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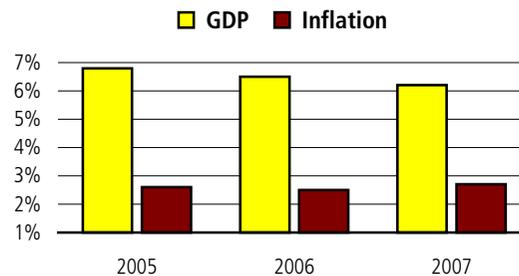
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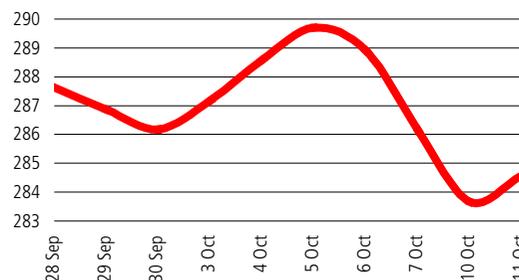
Slower growth but stable prices SEB's forecast for Lithuania's GDP and CPI



MACROECONOMY Lithuania should remain the slowest-moving member of the three-some Baltic sisterhood in short term, according to a forecast by Swedish SEB. However, the stable and low inflation should also help the country to lead the pack in the euro introduction race.

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LTL versus 100 USD



Austrian ECE debuts in Lithuania with LTL 1bn project

HOUSING In what is going to be the biggest single new housing project in Lithuania to date, two Lithuanian partners teamed up with Austrian ECE to develop by 2008 a whole new residential district in Vilnius for LTL 1bn.

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Government works out practical euro introduction plan

EURO Confident about Lithuania's fast-track euro introduction prospects, the government has adopted a plan on how the changeover will take place. *news2biz* analyses and spells out consequences for you - in relation to rates, prices, inflation etc.

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Looking for subcontractors in the Baltics?

Finding a new subcontractor for your business in the Baltics has never been easier. The countries offer capable and competitive prices within wooden products, electronics, metal, plastics and textiles at a fraction of the labour cost rate in Western Europe. Enjoy the new advantages of Baltic EU membership: Contact us and we will supply you with the information needed for entering the Baltic markets.

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MANUFACTURING

Audimas sportswear maker opens sewing unit in Prienai

GOING INTO REGIONS Audimas, the biggest sportswear producer in the Baltics, has opened up a new sewing plant in Prienai, 30 km south of the company's base in Kaunas.

The plant now employs over 100 staff, bringing the company's total to nearly 800. In Prienai, Audimas has moved into a textile plant deserted by British **E.Walters** (see no 83 page 2) which has now relocated to China.

"We still need to grow to satisfy demand for both own-brand production and subcontracting orders," says Rimvydas Povilaitis, board chairman of Audimas, to *news2biz* LITHUANIA.

"Next year we will raise our employee count in Prienai, Kaunas, and also our second regional unit in Jonava [northeast of Kaunas, *ed.*]"

Presently, a quarter of Audimas' sales comes from own namesake brand, the rest is subcontracting for major international brands. The company is now moving from traditional to laser-based sewing technologies (see no 186 page 2) that should be employed in mass production from 2006-2007.

In H1 2005, the management-controlled Audimas raised sales by 23%

to LTL 39m but expects a 10% full-year growth to LTL 90m.

We have talked to
Rimvydas Povilaitis Rimvydas@audimas.lt

Chipboard plant project granted LTL 100m loan

NEW PLANT Two Lithuanian banks have agreed to bankroll Lithuania's biggest to date furniture industry project.

The construction of a new chipboard plant in Kazlu Ruda, 40 km southwest of Kaunas, will be co-funded by a LTL 100m syndicate loan built by **SEB Vilniaus Bankas** (70%) and **Nord/LB Lietuva** (30%).

The seven-year loan will roughly cover half of the project's total costs. **Giriu Bizonas**, the furniture maker behind the new plant, has already secured LTL 46m of EU co-funding. The remaining money will come via Giriu Bizonas itself.

The chipboard plant, thought to end Lithuanian furniture industry's worries over the lack of raw materials, will open in the second half of 2006 to create 100 direct, and another 750 indirect jobs.

Giriu Bizonas is part of the **Vakaru Medienos Grupe** furniture and timber group. Earlier, Lithuanian **Vilniaus Baldai** acquired a 25% stake in Bizonas to participate in the chipboard project.

Producers brush off oil price impact

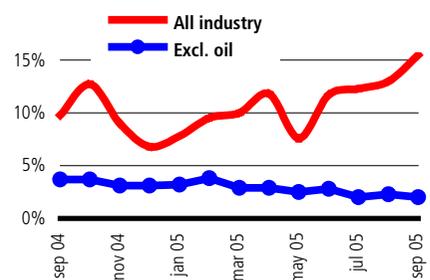
INDUSTRY The renewed advance of oil prices on the global market have pushed Lithuania's producer price index to a 12-month high in September.

Producer prices advanced by a yearly 15.5% in September after having accelerated for a fourth running month.

But no worry: producer prices for industry except oil products continued to head down and landed on a 2.0% growth, thus repeating the lowest 12-month advance reported in July 2005.

This means that no matter how much oil products have appreciated (by 57% from September 2004, and by 78% since end-2004), Lithuanian producers have managed to tap their reserves to keep their final costs low and attractive.

Producer price yearly change in % last 12 months



Source: Lietuvos Statistikos Departamentas

The PPI reading for locally sold output added a yearly 7.5% in September (3.0% without oil). Meanwhile, export

prices (where oil is a much heavier ingredient) jumped by 22% (a meagre 0.7% without oil).

IN BRIEF

- **Freda**, one of the numerous Lithuanian suppliers of furniture and household goods for Swedish **Ikea** retailer, has voiced the idea of setting up a national logistics centre to jointly service the furniture retail giant. This would ensure more flexible deliveries and cut delivery costs.

FINANCE

SEB puts Lithuanian CEO in charge of eastern expansion

BANKING The Swedish **SEB** bank has found a new job for its Lithuanian bank **SEB Vilniaus Bankas'** CEO: to lead the group's business in Ukraine and Russia.

Julius Niedvaras, 53, has headed Vilniaus since its foundation in 1990 to turn the country's first post-Soviet private bank into the country's biggest financial institution. As of 1 January 2006 he will work in SEB's Eastern European branch.

In Vilnius Mr Niedvaras will be replaced by Audrius Ziugzda, 34, now in charge of SEB VB's retail banking business.

Mr Niedvaras' appointment for the job could only be expected: a year ago SEB VB acquired a bank in Ukraine (see

no 176 page 4) to provide banking services to SEB's Scandinavian and Baltic customers.

"Competence, knowledge and experience – these are the main reasons behind our choice in favour of Mr Niedvaras," says Mats Kjaer, head of the Swedish banking group's Eastern European division, to news2biz LITHUANIA.

"He has built a strong bank in the post-Soviet Lithuanian environment, knows the Russian language and also some old connections in this market – all this should help him to build a sound business for us in the CIS region."

How Baltic banks help Nordic parents penetrate CIS market

Banks and their CIS activity

SEB Estonian Uhispank bank ventures into Russia in 1997 (not yet under SEB ownership) to set up a leasing company in Saint Petersburg. In 2004, SEB's Lithuanian bank purchases a peer in Ukraine. In 2005, SEB Vilniaus Bankas CEO appointed to lead SEB's expansion in the CIS, with a banking licence expected in mid-2006.

Swedbank The group's Estonian bank Hansabank buys a bank in Moscow in 2004. In 2005, Lithuanian Hansabankas sets up leasing company for the group in Russia's Kaliningrad region (no 181 page 4)

Nord/LB The German banking group's Lithuanian leasing company starts offering leasing services in the Kaliningrad region (no 193 page 4).

Sampo In Oct 2005, the Finnish finance group appoints its Latvian bank's board chairman (with previous experience at SEB) to lead the group's entry into Russia where banking services are to be launched by end-2006.

Source: banks, media

Through its Estonian bank **SEB Eesti Uhispank** the Swedish bank already owns a leasing company in Saint Petersburg.

"In Moscow we have a rep office and have now applied for a banking licence that we expect to receive in mid-2006," says Mr Kjaer.

Apart from the Baltic countries and Ukraine, SEB has a bank in Poland. With a 34% of the market, SEB VB is the strongest local bank within SEB's Eastern European business.

We have talked to Mats Kjaer mats.kjaer@seb.se

Bank sees no bottom for housing loan issuance

HOUSING The growth of demand for housing in Lithuania will be one of the fastest in Eastern Europe for another 10-15 years.

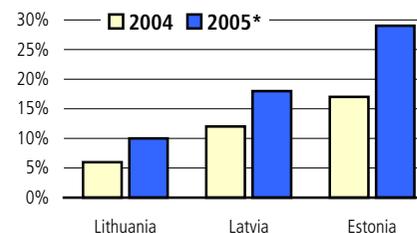
Such is the optimistic forecast of **Hansabankas**, the biggest local bank by issued mortgage credits, announced in the time when residential property prices continue rising by adding a few percentage points almost every month.

Hansabankas says even in those European countries where demand for housing matches supply volumes, housing prices normally add ten percentage points annually.

Of course, when someone speaks of the Lithuanian housing market, it is almost always about Vilnius – by far the

most dynamic location in this respect. In the Lithuanian capital, housing appreciated by 20-30% for newly built and by 25-40% for old-construction flats in H1 2005 – faster than in Riga (especially for old construction), and incomparably faster than in Tallinn (5% for both types of housing).

For starters housing credits, as % of GDP



*) expected
Source: Hansabankas

Local banks get thumbs down from customers

CUSTOMER SATISFACTION Lithuanian banks can boast the most satisfied bank customers in the Baltics – in spite of a dramatic satisfaction rate fall this year, a regional industry survey has found.

After a drop of six points to a customer satisfaction rate of 79 (on the 0-100 scale, the higher the figure, the better) in 2005, Lithuania is still ahead of Latvia (72.6) and Estonia (73.5), according to a study by **EPSI Rating**.

