The Republic of Lithuania

Euro 20,000,000 9.95 per cent. Notes due 2015 (to be consolidated and form a single series with the existing Euro 142,000,000 9.95 per cent. Notes due 2015 issued on 29 January 2009)

Issue price: 100 per cent.
(plus accrued interest from, and including, 9 March 2009, to,
but excluding, 31 March 2009)

The Republic of Lithuania (the "**Issuer**", the "**Republic**" or "**Lithuania**") is issuing an aggregate principal amount of Euro 20,000,000 9.95 per cent. Notes due 2015 (the **"Further Notes"**) to be consolidated from 31 March 2009 to form a single series with the existing Euro 142,000,000 9.95 per cent. Notes due 2015 issued on 29 January 2009 (the **"Original Notes"** and, together with the Further Notes, the **"Notes**"**).** Interest on the Notes is payable quarterly in arrear on 9 March, 9 June, 9 September and 9 December in each year, from and including, in respect of the Further Notes, 9 June 2009 to and including the Maturity Date (as defined below). Payments under the Notes will be made free and clear of, and without withholding or deduction for, any taxes imposed by the Republic, to the extent described under "Terms and Conditions of the Notes – Taxation". Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed quarterly in instalments, the last Instalment Date (as defined herein) being at their principal amount together with accrued interest on 9 December 2015 (the "**Maturity Date**"). See "Terms and Conditions of the Notes – Redemption, Purchase and Cancellation" below for a further description.

Application has been made to list the Further Notes on the regulated market "Bourse de Luxembourg" of the Luxembourg Stock Exchange (the "**Luxembourg Stock Exchange**"), which is a regulated market for the purposes of Directive 2004/39/EC. The Original Notes were listed on the regulated market "Bourse de Luxembourg" of the Luxembourg Stock Exchange on 29 January 2009.

The Further Notes have not been and will not be registered under the United States Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Further Notes will be represented initially by a Temporary Global Note without coupons which will be issued in new global note ("**NGN**") form as they are intended to be eligible collateral for Eurosystem monetary policy and the Temporary Global Note will be delivered on or prior to 31 March 2009 (the "**Closing Date**") to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank S.A./N.V., ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**, **Luxembourg**"). The Temporary Global Note will be exchangeable for interests recorded in the records of Euroclear and Clearstream, Luxembourg in the Permanent Global Note representing the Notes without coupons or receipts on or after a date not earlier than 11 May 2009 upon certification as to non-US beneficial ownership. The Permanent Global Note will be exchangeable for definitive Notes in bearer form, with interest coupons and receipts for the payment of instalments of principal attached, only in certain limited circumstances as set out in "Summary of Provisions relating to the Notes while in Global Form – Exchange".

Dealer

Credit Suisse International

Offering Circular dated 31 March 2009

The Issuer, having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to the Issuer and the Further Notes which is material in the context of the issue and offering of the Further Notes, that the information contained in this Offering Circular is true and accurate in every material respect and is not misleading, that the opinions and intentions expressed in this Offering Circular are honestly held and that there are no other facts the omission of which makes misleading any statement herein, whether of fact or opinion. The Issuer accepts responsibility for the information contained in this Offering Circular accordingly.

This Offering Circular neither constitutes a prospectus pursuant to Part II of the Luxembourg law on prospectuses for securities (*loi relative aux prospectus pour valeurs mobilières*) dated 10 July 2005 (the "**Luxembourg Prospectus Law**") which implements Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 (the "**Prospectus Directive**") nor a simplified prospectus pursuant to Chapter 2 of Part III of the Luxembourg Prospectus Law. Accordingly, this Offering Circular does not purport to meet the format and the disclosure requirements of the Prospectus Directive and Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive, and it has not been, and will not be, submitted for approval to any competent authority within the meaning of the Prospectus Directive and in particular the Supervisory Commission of the Financial Sector (*Commission de Surveillance du Secteur Financier*), in its capacity as competent authority under the Luxembourg Prospectus Law. The Further Notes issued pursuant to this Offering Circular will therefore not qualify for the benefit of the single European passport pursuant to the Prospectus Directive.

No person has been authorised in connection with the offering of the Further Notes to give any information or make any representation regarding the Issuer or the Further Notes other than as contained in this Offering Circular. Any such representation or information should not be relied upon as having been authorised by the Issuer or any agency thereof or the Dealer (as defined under "Subscription and Sale" below). Neither the delivery of this Offering Circular nor any sales made in connection with the issue of the Further Notes shall, under any circumstances, constitute a representation that there has been no change in the affairs of the Issuer since the date hereof.

The Dealer makes no representation or warranty, express or implied, as to the accuracy or completeness of the information in this Offering Circular. Each person receiving this Offering Circular acknowledges that such person has not relied on the Dealer or any person affiliated with the Dealer in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the Further Notes must make its own investigation and analysis of the creditworthiness of the Issuer and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Issuer or any agency thereof or the Dealer to subscribe or purchase, any of the Further Notes. The distribution of this Offering Circular and the offering of the Further Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Dealer to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Further Notes and distribution of this Offering Circular, see "Subscription and Sale".

In this Offering Circular, all references to "**Litas**" and "**LTL**" are to the lawful currency for the time being of the Republic of Lithuania, all references to "**US dollars**", "**US$**" and "**USD**" are to the lawful currency for the time being of the United States of America, all references to "**SDR**" are to Special Drawing Rights against the International Monetary Fund (the "**IMF**"), all references to "**€**", "**EUR**" and "**Euro**" are to the currency introduced on 1 January 1999 at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. Since 2 February 2002, the exchange rate of the Litas against the Euro has been fixed at €1.00 = LTL 3.4528.

Lithuania is a sovereign state. Consequently, it may be difficult for investors to obtain judgments of courts in countries outside Lithuania against Lithuania. Enforcement of such judgments in Lithuania may be refused in certain circumstances in the absence of an applicable treaty facilitating such enforcement (see also "General Information" herein).

Unless otherwise stated, all annual information, including budgetary information, is based on calendar years. Figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary, and figures which are totals may not be the arithmetical aggregate of their components.

Statistical data appearing in this Offering Circular have, unless otherwise stated, been obtained from the Department of Statistics to the Government of the Republic of Lithuania (the "**Statistics Lithuania**"), the Ministry of Finance and the Bank of Lithuania. Many of the statistics included herein were reclassified or restated in 2006 or 2007. Similar statistics may be obtainable from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source.

In connection with the issue of the Further Notes, Credit Suisse International (the "Stabilising Manager") or any person acting on behalf of the Stabilising Manager may over-allot Further Notes or effect transactions with a view to supporting the market price of the Further Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Further Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Further Notes and 60 days after the date of the allotment of the Further Notes. Any stabilisation or over-allotment must be conducted by the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) in accordance with all applicable laws and rules.

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TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to amendment, will be endorsed on each Note and will be attached and (subject to the provisions thereof) will apply to each Global Note:

The Euro 20,000,000 9.95 per cent. Notes due 2015 of the Republic of Lithuania (the "**Issuer**") issued on 31 March 2009 (the **"Further Notes"**) will be consolidated and form a single series with the existing Euro 142,000,000 9.95 per cent. Notes due 2015 of the Issuer issued on 29 January 2009 (the **"Original Notes**", and together with the Further Notes, the "**Notes**", which expression includes any further Notes issued pursuant to Condition 12 and forming a single series therewith) were authorised pursuant to The Law on State Debt of the Republic of Lithuania.

A fiscal agency agreement dated 29 January 2009 (the "**Fiscal Agency Agreement**") has been entered into in relation to the Notes between the Issuer and Deutsche Bank AG, London Branch as fiscal agent and paying agent and Deutsche Bank Luxembourg S.A. as Luxembourg paying agent. The fiscal agent and the paying agents for the time being are referred to below respectively as the "**Fiscal Agent**" and the "**Paying Agents**" (which expression shall include the Fiscal Agent). The Fiscal Agency Agreement includes the form of the Notes and the receipts for the payment of instalments of principal relating to the Notes in accordance with these Conditions (the "**Receipts**") and the interest coupons relating to the Notes (the "**Coupons**"). Copies of the Fiscal Agency Agreement are available for inspection during normal business hours at the specified offices of the Paying Agents. The holders of the Notes (the "**Noteholders**", which expression shall include the holders of the Receipts relating to the Notes), and the holders of the Coupons (whether or not attached to them) (the "**Couponholders**") are deemed to have notice of all the provisions of the Fiscal Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

(a) Form and Denomination

The Notes are serially numbered and in bearer form in the denominations of Euro 1,000, Euro 10,000 and Euro 100,000, each with Coupons and Receipts attached on issue. Notes of one denomination may not be exchanged for Notes of any other denomination.

(b) Title

Title to the Notes, Coupons and Receipts passes by delivery. The holder of any Note, Coupon or Receipt will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, any writing on it, or its theft or loss) and no person will be liable for so treating the holder.

2. STATUS

The Notes, Receipts and Coupons constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer and the full faith and credit of the Issuer is pledged for the due and punctual payment of principal of, and interest on, the Notes, Receipts and Coupons and for the performance of all other obligations of the Issuer pursuant to the Notes, Receipts and Coupons. The Notes, Receipts and Coupons shall at all times rank *pari passu* without any preference among themselves and at least *pari passu* in all respects with all other present and future unsecured and unsubordinated obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are of mandatory application.

3. NEGATIVE PLEDGE AND COVENANTS

(a) Negative Pledge

So long as any of the Notes, Receipts or Coupons remain outstanding and save as otherwise agreed by Extraordinary Resolution or Written Resolution of the Noteholders, the Issuer will not grant or permit to be outstanding, and will procure that there is not granted or permitted to be outstanding, any mortgage, charge, lien, pledge, other security interest or any other agreement or arrangement having a similar effect over any of its present or future assets or revenues or upon the International Monetary Assets (as defined in Condition 3(b) below) of the Issuer (which expression includes the gold and the reserves of the Issuer by whomsoever and in whatever form owned or held or customarily regarded and held out as the International Monetary Assets thereof) or any part thereof, to secure any Relevant Indebtedness or any guarantee thereof unless the Issuer shall, in the case of the granting of the security, before or at the same time, and in any other case, promptly, procure that all amounts payable in respect of the Notes, Receipts and Coupons are secured equally and rateably, or such other security or other arrangement is provided as shall be approved by an Extraordinary Resolution or Written Resolution of the Noteholders.

For the purpose of this Condition and for the purpose of Condition 8, "**Relevant Indebtedness**" means moneys borrowed, any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent, any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument (together, "**Securities**"), receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis), any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing, any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the mark to market value shall be taken into account), any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution, and the amount of any liability in respect of any guarantee or indemnity (including, without limitation, an obligation to purchase any Securities (which, for the avoidance of doubt, shall include these Notes) at their then outstanding principal amount together with interest accrued thereon, and, when calculating the value of any such transaction, only the purchase price payable in respect of the relevant Securities shall be taken into account), for any of the foregoing items referred to in this paragraph.

(b) *Covenants*

So long as any Note, Coupon or Receipt remains outstanding the Issuer shall:

(i) at all times, have and exercise full rights of ownership in respect of the International Monetary Assets of the Republic of Lithuania and procure that the Bank of Lithuania at all times has and exercises full authority, power and control in respect of the International Monetary Assets of the Republic of Lithuania;

(ii) duly obtain and maintain in full force and effect all Governmental Approvals (including any exchange control and transfer approvals) which may be necessary under the laws of the Issuer for the execution, delivery and performance of the Notes, Receipts and Coupons, as applicable, by it and duly take all necessary governmental and administrative action in the Republic of Lithuania in order to make all payments to be made under the Notes, Receipts and Coupons as required by these Conditions;

(iii) remain a member in good standing, and eligible to use the resources, of the IMF;

(iv) duly obtain, comply with and do all that is necessary to maintain in full force and effect any Authorisation (including any exchange control and transfer approvals) required under any law or regulation of the Republic of Lithuania to enable it to perform its obligations under the Notes, Coupons and Receipts and to ensure the legality, validity, enforceability or admissibility in evidence in the Republic of Lithuania of the Notes, Coupons and Receipts; and

(v) comply in all respects with all laws to which it may be subject, if failure so to comply would materially impair its ability to perform its obligations under the Notes, Coupons and Receipts.

In these Conditions:

"**Authorisation**" means an authorisation, consent, approval, resolution, Licence, exemption, filing, notarisation decree or registration;

"**Government**" means the government of the Republic of Lithuania from time to time;

"**Government Approval**" means any action, decision or legal act necessary or required by the Law on State Debt of the Republic of Lithuania and other legal acts of the Republic of Lithuania and/or any applicable law for the execution, delivery or admissibility in evidence in England and the Republic of Lithuania of the Notes, Coupons and Receipts, to render the Notes, Coupons and Receipts legal, valid, binding and enforceable against the Issuer, to enable the Issuer to enter into the transactions contemplated by the Notes, Coupons and Receipts, and to enable the Noteholders and Couponholders to exercise their rights under the Notes, Coupons, Receipts and these Conditions;

"**International Monetary Assets**" means all official holdings of gold, Special Drawing Rights, Reserve Positions in the Fund and Foreign Exchange of the Government or any agency or department of the Government from time to time;

"**Licence**" means all licenses, permits, exemptions, consents and authorisations, howsoever named, necessary or desirable in connection with the business or assets of the Issuer; and

The terms "**Special Drawing Rights**", "**Reserve Positions in the Fund**" and "**Foreign Exchange**" have, as to the types of assets included, the meanings given to them in the publication of the International Monetary Fund ("**IMF**", which expression shall include any successor thereto) entitled "International Financial Statistics" or such other meanings as shall be formally adopted by the IMF from time to time.

4. INTEREST

Each Note bears interest on its outstanding principal amount from 29 January 2009 to the Maturity Date at the rate of 9.95 per cent. per annum (the "**Interest Rate**"), payable quarterly in arrear on 9 March, 9 June, 9 September and 9 December in each year, commencing on 9 March 2009 and ending on the Maturity Date (each an "**Interest Payment Date**"). Interest will be paid subject to and in accordance with the provisions of Condition 6. The period beginning on and including 29 January 2009 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next successive Interest Payment Date is called an "**Interest Period**". Notwithstanding the foregoing, the first Interest Period in respect of the Further Notes shall be the Interest Period ending on (but excluding) 9 June 2009. Accordingly, all Noteholders will on such Interest Payment Date receive an amount in respect of interest on the Notes from (and including) 9 March 2009 to (but excluding) 9 June 2009.

If, after surrender of any Note for redemption on its due date for redemption or, in respect of the payment of any Instalment Amount, surrender of the applicable Receipt, payment of principal is improperly withheld or refused in respect of such Note or Receipt, such Note or Receipt will continue to bear interest at the rate specified above plus two per cent. per annum (after as well as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note or Receipt up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after notice has been given to the Noteholders that the Fiscal Agent has received all sums due in respect of such Note or Receipt up to such seventh day (except, in the case of payment to the Fiscal Agent, to the extent that there is any subsequent default in payment in accordance with these Conditions).

The amount of interest payable in respect of each Note on each Interest Payment Date shall be rounded to the nearest Euro 0.01 with half of Euro 0.01 being rounded upwards. Interest shall be calculated in respect of a Note and an Interest Period by multiplying the product of the Interest Rate and the outstanding principal amount of such Note by the Day Count Fraction.

For the purposes of this Condition 4, the expression "**Day Count Fraction**" means, in respect of any Interest Period, the actual number of days in such Interest Period divided by 360.

5. REDEMPTION, PURCHASE AND CANCELLATION

(a) *Redemption*

Unless previously purchased, cancelled or redeemed, the Notes shall be partially redeemed on each Instalment Date at their related Instalment Amount, in each case as specified in the Instalment Schedule. The outstanding principal amount of each Note shall be reduced by the Instalment Amount for all purposes with effect from their related Instalment Date unless payment of the Instalment Amount is improperly withheld or refused, in which case such amount shall remain outstanding until the Relevant Date (as defined in Condition 7 below) relating to such Instalment Amount and Condition 4 above shall apply in respect of any such non-payment.

Unless previously purchased, cancelled or redeemed, the Notes shall be finally redeemed in full on the Maturity Date at their final Instalment Amount.

For the purposes of these Conditions, "**Instalment Amount**" means, in respect of each Note, the relevant amount specified as such in the Instalment Schedule, "**Instalment Date**" means each date specified as such in the Instalment Schedule, the last such date being the "**Maturity Date**", and "**Instalment Schedule**" means Schedule 1 to these Conditions.

(b) *Purchase and Cancellation*

The Issuer may at any time purchase Notes (provided that all unmatured Receipts and Coupons relating thereto are attached thereto) in the open market or otherwise at any price. Any Notes so purchased may be cancelled or held and resold.

6. PAYMENTS

(a) *Method of Payment*

Payments of principal and interest will be made in Euro against presentation and surrender (or, in the case of a partial payment, endorsement) of the relevant Receipts (in the case of payments of Instalment Amounts other than on the due date for redemption and provided that the Receipt is presented for payment together with its related Note), Notes (in the case of all other payments of principal) or the appropriate Coupons (in the case of payments of interest) at the specified office of any Paying Agent by credit or transfer to a Euro account (or any other account to which Euro may be credited or transferred) specified by the payee. Payments of interest due in respect of any Note other than on presentation and surrender of matured Coupons shall be made only against presentation and either surrender or endorsement (as appropriate) of the relevant Note.

(b) *Payments subject to Fiscal Laws*

All payments are subject in all cases to any applicable tax or other similar laws and regulations, but without prejudice to the provisions of Condition 7. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(c) Surrender of Unmatured Coupons and Receipts

Each Note should be presented for redemption together with all unmatured Coupons relating to it, failing which the amount of any such missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon which the sum of principal so paid bears to the total principal amount due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relevant missing Coupon not later than 10 years after the Relevant Date (as defined in Condition 7) for the relevant payment of principal.

Upon the due date of redemption of any Note, all Receipts relating to such Note having an Instalment Date falling on or after such due date (whether or not attached) shall become void and no payment shall be made in respect of them.

