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Dear Readers,

We are pleased to deliver to you the 52nd Sorainen Legal Update reporting on the latest changes in the Baltic States and Belarus legal environment.

Today, when the Baltic States economies face difficult circumstances both because of domestic issues and because of the impact of the global financial crisis, it is doubly important to be well-informed of decisions made by governmental institutions. This becomes especially important because these decisions might be taken with much shorter notice and less public discussion than we are all used to. We believe that with this newsletter we provide valuable help to our readers in coping with this task.

We are closely following developments in the Baltic States and Belarus markets. Apart from their everyday work, Sorainen lawyers are actively involved in exchanging opinions on new legislation initiatives in different forums. It is quite often the case that today our work results in amendments to existing laws or drafts of new legal acts, thus helping to improve the business environment.

Moreover, on behalf of our firm I would like to confirm that Sorainen teams are "on top of" the latest developments in economies, ready to assist our clients with increasingly challenging assignments that need to be handled to ensure continuity and further growth of their businesses, be it restructuring of business or financing arrangements, tax planning, reorganization, solvency or other issues brought on by market changes. The volume of new assignments stemming from decisions triggered by new economic circumstances is growing daily, demonstrating clients' trust in our expertise and ability to provide efficient solutions for any business issue.

Yours sincerely,
Eva Berlaus-Gulbe
Partner, the head of Sorainen Pan-Baltic and Belarus Corporate Advisory Practice.

PAN-BALTIC

LITIGATION AND ARBITRATION

European order for payment procedure

Regulation (EC) No 1896/2006 of the European Parliament and of the Council, creating a European order for payment procedure, enters into force with respect to civil and commercial matters in the European Union from 12 December 2008. The purpose of the regulation is to simplify and speed up disputes and reduce the costs of litigation in cross-border cases concerning uncontested money claims. The European order for payment procedure enables creditors to recover debts efficiently. An undertaking from one Member State can file an application for a European order for payment with the court of its country of residence and require enforcement of the order for payment in other Member States if the defendant does not contest the claim.

Applications for a European order for payment must be filled in standard form. The court seized of an application examines whether the requirements are

met and whether the claim appears to be founded. If the requirements are met, the court will issue a standard form European order for payment, normally within 30 days of lodging of the application. The order will be served on the defendant, who has the option to pay the amount required or oppose and file a statement of opposition within 30 days of service of the order. If a statement of opposition is filed, the procedure continues before the court of the Member State that issued the order for payment, under the rules of ordinary civil procedure, unless the claimant has explicitly requested that the proceedings be terminated in that event. If no statement of opposition is lodged, the court will declare the European order for payment enforceable without delay. A European order for payment which has become enforceable in the Member State in which it was issued is recognized and enforced in other Member States without the need for a declaration of enforceability and without any possibility of opposing its recognition. Under no circumstances may the European order for payment be reviewed as to its substance in the Member State of enforcement.

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Estonia

In Estonia the order for payment procedure was launched from 1 January 2006. As of July 2008 the procedure applies in cases of debt claims as well as in claims for child support. Applications are filed with the court electronically, using a special portal. The portal is accessible only by ID card and the application must be digitally signed. A claim filed under the order for payment procedure must not exceed EEK 100,000. This amount covers the main claim as well as collateral claims (e.g. interest) but collateral claims must not exceed the main claim. Debtors contest approximately 10% of applications for an order for payment; this means that these disputes are resolved in ordinary civil procedure. The courts tend to approve payment schedules between the applicant and the debtor because debtors are often not able to pay their debts at once. The order for payment procedure has become more popular: in 2006, some 11,000 applications were filed, while in 2007 the figure increased to 32,000. According to statistics for 2008, the number of applications remains high and the procedure has speeded up. The procedure established by the regulation enables claimants to recover debts more efficiently.

Latvia

In 2002, the Latvian Parliament established an order for payment procedure. The procedure is very similar to that laid down in regulation (EC) No. 1896/2006. Thus, creditors in Latvia are already allowed to use a similar procedure.

The procedure is very widely used. Approximately 33% of all civil cases reviewed by the courts are cases involving orders for payment procedure. Creditors and courts favour this procedure since, firstly, creditors are enabled to receive payments without long litigation and, secondly, judges tend to think that the procedure enables debtors to settle their debt without further expenses (e.g. court order to re-pay litigation expenses to the creditor in case of a judgment in favour of a creditor). Nevertheless, our practice shows that only 10-15% of all debtors willingly settle their obligations, although in about 50-60% of all cases the court decides to issue an enforcement order in favour of a creditor.

Currently, no specific provisions exist under Latvian law regarding Regulation (EC) No. 1896/2006. However, the intention is to adopt the Regulation in order to avoid possible legal uncertainty, clarify the application of the regulation and possibly make existing local procedure more similar to the European procedure. Another plan for the future is to make all these procedures more efficient through electronic communication.

Lithuania

Regulation (EC) No 1896/2006 of the European Parliament and of the Council is not yet applied in Lithuania. On 23 May 2008, the Lithuanian Government submitted to the Lithuanian Parliament a draft law regarding implementation of European Union and international legal acts regulating civil procedure. One purpose of the draft law is to ensure proper application of the European order for payment procedure. The aim is to affect the present civil procedure as little as possible. For this reason,

the draft law is structured as a separate law that points to respective parts of the current Code of Civil Procedure. Thus it seems that application of the European order for payment procedure will not raise any significant difficulties.

