

THE REPUBLIC OF LATVIA
JOINT STOCK COMPANY
“OLAINES KŪDRA”

ANNEX

to Joint Stock Company “Olaines kūdra”
Annual Report of the Year 2011

CORPORATE MANAGEMENT
REPORT
FOR THE YEAR 2011.

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I. Introduction

This is the Joint Stock Company “Olaines kūdra” Corporate Management Report for the year 2011 (hereinafter referred to as Report) is prepared basing upon the provisions of AS “NASDAQ OMX Riga” “Corporate management principles and suggestions to their implementation” edition of 2011. The Report is drawn up and reviewed by the Board of AS “Olaines kūdra”.

This Report is submitted together with AS „Olaines kūdra” audited annual report of the year 2011 and is published in the home page of AS “NASDAQ OMX Riga”.

Chairman of Board of JSC “Olaines kūdra”

G.Cankalis

II. PRINCIPLES OF GOOD CORPORATE ADMINISTRATION SHAREHOLDERS MEETING.

The shareholders execute their rights to participate in the Issuer's administration by participation in the shareholders meeting. Pursuant to the provisions of normative acts the Issuer shall convene the annual shareholders meeting at least once a year. The extraordinary meeting shall be convened as needed.

1. Provision of shareholders rights and participation in shareholders meeting.

The Issuer shall provide equal attitude towards all shareholders – owners of one category shares. All shareholders shall have equal possibilities to participate in the Issuer's administration – to participate in shareholders meetings and to receive information that is necessary for shareholders to adopt decisions.

- 1.1 It is important to ensure that all owners of one category shares shall have equal rights as well, among others, to receive the portion of Issuer's profit in a way of dividends or in some other way in proportion to the number of shares owned by the shareholders if the shares owned by them provide such possibility.

JSC "Olaines kūdra" observes this principle of corporate administration (management). Pursuant to the Articles of Association JSC "Olaines kūdra" has issued one category shares, that provide voting rights in the shareholders meetings, as well as equal rights to receive dividends and liquidation quota.

- 1.2 The Issuer shall develop the profit distribution policy. During the development of policy it is advisable to take into account not only the provision of immediate benefits to the Issuer's shareholders by paying out dividends, but also the utility of profit reinvestment thus enhancing the Issuer's future value. It is advisable to discuss the profit distribution policy in the shareholders meeting in this way ensuring that it is presented to most possible number of shareholders giving them the chance to Express their opinion. In the Report the Issuer indicates where the Issuer's profit distribution policy can be found.

JSC "Olaines kūdra" has not developed official profit distribution policy. Pursuant to the Commercial Law of the Republic of Latvia the decision regarding the profit distribution shall be adopted by the shareholders meeting however when preparing the proposals for profit distribution the Company's board and council are observing this principle. In 2011 the Company has worked with losses.

- 1.3 In order to protect efficiently the interests of Issuer's shareholders all issues discussed in these recommendations regarding the convocation of shareholders meetings and provision of necessary information to the shareholders are recommended to be observed not only by the Issuer but also by any other person who according to the procedure stipulated in the normative acts are convening, announcing and organizing shareholders meetings.

In 2011 one ordinary and two extraordinary shareholders' meetings were held by the Company. The meetings were convened by the Company's board.

- 1.4 The Issuer's shareholders ensure the possibility to receive necessary information timely and regularly regarding the Issuer, to participate in meetings and to vote for agenda issues. The Issuer shall do its utmost in order to provide that as many as possible shareholders take part in the meeting; for this purpose the place and time of the meeting should not restrict the shareholders'

participation in the meeting. Likewise it should not be allowed the change of place and time of convocation of meeting shortly before the meeting thus encumbering or making impossible for shareholders to arrive at the shareholders meeting.

According to the provisions of the law JSC "Olaines kūdra" has informed the shareholders about the convocation of the shareholders meeting, the voting procedure, the time and place of the meeting. After the notification the information has not been changed.

- 1.5 The Issuer informs the shareholders regarding the convocation of the general meeting of shareholders by announcing the meeting in the order and time terms stipulated in the normative acts. The Issuers are invited to announce the shareholders meeting immediately after the moment when the resolution is adopted to convene the meeting, especially in case of the extraordinary shareholders meetings. The information regarding the convocation of the meeting shall be posted in the Internet website of the Issuer, where it shall be provided in at least one foreign language. It is recommended that it could be English so that the home page could be used by foreign investors as well. When publishing the information regarding the convocation of the shareholders meeting the initiator of the convocation shall be also indicated.

In 2011 the notice of the ordinary meeting and the extraordinary meetings is published in accordance with the requirements of law and order and although the notice is not placed on the company website it is published in Latvian and English on Stock Exchange's website and in the official minimum information storage system and is still available.

- 1.6 The Issuer ensures that the shareholders before the meeting have all necessary information regarding the procedure, place, and time and voting procedure in the meeting, as well as the meeting agenda and draft decisions to be voted at the meeting. In addition the Issuer informs the shareholders where to turn in case of questions regarding the procedure of the shareholders meeting and agenda issues; the Issuer provides the necessary additional information for shareholders.

In the notices regarding the shareholders' meeting held in 2011 the place of the meetings is indicated, as well as it is specified where and how additional information regarding the issues of the meeting's agenda can be obtained.

- 1.7 The Issuer shall ensure that at least 14 (fourteen) days prior to the meeting the shareholders will be able to acquaint themselves with the draft resolutions to be adopted at the meeting regarding the issues to be discussed, including the issues that are submitted additionally after the convocation of the meeting. The Issuer shall ensure that shareholders can acquaint themselves with the full text of draft resolutions, especially regarding to the voting about the amendments of the Issuer's Articles of Association, the election of the Issuer's officials, fixing of their remuneration, distribution of the Insurer's profit and other essential issues.

