

# ESTONIA

## Investment Guide

[Estonia.eu](http://Estonia.eu)  
Positively surprising





This booklet covers various topics aimed at companies that are planning to expand into new markets and are considering Estonia as one option. On the following pages you can find information on important business spheres: establishing a business, local premises and infrastructure, different ways to finance one's business etc. The booklet also gives a good overview of life in Estonia, both from the businessman's perspective and that of the private individual in respect to social security, health care, the labour market, the tax system, accounting requirements and a lot more. It also contains a well-redacted, bare-bones presentation of that part of Estonia's legal framework that might be relevant for anyone planning to invest here. Next to each chapter are links to the web pages of relevant government institutions, funds, organizations etc. This charming country on the southern coast of the Gulf of Finland does almost everything online – e-Healthcare, e-Banking and e-Elections to name just a few – and to get into the vibe of our visionary approach to innovation you should probably start by thinking like an Estonian, whose first choice when looking something up or searching for information is always to use the Internet.

It is easy to start up a business here, or to test new solutions, ideas and strategies, in a country where the implementation and feedback processes move very quickly. Thanks to its small size, Estonia is perfect for all that. Many solutions engineered in Estonia have later been exported. If we say "Skype", you probably know what we mean. But that is not the only success story we have to offer. There is also the case of ABB, one of Estonia's biggest investors, which came here with modest expectations, and have now stayed for 17 years and invested more than 60 million euros in the Estonian market. Another impressive example is Ericsson, which produces 4G network base stations in Tallinn. In addition, there's Cargotec, Symantec, Vopak EOS, Stoneridge and many others.

The stability of the Estonian economy, due greatly to the strength of our kroon and now the euro, and the cornerstone of which is the balanced budget policy, provides a lot of security and, being a member of the European Union and NATO since 2004, Estonia offers long-term stability to its investors. Estonia is a true Scandinavian Tiger and everybody has a chance to take part in our leap forward.

The business culture in Estonia is simple. Little bureaucracy, employees with good work ethics and zero tax on corporate earnings all add to the good climate for operating a business in Estonia. And when it comes to managerial practice, deadlines are met and payment dates and other contracts honoured. In addition to the advantages mentioned, it is possible to start a company in 20 minutes and, instead of running around town, you can run errands without even leaving your desk: Internet facilities, such as digital signature, make it all ridiculously easy. Estonia is a cradle for innovation and a seedbed for success: we urge you to come see for yourself and then change the world with your brilliant ideas.

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COMING  
TO ESTONIA



# LOCATION. LOCATION. LOCATION. ESTONIA HAS BEEN ATTRACTING INVESTORS FOR CENTURIES.



Capital:

**Tallinn**

Area:

**45,227 km<sup>2</sup>** (Denmark 43,094 km<sup>2</sup>, Switzerland 41,277 km<sup>2</sup>)

Population:

**1,340,000**

Internet users:

**77%**

Country Calling Code:

**372**

Business hours:

**9:00 AM – 5:00 PM**

Currency:

**Euro**

Country credit ratings:

**Fitch A+, Moody's A1, Standard & Poor's AA-** (May 2012)

GDP:

**EUR 16 billion (2011)**

GDP per capita:

**EUR 11,918 (2011)**

GDP composition by sector:

**Agriculture: 2,8%; Industry: 26,8%; Services: 70,4%**

Principal Taxes:

**Income tax: 21%; VAT: 20%; Social tax: 33%**

Unemployment insurance tax:

**1,4% employer + 2,8% employee**

Index of Economic Freedom:

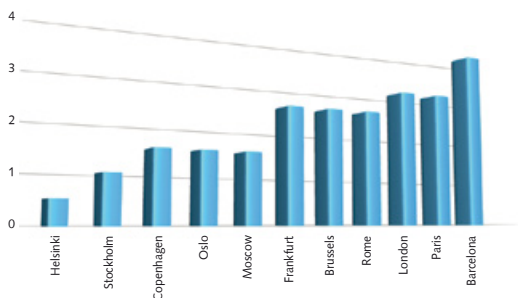
**16<sup>th</sup> among 179 countries**

Member of EU, NATO, OECD, WTO, Schengen zone



## Duration of flights to Estonia (h)

Source:  
Tallinn Airport



## Who can enter Estonia without a visa

Nationals of the member states of EU and EEA.

Nationals of Schengen States

The holders of the following passports do not require a visa to enter Estonia for stays not exceeding three months in a six-month period:

- \* Albania\*, Andorra, Antigua and Barbuda , Argentina, Australia, Bahamas, Barbados, Bosnia and Herzegovina\*, Brazil, Brunei, Canada, Chile, Costa Rica, Croatia, El Salvador, Guatemala, Holy See, Honduras, Hong Kong Special Administrative Region, Israel, Japan, Macao Special Administrative Region, Macedonia\*, Malaysia, Mauritius, Mexico, Monaco, Montenegro, New Zealand, Nicaragua, Panama, Paraguay, San Marino, Serbia\*, Seychelles, Singapore, South Korea, St Kitts-Nevis, United States of America, Taiwan, Uruguay, Vatican City and Venezuela.

*\* This applies only to biometric passport holders*

The holders of diplomatic and service passports of the following countries do not need a visa to enter Estonia for stays not exceeding three months in a 6 month period.

- \* Albania, Armenia, Azerbaijan, Bolivia, Bosnia and Herzegovina, Brazil, Georgia, Kazakhstan, Macedonia, Moldova, Montenegro, Morocco, Peru, Philippines, Russia, Serbia, Turkey, Ukraine, holders of the Laissez-Passer issued by the United Nations.

Citizens of countries not mentioned above require a visa to enter Estonia.



- Ministry of Foreign Affairs  
[www.investinestonia.com/coming-to-estonia](http://www.investinestonia.com/coming-to-estonia)

## Visa application process

If a visa applicant wishes to visit only Estonia, the Schengen visa has to be applied for from an Estonian foreign representation.

If a visa applicant wishes to visit several Schengen member states (incl. Estonia), the visa has to be applied for from the Schengen state's foreign representation that is the state of main destination. In order to determine the state of main destination the visa applicant must know in which Schengen state one plans to spend most time.

If a visa applicant wishes to visit several Schengen member states and is not sure of the state of main destination or plans to spend the equal number of days in each state, the visa must be applied for from the representation of the country through which the person enters the Schengen area.



- Applying for a visa to the Schengen area
- Visa application forms
- Estonian representations around the world

[www.investinestonia.com/coming-to-estonia](http://www.investinestonia.com/coming-to-estonia)

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## Types of visas

- \* **Airport transit visa (type A)** – given for entry into the international transit zone at an Estonian airport and for the stay therein allowing for the departure to the next transit country or arrival country, where the person has a legal basis to enter. This visa shall not grant the alien the right to enter Estonia or stay in Estonia.
- \* **Short-stay visa (type C)** – given for single- or multiple-entry stays up to 90 days within six months in Schengen area.
- \* **A long-stay visa (type D)** is valid only in Estonia and is issued to an alien for single or multiple temporary stay in Estonia. Before applying for a visa for the short-term employment the short-term employment must be registered at the Citizenship and Migration Bureau. An application for registration of short-term employment may be submitted in the following cases:

If an alien is issued a visa for short-term employment in Estonia, a visa shall be issued to the spouse, a minor child or an adult child who due to his or her health status or disability is unable to cope independently under the same conditions as to the specified alien.

A long-stay visa may be issued with a period of stay up to six months and with a period of validity up to twelve months.

#### **Document requirements when applying for a visa**

- \* A valid travel document – it must contain at least two blank pages for visas and be valid for at least three months after the end of the visa expiry date
- \* A completed visa application
- \* A colour photograph (sized 35×45 mm)
- \* A valid health insurance certificate, which would grant the covering of treatment costs arising from an illness or injury during the period of validity of the visa being applied for, unless otherwise specified by law or an international agreement. The minimum rate for limit of indemnity in the health insurance agreement is 30,000 EUR for the whole period of stay in the Schengen area
- \* Documents proving the purpose of the travel and the reason for it
- \* Documents certifying the existence of sufficient monetary means during the stay in Estonia
- \* Documents certifying the covering of the accommodation costs and the costs of stay in Estonia
- \* Document certifying the payment of state fee or document certifying the exemption from paying state fee

## Residence and work permits

### For citizens of the EU, EEA and Swiss Confederation

The **Citizen of European Union Act** regulates the issue of residence permits to the citizens of the EU, EEA and Swiss Confederation (hereafter EU) and their family members.

A citizen of the EU may stay in Estonia without a residence permit on the basis of a valid travel document or identity card for a period of up to three months.

In order to obtain the right of temporary residence an EU citizen must contact the local government authority nearest to his or her place of residence and register his or her residence within three months from the date of entering Estonia. The right of temporary residence is granted for a period of five years.

Generally, an EU citizen who has resided in Estonia permanently for five successive years on the basis of the right of temporary residence shall obtain the right of permanent residence.

Citizens of the EU do not need a separate permit to work in Estonia.



- Citizen of European Union Act
  - Estonian Commercial Code
  - Employment Service Act
  - Citizenship and Migration Bureau
- [www.investinestonia.com/coming-to-estonia](http://www.investinestonia.com/coming-to-estonia)



## For third country nationals

**The Aliens Act** regulates the issue of residence and work permits to third country nationals and persons with undetermined citizenship.

### Residence permits

Residence permit may be **temporary** (validity period up to five years) or **long-term**.



#### **Temporary residence permit may be issued to an alien:**

- \* married to a person with permanent residence in Estonia;
- \* for settling down with a close relative permanently residing in Estonia;
- \* for working;
- \* for studies at an Estonian educational institution;
- \* for business;
- \* whose permanent legal income ensures his or her subsistence in Estonia;
- \* in case of substantial public interest;
- \* whose application for residence permit is based on an international agreement.

