

Joint-stock company
DITTON PIEVADĒŽU RŪPNĪCA
Reg.No.40003030187

STATEMENT
ON CORPORATE GOVERNANCE PRINCIPLES
FOR YEAR 2019

Corporate Governance Report
Annex to the Annual Report 2019

Daugavpils
2020

I GENERAL INFORMATION

Corporate Governance Principles and recommendations on their implementation have been developed by NASDAQ Riga (formerly known as - JSC NASDAQ OMX Riga) (hereinafter – Exchange). The Corporate Governance Principles (hereinafter – Principles) applied currently are approved on 19 May 2010 and entered into force on 1 June 2010.

The Principles are aligned closely to operations of the JSC Ditton pievadķēžu rūpnīca (hereinafter – Issuer), though the Issuer has not experienced some of these Principles on practice, as there have not been such events, where these Principles would act, or because of the reasons listed below.

Corporate Governance Report stresses the prior importance of influence of aims and tasks included into Principles on appropriate events and procedures.

Report has been prepared in compliance with "comply or explain" principle, excluding any detailed description of the flow of events or procedures relevant to specific Principles because of their large content, though shareholders and investors interested in this information can inquire it on Exchange, by the Issuer and on it`s website on the internet.

The Issuer carries out these Principles being guided by following:

- *goals, mission, interests and priorities of the Issuer and shareholders complied in the Declaration on objectives and mission of the activity and development of JSC Ditton pievadķēžu rūpnīca and evaluation of these processes (hereinafter – Declaration);*
- *Regulations on the convening and course of shareholders' meeting (hereinafter – Regulations), Regulations of the Council, Regulations of the Management Board, Remuneration Policy of the Council and Management Board members, and the staff as well, Regulation on the inside information, on procedures for the management and public disclosure of the inside information (incl. maintenance of the insider list) and on insiders dealings with financial instruments, Regulation on the trade secret adopted by the Issuer (hereinafter all together including the Declaration – Issuer's internal documents);*
- *goals, interests and priorities of potential investors;*
- *legal acts of the Republic of Latvia, regulations, directives and resolutions of the European Union (hereinafter – legal acts of the European Union), such as Financial Instruments Market Law, Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014, Commercial Law, Civil Law, Group of Companies Law, Labour Law, Law On the Annual Financial Statements and Consolidated Financial Statements (as well as a set of related laws, regulations of the Cabinet of Ministers and legal acts of the European Union, which regulate the Issuer's financial and economic operations and accounts), the Audit Services Law, Law On Legal Force of Documents, Personal Data Processing Law, Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016, Law on Exchanges, and Regulations of the Cabinet of Ministers of the Republic of Latvia and of the Exchange regulating this sphere.*

The Issuer ensures application of Principles due to the hierarchy of legal force of normative acts, what is determined in theory and practice of law, and legal acts (Law on Official Publications and Legal Information). This approach resolved the procedures by the enforcement of normative acts and/or contradictions between laws and regulations with different legal force, with an equal legal force, general and special legal norms as well.

The Principles applied by the Issuer are based on three levels of management and responsibility in a joint-stock company, as follows:

- *shareholders, who exercise their rights in shareholders meetings,*
- *the Council of the Issuer elected by shareholders,*
- *the Management Board of the Issuer elected by the Council,*

having their own competence, rights and duties.

Relying on this structure, the Issuer expounded herewith Principles accomplished by the public representation and administration of the Issuer, and namely by the Council and the Management Board. Duet to their status and competence the Council and the Management Board inform the way the Principles are applied by the shareholders or other competent persons and institutions without giving any motives of their actions in respect of their legally autonomy and

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

independency from Issuer's executive bodies - the Council and the Management Board.

There is applied a wording - "The principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer" - to some Clauses of the Principles. It means that the Council and the Management Board of the Issuer fulfilled appropriate conditions within their competence and legal powers, corresponding requirements and procedures of Law of the Republic of Latvia and of European Union and internal documents of the Issuer in the most optimal and rational way for the Issuer. If these procedures are specified in laws and regulations, the Principles are completely satisfied due to these regulations.

In addition, judicial authorities or competent supervisory authorities within their mandates have not established any violations or deviations from relevant legal acts or Issuer's internal documents and there have not been any actions, claims, complaints etc. against the Issuer due to possible violations or deviations from these legal acts or Issuer's internal documents.

The Issuer explains full or partial non-compliance of certain Principles only, if it is within competences, powers and duties of the Issuer's management bodies (the Management Board and the Council).

Internal information mentioned in the Principles is disclosed on websites of the Issuer and of the Exchange, in The Central Storage of Regulated Information System (hereinafter – CSRI-system) according to the provisions and procedures of the Commercial Law, Financial Instruments Market Law of the Republic of Latvia, Regulation (EU) No. 596/2014 of the European Parliament and of the Council, Exchange regulations and internal documents of the Issuer.

The Principles are not mandatory, if the law does not regulate the administrative procedures and responsibilities in the manner, they are specified in the Principles, and/or leave the responsibility of independent legal entity to execute such procedure at its sole discretion. On the other hand, based on "comply or explain" principle, any influence on procedures unregulated in the law is considered as unjustified restriction of the independence and legal capacity of the legal entity.

In these circumstances, the Issuer does not comment actions of the legal entity, but indicates in the relevant section of the Principles that the law allows applying different legal procedures, what could be seen as an explanation of the motivation for possible non-compliance with the Principle.

Should the Issuer receive an opinion of private parties regarding the practice or legality of corporate governance Principles, which is not binding to the Issuer, and is of advisory or informative nature, the Issuer forwards the information to the body whom it is addressed (e.g., the shareholders' meeting, the Council or the Management Board). In such a way, the Issuer shows respect to and without any limitations to exercise its independence, rights and powers, and avoids any comments regarding shareholders' decisions due to the lack of essential competence.

