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**Development Trends in Transport
Business: The Comparison of
business climate in LT, LV, and EE**

Robert Juodka

Attorney at law, Managing Partner, MRICS, MBA

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About VARUL

- VARUL is one of TOP 5 biggest Law firms in the Baltics.
- Nominated among **top four leading Baltic law firms** (The Lawyer 2012, 2013, 2014, 2015)
- VARUL has offices in Vilnius, Riga, Tallinn and Tartu.
- VARUL employs 110 people of whom 95 are professional lawyers.



Apie VARUL

- We are highly ranked by international legal directories



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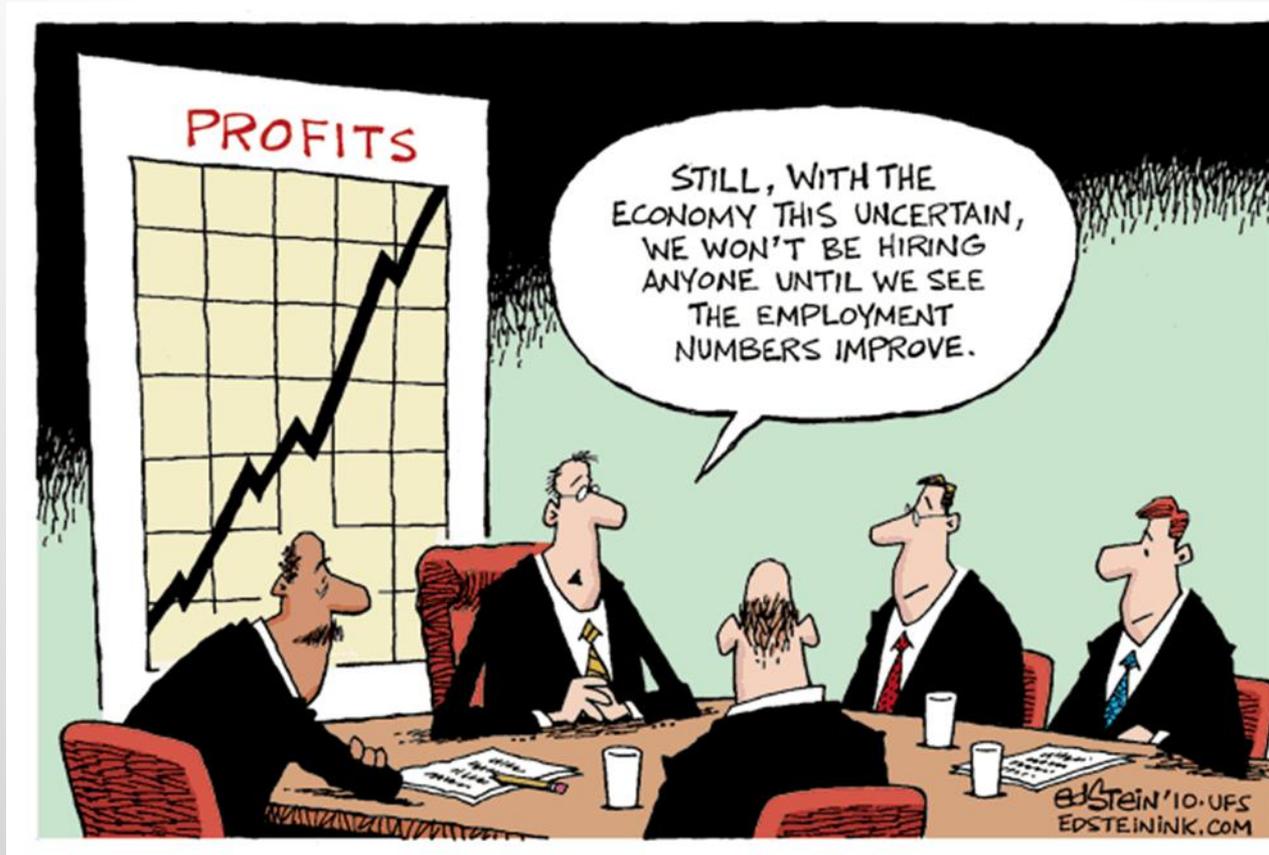
Practice areas

The firm is focused on advising both domestic and international clients on all aspects of business law. We care that our clients achieve their business goals in the most efficient manner. We meet the needs of our clients through developing an in-depth understanding of their businesses and by delivering responsive and innovative legal services.

- Banking & Finance
- Competition / Antitrust
- Construction
- Corporate
- Employment
- Energy & Natural Resources
- Environment
- Franchise & Distribution
- Healthcare & Pharmaceuticals
- Insolvency
- Insurance
- Intellectual Property
- International Trade
- Litigation & Dispute Resolution
- M&A
- Media, Communications & Technology
- Private Equity
- Privatisation
- PPP/PFI
- Public Procurement
- Real Estate
- Shipping & Transport
- Sports
- Tax
- White-collar crime



Business climate today



Lithuania ranks 2nd in Europe in the area of investment profitability and 16th worldwide

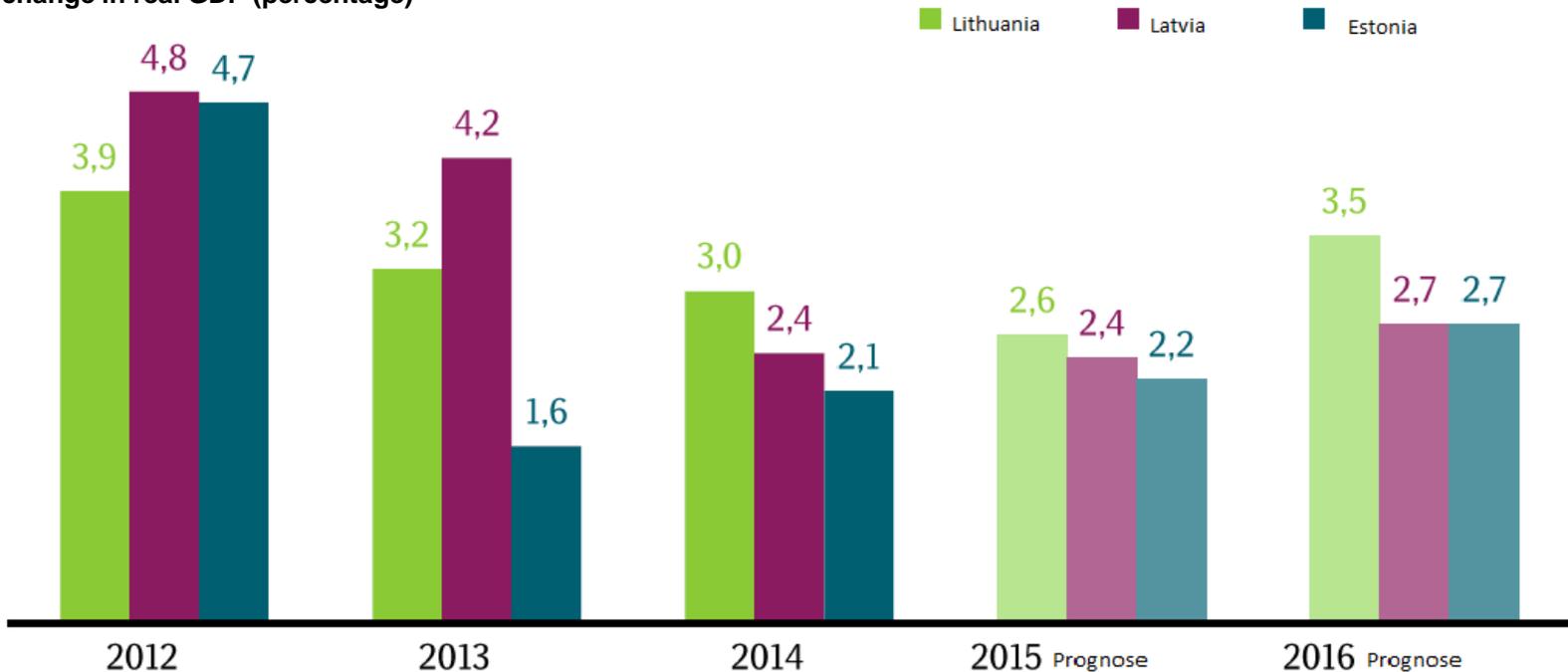
Following the Baseine Profitability Index (BPI) measured by prominent US magazine Foreign Policy:

Lithuania is the 2nd most profitable jurisdiction in Europe and TOP 16 most profitable jurisdiction in the world!!!

Estonia is ranked 18th and Latvia 22nd in the World based on the criteria of return on investment and the criteria of actual funds received from the investment upon exit. The Index also takes into account the levels of corruption, crises, exchange rates, conflicts etc.

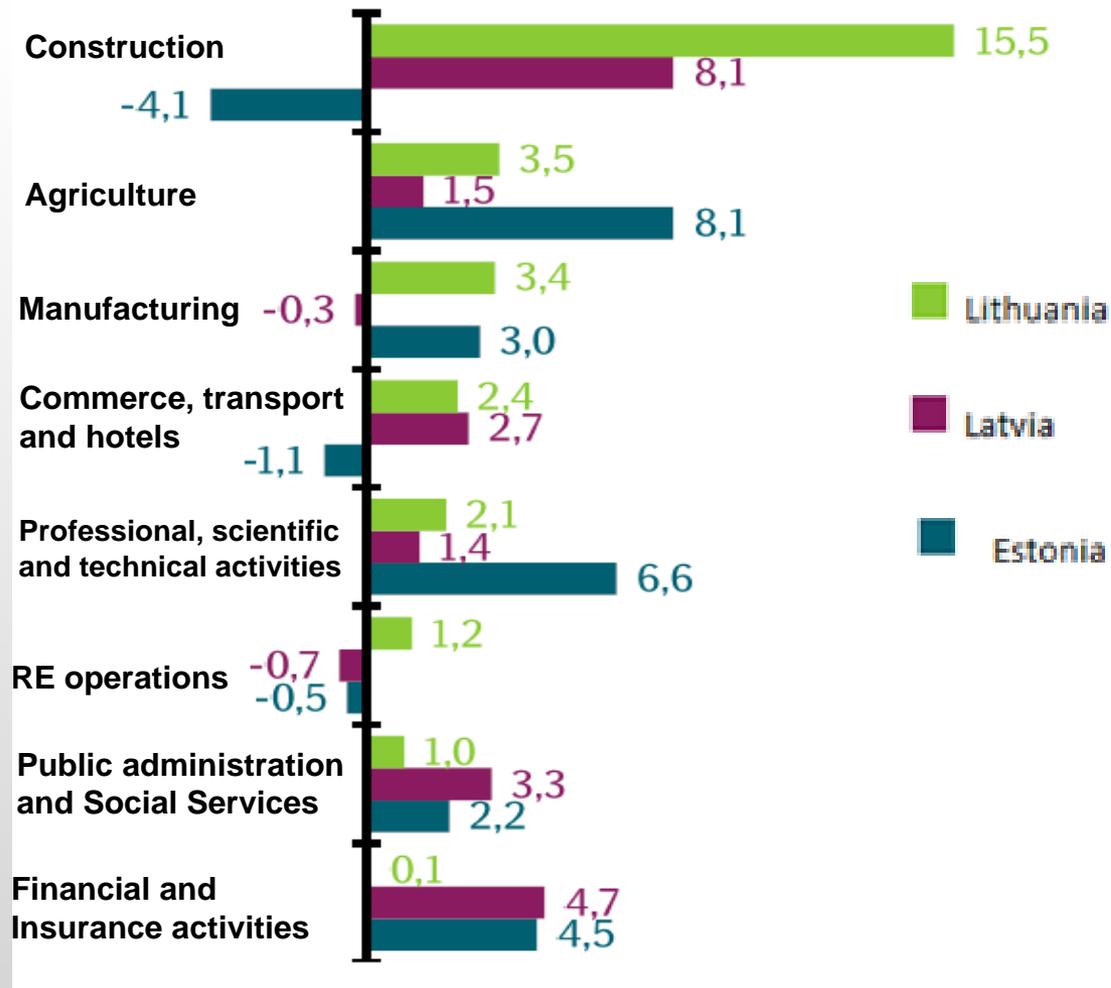
Despite neighbouring Russia, economic development in Baltics is one of the fastest in EU

Annual change in real GDP (percentage)



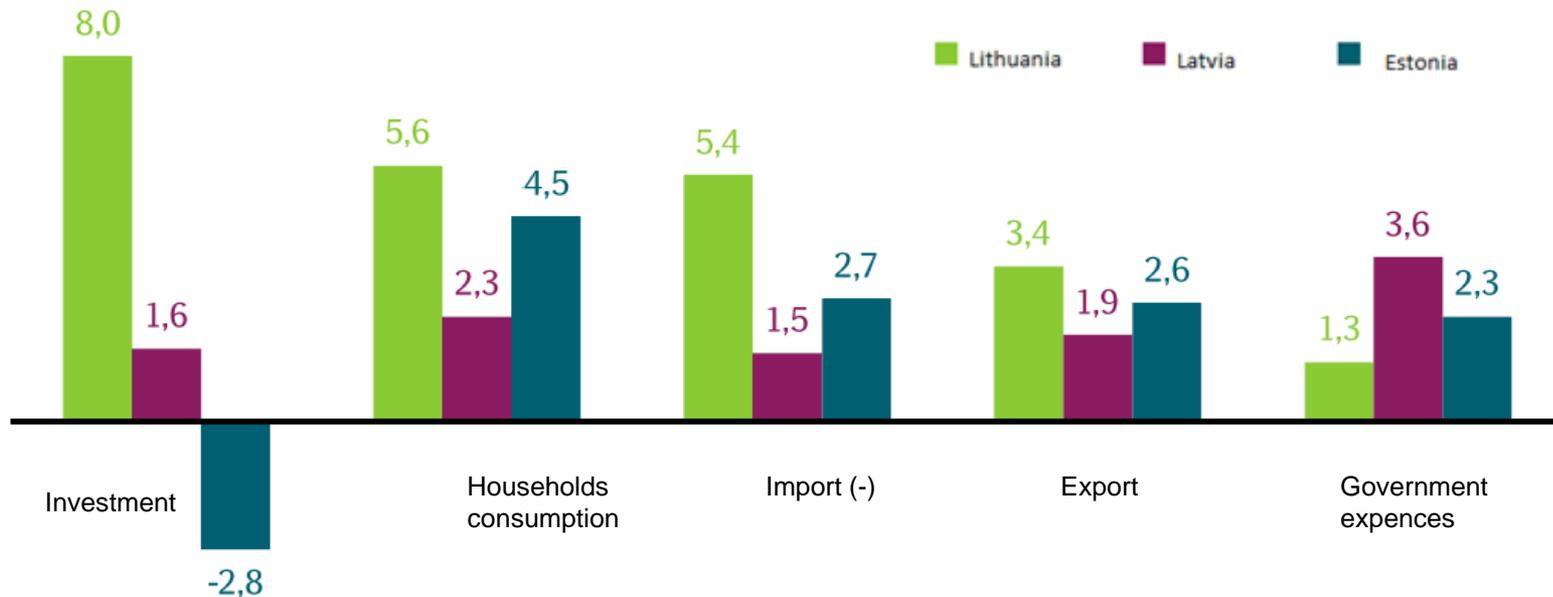
Construction sector in Estonia increased rapidly in 2011-2012, but it shrunk in 2013 and 2014

Annual change in real GDP production approach, 2014 (percentage)



Growth factors of the Lithuanian economy seem “healthier” than in other Baltic countries

Annual change in real GDP expenditure approach, 2014 (percentage)



World Bank Ease of Doing Business 2015

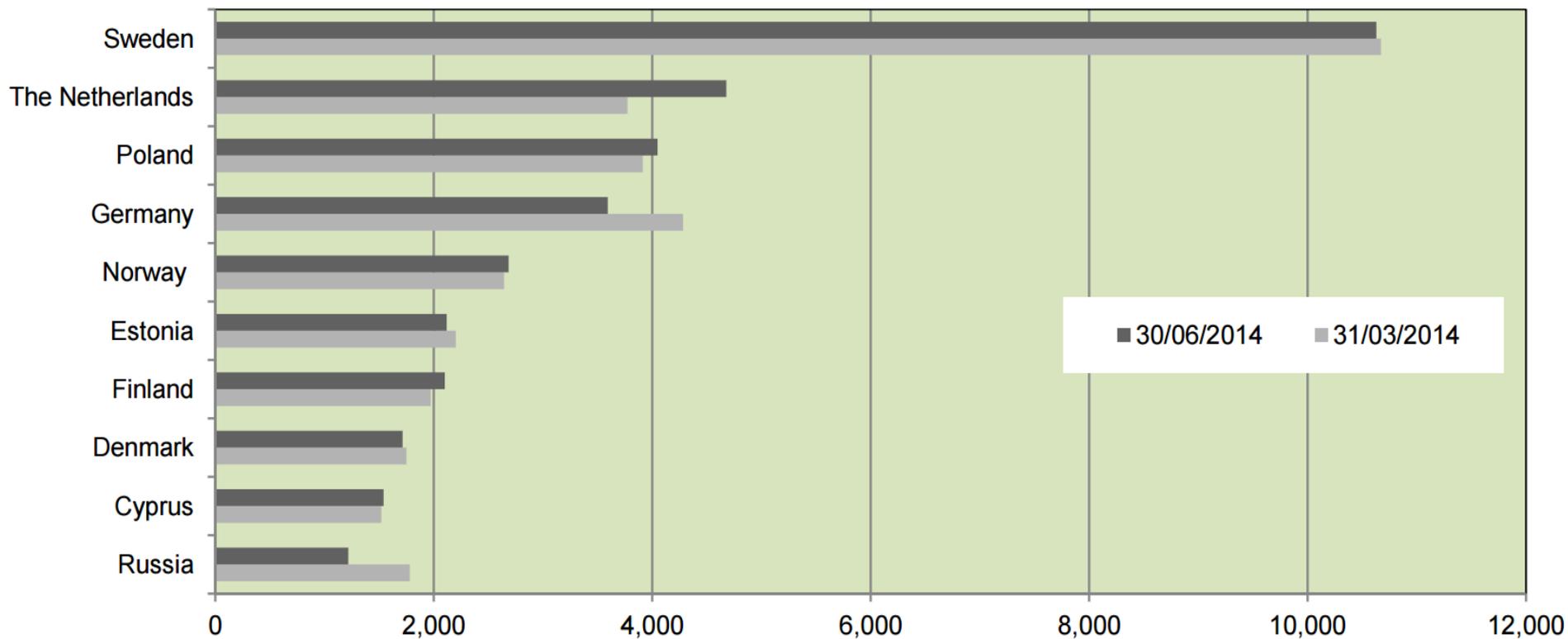
Source: World Bank - Ease of doing business 2015

