



CORPORATE GOVERNANCE CODE

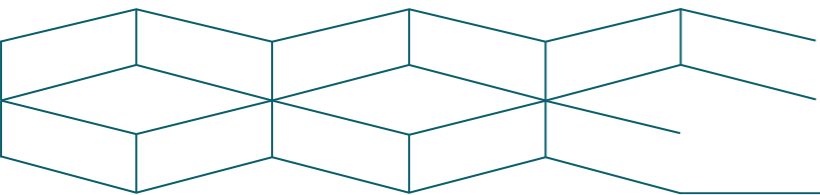
**Good corporate governance
recommendations for companies in Latvia**



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Foreword

Over the last decade, matters of good corporate governance have gained new prominence. With Latvia's accession to the Organisation for Economic Co-operation and Development (OECD), the reform of the governance of state and municipalities owned companies and several public interest companies becoming issuers, issues relating to non-financial corporate goals, access to information and the role of the supervisory board in corporate governance have come to the fore.

The concept of good corporate governance refers to the processes that contribute to the efficiency of operations and increase in value of the company in the long term. However, today companies do not operate in an isolated environment and are not protected from external forces. Investors and other stakeholders are increasingly concerned about environmental, social responsibility and sustainability issues, which are as important as a company's financial performance. These trends have a direct impact on corporate governance, forcing companies to re-evaluate existing processes and adapt to investors' requirements by expanding the concept of

corporate governance and changing the traditional idea that the shareholder is the main stakeholder in the company.

Corporate governance recommendations in Latvia have so far been systematised and summarised in the "Principles of Corporate Governance and Recommendations on their Implementation" of the issued by Nasdaq Riga Stock Exchange in 2010. In order to update the corporate governance recommendations in accordance with modern requirements, in the period from 2018 to 2020, an Advisory Board for the development of a new Corporate Governance Code (hereinafter – the Code) was established under the auspices of the Ministry of Justice. The authors of the Code are Daiga Auziņa-Melalksne, Jūlija Bistrova, Liene Dubava, Gatis Flinters, Zane Eglīte-Fogele, Andris Grafs, Baiba Lielkalne, Maija Orbidāne, Baiba Strupiņa, Ilze Tīmane and Māris Vainovskis. During the development, the recommendations included in the Code have been discussed and debated with management board and supervisory board members of the private and public sector companies, supervisory authorities, representatives of the non-governmental sectors and academic environment.

Structure of the Code

The Code consists of 17 principles which support the increase of the company value in the long term, as well as its effective management and transparency of operations.¹ These principles are grouped into 10 sections and cover both conceptual dimensions of corporate governance, such as corporate strategy, internal culture and ethics, and more specific issues of supervisory board election and composition.

Each principle has its own criteria to help assess whether the principle has been complied with. The principle is met if the company meets all the criteria set out for the principle.

The commentary on the principles explains the importance of these principles, as well as provides practical advice and examples of good practice in applying the principles.

Target audience of the Code

The principles contained in the Code summarise the best international practices in corporate governance and can be applied to any company that wants to improve its operational efficiency and achieve an increase in value in the long term.

¹ Principle marked # 12.1. applies only to companies in which supervisory board committees have been established.

It is particularly important to ensure that the principles contained in the Code are observed by public interest entities (financial institutions, listed companies), capital companies of public persons and capital companies of derived public persons, as well as other companies with a broad shareholder base or systemic influence in the Latvian economy.

The term “company” in the Code refers to commercial companies operating in Latvia regardless of their form of operations. The principles contained in the Code are intended for companies in which a supervisory board has been established. However, the Code may also be applied by companies having no supervisory board. In this case, part of the tasks of the supervisory board is performed by the shareholder’s meeting, part – by the management board, therefore a clear agreement on the implementation of these tasks is required.

If a company is the dominant company of a group of several companies, then it promotes the observance of the principles also in the companies controlled by it.

Comply or explain principle

The Code is applicable in accordance with the “comply or explain” principle. This principle obliges the company to take into account all the principles contained in the Code and to provide information on compliance with them or to explain any deviation in the application of a principle. Therefore, the company is regarded as compliant with

the requirements of the Code even where it does not comply with certain principles, provided that the deviation from a particular principle has been duly notified and explained.

Given that companies are different, not every principle will be fully applicable to every company according to its purpose. It may not be possible to comply with certain principles for objective reasons, such as where the ownership structure of the company or the specific characteristics of the company or industry so require. In other cases, technical compliance with the principle may run counter to the objective of improving corporate governance. In such cases, it is essential that the company retains discretion and does not apply a specific principle or applies it in a manner appropriate to the company.

A company may deviate from the application of a principle, in whole or in part, if it notifies about certain principles that are not being followed, explains the reasons for the deviation, and the circumstances in which the company has decided to deviate from those principles. For companies whose securities are listed on the stock exchange, the regulatory enactments provide special requirements regarding the manner in which they notify deviations from the principles of corporate governance.

If a company deviates from a principle, it must be able to explain such behaviour in a reasoned manner and give shareholders and stakeholders the opportunity to assess the significance of such a deviation in the corporate governance of the company. A well-reasoned explanation for investors, which includes the company's vision of alternative methods to achieve the goal, improves the company's relationship with its investors and provides confidence in the strategy chosen by the company.

A corporate governance report is a way for a company to communicate with stakeholders about current corporate governance issues in the company. This means that companies that follow all the principles are also advised to explain in their corporate governance report the measures that the company has put in place to improve corporate governance.

Legislation

The Code has been developed taking into account the requirements set for companies in the regulatory enactments of the Republic of Latvia, as well as the recommendations of the Organisation for Economic Cooperation and Development for corporate governance. The provisions of the Code are based on best international practices in corporate governance.

The principles set out in the Code are intended to supplement the procedures specified in regulatory enactments by providing stable but flexible guidelines for the development of the most appropriate corporate governance model for the company.

Given that corporate governance is an ongoing process during which existing achievements are assessed and further adherence to good practice in the company is promoted, the Code will be periodically reviewed and supplemented accordingly.

Advisory Board for Corporate Governance
Riga, December 2020



Company strategy

Company strategy is an essential tool for setting company objectives and progress towards long term value creation



The company has an up-to-date strategy that sets out the company's objectives and progress towards long-term value creation

Criteria

- ◆ **The company has an up-to-date strategy, the draft of which is developed by the management board**
- ◆ **The supervisory board is involved in the strategy development process and approves the strategy at the supervisory board meeting**
- ◆ **The supervisory board monitors the implementation of the strategy**
- ◆ **The company management board implements the strategy and reports to the supervisory board on its implementation on a regular basis**

The company management board and supervisory board agree on the strategy development process, the place of the strategy in the hierarchy of the company's internal documents, as well as on the content and scope of the information to be included into the strategy.

In the strategy development process, the management board takes into account the implementation of the current strategy, the current situation in the company, trends in the industry and on the market, business model, opportunities and risks, stakeholder interests, environmental, social and governance aspects, etc.

The strategy and supporting documents, such as the annual business plan, include the company's development directions and objectives, planned results, analyse potential risks and provide for the necessary resources (including financial and human resources) for the implementation of the strategy and other aspects.

The company determines for what period of time the strategy is developed (medium-term or long-term strategy).

When approving the company strategy, the supervisory board sets strategic objectives and priorities for the management board. The supervisory board's oversight of the management board's activities includes overseeing the implementation of the long-term value creation strategy and the risks associated with it. The supervisory board reviews the information prepared by the management board on the progress of the implementation of the strategy on a regular basis at the supervisory board meetings.

The management board updates the strategy as needed and in line with the changes in the industry or the company's operations and directs the updated strategies to the supervisory board for review.



Internal culture and ethical behaviour

The basic principles of the company's internal culture and ethical behaviour and the values on which they are based are a precondition for the successful long-term development of the company



The company develops an internal culture and ethics code which serves as a standard of conduct for the company's management and employees

Criteria

- ◆ **The supervisory board defines the company's core values**
- ◆ **The management board prepares and the supervisory board approves the code of internal culture and ethics**
- ◆ **The management board ensures compliance with the company's internal culture and ethics code on a daily basis and reacts if there is a breach of the code**

The code of ethics reflects the core values defined by the company, as well as the standards of ethical and professional conduct and guidelines for their achievement and implementation.

It is important to set standards of conduct for employees in the company, explaining what behaviour is expected and what behaviour is unacceptable. The code of ethics serves as a guideline for employees in their day-to-day activities in contacts with colleagues, customers, business partners and competitors.

In order to ensure the company's compliance with regulatory requirements, the code of ethics may also include rules of behaviour for the implementation of specific policies, such as prevention of corruption, fair competition, whistleblowing, etc.

An essential component of the code of ethics is the active involvement of the public in the fight against illegal activities, helping to identify and respond promptly to any breaches.

The code should urge employees to be socially active and to react if there is a breach. The code needs to indicate the expected consequences if a breach of the provisions of the code of ethics is detected.

When developing a code of ethics, it is important to involve employees at all levels, to identify and discuss their individual values and needs. The management board is responsible for ensuring that the code of ethics is reviewed and updated on a regular basis, and that the principles contained in the code are explained to employees. The code of ethics must be easily accessible to all employees of the company.

