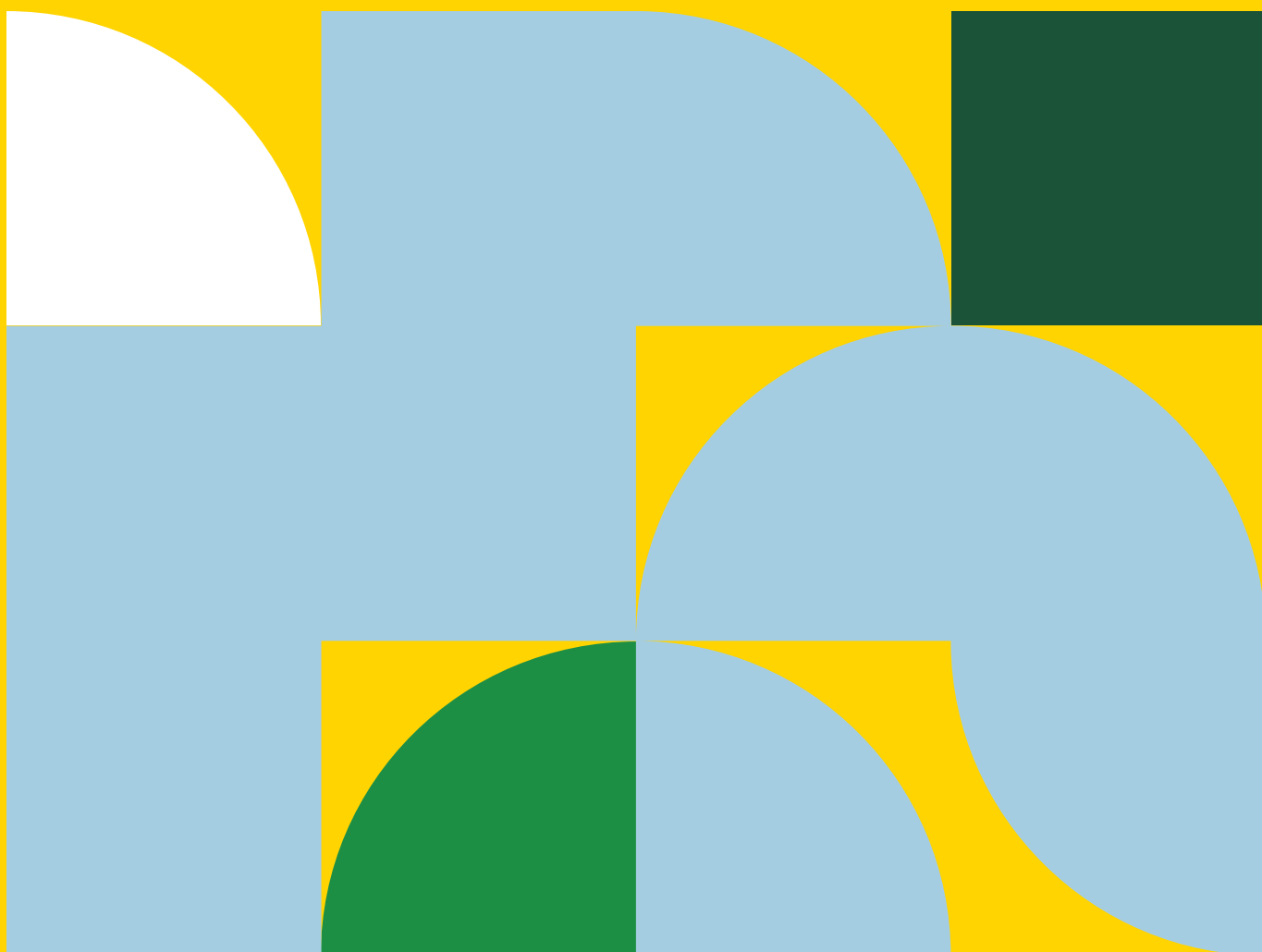


General Lithuania's Manufacturing Sector talking points

2022



Lithuania's Manufacturing Sector Overview

Key facts

Lithuania is well established in international rankings and is listed together with the most developed countries:

- Shares **1st position** with Ireland in the **Economic Freedom Ranking**.

