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EUROPEAN UNION

EU NEWS

Services Directive receives a positive vote from the European Parliament

Since the freedom to provide services was introduced in the EU, it has not gained the strength that was expected. A survey by the Commission in 2002 called the State of the Internal Market identified some 91 barriers that service providers have faced in providing services across borders such as burdensome authorisation procedures, excessive red tape, and legal uncertainty. This is further illustrated by the well publicized case of the Latvian construction company Laval un Partneri Ltd, which was blockaded out of the Swedish construction market.

The draft directive on services was expected to give a boost to the development of free movement of services and improving quality and choice for consumers (the right of the consumer to benefit from a competitive market). The version which received a positive vote on 16.02.2006 in the European Parliament was far more conservative than was originally hoped for.

Under the directive, Member States must evaluate the justification and proportionality of a number of restrictions that may restrict the development of service activities, simplify administrative formalities and procedures to which services are subject, eliminate a number of legislative procedures listed in the directive that hamper access to or exercise of services.

The removal of barriers to provision of crossborder services covers only those areas that are already open to competition. Consequently, the directive regulates services of general economic interest (postal services, water supply, electricity, waste treatment), business services such as management consultancy, certification and testing, facilities management, advertising, recruitment services and services of commercial agents, services provided both to businesses and to consumers, including real estate services, construction, distributive trades, car rental, and travel agencies and consumer services

such as tourism, leisure services, sports centres, and amusement parks.

Services of "general interest" are not covered. For example, public or private healthcare and services that are already covered by specific EU law – and legal services, audiovisual services, gambling and lotteries, professions and activities linked to the exercise of public authority (e.g. notaries) and tax services.

The European Parliament's text must be approved by the 25 EU national governments in the Council of Ministers. The directive is not expected to be finalized until the second half of 2006.

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ESTONIA

EMPLOYMENT

Employment contract cannot be terminated due to age

Amendments to the Employment Contracts Act (*Töölepingu seadus*) adopted on 08.02.2006 declared ineffective the stipulations allowing an employer to terminate employment contracts due to an employee's age, i.e. when an employee has turned 65 and is entitled to a full old-age pension. This applied both to contracts for an unspecified term and for a specified term. It has been argued that the previous law was age-discriminatory, prejudicing the constitutional rights and liberties of senior employees, and contradictory to present labour policy objectives.

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FINANCE AND SECURITIES

Prospectus Directive finally implemented

The purpose of the act amending the Securities Market Act (*Väärtpaberituru*

Estonia

Employment contract cannot be terminated due to age

Latvia

Contract price threshold increased

Lithuania

News in regulation of public procurement

Sorainen Law Offices

Excellent year for Sorainen Law Offices M&A team

Seminar on Litigation: Tallinn, 3 May 2006

seadus) is to harmonise Estonian law with Directive 2003/71/EC of the European Parliament as regards information contained in prospectuses as well as the format, incorporation by reference, and publication of such prospectuses, and dissemination of advertisements (the so-called Prospectus Directive). The act gives an issuer whose country of origin is Estonia the right to publicly offer securities in all EU countries on the basis of a prospectus registered with the Financial Supervision Authority. Issuers of this kind of cross-border public issue should apply to the Financial Supervision Authority to do so, as also to obtain the relevant European passport.

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INSURANCE

Insurance settlement amount in indemnity insurance

In January of this year, the Civil Chamber of the Supreme Court gave an important ruling in insurance law. According to the Law of Obligations Act, insurance of a body of items covers all items forming part of the body as a whole as of the moment of occurrence of the insured event. The purpose of this stipulation is to provide insurance cover to a pool of assets so that items included in it do not have to be agreed in the insurance contract, i.e. listing all items one by one is not required. In its January ruling, the Supreme Court stated that if an insured event has taken place, the policyholder still has to prove the composition and value of items allegedly destroyed. The insurer is liable to pay compensation for all items that were included in the pool of assets, but the policyholder has to indicate exactly which assets were destroyed and what their value was. The insurer is not liable to pay to the policyholder more than the actual amount of loss even if the property was insured for a larger amount. However, if the insurance value of the body of items is larger than the insurable amount, this constitutes under-insurance. In that case, the insurer is liable for loss proportionately in the ratio of the sum insured to the insurable amount as of the moment the insured event occurred.

