1. The extent to which the currency of the Republic of Lithuania is convertible into the currency of other countries.

The Law on the Credibility of the Litas as of 1 April 1994 is the main law, which determines the exchange of the Litas into other foreign currencies. The Article 4 of this Law defines that the Bank of Lithuania shall guarantee to the extent of its gold holdings and foreign exchange reserves free exchange of the Litas into the anchor currency and vice versa according to the official exchange rate within the territory of the Republic of Lithuania. The same Article also determines that other foreign currencies shall be exchanged into the Litas and vice versa according to the market exchange rate.

The full convertability is guaranteed by the stipulation of the above mentioned law that Bank of Lithuania guarantees that the total amount of the Litas put into circulation does not exceed the gold reserves (at market prices) and foreign exchange reserves (according to the official exchange rate of the Litas) of the Bank of Lithuania at any time.

Since 1 April 1994 until 1 February 2002 US dollar was the anchor currency of the Litas and the official exchange rate of the Litas was LTL 4 for USD 1. In accordance with the Resolution No 15 "On the Anchor Currency and the Official Exchange Rate of the Litas" of the Board of the Bank of Lithuania as of 2 February 2002 the euro shall be the anchor currency of the Litas, and the official exchange rate of the Litas shall be LTL 3.4528 for EUR 1.

Lithuania, a small and open economy, is characterized by a large number of foreign exchange operations. In 2001, according to the information submitted to the Bank of Lithuania by commercial banks and branches of foreign banks, average monthly turnover of foreign currency exchange into the Litas (LTL) and into other foreign currencies was LTL 10.7 billion, 22% of GDP (LTL 48 billion). In the first quarter of 2002 this turnover was LTL 29.2 billion, 58% of forecasted GDP (the GDP in 2002 has been forecasted by the Bank of Lithuania to reach LTL 50 bn.).

The Law on the Credibility of the Litas in English is available on the website of the Bank of Lithuania www.lbank.lt (see the link "On the Litas peg to the Euro"). The Resolution No 15 of the Board of the Bank of Lithuania "On the Anchor Currency and the Official Exchange Rate of the Litas" in English is available on the Acts of Law Regulating the Activities of the Banks of Lithuania, 2002 No. 1, issued by the Bank of Lithuania in paper format only. Mentioned legal acts are also attached to this document.

FURTHER REFERENCES

Law on the Credibility of the Litas (enclosed, ANNEX I)

Resolution of the Board of the Bank of Lithuania On the Anchor Currency and the Official Exchange Rate of the Litas' (enclosed, ANNEX II)

ANNEX I

REPUBLIC OF LITHUANIA
LAW ON THE CREDIBILITY OF THE LITAS

March 17, 1994, No.I-407 (the official gazette "Valstybes zinios", 1994, No.24-378)
July 20, 1994, No.I-566 (the official gazette "Valstybes zinios", 1994, No.59-1157)
April 5, 2001, No. IX-236 (the official gazette "Valstybes zinios", 2001, No.34-1126)

Article 1. Guaranteeing the Credibility of the Litas

The Litas put into circulation by the Bank of Lithuania is fully covered by gold and foreign exchange reserves of the Bank of Lithuania.

Article 2. The Amount of the Litas in Circulation

The Bank of Lithuania shall guarantee that the total amount of the Litas put into circulation does not exceed the gold reserve (at market prices) and foreign exchange reserves (according to the official exchange rate of the Litas) of the Bank of Lithuania at any time.

The total amount of the Litas put into circulation shall consist of:
1) banknotes and coins in circulation;
2) the sum of the balances of nominal accounts of other banks and holders of litas accounts kept with the Bank of Lithuania; and
3) the sum of the securities and other promissory notes of the Bank of Lithuania in litas.
Foreign exchange reserve shall consist of:
1) banknotes and coins of convertible currency held by the Bank of Lithuania;
2) the amount of convertible currency held by the Bank of Lithuania in the correspondent accounts in foreign banks and the International Monetary Fund; and
3) promissory notes, certificates of deposits, bonds, other debt securities payable in convertible currency, which are held by the Bank of Lithuania.

The Bank of Lithuania may change the total amount of the Litas in circulation only by changing gold and foreign exchange reserves respectively.

Article 3. The Official Exchange Rate of the Litas

The official exchange rate of the Litas shall be established against the currency chosen as the anchor currency.

The official exchange rate of the Litas and the anchor currency shall be established by the Bank of Lithuania upon coordination with the Government of the Republic of Lithuania.

Only in the case of extraordinary circumstances when further retaining of the exchange rate of the Litas would damage the stability of national economy, the Bank of Lithuania upon coordination with the Government of the Republic of Lithuania may change the anchor currency and (or) the official exchange rate of the Litas.

Article 4. The Exchange of the Litas

The Bank of Lithuania shall guarantee to the extent of its gold holdings and foreign exchange reserves free exchange of the Litas specified in Paragraph 2 of Article 2 into the anchor currency according to the official exchange rate of the Litas, as well as free exchange of the anchor currency into the Litas within the territory of the Republic of Lithuania. Other foreign currencies shall be exchanged into litas and litas shall be exchanged into other foreign currencies according to the market exchange rate.

Maximum amounts of charges for exchange operations shall be established by the Bank of Lithuania for all banks.

Commercial banks shall be liable under law for the violation of the procedure of exchange operations.

Article 5. Information on the Litas

The Bank of Lithuania shall publish information on the total amount of litas in circulation, gold holdings and foreign exchange reserves in the “Valstybes žinios” (Government Records) at least once a month.

Article 6. Entry into Force

This Law shall become effective as of 1 April 1994.

Article 7. Validity of the Law of the Bank of Lithuania and the Statute of the Bank of Lithuania

The Law of the Bank of Lithuania and the Statute of the Bank of Lithuania shall be valid until the adoption of a new Law of the Bank of Lithuania and to the extent it complies with the provisions of this Law.

Article 8. Aspects of Choosing the Euro as the Anchor Currency and of the Establishment of the Official Exchange Rate of the Litas

Paragraph 3 of Article 3 of this Law shall not apply when the euro is chosen to be the anchor currency and the official exchange rate of the Litas is established on the basis of the exchange rate of the euro and the former anchor currency in the foreign exchange market.

I promulgate this Law adopted by the Seimas of the Republic of Lithuania.

President of the Republic ALGIRDAS BRAZAUSKAS

Updated: November 21, 2001

ANNEX II.

Resolution of the Board of the Bank of Lithuania
On the Anchor Currency and the Official Exchange Rate of the Litas
1 February 2002, No. 15, the official gazette "*Valstybes žinios*", 2002, No. 12

The Board of the Bank of Lithuania resolves:

1. To establish that as from 2 February 2002
   1.1. the anchor currency of the Litas shall be the Euro;
   1.2. the official exchange rate of the Litas shall be 3.4528 Litas per 1 Euro.

2. To recognise as invalid the Resolution of the Board of the Bank of Lithuania No. 60 On Official Exchange Rate of the Litas of 29 September 1994.

2. The extent to which wage rates in the Republic of Lithuania are determined by free bargaining between labor and management.

The wage rates in Lithuania are established as a result of free bargaining between the labour and management. According to the Law on Wages (see Annex III) which regulates wages of the employees who work under employment contracts in enterprises, institutions, and organizations, regardless of their forms of property the employee's wages depend on labour supply and demand in the labour market, quality and quantity of labour, and the results of the enterprise's activities. It is prohibited to reduce wages due to a person's sex, age, race, nationality, or political convictions.

The main role of State is to set a minimum monthly wage and a minimum hourly pay rate. The monthly wage established for an employee might not be less than the minimum monthly wage set by the State.

The minimum monthly wage as established by the Government is 430Litas and a minimum hourly pay rate is 2.53 LT at present (1 US $ = **3,7356** Litas, exchange rate as of 2002-05- 23).
By the EU standards Lithuania has liberal labor market.

The wage formation in the private sector, which accounts for 72 percents of the Lithuanian economy, is fully decentralized. Article 2 of Law on Employment Contract provides principles of legal regulations of labour relations:

1) equality among the parties involved in the employment contract;
2) the establishment of additional guarantees for groups of citizens who are socially vulnerable;
3) the prohibition of unilaterally modifying the terms that the parties have agreed upon;
4) the right of each employee to terminate an employment contract in accordance with the procedures established by law;
5) the right of the employer to terminate an employment contract only on lawful grounds; and
6) equality for all employees, regardless of their sex, race, nationality, citizenship, political convictions, religious beliefs, or any other factors which do no affect their professional qualifications.

Article 3 of Law on Employment Contract provides that the employment contract shall be the agreement between the employer and the employee in which the employee shall pledge to work in a certain profession, speciality, qualification, or office in accordance with the established rules and regulations, and in which the employer shall pledge to pay the employee, and shall guarantee working conditions which conform with employment laws, the collective agreement, and other legislative acts or agreements between the parties.

Other relevant data:

GNI per capita, USD (2001)	3386
GDP per capita, USD (2001)	3438
GDP per capita, PPP adjusted, USD (1999)	6480
Average monthly wage (pre-tax), USD (2001)	272
The share of private sector, % (2000)	72
The share of administrated prices in CPI, % (2002)	18.65

Source: Department of Statistics of Lithuania

FURTHER REFERENCES
The Law on Wages, No.VIII-1101 as amended and supplemented by 23 March 1999 (enclosed, ANNEX III)
The Law on Employment Contract (enclosed, ANNEX IV)

ANNEX III.
REPUBLIC OF LITHUANIA
WAGES LAW
Official translation
(as amended and supplemented by 23 March 1999, No.VIII-1101)

This Law shall regulate wages of the employees who work under employment contracts in enterprises, institutions, and organizations, regardless of their forms of property.

Article 1. Wages

An employee's wages shall depend on labour supply and demand in the labour market, quality and quantity of labour, and the results of the enterprise's activities.
It shall be prohibited to reduce wages due to a person's sex, age, race, nationality, or political convictions.

Article 2. Minimum Wage

The State shall set a minimum hourly pay rate (minimum monthly wage).
The hourly pay rate (monthly wage) established for an employee may not be less than the minimum hourly pay rate (minimum monthly wage) set by the State.

Article 3. Organization of Payment for Work

Conditions of payment for work, rate-qualification requirements of occupations and positions, and the procedure for fixing pay rates for jobs and employees shall be established by the owners (employers) of the enterprises, institutions, and organizations in collective bargaining (collective agreements).
Actual hourly pay rates, monthly wages, other forms and conditions of payment for work, and working standards in enterprises, institutions, and organizations shall be established in collective agreements or, if they are not concluded, in employment contracts according to the procedure established by the laws of the Republic of Lithuania (hereafter referred to as "collective agreements or employment contracts").

The conditions of payment for work to an employee, established in the employment contract, taking into consideration the provisions approved in legal statutes and collective agreements, may be changed only by a written agreement between an employee and employer.

Article 4. Remuneration to Employees of Public Institutions

The conditions of payment for work to employees of public institutions shall be established by the laws the Republic of Lithuania.

The conditions of payment for work to the employees of other institutions financed from the budget shall be established by the Government of the Republic of Lithuania. These conditions shall be revised at least once a year, taking into account the raise in wages of employees in material production.

Article 5. Guaranty of Actual Wages

Taking into account the price index, wages shall be indexed according to the procedure established by Law on Individual Income Security of the Republic of Lithuania.

Article 6. Wages in the Event of Departure from Normal Working Conditions

In the event of departure from normal working conditions, an employee shall be paid for the work performed:

in harmful conditions - at least one and a half the hourly (daily) base pay (monthly wage) established for an employee;
in extremely harmful conditions - at least double the hourly (daily) base pay (monthly wage) established for an employee.

Working condition classifications and permitted concentrations and levels of harmful factors shall be regulated by the laws of the Republic of Lithuania and other statutory acts.

Specific pay rates shall be set in collective agreements or employment contracts.

Article 7. Payment for Overtime and Night Work

At least one and a half the hourly wage rate (monthly wage) established for an employee shall be paid for overtime and night work (from 10 p.m. to 6 a.m.).

Specific pay rates shall be set in collective agreements or employment contracts.

Article 8. Wages for Days off and Public Holidays

Unscheduled work on days off and public holidays shall be compensated for by providing another day off within a month, or at the request of the employee, by paying at least double the hourly or daily fixed wage rate without providing an additional day off.
An employee shall be paid double the hourly or daily wage rate for work scheduled on public holidays.

Article 9. Payment for the Hours of Lay-off

An employee shall receive no less than the minimum hourly pay, as established by the State, for each hour of the lay-off not due to the fault of the employee, *excluding the cases established by this article.*
If the wage of the employee, who has been transferred according to the procedure established by the law to alternative work as a result of the lay-off, decreases for reasons beyond the employee's control, he shall be paid an average payment he got before being transferred. *In the event of the lay-off due to industrial, natural and other conditions not established in article 24 of the Law on Employment Contract, when these conditions in the procedure established by the laws do not allow to work safely, the collective agreement or employment contract may establish other conditions of payment for the employees transferred to alternative work.*

If in the event of the lay-off, the employee receives no offer of alternative work available at the enterprise, which he could do without prejudice to his profession, speciality, qualification, and health condition, he shall be paid the payment equal to two-thirds of his average hourly wage he received before the lay-off, but not less than the minimum hourly payment, approved by the State, for every hour of the lay-off.

If the employee rejects an offer of alternative work, which he could do without prejudice to his profession, speciality, qualification and health condition, he shall receive the payment, which is not less than 0.3, the State-established minimum hourly pay for each hour of the lay-off.
The employer has no right to require an employee who is not working due to the lay-off, to stay at his workplace for more than one hour per workday (shift). The workpay established in paragraph 3 of this Article shall be paid for the stay in the enterprise for the time specified in this provision. The cases of full absence from work during the lay-off may be provided for in the collective agreement, employment contract or by agreement between the parties.

The collective agreement or employment contract may establish the rates of payment, which are higher than those specified in this Article.

The terms and procedure for paying compensation for the lay-off which is not due to the fault of the employee shall be the same as the terms and procedure for paying wages *(article 11 of this law).*
An employee shall not be paid compensation for the hours of the lay-off through his fault.

Article 10. Wages for Incomplete Working Time and Short-Time Working

Employees shall be paid proportionally for incomplete working time (incomplete workday or week), established for an employee by agreement with an employer, depending on the period or amount of work completed.

Additional guarantees of payment for work may be provided for employees whose working hours are shortened according to laws or collective agreements (for minors, persons with limited working capacity, employees who work in extremely harmful working conditions, etc.).

Article 11. Time, Place, and Procedure of Payment

Wages shall be paid during working hours at least two times per month. *At the request of the employee wages can be paid at least one time per month.* The specific time, place, and procedure of the payment shall be established in collective agreements or employment contracts.

When giving an employee annual holidays, earnings due to the employee before the beginning of the holidays shall be paid along with a pay for the full period of that holiday not later than three calendar days prior to the beginning of the holiday.

If an employee is being dismissed from work, he shall be paid any moneys to which he is entitled on no later than the last workday.

Article 12. Average Wages

Employees shall be guaranteed average wages in cases provided for in the laws of the Republic of Lithuania, collective agreements, or employment contracts. These average wages shall be calculated in the procedure established by the Government of the Republic of Lithuania.

Average wages shall comprise all wages on which National social insurance contributions shall be calculated, according to the enforced procedure.

An employee who is prevented from working in his main place of employment in the cases provided by law shall be paid at least double the salary by the institution or organization whose duties he carries out.

Article 13. Settlement of Disputes

Wage disputes shall be investigated in the procedure for the settlement of disputes as established by the laws of the Republic of Lithuania.

Article 14. Control of Law Observance

The State Labour Inspectorate shall exercise control over the observance of this Law.

Article 15. Liability for Violation of this Law

Losses incurred as a result of the violation of this Law shall be recovered by the guilty party.
In cases provided for in the laws of the Republic of Lithuania, disciplinary, administrative and criminal actions shall be applied for the violation of this Law.

Article 16. Information about Wages

Information concerning an employee's wages shall only be furnished and publicised in the cases provided for by law, or upon the consent of the employee.

Information regarding employees' wages, which are paid from the State and municipal budgets, budget of the State Social Insurance Fund and the budget of the Health Insurance Fund, shall be accessible to the public. The procedure of providing the information related to wages shall be established by the Government of the Republic of Lithuania.

VYTAUTAS LANDSBERGIS
President, Supreme Council of the Republic of Lithuania
Vilnius

9 January 1991 No. I-924
Note: the sentences in italic are unofficial translation of the most recent amendments of this law.

ANNEX IV.
Official translation

REPUBLIC OF LITHUANIA
LAW ON THE EMPLOYMENT CONTRACT
No. I-2048
Vilnius
(as amended by 12 June 2001 No. IX-373)

CHAPTER I.
GENERAL PROVISIONS

Article 1. Relations Regulated by this Law
This law shall establish the general procedures for drawing up, altering, and terminating employment contracts.

Specific requirements for drawing up, altering, and terminating employment contracts with public employees, employees of commercial banks and other credit institutions, employees of elective offices, craftsmen working at home, apprentices (except for the cases when apprenticeship contracts are concluded with them), trainees, persons with limited functional capacity, and other persons shall be determined by laws and other legal acts which regulate labour relations with such employees, unless it is prohibited by this Law.

Specific characteristics of labour relations which are formed on the basis of membership in partnerships, public companies, private companies, and agricultural partnerships shall be determined by laws which regulate the operations, bylaws, and collective agreements of such enterprises.
The Government of the Republic of Lithuania shall determine the specific features of employment contracts of special-purpose enterprises with employees whose activities may cause the disruption of the activity of the said enterprises, related with especially serious consequences of major extent to people and nature, as well as of contracts which are concluded for providing seasonal work.
The laws and statutes regulating activities of the National Defence System shall establish a procedure for conclusion, modification and termination of the contracts of professional military service with servicemen who perform professional military service, as well as terms and conditions of such contract.

The Law of the Republic of Lithuania on Diplomatic Service shall regulate official relations of diplomats.

Legal relations of employment arising in the course of practical training and training on the job or the performance of public works shall be established by appropriate laws and other legal acts.

Article 2. Principles of Legal Regulations of Labour Relations
Relations specified by Article 1 of this Law shall be regulated in accordance with the following principles:
1) equality among the parties involved in the employment contract;
2) the establishment of additional guarantees for groups of citizens who are socially vulnerable;
3) the prohibition of unilaterally modifying the terms that the parties have agreed upon;
4) the right of each employee to terminate an employment contract in accordance with the procedures established by law;
5) the right of the employer to terminate an employment contract only on lawful grounds; and

6) equality for all employees, regardless of their sex, race, nationality, citizenship, political convictions, religious beliefs, or any other factors which do no affect their professional qualifications.

Article 3. The Employment Contract

The employment contract shall be the agreement between the employer and the employee in which the employee shall pledge to work in a certain profession, speciality, qualification, or office in accordance with the established rules and regulations, and in which the employer shall pledge to pay the employee, and shall guarantee working conditions which conform with employment laws, the collective agreement, and other legislative acts or agreements between the parties.

All works performed at an enterprise, institution, organization, which a natural person does having agreed upon with an employer or a person authorized by him, must be set out in an employment contract. This provision shall not be applied to the works performed under author's contract, and to the natural persons who have a patent to perform these works.

Article 4. The Employee

A permanent resident of Lithuania who is 16 years of age or older may be a party to the employment contract.

It shall be allowed to conclude employment contracts with children under 16 years of age only for performance of light works, which suit their physical capabilities and the list whereof is approved by the Ministry of Social Security and Labour and the Ministry of Health Care, under the conditions of employment laid down in the Law of the Republic of Lithuania on Safety and Health of Workers.

Foreign nationals and stateless persons who have arrived in the Republic of Lithuania in the prescribed manner for a temporary stay with the purpose of getting a job, shall have the right to get a job in accordance with this and other laws. The procedure of their employment shall be established by international agreements and the Government of the Republic of Lithuania.

Article 5. The Employer; the Person Authorized by Him

Under this Law, employers shall be the owners, managers of all types of enterprises, institutions, and organizations (hereafter referred to as "enterprises"), who are appointed, elected, or authorized in some other manner, according to the laws (articles of association, regulations, incorporation documents) of the appropriate enterprises, including partnerships and individual (personal) enterprises) to draw up, alter, and terminate employment contracts in the name of the enterprise, to perform other actions while implementing the provisions of employment laws, as well as farmers who have concluded an employment contract with at least one natural person.

When an employment contract is concluded between natural persons, the employer shall be a natural person.

A person authorized by an employer shall be the person to whom the employer has transferred part of his rights and duties related to the issues of the Law on Employment Contract.

Article 6. Validity of the Law

The provisions of this Law shall be applied to labour relations, as established in Article 1 of this Law, at enterprises located on the territory of the Republic of Lithuania, as well as at enterprises, which are located outside the boundaries but are within the jurisdiction of the Republic of Lithuania.
Labour relations at foreign capital enterprises and at enterprises where a portion of the authorized capital belongs to a foreign investor (i.e., joint ventures), shall be regulated by this Law and by

documents on the founding of the enterprises, except in cases when international agreements provide for other regulations applicable to the employees of the enterprises.

CHAPTER II.
THE CONTENTS AND COMPOSITION OF CONTRACTS OF EMPLOYMENT

Article 7. The Contents of Contracts of Employment
The employment contract shall include the rights and obligations of the employee and the employer as established by an agreement between them.
The parties may not establish working conditions, which would be less favourable to the employee than those provided by the laws of the Republic of Lithuania.

Article 8. The Conditions of Contracts of Employment
In each employment contract, the parties must agree upon the following conditions:
1) the employee's place of work (enterprise, its subsidiary, etc.);
2) the functions of employment - in regard to a certain profession, speciality, qualification, or post; and
3) the salary.

For certain employment contracts, employment laws and collective agreements may provide for other requisite conditions to be discussed by the parties upon the conclusion of such a contract (agreement on the duration of the contract, the nature of seasonal work, etc.).
Upon the agreement of both parties, other conditions of the employment contract (probation periods, shorter working hours, the use of funds of the employer to train the employee and to improve his qualifications, as well as the manner and terms of the repayment of such funds, etc.) may be established, provided that employment laws do not prohibit such provisions.

Article 9. The Duration of an Employment Contract
An employment contract may be concluded for an either an indefinite or a fixed period of time, but the duration may not exceed five years unless laws provide otherwise.

It shall be prohibited to conclude a contract for a fixed period of time if the employment is of a permanent nature, except in cases where such a contract is concluded at the employee's request, or when it is provided for in other laws.

Employment contracts with employees who are appointed to their posts by elective bodies in accordance with the law shall be concluded for the term of office of the elective bodies.

Article 10. Determining the Term of an Employment Contract
The term of an employment contract may be determined by a certain calendar date, or upon the emergence of, changes in, or termination of certain circumstances (defined by the completion of a certain work, the implementation of a certain assignment, arrival of a temporary absent employee at the workplace, etc.), except in the cases specified in paragraph 3 of Article 9.

If the term of an employment contract is not specified therein, or if it is not specified in the appropriate manner, the duration of the employment contract shall be considered indefinite.

Article 11. The Expiration of a Fixed-Term Employment Contract
Upon the expiration of an employment contract, the employee shall have the right to discontinue work, and the employer shall have the right to dismiss the employee. If neither of the parties acts in the specified manner, the employment contract shall be considered indefinite.

Article 12. The Probation Period of an Employment Contract
Upon concluding an employment contract, a period of probation may be established upon mutual agreement of the parties. The period of probation may be established in order to assess the employee's competence in the field, or at the employee's request, to ascertain whether the job is suitable. Provisions concerning probation must be established in the employment contract.

All employment laws shall be applicable to the employee during the period of probation.
Probation periods established for the purpose of assessing the employee's competence shall not be applicable when employing:
1) persons under 18 years of age;
2) persons who, upon the agreement of the employers, are transferred to work from another enterprise;
3) persons who must be employed in order to fulfil employment quotas;
4) persons by way of tender or persons who have passed qualifying examinations; and
5) in other cases specified by law.

Article 13. The Period of Probation
The period of probation may not exceed three months. In cases specified by law, the period of probation may be extended.

During the probation period, absence from work shall not be recorded.

Article 14. The Results of Probation
If an employer is not satisfied with the results of a probation period established to assess the employee's competency, he or she may dismiss the employee by the end of the probation period without adhering to the procedures established in Articles 33 and 34 of this Law, and without paying the employee the severance pay.

If a probation period is established to ascertain if the work is suitable for the employee, the employee shall be free to assess the results of probation. During the probation period, the employee may terminate the employment contract with three days notice.

If the employee continues to work upon expiration of the probation period, the employment contract may be terminated only in accordance with the established regulations.

Article 15. Documents Required for Employment

Employers may require that applicants present their personal identification certificates.

If, pursuant to employment laws, a certain occupation requires specific education or professional background, health condition, the employer must requisition documents certifying necessary education, professional background, health condition from the applicant, and, to employ minors between the ages of 14 and 16, an employer must require a birth certificate and a written consent of the school he attends and of one of the applicant's parents or the person who actually raises him. Persons liable to military service must present documents proving that they have got registered with local territorial military institutions according to their place of residence. The employer also has the right to request other documents as provided for by law.

Article 16. The Employer's Responsibility to Require that Employees Present State Social Insurance Certificates

The employer must require that employees present state social insurance certificates, and must register these certificates in the established manner. Regulations for the distribution and management of state social insurance certificates shall be established by the Government of the Republic of Lithuania.

Article 17. Drawing up Contracts of Employment

An employment contract shall be considered complete when the parties have agreed upon the requisite conditions specified in paragraphs 1 and 2 of Article 8 of this Law.

Employment contracts must be concluded in writing according to the modal form of this contract (appended). The employer or a person authorised by him shall allow an employee to commence work only upon having executed a contract of employment, i.e. when the contract of employment is drawn up in two copies and signed by the employer and the employee. The employment contract must, on the same day, be registered in the employment contracts record book, the form whereof and employment contracts registration rules shall be approved by the Government of the Republic of Lithuania on the recommendation of the Ministry of Social Security and Labour. Registration of employment contracts in the record book shall not be mandatory when an employer is a natural person who employs 3 or less employees. An employee must commence work on the next day following the conclusion of the contract, unless a later date of the commencement of work is set by agreement between the parties. Prior to the commencement of work but not later, the employer shall, together with the second copy of a employment contract, hand over to the employee a document identifying him (a certificate of employment with a photograph of the employee, his name, surname and personal number), which the employee shall, during his working hours, have to carry with him or to keep in the place specified by the employer or a person authorized by him (or indicated in the rules of the internal order). The employer or a person authorized by him shall be responsible for the conclusion and registration of an employment contract, issuance of a document identifying the employee, establishment of the procedure of keeping of such document and ensuring the presentation of it to supervisory bodies. If the employer or a person authorized by him violates the requirements of this Article, he shall be held liable according to the procedure established by law.

Upon signing the employment contract, the employer or the person authorized by the employer must give the applicant written information concerning the working conditions, the collective agreement, internal rules and regulations, and other internal standard acts regulating working conditions. The applicant's signature shall confirm that this has been done.

Article 17^{1}. Illegal Work

The illegal work shall be the work which was performed or is still being performed without the conclusion of an employment contract in accordance with the procedure established by the law, regardless of the presence of the specific features of an employment contract indicated in Article 3 of this Law, as well as the work done by foreign nationals or stateless persons, failing to comply with the procedure of their employment stipulated by legal acts.

The following types of work shall not be regarded as the illegal work:
1) subsidiary work (voluntary work performed collectively). Subsidiary work (voluntary work performed collectively) shall be the collective mutual help of natural persons intended for the performance of agricultural or house-holding works. The conditions and procedure of such work shall be established by the Government;
2) voluntary works which are organized in the manner prescribed by the Government of the Republic of Lithuania.

Employers or the persons authorised by them who have permitted to perform illegal work, as well as the persons performing illegal work shall be liable according to the procedure established by law.

Article 17^2. Illegal Work Control
The State Labour Inspectorate at the Ministry of Social Security and Labour, the State Social Insurance Fund Board, the State Tax Inspectorate at the Ministry of Finance, the Tax Police Department at the Ministry of the Interior and the Police Department at the Ministry of the Interior shall check if illegal work is being performed.

Article 18. Restrictions on Employment of Relatives
Persons who are immediate relatives or who are related by marriage (parents, foster parents, spouses, brothers, sisters, children, adopted children, as well as brothers, sisters, parents and children of spouses) shall be prohibited from working together in one state and local authority institution, and one state (municipal) enterprise if such employment is connected with direct subordination of one of them to the other or with the right of one of them to control the other. Exceptions to this rule may be established by the Government of the Republic of Lithuania.

Article 19. Employment Guarantees
The employer shall be prohibited from refusing employment:
1) on the grounds specified in subparagraph 6 of Article 2 of this Law;
2) in jobs reserved for residents of corresponding categories (paragraph 1 of Article 7 and Article 8 of the Republic of Lithuania Law on Employment of the Population);
3) if there is a written agreement between employers concerning the transfer of an employee to another job; and
4) in other cases provided by law.

If a person specified in subparagraph 1 hereof is refused employment, he or she may bring the employer to court within one month.

If the court concludes that a person has been refused employment unlawfully, the employer shall be obligated by court order to employ the person from the day of application of employment, and to pay the employee minimum wage for the expired period.

CHAPTER III.
FULFILMENT AND MODIFICATION OF AN EMPLOYMENT CONTRACT

Article 20. The Employee's Duty to Personally Carry out Assigned Work
Employees do not have the right to assign their work to other persons without the permission of the employer or the person authorized by the employer.

Article 21. Prohibition of Requiring an Employee to Perform Work, which is not specified in the Employment Contract
An employer does not have the right to require an employee to perform work that is not agreed upon in the employment contract. Another employment contract must be concluded for additional work.

Article 22. Changing Working Conditions
An employer has the right to change an employee's working conditions (to change the working place within the same enterprise and locality, or to assign work with another machinery or device), or to change other conditions (benefits, the work regime, the amount of material liability, posts, etc.), only when this change is related to changes in production or technology, or when the organization of labour

is being changed and the employer has to change the working conditions of certain employees as a result.

The employee must be given written notice of the planned changes in working conditions no later than one month prior to the introduction of such changes. If the changes are related to production technology, the employer must provide conditions for the employees to improve their qualifications or change their specialization so that they will be able to work after the changes in production or production technology are introduced. The collective agreement may require a longer notice period, as well as additional obligations for the provision of conditions, which would enable the employee to prepare for work after the introduction of changes in production or production technology.
If an employee refuses to work under changed working conditions, he or she may be dismissed from work in the manner established in subparagraph 9 of Article 26 of this Law.

If changes are introduced and as a consequence an employee's salary is reduced for reasons beyond his or her control, the employee shall be compensated for the disparity in wages for at least three months after the introduction of the changes in working conditions.

Article 23. Transference at the Request of the Employer
If an employer wishes to transfer an employee to another job or locality (i.e. to change the requisite conditions of the employment contract), even if the entire enterprise is being transferred, it shall only be permitted if the employee gives written consent. Exceptions are provided for in Article 24 of this Law.

Article 24. Temporary Transference in Cases of Emergency
An employer shall have the right to transfer an employee to a job other than the one agreed upon in the employment contract, either in the same enterprise (on the territory of a forest district) or in another enterprise situated in the same locality, for the period of one month if the purpose of such a transfer is: to avert a natural calamity or industrial accident, to liquidate or immediately eliminate the consequences of such an accident, to distinguish a fire, or to prevent a fire from spreading.
It shall be prohibited to transfer an employee to a job, which is incompatible with his or her health. If an employee's salary is decreased after being transferred to another job for reasons beyond his or her control, the employee shall be paid the equivalent of the former average wage.

Article 24[1]. The Lay-off, Registration thereof and the Legal Status of the Employee
The lay-off through no fault of the employee shall be such a situation in a workplace when the employer does not provide the employee with the work agreed upon in the employment contract due to objective reasons (industrial, natural and other, which are not specified in Article 24 of this Law), paying for each hour of the lay-off a sum which is not less than a minimum hourly payment fixed by the Government of the Republic of Lithuania, except for the cases referred to in this Article.
The lay-off which continues not more than one workday shall be recorded in the working time sheet, and when it exceeds the length of one workday - shall be also recorded as an order (directive) of the employer. The employees who do not work due to the lay-off shall be familiarized with such order.
By the written consent of the employees, they shall, taking into consideration their profession, speciality, qualification and health condition, be transferred to alternative work in the same enterprise for the length of the lay-off. If an employee gives his consent, he may be transferred to alternative work, which is not hazardous to his health, without taking into consideration the profession, speciality and qualification.

If the wage of the employee, who has been transferred to alternative work as a result of the lay-off, decreases for reasons beyond the employee's control, he shall be paid an average payment he got before being transferred.