The Principles, which are not included into statutory provisions of the Republic of Latvia and are not proclaimed according to the Law on Official Publications and Legal Information, should be available to investors. Therefore, the Issuer ensures publicity and compliance of the Principles of the Exchange by including them in the Issuer's internal documents and announcing the Issuer's Statement on Corporate Governance Principles annually as well.

The statement has been compiled and approved by the Management Board, and agreed by the Council.

II PRINCIPLES OF GOOD CORPORATE GOVERNANCE

SHAREHOLDERS' MEETING

Shareholders exercise their participation rights in management of the Issuer by attending shareholders' meetings. Pursuant to legal acts, the Issuers shall call the annual shareholders' meeting at least once a year. Extraordinary shareholders' meetings shall be called as required.

1. Ensuring shareholders' rights and participation at shareholders' meetings

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

1.1. It shall be important to ensure that all the holders of shares of one category have also equal rights, such as the right to receive a share of the Issuer's profit as dividends or in another way proportionally to the number of shares owned by them if such right is stipulated for the shares owned by them.

Comment: The principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

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 available.

Comment: The principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

The legal acts allow applying procedures different from the Principles. The relevant provisions on distribution of profits do not correspond to the Section 281 of the Commercial Law. Therefore, the shareholders have made decision to revise the issue of profit distribution separately, independently and annually, taking into account financial performances and economic situation of the Issuer. Suggestions and arguments regarding the profit distribution presented by the Council and the Management Board to shareholders' meeting are included in the Council report, and Management report, and in disclosed draft resolutions as well.

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.

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

*Comment: The principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
The application of the mentioned principle is within responsibility of other persons, who did not call shareholders' meetings of the Issuer in 2019.*

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.

Comment: The principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. In 2019, there have been none of claims and objections from shareholders regarding noncompliance of the Issuer with the Principles mentioned above.

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.

*Comment: The principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
Notice on convening shareholders' meeting is published when a full package of materials on the announced agenda is at the Issuer's disposal. This ensures that shareholders can be acquainted with them at once.
Notice on shareholders' meeting convened by other competent persons is published in due time according to the legal acts and the Issuer's internal documents when the Issuer has received an application, draft decisions and other documents to be submitted to shareholders' and for verification of credentials needed to call the meeting.
All the notices on convened shareholders' meetings in 2019 have been published on the website of the Exchange, in the CSRI-system, on website of the Issuer and in a local newspaper. Any information regarding the meetings is disclosed in two languages.*

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

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

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.

Comment: *The principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*
The announcements include the entire information on the meeting convened. The Issuer has provided some additional information on the agenda to shareholders on their request under the Commercial Law and the Regulations. Please refer to the comment on the Clause 1.5 as well.

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.

Comment: *The principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*
When Issuer's management bodies convene shareholders' meeting, draft resolutions have been duly published on the websites of the Exchange, the Company and in the CSRI-system.
When other persons convene shareholders' meeting, the draft resolutions are to be published in the same way at a time when they are received from the persons convening the meeting.
Alternative draft resolutions, as well as additional issues of the agenda proposed by the shareholders are published upon their receipt, if the publication deadlines set in the law allow this. Please refer also to comment on the Clause 1.5.

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.

Comment: *The principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*
The legal acts allow applying procedures different from the Principles. Please refer to the comment on Clause 1.9. as well.

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.

JSC DITTON PIEVADKĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*
The law allows applying procedures different from the Principles. Procedures for prior disclosure of information about Council member candidates whose election pursuant to Section 296 of Commercial Law and Section 54.² and 54.⁶ of Financial Instruments Market Law of the Republic of Latvia is considered as responsibility of shareholders, but not of the Council or Management Board, have been developed and offered to shareholders to secure their interests in the Regulations. Legal acts of the Republic of Latvian does not require from shareholders and candidates proposed by them to ensure any publicity of this information prior to the shareholders' meeting. If the Issuer receives such information from shareholders pursuant to Regulation, it will be immediately registered and included in the draft decision due to Section 54.⁶ of Financial Instruments Market Law, and, regardless of how many days before the shareholders' meeting it was received, published on the websites of the Exchange, Issuer and in the CSRI-system as soon as reasonably possible. When Council members are elected, information on them required by the law is included in the public database of the Enterprise Register, and published on the websites of the Exchange, Issuer and in the CSRI-system as well. Permission to disclose such information is their agreement to be elected as Council member of the Issuer. Other procedures of information publicity including information on Council members candidates do not correspond to the criteria of the Personal Data Protection Law and Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016. Please refer to the comment on Clause 7.2. as well.

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.

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*
Convening and course of shareholders' meeting is solely shareholders' responsibility, therefore the Issuer as Council or Management body does not have any instruments to limit any shareholder's rights at the meeting.
There are foreseen organisational and alternative options for above mentioned consultations, as well as for realisation of other issues significant for shareholders in the Regulations on the convening and course of shareholders' meeting approved by the shareholders, such as announcement of the break or postponing of the ongoing meeting, engagement of experts and the Issuer's officials, etc.
Please refer to the comment to Clause 1.11. as well.

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

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

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.

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*
In 2011, the Issuer has developed Regulations on the convening and course of shareholders' meeting, which have been approved in the shareholders' meeting.
Regulations are not legal acts, and therefore are not binding for shareholders (Please refer to the Section 281 of the Commercial Law).
The shareholders have the right to determine autonomous procedures and regulations at each meeting.

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.

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*
There are no legal acts in the Republic of Latvia and European Union which oblige elective official candidates to be present at the shareholder's meeting furnishing the Issuer any reason to require and ensure such presence. Opportunity of shareholders presented at the meeting to ask elective officials, as well as reporters, questions, is ensured by the Regulation and is based solely on own consent of the elective person to be interviewed. The Section 277 of the Commercial law determines duties of other Issuer's officials regarding attendance at the shareholders' meeting. Presence of any other person at the shareholders' meeting, including other representatives of the Issuer, is allowed only by shareholders' acceptance. The Issuer can not ensure their presence. Please refer also to the comment to Clauses 1.8, 1.9 and 1.11.

