

DOING BUSINESS IN LITHUANIA

Stable Political and Macroeconomic Environment

- Member of the EU and NATO since 2004; Lithuania's President announced European of the Year 2007
- Membership in the WTO, Schengen area since 2008
- EU inner market directives best implemented into the national law among all EU members
- Currency pegged to the euro and backed by foreign reserves
- Pro-business government with a personal income and social security tax reform agenda

Competitive Business Environment

- Most diversified industry in the Baltics and half of the Baltics' total GDP
- Overall tax burden one of the smallest in the EU
- Tax incentives in two free economic zones
- Great labour quality/cost ratio: average monthly gross salary – EUR 672
- EU Structural Funds – EUR 7 bn assigned for 2007-2013
- Currency Litas (LTL or LT) is pegged to EURO at the rate of 3,4528. 1LTL=100 cents.

Lithuania invites foreign businesses to use the opportunity to expand their activities to the Lithuanian market and to join the conglomerate of many big corporate names, such as Microsoft, IBM, Philip Morris, HP, AON, Coca-Cola, Kraft Foods, Masterfoods, Siemens, Indorama, Dalkia, Yazaki, SEB, TeliaSonera, Marzotto, Transcom Worldwide, DSV, Schenker, and many others, who are already at home in Lithuania.

GENERAL FACTS

State Government

Lithuania is an independent democratic republic. In Lithuania, the powers of the state are exercised by the Seimas (Parliament), the President, the Government, and the Judiciary.

Location & Borders

Lithuania is located at the geographical centre of Europe and has common borders with Latvia in the north (588 km), Belarus in the south-east (653 km), Poland in the south-west (104 km), and the Kaliningrad region of the Russian Federation, also in the south-west (249 km).

Size & Territory

Lithuania is the largest of the 3 Baltic States in terms of population, territory, and economy. Its territory of 65,300 sq km is larger than that of Belgium, Denmark, the Netherlands, or Switzerland.

70% of its lowland plains and hilly uplands are arable and 28% are forested. Lithuania's 722 rivers, more than 2,800 lakes, and 99 km of the Baltic Sea coastline are mostly devoted to recreation and nature preservation.

Major Cities

The capital, Vilnius (population ~554,000); Kaunas (~358,000); Klaipėda (~186,000); Šiauliai (~128,000), and Panevėžys (~115,000).

Population

Lithuania has the largest population of the three Baltic States, ~3.4 million (83.5% are ethnic Lithuanians, 6.7% Polish, 6.3% Russians, and 3.5% of other nationalities).

Religion

Mostly Roman Catholic. Other religions include Russian Orthodox, Evangelical Lutheran, Judaic, etc.

State Language

Lithuanian is closely related to the old Sanskrit and belongs to the Baltic family of Indo-European languages.

Currency

Litas (LTL or Lt), which is pegged to the Euro at the rate of 3.4528 LTL/EUR. 100 cents = 1 LTL. Lithuania expects to start the process of joining the Euro zone in 2011-2012.

Time

Lithuania is in the Central European Time Zone: GMT+2 hours (+3 hours summer time). When it is noon in Vilnius, it is 11:00 am in Stockholm and Frankfurt, 10:00 am in London and 5:00 am in New York.

Climate

Maritime/continental. Average July temperature +23°C; January - 5°C.

