

one **STEP**  
FOR YOU ....

... one **giant**  
leap for YOUR  
**SUCCESS**

THE  
ENGINEERING  
INDUSTRY  
IN LITHUANIA



# Market opportunities

The Lithuanian engineering industry presents attractive opportunities to investors:

- Long-standing engineering traditions
- Rapidly growing sector competitiveness and integration in international markets
- Competitive and qualified labour force
- Significant accumulated engineering potential, experience in international production chains, and recognition of large international companies
- Financial support to increase labour force productivity, and for the development of the high technology industry
- Market expansion potential: Lithuania may be of considerable interest to western companies trying to penetrate the vast Russian market, or the markets of other CIS countries.

The Lithuanian engineering industry is growing faster than the EU average. Labour efficiency is expected to practically double over the next five years.

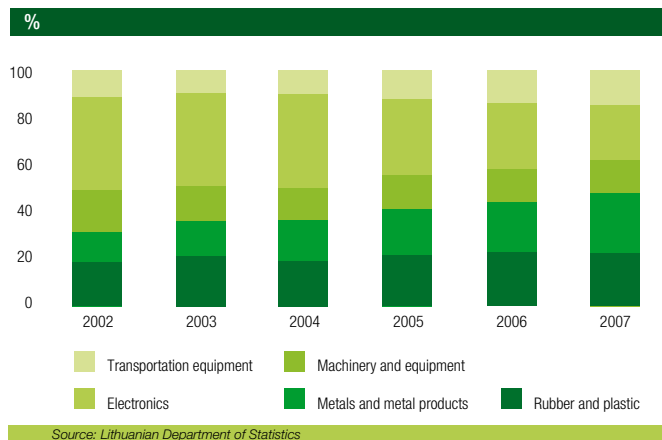
## Industry overview

The Lithuanian engineering industry is the country's largest processing production sector, generating 4.9% of Lithuania's total value-added. The industry consists of over 2,000 companies, employing 55,000 specialists. Rapid industry growth over the past year shows its considerable growth potential in comparison with other processing production sectors. This represents the possibility for the Lithuanian engineering industry to play a greater role in the country's economic and social spheres, and increase the industry's comparative weight, currently 2-3 times lower than the EU average. For the past five years, the production of Lithuanian engineering companies grew on average 17% per year, reaching EUR 2.5 billion in 2007.

## Change is evident

Structural changes are clearly discernable in the sector. The metal, transportation equipment, and rubber and plastics industries, demonstrate rapid growth rates. The weight of electronics production, which previously used to be the largest branch of the engineering industry, is in decline following the closure of its two largest companies. Both the volume of production and the number of working places are decreasing. As for the machinery and equipment industry, it is on the rise, but the number of companies and employees in the industry is lessening.

## Structure of the engineering industry

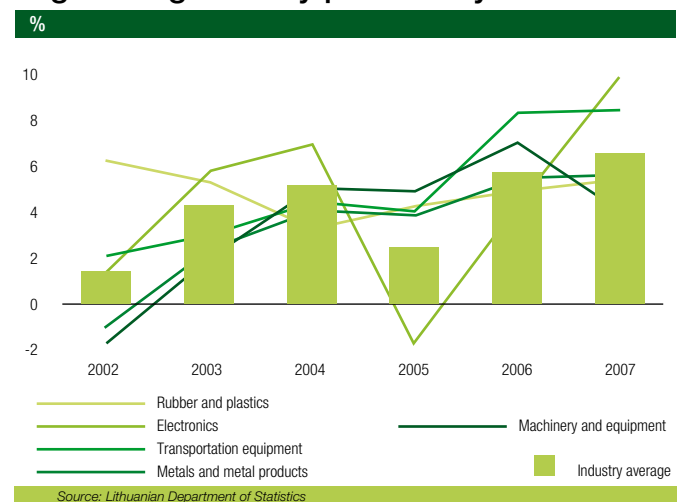


## Trade, FDI, and profitability

The engineering industry is export-oriented, exporting three fifths of production. Lithuanian manufacturers' main markets are the old EU member countries (57%), especially Germany, Denmark, France, and Sweden. Sales to new EU countries are growing (22%), and export to CIS countries remains considerably significant also (11%). Export to other third countries is in decline. In 2004-2005, after Lithuania joined the EU, direct foreign investment escalated remarkably in the engineering industry. During this period, the most noteworthy was investment in the production of rubber and plastics. In 2006-2007, total FDI value was EUR 388 million, with a total of 185 foreign investors operating in the industry.

