Text consolidated by Valsts valodas centrs (State Language Centre) with amending laws of:

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

16 June 2016 [shall come into force on 6 July 2016];

15 March 2018 [shall come into force on 3 April 2018];

13 June 2019 [shall come into force on 1 January 2020];

10 December 2020 [shall come into force on 17 December 2020];

17 December 2020 (Constitutional Court Judgment) [shall come into force on 21 December 2020];

6 May 2021 [shall come into force on 8 May 2021];

11 November 2021 [shall come into force on 8 December 2021];

15 November 2021 [shall come into force on 1 February 2022].

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 Public Entity and Management of Capital Companies Thereof**

**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 joint-stock company;

2) **capital shares of a public entity** – capital shares owned by a public entity in a limited liability company or stocks owned thereby in a joint-stock company;

3) **capital company of a public entity** – a capital company in which all capital shares or voting stocks belong to one public entity;

4) **capital company controlled by a public entity** – a capital company in which one or several public entities 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 entities;

6) **private capital company** – a capital company in which capital shares or stocks belong to a public entity and another person (except owners of employee stocks);

7) **subsidiary** – a capital company in which a capital company of a public entity 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 owned by the State in a limited liability company or stocks owned thereby in a joint-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 entity** – capital shares owned by a derived public entity in a limited liability company or stocks owned thereby in a joint-stock company;

11) **capital company of a derived public entity** – a capital company in which all capital shares or voting stocks belong to one derived public entity;

12) **capital shares of a local government** – capital shares owned by a local government in a limited liability company or stocks owned thereby in a joint-stock company;

13) **local government capital company** – a capital company in which all capital shares or voting stocks belong to one local government;

14) **highest decision-making body of a public entity:**

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

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

c) in relation to the governance of capital shares of derived public entities, except for local governments – in accordance with the law governing the operation of the respective derived public entity;

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 the assessment and management of risks associated with 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 ensuring the performance of the functions specified for a public entity;

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 entity which the public entity 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;

20) **recapitalisation instrument** – an instrument as a result of the use of which aid for commercial activity is provided to a capital company by investing it in the equity capital of the capital company and receiving a relevant number of new capital shares or stocks in return;

21) **transaction of significant amount** – a transaction of a capital company as a result of which the amount of money paid or to be received, the value of the assets acquired or alienated, or the liabilities of a capital company which have arisen as a result of the transaction or may arise in the future are at least 10 per cent of the equity capital of the capital company or at least 10 per cent of the own capital of the capital company in accordance with the last audited annual statement or consolidated annual statement (if any is prepared) – depending on whichever of the indicators is smaller but not less than EUR 35 000.

(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.

[*6 May 2021; 11 November 2021*]

**Section 2. Purpose of this Law**

The purpose of this Law is to promote efficient governance of the capital shares owned by a public entity and capital companies of a public entity, rational and economically justified use of the resources of capital companies of a public entity, compliance with the principles of good corporate governance, and also to ensure compliance with the conditions for the participation of a public entity.

**Section 3. Application of this Law**

(1) This Law determines the procedures by which:

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

2) obligations of the public entity as a shareholder (stockholder) of a capital company shall be fulfilled and rights shall be exercised;

3) capital companies of a public entity and public private capital companies, as well as subsidiaries shall be managed;

4) capital companies of a public entity shall be established, operate and be liquidated;

5) capital companies of a public entity shall be reorganized;

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

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

8) a capital company of a public entity shall be restructured into an institution or a public agency.

(2) The activities provided for in this Law shall be performed also by complying with the laws and regulations governing the control of aid for 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) [13 June 2019]

(5) [13 June 2019]

(6) [13 June 2019]

[*15 March 2018; 13 June 2019*]

**Chapter II**

**Participation of a Public Entity and Capital Company of a Public Entity and Decisive Influence in a Capital Company**

**Section 4. Conditions for Participation of a Public Entity**

(1) A public entity may obtain and keep participation in a capital company according to Section 88 of the State Administration Structure Law.

(2) A capital company of a public entity 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 for the participation of a public entity provided for in Section 88, Paragraph one of the State Administration Structure Law;

2) the participation directly ensures achievement of general strategic objectives and objectives determined in the medium-term operational strategy of the capital company of a public entity or public private capital company.

(3) In addition to the conditions referred to in Paragraph two of this Section, a capital company which wants to obtain participation in another capital company shall, prior to taking a decision, submit an assessment to the highest decision-making body of a public entity, whether participation in another capital company will provide rational and economically justified use of the resources of the capital company, in compliance with the principles of good corporate governance.

[*15 March 2018*]

**Section 5. Obtaining of and Changes in Participation**

(1) The decision to obtain participation of a public entity or to obtain or terminate decisive influence in a capital company shall be taken by the highest decision-making body of the respective public entity.

(2) The highest decision-making body of the respective public entity shall give a permission for the capital company of a public entity 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 entity shall be binding on the representative of the holder of capital shares when exercising 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 management companies.

**Section 6. Prohibition to Conclude a Group of Companies Contract**

(1) A capital company of a public entity 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 a meeting of shareholders (stockholders) of a capital company controlled by a public entity intends to decide on the conclusion of a group of companies contract specified in the Group of Companies Law with another capital company, the representative of the holder of capital shares of the public entity has, by exercising the rights of a shareholder (stockholder), an obligation to vote so that the capital company would not conclude the group of companies contract.

(3) The capital company of a public entity or the public private company shall ensure that its subsidiary 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 entity has an obligation to, not less than once in five years, revaluate 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 the law stipulates 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 entity in capital companies shall be taken by the highest decision-making body of the respective public entity. 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.

(3) A public entity has an obligation to, at least once in five years, reassess the general strategic objective for a capital company of a public entity the capital shares or stocks of which cannot be alienated.

[*11 November 2021*]

**Section 8. Legal Consequences upon Obtaining Decisive Influence**

(1) If a capital company of a public entity 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) members of the executive board and of the supervisory board of a dependent capital company shall be nominated by the executive board of a capital company of a public entity or the supervisory board of a dependent capital company in accordance with Section 31 (except for the condition regarding participation of the representative nominated by the coordinating authority in the nomination committee) or Section 37 of this Law;

4) the dependent capital company shall establish a supervisory board in the cases referred to in Section 78, Paragraph two and Section 106 of this Law;

5) the number, monthly remuneration, bonuses of and withdrawal benefit to members of the executive and supervisory boards of the dependent capital company shall be determined in conformity with the restrictions provided for members of the executive and supervisory boards in this Law and the Cabinet regulations issued on the basis thereof;

6) the dependent capital company shall publish the information on the capital company in accordance with Section 58, Paragraphs one, 1.1, 1.2, and two of this Law.

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

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

2) the information on the capital company is published in accordance with Section 58, Paragraphs one, 1.1, 1.2, and two of this Law;

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

(3) The capital company of a public entity shall ensure that its subsidiaries:

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

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

3) the information on the capital company is published in accordance with Section 58, Paragraphs one, 1.1, 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 where the supervisory board shall not be established, the meeting of shareholders (stockholders) shall fulfil the tasks of the supervisory board 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 where the supervisory board shall not be established, the executive board must receive a consent of the meeting of shareholders (stockholders) for deciding the issues specified in Section 294, Paragraph one of the Commercial Law.

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

[*18 June 2015; 15 March 2018; 13 June 2019; 11 November 2021*]

**Section 9. Termination of Participation**

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

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

(3) The decision taken by the highest decision-making body of a public entity to terminate participation of a public private capital company in another capital company shall be binding on the representative of the holder of capital shares in 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 entity 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 investment management companies.

**Division B**

**Governance of Capital Shares of a Public Entity**

**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 essential for the governance of specific State capital shares in the respective field (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 authority 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 another 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 Entity**

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

1) a derived public entity which owns such capital shares;

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

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

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

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

**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 to take 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 civil servants of the ministry who shall provide the necessary information to him or her or the official appointed by an order of the State Secretary who performs 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 may be determined for the responsible employee for the fulfilment of the respective duties in accordance with Section 14 of the Law on Remuneration of Officials and Employees of State and Local Government Authorities if the duties of the responsible employee 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 Authority as the Holder of Capital Shares**

(1) If the holder of capital shares of a public entity is another State administrative authority, the head of the respective authority (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 authority (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 the person who fulfils the duties of the head of the authority.

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

(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 authority and receive remuneration for the fulfilment of such duties within the scope of the monthly wage determined for the position. A supplement may be determined for the responsible employee for the fulfilment of the respective duties in accordance with Section 14 of the Law on Remuneration of Officials and Employees of State and Local Government Authorities if the duties of the responsible employee 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 executive director of the local government (hereinafter also – the representative of the holder of capital shares).

(2) The executive director of the local government may transfer the decision-making right of the holder of local government capital shares to another official subordinated thereto by an order, including to the head of such city (municipality) government unit who has been assigned to govern the respective capital shares of the local government (hereinafter also – the representative of the holder of capital shares).

(3) In the absence of the executive director of the local government 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 holder of capital shares shall be taken by the person who fulfils the duties of the executive director of the local government or of the respective official subordinated thereto.

(4) The executive director of the local government shall appoint a responsible employee from amongst the employees of the local government or local government institutions 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 executive director or the respective official and prepare documents so that the executive director 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 need not be appointed if the 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 may be determined for the responsible employee for the fulfilment of the respective duties in accordance with Section 14 of the Law on Remuneration of Officials and Employees of State and Local Government Authorities if the duties of the responsible employee 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.

[*13 June 2019*]

**Section 15. Derived Public Entity Except for the Local Government as a Holder of Capital Shares**

(1) If the holder of capital shares of a derived public entity (except for a local government) is a derived public entity, 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 entity (hereinafter – the representative of the holder of capital shares).

(2) The highest decision-making body of the derived public entity may hand over the decision-making rights of the holder of capital shares of a derived public entity to the head of the institution (unit) established by the derived public entity to whom the governance of capital shares of the derived public entity 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 entity 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 entity 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 entity or duties of the head of the respective institution (unit).

