GOVERNANCE OF STATE-OWNED ENTERPRISES IN THE BALTIC STATES:

- Public perceptions
- Regional & national rankings of SOEs
- Board structures and composition
- The legal and institutional framework for SOE governance
GOVERNANCE OF STATE-OWNED ENTERPRISES IN THE BALTIC STATES

- Public perceptions
- Regional & national rankings of SOEs
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Public perceptions (EE)

Public Perceptions of the State

- SOEs are performing well and making financial contributions to the state budget.
- The national government is accountable to the public for its own performance in overseeing SOEs.
- The national government keeps the public well informed on the performance of SOEs.
- The national government as a shareholder appoints the most competent people as board members and executives.
- The national government as a shareholder provides good strategic guidance, and does a good job overseeing and managing SOEs.
- SOEs perform as well as private sector counterparts.
- SOEs are not used for political purposes or for personal benefit by government or politicians.
- The national government is effective in detecting irregularities at SOEs.
- Municipal-owned enterprises (MOEs) operate as well or better than federal enterprises (SOEs).
- The national government as a shareholder takes a leadership role in making sure SOEs perform optimally.

Public Perceptions of SOEs

- High-level SOE executives are competent to manage SOEs.
- Audits of the SOE and its financial statements are effective in turning up any irregularities.
- The financial accounting and control systems of SOEs are trustworthy.
- SOEs provide good services at a reasonable price.
- SOE employees are motivated and provide the best possible service to the public.
- SOE boards, executives and staff do not use the SOE for their own personal benefit.
- SOEs can be held accountable by the public when they perform poorly.
- Boards of directors in SOEs are competent to fulfil their responsibilities.
- SOEs operate effectively and efficiently.
- Boards, executives and staff are appointed for their competence (not for their connections).
Public perceptions (LV)

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Regional & national rankings of SOEs

The 5 Largest SOEs (in alphabetical order)

<table>
<thead>
<tr>
<th>Estonia</th>
<th>Latvia</th>
<th>Lithuania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eesti Energia</td>
<td>Citadele Bank</td>
<td>Klaipeda State Seaport Authority</td>
</tr>
<tr>
<td>Elering</td>
<td>Lattelecom</td>
<td>LESTO</td>
</tr>
<tr>
<td>Estonian Railways</td>
<td>Latvenergo</td>
<td>Lietuvos Energija</td>
</tr>
<tr>
<td>Port of Tallinn</td>
<td>Latvian Railways</td>
<td>Lithuanian Railways</td>
</tr>
<tr>
<td>Tallinn Airport</td>
<td>Latvian State Forestry</td>
<td>Litgrid</td>
</tr>
</tbody>
</table>
Regional & national rankings of SOEs

- Energy 6 (Light Blue)
- Transportation 6 (Medium Blue)
- Financial 1 (Dark Blue)
- Forestry 1 (Deep Blue)
- Telecoms 1 (Darkest Blue)
Regional rankings of SOEs

Regional Ranking of 15 Largest SOEs Based on Corporate Governance

- Citadele
- Eesti Energia
- Lattelecom
- Elering
- Estonian Railways
- Latvian State Forestry
- Tallinn Airport
- Lesto
- Port of Tallinn
- Latvenergo
- Lietuvos Energija
- Litgrid
- Klaipeda Seaport
- Lithuanian Railways
- Latvian Railways
National rankings of SOEs

Estonia: National Ranking of 5 Largest SOEs

<table>
<thead>
<tr>
<th></th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Eesti Energia</td>
</tr>
<tr>
<td>2</td>
<td>Elering</td>
</tr>
<tr>
<td>3</td>
<td>Estonian Railways</td>
</tr>
<tr>
<td>4</td>
<td>Tallinn Airport</td>
</tr>
<tr>
<td>5</td>
<td>Port of Tallinn</td>
</tr>
</tbody>
</table>
## National rankings of SOEs

### Latvia: National Ranking of 5 Largest SOEs

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Citadele Bank</td>
</tr>
<tr>
<td>2</td>
<td>Lattelecom</td>
</tr>
<tr>
<td>3</td>
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</tr>
<tr>
<td>4</td>
<td>Latvenergo</td>
</tr>
<tr>
<td>5</td>
<td>Latvian Railways</td>
</tr>
</tbody>
</table>
# National rankings of SOEs

## Lithuania: National Ranking of 5 Largest SOEs

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LESTO</td>
</tr>
<tr>
<td>2</td>
<td>Lietuvos Energija</td>
</tr>
<tr>
<td>3</td>
<td>Litgrid</td>
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<td>Klaipeda State Seaport Authority</td>
</tr>
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<td>5</td>
<td>Lithuanian Railways</td>
</tr>
</tbody>
</table>
Citadele is a full-service financial group for both private individuals and companies offering a complete portfolio of banking, financial and private capital management services in its home market Latvia and through its international presence.

