

"To grow by acquisitions has been problematic as targets come with price tags that we consider too high."

Mika Kiljunen of Kaleva Travel tourist agency explains the company's slow advance in Lithuania.

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Management problems frustrate Swedish investors

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Icelanders to help grow young airline in Vilnius

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Lithuania, Poland agree on power bridge operator

ECONOMY & POLITICS page 13

Gas and excise boost CPI to 9.9% in January



In spite of the elements hitting Lithuanian farms every year, so far very few farmers dared to make use of crop insurance.

Photo: Vereinigte Hagel

Crop insurance off to slow start amid farmer complaints

The opening crop insurance campaign by German Vereinigte Hagel has failed to impress both the company and farmers. Farmers criticise the inflexibility of the insurance products while the Germans point to a unique perception of insurance as such by farmers.

page 5

Employers face another tough year of staff hunting

Lithuania's labour exchange forecasts 52,000 new jobs this year as opposed to 15,000 expected job cuts. Retail and transport firms as well as manufacturing companies will be pressed the most to find staff.

page 13

Oil hits foreign trade growth in 07

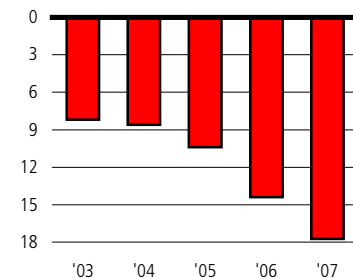
Last year Lithuania recorded the lowest increase in export volume in recent years while import development went down to a 3-year low.

Lower import of crude oil and export of refined oil products is to blame for the slowdown, whereas without oil foreign trade expanded by a quarter.

Certain sectors, notably plastics, fertilisers and vehicles expanded as fast as 30-75%.

page 14

Foreign trade deficit, LTL bn



Most important updated key figures in this issue

Foreign trade (page 15), producer prices & GDP forecasts (page 18). See all key figures pages 15-18.

Business people talk to news2biz

Tridens' Herlend Lukksepp on alcohol consumer differences (page 8); flyLAL's Gediminas Ziemelis on listing delay in Warsaw (page 11); Pro-Part's Rainer Zünd on power construction entry (page 12).

Events

Seminars & meetings on Baltic consumers, leadership and negotiations as well as Lutefish dinner, all in Vilnius (page 14).

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MANUFACTURING

SAVING ONE'S NAME

Swedish machinery trader exits on HR hiccups

Swedish Tool, the listed Swedish supplier of used and new machinery for the metal processing sector, is calling quits with direct presence in Lithuania failing to locate staff that would decently represent the company's name.

"We have sold the company we bought for our Lithuanian business back to its previous local owners, and from now on we will cover the country from Latvia," says



Jürgen Engelbrecht: "We cannot risk our good name earned in the other markets."

Photo: Swedish Tool

Jürgen Engelbrecht, CEO of Swedish Tool, to *news2biz* LITHUANIA.

"Running a business in Lithuania turned out completely different from how we do it in Sweden, or even in Latvia and Estonia – simple things, like paying invoices on time. We understand that it all comes down to personal qualities of the manager we hired, but when we saw that things were not going our way, we

decided not to go through the search and selection process again. We simply cannot risk our good name earned in the other markets."

Swedish Tool will participate in specialist fairs to search for Lithuanian customers, and later plans to hire a few sales people, but all invoicing and sales will be done via Latvia where the company is to expand by building regional warehouses.

Latvia is no 1 market for Swedish Tool, followed by Estonia and Lithuania, all three accounting for less than 10% of the company's turnover.

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More on Swedish Tool: no 224 page 3

TOOL PRODUCTION

Unforeseen troubles delay SwePart plant launch

The Swedish **SwePart Verktyg** industrial tools maker has delayed its plant start near Siauliai.

Attracted to Lithuania by the combination of low costs and skilled labour, SwePart has been forced to deal with completely different things.

"One is the building we wanted to lease: its ceiling is too low for us to operate, so now we are discussing with the owners on what could be done for us to meet our needs," says Rune Evensen, general manager of SwePart Verktyg, to *news2biz* LITHUANIA.

"The other problem has been management: we hired a man to be in charge of our start-up phase but now we see that we will most likely need to send in an expat from our company. That is a good thing for us in terms of communication but could pose certain problems when he starts dealing with local realities."

SwePart hoped to start production in H1 2007 in an industrial park near Siauliai, developed by Norwegian **Spilka**. The park currently has one manufacturing tenant, **AMT Baltija** technical textile company owned by the Norwegian **Hexagon** group.

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HOUSES AND MACHINES

Double Lithuanian partnership for Dane

Flemming D. Mikkelsen, owner of the Danish **FDM Maskiner** supplier of wood processing machines will increase his Lithuanian activities significantly during the coming years.

For some time already he has sold both new and used wood processing equipment to Lithuania, but now Mr Mikkelsen has entered into partnership with Niels Melchiorson and Anil Sandhir and their **Labrusta Production** (see page 7 in this issue) house and window plant in order to sell its windows in Denmark.

"We have founded a company, **Viva Vinduer**, which will be the sales engine for Labrusta's windows in Denmark, and for practical purposes, I have set up a company in Lithuania, UAB **FDM Maskiner**. I will also be selling other Lithuanian products, such as wood pellets, in Denmark," says Mr Mikkelsen to *news2biz* LITHUANIA.



Flemming Mikkelsen: selling Lithuanian windows in Denmark.

Photo: FDM Maskiner

After an extended career in wood processing in Denmark, Mr Mikkelsen set up FDM Maskiner in 1988 as a one-man business.

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Samsung mulls Baltic plant for handsets, LCD screens

South Korean **Samsung Electronics** is mulling the possibility of setting up a production plant in one of the three Baltic states, according to a report by *The Korea Times*.

Samsung is reportedly considering a manufacturing plant to produce low-price mobile handsets and flat-screen TV sets on expectations that the region will continue its solid pace of growth.

"We are doing extensive research on the Baltic market for additional investments, but nothing has been decided yet," a Samsung spokesperson said.

Lithuania's Development Agency LEPA has told *news2biz* that the company has not been in contact with it recently. Still, out of the three Baltic states sector-wise Lithuania has certain strengths in consumer electronics: it has two TV set producers (Lithuanian **Siauliu Tauro Televizoriai**, and Korean **D.Boss** in Vilnius), Swedish **NOTE** in Taurage produces mobile phones.

On the other hand, Latvia, apart from its central geographical location, boasts experience in telecom equipment and electronics production.

Samsung announced in June 2007 that it would be building a USD 57m flat-screen TV plant in Kaluga, Russia.

IN BRIEF

- **PRODUCER PRICES** The annual growth of producer prices escalated to 20.3% in January 2008 mainly fuelled by higher energy prices. Prices in manufacturing excluding refined oil products advanced 13%. Prices of locally sold output increased 16%, export prices rose 25%.
- **GRIGISKES MISSES TARGET** Due to unexpected raw material price rises and late investment project implementation listed **Grigiskes** hygiene paper maker failed to achieve its 2007 targets for turnover (LTL 144m, up 20% vs. planned LTL 159m) and pre-tax profit (LTL 6.5m, down 10%, vs. LTL 9m). This year the company expects LTL 200m in turnover and LTL 10m in pre-tax profit.

FAIRS

BMTF & Furniture

Two annual furniture (consumer) and furniture materials (industrial) fairs by different organisers in one place: furniture & design (Litexpo), production equipment & technologies, materials (Visus Plenus)

Latest data (2007): net area 7,100 sq.m, 290 participants (17 countries), 46,000 visitors

Date: 27-30 March, Vilnius

Place: Litexpo exhibition centre, Vilnius

Organizers: Visus Plenus, www.visusplenus.lt, Litexpo, www.litexpo.lt

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FINANCE

SQUEEZE-OUT

Small shareholders take SEB bank to court

The dispute between Swedish **SEB** bank and small shareholders of its Lithuanian namesake bank (then known as **Vilniaus Bankas**) over the buy-out share price is moving into court.

The argument centres on – as small shareholders put it – the 'ridiculously low' share price paid by SEB, LTL 266.95 per share.

"Honestly, this is outrageous, it is not the way to treat small shareholders, and it is abuse of the squeeze-out clause on the part of SEB."

Sarunas Skyrius of GILD Bankers

"To my mind SEB did everything it could to minimise the price, and something that it shouldn't have," says Sarunas Skyrius, partner at **Gild Bankers** investment bank – one of the small shareholders, to *news2biz* LITHUANIA.

"According to SEB's valuation, approved by the Securities Commission back in 2006, Vilniaus Bankas that had and still has an undisputable top spot in the banking sector, was worth less than much smaller and weaker banks on the Vilnius bourse. To put it mildly, there are a number of gross mistakes in the way SEB calculated Vilniaus Bankas' value."

According to Mr Skyrius, there have been some contacts between SEB and small shareholders regarding improving the offer "but it came nowhere close to what we see as a just price, and that should be around double the actual offer".

"SEB valuation was performed after its peer **Swedbank** bought Estonian **Hansapank** in 2005 (the country's clear banking leader), and in the latter offer the price-to-book-value multiplier was 5.4 – nearly twice as big as what SEB showed to its shareholders," says Mr Skyrius.

SEB has upped its stake in the Lithuanian daughter bank from 98.99% to 99.7% after the squeeze-out offer.

SEB fined for money laundering

President of **SEB** has been fined LTL 1,500 by court for failing to prevent and

inform state institutions about two suspicious cash operations.

According to the Vilnius court, the bank's President Audrius Ziugzda violated regulations on money laundering prevention. These oblige banks to immediately halt suspicious cash withdrawals of above LTL 50,000 and inform about such withdrawal attempts the Financial Crime Investigation Service (FNTT) within 3 hours.

FNTT claims SEB did nothing to prevent 5 suspicious cash withdrawals totalling more than LTL 0.5m (the court's verdict concerns only 2).

