



# Corporate Governance Report 2019

Latvenergo AS

Reg. No. 40003032949

# Report Preparation

## Legal basis

The Corporate Governance Report 2019 of Latvenergo AS is prepared according to the requirements of the [Law on the Financial Instruments Market](#), Article 56.2, and is based on the “[Corporate Governance Principles and Guidelines](#)” issued by [Nasdaq Riga AS](#) in 2010. The principles have been prepared taking into account the recommendations of the EU and the OECD on the governance of capital companies.

A more detailed description of corporate governance aspects is included in the Corporate Governance section of the Latvenergo Group [Sustainability and Annual Report 2019](#). The report is available on the website [www.latvenergo.lv](http://www.latvenergo.lv).

## Symbols

- Full compliance with the principle
- Partial compliance with the principle
- Principle is not applicable to company operations

# Report of the Management Board

## On compliance with the principles of corporate governance

The Management Board of Latvenergo AS has assessed the compliance of the company with the corporate governance principles issued by [Nasdaq Riga AS](#) (see [Annex 3](#)). Upon evaluating both the governance system of the company and its compliance with the principles in 2019, the Management Board of Latvenergo AS confirms that the company complies in all material aspects with all of the applicable principles of corporate governance apart from the principles for independence of supervisory board members (Principles 7.5.–7.8.), which are partially complied with.

The Latvenergo AS Corporate Governance Report 2019 was approved by the Management Board on 7 April 2020 in Riga.

The Management Board of Latvenergo AS

Āris Žīgurs

Chairman of the Management Board

Guntars Baļčūns

Member of the Management Board

Uldis Bariss

Member of the Management Board

Kaspars Cikmačs

Member of the Management Board

# Contents

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- 5 Shareholder Meeting
- 7 Management Board
- 9 Supervisory Board
- 11 Disclosure of Information
- 12 Internal Control and Risk Management
- 13 Remuneration Policy
- 15 Contact Information
- 16 Abbreviations
- 17 Annexes
  - 17 Annex 1 – Regulations on Operation of State Capital Companies
  - 18 Annex 2 – Latvenergo Group Structure
  - 19 Annex 3 – Principles of Corporate Governance by Nasdaq Riga AS

# Shareholder Meeting I



## Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

## 1. Ensuring shareholder rights and participation at shareholder meetings\*

- 1.1. Equal rights for all shareholders
- 1.2. Policy on profit distribution
- 1.3. Protection of the shareholder interests
- 1.4. Availability of information about the Group on a regular and timely basis
- 1.5. Timely convening notice for a shareholder meeting
- 1.6. Timely information on the course, venue, voting and agenda of the meeting
- 1.7. Timely specification of the issues to be dealt with at the meeting
- 1.8. Right to nominate shareholder representatives for the supervisory board
- 1.9. Availability of information about supervisory board and audit committee member candidates
- 1.10. Shareholders have the right to consult among themselves during the meeting
- 1.11. Regulations on the course of a shareholder meeting
- 1.12. Possibility to ask questions during the meeting
- 1.13. Reflection of the meeting in the minutes

- Full compliance with the principle
- Partial compliance with the principle
- Principle is not applicable to company operations

## Facts

- All the shares of Latvenergo AS are held by the state and their holder is the [Ministry of Economics of the Republic of Latvia](#) (MoE)
- The shareholder's obligations are performed by the Secretary of State of the MoE or a person authorised by him/her
- The proceedings at a Shareholder Meeting and the distribution of profit are defined by the [Law on Governance of Capital Shares of a Public Person and Capital Companies](#)
- 6 Shareholder Meetings took place in 2019
- Major resolutions of the Shareholder Meetings in 2019:
  - approval of the Annual Report 2018 and payment of dividends in the amount of EUR 132.9 million
  - approval of the external auditor
  - election of a new Supervisory Board
  - issuance of new bonds of up to EUR 200 million in 2020–2021
- Resolutions of the Shareholder Meetings are available on the [Latvenergo website](#)