In 2011 14 (fourteen) days before the shareholders' meeting the drafts of shareholders' decisions were published on the Stock Exchange website and in the official information storage system; the draft decisions were available also at the legal address of the Issuer.

1.8. The Issuer is not allowed in any way to restrict the shareholders rights to nominate for election in the council the representatives of shareholders; the candidates for council members and other officials shall be timely nominated so that the shareholders at least 14 (fourteen) days prior to the shareholders meeting shall have feasibility to introduce themselves with the said persons at least within the scope provided in article 1.9 of this section.

In 2011 The Company's members of Council were elected twice, the rights of shareholders when proposing the shareholders' representatives to be elected in the Council were in no way restricted; the information about the nominees to the Council members was provided according to the requirements of the Law.

1.8 Special attention shall be paid to the fact that within 14 (fourteen) days prior to the shareholders meeting the shareholders could acquaint themselves with information regarding the candidates of council members, as well as with candidates of auditing committee members whose approval is planned in the shareholders meeting. When publishing the information regarding the candidates of the council members the brief Professional biography of the said persons shall be disclosed.

In 2011 when electing the members of the Council all necessary information on the nominees to Council members was provided.

1.10 The Issuer shall not restrict the shareholders rights during the meeting to consult each other if it is necessary for adoption of any decision or for clarification of any issue.

The regulation of JSC "Olaines kūdra" shareholders meeting does not restrict the shareholders rights during meeting to consult each other.

1.11 In order to provide the shareholders with exhaustive information regarding the procedure of the shareholders meeting the Issuer shall develop the regulation of procedure of shareholders meeting where the order of procedure of the shareholders meeting as well as resolution of any issue related to the meeting shall be defined (for example, the registration of participants, the order of adoption of decisions regarding the issues to be discussed at the meeting, the actions of the Issuer in case if any of the agenda issues are not discussed, if the decision cannot be adopted, etc.). The procedures adopted by the Issuer shall be easily realized.

JSC "Olaines kūdra" provides the observance of this principle. The regulation of the shareholders meeting has been developed.

1.12 The Issuer shall provide that during the shareholders meeting it is possible to ask questions to the candidates of officials to be elected at the meeting and to other representatives of the Issuer that are present at the meeting. The Issuer is eligible to set reasonable provisions for asking questions, for example, by excluding the possibility for one shareholder to use all time envisaged for the questions and to set the maximum time limit for speech of one shareholder.

In the regulation of the agenda of JSC "Olaines kūdra" shareholders meeting the time limit for the speech of one shareholder is defined.

1.13. When indicating in the shareholders meeting the process and contents of discussion of all issues included in the agenda, the chairman of the meeting shall ensure that in case if any of the meeting participants demands in the meeting minutes

there shall be included certain debates or the shareholders suggestions or questions shall be appended in the written form to the meeting minutes.

JSC “Olaines kūdra” shareholders' meeting minutes were taken indicating the process and contents of discussions regarding all agenda issues to be discussed. In the reporting year during the meetings no special written proposals, suggestions or issues have been submitted.

2. Participation of members and candidates of Issuer's management institutions in the shareholders meeting.

The Issuer's members of board, the auditor and as many as possible of the Issuer's council members shall participate in the shareholders meeting.

2.1 The participation of the Issuer's members of management institutions and the auditor in the shareholders meeting is necessary in order to provide the information exchange between the Issuer's shareholders and the members of management institutions, as well as to provide the shareholders rights to receive the answers of competent persons to the questions asked. In the shareholders meeting where the Issuer's financial issues are not discussed the presence of the auditor is not compulsory. By exercising their rights to ask questions the shareholders can obtain additional information regarding the conditions that could influence the evaluation of financial statements and the Issuer's financial status.

In the ordinary shareholders' meeting all members of Board and two members of Council of have participated. The auditor of the Company was not present at the meeting; the auditor was represented by his authorized person who has delivered the auditor's report. All members of Board and one member of Council participated in the extraordinary shareholders' meeting.

2.2. In the meeting the candidates of officials that are planned to be elected in the meeting shall participate. It is especially applied to the members of council. If the candidates of the council members or the candidate of the auditor cannot participate at the shareholders meeting and the reason is materially justified then it is allowable that the respective official is not present at the shareholders meeting. In this situation all essential information about candidates shall be disclosed between the meetings.

In 2011 in the agenda of two extraordinary shareholders' meetings there were issues regarding the elections of the Council members. In the extraordinary shareholders' meeting in March only 2 nominees to the Council members participated, the other nominees to the Council members have already been known to the shareholders, since they were elected repeatedly as the Council members. In the extraordinary shareholders' meeting in October, when electing the Council only one nominee to the Council member was present, regarding others the necessary information was provided.

2.3 During the shareholders meeting the shareholders shall have possibility to obtain information about the officials or their candidates, who have not arrived at the meeting and about the reasons of their non-arrival. The reasons for non-arrival of the Issuer's officials should be fixed in the meeting minutes of the shareholders meeting.

In the meeting minutes of JSC “Olaines kūdra” the information was fixed regarding the officials being present at the meeting.

BOARD

The board is the Issuer's executive body that administrates and represents the Issuer in its daily routine work, therefore the Issuer shall ensure that the board is efficient, to be able to make decisions, to be oriented to the multiplication of the Company's value by clearly determining its obligations and responsibilities.

3. Obligations and responsibilities of the Board.

The Issuer shall determine clear and unambiguous obligations, powers of the Board and responsibilities of its members thus providing successful operation of the Board and increase of the Issuer's value.

3.1 The Board's obligation is to manage the operation of the Issuer, including also the responsibility for realization of the goals and strategies set by the Issuer and the responsibility for the reached results. Regarding mentioned the board reports to council and to the shareholders meeting. When fulfilling its obligations the board shall adopt decisions taking into account the interests of all shareholders and avoiding the possibilities for creation of interest conflicts.

Pursuant to the requirements of LR Law, the decisions of the shareholders meeting and resolutions of council the board of JSC "Olaines kūdra" manages the operation of the Company and is responsible for the implementation of the Company's goals and strategies.

