereto in written form; therefore, Latvian Shipping Company complied with 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 Board members, auditors, and as possibly many Council members.

## Corporate governance report *(continued)*

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

*The extraordinary shareholders meeting on December 17, 2010 was attended only by one member of the Board and auditors, therefore, Latvian Shipping Company partly complied with 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 comply with to Council members. If a Council member candidate or auditor candidate is unable to attend the shareholders' meeting due to an important reason, then it shall be admissible that this person does not attend the shareholders' meeting. In this case, all the substantial information on the candidate shall be disclosed before the shareholders' meeting.

*The extraordinary shareholders meeting on December 17, 2010 was attended only by some of the candidates to be elected at the shareholders' meeting, therefore, Latvian Shipping Company partly complied with 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.

*Latvian Shipping Company does not know the reasons why the Board members and the Council members did not attend the extraordinary shareholders meeting on December 17, 2010 and therefore could not enter the reasons in the minutes of the shareholders' meeting; therefore, Latvian Shipping Company did not comply with this best practice provision.*

### **B. BOARD**

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

### **3. Obligations and responsibilities of the Board**

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

3.1. The Board shall have the obligation to manage the business of the Issuer, which includes also the responsibility for the realization of the objectives and strategies determined by the Issuer and the responsibility for the results achieved. The Board shall be responsible for the said to the Council and the shareholders' meeting. In fulfillment of its obligations, the Board shall adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests.

*In 2010 the Board did not adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests and that resulted in shareholders decision to pursue a claim against the former members of the Management Board of Latvian Shipping Company Imants Sarmulis, Andris Linužs, Raivis Veckāgans and Edvīns Bērziņš; therefore, Latvian Shipping Company did not comply with this best practice provision.*

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

*The powers of the Board are stipulated in the Board Regulations, which are elaborated on the basis of Articles of Association of Latvian Shipping Company and rules of the Commercial Law. The Board Regulations are available in the registered office of Latvian Shipping Company but not published on the website of the Company; therefore, Latvian Shipping Company partly complied with this best practice provision.*

## Corporate governance report (*continued*)

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

*In 2010 the Board breached a number binding regulatory acts, for example, regarding convocation of the extraordinary shareholders meeting based on the request of the shareholder, regarding disclosure of the audited annual report and others; therefore, Latvian Shipping Company did not comply with this best practice provision.*

3.4. The Board shall perform certain tasks, including:

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

*In 2010 the above mentioned tasks were purely performed, not sufficient attention were paid to 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; the audited annual report for 2009 was submitted only in December despite that deadline set out in the law is April 30; therefore, Latvian Shipping Company did not comply with this best practice provision.*

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

*In annual report, the Board confirmed 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 complied with this best practice provision.*

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

*Although according to the regulations of the Board and the Council for certain issues, the Board should obtain approval from the Council, this requirement was, perhaps, disrespected in 2010; therefore, Latvian Shipping Company did not comply with this best practice provision.*

## 4. Board composition and requirements for Board members

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

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

*The Council of Latvian Shipping Company has observed that every Board member has appropriate education and work experience before they are elected, however, Latvian Shipping Company has not prepared a summary of the requirements to be set for every Board member, which specifies the skills, education, previous work experience and other selection criteria for every Board member; therefore, Latvian Shipping Company partly complied with this best practice provision.*

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

*Latvian Shipping Company has published on its website on the Internet the majority of the above mentioned information; therefore, Latvian Shipping Company partly complied with this best practice provision.*

## Corporate governance report (continued)

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

*In 2010 some of the Board members were not allowed/rejected access in due time to accurate information on the activity of the Company; therefore, Latvian Shipping Company did not comply with this best practice provision.*

4.4. It is not recommended to elect one and the same Board member for more than four successive terms. The Issuer has to evaluate whether its development will be facilitated in the result of that and whether it will be possible to avoid a situation where greater power is concentrated in hands of one or a number of separate persons due to their long-term work at the Issuer. If, however, such election is admitted, it shall be recommended to consider to change the field of work of the relevant Board member at the Issuer.