We have talked to

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More on dispute: no 230 page 2

BANKS IN 2007

Banks net LTL 1bn, private lending heads down

By any count, in 2007 Lithuania's banking sector reported its best year in history, and given the imminent economic slowdown, it will take at least a few years to repeat it.

All in all, the nine banks and five foreign bank branches operating in Lithuania together earned LTL 1.15bn in unaudited net profit, up 74%. Only two bank branches, Iceland's **MP Investment Bank** and Estonian **BIG Pank** reported losses but both are newcomers to the market.

Swedish **SEB's** profit nearly reached a mind-boggling LTL 0.5bn but this includes LTL 87m netted from the sale of the bank's real estate to Canadian **Homburg** (see no 232 page 6).

Lithuanian banks in 2007 net profit in LTL m, ranked by assets*

Bank	Assets, LTL bn, y/y change	Credits, LTL bn, y/y change	Profit, LTL m	
			2006	2007
SEB	24.7, +30%	17.8, +33%	286	496
Hansa- bankas	19.4, +38%	13.4, +45%	180	314
DnB NORD	10.6, +42%	8.7, +49%	56	105
Snoras	5.8, +37%	2.3, +99%	52	72
Nordea**	5.6, +73%	4.3, +77%	-0.3	19
Sampo	5.5, +30%	4.6, +33%	23	36
Ukio	4.0, +33%	1.8, +126%	47	83
Siauliu	2.0, +49%	1.4, +55%	14	27
Parex	1.6, +112%	1.3, +131%	5	0.2
Uni- Credit**	0.9, -10%	0.7, +5%	1.5	1.1
Medicinos	0.7, +66%	0.4, +54%	3.5	5.5

*) end-2007, **) foreign bank branch

Almost all other players raised their net result substantially, mainly from the expanded business base, a 52% rise in sector-wide net interest income, and a 30% increase in net services and commission income.

On the other hand, operating expenses advanced 32% (including a 34% growth of staff remuneration, and by 29% higher property lease costs).

Non-financial loan portfolio by banks rose 47% last year. While corporate lending growth slimmed from 43% to 38%, private lending volume rise contracted from 72% to 60%.

The housing loan issuance growth rate actually increased from 61% to 62% but given the dramatic rise in housing prices this shows that actually fewer loans were issued as banks tightened lending conditions: 100% financing is only available with a credit insurance, additional collateral, or warranty from housing developers.

Banking system's vital stats 2007

Indicator	LTL bn	Yearly change
Assets	81.0	+38%
Profit*	1.12	+74%
Non-financial loans	56.7	+47%
to private enterprises	30.8	+38%
to households	23.6	+60%
of which mortgage loans	16.7	+62%
Deposits & letters of credit	36.8	+22%
of private enterprises	12.0	+14%
of households	22.7	+27%
Shareholder equity	5.9	+43%

*) comparison of unaudited results

Source for both: Lithuania's central bank Lietuvos Bankas

MEZZANINE FUNDING Hanseatic Capital expanding, not closing

The new owner of the pan-Baltic **Hanseatic Capital** mezzanine fund plans to expand its activities, following a wave of rumours of its closure.

The fund was acquired by Cayman Islands-registered **Arco Capital Corporation** from the **Baltic-American Enterprise Fund** (BalAEF) last October.

Kalmer Kikas, CEO of Hanseatic Capital says that the fund is not only still alive, but, strengthened by the new ownership, it is even expanding its operations outside the Baltics to Poland and Finland.

"Since the acquisition of Hanseatic Capital by Arco Capital, we have been restructuring," says Mr Kikas to *news2biz*. "We have established new local subsidiaries in all three Baltic states, as well as in Poland and Finland so that we can book all our investments in the new parent company."

The fund's two existing subsidiaries in Latvia and Estonia are indeed to be liquidated, hence the confusion.

According to Mr Kikas, the fund's capacity for financing (focusing on growth and buy-outs), has significantly increased under the new ownership.

"Up until the acquisition we typically had the possibility to invest up to EUR 2.5m per project, but now we can do twice as much per project or transaction.

With the help of our parent corporation we could also potentially invest up to EUR 10m-20m."

Hanseatic Capital expects to have an investment portfolio of up to EUR 30m by the end of 2008.

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BANKING

Irish AIB finalises AmCredit deal, works on strategy

Ireland's largest banking group **Allied Irish Banks** (AIB) has finalised the acquisition of the pan-Baltic **AmCredit** mortgage loan specialist in all three Baltic states. AIB has long-term plans for the Baltic market and aims to become a full-fledged niche bank over coming years.

"We're talking about years, not months in planning and development of this goal," says Rowan Duggan, the group's new general manager at **AIB Baltics**, to *news2biz*.

AmCredit currently has 12 locations in the Baltics and further planning will determine whether this will suffice. For now AIB will stick with the established AmCredit brand, but including 'Allied Irish Banks, p.l.c.' into the name is a sign of changes to come further in the future.

AmCredit had until now dealt only with mortgage loans, but aims to find its

niche in the Baltic market with full banking services.

"We recognise that the Baltics are very well banked, so to say, with strong Nordic presence dominating the market, but we feel that we are able to come up with innovative products and quality customer service in order to make our mark," says Mr Duggan.

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More on AIB's entry: no 236 page 4

Fees to go down for conservative pension funds

Taking care of risk-shunning private pension fund customers, or fishing for electoral support in the election year?

Following the government's approval the Seimas will now decide whether or not to slash administrative fees charged by conservative pension fund management companies. If the leftist coalition gathers enough support, conservative funds will only be able to charge up to 1% of paid-in contributions in administrative fees (10% now for all funds) and up to 0.5% annually from the accumulated funds (1% now).

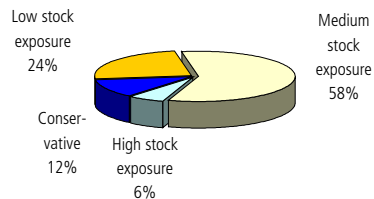
Additionally, the amendments to the Law on Accumulation of Pensions would also allow pension fund customers to switch funds once a year free of charge (now the defectors are charged up to

0.2% of the pension account being transferred).

By number, conservative pension funds are among the most popular with asset management firms, numbering 9 funds out of a total of 26. However, by assets (LTL 176m as of end-2007) and participant number (80,300) they are almost at the bottom, just below the ultra-risky funds focusing almost exclusively on stock investment.

Last year just 0.02% of all private pension fund customers changed funds, most of them – apparently yet unaware of the coming stock market crash – moving into riskier funds.

2nd-pillar private pension funds end-2007, by share of assets



Source: Lithuanian Securities Commission VPK

IN BRIEF

• **SNORAS' BONDS** The fourth biggest bank by assets Snoras has had its LTL 300m bond issuance programme approved by the Securities Commission. The bank intends to issue a number of bond issues of 1 to 10 years of maturity. First issues of equity index-linked bonds (six issues in LTL, EUR and USD linked to Russian *RDX* index) are already available to investors.

FOOD & AGRICULTURE

CROP INSURANCE

German firm off to slow start, farmers complain

German crop insurance specialist **Vereinigste Hagel** has completed its first winter crop insurance campaign in Lithuania. The results are not very high, but not discouraging either.

Vereinigste Hagel's obligations to 263 Lithuanian farmers and farming companies stand at LTL 42m, covering 20,100 hectares (out of the national total of 1.7m ha). While insuring crops is farmers' own business, it is obligatory for those willing to apply for EU funds from the 2007-2013 aid budget. Bearing this in mind, and also given the fact that the government covers half of insurance premiums, Vereinigste's harvest fails to impress.

"It is more or less what I've expected," says Algimantas Navickas, head of the German company's Lithuanian branch office in Kaunas, to *news2biz* LITHUANIA. "I would say our farmers still consider crop insurance as a business component, something like an investment that should yield profit, not as a cushion in times of trouble."

"I believe the bad experience from the previous attempt to establish crop insurance five years ago has made many farmers sceptical."

Virginijus Beironas of Alfa Agro

The company's insurance policy is far from being flexible: farmers must insure all crops in all land plots – or nothing.

"Well, it is something that farmers complain to me, but when you insure a car, you can't ask to leave out the rear window to get a cheaper policy," explains Mr Navickas. "Those Lithuanian insurance companies that tried crop insurance previously were more flexible, so they lost money on this business and exited it."

Big harvest best insurance

"I have consulted farmers in other countries when considering whether or not to insure crops. Crop insurance is not for us - we have to grow crops so that we ourselves can absorb the risk of one or more crops failing. Also, the insurance setup is too inflexible as we cannot insure risk crops or selected areas - we must insure e.g. all spring crops or nothing," says Virginijus Beironas, general manager of Danish-owned **Alfa Agro** with 2,000 hectares in Northern Lithuania, to *news2biz* LITHUANIA.

Mr Navickas says the insurer will consider making some adjustments: "Separate land plots we will not do, but we

may think of allowing farmers to pick particular crop they want to cover."

EU farming aid at risk?

Apart from the insurance scheme being unfriendly as such, the requirement for the recipients of EU aid (except for acre and crop related support) to hold crop insurance policies also threatens to derail the disbursement and use of aid altogether. Because the maximum available aid per farming unit (irrespective of size) is strictly capped at LTL 0.7m, a big farm of several thousand hectares may happen to pay as much in insurance premiums during the usually long project implementation period (the average premium a farmer pays on a policy is LTL 50 per ha, without the state's 50% subsidy).

"This is not what Vereingte Hagel has asked for, it's the government's own decision," says Mr Navickas.

We have talked to

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Arvi opens complex fertiliser plant in Kaliningrad

Lithuanian **Arvi ir Ko**, an agriculture group, has opened a complex fertiliser plant in the neighbouring Kaliningrad enclave to supply Lithuania's market as well as for export.

The **Arvi NPK** plant, located in Russian enclave's special economic zone, has

cost LTL 60m to build, and is expected to pay off in 6 years.

A third of the plant's annual 240,000 t capacity will be used to satisfy Lithuania's own needs (consequently, Arvi will cut imports from other countries), while the rest will be sold locally and exported to the EU, the Balkans and South America.