A temporary residence permit may be extended if the basis for the permit has not changed and the application is justified. In order to extend a temporary residence permit the applicant may visit the service point of the Citizenship and Migration Bureau or submit his or her application by post. An alien residing in Estonia on the basis of a temporary residence permit, who desires to stay outside Estonia for more than 183 days per year, shall register his or her absence from Estonia at the Citizenship and Migration Bureau.



#### **A long-term residence permit may be issued to an alien:**

- \* who has stayed in Estonia permanently on the basis of temporary residence permit for at least five years;
- \* holds a valid temporary residence permit;
- \* has registered residence, health insurance and permanent legal income for subsistence in Estonia;
- \* has knowledge of the Estonian language at least at a basic level.

## Work permits

An alien who is residing in Estonia with a residence permit has a right to work in Estonia, unless otherwise stipulated by the law.

## Short-term employment in Estonia

In certain cases an employer can apply for the registration for short-term employment in Estonia for aliens who stay or arrive in Estonia either on the basis of a visa (type D) or on a visa-free basis. Before applying for a visa the short-term employment must be registered at the Citizenship and Migration Board.

### **Short-term employment cannot exceed a period of six months a year.**

An alien who stays in Estonia on the basis of a residence permit cannot be registered for short-term employment in Estonia. In this case an alien has to apply for a work permit or a residence permit for employment.

### **An application for registration for short-term employment may be submitted in the following cases:**

- \* persons engaged in creative activities who work in a performing arts institution;
- \* for working as a teacher or lecturer in an educational institution, which complies with the requirements established by Estonian law;
- \* for working as a scientist if the alien has appropriate professional training or experience;
- \* for working as a sportsman, coach, referee or sports official for professional activities on the basis of an invitation from a respective sports federation;
- \* for employment as a trainee in order to obtain vocational education intermediated by an educational institution or a student organisation located abroad if this is a part of the relevant training programme;
- \* in order to serve in the diplomatic representation of a foreign country with the permission of the Ministry of Foreign Affairs;
- \* for working as an au pair;

- \* for working as an expert, adviser or consultant providing that the alien has the required professional training;
- \* for working as an installer of equipment or a skilled worker providing that the alien has the required professional training
- \* for working as a seasonal worker processing agricultural products;
- \* on the basis of an international agreement.

In certain cases involving short-term employment, employers are obliged to pay an alien a fee amounting to at least equal to the average monthly salary in the field in which the employer primarily operates in Estonia, as most recently published by the Statistical Office, but not less than the average annual gross monthly salary in Estonia most recently published by the Statistical Office multiplied by a coefficient of 1.24. The basis for determining an employer's primary area of operation is the Classification of Estonian Economic Activities code of the Statistical Office.



- For application please contact the  
Citizenship and Migration Bureau  
- Aliens Act  
[www.investinestonia.com/  
coming-to-estonia](http://www.investinestonia.com/coming-to-estonia)

# ESTABLISHING A COMPANY



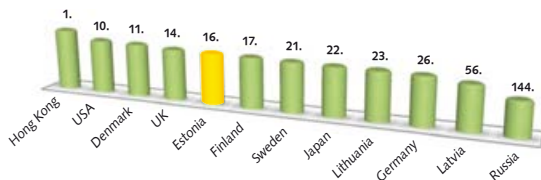
WHATEVER YOU WANT TO DO,  
STARTING A BUSINESS IN  
ESTONIA IS EASY.





## Index of Economic Freedom Rankings 2012

Source:  
The Heritage Foundation  
& Wall Street Journal



## Legal form

According to the Commercial Code there are five forms of business entities, which are created by entry into the Commercial Register: private limited company, public limited company, general partnership, limited partnership, or commercial association.

The most popular type of legal entity being set up by foreigners in Estonia is the so-called "Osaühing, OÜ", or private limited company.

### Private Limited Company (Osaühing or OÜ)

A private limited company is a company that has its share capital (in Estonian: osakapital) divided into private limited company shares (in Estonian: osad). A shareholder is not personally liable for the obligations of the company. A private limited company is liable for the performance of its obligations with all of its assets.

The share capital must be a minimum of EUR 2,500. The minimum nominal value of a share is EUR 1. If the founders are private individuals and the share capital is less than EUR 25,000, then the founders can decide that the contribution need not be paid upon the establishing of the company. Until the whole sum has been paid, the founders are personally liable for the obligations of the company up to the amount of the missing contribution.

A private limited company must have a management board. The management board is the directing body of the private limited company that represents and directs the private limited company. The management board may have one member (director) or several members. A member of the management board need not be a shareholder. A member of the management board must be a natural person with active legal capacity.

If more than half of the board members are not residing in Estonia, then the company must provide the Commercial

Register with a contact in Estonia where necessary documents can be sent. The foreign owner must give the Commercial Register his/her address and e-mail address. A private limited company can have a supervisory board if prescribed by the Articles of Association, but it is not mandatory under the law. A private limited company must have an auditor if prescribed by the Articles of Association. An auditor is also mandatory when the company surpasses certain threshold values in terms of turnover, number of employees and asset value.

### **Public Limited Company (Aktiaselts or AS)**

A public limited company is a company that has a share capital (in Estonian: aktsiakapital) divided into public limited company shares (in Estonian: aktsiad). A shareholder is not personally liable for the obligations of the public limited company. A public limited company is liable for the performance of its obligations with all of its assets. One or more natural or legal persons with or without share subscription may found a public limited company.

Share capital must be a minimum of EUR 25,000) and the minimum nominal value of a share should be EUR 0,1. Shares must be registered and entered in the Estonian Central Register of Securities. The rights attached to registered shares belong to the person who is entered as the shareholder in the share register.

#### **A public limited company must have a management board and a supervisory board.**

The management board is the directing body of the public limited company that represents and directs the public limited company. A member of the management board need not be a shareholder. The management board may have one member (director) or several members. A member of the management board must be a natural person with active legal capacity. A member of the supervisory board must not be a member of the management board. If more than half of the board members are not residing in Estonia, then the company must provide the Commercial Register with a contact in Estonia where necessary documents can be sent. The foreign owner must give the Commercial Register his/her address and e-mail address.

The supervisory board must plan the activities of the public limited company, organise the management of the public limited company and supervise the activities of the



- Estonian Central Register of Securities  
[www.investinestonia.com/establishing-a-company](http://www.investinestonia.com/establishing-a-company)

management board. The supervisory board must notify the general meeting of the results of a review. The supervisory board must give orders to the management board for organisation of the management of the public limited company. The supervisory board must have three members unless the Articles of Association prescribe a greater number of members. A member of the supervisory board must be a natural person with active legal capacity.

**A public limited company must appoint an auditor.**

### **General Partnership (Täisühing or TÜ)**

A general partnership is a commercial undertaking in which two or more partners operate under a common business name and are solitarily liable for the obligations of the partnership with all of their assets. A general partnership must operate on the basis of the partnership agreement concluded by the partners. There is no minimum capital requirement and partners make monetary or non-monetary contributions in the amount prescribed by the partnership agreement.

### **Limited Partnership (Usaldusühing or UÜ)**

A limited partnership is a company in which two or more persons operate under a common business name, and at least one of the persons (general partner) is liable for the obligations of the limited partnership with all of the general partner's assets. At least one of the persons (limited partner) is liable for the obligations of the limited partnership to the extent of the limited partner's contribution.

A limited partner does not have the right to manage or represent the limited partnership unless the partnership agreement prescribes otherwise. A limited partner who has paid a contribution in full is not liable for the obligations of the limited partnership and he or she is entitled to the corresponding part of its profits.

### **Sole Proprietorship**

(Füüsilisest Isikust Ettevõtja or FIE)

A sole proprietor must be entered in the Commercial Register on his or her petition, or on another basis provided by law. A sole proprietor is liable for his or her obligations with all of his or her assets.



- Estonian Commercial Code  
[www.investinestonia.com/establishing-a-company](http://www.investinestonia.com/establishing-a-company)

## Branch of foreign company

If a foreign commercial undertaking wants to permanently offer goods or services in its own name in Estonia, it should enter its branch in the Commercial Register. A branch is not a legal person. The company is liable for the obligations arising from the activities of the branch. In the cases provided by law, a company must obtain a licence in order to found a branch in Estonia.

A foreign company must appoint a director or directors for the branch. A director must be a natural person with active legal capacity. The residence of at least one director must be in Estonia, in a member state of EEA or in Swiss Confederation. If several directors are appointed for a branch, each of them may represent the branch unless it is specified that the directors or some of them may represent the branch jointly.

A foreign company must maintain separate accounts concerning the branch. Accounts concerning the branch must be maintained pursuant to the requirements of the Accounting Act.