(d) Payments on Business Days

A Note, Receipt or Coupon may only be presented for payment on a day which is a Business Day and a day on which commercial banks and foreign exchange markets are open for business in the relevant place of presentation. No further interest or other payment will be made as a consequence of the day on which the relevant Note, Receipt or Coupon may be presented for payment under this paragraph falling after the due date. In these Conditions, "**Business Day**" means a day on which commercial banks and foreign exchange markets are open for business in London and Vilnius (Lithuania) and which is a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system is operating.

(e) Paying Agents

The initial Paying Agents and their initial specified offices are listed below. The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and appoint additional or other Paying Agents, provided that they will maintain (i) a Fiscal Agent, (ii) a Paying Agent (which may be the Fiscal Agent) having its specified office in a major European city (which, so long as the Notes are listed on the Luxembourg Stock Exchange, shall be Luxembourg) and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income. The initial Paying Agent in Luxembourg will be Deutsche Bank Luxembourg S.A.. Notice of any change in the Paying Agents or their specified offices will promptly be given to the Noteholders in accordance with Condition 13.

7. TAXATION

All payments of principal and interest in respect of the Notes by the Issuer shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of the Republic of Lithuania or any political subdivision of, or any authority in, or of, the Republic of Lithuania having power to tax, unless withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(i) to, or to a third party on behalf of, a holder who is liable to pay Taxes in respect of the Note by reason of having some connection with the Republic of Lithuania other than the mere holding of the Note; or

(ii) presented for payment more than 30 days after the Relevant Date except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming that day to have been a Business Day; or

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(iv) to, or to a third party on behalf of, a Noteholder or a Couponholder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.

In these Conditions, "**Relevant Date**" means the date on which the payment first becomes due and the amount of the money payable has been received by the Fiscal Agent in full on or before the due date but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received by the Fiscal Agent, notice to that effect has been given to the Noteholders by the Issuer in accordance with Condition 13.

Any reference in these Conditions to any amounts payable in respect of the Notes, Receipts and Coupons shall be deemed to include any additional amounts which may be payable under this Condition 7.

8. EVENTS OF DEFAULT

Each of the following events or circumstances is an event of default (each an "**Event of Default**"):

(a) Non-payment

Any default is made in the payment of any interest or principal due in respect of the Notes, Receipts and Coupons or any of them when due unless its failure to pay is caused by administrative or technical error and payment is made within 3 Business Days of its due date.

(b) Breach of Other Obligations

The Issuer fails to perform or observe any of its other obligations under these Conditions.

(c) Cross default

(i) Any Relevant Indebtedness of the Issuer is not paid when due nor within any originally applicable grace period.

(ii) Any Relevant Indebtedness of the Issuer is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described) or any security therefore becomes enforceable.

(iii) Any commitment for any Relevant Indebtedness of the Issuer is cancelled or suspended by a creditor of the Issuer as a result of an event of default (however described).

(iv) Any creditor of the Issuer becomes entitled to declare any Relevant Indebtedness of the Issuer due and payable prior to its specified maturity as a result of an event of default (however described).

(v) No Event of Default will occur under this Condition 8(c) in respect of Relevant Indebtedness of the Issuer if the aggregate amount of all such Relevant Indebtedness or commitment for Relevant Indebtedness of the Issuer falling within sub-paragraphs (i) to (iv) above is less than EUR 60,000,000 (or its equivalent in any other currency or currencies).

(d) Moratorium

A moratorium is declared or requested by the Issuer or any authorised representative thereof on the payment of Relevant Indebtedness, or the Issuer is unable to meet payments in respect of Relevant Indebtedness as they fall due, or commences negotiations with any one or more of its foreign creditors with a view to the general readjustment or rescheduling of its Relevant Indebtedness or ceases to be a member of the IMF (as defined in Condition 3) or to be eligible to use the general resources of the IMF.

(e) Unlawfulness or Invalidity

The validity of the Notes, Receipts or Coupons or the Fiscal Agency Agreement is contested by the Issuer or the Issuer shall deny any of the Issuer's obligations under the Notes or the Issuer, or any person acting on behalf of the Issuer, repudiates or evidences an intention to repudiate the Notes, Receipts or Coupons or the Fiscal Agency Agreement or it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes, Receipts or Coupons or the Fiscal Agency Agreement or any of such obligations shall be or become unenforceable or invalid.

(f) Consents, etc.

Any law, regulation, decree, consent, approval, licence or other authority or similar act is enacted or introduced in the Republic of Lithuania (or any part thereof) which might reasonably be expected to have the effect of prohibiting, restructuring or delaying the payment of Relevant Indebtedness of the Republic of Lithuania or which prevents or is reasonably likely to prevent (directly or indirectly) the Issuer from performing its obligations under the Notes or the Fiscal Agency Agreement.

(g) Analogous events

There occurs in relation to the Issuer any event under the laws of the Republic of Lithuania or any other relevant jurisdiction which has an analogous or similar effect to any event mentioned in Condition 8(d) above and subject to the same cure period (if any) set out therein.

(h) Material adverse change

Any event or circumstance occurs which has or is reasonably likely to have a Material Adverse Effect.

(i) Final Judgment

The Issuer fails to comply with a final judgment which is not capable of being appealed by it, or where there is no reasonable prospect of such an appeal succeeding and where such judgment will have a Material Adverse Effect.

If an Event of Default occurs then the Noteholders may, by Extraordinary Resolution and notice in writing to the Issuer (with a copy to the Fiscal Agent) (a "**Redemption Notice**") declare:

(1) all of the Notes to be immediately due and payable in full, whereupon they shall become immediately due and payable at their principal amount together with accrued

interest; or

(2) all of the Notes to be immediately due and payable in part, whereupon the applicable principal amount in respect of each Note (which shall be specified in the relevant Redemption Notice and expressed as a percentage of the outstanding principal amount of the Notes) shall become immediately due and payable at the relevant principal amount together with accrued interest,

in each case without further action or formality. Notice of any declaration by the Noteholders in accordance with this paragraph shall promptly be given to all other Noteholders by the Issuer.

If the Notes are declared due and payable in part only in accordance with this Condition 8, the remaining part of the Notes not so declared due and payable may, for so long as any Default is subsisting, be declared due and payable in full or in part at any time in accordance with this Condition 8.

If all the Notes are redeemed in part pursuant to this Condition 8, the Notes and the Receipts relating thereto shall be endorsed in accordance with Condition 6(a) and Schedule 1 to these Conditions shall be deemed adjusted accordingly.

The Issuer will notify the Noteholders in accordance with Condition 13 of any Default (and the steps, if any, being taken to remedy it) forthwith upon the Issuer becoming aware of the same. In the event there occurs a Default or event of default (howsoever called) under any other agreement, guarantee or other instrument in respect of Relevant Indebtedness, then upon request by any Noteholder, the Issuer shall provide such Noteholder with such information with regard to the Default or event of default as such Noteholder may reasonably request. The Issuer also agrees to make available to such Noteholder such officers of the Issuer as such Noteholder considers reasonably necessary to discuss such event or circumstance and its ramifications for the Noteholders.

For the purposes of this Condition 8, the following terms have the following meanings:

"**Default**" means an Event of Default or any event or circumstance specified in Condition 8 which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Notes or any combination of any of the foregoing as applicable) be an Event of Default.

"**Material Adverse Effect**" means the effect of any event or circumstance which, in the opinion of those Noteholders declaring the Notes to be immediately due and payable (acting reasonably):

(A) has or is likely to have a material adverse effect on the operations, property, assets, condition (financial or otherwise) of the Issuer;

(B) is or is likely to be materially adverse to the ability of the Issuer to pay or repay amounts which are or will become outstanding under the Notes, Receipts or Coupons;

(C) is or is likely to be materially prejudicial to the validity or enforceability of any Note. Receipt or Coupon; or

(D) is or is likely to be materially prejudicial to the condition (financial or otherwise) or the prospects of the Issuer.

9. PRESCRIPTION

Claims against the Issuer in respect of principal and interest shall become prescribed unless made within a period of ten years, in the case of principal, and five years, in the case of interest, from the appropriate Relevant Date (as defined in Condition 7).

10. REPLACEMENT OF NOTES, RECEIPTS AND COUPONS

If any Note, Receipt or Coupon is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Fiscal Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts or Coupons must be surrendered before replacements will be issued.

11. MEETINGS OF NOTEHOLDERS; WRITTEN RESOLUTIONS

(a) Convening Meetings of Noteholders

The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the provisions of the Fiscal Agency Agreement. Such a meeting may be convened by the Issuer or the Fiscal Agent and shall be convened by the Issuer or the Fiscal Agent at any time upon the request in writing of holders of at least 10 per cent. of the aggregate principal amount of the outstanding Notes.

(b) Quorum

The quorum at any meeting of Noteholders convened to vote on an Extraordinary Resolution which does not concern a Reserved Matter will be:

(i) one or more persons present and holding or representing at least 50 per cent. of the aggregate principal amount of the outstanding Notes; or

(ii) where a meeting is adjourned and rescheduled owing to a lack of quorum, at any rescheduled meeting of Noteholders, one or more persons present and holding or representing at least 25 per cent. of the aggregate principal amount of the outstanding Notes.

The quorum at any meeting of Noteholders convened to vote on an Extraordinary Resolution which concerns a Reserved Matter will be:

(i) one or more persons present and holding or representing at least 75 per cent. of the aggregate principal amount of the outstanding Notes; or

(ii) where a meeting is adjourned and rescheduled owing to a lack of quorum, at any rescheduled meeting of Noteholders, one or more persons present and holding or representing at least 50 per cent. of the aggregate principal amount of the outstanding Notes.

(c) Reserved Matters

Any proposal:

(i) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(ii) to change the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, Written Resolution or any other resolution of

Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(iii) to change the definition of "Extraordinary Resolution", the definition of "outstanding" or the definition of "Written Resolution";

(iv) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, Receipts or Coupons to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(v) for the assignment of any of the Issuer's rights or the transfer any of the Issuer's rights or obligations under the Notes, Receipts or Coupons or the entry into any transaction or benefits arrangement which would result in any of the rights, benefits or obligations of the Issuer in respect of the Notes, Receipts or Coupons passing to or being held in trust for or for the benefit of another person;

(vi) to change the law governing the Notes, Receipts, Coupons, the courts to the jurisdiction of which the Issuer has submitted in the Notes, the Issuer's obligation to maintain an agent for service of process in England or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 16;

(vii) to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the holders of Notes which are subject to the Conditions as so modified than:

(A) the provisions of the other obligations or securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

(B) if more than one series of other obligations or securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series having the largest aggregate principal amount; or

(viii) to modify the provisions of this Condition 11(c),

is a "**Reserved Matter**" for the purposes of these Conditions.

(d) *Modifications*

Any modification of any provision of these Conditions may be made if approved by an Extraordinary Resolution or a Written Resolution. In these Conditions, "**Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 75 per cent. of the aggregate principal amount of the outstanding Notes which are represented at that meeting.

Any Extraordinary Resolution duly passed at any such meeting in accordance with this Condition shall be binding on all the Noteholders, whether present or not and whether they voted in favour or not, and all Couponholders.

(e) *Written resolutions*

In addition, the Fiscal Agency Agreement contains provisions relating to Written Resolutions. A "**Written Resolution**" is a resolution in writing signed by or on behalf of the holders of at least 75 per cent. of the aggregate principal amount of the outstanding Notes. Any Written Resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders. Any Written Resolution shall be binding on all of the Noteholders, whether or not signed by them, and on all Couponholders.

(f) *Manifest error, etc.*

The Notes, these Conditions and the provisions of the Fiscal Agency Agreement may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Fiscal Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Noteholders.

(g) *Notes controlled by the Issuer*

For the purposes of (i) ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution, (ii) this Condition 11 and Schedule 3 to the Fiscal Agency Agreement and (iii) Condition 8, those Notes (if any) which are held in circumstances where the Issuer has the power to direct the casting of votes in respect of such Notes, whether directly or indirectly, shall (unless and until ceasing to be so held) be disregarded and be deemed not to remain outstanding. Without prejudice to the generality of the previous sentence, the Issuer shall be deemed to have the power to direct the casting of votes in respect of a Note if the Note is held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer, where:

(i) "**public sector instrumentality**" means the Bank of Lithuania, any department, ministry or agency of the government of the Republic of Lithuania or any corporation, trust, financial institution or other entity owned or controlled by the government of the Republic of Lithuania; and

(ii) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

In advance of any meeting of Noteholders or Written Resolution the Issuer shall provide to the Fiscal Agent a certificate of the Issuer setting out the total number of Notes which are held in circumstances where the Issuer has at the date of such certificate the power to direct the casting of votes in respect of such Notes. The Fiscal Agent shall make any such certificate available for inspection during normal business hours at its Specified Office and, upon reasonable request, will allow copies of such certificate to be taken.

(h) Noteholders' Committee

(i) The Noteholders may, by a resolution passed at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement by a majority of at least 50 per cent. in aggregate principal amount of the Notes then outstanding, or by notice in writing to the Issuer (with a copy to the Fiscal Agent) signed by or on behalf of the holders of at least 50 per cent. in aggregate principal amount of the Notes then outstanding, appoint any person or persons as a committee to represent the interests of the Noteholders if any of the following events has occurred:

(A) an Event of Default;

(B) any event or circumstance which could, with the giving of notice, lapse of time, the issuing of a certificate and/or fulfilment of any other requirement provided for in Condition 8, become an Event of Default; or

(C) any public announcement by the Issuer, to the effect that the Issuer is seeking or intends to seek a restructuring of the Notes (whether by amendment, exchange offer or otherwise),

provided, however, that no such appointment shall be effective if the holders of more than 25 per cent. of the aggregate principal amount of the outstanding Notes have either (I) objected to such appointment by notice in writing to the Issuer (with a copy to the Fiscal Agent) during a specified period following notice of the appointment being given (if such notice of appointment is made by notice in writing to the Issuer) where such specified period shall be either 30 days or such other longer or shorter period as the committee may, acting in good faith, determine to be appropriate in the circumstances, or (II) voted against such resolution at a meeting of Noteholders duly convened and held in accordance with the Fiscal Agency Agreement. Such committee shall, if appointed by notice in writing to the Issuer, give notice of its appointment to all Noteholders in accordance with Condition 13 as soon as practicable after the notice is delivered to the Issuer.

(ii) Such committee in its discretion may, among other things, (i) engage legal advisers and financial advisers to assist it in representing the interests of the Noteholders, (ii) adopt such rules as it considers appropriate regarding its proceedings, (iii) enter into discussions with the Issuer and/or other creditors of the Issuer, (iv) designate one or more members of the committee to act as the main point(s) of contact with the Issuer and provide all relevant contact details to the Issuer, (v) determine whether or not there is an actual or potential conflict of interest between the interests of the holders of the Notes then outstanding and the interests of the holders of debt securities of any one or more other series issued by the Issuer and (vi) upon making a determination of the absence of any actual or potential conflict of interest between the interests of the holders of the Notes then outstanding and the interests of the holders of debt securities of any one or more other series issued by the Issuer, agree to transact business at a combined meeting of the committee and such other person or persons as may have been duly appointed as representatives of the holders of securities of each such other series. Except to the extent provided in this sub-paragraph (ii), such committee shall not have the ability to exercise any powers or discretions which the Noteholders could themselves exercise. The Issuer shall pay any fees and expenses which are reasonably incurred by any such committee or any such combined committee (including, without limitation, the costs of giving notices to Noteholders, fees and expenses of the committee's legal advisers and financial advisers, if any) within 30 days of the delivery to the Issuer of a reasonably detailed invoice and supporting documentation.

12. FURTHER ISSUES

The Issuer shall be at liberty from time to time, with the prior approval of the Noteholders by Extraordinary Resolution or Written Resolution, to create and issue further notes fungible with the Notes and ranking equally in all respects (or in all respects save for the date for and amount of the first payment of interest thereon) so that the same shall be consolidated and form a single series with the Notes.

13. NOTICES

Notices to Noteholders will be valid if published in a leading newspaper having general circulation in London (which is expected to be the Financial Times) and (so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Stock Exchange so require) published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be d'Wort). Any such notice shall be in English and shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

All Notices from the Noteholders to the Issuer shall be delivered to the Fiscal Agent for delivery to the Issuer, and the Fiscal Agent shall deliver such notice to the Issuer in accordance with the provisions of the Fiscal Agency Agreement.

14. CURRENCY INDEMNITY

The Euro (the "**Contractual Currency**") is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Notes and the Coupons, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Noteholder or Couponholder in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under any Note or Coupon, the Issuer shall indemnify such recipient against any loss sustained by it as a result. In any event, the Issuer shall indemnify the recipient against the cost of making any such purchase.

These indemnities constitute separate and independent obligations from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder or Couponholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or Coupon or any judgment or order.

15. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

16. GOVERNING LAW

(a) The Notes, Receipts, Coupons and the Fiscal Agency Agreement and all non-contractual obligations and other matters arising from or in connection with each of the foregoing shall be governed by, and construed in accordance with, the laws of England.

(b) The Issuer irrevocably agrees for the benefit of the Noteholders and Couponholders that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Fiscal Agency Agreement or the Notes, Receipts and Coupons and that accordingly any suit, action or proceedings arising out of or in connection therewith (together referred to as "**Proceedings**") may be brought in the courts of England.

(c) The Issuer irrevocably and unconditionally waives and agrees not to raise any objection which it may have now or subsequently to the laying of the venue of any Proceedings in the courts of England and any claim that any Proceedings have been brought against the Issuer in an inconvenient forum and further irrevocably and unconditionally agrees that a judgment in any Proceedings brought in the courts of England shall be conclusive and binding upon the Issuer and may be enforced in the courts of any other jurisdiction. Nothing in this Condition shall limit any right to take Proceedings against the Issuer in any other court of competent jurisdiction, nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction, whether concurrently or not.

(d) The Issuer hereby irrevocably and unconditionally appoints the Embassy of the Republic of Lithuania to the United Kingdom of Great Britain and Northern Ireland to the Court of St. James's of 84 Gloucester Place, London, W1U 6AU for the time being as its agent for service of process in England in respect of any Proceedings.

