



Vilnius is the centre of Lithuania's political, business and cultural life. The capital is known as a rapidly developing city of modern technologies and highly qualified specialists. Most of major international companies, ranging from manufacturing, telecommunications, insurance, banking businesses to highly qualified IT, finance and accounting consultants have their subsidiaries or offices here. Our city favourably compares to the neighbouring countries for its relatively low real estate prices and reasonable rates of housing and office lease, which also adds to its attractiveness as a place for doing business. Geographically, one can hardly find a more attractive location for doing business on the eastern Baltic Sea coast. Vilnius is within easy reach from Riga, Tallinn, Minsk or Warsaw as well as other European countries. No wonder that foreign companies choose Vilnius as a primary place for their investments in Lithuania.

Vilnius Municipality strongly believes that cooperation between private sector and public authorities will lead to success and will create stable and business friendly environment. Vilnius has a great potential and a good opportunity to become an important business and tourism centre in the Baltics. Therefore, the City of Vilnius seeks to ensure a balanced long-term development of the city, developing clear and simple investment procedures, encouraging economically useful initiatives and implementing other related policies that would increase its attractiveness for foreign investment.

Vilnius Municipality is pleased to present this section of the guide, which shortly introduces to you business and social environment of our city. We believe that your choice to invest in Vilnius will surpass your business expectations.

A handwritten signature in black ink, which appears to read 'Artūras Zuokas'. The signature is fluid and cursive, with a long, sweeping tail that extends to the right.

*Artūras Zuokas
Mayor of Vilnius*

Municipal Government

Vilnius Municipality is one of 60 municipalities that constitute the level of local self-government based on administrative and territorial division of Lithuania. The municipal government is responsible for administration of local issues, but it is not empowered to raise taxes, which increases its dependence upon the central government. The decentralisation within this area is one of the tasks for the Lithuanian Government.

The supreme governing body of the Municipality is the Municipal Council elected by the local population for a period of three years on the basis of universal, equal and direct suffrage. In addition to the Municipal Council, the local self-government of Vilnius comprises the following institutions: executive institutions (the Mayor, two vice-mayors and the Municipal Board) and a controlling institution (the Municipal Controller). Various special issues are attributed to seven departments within Vilnius Municipality: the department of economy; energy and city economy department; the department of culture and education; urban development department; the department of personnel; health and social care department; and the department of law.

City Background

Vilnius is the largest city and the capital of Lithuania, the biggest country in the Baltics. The city is located next to the geographical centre of continental Europe in the south-eastern part of the country, over 300 kilometres from the Baltic Sea in the west and 35 kilometres from the Republic of Belarus in the east. Vilnius is not only the largest city in terms of population (589 thousand) and the area that it takes (401.3 km²), but is also a political, business, social and cultural centre of the country. The population of Vilnius is constantly increasing, although it has been affected by negative birth rate and negative migration net. According to the forecast, in 2015 the number of inhabitants is likely to reach 675–695 thousand. 20.2% of the country's labour force is located in Vilnius and its unemployment rate is the lowest in Lithuania – 6.4%.

Vilnius – the capital of Lithuania, the most modern city of Central and Eastern Europe, the international centre of business, science and culture.

The modernity of Vilnius manifests itself in the **new economy** developed by the **modern society** which lives in a **distinctive environment**.

New Economy

Vilnius is the gate of the world to Lithuania. The capital is attractive to both domestic and international business. Modern communication system (the airport, road and railway, public transport) ensures fast and convenient connection of the city with the region and with the entire world. Vilnius is the centre of advanced technologies and of the knowledge economy stimulating innovations both in the country and in the entire region. The development of the modern economy is closely related to high potential of science and education. Vilnius is a famous centre of tourism, conferences, exhibitions, and entertainment.

Progressive Society

Vilnius is the centre of information society. This is a dynamic place of creative work favoured by young people and ensuring resources of skilled specialists. Vilnius is also a city with a high living standard. An advanced social system ensures social justice and security for all inhabitant groups. The capital of Lithuania is situated at the confluence of the Western and the Eastern cultures, thus encouraging international cultural co-operation.

