



Business Guide Lithuania

Danske Bank

Mazanti-Andersen, Korsø Jensen & Partnere
in cooperation with Sorainen

PricewaterhouseCoopers

3rd Edition

Preface

“Business Guide Lithuania” is intended as a preliminary exploration of the questions that typically arise when a company wishes to enter the Lithuanian market.

This guide has been edited in cooperation between Mazanti-Andersen, Korsø Jensen & Partnere/Sorainen, PricewaterhouseCoopers and Danske Bank.

The guide is not intended to cover all issues arising in relation to activities in Lithuania. However, we hope that it will provide an overview of typical issues.

Independent professional advisory services of a legal, fiscal, financial or marketing nature are indispensable and usually a good investment.

This publication has been prepared for general guidance or matters of interest only and does not constitute professional advice. PricewaterhouseCoopers and Mazanti-Andersen, Korsø Jensen & Partnere/Sorainen and Danske Bank do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

The guide will be featured on the following Web sites, which will be updated regularly: www.danskebank.com, www.mazanti.dk, www.pwc.com.

March 2010

Danske Bank

Danske Bank is the largest bank in Denmark and a leading player in the Scandinavian financial markets. The Danske Bank Group – which includes Danske Bank, Realkredit Danmark, Danica Pension and a number of subsidiaries – offers a wide range of financial services, including insurance, mortgage finance, asset management, brokerage, real estate and leasing services.

In Denmark, Norway, Sweden, Finland, Northern Ireland, the Republic of Ireland, Estonia, Latvia, Lithuania and Russia the Group serves 5 million retail customers and a significant part of the corporate, public and institutional sectors. It also has a large number of international corporate clients, particularly in the northern European markets. Some 2.3 million customers use the Bank's online services.

Sampo Bank serves customers in Finland and the Baltic states.

Danske Bank also has branches in London, Hamburg and Warsaw. Moreover, a subsidiary in Luxembourg. For more information go to www.danskebank.com.

Mazanti-Andersen, Korsø Jensen & Partnere

Mazanti-Andersen, Korsø Jensen & Partnere, established in 1853, is a modern business law firm rendering services to Danish and international companies within all areas of business law. All the lawyers of the firm are highly qualified and specialised in the various areas in which the firm operates. It is the object of the firm to provide professional services of the quality which the business community expects from an efficient law firm operating internationally.

It is a tradition that the lawyers of the firm teach various subjects of corporate and commercial law at universities and other institutions of higher education in Denmark and abroad.

To meet the requirement for updated and adequate legal expertise at all times, the firm pays special attention to ensuring that all its lawyers participate, on a current basis, in an extensive legal training programme within specific areas of law.

The firm co-operates closely with leading law firms in all jurisdictions relevant to Nordic businesses. For more information, go to www.mazanti.dk.

Sorainen

Sorainen was established in 1995 in Tallinn, and today, it is one of the largest business law firms in the Baltic countries as it has grown into a law firm consisting of more than 95 lawyers specialising in many areas of business law. The firm's offices in Estonia, Latvia and Lithuania form a fully integrated pan-Baltic law firm, which has been ISO 9001 certified since 2006.

Sorainen provides high-quality legal services to the world's leading companies, financial institutions and private investors in connection with their most demanding transactions and assignments.

More detailed information about the firm's legal practice and professionals is available on the firm's new Web site: www.sorainen.com.

PricewaterhouseCoopers

Multinational businesses are increasingly affected by tax, legislative and regulatory changes throughout the world. Understanding the impact of such changes on business operations and transactions between countries is vital for a company's survival.

The network of PricewaterhouseCoopers' international tax-structuring professionals is experienced in addressing such issues and issues of international taxation. Our teams are able to help you structure your business in a tax-efficient manner, both locally and globally.

PricewaterhouseCoopers can help you prepare efficient cross-border strategies and manage your global structural tax rate. They will also keep you up to date on changes in the international arena that affect your business. For more information, go to www.pwc.com.

Contents

1	Facts about Lithuania	5	3.2.1	Significant developments	23
1.2	Lithuanian economy and politics	5	3.2.2	Territoriality and residence	23
1.2.2	Prospects for the Lithuanian economy	5	3.2.3	Gross income	23
1.2.3	Facts	5	3.2.3.1	Employee gross income	23
1.2.3.1	Politics	5	3.2.3.2	Capital gains and investment income	23
1.2.3.2	Economic indicators and demographics	5	3.2.4	Tax rates	24
			3.2.5	Real estate tax	24
2	Legal aspects about Lithuania	6	3.3	Value Added Tax	24
2.1	Legal Environment	6	3.3.1	VAT	24
2.1.1	State Structure	6	3.4	Duties	25
2.1.2	Courts. Arbitration courts	6	3.4.1	Customs duties	25
2.2	Company Law	6	4	Banking Environment	26
2.2.1	Forms of Companies	6	4.1	Overview	26
2.2.2	Public and Private Limited Liability Companies	6	4.1.1	Central Bank	26
2.2.3	Foundation of a Limited Liability Company	7	4.2	Danske Bankas	26
2.2.4	Share Capital and Shares	7	4.3	Legal & Regulatory Issues	26
2.2.5	Management of the company	7	4.3.1	Introduction	26
2.2.6	Public and Private Limited Liability Companies – A Brief Comparison	8	4.3.2	Resident and Non-Resident Status	26
2.2.7	Branch and Representative Office of Foreign Company	8	4.3.3	Account Ownership	26
2.2.8	The Commercial register. Notaries Public. Licensed Areas of Business	9	4.3.4	Cash Pooling Regulations	26
2.3	Mergers and Acquisitions	9	4.3.5	FX Controls	27
2.3.1	Introduction	9	4.3.6	Central Bank Reporting Requirements	27
2.3.2	Types of Acquisitions	9	4.3.7	Money Laundering	27
2.3.3	Acquisition of Shares	9	4.4	Payments & Collections Methods & Instruments	27
2.3.4	Acquisition of Assets	10	4.4.1	Introduction	27
2.3.5	Comparison of Share and Asset Acquisition	12	4.4.2	Payment (and Collection) Methods	27
2.4	Competition Law	12	4.4.3	Card Payments	27
2.4.1	General Principles of Competition Law	12	4.4.4	Credit Transfers	27
2.4.2	Applicability of EC Competition Rules	12	4.4.5	Direct Debits	28
2.4.3	Prohibited Agreements	12	4.4.6	Cheques	28
2.4.4	Concentration Control	13	4.5	Electronic Banking	28
2.5	Real Estate	14	4.5.1	Introduction	28
2.5.1	Introduction	14	4.5.2	General Functionality of EBS Offerings	28
2.5.2	Title to Real Estate, Land Register	14	4.5.3	EDIFACT / Host-to-Host Solutions	28
2.5.3	Acquisition of Real Estate	14	4.5.4	E-payments and E-invoice / EBPP	28
2.5.4	Restrictions	15	4.6	Cash Pooling Solutions	28
2.5.5	Encumbrances	15	4.6.1	Introduction	28
2.5.6	Property Management	16	4.6.2	Notional Pooling	28
2.5.7	Lease Agreements	16	4.6.3	Cash Concentration	28
2.5.8	Planning Requirements and Construction of Buildings	16	4.6.4	Multicurrency and Cross Border Pooling	28
2.6	Employment Law	17	5	Useful Links – Lithuania	29
2.6.1	General	17			
2.6.2	Employment Contract	17			
2.6.3	Salary	17			
2.6.4	Working time and Vacation	17			
2.6.5	Termination of employment contract	18			
2.7	Visa and Work Permit	18			
2.7.1	Visas	18			
2.7.2	Residence and work permits	18			
3	Taxation in Lithuania	21			
3.1	Corporate taxes	21			
3.1.1	Significant developments	21			
3.1.2	Taxes on corporate income	21			
3.1.3	Corporate residence:	21			
3.1.4	Foreign income	22			
3.1.5	Capital gains	22			
3.1.6	Branch income	22			
3.1.7	Group taxation	22			
3.1.8	Tax returns	22			
3.1.9	Payment of tax	22			
3.1.10	Withholding taxes	22			
3.2	Individual Taxation	23			

1 Facts about Lithuania

1.2 Lithuanian economy and politics

Lithuania initiated independence from Russia in the beginning of 1991. Since then, the country has undergone a period of sustained reform. Lithuania joined the EU in May 2004, and was included in the ERM II in June 2004.

Like the other Baltic states, the Lithuanian economy slid into a deep recession in 2009. Currently, the economy is still feeling the nasty cocktail of the consequences of the global credit crunch and the local property market bust. Due to significant public sector imbalances, prospects for euro entry in the near future are highly unrealistic.

1.2.2 Prospects for the Lithuanian economy

We believe that there are some signs of stabilization in the Lithuanian economy. Exports are on an upward trend due to the positive stimulus from external demand. We remain optimistic that Lithuania's recovery will begin during 2010. However, it will be fragile in that it will likely be driven solely by external demand. The expected energy price shock in 2010 will put upward pressure on consumer prices again and dampen GDP growth. The good news, so far, is that due to compensation measures, the energy shock should be significantly smaller than previously expected.

1.2.3 Facts

1.2.3.1 Politics

Official name

Republic of Lithuania/Lietuvos Respublika

Form of government

Parliamentary democracy

Parliament

Unicameral parliament, the Seimas

Election system

Universal suffrage for citizens aged 18 or older

Head of state

The president is elected by popular vote for a five-year term. The current president is Dalia Grybauskaite.

Primary political parties

Homeland Union – Lithuanian Christian Democrats (19.7% of votes in parliament),
National Revival (15.1% of votes in parliament),
Order and Justice Party (12.7% of votes in parliament),
Social Democratic Party (11.7% of votes in parliament)

Central bank

The Lithuanian central bank (Bank of Lithuania) is an independent central bank. The Lithuanian lita (LTL) is pegged to the euro at 3.4528 = 1 EUR

International relations

Lithuania is a member of BIS, UN, OSCE, EU, and a number of other organisations.

1.2.3.2 Economic indicators and demographics

Population

3.34 million (September 2009)

Religion

Roman Catholic 79%, Russian Orthodox 4%;
Protestants and other 17%.

Languages

Lithuanian (official) 82%, Russian 8%, Polish 5%

Currency

1 litas (LTL) = 100 centy

Social and economic indicators

GDP (purchasing power parity): USD 63.6bn
(2008 IMF)

Overall fertility rate: 1.47 children born/woman
(2008 est.)

Life expectancy: total population: 71.9 years; males:
66.3 years; females 77.6 years (2008)

2 Legal aspects about Lithuania

2.1. Legal Environment

The reform of the Lithuanian legal framework commenced together with the restoration of independence in 1990. The main objectives of the reform were to replace the legal system inherited from the Soviet Union by a civil law system based on principles of law compatible with the market economy and the rule of law. Commercial law, criminal law, contract law and other fields of law were substantially amended. Furthermore, due to accession to the European Union a predominant part of European Union legislation has been implemented in the national laws.

2.1.1 State Structure

The Republic of Lithuania is a parliamentary democracy. The state structure is established under the Constitution of Lithuania which was adopted by the citizens of Lithuania in a referendum on 25 October 1992. The state powers are vested in the Parliament, the Government, the President and the courts.

The unicameral Parliament holds exclusive legislative powers. It consists of 141 members, who are elected for a four-year tenure. The State's executive powers are generally vested in the Government, which is divided into 14 ministries. The Cabinet of Ministers is headed by the Prime Minister. The President is elected for a five-year period and his authorities are generally related to foreign policy.

The territory of Lithuania is divided into 10 districts. Districts consist of 60 municipalities, which are governed by representative bodies - municipality councils - elected for a four-year period.

2.1.2 Courts. Arbitration courts

The Lithuanian court system consists of courts of general jurisdiction and special - administrative - courts. The courts of general jurisdiction are organised in a four-level, three-instance court system, which consists of 54 district courts, five regional courts with exceptional competence of Vilnius Regional Court, the Court of Appeals and the Lithuanian Supreme Court. Regional administrative courts with exceptional competence of Vilnius Regional Administrative Court and the Supreme Administrative Court of Lithuania form the system of administrative courts.

District courts are also competent to consider cases on of administrative law.