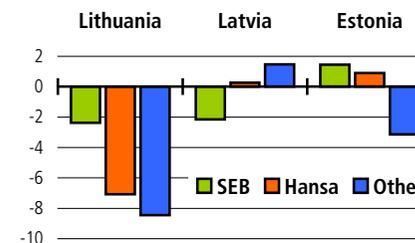
Customer loyalty is at its Baltic highest in Estonia which stole the title from

Lithuania after the latter's marked fall. In Estonia and Latvia, bank loyalty is on a slight rise.

Among major banks, Swedish **SEB** holds sway in Lithuania (also in Latvia) but is second to **Swedbank's Hansabank** in Estonia (just like Hansa is the runner-up in Lithuania and Latvia). In Lithuania, Hansa is even outsmarted by smaller competitors in certain areas.

Whom do they trust then?

Bank customer loyalty index change



Source: EPSI Rating

Unfortunately, the study does not reveal the reasons why Lithuanians do not trust their banks as much as they did a year ago.

To be fair, commercial banks have never been Lithuanians' best friends: a September public trust survey placed them the ninth among 20 public institutions (with the central bank, Church, and military defence system holding top positions) – in spite of a booming mortgage and consumer credit market.

Further info: www.epsi-baltics.org

Avestis private equity firm eyes first deal

PRIVATE EQUITY Lithuanian businessmen are discovering the delights of private equity investment: a new player in the field is about to conclude its first deal.

Lithuanian **Avestis** is now close to acquiring **Klaipėdos Kartonai**, the Baltic region's only raw material supplier for corrugated cardboard makers.

Avestis was set up in June by Sarunas Kliokys whose former jobs include top positions in the biggest drug store chain, Lithuania's oil refinery, and biggest mobile telecom.

The shareholder structure now also includes **Prime Partners**, a US offshore linked to Lithuanian **Prime Investment** (an investment firm), Arvydas Avulis (head and owner of the **Hanner** property developer), Marius Dvareckas (from Prime Investment), and a London banker.

According to media reports Avestis' joint venture with **Sanitex**, Lithuania's biggest FMCG wholesaler, is offering LTL 10m for a 25% stake in Klaipėdos Kartonai and will later seek full control of the company.

"We cannot comment on the deal before it is completed," says Mr Dvareckas, Avestis' CEO, to *news2biz* LITHUANIA. "But our general interest lies with

Lithuania's manufacturing companies that generate healthy cash flows."

Mr Dvareckas would not specify what other companies may be targeted next.

Klaipėdos Kartonai raised its H1 2005 sales by 20% to LTL 42m but sees a modest full-year growth of 5% to LTL 80m. Exports, mainly to Poland, Germany, Latvia and the Czech Rep. account for 70% of sales.

We have talked to

Marius Dvareckas marius@avestis.com

See also: Klaipėdos Kartonai gets ISO certificates, eyes EU aid (no 186 page 3)

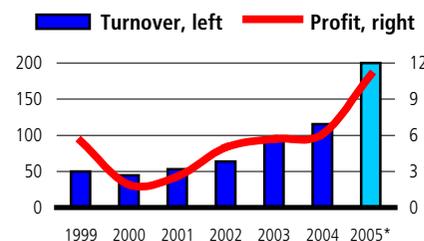
Apranga retailer moves onto Vilnius bourse's catwalk

STOCKS **Apranga**, the leading clothing retailer in the Baltics, will start trading its stock on the Vilnius bourse's main list as of 24 October.

Apranga will become the first ever retailer to make it onto the stock exchange's now eight-strong main list (which now features seven manufacturers and one telecom). It will also be the first new entry after the **Vilniaus Baldai** furniture maker was included into the list two years ago (see no 151 page 3).

The Apranga stock has gone from strength to strength in the past year, rising in value by 179% to LTL 33.85, as the company kept opening new own-brands and franchised stores throughout the Baltics but first of all in Lithuania and Latvia.

Apranga key figures in LTL m



Note: sales including VAT

*) plan, profit before taxes

Source: Vilnius stock exchange, Apranga

The company is controlled by the Lithuanian **MG Baltic** holding (52.5%), and investors represented by Estonian **Hansapank** (14.3%) as well as Swedish **SEB** (7.3%). The latter two represent, among others, foreign funds, including Swedish **East Capital** (see no 164 page 3, and no 179 page 4).

Inevitably, when on the main list, Apranga will be compared to the only other similar-profile stock on the Baltic stock list, Estonian **Baltika** (which is also involved in clothing manufacturing).

Baltika has a bigger number of stores (80 in six countries versus Apranga's 46) but a weaker retail clout (Jan-Sep 2005 sales: EUR 24m, +29% y/y versus Apranga's EUR 40m, +55%).

See also: Apranga to issue LTL 20m bond for regional expansion (no 190 page 8), Apranga ushers in Spanish Zara into Baltics (no 169 page 8)

IN BRIEF

- **Hansabankas**, Lithuania's second-biggest bank, will increase its share capital by LTL 84m to LTL

570m. The new share issue will be acquired by **Swedbank's** main Baltic banking vehicle, Estonian **Hansabank**, for LTL 169m (LTL 20 per LTL 10 face value share).

- The Polish-owned **PZU Lietuvas Gyvybes Draudimas** life insurance company will raise its authorized capital by LTL 5m to LTL 15m. The company hopes to finish the year with 4% of the market.

FOOD & AGRICULTURE

Lithuania mulls pig quota, Saerimner still hopeful

PIGS The grand plans of Danish investors to turn Lithuania into a paradise for pig-breeders could be derailed by the government.

A special governmental commission mulls setting a national pig-breeding quota that, according to preliminary estimates, could be set at 1.8m heads – as many as there were pigs in Soviet Lithuania, according to the Lithuanian ministry of environment. The present figure is 1.1m heads.

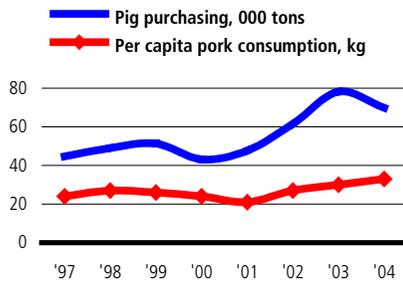
But why such a fuss? It seems to have been triggered by Danish-owned **Saerimner's** plans to invest LTL 40m (and seek EU co-funding from Lithuania's account) to build 11 pig farms in Lithuania to produce 150,000 pigs per year (see no 184 page 5).

These could be added to Saerimner's four existing farms which are to raise pig output from 75,000 heads in 2004 to 125,000 this year.

But Saerimner's CEO Claus Baltersen remains hopeful: "We have obtained the permits for building the new farms, so we have no problem there. Regarding the pig breeding quota, our sources say that there were 4m pigs in Lithuania at the end of the Soviet era."

"Of course we have to adhere to local norms, but I think it would be shame if Lithuania limits production at that level. Lithuania is an agricultural country – we can buy grain at very low prices, so also grain grower would welcome more pigs," says Mr Baltersen.

Fuller stys, fuller mouths Lithuania's pig industry statistics



Source: statistics departament LSD

Lithuania's environment protection ministry (involved due to popular fears that Saerimner's new farms will pollute surrounding areas and ruin country tourism perspectives) says it will not examine Saerimner's request to okay first two new farms – only all 11 at one go.

Saerimner has managed to pass the first hurdle of getting all permits from local authorities – according to media,

not always in the most transparent manner.

According to earlier forecasts by Lithuania's pig-breeders' association, sales of locally raised pigs should grow by 20% annually to reach 2m in 2012. That was predicted before Saerimner announced its plans – and Mr Baltersen left the association's council (though the company stayed) over the disagreement on the industry's development vision.

We have talked to
Claus Baltersen cb@saerimner.com

Viciunai readies pastry plant in Estonia for regional market

PASTRY The Lithuanian Viciunai food products group plans to invest LTL 12m by end-2005 to fully equip its new Estonian production unit, Viciunai Nordic, opened this June.

While Viciunai's main business is breaded fish and crab sticks, Viciunai Nordic is involved in frozen pastry products.

Eventually, the 4,000 sq.m plant near Tallinn should reach its design monthly output capacity of 600 tons, employing up to 90 staff. It is now producing pancakes sold on the Baltic and Nordic markets. Dumplings, pizzas and other pastry products should come online by year-end. 70% of the plant's output will go for export.

Together with the running fish processor Paljassaare Kalatoostus, in Estonia Viciunai employs a total of 400 staff.

Leading vodka makers unleash marketing war

VODKA WARS Lithuania's vodka market has become too small for the country's three recently privatised main players.

At the end of September, the market leader Stumbras accused Anyksciu Vynas (controlled by Stumbras' main rival Alita) of trying to piggy-back on the success of one of its brands.

The bone of contention is what is called 'original Lithuanian vodka' and which, due to its popularity, has a special status and quality requirements under the Lithuanian regulations.

Stumbras has filed a legal suit claiming that Anyksciu has copied Stumbras Lithuanian vodka's label and has departed from the vodka's production and quality requirements. Naturally, Anyksciu calls this slander.

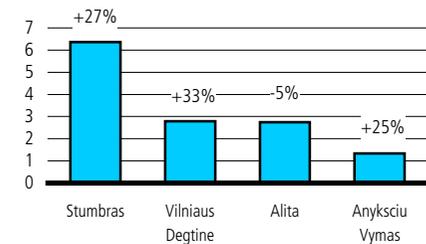
The court imposed an arrest on all Anyksciu's Lituania output, believed to stand at 12,000 litres.

Of course, Stumbras is only trying to defend its turf, not to police its competitors: Stumbras' Lithuanian vodka is the most popular vodka in the country.

The winners of the vodka war have so far been the printed media, running competing ads on whose vodkas are of better quality. This has triggered a simi-

lar reply from Vilnius Degtine, the country's fourth vodka maker, owned by French Belvedere.