Distinctive Environment

Vilnius is a cosy and distinctive city. New urban development is carried out in harmony with the abundant cultural and natural heritage. Vilnius is an ecological city taking care of the unique natural environment, which is adapted for the recreation of city inhabitants and guests.

Conditions of Success

The city boasts efficient administration. Vilnius inhabitants actively make important contributions to the city development, which is aimed at ensuring welfare of the people. Both Lithuanian and foreign partners are invited to implement ambitious city development plans. Investments into business and infrastructure in Vilnius are rapidly growing. The development of the capital follows the principal of sustainability, in co-operation with the county and other Lithuanian and foreign cities. The geographical location of the capital and its political tolerance are the most important preconditions for the city to function as a “bridge” between the West and the East.

Vilnius is a very quickly developing, youthful and dynamic city. The growth is not spontaneous but carefully planned and organised, as it is perceived, the city is unique by its beauty and historical background. In the strategic plan of Vilnius Municipality for 2002-2004 long-run city priorities are

set as follows: Increase in international competitiveness of Vilnius, Development of the new economy, Creation of a progressive society, Development of the communication infrastructure.

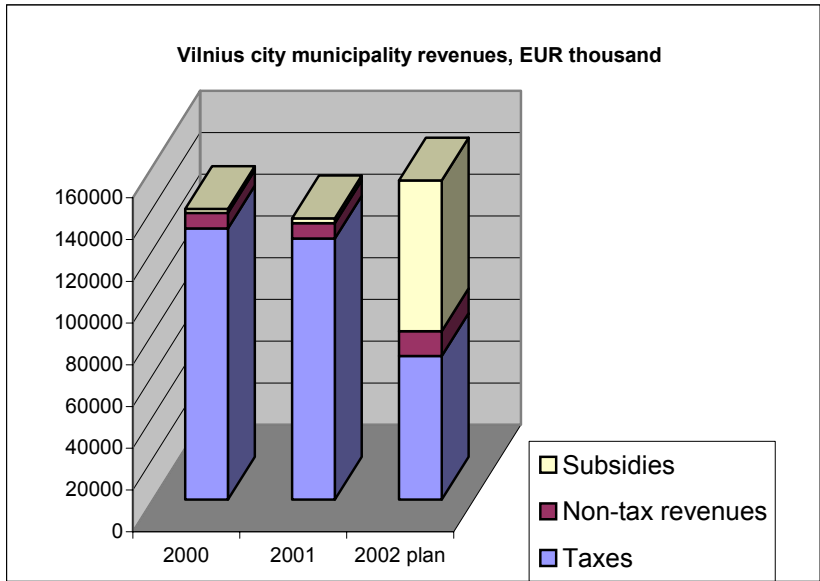
Vilnius is surrounded by 40 lakes, numerous national and regional parks, nature preservations, therefore one will be impressed by the surroundings not less that by the city itself. The Old Town of Vilnius is among the most extensive in Europe, occupying in total 359 hectares. Nearly 40% of buildings located in the Old Town are of highest architectural and historical value. UNESCO included Vilnius Old Town in the World Culture Heritage List, because of its unique mixture of different architectural styles represented. In 2003, International Conference on Eastern and Middle Europe World Culture Heritage will be held in Vilnius.

Many cultural, economic and political events take place every year in Vilnius. The cultural events include Vilnius Festival, National Song Festival, Vilnius Days, Vilnius Jazz Festival. Vilnius is a place of wide variety of museums and exhibitions. Vilnius Exhibition Centre LITEXPO annually hosts a number of various commercial exhibitions and trade fairs, among others on advertising, books, textiles and clothing, building renovation, tourism, cosmetics and perfumery, automobiles, car accessories, transport services and logistics, footwear, agriculture, shop, hotel and restaurant requisites, medical equipment and pharmacy, computers and telecommunications, furniture. Total exhibition area amounts to 31,100 m².

