

Sorainen Law Offices

Pärnu mnt. 15
10141 Tallinn, Estonia
Tel: +372-6 651 880
Fax: +372-6 651 881
Email: sorainen@sorainen.ee

Kr. Valdemara iela 21
LV-1010 Riga, Latvia
Tel: +371 7 365 000
Fax: +371 7 365 001
Email: sorainen@sorainen.lv

Jogailos g. 4
LT-01116 Vilnius, Lithuania
Tel: +370-5 2685 040
Fax: +370-5 2685 041
Email: sorainen@sorainen.lt

Museokatu 9 B 17
00100 Helsinki, Finland
Tel: +358-9 4369 0840
Fax: +358-9 4369 0841
Email: sorainen@sorainen.com

Please be informed that in Spring 2005,
Sorainen Law Offices are organising
a series of Baltic Business Law Seminars:

- **Project Finance & Public Private Partnership** 17 March, Tallinn
- **Real Estate & Construction** 21 April, Riga
- **Litigation & Arbitration** 19 May, Vilnius

Additional information will be available on our webpage
within two weeks time.

EUROPEAN UNION

Income Taxation of SE in Estonia, Latvia and Lithuania

Council Regulation No 2157/2001 ("Regulation") on the Statute for European Company ("SE") entered into force on 08.10.2004. For more information on the establishment and structure of SE please see the Baltic Legal Update July-August 2004 issue. In terms of income tax, SE is not offered special tax treatment. National tax laws of Estonia, Latvia and Lithuania do not contain any special regulation on the taxation of income of the European Company. Also the Regulation does not provide special taxation rules of SE. As a result, general taxation laws apply to SE. In all three Baltic States the income of SE, which is registered in that state, will be taxed if it was incorporated under the respective national laws.

SE's operations in the Baltic countries where it is not registered may be regarded permanent establishments like for any other foreign company. Also, there are no exceptions in terms of withholding tax from payments to SE registered in another country, and Double Taxation Treaties provide no exceptions for SEs.

Therefore, in determining the taxable base and the tax rates applicable to the income and profits distributed to shareholders or other persons the respective national legislation, Double Taxation Treaties and the relevant European Union legislation must be taken into account without any special exceptions.

Additional information:
Konstantin Kotivnenko
e-mail: konstantin.kotivnenko@sorainen.ee

ESTONIA
COMPANY LAW

Changes in the residence requirement for board members

Amendments to the Commercial Code, Foundations Act, Non-Profit Associations Act and Commercial Associations Act (*Äriseadustiku, sihtasutuste seaduse, mittetulundusühingute seaduse ja tulundusühistuseaduse muutmise seadus*) which partially abolish the residence

Estonia

Residence requirement for management has changed

Latvia

Material changes in tax laws

Lithuania

The Law on Labour Council has finally been adopted

Sorainen Law Offices

New edition of SLOG Handbook of the Baltic Business Law is completed

LEGAL UPDATE

requirement for management board members entered into force on 07.01.2005.

According to the law until 07.01.2005 the residence of at least half of the management board members had to be in Estonia. That requirement for Estonian residence has now been replaced by the requirement for European Economic Area or Swiss residence. However, the parliament did not change the residence requirement for the directors of branches; therefore, the residence of at least one director of a branch must still be in Estonia.

The aim of the amendment was to grant equal treatment of residents of the EU member states and Liechtenstein, Norway, Iceland or Switzerland to conduct business in Estonia. The regulation should have been changed before accession to the EU, taking into consideration the EU principles on freedom of establishment. Similar amendments have already been made in Latvia and Lithuania.

Additional information:

Karin Madisson

e-mail: karin.madisson@sorainen.ee

The Supreme Court of Estonia clarified squeeze-out regulation

The Supreme Court of Estonia has recently made several decisions that much clarify the partly uncertain and much-disputed regulation of takeover of shares for monetary compensation (the so-called squeeze-out regulation) under the Commercial Code.

In ruling No. 3-2-1-138-04 of 20.12.2004 against AS Sampo Pank, the Supreme Court of Estonia concluded that the takeover resolution cannot be declared invalid based on the fact that the audit report is deficient.

In ruling No. 3-2-1-145-04 dated 21.12.2004 against AS NG Investeeringud, the Supreme Court of Estonia made a remarkable analysis of the whole takeover regulation currently in force in Estonia, particularly its shortcomings that have emerged in practice. The said ruling analyses among other relevant legal norms, Estonian theory and practice, the EU and other countries' respective takeover regulations, as well as interprets the material and procedural sections governing the squeeze-out institution in Estonia, with an emphasis on the regulation on determining the amount of compensation to be paid for the shares taken over.