More information in the Corporate Governance section of the [Sustainability and Annual Report 2019](#)

\*According to the corporate governance principles by Nasdaq Riga AS (see [Annex 3](#))

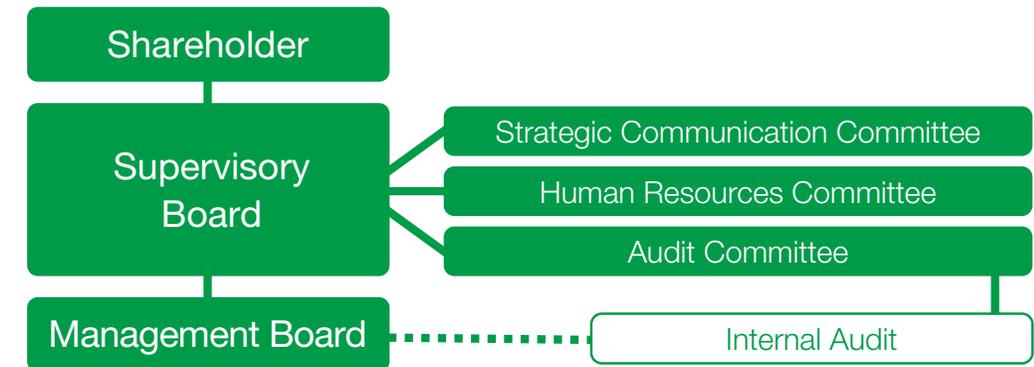
# Shareholder Meeting II

## 2. Participation of members and member candidates of the governance bodies at shareholder meetings\*

- 2.1. Participation of members of governance bodies and the auditor in the shareholder meetings
- 2.2. Participation of official candidates in the shareholder meetings
- 2.3. Information on reasons of absence of officials and official candidates

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## Governance structure of Latvenergo AS



See [Annex 2](#) for the organisational structure of Latvenergo Group

More information in the Corporate Governance section of the [Sustainability and Annual Report 2019](#)

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Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate Governance by Nasdaq Riga AS

# Management Board I

## 3. Obligations and responsibilities of the management board\*

- 3.1 Fulfilment of obligations and responsibility for implementation of objectives/strategy and results
- 3.2 Stipulation of powers in the management board regulations, which is a publicly available document
- 3.3 Responsibility for compliance with laws and regulations, risk management and financial operations
- 3.4 Performance of the management board tasks
- 3.5 Assurance on risk control procedures, risk management efficiency
- 3.6 Approval of the supervisory board on objectives and strategy

## 4. Management board composition and requirements for board members\*

- 4.1 Specific skills, education and work experience required for each of the management board members
- 4.2 Information availability about each of the management board members on the website
- 4.3 Availability of timely and precise information on the Group's operations to each of the management board members
- 4.4 Term limit for members of the management board

- Full compliance with the principle
- Partial compliance with the principle
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## Facts

- The Management Board consists of 5 board members who jointly manage the capital company and represent its interests. In 2019 and as of this report's publication, the Management Board consists of 4 board members
- All board members are independent in their operations and they do not hold shares of the capital of cooperation partners or related companies
- Board members are elected for 5 years
- Board members are elected based on their professionalism, competences and experience and taking into account the expected area of responsibility
- CVs of the board members are available on the [Latvenergo website](#)
- 68 meetings of the Management Board took place in 2019 and the attendance rate was 96%
- Regulations of the Management Board are available on the [Latvenergo website](#)

More information in the Corporate Governance section of the [Sustainability and Annual Report 2019](#)

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Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

# Management Board II

## 5. Identification of conflicts of interest in the work of management board members\*

- 5.1. Prevention of conflicts of interest in the operations of the management board members
- 5.2. Notification of possible occurrence of a conflict of interest
- 5.3. Abstaining from decision-making in case a conflict of interest occurs

## Facts

- Board members are public officials and submit annual declarations of public officials
- In addition, board members submit annual declarations of conflicts of interest of the Group