The Constitutional Court of Lithuania is not recognised as part of the court system. It is an independent judicial authority with the competence to decide whether the laws and other legal acts adopted by the Parliament comply with the Constitution, and whether acts adopted by the President or the Government comply with the Constitution and laws.

Under general rule, most cases cannot be resolved in a single court hearing; therefore, court proceedings in the first instance may take several months, counting from

the day of the receipt of an application by the court. The adoption of the final decision may on average take up to 1-2 years.

To avoid lengthy proceedings of a legal dispute in the state courts and to ensure confidentiality, the parties may agree to resolve a dispute in a violation court of arbitration. The establishment of courts of arbitration is regulated under the Law on Commercial Arbitration. The law also regulates so called non-arbitrable disputes, which include disputes related to competition, patents, trade marks and bankruptcy, and disputes arising from agreements with consumers.

2.2 Company Law

Lithuanian Company Law is regulated by several legal acts, the most important of which are the Civil Code and the Law on Companies. The latter regulates establishment, activities, management, liquidation and reorganisation of limited liability companies. Undertakings of other legal forms are regulated by various other Lithuanian legal acts.

2.2.1 Forms of Companies

As in the other Baltic countries, there are five principal legal forms of business entities: private limited liability company, public limited liability company, limited partnership, general partnership and individual (personal) enterprise.

In addition to the legal forms listed above, Lithuanian law also establishes the following legal forms of business entities:

- State-owned Enterprise: a limited liability company with all assets owned by the state;
- Municipal Enterprise: a limited liability company with all assets owned by the municipality;
- Agricultural Company;
- Cooperative Society.

As in Estonia, Latvia and the Nordic countries, limited liability companies (both private and public) are the most popular legal forms of business used by investors for various reasons, including the security offered to the personal investors' assets, flexible management structure, etc. Both legal forms of limited liability companies are described below in greater detail.

2.2.2 Public and Private Limited Liability Companies

Public and private limited liability companies must have a share capital divided into shares which are held by one or several investors. Taking into consideration the limited liability of these companies, under the general rule the company and the shareholders are liable for the company's debts and other obligations only to an amount equal to the company's assets. The liability of the shareholders for the company's obligations is limited to the value of shares owned by the shareholder, except in case a company cannot perform its obligations due to unfair shareholder's actions. In that case, the "corporate veil" may be pierced and the shareholder may be held liable for obligations of the company.

The regulation of private and public limited liability companies is not substantially different. The differences are related to the shares of the company, the number of shareholders, the minimum size of the share capital, audit requirements and other factors. Every limited liability company is required to have a registered address in Lithuania.

2.2.3 Foundation of a Limited Liability Company

The founders of a company may be both natural persons and companies. The founders of a company are not subject to residence or nationality requirements.

The number of founders (subsequently the shareholders) of a private limited liability company must be lower than 250, whereas there are no limitations to the number of founders (subsequently the shareholders) of a public limited liability company. A limited liability company can also be established by a sole founder.

As the first step in a company foundation procedure, a shareholder or several shareholders must conclude respectively a founding act or founders' agreement and prepare the articles of association. Provided that the founders do not conclude separate share subscription agreements, the provisions regulating the share subscription must be included in the founding act (or the founding agreement).

Secondly, after subscription of shares and payment of initial contributions, the statutory meeting of the founders must be convened. The amount of the initial contributions paid in cash must be not lower than the minimum statutory share capital - LTL 10,000¹ for a private limited liability company and LTL 150,000² for a public limited liability company. In addition, the amount of the monetary contributions of a shareholder must not be lower than 1/4 of the nominal value of shareholder's subscribed shares and the whole premium, if any. Managing bodies must be elected or appointed at the second step of foundation.

As for the public limited liability companies, shares of such companies have to be registered with the Central Securities Depository after drawing up and signing the founding act or the founding agreement. In addition, a statutory report must be prepared after all the initial contributions for the shares have been paid.

2.2.4 Share Capital and Shares

The Law on Companies establishes requirements for the minimal share capital of private and public limited liability companies which cannot be lower than LTL 10,000 and LTL 150,000 respectively. Under the law, the subscribed shares may be paid either in cash or by in-kind contributions. Only those assets which can be evaluated in monetary terms may be used as payment in kind. The law establishes that neither performance of work, nor services are recognised as in-kind contributions.

The initial instalments paid in cash for the subscribed shares should not be lower than 1/4 of the share capital foreseen in the Articles of Association and the premium but in any case not lower than the minimum share capital established under the law. Under the law, the valuation of contributions in kind has to be carried out by an expert valuator. The founding act or the agreement must indicate the term during which the subscribed shares have to be fully paid.

The established term cannot exceed 12 months from the date of signing the founding act or the agreement.

2.2.5 Management of the company

Under the Law on Companies, the Meeting of Shareholders and the Managing Director are mandatory bodies. The decision whether to form the supervisory body - the Supervisory Board, and the collective management body - the Management Board, or not to form those management bodies is within the discretion of the founders (and subsequently the shareholders). Provided the Management Board is not formed, its functions, which under the law are attributed to it, are vested in the Managing Director.

a) Management Board

The Articles of Association of a company must establish the number of the members of the Management Board, which cannot be lower than three. Members of the Management Board are elected by the Supervisory Board. If the Supervisory Board is not formed, the Management Board is elected by the Meeting of Shareholders. Members of the Management Board may be elected for a period not longer than four years. Only natural persons may be elected to the Management Board. No residence or nationality requirements apply to the members of the Management Board. The competence of the Management Board includes analysis of the activities of the company's business, election of the Managing Director, adoption of decisions to establish other companies, branches or representative offices, transfer of the company's assets and performance of other functions foreseen in the Articles of Association of the company and the Law on Companies. The Management Board must act in accordance with the procedures on activities established by its adopted Work Regulations of the Management Board. Under the law, the meeting of the Management Board has a quorum if more than 2/3 of its members participate unless the Articles of Association establish higher quorum requirements. A resolution of the Management Board is deemed to be adopted if more than half of the entire elected members vote in favour of it unless the Articles of Association establish higher quorum requirements.

(b) Supervisory Board

Under the law, the competence of the Supervisory Board generally involves supervision of the activities of the Management Board and the Managing Director.

¹ About EUR 2,896, ² About EUR 43,443

Similarly to the Management Board, the number of members of the Supervisory Board must be indicated in the Articles of Association of a company. In any case this number must not be lower than three and should not exceed 15. Members of the Supervisory Board are elected by the Meeting of Shareholders for a period not longer than four years. Like in case of the Management Board, the Law on Companies does not establish any limitations in respect of citizenship or place of residence for the members of the Supervisory Board. Managing Director and members of the Management Board of the company cannot be elected as the members of the Supervisory Board of that company.

(c) Meeting of Shareholders. General Meeting

Every shareholder of a company has the right to participate in and vote at the Meeting of Shareholders. Right to attend the Meeting of Shareholders is also granted to the members of the Management Board, the Supervisory Board and the Managing Director. The Meeting of Shareholders is considered as held and

competent to adopt resolutions if more than half of the votes attached to the shares are represented at the meeting. The resolutions are adopted if more votes are given in favour of the decision than against it. Under the Law on Companies, a qualified majority of 2/3 is required for adoption of decision to amend or supplement the Articles of Association, liquidate, restructure or reorganise the company, increase or reduce the share capital, convert shares of one class or type into another class or type, form reserves or distribute profit and in some other cases listed in the law.

A majority of 3/4 votes is always required for the adoption of a decision to revoke the pre-emption right to all the shareholders to purchase newly issued shares or convertible debentures of the company.

Please note that the Articles of Association may establish higher majority requirements for adoption of resolutions of the Meeting of Shareholders.

2.2.6 Public and Private Limited Liability Companies – A Brief Comparison

	Private Limited Liability Company/ Uždaroji akcinė bendrovė	Public Limited Liability Company/ Akcinė bendrovė
Minimum share capital	LTL 10,000 (about EUR 2,896)	LTL 150,000 (about EUR 43,443)
Number of shareholders	Less than 250	Unlimited
Founding act or agreement, Articles of Association	Must be approved by a notary	Must be approved by a notary
Auditor	Mandatory only in cases stated in the Law on Financial Statements	Mandatory
Registration of shares with the Central Securities Depository	Not applicable	Mandatory

2.2.7 Branch and Representative Office of Foreign Company/Filialas

Foreign companies are allowed to register branch offices in Lithuania. A branch of a foreign company is defined as a division of a foreign company with a registered address in Lithuania and performing part or all the functions of the company. The scope of the functions performed, the obligations assumed and transactions concluded by the branch is determined by the founding company. Those functions of the branch are usually established in the statutes of the branch, approved by the founding company.

It must be noted that a branch is not recognised as a legal person, and, therefore, the founding company is liable for the obligations of the branch. Every branch of a foreign company must have a manager responsible for organising and carrying out activities of the branch.

A foreign company may also establish a representative office. Contrary to the scope of activities of a branch, the scope of activities in which the representative office may engage is very narrow.

A representative office is defined as a division of a foreign company with the registered office in Lithuania which has a right to represent and protect the interests

of the founding company, conclude transactions and perform other actions on behalf of the founding company.

Identically to a branch, a representative office is not recognised as a separate legal person.

The representative office must have a manager responsible for its activities. Representative offices are usually established in order to promote the activities of the founding company, reach out for new business relations and make market research.

It must be pointed out that at least one person who is authorised to act on behalf of the branch office or representative office must reside in Lithuania. Due to incompatibility with EU rules, it is envisaged to abolish this requirement. Further, it might be noted that in practice companies often do not follow this requirement.

In addition, both branch offices and representative offices must submit financial documents of the founding company which the founder is required to submit to the commercial register of its home country to the Commercial Register of Lithuania annually.

2.2.8 The Commercial register. Notaries Public. Licensed Areas of Business

The Commercial Register of Lithuania commenced its activities as of 1 January 2004. The registrar of the Commercial Register is the State Enterprise Centre of Registers, where the Ministry of Justice of the Republic of Lithuania exercises rights and performs obligations of the owner. The functions of the Commercial Register include registration of companies, branches and representative offices, information about the management bodies, companies' representation rights, financial statements and other information about the registered companies. The information stored and administered by the Commercial Register is public information and every person has the right to get acquainted with the documents and information held by the Commercial Register.

Prior to registration of the founding documents with the Commercial Register, those documents must be approved by the notary public. The notary fees for approving the founding documents vary depending on the legal form of a company. For example, notary fee for approving founding documents of a private limited liability company is approximately LTL 250-800. Noteworthy that presumably in near future approval of the notary will not be required in case of a private company where it will opt for model Articles of Association, approved by the Government (at this point in time the model Articles of Association are still not approved and not all the necessary legislation is in place).

The Civil Code establishes that a company is allowed to engage in licensed activities only after obtaining a licence from the state authority responsible for the respective sphere of business. Usually a licence is required if the business activities could create risk to human life or health, the environment or other spheres of public interest.

The procedure for licensing various business areas is regulated by the Government, which issues rules on licensing. Usually licences are issued for the indefinite period of time; however, sometimes licences have to be re-registered.

2.3 Mergers and Acquisitions

2.3.1 Introduction

Mergers and acquisitions (M&A) commenced in Lithuania in 1991 with the wave of privatisation of business owned by the state. The current trend on the M&A market in Lithuania is for acquisitions to be either part of a cross-border deal with an international element or the result of private offerings and negotiations. Due to global financial crisis and economic decline of the Baltic region it is to notice that the number of pan-Baltic acquisitions has recently fallen. An increase of distressed buy-out might be observed.

M&A transactions are related to large considerations and high risks; therefore, the legal basis for M&A transactions must keep up with developments in the market. Compared with the situation in the beginning of the 1990s, current legal background and business practice have improved dramatically and could be compared with those of developed countries.

2.3.2 Types of Acquisitions

The most popular types of acquisitions are acquisitions of shares, acquisitions of assets of an ongoing business and mergers.

Mergers and divisions are the most regulated and time-consuming forms of acquisition, therefore, in practice, those forms are rarely used to acquire a business, except for mergers of group companies. The above-mentioned types of acquisitions are not the only ways to acquire a business, as the business can be purchased by targeted issue of shares, formation of a joint venture, acquisition of strategic assets, conclusion of shareholders' agreement, franchise and other methods. The selection of acquisition type depends on a number of criteria, such as various legal restrictions, payment and financing terms, business risks, intentions and structure of the parties, taxation and many others. Nevertheless, acquisition of shares and acquisition of assets remain the most popular forms of business acquisitions and are described in more detail in the following chapters.