Among other significant clarifications, the judgement provides a long-awaited guidance on how to determine the value and the amount of compensation for the shares taken over. Accordingly, the Supreme Court of Estonia agrees with local and international theories as well as the practice of other countries that the minority shareholders must receive full economic compensation for the shares taken over, and that the amount of compensation cannot be less than the market value of the shares. In determining the amount of compensation, the future prospects of the company must be taken into account in addition to evaluating the shares based on their book, liquidation and other relevant values. The Supreme Court of Estonia is of the opinion that in determining the fair value of the shares based on the future prospects of the company, the DCF (discounted cash flow) method or its modifications could be used.

In the same ruling, the Supreme Court of Estonia also held that the majority shareholder is under the obligation to explain and justify the amount as well as the fairness of the compensation, and the auditor is under the obligation to check this.

Additional information:

Risto Agur

e-mail: risto.agur@sorainen.ee

Implementation of European Company Regulation

On 10.12.2004, the Act Implementing Council Regulation No 2157/2001 on the Statute for a European Company (SE), which specifies the conditions for establishment of a European company, entered into force in Estonia.

A European company, which has its registered office in Estonia, must be entered in the Estonian commercial register. The registration procedure is similar to the registration of public limited companies in Estonia. In European company there can be one-tier or two-tier management structure. As Estonian law recognised only two-tier management model for public limited companies (i.e. management board and supervisory board), the new law provides for a possibility of one-tier management system in a European company. Such a management organ is an administrative council, which must consist of at least 3 members.

The law enables to implement the European Company Regulation in Estonia, thus there is now a real

possibility to register European wide companies in the Estonian commercial register.

The respective implementation act has also entered into force in Lithuania (8 October 2004), but the respective Latvian law is still in the process of being adopted by the parliament.

Additional information:

Pekka Puolakka

e-mail: Pekka.Puolakka@sorainen.ee

EMPLOYMENT LAW

Amendment to the Occupational Health and Safety Act

The amendment to the Occupational Health and Safety Act (*Töötervishoiu ja tööhutuse seadus*) entered into force on 01.01.2005. The amendment relates to employees working during night-time (22.00-06.00). According to the new provision, the employer must organise medical examination of the employees who are working at least three hours of their daily working hours or at least one-third of their annual working time during the night-time. The medical examination shall be organised in conformity with the procedure established by the Minister of Social Affairs, and it must be carried out both before starting the employment involving working during the night-time and at regular intervals during such employment. The employer is obliged to cover the costs related to the medical examination.

Additional information:

Lea Liigus

e-mail: lea.liigus@sorainen.ee

TELECOMMUNICATION LAW

Electronic Communications Act adopted

The Electronic Communications Act (*Elektroonilise side seadus*) regulates the requirements for public electronic communication networks, providing public electronic communication services and using radio communication as well as state supervision for fulfilment of requirements by granting protection of electronic communication service users through encouragement of free competition. Legislation issued pursuant to the Telecommunications Act, void as of 01.01.2005, is valid until declared void, provided that there is no contradiction with the Electronic Communications Act.

The main goal of the act is to ensure the compliance of the electronic communication regulation with the corresponding acts of the European Union. Applicable decisions and recommendations of the European Commission and regulatory acts of electronic communication of Finland, Sweden, Denmark, Ireland and other European Union member states have been taken into account.

As of 01.01.2005, only notification to the Communications Board is necessary when commencing provision of communication services and the right to provide communication services does not depend on the decision of the Communications Board or any other administrative regulation. This important difference from the former regulation is derived from the fact that the co-called Authorisation Directive forbids giving the right to provide communication services with administrative regulation. Public provision of WiFi network requires the service provider to notify the Communications Board and follow the regulation for the use of WiFi frequency band set forth by the Communications Board.

Compared to former regulation, the act is also more detailed regarding data protection, pursuant to the Personal Data Protection Directive. The Personal Data Protection Act is still in force without amendments; the Electronic Communications Act merely specifies the regulation with respect to the specific nature of electronic communication services. The specifications deal with e.g. enclosing clients' data in info-catalogues, calling-user and called-user number display service and the duty of giving information to surveillance and security authorities. The service provider is obliged to keep in confidence the data on the details of usage of communication services, form and essence of a message delivered through the communication network and time and mode of delivering a message.

