JSC
„Rīgas farmaceitiskā fabrika”

CORPORATE GOVERNANCE REPORT

FOR THE YEAR 2008

RIGA, 2009

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I INTRODUCTION

Corporate Governance Report of year 2008, hereinafter – Report, of Joint Stock Company "RĪGAS FARMACEITISKĀ FABRIKA" is prepared according to „Corporate governance principles and recommendations on their implementation" developed by NASDAQ OMX Riga which are published in 2005. The Report is worked out and prepared by the Management Board and it is reviewed by Supervisory Board of JSC "RĪGAS FARMACEITISKĀ FABRIKA".

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has fulfilled the most part of corporate governance principles in the year 2008. According to principle "comply or explain", there is provided in Report information on these principles which JSC "RĪGAS FARMACEITISKĀ FABRIKA" in its operation is not fulfilling or is fulfilling partly, also obstacles that justified it in 2008.

The report is submitted to NASDAQ OMX Riga in one package with JSC "RĪGAS FARMACEITISKĀ FABRIKA" audited annual report and is published in web site of NASDAQ OMX Riga (www.nasdaqomxbaltic.com).

Riga,
22nd of April, 2009

JSC „RĪGAS FARMACEITISKĀ FABRIKA"
Chairman of the Board
Kaspars Bāliņš

II PRINCIPLES OF GOOD CORPORATE GOVERNANCE

SHAREHOLDERS' MEETING

Shareholders exercise their right to participate in the management of the Issuer at shareholders' meetings. In compliance with legal acts the Issuers shall call the annual shareholders' meeting as minimum 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 shall have equal rights to participate in the management of the Issuer – to participate at shareholders' meetings and receive information that shareholders need in order to make decisions.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

1.2. The Issuer shall prepare a policy for the profit distribution. 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 distribution 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 information on the policy of profit distribution of the Issuer shall be included in the Report and published on the Issuer's website on the Internet.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has implemented this principle partly.

Taking into account that Management Board and Supervisory Board of JSC "RĪGAS FARMACEITISKĀ FABRIKA" have not received proposal from shareholders on profit distribution policy, managing bodies of company have not taken decision on elaboration of it. Only shareholders' meeting has a right to adopt a decision on distribution of profit for the last year.

The obligation of the Management Board of JSC "RĪGAS FARMACEITISKĀ FABRIKA" is to prepare and submit for coordination into Supervisory Board project of profit distribution before adoption of it in shareholders meeting that is available for shareholders in draft decisions published before meeting. It is not forbidden for shareholders to have one's say about this issue.

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 organise 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 "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

1.4. Shareholders of the Issuers shall be provided with the possibility to receive in due time and regularly all the required information on the 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle partly. The initiator to convene the meeting was the Management Board. JSC "RĪGAS FARMACEITISKĀ FABRIKA" is now working on improvement of company's website on the internet.

1.6. The Issuer shall ensure that comprehensive information on the course and time of the meeting, the voting on decisions to be adopted, as well as the agenda and draft decisions on which it is planned to vote at the meeting is available in due time to the shareholders. The Issuers shall also inform the shareholders whom they can address to receive answers to any questions on the shareholders' meeting and the agenda issues and ensure that the required additional information is provided to the shareholders.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

1.8. In no way may the Issuers restrict the right of shareholders to nominate representatives of the shareholders for Supervisory Board elections. The candidates to the Supervisory Board 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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 Supervisory Board member candidates whose approval is planned at the meeting. When disclosing information on Supervisory Board member candidates, also a short personal biography of the candidates shall be published. Since the nomination of Supervisory Board member candidates has to be very careful, it is recommended that the Issues disclose the said information as soon as possible.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle. The shareholders have a right to consult during the meeting in order to take decision.

1.11. To provide shareholders with comprehensive 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 organisational issues connected with the shareholders' meeting (e.g., registration of meeting participants, the procedure for the adoption of decisions on the issues to be dealt with at the meeting, the Issuer's actions in case any of the issues on the agenda is not dealt with, if it is impossible to adopt a decision etc.). The procedures adopted by the Issuer in relation to participation in voting shall be easy to implement.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle. The procedure of shareholders meeting of JSC "RĪGAS FARMACEITISKĀ FABRIKA" is regulated by legislation of the Republic of Latvia and statute of company. The shareholders meeting is organized and ensured by the Management Board and every shareholders meeting procedure is prescribed separately depending on agenda of meeting. The procedure of voting is ease to implement.