### The Management Board of Latvenergo AS



Uldis Bariss  
Member of the  
Management Board

Guntars Baļčūns  
Member of the  
Management Board

Āris Žīgurs  
Chairman of the  
Management Board

Kaspars Cikmačs  
Member of the  
Management Board

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Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

# Supervisory Board I

## 6. Obligations and responsibilities of the supervisory board\*

- 6.1. Functions of the supervisory board set forth in the regulations of the supervisory board, which is a publicly available document
- 6.2. Supervision of achievement of the objectives set by the Issuer
- 6.3. Responsibility for obtaining information and discussing the most important issues connected with the Issuer's business
- 6.4. Participation in supervisory board meetings

## 7. Supervisory board composition and requirements for board members\*

- 7.1. Information availability about each of the supervisory board members on the website
- 7.2. Timely, beneficial and successful fulfilment of duties
- 7.3. Appropriate qualifications of the supervisory board members
- 7.4. Independent perspective in decision-making and compliance with ethical principles
- 7.5. Compliance with independence criteria for the supervisory board members
- 7.6. Proportion of independent supervisory board members
- 7.7. Interpretation of independence criteria for the supervisory board members
- 7.8. Reporting on which supervisory board members are to be considered independent

- Full compliance with the principle
- Partial compliance with the principle
- Principle is not applicable to company operations

## Facts

- The Supervisory Board represents the interests of the Shareholder between Shareholder Meetings and supervises the work of the Management Board
- The Articles of Association of Latvenergo AS provide that the Supervisory Board shall consist of 5 members who are elected for 5 years
- At the end of 2019 and as of this report's publication, the Supervisory Board is composed of 3 members who were appointed by the Shareholder Meeting until the new members of the Supervisory Board are elected in a competition. These 3 members are also employees of the Shareholder. Thus, from 9 October 2019 until the competition-based election of the new Supervisory Board, none of the members comply with all the independence criteria; there is partial compliance with Principles 7.5.–7.8.
- 12 meetings of the Supervisory Board took place in 2019 and the attendance rate was 100%
- In 2019, in addition to their main duties, the Supervisory Board also approved the revised versions of the Group's Corporate Governance Policy, the Internal Audit Policy and the Risk Management Policy
- Regulations of the Supervisory Board and CVs of the board members are available on the [Latvenergo website](#)

More information in the Corporate Governance section of the [Sustainability and Annual Report 2019](#)

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Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

# Supervisory Board II

## 8. Identification of conflicts of interest in the work of supervisory board members\*

- 8.1. Prevention of conflicts of interest in supervisory board members' work
- 8.2. Reporting on a potential conflict of interest
- 8.3. Avoidance of participation in taking decisions that might be a cause of a conflict of interest

## Facts

- Members of the Supervisory Board are public officials and submit annual declarations of public officials

### The Supervisory Board of Latvenergo AS



Edmunds Valantis  
Chairman of the  
Supervisory Board

Edijs Šaicāns  
Deputy Chairman of the  
Supervisory Board

Irēna Bērziņa  
Member of the  
Supervisory Board

- Full compliance with the principle
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More information in the Corporate Governance section of the [Sustainability and Annual Report 2019](#)

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Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

# Disclosure of Information

## 9. Business transparency\*

- 9.1. Clear and accountable corporate governance structure
- 9.2. Disclosure of verified, precise and unambiguous information
- 9.3. Appointed person to contact the press and other mass media, the exchange and investors
- 9.4. Timely and compliant preparation and disclosure of financial and annual reports

## 10. Investor relations\*

- 10.1. Timely and accurate disclosure of information and provision of feedback
- 10.2. Availability of uniform and clear information to all investors
- 10.3. Several channels of information provided to investors
- 10.4. Information availability on the website
- 10.5. Information that should be disclosed by the Issuer is available on the website

- Full compliance with the principle
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## Facts