At the same time, the new act does not regulate registering domain names, which is still unclear and disproportionate. The current regulation states that a legal person can only register one .ee domain name, but it does not regulate transfer of domain names, registering the domain names for foreign legal persons etc.

Additional information:
Kaido Loor,
e-mail: kaido.loor@sorainen.ee

TRADE LAW

Amendments to the Packaging Excise Duty Act

Amendments to the Packaging Excise Duty Act (*Pakendiaktsiisiseadus*) is to modify the list of packaging types subject to packaging excise duty (i.e. to extend the application of the packaging excise duty to other packaging types) and specify the functioning of the packaging taxation system. The principles of the Packaging Excise Duty Act are harmonised with the principles of the Packaging Act that had been passed earlier.

The principles of paying the excise duty were changed. According to the earlier regulation, excise duty was payable if the recovery rate was not fulfilled, regardless of whether the recovery rate underperformance was 1% or 100%. According to the new regulation, excise duty is payable on the packaging amount deficient from the recovery rate.

The annex to the act establishing the packaging excise duty rates was amended. The excise duty rates are now established on the basis of the packaging amount in kilograms. The act also specifies conditions for the exemption from excise duty: companies need not apply for a packaging recovery certificate any longer to be exempted from excise duty – all the companies that fulfil the recovery rates are exempted from excise duty. Certificates issued before the entry into force of the Act will be effective until the expiry date specified on the certificate, but not beyond **01.01.2006**.

The Packaging Act allows packaging companies to transfer their recovery obligation to respective recovery organisations. This modification was made also in the Packaging Excise Duty Act.

Additional information:
Evelin Parn-Lee
e-mail: evelin.parn-lee@sorainen.ee

Selection of relevant acts and amendments adopted 01.11.2004-31.12.2004:

- Amendments to the Electricity Market Act and the State Fees Act
- Insurance Activities Act
- Amendments to the Credit Institutions Act and the Commercial Code
- Amendments to the Citizenship Act
- Amendments to the Gambling Tax Act
- Medicinal Products Act

LATVIA

FINANCIAL LAW

Since 01.01.2005, the Latvian national currency is pegged to the euro at the peg rate 1 EUR = 0.702804 LVL

From 01.01.2005, the Bank of Latvia will unilaterally limit the lats' exchange rate against the euro to $\pm 1\%$ of the central rate.

After pegging the lats to the euro, the Bank of Latvia will set the daily lats exchange rates against other currencies according to the fixed lats/euro rate and the rates of the respective currencies at the particular moment.

Additional information:
Girts Ruda
e-mail: girts.ruda@sorainen.lv

INSURANCE LAW

New regulations on activities of insurance and reinsurance intermediaries

On 15.01.2005, the 'Regulations on Activities of Insurance and Reinsurance Intermediaries' came into force that set requirements for insurance and reinsurance intermediaries. The Regulations implement the principle of the single registration of insurance intermediaries, as well as control over activities of an insurance intermediary in another Member State.

The Regulations establish three types of insurance intermediaries – brokers, agents and external agents, as well as establish who of the intermediaries acts on behalf of and in the interests of a client and insurer. From now only a broker will be entitled to engage in reinsurance mediation, but external agents will not be entitled to receive payments of insurance premiums.

According to regulations, it will be necessary to register insurance brokers and agents with the Register of Insurance and Reinsurance Intermediaries of the FCMC, but external agents will be registered by insurers.

The Regulations set various requirements for activities of an insurance broker and agent, as well as set professional requirements for natural persons who are directly involved in an insurance and reinsurance mediation.

Additional information:
Anete Rubene
e-mail: anete.rubene@sorainen.lv

INTELLECTUAL PROPERTY LAW**On 11.11.2004, the amendments to the Law on Trade Marks and Geographical Indications come into force**

The purpose of the Law is to improve the provisions in the area of trade mark protection ensuring compatibility between the Community trade mark system and the national trade mark system, and specifying those provisions of the Law that are related to administrative proceedings.

A new law has been adopted for governing legal relationship in the area of registration, use and protection of industrial designs

On 18.11.2004, the Industrial Design Law came into force. The provisions of Directive 98/71/EEC of 13.10.1998 of the European Parliament and the Council are being taken over by the Law. With entry into force of this Law, the Cabinet of Ministers Regulations No. 252 Industrial Design Regulations issued in the procedure established by Section 81 of the Constitution lose their validity.

