LITHUANIA
REAL ESTATE MARKET REVIEW

ANNUAL REPORT, MARCH 2012

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YEAR OF PATIENT WAITING

In 2011 rapidly growing Lithuanian economy gave an impulse for the RE market changes. The first half of 2011 completely justified expectations of RE market participants. Vacancy rate of commercial objects decreased, rent rates increased, discounts provided during the crisis period vanished. In terms of location and concept, attractive objects had good opportunities for the effectiveness of operating, improvement of investment attractiveness. However, in the second half of 2011 Euro zone problems were growing and consumer expectations deteriorating, market activity started to perish.

It should be noted, that during all 2011, commercial RE market was characterized by qualitative rather than quantitative changes: object concepts were improved, stronger tenants replaced less solvent, larger tenants replaced smaller. Interest in Lithuania by the international companies increased, and retail sector clearly demonstrated that. Lidl was continuing preparations to move into the Lithuanian market. IKEA announced plans to open a shopping centre in 2013. Besides, H&M plans to enter the market became apparent.

2012 promises a much more restrained year. Growth of country economy and RE market development will depend on how Euro zone will manage its public finance problems. It is likely, that an experience gained during the crisis period, optimized operation of companies, will allow RE participants to feel secure enough and to maintain status quo even in case of unfavorable circumstances.

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Economic Overview

SUMMARY

2011 was a year of accelerated economic growth. Economic recovery gained momentum in 2011 as GDP increased by 5.9 per cent yoy and was the fastest during the last three years. Positive changes in gross value added have been observed in all groups of industrial activity. Key growth factors were export (mostly manufactured goods) and the retail trade. The export growth rate was among the fastest in the EU increasing by 28.8 per cent yoy.

According to the Department of Statistics of Lithuania, in 2011 annual GDP amounted to EUR 30.6 billion. A growth in GDP was observed in construction (by 15 per cent), industry (by 7.6 per cent) and trade, transport and communication (by 7.3 per cent). However, GDP growth in 4Q slowed down significantly to 4.4 per cent, reflecting a changing economic situation and uncertainty for the upcoming year as the outlook for 2012 is quite cloudy.

Inflation grew by 4.1 per cent in 2011. The annual inflation rate was largely due to a 9.4 per cent increase in prices of housing, water, electricity, gas and other fuels, a 5.5 per cent increase in food products and non-alcoholic beverages, and a 4.7 per cent increase in transport goods and services.

According to preliminary data the unemployment rate in Lithuania reached 15.4 per cent dropping by 2.4 percentage points compared to 2010. Despite a slight improvement the situation in the labour market remained tense due to lack of skilled specialists and the highest emigration among the EU countries.

According to the latest data from the Statistics Department of Lithuania, as of 30 September 2011, cumulative FDI in Lithuania amounted to EUR 10.7 billion, a 6.3 per cent increase compared to the same period last year (EUR 10.1 billion). Top investors were Sweden (14.3 per cent), Poland (13 per cent), Germany (9.9 per cent), the Netherlands (8.6per cent), Russia (6.3 per cent), Denmark and Norway (each 5.3 per cent). FDI from the EU-27 accounted for 75.4 per cent and from CIS countries 6.9 per cent of total FDI.

MAIN ECONOMIC INDICATORS OF LITHUANIA

	2005	2006	2007	2008	2009	2010	2011	2012f
Nominal GDP, EUR billion	20.9	24.0	28.6	32.2	26.7	27.4	30.6	31.5
GDP at Cchain-linked Volume, EUR billion	19.3	20.8	22.8	23.5	19.9	20.3	21.5	22.5
GDP growth, % yoy	7.8	7.8	9.8	2.8	-15.0	1.3	5.9	2.5
Industrial Production, % yoy	7.1	7.3	4.0	2.7	4.7	6.6	7.6	n/a
Unemployment Rate, % avg	8.3	5.6	4.3	5.8	13.6	17.8	15.4	14
Total Public Debt, % GDP	18.4	18.0	16.9	15.6	29.3	38.2	39.4	n/a
PPI avg, % yoy	11.5	7.4	7.0	18.0	4.5	3.8	8.5	n/a
CPI avg, % yoy	2.7	3.7	5.7	10.9	4.2	1.3	4.1	2.5
Fiscal Balance, % GDP	-0.5	-0.4	-1.0	-3.2	-9.5	-7.0	n/a	n/a
Export, EUR billion	9.5	11.3	12.5	16.1	11.8	15.7	20.2	n/a
Import, EUR billion	12.5	15.4	17.8	21.1	13.1	17.7	22.6	n/a
C/A Balance, EUR billion	-1.5	-2.6	-4.1	-3.8	1.1	0.5	-0.5	n/a
C/A Balance, % GDP	-7.1	-10.6	-14.5	-11.9	4.3	1.8	-1.7	n/a
Cumulative FDI, EUR billion	4.7	6.9	8.4	10.3	9.1	10.2	n/a	n/a
LTL/USD aop	2.7746	2.7513	2.5230	2.3569	2.4828	2.6099	2.4817	n/a
LTL/EUR aop	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528	3.4528

f – forecast
Source: Department of Statistics to the Government of the Republic of Lithuania, Ministry of Finance, SEB, SWEDBANK.

TENDENCIES AND FORECASTS

◊ Economic trends in 2012 will depend on the international environment and especially on how the debt problems of Eurozone states are solved. Current and future fiscal consolidation in some EU countries may negatively influence foreign demand for Lithuanian production. However, a relatively well diversified export structure will help to avoid recession since the outlook for major Lithuanian export markets is quite positive in the context of many Eurozone countries.

◊ Export, which is the engine of Lithuanian economic recovery, will further remain important for the state economy; however, its growth will slow down. Nevertheless, Lithuanian economic growth will be among the highest in the European Union.

◊ An expected moderate increase in real wages and a gradually decreasing unemployment rate will fuel domestic consumption growth.

◊ The job market will continue slow recovery. As a result of slower economic growth, the unemployment rate will not decrease sharply. Issues in the job market such as lack of qualified specialists and high emigration will persist.

◊ Inflation will remain an obstacle to be overcome to enter the Eurozone since prices of raw materials, food and energy are expected to grow.

Office Market

OVERVIEW

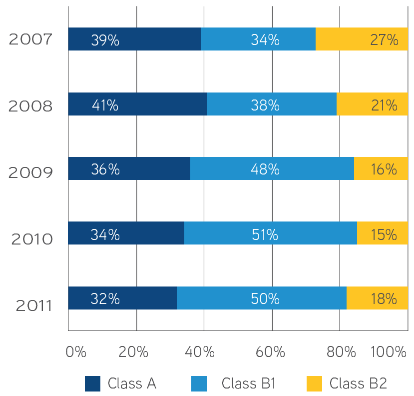
2011 may be described as a relatively calm period in terms of new projects and leases. However, after several international companies successfully settled in Vilnius in 2010, RE developers were encouraged to start planning new business centres or resume constructions started earlier.

SUPPLY

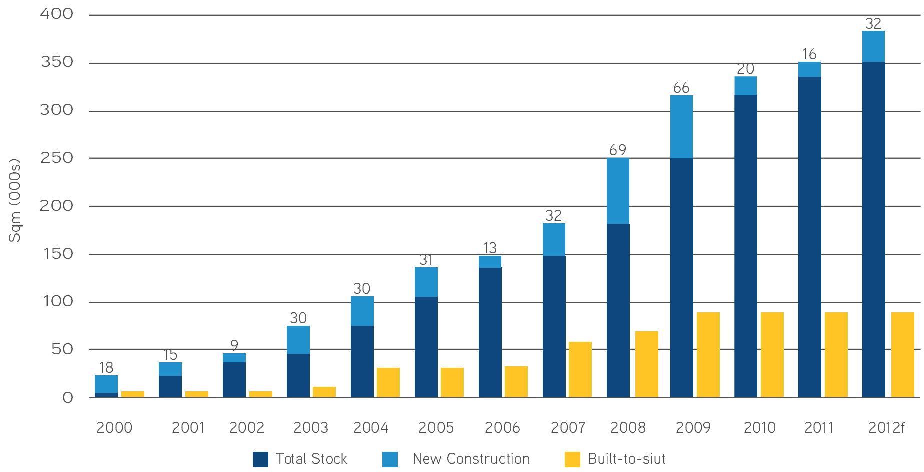
At the end of 2011 the total supply of Vilnius office space stood at 351,100 sqm, of which A class office premises accounted for approx 32 per cent of the total office space market and B class - approx 68 per cent. In 2011, the supply of Vilnius office space increased by 4.6 per cent, with two business centres of 15,700 sqm being added to the market.

5,000 sqm of new office premises were added to the market in new entertainment venue Zalgirio arena opened in Kaunas in 2011. No new project was added in Klaipeda office market in 2011. At the end of 2011 Kaunas office space consisted of 43,000 sqm and the Klaipeda office market - 62,600 sqm of office space.

DISTRIBUTION OF SPECULATIVE OFFICE SPACE IN VILNIUS BY CLASS



DYNAMICS OF OFFICE SPACE IN VILNIUS



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COMPLETED SPECULATIVE PROJECTS IN VILNIUS IN 2011				
Project	Class	Address	GLA, sqm	Developer
LJB*	B2	Savanoriu Av. 28	12,400	LJB Property
Evita	B1	Savanoriu Av. 18	3,300	Respektas
Total			15,700	

* former built-to-suit project

LIST OF NEW SPECULATIVE PROJECTS UNDER CONSTRUCTION IN VILNIUS IN 2012				
Project	Class	Address	GLA, sqm	Developer
Gama	B1	Ozo St. 14	11,400	Realco
The Merchants Club	A	Gedimino Av. 35	6,300	Pirkliu Klubas
Ulonu	B1	Verkiu St. 25C/ J. Galvydzio St. 1	3,500	PST Investicijos
Baltic Hearts (stage I)	A	Ukmerges St. 120	3,300	ZVC
Trapecija	B1	Pilaites Av. 16	2,500	Intractus
Transmeda	B1	Jasinskio St. 10	2,500	Transmeda
Realinija	B1	Vytenio St. 46	2,000	Realinija
Total			31,500	

Developers expect that 2012 will be appropriate to provide new and quality projects to the market in order to meet from time to time emerging demand. Therefore, 7 business centres are planned for completion in Vilnius in 2012, most of them B1 class.

