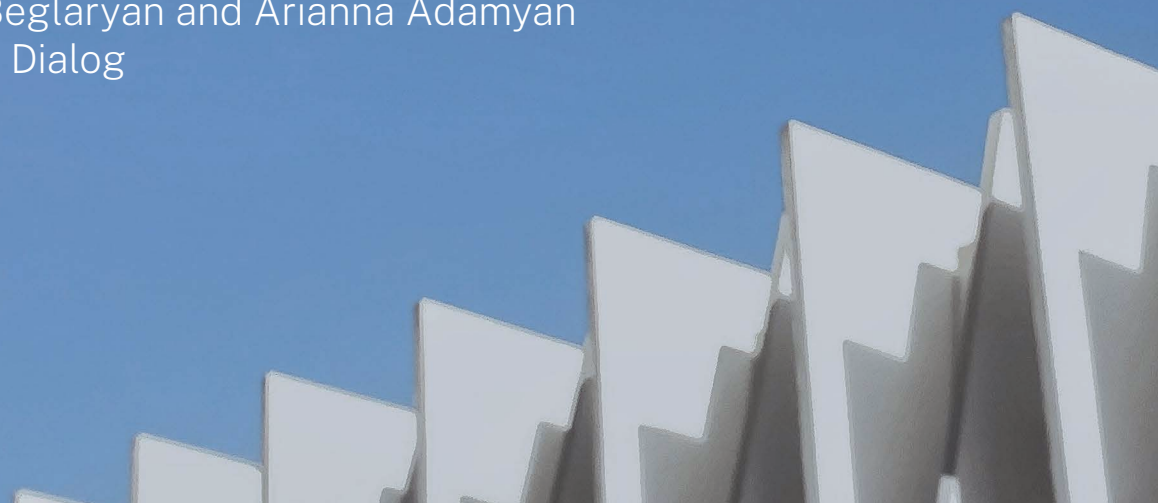

CHAMBERS GLOBAL PRACTICE GUIDES

Shareholders' Rights & Shareholder Activism 2023

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Armenia: Law & Practice

Narine Beglaryan and Arianna Adamyan
Concern Dialog



ARMENIA



Law and Practice

Contributed by:

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Concern Dialog is a top-tier, full-service law firm headquartered in Yerevan, Armenia. It has established itself as a reliable partner for businesses and individuals seeking legal counsel and representation since 1998. Concern Dialog's team is well-respected for its work in the areas of corporate law, labour law, competition law, tax law, contract law, family law (including child abduction cases) and regulatory issues. Specifically, the firm has extensive experience in regulatory matters in technology, media and

telecommunications (TMT), mining, energy, utilities, banking and finance, medical services, real estate, and not-for-profit sectors. In addition to an outstanding consulting and transaction practice, Concern Dialog's litigation practice is regarded as one of the best in Armenia for landmark litigation and arbitration cases. Its membership to TagLaw and Nextlaw networks and co-operation with individual law firms from specific jurisdictions allows it to provide services to its Armenian clients around the world.

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1. Types of Company, Share Classes and Shareholdings

1.1 Types of Company

Legal entities fall into two main categories: those whose core activity revolves around profit generation (commercial organisations) and those that do not prioritise profit-making (non-commercial organisations). Commercial organisations can be set up as limited liability companies, joint stock companies, companies with supplementary liability and co-operatives. Among these, the most common types of entities are limited liability companies and joint stock companies.

Armenian law defines the limited liability company (LLC) as a company which is established by one or more individuals (natural or legal), wherein the charter capital is divided into shares, which are distributed between the founders as set out in the charter. In an LLC, shareholders bear no responsibility for the company's obligations; their liability is limited to the extent of their invested (paid) capital, leaving them exposed to potential losses linked to the company's undertakings.

On the other hand, according to Armenian law, a joint-stock company (JSC) is a company whose share capital is divided into a defined number of stock shares. The exclusive right to issue stock shares rests with JSCs. Such an entity can be formed by a solitary individual or comprise a single person. Joint stock companies can be established in two forms: open joint stock companies (OJSC) or closed joint stock companies (CJSC)

1.2 Types of Company Used by Foreign Investors

Foreign investors primarily choose between LLCs and JSCs due to the corporate veil, which protects shareholders from personal liability

for the debts and obligations of the company. Armenian law treats foreign and local investors equally, so the mere fact of being a foreign investor does not impact the decision on which type of company to form.

Prior to 2023, the choice of company type was influenced by the accessibility of information on company shareholders. At that time, information on LLC shareholders was publicly available through the State Register Agency of Legal Entities, while information on JSC shareholders was confidential. However, following a regulatory change in 2023, all registered legal entities, regardless of type, are now required to disclose information about their real beneficiaries (ie, the direct or indirect ownership of 20% of shares will be publicly known).

Currently, the following factors are considered when choosing between an LLC and a JSC.

- JSCs are able to appoint nominee holders of shares, while LLCs cannot.
- The owner of shares in an LLC may leave the company and have the right to compensation from the company equal to the shareholder's proportion of shares in charter capital; the JSC shareholder has no such right.
- The shareholder of an LLC has the right to claim judicial exclusion of the participant who causes damage to the company. A JSC shareholder cannot be excluded from the company via court.
- Those looking for a sophisticated corporate governance structure will choose the JSC.

