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18 June 2015 [shall come into force on 3 July 2015].

If a whole or part of a section has been amended, the date of the amending law appears in square brackets at the end of the section. If a whole section, paragraph or clause has been deleted, the date of the deletion appears in square brackets beside the deleted section, paragraph or clause.

The *Saeima*¹ has adopted and
the President has proclaimed the following Law:

Law On Governance of Capital Shares of a Public Person and Capital Companies

Division A General Provisions

Chapter I Terms Used in this Law, Purpose and Scope of this Law

Section 1. Terms Used in the Law

(1) The following terms are used in this Law:

- 1) **capital shares** – capital shares in a limited liability company or stocks in a stock company;
- 2) **capital shares of a public person** – capital shares in a limited liability company or stocks in a stock company belonging to a public person;
- 3) **capital company of a public person** – a capital company, in which all capital shares or voting stocks belong to one public person;
- 4) **capital company controlled by a public person** – a capital company, in which one or several public persons have a direct decisive influence;
- 5) **public private capital company** – a capital company, in which all capital shares or voting stocks belong to several public persons;
- 6) **private capital company** – a capital company, in which capital shares or stocks belong to a public person and another person (except owners of employee stocks);
- 7) **subsidiary company** – a capital company, in which a capital company of a public person or a public private capital company has obtained a direct decisive influence on the basis of participation within meaning of the Group of Companies Law;
- 8) **State capital shares** – capital shares belonging to the State in a limited liability company or stocks in a stock company;
- 9) **State capital company** – a capital company in which all capital shares or voting stocks belong to the State;
- 10) **capital shares of a derived public person** – capital shares in a limited liability company or stocks in a stock company belonging to a derived public person;
- 11) **capital company of a derived public person** – a capital company, in which all capital shares or voting stocks belong to one derived public person;
- 12) **capital shares of a local government** – capital shares belonging to a local government in a limited liability company or stocks in a stock company;
- 13) **local government capital company** – a capital company, in which all capital shares or voting stocks belong to one local government;

¹ The Parliament of the Republic of Latvia

14) highest decision-making body of a public person:

a) in relation to the management of State capital shares and capital companies – the Cabinet,

b) in relation to the management of local government capital shares and capital companies – the local government council,

c) in relation to the management of capital shares of derived public persons, except local governments – in accordance with the law governing the operation of the respective derived public person;

15) corporate governance – an aggregate of measures for achieving the operational objectives of the capital company and operational control of the capital company, as well as for assessment and governance of risks related to the operation of the capital company;

16) non-financial objectives – objectives of the capital company, which arise from the general strategic objective determined for the capital company, from legal acts and policy planning documents, and are related to providing the carrying out of the functions specified for the public person;

17) financial objectives – objectives of the capital company related to the status of its financial operation (including profitability, capital structure, turnover, dividends, and profit);

18) general strategic objectives – objectives of the capital company specified by the highest decision-making body of the public person, which the public person wants to achieve through participation in the capital company and which arise from legal acts and policy planning documents;

19) medium-term operational strategy – a document for planning the operation of the capital company for a time period of at least three years, on the basis of which the operation of the capital company, the profit share to be disbursed in dividends, and the budget of the capital company are planned.

(2) Other terms in this Law are used within the meaning of the Commercial Law, the Group of Companies Law, and the State Administration Structure Law.

Section 2. Purpose of this Law

The purpose of this Law is to promote efficient management of capital shares belonging to a public person and capital companies of a public person, rational and economically justified use of resources of capital companies of a public person, conformity with the principles of good corporate governance, as well as to ensure conformity with the conditions for participation of a public person.

Section 3. Application of this Law

(1) This Law determines the procedures by which:

1) a public person shall obtain, terminate and change the amount of participation in capital companies;

2) obligations of the public person as of a shareholder (stockholder) of a capital company are fulfilled and rights are exercised;

3) capital companies of a public person and public private capital companies, as well as subsidiary companies are managed;

4) capital companies of a public person are established, operate and are liquidated;

5) capital companies of a public person are reorganized;

6) capital shares of a public person shall be alienated;

7) a capital company of a public person shall become a private capital company or a public private capital company;

8) a capital company of a public person is restructured into an institution or a public agency.

- (2) The activities provided for in this Law shall be performed in conformity with the laws and regulations governing the control of aid to commercial activity.
- (3) The provisions of the Commercial Law and the Group of Companies Law shall be applied to issues that are not governed by this Law.
- (4) The provisions of this Law shall be applicable to the operation of credit institutions, unless it is laid down otherwise in the Credit Institution Law.
- (5) The provisions of this Law shall be applicable to taking over of credit institutions, unless it is laid down otherwise in the Law On Taking over of Banks.

Chapter II

Participation of a Public Person and Capital Company of a Public Person and Decisive Influence in a Capital Company

Section 4. Conditions for Participation of a Public Person

- (1) A public person may obtain participation in a capital company in the cases referred to in Section 88, Paragraph one of the State Administration Structure Law.
- (2) A capital company of a public person and a public private capital company may have participation in another capital company, if one of the following conditions is in effect:
 - 1) the operation of the capital company conforms to the conditions regarding participation of the public person provided for in Section 88, Paragraph one of the State Administration Structure Law;
 - 2) the participation directly ensures achieving of general strategic objectives and objectives determined in the medium-term operational strategy of the capital company of the public person or public private capital company.
- (3) In addition to the conditions referred to Paragraph two of this Section, a capital company, which wants to obtain participation in another capital company, prior to taking a decision, shall submit an assessment to the highest decision-making body of a public person, whether participation in another capital company will provide rational and economically justified use of resources of the capital company, in conformity with the principles of good corporate governance.

Section 5. Obtaining and Change of Participation

- (1) The decision to obtain participation of a public person or to obtain or terminate decisive influence in a capital company shall be taken by the highest decision-making body of the respective public person.
- (2) The highest decision-making body of the respective public person shall give a permission for the capital company of a public person to obtain participation, to obtain decisive influence or to terminate decisive influence in another capital company.
- (3) The decision on the necessity of a public private capital company to obtain participation, to obtain decisive influence or to terminate decisive influence in another capital company taken by the highest decision-making body of the respective public person shall be binding to the representative of the holder of capital shares, implementing the rights of a shareholder (stockholder) in a meeting of shareholders (stockholders) and deciding on the abovementioned issue.
- (4) The decisions referred to in Paragraphs one, two, and three of this Section shall include:
 - 1) an assessment in relation to conformity with the conditions of Section 4 of this Law;
 - 2) the general strategic objective.
- (5) Paragraphs two and three of this Section shall not be applied to capital companies, which operate as credit institutions or as investment companies.

Section 6. Prohibition to Conclude a Group of Companies Contract

(1) A capital company of a public person or a public private capital company shall not be permitted to conclude the group of companies contracts provided for in the Group of Companies Law.

(2) If it is intended, in a meeting of shareholders (stockholders) of a capital company controlled by a public person, to decide to conclude a group of companies contract with another capital company, specified in the Group of Companies Law, the representative of the holder of capital shares of the public person has a duty to vote in a way that ensures non-concluding of the group of companies contract with the capital company, thus exercising the rights of the shareholder (stockholder).

(3) The capital company of a public person or the public private company shall ensure that its subsidiary companies do not conclude the group of companies contracts provided for in the Group of Companies Law with other capital companies.

Section 7. Revaluation of Participation

(1) A public person has a duty, not less than once in five years, to reevaluate each of its direct participations in a capital company and the conformity thereof with the conditions of Section 4 of this Law. This requirement shall not be applied, if it is laid down in the law that the capital shares or stocks of the respective capital company are not to be alienated.

(2) The decision to retain participation of a public person in capital companies shall be taken by the highest decision-making body of the respective public person. The decision shall include:

- 1) an assessment in relation to conformity with the conditions of Section 4 of this Law;
- 2) the general strategic objective.

Section 8. Legal Consequences upon Obtaining Decisive Influence

(1) If a capital company of a public person obtains all capital shares or voting stocks in another capital company (dependent capital company), then:

1) the dependent capital company shall draw up a medium-term operational strategy in accordance with Section 57 of this Law;

2) the profit share to be disbursed as dividends of the dependent capital company shall be determined in accordance with the Section 28 or 35 of this Law;

3) the executive board and the supervisory board of the dependent capital company shall be nominated in conformity with the following conditions:

a) the process of nomination shall be public,

b) candidates of the executive board and supervisory board members shall be selected on the basis of the criteria of professionalism and competence;

4) the dependent capital company may establish a council only in the case referred to in Section 106, Paragraph one of this Law;

5) the number, monthly remuneration, bonuses and withdrawal benefit to members of the executive board and supervisory board of the dependent capital company shall be determined in conformity with the restrictions laid down in this Law.

(2) The holder of capital shares shall ensure that in a capital company controlled by a public person:

1) the medium-term operational strategy is drawn up in accordance with Section 57 of this Law;

2) information regarding the capital company shall be published in accordance with Section 58, Paragraphs one and two of this Law;

3) the profit share to be disbursed as dividends shall be determined in accordance with Section 28 or 35 of this Law.

(3) The capital company of a public person shall ensure that its subsidiary companies:

1) do not obtain participation in another capital company, except the case when it conforms to that laid down in Section 4, Paragraph two, Clause 1 of this Law and a permit of the highest decision-making body of the respective public person has been received;

2) the medium-term operational strategy is drawn up in accordance with Section 57 of this Law;

3) information regarding the capital company is published in accordance with Section 58, Paragraphs one and two of this Law;

4) the profit share to be disbursed as dividends is determined in accordance with Section 28 or 35 of this Law.

(4) In the dependent capital companies referred to in Paragraph one of this Section, in which the council is not established, the meeting of shareholders (stockholders) shall carry out the tasks of the council in accordance with Section 292, Paragraph one of the Commercial Law.

(5) In the dependent capital companies referred to in Paragraph one of this Section, in which the supervisory board is not established, the executive board must receive a consent of the meeting of shareholders (stockholders) for deciding on the issues specified in Section 294, Paragraph one of the Commercial Law.

(6) The conditions of this Section shall not be applied to subsidiary companies operating as credit institutions, investment companies or capital companies registered abroad.

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Section 9. Termination of Participation

(1) The highest decision-making body of the respective public person shall take a decision to terminate participation of the public person in a capital company.

(2) The highest decision-making body of the respective public person shall take a decision to terminate the participation of the capital company of a public person in another capital company.

(3) The decision to terminate participation of a public private capital company in another capital company taken by the highest decision-making body of the public person shall be binding to the representative of the holder of capital shares, exercising the rights of the shareholder (stockholder) in the meeting of shareholders (stockholders) and deciding on the abovementioned issue.

(4) The procedures for terminating participation of a public person shall be indicated in the decisions referred to in Paragraphs one, two and three of this Section.

(5) Paragraphs two and three of this Section shall not be applied to capital companies, which operate as credit institutions or as investment companies.

Division B

Administration of Capital Shares of a Public Person

Part III

Holder of Capital Shares and Representative of a Holder of Capital Shares

Section 10. Holder of State Capital Shares

(1) A holder of State capital shares in a capital company shall be:

1) a ministry or other State administration institution appointed as the holder of State capital shares by the Cabinet;

2) the institution, which alienates or privatizes State capital shares in accordance with this Law or the Law On Privatisation of State and Local Government Property Objects.

(2) The Cabinet shall determine the ministry, which is of significance in management of specific State capital shares in the respective sector (hereinafter – the sectoral ministry).

(3) State capital shares in one capital company may have only one holder.

(4) If the holder of State capital shares is reorganised, the institution, which is the successor to the rights and obligations of the holder of capital shares, shall become the holder of the respective capital shares, unless the Cabinet determines other holder of State capital shares.

(5) If the holder of State capital shares is liquidated, the Cabinet shall appoint another holder of State capital shares.

Section 11. Holder of Capital Shares of a Derived Public Person

(1) A holder of capital shares of a derived public person in a capital company shall be:

1) a derived public person to which such capital shares belong;

2) a State administration institution, appointed as the holder of capital shares of a derived public person by the Cabinet according to request of the highest decision-making body of the derived public person.

(2) Capital shares of a derived public person in one capital company may have only one holder.

(3) If the respective derived public person is reorganised, the derived public person, which is the successor to the rights and obligations of the reorganised derived public person, shall become the holder of capital shares belonging thereto, unless it is determined otherwise in the decision to reorganise the derived public person.

(4) If the respective derived public person is liquidated, the holder of capital shares belonging thereto shall be determined in a law or a decision to liquidate the derived public person.

Section 12. Ministry as the Holder of Capital Shares

(1) If a ministry is the holder of State capital shares, decisions of the holder of capital shares provided for in this Law shall be taken by the State Secretary of the ministry or another official of the ministry determined by an order of the State Secretary, who has all the rights, obligations and responsibility of the representative of the holder of capital shares provided for in laws and regulations (hereinafter – the representative of the holder of capital shares).

(2) In the absence of the official of the ministry (leave, illness or other similar situation when the functions of the representative of the holder of capital shares are not ensured) referred to in Paragraph one of this Section, the State Secretary of the ministry is entitled to take decisions of the holder of capital shares by himself or herself or to authorise another official of the ministry for taking of such decisions in the absence of the abovementioned official. In the absence of the State Secretary the respective decisions shall be taken by the person who fulfils the duties of the State Secretary.

(3) The State Secretary of the ministry shall appoint a responsible employee from amongst the public officials of the ministry, who shall provide the necessary information to him or her or the official appointed by the order of the State Secretary, fulfilling the duties of the representative of the holder of capital shares, and prepare documents so that the State Secretary or the respective official could fulfil the functions of the holder of capital shares in a State capital company, public private capital company or private capital company or to take decisions in the meeting of shareholders (stockholders) in a State capital company.

(4) The representative of the holder of capital shares shall fulfil his or her duties in conformity with the official duties specified for him or her at the respective ministry and receive

remuneration for the fulfilment of such duties within the scope of the monthly wage determined for the position. A supplement for the fulfilment of the respective duties may be determined for the responsible employee in accordance with Section 14 of the Law On Remuneration to Officials and Employees of the State and Local Government Institutions, if the duties of the responsible official are to be considered as additional duties. The representative of the holder of capital shares and the responsible employee may not receive remuneration for any legal transactions, which have been concluded with the respective capital company.

Section 13. Another State Administrative Institution as the Holder of Capital Shares

(1) If the holder of capital shares of a public person is other State administrative institution, the head of the respective institution (hereinafter – the representative of the holder of capital shares) shall take the decisions of the holder of capital shares provided for in this Law or other laws and regulations governing commercial activity.

(2) In the absence of the head of the institution (leave, illness or other similar situation when functions of the representative of the holder of capital shares are not ensured), the decisions referred to in Paragraph one of this Section shall be taken by person who fulfils the duties of the head of the institution.

(3) The head of the institution shall appoint the responsible employee from amongst the officials of the institution, who shall provide the necessary information to him or her and prepare documents so that the head of the institution could fulfil the functions of the holder of capital shares in a capital company of a public person, public private capital company or private capital company, or take decisions in the meeting of shareholders (stockholders) in a capital company of a public person.

(4) The representative of the holder of capital shares shall fulfil his or her duties in conformity with the official duties specified for him or her in the respective institution and receive remuneration for the fulfilment of such duties within the scope of the monthly wage determined for the position. A supplement for the fulfilment of the respective duties may be determined for the responsible employee in accordance with Section 14 of the Law On Remuneration to Officials and Employees of the State and Local Government Institutions, if the duties of the responsible official are to be considered as additional duties. The representative of the holder of capital shares and the responsible employee may not receive remuneration for any legal transactions, which have been concluded with the respective capital company.

Section 14. Local Government as the Holder of Capital Shares

(1) If a local government is the holder of capital shares of a local government, the decisions of the holder of capital shares provided for in this Law shall be taken by the chairperson of the local government council (hereinafter also – the representative of the holder of capital shares).

(2) The local government council may hand over the right of decision-making of the holder of local government capital shares to the vice-chairperson of the local government council, to the executive director of the local government council or to the head of such city (municipality) local government unit, which is assigned to manage the respective local government capital shares (hereinafter – the representative of the holder of capital shares).

(3) In the absence of the chairperson of the local government council or the official referred to in Paragraph two of this Section (leave, illness or other similar situation when the functions of the representative of the holder of capital shares are not ensured), decisions of the representative of the holder of capital shares shall be taken by the person who fulfils the duties of the chairperson of the local government council, of the executive director or of the head of the respective local government unit.

(4) The chairperson of the local government council shall appoint a responsible employee from amongst the employees of the local government or local government institution, or the official referred to in Paragraph two of this Section from amongst the employees of the subordinate units, who shall provide the necessary information to the chairperson of the supervisory board or the respective official and prepare documents so that the chairperson of the supervisory board or the respective official could fulfil the functions of the holder of capital shares in a local government capital company, private capital company or public private capital company or to take decisions in the meeting of shareholders (stockholders) in a local government capital company. The responsible employee may not be appointed, if fulfilment of the duties of the responsible employee is within the competence of a unit established by the local government.

(5) The representative of the holder of capital shares shall fulfil his or her duties in conformity with the official duties specified for him or her at the respective local government and receive remuneration for the fulfilment of such duties within the scope of the monthly wage determined for the position. A supplement for the fulfilment of the respective duties may be determined for the responsible employee in accordance with Section 14 of the Law On Remuneration to Officials and Employees of the State and Local Government Institutions, if the duties of the responsible official are to be considered as additional duties. The representative of the holder of capital shares and the responsible employee may not receive remuneration for any legal transactions, which have been concluded with the respective capital company.

Section 15. Derived Public Person, Except of the Local Government as a Holder of Capital Shares

(1) If the holder of capital shares of a derived public person (except local government) is a derived public person, the decisions provided for in this Law of the holder of capital shares shall be taken by the head of the highest executive body of the derived public person (hereinafter – the representative of the holder of capital shares).

(2) The highest decision-making body of the derived public person may hand over the decision-making rights of the holder of capital shares of a derived public person to the head of the institution (unit) established by a derived public person, to whom the management of capital shares of the derived public person is assigned (hereinafter – the representative of the holder of capital shares).