Arvi says Russian raw materials are cheaper and easier to source but labour availability (the plant employs 100 staff) is problematic, while wages are close to reaching Lithuanian levels. As the resident of Kaliningrad's SEZ, Arvi NPK avails of an advantageous taxation regime (see box).

Tax breaks in Kaliningrad SEZ

0% corporate and assets tax rates for the first 6 years upon investing no less than RUB 150m (ca. EUR 4.5m) within 3 years of company registration;

50% tax break on corporate and assets tax rates for the following 6 years of company's operation.

IN BRIEF

- **GRAIN** Lithuania harvested 3.15m tons of grain last year, up 66% year on year, according to preliminary figures.

PROPERTY & CONSTRUCTION

REGULATIONS

New land lease & tax rates to bring economic logic

The government has resolved to reform the taxation of leased state land the re-

sult of which will be higher rates in big cities but lower ones in other areas. The beginning of 2009 has been set as the early target date.

Today land lease rates are calculated on the basis of their indexed nominal value, itself calculated according to the land's... fertility rate, no matter where the land is located, be it agricultural regions or central Vilnius. The new order would do more justice to the realities of economic life, and base lease rates according to land's market value established by the land and company registry manager state-owned **Registru Centras**.

As soon as new state land lease rates are in place, the government intends to review land tax rates.

At the moment, based on the current state land lease rates, land is relatively cheap in the biggest cities of Vilnius and Kaunas (where it is less fertile) but disproportionately more expensive in smaller country-side locations that are well placed for such property projects as logistics and warehousing centres or industrial developments. Such economically unsound situation should change.

According to Registru Centras, last year industrial and warehousing land appreciated the most, up 44% on average, followed by agricultural land (+43%). Market prices of land for commercial use went up 34%, and 32% for residential-use land.

Average land market value index 2008 versus 2007

Location	Industrial	Commercial
Vilnius City	117	126
Kaunas City	113	114
Klaipeda City	178	152
Siauliai City	161	151
Panevezys City	170	175
Alytus City	192	118
Vilnius Region	130	124
Kaunas Region	126	123
Klaipeda Region	181	149
Siauliai Region	260	216
Panevezys Region	244	192

Source: Registru Centras, Verslo Zinios

CONSTRUCTION

Building activity maintains growth tempo

The run-away housing prices are gone but Lithuania's construction sector managed to maintain growth momentum in 2007.

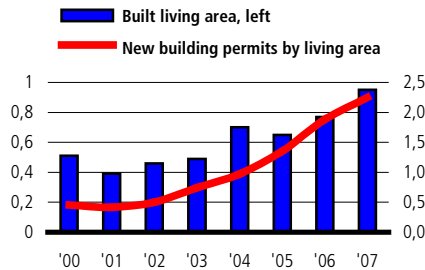
The country's construction companies carried out works worth LTL 10.8bn last year, rising by 22% year on year – just as much as in 2006 (that followed a weakish period of 2004-2005 with a 7-12% growth).

The biggest construction activity of non-residential buildings (43% of total), moved forward at a 15% rate, while engineering construction volume (37% of total) advanced by 25%.

Non-residential construction

	No of buildings		Area, '000 sq.m	
	2006	2007	2006	2007
office	47	62	75	99
industrial	200	268	316	454
agriculture	1,529	1,717	218	202
transport & telecom	149	160	71	103
retail, hotel	196	222	260	396

Who cares about slower price rise?
residential construction, in m sq.m



Source for both: Lithuania's statistics department LSD

Residential construction works that account for a fifth of the total showed the fastest growth of 30% as the number of newly-built flats added 27% to nearly 9,300 units.

Although the biggest market Vilnius County maintained its leadership grip with a 67% share, most of the other 9 remaining counties (notably, Marijampole, Utena, Taurage, Panevezys, Alytus, and Kaunas) showed much faster advancement as rising income and emigrant money transfers expanded the base of

potential buyers of new homes (in most cases, private houses) in economically less advanced areas.

More on construction sector: no 247 page 8

WOOD-PANEL HOUSES

Labrusta house producer to double in size

A spin-off from the Lithuanian development activities of the Dane Niels Melchiorson and his partner Anil Sandhir, the **Labrusta Production** house and window plant just south of the Palanga coastal resort town will expand with a further 4,000 sq.m production area this year. This means in fact doubling of the plant's area.

"We will concentrate on window making in the existing 3,000 sq.m production hall and the new 4,000 sq.m hall will be used for house elements exclusively. The move will expand the plant's capacity from 150-200 housing units to 350-400 units per year," says Mr Melchiorson, CEO and co-owner of Labrusta Production, to news2biz LITHUANIA.

Having to date invested EUR 3.3m in the house plant, Mr Melchiorson estimates that just short of EUR 2m will be put into the extension. The halls should be finished by the end of the year and will double the staff number from today's 40 to 80.

Automation vs. handwork

For window production Labrusta has installed the very latest, where one CNC-driven computerised window machine makes redundant the use of six or seven ordinary tools, thereby saving 8 to 9 people. The man behind the industrial setup is Mr Melchiorson's countryman Jimmy Grotner (see no 244 page 6).

"We decided from the beginning to have the best equipment, and we have not regretted it seeing wage levels go up and labour get ever scarcer."

Niels Melchiorson of Labrusta Production

90% of the company's output is exported to Denmark, Sweden and Iceland, but sales to local Lithuanians are on the rise.



A sample of Labrusta Production's output: here's the largest type, 170 sq.m in one storey.

Photo: Labrusta

The house and window plant is originally started as a complimentary service to the partner's development activities in a sis-

ter company called **Labrusta**. Having bought app 600 plots of land in the Klaipeda area for single-family houses to be built, the partners were looking for top quality houses to be added to the plots. They started with a Lithuanian partner, but eventually decided to take up production all by themselves, opening the plant only four months ago.

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More on BNE: no 240 page 11

HOUSES LIKE TV

Estonians to bring turn-key houses technology

Estonian **Asko Haus International** promises to free future Lithuanian home owners from the pain of building a private house from scratch.

"Ours is a unique home building technology to be found nowhere in the world, its like buying a house like you buy a fridge or TV set – completed and outfitted to the final detail and ready to use almost instantly," says Meelis Rae, co-owner and board member of the Estonian company, to news2biz LITHUANIA.

The company's recently established namesake subsidiary in Vilnius is now looking for a local partner to start its operation in earnest. "We will participate in the upcoming *Resta* building fair to look

for partners with similar house production profile and try talking some sort of co-operation – in this way it will be easier to enter the market," says Mr Rae.

Estonian-capital Asko Haus uses a wooden panel house building technology developed and patented in Finland back in 2000. Houses come with area from 60 to 139 sq.m (6 m by 13.5 m max).

Although only 1.5 years of age, the company already has 1 plant in Estonia, 5 in Finland (as a joint venture that is soon to go under sole ownership of Asko Haus), and one in Germany. In Estonia it has so far sold 80 houses, and turns over close to EUR 4m per year. The company is now developing a technology where wood would be replaced by special king of bricks.

"We can build a wooden panel house at our plant in two months, then it takes one day to transport and put in place and connect communications – compare it to months of dealing with construction firms that suffer from labour shortages," says Mr Rae.

To take care of its new market, Asko Haus plans building a house plant in the country (just like in Latvia where the company is also starting up). "If we have a project for, say, 50 houses, we can erect our plant quickly on the site to cut transportation time," adds Mr Rae.

We have talked to

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More on 'quick' houses: no 240 page 6

IN BRIEF

- **NOTARY FEES DOWN** Ministry of Justice has cut notary fees for services provided to legal persons by 20-30% while the maximum fee for approving a real estate transaction has been slashed by half to LTL 20,000, thus putting it on par with fees asked for transactions by natural persons.

- **INSULATION** Siauliai-based **Litkama** is to become the Baltic representative of US **Johns Manville** fibre-glass building insulation producer that, differently from its European peers, does not use cancer-inducing formaldehyde resins in the production process.

RETAIL & SERVICE

ALCOHOL

Estonian Tridens eyes top spot in alcohol wholesale

Tridens, the biggest alcohol wholesaler in Estonia, eyes no less than a third of Lithuania's alcohol import market in the next five years.

"Tridens will celebrate its 20th anniversary this year which means we have long time experience and expertise we can use on Lithuanian market," says Herlend Lukksepp, member of Tridens supervisory board, to *news2biz* LITHUANIA. "We are planning to differ by fresh brand marketing ideas and better quality services to our clients. For us it is very important to focus on our core brands."

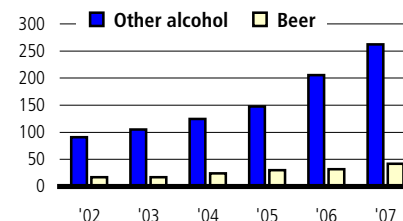
The company's recently established Lithuanian subsidiary **Tridens Vilnius** has official distribution rights for Lithua-

nia from **Campari** and **Mast Jägermeister**, and will also represent such producers as **Scottish & Newcastle** and **CL World Brands**.

"In Lithuania we are starting with a brand portfolio covering most important categories of alcoholic beverages," says Mr Lukksepp. In the course of time Tridens Vilnius plans expanding its product range to around 400 titles – more or less in line with its parent's range.

"It seems that the Lithuanian consumer is more price sensitive and less brand loyal but it could be explained by the fact that average income in Lithuania is a bit lower than in Estonia. Real difference is that Estonian alcohol market is heavily dependent on couple of million Finnish and Swedish tourists visiting Estonia annually," explains Mr Lukksepp.

Lithuania's alcohol import by value, LTL m



Source: Lithuanian Statistics Department LSD

Tridens' biggest competitors in Lithuania are **Mineraliniai Vandenys** (owned by **MG Baltic**) whose turnover last year soared 37% to a record LTL 538m last

year (including tobacco that accounts for a fifth of the portfolio), and **Bennet Distributors** (owned by Russian **S.P.I.**). Mineraliniai Vandenys are also expanding to Latvia, Estonia and Poland.