2.3.3 Acquisition of Shares

[a] General

The buyer acquires all the rights and obligations of the company's shareholders upon the purchase of shares of the respective company. Neither the liabilities, nor the legal status of a company whose shares have been transferred are modified due to the transfer of shares.

[b] Form

Shares are transferred by signing a simple written agreement, which does not have to be approved by the notary public. The content of mandatory information to be included in the share sale-purchase agreement (the SPA) depends on the form of the company.

The SPA for shares of a public limited liability company must include:

- Company name, legal form, code and legal address of the company whose shares are transferred;
- The number of the shares transferred in accordance with their classes and their nominal value;
- The share issue code granted by the Central Securities Depository of Lithuania (if the company whose shares are being transferred has made several share issues);

The size of the dividend of the preference shares, voting and other rights attached thereto.

These requirements are not applied to the SPAs for shares which are concluded in a regulated market.

As regards private limited liability companies, the formal requirements for transfer of shares depend on the type of shares transferred. Conclusion of the SPA is the only action required to transfer non-certificated shares.

For the transfer of certificated shares, beside the conclusion of the share transfer agreement, certain records – endorsements – have to be made in the share certificates or shares, and those records have to be signed by both the transferor and the transferee. In both cases, certain entries must be made in the respective registers of operations with shares (in the shareholders' personal securities accounts in case of non-certificated shares and in the shareholders' register in case of certificated shares).

[c] Transfer of Title

The Central Securities Depository of Lithuania is responsible for the accounting of the shares of public limited liability companies. Shares of a public limited liability company are recorded in the shareholders' personal securities accounts, administered by a brokerage company. Upon the receipt of the shares in the buyer's securities account, the title to the shares is considered to be transferred to the buyer. In order to transfer shares from one securities account to another, the agreement on transfer of shares has to be submitted to the financial brokerage company unless the shares are sold in the regulated market.

A private limited liability company is responsible for administering the shareholders' securities accounts, provided that the company has non-certificated shares. The administration of the securities accounts can be assigned to another company, e.g. a financial brokerage company. The transfer of shares is recorded by making certain records in the personal securities accounts of the seller and the buyer. The respective entries are made upon the submission of the agreement on transfer of shares to the administrator of the personal securities accounts.

The title to the certificated shares is evidenced by share certificates or shares, issued by the company and held by the shareholder. The shareholders' register, where the operations with shares are registered, must be kept by a private limited liability company. The transfer of certificated shares is performed by making endorsements in the share certificates or shares, which must be signed by the seller and the buyer of shares. The private limited liability company makes the relevant entries in the shareholders' register, evidencing the change of title to the shares after share certificates or shares with endorsements made by the buyer are submitted to the company.

Under Lithuanian legislation no prior consent of a management body of a company whose shares are transferred is required for the transfer of such shares. Nevertheless, provisions establishing the pre-emptive rights of shareholders to purchase shares of the company should be observed.

In case one person purchases all the shares of a company or the sole shareholder transfers all or part of its owned shares, the Managing Director of the company must submit a respective written notice to the Commercial Register within a five-day period from the moment a notice about the change of shareholders has been presented to the company.

Articles of Association of a company can establish additional obligations relating to the transfer of shares.

[d] Pre-emptive Rights

Under the Law on Companies a public limited liability company must not restrict shareholders' rights to transfer fully-paid shares under the procedure established by the law. Nevertheless, by signing a respective agreement the shareholders can establish certain requirements for transfer of shares; however, such an agreement would be binding only upon the parties thereto.

Certain peculiarities are established for pre-emptive rights in respect of the private limited liability companies. The shareholder must inform the company in writing about the intention to sell the shares of the respective company, indicating the number and price of the shares. The Managing Director of the respective company must, within five days from the receipt of information, inform every shareholder of the company in writing or by registered mail about the number of shares to be sold, the price and term for submission of offers to purchase shares, which cannot be shorter than 14 days and longer than 30 days from receipt of such information. The shareholder who has announced an intention to sell the shares must be informed by the Managing Director of the company about other shareholders' intention to buy the respective shares within 45 days calculated from the provision of notice on intention to sell shares. If the amount of the offered shares is smaller than the demand, the shares are allocated to the shareholders proportionately to the number of shares they own.

Such requirements are applicable only to the sale of shares, and would therefore not be relevant, e.g. in case of donation of shares.

2.3.4 Acquisition of Assets

[a] General

Under Lithuanian laws two types of transactions could be regarded as asset deals: transfer of business as a going concern (transfer of a company) and piece-by-piece asset transfer. The acquisition of assets covers sale of the whole or a substantial part of a business, but not the shares of a company whose assets are sold. On the contrary, the said company participates in the transaction as the seller of business and receives the consideration.

The main advantage of the acquisition of assets is that the buyer can choose which assets to buy (in piece-by-piece acquisitions). However, acquisition of assets might be recognised as transfer of a company, which is

regulated under the Civil Code. The regulation on transfer of a company is intended to protect the interests of creditors.

Under the Civil Code, a company is defined as a unit of assets, property and non-property rights, debts and other obligations, owned by the business (profit seeking) person. Rules on the transfer of a company also apply in case of transfer of a significant part of a business. In case of a dispute, it would be within the discretion of a judge to determine whether the transfer of assets should be considered as transfer of a company or a significant part of it. It should be noted that no court practice regarding this issue has been developed yet.

(b) Form

The transaction on transfer of a company (its assets) must be concluded in the notarised form. The law does not require notarised form for transactions on transfer of movables; nevertheless, the notarised form is required in case of transfer of a company (its assets), even if no immovable property is transferred.

(c) Transfer of Title

The title to the company (its assets) is considered to be transferred upon signing the deed on transfer-acceptance by both the buyer and the seller. Pursuant to the law, the deed must indicate information about the company and its assets, condition of assets, obligations of the parties to the creditors and performance thereof.

In case the assets (e.g. trade marks, motor vehicles) to be transferred are registered in public registers, the relevant entries must be made in those public registers after transfer of a company. The company transfer agreement is not binding on third parties unless it is registered in the public register.

For the protection of creditors, the buyer is obliged to inform all the creditors of the company transferred under the agreement in writing about the intended sale of the company at least 20 days before the conclusion of the contract. Failure to follow the above mentioned obligation grants the seller's creditors the right to file their claims directly with the buyer. The obligation to inform the creditors about the sale of company does not apply if the purchase price is paid in cash and it sufficiently covers all the debts to the creditors.

Provided that, under the general rule, licences and permits are issued to a particular person, licences and permits cannot be generally transferred together with the transfer of the business. The buyer of the company has to apply for such permits or licences separately.

Provided that the issuing of certain permits and licences is usually subject to possession of certain assets, rights, employment of certain specialists, or other additional requirements, it is advisable to take into account the period required to obtain the necessary permits and licences and seek for solutions to obtain the respective permits and licenses as soon as possible.

The control of a business can be obtained separately from the title to the assets, e.g. under a business lease contract. Compared with the laws of other Baltic countries, Lithuanian law regulates lease of a company (business) rather extensively as it is regulated under a separate section of the Civil Code.

Under the company (business) lease agreement, the lessor obligates to transfer the company as the unit of assets to the lessee for temporary management and use for business activities for certain remuneration, and the lessee undertakes to pay the remuneration. Alongside with the company as the unit of assets, land plots, buildings, stocks, current assets, property rights related to the business, rights to trade mark and service mark, company name and other exclusive rights are transferred to the lessee. The claim rights and the debts foreseen in the agreement are also respectively assigned and transferred to the lessee.

The company (business) lease agreement must be concluded in writing. The agreement is considered as null and void if the form requirements are not observed. Third parties are not bound by a company (business) lease agreement unless it is registered in the public register.

(d) Transfer of Liabilities

The obligation to obtain consents from the creditors in case of transfer of the company is not explicitly established in the Civil Code; however, in practice notaries public require such consents.

A part of the company's sales price established under the agreement must be transferred by the buyer to a person foreseen in the agreement and assigned to settle with the creditors. The remaining part is paid to the seller. Only a bank, other credit institution or an insurance company can be selected by the parties as a person assigned to settle with the creditors.

The person assigned to settle with the creditors of the seller must prepare and send a deed on distribution of price to cover debts of the sold company to all the creditors of the company within 20 days of the payment of the price. The fact that the company was sold cannot be used against the creditors of the company whose claim rights arose prior to the conclusion of the company transfer agreement if the buyer has not properly performed obligations related to protection of creditors' rights foreseen in the law. This rule does not apply if the creditors' claims are satisfied by paying the value of the assets of the purchased company. The company's creditors may file their claims within one year of the moment they found out or should have found out about the sale of the company. In any case, such claims cannot be filed after three years from the sale of the company.

Both, the buyer and the seller of the company shall be considered as jointly and severally liable for the acts of a person paid and assigned to settle with the creditors. In any case, the liability of the buyer cannot exceed the value of the purchased company.

Lithuanian statutory requirements applicable to transfer of assets, joint and several liabilities of the seller and the buyer make the transfer of a business in the form of acquisition of assets less attractive than in other countries. Due to the fact that the established procedure of sale of a company is rather burdensome and somewhat uncertain (due to lack of clear regulation and reliable court practice) transfers of a company are relatively rare in Lithuania. In practice parties usually perform assets transfers as piece-by-piece acquisitions rather than transfer of a company even in case where the transferred assets should be considered as a substantial part of the company's business. Noteworthy that currently there is no authoritative court practice, which confirms that the established Civil Code

procedure for transfer of a company is not a mandatory transaction structure but rather a possible alternative to piece-by-piece asset transfer. Therefore, current business practice may be significantly affected by court rulings, if the court rules that that the established Civil Code procedure must be followed.

2.3.5 Comparison of Share and Asset Acquisition

The main differences between share and asset acquisition are related to the seller involved in the transaction, the purchased object, possibility to select assets, possibility to select liabilities, required form and transfer of title.

	Acquisition of Shares	Acquisition of Assets
The seller	Shareholder(s) of the company	The company
Possibility to select assets	Assets of the purchased company are not affected	The buyer may select which assets to purchase (buyer has more freedom in piece-by-piece acquisitions)
The purchased object	Shares of the company	Assets and goodwill
Possibility to select liabilities	The liabilities of the purchased company are not affected	The liabilities related to the company are transferred to the buyer
Transfer of title	By making relevant entries in the personal securities accounts (in case on non-certified shares) and endorsements in the share certificates and shareholders' register (in case of certified shares)	Upon the signing the deed of transfer and acceptance (as for the registered assets relevant entries must be made in the public registers)
Required form	Written form	Notarised form

2.4 Competition Law

2.4.1 General Principles of Competition Law

The Competition Law took effect on 23 March 1999. It was drafted in light of Articles 81 and 82 of the EC Treaty as well as the EC Merger Regulation. As of 1 May 2004, the amendments to the Competition Law implemented Regulation 1/2003. Hence, the Lithuanian competition rules basically correspond to the principles of EC competition law.

2.4.2 Applicability of EC Competition Rules

One of the purposes of the Competition Law is harmonisation of the Lithuanian and the EC law regulating competition matters; since 1999 the Lithuanian Competition Council in its activities has been following the practice and principles of EC competition law. Since Lithuania joined the European Union (on 1 May 2004), the EC competition rules are fully applicable in Lithuania, and the Lithuanian Competition Council co-operates with the European Commission in competition law matters.

The Competition Council is the governmental institution responsible for implementing the state competition policy, supervising compliance with Competition Law, and for monitoring state aid. The Competition Council is

entitled to apply the EC Treaty provisions and rules of EC competition law directly to Lithuanian undertakings in cases when the supervision of the enforcement of such rules is assigned to the national authorities and certain actions of the national undertakings may affect trade among member states of the European Union.

2.4.3 Prohibited Agreements

The Competition Law provisions on prohibited agreements are mainly constructed according to the principles of Article 81 of the EC Treaty. All agreements (i.e. contracts concluded in any form, written or verbal, between undertakings, decisions by associations of undertakings and concerted practices) which were concluded with an intention to restrict competition or which may restrict competition shall be prohibited and shall be void from the moment of conclusion thereof.