A code of ethics helps to create a responsible, safe and comfortable work environment, which in turn promotes employee confidence and ethical behaviour, thus also ensuring the implementation of the company's long-term objectives.



Internal control system, risk management and internal audit

The purpose of the internal control system is to ensure the efficient, sustainable and successful operation of the company, the veracity of the information provided and compliance with the relevant regulatory enactments and operating principles

The purpose of risk management is to identify, assess, manage and control potential events or situations to provide assurance regarding the achievement of the company's strategic objectives

Internal audit helps the company accomplish its objectives by bringing systematic processes to evaluate and improve the effectiveness of risk management, internal control and governance processes





Principle # 3

The company has an internal control system, the effectiveness of which is monitored by the supervisory board

Criteria

- ◆ **The company has a documented internal control system, the establishment of which is the responsibility of the management board**
- ◆ **The internal audit evaluates the effectiveness of the internal control system at least once a year, taking into account pre-defined criteria and reporting the results of the evaluation to the supervisory board**
- ◆ **The supervisory board, at least once a year, evaluates the provided evaluation of the effectiveness of the internal control system**



Principle # 4

The company identifies, assesses and monitors the risks associated with its operations

Criteria

- ◆ **The management board develops and the supervisory board approves the company's risk management policy**
- ◆ **Based on the identified risk assessment, the management board implements risk management measures**
- ◆ **At least once a year, the supervisory board reviews the management board's reports on risk management measures and the implementation of the risk management policy**

An internal audit has been established in the company, it evaluates the company's operations independently and objectively

Criteria

- ◆ **The company has an internal auditor who is functionally independent of the management board and reports to the supervisory board**
- ◆ **The supervisory board approves the internal auditor**
- ◆ **The internal auditor develops a risk-based internal audit plan, which is approved by the supervisory board**
- ◆ **The internal auditor informs the management board and supervisory board on the implementation of the internal audit plan, audit results and recommended actions to address deficiencies, if any**

Documented internal control system



Supervisory board

Approves:

- Internal auditor
- Internal audit plan
- Risk management policy

Supervises:

- Operation of the risk management system and its effectiveness
- Execution of the risk management plan

Evaluates:

- The provided evaluation of the effectiveness of the internal control system once a year

Internal audit

Develops and implements:

- Internal audit plan

Performs:

- Evaluation of the effectiveness of the internal control system and reports the results of the evaluation to the supervisory board

Informs:

- The management board and the supervisory board on the implementation of the internal audit plan
- On the results of the internal audit
- On actions to address deficiencies

Management board

Establishes:

- Internal control system

Develops:

- Risk management policy
- Risk management plan

Implements:

- Risk management plan

Companies face many different risks – strategic, operational, compliance, disclosure, corruption, financial, market and other.

An effective internal control system helps to identify and consider these risks when determining the company's business strategy and activities. According to the Committee of Sponsoring Organizations of the Treadway Commission COSO (Internal Control – Integrated Framework)² the elements of the internal control system are:

- control environment, including the management and responsibility environment in the company;
- risk assessment, including whether the company operates with high or low risks;
- control activities, including which activities ensure the control of risks within the company;
- information and communication, including whether the information is provided to the parties involved in a sufficient amount or whether feedback is provided;
- monitoring activities, including whether the internal control system is monitored and adjusted as necessary.

In order to verify the effectiveness and adequacy of the internal control system, it would be desirable for the company to conduct an external evaluation of the internal control system every five years.

The company specifies the expected control activities in the policies, and specifies in the procedures, regulations and instructions the specific control activities the establishment and implementation of which is the responsibility of the management board.

In the policies company specifies the expected control activities, and in the procedures, regulations and instructions defines exact control activities the establishment and implementation of which is the responsibility of the management board.

Once a year, the management board informs the supervisory board about the risks affecting the company's operations, their levels, risk management measures and their implementation status, helping

the supervisory board to monitor the functioning of the company's risk management system and its effectiveness.

The report includes information on the progress of the risk assessment, listing the most significant risks in accordance with the specified level of tolerable risk (risk appetite), information on the functioning of the risk management and internal control systems during the reporting period, including information on material errors, changes made and planned in risk management policies and procedures, also indicating whether these issues have been discussed with the internal auditor and/or the supervisory board. The report shall also include information on the impact of potential material risks on the company's operations or financial results.

According to the proposal of the management board, the supervisory board determines the limits for the appetite of the most significant risks. The management board ensures regular, at least once a year, reassessment of the most significant risks. It is important to pay attention to actual changes in the previous period, errors, identified non-conformities or materialised risks, instructions from the internal auditor or external auditor, reports from whistle-blowers or supervisory authorities. The management board and the supervisory board assess the need for changes in the risk management policy or risk management plan. The management board ensures that the compliance of the underlying risk with the risk management policy of the company is assessed in the process of making any strategic decision. Following the company strategy and based on the identified risk assessment, the management board implements risk management measures.

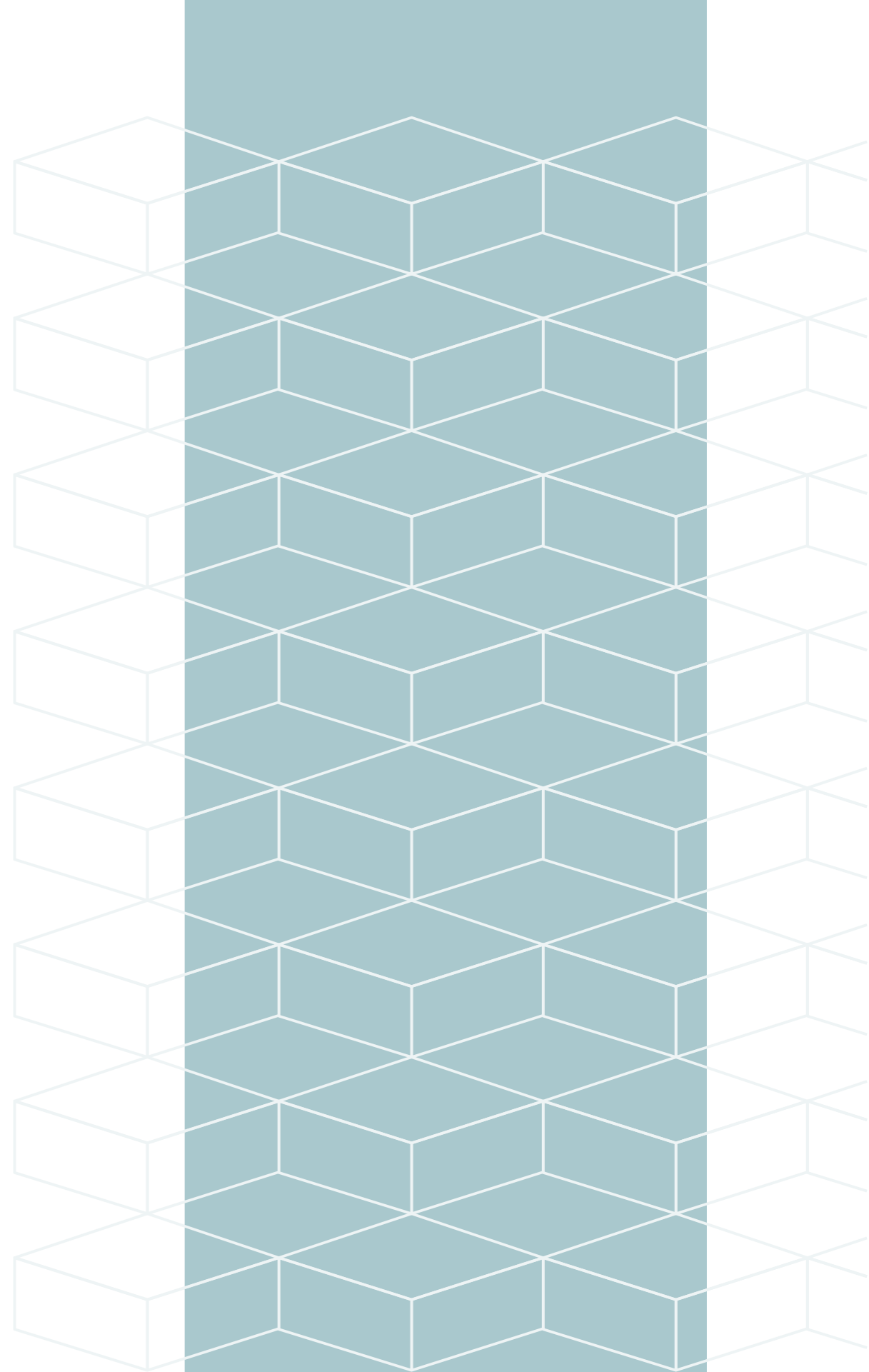
Internal audit is one of the important elements of the internal control system, within which an independent and objective evaluation of the company's operations is performed in order to provide support in achieving the company's objectives. Both the management board and the supervisory board are involved in the process of developing the internal audit plan.

² For information, see <https://www.coso.org/Pages/default.aspx>

The task of the management board is to provide sufficient resources and access to the company's information, premises, assets and personnel for the performance of the internal audit, so that the internal audit plan is effectively implemented during the internal audit.