(3) In the absence of the head of the highest executive body of the derived public person or the official referred to in Paragraph two of this Section (leave, illness or other similar situation when the functions of the representative of the holder of capital shares of a derived public person are not ensured), decisions of the holder of capital shares shall be taken by the person who fulfils the duties of the head of the highest executive body of the derived public person or duties of the head of the respective institution (unit).

(4) The head of the highest executive body of the derived public person shall appoint the responsible employee from amongst the employees of institutions of the derived public person or the official referred to in Paragraph two of this Section from amongst the employees of the subordinate institution (unit), who shall provide the necessary information to the head of the highest executive body or the respective official and prepare documents so that the head of the highest executive body or the respective official could fulfil the functions of the holder of capital shares in a capital company of the derived public person, private capital company or public private capital company, or to take decisions in the meeting of shareholders (stockholders) in the capital company of the derived public person.

(5) The representative of the holder of capital shares shall fulfil his or her duties in conformity with the official duties specified for him or her at the respective derived public person and receive remuneration for the fulfilment of such duties within the scope of the monthly wage

determined for the position. A supplement for the fulfilment of the respective duties may be determined for the responsible employee in accordance with Section 14 of the Law On Remuneration to Officials and Employees of the State and Local Government Institutions, if the duties of the responsible official are to be considered as additional duties. The representative of the holder of capital shares and the responsible employee may not receive remuneration for any legal transactions, which have been concluded with the respective capital company.

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Section 16. Duties of the Responsible Employee

- (1) The responsible employee shall inform the representative of the holder of capital shares regarding each meeting of shareholders (stockholders) immediately after receipt of a notification on convening a meeting of shareholders (stockholders) and acquaints the representative of the holder of capital shares with the agenda of the meeting.
- (2) The responsible employee shall, without delay, provide the representative of the holder of capital shares with all the information at the disposal of the employee, which is necessary for taking of decisions within the competence of the representative of the holder of capital shares.
- (3) The responsible employee shall perform other actions and tasks assigned to him or her by the representative of the holder of capital shares in writing.

Section 17. Participation of the Representative of the Holder of Capital Shares in a Meeting of Shareholders (Stockholders) of a Public Private Capital Company or Private Capital Company

- (1) The representative of the holder of capital shares shall represent the holder of capital shares in a meeting of shareholders (stockholders) of a capital company.
- (2) The representative of the holder of capital shares may authorise the responsible employee or another person (hereinafter – the authorised person) to represent the holder of capital shares in the meeting of shareholders (stockholders) of the capital company. In such case the representative of the holder of capital shares shall issue a power of attorney and a written voting assignment to the authorised person in respect of every issue included on the agenda of the meeting of shareholders (stockholders). The authorised person may vote in the meeting of shareholders (stockholders) only according to the voting task.
- (3) If an issue not indicated in the notification on convening a meeting of shareholders (stockholders) is examined in the meeting of shareholders (stockholders), the authorised person shall act as the representative of the holder of capital shares would act under the respective circumstances in order to achieve the necessary or the most favourable result.

Section 18. Restrictions Stipulated for the Authorised Persons of the Representative of the Holder of Capital Shares of a Public Private Capital Company or Private Capital Company

- (1) The authorised person of the representative of the holder of capital shares may perform only such actions, which are provided for by the implementation of the obligations and rights of a shareholder (stockholder) in a capital company and which are closely related thereto.
- (2) If in addition to the assigned matter the authorised person has carried out another matter, he or she shall be subject to the provisions of the Civil Law regarding unauthorised management in relation to such matter.
- (3) The authorised person is prohibited to refuse from exercising the voting right in a meeting of shareholders (stockholders) of a public private capital company or private capital company.

(4) Non-attendance of the meeting of shareholders (stockholders) after receipt of a respective authorisation shall also be deemed a refusal to exercise the voting right, if the authorised person has not informed the representative of the holder of capital shares regarding his or her inability to participate in the meeting of shareholders (stockholders) in a timely manner, which ensures the possibility to authorise another person for participation in the respective meeting of shareholders (stockholders).

(5) The authorised person is prohibited to delegate his or her duties to another person, namely, to perform re-authorisation (substitution).

(6) The authorised person may not exceed the scope of the voting task assigned to him or her, and he or she must act according to instructions of the representative of the holder of capital shares.

(7) The authorised person who is not a public official shall receive a prior written consent of the representative of the holder of capital shares for election of the authorised person as a member of the executive board or supervisory board, controller or auditor of the capital company. The authorised person who is a public official shall receive a permit for holding of multiple offices in accordance with the procedures laid down in the Law On Prevention of Conflict of Interest in Activities of Public Officials.

Section 19. Duties of the Representative of the Holder of Capital Shares in a Public Private Capital Company or Private Capital Company

(1) The representative of the holder of capital shares shall provide information and documents to the authorised person regarding the capital company necessary for successful fulfilment of the duties of the authorised person.

(2) The representative of the holder of capital shares shall issue the power of attorney referred to in Section 17, Paragraph two of this Law, the voting assignment, other documents and information to the authorised person within a time period, which ensures the authorised person with a possibility to fulfil his or her duties.

(3) The representative of the holder of capital shares in a capital company controlled by a public person shall promote the implementation of the objectives and tasks laid down in laws, Cabinet regulations, and approved sectoral development concepts and strategies, and other documents governing the development of the sector, as well as the fulfilment of the conditions of this Law.

Section 20. Resources Necessary for Fulfilling the Obligations of the Representative of the Holder of Capital Shares or Authorised Person

The holder of capital shares shall provide the representative of the holder of capital shares or the authorised person with the resources necessary for the fulfilment of their obligations, however, if the representative of the holder of capital shares or the authorised person utilises his or her own resources, the holder of capital shares shall, without delay, reimburse such expenses as soon as the representative of the holder of capital shares or the authorised person has submitted documents justifying such expenses.

Section 21. Responsibility of the Authorised Person

The authorised person shall not be responsible for activities, which he or she has performed according to the voting assignment given by the representative of the holder of capital shares referred to in Section 17, Paragraph two of this Law.

Chapter IV

Co-ordination Institution

Section 22. Co-ordination Institution and its Tasks

(1) The Cabinet shall determine the State administration institution, which shall perform the tasks determined in this Law and other laws and regulations, the tasks being related to the management of State capital companies and State capital shares (hereinafter – the co-ordination institution).

(2) The co-ordination institution shall perform the following tasks:

1) draw up guidelines for efficient management of capital companies and capital shares;

2) issue a statement to holders of State capital shares on the financial objectives set in the medium-term operational strategy of the capital company and on the financial indicators of the performance (profit share to be disbursed in dividends, profit indicators, return on capital, etc.), as well as on the conformity of such objectives with the non-financial objectives set in the medium-term operational strategy;

3) advise the Cabinet, holders of capital shares of a public person, and capital companies on issues related to the implementation of the corporate governance;

4) arrange training of such members of the executive board and supervisory board, officials and employees of capital companies of a public person and of capital companies controlled by a public person, as well as of officials and employees of holders of capital shares of a public person whose work duties are related to the management of capital shares of a public person, on issues related to corporate governance;

5) ensure that current information is published regarding State capital companies and capital companies under decisive influence of the State, as well as ensure the preparation of an annual public report on State capital companies and State capital shares in the previous year;

6) issue a statement to the Cabinet on obtaining, maintaining or terminating State participation, as well as upon request of the derived public person issue an opinion on obtaining or terminating participation of the respective derived public person in a specific capital company;

7) according to the competence draw up and, in accordance with the procedures laid down in laws and regulations, submit draft legal acts and policy planning documents to the Cabinet for approval;

7¹) co-operate with other State administration, non-governmental and international institutions in issues related to the management of capital companies and capital shares;

8) perform other tasks, which are laid down in this Law and other laws governing the operation of an institution of direct administration.

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Section 23. Rights of the Co-ordination Institution

(1) In implementing the tasks laid down in Section 22 of this Law, the Co-ordination Institution has the right:

1) to require and receive from institutions of public persons, holders of capital shares or State capital companies information necessary for the performance of the respective tasks;

2) to provide statements on policy planning documents and legal acts prepared by other State institutions, which directly or indirectly concern issues related to the management of capital shares of a public person;

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(2) The Coordination Institution has the right to perform other activities permitted in laws and regulations in order to perform the tasks laid down in the law.
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Section 24. Council of the Co-ordination Institution

(1) In order to ensure efficient management of capital companies of public persons and capital shares, the Cabinet shall establish the Council of the Co-ordination Institution.

(2) The Council of the Co-ordination Institution is a collegial institution, which:

1) reviews the draft guidelines drawn up by the Co-ordination Institution in the field of management of capital shares of a public person and co-ordinates them before approval;

2) assesses the statement of the Co-ordination Institution regarding the draft medium-term operational strategy of a capital company referred to in Section 26 of this Law, if the holder of State capital shares or the council of a State capital company (if such has been established) does not agree with the statement prepared by the Co-ordination Institution and the holder of State capital shares or the council of a capital company has requested to examine the issue at the Council of the Co-ordination Institution;

3) examines the statement of the Co-ordination Institution regarding the transaction of a capital company referred to in Section 26, Paragraph six of this Law, if the holder of State capital shares or the council of a State capital company (if such has been established) does not agree with the statement prepared by the Co-ordination Institution and the holder of State capital shares or the council of a State capital company has requested to examine the issue at the Council of the Co-ordination Institution, and provides an assessment regarding the abovementioned statement to the holder of State capital shares or the council of a State capital company;

4) provides proposals to the Co-ordination Institution regarding other issues related to the management of capital shares of a public person.

(3) The by-law and staff of the Council of the Co-ordination Institution shall be approved by the Cabinet. Members of the Council of the Co-ordination Institution shall not receive any remuneration for their work in the Council.

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Chapter V Management of State Capital Shares

Section 25. Assessment of the Necessity for State Participation in Capital Companies

(1) The sectoral ministry or the holder of State capital shares may propose obtaining or termination of State participation, as well as obtaining or termination of decisive influence in a capital company by submitting a respective proposal to the Cabinet. A conformity assessment of obtaining of participation or decisive influence with the conditions of Section 88, Paragraph one of the State Administration Structure Law in relation to participation of a public person in a capital company, as well as with the general strategic objective that the submitter of the proposal offers for the State to achieve through participation in the capital company, shall be appended to the proposal.

(2) A statement of the Co-ordination Institution shall be appended to the proposal referred to in Paragraph one of this Section and submitted to the Cabinet.

(3) Whenever necessary, but no less than every five years, the Co-ordination Institution shall ensure that the holder of State capital shares submits to the Cabinet the assessment of State participation in the respective capital company and the conformity of such participation with conditions of Section 4 of this Law.

(4) If the assessment referred to in Paragraph three of this Section includes a proposal to retain State participation in a capital company, the general strategic objective shall be included therein.

(5) The Co-ordination Institution shall draw up the guidelines for determination of general strategic objectives of State participation.

Section 26. Drawing up and Assessment of the Medium-Term Operational Strategy

(1) If the holder of State capital shares in a capital company, in which the State holds the decisive influence, is not a sectoral ministry, prior to approval [application of the voting right in the meeting of stockholders (shareholders)] of the medium-term operational strategy drawn up by the capital company it shall receive a statement of the sectoral ministry and the Co-ordination Institution.

(2) If the sectoral ministry is the holder of State capital shares in a capital company, in which the State holds the decisive influence, prior to approval [application of the voting right in the meeting of stockholders (shareholders)] of the medium-term operational strategy drawn up by the capital company it shall receive a statement of the Co-ordination Institution.

(3) If a Council has been established in the State capital company, prior to approval of the medium-term operational strategy drawn up by the capital company the Council shall receive a statement of the sectoral ministry and the Co-ordination Institution.

(4) In the statement referred to in Paragraphs one, two and three of this Section the Co-ordination Institution shall provide an assessment of the financial objectives brought forward in the medium-term operational strategy of the capital company and the performance financial indicators (profit indicators, profit share to be disbursed in dividends, return on capital, etc.), as well as their conformity with the non-financial objectives brought forward in the medium-term operational strategy. The Co-ordination Institution shall provide a statement regarding the medium-term operational strategy within three months after its receipt.

(5) In the statement referred to in Paragraphs one and three of this Section, the sectoral ministry shall provide an assessment of the non-financial objectives brought forward in the medium-term operational strategy of the capital company and their conformity with the sectoral policy objectives.

(6) The holder of State capital shares in a State capital company or the Council of the State capital company (if such has been established) shall receive a statement of the Co-ordination Institution prior to approval [application of the voting right in the meeting of stockholders (shareholders) or in the decision-making process] of a transaction, which has significant influence (at least by 15 per cent and such action is not provided for in the medium-term operational strategy) on the amount of assets determined in the medium-term operational strategy of the capital company.

(7) The Co-ordination Institution shall assess the impact of the transaction referred to in Paragraph six of this Section on the value of the capital company and achievement of its financial objectives by evaluating the risks or benefits related to the planned decisions, long-term costs and alternatives, as well as expedience of the transaction.

(8) If the holder of State capital shares or the Council of the State capital company (if such has been established) does not take into account that indicated in the statement of the Co-ordination Institution, then in approving the medium-term operational strategy of the capital company or giving consent to the transaction referred to in Paragraph six of this Section, respective arguments are sent to the Co-ordination Institution in writing.

(9) If the Council of the State capital company (if such has been established) does not take into account that indicated in the statement of the sectoral ministry, then in approving the medium-term operational strategy of the capital company the Council shall send its arguments to the sectoral ministry in writing.

(10) If the holder of State capital shares does not take into account that indicated the statement of the sectoral ministry and cannot reach an agreement on the non-financial objectives to be included in the medium-term operational strategy of the capital company, the respective issue shall be examined by the Cabinet. In such case, the holder of State capital shares, in approving the medium-term operational strategy of the capital company [application of the voting right in the meeting of stockholders (shareholders)], shall conform to the respective decision of the Cabinet on the non-financial objectives to be included in the medium-term operational strategy of the capital company.

(11) The sectoral ministry, the Co-ordination Institution and the Council of the Co-ordination Institution, which provides a statement to the holder of State capital shares or the Council of the State capital company (if such has been established) in accordance with the procedures laid down in this Law, shall be responsible for the assessment provided thereby.

(12) If in approving the medium-term operational strategy of the capital company or giving consent to the transaction referred to in Paragraph six of this Section the holder of State capital shares does not comply with that indicated in the statement of the Co-ordination Institution, the holder of State capital shares shall be responsible for the respective decision taken.

(13) The holder of State capital shares or the Council of the State capital company (if such has been established) shall send the approved medium-term operational strategy of the capital company to the Co-ordination Institution.

(14) The Co-ordination Institution shall send the assessment of the Council of the Co-ordination Institution to the holder of State capital shares or the Council of the State capital company (if such has been established), if such assessment has been adopted in accordance with the procedures laid down in Section 24, Paragraph two, Clauses 2 and 3 of this Law.

[18 June 2015]

Section 27. Assessment of Performance Results of a Capital Company

(1) The Co-ordination Institution shall draw up methods (guidelines) for a capital company, in which the State holds the decisive influence, for assessment of its performance results, providing for that reports on achievement of financial objects are to be provided according to a unified form.

(2) Each year the representative of the holder of State capital shares shall assess the achievement of the objectives brought forward for the capital company in conformity with the statement of the sectoral ministry and the Co-ordination Institution.

(3) In the statement referred to in Paragraph two of this Section the Co-ordination Institution (if it is not the holder of capital shares) shall provide an assessment on achievement of the financial objectives determined in the medium-term operational strategy in the previous year.

(4) In the statement referred to in Paragraph two of this Section the sectoral ministry shall provide an assessment on achievement of the non-financial objectives determined in the medium-term operational strategy of the capital company in the previous year, as well as proposals for further activities.

(5) In assessing the achieved objectives, the representative of the holder of State capital shares shall take a decision on further activities in order to ensure an increase in return on assets and their value, as well as to achieve the objectives brought forward in the medium-term operational strategy.

(6) The Co-ordination Institution may propose for the holder of State capital shares to perform an audit in a capital company if there are grounds for suspecting inexpedient, inefficient actions or violations and if substantial risks in relation to the possibility to achieve the objectives brought forward are detected.

(7) The Cabinet shall determine the procedures by which the performance results and financial indicators of the capital company shall be assessed in accordance with conditions of this Section.

[18 June 2015]

Section 28. Procedures for Determining the Profit Share to be Foreseen and Disbursed as Dividends in a State Capital Company and Public Private Capital Company where the State is a Stockholder (Shareholder)

(1) The foreseeable profit share to be disbursed in dividends and the profit share to be disbursed in dividends shall be determined on the basis of the medium-term operational strategy of the capital company, the objectives of the capital company brought forward in the strategy and their implementation.

(2) The executive board of the capital company, on the basis of the medium-term operational strategy, shall prepare a proposal on the foreseeable profit share to be disbursed in dividends and the profit share to be disbursed in dividends, and submit the proposal to the holder of capital shares.

(3) If the proposal of the executive board of the capital company on the foreseeable profit share to be disbursed in dividends and the profit share to be disbursed in dividends differs from the one determined in the medium-term operational strategy, the holder of State capital shares shall submit a proposal to the Ministry of Finance and to the Co-ordination Institution on justification for the profit share to be disbursed in dividends.

(4) If the Co-ordination Institution does not reach an agreement with the Ministry of Finance and the holder of State capital shares regarding the foreseeable profit share to be disbursed in dividends and the profit share to be disbursed in dividends, the Co-ordination Institution shall prepare an informative report to the Cabinet, which shall take a decision binding to the holder of State capital shares.

(5) The meeting of shareholders (stockholders) shall take a decision on the profit share to be disbursed in dividends after approval of the annual account of the company.

(6) The Cabinet shall stipulate, in accordance with the conditions of this Section, the procedures, by which the profit share to be disbursed in dividends shall be foreseen in State capital companies and public private capital companies, in which the State is a shareholder (stockholder), as well as the actions of the holder of State capital shares in exercising the right of the State as the shareholder (stockholder) to decide on the profit share to be disbursed in dividends.

