



**Joint stock company “Olainfarm”  
Corporate governance report  
(COMPLY/EXPLAIN REPORT)**

*Produced in accordance with JSC „Riga Stock exchange”  
Corporate governance principles and  
Application advises, as approved in 2005.*

**Concerning reporting year 2006**

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# Introduction

In the present chapter of Joint Stock Company „Olainfarm” (hereinafter – JSC „Olainfarm” or the Company) Annual report – Corporate governance report (hereinafter – the Report) – a detailed overview is provided concerning the Company’s compliance and application of the Corporate governance principles developed by JSC „Riga Stock Exchange” (published on December 21st, 2005).

Present Report is annexed to the current annual report and published and the Company’s web-site ([www.olainfarm.lv](http://www.olainfarm.lv) chapter Investor relations – Corporate governance), as well as at the Riga Stock Exchange web-site ([www.lv.omxgroup.com](http://www.lv.omxgroup.com)).

The Management board and the Council of the Company are responsible for implementation of the Corporate governance principles in the work of the Company. The Management board and the Council of the Company familiarize shareholders of the Company with the corporate governance system of the Company and its changes during shareholders meetings as well as by publishing the Report in the way prescribed by normative acts. The shareholders of the Company vote for approval of the Report simultaneously with the decision on approval of the current annual report. Together with preparation of the current Report the regulations on the Management Board, the Council and the Shareholders meetings are altered or new regulations are developed when necessary.

JSC „Olainfarm” has introduced and complies with the most of the Principles of good corporate governance. In accordance with „comply or explain” principle the Report provides information with regard to those principles which the Company does not apply in its activity or applies only partially, as well as the justification of non-compliance.

Olaine, February 26<sup>th</sup>, 2007

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***J.Borcova***  
***JSC „Olainfarm”***  
***Deputy Chairperson of the Board***

# Principles of Good corporate governance

## Shareholders' meeting

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

### **1. Ensuring shareholders' rights and participation on the shareholders meeting.**

**The Issuers shall ensure equal attitude towards all the shareholders – holders of one category of shares. All shareholders shall have equal rights to participate in the management of the Issuer - to participate at shareholders' meetings and receive information that shareholders need in order to make decisions.**

1.1. It is important to ensure that all holders of one category of shares 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.

• *JSC „Olainfarm” (hereinafter – Olainfarm) applies the good corporate governance principle, in compliance with cases of restriction of voting rights as prescribed by the Commercial Law of Republic of Latvia (hereinafter – Commercial Law).*

1.2. The Issuer develops the profit distribution policy. During development of such policy it is recommended to take into account not only the provision of immediate benefit for the Issuer's shareholders by paying dividends to them but also the expediency of profit reinvesting, which would increase the value of the Issuer in future. It is recommended to discuss the policy of profit distribution at a shareholders' meeting thus ensuring that as possibly larger a number of shareholders have the possibility to acquaint themselves with it and express their opinion with that regard. The information on the policy of profit distribution of the Issuer shall be included in the Report and published on the Issuer's web-site on the Internet.

• *Olainfarm does not apply the best practice provision. Due to necessity to introduce Good manufacturing practice standards, all profit for up to year 2004 has been reinvested in development of the company. In its turn due to the losses in year 2004 the Company was forced to direct all profit for year 2005 to cover those losses. Due to the fact that after division of profit of reporting year 2006 the Company shall have the right and possibility to direct part of the profit for payment of dividends, the Company is now developing Profit division policy which shall be discussed at the annual shareholders meeting in 2007. After approval of Profit division policy it will be included in the Report and placed on the Company's web-site..*

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 invited 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.