(e) The Issuer expressly and irrevocably waives all immunity (including all rights to sovereign immunity) it or its assets or revenues may otherwise have in any jurisdiction, including immunity in respect of:

(1) the giving of any relief by way of injunction or order for specific performance or for the recovery of assets or revenues;

(2) the issue of any process against it, its assets or revenues for the enforcement of a judgment or, in an action in rem, for the arrest, detention or sale of any of its assets and revenues;

(3) any service of process, suit or other legal or judicial process brought against it; and

(4) immunity from execution to which the Issuer might otherwise be entitled with respect to the enforcement of any order, award, judgement or other decision made or given in connection with any Proceedings,

provided that that immunity is not waived with respect to present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 or military property or military assets or property or assets of the Issuer relating to any of the foregoing assets.

SCHEDULE 1: INSTALMENT SCHEDULE

INSTALMENT DATE	INSTALMENT AMOUNT PER NOTE WITH A DENOMINATION OF EUR 1,000	INSTALMENT AMOUNT PER NOTE WITH A DENOMINATION OF EUR 10,000	INSTALMENT AMOUNT PER NOTE WITH A DENOMINATION OF EUR 100,000
9 December 2011	EUR 58.82	EUR 588.20	EUR 5,882.00
9 March 2012	EUR 58.82	EUR 588.20	EUR 5,882.00
9 June 2012	EUR 58.82	EUR 588.20	EUR 5,882.00
9 September 2012	EUR 58.82	EUR 588.20	EUR 5,882.00
9 December 2012	EUR 58.82	EUR 588.20	EUR 5,882.00
9 March 2013	EUR 58.82	EUR 588.20	EUR 5,882.00
9 June 2013	EUR 58.82	EUR 588.20	EUR 5,882.00
9 September 2013	EUR 58.82	EUR 588.20	EUR 5,882.00
9 December 2013	EUR 58.82	EUR 588.20	EUR 5,882.00
9 March 2014	EUR 58.82	EUR 588.20	EUR 5,882.00
9 June 2014	EUR 58.82	EUR 588.20	EUR 5,882.00
9 September 2014	EUR 58.82	EUR 588.20	EUR 5,882.00
9 December 2014	EUR 58.82	EUR 588.20	EUR 5,882.00
9 March 2015	EUR 58.82	EUR 588.20	EUR 5,882.00
9 June 2015	EUR 58.82	EUR 588.20	EUR 5,882.00
9 September 2015	EUR 58.82	EUR 588.20	EUR 5,882.00
9 December 2015	EUR 58.88	EUR 588.80	EUR 5,888.00

USE OF PROCEEDS

The proceeds of the issue of the Further Notes are expected to amount to approximately Euro 20,000,000 (less amounts due in respect of fees and commissions payable in connection with the issue of the Notes) and will be applied, in compliance with the requirements of the Law on State Debt and the Law on the Approval of Financial Indicators for State Budget and Municipalities Budgets for 2009, in debt repayments and towards financing government expenditure in relation to infrastructure and other projects.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Temporary Global Note and the Permanent Global Note contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this document. The following is a summary of certain of those provisions:

1. Principal Amount and Exchange

The principal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear and Clearstream, Luxembourg or any alternative clearing system (each a "**relevant Clearing System**"). The records of such relevant Clearing System shall be conclusive evidence of the principal amount of Notes represented by the Temporary Global Note and the Permanent Global Note and a statement issued by such relevant Clearing System at any time shall be conclusive evidence of the records of that relevant Clearing System at that time. The Temporary Global Note is exchangeable in whole or in part for interests recorded in the records of the relevant Clearing Systems in the Permanent Global Note representing the Notes on or after a date which is expected to be 11 May 2009 upon certification as to non-US beneficial ownership in the form set out in the Temporary Global Note. The Permanent Global Note is exchangeable in whole but not, except as provided in the next paragraph, in part (free of charge to the holder) for the Definitive Notes described below (i) if the Permanent Global Note is held on behalf of a relevant Clearing System and such relevant Clearing System is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative or successor clearing system is available, or (ii) if principal in respect of any Notes is not paid when due and payable or (iii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 7 which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two officials of the Ministry of Finance of the Issuer is delivered to the Fiscal Agent for display to Noteholders (unless a default notice has been given as referred to in "Default" below). Thereupon (in the case of (i) or (ii) above) the holder may give notice to the Fiscal Agent and, (in the case of (iii) above) the Issuer may give notice to the Fiscal Agent and the Noteholders, of its intention to exchange the Permanent Global Note for Definitive Notes on or after the Exchange Date specified in the notice.

If principal in respect of any Notes is not paid when due and payable the holder of the Permanent Global Note may by notice to the Fiscal Agent (which may but need not be the default notice referred to in "Default" below) require the exchange of a specified principal amount of the Permanent Global Note (which may be equal to or (provided that, if the Permanent Global Note is held by or on behalf of a relevant Clearing System, that relevant Clearing System agrees) less than the outstanding principal amount of Notes represented thereby) for Definitive Notes on or after the Exchange Date (as defined below) specified in such notice.

On or after any Exchange Date (as defined below) the holder of the Permanent Global Note may surrender the Permanent Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Permanent Global Note, or the part thereof to be exchanged, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes (having attached to them all Receipts in respect of principal which has not already been paid on this Global Note and Coupons in respect of interest which has not already been paid on this Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in Schedule 1 to the Fiscal Agency Agreement. On exchange in full of the Permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Notes.

"**Exchange Date**" means a day falling not more than 60 days, or in the case of exchange pursuant to (ii) above 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant Clearing System is located.

2. **Payments**

No payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by the Permanent Global Note will be made to its holder. The Issuer shall procure that details of each such payment shall be entered *pro rata* in the records of the relevant Clearing System and, in the case of payments of principal, the principal amount of the Notes will be reduced accordingly. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant Clearing System shall not affect such discharge.

3. **Notices**

So long as the Notes are represented by the Permanent Global Note and the Permanent Global Note is held on behalf of a relevant Clearing System, notices to Noteholders may be given by delivery of the relevant notice to that relevant Clearing System for communication by it to entitled accountholders in substitution for publication as required by the Conditions, except that so long as the Notes are listed on the Luxembourg Stock Exchange's regulated market and the rules of that Exchange so require, notices shall also be published either on the website of the Luxembourg Stock Exchange (www.bourse.lu) or in a leading newspaper having general circulation in Luxembourg (which is expected to be *d'Wort*).

4. **Prescription**

Claims against the Issuer in respect of principal and interest on the Notes while the Notes are represented by the Permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7).

5. **Meetings**

The holder of the Permanent Global Note will be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, as having one vote in respect of each Euro 1,000 in principal amount of Notes for which the Permanent Global Note may be exchanged.

6. **Purchase and Cancellation**

On cancellation of any Note required by the Conditions to be cancelled following its purchase the Issuer shall procure that details of such cancellation shall be entered *pro rata* in the records of the relevant Clearing Systems and, upon any such entry being made, the principal amount of the Notes recorded in the records of the relevant Clearing Systems and represented by this Global Note shall be reduced by the aggregate principal amount of the Notes so cancelled.

7. **Default**

The Permanent Global Note provides that the holder may cause the Permanent Global Note or a portion of it to become due and payable in the circumstances described in Condition 8 by stating in the notice to the Fiscal Agent the principal amount of Notes which is being declared due and payable. If principal in respect of any Note is not paid when due and payable, the holder of the Permanent Global Note may elect that the Permanent Global Note becomes void as to a specified portion and that the persons entitled to such portion as accountholders with a clearing system acquire direct enforcement rights against the Issuer under further provisions of the Permanent Global Note executed by the Issuer as a deed poll.

THE REPUBLIC OF LITHUANIA

Area and Population

Lithuania is located in the Baltic region of northern Europe and is bordered by Latvia to the north, Belarus to the east, Poland to the south and the Kaliningrad Region of the Russian Federation to the south-west. The western border of the country is the Baltic coast on which is situated Klaipeda, the largest ice-free port in the Baltic. Lithuania covers an area of approximately 65,300 square kilometres. The capital city of Lithuania is Vilnius, which is located in the south-east of the country. As at 1 October 2008 the population of Lithuania totalled approximately 3.4 million, of which approximately 67 per cent. lived in urban areas.

History

Lithuania traces its origins to the 11th century. By the 14th century, the Grand Duchy of Lithuania covered the area between the Black Sea and the Baltic Sea. In the 16th century Lithuania and Poland created a new state – the Polish-Lithuanian Commonwealth. This state existed until the 18th century when it was occupied and dismantled by the neighbouring countries. As a result, most of Lithuania's territory became part of the Russian Empire.

Following the First World War, Lithuania's independence was declared on 16 February 1918. In August 1922, the Lithuanian parliament (the "**Seimas**") approved a constitution that proclaimed the country a democratic republic. In June 1940, following an ultimatum from the Union of Soviet Socialist Republics ("**USSR**"), Soviet troops entered Lithuania and occupied it. Lithuania proclaimed the restoration of independence on 11 March 1990. On 6 September 1991, the independence of the Baltic states of Lithuania, Estonia and Latvia was recognised by Moscow. On 17 September 1991, all three Baltic states were admitted to the United Nations as independent members.

A new constitution was adopted and the first free parliamentary elections since independence from the USSR were held in 1992.

Constitution, Government and Political Parties

Lithuania's new constitution (the "**Constitution**") was adopted in October 1992. The Constitution established the Republic of Lithuania with a president as the head of state and the Seimas as the highest legislative authority. The Constitution provides for the separation of the executive, legislative and judicial powers.

The President is elected by direct general election for a term of five years and may be elected for a maximum of two consecutive terms.

The President has responsibility for the conduct of foreign policy, the dissolution of the Seimas and the calling of pre-term parliamentary elections. He is also required to approve all laws passed by the Seimas and may veto the passage of such laws. In addition, it is the President's responsibility to appoint the Prime Minister, subject to the approval of the Seimas, and to nominate the governor of the Bank of Lithuania, the Prosecutor General and the Police Commissioner General, who are appointed by the Seimas. The President acts as commander-in-chief of the armed forces in time of war or in other emergencies.

Presidential elections were held in June 2004. Valdas Adamkus was elected President with slightly over 52 per cent. of the vote. The next presidential elections are scheduled to be held in 2009.

The Seimas is a uni-cameral body composed of 141 members elected for four-year terms. Seventy-one seats in the Seimas are determined by direct popular vote for single member constituencies, while the remaining seats are allocated on a proportional basis to every party which receives 5 per cent. or more of the total national vote, in the case of single parties, or 7 per cent. or more of the total national vote, in the case of coalitions.

The Government consists of the Prime Minister, appointed by the President and approved by the Seimas, and 14 ministers, each of whom is nominated by the Prime Minister and appointed by the President. Members of the Government may not also be members of the Seimas. The cabinet of ministers formulates the Government's programme for approval by the Seimas. Legislation is put forward by the Government in accordance with this programme and is subject to approval by a simple majority of the Seimas and to the approval of the President.

Following the October 2004 general election, the Lithuanian Social Democratic Party and the New Union (Social Liberals) formed a left-wing coalition with the Labour Party and the Union of Farmers Party and New Democracy Party. This coalition formed a new Government under the former Prime Minister Algirdas Brazauskas.

The coalition fell and the Government resigned after the New Union (Social Liberals) and later the Labour Party left the coalition in May 2006. The Government's authority was also challenged when the European Commission rejected Lithuania's timetable for the adoption of the Euro in early 2007, because inflation at the time was narrowly above a benchmark qualifying level. A new Government, led by the former Defence Minister and social democrat Gediminas Kirkilas, was approved on 18 July 2006. Gediminas Kirkilas led a minority four-party coalition government until 28 January 2008, when 10 members from the New Union (Social Liberals) joined together to create a five-party majority government, holding 73 seats in the Seimas.

After the October 2008 general election, Homeland Union together with the Rising Nation Party, the Liberals Movement, and the Liberal and Centre Union formed a coalition. On 9 December 2008, a new Government led by Andrius Kubilius, chairman of the Homeland Union and former Prime Minister, was approved by Seimas.

The following table shows each party's number of seats in the Seimas after the 26 October 2008 election:

	Number of seats
Homeland Union - Lithuanian Christian Democrats	45
Lithuanian Social Democratic Party	25
Rising Nation Party	18
Liberal Democratic Party	15
Liberals Movement	11
Labour Party	10
Liberal and Centre Union	8
Peasants and People's Party	3
Lithuanian Poles' Electoral Action	3
Non-affiliated Members	2
The New Union (Social Liberals)	1
Total	141

The next election of the Seimas is scheduled to be held in 2012.

Local government powers and functions are exercised through municipalities, with local officials elected every four years. Local elections held on 25 February 2007 saw the Lithuanian Social Democratic Party take 19.48 per cent. of the total number of seats contested, compared to the 16.52 per cent. taken by the Homeland Union - Christian Democrats. The Liberal and Centre Union and Liberal Democratic Party took 11.74 per cent. and 11.68 per cent. of the seats, respectively. The next local elections are scheduled to be held in 2011.

Judicial authority is vested in the Supreme Court, the Court of Appeal, five district courts and 54 local courts. Candidates for the judiciary are proposed by the President and require the approval of the Seimas.

International Relations

Lithuania was annexed by the USSR in 1940. On 11 March 1990, Lithuania restored its independence and was recognised by the international community in the autumn of 1991. Russian troops withdrew from Lithuania in 1993.

After regaining its independence, Lithuania was accepted as a member of various international institutions and organisations. In 1991, Lithuania became a member of the United Nations and the Organisation for Security and Cooperation in Europe (formerly the Commission on Security and Cooperation in Europe). In 1992, Lithuania was admitted to the World Bank and the International Monetary Fund ("**IMF**"). In 1993, Lithuania joined the Council of Europe.

Responding to both traditional (demanding a traditional response that is based on the collective defence principles of NATO) and asymmetrical security challenges such as regional conflicts, terrorism and the proliferation of weapons of mass destruction, Lithuania decided to become a member of the North Atlantic Treaty Organisation ("**NATO**"). This afforded an opportunity to develop Lithuania's security and defence sectors, to strengthen the rule of law and civil society and to take part in international operations and missions. Membership not only helps to guarantee Lithuania's security, but also bolsters the perception of Lithuania by others, reinforcing its responsibility for upholding transatlantic values such as democracy, the rule of law and respect for human rights. Lithuania's decision to join NATO was based on the wish and will to be a part of this transatlantic society. Lithuania was invited to join NATO in November 2002 at the NATO Summit in Prague, and became a full member of the NATO alliance on 29 March 2004. As a member of NATO, Lithuania has actively entered into collective security commitments such as participation in international operations (Kosovo, Afghanistan (where it leads one of the Provincial Reconstruction Teams) and Iraq), common projects and various partnerships.

On 1 May 2004, Lithuania joined the European Union ("**EU**"). On the same day, the Seimas adopted the Resolution on Directions in Foreign Policy of the Republic of Lithuania, following Lithuania's accession to both NATO and the European Union. The Resolution set out Lithuania's goal to become an active and visible member of NATO and the EU and to play an important role in the region.

After Lithuania's accession to the EU, the Lithuanian economy has grown at an increasing rate. Lithuania is strongly committed to becoming a member of the Eurozone. Lithuania has been a member of the Schengen accord since 21 December 2007, which allows free movement of people and goods within the Schengenzone without any passport control or customs formalities.

Lithuania has demonstrated a commitment to maintaining and developing co-operative relations with its neighbours. Lithuania has long been committed to re-establishing itself as a part of the region and continuously seeks to develop co-operation with Baltic and Nordic countries. The Baltic Sea region is one of the fastest growing regions in the European Union.

Lithuania shares a strategic partnership with Poland. The prospect of common energy usage via electricity power grid and gas system connections and transport infrastructure projects such as Rail Baltica and Via Baltica plays an important role in practical co-operation. The implementation of a power bridge with Poland, which is listed among the four EU priority energy infrastructure projects, has a strategic importance for the integration of the Lithuanian electricity system into the common EU network. The project development company “LitPolLink” was established in May 2008 and this represents a positive step towards the completion of the power bridge by 2012 to 2015. The connection of Lithuanian-Polish gas pipelines is another project being worked on in co-operation with Poland. Implementation of this project is expected to help diversify the gas supply to Lithuania as well as integrate Lithuania’s gas network into the common EU gas market.

The political, economic and cultural co-operation between Lithuania, Latvia and Estonia consists of institutional frameworks such as the Baltic Assembly, the Baltic Council of Ministers and the Baltic Council and has proved to be successful and mutually beneficial on bilateral and trilateral levels. The Baltic States maintain active political dialogue at the presidential, parliamentary and governmental levels as well as close institutional contacts. The Baltic States also have considerable economic interests in common, particularly in the energy sector. The Baltic States, together with Poland, have agreed to build a modern new nuclear power plant in Lithuania. A project preparation company responsible for further project development was established in August 2008. Lithuania is also considering constructing a national liquefied natural gas import terminal which would strengthen the security of Lithuania’s energy supply.

Lithuania is working towards building an electricity bridge between Lithuania and Sweden (“**SWEDLIT**”). The initial feasibility study of the SWEDLIT project was completed in January 2008. The study confirmed that the project was economically and technically feasible. Technical and environmental issues are currently being analysed. In view of the developing electricity connections between Estonia and Finland, the implementation of the SWEDLIT project could lead to the creation of a viable regional electricity market in the Baltic Sea region.

Lithuania’s relations with the Russian Federation are based on the principles outlined in the Treaty on the Foundation of Inter-State Relations signed between the two countries on 29 July 1991. Since the inception of diplomatic relations, a strong legal foundation for bilateral relations has been created between Lithuania and the Russian Federation: 38 treaties and agreements in political, economic, legal, military, social, cultural, transport, communication, standardisation, environment protection and other spheres have been signed and over 15 bilateral treaties and agreements are being negotiated. The ratification by the Russian Duma of the Agreement on the Avoidance of Double Taxation, effective as of 1 January 2006, in principle completes Lithuania’s fundamental bilateral legal foundations with the Russian Federation.

The Russian Federation is one of the main economic partners of Lithuania. Lithuanian exports to the Russian Federation during the first nine months of 2008 accounted for LTL 6,615.1 million (15.4 per cent. of Lithuanian exports).

In May 2008, European Union Member States adopted negotiating directives for a new agreement to replace the current Partnership and Co-operation Agreement with the Russian Federation.