If in the event of the lay-off, the employee receives no offer of alternative work available at the enterprise, which conforms to his profession, speciality, qualification or alternative work which does not require special vocational training and which he could do without hazards to his health, he shall be paid the payment equal to two-thirds of his average hourly wage he received before the lay-off, but not less than a minimum hourly payment, approved by the State, for every hour of the lay-off.
If the employee rejects in writing an offer of alternative work which conforms to his profession, speciality, qualification or alternative work which does not require special vocational training and which he could do without hazards to his health, he shall, for every hour of the lay-off, receive the payment which is not less than 0.3 of the minimum hourly pay fixed by the Government of the Republic of Lithuania.

The employer shall have no right to require an employee who is not working due to the lay-off, to stay at his workplace for more than one hour per workday (shift). The workpay established in paragraph 5 of this Article shall be paid for the stay in the enterprise for the time specified in this provision. The cases of full absence from work during the lay-off may be provided for in the collective agreement, employment contract or by agreement between the parties.

In the event of the lay-off due to industrial, natural and other conditions which are not referred to in Article 24 of this Law, when it is not possible to safely carry out work in the manner prescribed by legal acts, a collective or employment contract may establish other conditions of temporary transfer of employees to another work and of payment for it. If there is no job available, which the employee can do safely, a lay-off shall be documented and guarantees of this Article shall apply.

Article 25. Dismissal from Work
If an employee comes to work under the influence of alcohol, drugs, or other toxic substances, the employer shall not allow him or her to work that day (shift).
Employees may be dismissed from work (office) or have their wages suspended in other cases specified by laws.

CHAPTER IV.
TERMINATION OF AN EMPLOYMENT CONTRACT

Article 26. Grounds for the Termination of an Employment Contract
An employment contract shall be terminated:
1) by agreement between the employer and employee (Article 27);
2) upon the expiration of the term of the contract, with the exception of the case specified in Article 11 of this Law;
3) upon the application of the employee (Article 28);
4) upon the initiative of the employer in cases provided for in this Law (Article 29) or at the will of the employer (Article 30);
5) upon the execution of a court sentence which prevents an employee from continuing work;
6) when an employee is deprived of the right to work a certain occupation according to the procedure established by law;
7) when an enterprise goes into liquidation following the adjudication of bankruptcy;
8) when the employee refuses to be transferred together with the enterprise (its unit) to another locality;

9) when the employee refuses to work after the introduction of changes in working conditions set forth in Article 22 of this Law;
10) when the medical commission or the commission for the establishment of disability concludes that an employee is unable to hold his or her post or work in such an occupation;
11) when, in cases provided for by law, the former employee returns to work;
12) when an employee takes an elective office or an office for which a vacancy is announced; as well as when an employee is not re-elected or appointed to that office for a new term or is removed from office in cases provided by law, or when he is transferred to another enterprise by agreement between the employers and upon his own consent;
13) when a child, one of the parents or other person raising the child, or the doctor in charge of health care of the child demands that the employment contract be terminated;
14) when the employment contract contradicts requirements of laws (Article 31);
15) upon the motivated demand of bodies and officers authorized under law;
16) when it appears that State or local authority officials have been tried for major crimes, crimes against the civil service;
17) when State or local authority officials do not declare their property and income in accordance with the procedure established by law;
18) when State or local authority officials violate the provisions of laws, which prohibit them from being employed in other enterprises, offices and organizations, being members of their managing bodies (unless the law provides otherwise), being employed in another elective or appointive post, receiving any other salary with the exception of payment for creative activities;
19) when State or local authority officials violate the provision of laws, which prohibits them from being the owner of a personal enterprise, or general or limited members of a partnership, acquiring or holding in trust more than 10% of securities of one enterprises;
20) when State or local authority officials do not comply with the provision of Law of the Republic of Lithuania on Officials, which requires that they resign;
21) when the temporary administrator (administrator) of a commercial bank exercises the right granted to him to terminate employment contracts with the employees specified in paragraph 3 of Article 40 and paragraph 4 of Article 47 of Law of the Republic of Lithuania on Commercial Banks;
22) when the administrator of the enterprise under bankruptcy exercises the right granted to him to terminate the employment contract with the employees specified in subparagraph 2 of paragraph 6 of Article 14 of the Republic of Lithuania Enterprise Bankruptcy Law;
23) upon expiry of the powers of the elective body (paragraph 3 of Article 9) or any other body, formed in a manner prescribed by the law, which has appointed an employee to the job (has confirmed his appointment) for the term of office of this body.

Article 27. The Procedure for Terminating an Employment Contract upon the Agreement of Both Parties
One party of an employment contract may submit to the other party a written proposal concerning the termination of an employment contract by bilateral agreement. If the other party agrees with the proposal, it must, within five calendar days, present a written reply to the party, which submitted the proposal concerning the termination of an employment contract. Upon agreeing to terminate an employment contract, the parties shall also agree upon the date and other terms of termination (compensations, granting unused vacation, etc.).

If the other party does not announce its agreement to terminate the employment contract within the time period specified in paragraph 1 hereof, the proposal to terminate the employment contract by bilateral agreement shall be considered to have been rejected.

Article 28. Termination of an Employment Contract upon the Application of the Employee
The employee shall have the right to terminate an employment contract of indefinite duration provided that he or she gives the employer 14 days notice. The collective agreement may provide for a shorter period of notice. At the end of the period the employee shall have the right to leave the job, and the employer shall register dismissal papers.

If termination of an employment contract of indefinite duration is requested because an employee's illness or disability is interfering with adequate work performance, or for other sound reasons provided for in the collective agreement, the employment contract must be terminated from the day specified in the employee's application.

Employees may withdraw applications concerning the termination of an employment contract within three calendar days from the presentation of the application. After this period, applications may be withdrawn only with the consent of the employer.

Employees shall have the right to terminate fixed-term employment contracts before the date of expiration provided that they give written notice to the employer and that there are reasons set forth in paragraph 2 hereof. Such a contract may also be terminated if the employer has violated the rights of the employee provided for in the employment laws and in the collective agreement or the employment contract. In the event of a controversy concerning the termination of a fixed-term employment contract before its expiration, the dispute shall be resolved, upon the application of the employee, by bodies settling labour disputes.

Article 28[1]. Termination of the Employment Contract due to Circumstances outside the Control of the Employee
The employee shall have the right to terminate an employment contract of an indefinite duration, as well as a fixed-term employment contract which has been concluded for the period exceeding 6 months when in his work-place during the employment hours set forth in the employment contract a lay-off, not due to the fault of the employee, continues for more than 30 days in succession or totals up to more than 60 days during past 12 months, also when he does not receive his normal workpay (monthly wage) for more than 2 months in succession.
The employee shall be entitled to terminate an employment contract when the bankruptcy procedure is being initiated at an enterprise in the manner prescribed by the Law on Enterprise Bankruptcy.
The employment contract must be terminated from the day indicated in the employee's application, but not earlier than 7 calendar days from filing the appeal.

Article 29. Termination of an Employment Contract on the Initiative of the Employer
An employment contract may be terminated on the initiative of the employer for the following reasons:
1) liquidation of an enterprise, restriction or termination of economic activity of an enterprise under bankruptcy;
2) reduction of the number of employees due to changes in production or production organization;
3) inability of the employee to adequately perform the assigned work for due to deterioration in health or lack of required qualifications;
4) absence from work due to temporary disability for more than 120 consecutive calendar days, or during the last year of work, for more than 140 calendar days, unless the law has a provision which reserves the place of employment (office) for an employee in the event of a certain illness. The place of employment (office) shall be reserved for an employee who has lost capacity to work due to an industrial accident or occupational disease until the employee regains his or her capacity to work or the disability is certified;

5) if an employee fails to return to work within two months of release from the national defence service;
6) if an employee neglects assigned work or is guilty of other violations of labour discipline, provided that he or she has been penalized for disciplinary reasons at least once during the 12 months prior to the violation;
7) if the employee commits misappropriation of property (theft) at the working place, or any other deliberate unlawful action thereby incurring damage to the employer;
8) if a court sentence convicting the employee for a deliberate offence comes into effect;
9) if the employee is under the influence of alcohol, drugs or other toxic substances during working hours;
10) if the employee is absent without reason for the entire working day (shift);
11) if the employee makes public the commercial or technological secrets of the enterprise, or divulges information thereon to a rival company;
12) if employees who are empowered to give directions (instructions) which are to be carried out, grossly violate official duties, on one occasion.
13) repealed 13 March 2001
An employer may terminate an employment contract with employees whose work is related to the stock-taking, security, acquisition, delivery, or transportation of things of value, when the said employees can no longer be trusted to perform the duty assigned to them due to guilty actions at work. State and local authority officials and employees performing educational functions may be dismissed from work if their conduct, even outside the employment hours, is immoral and consequently incompatible with their position.

Employers shall be prohibited from dismissing an employee on their own initiative during the period of temporary disability (except dismissal under subparagraphs 1 and 4 hereof) or during the vacation period (except dismissal under subparagraph 1 hereof) of the employee in question. If an employment contract is terminated in violation of this provision, the first working day after the vacation period or period of temporary disability shall be considered the day of termination of the contract. The employee shall be paid wages at a double rate as well as disability benefits and holiday pay for the period during which the termination of the employment contract is postponed.

It shall be illegal for an employer to dismiss an employee on the basis of political conviction, religious views, nationality, citizenship or other factors which are not related to his or her professional qualifications.

Article 30. Termination of Employment Contracts at the Request of the Employer
The employer or a person authorized by him, with the exception of a state (municipal) enterprise, institution and organization, shall have the right to terminate an employment contract on grounds which are not provided for in Articles 26 and 29 of this Law, but on the basis of other important circumstances, by paying the dismissed employee the compensation when the length of employment of the employee in this enterprise is the following:

1) under 5 years - 4 average monthly wages;
2) 5 to 10 years - 6 average monthly wages;
3) 10 to 20 years - 8 average monthly wages;
4) over 20 years - 12 average monthly wages.

Collective or employment contracts may establish conditions, which are more favourable to employees than the conditions laid down in paragraph 1 of this Article.

It shall be prohibited to terminate an employment contract at the request of the employer because of political beliefs, religion, citizenship, nationality, race, sex, participation in political or public activities of the employee, unless other laws prohibit such activities.
The provisions of paragraph 4 of Article 29, and Articles 34 and 40 of this Law shall not be applied in the cases specified in paragraph 1 of this Article.

Article 31. Elimination of Terms of Employment Contracts Which Contradict the Law
If constituent part(s) of an employment contract contradict the prohibiting provisions of laws, and the contradicting terms cannot be eliminated, or if it is not possible to transfer an employee with his or her consent to another place of work, the employment contract shall be terminated.

If the employee does not accept the proposed job, he or she shall be paid a severance pay equalling an average monthly wage upon the termination of the employment contract. If there is not a place for the employee to be transferred, the employee shall be paid a severance pay equalling three average monthly wages.

Disputes concerning the termination of an employment contract or discrepant terms within the contract shall be resolved by court.

Employment contracts which violate laws or international agreements which regulate the employment of persons temporarily residing in the Republic of Lithuania (paragraph 3 of Article 4 of this Law) must be terminated. Sanctions provided by law shall be applied to the employer or authorized representative who is guilty of the said violation.

Article 32. Restrictions on Terminating Employment Contracts during the Reorganization of an Enterprise
Employment contracts shall not be terminated due to a change in ownership, jurisdiction, or name of an enterprise.

Upon the merger, division, or take-over of an enterprise, or upon the change of the type of an enterprise, labour relations of the employee shall continue.

Article 33. The Consent of Trade Union Bodies to Dismiss Employees
Employers may not dismiss an employee who is a member of an elective body of the trade union functioning in the enterprise, in accordance with subparagraph 2 of paragraph 1 of Article 29 of this Law and at his will without a preliminary consent of the elective body of the said trade union in the enterprise.

Trade union bodies must consider dismissal consent applications from employers within 14 calendar days of the receipt of the application.

The employer shall have the right to judicially contest the refusal of the trade union body to give consent to dismiss an employee. The court shall revoke the decision of the trade union body if the employer proves that the decision violates his interests in essence.

In cases provided by law, employees may not be dismissed on the initiative of the employer (except under subparagraph 1 of Article 29 of this Law) without the consent of other bodies.

Employees who are dismissed in violation of this Article, or who are dismissed after a lapse of more than one month from the receipt of the consent, must, upon the decision of the court, have their previous job restored.

Article 34. Requirements of Employment Contract Termination when the employee is not at Fault
When the employee is not at fault, an employer may terminate the employment contract at his or her own initiative in accordance with the procedures established by law only after giving the employee a written notice of two months. Persons who are within five years of being entitled to full pension, minors under 18 years of age, disabled persons, women and (or) men raising children (a child) under 14 years of age must be given a written notice 4 months prior to the dismissal.
A longer term of notice may be established in the employment contract or collective agreement.
The notice shall become invalid after 1 month (excluding periods of temporary disability or vacation) from the expiration of its term.

In the event that the period remaining until a fixed-term employment contract expires is shorter than the period of notice provided by this Article, the employer may not dismiss an employee at his or her own initiative if the employee is not at fault.

If an employee is dismissed before the expiration of the term of notice, his or her dismissal shall become effective prior to the date of the expiration thereof.
Terms of notice provided for in this Article shall not be applied when an employee is dismissed under Article 30 of this Law.

It shall be permissible to dismiss an employee on the employer's initiative when the employee is not at fault, on the grounds set forth in subparagraphs 9, 10, and 11 of Article 26 of this Law, and when the employee refuses to be transferred to another locality when only the unit of the enterprise wherein he or she is employed is being transferred (subparagraph 8 of Article 26), or when the employee is not re-elected for a new term to the previous office held by him, or is removed from office, when he is not at fault (subparagraph 12 of Article 26), if transference to another job is impossible with the employee's consent.

Article 35. Restrictions for Terminating Employment Contracts of Pregnant Women or Women who Have Children under 3 Years of Age
Employers shall be prohibited from terminating, at their own initiative and own will, employment contracts of pregnant women.

Employers shall be prohibited from terminating, at their own will, employment contracts of women who have children under 3 years of age or of fathers and other persons who are the sole supporters of children under 3 years of age. Employers shall also be prohibited from terminating employment contracts of said persons at their own initiative if the employee is not at fault.

Guarantees provided by paragraphs 1 and 2 hereof shall not be applied in cases when an employment contract is terminated under subparagraph 1 of Article 29 of this Law.

Article 36. Restrictions on Termination of Employment Contracts with Persons Liable to Established Employment Quotas, and with Employees Summoned for Mandatory Military Service, as well as Servicemen Volunteers
Except in cases specified in subparagraph 1 of Article 29 of this Law, employers may not, at their own initiative, terminate the employment contracts with disabled persons; employees who are liable to established employment quotas, or for whom additional working places are provided under the

established quotas; employees who are not at fault, and whose total number does not exceed the quotas established by the local government; as well as with employees summoned for mandatory military service, and servicemen volunteers during the time of their training or upon having summoned them for military service.

Article 37. Preference to Retain Employment during Employee Reduction
In the event that the number of employees is being reduced, preference to retain employment shall reside with the following employees:
1) who have sustained work-related injuries or have contracted an occupational disease at that workplace;
2) who are single parents, supporting children (foster-children) under 16 years of age or other family members, recognised as the disabled of group I and group II;
3) whose continuous length of service at that enterprise, institution or organisation amounts to no less than 10 years;
4) for whom less than 3 years remain till their old age pension; and
5) to whom this right is granted by the collective agreement.

The preference to retain employment, provided for in subparagraphs 2, 3 and 4 of this Article shall be applied only to those employees whose qualification and labour productivity are not lower than the qualification and labour productivity of the employees with the same speciality who work in that enterprise, institution or organization.

Article 38. The Employee's Right to be Informed of the Reasons for Dismissal
Employees shall have the right to file written applications within 10 days of being dismissed to demand that the employer impart the reasons for their dismissal.
Within 5 days of receipt of such an application, the employer must notify the applicant in writing of the precise reasons for dismissal, and must specify the findings whereon the dismissal was based.
If the employer fails to satisfy this requirement, and the employee appeals against his or her dismissal in court, the employer shall be subject by court to pay the employee the equivalent of the salary of 20 working days, even if the employee's job is not restored.

Article 39. Employment Contract Termination Statements
In the event that an employment contract is terminated, the wording in the documents must comply with the conditions and laws of the termination contract.

Article 40. Severance Pay
Upon the ending of an employment contract on the grounds set forth in subparagraphs 8, 9, 10, 11 and 23 of Article 26 of this Law, and on the termination of an employment contract at the initiative of the employer and. through no fault of the employee, or on the application of the employee and on reasonable grounds (paragraphs 2 and 4 of Article 28 of this Law), the employee shall be paid a severance pay equivalent to his average monthly workpay. Upon dismissing under subparagraph 7 of Article 26, and the provision of subparagraph 12 of Article 26 providing for the dismissal of the employee when he is not re-elected or re-appointed to the post for a new term of office or when he is dismissed from of his post before the expiration of his term of office in the cases laid down in laws and not due to the fault of the employee, as well as under Article 28^{1} and subparagraphs 1 and 2 of Article 29, the employee shall be paid the severance pay in the amount of his two average monthly workpays.
The amount of severance pay specified in paragraph 1 hereof shall be increased: one and a half times for employees who have worked at the enterprise for more than 5 consecutive years; two times for employees who have worked at the enterprise for more than 10 consecutive years; three times for employees who have worked at the enterprise for more than 20 consecutive years. Said increases in the

amount of severance pay shall not prolong the term on the expiration of which the person is liable to receive unemployment benefit (paragraph 2 of Article 16 of the Republic of Lithuania Law on Employment of the Population).
When terminating the employment according to Article 28^1 of this Law, a severance pay may be paid by equal instalments within three months from the date of termination of the employment contract.

Article 41. The Obligation of the Employer to Pay the Dismissed Employee the Total Amount of the Money Due
On the day of dismissal, the employer must pay the dismissed employee any moneys to which he is entitled, except the payment of severance pay when the employment contract is terminated in the cases specified in Article 28^1 of this Law. This severance pay shall be paid in the manner set forth in paragraph 3 of Article 40 of this Law.

When the employer fails to pay the due amount on time through his or her own fault, the employee shall, in addition to payments referred to in paragraph 1 of this Article, be paid an average wage for delay in payment, but not exceeding the period of 3 months following the day of dismissal. The payment of an average wage for the period of delay shall be terminated from the day of coming into force of the court decision to institute enterprise bankruptcy proceedings or from the day of adoption of the decision of the creditors' meeting to commence extraordinary bankruptcy process.

Article 42. Reinstatement of an Employee to Work
If the employee disagrees with his or her dismissal, removal from work, or transfer to another job, he or she shall have the right to appeal to court within one month of receiving the document confirming the dismissal, removal from work, or transfer to another job. If the employee is dismissed, removed from work, or transferred to another job without legal grounds, or in violation of the procedures established by law, he or she shall be reinstated in his last employment by court.

Upon reinstating in his last employment the employee who was unlawfully dismissed, transferred to another work, or removed from work, the court shall subject the employer to the liability of payment of the employee's wages for the entire period of enforced absence from work, or of the unpaid amounts of his last average wage for the period he had to work for lower remuneration.

When an unlawfully dismissed employee declares, that upon his reinstatement in his last employment unfavourable conditions would be created for him, the court, declaring the dismissal unlawful, may, at the employee's request, refrain from reinstating him in his last employment, and adjudge to him compensation in the amount of up to 12 average monthly wages. In this case, the employee shall be considered to have been dismissed from work under Article 28 of this Law.

VYTAUTAS LANDSBERGIS
President, Supreme Council Republic of Lithuania

Vilnius
28 November 1991
No. I-2048

Appendix to Law of the Republic of Lithuania No.I-1285, enacted 17 April 1996

EMPLOYMENT CONTRACT No._____

_____ _____ 199___

Enterprise, institution, organization (further - enterprise)_____

(Name)

(Address)

Employer or the person authorized by him (further - employer)_____

(Position; for the

authorized person - indicate the position as well; name and surname)

Applicant_____

(Name, surname)

(Passport data - date of birth, personal number, in the absence of the passport - data according to alternative ID)

(Place of residence)

have concluded this employment contract:

1._____(further - employee)

(Name and surname of the applicant)

is employed

1.1. _____

(State the division)

1.2._____

(Specify precisely job, position title and qualification grade; if admitted

as an apprentice, indicate this)

1.3. under the employment contract of an indefinite duration, fixed-term employment contract (cross out the unnecessary word)_____

(for a fixed-term employment contract, indicate duration according to Article 10 of the Law on Employment Contract)

2. Established trial period_____
   (Specify duration)
3. Established short-time working _____
   (Indicate what is being shortened - working week,

workday, and length of short time)

4. Employer assumes an obligation to pay the employee the workpay_____
   (Indicate the sum,

hourly wage rate, monthly wage, bonuses, etc.; how many times per month, on which days)

5. Other obligations of the employer which are not binding under legal statutes, but which are not in contradiction with them and which are not regulated by the collective agreement or collective bargaining_____
   (Additional guarantees, compensations, etc.)

6. Obligations of the employee which are not regulated by the collective agreement, collective bargaining and which are not binding under legal statutes, but which are not in contradiction with them_____
7. This employment contract comes into force_____
   (Date)
8. Employment begins_____
   (Date)

9. Disputes relating to this employment contract shall be settled according to the procedure for settling labour disputes.
10. This employment contract may be terminated on the grounds established by law.
11. Employment contract is executed in two copies - one copy shall be kept at the enterprise, the other shall be furnished to the employee.

Signatures of the employment contract parties:

Employer		Employee	
(Name and surname)	(Signature)	(Name and surname)	(Signature)

locus sigilli

Employment contract has been changed_____

(Indicate which initial employment contract conditions have been changed, when)

Signatures of parties:

Employer		Employee	
(Name and surname)	(Signature)	(Name and surname)	(Signature)

locus sigilli

Employment contract has been terminated_____

(Indicate the date and ground for)

Signatures of parties:

Employer		Employee	
(Name and surname)	(Signature)	(Name and surname)	(Signature)

locus sigilli

Note. This modal form of the employment contract shall establish general terms and conditions of the employment contract. Employment contracts of enterprises of specific purposes (nuclear energy, sea, river, air, railway transport, etc.) may comprise different terms and conditions established by the parties, which are in conformity with legal acts.

Theses mandatory terms and conditions of the employment contract - a workplace of an employee (an enterprise, its subdivision, etc.), work functions (profession, qualifications, speciality, job, duties), workpay conditions - may be changed only by agreement between the parties. The changing of other terms and conditions of this employment contract may not contradict laws, other legal acts regulating the conclusion, changing and termination of the employment contract. When an employee is, by his own consent, assigned to another job in an enterprise, institution, organization which is not agreed on in the employment contract, another employment contract shall be concluded in compliance with the requirements of the form of the said employment contract.

3. The extent to which joint ventures or other investments by firms of other foreign countries are permitted in the Republic of Lithuania

1. REGULATORY FRAMEWORK

The goal of attracting foreign investment was set by the Republic of Lithuania shortly after it regained its independence. The first law on foreign investment was adopted on 29 December 1990. In mid-1995 the Seimas (Parliament) enacted an updated version, the 13 June 1995 Law No. I-938 "On Foreign Capital Investment in the Republic of Lithuania". The latter was replaced by the Law No. VIII-1312 of the Republic of Lithuania "On Investment" (hereinafter referred to as "Law on Investment") on 7 July 1999.

Foreign investment in Lithuania is regulated and protected by numerous bilateral Agreements on the Promotion and Protection of Investments. There are 33 such agreements in Lithuania. Those bilateral Agreements on the Promotion and Protection of Investments were signed with the United States of America, EU member states, Central and Eastern European countries, some Asian states. Such agreements have priority over the provisions of the laws of the Republic of Lithuania and usually provide for more favorable treatment of reciprocal investments.

The Agreement on the Use of Local Currency and the Agreement on Legal Protection for Guaranteed Foreign Investment between the Multilateral Investment Guarantee Agency and Lithuania are also in force.

Investment in Lithuania is widely supported by State institutions and various non-governmental organizations. The most significant governmental organization promoting investment in Lithuania is the Ministry of Economy and the Lithuanian Development Agency (LDA). They supply general information on the business climate or may assist foreign investors in gathering specific information. The LDA also provides a variety of investor services and helps to protect and promote the interests of foreign investors collectively through direct contact with the Government.

Enterprises with foreign capital are registered at the Ministry of Economy. From time to time, foreign investors are also invited to have direct consultations with the Government of the Republic of Lithuania.

2. PRINCIPLES OF FOREIGN INVESTMENT

The 7 July 1999 Law on Investment contains the fundamental principles defining the treatment of foreign investments in Lithuania. The law also applies to domestic investors.

- Principle of Equal Protection - the Law on Investment expressly mentions that rights and lawful interests of Lithuanian and foreign investors shall be protected by the laws of the Republic of Lithuania.
- Principle of Equal Treatment - the Law on Investment establishes the principle of equal treatment, which provides that foreign investors, during the investment period, enjoy the same rights and obligations in commercial activities as Lithuanian domestic investors, including the State and municipalities.
- Principle of Free Access to All Sectors of Economy - generally, foreign investors have free access to all sectors of the economy, however, some exceptions are provided for by the Law on Investment and other laws. According to Article 8 of the Law on Investment, investment of capital of foreign origin is prohibited in the following spheres:
  - sectors relating to the security and defence of the State (with some exceptions);
  - the organization of lotteries.

According to Article 8 of the Law on Investment, a license is required for some activities. The 8 May 1990 Law "On Enterprises" (hereinafter referred to as "the Law on Enterprises") lists areas in which commercial activity may be undertaken only with prior permission or license. These commercial activities have to be related to the increased danger to human life, health, environment, the manufacturing or acquisition of munitions, also commercial activities which are related to such goods or services for which a special procedure of sale or providing may be established by the laws.

It should be noted that the 16 March 2000 Law "On Amendment of Article 13 of the Law on Enterprises" eliminated the provision of Article 13 which established certain types of commercial activity that were permitted exclusively to State or municipal enterprises.

It may be also worth noticing the 29 August 2000 Law "On Provision of Information to the Public" which states that foreign citizens are allowed to own mass media outlets.

3. FORMS OF INVESTMENT

The Law on Investment provides for the following forms of foreign investment in the Republic of Lithuania:

- establishment of an enterprise or acquisition of a part or whole of the authorized (ownership) capital in an operating enterprise registered in the Republic of Lithuania;
- acquisition of securities of any type;
- creation, acquisition and increase of the value of long-term assets;
- lending of monetary funds or other assets to economic entities in which the investor owns a stake, allowing the control or considerable influence upon such economic entity;
- performance of concession or leasing agreements.

Under the Law on Investment, investments are considered to be monetary funds and other tangible, intangible and financial assets, appraised under the procedures prescribed in the laws and other legal acts, which are invested for the purposes of generating profit (income), social results (educational, cultural, scientific, health, social security and in other similar spheres) or to ensure the implementation of state functions.

4. INVESTMENT PROTECTION AND GUARANTEES

The Law on Investment emphasizes protection of investments, rights and lawful interests of the investors.

The Law on Investment expressly mentions that State institutions or officers have no right to prohibit or restrict possessing, use and disposal of the investment by the investor. Any damage suffered by the investor due to unlawful practices of the State or municipal institutions or officials shall be compensated under the procedure established in the laws.

Expropriation of the investment may take place only for the public interest, and only in cases and under procedures as provided by the laws of the Republic of Lithuania, provided the investor is adequately compensated. The investor must be compensated at the market value of the assets deprived that existed immediately prior to expropriation or notice of expropriation, whichever is earlier. The value of the expropriated assets and amount of compensation shall be established according to the Law "On Principles of Appraisal of Assets and Business" and other legal acts. The compensation shall be paid within three months after the day of expropriation in the currency requested by the foreign investor. Compensation must include interest from the moment of publication of the notice of

expropriation until the payment of compensation (the interest rate is established at the LIBOR rate of a relevant currency). Compensation may be transferred abroad without any restrictions.

- Investors have the right, after having paid taxes, to transfer abroad their profit (income) without restrictions.
- Disputes concerning the rights and lawful interests of a foreign investor may be settled according to the agreement between the parties by the courts of Lithuania, international arbitration or by application to other institutions. In case of investment disputes, foreign investors also have the right to apply to the International Centre for settlement of investment disputes since Lithuania is a member of the 18 March 1965 Washington Convention "On the Settlement of Investment Disputes between States and Nationals of other States".

5. ACTIVITIES OF ENTERPRISES

Rights of Enterprises Related to Real Property

Enterprises with foreign capital are entitled to own, lease or use real property according to the laws of the Republic of Lithuania. Generally, there are no material limitations on the ownership or use of buildings, however, special buildings with cultural or historical value may have particular requirements or regulations concerning their use or renovation.

According to the Law "On Land Lease", enterprises are allowed to lease land plots owned by the State for a period of up to 99 years. Privately-owned land may be leased under the terms mutually agreed by the parties.

In contrast, significant limitations are placed on the ownership of land. Following the amendments of the Constitution of the Republic of Lithuania, municipalities, foreign citizens and foreign entities engaged in commercial activity in Lithuania and complying with certain criteria determined by the law are allowed to purchase non-agricultural land plots.

In conjunction with the adoption of the amendment to the Constitution, the 20 June 1996 Constitutional Law of the Republic of Lithuania defining application procedures and other conditions and limitations was also adopted and took effect as of 2 February 1998.

Under the provisions of this Constitutional Law:

- foreign citizens performing registered commercial activities in Lithuania;
- entities owned or controlled by foreign enterprises or foreign citizens;
- foreign legal entities having established, for business purposes, affiliates or subdivisions without the status of a legal person in Lithuania; and
- Lithuanian enterprises with the rights of legal persons are entitled to acquire land plots necessary to use existing buildings and manufacturing facilities or for the construction and operation of such buildings and manufacturing facilities, provided the following conditions are met:
    - foreign citizenship is maintained or a foreign enterprise is registered in a member state of the EU, or in a state that is a party to a European Agreement with the EU and the member states thereof, or in a state which at the moment of the adoption of the Constitutional Law is a member of the Organization for Economic Co-operation and Development (OECD) or a member of the North Atlantic Treaty Organization (NATO);
    - a foreign state provides equal rights to Lithuanian subject, i.e. the rights are applied on a reciprocity basis;
    - a foreign enterprise has had its main business location in the State of registration for at least the last five years; and
    - Government of the Republic of Lithuania gives permission for the acquisition.

The 9 March 1999 Resolution of the Government of the Republic of Lithuania "On Sale and Lease of Land Owned by the State for Non-agricultural Purposes (Activities)" provides the procedure for sale or lease of state-owned land plots to be used for non-agricultural purposes (activities).

According to this resolution, land to be used for non-agricultural purposes can be acquired or leased by three types of entities:

- citizens of the Republic of Lithuania;
- national and foreign entities referred to in the Constitutional Law, provided they have obtained permission for the acquisition of land for non-agricultural purposes; and
- foreign countries - to establish diplomatic missions and consular offices.

National and foreign entities are entitled to acquire state-owned land plots only in proximity to buildings or new construction they already own.
Entities or citizens involved in commercial activities in Lithuania may lease land plots when these entities or the land plots at issue do not meet the terms of the discussed Constitutional Law, or if these entities do not wish to acquire the land into ownership.

Payment for the purchase of state-owned land for non-agricultural purposes may be made in installments. Payment by installment, however, is only allowed for Lithuanian and foreign citizens. Legal entities, either national or foreign, must purchase the land plot with a single payment made at the moment of purchase.

6. CONCESSION

The right to use specific state-owned or municipal property (such as the continental shelf, the economic zone in the Baltic Sea; the underground or its resources, internal waters, roads; buildings, structures, installations, transport not to be privatized within the term of the concession, etc.) can be granted under a concession contract for the performance of certain business activities for three types of enterprises:

- an enterprise established and functioning in accordance with the laws of the Republic of Lithuania;
- a subsidiary of a foreign enterprise, established and registered in the manner prescribed by the laws of the Republic of Lithuania; and
- an enterprise, amalgamation, association or other organization with or without the rights of a legal person, set up and functioning in accordance with the laws of a foreign state and domiciled therein.

An open competition must be held for the granting of a concession. The concession contract is concluded with the successful bidder. Income received pursuant to a concession contract belongs to the concessionaire.

7. INCENTIVES

There are currently no laws establishing special incentives for foreign investments, although significant tax incentives apply to foreign investments that were made in 1993-1997. The Law on Investment discusses possible incentives for investments, such as compensation of the portion of interest payments for loans taken for financing of the investment, issuance of state (municipal) guarantees, insurance of loans at the expense of the state, etc.

- For investments into municipal infrastructure, manufacturing and services, the municipality is also entitled to enter into investment agreements that meet the criteria established by the

Council of the Municipality. Special investment, business and land plot selection conditions may be established in accordance with the competence of the municipality.

8. FREE ECONOMIC ZONES

Together with direct investment, Lithuania is continuing to enhance its appeal to foreign investors through the development of a network of Free Economic Zones (hereinafter referred to as "FEZs"). The 28 June of 1995 Law "On Establishment of Free Economic Zones" regulates the establishment and activities of FEZs. Lithuanian and foreign enterprises, corporations and associations are eligible to participate in FEZs. FEZs offer considerable benefits only for the companies registered and operating within its boundaries.