• *Olainfarm applies the good corporate governance principle.*

- 1.4. Shareholders of the Issuers shall be provided with the possibility to receive in due time and regularly all the required information on the 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 attend the meetings; therefore, the time and place of the meeting should not restrict the attendance of a meeting by the shareholders. Also, 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.
- *Olainfarm applies the good corporate governance principle.*
- 1.5. The Issuers informs the shareholders on calling shareholders' meeting by publishing a notice in compliance with the procedure and the time limits set forth in legislative acts. The Issuers are invited to announce the shareholders' meeting promptly after 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 web-site on the Internet, where it should be published also at least in one foreign language. It is recommended to use the English language so that the information on the web-site is available to foreign investors as well. When publishing information on calling a shareholders' meeting, also the initiator of calling the meeting shall be specified.
- *Olainfarm applies the good corporate governance principle.*
- 1.6. The Issuer ensures that comprehensive information on the course and place of the meeting, the voting on decisions to be made, as well as the agenda and draft decisions on which it is planned to vote at the meeting is available to the shareholders in due time before the meeting. The Issuers also informs the shareholders where they can receive answers to any questions regarding the shareholders' meeting and the agenda issues and ensures that the required additional information is provided to the shareholders.
- *Olainfarm applies the good corporate governance principle.*
- 1.7. The Issuer ensures 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 ensures 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.
- *Olainfarm applies the good corporate governance principle.*
- 1.8. In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for the 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 at least as stipulated in Clause 1.9 of this Section at least 14 (fourteen) days prior to the shareholders' meeting.
- *Olainfarm applies the good corporate governance principle, in compliance with terms of the Commercial Law providing that candidate to the Council member can be proposed by a shareholder or group of shareholders representing at least 5% from all capital with voting rights represented at the shareholders meeting.*
- 1.9. Especial attention should be paid so that the shareholders at least 14 (fourteen) days prior to the shareholders' meeting have the possibility to acquaint themselves with information on the Council member candidates whose approval is planned at the meeting. When disclosing the information on the Council member candidates, also a short professional biography of the candidates shall be published. Since the

nomination of the Council member candidates has to be very careful, it is recommended that the Issuer disclose the said information as soon as possible.

- *Olainfarm applies the good corporate governance principle with regard to disclosing the Council member candidates before the shareholders meeting. From now on the full information on the Council member candidates available to Olainfarm will be published.*

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

- *Olainfarm applies the good corporate governance principle.*

1.11. To provide shareholders with comprehensive information on the course of the shareholders' meeting, the Issuer prepares the rules on procedure of shareholders' meeting, in which the agenda of shareholders' meeting and the procedure for solving any organizational issues related to the shareholders' meeting (e.g., shareholders' registration for the meeting, 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.

- *Olainfarm applies the good corporate governance principle. Shareholders Meeting Rules are published at Olainfarm's web-site on the Internet [www.olainfarm.lv](http://www.olainfarm.lv) in chapter Investor relations – Corporate governance.*

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 has the right to set reasonable conditions on questions, for example, by excluding the possibility for one shareholder to use up the total time provided for asking of questions and setting a time limit of speeches.

- *Olainfarm applies the good corporate governance principle.*

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

- *Olainfarm applies the good corporate governance principle.*

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

- *Olainfarm applies the good corporate governance principle.*

## **2. Issuer's management institutions' members and candidates participation at the shareholders' meeting.**

**Shareholders' meetings shall be attended by the Issuer's Management Board members, auditors, and as many as possible members of the Council.**

2.1. The attendance of members of the Issuer's management institutions and auditor at shareholders' meetings is necessary to ensure information exchange between the Issuer's shareholders and members of management institutions as well as to fulfill the right of shareholders to receive answers from competent persons to the questions submitted. The attendance of the auditor shall not be mandatory at shareholders'

meetings where the questions related to finances of the Issuer are not discussed. By using the rights to ask questions shareholders have the possibility to obtain detailed information on the circumstances that might affect the evaluation of the financial report and the financial situation of the Issuer.

- *Olainfarm applies the good corporate governance principle.*

2.2. Shareholders' meetings shall be attended by the Issuer's official candidates whose election is planned at the meeting. This shall in particular apply to the 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.

- *Olainfarm applies the good corporate governance principle.*

2.3. During shareholders' meetings, the participants must have the possibility to obtain information on officials or official candidates who have not attended the meeting and reasons of absence. The reason of absence of the Issuer's officials should be entered in the minutes of shareholders' meeting.