- Estonian Commercial Code  
[www.investinestonia.com/establishing-a-company](http://www.investinestonia.com/establishing-a-company)

## The process of establishing a company

Steps	Organization / contact
1. Business idea	
2. Learning about funding possibilities	Enterprise Estonia <a href="http://www.eas.ee">www.eas.ee</a> Estonian Unemployment Insurance Fund <a href="http://www.tta.ee">www.tta.ee</a> Estonian Agricultural Registers and Information Board <a href="http://www.pria.ee">www.pria.ee</a> Environmental Investment Centre <a href="http://www.kik.ee">www.kik.ee</a> KredEx <a href="http://www.kredex.ee">www.kredex.ee</a> Tallinn Enterprise Board <a href="http://www.tallinn.ee">www.tallinn.ee</a>
3. Choosing the right legal form	
4. Choosing and checking the business name	Central Commercial Register <a href="https://ariregister.rik.ee/nimeparing.py">https://ariregister.rik.ee/nimeparing.py</a>
5. Verification of foundation documents by the notary OR Electronic filing request to Commercial Register	Chamber of Notaries <a href="http://www.notar.ee">www.notar.ee</a> OR Company Registration Portal <a href="https://ettevotijaportaal.rik.ee/?chlang=eng">https://ettevotijaportaal.rik.ee/?chlang=eng</a> Estonian citizens can access the portal by ID-card, Mobil-ID or via bank-link. <b>Portuguese, Finnish and Belgian</b> citizens can access the portal by ID-card and Lithuanian citizens by Mobile-ID.
6. Acquiring licenses	Information on activities for which a license is required from Estonian Investment Agency <a href="mailto:invest@eas.ee">invest@eas.ee</a>
7. Entry in the Commercial Register	Registry departments of courts <a href="http://www.just.ee/7714">http://www.just.ee/7714</a>
8. Registration in the local tax office	Estonian Tax and Customs Board <a href="http://www.emta.ee">www.emta.ee</a>
9. Registration of employees in the Estonian Health Insurance Fund and in the Labour Inspectorate (if necessary)	Estonian Health Insurance Fund <a href="http://www.haigekassa.ee">www.haigekassa.ee</a> Labour Inspectorate <a href="http://www.fi.ee">www.fi.ee</a>
10. Registration in the Register of Economic Activities (if necessary)	Register of Economic Activities <a href="http://mtr.mkm.ee/">http://mtr.mkm.ee/</a>



## How to register a private limited company?

For entering a company in the Commercial Register, the founders must draft a Memorandum of Association, and also approve the Articles of Association of the private limited company as an annex to the Memorandum of Association. The Memorandum of Association and the Articles of Association approved thereby, must be notarised and signed by all founders. A representative of a founder may sign the Memorandum of Association and the Articles of Association approved thereby, if the authorisation document granted to the representative is notarised. If the private limited company has one founder, the Memorandum of Association must be substituted by a notarised foundation resolution, signed by the founder.

The Memorandum of Association must include the following information:

- \* the business name, seat and address of the private limited company being founded;
- \* the names and residences or seats of the founders;
- \* the proposed amount of share capital;
- \* the nominal value and number of shares, and their division among the founders;
- \* the amount to be paid for shares and the procedure, time and place of payment;
- \* the item of the non-monetary contribution and its valuation method, if a share is paid for by a non-monetary contribution;
- \* information on the members of the management board and, if formed, the supervisory board;
- \* information on procurators or auditors, if appointed;
- \* the projected costs of foundation and the procedure for payment thereof.

The Articles of Association of a private limited company must set forth:

- \* the Memorandum of Association;
- \* the Articles of Association;
- \* a bank notice concerning the payment of share capital if the share capital must be paid before entry in the Commercial Register;
- \* the names, personal identification codes and addresses of the founders and the amounts of their contributions;
- \* upon payment by a non-monetary contribution, the agreement concerning the transfer of the contribution

to the private (public) limited company, documents certifying the value of the contribution and an opinion on the valuation of the non-monetary contribution signed by the auditor;

- \* a notarized expression of consent of each member of the board to act as a member of the board and the confirmation of the absence of circumstances that would rule that out;
- \* the names, personal identification codes and residences of the members of the management board, the supervisory board and the auditors;
- \* information on the planned principal activity;
- \* telecommunication numbers (telephone, fax etc.);
- \* other documents required by law.

### **Entry in Commercial Register**

In order to enter a private limited company in the Commercial Register, the management board must submit a petition to the Commercial Register. The following documents should be enclosed with the application:

- \* the Memorandum of Association;
- \* the Articles of Association;
- \* a bank notice concerning the payment of share capital if the share capital must be paid before the entry in Commercial Register;
- \* the names, personal identification codes and addresses of the founders and the amount of their contributions;
- \* upon payment by a non-monetary contribution, the agreement concerning the transfer of the contribution to the private (public) limited company, documents certifying the value of the contribution and an opinion on the valuation of the non-monetary contribution signed by the auditor;
- \* a notarized expression of consent of every member of the board to act as a member of the board and the confirmation of the absence of circumstances that would rule that out;
- \* the names, personal identification codes and residences of the members of the management board, the supervisory board, and the auditors;
- \* information on the planned principal activity;
- \* telecommunication numbers (telephone, fax, etc.);
- \* other documents provided by law.

The following information shall be entered in the Commercial Register:

- \* the business name of the private limited company;
- \* the location and address of the private limited company;
- \* the amount of share capital;
- \* the foundation of the company without making contributions;
- \* the date of conclusion of the Memorandum of Association;
- \* the names and personal identification codes of the members of the management board;
- \* the members of the management board entitled to represent the private limited company differently than provided for in subsection 181 (1) of the Commercial Code;
- \* the beginning and end of the financial year of the private limited company;
- \* other information required by law.

Documents may be sent with a notary, by post or by electronic means through <http://ekanded.eer.ee> (Digital signatures can be given only with the ID-card or Mobile-ID. Estonian citizens can access the portal by ID-card, Mobil-ID or via bank-link. Portuguese, Finnish and Belgian citizens can access the portal by ID-card and Lithuanian citizens by Mobile-ID.) All documents must be submitted to the Commercial Register in Estonian or with an appended notarised translation. An application for entry shall be reviewed within five working days after receipt of the application.



- Estonian Commercial Code
  - Centre of Registers and Information Systems
- [www.investinestonia.com/establishing-a-company](http://www.investinestonia.com/establishing-a-company)

## Notaries



- Chamber of Notaries
  - List of sworn translators
- [www.investinestonia.com/establishing-a-company](http://www.investinestonia.com/establishing-a-company)

All notaries who have been appointed to office are members of the Chamber of Notaries. The Notaries Act and the statutes of the Chamber of Notaries regulates the activities of the Chamber of Notaries. The Chamber of Notaries commenced its activities on 1 November 1993, when the Notaries Act entered into force. The Estonian Chamber of Notaries has been a member of the International Union of Latin Notaries since 1995.

# PREMISES AND INFRASTRUCTURE



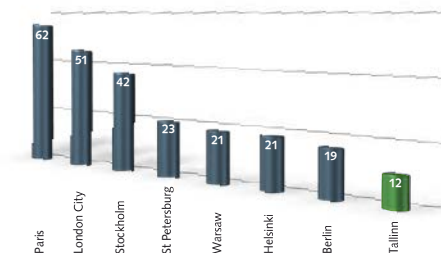
COMPACT SETTINGS  
FOR BIG IDEAS.





## Class A Office rents in 2011 (EUR/sqm/month)

Source: Colliers International



## Premises

There are no particular restrictions for foreigners acquiring immovables in Estonia. General restrictions fall into two main types according to the Restrictions on Acquisition of Immovables Act:

- \* restrictions arising from the acquisition of 10 hectares or more of agricultural or forested land;
- \* restrictions arising from national defence reasons

The Government may grant authorisation to foreigners for acquisition of an immovable in one of the two categories above for reasons significant to the State.

The following table shows the indicative range for rents (excluding VAT and operating expenses) in major towns of Estonia for class A and B1 office premises, medium-size retail units in major shopping centres, and new and renovated warehouses (EUR/m<sup>2</sup> per month):

Type of space	Tallinn	Tartu	Pärnu	Narva
Office	6.5–16	4.8–11.5	4.0–8.0	3.1–5.5
Retail	6.5–42	6.8–22.0	6.0–14.0	5.5–12.9
Industrial	3.5–4.8	2.0–4.0	1.6–4.4	1.9–3.8

Source: Colliers International Advisors, Estonia

**Class A** – property under management by a professional management company, located in Downtown (Südalinn), completely new construction, fully controllable technical systems, reasonable column spacing, raised floors and suspended ceilings, a good underground parking ratio, corresponding infrastructure/amenities in the building (including cafeteria).

**Class B1** – reconstructed or newly constructed buildings with fully or partially replaced technical systems, located

in City Centre (Kesklinn) or on the edge of the City Centre; possibility exists to install raised floors and suspended ceilings, western-standard interior fit-out, and surface parking.

At the beginning of 2011, Tallinn office stock comprised about 473,500 sqm. Class A and B1 premises accounted for 64% (303,500 sqm) of the total stock of speculative (not built-to-suit) office buildings in Tallinn, and Class B2 accounted for 36% (170,000 sqm) of total stock. The stock of Tallinn retail space increased to a total of 461,800 sqm (1.14 sqm per capita) in 2010, and estimated total stock of industrial facilities exceeded 711,400 sqm (approx. 195,000 sqm of generic facilities plus 516,400 sqm of built-to-suit facilities).



- Real estate agents  
[www.investinestonia.com/  
premises-and-infrastructure](http://www.investinestonia.com/premises-and-infrastructure)

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## Electricity

The Estonian Power System is today a complex organisation, in which the Narva oil shale-fired power plants, the Iru combined heat and power plant (near Tallinn), wind parks and restored hydro plants work together.

The Estonian Power Grid is connected with the Russian, the Latvian and, via a maritime cable (300MW), the Finnish (Nordic) grids. A second cable link project to Finland (600MW) has been approved and will be operational by 2014.

The largest energy provider in Estonia is Eesti Energia, a 100% state-owned company. Eesti Energia is the largest employer in Estonia and its bonds are listed on the London Stock Exchange.

The Estonian energy system is the only predominantly oil-shale-based energy production system in the world.

As of April 2010, 35% of the Estonian electricity market was open. All companies that consume more than 2 GWh of power at one consumption point will be considered open market users in that location and will be required to buy electricity at open market prices. From 1 January 2013, all of Estonia will be buying electricity from the open market. The price of electricity is comprised of four components: electricity, network service, renewable energy support, and excise duty.

The average national price for electrical energy is 0.07 EUR per kWh (excluding excise duty and VAT).