No new projects are planned to add to the market in Kaunas and Klaipeda in 2012. However, in Kaunas Senukai is starting to construct a built-to-suit office building (total area of 17,000 sqm), which should be finished at the beginning of 2013.

DEMAND

More significant changes in the office market were noticeable in the capital only in 2011. Office premises of B1 class located in the CBD and areas close to the centre had the highest demand. The main requirements still remain comfortable access and parking, quality of the premises and reasonable price.

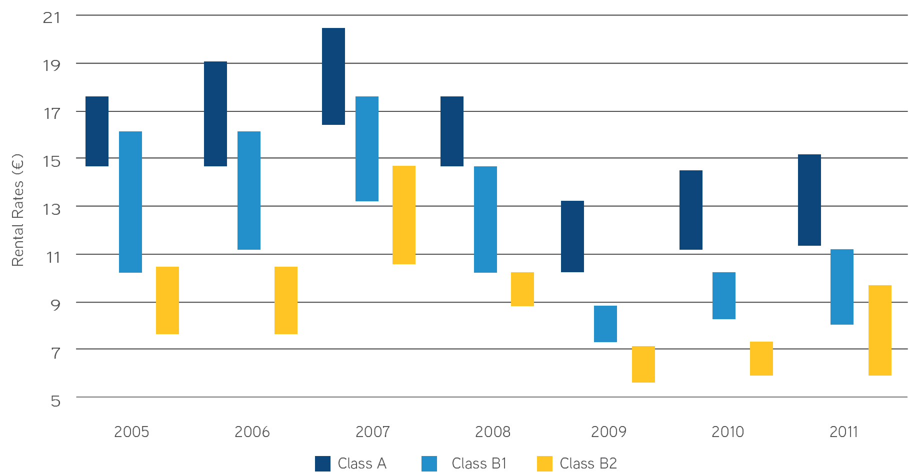
A major lease deal was completed when companies Lindorff and Mirror Accounting moved to the Evita business centre occupying nearly the whole leasable area (approx 3,000 sqm) at the end of 2011. Noticeable, that in Vilnius and other biggest Lithuanian cities there is a shortage of existing new modern office premises where international companies could set up, as they usually need large open space office premises in the same business centre with convenient access.

The Kaunas and Klaipeda office market was not active since deals were few. However, the situation is expected to change during the next years. According to Colliers information, some new international companies plans to come to Lithuania starting from smaller and lower rent level cities. For instance, the UK IT company Callcredit Information Group announced that it is establishing an IT service centre in Kaunas in 2012 with more than 200 workplaces to be created within the next two years.

RENT RATES

The first signs of market recovery were observed with increased activity at the end of 2010 which let developers start to raise asking rent rates in 2011, especially for new tenants.

DYNAMICS OF RENT RATES IN VILNIUS



RENT RATES FOR 2011 IN VILNIUS, KAUNAS AND KLAIPEDA AND TRENDS FOR 2012

Class	Vilnius		Kaunas		Klaipeda	
	Rates*	Trends	Rates*	Trends	Rates*	Trends
A existing	11.2 - 15.0	→→	8.7 - 10.0	→→	8.7 - 9.3	→→
B1 existing	7.9 - 11.0	→→	7.2 - 9.5	→→	6.4 - 8.7	→→
B2 existing	5.8 - 9.5	→→	4.1 - 6.0	→→	4.3 - 6.4	→→

* asking rent rates (EUR/sqm/month) excluding VAT and operating expenses
→→ - stable

At the end of 2011 class A business centres rent rates were around 10 per cent up yoy, which is primarily due to reduction of vacant office space and overall economic recovery. Asking rent rates for class B business centres premises also increased about 10 - 15 per cent yoy or even more, as class B offices premises located in the city centre experienced higher demand. No rent rate level changes were noticed for the office premises located in oversupplied locations.

The rent rate level in the Kaunas and Klaipeda office market did not show significant changes.

VACANCY RATES

VACANCY RATES FOR 2011 IN VILNIUS AND TRENDS FOR 2012

Class	2010	2011	Trends
Class A	5.6%	5.9%	→↗
Class B1	17.2%	15.8%	↗↗
Class B2	13.9%	17.5%	→→

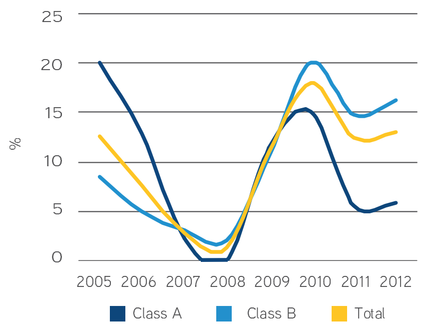
→→ - stable, →↗ - slight increase, ↗↗ - increase

During 2011 the vacancy rate in the Vilnius office market increased slightly to approx 13 per cent. The lowest vacancy rate of 5.9 per cent was observed in class A business centres, which fluctuated between 5 and 6 per cent during 2011. Vacancy rate in class B1 office premises slightly decreased to 15.8 per cent and class B2 office premises significantly increased to 17.5 per cent.

Occupancy level of class B1 business centres increased due to the regular annual office market take-up; whereas noticeable changes in vacancy level of class B2 business centres arose due to the entrance of former built-to-suit project LJB to the market with a vacancy up to 40 per cent.

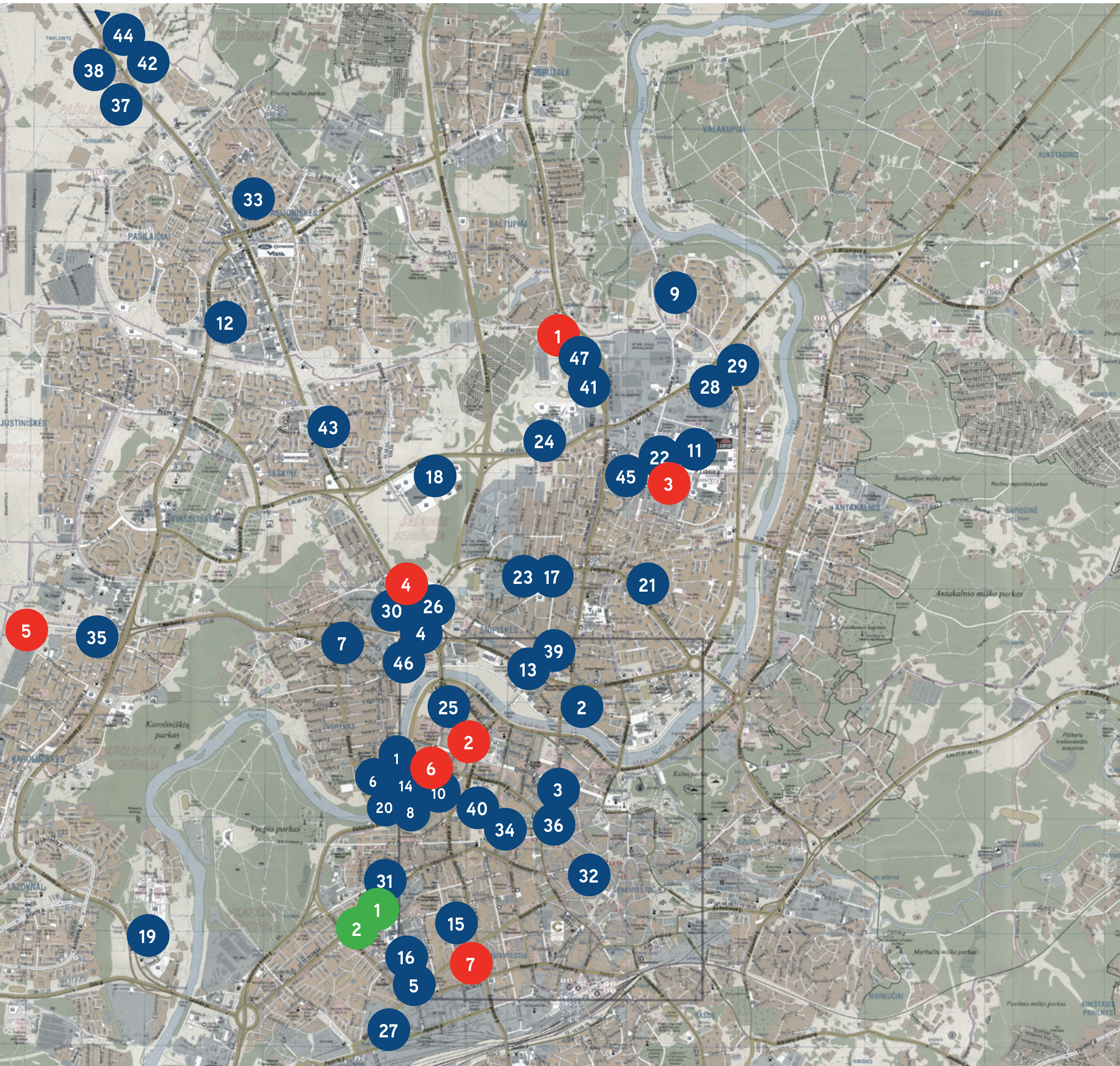
The vacancy rate in the Kaunas and Klaipeda office market did not change significantly - rates remained quite stable in both cities.