(4) The head of the highest executive body of the derived public entity shall appoint the responsible employee from amongst the employees of institutions of the derived public entity 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 entity, 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 entity.

(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 entity and receive remuneration for the fulfilment of such duties within the scope of the monthly wage determined for the position. A supplement may be determined for the responsible employee for the fulfilment of the respective duties in accordance with Section 14 of the Law on Remuneration of Officials and Employees of State and Local Government Authorities if the duties of the responsible employee 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.

[*18 June 2015*]

**Section 16. Duties of the Responsible Employee**

(1) The responsible employee shall inform the representative of the holder of capital shares of 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 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 for every issue included on the agenda of the meeting of shareholders (stockholders). The authorised person may vote in the meeting of shareholders (stockholders) only as specified in 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 fulfilment of the obligations and exercising of the rights of a shareholder (stockholder) in a capital company and which are closely related thereto.

(2) If the authorised person has conducted another matter in addition to the assigned 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 of 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 from delegating 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 the election of the authorised person as a member of the executive 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 the authorised person with the information and documents on 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 the possibility to fulfil his or her duties.

(3) The representative of the holder of capital shares in a capital company controlled by a public entity 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 field, 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 uses 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 the 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**

**Coordinating Authority**

**Section 22. Coordinating Authority 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 in relation to the administration of State capital companies and State capital shares (hereinafter – the coordinating authority).

(2) The coordinating authority shall perform the following tasks:

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

2) issue an opinion 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 entity, and capital companies on issues related to the implementation of the corporate governance;

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

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

6) issue an opinion to the Cabinet on obtaining, maintaining or terminating State participation, and also, upon request of the derived public entity, issue an opinion on obtaining or terminating participation of the respective derived public entity 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 governance of capital shares;

72) supervise how the holders of State capital shares and State capital companies fulfil the requirements for the publication of the information laid down in Section 29, Paragraph two and Section 58 of this Law;

73) supervise how the local governments and capital companies of local governments (limited liability companies and joint-stock companies) which meet the criteria laid down in Section 78, Paragraph two of this Law fulfil the requirements for the publication of the information laid down in Sections 36 and 58 of this Law;

74) fulfil the functions of the holder of capital shares in the State capital companies in which the Cabinet has appointed the coordinating authority as the holder of State 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.

[*18 June 2015; 13 June 2019 /* *See Paragraph 27 of Transitional Provisions*]

**Section 23. Rights of the Coordinating Authority**

(1) When performing the tasks laid down in Section 22 of this Law, the coordinating authority has the right to:

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

2) issue an opinion on policy planning documents and legal acts prepared by other State authorities which directly or indirectly concern issues related to the governance of capital shares of a public entity;

3) [18 March 2015].

(2) The coordinating authority has the right to perform other activities permitted in laws and regulations in order to perform the tasks laid down in the law.

[*18 June 2015*]

**Section 24. Supervisory Board of the Coordinating Authority**

(1) In order to ensure efficient management of capital companies of public entities and governance of capital shares, the Cabinet shall establish the supervisory board of the coordinating authority.

(2) The supervisory board of the coordinating authority is a collegial authority which:

1) reviews the draft guidelines drawn up by the coordinating authority in the field of governing capital shares of a public entity and agrees upon them before approval;

2) assesses the opinion of the coordinating authority on 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 supervisory board of a State capital company (if such has been established) does not agree with the opinion prepared by the coordinating authority and the holder of State capital shares or the supervisory board of a capital company has requested to examine the issue at the supervisory board of the coordinating authority;

3) examines the opinion of the coordinating authority on 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 supervisory board of a State capital company (if such has been established) does not agree with the opinion prepared by the coordinating authority and the holder of State capital shares or the supervisory board of a State capital company has requested to examine the issue at the supervisory board of the coordinating authority, and provides an assessment of the abovementioned opinion to the holder of State capital shares or the supervisory board of a State capital company;

4) provides proposals to the coordinating authority for other issues related to the governance of capital shares of a public entity.

(3) The by-law and staff of the supervisory board of the coordinating authority shall be approved by the Cabinet. Members of the supervisory board of the coordinating authority shall not receive any remuneration for their work in the supervisory board.

[*18 June 2015*]

**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 the obtaining or termination of State participation, as well as the obtaining or termination of decisive influence in a capital company by submitting a respective proposal to the Cabinet. An assessment of the conformity of obtaining 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 entity 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) An opinion of the coordinating authority 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 once in every five years, the coordinating authority 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 coordinating authority shall draw up the guidelines for the 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 and if a supervisory board has not been established in the capital company, the holder of capital shares shall, prior to approval [exercising of the voting right in the meeting of stockholders (shareholders)] of the medium-term operational strategy drawn up by the capital company, receive an opinion of the sectoral ministry and the coordinating authority.

(2) If the sectoral ministry is the holder of State capital shares in a capital company in which the State holds the decisive influence and if the supervisory board has not been established in the capital company, the holder of capital shares shall, prior to approval [exercising of the voting right in the meeting of stockholders (shareholders)] of the medium-term operational strategy drawn up by the capital company receive an opinion of the coordinating authority.

(3) If a supervisory board has been established in the capital company in which the State holds the decisive influence, it shall, prior to approval of the medium-term operational strategy drawn up by the capital company, receive an opinion of the sectoral ministry and the coordinating authority.

(4) In the opinion referred to in Paragraphs one, two and three of this Section, the coordinating authority shall provide an assessment of the financial objectives brought forward in the medium-term operational strategy of the capital company and the financial performance 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 coordinating authority shall provide an opinion on the medium-term operational strategy within three months after its receipt.

(5) In the opinion 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 supervisory board of the State capital company (if such has been established) shall receive an opinion of the coordinating authority prior to approval [exercise 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 coordinating authority 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 supervisory board of a State capital company or the capital company under the decisive influence of the State (if such has been established) disregards that indicated in the opinion of the coordinating authority, then, in approving [exercising the voting right in the meeting of stockholders (shareholders)] 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 shall sent to the coordinating authority in writing.

(9) If the supervisory board of a State capital company or the capital company under the decisive influence of the State (if such has been established) disregards that indicated in the opinion of the sectoral ministry, then the supervisory board shall send its arguments to the sectoral ministry in writing upon approving the medium-term operational strategy of the capital company.

(10) If the holder of State capital shares disregards that indicated the opinion 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 coordinating authority and the supervisory board of the coordinating authority which provides an opinion to the holder of State capital shares or the supervisory board 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 opinion of the coordinating authority, the holder of State capital shares shall be responsible for the respective decision taken.

(13) The holder of State capital shares or the supervisory board of the State capital company (if such has been established) shall send the approved medium-term operational strategy of the capital company to the coordinating authority.

(14) The coordinating authority shall send the assessment of the supervisory board of the coordinating authority to the holder of State capital shares or the supervisory board 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; 13 June 2019*]

**Section 27. Assessment of Performance Results of a Capital Company**

(1) The coordinating authority shall draw up methods (guidelines) for a capital company in which the State holds the decisive influence for the assessment of its performance results, providing 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 bought forward for the capital company in conformity with the opinion of the sectoral ministry and the coordinating authority.

(3) In the opinion referred to in Paragraph two of this Section the coordinating authority (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 opinion 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 th 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 coordinating authority may propose for the holder of State capital shares to perform an audit in a capital company if there are grounds to suspect inexpedient, inefficient actions or violations and if substantial risks in relation to the possibility to achieve the objectives brought forward are found.

(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 State Capital Companies, Dependent Capital Companies and Subsidiaries Thereof, Capital Companies Controlled by a Public Entity, Public Private Capital Companies where the State is a Stockholder (Shareholder) and Subsidiaries Thereof**

(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 shall, on the basis of the medium-term operational strategy, 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 coordinating authority on justification for the profit share to be disbursed in dividends.

(4) If the coordinating authority does not reach an agreement with the Ministry of Finance and the holder of State capital shares on the foreseeable profit share to be disbursed in dividends and the profit share to be disbursed in dividends, the holder of State capital shares shall prepare and submit a draft order to the Cabinet, which shall take a decision binding to the holder of State capital shares.

(5) The meeting of shareholders (stockholders) shall decide on the profit share to be disbursed in dividends after approval of the annual statement of the company.

(6) The Cabinet shall govern, in accordance with the conditions of this Section, the procedures by which the profit share to be disbursed in dividends shall be foreseen and determined in State capital companies, dependent capital companies and subsidiaries thereof, capital companies controlled by a public entity, public private capital companies where the State is a stockholder (shareholder) and subsidiaries thereof, the actions of the holder of State capital shares or stockholder (shareholder) in exercising the right of the stockholder (shareholder) to decide on the profit share to be disbursed in dividends, the procedures by which the capital company shall demonstrate the distributed profit in the financial statements, and also the procedures by which the control of dividend payments is ensured.

(7) A capital company shall calculate, pay, and demonstrate the enterprise income tax in the accounting in accordance with the procedures laid down in the laws and regulations governing enterprise income tax.

[*18 June 2015; 15 March 2018; 15 November 2021*]

**Section 29. Ensuring Disclosure of Information**

(1) The coordinating authority shall:

1) provide free access to comparable information on 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 on the 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 on the current amendments to the laws and regulations directly affecting the management of the capital company of a public entity and capital shares, as well as publish explanatory materials.

(2) The holder of State capital shares shall provide the latest information on 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 statement 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 coordinating authority.

(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 coordinating authority or the holder of State capital shares shall publish the explanation provided by the respective capital company.