	Leedu	Eesti	Läti
Starting of Business	11	26	36
Issuance of construction permits	15	20	47
Connection to electricity grid	105	56	89
Property registration	9	13	32
Getting credit	23	23	23
Protecting Minority Investors	78	56	49
Paying taxes	44	28	24
Trading across borders	21	6	28
Enforcing Contracts	14	32	16
Resolving Insolvency	67	37	40
TOTAL	24	17	23

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Top 10 investor countries in Lithuania

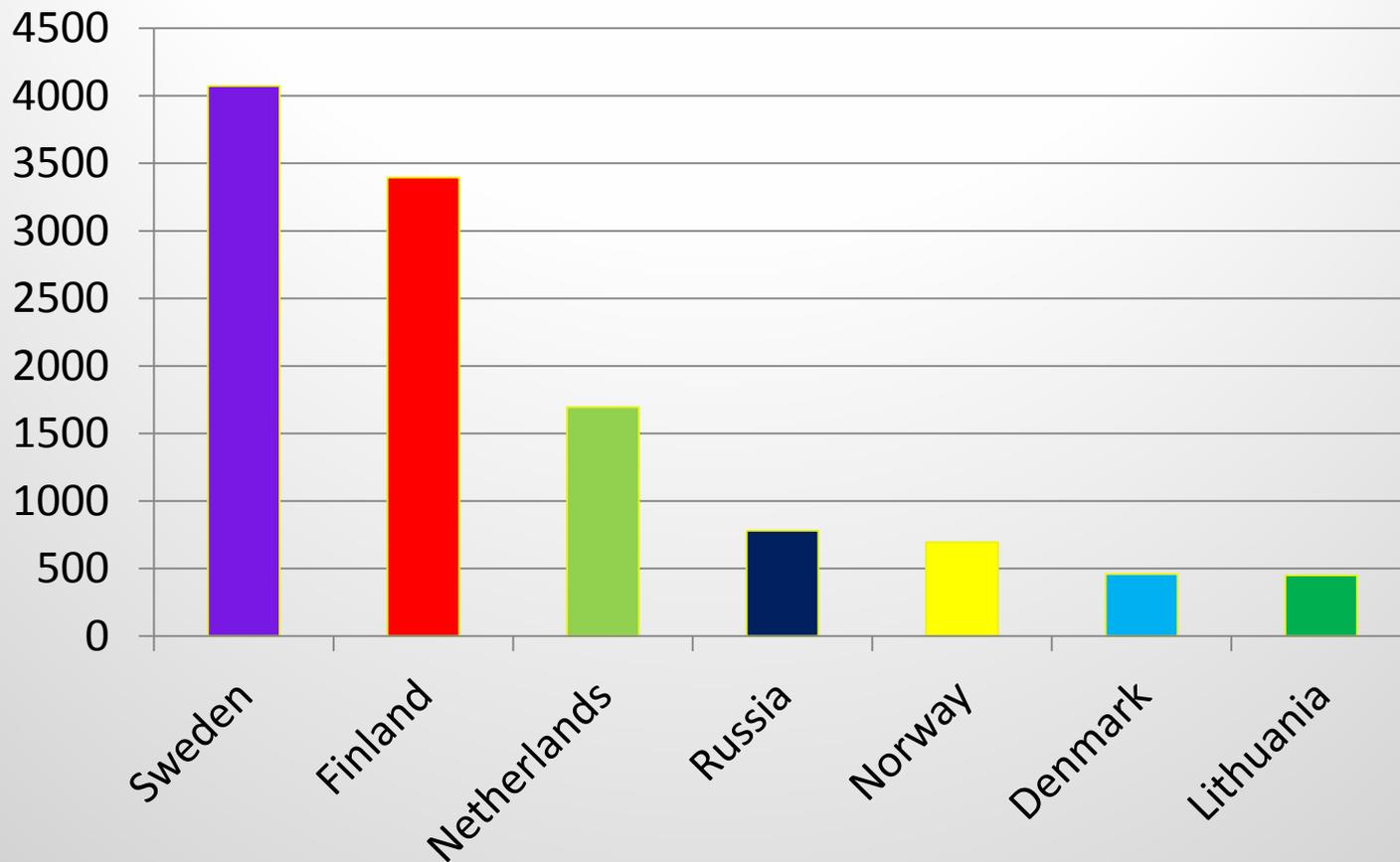
Source: National Statistic



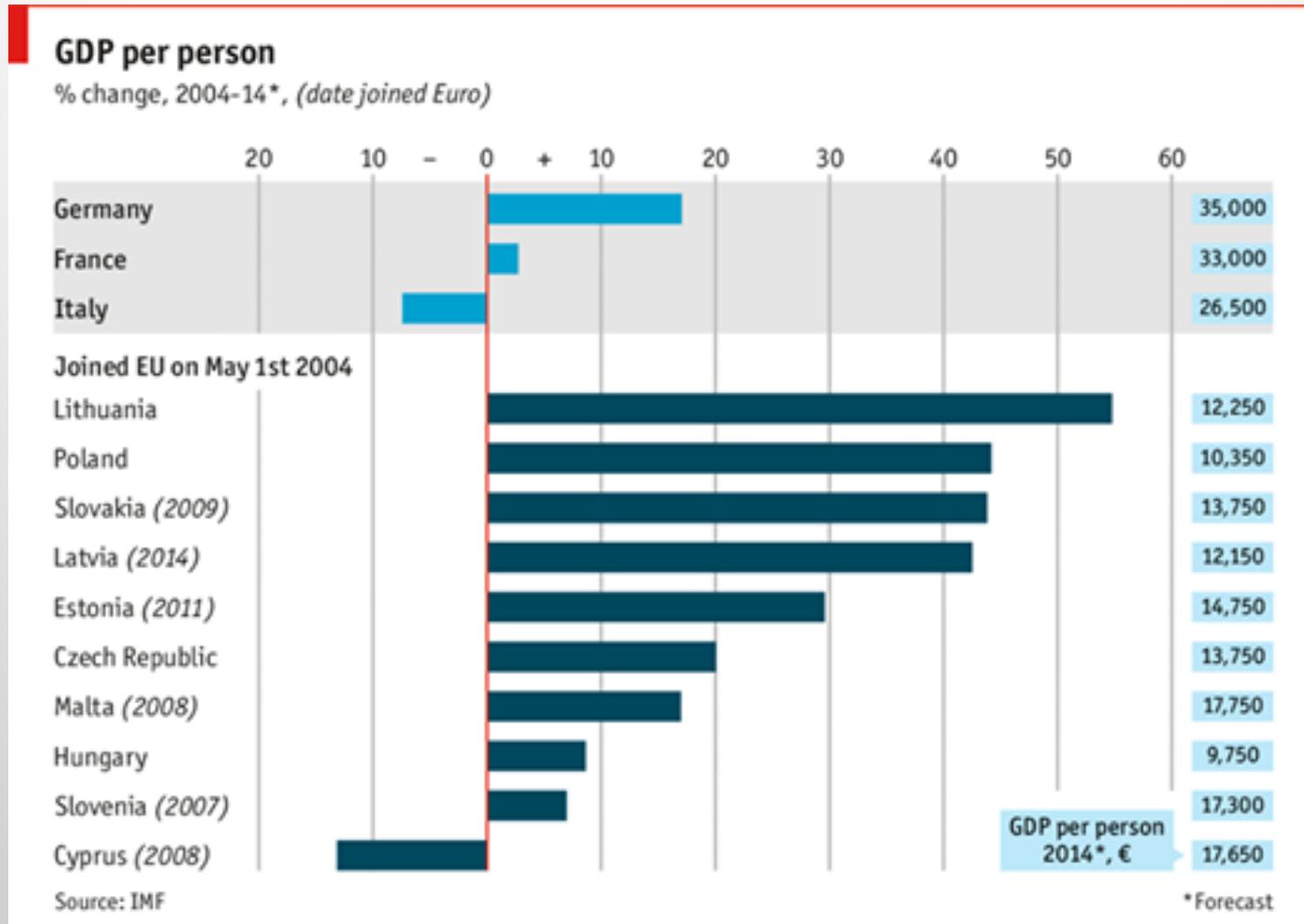
Top 7 investor countries in Estonia

Source: National Statistic, Bank of Estonia

Top Investor Countries in EE, mEUR

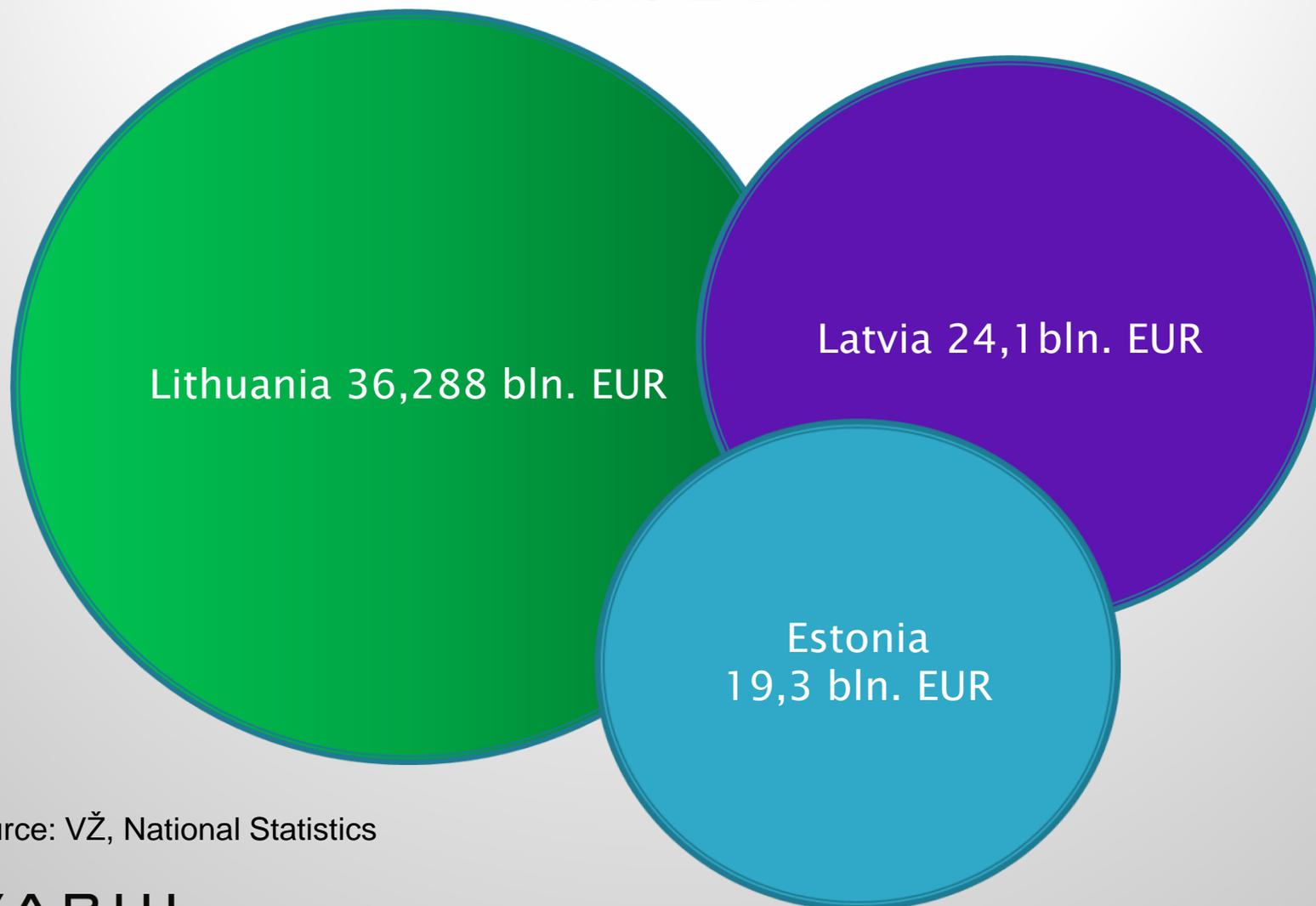


GDP growth *per capita* in EU Member states



Source: Eurostat

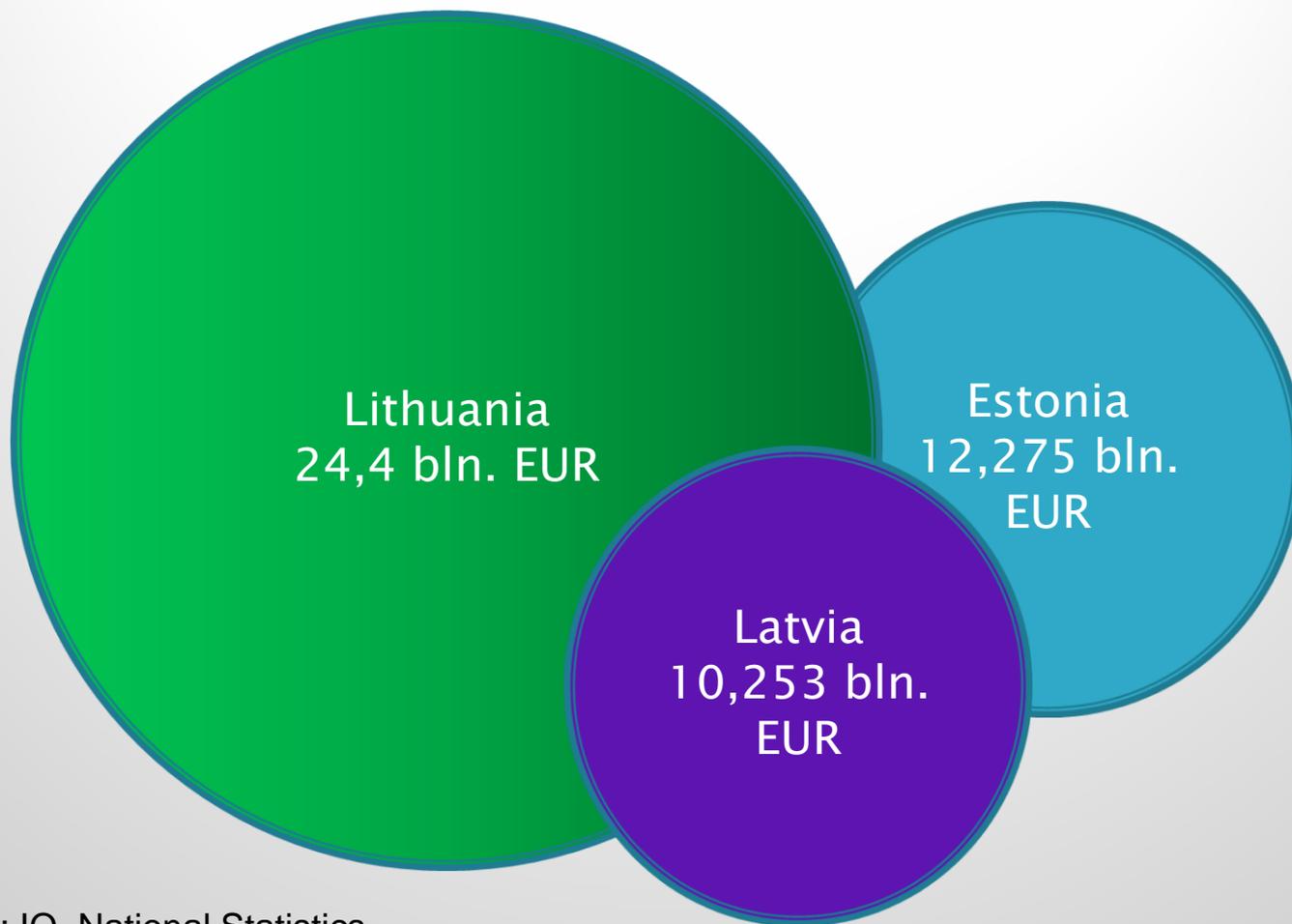
Estonian, Latvian and Lithuanian economy bln. EUR



