

## The International Bar Association Company Director Checklist – Latvia

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Item	Number	Check	Item	Number	Check
<b>Before appointment</b>			Potential liability	16	<input type="checkbox"/>
Items to understand	1	<input type="checkbox"/>	Duration of duties	17	<input type="checkbox"/>
People to meet with	2	<input type="checkbox"/>	<b>Special circumstances</b>		
Documents to review	3	<input type="checkbox"/>	Bankruptcy	18	<input type="checkbox"/>
<b>Ongoing duties</b>			Takeover bids	19	<input type="checkbox"/>
Points for attention	4	<input type="checkbox"/>	Market abuse/insider dealing	20	<input type="checkbox"/>
Legal status of directors	5	<input type="checkbox"/>	<b>Defences</b>		
Parties to which duties are owed	6	<input type="checkbox"/>	Good corporate governance	21	<input type="checkbox"/>
Powers of directors	7	<input type="checkbox"/>	Minutes of board meetings	22	<input type="checkbox"/>
Duty of loyalty	8	<input type="checkbox"/>	Discharge and indemnification	23	<input type="checkbox"/>
Duty of care	9	<input type="checkbox"/>	Insurance	24	<input type="checkbox"/>
Duty to have and maintain skills	10	<input type="checkbox"/>	Resignation	25	<input type="checkbox"/>
Additional duties (confidentiality, etc.)	11	<input type="checkbox"/>	Restructuring of assets	26	<input type="checkbox"/>
Delegation of powers/authority	12	<input type="checkbox"/>	ESG and D&I policies, metrics	27	<input type="checkbox"/>
Conflicts of interest (inc. intragroup dealings)	13	<input type="checkbox"/>			
Compliance with statutory obligations	14	<input type="checkbox"/>			
Disclosure obligations	15	<input type="checkbox"/>			

## **Introduction**

This checklist is intended to serve as a practical guide to the main duties and obligations of the directors of

- limited liability companies and
  - joint-stock companies
- arising from the laws of the Republic of Latvia, namely:
- Commercial Law;
  
  - Trade Secrets Law;
  
  - Financial Instrument Market Law;
  
  - Insolvency Law.

If any specifics of listed public companies are relevant, see the third column of this checklist below. Please note that we are not describing the applicable EU Directives and EU Regulations, although the majority of them have been implemented into or reflected in the Latvian law.

This checklist is prepared considering the specifics of the Latvian law, including the terminology of the Latvian law, for example, the management board of a company being the directors of the company (considering that Latvian law does not determine the position of director, but a position of management board member instead).

## **Disclaimer**

This checklist is informational only and is not intended to be comprehensive in all respects or to serve as a substitute for professional advice. In all cases, however, specific legal advice should be sought. This checklist was last updated on 28 February 2022.

DUTIES AND OBLIGATIONS OF THE DIRECTORS			
	Action/issue	Specifics of listed public companies (if relevant)	Comments/notes
<b>Before appointment</b>			
<b>1. Items to understand</b>	<ul style="list-style-type: none"> <li>• Precise nature and scope of the business activities of the company;</li> <li>• Skills the company needs or access to resources that the company lacks;</li> <li>• Current corporate structure (shareholders; supervisory board, if any (supervisory body); management board (executive body); directors (employees), accountants and other key employees; potential formal corporate group structure – concern);</li> <li>• Competence and liability;</li> <li>• Remuneration;</li> <li>• Agreements on the execution of your service (authorization or employment, or other);</li> <li>• Term in office (limited or unlimited);</li> <li>• Company’s corporate governance framework, if any;</li> <li>• Requirements and prerequisites for serving as a member of the management board.</li> </ul>	<ul style="list-style-type: none"> <li>• Relevant market regulator’s rules;</li> <li>• Documents published by the company.</li> </ul>	<ul style="list-style-type: none"> <li>• Is the industry sector/company’s business activity one that you are familiar with? Are you expected to be an industry expert?</li> <li>• Ascertain the requirements and prerequisites for serving as a member of the management board (non-existence of impediments to carrying out the duties, etc.).</li> <li>• Evaluate potential conflicts of interest (incl. potential need to engage in transactions with related parties) and measures to be taken to prevent them.</li> <li>• Ascertain if the company has registered its UBOs (or lack thereof) and if the company forms a formal corporate group.</li> <li>• Consider if the remuneration is proportionate to your responsibilities and the financial situation of the company. Note that any remuneration must be approved by the company’s general meeting, in case of a limited liability company, or the supervisory board, in case of a joint-stock company. The general meeting of a joint-stock company also approves the general principles, types, and criteria for determining the remuneration of the members of the management board and the supervisory board.</li> <li>• Ascertain confidentiality, non-compete, and non-solicitation restrictions.</li> <li>• Ascertain financial situation of the company (amount of the share capital against the equity capital).</li> <li>• Ascertain the liabilities of the company, such as due tax payments, loans,</li> </ul>