1.3 Types or Classes of Shares and General Shareholders' Rights

JSCs

The main types of shares issued by JSCs in the Republic of Armenia (RA) are common (ordi-

nary) shares. A JSC possesses the authority to issue two categories of shares: common (ordinary) shares and preferred shares. Every ordinary share issued by a JSC must possess an equal par value, just like the preferred shares of a specific type. The valuation of shares shall be denominated in Armenian drams (AMD). Common shares are vested with various rights, primarily encompassing corporate rights (participation and voting in meetings, involvement in the company's governance, receipt of notices and pre-emptive rights), as well as financial rights (entitlement to dividends and liquidation proceeds).

Subject to provisions in the company's charter, the company may have the option to issue different types of preferred shares, including those featuring fixed or variable dividends, cumulative, convertible and other categories. It is, however, stipulated that the issuance of preferred shares should not exceed a threshold of 25% of the company's total charter capital. The quantum of dividend and liquidation proceeds, alongside the applicable procedure, is to be prescribed within the company's charter.

In adherence to the laws of the RA, the possession of preferred shares does not inherently confer voting rights upon shareholders unless it is directly prescribed in the company's charter. However, owners of preferred shares are given the right to vote when decisions are made about changes to the company's charter which restrict the rights of these owners in relation to the prescription or increase of dividends and/or the liquidation value attributed to alternative categories of preferred shares.

In the absence of contrary stipulations in the company's charter, the shares are classified as common shares. The specification of share type

and their associated rights are comprehensively detailed within the company's charter.

Prior to recent amendments in the legislation, the provision for issuing shares of the same type but with different classes was absent. In the present day, both common and preferred shares can be categorised into specific classes, each carrying distinct rights and benefits as defined in the company's charter. As the introduction of share classes is relatively recent, the sole differentiating factor among shares of different classes within the same type is the variation in their conferred voting rights.

LLCs

An LLC is not authorised to issue shares. A person may acquire a participation in the company by investing in the company if this is authorised by the company's charter. All company shareholders share equal rights and responsibilities, with no allocation of rights based on shares being specified.

1.4 Variation of Shareholders' Rights

Shareholders of both LLCs and JSCs are endowed with fundamental rights, which encompass the right to partake in meetings, exercise their voting rights (excluding shares with restricted or absent voting rights), access company information and records, and benefit from pre-emption rights (applicable only for LLCs and closed JSC), rights to dividends and liquidation proceeds, and the ability to demand share buy-backs. Shareholders holding a minimum of 10% of voting shares also retain the right to request the convening of an extraordinary general meeting (EGM) through the company's board as well as appoint a board member.

These rights, subject to specific instances, can be subject to adjustments through mechanisms

like amendments to the company's charter and the establishment of shareholders' agreements.

1.5 Minimum Share Capital Requirements

Armenian LLCs and JSCs do not have a mandatory minimum share capital, except in cases where they operate in specific sectors that have separate regulations, such as banks, insurance companies, funds and credit organisations for which the requirement on minimum charter capital are prescribed.

1.6 Minimum Number of Shareholders

Both LLCs and JSCs necessitate at least one shareholder. Moreover, there are no distinct mandates concerning residency (except for audiovisual media service provider in which foreign investor shall own less than 50% of charter capital) or equality criteria for shareholders in either company type. In the case of LLCs and closed JSCs, a maximum membership cap of 49 is imposed. Should the shareholder count surpass 49 in an LLC or CJSC, a mandatory reorganisation into an OJSC is required within a year.

1.7 Shareholders' Agreements/Joint Venture Agreements

Until 2019, the legal framework in the RA did not explicitly address the execution of shareholders' agreements. Consequently, some legal professionals viewed the execution of such agreements as ineffective, even though there were no legal limitations on this right. As a result, they did not advocate for the execution of shareholders' agreements. In 2019, legislative changes were introduced by amending the Law on Joint Stock Companies to incorporate relevant articles that delineate the legal framework concerning shareholders' agreements. These changes, however, have not been extended to the Law on Limited Liability Companies. Considering these

developments, legal practitioners have begun recommending the conclusion of shareholders' agreements. Nevertheless, it is important to highlight that the current legal framework does not encompass provisions outlining the remedies that shareholders can invoke in the event of a breach of the agreement's terms. The available means of defence are limited to pursuing legal action in court.

1.8 Typical Provisions in Shareholders' Agreements/Joint Venture Agreements

Typical provisions within a shareholder's agreement shall address the following aspects.

- **Voting:** the shareholder agreement has the flexibility to establish a specific protocol for voting procedures during general meetings of shareholders, aligning with the agreement's terms. This may involve co-ordinating voting procedures in conjunction with other designated individuals. The agreement can impose an obligation on shareholders to cast their votes based on directives issued by other parties specified within the agreement.
- **Share transfer:** the shareholders' agreement might incorporate provisions that allow shareholders to purchase or sell shares at a predetermined price, or upon the occurrence of particular circumstances defined within the agreement. Furthermore, the agreement could enforce restrictions on the transfer of shares until specific circumstances outlined in the agreement occur.
- **Governance, company reorganisation and liquidation:** in addition to the aforementioned points, the agreement may encompass a range of additional actions that pertain to the management, operation, reorganisation and dissolution of the JSC. Such agreements are binding only on the parties involved. As mentioned in **1.7 Shareholders' Agreements/**

Joint Venture Agreements, if the clauses of the agreement are violated, the legal remedies provided prove to be ineffective.

There is no mandate for Armenian law to make shareholder agreements publicly accessible. The shareholder agreements are valid and enforceable within the general scope of remedies available under Armenian law.