DYNAMICS OF VACANCY RATES IN VILNIUS



TENDENCIES AND FORECASTS

- ◊ During the economic crisis, developers, banks and investors suspended implementation of new office projects such as Baltic Hearts and Trapecija, which are now being reviewed and are starting to develop.
- ◊ In 2012 class B1 projects located in the area close to the centre of Vilnius will dominate in supply, accounting for 70 per cent of total new supply.
- ◊ The Eurozone debt crisis will influence activity of companies what in turn will accordingly affect vacancy rate and rent rate levels of office premises.
- ◊ The vacancy rate of class B1 is expected to increase significantly and the rent rates to remain stable.



BUSINESS CENTRES IN VILNIUS

Existing Developments

1. BPT BC
2. IBC BC
3. BC 2000
4. Hanner BC
5. Skraja BC
6. MG Baltic BC
7. Marenta BC
8. Baltic Center
9. Zirmunu BC
10. Eika BC
11. Domus Centre
12. Commercial & Administrative Building
13. Europa
14. Office Plius
15. Vilbra BC
16. Smolensko BC
17. Zalgiris BC
18. Akropolis BC
19. L3 BC
20. Victoria
21. Tuskulenai BC
22. Danola BC
23. Kernave BC
24. Ozo BC
25. Vertas
26. Business Centre, Saltoniskiu St.
27. Skraidenis BC
28. Business-Residential Complex, Zirmunu St.
29. Business-Commercial Centre, Zirmunu St.
30. Saltoniskiu Trikampis
31. Helios City
32. VIH
33. Unimodus BC
34. Administrative Building, Roziu St.
35. Jin & Jan
36. Plaza 31/1
37. MB Projects BC
38. Trio BC
39. Vilnius Business Harbour
40. Taurakalnis BC
41. Alfa BC
42. Kamane BC
43. Evolution
44. Orange Office BC
45. North Star
46. Green Hall
47. Beta BC

Completed in 2011

1. Evita
2. LJB BC

Declared for Completion in 2012

1. Gama BC
2. Merchants' Club (Pirkliu Klubas) BC
3. Ulonu BC
4. Baltic Hearts (I stage)
5. Trapecija
6. Transmeda
7. Realinija

Retail Market

OVERVIEW

Recovery of the retail market was felt in 2011. Decreased space of vacant leasable premises plus increased flows of visitors and retail turnover (by 9 per cent yoy) enabled intensive continuation of investment in concept purification and interior and exterior renovation in existing shopping centres.

The most active in this sector remained food retail chains which continued processes of optimization and mostly expanded in the smaller cities of Lithuania.

SUPPLY

Supply of leasable retail space in big projects over 5,000 sqm in Vilnius remained at 535,000 sqm in 2011. Two new projects, planned for 2011 - 2012 year period, were cancelled: construction works of the Olinda shopping centre, scheduled to appear in the market at the beginning of 2012, were suspended due to cancellation of construction permit. The development of DomusPro shopping centre also did not accelerate due to lack of demand from tenants.

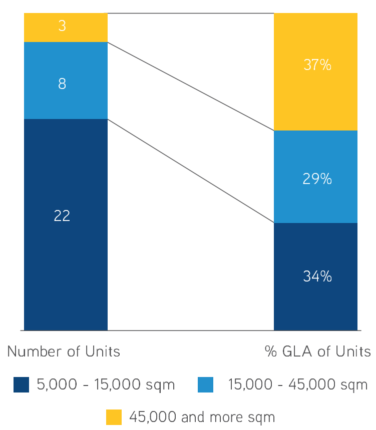
The retail premises market in Kaunas grew by 6 per cent to 249,000 sqm in 2011 after opening of the Ermitazas shopping centre, which added 14,000 sqm of retail space.

Klaipeda retail space grew by 2.8 per cent when shopping centre Liepa was opened at the beginning of 2011, adding 5,500 sqm of retail space. Another city in Lithuania which saw retail space supply increase was Panevezys where shopping centre Moki Vezi (6,000 sqm) was opened. Total supply grew by 6.7 per cent to reach 95,000 sqm.

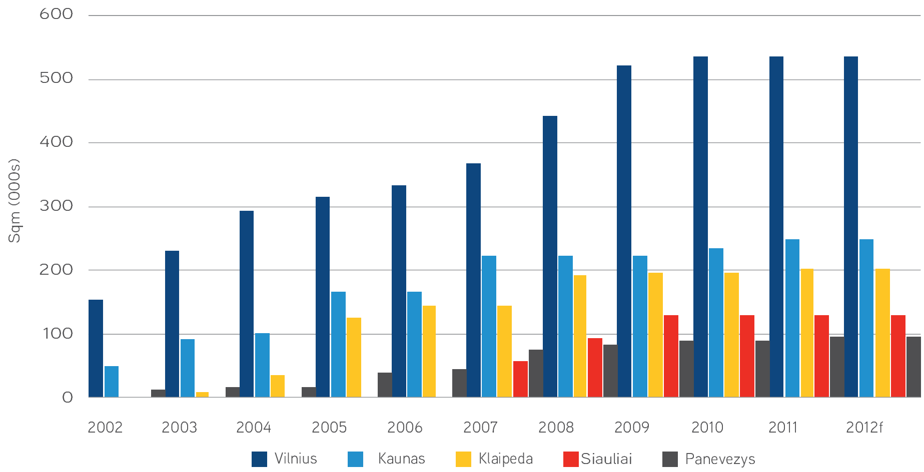
COMPLETED PROJECTS IN LITHUANIA FOR 2011

City	Project Name	Address	GLA, sqm	Anchor Tenants	Developer
Kaunas	Ermitazas/ Promo Cash&Cary	Raudondvario Rd. 131	14,000	Ermitazas	Sanitex/ Maxima LT
Klaipeda	Liepa	Priestocio St. 30	5,500	Norfa XXL	STIV
Panevezys	Moki Vezi	Klaipedos St. 170R	6,000	Moki Vezi	Makveza
Total			25,500		

DISTRIBUTION OF RETAIL SPACE IN VILNIUS BY SIZE



DYNAMICS OF RETAIL SPACE



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During the 2011 all four main retail chains have made their plans to expand the trade networks. In Vilnius were newly opened 2 Maxima (2,675 and 2,700 sqm) and Norfa (3,200 sqm) hypermarkets. Kaunas market was supplemented by the Norfa XXL hypermarket (3,000 sqm). In Panevezys Rimi hypermarket opened with GBA of 1,800 sqm.

During the next two years a fifth main retail player prepares to expand in Lithuanian market. Finnish company Prisma, which came to the Vilnius retail market in 2009 and to Kaunas in 2011, intends to open up to four hypermarkets during the next two years in Lithuania.

It is also important to mention that a new retail chain brand is entering into the Lithuanian market. Low-price retail chain Lidl should open the first supermarket in Alytus by 2013. An intensive expansion is planned to the other cities in the country as well. Lidl's entry to the Lithuanian market and the expansion of Prisma will benefit consumers as the share of the four main retail chains is approx 77 per cent of the market.

DEMAND

Retail recovery was felt in 2011 - shopping centre managers reported significantly increased flows of local and foreign visitors, the average amount of money spent and demand for leasable premises. However, it is noted that customer habits remained rational and planned as people bought more carefully, often using discounts and promotions. Up to 2 per cent of buyers in the main shopping centres in Vilnius were tourists from neighboring countries (mostly Belarus). According to data from shopping centres, they spend several times more money (EUR 140 - 200 per shopping trip) than Lithuanian buyers.

Increased investment in modernization, development of shopping centres and stores, efficiency improvements, attraction of new, unique and well-known brands to Lithuania showed an optimistic mood among businesses. For instance, the first Next and Massimo Dutti stores were added to the Lithuanian retail market in 2011. In Q1 of 2012 Apranga Group opens a chain of three autonomous Aldo stores. This group constantly attracts new brands to its multibrand stores, as the Lithuanian customers are still anxious for well-known brands. H&M and IKEA plan to open stores not earlier than 2013.

A couple of large shopping centre acquisition transactions occurred in 2011: Ektornet Lithuania SPV1 (daughter company of Swedbank) purchased SC Gedimino 9 (16,562 sqm) in Vilnius for EUR 23 million at auction and Finnish company Pontos group purchased SC Babilonas (26,129 sqm) in Panevezys for EUR 24 million. These transactions show improving activity in the investment field of shopping centres.

Turnover growth is expected for 2012 but forecasts are quite cautious due to Eurozone economic problems. The consumer confidence index, which started to fall in the second half of last year, indicates uncertainty about the future, which may negatively impact demand.

RENT RATES

A slight increase in rent rates only for medium and small retail units was recorded in Vilnius in 2011. Asking rent rates remained unchanged in Kaunas and Klaipeda.

RENT RATES FOR 2011 AND TRENDS FOR 2012

Unit Size	Vilnius		Kaunas		Klaipeda	
	Rates*	Trends	Rates*	Trends	Rates*	Trends
Large retail unit (anchor tenant)	6.0 - 9.0	→→	5.5 - 8.0	→→	5.5 - 8.0	→→
Medium retail unit (150 - 350 sqm)	13.0 - 22.0	→→	9.0 - 20.0	→→	8.0 - 18.0	→→
Small retail unit (100 sqm and less)	18.0 - 30.0	→→	17.0 - 28.0	→→	17.0 - 28.0	→→

* asking rent rates in large shopping centres (EUR/sqm/month) excluding VAT and operating expenses.
→→ - stable

A large gap was still seen between rent rates in primary and secondary projects. Poorly operating projects were keeping rent rates at the lowest possible level to attract successful retailers. The managers of the main shopping centres fixed higher prices up to 10 per cent for the new tenants. The contracts with the large retailers still continue to be based on turnovers and meeting expectations of both sides.