The purpose of the new Law is to improve the provisions in the area of industrial design protection in order to join the international registration system of industrial designs in the near future. The former patent system of industrial designs is being replaced with the registration procedure established in the Directive. The Law, *inter alia*, governs also the issues related to the specificity of validity of an internationally registered industrial design and the activities of the Patent Office in relation to international registrations.

Latvia has joined the single classification of industrial designs

On 16.12.2004, the Law on Locarno Agreement Establishing an International Classification for Industrial Designs came into force, the contents of which supplement the provisions implemented by the Industrial Design Law. Latvia is joining the single international classification of industrial designs by this Law. The single classification will be used in the procedure for registering industrial designs when establishing belonging to a certain industry.

Additional information:

Brigita Terauda
e-mail: brigita.terauda@sorainen.lv

REAL ESTATE LAW**New ceiling for flat rent payments set for the next 3 years**

On 01.01.2005, amendments to the Law on Rent of Residential Premises came into

force that set a new ceiling for rent payments for the next 3 years. In denationalised houses or houses returned to a legitimate owner, in which a tenant has used an apartment until restoring ownership rights, the maximum rental is set 0.60 Ls/m² in 2005, and it increases to 0.84 Ls/m² in 2007.

The Law obliges a lessor to specify in what form rent payments and other payments shall be effected. It is also specified that a lessor is prohibited from refusing acceptance of a rental thus preventing a possibility of causing a situation of an "artificial" debt.

The Law grants broader rights to rent boards. However, it should be taken into account that this Law applies only to rent of residential premises.

Additional information:

Elina Cakste-Razna
e-mail: elina.cakste@sorainen.lv

The draft Law Amendments to the Construction Law has been developed

On 11 November 2004, the draft Law Amendments to the Construction Law were submitted to the *Saeima*, which stipulates repeal of licensing legal entities in construction and introduction of a requirement for business activities in one or more areas of construction, in which a natural person for an independent practice under Section 8 of the Law needs a certificate of a construction practice or architect practice, a businessman has to register himself with the Register of Construction Businessmen of the Ministry of Economics, which shall include the information on businessman, personnel employed in construction, data, information on infringements in construction, information on non-compliance with the regulations of the Register.

Additional information:

Elina Cakste-Razna
e-mail: elina.cakste@sorainen.lv

TAX LAW

On 01.01.2005, a number of amendments to laws on taxes came into force.

Amendments to the Law On Corporate Income Tax cover the following main issues:

- to reduce withholding tax from 15% to 10% regarding payment for intellectual property that are effected by a Latvian company to a resident of another Member State of the European Union (comes into force as of 01.07.2005);

- several amendments to ensure non-discrimination of residents of a Member State of the EU for taxation purposes;

- to allow to write off a half of lost accounts receivable which arose as of 01.01.2004 if bankruptcy proceedings of a debtor have been commenced, allowing to write off the remaining amount of lost accounts receivable when the bankruptcy proceedings of the debtor have been completed;

- significant amendments in respect of non-profit and public benefit organisations, donations, etc.

Amendments to the Law on Value Added Tax cover the following main questions:

- the terms "purchase of goods in the territory of the EU" and "supply of goods in the territory of the EU", "person not registered in the territory of the EU" have been specified; the procedure for applying VAT has been specified with regard to transportation of goods; the provisions of the law have been specified as to the moment when the tax has to be paid to the budget for purchase of new motor vehicles by non-taxable persons;

- the provisions have been specified establishing registration of taxable persons with the SRS, on the date of delivery of goods or provision of services to be indicated in VAT invoice, the moment of deducting input tax and on the moment when the tax has to be paid to the budget;

- specifies medical services, the provision of which is exempt from value added tax (exception, without rights to deduct input tax) and medical devices and goods, the deliveries of which are subject to a 5% rate.

Amendments to the Law on Excise Tax include the following main news:

- tax rates for petrol and derv have been increased by 1.8 and 1.6 centimes per litre respectively;

- to allows performance of certain operations with excise goods not only at warehouses of excise goods but also in free zones and at free warehouses;

- allows to deliver excise goods from warehouses of excise goods in Latvia to representatives or organisations of other Member States or other foreign countries by applying deferred tax payment. This applies also to import for the needs of those persons;

- specifies the provisions that exempt excise goods from excise tax that are delivered for consumption on ships and aircraft in international transport;

- extends deadlines for submission of documents in order to apply deferred tax payment in cases when goods are moved to other Member States.