2. Shareholders' Meetings and Resolutions

2.1 Types of Meeting, Notice and Calling a Meeting

Annual general meetings (AGMs) are obligatory for both LLCs and JSCs; they must be conveyed not earlier than two months or later than six months after the financial year ends unless other terms are specified in the charter.

LLCs

If the company's charter does not outline a procedure for convening a general meeting, the general meeting must be organised and carried out in accordance with the following procedures.

- The authorised body responsible for convening a general meeting is obligated, at least 20 days before the meeting (the company's charter can determine a shortened timeframe for notification), to notify the company's shareholders by sending a registered letter to their registered address.
- The notification should indicate the date, time and location of the general meeting, along with the proposed agenda.
- As part of the agenda preparation, information and materials provided to the company's shareholders must include the annual report; opinions of the Revision Commission and

the auditor regarding the audit outcomes of the annual reports and financial statements for each year; details about potential candidates for the executive body, board and Revision Commission of the company; drafts of proposed amendments or additions to the company's charter; as well as drafts of internal documents if these topics are part of the general meeting agenda.

- All participants must be given access to this information and materials within 20 days before the general meeting, allowing them to review them at the company's premises.

The AGM primarily focuses on approving the company's financial reports, balance sheets, profit and loss accounts, as well as decisions related to profit and loss distribution, annual dividend payment and the amount of dividends.

Aside from AGMs, the company can convene an extraordinary general meeting, in cases when it is mandated by the company's charter and in all instances when deemed necessary for the benefit of the company and its shareholders.

JSCs

For OJSCs, the law mandates a minimum notice period of 21 days before the meeting.

The meeting notification must encompass:

- the company's trade name and primary location;
- date, time and venue of the meeting;
- the date of preparing the shareholder list for meeting participation; and
- agenda items and the process for sharing information and materials, to be provided during the meeting's preparation phase.

Shareholders shall receive the following information and materials:

- the company's annual report;
- the opinion of the company's committee (controller) and auditor regarding the company's annual financial and economic performance;
- details about the nominated candidates for the board and committee (controller); and
- drafts of charter amendments and supplements to or the draft revised charter.

The AGM primarily focuses on approving the company's financial reports, balance sheets, profit and loss accounts, as well as decisions related to profit and loss distribution, annual dividend payments, and the amount of dividends. Additional AGM topics include board member approval, elections and early terminations, along with the appointment and termination of powers for control committee members.

Apart from the AGM, EGMs can be convened by the board's decision or upon request by the executive body, control committee, company auditor or shareholders owning at least 10% of voting shares. EGMs handle matters like charter amendments, reorganisation, liquidation, capital changes, executive body terminations, transaction decisions and other charter-defined topics within the meeting's competence.

2.2 Notice of Shareholders' Meetings LLCs

In cases where the company's charter does not outline a procedure for convening a general meeting, the general meeting must be organised and carried out following the procedures established for regular AGMs. Specifically:

- there should be 20 days prior notice (unless otherwise stipulates under the charter of

company notification shall be mailed to the shareholder's address) for convening an EGM; and

- access to and copies of documents and information pertinent to the agenda items being discussed should be provided upon the request of shareholders.

JSCs

In instances where the charter does not stipulate a specific method of notification, the shareholders' notification for the meeting is fulfilled through registered letters, personal delivery or electronic communication methods, such as email, software and application platforms (including mobile apps) that provide confirmation of receipt by the recipient.

The meeting notification must encompass the same information as in case of AGMs (please see **2.1 Types of Meeting, Notice and Calling a Meeting**).

The duration of the notice is determined by the provisions outlined in the company's charter, with no legally mandated minimum notice period except for OJSCs, which are obliged to inform their shareholders about the meeting's scheduling at least 21 days before the actual convening date.

2.3 Procedure and Criteria for Calling a General Meeting

LLCs

In cases where a company has a board, the responsibility for convening an EGM falls within the jurisdiction of the board. In cases where the board is not formed, the executive body of the company assumes the role of convening the EGM.

A shareholder (or shareholders) owning at least 10% of the voting shares of the company possess the right to demand the summoning of a general meeting. Should the competent authority fail to reach a decision within the specified timeframe of the request or opt to decline the convening, those who initiated the request are entitled to call the EGM into session.

JSCs

Ordinarily, the board of the company is responsible for convening general meetings. If there is no company board, the company's charter shall specify the body responsible for convening general meetings, which typically falls within the authority of the company's director. An extraordinary meeting shall be convened by the decision of the board either on its own initiative or upon the request of the company's executive body, control committee (controller), the company's auditor or shareholder(s) owning, as of the date of submitting such request, at least 10% of the company voting stocks. The request on summoning the general meeting should:

- outline the suggested agenda items;
- provide justifications for their discussion;
- include the name (business name) of the requesting shareholder(s) along with the quantities of each share type and class they hold; and
- be endorsed by the authorised representative.

The board is obligated to organise an extraordinary meeting within 45 days from the submission of the request or determine whether to decline the convocation of such a meeting.

2.4 Information and Documents Relating to the Meeting

LLCs

Since the RA Law on Limited Liability Companies does not distinguish between company shareholders, all shareholders are eligible to receive notices. Shareholders possess the right to access information about the company's activities. Additionally, as part of the preparation for meeting agendas, the company is obligated to furnish shareholders with all pertinent information and documents pertaining to the meeting's agenda.