(a) Exemptions

Undertakings are allowed to enter into agreements which may prevent competition in the territory of Lithuania but have other positive results that outweigh the certain competition restriction. Such agreements are considered as compatible with Competition Law.

If an agreement contributes to improving the production or distribution of goods or promotes

technical or economic progress, and creates conditions for consumers to receive additional benefit, it is considered as compatible with the competition law rules, even if, by its nature, it prevents the competition. However, such agreements must comply with the following criteria:

- The agreement must not impose restrictions on the parties of such agreement which are not indispensable to the attainment of these objectives referred to above, and
- The agreement must not afford a possibility for such undertakings to restrict competition in a large share of the relevant market.

Such agreements which comply with the criteria above will be valid as of the moment of signing thereof without any prior decision of the Competition Council.

The Competition Council has a right to pass regulations and define the groups of agreements, as well as conditions under which the agreement shall be deemed in compliance with the above-mentioned criteria; therefore, the undertaking concerned should always be aware of Competition Council resolutions and decisions.

Moreover, prohibited agreements which do not affect trade among the member states of the EU but affects only trade within the territory of Lithuania may be exempted under block exemptions. A resolution of the Competition Council declares that all the regulations on block exemptions of the European Union apply also to the prohibited agreements concerning trade within the territory of Lithuania only, provided that the annual turnover thresholds, expressed in EUR, established therein are reduced 10 times.

(b) De Minimis Rule

Agreements, decisions or practises concluded between undertakings which only possess a minor share of a given market and which by their capacity may not substantially impact competition are not considered as restricting competition. The Competition Council in its resolution has determined requirements and conditions of such agreements.

The Competition Council holds the view that agreements between undertakings which may affect trade do not appreciably restrict competition and are considered as of minor importance if the agreements are concluded by undertakings:

- Where each undertaking holds a market share which does not exceed 10 % in case of horizontal practice or decision;
- Where each undertaking holds a market share which does not exceed 15 % in case of vertical agreement.

The Competition Council holds the view that agreements are not restricting competition if the market shares do not exceed the thresholds stated above by more than 2 % during two successive calendar years. Where in a relevant market competition is restricted by the cumulative effect of agreements, the above-mentioned market share thresholds are

reduced to 5 %. Individual suppliers or distributors whose market share does not exceed 5 % are considered as contributing to a cumulative effect. If less than 30% of the relevant market is covered by parallel agreements having similar effects, it is considered that cumulative effect does not exist.

(c) Hard-core Restrictions

The de minimis rule does not apply if undertakings in horizontal agreements deliberately fix purchase or selling prices, limit output or sales or allocate market on a territorial basis. Accordingly, subject to exemptions by law, the de minimis rule will not be applied to vertical agreements limiting the buyer's ability to determine its sale price or territory into which or the customers to whom the buyer may sell products.

The de minimis rule is not applicable and the exemption is not possible for mixed agreements if such agreements contain any of the hard-core restrictions listed above.

2.4.4 Concentration Control

(a) Threshold

The Competition Council must be notified and permission must be obtained in order to perform an anticipated concentration if:

- The combined aggregate turnover of the undertakings participating in the concentration exceeds LTL 30 million (approx. EUR 8.69 million) for the financial year before the concentration, and
- The aggregate turnover of each of at least two of the undertakings participating in the concentration exceeds LTL 5 million (approx. EUR 1.45 million) for the financial year before the concentration.

It should be noted that if an undertaking belongs to a group of undertakings, the annual turnover of all related undertakings has to be taken into account when calculating the threshold. If the concentration satisfies the turnover threshold requirements described above, Lithuanian Competition law rules must be applied irrespective of where a concentration takes place and whether the parties of the concentration have subsidiaries in Lithuania. However, if a foreign undertaking is a party to concentration, its aggregated turnover will be equal to the income received from the Lithuanian markets.

The annual turnover of undertakings registered in Lithuania which are considered as related undertakings to the foreign undertaking participating in the concentration, and the income received from sales by foreign undertakings and their related undertakings participating in concentration, received from sales to the undertakings, registered in Lithuania.

It should be noted that when a concentration involves international undertakings or affects more than one country market, the concentration might be subject to notification to the EU Commission under the EC Merger Regulation, and, therefore, the parties to the concentration should check whether the concentration does not fall within EU Commission requirements.

(b) Notification

The notification submitted to the Competition Council must be in the Lithuanian language and submitted prior to the execution of the concentration. The notification to the Lithuanian Competition Council may be submitted after the submission of an offer, conclusion of an agreement, authorisation to conclude an agreement or acquire shares or assets, acquisition of the ownership right or the right to dispose of certain assets. In case there are clear intentions to conclude an agreement or to submit a public offer to buy shares, a notification must also be submitted.

The Competition Council must, within one month, give permission for the transaction (with or without the conditions) or decide to start a detailed investigation regarding the intended transaction, which may take up to three months. The transaction may not be completed until the Competition Council has issued permission for the transaction. Notification of concentration is subject to a state duty amounting to LTL 4,600.

(c) Joint Ventures

European Union merger control rules provide that only fully-functioning joint ventures should be regulated according to merger control rules and non-fully functioning joint ventures should be subject to the regulation of prohibited agreements. The Lithuanian Competition Law does not differentiate joint ventures between full-function and non-full-function. Therefore, the creation of a joint venture resulting in acquisition of joint control triggers application of the Lithuanian concentration control rules (if the turnover thresholds are met). However, if a joint venture does not qualify as a concentration, it may be scrutinised under the rules governing prohibited agreements.

2.5 Real Estate

2.5.1 Introduction

Land and the property rights thereto has always been a very important issue in every community.

After restoration of the independence, Lithuanian citizens were re-introduced to private property as a general principle; they were allowed to own land, houses, individual apartments and apartment blocks. In 1991, the restitution of property that was expropriated in the Soviet period was initiated in Lithuania.

2.5.2 Title to Real Estate, Land Register

The buyer acquires the title to immovable property as of the moment such property is transferred into his possession by signing a transfer-acceptance deed. All information pertaining to the legal status of immovable property, including all encumbrances, mortgages, and any other relevant rights and obligations, including obligations of the owners of immovable property and third persons' rights to such property must be registered in the Real Estate Register.

The Real Estate Register is a public register and information contained therein is publicly available and also binding on third parties.

Any data registered with the Real Estate Register are considered as true and comprehensive until proved otherwise according to the procedure established by law.

2.5.3 Acquisition of Real Estate

(a) General

In general, a building may be sold separately from the land plot which is occupied by the building. However, such real estate sale-purchase agreement must contain certain provisions regarding the buyer's rights to the land plot (ownership rights to the land plot (or certain part thereof) or the right to land lease or the right of use, etc.) which the seller has exercised towards the land plot.

(b) Change of ownership

Pursuant to the Civil Code, the buyer acquires title to the real estate as from the moment such property is transferred to the buyer's possession. Transfer of real estate must be formalised by signing a transfer-acceptance deed, or a sale-purchase agreement on real estate should contain a clause on transfer-acceptance of real estate, thus such agreement substitute's transfer-acceptance deed as a separate document. Title to real estate must be registered in the Register of Real Estate.

(c) Form of Agreements

Transactions related to transfer of title to the real estate must be concluded in writing and notarised. Preliminary agreements related to the real estate, real estate lease, real estate beneficial use agreements must also be concluded in writing, but there is no requirement regarding their notarisation.

Usually, parties conclude a real estate sale-purchase agreement as a single document which is signed by them and submit it for notary's certification. According to the wording of the law, a sale-purchase transaction might be concluded by signing two documents separately: the sale-purchase agreement and the real estate transfer-acceptance deed. A real estate sale-purchase agreement must always be approved by a notary, whereas a transfer-acceptance deed concluded by the parties is valid without notarisation.

(d) Language Requirements

An agreement relating to a real estate transaction may be concluded in any foreign language acceptable to both contracting parties. However, as mentioned above, such agreements are subject to certification by a notary, and notaries usually require that Lithuanian is the prevailing language of such agreements.

(e) Due Diligence

It is recommended to conduct a legal due diligence review of real estate before a transaction in the real estate is executed. In connection with the due diligence re-view, it is relevant to check the ownership title, encumbrances, designation of the land, third persons' rights, public restrictions, etc. Information obtained in

the course of the due diligence review provides more security and helps to estimate whether the real estate meets the investor's expectations.

(f) Pre-emption Rights

In some cases, third persons may have pre-emption rights to acquire real estate.

Pre-emption rights can be established by law or agreements. According to current law, in connection with the sale of a legal share of a piece of real estate, the co-owner of such real estate has a pre-emption right except if the property is being sold by public auction.

Notably, a person has a pre-emption right to purchase a land plot if he owns the buildings located on such land plot. If the seller of a piece of private real estate fails to observe the pre-emption right, the person who is entitled to the pre-emption right may request the court to transfer the rights and obligations of the buyer of the real estate to him.

(g) Typical Purchase Price Arrangements

As arrangements for the payment of the purchase price of real estate depend on the contracting parties and their agreements, it is difficult to draw any conclusions as to the typical purchase price arrangements. Rather frequent practice is to divide the purchase price payment into two parts: (i) the first instalment is made on the day of the signing of a preliminary agreement on the purchase of the real estate or on the day of the signing and confirmation of the real estate transaction at the notary's office; (ii) the second instalment is made upon expiry of a certain period of time or once specified conditions have been met, e.g. registration of the title in the Real Estate Register or the signing of the transfer-acceptance deed. A purchase price arrangement may be different if the transaction in question involves financing by a credit institution or another third party.

(h) Related Costs

The costs involved in a real estate transaction depend on the transaction structure and the services that are used: brokerage fees, costs related to an evaluation of the real estate, legal fees for a legal due diligence review and a review of the purchase agreements, bank fees, notary fees, a state duty and taxes. It should be taken into account that other costs may occur, for example, fees for the assistance of an environmental or a technical specialist or an architect, etc.

As mentioned above, the notary certification of the agreement and the registration of title in the Real Estate Register are subject to a notary fee and a state duty. The notary fee depends on the value of the real estate acquired and is not contractual. The notary fee may not be less than LTL 100 (approx. EUR 29) and may not exceed LTL 20,000 (approx. EUR 5,792) for each act of notarization, and if, several transactions are notarised with one act of notarisation, the total notary fee may not exceed LTL 50,000 (approx. EUR 14,492).

2.5.4 Restrictions

(a) Restrictions on Acquiring Real Estate

Foreigners wanting to acquire land in Lithuania must meet the following criteria for origin:

- The EU member states;
- the states that are parties to the European Treaty with the European Communities and their Member States; or members of the OECD, NATO or the EEA.

Even if they meet the origin criteria stated above, foreign persons, legal entities or natural persons are not allowed to acquire agricultural and forestry land until the transitional period expires, i.e. until 1 May 2011. The transitional period does not apply to foreign legal entities and other organisations having established a representative office or branch in Lithuania and foreign natural persons who have been residing and performing agricultural activities in Lithuania for a period of at least three years.

(b) Public Restrictions on the Use of Real Estate

Land owners are obliged to implement all environmental measures in order to protect their land from pollution, erosion and exhaustion, to evaluate any potential effects of their activities, to use their land rationally and economically, to implement measures to minimise any negative environmental impact, to eliminate environmental damages and to inform the relevant state institutions.

Land must be used in accordance with its designation. If the owner or another legal user of the land intends to perform activities which contradict the designation of the land (e.g. to build structures on agricultural land), the designation of the land must be changed in accordance with the procedure specified in legal acts.

Other restrictions may be set by local authorities or specified in legal acts, e.g. according to a territory general plan, which is approved by a local municipality; in some territories a specific designation of the land may be established, purpose and height of the buildings, etc.

2.5.5 Encumbrances

Real estate may be encumbered with usufruct, pre-emption rights, servitudes, mortgages, etc. All of the mentioned encumbrances must be registered in the Real Estate Register.

(a) Mortgage

Usually, when acquisition of real estate is financed by a loan, the loan is secured by establishing a mortgage on the real estate in favour of the creditor.

A mortgage on the real estate may be established on a contractual or statutory basis. A mortgage agreement must be executed according to a standard form approved by the Ministry of Justice. A mortgage on the real estate becomes valid and binding upon notarisation and registration in the Mortgage Registry.