Simultaneously to Lithuania, Tridens is starting up in Latvia with similar strategy and goal. In Estonia Tridens is the biggest importer of alcoholic beverages by value. Net turnover of all goods sold in Estonia in 2007 was close to EUR 100m.

Alcohol market by origin by volume, Dec 2006-Nov 2007

Category	Local	Import
Beer	93%	7%
Brandy & cognac	52%	48%
Cider & long drinks	66%	34%
Sparkling wine & champagne	88%	12%
Whisky	5%	95%
Vodka	90%	10%

Source: ACNielsen Baltics

Like with many consumer products, Lithuanian shoppers prefer locally made alcoholic drinks to imported ones because of tradition and lower price (see table). However, the latter is not the case with beer where imported brew is often cheaper than 'home-made' one.

We have talked to

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CORPORATE TRAVEL**Kaleva buys online system, complains of opaqueness**

The Finnish-owned **Kaleva Travel** corporate travel agency in Lithuania is to strengthen its position with an online airline ticket reservation and sales system.

Kaleva Travel has acquired the system from **Bilietai LT**, an online ticket sales firm. The system will remain part of the *bilietai.lt* platform but all bookings and sales will be handled by Kaleva.

"This is our second online booking system in Lithuania, and because it is no 2 on the market by usage statistics, with it we will target smaller businesses as well as private customers. The first one that we do not publicise we will continue using for big corporate customers, just as is the arrangement in our companies in Estonia and Latvia," says Mika Kiljunen, managing director of the Kaleva Travel group, to *news2biz* LITHUANIA.

"To grow by acquisitions has been problematic because potential targets come with price tags that we consider too high."

Mika Kiljunen of Kaleva Travel

The agency's initial plans to quickly become a leading corporate travel agency following its Lithuanian acquisition-based entry at the end of 2004 (see no 180 page 6) have been revised.

"In Lithuania we've had to deal with things that we certainly have not seen in any other country of our operation, and this relates to the opaque structure of the travel agency sector as a whole," explains Mr Kiljunen, unwilling to go into further detail.

"To grow by acquisitions has also been problematic because potential targets come with price tags that we consider as too high, so strengthening of our business by a popular online booking system is one way to move forward."

In the Baltic area Lithuania generates the smallest amount of the Kaleva Travel group's turnover (+80% to EUR 1m last financial year), even though this financial year the firm has been growing by over 100%. Kaleva Travel is the sector's biggest player in Finland. Judged by IATA sales, in the Baltics it is no 2 in Estonia and Latvia, and no 7 in Lithuania (with the online system impact counted in).

The group expects to turn over EUR 335m this financial year ending 1 April.

We have talked to

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Russian Euroset unhappy with Baltic handset market

Russia's **Euroset** mobile phone and accessories retail giant is unsatisfied with its results on the Baltic market and may possibly be opting for an exit three years after the market entry.

Euroset had planned to set up a network of some 150 outlets across Estonia, Latvia and Lithuania, but it seems that competition from local players, already well-established in the field, thus boasting close ties with major mobile tele-coms), has been too much for the Russian retailer.

"Top management at Euroset is now considering different ways for developing the company's Baltic region division," says Ochir Mandzhikov, spokesperson for Euroset in Russia, to *news2biz*, adding that it is too early to give any specific plans for Euroset's Baltic operations.



Despite a modern design, Euroset has failed its Baltic market entry with Techmarket.

Photo: Techmarket

The market has meanwhile been rumouring Euroset's exit and the sale of its 88 outlets across the three Baltic countries (44 in Lithuania, 22 in Latvia, and 23 in Estonia).

Euroset officials have said to various media sources that the Baltic state mar-

kets are overly regulated, and therefore no longer of interest to the Russian mobile phone retailer. The firm's Lithuanian executive has also been cited as pointing to the low return rate of the Baltic business.

"The Baltic market is dependant on mobile firms who control phone sales. It's not the business model we are used to."

Ochir Mandzhikov, spokesman for Euroset

Euroset controls around a quarter of the Russian mobile retail market with well over 3,000 stores across the vast country. It also controls outlets in Ukraine, Kazakhstan, Belarus (considers withdrawing from there too) and other CIS countries. Euroset's preliminary turnover for 2007 came to USD 5.6bn.

We have talked to

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IN BRIEF

- **PALINK DEAL CLEARED** The European Commission has cleared the acquisition of 80% of Lithuania's second biggest food retailer **Palink** by German **Rewe International** (part of the 5-member European *Co-opernic* alliance, see no 244 page 6).
- **WHITE GOODS** Soon expected to sell its wood processing and chip board production business, **SBA** group that specialises in production and retail of furniture and clothing is rumoured to be courting **Topo Centras**, Lithuania's leading white goods and household electronics retailer.

FAIRS

Vivattur 2008

Biggest annual tourism sector event

Latest data (2007): net area 3,250 sq.m, 305 participants (27 countries), 22,000 visitors

Date: 29 February – 2 March, Vilnius

Place: Litexpo exhibition centre, Vilnius

Organizer: Visus Plenus, www.visusplenus.lt

Contact: Milda Zilyte, tel +370 5 213 63 26, milda@visusplenus.lt

IT & MEDIA

MOBILE TELECOMS

Bite re-brands, focus remains on customers

The new owners of the **Bite Group** mobile telecom in Lithuania and Latvia are launching a new corporate strategy and re-branding the group's identity.

"Bite has always had a focus on the customer and how we serve them. We have looked at how we can improve the approach to consider customers' changing needs and identified four key areas where we need to focus," says Ken Campbell, Bite Group CEO, to *news2biz* LITHUANIA.

Bite's new strategy rests on four pillars: simple and transparent offers (no small print, no 'certain conditions apply'), more value and additional benefits, expanded possibilities to control expenses, and, finally, immediate access to market novelties.

Lithuania's mobile telecoms

Q3 2007

Indicator	Omnitel	Bite	Tele2
Active subscribers (4.89m)	41%	21%	36%
Private subscribers (1.04m)	44%	33%	19%
Corporate & public customers (0.6m)	47%	38%	12%
Pre-paid subscribers (3.25m)	39%	19%	41%
GPRS, EDGE, UMTS subscribers (1.39m)	49%	32%	18%
Revenue (LTL 362m)	44%	29%	24%

Source: telecom market regulator RRT

Although Bite's re-branding campaign features young faces with a slogan 'I can. Can you?', Mr Campbell says the new customer-focused strategy applies to both private and corporate customers: "For instance, we will present our customers with popular *Blackberry* smart phones with push e-mail service".



Ken Campbell: "Surveys have consistently rated Bite highest on the service dimension."

Photo: Bite Lietuva

"We have always aimed to be the best in serving customers, and independent surveys have consistently rated us highest on the service dimension. Our objective is to build on this by building on our strength in the busi-

ness segment and increasing our share of residential users, while expanding the use of mobile data in both segments," concludes Mr Campbell.

In the third quarter of 2007, in Lithuania Bite was second after **Telia-Sonera's Omnitel** by revenue, and third after Omnitel and Swedish **Tele2** by the number of active subscribers. It holds a strong no 2 position by corporate customers, but a weak no 3 in the private subscriber sector.

We have talked to

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More on mobile telecoms: no 232 page 9

Tele2 resolves to go ahead with 3G network

Swedish **Tele2** mobile operator says it will finally start deploying its national 3G network this summer.

This resolution comes more than 1.5 years after the company said it did not see enough demand for 3G (also known as UMTS) to invest into building such network, and postponed its market entry until the market matures.

It seems that the market is still immature as only estimated 5% of business customers actually need 3G service, but Tele2 points to the growing interest.

Tele2 does provide limited 3G service but only in central Vilnius. Under the plan, the national network will be started from major cities and expanded to cover the country by mid-2009.

Both of Tele2's main competitors **Omnitel** and **Bite** Lietuva already provide the 3G service.

Smaller Tele2 grows faster

Omnitel reported a 3% increase in turnover in 2007 to LTL 928m as the number of active customers advanced 16% to 2m. EBITDA was the lowest in recent years in both mobile services (36.8%) and broadband services (43.6%) but considerably higher than TeliaSonera's group-wide results.

Meanwhile, Tele2 rang up a 21% rise in turnover at LTL 486m but EBITDA (at 29.7% or LTL 144m, down 23% year on year) slimmed due to costs associated with the recent campaign of attracting corporate customers. The telecom saw its subscriber base expand 9% to 1.8m.

Bite is still to announce its 2007 result.

IN BRIEF

- **PR** One of the biggest Lithuanian PR agencies **Publicum** has joined the Central and Eastern European PR network **CEEPR-net**. Set up in 2006, the network unites 11 firms from as many countries (Latvian **Prospero** and Estonian **Corpore** joined simultaneously). Publicum upped sales 20% last year to LTL 9m. Its customer list features Nordea, HP, GlaxoSmith-Kline, Roche, etc.

- **IT LOGISTICS** Lithuanian **Acme Baltija**, the Baltic region's biggest supplier of information storage (CD, DVD) and IT accessories (total of 2,000 titles), opened a LTL 12m logistics centre in Kaunas. Acme turned over LTL 48m last year, and plans a 27% rise in 2008.

TRANSPORT & LOGISTICS

AIR SERVICES

Icelanders take over airline in Vilnius

The Vilnius-based airline **Avion Express** has new found owners after disagreements between the founder Per Weithz and the previous part owner, the now bankrupt Malmö-based **Nordic Solutions**.



Aviation Express is to acquire four new SAAB aircraft to add to three it already has.

Photo: Aviation Express

"I'm glad to say that these are owners who know the airline business and have the financial strength to back us up in Lithuania. This means that we will be getting four new aircraft in addition to the three passenger aircraft we already had, one more passenger plane and three cargo planes," says Mr Weithz to *news2biz* LITHUANIA.