[18 June 2015]

Section 29. Provision of Disclosure of Information

(1) The Co-ordination Institution shall:

1) provide free access to comparable information regarding return on State capital, assets and their value, financial efficiency, disbursement of dividends, and other issues of importance to the management of capital companies;

2) draw up unified guidelines for the framework of disclosure of information and provision of reports of capital companies for State capital companies and holders of capital shares;

3) establish an interactive website on the Internet – a database providing access to current information regarding State capital shares and their governance, introduction of corporate governance principles and individual aspects of governance, including the following information:

a) a list of capital companies grouped by criteria of the holder, sector or size, by volume of State participation in the capital,

- b) the average financial results of the group of selected capital companies,
 - c) the development of funding allocated by the State by years, the funding allocated to the group of selected capital companies or a specific sector,
 - d) payments of the capital company made into the State budget, including dividends, tax payments;
- 4) post the latest information on its website regarding the current amendments to the laws and regulations directly affecting the governance of the capital company of a public person and capital shares, as well as publish explanatory materials.
- (2) The holder of State capital shares shall provide the latest information regarding capital companies, in which it is the holder of shares, on its website on the Internet, including the following information:
- 1) the firm name, legal address, volume of the equity capital and size of the State participation in the capital company;
 - 2) conformity of State participation with the conditions of Section 4, Paragraph one of this Law, and the general strategic objective;
 - 3) participation of the capital company in other companies and its conformity with the conditions of Section 4, Paragraph two of this Law;
 - 4) representative of the holder of State capital shares in the capital company;
 - 5) approved annual account of the capital company;
 - 6) dividends disbursed to the State by the capital company and payments made into the state budget;
 - 7) information that the State has intended to terminate participation in the capital company;
 - 8) information regarding the initiated reorganisation or transformation of the capital company;
 - 9) other information, which the holder of State capital shares considers as necessary for publishing or publishing of which is determined in the guidelines drawn up by the Co-ordination Institution.
- (3) If there are objective reasons, due to which the information referred to in Paragraphs one and two of this Section, to which the status of commercial secret has been determined in accordance with Section 19 of the Commercial Law, cannot be published, the Co-ordination Institution or the holder of State capital shares shall publish the explanation provided by the respective capital company.

Section 30. Annual Public Report

- (1) The Co-ordination Institution shall, by 30 August of the current year, prepare and submit to the Cabinet and the *Saeima* the annual public report on capital companies and capital shares belonging to the State in the previous year.
- (2) The report referred to in Paragraph one of this Section shall include information regarding State participation in capital companies, resources invested by the State and return of such resources, the services provided by capital companies, information regarding sectors, in which capital companies with State participation operate, as well as other information necessary in order to provide an insight in State capital companies and capital shares.
- (3) In accordance with the procedures stipulated by the Co-ordination Institution, the holder of State capital shares shall provide thereto the information necessary for preparation of the report referred to in Paragraph one of this Section.

Section 31. Procedures for Nominating Members of the Executive Board and Supervisory Board

(1) The holder of State capital shares shall ensure nomination of a candidate for a member of the supervisory board or executive board (if no supervisory board has been established in the capital company). The supervisory board of the capital company (if such has been established) shall ensure nomination of the candidate of a member of the executive board of the capital company.

(2) The nomination proceedings of a member of the executive board and supervisory board shall conform to the principles of good corporate governance, ensure open, fair and professional selection of members of the executive board and supervisory board, promoting the establishment of a professional and competent administrative institution of the capital company.

(3) Initially the holder of State capital shares or the supervisory board of the State capital company shall prepare a list of potential members of the executive board or supervisory board on the basis of the criteria of professionalism and competence necessary for the respective candidate of the member of the executive board or supervisory board. Potential candidates of members of the executive board and supervisory board are selected by organising a public application procedure for candidates, involving recruitment consultants or using other methods for recruiting personnel.

(4) The following persons may not be nominated as members of the executive board or supervisory board:

- 1) a person with no higher education;
- 2) a person who has been punished for an intentional criminal offence without extinguishing or removing the criminal record;
- 3) a person who on the basis of a decision taken within the scope of criminal proceedings has been removed the right to perform a specific or any commercial activity or any other professional activity;
- 4) a person whom the court has declared to be an insolvent debtor.

(5) The holder of State capital shares or the supervisory board of the capital company (if such has been established) shall establish a nomination committee, the task of which is to evaluate the candidates of members of the executive board or supervisory board. The nomination committee shall include the representatives nominated by the holder of State capital shares or the Council (if such has been established) and by the Co-ordination Institution, as well as independent experts and, if necessary, observers with advisory rights.

(6) The nomination committee shall nominate a candidate (candidates) for election to the position of the member of the executive board or supervisory board from the list referred to in Paragraph three of this Section.

(7) On the basis of justified arguments, the holder of State capital shares or the Council has right to reject the candidates proposed by the nomination committee. In such case the process for selection of the necessary candidates referred to in this Section shall be organised repeatedly.

(8) The conditions of this Section, except the restrictions laid down in Paragraph four of this Section, shall not be applied, if:

- 1) after assessing the performance of a member of the executive board or supervisory board in the previous term of office, the holder of State capital shares or the supervisory board has decided to nominate the member for the next term of office;

- 2) the candidate of the member of the executive board or supervisory board cannot be nominated in a time period that would ensure the capacity to act of the institution of the capital company. In such case the holder of State capital shares or the supervisory board (if such has been established) shall appoint such candidate as the member of the executive board

or supervisory board who complies with the criteria of professionalism and competence of the respective candidate of the member of the executive board or supervisory board.

(9) A person elected in accordance with the procedures laid down in Paragraph eight, Clause 2 of this Section shall fulfil the official duties until the moment when the holder of State capital shares or the Council of the State capital company elects him or her or other candidate to the position in accordance with the nomination procedures laid down this Section.

(10) The Cabinet shall determine the procedures, by which candidates shall be nominated for positions of members of the executive board and the supervisory board in capital companies, in which the State as the shareholder (stakeholder) has the right to nominate members of the executive board or supervisory board, and members of the executive board in State capital companies, in which the supervisory board has been established.

Chapter VI

Governance of Capital Shares of a Derived Public Person

Section 32. Procedures for Receiving the Statement of the Co-ordination Institution

Prior to taking the decision referred to in Sections 5, 7, and 9 of this Law to obtain participation of a derived public person or to obtain or terminate decisive influence in a capital company, to reevaluate the participation of a derived public person or to terminate participation in a capital company, the derived public person may request the Co-ordination Institution to provide a statement. The Co-ordination Institution shall provide a statement within one month. The statement of the Co-ordination Institution shall be of recommendatory nature.

Section 33. Assessment of the Medium-Term Operational Strategy Drawn up by a Capital Company

The highest decision-making body of the derived public person may determine the procedures by which the representative of the holder of capital shares of a derived public person or the council of the capital company shall receive and assess the opinion of individual institutions of derived public persons before approval of the medium-term operational strategy.

Section 34. Assessment of Performance Results of a Capital Company

(1) Each year the representative of the holder of capital shares of a derived public person shall perform a comprehensive assessment of efficiency of financial activities of the capital company and achievement of the financial and non-financial objectives specified in the medium-term operation strategies.

(2) Upon assessing the progress of implementation of objectives, the representative of the holder of capital shares of a derived public person shall, as necessary, decide on further activities in order to ensure return on assets and increase in value, as well as achievement of the objectives specified in the medium-term operational strategy.

(3) The highest decision-making body of the derived public person may determine the procedures by which the representative of the holder of capital shares of a derived public person shall assess the performance results of the capital company, referred to in Paragraph one of this Section.

Section 35. Determination of Profit Share to be Disbursed in Dividends in a Capital Company, in which the Derived Public Person has the Decisive Influence

(1) The highest decision-making body of the derived public person shall stipulate the procedures for determining the profit share to be disbursed in dividends in a capital company, in which the derived public person has decisive influence.

(2) In determining the profit share to be disbursed in dividends in a capital company, in which the derived public person has decisive influence, the representative of the holder of capital shares shall take into account the following:

- 1) the objectives of the capital company and their implementation;
- 2) the budget of the capital company and the profit prognosis included therein;
- 3) information, included in the medium-term operational strategy, regarding the planned company budget for next years, further directions for the development of and attraction of investments for the capital company, financial investments and their sources, and other measures increasing the value of the capital company and further return on capital;
- 4) the necessity to ensure optimal structure of capital (ratio between own funds and borrowed capital) by balancing financial risks, as well as assessing indicators of capital sufficiency and return.

Section 36. Provision of Disclosure of Information

A derived public person shall ensure that current information regarding capital companies, in which it participates, is published on its website, including the following information:

- 1) a list of capital companies grouped by the criteria of sector or size;
- 2) the firm name, legal address, size of the equity capital of the capital company and amount of participation of the derived public person;
- 3) conformity of the derived public person with the conditions of Section 4, Paragraph one of this Law and the general strategic objective;
- 4) participation of the capital company in other companies and its conformity with the conditions of Section 4, Paragraph two of this Law;
- 5) the representative of the holder of capital shares of the derived public person in the capital company;
- 6) approved annual account of the capital company;
- 7) the dividends disbursed by the capital company to the derived public person and payments of the capital company into the State and local government budgets (including deductibles and tax payments);
- 8) information that the derived public person has intended to terminate participation in the capital company;
- 9) information regarding the commenced reorganisation or transformation of the capital company;
- 10) other information considered by the derived public person necessary to be published.

Section 37. Procedures for Nominating the Executive Board and Supervisory Board of a Derived Public Person

(1) The highest decision-making body of a derived public person shall determine the procedures for nominating candidates of members of the executive board and supervisory board in a capital company, in which the derived public person as a shareholder (stockholder) has the right to nominate members of the executive board or supervisory board, and members of the executive board in a derived capital company of a public person, in which the

supervisory board has been established. In determining the procedures for nomination, the following conditions are taken into account:

- 1) the process of nomination is open;
- 2) candidates of members of the executive board and supervisory board are chosen on the basis of the criteria of professionalism and competence.

(2) The following persons may not be nominated as members of the executive board or supervisory board:

- 1) a person with no higher education;
- 2) a person who has been punished for an intentional criminal offence without extinguishing or removing the criminal record;
- 3) a person who on the basis of a decision taken within the scope of criminal proceedings has been removed the right to perform a specific or any commercial activity or any other professional activity;
- 4) a person whom the court has declared to be an insolvent debtor.

(3) The procedures laid down in Paragraph one of this Section shall be binding to the representative of the holder of capital shares of a derived public person, in choosing a candidate for a vacant position of the member of the executive board or of the supervisory board of the capital company, and to the supervisory board (if such has been established) of the capital company of a derived public person, in choosing a candidate for the vacant position of the member of the executive board of the capital company.

(4) The conditions of this Section, except the restrictions laid down in Paragraph two of this Section, shall not be applied if:

- 1) after assessment of the performance of the member of the executive board or supervisory board during the previous term of office, the holder of capital shares of a derived public person or the supervisory board has decided to nominate the member for the next term of office;

- 2) the candidate of the member of the executive board or supervisory board cannot be nominated in a time period that would ensure the capacity to act of the institution of the capital company. In such case the representative of the holder of capital shares of a derived public person or the supervisory board (if such has been established) shall appoint such candidate as a member of the executive board or supervisory board who complies with the criteria of professionalism and competence necessary for the respective candidate of the member of the executive board or supervisory board.

(5) The person elected in accordance with the procedures laid down in Paragraph four, Clause 2 of this Section shall fulfil the duties of the position until the moment when the representative of the holder of capital shares of a derived public person or the council of the capital company of the derived public person elects him or her or other candidate to the position in accordance with the procedures for nominating laid down in this Section.

[18 June 2015]

Division C

Capital Companies of a Public Person and Public Private Capital Companies

Chapter VII

General Provisions for Governance of Operation of Capital Companies of a Public Person and Public Private Capital Company

Section 38. Stocks of a Stock Company of a Public Person

Stocks of a stock company of a public person and of a public private stock company may not be an object of public circulation, except cases when the highest decision-making body of the

respective public person takes a decision to alienate the stocks by quoting them on the stock market in accordance of Division H of this Law.

Section 39. Capital Company with Supplemental Liability

A capital company of a public person and a public private capital company may not be founded as a capital company with supplemental liability.

Section 40. Exceptions from the Duty of Certifying a Signature of a Public Person

(1) A signature of the representative of the holder of capital shares of a public person on an application of a capital company of a public person and a public private capital company in the Commercial Register need not be publicly certified.

(2) Also signature of a person regarding issuance, revocation of a procuration or any changes in its amount, as well as on documents to be appended to the application to be submitted to the Commercial Register, which are referred to in Section 10, Paragraph two, Clause 2 of the Commercial Law, except the consent of a person specified in Sub-clauses “f” and “g” of this Clause to take the position of the member of the executive board or liquidator of the capital company, need not be publicly certified.

Section 41. Requirements to be Conformed to in Governance of a Public Private Capital Company

All the requirements and restrictions laid down in Divisions B, D, and E of this Law, which are applicable to the executive board and supervisory board, as well as members of the executive board and supervisory board of a capital company of a public person (including the criteria for establishment of the supervisory board, the requirements for members of the executive board and supervisory board, determination of monthly remuneration, restrictions on disbursement of premiums and other requirements laid down in this Law), shall be conformed to in the governance of a public private capital company.

Chapter VIII

Founding of a Capital Company of a Public Person

Section 42. Founding of a State Capital Company

(1) The Cabinet shall determine the following in an order regarding foundation of a State capital company:

- 1) the firm name of the capital company;
- 2) the type of the capital company;
- 3) the amount of equity capital of the capital company and type of its payment;
- 4) the holder of capital shares of the capital company;
- 5) other issues related to founding of the capital company.

(2) The holder of capital shares shall carry out the functions of the founder of a State capital company laid down in this Law, issuing respective orders.

Section 43. Founding of a Capital Company of a Derived Public Person

(1) The following shall be indicated in a decision to found a capital company of a derived public person:

- 1) the name and address the location of the capital company of a derived public person;

- 2) the firm name of the capital company;
 - 3) the type of the capital company;
 - 4) the amount of equity capital of the capital company and type of its payment;
 - 5) the holder of capital shares of the capital company;
 - 6) other issues related to founding of the capital company.
- (2) In the decision, no specific right or privilege during founding of the capital company shall be specified to any person.
- (3) The representative of the holder of capital shares of a derived public person shall carry out the functions specified in this Law for the founder of a capital company of a derived public person, taking respective decisions or signing documents.

Section 44. Documents of Incorporation of a Capital Company

- (1) Documents of incorporation of a State capital company are a Cabinet order on founding of a capital company, an order of the holder of capital shares (Section 45 of this Law) and articles of association of the capital company.
- (2) Documents of incorporation of a capital company of a derived public person are a decision to found a capital company issued by the highest decision-making body of the derived public person and articles of association of the capital company.

Section 45. Orders of the Holder of State Capital Shares

- (1) The provisions of the Commercial Law regarding a memorandum of association (Section 143, Paragraph five of the Commercial Law) shall apply to orders of the holder of State capital shares.
- (2) The holder of State capital shares shall indicate the following information regarding the founder of a State capital company in the order:
- 1) the name and address of the State administration institution;
 - 2) the given name, surname, personal identification number and position of the person who signs the order.
- (3) In an order of the holder of State capital shares, no specific right or privilege during founding of the capital company shall be specified for any person.

Section 46. Articles of Association of a Capital Company

- (1) A capital company of a public person shall operate on the basis of articles of association, which are drawn up according to standard articles of association of a capital company of a public person (hereinafter – standard articles of association).
- (2) Standard articles of association shall be approved by the Cabinet.
- (3) The conditions of standard articles of association may be different from the provisions of this Law and the Commercial Law only if these laws directly allow such difference.
- (4) Conditions of articles of association of a capital company of a public person may differ from provisions of standard articles of association only if standard articles of association directly allow such difference.
- (5) The meeting of shareholders (stockholders) shall approve the articles of association of a capital company of a public person. In such case the representative of the holder of capital shares shall sign the articles of association (also amendments thereto) of the capital company of the public person.

Section 47. Election of the Executive Board, Supervisory Board and Auditor of a Capital Company

The executive board and supervisory board established until registration of the company is elected, as well as the auditor is appointed for a full term of office.

Section 48. Activities Prior to Entering a Capital Company in the Commercial Register

The holder of capital shares may not act on behalf of the capital company to be founded before it is entered into the Commercial Register, except performance of activities directly related to founding of the capital company.

Chapter IX

Equity Capital of a Capital Company of a Public Person and Public Private Capital Company

Section 49. Evaluation of Financial Investment

(1) The financial investment shall be evaluated in accordance with Section 154 of the Commercial Law.

(2) If the equity capital of a capital company of a public person is paid with financial investment, the total value of which does not exceed EUR 14 000, the holder of capital shares may assess the financial investment and provide a statement.

Section 50. Consequences of Non-conformity with the Time Period for Paying a Share

If a public person does not pay the full price of the signed share within the time period of payment for capital shares indicated in the provisions for increase of equity capital, only the paid amount of shares in the capital company shall be registered for the public person.

Chapter X

Liability, Prohibition of Competition and Prevention of a Conflict of Interest

Section 51. Liability of Members of the Executive Board and Supervisory Board, a Shareholder (Stockholder) and Holder of Capital Shares

(1) A member of the executive board and supervisory board of a capital company of a public person and a public private capital company shall not be liable for losses caused to the capital company, if he or she has acted in good faith and according to a lawful decision of the meeting of shareholders (stockholders), a shareholder (stockholder) or the representative of the holder of capital shares.

(2) If losses to the capital company of a public person are caused by implementing a lawful decision of the shareholder (stockholder) or the representative of the holder of capital shares, the respective shareholder (stockholder) or the representative of the holder of capital shares shall be liable for them. The shareholder (stockholder) who voted for taking of the abovementioned decision shall be liable for losses caused to the public private capital company by implementation of a lawful decision of the meeting of shareholders (stockholders).

(3) The capital company of a public person and public private capital company may release a member of the executive board or supervisory board from liability or enter into settlement with him or her (within the meaning of Section 173 of the Commercial Law) for activities performed, if the meeting of shareholders (stockholders) makes a respective decision.

Section 52. Prohibition of Competition and Prevention of a Conflict of Interest for Members of the Executive Board of a Capital Company

(1) A member of the executive board of a capital company of a public person and a public private capital company must comply with the following in his or her activities:

- 1) the provisions of the Commercial Law in relation to restrictions on concluding transactions (Sections 139.¹, 139.², and 139.³ of the Commercial Law);
- 2) the prohibition of competition (the Section 171 of the Commercial Law);
- 3) the restrictions determined in the Law On Prevention of Conflict of Interest in Activities of Public Officials.