JSCs

According to Armenian legal regulations, owners of common (ordinary) shares of the company, including those held by nominees, as well as those possessing preferred shares, including those held by nominees, are entitled to participate in the company's general meetings and accordingly shall be notified about the general meetings.

The RA Law on Joint Stock Companies enumerates the list of information that the company shall preserve and, upon the request of shareholders, is obligated to furnish them with:

- the company's state registration certificate;
- the charter, amendments and supplements hereto, or the revised charter;
- decision and agreement related to the company's establishment;
- documents verifying the company's property rights concerning assets recorded in the balance sheet;
- annual reports, financial statements and statistical reports submitted to governmental bodies;

- minutes of general meetings, board meetings, control committee (controller) sessions and collective executive body sessions; and
- any other information and documentation mandated by the Armenian legislation and the company's charter.

Holders of both common shares and preferred shares retain the right to access all non-confidential company information. The list of non-confidential information shall be defined by the board of the company, unless these powers are not assigned by the charter to a meeting or executive body of the company. If there is no decision to do so, the information will not be treated as confidential.

The list of shareholders (including nominees) prepared for the general meeting prior to that shall be shared with those shareholders (or nominees) of the company who are enlisted in the company's shareholder (or nominee) registry and possess a minimum of 10% of the company's voting shares upon their request.

2.5 Format of Meeting

Shareholders' meetings can be held virtually or remotely. In Armenia, there are no specific legal requirements or restrictions regarding the form in which the assembly may be conducted.

2.6 Quorum, Voting Requirements and Proposal of Resolutions

A meeting's quorum shall be deemed present when, upon concluding the registration, over 50% of the company's issued voting shares are in attendance. If a quorum is lacking, a new meeting is scheduled, and its year, month and date are announced. During the rescheduled meeting, the agenda remains unaltered.

2.7 Types of Resolutions and Thresholds

The legislation defines a set of subjects that fall under the jurisdiction of the general meeting, the board, and the executive body. If the legal framework permits the transfer of decision-making authority among these bodies, such arrangements can be stipulated in the charter. When the law assigns a particular issue solely to the purview of a specific body, that body is obligated to render the decision. Additionally, the charter might confer extra powers beyond those outlined by law. Resolutions under the Armenian legal framework encompasses ordinary (requiring a simple majority of over half the votes), special or unanimous classifications.

LLCs

In the context of LLCs, general meeting decisions are typically passed by the majority of the overall vote count of the company's shareholders, with some exceptions: decisions regarding changes to the company's charter and charter capital size necessitate a majority of at least two thirds of the total votes, unless the charter demands a larger majority; decisions concerning company reorganisation and liquidation require unanimous agreement.

JSCs

Generally, unless otherwise stipulated by the charter, decisions are taken by simple majority (ordinary resolutions). In certain instances, the legislation mandates that a decision be achieved through a specified majority. This majority can either constitute three quarters of the votes exercised by participants in the meeting, for instance decisions on large transactions, or three quarters of the votes from voting shareholders participating in the meeting, provided that it does not fall below two thirds of the votes of voting shareholders, for example reduction of authorised capital via share nominal value decrease.

Moreover, the company's charter can also outline situations wherein decisions require a majority of voting shares or cases mandating unanimous agreement.

2.8 Shareholder Approval

The legislation of the RA provides for cases when the decision-making by the shareholders in some issues is mandatory, both in the case of LLCs and in the case of JSCs. This applies to pivotal matters such as:

- charter approval, and amendments and supplements thereto;
- company reorganisation;
- liquidation (inclusive of endorsing final, interim and liquidation balance sheets);
- board member election and termination;
- decisions on the company's annual reports, accounting balance sheets, profit and loss statements, and profit and loss distribution;
- approval of annual dividends, and determination of their amounts.

Additionally, the approval of large transactions is also encompassed by this requirement.

Moreover, the company's charter can further outline specific circumstances necessitating shareholder approval.

2.9 Voting Requirements

Shareholders are permitted to engage in meetings either in person or by means of an authorised representative. Shareholders' representatives are required to provide documentation validating their authorised status. The power of attorney granted to a company shareholder's representative should include details about both the representative and the shareholder, such as their name or title, place of residence or location, and passport information.

The legislation of the RA does not stipulate specific criteria for the voting process unless the voting is organised through ballot papers. The voting shall be through ballot paper if a company has more than 50 shareholders (for OJSCs). When voting through ballot paper the shareholder needs to choose the voting option for each issue and indicate a vote "for", "against" or "abstain". In the case of cumulative voting, a ballot paper shall provide the specific aspects of the voting procedure.

Notably, the Armenian legal framework does allow for electronic voting options for LLCs and CJSCs, encompassing various communication methods such as postal, telegraphic, teletype, telephone and electronic means as well as ballot papers created for voting on the electronic platforms. These methods must guarantee the accuracy of transmitted and received messages, while also facilitating confirmation of message receipt by the intended recipient.

2.10 Shareholders' Rights Relating to the Business of a Meeting LLCs

A meeting of the company shall be convened by the board or, in its absence, by the body established by the charter. Upon receipt of the notice of convocation of the meeting, regardless of the type of meeting, each shareholder, regardless of the number of votes, is entitled to propose the inclusion of supplementary matters in the general meeting agenda, provided that such proposals are submitted no later than ten days prior to the meeting.