9. FOREIGN DIRECT INVESTMENT

Over the past few years, Lithuania has become a leading location for foreign investors and a competitive center for product sourcing in the region. The main reasons are a high-skilled, low cost alternative to production in the West, along with a stable and strong production springboard to the huge markets to the East. In addition, impressive economic growth, a stable currency and a great business environment all combine to make Lithuania the premier investment location in the region.

Lithuania has the largest and most diversified economy of the Baltic States. During the last 50 years, intensive industrialization gave birth to enterprises specializing in electronics, chemicals, machine tools, metal processing, wood products, construction materials and food processing. The light industry sector includes the production of textiles, ready-to wear clothing, furniture and household appliances. After 1990, all these sectors, along with the banking system, have attracted substantial investment, both "brown-field" and "green-field". Large-scale privatization of many of the larger formerly state-owned enterprises and the infrastructures create continued investment and modernization.

Foreign direct investment (FDI) as of 1st January 2002 made up LTL 10661.9 million (€ 3022.8 million), i. e. over 2001 grew up by 14.2 per cent (as of 1st January 2001 it was LTL 9337.3 million). The per capita FDI in Lithuania was LTL 3062 (€ 868).

The main countries investors were as follows: Denmark (LTL 1982.9 million or 18.6 per cent), Sweden (LTL 1720.6 million or 16.1 per cent), Estonia (LTL 1071.5 million or 10.0 per cent), Germany (LTL 984.5 million or 9.2 per cent) and the USA (LTL 882.6 million or 8.3 per cent). Over 2001 Estonia's FDI increased by 80 per cent and Germany's rose by 43 per cent.

The bulk of investment fell per manufacturing industry (25.6 per cent), trade (20.4 per cent), financial intermediation enterprises (19.9 per cent) and communication services (14.7 per cent) of total FDI. Over the year 2001 the biggest share of investment fell per financial intermediation enterprises.
Source: Lithuanian Department of Statistics 2002
* LDA info (Including full cost of Telecom acquisition)

10. INVESTMENT PROTECTION AGREEMENTS

Bilateral agreements on investor protection are already in place with Argentina, Australia, Austria, Byelorussia, Belgium and Luxembourg economic union, the Czech Republic, Spain, Italy, Denmark, Greece, Germany, Estonia, Israel, Kazakhstan, China, South Korea, Latvia, Poland, the Netherlands, Norway, France, Portugal, Romania, Russian Federation, Finland, Slovenia, Sweden, Switzerland, Turkey, the UK, the USA, the Ukraine, Venezuela and Vietnam. It is useful to mention, that bilateral Agreements on the Promotion and Protection of Investments signed with Portugal, Russian Federation and Vietnam did not come into force yet.

The Agreement on the Use of Local Currency and the Agreement on Legal Protection for Guaranteed Foreign Investment between the Multilateral Investment Guarantee Agency (MIGA) and Lithuania are in force.

11. FURTHER REFERENCES

This information was provided by the Lithuanian Development Agency, which is responsible for promotion of foreign direct investment in Lithuania.

Law on Investment (enclosed, ANNEX V).

ANNEX V.

Official translation

LAW ON INVESTMENT

7 July 1999 No. VIII-1312
Vilnius

CHAPTER ONE
GENERAL PROVISIONS

Article 1. Purpose of the Law

1. The Law sets forth the terms and conditions of investment in the Republic of Lithuania, the rights of the investors and investment protection measures for all types of investments.
2. The specific features of investment into commercial banks, other credit institutions, insurance companies and other undertakings engaged in financial activities shall be established by the laws of the Republic of Lithuania which regulate the activities of the above undertakings and institutions.

Article 2. Definitions

As used in this Law,

1. "**Investment**" means funds and tangible, intangible and financial assets assessed in the manner prescribed by laws and other legal acts, invested in order to obtain from the object of investment profit (income), social result (in education, culture, science, health and social security as well as other similar spheres) or to ensure the implementation of state functions.
2. "**Reinvestment**" means investment of the profit (income) in the economic entity in which the profit (income) was obtained.
3. "**Investment**" means the act of investing performed by the investor in the manner prescribed by this Law whereby he acquires the right of ownership or the creditor's right of claim over the object of investment, or the right to manage and use the object.
4. "**Investors**" means legal and natural persons of the Republic of Lithuania and foreign states, who invest, according to the procedure set forth in the laws of the Republic of Lithuania, own or borrowed assets or assets held and used on trust.
5. "**Strategic investor**" means investor with whom the Government of the Republic of Lithuania or the competent authority concludes an investment contract in the manner laid down in this Law.
6. "**Object of investment"** means own capital of the economic entity, all types of securities, fixed tangible assets and fixed intangible assets.
7. "**Economic entities**" means undertakings, agencies and organisations of all types and forms of ownership established in accordance with the procedure laid down in the laws of the Republic of Lithuania.
8. "**State priorities**" means the basic needs of economic development, social and defense needs of the state, established by the Seimas or the Government of the Republic of Lithuania.
9. "**State Investment Programme**" means the document defining the investment strategy of the state, which provides for funds required in order to implement the state-supported investment projects, also the sources of financing and the time limits for the implementation of the above investment projects.
10. "**Investment project**" means a document corroborating the feasibility of the project from the financial (economic), technical and social point of view, assessing the return on the investment (commercial investment) and other indicators of efficiency, indicating funds required for project implementation as well as sources and time limits of financing.

11. "**Municipality investor**" means an investor with whom the municipality concludes an investment contract in accordance with the procedure established by this Law.

Article 3. Types of Investment

1. Types of investment according to the investor's influence on the economic entity:
   1) direct investment - investment aimed at establishing an economic entity and acquiring the capital of a registered economic entity or a share in the capital, also reinvestment, loans to economic entities the capital whereof is owned by the investor or in which he has a share in the capital, subordinated loans where the objective of an investment is to establish or maintain long-term direct links between the investor and the economic entity in which the investment is made, and the share in the capital acquired through investment accords the investor a possibility either to control the economic entity or to exert a considerable influence upon it;
   2) indirect (portfolio) investment - where a share in the capital acquired through investment does not accord the investor any possibility to exert any considerable influence on the economic entity.
2. Types of investment according to the investor's registered office (domicile):
   1) domestic investment - investment in the Republic of Lithuania made by the State of Lithuania, natural and legal persons of the Republic of Lithuania;
   2) foreign investment - investment in the Republic of Lithuania by foreign states, international organisations, foreign natural and legal persons.
3. Types of investment according to the status of the investor:
   1) state investment - investment made by using the national budget resources, state (municipal) fund resources, loans obtained in the name of the State of Lithuania (municipalities), resources of state-owned (municipal) enterprises and other state-owned (municipal) assets as well as loan guarantees extended by the state (municipalities), in order to meet the needs of the state ;
   2) private investment - investment by the holders of the right of private property of the Republic of Lithuania and foreign states;
   3) investment by foreign states and international organisations.
4. Types of investment according to the object of investment:
   1) capital investment - investment in the production, acquisition or increase of value of fixed tangible and intangible assets;
   2) financial investment - all investment other than that specified in subparagraph 1 hereof.

Article 4. Methods of Investment

Investors may invest in the Republic of Lithuania according to the procedure established by law by employing the following methods:

1) by setting up an economic entity, acquiring the capital of an economic entity registered in the Republic of Lithuania or a share therein;
2) by acquiring securities of all types;
3) by creating, acquiring fixed assets or increasing the value thereof;
4) by lending funds or other assets to economic entities, in which the investor owns a share in the capital, enabling them to control the economic entity or to exert a considerable influence thereon;
5) by executing concession contracts and contracts of lease with option to purchase.

CHAPTER TWO
RIGHTS OF INVESTORS AND PROTECTION OF INVESTMENT

Article 5. Rights of Investors

1. Domestic and foreign investors shall be guaranteed under this and other laws equal conditions for operation. The rights and lawful interests of investors shall be protected under the laws of the Republic of Lithuania.
2. The investor shall have the right to manage, use and dispose of the object of investment in the Republic of Lithuania, in compliance with the laws and other legal acts of the Republic of Lithuania.
3. The investor shall have the right, upon paying the taxes in the manner prescribed by the laws of the Republic of Lithuania, to convert into foreign currency and/or transfer abroad without any restrictions the profits (income) held by him by ownership right.
4. Foreign investor may make a monetary contribution into the economic entity's capital under formation both in foreign currency and in the national currency of Lithuania.

Article 6. Guarantees of Investors' Rights

1. State and local authorities and officers shall have no right to interfere with the management and use as well as disposal of by the investors of the object of investment according to the procedure prescribed by the laws of the Republic of Lithuania. Damage inflicted upon the investor by unlawful acts of state or local authorities and their officers shall be compensated according to the procedure established by the laws of the Republic of Lithuania.
2. Disputes relating to infringement of the rights and lawful interests of the investor/investors shall be settled according to the procedure established by the laws of the Republic of Lithuania. Disputes between the foreign investor/investors and the Republic of Lithuania relating to infringement of their rights and lawful interests (investment disputes) shall be considered, upon agreement between the parties, by the courts of the Republic of Lithuania, international arbitration bodies or other institutions.
3. Investment disputes shall also be settled with due regard being taken of the international treaty provisions. In the case of investment disputes the foreign investor/investors shall have the right to apply directly to the International Centre for Settlement of Investment Disputes.

Article 7. Protection of Investment in the Event of Expropriation

1. Expropriation of the object of investment shall be allowed only in the cases specified and according to the procedure set forth in the laws of the Republic of Lithuania and only for public needs, paying the investor/investors just compensation in the manner prescribed by the Government.
2. The amount of compensation for the object of investment taken shall be determined in accordance with the procedure established by the Law of the Republic of Lithuania on the Principles of Property and Business Assessment and other legal acts and must correspond to the market value of the said object prior to the expropriation or prior to public declaration thereof, whichever happens earlier (hereinafter - the day of assessment). Compensation must be paid in the national currency of Lithuania within 3 months of the day of expropriation of the object of investment. Included in the sum of compensation shall be the sum of interest amounting to the arithmetical weighted average of the annual interest rate of the last calendar quarter auctions of Government securities with maturities of up to one year, within the period from the moment of expropriation of the object of investment to the day of payment of the compensation (hereinafter - period of delay).
3. Upon the request of a foreign investor, compensation shall be paid in any currency for which London Inter Bank Offered Rate (LIBOR) is quoted. The sum of compensation shall be converted according to the official exchange rate of the litas against the foreign currency announced by the Bank of Lithuania on the day of assessment. The sum of compensation shall include the sum of interest amounting to the London Inter Bank Offered Rate (LIBOR) quoted

for the appropriate currency on the day of receipt of compensation, calculated for the period the duration whereof is the closest to the period of delay. Compensation may be transferred abroad without any restrictions.

CHAPTER THREE
SPECIFIC FEATURES OF INVESTMENT

Article 8. Areas of Investment

1. Investment in the Republic of Lithuania shall be permitted in all lawful commercial-economic activities, subject to the restrictions established by this Law and other legal acts of the Republic of Lithuania.
2. Foreign investment shall be prohibited in the following commercial-economic activities:
   1) guaranteeing state security and defense (except for investment by the foreign entities meeting the criteria of European and Transatlantic integration which Lithuania has opted for, provided this is approved of by the State Defense Council);
   2) production and sale of narcotic and psychotropic substances, non-medicinal highly effective or poisonous substances as well as cultivation, processing and sale of cultures containing narcotic, highly effective and poisonous substances;
   3) organisation of lotteries.

3. When investing in the economic entity under formation, the activities whereof are subject to licensing under the Law of the Republic of Lithuania on Enterprises and other laws regulating the specific sphere of activities, the economic entity must acquire a license for its activities in accordance with the procedure prescribed by laws and other legal acts.

Article 9. Investment in Free Economic Zones

The specific features of investment in free economic zones shall be regulated by the Law of the Republic of Lithuania on the Fundamentals of Free Economic Zones as well as laws on the setting up of individual free economic zones.

Article 10. Investment by Acquiring Immovable Property

1. Investors shall have the right to acquire title to all types of immovable property in the Republic of Lithuania.
2. The procedure and terms and conditions of investment by acquiring title to land by legal persons of the Republic of Lithuania and foreign legal and natural persons shall be established by the Constitutional Law on the Subjects, Procedure, Terms and Conditions and Restrictions of the Acquisition into Ownership of Land Plots Provided for in Article 47, Paragraph 2 of the Constitution of the Republic of Lithuania.
3. The investors may take a lease on the state-owned land plots according to the procedure set forth in the Law of the Republic of Lithuania on the Lease of Land.
4. Foreign states shall have the right to acquire title to land according to the procedure and under the terms and conditions established by the Law of the Republic of Lithuania on the Acquisition and Lease of Land Plots by Foreign State Diplomatic Missions and Consular Institutions.

Article 11. Investment in the Exploitation of Natural Resources

Investment into objects related to the exploitation of natural resources owned by the state by exclusive ownership right shall be permitted under the Law of the Republic of Lithuania on the Underground and other laws.

CHAPTER FOUR
STATE INVESTMENT POLICY

Article 12. State Investment Policy

1. The state shall provide favourable conditions for private investment and ensure efficient use of state funds earmarked for investment in order to promote economic and social development of the state.
2. The state, employing the methods specified in Article 13, shall support investment intended for state priorities, improvement of the ecological situation, upgrading of technology of prospective industries, development of small and medium -sized business and satisfaction of the basic social needs of the public.
3. Taking into account the parameters prescribed by the Government of the Republic of Lithuania or the competent authority, the state may allocate funds and give loans and loan guarantees for investment into the restructuring of sectors of the economy, reduction of economic and social differences between separate regions of the country, creation of new jobs and mitigation of natural disaster effects.

Article 13. Promotion of Investment

1. Tax privileges granted to investors shall be determined by appropriate tax laws.
2. A certain portion of interest on loans taken for the purpose of investment financing may be paid with the resources of target-oriented state (municipal) funds. The procedure and terms and conditions of payment of interest shall be determined by the regulations of the funds.
3. Lithuanian and foreign creditors who have granted loans for funding the carrying out of investment projects may be given state (municipality) guarantees in accordance with the procedure established by the laws of the Republic of Lithuania.
4. Loans intended for the carrying out of investment projects may be insured with public funds in accordance with the procedure established by the Government of the Republic of Lithuania.
5. The Government or the competent authority shall have the right to conclude investment contracts with strategic investors, establishing special investment and business conditions, provided that the investment amounts to not less than LTL 200m and meets the criteria established by the Government of the Republic of Lithuania. The terms and conditions of taxation of business shall be established in such contracts according to the procedure laid down by the Law of the Republic of Lithuania on Tax Administration.
6. The municipality shall have the right to conclude investment contracts for investment into the infrastructure, production or service sectors of the municipality, provided that the contracts meet the criteria prescribed by the municipal council. Special terms and conditions of investment, business or choice of land plot shall be established in such contracts according to the competence of the municipality.

Article 14. Regulation of State Investment

1. The state investment policy shall be shaped in the Programme of the Government of the Republic of Lithuania, state-supported programmes, State Investment and State Borrowing programmes, with due regard being given to the forecasts of the development of the economy and economic-social development of the Republic of Lithuania.
2. The State Investment Programme drawn up for an at least 3-year period shall be approved by the Government of the Republic of Lithuania. The State Investment Programme shall be submitted to the Seimas of the Republic of Lithuania together with the draft law on the approval of financial indicators of the state budget and municipal budgets of the appropriate year.

3. The Government of the Republic of Lithuania shall establish the procedure for the planning, revision, use, accounting and control of state funds earmarked for state investment.

Article 15. International Agreements

1. Foreign investment in the Republic of Lithuania and overseas investment by the investors of the Republic of Lithuania shall also be regulated by bilateral and multilateral agreements of the Republic of Lithuania on investment promotion and protection as well as other international agreements.
2. If the international agreement ratified by the Seimas of the Republic of Lithuania establishes other terms and conditions of foreign investment in the Republic of Lithuania than those prescribed by this Law, the provisions of the international agreement shall apply.

CHAPTER FIVE
FINAL PROVISIONS

Article 16. Recognition of the Law Regulating Foreign Capital Investment as Invalid

The Law of the Republic of Lithuania on Foreign Capital Investment in the Republic of Lithuania shall be recognised as invalid.

I hereby proclaim this Law enacted by the Seimas of the Republic of Lithuania

PRESIDENT OF THE REPUBLIC VALDAS ADAMKUS

4. Government ownership or control of the means of production

The share of private sector in Lithuania is still increasing. The private sector contribution to GDP accounts for 72 % of the Lithuanian economy. The share of employees in private sector was 69 % in 2000. Restitution of land is close to completion, and the land market started to function. All banking sector is in private hands. The last remaining state Agricultural bank was sold in February 2002.
The market liberalization and privatization are ongoing processes. The state-owned and municipal property privatization is implemented by the State Property Fund, those principal tasks are to represent the State interests in holding and disposing of state-owned property, to privatize state-owned property and administrate privatization transactions.

Privatisation in Lithuania: Results and Plans

Privatization results (1st phase)
The process of privatization was launched in Lithuania in September 1991 and since then it has constituted an integral part of Lithuania's economic reforms. The first phase of privatization may be called a mass privatization for vouchers with some elements of cash sales. A fairly high level of privatization was achieved in separate industries; 97% in construction, 97% in the service sector. During the first stage of privatization 5,714 objects, or 86% of state-owned property offered for privatization were privatized. The first stage of privatization ended in middle of 1995.

Privatization Procedure (2nd phase)
The second phase of privatization started when the Seimas (Parliament) adopted the 'Law on the Privatization of State-Owned and Municipal Property' in July 1995. This new stage differs from the previous one in quality and has the following specific features:
State-owned and municipal property is sold to natural and legal persons for cash under market conditions after the evaluation of objects has been carried out;
Both local and foreign individual and corporate investors have equal rights in the privatization of state-owned and municipal property.
A key policy change occurred in November 1997 when the new *Law on Privatization* and the *Law on the State Property Fund* (SPF), which regulates the establishment, management and activities of the SPF, was passed.
The new Law on the Privatization of State-owned and Municipal Property provides for the following methods of privatization:

public subscription for shares (small packages of shares sold at Stock Exchanges); public auction (small packages of shares, real estate, small companies); public tender (controlling packages of shares);
direct negotiations (controlling packages of shares with special requirements for buyers);
lease with the option to purchase (real estate);
also a combination of methods may be used.

Seeking to attract potential buyers and provide them with an opportunity to acquire a controlling stake in the companies, in which the state holds less than ½ of the shares, the State Property Fund promotes the signing of agreements with other shareholder of the Company to sell the state-owned shares in the Company together with the shares held by other shareholders. The acquisition of the controlling stake allows the potential buyer to implement his/her ideas and to improve the activities of the Company.
Essentially, the creation of favourable legal and other conditions has changed the attitude of foreign and local investors towards the process of privatization. The change in their attitude and the formation of a more auspicious legal climate is best evidenced by current and completed negotiations with foreign investors regarding the large-scale infrastructure enterprises and other important privatization contracts.

The officials of the SPF represent the state's interests in the companies with state shareholding. They prepare them for privatization, seek potential buyers, draft all necessary documentation for the purchase-sale transactions and negotiate with investors.
The SPF also acts as a supervisory body: it is responsible for supervising the implementation of transactions and for co-ordination of contracts. The SPF represents the interests of the Republic of Lithuania in earlier privatization contracts where investors have assumed certain obligations. The SPF supervises the fulfillment of these obligations and can make certain amendments to the contracts.
The priorities of privatization are not only to maximize revenues from the privatized objects, but also to attract potential investors and their contribution to Lithuania. For this reason, in 1997 the Government offered for sale some state-owned strategic enterprises in the transport, energy and communications sectors. Companies such as *Lithuanian Telecom*, *Lithuanian Fuel*, *Lithuanian Airlines*, *Lithuanian Shipping Company* and *Klaipeda Transport Fleet* were included on this list.
Privatization results (2nd phase)
The following table sets out the privatizations carried out in 1998-2002 (31st March, 2002).

	Number of entities sold	*Revenues raised (LtL)*
1998	344	2,330 million*
1999	695	471.6 million
2000	932	916.1 million
2001	833	467.2 million
2002(1st quarter)	249	116.0 million

- The major part of this amount was received through the sale of 60 per cent of the shares of the joint-stock company Lietuvos Telekomas.

At the beginning of 2002 the last state owned bank AB "Lietuvos žemes ukio bankas" (Lithuanian Agricultural Bank) was sold. 76.01 per cent of this state-owned bank for LtL 71 million has acquired foreign investor - Norddeutsche Landesbank Girozentrale (NORD/LB). The aforementioned privatization deal finalized privatization of financial sector in Lithuania.
At the moment 3,240 entities remain on the privatization list. The book value of the state and municipal property amounts to 2.3 billion LtL. The state-owned and municipal holdings in these entities vary, case by case from a few percent to 100 per cent. The state and municipalities have a controlling stake (i.e. where the state share is more than 50 per cent) in approximately 200 companies whose book value is 1.86 billion LtL. Besides, more than 2,300 real estate entities (the nominal value of state and municipal property is 195 million LtL) are included into the privatization list.
Under the main privatization transactions concluded in the period 1998 - 2002, the SPF has committed buyers to investing about 2.2 billion LtL over a three to five year period and to preserving or creating about 30,000 jobs.

Privatization of large-scale state companies and prospect revenue through privatization
The following table shows the large enterprises scheduled for privatization 2002 under the management of the SPF.

Enterprise	**Statutory capital (LTL million)**	**Percentage of state ownership (%)**	**Percentage of state ownership for privatization (%)**	**No of employees**	**Sector of activity**
JSC "Lietuvos juru laivininkyste" (Lithuanian	201	73.24	73.24	712	shipping

Shipping Company)					
JSC “Klaipedos transporto laivynas” (Klaipeda Transport Fleet)	131	80.89	80.89	628	shipping
JSC “Lietuvos avialinijos” (Lithuanian Airlines)	96	100	49	1139	air transportation

The largest privatization deal in 2002 is privatization of AB “Lietuvos dujos” (Lithuanian Gas). The process of privatization started in November 2001 when the privatization programme was announced. Under this programme strategic investor will acquire 34% of the company‘s shares. Ruhrgas AG and E.ON Energie AG was announced as the winner of the tender and the share purchase agreement was signed. The strategic investor undertook to pay LtL 116 million for the shares and committed to invest LtL 70 million in the company. In the third quarter of 2002, the State Property Fund is planning to announce the tender for the gas supplier to acquire another 34 % of the state-owned shares in AB “Lietuvos dujos”. Outstanding state-owned shares of the company foreseen to sell through the National Stock Exchange.

The SPF also intends to sell at least 49% of AB “Lietuvos avialinijos” (Lithuanian Airlines) to the strategic investor. The State Property Fund approved the report on the fulfillment of Task 1 prepared by privatization adviser – consortium led by Indecon Consulting GmbH (Germany). At the moment, the privatization adviser has to prepare legal and financial due diligence.

The last two shipping companies AB “Klaipedos trasporto laivynas” (Klaipeda Transport Fleet) and AB “Lietuvos juru laivininkyste” (Lithuanian Shipping Company) (tramp fleet operator) are to be put up for sale in the second half of 2002, by way of a public tender (the Government of Lithuania currently holds 80.89 % of JSC Klaipeda Transport Fleet and 73.24% of Lithuanian Shipping Company). The tender for procurement of advisory services was announced in April 2002. The proposals will be analysed in June 2002.

At the beginning of 2002 vertically integrated Lithuanian energy monopolist AB “Lietuvos energija” (Lithuanian Energy) was split into five independent companies. It is anticipated to privatise part of these enterprises.

Four successors - Eastern distributing network, Western distributing network, AB “Lietuvos elektrine” (Lithuanian power company), AB “Mažeikiu elektrine” (Mažeikiai power company) will be transferred to SPF soon. The transfer of these shares to the SPF will be followed by the development of the privatization programmes for the aforesaid companies. The former mother company, AB “Lietuvos energija”, will continue it’s activity as a power transmission company, controlling high-voltage transmission lines.

FURTHER REFERENCES

Law on the Privatization of State-Owned and Municipal property (enclosed, ANNEX VI)

ANNEX VI

Republic of Lithuania
Law on the Privatisation of State-Owned and Municipal Property

4 NOVEMBER 1997 NO. VIII-480
VILNIUS

CHAPTER ONE
GENERAL PROVISIONS

Article 1. Definitions
In this Law:
1. Privatisation means transfer of state-owned and municipal property (shares and other property) to the ownership of potential buyers under privatisation transactions concluded in accordance with the procedure established by this Law, also transfer of state or municipality control in state or municipality controlled enterprises by floating a new issue of shares financed with additional contributions.
2. Privatisation object means shares and other property which is owned by the state or a municipality by the right of public ownership and which is put on the list of privatisation objects by the Government of the Republic of Lithuania.
3. Potential buyer means Lithuanian or foreign natural or legal persons which acquire a privatisation object under this Law. Lithuanian state-owned or municipal enterprises, public and private companies, banks and insurance companies in which over ½ of voting shares are owned by the state or municipality by the right of ownership, also Lithuanian or foreign institutions financed from state or municipal budgets may not be potential buyers.
4. Privatisation transaction means an arrangement entered into pursuant to this Law, under which the holder of a state-owned or municipal privatisation object obligates himself to transfer the privatisation object into the ownership of the potential buyer, whereas the potential buyer commits himself to pay the amount of money agreed upon and/or fulfil other obligations established under the arrangement.
5. Initial privatisation means transfer of state-owned or municipal property under the Law on Initial Privatisation of State Property (hereinafter referred to as the Law on Initial Privatisation).
6. Enterprise controlled by the state (municipality) means an enterprise in which over ½ of voting shares are owned by the state or a municipality.
7. Holder of a privatisation object means the State Property Fund or any other state institution, enterprise or organisation of the Republic of Lithuania or a municipality which holds in trust, uses and disposes of the privatisation object (shares or any other property owned by the state or a municipality).
8. Shareholding means the total quantity of shares owned by the state or a municipality which is being privatised indivisibly.
9. Strategic investor means a potential buyer (a legal person or a group of legal persons) approved by the Government decree which acquires a shareholding owned by the state or a municipality and fulfils the obligations stipulated in the agreement.

Article 2. Purpose of the Law
1. The purpose of the Law is to establish privatisation of the state-owned and municipal property for cash.
2. Privatisation objects may be transferred by the right of private ownership only in compliance with this Law and in the case provided by paragraph 3 hereof in compliance with the Law of the Republic of Lithuania on Securities Market. Shares and other property owned by the state or

municipalities may be transferred into the ownership of other persons only under this Law, unless other laws provide otherwise.

3. After the official mandatory proposal has been submitted, privatisation institutions may sell blocks of shares owned by the state or municipalities by the right of ownership, which grant less than ¼ votes in the general meeting of shareholders, in the manner prescribed by the Law of the Republic of Lithuania on Securities Market.

CHAPTER TWO
PRIVATISATION INSTITUTIONS

Article 3. Privatisation Institutions

1. Privatisation institutions shall be as follows:

1) the State Property Fund (hereinafter referred to as the Property Fund)

2) property funds of municipalities, or other departments of municipality administration (hereinafter referred to as municipality property funds). Municipal councils shall have the right to refrain from setting up said municipal property privatisation institution and to authorise the mayor to conclude an agreement with the Property Fund concerning privatisation of objects owned by the municipality.

2. The Government decrees on privatisation issues adopted on the basis of this Law and other laws of the Republic of Lithuania shall be binding on state and privatisation institutions.

3. The decisions of privatisation institutions on privatisation matters adopted according to their respective competence pursuant to this Law and other laws shall be binding on the enterprises controlled by the state (municipalities).

Article 4. The Competence of the Property Fund in the Sphere of Privatisation

1. The Property Fund, fulfilling the functions assigned to it under this Law and the Law on the Property Fund in the sphere of privatisation shall act as the holder of the privatisation object privatisation of a specific object (group of objects);

2. The Property Fund shall:

1) draft the list of privatisation objects and submit it to the Government for approval;

2) establish the method of privatisation and terms and conditions of privatisation of a specific object (group of objects);

3) select a natural or legal person as well as enterprises, which do not have the rights of a legal person, in the manner established by the Law of the Republic of Lithuania on Public Procurement for the performance of privatisation tasks (including valuation of privatisation objects) and contract them for the fulfilment of the tasks;

4) form a commission for assessing the value of the privatisation object (shareholding in a company) and for fixing the initial selling price, which shall valuate the privatisation object;

5) restructure the enterprise controlled by the state, where such restructuring will enhance its privatisation possibility or increase the selling price of the privatisation object (shares in the enterprise);

6) in the cases provided by Article 12 of this Law, authorise the transactions entered into by the enterprise controlled by the state or refuse such authorisation;

7) seek investors for the privatisation object (also publish the Information Bulletin of Privatisation where information on the privatisation object prescribed by Article 11 of this Law must be announced and prepare prospectuses, as well as arranging the advertising of the privatisation object);

8) sign privatisation transactions on behalf of the state;

9) supervise the progress of privatisation transactions until the fulfilment of all terms and conditions of the transaction;

10) transfer to the persons who acquire privatisation objects documents confirming ownership of the property (share certificates or other documents confirming ownership as prescribed under the Company Law and under the Law on Securities Market);
11) sign agreements with municipalities for the privatisation of shares and other property owned by them;
12) compile data relating to privatisation works;
13) represent the Government in court proceedings relating to privatisation agreements signed by the Fund;
14) represent the Government in court proceedings relating to privatisation transactions entered into under the Law on Initial Privatisation and also transactions entered into prior to the coming into force of this Law;, privatising the property owned by the state. Under separate arrangements with municipalities the Property Fund may also act as a representative of an individual municipality, privatising the property owned by the municipality;
15) institute court proceedings in their own name or on behalf of the Government upon its instruction for the invalidation of transactions entered into in violation of this Law and other laws, and for the compensation for damage.

Article 5. Privatisation Commission

1. The Privatisation Commission is a government institution set up for the purpose of privatisation supervision and operating in accordance with this Law and the statutes approved by the Government
2. The Privatisation Commission shall be accountable to the Seimas.
3. The Privatisation Commission shall consist of 13 members. The Commission chairman and 6 of its members shall be appointed and removed from office by the Seimas on the proposal of the Government. The other 6 Commission members shall be appointed and removed from office by the Seimas on the proposal of parties of the Seimas members.
4. The Privatisation Commission shall have the right to:
1) approve or disapprove draft programmes of object privatisation;
2) approve or disapprove projects of object privatisation transactions, except for stock exchange transactions;
3) approve or disapprove the draft list of strategic investors;
4) suspend the implementation of privatisation programme in the cases provided by this Law and/or consider the programme completed.
5) approve or disapprove the sale of blocks of shares owned by the state or municipality by the right of ownership transferred under the contract to the state enterprise State Property Fund for privatisation, which grant less than ¼ of votes in the general meeting of shareholders, after the official mandatory proposal to purchase the block of shares has been submitted in the manner prescribed by the Law of the Republic of Lithuania on Securities Market.
5. The Privatisation Commission shall have the right to obligate the Property Fund to perform an additional examination of the documents submitted for its consideration. The Privatisation Commission shall have the right to delegate its representative or representatives to perform the examination of the documents.
6. If the Privatisation Commission decides to decline the draft programme or project as specified in paragraph 4 hereof, the Property Fund shall have the right to submit the draft decision for consideration to the Government, which shall take the final decision. The Privatisation Commission shall regularly report to the Seimas on the work accomplished by it.
7. The decisions of the Privatisation Commission shall be taken by simple majority vote of all the Commission members. A member of the Privatisation Commission shall have no right to vote on the issue under consideration if he or his family members (parents and children, brothers and sisters, the spouse) have a personal interest in the results of the decision.

8. The Government decrees passed in the cases provided by this Law, also the decisions of the Privatisation Commission shall be published in the "*Valstybes Žinios*" (Official Gazette).

Article 6. Municipal Property Privatisation Commissions

1. Municipal property privatisation commissions shall be set up on the decision of municipal councils.
2. The number of municipal property privatisation commission members and their personal composition shall be determined by the municipal council. At the municipality level the municipal property privatisation commissions shall perform the functions of the Privatisation Commission. In the event that the municipal council refrains from setting up the municipal property privatisation commission, the Privatisation Commission shall perform its functions.
3. The statutes of the municipal property privatisation commission shall be approved by the municipal council.
4. The municipal property fund or, where it is not set up, another municipal administration department which holds, uses and disposes of the property owned by the municipality shall fulfil at the municipality level the functions prescribed under this Law for the Property Fund.
5. Notice of the privatisation of property owned by the municipality must be published in the Information Bulletin of Privatisation.

Article 7. Privatisation Funds

1. Privatisation funds shall consist of:

1) income from privatisation transactions and from the sale of shareholdings owned by the state (municipality) by the right of ownership in compliance with the Law of the Republic of Lithuania on Securities Market, when an official mandatory proposal has been submitted;
2) interest on deferred contributions and default on payment (penalties and default interest for failure to fulfil the terms specified in the privatisation transaction);
3) other income (aid from international organisations, income from additionally provided services, use of data base, other income).
4) other receipts.