The internal audit function is performed by a structural unit or a person who is functionally independent of the company's board and who is approved or removed by the supervisory board. The internal auditor develops the Internal Audit Policy, which is approved by the supervisory board. Internal audit covers all company processes, setting the priority and frequency of inspections in a risk-based approach and defining it in the strategic and annual audit plan (hereinafter – the Internal Audit Plan).

The Internal Audit Plan is approved by the supervisory board. The internal audit results in a report and defines recommendations for correcting deficiencies, if any. The management board develops a plan for the implementation of recommendations, the implementation of which is monitored by internal audit. Internal auditors inform the management board and report to the supervisory board on a regular basis on the implementation of the Internal Audit Plan, the results of internal audits, recommended actions to eliminate deficiencies and the status of their implementation, if any.





External auditor

The external auditor provides the management board and the supervisory board, all shareholders and investors, creditors and other stakeholders with an independent report on the company's financial standing, reliability of financial statements and compliance with the requirements of regulatory enactments



The company has an independent external auditor

Criteria

- ◆ **The supervisory board and the Audit Committee, (if established), determine the selection criteria for the external auditor**
- ◆ **The company has an independent external auditor with appropriate qualifications**
- ◆ **The term of office of one external auditor does not exceed 5 years**

When choosing an external auditor, it is essential to ensure independence of the external auditor³ and to eliminate any potential conflict of interest or threat to the auditor's independence. The supervisory board or the Audit Committee, if any, is responsible for nominating the external auditor. It is important that the process of selecting of and determining remuneration for the external auditor is transparent.

The management board also ensures that the candidate for the external auditor's position is revealed in a timely manner⁴ before the shareholders' meeting, at which the external auditor is expected to be approved. The management board ensures that the consent of the external auditor to audit the company's accounts is obtained before the specific external auditor is nominated.

Companies that are public interest entities (such as financial institutions)⁵ pay particular attention to the selection of external auditors, as they are subject to specific requirements regarding the conduct of external audits.

The management board includes in the contract with the external auditor a list of the external auditor's responsibilities, audit plan, timetable, terms of payment, obligation to report any conflict of interest, threat to independence or any other impediment preventing the external auditor from performing his/her duties or affecting his/her performance. Throughout the audit process, the company ensures effective cooperation with the external auditor, access to information and cooperates in eliminating any identified deficiencies and shortcomings.

³ See. Section 25(1) of the Law on Audit Services: <https://likumi.lv/doc.php?id=20946>

⁴ Listed companies do so no later than 14 days before the shareholders' meeting at which an auditor is planned to be elected.

⁵ See. Section 28(1) of the Law on Audit Services: <https://likumi.lv/doc.php?id=20946>



Election of supervisory board members

A competent and experienced supervisory board is a prerequisite for the efficient operation of the company and decision-making, which contributes to the long-term growth of the company's value. The supervisory board is working in the interests of all shareholders and the company



The company ensures transparent procedures for the election and removal of supervisory board members

Criteria

- ◆ **The company has approved the procedure for selection and removal of supervisory board members**
- ◆ **The company provides timely and sufficient information to the company's shareholders on the supervisory board members who are nominated for election or re-election**
- ◆ **The size of the supervisory board corresponds to the specifics of the company's operations**
- ◆ **A supervisory board member is elected for a term not exceeding 5 years**

Supervisory board members combined have relevant experience and competence

Criteria

- ◆ **The supervisory board as a whole has a set of skills, experience and knowledge, including on the sector concerned, to be able to perform their duties fully**
- ◆ **The principles of diversity are observed when forming the supervisory board**
- ◆ **Both sexes are represented in the supervisory board**
- ◆ **The management board develops an induction training programme and provides new supervisory board members with induction training**

Set of competencies and experience, induction training for supervisory board members

Management and control functions should be distributed among supervisory board members so that they can take decisions effectively. The supervisory board as a whole should have at least the following experience and competencies:

- corporate strategy and financial management;
- internal audit;
- understanding of the industry in which the company operates;
- leadership and ability to work in a team;
- international experience;
- experience of a company manager or business development management;

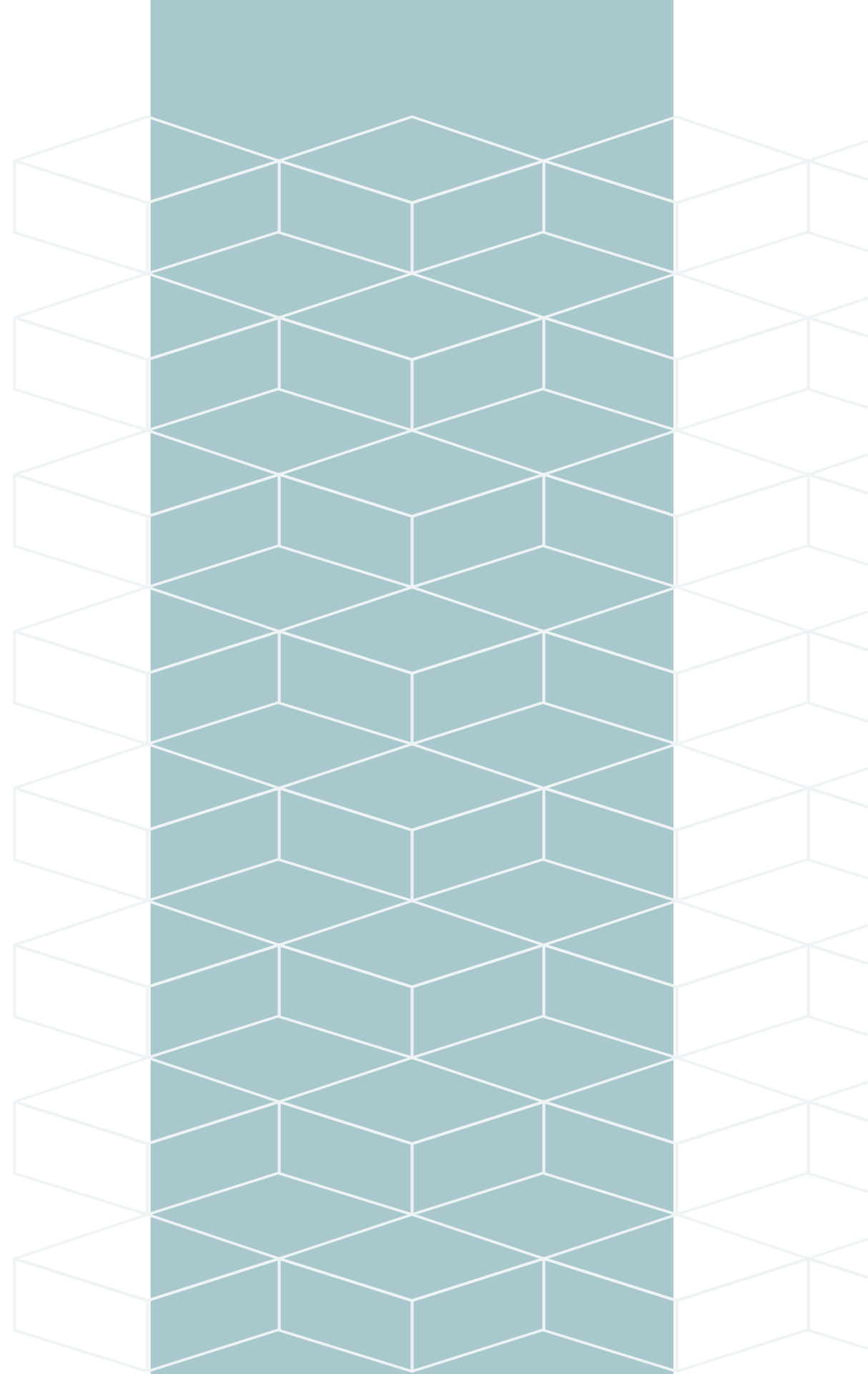
- strategic and analytical thinking;
- decision-making skills;
- understanding of corporate governance and compliance, risk management, change and stakeholder management, etc.

The optimal number of supervisory board members in large companies in the Baltic States is from five to seven.

The diversity of the composition of the supervisory board is an important driver of the effectiveness of the supervisory board. If the supervisory board consists of persons with different, complementary competencies, views, education, work experience (including international), nationality, as well as both genders and persons of different ages are represented in the supervisory board, this contributes to comprehensive discussions, wider

perspective as well as carefully considered decision-making. In order to ensure the implementation of the principle of diversity of the composition of the supervisory board, the company may establish a diversity policy to be used in the selection process of the members of the supervisory board.

Each supervisory board member begins his or her duties with an induction training that provides a comprehensive introduction to the company: its operating principles, peculiarities, culture, duties of the supervisory board member and general financial, social and legal status, as well as the financial reporting process.



