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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:

The Commercial Law

Part A
General Principles of Commercial Activities

Division I
Merchants and Commercial Activities

Section 1. Merchants and Commercial Activities

(1) A merchant is a natural person (individual merchant) or a commercial company (partnership and capital company) registered with the Commercial Register.
(2) Commercial activity is an open economic activity, which is performed by merchants in their name for the purposes of gaining a profit. Commercial activity is one of the types of entrepreneurial activity.
(3) Economic activities are any systematic, independent activities for remuneration.
(4) In this Law it may be specified that particular types of economic activities may only be performed by a merchant. The status of a merchant may be granted by law also to other persons.
[14 February 2002]

Section 2. Legal Effect of Registration

If a merchant is registered in the Commercial Register, an objection that the economic activities, which are performed utilising the firm name registered in the Commercial Register are not commercial activities shall not be allowed.

[1] The Parliament of the Republic of Latvia

Section 3. Legal Regulation of Commercial Activities

(1) Commercial activities shall be regulated by this Law, by The Civil Law and other laws, as well as by the norms of international law that are binding on Latvia.
(2) The provisions of The Civil Law shall apply to commercial activities only insofar as this Law or other laws that regulate commercial activities do not specify otherwise.
(3) The provisions of this Law shall apply to persons who are not merchants, or to economic activities that are not commercial activities if this Law or another law especially provides for it.
(4) The provisions of this Law shall not apply to agricultural production and other trade activities, which are performed by a natural person and are regulated by other laws, if the person who performs them has not been registered in the Commercial Register as an individual merchant.
[14 February 2002]

Section 4. Restrictions on Commercial Activities

(1) Restrictions on commercial activities may only be specified by law or on the basis of law.
(2) Merchants have the right to freely choose types of commercial activities that are not prohibited by law.
(3) In this Law, separate types of commercial activities may be specified, for the performance of which a permit (licence) is necessary, or also that may be performed by merchants in conformity with the requirements specified by this Law.
[14 February 2002]

Section 5. Merchant Status and Public Law

The provisions of public law which prohibit the performance of specified types of commercial activities, or also provide for certain preconditions for the performance of such commercial activities, shall not influence the application of the provisions of this Law.

Division II
The Commercial Register

Section 6. Maintenance of the Commercial Register

(1) Information as specified by law shall be recorded and the documents specified by law shall be stored in the Commercial Register regarding merchant and commercial activities.
(2) The Commercial Register shall be maintained by a State institution authorised by law (hereinafter – Commercial Register Office).
[22 April 2004]

Section 7. Transparency of the Commercial Register

(1) Everyone has a right to become acquainted with the records of the Commercial Register and the documents submitted to the Commercial Register Office.
(2) Everyone after submission of a written request and payment of the State fee has the right to receive information regarding records of the Commercial Register and extracts and copies of documents present in the registration file of the merchant in printed form or in electronic form. The accuracy of the extract or copy of the document shall be certified in accordance

with the procedures specified in regulatory enactments, unless the recipient refuses such certification. In issuing a copy of the document in electronic form, the accuracy thereof shall be certified in accordance with the procedures specified in the Electronic Documents Law. A copy of the document in printed form shall be certified in accordance with the procedures specified in regulatory enactments in such case, if the recipient thereof has clearly requested such certification.

(3) Pursuant to a request from the recipient, an official of the Commercial Register Office shall issue a notice that the specified record in the Commercial Register has not been amended, or also regarding the fact that a specific record has been made.

[24 April 2008]

Section 8. Contents of the Record in the Commercial Register

(1) In respect of an individual merchant the following information shall be recorded in the Commercial Register:

firm name;

1) given name, surname, personal identity number and residential address of the merchant;

2) legal address; and

3) branch firm name, if it is different from the firm name of the merchant, and its legal address.

(2) In respect of a partnership the following information shall be recorded in the Commercial Register:

1) firm name;

2) type of partnership;

3) amount of contribution by each limited partner and the total amount of limited partner contributions;

4) given name, surname, personal identity number and residential address of the members and limited partners personally liable for the partnership, but for legal persons – name, registration number and legal address;

5) the right of members of the partnership to represent the partnership individually or jointly, indicating the given name, surname, personal identity number and residential address of each member of the partnership authorised for representation, but for legal persons – firm name, registration number and legal address;

6) legal address;

7) if the partnership has been established for a specific time period or for achievement of a specific objective – the time period for which it was established or the objective; and

8) branch firm name, if it is different from the firm name of the partnership, and its legal address.

(3) In respect of a capital company the following information shall be recorded in the Commercial Register:

1) firm name;

2) type of capital company;

3) given name, surname, personal identity number, residential address and office held of the members of the board of directors, members of the council (if the capital company has formed a council);

4) the right of the members of the board to represent the capital company individually or jointly;

5) amount of equity capital, separately indicating the subscribed and paid-up amounts of equity capital;

6) [14 February 2002];

7) legal address;

8) if the capital company has been established for a specific time period – the time period for which it was established; and

9) branch firm name, if it is different from the firm name of the capital company, and its legal address.

(4) In respect of a branch of a foreign merchant the following information shall be recorded in the Commercial Register:

1) branch firm name, if it is different from the firm name of the foreign merchant, and the firm name of the foreign merchant;

2) legal address of the branch and the location of the foreign merchant (legal address); the register where the foreign merchant is registered, and registration number, if the law of the state of the location of the foreign merchant provides for the recording of a merchant in a register;

3) the type of foreign merchant; and

4) amount of equity capital of the foreign merchant, separately indicating the subscribed and paid-up amounts of equity capital, if the foreign merchant is a capital company and this information is recorded in the state register in which the foreign merchant is recorded.

(5) In addition to the information referred to in Paragraphs one, two, three and four of this Section, the following information shall be recorded in the Commercial Register:

1) given name, surname and personal identity number of the proctor, as well as a reference to a total procuration or branch procuration if such procuration has been issued, and a reference to the granting of the rights referred to in Section 34, Paragraph two of this Law if such rights have been granted, as well as the right of the proctor to represent a commercial company individually or jointly with one or several members of the board or members of the partnership;

2) the given name, surname, personal identity number, residential address and scope of authorisation of those persons who are authorised to represent a merchant (foreign merchant) in activities related to a branch;

3) information regarding the re-organisation of the activities of a merchant (foreign merchant);

4) information regarding the appointment of an administrator of insolvency proceedings (hereinafter – administrator), indicating the given name, surname, personal identity number, place of operation of the administrator, information regarding implementation and termination of legal protection proceedings of a merchant (foreign merchant), information regarding announcement and termination of the insolvency proceedings of the merchant (foreign merchant), information regarding completion of bankruptcy proceedings of the merchant (foreign merchant);

4^1) information regarding suspension or renewal of economic activity of a merchant;

5) information regarding termination and liquidation of operation of a merchant (foreign merchant), as well as regarding appointment of a liquidator, indicating the given name, surname, personal identity number, place of residence thereof, but if the liquidator of the foreign merchant is a legal person – the firm name, registration number and legal address;

6) information regarding entering into a group of companies agreement, amending or termination thereof, indicating the dominant and dependent company, registration number and date of entering into agreement;

7) the given name, surname, personal identity number, place of residence of the guardian or trustee of an individual merchant; and

8) date of the entry of each record.

(6) Other information shall be recorded in the Commercial Register, if such is explicitly provided for by law.
(7) Upon the registration of a merchant, an individual registration number shall be granted to them.
[14 February 2002; 22 April 2004; 16 March 2006; 24 April 2008]

Section 9. Documents to be Submitted to the Commercial Register Office and their Preservation

(1) Documents, which justify the entering of a record in the Commercial Register, and other documents specified by law shall be submitted to the Commercial Register Office. These documents shall be submitted in printed form or in electronic form. The relevant original document or an appropriately certified copy thereof shall be submitted to the Commercial Register Office. If an application is submitted in electronic form, the special online form available via the Internet home page of the Commercial Register Office shall be used. Public documents issued in foreign states shall be validated according to the procedures specified in international agreements, and a notarised translation in the Latvian language shall be thereto. A translation in the Latvian language certified in accordance with regulatory enactments which prescribe the procedures for certification of translations in the official language shall be appended to private documents in a foreign language.
(1^1) Documents to be submitted to the Commercial Register Office in the Latvian language may be appended a translation in a foreign language. If an inconsistency is determined between a document submitted in the Latvian language and a translation thereof in a foreign language, a merchant or a person in the interests of whom this translation has been submitted may not use it against a third person. The third person in respect of the merchant or the person in the interests of whom this translation has been submitted may refer to this translation, except when the third person knew the content of the document in the Latvian language.
(2) Following amendments made in the documents of incorporation of a capital company (memorandum of association, articles of association), the text of the amendments, as well as the full text of the document as amended, shall be submitted to the Commercial Register.
(3) Documents submitted to the Commercial Register Office shall be preserved in the relevant Commercial Register file of the merchant. If a certified sample signature of a person already exists in the registration file, it shall not be submitted repeatedly in the relevant registration file. Annual accounts and documents to be appended thereto shall be kept only in electronic form in the file.
[16 March 2006; 24 April 2008]

Section 10. Entry of Records in the Commercial Register

(1) Records in the Commercial Register shall be entered on the basis of an application of an interested person or a court adjudication. The form for an application shall be approved by the Cabinet.
(2) The signature of a person on an application for the recording of a merchant in the Commercial Register, as well as the capacity to act of this person shall be notarised. If the application has been submitted in electronic form and signed with secure electronic signature, the capacity to act of this person shall be checked by the official of the Commercial register Office. The signature of an individual merchant or the signature of the founder of such capital company, in which there is one founder, on an application for the recording of a merchant in the Commercial register, as well as the capacity to act of such person may be certified by the official of the Commercial Register Office. A special power of attorney for another person to

sign an application for the recording of a merchant in the Commercial Register shall be notarised.
(3) A decision regarding the entry of a record in the Commercial Register, a refusal to enter a record or the postponement of the entry of a record shall be taken within three days (excluding holidays and public holidays) from the day of receipt of the application by an official of the Commercial Register Office. Within the same term, an official of the Commercial Register Office shall take a decision regarding the entry of a record in the Commercial Register on the basis of a court adjudication.
(4) A decision to refuse to enter a record in the Commercial Register or the postponement of the entry of a record may only be taken in such case if the application, or the documents attached to it, does not conform to the provisions of law. The decision shall be substantiated. A decision regarding the postponement of the entry of a record shall indicate the term for rectifying of deficiencies.
(5) An official of the Commercial Register shall send the decision referred to in Paragraph three of this Section to the submitter of an application within three days (excluding holidays and public holidays) from the day when the decision was taken.
(6) The submitter of an application has the right to appeal a decision of an official of the Commercial Register in accordance with procedures specified by law.
(7) A record in the Commercial Register shall be entered on the same day as when the decision was taken regarding the entry of the record.
[22 April 2004; 16 March 2006; 24 April 2008]

Section 11. Promulgation of Records in the Commercial Register

(1) All records of the Commercial Register shall be promulgated by publishing them in the newspaper *Latvijas Vēstnesis* [the official Gazette of the Government of Latvia], at the same time publishing them electronically. Similarly, information regarding documents of incorporation and their amendments, regarding draft reorganisation agreement and amendments thereto, indicating the date of registration and the number of the Commercial Register file in which the document is located shall be promulgated.
(2) Commercial Register records and information for publication shall be submitted by an official of the Commercial Register within three days (excluding holidays and public holidays) from the date when the record was entered. Commercial Register records and information shall be published at the expense of the relevant merchant if a different procedure for covering the costs of publication has not been specified by law.
(3) The amount of costs and procedures for collection thereof shall be determined by the Cabinet.
[14 February 2002; 22 April 2004; 16 June 2005]

Section 12. Public Access to the Commercial Register

(1) Records in the Commercial Register shall be in effect as to third persons from the date of their publication. This provision shall not apply to legal activities, which are performed within 15 days following the promulgation of the record, insofar as the third person can prove that he or she did not know or could not have known the relevant information.
(2) If the information to be recorded in the Commercial Register has not been recorded or has been recorded but not promulgated, the person in whose interests such information should have been recorded cannot utilise it against a third person, except in the case, when the third person knew the referred to information.

(3) If the information to be recorded in the Commercial Register has been recorded or has been promulgated incorrectly, a third person, in relation to the person in whose interests such information should have been recorded, may refer to the promulgated information, except in the case when the third person knew that the promulgated information does not correspond to the actual legal status or the information recorded in the Commercial Register.
(4) If a merchant is sent information, documents or other correspondence to their legal address as recorded in the Commercial Register, it shall be deemed that the merchant has received such documents, information or other correspondence, if the sender proves documentarily that such sending was performed.
[14 February 2002]

Section 13. Registration Certificate

(1) After the recording of the merchant in the Commercial Register, a registration certificate shall be issued to the merchant, which is signed and certified with a seal by an official of the Commercial Register Office.
(2) The registration certificate shall indicate the merchant's:
1) firm name;
2) type;
3) registration number;
4) place of registration; and
5) date of registration.
(3) After the recording of the merchant's branch in the Commercial Register, a registration certificate shall be issued thereto. The following information regarding branch shall be indicated in the registration certificate:
1) firm name;
2) registration number of the merchant (except a foreign merchant);
3) registration number;
4) place of registration;
5) date of registration.
[24 April 2008]

Section 14. Deletion of a Merchant from the Commercial Register

A merchant may be deleted from the Commercial Register on the basis of:
1) an application of an individual merchant;
2) an application of a liquidator of a commercial company;
3) an application of an administrator in a matter of insolvency proceedings;
4) an application of a commercial company to enter a record of re-organisation; or
5) a court adjudication.
[24 April 2008]

Section 15. State Fees

(1) A State fee shall be paid for the entry of a record in the Commercial Register and for the registration of the documents to be submitted, the amount, payment procedures and relief of which shall be determined by the Cabinet.
(2) A State fee in the amount determined by the Cabinet shall be paid for extracts from the Commercial Register and for extracts or copies of existing documents in the Commercial Register file, as well as for the issuance of notices. The amount of the referred to State fee

may not exceed the administrative costs which are associated with the preparation and issuance of the relevant extracts or copies.
(3) A State fee shall be paid for the certification of a signature performed by the official of the Commercial register Office. The amount, payment procedures and relief of the State fee shall be determined by the Cabinet.
[16 June 2005; 16 March 2006]

Section 16. Term for Submission of Information

Information, upon which basis new records are to be entered, as well as the documents specified by law to be submitted, shall be submitted to the Commercial Register Office within 14 days from the day that the relevant decision is taken if this Law does not specify otherwise.
[14 February 2002]

Section 17. Particulars of a Merchant

(1) The following particulars shall be included in the business letters, invoices and other documents of a merchant in printed form or in electronic form, as well as in the home page of the merchant:

1) the firm name of the merchant;

2) the registration number of the merchant at the Commercial Register;

3) the legal address of the merchant; and

4) in relevant cases – information regarding whether the merchant is in the process of liquidation or insolvency.

(2) If the merchant has opened a branch, then the following shall be included in its documents in printed form or in electronic form, in addition to the information referred to in Paragraph one of this Section:

1) the firm name of the branch if it differs from the firm name of the merchant;

2) the registration number of the branch with the Commercial Register; and

3) the legal address of the branch.

(3) If the size of the equity capital is referred to in the particulars of a capital company, the size of the paid-up equity capital shall also be indicated.
[24 April 2008]

Division III
Undertakings and Branches

Section 18. Definition of an Undertaking

An undertaking is an organisational economic unit. The undertaking includes both tangible and intangible things belonging to a merchant, as well as other economic benefits (value), which are utilised by the merchant to perform commercial activities.
[14 February 2002]

Section 19. Commercial Secrets

(1) The status of a commercial secret may be assigned by a merchant for such matters of economic, technical or scientific nature and information, which is recorded in writing or by other means or is not recorded and complies with the following features:

1) they are contained in the company of the merchant or are directly related thereto;

2) they are not generally accessible to third persons;

3) they have an actual or potential financial or non-financial value;

4) their coming at the disposal of another person may cause losses to the merchant; and

5) in relation to which the merchant has taken reasonable measures corresponding to a specific situation to preserve secrecy.

(2) A merchant has exclusive rights to commercial secrets.

(3) A merchant has the right to request the protection of commercial secrets, as well as compensation for losses, which have been caused by the illegal disclosure, or utilisation of the commercial secrets.

[22 April 2004]

Section 20. Transfer of an Undertaking

(1) If an undertaking or its independent part is transferred to the ownership or use of another person, the acquirer of the undertaking shall be liable for all the obligations of the undertaking or its independent part. However, in respect of those obligations which arose prior to the transfer of the undertaking or its independent part to the ownership or use of another person, and the terms or conditions for the fulfilment of which come into effect five years after the transfer of the undertaking, the transferor of the undertaking and the acquirer of the undertaking shall be solidarily liable.

(2) In the case of the transfer of ownership or use of an undertaking or its independent part, claims and other rights included in the undertaking or its part shall be transferred to the acquirer of the undertaking.

(3) An agreement, which is in contradiction to the provisions of this Section, shall be void as to third persons.

[14 February 2002; 22 April 2004]

Section 21. Transfer of an Undertaking of an Individual Merchant to a Partnership

(1) If an undertaking of an individual merchant is transferred to a partnership which is founded by this individual merchant and another person, the partnership thus founded shall be liable for all the obligations of the individual merchant included in the undertaking.

(2) In the case of the transfer of an undertaking, claims and other rights in relation to debtors included in the undertaking shall be transferred to the partnership thus founded.

(3) An agreement, which is in contradiction to the provisions of this Section, shall be void for third persons.

Section 22. Definition of a Branch

A branch is an organisationally independent part of an undertaking, which is territorially or otherwise separated from the principle undertaking and at the location of which commercial activities are systematically performed in the name of the merchant.

[14 February 2002]

Section 23. Recording of a Branch in the Commercial Register

(1) The opening of a branch, based upon an application from a merchant, shall be recorded in the Commercial Register.

(2) The following shall be indicated in the application:

1) the firm name and registration number of the merchant;

2) the firm name of the branch if it differs from the firm name of the merchant;

3) the legal address of the branch; and

4) the person who is authorised to represent those activities of the merchant which are associated with the branch, and the scope of their powers.

Section 24. Deletion of a Branch from the Commercial Register

A branch shall be deleted from the Commercial Register:

1) on the basis of an application by the merchant regarding the closure of a branch; or

2) if the merchant is deleted from the Commercial Register.

Section 25. Branches and Representative Offices of Foreign Merchants

(1) The provisions of this Law shall be applied to branches of foreign merchants, insofar as is not otherwise specified in this Section.

(2) In an application for the recording of a branch of a foreign merchant in the Commercial Register the following shall be indicated:

1) the firm name of the branch;

2) the firm name of the foreign merchant;

3) the legal address of the branch;

4) the location (legal address) of the foreign merchant;

5) [16 March 2006];

6) the register in which the foreign merchant is registered and registration number if the law of the state of the location of the foreign merchant provides for the recording of the merchant in a register;

7) the person who is authorised to represent those activities of the foreign merchant which are associated with the branch, and the scope of such powers; and

8) the type of foreign merchant.

(3) The application for the recording of a branch of a foreign merchant in the Commercial Register shall have attached the following documents:

1) a document which certifies the registration of the merchant in the relevant state, or a notarised copy of such document, if the law of the state of the location of the foreign merchant provides for the recording of the merchant in a register;

2) a permit to open a branch if such is provided for by law;

3) a notarised copy of the articles of association, memorandum of association or a document equivalent to such of the merchant; and

4) a document which certifies the authorisation of a person to represent the foreign merchant in all activities associated with the branch, and the scope of such powers.

(4) The person referred to in Paragraph two, Clause 7 of this Section, the foreign merchant or lawful representatives of such merchant shall submit to the Commercial Register Office an application regarding:

1) the termination of operation of the merchant, the initiation and completion of legal protection and insolvency proceedings, invitation to tender or proceedings equivalent thereto;

2) the liquidation of the merchant, as well as re-organisation if the foreign merchant is a company;

3) the appointment of an administrator or liquidator indicating the given name, surname, residential address and scope of powers of the administrator (liquidator); or

4) the deletion of the branch from the Commercial Register.

(5) The persons referred to in Paragraph four of this Section shall submit to the Commercial Register Office an application regarding any changes in the composition of such persons and the scope of their powers.
(6) The annual accounts of a foreign merchant shall be submitted to the Commercial Register Office if the law of the state of the location of the foreign merchant provides for the submission of the annual accounts to the state register of the location of the merchant.
(7) All documents to be submitted to the Commercial Register shall have attached notarised translations in the Latvian language.
(8) A foreign merchant has the right to open a representative office in Latvia. A representative office is not a legal person, and it does not have a right to conduct commercial activities in Latvia.
[22 April 2004; 24 April 2008]

Division IV
Firm Names

Section 26. Definition of a Firm Name

(1) A firm name is the name of a merchant recorded with the Commercial Register, which a merchant utilises in commercial activities, in concluding transactions and in signing.
(2) In a narrower sense, the firm name shall be understood as a designation without reference to the type of merchant.
[14 February 2002]

Section 27. Reference to the Type of Merchant

(1) The firm name of an individual merchant shall contain the reference "individuālais komersants" [individual merchant] or its abbreviation "IK".
(2) The firm name of a general partnership shall contain a reference "pilnsabiedrība" [general partnership] or its abbreviation "PS." The firm name of a limited partnership shall contain a reference "komandītsabiedrība" [limited partnership] or its abbreviation "KS".
(3) The firm name of a limited liability company shall contain a reference "sabiedrība ar ierobežotu atbildību" [limited liability company] or its abbreviation "SIA". The firm name of a stock company shall contain a reference "akciju sabiedrība" [stock company] or its abbreviation "AS".
(4) The references to the type of merchant shall be placed at the beginning or end of the firm name.
[14 February 2002]

Section 28. Firm Name Distinctiveness

The firm name of a merchant (Section 26, Paragraph two) shall clearly and specifically differ from other firm names which have already been recorded in or as to which recording has been applied for with the Commercial Register.
[14 February 2002]

Section 29. Restrictions on the Choice of the Firm Name

(1) A firm name may not contain misleading information regarding important circumstances within the scope of commercial rights, especially regarding the type of merchant or commercial activities or also regarding the scope of commercial activities.
(2) A firm name may not be in contradiction with good morals.
(3) A firm name may not include the words "Latvijas Republika" [the Republic of Latvia] and their translation into a foreign language.
(4) If a firm name contains the name of an administrative territory or populated area, the firm name may not coincide with the relevant administrative territory or populated area, except for the name of a homestead.
(5) A designation, which is a substantial component part of a trademark protected in Latvia, may be contained in a firm name only if written permission has been received from the relevant merchant or persons to whom the trademark belongs.
(6) The use of trademarks or parts thereof in a firm name shall be regulated by the regulatory enactments regulating trademarks.
[22 April 2004]

Section 30. Inclusion of Personal Names in Firm Names and the Continued Utilisation of Firm Names

(1) The firm name of an individual merchant may contain the given name or surname of the merchant. If the given name or surname of the individual merchant changes, he or she may also continue to utilise the previous firm name.
(2) The firm name of a general partnership may not contain the given name, surname or name of such persons as who are not its members. The firm name of a limited partnership may not contain the given name, surname or name of such persons as who are not its general partners. If the given name or surname (name) of its personally liable member changes, the given name or surname (name) of which is contained in the firm name of the partnership, the partnership may also continue to utilise the previous firm name.
(3) If a new personally liable member joins an existing partnership or one of the personally liable members' leaves the partnership, the partnership may also continue to utilise the previous firm name. If a member leaves whose given name, surname (name) is contained in the firm name, the continued utilisation of the previous firm name shall require the written consent of such member, or in the case of his or her death – of the heirs.
(4) Upon the acquisition of an existing undertaking, the acquirer may also continue to utilise the previous firm name, in which is included the given name or surname of the previous owner, if the previous owner or – in the case of the death of the owner – his or her heirs, have consented in writing to the continued utilisation of the firm name.
(5) The provisions of Paragraph four of this Section shall be applied in cases, when an undertaking is acquired on the basis of usufructuary rights, a lease or similar legal relationship.
[14 February 2002; 22 April 2004]

Section 31. Alienation of Firm Names

A firm name may only be alienated together with the relevant undertaking.

Section 32. Firm Names of Branches

A branch of a merchant may have its own firm name, which shall contain the firm name of the merchant, the name of the branch or a reference to its location and the word "filiāle" [branch].

Section 33. Protection of Firm Names

A merchant whose rights are infringed in relation to the utilisation of their firm name, may request from the infringer that they terminate the utilisation of the firm name, as well as compensate the merchant for the losses incurred by the illegal utilisation of the firm name.

Division V
Procuration and Ordinary Commercial Powers of Attorney

Section 34. Procuration

(1) Procuration is a commercial power of attorney, which grants to the proctor the right to conclude transactions and to perform other legal activities associated with commercial activities on behalf of a merchant, including all procedural activities in the course of legal proceedings (bringing an action, settlement, appeal of a court adjudication and the like).
(2) A proctor may alienate, pledge or encumber immovable property with rights pertaining to property only if such rights have been specially granted to him or her.
(3) It may be determined in the articles of association of a capital company that the proctor shall represent the capital company together with one or several members of the board. It may be determined in a partnership agreement that the proctor shall represent the partnership together with one or several members of the partnership.
[22 April 2004]

Section 35. Issuance of a Procuration

(1) Only a merchant or a legal representative of such merchant may issue a procuration, moreover with a specific expression of intent.
(2) A procuration may be issued simultaneously to several persons. On the basis of such a procuration (joint procuration), the joint proctors have the right to represent the merchant only jointly.
(3) A proctor does not have the right to transfer the procuration to another person.

Section 36. Restrictions on the Scope of a Procuration

(1) Restrictions on the scope of a procuration shall be void as to third persons.
(2) The provisions of Paragraph one of this Section shall especially apply to such restrictions of the scope of a procuration, as a result of which the procuration may be utilised only:
1) in relation to specified transactions, specified types of transactions or their scope;
2) when certain circumstances exist; or
3) for a specified time or in a specified area.
(3) The restriction of the scope of a procuration in relation to one of several branches of a merchant's undertaking (a branch procuration) shall be in effect as to third persons only if such branches have different firm names recorded in the Commercial Register.

Section 37. Signature of a Proctor

A proctor shall sign adding to the firm name of the merchant his or her signature and an indication of the existence of a procuration ("procurists" [proctor], *p.p., per procura*).

Section 38. Application for the Issuance of a Procuration, and Recording of Changes in the Representation Rights of a Proctor and Termination of a Procuration in the Commercial Register

(1) The issuance of a procuration shall be notified by the merchant for recording in the Commercial Register, indicating the given name, surname and personal identity number of the proctor. A sample signature of the proctor notarised or certified by the official of the Commercial Register Office shall be attached to the application.
(2) If a joint procuration is issued or if in the procuration the proctor has been granted the right to alienate, pledge or encumber immovable property with rights pertaining to property, the merchant shall especially indicate this in the application regarding the recording of the procuration in the Commercial Register.
(3) Changes in the representation rights of a proctor and the termination of a procuration shall be notified by the merchant for recording in the Commercial Register.
[14 February 2002; 16 March 2006]

Section 39. Termination of a Procuration

(1) A merchant has the right to unilaterally revoke a procuration at any time irrespective of the legal relationship, upon which basis the procuration was issued. The revocation of a procuration shall not influence the rights of a proctor to receive the contracted remuneration.
(2) After the death of an individual merchant, the procuration shall remain in effect.
(3) A procuration shall terminate upon the death of the proctor.
[14 February 2002]

Section 40. Ordinary Commercial Power of Attorney

(1) If a merchant, without issuing a procuration authorises some other person to conduct in his or her name commercial activities, to conclude specific types of transactions related to the commercial activities performed by the merchant or also to conclude separate transactions related to the commercial activities performed by the merchant, such a power of attorney (an ordinary commercial power of attorney) shall relate to all lawful activities which are usually directed to the performance of such commercial activities or the concluding of such transactions.
(2) A person with a commercial power of attorney may alienate, pledge or encumber immovable property with rights pertaining to property, undertake obligations under bills of exchange, take loans or represent the merchant in court only if such rights have been especially granted to them.
(3) Any other restrictions on the authorisation granted to a person with a commercial power of attorney shall be in effect as to third persons only if they knew or should have known of such restrictions.

Section 41. Representatives Authorised to Conclude Transactions

(1) The provisions of Section 40 of this Law shall also be applied to those persons with a commercial power of attorney who are commercial agents or who, as employees of a

merchant, have been entrusted to conclude transactions in the name of the principal outside his or her undertaking.
(2) The authorisation issued to the persons with a commercial power of attorney referred to in Paragraph one of this Section, does not give them the right to change concluded transactions.
(3) The persons with a commercial power of attorney referred to in Paragraph one of this Section:

1) may receive payments if they are authorised to do it; and

2) shall be considered as authorised to take notifications regarding deficiencies in goods, regarding the supply of goods and other similar notifications, with the assistance of which a third person uses or keeps their rights in relation to the improper fulfilment of obligations, as well as using the rights to the securing of evidence belonging to the principal.

Section 42. Employees of a Merchant at the Place of the Selling of Goods or Provision of Services

Employees of a merchant who work in a place where goods are sold or services are provided, shall be considered to be authorised to sell such goods or provide such services, and to perform other legal activities associated with such, which are usually performed at such places.

Section 43. Signature of a Person with a Commercial Power of Attorney

A person with a commercial power of attorney shall sign, adding to the firm name of the merchant an addition which indicates of the existence of a power of attorney. A person with a commercial power of attorney may not add to his or her signature additions which may create a misleading impression regarding the existence of a procuration.

Section 44. Further Transfer of a Commercial Power of Attorney

A person with a commercial power of attorney may transfer the power of attorney granted to him or her further to another person only if he or she has been specifically granted such rights.

Division VI
Commercial Agents

Section 45. Definition of a Commercial Agent

A commercial agent is a merchant who has been authorised to permanently conclude transactions with third persons in the name and to the benefit of another person (principal) or also to prepare transactions for concluding.

Section 46. Form of Commercial Agent Contract

A commercial agency contract shall be concluded in writing.

Section 47. Duties of a Commercial Agent

(1) A commercial agent, taking into account the interests of the principal, shall take care of the concluding of transactions or their preparation for concluding.

(2) A commercial agent shall transfer to the principal all necessary information and documents. A commercial agent has a special duty to inform the principal without delay regarding each concluding of a transaction or its preparation for concluding.
(3) A commercial agent shall perform his or her duties with the due care of a diligent merchant and comply with the reasonable instructions of the principal.
(4) An agreement which is in contradiction with the provisions of this Section shall be void.

Section 48. Duties of a Principal

(1) A principal shall transfer to the commercial agent documents (samples, drawings, price lists, advertising brochures, transaction regulations and others) which are necessary for the commercial agent to perform his or her duties.
(2) A principal has a special duty to notify a commercial agent without delay, regarding:

1) his or her acceptance of such transactions which the commercial agent has prepared for concluding, or regarding refusal to conclude such a transaction;

2) the non-performance of such transactions which the commercial agent has concluded or has prepared for concluding; and

3) a significant decrease in the volume of transactions if the principal anticipates such a decrease in comparison with the volume upon which the commercial agent could usually rely.

(3) An agreement which is in contradiction to the provisions of this Section shall be void.

Section 49. Remuneration of a Commercial Agent

(1) If remuneration has not been contracted for, a commercial agent has the right to receive such remuneration as is normally paid in the relevant area for the concluding of the same or similar transactions. If there is no such a standard, a commercial agent has a right to a reasonable remuneration, which shall be determined taking into account all the circumstances associated with the relevant transaction.
(2) A remuneration or its part payable to a commercial agent, which fluctuates according to the number or value of the relevant transactions, is a commission.
(3) The provisions of Sections 50 to 52 of this Law in relation to commercial agent remuneration shall be applied insofar as the remuneration in full or in part is paid in the form of a commission.

Section 50. Rights of a Commercial Agent to Commission

(1) A commercial agent has a right to commission on a transaction, which is concluded during the period that the commercial agency contract is in effect, if such transaction has been concluded as a result of his or her action, or also with a person whom the commercial agent has previously acquired as a client for transactions of the same kind.
(2) If a commercial agent has been entrusted to work within a specific geographical territory or with a specific group of clients, he or she has a right to commission also on such transactions, which during the period that the commercial agency contract is in effect, without his or her participation, are concluded with a client who belongs to such geographical territory or group of clients.
(3) In relation to transactions, which are concluded after the commercial agency contract has expired, a commercial agent has a right to commission only if:

1) the transaction has been concluded primarily because of his or her activities which were performed during the period that the commercial agency contract was in effect, and such

transaction was concluded within a reasonable period of time after the commercial agency contract expired; or

2) prior to the expiration of the commercial agency contract, the commercial agent or the principal had received an offer from a third person regarding the concluding of such a transaction, in respect of which the commercial agent has a right to commission in accordance with the provisions of Paragraph one or two of this Section.

(4) A commercial agent shall not have a right to a commission in accordance with the provisions of Paragraph one or two of this Section, if it in accordance with the provisions of Paragraph three of this Section, is due the previous commercial agent, except in the case, when special circumstances justify the equitable sharing of the commission between these commercial agents.

Section 51. Coming into Effect of a Term for the Payment of a Commission

(1) A commercial agent has a right to commission as soon as and to the extent the principal has performed the transaction. The persons may also agree regarding different provisions, however, at the moment when the principal has performed the transaction, the commercial agent has a right to an appropriate advance payment, which shall be paid not later than on the last day of the next month. Irrespective of such an agreement, the commercial agent has a right to commission as soon as and to the extent the third person has performed the transaction.

(2) If a principal has performed a transaction, but it is clear that the third person will not perform the transaction, the right of the commercial agent to commission is terminated. In such case, the commercial agent has a duty to return the amounts already received.

(3) A commercial agent has a right to commission also when it is clear that the principal has not fully or in part performed the transaction, or also has not performed the transaction in such a way as it was concluded. The right of a commercial agent to commission in the case of non-performance of the transaction shall terminate only then if the cause of such non-performance was circumstances independent of the principal.

(4) A commission shall be paid not later than on the last day of the month in which, in accordance with the provisions of Section 52, Paragraph one of this Law, the principal has a duty to calculate the commission due to the commercial agent.

(6) Agreements which are in contradiction to the first sentence of Paragraph two of this Section, as well as the provisions of Paragraphs three and four, if it worsens the situation of the commercial agent, shall be void.

Section 52. Calculation of Commission

(1) A principal has a duty to calculate, each month the amount of commission due a commercial agent. The calculation period may be extended not longer than up to three months. The calculation shall be performed without delay, but not later than within a period of one month following the end of the calculation period.

(2) A commercial agent receiving the calculation may request an extract from the accounts regarding all transactions, for which he or she has a right to commission. A commercial agent also has a right to request information which is of significant importance in respect of the right to receive a commission, the coming into effect of its payment terms and the calculation of the commission.

(3) If a commercial agent is refused an extract from the accounts, or also if there have arisen justified doubts regarding whether the calculation or the extract from the accounts is correct or complete, the commercial agent may request that the principal allow, pursuant to his or her

choice, the commercial agent or a sworn auditor selected by them to become acquainted with the accounting and other documents insofar as is necessary to determine the correctness or completeness of the calculation or the extract from the accounts.
(4) Agreements, which revoke or restrict the rights of a commercial agent referred to in this Section, shall be void.

Section 53. ***Del credere***

(1) A commercial agent who undertakes to guarantee the performance of the obligations of a third person (the other party to a transaction), has the right to special remuneration (*del credere*). An agreement that revokes these rights in the future shall be void.
(2) The guarantee referred to in Paragraph one of this Section may only pertain to specific transactions, or also to such transactions with specific third persons which the commercial agent has concluded or the concluding of which he or she prepared. A guarantee contract shall be concluded in writing.
(3) The right of a commercial agent to *del credere* arises at the moment of the concluding of the relevant transaction.
[14 February 2002; 22 April 2004]

Section 54. Reimbursement of Costs

A commercial agent may request the reimbursement of costs, which have occurred in the course of his or her commercial activity, only if it is normally so accepted within the scope of commercial rights.

Section 55. Statute of Limitations

The statute of limitations for claims arising from a commercial agency contract shall be four years, counting from the end of that calendar year in which they arose.

Section 56. Right to Retainer

(1) An agreement in which a commercial agent relinquishes in the future a lawful right to retainer shall be void.
(2) After the expiration of a commercial agency contract, a commercial agent may retain documents transferred for their use only in relation to the commission (remuneration) payable to him or her, or the reimbursement of costs associated with his or her commercial activities.

Section 57. Notice of Cancellation of a Commercial Agency Contract

(1) If a commercial agency contract is entered into for an indefinite time, each of the parties to the contract may cancel the commercial agency contract, observing the following terms for notice of cancellation:
1) one month, if the commercial agency contract is cancelled in its first year of operation;
2) two months, if the commercial agency contract is cancelled in its second year of operation;
3) three months, if the commercial agency contract is cancelled in its third year of operation; or

4) four months, if the commercial agency contract is cancelled in its fourth or subsequent years of operation.
(2) Agreements regarding shorter terms of notice of cancellation shall be void. If longer terms of notice of cancellation are contracted for, the term of notice of cancellation specified for the principal may not be shorter than the term of notice of cancellation specified for the commercial agent.
(3) If it has not been contracted for otherwise, the commercial agency contract shall be noticed at the end of the calendar month.
(4) A commercial agency contract, which is entered into for a specified time period, and which both parties continue after the expiration of the contracted for time period, shall be considered to be have been entered into for an indefinite time period. In determining the length of the term of notice of cancellation in accordance with Paragraphs one and two of this Section, the total length of the contractual relations shall be taken into account.
[22 April 2004]

Section 58. Immediate Notice of Cancellation

(1) Both parties may, at any time, cancel a commercial agency contract, not observing the specified terms for notice of cancellation if there is an important reason for it. An agreement, which revokes or restricts such notice of termination rights, shall be void.
(2) If the immediate notice of termination of the commercial agency contract has given rise to such actions for which the other party is liable, then they shall have a duty to compensate the losses, which have occurred in relation to the cancellation of the contract.

Section 59. Right to an Indemnity or Compensation for Losses
[22 April 2004]

(1) A commercial agent after the cancellation of a commercial agency contract may request relevant indemnity from the principal, if and insofar as:
1) the principal even after the cancellation of the commercial agency contract gains substantial benefits from transaction relations with new clients which were attracted by the commercial agent;
2) the commercial agent in connection with the cancellation of the commercial agency contract loses the right to a commission or remuneration, which he or she would have had in respect of transactions already concluded or to be concluded in the future with clients attracted by him or her if the commercial agency contract relations were continued; and
3) the payment of indemnity, taking into account all the circumstances, shall be expected from the principal on the basis of fairness.
(2) Within the meaning of Paragraph one, Clauses 1 and 2 of this Section, the attraction of new clients shall mean such significant increase in volume in relation to transactions with the present clients of a principal, which in economic terms is equivalent to the attraction of new clients.
(3) The amount of indemnity may not exceed the average annual commission or other average annual remuneration, which is calculated for the last five of the years of operation of the commercial agent. If the commercial agency contract relations have existed for a shorter period of time, the average annual commission or other average annual remuneration shall be calculated for this shorter time period.
(3^1) A commercial agent has the right to compensation for losses caused due to the termination of a commercial agency contract, especially to compensation for unearned

expenses and investments which the commercial agent has performed upon the proposal of a principal in fulfilling the commercial agency contract.
(4) A commercial agent shall not have the right to claim indemnity or compensation for losses if:

1) he or she has cancelled the commercial agency contract, except for cases when the actions of the principal have given a substantiated cause for a notice of termination, or also the commercial agent is unable to continue his or her activities due to old age or illness;

2) the principal has cancelled the commercial agency contract for such a significant cause, the basis of which is an action of the commercial agent who is at fault; or

3) on the basis of an agreement between the principal and the commercial agent a third person has replaced the commercial agent in the commercial agency contract relations. Such an agreement may not be concluded prior to the cancellation of the commercial agency contract.

