

Annotation
**TO THE AMENDMENTS OF “PRINCIPLES OF CORPORATE
GOVERNANCE AND RECOMMENDATIONS ON THEIR
IMPLEMENTATION”**
developed by the Riga Stock Exchange

In 2005 the JSC Riga Stock Exchange (hereinafter - RSE) developed the first Principles of Corporate Governance and Recommendations on their Implementation (hereinafter – Recommendations). These Recommendations were based on two European Union documents – Commission Recommendations of 14.12.2004 supporting certain regime for listed companies directors' remuneration, and Commission Recommendations of 15.02.2005 as to the roles of non-executive directors or council members and board committees in listed companies.

While drafting the Recommendations, the present situation in the financial instrument markets was taken into consideration; also, the feedback from the issuers and the market regulator – Financial and Capital Markets Commission - was taken into account. The Recommendations was an attempt to find a compromise between the EU requirements and recommendations and our actual possibilities at that time. As a result, a number of principles, though already at those times highlighted as important ones by the above said European Commission recommendations (e.g. the need to develop remuneration policy; the setting up of various committees etc.), were omitted in the Recommendations.

On July 13, 2007 the European Commission released a report on application of the EU recommendations on listed company directors' pay in the Member States. The Report stresses that the remuneration systems applied to the officials of listed companies have to be transparent, and that setting of the remuneration has to be under adequate control. According to the Report, over 2/3 of the EU Member States, including Lithuania and Estonia, have introduced the requirement that individual remuneration to company top officials is subject to disclosure.

On April 24, 2008 Saeima approved amendments to the Commercial Law, which stipulates that shareholders' meeting has the competency to resolve on general principles, types and criteria regarding remuneration to board and council members. Consequently, according to the amendments, the approval of remuneration policy is the competency of the shareholders' meeting.

Considering the aforementioned and after the consultations with the experts from the Financial and Capital Markets Commission, a new version has been drafted for the Recommendations approved by the RSE Management Board on December 21, 2005.

Key changes in Recommendations after the amendments are implemented:

1. Items recommending establishment of separate Board Committees have been deleted. Instead, a new item has been added to the chapter "Internal Control and Risk Management", comprising general guidelines for setting up Audit Committee. The need to establish Audit Committee is set by the amendments to the Law on Financial Instruments Market adopted on June 11, 2008, stipulating that the members of the Audit Committee shall be approved by the shareholders' meeting, and defining the

main responsibilities of the Committee and the core principles guiding its establishing.

Since there exists a statutory requirement that the Issuer's Audit Committee be approved by the shareholders meeting, Item 1.9 has been complemented with a requirement that, apart from Council member candidates, Audit Committee member candidates shall be disclosed prior to the meeting.

2. The chapter "Remuneration Policy" has been significantly expanded, thus the contents has changed. The amendments are introducing two new recommendations of good corporate governance:

- the previous generalized recommendation regarding remuneration policy has been replaced by a recommendation containing general principles for setting remuneration, its types and criteria. The new recommendation says that the Issuer shall develop a remuneration policy, specifying general principles, possible remuneration schemes and other key issues that are pertinent;
- a new recommendation has been added to the chapter (Item 14), providing that an Issuer shall make its Remuneration Report public.

3. Item 14 of the Recommendations "Remuneration Report" provides that the Issuer is obliged to make public its Remuneration Report (a complete report on the remuneration policy applied to the members of the Issuer's management bodies). The Remuneration Report shall contain:

- information of the approved Remuneration Policy of the Issuer. A detailed description follows as to what type of information regarding the remuneration policy is to be disclosed in the Remuneration Report (e.g. the breakdown between the fixed and variable part of the remuneration for the respective category of officials; pension schemes; how remuneration is linked to performance etc.);
- report on salaries and any other benefits paid to a board or council member during the reporting period (disclosure of remuneration received by officials).

4. Following the recommendations by the European Commission, the amendments provide for a possibility for the Issuer not to disclose the required information in the Remuneration report with regard to remuneration policy and remuneration paid to officials in case the Issuer believes that, as a result of disclosure, sensitive business information might become public to the detriment of the Issuer's strategic position. In this case, the Issuer needs to give the reasons for non-disclosure.

5. Several editorial corrections have been made without introducing any changes to the contents and spirit of the Recommendations.

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