3.2 The power of the Board shall be determined in the Board regulation or in the equal document that shall be published on the Internet in the home page of the Issuer. This document shall be available also in the Issuer's office.

The Board regulations are developed and although it is not published in the Issuer's home page, it is available in the Issuer's office.

3.3 The Board is responsible also for observation of all binding normative acts, for risk management, as well as for financial activities of the Issuer.

In its operation the Board of JSC "Olaines kūdra" observes the law and other normative acts.

3.4 The Board shall perform certain tasks, including:

- 1) The evaluation and promotion of corporate strategy, the defined operation plans, risk control procedures, the fulfilment of annual budget and business plans by ensuring the control over the fulfilment of plans and reaching of planned results;
- 2) The selection of top employees of the Issuer, defining of their remuneration, the control of their operation and in case of necessity - their replacement, according to the existing internal procedures (for example, by observing the Issuer's defined personnel policy, remuneration policy, etc.)
- 3) Timely and qualitative submission of reports by ensuring also the performance of internal auditing and control of information disclosure.

The Board of JSC "Olaines kūdra" manages all operations of the Company, including the selection of employees and fixing of work remuneration, the controlling of fulfilment of plans, the provision of submission of reports .

3.5. In the annual report the Board certifies that the internal risk control procedures are effective and that the risk management and internal control within the year have been performed according to the said control procedures.

By signing the Annual report of JSC “Olaines kūdra” the Board confirms it and bears responsibility regarding its composing.

3.6 It is advisable that the board shall submit to the Issuer’s council the decisions that define the goals of the Issuer and the strategy for reaching of such goals (participation in other companies, acquisition or alienation of property, the expansion of activities by opening representative offices or branches or by expanding the field of operation, etc.

In 2011 the Board of JSC “Olaines kūdra” has not dealt with issues regarding the change of the company’s goals and strategies.

4. Composition of Board and requirements to be imposed to the board members.

The composition of the Board approved by the Issuer shall ensure sufficiently critical and independent attitude during the evaluation and adoption of decisions.

4.1 By composing the board it shall be taken into account that each member of board has appropriate education and work experience. The Issuer shall form the aggregate of the requirements to be applied to the members of board in which the necessary skills, education the previous work experience and other selection criteria have been set for each member of board.

JSC “Olaines kūdra” has not developed a special set of requirements for the members of Board, however the specified requirements the Council applies when appointing the Board members. In 2011 the composition of the Board was changed 2 times.

4.2 In the Issuer’s home page the following information shall be provided for each member of board: name, surname, date of birth, education obtained, the term for which the member of board has been elected, his/her position, description of the professional experience within the last three years, the number of Issuer’s or its daughter company shares owned, information about the positions hold in other capital companies.

The information about the member of board is available at the legal address of the Issuer and although it is not published in the Issuer’s home page, it is available in the issuance booklet prepared when resuming the quotation of shares in the Stock Exchange and it is available in the Exchange home page and in the storage system of the official mandatory information.

4.3 In order to perform obligations successfully the members of board shall have access to updated and precise information about the Issuer’s activities. The Board shall have feasibility to provide objective evaluation about the Issuer’s operation. The members of board shall have sufficient time for performance of their obligations.

The members of Board of JSC “Olaines kūdra” have access to all information about the Company’s operation and they have sufficient time for performance of their obligations.

4.4 It is not advisable to elect one and the same member of board to the board for more than four sequent terms. The Issuer shall evaluate whether in this way the development of the Issuer's activities will be facilitated and whether it will be possible to avoid the situation when in the hands of one or several persons taking into account their long-term working with the Issuer, the stronger power is concentrated. However if such election is tolerated it would be advisable to consider the necessity to change the field of activities of the Issuer for which the respective member of board is responsible.

JSC "Olaines kūdra" partially apply this principle of corporate governance as two of the three Board members are elected and work for more than four terms. The Issuer's business is production and the professionals with vast experience in their respective field are working with the Board. Currently, the newly elected Board members of JSC "Olaines kūdra" are working for the first term.

5. Identification of interest conflicts in the operation of the members of board.

Each member of board in his activities shall avoid any interest conflicts and they shall be maximum independent from external conditions with desire to undertake responsibility for adopted decisions and to observe generally accepted ethical principles when adopting any decisions related to the Issuer's operation.

5.1 The obligation of each member of board is to avert any, even seeming interest conflict in their activities. By adopting decisions the member of board shall take into account the interests of the Issuer and shall not use the co-operation proposals offered to the Issuer for the gain of personal benefit.

When managing the Company's work the Board of JSC "Olaines kūdra" observes the law and other normative acts.

5.2 In case of occurring of any interest conflict or even in case of its possibility the member of board shall immediately report to other members of board. The member of board shall notify about any transaction or agreement that the Issuer is planning to conclude with a person who has close relationships with the member of board, or who is the related party of the member of board, as well as shall inform about the interest conflicts arising during the term of validity of concluded agreements.

The persons that have close relations with the member of board for the purpose of these recommendations are deemed to be: a spouse of the member of board, relative or brother-in-law up to the second degree relationship and sister-in-law up to the first degree of relationship, or the persons who has a common house hold with the member of board for at least one year. The persons that are related parties to the member of board for the purpose of these recommendations are deemed to be legal persons in which the member of board or his closely related persons have holding office of the member of board or council, provide auditing or hold other leading positions that allow to define or to influence the strategy of activities of respective legal person.

JSC "Olaines kūdra" provides the observance of this principle. The members of board of JSC "Olaines kūdra" during their activities in 2011 there were no interest conflicts.

5.3 It is not advisable for the members of board to participate in the adoption of such decisions that could create interest conflicts.

In 2011 the members of Board of JSC "Olaines kūdra" have not participated in the adoption of such decisions that could create interest conflicts.

COUNCIL.