The relationship between Lithuania and the neighbouring Kaliningrad Region of the Russian Federation is regulated by two intergovernmental agreements. The first relates to co-operation in the economic and social-cultural development of the Kaliningrad Region while the second provides for long-term co-operation between Lithuania and the Kaliningrad Region. On the basis of this second agreement, the Council for Long-Term Co-operation between Lithuania and the Kaliningrad Region of the Russian Federation was established on 13 June 2000. Regular meetings between Lithuanian parliamentarians and deputies of the Duma of the Kaliningrad Region take place and an antiparliamentary forum has been established. All the Lithuanian districts and major towns along the border with the Kaliningrad Region have signed co-operation agreements with their Kaliningrad Regional counterparts.

Lithuania supports EU-oriented reforms in East European and South Caucasus countries seeking closer contacts with the EU. Lithuania is interested in the democratisation of Belarus, with which it maintains pragmatic co-operation and regular contact on a citizen to citizen level.

Lithuania supports the strengthening of pan-European policies and active co-operation between the European Union and its European neighbours in order to achieve stability, security and prosperity in the region.

THE LITHUANIAN ECONOMY

Gross Domestic Product

The following table sets out the gross domestic product ("**GDP**") of Lithuania for the periods indicated both as a total and *per capita*:

	Year ended 31 December				
	2004	**2005**	**2006**	**2007**[(1)]	**2008**[(1)]
Gross domestic product, total at current prices, LTL million	62,697.8	72,060.4	82,792.8	98,138.7	111,520.1
change as compared to the corresponding period of the previous year[(2)] , %................	7.4	7.8	7.8	8.9	3.1
at current prices, Euro million....................	18,158.6	20,870.1	23,978.5	28,422.9	32,298.5
Gross domestic product per capita..............					
at current prices, LTL................................	18,249	21,105	24,393	29,073	33,193.0
at current prices, Euro	5,285	6,113	7065	8,420	9,613.0

Notes:

(1) Non-final data.

(2) Chain-linking method is used for calculation of growth rates.

Source: Statistics Lithuania.

GDP increased by 7.3 per cent. in 2004 due to expanded lending driving domestic demand and investments. GDP grew by 7.9 per cent. and 7.7 per cent. in 2005 and 2006, respectively, mainly due to increasing exports of goods and services. GDP continued to grow in 2007 and increased by 8.9 per cent. compared to 2006 and 3.1 per cent. in 2008 compared to 2007.

Expenditure on GDP

The following table sets out the expenditure on GDP in current prices and the expenditure structure of GDP in percentage terms for the periods indicated:

	2004		**2005**		**2006**		**2007**[(1)]		**2008**[(2)]	
	(LTL million)	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*
Final consumption expenditure....................	52,901.9	84.4	59,958.3	83.2	69,415.4	83.8	81,354.2	82.9	93,952.4	84.3
Households consumption expenditure....................	40,562.4	64.7	46,312.0	64.3	53,268.6	64.3	63,237.8	64.4	73,387.1	65.8
Government consumption expenditure....................	12,158.3	19.4	13,502.7	18.7	15,966.2	19.3	17,884.7	18.2	20,330.3	18.2
Individual	6,320.0	10.1.4	7,244.6	10.1	8,292.8	10.0	9,589.7	9.8	11,179.0	10.0
Collective	5,838.4	9.3	6,258.1	8.7	7,673.4	9.3	8,295.0	8.5	9,151.3	8.2
NPI serving households[(3)]	181.1	0.3	143.5	0.2	180.6	0.2	231.7	0.2	234.9	0.2
Gross capital	14,234.2	22.7	17,228.3	23.9	21,803.6	26.3	29,950.0	30.5	30,258.2	27.1

	2004		2005		2006		2007(1)		2008(2)	
	(LTL million)	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*
formation......................										
Gross fixed capital formation......................	13,971.6	22.3	16,405.0	22.8	20,840.8	25.2	27,453.9	28.0	27,227.0	24.4
Changes in stocks	240.4	0.4	792.5	1.1	910.1	1.1	2,412.2	2.5	2,951.3	2.7
Acquisitions less disposals of valuables...	22.1	0.0	30.8	0.0	52.7	0.1	83.8	0.1	80.0	0.1
Exports of goods and services.........................	32,635.5	52.1	41,457.9	57.5	48,917.1	59.1	53,371.8	54.4	65,981.7	59.2
Imports of goods and services.........................	37,073.7	59.1	46,584.1	64.6	57,343.3	69.3	66,537.3	67.8	78,672.1	70.6
Gross domestic product..........................	62,697.8	100.0	72,060.4	100.0	82,792.8	100.0	98,138.7	100.0	111,520.1	100.0

Notes:

(1) Non-final data.

(2) Provisional data.

(3) NPI serving households represents expenditure provided by non-profit making institutions to households as social transfers in kind.

Source: Statistics Lithuania.

Principal Sectors of the Economy

The following table sets out the sectoral breakdown of gross value added ("**GVA**") for Lithuania in current prices for the periods indicated:

	2004		2005		2006		2007(1)		First nine months of 2008(2)	
	(LTL million)	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*
Agriculture, hunting and forestry	2,595.6	4,6	3,086.4	4.7	3,154.9	4.2	3,873.1	4.4	3,642.8	4.9
Fishing..........................	45.3	0.1	51.4	0.1	56.8	0.1	65.4	0.1	51.6	0.1
Mining and quarrying...	301.9	0.5	342.4	0.5	377.0	0.5	379.9	0.4	336.9	0.5
Manufacturing..............	11,838.4	20.9	13,573.9	20.8	14,993.9	20.1	16,692.3	19.0	14,136.8	19.4
Electricity, gas and water supply..................	2,497.9	4.4	2,577.7	4.0	2,614.9	3.5	2,767.9	3.1	2,205.6	3.0
Construction..................	4,102.0	7.2	4,916.5	7.5	6,554.0	8.8	8,992.3	10.2	4,412.0	9.9
Wholesale and retail trade	9,940.7	17.5	11,293.7	17.3	12,505.0	16.7	14,677.0	16.7	12,468.2	16.7
Hotels and restaurants ..	835.6	1.5	912.1	1.4	1,008.1	1.3	1,111.7	1.3	972.0	1.3
Transport, storage and communication	7,181.5	12.7	8,265.3	12.7	9,511.7	12.7	11,435.0	13.0	9,465.4	12.7
Financial intermediation..............	1,088.4	1.9	1,520.1	2.3	2,138.1	2.9	3,078.8	3.5	2,727.6	3.7
Real estate, renting and business activities ..	5,942.5	10.5	7,465.1	11.5	9,048.6	12.1	10,483.4	11.9	8,780.7	11.8
Public administration and defence	4,230.4	7.5	4,583.1	7.0	5,212.9	7.0	5,691.2	6.5	4,530.0	6.1
Education	2,867.2	5.1	2,973.4	4.6	3,298.4	4.4	3,792.6	4.3	3,313.5	4.4
Health and social work.	1,546.7	2.7	1,775.0	2.7	2,225.3	3.0	2,667.4	3.0	2,343.8	3.1

	2004		2005		2006		2007[1]		First nine months of 2008[2]	
	(LTL million)	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*	*(LTL million)*	*(% of GPD)*
Other community, social and personal service activities	1,6594.4	2.8	1,720.8	2.6	1,892.0	2.5	2,108.2	2.4	1,760.3	2.4
Activities of households....................	74.4	0.1	106.7	0.2	85.5	0.1	88,3	0.1	71.9	0.1
Gross value added........	56,682.6	100.0	66,163.6	100.0	74,677.2	100.0	87,904.5	100.0	74,518.9	100.0
Taxes on products........	6,671.1		7,832.9		9,037.6		11,298.2		9,389.1	
Subsidies on products..	655.9		936.1		922.0		1,064.0		988.2	
Gross domestic product..........................	62,697.8		72,060.4		82,792.8		98,138.7		82,919.9	

Notes:

(4) Non-final data.

(5) Provisional data.

Source: Statistics Lithuania

Mining, Quarrying and Manufacturing

The mining, quarrying and manufacturing sectors have provided the largest contribution to GVA and GDP for a number of years. These sectors accounted for 21.4 per cent. of total GVA in 2005, 21.0 per cent. in 2006, 19.6 per cent. in 2007 and 19.9 per cent. in the first three quarters of 2008.

Wholesale and Retail Trade

The wholesale and retail trade sector accounted for 17.6 per cent. of GVA in 2005, 17.0 per cent. in 2006, 17.2 per cent. in 2007 and 16.7 per cent in the first three quarters of 2008. Lithuania's geographic position, together with Klaipeda's status as the largest ice-free port in the Baltic states, creates the potential for trade to play an increasing role in the Lithuanian economy.

Consumer and Producer Prices

The following table shows the development of the consumer price index ("**CPI**") and the producer price index ("**PPI**") in Lithuania for the periods indicated:

	Year ended 31 December				
	2004	**2005**	**2006**	**2007**	**2008**[1]
Consumer price indices					
as compared to previous period........................	101.2	102.7	103.7	105.7	110.9
as compared December to December of the previous year..	102.9	103.0	104.5	108.1	108.5
Producer price index					
as compared to previous period........................	106.0	111.5	107.4	107.0	118.2[2]
as compared December to December of the previous year..	106.8	113.5	102.8	119.4	93.1

Notes:

(6) Compared to the corresponding period of the previous year.

(7) Provisional data.

Source: Statistics Lithuania.

Wages

The following table sets out the average gross, net and real monthly wages in the whole economy for the periods indicated and the percentage changes over those periods:

	Year ended 31 December								**Fourth Quarter**	
	2004		**2005**		**2006**		**2007**		**2008**[1]	
	(LTL)	*(% change)*	*(LTL)*	*(% change)*	*(LTL)*	*(% change)*	*(LTL)*	*(% change)*	*(LTL)*	*(% change)* [2]
Average Monthly Gross Earnings[3]...	1,149.3	107.2	1,276.2	111.0	1,495.7	117.2	1,813.0	121.2	2,319.1	113.0
Average Monthly Net Earnings[3]	835.5	106.2	916.7	109.7	1,092.9	119.6	1,359.3	124.4	1,773.1	116.1
Real Monthly Average Earnings Index[3]		104.9		106.8		114.9		117.7		106.2

Notes:

(8) Provisional data.

(9) Compared to corresponding period of previous year.

(10) Annual data includes that of individual enterprises, whereas quarterly data excludes them.

Source: Statistics Lithuania.

Employment

The table below represents the main results of the survey conducted by Statistics Lithuania to assess the percentage of the population employed[1]:

	Year ended 31 December				
	2004	**2005**	**2006**	**2007**	**2008**
Labour force, thousand	1,620.6	1,606.8	1,588.3	1,603.1	1,164.3
Labour force activity rate, (15-64 years) %	69.0	68.3	67.4	67.9	68.4
Employed, thousand..............................	1,436.3	1,473.9	1,499.0	1,534.2	1,520.0
Employment rate, (15-64 years) %	61.1	62.6	63.6	64.9	64.3
Unemployed, thousand..........................	184.4	132.9	89.3	69.0	94.3
Unemployment rate, %	11.4	8.3	5.6	4.3	5.8

Note:

(11) An *ad hoc* questionnaire meeting Eurostat standards was used to poll the population aged 15-64.

Source: Statistics Lithuania.

As at 31 December 2008 the percentage of registered jobseekers as compared to the working age population was 3.4 per cent.

The total number of people in the Lithuanian labour force steadily declined from 1992 to 2008, due in part to a similar decline in the population. From January 1992 until December 2008, the total population fell from 3.7 million to 3.4 million.

The Government has adopted a policy to encourage emigrants to return. In 2006, emigration from Lithuania declined almost twice as much compared to 2005 whereas the number of immigrants increased. This also led to a reduction of the difference between the number of emigrants and immigrants which is significant in economic terms as a larger labour force contributes to high economic growth potential. In 2007, the reduction in emigration continued.

Pensions and Social Insurance

The Republic's social insurance system is run through an extra-budgetary fund, the State Social Insurance Fund, which is funded by a social insurance contribution of an amount which, from 1 January 2000 to 1 January 2007, was equal to 34 per cent. of gross wages per employee (of which 31 per cent. was contributed by the employer and 3 per cent. by the employee). From 1 January 2007 the basic social insurance contribution was set at 33.7 per cent. of gross earnings for all risks (except employment injuries and occupational diseases), of which 30.7 per cent. was paid by the employer and 3 per cent. by the employee. From 1 January 2009 the basic social insurance contribution was set at 39.7 per cent. of gross earnings for all risks (except employment injuries and occupational diseases), of which 30.7 per cent. is paid by the employer and 9 per cent. by the employee (3 per cent. for the pension's social insurance and the remaining 6 per cent. are for the health insurance). Contribution rates in relation to employment injuries and occupational diseases, according to the degree of risk in the various enterprises and varying between 0.28 per cent. and 1 per cent., are calculated on the basis of gross earnings. This percentage is paid exclusively by the employer. Collection and expenditure of the social contribution levy is separate from the National Budget.

Lithuania currently has a large population of people of pensionable age and, accordingly, the Government approved a gradual increase in the retirement ages for men to 62.5 and women to 60. This process, which was completed in 2006, has helped and is expected to continue to help to reduce the growth in the number of pensioners.

The State Social Insurance Fund budget for 2009 was approved with income and expenditures of LTL 14.055 billion. According to preliminary data, income of the State Social Insurance Fund budget for the year 2008 were LTL 11.135 billion or 16 percent higher than in 2007.

In December 2002, the Seimas passed legislation to introduce private pensions, to be financed by social insurance contributions, to supplement the State Social Insurance Fund. Employees have the right to decide whether or not to contribute a percentage of their annual gross income into personal pension plans administered by private pension funds or insurance companies. The level of contribution for 2004 was 2.5 per cent., for 2005 was 3.5 per cent., for 2006 was 4.5 per cent. and for 2007 and 2008 was 5.5 per cent. The level of contribution is planed at 3 per cent. in 2009. By September 2008, more than 957,000 insured individuals had joined the new private pension system. The remaining insured individuals have the right to join the new system each year until 1 July.

In addition, the Government diverts 30 per cent. of personal income tax revenues from the National Budget to a separate health insurance fund (the "**State Health Insurance Fund**") in order to fund the public healthcare system.

Privatisation

The Lithuanian privatisation programme, which was launched in September 1991 with the enactment of the Law on Privatisation, has progressed in two stages. The State Property Fund (the "**SPF**") (which replaced the Privatisation Agency in May 1998) is the body currently involved in implementing the privatisation process, which is overseen by the State Privatisation Commission (the “**Privatisation Commission**”), established in 1991.

The following table sets out the privatisations carried out in the two stages of privatisation from 1991 to 2008, both in numbers of enterprises privatised and in millions of Litas:

	Phase 1	Phase II												
	1991-1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Nine Months of 2008	Total Phase II
Number of Entities	5,714	47	272	344	693	939	842	963	787	576	536	374	373	258	7,004
Assets (LTL, million)..................	3,500	3	81	2,329	470	902	468	349	910	411	315	143	247	63	6,691

Source: State Property Fund

In the first stage (“**Phase I**”), state-owned enterprises, land, apartments and agriculture companies were offered for sale in exchange for privatisation vouchers. Vouchers in dematerialised form were distributed to all Lithuanian citizens by depositing vouchers in voucher accounts with local banks. During Phase I, 8,044 companies representing approximately 70 per cent. of total Lithuanian enterprise assets by book value were offered for sale. By the end of Phase I in 1995, 5,714 enterprises or 86 per cent. of the total assets offered for sale had been privatised. Phase I also included the sale of residential apartments to tenants. Privatisation vouchers were accepted as payment for 80 per cent. of the price of such apartments. At the end of Phase I, approximately 94 per cent. of formerly state-owned apartments were in private ownership.

Marking the beginning of the second stage (“**Phase II**”), in 1995 the Law on Further Privatisation introduced an institutional framework for the continuing privatisation process, together with a procedure for preparing enterprises for privatisation and valuation criteria. The Law also described and provided for various privatisation methods. A revised Law on Privatisation was passed in 1997, which further regulated the Law on the Privatisation of State-Owned and Municipal Property. In addition to introducing additional methods of privatisation, this law established the SPF as the institution responsible for further privatisations and in May 1998, the SPF took over responsibility for privatisation.

The largest privatisation to date has been of the joint-stock company Lietuvos Telekomas AB (“**Lithuanian Telecom**”) in 1998 which involved the sale of a 60 per cent. shareholding to Amber Teleholding A/S, a consortium of investors (including Telia Swedtel AB of Sweden and SoneraTechnologies of Finland) for a purchase price of LTL 2.04 billion (US$510 million). By the end of 2002, the consortium had invested another LTL 2.07 billion (US$532 million) in Lithuanian Telecom.

In March 2002, the Government completed the full privatisation of the banking sector with the sale of the last state-run commercial bank, the Agricultural Bank, to Norddeutsche Landesbank Girozentrale (“**Nord/LB**”), which purchased the Government’s 76.01 per cent. stake for LTL 71 million and an additional equity contribution of LTL 65 million. In May 2002, SPF signed an agreement with a consortium led by the German energy providers Ruhrgas AG and E.ON Energie for the sale of a 34 per cent. state-owned stake in Lietuvos Dujos AB (“**Lithuanian Gas**”) for LTL 116 million and an investment of LTL 70 million in new Lithuanian Gas shares. The sale of a further state-owned 34 per cent. stake in Lithuanian Gas was completed on 24 March 2004 with OJSC Gazprom (“**Gazprom**”) for LTL 100 million.

In 2003, the Government commenced the privatisation of the two electricity distribution companies, Vakaru Skirstomieji Tinklai AB (“**VST**”) and Rytu Skirstomieji Tinklai AB (“**RST**”). In December 2003, a 77 per cent. stake in VST was sold for LTL 540 million, representing the largest privatisation of 2003. The Government received one bid for RST from Eesti Energia but decided to cancel the privatisation in early 2004.

In 2004, 576 entities were privatised for LTL 410.5 million. A scheme to sell the Government's 34 per cent. stake in Lithuanian Gas to natural gas suppliers was announced in 2002. This transaction was completed on 24 March 2004, following the signature of an addendum to the framework agreement on the supply of natural gas (extending the validity period of the original agreement until 2015) between Lithuanian Gas and Gazprom (LTL 100 million).