Source: Fraser Institute, 2021

- The **2nd** in the **Manufacturing Risk Index** in the CEE region.

Source: Cushman & Wakefield, 2021

- The **6th** in **International Tax Competitiveness Index** Rankings among 36 OECD countries.

Source: International Tax Competitiveness Index Rankings, 2021

- The **39th** in the **World Innovation Index** among 132 countries.

Source: World Intellectual property Organization, 2021

- The **2nd** globally for **'tertiary efficiency'** which includes enrolment in higher education and the number of graduates in key innovation sectors.

Source: Bloomberg Innovation Index, 2020

- The **1st** in CEE for **university-business collaboration in R&D**.

Source: Global Competitiveness Report, 2019

- The **1st** in EU with **57% of scientists and engineers are women**.

Source: Eurostat, 2021

- The **20th** position out of 193 countries in the **E-Government Development Index**.

Source: UN Department of Economic and Social Affairs, 2020

- In 2020, Lithuania's real GDP shrank only by 0.8% and it was the **2nd lowest GDP decline** across the EU due to **Covid-19 pandemics**.

Source: World Economic Forum, 2020

- Lithuania demonstrated a certain level of FDI resilience to Covid-19 and jumped from 6th to **2nd place** in the **Greenfield Performance Index**. 82 other countries were outperformed, including neighboring ones, Singapore, UAE, and other both developing and developed states.

Source: FDI Intelligence, 2021

Manufacturing – booming sector of Lithuania's economy

- **Lithuania's manufacturing industry is the backbone of the country's economy.** Generating 20% of the total GDP
- **Impressive post-Covid recovery.** 1st in European Economic Recovery Index in Q1 2021 (Euromonitor Recovery Index, 2021). The highest year-on-year growth (17%) in industrial production was recorded in November 2021 (Eurostat, 2021).
- **A booming ecosystem with such names as** Hella, Continental, Ryanair, Metso Outotec, Harju Elekter, Rehau, Mikron, Albright International, System Air, etc.
- **Most companies** based around 2nd, 3rd, and 4th largest cities in Lithuania.
- **More than 60% of companies** plan to introduce new functions or significantly expand existing ones in 2022-2023.
- There are some companies like GRH, Homanit, Littelfuse, and others have also chosen Lithuania for their R&D operations.
- **Robotisation** plays an important role in the Lithuanian manufacturing sector as 67% of foreign companies use some type of robot. Additionally, 98% of companies are planning to invest in some form of robotization in 2022-2023.

Lithuania's Manufacturing Sector Overview

Automotive in Lithuania

Automotive production in Lithuania is currently enjoying the most favorable conditions for growth. The country's rich traditions in engineering have been strengthened by the recent arrival of major industry players like Hella and Continental. Yet the market remains far from saturated, which means an abundance of engineering talent, highly competitive costs, and rapid scaling. Establish automotive operations in Lithuania that deliver today and are ready for tomorrow.

Industrial Machinery in Lithuania

With pools of multi-lingual talent in software development and IT as well as traditional competencies in mechanical and electronics engineering, Lithuania has the range of expertise needed for thriving Industrial Machinery & Equipment manufacturing operations today and tomorrow. And this is complemented by highly-developed infrastructure, a strong hardware supply chain and excellent quality-to-cost ratios – all the ingredients for success in the age of Industry 4.0.