JSCs

The convention of the meeting and the formulation of the agenda is undertaken by the board; however, if the company has not constituted a board, this responsibility falls upon the entity

vested with authority according to the charter. The meeting is not authorised to modify the agenda or make decisions on matters not encompassed within it. Topics not previously included in the agenda are prohibited from being introduced by shareholders for deliberation during the meeting. However, a distinct provision applies, allowing shareholders of a JSC holding a minimum of 2% ownership in the JSC's voting shares to exercise a privilege. Within 30 days of the conclusion of the fiscal year or an extended period defined by the charter, these shareholders can propose a maximum of two items to be included in the agenda of the AGM.

Shareholder(s) holding at least 10% of voting shares, as of the date the request was submitted to the board, have the authority to require the arrangement of a general meeting, where topics raised by the shareholder will be addressed.

2.11 Challenging a Resolution

LLCs

A decision made during a general meeting that contradicts the Law on Limited Liability Companies, other applicable laws or the company's charter, and infringes upon the rights of a company shareholder, can be invalidated through a court order. This can be initiated by the company shareholder within a two-month period after they become aware or should have become aware of the decision's adoption.

JSCs

A shareholder retains the right to challenge, through legal proceedings, any decision made during the meeting that has been passed in contravention of the provisions outlined in the Law on Joint Stock Companies, other pertinent legal statutes or the charter without time limitation.

2.12 Institutional Shareholder Groups

Institutional investors often condition their investments on amendments to a company's charter that they believe will give them greater influence over the company's actions. For example, they may request:

- a change in the quorum required for a general meeting, so that the meeting can be deemed valid if all the owners of voting shares are attending;
- a requirement for unanimous voting on certain issues, such as charter amendments or major transactions;
- a change in the minimum threshold of a major transaction that requires approval by the general meeting;
- the mandatory appointment of a board of directors; and
- more specific and detailed reporting obligations for the executive body to the board of directors, and for the board of directors to the general meeting.

2.13 Holding Through a Nominee

Under Armenian legislation provisions, JSC shareholders have the authority to designate a nominee for the retention of their shares. A nominee is obligated to carry out actions as directed by the shareholder, encompassing participation in meetings and casting votes as per the shareholder's instructions. Furthermore, the nominee assumes the responsibility of conveying all notifications, disclosures, documentation and reports mandated by the company to shareholders. It is admissible for the agreement executed between the nominee and shareholder to impose supplementary commitments upon the nominee, encompassing predetermined patterns of voting. The rights vested in said nominee necessitate formal recording within the Central Depository of Armenia.

2.14 Written Resolutions

The employment of a written resolution is permissible exclusively in cases where the company has just one shareholder. In all alternative situations, resolutions shall be passed through the arrangement of convened meetings.

3. Share Issues, Share Transfers and Disclosure of Shareholders' Interests

3.1 Share Issues

Shareholders of both LLCs and JSCs hold a pre-emptive right, granting them a priority in acquiring newly issued shares proportionate to their current ownership in the charter capital. Shareholders entitled to exercise this right are required to do so within the timeframes specified by the charter. This pre-emptive right's exercise period ceases if, prior to its expiration, written notifications regarding its execution or refusal are received from all company shareholders.

For OJSCs, the meeting has the authority to opt not to apply (or to temporarily suspend) the pre-emptive right of voting share owners. Additionally, the meeting can establish the validity duration of this decision, particularly if voting shares are allocated through open subscription and payment is rendered in cash.

3.2 Share Transfers

LLCs and JSCs in Armenia allow the transfer of shares to internal shareholders, external third parties or fellow shareholders within the company. However, LLCs have the option to disallow third-party share sales in their charter. Also, the current shareholders of an LLC shall unanimously agree on a third party investing in the LLC and obtaining the portion in the charter capital of the company.

Pre-emptive rights are extended to shareholders in LLCs and in CJSCs, granting them the privilege of acquiring shares in proportion to their existing holdings, based on prices offered to external parties.

When a shareholder intends to sell their share or part thereof, written notification must be submitted to the company, specifying the sale price and other conditions. The company is then required to inform other shareholders in writing, either through registered mail or in person. Should an LLC shareholder fail to exercise this pre-emptive right within a month or a stipulated period, the share can be sold to third parties under similar terms, but not at a lower price.

Similarly, in closed JSCs, if shareholders waive their priority right, the company can acquire the shares at a mutually agreed price, or if not, the shares may be sold to third parties. The timeframe and process for prioritising this right are defined in the CJSC charter. Nevertheless, notification should occur within a timeframe of 30 to 60 days from offering the shares for sale.

It is essential to note that share purchase agreements contrary to this priority right could be contested, leading to the potential invalidation of the transaction through a judicial process.

Additionally, the process of transferring shares may require prior consent from the Competition Protection Commission. This necessity depends on factors such as the company's market position, the quantity of shares being transferred, and the financial standings of both the selling and acquiring entities.

3.3 Security Over Shares

Unless explicitly prohibited by the company's charter, shareholders in both JSCs and LLCs

have the right to establish security interests on their shares, in the form of pledges. The charter can impose certain limitations on the creation of security interests over shares. These restrictions could encompass factors such as the percentage of shares that can be pledged, the nature of the pledge, or the consent required from the company or other shareholders. The pledge of the share must be registered.

3.4 Disclosure of Interests

Until 2023, for LLCs, shareholder information could be acquired through a request to the RA State Register of Legal Entities, while details about shareholders of JSCs (the record is kept in the Central Depository of Armenia) for the public remained undisclosed. However, from 2023, both LLCs and JSCs are mandated to furnish a declaration concerning the ultimate beneficiary to the relevant state authority and, consequently, the information about direct or indirect owner of a 20% or more share in the JSC becomes publicly available information.