			<p>registered encumbrances, postponed liabilities as a part of the support for coping with the effects of the Covid-19 crisis, arising from legal proceedings, etc.</p> <ul style="list-style-type: none"> <li>• Ascertain that the company has all the accounting and records-keeping documents and prepare for taking over these documents.</li> </ul>
<b>2. People to meet with</b>	<ul style="list-style-type: none"> <li>• Members of the management board;</li> <li>• Member of the supervisory board, if any;</li> <li>• Shareholders, if possible;</li> <li>• Key employees;</li> <li>• Accountant;</li> <li>• Company's tax advisors (external and internal), if possible;</li> <li>• Company's lawyers (external and internal), if possible; and</li> <li>• Company's auditors (external and internal - audit committee), if any.</li> </ul>		<ul style="list-style-type: none"> <li>• Ascertain if there is any current litigation and the potential liability of the company.</li> <li>• Ascertain if there have been any queries from regulatory authorities and the circumstances giving rise to such queries, as well as whether the company must ensure compliance or other legal obligations; whether the company must pay penalties.</li> </ul>
<b>3. Documents to review</b>	<ul style="list-style-type: none"> <li>• Articles of association;</li> <li>• Management board meeting minutes for the past 3 (three) years;</li> <li>• Supervisory board meeting minutes for the past 3 (three) years, if any;</li> <li>• Shareholders meeting minutes for the past 3 (three) years;</li> <li>• Company's annual reports for the past 3 (three) years;</li> <li>• Company's dependency statements and annual reports on relations with related parties for the past 3 (three) years, if relevant;</li> <li>• Auditor's opinions on the annual reports, if relevant;</li> <li>• Records from public registers on any registered insolvency, reorganization, suspension, and resumption of operations, liquidation proceedings, VAT registration</li> </ul>	<ul style="list-style-type: none"> <li>• Rules of the relevant market regulator.</li> <li>• Annual reports and semi-annual reports.</li> <li>• Dependency statements or reports on material transactions with the related persons if relevant.</li> </ul>	<ul style="list-style-type: none"> <li>• Consider how often the management board meets, how are the meetings held, ascertain the issues raised, and how decisions are taken.</li> <li>• If the company has the supervisory board that supervises the management of the company and provides consent for carrying out certain transactions by the management board, consider also how often the supervisory board meets, and what proposals and information and documents the management board shall prepare for the supervisory board to enable it to take the necessary decisions.</li> <li>• Consider the company's current financial position and its financial track record over the past 3(three) years.</li> <li>• Ascertain whether there has been any change in accounting policies or practices.</li> </ul>

	<p>status, tax debts, state aid related to Covid-19 or similar, registered encumbrances;</p> <ul style="list-style-type: none"> <li>• Company's business plan and corporate strategy;</li> <li>• Company's insurance coverage for the management board members;</li> <li>• Press releases by the company; and</li> <li>• Press clippings about the company.</li> </ul>		<ul style="list-style-type: none"> <li>• A management board member faces exposure to personal liability. It is therefore very important to review and assess the adequacy of the company's management board members' (directors' and officers') insurance arrangements that are in place.</li> </ul>
<b>Ongoing duties</b>			
<b>4. Points for attention</b>	<ul style="list-style-type: none"> <li>• How are decisions made within the company?</li> <li>• What is the management board's risk appetite?</li> <li>• Satisfy yourself as to the internal regulation of the company and the corporate governance framework.</li> <li>• Familiarize yourself with the company's group, check, whether the company possesses up-to-date and sufficient documents disclosing its UBO/s (or lack thereof) and has duly registered its UBO/s (or lack thereof) based on such documents, check the persons related to the company, verify that sanctions are not applicable.</li> <li>• Make sure whether and to what extent the company must comply with the AML and sanctions requirements and how their observance is ensured (incl. whether there are necessary assessments, policies, and other documents, responsible persons, etc.).</li> <li>• How is reporting secured? Has the company submitted to the State Revenue Service annual reports, dependency reports, and reports on the material transaction with the related persons, if relevant?</li> </ul>	<ul style="list-style-type: none"> <li>• Has the company published its audited annual reports, including any changes of rights connected with shares, any changes related to its registered capital, report on material transactions with related persons, remuneration reports, agreements with the members of the management board providing for compensation in case of termination, information on agreements with the change of control clauses, a statement on corporate governance, if the company prepares this statement as a separate part of the annual report, and semi-annual reports, financial information for 3 and 9 months, and non - financial statements? Does the company (historically) comply with the relevant obligations? Have there been any breaches?</li> </ul>	<ul style="list-style-type: none"> <li>• Understand how the management board works in practice and if an independent judgment is truly encouraged.</li> <li>• Consider if your personality fits within that risk-taking environment.</li> <li>• Consider if the company has a culture of candor, transparency, and voluntary disclosure.</li> <li>• Understand the company's accounting policies and practices.</li> </ul>
<b>5. Legal status of directors</b>	The management board of the company is the executive institution of the company, which manages the company (internally) and		Please note that the management board manages the company on all issues, except for the issues that fall within the competence of

