



Automotive Industry in Lithuania



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Overview

Size:	65,300 km ²
Population:	2.8 million
Capital:	Vilnius
Official language:	Lithuanian
Widely-spoken foreign languages:	English, Russian, German, Polish
Currency:	Euro
Real GDP growth:	3.5% (2018) ¹
From planned economy to free market in 20 years	2 nd most attractive location for manufacturers globally ² 14 th globally, 4 th in EU, 1 st in CEE by Ease of Doing Business ³ 21 st freest economy in the world ⁴

¹ Statistics Lithuania, 2018.
² Manufacturing Risk Index 2018.
³ Ease of Doing Business 2019, World Bank, 2018.
⁴ Heritage Foundation, Index of Economic Freedom, 2019.

A Lithuanian take on the automotive industry

With the automotive job market saturation at a historical high and unemployment levels at an all-time low, traditional Central and Eastern European (CEE) locations are beginning to lose their allure. Most of the region's current leaders in attracting automotive investments are already suffering from wage hikes and labour shortages. Low-cost CEE countries have recently been rebranded as "best-cost" while more and more Western automotive industry staples like increased unionization are taking their toll on the bottom line. These developments have pushed manufacturers to explore locations outside of the traditional CEE automotive belt of Poland, Slovakia and the Czech Republic, according to Cushman & Wakefield.⁵

This makes Lithuania a natural choice for automotive, especially for high-value components. Let's explore the main reasons behind this. First of all, the country's cost-to-quality ratio outstrips Poland and other countries in the region. Second, Lithuania leads the EU in the number of STEM grads per capita, meaning that talent is truly fit for the market, and the government is invested in keeping it that way.⁶ And that is why Lithuania leads the CEE region in university-industry collaboration in R&D.⁷ Lastly, the Lithuanian government stakeholders are actively striving to build upon on its successful FDI attraction policies, which is best illustrated by the recent leap from 21st to 14th place in the global Doing Business ranking.⁸

And the government strategy is already working. Household names like Hella, Continental, AL-KO have all established their operations in the last three years. This flexible environment, already tried and tested by major manufacturers, provides a perfect fit for an automotive industry that is undergoing a shift towards electric vehicles, hybrids and autonomous cars. New legislation was introduced this year that will allow companies not only to manufacture but also test out their Advanced Driver Assistance Systems (ADAS) on the roads. This shows our government is future-focused and flexible when it comes to developing an automotive cluster.

To sum up, Lithuania is on its way of becoming not just a destination for automotive companies, but the destination. And it's going there at full speed.

Baltic Automotive Components Cluster

BACC

Baltic Automotive Components Cluster

Baltic Automotive Component Cluster (BACC) is a public entity driven cluster which was established in 2013. Today it consists of 20 members – 17 automotive companies, 2 education institutions (Kaunas University of Technology and Kaunas School of Mechanical Engineering) and Kėdainiai Free Economy Zone.

Cluster activities are aimed at supporting and strengthening the competence of partner companies along the entire value added chain. It

has identified four strategic focus areas as being core to attaining export growth and increased cost competitiveness in the Baltics automotive industry: market and technology access, manufacturing excellence, skills development, infrastructure and materials.

⁵ Manufacturing Risk Index 2018

⁶ in 2018, the Ministry of Education has increased the number of subsidized places in IT and electric/electronic engineering programs by 47% in colleges.

⁷ Global Competitiveness Report

⁸ Doing Business 2018.

Success stories



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.

Presently, the first module of the new factory has been constructed in Kaunas FEZ, which will have annual production worth €250 million. If this module proves to be successful, Hella is willing to supplement the factory with 4 more modules.



Continental develops pioneering technologies and services for sustainable and connected mobility of people and their goods. Founded in 1871, the technology company offers safe, efficient, intelligent and affordable solutions for vehicles, machines, traffic and transport. In 2016, Continental generated sales of €40.5 billion and currently employs more than 227,000 people in 56 countries.