Source: VŽ, National Statistics

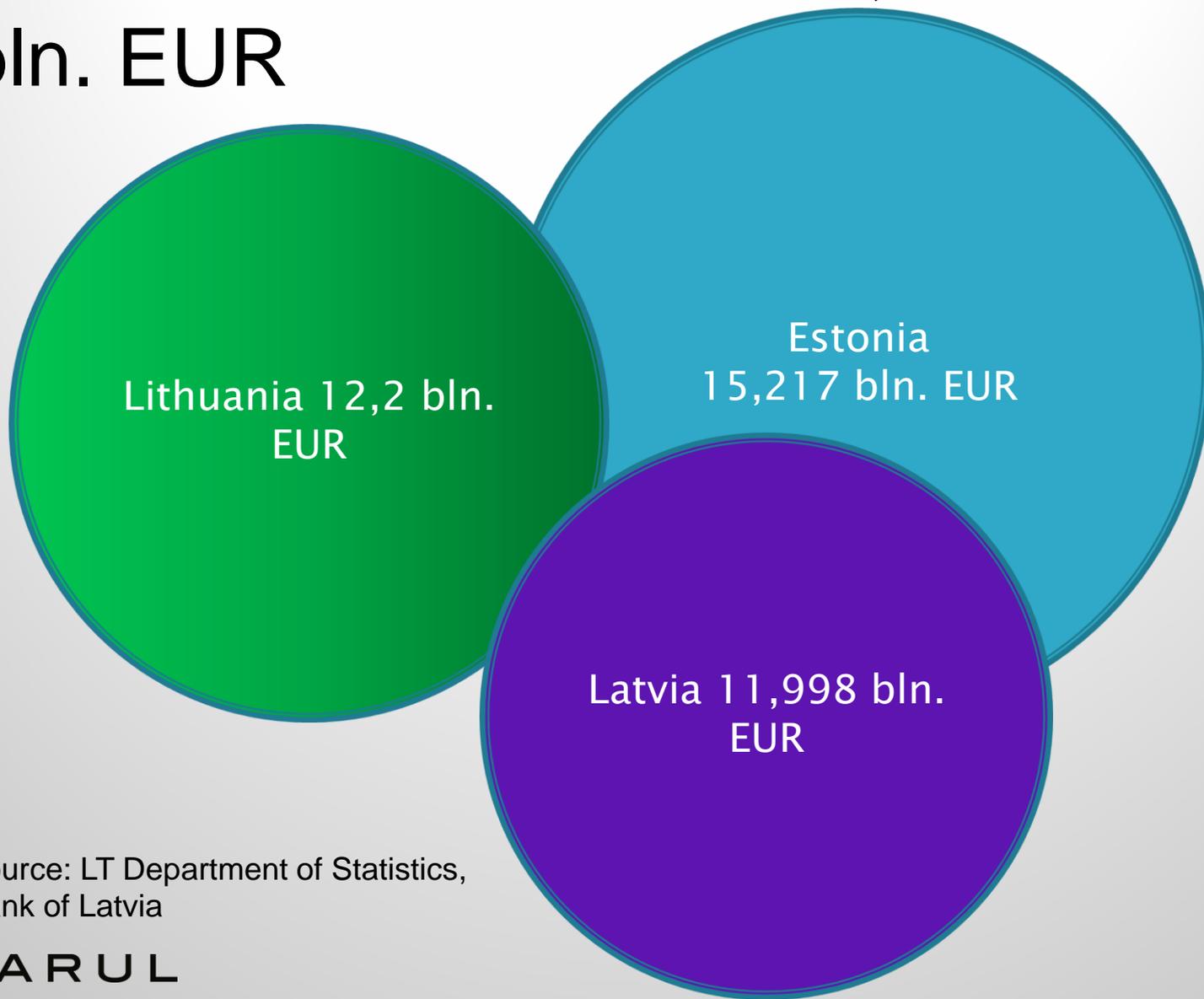
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EE, LV and LT export volumes bln. EUR



Source: IQ, National Statistics

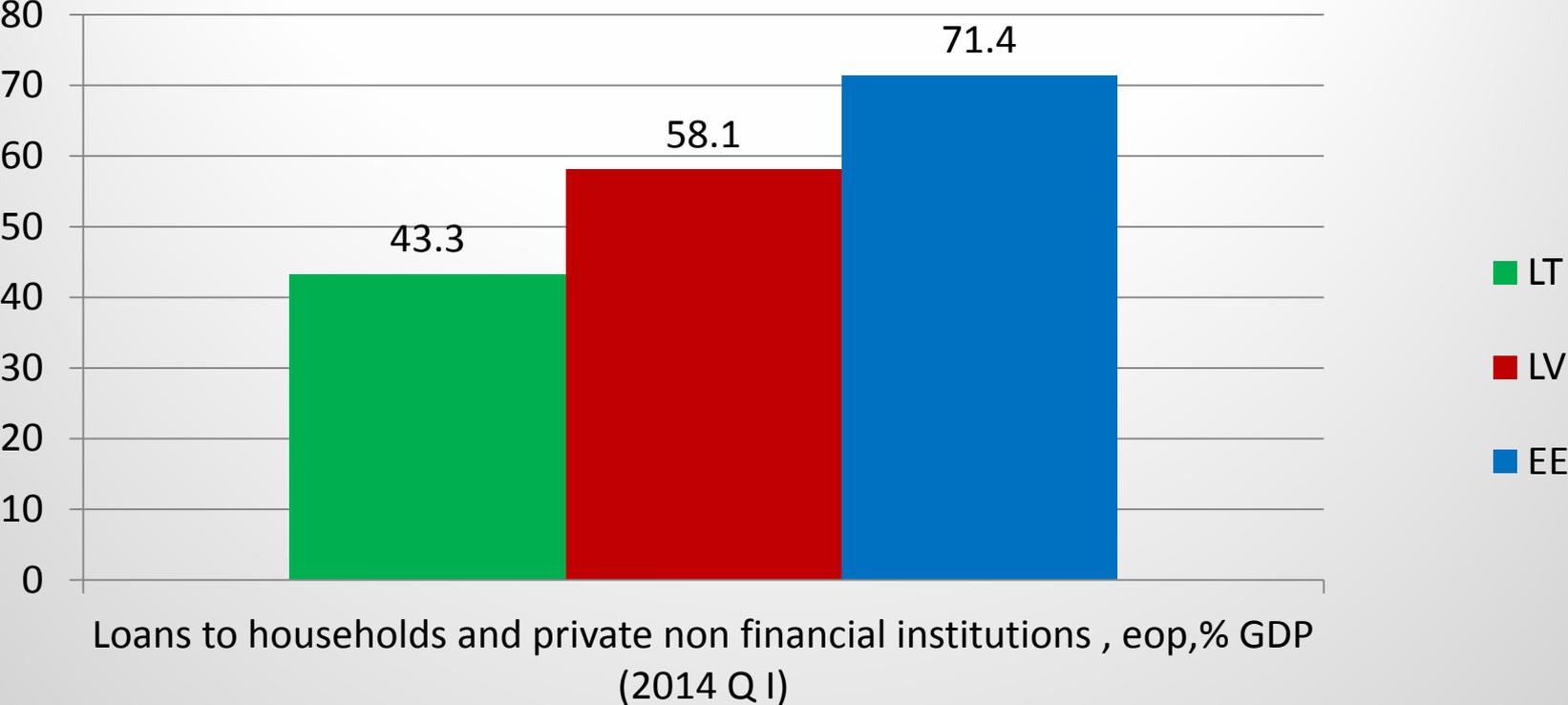
Total amount of FDI to LT, LV and EE bln. EUR



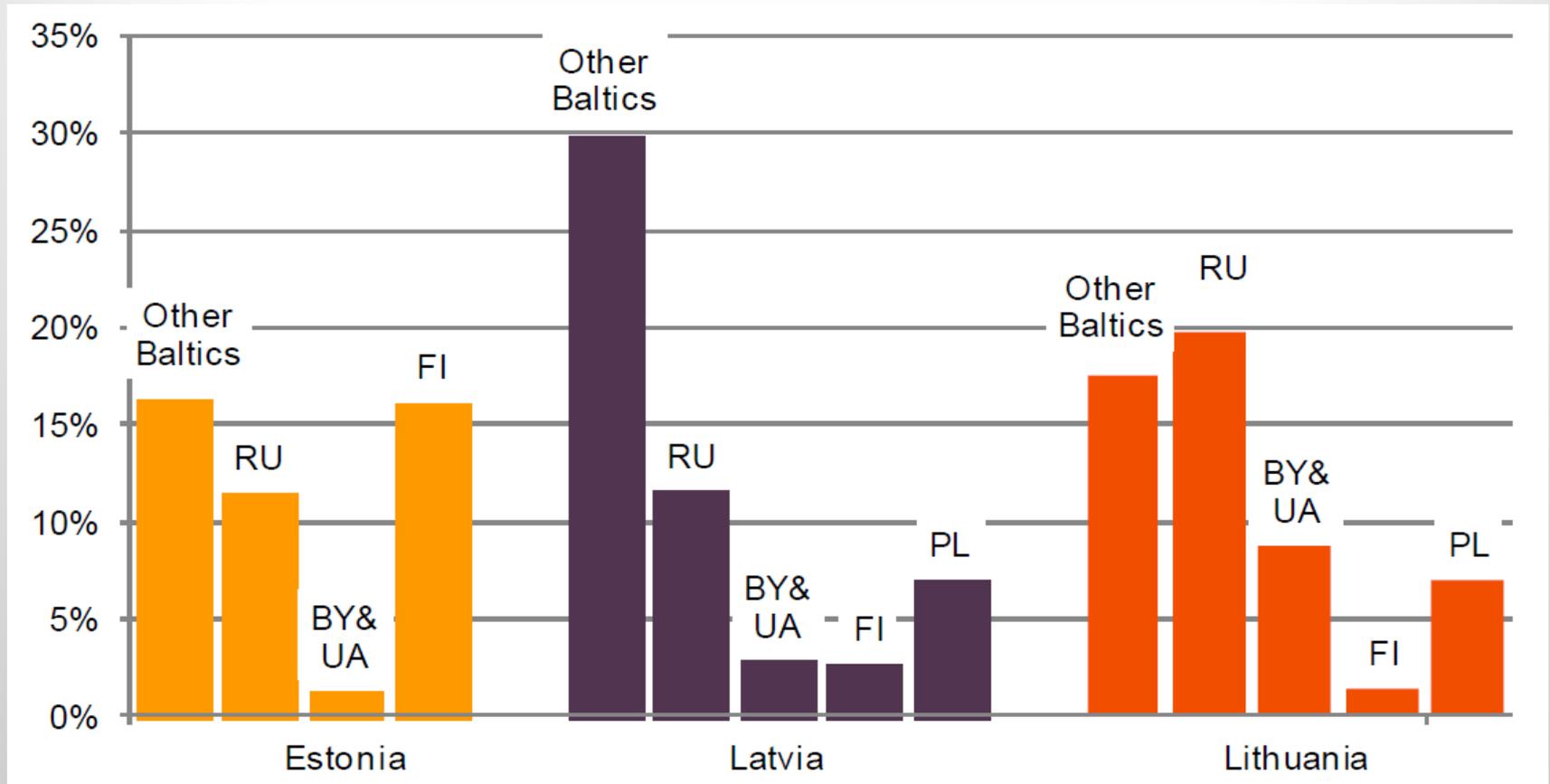
Source: LT Department of Statistics,
Bank of Latvia