Over the past five years, there has been an improvement in the financial indexes of companies in the engineering industry: 70-72% of companies were profitable in 2007. The overall level of profitability in the engineering industry is also rising: from 1.4% in 2002, it grew to 6.6% in 2007.

## Engineering industry profitability rate



## Remarkable productivity growth

The main challenge for the Lithuanian engineering industry is low labour efficiency, more than two times below EU average. However, the growth of labour efficiency in Lithuania is significantly faster than in the EU, which allows reducing the gap.



One of the main motives pressuring the country to increase its labour efficiency was the rapid growth of labour expenditure. However, during the past five years, average labour efficiency growth was faster than that of labour expenditure: production wages increased 76% in 2002-2007, whereas labour efficiency rose 85% in the comparative period.

Nonetheless, with rapid labour cost growth after Lithuania joined the EU in 2004, increasing labour efficiency requires greater efforts. Industry investment into equipment, machinery, transportation devices, and inventory is higher each year. In 2007, modernization investment totalled EUR 84.1 million, or 51% of total fixed-asset investment.

According to Eurostat data, the highest value-added generated by one Euro spent on financing the labour force in Lithuania, is in the rubber and plastics sub-sector (EUR 2.88 in 2007), where the relation between the value-added and labour expenditure, is the second-highest after Romania among new EU member countries. In 2007, one Euro spent on financing the labour force in the Lithuanian engineering industry generated EUR 1.80 value-added, in comparison with EUR 2.25 in Slovakia, and EUR 1.6 in Latvia.

### Value-added and personnel expenditure rate, %

	ENGINEERING INDUSTRY	RUBBER AND PLASTICS	METALS AND METAL PRODUCTS	MACHINERY AND EQUIPMENT	ELEC-TRONICS	TRANSPORTATION EQUIPMENT
Slovakia*	224.5	202.7	244.3	157.9	199.0	316.1
Bulgaria*	216.0	256.2	302.9	138.9	222.8	146.7
Romania*	200.0	325.8	160.1	126.5	231.6	266.1
Czech Republic	196.1	208.1	217.9	157.5	175.9	225.4
Hungary	194.1	150.2	167.3	165.9	199.1	256.2
<b>Lithuania</b>	<b>180.4</b>	<b>287.5</b>	<b>156.7</b>	<b>131.9</b>	<b>189.8</b>	<b>175.7</b>
Slovenia	162.2	171.9	168.0	150.9	151.9	179.7
Latvia*	160.7	201.7	182.3	157.4	123.5	137.9
Malta	159.4	174.9	162.2	183.6	206.6	45.3
Estonia		211.3		167.0		

Note: Cyprus and Poland data is unavailable; \* - 2006

Source: Eurostat

On the whole, it can be concluded that the engineering industry in Lithuania is currently less developed and competitive than it is in Hungary or the Czech Republic, but manifests better results than it does in Slovenia or neighbouring Latvia.

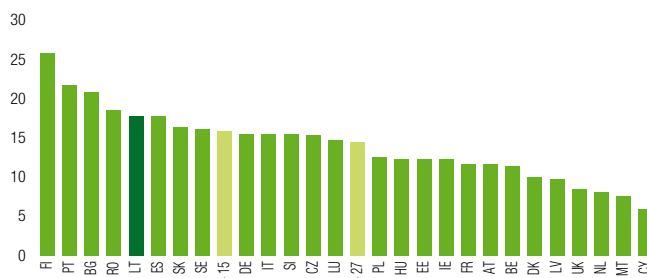
### Availability of skill

Lithuania, along with other new EU member countries, is among the most advanced with regard to the level of inhabitant education. As much as 89% of Lithuanians have at least a secondary education diploma, which is 21% more than in the EU-15.

As regards the amount of students pursuing studies in engineering, production, and construction (18%), Lithuania ranks among the EU top 5, outdoing the index of old EU member countries by 3%.

### University students pursuing engineering, production, and construction studies

2006, %



Source: Eurostat

### Competitive environment

The business models prevailing in Lithuania reflect global tendencies: re-orientation of production from developed to developing countries for lower costs, and continuation of innovation development in western countries. The majority of companies in the Lithuanian engineering industry do not have high value added products of their own brand, and take part in the international production chains of other brands, usually carrying out engineering cooperation commissions. Only a small portion of manufacturers produces and realizes finished goods, and this tends to usually apply to low or medium complexity products.

It is likely that the industry development and competitiveness intensification initiatives that are currently being actively implemented in the Lithuanian engineering industry will positively influence future industry competitiveness. Key internal prerequisites for increased industry competitiveness are: creation and production of new higher value added products and services, implementation of new business models, modernization of production, advancement of R&D activities, and human resource development.