- *Olainfarm applies the good corporate governance principle. From now on the reasons of absence of officials will be entered in the minutes of the meeting.*

## Management Board

The Management Board is the Issuer's executive institution, which manages and represents the Issuer in its everyday business, therefore the Issuer shall ensure the Management Board is efficient, able to make decisions, and profit-oriented, clearly determining its obligations and responsibility.

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

**The Issuers shall clearly and expressly determine the obligations, authority and responsibility of the Management Board members, thus ensuring a successful work of the Management Board and an increase in the Issuer's value.**

3.1. The Management Board obligation is 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 Management Board shall be responsible for the said to the Council as well as the shareholders' meeting. In fulfillment of its obligations, the Management Board shall adopt decisions irrespective of their personal interests or interests of the shareholders that control the Issuer and be guided by interests of all the shareholders, taking into account the common interests of the Issuer and its associated companies (or affiliates).

• *Olainfarm applies the good corporate governance principle.*

3.2. The powers of the Management Board shall be stipulated in the Management Board Regulation 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.

• *Olainfarm applies the good corporate governance principle. Authority of the Management Board is determined in the Management Board Rules published at Olainfarm's web-site on the Internet [www.olainfarm.lv](http://www.olainfarm.lv) in chapter Investor relations – Corporate governance.*

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

• *Olainfarm applies the good corporate governance principle.*

3.4. The Management Board has to perform certain tasks, including:

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

• *Olainfarm applies the good corporate governance principle.*

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

• *Olainfarm applies the good corporate governance principle.*

3.6. It is preferable that the Management Board submits decisions that determine the objectives and strategies for achievement thereof (participation in other companies, acquisition or alienation of property, expansion of business by opening of

representation offices or branches or by broadening sphere of activity, etc) to the Issuer's Council for approval.

- *Olainfarm partially applies the good corporate governance principle. Olainfarm objectives and strategy for achievement thereof are discussed at the Council meetings and reflected in the Management board's reports to the Council. After approval of the corresponding objectives and strategies (annual business plan, budget, etc.) decisions on participation in the specific company, acquisition or alienation of property, etc., are not repeatedly submitted for the Council's approval, but are taken at the Management Board's meetings.*

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

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

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

- *Olainfarm applies the good corporate governance principle. Usually Olainfarm department directors are elected as members of the Management Board. In its turn, for each of the Olainfarm department directors position a position description exists, which prescribes strict and high standards with regard to education of the respective position candidate, work experience in the corresponding area and other selections criteria.*

4.2. On the Issuer's web-site on the Internet, the following information on each member of the Issuer's Management Board 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.

- *Olainfarm applies the good corporate governance principle. This entire information can be found at CVs of the members of the Management Board and Company's annual reports as published at the Company's web-site.*