(2) If a member of the executive board of a capital company of a public person and a public private capital company violates the restrictions laid down in Paragraph one, Clause 2 of this Section, the capital company has the right to request compensation for losses or recognition of respective transactions as such, which are concluded on behalf of the capital company, and transfer of the derived income or right of claim it to the capital company.

(3) The claims referred to in Paragraph two of this Section shall expire within six months from the day when other members of the executive board, supervisory board (if such has been established) or the representative of the holder of capital shares have discovered the violation of the prohibition of competition, but not later than within five years from the day of committing the violation.

Chapter XI

Annual Account and Profit Distribution of a Capital Company

Section 53. Auditor

The executive board or supervisory board of a capital company of a public person and a public private capital company may not object to the auditor elected by the meeting of shareholders (stockholders).

Section 54. Approval of the Annual Account of a Capital Company

The executive board of a capital company of a public person and a public private capital company shall ensure that the annual account (Section 174 of the Commercial Law) is prepared and the meeting of shareholders (stockholders) is convened in order to approve the annual account of the capital company by 30 April of the respective year (included), but if the volume of activity of the capital company exceeds two of the criteria referred to in Section 24, Paragraph two of the Annual Accounts Law, or the capital company is the parent capital company of a group of companies, which prepares a consolidated annual account – by 31 May of the respective year (included), if international agreements do not provide for otherwise.

Section 55. Disbursement of Cash Funds of a Capital Company to the Holder of Capital Shares

(1) The cash funds of a capital company of a public person and a public private capital company may be disbursed to the shareholder (stockholder) in conformity with the restrictions specified in Section 182 of the Commercial Law.

(2) The cash funds disbursed by a capital company of a public person and a public private capital company shall be transferred into the budget of the respective public person.

Section 56. Distribution of Profit of a Capital Company of a Public Person

(1) The meeting of shareholders (stockholders) of a State capital company shall determine the profit share to be disbursed dividends in conformity with Section 28 of this Law.

(2) The meeting of shareholders (stockholders) of a capital company of a derived public person shall determine the profit share to be disbursed in dividends in conformity with Section 35 of this Law.

(3) The meeting of shareholders (stockholders) of a capital company of a public person shall determine the principles for distribution of the profit of the capital company in conformity with the performance results of the capital company and the medium-term operational strategy.

Chapter XII

Individual Issues Related to the Governance of a Capital Company

Section 57. Drawing up of the Medium-Term Operational Strategy

(1) A capital company of a public person and a public private capital company shall draw up the medium-term operational strategy, taking into account:

1) the general strategic objectives of the capital company determined by the highest decision-making body of the public person;

2) the non-financial objectives brought forward by the sectoral ministry or institution of a derived public person (if applicable);

3) the financial objectives of the capital company, as well as result-based parameters characterising the operational efficiency of the capital company (for example, market share, efficiency of disbursement and processes, customer satisfaction, productivity of employees).

(2) The council of the capital company or the meeting of shareholders (stockholders) (if council has not been established) shall approve the medium-term operational strategy drawn up by the capital company.

(3) The Co-ordination Institution shall prepare the guidelines for drawing up of the medium-term operational strategy. Such guidelines shall be of recommendatory nature in relation to a capital company of a derived public person and a public private capital company.

(4) The medium-term operational strategy includes at least the following information:

1) general information regarding capital company [firm name of the capital company, amount of equity capital, composition of stakeholders (shareholders) and the number of shares belonging to them, payments made into State or local government budget, information regarding received financing from State or local budget, information regarding the property structure (including participation in other companies), type of operation, history, governance model of the capital company];

2) information regarding the business model, including products and services of the capital company;

3) analysis of strengths and weaknesses of the capital company;

4) market analysis, description of competitors and clients;

5) general strategic objectives of the capital company;

6) non-financial objectives (if applicable);

7) financial objectives, as well as result-based indicators characterising the efficiency of operation of the capital company;

8) profit and loss calculation, balance sheet and cash flow statement;

9) risk analysis.

Section 58. Publishing of Information Regarding a Capital Company

(1) A capital company of a public person and a public private capital company shall publish general strategic objectives of the capital company, information regarding the types of operation and commercial activity of the capital company, as well as the following information on its website, but if there is none – on the website of the holder of capital shares:

1) at least once in a year:

a) the results of implementation of financial objectives (according to an approved annual account) and non-financial objectives (including total sum of balance, net turnover, profit or loss calculation, cash flow report, different result-based indicators characterising the operation of the capital company),

b) the payments made into the State or local government budget (including dividends, deductions, tax payments),

c) information regarding the received funding of the State or local government budget and its distribution (if applicable),

d) the principles of remuneration policy,

e) the strategy of donating (giving gifts) and procedures for donating (giving gifts) of the capital company;

2) the reports drawn up by the capital company:

a) an interim report not checked by a sworn auditor for three, six, nine and twelve months (within two months after the end of the reporting period),

b) an annual account not checked by a sworn auditor (within five months after the end of the report period);

3) constantly, with necessary updates:

a) information regarding property structure (including participation in other companies),

b) information regarding organisational structure,

c) information regarding sum of each received and performed donation (gift) and recipient,

d) information regarding procurements,

e) other significant information unless it is related to disclosure of a commercial secret.

(2) If there are impartial reasons, due to which the capital company cannot publish the information referred to in Paragraph one of this Section, which has been assigned the status of a commercial secret in accordance with Section 19 of the Commercial Law, the capital company shall publish a respective explanation on its website.

(3) A capital company of a public person and a public private capital company shall ensure that its subsidiary company also publishes the information referred to in Paragraph one of this Section and the explanation referred to in Paragraph two of this Section.

(4) The interim reports referred to in Paragraph one, Clause 2, Sub-clause “a” of this Section shall be prepared in accordance with the laws and regulations governing the preparation of annual accounts, and they shall include:

1) an interim financial report which consists of a balance sheet, profit or loss statement, a report on changes of the equity capital, an interim cash flow statement and an appendix. The appendix shall provide information which ensures comparability of the interim report with the data of the respective period in the previous reporting period, as well as sufficient information and explanations, so that the user of the interim financial report could obtain a reliable and clear overview regarding any significant changes in the items of the balance sheet or profit or loss statement items and regarding the development tendency of the capital company;

2) an interim governance report that provides information regarding significant events in the time period from the beginning of the financial year to the reporting date and regarding

their impact on the interim financial reports, describes the main risks and indicates those potential uncertain circumstances which the capital company could face in the coming months of the financial year and which could affect its financial position and financial performance;

3) a statement of the liability of the governance, which is prepared in addition to the statutory requirements regarding preparation of annual accounts. It shall be indicated in the statement that, on the basis of the information at the disposal of the executive board of the capital company, the interim financial reports are prepared in accordance with the requirements of the laws and regulations in force and provide a reliable and clear overview regarding assets, financial position and profit or loss of the capital company and the consolidated group, and that the interim governance report includes true information.

[18 June 2015]

Division D **Limited Liability Company of a Public Person**

Chapter XIII **Equity Capital and Capital Shares**

Section 59. Payment of Equity Capital, Nominal Value and Registration of Capital Shares

(1) Equity capital of a limited liability company of a public person (hereinafter in this Division – company) shall be paid in full until registration application is submitted to the Commercial Register Office.

(2) The nominal value of a capital share of the company (hereinafter in this Division – share) shall be one euro.

(3) Also the name, registration number (if any), as well as legal address or address of the location of the holder of capital shares shall be entered into the register of the shareholders of the company.

(4) Any person has the right to become acquainted with the register of shareholders of the company.

(5) The representative of the holder of capital shares, the responsible employee and the authorised representative of the holder of capital shares have the right to receive an extract from the register of shareholders of the company, certified by a person authorised by the executive board, regarding shares belonging to the public person in the company.

Section 60. Pledging of Shares

Shares of a company may not be pledged.

Section 61. Acquisition of Own Shares

A company may not acquire own shares, except a case when the company reduces the equity capital by cancelling them.

Chapter XIV

Changes in Equity Capital

Section 62. Decision on Changes in the Equity Capital

The equity capital may be increased or reduced only on the basis of a decision of a meeting of shareholders, which includes the provisions for increasing or reducing the equity capital.

Section 63. Increase of the Equity Capital

(1) The equity capital of a company may be increased:

1) upon shareholders investing in the equity capital of the company and receiving a respective amount of new shares in return;

2) after the annual account or report on economic activity for a time period less than one year is approved, including the positive difference between the own capital and the sum formed by the equity capital reserves, which may not be transferred for increasing the equity capital in accordance with the law, in the equity capital in full or partially, and receiving a respective amount of new shares in return. The report on economic activity shall be prepared in accordance with the requirements of the Annual Accounts Law.

(2) If the equity capital of the company is increased in the way referred to in Paragraph one, Clause 1 of this Section, complete increase of the equity capital shall be paid for by the shareholder within the time period determined in the decision to increase the equity capital. The abovementioned time period may not exceed three months from the day, on which the decision to increase the equity capital was taken.

(3) The holder of capital shares of a public person need not submit to the company an application for obtaining of shares.

(4) The company shall enter the new shares of the shareholder in the register of shareholders on the basis of documents certifying payment for such shares.

(5) The executive board shall submit an application to the Commercial Register Office regarding increasing the equity capital after payment for shares is made and new shares are recorded into the register of shareholders.

Section 64. Reducing of Equity Capital

The equity capital of a company shall be reduced by cancelling shares.

Chapter XV

Administration of a Company

Section 65. Administrative Institutions of a Company

(1) The administration of a company shall be implemented by a shareholder, the meeting of shareholders and the executive board, as well as the supervisory board (if such has been established).

(2) The decisions within the competence of the meeting of shareholders shall be taken by the representative of the holder of capital shares.

Section 66. Competence of the Meeting of Shareholders

(1) Only the meeting of shareholders has the right to take decisions:

- 1) to approve the annual account of the company;
 - 2) to distribute the profit;
 - 3) to elect and revoke members and chairperson of the executive board, except cases when a supervisory board has been established in the company;
 - 4) to elect and revoke members of the council (if such has been established);
 - 5) to elect and revoke of an auditor;
 - 6) to bring a claim against a member of the executive board or supervisory board (if such has been established) or withdrawal of claim against them, as well as to appoint a representative of the company for representation of the company in court;
 - 7) to approve and amend the articles of association of the company;
 - 8) on the amount of remuneration for an auditor, members of the supervisory board (if such has been established) and members of the executive board (except cases when a supervisory board has been established);
 - 9) to increase or decrease the equity capital;
 - 10) to reorganise the company;
 - 11) to elect and revoke of a liquidator;
 - 12) on the medium-term operational strategy, except cases when a council is established;
 - 13) on other issues, if it is provided for in the law.
- (2) Upon request of the executive board the meeting of shareholders shall examine and take decisions also on such issues, for deciding of which the executive board requires a prior consent of the meeting of shareholders (Section 82 of this Law).

Section 67. Competence of a Shareholder

- (1) In accordance with Sections 5, 7, and 9 of this Law, a shareholder shall take decisions to obtain, continue or terminate participation in the company.
- (2) The decisions referred to in Paragraph one of this Section in the name of the respective public person shall be taken by the highest decision-making body of public person.

Section 68. Convening of a Meeting of Shareholders

- (1) Regular meetings of shareholders and extraordinary meetings of shareholders shall be convened.
- (2) Meetings of shareholders shall be convened by the executive board, except the cases provided for in this Law.

Section 69. Convening of a Regular Meeting of Shareholders

- (1) The executive board shall convene a regular meeting of shareholders within a time period which ensures a possibility of approving the annual account within the time period provided for in this Law.
- (2) If the executive board has not convened the regular meeting of shareholders in the intended time period, it shall be convened by the supervisory board (if such has been established) or the representative of the holder of capital shares within not more than five working days from the day, on which the executive board had to convene the meeting of shareholders. Such action of the executive board may be the basis for a decision of the supervisory board or the meeting of shareholders to revoke the executive board on the basis of non-fulfilment of the obligations.
- (3) If the council (if such has been established) has not convened the regular meeting of shareholders in the case and within the time period referred to in Paragraph two of this Section, the decision to convene a meeting of shareholders shall be taken by the representative

of the holder of capital shares within not more than five days from the day, on which the council had to convene the meeting of shareholders.

(4) If the council (if such has been established) does not convene the meeting of shareholders in case referred to in Paragraph two of this Section without justified reason, such action of the council may be the basis for a decision of the meeting of shareholders to revoke members of the council on the basis of non-fulfilment of the obligations.

(5) If a dispute arises whether the action of members of the executive board or supervisory board had justified reason, the burden of proof shall lie with members of the executive board and supervisory board accordingly.

Section 70. Convening of an Extraordinary Meeting of Shareholders

(1) The executive board shall convene an extraordinary meeting of shareholders upon its own initiative or if it is requested in writing by the supervisory board (if such has been established), the auditor or the representative of the holder of capital shares.

(2) The initiators of convening an extraordinary meeting of shareholders shall indicate the reasons for convening the meeting and the agenda in the request, as well as submit draft decisions on issues of the agenda. The request to convene a meeting shall be submitted to the executive board and supervisory board (if such has been established), and the auditor and the holder of capital shares shall be notified thereof.

(3) The executive board shall convene an extraordinary meeting of shareholders not later than within two weeks after receipt of the request.

(4) If the executive board does not convene an extraordinary meeting of shareholders within the time period laid down in Paragraph three of this Section, it may be convened by the initiator of convening an extraordinary meeting of shareholders himself or herself.

(5) If a decision must be made urgently in the issue to be examined, an extraordinary meeting of shareholders shall be convened within a time period, which ensures a possibility of receiving a notification on convening a meeting of shareholders in due time, as well as draft decisions and other materials of the meeting of shareholders. The time period for convening an extraordinary meeting of shareholders shall not be less than seven days. The initiator of urgent convening of the meeting of shareholders shall justify the urgency in writing.

(6) If the executive board does not convene the extraordinary meeting of shareholders without justified reason, the meeting of shareholders may revoke it by itself or to propose the supervisory board (if such has been established) revocation of members of the executive board on the basis of non-fulfilment of the obligations.

(7) If a dispute arises whether actions of members of the executive board have a justified reason, the burden of proof shall lie with the members of the executive board.

Section 71. Convening of Meeting of Shareholders in Special Cases

If losses of the company exceed half of the equity capital of the company or the company has a limited solvency, indications of insolvency are detected or are likely to set in, the executive board shall notify the supervisory board (if such has been established) thereof, convene a meeting of shareholders in accordance with Section 70 of this Law and provide explanations therein.

Section 72. Convening of a Meeting of Shareholders if a Company is Being Liquidated

(1) If a decision to terminate the operation of the company and to elect a liquidator is taken, the meeting of shareholders shall be convened by the liquidator.

- (2) The liquidator shall convene the regular meeting of shareholders during a time period which ensures a possibility to approve the annual account within the time period provided for in the law.
- (3) The liquidator shall convene the extraordinary meeting of shareholders upon its own initiative or if it is requested in writing by the representative of the holder of capital shares.
- (4) The initiators of convening an extraordinary meeting of shareholders shall indicate the reasons for convening the meeting and the agenda in the request. The request to convene a meeting shall be submitted to the liquidator and the auditor and the holder of capital shares shall be notified thereof.
- (5) If a decision in the issue to be examined must be taken urgently, an extraordinary meeting of shareholders shall be convened in accordance with the procedures laid down in Section 70, Paragraph five of this Law.
- (6) If the liquidator has not convened a regular or extraordinary meeting of shareholders within the intended time period, the representative of the holder of capital shares shall convene it.
- (7) If the liquidator does not convene the meeting of shareholders without justified reason, the meeting of shareholders may revoke the liquidator.
- (8) If there is a dispute regarding whether the action of a liquidator has a justified reason, the burden of proof shall lie with the liquidator.

Section 73. Procedures for Convening a Meeting of Shareholders

- (1) The executive board shall send a notification on convening a meeting of shareholders to the representative of the holder of capital shares, all members of the supervisory board and the auditor not later than two weeks before the meeting.
- (2) The place and time of the meeting of shareholders, the type of the meeting, the institution which requested to convene the meeting, the agenda of the meeting of shareholders, draft decisions, as well as other information related to convening and course of the meeting shall be indicated in the notification.
- (3) If the meeting of shareholders is convened in accordance with the procedures laid down in Section 69, Paragraphs two and three or Section 70, Paragraph five of this Law, the initiator of convening the meeting shall ensure that the holder of capital shares, members of the council and the auditor receive the draft decisions of the meeting and other materials not later than two working days before the meeting.

Section 74. Issues to be Examined in a Meeting of Shareholders

- (1) A meeting of shareholders may take decisions only in such issues, which are indicated in the notification determined in Section 73 of this Law, except the cases referred to in Paragraph two of this Section.
- (2) A meeting of shareholders may take decisions in the following issues (also if they have not been indicated in the notification determined in Section 73 of this Law):
 - 1) revocation of members of the executive board, members of the supervisory board, the liquidator or the auditor and election of new ones, as well as determination of remuneration of the new members of the executive board, members of the supervisory board, the liquidator or the auditor;
 - 2) bringing of a claim against members of the executive board and supervisory board, the liquidator or the auditor;
 - 3) performance of an internal audit of the capital company;
 - 4) determination of a new time period or date of the meeting of shareholders.

(3) A meeting of shareholders may take decisions only if the time and means of convening a meeting of shareholders provided for in this Law has been conformed to (this provision does not apply issues referred to in Paragraph two of this Section).

Section 75. Participation in a Meeting of Shareholders

(1) A representative of the holder of capital shares shall participate in a meeting of shareholders.

(2) Members of the executive board and supervisory board, as well as the liquidator have a duty to participate in the meeting of shareholders. The auditor has a duty to participate in the meeting of shareholders when the issue of approval of an annual account is examined.

(3) The representative of the holder of capital shares shall determine the other persons who must also participate in a meeting of shareholders.

Section 76. Course of a Meeting of Shareholders

(1) A representative of the holder of capital shares shall open and chair a meeting of shareholders.