At present, Lithuania is still only discovering its potential in the tourism industry. Although since 1990 the industry has seen significant growth, there is a long way to go, particularly in terms of marketing of the country and its capital worldwide. As approximately 50 countries (including many European countries, UK, USA and the Nordic countries) have visa-free travel with Lithuania, getting into country is a relatively transparent and simple process. According to the Lithuanian Tourist Board, Vilnius firmly remains the most popular destination for tourists visiting Lithuania. Nearly 80% of all tourists choose Vilnius as their destination when visiting the country. The increasing interest of tourists is fostered by rapidly improving tourism services as well as a variety of cultural events, restaurants and nightclubs.

City's Fiscal Balance

The main sources of municipal revenues are taxes, non-tax revenues and subsidies.

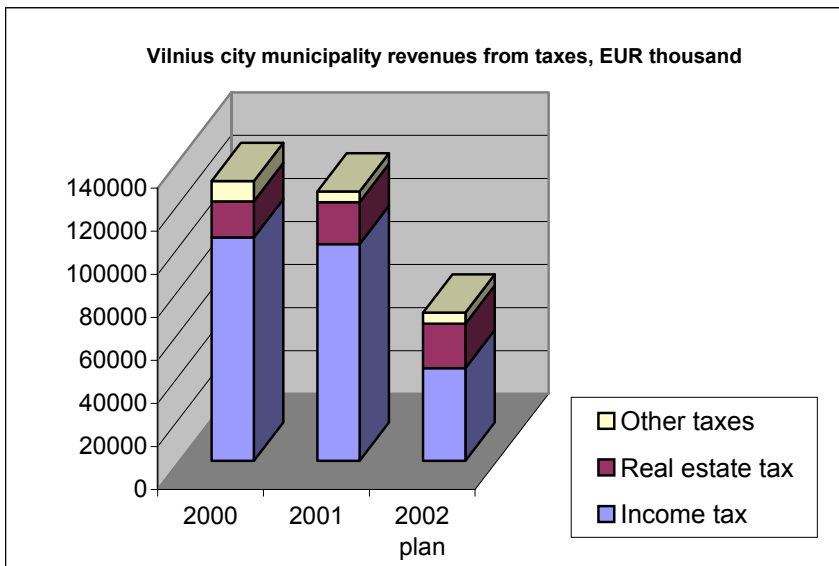


Source: Vilnius municipality

As one can see from the graph, municipal revenues decreased slightly in 2001, but the Municipality planned an increase in its revenues in 2002. Due to structural changes in income tax distribution, since 2002 a major part of income tax revenues comes as subsidy.

Taxes and Subsidies from the State budget are the largest income sources of Vilnius Municipality revenues since 2002.

The Municipality planned to receive more than EUR 68.841 million of revenues from various taxes in 2002. Income tax and real estate taxes are the main sources of the tax revenue.



Source: Vilnius municipality

Subsidies from the State budget amounted to EUR 72.181 million in the budget of 2002. Subsidies are used for:

- financing primary and secondary education (55.41% of Subsidies);
- financing state delegated functions (39.69% of Subsidies);
- financing projects of State investment programme (4.53% of Subsidies);
- financing other programmes (0.37% of Subsidies).

Non-tax revenue amounted to EUR 11.904 million in the Municipality's budget in 2002. Non-tax revenues include:

- revenues from property;
- levies and payments;
- revenues from premises rent;
- revenues from provided services;
- revenues from fines and confiscations;
- revenues from capital.

In 2002, the largest portion of the Municipality's income was sliced to fund the city's social activities, which included primary and secondary education, social care and other social programmes. That year, almost EUR 100 million was budgeted for these activities. The Municipality planned to spend almost EUR 29 million for the maintenance of public transport and public utilities in 2002. The remainder of the budget (EUR 25 million) is allotted to the Municipality's activities and other programmes.