**Overall rating**

<table>
<thead>
<tr>
<th>Category</th>
<th>Score</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership and stakeholder structure</td>
<td>40</td>
<td>1</td>
</tr>
<tr>
<td>The control environment including compliance, audit and disclosure</td>
<td>68</td>
<td>35</td>
</tr>
<tr>
<td>State intervention and politicization</td>
<td>82</td>
<td>55</td>
</tr>
<tr>
<td>Operating within reasonable commercial principles</td>
<td>86</td>
<td>95</td>
</tr>
<tr>
<td>Best practice governance structures and practices including boards and independence</td>
<td>92</td>
<td>75</td>
</tr>
<tr>
<td>Related party policy and conflict of interest disclosure</td>
<td>86</td>
<td>75</td>
</tr>
<tr>
<td>EBRD is a professional owner and a partner committed to best practice governance</td>
<td>92</td>
<td>75</td>
</tr>
<tr>
<td>Benign state oversight marked by minimal interference</td>
<td>92</td>
<td>75</td>
</tr>
<tr>
<td>Board committed to improvement</td>
<td>92</td>
<td>75</td>
</tr>
<tr>
<td>Excellent independent board members with capacity for objective judgment</td>
<td>92</td>
<td>75</td>
</tr>
<tr>
<td>Board members with banking, distressed banking and international experience</td>
<td>92</td>
<td>75</td>
</tr>
<tr>
<td>Board is effective and size is correct</td>
<td>92</td>
<td>75</td>
</tr>
<tr>
<td>Board member link to government is useful in period of restructuring</td>
<td>92</td>
<td>75</td>
</tr>
<tr>
<td>Board size may deserve consideration</td>
<td>92</td>
<td>75</td>
</tr>
</tbody>
</table>
Financial Reporting:

**Auditor**
PricewaterhouseCoopers

**Accounting Standard**
International Financial Reporting Standards

**Audit Standard**
International Standards of Audit

**Qualified or unqualified opinion**
Unqualified

Supervisory Council Members:

**Klavs Vasks**
Chairman of Supervisory Council

**Laurence Phillip Adams**
Member of Supervisory Council
Siblu Holdings Ltd., Director

**Geoffrey Dunn**
Member of Supervisory Council
ConsultDunn, Managing Director

**Girts Freibergs**
Member of Supervisory Council

**Juris Vaskans**
Member of Supervisory Council
SOE Rankings and Evaluations

CITADELE

Citadele is a full-service financial group for both private individuals and companies offering a complete portfolio of banking, financial and private capital management services in its home market Latvia and through its international presence.

- Answers to Ministry of Economics, Ministry of Finance and LPA
- €22.8 billion total assets
- €2.7 million net profit for 2011
- 1,762 employees
- 75% owned by the state, 25% EBRD
- Board structure: Two-tier

LATVIAN RAILWAYS

Latvian Railways is the national, state-owned railway company of Latvia. It is the biggest payer of social and resident income taxes to the state budget.

- Answers to Ministry of Economics and Ministry of Transport
- €520 million Euros of total assets
- €1.4 million net profit for 2011
- 11,958 employees
- 100% owned by the state
- Board structure: Management board

Overall rating

<table>
<thead>
<tr>
<th>Ownership and stakeholder structure</th>
<th>15</th>
<th>55</th>
<th>75</th>
<th>95</th>
</tr>
</thead>
<tbody>
<tr>
<td>The control environment including compliance, audit and disclosure</td>
<td>86</td>
<td>68</td>
<td>82</td>
<td>40</td>
</tr>
<tr>
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<td>92</td>
<td>30</td>
<td>45</td>
<td>1</td>
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<td>Related party policy and conflict of interest disclosure</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Overall rating

<table>
<thead>
<tr>
<th>Ownership and stakeholder structure</th>
<th>-10</th>
<th>-20</th>
<th>-30</th>
<th>-40</th>
<th>-50</th>
</tr>
</thead>
<tbody>
<tr>
<td>The control environment including compliance, audit and disclosure</td>
<td>14</td>
<td>5</td>
<td>-5</td>
<td>-4</td>
<td>-41</td>
</tr>
<tr>
<td>State intervention and politicization</td>
<td>-30</td>
<td>-45</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating within reasonable commercial principles</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
Board Structure and Composition
The Legal and Institutional Framework for SOE Governance