(2) The representative of the holder of capital shares shall appoint a secretary (minute-taker) of the meeting of shareholders.

(3) After an issue is examined the representative of the holder of capital shares shall announce his or her decision in relation to the issue examined.

Section 77. Minutes of a Meeting of Shareholders

(1) The course of a meeting of shareholders shall be recorded in minutes.

(2) The following shall be included in the minutes:

1) the firm name of the company;
2) the location, date and time of the meeting of shareholders;
3) the given name, surname and position of the persons who participate in examining the issue;

4) the size of the subscribed equity capital, paid-up equity capital and equity capital with voting rights of the company;

5) the given name and surname of the chairperson and secretary (minute-taker) of the meeting;

6) the agenda of the meeting;

7) the course of discussion and content of issues of the agenda;

8) decisions of the meeting taken on all issues of the agenda;

9) objections of members of the executive board and supervisory board, the auditor, and the liquidator.

(3) Minutes shall be signed by the chairperson and secretary (minute-taker) of the meeting of shareholders.

Section 78. Council

The provisions of Sections 106, 107, 108, 109, 110, 111, and 112 of this Law shall be applied in relation to establishment, operation and competence of the council, unless it is laid down otherwise in this Chapter.

Section 79. Executive Board

(1) The Cabinet shall determine the number of members of the executive board according to the indicators characterising the size of the company.

(2) A natural person whose work experience, education and qualification ensures professional fulfilment of the duties of a member of the executive board and who is elected in conformity with Section 31 or 37 of this Law is elected as a member of the executive board of the company.

(3) A member of the executive board shall be elected for five years.

(4) Monthly remuneration of a member of the executive board shall be determined in conformity with the maximum amount of monthly remuneration provided for in Cabinet regulations. The Cabinet shall determine the maximum amount of the monthly remuneration of a member of the executive board, taking into account the average remuneration for the governance in similarly sized (net turnover, total sum of the balance, number of employees) capital companies in the private sector or – in individual cases – in the sector, in which the respective capital company is operating. The maximum amount of the monthly remuneration of a member of the executive board may not exceed the amount of the average monthly work remuneration of the previous year for persons working in the State published in the official statistics report of the Central Statistical Bureau, which has been rounded up to full euros and to which the coefficient 10 has been applied. The monthly remuneration of a member of the executive board shall be determined for the whole term of office of the member with the right to review it once a year.

(5) An authorisation contract regarding fulfilment of the duties of a member of the executive board shall be concluded with the member of the executive board of the company.

(6) The contract referred to in Paragraph five of this Section may provide for insurance and revocation benefit. The contract may include a revocation benefit only if the member of the executive board is revoked from the position before expiry of the term of office and the revocation is not related to violation of authorisation, non-fulfilment or insufficient fulfilment of obligations, as well as harm incurred to the favour of company. A revocation benefit may not be provided for, if a member of the executive board was elected in accordance with the procedures laid down in Section 31, Paragraph eight, Clause 2 or Section 37, Paragraph four, Clause 2 of this Law. If the authorisation contract does not provide for insurance and a revocation benefit, they shall not be granted.

(7) A member of the executive board may be disbursed a premium once a year after approval of the annual account. The premium may not exceed the amount of remuneration for two months of the member of the executive board of the capital company. The following criteria shall be taken into account in determining the premium:

- 1) performance results of the capital company in the previous reporting year;
- 2) implementation of the medium-term operational strategy and performance results of the capital company in accordance with the defined financial and non-financial objectives;
- 3) performance results of the member of the executive board in the previous reporting year.

(8) The contract referred to in Paragraph five of this Section may provide for a revocation benefit in the amount not exceeding three monthly remunerations, if the member of the executive board loses the position in case of reorganisation or liquidation of the company, as well as in the cases specified in Paragraph six of this Section.

[18 June 2015]

Section 80. Rights of Representation of the Executive Board

The executive board is the executive body of the company, which jointly manages and represents the company.

Section 81. Revocation of Members of the Executive Board

(1) A member of the executive board may be revoked, if there is an important reason for it, as well as in the cases determined in Section 31, Paragraph nine or Section 37, Paragraph five of this Law.

(2) In any case an important reason is violation of authorisation, non-fulfilment or insufficient fulfilment of obligations, inability to manage the company, causing of harm to the interests of the company, as well as a decision of the meeting of shareholders on loss of trust.

Section 82. Taking of Decisions of the Executive Board

(1) The executive board shall take decisions on all issues related to the operation of the company, except issues on which decisions in accordance with this Law and the articles of association of the company are taken by shareholder, holder of capital shares, meeting of shareholders as well as supervisory board (if such has been established) accordingly.

(2) The executive board shall need a prior consent of the highest decision-making body of a public person for obtaining or terminating participation, as well as for obtaining or terminating decisive influence in other company.

(3) The executive board shall need a prior consent of the meeting of shareholders for taking a decision on the following issues:

1) acquisition or alienation of an undertaking;

2) termination of specific kinds of operation and commencement of new kinds of operation.

(4) The board shall need a prior consent of the supervisory board on the following issues:

1) opening or closing of branches and representative offices;

2) entering into such transactions, which exceed the sum stipulated in the articles of association or decisions of the council;

3) issuing of such loans, which are not related to the regular commercial activity of the company;

4) issuing of credits to employees of the company;

5) determining of the general principles of commercial activity.

(5) The executive board of a State capital company shall need a prior consent of the supervisory board for concluding the transactions referred to in Section 26, Paragraph six of this Law.

(6) If the supervisory board rejects the proposal of the executive board on the issues referred to in Paragraphs four and five of this Section, the executive board has the right to hand over the examination of such issue to the meeting of shareholders, which shall take a decision on the respective issue.

(7) The articles of association of the company may also provide for other issues that require for the executive board to receive a written prior consent of the meeting of shareholders or supervisory board (if such has been established).

(8) If the company does not establish a council, the meeting of shareholders shall take a decision on the issues referred to in Paragraphs four and five of this Section.

(9) The executive board shall have a quorum if more than one half of members of the executive board participate in the meeting thereof. If there are less members in the composition of the executive board than provided for in the articles of association, a quorum shall be determined according to the number of members of the executive board provided for in the articles of association.

(10) The executive board shall take its decisions with simple majority of present votes, unless a larger number of votes is determined in the articles of association.

Section 83. Minutes of a Meeting of the Executive Board

(1) Minutes shall be taken at meetings of the executive board. The following information shall be indicated in the minutes:

- 1) the firm name of the company;
 - 2) the location, date and time of the meeting of the executive board;
 - 3) the members of the executive board and other persons who participate in the meeting;
 - 4) the agenda issues;
 - 5) the decision taken on every issue;
 - 6) the results of voting, indicating the vote of each member of the executive board separately for each decision with an entry “for” or “against”;
 - 7) other information which a member of the executive board requests to be included in the minutes or which is necessary in order to accurately record the course of the meeting of the executive board.
- (2) If a member of the executive board does not agree with a decision of the executive board and votes against it, the dissenting opinion of the member of the executive board shall be recorded in the minutes of the meeting of the executive board upon his or her request.
- (3) Minutes of meetings of the executive board shall be signed by the person chairing the meeting of the executive board, the minute-taker of the meeting and all members of the executive board who participate in the meeting.

Division E Stock Company of a Public Person

Chapter XVI Capitals and Securities of a Stock Company

Section 84. Equity Capital of a Stock Company

The equity capital defined in the articles of association in founding a stock company of a public person (hereinafter in this Division – company) shall be paid in full amount before submitting an application for registration to the Commercial Register Office.

Section 85. Stocks

- (1) All stocks of a company are stocks of one category, except cases when the company has employee stocks.
- (2) All stocks of the company shall be registered stocks.
- (3) All stocks of the company shall be dematerialised stocks.
- (4) The nominal value of each stock of the company shall be one euro.

Section 86. Register of Stockholders

- (1) The name, registration number (if any), legal address or address of location of the stockholder shall be also entered in the register of stockholders of the company.
- (2) Any person is entitled to become acquainted with the register of stockholders of the company.
- (3) The representative of the holder of stocks, the responsible employee and the authorised representative of the holder of stocks have the right to receive an extract, certified by an authorised person of the executive board, from the register of stockholders of the company regarding the stocks belonging to the public person in the company.

Section 87. Employee Stocks

- (1) The highest decision-making body of a public person shall determine, which capital companies may have employee stocks.
- (2) Employee stocks shall be without voting rights.
- (3) Employee stocks may only belong to employees and members of the executive board of the company.
- (4) An owner of employee stocks may not alienate such stocks from other persons, including other employees.
- (5) If legal employment relationship between the company and the employee terminates or the member of the executive board is revoked or has left his or her position, the employee or the member of the executive board must sell his or her employee stocks to the company and the company must repurchase them according to their nominal value.

Section 88. Prohibition to Acquire Own Stocks

A company may not acquire its own stocks. It is permitted only if the company reduces the equity capital by withdrawing a part of stocks from circulation and extinguishing them or obtaining its employee stocks.

Section 89. Transfer and Extinguishing of Own Stocks Belonging to a Company

- (1) If the company has obtained its employee stocks, they shall be handed over to employees or members of the executive board within six month from the day of obtaining of such stocks.
- (2) If employee stocks are not handed over to employees or members of the executive board of the company within the time period provided for in Paragraph one of this Section, they shall be extinguished, reducing the equity capital accordingly.
- (3) If a company acquires stocks by reducing its equity capital, such stocks shall be extinguished.

Section 90. Convertible Debentures

A company is not entitled to issue convertible debentures.

Chapter XVII Increasing and Reducing of the Equity Capital

Section 91. Conditions for Increasing and Reducing the Equity Capital

- (1) The equity capital shall be increased or reduced only on the basis of a decision of a meeting of stockholders, in which the provisions for increasing or reducing the equity capital are governed.
- (2) The equity capital of a company may be increased:
 - 1) upon a stockholder making investments in the equity capital of the company and receiving a corresponding number of new stocks in return;
 - 2) after approval of the annual account, by transferring completely or partially the positive difference to the equity capital between the own capital and the sum formed by the equity capital and reserves that in accordance with the law may not be transferred for increasing the equity capital, and receiving a corresponding number of new stocks in return.
- (3) If the equity capital of the company is increased in the way referred to in Paragraph two, Clause 1 of this Section, the stockholder – public person – must pay the complete increase of

the equity capital within the time period determined in the decision to increase the equity capital. The abovementioned time period may not exceed three months from the day when the meeting of shareholders took the decision to increase the equity capital.

- (4) The holder of stocks of a public person need not sign on stocks of new issue.
- (5) The company shall enter the new stocks of the stockholder in the register of stockholders on the basis of documents certifying payment for such stocks.
- (6) Only completely paid stocks provide the stockholder with voting rights.
- (7) The executive board shall submit an application to the Commercial Register Office regarding increase of the equity capital after payment for stocks is made and the new stocks are recorded in the register of stockholders.

Section 92. Increasing of the Equity Capital with Special Purpose

- (1) The equity capital shall be increased with a special purpose in accordance with Section 254 of the Commercial Law, unless it is laid down otherwise in this Law.
- (2) The equity capital may be increased only for the following purposes:
 - 1) exchange of new stocks for capital shares or stocks of the capital company of a public person to be merged in case of reorganization;
 - 2) for the issue of employee stocks.
- (3) Increase of the equity capital, as a result of which the company becomes a private stock company with capital share of a public person, may happen only in the cases and in accordance with the procedures provided for in Division I of this Law.

Chapter XVIII Administration of a Stock Company

Section 93. Administrative Institutions of a Stock Company

- (1) The governance of a company shall be implemented by a stockholder, meeting of stockholders, executive board and supervisory board (if such has been established).
- (2) The decisions within the competence of the meeting of stockholders shall be taken by the representative of the holder of stocks.

Section 94. Competence of a Meeting of Stockholders

- (1) Only a meeting of stockholders has the right to take decisions:
 - 1) to approve the annual account of the company;
 - 2) to distribute the profit;
 - 3) to elect and revoke members of the executive board and the chairperson of the executive board (if a supervisory board has not been established in the company);
 - 4) to elect and revoke members of the council (if such has been established);
 - 5) to elect and revoke an auditor;
 - 6) to bring a claim against a member of the executive board or supervisory board (if such has been established) and the auditor or to withdraw a claim against them, as well as to appoint a representative of the company for representation of the company in court;
 - 7) to approve and amend the articles of association of the company;
 - 8) on the amount of remuneration for the auditor, members of the supervisory board (if such has been established) and members of the executive board (except cases when a supervisory board has been established);
 - 9) to increase or decrease the equity capital;
 - 10) to reorganise the company;
 - 11) to elect and revoke of a liquidator;

12) to approve the medium-term operational strategy, except the case if a council has been established;

13) other issues referred to in this Law.

(2) Upon request of the executive board a meeting of stockholders shall examine and take decisions also on issues, for deciding on which the executive board needs a prior consent of the meeting of stockholders (Section 118).

Section 95. Competence of Stockholder

(1) In accordance with Sections 5, 7, and 9 of this Law, the stockholder shall take decisions to obtain, continue and terminate participation in the company.

(2) The decisions referred to in Paragraph one of this Section in the name of the respective public person shall be taken by the highest decision-making body of public person.

Section 96. Convening of a Meeting of Stockholders

(1) Regular meetings of stockholders and extraordinary meetings of stockholders shall be convened.

(2) Meetings of stockholders shall be convened by the executive board, except the cases provided for in this Law.

Section 97. Convening of a Regular Meeting of Stockholders

(1) The executive board shall convene a regular meeting of stockholders within a time period which ensures a possibility of approving the annual account within the time period provided for in the law.

(2) If the executive board has not convened the regular meeting of stockholders in the planned period, the supervisory board (if such has been established) or the representative of the holder of stocks shall convene it within not more than five working days from the day when the executive board had to convene the meeting of stockholders. Such action of the executive board may be the basis for a decision of the supervisory board or meeting of stockholders to revoke the executive board on the basis of non-fulfilment of the obligations.

(3) If the council (if such has been established) has not convened the regular meeting of stockholders in the case and within the time period referred to in Paragraph two of this Section, the representative of the holder of stocks shall take a decision to convene the meeting of stockholders within not more than five days from the day when the council had to convene the meeting of stockholders.

(4) If the council (if such has been established) does not convene the meeting of stockholders in the case referred to in Paragraph two of this Section without justified reason, such action of the council may be the basis for a decision of the meeting of stockholders to revoke members of the council on the basis of non-fulfilment of the obligations.

(5) If a dispute arises whether the action of members of the executive board or supervisory board had justified reason, the burden of proof shall lie with members of the executive board and supervisory board accordingly.

Section 98. Extraordinary Meeting of Stockholders

(1) An extraordinary meeting of stockholders shall be convened by the executive board upon its initiative or if it is requested in writing by the supervisory board (if such has been established), auditor or holder of stocks.

(2) In the request the initiator of an extraordinary meeting of stockholders shall indicate the reasons for convening the meeting and the agenda, and submit draft decisions on issues of the

agenda. The request to convene a meeting shall be submitted to the executive board and supervisory board (if such has been established), and the auditor and the holder of stocks shall be notified thereof.

(3) The executive board shall convene an extraordinary meeting of stockholders not later than within two weeks after receipt of the request.

(4) If the executive board does not convene an extraordinary meeting of stockholders within the time period referred to in Paragraph three of this Section, it may be convened by the initiator of convening an extraordinary meeting of stockholders himself or herself.

(5) If a decision must be made urgently in the issue to be examined, an extraordinary meeting of stockholders shall be convened within a time period which ensures a possibility of receiving a notification on convening a meeting of stockholders in due time, as well as draft decisions and other materials of the meeting of stockholders. The time period for convening an extraordinary meeting of stockholders may not be less than seven days. The initiator of urgent summoning of the meeting of stockholders shall justify the urgency in writing.

(6) If the executive board does not convene the extraordinary meeting of stockholders without justified reason, the meeting of stockholders may revoke it by itself or propose the supervisory board (if such has been established) to revoke members of the executive board on the basis of non-fulfilment of the obligations.

(7) If a dispute arises whether actions of members of the executive board have a justified reason, the burden of proof shall lie with the members of the executive board.

Section 99. Convening of a Meeting of Stockholders on Special Occasions

If losses of the company exceed half of the equity capital of the company or the company has a limited solvency, indications of insolvency are detected or are in danger of setting in, the executive board shall notify the supervisory board (if such has been established) thereof, convene a meeting of stockholders in accordance with Section 98 of this Law and provide explanations therein.

Section 100. Convening of a Meeting of Stockholders if a Company is Being Liquidated

(1) If a decision to terminate the operation of the company and to elect a liquidator is taken, the liquidator shall convene a meeting of stockholders.

(2) The liquidator shall convene the regular meeting of stockholders during a time period which ensures a possibility to approve the annual account within the time period provided for in the law.

(3) An extraordinary meeting of stockholders shall be convened by a liquidator upon its initiative or if it is requested in writing by an auditor or a holder of stocks.

(4) Initiators of convening an extraordinary meeting of stockholders shall indicate the reasons for convening the meeting and the agenda in the request. The request for convening a meeting shall be submitted to the liquidator, and the auditor and the holder of stocks shall be notified thereof.

(5) If a decision on the issue to be examined must be taken urgently, an extraordinary meeting of stockholders shall be convened in accordance with the procedures laid down in Section 98, Paragraph five of this Law.

(6) If the liquidator has not convened a regular or extraordinary meeting of stockholders within the time period provided for, it shall be convened by the holder of stocks.

(7) If the liquidator does not convene the meeting of stockholders without justified reason, the meeting of stockholders may revoke the liquidator.

(8) If there is a dispute regarding whether the action of a liquidator has a justified reason, the burden of proof shall lie with the liquidator.

Section 101. Procedures for Convening a Meeting of Stockholders

- (1) The executive board shall send a notification on convening a meeting of stockholders to the holder of stocks, all members of the supervisory board (if a supervisory board has been established in the company) and the auditor not later than two weeks before the meeting.
- (2) If there are employee stocks in the company, a notification shall also be sent to owners of employee stocks.
- (3) The place and time of the meeting of stockholders, the type of the meeting, the institution which requested to convene the meeting, the agenda of the meeting of stockholders, draft decisions, as well as other information related to convening and course of the meeting shall be indicated in the notification.
- (4) If the meeting of stockholders is convened in accordance with Section 97, Paragraphs two and three and Section 98, Paragraph five of this Law, the initiator of convening the meeting shall ensure that the holder of stocks, members of the council (if a council has been established in the company) and the auditor receive draft decisions of the meeting and other materials not later than two working days before the meeting.