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

- *Olainfarm applies the good corporate governance principle.*

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

- *Olainfarm applies the good corporate governance principle.*

#### **5. Remuneration of members of the Management Board.**

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

- 5.1. The remuneration for Management Board members shall be clearly determined and transparent. The Issuer's Council shall revise the remuneration on a regular basis in compliance with the policy of remuneration adopted by the Issuer.
- *Olainfarm applies the good corporate governance principle. The total remuneration of each member of the Management Board consists of fixed position salary for the Company's activity field under his or her charge and remuneration of the member of the Management Board (floating part), which is calculated as a percent from the Company's monthly income from the basic activity. Management Board members remuneration policy is defined in the Management Board Rules.*
- 5.2. In determining remuneration of Management Board members and the floating part in the remuneration structure, it is recommended to attach it to previously determined long-term and short-term objectives. If the floating part of remuneration is attached only to the short-term results, it will not facilitate the interest of Management Board members in the long-term growth of the Issuer and improvement of results. It is recommended that the amount and structure of remuneration depends on the business results of the company, share price and other events related to the Issuer.
- *Olainfarm applies the good corporate governance principle. Floating part of the remuneration of the members of the Management Board depends on the Company's monthly activity results. Even though, the month is considered to be short-term period, taking into account specifics of the Company's business (development of new products and introduction on the market take several years; long product manufacturing cycle; seasonality of activity, etc.) interest of the members of the Management Board in the long-term growth of the Company and improvement of results is not disturbed.*
- 5.3. In determining the remuneration of members of the Management Board, the Issuer's Council shall comply with the remuneration policy adopted by the Issuer. In assessing the work of the members of the Management Board, the Council shall take into account the work tasks of every members of the Management Board, the economical situation of the Issuer, and other indices that are considered to be important in assessing the work of members of the Management Board.
- *Olainfarm partially applies the good corporate governance principle. Fixed position salary of each member of the Management Board for the Company's activity field under his or her charge is determined according to the Company's approved staff-roll where in its turn obligations of each official and Company's economical situation are taken into account. The floating part of the remuneration of the members of the Management Board as defined by the Council is equal for all members of the Management Board which support equal attitude and equal interest of all members of the Management Board in development of the Company.*
- 5.4. If a Management Board member gets share options that give the member the right to obtain shares of the Issuer as remuneration, the Issuer shall comply with the conditions for granting options as stipulated in the regulations of the Stock Exchange.
- *Olainfarm does not apply the good corporate governance principle. Olainfarm does not provide for grant of share options to the members of the Management Board.*
- 5.5. When disclosing information on the total amount of remuneration paid to the members of the Issuer's Management Board, the Issuer, if possible, shall be asked to disclose the information on previous reporting years too, if such information has not been disclosed previously. Disclosure of information on previous years is especially important for investors to be able to evaluate the policy of remuneration applied to the Management Board members in the long-term and the linking of the development indices of the Issuer with the changes in the remuneration systems.
- *Olainfarm applies the good corporate governance principle.*

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

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

6.1. It shall be the obligation of every member of the Management Board to avoid any, even putative, conflict of interest in his/her work. In taking decisions, members of the Management Board shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer for personal benefit.

• *Olainfarm applies the good corporate governance principle.*

6.2. On the occurrence of any conflict of interest or even only on its possibility, member of the Management Board shall notify other Management Board members without delay. Management Board members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the member of the Management Board in question, as well as inform on any conflicts of interest occurred during the validity period of concluded agreements. For the purposes of these recommendations the following shall be regarded as persons who have close relationship with the members of the Management Board: spouses, relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the member of the Management Board 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 the member of the Management Board: legal persons where the member of the Management Board or a person closely related to him/her is a member of a Management Board or Council, 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.

• *Olainfarm applies the good corporate governance principle.*

6.3. Member of the Management Board should not participate in making decisions which could cause conflict of interest.

• *Olainfarm applies the good corporate governance principle.*

## Council

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

### **7. Obligations and responsibility of the Council.**

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

7.1. 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 web-site on the Internet. This document shall be also available at the Issuer's office.

• *Olainfarm applies the good corporate governance principle. Authority of the Council is determined in the Council Rules published at Olainfarm's web-site on the Internet [www.olainfarm.lv](http://www.olainfarm.lv) in chapter Investor relations – Corporate governance.*

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

• *Olainfarm applies the good corporate governance principle.*

7.3. The Council's supervision over the work of the Management Board shall include supervision over the achievement of the objectives set by the Issuer, the corporate strategy and risk management, the process of financial reporting, Management Board's proposals on the use of the profit of the Issuer, and Issuer's activity 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 meetings of the Council as laid down in regulatory acts, and the results of discussions shall be reflected in the Council's report.

• *Olainfarm applies the good corporate governance principle.*

7.4. The Council and each of its members shall be responsible for having all the information required to fulfill their duties, which can be obtained from members of the Management Board and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the chairperson of the Council shall contact the Issuer's Management Board, *inter alia* the chairperson of the Management Board, on a regular basis and discuss all the most important issues related to the Issuer's business and development strategy, business activities, and risk management.