The company's supervisory board has independent supervisory board members

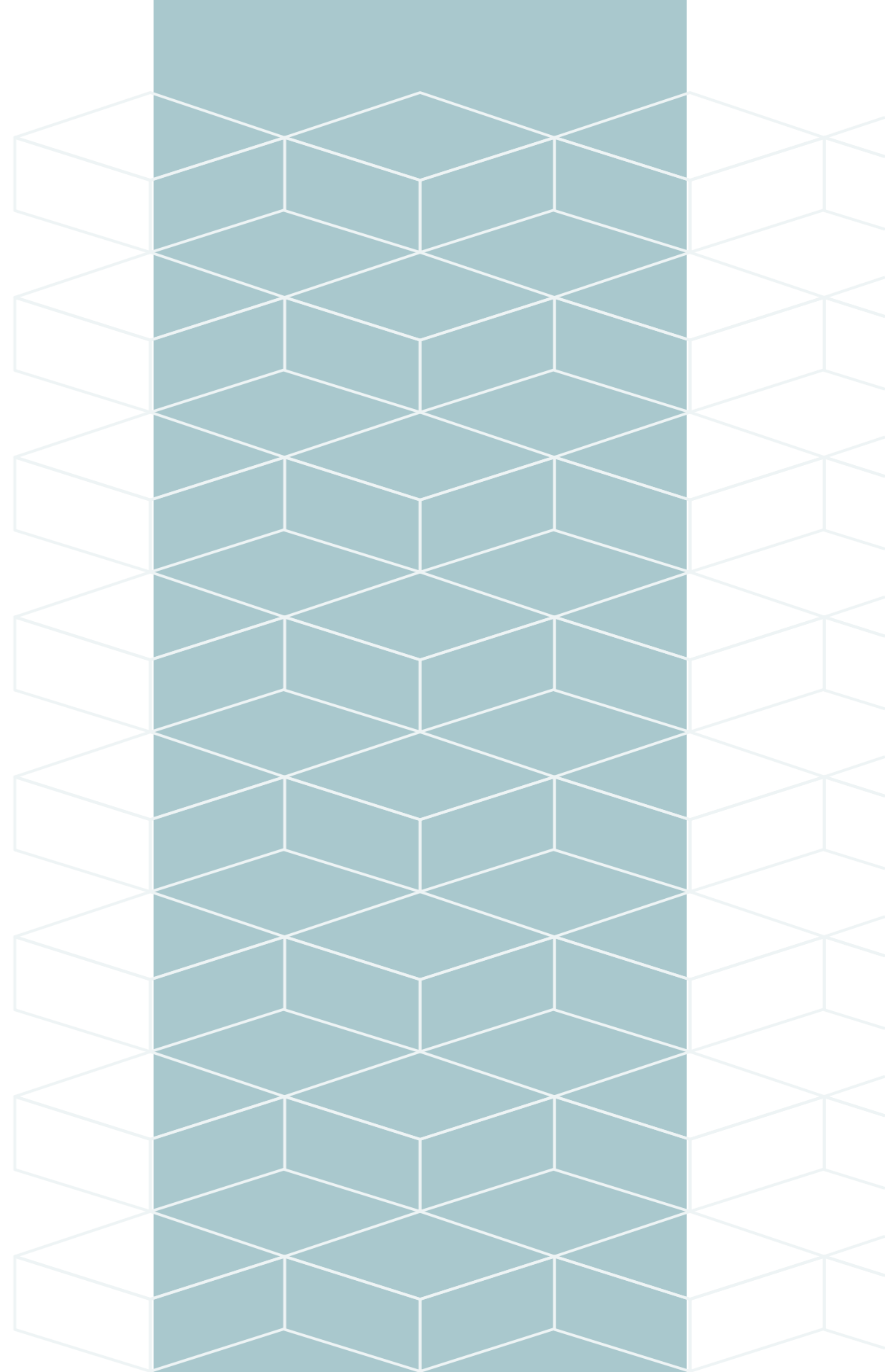
Criteria


- ◆ **The company evaluates and the shareholders determine the proportion of independent supervisory board members**
- ◆ **At least half of the members of the board are independent**
- ◆ **Independent candidates for supervisory board membership make a declaration that they meet the independence criteria**
- ◆ **Prior to the election of the supervisory board, the company evaluates the independence of supervisory board members in accordance with the available information**

Such supervisory board member is considered to be independent, who:

1. Has not been a member of the management board, proctor, commercial attorney or employee of the company, its related companies or the controlling shareholder of the company in the previous three years and does not hold the said position when holding the position of a supervisory board member. A "related company" is a legal entity that has a direct or indirect decisive influence over the company (dominant company), any other company directly or indirectly decisively influenced by such a person, and controlled companies of the company, in which the supervisory board member intends to hold office.
2. Is not a member of the management board or supervisory board, employee, representative or advisor of a competing company.
3. In addition to the remuneration received as a supervisory board member, does not receive or has not received significant additional remuneration from the company, its related companies or from the controlling shareholder of the company.
4. Does not represent the company's controlling shareholders directly or indirectly.
5. During the last three years prior to the approval of the person as a supervisory board member, has not had a significant business relationship with the company, its related companies or the controlling shareholder of the company.
6. During the last three years has not been an internal controller, auditor or employee of the company performing the functions of external auditor for the company, related companies or a company, which is a controlling shareholder of the company.

7. Has not been a member of the company's supervisory board for more than ten years in a row.
8. Does not own more than 10% of the company's shares.
9. Is not a family member of a management board member or shareholders with the specified size of the holding or a family member of the persons to whom the above criteria apply. For the purposes of this paragraph, parents, grandparents, children, grandchildren, adoptee, adopter, sibling, step sibling, spouse are considered family members.





Principles of determining the remuneration for the supervisory board and the management board

Clearly defined remuneration principles for management board and supervisory board members facilitate transparency of the use of funds and effective risk management



The company has introduced a remuneration policy

Criteria

- ◆ **The company has introduced a remuneration policy, which has been developed by the management board, reviewed by the supervisory board and approved by the shareholders' meeting**
- ◆ **Once a year, the supervisory board determines the financial and non-financial goals to be achieved by the management board, their impact on the variable part of remuneration and controls their fulfilment**
- ◆ **No variable part of remuneration is determined for supervisory board members, and no compensation is paid in case of removal or resignation from office**
- ◆ **Once a year, the management board prepares a report on the remuneration granted to each current and former management board and supervisory board member**

The remuneration policy should be in line with the company's strategy and business objectives, the values defined by the company and long-term interests. The remuneration policy should not encourage excessive risk-taking.

The task of the remuneration policy is to ensure:

- determination of remuneration in accordance with professional performance;
- determination of a reasonable amount of remuneration in accordance with the existing economic situation, market practice, the amount of remuneration in the industry, as well as the amount of remuneration of other senior employees of the company;
- prevention of conflicts of interest.

A remuneration policy, which includes clear and comprehensible criteria according to which the performance of the duties of the respective management board or supervisory board member is assessed, provides an opportunity to attract professional specialists, as well as motivates them to act for the achievement of the company's strategic objectives.

In order to develop the remuneration policy for supervisory board members, the supervisory board of the company may establish a separate commission, which includes external experts.

Remuneration in accordance with the remuneration policy approved by the shareholders' meeting should be granted to all management board and supervisory board members.

When determining the remuneration, the scope of duties, responsibilities, as well as the time spent for the performance of duties shall be taken into account.

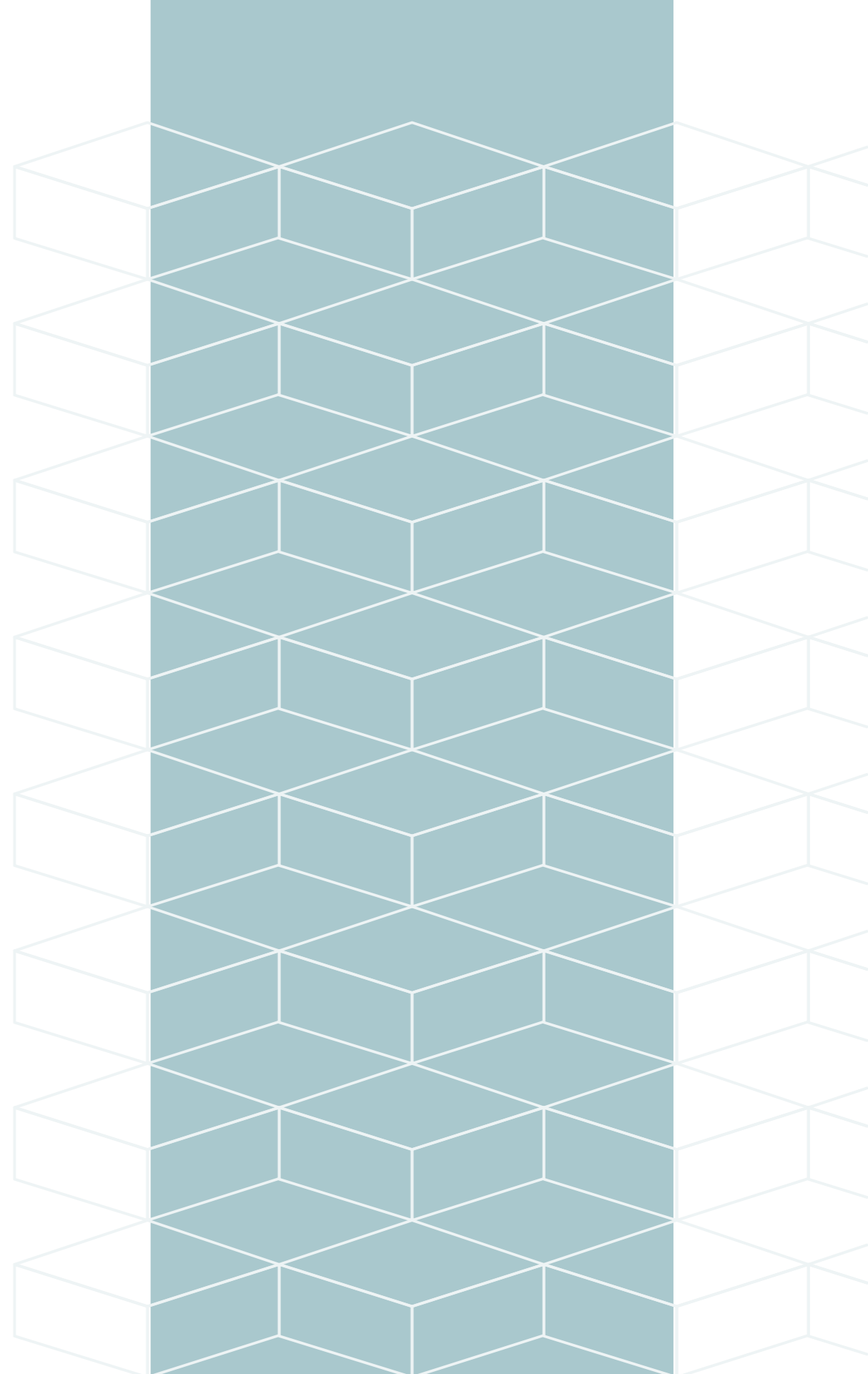
The remuneration policy specifies all the components of the remuneration, the limits of the amount of the variable part, the maximum amount of the total remuneration, the amount of compensation in case of contract termination, including cases of non-payment, as well as the calculation principles.