**Section 30. Annual Public Report**

(1) The coordinating authority shall, by 1 October 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 consolidated information on the State participation in capital companies, the resources invested thereby and the return of such resources, the services provided by capital companies, the contributions in the State budget and local government budgets, the subsidies from the State or local government budget received, information on the sectors in which capital companies operate with State participation, information on the performed procedures for the nomination of members of the executive board and supervisory board, and also other information necessary in order to provide an insight in State capital companies and capital shares. The report shall also include the information on how the requirements of Section 29, Paragraph two, Section 36 (in respect of local governments), and Section 58 of this Law are fulfilled and the conditions of Section 22, Paragraph two, Clauses 7.2 and 7.3of this Law have been complied with.

(3) In accordance with the procedures stipulated by the coordinating authority, 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.

[*15 March 2018; 13 June 2019*]

**Section 31. Procedures for Nominating Members of the Executive Board and the Supervisory Board in Case of Governance of State Capital Shares**

(1) The holder of State capital shares shall ensure nomination of a candidate for the position of a member of the executive board (if supervisory board has not been established in the capital company). The coordinating authority shall ensure nomination of a candidate for the position of a member of the supervisory board of the capital company in co-operation with the holder of State capital shares. 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 and supervisory boards, promoting the establishment of a professional and competent administrative body of the capital company.

(3) Potential candidates of members of the executive board and supervisory board are selected by organising a public application procedure for candidates. When selecting members of the executive board or supervisory board in a joint-stock company and a limited liability company, if they meet the requirements of Section 78, Paragraph two of this Law, a recruitment consultant shall be additionally involved in the nomination procedure.

(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 the 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 on whom insolvency proceedings have been declared.

5) a person who is or who, during the last 24 months until the final date for the submission of applications within the scope of the public application procedure for candidates, has been an official of a political party or an alliance of political parties who implements the management of a political party or an alliance of political parties, including takes decisions or implements representation on its behalf (for example, a member of the executive board, manager, president, chairperson, Secretary-General).

(41) A candidate of a member of the executive board or supervisory board, when submitting the application within the scope of the public application procedure for candidates, shall certify the conformity with the requirements of Paragraph four of this Section.

(5) The holder of State capital shares or the supervisory board of the capital company (if such has been established), or the coordinating authority (for the nomination of members of the supervisory board of the State capital company) shall establish a nomination committee the task of which is to assess 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 supervisory board of the capital company (if such has been established) and by the coordinating authority (except for the nomination committees of dependent capital companies), and also independent experts and, if necessary, observers with advisory rights.

(6) The nomination committee shall assess and nominate a candidate (candidates) for election to the position of the member of the executive board or supervisory board from those candidates who have applied in accordance with the public application procedure for candidates. In order to ensure professional and objective work of the v of the capital company which promotes a long-term increase in the value of the capital company and efficiency of the activities thereof, the holder of capital shares shall ensure that at least half of the members of the supervisory board are independent and meet all of the following criteria:

1) within the last three years, a member of the supervisory board has not been a member of the supervisory board, a controller, an employee, a proctor, or a person with a commercial power of attorney, an external auditor of the relevant capital company or a capital company related thereto (dependent capital company, capital company controlled by a capital company of a public entity), or an employee in the capital company which fulfils the functions of an external auditor in the capital company in which he or she holds the office of the member of the supervisory board;

2) a member of the supervisory board or his or her family members (spouse, children, parents) do not receive and, during the last three years, have not received remuneration from the relevant capital company or dependent company thereof, except for the case when the member of the supervisory board receives or has received remuneration for the fulfilment of the duties of a member of the supervisory board and conforms to the criteria of an independent member of the supervisory board referred to in this Paragraph;

3) after election in a position, a member of the supervisory board earns income in the relevant capital company only for the fulfilment of the duties of a member of the supervisory board;

4) a member of the supervisory board or his or her family members (spouse, children, parents) have not had transactions of significant amount neither directly, nor indirectly, neither as partners, stockholders nor senior managers with the relevant capital company during the last three years;

5) a member of the supervisory board does not hold the position of a member of the executive board or a leading position in another capital company which has a transaction of significant amount with the capital company represented by the member of the supervisory board;

6) during the last three years, a member of the supervisory board has not been:

a) an official or employee of the holder of capital shares or a subordinate institution thereof;

b) a member of the executive board of the capital company in the holding of the holder of capital shares or a dependent capital company or parent undertaking thereof;

c) an administrative official within the meaning of the State Administration Structure Law for more than one year.

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

(8) The conditions of this Section, except for 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 body 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 supervisory board 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. This time period may not be longer than one year.

(10) The Cabinet shall determine the procedures by which candidates shall be nominated for the positions of members of the executive board and supervisory board in capital companies in which the State as the shareholder (stockholder) 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, including:

1) the procedures for the co-operation between the coordinating authority and the holder of capital shares, the procedures for the establishment of the nomination committee and the composition thereof, and the requirements to be brought forward for the members of the nomination committee;

2) the minimum requirements in respect of the education, language skills, and work experience of the members of the executive board and supervisory board;

3) the competences necessary for the members of the executive board and supervisory board and the procedures for the assessment thereof;

4) the procedures by which the information on the course and results of the nomination process is documented and published;

5) the duties of a recruitment consultant and the procedures for covering the expenses related to the fulfilment thereof.

[*13 June 2019; Constitutional Court Judgment of 17 December 2020; 6 May 2021; 11 November 2021*]

**Chapter VI**

**Governance of Capital Shares of a Derived Public Entity**

**Section 32. Procedures for Receiving an Opinion of the Coordinating Authority**

Prior to taking the decision referred to in Sections 5, 7, and 9 of this Law to terminate the participation or decisive influence of a derived public entity in a capital company, to revaluate the participation or to terminate the participation of a derived public entity in a capital company, the derived public entity may request the coordinating authority to provide an opinion. The coordinating authority shall provide an opinion within one month. The opinion of the coordinating authority shall be of recommendatory nature. Prior to taking the decision referred to in Section 5 of this Law to obtain participation or decisive influence of a derived public entity in a capital company, the derived public entity shall receive an opinion from the coordinating authority.

[*13 June 2019*]

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

The highest decision-making body of the derived public entity shall determine the procedures by which the representative of the holder of capital shares of the derived public entity or the supervisory board of the capital company shall receive and assess the opinion of individual bodies of derived public entities before approval of the medium-term operational strategy.

[*13 June 2019*]

**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 entity 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 entity 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 entity shall determine the procedures by which the representative of the holder of capital shares of th derived public entity shall assess the performance results of the capital company referred to in Paragraph one of this Section.

[*13 June 2019*]

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

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

(2) In determining the profit share to be disbursed in dividends in a capital company, in which the derived public entity 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 on the company budget planned 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 entity shall ensure that current information on 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 field 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 entity;

3) conformity of the derived public entity 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 entity in the capital company;

6) approved annual statement of the capital company;

7) the dividends disbursed by the capital company to the derived public entity and payments of the capital company into the State and local government budgets (including deductibles and tax payments);

8) information that the derived public entity has intended to terminate participation in the capital company;

9) information on the commenced reorganisation or transformation of the capital company;

10) other information considered by the derived public entity necessary to be published;

11) not later than by 1 October of each year – annual report on the capital companies and capital shares belonging to the derived public entity. The abovementioned report shall include consolidated information on the participation of the derived public entity in capital companies, the resources invested thereby and the return of such resources, the services provided by capital companies, the contributions in the State budget and local government budgets, the subsidies received from the State or local government budget, information on the sectors in which capital companies operate with the participation of the derived public entity, information on the performed procedures for the nomination of members of the executive board and supervisory board, and also other information necessary in order to provide an insight in capital companies and capital shares of the derived public entity. The information on how the derived public entity and the capital companies belonging thereto have fulfilled the requirements of Sections 36 and 58 of this Law shall also be included in the report.

[*13 June 2019* / *See Paragraph 28 of Transitional Provisions*]

**Section 37. Procedures for Nominating Members of the Executive Board and the Supervisory Board in Case of Governance of Capital Shares of a Derived Public Entity**

(1) The holder of capital shares shall ensure nomination of a candidate for the position of a member of the executive board (if the supervisory board has not 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 and supervisory boards, promoting the establishment of a professional and competent administrative body of the capital company.

(3) Potential candidates of members of the executive board and the supervisory board are selected by organising a public application procedure for candidates. When selecting members of the executive board or supervisory board in a joint-stock company and a limited liability company, if they meet the requirements of Section 78, Paragraph two of this Law, a recruitment consultant shall be additionally involved in the nomination procedure.

(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 the 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 on whom insolvency proceedings have been declared;

5) a person who is or who, during the last 24 months until the final date for the submission of applications within the scope of the public application procedure for candidates, has been an official of a political party or an alliance of political parties who implements the management of a political party or an alliance of political parties, including takes decisions or implements representation on its behalf (for example, a member of the executive board, manager, president, chairperson, Secretary-General).

(41) A candidate of a member of the executive board or supervisory board, when submitting the application within the scope of the public application procedure for candidates, shall certify the conformity with the requirements of Paragraph four of this Section.

(5) The holder of 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 assess the candidates of members of the executive board or supervisory board. The nomination committee shall include the representatives nominated by the holder of capital shares or the supervisory board (if such has been established), and also independent experts and, if necessary, observers with advisory rights.