Strong alcohol sales, in m litres H1 2005, y/y growth on columns



Source: Lithuania's food industry association LMP

Meat products lead non-EU food exports in Jan-Sep

FOOD TRADE Lithuania's non-EU food export in Jan-Sep 2005 did not change much in volume but a major reshuffling among product groups took place.

The country exported 77,500 tons of meat products outside the EU, down by 5% year on year.

The neighbouring Russia took the lion's share, accounting for nearly two thirds of meat exports, 74% of dairy, and 64% of fish. Other major export markets are Belarus, Ukraine, the US.

In general, third-country meat exports jumped seven-fold to 8,500 tons, dairy products advanced by 13% to 36,000 tons, while fish product export contracted to just 69% of the Jan-Sep 2004 level (33,000 tons).

69 Lithuanian food processors hold Russian export certificates – as many as in Latvia and Estonia put together.

IN BRIEF

- Russia lifted a ban on meat products transit via Lithuania to Russia and other CIS markets. The ban was imposed a few weeks ago after Lithuanian cold-storage companies breached transit procedures (see no 196 page 5).

PROPERTY & CONSTRUCTION

Lithuanian and Austrian partners to build LTL 1bn district

FLATS Why build a house or two when Lithuania's bottomless new housing market calls for more?

Lithuanian and Austrian partners are about to launch the development of a whole new residential district in Vilnius on the capital city's north-western limits. Worth LTL 1bn, the project safely outruns any similar projects implemented so far in the country.

The partners are Lithuanian **Ranga IV Investicijos** (part of the **Ranga IV** construction company) and **Hermis Capital** (private equity investor), as well as Austrian **ECE European City Estates**.

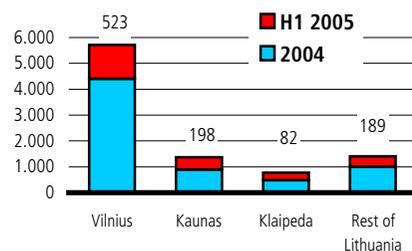
"The project is headed by Ranga IV Investicijos whose financial input will account for 50% of the total. The two other partners will chip in at 25% each," says

Dita Purliene, marketing director at Ranga IV, to *news2biz* LITHUANIA.

"Lithuania is a new and promising market to us with a high potential and decent regulatory environment," says Dejan Rupnik, CEO of ECE, to *news2biz* LITHUANIA. "We are starting from residential construction here but will definitely explore the possibilities in other sectors in the future."

When completed, the new district will boast a total of 0.3m sq.m of property area on 99 ha of land. Of these, a third will be devoted to housing; another third for shopping, entertainment, and education facilities; the rest will house infrastructure.

New flat construction by regions total living area in '000 sq.m on columns



Source: the statistics office LSD

The first 2,000 flats will be built by the end of 2006 at a cost of LTL 500m. The whole district with some 4,000 flats should be completed by mid-2008.

"4,000 flats is close to what the whole Vilnius' market adds annually now, so the new district's demand-

cutting impact should be quite visible," Ms Purliene says. Flats will sell for around LTL 3,400 per sq.m.

ECE's main business in Eastern Europe is office properties (in Prague, Budapest, and Tallinn). In Estonia, ECE also holds a controlling stake in **Narva Elektrivork**, the power grid network around the country's third-largest city Narva.

We have talked to

Dita Purliene d.purliene@rangaiv.lt

Dejan Rupnik Rupnik@ece.at

Norwegian developer rides Lithuania's property boom

FLATS Sektor, previously known as the property division of Norway's VW distributor and retailer **Moller Gruppen**, is taking long strides into Lithuania's apartment market.

The Norwegians are willing to invest LTL 100-110m into building 300 apartments on a 0.8 hectare lot just off Vilnius' new City on the right bank of the Neris River.

The development will be in 5-6 stories with a built-up area of 4,000 sq.m.

"We will go for apartments from 40 to 70 sq.m, preferably with two bedrooms, which is what buyers prefer according to the information we have," says Kjetil Hanssen, manager of Sektor in Lithuania, to *news2biz* LITHUANIA.

Selling prices for the apartments, that are to be ready for the market in 2.5 years, will range from LTL 3,500 to LTL 6.500 per sq.m.

On a more luxurious note, Mr Hansen is waiting to put the bulldozers to work any day now in order to build a 60-apartment building in Vilnius' Old Town. The average size of apartments will be 90-100 sq.m, but the penthouse deck will be sold on luxury chunks of 300 sq.m. Here, prices range from LTL 7,500 to LTL 11,500 per sq.m. This project is carried out in co-operation with a compatriot, **M2 Invest** (see more on M2 in no 196 page 7).

The contract for this development has just been awarded to the Lithuanian construction company **Constructus**.

Sektor, created in 2002 following a split between the two owning families in Moller Gruppen, has assets of NOK 4.1bn and total rented area of 300,000 sq.m, mostly shopping centres in Norway.

We have talked to

Kjetil Hanssen Kjetil@sektor.lt

Jysk operator starts up as full-scale retail developer

RETAIL SPACE Rumpfatalagerinn, the Icelandic operator of the Danish household goods provider *Jysk* in the Baltics, Iceland and Canada, is firing up to be a fulltime retail developer.

First of all, they will take over a 16,000 sq.m shopping centre built by Lithuania's **Hanner** in Klaipeda (see page 8).

"For the moment Jysk and the Finnish-Swedish **Rimi Baltic** food retailer will be anchor tenants, but another anchor is on the way, but I cannot disclose the name right now. Otherwise, we have signed contracts for 70% of the retail area," says Nils Stora, property manager at Rumpfatalagerinn, to *news2biz* LITHUANIA.

The centre is solely focusing on retail, with one or two restaurants to cater for hungry consumers.

Otherwise the Icelanders have purchased lots in Kaunas and Siauliai also for the construction of retail property.

"In Kaunas we have started the project leading up to a building and zoning permit, while the plans in Siauliai are not quite as developed," says Mr Stora.

We have talked to
Nils Stora nils@jysk.is

Litigation delays Lithuanian hotel plans in Riga

INHOSPITALITY With a marketing campaign well underway and thousands of advance bookings under its belt, Lithuanian **Europa Group Hotels** has dropped its 3-star hotel project in Latvia's capital Riga.

"In plain language we would call it racketeering: our site neighbours in Riga demand huge compensation from us for the right to build a hotel there, and have even won the first court battle," says Martynas Kaciulis, CEO of the

Lithuanian hotel group, to *news2biz* LITHUANIA. "But we have started building it with all relevant permits in hand!"

Mr Kaciulis says they have decided to waste no time and look for a partner in Riga willing to build and manage another tourist-class hotel.

"The litigation will take a while – even the city of Riga has sued our site neighbours for fighting against the city's decision to allow us to develop a hotel. However, we will be willing to return to the project if we eventually win the case," ads Mr Kaciulis.

"On the other hand, it is not that Latvia is something special – we've seen similar litigation cases in Lithuania as well."

The delayed 80-room *Europa City Riga* was to be opened in March 2006 after a LTL 17m investment by the Lithuanians and their franchising partner in Latvia **N un B**.

"Advance bookings amounted to around 30% of the hotel's annual occupancy rate," complaints Mr Kaciulis.

The setback, however, will not ruin Europa Group's plans to debut in Riga with a LTL 24m, 60-room, 4-star *Europa Royale Riga*, scheduled for opening this December.

The hotel group's next opening will be in 2006 in the Druskininkai spa resort (fourth Europa location in Lithuania). Future expansion plans include a

few Eastern European countries (see no 187 page 7).

We have talked to
Martynas Kaciulis dir@groupeuropa.com

Bakery plans entertainment centre in Panevezys

ENTERTAINMENT After a shopping marathon, it is time to have some fun. And please, in downtown.

No later had the smell of fresh paint faded away at the newly opened the LTL 60m shopping and entertainment centre *Babilonas* in Lithuania's fifth biggest city Panevezys (see no 195 page 8), than a local investor is pushing through with plans to build own entertainment facility.

The difference between the two is their locations: *Babilonas* is situated on Panevezys western outskirts (close to a national-scale motorway) and exerts its pulling power to the city as well as to the whole surrounding region, whereas the planned facility would be located in downtown Panevezys.

The project developer, **Jungtinis Duonos Centras**, plans to turn a 125-year-old former cannery building into a 7,800 sq.m facility with a 3-4-star hotel, eating outlets, cinema, club, and a conference centre – the latter is in rather scarce supply in the city now.

The whole undertaking is to cost 'a few dozen of million of Litas'. It should open in spring 2007.

The company's present main line of business is bread baking.

The Panevezys city municipality also mulls building a EUR 29m sports arena in the city, partly financed by EU funds. The plan could be ruined by the difficulties Lithuania's other major municipalities are facing in building and maintaining such public facilities (see no 194 page 9).

IN BRIEF

- Construction prices in Lithuania grew by a yearly 6.6% in August and by 5.2% since the beginning of the year. The price growth in residential and commercial construction exceeded the average.

RETAIL & SERVICE

Lithuanian, US partners eye Baltic merchandising market

MERCHANDISING If you are not quite content with the speed your goods are moving in the Baltic retail market, some help is forthcoming.

Lithuanian **Rinkos Skatinimo Sistemos** (RSS), one of the first firms to offer merchandising services (in-store product samplings, 'mystery shopper', proper display of goods on shelves etc) for branded products on the market, is to set up a JV with the US counterpart **Spar Group**.

"The partnership will help us to start offering our services in the other two

Baltic countries from next year via rep offices," says Irena Kairiene, general manager of RSS, to *news2biz* LITHUANIA.

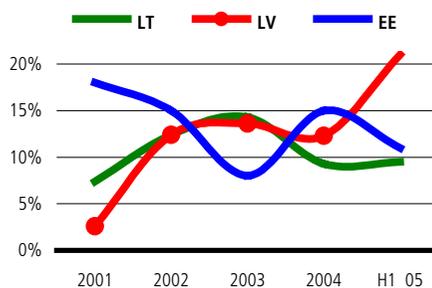
Spar RSS Baltic, to be 51% owned by the US company, will introduce new services and products not offered in the Baltic market before. The Lithuanian partner's input will be the knowledge of the local retail market.