In May 2004, an agreement on the sale of the state-owned 32 per cent. of the Central Securities Depository of Lithuania and the state owned 44.31 per cent. in the National Securities Exchange of Lithuania ("**NSEL**", now called Vilnius Stock Exchange) was signed with Helsinki Securities and Derivatives Exchange, Clearing House Ltd., under which the shares were sold for LTL 10.8 million. Privately-held shares of NSEL were sold under separate sale agreements.

Two state-owned alcohol distillers were also privatised in 2004. The state-owned stake of 83.77 per cent. in Alita AB was sold for LTL 58 million and the state-owned stake of 72.99 per cent. in Anyksciu vynas AB was sold for LTL 25.61 million.

In 2005, 536 entities were privatised for LTL 315 million. The largest deal was the privatisation of Lietuvos avialinijos AB ("**Lithuanian Airlines**"), 100 per cent. of which was sold for LTL 25.8 million.

In 2006, 374 entities were privatised for a total value of LTL 143 million (excluding sales of Mazeikiu Nafta AB shares). The largest deal was the privatisation of Lithuanian News Agency ELTA AB, 39.51 per cent. of which was sold for LTL 1.777 million.

Also in 2006, the Government sold 216,915,941 Mazeikiu Nafta AB shares to the Polish company PKN Orlen S. A. for the amount of approximately US$852 million (approximately LTL 2.2 billion).

In 2007, 373 state-owned and municipal-owned shares and real estate properties were sold for LTL 247 million. The largest deal was the privatisation of sanatorium AB "Lietuva" 100 per cent. of which was sold for LTL 31.2 million.

In 2008, 258 state-owned and municipal-owned shares and real estate properties were sold for LTL 62.8 million. The largest deal was the privatisation of "Panevezio stiklas" AB 34.22 per cent. of which was sold for LTL 3.3 million.

All privatisation proceeds are allocated to an extra-budgetary privatisation fund. Not more than two- thirds of the proceeds in the fund can be used for savings restitution and to create the Reserve (Stabilisation) fund. The balance of the proceeds of privatisation is allocated, *inter alia*, to the administrative cost of the privatisation process, for the development of industry, to further the privatisation process and to cover potential liabilities in respect of warranties given by the Government on the sale of the relevant privatised entities.

Energy

Electricity

The Lithuanian electricity generation system remains oversized for the needs of Lithuania. The total installed capacity of the Republic's power plants, as at 31 December 2007, was approximately 5,000 megawatts ("**MW**"). Lithuania's high voltage electricity transmission grid is directly interconnected with Latvia, Belarus and the Kaliningrad Region of the Russian Federation with high voltage grids. These interconnections allow extensive exchanges of power with such neighbouring systems. In addition, new interconnection lines with Poland and Sweden are planned. On 19 May 2008, a joint venture "LitPolLink", responsible for implementation of the Lithuanian-Poland power system interconnection project, involving a construction of 154 kilometre high-voltage double-circuit power transmission line from Alytus, Lithuania, to Elk, Poland, was established.

At the end of 2006 a marine underwater high voltage cable was completed, connecting Estonia and Finland. This connection is strategically important for the energy sector of the Baltic States and for its integration into the common European electricity market. Lietuvos energija AB ("**Lithuanian Energy**") hopes to export approximately 500 million kWh annually through this new connection.

Historically, Lithuania's main consumers of electricity have been its neighbouring Baltic States and the Kaliningrad Region of the Russian Federation. In 2007, Lithuanian Energy, which operates Lithuania's electricity transmission network following the restructuring of the energy sector (see "**Energy Sector Reforms**" below), exported approximately 4.5 billion kWh of electricity.

As part of the international commitments made during the accession to the EU, on 25 November 2004, the Government adopted a decision to close down Unit 1 of the Ignalina Nuclear Power Plant ("**Ignalina NPP**") and discontinue electricity production from the unit as of 31 December 2004.

Pledges of financial support have been made by the EU and other international contributors to cover the initial costs of decommissioning Ignalina NPP. The Government currently estimates that the total cost of decommissioning both Ignalina NPP reactors, the resulting radioactive waste management and consequential social, environmental and nuclear capacity replacement costs will be approximately Euro 2.4 billion by 2020. The EU budgeted a contribution of Euro 320 million to the Ignalina Programme for the period 2004 to 2006.

Recognising that the decommissioning of Ignalina NPP is of a long-term nature and represents an exceptional financial burden for Lithuania not commensurate with its size and economic strength, the EU has undertaken to provide additional assistance in the amount of Euro 837 million based on current prices (Euro 743 million based on 2004 prices) for the decommissioning efforts over the period 2007 to 2013 to be paid in equal yearly instalments.

On 28 June 2007, the Seimas adopted a Law on a Nuclear Power Plant, which laid down provisions to create legal, financial and organisational preconditions for the implementation of a new nuclear power plant project. It is expected that national companies from Estonia, Latvia, Lithuania and Poland will be shareholders of the plant.

On 1 February 2008, amendments to articles 10 and 11 of the Law on the Nuclear Power Plant were adopted, providing a basis for creation of the National Investor Company, for the purpose of consolidating the three largest Lithuanian energy companies (joint stock companies Lithuanian Energy, RST and VST) for implementation of Lithuania's strategic energy projects – the commission of the new nuclear power plant and power transmission interconnections to Poland and Sweden. On 27 May 2008, the establishment procedures of the National Investor Company ("**LEO LT AB**") were finalized. On 28 August 2008, a subsidiary company of LEO LT AB was established. The purpose of this company, which is called "Visagino atominė elektrinė" (Visaginas Power Plant), is implementation of preparatory works of the nuclear power plant project.

Nuclear Safety Policy

The largest electricity generator and energy producer in Lithuania is Ignalina NPP, which, following the closure of Unit 1 in December 2004, operates one second generation RBMK type boiling water reactor, with a maximum capacity of 1,500MW. Current safety regulations permit a maximum capacity of 1,300MW.

Nuclear safety regulations and monitoring are the responsibility of the State Nuclear Power Safety Inspectorate ("**VATESI**"). The basic guidelines for VATESI's activities were formulated pursuant to the Recommendations of the International Atomic Energy Agency. Lithuania has four bilateral agreements with the governments of Denmark, Norway, Latvia and Poland, which provide mechanisms for notification of any nuclear or radiation incidents which occur and provide for the exchange of information in the nuclear field, and it is also a signatory and party to various international conventions, treaties and protocols relating to nuclear safety.

Ignalina NPP's current safety improvement programme was developed based on the requirements of VATESI, the Safety Analysis Report (which has the purpose of providing a comprehensive overview of the status of the Ignalina nuclear power plant) (carried out periodically in order to evaluate safety) and on proposals made by the management of Ignalina NPP. The Government adopted a law on the decommissioning of Ignalina NPP in May 2000 pursuant to which Unit 1 was closed at the end of 2004 and Unit 2 is to be closed in 2009, subject to sufficient financing (see "**Energy-Electricity**" above).

Oil

Lithuania exports refined oil products, but only a small amount of crude oil is extracted in Lithuania. In addition, Lithuania uses oil products in the generation of electricity in its thermal power plants. Import, export, transit and sales of oil products are not subject to any restrictions or quotas. The State sets the sales procedure and quality requirements for the oil products used in Lithuania and also sets the level of taxes. Trade in oil products is licensed, the licensing procedure being set and controlled by the Government. Crude oil is transported to the Mazeikiu Nafta AB ("**Mazeikiu Nafta**") oil refinery by oil tankers and a small amount of oil products are received by rail.

In 2007, Lithuania's oil sector comprised approximately 350 companies engaged in oil product sales, approximately 840 petrol stations, one oil refining and transportation company (Mazeikiu Nafta, which owns the Mazeikiai Refinery, Birzu Pipeline System and Butinge Oil Terminal), one oil products terminal (Klaipedos Nafta AB) and four oil extraction companies. Oil product consumption in Lithuania has, in recent years, amounted to approximately 2.6 million tons per annum. Mazeikiu Nafta provides approximately 87 per cent. of domestic oil product demand, whilst imports cover the remaining 13 per cent.

Mazeikiu Nafta currently has capacity to process 10 million tons of crude oil per annum. The Republic's dependence on supplies of crude oil from the Russian Federation has been alleviated by the construction of the Butinge oil terminal which became fully operational in 1999. This terminal allows the import of crude oil from other suppliers and provides an export outlet via the Baltic Sea. The capacity of Butinge is more than 8 million tons of crude oil for export and 6 million tons for import per annum.

In 2007, Mazeikiu Nafta produced 5.5 million tons of marketable oil products (5.9 million tons refined). With a view to improving oil product processing and crude oil refining quality, Mazeikiu Nafta is in the process of ongoing modernisation. After the first stage of reconstruction was completed in 2003, Mazeikiu Nafta was able to produce gasoline and diesel oil of sufficient quality to meet EU standards. At 30 September 2008, Mazeikiu Nafta had approximately US$288.9 million and Euro 0.8 million long-term debt and approximately US$152.6 million guarantees, all of which were provided by the Government. The Government does not intend to issue any additional guarantees in relation to Mazeikiu Nafta's debts.

At present, 90.02 per cent. of the shares in Mazeikiu Nafta are held by the Polish company PKN Orlen, and the remaining 9.98 per cent. are held by the Government.

Gas

The Lithuanian gas system is connected with the gas systems of Latvia and the Russian Federation. Natural gas is supplied to Lithuania from a single source - the Russian company Gazprom (excluding Haupas UAB, which supplies gas only to Druskininkai according to short term agreements). In 2007, Lithuania imported 3,669.6 million cubic metres ("**MCM**") of natural gas (3,100.2 MCM in 2006) from the Russian Federation, including gas imported to Druskininkai. According to a long-term agreement, signed in 1999 (valid until 2015) between the Russian Federation and Lithuanian Gas, natural gas is transited to the Kaliningrad Region (Russian Federation). Lithuania has a well-developed gas supply network: 1,846 km of main gas pipelines and 7,500 km of distribution grids.

In October 2007, the construction of a main pipeline "Šakiai-Jurbarkas" (the length of route is 28.4 km), gas distribution station and distribution pipeline to Jurbarkas was finished. In the same month natural gas reached consumers in Mažeikiai. Following the construction of a distribution pipeline of 3.2 km in length, the first consumers were connected.

Natural gas is supplied to Lithuania under the long-term gas supply agreements signed with the Russian company, OJSC Gazprom.

In 2007, natural gas consumption reached 30.8 per cent. (preliminary results) of the total energy resources consumption (in 2006 – 28.6 per cent.). In 2007, 3,598.6 MCM of gas were used in Lithuania (3,031.0 MCM in 2006), 187.4 MCM of which was for households and 3,411.2 MCM of natural gas for the remaining users.

Energy Sector Reforms

The Government formally completed the first stage of the restructuring of Lithuanian Energy, the state-run power monopoly, on 1 January 2002. The national power utility was split into five public limited companies, two power generating facilities in Elektrenai and Mazeikiai and two distribution system operators, VST and RST. VST was privatised at the end of 2003. Lithuanian Energy continues to operate Lithuania's electricity transmission network. Lithuanian Energy is currently a joint stock company which is 96.59 per cent. owned by the State, while Ignalina NPP is a state-owned enterprise.

In 2002, strategic investors, German energy providers Ruhrgas AG and E.ON Energie (now called E.ON Ruhrgas International AG), purchased 34 per cent. of Lithuanian Gas. On 24 March 2004, Gazprom purchased a further 34 per cent. of Lithuanian Gas. As at 30 June 2008, Lithuanian Gas was 17.7 per cent. owned by the State Property Fund, 38.9 per cent. owned by E.ON Ruhrgas International AG and 37.1 per cent. owned by Gazprom, with other shareholders owning the remaining 6.3 per cent.

Environment

In the last decade, energy consumption efficiency in Lithuania has increased significantly and the quantity of pollutants emitted from energy production has been reduced to almost a third of its original level, owing to both improved efficiency and the increased use of 'cleaner' energy sources. The balance in primary energy resources has improved and consumption of energy resources that are considered to have the least impact on the environment (such as natural gas and nuclear energy) has increased. In 2007 approximately 9.0 per cent. of total energy produced in Lithuania was from renewable resources (mostly wood and its waste). Consumption of polluting fuel (such as sulphurous fuel oil and coal) has decreased. The current structure of energy resource balance helps to ensure the reliability of the energy supply and keeps electricity prices and environmental pollution at low levels. In the period from 2004 to 2007, Lietuvos Elektrine AB ("**Lithuanian Power Station**") installed flue gas cleaning equipment and implemented other technical measures at a cost of Euro 235 million in order to further reduce pollution.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Pursuant to Article 8 of the Law on the Bank of Lithuania, the central bank is responsible for drawing up the country's balance of payments. The following table sets out the balance of payments prepared by the Bank of Lithuania for the four years ended 31 December 2007 and the first three quarters of 2008:

	Year ended 31 December				Nine months ended 30 September
	2004	**2005**	**2006**	**2007**	**2008**
			(LTL millions)		
I. Current account	(4,811.73)	(5,114.93)	(8,808.87)	(14,325.43)	(12,275.91)
A. Trade balance	(6,630.86)	(8,145.00)	(11,522.04)	(14,773.33)	(10,948.53)
Exports	25,819.06	32,767.30	38,888.34	43,192.37	43,039.9
Imports	(32,449.92)	(40,912.30)	(50,410.38)	(57,965.70)	(53,988.43)
B. Services balance	2,262.89	2,926.06	2,971.54	1,590.64	330.24
1. Income from services	6,797.63	8,641.42	9,940.42	10,121.01	8,151.29
Transportation	3,760.39	4,413.23	5,332.99	5,902.31	4,667.83
Travel	2,164.35	2,561.56	2,844.49	2,898.61	2,495.28
Communications services	178.56	213.28	239.95	252.20	180.71
Construction services	83.75	94.28	86.09	168.90	171.89
Other services	610.58	1,359.07	1,436.90	898.99	635.58
2. Payments for services	(4,534.74)	(5,715.36)	(6,968.88)	(8,530.37)	(7,821.05)
Transportation	(1,841.21)	(2,496.86)	(3,049.31)	(3,939.91)	(3,664.28)
Travel	(1,770.53)	(2,067.27)	(2,492.65)	(2,879.65)	(2,863.78)
Communications services	(158.55)	(183.88)	(218.00)	(236.86)	(185.37)
Construction services	(21.17)	(37.46)	(52.87)	(215.36)	(125.71)
Other services	(743.28)	(929.89)	(1,156.05)	(1,258.59)	(981.91)
C. Income balance	(1,708.83)	(1,730.15)	(2,253.09)	(4,069.93)	(3,708.40)
D. Current transfers	1,265.07	1,834.16	1,994.72	2,927.19	2,050.78
II. Capital and financial account	4,299.43	5,261.32	9,589.83	14,423.57	12,518.20
A. Capital account balance	786.97	923.03	963.55	1,725.86	1,741.01
B. Financial account	3,512.46	4,338.29	8,626.28	12.697.71	10,777.19
1. Investment abroad	(3,041.57)	(5,246.89)	(5,099.43)	(7,449.21)	(2,947.85)
Direct investment	(730.63)	(958.71)	(801.58)	(1,507.50)	(926.70)
Portfolio investment	(609.39)	(2,184.29)	(3,016.52)	(2,140.95)	(504.75)
Financial derivatives	165.41)	76.36)	26.34)	12.14	49.25
Other investment	(1,866.96)	(2,180.25)	(1,307.67)	(3,812.90)	(1,565.65)
2. Foreign investment in Lithuania	6,211.11	11,496.19	17,792.58	23,091.78	10,986.14
Direct investment	2,151.33	2.851.94	5,000.19	5,085.35	3,264.78
Portfolio investment	1,196.91	1.440.30	2,346.52	1,397.67	527..71
Financial derivatives	(158.50)	(39.73))	(56.36)	(17.28)	(17.95)
Other investment	3,021.37	7,243.68	10,502.23	16,626.04	8,267.02
3. Official reserve assets	342.92	(1,911.01))	(4.066.87)	(2,944.86)	2,738.90
Monetary gold	0.37	0.00	0.00	(0.89)	(0.14)

	Year ended 31 December				Nine months ended 30 September
	2004	2005	2006	2007	2008
			(LTL millions)		
Special drawing rights	(0.09)	0.01	(0.04)	(0.01)	—
Reserve position in the Fund	—	—	(0.08)	—	—
Foreign exchange and securities	342.64	(1,911.02)	(4,066.75)	(2,943.96)	2,739.04
Other claims	—	—	—	—	
Errors and omissions	512.30	(146.39)	(780.96)	(98.14)	(242.29)

Source: The Bank of Lithuania

Current account

In the third quarter of 2008, the current account deficit ("**CAD**") of Lithuania's balance of payments amounted to LTL 2.88 billion accounting for 9.4 per cent. of GDP. The CAD decreased by 40 per cent. (LTL 1.92 billion) compared to the second quarter of 2008 and 15.9 per cent. (LTL 542.4 million) compared to the third quarter of 2007. In the first three quarters of 2008, CAD amounted to LTL 12.3 billion accounting for 14.7 per cent. of GDP.

CAD and CAD to GDP ratio

The following table shows the CAD and the CAD to GDP ratio since 2005 and the first three quarters of 2008:

	CAD, LTL million	CAD to GDP ratio, %
2005	(5,114.93)	(7.1)
First Quarter	(776.93)	(5.2)
Second Quarter	(1,349.88)	(7.6)
Third Quarter	(1,418.71)	(7.4)
Fourth Quarter	(1,569.41)	(7.8)
2006	(8,808.87)	(10.6)
First Quarter	(1,703.25)	(9.8)
Second Quarter	(1,780.83)	(8.8)
Third Quarter	(2,573.56)	(11.6)
Fourth Quarter	(2,751.23)	(12.0)
2007	(14,325.43)	(14.6)
First Quarter	(2,952.25)	(14.6)
Second Quarter	(4,267.60)	(17.5)
Third Quarter	(3,421.81)	(13.1)
Fourth Quarter	(3,683.77)	(13.5)

	CAD, LTL million	CAD to GDP ratio, %
2008		
First Quarter	(4,601.18)	(19.0)
Second Quarter	(4,795.31)	(16.8)
Third Quarter	(2,879.42)	(9.6)
Three Quarters	(12,275.91)	(14.7)

Source: The Bank of Lithuania

Changes in the current account balance and composite balances and contributions to the current account changes

The following table shows the contributions to the development of the current account balance over the three of 2007 and 2008:

	Three Quarters 2007	Three Quarters 2008	Change	Impact of factors
	(LTL million)	*(LTL million)*	*(%)*	*(%)*
Current account balance	(10,641.66)	(12,275.91)	15.4	15.4
Trade balance	(10,746.95)	(10,948.53)	1.9	1.9
Balance of services	1,229.53	330.24	(73.1)	8.5
Income balance	(3,262.99)	(3,708.40)	13.7	4.2
Balance of current transfers	2,138.75	2,050.78	(4.1)	0.8

Source: The Bank of Lithuania

CAD decrease in the third quarter of 2008 was the result of an decrease in the deficit on foreign trade balance and income balance.