The components of remuneration are the fixed and variable part of remuneration, as well as any bonuses premiums, incentive schemes for long-term performance, share options, contributions to private pension fund plans, any other payments, including payable severance benefits and compensations.

The payment of compensation or severance pay in cases where the relationship with the member of the company's management board or supervisory board member is terminated due to incompetence, inadequate performance or similar reasons is not considered good corporate practice.

It is recommended that the remuneration policy also include provisions for the reduction, non-payment or recovery of the variable part of the remuneration paid if errors and omissions or improper professional activities have been committed in the work of the person concerned.

The management board is responsible for monitoring both the company's and the general economic situation and, if necessary, developing changes to the remuneration policy. The remuneration policy should be submitted to the shareholders' meeting for approval at least once every four years after the approval of the previous remuneration policy.





Organisation of the supervisory board's work and decision-making

A clear and understandable organisation of the work of the supervisory board and the availability of timely, high-quality and relevant information facilitates the effective performance of the supervisory board's tasks and full involvement of supervisory board members in decision-making



The company's supervisory board work organisation is clear and understandable

Criteria

- ◆ **The supervisory board organises its work in accordance with regulations of the supervisory board and the work calendar**
- ◆ **The supervisory board holds at least one separate supervisory board meeting per year to discuss the company's strategy and its implementation**
- ◆ **The company's budget provides the financing necessary to ensure the operation of the supervisory board**
- ◆ **Once a year the supervisory board conducts a self-assessment of the work of the supervisory board and reviews its results at the supervisory board meeting**
- ◆ **The supervisory board has evaluated the need to set up committees (if a committee has been set up, see principle # 12.1.)**

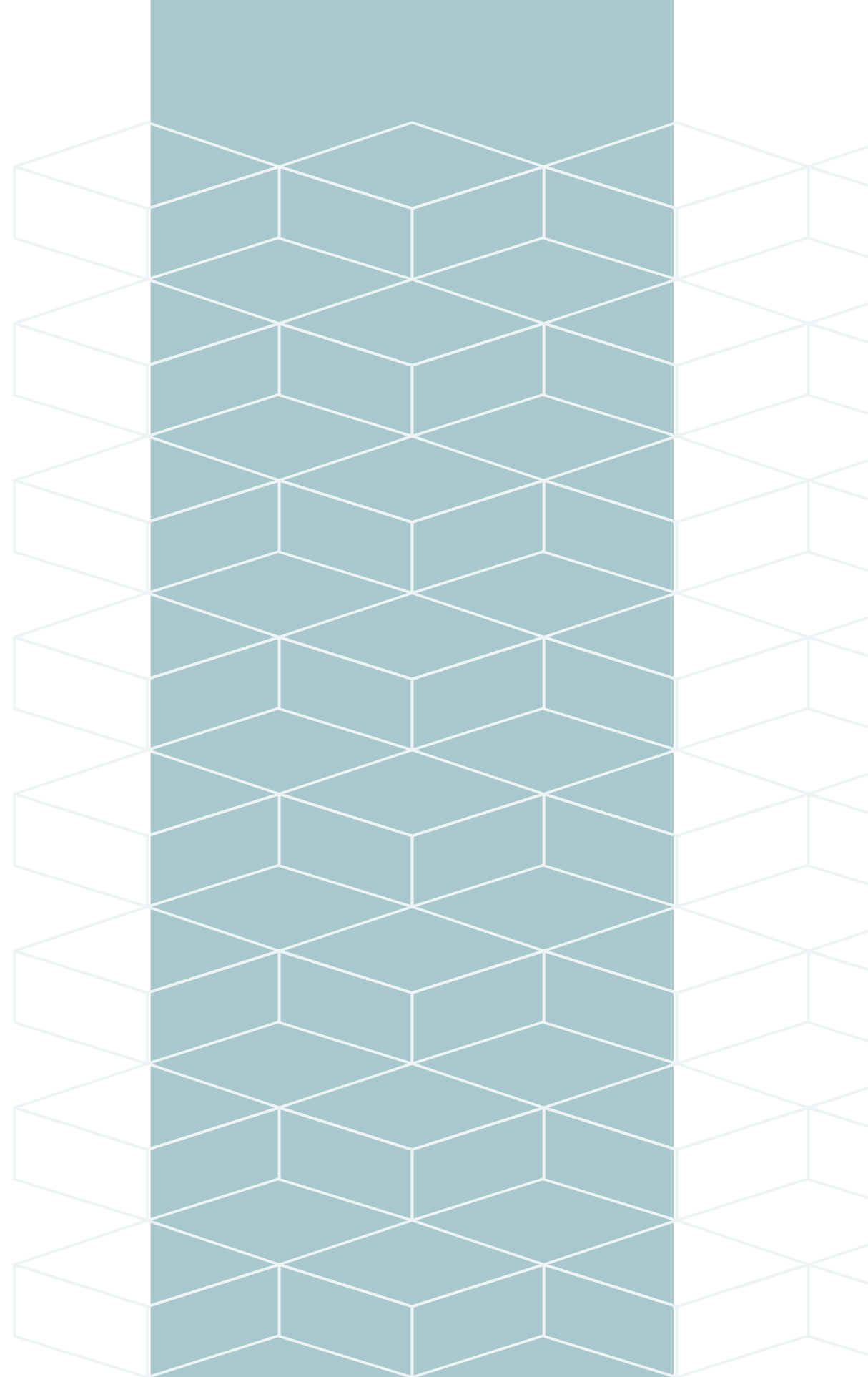
The supervisory board organises its work in accordance with regulations of the supervisory board and the work calendar. The supervisory board approves regulations of the supervisory board. The regulations of the supervisory board determine, among other things, the division of responsibilities between supervisory board members and all necessary procedures with specific deadlines – convening and holding meetings, circulation of information, decision-making, etc., regulate cooperation with the management board and shareholders (also with shareholders' meeting), define emergencies and possible models for action in such situations.

The supervisory board plans a calendar of meetings (work) for at least one reporting year. Supervisory board meetings are held at least once a quarter. The supervisory board holds at least one separate supervisory board meeting per year to discuss the company's strategy.

A supervisory board member participates in all meetings of the supervisory board and supervisory board committees, in which that particular supervisory board member is included. A supervisory board member justifies his/her absence from the supervisory board meeting or supervisory board committee.

The company's budget provides the financing necessary to ensure the operation of the supervisory board, including funding for the training of supervisory board members and expenses related to the performance of duties by a supervisory board member, as well as for payment to independent specialists in accordance with supervisory board decisions and the company's budget. Determining the operational funding of the supervisory board provides a secure, stable and predictable basis for the performance of the supervisory board's functions. The management board provides the technical support necessary for the work of the supervisory board.

Once a year the supervisory board conducts a self-assessment of the work of the supervisory board and reviews its results at the supervisory board meeting. The supervisory board's self-assessment usually includes aspects such as the organisation of the supervisory board's work (work of the supervisory board as a team, work of the chairman of the supervisory board, cooperation with the management board, participation of supervisory board members in meetings, effectiveness of the work of committees), self-assessment about the number of supervisory board members, skills and competencies of supervisory board members, quality of circulation of information, the work of the supervisory board in the implementation of tasks (involvement of the supervisory board in strategy, budget matters, risk management, etc.) and decision-making. The chairman of the supervisory board uses the results of the self-assessment to identify the strengths and weaknesses of the supervisory board, as well as to determine measures for the development of competencies of supervisory board members with the aim of improving the work of the supervisory board.