That should be good news to some of RSS' present partners who already operate throughout the region, like Norwegian **Statoil** (motor oils) or Swedish **Tele2** (mobile telecom).

"In Lithuania, we have passed the initial phase when merchandising services were viewed with some suspicion and also as something rather needless. At first we were literally creating the demand for our services, now customers themselves come knocking on our door. Latvia is moving in the same direction but in Estonia we see more work to be done," explains Ms Kairiene.

Rolling

annual retail turnover change in %



Source: national statistics offices

The Lithuanian joint venture will be the fourth European location for the US company after Greece, Romania, and Turkey. Spar is also present in Canada, South Africa, India, China, Japan, and Australia.

"Our main goals are to establish a worldwide business based on using the technology, proven in the US, in all developing markets and eventually the developed markets such as Western Europe," says Robert Brown, CEO of Spar Group, to *news2biz* LITHUANIA.

Spar Group's losses deepened to USD 12m last year from USD 0.5m in 2003 as net revenues slimmed by 21% to USD 51m "due to a loss of a major client," according to Mr Brown. Meanwhile, Spar's international sales nearly doubled in H1 2005 to USD 7m.

In September 2004, Spar Group debuted on the Nasdaq SmallCap Market.

Lithuanian RSS nearly tripled sales to LTL 1m last year and plans a 40% growth this year.

We have talked to

Irena Kairiene irena@rssis.lt
Robert Brown rbrown@sparinc.com

Two big retail centres to open in Klaipeda by year-end

RETAIL This December, the retail market of Lithuania's port city of Klaipeda will make a major jump forward by witnessing the opening of two big retail properties.

On 1 December, the retail market will expand by another 16,000 sq.m (net area) built at one of the city's main crossroads.

The anchor tenant will be the Nordic-owned **Rimi Baltic's** Rimi Hypermarket (the chain's fifth hypermarket in Lithuania) which will occupy 4,000 sq.m.

The second biggest inmate will be the Danish-owned **Jysk** household goods chain on 2,500 sq.m, for which it will be the first outlet in the western part of Lithuania (see no 174 page 8).

The shopping and entertainment centre will all in all house 38 shops plus a restaurant, beauty parlour and a gym.

The property is being developed by Lithuanian **Hanner** which earlier said the project will be worth LTL 40m. The shopping centre will be later sold to Jysk (see a separate story on page 6).

Akropolis for everyone

A much, much bigger opening is scheduled for the end of December when the market leader **VP Market** will open a LTL 200m, 54,000 sq.m (net) *Akropolis* shopping centre.

Naturally, Akropolis' main tenant will be VP Market's *Hyper Maxima* (13,600 sq.m), surrounded by another 160 stores, eating and entertainment outlets, including a 1,400 sq.m ice arena, a bowling club (biggest in the Baltics), and Klaipeda's first multiplex cinema.

"100% of the area is already rented out," says Donatas Vilimas, marketing

director at the **Vilnius Akropolis** property management company behind the project, to *news2biz* LITHUANIA.

"Like in Vilnius, we plan to have a separate adjacent building for the *Ermitazas* DIY store [see no 179 page 8, *ed.*], but not earlier than next year."

8m shoppers are expected to visit the Klaipeda Akropolis annually, compared to 11m boasted by the first and so far only Akropolis centre in Vilnius.

Maximum retail area rent rates, LTL per sq.m per month

City	Location	Rate
Vilnius	Old Town	240
	Centre, ground floor	220
	Centre, other floors	120
Kaunas	Old Town	50
	Centre, ground floor	130
	Centre, other floors	25
Klaipeda	Centre, ground floor	100
	Centre, other floors	60
Siauliai	Centre, ground floor	80
	Centre, other floors	45
Panevezys	Centre, ground floor	100
	Centre, other floors	30

Source: Ober-Haus

The next Akropolis, costing LTL 275m, should open in Kaunas in autumn 2006.

We have talked to

Donatas Vilimas donatas.vilimas@akropolis.lt

See also: Akropolis operator mulls stock exchange listing (no 195 page 3), banks build LTL 640m syndicate loan for Akropolis (no 188 page 5), Lithuania, Latvia expand retail area, still lag Estonia (no 168 page 7)

Norfos retailer to launch foreign expansion in 2006

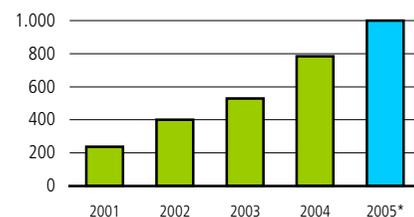
RETAIL Following in the footsteps of its bigger competitors, Lithuania's third biggest food retailer **Norfos Mazmena** will venture into foreign markets next year.

The Lithuanian-owned company took the occasion of the opening of its 100th *Norfa* store in Lithuania to announce that the year 2006 will see the end of the chain's rapid expansion at home and first moves into a foreign territory, starting from Latvia, Estonia, and scouting Russia and Ukraine.

"We are now collecting information on the market, evaluating our chances and entry strategy," says Darius Ryliskis, Norfa's spokesperson, to *news2biz* LITHUANIA. "The decision on how we will map out our Baltic expansion will come no sooner than in six month."

Growing steadily

Sales of Norfos Mazmena, in LTL m



*) plan

Source: Norfos Mazmena

And it is not completely new, either: back in 2002 Norfa opened its first store

in Moscow (see no 137 page 6). The move, however, proved premature, and the store was later sold.

The Norfa chain plans to grow to 120 locations by the end of 2005 from 87 it finished last year with. The chain's gross retail area now totals 150,000 sq.m.

Both of Norfa's bigger competitors at home – the *VP Market* and *Iki* chains – are already present abroad: VP Market in Latvia, Estonia, Bulgaria, and Romania (130, total 315), and Iki in Latvia (3, total 142).

The chain expects to generate over LTL 1bn in sales this year, up from LTL 784m in 2004 when it grew by a respectable 48%.

We have talked to

Darius Ryliskis darius@vri.lt

Retailers maintain high growth pace in August

RETAIL In August, Lithuania's retail sector maintained the yearly turnover growth tempo it achieved in July.

The sector reported a 19% jump to just above LTL 2bn. The motor sector (cars, repairs, fuel) enjoyed a 26% rise, while all sector minus motor reported a respectful 15%.

In January-August, the annual growth rate stood at 12% to LTL 14.2bn, the statistics office LSD says.

Reporting one of the few recent instances of growth for small companies, retailers with fewer than 10 staff lifted

sales by 4%, those with 10 to 49 employees enjoyed a 17% rise. Big fish (50 staff and above) did not surprise with a 20% growth.

The restaurant, hotel, and public catering sector pushed up sales by 23% to LTL 485m in January-August.

As analysts of the **NORD/LB Lietuva** bank have noted, at least part of recent gains in retail is thanks to the diminishing share of shadow economy in the sector, courtesy of Lithuania's tax inspectors.

Swedenhouse becomes Swedish Chamber of Commerce

ORGANISATIONS Swedenhouse, the non profit business assistance organisation which was inaugurated in Vilnius in February, has decided to change name to *Swedish Chamber of Commerce - Swedenhouse*.

"Local businesses have called upon us to be clearer about what we do also in our choice of name. Even Swedish chamber of commerce in Latvia and Estonia have been calling upon us to change our name," says Jan Hansson, chairman of the board of Swedenhouse, which remains the official name until the new name and statutes have been registered with the Lithuanian authorities.

Mr Hansson underlines that in addition to the name, nothing else changes in the organisation and the scope of

Swedenhouse. The office is staffed by a Swedish-speaking Lithuanian manager.

"We represent Swedish business in Lithuania, but we also work with Swedish authorities and local governments. Our funding is based on members' fees and on clients taking advantage of our services," says Mr Hansson.

Swedenhouse, soon to be Swedish Chamber of Commerce - Swedenhouse, has app 40 members.

We have talked to

Jan Hansson jan.hansson@swedenhouse.lt

Further info: www.swedenhouse.lt

IN BRIEF

- The Latvian-Swedish **Baltic Cosmetic Holding** is in talks to acquire an unnamed hairdresser chain in Lithuania. Last year BCH bought Lithuania's biggest cosmetics chain Sarma (see no 178 page 8).
- Estonia's major furniture maker **Viisnurk** is mulling opening a *Skano* furniture and life-style store in Vilnius, following a successful debut in Tallinn and an upcoming opening in Riga.

IT & MEDIA

US Bentley acquires software rights from Alna

IT Lithuania's attempts to realise its much talked about software development potential received a boost through a major (by local standards) software rights sale deal.

Alna Software, part of the **Alna IT** group, has sold for LTL 1m the rights for

seven software products to US **Bentley Systems**.

Bentley specialises in supplying software solutions to mostly engineering companies, turning over around USD 300m annually. Alna's products will be integrated into Bentley's existing document management suites.

Both companies have cooperated since 1997. In 2002, the two signed a four-year deal to allow Alna retain its name on finished products distributed via Bentley's sales channels (see no 132 page 7).

The cooperation is expected to generate LTL 4m in sales this year – a quarter of Alna Software's expected turnover.

See also: Lithuania's IT industry launches 'outsource to Lithuania' campaign (no 163 page 9)

Sonex restructures IT business in Latvia

IT The Lithuanian **Sonex** IT group has expanded its presence in Latvia by setting up a business management solutions firm.

Latvian **Softex Sonex Systems** (SSS) is owned by one of the group's Lithuanian companies, **Sonex Siste-mos**. The name Softex has been borrowed from Sonex's existing Latvian company **Softex Latvija**.

"Essentially, we are restructuring our Latvian business so that it corresponds to our Lithuanian structure," says Arvy-

das Balcius, Sonex Holding's spokesperson, to *news2biz* LITHUANIA.