Section 102. Issues to be Examined in a Meeting of Stockholders

- (1) A meeting of stockholders may take decisions only on such issues, which are indicated in the notification determined in Section 101 of this Law, except the cases provided for in Paragraph two of this Section.
- (2) A meeting of stockholders may take decisions on the following issues (also if they have not been indicated in the notification determined in Section 101 of this Law):
 - 1) revocation of members of the supervisory board (if a supervisory board has been established in the company), members of the executive board (in a company, in which a supervisory board has not been established), the liquidator or the auditor, and election of new ones, as well as determination of remuneration for members of the supervisory board, members of the executive board, liquidator or auditor;
 - 2) bringing of a claim against members of the executive board and supervisory board (if a supervisory board has been established in the company), the liquidator or auditor;
 - 3) performance of an internal audit of the capital company;
 - 4) determination of a new time period or date of the meeting of stockholders.
- (3) A meeting of stockholders may take decisions only if the time and means of convening a meeting of stockholders provided for in this Law have been conformed to (this provision shall not apply to the issues referred to in Paragraph two of this Section).

Section 103. Course of a Meeting of Stockholders

- (1) A representative of the holder of stocks shall open and chair a meeting of stockholders.
- (2) The representative of the holder of stocks shall appoint a secretary (minute-taker) of the meeting of stockholders.
- (3) Members of the executive board and supervisory board, as well as the liquidator have a duty to participate in the meeting of stockholders. The auditor has a duty to participate in the meeting of stakeholders when the issue of approval of the annual account is examined.

Section 104. Taking of Decisions of a Meeting of Stockholders

- (1) After an issue is examined the representative of the holder of stocks shall announce his or her decision in relation to the issue examined.
- (2) If there are employee stocks in the company, owners of employee stocks shall not participate in decision-making and shall not vote on the draft decisions prepared.

Section 105. Minutes of a Meeting of Stockholders

- (1) The course of a meeting of stockholders shall be recorded in minutes.
- (2) The following shall be included in the minutes:
 - 1) the firm name of the company;
 - 2) the location, date and time of the meeting of stockholders;
 - 3) the given name, surname and position of the persons who participate in examining the issue;
 - 4) the size of the subscribed equity capital, paid-up equity capital and equity capital with voting rights of the company;
 - 5) the given name and surname of the chairperson and secretary (minute-taker) of the meeting;
 - 6) the agenda of the meeting;
 - 7) the course of discussion and content of issues of the agenda;
 - 8) decisions of the meeting taken on all issues of the agenda;
 - 9) objections of members of the executive board and supervisory board (if a supervisory board has been established in the company), the auditor and liquidator.
- (3) Minutes shall be signed by the chairperson and secretary (minute-taker) of the meeting of stockholders.

Section 106. Conditions for Establishment of a Council, Number of Members of the Council

- (1) A council may be established in a company only if the indicators of the company conform to all of the following criteria during the previous reporting year:
 - 1) the net turnover exceeds 21 million euros;
 - 2) the sum total of the balance exceeds 4 million euros.
- (2) If a council has been established in the company and any of the conditions of Paragraph one of this Section is not met for two reporting years in succession, the council shall be liquidated.
- (3) The Cabinet shall determine the number of members of the council according to the criteria characterising the size of the company.

Section 107. Tasks of the Council

- (1) The supervisory board is a supervisory institution of the company representing the interests of stockholders between meetings and supervising activities of the executive board.
- (2) The council shall have the following tasks:
 - 1) to elect and revoke members of the executive board;
 - 2) to determine the remuneration for members of the executive board;
 - 3) to approve the medium-term operational strategy;
 - 4) to constantly supervise that the matters of the company are conducted in accordance with the requirements of laws and regulations, articles of association of the company, and decisions of the meeting of stockholders;
 - 5) to examine the annual account of the company, the report of the executive board and proposals of the executive board on profit distribution, to prepare a report of the supervisory board thereon, and to submit them to the meeting of stockholders;
 - 6) to represent the company in all claims brought by the company against members of the executive board and claims brought by members of the executive board against the company;

7) to approve concluding of a transaction between the company and a member of the executive board or an auditor;

8) to examine in advance all issues within the competence of the stockholder or the meeting of stockholders or the issues initiated by members of the executive board or members of the supervisory board recommended for examination at the meeting of stockholders, and to provide a statement on such issues;

9) to submit proposals on improvement of the operation of the company to the stockholder.

(3) It may be determined in the articles of association that the executive board must receive an approval of the supervisory board for deciding on important issues. If the supervisory board rejects a proposal of the executive board, the executive board has the right to convene an extraordinary meeting of stockholders, which shall take a decision on the respective issue.

Section 108. Requirements for a Candidate of a Member of the Council

(1) A natural person whose work experience, education and qualification ensures professional carrying out of the tasks of a member of the council and who has been selected in accordance with Section 31 or 37 of this Law may be a member of the council of the company.

(2) The articles of association of the company may provide for other (not referred to in this Law) restrictions to a member of the council.

Section 109. Election and Revocation of a Member of the Council

(1) A member of the council shall be elected to the position for five years.

(2) Members of the council shall be elected and revoked by the meeting of stockholders.

(3) The right of combining the position of a member of the council with other positions is laid down in the Law On Prevention of Conflict of Interest in Activities of Public Officials.

(4) A member of the council shall not receive a revocation benefit or any other compensation, if he or she is revoked from the position before the end of the term of office.

Section 110. Convening of Meetings of the Council

(1) A meeting of the council shall be convened by the chairperson of the council, during his or her absence or upon his or her assignment – by the vice-chairperson of the council. Each member of the supervisory board, the executive board and the holder of stocks have the right to demand convening of a meeting of the supervisory board, justifying the necessity and purpose for convening the meeting.

(2) If the agenda of the council includes the issues referred to in Section 107, Paragraph two of this Law, but the council has no right to decide because the necessary number of members of the council is not participating in the meeting, the non-examination of such issues in a meeting of the council shall not be an obstacle for them to be examined by the stockholder and the meeting of stockholders.

Section 111. Taking of Decisions of the Council and Signing of the Minutes of a Meeting of the Council

(1) A member of the council may vote only if he or she is participating in a meeting of the council.

(2) The person who is chairing the meeting of the council, the minute-taker of the meeting, as well as all members of the council who participate in the meeting shall sign minutes of the meeting of the council.

Section 112. Remuneration for Members of the Council

(1) Monthly remuneration for members of the council shall be determined in conformity with the maximum amount of monthly remuneration provided for Cabinet regulations. The Cabinet shall determine the maximum amount of monthly remuneration for members of the council, taking into account the average remuneration for governance in similarly sized (net turnover, total sum of balance, number of employees) companies in the private sector or – in individual cases – in the sector, in which the respective company is operating. The maximum amount of monthly remuneration for a member of the supervisory board shall not exceed the amount of the average monthly remuneration of the preceding year of persons working in the State, published in the official statistics statement by the Central Statistical Bureau, which has been rounded up to full euros and to which the coefficient of 10 has been applied.

(2) Members of the council may be disbursed a premium once a year after approval of the annual account and assessment of performance results of the member of the council. The premium may not exceed the amount of one monthly remuneration of the member of the council of the capital company.

Section 113. Right to Represent the Executive Board of a Stock Company

The executive board is the executive body of the company, which jointly manages and represents the company.

Section 114. Number of Members of the Executive Board and Restrictions for Members of the Executive Board

(1) The Cabinet shall determine the number of members of the executive board according to the indicators characterising the size of the company.

(2) A natural person whose work experience, education and qualification ensures professional fulfilment of the duties of a member of the executive board and who is elected in conformity with Section 31 or 37 of this Law is elected as a member of the executive board of the company.

Section 115. Election of a Member of the Executive Board

(1) A member of the executive board shall be elected for five years.

(2) An authorisation contract regarding fulfilment of the duties of a member of the executive board shall be concluded with the member of the executive board of the company.

Section 116. Revocation of Members of the Executive Board

(1) A member of the executive board may be revoked, if there is an important reason for it, as well as in the cases specified in Section 31, Paragraph nine or Section 37, Paragraph five of this Law.

(2) In any case an important reason is violation of authorisation, non-fulfilment or insufficient fulfilment of obligations, inability to manage the company, causing of harm to the interests of the company, as well as a decision of the meeting of stockholders or the council (if a council has been established in the company) regarding loss of trust.

Section 117. Remuneration to Members of the Executive Board

(1) Monthly remuneration of a member of the executive board shall be determined in conformity with the maximum amount of monthly remuneration provided for in Cabinet

regulations. The Cabinet shall determine the maximum amount of the monthly remuneration of a member of the executive board, taking into account the average remuneration for the governance in similarly sized (net turnover, total sum of the balance, number of employees) capital companies in the private sector or – in individual cases – in the sector, in which the respective capital company is operating. The maximum amount of the monthly remuneration of a member of the executive board may not exceed the amount of the average monthly work remuneration of the previous year for persons working in the State published in the official statistics report of the Central Statistical Bureau, which has been rounded up to full euros and to which the coefficient 10 has been applied. The monthly remuneration of a member of the executive board shall be determined for the whole term of office of the member with the right to review it once a year.

(2) A member of the executive board may be disbursed a premium once a year after approval of the annual account. The premium may not exceed the amount of remuneration for two months of the member of the executive board of the capital company. The following criteria shall be taken into account in determining the premium:

- 1) performance results of the capital company in the previous reporting year;
- 2) implementation of the medium-term operational strategy and performance results of the capital company in accordance with the defined financial and non-financial objectives;
- 3) performance results of the member of the executive board in the previous reporting year.

(3) The contract referred to in Section 115, Paragraph two of this Law may provide for insurance and revocation benefit for a member of the executive board. The contract may include a revocation benefit only if the member of the executive board is revoked from the position before expiry of the term of office and the revocation is not related to violation of authorisation, non-fulfilment or insufficient fulfilment of obligations, as well as harm incurred to the favour of company. A revocation benefit may not be provided for, if a member of the executive board was elected in accordance with the procedures laid down in Section 31, Paragraph eight, Clause 2 or Section 37, Paragraph four, Clause 2 of this Law. If the authorisation contract does not provide for insurance and a revocation benefit, they shall not be granted.

(4) The contract referred to in Section 115, Paragraph two of this Law may provide for a revocation benefit in the amount not exceeding three monthly remunerations, if the member of the executive board loses the position due to reorganization or liquidation of the capital company, as well as in the cases specified in Paragraph three of this Section.

[18 June 2015]

Section 118. Taking of Decisions by the Executive Board of a Stock Company

(1) The executive board shall take decisions on all issues related to the operation of the company, except the issues, on which in accordance with this Law and articles of association of the company decisions are taken by the stockholder or meeting of stockholders and the supervisory board accordingly.

(2) The executive board shall need a prior consent of the highest decision-making body of a public person for obtaining or terminating participation, as well as for obtaining or terminating decisive influence in other company.

(3) The executive board shall need a prior consent of the meeting of stockholders for taking a decision on the following issues:

- 1) acquisition or alienation of an undertaking;
- 2) termination of specific kinds of operation and commencement of new kinds of operation.

(4) The articles of association may also determine other issues, in which the executive board must receive a prior written consent of the meeting of stockholders.

(5) The executive board shall need a prior consent of the supervisory board on deciding the following issues:

- 1) opening or closing of branches and representative offices;
- 2) entering into such transactions, which exceed the sum stipulated in the articles of association or decisions of the council;
- 3) issuing of such loans, which are not related to the regular commercial activity of the company;
- 4) issuing of credits to employees of the company;
- 5) determining of the general principles of commercial activity.

(6) The executive board of a State capital company shall need a prior consent of the supervisory board for concluding the transactions referred to in Section 26, Paragraph six of this Law.

(7) The articles of association may also provide for other issues, for deciding of which the executive board must receive a prior consent of the supervisory board.

(8) If the supervisory board rejects a proposal of the executive board in the issues referred to in Paragraphs five and six of this Section, the executive board has the right to hand over the examination of the abovementioned issue to the meeting of stockholders that shall take a decision on the respective issue.

(9) If a council is not established in the company, the meeting of stockholders shall take a decision on the issues referred to in Paragraphs five and six of this Section.

Section 119. Minutes of a Meeting of the Executive Board of a Stock Company

(1) Minutes shall be taken at meetings of the executive board. The following information shall be indicated in the minutes:

- 1) the firm name of the company;
- 2) the location, date and time of the meeting of the executive board;
- 3) the members of the executive board and other persons who participate in the meeting;
- 4) the agenda issues;
- 5) the decision taken on every issue;
- 6) the results of voting, indicating the vote of each member of the executive board separately for each decision with an entry “for” or “against”;
- 7) other information which a member of the executive board requests to be included in the minutes or which is necessary in order to accurately record the course of the meeting of the executive board.

(2) If a member of the executive board does not agree with a decision of the executive board and votes against it, the dissenting opinion of the member of the executive board shall be recorded in the minutes of the meeting of the executive board upon his or her request.

(3) Minutes of meetings of the executive board shall be signed by the person chairing the meeting of the executive board, the minute-taker of the meeting and all members of the executive board who participate in the meeting.

Division F

Chapter XIX

General Provisions for Termination of Operation of a Capital Company

Section 120. Grounds for Termination of Operation of a Capital Company

(1) The operation of a capital company shall be terminated:

- 1) by a decision of a shareholder (stockholder);

- 2) by a court adjudication;
 - 3) by a decision on termination of insolvency proceedings due to completion of insolvency proceedings of the company;
 - 4) upon expiration of the time period laid down in the articles of association (if the capital company was established for a specific time period);
 - 5) upon reaching the objectives laid down in the articles of association (if the capital company was established for achieving specific objectives);
 - 6) in other cases laid down in the law or the articles of association.
- (2) The insolvent capital company of a public person shall terminate its operation in accordance with the Insolvency Law.

Section 121. Appointing of a Liquidator

- (1) Members of the executive board shall perform liquidation of the capital company, if the institution that took a decision to terminate the operation of the capital company has not stipulated otherwise in the decision.
- (2) If it is specified in the decision of the highest decision-making body of a public person to terminate the operation of the capital company of a public person that liquidation of the capital company shall not be performed by members of the executive board, the meeting of shareholders (stockholders) shall elect the liquidator.
- (3) Remuneration for a liquidator and the procedures for disbursement thereof shall be determined by the institution which appoints the liquidator.
- (4) If liquidation is performed by members of the executive board, remuneration for a liquidator and the procedures for disbursement thereof shall be determined by a meeting of shareholders (stockholders).
- (5) The restrictions provided for in this Law in relation to remuneration of members of the executive board of the capital company of a public person shall be conformed to in determining remuneration for liquidators.

Section 122. Application Regarding Termination of the Operation of a Capital Company and Liquidation Thereof

A capital company shall submit a decision terminate the operation of the capital company within three days after election of the liquidator, for entering in the Commercial Register. The information referred to in Section 8 of the Commercial Law regarding the liquidator shall be indicated in the application and the following shall be appended accordingly:

- 1) a decision of the respective institution to terminate the operation of the capital company;
- 2) a written consent of the liquidator to be a liquidator. The written consent shall be signed with a safe electronic signature, or the signature on the consent shall be certified notarially or by an official of the Commercial Register Office.

Section 123. Removal of a Liquidator

- (1) A liquidator may be removed by a decision of the institution, which took the decision to appoint a liquidator.
- (2) A liquidator appointed by a court may be removed only by a court adjudication on the basis of an application of the holder of capital shares or a third party, if there is good cause therefor, concurrently appointing a new liquidator.

Chapter XX
Closing Financial Report of Liquidation, Property Division Plan and Division of the Remaining Property or Continuation of Operation

Section 124. Closing Financial Account and Property Division Plan

- (1) After satisfying claims of creditors or transfer of the money provided for them in storage to a sworn notary and covering expenses of liquidation, the liquidator shall prepare the closing financial report of liquidation and the plan for division of the remaining property of the capital company in conformity with Section 125 of this Law.
- (2) A liquidation quota need not be calculated for owners of employee stocks in stock companies of a public person.

Section 125. Division of the Remaining Property of a Capital Company

- (1) Property may be divided not earlier than four months from the day when a notification on termination of the operation of a capital company has been published and one month from the day when a closing financial account and a property division plan for the remaining property of the capital company has been sent to the holder of capital shares.
- (2) The liquidator is not entitled to sell the property, which is not necessary for satisfying the claims of creditors, but it shall be transferred to the institution determined in the decision to terminate the operation of the capital company, unless it has been determined otherwise in this decision.
- (3) The costs, which in case of liquidation are due to the shareholder (stockholder) are transferred into the budget of the respective public person.
- (4) Property may be divided prior to the time period determined in Paragraph one of this Section only if the meeting of shareholders (stockholders) agrees thereto and such division does not cause losses to creditors.

Section 126. Continuing of the Operation of a Capital Company

If a capital company is under liquidation on the basis of the provisions referred to in the documents of incorporation regarding termination of operation or a decision of the highest decision-making body of a public person, the highest decision-making body of the respective public person may take a decision to continue the operation of the capital company or to reorganise the capital company before division of the property is commenced.

Division G
Reorganization of a Capital Company of a Public Person

Chapter XXI
General Provisions of Reorganisation

Section 127. Merging of Capital Companies

- (1) The highest decision-making body of a public person shall take a decision to commence merging of capital companies of a public person.
- (2) The decision referred to in Paragraph one of this Section shall determine the holder of capital shares of the acquiring company.
- (3) The procedures for merging capital companies of public persons, if any of the companies involved in the merging process is a capital company belonging to another public person, a public private or private capital company, are laid down in Division I of this Law.

Section 128. Division of Capital Companies

- (1) The highest decision-making body of a public person shall take a decision to commence division of the capital company of a public person.
- (2) The decision referred to in Paragraph one of this Section shall determine the holder of capital shares of the acquiring company.
- (3) The method of divestiture (Section 336, Paragraphs four and five of the Commercial Law) may not be applied to division of the capital company of a public person.
- (4) The procedures for dividing a capital company of a public person, if the acquiring company is a capital company already belonging to another public person, a public private or private capital company, are laid down in Division I of this Law.