The technology company has announced the construction of a new manufacturing plant in Lithuania to expand its automotive electronics production footprint. By choosing the location in the Kaunas region, Continental is increasing the production of electronic components for European markets. The company plans to invest €95 million over the next five years and create around 1,000 new jobs.



Schmitz Cargobull AG is a German company producing and supplying individual transport solutions.

It began operations in Lithuania in 1999 by establishing Schmitz Cargobull Baltic in Panevėžys. The Lithuanian production site manufactures isothermal truck bodies, trailers and semi-trailers. A unique product of Schmitz Cargobull Baltic is the semi-trailer created for the Western European and Scandinavian markets. As much as 95% of their production is exported to Denmark, Germany, Great Britain, Poland, and elsewhere.

Now the company has around 530 employees, but excellent sales ratios have enabled them to expand. The company plans to invest EUR 20 million in improving the plant's production processes and infrastructure by 2020. Over the next 1–2 years, the Lithuanian production site will become the main supplier of isothermal truck bodies and their components for all plants across the Schmitz Cargobull group.



Yazaki is a Japanese company, and one of the largest wiring manufacturers for automotive in the world. Yazaki Corporation has around 90 companies around the world which employs over 100 thousand people. It also owns 15 factories with over 25 thousand workers which supply production for 19 largest car manufacturers.

Manufacturing facility is established in Klaipėda Free Economic Zone and supplying for car manufacturers such as Renault and Volvo. In April 2018, the company announced expanding its production capacity at Klaipėda FEZ. The aim is to hire 400 new employees, both as production line workers and specialists, to produce wire harnesses for Daimler (Mercedes-Benz) motor vehicles.



Spain's CIE Automotive is a production group with a presence on four continents and 15 countries.

The hot forging and mechanical processing company CIE LT Forge, established in Marijampolė in 2007, specialises in the production of automotive components. The company has recently opened a second shaft production line that will allow tripling production capacity.

Beginning with the production of simple products in 2010, it has since progressed onto components and sub-assemblies which call for special manufacturing processes and high-quality processing. The plant produces crank shafts, one of the most important components of car engines, for the VW Group. The team consists of around 220 employees.



PKC Group is a global partner from Finland, which specialises in designing, manufacturing and integrating electrical distribution systems, electronics and related architectural components for the commercial vehicle industry and other selected sectors. PKC Group has two business areas: Wiring Systems and Electronics.

Manufacturing facility was opened in Panevėžys in 2014 with around 30 employees, and it has been rapidly expanding ever since, and now it employs more than 1700 operators and specialists.



Swedish AQ Wiring Systems is a wiring and electronics systems manufacturer that produces more than 4,000 different products used in heavy machinery.

The company was established in 2001 in Panevezys and has grown to 757 employees. It manufactures high quality wiring and electronics systems exported to Finland, Sweden, Germany, France, USA, Canada, Korea, China, New Zealand, Australia and other countries. Company's ability to manufacture in small series distinguishes it, as this allows them to be more flexible in meeting their clients' needs.

Currently their largest clients are Volvo, Renault and Mack Trucks.

Major manufacturers in Lithuania



Let's talk Lithuania

Thanks to a sustained and concentrated focus on creating the right conditions for dynamic, growth-oriented business, Lithuania is now a regional leader in cutting-edge manufacturing. And the country is perfectly positioned for further substantial growth in this area because:

1. It has an education sector focused on **entrepreneurial talent ready to drive your business**.
2. It offers investors an **innovation-friendly business environment**.
3. It offers **cost-competitive and business-friendly conditions**.
4. It provides companies with **bespoke research spaces** in its 5 science valleys.
5. Its **Free Economic Zones (FEZs)** offer attractive incentives to investors.
6. It is **located strategically** for global logistics reach.