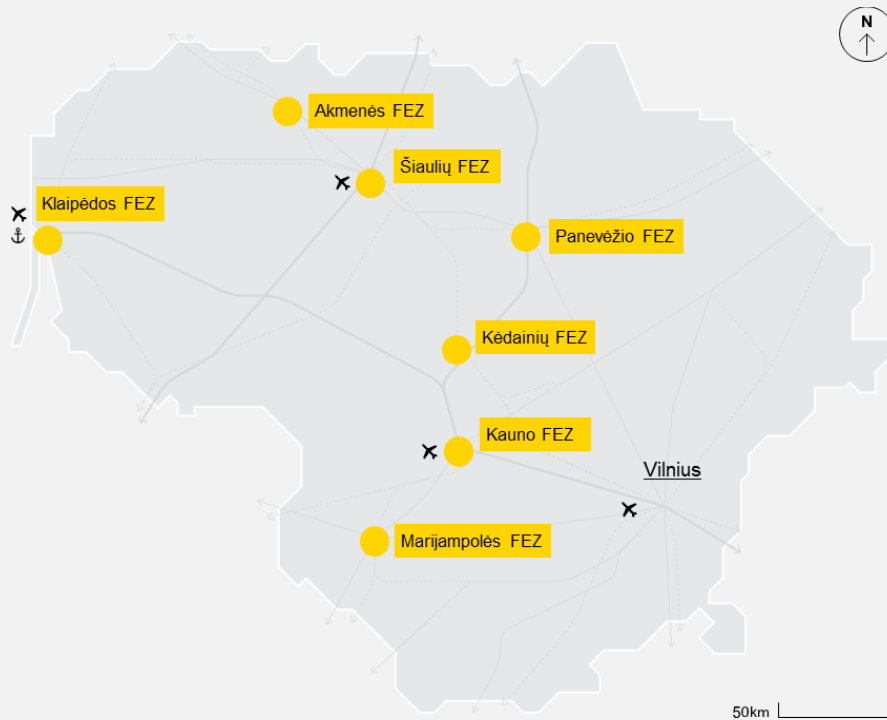
Electric Vehicle Batteries in Lithuania

Europe is projected to become a renewable energy powerhouse and the second largest market globally for electric vehicles (EVs). Thanks to robust EU regulations on CO2, strong commitment from European OEMs, and increasing local demand, sales of EVs are set to increase dramatically, reaching 7 million by 2025. To support this growth, Lithuania can offer just the right conditions to meet the growing demand for battery gigafactories that would follow sustainable manufacturing guidelines. Access to renewable energy resources, a well-developed logistics network, and a rich culture in engineering – these are just some of the ingredients for fostering sustainable manufacturing operations that Lithuania offers.

Lithuania's Manufacturing Sector Overview

Financial incentives

Free Economic Zones. Lithuania has seven Free Economic Zones in various locations across the country. These provide unbeatable conditions to develop businesses by offering ready-to-build industrial sites with physical and/or legal infrastructure, support services, and tax incentives. Businesses that choose to locate themselves in these zones enjoy 0% tax on corporate profits during their first 10 years of operation, and only 7.5% tax over the following six years. In addition, these businesses are exempt from tax on dividends and real estate tax.



Green corridor. Most notably – and unique to Lithuania – new support program for large-scale investment projects that are valued at more than EUR 20M in capital expenditures and entail the creation of more than 150 jobs. The package offers significant tax incentives, including 0% of corporate tax for 20 years, and streamlines key processes in land acquisition, planning, and migration for large-scale projects.

FDI Invest LT+. The Lithuanian government fosters sustainable investment by covering companies' expenditure on capital investment. Companies considering foreign direct investment in Lithuania may qualify for state funding, which is negotiated on a case-by-case basis in compliance with EU and national legislation. Up to 50% of the investments can be covered by this instrument.

Apprenticeship. Subsidies for covering apprenticeship costs up to 70%.

Lithuania's Manufacturing Sector Overview

Talent pool

Lithuania is a dynamic country.

With a population of 2,8M and a labor pool of 1.7M. Foreign companies employ around a quarter of the total Lithuanian manufacturing labor force.

Rich talent pool targeting the manufacturing sector.

105.000 students and 36% of them study STEM programs. 41% of engineering students study mechanical engineering and electronics.

Lithuania is 3rd in the EU for higher education.

60% of the population has higher education.

Unsaturated market and flexible labor conditions.