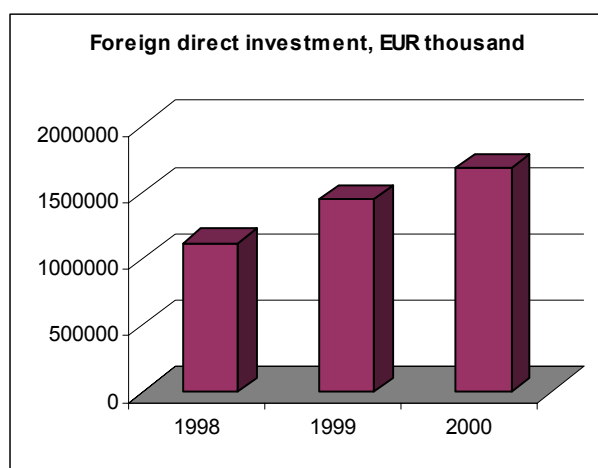
Foreign Investments

The country's government and local authorities are strongly committed to promote foreign investments in Vilnius. The city attracts more than a half of all foreign direct investment coming to Lithuania (62.1% of foreign direct investment came to the capital, other two major parts of foreign capital were directed to the port Klaipeda – 9.2% and second biggest city Kaunas – 10.8%). It is recognised that foreign investment plays an important role in the modernisation and growth of the country's economy.

The municipality maintains a number of units dealing with local and foreign investments. In addition, Vilnius Old Town Renewal Agency was established according to Vilnius Old Town

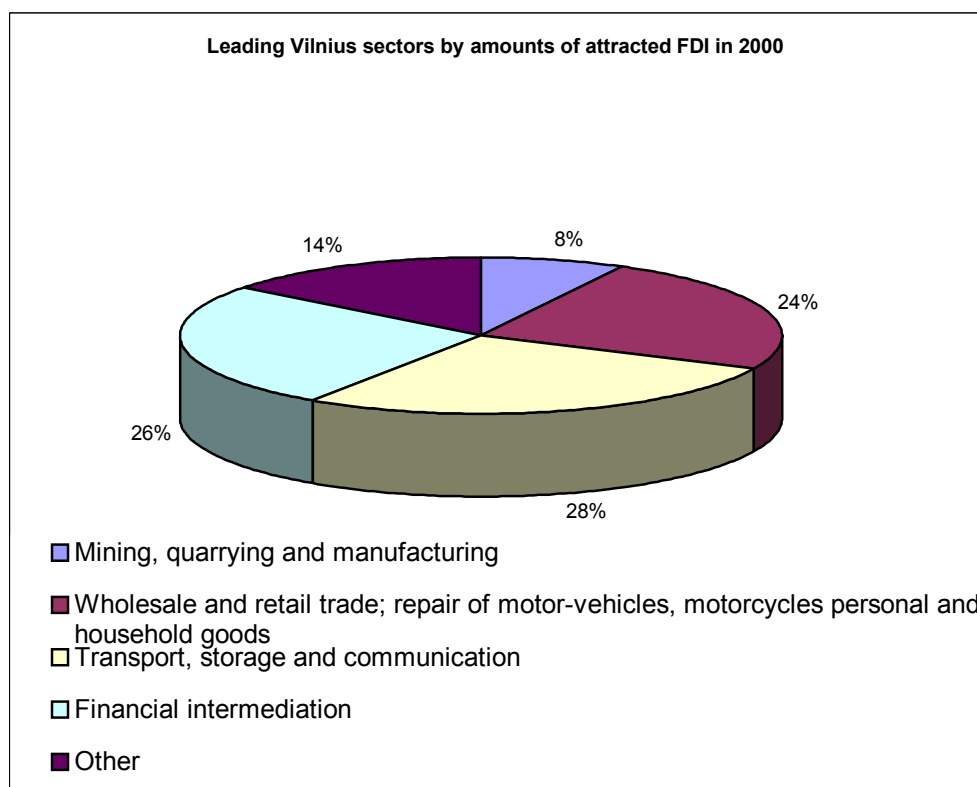
Revitalisation Strategy. The Agency develops and implements the Old Town conservation and revitalisation programmes, provides consultations, co-operates with international organisations, *etc.*

Foreign companies coming to Lithuania choose Vilnius as a primary place for their investments. Total foreign direct investment in Vilnius increased by some 16.2% in 2000, if compared to 1999, and amounted to EUR 1.68 billion or EUR 2.851 per resident.