	<p>represents the company (externally). The management board represents the company (externally) concerning third parties on matters relating to the business of the company.</p> <p>If there are several management board members, unless the articles of association provide otherwise, all management board members jointly represent, i.e., sign for, the company. Normally, however, specific provisions are included in the articles of association providing for individual and/or joint representation (for example, chairman of the management board – individually and any other two management board members jointly).</p> <p>The basic duty imposed on you is to serve with the due care of a prudent manager and with necessary loyalty and required knowledge and thoroughness (see Section 169 and 171 of the Commercial Law).</p> <p>The burden of proof is on the management board members. Their fault is presumed, and they can avoid liability only if they can prove that they have acted with the due care of a prudent manager.</p> <p>All management board members and supervisory board members, if any, are jointly and severally liable for losses that they have caused to the company.</p> <p>You must comply with the duties imposed on the management board member by the laws as well as by articles of association, resolutions of the supervisory board, if any, meeting and the shareholders meeting, agreements on the execution of your service (authorization or</p>		<p>the supervisory board if any (related to supervision), or the shareholders meeting (related to the existence of the company and its structure).</p> <p>In the case of a limited liability company – the shareholders’ meeting shall also have the right to make decisions that fall within the competence of the management board or supervisory board if any. In such a case, the members who have voted in favour of this decision shall be jointly and severally liable for any damage caused because of such a decision.</p> <p>The management board members shall always check compliance of the decisions of the shareholders meeting with the applicable law because they are not liable only insofar as they have acted in good faith within the framework of a lawful decision of the shareholders meeting.</p> <p>A member of the board of directors and the supervisory board, if any, shall not be liable for losses caused to the company if he or she has acted in good faith within the framework of a lawful decision of the meeting of shareholders</p>
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	<p>employment, or other), and other potentially relevant corporate documents. You must take care of the affairs of the company and the proper management of the company. And you are obliged to provide settlement to the company.</p> <p>Among other things, you are liable for taking unreasonable risks non-compliant with business judgment rule, submitting false information, if you succumbed to undue influence directed against the interests of the company and its shareholders, for the records in the company shareholders register, identification of the UBOs (or lack thereof) of the company, in case of a group of companies (<i>concern</i>) - for influencing of a dependent company to enter into an unfavourable transaction or carry out other unfavourable measure, etc.</p> <p>Only a natural person can be a member of the management board of the company.</p>		
<p><b>6. Parties to which duties are owed</b></p>	<p>Generally, the management board members owe their duty to serve with the due care of a prudent manager to the company itself and the shareholders.</p> <p>If you breach your duties owed to the company, you can be removed from the office by a resolution of the shareholders meeting (in case of limited liability companies) or the supervisory board (in case of joint-stock companies) and ordered to compensate damages caused to the company.</p> <p>The management board must provide information to a meeting of shareholders regarding concluded transactions between the company and shareholders, members of the</p>		<p>The management board members may be discharged of their duties by, in case of a limited liability company, the shareholders meeting (simple majority 50+1% of votes, unless articles of association provide for a larger majority). While, in the case of a joint-stock company, by the supervisory board (simple majority of votes, unless the regulations of the supervisory board or other corporate documents do not provide otherwise).</p> <p>The management board member may be sued (for damage) on behalf of the company, by decision of the shareholders meeting (simple majority 50+1% of votes, unless articles of association provide for a larger majority), or upon request of a minority of shareholders</p>



	<p>supervisory board, if any, or members of the management board.</p> <p>The management board must submit to the supervisory board, if any, at least once every quarter, a report on the activities and financial circumstances of the company, as well as it shall, without delay, notify the supervisory board, if any, regarding the deterioration of the financial condition of the company, or other significant circumstances related to the company's commercial activities.</p> <p>All management board members and supervisory board members, if any, shall perform their obligations as honest and careful managers and are jointly and severally liable for losses that they have caused to the company.</p>		<p>(representing not less than 1/20 of the share capital or have invested at least EUR 71,000 in the share capital).</p>
<p><b>7. Powers of the board of directors</b></p>	<p>Generally, the management board members are endowed with:</p> <ul style="list-style-type: none"> <li>• the <b>internal powers</b> towards the company (i.e., to manage the course of the company's business, etc.); and</li> <li>• <b>external powers</b> to act on behalf of the company and represent it vis-à-vis third parties (enter into agreements etc.).</li> </ul> <p><b><u>Internal powers</u></b> You are in charge of the company's <b>business organization</b> and <b>operational day-to-day management</b> which can generally be defined as:</p> <ul style="list-style-type: none"> <li>• steering the company;</li> <li>• organizing and managing the company's business;</li> <li>• adopting decisions on the company's business plans;</li> </ul>	<p>The management board members must fulfil the various obligation provided by the Financial Instrument Market Law. They have e.g., to secure that the company publishes duly its annual audited reports, including any changes of rights connected with shares, any changes related to its registered capital, report on material transactions with related persons, remuneration reports, agreements with the members of the management board providing for compensation in case of termination, information on agreements with the change of control clauses, a statement on corporate governance if the company prepares this statement as a separate part of the annual report, and semi-annual reports, financial information for 3 and 9 months, and non - financial statements, an invitation to the general meeting (and all related materials), etc.</p>	<p>The management board member's powers may be delegated.</p> <p>The powers of the management board members may be delegated (including e.g., the powers to act on behalf of the company via power of attorney), except for specific personal responsibilities of the management board members, such as, for example, voting in the management board meetings, recording changes in the shareholders' register of the company.</p> <p>The powers may be delegated to one or more management board members, employees, or third parties.</p> <p>The management board members among themselves may authorize one or more members of the management board to enter</p>