Pursuant to the legal acts a council is the Issuer's supervisory institution representing the shareholders interests in between the meetings, by supervising the activities of the board in cases provided in the law and in the Issuer's Articles of Association.

6.1 Obligations and responsibilities of Council .

The goal of operation of the Issuer's council is to act in the interest of all shareholders by ensuring the increase of the Issuer's value. The Issuer shall determine clear obligations of the council and responsibilities of its members; the Issuer shall ensure that individual members of board or their groups cannot occupy the decisive role in the decision making.

6.1 The functions of the council shall be set in the regulations of the council or equal document regulating the activities of the council; it shall be posted over the Internet in the Issuer's home page. This document shall be available also at the Issuer's office.

The council of JSC "Olaines kūdra" is performing its functions according to the requirements stipulated in the Commercial Law. JSC „Olaines kūdra" assumes that no additional regulation is necessary that is regulating the work of the council.

6.2 The supervision performed by the council over the activities of the Issuer's board includes the supervision over the reaching of Issuer's goals, the corporate strategy and risk management, the process of financial reporting, the proposals of board regarding the use of the Issuer's profit and performance of the Issuer's activities according to the requirements of normative acts. Regarding all issues mentioned above the council should meet, discuss and provide its opinion at least once a year by abiding the regularity of convocation of council meetings as it is provided in the normative acts; the results of meetings shall be reflected in the meeting minutes.

The council of JSC "Olaines kūdra" at 2011 annual shareholders meeting has reported about the compliance of activities of the board with the requirements of normative acts, risk management, the process of financial reporting.

6.3 The council and each member of the council shall be responsible and shall provide that they have all information necessary for performance of their obligations that can be obtained from the board and internal auditors or, if necessary – from the Issuer's employees and external consultants. In order to provide the information exchange the chairman of the council shall contact the Issuer's board on regular basis, including the chairman of board, and they shall discuss all important activities of the Issuer and development strategy, business activities and issues related to the risk management.

The Board of JSC "Olaines kūdra" submits to the council for review the quarterly reports and in addition each month the operative information about the operation of the Company.

6.4 When defining the council functions it should be envisaged the obligation for each member of council to provide explanation in cases when they cannot participate in the council meetings. It is advisable to disclose the information about the council

members who has not attended more than half of the council meetings in the reporting year by specifying the reasons for not participation.

JSC “Olaines kūdra” has not implemented such regulations, the council members are performing their duties in good faith and only in some cases due to the objective reasons they do not participate in the council meetings.

7. Composition of Council and requirements to be imposed to the council members.

The structure of the council adopted by the Issuer shall be transparent and clear and shall provide the substantially critical and independent approach to the evaluation and adoption of decisions.

7.1 The Issuer shall demand from each member of council, as well as from each candidate of the member of council the election of which is planned in the shareholders meeting the following information: name, surname, date of birth, education obtained, the term of election, description of the professional experience within the last three years, the number of Issuer’s or its daughter company’s shares owned by the respective member of board, information about the positions hold in other capital companies. The said information shall be posted on the Issuer’s Internet home page, by additionally providing the term for which the member of council has been elected, his hold position including additional positions and responsibilities, if any.

The information for the council members of JSC “Olaines kūdra” is available in the Company’s issuance prospect in the Exchange home page and in the official obligatory information storage system, as well as in additionally provided information about the newly elected council members.

7.2 By setting the requirement to be imposed on the members of council and their candidates regarding the number of acceptable number of additional positions, special attention shall be paid to the fact that the members of council shall have enough time for successful performance of their duties and fully operate in the interests of the Issuer.

The council of JSC “Olaines kūdra” consists of 5 members of council and the number of the members of this council is providing a successful work of the council.

7.3. By forming the Issuer’s council it shall be taken into account the qualification of the council members and it shall be regularly evaluated. The composition of the council shall be made of persons that in total have knowledge, opinion and experience differences that are necessary for the successful operation of the council.

JSC “Olaines kūdra” ensures the observation of this principle, the council members have different working experience and different qualification – lawyers, peat extraction specialist, business specialists.

7.4 Each member of council in his activities shall be maximum independent from the exterior conditions, having the desire to undertake responsibility for the adopted decisions, shall observe the generally accepted ethical principles when adopting any decisions related to the Issuer’s operation.

7.5 It is impossible to draw up the list in which all conditions are specified under which there is a threat for independence of the council members or that could be used when evaluating the adequacy of concrete person to the status of independent member

of council. Therefore the Issuer when evaluating the independence of each member of council shall follow the independence criteria provided in the Annex.

7.6 It is advisable that at least half of the council members would be independent according to criteria of independence of council members specified in the Annex. If the number of members constitutes odd number then the independent council members can be one less than those that do not match the independence criteria provided in the Annex.

7.7 The independent person shall be deemed the person that meets the independence criteria of the council member specified in the Annex. If the council member does not meet any of independence criteria specified in the Annex and the Issuer still assumes that this council member is independent, he shall submit more detailed explanation of his point of view regarding the allowed deviations.

7.8 The compliance of the person with the independence criteria provided in the Annex shall have been already evaluated when the respective candidate of the council member is nominated for election in the council. Each year in its Report the Issuer shall disclose the information regarding the independent council members.

These principles (7.4,7.5, 7.6, 7.7., 7.8) are followed partially since the members of council are nominated for election according to the requirements of the Commercial Law. According the Commercial Law the council members during the decision adoption are independent and are responsible for the losses incurred by the Company. None of the 5 Council Members elected in 2011, basing on the Clause 4 of independence rates, is independent.

8. Identification of interest conflicts in the operation of the members of council.

The obligation of each member of council is to avoid any interest conflict in their activities and to be maximum independent from any external factors. By adopting decisions related to the Issuer's activities the member of council shall observe the generally accepted ethical principles and shall undertake the responsibility for the adopted decisions.