VACANCY

VACANCY RATES FOR 2011 AND TRENDS FOR 2012

City	Vacancy	Trends
Vilnius	3.4%	→→
Kaunas	0.9%	→→
Klaipeda	3.4%	→→

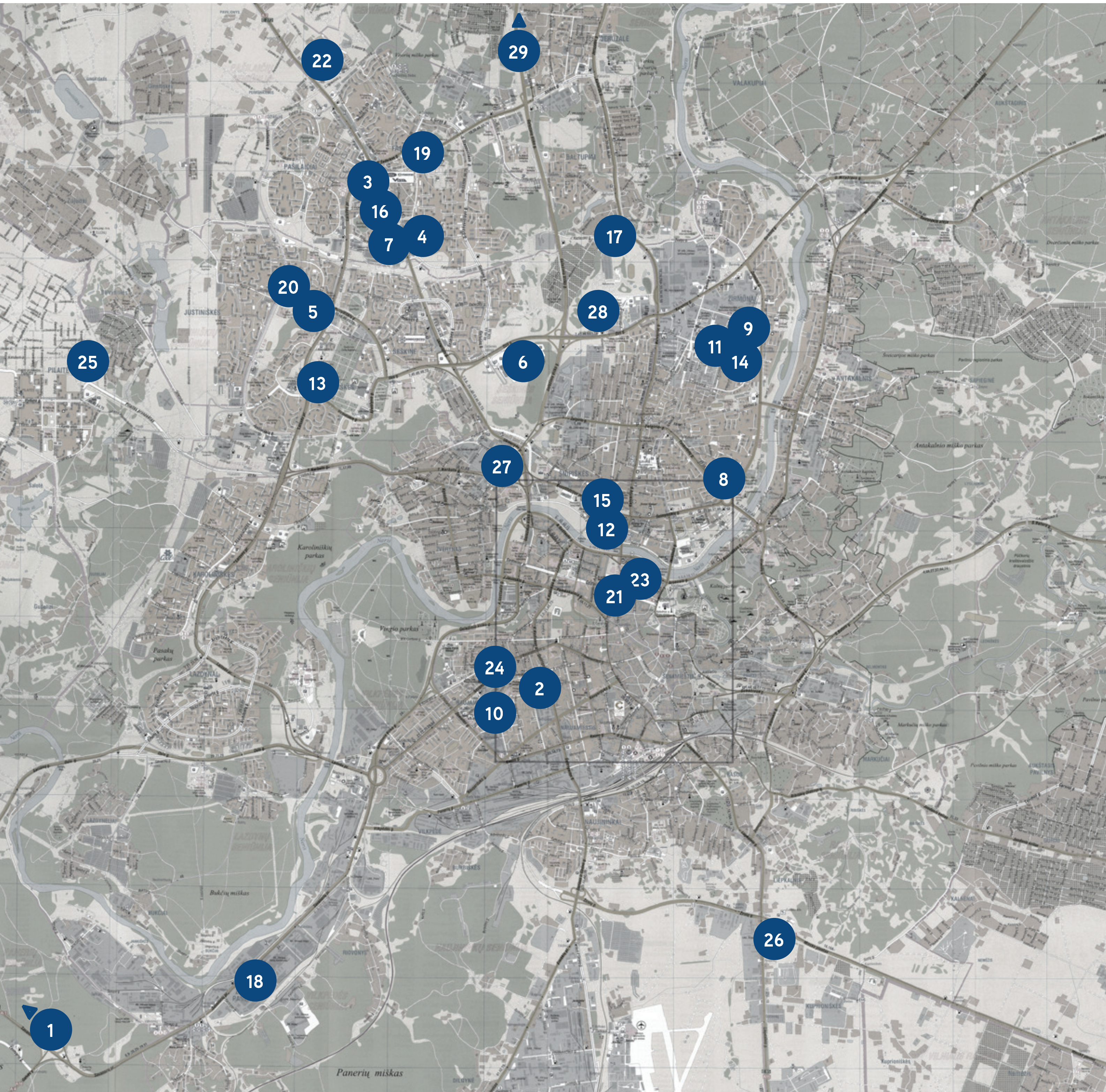
→→ - stable

An increase in demand and leasing activity during 2011 led to vacancy level decline in all larger Lithuanian cities. The vacancy level has declined from 4.5 per cent in 2010 to 3.4 per cent in 2011 in Vilnius, from 2.0 to 0.9 per cent in Kaunas and from 6.3 to 3.4 per cent in Klaipeda.

Full occupancy was recorded in successful biggest shopping centres. According to that fact, the landlords or property managing companies have continued improving the pool of tenants by replacing underperforming tenants by more active tenants in order to attract more customers.

TENDENCIES AND FORECASTS

- Consumption is gradually recovering. This should cause new investment transactions, improvement of the property concept and new brands entering the market.
- Development of large new shopping centres is postponed until 2014 - 2015, but projects up to 5,000 sqm are expected from the main retail chains players. Investment in existing shopping centres is also expected to continue.
- It is forecasted that rent rates and vacancy will remain stable in 2012. Although continuous growth of the economy and retail trade turnover is expected, economic issues in Europe are causing uncertainty about the future.
- The economic outlook in the Eurozone, wage changes and the impact of emigration will affect consumption habits and development of the retail sector in the near future.



RETAIL PROJECTS IN VILNIUS

Existing Developments

1. Maxima-Baze XXX
2. Maxima XXX
3. Maxima XX
4. IKI Fabijoniskes
5. Laisves Shopping Centre
6. Akropolis
7. Senukai
8. IKI Minskas
9. RIMI Hypermarket
10. RIMI Hypermarket
11. Domus Galerija
12. VCUP
13. MADA
14. Banginis
15. Europa
16. SBA Idejos Namams
17. Norfa XXL
18. Furniture Gallery
19. Mandarinas
20. Norfa XL
21. Flagman
22. BIG
23. Gedimino 9
24. Helios City
25. Pupa
26. MaximaXX
27. Panorama
28. Ozas
29. Link Moletu

Warehouse Market

OVERVIEW

In response to the economic crisis developers froze their activities in 2010, which led to a situation where no speculative logistics projects were delivered to the market. However, recovery of the warehouse sector started in 2011, vacancy rates in all major Lithuanian cities declined and some new warehouse projects were added to the market.

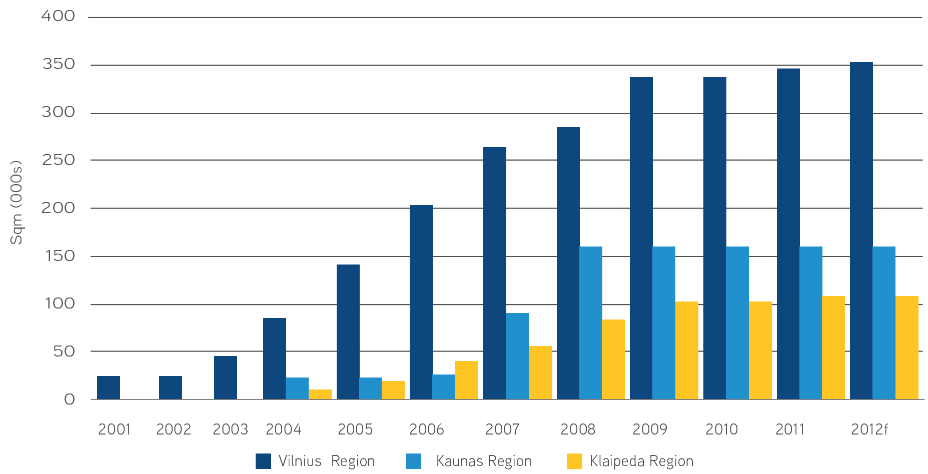
SUPPLY

The warehouse sector is the most developed and the majority of speculative projects are concentrated in Vilnius region. At the beginning of 2012, Vilnius region warehouse space supply was 346,000 sqm. After an empty year in 2010 when no new supply was added to the market, the market showed some activity when one new speculative project - Ektornet Logistics Centre (8,500 sqm) - was added in 2011.

In 2011 new supply was mainly added by construction of built-to-suit projects. Companies Transimeksa and Entafarma developed warehouses for their own needs - 12,500 sqm and 8,000 sqm respectively. Excess space in these projects offered for other tenants thus increased existing supply.

No new warehouse projects were implemented in Kaunas region, leaving supply at 160,200 sqm. Meanwhile a new logistics centre was developed in Klaipeda region - Vlantana Logistics Centre (10,500 sqm), where half of the total area is for the developer's own needs.

WAREHOUSE SPACE DYNAMICS



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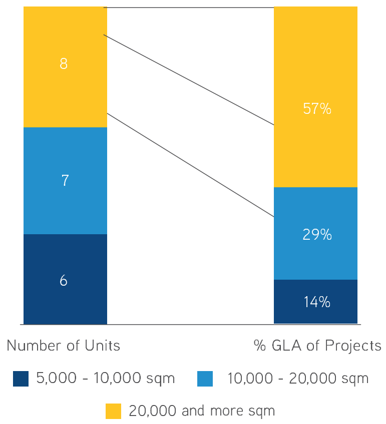
COMPLETED PROJECTS IN LITHUANIA IN 2011				
Region	Project	Type	Total Area, sqm	Developer
Vilnius	Ektornet Logistics Centre	Spec basis	8,500	Ektornet
Vilnius	Transimeksa Warehouse	Built-to-suit	12,500	Transimeksa
Vilnius	Entafarma Warehouse	Built-to-suit	8,000	Entafarma
Klaipeda	Vlantana Logistics Centre	Built-to-suit	10,500	Vlantana
Total			39,500	

LIST OF NEW SPECULATIVE PROJECTS UNDER CONSTRUCTION IN LITHUANIA IN 2012			
Project	Address	Total Area, sqm	Developer
Airport Business Park (III stage)	Dariaus and Gireno St. 81, Vilnius	7,300	Ogmios Group
Total		7,300	

DISTRIBUTION OF WAREHOUSE PROJECTS IN VILNIUS BY SIZE



In 2012 situation in the market in terms of new projects practically will not change. Built-to-suit projects will continue to be developed (for instance, construction of Transekspedicija warehouse of 6,000 sqm in Vilnius region, expansion of Logistics Centre BLS (previously Via Baltica Logistics Centre) by additional 6,700 sqm in Kaunas region). Speculative projects will be developed after finding tenants in advance (for instance, stage III of Airport Business Park in Vilnius, which is currently under construction, already has tenants such as VBH-TBM, Hellmann, ACE Logistics, Stropuva and others).