However, it is not yet clear whether the Lithuanian Parliament will be able to approve the law and pass it by 12 December 2008. On the other hand, the regulation is binding in its entirety and directly applicable in Member States (except Denmark), so that the courts will be obliged to apply the European order for payment procedure in any case. This situation may create some legal uncertainty.

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ESTONIA

ENVIRONMENT

New rules for environmental impact assessment

A review campaign has been launched by the Environment Ministry to update the legal framework regulating environmental impact assessment (EIA). As a result, a set of amendments improving the efficiency and accuracy of EIA regulation and resolving some conformity issues with EU law have been adopted by the Estonian Parliament.

The most significant changes relate to situations when environmental impact has to be assessed. EIA now has to be performed:

- when pulp is produced – the previously used term “cellulose” was determined to be not in conformity with EU law;
- when peat is mechanically extracted and also when such activity is terminated regardless of the surface area of the mining site.

EIA regarding use of groundwater was relieved and now has to be carried out when more than 10 million m³ of groundwater is abstracted in a year.

Importantly, a requirement now exists to carry out EIA when a part of a project (activity) is expanded, amended or reconstructed in a scope that would otherwise require an EIA. The purpose here is to look at projects (activities) as a whole and to prohibit the “splitting” of projects into several smaller pieces to avoid EIA.

The procedure of the competent authority determining (*ex-ante* evaluation) whether a project should be made subject to an EIA has been revised. The competent authority is now clearly required to provide reasoning for a decision whether an EIA is necessary.

Impartiality and independence requirements for experts (who assess environmental impact) have been clearly stipulated – the common practice whereby representatives of developers assessed the environmental impact of their own projects is forbidden under the revised law.

The amendments to the Environmental Impact Assessment and Environmental Management System Act entered into force on 1 August 2008.

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SECURITIES AND CAPITAL MARKETS

New prudential rules adopted for investment firms

The Estonian Minister of Finance has adopted a regulation establishing new rules for investment firms on calculating capital requirements, reporting and disclosure of information on capital adequacy, and on risk management. The regulation aims to clarify the principles of the Securities Market Act by establishing technical rules and methodologies to implement the new prudential rules. The regulation unifies the Estonian legal environment with Directives 2006/48/EC and 2006/49/EC, which in turn form an equivalent to the provisions of the Basel II framework agreement adopted by the Basel Committee on Banking Supervision on 26 June 2004.

While the bulk of improvements in Basel II are related to calculation of credit risk, the most noticeable changes affecting investment firms include rules on operational risk and disclosure of information on capital adequacy and risk management.

The new regulation came into force on 7 September 2008, though until 31 December 2008 investment firms may calculate risk-weighted capital according to the old regulation. The rules on disclosing information come into force on 1 January 2009.

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COMPANY LAW

Opening a bank account and contributing capital to a company formed by the Entrepreneurs' Portal

On 10 July 2008, amendments to the Commercial Code entered into force. These simplify the procedure for payment of capital contributions if a company is formed by expedited procedure. Where a company is being formed through the commercial register Entrepreneurs' Portal it is also possible to open a bank account for the company. Capital contributions can be made instantly to that

account. Up to now, these had to be paid to the commercial register, followed by an application to transfer the money to the company's account.

Notably, capital contributions must be made by the founder, while a company account can be opened only with the same Estonian commercial bank. Company representatives have to go to the bank when they want to start using the money transferred to the account, but this can only be done once the company is entered into the register. Company representatives have to go to the bank to conclude a contract within six months from opening the account.

It is still possible in parallel with opening an account electronically to transfer capital contributions to the commercial register deposit account. If the company formation is done notarially, the founders may authorize the notary to open the account through their information system.

Measures are foreseen for cases when upon formation of a company a bank account has been opened and capital contributions have been paid by electronic means, but the company is not entered in the register, or despite registration the bank does not agree to conclude a contract with company representatives.

Free-of-charge commercial register information service

In order to prevent changes in the management board in bad faith and consequent takeover of a company without the knowledge of the owners, the information service of the commercial register Entrepreneurs' Portal is available to undertakings. Management board members, supervisory board members, and shareholders of undertakings may in this way apply by e-mail for information on entries made in the register concerning the legal person they are connected to. When an application for an entry is filed with the commercial register, a message will be sent to individuals whose e-mail addresses are filed with the register on ordering the information service.

To receive messages requires activating one's email address in the portal www.eesti.ee. The information service enables the registrar to inform registered individuals of entries made, thus preventing outsiders from entering persons who have not been appointed lawfully in the commercial register as members of management and supervisory boards without the knowledge of the shareholders or management board of the undertaking concerned.

Annual reports of non-profit associations made public

On 4 June 2008, amendments were adopted to the Commercial Code and Non-Profit Associations Act of Estonia. Until now, non-profit associations filed their annual reports only with the Tax and Customs Board; starting from 2010, they will also have to file reports with the commercial register maintained by the court. Moreover, the reports will be made public.

The obligation imposed on non-profit associations to file their annual reports with the court maintaining the register allows for more efficient supervision over filing and drafting of reports, regularly updating

information on non-profit associations, and deletion from the register of associations that have stopped operating.

Procedure changed for filing annual reports

From 1 January 2010, annual reports must be filed electronically through the Estonian Business Portal or through a notary public. Until that date, reports may be filed either on paper or electronically. Electronic filing of reports facilitates prompt disclosure of economic information on undertakings, ensuring greater transparency of businesses.