Under these modifications, an individual achieving the status of a beneficiary is required to notify the company of such changes. In response, the company is obligated to prepare and submit a declaration on the ultimate beneficiary, adhering to the designated timeframe and procedural guidelines as stipulated by law. Information concerning the beneficiary is now accessible to the public and is published on the official website of the State Register of Legal Entities.

Furnishing inaccurate details in the declaration or deliberately withholding required information concerning the ultimate beneficiaries could result in potential criminal liability.

Furthermore, if there is a lapse in fulfilling the responsibility to validate or update information

about the ultimate beneficiaries annually for three consecutive years, or if there are instances of repeated or significant breaches in adhering to the declaration submission protocols, the State Register Agency of Legal Entities has the authority to seek legal action in court to dissolve the legal entity.

4. Cancellation and Buybacks of Shares

4.1 Cancellation LSCs

The company has the authority to specify in its charter the quantity and nominal value of authorised shares which have not been issued and allocated yet. Following this, the company can proceed to make decisions regarding the issue and allocation of these authorised shares. In the context of a CJSC, the pre-emptive right mechanism results in a predetermined allocation of shares once a decision to issue them is made. On the contrary, OJSCs consider the issuance of shares for allocation as a public offer. Once an offer is accepted by an individual, the company cannot cancel it. Nevertheless, prior to acceptance, the company retains the right to cancel the issuance of shares.

For public companies, during the placement process, if the individual responsible for placement submits a supplementary prospectus that highlights a significant alteration in the information included in the original prospectus, the emergence of a new substantial circumstance or a material fact, then upon investor request, the person overseeing placement must rescind the investor's acceptance and reimburse the funds received during subscription, or repurchase the securities sold to the investor before the submission of the supplement, at least at the price at

which the securities were acquired. This obligation extends to situations where information about the final price and quantity of the offered securities is published. In cases stipulated by the law, if the prospectus lacks information about the final price and quantity of the offered securities, the same obligation holds true.

LLCs

As there are no shares subject to issuance in LLCs, no mechanism of cancellation is defined under the law.

4.2 Buybacks

LLCs

The buyback of shares by the company is executed under the following circumstances.

An LLC is obliged to buy back its shares (participation in charter capital) or portions of them if transferring them to third parties is unfeasible and other LLC shareholders decline acquisition. Within a year of LLC shares transitioning to company ownership, distribution among participants must occur, either proportionate to their shares via unanimous general meeting consent, to specific participants, or, if not restricted by the LLC's charter, to third parties. The transaction must be fully paid, and any remaining undistributed shares should be reimbursed through the LLC's share capital reduction.

Upon a participant's application for withdrawal from the company, the participant's share shall be transferred back to the company. Within six months of submitting the withdrawal application to the company, the company is obligated to compensate the participant with the share's value (or a value proportionate to the contributed part in the case of incomplete contribution to the authorised capital). This value is determined based on the company's accounting records for

the last reporting period as of the time of submitting the withdrawal application.

JSCs

The legislative framework outlines scenarios in which a company can initiate the repurchase of shares and instances where it is compelled to do so.

Company-initiated share buyback

If none of the shareholders exercises their preemptive right within the time stipulated in the company's charter, the company has the option to purchase these shares at a mutually agreed price with the owner.

Upon a decision of the meeting to reduce the authorised capital, a company can acquire a portion of its placed shares, thereby reducing the total number of shares, as long as its charter allows for such action. These acquired placed shares are to be redeemed immediately.

By a board decision, a company may acquire up to 10% of its placed shares, provided this is permitted by the charter. By a decision of the general meeting, a company may acquire more than 10% of its placed shares. Shares acquired through this method do not carry voting rights, are excluded from vote calculations, and do not accrue dividends. These shares must be sold within one year of acquisition. If not, the meeting can decide on reducing the authorised capital through redemption of these shares or increasing the nominal value of remaining shares while maintaining the authorised capital specified in the charter.

Company's obligation to buy back shares

In cases where an owner of voting shares exercises their "put option" by demanding that the company repurchase all or a part of their

shares, the company must buy back the shares at market price within two months of receiving the request. The market price excludes changes due to JSC actions triggering the “put option”.

A shareholder can exercise the put option if:

- they opposed or abstained from voting on decisions related to JSC reorganisation, suspension of the right of first refusal or major transactions; and
- amendments, expansions or new editions of the charter limiting the shareholder’s rights were ratified, and the shareholder in question voted against or abstained from voting.

In this scenario it becomes an obligation for the company to complete the distribution of shares within a period of one year or make a decision on the reduction of the charter capital by redeeming the specified shares.

Share buyback at the request of the majority shareholder

Upon the request of a shareholder directly and solely owning voting shares with at least 95% of votes, an extraordinary meeting will be convened to decide on buying back voting shares held by other shareholders by the company and sell those shares to the majority shareholder. The valuation of shares for buy back is established based on the market value determined by an independent appraiser.

Share buyback at the request of the minority shareholder

Upon the request of a shareholder with not more than 5% of voting shares, along with provided votes, an extraordinary meeting will be convened. The purpose is to buy out the requesting shareholder’s shares if the company has another shareholder holding at least 95% of voting shares

and provided votes. The market value of shares is determined by an independent appraiser. The shares transferred to the company do not give voting rights, are not taken into account when counting the number of votes, and no dividends are accrued on them. They must be transferred to the majority shareholder within a year. If the majority shareholder declines or does not acquire the redeemed shares within one year, the meeting is obligated to make a decision for a decrease in the authorised capital by redeeming the specified shares.