Apart from private initiative, the state is also making efforts in the developing of new logistics parks in the biggest cities of the country. So far the most realistic is Vilnius Public Logistics Park since its detailed plan was prepared at the beginning of 2011. Its founders are Lithuanian railways and Vilnius municipality. Territory of 31 ha vacant state land is situated near Vilnius International Airport, next to one of the biggest Vaidotu distribution station in whole IX railway transport corridors. The first letter of intent between companies Rhenus Svoris and Lithuanian railways has already been signed, according to which Rhenus Svoris will build a warehouse of 15,000 sqm on a leased land plot.

DEMAND

Demand for warehouse premises grew in all major Lithuanian cities in 2011. Warehouse operators, logistics companies and retailers remained the main tenants. These tenant groups occupy around 90 per cent of the total leased area of speculative warehouses. Number of these were relocating or expanding their business in the local market.

Last year the Kaunas warehouse market saw great changes. Sanitex acquired Via Baltica Logistics Centre (27,000 sqm) from Ogmios Group at the beginning of 2011. Meanwhile Coca-Cola relocated from Vilnius and Kaunas subdivisions to industrial premises (10,000 sqm) at S. Lozoraicio St., Garliava, Kaunas district. As the supply of modern warehouse facilities is very limited in Kaunas region, financially strong companies may decide to start developing built-to-suit warehouse projects.

The Klaipeda warehouse market was not less active in 2011 and that is confirmed by significantly decreased vacancy, which stood at a little bit more than 5 per cent at the beginning of 2012. Warehouse premises were successfully leased out to both existing companies and new companies which entered the market (for instance, warehouse premises were leased out to some Russian companies servicing Russian market).

RENT RATES

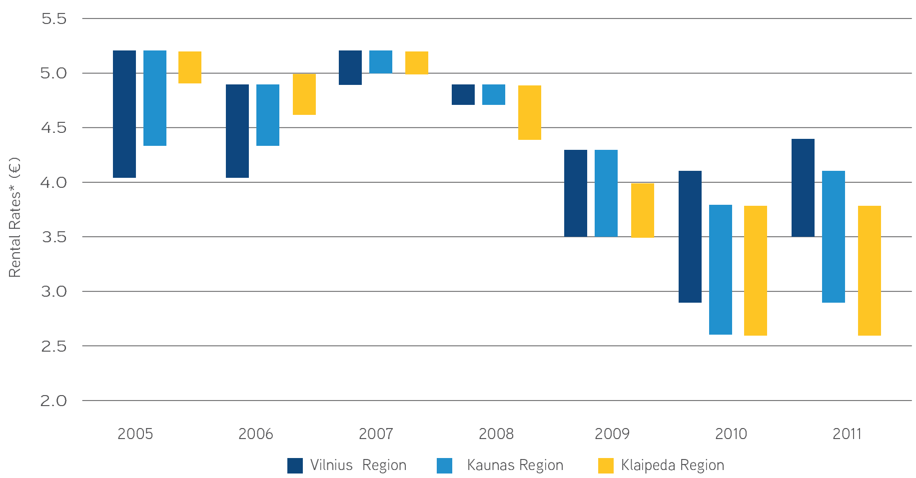
After the rent rate level stabilisation seen during 2010, overall economic situation improved - in 2011 vacancy rates declined and rent rates of warehouse premises increased.

WAREHOUSE RENT RATES FOR 2011 AND TRENDS FOR 2012

Region	Rates*	Trends
Vilnius	3.5 - 4.4	→↗
Kaunas	2.9 - 4.1	→→
Klaipeda	2.6 - 3.8	→↗

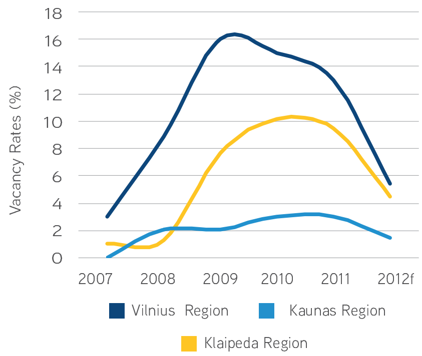
* asking rent rates (EUR/sqm/month) excluding VAT and operating expenses.
→→ - stable, →↗ - slight increase

DYNAMICS OF RENT RATES*



* asking rent rates (EUR/sqm/month) excluding VAT and operating expenses

DYNAMICS OF VACANCY RATES



f - forecast

VACANCY RATES FOR 2011 AND TRENDS FOR 2012		
Region	Vacancy	Trends
Vilnius	3.5 - 4.4	→↘
Kaunas	2.9 - 4.1	→↘
Klaipeda	2.6 - 3.8	→↘

→↘ - slight decrease

Higher rent rates were asked from tenants with exceptional requirements for premises. Also it is noticeable that in the newly-built projects the asking rate was even higher - up to 5.2 EUR/sqm/ month. The range in rent rates remained quite significant, indicating possibility for negotiations.

Rent rates slightly increased in Kaunas (up to 10 per cent) and remained stable in Klaipeda during 2011.

VACANCY RATES

The situation in the Lithuanian warehouse market improved during the last year. The vacancy rate declined in all major Lithuanian cities. The vacancy rate in Vilnius warehouse facilities decreased from approx 9.5 per cent at the beginning of last year to approx 4.5 per cent at the beginning of 2012. Market recovery, expansion of existing tenants and tenants relocating from old to new premises had a direct positive impact on the vacancy rate. The vacancy rate in Kaunas and Klaipeda warehouse facilities also decreased throughout last year.

TENDENCIES AND FORECASTS

◊ New warehousing projects will be developed only for own company needs or after finding tenants, otherwise they will be postponed.

◊ In 2012 the vacancy rate will decline gradually as the market is provided with new projects mainly constructed on a built-to-suit basis.

◊ Taking into account that the economic situation is expected to deteriorate, rent rates may increase only slightly.

◊ Although the warehouse sector is gaining a tendency of expansion, faster growth is not expected, since international economic events and associated risks affect accordingly.

Hotel Market

OVERVIEW

In 2011 the Lithuanian accommodation market demonstrated strong signs of recovery. Practically all main indicators of accommodation operation grew. Positive market changes were determined by the overall economic recovery, the unusually high number of important events that took place in the country (e.g. International Hansa days, AITO and ESBO conferences, EuroBasket 2011), amendments to the law on VAT of 9 per cent (instead of 21 per cent). Besides, an active marketing campaign operated by the Tourism Department finally gave excellent results. After stagnation for more than three years, the interest from international hotel operators in a recovering Lithuanian hotel market with new opening possibilities has come back.

SUPPLY

According to the Department of Statistics, at the end of 2011 Lithuania had 286 classified hotels and guesthouses. The number of classified hotels with insignificant fluctuations remains quite stable for the third consecutive year in a row. Both in terms of the number of establishments and the number of rooms, 3 star hotels and guesthouses occupied a dominant position in the market - 52 per cent and 41 per cent respectively.

During 2011 mainly projects of tourist class hotels were offered to the market. For the construction of these hotels, EU support funds were actively used (Green Vilnius Hotel, Apple Economy Hotel).

Non-branded hotels still play a dominant role in the hotel industry in Lithuania, although interest from international operators in the Lithuanian hotel market is growing.

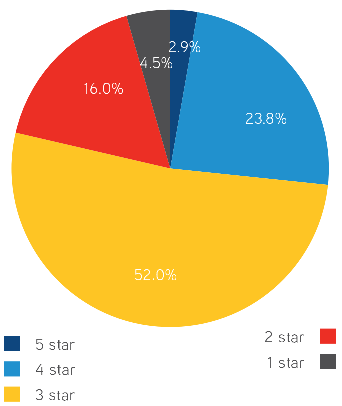
For instance, in June 2011 Nordic Choice Hotels signed a long term agreement with RE development company Selvaag LT over the management of a new economy class 200 room hotel near Vilnius Old town. The hotel under construction is the first stage of a mixed-use project development. A new hotel named Comfort is planned to open at the end of 2012.

The Kaunas market will also soon host a new international operator. In April 2012, the 125 room Ibis Hotel belonging to the Accor hotel chain will open in a reconstructed building near the main city bus station.

Opening a new hotel in Q1 of 2012 in Klaipeda is also planned. The 3 star, 50 room Memel Hotel will start operating in a reconstructed building near the Old Town. One more hotel in this city is planned to open in 2013. The economy class hotel built near the second Smiltynes transfer will offer 144 rooms to the market. Conference and culture event centre will be established nearby in reconstructed premises of former cinema theatre.

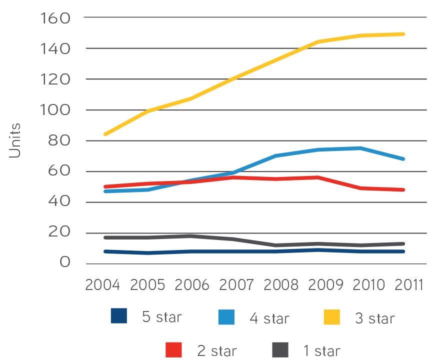
EU support funds are assigned for development of all these projects and for application to tourism needs.