(5) The parties may not agree regarding waiver of the rights specified in this Section to request the indemnity or compensation for losses prior to the expiry of the commercial agency contract. The claim for indemnity or compensation for losses is subject to a limitation period of one year after the expiry of the commercial agency contract.
[22 April 2004]

Section 60. Duty of a Commercial Agent to Keep Commercial Secrets

A commercial agent, also after the cancellation of the commercial agency contract, is prohibited to utilise or to disclose to third persons commercial secrets which are entrusted to him or her or of which he or she has become aware in relation to his or her activities for the benefit of the principal.

Section 61. Restrictions on Competition

(1) An agreement by which the professional activities of a commercial agent are restricted after the cancellation of the commercial agency contract (restrictions on competition) shall be entered into in writing.
(2) Restrictions on competition may relate only to the geographical territory or the group of clients entrusted to the commercial agent, and is restricted to the field of activities in which he or she cared for concluding of transactions or preparing them for concluding. The time period of the restrictions on competition may not exceed two years after the commercial agency contract was cancelled.
(3) It shall be the duty of a principal to pay a relevant remuneration to a commercial agent for the time of the competition restrictions.
(4) Prior to the cancellation of a commercial agency contract, a principal may at any time in writing waive the restrictions on competition. In such case the duty of a principal to pay the remuneration referred to in Paragraph three of this Section shall cease after six months from the date of notification of the waiver. If the principal has cancelled the commercial agency contract due to such a significant cause, the basis of which is an action of the commercial agent who is at fault, the commercial agent shall lose the right to receive remuneration.
(5) If a commercial agent has cancelled the commercial agency contract due to such a significant cause, the basis of which is an action of the principal who is at fault, the commercial agent may in writing waive the restrictions on competition within one month after the notice of cancellation of the commercial agency contract.
(6) An agreement, which is in contradiction to the provisions of this Section, if it worsens the situation of the commercial agent, shall be void.

Section 62. Restrictions on Authorisations of a Commercial Agent

(1) The provisions of Section 41 of this Law shall be applied also to such commercial agents who have been authorised by a principal who is not a merchant.
(2) A commercial agent, also if he or she is not authorised to conclude transactions, shall be considered as authorised to accept notices regarding any deficiencies of goods, regarding the delivery of goods and other similar notices, with the assistance of which third persons use or reserve their rights in relation to the unsatisfactory performance of obligations, as well as using the rights of securing evidence belonging to the principal.
(3) The restrictions of the rights referred to in Paragraph one of this Section shall be binding on third persons only if they knew or should have known of such restrictions.

Section 63. Insufficiency of Authorisation

(1) If a commercial agent, who has been authorised only to prepare transactions for concluding, concludes a transaction in the name of the principal and the third person did not know that the commercial agent was not authorised for this, it shall be considered that the principal has approved the transaction if the principal, after the commercial agent or the third person has notified him or her regarding the concluding of the transaction and its contents, has not without delay repudiated such transaction.
(2) The provisions of Paragraph one of this Section shall also apply in cases when a commercial agent who is authorised to conclude transactions has concluded such a transaction in the name of the principal as he or she was not authorised to conclude.

Division VII
Brokers

Section 64. Definition of a Broker

(1) A broker is a merchant who engages in intermediation for concluding transactions for the benefit of another person, not being permanently associated with such person through contractual relations.
(2) The provisions of this Chapter shall not apply to persons who perform stock exchange transactions.

Section 65. Final Text of a Transaction Document

(1) A broker has a duty to submit to each of the parties to the transaction without delay, after the concluding of a transaction, a final text of a transaction document certified by the broker to each of the parties to the transaction, in which shall be indicated the parties to the transaction, the subject matter of the transaction and the provisions of the transaction, unless the parties to the transaction have released the broker from this duty.
(2) In transactions which are not to be immediately performed the final text of a transaction document shall be submitted to the parties to the transaction for signature, and each of the parties shall submit to the other party a signed transaction document.
(3) If one party to the transaction refuses to accept or sign the final text of a transaction document, the broker has a duty to inform, without delay, the other party about it.

Section 66. Reserved Tasks

(1) If one party to a transaction accepts the final text of a transaction document, in respect of which a broker reserves the right to later indicate the other party, they have binding transaction relations with the other party to the transaction indicated later by the broker, unless objections are raised against the latter.
(2) The broker has a duty to indicate to the other party to the transaction the term specified, but if such is not specified – within a term appropriate for the relevant circumstances.
(3) If the broker, within the term referred to in Paragraph two of this Section, does not indicate the other party to the transaction or also if justified objections may be raised against the other party to the transaction, then the first party to the transaction has the right to request the performance of the transaction from the broker. Such rights shall lapse if, pursuant to a request from the broker, the first party to the transaction fails to notify without delay, regarding whether it shall request that the broker perform the transaction.

Section 67. Preservation of Samples

(1) If goods have been sold through the intermediation of a broker pursuant to a sample which was transferred to the broker, he or she has a duty to preserve such sample until the goods are accepted without objections regarding their characteristics, or also the transaction is performed in some other way. Samples shall be labelled with a relevant label.
(2) A broker does not have a duty to preserve samples, if the course of dealing, taking into account the relevant type of goods, or the parties to the transaction release him or her from this duty.

Section 68. Receipt of Performance

A broker is not considered authorised to receive payments or any other specified performance of a transaction concluded with his or her intermediation.

Section 69. Liability of a Broker

A broker shall be liable to each of the parties to the transaction for losses which have been incurred due to his or her fault.

Section 70. Remuneration of a Broker

(1) The right to remuneration of a broker shall arise at the moment of the concluding of a transaction.
(2) If the parties to a transaction have not agreed between themselves which of them has a duty to pay remuneration to the broker, they shall pay the remuneration in equal parts.

Section 71. Reimbursement of Costs

A broker may claim reimbursement of costs incurred by him or her only if such rights have been specifically contracted for.

Section 72. Journal of Transactions

(1) A broker has a duty to maintain a journal of transactions, and each day shall record in it all the transactions concluded that day indicating the information referred to in Section 65,

Paragraph one of this Law. The broker shall enter the records in chronological order and sign them every day.
(2) Records in the journal of transactions shall be full, precise, timely entered, understandable and systematically arranged.
(3) If the records in the journal of transactions are corrected, the original content of them shall be visible, and every correction shall be specially indicated and certified with a signature. A correction may not be made in such a way that when and why it was done is not understandable.
(4) A journal of transactions may be maintained in electronic form, if such a registration procedure complies with the regulations of properly conducted maintaining of accounts and the provisions of Paragraphs one, two and three of this Section. In such case, the data image shall be in such a form as ensures that a third person can read it and, if necessary, ensure its extract.
(5) Transactions in the journal of transactions shall be preserved in the archives of the broker for five years after the end of that calendar year in which the last record was made. These provisions shall be accordingly applied if the journal of transactions is maintained in electronic form.

Section 73. Extracts from a Journal of Transactions

(1) A broker has a duty, at any time, pursuant to the request of any of the parties to the transaction, to issue extracts certified with his or her signature from the journal of transactions, in which shall be indicated all the information recorded in the journal of transactions regarding the transaction which was concluded for the benefit of such persons through the intermediation of the broker.
(2) A court may request the production of a journal of transactions.

Part B
Merchants

Division VIII
Individual Merchants

Section 74. Individual Merchant

An individual merchant is a natural person who is registered as a merchant with the Commercial Register.

Section 75. Registration of an Individual Merchant

(1) A natural person who performs economic activities has a duty to apply himself or herself for recording in the Commercial Register as an individual merchant, if the annual turnover from economic activities performed by him or her exceeds 200 000 lats, or the economic activities performed by him or her conforms to the activities of a commercial agent (Section 45 of this Law) or activities of a broker (Section 64, Paragraph one of this Law) or also the economic activities performed by him or her conforms to the following features:

1) the yearly turnover from these activities exceeds 20 000 lats; and

2) he or she, to perform his or her economic activities, provides employment simultaneously to more than five employees.

(2) A natural person may be registered himself or herself as a merchant also in the absence of circumstances referred to in Paragraph one of this Section.
(3) The basis for the registration of an individual merchant is an application by a natural person to the Commercial Register Office. The applications shall indicate the following:

1) the given name, surname, personal identity number and residential address of the individual merchant;

2) the firm name of the individual merchant;

3) the legal address of the individual merchant; and

4) [16 March 2006].

[14 February 2002; 24 April 2008]

Section 76. Right of an Individual Merchant to Utilise a Firm Name, and Liability

(1) An individual merchant, may conclude transactions which are associated with commercial activities utilising his or her firm name, as well as be a plaintiff and a defendant in a court.
(2) An individual merchant shall be liable for his or her obligations with the whole of his or her property.
(3) A claim against an individual merchant, which arises from the performance of his or her commercial activities, has a statute of limitations period of three years after his or her deletion from the Commercial Register if the claim is not subject to a shorter statute of limitations period.
(4) If the term or the conditions of the performance of an obligation by an individual merchant comes into effect after the individual merchant has been deleted from the Commercial Register, the statute of limitation period for the claims of creditors shall commence with the time of the coming into effect of the term for or the conditions of the performance of an obligation.

Division IX
General Partnerships

Chapter 1
General Provisions

Section 77. Definition of a General Partnership

(1) A general partnership is a partnership, the purpose of which is the performance of commercial activities utilising a joint firm name, and in which two or more persons (members) have united, on the basis of a partnership agreement, without limiting their liability against creditors of the general partnership.
(2) The Civil Law provisions regarding partnership contracts shall be applied to a general partnership (hereinafter in this Division – partnership), insofar as this Chapter does not specify otherwise.

Section 78. Application for Registration in the Commercial Register

(1) The information referred to in Section 8 of this Law shall be indicated in an application to register a partnership in the Commercial Register.
(2) The legal address of a partnership shall be considered to be the address of the place where the management of the partnership is located (the headquarters of the partnership). Changes of the legal address shall be notified to the Commercial Register for registration.

(3) Changes in the firm name of the partnership shall be notified to the Commercial Register for registration, as well as new members joining the partnership.
(4) All members of the partnership have a duty to sign the applications referred to in Paragraphs one, two and three of this Section.
(5) Notarised sample signatures for all the members of a partnership who have the right to represent the partnership shall be submitted to the Commercial Register. A notarised sample signature of the member of the company the signature of whom has been already notarised on the application for registration of the company in the Commercial Register need not be submitted to the Commercial Register Office.
[22 April 2004; 16 March 2006]

Chapter 2
Interrelationships between Members

Section 79. Partnership Agreement

The interrelationships between the members of a partnership shall be considered in accordance with the provisions of the partnership agreement. If there are no such provisions, the provisions of Sections 80–88 of this Law shall be applicable.

Section 80. Reimbursement of Expenditures and Losses

(1) If a member of a partnership, when handling partnership matters, covers necessary expenditures on his or her own account or suffers losses which directly arise from the record-keeping of the partnership or with the risk associated with it, the partnership has an obligation to reimburse such expenditures and losses.
(2) In reimbursing expenditures and losses, a partnership has an obligation also to pay interest at the legal rate, which shall be calculated from the time the expenditures and losses referred to in Paragraph one of this Section were incurred.

Section 81. Duty of Members of a Partnership to Pay Interest

(1) If a member of a partnership has failed to pay his or her money contribution within a specified period of time, or has not, in a specified period of time, transferred money collected to the cashier's office of the partnership, or also has taken money from the cashier's office of the partnership without authorisation, he or she has the duty to pay interest at the legal rate from the day when the payment of the contribution had to be made or when the money was to be transferred, or also when the money was taken without authorisation.
(2) The payment of interest does not release the member of a partnership from a duty to reimburse losses.

Section 82. Prohibition of Competition

(1) A member of a partnership may not, without the consent of the rest of the members, conclude transactions in the sector of commercial activities of the partnership or be a member with full liability in another partnership which performs the same commercial activities.
(2) Consent to participation in the other partnership referred to in Paragraph one of this Section, shall be deemed to have been given if, when the partnership was founded, the rest of the members had known of such participation in another partnership and they did not specifically object to it.

(3) If a member of the partnership violates the provisions in Paragraph one of this Section, the partnership has the right to request reimbursement of losses or the recognition of the relevant transactions as concluded in the name of the partnership, and the income gained or the right to claim such be transferred to the partnership. The rest of the members of the partnership shall decide in respect of bringing such actions.
(4) The statute of limitation period for claims referred to in Paragraph three of this Law shall be three months from the day when the rest of the members of the partnership discovered about the violation against the prohibition of competition, but not later than within five years from the day of the commission of the violation.

Section 83. Management of a Partnership

(1) All members of a partnership have a right and a duty to participate in the management of the partnership.
(2) If, in accordance with the partnership agreement, the management of the partnership is entrusted to one member of the partnership or to several members of the partnership (managers), the rest of the members shall not participate in the management of the partnership.
(3) If the management of the partnership is entrusted to all or several members, then each of them has the right to act individually. Individual action shall not be allowed if another manager objects to it.
(4) If it is specified in the partnership agreement that members, to whom the management of the partnership has been entrusted, may act only jointly, for each transaction the consent of all the managers shall be necessary, unless a risk of delay exists.

Section 84. Scope of Management Powers

(1) The scope of partnership management powers shall include any actions, which are associated with the usual commercial activities performed by the partnership.
(2) The consent of all the members of a partnership shall be necessary for actions, which exceed the usual commercial activities performed by the partnership.
(3) A procuration may be issued only with the consent of all the managers of a partnership, unless a risk of delay exists. The procuration may be revoked by any manager of a partnership.

Section 85. Revocation of Management Powers

(1) The partnership management powers of a member may be revoked by an adjudication of a court on the basis of an action by the rest of the members, if there is good cause for it.
(2) A gross violation in the performance of duties as well as an inability to properly conduct the management of the partnership shall be especially considered to be good cause.

Section 86. Control Rights of Members

(1) All members of a partnership at any time may ascertain the course of partnership matters, become acquainted with the accounting and other documents of the partnership, as well as prepare for themselves a report regarding the state of partnership property, balance sheets and annual accounts.
(2) Agreements, which are in contradiction to Paragraph one of this Section shall be void.

Section 87. Taking of Decisions

(1) To take a decision, the consent of all the members of the partnership who have the right to take the relevant decision shall be necessary.
(2) If a partnership agreement specifies that a decision shall be taken by a majority of votes, then, in case of doubt, a majority shall be determined according to the number of members in the partnership.
[14 February 2002]

Section 88. Profits and Losses

(1) The profits and losses of a partnership shall be specified at the end of every accounting year, based upon the annual accounts of the partnership, which has been approved by the members of the partnership.
(2) The profits and losses of a partnership shall be divided between members in proportion to their contribution (capital shares) in the partnership. The calculated profit for each member of the partnership shall be added to his or her contribution (capital shares), on the other hand, in the case of losses, his or her contributions (capital shares) shall be reduced by the amount of calculated loss.
(3) If a member of a partnership, up to the division of profits, has not paid in his or her contribution, which he or she should have paid in accordance with the partnership agreement, the contribution together with interest shall be withheld from the share of the profit, which would be due to the member.
(4) A member of a partnership may request the payment of his or her share of the profit if it does not harm the partnership and his or her contribution (capital share) have not reduced.
[14 February 2002]

Chapter 3
Relations of Members of a Partnership with Third Persons

Section 89. Existence of a Partnership in Relation to Third Persons

(1) A partnership has an on-going relationship with third persons from the time it is recorded in the Commercial Register.
(2) If a partnership has concluded its transactions already prior to its being recorded in the Commercial Register, the partnership shall be deemed to have existed from the time of the conclusion of the transaction.
(3) An agreement regarding the fact that a partnership shall be deemed to exist at a later time shall be void as to third persons.

Section 90. Legal Status of a Partnership

(1) A partnership, utilising its firm name, may acquire rights and assume obligations, acquire property and other rights pertaining to property, as well as be a plaintiff and defendant in a court.
(2) Collection on the property of a partnership may be commenced only after an adjudication of a court in a matter in which the defendant is the partnership.

Section 91. Representation of a Partnership

(1) All members of a partnership have the right to represent the partnership in relations with third persons, unless they have been excluded from representation by the partnership agreement.
(2) A partnership agreement may specify that all or several members of the partnership are entitled to represent the partnership only jointly (joint representation). These members may authorise one member or several members from among themselves to conclude specific transactions or specific types of transactions. The intent of a third person shall be deemed to be a relation expressed as to the partnership if it is expressed to at least one of its members who is entitled to represent the partnership.
(3) [22 April 2004].
(4) Application for recording in the Commercial Register of the exclusion of a member of a partnership from representation, the specification of joint representation in accordance with the provisions of Paragraphs two and three of this Section, as well as any other changes in the representation authorisations of the members of the partnership shall be notified for recording in the Commercial Register. It is the duty of all members of the partnership to sign these applications.

Section 92. Scope of Representations

(1) The representation by members of a partnership shall apply to all transactions and other lawful activities, including the alienation and encumbering of immovable property with rights pertaining to property, as well as the issuing and revocation of a procuration.
(2) Restrictions on the scope of representations shall not be binding on third persons.
(3) The provisions of Paragraph two of this Section shall specially apply to such restrictions on the scope of representation as in conformity with representation shall be conducted:
1) in relation to specific transactions or specific types of transactions;
2) the existence of certain circumstances; or
3) for a specific period or in a specific geographical territory.
(4) Joint representation, if it is registered with the Commercial Register, shall not be deemed to be a restriction of the scope of representation.
(5) Restrictions on the scope of representation in relation to one of several branches of a partnership undertaking (branch representation) shall be in effect in relation to third persons only if these branches have a different firm name recorded in the Commercial Register.

Section 93. Revocation of Representation

(1) The representation of a member of a partnership, on the basis of a relevant action by the rest of the members, may be revoked by an adjudication of a court, if there is good cause for it.
(2) A gross violation in the performance of duties as well as an inability to properly perform representation of the partnership shall be especially considered to be good cause.

Section 94. Personal Liability of Members of a Partnership

(1) Members of a partnership shall be personally liable for the obligations of the partnership with all of their property as joint debtors.
(2) Agreements, which are in contradiction to Paragraph one of this Section, shall be void as to third persons.

Section 95. Objections of Members of a Partnership

(1) If an action is brought against a member of a partnership regarding fulfilment of the obligations of the partnership, he or she has a right to raise objections not associated with himself or herself only to such an extent as the partnership could raise them.
(2) A member of a partnership may refuse to satisfy a claim by a creditor, while:
1) the partnership has a right to contest the transaction which is the basis of the obligation of the partnership; or
2) the creditor may satisfy their claim by an offset in respect of the fulfilment of the obligation of the partnership.
(3) On the basis of an adjudication which has come into legal effect in a matter, in which the defendant is only the partnership, collection may not be made against the property of a member of the partnership.

Section 96. Liability of a New Member of a Partnership

(1) A member of a partnership, who joins an already existing partnership, shall be solidarily liable with rest of the members of the partnership in accordance with the provisions of Sections 94 and 95 of this Law also regarding those obligations of the partnership which were incurred before he or she joined the partnership.
(2) Agreements, which are in contradiction to Paragraph one of this Section, shall be void as to third persons.

Chapter 4
Termination of a Partnership and the Withdrawal of a Member of a Partnership

Section 97. Basis for the Termination of a Partnership and the Withdrawal of a Member of a Partnership

(1) A partnership shall be terminated:
1) when the time for which it was founded has ended;
2) by a decision of the members of the partnership;
3) with the commencement of bankruptcy procedures; or
4) by an adjudication of a court.
(2) If it is not specified otherwise in the partnership agreement, the basis of a withdrawal of a member of a partnership shall be:
1) the death of the member of the partnership;
2) the declaration of the member of the partnership as insolvent;
3) a notice of termination from the member of the partnership;
4) the expulsion of the member from the partnership; or
5) other reasons referred to in the partnership agreement.

Section 98. Termination of a Partnership by an Adjudication of a Court

(1) A partnership founded for a specific time may be terminated by an adjudication of a court before the end of the specific time, as well as a partnership founded for a specific time on the basis of a relevant cause of action by a member of the partnership if there is good cause therefor.

(2) Good cause shall exist especially when another member of the partnership in bad faith or by allowing gross negligence violates significant duties imposed upon him or her by the partnership agreement or such duties have become impossible to fulfil.
(3) Agreements which revoke or restrict rights to request the termination of a partnership shall be void.

Section 99. Notice of Termination by a Member of a Partnership

(1) If a partnership is founded for an indefinite time, a member of the partnership has a right to withdraw from the partnership, providing a notice of termination of the partnership agreement not later than six months prior to the end of the accounting year.
(2) In the final accounting between the partnership and the member who is withdrawing the financial status of the partnership at the end of the accounting year referred to in Paragraph one of this Section shall be taken into account.

Section 100. Partnerships Founded for an Indefinite Time

Within the meaning of Sections 98 and 99 of this Law, partnerships which are founded for an indefinite time shall also be partnerships which:

1) were founded until the death of a member of the partnership; and
2) upon the expiration of the time for which it was founded, it tacitly is continued.

Section 101. Expulsion of a Member of a Partnership Pursuant to a Request of His or Her Creditor

If a creditor of a member of a partnership, within six months, is unable to satisfy his or her claim for collection against the property of the member of a partnership, he or she has the right to bring an action in court for the expulsion of the member of the partnership from the partnership and the satisfaction of his or her claim from the sum which would have been paid out to the member of the partnership, if at the time of the bringing of an action the partnership had been terminated.

Section 102. Expulsion of a Member of a Partnership Pursuant to a Request of the Other Members of the Partnership

(1) In cases, when the rights which, in accordance with the provisions of Section 98 of this Law, allow an action to be brought in court regarding the termination of the partnership have arisen for the members of a partnership, they may instead request the court to expel the member at fault from the partnership.
(2) In the final accounting between the partnership and the member who has been expelled, the financial status of the partnership at the time of the bringing of the action referred to in Paragraph one of this Section shall be taken into account.

Section 103. Transfer of an Undertaking of a Partnership to Another Member of the Partnership

If there are two members in a partnership, and one of them withdraws from the partnership in accordance with the provisions of Sections 99, 101 and 102 of this Law, the partnership shall be terminated without liquidation and the undertaking of the partnership shall be transferred to the other member of the partnership, who has a duty to declare himself

or herself for recording in the Commercial Register as an individual merchant, accordingly declaring the deletion of the partnership from the Commercial Register.

Section 104. Heirs Joining a Partnership

(1) In the case of the death of a member of a partnership, his or her heir has the right to become a member of the partnership, if this is specified in the partnership agreement or if all members of the partnership agree to it.
(2) If it is specified in a partnership agreement that only one of the heirs may become a member of the partnership, but the way in which this person shall be selected is not specified, the member of the partnership may appoint this person by a will.
(3)If with the consent of the rest of the members of a partnership, the heir or the heirs are granted the status of a limited partner, it shall be deemed that the partnership has been transformed into a limited partnership, and shall be declared for recording in the Commercial Register. An heir shall acquire the right to such share of the profits as had the deceased member. The partnership agreement may specify the reduction of the profit share due to the heir, if the profit share due the deceased member had been increased in accordance with the partnership agreement, taking into account his or her activities or greater responsibility.
(4) If an heir does not wish to become a member of the partnership or cannot, or the other members do not agree to it, the heir has a right to receive that which in conformity with his or her part of the estate would have been due to the deceased member of the partnership (estate-leaver) upon final accounting if the partnership were liquidated at the time of the opening of the succession.
(5) An heir may submit an application to a partnership regarding joining the partnership within three months after the time of the opening of the succession.
(6) In the case when an heir who has joined a partnership withdraws or the partnership is terminated, or also in the case when he or she has been granted the status of a limited partner within the term specified in Paragraph five of this Section, the heir shall be liable according to general procedures for the obligations of the partnership which have been incurred prior to his or her withdrawal, the termination of the partnership or the granting of the status of a limited partner.
[14 February 2002]

Section 105. Application for the Termination of a Partnership and the Recording of the Withdrawal of a Member of a Partnership in the Commercial Register

(1) The termination of a partnership shall be declared for recording in the Commercial Register. It is the duty of all members of a partnership to sign such an application.
(2) If the partnership is terminated with the commencement of bankruptcy procedures, the termination of the partnership shall be recorded in the Commercial Register on the basis of an adjudication of a court.
(3) The provisions of Paragraph one of this Section shall be accordingly applied for the application regarding the recording in the Commercial Register of the withdrawal of a member of a partnership. The expulsion of a member of a partnership from the partnership shall be recorded in the Commercial Register on the basis of an adjudication of a court.
(4) If the basis for the termination of a partnership or the withdrawal of a member of a partnership is the death of a member of the partnership, it is the duty of all the other members of the partnership to sign the application for the recording in the Commercial Register of the termination of the partnership or the withdrawal of a member of a partnership.

Chapter 5
Liquidation of a Partnership

Section 106. Necessity for the Liquidation of a Partnership

Liquidation of a partnership occurs after the termination of the partnership, except in cases, when a different way of final accounting is specified in the partnership agreement, or also the partnership has been declared insolvent.

Section 107. Recording of a Liquidator in the Commercial Register

(1) Liquidators shall be declared for recording in the Commercial Register. All members of a partnership have a duty to sign such an application. Similarly, any changes in the composition of liquidators or in the scope of their representations shall be declared for recording in the Commercial Register.
(2) In the case of the death of a member of a partnership, the applications referred to in Paragraph one of this Section shall be signed by the other members of the partnership.
(3) Samples of the signatures of the liquidators of a partnership notarised or certified by the official of the Commercial Register Office shall be submitted to the Commercial Register Office.
[16 March 2006]

Section 108. Several Liquidators

(1) If a liquidation is conducted by several liquidators, they have the right to perform the activities associated with the liquidation only jointly, if it is not specified that the liquidators may perform these activities separately. Such a provision shall be declared for recording in the Commercial Register.
(2) Liquidators may authorise one or more liquidators from among themselves to conclude transactions or specific types of transactions. The intent of a third person shall be deemed to be expressed in relation to the partnership if it has been expressed to at least one liquidator.

Section 109. Void Restrictions on Powers of a Liquidator

Restrictions on the powers of a liquidator shall not be void as to third persons.

Section 110. Instructions from Members of a Partnership

A liquidator has a duty to comply with such instructions which, in relation to the management of the partnership, have been adopted unanimously by the members of the partnership.

Section 111. Signature of a Liquidator

A liquidator shall sign by adding his or her signature and an indication regarding the liquidation of the partnership to the firm name of the partnership.

Section 112. Division of Partnership Property

(1) After the settlement of debts, the liquidator shall divide the remainder of the property of a partnership among the members of the partnership in conformity with the amount of their invested (capital) shares as specified in the closing balance sheet of the partnership.
(2) Money, which is not necessary in the course of the liquidation, shall be divided conditionally among the members of the partnership. The funds necessary to cover its obligations, the terms of fulfilment or conditions of which have not come into effect, and to cover disputed obligations, as well as the securing of such sums as are due to the members of the partnership at the final accounting shall be retained.
(3) If a dispute should arise among the members of a partnership regarding the division of the property of the partnership, the liquidator has a duty to postpone the division until the dispute is resolved.

Section 113. Other Types of Accounting

If the members of a partnership have agreed to another type of final accounting, in relation to third persons, insofar as there still exists undivided partnership property, the relevant provisions of this Chapter shall be applicable.

Section 114. Legal Relations of Members of a Partnership

Up to the end of the liquidation, the provisions of Chapters 2 and 3 of this Division shall be applicable to the existing mutual relations of the members of a partnership and the relations of the partnership to third persons, insofar as it is not specified otherwise in this Chapter or does not derive otherwise from the purposes of the liquidation.

Section 115. Application regarding the Deletion of the Partnership from the Commercial Register

(1) After the end of liquidation, it is the duty of all the liquidators of the partnership to declare the deletion of the partnership from the Commercial Register.
(2) The accounting records and other documents of the partnership shall be given for preservation in Latvia to one of the members of the partnership or to a third person or to the State Archives.
(3) The members of the partnership and their heirs retain the right to examine the accounting records and other documents of the partnership, as well as to utilise them.
[14 February 2002]

Chapter 6
Statute of Limitations and Restrictions on Liability

Section 116. Claims Against a Member of a Partnership

(1) Claims arising from the obligations of a partnership against a member of the partnership shall have a statute of limitations period of three years after the termination of the partnership, if the claim against the partnership is not subject to a shorter statute of limitations period.
(2) The statute of limitations period shall commence from the day that the termination of a partnership is recorded in the Commercial Register.
(3) If the terms of fulfilment or conditions of the obligations of a partnership have come into effect after the termination of a partnership has been recorded in the Commercial Register, the

statute of limitations period of a claim of a creditor shall commence at the time of the coming into effect of the terms of fulfilment or conditions of the obligations.
(4) Interruption of the statute of limitations period in relation to a terminated partnership shall be in effect also in relation to those members of the partnership who participated in it at the time of the termination.

Section 117. Liability of Such a Member of a Partnership as Who Withdraws from the Partnership

If a member of a partnership withdraws from the partnership, he or she shall be liable only for such obligations of the partnership as were incurred prior to his or her joining and the terms of fulfilment or conditions of which came into effect prior to his or her withdrawal, or within five years after withdrawal, counting from the day when the withdrawal of the member of the partnership was recorded in the Commercial Register.

Division X
Limited Partnerships

[14 February 2002]

Section 118. Definition of a Limited Partnership

(1) A limited partnership is a partnership (hereinafter in this Division – partnership), the purpose of which is the performance of commercial activities utilising a joint firm name, and in which two or more persons (members) have agreed on the basis of a partnership agreement, if the liability of at least one of the members of the partnership (limited partner) in relation to the creditors of the partnership is limited to the amount of their contribution, but the liability of the other personal liability members of the partnership (general partners) is not limited.
(2) The provisions of this Law regarding general partnerships shall be applied to a limited partnership, if it is not specified otherwise in this Division.
[14 February 2002]

Section 119. Application for Registration in the Commercial Register

(1) In an application to register a partnership in the Commercial Register in addition to the information referred to in Section 78 of this Law the following shall be indicated for every limited partner:

1) their given name, surname, personal identity number and residential address, but for legal persons – name, registration number and legal address; and

2) the amount of contribution and the total contributions of the limited partner.

(2) The provisions of this Section shall be applied accordingly in the case, when a limited partner joins an existing partnership or also withdraws from such.
[14 February 2002]

Section 120. Relationships between Members of a Partnership

If the partnership agreement does not specify otherwise, the provisions of Sections 121–125 of this Law shall be applied to the relationships between members of a partnership.

Section 121. Management of a Partnership

(1) Limited partners do not have the right to participate in the management of the partnership.
(2) Limited partners do not have the right to object to the actions of a general partner, except for cases when these actions exceed the scope of the usual commercial activities of the partnership.
[14 February 2002]

Section 122. Prohibition of Competition

The provisions of Section 82 of this Law shall not be applied to limited partners, except for cases when pursuant to the partnership agreement they are granted rights to manage the partnership or also they have some other significant influence on the management of the partnership.
[14 February 2002]

Section 123. Rights of Control

(1) Limited partners have the right to request at any time a written report regarding the status of the property of the partnership and to verify its accuracy and to examine the accounting and other documents of the partnership.
(2) On the basis of a relevant action brought by a limited partner, a court may request from the partnership a written report regarding the status of the property of the partnership (copies of the balance sheet and annual accounts), as well as the accounting and other documents of the partnership, if there is an important reason for such.
[14 February 2002]

Section 124. Profits and Losses

(1) In relation to limited partners, the provisions of Section 88, Paragraphs one, two and three of this Law shall be applied.
(2) The profit share of the partnership, which is due to limited partners, shall be included in their capital share until it reaches the specified amount of contribution.
(3) Limited partners shall participate in losses only to the amount of their capital shares and their still unpaid contribution.
[14 February 2002]

Section 125. Payment of Profit Share

(1) Limited partners may request the payment of the profit share due them, except in the case when their capital share in relation to the specified amount of contribution has been reduced as a result of losses, or also would be reduced as a result of the payment of the profit share due them.
(2) Limited partners do not have a duty to return the profit share paid to them in relation to further losses of the partnership.
[14 February 2002]

Section 126. Representation of a Partnership

Limited partners do not have the right to represent the partnership in relation to third persons.
[14 February 2002]

Section 127. Liability of Limited Partners

Limited partners shall be liable, to the creditors of the partnership, in the amount of their contribution up to the making of the contribution. Such liability shall be excluded as soon as the contribution has been performed.
[14 February 2002]

Section 128. Amount of Liability of Limited Partners

(1) After the recording of the partnership in the Commercial Register, the amount of the liability of limited partners in relation to the creditors of the partnership shall be determined in conformity with the amount of their contribution recorded in the Commercial Register.
(2) An agreement of members of a partnership, according to which a limited partner is released from the making of a contribution, or the making of a contribution is postponed shall be void as to creditors.
(3) Insofar as the contribution of a limited partner has been repaid to them, such in relation to the creditors of a partnership shall be deemed to have not been made. This provision is in force also if a profit share has been paid to the limited partner at a time when their contribution (capital share) in relation to the amount of contribution made has been reduced as a result of losses, or also insofar as their contribution (capital share) in relation to the specified amount of contribution has been reduced as a result of the payment of a profit share.
[14 February 2002]

Section 129. Liability of a Limited Partner, When Joining a Partnership

(1) If a limited partner joins an existing partnership, they shall be liable for those obligations of the partnership pursuant to the provisions of Sections 127 and 128 of this Law which were created before they joined.
(2) Agreements which are in contradiction to the provisions of Paragraph one of this Section shall be void as to third persons.
[14 February 2002]

Section 130. Reduction of Contributions

The reduction of the contribution of a limited partner, while it has not been recorded in the Commercial Register, shall be void as to creditors. A reduction in the contribution of the limited partner does not apply to creditors the claims of which have arisen prior to the reduction of contribution being recorded in the Commercial Register.
[14 February 2002]

Section 131. Application for Recording Change of Contribution in the Commercial Register

An increase or decrease of a contribution shall be declared for recording in the Commercial Register. It is the duty of all members of the partnership to sign such an application.

Section 132. Liability of Limited Partners Prior to the Recording of the Partnership in the Commercial Register

(1) If a partnership has commenced its transactions prior to its recording in the Commercial Register, each limited partner who has consented to the commencement of transactions, shall be liable as a general partner in respect of the obligations of the partnership which were incurred prior to the recording of the partnership in the Commercial Register, except in cases when the creditor knew of their participation in the partnership as a limited partner.
(2) If a limited partner joins an existing partnership, the provisions of Paragraph one of this Section shall be correspondingly applied to those obligations of the partnership which were incurred in the period between their joining and their recording in the Commercial Register as a limited partner.
[14 February 2002]

Section 133. Death of a Limited Partner

In the case of the death of a limited partner, his or her heirs continue to participate in the partnership if the partnership agreement does not specify otherwise.
[14 February 2002]

Division XI
Capital Companies

Chapter 1
General Provisions

Section 134. Definition of a Capital Company

(1) A capital company (hereinafter in this Division – company) is a commercial company, the equity capital of which consists of the total sum of the par value of equity capital shares or stock (hereinafter in this Division – shares).
(2) A capital company is a limited liability company or a stock company.
(3) A limited liability company is a private company, the shares of which are not publicly tradable objects.
(4) A stock company is a public company, the shares (stock) of which may be publicly tradable objects.

Section 135. Legal Status of a Company

(1) A company is a legal person.
(2) A company shall be deemed to be founded and shall acquire the status of a legal person from the date when it is recorded in the Commercial Register.

Section 136. Shareholders

(1) A shareholder is a person who owns one or several shares in a company.
(2) Founders shall acquire the status of shareholders from the date when the company is recorded in the Commercial Register. Other persons shall acquire the status of shareholders

from the date when they are registered in the register of the company's shareholders (stockholders), if it is not specified otherwise by law.
(3) Within the scope of this Division, the concept of "shareholder" shall mean a shareholder of a limited liability company and a stockholder of a stock company.

Section 137. Limitations of Liability of a Company

(1) A company shall be liable for its obligations with the whole of its property.
(2) A company shall not be liable for the obligations of its shareholders.
(3) Shareholders shall not be liable for the obligations of the company.

Section 138. A Company with Supplemental Liability

(1) A company may be founded as a company with supplemental liability, in which at least one of the shareholders is liable personally with the whole of their property for the obligations of the company.
(2) In the documents of incorporation of a company with supplemental liability, shall be indicated all the persons who are liable personally for the obligations of the company with the whole of their property. These persons shall be recorded in the Commercial Register.

Section 139. Legal Address of a Company

The legal address of a company shall be the address where the management of the company (headquarters of the company) is located. The board of directors shall submit an application to the Commercial Register Office in case of change of the legal address for making the relevant record.
[16 March 2006]

Section 139.[1] Acquisition of Property from Founders and Shareholders

(1) If a company acquires a property within two years after foundation thereof from the founder, shareholder or a person with similar material interest (family member, affiliated undertaking, etc), the compensation for which exceeds the equity capital of the company by one twentieth, the transaction, on the basis of which the property is acquired, shall come into effect only after confirmation of such transaction by the meeting of shareholders.
(2) The provisions of Paragraph one of this Section shall apply also to cases when a property from one of the persons referred to in Paragraph one of this Section is acquired for several times and exceeds the limit specified in Paragraph one of this Section in total. In such case the confirmation of the meeting of shareholders is necessary for the last transaction, which results in exceed of the referred to limit, as well as for each subsequent transaction, which is entered into with this person by the company.
(3) The property referred to in Paragraphs one and two of this Section shall be evaluated in accordance with provisions of Section 154 of this Law.
(4) The provisions of Paragraphs one, two and three of this Section shall not apply to cases when the property has been acquired within the framework of commercial activities usually performed by the company for usual value, in transaction without compensation, in auction, stock exchange transaction or in accordance with court adjudication.
(5) In the company of one shareholder transactions between the shareholder and the company represented by him or her shall be drawn up in writing.
[16 June 2005]

Chapter 2
Founding of Companies

Section 140. Founders of a Company

(1) The founder of a company shall be a natural person or a legal person or a partnership, which has performed the activities related to the founding of the company or on whose behalf these activities of founding have been performed.
(2) A company may be founded by one or several founders.
[22 April 2004]

Section 141. Procedures for the Founding of a Company

(1) In founding a company, the founders shall perform the following activities:
1) prepare and sign the documents of incorporation of the company in accordance with Section 142 of this Law;
2) set up the administrative institutions of the company and, if it is intended in the company, appoint an auditor;
3) pay up the equity capital in the specified amount, organise the deposit of the monetary payments of the founders into a bank, and receive a notice regarding the making of the contribution;
4) organise the valuation of material contributions (if material contributions are made);
5) pay the State fee for recording in the Commercial Register and the payment for the publication concerning the registration in the Register; and
6) submit an application to the Commercial Register Office.
(2) The founders may request an examination of the founding of the company in the cases and according to the procedures referred to in Section 150 of this Law.
(3) If it not otherwise provided for in the memorandum of association, the founders shall jointly perform the activities that are associated with the founding of the company.
[16 March 2006]

Section 142. Documents of Incorporation of a Company

(1) The memorandum of association and the articles of association are the documents of incorporation of a company.
(2) The conditions in the documents of incorporation may vary from the provisions of the law only when the law explicitly permits such variance.