5. Dividends

5.1 Payments of Dividends

LLCs

The company has the authority to declare the allocation of its profit to shareholders. LLCs are permitted to do this annually. However, in practice, dividends may be paid in advance as there are no legal restrictions.

In the context of LLCs, distributing dividends or making decisions about profit distribution is prohibited if:

- the share capital is not fully paid; or
- the net asset value at the time of decision-making is less than the sum of the share capital and reserve fund, or if such a decision would result in it being less.

JSCs

JSCs can provide dividends quarterly, semi-annually or annually. In this case, there is no restriction and, in practice, dividends can be paid as prepayments. Dividends are funded from the net profit or retained earnings.

Dividends for specific classes of preferred shares in JSCs can be financed from dedicated company funds established for this purpose. Dividend payments occur in local currency, although a JSC charter might allow payment in other assets including the shares of that company.

In the case of JSCs, the determination of interim (quarterly, semi-annual) dividends, their respective amounts, and the payment method for each type and class of shares rests within the authority of the board. Conversely, the decision regarding annual dividends, their amounts, and the method of payment for each type and class of shares is made by the meeting, is based on the board's recommendation.

Interim dividends cannot exceed 50% of the dividends allocated from the previous fiscal year's results. The quantum of annual dividends should fall within the range proposed by the board, not surpassing the already disbursed interim dividends.

In instances where the meeting's stipulated annual dividends for specific types and classes of shares match the disbursed interim dividends, no additional annual dividends shall be provided for such shares.

However, if the meeting's declared annual dividends for certain types and classes of shares surpass the amount of disbursed interim dividends, the annual dividends for those shares shall be paid as the difference between the designated annual dividends and the already disbursed interim dividends in that fiscal year.

The meeting retains the prerogative to decide against paying dividends for particular types and classes of shares, as well as to opt for partial

payment of dividends for preferred shares, as defined by the charter.

JSCs are restricted from deciding or announcing dividend payments for placed shares if:

- the share capital is not fully paid;
- the company has not repurchased all shares where shareholders exercised their "put option";
- the company meets the insolvency (bankruptcy) criteria defined by law or will become insolvent due to dividend payment;
- net assets are less than share capital, or would become so due to dividend issuance;
- decisions on full dividend payment have not been taken for all classes of preferred shares as defined by the charter; and
- for placed preferred shares, decisions on full dividend payment have not been made for all classes of preferred shares, prioritised in terms of dividend receipt over the aforementioned preferred shares.

6. Shareholders' Rights as Regards Directors and Auditors

6.1 Rights to Appoint and Remove Directors LLCs

The law does not specify the procedure for electing the members of the board, since the general rule is that no board is formed in a company unless it is provided for in the charter. Consequently, the procedure for election of members and termination of their powers shall be determined by the charter of the company, which may provide that the appointed powers of a member shall be vested in the shareholder.

JSCs

Matters relating to the approval of the board's member count and the election of board members shall be exclusively addressed during the annual meetings. The subject of electing board members can be discussed during an extraordinary meeting if the latter has already decided on the early termination of board powers or individual members' mandates.

Shareholders of the company who own 10% or more of the company's placed voting shares, as per the list of eligible meeting participants, have the privilege of assuming a board position or designating a representative without undergoing an election process. This right also extends to nominees. Each shareholder is limited to occupying one board seat. Shareholders retain the right to nominate board candidates, and these nominations are subject to election by the meeting.

6.2 Challenging a Decision Taken by Directors

LLCs

The law does not explicitly grant shareholders the right to challenge a director's decision. However, a shareholder retains the right to file a claim seeking compensation for these losses caused by a member of the board or the executive body of the company.

JSCs

In the context of JSCs, shareholders also possess this privilege: specifically, a shareholder or shareholders holding at least 1% of the company's common (ordinary) shares are empowered to institute legal proceedings against board members, the director (general director) for damages incurred by the company.

Moreover, as an extraordinary meeting can be convened through a request of shareholder(s) who own a minimum of 10% of the company's voting shares, the agenda of this meeting may encompass discussions related to the termination of a board member's powers.

6.3 Rights to Appoint and Remove Auditors

The legislation of the RA introduces the concepts of "controller" and "auditor" for both LLCs and JSCs. The decision regarding the appointment or termination of a controller's authority is made during a meeting, where shareholders can suggest their preferred candidate. Irrespective of the presence of a controller within the company, an external auditor may be engaged. This determination also falls within the powers of the meeting, with shareholders allowed to propose a candidate. Although not explicitly stated, the right of a shareholder to appoint an auditor to conduct a company audit at their discretion can be inferred from various provisions of the law, even though it is not explicitly provided for in the case of LLCs.

In case of JSCs, the examination of the company's financial and operational performance can also be conducted by an auditor at the request of shareholders who collectively hold a minimum of 5% of the company's voting shares, or the equivalent number of votes as specified by them. In such instances, the expenses for the auditor's services are covered by the shareholders who initiated the audit. However, it is worth noting that there has not been any instance, to the authors' knowledge, where the court has definitively affirmed the proper exercise of this right by a shareholder or deemed the shareholder's demand for an audit appointment to be legitimate. In the most recent court case to the authors' knowledge, the court ruled that

the shareholder's utilisation of the auditing right amounted to an abuse of the law.