#1 Entrepreneurial talent ready to drive your business

Lithuanian talents are not just problem solvers, they drive solutions with their innovative thinking. Highly qualified, multi-lingual, and with a strong work ethic, our engineering specialists are ready to handle any automotive challenge.

Young, diverse and flexible:

- 75% of manufacturers rate employee engagement as “Excellent”⁹
- 76% of manufacturers rate employee dedication and ability to learn as “Outstanding”¹⁰
- Low annual average labour turnover rate ranging from 4 to 10 percent in various manufacturing industry companies¹¹
- Lithuania stands 1st in Europe, by share of female managers at the highest (C) level - 28% (ES – 17%) and has 42% of females in various managing positions.¹²
- 38,8 is the average age of employees in manufacturing¹³

Well educated:

- 2nd in the EU: 55% of the population aged 25-34 has a higher education¹⁴
- 95,6% of the working age (25–64) population speaks at least 1 foreign language¹⁵
- 84% of young professionals speak English¹⁶

Engineering readiness:

- Historic competences in electro mechanics and electro engineering
- 200 000 specialists employed in manufacturing field¹⁷
- 43 000 employees in Automotive industry related sectors (electronics, metals and plastics)¹⁸
- 30 000 students enrolled in engineering related programs and 7 000 graduates enter the market annually¹⁹

⁹ Manufacturing Landscape report, 2018, Invest Lithuania

¹⁰ Manufacturing Landscape report, 2018, Invest Lithuania

¹¹ HR consulting agency Biuro, 2018

¹² Eurostat, 2018

¹³ Manufacturing Landscape report, 2018, Invest Lithuania

¹⁴ OECD, 2018

¹⁵ Eurostat, 2016

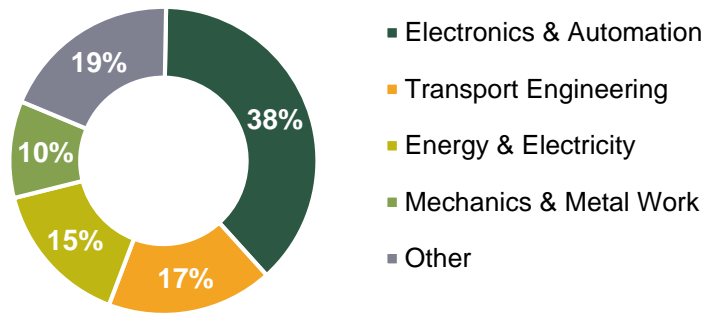
¹⁶ Invest Lithuania's 2016 estimation based on Population Census (2011)

¹⁷ Interdepartmental tax data warehouse, 2018

¹⁸ Interdepartmental tax data warehouse, 2018

¹⁹ The Ministry of Education and Science, 2018 – 2019

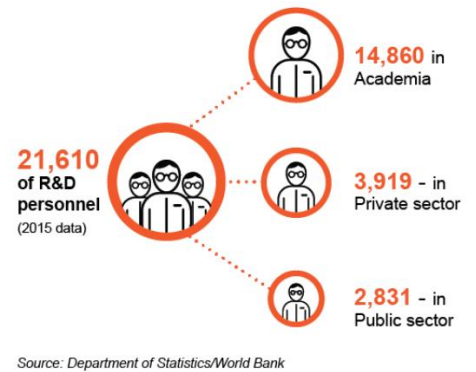
Engineering student's structure by major fields