In this ruling the Civil Chamber also referred to building insurance, stating that in case of destruction of a building forming an essential part of an immovable, the re-acquisition cost or market value of the building cannot be treated as the loss, but only the reasonable costs of restoring the building.

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TRADE, DISTRIBUTION AND SERVICES

Entrepreneurs to be more precise when announcing prices

Amendments to the Consumer Protection Act (*Tarbijakaitseadus*) stipulate more detailed rules for informing consumers about prices. A service provider has to inform consumers of a sale price that is the final price paid by the service user. Sale price or unit price of a product must be made available to the consumer in writing, clearly and concisely, unambiguously, and easily noticeably.

Additionally, prices listed by a service provider must include value added tax and other taxes and charges payable by the service receiver. For example, ship and airplane ticket prices must include port and airport taxes. If the exact final price of a service cannot be established beforehand, then consumers must be informed of the components of the sale price of the service, tariffs forming the basis for its calculation, or bases of calculation so that they can calculate the price of the service.

We recommend retailers and other companies in contact with consumers to review the policy of announcing their prices and if needed, to adjust it to the amended law.

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TAX

Planned changes regarding taxation of real estate investment structures

On 23.02.2006, the Estonian Government approved draft act amending the Income Tax Act (*Tulumaksuseadus*), the Social Tax Act (*Sotsiaalmaksuseadus*), the Gaming Tax Act (*Hasartmängumaksu seadus*), and the Credit Institutions Act (*Krediidiastutuste seadus*). Changes will also be made in the wording to eliminate the possibility of multiple interpretations of Income Tax Act provisions. The amendments enter into force once adopted by Parliament.

A major change affects taxation of gains in real estate by non-resident investors. Presently, a gain is taxable in a non-resident's hands upon transfer of at least a 10% shareholding in a company, 75% of whose assets comprise immovables or structures as movables located in Estonia. The present law enables tax-avoidance by non-residents through an investment fund or a chain of companies. Amending Clause 29 (4) 5) of the Income Tax Act is intended to tax gains received by non-residents from transfer of a shareholding in a company, contractual investment fund, or another pool of assets if the value of their shareholding directly or indirectly results from immovables or structures as movables

located in Estonia. Both in case of assets of a company or a fund, in the future a ratio of immovables or structures as movables located in Estonia comprising 50% of assets will be sufficient to attract tax. Additionally, the easily avoidable condition according to which a shareholding of at least 10% at a time has to be transferred for tax liability to arise will be eliminated. In the future, the definition of taxation will be that a non-resident's shareholding in a company or fund is at least 10% as of the moment of transfer, and not the amount of the shareholding that is being transferred.

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LATVIA

COMPETITION AND PUBLIC PROCUREMENT

Contract price threshold increased

On 03.03.2006, the Saeima accepted the Public Procurement Law at the final reading. Although, eventually the Law was required to be reconsidered by the President, on motivation that it failed to provide a complete list of exceptions of its application, it is most likely that in relation to other relevant provisions it will remain as accepted at the final reading. This Law implements Directive 2004/18/EC and will replace the previous Law "On Public and Municipal Procurement".

The new law increases the minimum state or municipal institutions contract price threshold from the existing LVL 1,000 to LVL 10,000. Likewise, new criteria for choosing the economically most profitable offer are added, that is, the average amount of social deposits for one employee.

In addition, the law introduces new procedures aiming to facilitate and accelerate the procurement process. The contracting authority will later have the opportunity to form systems of dynamic procurement, where they will be able to include all tenderers complying with the requirements of the contracting authority that submitted informative offers in compliance with the procurement procedure documentation. Likewise, the contracting authority will be able to choose the best offer by electronic auction, which in effect means electronic bids.