This year, about 25% of undertakings must refile their annual reports due to insufficient or incorrect reporting of their areas of activity. Under amendments to legislation in force as of 1 January 2008, an undertaking must specify in its annual report up to ten areas of activity following the Estonian EMTAK 2008 Classification of Economic Activities. More specifically, undertakings are required to provide details in the sales revenue section of the annual report of up to ten areas of activity in which they engaged in the previous year. The areas of activity must be presented as text and the relevant classification code must be added to the description. The description must be as precise as possible.

Estonian Business Portal gains popularity among businesses

The Estonian Business Portal enables electronic filing of documents with a court's registration department, without turning to a notary public. In the first half of 2008, 35% of undertakings and non-profit associations were formed through the portal, i.e. about 13% more compared with the same period last year. The biggest group of undertakings formed through the portal, some 2000, consists of private limited companies. Filing annual reports through the portal has also become more popular. In 2008, so far 17% of annual reports have been filed electronically.

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As before, the regulations stipulate information to be included in a consumer credit agreement, the method for calculating annual interest rate and fair reduction of total credit costs. In addition, the regulations stipulate preconditions as to when the requirements of a consumer credit agreement may be disregarded, as well as setting restrictions on advertising credit.

Additionally, the new regulations are intended to solve problems identified in current legal provisions and will improve relevant regulations.

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Investment Management Companies Law updated

Amendments to the Investment Funds Management Law are made firstly to introduce European Commission Directive 2007/16/EC of 19 March 2007 implementing Council Directive 85/611/EEC as regards clarification of certain definitions, and secondly to ensure the unambiguous understanding of norms, dictated by the need to apply certain norms of law in practice. In this regard, the law defines more accurately the terms "transferable security" and "money market instrument". The Finance and Capital Markets Commission (FCMC) is entitled to determine the criteria for conformity of objects of open-ended investment funds with legal requirements, and the list of documents to be submitted to FCMC in the event of amendments to main documents of an investment fund are defined more precisely. Additionally, the range of holders of investment fund assets of investment fund companies that are entitled to operate within Latvia is defined more precisely, the process of reorganization and liquidation of investment fund management companies is perfected, and the scope of investment objects of closed-end investment funds has been widened.

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New rules for prevention of money laundering

On 13 August 2008 a new Law on Prevention of Money Laundering and Terrorism Financing entered into force, replacing the law of 1997 On Prevention of Money Laundering. The new law has been adopted to avoid the necessity to substantially amend the previous law in order to implement the requirements of the latest European Union directives (2005/60/EC and 2006/70/EC).

The new law regulates in more detail the duties of subjects of the law. Attorneys-at-law and other independent providers of legal services fall within the category of subjects of the law. Duties include, e.g.: to identify the customer and in certain cases perform due diligence by clarifying the beneficial owner through obtaining information on their economic or personal activities and source of financial means, as well as in some cases to supervise customer transactions and, in case of identifying an unusual or suspicious transaction, to

LATVIA

SECURITIES AND CAPITAL MARKETS

New Regulations on Consumer Credit Agreements

On 25 August 2008 the Cabinet of Ministers adopted regulations on Consumer Credit Agreements, which now substitutes previous regulations No. 257, adopted on 13 July 1999 under the same name.

The regulations have been adopted due to amendments in authorization by the Cabinet of Ministers included in the Law on Protection of Consumer Rights. Consultations with non-governmental organizations took place during the adoption process.

notify the Office of Money Laundering Prevention and to refrain from executing the transaction. In contrast to the previous law, the new law permits subjects of the law to apply a risk assessment-based approach by paying more attention to those customers who are at more risk in money laundering or terrorism financing and less attention to small risk situations. The law also sets the basic requirements for implementing an internal control system. Certain exceptions in applying the requirements of the law are provided for attorneys-at-law who undertake a defense function in criminal procedure.

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Significant changes in postal regulations

Under the latest amendments (in force from 18 September 2008) in the Regulations of the Cabinet of Ministers No 445 Postal Regulations adopted on 21 June 2005, Latvian Post must inform the State Revenue Service of postal payment system accounts opened or closed by legal persons (residents of the Republic of Latvia and permanent establishments of non-residents).

Since suspicions had been aroused that the postal payment system was being used for money laundering, the necessity arose to prevent or reduce possibilities to do so. Therefore, the main aim of the amendments is to ensure more effective fulfillment of the Law on Prevention of Money Laundering and financing of Terrorism, since Latvian Post will be subject to this law.

In addition, the amendments change the procedure for customs declarations for cross-border postal deliveries (including insured letters, postal packages, and M-bags). The requirement to make a customs declaration for cross-border postal deliveries to European Union Member States has been cancelled. The amendments are intended to ensure revocation of any customs barriers under the Treaty establishing the European Economic Community.

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EMPLOYMENT LAW

New State Labour Inspectorate Law

The new law on the State Labour Inspectorate ("the SLI") came into effect on 10 July 2008. The main changes brought by this new law are as follows:

1) The SLI is granted power to suspend company operations in cases of grave breach of legal acts regarding work safety or regulating employment legal relationships (the previous regulation granting such rights is ineffective as of 1 January 2008).

2) In future, the SLI will not perform technical monitoring of hazardous equipment (from now on this falls within the competence of the State Construction Inspectorate).

3) The SLI may supervise and control compliance with legal acts regulating employment legal relationships and work safety in construction objects owned by private persons (while construction works are under way).

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COMPETITION

State aids for small and medium commercial companies

On 29 July 2008, amendments to the Law on Control of Aid to Commercial Activities were adopted, clarifying the rules on admissible aid for small and medium companies.