The new owners are Icelandic **Avion Aircraft Trading** that takes over 70% of the shares while the rest still belongs to Mr Weithz. The change in ownership has also meant a change of name, as Avion Express was previously called as Nordic Solutions Air Services.

All the new aircraft, as well as the existing three passenger aircraft are *SAAB 340* that carry 33 passengers or a payload of up to 3,130 kg. The passenger aircraft are subject to operational lease, while the cargo planes are under a financial lease agreement. According to Mr Weithz, the street value of a SAAB 340 is around USD 1.5m depending on the state of the engine, propellers, airframe and landing gear.

"Right now, our three aircraft are servicing **Air Aaland** and their routes from Mariehamn to Helsinki, Stockholm, Oulu, Turku and Tampere. The fourth passenger aircraft will be used for standby operations, while the cargo aircraft will be put to use in the European cargo market," says Mr Weithz.

In addition to Avion Express' ground crew of 10, every new plane requires three sets of crew consisting of a captain and a first officer (the passenger aircraft also requires one extra cabin attendant) in order to be kept in the air at a maximum. Pilots are hired on the international market, but there are a substantial number of Lithuanians among them.

Looking East from Lithuania

"But there are not enough Lithuanians with certificates to fly SAAB 340 to satisfy our demand, so we have to look elsewhere. In general, there is no difference in salary on an international labour market like the one that pilots work in," says Mr Weithz.

Mr Weithz has not regretted his decision to start an airline in Lithuania, even though his aircraft fly elsewhere.

"No, the thought is right and the potential is definitely there - especially with a view to the vast opportunities in Russia and Ukraine. But until these market develop some more, I have to make end meets and fly where the cargoes are," says Mr Weithz.

Mr Weithz himself is a trained pilot with experience ranging from the *Boeing 747 Jumbo* to *Lockheed Tristar*. Before founding the airline now known as Avion Express in 2005, he established the Swedish airline **Nextjet**.

"When they did not want to go to Lithuania, I sold my shares and started for myself," he says.

We have talked to

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flyLAL's debut on Warsaw bourse may be delayed

In spite of the recent global fall of stock markets, Lithuanian **flyLAL Group** avia-

tion holding sticks to its plan of floating two of its subsidiaries on the Warsaw Stock Exchange.

The group intends to launch IPOs of **Aviation Assets Management**, an aircraft leasing firm, and **flyLAL Technics** which specialises in aircraft maintenance services, aiming to boost the equity of both firms by 50%, and attract a total of around LTL 140m of fresh capital.

"We may consider putting off the IPOs due to the situation in stock markets but we will not cut the prices or offering volume."

Gediminas Ziemelis of flyLAL Group

"Consultants we have talked to are very upbeat on our floatation prospects, noting the unique market niche our companies operate in and their development prospects," says Gediminas Ziemelis, flyLAL Group board chairman, to *news2biz* LITHUANIA.

"Preparations for going public in Warsaw are well underway: both the supervisory council and the board will include persons well known in international business circles, and we are getting ready for a road show."

flyLAL Technics has just opened a LTL 25m aircraft maintenance hangar in Vilnius (see no 245 page 9). Aviation Assets Management is busy buying aircraft for lease (first of all for the sister company

flyLAL Lithuanian Airlines), and plans to own a fleet of 12-15 Boeings by the end of the year (see no 232 page 10).

We have talked to

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More on flyLAL Group: no 246 page 11

Railway firm upgrades, raises freight volumes

State-owned **Lietuvos Gelezinkeliai** (LG) railway company has embarked on a number of modernisation projects that will benefit both the company and its private and commercial customers.

LG has signed two contracts worth LTL 28m with German **DB International** to provide technical assistance in: 1) modernising the 100 km Vilnius-Kaunas line to allow electricity passenger trains to reach 160 km/h speed, 2) modernising two shorter lines for cargo trains in the Vilnius area that would eventually allow to cut cargo train traffic through the Vilnius station by a third.

Additionally LG (together with Dutch **Volkerrail**) is reconstructing for LTL 95m the only train tunnel in the Baltics near Kaunas, a 1,200-metre engineering facility dating back to Czarist Russia. Following the reconstruction, the tunnel will accommodate two railway tracks instead of one used so far. To use the expanded possibilities of the Vilnius-Kaunas line, LG will put into service new Czech-made passenger trains.



Lietuvos Gelezinkeliai will renovate a railway tunnel built 150 years ago.

Photo: Lietuvos Gelezinkeliai

All in all the company intends to spend LTL 2.9bn on renovating and upgrading its railway infrastructure, of this LTL 1.9bn should come from EU's 2007-2013 aid programme.

International traffic up in 2007

LG reported a 6.5% increase in cargo transportation last year to 53.5m tons but freight turnover advanced 12%.

International freight volumes added nearly 12% to 41m tons (transit traffic was down 2% to 20m tons) whereas domestic volumes slimmed 8% to 12m tons.

IN BRIEF

- **STEVEDORING** **Bega** stevedore is to start drafting a project for an agriculture goods terminal at the Klaipeda port on 15 hectares of land. Last year Bega reported a record year in its history, reloading over 3m of cargo (mainly fertilisers and mineral materials). This year it expects big import orders for Belarus-bound cement.
- **AIRCRAFT** Lithuanian **Aurela** charter airline has expanded its fleet with a 8-year-old *Boeing 757* purchased for LTL 100m. The 212-seat airliner will be

used for long-range flights (first one already scheduled to India). Last year Aurela increased passenger transportation 31%, its main customer is the biggest Baltic tour operator **Novaturas** (see no 244 page 7). The airline disposes of two tourist-class 148-seat *Boeing 737-300* aircraft plus a 9-seater business jet *Hawker 850XP*.

ENERGY & ENVIRONMENT

ELECTRICITY

Lithuania, Poland move on with power bridge

Really big things take long to implement: almost a year after Lithuania and Poland agreed to do so, the two neighbours finally established a joint venture to build an overhead power bridge

National power grid operators Lithuanian **Lietuvos Energija** and Polish **PSE Operator** inked a deal to establish a 50/50 joint venture with its seat in Warsaw and a Lithuanian at the helm.

The JV's first task will be to carry out a technical project, approve the final variant of the high-voltage power line route, and conduct an environmental impact assessment.

When it is finally opened sometime in 2012-2015, the power bridge will provide Lithuania with a second non-Russia outlet to buy and sell power (the first one is Finnish-Estonian **Estlink**), and link

Lithuania to Western Europe's power distribution system.

The power line will link the town of Elk in Poland's northeast with Alytus in Lithuania's south, a distance of 154 km.

More on energy projects: no 230 page 11

Austrian firm eyes power line construction market

Austrian **Pro-Part** is to vie after a piece of the Lithuanian power line construction and maintenance market.

The company has established **Pro-Part Baltic** subsidiary in Vilnius and is now recruiting its employees.

"I hope to have a team of up to 10 people by the end of the year but right now we're getting our papers ready to participate in tenders and also trying to learn the inner workings of the market," says Rainer Zünd, managing director and owner of the Austrian firm, to *news2biz* LITHUANIA.

"We see very good prospects for the Lithuanian power transmission and distribution line construction market in the next few years, also thanks to the incoming EU funding, so this is why we are here. Lithuania is our first stop in Eastern Europe as we see more stability and better business prospects in northern areas than in south-eastern European countries. In a couple of years we will be looking at Latvia as well."

Apart from its core business (20-400 kV power lines), Pro-Part Baltic will engage in consulting activities and sale of relevant products (machinery, gears, tools, steel structures, power lines, etc.).

Started 10 years ago, the Austrian firm employs 40 of staff, and turns over EUR 5-6m annually. Apart from Austria it operates in Germany, Italy, France, and Luxembourg.

We have talked to

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WASTE LOGISTICS

German reverse logistics specialist sets up in Vilnius

German **CCR Logistics Systems** is arriving in the Baltics to offer its product life-cycle system management services.

CCR operates in both B2B and C2B areas, and in Lithuania it plans starting with waste of electrical and electronic equipment (WEEE).

"We are an operator, which means we only set up and manage take-back systems but we do not do the physical collection of waste. For that we hire transport and storage specialists, etc. We already have a WEEE partner in Estonia, so in Lithuania we will seek to co-operate with local electrical and electronic equipment producers and importers as well," says Achim Winter CEO of both the German company and its recently

established namesake Lithuanian subsidiary, to *news2biz* LITHUANIA.

"In the course of time we also plan to bring to the Baltics our two other core business areas, namely building take-back systems for the automotive dealership sector (this concerns taking back spare parts for warranty-covered cars, as well as used tyres and batteries), and the electronics sector; and also take-back systems for consumer web shops (e.g., organising the shipment of a pair of *Nike* shoes back to the producer if the size does not fit), which is organized by our sister firm **Cycleon**," explains Mr Winter.

CCR is present in major European markets (Germany, Austria, the UK, Spain, Poland). The company is part of **Reverse Logistics GmbH**, a holding company, 70%- owned by **Monitor Clipper Partners** private equity fund (Mr Winter's family holds the rest). CCR's sister companies are **Vfw** (take-back of packaging materials in Germany and Austria but soon to expand Europe-wide), and **Cycleon** (European drop-off take-back solutions at post offices).

Last year CCR turned over EUR 50m.

We have talked to

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IN BRIEF

- **OIL CEO ON TRIAL** Court hearings began in a case where the former CEO of the **Mazeikiu Nafta** refinery Paul Nelson English and his deputy Lee Luck is

accused of failing to carry out their duties (late maintenance works) that led to a devastating fire at the refinery in October 2006, producing damage of LTL 384m. The accident occurred just before **Mazeikiu Nafta** was sold by Russian **Yukos** to Polish **PKN Orlen**.

ECONOMY & POLITICS

PRICES

Gas and excise boost CPI to 9.9% in January

Consumer price inflation stopped just shy of hitting an annual rate of 10% in the first month of 2008, escalating from 8.1% a month ago, mainly due to a hike in natural gas prices and higher excise rates on fuel and alcohol.