2.5.6 Property Management

Property companies or associations are usually hired to perform maintenance of houses and offices.

As regards multi-apartment houses, the owners of the apartments may establish an association of multi-apartment house owners.

2.5.7 Lease Agreements

(a) General

The conclusion of a lease agreement is based on the principle of “freedom of parties”. Despite this principle, the law provides some mandatory rules that are binding in relation to certain leases.

A lease agreement will remain binding on the new owner of a piece of real estate and third parties, if any, only if it was registered in the Real Estate Register prior to the transfer of the title to the real estate. Therefore, it is important for the lessee to register the lease agreement in the Real Estate Register.

(b) Duration and Expiry of Lease Agreement

A lease agreement may be concluded for a definite or an indefinite term. If the lease agreement is concluded for an indefinite term, either party of the agreement may terminate it by giving the other party three months' notice; however, with respect to lease agreements on residential premises, six months' notice is required. The parties are entitled to establish longer notice periods in a lease agreement. If an agreement is concluded for a definite term, it will expire at the end of the lease term or may be terminated in accordance with the agreement or due to material breach of the agreement as provided by law or the lease agreement.

(c) Lease Payment and Accessory Expenses

The parties to a lease agreement are free to decide on the amount and structure of the lease payments. However, with respect to lease agreements on residential premises, the lessor may not require advance lease payments unless a lease payment concerns the first month of the lease. Usually, the lessee undertakes to pay for accessory expenses (utilities), for example, electricity, water, gas, etc., in addition to the lease payments unless the parties agree otherwise in the lease agreement.

2.5.8 Planning Requirements and Construction of Buildings

(a) Planning

Land must be used in accordance with its designation. The designation of land is determined in planning documents, such as a general plan, special plan, detailed plan, etc. Usually, detailed plans are prepared for certain city and district municipality areas (particular land plots) in which construction projects are planned, and, in order to initiate the construction projects, the designation of the land must be changed. In connection with the preparation of a detailed plan, the environmental issues must be assessed, including the impact on the environment. Additionally, the detailed plan has to be submitted for public hearings

and discussions. In practice, the process of changing the designation of the land usually takes six to 12 months. In complicated cases, it may take more time.

(b) Construction

Buildings or other permanent structures may not be erected, modified or demolished without a construction permit issued by a state and/or local government authority.

Construction works and erected buildings must comply with relevant technical requirements provided in legal acts. Contractors are liable for any deviations from the requirements of the technical construction regulations. A building must be constructed in accordance with the design and the technical documentation of the building according to which the construction permit was issued. Pursuant to current law, the contractor, the architect or the technical supervisor of the construction project will be liable if the building collapses or any defects are discovered within (i) five years (counting from the day of the acceptance of the building as fit for use), (ii) ten years in case of defects in hidden constructions of the structure (pipelines, etc.), (iii) twenty years in case of any intentionally concealed defects. The time limits specified above start to run at the date when the building is put into operation.

The contractor must have civil liability insurance. The design and technical documentation of the building must be drafted by a professional architect or an engineer, and such documents must be approved by a local construction supervisory institution.

The documents must also comply with relevant planning documents, for example, a detailed plan for the land plot, if any. A detailed plan may contain certain conditions for building construction works, e.g. height, capacity, environment or culture protection zones, etc.

A construction project may be initiated once a construction permit has been issued by the State Territorial Planning and Construction Inspectorate under the country governor's administration, the mayor of the municipality in question or the director of the administration of the municipality. The construction project must be initiated within the construction permit's period of validity, which is maximum ten years. The exact period of validity is specified in the construction permit.

To ensure that a building can be used in accordance with its purpose, the state authorities inspect the completed building and check whether the building is fit for use. If the state authorities have inspected the completed building, the building has been constructed in accordance with the building design, building standards and technical documentation; engineering and utility networks have been respected; and the relevant public institution has tested the traffic routes; the state authorities will accept the building as fit for use. Buildings which have been accepted as fit for use have to be registered in the Real Estate Register.

2.6 Employment Law

2.6.1 General

In Lithuania, basic labour and employment issues are regulated by the Labour Code of which the newest wording entered into force on 4 August 2009.

2.6.2 Employment Contract

(a) Hiring

Employment contracts may be concluded for indefinite period or for a fixed period if the work is of temporary nature. It is prohibited to conclude a fixed-term employment contract if work is of a permanent nature, except for the cases when this is provided by the laws or Collective Agreements.

The maximum fixed term allowed for the fixed-term employment contract is 5 years. In case the employment relations continue after the expiry of the fixed term established in the employment contract and neither of the parties demands the termination thereof, the employment contract is automatically extended for an indefinite term. The same applies if the circumstances determining the temporary nature of employment relations disappear during the validity period of the employment contract. In case the new fixed-term employment contract is concluded with the same employee during one month after the end of the old fixed-term employment contract, the former may be recognized as a permanent employment contract.

(b) Terms of employment contract

Employment contracts must be in writing and in accordance with the model form approved by the Government. The employment contract may not establish terms less favorable to the employee than employment conditions stated under the statutory law or the Collective Agreement. It is highly recommended that the languages of the employment contract include Lithuanian (state language).

Employment contract shall always include employee's place of work (enterprise, establishment, organisation, structural subdivision, etc.), and job functions, i.e. on work of a certain profession, speciality, qualification, or specific duties and remuneration conditions.

2.6.3 Salary

(a) Minimum salary

The minimum wage is determined by the Government of the Republic of Lithuania. As of 13 December 2007 the minimum wage was determined at the gross amount of LTL 800 (approx EUR 231.7) per month, and LTL 4.85 (approx. EUR 1.4) per hour.

(b) Salary payments

Employees are paid their work remuneration at least twice per month or, under an employee's written request, once a month. Specific time periods, the place and procedure of payment of wage should be indicated in Collective Agreements or individual employment contracts.

In every employment contract, the parties shall agree on the conditions of remuneration for work; however, absence of such conditions does not make the entire employment contract null and void.

(c) Overtime pay

Work performed in excess of the standard working time constitutes overtime. Formally, overtime is allowed only in cases prescribed by Lithuanian Labour Code or under the conditions specifically prescribed by the Collective Agreement. The amount of overtime work is currently limited to 4 hours per day and 120 hours per calendar year (maximum 180 overtime hours per year may be allowed by the Collective Agreement). The overtime work and the night work must be paid at the rate 1.5 of the average hourly work remuneration. Specific regulation applies to remuneration for overtime and night work as well as for the work on weekends and holidays.

2.6.4 Working time and vacation

(a) Working time

The normal work hours for an employee may not exceed 40 hours per week. A daily period of work normally should not exceed 8 working hours. A 5 day workweek is the standard established under the law, but it may be extended to six days provided the workweek of 5 days is impossible due to the nature of economic activities. Maximum working time, including overtime, must not exceed 48 hours per week.

In case it is impossible to obey the standard regime of a working day or a working week due to specifics of commercial activities, also in the jobs where the work is organized in shifts, summary recording of the working time may be introduced, having regard to the opinion of employee representatives or in cases established by the Collective Agreement. Summary working time regime should be recorded on the basis of a record period, which must not exceed 4 months. A record period and its total number of working hours should be organized for each eligible employee in shifts by following the statutory rules. A working day (shift) must not exceed 12 hours and a working week must not exceed 48 hours, however, when dividing all working hours of a record period in weeks, one week should get no more than 40 working hours.

(b) Regular vacation

The minimum annual paid vacation leave is 28 calendar days. The minimum annual paid vacation leave is 35 calendar days for employees under 18 years, a single parent who raises a child under the age of 14 or a disabled child under the age of 18, and disabled persons. Extended annual leave up to 58 calendar days must be granted to certain categories of employees whose work involves greater nervous, emotional and intellectual strain and professional risk, as well as to those employees who work in specific working conditions.

Normally, all employees are entitled to their annual paid vacation leave after they have worked in the company

continuously for an initial period of six months (limited exceptions apply).

Employees have the right to receive vacation pay. Vacation pay shall be paid not later than 3 working days before commencement of the vacation. In case of termination of employment contract, unused vacation days must be compensated to the employee and vacation (and vacation pay) used in advance can be set-off with the final settlement.

(c) Pregnancy Leave/Paternal Leave

Women have the right to pregnancy and maternity leave. Pregnancy leave starts on the basis of the special medical certificate 70 days before the planned birth and ends 56 days after the delivery (70 days in complicated cases).

Pregnancy leave is compensated from the social insurance fund if eligibility criteria are met (the length of social insurance amounting to at least 12 months during the last 24 months is usually required with very limited exceptions). The pregnancy benefit amounts to 100% of work remuneration subject to compensation and is paid under the terms and conditions prescribed by the Law.

A mother or father is entitled to parental leave until their child reaches the age of three years. One parent is entitled to parental leave at a time, however they may take it in parts in turn.

2.6.5 Termination of employment contract

(a) Advance notice

Termination of an employment contract on the initiative of an employer without the fault of an employee is allowed only due to important reasons, including economic and technological reasons or structural changes.

The employer is obliged to notify each employee on the dismissal by a written notice and against the signature of an employee. Such notification about the dismissal shall be presented in writing two months before the actual dismissal.

During the whole notice period the employee is entitled to a free time for searching for a new job (not less than 10% of the working time) and the employer is obliged to offer to the employee to be dismissed the job places that become available during the notice period and are suitable to the employee.

(b) Severance Pay

Employers must pay the severance pay for employees who are dismissed on the initiative of the employer without their fault. The amount of the severance pay depends on the length of the work service of a particular employee with the employer:

Length of service	Severance pay (number of average monthly salaries)
Under 12 months	1
12 - 36 months	2
36 - 60 months	3
60 - 120 months	4
120 - 240 months	5
Over 240 months	6

2.7 Visa and Work Permit

2.7.1 Visas

According to the Law on the Legal Status of Foreigners, foreigners and stateless persons may generally enter Lithuania if they have the following documents:

- A valid travel document;
- A valid visa, a valid temporary residence permit, a permanent residence permit, a European
- Community Member State citizen's residence permit or a European Union residence permit;
- Documents that prove the objective of and conditions for the foreigner's visit to Lithuania, possession of sufficient funds to cover the foreigner's living expenses during his stay in Lithuania or sources of such funds, possession of sufficient funds to return to his country of origin or to travel to another country by transit through Lithuania;
- Documents proving health insurance.

It must be noted that the requirement to have a visa does not apply to citizens of the EU, the EEA and Switzerland.

(a) General requirements regarding visa

Citizen of the EU, the EEA and Switzerland may enter Lithuania and stay in the country for up to three months from the time of the first entry within half a calendar year. Nevertheless, foreigners must have a valid travel document. If a citizen of the EU, the EEA or Switzerland intends to stay in

Lithuania for more than three months within half a calendar year, the person must meet at least one of the general criteria (must be an employee, a self-employed person, a student, a trainee or a participant of refresher or professional courses; have enough funds to cover his living expenses; or hold valid insurance documents) and declare that his place of residence is in Lithuania.

The same principle applies to the citizens of states with which Lithuania has concluded bilateral agreements on visa-free entry and states with which Lithuania has unilaterally established visa-free entry. For a detailed list of states, please visit the Web page of the Migration Department (<http://www.migracija.lt/index.php?p?-1098797574>).

Recognised refugees, stateless persons and other persons without citizenship who permanently reside in one of the EU member states and hold a travel document issued by this member state are not exempted from the visa requirement.

As a general rule, in order to obtain a visa, a foreigner must present the required documents to the diplomatic mission or consular agency of Lithuania in the foreign country. A visa is issued to persons with a valid travel document, the validation period of which exceeds the validity period of the requested visa by three months.

(b) Types of visas

Under current law, there are four types of visa: airport transit visa, transit visa, short-stay visa and long-stay visa.

An airport transit visa entitles a foreigner to stay in the territory of the airport during the time of transitional landing or change of aircrafts. A transit visa entitles a foreigner to stay in Lithuania for a period not exceeding five days.

A short-stay visa entitles a foreigner to enter Lithuania and stay in the country for up to three months within half a calendar year from the date of the first entry. A short-term visa may be issued for a single entry or for multiple entries. A single-entry short-stay visa entitles a foreigner to visit Lithuania once during the validity of the visa. A multiple-entry short-stay visa may be issued for a period of one year and in exceptional cases for a period of five years.