Section 143. Memorandum of Association

(1) In the memorandum of association shall be indicated:
1) information regarding the founders:
a) for natural persons – given name, surname, personal identity number and residential address,
b) for legal persons – name, registration number, legal address, the given name, surname, personal identity number, office and residential address of the representative who signs the memorandum of association in the name of the legal persons;
2) the firm name of the company;

3) the amount of the equity capital of the company, the number of shares and par value;

4) the amount of the equity capital each founder has subscribed to and the amount of equity capital to be paid-up before registration, the procedures and time periods for payment;

5) the number of shares due to each founder according to the part of the equity capital such founder has subscribed to;

6) the number of and the par value total of those shares which, when founding the company, are to be paid-up with material contributions, indicating each item of the material contribution, and the given name, surname, personal identity number and residential address of those persons who have assumed obligations to make property contributions;

7) the allowed amount of founding costs and the procedures for covering these costs;

8) any special duties, rights or advantages which are granted during the period of the founding of the company to a person who has taken part in the founding of the company;

9) the given names, surnames, personal identity numbers and residential addresses of the members of the board of directors of the company;

10) the given names, surnames, personal identity numbers and residential addresses of members of the company council (if the company has a council);

11) the given name, surname, personal identity number and residential address of the auditor, if an auditor is intended in the company; and

12) other provisions which the founders consider to be significant and which are not in contradiction to law.

(2) The memorandum of association shall be signed by all the founders.

(3) The memorandum of association shall be in effect until the obligations specified therein are appropriately implemented and until the expiration of the time period of the authorisations of the council and the board of directors of the company, in accordance with the provisions of Section 145, Paragraph two of this Law.

(4) [14 February 2002].

(5) If a company is established by one founder, in the place of a memorandum of association a decision regarding the founding of a company shall be prepared and signed. The provisions of this Law which regulate memoranda of association shall also apply to the decision regarding the founding of a company.

[14 February 2002; 22 April 2004; 16 march 2006]

Section 144. Articles of Association

(1) In the articles of association of the company shall be indicated:

1) the firm name of the company;

2) [22 April 2004];

3) the time period or goals of the activities of the company (if the company is founded for a specific period of time or to reach a specific goal);

4) the amount of the equity capital, the number of shares and par value;

5) [14 February 2002];

6) the number of members of the board of directors of the company, especially indicating the rights of members of the board of directors to represent the company separately or jointly;

7) the number of council members of the company (if the company has provided for a council);

8) special provisions for the alienation of shares (if such are provided for); and

9) other provisions which the founders consider to be significant and which are not in contradiction to law.

(2) In addition to information referred to in Paragraph one of this Section, the articles of association of stock companies shall indicate:

1) if the company has different categories of stock – the categories of stock (indicating the rights which arise from each category of stock) and the number and the par value of each category of stock;

2) whether the stock is registered stock or bearer stock and if the articles of association provide that registered stock can be converted into bearer stock or *vice versa* – the provisions for such conversions;

3) whether the stock is in printed form or dematerialised and, if the articles of association provide for the conversion of printed form stock into dematerialised stock and *vice versa* – the provisions for such conversions; and

4) the main types of commercial activities of the company.

(3) When founding the company, the articles of association shall be signed by all founders, indicating the date of signing.

[14 February 2002; 22 April 2004; 24 April 2008]

Section 145. Establishment of Administrative Institutions of a Company and the Appointment of an Auditor

[22 April 2004]

(1) The restrictions specified by law shall be applicable also to the members of the board of directors and council and the auditor, who is appointed in the memorandum of association.

(2) The time period of authorisation of the board of directors, the council and the auditor which were formed until the registration of the company shall expire accordingly when the new board of directors and council are formed and a new auditor appointed at the meeting of shareholders.

[22 April 2004; 16 March 2006]

Section 146. Equity Capital Subscribed To and Paid-up until the Submission of the Application for Registration

(1) Until the submission of the application for registration to the Commercial Register Office, the founders shall perform their obligations as provided for in the memorandum of association in relation to the equity capital as subscribed to and payable until registration, if the memorandum of association does not provide for an earlier time period for the payment of the equity capital.

(2) The equity capital of a limited liability company shall be signed fully and paid-up at least in amount of 50 per cent by the submission of the application for registration. The remaining part shall be paid within one year from the date when the company was recorded in the Commercial Register.

(3) Up to the submission of the application for registration, all of the equity capital of a stock company specified in the memorandum of association shall be subscribed. Up to the submission of the application for registration the amount of paid-up equity capital may not be less than the minimum equity capital specified in Section 225 of this Law, or less than 25 per cent of the subscribed equity capital.

(4) Up to the submission of the application for registration, the equity capital of a stock company shall be paid-up only in money.

[14 February 2002; 22 April 2004]

Section 147. Procedures for the Payment of Equity Capital when Founding a Company

(1) Within the time period specified by the memorandum of association, the founders shall pay up all the amount of the equity capital specified in the memorandum of association as payable up to the submission of the application for registration.
(2) The founders shall open a bank account in the name of the company to be founded, organise the deposit of money into it and receive a notice from the bank, addressed to the Commercial Register Office, which confirms the amount of equity capital paid-up to founding.
(3) [22 April 2004].
(4) The costs of founding a company shall be covered in proportion to the amount of subscribed equity capital of each founder, if the memorandum of association does not provide for different procedures to cover the costs of founding the company.
(5) [22 April 2004].
[14 February 2002; 22 April 2004]

Section 148. Valuation of Material Contributions

If, when founding a company, the equity capital or part of it is paid-up by a property contribution, the founders shall organise its valuation in accordance with the provisions of Section 154 of this Law.

Section 149. Application for Recording in the Commercial Register

(1) The information referred to in Section 8 of this Law shall be indicated in the application for recording of a company in the Commercial Register.
(2) All the founders shall sign the application.
(3) The application shall have appended to it:
1) the documents of incorporation;
2) a notice from a bank regarding the payment the equity capital (if the equity capital or part of it is paid-up in money);
3) a document which certifies the value of each property contribution (if property contributions are made);
4) a written acceptance from each council member to be a council member (if the company has a council);
5) a written acceptance from each member of the board of directors to be a member of the board of directors. A written acceptance need not be submitted by that member of the board of directors who has signed the application for recording of a company in the Commercial Register as the founder of the company;
6) sample signature of each member of the board of directors notarised or certified by the signature of the official of the Commercial Register Office. A sample signature need not be submitted by that member of the board of directors who has signed the application for recording of a company in the Commercial Register as the founder of the company and the signature of whom has been already certified;
7) a notice from the board of directors regarding the legal address of the company; and
8) [16 March 2006].
[14 February 2002; 22 April 2004; 16 March 2006]

Section 150. Examination of the Founding of a Company

(1) Shareholders who represent not less than twentieth of the equity capital with voting rights have the right, within one year from the date of registration of the company, to request that the Commercial Register Office approves one or several experts selected by shareholders to perform an examination of the founding of the company.
(2) The experts shall complete a report, in three copies, regarding the examination performed, of which one copy shall be submitted to the Commercial Register Office, the second – to the company, but the third – to the shareholders who requested the examination.
(3) The shareholders who requested the examination shall cover the costs of the examination.
(4) If it is determined in the examination of the founding of a company that the founders have not performed their duties in good faith, the founders shall compensate the costs of the examination of the founding of the company to the shareholders referred to in Paragraph three of this Section. Disputes regarding expenditures which are associated with the examination of the founding of a company shall be decided by a court.
(5) [14 February 2002].
[14 February 2002; 16 March 2006]

Chapter 3
Equity Capital of a Company

Section 151. Payment of Equity Capital and Types of Payments

(1) Equity capital shall be paid-up with money or property contributions.
(2) Equity capital shall be expressed in whole lats.
(3) The type of payment shall be determined by the memorandum of association or in the regulations for the increase of the equity capital.
(4) Contributed property shall become the property of the company.

Section 152. Payment of Equity Capital with Money

(1) If property contributions are not provided for in the memorandum of association or in the regulations for the increase of the equity capital, the equity capital shall be paid-up only with money.
(2) The contribution specified in Paragraph one of this Section may not be substituted with a property contribution.

Section 153. Property Contributions

(1) Items of property contributions may be tangible or intangible property valued in terms of money, which may be utilised in the commercial activities of a company, except for property which in accordance with law may not be the subject of collection.
(2) Obligations to provide services or to perform work, unanticipated profits or anticipated activities for the company, or also expected salary, honoraria, dividends and similar payments, which a founder or shareholder may receive from the company, may not be property contributions.
(3) Property contributions may not be made in parts.
(4) A person, who makes a property contribution, shall inform of any rights to the item of property contribution by third persons. If the person fails to fulfil this requirement, they shall pay up their shares in cash.

(5) If the value of an item of a property contribution has decreased up to the submission of the application to the Commercial Register Office, the person who has contributed it shall cover this decrease in cash.
(6) [22 April 2004].
[22 April 2004]

Section 154. Procedures for Valuation of Property Contributions
[24 April 2008]

(1) The valuation of property contributions and an opinion thereof shall be made by an expert who is included in the list approved by the Commercial Register Office. An expert may not be a relative of the owner of the property to be valuated up to the third degree of kinship, a spouse and brother-in-law or sister-on-law up to the second degree of affinity, as well as a person who may be otherwise interested in the evaluation of the property.
(2) If, when founding a limited liability company, the total value of property contributions does not exceed 4000 lats, and the property contributions together are less than one-half of the equity capital of the company, the valuation of the property contributions and the submission of an opinion may be made by the founders. In this case, all founders shall sign the opinion.
(2^1) If the equity capital is paid by transferable securities and money market instruments which have been included in the regulated market registered (licensed) in a European Union Member State or a Member State of the European Economic Area at least two years prior to signing of memorandum of association or taking of a decision regarding increase of the equity capital, an opinion regarding valuation of property contribution may be provided by those founders or shareholders, who have made the relevant property contribution.
(3) The property contributions shall be valued according to the usual value of the relevant property or rights.
(3^1) If the equity capital is valued in accordance with the procedures specified in Paragraph $2.^1$ of this Section, the value of transferable securities and money market instruments shall be determined pursuant to the weighted average price in the regulated market within six months before the valuation.
(3^2) An opinion regarding the valuation of a property contribution shall be in effect for six months from the date of drawing up thereof. The opinion regarding the valuation of a property contribution shall also be in effect on the day, when a memorandum of association is signed or a decision regarding increase of equity capital is taken.
(3^3) The board of directors has a duty to ensure a re-valuation of a property contribution in accordance with the provisions of Paragraph one of this Section, if the conditions, which could decrease the value of the property contribution until the time when an application regarding recording of the company in the Commercial Register or an application for increase of the equity capital is submitted to the Commercial Register Office, have been discovered.
(3^4) If the board of directors fails to provide a re-valuation of the property contribution in the case referred to in Paragraph $3.^3$ of this Section, shareholders who on the day of taking of a decision regarding increase of the equity capital represent at least one twelfth of the equity capital until the day when an application for increase of the equity capital will be submitted to the Commercial Register Office, have the right to request re-valuation of the property contribution in accordance with the provisions of Paragraph one of this Section.
(4) An opinion regarding the valuation of a property contribution shall include a description and value of each contribution item, indicate the ownership of the property, and the method used for the valuation of each contribution, and include an opinion regarding the conformity of the items of property contribution with the types of commercial activities of the company. If the valuation is made by the founders or shareholders, the valuation methods for property

contributions need not be indicated. The information used as the basis for determination of the value of property contribution shall be indicated additionally in the opinion regarding the valuation of the property contribution referred to in Paragraph 2.[1] of this Section which is drawn up by founders or shareholders.
(5) The opinion regarding the valuation of property contributions in a stock company submitted to the Commercial Register Office shall be published in the newspaper *Latvijas Vēstnesis*.
(6) The persons, who performed the valuation, shall be solidarily liable for any losses, which have been incurred with an incorrect valuation of a property contribution.
[14 February 2002; 22 April 2004; 24 April 2008]

Section 155. Payment of Shares

(1) It shall be the duty of founders or shareholders to pay up shares according to their par value.
(2) It may be provided for in the regulations for the increase of the equity capital that, in the case of the equity capital of the company being increased, shareholders shall have to, in addition to the par value, also pay a share premium. The share premium shall be indicated in the regulations for the increase of the equity capital, and it shall not be included in the equity capital.

Section 156. Consequences of Failure to Pay Up Shares within the Time Period

(1) If a person fails to pay up the full subscribed price of the shares within the time period for full payment of shares as specified in the memorandum of association or in the regulations for the increase of equity capital, the board of directors shall send him or her a written notice by appropriate means of this. In this notice, shall be indicated the repeated time period for the full payment of shares specified by the board of directors, which may not be shorter than 15 days or longer than 30 days from the date when the notice is sent.
(2) If the person fails to pay up part of the shares within the time period specified by the board of directors referred to in Paragraph one of this Section, he or she shall forfeit the right to these shares, which shall devolve to the company. When the new owner of the shares has paid-up their sales price, the company shall withhold one-fifth of the sales price and the remainder of the amount shall be paid out to the relevant shareholder.
(3) It may be provided for in the regulations for the increase of equity capital that, in the case of the non-payment of the full price of the shares, a shareholder shall retain the number of shares which is proportional to his or her paid-up amount, if this is provided for in the articles of association.
(4) If the amount, which the company gains by selling the shares according to the procedures referred to in Paragraph two of this Section, is less than the amount which has already been paid by the first owner of the shares, the company may request the difference from the first owner of the shares.
(5) The memorandum of association, as well as the articles of association may specify a penalty for failure to observe the time period for the payment of shares. The amount withheld referred to in Paragraph two of this Section, shall not be deemed to be a penalty within the meaning of this Paragraph.
[14 February 2002]

Section 157. Rights of Several Persons to a Share

(1) In a company, one share may be owned by several persons jointly. These persons may utilise the rights arising from this share only by appointing a joint representative.
(2) The appointed representative shall be recorded in the company register of shareholders.
(3) Persons who jointly own one share in a company shall be solidarily liable for obligations, which arise from this share.
[14 February 2002]

Section 158. Mandatory Reserves

[14 February 2002]

Section 159. Use of the Mandatory Reserves

[14 February 2002]

Section 160. Other Reserves

[14 February 2002]

Section 161. Dividends

(1) [14 February 2002].
(1^1) Dividends shall be determined by a decision of shareholders.
(2) Dividends shall be paid to shareholders in proportion to the total of the par value of the shares owned by them.
(3) Dividends shall be calculated and paid out for fully paid-up shares.
(4) Dividends may not be determined, calculated and paid out if it arises from the annual accounts that the own funds of the company is less than the total amount of the equity.
(5) Shareholder dividends shall be determined and calculated once a year. Dividends shall be paid out only in money, based upon a decision regarding the division of profit.
(6) Dividends, which have not been taken out within 10 years, shall devolve to the ownership of the company, except for cases when, pursuant to law, the statute of limitations is deemed to be discontinued or suspended. Interest shall not be paid on dividends, which have not been taken out in time, if this is due to the fault of the shareholder.
(7) A decision of the shareholders of a company that the dividends, even temporarily, are left at the disposal of the company is void.
(8) A company may not request that a shareholder return dividends received, except for cases referred to in Section 162 of this Law.
[14 February 2002; 22 April 2004]

Section 162. Return of Unjustified Paid Out Amounts

(1) If a person has been paid out a dividend, to which or part of which they had no right, and this person, at the time of receipt of the dividend, knew or should have known that the payment was unjustified, it is their duty to return the amount acquired without justification to the company.
(2) Other unjustified paid out amounts, which a shareholder has acquired in good faith, he or she has a duty to repay when it became known to him or her that the payments were not justified. Unjustified paid out amounts, which a shareholder has acquired in bad faith or by gross negligence, he or she has a duty to repay the company. In such case, the shareholder

shall compensate the losses, which were incurred by the company as a result of this unjustified payment.

Chapter 4
Liability

Section 163. Liability for Obligations which have Arisen before the Recording of the Company in the Commercial Register

(1) A founder who has acted in the name of the company to be founded before the recording of the company in the Commercial Register, shall be liable for obligations which arise from such actions. In the case of actions by several founders, these founders shall be liable solidarily.
(2) Agreements which are in contrary to the provisions of Paragraph one of this Section shall be void as to third persons.
(3) The obligations referred to in Paragraph one of this Section shall devolve to the company, if the board of directors of the company or shareholders who represent not less than one twentieth of the equity capital, do not object, within three months after the recording of the company in the Commercial Register, to the obligation devolving to the company. If such objections are raised, the issue of the devolvement of the obligations shall be decided by a meeting of shareholders. The devolvement of the obligations to the company shall not restrict its rights to request the fulfilment of the obligations by the founder.
(4) If the property of the company is not sufficient to satisfy the claims of creditors of the company, the founders shall be personally solidarily liable to the creditors for obligations of the company, to the extent of that reduction in the property of the company which has occurred because of the obligations which were undertaken by the company to be founded. The statute of limitations time period for such claims is three years from the date when the company was recorded in the Commercial Register.
[14 February 2002]

Section 164. Acquisition of Property from Founders and Shareholders

[16 June 2005]

Section 165. Liability for Submitting False Information

(1) The founders of a company shall be solidarily liable for such losses caused as a result of false information, which is submitted up to the recording of the company in the Commercial Register.
(2) The members of the board of directors shall be solidarily liable for such losses caused as a result of false information, which is submitted after the recording of the company in the Commercial Register.
(3) For the submission of false information to the Commercial Register, persons shall be held to administrative liability or criminal liability.

Section 166. Liability of Founders

(1) Founders shall be solidarily liable for losses, incurred by the company and third persons, which occurred during the founding of the company as a result of the founders having acted maliciously or negligently.

(2) Actions which are in contradiction to law or the memorandum of association shall be in any case deemed to be malicious.
(3) The founders shall be solidarily liable to the company for any shortages which have been caused if a person is unable to fulfil their share payment obligations, in cases when these founders, in accepting the participation of such person, knew or should have known of the inability of this person to fulfil such obligations.
(4) The provisions referred to in this Section shall in no way limit the liability which is specified in Section 163 of this Law.
(5) For the claims referred to in this Section, the statute of limitation period shall be five years from the date of the recording of the company in the Commercial Register.

Section 167. Liability of Third Parties for Founding Process Violations

(1) A person, who has facilitated the malicious or negligent actions of the founders or has collaborated in them, shall be solidarily liable together with the guilty founders if he or she knew or should have known about the malicious or negligent character of such actions.
(2) A person on whose account a founder has undertaken an obligation to pay up shares also shall be solidarily liable with the founders. Such person may not rely on not having known of such circumstances, of which the founder knew or should have known.
(3) For claims referred to in this Section, the statute of limitation period shall be five years from the date of the recording of the company in the Commercial Register.

Section 168. Liability for Influencing Members of the Company Institution, Proctors and Persons with a Commercial Power of Attorney

[22 April 2004]

(1) A person who in bad faith persuades a member of the board of directors or the council, a proctor or a person with a commercial power of attorney to act against the interests of the company or its shareholders shall be liable for any losses incurred as a result of such activities to the company.
(2) If, in the case referred to in Paragraph one of this Section, there is a basis for members of the board of directors or the council to be held liable in accordance with Section 169 of this Law, they shall be solidarily liable with the person who has utilised his or her influence. If there is a basis for holding a proctor or a person with a commercial power of attorney liable, they shall be solidarily liable with the person who has utilised his or her influence.
(3) Members of the board of directors and the council, a proctor or a person with a commercial power of attorney shall not be liable in accordance with Paragraph two of this Section if they prove that they were acting as honest and careful managers.
(4) The provisions referred to in Paragraphs one and two of this Section shall not be applicable if the influence was exerted:

1) by using one's voting rights at a meeting of shareholders; or
2) by lawfully using one's decisive influence in accordance with the Groups of Companies Law.

[14 February 2002]

Section 169. Liability of the Members of the Board of Directors and Council

(1) Members of the board of directors and council shall perform their duties as would an honest and careful manager.

(2) Members of the board of directors and council shall be solidarily liable for losses that they have caused to the company.
(3) Members of the board of directors and council shall not be liable in accordance with Paragraph two of this Section if they prove that they have acted, as would an honest and careful manager.
(4) A member of the board of directors and council 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. The fact that the council has approved the actions of the board of directors shall not release the members of the board of directors from liability to the company.
[14 February 2002; 22 April 2004]

Section 170. Creditor Claims for the Benefit of a Company

(1) A creditor of a company who cannot gain satisfaction for their claim against the company may bring an action for the benefit of the company against the persons referred to in Paragraphs 166–169 of this Law, who have incurred losses for the company, but have not compensated them.
(2) Creditors of a company have the right to bring an action, and this right shall not be restricted also in the following cases if:

1) the company has withdrawn its action against the person at fault;

2) a settlement has been entered into; or

3) the losses have occurred in the fulfilment of a decision of the meeting of shareholders or the council.

(3) The claims referred to in this Section may be brought within five years from the date when the right to such claim was created.
[14 February 2002]

Section 171. Prohibition of Competition in Relation to Members of the Board of Directors of a Company

(1) A member of the board of directors, without the acceptance of the council or, if such has not been formed – without the acceptance of the meeting of shareholders, may not:

1) 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;

2) conclude transactions in the field of commercial activities of the company in his or her own name or in the name of a third person; and

3) be a member of the board of directors of another company which 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.

(2) If a member of the board of directors violates the provisions of Paragraph one of this Section, the company is entitled to request compensation for losses or the recognition of the relevant transactions as such that are concluded in the name of the company and the transfer the income acquired or the right of claim to such to the company.
(3) The statute of limitation period for claims referred to in Paragraph two of this Section shall be three months from the date when the other members of the board of directors or members of the council (if such has been formed) had found out about the violation against the prohibition of competition, but no more than five years from the day of the committing of the violation.
[14 February 2002]

Section 172. Bringing an Action by a Company

(1) A company may bring an action against the founders, members of the board of directors or council or the auditor, on the basis of a decision taken by a meeting of shareholders, which has been taken by a simple majority of votes of those present. The articles of association may not specify a larger majority for the bringing of an action.
(2) A company has the duty to bring an action against the persons referred to in Paragraph one of this Section, also if that is requested by a minority of shareholders who jointly represent not less than one twentieth of the equity capital or whose participation in the equity capital of the company is not less than 50 000 lats. Such request by a minority of shareholders shall be submitted to that institution of the company which, in accordance with this Law, has the right to bring an action, but if such institution does not bring the action in a court within one month, the minority of shareholders may bring an action in a court without the intermediation of this institution.
(3) Actions by a company against the board of directors shall be brought and maintained by the council. If a company has no council, then the meeting of shareholders, which took the decision regarding the bringing of an action against the members of the board of directors, shall elect one or several representatives of the company to bring and maintain the action.
(4) Action by a company against the founders, the council and the auditor shall be brought and maintained by the board of directors if a meeting of shareholders does not decide otherwise.
(5) If the bringing of an action is requested by a minority of shareholders, a court shall allow the persons selected by them as representatives of the company for the adjudication of the matter, if there is an important reason for this. In any event the case referred to in Paragraph two of this Section, when the relevant institution, despite the request by the minority of shareholders, does not bring an action to a court, shall be deemed to be an important reason.
(6) An action shall be brought in a court within three months from the date when a meeting of shareholders has taken a decision regarding the bringing of an action or when a request by the minority of shareholders was received. An appropriately certified excerpt of the minutes of the meeting shall be appended to the statement of the cause of action. A minority of shareholders in bringing an action in court have an obligation to attach evidence that these shareholders represent not less than one twentieth of the equity capital of the company or their participation in the equity capital of the company is not less than 50 000 lats, as well as a power of attorney from the relevant minority of shareholders.
(7) In respect of losses which a company incurs due to an unjustified action, those shareholders who voted for the bringing of the action or the minority of shareholders in the actions of which has been determined maliciousness or gross carelessness shall be solidarily liable.
(8) [14 February 2002].
[14 February 2002]

Section 173. Release from Liability

(1) A meeting of shareholders may release members of the board of directors or council from liability or take a decision to enter into an amicable settlement only for specific actions which were actually performed by them and were revealed at the meeting of shareholders, and as a result of which the company has incurred losses.
(2) A decision of a meeting of shareholders regarding the release from liability or to enter into an amicable settlement with the members of the board of directors or council shall not restrict

the right of a minority of shareholders to bring an action in accordance with the provisions of Section 172, Paragraph two of this Law.
(3) A decision of a meeting of shareholders to approve the annual accounts shall not of itself release members of the board of directors and council from liability for their actions during the relevant accounting period.
[14 February 2002]

Chapter 5
Annual Accounts of a Company and Distribution of Profits

Section 174. Company Accounts

(1) After the end of the accounting year, the board of directors shall compile and sign the annual accounts of the company and submit them without delay to the auditor and the council (if such has been formed).
(2) Following receipt of the auditor's opinion and the report of the council, the board of directors shall convene a meeting of shareholders.
(3) If the company does not have a council, the board of directors shall convene a meeting of shareholders following the receipt of the auditor's opinion.
(4) The annual accounts, the auditor's opinion and the report of the council, together with a notice of the convening of a meeting of shareholders, shall be sent to all shareholders or announced in accordance with Sections 214 and 273 of this Law.
[22 April 2004]

Section 175. Council Report to the Meeting of Shareholders

(1) If the company has a council, it shall examine the annual accounts and proposals for utilisation of profit submitted by the board of directors and shall complete a written report regarding it, which shall be attached to the annual accounts.
(2) The report shall also include:
1) an evaluation of the activities and financial condition of the company;
2) an evaluation of the work of the board of directors;
3) a report regarding the work of the council in the accounting period; and
4) proposals for improvement of the operation of the company, if it is necessary.
[22 April 2004]

Section 176. The Auditor

(1) The annual accounts of a company shall be audited and an opinion thereof shall be submitted by a sworn auditor elected in the meeting of shareholders, if it is provided for by the law. In other cases the annual accounts shall be audited and an opinion thereof shall be submitted by an auditor, if it is provided for in the articles of association or in the decision of the meeting of shareholders.
(2) The provisions of this Law regarding an opinion as regards the annual accounts shall be applicable, if in accordance with Paragraph one of this Section an auditor is intended in the company.
(3) [16 March 2006].
(4) An auditor may not be a shareholder, a member of the board of directors or council of the company itself, as well as a person who is otherwise interested in the commercial activities of the company. If the company is part of a group of companies, the auditor may not be also a

person who is a member of the board of directors or council of a dependent company or the dominant undertaking.
(5) The board of directors, the council or shareholders, who jointly represent not less than one tenth of the equity capital, may, during a meeting of shareholders or not later than two months after the meeting of shareholders, raise substantiated objections to the elected auditor. Objections raised at a meeting of shareholders shall be immediately decided by the meeting itself, but if such objections are raised later, the disputed issue shall be decided by a meeting of shareholders to be convened not later than within two months after the objections have been received by the board of directors. If the objections are rejected, the shareholders who have raised them, who jointly represent not less than one tenth of the equity capital, have the right, at their own expense, to invite another auditor. If such other auditor is invited, the status and scope of the rights of the elected auditor shall not change.
(6) The auditor invited in accordance with the procedures specified in Paragraph five of this Section has the same rights as the elected auditor, and the same provisions of the law shall be applicable to him or her.
[14 February 2002; 16 March 2006]

Section 177. Duties and Rights of an Auditor

The duties and rights of an auditor shall be determined by the relevant laws.

Section 178. Liability of an Auditor

(1) An auditor shall be liable to the company and third persons regarding any losses caused due to his or her fault.
(2) An auditor shall not be liable for any losses caused as a result of violations committed by the administrative institutions of a company, except in cases when he or she knew or should have known about such violations but failed to indicate them in the opinion.
(3) If an auditor becomes liable in accordance with the provisions of Paragraph two of this Section, he or she shall be solidarily liable together with the members of the relevant administrative institutions.

Section 179. Approval of the Annual Accounts of a Company

(1) The annual accounts of a company shall be approved by a meeting of shareholders which has been convened by the board of directors after receipt of the auditor's opinion, but if the company has a council, also after the council's report has been received.
(2) The approval of the annual accounts of the company at a meeting of shareholders shall be postponed if the opinion of the auditor invited according to the procedures specified in Section 176, Paragraph five of this Law, differs from the opinion of the elected auditor.
(3) The approval of the annual accounts of a company at a meeting of shareholders shall be postponed if, disputing the correctness of separate positions in the annual accounts, the postponement is requested by shareholders who represent at least one tenth of the equity capital.
(4) If the approval of the annual accounts is postponed in the case referred to in Paragraph three of this Section, then at the next meeting of shareholders, the agenda of which shall include the approval of the annual accounts of the same year, a minority of shareholders may again request the postponement of the approval of the annual accounts only if new circumstances have been determined which are a barrier to the approval of the annual accounts.

Section 180. Utilisation of Company Profit

(1) The board of directors shall prepare and submit to a regular meeting of shareholders its proposal for the utilisation of profit.
(2) The proposal regarding the utilisation of profit shall be sent to shareholders together with a notice regarding the convening of a meeting of shareholders and annual accounts, or it shall announced in accordance with the provisions of Section 273 of this Law.
(3) The proposal shall indicate:
1) the amount of the net profit of the company;
2) [14 February 2002];
3) [14 February 2002];
4) the part of the net profit to be paid out as dividends; and
5) the utilisation of the profit for other purposes.
(4) The meeting of shareholders shall decide regarding the utilisation of the profit after the annual accounts of the company have been approved.
(5) [14 February 2002].
[14 February 2002]

Section 181. Submission of the Annual Accounts to the Commercial Register Office

[24 April 2008]

Section 182. Payment of Cash Funds of the Company to Shareholders

(1) A company may make payments to its shareholders only if they are paid out as dividends or the equity capital is reduced, or if the company is liquidated and its property is divided among shareholders.
(2) Payments made to shareholders which are not referred to in Paragraph one of this Section shall be deemed as unjustified. As unjustified payments of company funds shall also be deemed cases when a shareholder utilises the property of the company free-of-charge, when a shareholder is paid a higher remuneration than is specified in a contract for services provided, or when the company buys property from a shareholder at a higher than usual price.
(3) Payments may not be made to shareholders if the net value of the own funds of the company at the time of the closure of the accounting year is less, or as a result of this payment shall become less, than the total amount of the equity capital of the company. This condition shall not be applied in cases when the company is liquidated.
(4) The obligations referred to in Paragraphs one and three of this Section shall not apply to payments to shareholders against which obligations have arisen otherwise than from participation in the company.
[14 February 2002; 22 April 2004]

Section 183. Internal Audit of a Company

(1) A decision regarding the conduct of an internal audit of the activities of the company on issues, which are associated with the activities of the company and its economic condition shall be taken by its shareholders or the board of directors, but if the company has a council, such a decision may be also taken by the council.
(2) Shareholders, who represent not less than one twentieth of the equity capital of the company, may request the conduct of an internal audit if there is a substantiated reason for it.

(3) If the board of directors does not agree to the conduct of an internal audit, it shall convene a meeting of the shareholders without delay, including in the agenda the issue of the conduct of an internal audit. If the meeting of shareholders rejects the request, the minority of shareholders who represent not less than one twentieth of the equity capital with voting rights may request that the Commercial Register Office approves an auditor elected by the minority of shareholders for conducting of the internal audit and who is included in a list approved by it, or may itself invite an auditor.
(4) The internal audit shall be conducted at the expense of the company. If the auditor has been invited by the shareholders themselves, such internal audit shall be conducted at the expense of these shareholders.
(5) The auditor shall prepare an opinion regarding the results of an internal audit, which shall be submitted to the institution of the company which had taken the decision to conduct the internal audit, or the minority of shareholders and the board of directors.
[14 February 2002; 16 March 2006]

Section 184. Company Controller

(1) Shareholders may elect one or more company controllers to perform internal audits and control of the company.
(2) The company controller shall be elected for a period, which does not exceed three years.
(3) The company controller shall examine the activities of the company, as well as in cases, when it is requested by the shareholders who represent not less than one tenth of the equity capital of the company, conduct an examination of the annual accounts of the company if he or she has been invited by a minority of shareholders in accordance with the provisions of Section 176, Paragraph five of this Law.
(4) The company controller has a right to request that the board of directors invite experts, if there is an important reason for it.
(5) The provisions of Sections 177 and 178 of this Law shall apply to the company controller.

Division XII
Limited Liability Companies

Chapter 1
Equity Capital and Shares

Section 185. Amount of Equity Capital

The minimum amount of equity capital of a limited liability company (hereinafter in this Division – company) shall be 2000 lats.

Section 186. Shares

(1) The par value of a share shall be determined by the articles of association of a company, and shall be stated in whole lats. All shares shall have the same par value.
(2) Shares shall be indivisible.
(3) A share gives a shareholder rights to take part in the administration of the company, in the distribution of profit and in the division of property in the case of the liquidation of the company, as well as to other rights provided for by law and the articles of association.
[14 February 2002; 22 April 2004]

Section 187. Registration of Shares

(1) For the registration of shares, a company register of shareholders shall be kept.
(2) The following information shall be recorded in the company register of shareholders:
1) for natural persons – given name, surname, personal identity number and residential address of the shareholder, but for legal persons – name, registration number and legal address;
2) the par value of a share;
3) the number of shares owned by each shareholder; and
4) the date when a shareholder has fully paid-up their shares or, if an increase in the equity capital has occurred – also the time period for the payment of shares.
(3) The initial entries in the company register of shareholders shall be made in accordance with the information, which is indicated in the memorandum of association.
(4) Further entries in the company register of shareholders shall be made not later than on the next day after the board of directors has received information about changes which have occurred in the information referred to in Paragraph two of this Section.
(5) Entries in the company register of shareholders shall be certified by the chairperson of the board of directors or an authorised representative of the board of directors with his or her signature.
(6) The board of directors shall submit an updated copy of the company register of shareholders to the Commercial Register Office in respect of changes to the records in the company register of shareholders. If shares are alienated, a copy of the company register of shareholders shall also be signed by the alienor of shares and the acquirer of shares, or other evidence shall be attached thereto which confirms the transfer of shares.
(7) Shareholders, members of the board of directors and council, and the auditor, as well as competent State institutions are entitled to become acquainted with the company register of shareholders.
(8) Shareholders have the right to receive an extract from the company register of shareholders certified by the chairperson of the board of directors or an authorised representative of the board of directors regarding the shares in the company that are owned by them.
[22 April 2004; 24 April 2008]

Section 188. Alienation of Shares

(1) Shareholders may alienate shares owned by them, independently determining their value.
(2) Shareholders may make a gift of, exchange, or otherwise alienate shares (except sell) only with the consent expressed in the decision of shareholders.
(3) Only fully paid-up shares may be alienated.
(4) The articles of association may provide for the procedures for the alienation of shares, which differ from the provisions of Paragraph three of this Section, as well as Section 189, Paragraph one of this Law. The right of a shareholder to sell a share owned by him or her may be limited only upon a written unequivocal consent of the shareholder.
(5) [14 February 2002].
(6) The acquirer of a share shall notify the company regarding the acquisition of the share by submitting a joint application of the alienor and the acquirer or a deed of transaction. A record shall be made in the register of shareholders thereof in accordance with the provisions of Section 187 of this Law.
[14 February 2002; 22 April 2004]

Section 189. Shareholder's Right of First Refusal

(1) If a shareholder sells a share owned by him or her, other shareholders have the right of first refusal. The time period for the utilisation of first refusal shall be one month from the date when the notification regarding the sale was submitted to the board of directors. The shareholder may refuse from the right of first refusal in writing before the end of the specified time period.
(1^1) The board of directors has a duty after receipt of a notification regarding sale of a share immediately notify each shareholder thereof.
(2) If two or more shareholders wish to utilise their rights of first refusal and the number of the shares to be sold is sufficient, the shares shall be divided between these shareholders in proportion to the shares owned by them.
(3) If two or more shareholders wish to utilise their rights of first refusal, but the number of the shares to be sold is not sufficient to divide them proportionally, the board of directors shall organise a restricted auction among these shareholders in respect of the remaining shares that cannot be proportionately divided.
[14 February 2002; 22 April 2004]

Section 190. Pledging of Shares

Shares may be pledged on the basis of commercial pledge regulations if the articles of association do not prohibit the encumbering of shares.

Section 191. Inheritance of Shares

(1) In the case of the death of a shareholder, the shares belonging to him or her shall be inherited by his or her heirs if the articles of association do not specify that the shares devolve to the company. If the articles of association provide for the shares of the deceased shareholder to devolve to the company, then the company has a duty to pay out to the heirs, or in the case specified in Section 416 of the Civil Law – to the State, compensation in conformity with the liquidation quota which the deceased shareholder would have received at the moment of the opening of the succession.
(2) Shares which have no heirs shall escheat to the State. The State shall have no voting rights, and, when determining the norms for representation, these shares shall not be taken into account.
(3) The shares acquired shall be offered for sale by the State to the existing shareholders of the company not later than within two months after their acquisition. The sale of such shares shall be performed in the name of the State by the relevant authority.
[14 February 2002; 16 June 2005]

Section 192. Acquisition of Own Shares

(1) A company may not acquire its own shares, except in cases when it acquires these shares:
1) by way of inheritance;
2) in the case of the death of a shareholder if the articles of association provide that the shares of the deceased shareholder devolve to the company;
3) by a shareholder renouncing his or her shares in writing;
4) by a shareholder losing rights to shares that have not been paid-up;
5) if a shareholder is expelled from the company;

6) in the case when a shareholder – a legal person – is terminated, if the shares of the legal person have not been acquired by another person; and

7) reducing of the equity capital by withdrawing shares and deleting them;

8) by acquiring another company or part thereof;

9) as a result of a transaction without compensation;

10) by recovering claims thereof from third persons; or

11) as a result of re-organisation, disbursing a compensation in the specified cases.