Degree to which the Local Framework Reflects the OECD Benchmark

I. Ensuring an Effective legal and Regulatory Framework for State-Owned Enterprises

II. The State Acting as an Owner

III. Equitable Treatment of Shareholders

IV. Relations with Stakeholders

V. Transparency and Disclosure

VI. The Responsibilities of the Boards of State-Owned Enterprises

<table>
<thead>
<tr>
<th>Estonia</th>
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<tbody>
<tr>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Estonia
Latvia
Lithuania
The Legal and Institutional Framework for SOE Governance

Degree of Implementation of the Local Framework

I. Ensuring an Effective legal and Regulatory Framework for State-Owned Enterprises
II. The State Acting as an Owner
III. Equitable Treatment of Shareholders
IV. Relations with Stakeholders
V. Transparency and Disclosure
VI. The Responsibilities of the Boards of State-Owned Enterprises

Lithuania
Estonia
Latvia
Country Ranking: Combined Framework and Implementation

Combined Framework and Implementation

- Estonia: 6.3 (Framework) + 6.7 (Implementation) = 13.0
- Lithuania: 5.7 (Framework) + 3.8 (Implementation) = 9.5
- Latvia: 3.0 (Framework) + 3.5 (Implementation) = 6.5

Legend:
- Blue: Framework
- Light Blue: Implementation
## Item by Item Comparison of Countries to the OECD Benchmark

### I. Ensuring an Effective Legal and Regulatory Framework for State-Owned Enterprises

<table>
<thead>
<tr>
<th>OECD Benchmark</th>
<th>EE</th>
<th>LV</th>
<th>LT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. There should be a clear separation between the state’s ownership function and other state functions that may influence the conditions for state-owned enterprises, particularly with regard to market regulation.</td>
<td>0/0</td>
<td>0/0</td>
<td>0/0</td>
</tr>
<tr>
<td>B. Governments should strive to simplify and streamline the operational practices and the legal form under which SOEs operate. Their legal form should allow creditors to press their claims and to initiate insolvency procedures.</td>
<td>0/0</td>
<td>0/0</td>
<td>0/0</td>
</tr>
<tr>
<td>C. Any obligations and responsibilities that an SOE is required to undertake in terms of public services beyond the generally accepted norm should be clearly mandated by laws or regulations. Such obligations and responsibilities should also be disclosed to the general public and related costs should be covered in a transparent manner.</td>
<td>0/0</td>
<td>0/0</td>
<td>0/0</td>
</tr>
<tr>
<td>D. SOEs should not be exempt from the application of general laws and regulations. Stakeholders, including competitors, should have access to efficient redress and an even-handed ruling when they consider that their rights have been violated.</td>
<td>0/0</td>
<td>0/0</td>
<td>0/0</td>
</tr>
<tr>
<td>E. The legal and regulatory framework should allow sufficient flexibility for adjustments in the capital structure of SOEs when this is necessary for achieving company objectives.</td>
<td>0/0</td>
<td>0/0</td>
<td>0/0</td>
</tr>
<tr>
<td>F. SOEs should face competitive conditions regarding access to finance. Their relations with state-owned banks, state-owned financial institutions and other state-owned companies should be based on purely commercial grounds.</td>
<td>0/0</td>
<td>0/0</td>
<td>0/0</td>
</tr>
</tbody>
</table>
## II. The State Acting as an Owner

<table>
<thead>
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<th>LT</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. The government should develop and issue an ownership policy that defines the overall objectives of state ownership, the state’s role in the corporate governance of SOEs, and how it will implement its ownership policy.</td>
<td>●/●</td>
<td>●/●</td>
<td>●/●</td>
</tr>
<tr>
<td>B. The government should not be involved in the day-to-day management of SOEs and allow them full operational autonomy to achieve their defined objectives.</td>
<td>●/●</td>
<td>●/●</td>
<td>●/●</td>
</tr>
<tr>
<td>C. The state should let SOE boards exercise their responsibilities and respect their independence.</td>
<td>●/●</td>
<td>NA</td>
<td>●/●</td>
</tr>
<tr>
<td>D. The exercise of ownership rights should be clearly identified within the state administration. This may be facilitated by setting up a co-coordinating entity or, more appropriately, by the centralization of the ownership function.</td>
<td>●/●</td>
<td>●/●</td>
<td>●/●</td>
</tr>
<tr>
<td>E. The co-coordinating or ownership entity should be held accountable to representative bodies such as the Parliament and have clearly defined relationships with relevant public bodies, including the state supreme audit institutions.</td>
<td>●/●</td>
<td>●/●</td>
<td>●/●</td>
</tr>
<tr>
<td>F. The state as an active owner should exercise its ownership rights according to the legal structure of each company.</td>
<td>●/●</td>
<td>●/●</td>
<td>●/●</td>
</tr>
</tbody>
</table>
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