Amendments to the Law on Personal Income Tax cover the following main news:

- income from placements and deposits received by Latvian natural persons from credit institutions and savings and loan associations in the Member States of the EU are exempt from personal income tax;

- non-residents who are citizens of the Member States of the EU and gain more than 75% of their total annual income in Latvia are entitled to make the deductions stipulated in the Latvian law;

- a taxpayer is entitled to include into justified expenses the contributions made to a private pension fund registered in another Member State of the EU, as well as payments of insurance premiums effected under a life assurance contract (with accumulation of funds) to an insurance company registered in another Member State of the EU;

- a procedure has been established how a double taxation is prevented when certain Member States of the EU withhold a special tax – tax from savings income (come into force as of 01.07.2005).

The “old” accounting software in no longer valid

In accordance with the Cabinet of Ministers Regulations No. 585 of 21.10.2003, Regulations on Accounting Maintenance and Organisation, if until the date of coming into force of these Regulations (30.10.2003) an accounting software is purchased which does not comply with the requirements of these Regulations, the right of a businessman to use it, expired on 31.12.2004.

Additional information:

Janis Taukacs

e-mail: janis.taukacs@sorainen.lv

Selection of relevant acts and amendments adopted 01.11.2004-31.12.2004:

• Electronic Communication Law (in force as of 01.10.2004)

• Information Society Service Law (in force as of 01.12.2004)

• Law On Convention between the Republic of Latvia and the Republic of Hungary On Prevention of Double Taxation and Tax Evasion regarding Income and Capital Taxes (in force as of 04.11.2004)

• Law On Convention between the government of the Republic of Latvia and the government of the Grand Duchy of Luxembourg On Prevention of Double Taxation and Tax Evasion regarding Income and Capital Taxes (in force as of 04.11.2004)

• Amendments to the State Labour Inspection Law (in force as of 10.11.2004)

• Amendments to the Insurance Companies and Their Supervision Law (come into force as of 11.01.2005)

• Amendments to the Cabinet of Ministers Regulations No. 219 of 28.05.2002, Procedure for Reimbursing Expenses Related to Business Trips and Business Travel of Employees (in force as of 07.12.2004)

Selection of relevant draft acts processed by the Parliament during 01.11.2004 – 31.12.2004:

• The draft Law on Real Estate State Cadastre has been developed;

LITHUANIA

COMPETITION LAW

The Regulations on Assessment of Amount of Fine Imposed for Violation of the Law on Competition were approved

On 06.12.2004, the Government approved the Regulations on Assessment of Amount of Fine Imposed for Violation of the Law on Competition (*Baudos, skiriamos už Lietuvos Respublikos konkurencijos įstatymo pažeidimus, dydžio nustatymo taisyklės*). The Regulations set out the procedure for assessment of amount of fines for infringement of rules, regulating prohibited agreements, abuse of a dominant position, unfair competition and other actions, prohibited by the Law on Competition, as well as for violations of Articles 81 and 82 of the Treaty Establishing the European Union, investigated by the Competition Council of the Republic of Lithuania.

The amount of fine is assessed in the following way: the amount of fine for the gravity of the infringement plus the amount of fine for the duration of the infringement. The nature of the infringement, its impact on the relevant market and the geographical area related with the infringement is taken into account whilst assessing the gravity of the infringement. In case the infringement is lasting for more than one year, the amount of fine for the duration of the infringement is up to 10 % of the amount of fine for the gravity of the infringement for each year of the infringement. The Regulations also describe rules for reduction of the amount of the fine.

New version of requirements and conditions for the agreements, which because of their minor influence cannot substantially restrict competition, was approved by the Competition Council.

On 09.12.2004, the Competition Council of Lithuania adopted the Resolution and approved new version of requirements and conditions for the agreements, which, because of their minor influence, cannot substantially restrict competition (*Reikalavimai ir sąlygos susitarimams, kurie dėl savo mažareikšmio poveikio negali itin riboti konkurencijos*). The resolution entered into force on 19.12.2004. Agreements, which, because of their small influence, cannot substantially restrict competition, are:

1) horizontal agreements between undertakings, if the relevant market share held by them does not exceed 10 %;

2) vertical agreements between undertakings, if the relevant market share held by each of those undertakings does not exceed 15 %;

3) mixed agreements between undertakings, if the relevant market share held by them does not exceed 10 %.