2. If the privatisation object is owned by the state, the privatisation funds specified in subparagraphs 1 and 2 of paragraph 1 hereof shall be transferred into the Privatisation Fund account opened for the Ministry of Finance (except for the method of privatisation specified in Article 18 of this Law), and if the object is owned by the municipality - into a special account of the municipality.
3. Privatisation funds in the Privatisation Fund account opened for the Ministry of Finance shall be used for:

1) the restoration of savings of the population and covering of the costs connected therewith, as well as for the setting up of the reserve (stabilisation) fund under the resolution of the Government (not less than 2/3 of funds obtained from privatisation). The funds for the restoration of savings of the population and covering the costs connected therewith pursuant to the resolution of the Government may be used temporarily, in 1999-2001, for the fulfillment of the state property obligations, which occur when implementing the Law of the Republic of Lithuania on the Public Debt;
2) the setting up of the small and medium-sized business promotion fund and for the implementation of national programmes approved by the Government (up to 1/3 of funds received from privatisation);
3) deductions into a special fund to be used for the satisfaction of employment-related claims of employees of enterprises under bankruptcy and enterprises adjudicated bankrupt;
4) covering the expenses related to the fulfilment of functions of the Privatisation Commission and the Property Fund established under this Law;
5) remuneration of experts for their services.
6) preparation of objects for privatisation in the manner prescribed by the Government.

4. The share of privatisation funds subject for transfer to the Property Fund shall be established in percentage from the income, received in money, transferred into the Privatisation Fund account as specified in subparagraphs 1 and 2 of paragraph 1 hereof. The percentage shall be every six months approved by the Government on the proposal of the Ministry of Finance. The funds for the fulfilment of the functions of the Privatisation Commission shall be allocated every six months by the Government according to the estimate submitted by the Ministry of Finance. The Government shall inform the Seimas on a regular basis on the application of privatisation funds.
5. The privatisation funds received from the privatisation of property owned by the municipality shall be transferred into the special account of the municipality upon deducing from the amount sums due to the Property Fund under the agency agreement signed by the Property Fund and the authorised representative of the municipality. The procedure of application of funds due to the municipality shall be established by the municipal council.

CHAPTER THREE
PREPARATION OF OBJECTS FOR PRIVATISATION

Article 8. Information about the Objects of Privatisation
1. Every privatisation object holder must present to the Property Fund and/or potential buyers documents and other information about the privatisation object in the manner prescribed by the Government. Confidential information must be furnished to the potential buyers only upon prior receipt of their written pledge to store the information. The requirements for storing confidential information may be laid down in the privatisation transaction.
2. Confidential information is information accorded the status of confidentiality by the decision of the enterprise. Information which is public under the laws of the Republic of Lithuania may not be confidential.
3. The holder of the privatisation object, also the chief of the enterprise administration and the chief financier (accountant) shall be held liable, according to their competence, for the distortion, falsification and/or delayed presentation of data prescribed by this Law.

Article 9. Valuation of the Privatisation Object
1. The value of the privatisation object shall be assessed by the Property Fund or the commission formed by the Fund from persons possessing qualification certificates of property valuators or from paid property valuators selected by the Property Fund by way of tender.
2. The value of the privatisation object may be assessed by applying one of the following methods or a combination thereof:
1) comparable price (analogous selling price) method, based on comparison, i.e. the market value is determined by comparing the contract prices of analogous objects upon taking into account minor differences between the object which is under valuation and analogous objects;
2) replacement value (costs) method, based on the calculation of the cost of replacement of the objects in their current physical condition and with their current maintenance and utility properties according to the technologies and at the prices used at the time of valuation;
3) the yield method (income capitalisation or discounted cash flows method) where the asset is valued as a profit-yielding business rather than the sum total of separate assets. The method is based on future cash flows forecasts and the current cash value. Where less than 1/3 of the shares in the enterprise are offered for sale, a simplified variant of the method may be applied in the manner prescribed by the Government;
4) special value method, applied for the valuation of unique objects of art and history, works of jewellery and antiques, also various collections (valued according to special valuation techniques, applicable to the above objects);

5) other methods recognised as applicable in the European Union and approved by the Government .

3. Where the state or municipality holds less than 1/3 of shares in a public company, the application of valuation methods listed in paragraph 2 hereof shall not be mandatory for the valuation of shares offered for sale or sold at public auction if the shares are quoted on the National Stock Exchange.

4. When assessing by international valuation methods approved by the Government the value of buildings, structures and facilities owned by the state or municipality, the value of the plot of land allotted in the established manner under the buildings, structures and facilities must also be assessed.

5. The procedure for applying privatisation object valuation methods specified in this Law shall be established by the Government.

6. Damages incurred by the privatisation object holder by reason of inaccurate property valuation shall be compensated by property valuators in the manner laid down in the contract of valuation.

Article 10. List of Privatisation Objects and the Privatisation Programme

1. The list of privatisation objects is a document approved by the Government in the prescribed manner, which specifies:

1) the name of the companies, type of primary activity, authorised capital, par value of shares owned by the state (municipality), profitability of the enterprise and the number of employees in case of privatisation of shares of public and private companies;

2) the name of privatisation object, short description of the object, balance-sheet residual value - in the event of privatisation of other property.

2. The list of privatisation objects shall be approved by the Government on the proposal of the Property Fund. The list must include shares in all state- and municipality-owned enterprises, except for the shares in public and private companies privatisation whereof is restricted by law. On the proposal of municipalities the Property Fund shall also include in the privatisation list municipality-owned privatisation objects which the municipalities decide to privatise. Under this Law property which is in the exclusive ownership of the Republic of Lithuania, municipal housing (except for derelict dwelling houses whose residents have been moved and provided other housing accommodations on perpetual lease, also if said derelict houses have been removed from the housing inventory documents), and property to which natural persons and religious communities claim to restore their rights of ownership in the manner prescribed by the laws of the Republic of Lithuania may not be included in the list of privatisation objects.

3. The decision to include municipality-owned shares or other municipal property in the list of privatisation objects shall be taken by the municipal council. The decision to include in the list of privatisation objects state-owned shares and other state-owned property held in trust and used by the municipality shall be taken by the Property Fund.

4. The object privatisation programme is a document which specifies:

1) the name of the object and privatisation method;

2) privatisation time limit;

3) short description of the privatisation object (authorised capital or value, par value of shares owned by the state or municipality, profitability of the authorised capital, volume of production or annual turnover, the number of employees, type of primary activity, geographical location, information on the market share of production (services) of the enterprise controlled by the state or municipality and the rights of third persons to the enterprise);

4) conditions of privatisation.

5. The Government shall have the right to prescribe requirements other than those laid down in paragraph 4 hereof for the drawing up of the object privatisation programmes (including the right to lay down binding terms and conditions of object privatisation programmes and methods of

privatisation), also the right to approve or disapprove draft programmes of privatisation of the key objects of Lithuanian economy and projects of privatisation transactions.

6. Prior to the approval of the potential buyer and his adjudication as the successful bidder, the Government shall have the right to suspend or terminate the implementation of the object privatisation programme without any ensuing consequences for the Republic of Lithuania. In performing the above actions the Government must identify the reason for suspending or terminating the object privatisation programme.

7. Enterprises controlled by the state (municipality) must within the time period prescribed by the Property Fund compile the data necessary for the draft programme of the object privatisation:

1) the user of the state-owned land plot allotted in the established manner under the enterprises, buildings and facilities controlled by the state (municipality) must transfer to the enterprise controlled by the state (municipality) the land plot lease or loan for use agreement and, where such agreements were not concluded, other documents of land plot allotment for use prescribed by the Government. The enterprise controlled by the state or municipality whose shares are included in the list of privatisation objects must apply to the land plot user with a written request that he should draw up the documents specified in this subparagraph;

2) state institutions (State Tax Inspectorate, the Board of State Social Insurance Fund, etc.) which supervise the fulfilment of obligations to the state and/or municipality by the enterprises controlled by the state (municipality) must submit to the enterprise controlled by the state or municipality, in the manner laid down by the Government, data on the enterprise's arrears in payments due to the state (municipality) (including fines and default interest). The enterprise controlled by the state or municipality, the shares whereof are included in the list of privatisation objects, must apply to the appropriate state institutions with a written request to draw up the documents specified in this subparagraph.

8. The executive body of the municipality must within the time period prescribed by the Government submit the Property Fund with data of the list of privatisation objects and programmes of object privatisation for announcement in the Information Bulletin of Privatisation.

9. The Government and the Property Fund shall have no right to revise the list of privatisation objects owned by a municipality or data of the object privatisation programme where the data is in conformity with the requirements of this Law.

10. Privatisation programmes of objects which are protected by the state in the manner prescribed by the laws of the Republic of Lithuania may be approved only upon agreeing the terms of their use with the institution which carries out state supervision of such objects.

11. After the Government approves the list of privatisation objects, every potential buyer shall have the right to make an offer to buy long-term tangible assets and (or) shareholding in the enterprise whereof less than 1/3 of shares are owned by the state by the right of ownership. The procedure for the submission of such an offer as well as its terms and conditions shall established by the Government. If the potential buyer enters the offer according to the requirements laid down by the Government, the object privatisation programme must be drawn up within the time period prescribed by the Government.

12. A privatisation object may be struck off the list of privatisation objects approved by the Government, and the implementation of its privatisation programme may be suspended and/or declared completed if bankruptcy proceedings are instituted against the enterprise in the manner laid down in the Law on the Enterprise Bankruptcy, or the enterprise is put into liquidation according to the procedure prescribed by the Company Law, or the privatisation object has not survived a natural calamity or similar disaster, or its physical properties have changed by over 1/3, also if the object privatisation programme has already been announced at least once in the manner established by this Law but the object has not been sold within the time period set in the object privatisation programme.

13. In compliance with the Civil Code of the Republic of Lithuania the potential buyer acquiring the privatisation object shall cover, in the manner prescribed by the Government, the lessee costs

incurred due to the improvement of the privatisation object (construction) during the lease period. When assessing the value of such a privatisation object in the manner laid down in the Law on the Grounds of Property and Business Valuation the increase in the percentage of the value due to the improvement costs of this object (construction) should be assessed. Funds received form the privatisation transaction shall be transferred to the Privatisation Fund's account opened for the Ministry of Finance (if the privatisation object is owned by the municipality by the right of ownership – to the special account of the municipality) upon reducing them respectively due to the increase in the value of the privatisation object. The remaining part of the privatisation funds shall be transferred to the lessee, except for the part that has been included into the lease fee. This share of funds shall be transferred to the account of the privatisation object holder.

Article 11. Publishing the Information on Privatisation Objects

1. The following information on the privatisation object must be publicly announced in the Information Bulletin of Privatisation:

1) the object privatisation programme;

2) the name, official position, address, telephone and fax number of the Property Fund employee responsible for the implementation of the object privatisation programme;

3) the time of visit to the enterprise controlled by the state (municipality) the shares whereof are offered for sale;

4) the procedure of privatisation documents acquisition and payment for them;

5) the place of sale of the privatisation object.

2. The Privatisation Fund may also announce other (additional) information in the Bulletin and in other mass media.

3. The information on the privatisation object specified in paragraph 1 hereof must be announced in the Information Bulletin of Privatisation at least 30 days prior to the commencement of acceptance of tenders or other privatisation documents for participation in privatisation and if the information on the privatisation object is announced repeatedly – not less than 10 days before. When shares are traded on the National Stock Exchange information on the privatisation object shall be announced in the Information Bulletin of Privatisation and in the bulletin of the Exchange in accordance with the regulations laid down by the Exchange. Where there is a feasibility of selling the privatisation object to a foreign natural or legal person, the information on the privatisation object prescribed by the Property Fund must also be published in the foreign press.

Article 12. Restrictions on the Activities of the Enterprise Controlled by the State (Municipality)

1. From the day of publishing of the object (enterprise shares) privatisation programme until the day of conclusion of privatisation transactions or until the day of suspension of the object privatisation programmes and/or acknowledgement of their completion, enterprises controlled by the state (municipality) shall have no right to conclude the following contracts without the written consent of the Property Fund:

1) loan agreements, contracts of pledge, warranty, guarantee, lease, contracts of purchase, sale and any transfer of long-term tangible property, also to purchase securities of any other enterprise, issue debentures, increase or reduce the enterprise's authorised capital, where the value of the contract or several contracts (the total value per calendar year of the property which is the object of the contract) exceeds 5 per cent of the enterprise's authorised capital;

2) contracts for the purchase and sale or any transfer of materials and raw materials where the value of the contract or several contracts (the total value per calendar year of the property which is the object of the contract) exceeds 10 per cent of the enterprise's authorised capital.

2. From the day of approval of the list of privatisation objects until the day of conclusion of privatisation transactions or until the day the object privatisation programme is suspended and/or adjudged completed, the enterprises controlled by the state (municipality) the shares wherein are

offered for privatisation shall have no right to either break down into separate units or merge into amalgamations without the written consent of the Property Fund (municipality property funds).

3. The contracts specified in paragraphs 1 and/or 2 hereof concluded without the consent of the Property Fund shall be invalid except for the contracts concluded by third persons who did no know and could not know of the restrictions applied to the enterprise under this Article. Where such contracts are concluded with the consent of the Property Fund (municipality property funds), the Property Fund (municipality property funds) must forthwith notify the potential buyers thereof by:

1) publishing the changed information in the Information Bulletin of Privatisation;

2) and/or providing the information to every potential buyer who applies with a written request for information about the shares in the state-controlled (municipality-controlled) enterprise offered for privatisation.

4. From the day of announcement of the object privatisation programmes until the day of conclusion of privatisation transaction or until the day the object privatisation programme is suspended and/or adjudged completed, the person who represents state-owned or municipal shares in the enterprise in which the state or the municipality holds less than ½ of voting shares must vote against at the enterprise shareholders' meeting if matters specified in paragraphs 1 and 2 hereof are under consideration and provided that the Property Fund does not order the person representing state-owned or municipal shares to vote otherwise.

CHAPTER FOUR
METHODS OF PRIVATISATION AND ACQUISITION OF THE PRIVATISATION OBJECT

Article 13. Methods of Privatisation

1. Privatisation methods shall be as follows:

1) public subscription for shares;

2) public auction;

3) public tender;

4) direct negotiations;

5) transfer of the state or municipal control at an enterprise controlled by the state or municipality;

6) lease with an option to purchase.

2. The holder of the privatisation object shall have the right to change the method of privatisation or to apply a combination of methods established by this Law. The change of privatisation method must be approved by the Privatisation Commission, and the new information about the privatisation object must be announced in the manner prescribed by this Law.

3. The implementation procedure of privatisation methods regulated by this Law shall be established by the Government of the Republic of Lithuania.

4. For each of the privatisation objects which are being privatised by any of the methods specified by this Law, the Property Fund shall have the right, in the manner prescribed by the Law of the Republic of Lithuania on Public Procurement, to select a natural or legal person as well as enterprises not having the rights of a legal person to perform all the tasks involved in privatisation (including finding of an investor and drafting of the sale-purchase contract).

Article 14. Public Subscription for Shares

1. Public subscription for shares is a method of selling shares belonging by the right of ownership to the state or municipality, where the shares are sold in an open manner in the domestic and (or) foreign securities market, and where the selling price of shares is determined according to the supply and demand ratio.

2. Shares of public companies shall be sold on stock exchanges in conformity with the norms of the legal acts regulating the activities of these stock exchanges. In order to sell the state or municipality securities on stock exchange, the Property Fund or an appropriate municipal body shall have the right to hire a securities broker.

3. Shares of private companies shall not be sold by the method of public subscription for shares.

Article 15. Public Auction

1. A public auction is a method of selling of the privatisation object where the number of potential buyers participating in the auction is not limited and where the privatisation transaction is concluded with the highest bidder.
2. The method of a public auction may be used to sell only those privatisation objects which are put up for privatisation with the aim of getting the highest revenue, in addition to which, however, the terms specified in the privatisation programme must be fulfilled. Only shareholdings and long-term tangible assets of public or private companies may be sold at a public auction. If the terms for the privatisation of the object have been specified, they may not be changed when concluding the privatisation transaction.
3. If a shareholding in a private company whereof the shareholding granting more than ½ votes in the general meeting of shareholders is owned by the state by the right of ownership or a shareholding of a public company is offered for sale at a public auction, the information memorandum about the company in question shall be drawn up in the manner prescribed by the Property Fund.

Article 16. Public tender

1. A public tender is the transfer of one or several privatisation objects to the successful bidder, whose written offers with regard to the price and investment (money for the acquisition of the long-term and short-term tangible assets by increasing the authorised capital of a public or private company), subject to the meeting of the minimum requirements for the preservation of jobs have been found to be the best. Negotiations on how to improve the bids may be entered into with the potential buyer or potential buyers who have submitted the highest bids and whose bids do not differ from each other by more than 15 per cent.
2. The method of a public tender may be applied only to such privatisation objects the privatisation terms and other obligations whereof the potential buyer has the right to implement.
3. When privatising shares of an enterprise controlled by the state (municipality) by the method of a public tender, the employees of the enterprise may be offered to acquire at par value up to 5 per cent of the shares owned by the state. This offer shall not be applicable to the enterprises under the control of the state (municipality) to which, after selling 5 per cent of the shares, the state (municipality) would transfer its control specified in Article. 18 of this Law or in those cases where the employees of the enterprise have already acquired the shares in the enterprise pursuant to other laws of the Republic of Lithuania.
4. Information bulletins about the shareholdings in public and private companies for sale by a public tender shall be prepared in the manner prescribed by the Property Fund. Requirements of Law on Securities Market shall not be applied to those bulletins.

Article 17. Direct Negotiations

1. Direct negotiations is a transfer of one or several privatisation objects to the winner of an public tender whose written offers with regard to the price and investment (money intended for the acquisition of long-term and short-term tangible assets by increasing the authorised capital of a public or private company), subject to the implementation of the requirements for the preservation of jobs stipulated in the privatisation conditions, have been found to be the best.
2. Direct negotiations with one or several potential buyers - strategic investors the list whereof together with the object privatisation programme has been approved by the Privatisation Commission and approved by the Government, may be initiated in the manner prescribed by this Law.
3. When privatising shares in an enterprise controlled by the state (municipality) through direct negotiations, the employees of the enterprise may be offered, in the manner prescribed by the Government, to acquire for a nominal price up to 5 per cent of shares owned by the state

(municipality). This offer shall not be applied to the enterprises under the state (municipality) control to which the state (municipality) would, subsequent to the sale of 5 per cent of share, transfer its control as set forth in Article 18 of this Law, or where the employees of the enterprise have already acquired shares in the enterprise pursuant to other laws of the Republic of Lithuania.

4. Information bulletins about the shareholdings in public and private companies for sale through direct negotiations shall be prepared in the manner prescribed by the Property Fund. The requirements of the Law on Securities Market shall not be applicable to these bulletins.

Article 18. Transfer of State (Municipality) Control at the Enterprise

Controlled by the State (Municipality)

1. Transfer of control at the enterprise controlled by the state (municipality) - issue of convertible debentures or new shares from additional contributions, which results or may result in the reduction of the share of the state or municipality in the authorised capital falling below the level of 2/3, ½ or 1/3, respectively, of voting shares.

2. An enterprise controlled by the state or municipality may be privatised by the transfer of control only in the event of failure to sell the shares in the enterprise or when no less than ½ of shares owned by the state or municipality in the enterprise under the state or municipality control have been privatised by the methods prescribed by this Law and specified in the privatisation programme.

3. Receipts from the privatisation of the object by this method of privatisation shall be accumulated and accounted by the enterprise which is being privatised. Within five working days following the end of the time period for the flotation of shares or convertible debentures, the enterprise which is being privatised must transfer to the account of the Privatisation Fund opened for the Ministry of Finance the difference between the issue price of the shares or debentures and their nominal value, in proportion to the number of shares owned by the State prior to the issue. If debentures or shares are being sold at their nominal value, the privatisation costs shall be covered by the enterprise, which is being privatised.

Article 19. Lease with an Option to Purchase

1. Lease with an option to purchase is a public method of privatisation when a potential buyer, upon signing the privatisation transaction and taking over the privatisation object - the long-term tangible assets, acquires the right to hold and use the object. The potential buyer shall acquire the right of ownership to the privatisation object only after he fully pays up for the object and meets the other terms of acquisition of the privatisation object set forth in the privatisation transaction. Provisions of this Article shall not be applicable to those natural and legal persons who have taken a lease on the property controlled by the state or municipality not under this Law.

2. Lease with an option to purchase may be applicable to the privatisation of:

1) long-term tangible assets the privatisation whereof, pursuant to this Law, by public auction has failed. The valuation criterio for lease with an option to purchase is the rent discounted on the day of holding the tender for lease with an option to purchase;

2) buildings or premises owned by the state or municipality by the right of ownership upon the lessor’s consent, the private capital was invested in theses buildings and theses investments exceeded ½ of the market value of the leased buildings. The aforesaid buildings and premises must meet at least one of the conditions established by this Law.

3. After the valuation of the duration of depreciation of long-term fixed assets, the privatisation programme of the object must establish the maximum term for lease with an option to purchase - not longer than 10 years.

4. The annual rate of rent shall be set forth in the privatisation transaction; however, it may not be less than the market value of the privatisation object calculated in accordance with the procedure set forth in Article 9 of this Law. The privatisation transaction must provide that, when the payment is made in

the Litas, the unpaid rent shall be adjusted each year in accordance with the consumer price index on the market.

5. If the payment for the privatisation object acquired under lease with an option to purchase is made in a foreign currency, the unpaid rent shall be adjusted according to the exchange rate of the currency in which the potential buyer is paying and the Litas announced by the Bank of Lithuania on the day of payment.

6. The privatisation transaction must stipulate that payment for the privatisation object shall be made in one of the following ways:

1) only by paying the rent;

2) by paying the rent and upon the expiry of the term of lease, by purchasing the privatisation object at a minimum price - sum which the potential buyer can transfer through a bank in the currency of his country.

7. The privatisation transaction shall stipulate that:

1) upon the failure to pay the rent when due, 0.1 per cent of default interest shall be paid for each overdue day. If the amount of the arrears exceeds the sum which the potential buyer must pay for 6 months and/or the period for which the rent is overdue exceeds 6 months, the lease shall be terminated and the sum paid shall not be refunded;

2) the lease shall be terminated prior to the expiry of the term and the payment shall not be refunded if the terms and conditions provided for in the privatisation transaction are not met;

3) the lessee must insure the leased property;

4) the lessee shall have no right to sub-lease the leased property without a prior consent of the holder of the privatisation object.

Article 20. Payment for the Privatisation Object

1. A potential buyer who makes the payment in Lithuania shall pay for the privatisation object in the national currency of the Republic of Lithuania or by other payment documents established under the laws of the Republic of Lithuania, while a potential buyer who is registered and who makes the payment abroad shall also pay or shall pay in the foreign currency stipulated in the privatisation transaction or by other payment documents established under the laws of the Republic of Lithuania.

2. The procedure and the time limits for the payment shall be set forth in the privatisation transaction. The privatisation object (shares) may also be bought by installments; the first portion, however, should be not less than 51 per cent of the shares being sold, and the final purchase may not be postponed for more than 5 years. When the payment is deferred, the first portion of shares, or not less than 60 per cent of the purchase price when the shares are bought up promptly, shall be paid for in Litas, and if the potential buyer pays for the privatization object abroad, or in the currency stipulated in the privatisation transaction if the potential buyer is registered and pays abroad. The buyer shall pay interest on the deferred payment; interest shall be calculated according to the average interest rate of commercial banks from the whole unpaid amount for the shareholding. If the privatisation object is paid for by a resident or a group of residents of Lithuania, under the Law on the Declaration of Income of the Residents of the Republic of Lithuania for the Acquisition of Expensive Property or Declaration of Received or Transferred Income, a certificate from the State Tax Inspectorate must be submitted.

Article 21. Obligations of the Buyer in the Privatisation Transaction and Occurrence of Title to Privatization Object

1. A privatisation transaction concluded in the manner prescribed by a public tender or direct negotiations may include the obligations of a buyer (buyers) to preserve the number of jobs, to invest in the enterprise controlled by the state (municipality) the shares whereof are being sold, or into other spheres of Lithuanian economy.

2. The Property Fund may request to include in the privatisation transaction:

1) a clause restricting the rights of the buyer to dispose of the acquired shares in the enterprise controlled by the state (municipality) before the buyer meets the terms stipulated in the privatisation transaction;
2) a clause prohibiting the suspension or termination of the activities of the enterprise controlled by the state (municipality). The privatisation transaction may stipulate the buyer's obligation to lease or buy out a plot of non-agricultural land, also his other obligations.
3. If, under the privatisation transaction, the buyer becomes the holder of and begins to use the privatisation object prior to acquiring it into his ownership, privatisation transactions must stipulate the terms ensuring the possibility for the Property Fund (municipality property fund) to control the activities of the privatised object. The lease with an option to purchase must be registered in the Register of Immovable Property.
4. The privatisation transaction must provide for sanctions against the buyer in proportion to the damage caused should he default on the obligations, including termination or annulment of the privatisation transaction in the event of non-compliance with the terms, obligations and/or guarantees (a guarantor who will pay damages to the state or municipality shall be indicated) set forth in the privatisation transaction; the contract must also provide for the liability of the holder of the privatisation object for default on the assumed obligations.
5. The buyer shall acquire the right of ownership to the privatisation object – long-term tangible assets from its registration in the central data bank of the Real Estate Register, after having submitted the sale-purchase contract of the privatisation object and the document certifying the transfer and acceptance of title to the privatisation object. The buyer shall acquire the right of ownership to the privatisation object – shares when the number of shares acquired under the sale-purchase contract is included in the personal securities account opened in his/her name (in the case of selling the shares of public companies), or when the endorsement entry is made in the name of the buyer, or the Certificate of Shareholders is issued (in the case of selling the shares of private companies), after he/she has presented the document certifying the transfer and acceptance of the title to the privatisation object. It shall not be obligatory to notarize the privatszation transactions for long-term tangible assets owned by the state or municipality.
6. Unless this Law or the privatisation transaction provide otherwise, the Civil Code shall be applicable to the privatisation transaction.

Article 22. The Right to Acquire or Lease a Plot of Non-Agricultural Land

1. If a potential buyer fits the definition of the national or foreign subject set forth in the Constitutional Law on the Subjects, Procedure, Terms and Conditions, and Restrictions of the Acquisition into Ownership on Land Plots Provided for in Article 47, Paragraph 2 of the Constitution of the Republic of Lithuania the said buyer when acquiring into his ownership buildings or facilities in the manner prescribed by the Law on Privatisation of State or Municipal Property, shall have the right in the manner prescribed by the Constitutional Law to buy out the land plot necessary for the maintenance of buildings and facilities.
2. If a potential buyer acquires shares in the manner prescribed by this Law of an enterprise controlled by the state or municipality, the enterprise shall have the right to acquire the plot of non-agricultural land assigned to the said enterprise in the manner prescribed by the Constitutional Law on the Subjects, Procedure, Terms and Conditions, and Restrictions of the Acquisition into Ownership on Land Plots provided for in Article 47, Paragraph 2 of the Constitution of the Republic of Lithuania.
3. If a potential buyer is a national of the Republic of Lithuania acquiring into ownership buildings and facilities in the manner prescribed by this Law, the said buyer shall have the right to acquire, together with the building and the facility, a plot of land which is assigned for the maintenance of the said building or the facility.
4. The buyer who has acquired, in the manner prescribed by this Law, a building or a facility, shall take over the rights and obligations of the previous owners of the privatisation objects under the

lease of land necessary for the maintenance of such privatisation objects; and where a lease has not been concluded the buyer shall take over the right of leasing a plot of land necessary for the maintenance of the said privatisation objects.

CHAPTER FIVE
FINAL PROVISIONS

Article 23. Procedure for the Settlement of Disputes

Disputes shall be settled according to the procedure established by laws of the Republic of Lithuania, international treaties of the Republic of Lithuania, and the privatisation transaction.

Article 24. Coming into Force of the Law

1. This Law shall come into force as of 1 December 1997.
2. Upon coming into force of this Law, the Lithuanian State Privatisation Agency at the Government of the Republic of Lithuania (hereinafter referred to as the Privatisation Agency), established in accordance with the Law of 4 July 1995, No.I-1001 on Privatisation of State-Owned and Municipal Property, shall, pending a special decree of the Government concerning the transfer to the Property Fund of the rights and duties provided for in this Law, be financed from the National Budget and shall perform the following functions:

1) appoint its expert to the commission which assesses the value of a privatisation object, provided that the privatisation object is owned by the state;
2) in the manner prescribed by the Government, draft programmes concerning the privatisation of objects and submit them to the Privatisation Commission;
3) issue the Information Bulletin of Privatisation which must contain information, stipulated in paragraph 1 of Article 11 of this Law, about the privatisation object. The Privatisation Agency must announce the information about the municipality-owned property subject to privatisation in the Information Bulletin of Privatisation;
4) prepare advertising documents and organise the advertising of the privatisation object; and
5) represent the Government in court in cases concerning privatisation transactions which have been concluded pursuant to the Law on the Initial Privatisation, as well as those privatisation transactions which have been concluded before the coming into force of this Law.

3. Upon the transfer by the Government of the rights and duties specified in this Law to the Property Fund:

1) the Privatisation Agency shall be reorganised into a division of the Property Fund and all the functions provided for it in Article 24 of this Law shall be passed on to the Property Fund; and
2) subparagraph 14 of paragraph 2 of Article 4 of this Law shall come into force.

4. Upon the coming into force of this Law, a ministry, a municipality or any other state or local authority institution which holds and uses state or municipal shares, shall, pending a special decree of the Government concerning the transfer to the Property Fund of the rights and duties stipulated in this Law, perform, together with the Privatisation Agency, the functions of the Property Fund provided for in subparagraphs 4, 5, 6, 7, 8, 9 and 10 of paragraph 2 of Article 4 of this Law.
5. Upon the coming into force of this Law:

1) the financial resources of the National Privatisation Fund accumulated in conformity with the Law on the Initial Privatisation, as well as the loans granted from this Fund, also interest and default interest must be transferred into a privatisation fund account opened for the Ministry of Finance;
2) the financial resources, interest and default interest of the privatisation funds of municipalities accumulated in conformity with the Law on the Initial Privatisation must be transferred into a special account of a municipality; and
3) the programmes of the privatisation of objects announced prior to the coming into force of this Law shall be implemented in accordance with the Law of the Republic of Lithuania on Privatisation of State-Owned and Municipal Property, No.I-1001 (Ž*in.*, 1995, No.61-1530).

6. The following shall be declared invalid as of 1 December 1997:

1) the Law of the Republic of Lithuania of 28 February 1991, No.I-1115 on the Initial Privatisation of State-Owned Property (*Žin.*, 1991, No.10-261);

2) the Law of the Republic of Lithuania of 25 July 1991, No.I-1614 on the Supplement to Article 12 of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1991, No.22-575);

3) the Law of the Republic of Lithuania of 30 July 1991, No.I-1635 on the Amendment of Article 11 of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1991, No.23-604);

4) the Law of the Republic of Lithuania of 14 March 1991, No.I-1146 on the Amendment of Certain Articles of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1991, No.10-262);

5) the Law of the Republic of Lithuania of 17 March 1992, No.I-2385 on the Supplement to Paragraph 4 of Article 7 of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1992, No.10-247);

6) Article 1 of the Law of the Republic of Lithuania of 23 June 1992, No.I-2658 concerning the Amendment of Certain Articles of Certain Laws of the Republic of Lithuania (*Žin.*, 1992, No.20-590);

7) the Law of the Republic of Lithuania of 17 September 1992, No.I-2893 on the Supplement and Amendment of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1992, No.28-812);

8) the Law of the Republic of Lithuania of 10 December 1992, No.I-18 on the Postponement of the Privatisation of State-Owned Property by Auctions and Public Subscription for Shares (*Žin.*, 1992, No.36-1098);

9) the Law of the Republic of Lithuania of 18 December 1992, No.I-2117 on the Amendment of Certain Articles of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property *(Žin.*, 1992, No.3-32);

10) the Law of the Republic of Lithuania of 19 January 1993, No.I-52 on the Privatisation of State-Owned Property by Auctions and Public Subscription for Shares (*Žin.*, 1993, No.4-80);

11) the Law of the Republic of Lithuania of 2 February 1993, No.I-64 on the Amendment and Supplement to the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1993, No.6-116);

12) the Law of the Republic of Lithuania of 14 July 1993, No.I-217 on the Amendment of Article 20 of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1993, No.30-686);

13) the Law of the Republic of Lithuania of 17 November 1993, No.I-307 on the Supplement and Amendment of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1993, No.63-1190);

14) the Law of the Republic of Lithuania of 20 July 1994, No.I-570 on the Amendment of Article 2 of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1994, No.58-1137);

15) the Law of the Republic of Lithuania of 20 July 1994, No.I-569 on the Amendment and Supplement to the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1994, No.59-1159);

16) the Law of the Republic of Lithuania of 20 October 1994, No.I-610 on the Amendment of Article 11 of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1994, No.84-1585);

17) the Law of the Republic of Lithuania of 5 July 1994, No.I-1027 on the Supplement to the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1995, No.59-1483);

18) the Law of the Republic of Lithuania of 20 April 1995, No.I-861 on the Supplement to the Law of the Republic of Lithuania on the Initial Privatisation of State-owned Property (*Žin.*, 1995, No.35-861);
19) the Law of the Republic of Lithuania of 18 May 1995, No.I-897 on the Supplement to Article 12 of the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property *(Žin.*, 1995, No.44-1080);
20) the Law of the Republic of Lithuania of 1 June 1995, No.I-914 on the Supplement to the Law of the Republic of Lithuania on the Initial Privatisation of State-Owned Property (*Žin.*, 1995, No.48-1164);
21) the Law of the Republic of Lithuania of 3 July 1995, No.I-990 on State Investments into Bank Shares (*Žin.*, 1995, No.59-1466);
22) the Law of the Republic of Lithuania of 4 July 1995, No.I-1001 on the Privatisation of State-Owned and Municipal Property (*Žin.*, 1995, No.61-1530), with the exception of privatisation of the objects the privatisation programmes whereof were, in the prescribed manner, approved prior to 1 December 1997;
23) the Law of the Republic of Lithuania of 18 October 1995, No.I-1067 on the Utilisation of the National Privatisation Fund (*Žin.*, 1995, No.89-1988);
24) the Law of the Republic of Lithuania of 24 September 1996, No.I-1538 on the Amendment of Article 13 of the Law of the Republic of Lithuania on the Privatisation of State-Owned and Municipal Property (*Žin.*, 1996, No.100-2260);
25) the Law of the Republic of Lithuania of 23 December 1996, No.VIII-58 on the Supplement of Articles 1 and 2 of the Law of the Republic of Lithuania on the Privatisation of State-Owned and Municipal Property (*Žin.*, 1996, No.126-2945); and
26) the Law of the Republic of Lithuania of 25 March 1997, No.VIII-154 on the Amendment of Article 4 of Law of the Republic of Lithuania on the Privatisation of State-Owned and Municipal Property (*Žin.*, 1997, No.30-710).