Electricity price and network service calculators are available on the web page of Eesti Energia. These enable the



- Eesti Energia  
- Elering  
[www.investinestonia.com/  
premises-and-infrastructure](http://www.investinestonia.com/premises-and-infrastructure)

calculation of power expenditures based on applicable packages, and can offer the most cost-efficient price package for the given data:

<https://www.energia.ee/en/business/electricity/rates>

## Industrial gas

Natural gas is imported into Estonia from Russia and from the Inchukalns underground gas storage in Latvia. Gas is distributed to customers through gas pipelines, distribution stations and gas pressure reduction stations. Estonia's natural gas company is Eesti Gaas. Network services to all participants in the natural gas market in the territory of Estonia are provided by EG Võrguteenus.

The price of gas consists of three elements: gas, network service, and excise duty.

The price of natural gas for domestic users consuming 1000 m<sup>3</sup> or more per year is EUR 0.316 per m<sup>3</sup> (excluding VAT). The price for industrial users is subject to negotiations.



- Eesti Gaas  
[www.investinestonia.com/  
premises-and-infrastructure](http://www.investinestonia.com/premises-and-infrastructure)

## Water

Water supply and waste water services are provided by local water companies: e.g., Tallinna Vesi serves the City of Tallinn and in its surrounding areas; Narva Vesi serves City of Narva and Narva-Jõesuu.

The cost of water for industrial use in Tallinn is approximately 2.3 EUR per m<sup>3</sup> (excluding VAT).

Exact prices are available on the home page of the respective company.



- Tallinna Vesi  
- Narva Vesi  
[www.investinestonia.com/  
premises-and-infrastructure](http://www.investinestonia.com/premises-and-infrastructure)

## Broadband network

Estonia has a highly developed telecommunications and IT infrastructure. A fibre optic backbone network connects all Estonian country centres.

By 2015, all Estonian households, enterprises and institutions will have access to broadband with a data connection speed of up to 100 Mbit/s. The Estonian Broadband Development Foundation's objective is to build a network of fibre optic cables across Estonia to make that possible.

Estonia is completely covered by digital networks providing wireless internet. A network of Public Access Points covers most cities and towns.



- Estonian Broadband Development  
Foundation  
- Eesti Telekom  
- Elion Ettevõtteid  
- Televõrk  
[www.investinestonia.com/  
premises-and-infrastructure](http://www.investinestonia.com/premises-and-infrastructure)

# FINANCING A BUSINESS

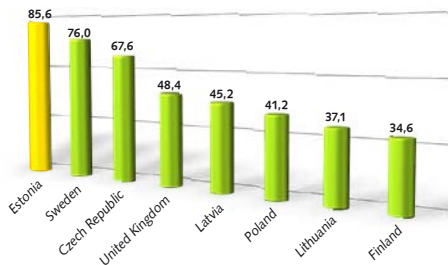
A photograph of a modern glass skyscraper at dusk. The building features a curved facade with a grid of glass panels and a prominent cylindrical tower on the left. The sky is a clear, deep blue. The text "FIND FINANCING FOR YOUR GRAND PLAN." is overlaid in white, sans-serif font in the upper left quadrant. The building's lower levels are supported by concrete pillars, and a walkway with a metal railing is visible. The "taskU" logo is visible on the ground floor.

FIND FINANCING FOR YOUR  
GRAND PLAN.



## Inward FDI stock as % of GDP 2010

Source:  
World Investment Report 2011



## Financing a business

There are a several possibilities for financing a business in Estonia. The main financing sources can be categorised as:

- \* debt financing;
- \* equity financing;
- \* financing though EU structural Funds.

However, at the moment debt financing is the prevailing financing option on the Estonian market.

## Debt financing

**Debt financing** is basically an acquisition of funds by borrowing. In Estonia, debt financing is mainly provided by commercial banks. Major banks of Estonia offer a large range of services, whereas smaller banks concentrate on a specific range of services.

**The Estonian commercial banking market is divided by four major banks, all with foreign capital:**

- \* Swedbank (Swedbank Group) with the biggest market share,
- \* SEB Bank (SEB Group),
- \* Nordea Bank Finland PLC Estonia Branch;
- \* Danske Bank A/S Estonia Branch.

In total there are seven licensed banks and 11 branches of foreign credit institutions in Estonia.

Debt financing provided by these banks can be divided into two categories, based on the type of loan you are seeking: short term debt financing and long term debt financing.



Additional information about credit institutions:

- Estonian Banking Association
- Bank of Estonia

Biggest banks:

- Swedbank: SEB Bank
  - Nordea Bank Finland PLC Estonia Branch
  - Danske Bank A/S Estonia Branch
- [www.investinestonia.com/financing-a-business](http://www.investinestonia.com/financing-a-business)

**Short Term debt financing** is essentially to provide capital deficit businesses funds for a short-term period of no more than a year.

- \* **An Overdraft** is a short-term credit that is bounded to the company's current bank account. It allows the company to withdraw or spend more money than it has, up to an agreed limit, known as the "overdraft limit". An overdraft is designed to meet the liquidity needs and balance irregular cash flow.
- \* **Working Capital Loan (current capital loan)** is a special purpose loan for short-term financing of additional needs in working capital.
- \* **Loan for agricultural enterprises** is provided for companies in cooperation with the Rural Development Foundation (RDF). Credit institutions are granting financing for primary producers in the agricultural sector and issuing loans on favourable conditions. The purpose of this loan is to support agricultural producers and other undertakings operating in rural areas to assure better access to financial resources that are needed for development of the economic activity.

**Long Term debt financing** is a form of financing that is provided for a period of more than a year. Long-term financing services are provided to those business entities that face a shortage of capital.

- \* **Investment loan** is a long-term loan, the purpose of which is financing new projects such as acquisition of fixed assets or building office, warehouse or production facilities. The financed period for investment loans varies depending on the credit institution, but usually does not exceed 15 years.
- \* **Start-up loan** is meant for companies just starting in business that often have no strong assets. A start-up loan enables an entrepreneur to manage the business- and loan-related risks, as in comparison with ordinary loans they have to take smaller risks with their own property.

Most of these loan types require collateral in order to secure the credit institution's financing; in addition to a mortgage, the company can apply to Kredex for supplementary collateral to the extent of up to 75% of the credit amount.





- Rural Development Foundation  
[www.mes.ee/index\\_eng.php?id=13](http://www.mes.ee/index_eng.php?id=13)

In the case of a rural life and agriculture loan, the company can apply to the Rural Development Foundation.

These guarantees are meant for small and medium-sized enterprises that are just beginning their business or cannot secure a bank loan.

In addition to the above-mentioned services, credit institutions also provide car and equipment leases and factoring services.

## Equity financing

**Equity financing** is an alternative to debt financing and is basically an acquisition of funds by selling common or preferred stock to individual or institutional investors. In return for the money paid, shareholders receive ownership interests in the corporation.

A company can finance equity through:

- \* **Private equity companies** financed by institutional investors (such as investment banks, funds etc) and private investors. There is a wide array of private equity types and styles and the term 'private equity' has varying connotations in different countries. Among them are:
  - **Venture Capital** (also known as VC or Venture) is a type of private equity capital typically provided to early-stage, high-potential growth companies. Generally, VC fund investors accept a higher risk of failure than is normally the case for other more conservative investments.
  - **Mezzanine capital** is a broad financial term that refers to unsecured, high-yield, subordinate debt or preferred stock. Mezzanine capital represents an intermediary between equity and debt in a company's balance sheet.
- \* **Initial Public Offering (IPO)** also referred to as a "public offering" or "flotation," is when a company issues common stock or shares to the public for the first time. The money paid for the new shares to the company will be used for new investments, lessening the loan burden etc. The initial public offering is usually followed by listing the company's shares on the stock exchange: <http://www.nasdaqomxbaltic.com>
  - First North Baltic is an alternative marketplace for small growth companies, providing a wealth of opportunities on the Baltic financial markets. First North is a part of NASDAQ OMX Nordic Exchange.



- NASDAQ OMX Nordic Exchange  
[firstnorth.nasdaqomxbaltic.com/?lang=en](http://firstnorth.nasdaqomxbaltic.com/?lang=en)

## The list of institutional investors in Estonia

### ACCOUNT OPERATORS

Avaron Asset Management AS  
<http://www.avaroncapital.com>

Hansa Investeerimisfondid AS  
<http://www.swedbank.ee>

Kawe Kapital AS  
<http://www.kawe.ee>

LHV Varahaldus AS  
<http://www.lhv.ee>

SEB Ühispanga Fondid AS  
<http://www.seb.ee/fondid>

Trigon Alternative Funds AS  
<http://www.trigon.ee/en>

Trigon Funds AS  
<http://www.trigon.ee>

ERGO Varahalduse AS  
<http://www.ergofondid.ee>

Danske Capital AS  
<http://www.sampopank.ee>

IPS "Hansa Fondi" AS

EVLI Fund Management Company Ltd

East Capital Asset Management AB

### INVESTMENT COMPANIES

KIT Finance Europe  
<http://www.kfe.ee>

GILD Corporate Finance  
<http://www.gildcf.com/>

Evli Securities AS  
<http://www.evli.com/pub/web/EE/ee/index>

Cresco Väärtpaberite AS  
<http://www.cresco.ee>

Lõhmus, Haavel & Viisemann AS  
<http://www.lhv.ee>

Trigon Securities  
<http://www.trigoncapital.com>

East Capital Asset Management AB  
<http://www.eastcapital.com>

Privanet Eesti

T. Rowe Price Global Investment Services  
Limited

### INVESTMENT BANKS

United Partners Group  
<http://www.unitedpartners.ee/>

Trigon Capital  
<http://www.trigon.ee>

Evli Securities AS  
<http://www.evli.com/pub/web/EE/ee/index>

Nordic Financial Services  
<http://www.nordicfinancial.com>

Cresco AS  
<http://www.cresco.ee>

### VENTURE CAPITAL

Ambient Sound Investments OÜ  
<http://www.asi.ee>

MTVP AS  
<http://www.martinsontrigon.com/>

BaltCap  
<http://www.baltcap.com>

Redgate Capital  
<http://www.redgatecapital.eu/>

### PRIVATE EQUITY

Alta Capital Partners  
<http://www.altacapital.ee>

BaltCap  
<http://www.baltcap.com>

### REAL ESTATE INVESTORS

Eften Capital -  
<http://www.eften.ee>

AS Eastern Europe Real Estate Investment Trust  
<http://www.eereif.com/>

Metro Capital Management AS  
<http://www.metrocapital.eu>

Redgate Capital  
<http://www.redgatecapital.eu/>

Trigon Property Advisors  
<http://www.trigoncapital.com>

### MEZZANINE FINANCING

Balti-Ameerika Ettevõtlusfond  
Hanseatic Capital  
<http://www.hanseaticcapital.net/>

Baltic Mezzanine  
<http://www.balticmezzanine.ee>

## Funding programmes

### EU Structural Funds

Structural Assistance is allocated by the EU to Estonia for the purpose of supporting development of the economy in Estonia. Structural Assistance is allocated from three funds:

- \* European Regional Development Fund (ERDF);
- \* European Social Fund (ESF);
- \* Cohesion Fund (CF).