(2) If a company acquires its own shares, it shall not have any of the rights of a shareholder. When determining the norms for representation, these shares shall not be taken into account.
[14 February 2002; 22 April 2004]

Section 193. Alienation of Own Shares

(1) A company shall alienate acquired own shares within a year from the day when they were acquired. In such case the provisions of Section 188, Paragraphs one, two and four, as well as the provisions of Section 189, Paragraph one of this Law shall be applicable accordingly.
(2) If a company fails to alienate its own shares within the time period specified, these shares shall be cancelled, correspondingly reducing the equity capital in accordance with the provisions of this Law regarding the reduction of equity capital.
[22 April 2004]

Section 194. Rights of Shareholders to Information

Shareholders have the right to receive information from the board of directors regarding the activities of the company and to become acquainted with all of the company's documents. These rights may be restricted in each concrete case by a decision of a meeting of shareholders if there is a justified suspicion that the shareholder may utilised the information acquired in contradiction to the aims of the company, and thus causing significant harm or losses to the company or to one of the subjects included with the company in a group of companies, or a third person.
[14 February 2002]

Section 195. Expulsion of a Shareholder

(1) A court may expel a shareholder from a company on the basis of an action by the company, if he or she has, without justifiable reason, failed to perform his or her obligations or have otherwise done substantial harm to the interests of the company or have not performed obligations or have not ceased to inflict harm after receiving a written warning from the company.
(2) Actions may be brought regarding the expulsion of a shareholder by shareholders who represent not less than one half of the equity capital of the company, if a larger number of votes is not specified in the articles of association.
(3) In the case of the expulsion of a shareholder, his or her shares shall be transferred to the company, which has the duty to pay out to the expelled shareholder his or her contribution, which shall be determined in conformity with the provisions of Section 156, Paragraph two of this Law.

Chapter 2
Changes in Equity Capital

Section 196. Decision Regarding Changes in Equity Capital

(1) Equity capital may be increased or reduced only on the basis of a decision of a meeting of shareholders in which the regulations for the increase or reduction of equity capital have been specified.
(2) A decision regarding changes in equity capital shall be regarded as taken, if not less than two-thirds of votes of the shareholders present vote for it, if a larger number of votes is not specified in the articles of association.
(3) If a decision is taken on changes in equity capital, relevant amendments shall be made at the same time to the articles of association.
[22 April 2004]

Section 197. Increase of Equity Capital

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

1) by the existing shareholders or newly admitted shareholders making contributions to the equity capital of the company and receiving in return a relevant number of new shares; and

2) after approval of the annual accounts or the report on economic activities for a shorter time period than a year, by increasing the par value of the existing shares or issuing new shares, by including fully or partially in the equity capital the positive difference between own capital and the amount, which is formed by the equity capital and reserves, which in accordance with the law may not be included for increase of the equity capital. The new shares shall be divided pro rata to shares owned by them. The report on economic activities shall be drawn up in accordance with the requirements of the law regarding drawing up of the annual accounts.

(2) Equity capital may only be increased when all the existing shares are fully paid-up.
(3) If the new shares are acquired for a price which exceeds the par value of the shares in accordance with the provisions of Section 155, Paragraph two of this Law, the difference between the acquisition price and the par value of the acquired shares shall not be included in the equity capital.
(4) Property contributions in the case of an increase of equity capital are permitted only if they are provided for in the regulations for the increase of equity capital.
(5) [14 February 2002].
(6) A shareholder, who has voted against increase of the equity capital in the manner referred to in Paragraph one, Clause 2 of this Section, is entitled to request the company to buy back his or her shares within two months after the time of increase of the equity capital.
(7) Remuneration shall be equal with the sum, which a shareholder would acquire upon division of the company property in case of liquidation, if such would occur at the time of increase of the equity capital. From the time of increase of the equity capital the company shall pay the interest prescribed by the law for the payments of remuneration not performed in the amount and term provided.
(8) As regards remuneration, the restrictions specified by the law for the procedures by which the company may acquire the shares thereof shall not be applied.
(9) If the shareholder of the company, who has voted against increase of the equity capital in the manner referred to in Paragraph one, Clause 2 of this Section, does not request remuneration, he or she may alienate his or her shares within two months regardless of the restrictions provided for in the articles of association or the law.
[14 February 2002; 16 March 2006; 24 April 2008]

Section 198. Regulations Regarding an Increase of Equity Capital

A decision regarding an increase of equity capital shall approve regulations for an increase of equity capital, which shall indicate:

1) the means of increasing the equity capital;

2) the size of the increased equity capital and the amount by which it shall be increased;

3) the number of new shares;

4) the par value of a share;

5) the price of a share, if a share premium has been specified;

6) the method of payment for shares;

7) the time period during which third persons shall submit applications for share acquisition, if the equity capital is increased by accepting new shareholders;

8) the time period within which the new shares must be paid-up, calculated with a view that the new shares shall be fully paid-up not later than six months from the date when a decision has been taken to increase the equity capital;

9) the time period from which the new shares shall give the right to receive dividends; and

10) other provisions which are not in contradiction with the law.

Section 199. Shareholder's Right of First Refusal

(1) Within 15 days from the date when a decision has been taken to increase equity capital, a shareholder has the right of first refusal to the acquisition of new shares, in proportion to the number of shares already owned by him or her.
(2) If a shareholder has not utilised the right of first refusal to acquire new shares, then, within 15 days after the end of the time period mentioned in Paragraph one of this Section, he or she may be acquired by those shareholders, who have utilised the right of first refusal referred to in Paragraph one of this Section
(3) If two or more other shareholders wish to acquire shares to which a shareholder has not utilised the right of first refusal, they shall be divided among these shareholders in proportion to the number of shares owned by them. If the number of shares to be sold is not sufficient to divide them proportionally, the board of directors shall organise a restricted auction among these shareholders for the remaining shares that cannot be proportionately divided.
(4) If the shareholders have not utilised the rights provided for in Paragraphs one or two of this Section, then third persons may acquire the new shares.
[14 February 2002]

Section 200. Application to Acquire Shares

(1) If a shareholder wishes to acquire new shares, they shall submit an application regarding the acquisition of shares to the company within the time period specified in Paragraph one or two of Section 199 of this Law.
(2) Third persons shall submit an application within the time period specified in the decision regarding increase of equity capital.
(3) An application shall be binding on the person who has submitted it.
(4) The following shall be indicated in the application:

1) the firm name of the company;

2) an offer to acquire shares in the company;

3) the number of shares which a person wishes to acquire;

4) the method by which the acquired shares will be paid-up in conformity with the regulations for the increase of equity capital;

5) the item of the property contribution (if a property contribution is made); and

6) the time period within which the contribution shall be made, not exceeding the time period referred to in the regulations for the increase of equity capital.

Section 201. Procedures for Payment of Equity Capital

In the case of an increase of equity capital, the provisions of Sections 151–154 of this Law shall be applied if it is not specified otherwise in this Chapter.

Section 202. Application to the Commercial Register Office for an Increase of Equity Capital

(1) After recording of new information in the register of shareholders, the board of directors shall submit an application regarding the increase of the equity capital to the Commercial Register Office.

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

1) an extract of the minutes of the meeting of shareholders;

2) the regulations for the increase to the equity capital;

3) the text of amendments to the articles of association and the full text of the new version of the articles of association;

4) applications of shareholders or third persons to acquire the shares;

4^{1}) an updated copy of the register of shareholders;

5) if the equity capital is being increased by money contributions already made – a bank statement or another document regarding paid-up equity capital, except cases when the equity capital is increased in accordance with the procedures specified in Section 197, Paragraph one, Clause 2 of this Law;

6) in the case of property contributions – documents which certify the value of the contributions. If the property contribution has been transferred to the company – documents attesting their transfer to the company;

7) a certification that no significant circumstances have arisen which affect the value of the property contribution referred to in Section 154, Paragraph $2.^{1}$ of this Law; and

8) the list of those shareholders (with their signatures), who have voted against increase of the equity capital that has occurred in the case referred to in Section 197, Paragraph one, Clause 2 of this Law.

(3) Equity capital shall be deemed to be increased from the day when the new amount of equity capital is recorded in the Commercial Register.

[22 April 2004; 24 April 2008; 18 December 2008]

Section 203. Notice of the Increase of Equity Capital

Not later than within five days after the end of the time period for paying up the shares, the board of directors shall submit a copy of the corrected register of shareholders to the Commercial Register Office, in which is reflected the situation as to share payments after the increase of the equity capital.

Section 204. Means of Reducing Equity Capital

Equity capital may be reduced by cancelling shares or reducing the par value of the shares.

Section 205. Regulations for the Reduction of Equity Capital

(1) The regulations for a reduction of equity capital shall indicate:

1) the reasons for the reduction of the equity capital;

2) the means and procedures for the reduction of the equity capital;

3) the size of the reduced equity capital and the amount by which it shall be reduced; and

4) the par value of a share.

(2) A notice of the reduction in the equity capital shall be sent without delay to the Commercial Register Office. The notice shall have attached an extract of the minutes of the meeting of shareholders and the regulations for the decrease of equity capital.
[18 December 2008]

Section 206. Amount of Reduction of Equity Capital

Equity capital may be reduced up to the amount specified in Section 185 of this Law.

Section 207. Protection of Creditors

(1) Within five days after a decision has been taken to reduce equity capital, the board of directors shall send a written notice regarding the reduction of the equity capital and the size of the new equity capital of the company to all known creditors of the company, who have a right to claim against the company prior to when the decision to reduce equity capital was taken.
(2) The board of directors shall publish a notice of the decision to reduce equity capital in the newspaper *Latvijas Vēstnesis*. The notice shall include the time period during which creditors may apply who wish to receive security, and the time period for creditor claim applications, which may not be less than one month from the date when the notice was published.
(3) The company shall provide security to creditors who have applied within the specified time period (except for secured creditors to the amount of secured claims).

Section 208. Application to the Commercial Register Office for the Reduction of Equity Capital

(1) After the time period for claim applications from creditors has ended and claims are secured, the board of directors shall submit an application regarding the reduction of the equity capital to the Commercial Register Office. The application shall have attached the text of amendments to the articles of association and the full text of the new version of the articles of association.
(2) In the application, the board of directors shall certify that the company has either provided security to their creditors or has satisfied their claims.
(3) The application shall be submitted to the Commercial Register Office not later than six months from the date, when the decision to reduce the equity capital was taken.
(4) The equity capital shall be deemed to be reduced as of the date when the new size of the equity capital is recorded in the Commercial Register.

Chapter 3

Administration of a Company

Section 209. Administrative Institutions of a Company

The administrative institutions of a company are the meeting of shareholders and the board of directors, as well as the council (if such has been formed).

Section 210. Competence of the Meeting of Shareholders

(1) The following are within the competence only of the meeting of shareholders:

1) making amendments to the articles of association;

2) increase or reduction of the equity capital;

3) election or recall of members of the council;

4) election or recall of members of the board of directors;

5) approval of the annual accounts and the distribution of profits;

6) election and recall of the auditor, company controller and liquidator;

7) the taking of decisions regarding the bringing of actions against members of the board of directors, council members, founders or shareholders, and regarding the appointment of a representative of the company for conducting the matter in court;

8) [14 February 2002];

9) the taking of decisions regarding termination, continuation or reorganisation of the activities of the company, as well as regarding entering into, amending or termination of a group of companies agreement; and

10) other issues which in accordance with the law or the articles of association are transferred to the competence of the shareholders.

(2) The meeting of shareholders also has the right to take decisions on such issues as are within the competence of the board or directors or the council. In such case, the shareholders who voted for this decision shall be solidarily liable for any losses incurred as a result of such decisions.

[14 February 2002; 22 April 2004]

Section 211. Voting Rights of Shareholders

(1) Only a fully paid-up share shall give a shareholder voting rights. Each fully paid-up share shall give a shareholder only one vote, if the articles of association do not specify otherwise.

(2) A shareholder shall not have the right to take part in voting if a decision is to be taken regarding releasing him or her from obligations or liability, regarding the bringing of actions against him or her. When determining the norms for representation, such shareholder's votes shall not be taken into account.

[14 February 2002]

Section 212. Meetings of Shareholders

(1) A meeting of shareholders is entitled to take decisions if shareholders, who jointly represent not less than one half of the equity capital with voting rights participate in it, if the articles of association do not provide for a larger norm for representation.

(2) If a meeting of shareholders convened according to the procedures specified by law is not entitled to take decisions due to the lack of a quorum, a reconvened meeting with the same agenda has the right to take decisions irrespective of the number of votes represented in it.

(3) A shareholder may participate at a meeting in person or through a representative who has a written authorisation. An authorisation is not necessary for a person who represents the shareholder on the basis of law. Such persons shall present a document which certifies the right of representation.
(4) A meeting of shareholders shall be chaired by the chairperson of the board of directors if the shareholders do not elect another chairperson of the meeting.
[14 February 2002]

Section 213. Convening a Meeting of Shareholders

(1) A regular meeting of shareholders shall be convened by the board of directors at least once a year in order to approve the annual accounts, to take a decision regarding the distribution of profit, and to elect an auditor.
(2) If the board of directors has not convened a regular meeting of shareholders in the specified time period, it may be convened by:
1) the council (if such has been formed); or
2) the Commercial Register Office for fee.
(3) The board of directors has an obligation to convene a meeting of shareholders in the cases specified in the articles of association, as well as if:
1) the conditions referred to in Section 219 of this Law have occurred;
2) the council has requested it; or
3) it is requested by shareholders who represent not less than 10 per cent of the equity capital of the company.
(4) If the board of directors does not convene a meeting of shareholders within one month after the day of receiving a request, the council shall convene the meeting upon the request of any shareholder. If the council does not convene a meeting of shareholders within one month after the day of receiving a request, it shall be convened by the Commercial Register Office for fee. The fee and expenses for convening a meeting shall be paid to the Commercial Register Office by the requester. The company shall cover the amount paid to the Commercial Register Office, if there was a good cause for convening the meeting.
(5) If the meeting of shareholders has not been held due to the reason referred to in Section 212, Paragraph two of this Law, then a repeated meeting of shareholders shall be convened within one month.
(6) Minutes shall be kept of the proceedings of the meeting. The provisions of Section 285 of this Law shall apply to them.
[14 February 2002; 22 April 2004; 16 June 2005]

Section 214. Notice regarding the Convening of a Meeting of Shareholders

(1) The board of directors shall send a notice regarding the convening of a meeting to all shareholders not later than two weeks before the meeting. The notices shall be sent to the addresses indicated in the company register of shareholders. The articles of association may provide for different notice procedures.
(2) The notice shall indicate:
1) the firm name and legal address of the company;
2) the time and place of the meeting;
3) the type of the meeting (ordinary or extraordinary meeting);
4) the authority which convenes the meeting;

5) the provisions of the articles of association regarding participation of representatives of shareholders in the meeting (if the articles of association provide for such provisions);

6) the agenda;

7) the time and place, where and when the shareholders may become acquainted with draft decisions on issues included in the agenda of the meeting, as well as with other issues to be reviewed in the meeting.

(3) If the agenda of the meeting of shareholders includes the issue regarding amending of the articles of association, a draft decision on amendments to the articles of association shall be appended to the notice to be sent to shareholders, particularly indicating:

1) the provisions of the articles of association to be amended, supplemented or cancelled;

2) the new wording of provisions of the articles of association, if the articles of association are supplemented with new provisions.

(4) The shareholders have the right to receive a draft decision free of charge at least 14 days prior to the meeting.

[22 April 2004]

Section 215. Taking of a Decision without Convening a Meeting of Shareholders

(1) Shareholders have the right to take decisions without convening a meeting of shareholders, unless the law or the articles of association specify that certain issues shall only be decided at a meeting of shareholders.

(2) The board of directors shall send a written draft decision and documents that are of importance to the taking of the decision to all shareholders, indicating the time period within which shareholders may in writing vote "for" or "against" the taking of the decision. Such a time period may not be less than two weeks from the date the draft decision was sent out. If a shareholder has not given a written reply within the specified time period, it shall be deemed that he or she has voted against the taking of the decision.

(3) The board of directors shall complete minutes of voting regarding the results of the voting and shall immediately send the minutes to all shareholders. The following shall be indicated in the minutes of voting:

1) the firm name and the legal address of the company;

2) the given name and surname of the person who compiled the minutes;

3) the decisions taken and the results of voting in respect of them;

4) pursuant to the request of a shareholder regarding the expression of a different viewpoint – the substance of such viewpoint; and

5) other essential information in respect of the voting.

(4) If a decision is taken without convening a meeting of shareholders, the decision shall be considered taken if it has received more than half of all of the shareholders' votes, if a larger number of votes is not specified by law or the articles of association.

Section 216. Taking of Decisions by Shareholders

[16 March 2006]

(1) A decision by the shareholders has been taken if it has received more than half of the votes represented at the meeting, if a larger number of votes is not specified by law or the articles of association.

(2) A decision of a meeting of shareholders shall be recorded in the minutes or shall be prepared in the form of a separate document. The minutes shall be signed by the chairperson

of the meeting and the recorder of the minutes. The decision shall be signed by the chairperson of the meeting.
(3) A decision by the shareholders in respect of the company, members of its council and of the board of directors, the auditor and shareholders shall be in effect as of the time it was taken, if in the decision or the law another time period is not specified for the coming into effect of the decision.

Section 217. Declaration of a Decision by Shareholders as Void

(1) A court, based upon an action by shareholders, the members of the board of directors or of the council, may declare a decision of shareholders as void, if such decision or the procedures for the taking of it is in contradiction to law or the articles of association, or a significant violation has been allowed in the convening of the meeting or the taking of the decision. An action may be brought within three months from the day when the decision was taken.
(2) If a decision was taken in violation of the procedures for the taking of decisions, the decision may not be disputed on such grounds if all the shareholders voted for the taking of such decision.

Section 218. Taking of Decisions Regarding Essential Issues of the Articles of Association

(1) Decisions regarding amendments to the articles of association, termination or continuation of operation of the company, reorganisation of the company and entering into, amending and termination of a group of companies agreement shall be taken if not less than two-thirds of the votes represented at the meeting were given for such decision, if the articles of association do not specify a larger number of votes.
(2) In submitting amendments to the articles of association to the Commercial Register Office, an extract of the minutes of the meeting of shareholders with amendments to the articles of association and the full text of the articles of association signed by the board of directors in the new wording shall be appended.
[22 April 2004]

Section 219. Convening of a Meeting of Shareholders in Special Cases

If 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, the board of directors shall notify the council (if such council has been established) thereof and convene a meeting of shareholders in which the board shall provide explanations.
[14 February 2002; 22 April 2004; 24 April 2008]

Section 220. Council

(1) A company shall establish a council if it is provided for in the articles of association.
(2) In respect of the activities and competence of a council, the provisions of Sections 291–300 of this Law shall apply, insofar as is not specified otherwise in this Chapter.
(3) Members of the council shall be elected by simple majority of votes of the present shareholders, if it is not provided for in the articles of association that a larger number of votes is necessary for electing members of the council or the provisions of Section 296, Paragraphs four, five and six of this Law are applicable.

(4) Section 296, Paragraph nine of this Law shall be applicable, if it is determined in the articles of association that the election of the council shall be performed in accordance with the provisions of Section 296, Paragraphs four, five and six of this Law.
[22 April 2004; 18 December 2008]

Section 221. Board of Directors

(1) The board of directors is the executive body of the company, which manages and represents the company.
(2) The board of directors may consist of one or more members.
(3) A natural person with the capacity to act may be a member of a board of directors.
(4) Members of the council of the company, the auditor of the company, or a person who, by a judgment of a court, has been deprived of the right to conduct the relevant type or all types of commercial activities, or has been deprived of the right to hold the positions in the administrative institutions of the commercial company and members of the council of the dominant undertaking in a group of companies, may not be members of the board of directors. Greater restrictions on members of the board of directors may be specified in the articles of association.
(5) The board of directors has a duty to provide information to a meeting of shareholders regarding concluded transactions between the company and shareholders, members of the council or members of the board of directors.
(6) The board of directors has the duty to submit to the council, 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 council regarding deterioration of the financial condition of the company, or other significant circumstances related to the company's commercial activities.
(7) The board of directors shall elect a chairperson of the board of directors from among themselves, who shall organise the activities of the board of directors. If the company has established a council, the articles of association may provide that the chairperson of the board of directors is appointed by the council.
(8) The members of the board of directors have a right to remuneration which is commensurate with their duties and the financial circumstances of the company. The amount of the remuneration shall be determined by a decision of the council, but if the company has no council – by a decision of shareholders.
(9) [14 February 2002].
(10) [14 February 2002].
(11) [22 April 2004].
[14 February 2002; 22 April 2004]

Section 222. Right of the Board of Directors to Manage the Company

The members of the board of directors shall manage the company only jointly.
[14 February 2002]

Section 223. Representation Rights of the Board of Directors

(1) All members of the board of directors have representation rights. Members of the board of directors shall represent the company jointly if the articles of association do not specify otherwise.

(2) In the case of joint representation, the members of the board of directors may authorise from among themselves one or more members of the board of directors to conclude specific transactions or specific types of transactions.
(3) The representation rights of the board of directors in respect of a third person may not be restricted. The rights of the members of the board of directors, which are specified in the articles of association, to represent the company jointly or individually shall not be deemed to be restrictions of the representation rights of the board of directors within the meaning of this Section.
(4) In relation to the company, the board of directors shall observe the restrictions of representation rights, which are specified in the articles of association, and by decisions of the meeting of shareholders and of the council.
[14 February 2002; 22 April 2004]

Section 224. Election and Recall of Members of the Board of Directors

(1) Members of the board of directors shall be elected and recalled by a decision of the meeting of shareholders. In submitting an application to the Commercial Register Office regarding the termination of the authorisation of a member of the board of directors or regarding the election of a new member of the board of directors, the application shall have appended to it an extract of the minutes of the meeting of shareholders with the relevant decision.
(2) To elect a person as a member of the board of directors, written consent from the relevant person is necessary. In it, the candidate for member of the board of directors shall indicate if he or she has any possible barriers to take up the position in accordance with the provisions of Section 171 and Section 221, Paragraph four of this Law or that there are no such barriers for him or her. A written consent of the member of the board of directors shall be submitted to the Commercial Register Office, if the relevant member of the board of directors has not already signed the application to the Commercial Register Office.
(3) A member of the board of directors shall be elected for a period of three years, if the articles of association do not specify a shorter term.
(4) A member of the board of directors may be recalled by a decision of the shareholders. If the company has a council, the council may suspend any member of the board of directors from his or her position until the meeting of shareholders but not for longer than two months.
(5) [14 February 2002].
(6) It may be provided for by the articles of association, that a member of the board of directors may be recalled only if there is an important reason. Such reasons shall, in any case, be considered to be gross violations of authority, failure to perform or to appropriately perform his or her duties, an inability to manage the company, or causing harm to the interests of the company, as well as loss of confidence.
(7) [14 February 2002].
(8) A member of the board of directors may leave the position of the member of the board of directors, by submitting a notification thereof to the company.
[14 February 2002; 22 April 2004; 16 March 2006]

Division XIII
Stock Companies

Chapter 1
Capital and Securities of Stock Companies

Section 225. Equity Capital of a Stock Company

(1) The equity capital of a stock company (hereinafter in this Division – company) may not be less than 25 000 lats.
(2) The equity capital specified in the articles of association when founding a company shall be fully paid-up not later than within one year from the date of the signing the memorandum of association of the company.

Section 226. Stock and the Legal Relations Associated with It

(1) Stocks are securities, which certify the stockholder's participation in the equity capital of a company and gives them the right, in conformity with the relevant category of stock, to take part in the administration of the company, to receive dividends and, in the case of the liquidation of the company, a liquidation quota.
(2) Stocks are indivisible.
(3) The legal relations which arise in relation to stock which is in public circulation shall be regulated by this Law insofar as the Financial Instrument Market Law does not specify otherwise.
[24 April 2008]

Section 227. Categories of Stock

(1) Different rights may fixed in stock in respect to:
1) receiving dividends;
2) receiving a liquidation quota; and
3) voting rights at a meeting of stockholders.
(2) Stock in which an equal amount of rights are fixed is stock of one category. If a company has several categories of stock, each category of stock shall be given a different designation.

Section 228. Registered Stock and Bearer Stock

(1) Stock may be registered stock or bearer stock.
(2) The rights arising from registered stock belong to the person who, as a stockholder, is recorded in the register of stockholders.
(3) The rights arising from bearer stock belong to the person the share of whom has been registered in the financial instrument account in accordance with the provisions of the Financial Instrument Market Law.
(4) A stockholder may request that the company convert the bearer stock owned by them into registered stock and *vice versa* if the articles of association provide for conversion.
[24 April 2008]

Section 229. Form of Stock

(1) Registered stock may be issued in printed form or dematerialised.
(2) Bearer stock may only be dematerialised.
[14 February 2002; 22 April 2004; 24 April 2008]

Section 230. Par Value of Stock

(1) The par value of stock shall be determined by the articles of association of the company and shall be expressed in lats.
(2) The par value of stock shall be expressed in whole lats, and it shall be such that it can be divided by the smallest par value of the stock of the company without a remainder.

Section 231. Preference Stock

(1) Preference stock give a stockholder special rights in relation to dividends and liquidation quotas, as well as receiving dividends and liquidation quotas.
(2) A company may issue preference stock if such category of stock is provided for by its articles of association.
(3) [22 April 2004].
[16 March 2006]

Section 232. Rights Arising from Preference Stock

(1) The rights arising from preference stock shall be determined in the articles of association.
(2) Preference stock does not give voting rights.
(3) If a stockholder who owns preference stock with special rights in relation to receiving dividends is not paid dividends for two accounting years in succession or is paid only part of them, they shall acquire voting rights in the next accounting year under general provisions in proportion to the amount of the par value of the preference stock owned by them.
(4) The acquisition of voting rights shall not release the company from the obligation to pay the arrears of dividends, as well as shall not impact upon other rights which arise from preference stock.
(5) Stockholders who own preference stock with special rights in relation to receiving dividends shall lose their voting rights on the last day of that accounting year during which they have fully received all previous arrears of dividends.

Section 233. Changes in, Restrictions on or Revocation of Preferences

(1) A meeting of stockholders by making relevant amendments in the articles of association, may take decisions on the changing, restricting or revoking of those preferences, which arise from preference stock.
(2) The decision referred to in Paragraph one of this Section shall be in effect if the relevant category of holders of preference stock have also voted for the taking of it with a number of votes which is not less than three quarters of the total number of this category of votes.
(3) The provisions of Paragraph two of this Section regarding consent by the holders of preference stock shall also apply in the case when a decision is taken to issue new preference stock which have larger or equal preferences in comparison with the already existing preference stock.
(4) The provisions of Paragraphs two and three of this Section shall not apply to any of the following cases:

1) if the articles of association provide for priority right to holders of preference stock to preference stock to be issued; or

2) if it is explicitly specified in the memorandum of association or in the regulations for the increase of equity capital that when issuing the existing preference stock, the provisions of Paragraphs two and three of this Section shall not apply.
[14 February 2002]

Section 234. Register of Stockholders

(1) For the recording of registered stock and their holders, the board of directors shall ensure the maintenance of a register of stockholders.
(2) The correctness of the record in the register of stockholders with his or her signature shall be certified by the chairperson of the board of directors or a member of the board of directors authorised by the board of directors.
[22 April 2004]

Section 235. Information to be Recorded in the Register of Stockholders

(1) In the register of stockholders shall be recorded:
1) information regarding stockholders:
a) for a natural person – given name, surname, personal identity number and residential address, and
b) for a legal person – name, registration number and legal address;
2) category and number of stock, par value, serial numbers if such have been assigned, and the number of votes arising from them; and
3) the date by which the stockholder has fully paid-up his or her stock or, if it has not yet been paid-up in full – the time period by which the stock shall be paid-up.
(2) The initial records in the register of stockholders shall be made in accordance with information which is indicated in the memorandum of association.
(3) Further records in the register of stockholders shall be made not later than the next day after the board of directors has received information regarding changes which have occurred in the records of the Commercial Register.
(4) [14 February 2002].
[14 February 2002]

Section 236. Right to Become Acquainted with the Register of Stockholders

(1) Stockholders, members of the board of directors and of the council, the auditor, and competent State authorities have the right to become acquainted with the register of stockholders.
(2) The persons referred to in Paragraph one of this Section have the right to receive an extract from the register of stockholders free of charge, which shall be certified by the chairperson of the board of directors or a member of the board of directors authorised by the board of directors upon request.
(3) Stockholder has the right to receive an extract from the register of stockholders of the company certified by the chairperson of the board of directors or a member of the board of directors authorised by the board of directors regarding stocks owned by him or her in the company.
[22 April 2004]

Section 236.[1] Registration of Bearer Stock

(1) The board of directors shall ensure record of bearer stocks in the Latvian Central Depository in accordance with the provisions of the Financial Instrument Market Law.
(2) A stockholder has the right to transfer bearer stock recorded in the Latvian Central Depository to his or her financial instruments account.
[24 April 2008]

Section 236.[2] Requesting of Information Regarding Holders of Bearer Stock

The company and competent authorities are entitled to request the information from the Latvian Central Depository regarding the holders of bearer stock in accordance with the procedures specified in the Financial Instrument Market Law.
[24 April 2008]

Section 237. Payment of Stock

(1) Stockholders shall pay up their stock to the amount, according to the procedures and within the time periods specified in the memorandum of association or the regulations for an increase of equity capital.
(2) The time period for fully paying up registered stock in the case when equity capital is being increased, may not exceed one year from the date when the subscription to the stock was opened.
(3) Bearer stock may not be paid-up by instalments. They shall be fully paid-up when subscribing to the stock.
(4) Following the end of the time period for the payment of stock, the board of directors shall notify the Commercial Register Office regarding the stock being fully paid-up or regarding the status of the payment of stock.
[22 April 2004]

Section 238. Alienation of Stock

(1) A stockholder may freely alienate their stock.
(2) The articles of association may provide that the sale of registered stock shall require the consent of a general meeting of stockholders, as well as the grounds on which such consent may be refused, and the right of first refusal of other stockholders to the stock to be sold. If the rights of first refusal have been provided for in the articles of association, then the time period for the utilisation thereof shall be one month from the date when the notice regarding the sale of stock was submitted to the board of directors. The board of directors shall, after receipt of such notice, without delay publish it in accordance with the procedures specified in Section 252 of this Law. The stockholder may waive the right of first refusal prior to the end of the specified time period.
(3) Alienation of dematerialised stock shall be by transferring them to the financial instruments account of the acquirer.
(4) Alienation of the registered stock in paper form shall be by making a transfer record upon them (endorsement).
(5) The acquirer of registered stock shall notify the company regarding the acquisition of stocks by submitting an application and presenting registered stock in paper form with a transfer notation upon them (endorsement), but in the case of alienation of dematerialised registered stock – by submitting a joint alienor and acquirer application or transaction document. An entry shall be made in the register of stockholders in accordance with the provisions of Section 235 of this Law regarding such.
[14 February 2002; 22 April 2004; 24 April 2008]

Section 238.[1] Inheritance of Stock

(1) The stock for which there are no heirs shall be under jurisdiction of the State. The State does not have the right to vote and in determining the norm of representation this stock shall not be taken into account.
(2) The State shall offer the stock acquired for sale in accordance with the procedures specified in the law and in the articles of association of the company not later than within two months after acquisition thereof. The relevant authority shall sell the stock on behalf of the State.
[16 June 2005]

Section 239. Prohibition on Companies to Subscribe to Their Own Stock

(1) A company may not subscribe to its own stock.
(2) A dependent company may not subscribe to the stock of its dominant undertaking.
(3) If such person subscribes to the stock of a company who acts in their own name but for the benefit of the company or its dependent companies, then it shall be deemed that such person has subscribed to the stock on their own account. An agreement which is in contradiction with this provision shall be void.

Section 240. Prohibition to Acquire Own Stock

(1) A company may not itself acquire its own stock, except in the following cases:
1) if a company reduces its equity capital by withdrawing a part of the stock from circulation and cancelling it;
2) if a company acquires its own stock in order to protect itself from substantial direct losses;
3) if a company acquires its own employee stock;
4) if a company acquires its own stock as a result of reorganisation, by paying compensation in the cases specified by law;
5) if a company acquires its own stock when it acquires some other undertaking or its part;
6) if a company acquires its own stock as a result of a free-of-charge transaction;
7) if a company acquires its own stock by way of inheritance;
8) if a company acquires its own stock by collecting on its claims from third persons;
9) if the stock held by a stockholder who has not paid-up such stock within the specified time period to a company is devolved; or
10) [22 April 2004].
(1^1) The provisions of this Law regarding prohibition of acquisition of own stock shall be applied for acceptance of own stock as a security.
(2) In the cases referred to in Paragraph one, Clauses 2, 6, and 8 of this Section the company may acquire only fully paid-up stock.
(3) In the cases referred to in Paragraph one, Clause 2 of this Section, a company may acquire its own stock, based upon a decision of a meeting of stockholders, with the condition that the total par value of the acquired stock together with the stock already owned by the company does not exceed one tenth of the subscribed equity capital of the company. The company may acquire the referred to stock only if the own funds of company exceed the amount of the equity capital, and as a result of the acquisition of such stock the own funds of the company do not become less than the referred to amount. The decision of the meeting of stockholders shall indicate the maximum number of stock to be acquired, as well as the time period in which the stock shall be acquired and which may not exceed 18 months. If the stock is

acquired for compensation, the decision shall indicate the minimum and maximum amount of compensation.
(4) Stock of a company, belonging to a person who has acquired such stock in his or her own name but for the benefit of such company, as well as company stock held by a dependent company of such company, shall be deemed to be owned by that company if the law does not specify otherwise.
(5) If a company acquires its own stock in violation of the provisions of this Section, then the members of the board of directors who are at fault, shall be solidarily liable regarding the payment of any illegally acquired stock.
(6) As a result of the acquisition of its own stock, the value of the own funds of a company may not become smaller than the amount of the equity capital of the company.
(7) Own stock, owned by a company, shall not give the company any of the rights which arise from such stock, and such rights shall not be taken into account when determining the quorum of a meeting of stockholders and in the distribution of profit.
(8) The acquisition of own stock shall be reflected by a company in the annual accounts, setting out the following information regarding the stock acquired in the relevant accounting year:

1) reason for the acquisition;

2) the number of stock acquired, the total of the par value and the share of equity capital represented by the stock; and

3) if the stock are acquired by payment – the form of payment and the amount.

(9) The annual accounts in addition to the information referred to in Paragraph eight of this Section shall also indicate the total number of own stocks owned by the company and the share of equity capital represented by the stock.
[14 February 2002; 22 April 2004; 24 April 2008]

Section 241. Prohibition on Financing of the Acquisition of Own Stock

(1) A company is prohibited from issuing loans or otherwise, directly or indirectly, financing third persons in the acquisition of the stock of such company.
(2) [14 February 2002].
[14 February 2002]

Section 242. Alienation and Cancellation of Own Stock Owned by a Company

(1) If a company has acquired for itself its own stock in accordance with Section 240 of this Law, such stock shall be alienated within one year from the day when they were acquired, except in the cases referred to in Section 240, Paragraph one, Clause 1 and Section 240, Paragraph four of this Law.
(2) If a company has acquired its own stock in violation of the provisions of Section 240 of this Law, such illegally acquired stock shall be alienated within three months from the day when they were acquired.
(3) Own stock that is owned by a company and which was acquired in the case referred to in Section 240, Paragraph one, Clause 3 of this Law shall be offered to employees and members of the board of directors of the company within six months.
(4) If a company does not alienate its own stock within the time periods specified in Paragraphs one, two and three of this Section, or if it has acquired stock in the case referred to in Section 240, Paragraph one, Clause 1 of this Law, such stock shall be cancelled, and correspondingly the equity capital shall be reduced in accordance with the provisions of Sections 262–265 of this Law.

[22 April 2004]

Section 243. The Condition under which a Company Takes its Own Stock as Pledge

(1) A company may take its own stock as a pledge only if it is fully paid-up.
(2) If the provisions referred to in Paragraph one of this Section are violated, then the members of the board of directors who are at fault shall be liable for full payment of the stock and for losses inflicted on third persons.

Section 244. Convertible Debentures

(1) A company may issue convertible debentures which a debenture holder in a specified time period is entitled to exchange for the stock of such company.
(2) Convertible debentures may be issued both as registered and as bearer securities.
(3) The provisions of this Law in respect of convertible debentures shall also be applicable to other securities that can be exchanged for company stock.
[14 February 2002]

Section 245. Issuance of Convertible Debentures

(1) [18 December 2008].
(2) With the decision to issue convertible debentures the regulations for the issue of debentures shall also be approved, which shall indicate:
1) the number of debentures to be issued, the par value of one debenture and the total amount of par value;
2) the price of debentures;
3) the time period for conversion of debentures;
4) the interest which the company undertakes to pay to the debenture holder and their payment provisions (if such are provided for);
5) the procedures and time periods for the payment of debentures;
6) the procedures by which the debentures shall be exchanged for stock;
` 7) the rights of debenture holders; and
8) other provisions which are not in contradiction to law.
(3) Debenture holders shall acquire convertible debentures after their full selling price has been paid.
(4) A decision to issue convertible debentures shall be submitted to the Commercial Register Office not later than one month before the issuance of the debentures.

Section 246. Priority Right of Convertible Debentures

In the case of the issuance of convertible debentures, the stockholders of the company have a priority right to acquire such debentures.
[14 February 2002]

Section 247. Register of Debenture Holders

The board of directors shall maintain a record of the convertible debentures and their holders in a register of debenture holders. In the register of debenture holders shall be recorded:
1) information regarding debenture holders:

a) for a natural person – given name, surname, personal identity number and residential address, and

b) for a legal person – name, registration number and legal address;

2) the number of debentures owned by each debenture holder, their par value and ordinal number if such has been allocated; and

3) information regarding the conversion of the debentures.

Section 248. Rights of Debenture Holders

(1) Those rights of debenture holders, who own convertible debentures, shall be determined by this Law, the articles of association and the regulations for the issuance of debentures.
(2) Debenture holders have the right to become acquainted with the documents of the company according to the procedures and in the amount specified by a meeting of stockholders. They shall also have the right to take part at meetings of stockholders without voting rights and, in cases specified by law – in the taking of decisions.