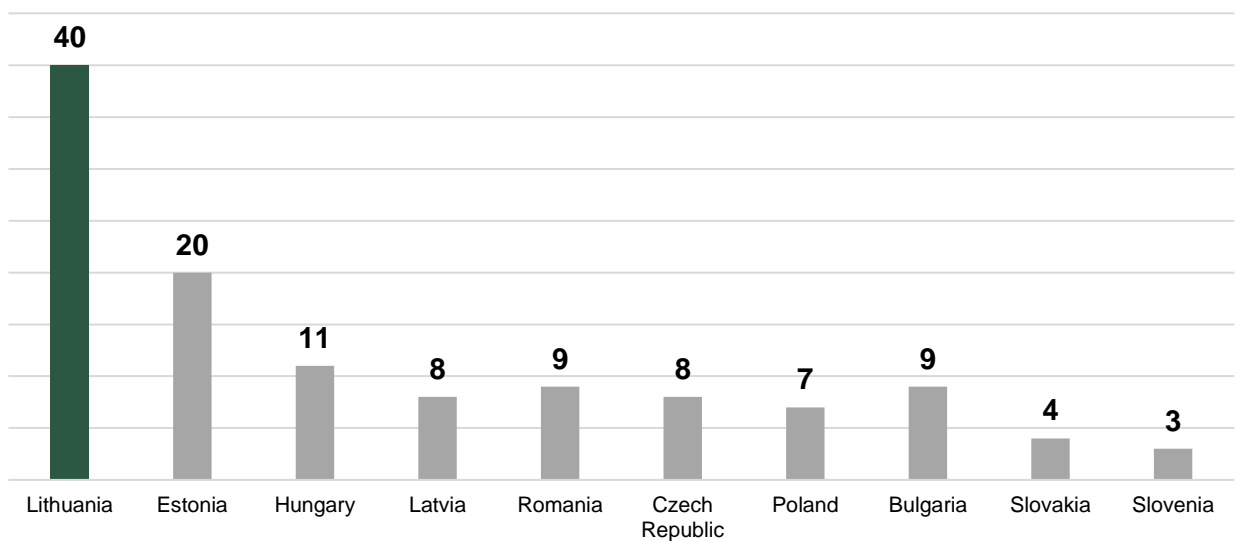
#2 Innovation-friendly business environment

Lithuania is a leader in the CEE region for R&D, with strong links between universities and businesses, plus a well-developed research network.

With over 21,000 researchers in the market, Lithuania offers highly-skilled specialists with competences in a range of research fields. Amongst other areas, Lithuania has a global reputation as a research hub for scientific and industrial lasers, optical parametric amplifiers, medical devices, metering equipment, wireless controllers and remote fleet management systems.



Number of FDI projects in innovative fields in CEE per million population | 2014-2018