Source: Lithuanian Department of Statistics

In 2000 the largest share of foreign investment has been directed to transport, storage and communication; financial intermediation; and wholesale and retail trade.



Source: Lithuanian Department of Statistics

A number of multinational companies have made significant investments in Lithuania and particularly in Vilnius. The major investors include Philip Morris, Shell, McDonald's, Coca Cola, PepsiCo, Siemens, ABB, IBM, DHL, Olivetti, Minolta, Skandinaviska Enskilda Banken, Motorola, Norddeutsche Landesbank Girozentrale, Hansabank Group.

Investment Projects

Over the last ten years, the Lithuanian Government, Vilnius Municipality and international partners have focused on and provided funds and technical assistance for the renewal of Vilnius Old Town.

Implementation of the Old Town renewal programmes from the State funds has created an attractive image of the city to private investments and economic development in the historical centre. Prestige of the Old Town as a residential area has significantly increased.

In Vilnius Municipality, the Urban Development Department is the centre that prepares documents for publicly organized auctions for which State-owned land plots are put up. By the end of 2001, there were 37 land plots ready for sale in Vilnius. Their total value exceeded EUR 4 million.

In 2001, the negotiated procedure to construct a new building of Vilnius Municipality at Ukmerges St. took place. The winner *Skanska statyba* will complete the construction of the 20-floor-building by the end of 2003 with the total value of the project amounting EUR 25 million. *Skanska statyba* will cooperate with *Hanner* for New City Centre project implementation. A part from a new building of Vilnius Municipality, the New City Centre will include the retail complex for 50 stores, coming in the end of 2003 and two multi-storey building for offices with the high-capacity underground garage to be finished in 2005-2006.

The improvement of the transportation system and modernization of the transportation infrastructure has been declared as one of the priorities for the city growth and is now considered as a key factor to secure the successful development of the urban economy. In 2001, The Council of Vilnius Municipality confirmed the list of priority objects of Vilnius Municipality transport infrastructure development programme for 2002-2005, comprising Vilnius western and southern by-passes, two-level interchange at the conjunction of T. Narbuto St. and Laisvės ave. and the extension of T. Narbuto St. up to Pilaitės St., two level intersection at Geležinio Vilko St. and Ukmergės St., southern by-pass of the Old town from P. Višinskio St. up to Aušros Vartų St. and reconstruction of

Ukmergės St. intersections between Kalvarijų St. and Geležinio Vilko St. The estimated value of the programme is EUR 130.8 million.

The implementation of these projects will not only improve the transportation conditions in the city of Vilnius, but will also stimulate the investment into the remote districts of the city by making them involved in the investment possibilities plan.

Driven by public initiative and a strong high technology sector in Vilnius, an idea emerged to establish and develop knowledge economy clusters in the city. In spring 2002 five projects related to the development of knowledge economy were under implementation or were being developed:

1. Material Science and Measurement Clusters (Physics);
2. Šiaurės Miestelis Technology Park (IT);
3. Biotechnology Science Park (Biotechnology);
4. Sunrise Valley (IT, Laser technology, Semiconductor optical technology, Nanotechnology, Environmental technology);
5. Visoriai Valley (IT, Biotechnology).

Credit Rating

Standard & Poor's assigned its **triple-'B'-minus long-term local and foreign currency issuer credit ratings** to the City of Vilnius (local currency BBB+/Stable/A-2; foreign currency BBB-/Stable/A-3) on 17 April 2002.

The ratings reflect:

- Vilnius' service-driven economy and its position as Lithuania's engine for growth;
- The stabilization of the Lithuanian intergovernmental system; and
- The city's stable financial performance, and its low debt.

Despite the transitional nature of the Lithuanian economy, Vilnius' operating performance has been relatively stable, and budgeting has been cautious. The five-year operating balance of operating revenues has averaged a moderate 8% between 1997 and 2001. Vilnius has a direct debt of 18% of operating revenues, which is low both by international standards and compared with Central and Eastern European (CEE) peers. As the central government limits municipal borrowing, the city is dependent on capital grants from the central government to address its major infrastructure projects, which mainly relate to roads and transportation.