- Consolidated financial statements are prepared in compliance with [IFRS](#)
- The Sustainability Report is prepared in compliance with the [GRI](#) guidelines and is audited externally
- In June 2019, Latvenergo AS received the Platinum (highest) evaluation of the [Sustainability Index](#) of Latvian companies along with the highest score so far – 97.3%
- For the 11th year in a row, Latvenergo AS received the award for the most valuable company in the [TOP 101 Most Valuable Companies of Latvia](#) and was declared the most valuable power utility in the Baltics
- Latvenergo Group and its subsidiaries publish quarterly interim financial statements according to the [Financial Calendar](#)
- The financial results and topical matters of Latvenergo Group are regularly presented at [webinars](#)

More information in the Corporate Governance section of the [Sustainability and Annual Report 2019](#)

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Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

# Internal Control and Risk Management

## 11. Principles of the internal and external control\*

- 11.1. Continuous control of operations and improvement of internal control procedures
- 11.2. Identification and supervision of business risks
- 11.3. Provision of information required for the fulfilment of the tasks of the auditor
- 11.4. Provision of independence of the internal auditor
- 11.5. Execution of independent internal control
- 11.6. Different terms of office for the internal auditor and the management board

## 12. Audit committee\*

- 12.1. Functions and responsibilities are specified in the regulations of the audit committee
- 12.2. Ensuring efficient functioning of the audit committee
- 12.3. Availability of information about the accounting principles
- 12.4. Provision of information required for the fulfilment of the tasks of the audit committee
- 12.5. The audit committee is accountable to the shareholder meeting

- Full compliance with the principle
- Partial compliance with the principle
- Principle is not applicable to company operations

## Facts

- The internal control and risk management system has been developed according to the [COSO Guidelines](#) and is continuously improved
- At Latvenergo Group, risk management is integrated with both the process of development and implementation of the strategy and daily operations
- The Internal Audit operates in compliance with the [IIA standards](#)
- In compliance with the requirements of the [FIML](#), the Audit Committee reports to the Supervisory Board, which reports to the Shareholder Meeting
- The Articles of Association of Latvenergo AS provide that the [Audit Committee](#) shall consist of 5 members and at least one of them shall also be a member of the Supervisory Board. At the end of 2019 and as of this report's publication, the Audit Committee is composed of 4 members and one of them is also a member of the Supervisory Board
- 4 meetings of the Audit Committee took place in 2019 and the attendance rate was 89%
- In 2019, in addition to recurring tasks, the Audit Committee:
  - assessed the amendments to the Group's policies on internal audit and risk management
  - oversaw execution of the external assessment of the Internal Audit Department of Latvenergo AS and considered its results
  - took part in assessing the maturation of the Group's risk
- The Audit Committee Report of 2019 is available in the [Sustainability and Annual Report](#)

More information in the Corporate Governance section of the [Sustainability and Annual Report 2019](#)

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Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

# Remuneration Policy I

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

- 13.1. The issuer has developed a remuneration policy
- 13.2. Distinction of the governance bodies in the remuneration policy preparation process
- 13.3. The variable part of remuneration is linked to performance
- 13.4. Set limits on the variable components
- 13.5. Limited term of the right to use shares
- 13.6. Possibility to reclaim the variable part of remuneration in case it was awarded unreasonably
- 13.7. If remuneration schemes that include shares as remuneration are implemented, potential benefits and losses are assessed
- 13.8. Plan to ensure the amount of shares to be granted in compliance with the approved remuneration scheme
- 13.9. Compliance with rules regarding distribution of share options provided by the exchange
- 13.10. Set compensation principles in case of contract termination with management and supervisory board members
- 13.11. Set maximum amount of termination payments in case of termination of employment

- Full compliance with the principle
- Partial compliance with the principle
- Principle is not applicable to company operations

## Facts

- The Remuneration Policy of the Management Board and the Supervisory Board is stipulated by the legislation of the Republic of Latvia
- The amount of remuneration is defined on the basis of evaluation of the indices of the capital company, in particular, the turnover, the assets and the number of employees
- Both the maximum amount of remuneration and the bonuses are regulated; the bonus for members of the Supervisory Board may not exceed their monthly salary, while for members of the Management Board it may not exceed double their monthly salary. The variable part is approved after evaluation of the annual results
- Additional information on the Remuneration Policy for the Management Board and the Supervisory Board is available on the [Latvenergo website](#)