	<ul style="list-style-type: none"> <li>• deciding the company's organizational, technical, business, personnel, financial, and other day-to-day operational issues.</li> </ul> <p>List of examples of business management:</p> <ul style="list-style-type: none"> <li>• operational matters (supplies, sales or advertising, financial strategies, loans, etc.);</li> <li>• acquisition/transfer of assets;</li> <li>• decisions whether to raise a claim in court to collect a company's receivable;</li> <li>• decisions on whether the company is to pay its debts;</li> <li>• decisions on the relocation of the company's premises;</li> <li>• employees related issues - their management, hiring, training, remuneration, creation of job assignments;</li> </ul> <p>You also have duties and responsibilities regarding, inter alia:</p> <ul style="list-style-type: none"> <li>• <b>identification and disclosure of the UBOs (or lack thereof) and verification that sanctions are not applicable;</b></li> <li>• <b>organizing of the shareholder's meetings (ordinary and extraordinary);</b></li> <li>• <b>the company's compliance with the laws and its articles of association;</b></li> <li>• <b>preparing and submitting of the documents provided by law;</b></li> <li>• <b>preparing and signing of the annual reports and proposals for distribution of profit</b>, and submission of the accounts to the auditor and the supervisory board, if any, and the shareholders meeting, for their review and approval;</li> <li>• <b>reciprocal supervision and control</b> of the performance of the duties by other management board members;</li> </ul>	<p>According to Nasdaq Riga rules "On the admission and trading of financial instruments in the regulated markets", upon a request of the stock exchange, the management board is obligated to submit to the stock exchange market any information related to the protection of interests of the investors.</p> <p>Upon Nasdaq Riga rules, the management board is obligated to disclose information on significant transactions or investments, as well as loans, which equal or exceed 10% of the company's equity capital.</p> <p>Please see Point 15 with regards to disclosure obligations for listed companies.</p>	<p>certain transactions or certain types of transactions.</p> <p>Delegation does not relieve the duty of care of a prudent manager.</p> <p>The members of the management board are thus responsible for proper selection, control of the exercise of the delegation, and provision of the necessary cooperation.</p> <p>In practice, specialized areas are most often delegated, the management of which requires special knowledge, skills, or abilities that (other) members of the management board lack (e.g., bookkeeping).</p>
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	<ul style="list-style-type: none"> <li>• <b>ensuring the exercise of the rights of first refusal;</b></li> <li>• recording <b>changes in the shareholder's register of the company</b> and ensuring registration such changes in the Commercial Register, etc.</li> </ul> <p><b>External powers</b> You are entitled to (juridically) <b>act on behalf of the company</b> (e.g., to conclude contracts, grant a power of attorney to a third party to represent the company, etc.) <b>in the manner set out by the company's articles of association.</b></p> <p>Notwithstanding the manner of the company's representation (distribution/delegation of signing rights), the management board members are <b>responsible for the control</b> of the execution of other management board members' services.</p>		
<b>8. Duty of loyalty</b>	<p>You are required to act in the best interest of the company and must always <b>prefer the interests of the company to:</b></p> <ul style="list-style-type: none"> <li>• your interests;</li> <li>• differing individual interests of third parties (except where the law provides to the contrary);</li> <li>• interests of the company's shareholders or any entity that appointed the management board members to their office (except where the law provides to the contrary).</li> </ul>		
<b>9. Duty of care</b>	<p>You are required to:</p> <ul style="list-style-type: none"> <li>• act <b>responsibly, prudently and dutifully;</b></li> <li>• <b>strive to ensure that the company makes a profit from its economic activity</b>, i.e., not only to <b>seek to preserve</b> the <b>company's assets</b> but to <b>increase</b> them as much as possible - to be <b>proactive;</b></li> </ul>		

	<ul style="list-style-type: none"> <li>• <b>make informed and thoroughly considered decisions;</b></li> <li>• <b>recognize threatening damage and avoid engagement of the company in any unnecessary risks</b> (however, given the nature of a business corporation, a certain amount of risk needs to be admitted);</li> <li>• <b>avoid disinterest or dilatory and irresponsible approach</b> vis-à-vis the directors' service.</li> </ul> <p>The most common violations of the duty of care:</p> <ul style="list-style-type: none"> <li>• <b>squandering/wasting</b> (unnecessary transactions; transactions above market value (acquisition of property) or below market value (disposal of property); transactions free of charge (including donations, gifts, etc.) without the knowledge and approval of the shareholders meeting;</li> <li>• <b>gaining personal gain at the expense of the company;</b></li> <li>• <b>acting in the interests of the shareholder and contrary to the interests of the company;</b></li> <li>• <b>unauthorized competition;</b></li> <li>• <b>ignoring available information</b> (e.g., not checking the counterparty's insolvency, not checking that the counterparty is subject to sanctions or its solvency may be impacted by sanctions);</li> <li>• <b>failure to eliminate or minimize losses, although possible</b> (including the failure to timely file for insolvency to stop the increase in liabilities - however, it is necessary to assess which would have more serious consequences).</li> </ul>		
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	The members of the management board shall act with due care and in the best interests of the company. See Point 8.		
<b>10. Duty to have and maintain skills</b>	<p>In general, you do not have to be equipped with the expertise, skills, or abilities necessary to perform all activities that fall within the scope of the management board members' authority.</p> <p>However, if you have certain expertise, skills, or abilities, you are obliged to use them in the performance of your duties - within the limits of your capabilities.</p> <p>If you acknowledge/must have acknowledged that you are unable to comply with their duties to act with the due care of a prudent manager you have to conclude for yourself (e. g. to consult the certain issue with a competent professional or to resign from the office in case of permanent obstacle preventing you to perform your service), otherwise, you are presumed to breach your duties by acting with negligence.</p>		
<b>11. Additional duties (confidentiality, etc.)</b>	<p><b>Restrictions of transactions with related parties / Avoidance of conflict of interests</b></p> <p>The company may enter transactions with the management board members or their related persons, or other related persons only in the ordinary course of business and under market conditions. In other cases, the company may enter transactions with the consent of the supervisory board or in case there is no supervisory board - the shareholders meeting.</p> <p><b>Restrictions of competition</b></p> <p>Member of the management board without the consent of the supervisory board or, if such has not been formed - without the consent of the shareholders meeting, may not:</p>		The conflict-of-interest rules are set out in the Commercial Law. The conflict-of-interest rules apply not only to certain relationships between the management board members and the company but also to persons related to the management board members. The definition of the “related person” is quite broad, and includes e.g., relatives of the management board member up to a second degree, spouse or brother of law up to a first degree, or a person with whom he/she shares household/persons controlled by the management board members or their close persons, etc.