(6) The nomination committee shall assess and nominate a candidate (candidates) for election to the position of the member of the executive board or supervisory board from those candidates who have applied in accordance with the public application procedure for candidates. In order to ensure professional and objective work of the supervisory board of the capital company which promotes a long-term increase in the value of the capital company and efficiency of the activities thereof, the holder of capital shares shall ensure that at least half of the members of the supervisory board are independent and meet all of the following criteria:

1) during the last three years, a member of the supervisory board has not been a member of the supervisory board, a controller, an employee, a proctor, or a person with a commercial power of attorney, an external auditor of the relevant capital company or a capital company related thereto (dependent capital company, capital company controlled by a capital company of a public entity), or an employee in the capital company which fulfils the functions of an external auditor in the capital company in which he or she holds the office of the member of the supervisory board;

2) a member of the supervisory board or his or her family members (spouse, children, parents) have not received remuneration during the last three years from the relevant capital company or dependent company thereof, except for the case when the member of the supervisory board receives or has received remuneration for the fulfilment of the duties of a member of the supervisory board and conforms to the criteria of an independent member of the supervisory board referred to in this Paragraph;

3) after election in a position, a member of the supervisory board earns income in the relevant capital company only for the fulfilment of the duties of a member of the supervisory board;

4) a member of the supervisory board or his or her family members (spouse, children, parents) have not had transactions of significant amount neither directly, nor indirectly, neither as partners, stockholders nor senior managers with the relevant capital company during the last three years;

5) a member of the supervisory board does not hold the position of a member of the executive board or a leading position in another capital company which has a transaction of significant amount with the capital company represented by the member of the supervisory board;

6) during the last three years, a member of the supervisory board has not been:

a) an official or employee of the holder of capital shares or a subordinate institution thereof;

b) a member of the executive board of the capital company in the holding of the holder of capital shares or a dependent capital company or parent undertaking thereof.

(7) On the basis of justified arguments, the holder of capital shares or the supervisory board has right to reject the candidates brought forward 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 for the restrictions laid down in Paragraph four, 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 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 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 meets the criteria of professionalism and competence necessary for the respective candidate of the member of the executive board or supervisory board.

(9) The person appointed 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 capital shares or the supervisory board of the State capital company appoints such person or another candidate to the position in accordance with the nomination procedures laid down this Section. This time period may not be longer than one year.

(10) The Cabinet shall determine the procedures by which candidates shall be nominated for the positions of members of the executive board and supervisory board in capital companies in which a derived public entity as the shareholder (stockholder) has the right to nominate members of the executive board or supervisory board, and members of the executive board in capital companies of a derived public entity in which the supervisory board has been established, including:

1) the procedures for the establishment of the nomination committee, the composition thereof, and the requirements to be brought forward for the members of the nomination committee;

2) the minimum requirements in respect of the education, language skills, and work experience of the members of the executive board and supervisory board;

3) the competences necessary for the members of the executive board and the supervisory board and the procedures for the assessment thereof;

4) the procedures by which the information on the course and results of the nomination process is documented and published;

5) the duties of a recruitment consultant and the procedures for covering the expenses related to the fulfilment thereof.

[*13 June 2019; Constitutional Court Judgment of 17 December 2020; 6 May 2021; 11 November 2021*]

**Division C**

**Capital Companies of a Public Entity and Public Private Capital Companies**

**Chapter VII**

**General Provisions for the Management of Operation of Capital Companies of a Public Entity and Public Private Capital Company**

**Section 38. Stocks of a Joint-Stock Company of a Public Entity**

Stocks of a joint-stock company of a public entity and of a public private joint-stock company may not be an object of public circulation, except when the highest decision-making body of the respective public entity takes the decision to alienate the stocks by quoting them on the stock market.

[*6 May 2021*]

**Section 39. Capital Company with Supplemental Liability**

A capital company of a public entity 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 Entity**

(1) A signature of the representative of the holder of capital shares of a public entity on an application of a capital company of a public entity 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 the Management 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 and supervisory boards of a capital company of a public entity (including the criteria for the establishment of the supervisory board, the requirements for members of the executive and supervisory boards, determination of monthly remuneration, restrictions on disbursement of premiums and other requirements laid down in this Law), shall be conformed to in the management of a public private capital company.

**Chapter VIII**

**Founding of a Capital Company of a Public Entity**

**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 fulfil 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 Entity**

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

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

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 entity shall fulfil the functions specified in this Law for the founder of a capital company of a derived public entity, 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 the Cabinet order regarding 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 entity are the decision to found a capital company issued by the highest decision-making body of the derived public entity 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 on 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 entity 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 entity (hereinafter – the 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 entity 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 entity. 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 entity.

**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 for the performance of activities directly related to founding of the capital company.

**Chapter IX**

**Equity Capital of a Capital Company of a Public Entity 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 entity 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 opinion.

**Section 50. Consequences of Non-conformity with the Time Period for the Payment of Share**

If a public entity 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 entity.

**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 entity and a public private capital company shall not be liable for the losses caused to the capital company if he or she has acted as a prudent and careful manager, and also in good faith according to a lawful decision of the highest decision-making body of a public entity, 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 entity or its dependent capital company, or to the capital company under its decisive influence 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. If losses to the capital company of a public entity or its dependent capital company, or to the capital company under its decisive influence are caused if the meeting of shareholders (stockholders), supervisory board (if any has been established) and executive board implements a lawful decision of the highest decision-making body of a public entity, the highest decision-making body of the public entity shall be responsible for them and shall decide on the covering thereof. 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 entity 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 the activities performed, if the meeting of shareholders (stockholders) makes a respective decision.

[*15 March 2018*]

**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 entity 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 with associated persons;

2) the prohibition of competition (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 entity 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 have been 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.

[*15 March 2018*]

**Chapter XI**

**Annual Statement and Profit Distribution of a Capital Company**

**Section 53. Auditor**

The executive board or supervisory board of a capital company of a public entity 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 Statement of a Capital Company**

The executive board of a capital company of a public entity and a public private capital company shall ensure that the annual statement (Section 174 of the Commercial Law) is prepared and the meeting of shareholders (stockholders) is convened in order to approve the annual statement of the capital company by 30 April (including) of the respective year, but if the capital company, in accordance with the criteria of the Law on the Annual Statements and Consolidated Statements, is a medium-sized or large capital company, or the capital company is the parent capital company of a group of companies which prepares a consolidated annual statement – by 31 May (including) of the respective year, unless it is otherwise provided for in international agreements.

[*16 June 2016*]

**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 entity 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 entity and a public private capital company shall be transferred into the budget of the respective public entity.

**Section 56. Distribution of Profit of a Capital Company of a Public Entity**

(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 entity 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 entity shall determine the principles for the 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 Management of a Capital Company**

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

(1) A capital company of a public entity 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 entity;

2) the non-financial objectives brought forward by the sectoral ministry or a body of a derived public entity (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 supervisory board of the capital company or the meeting of shareholders (stockholders) (if the supervisory board has not been established) shall approve the medium-term operational strategy drawn up by the capital company.

(3) The coordinating authority 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 entity and a public private capital company.

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

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

2) information on 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) forecast profit and loss calculation, balance sheet and cash flow statement;

9) risk analysis.

[*15 March 2018*]

**Section 58. Publishing Information on a Capital Company**

(1) A capital company of a public entity and a public private capital company shall publish general strategic objectives of the capital company, information on 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 statement) 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) for at least the last five years;

b) the contributions made into the State or local government budget (including dividends, deductions, tax payments) for at least the last five years;

c) information on the funding received from the State or local government budget and its use (if applicable) for at least the last five years;

d) [13 June 2019],

e) [13 June 2019];

2) the reports developed by the capital company for at least the last five years:

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

b) an annual statement not checked by a sworn auditor (within five months after the end of the reporting year);

3) constantly, with necessary updates:

a) information on the property structure (including participation in other companies);

b) information on the organisational structure;

c) information on the sum of each donation (gift) received and performed and the recipients for at least the last five years;

d) information on procurements for at least the last five years;

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

f) the articles of association;

g) the by-laws of the executive board, supervisory board (if such has been established) or another equivalent document regulating the operation thereof;

h) information on the members of the supervisory board (if such has been established) and the executive board (for each separately): professional work experience, education, positions in other capital companies, terms of office, and also the conformity of the member of the supervisory board with the criteria for an independent member of the supervisory board laid down in this Law;

i) information regarding all notified meetings of shareholders (stockholders) of the capital company, including on the agenda and decisions;

j) the remuneration policy principles and information on the remuneration of each member of the executive board and the supervisory board;

k) the strategy of donating (giving gift) and the procedures for donating (giving gifts) of a capital company.

(11) A capital company of a public entity and a public private capital company (joint-stock company or limited liability company which conforms to the requirements of Section 78, Paragraph two of this Law) shall additionally publish the following information on the website thereof:

1) at least once in a year:

a) the information on the foreseeable risk factors;

b) the information on the main elements of the internal control and risk management system which are applied to the preparation of financial statements;

c) the composition and description of activities of administrative bodies, and also the committees thereof;

d) if a capital company implements the policy in respect of the variety of the composition of members of administrative bodies of the capital company (multilateral policy) – a description of the objectives of such policy, the implementation measures, and the results in a reporting year;

e) the information on the committees of the supervisory board (if such has been established) and the audit committee (if such has been established), including the by-laws, and also the information on the members of the committee (professional work experience, education, positions in other capital companies, terms of offices);

f) a notification of corporate governance;

2) constantly, with necessary updates:

a) information on the transactions which are atypical or transactions of significant amount with related parties within the meaning of Section 59.1of the Financial Instrument Market Law for at least the last five years;

b) the most significant policies of the capital company in which the principles of activities of the capital company in respect of risk management, prevention of the conflicts of interest, corruption combating, corporate governance, and other issues are defined.

(12) A capital company of a public entity and a public private capital company shall additionally publish on its website also non-financial statements or consolidated non-financial statements for the last five years if two years in succession its average number of employees has exceeded 250 and it conforms to one of the following criteria:

1) the sum total of the balance exceeds 20 million euros;

2) the net turnover exceeds eight million euros.