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

### 5. Identification of interest conflicts in the work of Board members

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

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

*Latvian Shipping Company is the position that in 2010 while taking decisions, the Members of the Board of the Latvian Shipping Company, most probably, were not guided by the interests of the company and they used their authority to obtain personal benefit; therefore, Latvian Shipping Company did not comply with this best practice provision.*

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

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

*Although formally, there were no occurrence of any interest conflict for Board members, Latvian Shipping Company considers that in practice, perhaps, in 2010 Latvian Shipping Company did not comply with this best practice provision.*

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

*See explanation on Clause 5.2.*

### C. COUNCIL

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

*In general, Latvian Shipping Company is in the position that in 2010 the Council did not perform its task as stipulated in the law and in the statutes. The one but not only example is inadequate reaction to largest shareholder's joint stock company "Ventspils nafta" request to convoke extraordinary shareholders meeting. The Council also did not supervise the work of the Board enough. It resulted in fact that shareholders has decided to pursue a claim against all of the former members of the Supervisory Council of Latvian Shipping Company who were elected by the extraordinary shareholders' meeting of Latvian Shipping Company on February 15, 2008.*

## Corporate governance report (*continued*)

### 6. Obligations and responsibilities of the Council

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

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

*The functions of the Council are stipulated in the Council Regulations, which are elaborated on the basis of Articles of Association of Latvian Shipping Company and rules of the Commercial Law. The Council Regulations are available in the registered office of Latvian Shipping Company but not on the website on the Internet; therefore, Latvian Shipping Company partly complied with this best practice provision.*

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

*In 2010 the Council did not carried out sufficient supervision over the achievement of the objectives set by the Company, the corporate strategy and risk management, the process of financial accounting and the business performance of the Company in compliance with the requirements of regulatory acts; therefore, Latvian Shipping Company did not comply with this best practice provision.*

6.3. The Council and every its member shall be responsible that they have all the information required for them to fulfill their duties, obtaining it from Board members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the Council chairperson shall contact the Issuer's Board, inter alia the Board chairperson, on a regular basis and discuss all the most important issues connected with the Issuer's business and development strategy, business activities, and risk management.

*Latvian Shipping Company presumes that in 2010 the Council of Latvian Shipping Company had all the information required for it to fulfill its duties.*

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

*The Council Regulations of Latvian Shipping Company does not envisage provisions requiring the members of the Council to inform about reasons for not attending a Council meeting.*

### 7. Council composition and requirements for Council members

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

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

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



## Corporate governance report (*continued*)

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

*Latvian Shipping Company encourages its shareholders to apply this best practice provision.*

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

*Latvian Shipping Company encourages its shareholders to apply this best practice provision.*

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

*Besides general description in chapter "Council", Latvian Shipping Company considers that Council members perhaps did not comply with the general ethical principles when taking decisions in relation to the business of the Company, therefore, Latvian Shipping Company did not comply with this best practice provision.*

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

*Current management of Latvian Shipping Company encourages its shareholders to apply this best practice provision.*

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

*Latvian Shipping Company encourages its shareholders to apply this best practice provision, currently, Latvian Shipping Company did not comply with this best practice provision considering tense between shareholders.*

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

*Currently, Latvian Shipping Company did not comply with this best practice provision considering tense between shareholders.*

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

*Latvian Shipping Company encourages its shareholders to apply this best practice provision, currently, Latvian Shipping Company did not comply with this best practice provision considering tense between shareholders.*

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

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

8.1. It shall be the obligation of every Council member to avoid any, even only supposed, interest conflicts in his/her work. When taking decisions, 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 is the position that in 2010 while taking decisions, the Members of the Council of the Latvian Shipping Company were not guided by the interests of the company and they used their authority most probably to obtain personal benefit; therefore, Latvian Shipping Company did not comply with this best practice provision.*

## Corporate governance report (*continued*)

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

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

*Although formally, there were no occurrence of any interest conflict for Council members, Latvian Shipping Company considers that in practice, perhaps, in 2010 Latvian Shipping Company did not comply with this best practice provision.*