	<ul style="list-style-type: none"> <li>• be a general partner in a partnership or a shareholder with supplemental liability in a capital company which is engaged in the field of commercial activities of the company;</li> <li>• conclude transactions in the field of commercial activities of the company in his or her name or the name of a third party;</li> <li>• be a member of the board of another company that is engaged in the field of commercial activities of the company, except in cases when the company and the other company are part of the same group of companies.</li> </ul> <p><b>Confidentiality</b> You are obliged to <b>maintain the confidentiality</b> of all the confidential information and facts, the disclosure of which to third parties could cause damage to the company (incl. the company's trade secrets and know-how).</p>		<p>As regards the ban on competition, the basic rules are set out in the Commercial Law, however, they can be modified by the agreement on performance of the management board members office. The ban on the competition can be agreed also for the period after the termination of the management board member's office.</p> <p>The management board members are not allowed to use, process, or disclose the commercial secrets of the company, especially after his/her relations with the company have ended. Detailed provisions about an unlawful acquisition, use, or disclosure of the trade secrets are provided in the Law on Protection of Trade Secrets and the Employment law.</p>
<p><b>12. Delegation of powers/authority</b></p>	<p><b>Internally</b> – within the company – the management board members may delegate certain tasks to lower-tier managers, e.g., the company's senior employees (i.e., a vertical delegation of tasks), or the respective tasks may be delegated/distributed among the management board members themselves (i.e., a horizontal delegation of powers).</p> <p><b>Externally</b> – concerning third parties - the members of the management board may authorize other management board members, employees, and third parties to represent the company. In such a case the management board members acting on behalf of the company issue a power of attorney. However, the management board members are not entitled to delegate their powers by issuing the power of attorney on their behalf.</p>		<p>While delegating powers (including e.g., the powers to act on behalf of the company via power of attorney), you are required to act with the due care of prudent managers, so that you have to:</p> <ul style="list-style-type: none"> <li>• select the respective party as any other reasonably diligent person would have done (<b>responsibility for selection</b>);</li> <li>• define clear terms of reference for the selected person and provide all necessary information, cooperation and guide the selected person (<b>responsibility for terms of reference, guidance, and cooperation</b>);</li> <li>• adequately control the exercise of the delegated authority, not only personally but also using properly set control mechanisms (<b>responsibility for control</b>); and</li> </ul>

	<p>The members of the board may authorize from among themselves one or more members of the board to conclude specific transactions or specific types of transactions.</p> <p>The management board of the company has specific responsibilities to sign annual reports of the company, disclose the company's UBOs, manage the shareholders' register of the company, etc. The members of the management board members are not entitled to authorize carrying out these specific responsibilities that shall be carried out by themselves to third parties.</p>		<ul style="list-style-type: none"> <li>to <b>withdraw</b> the delegated powers without undue delay from the <b>party</b> that <b>failed to act duly and in the interests of the company</b>.</li> </ul>
<p><b>13. Conflicts of interest (inc. intragroup dealings)</b></p>	<p>According to the Commercial Law, a person related to the company are also considered to be members of the management board of the company/their relatives up to a second degree, spouse or brother of law up to a first degree, or a person with whom he/she shares a household/persons controlled by the management board members or their close persons.</p> <p>If the company concludes a transaction with a related person, the supervisory board or, if none, the shareholders' meeting shall give consent to the conclusion of the transaction.</p> <p>Before entering a transaction, the management board shall provide the following information on the transaction to the supervisory board, if any, or shareholders meeting:</p> <ul style="list-style-type: none"> <li>the information on the related person with whom the transaction is entered into;</li> <li>the justification for the necessity of the transaction;</li> </ul>		<p>A supervisory board member shall not vote on any matter in respect of which he has a conflict of interest.</p>

	<ul style="list-style-type: none"> <li>• the provisions of the transaction;</li> <li>• the assessment of the impact of the transaction on the commercial activity of the company and financial standing of the company;</li> <li>• the assessment of the impact of the transaction on the shareholders of the company who are not regarded to be related persons in respect of the abovementioned transaction.</li> </ul> <p>The informing and consent are not necessary, only if in case of a transaction in the ordinary course of business and under market conditions.</p>		
<b>14. Compliance with statutory obligations</b>	<p>You must act with the due care of a prudent manager and hence you are generally responsible for the company's compliance with all the statutory obligations imposed on it.</p> <p>If you delegate your powers, you continue to be responsible for the selection, terms of reference, information, guidance, cooperation, and control of the person to which the respective powers were delegated.</p> <p>Yours' failure to ensure the company's compliance might lead to the liability for any harm incurred by the company resulting hereof.</p>		
<b>15. Disclosure obligations of listed companies</b>	<p>You are responsible for the publication of all the company's relevant information/documents as required by laws, such as:</p> <ol style="list-style-type: none"> <li>1) publication of financial statements (if relevant);</li> <li>2) publication of a report on the company's business activities and on the state of its assets (if relevant);</li> <li>3) publication of the report on relations (if relevant);</li> </ol>	<p>The disclosure obligation of public companies is much broader as provided in the Financial Instrument Market Law and other relevant laws and entails annual reports, corporate governance reports, non-financial reports, semi-annual reports, financial information for 3 and 9 months, reports on payments to regulatory authorities, disclosure of an atypical and significant amount of a related party transaction, remuneration policy and reports.</p>	<p>Latvian laws, which are constantly amended and supplemented, set various limitations, and bans in case the UBO (or lack thereof) of the relevant company is not duly registered (at all or registration is not substantiated by a complete set of up-to-date documents) and in case of sanctions. As the management board member, you must fulfill all these obligations.</p>