Special regulation is planned for procurements with a contract price between LVL 1,000 and LVL 10,000.

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EMPLOYMENT

The Labour Law is not applicable in cases when members of the Management Board are dismissed

The Supreme Court Senate (the highest judicial body in the Republic of Latvia) has heard the case regarding the claim of a former Management Board member for reinstatement in his previous work. The court followed its previous practice established before the Latvian Commercial Law came into effect and acknowledged that as there is a special law regulating election and dismissal of the Management Board members, the Latvian Labour Law is not applicable.

The claimant was selected to fulfil the tasks of a member of the Management Board of a limited liability company ('the Company') with only one shareholder – the local municipality. While serving in this capacity, the claimant several times orally asked the Company to conclude an employment contract for performing a Management Board member's duties. However, no employment contract or any other contract governed by civil law was ever concluded. Following a decision by the shareholders' meeting, the claimant and other members of the Management Board were dismissed on the ground of incapacity to manage the Company. The claimant, in turn, brought an action for reinstatement, annulment of the shareholders' meeting decision, and compensation for enforced absence from work.

In dismissing the claim, the court explained that a special law - in force at the time the action was brought - applied. This was the Law on Shares of the State and Municipality and Companies ('the Law'), which regulated the specific legal relationship at issue – dismissal of a member of the Management Board. The Law especially stipulates that members of the Management Board are dismissed by a decision of the meeting of shareholders. Thus the court reasoned that the Labour Law is not applicable in cases when members of the Management Board are dismissed. Moreover, the court underlined that a member of the Management Board is not entitled to claim reinstatement through the court, as performance of the duties of a Management Board member is characterized by a relationship based on mutual trust.

Furthermore, the court was sceptical as to the claimant's argument that in this case conclusion of an employment contract would be mandatory. The court stated that where an employment relationship actually does not exist, then the legal relationship between the Company and a Management Board member is regulated by a contract of authorization. In the situation here, the contract of authorization is formed by the decision of shareholders to elect a Management board member, and agreement of the individual concerned to accept the position.

The above-mentioned principles are likely to apply to private companies acting in accordance with the Latvian Commercial Law as well. Consequently, election and dismissal of the Management Board members will be governed by the special provisions included in the Latvian Commercial Law.

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FINANCE AND SECURITIES

Differentiated law-based interest rate introduced

The amendments to the Civil Law provide for a differentiated law-based interest rate, and the procedure for calculating it. The law-based interest rate is applicable in case the parties to a transaction fail to agree on a different interest rate although the law stipulates an obligation to pay interest. The existing annual 6 per cent rate will apply to consumer contracts, while a 7% rate above the variable 4% basic rate will apply to contracts for delivery, purchase of goods, or provision of services. The variable 4% base rate will be revised every half year and will increase or decrease according to changes in the refinancing rate defined by the Bank of Latvia.

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LITIGATION AND ARBITRATION

Right to claim compensation for moral damage finally implemented

As of 01.03.2006, amendments to the Civil Law came into force. These eliminate the previously existing lack of legal regulation in relation to moral damage by introducing a definition of moral damage and determining entitlement to claim compensation for moral damage in the case of violation.

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PROPERTY AND CONSTRUCTION

Buyer of Real Estate does not obtain Rights against Third Parties until Land Book Registration

The claimant, one of the defendants, and a design and construction company concluded a cooperation agreement for construction of a house. Under the agreement, the claimant paid for construction and acquired property rights to 2/5 of the constructed house in notional shares.

However, contrary to the provisions of the cooperation agreement, one of the defendants was registered with the Land Book as sole owner. That defendant transferred an interest in the house to another defendant, who partially alienated it further.

The claimant sought a declaration that the purchase agreements concluded by the defendants were ineffective, which was partly satisfied at first instance. Likewise, the court recognized that the defendant, who had initially transferred its interest, had been declared insolvent and subsequently liquidated. On appeal, the court recognized the property rights of the claimant to part of the house, on the basis of the cooperation agreement, and annulled the initial purchase agreement concluded between the defendants on the basis that the defendant purchaser had known of the provisions of the cooperation agreement and therefore had acted in bad faith.