DISTRIBUTION OF HOTELS AND GUESTHOUSES BY NUMBER OF STARS IN LITHUANIA



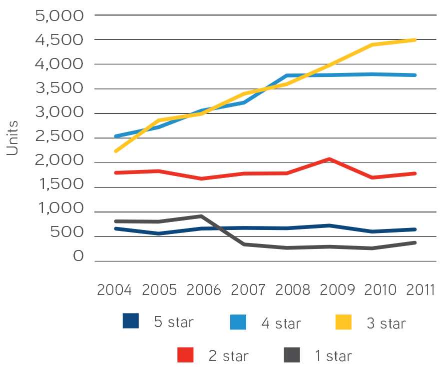
Source: Lithuanian Department of Statistics

HOTELS AND GUESTHOUSES IN LITHUANIA



Source: Lithuanian Department of Statistics

NUMBER OF ROOMS IN HOTELS AND GUESTHOUSES



Source: Lithuanian Department of Statistics

NUMBER OF CLASSIFIED HOTELS AND ROOMS IN LITHUANIA AT THE END OF 2011

Stars	Lithuania		Vilnius		Kaunas		Klaipeda	
	Hotels and Guesthouses	Rooms	Hotels	Rooms	Hotels	Rooms	Hotels	Rooms
5 star	8	645	5	461	-	-	-	-
4 star	68	3,777	16	1,335	8	602	6	510
3 star	149	4,491	21	1,172	4	150	10	288
2 star	48	1,781	9	412	2	100	0	0
1 star	13	376	1	30	-	-	1	22
Total	286	11,070	52	3,410	14	852	17	820

Source: Colliers International, Lithuanian Department of Statistics, Tourism Department.

COMPLETED PROJECTS IN LITHUANIA FOR 2011

City	Stars	Project Name	Address	Number of Rooms	Operator
Vilnius	4 star	Park Villa	Vaidilutes St. 6A	29	Independent
Vilnius	Budget (not classified)	Green Vilnius Hotel	Pilaite Av. 20	126	Independent
Kaunas	2 star	Apple Economy Hotel	Valanciaus St. 19	14	Independent
Kaunas	Budget (not classified)	Kaunas City	Laisves Al. 90	44	Independent
Total				213	

Source: Colliers International.

NEW PROJECTS IN LITHUANIA FOR 2012

City	Expected Completion	Expected Stars	Project Name	Number of Rooms	Status	Operator
Vilnius	End of 2012	3 star	Comfort Hotel	200	Under construction	Nordic Choice Hotels
Kaunas	2012 April	3 star	Hotel Ibis Kaunas Centre	125	Completion phase	Accor Hotels
Klaipeda	2012 March	3 star	Memel Hotel	50	Completion phase	Independent
Total				375		

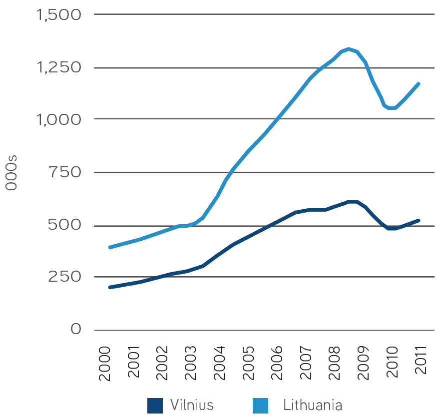
Source: Colliers International.

Other significant events of 2011:

- ◊ After the company Kleta terminated its lease agreement with Europa Group hotel chain, from May the 4 star Europe Royal Klaipeda Hotel operates by the new name National Hotel.
- ◊ The 3 star Centrum Uniquestay Hotel is renamed Grata Hotel after the end of the franchise agreement with the Uniquestay hotel chain.
- ◊ Sale of one of the largest 3 star category hotels, the Martialis, took place in Vilnius in May. The 114 room hotel operating in Antakalnis micro district, established in the place of the reconstructed Soviet era hotel Sportas, was sold for EUR 2.7 million.
- ◊ The 13th attempt by the city municipality to sell its shares in the oldest Klaipeda hotel, the Viktorija, was not successful. The Klaipeda city district court found the sale-purchase agreement and sales act invalid due to late announcement of the auction and too low a sale price (the company Bangu gatves viesbutis offered EUR 232 thousand for the municipality-owned nearly 25 per cent of shares).
- ◊ A tender took place in August at Kaunas airport. The winner - Norwegian investment company Alsco AS together with local company Air Hotel - will have to build at least a 3 star, 2,000 sqm hotel within the next 3 years. Project development will be financed by the Norwegian investor.
- ◊ August saw the opening in Druskininkai of Snow Arena, the only year-round winter activities complex in the Baltic States.

◊ At the end of 2011 the start of implementation of a big new project SPA and Ethno Village in Zibininkai was announced. This is a private enterprise project, supported by local authorities and partially financed by EU funding, with the business idea and aim to create a wellness and goodwill cluster on the western coast of Lithuania within 5 years. The total investment amounts to EUR 10.4 million.

DYNAMICS OF VISITORS IN HOTELS AND GUESTHOUSES



Source: Lithuanian Department of Statistics

DEMAND

According to preliminary data from the Department of Statistics, 1.8 million visitors were accommodated in the country's accommodation establishments during 2011, i.e. 15.4 per cent more than in 2010, of which 1.38 million stayed in hotels and guesthouses, 18.3 per cent more foreigners and local tourists - a yoy increase of 19.9 and 15.6 per cent respectively. Growth of foreign tourist numbers was a record.

During 2011 most guests were accommodated in Vilnius hotels and guesthouses - 637.4 thousand visitors or 22.9 per cent more compared to 2010, of which 83.4 per cent were foreigners - a yoy increase of 23.7 per cent. Growth of accommodated guests in Klaipeda and Druskininkai during the first 9 months was similar to the Lithuanian average - 16.7 per cent and 16.1 per cent respectively, in Kaunas - 12.5 per cent.

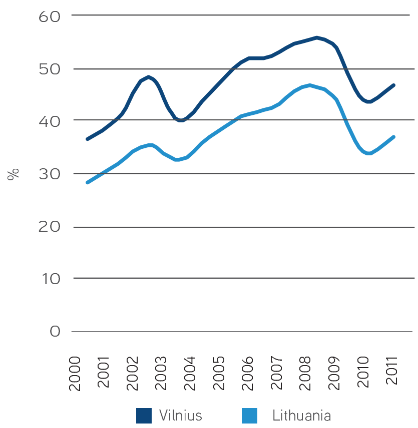
The main factors determining growth of tourist flows were overall recovering tourism in EU countries, the abundance of significant events that took place in the country (AITO and ESBO conferences, EuroBasket 2011), city festivals (International Hansa days in Kaunas, the Sea Festival in Klaipeda and others), and expansion of low-fare airlines.

As in the previous year, the top five countries in terms of highest number of tourists remained unchanged.

During 2011 most visitors arrived from Russia - 148.3 thousand (growth of 40 per cent), Poland - 139.6 thousand, Germany - 128.9 thousand (growth of 21.8 per cent), Belarus - 92.2 thousand (growth of 29 per cent), Latvia - 66.2 thousand. Besides, an unprecedented number of tourists arrived from Spain (growth of 56.2 per cent) and Italy (growth of 39.7 per cent).

During the unrest in North Africa and Middle East more tourists chose the Baltic States for rest. Besides, habits of tourists from neighboring countries (Belarus, Russia) have changed. Visitors are coming to Lithuania not only to shop, but also for a longer stay - to spend time purposefully during major holiday time.

DYNAMICS OF AVERAGE ROOM OCCUPANCY RATE IN HOTELS AND GUESTHOUSES



Source: Lithuanian Department of Statistics.

OCCUPANCY

Significantly increased hotel occupancy confirms that the hotel business is recovering.

Hotel and guesthouse occupation during 2011 averaged 44.4 per cent in Lithuania and 56 per cent in Vilnius, a yoy growth of 20.3 per cent and 19.7 per cent respectively. Growth of more than 20 per cent of hotel occupancy during the first 9 months demonstrated Kaunas, Klaipeda, Druskininkai hotels. Today Druskininkai is the only resort in the country to have solved the seasonality problem thanks to a developed active rest infrastructure (e.g. Aquapark, Snow Arena) and wellness and conference tourism services.

EuroBasket 2011 which took place in September in Lithuania did not especially influence the hotel business - fewer tourists than expected arrived in the country. It influenced that all other events of that period were postponed to a later date. During this period hotel occupancy in particular cases was even lower than usual during this time of year.

PRICES

PRICE RANGE FOR DOUBLE STANDARD HOTEL ROOMS IN VILNIUS			
Number of Stars	Minimum Price*	Maximum Price*	Trend for 2012
5 star	120	190	→↗
4 star	66	169	→↗
3 star	30	89	→↗