In the period of 2007–2013 Estonia was allocated more than EUR 3.4 billion from the Structural Assistance, which will be channelled to the following fields:

- \* energy economies
- \* entrepreneurship,
- \* administrative capability,
- \* education,
- \* information society,
- \* environment protection,
- \* regional and local development,
- \* research and development activities,
- \* healthcare and welfare,
- \* transportation,
- \* labour market.

Grand types and requirements can be found on the European Union Structural Funds' homepage.

**Enterprise Estonia (EAS)** promotes business and regional policy in Estonia and is one of the largest institutions of the national support system for entrepreneurship in Estonia, providing financial assistance, advisory, cooperation opportunities and training for the entrepreneurs, research establishments, public and third sector.

Grand types and requirements can be found on the EAS homepage.



- Grand types and requirements  
[www.strukturifondid.ee/en/](http://www.strukturifondid.ee/en/)  
[www.eas.ee](http://www.eas.ee)

# LABOUR MARKET AND SOCIAL SECURITY



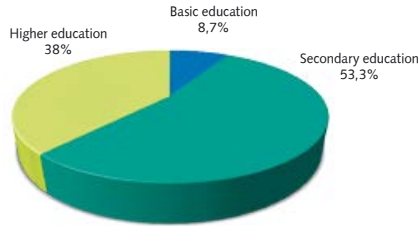
WE KNEW TEAMWORK  
BEFORE TEAMWORK WAS  
EVER INVENTED.





## Estonian workforce by level of education 2011

Source:  
Statistics Estonia



## Labour legislation

The most important statutes and rules regulating the activities in the labour market are the Constitution of Estonia, Conventions of International Organization of Labour, Employment Contracts Act, Collective Agreements Act, Trade Unions Act and several enactments of the Government and Ministries of Estonia.

The power of trade unions is very weak in Estonia – less than 10% of employees belong to a union. The strongest unions are in the fields of energy, education, transportation, healthcare and services.

A work contract is required to include some specific terms, in the absence of which the contract is defective.

### The following terms are mandatory:

- \* the identities of the parties (name, personal identification code or registration number, residence or seat);
- \* the date of entry into the employment contract and commencement of work by the employee;
- \* a description of duties;
- \* the official title if this brings about legal consequences;
- \* the agreed pay payable for the work (wages), including:
  - wages payable based on the economic performance and transactions;
  - the manner of calculation;
  - the procedure for payment and the time of falling due of wages (pay day);
  - taxes and payments payable and withheld by the employer;
- \* other benefits, if agreed upon;
- \* the time when the employee performs the agreed duties (working time);
- \* the place of performance of work;
- \* the duration of holidays;
- \* a reference to, or the terms of, advance notification of cancellation of the employment contract;
- \* the rules of work organisation approved by the employer;
- \* a reference to a collective agreement, if a collective agreement is applicable to the employee.

## Terminating an employment contract

### A contract is considered to be expired on the following grounds:

- \* by agreement of the parties;
- \* end of the contract period;
- \* the initiative of the employee;
- \* the initiative of the employer;
- \* demands on third parties and conditions not depending on the parties involved.

**Termination of a contract during a trial period:** both the employee and the employer have the right to terminate the employment contract during a four-month trial period by informing the other party 15 calendar days in advance.

**Terminating a contract by the employee:** advance notification of at least 30 calendar days is required.

- \* Terminating a contract by the employer: the employer may extraordinarily terminate an employment contract if the justification for doing so arises directly from the employee or the prevailing financial situation. The employer must provide the employee with advance notice depending on the length of time the employee has been working: less than one year – 15 calendar days
  - \* 1–5 years – 30 calendar days
  - \* 5–10 years – 60 calendar days
  - \* More than 10 years – 90 calendar days

In the case of redundancy, the employer must pay the employee compensation equivalent to one month's average wages. In addition, the employee is also entitled to unemployment insurance benefits paid by the Unemployment Insurance Fund.



- Employment Contracts Act  
[www.investinestonia.com/  
labour-market-and-social-security](http://www.investinestonia.com/labour-market-and-social-security)

The notice of a contract termination by either party should be presented in writing, unless agreed otherwise.

## Working time and vacation

The length of a working week	5 days
The length of a working day	8 hours
General vacation	28 calendar days
Age of retirement (for both men and women)	63 years

**The standard working schedule** in Estonia is eight hours a day, five days per week. The duration of one shift may not exceed 12 hours.

Overtime is allowed by mutual agreement. The working schedule together with overtime shall not exceed on average 48 hours per seven days over a calculation period of four months, unless a different calculation period has been provided by law. Employer and employee may agree on a longer working schedule than 48 hours if the working schedule does not exceed, on average, 52 hours per seven days over a calculation period of four months and the agreement is not unfair to the employee. An employee may cancel the agreement at any time, giving two weeks' advance notice thereof.

The duration of the **annual vacation** is 28 days, an extended vacation is granted in case of some professions, such as state officials and local government officials, teachers, academic, pedagogical and scientific staff and others. National holidays and public holidays are not included in the vacation duration calculations. An employee may be granted unpaid leave at his or her request for a period of time established by agreement of the parties.

**Maternity leave** – A woman is granted 140 days pregnancy and maternity leave, which may commence at least 70 days before the estimated birth date of the child. The maternity benefit is paid by the state.

**Parental leave** – A mother or a father shall be granted parental leave at her or his request for raising a child of up to 3 years of age. The parental benefit is paid by the state. Together the maternity benefit and the parental benefit are paid for a period of 575 days.

**Sickness** – in case of sickness, the employee can be given up to 182 calendar days of paid sick leave (max 250 days per year). The gross wage during this period is 70% of his or her last years' average salary. The employer pays the wage from the 4th to 8th day of sickness and the state starting the 9th day.

## Remuneration

The average wage in Estonia in 2011 was EUR 830. The monthly minimum wage for full-time work is EUR 290. The wages must be paid at least once a month.

If the working hours are **at night** (from 10:00 pm to 6:00 am), employers shall pay wages for the work exceeding the normal wages by 1.25 times, unless it has been agreed that the wages include remuneration for working at night.

**Work during public holidays** may be compensated either by offering time off or by extra remuneration of at least 50% of the wage rate.

Payment for overtime – additional remuneration per hour of overtime paid to an employee shall not be less than 50% of the rate of the hourly wage.



- **Employment Contracts Act**  
[www.investinestonia.com/  
labour-market-and-social-security](http://www.investinestonia.com/labour-market-and-social-security)

## Finding suitable staff

Potential sources of finding suitable staff:

- \* Estonian Unemployment Insurance Fund offers free of charge services to employers by looking for workers who meet the criteria they submit;
- \* private recruitment companies can help in finding necessary specialists;
- \* one can advertise in national and local papers. Estonian Newspaper Association unites all the biggest newspapers in Estonia;
- \* careers services of main universities are one possibility to find employees.



- **Estonian Unemployment Insurance Fund**
- **Recruitment companies**
- **Estonian Newspaper Association**
- **Careers service of Tallinn University of Technology**
- **Careers service of University of Tartu**
- **Careers service of Mairor Business School**  
[www.investinestonia.com/  
labour-market-and-social-security](http://www.investinestonia.com/labour-market-and-social-security)

## Estonian social security system

**Social security system of Estonia comprises of seven schemes:**

- \* Health insurance
- \* Unemployment insurance
- \* State unemployment allowances
- \* State family benefits
- \* Social benefits for disabled people
- \* State funeral benefits
- \* Pension insurance

Pension insurance, health insurance and unemployment insurance are contributory schemes, while the other schemes are non-contributory.

Social benefits for disabled people and funeral benefits can be classified as universal, covering principally all residents.

**Unemployment insurance** is 4.2% of the wage. The employer pays 1.4% of the wage and deduction from employees wage is 2.8%.

**Unemployment benefit** – those who are out of work are eligible to receive an unemployment benefit, as of 1 January 2007 a minimum of EUR 65 per month for a period of up to nine months provided they have registered themselves with the Unemployment Office.



- Ministry of Social Affairs  
- Unemployment Insurance Act  
[www.investinestonia.com/  
labour-market-and-social-security](http://www.investinestonia.com/labour-market-and-social-security)

## Health insurance in Estonia

Estonian health insurance relies on the principle of solidarity. The Health Insurance Fund covers the costs of health services required by the person in case of illness, regardless of the amount of social tax paid for the person concerned. The Fund uses the social tax paid for by the working population, also for covering the cost of health services provided to persons who have no income with regard to work activities.