Great Quality of Life

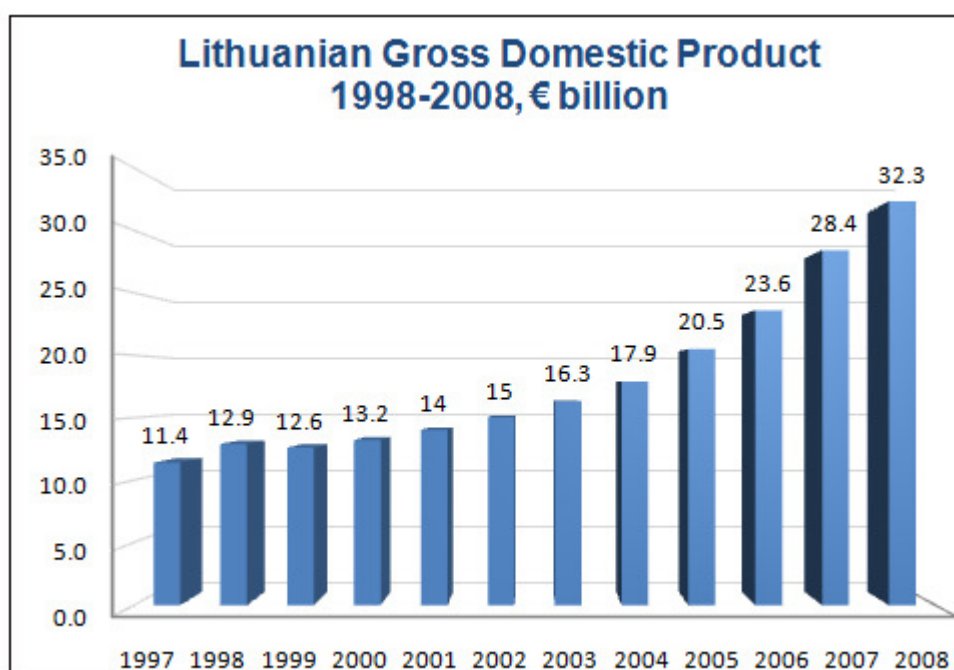
- Mild climate, pristine nature
- The Lithuanian coast of the Curonian Spit is No. 9 among the top 100 summer destinations by the Travel supplement of the British Sunday Times
- World-class entertainment and leisure services
- Easily accessible social services
- Western outlook to life
- According to the International Living 2009 Quality of Life Index, the quality of life in Lithuania (consisting of the cost of living, leisure and culture, economy, environment, freedom, health, infrastructure, risk and safety, as well as climate) is one of the highest among the new EU-12 members as well as among more than 190 countries of the world.