Prices in a number of product and service groups reached their 10-year growth highs, namely food (16%), housing (17.5%), hotels & restaurants (14%). The inflation in the transport product group was most visible as it went up from 10% at the end of 2007 to 16% in January.

On the other hand, prices of clothes & footwear, communication services continued to contract at their usual rates, 5% and 8%, respectively.

Month on month, consumer prices rose 1.6% in January – fastest in the last 12 months.

LABOUR MARKET

Exchange forecasts 52,000 new jobs in 2008

Lithuania ended up the year 2007 with a record-low unemployment rate. This year the labour squeeze will only intensify as the number of expected new jobs will exceed forecast job cuts by a factor of 3.

According to the national labour exchange **Lietuvos Darbo Birza**, employers will create 52,000 new jobs in 2008, up by around a third compared to 2007.

Of these, almost half (same as last year) will be offered by service sector companies, mostly by wholesale and retail trade firms, transport companies as well as the hotel and restaurant sector. A third of all new jobs will appear in the industry, and a fifth in the construction sector. The line-up more or less follows Lithuania's general picture where almost 60% are employed in the services sector.

Naturally, service-related professions will be the most popular with employers: sales, insurance agents, as well as logistics, construction, IT, mechanical and electrical engineering, book-keeping and finance specialists.

Meanwhile, only 15,000 jobs will be lost as companies try to become leaner or close down in predominantly low-cost sectors, namely, textile, clothing and food production, and usually small firms of up to 50 staff.

The result of this simple equation is a surplus of 37,000 new vacancies (provided all those fired find new jobs immediately). At the end of Q3 2007 Lithuania already had 29,000 unfilled jobs, mostly in manufacturing, construction and trade firms, but as many as 64,000 officially unemployed (or 91,000 job-seekers registered with labour exchanges).

FOREIGN TRADE IN 2007

Russia & Germany at the top as trade growth slows

Last year Lithuania recorded the lowest increase in export volume in recent years while import development went down to a 3-year low.

The country exported LTL 43.2bn worth of goods, up 11% year on year, and imported LTL 61bn worth of goods, up 15%, thus producing an all-time high trade deficit of nearly LTL 18bn. For the first time foreign trade turnover exceeded LTL 100bn.

Like in some other statistically telling sectors (industrial output, producer prices), oil was a key word to foreign trade woes: trade volumes slowed down considerably due to the **Mazeikiu Nafta** oil refinery's inability to work at full speed due to lower capacity after the heavy 2006 fire. If mineral fuel is excluded from the foreign trade equation, export in 2007 advanced 26%, import added 24%. But as the refinery is finally

back on track with full capacity, foreign trade statistics should start improving this year.

In spite of the generally low level of increase, certain sectors reported much higher individual growth rates, ranging up to 75% in export, and 41% in import (see table).

Fast foreign trade risers in 2007

Major sectors	Countries
Export	
Plastic & products: +75%	Norway, Germany: +36-37%
Fertilisers: +49%	Russia, Latvia: +30-31%
Live animals, animal products: +34%	Russia, Latvia: +29-31%
Base metals & prod.: +27%	Italy, Belarus: 18-19%
Furniture & related products, +21%	Ukraine, UK, Poland: +15-17%
Import	
Road vehicles: +41%	US: +58%
Chemical products: +32%	Italy, Estonia, Belgium, China: +34-35%
Base metals & prod.: +27%	Latvia, Netherlands, Sweden: +28-31%
Ready-made food, beverages: +19%	France, Poland: +27-28%
Plastic & products: +15%	UK: +21%

Source: Lithuanian statistics department LSD

By countries, Russia has stayed as Lithuania's biggest trading partner (its share rose in total export but contracted in import). Latvia and Germany continue to occupy no 2 and 3 in export, just as Germany and Poland in import.

Among the Nordic countries, Denmark moved up from no 10 to no 7 in export (even though its share actually fell slightly), while Sweden moved down to no 9 in export as its share and volume contracted visibly to 3.8%. On the other hand Sweden's share rose in import to 3.8% (no 7), while Finland was pushed out of top 10 by Belgium.

EVENTS

Annual Chamber Meetings

Danish Business Club. Cognac tasting afterwards.

Date: 26 February, 6.00 pm

Place: Radisson SAS Astorija Hotel, Vilnius

Contact: Kirsten Friis, kirfri@um.dk

Phone: +370 5 264 87 81

Swedish Chamber.

Date: 3 March, 5.00 pm

Place: Hotel Artis, Vilnius

Contact: info@swedish.lt

Phone: +370 5 655 282 66

Consumers: Baltics vs. UK

A breakfast technical meeting on consumer profile similarities and differences in the Baltics and UK. Presented by Euromonitor International market research firm.

Date: 27 February, 8 am

Speaker meeting with Mr Roger Berry Labour MP, Co-chairman of the All-Party Lithuania Group in Parliament

Date: 14 March, 6 pm

Place: Shakespeare Hotel, Vilnius

Organizer: British Chamber of Commerce, www.bccl.lt

Contact: info@bccl.lt

Phone: +370 5 269 00 62

How to Become a Leader

Lessons and insights from Robin Sharma, leadership bestseller author. Fee LTL 1,200.

Date: 29 February

Place: Vilnius

Organizer: Viva Persona, www.vivapersona.lt (online registration)

Contact: info@bmconferences.lt

Phone: +370 5 213 90 90

Lutefish Dinner

A jubilee dinner in Vilnius to mark the 10th anniversary of the Royal Norwegian Lutefish Guild. Price LTL 140.

Date: 3 March, 7.30 pm (sign up by 22 February!)

Place: Reval Hotel Lietuva, Vilnius

Organizer: Norwegian Club, www.dnk.lt

Contact: Per Skisaker, per.skisaker@inova.lt

Phone: +370 656 07 666

German Businessmen Visit

Meet German firms from engineering, transport, industrial services and renewable energy sectors.

Date: 3 March, 10.30 am

Place: Radisson SAS Astorija Hotel, Vilnius

Contact: audra@ahk-balt.org

Phone: +370 5 263 91 14

Customer Focused Organisation

A seminar by Nader Tavassoli from London Business School. Fee: LTL 2,200, discounts.

Date: 5 March, 9 am

Place: Hotel Le Meridien Villon, Vilnius

Organizer: Baltic Institute for Leadership Development, www.bildideas.org (programme, registration)

Contact: info@bildideas.org

Phone: +370 5 233 22 79

Negotiation Tactics

Seminar on 26 tactics for decision makers, hosted by Per Cedegren from Swedish Krauthammer International. Fee: LTL 2,500, discounts.

Date: 6 March, 9 am (registration by 3 march)

Place: Hotel Le Meridien Villon, Vilnius

Organizer: Baltic Management Institute, www.bmi.lt

Contact: info@bmi.lt

Phone: +370 5 248 72 48

W A G E S

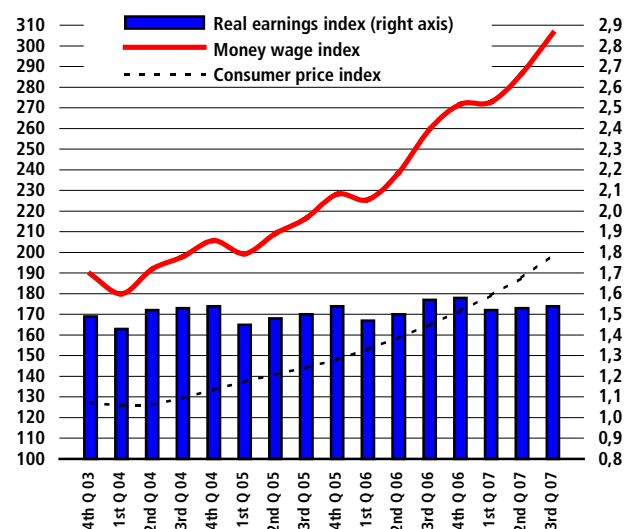
Average monthly wages in LTL and indices

Sector	Gross wage* Q3 2007	Jan 1996 = 100	Q3 2004 = 100	Q3 2006 = 100
Manufacturing	1,896	307	159	124
Agriculture, hunting, forestry	1,563	683	162	128
Food	1,795	253	152	124
Textiles	1,407	250	149	118
Wood	1,528	273	171	127
Paper	1,896	262	129	121
Machinery	2,107	405	167	121
Water, heating, gas, electricity	2,382	242	141	113
Construction	2,304	356	171	123
Retail and repair	1,881	392	163	120
Transport and communications	1,954	194	146	121
Public administration	2,500	314	129	99
National average	1,950	306	155	118

*1) Excluding the employer's legally fixed social tax (30.98-31.70%, depending on the firm's work-safety record), which must be paid to Sodra (Valstybinis Socialinio Draudimo Fondas), which in its turn pays 3% of this sum to the health insurance fund Valstybinis Ligoniu Kasos.

Source: The Lithuanian statistics office, Lietuvos Statistikos Departamentas.

R E A L E A R N I N G S



Note: The diagram shows the developments of the average national gross wages and inflation. The difference between the two graphs may be read as the average improvement of the real earnings compared to January 1996. The columns show an index of the real earnings. If index is above 1, the wages have increased more than inflation compared to January 1996.