In annulling the decision of the appeal court, the Court of Cassation declared that property rights to real estate are established on registration in the Land Book, so that the claimant had never enjoyed any property rights in the house. The court added that until registration of property rights in the Land Book, the claimant was bound by the conduct of the owner registered in the Land Book, so that the claimant had no legal standing regarding third parties. Since the initial registered owner was in liquidation and had no legal successor or assignee, the claimant had lost the possibility to claim against the initial owner of the residential house, as well as any acknowledgement or registration of property rights or rights against third parties.

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TRADE, DISTRIBUTION AND TRANSPORT

Protection of creditors increased

The amendments to the Civil Law define additional cases when debtor's delay takes place of its own accord. Previously in relation to contracts for delivery and purchase of goods, or provision of services where parties do not agree on a term for payment the creditor was obliged to deliver a reminder of debt to the debtor in order to acknowledge the debtor's delay. Pursuant to these amendment the debtor's delay takes place of its own accord where the debtor fails to pay within 30 days of a given day, which is the day when the invoice, the goods, or the service are received or when verification of acceptance took place or was planned to take place.

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LITHUANIA

COMPETITION AND PUBLIC PROCUREMENT

News on regulation of public procurement

On 22.12.2005 the Parliament adopted a Law Amending the Law on Public Procurement (*Viešųjų pirkimų įstatymo pakeitimo įstatymas*), implementing directives 2004/17/EC and 2004/18/EC of the European Parliament and of the Council.

The Law establishes a new method of procurement – competitive dialogue. This method may be chosen in case of highly complex procurements, when it is impossible to nominate precise objects of the procurement, evaluate what technical, financial and legal solutions can be offered by the participants of the market. The main feature is that while consulting with candidates selected during the dialog, the purchasing company can select solutions that best correspond to its needs.

In particular, purchasing companies will have the opportunity to apply new procurement procedures: a dynamic purchasing system and electronic auctions. Further, in certain cases when procurement concerns preparing and implementing subsidized lodgment programs, the purchasing organization may choose the contractor most suitable according to its own approved instructions.

A major innovation is the opportunity to create an official list of qualifying suppliers. The key point of this innovation is that in order to qualify, suppliers on the list need only to provide a certificate confirming their qualifications. They would then not have to prove conformity with qualification requirements each time while purchasing organizations will not have to verify it each time. This feature should ease regular suppliers' participation in public procurement and reduce the number of potential disputes about conformity with qualification requirements.

Another important amendment involves dispute resolution. Here, claims must be submitted to the purchasing organization as an obligatory pretrial stage. Now, suppliers fearing an actual or threatened violation by the purchasing organization will not be able to address the dispute to the court directly, but will have to submit a claim to the purchasing organization.

The procedure for dispute hearings in courts is also amended. Firstly, the period for filing a claim with the court has been shortened to 10 days after consideration of the claim by the purchasing organization. Secondly, claims or requests for leave to appeal must be considered within 60 days after submission.

The Law further amends rights and obligations of suppliers in public procurement, also the process of execution. The Law is in force as of 31.01.2006.

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TAX

Changes to Personal Income Tax Law

On 22.12.2005 the Parliament adopted a Law Amending the Personal Income Tax Law and a Law Amending and Supplementing Articles 6, 20, 27, 37 of the Personal Income Tax Law (*Gyventojų pajamų mokesčio įstatymo ir Gyventojų pajamų mokesčio įstatymo 6, 20, 27, 37 straipsnių pakeitimo ir papildymo įstatymas*).

Under Article 37, a Lithuanian resident's net income abroad after deduction of income or similar tax in a foreign country is not subject to income tax in Lithuania, except dividends, interest and royalties received abroad. In this case a foreign

country is either a member state of the European Union or a country with which Lithuania has signed a double taxation treaty. Lithuanian residents may now deduct payments of income or similar tax from dividends, interest or royalties received abroad, from the sum of income tax calculated by the procedure established in the Personal Income Tax Law.