SSS employs 11 people from Softex Latvija who were dealing with the business solutions sector in their previous firm. The latter is now responsible only for software development.

"Ideas and experience move more quickly between two specialised firms, creating a sound foundation for fast growth," explains the move Mr Balcius. "Besides, we need to offer a set of services similar in quality to international clients who operate in different countries."

In Riga, the Lithuanian holding also owns **Sonex Riga**, involved in IT infrastructure services.

Sonex Holding turned over LTL 231m last year. The Latvian branch accounted for 12% of the total. The group is also present in Estonia, Russia, and Belarus.

We have talked to

Arvydas Balcius Arvydas.balcius@sonex.lt

Finnish Alma Media launches City24 property ads portal

REALTY PORTAL Sticking to its promise (see no 186 page 6), Finnish **Alma Media Interactive** in October launched its *City24.lt* portal for classified property advertising.

The company has only one aim – to become the market leader in the first year of operations, which means that it

will have to outsmart 20-odd local rivals.

That looks quite achievable – in Estonia, from where the Finns started the Baltic City24 business, the portal claimed the title in six months, in Latvia it took even less – four months. The Lithuanian unit already claims deals with 30 local property brokers.

In Lithuania, Alma Media will also launch a national free-of-charge property classifieds monthly.

IN BRIEF

- Lithuanian **Elsis** has landed a LTL 7m deal to supply radio stations and antennas for the Lithuanian army.

- Lithuanian **Senukai**, a group of companies involved in construction and DIY retail, acquired **Ziniu Radijas**, the only news-only radio station in the country, from an American-Lithuanian media entrepreneur. The latter earlier also owned the **Baltijos TV** channel, now controlled by the **Achema** industrial holding.

- Lithuania's print media market has welcomed another localised version of a foreign magazine, German **Axel Springer's** *Auto Bild*. Like the German publisher's first localised Lithuanian magazine, *Computer Bild*, the car bi-weekly is published by the **Veidas** publishing house.

FAIRS

Infobalt

Main annual ITT industry event

Latest data (2004): area 11,000 sq.m (first fall since 2000), 184 participants, 56,000 visitors

Date: 27-29 October 2005, Vilnius

Organizer: Infobalt assoc., Litexpo, Visus Plenus

Contact: Kastytis Balciunas, kastytis@visusplenus.lt
phone: +370 5 213 63 26

TRANSPORT

Air Lithuania expands intra-EU route network

AIR TRAVEL Lithuania's regional airline **Air Lithuania** has expanded its intra-EU route network to include the Netherlands.

As of 17 October, the airline will extend its daily Palanga-Hamburg service to Eindhoven, 100 km from Amsterdam. The Hamburg-Eindhoven link will also be serviced by a separate daily flight.

Besides, under a deal with the German budget airline **Deutsche BA**, the Lithuanian carrier will connect Hamburg with Munich, Stuttgart, and Nürnberg via daily flights.

Until now the Kaunas-based Lithuanian-owned carrier operated Oslo-Gdansk and Billund-Warsaw routes (see no 187 page 10).

The airline owns three ATR 42-300 460-seaters. From Kaunas it flies to Oslo, Billund, and Hamburg – all via Lithuania's seaside resort Palanga.

In January-September 2005, the company increased its passenger volume by 11% to 43,000. Sales jumped by 33% to LTL 40m in 2004.

LAL demands fairer treatment

Lithuania's freshly privatised national flag carrier **LAL** is demanding an equal treatment for all airlines in the country.

The company is expecting an answer from the transport ministry on why the Irish **Ryanair** no-frills' newly opened Kaunas-London route is being subsidised by LTL 0.4m per year.

Ryanair has promised to carry 100,000 passengers on the route – just above LAL's annual result on the Vilnius-London link last year.

See also: Amber Air starts competition for SAS from Palanga (no 192 page 12)

Car dealers raise pressure to reclaim VAT exemption

NEW CAR SALES Lithuania's car dealers have found a solid partner in their so far fruitless struggle with the government to scrap VAT from corporate passenger car purchases.

The country's car dealers' association LAA says it has teamed up with two influential business lobbies – the industrialists' and business employers' confederations LPK and LVDK to try once again to convince the government to remove this legal obstacle.

"We now that some Lithuanian companies operating in Latvia buy and register new passenger cars VAT-free in Latvia but drive them in Lithuania," says Lukas Vosylius, head of LAA, to *news2biz* LITHUANIA.

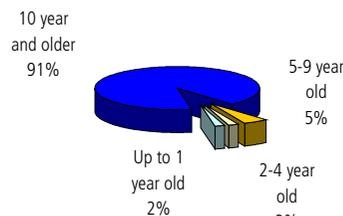
Lithuania introduced VAT on corporate passenger cars in mid-2002 "because the then finance ministry simply needed to patch a hole in the budget",

according to Mr Vosylius. Since then Lithuanian companies' spent an additional LTL 110m on VAT while new car sales have been seriously dented.

"In July 2005, new car sales rose by a yearly 28% in Lithuania, 85% in Latvia, and 31% in Estonia," says Mr Vosylius.

Tired tyres

Passenger car fleet by age, end-2004



Source: Lithuanian car dealers' association LAA

Lithuania's finance ministry argues VAT-exemptions on corporate-use passenger cars is not widely spread in the EU, besides any new VAT exemptions (now applied to drugs, periodicals) are undesirable.

Until FinMin gives way to businessmen (if ever), companies in Lithuania will keep registering cars in Latvia, or masking their passenger cars as commercial vehicles for cargo or passenger transportation (these are VAT-free).

New car sales rose by 19% in Jan-Aug 2005 in Lithuania to 9,809. *Volkswagen*, *Peugeot* and *Renault* were the most popular brands.

We have talked to

Lukas Vosylius Lukas.laa@aiva.lt

Lithuanians to build logistics centre near Riga

LOGISTICS Lithuanian **Invalda** and **MG Baltic**, active players in the home property market, will together invest up to LTL 35m to develop a warehousing facility near Latvia's capital Riga.

The joint venture set up for the purpose will start work on the project in spring 2006 to open it before the winter of the same year. The 30,000 sq.m complex will also offer office area. The project may still attract Latvian capital as well.

The main reason behind deciding to do business in the neighbouring country and not in Lithuania is that the Latvian warehousing market shows a healthy growth both in terms of prices and demand – something that Lithuania cannot offer.

"This is because in Lithuania the construction boom of new warehousing facilities started a couple of years earlier and the market got filled up rather fast," Raimundas Silys, CEO of MG Valda, sums up the situation for *news2biz* LITHUANIA. "Therefore in Latvia, we see more room for such projects."

The two companies are not the first ones to spot the difference: at the end of 2003, Lithuanian **Ranga IV** opened 20,000 sq.m of what then was the biggest warehousing complex in Latvia (see no 155 page 5).

MG Valda is the property arm of the **MG Baltic** manufacturing, trade, media and property holding. At the end of 2004, the company managed 80,000 sq.m of real estate worth LTL 250m.

We have talked to

Raimundas Silys r.silys@mgvalda.lt

See also: Estonian Jungent's second thoughts about Latvia as a Baltic logistics centre (*news2biz* LATVIA no 196 page 11)

Warehousing area rent rates, EUR per sq.m per month, October 2005

City	Location	Rate
Vilnius	New construction (class A)	15-20
	Renovated, good condition (B)	12-16
	Old construction, average-poor condition (C)	8-10
Riga	New construction (class A)	12-18
	Renovated, good condition (B)	9-12
	Old construction, average-poor condition (C)	4-9
Tallinn	New construction (class A)	12-17
	Renovated, good condition (B)	8-12
	Old construction, average-poor condition (C)	5-8

Source: Ober-Haus

IN BRIEF

- Vilnius' municipality-owned public bus lines operator **Vilniaus Autobusai** will spend LTL 10m to purchase 60 city buses, 8 to 10 years old, to replace 15-22-year-old Hungarian *Ikaruses*'. Under an earlier deal, the company purchased 90 *Volvo* buses for LTL 70m, to be supplied by end-2006.

ENERGY & ENVIRONMENT

Kazakhs promise 12m tons of crude for Lithuania

OIL Kazakhstan's state run oil and gas company, claims it may secure a steady and ample supply of crude oil to Lithuania for refining and export.

KazMunaiGaz says shipping oil to Lithuania has become possible after the signing in the beginning of October of a 10-year oil transit deal with the operator of Russia's oil pipeline network **Transneft**.

The Kazakhs are among those interested in the sale of Russian **Yukos'** 54% stake in the Lithuanian oil concern **Mazeikiu Nafta**, and guaranteed crude supply is seen as an unbeatable advantage for bidders.

Meanwhile, it seems that KazMunaiGaz is out of the game regardless of its oil supply news: according to Lithuania's PM Algirdas Brazauskas, only Russian **Lukoil** and Russian-British **TNK-BP** stand chances of snatching Lithuania's industrial gem.

The government is pushing through law amendments that would allow it to buy out Yukos' stake, add the government's own holding of 41% and then sell the 93% stake, valued at LTL 5bn, at one go.

Lithuania to start looking for N-plant investors in 2006

NUCLEAR ENERGY In spring 2006 Lithuania will announce its terms and conditions to attract investors for building a new nuclear power plant in the country.

These will cover legal, economic, and financial aspects of what Lithuania's current government sees as an entirely commercial project.

The state will only participate in the project by pledging to provide relevant infrastructure and human resources: construction site, power relay grid, roads and employees.

Preliminary, the new nuclear power plant could be built in 2015-2017 near the Ignalina nuclear plant that is to be closed for good in the final hours of 2009 for safety considerations (provided Brussels helps Lithuania to cover billions of Litas of these costs).

The idea is supported by both Estonia and Latvia which now buy Ignalina's output, as well as Europe's nuclear power champion France whose state-owned power engineering companies could potentially expect huge contracts in Lithuania.