More information in the Corporate Governance section of the [Sustainability and Annual Report 2019](#)

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Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

# Remuneration Policy II

## 14. Remuneration report\*

- 14.1. Disclosed information on the remuneration policy for governance bodies
- 14.2. Disclosed information on the remuneration policy's application and the remuneration of governance bodies
- 14.3. Avoiding any overlapping of disclosed information
- 14.4. If remuneration information is commercially sensitive and non-disclosed, reasons for the omission are given
- 14.5. Disclosed information on remuneration and other benefits received by each of the management and supervisory board members
- 14.6. Disclosed information with regard to shares and/or share options
- 14.7. Disclosed information on contributions to private pension funds
- 14.8. Remuneration schemes involving awarding shares and/or share options are approved by the shareholder meeting

- Full compliance with the principle
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More information in the Corporate Governance section of the [Sustainability and Annual Report 2019](#)

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Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

## Contact Information



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# Abbreviations

## **COSO**

Committee of Sponsoring Organizations of the Treadway Commission

## **EU**

European Union

## **FIML**

Law on the Financial Instruments Market

## **GRI**

Global Reporting Initiative

## **IFRS**

International Financial Reporting Standards

## **IIA standards**

The International Standards for the Professional Practice of Internal Auditing

## **OECD**

Organization for Economic Co-operation and Development

## **MoE**

The Ministry of Economics of the Republic of Latvia



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

# Annex 1

## Regulations on Operation of State Capital Companies

1. [Commercial Law of the Republic of Latvia](#)
2. [Law on Governance of Capital Shares of a Public Person and Capital Companies](#)
3. [Law on the Financial Instruments Market](#)
4. [22/12/2015 Regulations of the Cabinet of Ministers No. 806](#) – procedure according to which state capital companies and public private capital companies in which the state is a member (shareholder) forecast and determine the part of the profit to be paid out in dividends and make payments to the state budget for using the state's capital
5. [22/12/2015 Regulations of the Cabinet of Ministers No. 791](#) – regulations on the number of the members of the board and the council of public persons' capital companies and public private capital companies according to the indicators characterizing the size of the capital company as well as on the maximum amount of monthly remuneration of the members of the board and the council