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

*See explanation on Clause 8.3.*

### 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.

*In general Latvian Shipping Company is in the position that in 2010 the Company's information was not disclosed in timer manner and sufficiently. The information about significant deals (disposal of SIA "LSC Shipmanagement", acquisition of SIA "NAFTA Invest", etc.) was not disclosed in appropriate quality. As mentioned early the audited annual report 2009 was disclosed only in December, however the deadline according to the law is April 30. Also information about shareholders meetings and draft decisions were not disclosed in timer manner and sufficiently. Latvian Shipping Company considers that such activities were performed by former Board and Council members in order to prevent their dismissal.*

### 9. Transparency of the Issuer's business

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

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

*See general description on chapter "Disclosure of information", Latvian Shipping Company did not comply with this best practice provision.*

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

*See general description on chapter "Disclosure of information", Latvian Shipping Company did not comply with this best practice provision.*

## Corporate governance report (continued)

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

*Latvian Shipping Company has appointed the person who is entitled to contact the press and other mass media on behalf of 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 comply with this best practice provision.*

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

*See description on chapter "Disclosure of information", Latvian Shipping Company did not comply with this best practice provision.*

### 10. Investor relations

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

10.1. The main objectives of the IR are the provision of accurate and timely information on the business of the Issuer to participants of finance market, as well as the provision of a feedback, i.e. receiving references from the existing and potential investors and other persons. In the realization 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.

*See description on chapter "Disclosure of information", Latvian Shipping Company did not comply with this best practice provision.*

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

*See description on chapter "Disclosure of information", Latvian Shipping Company did not comply with this best practice provision.*

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

*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 complied with this best practice provision.*

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

- 1) The IR section of website shall be perceived not only as a store of information or facts but also as one of the primary means of communication by means of which it is possible to inform the existing and potential shareholders;
- 2) all the visitors of the IR section of website shall have the possibility to obtain conveniently all the information published there. Information on websites shall be published in all the foreign languages in which the Issuer normally distributes information so that in no way would foreign investors be discriminated, however, it shall be taken into account that information must be disclosed at least in Latvian and English;
- 3) It shall be recommended to consider a solution that would allow the existing and potential investors to maintain ties with the Issuer by using the IR section of website – submit questions and receive answers thereto, order the most recent information, express their opinions etc.;

## Corporate governance report (*continued*)

- 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 complied with this best practice provision.*

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

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

*The Board and Council regulations as well as information on the performance of the Issuer's Audit Committee were not published on the website of Latvian Shipping Company; therefore, the Latvian Shipping Company partly complied with this best practice provision. The company plans to eliminate these drawbacks in 2011.*

## **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 Board to identify the shortcomings and risks in the management of the Issuer as well as facilitates that the Council's task - to supervise the work of the Board - is fulfilled efficiently.

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

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

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

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

## Corporate governance report (continued)

11.2. The objective of risk management is to ensure that the risks connected with the commercial activity of the Issuer are identified and supervised. To ensure an efficient risk management, it shall be necessary to define the basic principles of risk management. It is recommended to characterize 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 complied with this best practice provision.*

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

*Auditors could access any Company's information. Latvian Shipping Company complied with this best practice provision.*

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

*Each year after audit, auditors provide the assessment and improvement of risk management and control processes of the Company. Latvian Shipping Company complied with this best practice provision.*

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

*In 2010 the internal audit department of Latvian Shipping Company faced difficulties to perform independent audits in order to evaluate activities of the Latvian Shipping Company. However, the external auditor approved by the general meeting of shareholders performed independent audits in order to evaluate activities of the Latvian Shipping Company Group, including compliance with approved procedures; therefore, Latvian Shipping Company partly complied with this best practice provision.*

11.6. When approving an auditor, it is recommended that the term of office of one auditor is not the same as the term of office of the 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 complies with this best practice provision.*

## 12. Audit Committee

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

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

*The functions and responsibility of the Audit Committee of Latvian Shipping Company is specified in the regulations of the Audit Committee; therefore, Latvian Shipping Company complied with this best practice provision.*

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

*The Audit Committee of Latvian Shipping Company consists of three members. Extraordinary shareholders meeting on 17, December 2010 elected a new audit committee consisting of Lahsen Idiken, Mikhail Dvorak, Jozef Hubertus Johannes Baardemans who all have adequate knowledge in accounting and financial reporting; therefore, Latvian Shipping Company complied with this best practice provision.*