Debts of Households % of GDP

Source: DNB

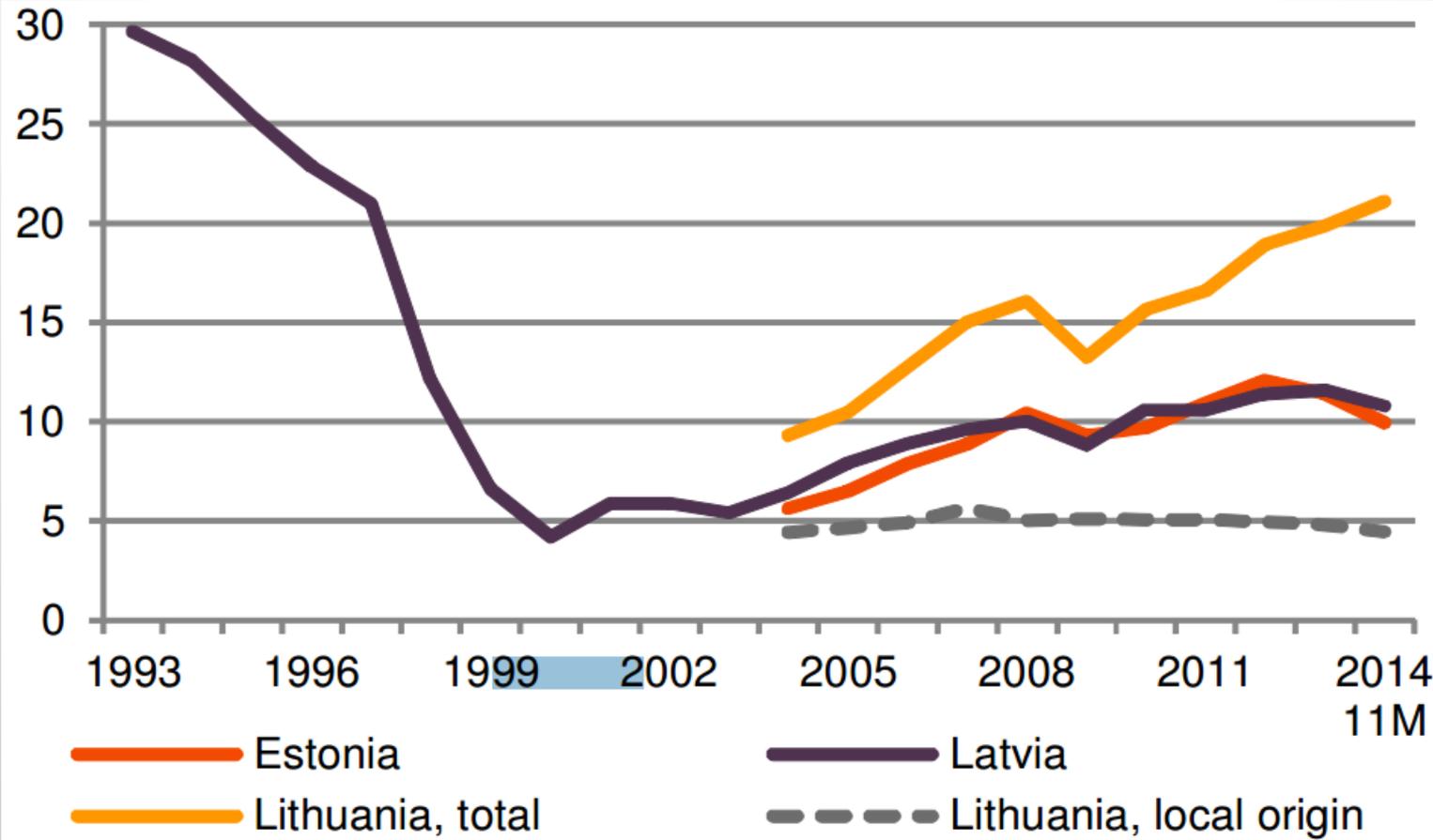


Export Markets (2013), % of total exports



Source: Swedbank economic outlook, 2014

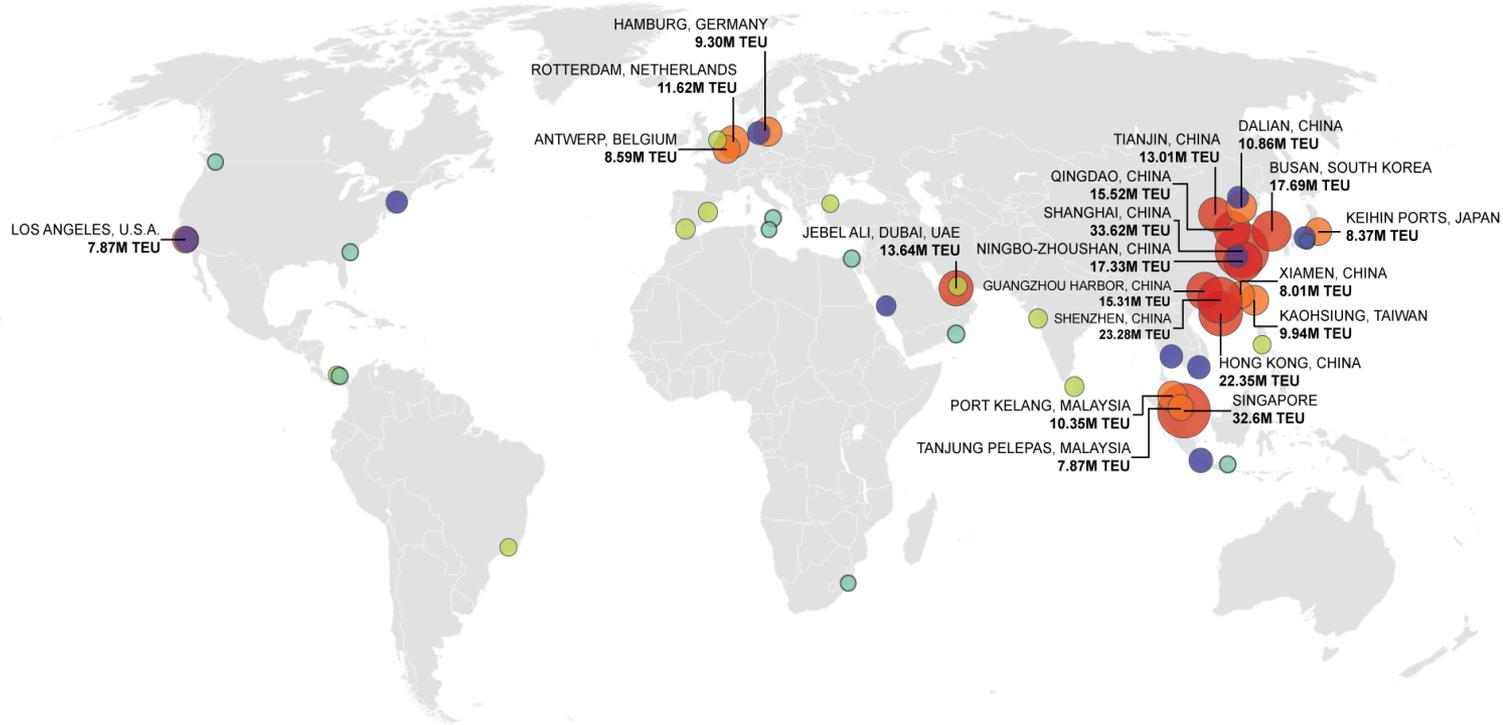
Share of Goods' Exports to Russia, %



Source: National statistics, Swedbank

TOP 50 WORLD CONTAINER PORTS

BY TWENTY-FOOT EQUIVALENT UNIT (TEU) VOLUME

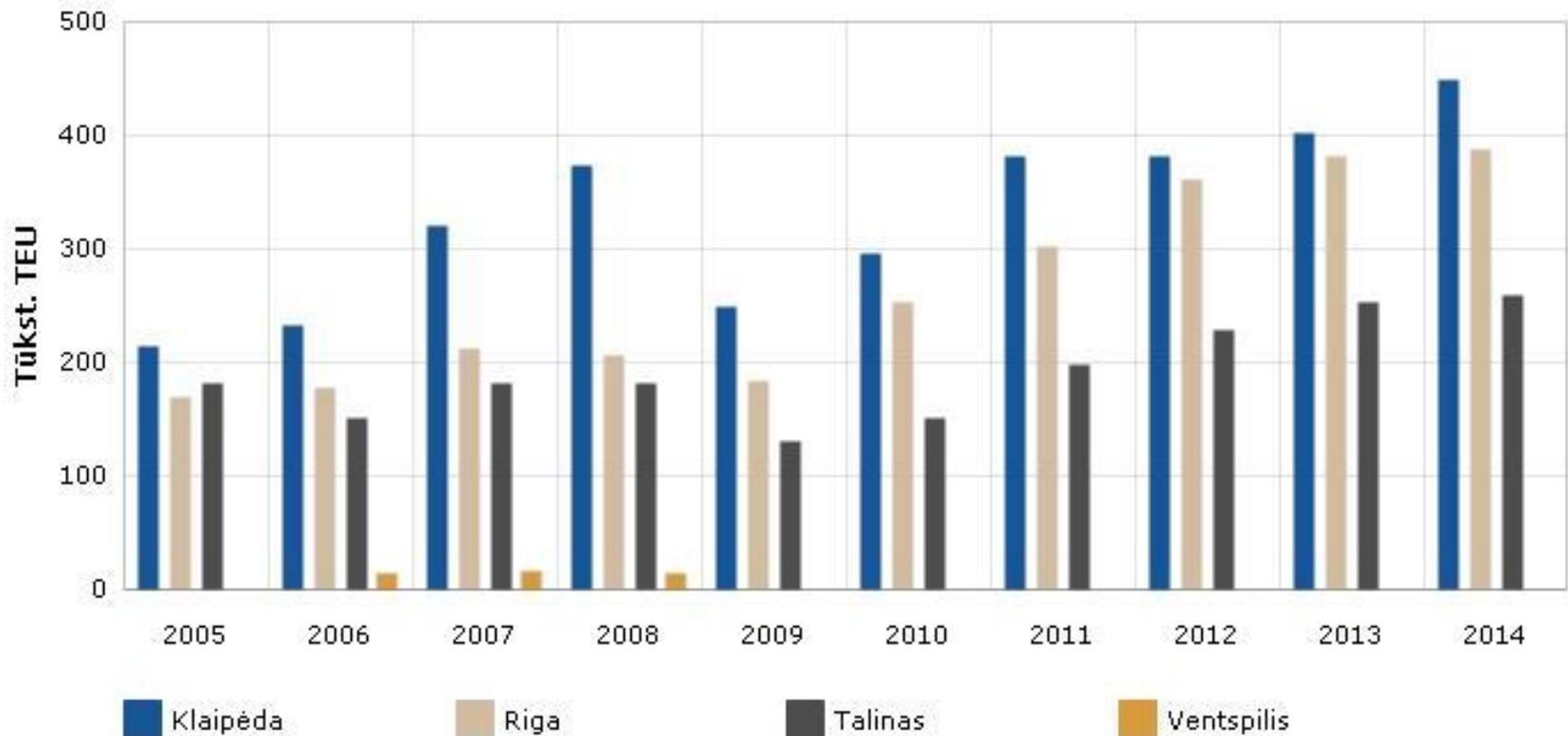


TEU TRANSPORTED THROUGH THE PORT (MILLIONS)



THIS MAP DISPLAYS THE WORLD'S 50 BUSIEST CONTAINER PORTS BY TOTAL NUMBER OF ACTUAL TWENTY-FOOT EQUIVALENT UNITS (TEU) TRANSPORTED THROUGH THE PORT, 2013.

Dynamics of container handling (thous. TEU) in Baltic ports 2005-2014

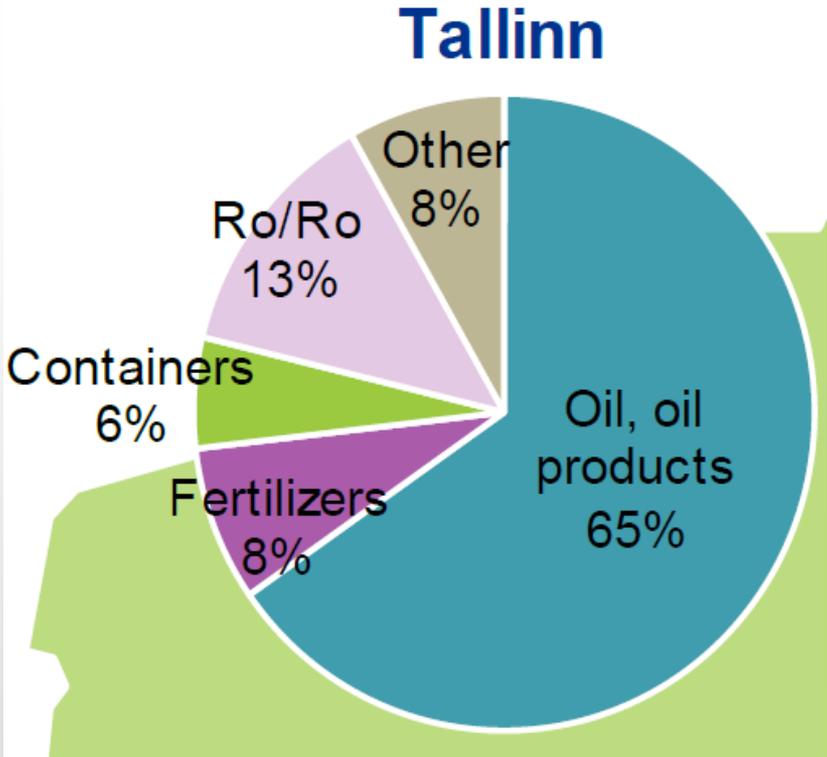
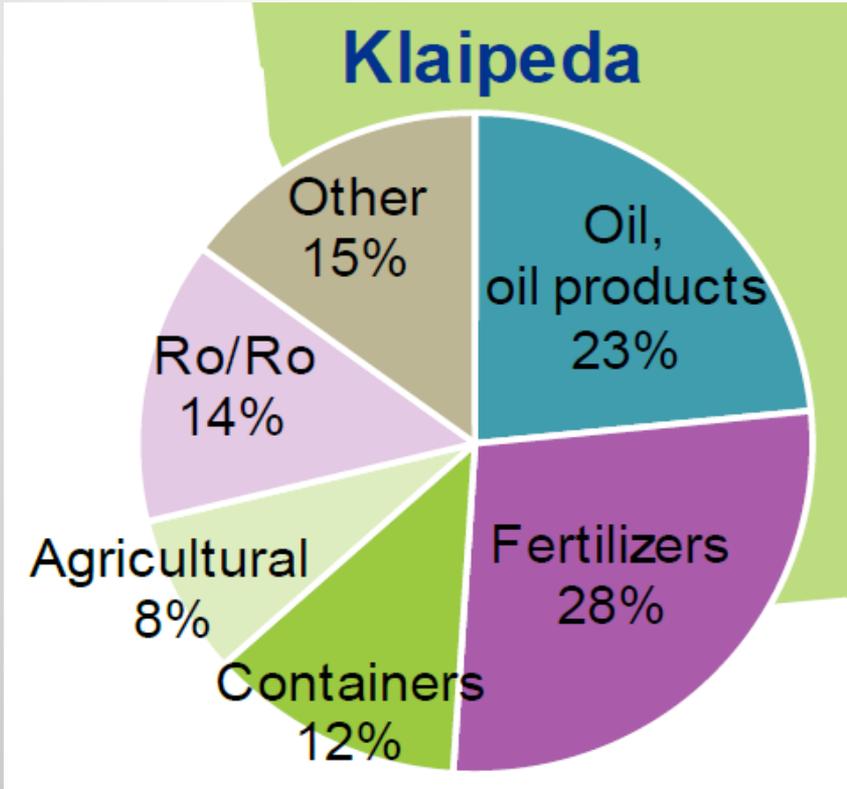


Source: Port of Klaipėda (<http://www.portofklaipeda.lt/uosto-statistika>)

Ports

Tallinn (2012: 29.5 million tonnes), Muuga, Paldiski South, Paljassaare and Old city harbours are involved in cargo transportation.

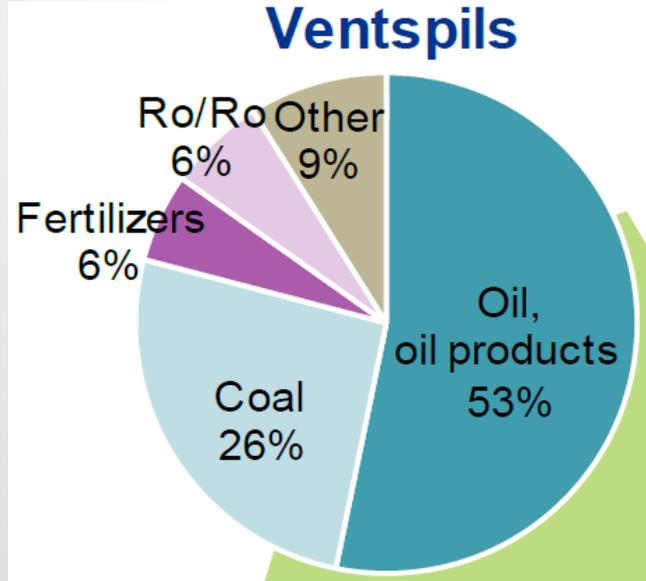
Klaipėda (2012: 35.2 million tonnes).



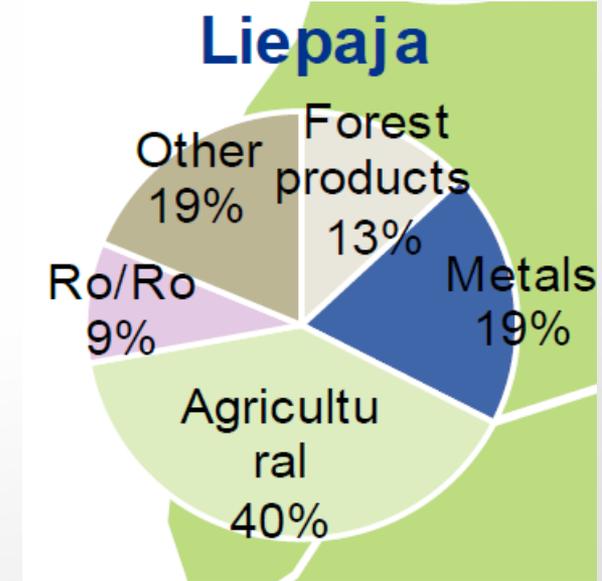
Source: KPMG Baltics SIA, November 2013

Source: KPMG Baltics SIA, November 2013

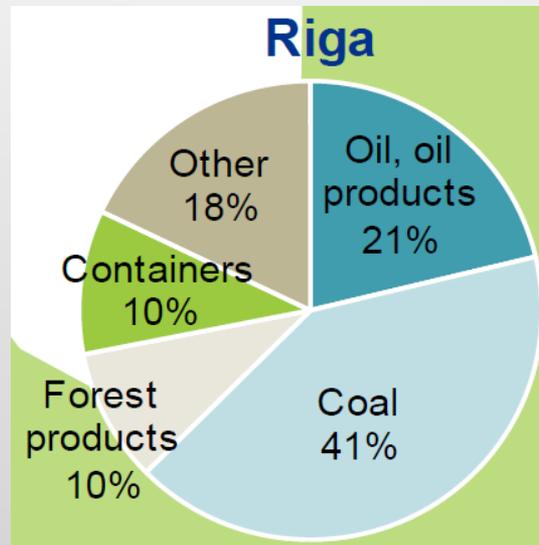
Ventspils (2012: 30.3 million tonnes).



Liepaja (2012: 7.4 million tonnes).

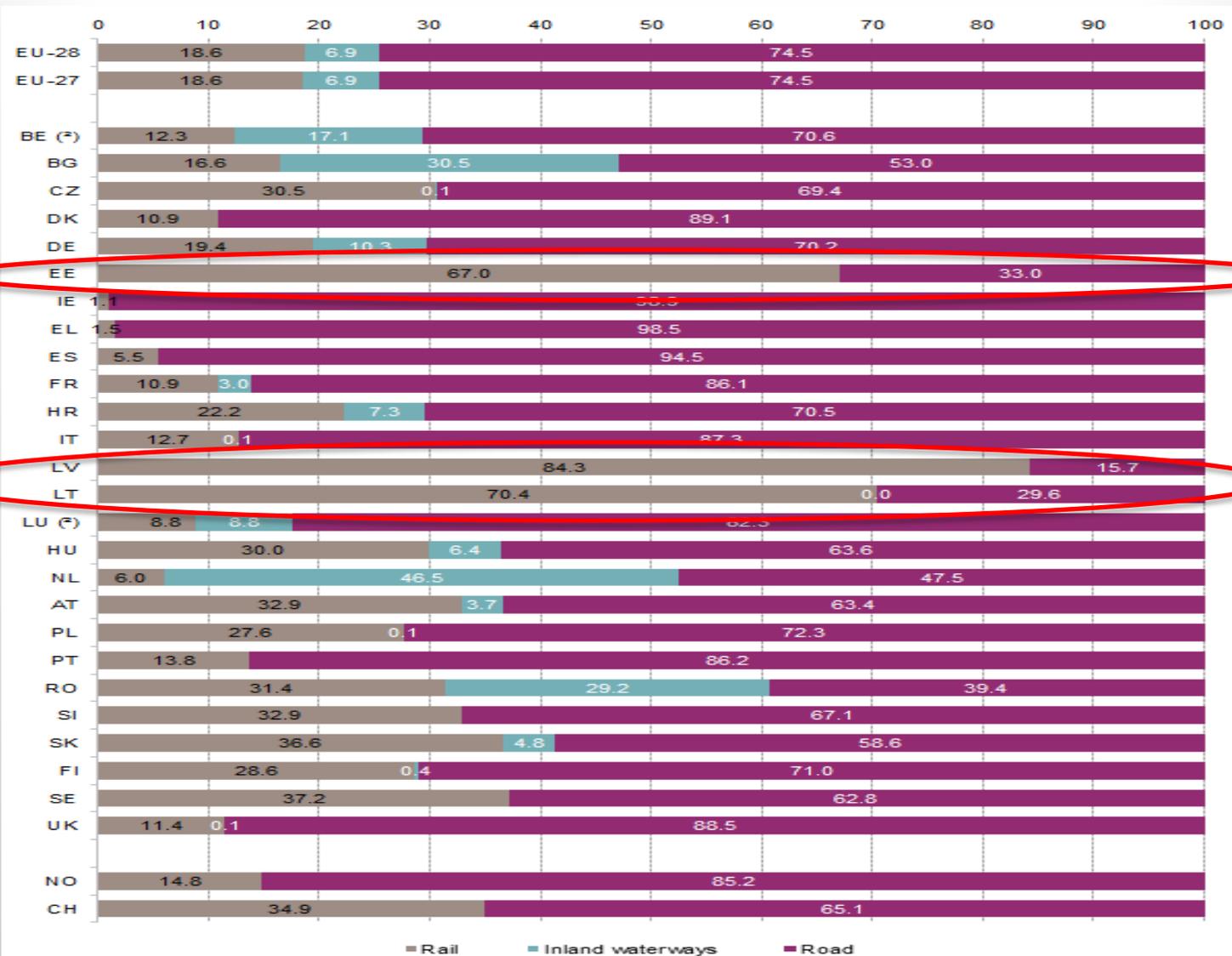


Riga (2012: 36,1 million tonnes).



Source: KPMG Baltics SIA, November 2013

Modal split of inland transport, 2012 (% of total tkm)

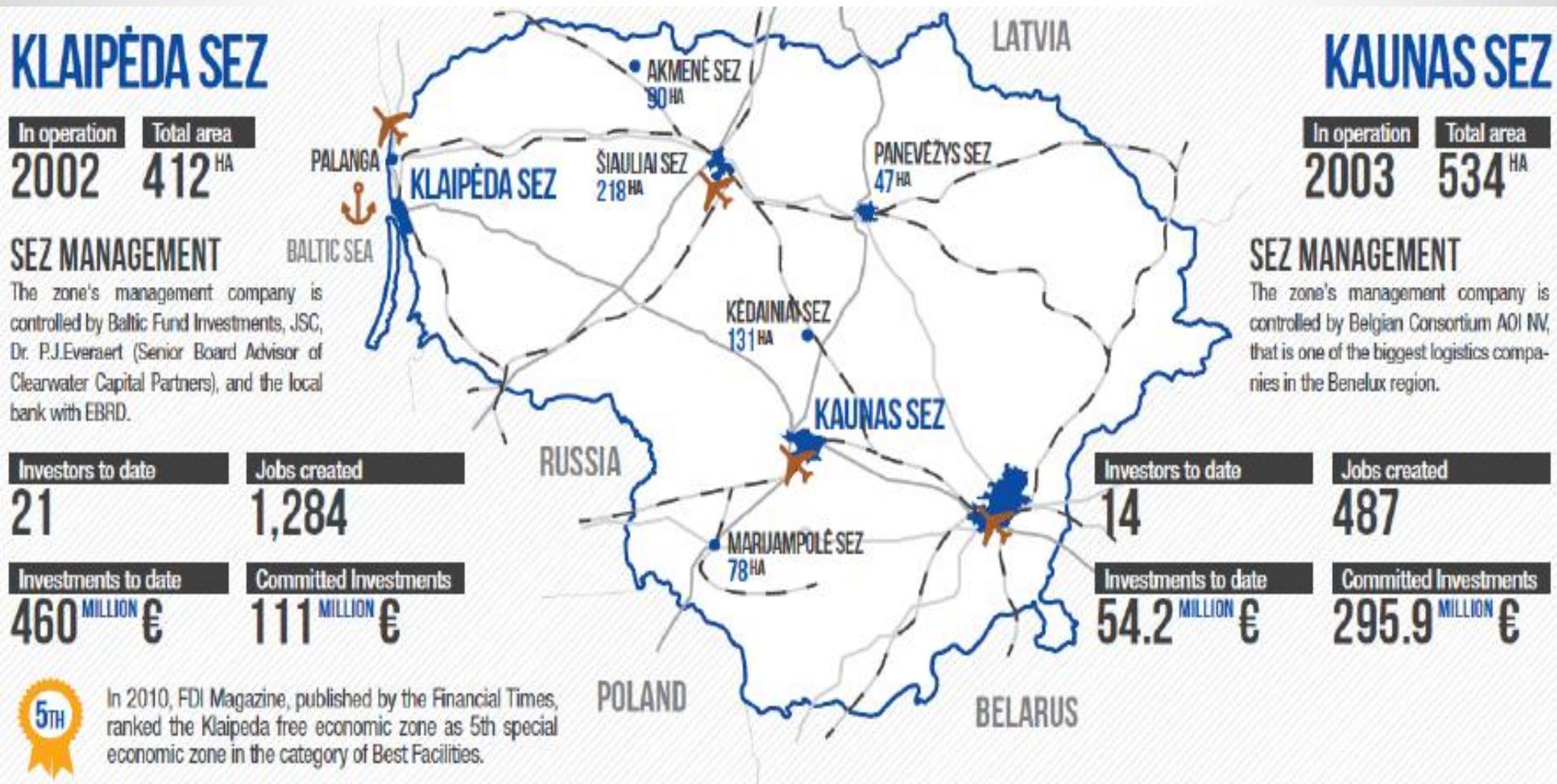


(*) CY and MT: no railways and inland waterways; road share is 100%.