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

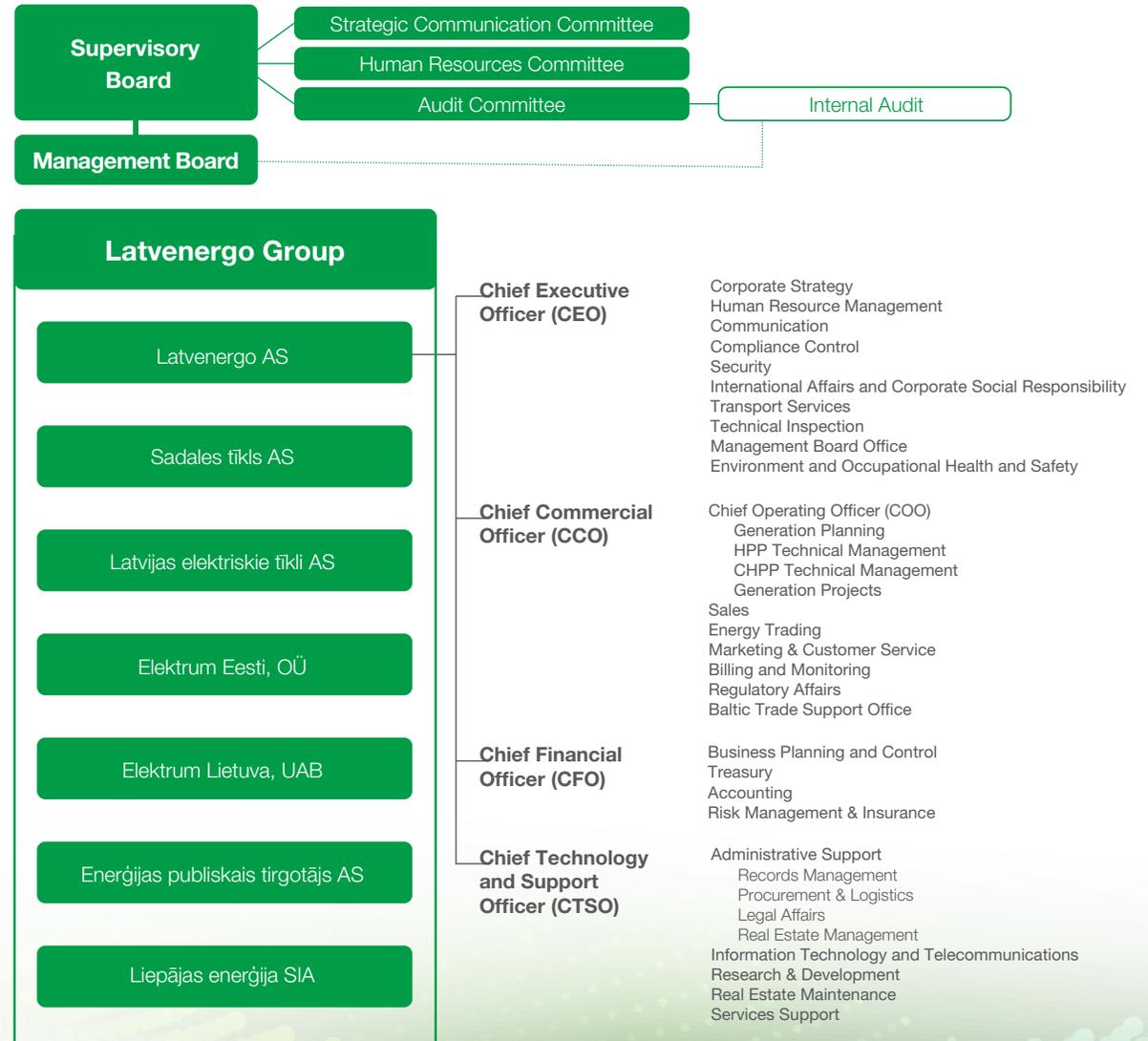
– **Annex 1**  
**Regulations on Operation  
of State Capital Companies**

– Annex 2  
Latvenergo Group Structure

– Annex 3  
Principles of Corporate  
Governance by  
Nasdaq Riga AS

# Annex 2

## Latvenergo Group Organisational Structure



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation of State Capital Companies

– **Annex 2**  
**Latvenergo Group Structure**

– Annex 3  
Principles of Corporate Governance by Nasdaq Riga AS

# Annex 3

## Corporate Governance Principles by Nasdaq Riga AS

### I Shareholders' meeting

1. Ensuring shareholders' rights and participation at shareholders' meetings
  - 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.
  - 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.
  - 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.
  - 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.
  - 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.
  - 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.
  - 1.7. The Issuer shall ensure that at least 14 (fourteen) days prior to the meeting the shareholders have the possibility to acquaint themselves with the draft decisions on the issues to be dealt with at the meeting, including those that have been submitted additionally already after the announcement on calling the meeting. The Issuer shall ensure the possibility to read a complete text of draft decisions, especially if they apply to voting on amendments to the Issuer's statutes, election of the Issuer's officials, determination of their remuneration, division of the Issuer's profit and other issues.
  - 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.
  - 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.
  - 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.
  - 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.