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

*In 2010 the Audit Committee members had limited access to the information about the accounting principles practiced by Latvian Shipping Company; therefore, Latvian Shipping Company did not comply with this best practice provision.*

## Corporate governance report (continued)

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

*See comment on Clause 12.3.*

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

*Regarding Annual Report 2009, Audit Committee did not reported to shareholders meeting; therefore, Latvian Shipping Company did not comply with this best practice provision.*

### F. REMUNERATION POLICY

#### 13. General principles, types and criteria for setting remuneration

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

*In general, Latvian Shipping Company has not developed and approved motivation and remuneration policy regarding the Board and Council members. Despite that Latvian Shipping Company Group suffered losses more than hundred million USD in 2010, the Council in total received 2.1 million USD in remuneration and the Board in total received 1.2 million USD in remuneration. Company considers this fact illegal, unacceptable and it is one of the reasons why former members of Council and Board were dismissed on December 17, 2010 and decision to pursue a claim against them was taken. Currently regarding difficult financial situation of the Latvian Shipping Company Group, remuneration of the Council and the Board is set to zero. It can be revised when situation improves and the Company returns to profit.*

13.1. The Issuers are called on to develop a remuneration policy in which the main principles for setting the remuneration, possible remuneration schemes and other essential related issues are determined. Without limiting the role and operations of the Issuer's management bodies responsible for setting remuneration to the Board and Council members, the drafting of the remuneration policy should be made a responsibility of the Issuer's Board, which during the preparation of a draft policy should consult with the Issuer's Council.

*See general explanation on chapter "Remuneration policy" Latvian Shipping Company did not comply with this best practice provision.*

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

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*

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

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*

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

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*

## Corporate governance report (continued)

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

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*

13.6. While setting remuneration principles with regard to Board and Council members, they should include general approach as to compensations, if any, in cases when contracts with the said officials are terminated.

*See general explanation on chapter "Remuneration policy".*

### 14. Remuneration Report

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

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

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

- 1) Information as to the application of the remuneration policy to Board and Council members in the previous financial year, specifying the material changes to the Issuer's remuneration policy compared to the previous reporting period;
- 2) The proportion between the fixed and variable part of the remuneration for the respective category of officials;
- 3) Sufficient information as to linking the remuneration with performance;
- 4) Information about the Issuer's policy with regard to the contracts with the members of the Issuer's management bodies, the terms and conditions of the contracts (duration, notice deadlines about termination, including payments due in case of termination);
- 5) Information about the incentive schemes and the specifications and reasons for awarding any other benefits;
- 6) A description of any pension or early retirement schemes;
- 7) An overview of the remuneration paid to or any benefits received by each individual that has been Board or Council member in the reporting period – disclosing at least the information required in Items 14.5, 14.5 and 14.7 below.

*See also general explanation on chapter "Remuneration policy".*

*The information about the remuneration paid to the members of the Council and the Board is included in the Annual report of Latvian Shipping Company. Latvian Shipping Company does not disclose information mentioned in the Clause 14.2 regarding the each separate Council and Board member because of social and economic situation in Latvia, as well as considering fact that this information is commercially sensitive.*

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

*See the Clause 14.2.*

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

*See the Clause 14.2.*

14.5. The following remuneration and other benefits related information about each Board and Council member should be disclosed:

- 1) Total amount paid or outstanding (salary) for the year;
- 2) Remuneration and other benefits received from any company associated with the Issuer. For the understanding of this Item, "associated undertaking" is a company according to the definition in Paragraph 1 of the Law on the Financial Instruments Market;
- 3) Remuneration paid as profit distribution or bonus, and the reasons for awarding such remuneration;
- 4) Compensation for fulfilment of duties in addition to the regular job responsibilities;

## Corporate governance report *(continued)*

- 5) Compensations and any other payments received by or to be received by Board or Council member who has left the position during the accounting period;
- 6) Total value of any other benefits apart from those listed under Items 1) to 5) received as remuneration.

*See the Clause 14.2.*

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

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*

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

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*

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

*See general explanation on chapter "Remuneration policy". Latvian Shipping Company did not prescribe remuneration in the form of the Latvian Shipping Company's shares or share options.*