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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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 Management Board members, auditors, and as possibly many Supervisory Board 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 not discussing the finances of the Issuer. 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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 profit-oriented, 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 realisation 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 Supervisory Board and the shareholders' meeting. In fulfilment of its obligations, the Management Board shall adopt decisions irrespective of their personal interests or interests of the shareholders that control the Issuer and be guided by interests of all the shareholders, taking into account the common interests of the Issuer and its associated companies (or affiliates).

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

3.2. The powers of the Management 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle partly. The Management Board is acting according to powers set in the legislation of the Republic of Latvia and company statute. The company statute for the present is not available on the website on the internet, but it is possible to get acquaint with it at the registered office of company.

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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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, complying with the personnel policy adopted by the Issuer;

3) timely and qualitative submission of reports, ensuring also that the internal audits are carried out and the disclosure of information is controlled.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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 Supervisory Board for approval.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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 Management 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" fulfills this principle partly. The requirements for the Management Board are not summarized. Management Board Member's education and previous work experience conformity for the position is evaluated by the Supervisory Board before appointing of the Management Board.

4.2. On the Issuer's website on the Internet, the following information on every Issuer's Management 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" do not fulfills this principle now. JSC "RĪGAS FARMACEITISKĀ FABRIKA" is now working on improvement of company's website on the internet.

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 have the possibility to provide objective evaluation on the activity of the Issuer. Management Board members must have enough time for the performance of their duties.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

4.4. It is not recommended to elect one and the same Management Board member for more than four successive terms. The Issuer has to evaluate whether its development will be facilitated in the result of that and whether it will be possible to avoid a situation where

greater power is concentrated in hands of one or a number of separate persons due to their long-term work at the Issuer. If, however, such election is admitted, it shall be recommended to consider to change the field of work of the relevant Management Board member at the Issuer.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

5. Remuneration of Management Board members

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

5.1. The remuneration for Management Board members shall be clearly determined and transparent. The Issuer's Supervisory Board shall revise the remuneration on a regular basis in compliance with the policy of remuneration adopted by the Issuer.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" fulfills this principle.

5.2. In determining remuneration of Management Board members and the variable part in the remuneration structure, it is recommended to peg it to previously determined long-term and short-term objectives. If the variable part of remuneration is pegged only to the short-term results, it will not facilitate the interest of Management Board members in the long-term growth of the Issuer and the improvement of results. It is recommended that the amount and structure of remuneration depends on the business results of the company, share price and other events connected with the Issuer.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" does not fulfill this principle. The renumaration and structure of the Management Board do not depends on the business results of the company.

5.3. In determining the remuneration of Management Board members, the Issuer's Supervisory Board shall comply with the remuneration policy adopted by the Issuer. In assessing the work of Management Board members, the Supervisory Board shall take into account the work tasks of every Management Board member, the financial situation of the Issuer, and other indices that are considered to be important in assessing the work of Management Board members.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" does not fulfill this principle, as remuneration policy is not included in separate document.

5.4. If a Management Board member gets share options that give the member the right to obtain shares of the Issuer as remuneration, the Issuer shall comply with the conditions for granting options as stipulated in the regulations of the Stock Exchange.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" does not fulfill this principle. The policy of remuneration does not provide share option granting to employees.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle partly as in the appendix of annual report is published the total amount remuneration of the Management Board and Supervisory Board in reporting year.

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

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

6.1. It shall be the obligation of every Management Board member to avoid any, even only supposed, interest conflicts in his/her work. In taking decisions, Management 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.

6.2. On the occurrence of any interest conflict or even only on its possibility, a Management Board member shall notify other Management Board members without delay. Management Board members shall notify on any deal or agreement the Issuer is planning to conclude with a person who has close relationship or is connected with the Management Board member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements.

For the purposes of these recommendations the following shall be regarded as persons who have close relationship with a 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 Supervisory Board 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.

6.3. Management Board members should not participate in taking decisions that could cause an interest conflict.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills these principles.

SUPERVISORY BOARD

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

7. Obligations and responsibilities of the Supervisory Board

The objective of the Issuer's Supervisory Board 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 Supervisory Board and the responsibility of the Supervisory Board members, as well as ensure that individual Supervisory Board members or a group thereof do not have a dominating role in decision making.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle partly. The Supervisory Board is acting according to powers set in legislation of the Republic of Latvia and statute.

7.2. In the Supervisory Board report appended to the Issuer's annual report, the Supervisory Board shall provide overall information on its work in the relevant year of reporting,

information on the compliance with the principles of corporate governance in the business of the Issuer, as well as any other information as regarded by it to be necessary.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle. The Chairman of Supervisory Board of the company introduces with report of Supervisory Board in shareholders meetings. Since legislation of the Republic of Latvia does not provide adding the report of Supervisory Board to annual report, the report of Supervisory Board is not added to annual report.