Employers are required by the law to pay social tax for all persons employed, whereby the rate of this tax is 33% of the taxable amount, and of which 20% is allocated for pension insurance and 13% for health insurance.

### The purpose of health insurance in Estonia is to:

- \* cover the costs of health services provided to insured persons;
- \* prevent and cure diseases;
- \* finance the purchase of medicinal products and medicinal technical aids;
- \* provide the benefits for temporary incapacity for work and other benefits.

Health insurance is organised by the Estonian Health Insurance Fund and its four local departments. The Estonian Health Insurance Fund is the only organisation in Estonia dealing with compulsory health insurance.



- Health Insurance Fund  
[www.investinestonia.com/labour-  
market-and-social-security](http://www.investinestonia.com/labour-market-and-social-security)

# THE TAX SYSTEM



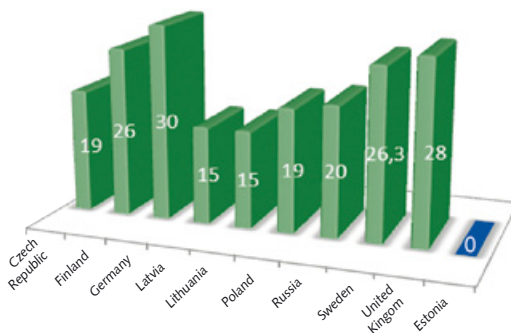
FERTILE GROUND FOR NEW IDEAS  
AND A STRAIGHTFORWARD  
TAX SYSTEM.





## Taxes on reinvested profits 2012 (%)

Source:  
World-wide Tax



## The tax system

The Estonian tax system consists of national taxes and local taxes collected by local governments in their jurisdiction. National taxes include income tax, social tax, land tax, gambling tax, value-added tax, duty and excise taxes and heavy goods vehicle tax. Local governments have the authority to impose local taxes, but effectively only a few have introduced local taxes, in particular: boat tax, advertisement tax, tax for closing of streets, motor vehicle tax, tax on keeping domestic animals, amusement tax, and parking fees.



- Estonian Tax and Customs Board  
[www.investinestonia.com/tax-system](http://www.investinestonia.com/tax-system)

Estonia does not impose any gift, inheritance or estate taxes. Various transactions may be subject to payment of state fees (stamp duties).

## Corporate income tax

Estonian resident companies and permanent establishments of the foreign entities (including branches) are subject to income tax only in respect of all distributed profits (both actual and deemed), including:

- \* corporate profits distributed in the tax period;
- \* gifts, donations and representation expenses;
- \* expenses and payments not related to business.

Fringe benefits are taxable at the level of employer. The employer pays income tax and social tax on fringe benefits.

All distributions are subject to income tax at the rate of 21% of the amount of taxable payment. The transfer of assets of the permanent establishment to its head office or to other companies is also treated like a distribution. As of 1 January 2009, dividends paid to non-residents are no longer subject to withholding tax at the general rate of

21%, irrespective of participation in the share capital of the distributing Estonian company. However, various withholding taxes may still apply to other payments to non-residents if they do not have a permanent establishment in Estonia or unless the tax treaties otherwise provide.

As the tax period of corporate entities is a month, the income tax shall be returned and paid monthly by the 10<sup>th</sup> day of the following month.

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## Personal income tax

Residents pay tax on their worldwide income. Taxable income includes, in particular, income from employment (salaries, wages, bonuses and other remuneration); business income; interest, royalties, rental income; capital gains; pensions and scholarships (except scholarships financed from state budget or paid on the basis of law). Taxable income does not include dividends paid by Estonian or foreign companies when the underlying profits have already been taxed.

Non-residents pay tax only on their income received from Estonian sources. Income taxable in Estonia includes:

- \* income from work under a labour contract or contractor's agreement in Estonia;
- \* income from a business carried on in Estonia;
- \* interest income received from Estonia (only if it is substantially higher than that on similar debt claims);
- \* royalties;
- \* income from the lease of assets located in Estonia;
- \* gains from disposal of assets located in Estonia;
- \* directors' fees paid by Estonian enterprises;
- \* income of a sportsman or an artist from his or her activities in Estonia
- \* pensions and scholarships.

The tax rate for 2012 is 21% of the taxable income.

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## VAT

VAT is charged on supplies of goods and services in the course of business activities and self-supply of goods and services.

A taxable person is an individual engaged in business who is registered as taxable person. A taxable person shall add of

the amount of VAT to the taxable value of the goods transferred or services provided, calculate the amount of VAT due to pay, pay VAT, preserve documents, maintain records and issue invoices in accordance with requirements.

The threshold for obligatory registration as a taxable person is EUR 16,000. The threshold for taxable person with limited liability in case of acquisition of goods is EUR 10,000. There is no threshold in case of acquisition of services.

The taxable period is one calendar month and VAT returns shall be submitted to the tax authority by the 20th day of the month following the taxable period.

The standard rate of VAT is 20%; the reduced rate is 9% and 0% in some cases.

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## Social tax

Employers registered in Estonia (including permanent establishments of the foreign entities) must pay social tax on all payments made to employees, except on those specifically exempted by law. In case of an individual engaged in business and registered as such with the Tax Authorities, social tax liability lies with the individual. Fringe benefits and the income tax thereof are also included in the taxable base. Currently only employers and individuals engaged in business are liable to make social tax contributions. Employees are not required to pay social tax.

The rate of social tax is 33% (20% for social security and 13% for health insurance).

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## Other taxes

**Land tax** is levied on the taxable value of all land (other than that which is specifically exempt) based on an official valuation. The owners of the land are liable to land tax. The annual land tax rate varies between 0.1% and 2.5% of the assessed value of the land. The council of the local authority is authorised to establish the rate of land tax.

**Excise duties** are levied on tobacco, alcoholic beverages, fuel, electricity and packages.



**Heavy goods vehicle tax** is paid for the following classes of vehicles which are intended for the carriage of goods: lorries with a maximum authorised weight or gross laden weight of not less than 12 tons; road trains composed of trucks and trailers with a maximum authorised weight or gross laden weight of not less than 12 tons.

**Gambling tax** is imposed on amounts received from operating games of skill, totalizator, betting and lotteries. Tax is charged also on gambling tables and machines used for games of chance located on licensed premises.

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## Customs

Estonia's membership in the EU implies that all aspects of custom duties are decided by the common customs tariff, TARIC.

The online customs tariff database, also called the TARIC, is a multilingual database in which are integrated all measures relating to tariff, commercial and agricultural legislation. By integrating and coding these measures, the TARIC secures their uniform application by all Member States and gives all economic operators a clear view of all measures to be undertaken when importing or exporting goods. It also makes it possible to collect Community-wide statistics for the measures concerned.



- Estonian Tax and Customs Board  
- Ministry of Finance  
[www.investinestonia.com/tax-system](http://www.investinestonia.com/tax-system)

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## Accounting requirements

The Law on Accounting (valid from 1 January 2003) regulates basic accounting functions in all business entities registered in Estonia. It does not regulate accounting for taxes, which are regulated by other laws and acts. The essence of the law is framed in compliance with International Accounting Standards (IAS).

Almost all Estonian companies can choose whether to prepare their consolidated and annual accounts in accordance with International Financial Reporting Standards (IFRS) or in accordance with the Estonian accounting standards ("Estonian GAAP"). Listed companies and financial institutions are required to prepare their accounts in accordance with IFRS. The Estonian GAAP is written by the Estonian Accounting Standards Board.

The length of a financial year is 12 months. At the end of each financial year, an accounting entity is required to prepare an annual report that consists of the annual accounts and the management report. The auditor's report and, in the case of a company, the profit distribution proposal for the financial year should be annexed to the annual report. The auditor's report need not be annexed to the annual report if auditing is not compulsory.

Annual report should be filed at the Commercial Register during six months after the end of the financial year.

## Auditing

Financial statements should be audited for all public limited companies and foundations. In addition, an accounting entity should be audited if, on the balance sheet date of the accounting year, the accounting entity exceeds the limits of at least two of the three following criteria:

- \* sales revenue (net turnover), in the case of a company, or income, in the case of other accounting entities, of EUR 2 Million;
- \* total assets of EUR 1 Million;
- \* number of employees: 30.

Or if the accounting entity exceeds the limit of one of the three following criteria:

- \* sales revenue (net turnover), in the case of a company, or income, in the case of other accounting entities, of EUR 6 Million;
- \* total assets of EUR 3 Million;
- \* number of employees: 90.



- Accounting Act
  - Estonian Accounting Standards Board
  - Estonian Board of Auditors
  - Central Commercial Register
- [www.investinestonia.com/tax-system](http://www.investinestonia.com/tax-system)

## Paying taxes

The tax authority for state taxes is the Tax and Customs Board.

Non-residents can choose for themselves a **tax representative**. The tax representative of a non-resident is a person to whom the Tax and Customs Board has issued a corresponding activity licence and whom a non-resident may authorise to represent itself for the performance of the obligations arising in Estonia.



- Licensed tax representatives of non-residents
- [www.investinestonia.com/tax-system](http://www.investinestonia.com/tax-system)

**Taxable persons** are taxpayers, withholding agents, other persons responsible for the tax liability of a taxpayer or withholding agent pursuant to law or a contract.

**Monthly reporting** to the Tax and Customs Board:

- \* Income tax, social tax, unemployment insurance premiums and funded pension payments have to be withheld, paid, declared and transferred to the Tax and Customs Board by the 10th of every month, following the month of payment.
- \* A VAT return is filed and the VAT is payable by the 20th of the month following the period of taxation.
- \* By the 10th of every month, a payer is required to submit a notification file on recipients of dividends or payments made to shareholders of proceeds from liquidations, payments upon capital reductions and redemption or return of participation, to the regional tax centre of the Estonian Tax and Customs Board only in case there was a payment the month before.