(*) Belgium and Luxembourg: estimated values

Free Economic zones in Lithuania

- LT has seven Special or Free Economic Zones (SEZ)
- **Kaunas, Klaipėda, Šiauliai, Kėdainiai, Panevėžys, Akmenė, Marijampolė.**



Incentives in LITHUANIA's Free Economic Zones include:

- No corporate tax for the first 6 years and a 50% corporate tax break for the next 10 years (applicable for investments exceeding EUR 1 million);
- No taxes on dividends for foreign investors (0% tax on dividends applies when an investor controls at least 10% of the voting shares in the enterprise for the period of at least 12 months);
- No land, road, or real estate taxes;
- Extensive application of 0% VAT;
- Special customs duties and import taxes regime;
- FEZ companies receive the same legal guarantees as those operating outside the FEZ.

Special territories for business development in ESTONIA



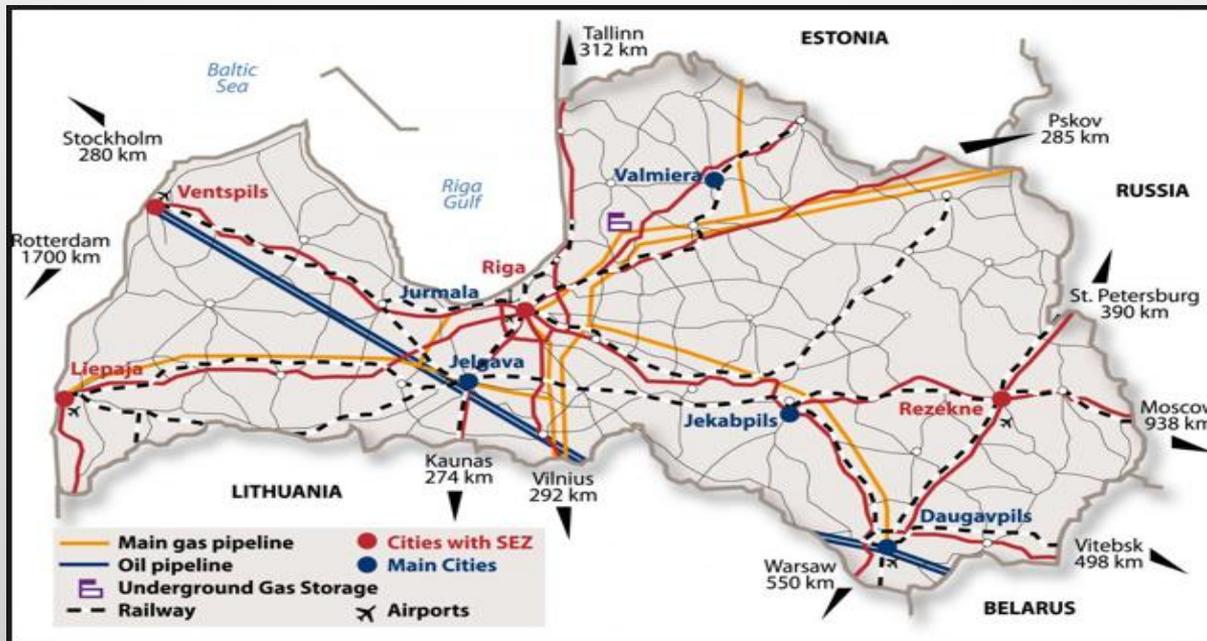
There are four free trade zones in Estonia – Paldiski - free trade zone in Paldiski Northern Port in northwestern Estonia, Muuga - free trade zone in Port of Muuga in northern Estonia, Sillamäe - free trade zone in Port of Sillamäe in northeastern Estonia, Valga - free trade zone in southern Estonia

Incentives in ESTONIA's Free Economic Zones include:

- 0% VAT for most goods and services provided to enterprises in free zones or exported out of them;
- No tax on reinvested profits - preserves in free trade zones.

Special territories for business development in LATVIA

There are four Special Economic Zones (SEZ) in Latvia – Riga Free Port, Ventspils Free Port, Liepaja Special Economic Zone and Rezekne Special Economic Zone that were established to promote entrepreneurial activities within the regions. All of them offer very favourable business incentives. Some of benefits for companies operating in Free Ports and SEZ include rebate on real estate tax, corporate income tax, withholding tax for dividends, management fees and payments for usage of intellectual property for non-residents and others.



Incentives in LATVIA's Free Economic Zones include:

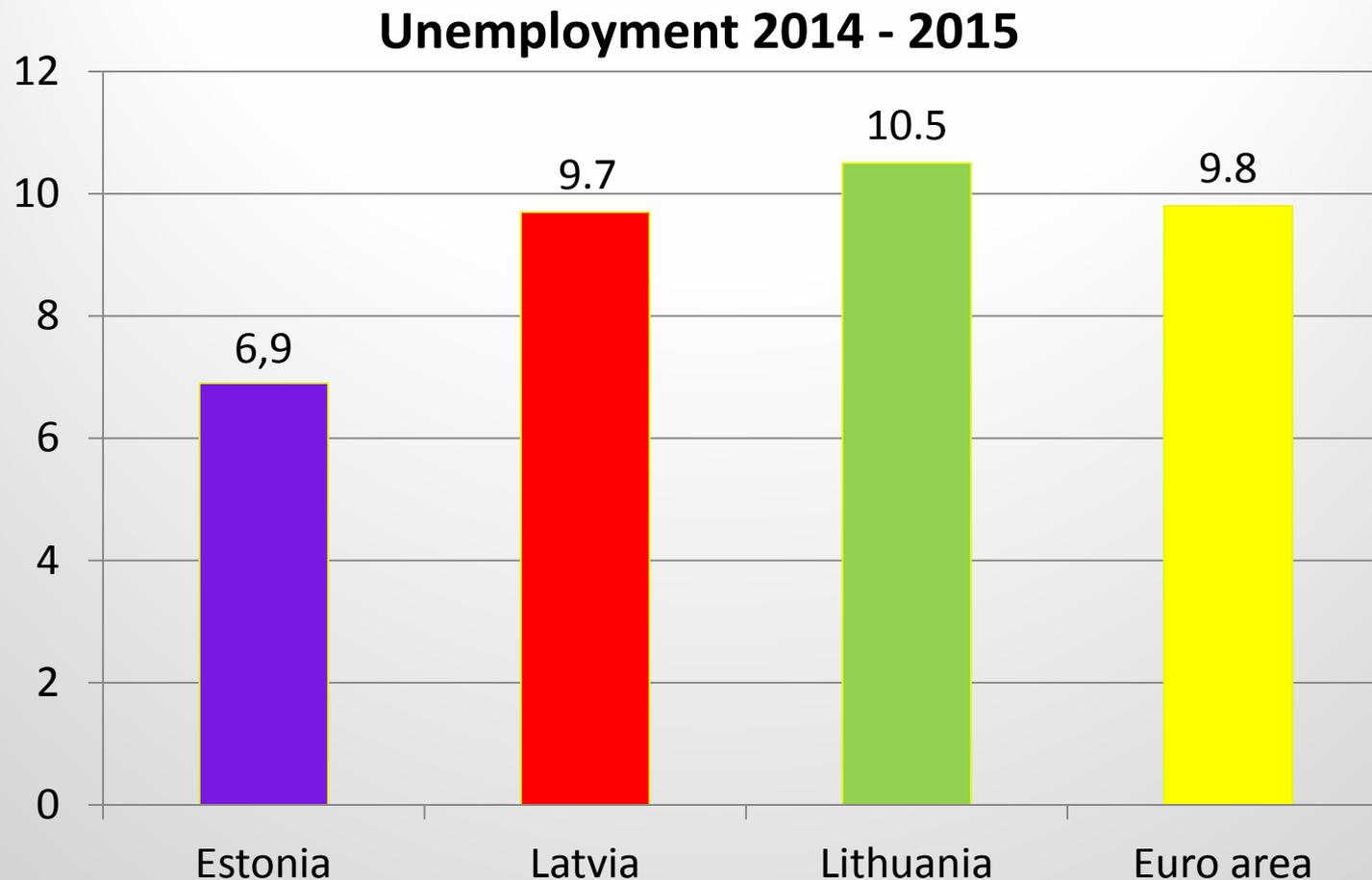
- 80% rebate on real estate tax, which is 1,5% in Latvia (0,3% rate is applied within special economic zone (SEZ) territory until compensation of 50% of the amount invested (65% for SME's));
- 80% rebate on corporate income tax (CIT) which is 15% in Latvia (5,0% rate is applied within SEZ territory as the tax is calculated from the former 25% CIT) on activities carried out within the zone until compensation of 50% of the amount invested (65% for SME's);
- 0% VAT for most goods and services provided to enterprises in free zones or exported out of them;
- 0% VAT for most goods and services supplied in the free zones, including construction services.

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Employment Market

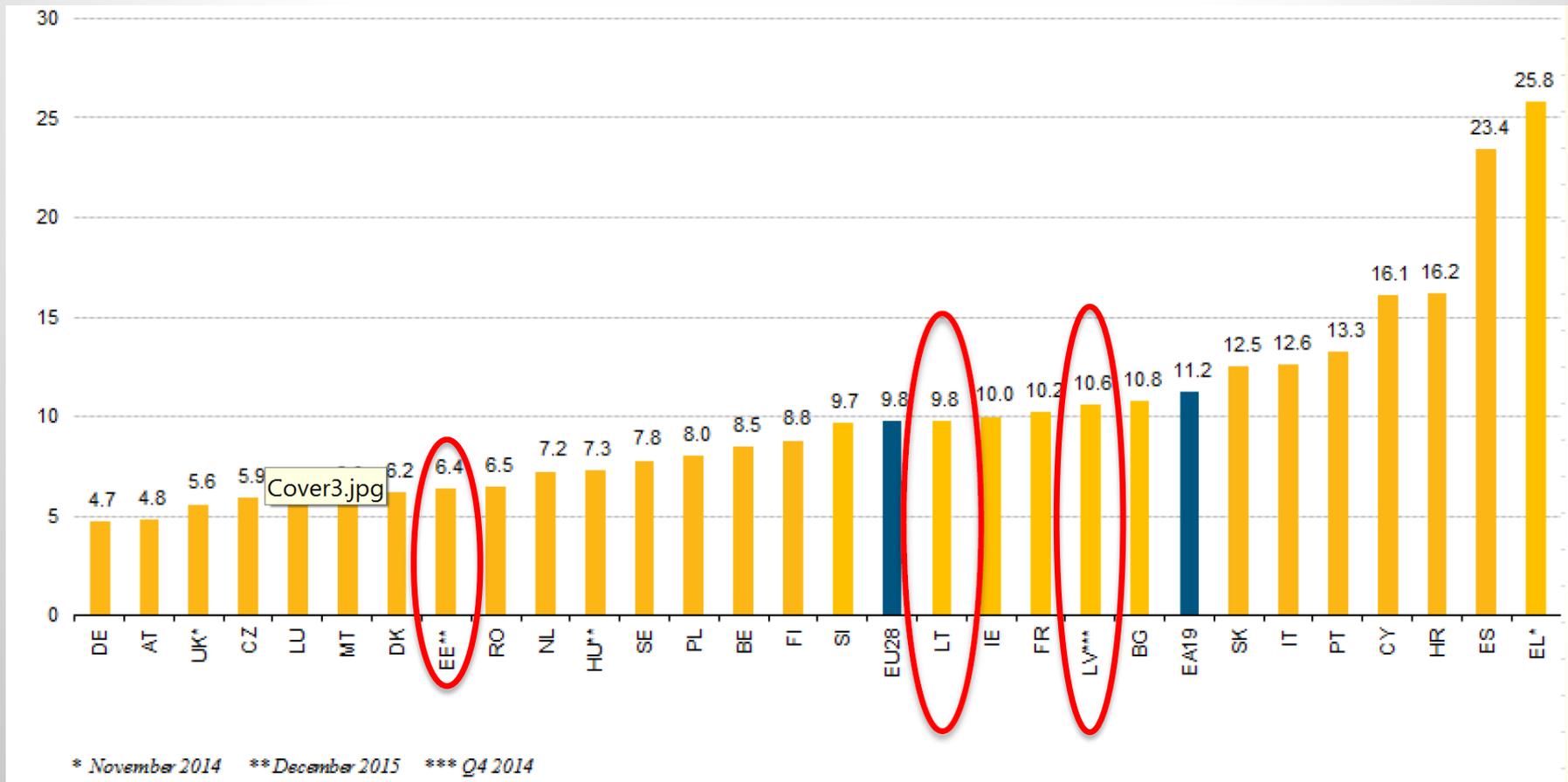


Unemployment rate



Source: DNB, EUROSTAT

Unemployment rates, EU

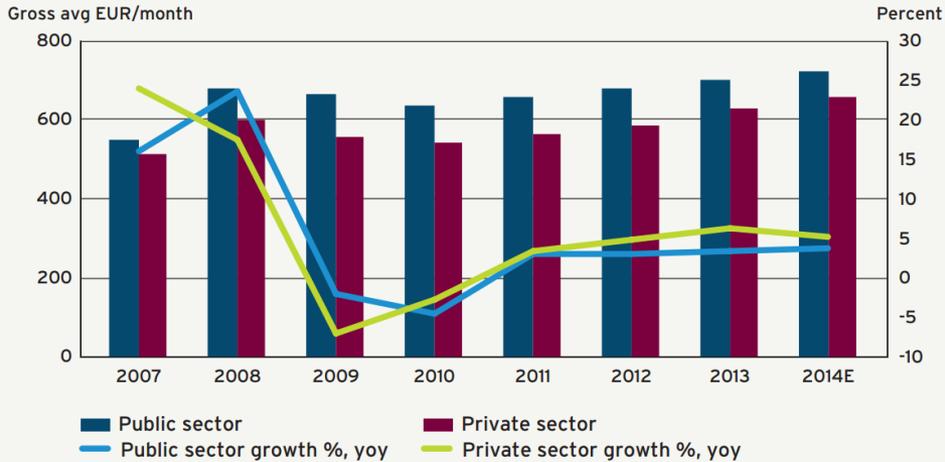


Source: Eurostat, March 2015

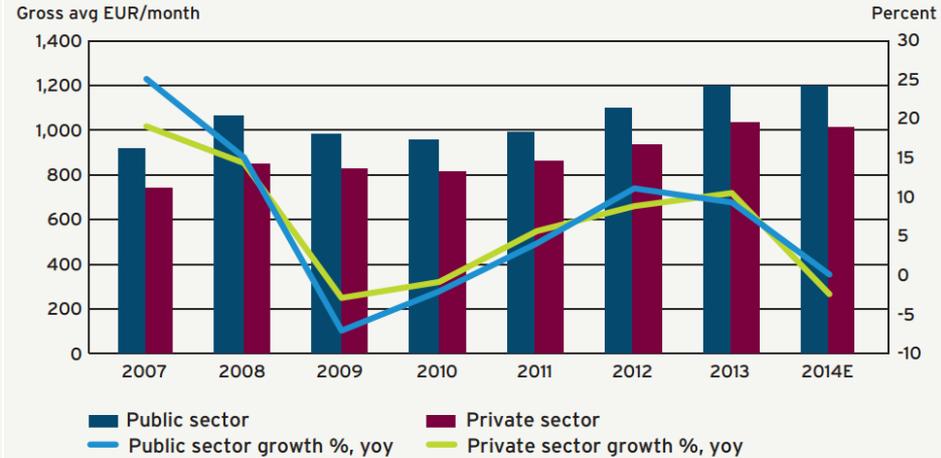
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Salaries