	<p>4) publication of the annual report (if relevant);</p> <p>5) keep registers and filings up to date (such as information obligatory registered in the public registers);</p> <p>6) publication of the relevant up-to-date information on the company's website (if relevant);</p> <p>7) registration of the UBO (or lack thereof);</p> <p>8) publication of relevant corporate issues to the company's shareholders and creditors, if relevant (e. g. contemplated transformations, a decrease of registered capital, etc.).</p> <p>The members of the management board are obligated to disclose certain information to state and municipal bodies, credit institutions, registers, etc.</p>	<p>It is also required to disclose major changes in the holding of voting rights; ad hoc inside information that could affect the price of securities, important corporate changes, etc.</p> <p>The member of a management board must be acquainted with relevant market regulator's rules and obligations resulting from the relevant acts.</p> <p>Please refer also to points 4 and 7.</p>	
<p><b>16. Potential liability</b></p>	<p>In the case of a breach of the duty to act with the due care of a prudent manager or other obligations related to the management boards' service, you can be held liable by either "civil (personal) liability", "administrative liability" or "criminal liability".</p> <p><b>Civil liability</b></p> <ul style="list-style-type: none"> <li>• for damage to the company – material liability - obligation to compensate the harm incurred by the company;</li> <li>• return of benefits/restitution in case of an illegal invalid related party transaction (without the consent of the supervisory board or, if there is no supervisory board - the shareholders meeting);</li> </ul>		<p><b>Civil liability</b></p> <p>As mentioned under point 6 above, a "qualified" shareholder or a certain majority of shareholders are entitled to require the filing of a suit against the management board members (for damage) on behalf of the company and, in case the minority shareholders have required filing, but the competent institution of the company has failed to file by a certain deadline, represent the company in the relevant court proceedings.</p> <p>As the <b>general standard</b> presumption that the management board members and the supervisory board members, if any, are jointly and severally liable for losses caused to the</p>

	<ul style="list-style-type: none"> <li>• obligation to transfer rights to the company in case of violation of the ban on competition;</li> <li>• for damage to a shareholder, alienor of the share or acquirer of the share – for violation of recording <b>changes in the shareholder's register of the company</b> and ensuring registration such changes in the Commercial Register;</li> <li>• tort liability – material liability – obligation to compensate harmed incurred by any person.</li> </ul> <p><b>Administrative liability</b> The members of the management board may be found liable (jointly and severally) for the tax debts of the company if all the following criteria are met at the same time:</p> <ul style="list-style-type: none"> <li>• the amount of overdue tax payments exceed 50 (fifty) minimum monthly salaries (EUR 500 in 2022);</li> <li>• the decision regarding the recovery of tax debts has been taken and notified to the company;</li> <li>• the company has alienated the assets belonging to it and as a result of the activities/inactivity of members of the management board the tax payments of the company have not been made in full according to the law;</li> <li>• the company has not fulfilled the obligation specified in the Insolvency Law to apply for insolvency proceedings of the company.</li> </ul> <p>The members of the management board may be found administratively liable also for:</p>		<p>company, i.e., the <b>presumption of guilt</b>, that <b>may be refuted if they prove that they have acted as prudent managers</b>, is strict.</p> <p>However, since the risk is assumed to be part of the business, a reasonable risk is acceptable. To distinguish reasonable risk from reasonable risk, the <b>business judgment rule</b> may be applied. It is considered that if a member of the governing body has acted in <b>good faith, loyally, and with due care</b>, it has not taken unreasonable risks.</p> <p>The standard of prudent manager means that the management board members are liable not only for gross but also for <b>slight negligence</b>.</p> <p><b>Specific rules</b> apply in <b>concern structure</b> for the directors of the company that is a “dependent entity”.</p> <p>The management board members of a “dominant entity” shall ensure compensation of the damage caused by the transaction or measure unfavorable to a “dependent entity” or granting of an appropriate right to claim compensation for such damage to a “dependent entity”.</p> <p>While the management board members of a “dependent entity” shall ensure disclosure in the dependency report of an unfavorable transaction or unfavorable measure or disclosure that the losses incurred by a “dependent company” with such transaction or measure have not been compensated by “dominant entity”.</p>
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	<ul style="list-style-type: none"> <li>• the tax evasion or payments treated as such or for concealing or reducing income, profit or other taxable objects;</li> <li>• not indicated of the salary in accounting records;</li> <li>• performing transactions or fulfilling payment obligations without authorization when the economic activity of the company is suspended.</li> </ul> <p><b>Criminal liability</b> The members of the board may be found criminally liable for criminal offenses in which the company is involved:</p> <ul style="list-style-type: none"> <li>• based on the right to represent the company or to act on its behalf;</li> <li>• to take decisions on behalf of the company person based on the law;</li> <li>• exercising control within a company.</li> </ul> <p>A member of the management board shall be criminally liable if the criminal offense is committed in the interests of the company or as a result of inadequate supervision or control, either if it has acted individually or as a member of the management board.</p>		<p><i>Alternatively</i> – the management board members shall prove that a prudent and conscientious manager of an independent company would also have entered the respective transaction or taken the respective measure.</p> <p>The burden of proof lies with the management board members.</p> <p><b>Administrative liability:</b> A fine for tax evasion is from EUR 140 – EUR 2,000 with or without deprivation of the right of the member of a board to hold specific positions in commercial companies for a period of up to three years.</p> <p><b>Criminal liability:</b> A member of the board shall be held criminally liable for any committed criminal offense as any other natural person. But concerning the company the following measures could be applied:</p> <ul style="list-style-type: none"> <li>• liquidation;</li> <li>• restriction of rights;</li> <li>• confiscation of property;</li> <li>• money recovery.</li> </ul>
<p><b>17. Duration of duties</b></p>	<p>For limited liability companies, the members of the management board are appointed for an indefinite period unless a specific term is provided in the articles of association of the company, or until the management board member is recalled by the shareholders meeting, or the management board member resigns from the position.</p> <p>For joint-stock companies, the management board members are appointed on a 5(five)-year term, if the articles of association do not provide</p>		<p>The agreement on performance of the management board members' office may set out that certain obligations (e.g., related to ban on competition, trade secret) shall survive the termination of the office.</p>