Chapter 2
Increase and Reduction of Equity Capital

Section 249. Right to Increase or Reduce Equity Capital

(1) The equity capital may be increased or reduced only on the basis of a decision of a meeting of stockholders, in which the regulations for an increase or reduction of the equity capital shall be approved, and amendments to the articles of association of the company made, except the case referred to in Paragraph four of this Section.
(2) If there are several categories of stock in a company, voting on a decision regarding an increase or reduction of the equity capital at a meeting of stockholders shall be in accordance with the provisions of Section 284, Paragraph three of this Law.
(3) [18 December 2008].
(4) The authorisation for the board of directors may be specified in the articles of association for a period of time up to five years to increase the equity capital in amount specified in the articles of association or in the meeting of stockholders, not exceeding 30 per cent of the equity capital of the company at the time of coming into effect of the authorisation. The authorisation of the board of directors to increase the equity capital shall not apply to increase of the equity capital in the case referred to in Section 254 of this Law.
(5) Upon increasing the equity capital in the case referred to in Paragraph four of this Section, the amendments to the articles of association of the company shall be made by the council.
(6) The board of directors may use the authorisation referred to in Paragraph four of this Section insofar as it is not otherwise provided for in the articles of association or in the decisions of the meeting of stockholders.
[24 April 2008]

Section 250. Increase of Equity Capital

(1) A company may increase its equity capital by issuing new stock in accordance with a decision to increase the equity capital and by opening subscription to them.
(1^1) A company, in which there is only one stockholder, after approval of the annual accounts or a report on economic activities for a shorter time period than a year, may increase the equity capital by increasing pro rata the par value of the existing shares or issuing new shares, by including fully or partially in the equity capital the positive difference between the own

capital and the sum formed by the equity capital and reserves, which in accordance with the law may not be included for increase of the equity capital. The report on economic activities shall be drawn up in accordance with the requirements of the law regarding drawing up of the annual accounts.
(2) The equity capital may only be increased after the previous issue of stock is fully paid-up.
(3) If stock of the new issue is paid-up by a property contribution, this contribution shall be evaluated and an expert's opinion shall be submitted regarding it in accordance with the procedures specified in Section 154 of this Law.
(4) [14 February 2002].
[14 February 2002; 24 April 2008]

Section 251. Priority Right of Stockholders

(1) In the case of the increase of equity capital the current stockholders have priority right to purchase the newly issued stock in proportion to the total of the par value of the stock already owned by them.
(2) [14 February 2002].
(3) If any of stockholders do not exercise their priority right within the specified time period, the relevant newly issued stock shall be offered for subscription according to the procedures specified in the regulations for increasing equity capital, to those current stockholders who have already exercised their priority right.
[14 February 2002]

Section 252. Notice Regarding Priority Right of Stockholders

(1) A notice regarding a priority right of stockholders to the newly issued stock shall be published in the newspaper *Latvijas Vēstnesis*.
(2) A company shall send a notice regarding their priority to the newly issued stock to all stockholders registered in the register of stockholders according to the procedures specified in Section 273, Paragraph two of this Law.
(3) If a company has only registered stock, then the notice referred to in Paragraph one of this Section is not mandatory, if the articles of association do not specify otherwise.
(4) The notice referred to in Paragraphs one and two of this Section shall indicate:

1) the firm name and legal address of the company;

2) the size of the equity capital and the planned amount by which the equity capital would be increased;

3) the category, number and par value of the stock to be issued;

4) the selling price of the stock; and

5) the time period during which the stockholders must exercise their priority right, and which may not be less than one month from the date when the notice is published, or in the case of registered stock – from the date when the notice was sent.

[14 February 2002]

Section 253. Restrictions on and Revocation of Priority Right of Stockholders

(1) The priority right of stockholders may not be revoked or restricted by the memorandum of association, the articles of association or by a decision of a meeting of stockholders. In the cases of increasing equity capital provided for in Section 254, Paragraph two of this Law, stockholders shall not have priority rights.

(2) A decision of a meeting of stockholders regarding the organisation of the subscription of stock for the transfer to third persons (Section 260, Paragraph one), shall not be deemed to be a restriction of the priority right. These persons shall ensure the priority right of stockholders.
[14 February 2002]

Section 254. Increase of Equity Capital for a Special Purpose

(1) The equity capital of a company is to be increased by determining that the newly issued stock shall be utilised for special purposes, which are indicated in the regulations for the increasing equity capital. In such cases the increase in the equity capital may not exceed the amount necessary for the special purpose.
(2) According to the procedures specified in Paragraph one of this Section, equity capital may be increased only for the following purposes:

1) for the exchange of newly issued stock for convertible debentures;

2) for the exchange of newly issued stock for the stock of a company to be merged in the case of a re-organisation;

3) as compensation to minority stockholders which as an exchange of stock is conducted by the dominant undertaking of a group of companies;

4) [14 February 2002];

5) [14 February 2002];

6) for the issuing of employee stock.

(3) In increasing equity capital according to the procedures specified by this Section, the regulations for increasing equity capital shall in addition indicate the group of persons who have the right to acquire the newly issued stock, as well as in the cases referred to in Paragraph two, Clauses 1–3 of this Section – the exchange rate for such stock.
(4) The board of directors shall submit to the meeting of stockholders, which is examining the question of increasing equity capital for a special purpose, a justification for the necessity of such an increase.
[14 February 2002]

Section 255. Employee Stock

(1) A company may issue employee stock. Employee stock shall be transferred free of charge and they may be acquired only by employees of the company and members of the board of directors.
(2) Employee stock may be only registered stock.
(3) Employee stock shall be issued on the account of the net profit of the company.
(4) The total par value of employee stock may not exceed 10 per cent of the registered equity capital of the company.
(5) A company in paying for employee stock, the own capital of the company may not become less than the registered capital.
(6) Employee stock does not give voting rights and rights to receive a liquidation quota.
(7) A stockholder may alienate employee stock if the articles of association do not specify restrictions.
(8) If employment legal relations between the company and an employee is terminated, or a member of the board of directors of the company is recalled or leaves office, the company has right of first refusal to acquire the employee stock of the employee or the member of the board of directors.
[14 February 2002; 22 April 2004]

Section 256. Increase of the Equity Capital by Replacing the Debts of a Company with its Stock

[14 February 2002]

Section 257. Regulations for Increasing Equity Capital

(1) The regulations for increasing equity capital shall indicate:

1) the purposes of or reasons for increasing equity capital;

2) the existing equity capital, categories of stocks, their number and par value;

3) the intended increase of the equity capital (the announced equity capital);

4) the category or categories of the stock of the new issue, as well as the rights which arise from these categories of stock, and the number of these stocks;

5) the par value of the newly issued stock, the amount of mark up of the issue and the minimum first payment to be made when subscribing to the stock;

6) the type of payment for the newly issued stock (in cash or by a property contribution);

7) the category, number and the total of the par value of those newly issued stocks which shall be paid-up by property contributions, indicating each item of property contribution and its value;

8) the subscription and payment time periods with the calculation that each of the newly issued stocks shall be fully paid-up not later than one year from the date of the decision to increase the equity capital was taken;

9) the time period within which the existing stockholders may use their priority right in respect of the newly issued stock if they have such rights; and

10) the place and time, where and when subscription to the stock shall take place.

(2) Increasing equity capital for a special purpose, the information referred to in Paragraph one, Clause 8 of this Section need not be included in the regulations for increasing equity capital.

(3) Upon increasing the equity capital in the case referred to in Section 249, Paragraph four of this Law, the newly issued stock shall be paid up only by cash.

(4) Upon increasing the equity capital in the case referred to in Section 249, Paragraph four of this Law, the time period for payment of the newly issued stock shall be determined not longer than three months from the day when a decision regarding increase of the equity capital is taken.

[14 February 2002; 24 April 2008]

Section 258. Notice to Stockholders regarding Increasing Equity Capital

(1) A company shall send the regulations for increasing equity capital to all stockholders recorded in the register of stockholders. If the company has also issued bearer stock, a notice regarding increasing equity capital shall be published also in the newspaper *Latvijas Vēstnesis*, indicating the place and time, where and when one may become acquainted with the regulations for increasing equity capital.

(2) To the regulations for increasing equity capital shall be appended those document forms, which are necessary for the existing stockholders to exercise their priority right.

(3) In cases specified by law, a company shall prepare a prospectus regarding the issue.

[14 February 2002]

Section 259. Par Value and Selling Price of Newly Issued Stock

(1) The par value of newly issued stock shall be determined in the regulations for increasing equity capital.
(2) For each newly issued stock shall be paid the selling price of such stock, which shall be determined by the board of directors, but which may not be less than the par value of the stock. The selling price of stock is composed of the par value of the stock, and the additional payment and the mark up of the issue. The board of directors may change the selling price of stock within limits provided for in the regulations for increasing equity capital.
(3) [14 February 2002].
[14 February 2002; 22 April 2004]

Section 260. Subscription to a New Issue of Stock

(1) A company may itself organise subscription to a new issue of stock or entrust the organisation to a third person (a bank, brokerage company, stock exchange and the like).
(2) When subscribing to a new issue of registered stock, at least 25 per cent of the par value of subscribed new issue of stock, and all the additional payment and the mark up of the issue shall be paid, but the remainder of the amount shall be paid within the time periods specified in the regulations for increasing equity capital.
(3) If the announced equity capital is not fully subscribed within the time periods specified in the regulations for increasing equity capital, the issue of stock shall be deemed to have taken place to the value of the subscribed stock, except in cases when such is not allowed for in the regulations for increasing equity capital.
(4) If the issue of stock is recognised as not having taken place, the moneys collected shall be repaid to the subscribers of the stock.
(5) If the issue of stock is recognised as having taken place only to the value of the subscribed stock, a meeting of stockholders shall make the relevant amendments to the articles of association.

Section 261. Application regarding an Increase of Equity Capital to the Commercial Register Office

(1) After the subscription time period according to the regulations for increasing equity capital has ended, the board of directors shall submit an application regarding an increase of the equity capital to the Commercial Register Office.
(2) The notice shall have appended:

1) an extract of the minutes of the meeting of stockholders with the decision to increase the equity capital and the regulations for increasing equity capital;

1^{1}) an extract of the minutes of the meeting of the board of directors with the decision to increase the equity capital in the case referred to in Section 249, Paragraph four of this Law and an extract from the minutes of the meeting of the council with a decision to allow the board of directors to increase the equity capital;

2) the text of the amendments to the articles of association, as well as the full text of the revised articles of association;

3) a notice from the board of directors regarding the situation of payments of equity capital;

4) documents certifying the valuation of each item of a property contribution and its transfer to the company (if the payment was made by property contribution); and

5) a certification that no significant circumstances have arisen, which affect the value of the property contribution referred to in Section 154, Paragraph $2.^{1}$ of this Law.

(3) Equity capital shall be deemed to have been increased from the date when a record is made in the Commercial Register.
(4) [22 April 2004].
[22 April 2004; 24 April 2008]

Section 262. Reduction of Equity Capital

(1) Equity capital may be reduced:
1) by the company itself acquiring and cancelling its own stock;
2) by cancelling stock which have been submitted by stockholders; or
3) by reducing the par value of stock.
(2) Equity capital may not be reduced below the amount specified in Section 225, Paragraph one of this Law.
(3) In the case when equity capital is to be reduced, the equity capital shall first of all be reduced on the account of the own stock owned by the company.
(4) In the case when equity capital is to be reduced, stockholders may be paid the par value of the cancelled stock only after the creditor protection measures specified in Section 264 of this Law have been fully implemented.
[14 February 2002]

Section 263. Regulations for the Reduction of Equity Capital

(1) The regulations for the reduction of equity capital shall indicate:
1) the reasons for reducing equity capital;
2) the amount by which equity capital will be reduced;
3) the means of reducing the equity capital;
4) the number of stock to be cancelled or the amount by which the par value is to be reduced;
5) the time periods within which stock shall be returned or exchanged; and
6) if it is provided that a part of the equity capital shall be paid out to stockholders – the provisions for payments.

Section 264. Protection of Creditors in the Case of Reduction of Equity Capital

(1) Within five days from the date when a decision is taken to reduce the equity capital, the board of directors shall send a written notice regarding the reduction of equity capital and the new amount of equity capital to all known creditors of the company whose claim rights against the company have arisen prior to the taking of the decision to reduce the equity capital.
(2) The board of directors shall publish a notice regarding the decision taken to reduce equity capital in the newspaper *Latvijas Vēstnesis*. The notice shall indicate the time period within which creditors who wish to receive security may apply. The notice shall indicate a time period for the submission of creditor claims which may not be shorter than one month from the day of publication of the notice.
(3) The company shall provide security for creditors who have applied within the time periods specified (except the amount of secured claims of secured creditors).

Section 265. Application to the Commercial Register Office for the Reduction of Equity Capital

(1) After the time period for the submission of creditor claims has expired, and the claims have been secured, the board of directors shall submit an application regarding reduction of equity capital to the Commercial Register Office. The application shall have appended to it the text of the amendment made to the articles of association and the full text of the revised articles of association.
(2) In the application, the board of directors shall certify the provision of security to creditors or the satisfaction of their claims.
(3) The application shall be submitted to the Commercial Register Office not later than after six months from the day when the decision regarding reduction of equity capital was taken.
(4) Equity capital shall be deemed to have been reduced from the day when the new amount of equity capital has been recorded in the Commercial Register.

Chapter 3
Organisational Structure of a Company

Section 266. Institutions of a Company

A company shall be administered by meetings of stockholders, a council and a board of directors.

Section 267. Meeting of Stockholders

(1) Stockholders exercise their rights to take part in the administration of the company at a meeting of stockholders.
(2) Regular and extraordinary meetings of stockholders shall be convened.

Section 268. Competence of a Meeting of Stockholders

(1) Only a meeting of stockholders has a right to take decisions regarding:
1) the annual accounts of a company;
2) the use of the profit from the previous year of activities;
3) the election and recall of members of the council, the auditor, the company controller, and liquidator;
4) the bringing of actions against members of the board of directors, the council and the auditor or withdrawing actions against them, as well as regarding the appointment of a representative of the company to maintain actions against members of the council;
5) [14 February 2002];
6) amending the articles of association of the company;
7) increasing or reducing equity capital;
8) the issuance and conversion of the company's securities;
9) specifying the remuneration for members of the council and the auditor;
10) the termination of the activities of the company or their continuation or regarding the reorganisation of the company; and
11) the general principles, types and criteria for determination of remuneration intended for the members of the board of directors and the council.
(2) A meeting of stockholders shall take decisions regarding other issues only if it is provided for by law.
[14 February 2002; 24 April 2008]

Section 269. Regular Meeting of Stockholders

(1) A regular meeting of stockholders shall take a decision regarding the annual accounts, on the reports of the board of directors and the council and on the use of the profit from the previous accounting year, as well as on other issues included in its agenda.
(2) A regular meeting of stockholders shall be convened by the board of directors each year. In convening a regular meeting the time period provided for by law for the approval of annual accounts shall be observed.
(3) If the board of directors has not convened a regular meeting of stockholders within the time period provided for, it may be convened by:
1) the council;
2) the Commercial Register Office; or
3) [16 June 2005].
(4) The Commercial Register Office shall convene a regular meeting of stockholders for fee upon the request of one or more stockholders, if the board of directors or the council of the company has not done it.
[16 June 2005]

Section 270. Extraordinary Meeting of Stockholders

(1) An extraordinary meeting of stockholders may be convened by the board of directors pursuant to its own initiative and shall be convened if it is requested by the council, the auditor or stockholders who jointly represent not less than one twentieth of the equity capital of the company, if a lower representation norm is not specified in the articles of association.
(2) In their request to convene an extraordinary meeting of stockholders, the initiators shall indicate the reasons for convening the meeting and the agenda. The request to convene a meeting shall be submitted to the board of directors and to the council, and the auditors shall be notified of it.
(3) The board of directors shall announce the convening of an extraordinary meeting of stockholders not later than within two weeks from the day when it receives a request.
(4) If the board of directors 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 council. If the council does not convene an extraordinary meeting of stockholders, it shall be convened by the Commercial Register Office for fee.
(5) The Commercial Register Office shall convene an extraordinary meeting of stockholders for fee, if it is requested by an auditor or stockholders which in total represent not less than one twentieth of the equity capital of the company, unless the articles of association provide for a smaller norm of representation.
[14 February 2002; 16 June 2005]

Section 271. Convening of the Meeting of Stockholders in Special Cases

If the losses of the company exceed half of the equity capital of the company or the company has limited solvency, the signs of insolvency procedures have been determined or they are likely to occur in the company, the board of directors shall notify the council thereof and convene a meeting of stockholders, where it shall provide explanations. The meeting of stockholders shall decide regarding submission of an application for legal protection proceedings or application for insolvency proceedings, termination of the operation and liquidation, reorganisation of the company, changes to the equity capital or shall take another decision regarding improvement of the economic standing of the company.
[14 February 2002 22 April 2004; 24 April 2008]

Section 272. Costs of Convening Meetings of Stockholders

(1) The company shall cover the costs related to the convening of meetings of stockholders.
(2) The fee and expenses for convening the meeting of stockholders shall be paid by a requester to the Commercial Register Office. The company shall cover the amount paid to the Commercial Register Office, if there was a substantiated reason for convening the meeting of stockholders.
[16 June 2005]

Section 273. Procedures for Convening a Meeting of Stockholders

(1) A notice regarding the convening of a meeting of stockholders shall be announced not later than 30 days prior to the planned meeting of stockholders.
(2) The notice regarding the convening of a meeting of stockholders shall be announced:

1) if the company has bearer stock – by publishing the announcement in the newspaper *Latvijas Vēstnesis* and in at least one other newspaper; and

2) if the company has also registered stock or only registered stock – by sending written notices to the stockholders recorded in the register of stockholders by registered mail.

(3) The notice shall indicate:

1) the firm name and legal address of the company;

2) the place and time of the meeting;

3) the type of meeting (regular or extraordinary meeting);

4) the institution which is convening the meeting;

5) the activities which have to be conducted by the stockholders up to the meeting, in order that they may participate and vote;

6) the provisions in the articles of association regarding the participation of representatives of stockholders at the meeting (if such provisions are provided for in the articles of association);

7) the agenda; and

8) the place and time, where and when stockholders may become acquainted with draft decisions on the issues included in the agenda, as well as with other issues to be examined at the meeting.

(4) If it is intended to amend the articles of association during the meeting of stockholders, the notice sent to stockholders shall have appended thereto the draft decision regarding amendments to the articles of association of the company indicating the clauses of the articles of association proposed to be recognised as void or to be amended, and new wording of these clauses.
(5) Stockholders have the right to receive copies of the draft decisions free-of-charge at 14 days before the meeting.
(6) [22 April 2004].
[14 February 2002; 22 April 2004]

Section 274. Agenda of a Meeting of Stockholders

(1) The issues to be included in the agenda of the meeting of stockholders shall be determined by the persons or the institution which initiated the meeting.
(2) Stockholders who represent at least one twentieth of the equity capital of the company have the right, within seven days from the day of publication of the advertisement or within

five days from the day when they receive the notice, to request the institution convening the meeting of stockholders to include additional issues in the agenda of the meeting.
(3) The board of directors or another institution which is convening the meeting of stockholders shall include the additional issues in the agenda of the meeting of stockholders and shall announce them in the same manner as the notice regarding the convening of the meeting not later than fourteen days prior to the meeting.
[14 February 2002]

Section 275. Capacity to Act of a Meeting of Stockholders

A meeting of stockholders is entitled to take decisions irrespective of the equity capital represented there if the articles of association do not specify a representation norm.
[14 February 2002]

Section 276. Issues to be Examined at a Meeting of Stockholders

(1) A meeting of stockholders may take decisions only regarding those issues of the agenda which are indicated in the publication or notice regarding the convening of the meeting, except for the cases referred to in Paragraphs two and three of this Section.
(2) If all the equity capital with voting rights is represented at a meeting of stockholders, the meeting shall be deemed to have the capacity to act irrespective of the time and manner it was convened. Such meeting may also discuss issues not included in the agenda and to take decisions on them, if all the stockholders with voting rights unanimously agree to such.
(3) A meeting of stockholders may take decisions on the following issues (even if they are not included in the agenda):

1) recall of the council, the auditor, company controller or liquidator, provided that in case of recall of the council or liquidator a new council or liquidator is elected during the same meeting;

2) the bringing of actions against members of the council and of the board of directors, the company controller, liquidator or auditor if the issue of the annual accounts of the company is discussed during the same meeting; and

3) the convening of a new meeting.

(4) If a stockholder has submitted a written request to the board of directors at least seven days before the meeting of stockholders, the board of directors must provide to him or her, not later than three days before the meeting of stockholders, all the requested information regarding the issues included in the agenda. The board of directors may refuse to issue such information only if there are the reasons provided for in Section 283, Paragraph two of this Law. Disputes between stockholders and the board of directors on these issues, shall be decided by the meeting of stockholders.
[14 February 2002; 22 April 2004]

Section 277. Participation at a Meeting of Stockholders

(1) Stockholders may participate at a meeting of stockholders either in person or through a representative. A proxy shall be completed in writing and attached to the minutes of the meeting. A proxy may be submitted up to the beginning of the meeting. A special proxy is not necessary for persons who represent a stockholder on the basis of law. These persons shall present documents which certify their authorisation.
(2) It is the duty of members of the board of directors and the auditor, as well as at least one member of the council to participate in meetings of stockholders. Non-compliance with this

provision shall not be a basis for regarding the meeting of stockholders as invalid, or to dispute decisions taken by the meeting.
[14 February 2002]

Section 278. List of Stockholders

(1) Not later than three days prior to a meeting of stockholders, the board of directors shall compile a list of stockholders which shall be accessible to stockholders.
(2) The list shall indicate:
1) the given name, surname, and personal identity number of the stockholder and his or her representative (if a proxy has been issued), but for legal persons – name and registration number;
2) the category, number and par value of stocks owned by the stockholder; and
3) the number of votes arising from the stock owned by the stockholder.
(3) Prior to the opening of the meeting of stockholders the board of directors shall compile a list of the stockholders who are participating in the meeting, indicating the information referred to in Paragraph two of this Section.
(4) The list of stockholders referred to in Paragraph three of this Section shall be signed by the authorised representative of the board of directors, and the stockholders shall be acquainted with it prior to the first vote.
[14 February 2002]

Section 279. Voting Rights of Stockholders

(1) Each minimum par value stock with voting rights gives the right to one vote at a meeting of stockholders. A stockholder has voting rights in conformity with the total of the par values of the stock with voting rights belonging to them.
(2) In a meeting of stockholders, those stockholders shall have voting rights who are recorded in the list referred to in Section 278, Paragraph three of this Law.
(3) If a meeting of stockholders has to decide the issue of terminating the activities of the company, then the holders of preferential stock shall also have the right to vote on this issue.
(4) If a meeting of stockholders has to decide the issues of re-organisation of the company, increase or reduction of the equity capital, or amendments to the articles of association, then the holders of preferential stock shall also have the right to vote on these issues, if such issues may affect their interests.
[14 February 2002]

Section 280. Restrictions on Voting Rights

(1) It may be provided for in the articles of association that only a certain amount of the par value of stock gives a right to one vote, if such provisions in the articles of association were in effect prior to the issuance of the stock.
(2) A stockholder shall not have voting rights, if:
1) he or she is a member of the council or of the board of directors, a liquidator, an auditor or a company controller – in the taking of a decision regarding the recall of him or her, or the expression of no confidence in him or her, or the bringing of an action against him or her;
2) a decision is to be taken in respect of rights which the company may utilise against him or her;

3) a decision is to be taken regarding the release of him or her from obligations or liability towards the company; or

4) [14 February 2002].

(3) The voting rights of a stockholder may also be restricted in other cases specified by law.

[14 February 2002; 22 April 2004]

Section 281. Void Stockholder Obligations

Obligations shall be void, in which a stockholder undertakes:

1) to always fulfil the instructions of the company or its institutions;

2) to always accept the proposals of the company or its institutions; or

3) to base their attitude in voting on remuneration.

Section 282. Course of a Meeting of Stockholders

(1) A meeting of stockholders shall be opened by the chairperson of the council or his or her deputy, but in the cases referred to in Section 269, Paragraph three, Clause 3 and Section 270, Paragraph four of this Law, by an official of the Commercial Register Office.

(2) Upon the proposal of the person referred to in Paragraph one of this Section, the meeting shall elect tellers of votes.

(3) After the meeting of stockholders is opened, the stockholders with voting rights shall elect the chairperson of the meeting.

(4) On the basis of a proposal of the chairperson of the meeting of stockholders, the meeting shall elect a meeting secretary (recorder of minutes).

(5) The meeting of stockholders shall also elect at least two stockholders with voting rights who shall attest to the correctness of the minutes of the meeting.

(6) Voting at the meeting of stockholders shall be open, except for cases when a secret ballot is requested by stockholders who represent at least one tenth of the equity capital.

[14 February 2002; 22 April 2004]

Section 283. Information to be Submitted to a Meeting of Stockholders

(1) Pursuant to the request of stockholders, the board of directors has the duty to submit to a meeting information about the economic circumstances of the company to such an extent as is necessary to examine the relevant issue on the agenda and to objectively take a decision.

(2) A board of directors may refuse to submit this information only if:

1) its disclosure may cause serious losses to the company or to its transaction partners; or

2) such information is not to be disclosed in accordance with law or the articles of association.

(3) Even if the circumstances referred to in Paragraph two of this Section exist, the board of directors shall not refuse to submit information regarding:

1) the profit and losses of the company;

2) the solvency of the company;

3) the development perspectives of the company; and

4) concluded transactions between the company and stockholders, members of the council or members of the board of directors.

(4) Disputes regarding the refusal to disclose information by the board of directors shall be decided by a court.

[14 February 2002]

Section 284. Taking of Decisions by a Meeting of Stockholders

(1) A meeting of stockholders shall take decisions by a majority of votes of the stockholders with voting rights present if the law or articles of association does not specify a larger number of votes.
(2) Decisions regarding the making of amendments to the articles of association, the issuance of convertible debentures, the reorganisation of the company, entering into a group of companies agreement, amending or termination thereof, inclusion of the company, consent for inclusion and the termination or continuation of operations shall be taken by a meeting of stockholders if not less than three quarters of the stockholders with voting rights present vote for them, if the articles of association do not specify a larger number of votes.
(3) If there are several categories of stock in a company, a decision on an issue which affects the rights of stockholders of the relevant category of stock shall be taken if the stockholders of each of the relevant categories of stock, by a majority of votes of the stockholders with voting rights present as specified by law or the articles of association, vote for it in each of such groups of stockholders.
(4) A decision of a meeting of stockholders in respect of the company, members of its council and its board of directors, the auditor, company controller and stockholders shall come into effect from the time of being taken if a different time period for the coming into effect of such decision is not specified in this decision or by law.
(5) In applying amendments to the articles of association to the Commercial Register Office, the extract from the minutes of the meeting of stockholders with a decision regarding amending the articles of association and the full text of the new wording of the articles of association signed by the board of directors shall be appended.
[14 February 2002; 22 April 2004; 18 December 2008]

Section 285. Minutes of a Meeting of Stockholders

(1) The minutes of a meeting of stockholders shall indicate:
1) the firm name of the company;
1^1) the authority which convenes the meeting of stockholders and the time when a notice regarding convening of the meeting of stockholders has been sent and when it was published, if the publication is provided for in the law;
2) the time and place of the meeting of stockholders;
3) the amount of the subscribed equity capital, paid-up equity capital and equity capital with voting rights of the company;
4) the amount of the equity capital represented at the meeting of stockholders and the number of votes of stockholders with voting rights present;
5) the given names and surnames of the chairperson of the meeting, secretary, tellers of the votes and the shareholders who will attest to the correctness of the minutes;
6) the agenda of the meeting;
7) the course and content of the discussion of the issues on the agenda;
8) the decisions taken, indicating the number of votes given "for" and "against" each decision; and
9) the objections by members of the council or of the board of directors, the auditor, the liquidator or stockholders.

(2) The minutes shall be signed by the chairperson and secretary of the meeting of stockholders, as well as by at least two stockholders elected by the meeting who shall attest to the correctness of the minutes.
(3) The list of stockholders which was compiled in accordance with Section 278 of this Law, and documents that pertain to the meeting of stockholders shall be appended to the minutes.
(4) Stockholders have the right to become acquainted with the minutes and the documents appended to it and to receive a copy or an extract from the minutes free of charge.
[14 February 2002; 16 March 2006]

Section 286. Declaration of a Decision Taken by a Meeting of Stockholders as Void

(1) A court may declare a decision taken by a meeting of stockholders as void if:
1) it is in contradiction to the purposes of the company, the public interest or morality;
2) it infringes the rights of third persons;
3) it is in contradiction with law or the articles of association;
4) the provisions of the law or of the articles of association regarding the convening of the meeting or the announcement of information associated with it have been violated;
5) stockholders were unlawfully not allowed to participate in the meeting;
6) stockholders were unlawfully not allowed to become acquainted with draft decisions, the list of stockholders participating at the meeting or the minutes of the meeting of stockholders;
7) stockholders were unjustifiably refused the provision of information requested by them, if such has significantly affected their attitude regarding the relevant issue;
8) the voting provisions were not observed at the meeting and thereby the results of the voting were significantly affected, or the provisions of law for the number of votes given were not observed; or
9) the requirements referred to in Section 284, Paragraph three of this Law were not observed.
(2) Declaration of a decision taken by a meeting of stockholders as void shall not affect the rights of third persons obtained in good faith.
[14 February 2002; 22 April 2004]

Section 287. Persons who have the Right to Bring an Action in Court

(1) The following may bring an action in court to declare a decision taken by a meeting of stockholders as void:
1) the council, the board of directors or individual members of these institutions, as well as the auditor;
2) any stockholder – in the cases referred to in Section 286, Clauses 1, 2 and 3 of this Law if he or she has voted against the disputed decision and have requested that this be recorded in the minutes, but if the voting was by secret ballot – has objected to the disputed decision and has requested that this be recorded in the minutes;
3) a stockholder who did not take part in the meeting – in the cases referred to in Section 286, Clauses 4 and 5 of this Law;
4) a stockholder who was not allowed to become acquainted with the documents specified by law – in the case referred to in Section 286, Clause 6 of this Law;
5) a stockholder, to whom the provision of information requested by him or her was unjustifiably refused – in the case referred to Section 286, Clause 7 of this Law;

6) a stockholder who was not given an opportunity to vote or who disputes the right of another stockholder to vote or otherwise disputes the voting procedure – in the case referred to in Section 286, Clause 8 of this Law; and

7) an interested stockholder – in the case referred to in Section 286, Clause 9 of this Law.

[14 February 2002]

Section 288. Bringing of an Action

(1) The time period for the bringing of an action to declare a decision of a meeting of stockholders as void shall be three months from the day of the meeting.

(2) If an action is brought by a stockholder who unlawfully was not allowed to participate in the meeting of stockholders, the time period for bringing an action shall be three months from the day when the stockholder found out or when he or she should have found out about the decision of the meeting, but not longer than one year from the day of the meeting.

(3) An action to declare a decision of a meeting of stockholders as void shall be brought against the company.

(4) If an action is brought by the board of directors or a member of the board of directors, the company shall be represented in court by the council.

Section 289. Procedures for Implementing a Court Adjudication Declaring a Decision of a Meeting of Stockholders as Void

(1) After an adjudication by a court declaring a decision taken by a meeting of stockholders as void has come into legal effect, the court shall send the adjudication to the Commercial Register Office.

(2) If a court declares a decision taken by a meeting of stockholders as void, the company has the duty to submit to the Commercial Register Office an application regarding the amendment of the entry, which was made based upon the referred to decision of the meeting of stockholders.

Section 290. Liability for Unjustifiably Disputing a Decision of a Meeting of Stockholders

If plaintiffs have brought an action in bad faith or because of gross carelessness, they shall be solidarily liable for any losses incurred by the company due to the unjustified disputing of decision of a meeting of stockholders.

[14 February 2002]

Section 291. Councils

A council is the supervisory institution of a company, which represents the interests of stockholders during the time periods between the meetings of stockholders and supervises the activities of the board of directors within the scope specified in this Law and the articles of association.

Section 292. Functions of a Council

(1) The functions of a council are the following:

1) to elect and recall members of the board of directors and to continually supervise the activities of the board of directors;

2) to monitor that the business of the company is conducted in accordance with law, the articles of association and the decisions of the meeting of stockholders;

3) to examine the annual accounts of the company and the proposal of the board of directors for the use of the profits and draw up a report (Section 174);

4) to represent the company in a court in all actions brought by the company against members of the board of directors as well as in actions brought by the board of directors against the company and to represent the company in other legal relations with members of the board of directors;

5) to approve the concluding of transactions between the company and members of the board of directors or the auditor;

6) to examine in advance all issues which are within the competence of the meeting of stockholders or which, pursuant to the proposal of members of the board of directors or the council, have been proposed for discussions at the meeting, and to provide its opinion on such issues; and

7) to give a consent for a decision of the board of directors to increase the equity capital in the case referred to in Section 249, Paragraph four of this Law and to make amendments to the articles of association of the company in the case referred to in Section 249, Paragraph five of this Law.

(2) Stockholders who jointly represent not less than one tenth of the equity capital of the company have the right to request of the council in writing, indicating the reasons, that the council examine the activities of the board of directors. If within a month the council has not carried out such examination or submitted a reply, the stockholders have the right to give this issue to the meeting of stockholders for examination.

(3) The council shall provide explanations to the meeting of stockholders regarding the report thereof (Section 175), if it is requested by at least one stockholder.

[14 February 2002; 22 April 2004; 24 April 2008]

Section 293. Rights of a Council

(1) The council has the right at any time to request that the board of directors report on the circumstances of the company and to become acquainted with all of the activities of the board of directors.

(2) The council has the right to examine the company's registers and documents, as well as the cashier's office and all of the property of the company.

(3) The council may entrust one of its members to perform an examination or invite experts to perform the examination or to clarify separate issues.

(4) The council has the right to convene a meeting of stockholders or to request that the board of directors convene the meeting if the interests of the company so require.

(5) The council does not have the right to decide issues, which are within the competence of the board of directors.

Section 294. Consent of a Council for the Activities of the Board of Directors

(1) It may be specified in the articles of association that the board of directors shall require the consent of the council to decide on issues of major importance. The following shall be deemed to be such issues of major importance:

1) acquiring participation in other companies and increasing or decreasing such participation;

2) acquisition or alienation of undertakings;

3) acquisition of immovable property, alienation or encumbering rights pertaining to property;

4) opening or closing of branches and representative offices;

5) concluding of such transactions as exceed the amounts specified in the articles of association or a decision of the council;

6) issuing of such loans as are not related to the usual commercial activities of the company;

7) issuing loans to employees of the company;

8) starting new kinds of activities or ceasing existing activities; and

9) determining the general principles for activities.

(2) A company may also provide for other issues in its articles of association, for the deciding of which the board of directors must receive the consent of the council.

(3) If the council rejects a proposal of the board of directors with respect to the issues referred to in Paragraphs one and two of this Section, the board of directors has the right to convene an extraordinary meeting of stockholders, which shall take a decision on the relevant issue.

(4) The fact that the board of directors has not received the consent of a council shall not be binding as to third persons. The announcement of the fact referred to or the existence of relevant provisions of the articles of association shall not be sufficient grounds to recognise this fact as binding on third persons, except in cases when the person knew that the consent of the council was necessary and that it was not given.

Section 295. Composition of a Council

(1) Only natural persons with the capacity to act may be council members.

(2) The following may not be council members:

1) members of the board of directors, the auditor, proctor or commercial representative of the company;

2) members of the board of directors of any dependent company of the company or any person with the right to represent the dependent company; or

3) [22 April 2004].

(3) The articles of association may specify stricter restrictions for council members.

(4) The minimum number of council members shall be three, but if the stock of the company is in public turnover – the minimum number of council members shall be five.

(5) The maximum number of council members shall be twenty.

(6) A council member may not entrust to another person the performance of his or her duties.

[22 April 2004]

Section 296. Election and Recall of Council Members

(1) The council shall be elected for a period which is not longer than three years.

(2) A council member may not be elected without his or her written consent to serve as a council member. In his or her written consent, the council member candidate shall indicate any possible barriers specified by law or the articles of association for taking up the office, or that there are no such barriers for him or her.

(3) Council members shall be elected to office for not longer than the time period of the authorisation of the council.

(4) A stockholder or group of stockholders are entitled to nominate for election their candidates on the basis of a calculation such that by dividing the capital with voting rights represented by the stockholder or group of stockholders by the number of candidates to be

nominated, each of the candidates shall have not less than five per cent of the capital with voting rights represented at the meeting of stockholders. Each of such nominated candidates shall be included in the council members voting list.
(5) Voting shall take place in one ballot for all the council member candidates included on the list voting by all the stockholders at the same time. A stockholder is entitled to give his or her vote for one or more of the candidates included in the list in any proportion of whole numbers.
(6) As elected to the council shall be considered those persons who have gained the most votes, taking into account the maximum number of council members specified in the articles of association. If two or more council member candidates have gained an equal number of votes and therefore it cannot be determined which of them is to be considered elected, the issue shall be decided by a vote of the meeting of stockholders for each of these candidates, and as elected shall be considered that candidate who in the repeated ballot has gained the largest number of votes.
(7) Council members may be recalled from their office at any time by a decision of a meeting of stockholders.
(8) A member of the council may relinquish his or her office at any time, submitting a notice to the company.
(9) If a council member leaves his or her office or is recalled from office before the expiration of the time period of the council, new council member elections shall take place in which the whole composition of the council shall be re-elected.
(10) The board of directors shall inform the Commercial Register Office regarding changes in the composition of the members of the council and submit a list of council members, a written consent of each member of the council and the relevant decision of a meeting of stockholders or the relevant council member notice.
[14 February 2002; 22 April 2004; 16 March 2006]

Section 297. Management of a Council

(1) Members of the council shall elect a chairperson of the council and at least one deputy chairperson.
(2) A deputy chairperson of the council shall perform the duties of the chairperson of the council only if the chairperson of the council is absent (illness, business trip, vacation and the like), or has assigned such a task.

Section 298. Convening of Council Meetings

(1) The chairperson of the council shall convene council meetings, but in his or her absence or by assignment – his or her deputy, according to necessity, but not less than once per quarter.
(2) Every council member, as well as the board of directors, has the right to request the council to convene a meeting, substantiating the necessity to convene a meeting and its purpose.
(3) If the chairperson of the council does not fulfil the request regarding the convening of a council meeting within two weeks from the time of its receipt, the initiator of the meeting has the right to convene a council meeting, explaining the circumstances of the matter.

Section 299. Taking of Decisions by a Council

(1) A council shall be entitled to take decisions if more than one half of the council members participate at the council meeting. If a council is composed of fewer members than is

provided for in the articles of association, the quorum shall be determined according to the number of council members specified in the articles of association.
(2) A council shall take its decisions by 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 tied vote, the vote of the chairperson of the council shall prevail.
(3) A council member who does not take part in a council meeting, may give his or her vote in writing, submitting it to another council member. Voting may be done by telephone or other means only if the means of communication utilised allows council members to simultaneously participate in the discussion of the issue and the taking of the decision, and if such activities are appropriately documentarily recorded.
(4) Minutes shall be taken of council meetings. The minutes shall indicate:
1) the firm name of the company;
2) the place and time of the council meeting;
3) the participants at the meeting;
4) the issues on the agenda;
5) the course and content of the discussion of the issues on the agenda;
6) the results of the voting, indicating each council member's vote "for" or "against" each decision; and
7) the decisions taken.
(5) If a council member disagrees with a decision of the council and votes against it, his or her differing view shall be recorded in the minutes of the council meeting pursuant to his or her request.
(6) The minutes of a council meeting shall be signed by the members of the council who participated in the relevant meeting of the council.
[14 February 2002; 16 June 2005]

Section 300. Remuneration for Council Members

The meeting of stockholders shall determine the remuneration for council members.

Section 301. Board of Directors

(1) A board of directors is the executive institution of a company, which manages and represents the company.
(2) A board of directors shall supervise and manage the affairs of a company. It shall be responsible for the commercial activities of the company, as well as for accounting, in compliance with law.
(3) A board of directors shall administer the property of the company and shall act with its means according to the requirements of law, the articles of association and decisions of meetings of stockholders.

Section 302. Rights of a Board of Directors to Manage a Company

The members of a board of directors shall manage the company only jointly.