7.3. The supervision carried out by the Supervisory Board over the work of the Management Board shall include supervision over the achievement of the objectives set by the Issuer, the corporate strategy and risk management, the process of financial accounting, Management 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 Supervisory Board should discuss every of the said matters and express its opinion at least annually, complying with frequency of calling Supervisory Board meetings as laid down in regulatory acts, and the results of discussions shall be reflected in the Supervisory Board's report.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

7.4. The Supervisory Board and every its member shall be responsible that they have all the information required for them to fulfil their duties, obtaining it from Management Board members and internal auditors or, if necessary, from employees of the Issuer or external consultants. To ensure information exchange, the Supervisory Board chairperson shall contact the Issuer's Management Board, inter alia the Management 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" fulfills this principle. Every week are organized meetings of Chairman of the Supervisory Board and members of Management Board during which all most important issues connected with company are discussed.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" fulfills this principle partly as there is not determined an obligation explanations in case the Supervisory Board member is unable to participate in Supervisory Board meetings.

7.6. The supervision carried out by the Supervisory Board over the Management Board shall be especially important in spheres where the possibility that interest conflicts might occur is large: appointment of Management Board members, determination of the remuneration of Management Board members, and audit of the Issuer. To facilitate a more efficient work of the Supervisory Board and the division of work duties among its members, the Supervisory Board may establish separate committees (audit, nomination (appointment), remuneration and other committees).

7.7. Prior to making a decision on establishing a committee, the Supervisory Board should assess the possible benefits and the planned costs of its work, if any. The Supervisory Board itself shall determine the structure and the number of committees which the Supervisory Board consider to be required to optimise its work. The Supervisory Board shall inform the Issuer's shareholders on establishing a committee, inform on it in the Report, and publish information on it on the Issuer's website on the Internet.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" did to enforce these principles in 2008 as there was no necessity to establish separate committees. In case such committees will be prescribed, this information will be making known to shareholders of the company.

8. Supervisory Board composition and requirements for Supervisory Board members

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

8.1. The Issuer shall require every Supervisory Board member as well as Supervisory Board member candidate who is planned to be elected at a shareholders' meeting that they submit to the Issuer the following information: name, surname, year of birth, education, office term as a Supervisory Board 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 Supervisory Board member is elected, its position, including also additional positions and obligations, if any.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" fulfills this principle partly. Information of members of Supervisory Board now is not available on the website on the Internet.

8.2. When determining the requirements for Supervisory Board members as regards the number of additional positions, attention shall be paid that a Supervisory Board 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle as before the nomination of candidates Shareholders pay attention that a Supervisory Board member has enough time to perform his or her duties in order to fulfil their duties successfully.

8.3. In establishing the Issuer's Supervisory Board, the qualification of Supervisory Board members should be taken into account and assessed on a periodical basis. The Supervisory Board should be composed of members whose knowledge, opinions and experience is varied, which is required for the Supervisory Board to fulfil their tasks successfully.

The members of Supervisory Board of JSC "RĪGAS FARMACEITISKĀ FABRIKA" have required knowledge and experience to fulfil their tasks successfully.

8.4. Every Supervisory Board 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

8.5. It is impossible to compile a list of all the circumstances that might threaten the independence of Supervisory Board members or that could be used in assessing the conformity of a certain person to the status of an independent Supervisory Board member. Therefore, the Issuer, when assessing the independence of Supervisory Board members,

shall be guided by the independence criteria of Supervisory Board members specified in the Annex hereto.

8.6. It shall be recommended that at least a half of Supervisory Board members are independent according to the independence criteria specified in the Annex hereto. If the number of Supervisory Board members is an odd number, the number of independent Supervisory Board members may be one person less than the number of the Supervisory Board members who do not conform to the independence criteria specified in the Annex hereto.

8.7. As independent shall be considered persons that conform to the independence criteria specified in the Annex hereto. If a Supervisory Board member does not conform to any of to the independence criteria specified in the Annex hereto but the Issuer does consider the Supervisory Board member in question to be independent, then it shall provide an explanation of its opinion in detail on the tolerances permitted.

8.8. The conformity of a person to the independence criteria specified in the Annex hereto shall be evaluated already when the Supervisory Board member candidate in question has been nominated for election to the Supervisory Board. The Issuer shall specify in the Report who of the Supervisory Board members are to be considered as independent every year.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills these principles partly. According to criteria set in appendix in reporting period member of Supervisory Board S.Saulītis shall be considered as independent.