These provisions apply subject to evidence about income received and tax paid abroad during the financial year.

The Law is in force as of 12.01.2006, and applies to taxation of income received as from 2005.

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Lithuanian-Estonian tax treaty comes into force

On 15.12.2005 the Parliament adopted a Law Ratifying the Treaty signed on 21.10.2004 in Luxembourg between Lithuania and Estonia on Avoiding Double Taxation for Income and Capital and Preventing Tax Evasion (*Įstatymas dėl Lietuvos Respublikos ir Estijos Respublikos sutarties dėl pajamų bei kapitalo dvigubo apmokestinimo išvengimo ir mokesčių slėpimo prevencijos ratifikavimo*).

The new Treaty is less favorable to investors compared to the regime established by the previous treaty of 1993. In particular, it abolishes the 0% regime for withholding taxes established for dividends payable at a corporate level, royalties and interest.

As for dividends, the new treaty should not affect the regime applicable to major corporate investors, since both countries have implemented the EU Parent Subsidiary directive (90/435/EEC) abolishing dividend taxes for associated enterprises.

We are pleased to inform you that
on 3 May 2006,
Sorainen Law Offices in Tallinn
will hold a litigation seminar on
“How to avoid and win disputes?”

Additional information is available on our webpage www.sorainen.com

The new treaty entitles Lithuania to tax (at a rate of 10%) interest or royalties paid by Lithuanian companies to Estonian companies. For instance, the tax is applicable for fees paid by a Lithuanian undertaking to an Estonian company for the use of trademarks or know-how; the same regime is applied for interest paid on loans received from Estonian companies.

The Law is in force as of 14.01.2006. The Treaty applies from 2006.

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Selection of relevant acts and amendments adopted 01.01.2006-28.02.2006

- Order of the Director of the Public Procurement Office Amending Order Regarding Approval of Obligatory Recitals of the Minutes of Public Procurement Commission's Envelope Unseal Procedure (in force as of 31.01.2006);
- Order of the Director of the Public Procurement Office Amending Order Regarding Approval of Methodology on Estimating Public Procurement Value of Products and Services (in force as of 31.01.2006);
- Government Resolution Regarding Approval of Regulations on Entering into and Pursuing Bank Guarantee, Suretyship, and other Contracts, Proving Sponsorship of Trimming of Electric and Electronic Equipment Waste, Accumulation, Use and Return of Funds Received under those Contracts (in force as of 25.01.2006); Order of the Director General of the Lithuanian Archives Department Regarding Approval of Regulations on Management of Electronic Documents (in force as of 20.01.2006).

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

NEWS IN SORAINEN LAW OFFICES

Recent deals

Sale of Mihkli Hotel

Tallinn office advised the sellers in the sale of 100% shares in AS Mihkli, which owns and manages the 3-star 77-room Mihkli Hotel in Tallinn. Our team, led by partner Toomas Prangli, acted on instructions of the real estate company Ober-Haus.

Setting up an investment vehicle for real estate investments

Tallinn office advised Broadgate Capital with the structuring and setup of their first investment vehicle Baltic Investment Holdings OÜ. A full set of transaction documents were prepared for issuing shares in the real estate investment company to a number of prominent foreign investors. The case was handled by Associate Elen Rohtla and Senior Associate Risto Agur.

Legal advice to Manuli Rubber Industries in its pan-Baltic business set-up

Sorainen Law Offices advised Manuli Rubber Industries, the global leader in manufacturing steel reinforced hoses and metal fittings, in their business set-up in Estonia, Latvia and Lithuania including establishment and auxiliary legal issues. Tallinn office Attorneys-at-Law Lea Liigus and Risto Agur led the pan-Baltic case.

Security for aircraft acquisition finance

Riga office acted for Landsbanki Luxembourg S.A. in establishing a commercial pledge over two aircraft owned by Thor Aircraft Leasing ehf, as security for financing the acquisition of the aircraft. Both aircraft are used by the Latvian national carrier Air Baltic Corporation. The assignment was handled by partner Girts Ruda and associate Rudolfs Engelis.