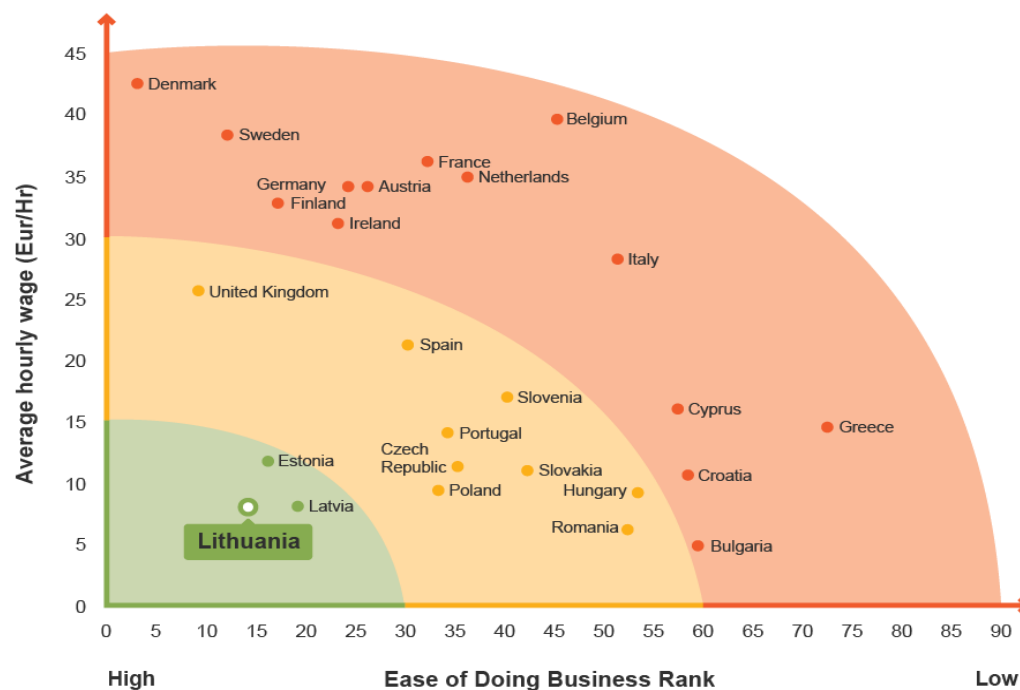


Innovation fields include: Biotechnology, Chemicals, Electronic Components, Engines & Turbines, Medical Devices, Pharmaceuticals, Semiconductors, Software & IT services

Source: The Financial Times FDI Monitoring Database fDi Markets, 2018

#3 Cost-competitive and business-friendly conditions combined with high quality

Cost and quality combined:



Source: compiled by authors based on the Ease of Doing Business Index and Eurostat, 2018.

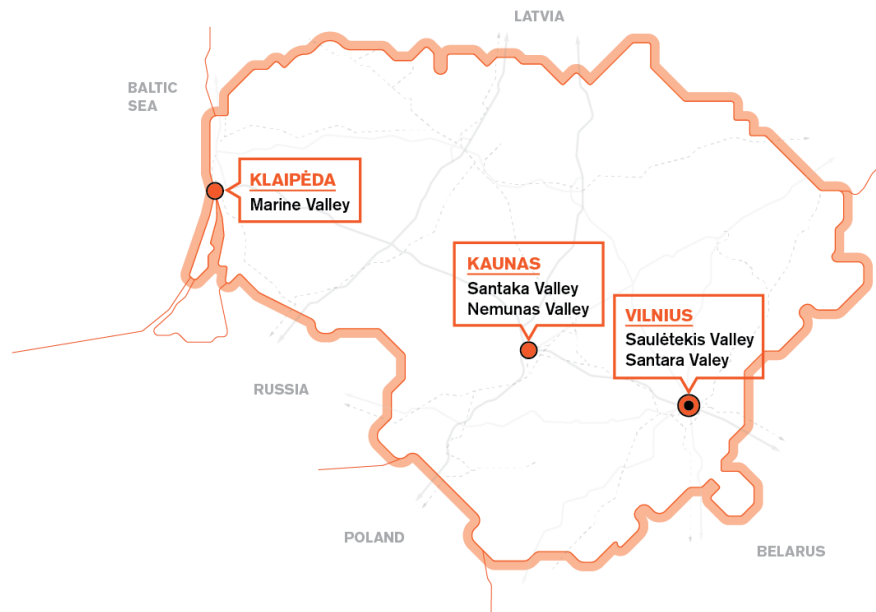
	LT	LT (FEZ)	PL	CZ	SK
Corporate profit tax	15%	0% for the first 10 years and 50% discount on corporate tax over the next 6 years	19%	19%	21%
VAT	21%	21%	23%	21%	20%
Dividends	0/15%	0%	0/19%	0/15/35%	0/7/35%
Personal income tax	15%	15%	up to 32%	15/22%	19/25%
Social security tax	9% employee 30.98% employer	9% employee 30.98% employer	20.6%	11% employee 34% employer	35.2%

Additional incentives:

- Corporate profit tax incentives for R&D – **fully deductible expenses 3 times**
- Corporate profit tax can be reduced by up to **50%**
- Reimbursement of up to **25%** of investment in long-term fixed assets or job creation
- Reimbursement of up to **25%** of expenses on R&D infrastructure
- Reimbursement of **25 to 65%** of expenses on R&D activities
- Reimbursement of up to **50%** of employee training costs

#4 Bespoke research spaces

At both local and national level, policymakers in Lithuania have shown a sustained commitment to providing quality research spaces. The country now boasts well-developed science valleys and research centers with the facilities and resources necessary to meet the latest research needs. Lithuania's 5 science valleys are located in the capital Vilnius, Kaunas and Klaipėda, Lithuania's port city.