Additional information:

Raminta Karlonaitė

e-mail: raminta.karlonaitė@sorainen.lt

INTELLECTUAL PROPERTY

Institution, responsible for implementation of Convention on the Grant of European Patents, was nominated

On 24.12.2004, the Government adopted the Resolution, according to which the State Patent Bureau was nominated as an institution responsible for implementation of Convention on

LEGAL UPDATE

the Grant of European Patents and other related acts. The resolution entered into force on 30.12.2004.

Additional information:

Renata Berzanskiene

e-mail: renata.berzanskiene@sorainen.lt

LABOUR LAW

The Law on Labour Councils finally has been adopted.

On 26.10.2004, the Parliament adopted the Law on Labour Councils (*Darbo tarybų įstatymas*), which entered into force on 11.11.2004. The aim of the law was to establish legal regulation of the body protecting and representing rights of employees, foreseen already in the Labour Code of the Republic of Lithuania (which entered into force on 01.01.2003). The labour council could be established where there is no trade union in the company and if the meeting of employees of the company has not transferred the function of representation and protection of employees to the trade union of the appropriate sector of economic activity. Thus, the labour council is an alternative body to trade unions.

Notwithstanding the fact whether the company has branches, representative offices or other structural subdivisions, only one labour council can be established. The labour council can be established in the company where the number of employees exceeds 20. In case less than 20 employees work in the company, the functions of the labour council can be performed by the representative of employees.

The Law on Social Insurance against Unemployment was amended

On 22.12.2004, the Parliament adopted the amendments to the Law on Social Insurances against Unemployment (*Nedarbo socialinio draudimo įstatymas*), which entered into force on 01.01.2005. The following persons have to be mandatory insured against unemployment: those working under the employment agreements with legal or natural person; notary candidates (assessors), also persons receiving wage and occupying, on the basis of membership, elective posts in the elective organizations, appointed to district, city, regional, county elections and referendum committees and other persons indicated in the laws.

Additional information:

Mindaugas Lescius

e-mail: mindaugas.lescius@sorainen.lt

LAND LAW

The Regulations on sale and rent of state land for agricultural purposes (activities) was amended

On 02.12.2004, the Government adopted the amendments to the Regulation on sale and rent of state land for agricultural purposes (activities) (*Dėl valstybinės žemės sklypų pardavimo ir nuomos žemės ūkio paskirčiai (veiklai)*), which entered into force on 08.12.2004. It was established that the state land for agricultural purposes can be acquired by legal and natural persons of the Republic of Lithuania, foreigners who continually resided and practiced agricultural activities in Lithuania for more than 3 years, foreign legal entities and other organizations, having established their branches and representative offices in Lithuania. State land for agricultural purposes can be rented by national and foreign natural and legal persons, other foreign organizations.

Additional information:

Marius Urbelis

e-mail: marius.urbelis@sorainen.lt

Selection of relevant acts and amendments adopted 01.11.2004-31.12.2004

- New version of the Law on State Social Insurance was adopted (in force as of 01.01.2005);

- The Government approved Regulations on suspension of suspicious monetary transactions and submission of information to Financial Crime Investigation Service under the Ministry of the Interior of the Republic of Lithuania (in force as of 18.11.2004);

- The Government approved the Regulation on the amount and payment order of expenses related with business trips (in force as of 07.11.2004).

Selection of relevant draft acts processed by the Parliament during 01.11.2004-31.12.2004

- The Law on Indexation of Wage and Social Allowances;

- Amendments to the Law on Income Tax of Residents;

- Amendments to the Enterprise Bankruptcy Law;

- Amendments to the Law on Corporate Profit Tax.

Contributed by Lea Liigus, Katri-Helen Agur, Estonia; Gita Rivdike, Latvia; Liudas Ramanauskas, Lithuania. Edited by Girts Ruda, Latvia.

NEWS IN SORAINEN LAW OFFICES

Recent deals

Advice in M&A deals

Our M&A legal practice group has been busy in the end of the year 2004. Among the many deals signed or closed within the recent months, the following could be named:

SanomaWSOY, the leading media group in the Nordic countries.

Tallinn office assisted **Ajasto Osakeyhtiö**, the member of SanomaWSOY Group and the leading calendar publisher in the Nordic countries, in acquiring shareholding in the largest Estonian calendar publisher Buroodisain OÜ. The team, led by partner Toomas Prangli and associates Kadri Kallas and Kai Kaljaste, provided assistance in legal due diligence of the target, transaction matters, pre-closing and closing matters.