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.

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer, when the Issuer's official, e.g., member of the Management Board or the Council, is elected as the chairperson of the meeting.*
If another person is elected as the chairperson of the meeting, that person is considered as an autonomous legally elected legal entity, exercising its competence and performing duties independently from the Issuer due to the law.

2. Participation of members and member candidates of the Issuer's management institutions at shareholders' meetings

Shareholders' meetings shall be attended by the Issuer's board members, auditors, and as possibly many council members.

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.

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*

The attendance of the officials at the meeting is ensured by procedures stated in Latvian laws, Articles of Association of the Issuer and the Regulations. Their absence is not a reason to declare the meeting void or to appeal decision resolved at the meeting (Section 277 of the Commercial law). Participation of the officials and/or sworn auditor is recorded in the minutes of the meeting.

The right not to attend the meeting, at which the annual report of the Company or other issues connected with the finances of the Issuer are dealt with, are granted to the auditor by legal acts of the Republic of Latvia, which cannot be recalled by the Principles.

Therefore, it does not have any impact on deed and power of shareholder's decision resolved at the meeting as well.

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.

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*

The legal acts allow applying procedures different from the Principles.

Procedures for introducing official candidates are stipulated by the Regulations and ensured by the Issuer but solely within its competence. Implementation of shareholder's decision about election of Council member or sworn auditor is free from following the recommended Principle.

Besides, during the last election of the Council and sworn auditor the application procedure for the election into the Council (Audit Committee) and of the sworn auditor of the Company prior to shareholders' voting on candidates was based on CVs (for natural

JSC DITON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

persons) and on information statements (for legal persons) as a good case practice.

Please refer to the comments on Clauses 1.8, 1.9, 1.11 and 1.12. as well.

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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

The legal acts allows applying procedures different from the Principles.

Not-attendance of any person whose presence at the meeting is necessary is noted in the minutes of the meeting.

Please refer to the Regulations, and comments on Clauses 1.8, 1.9, 2.1. and 2.2. as well.

Summary: In 2019, there have not been any failures of Principles regarding convening and holding of shareholders' meeting, nor complaints and shareholders' claims about violation of their rights.

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 that it is efficient, able to take decisions, and committed to increase the value of the company, therefore its obligations and responsibilities have to be clearly determined.

3. Obligations and responsibilities of the Management Board

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

3.1. The Management 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 Management Board shall be responsible for the said to the council and the shareholders' meeting. In fulfilment of its obligations, the Management Board shall adopt decisions guided by interests of all the shareholders and preventing any potential conflict of interests.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

In 2011, shareholders have adopted the Declaration, further on each year separate decisions, which were followed by the Management board.

Members of the Management Board submit to the Company a written consent and acknowledgment of absence of obstacles for holding a post and conflict of interests before their duties start, which is attested by the state notary of the Enterprise Register of

JSC DITON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

the Republic of Latvia and held by the Commercial register and Issuer. The Council and Audit Committee of the Issuer within their competence informs Shareholders' meeting on compliance of the above mentioned principles by the Management Board.

3.2. The powers of the board shall be stipulated in the Management 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.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
The Commercial Law and Articles of the Association of the Issuer irrespective of the adoption of internal Board Regulations about distribution of credentials state the powers of members of the Management Board.
In 2011, the Issuer has developed Regulations of the Management Board, which have been approved by shareholders' meeting. Regulations are published on the website of the Issuer.
Regulations of the Management Board do not limit the rights of each member of the Management Board to represent the Issuer.*

3.3. The Management 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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

3.4. The Management 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

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. Systematic operation of the Management Board includes strategic and tactical business planning as well as control of Issuer`s risks and results.
When exercising the powers the Management Board guides itself by the Declaration, Regulations, Remuneration Policy, the business plan, certification and internal control system and other internal documents of the Issuer, such as resolutions of the shareholder's meetings, shareholder's assessments of the performance of the Management board and Council.*

3.5. In annual reports, the Management 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.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
The annual report contains the information mentioned.*

3.6. It shall be 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, opening of representation offices or branches, expansion of business etc) to the Issuer's council for approval.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
The Management Board requests consent of the Council to perform certain activities only in cases specified by law and Articles of Association of the Issuer, as well when shareholders' decision on any relevant issue requires this.
The Council and the Management Board has a legal competence regarding any other issues.*

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 every board member has appropriate education and work experience. The Issuer shall prepare a summary of the requirements to be set for every Management Board member, which specifies the skills, education, previous work experience and other selection criteria for every Management Board member.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
Election of members of the Management Board is carried out figuring on their education, professional experience consent and willingness to fulfil these duties, and in accordance with Commercial Law, Civil Law, Labour Law and classification of occupations (Regulations of the Cabinet of Ministers No.264 dated 23.05.2017).
Please refer to the comments on Clauses 3.1 and 3.2. as well.*

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.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
Information on members of the Management Board is systematically submitted to and updated, when new members are elected, on the websites of the Issuer, Exchange and in the CSRI-system, and in the Issuer's reports in accordance with provisions*

JSC DITTON PIEVADKĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

and procedures of statutory acts of the Republic of Latvia. Information on members of the Management Board is available as such in the public Commercial Register of the Register of Enterprises of the Republic of Latvia. Permission to disclose such information is their notice to the Issuer about agreement to be elected as a Management Board member of the Issuer. Other procedures of information publicity including information on Management Board members' candidates do not correspond to the criteria of the Personal Data Protection Law and Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016. Please refer to the comment on Clause 7.2. as well.

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

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

Members of the Management Board have free access to information on the Issuer's operations and management as it manages and represents the Issuer according to the Latvian Commercial law and all related documents and information is only under control of the Management Board.