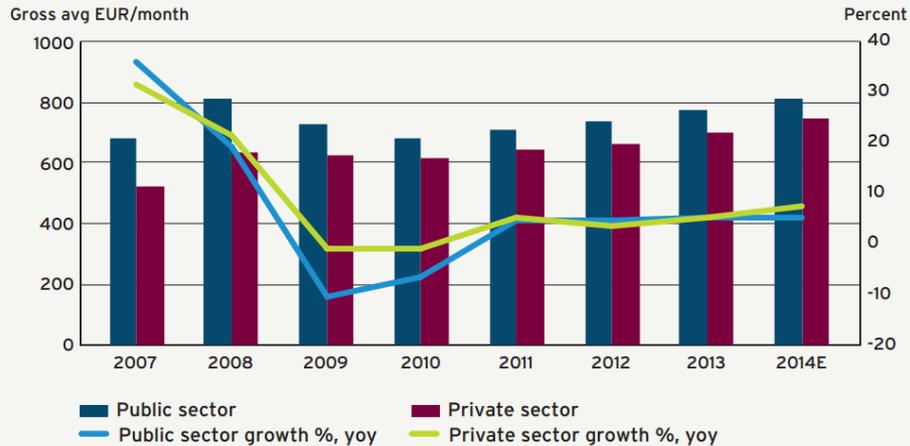
Wages and Salaries | Lithuania



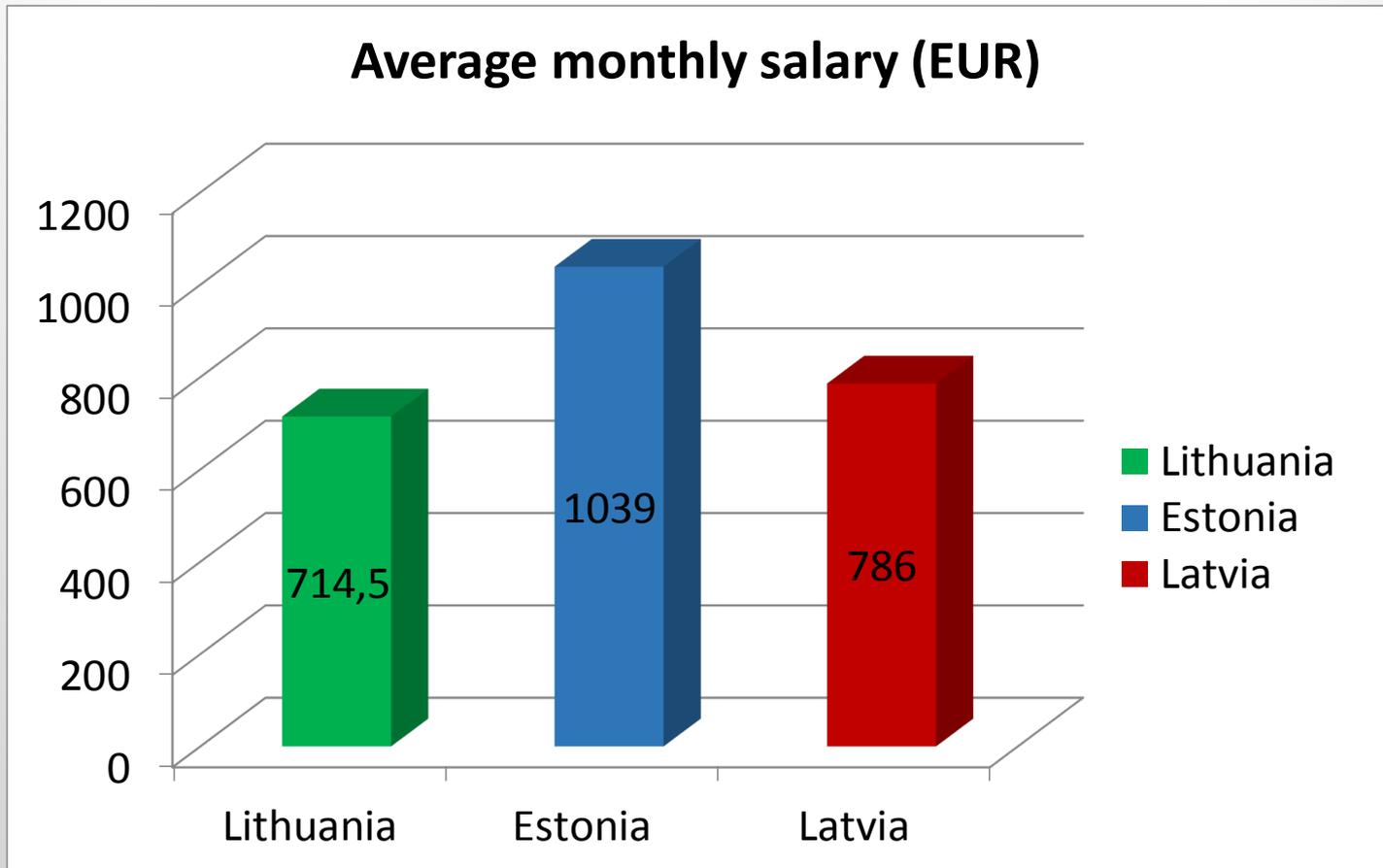
Wages and Salaries | Estonia



Wages and Salaries | Latvia



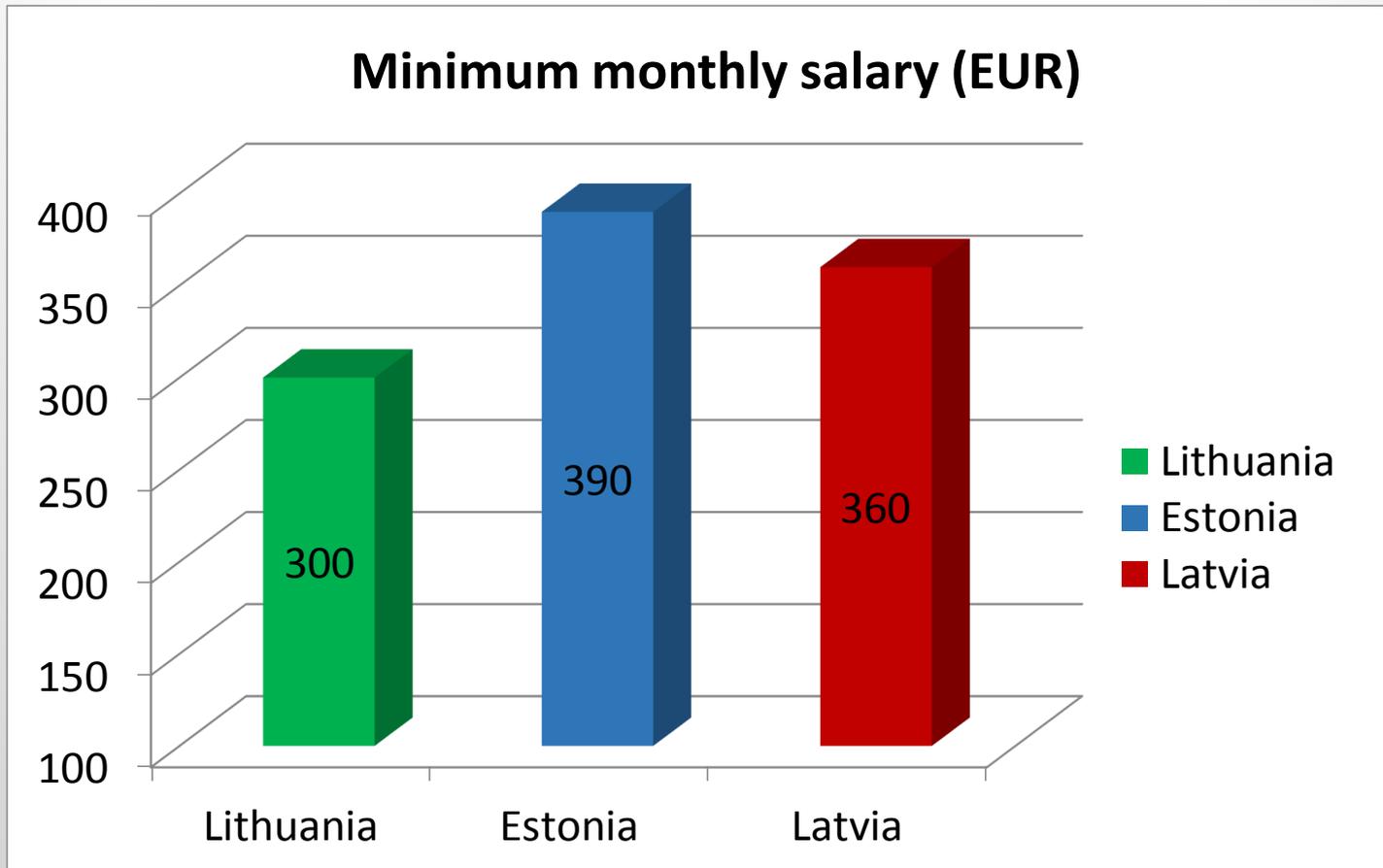
Average monthly salary



Source: Lithuanian Department of statistics

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Minimum monthly salary 2015

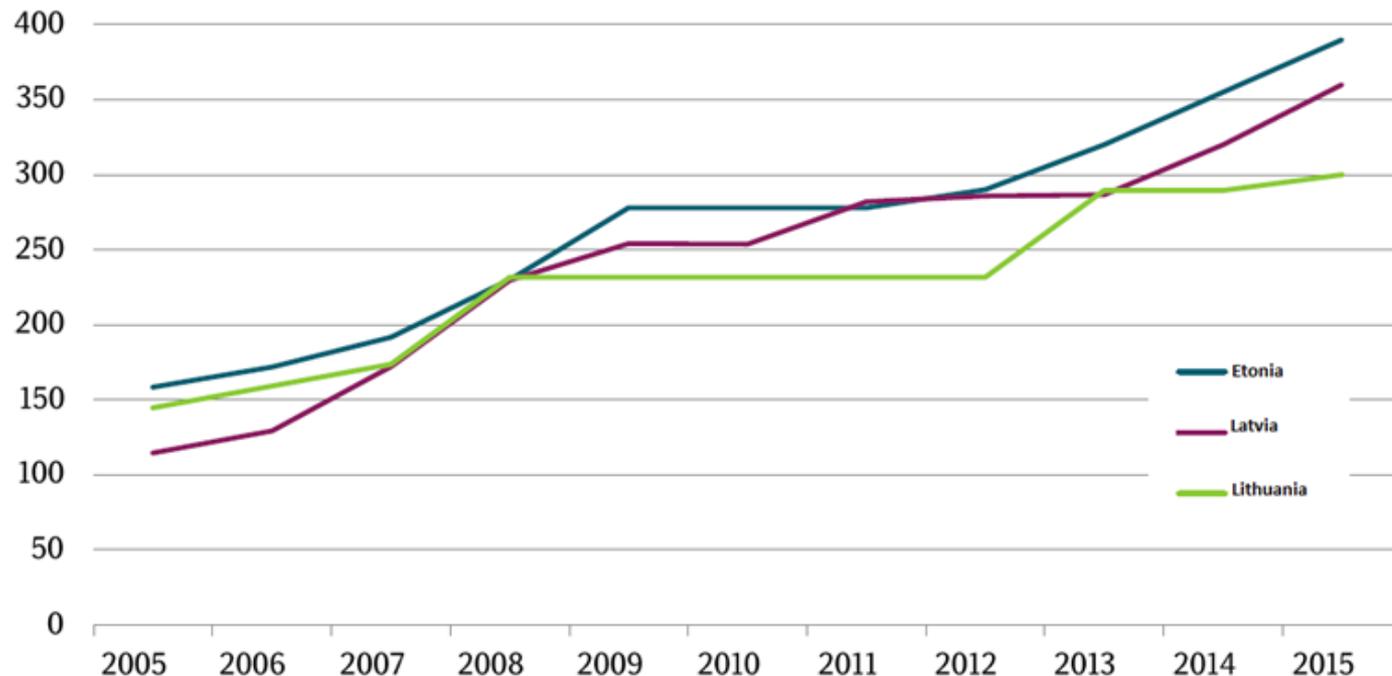


Source: Lithuanian Department of statistics, SEB

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Latvia overtook Lithuania by the size of minimum monthly salary during the years of the global financial crisis

MMS at the beginning of the year (EUR)



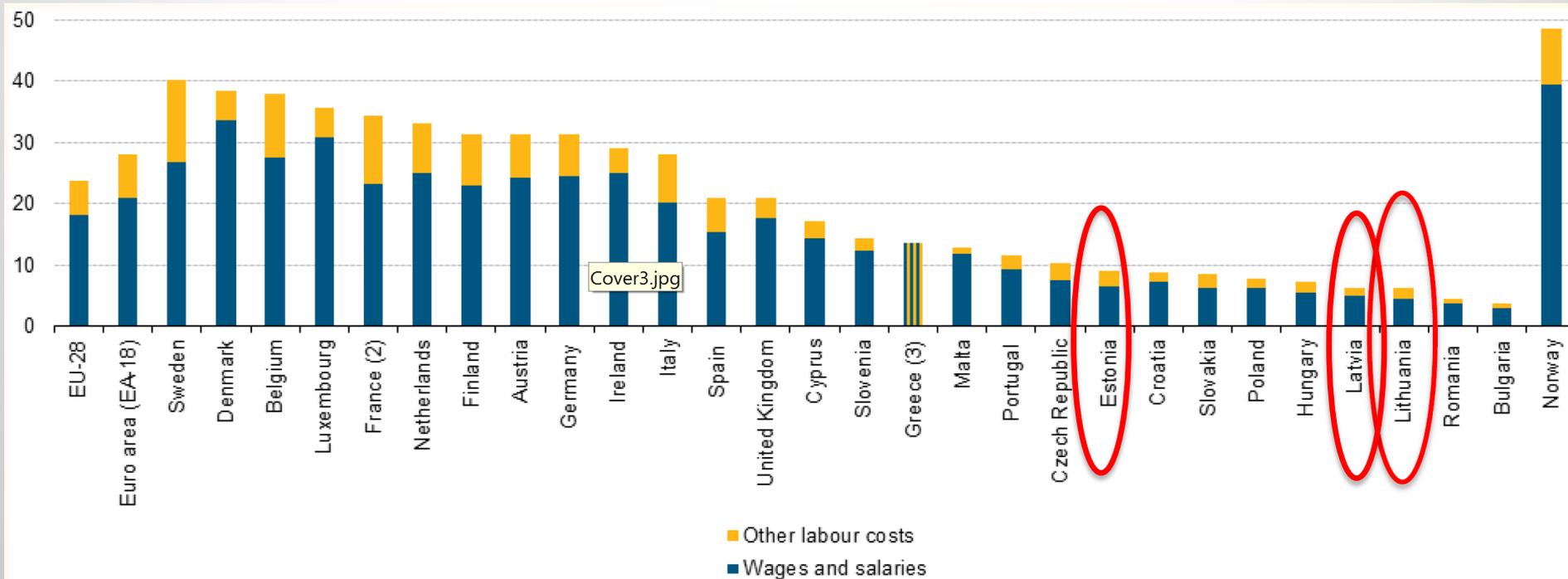
According to the size of the average salary and MMS LT is in the third place from the other end in the EU



Labour costs help achieve competitive advantage

Allikas: Eurostat

Average labour costs per hour in EU, EUR / per hour



(¹) Enterprises with 10 or more employees. NACE Rev. 2 Sections B to S excluding O.

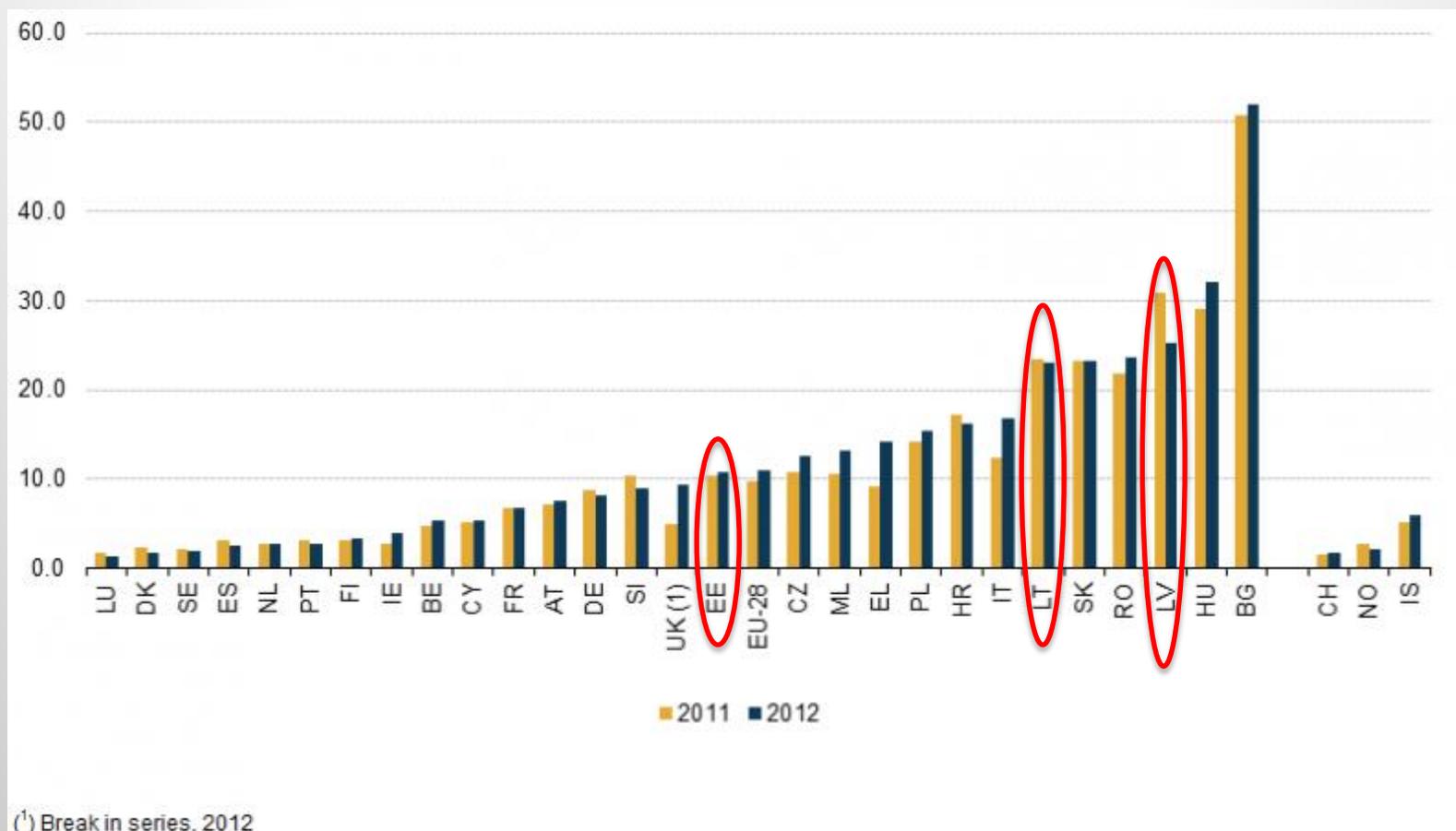
(²) Also excluding NACE Rev. 2 Section P.