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– **Annex 3**  
**Principles of Corporate  
Governance by  
Nasdaq Riga AS**

# Annex 3

## Corporate Governance Principles by Nasdaq Riga AS

- 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.
- 1.13. When entering the course and contents of discussions on the agenda issues to be dealt with at the shareholders' meeting in the minutes of shareholders' meeting, the chairperson of the meeting shall ensure that, in case any meeting participant requires it, particular debates are reflected in the minutes or that shareholder proposal or questions are appended thereto in written form.
2. Participation of members and member candidates of the Issuer's management institutions at shareholders' meetings
  - 2.1. The attendance of members of the Issuer's management institutions and auditor at shareholders' meetings shall be necessary to ensure information exchange between the Issuer's shareholders and members of management institutions as well as to fulfil the right of shareholders to receive answers from competent persons to the questions submitted. The attendance of the auditor shall not be mandatory at shareholders' meetings 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.
  - 2.2. Shareholders' meetings shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall in particular apply to council members. If a council member candidate or auditor candidate is unable to attend the shareholders' meeting due to an important reason, then it shall be admissible that this person does not attend the shareholders' meeting. In this case, all the substantial information on the candidate shall be disclosed before the shareholders' meeting.
  - 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.

### II Board

3. Obligations and responsibilities of the Board
  - 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 fulfilment of its obligations, the board shall adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests.
  - 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.
  - 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.
  - 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 fulfilment of plans and the achievement of planned results;
    - 2) Selection of senior managers of the Issuer, determination of their remuneration and control of their work and their replacement, if necessary, 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;
  - 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.
  - 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.



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– **Annex 3**  
**Principles of Corporate  
Governance by  
Nasdaq Riga AS**

# Annex 3

## Corporate Governance Principles by Nasdaq Riga AS

4. Board composition and requirements for board members
  - 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.
  - 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.
  - 4.3. In order to fulfil 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.
  - 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.
5. Identification of interest conflicts in the work of board members
  - 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.
  - 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.
- 5.3. Board members should not participate in taking decisions that could cause an interest conflict.

### III Council

6. Obligations and responsibilities of the council
  - 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.
  - 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.
  - 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.



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– **Annex 3**  
**Principles of Corporate  
Governance by  
Nasdaq Riga AS**

# Annex 3

## Corporate Governance Principles by Nasdaq Riga AS

- 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.
7. Council composition and requirements for council members
  - 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.
  - 7.2. When determining the requirements for council members as regards the number of additional positions, attention shall be paid that a council member has enough time to perform his or her duties in order to fulfil their duties successfully and act in the interests of the Issuer to a full extent.
  - 7.3. In establishing the Issuer's council, the qualification of council members should be taken into account and assessed on a periodical basis. The council should be composed of individuals whose knowledge, opinions and experience is varied, which is required for the council to fulfil their tasks successfully.
  - 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.
  - 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.
  - 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.
  - 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.
  - 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.
8. Identification of interest conflicts in the work of council members
  - 8.1. It shall be the obligation of every council member to avoid any, even only supposed, interest conflicts in his/her work. When taking decisions, board members shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer to obtain personal benefit.
  - 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.
  - 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.



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– **Annex 3**  
**Principles of Corporate  
Governance by  
Nasdaq Riga AS**

# Annex 3

## Corporate Governance Principles by Nasdaq Riga AS

### IV Disclosure of information

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



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– **Annex 3**  
**Principles of Corporate  
Governance by  
Nasdaq Riga AS**

# Annex 3

## Corporate Governance Principles by Nasdaq Riga AS

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.

### V Internal control and risk management

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

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

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.

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

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.

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.

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.

12. Audit Committee

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



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– **Annex 3**  
**Principles of Corporate  
Governance by  
Nasdaq Riga AS**