T R A D E

Lithuanian exports and imports according to commodity groups

EXPORTS in LTL m

(according to SITC)	2007	Share	2006	Share	2005	Share
Food and live animals (0)	6,072	14.0%	4,556	11.7%	3,518	10.7%
Beverages and tobacco (1)	808	1.9%	630	1.6%	419	1.3%
Crude materials except fuels (2)	2,355	5.4%	1,788	4.6%	1,730	5.3%
Mineral fuels and lubricants (3)	5,865	13.6%	9,193	23.6%	8,859	27.0%
Animal and vegetable oils (4)	117	0.3%	85	0.2%	54	0.2%
Chemical products (5)	5,807	13.4%	3,547	9.1%	2,838	8.7%
Manufactured goods (6)	5,188	12.0%	4,253	10.9%	3,482	10.6%
Machinery and transport equipment (7)	9,979	23.1%	8,737	22.5%	6,719	20.5%
Miscellaneous manufactured articles (8)	7,020	16.2%	6,069	15.6%	5,128	15.6%
Not classified commodities (9)	23	0.1%	30	0.1%	20	0.1%
TOTAL	43,234	100%	38,888	100%	32,767	100%

IMPORTS in LTL m

(according to SITC)	2007	Share	2006	Share	2005	Share
Food and live animals (0)	4,635	7.6%	3,730	7.0%	2,814	6.5%
Beverages and tobacco (1)	802	1.4%	656	1.2%	461	1.1%
Crude materials except fuels (2)	1,957	3.2%	1,689	3.2%	1,477	3.4%
Mineral fuels and lubricants (3)	9,965	16.3%	11,970	22.5%	10,562	24.5%
Animal and vegetable oils (4)	265	0.4%	242	0.5%	197	0.5%
Chemical products (5)	7,795	12.8%	6,151	11.5%	4,856	11.3%
Manufactured goods (6)	9,991	16.4%	8,172	15.3%	6,846	15.9%
Machinery and transport equipment (7)	20,548	33.7%	16,667	31.3%	12,728	29.5%
Miscellaneous manufactured articles (8)	4,890	8.0%	3,910	7.3%	3,056	7.1%
Not classified commodities (9)	139	0.2%	88	0.2%	155	0.4%
TOTAL	60,987	100%	53,275	100%	43,152	100%

Lithuania's ten largest export markets (in LTL m)

(ranked according to 2007)

No	Country	2007	Share	2006	Share
1	Russia	6,473	15.0%	4,956	12.7%
2	Latvia	5,551	12.8%	4,304	11.1%
3	Germany	4,532	10.5%	3,345	8.6%
4	Poland	2,711	6.3%	2,361	6.1%
5	Estonia	2,510	5.8%	2,515	6.5%
6	UK	1,971	4.6%	1,714	4.4%
7	Denmark	1,752	4.1%	1,634	4.2%
8	Belarus	1,733	4.0%	1,473	3.8%
9	Sweden	1,627	3.8%	1,749	4.5%
10	France	1,576	3.6%	1,627	4.2%

Lithuania's ten largest import markets (in LTL m)

(ranked according to 2007)

No	Country	2007	Share	2006	Share
1	Russia	11,071	18.2%	12,975	24.4%
2	Germany	9,108	14.9%	7,916	14.9%
3	Poland	6,479	10.6%	5,070	9.5%
4	Latvia	3,326	5.5%	2,542	4.8%
5	Netherlands	2,587	4.2%	1,988	3.7%
6	Italy	2,408	3.9%	1,799	3.4%
7	Sweden	2,297	3.8%	1,777	3.3%
8	Estonia	2,189	3.6%	1,639	3.1%
9	France	2,124	3.5%	1,679	3.2%
10	Belgium	1,767	2.9%	1,321	2.5%

Source to all tables: The Lithuanian statistics office, Lietuvos Statistikos Departamentas.

MONEY SUPPLY

Money supply in LTL m

	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07
Monetary base	13,508	13,789	14,131	14,643	15,532
M1	26,648	26,471	26,214	26,305	27,938
- Currency outside banks	7,997	8,103	8,005	7,969	8,108
- Overnight deposits	18,651	18,368	18,209	18,336	19,830
M2	40,768	40,943	40,344	40,949	43,470
- Time deposits (total)*	13,299	13,573	13,929	14,432	15,336
- Foreign currency dep.*	4,066	4,086	4,088	4,250	4,739

*) Deposits with agreed maturity up to 2 years.

Monetary base encompasses Lithuanian currency emitted by the central bank and money (domestic as well as foreign currencies) on accounts held with it.

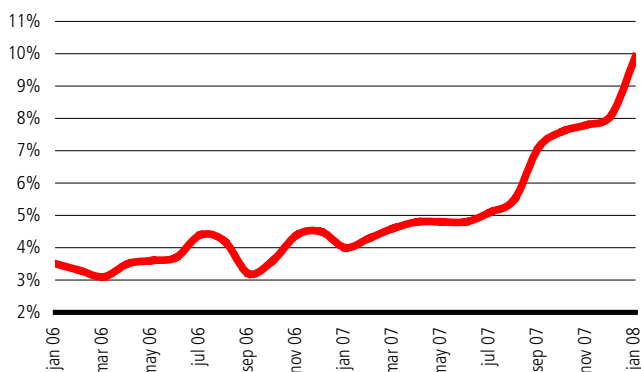
M1 encompasses currency outside banks as well as demand deposits.

M2 encompasses M1 and time and savings deposits as well as deposits in foreign currencies.

Source: Lithuania's central bank, Lietuvos Bankas.

INFLATION

Inflation year-on-year, last two years



Source: The Lithuanian statistical office, Lietuvos Statistikos Departamentas.

CONSUMER PRICE INDEX

Consumer price index 100 = current 12 months

Product/service (share in price basket)	Jan 2004	Jan 2005	Jan 2006	Jan 2007	Aug 2007	Sep 2007	Oct 2007	Nov 2007	Dec 2007	Jan 2008
Food and non-alcoholic beverages (25.7%)	98.5	105.0	104.4	108.4	110.5	112.7	115.8	115.4	115.5	115.9
Alcohol and tobacco (6.6%)	104.7	101.5	99.1	102.6	106.7	107.5	107.3	106.5	106.5	109.1
Clothes and footwear (8.2%)	97.6	97.8	99.6	95.6	94.2	95.2	96.7	94.5	94.2	95.0
Housing, water, electricity, and gas (12.4%)	100.4	103.7	104.9	110.6	111.4	112.5	112.4	111.3	114.1	117.5
Household items and furniture (6.4%)	96.4	97.0	99.7	101.4	102.3	102.3	102.5	103.0	102.9	103.3
Transport (11.5%)	98.5	105.4	114.0	96.6	102.0	107.5	106.2	110.2	109.6	115.8
Communications (4.1%)	85.4	99.0	95.6	100.0	93.0	92.8	92.8	92.9	92.7	91.5
Recreation and culture (7.6%)	96.4	97.5	101.8	100.6	100.3	100.2	99.5	99.8	99.5	99.9
Hotels and restaurants (5.7%)	100.6	103.2	103.7	105.7	110.1	110.2	110.6	111.6	111.8	113.9
Gross consumer price index	98.7	102.9	103.5	104.0	105.5	107.1	107.6	107.8	108.1	109.9

Consumer price index 100 = previous month

Product/service (share in price basket)	Apr 2007	May 2007	Jun 2007	Jul 2007	Aug 2007	Sep 2007	Oct 2007	Nov 2007	Dec 2007	Jan 2008
Food and non-alcoholic beverages (25.7%)	102.0	100.3	100.2	101.1	100.3	102.2	103.7	101.1	101.0	101.9
Alcohol and tobacco (6.6%)	100.0	100.3	100.9	100.6	101.9	100.8	100.1	99.7	100.2	103.6
Clothes and footwear (8.2%)	101.6	100.3	98.7	97.0	99.7	103.8	102.7	100.1	98.8	94.3
Housing, water, electricity, and gas (12.4%)	100.1	100.3	100.9	101.1	100.8	101.3	102.6	101.2	102.1	104.8
Household items and furniture (6.4%)	100.0	100.3	100.2	100.2	100.4	100.2	100.6	100.5	99.9	100.4
Transport (11.5%)	101.7	101.5	100.3	100.9	99.7	101.4	99.6	103.5	99.8	103.7
Communications (4.1%)	98.4	99.8	98.0	99.4	99.9	99.7	99.9	100.3	99.0	98.4
Recreation and culture (7.6%)	99.9	99.9	100.1	101.5	100.1	99.2	99.1	100.2	99.8	100.5
Hotels and restaurants (5.7%)	100.3	101.0	101.5	101.2	100.5	100.5	101.0	101.4	100.7	102.6
Gross consumer price index	100.9	100.5	100.2	100.7	100.3	101.4	101.5	101.1	100.5	101.6

Source: The Lithuanian statistical office, Lietuvos Statistikos Departamentas.

CREDIT

The financial sector's net lending* in LTL m

Type of loan	4th Q 06	1st Q 07	2nd Q 07	3rd Q 07	4th Q 07
Loans to customers	38,641	41,974	46,458	51,558	56,743
- to private companies	22,037	23,891	25,593	28,048	30,839
- to individuals	14,713	16,505	18,886	21,509	23,563
Consolidated balance of the banking institutions	58,914	62,753	66,797	72,886	80,992

*) by the end of period.

Source: Lithuania's central bank, Lietuvos Bankas.

INTEREST RATES

Average weighted annual interest rates on credits

Term / currency	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07
Up to 1 year (LTL)	6.47%	6.74%	6.95%	7.20%	7.37%	7.71%
Up to 1 year (EUR)	5.86%	5.92%	6.02%	6.15%	6.27%	6.32%
Over 1 year (LTL)	7.22%	7.35%	7.47%	7.63%	7.77%	8.18%
Over 1 year (EUR)	5.81%	5.89%	6.01%	6.04%	6.08%	6.21%

Note: credit term duration refers to the initial rate fixation period. For example, a 5-year loan with floating interest rate, revised every 6 months, is classified as 'Up to 1 year'

Vilnius Inter Bank Offered Rate (VILIBOR) as of 19 February 2008

Overnight	1 week	1 month	3 months	6 months
4.21%	4.23%	4.34%	4.83%	5.40%

Source: Lithuania's central bank, Lietuvos Bankas.