<8% employee attrition rate in international manufacturing companies and one of the lowest unionization levels in the EU (10%).

The multilingual workforce in Lithuania.

85% of young Lithuanian professionals speak English and 96% of Lithuanians are fluent in one or more foreign languages.

Great cultural fit.

Local workforce balance is highly valued for its adaptability, with 80% of companies rating cultural fit and ability to learn of local talents as either „good“ or „excellent“. The local workforce was also rated highly for productivity and determination – 74% of companies rated work ethic and 60% of companies rated going the extra mile criteria as „good“ or „excellent“.

Cooperation with educational institutions.

It is a common practice, with 57% of surveyed foreign companies collaborating with educational institutions. Of those, 86% collaborate with universities/colleges and 71% with vocational schools.

Women in science.

1st in the EU in terms of women scientists and engineers by Eurostat and 1st in the CEE region in the World Economic Forum's Global Gender Gap index.

Infrastructure

Road and Rail.

Key gateway, Rail cargo services to Latvia, Poland, Germany, Italy, Ukraine, and Asia, Rail Baltics to connect Finland to Germany in 2025 (passenger and cargo terminals).

Sea.

Northern most ice-free Seaport in Klaipeda, largest in the Baltic states.

Air.

3 international airports access to major European cities within 2-3 hours of flight.

Resilient and reliable: a detailed update on Lithuania's security and energy situation

Defence

The current security situation in Lithuania remains unchanged. There is no direct military threat to Lithuania today, and no unusual activity on Lithuania's borders has been observed. Lithuania has been a strong and integral part of the European Union and NATO for more than 17 years. Our allies are demonstrating a strong commitment to collective defence and have deployed additional forces to Lithuania since the war in Ukraine. Lithuanian Armed Forces and allies are training as usual, with no reasons to react differently.

At the NATO Summit in Madrid, NATO leaders took important and transformative decisions that set the Alliance's strategic direction for the near- and long-term future, and that will further strengthen the defence of the Baltic region.

Cybersecurity

Lithuania is well-prepared to prevent cyber threats and is continuously strengthening its cyber defence system. We can thus ensure that the core infrastructure, such as electricity and gas supply, is secure. While no country in the world can provide 100% protection, cybersecurity has been high on the government's priority list, attracting substantial investment and preparatory initiatives. The strengthening of Lithuania's cybersecurity measures has been high on the country's priority list even before the current conflagration. The National Cyber Security Centre was established by the Ministry of National Defence in 2018. The centre is focused purely on preventing and managing cyber incidents and has a network connecting the most critical infrastructure operators via a set of automated procedures, ensuring a 30-minute threat neutralization limit.

Kaliningrad transit

Lithuania consistently implements restrictive measures against Russia, agreed unanimously upon by all EU member states, in consultation with the European Commission. Prior to July 13, 2022, Lithuania followed the guidance on the transit of sanctioned Russian goods passed by the European Commission in April 2022, restricting the transit of all the sanctioned goods through the EU territory. The updated guidance of July 13, 2022, allows the transit of goods from Russia to Kaliningrad if the volume of said goods remains within the historical averages of the last three years. Military and dual-use goods and technology remain under a total ban.

Following the Commission's statement, that member states are under a legal obligation to prevent the circumvention of EU restrictive measures, Lithuania will closely monitor the transit, to ensure sanctions are applied. If cases of attempted abuse by Russia were to be identified, Lithuania reserves the right to prevent such attempts in the interest of national security.

Lithuania remains committed to the transatlantic partnership and will maintain a unified and coordinated EU sanctions policy in this regard while continuing to advocate for the strictest and widest possible application of EU sanctions.

Lithuania's Manufacturing Sector Overview

Success stories (Automotive)

Hella (Germany) - Hella has been in business since 1899 and is on the list of the 40 biggest suppliers of car components in the world and in the top 100 biggest industrial companies in Germany. For its 14th factory worldwide, it chose Kaunas Free Economic Zone. After a construction period lasting a little less than a year, in 2018 HELLA started production across some 7,000 square meters of production space. Hella created around 311 jobs.