(2) If there are impartial reasons due to which the capital company cannot publish the information referred to in Paragraphs one and 1.1 of this Section to which the status of a commercial secret has been assigned 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 entity and a public private capital company shall ensure that its subsidiary 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 statements, and they shall include:

1) an interim financial statement 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 balance of interim statement with the balance at the end of the previous reporting period (a balance sheet) or in the respective period of the previous reporting year (a profit or loss statement, cash flow statement, report on changes of the equity capital), as well as sufficient information and explanations, so that the user of the interim financial statement could obtain a reliable and clear overview of any significant changes in the items of the balance sheet and profit or loss statement items and the development trend of the capital company;

2) an interim management report that provides information on significant events in the time period from the beginning of the financial year to the reporting date and on 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. A capital company of a public entity and a public private capital company (joint-stock company or limited liability company which conforms to the requirements of Section 78, Paragraph two of this Law) shall also include the information referred to in Paragraph one, Clause 1, Sub-clauses “a”, “b”, and “c” of this Section, and also the information on the remuneration disbursed to the members of the executive board and the supervisory board in the interim management report;

3) a statement of the liability of the management which is prepared in addition to the statutory requirements for the preparation of annual statements. 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 statements are prepared in accordance with the requirements of the applicable laws and regulations and provide a reliable and clear overview of assets, financial position and profit or loss of the capital company and the consolidated group, and that the interim management report includes true information.

[*18 June 2015; 15 March 2018; 13 June 2019; 11 November 2021*]

**Section 58.1 Notification of Corporate Governance**

(1) A capital company of a public entity and a public private capital company (joint-stock company or limited liability company which conforms to the requirements of Section 78, Paragraph two of this Law) shall prepare a notification of corporate governance. The Cabinet shall determine the applicable corporate governance recommendations.

(2) A notification of corporate governance shall include the following information:

1) a reference to the corporate governance recommendations which the capital company applies;

2) the information on whether and how the capital company applies certain principles included in the corporate governance recommendations;

3) if the capital company does not apply certain principles included in the corporate governance recommendations – the information on which principles are not applied and the justification for such action by explaining clearly, correctly, and extensively enough:

a) the reasons for non-application of each particular principle and the possible consequences thereof, and also the manner for taking the decision to not apply such principle;

b) when it is planned to commence the application of the particular principle if the decision referred to in Sub-clause “a” of this Clause applies to a limited period of time;

c) how the measure which is taken instead of application of the particular principle (if any) meets the objective of such principle or corporate governance recommendations (in which such principle is included) or promotes good corporate governance in the capital company.

(3) A capital company shall include the notification of corporate governance in the management report or prepare as a separate part of the annual statement.

(4) If a capital company prepares the annual statement and consolidated annual statement, it shall prepare one notification of corporate governance and include it in one of these statements in accordance with the requirements of Paragraph three of this Section.

(5) If transferable securities of the capital company referred to in Paragraph one of this Section are admitted on a regulated market, it shall prepare the notification of corporate governance in accordance with the provisions of the Financial Instrument Market Law.

[*11 November 2021 /* *See Paragraph 32 of Transitional Provisions*]

**Section 58.2 Non-financial Statement**

(1) The capital company referred to in Section 58, Paragraph 1.2 of this Law shall prepare a non-financial statement which is included in the management report or prepare it as a separate part of the annual statement.

(2) At least the following information shall be included in the non-financial statement:

1) the information on the development, performance results and financial standing of the capital company, and also on the impact of its commercial activity on the environment, social and employee-related aspects, compliance with human rights, and anti-corruption and bribery prevention measures (hereinafter – the corporate social responsibility fields);

2) description of the implementation of the policies of the capital company in respect of the corporate social responsibility fields, including description of the procedures which are introduced in the capital company in order to ensure due attention to the implementation process of such policies;

3) the information on the main risks related to the corporate social responsibility fields which are characteristic to transactions of a capital company, and if it is significant and commensurate, also the information on the risks which are arising from the legal transactions entered into within the scope of the commercial activity of the capital company or are related to the goods produced or services provided by it and which may cause adverse effects in the corporate social responsibility fields, and also on that how the capital company manages such risks;

4) the main non-financial indicators of the corporate social responsibility fields which are characteristic to the particular capital company and sector in which it operates.

(3) References to the amounts indicated in the financial statement and additional explanations regarding them shall also be included in the non-financial statement if the amount indicated in the financial statement is related to any of the corporate social responsibility fields of a capital company.

(4) In order to provide the information on the corporate social responsibility fields, a capital company may use the guidelines or recommendation included in the legal acts of the Republic of Latvia or the European Union or in the documents issued by the United Nations, the Organisation for Economic Cooperation and Development, the International Labour Organisation, the International Organisation for Standardisation, or other international organisation (hereinafter – the guidelines or recommendations included in the documents issued by Latvia, the European Union, or other international organisations). The guidelines or recommendations included in the documents issued by Latvia, the European Union, or other international organisations which are used by the capital company shall be indicated in the management report.

(5) If a capital company does not implement the policy in respect of one or several corporate social responsibility fields, a clear and substantiated justification why it is not done shall be provided in the non-financial notification.

(6) A capital company shall be exempted from the obligation to include a non-financial statement in the management report if it prepares a non-financial statement as a separate document in which information is provided in accordance with the requirements laid down in this Section in respect of the non-financial statement, and it shall be published together with the management report as a part of the annual statement.

(7) If a capital company has included a non-financial statement in the management report or has prepared it as a separate document referred to in Paragraph six of this Section, it shall be exempted from the obligation specified in the laws and regulations governing the preparation of annual statements in respect of the provision of certain non-financial indicators and the analysis thereof in the management report.

(8) If the capital company referred to in Section 58, Paragraph 1.2 of this Law the transferable securities of which are admitted on a regulated market meets the criteria laid down in respect of the obligation to prepare a non-financial statement, it shall prepare the non-financial statement in accordance with the provisions of the Financial Instrument Market Law.

[*11 November 2021 /* *See Paragraph 32 of Transitional Provisions*]

**Section 58.3 Consolidated Non-financial Statement**

(1) The capital company referred to in Section 58, Paragraph 1.2 of this Law which is the parent capital company of a group of companies which prepares a consolidated annual statement has the obligation to include a consolidated non-financial statement in the consolidated management report.

(2) Insofar as it is necessary in order to obtain understanding about the development, performance results, and financial standing of the group of companies referred to in Paragraph one of this Section, and also the impact of its commercial activity on the corporate social responsibility fields, the information on this group of companies in general shall be provided in the consolidated non-financial statement by applying the provisions of Section 58.2, Paragraphs two and four of this Law accordingly.

(3) If the group of companies referred to in Paragraph one of this Section does not implement the policy in respect of one or several corporate social responsibility fields, clear and substantiated justification why it is not done shall be provided in the consolidated non-financial statement.

(4) References to the amounts indicated in the consolidated financial statement and additional explanations regarding them shall also be included in the consolidated non-financial statement if the amount indicated in the consolidated financial statement refers to any of the corporate social responsibility fields of a group of companies.

(5) The parent company of a group of companies referred to in Paragraph one of this Section shall not include the consolidated non-financial statement in the consolidated management report if it prepares such statement as a separate document in which information is provided in accordance with the requirements laid down in Paragraphs two, three, and four of this Section in respect of the consolidated non-financial statement, and it shall be published together with the management report as a part of the consolidated annual statement.

(6) If the parent company of the group of companies referred to in Paragraph one of this Section has included the consolidated non-financial statement in the consolidated management report or has prepared it as a separate document referred to in Paragraph five of this Section, it shall be exempted from the obligation specified in the laws and regulations governing the preparation of annual statements and consolidated annual statements in respect of the provision of certain non-financial indicators and the analysis thereof in the management report and the consolidated management report.

(7) In respect of the consolidated non-financial statement, that laid down in Section 58.2, Paragraph eight of this Law shall be applied.

[*11 November 2021 /* *See Paragraph 32 of Transitional Provisions*]

**Division D**

**Limited Liability Company of a Public Entity**

**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 entity (hereinafter in this Division – the 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 – the shares) shall be determined in the articles of association. The nominal value of the share may not be less than one cent. All shares of one category shall have the same nominal value.

(3) The register of shareholders of the company shall be kept in accordance with the provisions of the Commercial Law.

(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 owned by the public entity in the company.

[*6 May 2021*]

**Section 59.1 Categories of Shares**

(1) The company is entitled to issue shares of other category according to the relevant decision of the highest decision-making body of a public entity in order to use them as the re-capitalisation instrument of the company.

(2) If the company has several categories of shares, then the rights arising from the shares, including the right to receive dividends, the right to receive the liquidation quota, and the right to voting rights in the meeting of shareholders, or other rights, and the number and nominal value of the shares of each category shall be corroborated in the articles of association of the company.

(3) The shares in which equal amount of rights has been corroborated shall be shares of one category. If the company has several categories of shares, a different designation shall be assigned to each of them.

(4) If the company has several categories of shares, the decision to amend the articles of association which provide for amending, restricting, or cancelling the rights determined for the relevant category of shares shall be taken if all the holders of the relevant category of shares agree to it, unless it is otherwise provided for in the articles of association.

[*6 May 2021*]

**Section 60. Pledging of Shares**

Shares of the company may not be pledged.

**Section 61. Acquisition of Own Shares**

The company may not acquire own shares, except when the company reduces the equity capital by withdrawing the shares.

**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 the company may be increased:

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

2) after the annual statement or report on economic activity for a time period of 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 Law on Annual Statements and Consolidated Annual Statements.

(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 specified 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 entity need not submit to the company an application for obtaining 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 for increasing the equity capital after payment for shares has been made and new shares have been recorded into the register of shareholders.

[*16 June 2016*]

**Section 64. Type of Reduction of Equity Capital**

The equity capital of the company shall be reduced by withdrawing shares.

**Chapter XV**

**Management of the Company**

**Section 65. Administrative Bodies of the Company**

(1) The management of the 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 statement of the company;

2) to distribute the profit;

3) to elect and revoke members and chairperson of the executive board, except when a supervisory board has been established in the company;

4) to elect and revoke members of the supervisory board (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 withdraw the claim against them, as well as to appoint a representative of the company to represent 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 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 when a supervisory board has been 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 the deciding of which the executive board requires a prior consent of the meeting of shareholders (Section 82 of this Law).

(3) The meeting of shareholders shall perform the tasks of the supervisory board if such has not been established in the company.