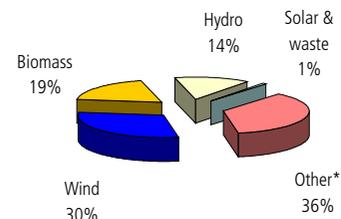
It is believed that Finland, soon to be linked with the Baltic electricity grid, would drop the idea of building its sixth nuclear unit should Lithuania remain a nuclear power country.

Lietuvos Energija announces fourth wind power tender

GREEN ENERGY Lithuania's national power grid operator **Lietuvos Energija** has announced a fourth tender to build wind mills in western Lithuania for 6-40 MW capacity.

Bids must be submitted by 24 November. However, the winner, to be announced on 15 December, will only be guaranteed the right to apply for permission to install new wind power generating capacity – not permission itself.

The main bid evaluation criterion will be the price offered to the grid operator for plugging the new facility into the national power grid (no less than 60% of actual costs, otherwise the higher, the better).

Types of renewable power in 2009 by share in total renewables' output

*) excludes wind power mills with installed capacity of up to 250 kW (installed tender-free), and the Kaunas hydropower plant

Source: Lithuanian government

Another four tenders should be announced by end-2006 (two of them already this year). Renewable energy

should account for no less than 7.4% of Lithuania's total power production (12,630 GWh) in 2009 – twice as much as it accounts for today.

Out of all five renewable energy types (wind, hydro, biomass, solar & geothermic, and waste), the wind power generating capacity should have 50% of the total installed renewable energy capacity of 316 MW.

ECONOMY & POLITICS

Government adopts euro transition plan

EURO In just over a year, on 1 January 2007, Lithuania plans to drop its national currency for good and become a euro-zone country. To get ready for the transition, the government has adopted a plan for the euro introduction.

The final decision on whether Lithuania will actually introduce the EU currency will be announced in mid-2006 by Brussels, and the only major hurdle now in the way is Lithuania's inflation indicator that could be just a bit too high to qualify.

Nevertheless, here are the main points of the government's plan which will be set in motion once a go from Brussels is received. The plan is still to be approved by the Seimas.

Introduction: The euro will become legal tender in Lithuania in the first minutes of 1 January 2007.

Exchange rate: The present exchange rate (under the LTL peg to EUR) should be preserved at EUR 1 = LTL 3.4528.

Exchange: All commercial banks will have to exchange LTL into EUR free of charge for 60 days; the central bank will be doing it for unlimited period of time. LTL bank accounts will be converted into EUR free of charge.

Cash settlements: Till 15 January 2007 cash settlements will have to be accepted both in EUR and LTL but change will only be given in EUR. The measure, together with the need to adapt cashiers and accounting systems to process two currencies simultaneously, is believed to cost Lithuania's retailers' association members LTL 10m.

Prices: All prices will have to be shown in both LTL and EUR from 2 November 2006 to 1 March 2007. Price rounding will have to be advantageous to the customer.

Retail: To maintain as much price transparency as possible during the changeover, retailers are recommended not to organise sales campaigns. Retailers will be urged to sign an ethics code to commit themselves not to use the Euro introduction to own advantage.

Shares: All Lithuanian stock companies will have to hold general share-

holder meetings to change the nominal value of shares from whole LTL to EUR (rounded up to the whole cent). Should shareholders fail to pass such a change, EUR rounding will be done by simply deleting the EUR value's surplus digits (e.g., the present LTL 1 nominal value would translate into EUR 0.2896 but actually will be set as EUR 0.28 – not EUR 0.29).

Inflation: During November 2006-February 2007, statistical inflation data will be announced more often than once a month (the way it is done now).

Costs: The central bank estimates the euro introduction will cost it around LTL 100m.

Constitution: Lithuania must amend its Constitution by May 2006 to grant the European Central Bank to have the right to issue currency in Lithuania, along with the country's CB. This will require at least 94 'yes' votes in the Seimas, compared to the ruling majority's 82. If the amendment falls through, the Parliament will be able to return to it no earlier than in one year.

See also: Inflation accelerates in August, euro entry debate heats up (no 196 page 14), Lithuania joins ERM II, euro-zone entry forecast for 2007 (no 171 page 14)

FinMin cuts average annual inflation forecast to 2.5%

INFLATION A the end of September, Lithuania's finance ministry cut its aver-

age annual inflation forecast for 2005 to 2.5% from the earlier 2.7%.

The news emerged just two days after the government passed the euro introduction plan – quite a coincidence having in mind that the average annual consumer price inflation is seen among the biggest obstacles for the country to get next year a go from Brussels to introduce the EU currency in 2007.

The ministry, however, did not change its annual inflation (December to December) forecast of 2.2%, and also left other macroeconomic indicators (this year's GDP growth rate, all indicators for the 2005-2008 period) intact.

The ministry bases its move on the fact that prices did not rise as much as expected earlier, in fact by 0.7 percentage point less, to 2.5% in August.

However, some analysts predict that rising oil prices will force certain sectors, like transportation, to raise their prices. Inflation could be further boosted by a fast wages rise brought about by the economic development and labour migration.

CPI adds momentum in September

Lithuania's consumer price index continued to climb in September to reach 2.6% - still well below the indicator's top post-EU accession reading of 3.3%.

Food products (28% of the consumer basket) went up in price by 2.5%, while another heavy-weight – housing and

utilities – reported a slightly lower appreciation.

The appreciation of transport services broke into a two-digit zone (11.5%) both due to rising fuel prices and raised public transport ticket prices in Vilnius.

Month on month, prices added 0.9% in September – the highest growth since April's 1.0%. The most noteworthy change was that in clothes and footwear where prices reverted from their usual deflation to a high 5.6% inflation.

SEB sees slower GDP rise for Lithuania, quick euro entry

MACROECONOMY Swedish economical analysts predict that out of all three Baltic countries, only Lithuania might manage to introduce the euro in 2007.

However, Lithuania's GDP growth will be the slowest in the region during the 2005-2007 period.

In its latest Eastern European economy overview, the Swedish **SEB** bank says domestic consumption – one of the main GDP growth driving forces, will curb in Lithuania from H2 2006 following an anticipated interest rate rise by the European Central Bank. This will make mortgage and consumer loans more expensive.

"True, the first stage of the income tax cut to 27% from 33% will take place in mid-2006 [see no 192 page 13, *ed.*] but this will not influence consumption as the level of disposable in-

come will stay on the previous level," says Alge Budryte, chief analyst at **SEB Vilnius Bankas**, to *news2biz* LITHUANIA.

In the longer term, SEB also sees a slower unemployment fall rate but warns that it has not yet bottomed out.

We have talked to

Alge Budryte alge.budryte@seb.lt

Wages in Lithuania to continue rising fastest in EU

WAGES For the third year running, international remuneration experts see wages in Lithuania rising the fastest in Europe and almost fastest in the whole world.

But for investors operating in Lithuania's peculiar labour market that should be of secondary importance: wages in Lithuania are still low compared to those in the 'old EU' (Lithuania's main source of FDI and biggest export partner), and there's a growing lack of available skilled labour force due to the internal market development and labour emigration.

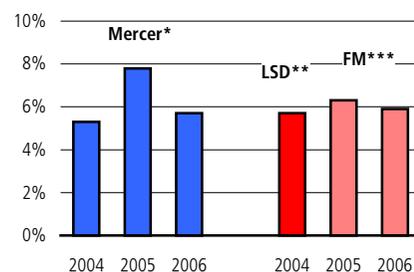
In its latest forecast, the human resource unit of the US **Mercer** consultancy says wages will increase by 5.5% in Lithuania in 2006 (after inflation, predicted at 3%), the third fastest rise after India and Egypt.

With 5.0%, Estonia follows right behind Lithuania by the predicted pay rise – both well above the Netherlands

whose 2.2% rate will be the highest indicator among the 'old EU' member states.

Mercer's forecast for Latvia is 3.5% (after a 5.3% inflation).

Annual wages change in %



*) Mercer's forecasts (salary rise minus inflation);

***) statistics department's 2004 data (real earnings rise);

***) finance ministry's forecast for 2005-2006 (gross wage rise minus inflation).

Source: Mercer, Lithuania's statistics dept. LSD, FinMin

New chief tax man promises higher service standards

TAX MAN The new head of Lithuania's tax inspectorate VMI says businesses deserve better treatment to be achieved by organising the agency's work around major tax-payer groups.

Stepping into his new capacity, Modestas Kaseliauskas, 30, formerly in charge of VMI's business in the Siauliai county, hinted that he would encourage tax inspectors' specialisation to work with three major customer groups: SMEs, big tax payers, and new tax payers.

The state budget's biggest headache is VAT collection, chronically behind the plan (see no 179 page 14) but somewhat improving as of late.

Mr Kaseliauskas' predecessor Violeta Latviene left the public job for the post of finance director at **Achemos Grupe**, Lithuania's biggest industrial concern.

See also: Tax inspectorate weaves thicker mesh for VAT payers (no 180 page 12)

Scandinavian Club in Klaipeda: a haven for investors

INVESTMENTS The *Scandinavian Club* in Klaipeda, an initiative launched two years ago for Scandinavians to rely on each other for assistance in Lithuania, has become a haven for large investors.

"We have a number of new members in the club who are foreign investors in Lithuania's booming real estate sector. They get all the assistance through the company that runs the club and in this way they do not need a local organisation to take care of their investments for them," says Niels Melchiorson, president of The Scandinavian Club and owner of the wind energy developer **Baltic Natural Energy**, to *news2biz* LITHUANIA.

"For local expats and guests we focus on cultural events, on wine evenings, brandy evenings and jazz music, as this is the best basis for making business. In Klaipeda, we are far away from decision making in Vilnius and in order

to succeed here, you need a local network. We are very well connected locally, so you can say that the Scandinavian club is a ready-made network for local Scandinavians," says Mr Melchiorson

We have talked to

Niels Melchiorson mn@bne.lt

Further info: www.scanclub.lt

IN BRIEF

- The registered unemployment in Lithuania reached another all-time low on 1 October, 4.1%, the national labour exchange reports. This represents a contraction of 0.2 percentage point month on month and 1.9 pp year on year.