• *Olainfarm applies the good corporate governance principle.*

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

• *Olainfarm applies the good corporate governance principle.*

7.6. The Council's supervision over the Management Board shall be especially important in areas of high possibility of conflicts of interest: appointment of members of the Management Board, determination of the remuneration of members of the Management Board, and audit of the Issuer. To facilitate more efficient work of the Council and the division of work duties among its members, the Council may establish separate committees (audit, nomination (appointment), remuneration and other committees).

• *Olainfarm does not apply the good corporate governance principle. The Council of Olainfarm does not have any of such committees due to the small number of members of the Council whose qualification and experience is great enough in order to perform effective supervision without any separate committees.*

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

• *Olainfarm does not apply the good corporate governance principle. The Council of Olainfarm does not have any of such committees due to the small number of members of the Council whose qualification and experience is great enough in order to perform effective supervision without any separate committees.*

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

• *Olainfarm does not apply the good corporate governance principle. The Council of Olainfarm does not have any of such committees due to the small number of members of the Council whose qualification and experience is great enough in order to perform effective supervision without any separate committees.*

## **8. Council's composition and requirements for members of the Council.**

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

8.1. The Issuer shall require each member of the Council as well as the Council member candidate whose election is planned on a shareholders' meeting to submit the following information to the Issuer: name, surname, year of birth, education, office term as the member of the Council, 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 web-site 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.

• *Olainfarm applies the good corporate governance principle concerning publication of information on members of the Council.*

- 8.2. When determining the requirements for the members of the Council as regards the number of additional positions, attention shall be paid that member of the Council has enough time to perform his or her duties in order to fulfill their duties successfully and act in the interests of the Issuer to a full extent.
- *Olainfarm does not apply the good corporate governance principle. There are no requirements to the members of the Council or member candidates regarding number of additional positions allowed.*
- 8.3. In establishing the Issuer's Council, the qualification of members of the Council should be taken into account and assessed on a periodical basis. The Council should be composed of members with diverse knowledge, opinions and experience in order for the Council to fulfill its tasks successfully.
- *Olainfarm applies the good corporate governance principle.*
- 8.4. Every member of the Council in his or her work shall be as independent from any external circumstances as possible 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.
- *Olainfarm applies the good corporate governance principle.*
- 8.5. It is impossible to compile a list of all the circumstances that might threaten the independence of members of the Council or that could be used in assessing the conformity of a certain person to the status of an independent member of the Council. Therefore, the Issuer, when assessing the independence of members of the Council, shall be guided by the independence criteria of members of the Council specified in the Annex hereto.
- *Olainfarm applies the good corporate governance principle.*
- 8.6. It is recommended that at least a half of members of the Council 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 members of the Council may be one person less than the number of the members of the Council who do not conform to the independence criteria specified in the Annex hereto.
- *Olainfarm applies the good corporate governance principle.*
- 8.7. As independent shall be considered person who conforms to the independence criteria specified in the Annex hereto. If a member of the Council does not conform to any of to the independence criteria specified in the Annex hereto but the Issuer does consider the member of the Council in question to be independent, then it shall provide an explanation of its opinion in detail on the tolerances permitted.
- *Olainfarm applies the good corporate governance principle.*
- 8.8. 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. Annually the Issuer specifies in the Report which members of the Council are to be considered as independent.
- *Olainfarm applies the good corporate governance principle.*

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

**When determining the remuneration for the members of the Council commensurate principle shall be observed and the principles for the determination of remuneration shall be clear and transparent.**

- 9.1. If remuneration is paid to a Council member for the tasks fulfilled by him or her, it shall be stipulated in the Issuer's remuneration policy.
- *Olainfarm partially applies the good corporate governance principle. The remuneration of the members of the Council is defined by the shareholders meeting in*

*accordance with shareholders proposals. The Council members' remuneration policy is reflected in the Council Rules.*

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

- *Olainfarm applies the good corporate governance principle. Shareholders have the right to discuss any question including the submitted Council's report, and to assess work of the Council.*

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

- *Olainfarm partially applies the good corporate governance principle. The total remuneration of the members of the Council is disclosed in the annual reports.*

9.4. In determining remuneration of members of the Council and the floating part in the remuneration structure, it is recommended to attach it to previously determined long-term and short-term objectives.