All the taxes in Estonia can be declared via **E-tax/e-customs**, which is an electronic service desk of the Estonian Tax and Customs Board. E-tax/e-customs works 24 hours a day and 7 days a week. Via E-tax/e-customs it is possible to:

- \* Submit declarations and notices
- \* Perform customs operations
- \* Be aware of one's tax operations
- \* Securely communicate with the Tax and Customs Board



- More information on E-tax/e-customs
  - Key dates for taxpayers in 2012
  - Estonian Tax and Customs Board
  - Taxation Act
  - Estonian Taxpayers Association
- [www.investinestonia.com/tax-system](http://www.investinestonia.com/tax-system)



# THE LEGAL FRAMEWORK

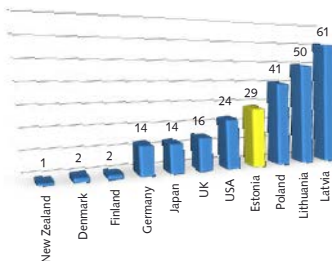


THE LEGAL SYSTEM?  
SIMPLE AND CAPABLE.



## Corruption Perception Index 2011

Source:  
Transparency International



## The legal framework

The legal system in Estonia is based on the Continental European civil law model and has been influenced by the German legal system. Unlike to common law countries, Estonia has detailed codifications and issues are solved according to the codifications.

Estonian law is basically divided into private and public law. Generally private law consists of civil law and commercial law. Public law consists of international law, constitutional law, administrative law, criminal law, financial law and procedural law.



- Estonian Legislation in English  
[www.investinestonia.com/legal-framework](http://www.investinestonia.com/legal-framework)

## Foreign businesses

Foreign investors have equal rights and obligations with local entrepreneurs. All foreign investors may establish a company in Estonia in the same way as local investors; no special restrictions are made.

Internal law and international agreements protect foreign investments. Estonia has concluded treaties for the protection of investments with 31 countries including USA, Germany, France, Finland, Sweden, Norway and Switzerland. Also agreements on avoiding double taxation are made with 53 countries including EU countries.

## Environmental law

Outline provisions of Estonian environmental law are included in:

- \* Estonian Constitution;
- \* Integrated Pollution Prevention and Control Act (forced 01.05.2002);
- \* Environmental Supervision Act (forced 07.07.2001);
- \* Environmental Impact Assessment and Environmental Management System Act (forced 03.04.2005);
- \* Pollution Charge Act (forced 21.03.1999);
- \* Nature Conservation Act (forced 01.05.2004).



The Estonian Constitution enacts that natural wealth and resources are national riches and shall be used in sustainable manner. Everyone has a duty to preserve the environment and to compensate for damage caused by him or her. The Sustainable Development Act enacts principles of national strategies based on principles authorised at the Rio de Janeiro Conference (1992).

Estonian environmental law is dynamic and variable. International environmental standards are transformed into Estonian legal order, therefore environmental legislation is often duplicated.

Often the environmental legislation is in a form of the government and minister regulations.

Estonia has entered into main international environmental conventions and bilateral environmental agreements. Estonia has acceded with following conventions Arhus (1998), Espoo (1991), Helsinki (1992), Kyoto protocol (1997), Geneva (1979), Vienna (1985), Washington (1973), Rio de Janeiro (1992) etc.

The Environmental Inspectorate, Land Board and local government bodies exercise **environmental supervision** in Estonia. Environmental Inspectorate has authority to impose an administrative liability for violation environmental laws and standards.



- Ministry of Environmental Affairs  
[www.investinestonia.com/legal-framework](http://www.investinestonia.com/legal-framework)  
Planning and building

Requirements for construction are enacted in **Building Act** (forced 01.01.2003). Building design documentation is obligatory for construction activities. On high density areas the general principles of planning are enacted in detail planning. Construction may start if local government gives building permission. Building permission also enacts the order of the supervision of the construction. Local government also provides the permission to use the construction, according to which the construction will be entered into register. Permission of use also determines the finality of construction. In case of rebuilding for changing the finality of construction, new building design documentation and building permission is obligatory.

Planning procedures are enacted in **Planning Act** (forced 01.01.2003)



- Building Act  
- Planning Act  
[www.investinestonia.com/legal-framework](http://www.investinestonia.com/legal-framework)



## Justice system and legal aid

### Estonian court system

Estonia has a three-level court system. County, city and administrative courts adjudicate matters in the first instance. The majority of courts of first instance are situated in county centres. The courts of second instance hear the appeals against the decisions of the courts of first instance. Courts of appeal are courts of second instance (sometimes also called circuit courts). The courts of appeal are situated in Jõhvi, Tartu and Tallinn. The Supreme Court, situated in Tartu, is the court of the highest instance.

A statement of claim is filed with the court of first instance, an appeal with the court of second instance and an appeal in cassation with the court of third or the highest instance. A matter shall be heard in the Supreme Court only after all previous court instances have been passed. The filing of an appeal is governed by respective codes of court procedure.

### Attorneys at law

In Estonia, only members of the Estonian Bar Association may provide legal services as attorneys. Estonian Bar Association is a self-governing professional association acting on local government administration principles, established on 14 June 1919 for the organisation of the provision of legal service in private and public interest and defending of the professional rights of the attorneys. Since 1992 Estonian Bar Association is a member of the International Bar Association (IBA) and since 1 May 2004 a full member of a body uniting the bar associations of the member states of the EU (CCBE).



- Courts
  - Prosecutor's Office
  - Description of civil proceedings
- [www.investinestonia.com/legal-framework](http://www.investinestonia.com/legal-framework)



- Estonian Bar Association
- [www.investinestonia.com/legal-framework](http://www.investinestonia.com/legal-framework)

# LIVING IN ESTONIA



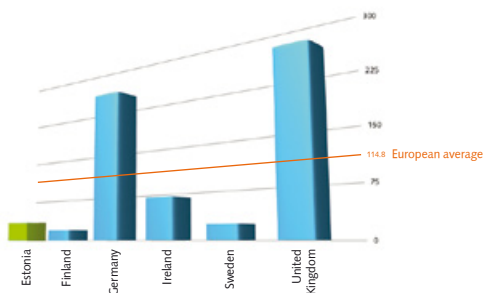
WHO SAID ESTONIANS  
ARE NOT SOCIAL?





## Population density 2008 (persons per sq km)

Source:  
Euromonitor International



## Health care services

All persons insured with the Health Insurance Fund have a family practitioner. A person not residing in Estonia may also visit a family practitioner. A person needs a referral from the family practitioner to visit a medical specialist. No referral is needed to visit a psychiatrist, gynecologist, dermatovenerologist, ophthalmologist, dentist, pulmonologist (for tuberculosis treatment), infection specialist (for HIV/AIDS treatment), surgeon or orthopedist (for traumatology).

In the case of emergency treatment, a person may always go to the emergency reception or call an ambulance. The attending physician decides whether the patient needs in-patient treatment.

### The amount of the patient's financial participation in the following cases:

- \* out-patient examination – a family practitioner can charge a visit fee of up to EUR 3,2, when making a home visit;
- \* specialised medical care – a visit fee of up to EUR 3,2;
- \* transportation by ambulance in the case of emergency – free of charge;
- \* hospitalisation – an in-patient fee of up to EUR 1,6 per day and for up to 10 days per hospitalisation.



- Health Insurance Fund  
[www.investinestonia.com/  
living-in-estonia](http://www.investinestonia.com/living-in-estonia)



There is no in-patient fee:

- \* for children below the age of 19;
- \* in cases related to pregnancy and childbirth;
- \* in the case of intensive care.

## Education system



- Estonian Ministry of Education and Research
  - International School
  - Tartu International School
- [www.investinestonia.com/living-in-estonia](http://www.investinestonia.com/living-in-estonia)

Education is divided into general, vocational and hobby education. Education has the following levels: preschool, basic (first level of education), secondary (second level of education) and higher education (third level of education). Children who turn seven years of age by 1 October of the current year are obliged to attend school.

Before starting school, children usually attend preschool child-care institutions. The compulsory schooling obligation applies to children until they acquire basic education or turn 17 years of age.

## Universities



- Universities and higher education institutions
- [www.investinestonia.com/living-in-estonia](http://www.investinestonia.com/living-in-estonia)

There are six public and one private university in Estonia. Five of those are in Tallinn and two in Tartu. The oldest and biggest university in Estonia is the University of Tartu with circa 18 100 students followed by Tallinn University of Technology with circa 13 900 students. Both of those universities have colleges also in other cities of Estonia.

## Family benefits

Estonia's family benefits are designed to partly cover the costs that families incur whilst caring for, raising and educating their children.

There are a number of ways in which families with children are supported, the two most common of which are family allowances and tax incentives.

### There are 10 types of family benefits:

- \* childbirth allowance;
- \* child allowance;
- \* child care allowance;
- \* single parent's child allowance;
- \* conscript's child allowance;
- \* child's school allowance;
- \* child allowance for a child under guardianship or foster care;
- \* start in independent life allowance;
- \* adoption allowance;
- \* parent's allowance for families with seven or more children.

The state pays family benefits to all children until they reach the age of 16. Children enrolled in basic or secondary schools or vocational education institutions, operating on the basis of basic education, have the right to receive family benefits until the age of 19.

Tax incentives are offered to families with children in two different ways.

1. People living in Estonia can deduct the costs of educating their children or children in their care up to the age of 26 from their annual income (including interest on study loans).
2. One of the parents of a child (or a person providing for a child) can deduct additional tax-free income from income for the period of taxation for every child up to the age of 17, starting from the second child in the family.

As one of its measures promoting the national birth rate, the state partially annuls the study loans of graduates of vocational and higher education institutions who are raising small children.