Section 303. Representation Rights of a Board of Directors

(1) All members of the board of directors have representation rights. Members of the board of directors shall represent the company jointly if the articles of association do not specify otherwise.
(2) In the case of joint representation, the members of the board of directors may authorise from among themselves one or more members of the board of directors to conclude specific transactions or specific types of transactions.
(3) The representation rights of the board of directors in respect of a third person may not be restricted. The rights of the members of the board of directors, which are specified in the articles of association, to represent the company jointly or individually shall not be deemed to be restrictions of the representation rights of the board of directors within the meaning of this Section.
(4) In relation to the company, the board of directors shall observe the restrictions of representation rights, which are specified in the articles of association, and by decisions of the meeting of shareholders and of the council.
[14 February 2002; 22 April 2004]

Section 304. Composition of a Board of Directors

(1) The board of directors may consist of one or several members of the board of directors. If the stock of a company is in public turnover, the minimum number of members of the board of directors shall be three members.
(2) Only natural persons with the capacity to act may be members of a board of directors.
(3) The following may not be members of a board of directors:
1) members of the council of the company;
2) the auditor of the company;
3) a person who, by a judgment of a court, has been deprived of the right to conduct the relevant type or all types of commercial activities; and
4) a member of the council of the dominant undertaking of a group of companies.
(4) The articles of association may provide for stricter restrictions to be applied to members of the board of directors.
(5) [22 April 2004].
[22 April 2004]

Section 305. Election of Members of a Board of Directors and Specification of Representation Rights

(1) Members of a board of directors shall be elected by the council.
(2) A member of a board of directors may not be elected without his or her written consent to become a member of the board of directors. In his or her written consent, the member of the board of directors candidate shall indicate any existing barriers to the taking up of the office in accordance with Sections 171 and 304 of this Law, or that there are no such barriers for him or her. A written consent of the member of the board of directors shall be submitted to the Commercial Register Office, if the relevant member of the board of directors has not already signed the application for the Commercial Register Office.
(3) Members of a board of directors shall be elected to office for three years if the articles of association do not specify a shorter term.
(4) The council shall appoint the chairperson of the board of directors from among the members of the board of directors.
(5) [14 February 2002].
[14 February 2002; 16 March 2006]

Section 306. Recall of Members of a Board of Directors and Their Rights to Withdraw from Office

(1) Members of a board of directors may be recalled by the council if there are important reasons.
(2) Such important reason shall, in any case, be considered to be gross violations of authority, failure to perform or to appropriately perform his or her duties, an inability to manage the company, or causing harm to the interests of the company, as well as loss of confidence expressed at a meeting of stockholders.
(3) A member of the board of directors may at any time relinquish the office of a member of the board of directors by submitting a notice to the company.
[14 February 2002; 22 April 2004]

Section 307. Announcement of Changes in the Composition of a Board of Directors and Representation Rights

The board of directors shall declare changes in the composition of the board of directors and representation rights to the Commercial Register Office, submitting a list of members of the board of directors and the relevant decision of the council or the notice of the member of the board of directors.
[14 February 2002; 22 April 2004]

Section 308. Remuneration of Members of a Board of Directors

(1) Members of a board of directors have the right to receive remuneration according to the scope of their duties and the financial circumstances of the company.
(2) The amount of remuneration for members of the board of directors shall be determined by the council.
[14 February 2002]

Section 309. Restrictions on Members of a Board of Directors of a Company

(1) [14 February 2002].
(2) [14 February 2002].
(3) If there is a conflict of interest between the company and a member of the board of directors, his or her spouse, kin or in-laws, counting kinship up to the second degree and affinity up to the first degree, the issue shall be decided at a board of directors meeting, in which the interested member of the board of directors shall not have voting rights, and this shall be noted in the minutes of the board of directors meeting. A member of the board of directors has a duty to notify of such interests before the beginning of a board of directors meeting. A member of the board of directors who violates this requirement shall be liable for losses incurred by the company.
[14 February 2002]

Section 310. Taking of Decisions by a Board of Directors

(1) A board of directors has the right to take decisions if more than one half of the members of the board of directors take part in the meeting of the board of directors. If the board of directors 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 of directors specified in the articles of association.
(2) The board of directors shall take its decisions with 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 tied vote the vote of the chairperson of the board of directors shall prevail.
(3) The board of directors meeting shall be recorded in minutes. The minutes shall indicate:
1) the firm name of the company;
2) the place and time of the meeting;
3) the participants at the meeting;
4) the issues on the agenda;
5) the course and content of the discussion of the issues on the agenda;
6) the results of the voting, indicating the vote of each member of the board of the directors "for" or "against" each decision; and
7) the decisions taken.
(4) If a member of the board of directors disagrees with a decision of the board of directors and votes against such, his or her different opinion shall be recorded in the minutes of the meeting at his or her request.
(5) The minutes of a board of directors meeting shall be signed by the chairperson of the board of directors and all the members of the board of directors who participated in the meeting.
[16 June 2005]

Section 310.[1] Invalidation of a Decision Taken by the Board of Directors Regarding Increase of the Equity Capital

(1) The court may recognise as invalid a decision of the board of directors regarding increase of the equity capital in the cases referred to in Section 286, Paragraph one, Clauses 1, 2 and 3 of this Law, as well as if the procedures for increase of the equity capital have been violated.
(2) Any stockholder may bring an action to the court regarding recognition of a decision of the board of directors regarding increase of the equity capital as invalid.
(3) The time period for bringing the action referred to in Paragraph two of this Section shall be three months from the day when the stockholder got to know or when he or she should have get to know the decision of the board of directors, but not more than a year from the day of taking of the decision.
[24 April 2008]

Section 310.[2] Procedures for Implementation of a Court Adjudication to Recognise a Decision of the Board of Directors Regarding Increase of the Equity Capital as Invalid

The court shall send an adjudication to recognise a decision of the board of directors regarding increase of the equity capital as invalid to the Commercial Register Office after coming into lawful effect of the adjudication.
[24 April 2008]

Section 310.[3] Liability for Unjustified Contesting of a Decision of the Board of Directors regarding Increase of the Equity Capital

The claimants shall be solidarily liable for the losses caused to the company upon unjustified contesting of a decision of the board of directors regarding increase of the equity capital, if they have brought an action in bad faith or by gross negligence.
[24 April 2008]

Section 311. Report of a Board of Directors

(1) The board of directors has a duty to report in writing regarding its activities to the council once every quarter, but at the end of the year – to a meeting of stockholders. The report shall reflect:

1) the results of the commercial activities of the company;

2) the economic circumstances of the company, profitability, turnover and movement of securities;

3) the circumstances, which could have impact upon the economic circumstances of the company; and

4) the planned policies for commercial activities of the company in the next accounting period.

(2) The board of directors shall inform the council also regarding other significant aspects of the company's activities.

Division XIV
Termination of Operations and Liquidation of Capital Companies

Section 312. Grounds for Terminating the Operations of a Capital Company

The operations of a capital company (hereinafter in this Division – company) shall be terminated:

1) by a decision of shareholders;

2) by an adjudication of a court;

3) with the commencement of bankruptcy procedures;

4) with the termination of the time period specified in the articles of association (if the company was founded for a definite time period);

5) having achieved the purposes specified in the articles of association (if the company was founded to achieve specified purposes); or

6) in other cases as specified by law or the articles of association.

Section 313. Termination of Operations of a Company based upon a Decision of Shareholders

(1) A decision regarding the termination of the operations of a company shall be taken at a meeting of shareholders.
(2) The board of directors has the duty to provide to the shareholders a report regarding the previous accounting year and regarding the operations of the company in the current year.
(3) In the report on economic activities, the time period during which the company may satisfy the claims of its creditors shall be indicated.

Section 314. Termination of Operations of a Company based upon an Adjudication of a Court

(1) The operations of a company may be terminated based upon an adjudication of a court if:

1) the documents of incorporation of the company are in contradiction to law;

2) the equity capital of the company does not comply with the requirements of law;

3) the company has not submitted to the Commercial Register Office the information or documents required by law;

4) the shareholders have not taken a decision regarding the termination of the operations of the company in cases when they should have done so in accordance with law or the articles of association;

5) for more than three months the board of directors has not had representation rights (Section 224, Paragraph three and Section 305, Paragraph three); or

6) in other cases specified by law.

(2) An action in a court may be brought by the board of directors, the council, a member of the board of directors, a shareholder, the Commercial Register Office, as well as other persons specified by law.

(3) The Commercial Register Office may bring an action in a court if the company has not rectified indicated deficiencies within three months after receiving a written warning.

(4) Up to the time of the taking of a decision regarding the termination of the operations of a company, a court may specify a time period within which the company must rectify the deficiencies, which would be the grounds for the termination of its operations.

[22 April 2004]

Section 315. Termination of Operations of a Company in the Case of Bankruptcy

Procedures by which the operations of a company shall be terminated in the case of bankruptcy, shall be regulated by a separate law.

Section 316. Continuation of the Operations of a Company after the Expiration of the Time Period for Operations or after the Achievement of Purposes

If the time period for the operations of a company, as specified in the documents of incorporation, expires or if the specified purpose has been achieved, the shareholders may take a decision to continue operations, or to reorganise the company and make the necessary amendments to the documents of incorporation.

Section 317. Liquidation

In the case of the termination of the operations of a company, it shall be liquidated if the law does not specify otherwise.

Section 318. Appointment of Liquidators

(1) Liquidation shall be performed by the members of the board of directors if the articles of association, the decision of a meeting of shareholders or an adjudication of a court does not specify otherwise.

(2) If a meeting of shareholders appoints a liquidator, it shall determine the amount of and procedures for the remuneration of the liquidator.

(3) If the operations of a company are terminated on the basis of an adjudication of a court, or if it is requested by shareholders who represent not less than one tenth of the equity capital, the liquidator shall be appointed and the amount of and procedures for the remuneration of the liquidator shall be determined by the court.

(4) One liquidator or several liquidators may be appointed.

Section 319. Requirements Set for Liquidators

(1) A natural person with the capacity to act may be a liquidator.
(2) At least one of the liquidators shall be a person with a permanent place of residence in Latvia.

Section 320. Application regarding the Termination of the Operations of a Company and its Liquidation

(1) Within three days from the date when a decision has been taken on the termination of the operations of a company, the decision shall be submitted for recording in the Commercial Register. The data referred to in Section 8 of this Law regarding a liquidator, as well as the place of application for claims of creditors shall be included in the application. The application shall have appended:

1) an extract of the minutes of the meeting of shareholders with the decision regarding the termination of the operations of the company;

2) [22 April 2004]; and

3) a sample signature of the liquidator notarised or certified by the official of the Commercial Register Office.

(2) If the operations of the company are wound up on the basis of an adjudication of a court, the court shall send the relevant adjudication for a recording to be done in the Commercial Register. The liquidator shall, within three days from the coming into effect of the adjudication of the court, submit the information and documents referred to in Paragraph one, Clauses 2 and 3 of this Section to the Commercial Register Office.
(3) If the liquidation is carried out by members of the board of directors, this fact shall be indicated in the application or the adjudication of a court, and the information and documents referred to in Paragraph one, Clauses 2 and 3 of this Section need not be appended.
[22 April 2004; 16 March 2006]

Section 321. Removal of Liquidators

(1) Liquidators may be removed by a decision of the meeting of shareholders.
(2) Liquidators may be removed by a court adjudication based on the application of a shareholder or a third person if there are sufficiently serious grounds, and concurrently appointing a new liquidator.
(3) A liquidator appointed by a court may only be removed by an adjudication of the court based upon the application of a shareholder or a third person if there are sufficiently important reasons therefor, and concurrently appointing a new liquidator.
(4) The decision to remove a liquidator shall be submitted by the new liquidator to the Commercial Register Office within three days from the day when the decision was taken.

Section 322. Rights and Duties of Liquidators

(1) Liquidators shall have all the rights and duties of the board of directors and the council which are not in contradiction with the purposes of the liquidation.
(2) Liquidators shall collect debts including amounts, which are due the company regarding unpaid capital shares, sell the property of the company and satisfy the claims of creditors.
(3) Liquidators may only conclude such transactions as are necessary for the liquidation of the company.

(4) If the liquidation of a company is performed by several liquidators, they have the right to represent the company only jointly. Liquidators may authorise one or several persons from among themselves for the performance of particular activities or particular types of activities.
(5) Any restrictions on representation of a liquidator, if not provided by law, shall not be binding on third persons.
(6) During the liquidation, the word "likvidējamā" [under liquidation] must be added to the firm name of the company.

Section 323. Submission of an Insolvency Petition

If it is found during the course of the liquidation that the property of the company is not sufficient to satisfy all the legitimate claims of creditors, the liquidator has a duty to submit an insolvency petition in accordance with the procedures specified by law.

Section 324. Informing the Creditors

(1) The Commercial Register Office shall, at the expense of a company under liquidation, in accordance with the procedures specified in Section 11 of this Law, announce a notice regarding the termination of the company's operations and the commencement of liquidation.
(2) The liquidator shall send a notice regarding the commencement of the liquidation to all known creditors of the company.
(3) In the notice referred to in Paragraphs one and two, the creditors of the company shall be invited to submit their claims within three months after the day of publication of the notice if a longer period of time for submissions by creditors has not been specified in a decision of a meeting of shareholders or an adjudication of a court.

Section 325. Submission of Claims

Creditors shall submit their claims against the company to the liquidator within the specified time period. In the claims, creditors shall state the contents of their claims, the basis and amount, and append documents on which the claims are based.

Section 326. Liquidation Initial Financial Accounts

After the end of the time period for submission of creditor claims, the liquidator shall compile a liquidation initial financial account.
[14 February 2002]

Section 327. Protection of Creditors

(1) If a known creditor has not submitted his or her claim, does not accept fulfilment or the obligation is not ripe for fulfilment, the amounts due to him or her shall be deposited in a court.
(2) When there exist disputable creditor claims, the property of the company may be divided among the shareholders only if the relevant creditor is given security.

Section 328. Closing Financial Accounts and Plan for Division of Property

(1) After the claims of creditors have been satisfied or the monies due them are deposited and the liquidation expenditures have been covered, the liquidator shall compile a liquidation

closing financial account and a plan for the division of the remaining property, in which a liquidation quota shall be determined.
(2) An auditor shall examine the liquidation closing financial account and the plan for division of the remaining property. For limited liability companies, an examination by an auditor shall be performed if, in accordance with the articles of association of the company, it is provided that the annual accounts of the company shall be examined by an auditor or if it is so decided by a meeting of shareholders.
(3) The liquidator shall send the liquidation closing financial account and the plan for division of the remaining property to all shareholders. The notice to the holders of bearer stock shall be published in the newspaper *Latvijas Vēstnesis,* indicating the place where the liquidation closing financial account and the plan for division of the remaining property are accessible.
(4) If violations of the law, the articles of association or the decisions of a meeting of shareholders have been made in the preparation of the liquidation closing financial account and the plan for division of the remaining property, a court, based upon an action by an interested person, may decide regarding the preparation of a new liquidation closing financial account and plan for division of the remaining property or the performance of additional liquidation activities. The time period for bringing an action shall be two months from the day when the liquidation closing financial account and the plan for division of the remaining property were sent to shareholders, but in relation to holders of bearer stock – two months from the day of publication of the notice.
[14 February 2002]

Section 329. Preservation of Company Documents

A liquidator shall perform the necessary activities for the organisation of the company documents and their transfer to the State archives. Expenditures which are associated with the organisation of the documents and transfer to the archives shall be paid from the property of the company to be liquidated.

Section 330. Division of the Remaining Property of the Company

(1) The remaining property of the company shall be divided among the shareholders in accordance with the plan for division of the remaining property prepared by the liquidator, in proportion to the shares owned by each shareholder, if the founding documents do not specify otherwise.
(2) The property may be divided not earlier than six months after the day when the notice of the termination of the operations of the company has been published, and two months from the day when the liquidation closing financial account and the plan for division of the remaining property has been sent to shareholders or a notice was published regarding the opportunity to become acquainted with them (if such publication is required by law).
(3) A court may permit the conducting of a division of the remaining property before the expiration of the time periods referred to in Paragraph two of this Section, if no losses would be incurred by creditors thereby.
(4) All disbursements to the shareholders shall be conducted in money, if the articles of association do not specify otherwise.
(5) Liquidators also may not sell property if it is not necessary for satisfaction of the claims of creditors and if it is specified in the decision on the termination of the operations of the company.
[14 February 2002]

Section 331. Continuation of the Operations of a Company

(1) If a company is liquidated on the basis of the provisions referred to in the articles of association of the company regarding the termination of the operations of the company or a decision taken by a meeting of shareholders, the shareholders, up to the commencement of the division of property may take a decision regarding the continuation of the operations of the company or its reorganisation. The decision shall be considered as taken if it is voted for by the shareholders present with the same number of votes as is provided for the taking of a decision on the termination of the company's operations.
(2) In taking a decision on the continuation of the operations of the company, the board of directors and the council of the company shall also be formed concurrently, as well as the equity capital of the company shall be reduced in conformity with the amount of the remaining property. If the amount of the remaining property is less than the minimum amount of equity capital as specified by law, the meeting of shareholders shall decide on an increase of the equity capital.
(3) The liquidator shall submit to the Commercial Register Office an application regarding the continuation of the operations of the company. The decision on the continuation of the operations of the company shall come into effect after its recording in the Commercial Register.

Section 332. Deletion from the Commercial Register

(1) After the division of the remaining property of the company, the liquidator shall submit an application for the completion of liquidation to the Commercial Register Office. The liquidation closing financial account and the plan for division of the remaining property, as well as the opinion of the auditor (if an audit examination was performed), shall be appended to the application.
(2) In the application, the liquidator shall certify that:
1) the liquidation closing financial account and the plan for division of the remaining property have not been disputed in a court or that an action was rejected;
2) all the creditors' claims have been satisfied or that the amounts to meet the claims were deposited; and
3) the documents of the company were transferred to the archive for preservation.
[14 February 2002]

Section 333. Liability of Liquidators

(1) A liquidator shall be liable for any losses incurred through his or her own fault.
(2) If there are several liquidators, they shall be solidarily liable for the losses incurred through their own fault.

Part C
Reorganisation of Commercial Companies

Division XV
General Provisions for the Reorganisation of Commercial Companies

Section 334. Definition and Types of Reorganisation

(1) A commercial company (hereinafter in this Part – company) may be reorganised by way of merging, division or restructuring.
(2) Companies involved in the reorganisation process may be companies of the same type or various types if the law does not specify otherwise.
[24 April 2008]

Section 335. Merging of Companies

(1) Merging of companies may take the form of acquisition or consolidation.
(2) Acquisition is a process in which a company (the acquired company) transfers all of its property to another company (the acquiring company).
(3) Consolidation is a process in which two or more companies (acquired companies) transfer all of their property to a newly founded company (the acquiring company).
(4) In the case of merging, the acquired company ceases to exist without liquidation procedures.
(5) In the case of merging, all the rights and obligations of the acquired companies are transferred to the acquiring company.
(6) In the case of merging, the stockholders, shareholders or members (hereinafter in this Part – shareholders) of the acquired companies shall become shareholders of the acquiring company.
[24 April 2008]

Section 335.[1] Cross-border Merger

(1) Cross-border merger shall be such merger of two or more capital companies, of which at least one is registered in Latvia, but the others have been established in accordance with regulatory enactments of the European Union Member States.
(2) The Member State within the meaning of this Section and Division XIX shall be a European Union Member State, the Republic of Iceland, the Kingdom of Norway and the Principality of Liechtenstein.
(3) The merger shall not be considered as a cross-border merger in such case, when there is a capital company involved, which has intended to perform collective contributions of the capital of inhabitants in accordance with the principle of risk division and the capital chares (stocks) are bought back or redeemed upon the request of shareholders (stockholders) directly or indirectly from the assets of this capital company. The activities by which the capital company wants to ensure that the market value of its shares does not differ significantly from the net value of assets thereof shall be equalled to such buy-back procedure or pre-emption.
(4) The provisions of this Law regarding the merger of capital companies shall be applied to cross-border merger insofar as it is not otherwise provided for in Division XIX of this Law. If the acquiring capital company is registered in another Member State, the capital company registered in Latvia, upon involving in the cross-border merger, shall observe the provisions of this Law regarding merging of capital companies in respect of the procedures for taking of decisions in relation to merging and protection of creditors, shareholders (stockholders), debenture holders, as well as employees of the capital company.
[24 April 2008]

Section 336. Division of Companies

(1) Division is a process in which a company (the dividing company) transfers all of its property to one company or more other companies (the acquiring companies) through splitting up or divestiture.
(2) In the case of splitting up, the dividing company transfers all of its property to two or more acquiring companies and ceases to exist without liquidation procedures.
(3) In the case of splitting up, shareholders of the dividing company shall become shareholders of the acquiring company in accordance with a decision regarding the splitting up of the company.
(4) In the case of divestiture, the dividing company transfers part of its property to one or more acquiring companies. In the case of divestiture, the dividing company shall continue to exist.
(5) In the case of divestiture, all the shareholders of the dividing company or part of them become shareholders of the acquiring company, or the dividing company may become the sole shareholder of the acquiring company in accordance with a decision regarding the divestiture of the company.
(6) The acquiring company may be an already existing company or a company to be newly founded.

Section 337. Restructuring of Companies

(1) Restructuring is a process in which one type of company (the restructured company) is restructured into a different type of company (the acquiring company).
(2) In the case of restructuring, all the rights and obligations of the restructured company are transferred to the acquiring company.
(3) In the case of restructuring, the shareholders of the restructured company become shareholders of the acquiring company.
(4) In the case of restructuring, the restructured company ceases to exist without liquidation procedures.

Division XVI
Reorganisation Procedures

Section 338. Reorganisation Agreement

(1) If two or more already existing companies are involved in the reorganisation process, they shall enter into a reorganisation agreement (hereinafter – agreement).
(2) The agreement shall indicate:

1) the firm names, legal addresses and registration numbers of all the companies involved in the reorganisation;

2) the companies' capital shares (stocks) exchange coefficient and the amount of premium (if such is provided for);

3) the division of the capital shares (stocks) among the shareholders of the acquiring company;

4) the provisions for the transfer of the capital shares (stocks) of the acquiring company to the shareholders of the companies to be acquired, divided or restructured;

5) the time from which the capital shares (stocks) transferred give a right to receive dividends or a profit share from the acquiring company and any provisions affecting this time (if such is provided for);

6) the rights granted by the acquiring company to stockholders of each category of shares of the acquired, dividing or restructured company, and debenture holders, who own convertible debentures;

6^1) the rights granted by the acquiring company to members of supervisory authorities and executive bodies of the acquired, dividing or restructured company, as well as to the controller of the company;

7) the day from which the transactions of the acquired, dividing or restructured company shall be included in the accounting of the acquiring company and shall be regarded as transactions of the acquiring company;

8) the consequences of reorganisation for the employees of the acquired, dividing or restructured company; and

9) the activities to be conducted in the reorganisation process and the time periods for conducting them.

(3) If all the capital shares (stocks) of the acquired or dividing company are owned by the acquiring company, the information referred to in Paragraph two, Clauses 2, 3, 4 and 5 of this Section shall not be included in the agreement.

(4) If the agreement provides for conditions precedent and if these conditions do not come into effect within three years from the day when the agreement is entered into, each of the companies involved in the reorganisation process may unilaterally withdraw from the agreement notifying the other contracting parties not later than six months in advance, if a shorter period for notice is not specified in the agreement.

(5) Each of the companies involved in the reorganisation process shall submit a notice of reorganisation, with the draft agreement appended, to the Commercial Register Office. The date of registration of a draft agreement and its amendments and the number of the Commercial Register file in which the draft agreement is located shall be promulgated in the newspaper *Latvijas Vēstnesis*.

[16 June 2005; 24 April 2008]

Section 339. Reorganisation Prospectus

(1) Each of the companies involved in the reorganisation process shall prepare in writing a reorganisation prospectus (hereinafter – prospectus), in which the following is indicated and explained:

1) the provisions of the draft agreement;

2) the legal and economic aspects of the reorganisation;

3) the capital shares (stocks) exchange coefficient and the amount of premium (if such is provided for); and

4) the methods utilised to determine the capital shares (stocks) exchange coefficient and the amount of premium, as well as problems which arose in the utilisation of these methods.

(2) Companies may prepare a joint prospectus. In such case each of the companies involved in the reorganisation process shall indicate the data referred to in Paragraph one of this Section.

[24 April 2008]

Section 340. Auditor Examination

(1) The draft agreement of companies involved in the reorganisation process shall be examined by the auditor included in the list approved by the Commercial Register Office. The companies involved in the reorganisation process may elect a joint auditor.

(2) An auditor may be a person who in accordance with law has the right to conduct an examination of the annual accounts of a company.
(3) The reorganisation agreement shall not be checked by the auditor, if all shareholders or members agree thereto. The auditor need not examine the draft agreement of the acquired or dividing company if all the capital shares (stocks) of the acquired or dividing company are owned by the acquiring company.
(4) The companies which are involved in a reorganisation process shall ensure that the auditor has access to all the documents and information which have significance for performing the duties of an auditor.
[16 March 2006; 24 April 2008]

Section 341. Opinion of the Auditor

(1) The auditor shall draft a written opinion regarding the results of the examination of the draft agreement and shall submit it to the company. If one auditor is elected for all the companies, he or she shall submit the opinion to all the companies.
(2) The following shall be indicated in the opinion:
1) whether all the necessary documents were submitted to the auditor;
2) whether the capital shares (stocks) exchange coefficient and the amount of premium are fair and justified;
3) whether the reorganisation may cause losses to the creditors of the company;
4) whether the methods which were used to determine the capital shares (stocks) exchange coefficient and the amount of premium are adequate; and
5) special problems which have arisen in the application of the valuation methods used.
[16 March 2006; 24 April 2008]

Section 342. Liability of the Auditor

The auditor shall be liable for losses incurred through his or her fault while conducting the examination.

Section 343. Decision Regarding Reorganisation

(1) A meeting of shareholders of each of the companies involved in the reorganisation process shall examine the draft agreement and take a decision regarding reorganisation.
(2) If amendments in relation to the reorganisation need to be made in the articles of association of a capital company or in a partnership agreement, a decision regarding such amendments shall be taken concurrently with the decision on reorganisation.
(3) For not less than one month before the day of the meeting of shareholders regarding approval of the agreement is to be held, all shareholders shall be given an opportunity to become acquainted to the following documents at the legal address of the company:
1) the draft agreement;
2) the prospectus;
3) the opinion of the auditor;
4) the annual accounts of all the companies involved in the reorganisation process for the last three accounting years; and
5) the report about the commercial activities of the company which shall be prepared not earlier than three months before the reorganisation notice is submitted to the Commercial

Register Office if the previous annual accounts were completed more than six months before the submission of the notice.
(4) The report on the commercial activities of the company referred to in Paragraph three, Clause 5 of this Section shall be prepared in accordance with the requirements of law regarding the preparation of annual accounts.
(5) Shareholders have the right to receive copies of or extracts from the documents referred to in Paragraph three of this Section free of charge.
(6) At the meeting of shareholders of a capital company, the board of directors of the company shall, pursuant to a request by the shareholders, submit explanations regarding the draft agreement and prospectus, regarding the legal and economic consequences of the reorganisation, as well as information regarding the other companies involved in the reorganisation process.
(7) The decision regarding reorganisation shall be compiled in the form of a separate document.
(8) On the basis of a decision regarding reorganisation the relevant company shall enter into an agreement.
(9) A list of those shareholders (with their signatures), who voted in the meeting of shareholders against the decision on reorganisation shall be appended to the decision regarding reorganisation.
[16 March 2006]

Section 344. Duty to Inform

The board of directors of the acquired or dividing company have a duty to inform the general meeting and the acquiring company regarding all substantial changes in the status of the property of the acquired or dividing company which have occurred up to the expiry of the powers of the board of directors or up to the time the reorganisation comes into effect.

Section 345. Protection of Creditors

(1) Within fifteen days from the day when a decision is taken regarding reorganisation, each of the companies involved in the reorganisation process shall inform in writing all of its known creditors which have had claim rights against the company up to the taking of the decision regarding reorganisation.
(2) Each of the companies involved in the reorganisation process has a duty to publish in the newspaper *Latvijas Vēstnesis* a notice that a decision on reorganisation has been taken. The notice shall indicate:

1) the firm name, registration number and legal address of the company;

2) the firm names, registration numbers and legal addresses of the other companies involved in the reorganisation;

3) the type of reorganisation;

4) the fact that a decision on reorganisation has been taken; and

5) the place and time period for creditors to submit their claims, which may not be less than one month from the day when the notice is published.

(3) The acquired or dividing company shall secure the claims of creditors if so requested and submitted by them within the time period in the notice referred to in Paragraph two of this Section.
(4) Creditors of the acquiring company may request to have their claims secured only if they can prove that the reorganisation threatens the satisfaction of their claims.
(5) Secured creditors may request security only for the amount of the unsecured part of a debt.

[14 February 2002]

Section 346. Disputing a Decision regarding Reorganisation

(1) On the basis of a request of a shareholder or a member of a board of directors or of a council of a company involved in a reorganisation, a court may declare the decision regarding reorganisation as void if it was taken in violation of law, the articles of association of a capital company or a partnership agreement, and it is not possible to rectify these violations or they are not rectified within the time period specified by the court.
(2) The time period for bringing an action in a court shall be three months from the day when the notice, referred to in Section 345, Paragraph two of this Law, is published.
(3) A company, the decision regarding reorganisation taken by a meeting of shareholders of which has been declared void, has a duty to publish a notice regarding this in the newspaper *Latvijas Vēstnesis* within 15 days from the day when the adjudication of the court has come into effect.
(4) The declaration of a decision regarding reorganisation as void shall not impact upon obligations which the company has assumed during the reorganisation process with respect to third persons.
(5) A decision regarding reorganisation shall not be declared void only because the capital share (stock) exchange coefficient or the amount of premium has been fixed too low.
(6) If the capital share (stock) exchange coefficient has been fixed too low, then a shareholder of the acquired, dividing or restructured company may request that the acquiring company pays a once only supplementary payment.

Section 347. Application to the Commercial Register Office

(1) Each of the companies involved in the reorganisation process shall, not earlier than three months after the day when the notice is published, submit an application to the Commercial Register Office in order that the recording of the reorganisation is made in the Commercial Register. The following documents shall be appended to the application:

1) the agreement or its copy appropriately certified;
2) an extract of the minutes and the decision regarding reorganisation;
3) the list of the shareholders who voted against the reorganisation;
4) in cases specified by law – the reorganisation permit;
5) the prospectus (if the law requires the preparation of a prospectus);
6) the opinion of the auditor (if the law requires an auditor's examination);
7) the closing financial account of the acquired or by way of splitting up dividing company (if the application is being submitted by the acquired or the dividing company);
8) the articles of association of the acquiring capital company (if a new company is formed as a result of the reorganisation, or if the company is being restructured);
9) the list of the members of the board of directors of the acquiring capital company or the shareholders of a partnership who have the right to represent the company and notarised sample signatures (if a new company is formed as a result of the reorganisation, or if the company is being restructured). Signature samples of the members of the board of directors may be certified by the official of the Commercial Register Office; and
10) the list of council members of the acquiring capital company (if a new company is formed as a result of the reorganisation, or if the company is being restructured, and if the acquiring company is to have a council).

(2) In its application, the company shall certify that the claims of those creditors who have submitted their claims within the time period specified have been secured or satisfied, and that

the decision on reorganisation has not been disputed in court or that the relevant action has not been satisfied.
[14 February 2002; 16 March 2006]

Section 348. Firm Name of the Acquiring Company

(1) If there is only one acquiring company, it may after reorganisation utilise the firm name of the acquired company.
(2) The provisions for the continued utilisation of the firm name of a dividing company shall be provided for in the agreement.
(3) The acquiring company may utilise the firm name of the restructured company, except for indications of the restructured company's type. \
(4) If a natural person has been a shareholder of the acquired, dividing or restructured company and is not a shareholder of the acquiring company, the acquiring company may utilise the name of such person in the firm name only with the written consent of such person or his or her heirs.
[14 February 2002]

Section 349. Recording of the Reorganisation in the Commercial Register

(1) The recording of the acquired or dividing company in the Commercial Register shall be made only after recordings have been made regarding all the acquiring companies.
(2) After making of the record regarding reorganisation in the Commercial Register, the acquired company shall be deleted from the Commercial Register.
(3) After the recording of the reorganisation of a dividing company has been made, extracts from the file of the dividing company shall be attached to the files of the acquiring companies, and in cases when the division was by the way of splitting up, the dividing company shall be deleted from the Commercial Register.
(4) In the case of restructuring the recording of the acquiring company may be made in the Commercial Register after the recording of the reorganisation of the restructured company has been made.
(5) Recordings made in the Commercial Register regarding reorganisation shall be announced in accordance with the procedures specified in Section 11 of this Law.
[22 April 2004]

Section 350. Legal Meaning of the Commercial Register Recording of the Reorganisation

(1) A reorganisation shall be considered as being in effect from the time when recordings have been made in the Commercial Register regarding all the companies involved in the reorganisation process including newly founded companies.
(2) From the time when a reorganisation comes into effect:
1) the property of the acquired company shall be considered to have been transferred to the ownership of the acquiring company; and
2) the property of the dividing company shall be considered to have been transferred to the ownership of the acquiring companies according to the agreement.
(3) From the time when a company is deleted from the Commercial Register, such company shall be considered to be liquidated.
(4) From the time when a reorganisation has come into effect, the shareholders of the acquired, dividing or restructured company shall become shareholders of the acquiring

company, and their capital shares (stocks) shall be exchanged for the capital shares (stocks) of the acquiring company in proportion to the capital shares (stocks) owned by them. This provision shall not be applied if the dividing company which is divided by divestiture becomes the sole shareholder of the acquiring company.
(5) The rights of third persons to the capital shares (stocks) of the acquired, dividing or restructured company shall be preserved in relation to the capital shares (stocks) of the acquiring company.
(6) The capital shares (stocks) of the acquired or dividing company, which were owned by the acquiring company or the acquired or dividing company itself, or by a person who acted in his or her own name but for the benefit of the relevant acquired, dividing or acquiring company, shall not be exchanged and shall be extinguished, except for cases when the dividing company as a result of apportionment becomes the sole shareholder of the acquiring company.
(7) A reorganisation after it has come into effect may not be disputed.

Section 351. Liability of Companies Involved in the Reorganisation Process

(1) The acquiring company shall be liable for all the obligations of the acquired or restructured company.
(2) All the companies involved in the division of a company shall be solidarily liable for obligations of the dividing company which have been incurred up to the reorganisation coming into effect. In the mutual relations between such solidarily liable debtors, only that person shall be deemed as the obligated subject whose obligations are provided for in the agreement.
(3) If the obligations of a company involved in a division are not specified in the agreement, it shall be solidarily liable, together with other companies involved in the reorganisation process, for those obligations of the dividing company which shall become due within five years from the time when the reorganisation comes into effect.

Section 352. Liability of Members of the Board of Directors and of the Council

(1) The members of the council and of the board of directors of companies and the shareholders of partnerships, who have representation rights involved in the reorganisation shall be solidarily liable for any losses caused to the company, its shareholders or creditors during the course of the reorganisation through their fault.
(2) The limitation period for any claims arising from Paragraph one shall be five years from the time when reorganisation comes into effect.

Section 353. Compensation

(1) Shareholders of the acquired, dividing or restructured company, who did not agree to the reorganisation, are entitled, within two months from the time when reorganisation comes into effect, to request the acquiring company to redeem their shares for money (compensation).
(2) Compensation may be requested also by shareholders of a company newly formed established as a result of division, who voted against the approval of the articles of association.
(3) The rights referred to in Paragraphs one and two of this Section shall not apply to those shareholders who are not recorded in the list referred to in Section 343, Paragraph nine and in the minutes referred to in Section 355, Paragraph five of this Law.

(4) The amount of compensation shall be equal to the amount which the shareholder would have acquired by dividing the property of the acquired or restructured company in the case of liquidation if it took place at the time when the decision on reorganisation was taken.
(5) The restrictions specified by law regarding the procedures by which a company may acquire its own shares shall not apply with respect to the compensation.
(6) From the time when the reorganisation comes into effect, the acquiring company shall pay the interest set by law on any compensation not paid out in the amount provided for and within the time period.
(7) If shareholders of the acquired or dividing company, who do not agree with the reorganisation, does not request compensation, they may alienate their shares within two months, irrespective of any restrictions provided for in the decision, the articles of association or law.

Division XVII
Special Provisions for Particular Types of Reorganisation

Chapter 1
Special Provisions for Merging

Section 354. Founding of a New Company through Consolidation of Companies

(1) Companies which unify by way of consolidation, shall be considered to be acquired companies, and a newly founded company – as the acquiring company.
(2) In founding a new company, the provisions for the founding of the relevant type of company shall be applied, if in this Section it is not specified otherwise.
(3) In addition to the information referred to in Section 338, Paragraph two of this Law, the reorganisation agreement shall indicate the firm name and legal address of the acquiring company. To the agreement shall be appended the founding company's draft articles of association or, if the acquiring company is a partnership – the partnership agreement which shall be approved by a decision regarding reorganisation of a meeting of all the shareholders of the acquired company.
(4) The acquired companies shall submit to the Commercial Register Office a joint application regarding the recording of the new company in the Commercial Register.

Chapter 2
Special Provisions for Division

Section 355. Founding of a New Company through Division of a Company

(1) The newly founded company shall be considered to be the acquiring company.
(2) In the founding of the acquiring company, the provisions for the founding of the relevant type of company shall be observed, if in this Chapter it is not specified otherwise.
(3) If when a company is being divided, a new acquiring company is founded and no other existing company is involved in the reorganisation, the dividing company shall take a decision regarding division, which shall substitute for the agreement referred to in Section 338 of this Law. In addition to the information referred to in Section 338, Paragraph two of this Law, the decision regarding reorganisation shall indicate the firm name and legal address of the acquiring company and the dividing company's division of property between the acquiring companies. The division of property document may be appended to the decision in the form of a separate document.

(4) In the case of divestiture, as shareholders of the newly founded company may become only those shareholders of the dividing company which have voted for the decision regarding reorganisation, as well as those who, up to the taking of the decision have expressed their intent in writing to become shareholders of the newly founded company.
(5) The board of directors of the dividing company shall convene a meeting within the time period specified in the decision of the shareholders of the newly founded company, which shall approve the articles of association of the newly founded company, elect the administrative institutions and perform other activities which are necessary in founding a company. The articles of association of the newly founded company shall be approved by not less than three-quarters of the number of votes present and the provisions of this Law which regulate the relevant type of company meeting of shareholders shall be applicable to such a meeting. The minutes of the meeting of shareholders shall indicate those shareholders which voted against the approval of the articles of association.
(6) Together with the application for reorganisation, the dividing company shall submit to the Commercial Register Office also an application for the recording of the acquiring company in the Commercial Register.
(7) The division shall come into effect from the time when the acquiring company is recorded in the Commercial Register and a record is made regarding the dividing company.