- *Olainfarm does not apply the good corporate governance principle. The remuneration of the members of the Council does not provide for the floating part.*

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

- *Olainfarm applies the good corporate governance principle.*

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

**Each member of the Council shall avoid any conflicts of interest in his/her work and be maximally independent from any external influence. Member of the Council making any decision relating to the Issuer's business shall comply with the general ethical principles and assume responsibility.**

10.1. It shall be the obligation of every member of the Council to avoid any, even putative, conflict of interest in his/her work. In taking decisions, members of the Council shall be guided by the interests of the Issuer and not use the cooperation offers proposed to the Issuer for personal benefit.

- *Olainfarm applies the good corporate governance principle.*

10.2. On the occurrence of any conflict of interest or even only on its possibility, member of the Council shall notify other Council members without delay. Members of the Council 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 member of the Council in question, as well as inform on any conflicts of interest occurred during the validity period of concluded agreements. For the purposes of these recommendations the following shall be regarded as persons who have close relationship with the members of the Council: spouses, relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the member of the Council 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 the member of the Council: legal persons where the member of the Council or a person closely related to him/her is a member of a Management Board or Council, 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..

- *Olainfarm applies the good corporate governance principle.*

10.3. Member of the Council who is in a possible conflict of interest should not participate in taking decisions that might be a cause of conflict of interest.

- *Olainfarm applies the good corporate governance principle.*

## **Disclosure of information**

Good corporate governance practice for an Issuer whose shares are included in the market regulated by the Stock Exchange means that the information disclosed by the Issuer has to provide a view on the economic activity of the Issuer and its financial results. This facilitates a justified determination of the price of financial instruments in public circulation as well as the trust in finance and capital markets. Disclosure of information is closely connected with investor relations (hereinafter - the IR), which can be defined as the process of developing Issuer's relations with its potential and existing investors and other parties interested in the business of the Issuer.

### **11. Transparency of the Issuer's activity.**

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

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

- *Olainfarm applies the good corporate governance principle.*

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

- *Olainfarm applies the good corporate governance principle.*

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

- *Olainfarm applies the good corporate governance principle.*

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

- *Olainfarm applies the good corporate governance principle.*

### **12. Investor relations.**

**Considering that shares of the Issuers are offered on a regulated market, also such activity sphere of the Issuers as investor relations (hereinafter - the IR), it's development and maintaining, paying special attention to all the investors having access to equal, timely and sufficient information.**

12.1. The main objective of the IR is accurate and timely informing the participants of finance market on the business of the Issuer, as well as securing 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.

- *Olainfarm applies the good corporate governance principle.*

12.2. A number of channels shall be used for the information flow in the IR. The IR strategy of the Issuer shall be created using both the possibilities provided by technologies (web-site on the internet) 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

- *Olainfarm applies the good corporate governance principle.*

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

- 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 web-site shall have the possibility to obtain conveniently all the information published there. Information on web-sites 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 is recommended to consider a solution that would allow the existing and potential investors to maintain link with the Issuer by using the IR section of web-site – submit questions and receive answers thereto, order the most recent information, express their opinions etc.;
- 4) the information published on web-site 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 web-site;
- 5) after the web-site is created the creators themselves should assess the IR section of the web-site 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..