The Council (Audit Committee) and the Issuer have not received from the members of the Management Board any claims or complaints about restrictions on fulfilment of their duties.

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.

Comment: The legal acts allow applying procedures different from the Principles.

The Issuer's Council shall not comply with the recommendation contained in the Principles which limit the term of office for members of the Management Board with four terms because of the following reasons:

1. Effective performance of duties of top management depends on the professional knowledge and skills acquired, particularly, due to personal professional background of the specialist, fulfilling certain responsibilities.

Rotation (or replacement) of professionals because of rotation process, based solely on the time period when specialist has been engaged in professional duties, is meaningless and ineffective to all intents and purposes, and results damage to the Issuer rather than benefit.

2. Principles of engagement of the member of the Management Board as a person who fulfils duties of his profession in the Company, can not be regulated with restrictions and conditions proposed in the Principles as it:

a) does not comply with the Principles of the Constitution of the

Republic of Latvia;

b) does not comply with legal acts, particularly, with the Commercial Law, Labour Law, Civil Law of the Republic of Latvia;

c) does not comply with international agreements on human rights signed by the Republic of Latvia, and namely the right to work, prohibition of discrimination of any kind any type when exercised this right.

5. Identification of the conflict of interests in the work of Management Board members

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

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

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

Members of the Management Board submit to the Council a written consent and acknowledgment of absence of obstacles for holding a post and conflict of interest before their duties start.

The Council (Audit Committee) and the Issuer do not have any information at their disposal on conflicts of interests aroused while members of the Management Board are performing their duties since they are elected to their positions.

Please refer to the comments on Clause 3.1 as well.

5.2. On the occurrence of any conflict of interests or even only on its possibility, a Management Board member shall notify other Management board members immediately. 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 Management Board member in question, as well as inform on any conflict of interests 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 Management Board member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Management 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 Management Board member: legal persons where the Management Board member or a closely related to him/her person is a Management 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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

documents of the Issuer.

The Council (Audit Committee) and the Issuer have not received from members of the Management board any notices on conflict of interests and/or on operations with persons who have close relationship or who are connected with board members.

5.3. Board members should not participate in taking decisions that could cause a conflict of interests.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
The Council (Audit Committee) and the Issuer do not have any information on such decisions at their disposal.*

COUNCIL

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

6. Obligations and responsibilities of the council

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

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

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
Duties and responsibilities of the Council are regulated by provisions and procedures of statutory acts of the Republic of Latvia and Council of Europe (European Commission), Articles of the Association of the Issuer, resolutions adopted in shareholders' meetings, the Declaration of the Issuer and Regulations of the Council, adopted by the Issuer and approved by the shareholders' meeting in 2011, which are available on the Issuer's website on the internet, as well as Audit Committee Regulation.*

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.

Comment: The Principle has been complied with legal acts and procedures of

JSC DITON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

the Republic of Latvia and the European Union, and internal documents of the Issuer. The Council when performing the functions of the autonomous and independent Audit Committee implements this supervision as well.

The mentioned matters are dealt with in the Council or Audit Committee meetings at least once a quarter when approving performance results, financial indicators and financial statements.

There is applied a practice of common meetings of the Management board and the Council to take resolutions on current issues, on setting the strategy, risks and development, as well as issues on Council's acceptance of Management Board operations (Please refer to comment on Clause 3.6 as well).

The Council provides information on these issues in its report to the annual statement. The Council representing the Audit Committee submits a separate report to the shareholder's meeting on the results of the autonomous supervision of preparation and content of the Annual Report.

6.3. The council and every its member shall be responsible that they have all the information required for them to fulfil 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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

The Council or Audit Committee members have free access to information on the Issuer's operations.

The Issuer have not received from Council's members any claims or complaints on restrictions in fulfilment of their duties. Please refer also to comment on Clause 6.2.

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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

The Council, as well as Audit Committee member has an opportunity to express opinion on the issues of the agenda in written in case one will be absent. The reason of absence, if there was such, is recorded in the minutes of the Council meetings.

According to the Latvian laws and European Union regulations the Council and the Audit Committee report only to the Shareholder's meeting and not to the Issuer represented by the Management Board.

7. Council composition and requirements for council members

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

7.1. The Issuer shall require every council member, as well as council member candidate, who is planned to be elected at a shareholders' meeting, to 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.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
Information on members of the Council is systematically submitted to and updated, when new members are elected, on the websites of the Issuer, Exchange and in the CSRI-system, and in the Issuer's reports in accordance with the provisions and procedures of statutory acts of the Republic of Latvia.
Please refer to the comment to Clauses 1.8, 1.9 and 1.11., 1.12 and 2.2. as well.*

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.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
Before election and start of the duties, members of the Council submit a written consent to execute all duties of the Council, as well as an Audit Committee member due to Commercial law, Financial Instruments Market Law, European Union Regulations and Company's Articles of Association and acknowledgment of absence of obstacles for holding a post, conflict of interests, as well as pointing sufficient time for these tasks, which is attested by the state notary of the Enterprise Register of the Republic of Latvia and held by the Commercial register and the Issuer.*

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.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
The shareholders' meeting submit annually an assessment of operations of the Council, as well as Audit Committee, functions of which are executed by the Council.
The shareholders are entitled to take decision on early termination*

JSC DITON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

of powers of the Council or its individual members in cases specified in the Commercial Law, including the matter when they prove their non-compliance with requirements set out in the Principles.

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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. The Issuer has no information about any violation of this Principle at disposal, as well as from the Council (Audit Committee) on being influenced in decision-making process.

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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. The shareholders took to the notice the independence criteria, as it falls within their competence. Only the shareholders' meeting is entitled to evaluate the independence of the Council (Audit Committee) members. The Issuer represented by the Management Board does not have such competence.