The supervisory board takes informed and well-balanced decisions

Criteria

- ◆ **The supervisory board has access to information prepared by the management board necessary for decision-making in a timely manner and in sufficient amount**
- ◆ **The supervisory board determines the procedure for the circulation of information, including the right of the supervisory board to request from the management board information, which the supervisory board needs to make decisions**
- ◆ **A supervisory board member analyses the information and prepares proposals for decisions to be adopted by the supervisory board**
- ◆ **When making decisions, the supervisory board assesses the risks, short-term and long-term impact on the company's value, sustainability and responsible development**

The supervisory board has access to information prepared by the management board and necessary for decision-making in a timely manner and in a proper way. The supervisory board may, by decision, request information or opinions from independent experts. Information on agenda items and information prepared by the management board, which is necessary for the supervisory board to make decisions, is available in a timely manner (5-7 working days before the supervisory board meeting). Adequate quality, quantity and timely provision of information ensures balanced and goal-oriented decision-making. A supervisory board member should take active action in the event that the amount of information provided by the management board is insufficient. Decisions important to the company in the cases specified in the articles of association are made by the management board with the consent of the supervisory board, in particular decisions that may significantly affect the company's assets, financial standing and achievement of strategic objectives.

The supervisory board determines the procedure for the circulation of information (which may be included in the regulations of the supervisory board) between the supervisory board members and

between the supervisory board, the management board and the support staff involved in the work of the management board and supervisory board. The supervisory board may request from the management board information, which is necessary for the supervisory board to make decisions. The chairman of the management board shall inform the chairman of the supervisory board immediately about important or extraordinary events that may significantly affect the condition, operations and management of the company. Each member of the management board and supervisory board, as well as other persons, including support staff, involved in the work of the management board and supervisory board respect confidentiality.

A supervisory board member, individually or within a supervisory board committee, analyses the information and prepares proposals for decisions in the supervisory board. When making decisions, the supervisory board assesses the risks, short-term and long-term impact on the company's value, sustainability and responsible development. The decisions of the supervisory board, as well as the rationale for the decision are recorded in the minutes of the supervisory board meeting.



Principle # 12.1

A committee prepares proposals for supervisory board decision making

Criteria

- ◆ **The supervisory board determines the tasks and the procedures for organisation of work of the committee**
- ◆ **The supervisory board establishes a committee of at least 3 supervisory board members with appropriate experience and expertise in the field of work of the committee (remuneration, nomination, audit or other field)⁶**
- ◆ **The committee analyses the information and makes proposals for decisions by the supervisory board, as well as informs the supervisory board of the work of the committee**

The company assesses the need for a supervisory board committee. The establishment of supervisory board committees is necessary for the supervisory board members to focus on a certain range of issues within the supervisory board's competence. The supervisory board determines the tasks and the procedures for organisation of work of the committee. The regulations of the committee specify the role and responsibilities of the committee concerned, its composition and the manner in which it performs its duties.

The committee analyses the information and makes proposals for decisions by the supervisory board, as well as informs the supervisory board of the work of the committee. The committee reports to the supervisory board on the work of the committee after each meeting.

The supervisory board establishes a committee of at least 3 supervisory board members with appropriate experience and expertise in the field of work of the committee (remuneration, nomination, audit or other field). Matters related to remuneration and the selection of supervisory board and management board members may be considered in one

committee or in separate committees. If the law directly applicable to the company determines a different composition and activity of the committee members, this criterion is met if the committee is established in accordance with the requirements of the law (for example, listed companies form the Audit Committee in accordance with the requirements of Chapter II⁷ of the Financial Instrument Market Law).

If the supervisory board sets up an Audit Committee,⁷ it evaluates the effectiveness of the internal control system, including risk management, and forms an opinion on its adequacy, as well as evaluates the performance, costs and independence of the external auditor.

If the supervisory board establishes the Nomination and Remuneration Committee, it develops proposals for determining the remuneration of management board members and other senior executives, as well as develops the principles of selection of the members of the management board.

⁶ If the law directly applicable to the company determines a different composition and activity of the members of the committee, see the description of the principles for evaluation of the fulfilment of this criterion.

⁷ Listed companies form the Audit Committee in accordance with the requirements of Chapter II₁ of the Financial Instruments Market Law. See <https://likumi.lv/ta/id/81995>



Prevention of the conflict of interests

Identification and management of potential conflict of interest situations reduces a company's financial and reputational risks



Management board and supervisory board members are clearly aware of the manifestations of conflicts of interest and are informed of the action to be taken in the event of a conflict of interest

Criteria

- ◆ **The supervisory board defines the indications of a conflict of interest and identifies the conflict of interest prevention and management procedures**
- ◆ **Supervisory board or management board members do not participate in decision-making on matters in which the company's interests conflict with the interests of the supervisory board, management board members or persons related to them**
- ◆ **Persons subject to the conflict of interest obligation participate in training on dealing with conflicts of interest on a regular basis**

The supervisory board coordinates and monitors the necessary procedures to prevent conflicts of interest. In addition, the supervisory board manages conflict of interest situations involving supervisory board and management board members or persons related to them. In turn, the management board manages those conflict of interest situations, in which the company's employees are involved, as well as monitors the company's transactions with former management board and supervisory board members, as well as persons related to management board and supervisory board members.

In order to manage conflict of interest situations, the management board and the supervisory board should receive timely and complete information on cases when any of the management board and supervisory board members has a conflict of interest. A management board and supervisory board

member informs immediately about the possible or existing conflict of interests in relation to the chairman of the supervisory board and the chairman of the management board and provides all available information on the situation. If a conflict of interest situation concerns the chairman of the supervisory board, he/she shall inform other supervisory board members and the chairman of the management board of the situation.

To prevent accidental conflicts of interest, the management board is encouraged to identify individuals whose individual activities may pose a risk of conflict of interest (for example, close relatives and family members of management board or supervisory board members, former management board members) and to monitor the company's transactions with them.



Shareholders' meeting

Effective involvement of shareholders in decision-making helps to achieve the company's financial and non-financial goals, as well as ensures the company's sustainable operation





Principle # 14

The company provides shareholders with timely information on conduction of shareholders' meetings providing all the information necessary for decision-making

Criteria

- ◆ **The company informs shareholders in a timely manner about the agenda, course and voting procedures of the shareholders' meeting, as well as about any related changes**
- ◆ **Simultaneously with the announcement of the meeting, the company provides an opportunity for the shareholders to get acquainted with the draft decisions, which are initially planned to be voted on at the meeting. The company informs the shareholders immediately of any additional draft decisions submitted**
- ◆ **The company provides shareholders with an opportunity to submit questions on the matters included in the agenda and draft decisions before the shareholders' meeting**
- ◆ **The draft decisions and the documents attached to them provide detailed, clear and complete information on the matter under consideration**

The company promotes effective shareholder involvement in decision-making and a participation in shareholders' meetings

Criteria

- ◆ **The shareholders' meeting is convened and held at a place and time easily accessible to the shareholders**
- ◆ **The company provides shareholders with the opportunity to participate in the shareholders' meeting remotely**
- ◆ **The company determines the appropriate duration of the shareholders' meeting and provides the shareholders with the opportunity to express their opinions during the meeting and obtain the information necessary for decision-making**
- ◆ **The company announces a new shareholders' meeting if the matters included on the agenda of the meeting cannot be considered at the expected time**
- ◆ **The company invites management board and supervisory board members, candidates for supervisory board members, auditors and internal auditors, as well as other persons to participate in the shareholders' meeting in accordance with the matters to be considered at the meeting**
- ◆ **The shareholders' meeting makes decisions in accordance with the previously announced draft decision**

The company develops and discusses dividend policy with shareholders

Criteria

- ◆ **The company has developed and published an up-to-date dividend policy**
- ◆ **The dividend policy has been discussed with the shareholders during the shareholders' meeting**

At the shareholders' meeting, shareholders exercise their right to receive information, participate in discussions and make decisions. At the same time, a shareholders' meeting is an opportunity for the company to establish a dialogue with shareholders on issues important for the company's development, therefore it is in the company's interest to ensure the widest possible participation of shareholders in shareholders' meetings. The time and venue of the shareholders' meeting, the amount of information available to shareholders and the company's willingness to involve shareholders in the company's corporate governance play an important role in achieving this goal.

Draft decisions of the shareholders' meeting must provide detailed, clear and complete information on the matter under consideration. In addition, draft decisions should be accompanied by other information that may be useful for a full evaluation of the item on the agenda of the shareholders' meeting (for example, reports, opinions, explanations and other documents).