SCIENCE VALLEYS AND RESEARCH CENTRES

Santara Valley (Vilnius)

- Joint Life Science Centre
- Information Technology Open Access Centre
- Open Access Centre of Nature Research
- Joint Centre of Innovative Medicine

Saulėtekis Valley (Vilnius)

- Centre for Physical Sciences and Technology
- Multi-functional laser facility "NAGLIS"
- Civil Engineering Research Centre

Santaka Valley (Kaunas)

- Centre for the Latest Pharmaceutical and Health Technologies
- National Open Access Scientific Centre for Future Energy Technologies
- National Open Access R&D Centre within Kaunas University of Technology

Nemunas Valley (Kaunas)

- Animal Health and Material of Animal Origin Quality Open Access Centre
- Food Science and Technology Competence Centre
- Open Access Joint Research Centre of Agriculture and Forestry

Marine Valley (Klaipėda)

- National Open Access Centre of Marine Sciences and Technologies

COMPETENCES

- 🧬 Biotechnology
- 🏥 Innovative medical technologies
- 🧪 Molecular medicine and biopharmacy
- 🌱 Ecosystems and sustainable development
- 💻 Informatics and communication technologies

- 🔦 Laser and light technologies
- 🔬 Material science and nanotechnologies
- 🔌 Semiconductor physics and electronics
- 🏗️ Civil engineering

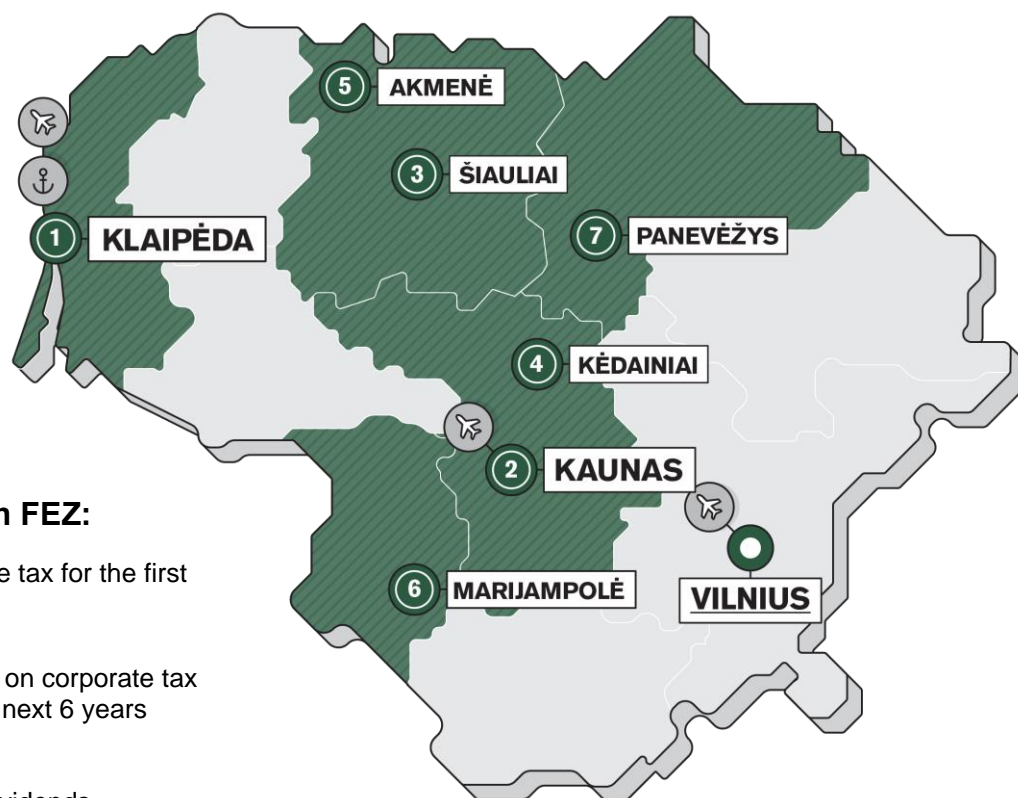
- 🧪 Sustainable chemistry
- 🏥 Biopharmacy
- ⚙️ Mechatronics and related electronics technologies
- ⚡ Future energy
- 💻 Information and communication technologies