8.1 The obligation of each member of council is to avert any, even seeming interest conflict in their activities. By adopting decisions the member of council shall take into account the interests of the Issuer and shall not use the co-operation proposals offered to the Issuer for the gain of personal benefit.

The members of council carry out their activities according to requirements of law and other normative acts.

8.2 In case of occurring of any interest conflict or even in case of its possibility the member of council shall immediately report to other members of council. The member of council shall notify about any transaction or agreement that the Issuer is planning to conclude with a person who has close relationships with the member of council, or who is the related party of the member of council, as well as shall inform about the interest conflicts arising during the term of validity of concluded agreements.

The persons that have close relations with the member of council for the purpose of these recommendations are deemed to be: a spouse of the member of council, relative or brother-in-law up to the second degree relationship and sister-in-law up to the first degree of relationship, or the persons who has a common house hold with the member of council for at least one year. The persons that are related parties to the member of council for the purpose of these recommendations are deemed to be legal

persons in which the member of council or his closely related persons have holding office of the member of board or council, provide auditing or hold other leading positions that allow to define or to influence the strategy of activities of respective legal person.

In 2011 the members of council of JSC "Olaines kūdra" has no conflict situations described in this article.

8.3 The member of council that is in the eventual interest conflict situation cannot be advised to participate in the adoption of decisions that could be related to the creation of such interest conflict.

In 2011 the council members of JSC "Olaines kūdra" have no interest conflicts.

INFORMATION DISCLOSURE.

The good corporate management practice for the Issuer whose shares have been included in the market regulated by the Stock Exchange means that the information disclosed by the Issuer shall provide the notion of operational activities of the Issuer and its financial results. It facilitates the determination of the justified price of financing instruments being in public circulation, as well as the confidence in financial and capital markets. The disclosure of information is closely connected with the relations of investors (hereinafter IA), that can be defined as the process of formation of the Issuer's relations with its potential and existing investors and other parties interested in the activities of the Issuer.

9. Transparency of the Issuer's activities.

The information published by the Issuer shall be timely and allowing the shareholders to evaluate how the Issuer's management is working, providing the notion about the activities of the enterprise and its financial results, as well as allowing to make informed decisions regarding their owned shares.

9.1 The structure of Corporate management shall be formed so that timely and exhaustive information regarding the essential issues shall be provided regarding the Issuer, including its financial status, work results and structure of owners.

9.2 The information to be disclosed shall be proved, precise, unambiguous and prepared according to the high quality standards.

9.3 The Issuer should appoint a person who in the name of the Issuer is authorized to contact with press and other mass media thus ensuring the unified dissemination of information, avoiding the publication of false and contradictory information and who in case of necessity can be reached by the Stock Exchange and by the investors.

9.4 The Issuer shall provide timely preparation and disclosure of the Issuer's financial statements and annual reports that meet the defined requirements. The order of preparation of reports should be specified in the internal procedures of the Issuer.

JSC "Olaines kūdra ensures the observance of corporate management principles indicated in articles 9.1, 9.2, 9.3, 9.4 in due time and order by publishing the quarterly and annual reports as well as other important information in the Stock Exchange website and in the official mandatory official information storage system.

10. Investors relations.

Considering the fact, that the Issuer's shares are offered in the regulated market, the equally important activity sphere of the Issuer is the investors relations (hereinafter IA), their development and management, a special attention shall be paid to the fact that there shall be equal attitude to all investors providing them updated and sufficient information.

10.1 The main goals of IA is the provision to the participants of the financial market of precise and true information related to the Issuer's activities, as well as insurance of feedback link, i.e., the receipt of references from existing and potential investors and other persons. When implementing the IA process it shall be taken into account that the target auditorium is not formed only by institutional investors and financial market analysts. More and more the accent is put on individual investors; besides the most importance shall be assigned to information of the employees of other interested parties, creditors and business partners.

JSC "Olaines kūdra" ensures the regular submission of information and reports and publication by using the Stock Exchange home page and information dissemination system as well as provision of documents availability in the official obligatory information storage system and at the legal address of the Issuer.

10.2 The Issuer shall ensure for all investors equal and comfortable Access to the information related to the Issuer, including the information regarding the Issuer's financial status, structure of property and property management. The Issuer provides information in a clear and easy perceptible way, by disclosing both the positive and also the negative information related to the Issuer, thus providing the investors with full and comprehensive information about the Issuer, allowing the investors to evaluate all information before the decision making.

The information provided by JSC "Olaines kūdra" is available and meets the requirements of the normative acts regarding the composing of documents.

10.3 For circulation of IA information several; channels shall be used. The Issuer's IA strategy shall be formed by using the facilities provided by Technologies (home page on the Internet), the relationships with mass media and by links with participants of financial market. Considering the level of development of modern Technologies and their availability, in IA of each modern enterprise the Internets is used. This type of media for most of investors has become the most important communication means.

10.4 The basic principles that shall be observed by the Issuer when developing the IA section of the home page:

- 1) The IA section of the Internet home page shall be perceived not only as the storage place of information or facts, but as one of the primary communications means that help to inform the existing and potential shareholders.
- 2) For all visitors of the IA section of the home page shall have possibility to easy obtain the information publishes there. The information reflected in the home page shall be provided in all foreign languages that the Issuer usually uses for dissemination of information so that the foreign investors are not discriminated in any way, however taking into account that the disclosure of information shall be provided a least in Latvian and in English.
- 4) It is advisable to consider the solution that can allows the existing and potential investors and other interested persons to maintain the link with the Issuer by using

section IA of the home page- to ask questions and to receive response, to order the updated information, to express the opinion, etc.

5) The information posted on the web site shall be regularly updated and the news related to the Issuer and its activities shall be published on regular basis. It shall not be allowed that old - out of date information is provided in the home page; that can be misleading for its users.

6 After the development of the home page it is advisable that its creators evaluate the section IA from the user's point of view – whether the information of interest is easy found, whether the published information provides answers to the basic enquiries, etc.