Two loans to Freeport of Riga Authority

Riga office acted for the Nordic Investment Bank in providing two long-term loans with a total amount over EUR 20 million to the Freeport of Riga Authority for the purpose of expanding the Authority's fleet. Our involvement included negotiations about the transaction documents and advice on the specific legal status of the public

institution borrower. The case was led by partner Girts Ruda, and handled by associates Janis Likops and Rudolfs Engelis.

Employees

Senior associate Mr **Mindaugas Zilionis** has joined our Vilnius office team. Mindaugas has graduated from Vilnius University Faculty of Law. His key specializations are litigation, mergers and acquisitions, and property law. He practiced at law firm Foresta Business Law Group for seven years, and also worked for over two years as senior legal counsel of Joint Stock Companies Group SENUKAI, the largest DIY retailer in the Baltics. Mindaugas is fluent in English, Lithuanian, and Russian.

Ms. **Laura Medvida** has joined the Riga office as an associate. Ms. Medvida worked previously at the Public Utilities Commission of Latvia working in the field of Energy Law and at the telecommunication company Lattelekom Ltd. working in the field of Labour Law. Ms. Medvida has graduated the University of Latvia (LL.B.) and the Riga Graduate School of Law (LL.M.). Her main practice areas are Energy and Environmental Law and Property and Construction Law. She speaks Latvian, English and Russian.

Ms. **Vyte Danileviciute** has joined Vilnius office as a legal assistant. A third year student at Vilnius University, Faculty of Law, she is fluent in English and Lithuanian.

Other news

European Legal Experts identifies Sorainen lawyers among top in the Baltic States

European Legal Experts 2006 brings together research to identify the leading lawyers in Europe. The guide identifies leading lawyers in a wide range of practice areas. Partners Aku Sorainen, Kaido Loor, and Pekka Puolakka for Estonia, partners Girts Vilgerts and Girts Ruda and associate Edgars Koshkins for Latvia, and partner Kestutis Adamonis for Lithuania are listed as highly recommended practitioners in corporate and finance practice.

GOOD TIMES FOR M&A

Toomas Prangli

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The strategic focus of Sorainen Law Offices is to assist clients in legal aspects related to mergers and acquisitions (M&A). In that light, we are happy to note that the M&A market is enjoying very active and interesting times in Europe, especially in the Baltics. Here is a brief review of last year, and current M&A trends in the region.

European M&A is enjoying the best times since 2000

Starting from 2001, the European M&A market was quiet until 2004, when M&A activity picked up - mostly thanks to private equity houses, who managed to raise funds and find the right targets. The European M&A market continued its positive trend in 2005, when estimated total deal value topped EUR 800 billion, the highest since 2000.

The largest M&A transaction in 2005 took place in the energy sector, where the energy giant Endesa acquired Gas Natural in Spain for EUR 42.5 billion. The telecommunication sector also saw several high value deals, including Telefonica's takeover of the UK mobile company O2 for EUR 26 billion. Among other major transactions we should mention Italian UniCredito's acquisition of HypoVereinsbank for EUR 15.3 billion.

Most indicators give room for hope in 2006, with predicted growth of the European M&A market. It is as yet too early to draw any conclusions based on the first two months, which are traditionally slower in the market. Transactions in Central and Eastern Europe should continue to increase their importance in European M&A.

Baltic countries are living up to their 'tiger' role

At the beginning of 2006, Forbes published its ranking of countries by their ability to attract foreign investment. Estonia was excellent (7th) in the ranking, with Latvia and Lithuania also positioned high (22nd and 29th respectively).

Although the Baltic countries have never really been influenced by the decrease in the global M&A market at the beginning of the current millennium, this market has become increasingly visible in recent years. However, few businesses remain to be privatised. In the Baltic countries, M&A activity growth is hugely supported by strategic investors seeking to extend their markets to new EU member states or consolidate their market power. The main direct investments into the Baltics come

from the Nordic countries, Germany, and Russia. Among the Baltic countries, Estonian companies have been more active in investing in Latvia and Lithuania.