BASIC ECONOMIC DATA

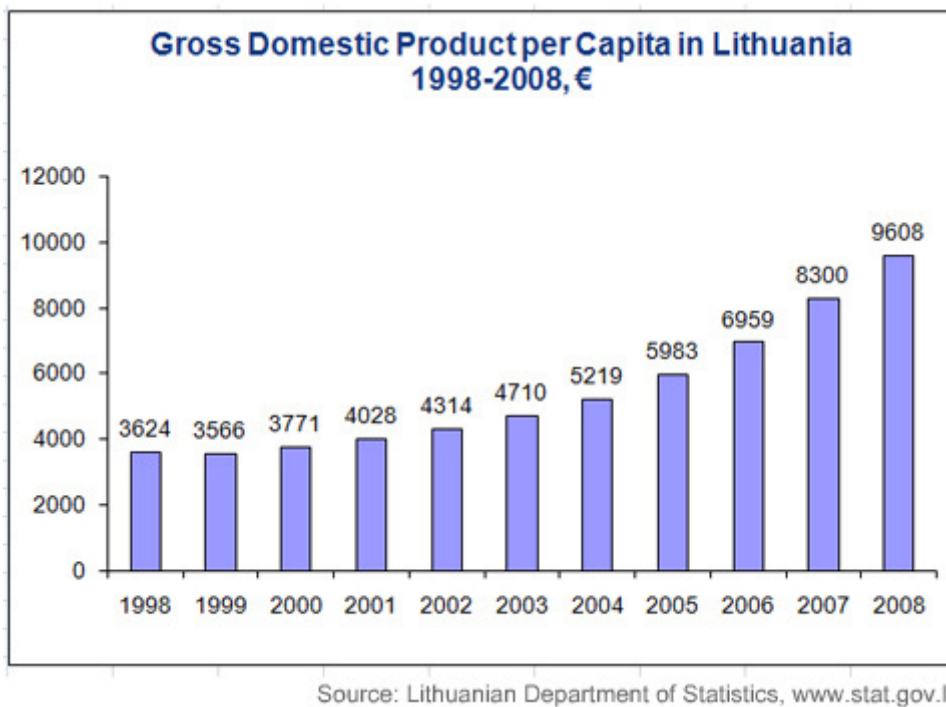
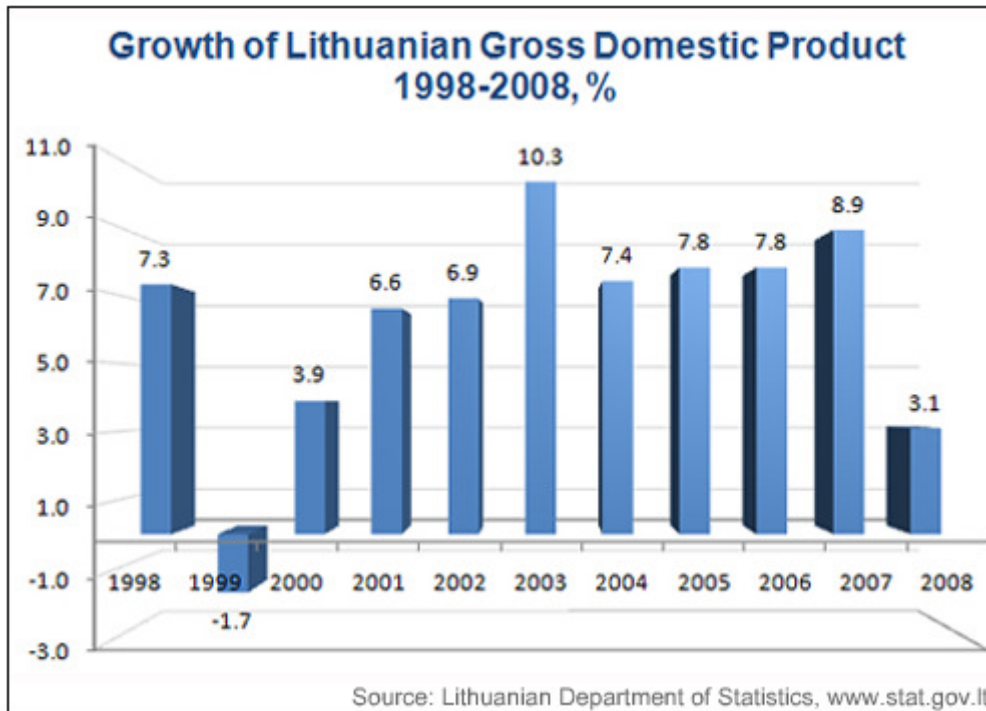
	2005	2006	2007	2008	2009 (forecast)
GDP, EUR bn	20,9	23,9	28,4	32,3	29.1
GDP growth (annual), %	7.8	7.8	8.9	3.1	-10.5
Annual inflation, %	2.7	3.8	5.8	11.1	5.8
FDI, EUR bn	6,9	8,4	10,3	9,1	–
Exports, EUR bn	9,5	11,3	12,5	16,1	–
Exports growth, %	27.1	18.7	11.1	28.4	-0.5*
Imports, EUR bn	12,4	15,4	17,8	21	–
Imports growth, %	25.5	23.5	15.4	18	-12.3*
Unemployment, %	8.3	5.6	4.3	5.8	13.5