10.5 The Issuer shall ensure that in section IA of its home page at least the following information shall be provided:

1) General information about the Issuer – the history of its forming and operation, registered data, description of the field of activities, the main types of activities;

2) The Issuer's Report (follow and explain) regarding the implementation of corporate management principles;

3) The number of issued and paid financial instruments by indicating how many of them are included in the regulated market;

4) Information related to the organization of shareholders meetings, the draft decisions on the issues to be discussed, the adopted resolutions – at least for the last reporting year;

5) The Issuer's Articles of Association;

7) The regulations of the board, council of the Issuer or other equal document regulating their operation, as well as the Issuer's remuneration policy (or indication of the place where it can be found) and the regulation of the shareholders meeting process if has been adopted;

8) Information regarding the results of the Issuer's Auditing committee activities;

9) Information about the existing members of the Issuer's board and council (each separately), their professional working experience, education, the Issuer's shares owned (status at the end of the year, information shall be updated as necessary, however at least once a year), positions in other companies, as well as the terms of powers of the members of board and council;

10) the Issuer's shareholders owning at least 5% of the Issuer's shares; information regarding the change of shares;

11) The Issuer's financial statements and annual report prepared in accordance with the order stipulated in the normative acts and in the Stock Exchange regulations;

12) Any other information that shall be disclosed by the Issuer, for example, the information regarding material events, the press releases prepared by the Issuer, the archived information about the Issuer's financial and annual reports regarding the previous periods, etc.

JSC "Olaines kūdra" has ensured the partial application of corporate measurement principles 10.1, 10.2, 10.3, 10.4, 10.5, namely, due to the lack of financial means the Investor relations(IA) section of the home page is not developed however the general information about the company is provided in the home page; other information is available at the legal address of the Issuer, and the information about shareholders meetings, the corporate report, the financial statements and other information that shall be disclosed by the Issuer

are available in the Stock Exchange home page and in the official obligatory information storage system for the year 2011 and for the previous periods.

INTERNAL CONTROL AND RISK MANAGEMENT

The purpose of the Internal control and risk management is to ensure the Issuer's efficient and successful operation, the validity of the provided information and its compliance with the respective normative acts and operational principles. The Internal control will help the Issuer to identify and to eliminate the potential risks and drawbacks in the Issuer's administration as well as potential risks; it will facilitate the efficient implementation of the obligation of the council – the supervision of the board.

11. The Issuers' external and internal control operation principles.

In order to provide the efficient operation of the Issuer it is necessary to plan its regular control and to define the order of performance of internal and external control (audit)

11.1 To provide successful operation the Issuer shall constantly control its activities – including the definition of the order of internal control.

11.2 The goal of risk management is to provide the identification and supervision of the Issuer's risks concerning the commercial activities of the Issuer. To ensure efficient risk management it is necessary to define the basic principles of the risk management. It is recommended to describe the essential potential and existing risks related to the activities of the Issuer.

The principles of article 11.1 and 11.2 JSC "Olaines kūdra" observe partially. When resuming the quoting of shares in the Stock Exchange AS "Olaines kūdra" has identified and defined the risks related to the commercial activities, the impact of risks is evaluated in the Management report of the Annual Report of AS "Olaines kūdra". The order of internal control is not defined but it is provided by the Company's board.

11.3 The auditor shall be provided the Access to the information necessary for performance of his responsibilities and feasibility to attend the council and board meetings where the financial results and other issues are discussed.

11.4 In its activities the auditor shall be independent and his task is to provide to the Issuer independent and objective auditing and consultancy services in order to ensure the efficiency of the Issuer's work and to provide support to the Issuer's management in order to achieve the projected goals by offering systemic approach to the evaluation and improvement of risk management and control processes.

11.5 At least once a year it is recommended to perform independent internal audit that would evaluate the activity of the Issuer, including the compliance with the procedures accepted by the Issuer.

11.6 By approving the auditor it is recommended that the term of power of one auditor does not jump together with the term of powers of the board.

JSC "Olaines kūdra" the principles of sub points 11.3, 11.4, 11.5, 11.6 has not applied. JSC "Olaines kūdra" does not have the internal auditor since because AS "Olaines kūdra" is not a big enterprise, the upkeep costs of the auditor could affect

the cost efficiency of the Company. The auditing functions are performed by the Company's board.

12. .THE ISSUER's AUDITING COMMITTEE

The Auditing committee is formed with the decision of the Issuer's shareholders meeting according to the requirements of the normative acts by defining the scope of its activity and responsibility.

12.1 The functions and responsibility of the Auditing committee should be defined in the regulations of the committee or in the equal document.

Pursuant to Chapter 54¹ article 11 of the Law on Financial and capital market JSC "Olaines kūdra" as the capital company that meets the parameters of Chapter 1, article 33 of the Law on Financial and capital market (the average number of employees less than 250, the total assets do not exceed 43 000 000 euros, the annual average turnover does not exceed 50 000 000 euros) by the decision of the shareholders meeting the obligations of the Auditing committee are assigned to the Company's council, as a result there is no need to develop the regulations of the committee.

12.2 In order to ensure the efficient operation of the committee it is recommended that the commission is constituted of at least three members having sufficient knowledge of book-keeping and preparation of the financial reports, because one of the main field of activities of the Auditing committee is related to the issues related to the Issuer's financial reports and control.

The education, work experience of members of JSC "Olaines kūdra" council shall ensure the observance of this principle.

12.3 All members of the Auditing commission shall have information regarding the accounting methods used by the Issuer. The Board shall inform the Auditing committee about the methods that are used for evaluation of important and extraordinary transactions, for assessment of which different methods can be applied, as well as to ensure that the Auditing committee has access to all information provided in the normative acts.

The council of JSC "Olaines kūdra" (Auditing committee) is informed about the Issuer's book-keeping accounting methods. In 2011 the board has not found any important and extraordinary transactions for evaluation of which the different methods shall be applied and about which the council (Auditing committee) shall be specially informed.