The draft decision on election of the supervisory board provides the shareholders with detailed information on the nominated supervisory board members, including a description of the candidate's professional experience, consent to hold the position of a supervisory board member, evaluation by the supervisory board or its nomination

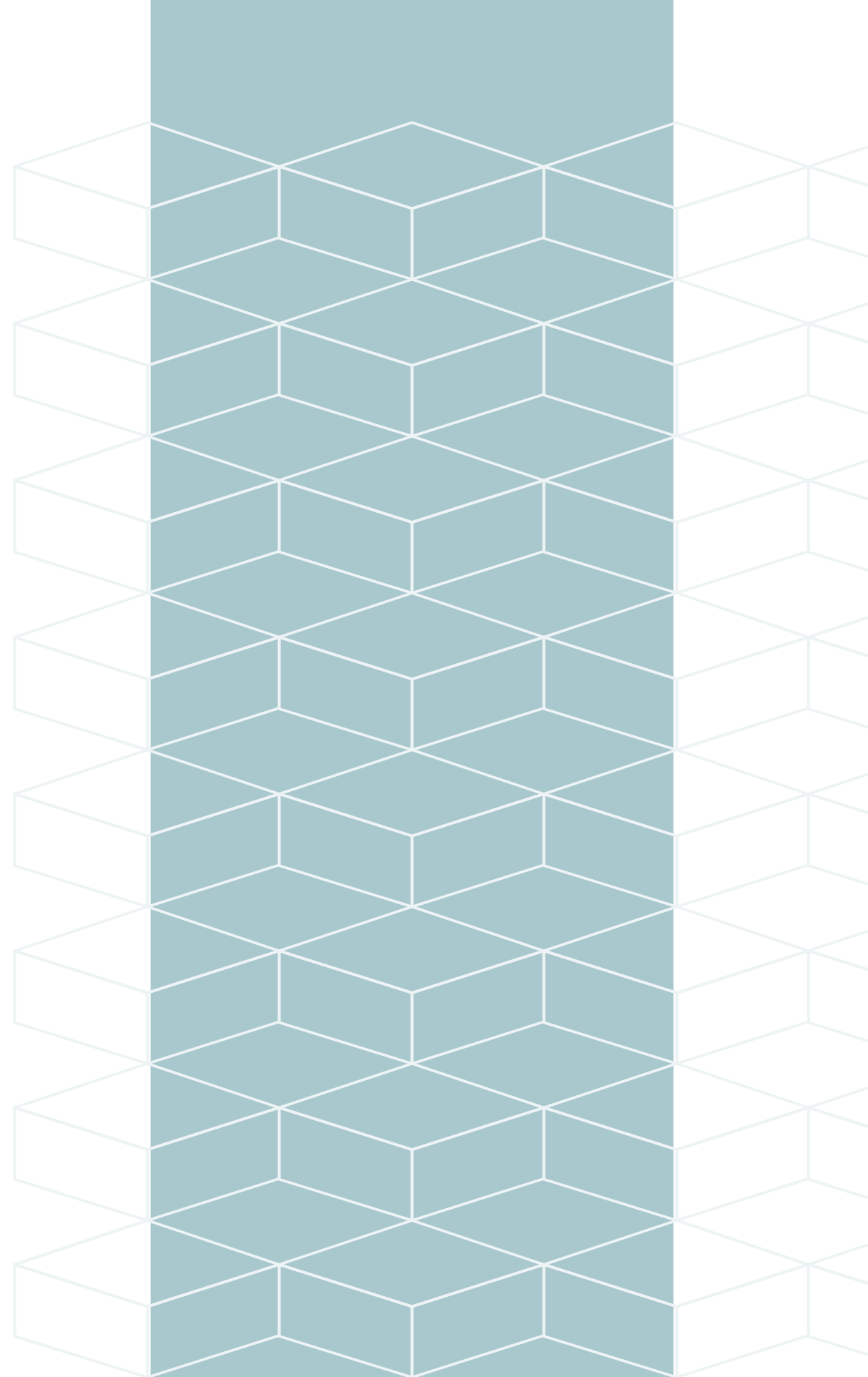
committee of the nominated supervisory board members. If the selection of candidates for the supervisory board members is entrusted to the nomination committee of the supervisory board, the nomination committee informs the shareholders about the selected candidates for the position of a supervisory board member in a timely manner before the shareholders' meeting. If the agenda of the shareholders' meeting includes the matter of election of the audit committee, then the draft decision provides an equivalent amount of information on the candidates for the position of an audit committee member, who are not candidates of supervisory board members, as the amount of information on candidates for the position of a supervisory board member.

The company is obliged to plan shareholders' meetings with the aim of ensuring the largest possible number of shareholders participating in the meeting. Changing the venue and time of the meeting shortly before the meeting may make it difficult or even impossible for shareholders to attend the meeting.

In cases where shareholders participate in the meeting remotely, the company should take the necessary technical measures to enable shareholders to exercise all the statutory rights of shareholders, including the right to speak, ask questions and participate in discussions, as well as the right to vote.

The law guarantees shareholders the right to freely discuss the matters included on the agenda and, if necessary, to amend the initially announced draft decisions during the shareholders' meeting. However, amendment of the originally announced draft decision during the meeting poses a risk that the shareholders' meeting makes poorly evaluated and unprepared decisions, which endanger the company's stability and long-term growth. For this reason, shareholders need offer their proposals for draft decisions in good time before the shareholders' meeting and give the opportunity to evaluate them to the company's supervisory board and other shareholders. The shareholders' right to formulate and adopt during the meeting a decision that differs from the previously announced draft decisions is used only as an extraordinary solution rather than a normal corporate practice. The company provides the necessary technical support to shareholders by formulating their draft decisions before the shareholders' meeting.

The dividend policy sets out a strategy for dealing with the company's profits, taking into account the company's short-term and long-term objectives, financial standing, the industry in which the company operates, the market situation, as well as investment plans. The decision not to pay dividends can also be a strategic choice for the company, which should be duly justified in the dividend policy. The dividend policy should be discussed with the shareholders during the shareholders' meeting, thus ensuring that as many shareholders as possible get acquainted with it and giving the shareholders an opportunity to speak out.





Transparency of company operations

Transparency of company operations is the basis for effective investor relations and successful communication with shareholders and other stakeholders





Principle # 17

The company informs shareholders and other stakeholders on a regular basis and in a timely manner of business operations, financial results, management and other relevant issues of the company

Criteria

- ◆ **The company discloses complete, accurate, objective, up-to-date and true information in a timely manner**
- ◆ **The company discloses information to all shareholders at the same time and to the same extent**
- ◆ **The company discloses information about the company's management, strategy or lines of business on the website and publishes financial statements as well as other information in accordance with Annex No. 1**
- ◆ **The company provides information both in Latvian and in at least one other language that is understandable to most of the company's foreign shareholders and other stakeholders**

By disclosing information, the company builds its public image and reputation among shareholders and employees, as well as potential investors, customers and partners. Therefore, it is important for a company to disclose information that is relevant to investors, shareholders and other stakeholders and that may have an impact on the company's financial performance in the short or long term. In addition, the company should ensure that the information disclosed is clear, complete and objectively reflects the situation in the company.

Incomplete disclosure or non-disclosure of information can also adversely affect the company's image and reputation. It is therefore important that the company does not hide negative news, as negative

information about the company and its activities is also considered to be important information for stakeholders.

The company discloses the information within the time limits prescribed by law or immediately after the occurrence of an event requiring the disclosure of the information. If, for objective reasons, the company is unable to ensure disclosure of information within the statutory timeframe, the company should without delay inform about the occurrence of such circumstances and the reasons why disclosure will not be possible within the statutory timeframe and when the disclosure will be provided.

The company needs to understand what information it has. Particular attention should be paid to information to be published (its identification and disclosure procedures) and confidential information (its identification, storage and protection). It is recommended that the company establish and potentially adjust the procedure for circulation of information, as well as the procedure for internal and external communication. It is useful to identify specific persons who answer questions from investors and shareholders on behalf of the company, as well as contact the mass media. This helps to ensure a controlled and coordinated circulation of information and communication.

Taking into account that information about the company and its activities may be relevant not only to persons in Latvia, but also to persons abroad, it should be provided not only in Latvian. The company should also disclose information in at least one other language that is understandable to most of the company's foreign shareholders and other stakeholders (such as customers, business partners or potential investors). English, which is widely used in the business environment, can serve this purpose well, but a company can be guided in its choice of communication language by other circumstances and needs, such as the specifics of its work and the needs of the market.