Section 356. Division of Property not Provided for in the Reorganisation Agreement

(1) In the case of splitting up, the property, the division of which is not specified in the reorganisation agreement, shall be divided between the acquiring companies in proportion to the share of the property which they have acquired from the dividing company in accordance with the reorganisation agreement.
(2) The acquiring companies shall be solidarily liable for commitments of the dividing company, the division of which is not specified in the reorganisation agreement.
[24 April 2008]

Chapter 3
Special Provisions for Restructuring

Section 357. Decision Regarding Restructuring
[24 April 2008]

(1) In the decision regarding reorganisation, the information referred to in Section 338, Paragraph two of this Law shall be indicated, and in addition the type of acquiring company shall be indicated.
(2) The draft articles of association or partnership agreement (if the acquiring company is a partnership) of the acquiring company shall be appended to the draft decision as an attachment.
(3) The decision shall substitute for the reorganisation agreement referred to in Section 338 of this Law, and the provisions of Sections 338–343 of this Law shall apply to it.
(4) Concurrently with the decision on restructuring, the draft articles of association of the acquiring company or partnership agreement, if the acquiring company is a partnership, shall be approved.
(5) If the company is restructured as a limited liability company or a stock company, concurrently with the taking of the decision, the board of directors and the council of the acquiring company shall be elected if in accordance with the law or the articles of association this is necessary.

Section 358. Procedures for the Application of the Founding Provisions

(1) In the process of restructuring, the provisions for the founding of the relevant type of company shall be applied if it is not specified otherwise this Chapter.
(2) Those shareholders of the restructured company shall be considered to be founders of the acquiring company who have voted for the restructuring of the company.

Section 359. Features of Protection of the Interests of Creditors

The provisions of Section 345, Paragraph three of this Law shall not be applicable if a capital company is restructured into a partnership.

Section 360. Valuation of Property

(1) If a company is being transformed into a limited liability company or a stock company, it is necessary to evaluate the property contributions, in order to determine whether the property of the company to be restructured is sufficient for the formation of the equity capital of the acquiring company.
(2) The valuation of the property shall be done according to the procedures in this Law, and the documents certifying the valuation shall be submitted to the Commercial Register Office together with the application for restructuring.

Division XVIII
Special Provisions for the Reorganisation of Particular Types of Companies

Chapter 1
Partnerships as Companies Involved in Reorganisation

Section 361. Contents of a Reorganisation Agreement

If the acquiring company is a partnership, in addition to the information referred to in Section 338, Paragraph two of this Law, the status of each shareholder of the acquired or dividing company (general partner or limited partner) in the acquiring company, as well as the amount of their shares shall be indicated in the reorganisation agreement.
[14 February 2002]

Section 362. Reorganisation Prospectus

A reorganisation prospectus need not be prepared if all the members of a partnership have the authority to manage the partnership or agree that a prospectus not be prepared.

Section 363. Examination by an Auditor

[24 April 2008]

Section 364. Decision Regarding Reorganisation and Application to the Commercial Register Office

(1) A decision regarding reorganisation shall be taken if all the members vote for it.

(2) It may be provided for in the partnership agreement that a decision regarding reorganisation shall be taken if not less than two thirds of the members vote for it.
(3) In the recording of newly founded acquiring partnerships in the Commercial Register the provisions of Section 78 of this Law shall be applicable.

Section 365. Protection for Minority Shareholders

(1) If the acquiring company is a partnership, a shareholder of a company involved in the reorganisation, which has voted against the reorganisation or did not take part in the voting shall become a limited partner of the acquiring company.
(2) If the acquiring company is a partnership, a member who withdraws from the partnership may request compensation.
[14 February 2002]

Section 366. Liability of Shareholders

(1) If the acquiring company is a limited partnership or a capital company, the general partner of an acquired or dividing company shall be liable for such obligations of the relevant acquired or dividing company as for which the time period for performance has come into effect or shall come into effect within five years from the time when the reorganisation comes into effect.
(2) If the general partner of an acquired or dividing company becomes a general partner of the acquiring company, the limitation period specified in Paragraph one shall not be applied.
[14 February 2002]

Chapter 2
Limited Liability Companies as Companies Involved in Reorganisation

Section 367. Reorganisation Prospectus

A limited liability company involved in a reorganisation need not prepare a prospectus if all of its shareholders agree that a prospectus shall not be prepared.

Section 368. Examination by an Auditor

[24 April 2008]

Section 369. Decision Regarding Reorganisation, if Limited Liability Company is Involved in Reorganisation

[24 April 2008]

(1) A decision regarding reorganisation shall be taken if not less than two thirds of the votes represented at the meeting of shareholders vote for it (if the articles of association do not specify that a larger number of votes is necessary in order to take a decision regarding reorganisation).
(2) In determining a quorum, the shares that have been acquired by the company itself shall not be taken into account.
[16 March 2006]

Section 370. Increase of the Equity Capital of the Acquiring Company as a Result of the Merger or Division Process

(1) If the equity capital of the acquiring company is being increased as a result of merging or division, its shareholders have no priority right to the new shares provided for exchange.
(2) In addition to documents specified in Section 202 of this Law, which are to be submitted to the Commercial Register Office in relation to an increase of the equity capital, the reorganisation agreement and extracts from the minutes and the decisions regarding reorganisation taken by the meeting of shareholders of each of the companies involved in the reorganisation shall be appended to the application.
[14 February 2002]

Section 371. Transfer of Shares in the Case of a Reorganisation

(1) The acquiring company shall transfer in exchange, to the shareholders of the acquired or dividing company, firstly, the shares owned by the company itself.
(2) The shares of the acquired or dividing company shall not be exchanged for the shares of the acquiring company if:

1) the shares of the acquired or dividing company are owned by the acquiring company or by a third person who acts in his or her own name but on behalf of the acquiring company; or

2) the shares of the acquired or dividing company are held by the acquired or dividing company itself or by a third person who acts in his or her own name but on behalf of the acquired or dividing company.

Section 372. Valuation of Property Contributions, if Acquiring Company is a Limited Liability Company

[24 April 2008]

(1) If the acquiring company is a limited liability company which as a result of a reorganisation must increase its equity capital or which is to be founded as a new company, a valuation shall be conducted of the property of each of the acquired companies or the relevant part of the dividing company, in order to determine whether the property is sufficient to increase the equity capital of the acquiring company or for its founding.
(2) The valuation shall be conducted and a written report compiled by the person who has examined the reorganisation agreement in the relevant company. In the case referred to in Section 340, Paragraph three of this Law the valuation shall be conducted and a written report shall be provided by an auditor who complies with the criteria specified in Section 340, Paragraphs one and two of this Law.
(3) All the shareholders of the relevant company, as well as the shareholders of the acquiring company have the right to become acquainted with the report on the valuation of the property contribution in accordance with the procedures specified in Section 343, Paragraphs three and five of this Law.
(4) The report shall be appended to the application regarding reorganisation submitted to the Commercial Register Office.
[24 April 2008]

Chapter 3
Stock Companies as Companies Involved in Reorganisation

Section 373. Decision Regarding Reorganisation, if a Stock Company is Involved in Reorganisation

[24 April 2008]

(1) [18 December 2008].
(2) If the company has several categories of stock, the decision shall be taken according to the procedures specified in Section 284, Paragraph three of this Law.
(3) If the acquiring company is not a stock company, stockholders who own preference stock, and debenture holders who own convertible debentures shall take part in the specifying of the representation norms and shall vote with the same rights as the other stockholders. The provisions of this Law regarding the taking of decisions for the different categories of stock shall apply to them.

Section 374. Increase of the Equity Capital of the Acquiring Company as a Result of Merging or Division

(1) If the equity capital of the acquiring company is being increased as a result of merging or division, its stockholders have no priority right to the stock issued for exchange.
(2) In addition to documents specified in Section 261 of this Law, which are to be submitted to the Commercial Register Office in relation to an increase of the equity capital, the reorganisation agreement and the decisions regarding reorganisation taken by the meeting of stockholders of each of the companies involved in the reorganisation shall be appended to the application.
[14 February 2002]

Section 375. Transfer of Stock in the Case of Reorganisation

The acquiring company shall transfer in exchange, to the stockholders of the acquired or dividing company, firstly, the stock belonging to the company itself.
[14 February 2002]

Section 376. Amount of Premium

(1) The premiums provided for in the agreement, which are to be paid by the acquiring stock company to the stockholders of the acquired, dividing or restructured company, may not exceed in total 10 per cent of the amount of the par value of stock offered for exchange.
(2) If the capital stocks exchange coefficient has been fixed too low, then a stockholder of the acquired, dividing or restructured company may request that the acquiring company pay a once only supplementary payment which may exceed the amount specified in Paragraph one of this Section.

Section 377. Valuation of Property Contributions, if Acquiring Company is a Stock Company

[24 April 2008]

(1) If the acquiring company is a stock company which as a result of a reorganisation must increase its equity capital or which is to be founded as a new company, a valuation shall be conducted of the property of each of the acquired companies or the relevant part of the dividing company, in order to determine whether the property is sufficient to increase the equity capital of the acquiring company or for its founding.

(2) The valuation shall be conducted and a written report compiled by the person who has examined the reorganisation agreement in the relevant company. In the case referred to in Section 340, Paragraph three of this Law the valuation shall be conducted and a written report shall be provided by an auditor who complies with the criteria specified in Section 340, Paragraphs one and two of this Law.
(3) All the shareholders of the relevant company, as well as the shareholders of the acquiring company have the right to become acquainted with the report on the valuation of the property contribution in accordance with the procedures specified in Section 343, Paragraphs three and five of this Law.
(4) The report shall be appended to the application regarding reorganisation submitted to the Commercial Register Office.
[24 April 2008]

Section 378. Anonymous Stockholders and Debenture Holders

(1) If the acquiring company is a limited liability company or a stock company which has only bearer stock and if there is no information regarding stockholders or debenture holders who own convertible debentures of the acquired, dividing or restructured company, the numbers and the par value of stock or debentures shall be indicated in the place of the names of the shareholders or stockholders in the register of shareholders of the acquiring company or register of stockholders.
(2) If the acquiring company is a partnership, and if there is no information regarding stockholders or debenture holders who own convertible debentures of the acquired, dividing or restructured company, the numbers and the par value of stock or debentures shall be indicated in the place of the names of the shareholders or stockholders in the reorganisation agreement and the application to the Commercial Register Office.
(3) If the names of these stockholders or debenture holders become known later, they shall be recorded in the register of shareholders (stockholders) of the acquiring company, but if the acquiring company is a partnership – in the Commercial Register.

Section 379. Protection of Interests of Holders of Preference Stock and Debenture Holders

(1) The rights of the holders of preference stock and debenture holders of the acquired or dividing company shall be preserved in the acquiring stock company.
(1^1) The debenture holders may take a decision regarding amending the rights thereof, which are granted to them by the acquiring company, until taking of the decision regarding the reorganisation. The referred to decision shall be taken, if not less than three fourths of debenture holders of each category of debentures vote for it, if the articles of association do not specify a larger number of votes.
(2) If the acquiring company is not a stock company, the holders of preference stock and debenture holders of the acquired or dividing company shall acquire the shares of the acquiring company on the basis of the same provisions as other stockholders of the acquired or dividing company.
(3) The holders of preference stock and debenture holders, who disagree with the decision regarding reorganisation, may request compensation in accordance with the provisions of Section 353 of this Law.
[24 April 2008; 18 December 2008]

Division XIX

[24 April 2008]

Special Provisions for Cross-border Merger

Section 380. Reorganisation Agreement in Case of Cross-border Merger

The following information shall be indicated in the reorganisation agreement in addition to the information specified in Section 338, Paragraph two of this Law:

1) the types of capital companies involved in the cross-border merger and the type of the capital company to be newly founded;

2) the data regarding valuation of assets and obligations within the composition of the property to be transferred to the acquiring capital company; and

3) the report on commercial activities of the capital company, upon which the provisions for cross-border merger are based.

[24 April 2008]

Section 381. Reorganisation prospectus in Case of Cross-border Merger

(1) In addition to the information referred to in Section 339, Paragraph one of this Law the information regarding how the cross-border merger affects the shareholders (stockholders) and creditors of a capital company involved in this merging shall be indicated in the reorganisation prospectus.

(2) Not less than one month before the day when the meeting of shareholders (stockholders) regarding approval of the agreement is intended, the employees of a capital company or representatives thereof have the right to get acquainted with the reorganisation prospectus.

[24 April 2008]

Section 382. Decision Regarding Reorganisation in Case of Cross-border Merger

(1) If the regulatory enactments regulating the activity of a capital company registered in another Member State and involved in a cross-border merger do not provide for a procedure for determination of a compensation for minority shareholders (stockholders), without preventing the registration of the cross-border merger, the acquired capital company registered in Latvia may apply such procedure, if the shareholders (stockholders) of a capital company registered in another Member State and involved in a cross-border merger decide to allow the application of the referred to procedure.

(2) If the regulatory enactments regulating the activity of the acquired capital company registered in another Member State do provide for a procedure for scrutinising and amending the ratio applicable to the exchange of securities or shares (stocks), without preventing the registration of the cross-border merger, the acquired capital company registered in Latvia may allow the application of such procedure, if the meeting of shareholders (stockholders), which approves the reorganisation agreement, takes a decision by unanimous vote. The decision taken in the referred to procedure shall be binding to the acquired capital company registered in Latvia and the shareholders (stockholders) thereof.

[24 April 2008]

Section 383. Pre-merger Certificate

(1) If it is intended to register the acquiring capital company in another Member State, the acquired capital company registered in Latvia shall submit an application to the Commercial Register Office for the receipt of an attestation that the acquired capital company has performed all the necessary activities for the completion of cross-border merger.
(2) The documents referred to in Section 347, Paragraph one, Clauses 1, 2, 3, 4, 5, 6, 7 and 8 of this Law shall be attached to the application. The capital company shall attest in the application that all claims of those creditors, who have applied their claims within the specified time period, have been provided or satisfied and that a decision regarding reorganisation has not been appealed to the court or that the relevant claim has not been satisfied.
[24 April 2008]

Section 384. Submission of Application and Documents to be Attached Thereto to the Commercial Register Office

If the acquiring capital company is registered in Latvia, a document issued by the Commercial Register Office of another Member State not later than six months before, which attests that the acquired capital company has performed all the necessary actions for the completion of the cross-border merger, shall be submitted to the Commercial Register Office in addition to the documents referred to in Section 347 of this Law.
[24 April 2008]

Section 385. Special Provisions of Acquisition

If the cross-border merger is carried out within the framework of acquisition process and this merger is carried out by a capital company, which owns all capital shares (stocks) of the acquired capital company, the provisions of Section 343, Paragraph one of this Law shall not be applied to the acquired company registered in Latvia.
[24 April 2008]

Section 386. Record in the Commercial Register Regarding Cross-border Merger

If a record regarding the acquiring capital company is made in the Commercial Register of another Member State, the record in the Commercial Register regarding the acquired capital company shall be made, when the Commercial Register Office has received the information from the Commercial Register Office of another Member State regarding the making of the relevant record.
[24 April 2008]

Section 387. Entry into Effect of the Cross-border Merger

If the acquiring company is registered or is being registered in Latvia, the cross-border merger shall be considered as effective when a record regarding the acquiring company has been made in the Commercial Register.
[24 April 2008]

Part D
Commercial Transactions

Division XX
General Provisions for Commercial Transactions

[18 December 2008]

Section 388. Concept of Commercial Transactions

Commercial transactions shall be lawful transactions of a merchant, which are connected with commercial activities.
[18 December 2008]

Section 389. Commercial Transaction in which One Party is Merchant

If a transaction is a commercial transaction only for one of the parties to the transaction, the provisions of this Law regarding commercial transactions shall be equally applicable also to other parties to the transaction, insofar as it is not otherwise provided for in regulatory enactments in the field of protection of consumer rights or in other laws.
[18 December 2008]

Section 390. Presumption of Commercial Transaction

(1) In case of any doubts a transaction of an individual merchant shall be deemed a commercial transaction. Within the meaning of this Section, making of the record in accounting, input tax deduction, use of benefits obtained as a result of the transaction in commercial activities etc. shall be deemed application of the transaction to commercial activities.
(2) A debt document signed by an individual merchant shall be deemed signed in relation to his or her commercial activities performed, insofar as the contrary does not arise from this document.
[18 December 2008]

Section 391. Commercial Practices

In interpreting the intent expressed by a merchant, as well as the meaning and consequences of an action, the practices existing in the scope of commercial rights in the relevant sector shall be taken into account in the mutual legal relations of merchants.
[18 December 2008]

Section 392. Merchant's Silence

(1) If a merchant (commercial agent, broker, commission agent, forwarder etc.), who enters into transactions in favour of other persons or prepares entering therein, is conveyed a proposal for entering into such transaction or preparation of such entering by a person with whom he or she has relations of commercial transactions; the merchant has a duty to reply to this proposal as soon as possible.
(2) Also if the merchant refuses the proposal regarding entering into a transaction or preparation of entering therein, he or she has a duty to ensure temporary storage of such movable property, which was sent together with the proposal, at expense of the person who

expressed the proposal, insofar as it is not connected with incommensurate expenses and insofar as the covering of storage expenses of the movable property is ensured for a merchant.
[18 December 2008]

Section 393. Duty of Diligence of the Merchant

(1) In relations of commercial transactions a merchant has a duty to act with the diligence of a respectable and accurate merchant.
(2) The condition of Paragraph one of this Section shall not limit the application of such provisions of the Law where the liability of a debtor for evil intent, gross negligence or lack of such diligence, which he or she is used to observe in his or her own dealings, is regulated.
[18 December 2008]

Section 394. Joint Liability

If several merchants jointly undertake to fulfil a divisible obligation, they shall be solidarily liable for this obligation in case of doubts.
[18 December 2008]

Section 395. Remuneration and Calculation of Interest

(1) A merchant who enters into transactions in favour of another person or prepares the entering into them, or provides services, is entitled to request remuneration even if it has not been agreed upon. The amount of the remuneration shall be determined pursuant to the amount of remuneration usually paid in the relevant geographical territory.
(2) The merchant referred to in Paragraph one of this Section is entitled to calculate lawful interest for loans, pre-payments, expenditures and other payments, counting from the day of making the relevant payment.
[18 December 2008]

Section 396. Time Period for Fulfilment

Fulfilment of obligations in commercial transactions may be requested and obligations may be fulfilled only during the usual working hours of a merchant, unless it arises otherwise from the conditions of the matter.
[18 December 2008]

Section 397. Medium Benefit Property

If the subject-matter of an obligation of a merchant is such movable property, which is characterised by grade and amount, medium benefit properties shall be given for the fulfilment of the obligation, unless the parties to the transaction have not agreed otherwise. A medium benefit property shall mean a property, which has been recognised as such within the scope of commercial rights at the place of fulfilment of the obligation.
[18 December 2008]

Section 398. Units of Measurement and Currency

In case of any doubts it shall be considered that the parties to a commercial transaction have agreed on such units of measurement of length, area, volume, mass and other units of

measurement, as well as on currency, which exists at the place of fulfilment of the relevant obligation.
[18 December 2008]

Section 399. Right to Retainer

(1) A merchant is entitled to retain movable property and securities owned by another merchant and possessed by him or her, which pursuant to the will of the other merchant have come in the possession of the retainer on the basis of a commercial transaction, and not to release this property and securities as long as the money claim of the retainer arising from the commercial transaction entered into between them against another merchant is not satisfied. In order to achieve the satisfaction of such claim, the merchant may retain also such objects which he or she has obtained in the ownership from another merchant or a third person, however, in favour of the other merchant, and which the retainer has a duty to hand over in the ownership of the other merchant.
(2) The right to retainer may only be used if the obligation of the other merchant is already fulfilled and is not limited either by conditions or time period.
(3) The right to retainer is not effective against the third person who has obtained the right of commercial pledge for the retained object. In such case the provisions of Section 40 of the Commercial Pledge Law shall be applicable accordingly. Also the right to retainer shall not be effective against the third person who has lawfully obtained some other property right to the retained object prior to the use of the right of retainer.
(4) A merchant is not entitled to retain objects with which he or she has a duty to act in a specific way on the basis of an obligation which the merchant has undertaken in relation to another merchant.
(5) The other merchant may prevent the use of the right to retainer by providing suitable collateral. The collateral may not be the guarantee of a third person, except the case when the retainer agrees to receive such collateral. The retainer shall obtain the pledge rights to properties received as collateral in accordance with the provisions of the law regarding establishment of the pledge rights.
[18 December 2008]

Section 400. Right of Retainer to Satisfy the Claim

(1) A retainer is entitled to satisfy his or her claim against another merchant by selling the retained objects in an auction with the intermediation of the court, if they have not definitely agreed that the retainer has the right to sell the retained objects for a free price. The provisions of the Civil Law regarding the right of possessory pledge shall be applicable accordingly for satisfaction of the retainer's claim.
(2) The retainer has the benefit of a right to satisfy his or her claim against other persons that are not referred to in Section 399, Paragraph three of this Law and in favour of whom the retained objects have been pledged after the use of the right to retainer by selling the retained objects.
[18 December 2008]

Section 401. Obtaining of Movable Property into Ownership in Good Faith

(1) Even if a merchant alienates a property in favour of another person on the basis of a commercial transaction, the acquirer obtains the property rights with respect to this property, except the case when he or she was not acting in good faith at the time of transfer. The

acquirer is not acting in good faith if he or she knows that the property is not owned by the alienator or the alienator is not entitled to handle this property, or the acquirer is not aware thereof due to gross negligence.
(2) If the alienated property is burdened by rights of a third person, these rights shall expire with the transfer of the property rights to the acquirer of good faith, except the case when he or she did not know regarding the referred to rights at the time of transfer or was not aware thereof due to gross negligence.
(3) The provisions of this Section shall not be applied to a property obtained in illegal way, lost property or such property, the possession of which has been terminated against the will of the owner, except money, securities of bearer, as well as properties which have been sold in an auction with intermediation of the court.
[18 December 2008]

Section 402. Legal Rights of Possessory Pledge

(1) The provisions of the Civil Law regarding the rights of possessory pledge shall be applied accordingly to legal rights of possessory pledge of a merchant, insofar as it is not otherwise specified in this Section.
(2) A pledgee whose claim has not been satisfied by the debtor within the specified time is entitled to sell the lawful subject-matter of the rights of possessory pledge at the expense of the debtor , informing the debtor thereof in advance and taking into account the provisions of the Civil Law regarding the sale at an auction. The relevant provisions of the Civil Procedure Law shall be applied for notification of an auction and for the procedures of auction.
(3) The lawful subject-matter of the rights of possessory pledge shall be sold for the highest price which is possible during the sale and the sale shall not be deferred.
(4) A pledgee shall be liable to the debtor as an authorised representative for the sale of the subject-matter of the right of possessory pledge and his or her duty shall be to reimburse all losses of the debtor, which the pledgee could have prevented by observing diligence of a respectable and accurate merchant.
[18 December 2008]

Section 423. Bill of Lading, Consignment Note and Warehouse Receipt as Instruments to Order

(1) Bill of lading, consignment note and warehouse receipt may be transferred further with an endorsement, if it is directly indicated in the relevant document (hereinafter within the framework of this Division – instrument to order).
(2) Endorsement shall transfer all the rights arising from the endorsed instrument to order to endorsee.
(3) A debtor may raise only such objections against the legitimised holder of the instrument to order, which refer to the validity of the expression of will of the debtor included in the instrument to order and arise from the content of the instrument to order, or also objections, which the debtor has against the legitimised holder of the instrument to order himself or herself.
(4) A debtor has a duty to fulfil his or her obligation only upon receiving the instrument to order with a receipt regarding fulfilment issued by the legitimised holder of the instrument to order. If the obligation is fulfilled partly, a relevant note shall be made on the instrument to order and a receipt regarding partly fulfilment shall be issued to the debtor.
[18 December 2008]

Section 404. Endorsement Form and Blank Endorsement

(1) Endorsement shall be written on the instrument to order or a sheet attached thereto. Endorsement shall be signed by the endorser.
(2) The endorsee need not be indicated in the endorsement and the endorsement may be expressed only in the signature of the endorser (blank endorsement). In the latter case endorsement shall be written on the other side of the instrument to order or a sheet attached thereto in order for it to be valid.
(3) If a blank endorsement is made, the holder of the instrument to order may:

1) fill in the endorsement on his or her own or other person's name;

2) endorse the instrument to order further with a blank endorsement or on the name of another person; or

3) transfer the instrument to order further without filling in a blank endorsement and making a new endorsement.

[18 December 2008]

Section 405. Legitimation of the Holder of the Instrument to Order

(1) The person whose hands the instrument to order has reached shall be recognised as the legitimized holder thereof insofar as he or she proves his or her rights with a continued row of endorsements, also if the last endorsement is a blank endorsement. In this respect the deleted endorsements shall be considered as not recorded. If any other endorsement follows a blank endorsement, it shall be assumed that the signatory of this last endorsement has obtained the instrument to order on the basis of the blank endorsement.
(2) If the instrument to order is lost by the former holder thereof, the new holder who proves his or her rights in accordance with the provisions of Paragraph one of this Section has a duty to return the instrument to order only if he or she has obtained it in bad faith or by admitting gross negligence.
(3) A debtor has a duty to check whether the row of endorsements recorded in the instrument to order is continuous, however, he or she does not have a duty to ascertain the genuineness of endorsement signatures.

[18 December 2008]

Section 406. Limitation Period

Claims arising form a commercial transaction are subjected to a limitation period of three years, unless other limitation period is specified by the law.

[18 December 2008]

Division XXI
Special Provisions for Certain Commercial Transactions

Chapter 1
Commercial Purchase Agreement

[18 December 2008]

Section 407. Concept of Commercial Purchase Agreement

(1) Commercial purchase agreement (hereinafter within the framework of this Chapter – purchase agreement) shall be such agreement, by which the seller undertakes to sell and the buyer undertakes to buy goods and pay the agreed purchase price. Goods within the meaning of this Chapter shall be movable property intended for sale which has not been withdrawn from the circulation in the private sector.
(2) The provisions of this Chapter shall be applicable also to the purchase of securities.
[18 December 2008]

Section 408. Delay of Purchaser

(1) If a purchaser, by admitting a delay, fails to accept the goods, a seller is entitled to transfer the goods for storage in a public warehouse or in other safe place at the purchaser's expense and risk for reasonable remuneration, immediately notifying the purchaser thereof.
(2) If a purchaser admits delay, a seller is entitled to sell the goods in a voluntary public auction with intermediation of a bailiff, informing the purchaser thereof in advance and at purchaser's expense, taking into account the provisions of the Civil Law regarding the sale at an auction. The relevant provisions of the Civil Procedure Law regarding an auction of movable property shall be applicable for the notification of auction and procedures of auction. The seller is entitled to sell perishable goods or goods, which are subjected to other risk, for a free price without an auction and without notifying the purchaser thereof in advance. If the goods are sold for a lower price than agreed in the purchase agreement, the purchaser has a duty to pay the difference between the agreed price and the sales price of goods.
(3) If the goods are sold in a voluntary public auction with intermediation of a bailiff, a seller has a duty to notify a purchaser regarding the time and place of the auction within reasonable time period before the auction, moreover, the purchaser is entitled to participate in bidding. The seller has a duty immediately to notify the purchaser regarding the sale. If the seller fails to fulfil the referred to duty, he or she is liable for the losses caused to the purchaser.
(4) The provisions of this Section shall not limit the rights of a seller which he or she may use in accordance with the Civil Law, if a purchaser admits a delay.
[18 December 2008]

Section 409. Purchase with Specification

(1) If pursuant to a purchase agreement a purchaser is entitled to specify more detailed form, size, quality, sort of goods or other features of goods, the purchaser has a duty to specify them within the agreed period of time or as soon as possible after receipt of the request from the seller.
(2) If a purchaser admits delay in relation to specification of features of goods, the seller is entitled to specify the referred to features instead of the purchaser or to unilaterally withdraw from the agreement or request a compensation for losses which have been caused to him or her due to the delay of the purchaser.

(3) If a seller himself or herself specifies the features of goods instead of the purchaser, he or she has a duty to notify the purchaser regarding this specification and determine a reasonable period of time during which the purchaser may specify other specification. If the purchaser fails to provide other specification to the seller within the referred to period of time, the specification specified by the seller shall be binding to the purchaser.
[18 December 2008]

Section 410. Term Purchase

(1) Term purchase is such purchase agreement by which at least one of the contracting parties has undertaken to fulfil his or her obligation precisely on a certain day or within a certain period of time and pursuant to decisively expressed will of the contracting parties the agreed time of performance is a substantial part of such agreement.
(2) If the contracting party referred to in Paragraph one of this Section fails to fulfil his or her obligation on the agreed day or within the agreed period of time, the other contracting party is entitled to unilaterally withdraw from the agreement or request a compensation for losses caused to the other contracting party due to the delay of the debtor in relation to the non-fulfilment of the agreement. The other contracting party may request that the debtor fulfils the obligation only if he or she immediately after expiration of the time period notifies the debtor regarding his or her wish that the obligation be fulfilled.
(3) If the purchaser requests a compensation for losses, which have occurred to him or her due to non-fulfilment of the obligation of the seller, and the goods have a market price, the amount of compensation for losses shall be determined pursuant to the difference between the agreed purchase price and the market price of such goods existing at the time and place of fulfilment of the obligation, unless the parties have agreed otherwise.
[18 December 2008]

Section 411. Duty of Purchaser to Check the Goods and Notify Regarding Deficiencies

(1) A purchaser has a duty to check the goods as soon as possible after receipt thereof. In determining deficiencies of the goods, the purchaser has a duty to notify the seller regarding them without delay, indicating their type and scale.
(2) If the purchaser fails to notify the seller regarding the deficiencies of the received goods pursuant to the provisions of Paragraph one of this Section, it shall be considered that the purchaser has accepted the goods and he or she loses the right provided for in Section 1620, Paragraph two of the Civil Law to request the cancellation of the purchase agreement or reduction of the price for goods, except the case when the goods have hidden deficiencies which were impossible to determine during checking of goods.
(3) If the hidden deficiencies of goods are determined later, the purchaser has a duty to notify the seller immediately after determination thereof. If the purchaser fails to notify the seller regarding the deficiencies of the received goods, it shall be considered that the purchaser has accepted the goods with these hidden deficiencies.
(4) The provisions of this Section shall not be applicable if the seller has concealed or hidden the deficiencies of the goods in bad faith or convincingly asserted that the goods have certain properties.
(5) The provisions of this Section shall be applicable if the purchaser and seller are merchants.
[18 December 2008]

Section 412. Temporary Storage of Goods

(1) If a purchaser has notified a seller regarding deficiencies of such goods, which have been delivered to the purchaser from another place, the purchaser has a duty to ensure temporary storage of such goods.
(2) Perishable goods or goods, which are subjected to other risk or storage of which is related to incommensurate costs, the purchaser is entitled to sell, taking into account the provisions of Section 408, Paragraphs two and three of this Law.
(3) The provisions of this Section shall be applicable if the purchaser and seller are merchants.
[18 December 2008]

Section 413. Mass of the Packaging of Goods

(1) If the price for purchase is determined pursuant to the mass of goods, the mass of the packaging of goods shall not be taken into account if it does not arise otherwise from the agreement or the commercial usage of the place where a seller is bound to fulfil his or her obligation.
(2) Within the meaning of this Law, the concept "packaging" shall also mean a container used for inland, water and air transport.
[18 December 2008]

Section 414. Application of Provisions of the Purchase Agreement to Barter, Supply and Work-performance Contract

(1) The provisions of this Chapter shall also be applicable to such barter and supply contract accordingly (Sections 2092 and 2109 of the Civil Law), the subject-matter of which is the goods.
(2) The provisions of this Chapter shall be applicable to work-performance contract regarding production of movable property from the material provided by the entrepreneur (Section 2214, Paragraph one of the Civil Law).
[18 December 2008]

Chapter 2
Commercial Commission Contract

Section 415. Concept of the Commercial Commission Contract and Commission Agent

(1) Commercial commission contract is such contract, by which a merchant (commission agent) undertakes in his or her name, however, at another person's (committent) expense to purchase or sell goods or securities or enter into other types of transactions with third persons, but the committent undertakes to pay the agreed commission.
(2) Commission agent is such agent who has undertaken in his or her name, however, at the committent's expense to enter into transactions with other persons independently. The provisions of Sections 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60 and 61 of this Law shall be applicable to mutual relations of the commission agent and the committent.
[18 December 2008]

Section 416. Duties of Commission Agent

(1) A commission agent has a duty to fulfil the commission with the diligence of a respectable and accurate merchant. The commission agent, in particular, has a duty to observe the interests of the committent and his or her instructions.
(2) The commission agent shall transfer all the necessary information and documents to the committent. The commission agent, in particular, has a duty to notify the committent regarding the fulfilment of the commission without delay.
(3) The commission agent has a duty to provide the committent with a settlement of accounts regarding each transaction entered into, as well to transfer to the committent what the commission agent has acquired in fulfilling his or her duties.
(4) The commission agent shall be liable for the fulfilment of a transaction in relation to the committent if he or she, concurrently with a notification regarding the fulfilment of the commission, has not indicated to the committent the third person with whom this transaction has been entered into.
[18 December 2008]

Section 417. Instructions of the Committent

(1) If a commission agent fails to act pursuant to the instructions of a committent, he or she shall be liable for the losses caused to the committent, moreover, the committent has no duty to recognise the transaction as entered into at his or her expense.
(2) The commission agent is entitled to derogate from instructions of the committent only if he or she has a reason to consider that in the particular case, knowing the circumstances of the matter, the committent himself or herself would have acted the same. In such case the commission agent shall notify the committent regarding his or her derogation from instructions without delay and wait for the decision of the committent, unless there is a risk of delay.
[18 December 2008]

Section 418. Price Limits

(1) If a commission agent, upon entering into a transaction with a third person, violates the price limits specified by the committent and the committent does not want to acknowledge that the relevant transaction has been entered into at his or her expense, the committent has a duty, as soon as a notification regarding the fulfilment of the commission is received, to notify the commission agent thereof without delay. Otherwise it shall be considered that the committent has agreed to the deviation from the price limit allowed by the commission agent.
(2) If the commission agent, concurrently with the notification regarding the fulfilment of the commission, offers to cover the difference between the price specified by the committent and the price agreed with the third person, the committent is not entitled to refuse to admit that the transaction has been entered into at his or her expense.
[18 December 2008]

Section 419. More Advantageous Provisions

(1) If a commission agent enters into a transaction under more advantageous provisions than the ones specified by a committent, the benefit acquired from entering into such transaction shall be due to the committent.

(2) Particularly, the sales price exceeding the lowest price limit specified by the committent, as well as the purchase price, which does not reach the highest price limit specified by the committent, shall be considered as a more advantageous provision.
[18 December 2008]

Section 420. Goods with Deficiencies or Damaged Goods

(1) If the goods supplied by a commission agent and the goods to be sent further have external deficiencies or damages, the commission agent has a duty to use his or her rights against the carrier, forwarder, keeper or seller (in case of a purchase commission), to provide evidence attesting to the state of goods, as well as to notify the committent thereof without delay. If the commission agent fails to fulfil the referred to duties, he or she shall be liable for the losses caused to the committent.
(2) If the goods perish or changes have occurred or may occur later therein, which could cause decrease in the value of the goods, and there is no time to receive instructions of the committent regarding further action or the committent hesitates to provide instructions, the commission agent is entitled to sell the goods at expense of the committent, taking into account the provisions of Section 408, Paragraphs two and three of this Law.
[18 December 2008]

Section 421. Transfer of Goods for Storage or Sale of Goods

If a committent fails to act with the purchased goods or the goods to be sold, which are placed in storage of the commission agent, although in accordance with the circumstances of the matter it is the duty of the committent to do so, the commission agent pursuant to the provisions of Section 408 of this Law is entitled to hand over the goods for storage to another person or to sell them.
[18 December 2008]

Section 422. Liability of the Commission Agent for the Goods

(1) A commission agent shall be liable for the damages, perishing or destruction of the goods stored by him or her, which he or she could have prevented by observing the diligence of a respectable and accurate merchant.
(2) The commission agent shall be liable for the fact that the goods are not insured only if the committent had instructed the commission agent to insure the goods.
[18 December 2008]

Section 423. Obligation to Check the Goods and Temporary Storage of Goods

(1) If an obligation to perform a purchase commission has been entrusted to a commission agent and if the commission agent and the committent are merchants, the provisions of Sections 411 and 412 of this Law shall be applicable to the obligation of the committent to check the goods and to notify the commission agent regarding the determined deficiencies of the goods, as well as to the obligation to store the goods and to the right to sell them.
(2) Also if the committent has not notified the commission agent in due time regarding the deficiencies of the goods, the committent is entitled to request that the commission agent cedes his or her claims against the third person from whom he or she has bought the goods at the committent's expense.
[18 December 2008]

Section 424. Claims Arising from Commission Transaction

(1) A committent is entitled to bring claims arising from a transaction, which a commission agent has entered into at the committent's expense (including claims regarding cancellation of a purchase agreement or reduction of the price for goods), against a debtor only after the commission agent has ceded these claims to a committent.
(2) In relations between the committent and the commission agent or his or her creditors the claims referred to in Paragraph one of this Section shall be considered as the claims of the committent even if they have not been ceded to the committent yet.
[18 December 2008]

Section 425. Pre-payment and Post-payment

(1) If a commission agent makes a pre-payment in favour of a third person without the consent of the committent or agrees regarding a post-payment, the commission agent shall be liable for the risk related to such action.
(2) If the commission agent sells goods or securities to the third person with post-payment without the consent of the committent, the commission agent has a duty to immediately pay the committent all amount of the purchase instead of the third person.
[18 December 2008]

Section 426. Right of the Commission Agent to Commission and Reimbursement of Expenses

(1) A commission agent has the right to the agreed commission as soon as and insofar as the third person has fulfilled the transaction entered into with the commision agent. The commission agent has the right to a commission even if the transaction has not been fulfilled because of the committent.
(2) The obligation of the committent is to reimburse the expenses of the commission agent, which were necessary for the fulfilment of the commission pursuant to the circumstances. These expenses shall also include reimbursement for the use of warehouse premises of the commission agent or another place suitable for storage and for the use of vehicles for the fulfilment of the commission.
[18 December 2008]

Section 427. Rights of the Commission Agent to *Del Credere*

(1) A commission agent who guarantees the fulfilment of the obligation of a third person has the right to a special compensation (*del credere*).
(2) Upon setting in of the term for the fulfilment of the obligation or the condition of the third person, the commission agent who has guaranteed the fulfilment of the obligation of the third person shall be directly liable for the fulfilment of the relevant obligation, and the commission agent is not entitled to request that the committent brings his or her claim to the third person at first.
[18 December 2008]

Section 428. Lawful Rights of Possessory Pledge of the Commission Agent

A commission agent has the lawful rights of possessory pledge to the commission goods in the possession of the commission agent, which ensure the claims of the commission agent against the committent regarding payment of the commission and *del credere*, as well as regarding reimbursement of expenses necessary for the fulfilment of the commission.
[18 December 2008]

Section 429. Right of the Commission Agent to Get Satisfaction from Claims

A commission agent has the benefit of a right in comparison with the committent and his or her creditors to satisfy the claims referred to in Section 424 of this Law, for which the term or the condition for fulfilment of the claim arising from the commission transaction has set in. In this respect, the commission agent is entitled to refuse to cede the claims arising from the commission transaction in favour of the committent, to receive and keep the fulfilment provided on the basis of this claim, to suggest those claims for set-off, as well as to cede them to another person.
[18 December 2008]

Chapter 3
Forwarding Agreement

Section 430. Concept of Forwarding Agreement

Forwarding agreement shall be such agreement, by which a merchant who provides freight forwarding services (forwarder) undertakes to organise delivery of freight to its consignee at consignor's expense, using transport services of the carrier and the consignor undertakes to pay the agreed remuneration.
[18 December 2008]

Section 431. Rights and Obligations of Forwarder

(1) In providing freight forwarding services, a forwarder is entitled if the parties have not agreed otherwise:

1) to specify the type of transport and the route of freight conveyance;

2) to choose persons who deliver the freight to the consignee, to enter into the transport, storage and forwarding agreement necessary for delivery of the freight, to provide information and instructions to the referred to persons and to perform the relevant payments.