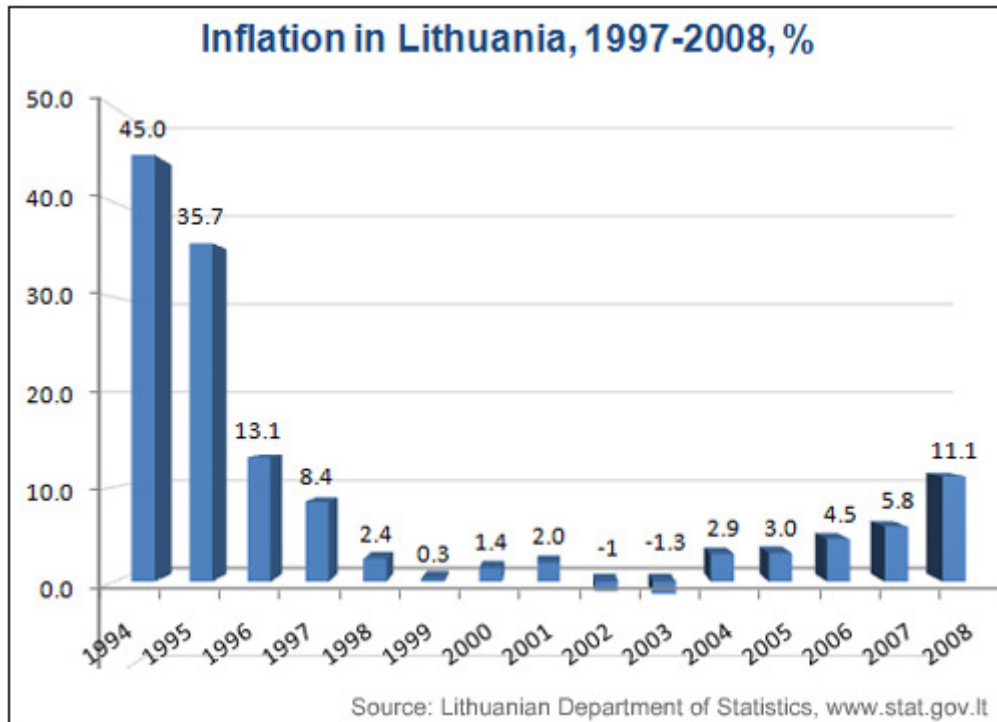
* exports/imports including services

Source: Lithuanian Department of Statistics, www.stat.gov.lt



Source: Lithuanian Department of Statistics, www.stat.gov.lt





Excellent Geographical Location and Infrastructure

- Situated between markets in the east (Russia and the CIS with a population of 250 million people) and in the west (with a population of over 340 million people)
- Part of the Baltic Sea Region
- Two international transport corridors, three international airports, the best roads in the Baltic States, and the highest-capacity Eastern Baltic ice-free seaport
- Nine industrial parks and two free economic zones
- Sophisticated communications – one of the best mobile phone penetrations in the world

Lithuania is strategically located at the gateway between huge markets in the north, east and west. The country provides fast access to the dynamic regional and neighbouring markets - rich Scandinavian, fast-growing Baltic, huge CIS and West European. The European Union has recognised Lithuania as the prime transport centre in the region linking the EU with the East.

On 21st December 2007 Lithuania became a member of the Schengen area.

The seaport of Klaipėda is the northernmost ice-free port on the eastern coast of the Baltic Sea. It is the most important and the biggest Lithuanian transport hub, connecting sea, land and railway routes from East to West and providing high quality services complying with the requirements of the European Union.

Lithuania has a wide and well-developed network of *high-quality roads and highways*, the best in the Baltic States. The total length of the roads in Lithuania is 80 thous. kilometres. There are no counties in Lithuania where the length of roads would be insufficient.

There are around 550,000 m² of logistics and warehousing facilities in Lithuania. The biggest supply of new, modern warehousing facilities is in the capital city Vilnius (around 300,000 m², growth – 7%), Kaunas is in the 2nd place (around 200,000 m², growth – 77%), and Klaipėda in the 3rd (85,000 m², growth – 49%).

Lithuania's northern, western, south-eastern and north-eastern regions are undergoing further construction of logistics centres.

Railway transport in Lithuania provides efficient long-distance passenger and cargo services. Railways carry approximately 50 million tons of cargo and 7 million passengers per annum.

In 2007 the Lithuanian Railways bought the first of 34 of Europe's most modern locomotives, Eurorunner ER20 CF produced by Siemens. With the full delivery of all 34 German locomotives by the end of April 2009, Lithuania will become a country with the most powerful locomotive fleet in eastern Europe. Siemens locomotives, able to haul up to 6000 tonnes, will increase the volume of transported cargo up to 50% in Lithuania.

Direct rail routes link Lithuania with Russia, Belarus, Latvia, Poland, and Germany. Also, the main transit route between Russia and Russia's Kaliningrad Region passes through Lithuania.