Foreign Trade

According to data compiled by Statistics Lithuania, in the third quarter of 2008, exports of goods increased by 34.4 per cent. and imports of goods increased by 21.1 per cent. as compared to the third quarter of 2007. In January to September 2008, an increase of export and import of goods was 33.9 per cent and 23.6 percent., respectivelyas., compared to the corresponding period in the previous year. The growth rate of Lithuanian export and import of goods was mostly driven by trade in mineral products. In the first three quarters of 2008, exports of this group of goods grew 2.3 times and imports increased 2.1 times compared to the corresponding period of the previous year. The fast growth of the export and import of these goods was driven by higher oil and natural gas prices. Excluding mineral products, the gross export of goods increased by 16.2 per cent. and the import of goods increased by 4.8 per cent.

In the first three quarters, according to the classification of macroeconomic categories, the highest growth rate was observed in exports and imports of intermediate goods, which is largely related to an increase in oil, natural gas and metal prices, as well as investment goods, and motor spirits export. The export and import of passenger cars went down by 13.6 per cent. and 7.3 per cent., respectively.

The following table shows the percentage changes in exports and imports of main groups of goods and contributions to the total changes in foreign trade for the first three quarters of 2008, as compared to the first three quarters of 2007, in per cent.

	Exports Change for the first three quarters of 2008, as compared to 2007	Contribution	Imports Change for the first three quarters of 2008, as compared to 2007	Contribution
All goods...	33.9	33.9	23.6	23.6
Investment goods	30.9	3.4	(5.0)	(0.9)
Intermediate goods....................................	45.3	22.7	40.0	21.9
Consumer goods	7.0	2.0	16.5	3.2
Motor spirit...	113.3	6.4	(67.3	(0.1)
Passenger motor cars.................................	(13.6	(0.7	(7.4)	(0.6)
Other goods	26.7	0.1	31.3	0.1

Source: The Bank of Lithuania

The following table sets out Lithuania's exports and imports as a percentage of the total exports and imports by principal product type for the four years ended 31 December 2007 and the nine months ended 30 September 2008.

	Year ended 31 December								Nine months ended 30 September	
	2004		2005		2006		2007		2008	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
					(%)					
Live animals and animal products…	4.3	1.8	4.5	2.2	4.6	2.1	5.5	2.3	4.2	2.4
Vegetable products.......	2.5	2.4	3	2.2	3.4	2.7	5.1	2.9	5.4	3.4
Animal or vegetable fats and oils	0.2	0.6	0.2	0.5	0.3	0.5	0.3	0.5	0.4	0.6
Prepared foodstuffs; beverages, spirits and vinegar; tobacco............	4.4	3.8	5.2	3.7	5.8	4.0	6.2	4.2	4.9	3.7
Mineral products...........	25.52	19.7	27.3	25.5	24.0	23.6	13.7	17.2	26.5	40.5
Products of the chemical or allied industries	6.9	8.4	7.3	7.8	6.5	8.3	8.1	9.7	10.0	9.1
Plastics and articles thereof; rubber	3.0	5.5	3.6	5.6	5.2	5.2	7.9	5.1	6.0	4.3
Wood and articles of wood and paper............	6.2	4.3	5.8	4.1	5.6	3.8	6.2	4.1	4.5	3.4
Textiles and textile articles	11.7	7.1	9.3	5.6	8.3	5.0	7.6	4.8	5.4	3.9
Base metals and articles of base metal....	4.4	7.2	4.4	6.9	4.6	7.1	5.2	7.8	4.9	6.4

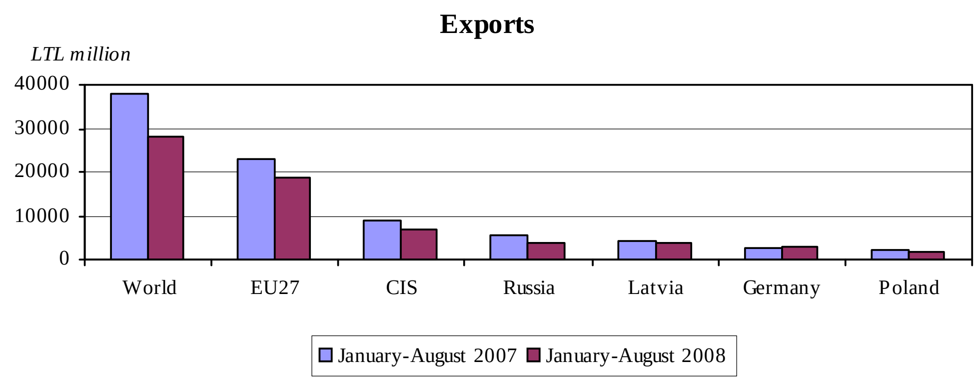
	Year ended 31 December								Nine months ended 30 September	
	2004		2005		2006		2007		2008	
	Exports	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*	*Exports*	*Imports*
					(%)					
Live animals and animal products…	4.3	1.8	4.5	2.2	4.6	2.1	5.5	2.3	4.2	2.4
Machinery and mechanical appliances; electrical equipment	12.7	19.0	12.4	17.9	12.2	17.6	12.9	17.9	10.4	14.1
Vehicles, aircraft, vessels and associated transport equipment......	9.1	13.2	8.3	11.7	10.1	13.9	10.6	16.4	8.3	12.5
Miscellaneous manufactured articles ...	6.4	1.7	6	1.6	6.3	1.8	6.8	2.0	5.1	1.5
Other goods..................	3.0	5.3	2.7	4.7	3.1	4.4	3.9	5.1	4.0	4.2
Total	100	100	100	100	100	100	100	100	100	100

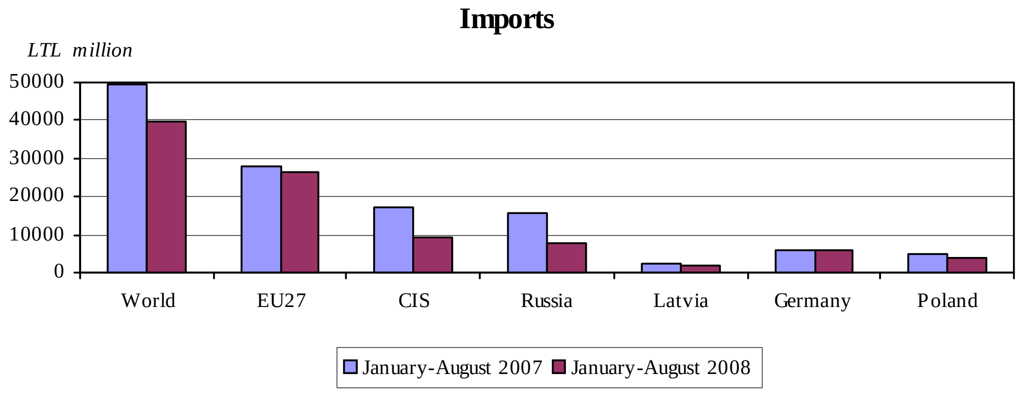
Source: Statistics Lithuania

In the third quarter of 2008, the export of goods from Lithuania to EU member state countries increased by 24.2 per cent. as against the third quarter of 2007, while exports to CIS countries grew by 41.1 per cent. At the same time, imports of goods from EU member state countries decreased by 2.7 per cent. and imports from CIS countries increased by 95.6 per cent. In January to September 2008, the increase in the export of goods to EU-27 countries compared to the corresponding period of the previous year was 24.7 per cent., while the increase in imports was 3.3 per cent. During the first three quarters of 2008, exports to CIS countries increased by 40.2 per cent. and imports from CIS countries increased by 91.3 per cent. Exports to Russia accounted for nearly two thirds of exports to CIS countries and imports from Russia constituted 88.6 per cent. of the total imports from CIS countries.

Such dynamics of the export and import of goods led to changes within the geographical structure of Lithuania's foreign trade. Exports of goods to EU Member States compared to total exports of domestic goods went down from 65.8 in the first three quarters of 2007 to 61.1 per cent. in the first three quarters of 2008. The share of exports to CIS countries increased from 23.4 to 24.5 per cent. The EU member state countries' share in the imports of goods structure decreased from 67.6 to 56.5 per cent., while the CIS share increased from 22.6 to 35.0 per cent.

In the first nine months of 2008, gross foreign trade deficit made LTL 13.3 billion and was 1.0 per cent. lower as against the corresponding period of 2007.





Services

In the third quarter of 2008, exports of services increased by 6.1 per cent. as against the third quarter of 2007, while imports of services grew by 29.7 per cent. This difference in the growth rate of exports and imports of services led to a significant narrowing of the total positive services balance surplus in both the third quarter and the first three quarters of 2008, and an accompanying increase of CAD for the reviewed periods.

Faster growth of imports of services was due to an increase in imports of transport and travel services. In the third quarter of 2008, imports of travel services increased by 26.7 per cent., while exports of travel services grew by 26.9 per cent. as compared to the corresponding period in 2007. The transport and travel services accounted for, respectively, 43.2 per cent. and 39.7 per cent. in the total services imports.

In the third quarter of 2008, exports of services to EU Member State countries made up 64.1 per cent. of the total exports of services, while imports of services from EU Member State countries accounted for 58.7 per cent. Exports to CIS countries, compared to total services exports, made up 27.5 per cent., while imports to CIS countries versus total services imports accounted for 32.6 per cent.

The following table shows the percentage changes in exports and imports contributing to the total changes in foreign trade of the main types of services and contributions for the first three quarters of 2008, as compared to the first three quarters of 2007.

	Exports		**Imports**	
	Change	**Contribution**	**Change**	**Contribution**
All services..	7.8	7.8	23.5	23.5
Transport services	8.6	4.9	25.5	11.7
Travel services....................................	9.2	2.8	25.1	9.1
Other services	0.9	0.1	15.1	2.7
Total transport services	8.6	8.6	25.5	25.5
Sea transport.......................................	(7.4)	(0.8)	77.2	20.2
Air transport	23.5	0.8	26.6	1.3
Railway transport................................	8.7	1.5	7.8	1.1
Road transport	8.0	4.2	2.4	1.0
Pipeline transport................................	(2.3	0.0	73.0	2.0

	Exports		Imports	
	Change	Contribution	Change	Contribution
Other transport services	17.5	2.9	(1.0)	(0.1)

Source: The Bank of Lithuania

Income

In the third quarter of 2008, the income balance deficit was LTL 1.09 billion, a decrease of LTL 272.2 million (20.0 per cent.) as against the third quarter of 2007. The deficit decrease was mostly influenced by the decrease of reinvestment (which is recorded in Current Accounts as payments to non-residents and as direct investment in Financial Accounts) by LTL 637.9 million. Other investment expenses increased by LTL 231.9 million.

In January to September 2008, the income balance deficit was LTL 3.71 billion as compared to LTL 3.26 billion in January to September 2007. Although during the reviewed period the reinvestment decreased nearly three times, the total increase of income balance was influenced by the growth of payment of dividends on direct investments to non-residents and other investment expenses.

Current Transfers

In the third quarter of 2008, the positive surplus on the balance of non-repayable current transfers was LTL 763.7 million (as compared to LTL 755.4 million in the corresponding period of 2007). The size of current transfers in Lithuania was determined mainly by current remittances from individuals and transfers from the EU support funds.

In January to September 2008, the surplus on the balance of current transfers was LTL 2.05 billion, a decline of LTL 88.0 million compared to the corresponding period of 2007. In the first three quarters of 2008, as compared to the first three quarters of 2007, transfers from the EU support funds increased by LTL 24.3 million (1.8 per cent.) and remittances by individuals decreased by LTL 5.1 million (0.2 per cent.); the country's contributions to the EU budget increased by LTL 138.7 million (21.0 per cent.) and transfers by private individuals to other countries increased by LTL 65.6 million (8.1 per cent.). These factors caused a decrease in gross surplus on the current transfers balance sheet.

Capital and Financial Account

In the third quarter of 2008, the gross investment flow within the Capital and Financial Accounts of Lithuania's balance of payments (excluding official reserve assets) showed net income of LTL 1.82 billion (in the second quarter of 2007, net income was LTL 3.0 billion). Gross net income was determined by the net income of direct foreign investment and other investments. In January to September 2008, the net total income reached LTL 8.04 billion (LTL 10.0 billion in January to September 2007).

The net flow of non-repayable capital transfers (the major source of which are the EU structural support funds and which are used to finance investment projects) was LTL 377.8 million in the third quarter of 2008, a decrease of LTL 220.7 million as compared with the third quarter of 2007. In the first three quarters of 2008, the flow of these transfers was LTL 1.74 billion (as compared to LTL 1.23 billion in the first three quarters of 2007).

In the third quarter of 2008, foreign direct investment was used to finance 37.2 per cent. of CAD. The share of CAD financing consisting of foreign direct investment and non-repayable capital transfers was 50.3 per cent. (respectively, 37.3 and 54.8 per cent. in the third quarter of 2007).

The following table shows the investment flows during the first three quarters of 2008, as compared to the same period of 2007:

	First three quarters of 2007		First three quarters of 2008	
	Assets	Liabilities	Assets	Liabilities
	(LTL million)			
Direct Investment	(821.01)	3,936.78	(926.70)	3,264.78
Portfolio Investment	(1,926.79)	(612.33)	(504.75)	(527.71)
of which:				
Equity securities	(723.36)	(550.27)	149.52	15.06
Debt securities	(1,203.43)	(62.06)	(654.27)	(542.77)
Financial derivatives	12.14	(3.06)	49.25	(17.95)
Other investment	(1,933.04)	11,346.54	(1,565.65	8,267.02
of which:				
Monetary authorities	(86.78)	7,332.97	(731.79)	6,882.79
Other sectors	(1,846.26	3,264.01	(833.86	2,402.02

Source: The Bank of Lithuania

Direct Investment

In the third quarter of 2008, compared to the third quarter of 2007, foreign direct investment in Lithuania decreased by LTL 286 million (16.7 per cent.). In January to September 2008, compared to the corresponding period in 2007, it decreased by LTL 672 million (17.1 per cent.). In the third quarter of 2008, taking into account the outflow of direct investment by domestic entities, the net foreign direct investment amounted to LTL 1.07 billion, which was 3.5 per cent. of GDP. In the first three quarters of 2008, it was LTL 2.34 billion or 2.8 per cent. of GDP. For the fourth quarter of 2007 to the third quarter of 2008, the foreign direct investment was LTL 4.41 billion or 4.0 per cent. of GDP.

As of 30 September 2008, the accumulated foreign direct investment in Lithuania stood at LTL 33.48 billion (Euro 9.7 billion) or LTL 9,981 (Euro 2,891) *per capita.*

According to data of the Bank of Lithuania, as of 30 September 2008, investments in the manufacturing industry accounted for 28.9 per cent. of the total foreign direct investments in Lithuania, financial intermediation for 16.4 per cent., transport, storage and telecommunications for 14.8 per cent. and retail and wholesale for 12.4 per cent.

The biggest foreign investors in Lithuania were Sweden (15.4 per cent.), Denmark (11.2 per cent.), Poland (10.9 per cent.), Germany (9.4 per cent.),the Russian Federation (7.3 per cent.) and Estonia (6.9 per cent.).

Portfolio Investment

Net portfolio investment was negative in the third quarter and in the first three months of 2008. It was, respectively, LTL 172.7 million and 1.03 billion which means that investment outflows were greater than investment inflows. The biggest investments were to non-residents-issued long-term debt securities.

In the third quarter of 2008, net investments (other than portfolio investments) showed a net inflow of LTL 890.7 million and in January to September reached LTL 6.7 billion (in 2007, it was, respectively, LTL 2.71 billion and LTL 9.41 billion).

Official Reserve Assets

In the third quarter of 2008, Lithuania‘s official reserve assets increased by 4.2 per cent. to LTL 15.6 billion (Euro 4.52 billion) at the end of the quarter. As at 30 September 2008, the accumulated official reserve assets, in terms of goods and service import months, was 2.3 months (3.2 months at the end of 2007).

The decrease in reserve assets was due to the decrease in (i) external liabilities of the Bank of Lithuania (LTL 795.8 million), (ii) deposits by other monetary financial institutions with the Bank of Lithuania (LTL 257.3 million) and (iii) deposits by the central government with the Bank of Lithuania (LTL 101.2 million). Official reserve assets were pushed up by an increase in the external liabilities of currency in circulation (LTL 119.4 million) and other components (LTL 353.9 million).

International Investment Position of the Republic of Lithuania

On 30 September 2008, Lithuania’s total foreign financial assets amounted to LTL 45.24 billion while total international financial liabilities amounted to LTL 105.8 billion. Lithuania’s negative international investment position equalled LTL 60.56 billion, making Lithuania a debtor vis-à-vis the rest of the world.

In the third quarter of 2008, the country’s foreign financial assets increased by LTL 941.1 million (2.1 per cent.) and foreign financial liabilities increased by LTL 952.7 million (0.9 per cent.).