7. The following shall be declared invalid:
1) the Law of the Republic of Lithuania of 7 April 1992, No.I-2456 on the Priority of Employees to Acquire Shares of Enterprises Subject to Privatisation (*Žin.*, 1992, No.12-310);
2) the Law of the Republic of Lithuania of 28 January 1993, No.I-58 on the Amendment of the Law of the Republic of Lithuania on the Priority of Employees to Acquire Shares of Enterprises Subject to Privatisation (*Žin.*, 1993, No.5-91);
3) the Law of the Republic of Lithuania of 1 February 1993, No.I-59 on the Amendment of the Law of the Republic of Lithuania on the Priority of Employees to Acquire Shares of Enterprises Subject to Privatisation (*Žin.*, 1993, No.6-112);
4) the Law of the Republic of Lithuania of 21 April 1994, No.I-438 on the Supplement to the Law of the Republic of Lithuania on the Priority of Employees to Acquire Shares of Enterprises Subject to Privatisation (*Ž*in., 1994, No.32-569); and
5) the Law of the Republic of Lithuania of 9 June 1994, No.I-495 on the Amendment of the Law of the Republic of Lithuania on the Priority of Employees to Acquire Shares of Enterprises Subject to Privatisation (*Žin.*, 1994, No.45-828).

I promulgate this Law passed by the Seimas of the Republic of Lithuania.

PRESIDENT OF THE REPUBLIC ALGIRDAS BRAZAUSKAS

Note: the sentences in italic are unofficial translation of the most recent amendments of this law.

5. The extent of government control over the allocation of resources and over the price and output decisions of enterprises.

Raw materials (resources) distribution – with regard to energy resources:

a) oil – trade (imports and exports included) under market conditions; no quantitative or qualitative restrictions. Oil products – upon market conditions no restrictions for prices, quantities shall be applied. The product quality shall comply with the EU requirements. The trade shall be licensed for the purpose of the market monitoring. Licenses shall be issued to any enterprise meeting the minimum requirements (mostly due to legal activities and due tax payments);
b) natural gas - regulated under the market conditions (in line with requirements of the EU directives). Pursuant to the Law on Natural Gas, 19 percent of the sales volumes of natural gas are subject to regulation, i.e. prices of natural gas intended for households and small enterprises are regulated. The rate of market openness comes up to 81 (here neither prices, nor sales volumes are subject to regulation; no regulations on trade are imposed). Natural gas supply and distribution remain deregulated in the said sector;
c) other kinds of fuel - there are no quotas established, no regulation of prices and no state monopolies.

The market forces govern output decisions of the enterprisers.
The system of pricing, including regulation and control is determined by the Law on Prices. According to the Law, two pricing mechanisms are used in the Republic of Lithuania:
(1) Pricing, as regulated by state government institutions; and,
(2) Market pricing.

The number of prices subject to the Government control is very limited. The main reasons for the price control are absence of competition or dominant position of enterprise and for the specific nature of service.

The following are tariffs and prices under the supervision of the Lithuanian Competition Council.

Goods subjected to price controls	Meaning and perspective of control
Tariffs for registration of vehicles	Controlled because of exclusive rights given to the enterprise
Tariffs for carrying goods by railway transport	Controlled because of dominant position of enterprise
Tariffs for certification of obligatory conformity assessment tests	Absence of competition
Prices and tariffs for services of structural subdivisions of local administration	Controlled in order to protect consumers from unreasonably high prices
Maximum tariffs for services provided by customs inter-mediators	Controlled in order to protect consumers from unreasonably high prices
Tariffs for issuing of quality certificates	Controlled in order to protect consumers from unreasonably high prices
Tariffs and prices for services provided by the State Government institutions	Controlled in order to protect consumers from unreasonably high prices
Tariffs for nationwide universal postal services (collection, transportation, delivery	Subsidized services because of the social importance. Government sets the highest

of letters, postcards, printings, packets till 2 kg and parcels till 10 kg; receiver's and payer's postal order).	prices and tariffs.
Tariffs for telecommunication services: international, interurban and local telephone services.	Subsidized services because of the social importance, because AB "Lietuvos telekomas" has exceptional rights to provide these services.
Tariffs for telecommunication services: telephone and fax services switchboard, transfer of information.	Subsidized services because of the social importance, because AB "Lietuvos telekomas" has exceptional rights to provide these services.
Tariffs for registration of real estate property.	Controlled, because enterprise has exceptional rights to provide these services.
Tariffs for precious metals and of their article marking, for issuance of quality certificate.	Controlled in order to protect consumers from unreasonably high prices
Tariffs for the issuance of quality certificate for jewellery.	Controlled in order to protect consumers from unreasonably high prices
Tariffs for apartment security services.	Lack of competition
Tariffs for services of potentially dangerous equipment made in Lithuania or imported, and tariffs for other similar services.	Controlled in order to protect consumers from unreasonably high prices

Source: Lithuanian Competition Council

The Competition Council following the Articles 3,4,8 of the Law on Prices is authorized to execute pricing control of the prices, as determined by the Government of the Republic of Lithuania

The Government of the Republic of Lithuania by Resolution No1170 "Regulation Measures of Sugar Market" adopted on 26 of September 2001 have fixed the lowest selling price on white sugar for sugar producers, equal 2,43 Lt/kg. That price is applied up till now.

The Government of the Republic of Lithuania by Resolution No1053 "On the buying of 2001 – 2002 years harvest of food grain" on 30 August 2001 have fixed on minimum limiting buying prices for a 6 months period from 1 of September 2001 until 28 of February 2002 (Lt for 1 ton):

I class wheat 390Lt
II class wheat 380Lt
I class rye 340Lt
I class buckwheat 670Lt

The Competition Council was authorized to control those prices.

FURTHER REFERENCES

Law on Prices (enclosed, ANNEX VII).

ANNEX VII.

REPUBLIC OF LITHUANIA
LAW ON PRICES

(As amended by 5 October 1993)

Article 1. This law shall define the system of pricing, including regulation and control, for the Republic of Lithuania.

Article 2. Two pricing mechanisms shall operate in the Republic of Lithuania:
(1) pricing, as regulated by state government institutions; and
(2) market pricing.

Article 3. The Government shall regulate prices by:
(1) setting the minimum and the maximum prices for certain goods and services;
(2) declaring specific prices for goods and services on a special list prepared by the Government.

Article 4. The Government shall fix prices for products and services provided under state contracts or procured through state purchases.

Article 5. The Government of the Republic of Lithuania shall set the level of excise duties and establish the list of goods requiring such duties.

Article 6. Local government bodies shall regulate prices for the products of enterprises at the local level, as well as tariffs on services pursuant to state regulation, as provided in Article 3 hereof.

Article 7. Market prices and tariffs shall be applied to products and services that are not subject to state regulation under Article 3 and Article 6 hereof.

Article 8. If the dynamics of market prices and tariffs cause or are likely to cause a disturbance in the functioning of economy, which, in its turn, affects the interests of the economy of the Republic and its residents, the Government may suspend or restrict price and tariff increases for a period not exceeding 6 months.

Article 9. State pricing control shall include research into the reasons and factors of the pricing system that have an impact on price levels and changes, as well as on the enforcement of this Law and other legislative acts regarding price formation in economic activities.

Article 10. Economic entities shall provide the information necessary to proper exercise of state control of pricing in cases specified by law.
Prices and tariffs shall be made available to the public according to the procedure provided by law.

Article 11. Administrative and legal action may be taken against persons who violate this Law and other legislative acts regarding price formation and control of the Republic of Lithuania in accordance with the procedure established by law whereas economic entities shall be subject to economic sanctions (Amended 5 October 1993).

Fines imposed upon economic entities that are under local jurisdiction shall be paid into the budgets of the local governments. In all other cases, fines shall be paid into the State Budget.

Article12. This Law and other legislative acts on price formation adopted by the Republic of Lithuania shall be implemented by the State Price and Competition Agency and by local governments (Amended 5 October 1993).

Article 13. State government bodies when establishing prices and tariffs of goods and services must coordinate them with the State Price and Competition Agency under the Government of the Republic of Lithuania, with the exception of prices and tariffs that are established by city (region) boards (amended 5 October 1993).

Vytautas Landsbergis
President, Supreme Council Republic of Lithuania
26 July 1990
No. I-413

Amendment.
No. VIII-927, November 17, 1998, Vilnius
(Official Gazette, No 22-542, 1990; No 63-1472, 1997)

Article 1. Supplement to paragraph 2 of Article 1

To supplement paragraph 2 of Article 1. The paragraph thereof shall read as follows:
"The provisions set forth in Articles 6, 7, 12 and 13 shall not apply to electricity, district heating, hot and cold water as well as natural gas prices; also shall not apply to the rates provided for in paragraph 1 of Article 6 of the Republic of Lithuania Law on the Principles of the Activities of Transport. The relevant suppliers and carriers upon co-ordination of those prices and maximum rates thereof shall establish prices and rates with the National Control Commission for Prices and Energy (hereinafter referred to the Commission). Prices and rates thereof shall be established upon estimation of required costs under the methodology approved by the Commission. If suppliers or carriers fail in co-ordination of prices or rates with the Commission, the Commission shall pass a decision on price rates or maximum rates and indicate the decision's validity deadline".

6. Such other factors as the administering authority considers appropriate.

6.1. Liberalization of the energy markets.

The Government is aiming for gradual opening of electricity and natural gas markets thus entitling eligible customers (whose number is constantly increasing – from the largest industrial customers to smaller ones, as the required amount of consumption in being gradually reduced) to choosing a supplier, having free access to monopolistic networks, and paying for services according to the set non-discriminatory tariffs.

The new effective Law on Natural Gas set new pricing principles, provided for gradual opening of the market by giving regulated access to networks to third parties, defined the rights and responsibilities or market participants, and supervision of their activities.

FURTHER REFERENCES

Law on Electricity (enclosed, ANNEX VIII).
Natural Gas Law (enclosed, ANNEX IX).

ANNEX VIII
Official translation

REPUBLIC OF LITHUANIA
LAW ON ELECTRICITY

20 July, 2000, No. VIII –1881
as amended by 20 December, 2000, No.IX-97
Vilnius

CHAPTER ONE
GENERAL PROVISIONS

Article 1. Purpose of the Law
This Law shall establish basic principles regulating the generation, transmission, distribution, and supply of electricity with account of the requirements of European Union law; it shall formulate the relations between suppliers of electric energy services and their customers, and shall establish conditions for the development of competition in the electricity sector.

Article 2. Definitions
1. **Electricity sector** means a branch of national economy related to the generation, transmission, distribution and supply of electricity.
2. **Producer** means any legal or natural person or an undertaking without the rights of a legal person generating electricity.
3. **Transmission** means the transport of electricity through the transmission network.
4. **Distribution** means the transport of electricity through the distribution network with a view to delivering it to customers.
5. **Supply** means delivery and/or sale of purchased or produced electricity to customers.
6. **Independent supplier** means any legal or natural person, or an undertaking without the rights of a legal person providing supply services to the eligible customers under agreements.
7. **Public supplier** means a distribution undertaking obliged to supply energy to the customers desirous of such a service within its service territory.
8. **Customer** means any natural or legal person, or an undertaking having no rights of a legal person buying electricity for his own use.
9. **Eligible customer** means a customer who is free to choose a supplier in accordance with Article 29 of this Law.
10. **Network user** means any natural or legal person or undertaking having no rights of a legal person making use of the service of transportation of electricity through transmission or distribution networks.
11. **Interconnectors** means equipment used to link transmission or distribution networks.
12. **Interconnected system** means a number of transmission and distribution networks linked together by means of one or more interconnectors.
13. **Direct line** means an electricity transmission line between the producer and the customer and complementary to the transmission and distribution systems.
14. **Maintenance of the network** shall mean actions related to securing the stability and quality of the system operation.
15. **Ancillary services** means all services necessary for the maintenance of the required levels of voltage and frequency, availability of sufficient reserves of capacity and energy resources for securing the required levels of quality and reliability of electric energy supply.
16. **Reserve capacity** means generating capacities to be used only in emergency situations, in the outage of operated generation capacities.

17. **National balance function** means balancing of energy quantities and capacity with electricity generation and consumption quantities on a national scale.
18. **Balancing energy** means electricity generated or consumed in derogation from the schedule fixed in a supply contract.
19. **Regulating energy** means electricity needed for carrying out the national balance function.
20. **Integrated electricity undertaking** means a vertically or horizontally integrated undertaking.
21. **Vertically integrated undertaking** means an undertaking performing two or more of the functions of generation, transmission, distribution and supply of electricity, which, however, is not involved in any other activity, unrelated to the listed above.
22. **Horizontally integrated undertaking** means an undertaking performing at least one of the functions of generation, transmission and distribution or supply of electricity, and another non-electricity activity.
23. **Long-term planning** means the planning of development of the electricity marketing, generation, transmission and distribution capacity with a view to securing supplies to customers, and of the need for investment in the above sectors.
24. **Operator** means an operator of a transmission or distribution system.
25. **Transmission system operator** means any legal person who is responsible for the management of the transmission system and the balancing and reserving of electricity generation and consumption.
26. **Distribution system operator** means any legal person who is responsible for the management of the distribution system within the territory of its services.
27. **Market operator** means any legal person responsible for the organisation and administration of trade in electricity and payment settlements between the producers, suppliers and the customers.
28. **Regulated third party access** means the process whereby producers, suppliers and eligible customers make use of the transmission or distribution systems to transport electricity according to the published tariffs.
29. **Public interest in the electricity sector** means any act or omission in the electricity sector, directly or indirectly related to the public security, environmental protection, and to electricity generation from renewable energy sources, waste or combined heat and power generation.
30. **Public service obligations** means services of the electricity sector imposed by the Government of Lithuania or a body authorised by it with account of public interests.
31. **Point tariff principle** means payment for transmission and distribution services where the rate is not dependent on the transmission and distribution distance.
32 **Price cap principle** means a method of price regulation whereby only the upper limit of the price is fixed.
33. **Public electricity tariff** means the electricity tariff for the customers who are not free to choose a supplier.
34. **Tariff stability principle** means ensuring the stability of the selling price to non-eligible consumers in the event of fluctuation of purchasing prices.
35. **Electric energy** means electric energy generated by the power plants and supplied to the customers as a good.

Article 3. Main Objectives of the Law

The main objectives of the Law shall be:

1) legal regulation of rights, responsibilities and relation between the entities in the electricity sector;
2) development of a legal framework for the functioning of competition based electricity market and establishment of fair competition between producers and suppliers;
3) ensuring and promoting efficiency in the production, transmission, distribution and consumption of electricity;

4) ensuring reliability of electric energy production, transmission and distribution;
5) ensuring public service obligations related to public safety, environmental protection, and electricity generating installations using local, renewable and waste energy resources; establishing objective, comprehensive and transparent requirements and obligations in the electric energy sector;
6) promotion of the internal electricity market and electricity export, modernisation of technical facilities for implementation of the market, and development of easy-to-understand and transparent energy pricing;
7) creating favourable conditions for investments in the electricity sector;
8) promotion of environmentally friendly technologies in generation, transmission and distribution of electricity.

CHAPTER TWO
REGULATION OF THE ACTIVITIES IN THE ELECTRICITY SECTOR

Article 4. Regulatory Bodies of the Activities in the Electricity Sector
The electricity sector shall be regulated, in the manner set forth in this Law, by :
1) the Government or a body authorised by it;
2) the State Control Commission for Prices and Energy.

Article 5. Functions of the Government or a Body Authorised by it in the Electric Energy Sector
In the electric energy sector, the Government or an body authorised by it shall:
1) formulate and implement state policy;
2) co-operate with foreign electric energy institutions and represent, within the limits of its competence, the Republic of Lithuania in international organisations;
3) issue regulatory enactments and other legal acts;
4) draw up a list of public service obligations;
5) in cases prescribed by this Law, grant licences (authorisations) for provision of electric energy services;
6) in the event of imposition of martial law or emergency, war, a natural disaster, epidemics or in other extraordinary situations, regulate the activities of the electricity sector in the manner prescribed by law;
7) perform other functions laid down in the statutes and other legal acts of the Republic of Lithuania.

Article 6. Functions of the State Control Commission for Prices and Energy
The responsibilities, rights and functions of the State Control Commission for Prices and Energy shall be established by the Law on Energy, this Law and other legal acts of the Republic of Lithuania as well as by the regulations of the Commission.

CHAPTER THREE
PRINCIPLES OF ORGANISATION OF THE ACTIVITIES IN THE ELECTRICITY SECTOR

Article 7. Structure of the Electricity Sector
1. The electricity sector shall comprise electricity producers, suppliers, transmission and distribution undertakings, the market operator, and operators of the transmission and distribution networks.
2. The structure of the electricity sector must promote the establishment of the competitive electricity market and its functioning.
3. The Government or a body authorised by it may establish measures promoting consumption of surplus energy.

Article 8. Interoperability and Co-ordinated Development of the Electricity Sector

1. In order to secure co-ordinated development of the sector on the basis of objective and non-discriminatory principles, the technical design and operational requirements for generating installations, transmission and distribution systems shall be developed which shall be regulated by the Grid Code approved by the Government or a body authorised by it.
2. Generating facilities, transmission and distribution systems, interconnected and direct lines must be in conformity with the technical design and operational requirements in order to ensure a single system co-ordinated by the transmission and distribution system operators.
3. Contracts for maintenance and operation of the transmission and distribution facilities located in the territory of another undertaking shall be concluded following the procedure, terms and conditions established by the Government or a body authorised by it.

Article 9. Model of the Electricity Market

1. The electricity market shall be organised on the basis of bilateral contracts between producers, suppliers and eligible customers as well as in other ways laid down in the rules of trade in electricity, by using a regulated third party access for transportation of the purchased electricity.
2. Any producer and supplier shall be responsible for maintaining a generation level sufficient to satisfy the customers' demand and for ensuring deliveries stipulated in purchase contracts. The producers and suppliers who are in breach of contracts, load schedules and requirements of the transmission system operator must pay for the balancing energy in accordance with the rules of trade in electricity.
3. Eligible customers, following the procedure established by this Law, shall be free to choose any supplier.
4. In accordance with the procedure laid down in Article 7 of this Law, with the exception of cases referred to in paragraph 2 of Article 36, the public supplier shall have to supply electricity to non-eligible customers and such eligible customers who are desirous of such service.
5. The transmission system operator, by carrying out the national balancing function, shall co-ordinate generation levels necessary for meeting the demand with the levels, indicated by producers and suppliers in the market operator's schedules. He shall also co-ordinate the producers' dispatching, and shall control, in accordance with the schedule, the provision of ancillary services.
6. The market operator shall organise electricity trade and transit; he shall also regulate payments in internal and external markets in accordance with the rules of trade in electricity.

Article 10. Entry of New Producers into the Market

Any legal or natural person as well as an undertaking having no rights of a legal person may become an electricity producer upon being granted an authorisation specified in Article 14 of this Law.

Article 11. Promotion of Consumption of Electricity Produce from Local, Renewable and Waste Energy Resources

The State shall encourage customers to purchase electricity produced from local, renewable and waste energy resources.

Article 12. General Rules of Licensing in the Electricity Sector

1. The following activities shall be subject to licensing:
1) activities of the electricity market operator;
2) electricity transmission;
3) electricity distribution;
4) electricity supply;
2. The procedure, terms and rules of issuing licenses shall be approved by the Government or a body authorised by it.

3. Criteria for issuing licences must be objective and non-discriminatory and must be in accordance with the targets specified in Article 3 of this Law.
4. A market operator shall be granted a licence by the Government or a body authorised by it by means of a tendering procedure;
5. Licences for the activities listed in subparagraphs 2, 3 and 4, paragraph 1 of this Article shall be granted and the licensed activities shall be monitored by the State Control Commission for Prices an Energy.
6. A licence shall be treated as a public document.
7. A licence may be extended, suspended or revoked in cases defined in the rules of licensing in the electricity sector, approved by the Government or a body authorised by it.
8. If a certain activity is not on the list of the licensed activities, it shall be subject to an authorisation. A list of activities subject to an authorisation shall be drawn up by the Government. The procedure for granting authorisations shall be established by a body authorised by the Government. An authorisation shall be granted to any natural or legal person or an undertaking without the rights of a legal person provided they have submitted documents specified in the rules of the authorisation procedure for the non-licensed activities in the electricity sector approved by the Government or a body authorised by it. An authorisation shall be granted within 30 days from the day on which the documents were submitted to a body authorised by the Government.

CHAPTER FOUR
GENERATION OF ELECTRIC ENERGY

Article 13. General Principles of the Producers Activities
1. Connection and operation of the producers' facilities to the transmission and distribution systems must be in conformity with the requirements of the Grid Code approved by the Government or a body authorised by it.
2. In order to sell electricity directly to consumers producers must get a license of an independent supplier.

Article 14. Authorisation Procedure for Expansion of the Existing Generating Capacities and Installation of New Capacities
1. Expansion of the existing generation capacities and installation of new generation capacities shall be subject to authorisation.
2. Authorisations shall be granted to all legal and natural persons as well as to undertakings without the rights of legal persons upon submitting an appropriate application and guaranteeing that the following conditions shall be met:
1) safety and reliability of electric energy, facilities and related installations;
2) protection of the environment;
3) land use and siting;
4) the type of fuel.
3. The procedure for granting authorisations for installation of new generating capacities or expansion of the existing capacities shall be determined by the Government of Lithuania or a body authorised by it. The procedure and terms for obtaining authorisations must be made public.
4. Authorisations for expansion of generating capacities and installation of new generating capacities shall be granted by a body authorised by the Government.
5. Authorisations for installation of new generating capacities shall be granted or a substantiated written refusal to grant an authorisation shall be given to the applying entity within 30 days from the date of receipt of the documents required under the procedure for granting authorisations for new generating capacities.

6. Any refusal to grant an authorisation may not be motivated in any other way except for non-compliance with the requirements listed in paragraph 2 of this Article. Applicants shall have the right to appeal the decision to refuse such an authorisation in the manner set forth in the Law on Administrative Proceedings.
7. Requirements for the design and construction of new generating capacities shall be laid down in the Law on Construction of the Republic of Lithuania as well as other legal acts.

CHAPTER FIVE
TRANSMISSION OF ELECTRICITY

Article 15. Principles of Transmission Activities

1. A legal person owning transmission networks shall be a transmission system operator. It shall be responsible for operation, maintenance, management and development of the transmission system in the territory of Lithuania and its interconnections to other systems, by eliminating bottlenecks of the transmissions networks in accordance with its customers' needs.
2. The transmission system operator, following the rules for operation of power plants and electricity networks approved by the Government or a body authorised by it, the grid code and other legal acts, must ensure that conditions for the connection to the transmission system of generating installations, distribution systems, and customers' equipment are in conformity with the rules for operation of electricity networks approved by the Government or a body authorised by it and are non-discriminatory.
3. The transmission system operator shall provide, on a basis of reciprocity, to the operator of any other system sufficient information necessary to ensure safe and efficient operation, co-ordinated development and interoperability of the interconnected system.
4.. The transmission system operator must ensure objective and non-discriminatory conditions for users of transmission networks.

Article 16. Rights and Duties of the Transmission System Operator

1. The transmission system operator shall have the right:
1) to receive from producers, distribution system operators and eligible customers connected to the transmission networks metering data and other information necessary for carrying out the balancing function and other duties listed in this Article.
2) to obtain from the existing and potential customers of the transmission networks information necessary for third party access to the system;
3) to lay down, in accordance with the technical regulations of networks operation, the working conditions for the operation of the distribution networks, power plants and customers connected to the transmission system, which shall be necessary for safe operation of the transmission networks;
4) to buy regulating energy and reserve capacities by auction;
2. The transmission system operator must:
1) provide electricity transmission services to the users of the networks;
2) operate, maintain, manage and develop the transmission system and interconnections to other systems;
3) organise, install, maintain and operate the energy metering system in the transmission network;
4) read measuring devices and pass on the meter readings to the market operator and suppliers;
5) connect the customers' equipment, and the installations of producers and distributors to the transmission system in accordance with the requirements of technical regulations,
6) give a motivated written reply to the existing and potential customers in the event of a refusal to provide to them the service of electricity transmission. Such a refusal must be substantiated by non-discriminatory restrictive technical criteria;.

7) dispatch the generating capacities and energy flows in the transmission networks in the territory of Lithuania with account of exchanges of electricity with other interconnected systems;
8) carry out the national balance function by providing uniform, non-discriminatory and competitive conditions for all electricity market participants;
9) carry out the reservation function by providing uniform, non-discriminatory and competitive conditions for all electricity market participants;
10) ensure safety, reliability and efficiency of the transmission networks and the availability of all necessary ancillary services;
11) dispatch generation capacities according to the priorities set in the last electricity sale auction or contracts ;
12) ensure efficient, reliable and safe functioning of transmission networks in the territory of Lithuania with due regard to environmental protection;
13) ensure the confidentiality of commercially and operationally sensitive information obtained in the course of carrying out its business, except in cases provided for by law.

CHAPTER SIX
DISTRIBUTION OF ELECTRICITY

Article 17. Principles of Distribution Activities

1. The distribution system operator shall be responsible for the distribution system up to the connection point of customers, generators or transmission system facilities, for security and reliability, operating, ensuring the maintenance and management, and developing the distribution system with account of the needs of networks users.
2. The distribution system operator must ensure non-discriminatory conditions for users of the distribution system.

Article 18. Duties and Rights of the Distribution System Operator

1. The distribution system operator shall have the right:
1) to receive from producers and eligible customers connected to the distribution network electricity metering data and other information necessary for discharge of his duties;
2) to request information from the existing and potential customers which is needed for third party access to the distribution system;
3) to reconstruct the existing distribution network and to construct a new network .
2. The distribution system operator must:
1) operate the distribution system and interconnections with other systems in his service area, ensure its maintenance, a secure electricity supply and development of the system, with due regard for the environment;
2) organise, introduce, operate and maintain the energy metering system of the distribution network;
3) carry out measurements and transfer the readings to the transmission operator, market operator and suppliers;
4) connect the customers' equipment and producers' installations, located in its service area, to the distribution network in accordance with the corresponding technical specifications;
5) give a motivated written refusal to the existing and potential customers to provide for them energy transportation service. The basis for such a refusal must be non-discriminatory technical criteria;
6) preserve the confidentiality of commercially and operationally sensitive information obtained in the course of carrying out its business, except in cases defined by law.

CHAPTER SEVEN
ELECTRICITY SUPPLY

Article 19. Principles of Supply Activities

1. Customers shall have the right to buy electricity from public electricity suppliers or from independent suppliers, having electricity supply licenses.
2. Suppliers may purchase electricity at auction or directly from the producers, and balancing energy may also be purchased from the market operator.
3. The suppliers shall be responsible for billing of the customers in accordance with the electricity supply and consumption rules approved by the Government or a body authorised by it.

Article 20. The Public Electricity Supplier

1. Each of the undertakings owning a distribution system shall be responsible for supplying electricity to customers in the distribution system service area.
2. The public electricity supplier must purchase electricity in accordance with electricity trading rules approved by the Government or a body authorised by it.
3. The public electricity supplier shall be prohibited from undue discrimination between customers or classes of customers.

Article 21. The Duty of the Public Electricity Supplier to Supply Electricity on Request

The public electricity suppliers shall, upon request by a customer in his service area, supply electricity to him according to public tariffs approved in the manner laid down in Article 33 of this Law.

Article 22. The Right of the Public Electricity Supplier not to Supply Electricity on Request

Implementation of the provision set forth in Article 21 of this Law shall not be mandatory where:

1) the public electricity supplier is prevented from doing so by circumstances not within its control;
2) the customer does not meet the requirements laid down in Article 23.

Article 23. Payment Guarantees

Any customer, who has made a request for the supply of electricity under Article 21, must guarantee to the public electricity supplier all payments due for the use of electricity and its transportation services.

Article 24. Independent Supply of Electricity

Eligible customers shall be supplied electricity under bilateral agreements with an independent or public supplier or producer having a supply license.

Article 25. Organisation of Electricity Metering

Distribution system operators shall be responsible for organisation of metering and accounting of the supplied electricity.

CHAPTER EIGHT
TRANSPARENCY OF ACTIVITY AND ACCOUNTING IN THE ELECTRICITY SECTOR

Article 26. Unbundling of Accounts

1. Undertakings involved in the electric energy generation, transmission, distribution, supply and non-core activities shall keep separate accounts for all of these activities.

2. Suppliers shall keep separate accounts for purchases and sales of electricity produced from renewable energy sources or waste.

Article 27. Openness and Transparency of Accounting

1. Annual accounts of generation, transmission, distribution and supply undertakings must be submitted to audit.
2. Generation, transmission, distribution and supply undertakings which are not legally obliged to publish their annual accounts shall keep a copy of these as well as a copy of the independent auditor's opinion in their head office and make them available to all those who request so.
3. Generation, transmission, distribution and supply undertakings as well as independent auditors who approve their annual accounts must provide notes to their annual accounts to the State Control Commission for Prices and Energy.

Article 28. Provision of Information

1. The Government or a body authorised by it which, under the legislation, is to draw up drafts of national energy strategy, national energy efficiency and other energy programmes shall have the right to request a generation, transmission, distribution or supply undertaking to provide information necessary for the purpose of drawing up these projects.
2. The State Control Commission for Prices and Energy shall have the right to request a generation, transmission, distribution or supply undertaking to provide information necessary for an adequate supervision of the electricity market.
3. The generation, transmission, distribution or supply undertaking must provide information specified in paragraphs 1 and 2 of this Article within the time period set forth in legal acts.
4. The information obtained from generation, transmission, distribution and supply undertakings shall be public unless the above undertakings decide otherwise. The State Control Commission for Prices and Energy or any bodies authorised by it may use the confidential information received exclusively for the purposes for which it has been requested.

CHAPTER NINE
ELECTRICITY MARKET

Article 29. General Principles of Organisation of the Electricity Market

1. Trade in electricity in the internal market of the country shall be conducted in accordance with the rules of trade in electricity which are in compliance with the objectives set forth in the present Law. These rules may be amended in order to correspond to the stages of market liberalisation as provided in Article 31 of this Law.
2. Suppliers and eligible customers shall have the right to conclude with producers direct electricity purchase contracts or supply agreements.
3. All electricity market participants shall be granted a regulated third party access for transport of electricity. This right shall be exercised by concluding electricity delivery agreements based on the Grid Code approved by the Government or a body authorised by it.
4. All quantities of the delivered electricity must be co-ordinated with the transmission and distribution system operators; if the required transmission or distribution capacities are not sufficient, the quantities shall be adjusted according to the Grid Code approved by the Government or a body authorised by it.
5. The State Control Commission for Prices and Energy, on the basis of the information obtained from the transmission and distribution networks operators shall publish in the newsletter "Valstybes žinios" ("Official Gazette") and its annex "Informaciniai pranešimai" ("Information Notices") tariffs for transmission and distribution services, as well as a fee charged for connection of customer devices to the network.