Lithuania has an efficient *air traffic infrastructure*. Direct flights to major European cities are available from Lithuania's international airports in Vilnius, Kaunas and Palanga.

Fixed and mobile telecommunications are fully developed and implemented in Lithuania, and the communications policy and effective management boosts the successful development of wireless technologies in the country.

TRADE CONDITIONS

After joining the EU on May 1st, 2004, Lithuania became a part of the internal market of the EU and there are no restrictions applied for the movement of goods and capital. Temporary restrictions of some old-EU countries are applied for Lithuania for the movement of services and labour, however they are going to be lifted in the near future. Foreign trade with the non-EU countries is regulated by EU agreements.

Salaries

Since January 1, 2008, the minimum monthly salary is 800 LTL (EUR 232), the minimum hourly salary is 4,85 LTL (EUR 1,40). The average gross monthly wage in the 4th quarter of 2008 was 2,320 LTL (EUR 672).

Utility Costs

Utilities for companies	Measurement	Average rates €
Electricity	1 kWh	0.09 - 0.11
Natural gas	1 m ³	0.45 - 0.61
Cold drinking water	1 m ³	1.17 - 2.06
Cold water for technical purposes	1 m ³	1.17 - 2.06
Hot water	1 m ³	4.34 – 5.80

Source: Lithuanian utility services companies

Rent Rates

Rental prices of office/warehousing space vary depending on the location and the quality of the building. Newly constructed warehouse rent prices in Lithuania are one of the lowest in Europe.

Monthly rental of office space (EUR m²)	A-Class	B-Class
Vilnius	14 - 17	10 - 13
Kaunas	10 - 13	6 - 8
Klaipeda	10 - 13	6 - 8
Siauliai	-	6 - 7
Panevezys	-	6 - 7
Monthly rental of retail space (EUR m²)	High street	Shopping centres*
Vilnius	25 - 55	15 - 30
Kaunas	25 - 30	12 - 20
Klaipeda	25 - 30	12 - 20
Siauliai	25	10 - 18
Panevezys	20	10 - 18
Monthly rental of new-construction warehouse space (EUR m²)		
Vilnius	4 - 6	
Kaunas	4 - 6	
Klaipeda	4 - 5	

* Average retail units of 200 m²

Source: Re&Solution, an independent financial and real estate consultancy company, www.resolution.lt.

Cost of Doing Business & Living in the Capital City

Starting a company	up to EUR 600
Translator services/h	EUR 52
Mid-size car rent/24h	EUR 43 - 58
Taxi ride/km	EUR 0.5
Monthly apartment rent (a typical furnished 2-bedroom apartment in downtown)	EUR 800-1,000
Hotel accommodation (4-star)/one mid-week night	EUR 43-99

Sources: Re&Solution, an independent financial and real estate consultancy company, www.resolution.lt, Lithuanian Development Agency, www.lida.lt

COMPANY LAW

Types of companies

The following types of legal entities are permitted to operate in the Republic of Lithuania:

1. individual enterprise (sole proprietorship) (PI);
2. general partnership (TUB);
3. limited partnership (KUB);
4. public limited liability company (AB);
5. private limited liability company (UAB);
6. state enterprise;
7. municipal enterprise;
8. agricultural company;
9. co-operative enterprise;
10. European company;
11. European Economic Interest Grouping.

Requirements for the formation of business

	Private Liability Company - UAB	Limited Liability Company - AB
Minimum authorized (share) capital	approx. EUR 2,900	approx. EUR 43,450
Maximum number of shareholders (if any)	249	Not established
Minimum number of shareholders (incorporators)	1	1
Liability of shareholders	Limited	Limited
Audit	Not mandatory	Mandatory
Public trading in securities	Prohibited	Allowed

Company registration

Registration of a UAB requires taking the following five steps: (1) lodge an application for reservation of the UAB name; (2) prepare the incorporation documents; (3) open an accumulative bank account; (4) submit documents for certification by a notary public; (5) register the UAB with the Company Register Office. The estimated time for incorporating a UAB is about 3 week after all the incorporation documents are duly executed.