Continental (Germany) - Founded in 1871, German automotive manufacturer Continental offers safe, efficient, intelligent, and affordable solutions for vehicles, machines, traffic, and transportation. In October 2019, after a construction period lasting little more than a year (15 months), the manufacturing plant started its operation in Kaunas Free Economic Zone. It is manufacturing complex and high-value-added products. Continental created around 682 jobs.

Ryanair Engineering (Ireland) - Ryanair DAC is the largest European airline with headquarters in Dublin, Ireland. With its primary operational bases at Dublin and London Stansted Airports. The airline opened a base in Kaunas Airport in 2010 and launched an aircraft maintenance, repair, and overhaul (MRO) project KAMS in 2012. KAMS focuses on Boeing 737-800 fleet line, base, and component maintenance. Within 10 years the company has grown to more than 200 people. KAMS is now set to add new capabilities and expand its staff in the forthcoming year.

Kitron (Norway) - Kitron is a leading Electronics Manufacturing Services (EMS) company with operations in Norway, Poland, Sweden, Lithuania, Germany, China, USA. During its 20 years of operation, Kitron Lithuania has gained unique experience and growth, and it now employs more than 650 strong team of professionals in engineering, production, customer service and supply chain, alongside other support functions. The company manufactures around 2000 highly complex electronic products (from circuit boards to complete end products) and provides engineering services such as development and industrialization for demanding customers. Additionally, Kitron has invested into the infrastructure of the Industrial Electronics Laboratories at Kaunas University of Technology and Kaunas University of Applied Engineering Sciences. The labs help to foster the long-term supply of engineering talent, so in 2020 Kitron also expanded the technical capabilities at Kaunas Technical College (KTK).

Jotron (Norway) - Jotron AS produces modern communication devices – such as marine satellite connection systems, automatic ship identification, integrated ship communication, and flight control radio and recording equipment – for the largest airports and navigation companies in the world. The production division of the company has been operating in Kaunas, Lithuania, since 2001. Currently, Jotron manufactures about 300 different products in Kaunas, including marine satellite communication systems, automatic ship identification systems, and internal communication systems for ships. The company is capable of independently designing, producing, and testing the end products. Jotron created around 100 jobs.

Resilient and reliable: a detailed update on Lithuania's security and energy situation

Electricity supply

Lithuania has a stable supply of electric power and has ensured that, even in the case of an emergency, alternative power sources would be able to meet national consumption needs. While Lithuania is officially still a part of the BRELL electricity supply ring connecting Russia, Belarus, Latvia, Lithuania, and Estonia, as of 2022 May, all electricity trade with Russia and Belarus is halted. Currently, the main objective is the earlier than planned disconnection from the BRELL supply ring. Lithuania has already proved that it can operate independently from the Russian electricity supply. Electricity import is ensured through connections with Poland, Sweden and Latvia. The new Polish-Lithuanian connection – LitPol Link – ensures a steady supply of electricity on demand, and the largest 200MW battery in Europe will start operating by the end of the year. As an alternative to LitPol Link, Lithuania will use Kruonis Hydro Accumulation Power Plant, Kaunas Hydroelectric Power Plant, Elektrėnai Combined Cycle Unit, Kaunas Cogeneration Power Plant and Orlen Lietuva power plant in Mažeikiai – all recently tested systems suitable for supplying electricity for national consumption.

Liquefied Natural Gas supply

Since the beginning of April, Lithuania does not import gas from Russia, while gas transit from Kaliningrad to Russia via Belarus link continues as usual. Lithuania has a sufficient supply of liquefied natural gas (LNG), and the capacity of the Lithuanian LNG terminal is sufficient to meet the country's gas requirements. Furthermore, the LNG pipeline's connection with Poland (Gas Interconnection Poland-Lithuania (GIPL)) started operating in May 2022. Currently, all the gas is supplied via the LNG terminal in Klaipėda, and GIPL. The GIPL project strengthens Lithuania's energy independence and ensures the Baltic gas market's integration into Europe. This increases energy security, creates new opportunities for Klaipėda LNG Terminal, and sets technical preconditions for the country's green transformation.