Article 30. Market Operator

1. The market operator shall be any legal person who has been granted an operator's licence in accordance with the procedure defined in Article 12 of this Law.
2. The market operator must organise trade in electricity according to the rules of trade in electricity approved by the Government or a body authorised by it.
3. Where the electricity price is uniform, the market operator must give priority to the producers using local, renewable or waste energy resources.
4. The market operator shall be responsible for making public the electricity price formed in accordance with the rules of trade in electricity and for arrangement of the procedure of payment by the market participants.

Article 31. Liberalisation of the Electricity Market

1. The electricity market in the country shall be established in stages, by gradually giving the right of regulated third party access to the grid and the right to conclude direct electricity purchase contracts with producers for the following eligible consumers:

a) by 1 July 2001 - for customers who consumed more than 20 million kWh of electricity in the previous year for one site (having the same address) of consumption;

b) by 1 January 2002 - for customers who consumed more than 9 million kWh of electricity in the previous year for one site (having the same address) of consumption;

c) by 1 January 2010 - for all consumers.

2) Applications for becoming eligible customers and information on the electricity consumption shall be submitted to the State Control Commission for Prices and Energy, with the exception of the stage of market opening defined in subparagraph 3, paragraph 1 of this Article.

3) The State Control Commission for Prices and Energy, in compliance with this Law, shall take a decision, within two months from the date of submitting the information referred to in paragraph 2 of this Article, whether customers may be held eligible and shall publish a list of the eligible customers in the newsletter "Valstybes žinios" ("Official Gazette") and its annex "Informaciniai pranešimai" ("Information Notices").

Article 32. The Right of Eligible Customers, Independent Suppliers and Generators to Conclude Bilateral Supply Contracts

1. For covering their needs, eligible customers shall have the right to conclude without restrictions electricity supply contracts with producers and suppliers licensed in accordance with the procedure referred to in Article 12 of this Law, located both inside the territory of the country or in other countries.
2. Producers and suppliers, while concluding supply contracts with eligible customers, shall conclude bilateral agreements with transmission and distribution system operators on their right of access to the system.
3. Independent producers, for supply to their subsidiaries or branches located either inside the country or in another country through the interconnected system, shall conclude bilateral agreements with transmission or distribution system operators on the right of their access to the system.
4. Eligible customers and suppliers may import electricity only subject to uniform conditions established by the Government or a body authorised by it.
5. The Government of the Republic of Lithuania or a body authorised by it shall grant authorisations for electricity import only on condition that other countries provide equal opportunities for their eligible customers and suppliers to import electricity from the Republic of Lithuania, and with account of the quotas for imported energy established by the Government or a body authorised by it.

Article 33. Pricing

1. Prices of electricity sold by the producers and independent suppliers as well as prices for the capacity reserve shall not be regulated, except in the cases where producers and independent suppliers have more than 25% of the market share. Prices shall be set by the mutual agreement of the parties or by auction. The State Control Commission for Prices and Energy shall define the price regulation mechanism for the producers and suppliers having more than 25% of the market share as well as the price regulation mechanism for balancing energy.
2. The price cap of the public service tariffs shall be set each year by the State Control Commission for Prices and Energy.
3. The price cap of the transmission and distribution services shall be determined by the State Control Commission for Prices and Energy for a three-year period.
4. The fee for the connection of customers' devices to the network shall be approved by the State Control Commission for Prices and Energy.
5. The purchasing price for electricity produced from local fuel, renewable energy sources or waste shall be approved by the State Control Commission for Prices and Energy. The purchasing price may be differentiated in accordance with the level of voltage and time of use.
6. The price cap for the appropriate activity in the electricity sector must be established for all providers of such service when granting to them authorisations or licenses. Specific electricity tariffs and service prices which do not exceed the price cap shall be set by the provider of the service. New electricity tariffs and service prices shall become effective only after expiration of two months following their publication. If the State Control Commission for Prices and Energy finds that certain charges for services have been calculated not in accordance with the established pricing methodologies or erroneously, it must indicate the mistakes to the transmission or the distribution system operator. The mistakes must be rectified within 30 days. If the transmission or distribution system operator fails to meet the requirements of the State Control Commission for Prices and Energy, the latter shall have the right to set unilaterally the tariffs stated in paragraphs 2, 3, 4, 5 and 6 of this Article.

Article 34. Transportation of Electricity through a Direct Line

1. All producers and supply undertakings of electricity shall have the right to supply their divisions, subsidiaries and eligible customers through a direct line.
2. All eligible customers in the territory of the Republic of Lithuania shall have the right to be supplied electricity by producers and supply undertakings through a direct line.
3. Authorisations for the construction of direct lines within the territory of the Republic of Lithuania shall be granted in accordance with the procedure established by the Government or a body authorised by it.
4. The criteria for granting authorisations must be objective and non-discriminatory.
5. Authorisations for the construction of direct lines or a written motivated refusal to grant such an authorisation must be presented to the applicant within 30 days from the date of receipt of the documents necessary for issuing of an authorisation.
6. An authorisation to construct a direct line may be related to the refusal of access to the transmission and distribution systems.
7. A refusal to grant an authorisation for the construction of a direct line may be motivated by public interest. Duly substantiated reasons must be given for such a refusal. Applicants shall have the right to appeal against such a refusal in the manner laid down in the Law on Administrative Proceedings.
8. The authorisation may be revised, suspended or revoked in cases specified in the Rules for Granting Authorisations for Unlicensed Activity in the Electricity Sector.

CHAPTER TEN
INTERRUPTION OF AND RESTRICTION ON DELIVERY OF ELECTRICITY. TECHNICAL AND SAFETY REQUIREMENTS

Article 35. Conditions for Interruption of Electricity Delivery to the Consumers without their Fault

1. Electricity delivery to the customers may be interrupted without their fault purely for purposes of protecting public interest and maintenance of the electricity networks. Where possible, the reserve energy sources shall be used.
2. The operator, in the case of the network maintenance situation, may partly or fully switch off the customer facilities for the needed period of time only subject to the predetermined schedules agreed with the local executive authorities, and a prior 15 days notice to the customer. Detailed conditions for interruption of electricity delivery aimed at protecting public interest, and the procedure for calculation of and compensation for the sustained losses shall be set forth in the rules approved by the Government or a body authorised by it.

Article 36. Interruption of Electricity Delivery Due to Customers' Fault

1. The operator may interrupt delivery of electricity for those customers whose acts cause disturbances and have a negative effect on the quality of electricity, if they do not desist from these acts within 15 days after a written warning.
2. At the request of the supplier the operator may interrupt delivery of electricity to those customers, which, within 15 days after a written warning, do not pay their bills for electricity consumed, or its transportation and related services.

Article 37. Technical Requirements for Efficiency, Reliability and Safety of Electric Energy

1. Installation, operation and safety requirements in the electricity sector shall be defined in the rules for installation and safe operation of electrical facilities approved by the Government or a body authorised by it.
2. Accidents and disruptions of the facilities generating, transmitting, dispatching or consuming electricity shall be investigated according to the Rules for Investigation and Accounting of Accidents and Disruptions in Energy Facilities approved by the Government or a body authorised by it.
3. Supervision of the reliability, efficiency and security requirements of facilities in the electricity sector shall be the responsibility of a body authorised by the Government.

CHAPTER ELEVEN
PUBLIC INTERESTS IN THE ELECTRICITY SECTOR

Article 38. Public Service Obligations in the Electricity Sector

1. In indispensable cases based on the objective criterion, the Government of Lithuania or a body authorised by it may charge market, transmission and distribution system operators and suppliers to assume public service obligations.
2. The costs of fulfilling public service obligations referred to in paragraph 1 of this Article may be included in electricity tariffs for consumers charged by electricity suppliers.

Article 39. Establishment of Landed Servitudes for Energy Facilities of National Significance

1. A land owner or user may not prevent electricity transmission or distribution undertakings from the construction of transmission or distribution lines or any other electric devices, if, in the manner determined by the Government, they are considered as energy facilities of national significance.

2. Losses incurred by a land owner or user due to the construction of transmission or distribution lines or other electric devices, must be compensated under a bilateral notarised agreement between the land owner or user and the transmission or distribution undertaking. Other issues arising between a land owner or user and the transmission or distribution undertaking with regard to the construction of transmission or distribution lines or other electric installations or their operation, must be solved in the like manner.
3. Where a transmission or distribution undertaking and a land owner or user fail to reach an agreement in the manner laid down in paragraph 2 of this Article, landed servitudes shall be established in the manner laid down by law.
4. If establishment of landed servitudes results in a material restriction on the use of land, the transmission or distribution undertaking, at the land owner's request, must buy out such a land plot together with immovable property on it. If the transmission or distribution undertaking and the land owner fail to reach an agreement on the terms and conditions of buying out of the land plot with immovable property on it, this property shall be bought out following the procedure established by the appropriate legal acts regulating taking of land plots for public needs.

CHAPTER TWELVE
STATE SUPERVISION. DISPUTE SETTLEMENT. LIABILITY

Article 40. State Supervision in the Electricity Sector
Implementation of this Law as well as other legal acts necessary for its implementation in the electricity sector shall be supervised by the State Control Commission for Prices and Energy unless the laws provide otherwise.

Article 41. Dispute Settlement
1. Disputes relating to the third party access shall be solved in an alternative dispute resolution procedure by the State Control Commission for Prices and Energy in the manner approved by it.
2. Disputes relating to termination of electricity delivery to the customers without their fault shall be solved in an alternative dispute resolution procedure by the State Energy Inspectorate.
3. Actions of the officials performing state supervision in the energy sector as well as decisions of the institutions and persons discharging supervision may be appealed against in the manner provided by law.
4. Other disputes arising in the electricity sector shall be solved by mutual agreement of the parties or in the manner established by law.

Article 42. Liability
1. Any person who does not comply with or does not fulfil the requirements of this Law shall be held liable in the manner established by law.
2. The State Control Commission for Prices and Energy may impose sanctions for the following:
1) an unlicensed activity and activity without an appropriate authorisation or non-compliance with the requirements specified in the licence or authorisation;
2) violation of the established procedure of imposing fixed tariffs and rates on the customers;
3) an untimely renewal of compulsory insurance;
4) non-compliance with transparency requirements set forth by law and other legal acts;
5) failure to fulfil public service obligations;
6) a refusal to provide transportation of electric energy services without objective reasons.
3. The State Control Commission for Prices and Energy shall differentiate the rates of penalties imposed with account of the extent of damage caused by the violation, duration of the violation, the amount of the revenue received as a result of the violation, mitigating and aggravating circumstances. The State Control Commission for Prices and Energy shall, by decision, determine the procedure of differentiation of penalties as well as rules for admission of extenuating or aggravating circumstances.

Article 43. Compensation for Damage Caused by Electricity Customers

1.Damage caused by breaking down the electricity delivery system equipment and electricity metering devices, as well as damage caused by unlawful consumption of energy must be compensated by the person who caused the damage.

2. Unlawful consumption of electric energy shall be defined in the rules of supply and consumption of electric energy.

3. When determining the damage, direct losses (expenses incurred due to loss of property or damage to it) and indirect losses (income not received due to disruption of planned activities) shall be estimated.

4. Expenses related to the assessment of the extent of damage shall be covered by the person who caused the damage.

5. The procedure for determining the volume of electric energy consumed unlawfully and the procedure of compensation for the damage shall be regulated by the rules of supply and consumption of electric energy.

Article 44. Compensation of Damage to the Customers

1. Damage caused to the customer by a supplier in violation of the rules of supply and consumption of electricity, shall be compensated by the supplier.

2. When determining the damage, direct losses (expenses borne by the loss of property or its damage) and indirect losses (income not received due to disruption of planned activities) shall be estimated.

3. Expenses related to the assessment of the extent of damage shall be covered by the person who caused the damage.

Article 45. Compensation of Damage to Third Parties

1. Damage inflicted to third parties shall be compensated following the procedures established by the Civil Code and other legal acts.

2. Producers, transmission and distribution system operators and suppliers must insure their liability in accordance with the procedures set forth by law.

CHAPTER THIRTEEN
FINAL PROVISIONS

Article 46. Entry into Force

This Law, with the exception of Article 47, shall enter into force as of 1 July, 2001 .

Article 47. Recommendations to the Government

1. By August 31, 2000, the Government shall draw up and/or adopt legal acts necessary for the implementation of the Law on the Restructuring of Special Purpose Company "Lietuvos Energija" (No VIII – 1693).

2. By 1 April 2001, the Government shall prepare and/or adopt legal acts and approve regulatory enactments necessary for the implementation of the present Law.

I promulgate this Law passed by the Seimas of the Republic of Lithuania.

PRESIDENT OF REPUBLIC **VALDAS ADAMKUS**

ANNEX IX

Official Translation

REPUBLIC OF LITHUANIA
NATURAL GAS LAW

October 10, 2000. No.VIII – 1973
(as amended by June 19, 2001. No. IX – 382)
Vilnius

CHAPTER I
PURPOSE, DEFINITIONS OF THE LAW

Article 1. Purpose of the Law

This Law shall establish the general principles of the natural gas sector and the operations of natural gas undertakings and relations with the customers (in the supply, distribution, transmission and storage of natural gas).

Article 2. Basic Definitions of this Law

1. **Natural Gas** means the mixture of hydrocarbons extracted from the entrails of the earth, which under normal conditions exists in a gaseous state.
2. **Natural Gas Undertaking** means an undertaking which is engaged in at least one of the following operations: natural gas (hereinafter – gas), including among them liquefied gas, extraction, transmission, distribution, supply, purchase and storage and is responsible for the commercial, technical and (or) maintenance tasks related to those functions. The final customers shall not be included in gas undertakings.
3. **Transmission** means the transport of gas through a high-pressure pipeline network and into storage facilities.
4. **Transmission Undertaking** means an undertaking, which is an undertaking, engaged in tasks of gas transmission.
5. **Distribution** means the transport of gas through the distributing pipeline network, with a view to its delivery to customers.
6. **Distribution Undertaking** means an undertaking, which carries out the function of distribution.
7. **Supply** means the delivery and (or) sale of gas to consumers.
8. **Supply Undertaking** means an undertaking, which carries out the function of supply.
9. **Storage** means the stocking of gas in a facility and keeping it in a gas storage facility.
10. **Storage Undertaking** means an undertaking, which carries out the function of storage.
11. **Natural Gas Storage Facility** means a facility owned by the gas undertaking and or) facility operated by the gas undertaking, excluding the portion used for production operations.
12. **Liquefied Natural Gas Facility** means a terminal, which is used for the liquefaction of natural gas or the offloading, storage and re-gasification thereof.
13. **Main Pipeline** means a high-pressure pipeline with the structures and facilities linked with it to transport gas from the gas fields to gas storage facilities, city and settlement distribution networks or to gas-consuming facilities to gas-distribution stations inclusively.
14. **Distribution Network** means gas pipelines leading from the gas distribution stations of the main gas pipeline for supply to the consumer systems and also, engineering structures, installations and means ensuring the functioning of these pipelines.
15. **System means** a main pipeline owned by the gas undertaking and (or) operated by the gas undertaking and (or) distribution network, and (or) liquefied natural gas facilities, including other

facilities of this and related undertakings, necessary for providing access to transmission and distribution.
16. **Interconnected System** means a number of systems, which are linked with each other.
17. **Customer System** means pipelines and facilities designated for gas access from the main gas pipeline or distribution network and safe use thereof for the needs of the customer.
18. **Integrated Natural Gas Undertaking** means a vertically or horizontally integrated undertaking.
19. **Vertically Integrated Undertaking** means a gas undertaking, which performs at least two of these: gas production, transmission, distribution, supply or storage.
20. **Horizontally Integrated Undertaking** means an undertaking performing functions of gas production, transmission, distribution, supply or storage (at least one of these) and a non-gas activity, as well.
21. **System User** means any undertaking supplying gas to the system or being supplied gas by the system.
22. **Customer** means any legal or natural person or undertaking not having the rights of a legal person, which purchases gas.
23. **Final Customer** means a consumer purchasing gas for his own use.
24. **Free Customer** means a consumer having the freedom of choice in selecting a supplier.
25. **Regulated Customer** means a consumer who has no right to select a supplier.
26. **Safety** means reliability of gas supply and delivery and technical safety.
27. **Gas Transit** means transporting across the state territory of gas, which originates in the territory of another state and is destined for this and (or) a third state's territory.
28. **Direct Pipeline** means a gas pipeline system (pipeline), which supplements the interconnected system and connects the consumer's system with the main pipeline or the distribution networks, in order that the free customer might be able to use the system.

CHAPTER II
GENERAL RULES FOR THE ORGANISATION OF GAS SECTOR

Article 3. Gas Sector

The gas sector shall be comprised of gas production, supply, distribution, transmission and storage undertakings.

Article 4. Compatibility of Systems

1. The systems of transmission and distribution, gas storage facilities and liquefied gas facilities must meet the requirements of planning, construction and operation in order to ensure the compatibility and secure operation of systems, gas storage facilities, and facilities. Common, dispatcher control and use of the joint interconnected system of transmission and individual interconnected systems of distribution must be ensured.
2. The Government or the institutions authorised by it shall approve the legal acts, which establish the requirements stipulated in paragraph 1 of this Law.

Article 5. Licenses

1. Gas undertakings must hold a licence for the following types of operations:
1) transmission;
2) distribution;
3) storage;
4) supply for regulated customers.
2. The licenses for transmission, distribution and storing of gas shall be issued to undertakings having ownership right of the gas systems or using them by other legal means.

3. The licenses shall be issued, revoked, and suspended and the licensed operation shall be controlled by the State Prices and Energy Control Commission (hereinafter - Commission) The Government or an institution authorised by it shall establish the licensing regulations.
4. Licenses shall not be required of gas owners to transport gas by transit across the State territory and for the supply of gas used as raw material.

Article 6. Relations of Gas Undertakings and Customers and System Users

1. Relations of gas undertakings with customers and system users shall be based upon contracts.
2. It shall be prohibited to transmit, distribute, store, supply and use gas without a contract or without adhering to the conditions of the contract.
3. The Government or its authorised institution shall set the standard (sample) conditions of gas supply to users and gas transmission and distribution, which shall be mandatory to gas undertakings and customers.

Article 7. Gas Supply Contract

The following must be indicated in the gas contract: gas amount, quality, price, procedure of supply and account settling, rights and obligations of the parties, liability, contract and interruption terms and procedure of dispute examination. Other terms, which do not contradict the laws, may also be stipulated in the contract of gas supply.

Article 8. Gas Supplying

1. Gas undertakings must ensure safe supplying of gas to customers. The Ministry of Economy shall establish the criteria for gas supplying.
2. The gas undertaking may limit or interrupt the gas supply:
1) when it becomes established that the customer's service poses a threat to people's life, health or property;
2) if the customer fails to implement or improperly implements the obligations assumed through the contract;
3) in cases of accidents, emergencies or other instances stipulated by laws;
4) owing to necessary repairs and other operations of accessing the systems of other customers, having co-ordinated with the free customers and having warned the regulated customers according to the procedure stipulated in the contracts of gas supplying.
3. Gas undertakings shall have the right to supply gas to free customers through direct pipeline networks. The free customers shall have the right to obtain gas, supplied through direct networks. The Government of the Republic of Lithuania or the institutions authorised by it shall set the terms of pipeline accessing operations the terms of issuing the licences to access them.
4. According to established terms, the supply of gas must be ensured until the connection of the measuring device for the supplied amount of gas, is established with the customer's system.

CHAPTER III
TRANSMISSION, DISTRIBUTION, STORAGE

Article 9. Basic Requirements for Gas Undertakings

1.The gas transmission, distribution and storage undertakings must operate and develop the gas systems in a way that they would operate safely and efficiently and with due regard to assurance of environmental protection.
2. The transmission, distribution and storage undertakings shall be prohibited from discriminating between system users, and classes of system customers in favour of other customers or the undertakings linked with these undertakings.

3. Should the gas undertakings interrupt their operation or (and) a threat arise against the safe gas supplying of customers, the Government shall have the right to adopt a decision regarding assumption of the management of the undertaking or purchase of the assets thereof.

CHAPTER IV
TYPES OF ACCOUNTS AND MANAGEMENT THEREOF

Article 10. Internal Accounting of Integrated Natural Gas Undertaking

1. Vertically integrated gas undertakings shall administer the individual internal accounting of each type of the following operations:
    1) transmission;
    2) distribution;
    3) storage;
    4) supply.
2. In administering the accounting, reports shall be drawn up of the balance accounts of each type of operation, profits and losses.
3. Horizontally integrated undertakings, in addition to the accounts indicated in paragraph 1, shall administrate the consolidated internal accounting report of operations unrelated to the gas economy, as well.
4. The accounting of individual types of operations is administered in such a way, as it should be managed, if separate undertaking were to be engaged in these types of operations.
5. State institutions, in implementing the operation control functions entrusted to them according to the procedure established by laws, shall have the right to familiarise themselves with the documents of gas undertaking accounting report, however they must guard commercial secrets.

Article 11. Openness of Annual Account Data

Gas undertakings must ensure the opportunity for all persons who are interested, to become familiar with the annual reports of the balance sheet and profit (loss) account of an undertaking.

CHAPTER V
GAS MARKET

Article 12. The Right to Use System

1.The right to use the transmission system shall be extended to gas suppliers, free customers, distribution undertakings and undertakings transporting gas by transit.
2. The right to use the system of distribution extended to gas suppliers and free users.
3. Gas suppliers shall have the right to draw up contracts with free customers and distribution undertakings to supply gas.
4. Free customers shall have the right to draw up contracts with any gas supply undertakings. Free customers shall have the right through the system of use contracts for the amount of gas, which they use themselves.
5. A gas undertaking may refuse access to use the system, on the basis of lack of capacity, or where the undertaking could not implement the obligations assigned to it by the Government or an institution authorised by it. Refusal of access to the system must be objective, indiscriminate and substantiated.
6. The transmission or distribution undertakings, must in response to requests by customers or other gas undertakings, enhance the capacity of the system or construct a new gas pipeline, should that be economically substantiated or should the requester assume the obligation of funding the costs of enhancing the capacity of the system, inasmuch as they shall exceed the economically substantiated costs of enhancement of the capacity of the system. The issues concerning enhancement of the capacity

of the system and construction of new pipelines shall be resolved through an agreement among the parties.
7. The Commission shall examine the disputes regarding the right to use of the system, enhancement of its capacity and the substantiation of the term to buy out the investments. The Commission may assign the gas undertakings to draw up appropriate contracts.
8. The distribution undertaking shall supply gas to regulated customers.

Article 13. Market Liberalisation

1. The Government of the Republic of Lithuania or an institution authorised by it shall establish the threshold of market openness.
2. Applications to become free customers shall be submitted to the Commission along with the data on natural gas consumption.
3. Based upon this Law, the Commission shall decide within two months from the submission of the data stipulated in this Article, whether the customers may be acknowledged as free, and publish lists of free customers in the supplement to the "State Gazette," the "Information Bulletin."

Article 14. Price Regulation

1. The following prices shall be regulated in the gas sector:
1) transmission prices;
2) distribution prices;
3) storage prices;
4) gas prices for regulated customers.
2. The Commission shall set the thresholds of top prices for gas transmission, distribution and storage for a three-year-term.
3. The Commission shall set the thresholds of top prices for the regulated customers for a three-year-term.
4. The gas undertakings shall annually set gas transmission, distribution and storage prices, not to exceed the set top prices.
5. Every 6 months, the gas undertaking shall set the gas prices for regulated customers, not to exceed the highest prices.
6. New prices shall come into effect no earlier than 30 days from their having been made public. The Commission, having established that the prices have been estimated without adhering to the established methodology or are incorrect, must point out their errors to the undertakings. Should the undertaking fail to implement the request of the Commission, the Commission shall have the right to unilaterally set the prices indicated in paragraphs 4 and 5 of this Article.
7.The expenses of access of new customers to the existing gas systems may not be recognised as well founded should the prices for existing gas customers be increased as a result of these. For those new areas where gas is being introduced, a gas transmission price during a period of 10 years, can be set to be such as to cover investments, except in the instances specified in paragraph 1 of Article 15.

CHAPTER VI
CONSTRUCTION AND OPERATION OF SYSTEMS

Article 15. Construction of Gas Systems

1.Gas transmission systems, storage structures and facilities and terminals shall be established based upon the provisions of the National Energy Strategy and Government programme, after preparing corresponding drafts of development. The Government or an institution authorised by it, shall adopt decisions regarding the construction, enhancement of the main gas pipeline or (and) equipping of a storage facility, which are necessary to ensure the safety of the gas supplying. Gas undertakings and the Commission must ensure the implementation of such decisions.

2. A licence for constructing a main gas pipeline, which cuts across the border of the Republic of Lithuania, may only be issued with the approval of the Government of Lithuania. Licences for the construction of transmission and distribution systems shall not be issued, if the existing capabilities fail to be used.
3.Gas undertakings shall enable access to their systems for the systems of other undertakings and customers, if the productivity of the system is sufficient and the technical conditions have been met, and also, if the accessing will not interfere with the implementation by the gas undertakings of the obligations set by this Law. Should the productivity of the system prove to be insufficient to satisfy the gas needs of the future customer, the gas undertaking must enhance its productivity, if the technical opportunities are there. The gas undertakings, which are provided access and the customers, shall cover the costs of access, and if necessary, shall also cover the costs of enhancement of the productivity of the system. Upon co-ordinating with the Commission, the amount of the valuations of accessing shall be set by the transmission and distribution undertakings, which they access.

Article 16. Gas Systems on Land and Inside Structures

1. Gas systems on land and inside structures may be constructed upon an agreement between gas undertakings and the owners of the land or structure.
2. Damages must be compensated to the owners of the land or buildings that have been caused by the construction of the pipeline and installation or use of the buildings. A court shall decide any disputes, which may arise.
3. It shall be prohibited for the owners of land and structures to damage and restructure the property belonging to gas undertakings and to carry out other actions, which may interfere with the operation of the facilities and prevent the safe transport of gas. The facilities of a gas undertaking, which are relocated from the land and structure of an owner to another location at the owner's request, shall be relocated to another location, at the expense of the owner of the land, or structure.
4. Gas undertakings shall have the right to request that easements be set for estates where the property of the gas undertakings is situated.

Article 17. Operation of Gas Systems

1. Based on an agreement between land or structure owners and gas undertakings, persons authorised by the gas undertakings may enter the land area or buildings, which house the property of the gas undertaking, to register the amount of gas consumed, perform gas pipeline servicing, maintenance, repair, modernising operations. Should the land or building owners and the gas undertakings fail to agree, a court shall adopt a resolution to obligate the persons authorised by the gas undertakings to enter the owner's land area or structures.
2. The land, and structure owners, and customers must allow the gas undertakings or the persons authorised by them to permit the gas undertakings or their authorised representatives to perform the operations of servicing, maintenance, repair and modernising of the gas systems owned by the gas undertakings and to register the amount of gas consumed.

Article 18. Recording of Gas Amount

1. The amount of gas being transmitted, distributed, supplied and stored must be calculated according to the means of gas measuring, specified in the Register of Measuring Devices of the Republic of Lithuania.
2. Gas transmission, distribution and storage undertakings shall install and operate the gas measuring devices.

CHAPTER VII
PROVISION OF INFORMATION

Article 19. Provision of Information

1. State institutions may request some information regarding users from the gas undertakings and system, necessary for the implementation of the obligations established by the laws. One must not request information, which is not being collected at the gas undertakings or the collection whereof, has not been stipulated by legal acts.
2. The gas undertaking or the user of the system must supply the requested information within 10 days from the receipt of the request, if there are no valid reasons warranting a longer period of time. The providers of information must indicate, which of the information supplied by them is confidential.
3. The gas undertaking, which has refused to comply with a written request, submitted by another gas undertaking or a free user, to use the gas transportation system, shall inform the Commission of this decision of theirs and the reasons for such, within 10 work days.
4. The institutions of State authority may not publicly divulge and disseminate the confidential information, which they have obtained. Confidential data may be employed in drafting and publishing general information. Confidential information may be supplied to other institutions in accordance with the procedure established by law.

CHAPTER VIII
EXAMINATION OF DISPUTES. LIABILITY

Article 20. Examination of Disputes

The disputes regarding the action or the lack thereof by natural gas undertakings in the transmission, distribution, supply, purchase and storage of natural gas, failure to grant the right of the use and access of the system, system balancing and price establishment shall be examined by the Commission by the procedure of alternative dispute resolution. The disputes regarding the malfunctions in equipment and measuring devices, violations in the operation of systems and accidents and interruptions in gas supply shall be examined by the State Inspectorate of Energy by the procedure of alternative dispute resolution.

Article 21. Liability

1. The persons who have violated the requirements of this Law shall be liable according to the procedure established by laws.
2. Persons shall compensate for the damage caused by their illegal activities to other persons, undertakings, institutions and organisations, in accordance with the procedure established by laws.
3. In accordance with the procedure established by laws, the Commission may set penalties for:
1) unlicensed activities or failure to adhere to the requirements of the license;
2) violation of the set procedure in applying estimated tariffs and taxes to users;
3) failure to adhere to the requirements of transparency of activity set by the laws and other legal acts;
4) unfounded refusal in providing the services of natural gas transportation.
4. The amount of assigned penalties shall be differentiated taking into account the size of the damage caused by the violations, duration of the violation and the circumstances alleviating or increasing the liability.

CHAPTER IX
FINAL PROVISIONS

Article 22. Procedure of Implementation of the Law

1. Distribution undertakings must offer to the users accessing their systems to operate individual parts according to individual contracts the systems of general use.
2. According to the procedure established by the Government or its authorised institution, gas transmission or distribution undertakings shall buy out or take over the operation of the systems of general use and gas measuring devices, equipped with the users' funds prior to the coming into force of this Law.
3. The Government shall appoint institutions, which would draft the legal acts necessary to implement the provisions of this Law.
4. The Government or its authorised institution shall set the procedure for the examination of disputes specified in Article 20.
5. Upon the coming into force of this Law, the following users shall be recognised as free users:
1) power stations;
2) users, who consume over 15 million cubic metres of gas annually;
3) users, whose systems have direct access to the main gas pipelines;
4) distribution undertakings whose gas systems have direct access to the main gas pipelines;
6. The Government or its authorised institution shall establish the criteria of a free customer for the later period, taking into account the degree of market transparency.
7. The Commission must co-ordinate the regulations, provisions and methodologies being drafted, in accordance with the procedure established by the Government.
8. The Commission shall have the right to become acquainted with the contracts being drawn up with gas undertakings and customers.
9. The Government or its authorised institution shall draft, by January 1, 2002, amendments to the Code of Administrative Law Violations which provide for liability in violations of the provisions of this Law.
10. The Government or its authorised institution shall approve the regulations of transmission, distribution, storage and supply for the implementation of the provisions of this Law.

Article 23. Coming into Force of the Law
1. This Law, with the exception of Article 10, shall come into force from July 1, 2001.
2. Article 10 of this Law shall come into force from January 1, 2002.

I promulgate this Law passed by the Seimas of the Republic of Lithuania.

PRESIDENT OF THE REPUBLIC VALDAS ADAMKUS

6.2. Explanatory note on taxation

Currently, there is only one official translation into English of a law regulating taxes, namely – the Law on Excise Duty. The document can be found in the database of legal acts of the Seimas at http://www3.lrs.lt/cgi-bin/preps2?Condition1=160467&Condition2=

As we have no official translations of other tax laws into English, we are submitting explanatory notes in the English language on the Law on Profit Tax of the Republic of Lithuania, the Law on Real Estate Tax of Companies and Organisations of the Republic of Lithuania, and the law on Land Tax of the Republic of Lithuania prepared by specialists of the Tax Department.

ANNEX X

Explanatory note
On real estate tax of companies and organisations

The payers of the tax are legal persons and foreign legal persons and organisations, which hold real estate, excluding land, aircrafts, and ships, by the right of ownership in the Republic of Lithuania.

The tax rate is 1 per cent of the taxable value of the real estate.

The **taxable value** of the real estate shall be its replacement costs (by calculating the percentage of physical amortisation), by applying territorial adjustment rates established by resolutions of the Commission on Evaluation of Real Estate Subject to Registration under the Ministry of Finance. An evaluation is valid for 5 years provided the consumer price index does not exceed 1.25 during a calendar year. Taxpayers shall annually calculate the tax for the real estate held by the right of ownership according to the taxable value of the real estate as of 1 January of that year.

The tax shall not be applied to the following:
1) real estate of diplomatic or consular offices of foreign states (on parity basis);
2) real estate of state and municipal enterprises and budgetary institutions;
3) real estate of religious societies, communities and centres;
4) buildings, structures or their parts used for cemetery and burial services;
5) real estate used by the associations and enterprises of the disabled;
6) real estate of agricultural enterprises;
7) real estate of associations of residential house owners, residential house maintenance and garage maintenance associations and associations of gardeners which service only their respective members;
8) real estate of charitable organisations and charitable funds;
9) real estate of institutions of science and studies, educational institutions, institutions of social care and guardianship, and public organisations;
10) real estate used for nature protection and fire prevention as well as general purpose structures;
11) real estate of enterprises in free economic zones;
12) real estate in the balance of a bankrupt enterprise;
13) structures not approved for use

Municipal Councils
Municipal councils are permitted to **reduce the tax**, or grant a complete exemption, at the expense of their respective budgets.