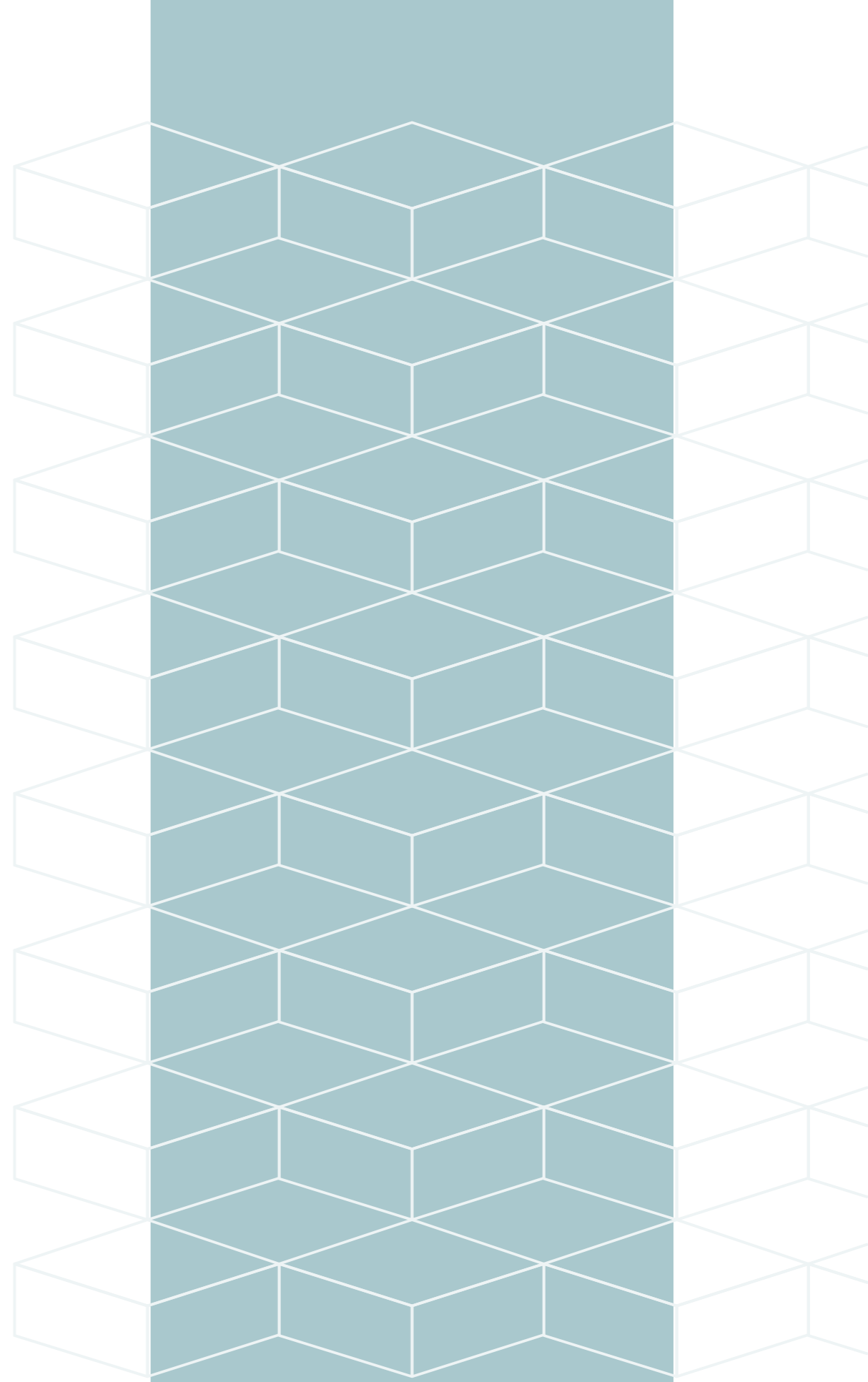
One of the traditional communication channels is the company website. It should contain information about the company, its activities, strategy and objectives, the company's shareholders and beneficial owners, as well as management board and supervisory board members in an easy-to-find way (naming the website section appropriately). The company website should also include financial statements and other information that is relevant to shareholders (for example, about planned shareholders' meetings or decisions made at previous shareholders' meetings) or investors (for example, various presentations to investors). The main company policies should also be published on the website. A detailed list of information to be published on the company website is attached in Annex No. 1 to this Code.

The Annex 1 No. 1 should be filled in, noting the information that is published on the company website.

Traditional communication channels, such as shareholders' meetings, financial statements and the company website, can be used to communicate with shareholders and investors. However, it is also important to use the latest trends and industry best practices, which make communication easily accessible to shareholders and investors and allow the widest possible range of stakeholders to be addressed at the same time. Examples of such communication channels are social networks and video conferencing (webinars). When using different communication channels, it should be borne in mind that the information in all these channels must be up-to-date. If necessary, in addition to shareholders' meetings, the company may also organise face-to-face meetings for shareholders and investors with the company management. It is necessary to plan communication activities in time, it is also important to inform shareholders and investors about the planned communication activities in time. A useful tool for informing shareholders, investors and other stakeholders is the financial calendar, which indicates the planned dates of publication of the financial statements.

Particular attention should be paid to the circulation of information between the company and third parties in the process of changing shareholders, if a potential shareholder acquires a significant part of the company's shares and therefore wants to conduct research and evaluation of the company before the acquisition. In this process, the company may provide confidential information (including previously undisclosed inside information) to a person who wishes to become a shareholder in the company. It would be advisable to do so only after the supervisory board has assessed the management board's report on the risks that might arise from disclosing the requested information and has supported the provision of such information.

The management board makes every effort to inform the recipient of confidential information, including inside information, that the information may be used by the person only for his or her decision regarding the acquisition transaction and that the information received may not be disclosed to third parties. The management board of a company whose financial instruments are traded on trading platforms must inform the recipient of confidential, including inside, information, about the prohibitions on the use of inside information specified in regulatory enactments. The management board is obliged to document the process of providing information (if necessary in a particular case, to compile a list of holders of inside information including the recipients of the information), the content and scope of the provided information, as well as the time when it was provided. Before a potential shareholder enters into a share purchase transaction, the company which is and whose investors are subject to the prohibition on the use of inside information in carrying out transactions publicly discloses the inside information provided to the potential shareholder.



Information to be published on the company website

Company

	Information about the company – history of its establishment and operation, registration data, address, description of the industry, main types of business, place of the company in the group structure (if applicable)
	Information about the company's strategic objectives
	Articles of association of the company
	Information on the corporate governance structure of the company (interaction between shareholders' meeting, supervisory board, its committees, management board, auditors, internal auditors, audit committee, etc.)
	Company Code of Internal Culture and Ethics
	Key company policies (Information Disclosure, Circulation and Privacy Policy, Conflict of Interest Prevention Policy, Risk Management Policy, etc.) in accordance with Annex No. 2

Shareholders and beneficial owners

	Information on the company's shareholders holding at least 5% of the company's share capital (indicating the date on which this information was prepared)
	Information on the beneficial owners of the company (indicating the date when this information was prepared)
	Number of company's issued, paid-up and voting shares, bonds or other financial instruments

Supervisory board and management board

Regulations of the management board and the supervisory board or another similar document

Information on each supervisory board and management board member:

- term of office;
- position and area of responsibility (if applicable/assigned);
- professional work experience and education;
- up-to-date information on positions in other companies;
- up-to-date information on the company's shares;
- statistics on attendance of supervisory board meetings.⁸

Information on independent supervisory board members:

- which supervisory board members are considered independent;
- according to what criteria the independence of a supervisory board member is determined;
- annual evaluation of dependence of supervisory board members

Remuneration policy of the management board and the supervisory board and remuneration report

Information on the selection (nomination) process of the management board and the supervisory board

Information on supervisory board committees and the audit committee:

- committee regulations;
- information on committee members.

⁸ To be indicated only about supervisory board members

Financial and non-financial reports and information

Company's financial statements and reports for at least 3 last financial years:

- annual reports (including consolidated reports, if any) and auditor's reports (if any);
- interim reports and quarterly reports.

The company's non-financial reports (on the company's environmental impact, social and employee aspects, respect for human rights and anti-corruption measures, including the sustainability report) for at least 3 last financial years

Corporate governance reports

Company's financial calendar or other calendar of significant and planned communication events

Information for shareholders and investors

Information on the planned shareholders' meetings:

- notices on convention of shareholders' meetings;
- draft decisions.

Information on held shareholders' meetings:

- information on the decisions adopted at the shareholders' meetings

Company's dividend policy and information on dividends paid (on at least 10 last years of the company's operations)

Information on transactions of related parties

Announcements published by the company and relevant information for investors, including presentations for investors, videos of events for investors, forecasts, if any, etc.

Contacts of the investor relations person (if any)

Key company policies

Key policies included in corporate governance principles or criteria:

Risk Management Policy

For identification, assessment, management and control of potentially negative events or situations to provide assurance regarding the achievement of the company's strategic objectives.

Remuneration Policy

For the purpose of determining remuneration in accordance with professional performance, as well as proportionality and compliance with the existing economic situation, market practices, the amount of remuneration in the industry, as well as the amount of remuneration of the company's employees.

Dividend Policy

For determining the strategy of dealing with the company's profits, taking into account the company's short-term and long-term objectives, financial and market situation, industry, as well as investment plans.

Other key policies mentioned in the corporate governance code:

Internal Audit Policy

For evaluation and improvement of the effectiveness of internal control, risk management and company governance processes.

Conflict of Interest Prevention Policy

For identification, management and prevention of situations where personal and professional interests or two opposing professional interests collide.

Information Disclosure, Circulation and Privacy Policy

For categorisation of information and management of its circulation to ensure transparency of company's operations.

Whistleblowing Policy

For timely identification and prevention of risks before the company's reputation and shareholders have been harmed by creating an environment in which employees can safely report detected violations.

Fair Competition Implementation Policy

For ensuring free and fair competition in company's operation and preventing violations of regulatory enactments on competition.

Diversity Policy

For promoting an inclusive work environment, equal treatment and diversity in the company.

Sustainability Policy

For ensuring the company's value and long-term growth through the implementation of financial, environmental and social responsibility.

Essential compliance policies:

Business Partner Due Diligence Policy

For prevention of risks to company's reputation and security risks when establishing and continuing relationships with business partners by analysing information and drawing conclusions based on a risk-based approach.

Sanctions Risk Management Policy

For prevention of violations and circumvention of sanctions imposed by the United Nations, the European Union, the Republic of Latvia and, when appropriate, also Member States of the North Atlantic Treaty Organization and other relevant countries, as well as for prevention of attempts to circumvent those sanctions.

Personal Data Processing Policy

For compliance with personal data protection requirements when establishing data processing procedures, including data collection, organisation, storing, viewing, use, disclose, erasure, transmission, distribution or making them available otherwise.