[*13 June 2019*]

**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 entity shall be taken by the highest decision-making body of the public entity.

**Section 68. Convening 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 in cases provided for in this Law.

**Section 69. Convening a Regular Meeting of Shareholders**

(1) The executive board shall convene a regular meeting of shareholders within a time period which provides a possibility for approving the annual statement by the time limit 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 the decision of the supervisory board or the meeting of shareholders to revoke the executive board on the basis of non-fulfilment of the duties.

(3) If the supervisory board (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 supervisory board had to convene the meeting of shareholders.

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

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

**Section 70. Convening 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 the issue to be examined must be decided urgently, an extraordinary meeting of shareholders shall be convened within a time period which provides a possibility for timely receipt of a notification on convening a meeting of shareholders, 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 the 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 a justified reason, the meeting of shareholders may revoke it by itself or to propose the supervisory board (if such has been established) revocation of the members of the executive board on the basis of non-fulfilment of the duties.

(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 a 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 established 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 a Meeting of Shareholders if a Company is Being Liquidated**

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

(2) The liquidator shall convene the regular meeting of shareholders within a time period which provides a possibility for approving the annual statement by the time limit 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 the issue to be examined must be decided 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 a justified reason, the meeting of shareholders may revoke the liquidator.

(8) If there is a dispute regarding whether the actions of a liquidator have 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 for the meeting of shareholders, the type of the meeting, the body 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 supervisory board 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 on such issues which are indicated in the notification specified 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 on the following issues (also if they have not been indicated in the notification specified 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 executive and supervisory boards, 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 executive and supervisory boards, as well as the liquidator have an obligations to participate in the meeting of shareholders. The auditor has an obligation to participate in the meeting of shareholders when the issue of approval of an annual statement 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 or the liquidator.

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

**Section 78. Supervisory Board**

(1) The provisions of Sections 106, 107, 108, 109, 110, 111, and 112 of this Law shall be applied in relation to the operation and competence of the supervisory board, unless otherwise provided by this Chapter.

(2) A supervisory board shall be established in a company if the indicators of the company in the previous reporting year meet all of the following criteria:

1) the net turnover exceeds 21 million euros;

2) the sum total of the balance exceeds four million euros.

(3) A supervisory board may be established in a company if the indicators of the company in the previous reporting year meet all of the following criteria:

1) the net turnover exceeds eight million euros;

2) the sum total of the balance exceeds four million euros.

(4) If a supervisory board has been established in a limited liability company and any of the conditions of Paragraph three of this Section is not met for two consecutive reporting years, the supervisory board shall be liquidated.

(5) The number of members of the supervisory board shall be at least three, but not more than seven. The Cabinet shall determine the number of members of the supervisory board according to the criteria characterising the size of the company.

[*13 June 2019*]

**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 management 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 field 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 for the 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 duties, as well as harm caused to the interests of the company. A revocation benefit may not be provided for if a member of the executive board has been 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 statement. 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.

(9) The contract referred to in Paragraph five of this Section may, for a member of the executive board, provide for civil legal liability insurance, life insurance without accumulation of funds, accident insurance, health insurance for which the amount of premium which is covered from the means of a capital company does not exceed the amount specified in the laws and regulations regarding personal income tax, and also insurance related to sending on official travel. Before provision of insurance in the contract, its financial justification and usefulness shall be assessed.

[*18 June 2015; 11 November 2021 /* *See Paragraph 34 of Transitional Provisions*]

**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 duties, inability to manage the company, causing of harm to the interests of the company, as well as the decision of the meeting of shareholders on the loss of trust.

**Section 82. Taking Decisions of the Executive Board**

(1) The executive board shall take decisions on all issues related to the operation of the company, except for the 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 entity to obtain or terminate participation, as well as to obtain or terminate decisive influence in another company.

(3) The executive board shall need a prior consent of the meeting of shareholders to decide 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 executive 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 supervisory board;

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 the general principles for commercial activity.

(5) The executive board of a State capital company shall need a prior consent of the supervisory board to conclude 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 decide 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 supervisory board, the meeting of shareholders shall decide 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**

**Joint-Stock Company of a Public Entity**

**Chapter XVI**

**Capitals and Securities of a Joint-Stock Company**

**Section 84. Equity Capital of a Joint-Stock Company**

The equity capital defined in the articles of association when founding a joint-stock company of a public entity (hereinafter in this Division – the 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 the company shall be stocks of one category, except for:

1) the cases when the company issues employee stocks in accordance with the provisions of Section 87 of this Law;

2) the cases when the company, according to a relevant decision of the highest decision-making body of a public entity, issues stocks of other category in order to use them as the re-capitalisation instrument of the company.

(2) All stocks of the company shall be registered stocks, except when the highest decision-making body of the relevant public entity takes the decision to alienate stocks by listing them on a stock exchange.

(3) All stocks of the company shall be dematerialised stocks.

(4) The nominal value of each stock of the company may not be less than 10 cents, and it can be divided by the smallest nominal value of the stock of the company and 10 cents without a remainder.

(5) If a company has stocks of different categories, all the categories of stocks (indicating the rights arising from each category of stocks) and the number and nominal value of each category shall be indicated in the articles of association of the company.

[*6 May 2021*]

**Section 86. Register of Stockholders**

(1) The register of stockholders of the company shall be kept in accordance with the provisions of the Commercial Law.

(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 on the stocks belonging to the public entity in the company.

[*6 May 2021*]

**Section 87. Employee Stocks**

(1) The highest decision-making body of a public entity 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 expires 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 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 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 the decision of a meeting of stockholders which governs provisions for increasing or reducing the equity capital.

(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 statement 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 entity – 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 entity 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 for increase in the equity capital after payment for stocks is made and the new stocks are recorded in the register of stockholders.

**Section 92. Increasing 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 otherwise provided by 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 entity 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 entity, 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 Joint-Stock Company**

**Section 93. Administrative Bodies of a Joint-Stock Company**

(1) The management 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 statement 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 supervisory board (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 the 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 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 a liquidator;

12) to approve the medium-term operational strategy, except when a supervisory board 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 the 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 entity shall be taken by the highest decision-making body of the public entity.

**Section 96. Convening 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 in the cases provided for in this Law.

**Section 97. Convening a Regular Meeting of Stockholders**

(1) The executive board shall convene a regular meeting of stockholders within a time period which provides a possibility for approving the annual statement by the time limit 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 the decision of the supervisory board or meeting of stockholders to revoke the executive board on the basis of non-fulfilment of the duties.

(3) If the supervisory board (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 the decision to convene the meeting of stockholders within not more than five days from the day when the supervisory board had to convene the meeting of stockholders.

(4) If the supervisory board (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 supervisory board may be the basis for the decision of the meeting of stockholders to revoke members of the supervisory board on the basis of non-fulfilment of the duties.

(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 provides a possibility for timely receipt of a notification on convening a meeting of stockholders, 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 duties.

(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 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 the 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 within a time period which provides a possibility for approving the annual statement by the time limit provided for in the law.

(3) An extraordinary meeting of stockholders shall be convened by a liquidator upon its initiative or if so 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 the 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 provided time period, 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 on 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 body 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 the procedures referred to in 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 supervisory board (if a supervisory board 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 in 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 and supervisory boards, as well as the liquidator have an obligation to participate in the meeting of stockholders. The auditor has an obligation to participate in the meeting of stakeholders when the issue of approval of the annual statement 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 or 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 Supervisory Board, Number of Members of the Supervisory Board**

(1) In a company, if it is a joint-stock company, a supervisory board shall be established.

(2) The number of members of the supervisory board shall be at least three, but not more than seven. The Cabinet shall determine the number of members of the supervisory board according to the criteria characterising the size of the company.

[*13 June 2019*]

**Section 107. Tasks of the Supervisory Board**

(1) The supervisory board is the supervisory body of the company representing the interests of stockholders between meetings and supervising activities of the executive board.

(2) The supervisory board shall have the following tasks:

1) to elect and revoke the chairperson of the executive board and the members of the executive board;

2) to determine the remuneration for members of the executive board;

3) to approve the medium-term operation strategy and to supervise the implementation thereof;

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 statement 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;

10) to approve the annual budget and to supervise its execution;

11) to supervise the operation of the internal control and risk management systems, to review their conformity and efficiency;

12) to approve the most significant policies in which the principles of activities of the company in respect of risk management, prevention of the conflicts of interest, corruption combating, corporate management, and other issues are defined;

13) to carry out the annual self-assessment of the work of the supervisory board.

(3) It may be determined in the articles of association that the executive board must receive an approval of the supervisory board to decide 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 decide on the respective issue.

[*15 March 2018; 13 June 2019*]

**Section 108. Requirements for a Candidate of a Member of the Supervisory Board**

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

**Section 109. Election and Revocation of a Member of the Supervisor Board**

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

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

(3) The right to combine the position of a member of the supervisory board 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 supervisory board 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.

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

[*15 March 2018*]

**Section 110. Convening Meetings of Supervisory Board**

(1) A meeting of the supervisory board shall be convened by the chairperson of the supervisory board, during his or her absence or upon his or her assignment – by the vice-chairperson of the supervisory board. Each member of the supervisory board, the executive board and the holder of shares (stocks) has 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 supervisory board includes the issues referred to in Section 107, Paragraph two of this Law, but the supervisory board has no right to decide as the necessary number of members of the supervisory board is not participating in the meeting, the non-examination of such issues in a meeting of the supervisory board shall not be an obstacle for their examined by the stockholder and the meeting of stockholders.

**Section 111. Taking Decisions of the Supervisory Board and Signing the Minutes of a Meeting of the Supervisory Board**

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

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

**Section 112. Remuneration for Members of the Supervisory Board**

Monthly remuneration for members of the supervisory board 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 supervisory board by taking into account the average remuneration for management in similarly sized (net turnover, total sum of balance, number of employees) companies in the private sector or – in individual cases – in the field in which the respective company is operating. The maximum amount of the monthly remuneration of a member of the supervisory 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. Bonuses are not disbursed to the members of the supervisory board.