### Industry outlook

The market research company EKT forecasts, that in 2008-2013 the engineering industry will maintain the current development trends, but that its expansion rate will decrease due to the overall economic slow-down in 2008-2009. On the whole, a 74% growth in labour efficiency is forecasted for the period of 2007-2013, to EUR 41.6/hour. Even though employment in the comparative period will go down by 19% to 44,400, the generated value-added should increase 41% to EUR 1.85 billion.



# Why choose Lithuania

- Stable political and macroeconomic environment ensured by EU, NATO and WTO membership
- Excellent infrastructure: the best roads in the Baltic States; the highest capacity Eastern Baltic ice-free seaport; a network of industrial parks and free economic zones
- Productivity-driving profit tax incentives
- It is an excellent geographical location for expansion eastwards
- It is an imminent member of the eurozone
- Highly skilled, low cost, and hard working labour force
- One of the most attractive tax environments and dividend taxation policies for holding companies in the EU

## 500 mn

consumers in one stop

By establishing your business in Lithuania, you instantly get access to the single European market, counting 500 million consumers

## Market Leaders



Creator and manufacturer of laser technologies, UAB Ekspla, selling lasers and components under a Lithuanian brand name for more than 15 years, occupies 3% of the world's scientific research laser market, and over 50% of the world's picosecond laser market segment. Interest taken in new Lithuanian products by such Japanese and American industry giants, as Hamamatsu, Olympus, and Laser Systems, clearly demonstrates the global recognition of Lithuanian companies.



One of the world's largest manufacturers of plastic products, Indorama of Thailand, operates a high-tech PET granule plant in Western Lithuania, in the Klaipeda Free Economic Zone since 2004. The company's investment accounts for EUR 100 million, and its plant capacity is 150,000 tons per annum. Until the founding of the plant in Lithuania, Indorama Group controlled 12% of the world's plastic packaging raw materials. The new factory in Klaipeda increased the company's market share to around 30%.



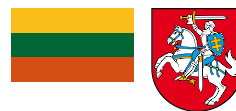
MOKSLINIŲ PASLAUGŲ FIRMA

Juozas Gecevičius' scientific services firm GTV creates and manufactures various automated and computerized technological equipment and machinery. GTV has established 196 robotization systems and technological lines for companies operating in machinery production, the food industry, wood processing, and other fields. One of GTV's latest creations is cardboard production scrap-recycling technology: filling up hollow concrete blocks with strands of cardboard paper, allows increasing heat resistivity. The final outcome of this research is a preliminary plan and an experimental model of production equipment for robotized companies producing such blocks. Such new technology invention is possible owing to highly qualified specialists, and the company's close cooperation with scientists.



One of the largest stainless steel receptacles and producers of technological equipment for the food, chemical, and bio-fuel production industry in Lithuania, is Machinery Plant Astra AB. 10% of the company's production consists of various large volume receptacles, and equipment for the chemical industry. Machinery Plant Astra AB is a good example of idea commercialization: close cooperation with scientific institutions, commissioning various types of research, constitutes a solid basis for the development of the company's innovative know-how, and creation of organizational capital. The company annually invests an average of LTL 2 million in personnel training and production modernization.

## Facts and figures



### LAND AREA

65,300 sq km

### POPULATION

3.38 million

### MAIN CITIES

Vilnius (capital): 543,000  
Kaunas: 358,000  
Klaipeda: 186,000  
Siauliai: 128,000

### CLIMATE

Moderate continental, with average temperatures ranging from -5 C in January, to 23 C in July

### LANGUAGES

Lithuanian – 82% of the population; Russian – 8%, and Polish – 7%

### MEASUREMENT SYSTEM

Metric system

### TIME

Two hours ahead of GMT

### CURRENCY

The national currency is the Litas (plural Litai; LTL), comprised of 100 centas. The Litas replaced the transitional talonas (coupon) in June 1993. April 1994 – February 2002, the exchange rate was pegged at LTL 4:US \$ 1. February 2, 2002 it was re-pegged to the Euro at LTL 3.4528 : € 1.

### FISCAL YEAR

Calendar year

### PUBLIC HOLIDAYS

January 1st (New Year's Day), February 16th (Independence Day), March 11th (Restoration of Statehood), Easter Sunday and Easter Monday, May 1st (Labour Day), July 6th (Statehood Day), November 1st (All Saints' Day), December 25th-26th (Christmas)

**LDA**  
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