Shareholders

The shareholders of AB or UAB may be Lithuanian or foreign individuals or legal entities. There are no restrictions or special encumbrances set forth in respect to foreign shareholders under the Law on Companies of the Republic of Lithuania. Lithuanian laws do not restrict in any way the participation of foreigners in the management of Lithuanian companies. Foreign citizens may be freely elected either to the supervisory council or the board or the position of CEO. However, if such foreign citizens are employed in the company (employment is mandatory only for the CEO),

they must obtain temporary residence permits. Such permits are normally valid for up to one year, but for EU citizens they may be issued for up to five years (permits are renewable).

EMPLOYMENT LAW

Conclusion of an employment contract

The employment contract must be in writing, and in accordance with the model form established by the law, and it must contain essential provisions, i.e. those on which parties must agree to validate the employment contract, and other provisions. The essential provisions are: the place of work and work functions. Separate types of employment contracts can also provide for other essential provisions (e.g. term of contract, seasonal work, etc.). It is forbidden to enter into a fixed-term employment contract, if the work is of a permanent nature. Besides the essential provisions, in every employment contract both parties are required to agree on the conditions of payment for work.

Work hours, overtime work, remuneration

The normal work hours for an employee may not exceed 40 hours per week. The daily period of work should not exceed eight working hours. A five-day workweek is standard, but it may be extended to six days. Generally overtime is prohibited. An employer may apply overtime hours only in exceptional cases, which are specified in the Labour Code of the Republic of Lithuania. In any case the employee's overtime hours shall not exceed four hours in two consequent days and 120 hours per year for each employee. A different annual duration may be established in the collective agreement for overtime hours, however, not exceeding 180 hours per year. The pay for overtime and night work shall be at least one and a half times the hourly pay/monthly wages established for the employee.

Vacation

The minimum annual paid vacation is 28 calendar days, but is increased to 35 calendar days for employees under the age of 18, a single parent raising a child under the age of 14 or a disabled child under the age of 18. Normally, all employees are entitled to their annual paid vacation leave after they have worked in the company continuously for an initial period of six months.

High-quality Human Resources

- One of the most multilingual peoples in the EU - among five EU countries with the highest percentage of people speaking at least one foreign language: every third Lithuanian speaks English, and eight Lithuanians out of 10 speak Russian
- ~ 40% of the labour force with higher education

Lithuania has one of the best-educated workforces in Central and Eastern Europe. The percentage of the Lithuanian population with higher education is 2 times higher than the EU-15 average and is also the highest in the Baltic States. Lithuania is among the five EU members with the highest percentage of people speaking at least one foreign language. Even 90% of Lithuanians can speak at least one other language, mostly Russian, English and Polish, apart from their mother tongue, and half of the population speaks two foreign languages.

TAX AND OTHER BUSINESS COSTS RELIEVES

FREE ECONOMIC ZONES WITH TAX BENEFITS AND ONE-STOP-SHOP SERVICES

Lithuania's two free economic zones are located in the country's economically important centres and provide favourable conditions for developing business activities by offering prepared industrial sites with physical and/or legal infrastructure, support services, and tax incentives.

Free Economic Zone	In Lithuania in 2009
No real estate taxes	0.3-1% from real estate value annually
6 years exemption from corporate income tax following the date of investment and 50% discount for the following 10 years- for companies that have invested more than EUR 1 million.	20% corporate profit tax
No taxes on dividends paid to foreign investors	0 to 20% on dividends

** Total amount of incentives received by a company may not exceed 65% for small enterprises and 50% for medium and large enterprises of investment in long term assets.*

EU Structural Funds and State Support

Non-refundable Support through EU Structural Funds until 2013

In comparison with the EU financial support for the years 2004 -2006, when Lithuania received EUR 895 million, the EU support for Lithuania for the period of 2007 - 2013 is more than eight times larger - approximately EUR 7 billion.