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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. The shareholders took to the notice the independence criteria, as it falls within their competence. Only the shareholders' meeting is entitled to evaluate the independence of the Council (Audit Committee) members. The Issuer represented by the Management Board does not have such competence.

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 to 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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. The shareholders took to the notice the independence criteria, as it falls within their competence. Only the shareholders' meeting is entitled to evaluate the independence of the Council (Audit Committee) members. The Issuer represented

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

by the Management Board does not have such competence.

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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. The shareholders took to the notice the independence criteria, as it falls within their competence. The Issuer does not have shareholders' report on the independence of the Council (Audit Committee) members.

8. Identification of conflict of interests in the work of council members

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

8.1. It shall be the obligation of every council member to avoid any, even only supposed, conflict of interests 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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. At Issuer's disposal there are none shareholders' reports "On independence of the members of the Council (Audit Committee)" and/or on decisions taken in interest conflict situations. Please refer to comment on Section 7 as well.

8.2. On the occurrence of any conflict of interests or even only on its possibility, a council member shall notify other council members immediately. 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 conflict of interests 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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. The Issuer has not received from members of the Council (Audit Committee) any notifications about

JSC DITON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

conflict of interests and/or on operations with persons who have close relationship or who are connected with board members.

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

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. The Issuer does not have any information on such decisions at its disposal.

Summary: In 2019, there have been no reported violations of Principles, which regulate duties, powers and responsibilities of the Management board and Council (Audit Committee), and conflict of interests as well.

There have not been known any claims, complains and objections against the members of the Management board and Council (Audit Committee).

The shareholder's meeting consider that operations of members of the Management board and Council (Audit Committee) fully correspond to Issuer's interests, aims and missions.

DISCLOSURE OF INFORMATION

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

9. Transparency of the Issuer's business

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

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

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

Information is disclosed pursuant to the Regulation (EU) No. 596/2014 of the European Parliament and of the Council, Financial Instruments Market Law, according to the Financial and Market Capital Commission and provisions of the Exchange and Regulation on the inside information, on procedures for the management and public disclosure of the inside information (incl. maintenance of the insider list) and on insiders dealings

JSC DITON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

with financial instruments, Regulation on the trade secret on the websites of the Exchange, Issuer and in the CSRI-system. In case, when disclosure of information may cause damage to the Issuer and/or its shareholders, the Issuer does not make it public taking into account legal acts of the Republic of Latvia, of the European Union and Issuer's internal documents.

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

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. The Issuer does not have any information at its disposal regarding incorrectness or inaccuracy of disclosed information.

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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. There are appointed and identified in the agreements with NASDAQ Riga (formerly known as - JSC NASDAQ OMX Riga) and with the auditor persons, who are entitled to provide information about the Issuer, e.g. update data on the website of the Exchange and in the CSRI-system. In all other cases, the Management Board represents the Issuer in public in accordance with the Commercial Law.

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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. Law and regulations of the Cabinet of Ministers of the Republic of Latvia, and internal normative acts as well specify the procedures on preparation of financial reports. References to the applied normative acts are given in the annual report. Accounting Policy and Regulation on bookkeeping and accounting are applied as internal regulations of the Issuer.

10. Investor relations

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

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

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 realisation of the IR process, it shall be born in mind that the target group consists not only of institutional investors and of 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.

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*

By following the Principles of this Section it is important to qualify investors:

a) existing and potential qualified and institutional investors who are owners, disposers or acquirers of the Issuer's financial instruments on the open market; called in legal acts as investors and shareholders. The procedure how information is announced them is determined by legal acts of the Republic of Latvia and the European Union, by Issuer's internal documents and these Principles as well.

b) existing and potential qualified and institutional investors who are planning to invest in the Issuer's equity capital by subscribing for (obtaining) the new issuance of the Issuer's financial instruments. Besides procedures and sources of information stated above there are applied prospectus, regulations and other related documents;

c) potential investors who are planning to invest in other Issuer's capitals, funds, property, projects etc..

In addition to available sources of information mentioned above investors can use confidential Issuer's internal information provided by the agreement in compliance with the provisions for protection of financial instruments market pursuant to the Regulation (EU) No. 596/2014 of the European Parliament and of the Council and Financial Instruments Market Law.

In case, when disclosure of information may cause damage to the Issuer and/or its shareholders, the Issuer does not make it public taking into account legal acts of the Republic of Latvia, of the European Union and Issuer's internal documents.

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 complete and comprehensive information on the Issuer, allowing the investor to assess all information available before the decision making.

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*

Issuer's statements and notifications, which are regularly published and available on the websites of the Exchange, Issuer and in the CSRI-system, enclose the information mentioned. Please refer to the Comment on Clause 10.1. as well.

JSC DITTON PIEVADKĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

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.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
Please refer to the Comment on Clause 10.1. as well.*

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.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
In 2019, there have not been developed any separate section on Investor Relations on Issuer's website, because it was not considered as important. Therefore, there was copied information for shareholders, which is fully available (Please refer to the Comment on Clause 10.1), and can be obtained by concerned persons on the websites of the Issuer, Exchange, CSRY-system. The IR section on the Issuer's website will be established when there will be specific investment programs or projects, issue of shares etc.*

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,

JSC DITON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

- 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..

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*

In 2019, there have not been developed any separate section on Investor Relations on Issuer's website, because it was not considered as important. Therefore, there was copied information for shareholders, which is fully available (Please refer to the Comment on Clause 10.1), and can be obtained by concerned persons on the websites of the Issuer, Exchange, CSRY-system. The IR section on the Issuer's website will be established when there will be specific investment programs or projects, issue of shares etc.