Under the new provisions, a small or medium company may receive aid admissible due to its status if it has declared its compliance with the criteria for a small (micro) or medium company. The Cabinet of Ministers must adopt the regulations on the declarations of small (micro) and medium companies by 1 December 2008. Until that moment the current rules apply, as provided in Regulations No 546 of the Cabinet of Ministers as of 14 August 2008 Regulations on Declaring Performers of Economic Activity as Compliant with the Definition of Micro, Small and Medium Companies.

Moreover, the amendments provide that small and medium companies may in addition to other support receive aid for implementing new measures for environmental protection. After adoption of new environmental protection measures, support for investment may be approved at the rate of 15% of the expense of implementing the measures.

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Prohibition of an abuse of dominant position in retail business

From 1 October 2008, Article 13 (2) of the Competition Law forbidding abuse of a dominant position in retail business is effective. In determining the existence of a dominant position in retail business, additional criteria are assessed: the retailer's 'buyer power', and the dependence of suppliers. The Competition Council has issued guidelines 1) clarifying definitions, 2) stating principles to be used in applying this provision and 3) commenting on cases of abuse of a dominant position in the retail business. Unlike abuse of a dominant position, abuse of a dominant position in the retail business is qualified as a less serious violation; accordingly, the fine can be set at up to 0.03% of net turnover for the previous financial year.

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New regulations regarding application of competition law

At the beginning of October, six new regulations of the Cabinet of Ministers came into effect, replacing previous regulations on application of the Competition Law:

- Criteria for determining fines have been modified to incorporate the soft law of the EU, including the Leniency Notice.
- The Competition Council may now decrease a fine without limiting the minimal amount of fine.
- In block exemption, the Cabinet of Ministers has increased the market share threshold up to 15% for horizontal cooperation agreements regarding joint purchase, sale, distribution, and advertising of goods.
- The block exemption is also applied to franchise agreements containing the 'non-compete clause' for more than five years in cases when this is an equitable necessity in order to sustain the identity of a brand name and reputation of the franchise chain.
- Changes have occurred in the procedures for notifying a merger; accordingly, market participants can submit either a short notification or a full notification. The short notification is submitted if 1) none of the merging parties is active on the same, particular market or in a market vertically connected to it and 2) their market shares in total do not exceed 15%.

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INSURANCE

New reinsurance law

The law was designed to implement European Parliament and Council Directive 2005/68/EC (16 November 2005) on reinsurance. The law defines reinsurance as business carried out by a person that accepts risks transferred by an insurer, a reinsurer, or a private pension fund. The law sets supervision of reinsurers by defining the requirements for starting and carrying out activities in Latvia, as well as extending these for starting activities in other EU Member States. The law aims to implement the requirements of the European Parliament and Council by ensuring unified supervision of reinsurance companies throughout the European Community, as well as investing in ensuring the stability of international finance. Under the new law, a reinsurance company can reinsure in fields indicated in the FCMC license, as well as commercial activities directly linked to reinsurance or its intermediation. A reinsurer may start a reinsurance business only after registering with the Commercial Register and after receiving a reinsurance license, which is granted indefinitely. Supervision and additional supervision from the state will be carried out by FCMC.

More insurance legal news is available in the latest edition of the **Sorainen Insurance Legal Update** which can also be found on the Sorainen webpage www.sorainen.com under the Publications section.

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TAX

Government resolves to increase minimum salary

On 23 September 2008 the Cabinet of Ministers adopted new Regulations providing that from 2009 an employee's monthly salary cannot be less than LVL 180 (~EUR 256), while hourly rates cannot be less than LVL 1.083 (~EUR 2).

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Differentiated state duty rates cancelled

On 27 August 2008, amendments came into force to government Regulations on State Duty for Fulfilment of Notarial Operations and for Registration of Title and Pledge Rights in the Land Book. The amendments repeal differentiated state duty rates for natural persons for registering real estate title and mortgages depending on the number of real estates and mortgages registered in the Land Book for the particular natural person.

Thus, state duty for registering real estate title is 2% of the real estate value but not exceeding LVL 30,000, while state duty for registering a mortgage is 0.1% of the loan amount but not more than LVL 1,000 irrespective of the number of real estates or mortgages registered in the Land Book in the name of the natural person.

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LITHUANIA

SECURITIES AND CAPITAL MARKETS

New requirements for Audit Committees

On 1 September 2008, the Requirements for Audit Committees approved by the Securities Commission came into force. This followed amendments to the Law on Audit, which also came into force as from 1 September 2008.

Under the Law on Audit, public stock companies whose securities are traded on a regulated market of Lithuania and of other Member States, banks, and the Central Credit Union must possess audit committees. The Requirements establish a detailed procedure for formation of audit committees.

Under the Requirements, generally the audit committee should consist of at least three members, one of whom must be independent and have at least five years' experience in the field of audit and accounting. However, if the supervisory board is not formed in the company or the supervisory board consists of just a few members, then the audit committee may consist of only two members.

The Requirements apply to public stock companies established in Lithuania (except banks and the Central Credit Union) whose securities are traded on the regulated market of Lithuania or any other Member State.

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COMPANY LAW

Amendments to the Law on Companies

On 21 June 2008 a new edition of the Law on Companies came into force.

Under amendments to the Law, when transforming a public limited liability company into any other legal form of legal entity, an official offer should be submitted only to companies considered as issuers under the Law on Securities and supervised by the Securities Commission.