The following table shows the structure of the balance of the international investment position of Lithuania in percentage terms for the year ended 31 December 2007 and the first, second and third quarters of 2008:

		Year ended 31 December 2007	**First Quarter ended 31 March 2008**	**Second Quarter ended 30 June 2008**	**Third Quarter ended 30 September 2008**
			(%)		
A.	**Foreign assets**	100.0	100.0	100.0	100.0
1.	Direct investment	8.2	10.0	10.5	11.2
2.	Portfolio investment	18.8	19.3	20.0	19.3
3.	Financial derivatives	1.2	0.7	0.7	0.3
4.	Other investment	31.6	34.0	32.0	34.7
5.	Official reserve assets	40.2	36.0	36.8	34.5
B.	**Liabilities**	100.0	100.0	100.0	100.0
1.	Direct investment	35.3	34.2	33.0	31.6
2.	Portfolio investment	13.4	12.7	12.2	11.6
3.	Financial derivatives	0.0	0.1	0.0	0.1
4.	Other investment	51.3	53.0	54.8	56.7

Source: The Bank of Lithuania

(a)

At 30 September 2008, Lithuania's gross foreign debt rose by 3.0 per cent. to LTL 79.87 billion or 72.0 per cent. for the period from the fourth quarter 2007 to the third quarter 2008 (at the end of 2007 it was LTL 70.95 billion or 72.3 per cent. of GDP). Lithuania's net external debt rose by 4.0 per cent. to LTL 39.22 billion at the end of the third quarter and was 35.3 per cent. of the four-quarter GDP.

INDEBTEDNESS

Conservative debt management has been a declared objective of Lithuanian Governments since 1991.

The net borrowing ceiling for 2009 specified in the 2009 State Budget was increased to LTL 1.66 billion from the LTL 1.63 billion set for 2008.

Pursuant to the amended Law on State Debt, commencing in 2004, Government debt is divided into domestic and foreign debt based on a residency principle (instead of the currency principle previously used). This means that foreign debt is calculated by reference to that held by non-residents regardless of the currency or place of issue.

The following table sets out the Republic's general Government debt, both in millions of Litas and as a percentage of GDP, as at 31 December in each of the years stated:

	As at 31 December				
	2004	**2005**	**2006**	**2007**	**2008**
			(LTL million)		
General Government Debt					
Total General Government debt	12,155.4	13,276.1	14,938.7	16,698.0	17,374.8
Domestic debt					
Currency and deposits	327.6	234.6	0.0	0.0	0.0
Securities other than shares	3,522.9	3,987.2	4,031.8	4,592.6	4,707.3
Loans	909.1	1,043.6	688.1	878.8	1,506.2
Total Domestic debt	4,759.6	5,265.2	4,719.9	5,471.5	6,213.5
Foreign debt					
Securities other than shares	6,078.2	7,244.2	9,545.5	10,865.7	11,161.3
Loans	1,317.6	766.7	673.2	360.9	659.8
Total Foreign debt	7,395.8	8,010.9	10,218.8	11,226.5	11,161.3
			(As % of GDP)		
General Government debt	19.4	18.6	18.2	17.3	15.6
Domestic debt	7.6	7.4	5.8	5.7	5.6
Foreign debt	11.8	11.3	12.5	11.6	10.0

Source: Ministry of Finance

Foreign Debt

The Ministry of Finance is responsible for the Government's foreign borrowing, while the Bank of Lithuania acts as the main fiscal agent of the Government in servicing foreign debt.

The following table shows Lithuania's Central Government foreign debt by creditor as at 31 December for each of the years stated:

	As at 31 December									
	2004	**% share**	**2005**	**% share**	**2006**	**% share**	**2007**	**% share**	**2008**	**% share**
Central Government foreign debt	7,366.7	100.0	7,983.7	100.0	10,195.3	100.0	11,199.8	100.0	11,125.8	100.0
Medium/long-term debt	7,209.6	97.9	7,728.2	96.8	10,195.3	100.0	11,199.8	100.0	11,125.8	100.0
Supranational authorities.....................	974.8	13.2	704.9	8.8	629.8	6.2	322.2	2.9	302.7	2.7
IMF...............................	66.0	0.9	0.0	—	0.0	—	0.0	—	0.0	—
Bilateral official...........	194.2	2.6	0.1	0.0	0.0	—	0.0	—	0.0	—
Bonds............................	5,921.1	80.4	6,988.7	87.5	9,545.5	93.6	10,865.7	97.0	10,501.4	94.4
Other.............................	53.5	0.7	34.6	0.4	20.0	0.2	11.9	0.1	321.7	2.9
Short-term debt	157.1	2.1	255.5	3.2	—	—	—	—	—	—

Source: Ministry of Finance

Lithuania was the first of the Baltic states to access funds under the Extended Fund Facility of the IMF. This facility, together with other IMF facilities, represented an aggregate total amount of SDR 16.8 million (Euro19.12 million) outstanding as at 31 December 2004, which was due to be repaid by 2008. However, debt to the IMF was prepaid in 2005 as part of Lithuania's refinancing strategy. Indebtedness to the other international financial institutions was also reduced substantially.

Lithuania first accessed the international capital markets in 1995, when it issued US$100 million 10.0 per cent. Notes due 1997. Since then, Lithuania has issued in the international markets on a number of occasions. As at 31 December 2008, the total outstanding amount of such indebtedness was LTL 12.7 billion (Euro 3.7 billion) in long-term Government securities (five eurobonds in total).

As at 31 December 2008, all of Lithuania's foreign Government debt by nominal maturity was classified as medium- to long-term.

The following table shows the Government's current official projections for the Central Government foreign debt service obligations for each of the years indicated:

	Year ended 31 December							*Total future payments*
	Actual 2004	*Actual 2005*	*Actual 2006*	*Actual 2007*	*Actual 2008*	*2009*	*2010-2030*	
				(LTL million)				
Central Government foreign debt service	2.303,6	2.224,9	783,6	885,6	1.293,9	753,5	16.473,1	17.226,6
Principal payments	1.863,8	1.860,6	383,3	329,6	717,9	106,5	13.210,3	13.316,8
Interest payments	439,8	364,3	400,3	556,0	576,0	647,0	3.262,8	3.909,8
of which at floating rate	27,7	10,2	17,4	7,8	6,0	18,1	52,7	70,8
of which at fixed rate	412,1	354,1	382,9	548,2	570,0	628,9	3.210,1	3.839,0

Source: Ministry of Finance

Lithuania's scheduled debt service is modest by international standards.

As at 31 December 2008, Lithuania's total interest payments on Central Government debt amounted to LTL 711.3 million (Euro 206.0 million), while total interest payments on foreign Central Government debt were LTL 601.9 million (Euro 174.3 million) for the period from 1 January 2008. As at 31 December 2008, interest payments on Central Government foreign debt accounted for 3.35 per cent. of planned tax revenues of the State budget for 2008. As at 31 December 2008, 2.83 per cent. of Lithuania's Central Government foreign debt carried interest at floating rates.

The following table sets out the Republic's Central Government foreign debt by currency composition as at 31 December for each of the years indicated and as at 30 September 2008:

	As at 31 December									
	2004	**% Share**	**2005**	**% Share**	**2006**	**% Share**	**2007**	**% Share**	**2008**	**% Share**
USD	500.5	6.8	228.1	2.9	150.1	1.5	2.7	0.0	1.1	0.0
SDR	66.0	0.9	—	—	—	—	0.0	—	—	—
EUR	6,579.3	89.3	7,587.5	95.0	9,948.5	97.6	11,132.1	99.4	11,065.9	99.5
JPY	37.9	0.5	—	—	—	—	0.0	—	—	—
LTL	157.1	2.1	147.5	1.8	78.5	0.8	63.9	0.6	58.5	0.5
Other currencies	25.8	0.4	20.5	0.3	18.2	0.2	1.0	0.0	0.3	0.0
Central Government foreign debt	7,366.7	100.0	7,983.7	100.0	10,195.3	100.0	11,199.8	100.0	11,125.8	100.0

Source: Ministry of Finance

The main trends evident in the above table are the decrease in US dollar-denominated borrowings and the increase in Euro-denominated borrowings as a result of the Republic's policy of seeking to source more debt in Euro.

Domestic Debt

As at 31 December 2008, Central Government domestic debt amounted to LTL 4.93 billion (Euro 1.4 billion) (as compared with LTL 4.60 billion (Euro 1.3 billion) as at 31 December 2007). Government securities accounted for 95.5 per cent. of domestic debt as at 31 December 2008.

As a result of the Government's strategy to concentrate short-term borrowing in the domestic market and long-term borrowing in the international capital markets, as at 31 December 2008, 51.7 per cent. of domestic Government securities had residual maturities of up to 12 months, 14.9 per cent. had residual maturities of one to three years and 33.4 per cent. had residual maturities of more than three years. As at 31 December 2008, 2.06 per cent. of Litas denominated securities were held by non-residents.

On 18 March 2002, the Government issued 10-year bonds for the first time in the domestic market through an auction process. In 2008, the 10-year bonds increased from 33.2 per cent. to 33.4 per cent. of domestic Government securities.

The following table sets out the average annual weighted yield of Litas denominated Government securities as at 31 December for each of the years indicated:

	As at 31 December				As at 30 September
	2004	**2005**	**2006**	**2007**	**2008**
Treasury bills(1)	2.14	2.36	3.04	4.18	6.28
1-month T-bills	2.02	2.18	2.92	3.82	—
3-month T-bills	2.10	2.41	—	4.13	9.52
6-month T-bills	2.09	2.07	2.87	4.22	5.94
9-month T-bills	—	—	3.68	—	5.71

	As at 31 December				As at 30 September
	2004	2005	2006	2007	2008
12-month T-bills	2.23	2.41	2.97	4.28	5.63
Notes	3.70	3.17	3.73	4.41	5.32
2-year notes	—	—	—	—	—
3-year notes	3.21	—	—	—	—
5-year notes	3.67	2.83	—	4.24	—
7-year notes	—	3.08	3.50	4.22	4.89
10-year notes	4.44	3.76	3.92	4.56	5.36

Note:

(12) Structured by original maturity.

Source: Ministry of Finance

MONETARY AND FINANCIAL SYSTEM

The Bank of Lithuania

The adoption of the Law on the Bank of Lithuania in March 1990 re-established the Bank of Lithuania as Lithuania's central bank. In March 1994, the Law on the Credibility of the Litas was passed, under which the primary objective of the Bank of Lithuania was to ensure the stability of the Litas. In February 2004, as part of the Lithuanian authorities' efforts to harmonise the country's central banking principles with those in the EU, the Seimas adopted an amendment of the law on the Bank of Lithuania, which modified this objective. Under this new law, the primary objective of the Bank of Lithuania is to maintain price stability. The principal tool used by the Bank of Lithuania to achieve this objective is the fixed exchange rate of the Litas to an anchor currency (which until 1 February 2002 was the US dollar and currently is the Euro).

The Bank of Lithuania is responsible for the management of the country's foreign currency and gold reserves. In addition, the Bank of Lithuania acts on the Government's behalf in conducting Government securities auctions, is responsible for preparing the country's monetary, banking and balance of payments statistics and is also responsible for the supervision of the Lithuanian banking system.

In 2005, changes to the Republic's legislative framework in anticipation of Lithuania's adoption of the Euro were launched. Lithuania as a Member State is required to comply with all of the adaptation requirements under Article 109 of the EU Accession Treaty. The Lithuanian Constitution and the Law on the Bank of Lithuania were amended and other laws were repealed (the Law on the Issue of Money, the Law Changing the Name and Amounts of Monetary Units, the Law on Money and the Law on Credibility of the Litas) on 25 April 2006. The constitutional amendment came into force on 26 May 2006. With the exception of two articles, the amending law will come into force on the day Lithuania's derogation is abrogated and the repealing law will come into force on the day Lithuania adopts the Euro. Following these recent amendments, the Lithuanian Constitution and the Law on the Bank of Lithuania are now compatible with the Treaty and Statute requirements for Stage Three of Economic and Monetary Union. The Bank of Lithuania has prepared a draft Law on the Introduction of the Euro in the Republic of Lithuania.

Monetary Policy

In June 1993, the Litas was introduced as Lithuania's currency. In March 1994, the Law on the Credibility of the Litas was passed and established a currency board arrangement ("**Currency Board**") under which the total liabilities of the Bank of Lithuania denominated in Litas may not exceed official reserves, including gold reserves and foreign exchange reserves (calculated with reference to the official exchange rate). The Bank of Lithuania has undertaken an obligation to convert the aforementioned liabilities at a fixed rate ("**forex window**") on demand of credit institutions established in Lithuania and which are subject to the Bank's of Lithuania reserve requirements.

The original objective of the Currency Board was to increase the credibility of Lithuania's monetary policies in general, maintain confidence in the Litas and reduce inflation expectations as well as interest rates.

Initially, the Currency Board set the exchange rate of the Litas at four Litas to one US dollar, which was the rounded market rate at that time. The Litas was repegged to the Euro on 2 February 2002 at the market rate (without any devaluation or revaluation) of LTL 3.4528 per 1 Euro.

On 28 June 2004, Lithuania joined the EU's new exchange-rate mechanism ("**ERM II**") as part of its preparation for adopting the Euro. Upon entry into the ERM II, the Currency Board regime and the Litas exchange rate remain unchanged. Under the ERM II arrangement, Lithuania has made a unilateral commitment to maintain the current exchange rate regime and the current exchange rate of the Litas against the Euro with a zero fluctuation band, thus placing no additional obligations on the European Central Bank ("**ECB**"). The Lithuanian authorities planned to adopt the Euro after the minimum required two-year period of ERM II membership in 2007, however, due to the level of inflation, which by a small margin of 0.1

percentage point exceeded the Maastricht criterion at the time of evaluation in March 2006, the adoption of the Euro was postponed and is now expected no earlier than 2010.

The forex window and reserve requirements are the core instruments of the Bank of Lithuania for the liquidity management of the banking system. The Bank of Lithuania has not conducted any market operations since February 2000, as the banking system has been able to effectively manage its liquidity through the domestic market, its close ties with the international market and the forex window.

The Bank of Lithuania is authorised to set reserve requirements for banks. The reserve ratio of 4 per cent. has been applied since November 2008 to all deposits and debt securities denominated in Litas and foreign currencies with an initial maturity of up to two years. A zero ratio was applied to repurchase agreements, deposits with agreed maturity/redeemable with notice after two years and debt securities issued with an agreed maturity of over two years.

In order to gradually harmonise the Lithuanian reserve requirement system with that used in the Euro-zone, the Bank of Lithuania has approved amendments to the Rules on Reserve Requirements for Credit Institutions, which are aligned with major ECB regulations, including those for the calculation of the reserve requirement base and the application of a zero reserve ratio.

Prior to adopting the Euro, the Bank of Lithuania continues to improve the legal and technical basis of its monetary policy instruments, in order to create equal and favourable conditions for a smooth transition to the liquidity management framework applied by the Euro system.

Monetary Aggregates

Since the introduction of the Litas as the national currency and the start of the Currency Board arrangement, money supply has generally exhibited an upward trend. Lithuania’s increasing levels of foreign reserves have accommodated the growth of monetary aggregates.

The growth rate of the monetary base slowed in 2004 to 7.0 per cent., but regained its pace in 2005, 2006 and 2007 (27.7, 19.3 and 21.1 per cent., respectively). For the twelve months ended 31 December 2008, the monetary base decreased by1.4 per cent. to LTL 12.71 billion.

From 2003 onwards, demand for loans in the domestic market has increased. Bank lending was extensively financed by foreign borrowing from parent banks, which negatively influenced net foreign assets. Accordingly, as compared to the prior year, in 2003 net foreign assets declined by 5.7 per cent., in 2004 by 1.3 per cent., in 2005 by 45.8 per cent. and in 2006 by 5.8 per cent. At the end of 2007, net foreign assets were negative and had decreased sharply during the previous 12 months. At the end of December 2008 this indicator was close to the lowest negative level recorded.

Due to the strong economy and increased demand for loans by the corporate and household sectors, domestic credit continued to grow rapidly in 2005, 2006 and 2007 (a 54.8, 35.4 and 40.9 per cent. increase, respectively). At 31 December 2008, the annual growth rate of domestic credit was 17.4 per cent.

Such increases are partially a result of the low base effect, i.e. the fact that domestic credits were not largely used in the previous periods. At 31 December 2008, domestic credit stood at 66.2 per cent. of annualised GDP, up from 16.6 per cent. of GDP at the end of 2000.

Foreign Reserve Assets

The table below sets out total foreign reserve assets held by the Bank of Lithuania as at 31 December in each of the five years stated:

	As at 31 December				
	2004	2005	2006	2007	2008
			(LTL millions)		
Gold[1]	206.3	277.4	310.8	366.2	395.7
SDRs	0.2	0.2	0.3	0.3	0.3
Reserve position in the Fund	0.1	0.1	0.1	0.1	0.1
Foreign exchange	8,902.4	10,826.4	14,873.0	17,833.7	15,389.4
Total foreign reserve assets	9,108.9	11,104.1	15,184.1	18.200.3	15,785.5

Note:

(13) Gold was valued per ounce at LTL 1,109.1; 1,491.4; 1,671.0, 1,968.8 and 2,116.0 as at 31 December in 2004-2008.

Source: The Bank of Lithuania

Inter-bank Interest Rates

During 2004 to 2006, spreads of domestic inter-bank rates over Euribor converged to a level close to zero. In the spring of 2007, the domestic money market interest rates and spreads over the Euro area interest rates started to increase, triggered by the turmoil in the Baltic financial markets. The spreads over the course of 2007 rose from seven to 197 basis points in 3-month maturity and from three to 256 basis points in 12-month maturity. However, after peaking in December 2007, spreads have tightened considerably in the first quarter of 2008 due to stable assessments of Lithuania's short-term economic outlook. In addition, the autonomous factors (including but not limited to, the sum of money in circulation in Lithuania and government transfers from the banking system to the Bank of Lithuania or vice versa) increased banking system short-term liquidity, contributing to the decline in the spreads.At the end of 2008, the spreads of domestic inter-bank rates over Euribor increased significantly due to turmoil in the world's financial markets that caused illiquidity in the domestic market.