Summary: *Investors can obtain general information on the Issuer on websites of the Issuer and Exchange, in the CSRI-system, in the internet, in mass media, as well by submitting a free written request to the Issuer.*

Specialized information about the Issuer is systematically provided to potential investors during specific thematic exhibitions (e.g., mechanical engineering, metalworking industry, manufacturing), which are held in the EU (Hanover (Germany), Brno (the Czech Republic), Poznan (Poland), Birmingham (the United Kingdom), Jönköping (Sweden) and Riga (Latvia)) and outside the EU as well, for example, in CIS (Moscow, Minks) and in China.

Development, content and maintenance of the website are determined by information needs of investors. The data is updated when necessary.

Since 2017, there was launched a new version of the Issuer's

website.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.

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 characterise the most essential potential and existing risks in relation to the business of the Issuer.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
The implementation of the procedures is agreed upon legal acts of the Republic of Latvia and the European Union, as well as Principles of risk qualification, management and control stated in the Declaration.
The risk analysis 2019, which had an effect on Issuer's financial operations, is included into Issuer's annual reports and reports of 6 months reports. Annual report includes also potential risks of the next periods.*

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

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
The Issuer has received no claims from the auditor on failure to provide information or to limit any access to information.*

11.4. Auditors shall be independent in their work. 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

JSC DITON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

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.

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
In 2019, functions of the auditor have been performed by Aktīvs M Audits Ltd. whose duties and independence are regulated by statutory acts of the Republic of Latvia and the European Union.*

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.

Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. Please refer to comments on Section 12 as well.

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 Management Board.

Comment: The Principle is impossible to comply with as the auditor performs its duties towards the Issuer but not the individuals of the Management board. Moreover, the objectivity and independence of the auditor, including the Audit Committee of the Issuer, are determined by legal acts of the Republic of Latvia and the European Union, irrespective from the staff of the Management Board of the Issuer and/or their terms of office.

Summary:

- 1. The Issuer's goals, mission, procedures of its risk and its management, as well as processes of their control and analysis are set in the Declaration.*
- 2. Risk control and management are within duties and responsibilities of the Management board and the Council (Audit Committee). For more detailed information, please refer to comments on Clauses 3.1 and 6.2 of the Declaration, the Management report and Council report to the annual statement and Audit Committee report to the ordinary shareholder's meeting.*
- 3. An independent internal audit has been carried out by the Audit Committee of the Issuer, who`s responsibilities are fulfilled by the Council due to Financial Instruments Market Law of the Republic of Latvia. (Please refer to Section 12).*
- 4. Independence of the auditor is ensured by the Audit Services Law and legal acts of the European Union, which through their legal status are independent from the Issuer and the Principles.*
- 5. The Council and the Management Board report on analysis and management of risks and other important events, which have a significantly impact on Issuer's operations, in financial reports for 6 months and annual reports. In addition, these circumstances are being dealt with at shareholders' meetings when the annual report is approved.*

12. Issuer's Audit Committee

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

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

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*

In accordance with the laws of the Republic of Latvia and the Articles of Association of the Issuer, duties and responsibilities of the Audit committee have been performed by the Issuer's Council governed by the Regulations of the Council and rules of procedures of the Audit committee. Each elective Council member submits a written consent to fulfil duties of the Audit Committee pursuant to the Financial Instruments Market Law and Issuer's Articles of Association (Please refer to the Comment on Sections 6, 7 and 8 as well).

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.

Comment: *Members of the Council, which performs the responsibilities of the Audit Committee, have proper education, work experience and are independent (please refer to Sections 6, 7 and 8).*

When it is necessary to consider any specific issue, the Council is entitled to invite an Issuer's employee of the appropriate profile or an independent expert.

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.

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.*

Judging from the Council report, it has mustered all the necessary information about the Issuer.

Neither the Issuer nor the shareholder's meeting has received claims from the Council (Audit Committee) on limitation its access to information.

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

Comment: *The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer. The Council informs the shareholders' meeting on the performance of tasks of the Audit Committee mentioned above.*

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

On access to the information, please refer to comment on Section 6 and Clause 12.3 as well.

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

*Comment: The Principle has been complied with legal acts and procedures of the Republic of Latvia and the European Union, and internal documents of the Issuer.
There is no information at Issuer's disposal on any violations of competence of the Council, as of the body performing the tasks of the Audit Committee. Council's reports are announced at shareholders' meeting.*

REMUNERATION POLICY

13. General Principles, types and criteria for setting remuneration

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

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.

*Comment: The Issuer has developed Remuneration Policy of members of the Management Board and the Council, which has been approved in the shareholders' meeting pursuant to the Sections 268 and 300 of the Commercial Law (Protocol of shareholders' meeting No.1 dated 31.05.2011).
Remuneration Policy of members of the Management board and the Council is an integral part of the remuneration system for Issuer's employees, which due to the Labour Law and the Law on Trade Union is included into collective agreement and which is approved by employee representatives on behalf of their labour organization.
Hereinafter, the section "Issuer's system of employees' remuneration, remuneration policy of members of the Management Board and the Council" is entitled "Remuneration policy". In 2020 the adoption of revised remuneration policy of the Management Board and Council members is planned due to requirements of the Financial Instruments Market Law, Directive (EU) No 2017/828 of the European Parliament and of the Council of 17 May 2017.*

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

JSC DITON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

the Issuer's council. In order to avoid conflicts of interest and to monitor the operations of the management board regarding remuneration policy, the Issuer should appoint a responsible person with sufficient experience and knowledge in the field of remuneration for development of the remuneration policy.

Comment: All governing bodies of the Issuer have been involved into development of the remuneration policy, which consequently has been approved by decisions of the Management Board, the Council and shareholders' meeting due to their competences pursuant to the Articles of Association and the Commercial Law. (Please refer to the comment on Clause 13.1).

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.

Comment: Remuneration Policy complies with this Principle.

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.

Comment: Non-variable and variable components of remuneration are set in accordance with the Remuneration Policy. Variable components of the remuneration are related to performance results and financial position of the Issuer (due to provisions of the Sections 1(2), 300, 308 (1) of the Commercial Law).