Disinformation

The flow of Russian disinformation has intensified significantly since the start of the war in Ukraine, especially as the EU began imposing sanctions on Russia for aggression against Ukraine. Such intensification of Russian disinformation against Lithuania has been observed each time the EU considers imposing additional sanctions on Russia. One of the more prominent narratives exploits the topic of an alleged threat to Kaliningrad posed by Lithuania and Poland. This topic has been at the core of communication even before the war and is currently amplified to threaten Lithuania for imposing sanctions on Kaliningrad. In reality, since March 2022, Kaliningrad has been actively working to diversify cargo transportation by directing cargo via sea routes. This indicates that the region has been actively preparing for EU sanctions to enter into force and reduce its dependence on transit through Lithuania. Lithuanian institutions constantly monitor and analyse the hostile information space. Lithuania's response to hostile information incidents and proactive strategic communication takes place in coordination with the responsible authorities. The Lithuanian government acts in a coordinating role.

Lithuania's Manufacturing Sector Overview

Success stories (IMET)

Metso Outotec (Finland) – a frontrunner in sustainable technologies, end-to-end solutions and services for the aggregates, minerals processing and metals refining industries globally. After establishing a global business center in Vilnius in 2019 the company expanded its operations and opened a manufacturing site in the region of Šiauliai. The new plant further strengthens the company's capability to produce high-quality rubber and poly-met wear parts for its mining customers. Over 383 people are working for Metso Outotec in Lithuania.

Harju Elekter (Estonia) – The Harju Elekter Group is the leading manufacturer of medium and low-voltage electricity and automation equipment in the Baltics, and a well-known and recognized manufacturer in Scandinavia. In 2021 the company has finished the 4th expansion of its production facility in Lithuania. Around 275 people are currently employed.

Mikron (Switzerland) – Mikron Group develops, manufactures, and sells automation systems that help run highly accurate and productive production processes. In Lithuania, the company engineers and manufactures industrial automation systems for the automotive component industry. 30 people are currently employed.

Albright International (United Kingdom) – Albright is a global leader in the manufacture of DC contactors and emergency disconnects with over 70 years of uniquely specialized experience. Some of the diverse applications include electric vehicles, rail, telecoms, marine, and industrial machines. Starting in 2007 with 12 employees, the company expanded its operations multiple times and has grown to 218 employees in 2022.

System Air (Sweden) – Systemair is a leading global manufacturer and supplier of high-quality ventilation, heating, and cooling products and systems. The first Systemair sales office in Vilnius was opened in 2000 and the Systemair manufacturing plant in Ukmergė opened in 2005. In total 316 people are employed.

REHAU (Germany) – the German polymer specialist opened a manufacturing plant in Klaipėda Free Economic Zone (FEZ) in 2021. Cutting-edge microduct systems for fiber-optic cables are being produced in the facility. The company started with 55 and now has 97 employees.

Dokka Fasteners (Norway) – a globally renowned industrial fasteners manufacturer that has been producing fasteners for more than 150 years. Dokka Fasteners is currently a major supplier to the wind energy industry globally. It provides fasteners for wind turbines, drilling rigs, cranes, and steel constructions. The company established a new manufacturing location in Klaipėda and up to 50 employees will be hired in the period of three years.

GRH International (Monaco) – a manufacturer of technology to produce innovative and sustainable construction materials has opened an R&D and manufacturing facility in Klaipėda FEZ. Jacqueline Thormities: Invest Lithuania was amazing in helping us to understand the business landscape in Lithuania. They gave us valuable support in choosing a location for our factory and facilitated the meeting of relevant partners, which made the preliminary tasks to establish the company flow much more smoothly. We couldn't have asked for a better advocate than Invest Lithuania, they have been by our side throughout the whole journey in Lithuania.