The main problem with the M&A market in the Baltic countries has always been transparency-related. Most transactions are too small to be covered by international M&A databases and not all major transactions are announced to the public.

The largest Baltic M&A transactions in 2005 took place in Estonia. The pride of local IT engineering was boosted by the acquisition of Skype by eBay for EUR 2.1 billion. Swedish FoereningsSparbanken (Swedbank) successfully bid for the remaining stake in Hansabank for EUR 1.7 billion. Hansabank shares were delisted from the Tallinn Stock Exchange in July 2005. M&A transactions in the booming real estate sector have also played a dominant role in the Baltics. The benchmark transaction here was Citycon's acquisition of Rocca al Mare shopping center in Tallinn. At the end of 2005, Merks (subsidiary of Estonian Merko Ehitus) acquired 50% in the Latvian Zakusala Estates, which is working on a major development on Zakusala island in central Riga.

The growth of the M&A market is definitely set to continue in the Baltic countries in 2006. Foreign strategic investors will continue to dominate M&A activity across all industry sectors. We have also witnessed a notable increase in pan-Baltic acquisitions involving targets or parties in all or several Baltic countries. Baltic investors are also becoming more active in the European Union, Russia, and Ukraine. The IPO market was shaken up in 2005, and currently several Baltic companies are actively preparing to be listed on the stock exchange in 2006-2007.

Legal update

Compared to the unregulated plight at the beginning of the 1990s, the legal framework of M&A transactions had been more or less modernised by the turn of this century. Although no major legislative reforms took place in the Baltic countries in the M&A field in 2005, we can point to the following recent developments:

- the Supreme Court of Estonia clarified squeeze-out regulation by providing guidance on how to determine the value and amount of compensation for shares taken over (for further information see our Baltic Legal Update, November-December 2004);
- the Latvian Parliament adopted an umbrella law designed to complete the mass privatisation of state and municipal property in Latvia (see Baltic Legal Update, September 2005);
- the Estonian Parliament adopted major amendments to the Estonian Commercial Code to provide new rules

for pre-emptive rights regarding transfer of shares and for financial assistance restrictions starting from January 2006 (see Baltic Legal Update, November 2005).

Baltic M&A legislation is now inevitably affected by EU legal acts. On the EU front, we should mention two important recent developments. Firstly, the transition period of the Takeover Directive is ending in May 2006 and its implementation has already caused heated discussion in the Nordic and other European countries. The Takeover Directive has not yet been implemented in the Baltic countries. Secondly, the Cross-Border Mergers Directive was adopted in September 2005 and it will be interesting to see how it will support cross-border M&A activity in Europe (if at all).

Excellent year for Sorainen Law Offices M&A team

Sorainen Law Offices' M&A team has grown to more than 22 lawyers and has been very busy. In 2005, the revenue created by M&A work increased by 63% compared to the previous year and reached approximately 1/4 of the total revenue of our office. We were involved in several major Baltic M&A transactions, such as eBay's acquisition of Skype, Citycon's purchase of Rocca al Mare shopping center in Estonia, Merks' purchase of its shareholding in Zakusala estates in Latvia, and Rautakirja's acquisition of Lietuvos Spauda in Lithuania.

We are pleased to see that our M&A team has grown big enough to have industry expertise in most major sectors, in addition to the experience of more than 350 M&A transactions overall. We aim to increase growth and efficiency by constant know-how sharing within our active Pan-Baltic M&A Legal Workgroup.

The international law firm directory The European Legal 500 states that "Sorainen Law Offices is best known for its strength in M&A and corporate work." Another directory, Chambers Global - The World's Leading Lawyers notes that our clients speak of an "impressive, smart and enthusiastic team" and "particularly good value for money". According to the leading M&A transaction database Mergermarket, Sorainen Law Offices was the No. 1 M&A law firm in the Baltics in 2005 by deal volume.