A long-stay visa entitles the holder to enter Lithuania and stay in the country for a period of more than three months. A long-term visa may be issued for a single entry or for multiple entries. Single-entry long-stay visas are issued to foreigners who have a permit to reside in Lithuania temporarily or permanently. Multiple-entry long-term visas are issued to foreigners who intend to stay in Lithuania for a long time. Multiple-entry long-term visas are issued to foreigners who regularly come to Lithuania to work or to carry out other lawful activities but whose main place of residence is in a foreign country.

(c) Employment

A visa does not entitle a foreigner to study, intern, participate in refresher or professional courses, work or engage in other paid activities. Foreigners can be employed only in cases that are stated in normative acts and if they have received a visa for employment and a work permit.

2.7.2 Residence and work permits

(a) General requirements regarding residence permits

A foreigner intending to obtain a residence permit under any of the criteria established by law must meet the criteria that apply to foreigners in order to obtain permission to enter Lithuania with the exception of the following requirements:

- To have documents that prove the objective and conditions of his visit to Lithuania;
- To have sufficient funds to return to his country of origin or to travel to another country by transit through Lithuania.

A foreigner must have health insurance documents and sufficient funds or a regular income to cover his living expenses in Lithuania, and his place of residence must be in Lithuania. Moreover, he must provide additional information about his stays in other countries upon request.

Foreigners may stay in Lithuania without a residence permit for no longer than three months within a period of six months.

(b) Types of residence permits

A residence permit issued to a foreigner entitles him to reside in Lithuania for a definite period of time (a temporary residence permit) or permanently (a permanent residence permit).

If foreigners want to work in Lithuania, they can apply for a temporary residence permit. In order to obtain a temporary residence permit to work, foreigners must have a work permit. It must be noted that the application for a temporary residence permit may be considered together with the application for a work permit.

In most cases, a temporary residence permit may be issued for a period not exceeding one year (a shareholder of a company owning not less than LTL 50,000 (approx. EUR 14,492) of the share capital of the company, an authorised representative of the representative office of a foreign company, scientific work, studies, etc.).

The state fee for receiving a temporary residence permit is LTL 10 (approx. EUR 2.9) for EU citizens and LTL 300 (approx. EUR 87) for citizens of third countries.

A foreigner may obtain a permanent residence permit if he has resided in the territory of Lithuania for the past five years and if he, during that period, has had a temporary residence permit. A permanent residence permit is issued for a period of five years, and, upon expiry of this period, the permit may be replaced.

(c) Work permits

Foreigners (except EU citizens) intending to work in Lithuania must obtain a work permit. A work permit must be obtained prior to the foreigners' arrival in Lithuania. If a foreigner has a permanent residence permit, the obligation to obtain a work permit is not applicable. Work permits are issued by the Lithuanian Labour Exchange (office) within two months, and they are valid for a period of maximum two years. A work permit must indicate the employee's position and the name of his employer.

It must be noted that, when having obtained a work permit, a foreigner cannot start to work in Lithuania unless he has the necessary legal basis to enter the country in the form of a temporary or permanent residence permit. The requirement to obtain a work permit does not apply to foreign managers of Lithuanian companies performing operating activities.

Vacancy of the position should be registered with the Lithuanian Labour Exchange (except for persons with signatory rights and EU citizens) and, then, the employer can hand in the documents that are necessary to obtain a work permit.

Currently, the state fee for a work permit depends on the period of validity of the work permit: LTL 420 (approx. EUR 122) for a work permit which is valid for one year and LTL 520 (approx. EUR 151) for a work permit which is valid for two years. Under current legislation, the requirement to have a temporary residence permit does not apply to EU citizens. However, a person intending to work under an employment contract or engage in lawful activities or to receive services and stay in Lithuania for a period longer than three months per half of a year is obliged to obtain an EC residence permit. To receive this certificate, a person has to present documents, proving his grounds of staying, an application of a certain form and a declaration of a place of living. EC residence permit is valid for up to five years.

3 Taxation in Lithuania

3.1 Corporate taxes

3.1.1. Significant developments

The tax reform has resulted in The new amendments to the Law on Corporate Income Tax (hereinafter "CIT") regarding Lithuanian holding companies which took effect on 1 January 2009. Based on these amendments, the following changes were introduced:

- VAT rate increased from 18% to 19%;
- CIT rate increased from 15% up to 20%;
- Entities involved in investment projects are able to reduce their taxable profits up to 50% by the acquisition costs of fixed assets meeting certain criteria;
- As from 1 January 2009 the participation exemption rule applicable on dividends received by Lithuanian or foreign entities was restricted. The participation exemption rule shall not apply (i.e. dividends will be subject to 20% CIT) to dividends proportionally distributed from profits that were subject to 0% CIT or non-taxable resulting from following reliefs:
 - Tax relief applied with regard to investment companies for their non-taxable investment income;
 - Tax exempt capital gains on transfer of shares;
 - Tax exempt life insurance premiums and insurance investment income of insurance companies;
 - Tax relief for an investment project (see above).
- Participation exemption rule will not apply to dividends received from foreign entities, if after tax reliefs have been applied in those countries such dividends were proportionally distributed from profits that were not subject to CIT or subject to 0% CIT.
- In our opinion, the amended taxation of dividends does not correspond to the provisions of the EC Parent/Subsidiary Directive. Capital gains derived from transfer of shares will be treated as non-taxable income provided certain conditions are met.

3.1.2 Taxes on corporate income

The standard rate of corporate income tax (CIT) is 20%.

Exemptions

The following types of income are exempt from CIT:

1. An insurance indemnity not exceeding the value of lost property or other losses or damages; the refunded part of insurance premiums exceeding the premiums deducted from income in accordance with the procedure established; a part of an insurance indemnity exceeding the premiums deducted from income in accordance with the procedure established.
2. The proceeds from the sale of the property of a bankrupt company.
3. The balance of the formation fund of an insurance company as prescribed by the Law on Insurance.
4. Investment income of investment companies with variable capital and closed-end investment

companies acting in accordance with the Law on Collective Investment Undertakings, except for dividends and other distributable profits.

5. Income gained by health care institutions from their services that are financed by the funds of the Compulsory Health Insurance Fund.
6. Income derived from revaluation of fixed assets and liabilities as established by laws and regulations, except for income derived from the revaluation of derivative financial instruments acquired for hedging purposes.
7. Default interest except for that received from foreign companies registered or otherwise organized in blacklisted territories or residents of such territories.
8. All or part of the profit gained by legal entities with unlimited civil liability which are liable to pay profits tax under the law or an equivalent tax under the law of foreign countries with certain exceptions.
9. Fees collected by seaports and airports, charges for air traffic navigation services and funds collected from the lease of seaport-owned land.
10. Results arising from adjustments made for the previous tax periods as prescribed by the Law on Accounting.
11. Indemnification for damage received by a company with certain exceptions.
12. Compensation received according to the Lithuanian programs of EU financial support for scrapping fishing vessels.
13. Capital gains derived from the transfer of shares in a company incorporated in European Economic Area or in a country with which Lithuania has a valid Double Taxation Treaty and which is a payer of CIT or an equivalent tax, provided that: the Lithuanian holding company holds more than 25% of voting shares for a continuous period of (1) at least 2 years; or (2) at least 3 years when the shares were transferred in one of established forms of reorganization. Certain restrictions are applied.
14. Life insurance payments received by insurance companies provided the term of the life insurance policy is valid for not less than 10 years or at the date of the receipt of the insurance benefit the recipient has reached the pension age in accordance with the Additional Law on Pensions, as well as insurance investment income of insurance companies except for dividends and other distributable profit. As well as investment insurance income of insurance companies received according to the contracts of life insurance occupational pensions concluded in accordance with the law on Accumulation of Occupational Pensions.
15. Direct and other compensational allowances which are received by units performing agricultural activities to maintain their level of income which meets the requirements established in the laws and other legal acts of Lithuania.

3.1.3 Corporate residence

A company is resident in Lithuania if it is incorporated there. A foreign company is considered to have a permanent establishment (PE) in Lithuania if

1. it permanently carries out commercial activities in Lithuania in whole or in part;
2. it carries out its activities through a dependent representative (agent);
3. it uses a building site or construction, assembly or equipment objects; or
4. it permanently uses equipment, including drilling installations and ships, for exploration or extraction of natural resources.

Double Taxation Treaties may establish different rules of PE recognition. According to domestic law, where there is a Double Taxation Treaty, the provisions of the treaty shall overrule.

A PE must be registered as a taxpayer with the Tax Authorities in the territory where its activities are carried out. Its profits are subject to corporate income tax at a rate of 20%.

3.1.4 Foreign income

If a Lithuanian legal person earns profit subject to taxation abroad, the tax paid abroad may be deducted from the Lithuanian corporate profit tax liability according to Lithuanian legislation. The amount deducted from the corporate profit tax liability may not exceed the part of the tax liability that is attributable to the profit received abroad. If Lithuania has entered into a valid double-taxation treaty with the country in question, the provisions of the treaty regarding avoidance of double taxation apply.

3.1.5 Capital gains

Capital gains are taxed as part of the corporate profit of an enterprise.

Capital gains are treated as non-taxable income when they are derived from the transfer of shares in a company incorporated in European Economic Area or in a country with which Lithuania has a valid Double Taxation Treaty and which is a payer of CIT or an equivalent tax, provided that: the Lithuanian holding company holds more than 25% of voting shares for a continuous period of (1) at least 2 years; or (2) at least 3 years when the shares were transferred in one of established forms of reorganization. Certain restrictions are applied.

3.1.6 Branch income

A branch of a foreign company is defined as a structural subunit of a foreign company which has an establishment in Lithuania and which is entitled to engage in commercial activities in Lithuania, conclude contracts and undertake obligations according to the power of attorney issued to the branch by its founder. A branch does not have the status of a legal person. It is taxed in the same manner as a permanent establishment.

3.1.7 Group taxation

Currently, group taxation legislation and regimes are not available in Lithuania. Each Lithuanian entity is regarded as a separate tax payer and may not deduct tax losses of any other group entity. Lithuanian tax legislation does not allow deduction of either foreign losses from domestic taxable income, or domestic losses from foreign taxable income.

3.1.8 Tax returns

A corporate income tax return must be submitted by the first day of the tenth month of the following tax period (October 1 for companies using the calendar year).

If the corporate profit tax liability is calculated on the basis of the activity results for the previous year, the advance corporate income tax return for the first nine months of the tax period is to be submitted by the last day of the first month (usually January) of the tax period. The return for the remaining months of the tax period is to be submitted by the last day of the tenth month (usually October) of the tax period. If the taxpayer has chosen to pay the advance amount on the basis of the projected amount of corporate profit tax for the current year, the return must be submitted not later than the last day of the first month of the tax period.

3.1.9 Payment of tax

Based on the activity results for the previous year, the advance amount of corporate income tax for the first nine months of the tax period is calculated on the basis of the actual corporate income tax amount for the tax period preceding the previous tax period. For example, the corporate income tax for the first nine months of 2009 would be calculated on the basis of the appropriate portion of the actual amount of corporate income tax for 2007. The advance amount for the remainder of the tax period is based on the actual amount of corporate income tax for the previous period, e.g., tax for the last three months of 2009 would be based on the appropriate portion of the actual amount of corporate income tax for 2008. Thus, the advance corporate income tax amount for each quarter would be equal to 1/4 of the actual tax amount calculated for the tax periods discussed.

The taxpayer may choose to pay the advance amount based on the projected amount of corporate income tax calculated for the current year. The advance tax (1/4 of the advance corporate income tax) must be paid no later than the last day of the respective quarter, and for the last quarter by the 25th day of the last month of the quarter.

If the amount of tax indicated in the return exceeds the amount actually paid during the tax period, the taxpayer is obliged to transfer the additional amount by the working day following the day of the deadline for submission of the return. Overpaid tax is refunded in accordance with the Law on Tax Administration.

3.1.10 Dividends, interest, royalties

Currently, foreign corporations are subject to withholding tax on loan interest generated from Lithuanian companies and PEs of foreign corporations at a rate of 10%. Withholding tax is not applied on Government securities issued on international financial markets, interest accumulated and paid on deposits, and interest on subordinated loans which meet the criteria established by legal acts adopted by the Bank of Lithuania.