Vilnius office has assisted **Rautakirja Oy**, a subsidiary of SanomaWSOY, in acquisition of a majority stake of shares in the leading Lithuanian press distribution company. The project, led by partner Kestutis Adamonis, included the assistance in negotiating and concluding transaction documents as well as in notifying the Competition Council of the transaction.

One of the leading global elevator and escalator companies.

Sorainen Law Offices assisted client in acquisition of majority shareholding in a company, leading seller, maintenance provider and modernizer of elevators and escalators in Estonia and Latvia. Due to time pressure, most of the assistance, including due diligence, transaction advice, concentration notification, pre-closing and closing assistance, was accomplished within less than two months. The team of lawyers was managed by our partner Pekka Puolakka and the competition law advice was given by senior associate Evelin Pärn-Lee.

John Nurminen, the Finnish logistics company with 118-year history. Our Tallinn office assisted John Nurminen in setting a joint venture with local partners in order to open a full-service car transshipment terminal at Paldiski South Port. The terminal is the first full-service car terminal in the entire Baltics and will start its operations under the name of Nurminen PDI Services OÜ. The leading lawyers in this deal were our partner Toomas Prangli and associates Anne Adamson and Kai Kaljaste.

CeMines, the U.S. life sciences company specializing in clinical diagnostics products. Sorainen Law Offices assisted CeMines International, Inc in establishing the joint venture Competence Center for Cancer Research (VTAK) along with eight other local and foreign biotechnology companies and universities, and in cooperation with Enterprise Estonia. "The recent business transaction representing our interest in the formation of VTAK, is a textbook example of how business transactions should be conducted. Partner Toomas Prangli and Senior Associate Reimo Hammerberg involved with CeMines™ were diligent in their work, and professional at every juncture of this transaction" says Roger Attick, CEO and President of CeMines, Inc.

Sorainen Law Offices assisted a group of foreign investors in a hostile take-over of an Estonian public company. The assignment aimed at obtaining the decisive control over the management of the Estonian company without co-operation of the existing management or shareholders. This is one of the very few hostile take-overs that have taken place in Estonia and the matter was finally settled by the parties. The team of lawyers was managed by our partner Pekka Puolakka.

Plastprent hf, the leading Icelandic company in packaging. Vilnius office assisted Plastprent hf in acquisition of 100% shares in the UAB Gerove (the big-

gest plastic bags producer in Lithuania). A team of lawyers, led by partner Renata Berzanskiene, assisted in legal due diligence of the target, transaction issues, pre-closing and closing matters.

SOL Palvelut Oy, a leading Finnish professional cleaning company. Our Riga office advised SOL Palvelut Oy in acquisition of SIA SVE-LAT, one of the largest Latvian cleaning companies. We assisted the client in legal due diligence of the target, drafting and negotiation of the share purchase agreement, and the closing of the transaction. Partner Gints Vilgerts and senior associate Brigita Terauda handled the matter.

Advising European postal company. Our offices assisted in acquisition of a leading courier service companies in three Baltic countries by a European postal company, performing such duties as: carrying out legal due diligences; assisting in corporate matters; taking care of the local concentration notification; pre-closing advice on restructuring of the companies. The team of lawyers was managed by partner Kestutis Adamonis.

Advice in large real estate deals
The real estate market in the Baltic States continues to develop very fast, and Sorainen Law Offices have provided an extensive advice on real estate issues in November and December 2004.

Tallinn office advised Nordic industrial company in concluding the purchase of a very large real estate in Tallinn (production and office building). Due to several environmental and financial issues involved, an innovative transaction structure was used. The leading lawyer in the deal was our partner Toomas Prangli.

The total amount of real estate purchases on which legal advice has been provided by lawyers from Sorainen Offices in Riga has exceeded EUR 13 million in November and December 2004. Associate Elina Cakste-Razna from

the Riga office notes: "The process of concluding deals is complicated by a continuous increase in property prices and an unclear status of properties as a result of which sellers insist on inclusion of their provisions into purchase agreements. Thus, it is of a particular importance to identify and assess all risks related to property. Prior to purchase, customers have to carefully check the purpose of using land plots to be purchased and attention should be paid to necessary preparatory work – permits, territory and detail planning."

Advising on restructuring and finance matters

Sorainen Law Offices rendered global transport company legal advice on and assistance in the execution of the restructuring of its Baltic subsidiaries, including share deals and mergers. Project was lead by partner Kestutis Adamonis and associate Risto Agur.