	<p>for a shorter term. The members of the management board may be recalled by the supervisory board.</p> <p>The management board has the right to resign from the position.</p> <p>You are deemed to be a member of the company's management body with a duty of loyalty for the entire period from the appointment to the office until your discharge/resignation from office, i.e., 24/7.</p> <p>As a result, you cannot do anything which is manifestly contrary to the interests of the company.</p> <p>Upon the termination of management board members' office, you are obliged to hand over to the company everything belonging to the company and in your possession and if you fail to do so, you are obliged to compensate the company for the harm incurred thereby and transfer bookkeeping and recordkeeping of the company to the new management board members.</p>		
<b>Special circumstances</b>			
<p><b>18. Bankruptcy</b></p>	<p>Even before the insolvency, you shall notify the supervisory board, if any, and convene the shareholders meeting, in which the board shall provide explanations, without undue delay after becoming aware that the losses of a company exceed half of the equity capital of the company or the company has limited solvency, the signs of insolvency have been determined or they are likely to occur in the company.</p> <p>When the insolvency has occurred, <b>you are obliged to file for insolvency</b> without undue</p>		<p>See also the liabilities associated with the bankruptcy of the company in point 16.</p> <p><b>The company is subject to insolvency proceedings if there is any sign of</b> illiquidity or over-indebtedness: it has not been possible to enforce a court decision to recover a debt from a debtor by applying enforcement measures; <b>the company has not settled debts in a certain amount</b> for which the due date has expired and the creditor(s) has notified the company that it (they) plans to file for</p>

	<p>delay after the management board members became aware of the company's insolvency, to stop the further increase of the company's liabilities (losses).</p> <p>During the insolvency proceedings, generally, an insolvency administrator is appointed in the declaration of insolvency issued by the court. From that moment on, the debtor's right to administer and dispose of assets belonging to the insolvent company is transferred to the insolvency administrator. The management board members are therefore normally not involved in insolvency proceedings. <b>However, the management board members are obliged to transfer to the insolvency administrator accounting documents of the company providing a clear picture of the transactions and status of assets for 3 (three) years before insolvency.</b></p> <p><b>The situation is different legal protection (one of the methods of limited solvency resolution), in which the debtor's management remains in possession (in the management board's hands).</b> However, the company's rights to dispose of assets are limited, and each material disposal of assets requires the prior consent of the creditors.</p> <p><b>In case of failure to ensure the above the management board members are jointly and severally liable for the losses caused to the company in the amount of the principal debt,</b> which cannot be covered during the insolvency procedure of the company.</p> <p>The insolvency administrator or creditors may bring a claim on behalf of the company. The</p>		<p>insolvency, and the company has not paid the debtor or has not raised justified objections to the claim within 3 (three) weeks; <b>the company has not paid the employee wages,</b> compensation for damage due to an accident at work or an occupational disease, or has not paid the mandatory social insurance contributions <b>within 2(two) months; the company has not settled overdue debts for more than 2(two) months;</b> etc.</p>
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	court may reduce the amount of losses to be compensated taking into account the impact of the management board on those circumstances (degree of fault).		
<b>19. Takeover bids</b>	In case of takeover bids, the management board shall comply with the provisions of due care and act in the best interests of the company, as well as shall disclose any information requested, e.g., by the bidder or shareholders of the company, to facilitate the takeover bid.	<p>In case of a takeover, you have in particular the following obligations:</p> <ul style="list-style-type: none"> <li>• inform the employees,</li> <li>• act prudently and prevent any actions that could impede the takeover,</li> <li>• prepare a written opinion on whether the takeover bid is in the interest of the company, offerees, employees, and creditors.</li> </ul> <p>The management board members and the supervisory board members are prohibited to interfere with the takeover bid by their actions or omissions.</p>	<p>It is mandatory that an offer addressed to other shareholders to sell-out (repurchase) the shares belonging thereto is expressed by a person or persons who are acting in concert, provided that they:</p> <ul style="list-style-type: none"> <li>• acquire the voting rights arising from the shares, directly or indirectly, in such amount that the voting rights of such persons reach or exceed 30 percent from the total number of voting rights of the joint-stock company;</li> <li>• have voted in favour of the matter regarding the exclusion of the shares from a regulated market at the meeting of shareholders in which the decision to exclude shares from a regulated market was taken.</li> </ul> <p>A person or persons who are acting in concert under the Financial Instrument Market Law are among others considered to be members of the management board and the supervisory board of the target company.</p> <p>If the person who should have expressed a mandatory share buyback offer has failed to do so, he or she shall not exercise the voting rights from the shares owned or indirectly acquired by him or her.</p>
<b>20. Market abuse/insider dealing</b>	<p><b>Civil liability</b></p> <p>The management board member will be liable for caused losses due to insider dealing and as</p>		<p><b>Criminal liability</b></p> <p>For in insider dealing on the financial markets, and manipulating the financial markets - up to</p>