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.

Comment: The Issuer does not apply such practice. Non-variable and variable components of the remuneration are set in accordance with the Remuneration Policy. Variable components of the remuneration are related to performance results and financial position of the Issuer (due to provisions of the Sections 1(2), 300, 308 (1) of the Commercial Law), but not to financial instruments of the Issuer. Should the shareholders adopt decision on application of such practice, it will be added as amendment to the Remuneration Policy.

13.6. Remuneration policy should include provisions that permit the Issuer to reclaim variable part of remuneration that were awarded based on data which subsequently proved to be manifestly misstated. Such provision should be included in contracts concluded between the respective executives and the Issuer.

Comment: Non-variable and variable components of the remuneration are set in accordance with the Remuneration Policy. Remuneration for all the employees of the Issuer is being paid due to labour relations governed by an employment contract and the Labour Law of the Republic of Latvia.

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

Members of the Council are not to be considered as Issuer's employees in terms of the Labour Law of the Republic of Latvia. According to shareholder's resolution they are rewarded pursuant to the Section 300 of the Commercial Law of the Republic of Latvia. This reward is recognized as work remuneration resulting from the employment relationship.

The requirement to repay fully or partly the remuneration paid under the employment contract, as well as non-variable and variable components, is permitted only in the cases set by the law of the Republic of Latvia.

Any provisions included in the employment contract or other documents are out of force at the time compiled, when they are not justified by the law.

The existing legal provisions should not be included into Issuer's internal documents, as well in the labour contract.

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.

Comment:

The Issuer does not apply such practice.

Any losses of the shareholders may be revised in reliance on general reimbursement Principles in accordance with Principles and provisions of the Civil Law of the Republic of Latvia and the European Union.

Should the shareholders adopt decision on application of such practice in terms of relevant legal acts of the Republic of Latvia and the European Union, it will be added as amendment to the Remuneration Policy.

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.

Comment:

The Issuer does not apply such practice. Remuneration Policy is not related to financial instruments of the Issuer. Should the shareholders adopt decision on application of such practice in terms of relevant legal acts of the Republic of Latvia and the European Union, it will be added as amendment to the Remuneration Policy.

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.

Comment:

The Issuer does not apply such practice. Remuneration Policy is exclusively in the competence of the Issuer. Issuer's operations, incomes and expenses as well as other factors are not related to the financial instruments market.

In this regard, the Issuer does not consider for appropriate to link the remuneration policies with the financial instruments market and its options (up to adjustment of the Remuneration Policy). Should the shareholders adopt decision on application of such practice in terms of relevant legal acts of the Republic of Latvia

JSC DITON PIEVADKĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

and the European Union, it will be added as amendment to the Remuneration Policy.

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.

Comment: Within the validity period of these Principles, the Issuer has not experienced application of this Principle, especially, when it's application is restricted by legal acts of the Republic of Latvia. Employment legal relationships and employment contract with the member of the Management Board can be terminated only for the reasons set in the Commercial Law (Section 306) and the Labour Law (Sections 98, 100, 101, 114, 115). Anyway, the salary and compensations in case of the termination of the employment contract should be fully paid. According to the Principles any restrictions of these costs, such as amendments to the employment contracts for their reduction cannot be executed. As members of the Council do not have employment contracts, they are remunerated (due to the Section 300 of the Commercial Law). Payment of the remuneration is suspended after their withdrawal on the base of the shareholders' decisions or upon leaving the position (due to the Section 296 of the Commercial Law). In any case, there should be a very important reason for termination of powers of members of the Management Board and the Council, because any other procedures do not comply with legal acts. In case of disputes, these reasons and restrictions will be evaluated by the court based on statutory acts of the Republic of Latvia and court convictions rather than on Issuer's internal Principles.

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.

Comment: Within the validity period of these Principles, the Issuer has not experienced application of this Principle. The Principle is to be applied pursuant to the legal acts of the Republic of Latvia. (Please refer to the comment on the Clauses 13.6 and 13.10).

14. Remuneration Report

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

14.1 The Issuer is obliged to make public the Remuneration Report – a complete report on the remuneration policy applied to the members of the Issuer's management bodies. Remuneration Report may be a separate document, or may

STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

integrated in a special chapter of the Report prepared by the Issuer as recommended by Clause 9 of the Introduction of the present Recommendations. The Remuneration Report should be posted on the Issuers website.

Comment: *Remuneration Policy of members of the Council and Management Board as a separate document approved by the shareholders' meeting is available for investors and third persons on the Issuer's website on the internet.*
Remuneration Report for the reporting period included into Issuer's Annual Report (as Appendix 21) is available on the websites of the Issuer, Exchange and in the CSRI-system. Starting from Annual report for the year 2020 the Remuneration report will be published du to requirements of the Financial Instruments Market Law, Directive (EU) No 2017/828 of the European Parliament and of the Council of 17 May 2017.

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 Clauses 14.5, 14.5 and 14.7 below.

Comment: *Principles, legal and commercial objectives for formation and structuring of the Remuneration Policy of the Council and Management Board members are stipulated in the Remuneration Policy of the Council and Management Board members which has been approved by the shareholders' meeting and is available on the Issuers' website on the internet.*
Funds structured in accordance with the Remuneration Policy are considered as reasonable and adequate remuneration of members of the Council and Management Board complying with their requirements and interests.

14.3 To avoid overlapping of information, the Issuer, while preparing its Remuneration Report, may omit the information required in Clauses 14.2 1) to 7) above, provided it is a part of the Issuer's Remuneration Policy document. In

JSC DITON PIEVADKĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

such case, Remuneration Report should have a reference to the Remuneration Policy, together with an indication where it is available.

Comment: Please refer to the comment on Clause 14.2.

14.4 If the Issuer believes that, because of following the provisions of Clause 14.2 of these Recommendations some 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.