Amendments to the Law on Klaipeda's *laissez-faire* zone

On 1 July 2008 amendments to the Law on Klaipeda's *laissez-faire* zone came into force.

Under the amendments, the new territory of the zone covers 412 hectares – an increase of 207 hectares.

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EMPLOYMENT LAW

Amendments to Labour Code

On 1 August 2008, new amendments to the Labour Code came into force. The amendments adjust rates of remuneration for overtime and night work. Until the amendments came into force, the employer had to pay for night or overtime work at the rate of at least one and a half times the hourly pay/monthly wages established for the employee in the employment contract.

Under the amendments, remuneration for night work and overtime must be based not only on the basic salary established in the employment contract but also comprise all additional payments directly paid by the employer to the employee for work performed and be at the rate of at least one and a half times the basic salary plus the said additional payments.

Additionally, the requirement to take into account not only the basic salary but also all additional payments directly paid by the employer to the employee also applies to work on a rest day or a holiday which has not been provided for in the work schedule, and is compensated by at least double rate.

Rules for record of persons with no place of residence

On 8 September 2008 the Register of Residents adopted rules for a record of persons who do not have a place of residence.

The rules apply to persons who do not have a place of residence, i.e., who do not possess residential premises or, due to objective reasons, cannot declare their place of residence under the procedure prescribed by the Law on Declaration of Place of Residence.

Data of a person who does not have a place of residence is taken to the register after the person delivers application to the municipality institution, of the region where he resides.

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LITIGATION AND ARBITRATION

Law on Conciliatory Mediation of Civil Disputes

On 15 July 2008, the Seimas amended the law on Commercial Arbitration and adopted a law on Conciliatory Mediation in Civil Disputes. Both legal acts came into force on 31 July 2008.

Amendments to the law on Commercial Arbitration abolish Chapter IX, which established conciliatory mediation in civil disputes as an alternative for resolving disputes without the intervention of the court or arbitration. However, the new law on Conciliatory Mediation in Civil Disputes actually fulfils the abolished regulation by setting up a procedure for dispute resolution, when one or more impartial third natural persons help the parties to settle their dispute amicably.

The new law was adopted in order to regulate conciliatory mediation of civil disputes and determine conditions as well as the legal consequences of its application. The law applies to judicial and non-judicial conciliatory mediation of civil disputes except for disputes for which settlement agreements are considered as void by law.

Conciliatory mediation applies following a written agreement between the parties. The agreement may be concluded before or after the dispute arises. If the parties have not agreed upon this method of dispute resolution and apply to the court under general procedures, the court may propose settlement by way of conciliatory mediation.

When a dispute is settled by way of conciliatory mediation, a settlement agreement is concluded.

This may be submitted to the court for approval. A settlement agreement approved by the court has the same force on the parties as a final court decision.

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TAX

Amendments to the Law on Corporation Tax

Amendments to the Law on Corporation tax, coming into force on 1 January 2009, enable transfer of losses incurred during a tax period for an unlimited term. However, under recent regulation losses can be transferred for up to five years.

This provision does not apply to losses incurred in the process of transferring securities and derivative financial instruments disposal (not for Financial institutions).

The transfer of tax loss is terminated if an entity, foreign entity or organization whose activity is taxable under Lithuanian law suspends its activity due to which the loss occurs. However, the transfer may not be terminated if the activity is suspended for serious reasons beyond these subjects' control.

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BELARUS

BANKING

National Bank of Belarus increases quota of foreign capital in the Belarusian banking system

Previously, the overall amount of contributions by foreign shareholders to authorized capital of domestic banks could not exceed 25% of the aggregate amount of authorized capital. In September 2008, the National Bank raised this quota to 50% to accommodate more investment in the sector.

Belarusian banks have featured among the major recipients of foreign investment in 2007 – 2008. While at the beginning of the current year investment in the banking sector comprised about 10% of the total amount of foreign investment, on 1 September 2008 these volumes had reached 22.2%.

The Belarusian Government is also contemplating privatization of the four largest government-owned banks — Belarusbank, Belagroprombank, BPS-Bank, and Belinvestbank. The sale of BPS-Bank and Belinvestbank should be accomplished by the end of 2008.

Today, foreign investors hold shares in the majority of the 30 Belarusian banks. At the same time, 76%

of bank assets in Belarus belong to banks controlled by the Belarusian government.

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DISTRIBUTION AND TRADE

Ministry of Economics amends regulations on price formation

In September 2008, new rules on formation of prices in Belarus entered into force. The Ministry of Economics established maximum rates of wholesale and retail trade margins by which prices of goods charged by importers or domestic producers of goods can be increased to form the selling price. Regardless of the number of domestic interim sellers, the wholesale price for goods may exceed import prices by not more than 20%. The maximum retail margin amounts to 30% of importers' or producers' prices and includes all wholesale margins applied by domestic interim sellers.

The new regulations provide for a list of specific expenses which may be accounted for during formation of price by an importer. Thus, when determining import prices an importer may take into account the contractual price of the goods, customs duties, transportation and other expenses connected with performance of mandatory import procedures and formalities. Import margins are included in the import price and may not exceed 30% of the above expenses.

The Ministry of Economics left in place free market formation of prices with regard to some groups of goods, such as automobiles, clothes, cosmetics, telephones, and jewellery. At the end of September, domestic producers were allowed to form prices for these groups of goods freely. Previously, only importers and interim sellers could do so.