(2) If the parties have not agreed regarding the time of freight delivery, the forwarder has an obligation to ensure the delivery of the freight to its consignee within a reasonable period of time.

(3) In providing the freight forwarding services, the forwarder has an obligation to request statements if violations have been determined during the carriage of freight, to participate in drawing up of a statement upon the request of the consignor or consignee, as well as, in ensuring the rights of the consignor, to submit objections and claims in his or her behalf in a timely manner.

(4) The forwarder shall also perform other agreed obligations, which are related to organisation of freight delivery, including insurance, packing, labelling and performance of customs clearance of the freight.

(5) The forwarder shall enter into agreements necessary for organisation of freight delivery in his or her name or in the name of the consignor, if the forwarder has been authorised for that.
(6) If the forwarder acts as the representative of the consignor, the forwarder is not entitled to calculate for the consignor a larger fee for the carriage of freight than he or she has agreed with the carrier.
[18 December 2008]

Section 432. Packaging, Labelling of Freight, Accompanying Documents and Obligation to Provide Information Regarding Freight

(1) A consignor has a duty, insofar as it is necessary, to pack and label the freight to be transferred for forwarding, to submit accompanying documents to the freight forwarder, as well as to provide him or her with all the information necessary to the forwarder in order to fulfil his or her duties, also information regarding freight to be carried and stored in accordance with special provisions and for which special equipment or servicing is necessary. If dangerous goods are consigned for forwarding, which during carriage or storage may cause explosion, fire or other damage, endanger human life, health, personal property or the environment due to their properties, the consignor has a duty to inform the forwarder in writing regarding the type of dangerousness of the freight and the necessary safety measures.
(2) An order for delivery of dangerous goods or excisable goods shall be submitted to the forwarder in writing.
(3) Even if the consignor is not to be blamed, he or she shall be responsible for losses and expenses in relation to the forwarder, which have arisen because of the following reasons:
1) the freight has not been adequately packed or labelled;
2) the forwarder has not been informed regarding the dangerousness of the freight; or
3) the consignor has not submitted all accompanying documents referred to in Paragraph one of this Section or has not provided the necessary information, or the information is incomplete, incorrect or false.
(4) If the losses or expenses referred to in Paragraph three of this Section have arisen also due to the action of the forwarder, the consignor shall be bound to reimburse the losses or expenses. The amount of reimbursement to be paid shall depend on the extent of the losses or expenses being caused by the action of the consignor or forwarder.
(5) If the consignor is a consumer, he or she shall, in accordance with the provisions of Paragraphs three and four of this Section, be liable in relation to the forwarder for losses and expenses, insofar they have arisen due to the fault of the consignor.
[18 December 2008]

Section 433. Loading and Unloading of Freight

A consignor shall be liable for loading of freight at the starting point and a consignee – for unloading at the endpoint if it is not otherwise specified in the forwarding agreement.
[18 December 2008]

Section 434. Freight with Deficiencies or Damaged Freight

(1) If a freight, which a forwarder has received from a third person and which is to be delivered to a consignee, has external deficiencies or damages, the forwarder has an obligation, upon ensuring the rights of the consignor, to notify the third person regarding these deficiencies or damages without delay, to take care of the evidence attesting to the state of the freight, as well as to notify the consignor thereof without delay. If the forwarder fails to

fulfil the referred to obligations, he or she shall be liable for the losses caused to the consignor.
(2) If the freight perishes or changes occur or are likely to occur later, which would cause decrease of the value of the freight, and there is no time to receive instructions from the consignor for further action involving freight or the consignor hesitates to give instructions, the forwarder is entitled to sell the freight at the consignor's expense, taking into account the provisions of Section 408, Paragraphs two and three of this Law.
[18 December 2008]

Section 435. Payment of Reimbursement

(1) A consignor has an obligation to pay the agreed reimbursement to the forwarder as soon as the forwarder has fulfilled the freight forwarding service, if it is not otherwise specified in the agreement.
(2) If in accordance with the agreement by and between the consignor and the forwarder the reimbursement for the provision of forwarding services is to be collected from the consignee or another person, however, this person does not make the referred to payment, the consignor shall be liable for payment of the reimbursement.
[18 December 2008]

Section 436. Claims of the Consignor

(1) A consignor is entitled to bring forward claims arising from the agreement, which has been entered into by the forwarder in his or her name at consignor's expense, against a debtor only when the forwarder has ceded these claims to the consignor.
(2) In relations between the consignor and the forwarder or his or her creditors the claims referred to in Paragraph one of this Section shall be considered as the claims of the consignor also if they have not been ceded to the consignor.
[18 December 2008]

Section 437. Liability of the Forwarder

(1) A forwarder shall be liable for non-fulfilment of the obligations of the third persons involved in implementation of the forwarding agreement if he or she is acting in his or her name or if one of the following conditions exists:
1) the forwarder has directly of indirectly undertaken the liability of the carrier;
2) the forwarder has specified the fee for carriage;
3) the forwarder issues a transport document in his or her name; or
4) the forwarder organises carriage, using road transport.
(2) The forwarder shall not be liable for non-fulfilment of the obligations of the third persons involved in implementation of the forwarding agreement if he or she acts on behalf of the consignor and proves that he or she has chosen these persons duly and carefully.
[18 December 2008]

Section 438. Freight Insurance

A forwarder has an obligation to insure the freight transferred for forwarding at consignor's expense if it is requested by the consignor or they have agreed about it in the forwarding agreement.
[18 December 2008]

Section 439. Obligation of the Consignor to Reimburse the Forwarder's Expenses

A consignor has an obligation to compensate the forwarder's expenses, which according to the circumstances, have been necessary for the fulfilment of the forwarder's obligations, also such expenses, which are related to:

1) the increase of customs and other payments or changes in currency exchange rate;

2) waiting period, which has arisen due to circumstances beyond his or her control; or

3) incompletely, incorrectly or inappropriately drawn up accompanying documents of the freight submitted by the consignor.

[18 December 2008]

Section 440. Transfer of Freight for Storage

If the consignee of the freight, in admitting the delay, does not accept the freight delivered or the freight is suspended during carriage due to circumstances beyond his or her control, the forwarder is entitled to transfer the freight for storage in a public warehouse or in another safe place at the consignor's expense, notifying the consignor and the carriage insurer thereof without delay, if the forwarder has made insurance.

[18 December 2008]

Section 441. Liability of the Forwarder for Non-preserving of the Freight or Delay of the Freight Delivery

(1) A forwarder shall be liable for damages, perishing, shortfall, destruction, loss of the freight or delay of freight delivery under his or her supervision, which he or she could have prevented, observing the diligence of honest and careful merchant.

(2) The forwarder shall not be liable for non-preserving of the freight (damages, perishing, shortfall, destruction or loss), if he or she proves that the freight has not been preserved:

1) because it was carried in an open vehicle in accordance with the agreement of the forwarder and the consignor or upon the request of the consignor;

2) due to damaged packaging thereof if the freight was packaged by the consignor, or because the consignor used packaging, which did not comply with the properties or standards of freight;

3) upon loading or unloading it if loading or unloading was performed by the consignor or the consignee;

4) due to individual natural properties, which may easily cause freight damages, perishing, shortfall or destruction, if the consignor did not inform the forwarder regarding these properties before the transfer of the freight for forwarding; or

5) due to inappropriate labelling thereof if freight was labelled by the consignor, or because the consignor has not indicated special properties of the freight in the accompanying documents of the freight, because of which it is necessary to observe special safety provisions or to perform the relevant measures in order to ensure the preservation of the freight during the carriage or storage.

(3) Upon reimbursing the losses for non-preserving of the freight, the forwarder shall also return a reimbursement paid to him or her for the provision of the forwarding services and compensate other payments related to the carriage of the freight in proportion to the amount

of the freight non-preserved, as well as any expenses which are related to determination of the amount of reimbursement for the losses pursuant to the provisions of Section 443 of this Law.
(4) The forwarder shall be liable for other losses only if he or she has not fulfilled his or her duties pursuant to the provisions of Section 431 of this Law.
(5) If losses have been caused also due to the action of the consignor or due to specific deficiencies of the freight transferred for forwarding, the forwarder has an obligation to reimburse the losses. The amount of reimbursement to be paid shall depend on the extent of the losses being caused by the action of the consignor or the forwarder or the deficiencies of the freight transferred for forwarding.
[18 December 2008]

Section 442. Reimbursement of the Freight Value

(1) If a forwarder has an obligation to reimburse losses arisen due to damages or perishing of the freight, the reimbursement for losses shall be determined in such amount, by which the value of the freight has reduced, but due to the shortfall, destruction or loss of the freight – pursuant to the value of the missing, destroyed or lost freight.
(2) The value of freight shall be determined pursuant to the market price thereof or in accordance with the usual value of items of the same grade and quality. If freight is transferred for forwarding with a notified value, the amount of reimbursement for losses shall be determined pursuant to this value, if the forwarder does not prove that the value of the freight transferred for forwarding was smaller.
[18 December 2008]

Section 443. Limits of the Amount of Reimbursement for Losses

(1) If a forwarder has an obligation to reimburse losses arisen due to damages, perishing, shortfall, destruction or loss of the freight, the amount of reimbursement for losses may not exceed the amount, which complies with the 8.33 money units of payment specified by the International Monetary Fund for each:

1) gross mass kilogram of freight if all freight has been damaged or lost; or

2) gross mass kilogram of the damaged or lost part of the freight if part of the freight has been damaged or lost.

(2) The amount referred to in Paragraph one of this Section shall be recalculated in lats by expressing the value of lat pursuant to the payment unit of money specified by the International Monetary Fund on the day when the freight was transferred for forwarding, or on the day, regarding which the consignor or the forwarder have agreed upon. The value of lat pursuant to the payment unit of money specified by the International Monetary Fund shall be calculated in accordance with the method, which the International Monetary Fund has applied to its operations and transactions on the relevant day.
(3) The limit of the reimbursement for losses provided for in Paragraph one of this Section shall not be applicable if the forwarder or the person referred to in Section 444 of this Law, in causing losses, has acted in bad faith or allowed gross negligence.
[18 December 2008]

Section 444. Liability of the Forwarder for Other Persons

A forwarder shall be liable for any illegal action committed by employees of the forwarder in their work or other persons employed by his or her company to the same extent as for his or her own action.

[18 December 2008]

Section 445. Limitation Period of Claim

(1) Claims against a forwarder regarding damages, perishing, shortfall, destruction or loss of a freight transferred for forwarding, as well as for delivery of the freight shall expire within one year. If the forwarder has acted in bad faith or allowed gross negligence, the referred to claims shall expire within three years. All other claims against the forwarder shall expire within three years.
(2) If the freight transferred for forwarding has not been preserved due to damages, perishing or shortfall, the limitation period shall begin from the day, on which the freight was delivered to the consignee, but due to destruction, loss of the freight or delay of delivery of the freight – on the day when the freight should have been delivered to the consignee.
[18 December 2008]

Section 446. Lawful Right of Possessory Pledge of the Forwarder

(1) A forwarder has the lawful right of possessory pledge to a freight transferred for forwarding and in the possession of the forwarder, which ensures the claims of the forwarder against the consignor. The lawful right of possessory pledge shall apply also to accompanying documents of freight.
(2) If the forwarder has involved a sub-forwarder in order to fulfil the obligation agreed upon in the agreement regarding provision of freight forwarding services, the claims of the forwarder and the lawful right of possessory pledge provided for in Paragraph one of this Section shall be transferred to the sub-forwarder until he or she satisfies the claims of the forwarder arising from the forwarding agreement.
[18 December 2008]

Chapter 4
Commercial Storage Agreement

Section 447. Concept of Commercial Storage Agreement

Commercial storage agreement (hereinafter within the framework of this Chapter – storage agreement) shall be such agreement, by which a merchant dealing with storage of movable properties (keeper) undertakes to place the property handed over for storage in a warehouse or in another place suitable for storage and store it in favour of a depositor, and the depositor undertakes to pay the agreed remuneration.
[18 December 2008]

Section 448. Packaging, Labelling, Accompanying Documents of the Property and Obligation to Provide Information regarding Property

(1) A depositor has an obligation, insofar as it is necessary, to package and label a property handed over for storage, to submit accompanying documents to the keeper, as well as to provide all information to him or her, which is necessary so that the keeper could fulfil his or her obligations. If dangerous property is handed over for storage, which due to its properties under certain conditions may cause explosion, fire or other damages, endanger human life, health, personal property or the environment, the depositor has an obligation to notify the

keeper regarding the type of dangerousness of the property and the necessary safety measures in writing.
(2) If the depositor is a consumer, the keeper has an obligation, insofar as it is necessary, to package and label the property handed over for storage. The depositor has an obligation to inform the keeper regarding dangerousness of the property.
(3) Even if the depositor is not to be blamed, he or she shall be liable for losses and expenses caused to the keeper due to the following reasons:

1) the property was not appropriately packaged or labelled;

2) the keeper was not informed regarding dangerousness of the property;

3) the depositor failed to submit all the accompanying documents referred to in Paragraph one of this Section or has not provided the necessary information or the information was incomplete, inaccurate or false.

(4) If the losses or expenses referred to in Paragraph three of this Section have been caused also due to the action of the keeper, the depositor has an obligation to reimburse losses or expenses. The amount of reimbursement to be paid shall depend on the extent of the losses or expenses being caused by the action of the depositor or the keeper.
(5) If the depositor is a consumer, he or she shall be liable for losses or expenses in respect of the keeper in accordance with the provisions of Paragraphs three and four of this Section insofar as they have been caused due to the fault of the depositor.
[18 December 2008]

Section 449. Fungible Property Storage

(1) A keeper is entitled to combine fungible property handed over for storage with any property of the same grade and quality only if the relevant depositors have explicitly permitted it.
(2) If the keeper is entitled to combine properties handed over for storage, the owners thereof shall obtain joint ownership right in undivided shares to the properties handed over for storage starting from the day when the referred to properties are placed in a warehouse or in another place suitable for storage.
[18 December 2008]

Section 450. Property with Deficiencies or Damaged Property

(1) If a property, which a keeper has received from a third person and which is to be stored in favour of a depositor, has external deficiencies or damages, the keeper has an obligation, in ensuring the rights of the depositor, to notify the third person regarding these deficiencies or damages without delay, to take care of the evidence attesting the condition of the property, as well as to notify the depositor thereof without delay. If the keeper fails to fulfil the referred to measures, he or she shall be liable for the losses caused to the depositor.
(2) If after acceptance of the property for storage such changes occur or are likely to occur, which would cause damages to the keeper, he or she has an obligation to notify the depositor thereof without delay, but if a warehouse receipt has been issued – the last legitimised holder of the warehouse bill of lading known by him or her, as well as to request instructions from the depositor (the holder of the warehouse receipt) regarding further action in this matter. If the keeper is not able to receive the referred to instructions within appropriate period of time, the keeper is entitled to sell the property handed over for storage at expense of the depositor (the holder of the warehouse receipt), taking into account the provisions of Section 408, Paragraphs two and three of this Law or upon his or her preferences pursuant to the action of

a respectable and accurate merchant, to perform other actions necessary for storage of the property.
[18 December 2008]

Section 451. Inspection of the Property Handed over for Storage and Measures for Preservation Thereof

A keeper has an obligation to allow the depositor to inspect a property handed over for storage in usual working time, to take samples, as well as to allow the taking of measures necessary for the preservation of the property. The keeper has the right and, if fungible properties handed over for storage are combined, – an obligation to take measures necessary for the preservation of the property by himself or herself.
[18 December 2008]

Section 452. Duration of Storage

(1) A depositor may reclaim from the keeper the property handed over for storage at any time.
(2) If a storage agreement has been entered into for an indefinite period, the depositor is entitled to give a notice of termination of the storage agreement one month in advance. If the depositor has an important reason, he or she is entitled to give the notice of termination of the storage agreement, not taking into account the term of the notice.
(3) The keeper may request that the depositor takes back the property handed over for storage only after termination of the agreed period of time, but, if the storage agreement has been entered into for an indefinite period, – by giving a notice of termination of the storage agreement one month in advance. If the keeper has an important reason, he or she is entitled to demand that the depositor takes back the property handed over for storage before termination of the agreed period of time, not taking into account the period of notice. If the keeper has issued a warehouse receipt, the notice of termination of the storage agreement and the claim regarding taking back of the property shall be directed against the last legitimised holder of the warehouse receipt known to him or her.
[18 December 2008]

Section 453. Insurance of the Property Transferred for Storage and Transfer for Storage to a Third Person

(1) A keeper has an obligation to insure a property transferred for storage at expense of the depositor, if it is requested by the depositor or if they have agreed upon it in the storage agreement.
(2) The keeper is entitled to pass on a property transferred for storage to a third person for storage only if the depositor has allowed it.
[18 December 2008]

Section 454. Obligation of the Depositor to Reimburse Expenses of the Keeper

A depositor has an obligation to reimburse expenses to the keeper, which according to the circumstances have been necessary for the fulfilment of the obligations of the keeper.
[18 December 2008]

Section 455. Responsibility of the Keeper Regarding Property Transferred for Storage

(1) A keeper shall be liable for such damages, perishing, shortfall or destruction of a property transferred for storage from the time of receipt of the property until return thereof, which he or she could have prevented, observing the diligence of a respectable and accurate merchant.
(2) The provisions of Paragraph one of this Section shall be applicable even if, in accordance with the provisions of Section 453, Paragraph two of this Law, the keeper of the properties transferred for storage has passed on for storage to a third person.
[18 December 2008]

Section 456. Limitation Period and Beginning of Limitation Period

(1) Claims against a keeper regarding damages, perishing, shortfall, delay of return or destruction of a property transferred for storage shall expire within one year. If the keeper has acted in bad faith or admitted gross negligence, the referred to claims shall expire within three years.
(2) If the property transferred for storage has not been preserved due to damages, perishing or shortfall, the limitation period shall begin on the day when the property transferred for storage is returned, but due to the delay of return of the property – on the day when the property should have been returned. In case of complete destruction of the property the limitation period shall begin on the day when the keeper notifies the depositor or the last legitimised holder of the warehouse receipt known by him or her regarding the referred to destruction if a warehouse receipt has been issued.
[18 December 2008]

Section 457. Lawful Right of Possessory Pledge of the Keeper

(1) He or she has the lawful right of possessory pledge to a property transferred for storage and in the possession of the keeper, and this right ensures the claims of the keeper against the depositor arising from the storage agreement.
(2) If a warehouse receipt of order is passed on to with endorsement, the keeper has the lawful right of possessory pledge in relation to the legitimised holder of the warehouse receipt, and this right ensures only those claims regarding payment of remuneration or reimbursement of expenses, which arise from the warehouse receipt or regarding the existence of which the legitimised holder of the warehouse receipt knew or did not know at the time of acquisition of the warehouse receipt due to gross negligence.
[18 December 2008]

Section 458. Warehouse Receipt

(1) After acceptance of the property for storage the keeper may issue a warehouse receipt. The warehouse receipt is a security, in which the claim against the keeper regarding return of the property transferred for storage is registered. The warehouse receipt may be issued as a registered instrument, bearer securities or instrument to order.
(2) The following information shall be indicated in the warehouse receipt:

1) a designation that the deed is a warehouse receipt;

2) the place and date of issuance of the warehouse receipt;

3) the name, registration number and legal address or the given name, surname, personal identity number and place of residence of the depositor;

4) the firm name, registration number and legal address of the keeper;

5) the place (the address of the warehouse or other place suitable for storage) and the date when the property has been received for storage;

6) a designation adopted for characterisation of the property and the type of packaging thereof, but for a dangerous property – special and common designation thereof;

7) the number of packaging units, special labelling and numbering thereof;

8) the gross mass or quantity of the property in other units of measurement;

9) a note whether the fungible property transferred for storage is combined with other properties of the same grade and quality in accordance with the provisions of Section 449 of this Law.

(3) In addition to the mandatory information referred to in Paragraph two of this Section the keeper may also indicate other information in the warehouse receipt.

(4) The warehouse receipt shall be signed by the keeper.

[18 December 2008]

Section 459. Force of Warehouse Receipt

(1) The warehouse receipt shall prevail in mutual legal relations between the depositor and the legitimised holder of the warehouse receipt.

(2) The warehouse receipt shall establish an assumption that, in terms of external appearance and status, as well as in terms of the number of units, labelling and numbering thereof, the keeper has accepted for storage such property and packaging thereof as described in the warehouse receipt. If the keeper has checked the gross weight or amount of the property transferred for storage in other units of measurement or also the content of the property and has indicated the results of such check in the warehouse receipt, the warehouse receipt shall establish an assumption that the weight, amount or content of the property complies with the information indicated in this receipt. The evidence to the contrary shall not be permissible if the warehouse receipt has been transferred to a third person of good faith.

(3) The storage agreement shall prevail in mutual legal relations between the keeper and the depositor.

[18 December 2008]

Section 460. Return of the Property Transferred for Storage in Return for a Warehouse Receipt

(1) If a warehouse receipt has been issued, a keeper has an obligation to return a property transferred for storage only upon receipt of the relevant warehouse receipt, in which a note regarding return of the property is made.

(2) Upon returning part of the properties transferred for storage, a relevant note shall be made in the warehouse receipt. The warehouse receipt shall be signed by the keeper.

(3) The keeper shall be liable in respect of the legitimised holder of the warehouse receipt for such damages, which have occurred because the property transferred for storage has been returned without receiving the warehouse receipt or without making the note referred to in Paragraph two of this Section.

[18 December 2008]

Section 461. Legitimation with the Warehouse Receipt

Such person shall be legitimised to receive a property transferred for storage to whom the property is to be returned in accordance with the warehouse receipt or who has been

transferred a warehouse receipt of order with endorsement. The keeper has no obligation to check the authenticity of endorsement.
[18 December 2008]

Section 462. Consequences of Endorsement of the Warehouse Receipt of Order

In terms of obtaining the rights, the transfer of a warehouse receipt of order with endorsement to another person if the keeper has accepted a property for storage, shall cause the same legal consequences as in the case of transfer of a property transferred for storage in the ownership or possession of another person.
[18 December 2008]

Chapter 5
Lease Contract

Section 463. Concept of the Lease Contract

(1) A lease contract shall be such contract by which a merchant (lessor) undertakes to acquire in the ownership a property selected by the lessee from a third person (seller) selected by the lessee and to ensure the transfer of this property in the use of the lessee, but the lessee undertakes to accept this property and pay the agreed remuneration.
(2) The provisions for the purchase contract of the Civil Law and this Law shall be applied to the lease contract, insofar as it is not in contradiction with the provisions of this Chapter, in the following cases:

1) if it is agreed that the lessee has an obligation to buy out the property transferred for lease; or

2) if it is agreed that at the end of the duration of the lease contract, provided that the lessee has no unfulfilled commitments against the lessor, the lessee has the right to obtain the property transferred for lease into ownership without additional remuneration or for remuneration, which on the date when such opportunity could be used will be sufficiently low so that on the day of commencement of the use a justified certainty existed that the lessee will use this opportunity.

(3) In other cases the provisions for the rental contract of the Civil Law shall be used insofar they are not in contradiction with the provisions of this Chapter.
[18 December 2008]

Section 464. Obligation of the Lessee to Check the Property and Liability for Action of the Property Seller

(1) A lessee, as a respectable and accurate proprietor, has an obligation to check as soon as possible the compliance of the property with the provisions of the contract before acceptance of the property.
(2) The lessee shall take the risk of failure to deliver the property.
[18 December 2008]

Section 465. Property with Deficiencies

(1) If deficiencies of a property transferred for lease are determined, a lessee has an obligation to notify the seller thereof without delay and to bring claims against the seller arising from the purchase contract entered into, as well as claims arising from wrongful self-enrichment.

(2) If the property with deficiencies is replaced by a property of the same grade without deficiencies, such replacement shall not affect the validity of the lease contract.
[18 December 2008]

Section 466. Use of the Property Transferred for Lease and Risks Related to Such Property

(1) A lessee has an obligation to use a property transferred for lease as a respectable and accurate proprietor in accordance with the objectives and procedures specified in the lease contract, but if such objectives and procedures have not been agreed upon – in accordance with the common targets and procedures, as well as to cover all expenses related to the maintenance of the property transferred for lease.
(2) The deficiencies (including legal restrictions) of a property transferred for lease, due to which it is not possible to use the property, shall not affect the obligation of the lessee to pay the remuneration agreed in the lease contract.
(3) The risk of damaging, destruction, theft or loss of the property shall be transferred to the lessee after acceptance of the property.
(4) In case of damaging, destruction, theft or loss of a property transferred for lease the lessee has an obligation to reimburse all losses to the lessor, except the loss of predicted profit.
(5) If the use of a property transferred for lease is connected with increased dangerousness to others, all the risks arising from such dangerousness and the liability for losses, which have arisen due to the impact of the source of the increased dangerousness, shall be transferred to the lessee after receipt of this property.
[18 December 2008]

Section 467. Consequences of the Lease Contract

(1) A legally entered lease contract into shall impose an obligation upon contracting parties to fulfil the agreement.
(2) A lessor is entitled to withdraw from a lease contract immediately and to take over the subject-matter of lease in his or her actual possession without notification if:

1) a lessee who has delayed the term for payment of the agreed remuneration has not paid this remuneration within 15 days after receipt of a reminder from the lessor;

2) a seller has failed to transfer a property to a lessee within the period of time specified in the contract or the ownership rights to this property have not been transferred to the lessor due to circumstances not depending on him or her;

3) a lessee, upon entering into the lease contract, has provided the lessor with false information regarding circumstances, which have a substantial meaning upon entering into the contract; or

4) the fulfilment of commitments has become too burdensome because of impartial changes of circumstances.

[18 December 2008]

Chapter 6
Factoring Contract

Section 468. Concept of the Factoring Contract

A factoring contract is such contract, by which one contracting party (customer) undertakes an obligation to transfer money claims of a client against a third person (debtor)

known thereto, as well as to fulfil other commitments specified in the factoring contract to another contracting party – merchant (factor) for the agreed remuneration.
[18 December 2008]

Section 469. Claims to be Transferred

(1) A client is entitled to transfer to a factor such money claims, the fulfilment of commitments of which has already set in, as well as such claims, which will arise in the future (future claims). The claims to be transferred shall be characterised in the factoring contract so that it would be possible to determine the present claims at the time of entering into the factoring contract, and future claims – not later than at the time of occurrence thereof.
(2) A future claim shall be transferred to the factor at the time of occurrence thereof.
[18 December 2008]

Section 470. Validity of Transfer of Claim

An agreement entered into by and between a debtor who is a merchant and a client, according to which the transfer of the client's claims to another person is prohibited or restricted, shall not be valid in respect of the transfer of claims to such person who provides factoring services.
[18 December 2008]

Section 471. Liability of the Client for Authenticity and Safety of Claim

(1) A client shall be liable to the factor for the authenticity of a claim transferred or to be transferred, unless it is otherwise agreed in the factoring contract.
(2) The client shall not be liable to the factor for the safety of a claim transferred or to be transferred, unless it is otherwise agreed in the factoring contract.
[18 December 2008]

Section 472. Further Transfer of Claims

The factor is not entitled to transfer a claim transferred to him or her further to another person, unless it is otherwise provided for in the factoring contract.
[18 December 2008]

Section 473. Payment

A debtor has an obligation to fulfil the commitment complying with a claim by making a payment in favour of the factor, if the debtor has received a notification from the client or the factor regarding the transfer of this claim to the factor. The payment in favour of the factor shall release the debtor from the commitments complying with the claim against the client.
[18 December 2008]

Chapter 7
Franchise Contract

Section 474. Concept of the Franchise Contract

A franchise contract is such contract by which a merchant (franchisor) grants another contracting party (franchisee) the right to use a trade mark, other intellectual property rights, know-how for selling, distribution of goods or provision of services in accordance with the system developed and verified by the franchisor (franchise), and the franchisee pays the agreed remuneration.
[18 December 2008]

Section 475. Form of the Franchise Contract

The franchise contract shall be entered into in writing.
[18 December 2008]

Section 476. Obligations of the Franchisor

(1) A franchisor has an obligation to provide the following information in writing to the potential franchisees prior to entering into a franchise contract regarding franchise:

1) a general characterisation of the offered franchise complying with the actual circumstances;

2) evidence of the existence of the rights included in the franchise and general characterisation of the know-how;

3) duration of the franchise contract and the possibilities for extension thereof;

4) the amount of remuneration for the use of the franchise and the procedures for payment thereof; and

5) other information, which the franchisor considers as necessary upon entering into the franchise contract.

(2) The franchisor has an obligation to ensure that the intellectual rights specified in the franchise contract shall be valid throughout the time period of validity of this contract.

(3) In accordance with the provisions of the franchise contract, the franchisor has an obligation to co-operate with the franchisee and to provide the support to him or her throughout the time period of validity of the franchise contract. The franchisor, in particular, has an obligation to train the franchisee, to provide him or her with commercial and technical assistance, accounting, delivery, logistics, management services, as well as other services and information, which is necessary for the use of the franchise in accordance with the provisions of the franchise contract.

(4) The franchisor shall transfer to the franchisee all documents (instructions, permissions, licences, technical regulations, descriptions etc.), which are necessary for the use of the franchise in accordance with the franchise contract.

(5) If the franchisee has an obligation to purchase goods only from the franchisor or a person specified by him or her, the franchisor has an obligation to ensure the supply of goods in reasonable time.

(6) In case of application of Paragraph five of this Section the franchisor has an obligation to notify the franchisee in reasonable time regarding the delay of delivery period of goods or the inability to deliver goods in the amount agreed previously.

(7) In accordance with the provisions of the franchise contract the franchisor has an obligation to ensure the measures of advertising and visibility of the franchise, taking care of maintaining the good reputation of the franchise.
[18 December 2008]

Section 477. Obligations of the Franchisee

(1) A franchisee has an obligation to provide the franchisor with current and true information regarding the circumstances, which have a substantial meaning upon entering into a franchise contract, prior to entering into the franchise contract.
(2) The franchisee has an obligation to use the franchise in accordance with the provisions of the franchise contract, obeying reasonable instructions of the franchisor, respecting the trade mark, other intellectual property rights, know-how for selling, distribution of goods or provision of services of the franchisor and without harming the good reputation of the franchisor.
(3) The franchisee has an obligation not to use commercial secrets, which were entrusted or became known to the franchisee, using the franchise, in contradiction with the objective of the franchise contract and not to disclose them to third persons. Also the franchisee has such an obligation for five years after expiry of the franchise contract.
(4) The franchisee has an obligation to provide the franchisor with information necessary for the fulfilment of commitments of the franchisor agreed upon in the franchise contract, as well as to allow the franchisor to check the work of the franchisee at the place of selling of goods or provision of services during usual working hours.
[18 December 2008]

Section 478. Consequences of the Franchise Contract

(1) A legally entered into franchise contract shall impose an obligation to the contracting parties to fulfil the promised. Any of the contracting parties is entitled to terminate the franchise contract in cases and in accordance with the procedures specified in the Franchise Contract Law and in the franchise contract.
(2) The contracting parties may withdraw from the franchise contract if the fulfilment of commitments has become to burdensome due to changes in impartial circumstances or if any contracting party, prior to entering into the franchise contract, has provided false information regarding circumstances which have a substantial meaning upon entering into the franchise contract.
(3) If the fulfilment of commitments has become too burdensome due to impartial changes in circumstances, the contracting parties have an obligation to conduct discussions in order to amend the contract or to terminate it. A contracting party may refer to impartial changes in circumstances if:

1) the changes in circumstances have occurred after entering into the franchise contract;

2) the contracting party could not predict the changes in circumstances at the time of entering into the contract; or

3) the contracting party has not undertaken the risk of change in circumstances.

(4) If the contracting parties are not able come to an agreement regarding amendments to the franchise contract or termination thereof within a month, any of the contracting parties is entitled to request that a court:

1) terminates the contract, determining the date of termination; or

2) amends the contract, determining fair division of losses and benefits caused by the changes in circumstances.
[18 December 2008]

Section 479. Restriction on Competition

(1) An agreement, by which the professional activity of a franchisee is limited after the termination of the franchise contract (restriction on competition), shall be entered into in writing.
(2) The time period for restriction on competition may not exceed one year, counting from the day of termination of the franchise contract.
(3) A franchisor has an obligation to pay the franchisee the agreed remuneration for the time period of restriction on competition. If the franchisor withdraws from the franchise contract due to threats to the good reputation or due to such substantial reason, which was based on blameable action of the franchisee, the franchisee shall lose his or her rights to receive the remuneration for the time period of restriction on competition.
[18 December 2008]

Section 480. Application of the Competition Law

The provisions of this Law shall not limit legal order, which in respect of the franchise contract has been included in regulatory enactments regulating the field of competition law.
[18 December 2008]

Transitional Provisions

1. This Law shall come into force on 1 January 2002.

2. The procedures for the coming into force of this Law shall be determined by a special law.

3. The Cabinet shall, up to 1 March 2001, ensure the necessary funding for the implementation of the conditions for the coming into force of the Commercial Law.

4. In order to ensure the compliance of the articles of association of a capital company and a partnership with the requirements of this Law in respect of the condition that members of the board of directors or members of the partnership are not limited in their right of representation by a proctor, the capital company shall submit the relevant amendments to the articles of association to the Commercial Register Office by 1 June 2005, if there specify that one or several members of the board of directors are entitled to represent the capital company only jointly with a proctor, or the partnership shall apply the change in the representation model to the Commercial Register Office, if it is specified in the partnership agreement that one or several members of the company are entitled to represent the partnership only jointly with a proctor. Until making of the relevant amendments to the articles of association of the capital company or to the partnership agreement, but not longer than until 1 June 2005, the representation model specified in the articles of association of the capital company or in the partnership agreement shall be in force.

5. The second sentence of Section 149, Paragraph three, Clause 5 and the third sentence of Section 224, Paragraph two (regarding the right of the member of the board of directors not to

submit a written consent to be a member of the board of directors), as well as amendments, by which Clause 5 of Section 25, Paragraph two and Clause 4 of Section 75, Paragraph three of this Law are deleted, shall come into force on 1 July 2006.

6. New wording of Section 10, Paragraph two, amendments to the second sentence of Section 38, Paragraph one, Section 107, Paragraph three, the first sentence of Section 149, Paragraph three, Clause 6, Section 320, Paragraph one, Clause 3, as well as the second sentence of Section 9, Paragraph one, Clause 9 of this Law (regarding the right of an official of the Commercial Register Office to certify sample signatures) shall come into force on 1 July 2006.

7. The Cabinet shall issue the regulations referred to in Section 15, Paragraph three of this Law not later than by 1 July 2006.

8. Starting from 10 April 2006 when amendments to the Law come into force, which determine that the data regarding an auditor are not the data to be recorded in the Commercial Register, an official of the Commercial Register Office, without taking a separate decision and applying the provision of Section 11 of this Law, shall make a record in the Commercial Register regarding exclusion of such data from the Commercial Register, which contain information regarding an auditor of the company.

9. A natural person whose economic activity complies with the activity of a commercial agent (Section 45 of this Law) or the activity of a broker (Section 64, Paragraph one of this Law) and who is not registered in the Commercial Register, shall apply himself or herself for registration in the Commercial Register by 31 December 2008.

10. Amendments to Section 181 (regarding exclusion of this Section) shall come into force concurrently with amendments to the Annual Accounts Law and the Law On Consolidated Annual Accounts in which the procedures for submission of annual accounts and consolidated annual accounts are specified.

11. If a stock company has bearer stocks, which have not been recorded in the Latvian Central Depository in accordance with the provisions of the Financial Instrument Market Law, the stock company shall, not later than until 31 December 2009, take a decision regarding the conversion of bearer stocks to recorded stocks or shall ensure the record of bearer stocks in the Latvian Central Depository.

12. If the main types of commercial activity are not specified in the articles of association of a stock company, the company shall, by taking into account the requirements of Section 144, Paragraph two, Clause 4 of this Law, make the relevant amendments to the articles of association thereof and submit them to the Commercial Register Office not later than until 31 December 2009.

13. Section 154, Paragraph $3.^2$ of this Law shall come into force on 1 June 2008.

14. The opinions regarding valuation of the property contribution provided until 1 June 2008 shall be in force until 31 December 2008.

15. Division D of this Law shall come into force on 1 January 2010.

16. If the limitation period specified in the Civil Law or other law has not expired on the day of coming into force of Division D of this Law, however, the Division D of this Law determines a shorter limitation period, the limitation period specified in Division D of this Law, which is counted from 1 January 2010, shall be applicable. If, according to such calculation, the limitation period is longer than the present limitation period, the limitation period shall expire on the day when it would have elapsed in accordance with the Civil Law or other regulatory enactment.

[21 December 2000; 29 March 2001; 26 June 2001; 22 April 2004; 16 March 2006; 24 April 2008; 18 December 2008]

Informative Reference to the European Union Directives

This Law contains legal norms arising form:
(1) First Council Directive 68/151/EEC of 9 March 1968 on co-ordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, with a view to making such safeguards equivalent throughout the Community;
(1) Second Council Directive 77/91/EEC of 13 December 1976 on coordination of safeguards which, for the protection of the interests of members and others, are required by Member States of companies within the meaning of the second paragraph of Article 58 of the Treaty, in respect of the formation of public limited liability companies and the maintenance and alteration of their capital, with a view to making such safeguards equivalent;
(2) Third Council Directive 78/855/EEC of 9 October 1978 based on Article 54 (3) (g) of the Treaty concerning mergers of public limited liability companies;
(3) Sixth Council Directive 82/891/EEC of 17 December 1982 based on Article 54 (3) (g) of the Treaty, concerning the division of public limited liability companies;
(4) Eleventh Council Directive 89/666/EEC of 21 December 1989 concerning disclosure requirements in respect of branches opened in a Member State by certain types of company governed by the law of another State;
(5) Twelfth Council Company Law Directive 89/667/EEC of 21 December 1989 on single-member private limited-liability companies;
(6) Council Directive 86/653/EEC of 18 December 1986 on the coordination of the laws of the Member States relating to self-employed commercial agents;
(7) Directive 2003/58/EC of the European Parliament and of the Council of 15 July 2003 amending Council Directive 68/151/EEC, as regards disclosure requirements in respect of certain types of companies;
(8) Directive 2005/56/EC of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies;
(9) Directive 2006/68/EC of the European Parliament and of the Council of 6 September 2006 amending Council Directive 77/91/EEC as regards the formation of public limited liability companies and the maintenance and alteration of their capital; and
(10) Directive 2007/63/EC of the European Parliament and of the Council of 13 November 2007 amending Council Directives 78/855/EEC and 82/891/EEC as regards the requirement of an independent expert's report on the occasion of merger or division of public limited liability companies.
[16 March 2006; 24 April 2008]

This Law has been adopted by the *Saeima* on 13 April 2000.

President Vaira Vīķe-Freiberga

Rīga, 4 May 2000