Section 129. Restructuring of Capital Companies

- (1) The meeting of shareholders (stockholders) of a capital company shall take a decision to restructure the respective capital company of a public person into a different type of capital company of a public person.
- (2) A capital company of a public person may not be restructured, by means of reorganisation, into a public private capital company or private capital company in accordance with the procedures laid down in this Division.

Section 130. Conditions of Reorganisation

The highest decision-making body of a public person may provide for conditions of reorganisation in taking a decision to commence reorganisation (Sections 127 and 128 of this Law).

Chapter XXII Procedures for Reorganisation

Section 131. Reorganisation Agreement

- (1) In drawing up a reorganisation agreement, capital companies of a public person shall comply with the conditions provided for in the decision of the highest decision-making body of the public person (Section 130 of this Law). The draft reorganisation agreement shall be co-ordinated by the meeting of shareholders (stockholders).
- (2) The following shall be indicated in the reorganisation agreement:
 - 1) the firm names, legal addresses and registration numbers of all capital companies involved in reorganisation;
 - 2) the date from which transactions of the capital company to be acquired, divided or restructured will be deemed as transactions of the acquiring capital company in the accounting of the acquiring capital company;
 - 3) the rights, which the acquiring company grants to members of supervisory and executive bodies of the company to be acquired, divided or restructured, as well as to the auditor of the company;
 - 4) the consequences of reorganisation for employees of the capital company to be acquired, divided or restructured;
 - 5) the type, firm name and legal address of the acquiring company;
 - 6) the activities to be performed in the reorganisation proceedings and the time periods for the performance thereof.

- (3) The conditions precedent provided for in Section 338 of the Commercial Law may not be determined in a draft reorganisation agreement.
- (4) If one capital company of a public person participates in the division process of the capital company of a public person, the meeting of shareholders (stockholders) shall adopt regulations regarding division of the capital company in conformity with Paragraphs one, two, and three of this Section. Such regulations shall substitute the reorganisation agreement referred to in Paragraphs two and three of this Section. The act of property division shall be appended to the regulations regarding division of a capital company as a separate document.
- (5) In order to reorganise a capital company of a public person by restructuring it, the meeting of shareholders (stockholders) of such capital company shall adopt regulations regarding restructuring of the capital company in conformity with Paragraphs one, two, and three of this Section.

Section 132. Evaluation of Financial Investment during Reorganisation Proceedings

- (1) If the acquiring capital company must increase the equity capital as a result of reorganisation or if it is a new capital company, the property of each capital company to be merged or the respective property share of each capital company to be divided shall be evaluated in order to determine its sufficiency for increasing the equity capital of the acquiring capital company or for its founding.
- (2) A person included in the list of the persons evaluating financial investment shall perform the evaluation and provide a written statement.
- (3) If as a result of reorganisation a new company is founded, the conditions of Section 49 of this Law shall be conformed to.
- (4) The statement shall be appended to the application to be submitted to the Commercial Register Office regarding reorganisation.

Section 133. Reorganisation Prospectus

Capital companies of a public person involved in the reorganisation proceedings need not prepare a reorganisation prospectus in performing reorganisation in accordance with the procedures provided for in this Division.

Section 134. Examination by an Auditor

In performing reorganisation in accordance with the procedures provided for in this Division, the auditor need not examine the decision to reorganise.

Section 135. Decision to Reorganise

- (1) The meeting of shareholders (stockholders) shall take a decision to reorganise a capital company of a public person.
- (2) If due to reorganisation amendments to the articles of association of a capital company must be made, the meeting of shareholders (stockholders) shall take a decision thereon immediately after taking the decision to reorganise.

Section 136. Contesting of a Decision to Reorganise

The persons referred to in Section 346, Paragraph one of the Commercial Law may not contest the decision to reorganise a capital company of a public person in court.

Section 137. Application to the Commercial Register Office

(1) After claims of creditors applied within a specific time period are secured or satisfied, each capital company involved in the reorganisation proceedings shall submit an application to the Commercial Register Office for making an entry on reorganisation in the Commercial Register.

(2) The following shall be appended to the application:

1) the decision provided for in this Law and the reorganisation agreement or regulations regarding reorganisation;

2) in the cases laid down in the law – the reorganisation permit;

3) the closing financial account of the acquired capital company or the capital company divided by way of splitting up (if the application is being submitted by the acquired or the dividing capital company);

4) the articles of association of the acquiring capital company (if a new capital company is established as a result of reorganisation, or if the capital company is being restructured);

5) a list of such members of the executive board of the acquiring capital company who have the right to represent the company (if a new company is established as a result of reorganisation);

6) a list of members of the council of the acquiring capital company (if a new capital company is established as a result of reorganisation or if the capital company being restructured and a council is intended for the acquiring capital company).

(3) The capital company shall confirm in the application that claims of creditors applied within the specified time period are secured or satisfied.

Division H

Alienation of Capital Shares

Chapter XXIII

Selling of Capital Shares Belonging to a Public Person

Section 138. Decision to Sell Capital Shares

(1) The highest decision-making body of the respective public person shall take a decision to sell capital shares.

(2) The holder of State capital shares or the institution, which has been appointed (delegated) by the Cabinet for carrying out the task of selling State capital shares in accordance with the conditions of this Chapter (hereinafter – alienation institution), shall submit a proposal regarding selling of State capital shares and a respective draft legal act to the Cabinet.

Section 139. Seller of Capital Shares

(1) State capital shares shall be sold by the alienation institution.

(2) Capital shares of a derived public person shall be sold by an institution (unit) determined by the highest decision-making body of the derived public person, or the alienation institution shall be authorised to do it.

(3) A decision to sell capital shares shall be published at least on the website by the holder of capital shares, seller and capital company within one week after entering into effect thereof.

Section 140. Initial Sales Value of Capital Shares

(1) The initial sales value of capital shares of a public person (hereinafter – initial value) shall be determined as follows:

1) if capital shares, whose value which was determined using the equity method (according to the last audited annual account) is less than EUR 15 000, are sold, the initial value shall be determined by the seller of capital shares, using the equity method or applying the condition referred to in Clause 3 of this Paragraph;

2) if capital shares, which are publicly traded, are sold, the highest decision-making body of the public person, in taking the decision provided for in Section 9, Paragraph one of this Law, shall determine the procedures for determining the initial value;

3) in other cases the initial value shall be determined by an independent certified evaluator in accordance with evaluation standards recognised in Latvia.

(2) The initial value may be reduced, if capital shares are not sold in accordance with the procedures laid down in Section 141 of this Law.

[18 June 2015]

Section 141. Procedures for Selling Capital Shares in a Capital Company of a Public Person, Public Private Capital Company or Private Capital Company

(1) The seller of capital shares shall draw up and approve the selling regulations, which shall include at least the following information:

1) the firm name, legal address and addresses of location of the capital company, capital shares of which are on sale;

2) the sales price of capital shares, which has been determined in accordance with Section 140, Paragraph one of this Law, as well as the procedures for correcting the price, if there is no success in selling capital shares according to the initial value;

3) the conditions for selling of capital shares, if such are provided for in accordance with the procedures laid down in Section 142 of this Law;

4) information regarding shareholders (stockholders), regarding the pre-emption right with regard to the capital shares to be sold and the procedures for exercising it;

5) the amount of the security deposit and the fee for participation at an auction and payment procedures, the procedures and time periods for payment of the purchase fee;

6) the provisions of the auction;

7) the procedures and criteria for selecting candidates (buyers) of capital shares, if such are provided for;

8) the time period, in which interest applications for buying of capital shares shall be submitted, the procedures for extending, renewing or determining a new period of application;

9) the list of documents to be submitted by the buyer of capital shares;

10) actions with unsold capital shares;

11) other conditions to be conformed to in the sales process of capital shares, and guarantees.

(2) The seller of capital shares shall, within one week after approval of the sales regulations, publish information regarding sales regulations on its website, as well as post a notification in the official journal *Latvijas Vēstnesis* on where one may become acquainted with sales regulations. The seller of capital shares must, within the abovementioned time period, send the regulations regarding selling capital shares to the executive board of the respective capital company. The executive board of the capital company of a public person shall inform employees regarding the conditions and procedures for selling capital shares.

(3) The seller of capital shares shall offer the shareholders (stockholders) of a public private capital company or private capital company with the pre-emptive right to buy capital shares of a public person in accordance with the procedures provided for in the articles of association

and according to the sales regulations, determining that shareholders (stockholders) of the company have to apply together or separately for all marketable capital shares of the public person, otherwise it shall be considered that they have refused from exercising the pre-emptive right.

(4) If persons with the pre-emptive right do not exercise their right or if there is no person with the pre-emptive right, the seller of capital shares shall sell them at an open auction, unless other sales method is determined in the procedures provided for in Section 142, Paragraphs one and two of this Law.

(5) The regulations regarding selling of capital shares must be available to the public at least one month before the time period when a person must submit an application for the purchase of capital shares.

[18 June 2015]

Section 142. Conditions for Selling Capital Shares

(1) The highest decision-making body of a public person may determine the conditions for selling capital shares of a public person or to change them until approval of regulations regarding selling of such capital shares.

(2) The capital shares to be sold to employees of a capital company shall not exceed 20 per cent from the equity capital of the capital company.

(3) In selling capital shares of a public person in accordance with the procedures laid down in this Law, euros shall be used as the means of payment.

(4) If capital shares are sold by instalments, sales regulations shall provide for establishment of a commercial pledge in favour of the seller in order to ensure the claims of the seller against the buyer, which may arise due to non-fulfilment, undue fulfilment or delayed fulfilment of obligations of the buyer provided for in the sales regulations and the purchase contract.

Section 143. Funds Obtained as a Result of Selling Capital Shares of a Public Person

(1) The funds obtained as a result of selling capital shares of a public person shall be transferred into the budget of the respective public person, except the deductions specified in Paragraph three of this Section.

(2) If an institution authorised by the derived public person – the alienation institution – is selling its capital shares, the derived public person shall compensate the actual expenses caused to such institution, organising and selling its capital shares. The derived public person and the alienation institution shall agree on expenses.

(3) The Cabinet shall determine the amount of deductions, which a State capital company shall receive from the income obtained by selling State capital shares, if the company is the alienation institution of State capital shares.

[18 June 2015]

Chapter XXIV

Other Cases of Selling Capital Shares of a Public Person

Section 144. Selling of Capital Shares Transferred to the State Special Budget for Pensions

(1) Capital shares transferred to the State special budget for pensions shall be sold in accordance with the conditions of Chapter XXIII of this Law.

(2) The alienation institution shall sell capital shares transferred to the State special budget for pensions.

(3) The funds obtained as a result of selling the capital shares transferred to the State special budget for pensions shall be transferred into the State special budget for pensions.

Section 145. Selling of Capital Shares Arisen as a Result of Capitalisation of Tax Payment Debts

(1) The Cabinet or local government council shall take a decision to sell capital shares arisen as a result of capitalisation of tax payment debts.

(2) The institutions determined in Section 139, Paragraphs one and two of this Law shall sell capital shares arisen as a result of substituting the principal tax debts of the company to the State or local government budget with capital shares (capital shares arisen as a result of capitalisation).

(3) The Cabinet shall determine the procedures for selling capital shares arisen as a result of capitalisation.

(4) In offering capital shares for sale, the seller shall draw up regulations for selling of capital shares in accordance with the Section 141 and Section 142, Paragraphs three and four of this Law.

(5) The funds obtained as a result of selling capital shares shall be transferred accordingly into the State budget and local government budget in accordance with the procedures stipulated by the Cabinet.

Chapter XXV Investment of Capital Shares of a Public Person

Section 146. Decision to Invest Capital Shares

(1) The highest decision-making body of the respective public person shall take a decision to invest capital shares.

(2) The holder of State capital shares or the alienation institution shall submit a proposal to the Cabinet regarding investment of State capital shares.

(3) A public person may invest capital shares in a capital company of a public person or a capital company controlled by public persons.

Section 147. Publishing and Implementation of the Decision to Invest Capital Shares

(1) The holder of capital shares shall publish the decision to invest capital shares on its website within a week after entering into effect thereof.

(2) The holder of capital shares shall implement the decision to invest capital shares.

Division I Turning of a Capital Company of a Public Person into a Public Private Capital Company or Private Capital Company

Chapter XXVI General Provisions for Turning of a Capital Company into a Public Private Capital Company or Private Capital Company

Section 148. Types of Attraction

Without selling capital shares, a capital company of a public person may become a private capital company or a public private capital company:

1) by increasing the equity capital of the capital company (Section 149 of this Law);

- 2) by reorganising the capital company (Section 150 of this Law);
- 3) by handing over capital shares of a public person to other public person without remuneration (Sections 159 and 160 of this Law).

Section 149. Purposes for Increasing the Equity Capital of a Capital Company

The equity capital of a capital company may be increased only for the following purposes:

- 1) for substituting debts of the capital company with its capital shares (hereinafter in this Division – capitalisation of debts);
- 2) for acquisition of specific property from a private individual, paying for the capital shares by a financial investment (hereinafter in this Division – acquisition of property);
- 3) for attracting of private capital, paying for the capital shares in cash (hereinafter in this Division – attracting of private capital).

Section 150. Types of Reorganisation of a Capital Company

A capital company may become a private capital company through reorganisation:

- 1) by acquiring a capital company (hereinafter in this Division – acquiring of a capital company);
- 2) by merging with a capital company (hereinafter in this Division – merging with a capital company);
- 3) by consolidating with a capital company (hereinafter in this Division – consolidation with a capital company);
- 4) by dividing a capital company if the acquiring capital company is already a private capital company (hereinafter in this Division – merging with a private capital company as a result of division).

Chapter XXVII Increasing the Equity Capital of a Capital Company

Section 151. Decision to Increase the Equity Capital

- (1) On the basis of a proposal of the holder of capital shares, the Cabinet shall issue an order regarding capitalisation of specific debts (except tax debts) in a State capital company.
- (2) The highest decision-making body of a derived public person shall take a decision on capitalisation of specific debts (except tax debts) in a capital company of a derived public person.
- (3) On the basis of a proposal of the holder of capital shares the Cabinet shall issue an order to acquire property in the ownership of a State capital company.
- (4) The highest decision-making body of a derived public person shall take a decision to acquire property in the ownership of a capital company of a derived public person.
- (5) On the basis of a proposal of the holder of capital shares the Cabinet shall issue an order to attract private capital to a State capital company.
- (6) The highest decision-making body of a derived public person shall take a decision to attract private capital to a capital company of a derived public person.

Section 152. Conditions for Increasing the Equity Capital

- (1) The equity capital is increased in order to use the new capital shares only for one of the purposes referred to in Section 149 of this Law.
- (2) The purpose of increasing the equity capital shall be indicated in the provisions for increasing the equity capital of a capital company.

- (3) The increase in the equity capital shall not exceed the sum necessary for the respective purpose.
- (4) The highest decision-making body of a public person may determine additional conditions for increasing the equity capital.

Section 153. Activities to be Performed in Increasing the Equity Capital

Activities of a capital company to be performed in increasing the equity capital shall be organised by the holder of capital shares.

Section 154. Procedures for Increasing the Equity Capital

- (1) The equity capital is increased in accordance with the provisions of the Commercial Law, in conformity with the conditions of this Law.
- (2) The meeting of shareholders (stockholders) shall approve the provisions for increasing the equity capital.
- (3) In addition to approving the provisions for increasing the equity capital, the meeting of shareholders (stockholders) of a capital company determines a time period for convening a meeting of shareholders (stockholders) of such private capital company, which will be established as a result of increasing the equity capital. In the meeting of shareholders (stockholders), draft articles of association of the private capital company, which will be established as a result of increasing the equity capital, shall be appended to the decision.
- (4) The executive board of a capital company shall convene a meeting of shareholders (stockholders) of such private capital company, which will be established as a result of increasing the equity capital, within the time period provided for in the provisions for increasing the equity capital. The meeting shall approve the articles of association of the private capital company, re-elect or elect (if such was not established) the supervisory institution and perform other actions provided for in this Law. The articles of association of the private capital company shall be approved with not less than three fourths of the number of votes of the members present, and the provisions of this Law governing the convening and course of a meeting of shareholders (stockholders) of a capital company of the respective type shall be applicable to such meeting.
- (5) In addition to the documents referred to in the Commercial Law (Sections 202 and 261), to be submitted to the Commercial Register Office in case of increasing the equity capital, the capital company shall also submit the decision of the highest decision-making body of a public person referred to in Section 151 of this Law.

Chapter XXVIII

Reorganisation of a Capital Company of a Public Person into Private Capital Company

Section 155. Capital Companies Involved in Reorganisation of a Capital Company of a Public Person

- (1) Only limited liability companies and stock companies may be involved in reorganisation proceedings.
- (2) The company acquiring in the process of merging is a capital company of a public person while the company to be merged is a capital company that is being merged.
- (3) The company to be merged in the process of merging is a capital company of a public person while the acquiring company is the capital company with which the company merges.
- (4) Companies to be merged in the process of consolidation are capital companies of a public person and a private company capital company while the acquiring company is the newly-founded capital company.

(5) Merging with a private company as a result of division is a process, in which the capital company of a public person is the company to be divided and the divided company is the company to be merged while the acquiring company is the private capital company.

Section 156. Decision to Initiate Reorganisation

(1) On the basis of a proposal of the holder of capital shares the Cabinet shall issue an order regarding initiation of reorganisation of a State capital company, determining which capital company may be merged with the State capital company.

(2) The highest decision-making body of a derived public person shall take a decision to reorganise a capital company of a derived public person, determining the capital company with which it may be merged.

(3) On the basis of a proposal of the holder of capital shares the Cabinet shall issue an order regarding commencing of reorganisation of a State capital company, determining with which capital company the State capital company may be merged.

(4) The highest decision-making body of a derived public person shall take a decision to reorganise a capital company of a derived public person, determining the capital company with which it may be merged.

(5) On the basis of a proposal of the holder of capital shares the Cabinet shall issue an order to commence reorganisation of a State capital company, determining with which capital company the State capital company will be consolidated.