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LITIGATION AND ARBITRATION

Amendments to the Procedural Code for Commercial Courts

At the beginning of August, amendments to the Belarusian Procedural Code for Commercial Courts entered into effect.

The main amendments introduce additional provisions on mediation. Under these provisions, commencement of mediation constitutes grounds for suspending the proceedings. Conclusion of an agreement on settlement of a dispute through mediation and approval thereof by the court now amounts to a ground for terminating proceedings. The new Procedural Code provisions broaden the range of persons that may appeal against decisions of the court. This also now includes persons that did

not have the status of parties to the proceedings in the respective lower instance court.

The amendments also increase the terms for opening proceedings if a party to a dispute resides outside Belarus. Besides, the new version of the Procedural Code defines a business custom which may be applied in settling a dispute. Thus, the court may refer to a business custom if the parties knew or should have known about the custom as widely recognized in international trade and commonly applied to agreements of the kind in the respective business area.

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TAX

New criteria for granting special tax regimes in small towns and rural areas

In August 2008, new criteria were introduced for applying special tax regimes established by the Decrees of the President No 9 dated 20 December 2007 and No 1 dated 28 January 2008.

Previously, under Decree No 1 any company incorporated after 1 April 2008 and located in a small town (towns with population under 50, 000) was entitled to exemption from a number of taxes, free formation of prices and establishment of salaries, free choice of suppliers within five years after incorporation. Since August 2008, companies may enjoy these benefits if they are incorporated and also operate in small towns. These companies may not use the benefits with regard to profits gained in towns with a population of more than 50, 000 inhabitants.

Amendments to Decree No 9 enable manufacturing companies incorporated and operating in rural areas to enjoy the special tax regime even if they operate in other areas within Belarus. Previously, these companies were not entitled to tax exemptions if they did some business outside rural areas. Since August 2008, these manufacturers should separately account for and pay taxes with regard to profits received within and outside rural areas. The amendments also provide a clearer definition of "rural area".

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NEWS IN SORAINEN

■ Recent transactions

Representing If in cross-border merger of its Baltic group companies

We are representing If, a leading property and casualty insurance company in the Nordic region, in a landmark transaction involving the cross-border merger of its Baltic group companies using the EU cross-border merger directive. We advised on the legal structuring of the project and are currently working on implementing this Pan-Baltic transaction. In addition to carrying out a cross-border merger based on the EU directive, the assignment includes extensive pre-merger corporate restructuring (conversion and share transfers of insurance companies and establishing their foreign branches), negotiating with Financial Supervisory Authorities in all three countries, and managing the legal side of the project. This is a groundbreaking transaction because it is the first cross-border merger of regulated financial market participants in the Baltics based on the EU directive, and one of the very first in Europe. Our team in the project is led by partners Eva Berlaus-Gulbe, Karin Madisson, and Tomas Kontautas.

Advising in the largest real estate transaction in the Baltics to date

Sorainen Vilnius office advised Akropolis Group, the largest shopping centre developer and operator in Lithuania, in its sale of 100% shareholding in the company holding the Akropolis shopping centre to a German fund represented by Deka Immobilien.

Kaunas Akropolis shopping centre is situated in Kaunas city centre and is one of the newest and largest shopping centres in Lithuania, comprising approximately 60,000 m² gross lettable area and more than 260 different operators. The transaction was completed in September 2008. This is the largest transaction in the real estate sector in Lithuania and the Baltics to date. Our team in the project was led by partner Kestutis Adamonis and associate Indre Jonaityte.

MTV Baltics to be sold by Martinson Trigon Venture Partners

Sorainen is assisting Martinson Trigon Venture Partners, the CEE venture capital fund manager focusing on the TMT sector, in the sale of UAB MTV Networks Baltic to Ananey Communications Ltd. UAB MTV Networks Baltic operates the MTV music channel in Estonia, Latvia, and Lithuania. The transaction is expected to be closed in the near future. The Sorainen team is led by partner Toomas Prangli and senior associate Stefano Grace.

Focus Nordic Cities acquires property housing Magnum Logistics

Tallinn office with Catella Corporate Finance Latvian and Estonian team advised on this transaction where German open-ended real estate mutual fund Focus Nordic Cities, managed by Castella Real Estate AG, acquired the property housing Magnum Logistics.

The property was sold by Magnum Logistics, a major pharmaceuticals logistics company in Estonia. The transaction was advised by our Tallinn office property team, led by partner Kaido Loor.

Estonian Central Securities Depository develops new software

Tallinn office advised Eesti Vaartpaberikeskus (the Estonian Central Securities Depository) in development of new software, a platform for all local securities transactions. The legal framework prepared by Sorainen required amalgamated knowledge of IT development, as well as specific know-how in banking and securities regulation. Banking and securities advice was provided by senior associate Stefano M. Grace, while IT and contracts issues were handled by senior associate Kaupo Lepasepp.

Advising Catella Real Estate AG Kapitalanlagegesellschaft

Tallinn office advised the client in acquisition of commercial property located in Tallinn city centre where the anchor tenants are the Estonian Police and Border Guard. In addition to conducting a full legal due diligence of the property and drafting transaction documents, we advised the client on issues relating to structuring the transaction so that the target property would be deemed a permissible asset for acquisition under German investment law. The transaction was advised by our Tallinn office property team, led by partner Kaido Loor.