- Lithuanian exports swelled by 24% to LTL 19.8bn in Jan-Aug 2005, imports rose by 18% to LTL 25.8bn. Trade deficit edged up by 3% to LTL 6bn.

EVENTS

Education and Business Cooperation

A business luncheon of the American Chamber of Commerce in Lithuania on Lithuanian ministry of education's role in promoting education and business cooperation. Guest speaker: minister of education and science

Date: 21 October 2005, Vilnius

Organizer: American Chamber of Commerce, www.acc.lt

Contact: acc@iti.lt, phone: +370 5 261 11 81

Transfer pricing in Lithuania

A technical briefing of the British Chamber of Commerce in Lithuania

Date: 26 October 2005, Vilnius

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

Contact: Diana Jarmalaite, bccl@bccl.lt

Tel: +370 5 269 00 84

W A G E S

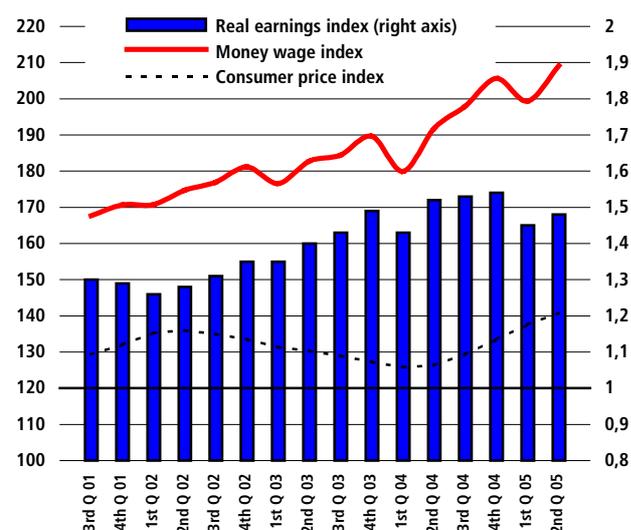
Average monthly wages in LTL and indices

Sector	Gross wage* Q2 2005	Jan 1996 = 100	Q2 2002 = 100	Q2 2004 = 100
Industry	1,256	203	115	109
Agriculture, hunting, forestry	992	434	124	107
Textiles	979	174	109	109
Wood	988	176	118	114
Paper	1,530	212	113	106
Machinery	1,299	180	122	106
Water, heating, gas, electricity	1,847	255	125	112
Construction	1,273	176	122	102
Retail and repair	1,237	171	115	110
Transport and communications	1,416	196	114	111
Government	1,986	275	124	105
National average	1,332	209	120	109

*1) Excluding the employer's legally fixed social tax (31%), 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)	Jan-Aug 2005			Jan-Aug 2004			2004			Jan-Aug 2005			Jan-Aug 2004			2004		
	Share	Share	Share	Share	Share	Share	Share	Share	Share	Share	Share	Share	Share	Share	Share	Share		
Food and live animals (0)	2,030	10.2%	1,549	9.7%	2,610	10.1%	1,752	6.8%	1,408	6.5%	2,236	6.5%						
Beverages and tobacco (1)	208	1.1%	97	0.6%	180	0.7%	260	1.0%	201	0.9%	320	0.9%						
Crude materials except fuels (2)	1,098	5.5%	967	6.1%	1,532	5.9%	933	3.6%	792	3.7%	1,266	3.7%						
Mineral fuels and lubricants (3)	5,281	26.7%	3,865	24.3%	6,457	25.0%	6,385	24.8%	3,859	17.7%	6,424	18.7%						
Animal and vegetable oils (4)	32	0.2%	23	0.1%	44	0.2%	120	0.5%	124	0.6%	211	0.6%						
Chemical products (5)	1,771	8.9%	1,183	7.4%	2,055	8.0%	2,999	11.6%	2,619	12.0%	4,010	11.7%						
Manufactured goods (6)	2,119	10.7%	1,704	10.7%	2,795	10.8%	4,140	16.1%	3,767	17.3%	6,036	17.6%						
Machinery and transport equipment (7)	4,030	20.4%	3,580	22.5%	5,618	21.8%	7,363	28.6%	7,213	33.2%	11,098	32.3%						
Miscellaneous manufactured articles (8)	3,225	16.3%	2,961	18.6%	4,522	17.5%	1,704	6.6%	1,591	7.3%	2,539	7.4%						
Not classified commodities (9)	2	0.0%	6	0.0%	6	0.0%	108	0.4%	179	0.8%	244	0.7%						
TOTAL	19,796	100%	15,935	100%	25,819	100%	25,764	100%	21,753	100%	34,384	100%						

IMPORTS in LTL m

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

(ranked according to 2004)

No	Country	Jan- Aug 2005	Share	2004	Share
1	Germany	1,884	9.5%	2,634	10.2%
2	Latvia	1,935	9.8%	2,588	10.1%
3	Russia	2,127	10.7%	2,342	9.1%
4	France	1,416	7.2%	1,624	6.3%
5	UK	932	4.7%	1,370	5.3%
6	Sweden	1,003	5.1%	1,299	5.1%
7	USA	795	4.0%	1,280	5.0%
8	Estonia	1,161	5.9%	1,277	5.0%
9	Netherlands	704	3.6%	1,242	4.8%
10	Poland	1,063	5.4%	1,242	4.8%

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

(ranked according to 2004)

No	Country	Jan- Aug 2005	Share	2004	Share
1	Russia	7,311	28.4%	7,616	22.3%
2	Germany	3,936	15.3%	5,760	16.9%
3	Poland	2,061	8.0%	2,579	7.6%
4	Netherlands	983	3.8%	1,345	3.9%
5	Latvia	941	3.7%	1,295	3.8%
6	Denmark	793	3.1%	1,207	3.5%
7	Finland	718	2.8%	1,157	3.4%
8	Sweden	864	3.4%	1,142	3.3%
9	Italy	735	2.9%	1,095	3.2%
10	Estonia	725	2.8%	1,093	3.2%

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

MONEY SUPPLY

Money supply in LTL m

	Apr 05	May 05	June 05	July 05	Aug 05
Monetary base	7,150	7,341	7,553	7,672	7,816
M1	12,814	13,249	13,708	13,884	14,071
- Currency outside banks	5,242	5,292	5,463	5,648	5,655
- Demand deposits	7,572	7,957	8,245	8,236	8,416
M2	23,362	23,830	24,561	25,203	25,603
- Time deposits	5,400	5,381	5,476	5,556	5,714
- Foreign currency dep.	5,148	5,200	5,377	5,763	5,817

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

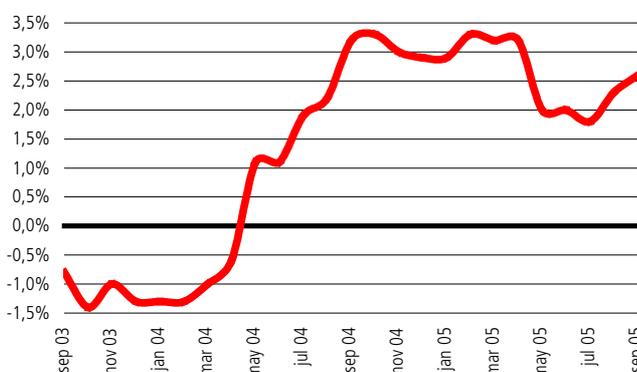
M1 encompasses currency outside banks as well as demand deposits.

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 2002	Jan 2003	Jan 2004	Jan 2005	Apr 2005	May 2005	June 2005	July 2005	Aug 2005	Sep 2005
Food and non-alcoholic beverages (28.4%)	107.6	92.7	98.5	105.0	105.9	104.6	103.8	101.1	101.9	102.5
Alcohol and tobacco (7.6%)	101.6	101.6	104.7	101.5	100.1	99.7	99.6	99.8	100.2	99.7
Clothes and footwear (8.6%)	94.9	96.3	97.6	97.8	97.7	97.1	98.9	97.9	98.6	99.5
Housing, water, electricity, and gas (12.4%)	103.1	100.4	100.4	103.7	104.6	104.0	103.9	105.0	105.2	104.9
Household items and furniture (5.7%)	97.3	98.0	96.4	97.0	97.6	97.5	97.7	97.9	98.0	98.2
Transport (10.4%)	97.2	107.8	98.5	105.4	107.7	103.3	104.9	108.4	109.2	111.5
Communications (5.0%)	113.9	104.3	85.4	99.0	97.6	97.5	97.4	97.4	98.5	95.9
Gross consumer price index	103.2	98.0	98.7	102.9	103.2	102.0	102.0	101.8	102.3	102.6
Inflation year-on-year	3.2%	- 2.0%	- 1.3%	2.9%	3.2%	2.0%	2.0%	1.8%	2.3%	2.6%

Consumer price index 100 = previous month

Product/service (share in price basket)	Dec 2004	Jan 2005	Feb 2005	Mar 2005	Apr 2005	May 2005	June 2005	July 2005	Aug 2005	Sep 2005
Food and non-alcoholic beverages (28.4%)	101.2	100.3	100.6	100.8	101.8	100.8	99.4	99.0	99.8	100.3
Alcohol and tobacco (7.6%)	99.9	100.1	100.1	99.7	99.8	99.8	99.9	99.9	100.1	99.9
Clothes and footwear (8.6%)	98.4	94.3	96.9	102.6	95.7	100.3	100.2	96.6	99.7	105.6
Housing, water, electricity, and gas (12.4%)	100.2	103.1	100.3	100.5	104.1	100.4	100.3	99.6	100.2	100.6
Household items and furniture (5.7%)	99.3	99.9	99.9	99.9	99.7	99.9	100.0	99.9	99.9	100.2
Transport (10.4%)	97.2	99.7	101.9	100.9	103.7	99.2	101.9	102.8	101.2	103.0
Communications (5.0%)	99.9	99.8	99.9	99.0	98.2	99.7	99.6	99.9	99.2	99.8
Gross consumer price index	99.9	100.0	100.2	100.5	101.0	100.3	100.1	99.8	100.1	100.9
Inflation month-on-month	- 0.1%	0.0%	0.2%	0.5%	1.0%	0.3%	0.1%	- 0.2%	0.1%	0.9%

Source: The Lithuanian statistical office, Lietuvos Statistikos Departamentas.