	<p>disclosure of trade secrets, where such action has caused losses.</p> <p><b>Criminal liability</b> On insider dealing, recommending, or inducing another person to engage in insider dealing on the financial markets, and manipulating the financial markets with serious consequences, currently, at least EUR 25,000, is a criminal offense.</p> <p>There is also criminal liability for the unauthorized acquisition for use and disclosure of trade secrets and the unlawful disclosure of inside information obtained during the performance of the duties of the management board member.</p>		<p>10 (ten) years of imprisonment of a natural person.</p> <p>Coercive measures may be imposed on the company;</p> <ul style="list-style-type: none"> <li>• liquidation;</li> <li>• restriction of rights;</li> <li>• confiscation of property;</li> <li>• money recovery.</li> </ul> <p>For acquisition for use and disclosure of trade secrets and the unlawful disclosure of inside information - up to 2 (two) years of imprisonment of a natural person.</p>
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**Defences**

<p><b>21. Good corporate governance</b></p>	<p>The directors are in charge of the company's business management and represent the company in all matters. In particular, some of these duties include:</p> <ul style="list-style-type: none"> <li>• <b>Ensuring that the prescribed records and accounts are duly and properly kept and that shareholders registers are kept;</b></li> <li>• <b>Informing the supervisory board, if any, and the shareholders at the meetings of the respective bodies about any company-related matters relevant for the assessment of the matters on the agenda of the general meeting;</b></li> <li>• <b>Registering of the corporate changes in the registers, etc.</b></li> </ul>	<p>The obligation of disclosure of the management board of the public company is much broader as per the Financial Instrument Market Law. The member of a management board must be acquainted with relevant market regulator's rules and obligations resulting from the relevant acts.</p> <p>Please refer also to points 4, 7, 15, and 27.</p>	
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<p><b>22. Minutes of board meetings and publication requirements</b></p>	<p>A board has the right to make decisions if more than one-half of the members of the board take part in the meeting of the board. If a specific number of the members of the board is provided for in the articles of association and if the board has fewer members than provided for in the articles of association, the quorum shall be determined according to the number of members of the board laid down in the articles of association.</p> <p>The board shall take its decisions with a simple majority of votes of those present if the articles of association do not specify a larger majority of votes. It may be determined in the articles of association that in the event of a tied vote the vote of the chairperson of the board shall prevail.</p> <p>The board meetings shall be recorded in minutes.</p>		
<p><b>23. Discharge and Indemnification</b></p>	<p>Claims against members of the management board and supervisory board will expire within 5(five) years from the date of loss caused.</p> <p>The shareholder meeting may release the management board members and the supervisory board members, if any, or decide to enter a settlement only for specific actions that were performed by them and were revealed, and as a result of which the company has incurred losses.</p> <p>Such a decision does not restrict certain minority of shareholders to file a company claim against the management bodies members.</p> <p>A decision of the shareholders meeting to approve the annual accounts of the company shall not in itself release the management bodies</p>		



	members for their actions during the relevant period.		
<b>24. Insurance</b>	There are no statutory obligations to have civil liability insurance. Although, large companies tend to consider obtaining D&O insurance.		
<b>25. Resignation</b>	<p><b>You have the right to resign from the office without being obliged to state the reasons for doing so.</b> A member of the board may leave the position of the member of the board, by submitting a notice thereof to the company.</p> <p><b>The term of office shall end on the date on which the company has received the resignation.</b></p>		For provisions other than voluntarily resignation, please see point 17.
<b>26. Restructuring of assets</b>	<p><b>Legal protection proceedings</b> entailing restructuring of assets may be initiated to enable the company to settle its debts if a company has come into financial difficulties or expects to do so under the Insolvency Law.</p> <p><b>You shall also notify the supervisory board, if any, and convene the shareholders meeting</b> without undue delay after becoming aware that the losses of a company exceed half of the equity capital of the company or the company has limited solvency, the signs of insolvency have been determined or they are likely to occur in the company. Within this scope, the management board may propose the methods of restructuring, yet the ultimate decision is made by the shareholders meeting.</p>		
<b>27. ESG and D&amp;I policies, metrics, reports</b>	There are no statutory obligations to have, establish and maintain ESG and D&I policies, metrics, reports.	<b>If the company implements a policy regarding the diversity of its members of the management bodies</b> (diversity policy), the corporate governance report shall include - a description of the objectives, implementation measures, and results of this policy during the reporting year.	

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