- 🌾 Agrobiotechnology
- 🔥 Bioenergy and forestry
- 🍷 Food technology
- 🛡️ Safety and health

- 🚢 Marine environment and marine technologies

#5 Free Economic Zones

There are 7 FEZs ready for business in Lithuania at the moment, with more in the pipeline. Within these zones, companies receive special economic and legal operating conditions under the Law on the Fundamentals of Free Economic Zones of the Republic of Lithuania. These come with complete infrastructure already in place and offer investors a number of tax benefits.



Tax incentives in FEZ:

0%

corporate tax for the first 10 years

50%

discount on corporate tax over the next 6 years

0%

tax on dividends

0%

tax on real estate

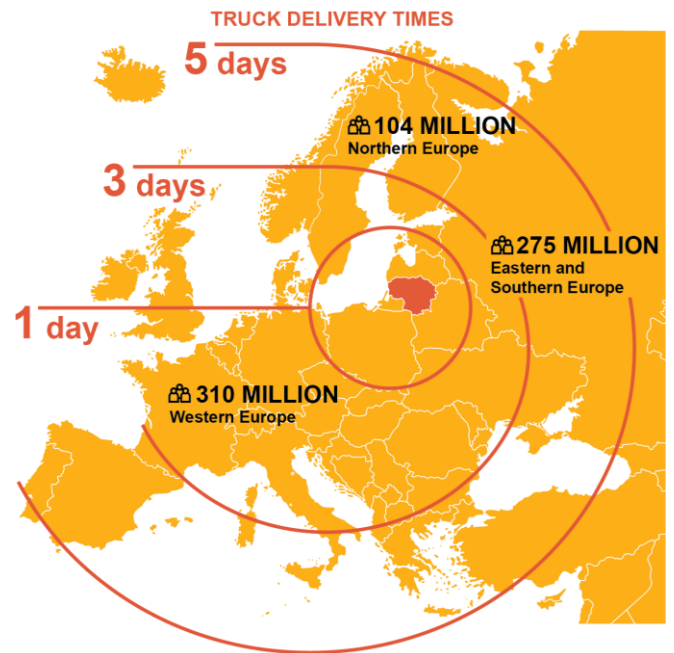
Free economic zones	County population	Unemployment rate (county), %	Available area, ha	Occupied area, ha
Kaunas FEZ	569 875	5,70	374	104
Klaipeda FEZ	320 507	4,90	277	60
Kedainiai FEZ	569 875	5,70	80	13
Marijampole FEZ	145 360	7,30	13	65
Siauliai FEZ	270 482	8,00	94	13
Akmene FEZ	270 482	8,00	24	61



#6 Located strategically

Lithuania's location, coupled with its flexible, well-developed logistics networks, allows for fast, efficient and cost-effective delivery to EU and CIS markets:

1. 0 lead time for overnight ferry deliveries to Karlshamn
2. 1-2 days delivery to the majority of Nordic, Western and Eastern European markets
3. Klaipėda Seaport offers quality infrastructure, and as an ice-free port it is able to operate all year round
4. 4 International Airports provide access to all major European cities within 2-3 hours. Nordic countries can now benefit from new routes from Palanga international airport.



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