The tax on newly acquired or built taxable real estate shall be calculated in the amount of 1/12 of the annual sum for each month beginning from the month following the month in which the right of ownership was acquired.
Upon loss of the right of ownership to a real estate, **calculation of the tax shall cease** from the month following the month in which the right of ownership was lost.

ANNEX XI

The Law on Tax on Profit
EXPLANATORY MEMORANDUM

Introduction:

The Law on Tax on Profit (hereinafter – "the Law") has been adopted by the Seimas of the Republic of Lithuania at the end of 2001. This Law has replaced the 1990 Law on Taxes of Profits of Legal Persons.

Year 2002 shall be a transitional period for the Lithuanian tax reform, since the provisions of the new Law shall be applicable while calculating and taxing of profits earned during 2002.

Taxpayers:

The Profit tax is levied on taxable entities:

- **Lithuanian entity**, i.e. a legal person incorporated in accordance with Lithuanian law;
- **foreign entity**, i.e. a legal person or an organisation established in the territory of the foreign state and incorporated or otherwise established in accordance with the law of the foreign state, also any other taxable entity incorporated, or otherwise established in the foreign state.

Tax base:

The tax base of a Lithuanian entity is its worldwide income.

The tax base of a foreign entity is its business activity income derived in the territory of Lithuania via a permanent establishment. Such income is taxable the same way as of a resident entity. (See also "Calculation of the Taxable Profit" hereunder).

The tax base of a foreign entity for its business activity not via the permanent establishment is its income derived from Lithuanian residents, such as:

- interest income;
- income of the distributed profit;
- royalties for the use of author's and related rights (with the exception of computer programs treated as copyright article);
- royalties for the information provided on industrial property;
- franchise payments;
- payments for information provided on industrial, commercial or scientific experience (know-how);
- income from sale or another form of transfer of property or rent of the originally immovable property, situated in the territory of Lithuania;
- compensations for the breach of author's and related rights.

The above-mentioned items are subject to withholding tax.

Tax Rates and Benefits:

- Lithuanian entities and permanent establishments of the foreign entities - 15 per cent.
- Certain listed items of income of the foreign entity derived in Lithuania not through the permanent establishment - 10 per cent withholding tax.
- Dividends and other distributed profit - 15 per cent.
- Entities, whose average number of employees does not exceed 10, and the taxable period income does not exceed 500 000 Lt (approx. USD 125 000 or EURO 140 000) - 13 per cent.

Tax year:

The taxable period shall be a calendar year; however, the central tax administrator may allow the taxpayer to apply taxable period not conterminous with the calendar year, with due regard being had to

the circumstances of the taxpayer's activity. The taxable period shall be equal to 12 months in all cases.

Calculation of the Taxable Profit:

1. The taxable profit of the Lithuanian entities shall be calculated as follows: all income earned during the taxable period shall be deducted with the non-taxable income and with allowable deductions, including the deductions that can be taken only to a limited extent. The system of inclusion of the deductions is simplified. Deductions that can be taken only to a limited extent include *inter alia*:

- fixed assets depreciation (amortisation) deductions (5 to 33 per cent per year depending on the item); for tax purposes the straight-line and declining balance methods are permissible;
- business trips expenses;
- charitable contributions;
- payments into the pension funds and insurance premiums;
- fixed tangible assets exploitation, repair and reconstruction expenses;
- bad debts.

Income and deductions shall be justified by the documents, which have all the data stipulated in the law applicable to accountancy or the provisions adopted by Government or its authorized authority;

Unallowable deductions include *inter alia*:

- the charges on the enterprises using state-owned capital;
- penalties paid to the state funds;
- interest or penalties for the breach of obligations between the associated entities;
- the excessive part of the deductions that can be taken only to a limited extent;
- losses between the associated entities;
- dividends and other distribution of profit.

The payments made by the Lithuanian entities or by the foreign entity permanent establishment to the entities organised in the target territories shall be treated as unallowable deductions in the absence of proof that such payments were part of the usual business activity of both payer and beneficiary, and provided there was a connection between the payment and the economically sound commercial transaction.

2. Income of the Lithuanian entity shall include also all the positive income of a controlled foreign company, i.e., all or part of income of the controlled taxable entity organised in the states not mentioned in the "white list" issued by the Minister of Finance shall be included into income of the controlling Lithuanian entity in proportion to the shares, parts, votes or rights to the profit of the controlled entity. These provisions shall not apply if controlled foreign company income is composed solely of the controlling entity payments, which are treated as unallowable deductions, or income of the controlled foreign company is less than 5 per cent of the controlling entity income (see also "Anti-avoidance rules").

Loss Carryforward:

The loss sustained within the taxable period may be carried forward the new taxable period for the period of five consecutive tax years, with the exception for the loss sustained from the transfer of securities and the derivative financial instruments. These losses may be carried forward for only three tax years, and they may be covered only by income derived from transfer of securities or derivative financial instruments.

Taxation of Dividends:

According to the Law the dividends shall not be taxed more than once. Provisions regarding dividends apply also to the distributed profit, even if it is not recognised as dividends by the Law on Stock Companies or other pieces of Lithuanian legislation. The participation exemption principle is introduced according to which the dividends are not taxed in case the entity, which receives them,

controls more than 10 per cent of another entity within a period not shorter than 12 consecutive months including dividends distribution moment.

Reorganisation, transfer or liquidation of the Company:

The tax aspects of the reorganisation, transfer or winding up of the entities are in line with the Directive 90/434/EEC provisions. No capital gain tax shall be imposed either on the shareholders or on the entities themselves after the operations mentioned in the Law have been fulfilled.

In case an entity is being liquidated and distributes its assets to its shareholders, such distribution shall be treated as sales while income derived out of such sales shall be treated as capital gains, and losses derived – as a loss of the liquidated entity.

In case Lithuanian entity or entity established in accordance with laws of the Member State of the European Union receives shares of another entity as a result of reorganisation or transfer of property the difference between the price of the shares may be covered by a cash payment not exceeding 10 % of the nominal value or, in the absence of a nominal value, of the accounting par value of the securities. This provision, however, shall be applicable from January 1, 2004.

Tax credit:

Tax paid by a Lithuanian entity in the foreign state for the income derived therein may be credited against the tax computed upon this Law, this deduction according to the country-by-country principle. However, tax paid by a Lithuanian entity in the foreign state for the dividends or interest may be credited against the tax computed upon this Law according to the source-by-source principle, but the sum of tax cannot exceed 25 per cent of total tax sum as computed in accordance with the Law.

Anti-avoidance rules

1. The positive income derived by a Lithuanian entity out of holding in the capital of a controlled foreign company (CFC) shall be included into the tax base of the controlling Lithuanian entity. These provisions are not applicable to the double taxation treaties partners.
2. The long-time practice in the foreign jurisdictions is introduced in the Lithuanian tax system: a possibility for the tax administrator to adjust the price indicated in the agreements made between the associated entities, which are inconsistent with the normal market price, or revaluate the payments and income. To find the normal market price the tax administrator may apply the methods of adjustment the value of the transaction. These methods shall be drafted by the institution appointed by the Government in light of the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. In Lithuania these provisions shall be applicable from 2003.
3. The law sets the special conditions for the taxation in case of leaseback, also cases when the rent is treated as sales. These provisions aim to prevent tax deferral abuse.

ANNEX XII

Explanatory note
on Land Tax

The target of the tax is private land.

The taxpayers are private owners of land.

This tax is not applied to:

1) commonly used roads;
2) plots of land belonging by the right of ownership to diplomatic and consular missions of foreign states (on parity basis).
3) forest land;
4) land of national and regional parks;
5) protective strips of land around water reservoirs;
6) land of natural monuments;
7) land of archaeological and historical monuments and their security zones;
8) land of historical, architectural monuments, and monuments of art in rural areas;

Exempt from land tax shall be landowners who are disabled persons of the 1st and 2nd invalidity category, old-age pensioners and minors, provided that at the beginning of the taxation period, there are no persons capable of work in the families of said land owners, and provided that the size of the land plot owned by them does not exceed the tax exempt area of land established by municipal councils.

Municipal councils shall have the right to reduce the amount of land tax or to grant exemption from the payment of land tax compensating the sums from their respective budgets.

New land owners shall pay taxes:

- for the whole year if the land is acquired during the first half of the year; and
- beginning the following calendar year if the land was acquired during the second half of the year.

Up to 2003, in calculating the land tax, with regard to the land, the following **value-reducing rates shall be applied**:

1) land used for agriculture, land of associations of residential house owners, residential house building associations, land of consumer co-operations and co-operative associations - 0.35;
2) land of garden plots of associations of gardeners and their members, private residence holdings and land plots adjacent to the land of residential houses, land plots used for economic-commercial and other activities - 0.5.

6.3. Explanatory note on bankruptcy

The new Enterprise Bankruptcy law (came into force 1 July 2001) eliminates rehabilitation of the bankrupt enterprises, as it was in previous 1997 law.

During the 1993-2002 period there were only 9 Enterprises under rehabilitation. Now only 3 enterprises are still under rehabilitation, according to the year 1997 Enterprise Bankruptcy law.

The only possibility to get State Aid for bankrupt enterprise is to sign a Composition agreement with its creditors. Although it is very difficult to sign such agreement especially with creditors from State institutions whilst it is very strong regulations for the Tax and Customs inspectors, as representatives of the institutions according to the Tax and Customs legislation.

The acting Enterprise bankruptcy law is based on EU Convention on Insolvency of Enterprises and fully corresponds With the EU Competition policy and State Aid controlling issues as well as Lithuanian State Aid Control law. E.g. .if State Aid exceeds the extent for allowed in EU countries, including tax reductions, the render of State Aid must present full information about Aid and get permission from Lithuanian Competition Council.

Respectively the Lithuanian Competition Council informs EU Commission about the Aid and must get the permission from the EU Commission.

Enterprise Bankruptcy law was prepared with PHARE assistance (The PHARE consultants were from Ireland, and Finland), as well as assistance of World Bank (consultant expert Gordon Johnson).
The background of the law was US Bankruptcy Code, as well as Bankruptcy laws of Finland and Ireland.

The implementation of the law and secondary legislation are monitored by Enterprise Bankruptcy Management Department under the Ministry of Economy with assistance of PHARE consultants, according to PHARE 2 MEU project for18 months, starting from the 3d of April 2002, as well as under the observation of EU Commission and World Bank.

FURTHER REFERENCES
Enterprises bankruptcy law (enclosed, ANNEX XIII)

ANNEX XIII

Official translation
REPUBLIC OF LITHUANIA
ENTERPRISE BANKRUPTCY LAW

20 March 2001 No. IX-216
Vilnius

CHAPTER ONE
GENERAL PROVISIONS

Article 1. Purpose of the Law
1. The Law shall regulate enterprise bankruptcy process.
2. The Law shall apply to all enterprises, public agencies, banks and credit unions (hereinafter - enterprises), registered in the Republic of Lithuania in the manner laid down by law. The specific features of bankruptcy process of banks, credit unions, insurance companies, agricultural enterprises, intermediaries of public trading in securities, investment companies and other enterprises and institutions may be established by other laws regulating the activities of the said enterprises and public agencies.
3. Provisions of other laws regulating the activities of enterprises, the creditor's right to the satisfaction of claims, the creditor's right to take measures to recover debts, taxes and other mandatory payments and the administration thereof in the course of bankruptcy process shall be applied in enterprises to the extent they do not conflict with the provisions of this Law.

Article 2. Definitions
In this Law:
1. "**Bankruptcy"** means the state of an insolvent enterprise where bankruptcy proceedings have been initiated in court or the creditors are performing extrajudicial bankruptcy procedures in the enterprise.
2. "**Bankruptcy process"** means the sum total of judicial or extrajudicial enterprise bankruptcy procedures.
3. "**Bankruptcy proceedings"** means a civil case opened in court over disputes arising from legal relations connected with bankruptcy.
4. **"Enterprise in bankruptcy"** means an enterprise against which bankruptcy proceedings have been initiated or in respect of which extrajudicial bankruptcy procedures are applied.
5. "**Bankrupt enterprise"** means an enterprise declared bankrupt by the court or, in case of extrajudicial bankruptcy proceeding, by the resolution of the creditors' meeting and put into liquidation due to bankruptcy.
6. "**Management of assets of an enterprise in bankruptcy or a bankrupt enterprise**" means the activities of the administrator: retention of the assets of an enterprise in bankruptcy or bankrupt enterprise, recovery of assets from the debtors, sale of assets, satisfaction of the creditors' claims, organisation of transfer of the remaining assets.
7. "**Creditor's claims secured by pledge and/or mortgage charge"** means the right acquired by the creditor/pledgee/mortgage creditor under a contract of pledge or a registered mortgage bond or pledge note to demand, in the event of the enterprise's default to fulfil the obligation secured by pledge and/or mortgage, that the property on which he holds a mortgage charge or a lien be realised in the manner prescribed by this Law and his claims be met from the proceeds or, in the event of failure to realise the secured assets, to transfer the assets into his ownership.

8. **“Insolvency of an enterprise”** means the state of an enterprise when it fails to settle with the creditor/creditors after the lapse of three month from the deadline prescribed by laws, other legal acts as well as by the agreements between a creditor and the enterprise for the discharge of the obligations of the enterprise, or upon expiry of the said time period after the creditor/creditors demands/demand the discharge of the obligations where the deadline has not been set in the agreement, and the overdue obligations/debts are in excess of over a half of the value of the assets on the enterprise’s balance.
9. “**Owner/owners**” means the owner/owners of an individual/personal enterprise, a member/members of a general partnership, a general member/general members or a limited member/limited members of a limited partnership, the founder of a state-owned or municipal enterprise, a shareholder/shareholders whose shares carry over 10% of voting rights, a holder/holders of member share, stakeholders in a public agency.
10. “**Authorised representative of the shareholders/holders of member shares/ stakeholders**” means a person elected by the meeting of shareholders/holders of member shares/stakeholders to represent their interests in bankruptcy process.
11. **“Composition with creditors”** means agreement between the creditors and the enterprise to continue the activities of the enterprise where the latter assumes certain obligations, whereas the creditors agree to defer the satisfaction of financial claims or to reduce the amount thereof or to waive their claims.
12. “**Fraudulent bankruptcy”** means deliberate bringing of the enterprise to bankruptcy.

Article 3. Enterprise Creditors
Enterprise creditors (hereinafter - creditors) are legal or natural persons who have the right under law to demand from the enterprise the discharge of liabilities and obligations, including, *inter alia*:

1) in case of default in payment of taxes, compulsory state social insurance contributions, and compulsory health insurance contributions - state institutions responsible for the collection thereof;
2) in case of debts in the payment of wages and failure to pay the damages arising from employment relationship - the enterprise workers (their heirs);
3) in the event of transfer to the State of the obligation for the payment of damages under the Provisional Law on Damage Compensation in Accident at Work or Occupational Disease Cases - an institution authorised by the Government;
4) in case of outstanding loans obtained on behalf of the State or with the State guarantee - the Ministry of Finance;
5) legal and natural persons who have sold agricultural produce;
6) other creditors.

CHAPTER TWO
PETITION FOR BANKRUPTCY

Article 4. Grounds for Filing a Petition for Bankruptcy
Persons specified in Article 5 of this Law may file a petition for bankruptcy with the court if at least one of the following conditions is present:

1) the enterprise fails to pay wages and other employment-related amounts when due;
2) the enterprise fails to pay, when due, for the goods received, work performed/ services provided, defaults in the repayment of credits and does not fulfil other obligations assumed under contracts;
3) the enterprise fails to pay, when due, taxes, other compulsory contributions prescribed by law and/or the awarded sums;
4) the enterprise has made a public announcement or notified the creditor /creditors in any other manner of its inability or lack of intent to discharge its obligations;

5) the enterprise has no assets or income from which debts could be recovered and therefor the bailiff has returned the writs of execution to the creditor.

Article 5. Petition Filed with Court for the Initiation of the Enterprise Bankruptcy Proceedings

1. The following persons shall have the right to file a petition for the initiation of the enterprise bankruptcy proceedings:
   1) the creditor/creditors;
   2) the owner/owners;
   3) the head of the enterprise administration.
2. Under the condition laid down in Article 7(1) of this Law, the petition for the initiation of bankruptcy proceedings must be filed with court by the liquidator of the enterprise in liquidation.
3. Petitions shall be filed in writing with the county court of the locality in which the registered office of the enterprise is situated in the manner set forth by the Code of Civil Procedure.
4. Documents proving the reasonableness of the petition shall be attached thereto.

Article 6. Petition for Bankruptcy Filed by a Creditor/Creditors

1. In the presence of at least one of the conditions specified in Article 4 (1), (2) or (3), a creditor/creditors may file a petition for bankruptcy not earlier that after the expiry of 3 months measured from the date prescribed by laws, other legal acts, also agreements between creditors and the enterprise, by which date the obligation of the enterprise had to be fulfilled, or upon the expiry of the same time period after a creditor/creditors requested the discharge of the enterprise's obligations, provided that the time period has not been fixed as per agreements. A copy of the notification specified in paragraph 2 of this Article must be attached to the petition.
2. The creditor/creditors must notify the enterprise manager in writing of his/their intention to file a petition for bankruptcy. The notification shall identify the undischarged obligations of the enterprise and shall contain a warning that in case of failure to discharge the above obligations within the time limit specified in the notification, the creditor/creditors will file a petition for the enterprise bankruptcy. The creditor/creditors shall set an at least 30-day period for the discharge of obligations.
3. Where the condition specified in Article 4(5) of this Law is present and the creditor/creditors has filed a petition for bankruptcy within one month from the day the writs of execution were returned, the conditions established in paragraphs 1 and 2 of this Article shall not be applicable.
4. The creditor/creditor must present copies of the petition and of the annexes accompanying the petition to the head of the enterprise administration.
5. A petition filed with the court may be waived before the court passes a decision to initiate bankruptcy proceedings.

Article 7. Petition for Bankruptcy Filed by the Enterprise Liquidator

If it transpires during the liquidation of the enterprise according to the procedure prescribed by other laws regulating the activities of the enterprise that it will be unable to discharge all its liabilities, the enterprise liquidator must forthwith suspend all payments and within 15 days from the day of establishment of the above state file for initiating the enterprise bankruptcy proceedings. The petition to court shall be accompanied by the lists of enterprise creditors and debtors, including their addresses, sums of liabilities and debts and the dates when payment thereof is due as well as the financial statement for the period from the day the of making of the decision to put the enterprise into liquidation to the day of filing of the petition.

2. Expenses relating to the administration of enterprise bankruptcy shall be covered in the manner prescribed by this Law.

Article 8. Petition for Bankruptcy Filed by the Head of the Enterprise Administration, Owner/Owners

1. If the enterprise is and/or will be unable to settle with the creditor/creditors, and the latter have not filed a petition for bankruptcy to court or if the condition referred to in Article 4 (4) is present, the head of the enterprise administration, the enterprise owner/owners shall file for the initiation of the enterprise bankruptcy proceedings.
2. The reasons for filing by the enterprise of a petition for bankruptcy shall be indicated in the petition. The petition to court shall be accompanied by the lists of enterprise creditors and debtors, indicating their addresses, sums of liabilities and debts and the dates when payment thereof is due as well as the financial statement for the preceding year and the period of the current year prior to the day of filing of the petition and information relating to the proceedings instituted in courts and recoveries without suit, pledged property and other liabilities. Other documents of relevance for the bankruptcy case may also be presented to court.

CHAPTER THREE
IVESTIGATION OF BANKRUPTCY CASES IN COURT

Article 9. Preparation for Investigation of a Bankruptcy Case in Court

1. Having received the documents specified in Article 6 (4) of this Law, the head of the enterprise administration shall within 5 days from the receipt of the above documents furnish to court lists of creditors and debtors, indicating their addresses, amounts of liabilities and debts, time limits for making settlements, the financial statement for the preceding year and the period of the current year prior to the day of filing of the petition to court by the creditors, information relating to the proceedings instituted in courts and recoveries without suit, pledged assets and other liabilities.
2. Upon the receipt of a petition for bankruptcy, the court may:
   1) obligate the owner/owners, board members, head of the administration, chief financier/accountant, the liquidator to submit to the court all documents required for the investigation of the bankruptcy case and to appraise the property of the enterprise;
   2) summon before the court the owner/owners, board members, head of the administration, chief financier (accountant) and other executive officers irrespective of the fact on what grounds the employment contracts with them were terminated, provided that they had been dismissed from work within 12 months prior to the day of filing of the petition for bankruptcy and demand that they give written explanations relating to the initiation of bankruptcy proceedings. Appearance before the court of the above persons shall be obligatory and the guarantees established under the Code of Civil Procedure in respect of witnesses shall apply to them;
   3) summon to court the creditors of the enterprise;
   4) request that the head of the enterprise administration or owner/owners furnish to the court data on the economic and financial position of the enterprise;
   5) provide civil remedies according to the procedure laid down in the Code of Civil Procedure;
   6) specify other circumstances which are of consequence for the investigation of the case.
3. After the court receives a petition for bankruptcy, provided that decisions have been made by courts and other institutions with regard to the enterprise and writs of execution have been issued based thereon, the assets (funds) of the enterprise under the writs of execution may be attached, however the sale of the assets and/or levying of execution shall be staid. If the court refuses to initiate bankruptcy proceedings against the enterprise, the levying of execution and sale of assets shall be resumed, the civil remedies provided shall be cancelled.
4. The court or the judge shall within one month from the day of receipt of the petition issue an order to institute bankruptcy proceedings or to refuse to grant the petition. For valid reasons the court shall be entitled to extend the period of preparation for the investigation of the bankruptcy case, but for not longer than one month. Where a petition for restructuring is received during the investigation of the

petition for bankruptcy and the court order to institute bankruptcy proceedings has not yet been issued, the investigation of the petition for bankruptcy shall be postponed pending the court order to initiate restructuring proceedings or to refuse to grant the petition for restructuring.

5. Bankruptcy proceedings shall be instituted if the court establishes the presence of at least one of the following conditions:

1) the enterprise is insolvent;

2) the enterprise has made a public announcement or in any other manner notified the creditor/creditors of its inability to effect settlement with the creditor/creditors and/or of its lack of intent to discharge its liabilities.

Article 10. Instituting Bankruptcy Proceedings in Court

1. Bankruptcy proceedings shall be instituted and bankruptcy case shall be investigated in court in accordance with the procedure of action proceedings prescribed by the Code of Civil Procedure, save for the exceptions provided for by this Law.

2. Bankruptcy proceedings shall be instituted by the county court of the locality where the registered office of the enterprise is situated.

3. The court shall refuse instituting bankruptcy proceedings if:

1) before the court issues an order to institute bankruptcy proceedings, the enterprise satisfies the claims of the creditor/creditors who filed a petition for bankruptcy;

2) restructuring proceedings have been instituted against the enterprise.

4. Upon issuing an order to institute bankruptcy proceedings, the court or the judge must:

1) appoint the administrator of the enterprise;

2) to levy an attachment against the immovable property and other fixed tangible assets of the enterprise, in force until the effective date of the court order to institute bankruptcy proceedings;

3) to give forthwith a written notification of the instituted proceedings to the administrator of the Register of Enterprises and, within a 10-day period from the effective date of the court order to institute bankruptcy proceedings, to: the enterprise, the creditors, all persons who have leased, borrowed, or are keeping in custody or using or managing the enterprise assets on any other grounds, also the Ministry of Finance if the enterprise is the recipient of a loan made on behalf of the State or guaranteed by the State, the tax administrators, compulsory social insurance and compulsory health insurance administrators, credit institutions and insurance companies servicing the enterprise, the founder of the State-owned, municipal enterprise in bankruptcy or the institution representing the enterprise, also the Securities Commission if bankruptcy proceedings are instituted against a public company;

4) notify other courts, in which action for claims, including claims arising from employment relationships, has been brought against the enterprise, of the institution of bankruptcy proceedings and take over investigation of the above cases. Notify the bodies of investigation or courts if associated civil action has been brought in criminal proceedings by the creditors of the enterprise in bankruptcy and take over all documents relating to the above actions for examination. Notify bodies of investigation or courts if in criminal proceedings attachment is levied on the assets of the enterprise in bankruptcy and take over all the documents relating to the attachment on the assets. Notify the bailiff's offices, which have been presented the writs of execution regarding the levying of execution on the enterprise or regarding the levying of attachment on the assets of the enterprise;

5) set a time limit which shall be not shorter than 30 and not longer than 45 days from the effective date of the court order within which the creditors shall have the right to file their claims;

6) set a time limit which shall be not shorter than 15 days from the effective date of the court order to institute enterprise bankruptcy proceedings, within which the enterprise

managing bodies must transfer to the administrator the assets of the enterprise according to the financial accounts drawn up based on the data available on the day on which the order to institute bankruptcy proceedings becomes effective, and all the documents;

7) approve the amount of enterprise funds on the basis of an estimate submitted by the administrator which the latter shall be entitled to use to cover the administration costs pending the approval of the estimate of administration expenses. The administrator must submit the estimate within 5 working days from the effective date of the court order to institute bankruptcy proceedings.

5. If the creditor's civil action is referred, according to the procedure established by the Code of Criminal Procedure, to the court investigating the bankruptcy case, the time limits for the referral of action set in paragraph 4 (5) of this Article shall be deemed to have been observed. The above action by the creditors may be referred by the court order to the court investigating the bankruptcy case during the entire time period of the bankruptcy process until the court issues an order to terminate the bankruptcy case or adopts a decision on the winding up of the enterprise.

6. The court or the judge may direct the enterprise administrator to perform the actions specified in paragraph 4 (3) and (4) of this Article.

7. After the court order to institute bankruptcy proceedings becomes effective:

1) the enterprise managing bodies must transfer to the administrator the assets of the enterprise according to the financial accounts drawn up on the basis of the data as of the day of institution of the enterprise bankruptcy proceedings and all pertinent documents within the time limits set by the court. In the cases where the assets of the enterprise are not separated from the assets of the enterprise owner or those of the members of the enterprise, the owner/owners must within the said time period submit to the administrator the list of all available assets, including the assets, which are the object of joint ownership;

2) the enterprise managing bodies shall lose their powers, while the enterprise administrator shall upon a 15-day written advance notice terminate employment contracts with the members of the enterprise board and the head of the administration. The said individuals shall not be entitled to severance pay or compensation, except for monetary compensation for the unused holidays. Upon the court order, the above persons and the chief financier (accountant) must present, in the course of the bankruptcy process, all information required for the bankruptcy process;

3) discharge of financial obligations not met prior to the institution of bankruptcy proceedings, including payment of interest, default interest, taxes and other mandatory payments, also recovery of debts from the enterprise through court or without suit shall be prohibited. Computation of default interest and interest on all obligations of the enterprise, including on default in payments related to employment relationship, shall be suspended;

4) if the administrator does not notify the interested parties within 30 days from the effective date of the court order to initiate bankruptcy proceedings that he will not implement the unexpired contracts entered into by the enterprise, the said contracts (including contracts of lease, loan for use agreements), except for employment contracts and contracts from which claims of the enterprise in bankruptcy arise, shall be deemed to have expired, and claims arising by reason thereof shall be met in the manner specified by Article 35 of this Law;

5) the enterprise shall be entitled to engage in economic-commercial activities, provided it reduces creditor losses incurred by reason of bankruptcy, and shall also have the right to use the income received from the above activities to cover expenses related to the activities. Where taxable objects provided for by tax laws and laws on other mandatory payments are created by the enterprise's economic-commercial activities, the enterprise shall pay taxes and other mandatory payments in compliance with laws. Where claims relating to undischarged obligations and commitments emerge as a result of the above economic-commercial activities, they shall be met in accordance with the procedure specified by a 35 of this Law;

6) upon a motion by the creditors the court may impose restrictions on the enterprise's economic-commercial activities and disposal of its assets, which may be sold, leased, or pledged, also used as a collateral or a guarantee for the discharge of other entities' obligations, or may be otherwise transferred (conveyed) only by leave of the court;

7) the enterprise shall acquire the status of the enterprise in bankruptcy.

8. If a separate appeal is lodged to the court of appeals against the decision to institute bankruptcy proceedings, appoint, temporarily substitute for or dismiss the administrator, the court must examine the appeal within two weeks. The decision of the court of appeals shall be final and not subject to appeal by cassation.

9. The court shall have the right to accept creditors' claims filed not within the time limits set paragraph 4 (5) of this Article provided the court recognises the reasons for not observing the set time limit as valid. The creditors' petitions lodged after the time limit set in paragraph 4 (5) of this Article for the recognition of claims which emerged prior to the institution of bankruptcy proceedings shall be accepted only until the day the court issues an order to terminate the bankruptcy proceedings or to liquidate the enterprise due to bankruptcy.

Article 11. Enterprise Administrator

1. The enterprise administrator (hereinafter - the administrator) shall be a natural or legal person appointed by the court, entitled to provide bankruptcy administration services.

2. When filing to court a petition for enterprise bankruptcy, a person may nominate a candidate to the post of the administrator. Persons listed in Article 5 (1) of this Law shall also have the right to nominate their candidates to the administrator's post. The court shall also have the right to appoint to the administrator's post another persons meeting the requirements of this Article. If no candidate is nominated to the post of the administrator by the person who filed the petition for bankruptcy or by other persons listed in Article 5 (1) of this Law, the administrator must be selected by the court.

3. The administrator shall:

1) submit the documents and information relating to the enterprise in bankruptcy to the administrator of the Register of Enterprises;

2) transmit to the institution authorised by the Government the information relating to the enterprise in bankruptcy and data to be published in the information supplement "*Informaciniai pranešimai*" of the publication "*Valstybes žinios*" (Official Gazette);

3) manage, use the assets of the enterprise in bankruptcy in the manner prescribed by this Law and dispose thereof and also of the enterprise funds kept with the banks;

4) ensure the protection of the assets of the enterprise in bankruptcy;

5) open a separate bank account for the accumulation of funds in the course of the bankruptcy process and for effecting settlements with creditors in the manner set forth in this Law. The bank account shall be opened following the order issued by the court to institute bankruptcy proceedings or the resolution adopted by the creditors' meeting to open extrajudicial bankruptcy proceeding;

6) direct the economic-commercial activities of the enterprise in bankruptcy;

7) enter into contracts of limited duration for the lease of the enterprise assets, in which the day of expiry of the contract of lease must be the day of sale, transfer or return of the assets;

8) examine the contracts of the enterprise in bankruptcy entered into within an at least 36 months period before the initiation of bankruptcy proceedings and bring actions for the invalidation of the contracts which are contrary to the objectives of the enterprise activities and/or which could have led to the disability of the enterprise to settle with creditors. In this case the administrator should be considered to have found out about the contracts from the effective date of the court order to institute bankruptcy proceedings;

9) represent or authorise another persons to represent the enterprise in bankruptcy in the court, creditors' meeting, and in entering into contracts if the enterprise in bankruptcy continues its economic- commercial activities;
10) compile the list of all enterprise creditors and their claims on the basis of claims filed by the creditors, which have been revised according to the financial accounting documents of the enterprise, and submit the list to the court for approval, also contest unproven claims of creditors at the creditors' meeting and in the court;
11) hire and dismiss workers according to the procedure laid down in the Law on Employment Contract;
12) submit documents to the Fund for the Satisfaction of Claims of Workers of Enterprises in Bankruptcy or Bankrupt Enterprises Arising out of their Employment Relationships or to the Guarantee Fund for the allocation of resources for the satisfaction of the workers' claims arising out of their employment relationships;
13) in the period until the first meeting of creditors, decide on the further fulfillment by the enterprise of the contract which has not yet expired, and on entering into new contracts necessary for the enterprise in order to continue its economic-commercial activities, provided that the enterprise continues its economic-commercial activities, and shall within 30 days from the day the decision of the court to institute bankruptcy proceedings becomes effective give notice to the interested parties of his intent or refusal to fulfill the contracts entered into by the enterprise;
14) protect the rights and interests of all creditors, also the rights and interests of the enterprise in bankruptcy and carry out the necessary work relating to bankruptcy ;
15) furnish information to the institution authorised by the Government and to the Department of Statistics under the Government of the Republic of Lithuania (according to the forms of reporting prescribed by the Department), the court, also, in accordance with the procedure established by the creditors' meeting, to the creditors, the owner/owners and the authorised representative of shareholders/holders of member shares, if one has been appointed;
16) organise and control the accounting of income received in the process of management or use of the enterprise's assets or disposal thereof, also accounting of costs;
17) convene the creditors' meetings;
18) notify the owner/owners of the enterprise, the authorised representative of the shareholders/holders of member shares, if one has been appointed, where the decisions of the above persons are required in order to conclude the arrangement with the creditors,;
19) where the assets of the enterprise are not separated from the enterprise owner's or partners' assets, be entitled to receive, free of charge, from the institutions registering property/securities according to the procedure established by laws information relating to the property/securities registered in the name of the said persons and from the banks, other credit institutions and insurance companies - information relating to the funds kept or receivable by the said persons;
20) fulfil other decisions of the court and/or creditors' meeting and committee;
21) submit documents relating to the discharge of the obligation of payment for damage resulting from accident at work or occupational disease and particulars of the recipients of compensation for damage to the local authorities of their place of residence where, in the cases provided for by law, the payment of compensation for damage is assigned to the State;
22) present documents relating to the allocation of funds for meeting payment claims of natural and legal persons for the agricultural produce purchased for processing to the Fund for Payment in Satisfaction of Claims of Natural and Legal Persons for Agricultural Produce Purchased for Processing by Enterprises in Bankruptcy and Bankrupt Enterprises;
23) take measures to recover debts from the debtors of the enterprise.