- Ministry of Social Affairs  
[www.investinestonia.com/living-in-estonia](http://www.investinestonia.com/living-in-estonia)

## Cost of living

Living in Estonia is cheaper than in other countries in the Nordic region.

According to the [www.xpatulator.com](http://www.xpatulator.com) database, Tallinn is in 138<sup>th</sup> place out of 780 cities: 229<sup>th</sup> in terms of the cost of groceries, 88<sup>th</sup> in the cost of communication, 340<sup>th</sup> in the cost of clothing, 384<sup>th</sup> in the cost of education, 282<sup>nd</sup> in household costs, 35<sup>th</sup> in the cost of recreation and culture, 117<sup>th</sup> in restaurants and meals out and 321<sup>st</sup> in transport.

Copenhagen is ranked 33<sup>rd</sup>, Helsinki 69<sup>th</sup>, St Petersburg 110<sup>th</sup>, Stockholm 118<sup>th</sup> and.

In the Mercer's Cost of Living Ranking, Tallinn is in 124<sup>th</sup> place, compared to Copenhagen in 17<sup>th</sup>, Stockholm in 36<sup>th</sup>, Helsinki in 42<sup>nd</sup>, and Riga in 88<sup>th</sup>.

## Useful links

### GENERAL

Official Gateway to Estonia

<http://estonia.eu>

Estonian State Portal

<http://www.eesti.ee>

Estonica, Encyclopedia about Estonia

<http://www.estonica.ee>

smartEstonia

<http://www.smartestonia.ee>

The Year of Innovation

<http://www.in.ee>

ICT Demo Center

<http://www.e-estonia.com>

Estonian Tourism Board

<http://www.visitestonia.com>

National Library of Estonia

<http://www.nlib.ee>

### STATE BODIES

Ministry of Foreign Affairs

<http://www.mfa.ee>

Ministry of Economic Affairs and Communications

<http://www.mkm.ee>

Ministry of Finance

<http://www.fin.ee>

Bank of Estonia

<http://www.eestipank.info>

Tax and Customs Board

<http://www.emta.ee>

The Parliament of Estonia

<http://www.riigikogu.ee>

President of the Republic

<http://www.president.ee>

Government of the Republic

<http://www.valitsus.ee>

Citizenship and Migration Bureau

[www.politsei.ee](http://www.politsei.ee)

### ECONOMY

Enterprise Estonia

<http://www.eas.ee>

Estonian Development Fund

<http://www.arengufond.ee>

Statistics Estonia

<http://www.stat.ee>

### MAIN ESTONIAN INDUSTRY ASSOCIATIONS

Estonian Chamber of Commerce and Industry

<http://www.koda.ee>

Federation of Estonian Engineering Industry

<http://www.emliit.ee>

Estonian Association of Information Technology and Telecommunications

<http://www.itl.ee>

Estonian Logistics and Freight Forwarding Association

<http://www.elea.ee>

### MAIN INTERNATIONAL INDUSTRY ASSOCIATIONS

American Chamber of Commerce Estonia

<http://www.amcham.ee>

British-Estonian Chamber of Commerce

<http://www.becc.ee>

Danish-Estonian Chamber of Commerce

<http://www.decc.ee>

Finnish-Estonian Chamber of Commerce

<http://www.fecc.ee>

German-Baltic Chamber of Commerce

<http://www.ahk-balt.org>

Norwegian-Estonian Chamber of Commerce

<http://www.necc.ee>

Swedish Chamber of Commerce in Estonia

<http://www.swedishchamber.ee>

Holland Business Club

<http://www.hollandbusinessclub.org>

Spanish Estonian Chamber of Commerce

<http://www.secc.ee>

Swiss-Baltic Chamber of Commerce

<http://www.swissbalticchamber.com>

### INFRASTRUCTURE

Tallinn Airport

<http://www.tallinn-airport.ee>

Estonian Road Administration

<http://www.mnt.ee>

Estonian Railways

<http://www.evr.ee>

Port of Tallinn

<http://www.ts.ee>

Port of Sillamäe

<http://www.silport.ee>

Port of Kunda

[http://www.heidelbergcement.com/ee/et/kunda/kunda\\_sadam](http://www.heidelbergcement.com/ee/et/kunda/kunda_sadam)

Port of Pärnu

<http://www.transcom.ee/parnusadam>

Estonian Informatics Centre

<http://www.ria.ee>

State Information System

<http://www.riso.ee>

Estonian Educational and Research Network

<http://www.eenet.ee>

## Estonian Investment Agency

The Estonian Investment Agency (EIA) is a unit of **Enterprise Estonia, the country's largest support institution for business and entrepreneurship**. We offer information and services to potential new and existing investors and trading partners.

Our strength lies in our experienced team of business professionals with knowledge in sectors such as ICT, machinery and metalworking, business services, logistics, electronics, wood products and furniture. Our activities focus on the target markets where the foreign representations of Enterprise Estonia are located. We work in these markets to bring foreign investments to Estonia by organising contact events and business missions for foreign investors and advising them personally, as well as by organising awareness and reputation-creating events.

Our objectives are to ensure a competitive business environment in Estonia, to raise the profile of Estonia, and to develop business relationships with international companies. Estonian Investment Agency is headquartered in Tallinn and has offices in the United Kingdom, Finland, Sweden, Germany, United States, China, Japan and Russia.

### Our services

All information and services provided by the Estonian Investment Agency **are free of charge** to all qualified clients.

We provide prospective investors and trading partners with information and services at every stage of the decision process:

- \* General information enquiries
- \* Investment tours of Estonia
- \* Detailed investment proposals
- \* Identifying potential partners
- \* Identifying suitable properties
- \* Organising recruitment
- \* Advice on financing
- \* Negotiations with authorities
- \* Identifying sourcing opportunities

Please contact us at [invest@eas.ee](mailto:invest@eas.ee) for more information.



## Estonian Investment Agency Tallinn team

### **Investment project management services – NADIM TAOUBI**

E-mail: nadim.taoubi@eas.ee

Telephone: +372 627 9432

### **JAAN HEINSOO**

E-mail: jaan.heinsoo@eas.ee

Telephone: +372 627 9520

### **TANEL KÕRVEL**

E-mail: tanel.korvel@eas.ee

Telephone: +372 627 9525

### **REET TRUUTS**

E-mail: reet.truuts@eas.ee

Telephone: +372 627 9442

### **PRIIT PAESALU**

E-mail: priit.paesalu@eas.ee

Telephone: +372 627 9413

### **Aftercare services –**

#### **ELE-MERIKE PÄRTEL**

E-mail: ele-merike.partel@eas.ee

Telephone: +372 627 9526

### **Research and product development –**

#### **MARJU MIHKELSOO**

E-mail: marju.mihkelsoo@eas.ee

Telephone: +372 627 9524

### **Marketing –**

E-mail: invest@eas.ee

Telephone: +372 627 9713

### **Executive assistant –**

#### **KRISTA MIHKELSAAR**

E-mail: krista.mihkelsaar@eas.ee

Telephone: +372 627 9409

## Estonian Investment Agency global team

### London – ANDRUS NÕMM

Warnford Court 29 Throgmorton Street,  
London  
EC2N 2AT United Kingdom  
E-mail: andrus.nommm@eas.ee  
Telephone: +44 207 947 4365  
Mobile: +44 754 527 1963

### Helsinki – VALDAR LIIVE

Enterprise Estonia Helsinki  
Suvilahti, Eesti Maja,  
Sörnäisten rantatie 22  
00540 Helsinki, Finland  
E-mail: valdar.liive@eas.ee  
Mobile: +358 40 830 4656

### Sweden, Norway, Denmark –

#### KRISTER KALDA

Enterprise Estonia  
Lasnamäe 2, Tallinn 11412, Estonia  
E-mail: krister.kalda@eas.ee  
Telephone: + 372 627 9517  
Mobile: +46 76 11 55 777

### Hamburg – RIINA LEMINSKY

Mönckebergstr. 5  
Hamburg, 20095, Germany  
E-mail: riina.leminsky@eas.ee  
Telephone: +49 40 3038 7899  
Mobile: +49 162 934 5682

### California – ANDRUS VIIRG

Enterprise Estonia, Silicon Valley  
440 N.Wolfe Rd. Sunnyvale,  
California, 94085 USA  
E-mail: andrus.viirg@eas.ee  
Mobile: + 1 415 335 3843 (US)  
Mobile: + 372 503 5405 (EU)

### Shanghai – PRIIT MARTINSON

Room 2108 B, Westgate Tower,  
1038 Nanjing  
Road West, Shanghai 200041, P.R. China  
E-mail: priit.martinson@eas.ee  
Mobile: +86 1860 1798 045 (CN)  
Mobile: +372 5106 698 (EU)

### Tokyo – KOSAKU YAMAGUCHI

Shiodome Building 3F 1-2-20  
Kaigan Minato-ku Tokyo 105-0022 Japan  
E-mail: yamaguchi@estonia.or.jp  
Telephone: +81 3 6721 8255  
Mobile: +81 90 9826 7757

### St. Petersburg – TOOMAS KÄSTIK

14, Bolshaya Monetnaya Str.  
St. Petersburg, RU197101, Russia  
E-mail: toomas.kastik@eas.ee  
Telephone: +7 812 702 09 20  
Mobile: +7 921 790 67 40

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[www.investinestonia.com](http://www.investinestonia.com)

Contact us:  
[invest@eas.ee](mailto:invest@eas.ee)

**Estonian Investment Agency / Enterprise Estonia**

Lasnamäe 2, Tallinn 11412, Estonia

Telephone: + 372 627 9700

Fax: + 372 627 9701

[www.tradewithestonia.com](http://www.tradewithestonia.com)

[www.visitestonia.com](http://www.visitestonia.com)