(³) Based on Eurostat's estimate for the 3rd and 4th quarter of 2013. Only the total level is estimated.

Source: Eurostat

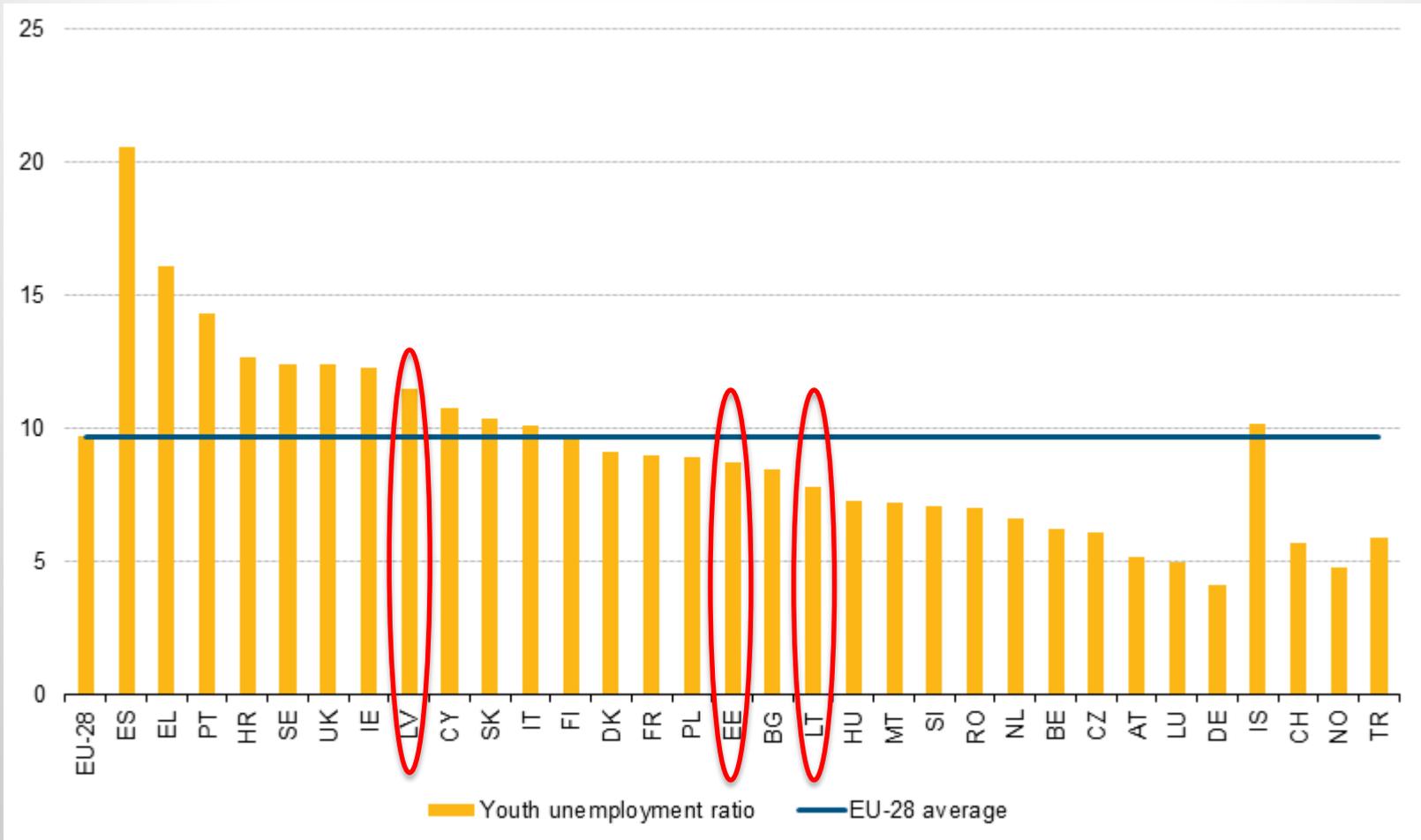
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Inability to afford a meal with meat, chicken, fish or a vegetarian equivalent in 2011 and 2012 (% of total population)



Source: Eurostat

Youth Unemployment rate in EU



Source: Eurostat

Taxes

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	Estonia	Lithuania	Latvia
Corporate income tax rate	(a) 0%, 21%	5% (d) or 15% (4th lowest in the EU in 2012)	15% (b)
Dividends	-	0 or 15%	0%
Management fees	0 or 10%	-	0 or 10%
Interest	-	0 or 10%	0%
Royalties	0 or 5 or 10%	0 or 10%	0%
Loss carry forward (years)	N / a	Unlimited (e) / 5 years (f)	Unlimited / 8 years (c)
Salaries / wages	21%	15%	24%
Social security employer	34%	27,98 – 28,7%	23,59%
Health insurance employer	-	3%	-
Social security employee	2% (+ 2% or 3%)	3%	10,50% (b)
Health insurance employee	-	6%	-
Real estate tax	-	0,3 – 3%	0,2 – 3%
Land / state land lease tax	0,1 – 2,5%	0,01 – 4% / 0,1 – 4%	1,5 or 3%
VAT rate	0%, 9%, 20%	0%, 5%, 9%, 21%	0%, 12%, 21%

- a) Retained profits are tax exempt. If distributed, subject to income tax at the rate of 21% (net distributed amount is divided by 0,79 before multiplying by the tax rate).
- b) If a tax payer qualifies as a microenterprise, a tax at the rate of 9% shall be paid which includes CIT, PIT, SSC and business risk duty.
- c) Applicable to losses incurred before the year 2008.
- d) 5% applicable to small enterprises with the annual income not exceeding LTL 1,000,000 and an average number of employees not exceeding 10.
- e) The amount of the loss carried forward shall not exceed 70% of the taxable profit.
- f) Applicable to losses incurred as a result of disposal of securities and/or derivatives. Transfer of losses among group entities is possible.

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Real Estate Market

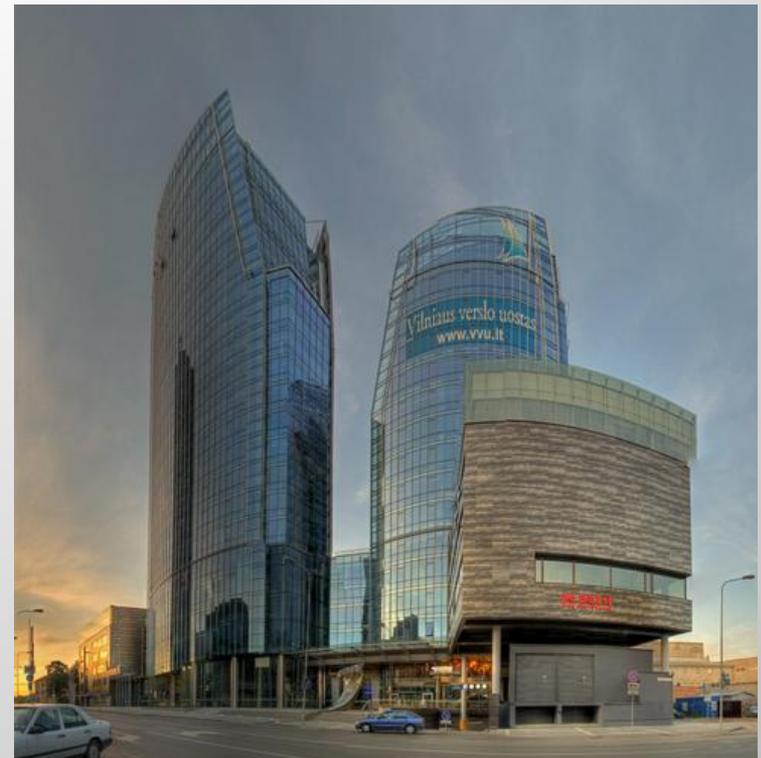
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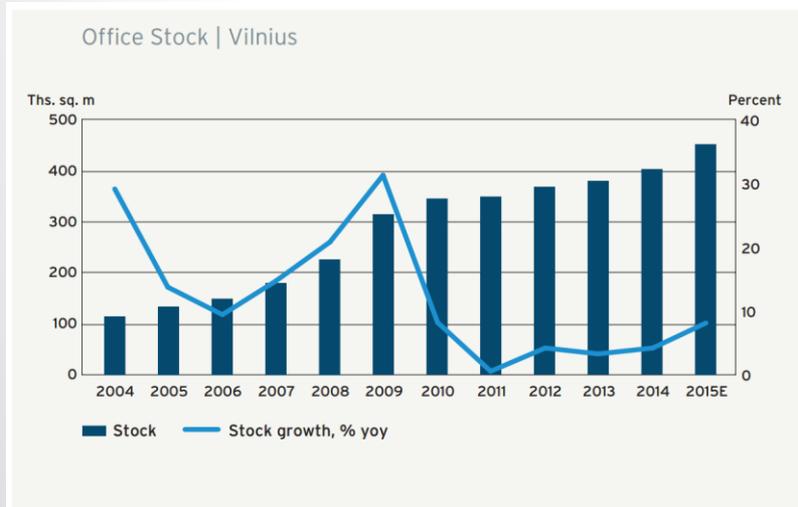
Situation in the office market

Location		Average price, EUR/m ² /month	
	Space, m ²	Class A	Class B
Tallinn	600.000	13,4 – 17,5	8 – 12,5
Riga	600.000	14 - 16	7 - 12
Vilnius	404.500	10 – 15,8	8,5 - 11

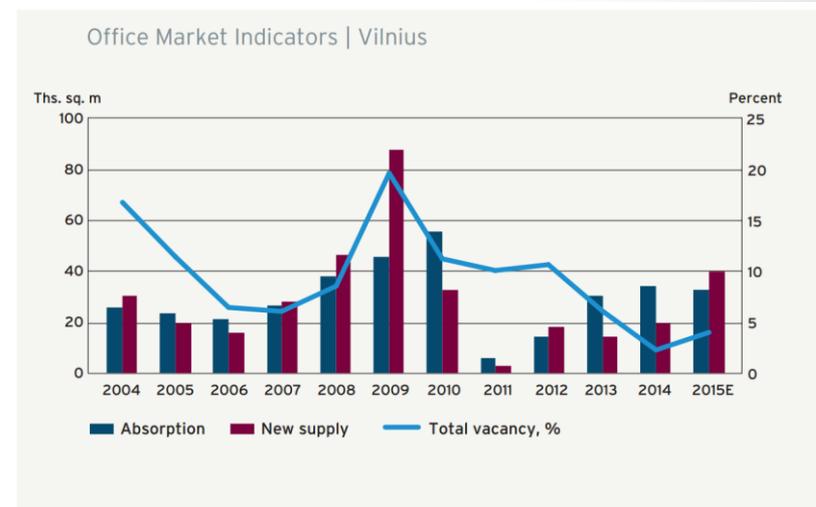
Source: Newsec Baltic property market report, 2015