CREDIT

The financial sector's net lending* in LTL m

Type of loan	2nd Q 04	3rd Q 04	4th Q 04	1st Q 05	2nd Q 05
Loans to customers	14,120	15,310	16,898	17,798	19,766
- to private companies	9,839	10,216	11,064	11,602	12,541
- to individuals	3,334	3,859	4,449	5,154	6,085
Consolidated balance of the banking institutions	25,108	26,350	29,151	30,807	33,617

*) by the end of period.

Source: Lithuania's central bank, Lietuvos Bankas.

INTEREST RATES

Average weighted annual interest rates on credits

Term / currency	Mar 05	Apr 05	May 05	June 05	July 05	Aug 05
Up to 1 year (LTL)	5.02%	4.93%	5.04%	4.75%	4.80%	4.63%
Up to 1 year (EUR)	4.37%	3.91%	3.62%	3.67%	3.67%	3.63%
Over 1 year (LTL)	6.09%	7.90%	8.08%	7.68%	7.05%	6.35%
Over 1 year (EUR)	4.86%	4.15%	4.57%	4.61%	4.50%	4.49%

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 11 October 2005

Overnight	1 week	1 month	3 months	6 months
2.15%	2.16%	2.22%	2.31%	2.40%

Source: Lithuania's central bank, Lietuvos Bankas.

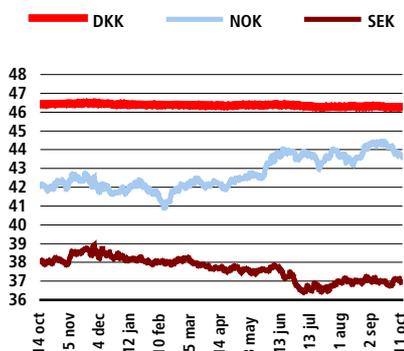
CURRENCY

LTL exchange rates as of 11 Oct 2005

(transfers)

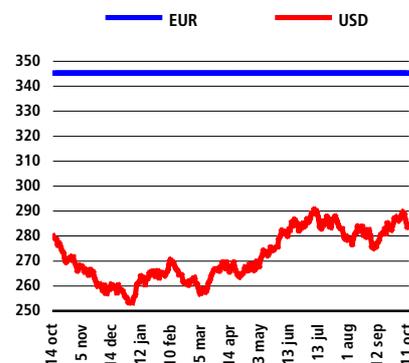
	SEB Vilnius bank		Lithuania's central bank
	Buying	Selling	Average
100 USD	284.65	289.31	284.58
100 EUR	344.42	346.14	345.28
100 GBP	498.64	507.05	501.07
100 CHF	221.32	224.91	222.69
100 CAD	241.02	246.65	242.08
1,000 JPY	24.84	25.41	25.04
100 DKK	45.71	46.73	46.28
100 SEK	36.55	37.38	36.95
100 NOK	43.38	44.37	43.62
100 EEK	21.89	22.25	22.07
100 LVL	489.15	500.55	494.96
100 RUR	9.95	10.16	10.00
100 PLN	87.99	90.20	88.61
100 CZK	11.53	11.80	11.65

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.

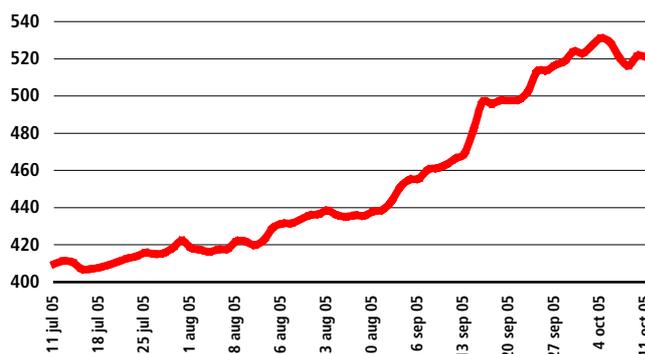
STOCK EXCHANGE

Vilnius Stock Exchange

Main list (in alphabetic order)	Price 11 Oct 05	Change 27 Sep 05	Change end of 2004
↗ Ekranas	1.80	+ 5%	- 75%
↗ Lietuvos Telekomas	2.74	+ 2%	+ 27%
↘ Pieno Zvaigzdes	4.77	- 1%	- 16%
↗ Rokiskio Suris	71.50	+ 2%	- 6%
↘ Snaige	17.05	- 2%	- 4%
→ Utenos Trikotazas	10.65	0%	+ 20%
↗ Vilniaus Baldai	37.00	+ 6%	0%
↘ Vilniaus Vingis	4.72	- 9%	- 39%
↗ OMX Vilnius index	520.72	+ 1%	+ 77%
↗ Baltix index	581.90	+ 2%	+ 38%

Source: The Vilnius stock exchange, Vilniaus Vertybiniu Popieriu Birza.

VILSE index over the last three months



Note: VILSE 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. VILSE replaced its predecessor Litin-G on 27 September 2004.

PRICES

Prices of selected goods and services in LTL

Food	Oct 05	Non-food	Oct 05
Milk, 1 l	2.11	Cigarettes, Marlboro, pack	4.25
Butter, 82%, 200g	2.69	Aspirin, Bayer, 100 tablets	19.95
Bread, loaf	1.99	Verslo Zinios, business daily	2.50
Beef, 1 kg	14.89	Photo film, Kodak, 24/200	11.89
Chicken, 1 kg	4.79	Taxi, per km	2.00
Tomatoes, 1 kg	1.99	Local phone call, 1 min.	0.12
Apples, 1 kg	1.49	Int'l phone call, 1 min., to EU	1.39
Bananas, 1 kg	5.59	Local letter, up to 20 g	1.00
Eggs, 10 pieces	2.69	Electricity, kWh	0.31
Sugar, 1 kg	2.88	Water, cb.m	4.12
Coffee, Jacobs, 250 g	5.99	Natural gas, cb.m	0.74
Beer, Carlsberg, 0.5 litre	2.58	Petrol 95, 1 litre, Statoil	3.27
Mineral water, Vichy, 0.5 litre	1.29	Diesel, 1 litre, Statoil	3.25

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	May 05	June 05	July 05	Aug 05
Turnover in LTL m	1,899.1	1,863.8	2,029.4	2,024.7
Index 100 = previous month *	103.7	99.4	105.7	101.8
Index 100 = same month prev. yr *	114.9	114.6	118.4	118.8
Index 100 = previous month **	105.6	100.7	105.7	102.1
Index 100 = same month prev. yr **	113.3	113.5	114.2	114.8
Year	2001	2002	2003	2004
Turnover in LTL m	13,977.5	15,639.7	17,641.2	19,612.8
Index 100 = previous year	107.4	112.4	114.3	109.3

*) 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	Feb 2005	Mar 2005	Apr 2005	May 2005	June 2005	July 2005	Aug 2005
Index 100 = Previous month	99.6	103.7	95.8	105.5	95.7	95.8	106.6
Index 100 = Same month previous year	100.1	109.3	101.6	118.5	105.2	101.9	108.7
Year	2000	2001	2002	2003	2004	Jan-Aug 2005	
Index 100 = Previous year	102.2	116.0	103.1	116.1	110.8	106.0	

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

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

PRODUCER PRICES

On monthly basis	Mar 2005	Apr 2005	May 2005	June 2005	July 2005	Aug 2005	Sep 2005
Index 100 = Previous month	103.1	102.6	99.0	102.1	102.3	102.4	102.9
Index 100 = Same month previous year	110.0	111.8	107.6	111.7	112.3	113.0	115.5
Year	2000	2001	2002	2003	2004	Jan-Sep 2005	
Index 100 = Previous year	102.6	92.2	101.9	99.8	106.8	118.5	

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
2nd quarter 2005 *	+ 8.0%	17,425	1,859
1st quarter 2005 *	+ 4.6%	14,644	1,627
4th quarter 2004 *	+ 7.3%	16,935	1,846
3rd quarter 2004 *	+ 5.6%	16,566	1,706
2nd quarter 2004 *	+ 7.8%	15,480	1,573
1st quarter 2004 *	+ 7.2%	13,276	1,399
4th quarter 2003	+ 11.6%	15,139	1,509
3rd quarter 2003	+ 10.8%	14,887	1,404
2nd quarter 2003	+ 9.0%	14,017	1,331
1st quarter 2003	+ 10.9%	12,491	1,123
2006 **	+ 6.5%	71,850	n/a
2005 **	+ 6.8%	66,039	n/a
2004 *	+ 6.9%	62,257	6,523
2003	+ 10.6%	56,533	5,367
2002	+ 6.8%	51,643	4,079
2001	+ 6.4%	48,379	3,474

*) Preliminary data or estimates **) forecast by SEB Vilniaus Bankas

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

CURRENT ACCOUNT

excerpts shown in LTL m	2002	2003	2004	June 2005	July 2005
Trade balance	- 4,868	- 5,141	- 6,452	- 449	- 509
Services	1,988	1,888	2,558	186	267
Direct investments, net	2,604	436	1,421	246	18
Current account balance	- 2,671	- 3,854	- 4,442	- 177	- 216
Current account deficit in % of GDP	- 5.2%	- 6.9%	- 7.2%	n/a	n/a

Source: Lithuania's central bank, Lietuvos Bankas.

FOREIGN DIRECT INVESTMENT

Net and stock in LTL m	2003	2004	2 Q 2004	3 Q 2004	4 Q 2004	1 Q 2005	2 Q 2005
Foreign direct investment, net *	436	1,421	618	337	299	434	- 186
Foreign direct investment stock	13,699	16,193	14,658	14,976	16,193	17,533	17,539

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

Source: Lithuania's central bank, Lietuvos Bankas.

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