12.4 The Issuer shall provide that the Auditing committee can obtain from the Issuer's officials, the member of board and other employees the information necessary for the provision of activities of the Auditing committee, as well as the rights to perform independent investigation, so that within the scope of its competence to detect infringements in the Issuer's operation.

JSC "Olaines kūdra" ensures the observation of this principle. The officials of JSC "Olaines kūdra", its members of board and employees provide to the council the necessary information in full.

12.5 The Auditing committee adopts the resolutions within the scope of its competence and reports its activities to the shareholders meeting.

JSC "Olaines kūdra" observes this principle. The Company's council that pursuant to the decision of the shareholders meeting is performing also the functions of the Auditing committee is fully independent in its activities. The council reports for its activities to the shareholders general meeting.

REMUNERATION POLICY

13. General principles, types and criteria of remuneration determination.

The remuneration policy for members of board and council – the form of remuneration, its structure and amount – it is one of the fields where the involved persons have potential risk to get into interest conflict situation. In order to avoid it the Issuer shall develop the remuneration policy in which the general principles, types and criteria of the remuneration to be assigned to the members of board and council will be defined.

13.1 The Issuer shall develop the remuneration policy where the general principles of determination of remuneration, the possible schemes of remuneration and other related important aspects shall be specified. Without prejudice to the Issuer's management institution responsible for determination of remuneration of members of board and council, its role and activities, the development of draft remuneration policy shall be assigned to the Issuer's board that during the elaboration of draft remuneration policy is consulting with the Issuer's council.

13.2. In order to avoid the interest conflicts and to supervise the work of the board in relation to the remuneration policy the Issuer is recommended to appoint the employee responsible for development of remuneration policy that have sufficient experience and knowledge in the field of determination of remuneration.

13.3 If by determining the remuneration structure the variable part of remuneration is envisaged in the remuneration policy, in which as a remuneration the shares or the share option or any other additional payments are envisaged, including premiums, it shall be linked with prior stated short-term and long-term goals and criteria of their fulfilment. The linkage of variable part of the remuneration only to the short-term results will not foster the interest in the long-term development of the Company and in the improvement of results. The amount and structure of remuneration shall depend upon the results of operation of the Company, the price of shares and other events related to the Issuer.

13.4 By determining the variable part of the remuneration the maximally admissible amount of this part shall be determined, furthermore by observing the provision about the commensurability of this variable part with the fixed amount of the remuneration, in order in case of necessity it would be possible to withhold the previously paid part of remuneration.

13.5 If some of the variable parts envisaged for the Issuer's shares, the share option or any other rights to obtain the Issuer's shares, it is recommended to set the minimum term within which they cannot be used.

13.6 In the remuneration policy the provisions shall be included stipulating that the Issuer is entitled to demand to repay the variable part of remuneration that was granted basing upon the criteria of performance, in the calculation of which the data turn out to be obviously wrong. The provision mentioned in this article should be included in the employment/work contracts that the Issuer concludes with the respective officials.

13.7. The remuneration schemes in which as remuneration the Issuer's shares are provided theoretically can create losses to the Issuer's shareholders since due to the newly issued shares the decreasing of the share price is possible. Therefore before the development and approval of any such type remuneration scheme it is necessary to evaluate the eventual gains or losses.

13.8 If the variable part is envisaged in the remuneration scheme in which the Issuer's shares or share options are envisaged as remuneration, it shall be noted how within the scope of remuneration scheme it is planned to ensure the necessary number of the Issuer's shares – whether they are planned to be obtained in regulated market or buy issuing of new shares.

13.9 When developing the remuneration policy and envisaging the allotment of the share options that are providing the rights to obtain the Issuer's shares, the Stock Exchange regulations regarding the provision of share options shall be observed.

13.10 When determining the principles according to which the remuneration is granted to the members of board and council the general principles shall be observed according to which any compensation or other type of payment will be provided, if any of such compensation is planned to be applied at all; in cases that the contracts concluded with the said officials are terminated (payment at the expiry of the employment relationships). If the employment relationships are terminated due to the inadequate working results, none payment of the contract termination payments shall be provided.

13.11 It is recommended that for the contract expiry payment a commensurable maximum amount of payment shall be envisaged. In order the payment is deemed to be commensurable it should not be defined higher than the fixed part of remuneration within the period of two calendar years,

JSC "Olaines kūdra" does not apply the corporate governance/management principles 13.1, 13.2, 13.3, 13.4, 13.5, 13.6 , 13.7, 13.8, 13.9, 13.10, 13.11, since the remuneration for the Board and the Council of JSC "Olaines kūdra" is not envisaged and besides also other type of remuneration is no provided as well, including the Issuer's shares are not also envisaged as remuneration. The Board members of JSC "Olaines kūdra" are partially hired employees of the Company. The shareholders' meeting has not also defined the pay for the Board members.

14. NOTIFICATION OF REMUNERATION POLICY

The shareholder shall be provided with the clear and exhaustive report of the remuneration policy being applied to the members of the management institutions of the Issuer. The publishing of the said information could allow the existing and potential shareholders to comprehensively evaluate the Issuer's approach to the remuneration issues, and hence once a year the Issuer's responsible institution shall prepare and shall publish the remuneration report.

14.1 The Issuer is obliged to publish the exhaustive report on the remuneration policy applied to the Issuer's management members – the Remuneration report. The Remuneration report can be drawn up as a separate document or it can be included as a separate section in the Report that the Issuer shall prepare according to the provisions of article 9 of the Introduction to these recommendations. The prepared Remuneration report shall be posted on the Issuer's web site.