# Annex 3

## Corporate Governance Principles by Nasdaq Riga AS

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

### VI Remuneration policy

13. General principles, types and criteria for setting remuneration
  - 13.1. The Issuers are called on to develop a remuneration policy in which the main principles for setting the remuneration, possible remuneration schemes and other essential related issues are determined. While preparing the remuneration policy Issuer should ensure that the remuneration of management and supervisory board members is proportionate to the remuneration of the Issuer's executive and managing directors and other employees.
  - 13.2. Without limiting the role and operations of the Issuer's management bodies responsible for setting remuneration to the board and council members, the drafting of the remuneration policy should be made a responsibility of the Issuer's board, which during the preparation of a draft policy should consult with the Issuer's council. In order to avoid conflicts of interest and to monitor the management board remuneration policy, the Issuer should appoint a responsible person having sufficient experience and knowledge in the field of remuneration for development of the remuneration policy.
  - 13.3. Should the remuneration policy contain a remuneration structure with a variable part in the form of the Issuer's shares or share options or any other payments, including premiums, it should be linked to previously defined short-term and long-term goals and performance criteria. If remuneration depends on 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.
  - 13.4. While setting the variable part of remuneration, Issuer should set limits on the variable component(s). The non-variable part of remuneration should be sufficient to allow the Issuer to withhold variable part of remuneration when necessary.
  - 13.5. Where a variable part of remuneration provides Issuer's shares, share options or any other acquisition rights thereof, it should be desirable to prescribe a minimum non-used period of time.
  - 13.6. Remuneration policy should include provisions that permit the Issuer to reclaim variable part of remuneration that were awarded on the basis of data which subsequently proved to be manifestly misstated. Such provision should be included in contracts concluded between the respective executives and the Issuer.
  - 13.7. Remuneration schemes that include Issuer's shares as remuneration may theoretically cause loss to the Issuer's existing shareholders because the share price might drop due to a new issue of shares. Therefore, prior to the preparation and approval of this type of remuneration, it shall be required to assess the possible benefits or losses.
  - 13.8. When preparing the remuneration policy where a variable part is in the form of the Issuer's shares or share options, the Issuer shall be obliged to disclose information on how the Issuer plans to ensure the amount of shares to be granted in compliance with the approved remuneration schemes– whether it is planned to obtain them by buying on a regulated market or by issuing new shares.
  - 13.9. While drafting the remuneration policy and envisaging awarding options entitling to the Issuer's shares, the Stock Exchange rules regarding distribution of share options should be taken into account.



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– **Annex 3**  
**Principles of Corporate  
Governance by  
Nasdaq Riga AS**

# Annex 3

## Corporate Governance Principles by Nasdaq Riga AS

- 13.10. While setting remuneration principles with regard to board and council members, they should include general approach as to compensations, if any, in cases when contracts with the said officials are terminated (termination payments). Termination payments should not be paid if the termination is due to inadequate performance.
- 13.11. It is recommended to set an adequate maximum amount of the termination payments which should not be higher than two years of the non-variable part of remuneration.
14. Remuneration Report
- 14.1. The Issuer is obliged to make public the Remuneration Report – a complete report on the remuneration policy applied to the members of the Issuer's management bodies. Remuneration Report may be a separate document, or may be 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 Issuer's 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, including information with regard to vesting periods of variable part of remuneration;
  - 3) Sufficient information as to linking the remuneration with performance. To consider the information sufficient, the report should contain: An explanation how the choice of performance criteria contributes to the long term interest of the Issuer; An explanation of the methods applied in order to determine whether performance criteria have been fulfilled;
  - 4) Information about the Issuer's policy with regard to the contracts with the members of the Issuer's management bodies, the terms and conditions of the contracts (duration, notice deadlines about termination, including payments due in case of termination);
  - 5) Information about the incentive schemes and the specifications and reasons for awarding any other benefits;
  - 6) A description of any pension or early retirement schemes;
  - 7) An overview of the remuneration paid to or any benefits received by each individual that has been board or council member in the reporting period – disclosing at least the information required in Items 14.5, 14.5 and 14.7 below.
- 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.
- 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.



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– **Annex 3**  
**Principles of Corporate  
Governance by  
Nasdaq Riga AS**

# Annex 3

## Corporate Governance Principles by Nasdaq Riga AS

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;
- 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.

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.).

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.

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.



Shareholder Meeting

Management Board

Supervisory Board

Disclosure of Information

Internal Control and Risk Management

Remuneration Policy

Contact Information

Abbreviations

Annexes

– Annex 1  
Regulations on Operation  
of State Capital Companies

– Annex 2  
Latvenergo Group Structure

– **Annex 3**  
**Principles of Corporate  
Governance by  
Nasdaq Riga AS**