4. A creditor (a person who is in employment relationship with the creditor or a member of the latter's managing bodies) of the enterprise against which bankruptcy proceedings have been instituted, a person who under laws or other legal acts has no right to be appointed head of the administration, the owner of the enterprise or of the parent or subsidiary company of the enterprise, a member of the Supervisory Board or the Board of the enterprise or the head of the e administration, his deputies/directors, chief financier/accountant, a shareholder who owns over 10% of shares of the enterprise in bankruptcy or of the parent or subsidiary company of the enterprise may not be appointed administrator. The above restrictions shall also apply to persons referred to in this paragraph, who were employed at the enterprise in bankruptcy and dismissed within 12 months immediately preceding the initiation of bankruptcy proceedings.
5. The creditors' meeting shall authorise the chairman of the creditors' meeting to conclude a contract of agency with the administrator in the name of the enterprise.
6. The administrator must compensate, according to the procedure established by laws, all losses inflicted through his fault.
7. The decision concerning temporary substitution for the administrator in case of his holidays or temporary disability or in other cases when he is temporarily unable to discharge his functions shall be adopted by the court on the motion of the creditors' meeting and subject to the approval of the chairman of the creditors' meeting. If the administrator is unable to apply to the court due do illness, the decision concerning his temporary substitution in case of his temporary disability shall be adopted by the court on the motion of the chairman of the creditors' meeting.
8. The administrator may be removed from office by the court. The administrator shall also have the right to hand in his resignation to the court.
9. Upon accepting the administrator's resignation, the court shall appoint another person to the post of administrator and specify the time limit within which the previous administrator must transfer the assets of the enterprise according to financial accounts drawn up on the basis of the data as of the day of resignation and all the documents to the newly appointed administrator.
10. The activities of the administrator shall be subject to control of the institution authorised by the Government of the Republic of Lithuania.

CHAPTER FOUR
EXTRAJUDICIAL BANKRUPTCY PROCESS

Article 12. Preparation for Extrajudicial Bankruptcy Process
1. Bankruptcy procedures may be applied out of court, provided that no action has been brought in court in which claims, including claims connected with employment relationships, have been entered against the enterprise, also if no execution is levied on the enterprise under the writs of execution issued by the courts or other institutions.
2. If the enterprise is unable and will not be able to settle with a creditor/creditors, the head of the enterprise administration, the owner/owners, intending to seek the creditors' consent to carry out bankruptcy procedures out of court, must notify every creditor in writing of the motion to implement extrajudicial bankruptcy procedures, at the same time indicating the date and place of the creditors' meeting.
3. The creditors' meeting shall be convened within 20 days from the day a notice of the motion specified in paragraph 2 of this Article was sent to the creditors.
4. The decision to carry out extrajudicial bankruptcy procedures may be adopted by the creditors' meeting if the decision is voted in favour of by the creditors whose claims in terms of value account for at least 4/5 of the amount of the enterprise's liabilities on the day of adoption of the resolution, including those which have not yet matured.
5. If the creditors' meeting rejects the decision to carry out extrajudicial procedures, the persons listed in Article 5(1) of this Law may file to court a petition for bankruptcy. In this case the time limits

for the filing of the petition set in Article 6(1) of this Law shall not be observed and provisions of paragraph 2 of this Article shall not apply.

Article 13. Extrajudicial Bankruptcy Process

1. Extrajudicial bankruptcy procedures shall be carried out in compliance with this Law. The issues within the competence of the court shall be considered and decided by the creditors' meeting.
2. The administrator shall be appointed by the creditors' meeting in accordance with the provisions of Article 11 of this Law.
3. The procedure for implementing the resolutions of the creditors' meeting and for satisfying the creditors' claims shall be established in accordance with the procedure and terms and conditions of court investigation of bankruptcy cases prescribed by this Law.
4. After the opening of extrajudicial enterprise bankruptcy process the administrator must within 15 days from the day of the creditors' meeting at which the creditors decided to carry out bankruptcy procedures out of court warn the enterprise workers in writing that employment contract with them shall be terminated in compliance with the Law on Employment Contract and notify thereof the territorial labour exchange and the local authority.
5. Where bankruptcy procedures are applied out of court, the consequences specified in Article 10(7), Article 16 and Article 27(2) and (3) of this Law ensue.

CHAPTER FIVE
PROTECTION OF THE INTERESTS OF THE DEBTOR, CREDITORS AND THIRD PARTIES WHERE BANKRUPTCY PROCEEDINGS HAVE BEEN INSTITUTED

Article 14. Disposal of the Assets of the Enterprise in Bankruptcy

1. From the day the order to initiate of bankruptcy proceedings becomes effective:
   1) the right to manage, use and dispose of the assets/funds of the enterprise in bankruptcy shall be granted only to the administrator. No creditor of the enterprise shall have the right to take over the property and funds owned by the enterprise otherwise than prescribed by this Law;
   2) persons who have leased, borrowed, are keeping in custody, or using or managing on any other grounds the assets of the enterprise in bankruptcy shall be prohibited from concluding with third parties contracts relating to the above assets.
2. All contracts entered into in breach of provisions of paragraph 1 of this Article shall be invalid as of their conclusion.
3. Claims for the invalidation of contracts, also other claims of the administrator against the debtors of the enterprise in bankruptcy and bankrupt enterprise shall be examined in the court, which investigates the enterprise bankruptcy case.

Article 15. Satisfaction of Claims Filed with the Courts prior to the Initiation of Bankruptcy Proceedings

1. The head of the administration of the enterprise must within 5 days from the day of receipt of the documents referred to in Article 6(4) notify the court of the instituted proceedings in which property claims, including financial claims arising from employment relationships, have been filed against the enterprise as well as of the criminal proceedings in which property claims have been filed against the enterprise and/or an attachment has been levied on the assets of the enterprise.
2. All civil cases in which claims, including claims relating to employment relationships, have been filed against the enterprise shall be referred to the court, which initiated bankruptcy proceedings.
3. The administrator or the person authorised by him shall represent the enterprise in the proceedings for the recovery of property from other persons for the benefit of the enterprise in

bankruptcy, instituted prior to the opening of bankruptcy proceedings from the effective date of the order to institute bankruptcy proceedings.

Article 16. Schedule of Payments
All debts of the enterprise in bankruptcy shall be considered overdue as from the day of the initiation of bankruptcy proceedings. The provision shall become invalid when the court order to terminate bankruptcy proceedings becomes effective.

Article 17. Discharge of Obligations of and to an Enterprise in Bankruptcy
1. The administrator may continue, according to the procedure and in the cases specified by this Law, the contracts entered into by the enterprise in bankruptcy prior to the institution of bankruptcy proceedings.
2. The administrator must notify the interested parties within the time limit set in Article 10 (7)(4) of this Law of the adopted decision to continue the contract entered into by the enterprise before the effective date of the order to institute bankruptcy proceedings.

Article 18. Delivery of Writs of Attachment and of Writs of Execution
1. The bailiff shall, within 15 days after the effective date of the court order to initiate bankruptcy proceedings deliver to the court investigating the bankruptcy case writs of attachment to be levied on the enterprise's property which has been attached prior to the institution of bankruptcy proceedings in order to enforce the decisions adopted by the courts and other institutions but not yet sold as well as writs of execution to be levied on the enterprise and shall notify the property trustee and the claimant thereof. The creditors' claims against the enterprise which have not been met by the bailiffs' office shall be met according to the procedure laid down by this Law.
2. If the property of the enterprise against which bankruptcy proceedings have been instituted is attached in criminal proceedings, all documents relating to the attachment of the property shall be transmitted to the court investigating the bankruptcy case within one month from the effective date of the court order to institute bankruptcy proceedings and the property trustee shall be notified thereof.
3. The issues relating to attachment of property as specified in paragraphs 1 and 2 of this Article shall be resolved by the court investigating the bankruptcy case. Pending the lifting of attachment, the property trustee shall have all the rights and duties related to the protection of the property.

Article 19. Regulation of Employment Relationships
1. Upon the institution of bankruptcy proceedings against the enterprise the administrator must within 15 days after the effective date of the court order to institute bankruptcy proceedings give the workers of the enterprise a written notice of the termination of employment contracts with them in compliance with the Law on Employment Contract and notify the territorial labour exchange and municipal authorities thereof.
2. The creditors' meeting shall decide on the number of workers with whom new contracts of employment will be signed for work in the enterprise in the course of bankruptcy. The list of the workers shall be drawn up by the administrator.

Article 20. Fraudulent Bankruptcy
If the court investigating the enterprise bankruptcy case establishes a fraudulent bankruptcy, the administrator must review all contracts of the enterprise in bankruptcy concluded within the 5-year period prior to the institution of bankruptcy proceedings and bring an action before the court investigating the enterprise bankruptcy case for the invalidation of the contracts which are contrary to the interests of the enterprise and/or which could have contributed to its loss of ability to settle with the creditors. In this case the administrator shall be deemed to have learnt of the contracts from the order to initiate bankruptcy proceedings became effective.

Article 21. Rights of Creditors in Bankruptcy Proceedings

1. Upon the initiation of bankruptcy proceedings the creditors shall have the right to:
   1) refer their claims to the administrator within the time limit fixed by the court, attaching thereto proof of claim verified by documents, also specify the guarantees for the satisfaction of the above claims provided by the enterprise;
   2) apply to the court for the establishment of a fraudulent bankruptcy and question the resolutions adopted by the creditors' meeting;
   3) attend the creditors' meeting and assert their claims;
   4) receive from the administrator information about the course of the bankruptcy proceedings according to the procedure laid down by the creditors' meeting
2. The institutions specified in Article 3 (1), (3) and (4) of this Law shall be represented in bankruptcy proceedings and at the creditors' meetings by the persons authorised by them.

Article 22. Convening the Creditors' Meeting

1. The first meeting of the creditors shall be convened not later than within 15 days after the effective date of the court order to allow the claims of the creditors.
2. Upon the institution of bankruptcy proceedings the first meeting of the creditors shall be convened by the court or, on its direction, by the administrator.
3. Subsequent meetings of the creditors shall be convened by the court, the administrator or the chairman of the creditors' meeting. A creditor/creditors, the sum total of whose claims in terms of value accounts for at least 10% of the sum total of all creditors' claims allowed by the court in the manner prescribed by this Law shall be entitled to request convening the creditors' meeting.
4. The procedure for convening the creditors' meeting shall be established by the creditors' meeting.
5. The administrator shall present to the creditors' meeting the court order to allow each creditor's claim.
6. The owner (owners) of the enterprise in bankruptcy or his representative, the administrator, the representative of the founder of the state-owned or municipal enterprise, the authorised representative of shareholders/holders of member shares shall have the right to attend the creditors' meetings. Only creditors shall have the right to vote.

Article 23. The Rights of the Creditors' Meeting

The creditors' meeting shall have the following rights:

1) to elect the chairman of the creditors' meeting;
2) to decide on the formation of the creditors' committee, elect the committee, change its composition, delegate to the committee all or part of the rights of the creditors' meeting;
3) to investigate the creditors' complaints about the actions of the administrator;
4) to request that the administrator present reports about his activities and to approve said reports. If the administrator's report is not approved by the creditors' meeting, it may be approved by the court;
5) to approve the estimate of administration expenses, also change the estimate, establish the priority and procedure of covering the expenses;
6) to decide on the continuity, restriction or termination of economic-commercial activities of the enterprise, submit motions to the court on the restriction or termination of commercial-economic activities as well as on the imposition of restrictions on the disposal of the enterprise property;
7) to ix the number of workers to be employed in various jobs in the course of bankruptcy process;
8) to fix the administrator's remuneration;

9) to authorise the chairman of the creditors' meeting to conclude a contract of agency with the administrator within 10 working days from the day of the creditors' meeting and apply to the court for the replacement of the administrator during his temporary disability if the administrator is prevented to do so himself by sickness;
10) to establish the manner whereby the creditors, enterprise owner/owners, the authorised representative of the shareholders/holders of member shares receive from the administrator information about the course of the enterprise bankruptcy proceedings;
11) to adopt decisions on concluding the arrangement with the creditors;
12) to apply to the court requesting the replacement of the administrator;
13) elect a person to chair the creditors' meeting if the chairman of the creditors' meeting is not present at the meeting;
14) to propose to the court that the liquidation procedure be applied to the enterprise;
15) in case extrajudicial enterprise bankruptcy procedures are applied, to adopt resolutions which would be adopted by the court in judicial investigation of bankruptcy;
16) to settle other issues assigned to the competence of the creditors' meeting by this Law.

Article 24. Procedure for Adopting Resolutions of the Creditors' Meeting

1. A resolution of the creditors' meeting shall be deemed adopted if voted in favour of by open ballot by the creditors whose amount of claims allowed by the court (in case of extra-judicial bankruptcy process - by the creditors' meeting) accounts for over one half of the amount of the allowed claims of all creditors, save for the exceptions prescribed by this Law. The creditors' claims allowed by the court (in case of extra-judicial bankruptcy process- by the creditors' meeting) and the sum thereof must be reduced by the amount of sums paid out prior to the meeting. A creditor shall have the right to notify the creditors' meeting in writing of his opinion -whether "for" or "against" - regarding each resolution. The opinions shall be included in the voting results of the creditors' meeting, the repeat meeting including, and must be announced at the creditors' meeting.
2. If the number of votes at the meeting proves insufficient for adopting a resolution, the administrator shall within 15 days convene a repeat meeting of the creditors. The repeat meeting shall have the right to adopt resolutions only subject to the agenda of the preceding meeting, except for the resolutions regarding the extrajudicial enterprise bankruptcy process and the arrangement with the creditors.
3. A resolution shall be deemed adopted at the repeat meeting of creditors if voted in favour of by open ballot by creditors whose amount of claims allowed by the court accounts for over one half of the amount of the allowed claims of the creditors attending the meeting.
4. The resolutions of the creditors' meeting shall be binding on all the creditors. Where bankruptcy proceedings have been instituted in the court, the chairman of the creditors' meeting must within 5 working days after the adoption of the resolution submit a copy of the minutes of the creditors' meeting to the court investigating the bankruptcy case.
5. The resolution of the creditors' meeting may be appealed against to court within 14 days from the day when the creditor learnt or should have learnt of the adoption of the resolution.

Article 25. The Creditors' Committee

1. The creditors' committee may be elected by the first or by the subsequent meetings of the creditors. The chairman of the creditors' meeting shall also be the chairman of the creditors' committee. Among its members the creditors' committee must have at least one person authorised to defend the claims arising from employment relationships if the enterprise is to satisfy the claims arising from employment relationships, claims for the compensation for damage caused by grievous bodily harm or other injury, occupational disease or death in accident at work. The creditors' committee must have at least 5 members.

2. The creditors' committee shall monitor the course of bankruptcy, the administrator's activities, shall protect the creditors' interests in the periods between the creditors' meetings.
3. The rights of the creditors' committee shall be specified by the creditors' meeting.
4. The resolutions of the creditors' committee shall be valid if the committee meeting is attended by over one half of the committee members. One member of the creditors' committee shall have one vote. The creditors' committee shall adopt resolutions by simple majority vote and in the case of a tie the chairman's vote shall be casting. The creditors' committee must notify all creditors of the adopted resolutions in the manner laid down by the creditors' meeting. If bankruptcy proceedings are instituted in court, the chairman of the creditors' meeting must within 5 working days after the adoption of the resolution submit a copy of the minutes of the meeting of the creditors' committee to the court.

Article 26. Allowing the Creditors' Claims

1. The creditors' claims shall be allowed by the court. Modifications of the list of the creditors and their claims made in connection with the bankruptcy process - unpaid taxes or other compulsory payments, also sums due to the workers made redundant- shall be confirmed by the court order, until the court issues an order to terminate bankruptcy proceedings or adopts a decision on the winding up of the enterprise.
2. The creditors shall be entitled to the general or limited waiver of their claims. A creditor shall notify the court of his waiver of claims in writing. The court shall accept the waiver of claims by issuing an order, reduce the amount of the creditors' claims accordingly and, in case of a creditor's general waiver, strike him off the list of creditors.
3. In the course of bankruptcy the creditor's claims may be assigned to another creditor or person. The sequence of the claims laid down according to the provisions of Article 35 of this Law shall not change.

Article 27. Discontinuation of a Bankruptcy Case

1. A bankruptcy case shall be discontinued when:
   1) all creditors waive their claims and the court passes an order to accept the waivers;
   2) the enterprise in bankruptcy effects settlement with all the creditors/creditor and the administrator files documents in proof thereof with the court;
   3) the arrangement with the creditors is concluded and approved by the court.
2. Where a bankruptcy case is discontinued pursuant to the provisions of paragraph 1 (1) and (3) of this Article, the requirements laid down in the Law on Monitoring of State Aid Granted to Undertakings must be complied with.
3. Upon the discontinuation of the bankruptcy case all taxes and compulsory payments as well as interest and default interest shall be calculated as from the effective date of the court order to discontinue the case.

CHAPTER SIX
ARRANGEMENT WITH THE CREDITORS

Article 28. Concluding the Arrangement with the Creditors

1. The motion to conclude the arrangement with the creditors may be filed by the creditors, the administrator and the enterprise owner/owners.
2. The arrangement with the creditors shall be signed by all the creditors whose claims have not been met in the course of bankruptcy before the day the arrangement with the creditors is signed, or by their authorised representative and the administrator, subject to the written consent of the enterprise owner/owners, the managing body which has the right to take a decision to liquidate or reorganise the enterprise.

3. The arrangement with the creditors may be concluded at any stage of bankruptcy process until the court order to liquidate the enterprise by reason of bankruptcy becomes effective.

Article 29. Contents of the Arrangement with the Creditors and the Procedure of Approval thereof

1. The arrangement with the creditors shall specify the following:
   1) concessions made for the enterprise and the creditors' claims;
   2) liabilities of the enterprise;
   3) ways and schedule of satisfaction of claims;
   4) liability of the enterprise in case of failure to carry out the arrangement with the creditors.
2. The arrangement with the creditors shall be subject to approval by the court. If bankruptcy proceedings are instituted against a public or a private company, the court shall name the person whom it charges to convene the creditors' meeting in its order to approve the arrangement with the creditors.
3. The court shall refuse to approve the arrangement with the creditors if actions provided for therein contradict the laws or infringe somebody's rights and interests protected under law.
4. The arrangement with the creditors shall come into force on the effective date of the court order to approve the arrangement.
5. After the effective date of the court order to approve the arrangement with the creditors the bankruptcy case against the enterprise shall be discontinued.
6. In case of extrajudicial bankruptcy process, the arrangement with the creditors shall be subject to notarial verification.
7. If the enterprise registration data is changed in the course of bankruptcy process before the day of signing of the arrangement with the creditors, the changes must be recorded in the Register of Enterprises of the Republic of Lithuania within one month from the effective date of of the court order to approve the arrangement with the creditors.
8. After the court order to approve the arrangement with the creditors has become effetcive, the administrator shall within 5 working days give a written notice thereof to the credit institutions servicing the enterprise, to tax, compulsory social insurance and compulsory health insurance administrators, the founder of a state-owned or municipal enterprise, the administrator of the Register who registered the enterprise, the Ministry of Finance if the enterprise has been given a foreign loan on behalf of the State or with the State guarantee, also the Securities Commission if the arrangement with the creditors has been concluded with a public company, and shall also communicate the data relating to the bankrupt enterprise to the institution authorised by the Government and publish the data in the information supplement "*Informaciniai pranešimai*" of the publication "*Valstybes žinios*" (Official Gazette) -.

CHAPTER SEVEN
LIQUIDATION OF A BANKRUPT ENTERPRISE

Article 30. Declaring an Enterprise Bankrupt

1. Having investigated the bankruptcy case and declared the enterprise bankrupt, the court shall issue an order to put the enterprise into liquidation as a result of bankruptcy.
2. The court shall declare the enterprise bankrupt and issue an order to put the enterprise into liquidation if an order to conclude the arrangement with the creditors is not issued within 3 months from the effective date of the order to allow the creditors claims and the court has not granted any extension of the deadline. The court may grant the extension of the deadline only if so requested by the creditors' meeting.

3. Having declared the enterprise bankrupt and issued an order to put the enterprise into liquidation, the court shall approve the amount of each creditor's claims, the procedure of liquidation, other orders and directions necessary for carrying out the liquidation.
4. The functions of the enterprise liquidator shall be performed by the administrator pursuant to this Law.

Article 31. The Rights and Duties of the Administrator in Enterprise Liquidation
When carrying out the enterprise liquidation, administrator shall:

1) dispose of the enterprise assets and resources and ensure safety thereof;
2) organise the sale of the assets according to the procedure prescribed by this Law and sell or transfer the assets to the creditors;
3) satisfy the creditors' claims allowed according to the procedure established by this Law;
4) submit documents relating to the discharge of the obligation of payment for damage resulting from accident at work or occupational disease as well as information relating to the recipients of the compensation for damage to the local authorities of their place of residence where, in the cases provided for by law, the payment of compensation for damage is transferred to the State;
5) manage and dispose of the waste hazardous to the population and the environment in the manner prescribed by law;
6) return the assets remaining after effecting settlement with the creditors to the owner/owners of the bankrupt enterprise, the founder of a state-owned or municipal enterprise or its managing body entitled to decide on the reorganisation or liquidation of the enterprise;
7) hand over to the archive, in the manner prescribed by law, the documents of the enterprise which are subject to keeping;
8) file with the court the liquidation balance sheet and the statements of return, writing off or transfer of the remaining assets;
9) communicate the data relating to the liquidated enterprise to the institution authorised by the Government.

Article 32. Liquidation of a Bankrupt Enterprise
1. An enterprise shall acquire the status of the enterprise in liquidation from the effective date of the court order to liquidate the enterprise due to bankruptcy.
2. The administrator must no later than within 5 days after the effective date of the court order to liquidate the enterprise due to bankruptcy communicate the information relating to the bankrupt enterprise to the institution authorised by the Government and publish the information in the information supplement "*Informaciniai pranešimai*" of the publication "*Valstybes žinios*" (Official Gazette), communicate the information to the administrator of the Register of Enterprises, give notice of the issued order to the owner/owners of the bankrupt enterprise, the founder state-owned or municipal enterprise, the authorised representative of the shareholders/holders of member shares, if one has been appointed, the credit institutions which service the enterprise, tax, compulsory social insurance and compulsory health insurance administrators, the Ministry of Finance if the enterprise is the recipient of a loan made on behalf of the State or with the State guarantee, the labour exchange as well as the Securities Commission if a public company is in liquidation.
3. A bankrupt enterprise may be removed from the Register not earlier than 1 month after the effective date of the court order to liquidate the enterprise due to bankruptcy.
4. After the administrator has filed the documents specified in Article 31(8) of this Law and the certificate issued by the Regional Department of the Ministry of Environment, the court investigating the enterprise bankruptcy case shall hand down a decision on the winding up of the enterprise.
5. The administrator shall within 5 days after the effective date of the court decision regarding the winding up of the enterprise or from the date of the adoption by the creditors' meeting of the resolution

on the winding up of the enterprise file a petition with the administrator of the Register of Enterprises for the removal of the enterprise liquidated due to bankruptcy from the Register. The administrator shall attach to the petition the court decision regarding the winding up of the enterprise or the resolution of the creditors' meeting on the winding up of the enterprise, the certificate of the enterprise registration and the original copy of the Articles of Association of the enterprise, a certificate attesting that the documents have been submitted to the archive for keeping, and the note issued by the police commissariat attesting that the seal of the enterprise has been destroyed and shall indicate the addresses of the banks and other credit institutions which provide services to the enterprise.

6. The administrator of the Register of Enterprises shall remove the enterprise from the Register within 10 days from the receipt of the court decision regarding the winding up of the enterprise and shall within 5 days from its removal from the Register notify thereof the tax, compulsory social insurance and compulsory health insurance administrators as well as banks and other credit institutions which use to provide services to the enterprise.

CHAPTER EIGHT
THE PROCEDURE OF SALE OF THE ENTERPRISE ASSETS AND SATISFACTION OF CREDITORS' CLAIMS IN THE COURSE OF BANKRUPTCY

Article 33. Sale of Assets

1. The assets of an enterprise in bankruptcy or a bankrupt enterprise, and the rights of claim under the debtors' obligations to the enterprise in bankruptcy or bankrupt enterprise shall be appraised and sold in the manner specified by this Law. Immovable property shall be sold by auction according to the procedure established by the Government. The procedure of sale of other assets, except the pledged assets, shall be decided by the creditors. Unsold assets may be transferred to the creditors. The contract of sale of assets or the statement for the transfer of assets shall be deemed equivalent to a contract verified by a notary and, registering the contract of sale in the established manner, shall be considered as documents proving the right of ownership to the assets.

2. The shares and other securities of companies held by the enterprise in bankruptcy or bankrupt enterprise shall be sold in accordance with the procedure laid down by legal acts regulating trading in securities, except for shares of private companies, which shall be sold in the manner established by the creditors' meeting. The shareholders of a private company the shares of which are offered for sale shall have the right of pre-emption. The shares shall be sold to the highest bidder.

3. Pledged assets shall be sold by auction according to the procedure established by the Government, upon notifying the pledgee, the mortgage creditor thereof. When the administrator transfers the unsold pledged assets to the pledgee, the mortgage creditor, the said persons shall within 30 days from the day of transfer of the assets defray the expenses of asset administration incurred by the administrator, which have been provided for in the estimate of administration expenses approved by the creditors' meeting.

4. The creditors whose claims have not been satisfied due to the insufficiency of funds shall decide on the use of the unsold assets. If not all property of the bankrupt enterprise has been sold or transferred to the creditors and not all claims of the creditors have been satisfied within 24 months from the effective date of the court order to declare the enterprise bankrupt, the liquidation procedure shall be considered completed. The remaining unsold property which has not been taken over by the creditors shall be written off as unsaleable assets upon the decision of the creditors whose claims have not been satisfied due to insufficiency of funds. The property, which has been written off - except for the immovable property - shall be used or destroyed in the manner established by the creditors' meeting. The immovable property, which has been written off, shall be transferred without payment to the municipality in whose territory the immovable property is located within 30 days from the date of its having been written off.

5. Radioactive substances, equipment using radioactive substances and generators of ionising radiation may be sold or transferred only in accordance with the procedure established by the laws on radiation protection and other legal acts regulating radioactive protection of the population and the environment.

Article 34. Satisfying the Creditor's Claims Secured by Pledge and/or Mortgage

The creditor's claims secured by pledge and/or mortgage shall be paid first of all from the proceeds obtained from the sale of the pledged assets of the enterprise or by transferring the pledged assets. Where the pledged assets are sold at a price higher than the amount of claims secured by the pledge and/or mortgage, the remaining balance of the funds shall be allotted for meeting the claims of other creditors pursuant to Article 35 of this Law.

Article 35. Sequence and Procedure of Satisfying the Creditors' Claims

1. The creditors' claims shall be satisfied in two stages. During the first stage the creditors' claims shall be satisfied in the sequence established under this Article, not including the computed interest and default interest, while in the second stage the remaining part of the creditors' claims (interest, default interest) shall be paid in the same sequence.
2. First in line for satisfaction shall stand claims of the workers arising from employment relationships; claims for compensation for damage caused by grievous bodily harm or some other injury, an occupational disease or death due to an accident at work; claims of natural or legal persons for payment for agricultural produce purchased for processing.
3. Second in line for satisfaction shall stand claims for payment of taxes and other payments into the budget, also for compulsory state social insurance contributions and compulsory health insurance contributions; claims relating to loans obtained on behalf of the State or guaranteed by the State;
4. Third in line for satisfaction shall be all claims other than those specified above.
5. The computed income tax payable on the wages of natural persons may not be considered as ranking equal with the claims standing first in line for satisfaction.
6. Claims of the creditors of each successive sequence shall be met after full payment of the claims of the creditors of the preceding sequence. If assets are insufficient to satisfy all of claims of one sequence in full, the said claims shall be paid in proportion to the amount due to each creditor.
7. Claims connected with employment relationships which have been put forward by workers of an enterprise in bankruptcy or a bankrupt enterprise, referred to in paragraph 2 of this Article, may be met from the resources of the Fund for the Satisfaction of Claims of Workers of Enterprises in Bankruptcy or Bankrupt Enterprises Arising out of their Employment Relationships and from the resources of the Guarantee Fund, whereas claims of natural and legal persons for payment for agricultural produce purchased for processing by enterprises in bankruptcy or bankrupt enterprises may be paid from the resources of the Fund for Payment of Claims of Natural and Legal Persons for Agricultural Produce Purchased for Processing by Enterprises in Bankruptcy and Bankrupt Enterprises. The allowed claims of a worker or a natural or legal person shall be reduced by the amount of the sum paid from the above Funds.

Article 36. Administration Expenses

1. Administration expenses shall be paid with all types of funds (proceeds from the sale of assets of the enterprise, including pledged assets, debts repaid to the enterprise, earnings from economic activities, rent for leased assets and other funds received in the course of bankruptcy).
2. The estimate of administration expenses shall be drawn up, approved and changed by the creditors' meeting, which shall also establish the procedure of disposal of the administration expenses.
3. Administration expenses shall comprise remuneration for the work of the administrator, other workers of the enterprise whose participation in the bankruptcy process is necessary, except for those participating in the economic-commercial activities of the enterprise, amounts paid in connection with

employment relationships, auditing expenses, approved expenses related to property appraisal and sale, also to surveillance, management and disposal of hazardous waste as well ass other expenses approved by the creditors' meeting. Expenses related to economic-commercial activities may not be included in the administration expenses.

4. The first meeting of the creditors must fix the amount of remuneration to be paid to the administrator for the administration of the enterprise during the bankruptcy process, including the period from the effective date of the court order to institute enterprise bankruptcy proceedings until the day the contract of agency is concluded with him or the day of the first meeting of the creditors.

5. The sum of the remuneration payable to the administrator (depending on whether or not the enterprise in bankruptcy continues its business, the type and amount of the enterprise assets being sold, also the complexity and number of proceedings instituted and civil actions brought against the enterprise) and the procedure of payment of the remuneration (the remuneration may be paid in a lump sum after the completion of the bankruptcy process or by instalments in the course of the proceedings) shall be established in the contract of agency.

CHAPTER NINE
FINAL PROVISIONS

Article 43. Entry into Force of the Law

1. The Law shall enter into force as of 1 July 2001.

2. The Law of the Republic of Lithuania on Enterprise Bankruptcy (Valstybes žinios, 1997, No. 64-1500; 1998, No. 109-2996; No. 114-3189; 2000, No. 32-889) shall be in force and regulate bankruptcy procedures only in respect of those enterprises against which bankruptcy proceedings have been instituted or extrajudicial bankruptcy process has been initiated prior to the entry into force of this Law.

3. The procedure set forth in this Law shall also apply to the investigation of bankruptcy cases against the enterprises, which, prior to the entry into force of this Law, were subject to extrajudicial bankruptcy process, but the cases whereof shall, on the decision of the creditors' meeting be referred to the court for investigation after 1 July 2001,.

4. Administration expenses of enterprises, bankruptcy proceedings whereof were instituted prior to 1 July 2001, may be revised only pursuant to the provisions of Article 36 of this Law.

The provisions of Article 33(4) of this Law shall apply to enterprises, which acquired the status of an enterprise in bankruptcy prior to 1 July 2001. The 24-month period fixed in the Article 33(4) for the liquidation procedure shall start from 1 July 2001. The above enterprise shall be removed from the Register in accordance with the provisions of Article 32(6) of this Law.

5. The Government or the institution authorised by it shall establish:

1) the procedure for furnishing and announcing information relative to the enterprise bankruptcy proceedings;

2) the procedure of representation in bankruptcy proceedings by persons authorised by public authorities;

3) the procedure of selling by auction the assets of the enterprise in bankruptcy or bankrupt enterprise;

4) the procedure for granting natural and legal persons the right to provide bankruptcy administration services, the procedure for controlling the activities of bankruptcy administrators and the procedure for remunerating the bankruptcy administrator.

I promulgate this Law passed by the Seimas of the Republic of Lithuania.

PRESIDENT OF THE REPUBLIC VALDAS ADAMKUS