14.2 The Remuneration report shall include at least the following information:

- 1) Information regarding the application of remuneration policy to the members of the Issuer's board and council in the previous financial year, specifically indicating the performed essential amendments in the Issuer's remuneration policy as compared to the annual report of the previous year;
- 2) The ratio of variable and fixed part of the applied remuneration for the remuneration that shall be paid to the respective category of officials.
- 3) Sufficient information regarding the linking of remuneration to the results of work;
- 4) Information regarding the Issuer's policy in relation to the provisions of the contracts that are concluded with the members of the Issuer's management institutions (about the terms of concluded contracts, the terms of prior notification regarding the termination of the agreement including the payments that shall be provided in case of termination of the agreement);
- 5) Information regarding the applicable premium scheme and the basic parameters of any other granted material benefits; the justification;
- 6) Description of any applicable pension scheme or premature pension scheme;
- 7) Review of the remuneration paid to each person in the position of members of board or council in the respective year as well as other type of remuneration received as the material benefits in the report year, including at least the information provided in articles 14.5, 14.6, 14.7 of this section;

14.3 In order to avoid the doubling of information the Issuer in its Remuneration Report may not submit the information requested in sub point 1 till 7 of article 14.2 of this section, if this information has already been provided in the Issuer's remuneration policy. In this case the reference shall be provided in the Remuneration report regarding the remuneration policy and indication of the place where the policy is available.

14.4 If the Issuer assumes that as the result of this recommendation and as a result of publishing of information provided in article 14.2 the commercially sensitive information can be disclosed that could harm the strategic position of the Issuer, the Issuer shall not disclose the said information by mentioning the respective reason.

14.5 Regarding the remuneration and/or other income the following information shall be revealed about each member of board and council:

- 1) The total amount of remuneration (salary) paid or due for the performance of obligations within the reporting year;
- 2) Remuneration or other privileges received from any related company of the Issuer. The term used in this article „related company” corresponds to the explanation of term provided in article 1 of the Law on the Market of Financial Instruments;
- 3) Remuneration that has been paid in a way of profit distribution or Premium payments; the justifications of assignment of such payment;
- 4) Remuneration for performed activities to implement additional direct responsibilities;
- 5) Compensation and other payments that are due or that were received by the member of council or board quitted in the respective reporting year;
- 6) The value of total material benefits that are received as remuneration and to which the sub points 1) till 5) of this article cannot be applied.

14.6 Regarding the shares and/or share options or other remuneration schemes under which the Issuer's shares can be obtained, the following information shall be disclosed:

- 1) The number and provisions of use of shares or share options providing the rights to obtain the Issuer's shares, issued to the member of the Issuer's management institution in the reporting year;

- 2) The number of used options that are providing the possibility to obtain the Issuer's shares for each indicating the number of the obtained shares and the determined price of the share or the value of the part of the member of the Issuer's management in the remuneration scheme related to the shares at the end of the reporting year;
- 3) The number of unused share options at the end of the reporting year that are providing rights to obtain the Issuer's shares, the share price envisaged by the contract, the execution date and the main provisions of use of the share options;
- 4) Information about the amendments introduced in the reporting year to the contract provisions regarding the granted share options that are providing the rights to obtain the Issuer's shares (for example, the amendments are made in the provisions of use of options, the term of use of options has been changed, etc.).

14.7 Regarding the deposits or payments into the private pension funds scheme, the following information shall be disclosed:

- 1) The amount of contribution provided by the Issuer for the benefit of the person in the pension plan or plans and the provisions of the pension capital pay outs;
- 2) Regarding the provisions of participation applied to specific person in the pension funds, including the provisions of termination of participation in the respective pension plan.

14.8 The remuneration schemes according to which the remuneration is determined by assigning the Issuer's shares, share options or in some other way providing the rights to obtain the Issuer's shares, shall be accepted by the decision of the shareholders ordinary meeting. When deciding about the approval of the remuneration scheme the shareholders meeting does not decide about its application to a certain concrete person.

JSC "Olaines kūdra" is not applying the corporate management principles of articles 14.1, 14.2, 14.3, 14.4, 14.5, 14.6, 14.7, 14.8, because the members of the Company's board and council are not receiving any salary or remuneration.

III Annex.

CRITERIA OF INDEPENDENCE OF THE ISSUER'S BOARD MEMBERS

The following member of the Issuer's council shall be deemed to be independent:

- 1) During the previous three years he has not been the member of board or council of the Issuer's company, the company related to the Issuer or the shareholder's who is under the control of the Issuer and does not hold the said office also at the period of time when he is in the position of the member of council. Under the „companies related to the Issuer” it is understood the enterprises that are included in the consolidated financial report of the Issuer or in the consolidated reports of which the Issuer is included;
- 2) Is not the employee of the Issuer or of the related companies of the Issuer or of the shareholders under the control of the Issuer, except the cases when the respective candidate of member of council is nominated for election in the council directly as the representative of the Issuer;
- 3) In addition to the remuneration that he receives as the member of council he does not receive or has not received any significant additional remuneration from the Issuer or from the related companies of the Issuer or from the shareholder being under control of the Issuer;

- 4) Neither directly nor indirectly represents the shareholder controlled by the Issuer;
- 5) Neither at the moment of approval nor during the last year before the approval of the person in the positions of the member of council neither directly nor indirectly there were any significant transaction relationships with the Issuer, with the companies related to the Issuer or with the shareholders of the Issuer neither directly or as a partner, shareholder or the high top manager;
- 6) Within the last three years he has not been the internal controller, auditor or the employee in the company providing external auditing services to the Issuer, to the company related to the Issuer or in the company that is a shareholder controlled by the Issuer.
- 7) He is not a member of board or other managing employee in other company in which the member of board of the Issuer performs the functions of the member of council and he has no other significant obligations against the members of board of the Issuer, by participating in other companies or organizational units (the mutually related controlling relationships);
- 8) He has not been the member of council of the Issuer for more than 10 (ten) sequent years;
- 9) He is not a family member of any member of board or any person for whom the criteria specified in sub articles (1) to (8) of this Annex can be applied (for the purpose of this article the family members are spouses, parents and children).