Tallinn office advised a major Nordic construction company in analysing the possibilities of a local government seeking to obtain financing, including issuance of securities, for a construction of educational facilities. The case was handled by senior associate Reimo Hammerberg and associate Jane Eespöld.

Advising one of the Estonian largest glass production company

Tallinn office advised one of the Estonian biggest glass production factories in a collective termination with more than 20 employees. Our advice included the preparation of necessary documents in respect of the termination process as well as advising in negotiations with the representatives of the employees. The case was handled by senior associates Karin Madisson and Carry Plaks and associate Katrin Sarap.

The Business Law reform has been completed in Latvia

At the end of 2004, the reform of the Commercial Law was

completed, during which a new law (Commercial Law) came into force and previously established companies had to be re-registered with the new Commercial Register. During the reform, Sorainen Law Offices Riga has re-registered more than 70 companies and a particular activity in re-registration was observed during the last half-year. More than 35 thousand companies in total have been re-registered in the country, however, approximately 25 thousand companies have not been re-registered and their liquidation proceedings will be commenced in the near future. Partners of Latvian companies should, therefore, check the status of their business partners prior to commencement or continuation of cooperation.

● Handbook of the Baltic Business Law

Sorainen Law Offices have published 400 pages comprehensive guide "The Handbook of the Baltic Business Law" to the legal issues encountered when doing business in the three Baltic States - Estonia, Latvia, and Lithuania. Its recent electronic edition was made available for our clients and contacts together with our Christmas card and has received extremely positive feedback and high appreciation from our readers. The publication will be published by the Danish Embassies in the Baltic States within couple of months.

● Articles

The following articles have been published during November and December:

- Newspaper *The Baltic Times*:
 - Pekka Puolakka: European Company - what is it?
 - Karin Madisson: How easy is it to fire a manager?

- Liudas Ramanauskas: Transfer of shares in the Baltics: are there any peculiarities to be aware of?

- Konstantin Kotivnenko: How to move Excise Goods within the Baltic States?

- Kaido Loor: How to buy legal services smart?

- Janis Taukacs: Tax disputes with state authorities in Latvia - the new era

- Tomas Davidonis: How are dividends taxed in the Baltics?

- Anete Rubene: Board liability insurance in the Baltics

Magazine De Facto:

- Interview with Evelin Pärn-Lee, Edgars Briedis and Raminta Karlonaite: Towards a modern competition culture

Paper of the British Chamber of Commerce in Lithuania:

- Justina Gutauskaite: Can Minority Shareholder Influence Decisions at the General Meeting?

The aforementioned and many other articles written by lawyers of Sorainen Law Offices can be found on our website www.sorainen.com

● Seminars

Janis Taukacs and Edgars Koskins read lectures on tax, business law and employment law in Latvia at a seminar organised by Helsinki School of Economics for businessmen from Finland.

● Employees

In 2005, Attorneys-at-Law **Girts Ruda** and **Karin Madisson** are invited to become partners at Riga and Tallinn offices respectively. Mr. Girts Ruda is the leading banking and finance expert in the office and the head of the finance practice group. He also has five

years work experience in the Latvian banking sector. He holds a certificate of Latvian Insolvency Practitioner. Ms. Karin Madisson is the leading expert in offices' company law issues and also practices employment law and litigation. She has been a certified bankruptcy trustee since 2001.

Associate **Kai Kaljaste** was admitted to the Estonian Bar Association and partner **Pekka Puolakka**, member of the Finnish Bar Association, became an associated member of the Estonian Bar Association.

Lawyers from the Riga office are actively joining the Latvian Bar Association - senior associate **Anete Rubene** has become Attorney-at-Law and associate **Edgars Koskins** Assistant Attorney-at-Law.

Tomas Davidonis, a senior associate of Vilnius office, specializing in Corporate Finance & Tax, International Trade & Transport, IT & Communications, has been admitted to the Lithuanian Bar Association.

● Other news

Riga office became a member of the Danish Chamber of Commerce in Latvia.

The Riga office as a permanent sponsor sponsored the professor Karlis Dislers competition on playing court proceedings organised by ELSA (the European Law Students' Association) in Latvia.

Vilnius office has sponsored the annual Students' Law Olympics, organized by ELSA Lithuania. **Mindaugas Lescius**, Attorney-at-Law, has participated in the event as a chairman of the panel of judges.