* - rack rate, EUR
→↗ - slight increase

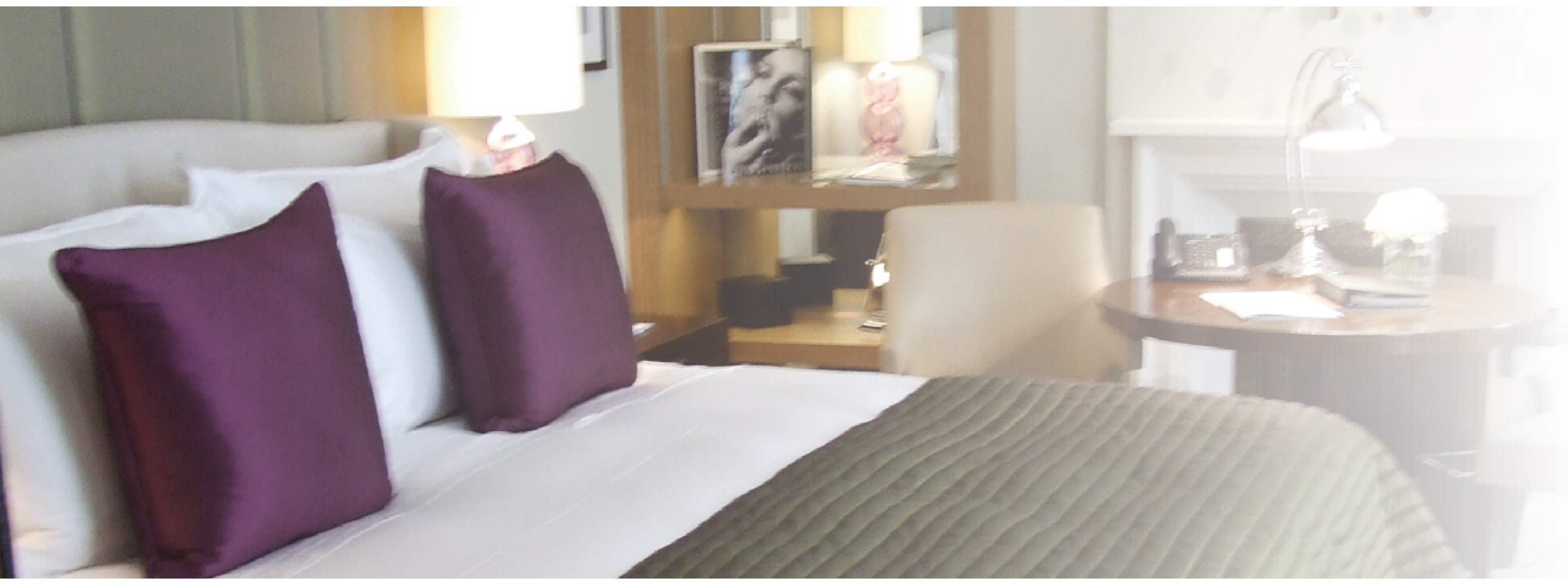
Amendments to the law on VAT of 9 per cent (instead of 21 per cent) which entered into force at the beginning of 2011 have so far helped hotels to regain competitiveness, especially among neighboring countries. Even more tourist agencies were able to apply a much more flexible pricing policy, significantly increasing the flow of tourist groups.

Notably, although all other indicators broke records, prices did not return to the pre-crisis level but rather repeated year 2009, except for September, which is considered an exception rather than a general trend.

We anticipate the price of hotel rooms to grow during the coming year. At the end of 2011, the Seimas as a matter of urgency abolished the temporary VAT exemption of 9 per cent for hotels. Therefore, there is a basis to expect that the burden of increased tax (21 per cent) will be shifted on to the shoulders of hotel guests.

TENDENCIES AND FORECASTS

- ◊ Supply growth of new hotels in 2012 - 2013 will remain primarily focused on the tourist class segment, since attempts to use EU support funds for development of tourist class segment projects will be made (in 2010 throughout Lithuania more than EUR 39 million was assigned to build and reconstruct 34 tourism objects).
- ◊ The impact of the Eurozone crisis for Lithuania is expected to be gentle enough, so that the dynamics of incoming tourist flows to Lithuania in 2012 - 2013 will remain positive.
- ◊ We anticipate that in 2012 prices of hotel rooms will adjust upwards after reduced VAT was removed.
- ◊ International operators will further search for possibilities to establish themselves in the Lithuanian hotel market, though only hotels bigger than 50 rooms will receive their attention.
- ◊ New projects are planned in Palanga city in 2012 - 2013 in order to increase the attraction of this Lithuanian resort. In addition to social infrastructure works, wellness projects are planned to start developing in the city (reconstruction of Linas pool and Mariners hospital rehabilitation centre). This will exploit the biggest resort potential - geothermic water.
- ◊ In 2012 the Tourism Department plans to actively promote Lithuania not only in the markets of neighboring countries, but also in the Mediterranean Sea region and China, thereby increasing Lithuania's profile in these countries.
- ◊ Lithuanian international airports have ambitious plans for development and operational effectiveness, to further improve the country's accessibility by air transport.



Legal Overview

TITLE TO REAL ESTATE, REAL ESTATE REGISTER

Ownership of real estate is acquired upon completion of construction or on the basis of different transactions, such as sale-purchase, grant, or exchange (swap).

Real estate and related rights are registered with the Real Estate Register. There is no mandatory requirement to register transfer of title; however, a transaction must be registered before it can be invoked against a third party.

The Real Estate Register keeps and manages information on the legal status of real estate, including all encumbrances, mortgages, rights of first refusal, and other relevant rights and obligations; the information it contains is publicly available. Data recorded with the Real Estate Register is considered true and comprehensive until proven otherwise.

ACQUISITION OF REAL ESTATE

General

Ownership of immovable property can be transferred if the property is formed as a real estate object, has a unique number, and is registered with the Real Estate Register. Real estate objects include inter alia land plots, construction objects (eg buildings) and premises.

Upon sale of a building, the buyer's rights to the land plot occupied by the building and necessary for use of the building must be specified in the acquisition agreement. An agreement which does not deal with these rights to the land plot may not be approved by a notary and, even if certified, is still ineffective.

Change of Ownership

Title to real estate passes as of the moment of transfer of the property to the new owner. The transfer must be formalised by a transfer-acceptance deed that may either be signed as a separate document or incorporated in the agreement on real estate acquisition.

Asset Transfer vs Share Transfer

Asset deals and share deals relating to real estate are both commonly used in practice.

The following key issues should be taken into account when opting for a share deal:

◊ a share deal does not involve notary fees and state duty for registration of real estate;

◊ the buyer takes over the entire company (assets and liabilities) including any matters and risks that may have occurred before change of ownership;

◊ due diligence investigations are more extensive as a share deal is about transfer of the entire company, as opposed to real estate only;

◊ deferred corporate income tax as well as other tax issues;

◊ existing management structure, employees, and contractual obligations of the company may be not in line with the buyer's expectations.

Asset transfer involves the following key issues:

◊ an asset deal may be more expensive than a share deal, as an asset deal involves notary fees and stamp duties;

◊ Lithuanian law entitles a tenant of the property to terminate the lease upon change of ownership of leased property;

◊ under certain circumstances an asset deal may be treated as a sale of the entire company, in which case the buyer may be exposed to additional risks related to validity of the transaction and liability to creditors and employees of the company which owned the target real estate;

◊ limited scope of due diligence investigation as it covers only the target asset.

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FORM OF AGREEMENTS

Share transfer transactions require simple written form, whereas real estate transactions must also be certified by a notary. Failure to notarise a real estate transfer agreement makes the agreement ineffective.

LANGUAGE REQUIREMENTS

Transactions between Lithuanian legal and natural persons must be in Lithuanian. However, translations into one or more other languages may also be attached. Transactions with foreign natural and legal persons may be in Lithuanian and another language acceptable to both parties. However, if a transaction requires approval of a notary, the Lithuanian language document prevails.

DUE DILIGENCE

Legal due diligence of target real estate is recommended. This includes, for example, title, encumbrances, third party rights, zoning and planning issues, existing lease agreements. Due diligence analysis may provide the buyer with certainty and information relevant to the transaction.

RIGHT OF FIRST REFUSAL

The right of first refusal is established by law or contract. Examples of the statutory right of first refusal include a co-owner's right of first refusal to acquire a share in case of sale of commonly-owned real estate, except if the sale takes the form of a public auction; the state's right of first refusal to acquire land in, for example, national and regional parks, or state reservations. In addition, if a building and its land plot have different owners, the owner of the building situated on the land plot to be sold enjoys a right of first refusal to acquire the land plot.

The parties may also agree on a contractual right of first refusal. If real estate is sold in violation of that right, the holder of the right of first refusal is entitled to claim transfer of the buyer's rights and obligations.

TYPICAL PURCHASE PRICE ARRANGEMENTS

The price of real estate must be specified in the sale-purchase agreement, otherwise the agreement is ineffective. The parties are free to arrange payment of the purchase price. Payment may be made in one lump sum or divided into several instalments. For example, the first portion of the price may be transferred in order to secure the preliminary agreement or on the day of notarisation of the sale-purchase agreement, with the remainder paid after certain conditions are fulfilled, such as release from mortgage, vacation of property. Title to real estate may be transferred before or after payment of the full purchase price.

RELATED COSTS

It is up to the parties to agree on how they will bear the transaction costs. Usually, the buyer pays for state and stamp duties, whilst notary fees are shared equally between the parties.

The fee for notarisation of an agreement for real estate acquisition amounts to 0.45 per cent of transaction value, with a maximum of EUR 5,792 for transactions involving one real estate object and a maximum of EUR 14,481 for transactions involving two or more real estate objects. The stamp duty for legal persons to register title to real estate ranges from EUR 23 to EUR 1,448 for each object depending on the average market value of the property. Additional expenses such as brokerage fees, real estate valuation, bank fees, translation fees, legal fees and fees for technical, environmental, and financial due diligence may also be incurred during a transaction.

RESTRICTIONS

Restrictions on Acquisition of Real Estate

Buildings and other constructions may be acquired by Lithuanian or foreign natural or legal persons without restrictions.

Foreign legal and natural persons may acquire title to land provided they comply with European and Transatlantic criteria.

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Foreign legal entities are deemed to comply with European and Transatlantic criteria if established in:

- ◊ Member States of the European Union or states parties to the European Treaty with the European Communities and their Member States; or
- ◊ Member Countries of the Organisation for Economic Cooperation and Development (OECD), states parties to the North Atlantic Treaty Organisation (NATO) or the European Economic Area Agreement.

Foreign natural persons are deemed to comply with European and Transatlantic criteria, if they are:

- ◊ 0.2 per cent - for cadastral;
- ◊ citizens or permanent residents of any of the states specified above; or
- ◊ permanent residents of Lithuania although not holding Lithuanian citizenship.

Note: even if natural or legal persons comply with these criteria, they may not acquire agricultural and forestry land, except:

- ◊ foreign natural persons who permanently reside and are engaged in agricultural business in Lithuania for at least three years; and
- ◊ foreign legal persons and other foreign organisations which have established representative or branch offices in Lithuania.

The restriction on acquiring agricultural and forestry land was due to cease on 1 May 2011 but was extended by the European Commission until 30 April 2014.

Concentration Control

Acquisition or taking possession (eg lease) of real estate may be subject to prior approval by the Lithuanian competition authorities.