7. Corporate Governance Arrangements

7.1 Duty to Report

Under the general legal framework of the RA, there is no explicit requirement for directors to provide reports to the shareholders. The reporting in and between governance bodies is subject to regulation under the charter of company.

8. Controlling Company

8.1 Duties of a Controlling Company

Armenian law acknowledges the principle of piercing the corporate veil. However, for the corporate veil to be pierced, certain conditions need to be fulfilled. These conditions encompass the establishment of a parent-subsidary relationship and the capacity to issue binding directives to the subsidiary.

Should the piercing of the corporate veil prove effective, the parent company would bear responsibility solely for the execution of transactions carried out based on the directives of the parent company. This exemption from liability applies except in instances of the subsidiary company's bankruptcy, where there is no limitation on the extent of obligations.

9. Insolvency

9.1 Rights of Shareholders If the Company Is Insolvent

In the event of the company's insolvency, shareholders retain the right to address their claims.

To do so, shareholders are required to submit a request to the company, within the bankruptcy proceeding, seeking to be registered as creditors and outlining their corresponding demands.

However, claims of shareholders arising from credits, loans or other financial contributions extended to the company are deemed secondary and are considered for fulfilment subsequent to the settlement of other creditors' claims.

Furthermore, claims originating from the founders (participants, shareholders, members or partners) of the debtor are relegated to the very end of the prioritised sequence defined by the legal provisions for satisfying unsecured claims. This implies that shareholders' claims, regardless of the scenario, are only considered for settlement after the fulfilment of other creditors' demands.

10. Shareholders' Remedies

10.1 Remedies Against the Company

Shareholders of both LLCs and JSCs are endowed with the following fundamental rights:

- the right to participate in meetings (including the exercise of voting rights);
- the right to access information;
- the right to receive dividends; and
- the pre-emptive right.

In situations where a company neglects to duly notify a shareholder about an upcoming meeting, leading to the subsequent submission of resolutions, the shareholder retains the right to approach the court and challenge the validity of the meeting's decisions.

If the company fails to furnish the information requested by the shareholder, the shareholder

has the option to initiate legal action and compel the company to provide the requested information.

Moreover, in scenarios where the company chooses not to distribute dividends due to absence of revenue, a shareholder possesses the autonomy to initiate a financial and economic audit as a means of verifying the accuracy of the decision. Should the company decline to fulfil this request from the shareholder, the latter has the right to seek legal recourse through the court (which probably would not be successful due to the recent approach of the courts to this disputes).

Fundamentally, the available remedies for shareholders seem to be restricted solely to the option of pursuing legal action in court.

10.2 Remedies Against the Directors LLCs and JSCs

During the execution of their responsibilities, board members and the executive body are required to act in the company's best interests. They must exercise their rights and fulfil their duties towards the company with honesty and reasonableness, while avoiding any conflicts between their personal interests and the company's interests (fiduciary duty). Individuals who could significantly influence the company's decisions, either through their capital participation or other circumstances, must not manipulate board members or the executive body to make decisions contrary to the company's interests or the legitimate interests of shareholders who lack significant decision-making influence.

Board, administration or directorate members who voted against or were absent during decisions causing company damage shall not be held liable for the resulting harm. Resignation,

recall or dismissal of the board or executive body will not absolve them of liability for inflicted company damage.

In situations where multiple individuals are accountable for company damage, they will be collectively and individually liable to compensate for the harm. Liability exemption is granted to individuals who acted in good faith, demonstrating that they did not possess knowledge, or could not have reasonably known, that their actions (or inactions) would result in losses for the company.

Both a company and its shareholder(s) owning at least 1% of the issued common shares (in the case of a JSC) or any shareholder (in the case of an LLC) have the right to pursue legal action against board members and the executive body. They can file a lawsuit seeking compensation for damages incurred by the company on behalf of the company.

Further, in cases where the company has one shareholder or the shareholder's participation in the company is a majority, the shareholder may decide to terminate the powers of a director/member of the board.

10.3 Derivative Actions

In both LLCs and JSCs, shareholders retain the entitlement to contest any resolution adopted during a meeting through legal means, if such decision runs counter to the stipulations laid out in RA law, the company's charter and other relevant legal regulations. For LLCs, a specific timeframe is defined by law, allowing a two-month period from the point of becoming aware, or being reasonably expected to be aware, of the approval of the decision. Conversely, in the context of JSCs, no specific time limitation is prescribed.

11. Shareholder Activism

11.1 Legal and Regulatory Provisions

Armenian legislation neither defines nor regulates shareholder activism.

11.2 Aims of Shareholder Activism

To the best of the authors' knowledge, the shareholders of the Armenian company do not consider themselves to be activist shareholders. In their majority, the shareholders of companies do not have any specific agenda other than to receive a portion of the company's dividend.

11.3 Shareholder Activist Strategies

There is no applicable information in this jurisdiction.

11.4 Recent Trends

There is no applicable information in this jurisdiction.

11.5 Most Active Shareholder Groups

Considering that activist groups are essentially absent from Armenia, no particular group/type of shareholder can be identified as being more active than others.

11.6 Proportion of Activist Demands Met

There is no information available on the proportion of activist demands met in Armenia in the last year.

11.7 Company Prevention and Response to Activist Shareholders

The company may defend itself against the active shareholders by claiming that the active shareholders are abusing their rights. The shareholders who are exercise their rights actively may be considered as those not taking their rights in good faith and using those rights to harm the company. As a consequence, the court may refuse the protection of the shareholder's right if the shareholder brings an action against the company.

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