In the context of the limited financial flexibility of Lithuanian municipalities under the current system, Vilnius is expected to maintain an adequate financial balance and a low debt burden over the next few years. This is due to the positive impact of the gradual strengthening of the Lithuanian economy on tax revenues and the significant participation of the state in the financing of the city's capital investment needs.

Services and Trade

In the last decade, the service sector (wholesale and retail trade, transportation, communications, education, health care, social work, public administration, business and personal services, financial, insurance and real estate) has been the most rapidly developing sector of Vilnius economy. Currently, the service sector employs more than 72% of all people employed in Vilnius.

The service sector has demonstrated a significant growth in the last few years and new kinds of services have been introduced. The sector encompasses a comprehensive range of services, including financial services, telecommunications, tourism and hotels, advertising industry.

The number of restaurants, cafes and pubs is also continuously increasing. At the end of 2000 there were 5,142 such companies in Lithuania. 23% of them (or 1,196 restaurants and other public catering companies) were located in Vilnius. The number of shops and modern supermarkets has also gone up and the majority of them now match Western European standards. During the period from spring 2001 to spring 2002 three huge supermarkets, one raw material store and one trade and entertainment centre were opened in Vilnius. As a result of their establishment more than 2,500 jobs were created and the total shopping floor space increased by 19% as compared to the shopping floor space in Vilnius in 2000.

Service companies involved in business services, health and social care and real estate activities generate the highest revenues. In 2000, the strongest growth was achieved in the rent of machinery and equipment without an operator and that of personal and household goods reaching 35% and computer related activities accounting for 14%. The most significant decline was noted in two areas, *i.e.* in organisation of recreational, cultural and sporting activities (decline by 17%) and sewage and refuse disposal, sanitation and similar activities (by 10%).

Industry and Production

Vilnius attracts foreign investment for a number of reasons, not only for its relatively low operating costs as utilities, rent, building, overhead, but also service costs, which are among the lowest ones in

Central and Eastern Europe. In Vilnius there are no problems associated with the availability of comparatively cheap but highly qualified labour force. The city also benefits from the well-developed transport and warehousing infrastructure, which allows easy transportation of raw materials from other markets.

Inflation in Lithuania was 2.0% in 2000. The real interest rate on loans is favourable for long-term investment given that the rate of return on new capital is higher than in advanced economies. The Lithuanian banks are expanding the range of their products and increasing the average length of loans.

Today, Vilnius industry produces 15.1% of the country's manufacturing output. 20% out of 332,400 Vilnius labour force are employed by Vilnius industrial companies.

Manufacture of wearing apparel, dressing and dyeing of fur, manufacture of food products and beverages, printing and publishing are the main industries in Vilnius. The remaining 52.4% of the industrial production sold are produced by other industries. 50.6% (or EUR 410 million) of production by Vilnius manufacturing companies are sold on the local market and 49.4% (or EUR 400 million) are exported. Five out of twenty one major Vilnius industries export more than 70% of their own production. These include textiles, manufacture of wearing apparel, dressing and dyeing of fur, leather articles, medical, precision and optical instruments and recycling of metal waste and scrap.

Manufacture of food and beverages, printing and publishing, manufacture of basic metals, manufacture of fabricated metal products, except machinery and equipment, and manufacture of other transport equipment have a very strong focus on the local market, selling there over 80% of their production. The analysis of the structure of exported production by industries shows that the biggest sole exporter among Vilnius industries is manufacture of wearing apparel, dressing and dyeing of fur, which amounts to 41% of total exports.

Privatisation

Real Estate and Privatisation division of Economic department and, in certain cases, the state enterprise State Property Fund are charged with privatisation of municipal assets, including share blocks in private and public companies. The list of municipal objects put for privatisation is continuously supplemented with new, and often very attractive, offers.

In 2001 municipal assets for over EUR 3.4 million were privatised. In the first quarter of 2002 the value of privatisation in Vilnius reached EUR 3.9 million.