An intended concentration must be notified to the Competition Council, whose permission is required where the combined aggregate income of the undertakings concerned is more than EUR 8,688,601 for the financial year preceding concentration and the aggregate income of each of at least two undertakings concerned is more than EUR 1,448,100 for the financial year preceding concentration. Note: if a Lithuanian undertaking participates in a concentration, its worldwide income will be taken into account. This does not apply when determining aggregate turnover of a foreign undertaking (ie not incorporated in Lithuania) participating in a concentration, where only income received from sales in Lithuanian product markets is taken into account.

ENCUMBRANCES

Real estate may be encumbered with servitudes (easements), rights of first refusal, lease rights registered with the Real Estate Register, mortgages, and other encumbrances that limit its use or disposal.

MORTGAGE

A mortgage is a security aimed at securing fulfilment of contractual obligations. A mortgage is created by executing a mortgage bond signed by the debtor, the creditor, the owner of the mortgaged real estate, and notarised. A mortgage comes into effect at the moment of registration with the Mortgage Register.

A secured creditor enjoys priority against third parties to redeem the debt from the mortgaged property. A mortgage survives transfer of title to real estate.

As of July 2012, amendments to the Civil Code will simplify execution and foreclosure of mortgages. A contractual mortgage will only require approval of a notary. Mortgage registration will become an administrative process (rather than a judicial one, as it used to be).

A novelty introduced by the amendments to the Civil Code is a possibility to execute a mortgage over a legal entity, ie its property (pool of assets), the composition of which may change in the normal course of business of the mortgaged entity.

PROPERTY MANAGEMENT

Management and maintenance of commercial real estate is usually carried out by the owner or a professional property management company. In the latter case the parties may agree on the scope of owner's rights and obligations to be delegated to the property management company by concluding a property management agreement.

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LEASE AGREEMENTS

General

The main regulatory framework of lease agreements is laid down in the Lithuanian Civil Code. Parties to lease agreements, however, may freely agree on most lease terms. The lease agreement survives transfer of title to the leased real estate object, provided the lease agreement is registered with the Real Estate Register.

Duration and Expiry of Lease Agreement

A lease agreement may be concluded for either an indefinite or fixed term, but in all cases the term may not exceed 100 years. If the term has not been determined, the lease agreement is deemed to be concluded for an indefinite term. A fixed-term lease agreement becomes indefinite if the tenant uses leased property for more than ten days after its expiry and the landlord does not object to such use.

Tenants who have properly discharged their obligations under lease agreements enjoy a right of first refusal against third parties to renew the lease.

Lease Payment and Other Expenses (Utilities)

Terms and conditions for payment of rent and other expenses are subject to agreement between the parties. Rent is usually paid monthly. It is common to agree on annual indexation of rent on the basis of local or EU consumer price indices.

Payments for maintenance of leased real estate and other utility costs (eg water, heating, gas, electricity) are, as a rule, made on top of rent. The landlord may also require a deposit, guarantee, surety or other similar instrument securing payment obligations of the tenant.

DISTRESSED ASSETS PURCHASE

The distressed asset market is a buyer's market. The present situation offers more opportunities to invest in assets that would earlier either have been unavailable or too expensive.

A potential buyer should consider the importance of a full scope due diligence investigation of the asset, including a valuation of future asset performance and seller's solvency in view of the risk of a real estate transaction being revoked in later insolvency proceedings for, e.g., violating the rights of the seller's creditors.

Foreclosure on mortgaged property is initiated by the creditor applying to the mortgage judge for an order for sale of the mortgaged asset at public auction. A public auction of real estate is announced at least one month in advance. A potential buyer should consider the need for swift action, which limits the time for more thorough due diligence investigations. At auction, real estate is sold to the person who offers the highest price.

Due to amendments to the Civil Code coming into force from 1 July 2012 foreclosure of mortgage will be simplified, ie will no longer be carried out through the courts but instead by applying to a notary for an enforcement record. A possibility to foreclose a mortgage by transferring the title to the mortgaged immovable property to the creditor is foreseen by the amendments to the Civil Code.

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Tax Summary

RENT INCOME

Net income received by corporate taxpayers is taxable at the general Corporate Income Tax rate of 15 per cent (a reduced 5 per cent rate may be applicable to small companies with income lower than LTL 1 million (approx EUR 289,620) in one calendar year and less than ten employees). Generally, all expenses incurred by companies for the purpose of earning income are deductible for Corporate Income Tax purposes. However, Lithuanian Corporate Income Tax Law sets an exhaustive list of expenses not deductible for tax purposes, regardless of whether they are borne with these purposes or not, such as fines and money penalties, dividends, or gifts.

DEPRECIATION

Accounting depreciation procedures are similar to European standards. However, differences may arise between accounting and tax-deductible depreciation. The straight-line method is normally used for depreciation or amortisation of fixed business assets. Alternatively, the double-declining balance method is allowed for certain groups of fixed assets. New buildings and constructions, dwelling houses, and other buildings are depreciated, while land is not depreciated for tax purposes.

THIN CAPITALISATION

Interest and currency exchange losses on debt in excess of a debt/equity ratio of 4:1 are non-deductible for corporate income tax purposes. (Note: these rules apply even if withholding tax on interest is paid). This applies in respect of debt capital provided by a creditor who: (i) directly or indirectly holds more than 50 per cent of shares or rights (options) to dividends; or (ii) together with related parties, holds more than 50 per cent of shares or rights (options) to dividends, and the holding of that creditor is not less than 10 per cent. This rule does not apply if a taxpayer proves that the same loan could exist between unrelated parties. Financial institutions providing leasing services are not affected by this rule.

Note: under Lithuanian Company Law, the interest rate on shareholders' loans may not exceed the average bank interest rate current in the location of the lender's business.

LOSS CARRY FORWARD

Tax losses can be carried forward for an unlimited number of years as long as they are set off against income from the same type of activity. This does not apply to losses from disposal of securities, which can be carried forward for five years. As of 2010, the possibility to transfer losses within a group of companies for tax purposes is introduced, subject to specific requirements.

WITHHOLDING TAX

Dividends

Dividends distributed by a resident company to another resident company are subject to 15 per cent corporate income tax, which is withheld by the distributing company unless the participation exemption applies. The company may credit tax withheld against its corporate income tax liability. Dividends paid by a Lithuanian company to a foreign company holding at least 10 per cent of the shares granting the same percentage of votes for at least 12 months are tax-free, except dividends paid to tax haven countries and (except for companies in free economic zones) dividends paid from profit not subject to corporate income tax due to corporate income tax incentives.

Interest and Royalties

As of 2010, interest paid to foreign taxable entities registered or otherwise organised in a state of the European Economic Area or in a state with which a treaty for the avoidance of double taxation has been concluded and applied are not taxable. In other cases, withholding tax of 10 per cent is applied, except established exemptions that apply to interest on government securities issued in the international markets, deposit interest, and interest on subordinated loans meeting the criteria prescribed by the Bank of Lithuania.

Under the domestic law implementing the EC Interest and Royalties Directive (2003/49/EC, as amended), which precludes taxation on

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interest and royalty payments to associated EU companies, the rate of withholding tax on qualifying royalty payments is reduced to 0 per cent as of 1 July 2011..Royalties paid to other foreign companies are subject to a 10 per cent withholding tax.

CAPITAL GAINS

Capital gains earned by Lithuanian entities are included in general taxable income for income tax purposes.

Capital gains from sale of shares in entities registered or otherwise organised in a state of the European Economic Area or in a state with which a treaty for the avoidance of double taxation has been concluded and applied is exempt from tax if at least 25 per cent of the shares in the entity were held for a period of not less than two years.

REAL ESTATE TAX

Real estate, other than land, located in Lithuania is subject to real estate tax. Real estate tax is payable by Lithuanian and foreign legal entities and organisations, as well as by Lithuanian and foreign individuals owning real estate located in Lithuania.

As of 2012, residential real estate owned by individuals, the value of which exceeds LTL 1 million (approx EUR 289,620), is subject to 1 per cent real estate tax. For the purpose of calculating the value of real estate owned by taxpayers, spouses and children under 18 will be regarded as one taxable person. Tax will have to be paid before 15 December of the tax year concerned.

Real estate owned by legal entities as well as commercial real estate owned by individuals is subject to real estate tax the rate of which varies from 0.3 per cent to 1 per cent of the taxable value of the real estate. Municipalities are entitled to establish a precise rate for each year.

Land tax, payable by the owners of private land, amounts to 1.5 per cent of the taxable value of the land. Land tax does not apply to forest land, roads in common usage, and land owned by embassies.

Legal and private persons leasing state- or municipality-owned land must pay a land lease tax, which is not less than 0.1 per cent and not higher than 4 per cent of the land value. A precise tariff for land lease tax is established by the local municipality for each individual case.

REAL ESTATE TRANSFER PAYMENTS / VAT

Sale of land and buildings is normally exempt from VAT with the following exceptions: (i) sale of land for construction; (ii) sale of land with new buildings; and (iii) sale of new buildings. Buildings are regarded as new if they were started to be used or were critically improved less than 24 months before the sale (uncompleted buildings are also regarded as new buildings).

VAT is not applicable to income from the lease of real estate except the lease of dwelling houses.

However, the Lithuanian VAT payer has the option to tax the sale of real estate, including land, or rent of real estate if the real estate is sold or rented to another Lithuanian VAT payer who is a tax payer performing a business activity or to diplomatic missions, consular offices, EU institutions, international organisations and their offices. This option applies for a period of not less than 24 months.

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Under the domestic law implementing the EC Interest and Royalties Directive (2003/49/EC, as amended), which precludes taxation on interest and royalty payments to associated EU companies, 10 per cent withholding tax rate on royalties will apply until 30 June 2011. Thereafter, the rate on qualifying royalty payments is reduced to 0 per cent.

Royalties paid to foreign companies are subject to a 10 per cent withholding tax.

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