[*13 June 2019*]

**Section 113. Right to Represent the Executive Board of a Joint-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 for the 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, and also 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 duties, inability to manage the company, causing harm to the interests of the company, as well as the decision of the meeting of stockholders or the supervisory board (if a supervisory board has been established in the company) on the 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 management 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 field 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 statement. 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 when 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 the 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 causing harm to the interests of the company. A revocation benefit may not be provided for if a member of the executive board has been 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.

(5) The contract referred to in Section 115, Paragraph two of this Law may, for a member of the executive board, provide for civil legal liability insurance, life insurance without accumulation of funds, accident insurance, health insurance for which the amount of premium which is covered from the means of a capital company does not exceed the amount specified in the laws and regulations regarding personal income tax, and also insurance related to sending on official travel. Before provision of insurance in the contract, its financial justification and usefulness shall be assessed.

[*18 June 2015; 11 November 2021 /* *See Paragraph 34 of Transitional Provisions*]

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

(1) The executive board shall take decisions on all issues related to the operation of the company, except for the issues which, in accordance with this Law and articles of association of the company, are decided 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 entity to obtain or terminate participation, as well as to obtain or terminate decisive influence in another company.

(3) The executive board shall need a prior consent of the meeting of stockholders to decide 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 to decide on the following issues:

1) opening or closing of branches and representative offices;

2) concluding such transactions which exceed the sum stipulated in the articles of association or decisions of the supervisory board;

3) issuing of such loans which are not associated with the regular commercial activities of the company;

4) issuing of credits to employees of the company;

5) determining the general principles for commercial activities.

(6) The executive board of a State joint-stock 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 the 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 which shall decide on the respective issue.

(9) If a supervisory board is not established in the company, the meeting of stockholders shall decide 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 Join-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 issues on the agenda;

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 the Termination of Operation of a Capital Company**

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

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

1) under a decision of a shareholder (stockholder);

2) under a court ruling;

3) under the decision on the cessation 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 entity shall terminate its operation in accordance with the Insolvency Law.

**Section 121. Appointing a Liquidator**

(1) Members of the executive board shall perform liquidation of the capital company if the body which took the decision to terminate the operation of the capital company has not stipulated otherwise in the decision.

(2) If the decision of the highest decision-making body of a public entity person to terminate the operation of the capital company of a public entity stipulates 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 its disbursement shall be determined by the body which appoints the liquidator.

(4) If liquidation is performed by members of the executive board, the remuneration for a liquidator and the procedures for its disbursement 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 entity shall be conformed to in determining remuneration for liquidators.

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

A capital company shall submit the decision to 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 on the liquidator shall be indicated in the application and the following shall be appended accordingly:

1) the decision of the respective authority 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 secure electronic signature, or the signature on the consent shall be notarized 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 authority which took the decision to appoint a liquidator.

(2) A liquidator appointed by a court may be removed only by a court ruling on the basis of an application of the holder of capital shares or a third party, if there is good cause therefore, 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 Statement 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 joint-stock companies of a public entity.

**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 statement 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 this decision does not provide otherwise.

(3) The costs which in case of liquidation are due to the shareholder (stockholder) are transferred into the budget of the respective public entity.

(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 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 for the termination of operation or the decision of the highest decision-making body of a public entity, the highest decision-making body of the respective public entity may take the 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 Entity**

**Chapter XXI**

**General Provisions for Reorganisation**

**Section 127. Merging of Capital Companies**

(1) The highest decision-making body of a public entity shall take the decision to commence merging of capital companies of a public entity.

(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 entities, if any of the companies involved in the merging process is a capital company belonging to another public entity, 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 entity shall take the decision to commence division of the capital company of a public entity.

(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 entity.

(4) The procedures for dividing a capital company of a public entity if the acquiring company is a capital company already belonging to another public entity, 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 the decision to restructure the respective capital company of a public entity into a different type of capital company of a public entity.

(2) A capital company of a public entity 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 entity may provide conditions for reorganisation when taking the 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 entity shall comply with the conditions provided for in the decision of the highest decision-making body of the public entity (Section 130 of this Law). The draft reorganisation agreement shall be agreed upon 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 entity participates in the process of dividing the capital company of a public entity, 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 entity 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 opinion.

(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 opinion shall be appended to the application to be submitted to the Commercial Register Office for reorganisation.

**Section 133. Reorganisation Prospectus**

Capital companies of a public entity 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**

When 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 the decision to reorganise a capital company of a public entity.

(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 the 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 entity to a 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 statement 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 supervisory board 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 supervisory board 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 Entity**

**Section 138. Decision to Sell Capital Shares**

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

(2) The holder of State capital shares or the authority 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 – the alienation authority), shall submit a proposal for the sale 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 authority.

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

(3) The 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 entity (hereinafter – initial value) shall be determined as follows:

1) if capital shares the value of which was determined using the equity method (according to the last audited annual statement) 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 publicly traded capital shares are sold, the highest decision-making body of the public entity shall, in taking the decision provided for in Section 9, Paragraph one of this Law, 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 Entity, 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 the sale of capital shares if such are provided for in accordance with the procedures laid down in Section 142 of this Law;

4) information on shareholders (stockholders), 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 on sales regulations on its website, as well as post a notification in the official gazette *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 entity shall inform employees of 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 entity 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 entity, 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 the Sale of Capital Shares**

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

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

(3) When selling capital shares of a public entity 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 the 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 Entity**

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

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

**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 capital shares arisen as a result of capitalisation of tax payment debts shall be sold in accordance with the provisions of Chapter XXIII of this Law.

(2) Funds obtained as a result of selling the capital shares owned by the State or local government shall be transferred accordingly into the State budget or local government budget.

[*16 June 2016*]

**Chapter XXV**

**Investment of Capital Shares of a Public Entity**

**Section 146. Decision to Invest Capital Shares**

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

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

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

**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 a Capital Company of a Public Entity into a Public Private Capital Company or Private Capital Company**

**Chapter XXVI**

**General Provisions for Turning 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 entity 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 entity to other public entity without consideration (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 the acquisition of specific property, paying for the capital shares by a financial investment (hereinafter in this Division – acquisition of property);

3) for the attracting of capital, paying for the capital shares in cash (hereinafter in this Division – attracting of capital).

[*15 March 2018*]

**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 for tax debts) in a State capital company.

(2) The highest decision-making body of a derived public entity shall take the decision on capitalisation of specific debts (except for tax debts) in a capital company of a derived public entity.

(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 entity shall take the decision to acquire property in the ownership of a capital company of a derived public entity.

(5) On the basis of a proposal of the holder of capital shares, the Cabinet shall issue an order to attract capital to a State capital company.

(6) The highest decision-making body of a derived public entity shall take the decision to attract capital to a capital company of a derived public entity.

[*15 March 2018*]

**Section 152. Conditions for Increasing the Equity Capital**

(1) The equity capital shall be increased 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 entity 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 or public 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 or public 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 or public 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 or public private capital company, re-elect or elect (if such was not established) the supervisory body and perform other actions provided for in this Law. The articles of association of the private capital company or public 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 entity referred to in Section 151 of this Law.

[*15 March 2018*]

**Chapter XXVIII**

**Reorganisation of a Capital Company of a Public Entity into Private Capital Company**

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

(1) Only limited liability companies and joint-stock companies may be involved in reorganisation proceedings.

(2) The company acquiring in the process of merging is a capital company of a public entity 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 entity 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 entity 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 entity 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 entity shall take the decision to reorganise a capital company of a derived public entity, 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 entity shall take the decision to reorganise a capital company of a derived public entity, 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 the 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 entity shall take the decision to reorganise a capital company of a derived public entity, 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 entity shall take the decision to commence reorganisation of a capital company of such public entity, determining with which capital company a capital company of the derived public entity may be merged as a result of its division.

**Section 157. Conditions for Reorganisation of a Capital Company of a Public Entity**

The highest decision-making body of a public entity is entitled to determine the conditions for reorganization. If reorganisation of a capital company of a public entity results in the creation of a private capital company in which capital shares belong to several derived public entities or the State and one derived public entity or several public entities, the public entities 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 Entity**

(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 entity is being reorganised as a result of merging or consolidation or by merging it with the capital company as a result of division, the representatives of the holder of capital shares of a public entity in the executive board and supervisory board (if such has been established) of the private capital company shall be additionally indicated in the reorganisation agreement.

(2) Draft amendments to the articles of association of a private capital company and complete text of the new wording of articles of association 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 entity 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 the decision of the meeting of shareholders (stockholders) of the capital company of a public entity to reorganise before a court.

(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 body and the executive body 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. Those shareholders (stockholders) who voted against approval of the articles of association shall be indicated in the minutes of a meeting of shareholders (stockholders).

(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 on reorganisation, a capital company shall also 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 entity.

**Chapter XXIX**

**Transfer of Capital Shares Owed by a Public Entity to Another Public Entity without Consideration**

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

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

(2) The State capital shares may be transferred in the ownership of a derived public entity if the respective derived public entity has made such a request and the highest decision-making body of the derived public entity has taken the 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 the obtaining or termination of participation or the obtaining or termination of decisive influence shall not apply to the transfer of State capital shares in the ownership of a derived public entity.

**Section 160. Transfer of Capital Shares of a Derived Public Entity to State or Another Derived Public Entity without Consideration**

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

(2) Capital shares of a derived public entity may be transferred in the ownership of the State if the Cabinet has made such a request and taken the respective decision.

(3) A derived public entity may transfer capital shares in the ownership of another derived public entity if the respective derived public entity has made such a request and taken the 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 the obtaining or termination of participation or the obtaining or termination of decisive influence shall not apply to the transfer of capital shares of a derived public entity in the ownership of the State or other derived public entity.