(6) The highest decision-making body of a derived public person shall take a decision to reorganise a capital company of a derived public person, determining the capital company with which it will be consolidated.

(7) On the basis of a proposal of the holder of capital shares the Cabinet shall issue an order regarding commencing of reorganisation of a State capital company, determining with which capital company the State capital company may be merged as a result of division thereof.

(8) The highest decision-making body of a derived public person shall take a decision to commence reorganisation of a capital company of such public person, determining with which capital company a capital company of derived public person may be merged as a result of its division.

Section 157. Conditions for Reorganisation of a Capital Company of a Public Person

The highest decision-making body of a public person is entitled to determine the conditions for reorganization. If reorganisation of a capital company of a public person results in a private capital company, in which capital shares belong to several derived public persons or the State and one derived public person or several public persons, public persons shall agree on conditions for reorganisation before the decision to commence reorganisation is taken.

Section 158. Procedures for Reorganising a Capital Company of a Public Person

(1) In addition the time period when a meeting of shareholders (stockholders) of a private capital company must be convened shall be indicated in the reorganisation agreement. If a capital company of a public person is being reorganised as a result of merging or consolidation or by merging it with the capital company as a result of division, in addition the representatives of the holder of capital shares of a public person in the executive board and supervisory board (if such has been established) of the private capital company shall be indicated in the reorganisation agreement.

(2) Draft amendments to the articles of association of a private capital company and complete wording of the articles of association with amendments shall be appended to the draft reorganisation agreement.

(3) The meeting of shareholders (stockholders) shall take the decision to reorganise a capital company of a public person provided for in Section 343 of the Commercial Law, and the representative of the holder of capital shares shall sign the reorganisation agreement.

(4) The persons referred to in Section 346, Paragraph one of the Commercial Law may not contest in court the decision of the meeting of shareholders (stockholders) of the capital company of a public person to reorganise.

(5) The executive board of a capital company shall convene a meeting of shareholders (stockholders) of such private capital company, which will be formed as a result of reorganisation, within the time period provided for in the reorganisation agreement. The meeting shall approve the articles of association of the private capital company, elect the supervisory authority and the executive authority and perform other activities provided for in the law. The articles of association of the private capital company shall be approved with not less than three fourths of the number of votes of the members present, and the provisions of this Law governing the convening and course of a meeting of shareholders (stockholders) of a capital company of the respective type shall be applicable to such meeting. Such shareholders (stockholders) shall be indicated in the minutes of a meeting of shareholders (stockholders) who voted against approval of the articles of association.

(6) In addition to the documents referred to in the Commercial Law to be submitted to the Commercial Register Office in order to make an entry regarding reorganisation, the capital company shall submit the Cabinet order referred to in Section 156 of this Law or the decision of the highest decision-making body of a derived public person.

Chapter XXIX

Transfer of Capital Shares Belonging to a Public Person to Another Public Person without Remuneration

Section 159. Transfer of State Capital Shares to a Derived Public Person

(1) The State may transfer the capital shares belonging thereto in the ownership of a derived public person without remuneration by a Cabinet order issued each time, in conformity with the provisions of the Commercial Law and articles of association of the respective capital company.

(2) The State capital shares may be transferred in the ownership of a derived public person, if the respective derived public person has expressed such a request and the highest decision-making body of the derived public person has taken a respective decision.

(3) The provisions of Division H of this Law regarding alienation, as well as the provisions of Sections 5 and 9 of this Law regarding obtaining or termination of participation or obtaining or termination of decisive influence shall not apply to the transfer of State capital shares in the ownership of a derived public person.

Section 160. Transfer of Capital Shares of a Derived Public Person to State or Other Derived Public Person without Remuneration

(1) A derived public person may transfer capital shares belonging thereto in the ownership of the State or other derived public person without remuneration by a decision of the highest decision-making body of the respective derived public person issued each time, in conformity with the provisions of the Commercial Law and articles of association of the respective capital company.

- (2) Capital shares of a derived public person may be transferred in the ownership of the State, if the Cabinet has expressed such a request and taken a respective decision.
- (3) A derived public person may transfer capital shares in the ownership of other derived public person, if the respective derived public person has expressed such a request and taken a respective decision.
- (4) The provisions of Division H of this Law regarding alienation, as well as the provisions of Sections 5 and 9 of this Law regarding obtaining or termination of participation or obtaining or termination of decisive influence shall not apply to the transfer of capital shares of a derived public person in the ownership of the State or other derived public person.

Division J

Chapter XXX

Commencement of Restructuring of a Capital Company of a Public Person into an Institution (Public Agency)

Section 161. Main Conditions for Restructuring a Capital Company

- (1) A capital company of a public person, which issues administrative acts or administers the State fee and the income of which is formed by grant (subsidy) or provision of a service, carrying out the State administration tasks delegated thereto, shall be restructured into an institution or public agency, unless the highest decision-making body of the public person has decided otherwise in accordance with Section 162, Paragraph two of this Law.
- (2) A capital company shall be restructured into an institution, unless it is determined otherwise by the decision of the highest decision-making body of the public person to restructure and the capital company to be restructured conforms to the characteristics of a public agency determined in the Public Agencies Law.

Section 162. Commencement of Restructuring of a Capital Company

- (1) The highest decision-making body of a public person may take a decision to commence restructuring of a capital company of a public person into an institution (public agency).
- (2) In taking the decision referred to in Paragraph one of this Section, the highest decision-making body of a public person may request a statement of the auditor regarding restructuring risks, as well as assess all financial and legal risks that may arise upon the capital company being restructured into an institution or public agency.
- (3) A proposal regarding taking of the decision referred to in Paragraph one of this Section shall be submitted to the Cabinet by the holder of State capital shares, but to the local government council – by the representative of the holder of local government capital shares. The proposal shall contain the following information:
 - 1) the status, function (administration tasks) and subordination form of the newly-founded institution;
 - 2) the material and financial status of the capital company, as well as its ability to cover claims of known creditors;
 - 3) the time period, in which the capital company would be restructured into an institution (public agency);
 - 4) other significant information related to restructuring of the capital company.
- (4) The following shall be determined in a decision of the highest decision-making body of a public person to commence restructuring:
 - 1) the firm name and registration number of the capital company to be restructured into an institution (public agency);

2) the institution (public agency) to be established, its name, subordination form and the member of the Cabinet or institution of a derived public person and an official who is in charge of the institution.

(5) The decision to commence restructuring of a capital company shall be published in the official journal *Latvijas Vēstnesis* and notified in writing to all known creditors of the capital company.

(6) The notification referred to in Paragraph five of this Section shall include an invitation for the unknown creditors of the company to apply their claims within two months after publishing the notification. The content, grounds and extent of the claim shall be indicated in the claim, and the documents justifying the claim shall be appended thereto.

(7) The unknown creditors of the capital company of a public person, which have not applied their claim in accordance with the procedures laid down in Paragraph six of this Law, shall lose their right to request that the public person fulfils its obligations after the capital company is restructured into an institution (public agency).

Chapter XXXI

Completion of Restructuring of a Capital Company of a Public Person into an Institution (Public Agency)

Section 163. Restructuring of a Capital Company into an Institution (Public Agency)

(1) After gathering information regarding creditors in accordance with the procedures laid down in Section 162 of this Law, the highest decision-making body of a public person shall take a decision to restructure a capital company of a public person into an institution (public agency), determining:

1) the firm name and registration number of the capital company to be restructured into an institution (public agency);

2) the institution (public agency) to be established, its name, subordination form and the member of the Cabinet or institution of a derived public person and an official who is in charge of the institution;

3) the procedures for appointing the head of the established institution (public agency);

4) the time period, by which the executive board shall submit an application regarding deletion of the capital company from the Commercial Register;

5) the date, from which the capital company shall be deleted from the Commercial Register.

(2) The merchant shall be deleted from the Commercial Register on the basis of the decision of the highest decision-making body of a public person referred to in Paragraph one of this Section. A capital company shall be deleted from the date determined in the decision of the highest decision-making body of a public person in accordance with Paragraph one, Clause 5 of this Section.

(3) The executive board shall submit an application to the Commercial Register Office regarding deletion of the capital company from the Commercial Register. The decision of the highest decision-making body of a public person shall be appended to the application.

(4) In restructuring a capital company of a public person into an institution or public agency, the whole property of the capital company shall be transferred to the established institution (public agency), unless it is determined otherwise in the decision to restructure. The established institution (public agency) is the legal successor of rights and obligations of the restructured capital company of a public person.

(5) The institution (public agency) shall commence its operation as soon as the capital company is deleted from the Commercial Register.

(6) Deletion of the capital company from the Commercial Register shall terminate all powers of members of the executive board and supervisory board of the capital company.

(7) After deletion of the capital company from the Commercial Register, members of the executive board and supervisory board shall still be responsible for the losses incurred to the public person in accordance with Section 51 of this Law.

Section 164. Employees of a Newly-Founded Institution (Public Agency) or Civil Servants

(1) The head of the institution (public agency) shall, within two months after beginning of operation of the institution (agency), notify in writing the respective employee (official) regarding amendments to the employment contract, in conformity with the Law On Remuneration of Officials and Employees of State and Local Government Authorities.

(2) If after receipt of the notification referred to in Paragraph one of this Section the employee does not agree to the determined amendments to the employment contract or does not provide an answer within one month, the head shall terminate employment legal relationship with the employee.

(3) The head of the State administration institution (public agency) shall, within two months after beginning of operation of the institution (agency), determine positions of civil servants in the institution (agency) in accordance with the procedures laid down in the State Civil Service Law and notify in writing the employee, who holds the position determined as the position of a civil servant in the institution (agency), regarding changes in the status of the position and warn him or her regarding termination of employment legal relationship and commencement of State civil service relationship.

(4) If after receipt of the notification referred to in Paragraph three of this Section the employee does not agree to accept the position of a civil servant or does not provide an answer within one month and the public agency cannot offer him or her another position that is not the position of a civil servant, or he or she does not agree to take other offered position, the head shall terminate employment legal relationship with the employee. The employee who agrees to take the position of a civil servant after receipt of the notification and who conforms to the mandatory requirements laid down in Section 7 of the State Civil Service Law, shall be appointed to the position of a civil servant and shall be granted the status of a civil servant.

Transitional Provisions

1. With the coming into force of this Law, the Law On State and Local Government Capital Shares and Capital Companies (*Latvijas Republikas Saeimas un Ministru Kabineta Ziņotājs*, 2002, No.21; 2003, No. 15; 2004, No. 23; 2005, No. 2, 15; 2006, No. 24; 2008, No. 1; 2009, No. 2, 6, 9, 12, 14; *Latvijas Vēstnesis*, 2009, No. 136, 205; 2013, No. 119, 193, 194; 2014, No.75), is repealed.

2. The Cabinet:

1) by 1 March 2015 shall determine a State administration institution, which will carry out the tasks of the Co-ordination Institution (Section 22, Paragraph one of this Law);

2) by 1 October 2015:

a) shall determine the procedures by which candidates for positions of members of the executive board and supervisory board in capital companies, in which the State as the shareholder (stakeholder) has the right to nominate members of the executive board or supervisory board, and members of the executive board in State capital companies, in which a supervisory board has been established (Section 31, Paragraph ten of this Law), shall be nominated,

b) shall determine the procedures by which the conditions of Section 27 of this Law are fulfilled (Section 27, Paragraph seven of this Law),

c) shall determine the procedures by which the conditions of Section 28 of this Law are fulfilled (Section 28, Paragraph six of this Law),

d) shall approve the standard articles of association of a capital company of a public person (Section 46, Paragraph two of this Law),

e) shall determine the indicators characterising the size of the company necessary for determination of the number of members of the executive board and supervisory board of a capital company (Section 79, Paragraph one, Section 106, Paragraph three, Section 114, Paragraph one of this Law),

f) shall determine the procedures for selling capital shares formed as a result of capitalisation (Section 145, Paragraphs three and five of this Law),

g) shall determine the amount of deductions to be received by a State capital company as the alienation institution from the revenue obtained from selling State capital shares (Section 143, Paragraph three of this Law);

3) by 1 September 2015 shall approve the by-laws and staff of the Council of the Co-ordination Institution referred to in Section 24, Paragraph three of this Law.

[18 June 2015]

3. By 1 January 2016, the Cabinet shall issue regulations regarding the maximum amount of monthly remuneration to a member of the executive board and supervisory board, taking into account the average amount of remuneration to the governance in similarly sized (net turnover, sum total of the balance, number of employees) capital companies in the private sector or – in individual cases – in the sector, in which the respective capital company is operating (Section 79, Paragraph four, Section 112, Paragraph one, Section 117, Paragraph one of this Law).

[18 June 2015]

4. Until issuance of the regulations provided for in Paragraph 3 of Transitional Provisions, the meeting of shareholders (stockholders) of the capital company shall determine the monthly remuneration of members of the executive board and supervisory board, applying Cabinet Regulation No. 311 of 30 March 2010, Regulations Regarding the Number of Members of the executive board of State or Local Government Capital Companies, the Remuneration of a Member of the supervisory board and executive board, Representative of a Holder of Capital Shares of a Local Government and the Responsible Employee.

5. By 1 December 2015 the highest decision-making body of a derived public person shall determine:

1) the procedures by which candidates shall be nominated for the positions of members of the executive board and supervisory board in a capital company, in which the derived public person as a shareholder (stockholder) has the right to nominate members of the executive board or supervisory board, and members of the executive board in a capital company of a public person, in which a supervisory board has been established (Section 37, Paragraph one of this Law);

2) the procedures by which the profit share to be disbursed in dividends in a capital company, in which the derived public person has decisive influence, shall be determined (Section 35, Paragraph one of this Law).

[18 June 2015]

6. By 1 November 2015 the Co-ordination Institution shall draw up and approve:

1) the guidelines for determining the general strategic objectives of State participation (Section 25, Paragraph five of this Law);

2) the methods (guidelines) for assessment of performance results of a capital company, in which the State has decisive influence (Section 27, Paragraph one of this Law);

3) the guidelines for publishing information for State capital companies and holders of capital shares (Section 29, Paragraph one, Clause 2 of this Law);

4) the procedures by which information necessary for preparation of the annual public account on the capital companies and capital shares belonging to the State shall be submitted to the Co-ordination Institution (Section 30, Paragraph three of this Law);

5) the guidelines for drawing up the medium-term operational strategy (Section 57, Paragraph three of this Law).

7. Until drawing up of the documents referred to in Paragraph 6, Sub-paragraphs 1, 2, 3, and 5 of Transitional Provisions, holders of capital shares, capital companies and their executive institutions may carry out the tasks specified in the Law without guidelines drawn up by the Co-ordination Institution.

8. A council may be established in a capital company of a public person and a public private capital company starting from 1 January 2016, if it conforms to the criteria laid down in Section 78 or 106 of this Law.

9. By 1 December 2015 the Co-ordination Institution shall prepare and submit to the Cabinet and the *Saeima* the centralised public report on State capital companies and State capital shares in 2014.

[18 June 2015]

10. In determining the amount of summary revenue to be obtained from dividends in 2016 in accordance with Section 28 of this Law, the prognosis determined in the law on the medium-term budget framework shall be conformed to.

11. By 1 January 2016 the highest decision-making body of a public person shall take a decision on its direct participation in capital companies in accordance with Section 7 of this Law.

12. The State stock company "Privatisation Agency" (hereinafter – Agency) shall perform the functions of the institution alienating State capital shares provided for in this Law until the moment when the Cabinet takes a decision on the institution performing alienation of State capital shares and the Agency has transferred the capital shares held by it.

13. By 1 July 2015 the State Social Insurance Agency shall transfer such State capital shares in holding of the Agency, which have been transferred to the State special budget for pensions until the day of coming into force of this Law and are to be sold in accordance with a Cabinet decision. The State Social Insurance Agency shall carry out the tasks of the holder of State capital shares and the alienation institution provided for in this Law until the moment when State capital shares are transferred to the Agency. In the abovementioned time period the State Social Insurance Agency shall alienate capital shares in accordance with Cabinet Regulation No. 366 of 9 May 2006, Regulations Regarding Conditions and Procedures for Selling Capital Shares Transferred to the State Special Budget for Pensions.

14. A public person shall ensure that by 1 January 2016:

1) the number of members of the executive board and supervisory board in capital companies of a public person, as well as in public private capital companies, in which the capital company of a public person has obtained all capital shares or voting shares, conforms to that laid down in Cabinet regulations;

2) the articles of association of a capital company of a public person conform to the standard articles of association drawn up and approved in accordance with Section 46, Paragraph two of this Law.

[18 June 2015]

15. The firm names of State or local government capital companies containing the word “State” or “local government” until the day of coming into force of this Law may retain the word also after the day of coming into force of this Law.

16. The holder of capital shares of a public person shall ensure that group of companies contracts concluded by capital companies of a public person are terminated by 1 March 2015.

17. The contracts concluded with members of the executive board before the day of coming into force of this Law shall remain valid until the end of the term of office of the member of the executive board, determined in the articles of association of the capital company, which were effective at the time when the member of the executive board was elected.

[18 June 2015]

18. Section 54 of this Law shall be applicable starting from the report of year 2015.

19. A capital company of a public person and a public private capital company shall draw up the medium-term operational strategy in accordance with Section 57 of this Law by 30 March 2016. The Council of the Co-ordination Institution shall commence the provision of statements regarding medium-term operational strategies of the capital companies under decisive influence of the State, which have been drawn up starting from 1 January 2016.

[18 June 2015]

20. Until approval of the medium-term operational strategy the operation of a capital company shall be evaluated according to pre-defined objectives, planned performance results and financial indicators (Sections 27 and 34 of this Law).

[18 June 2015]

21. The Co-ordination Institution shall publish the information specified in Section 29, Paragraph one of this Law by 30 March 2016.

[18 June 2015]

22. The Co-ordination Institution shall, in accordance with Section 31, Paragraph five of this Law, nominate representatives for participation in nomination committees, starting from 1 August 2015.

[18 June 2015]

23. The Co-ordination Institution shall, in accordance with Section 32 of this Law, provide statements, starting from 1 January 2016.

[18 June 2015]

This Law shall come into force on 1 January 2015.

This Law has been adopted by the *Saeima* on 16 October 2014.

President

A. Bērziņš

Adopted 31 October 2014