- *Olainfarm applies the good corporate governance principle.*

12.4. The Issuer shall ensure that at least the following information is contained in the IR section of web-site:

- 1) general information on the Issuer - history of its establishment and business, registration data, description of industry, main types of business;
- 2) Issuer's Report ("*comply or explain*") on the implementation of the principles of corporate governance;
- 3) number of issued and paid financial instruments, specifying how many of them are included in a regulated market;
- 4) information on shareholders' meetings, draft decisions to be examined, decisions adopted - at least for the last reporting year;
- 5) Issuer's statutes;
- 6) Issuer's Management Board, Council regulations or documents equated thereto that regulates their work, as well as the Issuer's remuneration policy and the shareholders' meeting procedure regulation, if such has been adopted;
- 7) Description of the tasks of the Council committees, if such have been established, as well as information on the work performed by the committees;
- 8) information on present Issuer's Council and Management Board members (on each individually): work experience, education, number of the Issuer's shares owned by the member (as at the beginning of year; the information shall be updated as required but

- at least annually), information on positions in other capital companies, and the term of office of members of the Management Board and the Council;
- 9) Issuer's shareholders who own at least 5% of the Issuer's shares; and information on change 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.
- *Olainfarm applies the good corporate governance principle and publishes all information required herein.*

## **Internal control and risk management**

The purpose of internal control and risk management is to ensure efficient and successful work of the Issuer, the truthfulness of the information disclosed and conformity thereof to the relevant regulatory acts and business principles. Internal control helps the Management Board to identify the shortcomings in the administration of the Issuer as well as facilitates that the Council's task - to supervise the work of the Management Board - is fulfilled efficiently.

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

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

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

- *Olainfarm partially applies the good corporate governance principle. The Company has a defined internal control procedure and appropriate offices executing the corresponding control in the field of environment protection, labor safety, Good manufacturing practice, in the field of technical supervision over buildings and equipment, the work over defining the internal control procedure over financial field. The work is carried out to include all existing internal control procedures into united system.*

13.2. The objective of risk management is to ensure that the risks connected with the commercial activity of the Issuer are identified and supervised. To ensure an efficient risk management, it shall be necessary to define the basic principles of risk management. It is recommended to characterize the most essential potential and existing risks in relation to the business of the Issuer.

- *Olainfarm applies the good corporate governance principle. The main potential risks related to the activity of the Company are reflected in the annual report. The Company constantly is working on exploration and monitoring risks in the fields of environmental protection, field of labor safety, Good manufacturing practice, and field of technical supervision over buildings and equipment, financial field.*

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

- *Olainfarm applies the good corporate governance principle.*

13.4. Auditors shall be independent in their work and their task is 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.

- *Olainfarm applies the good corporate governance principle.*

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

- *Olainfarm partially applies the good corporate governance principle. Independent internal and external control in the field of environmental protection, field of labor safety and Good manufacturing practice is performed once in three years.*

13.6. When approving an auditor, it is recommended that the term of office of one auditor is not the same as the term of office of the Management Board.

- *Olainfarm applies the good corporate governance principle.*

## Remuneration policy

### **14. Issuer's remuneration policy**

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

14.1. The Issuer is invited to develop a remuneration policy in which the main principles for the determination of remuneration, possible remuneration schemes and other essential related issues are determined. The preparation of the remuneration policy should be made a responsibility of the Issuer's Council, which during the preparation of a draft policy must consult with the Issuer's Management Board. The remuneration policy or its most significant parts shall be published like any other essential information related to the activity of the Issuer.

• *Olainfarm partially applies the good corporate governance principle. The Management board and the Council remuneration politics is reflected in the Management Board and Council Rules.*

14.2. Schemes of floating remuneration that include Issuer's shares or share options as remuneration as well as any essential amendments thereto should be examined also at shareholders' meetings, adopting the relevant decisions, if necessary. Considering the aforementioned, shareholders should be provided with all the necessary information prior to the meeting.

• *Olainfarm does not apply the good corporate governance principle. The Company does not have any remuneration schemes, where the Issuer's shares or share options would serve as remuneration.*

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

• *Olainfarm does not apply the good corporate governance principle. The Company does not have any remuneration schemes, where the Issuer's shares or share options would serve as remuneration.*

14.4. When preparing the remuneration policy, the Issuer must 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.

• *Olainfarm does not apply the good corporate governance principle. The Company does not have any remuneration schemes, where the Issuer's shares or share options would serve as remuneration.*