The EC Interest & Royalty Directive has been implemented in the Lithuanian domestic tax law. However, Lithuania was granted a transitional period of 6 years. Lithuanian withholding tax on interest and royalties paid to the associated parties, EU tax residents, will be 10% until 30 June 2009. Withholding tax on such interest will be 5% and on royalties 10% from 1 July 2009 until 30 June 2011 and from 1 July 2011 the rate will be reduced to zero.

Dividends paid out are subject to withholding tax at the rate of 20%, unless the participation exemption applies. However, this relief is not applied if the foreign entity (recipient) is registered or otherwise organised in black-listed territories, as specified by the Ministry of Finance.

Lithuania's Double Taxation Treaties include provisions for withholding taxes on dividends, interest and royalties.

3.2 Individual Taxation

3.2.1 Significant developments

The tax reform has resulted in reduction of personal income tax rates from 24% to 15% applied on employment related income and increase from 15% to 20% applied on income from distributed profits starting from 1 January 2009.

Furthermore, starting from 1 January 2009 income received by Lithuanian tax residents and subject to personal income tax is also subject to health tax. Income received by employees working under employment contracts is subject to health tax at a rate of 6%. Individuals receiving income from individual activities, members of partnerships or sole proprietors has to pay health tax at the rate of 9%. Other income received by Lithuanian tax residents which is subject to personal income tax as provided in the Law on Personal Income Tax (e.g. dividends, income from sale of property or shares, etc.) is also subject to 6% health tax.

3.2.2 Territoriality and residence

The following types of income received by a non-resident of Lithuania is subject to Lithuanian personal income tax:

1. Income from individual activities carried out through a fixed base in Lithuania and income earned abroad that is attributable to the fixed base if such income is related to the activities of a non-resident of Lithuania through its fixed base in Lithuania;
2. Interest income;
3. Income from distributed profits and annual payments (tantiems) for the members of board and observers' board;
4. Income from the lease of immovable property located in Lithuania;
5. Royalties;
6. Employment-related income or income arising from substantially similar relations;
7. Income from sports activities, including income directly or indirectly related to such activities, irrespective of whether the payment is made directly to the sportsman in question or a third party acting on behalf of the sportsman;

8. Income from performing activities, including income directly or indirectly related to such activities, irrespective of whether the payment is made directly to the performing artist in question or a third party acting on behalf of the performing artist;
9. Income from the sale of or other transfer of title to movable property if such property is subject to legal registration in accordance with the local regulations and the property is (or must be) registered in Lithuania, as well as income from the sale of immovable property located in Lithuania.

The following individuals are considered residents of Lithuania:

1. Individuals whose permanent place of residence during the tax period is in Lithuania, or
2. Individuals whose personal, social or economic interests during the tax period may be considered to be in Lithuania rather than in a foreign country, or
3. Individuals who stay in Lithuania, continuously or intermittently, for 183 days or more during the tax period, or
4. Individuals who stay in Lithuania, continuously or intermittently, for 280 days or more during a number of successive tax periods and who, during one tax period, have stayed in Lithuania, continuously or intermittently, for 90 days or more, or
5. Individuals who are Lithuanian citizens and do not meet the criteria set out in subparagraphs (3) and (4) of this paragraph if such individuals receive their remuneration for work under an employment contract or any other substantially similar contract and whose costs of living in another country are covered by the state or municipal budgets of Lithuania.

3.2.3 Gross income

3.2.3.1 Employee gross income

Taxable monthly earnings in cash and kind received from the principal workplace include wages, various additional payments such as sickness and maternity benefits paid from social insurance funds, bonuses, incentive payments, taxable allowances and other similar payments, compensation upon discharge from work such as compensation for remaining vacation, gratuities as well as compensation for unlawful dismissal from work.

3.2.3.2 Capital gains and investment income

Taxable income from the sale of property is calculated as the difference between the purchase price and the acquisition price.

Income from the sale or transfer of securities acquired after 1 January 1999 are attributed to non-taxable income if the securities are sold or otherwise transferred not earlier than 366 days after the date of their acquisition and the individual, alone or together with related parties, did not hold more than 10% of the shares of the entity whose securities are sold or otherwise transferred for 3 years preceding the end of the tax period in which those securities were sold or otherwise transferred. This relief, excluding other

limitations, does not apply if the shares which were received for free by the shareholders in proportion to the number of shares owned as a result of the increase of the authorised capital are sold. In case of increase of the nominal value of shares, the relief does not apply to that part of income which is equal to the amount of increase in the nominal value of shares.

Income from sale or transfer of immovable property acquired more than three years prior to its sale or transfer is non-taxable.

Income from the sale of residential property (including land) located in an EEA Member State is non-taxable, if the individual's place of residence was declared there during the last two years prior to the sale. If the place of residence was declared for a shorter period but income received from sale was invested into the acquisition of another residential property located in an EEA Member State where the place of residence was declared, such income is also treated as non-taxable.

3.2.4 Tax rates

Currently, personal income tax rates are of 15% (on employment-related income and other income except from distributed profits) and 20% (on income from distributed profits).

Income received by employees (residents) working under employment contracts is subject to health tax at a rate of 6%. Individuals (residents) receiving income from individual activities, members of partnerships or sole proprietors has to pay health tax at the rate of 9%. Other income received by Lithuanian tax residents which is subject to personal income tax as provided in the Law on Personal Income Tax (e.g. dividends, income from sale of property or shares, etc.) is also subject to 6% health tax.

3.2.5 Real estate tax

Real estate tax is levied on immovable property used by individuals for commercial purposes. The real estate tax rate ranges from 0.3% to 1%, and the actual tax rate is determined by the individual municipalities. Legal entities leasing real estate from individuals are obliged to withhold this tax.

3.3 Value Added Tax

3.3.1 VAT

The standard VAT rate is 19% whereas the preferential rates are 9% and 5%. The compensational rate for farmers is 6%.

In general, supplies of goods and services made by a taxable person performing its activities for a consideration within the territory of Lithuania as well as imports of goods are subject to VAT.

Exemptions with credit (0%-rated):

Including, but not limited to

- supply of goods exported outside the EU;
- goods acquired by non-EU resident passengers in

Lithuania and brought to a country outside the EU;

- goods and services related to vessels and aircrafts;
- transportation and any directly linked ancillary services related to export or import of goods when the value of such services is included in the customs

value of the goods;

- transportation of imported goods brought to a VAT exemption warehouse or temporarily stored under customs supervision, placed in a free economic zone or a free warehouse, subject to a customs warehousing procedure, processed under customs supervision, temporarily imported for processing without customs duties being levied, temporarily imported without customs duties being levied or subject to an external transit procedure;
- issuing of TIR and ATA documents;
- insurance and certain financial services directly related to export of goods from the EU;
- supply of goods to sponsorship/charity recipients registered in Lithuania and listed in the Lithuanian

Law on Charity and Sponsorship if the goods are exported by such recipients as a sponsorship/charity to non-EU organisations which may be recipients of a sponsorship/charity under the law mentioned above;

- provision of maintenance and processing services for movable property supplied to customers established outside Lithuania with no subdivision in the country, provided that the property is temporarily imported for the purpose of maintenance, repair, processing, etc. in the EU and will be brought out of the EU upon supply of the services mentioned;
- services of disclosed agents participating in certain transactions of supply of goods or services where zero-rated VAT is applied and transactions of supply of goods or services where the supply of goods or services is considered carried out outside the EU;
- supply of goods to VAT payers registered in another member state when the goods are carried out from Lithuania to the other member state;
- supply of new means of transport supplied to any person when these new vehicles are carried out from Lithuania to another member state;
- supply of goods subject to excise when they are supplied to a company not registered for VAT purposes and the goods are brought out of Lithuania to the other member state;
- supply of goods in certain cases related to international trade, etc.

In order to apply zero-rated VAT on goods brought out of Lithuania, VAT payers must hold documents proving that the goods were actually exported from the EU or brought out of Lithuania to another EU member state. When goods are delivered to a VAT payer registered in another member state, evidence proving that the buyer is registered for VAT purposes in the other member state must be presented.

Exemptions without credit: Including, but not limited to

- personal or public health care services on certain conditions;
- human organs, blood, human milk and dental prostheses supplied by dentists and dental technicians;
- transportation of ill, wounded or other persons requiring medical care by special means of transport;
- social services supplied by institutions for children and young people, care or nursing homes for the elderly, care or guardianship institutions for disabled or other non-profit entities;
- education and training services;
- cultural and sports services provided by non-profit entities;
- services provided by political parties, trade unions and other non-profit membership-based legal entities to their members if the services correspond to those set out in the Articles of Association and if the services are provided free of charge, except membership fees;
- services provided by religious communities, other communities and centres to their members if these services correspond to the purposes of these communities set out in their canons, statutes and other documents and if these services are provided free of charge, except for donations;
- postal services and directly related goods supplied by government-listed universal postal services providers, except for postal parcels;
- radio and TV broadcasting services provided by non-profit legal entities;
- all types of insurance and re-insurance services and related services provided by insurance and re-insurance agents;
- financial services. If the purchaser is a VAT payer, the taxable person who provides financial services will have a right of option to calculate 18% VAT on the service fee for some financial services. The option is valid for at least 24 months;
- Management of assets of special investment variable capital companies and close-ended investment companies, investment funds and pension funds as well as management of funds of pension programmes shall be exempt from VAT.
- lotteries and gambling;
- postage stamps and other government-listed special signs available for sale against their nominal value. This provision applies only to the postage stamps which can be used as a confirmation of payment for postal services in Lithuania;
- letting of residential premises (except for accommodation services provided by hotels, motels, camping and other similar establishments or letting of residential premises not indicated above, the letting period of which does not exceed two months);
- letting or sale of immovable property other than residential premises (certain exceptions apply);
- supply of goods if the VAT payer has not deducted any proportion of the VAT on purchases and/or the imports of the purchases (certain conditions apply);

Intra-community acquisitions are VAT-exempt, provided that

- the supply of such goods in Lithuania would be VAT-exempt or zero-rated or the imports of such goods would be VAT-exempt;
- the purchaser, who is a foreign taxable person, is able to refund the VAT;
- the goods are acquired by a taxable person who is registered for VAT purposes in another member state and reside abroad and have no subdivision in Lithuania if the person immediately provides the goods acquired from another EU member state than the one in which the person is registered for VAT purposes to the VAT payer in Lithuania, who must calculate and pay VAT on the goods acquired.

In order to obtain exemptions, companies should make sure that their services and goods supplied meet the appropriate VAT exemption requirements.

Option to tax:

Applicable to:

- letting of immovable property;
- sale or other transfer of old immovable property (i.e. used for more than 24 months);
- provision of some financial services.

The option to tax may be exercised only if the customer is a VAT payer. If a VAT payer decides to use the option to tax, it will be valid for at least 24 months.

3.4 Duties

3.4.1 Customs duties

EU customs law is applicable in full.

For more information: www.pwc.com/lt

Reference:

World Fact Book
(www.cia.gov/cia/publications/factbook)

PwC worldwide Tax Summaries

(<http://www.taxsummaries.pwc.com>)

4 Banking Environment

4.1 Overview

Sector Figures

At year-end 2007, the banking scene in Lithuania includes nine commercial banks, two foreign bank branches and three representative offices.

An additional 64 credit unions (co-operative banks) offer limited services compared to the commercial banks.

Sector Wide Agreements

In 2005, the EU reached political agreement on the proposed directive for new capital-adequacy rules, known as Basel II.

4.1.1 Central Bank

Background

The Bank of Lithuania is the central bank of Lithuania. Its principal objective is to maintain price stability. In seeking its principal objective, the Bank of Lithuania is independent from the Government of the Republic of Lithuania or other institutions of the state.

Responsibilities

In implementing the primary objective, the Bank of Lithuania performs the following functions:

- Issues the currency of Lithuania
- Formulates and implements the monetary policy
- Determines the LTL exchange rate regulation system and announces the official exchange rates of the LTL
- Manages, uses and disposes of foreign reserves
- Acts as State Treasury agent
- Issues and revokes licenses of credit institutions and permissions for the establishment and operations of branches and representative offices of credit institutions of foreign states, supervises their activities and establishes the principles and procedures for financial accounting and reporting
- Develops and manages the interbank funds transfer system
- Establishes requirements for the interbank funds transfer system participants
- Collects statistics (monetary, banking, balance of payments etc.)
- Encourages a stable and efficient operation of payment and securities settlement systems.