Complex merger of Bureau Veritas Group companies in Latvia

Sorainen Riga office assisted Bureau Veritas Latvia SIA, a company in the Bureau Veritas Group, a market leader in provision of inspection, testing, auditing, certification, ship classification and related technical assistance and training services through a highly complex and extended reorganization when a local company working in the same sphere of business was merged with Bureau Veritas Latvia SIA. Within the merger process we carried out a detailed analysis of issues related to transfer of permits for provision of services in the regulated sphere in order to avoid interruption of business. The client was advised by partner Eva Berlaus-Gulbe and associate Zane Paeglite.

Advising Standard Bank Plc on EUR 25 million transaction

Sorainen Riga office acted for Standard Bank Plc as Agent and Mandated Lead Arranger together with BayernLB and HSH Nordbank in a EUR 25 million syndicated facility to Norvik Banka AS. We advised on the financial documentation and CPs, and provided a legal opinion on the transaction. Our team in the project was led by partner Girts Ruda and senior associate Rudolfs Engelis.

Advising Riga City Council City Development Department on general legal framework in Latvia concerning major transport project

In 2008, Riga office has continued to advise the City Development Department of the Riga City Council on implementing the Riga Northern Transport Corridor Project. In July – September 2008 we comprehensively analysed the general legal framework in Latvia for implementation of the project, covering a broad range of areas including, e.g., roads regulation, construction law, public administration law. This was to ensure that the appropriate legislation is in place for the project and any required legal amendments are identified well in advance. We also liaised with the

team drafting a new PPP law for Latvia to ensure that a sound PPP legal framework is in place in Latvia for procuring and financing a project as expensive and complex as the Northern Corridor. The case is led by partner Girts Ruda and senior associate Rudolfs Engelis.

Riga office advises Hill International in one of the largest construction projects in the history of Latvia

Advising the client on tax issues regarding project management and site supervision services in one of the largest construction projects in the history of the country – the National Library. The case was led by partner Janis Taukacs and senior associate Uve Zosars.

Report for BEN Energy OU for development of wind park

Sorainen Riga office prepared a report for an Estonian client on legal environment and main steps for developing and operating a wind park in Latvia. Among other issues we advised on such topics as territorial planning, environmental limitations, and transformation of land, construction and mortgage. The Sorainen team in the project was represented by senior associate Lelde Lavina and associate Laura Medvida.

Assisting AB ESCO Marginalen in purchase of well-known Latvian leasing company

Sorainen Riga office assisted the client, a full service accounting and finance company operating in Sweden, the Netherlands, and Lithuania, in purchasing well-known Latvian leasing company SIA Nelss lizings. Our team was led by partner Eva Berlaus-Gulbe and senior associate Renate Purvinska.

Sorainen Riga represents Latvian Cabinet of Ministers and Ministry of Justice

We represent the Latvian government in a case involving refusal to privatise a large state-owned company established as a result of reorganisation of the State Land Service in order to perform strategic functions for the state in the field of land reform. The government refused to privatise the company and was sued in the administrative court. We successfully represented the government in this case in the first instance. It also established important case law in making a distinction between the right to initiate privatisation of state property or companies and the right to privatise. The case is handled by partner Agris Repss.

Representing UAB E energia in a number of disputes with local municipality

We currently represent a Lithuanian investor in the energy sector who has filed a notice of claim against the Latvian government. Notice of the claim has been filed under Article 7 of the Agreement between the Government of the Republic of Latvia and the Government of the Republic of Lithuania for the Promotion and Protection of Investments. This case is significant because so far only two ICSID cases involving Latvia have been arbitrated under bilateral investment treaties. This might become the third case in the history of Latvia unless the government settles our client's claims, currently amounting to EUR 30 million. Another notable aspect of the case is that the notice is elaborate

and contains a complex legal analysis of facts and events that have taken place over the last two years in the light of specific legal provisions of bilateral investment treaties. In particular, the claim addresses the rules on expropriation, fair and equitable treatment, full protection and security, arbitrary and discriminatory treatment. The matter is being handled by partner Agris Repss, senior associate Edgars Briedis, and associate Martins Paporinskis.

AB Lietuvos draudimas outsources management of EUR 153.5 million investment portfolio

Sorainen Vilnius team advised AB Lietuvos draudimas (Lithuanian Insurance), a member of the Royal & Sun Alliance (RSA) group and the leader in the national insurance market, on outsourcing management of its investment portfolio worth EUR 153.5 million to SEB investiciju valdymas. This is the biggest such transaction in the Baltic States to date. Our team in the project was led by partner Dr Tomas Kontautas.

Multimillion value vessel acquisitions in Lithuania

Sorainen Vilnius office advised Balthellas Chartering S.A., a major Greek shipping company with operations in the Baltic Sea, in its acquisition of four vessels from one of the biggest shipping companies in Lithuania. With a multimillion value, this is one of the largest recent acquisitions of second-hand vessels in Lithuania. The Sorainen team in the project was led by associate Regina Derkintyte and senior associate Gediminas Almantas.

Acquisition in Lithuanian IT sector

Sorainen Vilnius office advised UAB Baltnetos komunikacijos, a provider of complex IT and data communication solutions, in its acquisition of UAB Norby Networks from Martinson Trigon Venture Partners. UAB Norby Networks was formed recently on the basis of the internet service, data communication and telephony unit of former UAB MicroLink Lietuva. As a result of the acquisition, UAB Baltnetos komunikacijos became the second largest supplier of internet services to corporate clients in Lithuania. Our team in the project included partner Laimonas Skibarka, senior associate Raminta Karlonaitė, and specialist counsel Paulius Koverovas.