**Division J**

**Chapter XXX**

**Commencing the Restructuring of a Capital Company of a Public Entity into an Institution (Public Agency)**

**Section 161. Main Conditions for the Restructuring of a Capital Company**

(1) A capital company of a public entity which issues administrative acts or administers the State fee and the income of which is formed by grant (subsidy) or provision of a service when performing the State administration tasks delegated thereto shall be restructured into an institution or public agency, unless the highest decision-making body of the public entity has decided otherwise in accordance with Section 162, Paragraph two of this Law.

(2) A capital company shall be restructured into an institution, unless otherwise determined in the decision of the highest decision-making body of a public entity to restructure and the capital company to be restructured meets 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 entity may take the decision to commence restructuring of a capital company of the public entity into an institution (public agency).

(2) When taking the decision referred to in Paragraph one of this Section, the highest decision-making body of a public entity may request an opinion of an auditor on the risks of restructuring and also to assess all financial and legal risks that may arise upon the capital company being restructured into an institution or public agency.

(3) A proposal to take 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 a local government council – by the representative of the holder of the capital shares of local government. 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 periods in which the capital company would be restructured into an institution (public agency);

4) other significant information related to the restructuring of the capital company.

(4) The following shall be determined in the decision of the highest decision-making body of a public entity 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 entity and the official under the subordination of which it has bee transferred.

(5) The decision to commence restructuring of a capital company shall be published in the official gazette *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 entity 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 entity 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 Entity into an Institution (Public Agency)**

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

(1) After gathering information on creditors in accordance with the procedures laid down in Section 162 of this Law, the highest decision-making body of a public entity shall take the decision to restructure a capital company of the public entity 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 entity and an official under subordination of which the institution has been transferred;

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

4) the deadline by which the executive board shall submit an application for the 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) A merchant shall be deleted from the Commercial Register on the basis of the decision of the highest decision-making body of a public entity 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 the public entity in accordance with Paragraph one, Clause 5 of this Section.

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

(4) When restructuring a capital company of a public entity into an institution or public agency, the whole property of the capital company shall be transferred to the established institution (public agency), unless the decision on restructuring provides otherwise. The established institution (public agency) shall be the legal successor to the rights and obligations of the restructured capital company of a public entity.

(5) An 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 executive and supervisory boards of the capital company.

(7) After deletion of the capital company from the Commercial Register, members of executive and supervisory boards shall retain the liability for the losses caused by public entities 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 an institution (public agency) shall, within two months after beginning of operation of the institution (agency), notify in writing the respective employee (official) of 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 a 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) of changes in the status of the position and warn him or her of the 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 take 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 meets 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 shall:

1) by 1 March 2015, determine the State administration institution which shall perform the tasks of the coordinating authority (Section 22, Paragraph one of this Law);

2) by 1 October 2015, issue the regulations:

a) determining the procedures by which candidates shall be nominated for positions of members of the executive and supervisory boards in capital companies in which the State as the shareholder (stakeholder) has the right to nominate members of the executive 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);

b) determining the procedures by which the conditions of Section 27 of this Law shall be fulfilled (Section 27, Paragraph seven of this Law);

c) determining the procedures by which the conditions of Section 28 of this Law shall be fulfilled (Section 28, Paragraph six of this Law);

d) approving the standard articles of association of a capital company of a public entity (Section 46, Paragraph two of this Law);

e) determining the indicators which characterise the size of the company necessary for the determination of the number of members of the executive and supervisory boards of a capital company (Section 79, Paragraph one, Section 106, Paragraph three, Section 114, Paragraph one of this Law);

f) [16 June 2016];

g) determining the amount of deductions to be received by a State capital company as the alienation authority from the revenues 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 supervisory board of the coordinating authority referred to in Section 24, Paragraph three of this Law.

[*18 June 2015; 16 June 2016*]

3. The Cabinet shall, by 1 January 2016, issue the 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 management 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 field 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 these Transitional Provisions, the meeting of shareholders (stockholders) of the capital company shall determine the monthly remuneration of members of the executive and supervisory boards, 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. The highest decision-making body of a derived public entity shall, by 1 December 2015, determine:

1) the procedures by which candidates shall be nominated for the positions of members of the executive and supervisory boards in a capital company in which the derived public entity as a shareholder (stockholder) has the right to nominate members of the executive or supervisory board, and members of the executive board in a capital company of a public entity 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 entity has decisive influence shall be determined (Section 35, Paragraph one of this Law).

[*18 June 2015*]

6. The coordinating authority shall, by 1 November 2015, 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 assessing the 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 the preparation of the annual public report on the capital companies and capital shares belonging to the State shall be provided to the coordinating authority (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 bodies may perform the tasks specified in the Law without guidelines drawn up by the coordinating authority.

8. A supervisory board may be established in a capital company of a public entity 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. The coordinating authority shall, by 1 December 2015, 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 revenues 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 taken into account.

11. The highest decision-making body of a public entity shall, by 1 October 2016, take the decision on its direct participation in capital companies in accordance with Section 7 of this Law.

[*16 June 2016*]

12. *Valsts akciju sabiedrība “Privatizācijas Aģentūra”* [State join-stock company Privatisation Agency] (hereinafter – the Agency) shall perform the functions of the authority alienating State capital shares provided for in this Law until the moment when the Cabinet takes a decision on the authority alienating State capital shares and the Agency has transferred the capital shares held thereby.

13. The State Social Insurance Agency shall, by 1 July 2015, transfer such State capital shares for holding to 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 under a Cabinet decision. The State Social Insurance Agency shall perform the tasks of the holder of State capital shares and the alienation authority provided for in this Law until the moment when the 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 entity shall ensure that by 1 January 2016:

1) the number of members of the executive and supervisory boards in capital companies of a public entity, as well as in public private capital companies in which the capital company of a public entity 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 entity 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 State or local government capital companies the firm name of which contained 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 entity shall ensure that group of companies contracts concluded by capital companies of a public entity are terminated by 1 March 2015.

17. The contracts concluded with members of the executive board until 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 entity 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 supervisory board of the coordinating authority shall commence the provision of opinions on 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 coordinating authority shall publish the information specified in Section 29, Paragraph one of this Law by 30 March 2016.

[*18 June 2015*]

22. The coordinating authority 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 coordinating authority shall, in accordance with Section 32 of this Law, provide opinions starting from 1 January 2016.

[*18 June 2015*]

24. In a limited liability company of a public entity established until 1 January 2020 in which a supervisory board has not been established, but which conforms to the requirements of Section 78, Paragraph two of this Law, the supervisory board shall be established not later than by 1 June 2020.

[*13 June 2019*]

25. In a joint-stock company of a public entity established until 1 January 2020 in which a supervisory board has not been established, the supervisory board shall be established in conformity with that specified in Section 106 of this Law not later than by 1 June 2020 or the joint-stock company shall be reorganised as a limited liability company by 1 December 2020.

[*13 June 2019*]

26. The coordinating authority shall, by 1 June 2020, develop and approve guidelines for the performance of annual self-assessment of the work of the supervisory board, the preparation of the reports referred to in Section 36, Clause 11 of this Law, and the assessment of the performance results of the members of the executive and supervisory boards.

[*13 June 2019*]

27. The coordinating authority shall apply the duty specified in Section 22, Paragraph two, Clauses 7.2 and 7.3of this Law starting from 1 March 2020.

[*13 June 2019*]

28. A derived public entity shall ensure the information referred to in Section 36, Clause 11 of this Law starting from 1 March 2020.

[*13 June 2019*]

29. Counting of the time period referred to in Section 58, Paragraph one, Clause 1, Sub-clauses “a”, “b”, and “c”, Clause 2, Clause 3, Sub-clauses “c” and “d”, and also Paragraph 1.1, Clause 2, Sub-clause “a” of this Law for the publication of information on at least previous five years shall be applied starting from 1 March 2020.

[*13 June 2019*]

30. The local governments which are joined within the scope of the administrative territorial reform and which are holders of capital shares in a capital company shall not fulfil the duty specified in Section 7 of this Law. Within the scope of the administrative territorial reform, newly-established municipality governments shall fulfil the duty specified in Section 7 of this Law until 1 June 2022.

[*10 December 2020*]

31. Amendments to this Law regarding the new wording of Paragraph four, Clause 2 of Section 31 and Paragraph four, Clause 2 of Section 37 shall come into force on 1 June 2021.

[*6 May 2021*]

32. A capital company of a public entity and a public private capital company (joint-stock company or limited liability company which conforms with the requirements of Section 78, Paragraph two of this Law) has the obligation to prepare the notification of corporate governance referred to in Section 58.1 of this Law starting from 2022 for the financial year 2021 (the reporting year which starts on 1 January 2021 or during the calendar year 2021).

[*11 November 2021*]

33. A capital company of a public entity and a public private capital company which, in accordance with the criteria of the Law on the Annual Statements and Consolidated Statements, is a large capital company and the number of employees of which is more than 250 has the obligation to prepare the non-financial statement referred to in Section 58.2 of this Law and the consolidated non-financial statement referred to in Section 58.3 of this Law starting from 2026 for the financial year 2025 (the reporting year which starts on 1 January 2025 or during the calendar year 2025), but a capital company of a public entity and a public private capital company which, in accordance with the criteria of the Law on the Annual Statements and Consolidated Statements, is a large capital company and the number of employees of which is more than 500 – starting from 2022 for the financial year 2021 (the reporting year which starts on 1 January 2021 or during the calendar year 2021).

[*11 November 2021*]

34. A holder of capital shares of a public entity shall ensure that a capital company of a public entity enters into insurance contracts which conform to that laid down in Section 79, Paragraph nine and Section 117, Paragraph five of this Law accordingly, and those insurance contracts which do not conform to the abovementioned requirements are terminated or amended not later than by 1 March 2022.

[*11 November 2021*]

The Law shall come into force on 1 January 2015.

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

President A. Bērziņš

Rīga 31 October 2014