4.2 Danske Bankas

In November 2006, the Danske Bank Group acquired Danske Bankas' parent, the Sampo Bank Group. This led to a name and corporate visual identity change from Sampo bankas to Danske Bankas in June 2008, at the same time Danske Bankas became a full branch of Danske Bank Group.

Danske Bankas provides banking services for retail, corporate and institutional customers. Danske Bankas' branches and other service channels also play a central role in offering the investment and savings services of other companies in the Danske Bank Group. Danske Bankas has a network of approx 15 branches and offices, covering the main industrial centres of Lithuania.

The bank offers all relevant products for corporate customers such as cash management, foreign exchange, trade finance as well as overdraft facilities and term loans, credit cards, eBanking, leasing, etc.

It is very easy to start business with Danske Bankas in Lithuania. Just contact your Danske Bank account manager in your country and he/she will manage to open the bank account in Danske Bankas, Lithuania for your business start. You will also be given the dedicated English speaking account manager in Lithuania who will work closely with the account manager in your country and provide the best financial solution for your cross-border and local businesses.

See www.danskebankas.lt for further information.

4.3 Legal & Regulatory Issues

4.3.1 Introduction

As such the market for financial transactions is deregulated. However, due to Central Bank reporting requirements still remaining for transactions between residents and non-residents, Lithuania is not the ideal place for maintaining cash concentration pooling solutions involving non-resident companies.

4.3.2 Resident and Non-Resident Status

Includes all companies registered in the company registry of Lithuania (any commercial enterprise registered under Lithuanian law is regarded as a Lithuanian entity for tax purposes).

4.3.3 Account Ownership

A resident as well as a non-resident company can own any type of account.

4.3.4 Cash Pooling Regulations

Cash concentration and notional pooling are allowed domestically as well as cross-border. Banks are not allowed to offset own balances in a notional cash pooling solution. Cash pooling across legal entities within the same group is allowed. Resident and non-resident companies can participate in the same cash pool in Lithuania, but Central Bank reporting requirements must be adhered to, and withholding tax regulations must be observed. The Lithuanian legislation allows for multicurrency cash pooling. It is not widely offered by the banks, though.

4.3.5 FX Controls

Foreign exchange controls are close to fully liberalised, with the exception of minor restrictions on the holding of accounts. The litas was pegged to the euro on 2 February 2002 at a fixed exchange rate (3,4528 litas per 1 Euro). The litas subsequently joined the Exchange Rate Mechanism 2, an agreement between a number of EU countries and the European Central Bank (ECB) to keep the rate of the national currency within a fluctuation span of + / - 15% vis-à-vis an agreed central rate.

4.3.6 Central Bank Reporting Requirements

Central Bank reporting is still mandatory in Lithuania in order for the Bank of Lithuania to compile balance and payment statistics. Companies with large numbers of resident to non-resident transactions report all transactions on a monthly basis. Companies with less payments report quarterly. Banks send forms to their customers and undertake the reporting for them.

4.3.7 Money Laundering

The Lithuanian Law on Prevention of Money Laundering was adopted on 19 June 1997. Subsequently, amendments were made which came into effect on January 2004. The EC Money Laundering Directive (Council Directive 91/308/EEC of 10 June 1991 as amended by directive 2001/97/EC of 4 December 2001) has been implemented in Lithuania, as they committed themselves to do, when signing the agreement with the European Central Bank on September 10, 2003.

Following the vote by the European Parliament on 26 May 2005, the Council reached an agreement on a text for a third directive on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing (the "Third Directive"). It builds on existing EU legislation and incorporates into EU law the June 2003 revision of the Forty Recommendations of the Financial Action Task Force (FATF), the international standard setter in the fight against money laundering and terrorist financing. The Directive is applicable to the financial sector as well as lawyers, notaries, accountants, real estate agents, casinos, trust and company service providers. Its scope also encompasses all providers of goods, when payments are made in cash in excess of 15.000 EUR.

The Third Directive was implemented in part in Lithuania by the new Law on the Prevention of Money Laundering and Terrorist Financing, which entered into force on 24 January 2008. The new law enhances the procedures for client identification and verification and increases the list of institutions that are responsible for the prevention of money laundering and terrorist financing, extending the competence of those institutions.

4.4 Payments & Collections Methods & Instruments

4.4.1 Introduction

Recently, owing to technological developments within the banking sector and the growing accessibility of electronic payment methods, an increasing tendency towards the use of electronic payment instruments has become evident. The transfer of salaries, student grants, educational allowances and social allowances to the bank accounts of beneficiaries has resulted in a continual increase in the number of payment cards, ATMs and POS terminals. However, cash still continues to play an important role as a form of payment in Lithuania. Credit transfers account for the vast majority of the payments by both volume and especially value.

4.4.2 Payment (and Collection) Methods

There are two types of domestic credit transfers - Standard and Urgent. Standard credit transfers submitted until cut-off time are effected with same day value to beneficiaries. Urgent credit transfers submitted until cut-off time are effected within one hour to beneficiaries.

For payments between accounts with the same bank, the customers' accounts are credited and debited with the same value date.

4.4.3 Card Payments

After their introduction in late 1993, early 1994, the number of cards issued in Lithuania is growing very rapidly. Nine Lithuanian banks and Lithuanian Credit Union issue payment cards. Almost all banks issue two brands - MasterCard and VISA, few banks act as Amex agents for issuing. By the end of 2008, there were more than 4,280,000 payment cards in the Lithuanian market, 2.7 million being Visa cards and 1.4 million MasterCard cards. The majority of them - 94% - debit cards. As a result of the SEPA requirements, domestic cards schemes are almost closed. The Visa brand prevails among Debit cards (2.6 million Visa and 1.12 million MasterCard (Maestro)) while MasterCard predominates among Credit Cards (304 thousands MC and 184 thousands VISA).

At the beginning of 2009, there were more than 40 000 POS terminals and Cash registers with card acceptance possibilities, 1470 ATMs operated supporting cash withdrawal, balance inquiry and "mini statement" operation types, in the Lithuanian retail market. Almost 100 ATMs support cash depositing operations.

4.4.4 Credit Transfers

Credit transfers are one of the most commonly used payment instruments for non-cash payments in Lithuania. Credit transfers (domestic and cross-border) accounted for 52 per cent of the volume of non-cash payment transactions and made up 99 per cent of the value of these transactions in 2008.

In 2008, 66 per cent of credit transfers were initiated in non-paper based form (36% in 2003).

4.4.5 Direct Debits

Direct debits have been available in the market since 1997. Compared with 2006, the volume of Direct Debits increased by 3% in 2008.

It is however not that widespread as it is possible to execute direct debit transfers between two accounts with the same bank only. The creditor and the bank conclude a direct debit agreement, and the paying customer transfers an approval to the bank via electronic banking system.

4.4.6 Cheques

Banks settle cheque transactions bilaterally, and no plans to introduce cheque truncation exist. Cheques are not that commonly used in Lithuania and account for a very small percentage of payment transactions.

4.5 Electronic Banking

4.5.1 Introduction

In recent years, almost all sorts of banking services suited for electronic processing have been migrated to the Internet. There are no countrywide standards or any multi-banks offerings in the Lithuanian market.

At year-end 2008, the commercial banks had almost 3 million registered internet banking, 5,000 PC-banking users and almost 1 million mobile banking users. Over 90% of all basic banking transactions in Lithuania are processed using Electronic banking tools.

4.5.2 General Functionality of EBS Offerings

Many banks have shifted the focus from PC based electronic banking systems to web-based platforms. The services offered through the World Wide Web include payment transactions, account information, inter-company netting solutions, FX dealings and information etc. (in quasi real-time). Even though the web-based solutions are becoming more and more advanced, still, a number of banks still offer more sophisticated services via PC-based tools.

4.5.3 EDIFACT / Host-to-Host Solutions

The corporations growing effort of streamlining payment processing is primarily supported by the banks with foreign ownership, as the demand for the most part comes from corporates with headquarters outside Lithuania. Host-to-host solutions are provided for domestic as well as international payments.

4.5.4 E-payments and E-invoice / EBPP

Neither e-payments nor e-invoices are widespread in the Lithuanian market, however, e-invoicing and payments are emerging. For example, Itella (a Finnish company) in cooperation with local banks provides e-invoice services in Lithuania.

4.6 Cash Pooling Solutions

4.6.1 Introduction

It is possible to implement both notional and cash concentration pooling solutions in Lithuania. However, due to the still maturing cash management market, very few companies have done so. Cash concentration arrangements can include different legal entities (resident/non-resident) provided reporting requirements are met. In addition, there are no exchange control regulations preventing cross-border cash concentration.

4.6.2 Notional Pooling

Due to lack of tradition, the size of the Lithuanian companies and the fact that the banks that primarily offer cash pooling in Lithuania (Nordic owned banks, which are not allowed to offset their balances for capital adequacy ratio purposes), notional pooling is in reality not an option, although allowed in the market. The banks offer interest optimisation / enhancement solutions as well as cash concentration services as alternatives (see below).

4.6.3 Cash Concentration

Cash concentration is allowed and available as both single legal account pooling – balance netting – and zero and target balancing solutions. It is primarily the banks with Nordic ownership that offer these solutions.

4.6.4 Multicurrency and Cross Border Pooling

On a cross-border basis, notional as well as cash concentrating pooling schemes are offered. However, the primary tool for pooling continues to be the sweeping and funding of cash across borders.

Cash pooling solutions across currencies are usually not part of the services offered by the major cash management banks. However, some of the more sophisticated banks and the majority of foreign owned banks do offer such solutions, domestically as well as cross-border, like interest compensation/enhancement solutions.

5 Useful Links - Lithuania

Embassies

Foreign embassies in Lithuania

Embassy of Denmark
www.ambvilnius.um.dk

Embassy of Finland
www.finland.lt

Embassy of Germany
www.deutschebotschaft-wilna.lt

Embassy of Ireland
(see Embassy in Poland)
www.irlandia.pl

Embassy of Norway
www.norvegija.lt

Embassy of Poland
www.polandembassy.lt

Embassy of Sweden
www.swedenabroad.com/vilnius

Embassies of Lithuania abroad:

Embassy of Lithuania in Denmark
<http://dk.mfa.lt>

Embassy of Lithuania in Finland
<http://fi.mfa.lt>

Embassy of Lithuania in Germany
<http://de.mfa.lt>

Embassy of Lithuania in Ireland
<http://ie.mfa.lt>

Embassy of Lithuania in Norway
<http://no.mfa.lt>

Embassy of Lithuania in Poland
<http://pl.mfa.lt>

Embassy of Lithuania in Sweden
<http://se.mfa.lt>

Lawyer -Accountant - Consultant

**Mazanti-Andersen,
Korsø Jensen & Partnere/**
www.mazanti.dk

PricewaterhouseCoopers
www.pwc.com

Sorainen Lawfirm
www.sorainen.com

Danske Bank

Denmark
Danske Bank
www.danskebank.com

Estonia
Sampo Pank
www.sampopank.ee

Finland
Sampo Pankki
www.sampopankki.fi

Germany
Danske Bank
www.danskebank.com/de

Ireland
National Irish Bank
www.nationalirishbank.ie

Latvia
Danske Banka
www.danskebanka.lv

Lithuania
Danske Bankas
www.danskebankas.lt

Northern Ireland
Northern Bank
www.northernbank.co.uk

Norway
Fokus Bank
www.fokus.no

Poland
Danske Bank
www.danskebank.com/pl

Russia
ZAO Danske Bank
www.danskebank.com/ru

Sweden
Danske Bank
www.danskebank.se

General Information

Central Bank of Lithuania
www.lbank.lt

Association of Lithuanian Banks
www.lba.lt

Ministry of Finance
www.finmin.lt

Vilnius Stock Exchange
www.nse.lt

**Association of Lithuanian Chambers
of Commerce, Industry and Crafts**
www.chambers.lt

Statistics Lithuania
www.std.lt

Lithuanian Securities Commission
www.lsc.lt

Danske Bank
Holmens Kanal 2-12
DK-1092 Copenhagen K

Tel. +45 45 12 00 00
www.danskebank.com