Comment: Disclosed in the Remuneration Policy of the Council and Management Board members, amount of information about Principles and objectives for formation and structuring of the remuneration corresponds to Issuer's interests due to Principles of the Declaration, commercial secret and prevention of unreasonable losses, legal acts of the Republic of Latvia and personal interests of members of the Council and Management Board as well. Please refer also to comment on Clause 14.5.

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 Clause, "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 Clauses 1) to 5) received as remuneration.

Comment:

1. *The Issuer does not regard appropriate to goals and mission of the Issuer to specify information of each individual member of the Management Board and the Council in the Remuneration Report because of following reasons:*
 - 1) *Existing and potential shareholders have the right to become acquainted with a general information regarding total expenditure on remuneration of the Management board and the Council to evaluate the Issuer in relation to economic indicators, as there is no need to encode refund of each individual member of the Management Board and the Council received during the year;*
 - 2) *Disclosure of the remuneration of each individual member of the Management board and the Council contradicts legal acts of the Republic of Latvia and European Union (due to Personal Data Processing Law and Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data). This information cannot be disclosed without their consent pursuant to requirements of statutory acts.*
2. *Remuneration of the members of the Management board is a component of Issuer's general Principles of work*

JSC DITTON PIEVADKĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

remuneration; whereas work remuneration fund, its determination (constant and variable components), extension to production costs of goods, a percentage from total costs and other aspects are components of Issuer's financial analytics and pricing. Therefore, the unjustified access of third parties to this data can lead to unfair competition and other adverse economic consequences. *As none of the companies operating in Issuer's branch discloses publicly such information, the Issuer also does not see it as useful to make such information publicly available.*

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.).

Comment: The Issuer does not apply such practice. Should the shareholders decide on applying such practise in terms of the legal acts of the Republic of Latvia and of the EU, it should be reflected by appropriate amendments to the Remuneration Policy.

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.

Comment: The Issuer does not apply such practice. Should the shareholders decide on applying such practise in terms of the legal acts of the Republic of Latvia and of the EU, it should be reflected by appropriate amendments to the Remuneration Policy.

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.

Comment: The Issuer does not apply such practice. Any shareholders losses may be considered solely based on general reimbursement Principles due to Principles and provisions

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

of the Civil Law of the Republic of Latvia and of the European Union.

*Common
comment to
the Section*

1. By formation of employees' remuneration and by disclosure of the information on this remuneration the Issuer firstly will refer to execution of binding legal norms of the Republic of Latvia and European Union according to the hierarchy of such legal norms (Law On Official Publications and Legal Information) towards the internal documents of the Issuer and these Principles.

2. Pursuant to Section 19 of the Commercial Law the rest of information on remuneration of the Management Board and Council members, which is not defined in the Remuneration Policy, is considered as commercial secret.

According to Section 283 (2) of the Commercial Law, the Issuer, has the right to refuse in disclosure of such information not only to potential shareholders, but also to the existing ones.

On the basis of norms mentioned above the Issuer has exclusive rights on this commercial secret and none of the third persons can oblige the Issuer to waive them and act violating them.

The shareholder, who was refused in disclosure of this information, is entitled to put the issue of this refusal in the court of the Republic of Latvia at its own discretion and in due time and form stated in the Commercial Law without third-party intermediary.

This information is kept undisclosed under the hierarchy of legal acts we are guided by.

3. Pursuant to the Financial Instruments Market Law, Directive (EU) No 2017/828 of the European Parliament and of the Council of 17 May 2017 the Issuer adopts new Remuneration Policy of the JSC "Ditton pievadķēžu rūpnīca". According to this Policy after it will be approved by the shareholders' meeting, remuneration formation principles for Management Board and Council members will be implemented, which differs from the existing. Comments to these principles will be given in the Statement on Corporate Governance Principles for the year 2020.

ANNEX III

INDEPENDENCE CRITERIA OF SUPERVISORY BOARD MEMBERS

As independent shall be regarded a Supervisory Board member of the Issuer who:

- 1) has not been a Management Board or Supervisory Board member of the Issuer, its associated company or a shareholder that controls the Issuer in the previous three years and does not hold the said office also within the time period when holding the office of a Supervisory Board member. A company associated with the Issuer shall mean a company which is included in the consolidated financial report of the Issuer or the consolidated report of which the Issuer is included in;
- 2) is not the Issuer's, its associated company's or a shareholder's which controls the Issuer employee, except in cases when the Supervisory Board member candidate in question has been appointed for election to the Supervisory Board as a representative of the Issuer's employees;
- 3) in addition to the remuneration he or she receives as a Supervisory Board member, he or she does not receive or has not received any substantial additional remuneration from the Issuer, its associated company or a shareholder that controls the Issuer;
- 4) neither directly or indirectly represents the shareholders that control the Issuer;
- 5) neither as of the approval nor within the last year prior to approval as a Supervisory Board member neither directly nor indirectly has been in substantial business relations

JSC DITTON PIEVADĶĒŽU RŪPNĪCA
STATEMENT ON CORPORATE GOVERNANCE PRINCIPLES

- with the Issuer, its associated company or a shareholder that controls the Issuer neither directly nor as a partner, shareholder or a senior manager;
- 6) within the last three years has not been an internal controller, auditor or employee at a company which is the external auditor of the Issuer, its associated company or a shareholder that controls the Issuer;
 - 7) is not a Management Board member or another managing employee at a company at which the Issuer's Management Board member performs the functions of a Supervisory Board member and if he or she has not any other essential relations with the Issuer's Management Board members by participating in other companies or organisational units (mutually connected control relations);
 - 8) has not been the Issuer's Supervisory Board member for more than 10 (ten) successive years;
 - 9) is not a family member (for the purposes of this clause a family member is a spouse , a parent, or a child) of a Management Board member or a person to whom the criteria specified in sub-clauses (1) to (8) of this Annex apply.