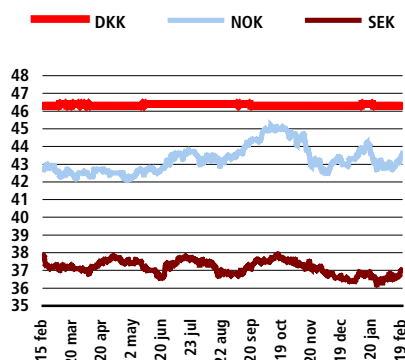
CURRENCY

LTL exchange rates as of 19 Jan 2008

(transfers)

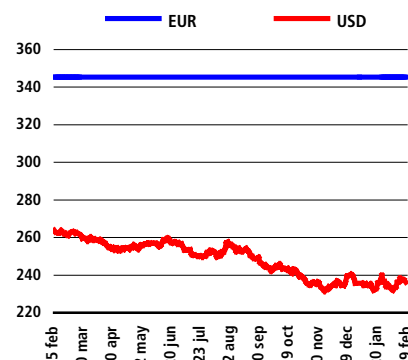
	SEB Vilnius bank		Lithuania's central bank
	Buying	Selling	Average
100 USD	232.34	236.95	235.72
100 EUR	344.42	346.14	345.28
100 GBP	451.15	462.26	463.54
100 CHF	211.51	216.70	214.75
100 CAD	227.70	235.57	236.20
1,000 JPY	21.44	22.19	21.77
100 DKK	45.55	47.08	46.32
100 SEK	36.45	37.68	37.01
100 NOK	42.98	44.45	43.59
100 EEK	21.83	22.37	22.07
100 LVL	485.58	501.55	495.88
100 RUR	9.38	9.76	9.59
100 PLN	95.02	98.55	96.36
100 CZK	13.34	13.81	13.73

Nordic currencies (100 units) against LTL over the last 12 months



Note: The average exchange rates of Lithuania's central bank are fixed one day before the actual date.

EUR and USD (100 units) against LTL over the last 12 months



Source: Lithuania's central bank, Lietuvos Bankas.

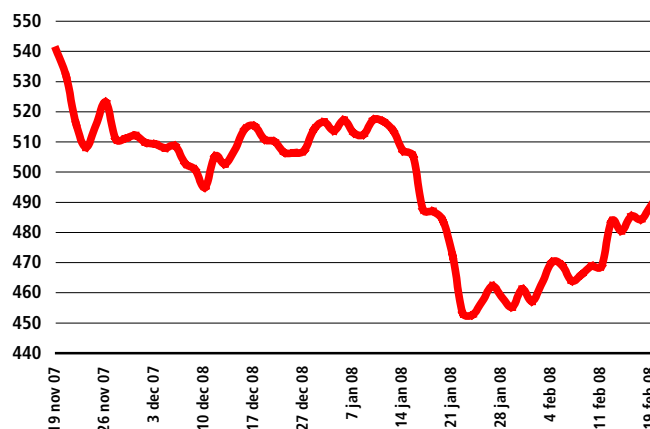
STOCK EXCHANGE

Vilnius Stock Exchange

Main list (in alphabetic order)	Price 19 Feb 08	Change 5 Feb 08	Change end of 2007
Apranga	13.24	+ 12%	- 7%
City Service	11.92	0%	- 10%
Invalda	14.79	+ 4%	- 14%
Lietuvos Dujos	3.10	+ 1%	- 11%
Panevezio Statybos Trestas	12.40	+ 7%	- 18%
Pieno Zvaigzdes	5.00	0%	- 15%
Rytu Skirstomieji Tinklai	5.03	+ 2%	+ 11%
Rokiskio Suris	5.90	- 14%	- 25%
Siauliu Bankas	3.23	+ 4%	- 5%
Sanitas	26.50	- 4%	- 5%
Snaige	5.30	- 12%	- 24%
TEO LT	2.29	+ 5%	- 3%
Ukio Bankas	3.67	+ 16%	0%
Utenos Trikotazas	3.50	+ 3%	- 23%
Vilniaus Baldai	19.00	- 7%	- 14%
Vilkyskiu Pienine	5.45	- 7%	- 11%
OMX Vilnius index	488.99	+ 4%	- 5%
OMX Baltic Benchmark	618.92	+ 5%	- 10%

Source: The Vilnius stock exchange, OMX Vilnius.

OMX Vilnius index over the last three months



Note: OMX Vilnius index shows changes in all the prices of shares on the central market. Index value is assumed to be equal to 100 on 1 January 2000.

PRICES

Prices of selected goods and services in LTL

Food	Feb 08	Non-food	Feb 08
Milk, 1 l	2.29	Cigarettes, Marlboro, pack	4.99
Butter, 82%, 200g	3.49	Aspirin, Bayer, 100 tablets	19.95
Bread, loaf	3.29	Verslo Zinios, business daily	3.10
Beef, 1 kg	20.99	Photo film, Kodak, 24/200	11.89
Chicken, 1 kg	6.59	Taxi, per km	3.00
Tomatoes, 1 kg	4.69	Local phone call, 1 min.	0.12
Apples, 1 kg	2.89	Int'l phone call, 1 min., to EU	1.39
Bananas, 1 kg	4.89	Local letter, up to 20 g	1.35
Eggs, 10 pieces	4.19	Electricity, kWh	0.33
Sugar, 1 kg	3.09	Water, cb.m	4.12
Coffee, Jacobs, 250 g	5.99	Natural gas, cb.m	1.62
Beer, Carlsberg, 0.5 litre	2.58	Petrol 95, 1 litre, Statoil	3.59
Mineral water, Vichy, 0.5 litre	1.29	Diesel, 1 litre, Statoil	3.69

Note: prices are in Vilnius, for popular brands at popular shopping locations; rates are peak in Vilnius for households.

Source: news2biz LITHUANIA survey.

RETAIL TRADE

Relative retail trade performance

Period	Sep 07	Oct 07	Nov 07	Dec 07
Turnover in LTL m	2,801.9	3,049.1	2,891.2	3,251.0
Index 100 = previous month *	95.9	108.1	93.2	110.3
Index 100 = same month prev. yr *	112.4	114.7	111.9	108.2
Index 100 = previous month **	95.3	102.1	94.2	128.7
Index 100 = same month prev. yr **	112.0	112.1	109.3	107.4
Year	2004	2005	2006	2007
Turnover in LTL m	19,613	22,911	26,796	32,516
Index 100 = previous year	109.3	115.2	114.3	117.2

*) total; **) without motor vehicles and motorcycles

Note: Retail trade turnover is shown above at current prices whereas retail trade development indexes are calculated by the statistical office at constant (1995) prices only.

Source: Lithuania's statistical office, Lietuvos Statistikos Departamentas.

INDUSTRIAL OUTPUT

On monthly basis	Jun 2007	Jul 2007	Aug 2007	Sep 2007	Oct 2007	Nov 2007	Dec 2007
Index 100 = Previous month	100.8	102.4	101.5	89.4	103.5	97.1	98.4
Index 100 = Same month previous year	104.7	112.2	113.7	99.2	106.1	103.2	107.2
Year	2002	2003	2004	2005	2006	2007	
Index 100 = Previous year	103.1	116.1	110.8	107.1	107.3	104.0	

Note: Industrial output equals industrial production, adjusted for seasonal factors.

Source: Lithuania's statistical office, Lietuvos Statistikos Departamentas.

PRODUCER PRICES

On monthly basis	Jul 2007	Aug 2007	Sep 2007	Oct 2007	Nov 2007	Dec 2007	Jan 2008
Index 100 = Previous month	101.0	100.6	101.1	102.1	102.9	101.8	101.2
Index 100 = Same month previous year	104.1	104.0	108.1	113.4	117.2	119.4	120.3
Year (annual average)	2002	2003	2004	2005	2006	2007	
Index 100 = Previous year	97.2	99.5	106.0	111.5	107.4	107.0	

Note: Producer prices are prices of industrial goods excluding VAT and other taxes.

Source: Lithuania's statistical office, Lietuvos Statistikos Departamentas.

G D P

Period	Real growth year on year	GDP in LTL m at current prices	GDP per capita in USD
4th quarter 2007*	+7.9%	27,160	3,379
3rd quarter 2007*	+10.8%	26,119	3,078
2nd quarter 2007*	+8.0%	23,685	2,736
1st quarter 2007 *	+8.1%	19,788	2,220
4th quarter 2006*	+7.4%	22,789	2,507
3rd quarter 2006*	+6.3%	22,103	2,406
2nd quarter 2006*	+9.1%	20,080	2,150
1st quarter 2006*	+8.2%	19,933	1,738
4th quarter 2005	+9.6%	19,894	2,009
3rd quarter 2005	+8.8%	19,143	1,982
2nd quarter 2005	+7.4%	17,609	1,884
1st quarter 2005	+5.6%	14,735	1,642
4th quarter 2004	+7.7%	17,221	1,877
3rd quarter 2004	+5.4%	16,552	1,704
2nd quarter 2004	+8.4%	15,498	1,574
2009 **	+6.0%	n/a	n/a
2008 **	+6.5%	n/a	n/a
2007 *	+8.7%	96,676	11,348
2006 *	+7.7%	81,905	8,771
2005	+7.9%	71,380	7,535

*) Preliminary data or estimate, **) forecast by SEB Vilniaus Bankas from December

Source: Lithuania's statistical office, Lietuvos Statistikos Departamentas.

CURRENT ACCOUNT

excerpts shown in LTL m	2004	2005	2006	2 Q 2007	3 Q 2007
Trade balance	-6,631	-8,145	-11,414	-3,272	-2,560
Services	2,263	2,926	2,980	543	777
Direct investments, net	1,421	1,893	4,159	750	1,039
Current account balance	-4,812	-5,115	-8,884	-3,823	-3,215
Current account deficit in % of GDP	-7.7%	-7.2%	-10.8%	-16.1%	-12.3%

Source: Lithuania's central bank, Lietuvos Bankas.

FOREIGN DIRECT INVESTMENT

Net and stock in LTL m	2005	2006	3 Q 2006	4 Q 2006	1 Q 2007	2 Q 2007	3 Q 2007
Foreign direct investment, net *	1,893	4,199	665	2,822	1,516	750	1,039
Foreign direct investment stock	23,896	28,925	25,200	28,925	31,711	32,686	34,250

*) Foreign direct investments in Lithuania minus Lithuanian investments abroad.

Source: Lithuania's central bank, Lietuvos Bankas.

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