9. Remuneration of Supervisory Board members

The remuneration for Supervisory Board members shall be commensurate and the principles for the determination of remuneration shall be clear and transparent.

9.1. If remuneration is paid to a Supervisory Board member for the tasks fulfilled by him or her, it shall be stipulated in the Issuer's remuneration policy.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has not enforced this principle. The remuneration to members of Supervisory Board is set, but the remuneration is not included in separate remuneration policy document of the whole company.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has not implemented this principle.

9.4. When determining the remuneration of Supervisory Board members and planning the variable part in the remuneration structure, it usually should be pegged to the previously determined short- and long-term objectives.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has not implemented this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has not implemented this principle.

10. Identification of interest conflicts in the work of Supervisory Board members

Every Supervisory Board member shall avoid any interest conflicts in his/her work and be maximally independent from any external circumstances. Supervisory Board 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.

10.1. It shall be the obligation of every Supervisory Board member to avoid any, even only supposed, interest conflicts in his/her work. When taking decisions, Management 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

10.2. On the occurrence of any interest conflict or even only on its possibility, a Supervisory Board member shall notify other Supervisory Board members without delay. Supervisory 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 Supervisory Board member in question, as well as inform on any interest conflicts occurred during the validity period of concluded agreements.

For the purposes of these recommendations the following shall be regarded as persons who have close relationship with a Supervisory Board member: spouses, a relative, including kinship of second degree or brother-in-law of first degree, or persons with whom the Supervisory 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 Supervisory Board member: legal persons where the Supervisory Board member or a closely related to him/her person is a Management Board or Supervisory Board 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

10.3. A Supervisory Board member who is in a possible interest conflict should not participate in taking decisions that might be a cause of an interest conflict.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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.

11. 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.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle partly, the Chairman of the Board is entitled to contact with press and other mass media.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle partly – there is not regulated in written the procedure of preparation of financial reports and annual reports.

12. Investor relations

Considering that shares of the Issuers are offered on a regulated market, also such activity sphere of the Issuers as investor relations (hereinafter – the IR) 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.

12.1. 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 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle partly; company's website on the internet is being improved.

12.3. 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;

4) 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.;

5) 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;

6) 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.

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

1) general information on the Issuer - history of its establishment and business, registration data, description of industry, main types of business;
2) Issuer's Report ("*comply or explain*") on the implementation of the principles of corporate governance;
3) Number of issued and paid financial instruments, specifying how many of them are included in a regulated market;
4) information on shareholders' meetings, draft decisions to be examined, decisions adopted – at least for the last year of report;
5) Issuer's statutes;
7) Issuer's Management Board or Supervisory Board regulation or a document equated thereto that regulates its work, as well as the Issuer's remuneration policy and the shareholders' meeting procedure regulation, if such has been adopted;
8) Description of the tasks of Supervisory Board committees, if such have been established, as well as information on the work performed by the committees;
9) information on present Issuer's Supervisory Board and Management Board members (on each individually): work experience, education, number of the Issuer's shares owned by the member (as at the beginning of year; the information shall be updated as required but at least annually), information on positions in other capital companies, and the term of office of Management Board and Supervisory Board members;
10) Issuer's shareholders which/who own at least 5% of the Issuer's shares; and information on changes of shareholders;
11) Financial reports and annual reports of the Issuer prepared in compliance with the procedure specified in legal acts and the Stock Exchange regulations;
12) 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" does not fulfill these principles, as company's website on the internet is in the process of improvement.

INTERNAL CONTROL AND RISK MANAGEMENT

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

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

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

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has not implemented risk management.

13.3. 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" fulfills this principle.

13.4. Auditors shall be independent in their work and their task shall be to provide the Issuer with independent and objective auditing and consultation services in order to facilitate the efficiency of the Issuer's business and to provide support in achieving the objectives set for the Issuer's management by offering a systematic approach for the assessment and improvement of risk management and control processes.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" complies and fulfills this principle.

REMUNERATION POLICY

14. Remuneration policy of the Issuers

The policy of the remuneration of Management Board and Supervisory Board 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 should determine a clear remuneration policy.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has not fulfilled this principle.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has not fulfilled this principle. It is not provided in remuneration to use share options or shares as a variable part of remuneration.

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

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has not fulfilled this principle. It is not provided in remuneration to use share options or shares as a variable part of remuneration.

14.4. When preparing the remuneration policy, 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.

JSC "RĪGAS FARMACEITISKĀ FABRIKA" has not fulfilled this principle. It is not provided in remuneration to use share options or shares as a variable part of remuneration.

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 directly has been in substantial business relations 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 then 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.