■ Employees

Sorainen M&A Team welcomes two and the Commercial Contracts Team one new employee in Tallinn

Kadri Kallas, a senior associate, returned and rejoined our M&A and Private Equity Team after LL.M. studies in University College and practice in London. Ms Kallas has three years' experience in the London-based M&A team of the US law firm Vinson & Elkins.

Luis Felipe Mohando, an associate, joined our M&A and Private Equity Team with international experience from the Tax department in Ernst & Young in Buenos Aires and after building up an M&A team and heading the corporate team in Leverone & Mihura Estrada - the fastest-growing Buenos Aires law firm. Mr Mohando

has a Master of Law degree from Universidad Torcuato Di Tella in Argentina.

Mihkel Miidla, an associate, joined our Commercial Contracts Team. He specialises in trade, distribution, and services. Mr Miidla has previously worked as a legal trainee in the Civil Chamber of the Estonian Supreme Court. He holds a Master's degree in Law from Tartu University in Estonia.

Riga office welcomes two associates to supplement our team

Ieva Lacenberga-Rocena, an associate specializing in Litigation, Arbitration and Public procurement. Before joining Sorainen, Ms Lacenberga-Rocena worked for three years as acting director of legal department for the Procurement Monitoring Bureau in Latvia. She has graduated from Riga Graduate School of Law (LL.M.).

Santa Selga, an associate, joined our team to strengthen our Banking, Finance and Insurance practices. Ms Selga has graduated from the University of Essex, UK (LL.M) within the framework of Pallas Consortium program which entitles her to the diplomas of 9 well known universities all over the Europe. She was awarded for the best graduation paper and received the best student award.

Further growth of Vilnius office

Within the last two months, Vilnius office has welcomed the arrival of three associates: Erika Budaite, Jurgita Venckute, and Renata Smalinskaite.

Before joining Sorainen, **Erika Budaite** practised law at the international business law firm DLA Piper UK LLP in London for two years and has a two-year experience of work with The British Institute of International and Comparative Law (BIICL) in London. Ms Budaite graduated from King's College, University of London (LL.M.) where she studied competition law, and Concordia International University in Estonia, where she obtained her LL.B. in International, EU and Comparative Law. She will strengthen our competition law practice.

Jurgita Venckute graduated with LL.M. in European law from Durham University, United Kingdom and a bachelor's in law from Mykolas Romeris University Faculty of Law. For the last two years she has been working as an associate at several law firms.

Renata Smalinskaite is an attorney-at-law specialising for over five years in dispute resolution. Before joining Sorainen she was with another law firm in Lithuania where she assisted various clients in civil dispute resolution. She also has practical experience as an in-house lawyer. Renata Smalinskaite has a Master's in Law and BBA degree, both from Vilnius University.

Growth of Sorainen Minsk

Sorainen team welcomed associate **Yuliya Liashenka**. Prior to joining Sorainen, Ms Liashenka worked for three years as in-house counsel with a construction company. She is experienced in the area of Real Estate & Construction, Corporate, and Employment Law. At Sorainen Minsk office, Yuliya Liashenka is advising clients in these areas of law as well as providing support in M&A projects.

Partner Carri Ginter defends PhD degree

Sorainen Tallinn office partner Carri Ginter defended his degree of Doctor of Philosophy (PhD) in law at the University of Tartu Faculty of Law.

■ Other

Sorainen becomes the cooperation partner for WTS Alliance

Sorainen Tax Team is now the non-exclusive Cooperation Partner of WTS (World Tax Service) Alliance which is a global network of selected independent firms providing the highest quality tax advice with coordinating body in Germany and member firms and cooperation partners all over the world. The professionals within the WTS Alliance are experienced project managers in all tax matters providing their clients with integrated and harmonized solutions for all jurisdictions concerned. Project management by WTS Alliance makes it possible to present fast and tailor-made cross-border solutions to the client and at the same time to reduce consulting costs. Sorainen is the only Cooperation Partner for WTS Alliance that covers the tax practice in the Baltics. Additional information is available either on their web page: www.wts-alliance.com or from Janis Taukacs, Head of Tax (e-mail: janis.taukacs@sorainen.lv).

Sorainen starts blogging

Sorainen offices recently started legal blogging in major business media in the Baltics: on *Aripaev*, *Dienas Bizness*, and *Verslo Zinios* respectively. Lawyers blog on topics relating to corporate matters, including M&A issues. You are welcome to visit our blogs and share your views: www.aripaev.ee (in Estonian), www.db.lv (in Latvian) and www.vz.lt (in Lithuanian).

Sorainen Tax Legal Team is issuing Tax Newsflashes

Sorainen Tax Legal Team is regularly preparing Tax Newsflashes with the most significant news and amendments in taxation law. All Tax Newsflashes are available on the Sorainen webpage www.sorainen.com under Publications where you can also subscribe to them. Tax Newsflashes are most prepared both in English and local languages.

Sorainen rewards The Best Master's Theses In Law

For the fourth year in a row, Sorainen announced a master's theses competition for law students. This year the grand prize went to Sergei Jegorov. Theses prepared by Mihkel Miidla and Arsi Pavelts also received awards.

Sorainen partner Carri Ginter, head of the scholarship award committee, said that an important evaluation criterion is the practical value of a thesis.

Sorainen's thesis competition aims to foster legal research and acknowledges outstanding students whose theses were recognised by grade "A". Eligible students included master's degree graduates from the University of Tartu Faculty of Law whose theses were of practical value and dealt with company law issues.