EU Support for Business Development

Micro, small and medium enterprises as well as larger companies established in Lithuania, may apply for the non-refundable EU support for the following innovation-oriented activities:

- Technical feasibility studies
- Business development and optimisation strategies
- Scientific research projects
- Technology development and modernization
- Development of infrastructure and assets
- ***Project to increase energy consumption efficiency***

Enterprises may apply for between EUR 43,000 and EUR 5.8 million in support for developing their business projects. The aid intensity can be from 40 % to 70 % of the eligible costs.

For more information please visit Lithuanian Business Support Agency's website www.lvpa.lt and Lithuanian Development Agency's website www.lda.lt

EU Support for Staff Training

Micro, small and medium enterprises established in Lithuania may apply for the non-refundable EU support for general (training involving tuition which is not applicable only or principally to the undertaking of the employee's present or future position) and specific (training involving tuition directly and principally applicable to the undertaking of the employee's present or future position) staff training.

The aid intensity can be up to 60 % of the eligible costs for general training and up to 25 % of the eligible costs for specific training. The support may be increased, up to a maximum aid intensity of 80 % of the eligible costs by 10 % if the training is given to disabled or disadvantaged workers or if the aid is awarded to medium sized enterprises, and by 20 % if the aid is awarded to small enterprises.

For more information please visit the Support Foundation European Social Fund Agency's website www.esf.lt

State Support for Businesses

Support for R&D projects

The following incentives are applied to companies investing into R&D:

- Triple deduction - expenses incurred by companies while carrying out R&D as well as by acquiring R&D carried out in EEA countries or countries with DTA can be deducted from taxable income thrice.
- Super-accelerated depreciation – the acquisition price of fixed assets used in the R&D activities can be written-off within two years.
- Eligibility - all investments into R&D qualify, irrespective of the type of company or the investment sum .

Profit Tax Reduction for Investments into New Technologies

From the beginning of the 2009 tax year, enterprises investing in long-term assets aimed at providing new or additional products or services, increasing the capacity for new products or services, introducing new products or services, or changing all or part of the existing process, or introducing technology protected by international patents, can find their profit tax calculated for the same period reduced by up to 50 %.

Expenses exceeding these sums can be postponed until one of the four later, consecutive tax periods. The profit tax incentives will only apply to expenses incurred during the period from 2009-2013. However, the profit tax calculations for each tax period cannot be reduced by more than 50 %.

Subsidies for Employment Projects

State financial support for employment projects is available through the Lithuanian Labour Exchange active labour market policy and employment increasing measures:

- Training and retraining of the unemployed according to the needs of the labour market
- Subsidizing the employment of the unemployed

- Subsidizing the creation of new work places in order to recruit the disabled for permanent jobs
- Support for the employer who recruits the disabled and other most socially vulnerable people

For more information please visit the Lithuanian Labour Exchange at the Ministry of Social Security and Labour website www.ldb.lt

Land or real estate tax relief by local municipalities

Land (1.5%) or real estate (1%) tax relief through Lithuanian local municipalities where the company is operating are available.

Lithuania's holds an immense economic potential in the following areas of the country's economy:

- *ICT* – leading among the Baltic States;
- *Lasers* – global leader in production and exports of certain products;
- *Biotech* – production does not have equivalents in Central and Eastern Europe;
- *Plastics* – with three huge plants leading in the region;
- *Machinery & electrical equipment* – widely-acknowledged high-tech products;
- *Metal processing & transport equipment manufacture* – research, design and manufacture;
- *Furniture & wood processing* – one of the largest factories in Eastern Europe; among most important suppliers for IKEA;
- *Textile & apparel*– innovative production, 2.500 new specialists trained annually;
- *Food* – widely demanded;
- *Services* – demonstrating surprising leaps due to increasing consumption and a growing economy;
- *Real estate* – largest market among the Baltic States with the biggest development potential.

Advancing Innovation Policy

Lithuania's economic policy is strongly innovation-oriented. The country belongs to the common EU technological market. According to the World Bank's director for Central Europe and the Baltic States Daniela Gressani, Lithuania holds a privileged position in the area of innovations and may expect a breakthrough, since the country already has a number of well-functioning educational institutions, institutes and laboratories.

Interested? Please, contact us: sac@sac.lt