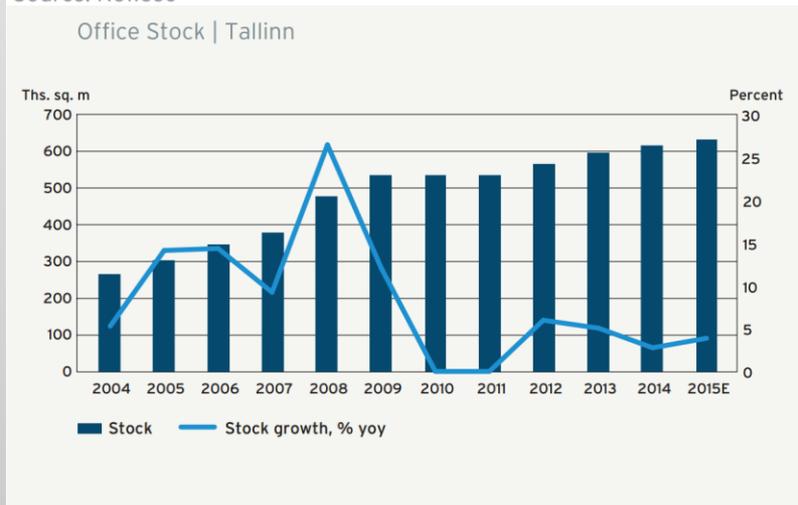
Office Stock in Vilnius and Tallinn



Source: Newsec



Source: Newsec

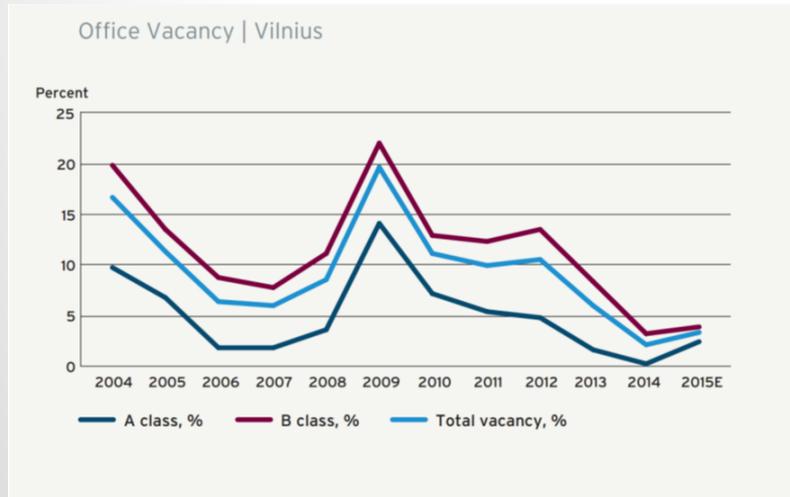


Source: Newsec

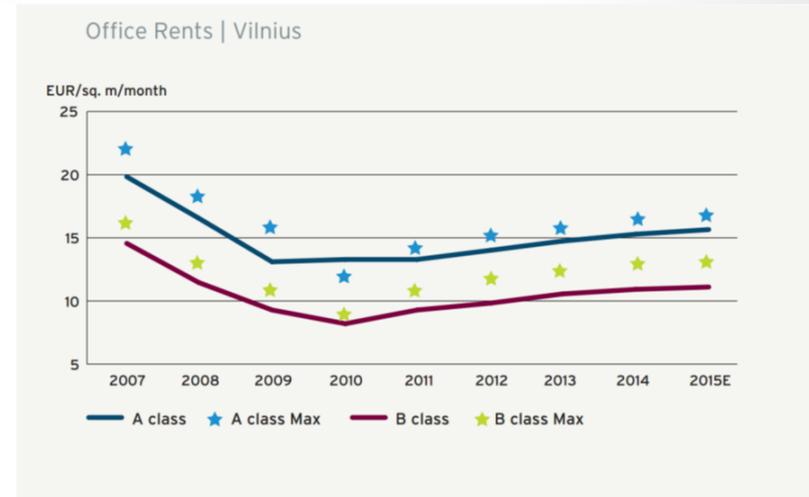


Source: Newsec

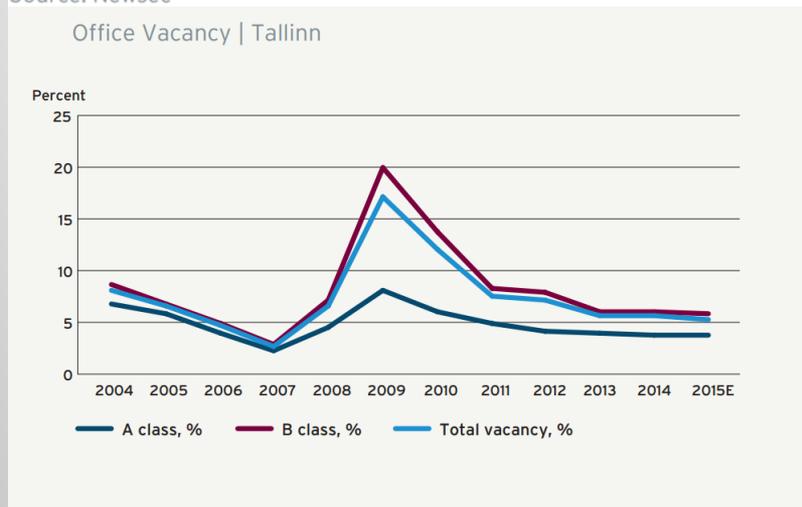
Office Vacancy Vilnius and Tallinn



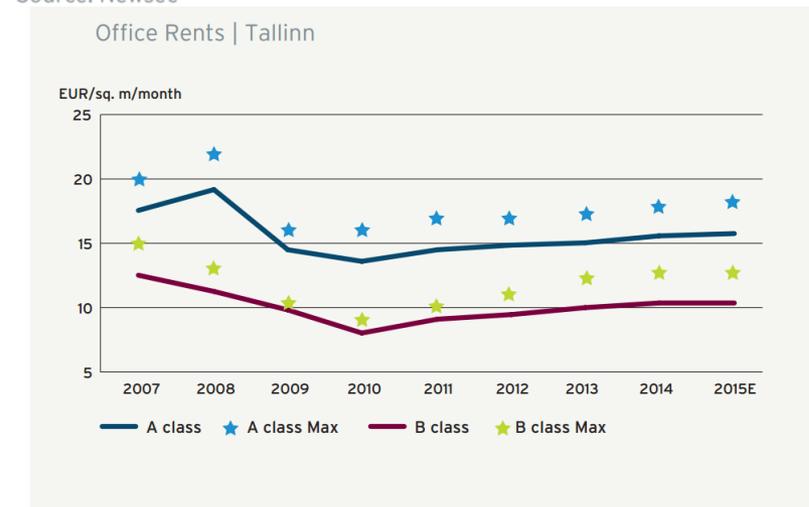
Source: Newsec



Source: Newsec



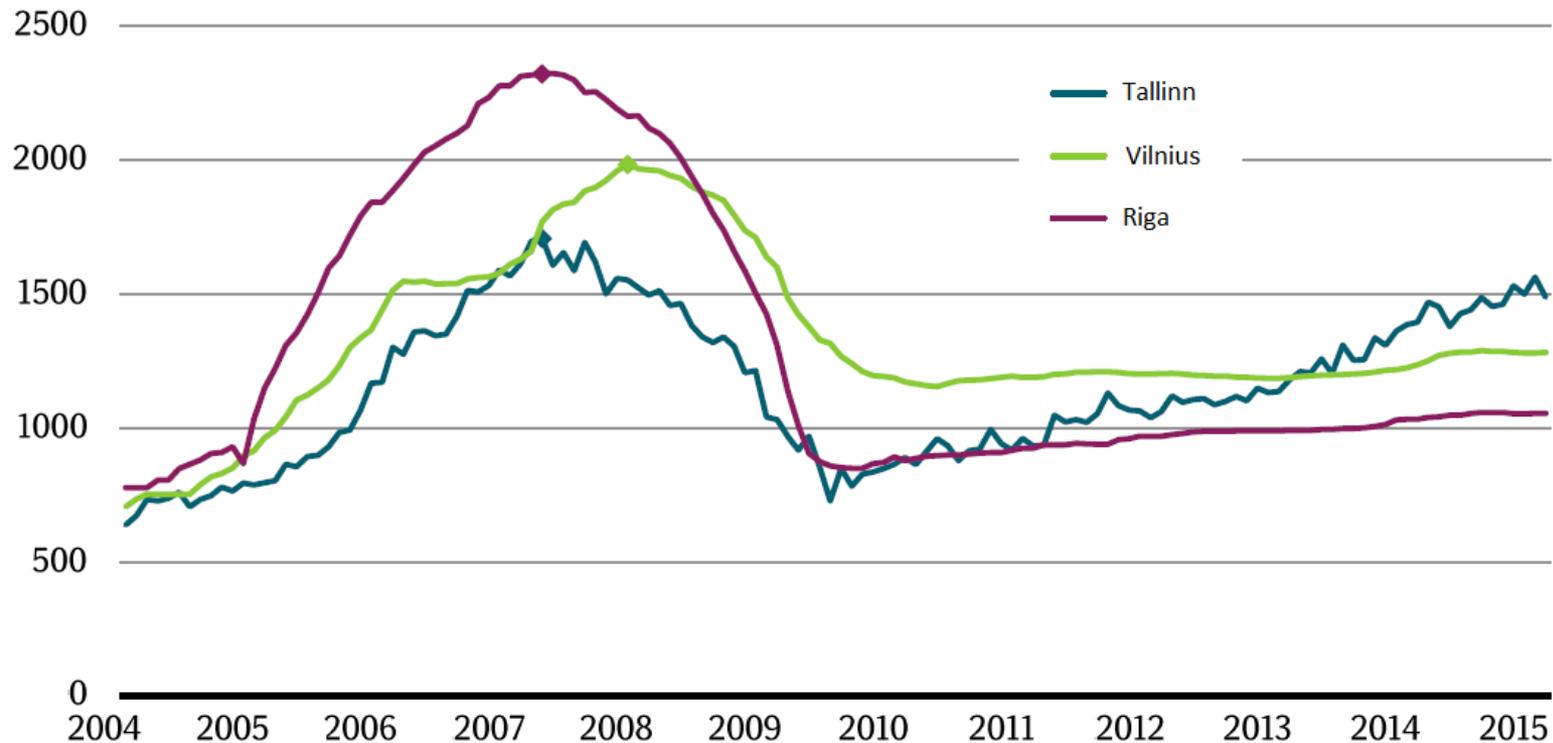
Source: Newsec



Source: Newsec

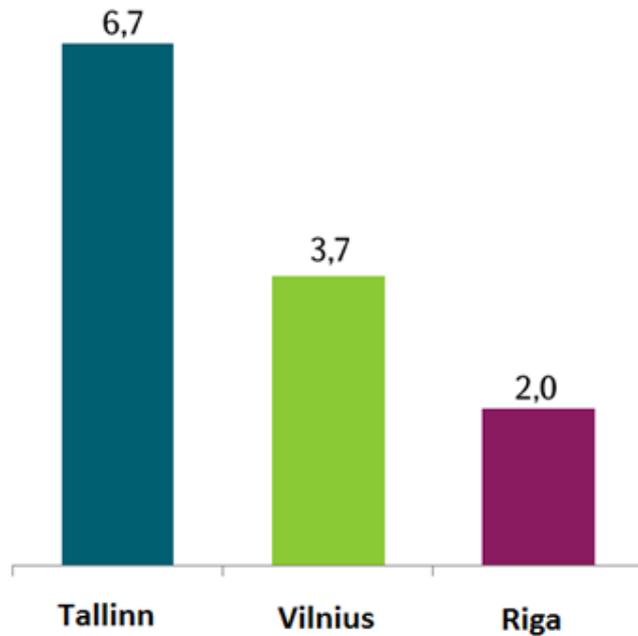
The Real Estate market: prices in Tallinn have reached the 2007 maximum, meanwhile there is still a long way to go for Riga and Vilnius

Average price of apartments (EUR/sq.m.)

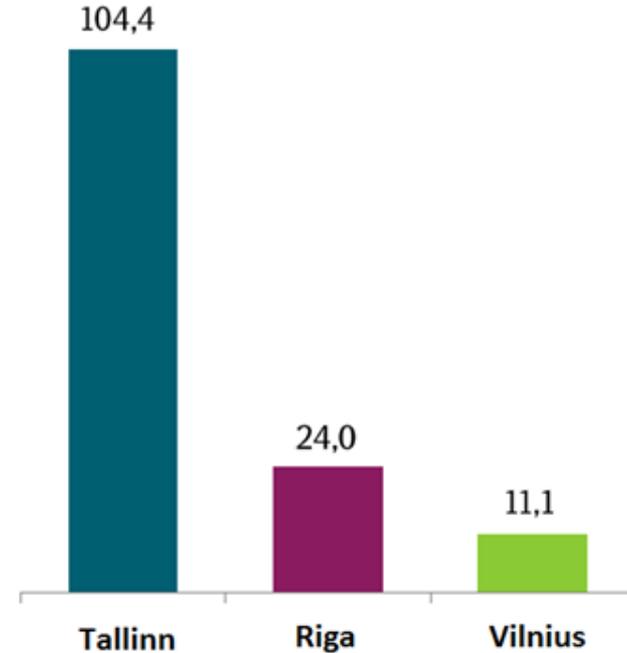


Real estate prices rose in all Baltic States, but we cannot mechanically transplant this tendency to the future

In February 2015 compared with February 2014 (in percentage)



In February 2015, compared with the "bottom" (in percentage)



Comparison of Court systems in Lithuania and Estonia



Number of incoming civil and commercial litigious cases per 100 inhabitants* (First instance, 2010, 2012 and 2013)

source: CEPEJ study

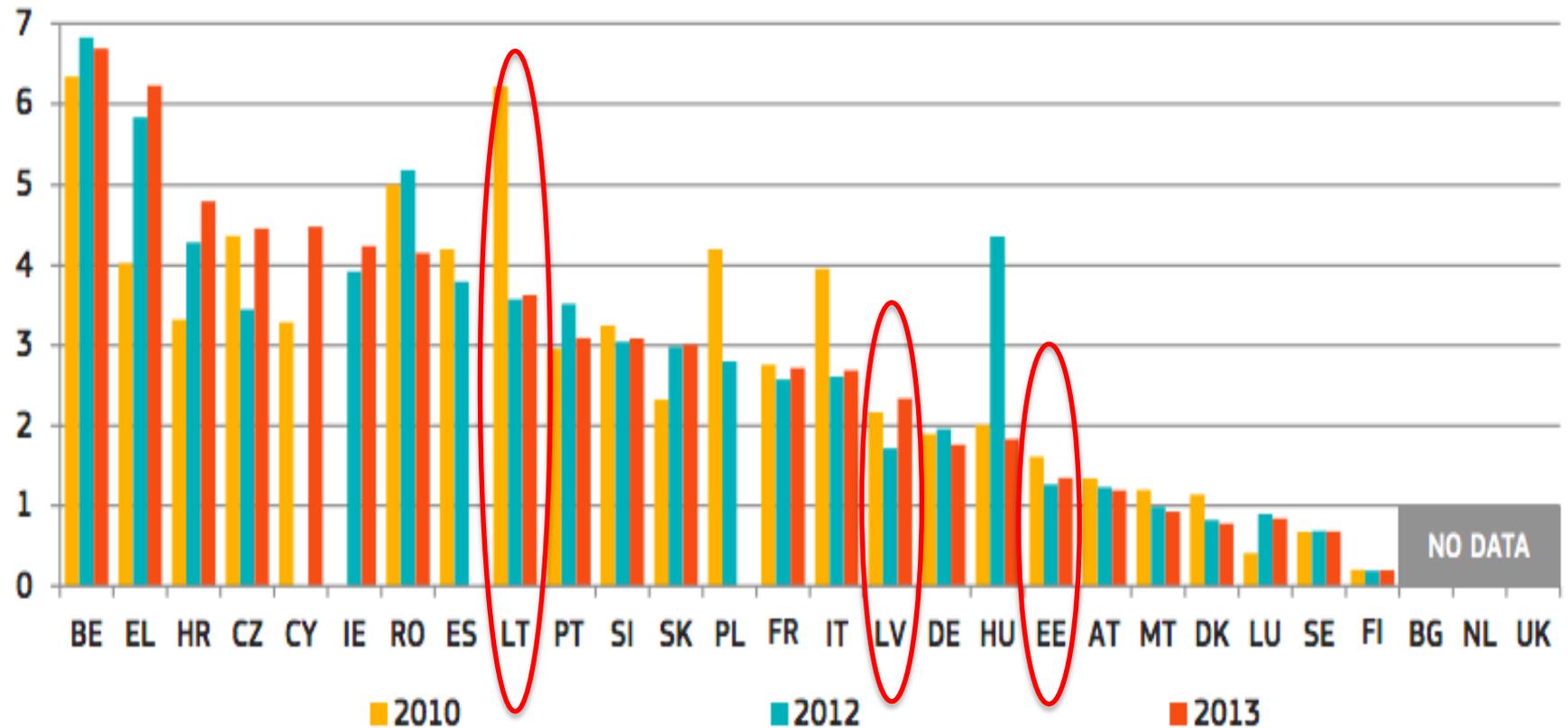
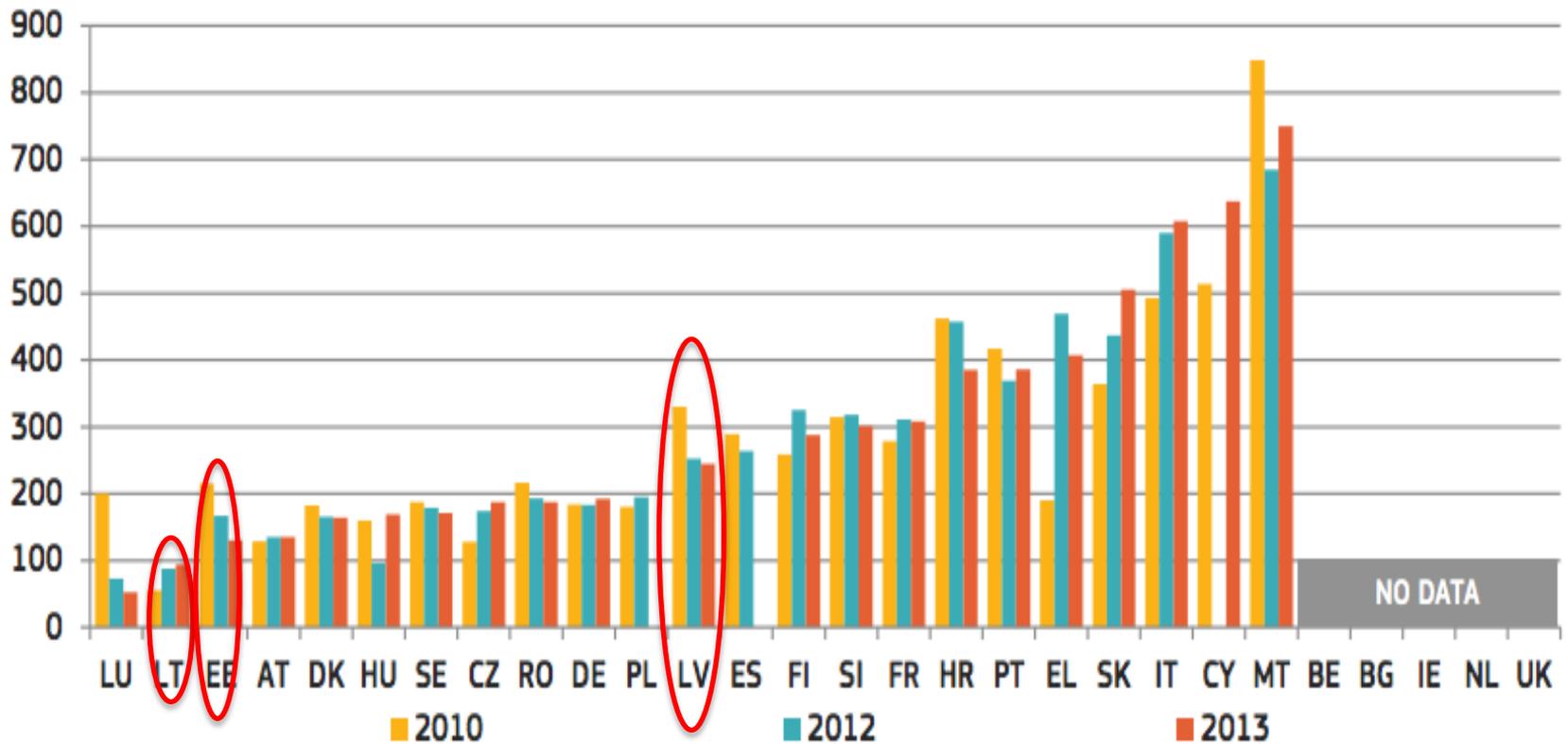


Figure 5

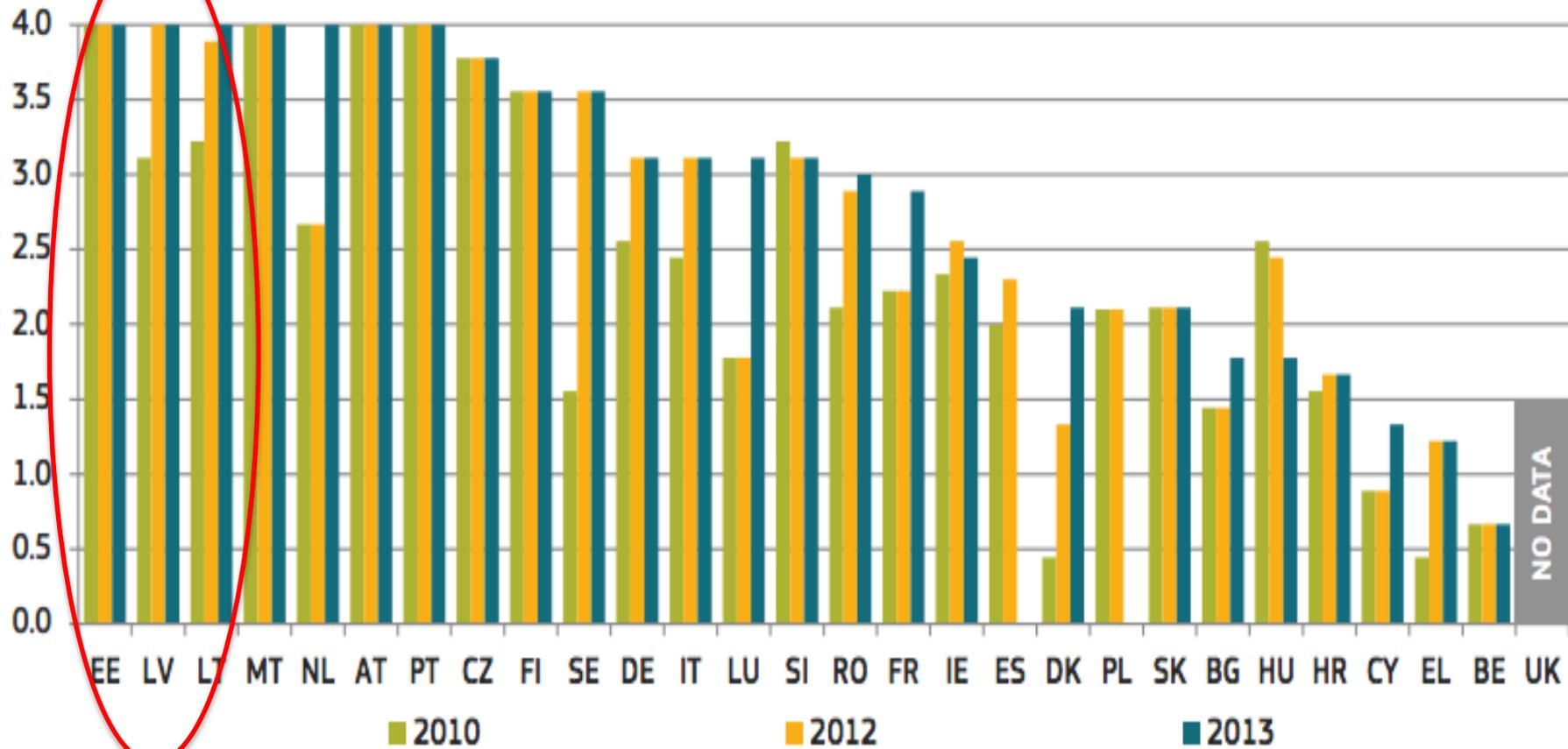
Time needed to resolve litigious civil and commercial cases* (First instance/in days)

source: CEPEJ study



Electronic communication between courts and parties* (weighted indicator-min=0, max=4)

source: CEPEJ study



Thank you!



Robert Juodka, MBA, MRICS
Managing Partner
Attorney at law

Konstitucijos pr. 7, LT-09308 Vilnius
Tel.: (+370 5) 248 73 37,
Fax: (+370 5) 248 73 38
Mob: (+370) 686 26707
E-mail: robert.juodka@varul.com
www.varul.com