The following table sets out the average Lithuanian inter-bank interest rates and spreads over Euribor from 31 December in each of the five years stated:

	As at 31 December									
	2004		2005		2006		2007		2008	
	Level	Spread	Level	Spread	Level	Spread	Level	Spread	Level	Spread
					(%)					
O/N	2.15	0.06	2.43	0.01	3.79	0.10	4.42	0.50	2.83	0.48
1-month	2.25	0.12	2.50	0.10	3.73	0.10	5.83	1.54	8.21	5.61
3-month	2.64	0.49	2.54	0.05	3.79	0.06	6.65	1.97	9.89	7.00
6-month	2.76	0.55	2.62	0.02	3.90	0.05	7.18	2.47	10.15	7.18
12-month	2.88	0.52	2.82	0.02	4.06	0.03	7.31	2.56	10.68	7.63

Source: The Bank of Lithuania, Money, Currencies and Financial Market Statistics

The Banking System

As at 31 December 2008, there were nine banks holding a licence from the Bank of Lithuania, eight foreign bank branches, five foreign bank representative offices, one financial institution controlled by EU licenced foreign bank providing services with an established branch, 209 EU banks providing cross-border services in the Republic of Lithuania without a branch operating in the country, two financial institutions controlled by EU licenced foreign banks providing services without a branch, the Central Credit Union of Lithuania ("**CCUL**") and 67 credit unions operating in Lithuania. The total assets of operating domestic commercial banks and foreign bank branches amounted to LTL 89.8 million as at 31 December 2008. Following the completion of the bank privatisation process in 2002, foreign investors hold the major part (85.2 per cent.) of the share capital of the banking system. Scandinavian banks are the dominant shareholders in the banking system of Lithuania. Foreign owned banks (including foreign bank branches) managed 85.5 per cent. of the Lithuanian banking system's assets as at 31 December 2008. The banking system remains rather concentrated. The market share of the three largest banks by assets comprised 65.5 per cent. as at 31 December 2008. However, with the banking sector becoming more competitive, a lessening of the concentration of such market share has been observed.

In Lithuania, commercial banks function as universal banks. Nevertheless, lending to customers remains one of their most significant activities. An active lending policy influences the structure of the assets managed by banks, in which loans to customers constitute a substantial share, amounting to, as at 31 December 2008, 79.6 per cent.

Although the loan portfolio of banks operating in Lithuania is still growing, certain deceleration trends were observed during the last months of 2007 and the beginning of 2008. Moreover, an increasing number of indicators have emerged indicating that the development of the loan market may slow down further. The forecast of a slowdown in growth rates of the loan portfolio of banks operating in Lithuania is also supported by bank loan commitments growing at slower rates than the loan portfolio. Their volume increased by LTL 11.3 million or 18.9 per cent. as compared to 2007 (in 2007 the loan portfolio increased by LTL 18.3 billion or 43.9 per cent.).

Domestic banks have been more cautious granting new loans. There has been a tightening in the requirements for loan collateral and the residual income of the borrower remaining after the loan has been serviced. However, the comparably small loan to GDP ratio (as compared to other European countries) leaves room for further growth of the loan market and the banking sector in Lithuania. The amount of loans to customers comprised LTL 71.5 billion as at 31 December 2008. In 2008, it increased by LTL 11.3 billion or by 18.9 per cent. (while in 2007, the growth of loans amounted to 43.9 per cent.).

The growth of the bank loan portfolio has been quite balanced for several consecutive years with new loans spread almost evenly among businesses and households. However, during 2008, a majority of loans granted to bank customers were granted to private enterprises (LTL 5.3 billion) as compared to private individuals (LTL 4.9 billion). According to the data of the Bank of Lithuania as at 31 December 2008, loans to private enterprises accounted for 52.3 per cent. of bank loans granted to customers, whereas loans to individuals made up 40.0 per cent. (of which, housing loans accounted for 29.1 per cent. of the bank loan portfolio).

Following a marked increase in the differential between interest rates on loans in Litas and in euros, demand for loans in euro increased accordingly. Therefore the volume of loans granted in foreign currency has exceeded the amount of loans in litas.

Active crediting did not have a significant influence on the quality of the loan portfolio. As at 31 December 2008, the ratio of impairment of loans (specific provisions) to total loans made up 1.18 per cent.

in 2008, the sum of deposits kept in banks decreased by 4.7 per cent., and as at 31 December 2008, comprised LTL 38.2 billion, of which individuals' deposits constituted LTL 24.1 billion. Such deposit decrease was primarily influenced by the decrease of financial institutions' (19.4 per cent.) and state and municipality-owned enterprises' (by almost a half) deposits. In the absence of local funds to finance the growth of the banking system, banks operating in Lithuania borrowed from foreign banks and other credit institutions. Among the aforementioned financial resources the funds attracted from the parent companies of banks operating in Lithuania were the most significant. These funds during 2008 increased by LTL 10.8 billion and as at 31 December 2008 amounted to LTL 38.4 billion, which comprised 46.3 per cent. of all banks' liabilities. Seeking to encourage savings and investments, as an alternative to traditional investment measures, Lithuanian banks continue to propose new, non-traditional investment instruments such as deposits or bank debt securities, where profitability is interrelated with stock indices or fluctuation of the commodity prices at the stock exchange.

Banks' profitability indicators have improved over recent years. In 2007, the profit of the banking system was LTL 1,116 million. During 2008, across the total banking system, profits amounted to LTL 902.6 million, 21.9 per cent. less as compared with 2007.

All Lithuanian banks comply with prudential requirements set by the Bank of Lithuania. As at 31 December 2008, the liquidity ratio of the banking system stood at 39.1 per cent. (9.1 percentage points above the Bank of Lithuania's established minimum ratio). The capital adequacy ratio was 12.94 per cent. (the established minimum requirement is 8 per cent.).

Banking Supervision and Regulation

The banking supervision performed by the Bank of Lithuania is governed by the provisions of the Law of the Republic of Lithuania on the Bank of Lithuania, the Law of the Republic of Lithuania on Financial Institutions and the Law of the Republic of Lithuania on Banks.

As stated in the Law on the Bank of Lithuania, the Bank of Lithuania supervises the activities of credit institutions holding a licence of the Bank of Lithuania. The supervision of the activities of credit institutions consists of:

(1) licensing consideration of applications for issuing licences, permissions and consents established by laws, and adoption of decisions, as well as other activities related thereto;

(2) collection and analysis of information obtained for the purposes of supervision in the form of reports, as well as assessment of activities of credit institutions and their financial situation on the basis of the said information, taking into account prudential and other requirements of the activities of credit institutions established by legal acts (off-site supervision);

(3) inspection of the activities of credit institutions - verification of the correctness of the compilation of financial reports presented to the Bank of Lithuania and assessments of the activities and financial situation (capital, quality of assets, profitability) of credit institutions, as well as assessment of the efficiency of the management of risks (credit, liquidity, market, operational, others) and of the management of a credit institution (on-site supervision); and

(4) application of enforcement measures prescribed by laws to credit institutions.

The Law on Financial Institutions defines what type of services are considered financial services and the requirements for the establishment, operation, closure and reorganisation of financial companies and credit institutions that are engaged in the provision of financial services. This Law establishes supervisory provisions and procedures of credit institutions that provide licensed financial services.

The Law on Banks defines procedures for the establishment, licensing, management, closure and restructuring of commercial banks, specialised banks, foreign banks and foreign bank branches operating in Lithuania, establishes prudential requirements and determines the supervision of consolidated financial groups and banks. This Law provides for extended rights and responsibilities of the supervisory authority, such as to inspect bank subsidiaries and establish individual prudential requirements for banks.

The Law on Banks authorises the Bank of Lithuania to establish a minimum initial capital requirement for banks, which is currently the equivalent of Euro 5 million. This Law determined considerably wider requirements for taking and restricting the management risk of banks. In addition, this Law establishes the prudential requirements that banks holding a licence of the Republic of Lithuania must comply with: capital adequacy, liquidity, maximum open position in foreign currency and precious metals, maximum exposure to a single borrower and large exposures. The Bank of Lithuania has the authority to set individual ratios for banks and is obliged to supervise compliance with them.

Monitoring of the financial activities of credit institutions, or off-site supervision, is one of the functions entrusted to the Bank of Lithuania acting as the credit institution supervisory authority. On-going monitoring of the activities performed by credit institutions and the banking sector as a whole is conducted on the basis of reports received for supervisory purposes, information obtained during on-site inspections or on the grounds of other information, and includes control of compliance with the prudential requirements set by the Bank of Lithuania.

The Bank of Lithuania was engaged in performing an ongoing analysis of the financial standing of credit institutions, control of compliance with prudential requirements, and analysis of indicators and trends in the banking system. The reports are subject to quarterly consideration at a meeting of the Board of the Bank of Lithuania.

In addition to off-site supervision, credit institutions are subject to on-site inspections. Each bank is inspected at least once a year by performing a full-scope or targeted inspection. During full-scope inspections, attention is focused on the highest risk areas of banking activities, including the inspection of the management of such risks as credit, liquidity, market and operational, as well as the effectiveness of internal control and the management of the bank itself. Based on the best practices used by the supervisory authorities in foreign countries and a broader scope of activities performed by banks operating in Lithuania, more targeted inspections have been recently carried out. During these inspections the management of the highest risk areas (one or several) or particular areas are checked and other issues are examined.

In light of increasing interaction between the financial sector and the insurance sector and their influence on the business of credit institutions, the Bank of Lithuania co-operates with other financial and insurance supervisory authorities of Lithuania. This co-operation is coordinated by the Commission for the Regulation of the Business of Financial Institutions and Coordination of Supervision.

The new Capital Adequacy Directive ("**CAD III**") came into effect from the start of 2007. Regulations such as the General Regulations for the Calculation of Capital Adequacy and related documents have been passed in the Bank of Lithuania to ensure compliance with CAD III. The implementation of the new capital adequacy requirements has led to a change in the banking supervisory approach to the calculation of capital charges of credit institutions for covering different risks. The new methodology for the calculation of capital adequacy enables a more precise assessment of the risks faced by banks and their management. The so-called first pillar of capital provisions on the technical requirements for the calculation of capital adequacy from CAD III has been included in the new General Regulations for the Calculation of Capital Adequacy approved by the Board of the Bank of Lithuania.

To implement CAD III, adjustments and supplements were made to the Rules on the Consolidation of Statements and Joint (Consolidated) Supervision of a Financial Group. The Rules include new conditions for the preparation of consolidated financial statements of a financial group, the procedure for submitting consolidated financial statements to the Bank of Lithuania and their publication, as well as supplements to the provisions on conducting joint (consolidated) supervision and co-operation.

CAD III created grounds for the further convergence of financial sectors of EU Member States, promoting closer co-operation between supervisory authorities during the supervision of banks belonging to the same group, but operating in different countries. The harmonisation of actions by supervisory authorities of individual countries and national requirements has become especially important while preparing to start the process of assessment and recognition of more complicated internal ratings-based credit and operational risk methods.

While implementing the new International Financial Reporting Standards and the decision of the Committee of European Banking Supervisors, according to which all EU Member States must switch to unified financial reporting forms, the Bank of Lithuania adopted a resolution on financial reporting, by which it approved the new financial reporting forms that banks began submitting to the Bank of Lithuania in 2007.

The most important tasks of the banks include risk management and ensuring capital requirements are met. To this end, the Bank of Lithuania approved the General Regulations for the Internal Capital Adequacy Assessment Process (“**ICAAP**”) and the Supervisory Review and Evaluation Process (“**SREP**”). In accordance with these Regulations, the banks must identify and disclose to the Bank of Lithuania the types of risks they face, which of these risks they consider significant, and the way they assess and manage them, as well as indicate domestic capital requirements in order to amortise the increased risks. On the basis of the supervisory inspections and assessments made, the Bank of Lithuania assesses whether a bank ensures adequate risk management and whether the amount of capital held is sufficient to cover the bank activity risk.

As part of the implementation of the General Regulations of the SREP, inspection of banks, ICAAP has commenced. This inspection covers both the internal capital adequacy assessment performed by the bank and the risk management processes of the bank. During the inspection the ICAAP arrangement manner, methodology, preconditions in identifying material risk types in all banking operation areas, risk assessment and management approaches chosen by the bank, as well as risk mitigation instruments have been analysed.

As a result of the provisions of certain documents of the Basel Committee on Banking Supervision and European Union directives emphasising strategic planning, Minimum Requirements for the Strategic Operation Plan of a bank have been supplemented and specified. The requirements established that banks operating in Lithuania have to prepare medium-term strategic plans and newly established banks, an operating outline covering a one-year period, as well as strategic plans for three years. The requirements specify the prescribed content of the operating plan of the bank, paying particular attention to the importance of risk management, structural changes related to the development of the bank’s activities, and focusing on the introduction of new financial services or products in the market.

The General Provisions on Stress Testing have been updated and revised. In conducting credit institutions supervision, a supervisory review and assessment process was started by the Bank of Lithuania with regard to each such credit institution, requiring every credit institution to create and implement an effective and functional mechanism for determining internal capital requirements, depending on the scope and nature of its activities, the risks assumed and the operations performed. Obligatory stress testing of the bank’s activities is one of the conditions for the capital distribution and adequate assessment of the risks related to the bank’s activities. The General Provisions set out key aspects of the organisation and performance of stress testing in credit institutions.

The Bank of Lithuania received and summarised the results of stress testing of domestic banks. The results of the stress testing indicated that the relevant banks were capable of withstanding financial shocks at a basic level. The stress testing also allowed the banks to recognise their highest risk sectors and devise an action plan to cater for these risks.

Taking into account the fact that the Basle Committee on Banking Supervision updated the Core Principles for Effective Banking Supervision and considering a rapid development of the banking supervision and the international practice gained, the Core Principles for Effective Banking Supervision were supplemented with new requirements and approved by the Board of the Bank of Lithuania. The key changes paid particular attention to risk management processes in banks. Supervisory institutions must make sure that both individual risks and the overall risk faced by the bank are properly identified, assessed and managed. At the same time, the Bank of Lithuania made an assessment of how the Core Principles for Effective Banking Supervision have been implemented in the Lithuanian banking system.

At the end of 2007, experts from the International Monetary Fund and the World Bank carried out a Financial Sector Assessment (“**FSAP**”) in Lithuania. In the field of banking supervision, they assessed the adequacy of the implementation of the Core Principles for Effective Banking Supervision. The experts also assessed how banks manage risks, mortgages and guarantees, how they control events of default and recovery of debts, which methodology of stress-testing they apply, what the results are, and a number of other issues. Assessment results suggested that Lithuania’s regulatory and supervisory frameworks are in line with international standards. The Bank of Lithuania conducts on-site and off-site supervision on all banks operating in Lithuania and the legal framework affecting banking supervision has been modified to conform to EU Directives.

Money Laundering and Terrorist Financing Regulations

The money laundering prevention framework of Lithuania is based on the amended Law on the Prevention of Money Laundering and Terrorist Financing, Resolutions of the Government, Money Laundering and/or Terrorist Financing Prevention Guidelines for credit institutions confirmed by a Resolution of the Board of the Bank of Lithuania. Other types of financial undertakings and other relevant entities should also follow such Guidelines subject to approval by the Lithuanian Securities Commission, Insurance Supervisory Commission, Financial Crime Investigation Service and/or State Gambling Control Commission.

The amended Law on Prevention of Money Laundering and Terrorist Financing transposes the Third Anti-Money Laundering and Terrorist Financing Directive 2005/60/EC and Commission Directive 2006/70/EC laying down implementing measures for Directive 2005/60/EC and Regulation (EC) No 1781/2006 relating to information on the payer accompanying transfers of funds. It incorporates the provisions of the previous law transposing Regulation (EC) No 1889/2005 on controls of cash entering or leaving the European Community. Legal acts of the Lithuanian Securities Commission, Financial Crime Investigation Service and State Gambling Control Commission establishing Money Laundering and Terrorist Financing Prevention guidelines for different types of undertakings have been adopted. The Insurance Supervisory Commission are still preparing the necessary regulations.

Capital Markets and Supervision

The Law on Public Trading in Securities was originally adopted by the Seimas on 16 January 1996. This law regulated public trading in securities, the activities of intermediaries operating in the securities market, the activities of the NSEL (the National Securities Stock Exchange), the accounting of securities by the Central Depository and the Lithuanian Securities Commission (the "**Securities Commission**"). This law was updated and replaced, in line with the corresponding regulations of the EU, by the Law on the Securities Market (the "**Law**"), which came into force on 1 April 2002. On 12 July 2005, relevant amendments were introduced pursuant to the requirements of Prospectus Directive 2003/71/EC. The appropriate amendments to the Law of 14 July 2006 were also made to implement Directive 2004/25/EB of the European Parliament and of the Council on takeover bids.

The further implementation of Directive 2004/39/EC on Markets in Financial Instruments and Transparency Directive 2004/109/EC on the Law on Securities Market was enacted by dividing it into two separate laws. the Law on Securities and the Law on Markets in Financial Instruments. Both laws came into force on 8 February 2007, except for provisions of the Law on Markets in Financial Instruments transposing Directive 2004/39/EC, which fully came into force on 1 November 2007. From 8 February 2007, the Law on Securities regulates public trading in securities, whereas the Law on Markets in Financial Instruments regulates activities of intermediaries operating in the securities market, activities of regulated markets and regulated market operators.

The NSEL began its operations on 14 September 1993. On 16 April 1998, the Board of the NSEL adopted the Trading Rules (the "**Rules**"), which came into force on 1 February 1999. These Rules were later updated and harmonised with the relevant EU requirements, and the most recent version of the Trading Rules came into force on 6 January 2008. Since then the structure of trading lists is as follows: Main List, Secondary List and Debt Securities List.

In 2004, the NSEL became a subsidiary of OMX and part of OMX Exchange, which also operates stock exchanges in Stockholm, Helsinki, Copenhagen, Reykjavik, Tallinn and Riga and offers access to 80 per cent. of all securities trading in the Nordic and Baltic market place from a single access point. In August 2004, the NSEL was renamed the Vilnius Stock Exchange ("**VSE**"). Continuing the integration into the OMX group in May 2005, VSE joined the common Nordic and Baltic States Exchange trading system SAXESS. The market structure and trading regulations were brought into line with the membership and trading regulations of the NOREX alliance of stock exchanges. The VSE started providing real time market information to other information vendors through the OMX information dissemination system TARGIN. Upon the accession of the VSE to the common trading platform, the Vilnius, Riga and Tallinn stock exchanges were joined into a single Baltic market with a single access point, which significantly improved the investment terms for all market participants. Currently the Baltic market operates a single securities list, the common index OMX Baltic Benchmark and a set of harmonised listing, trading and corporate events disclosure regulations. The statistics of the stock exchanges are readily provided and uploaded on a common website. The settlement systems of the Central securities depositories of the Baltic States are integrated into one single system.

In pursuit of further integration of the Nordic and Baltic States securities markets starting from 1 July 2005, all seven OMX Stock Exchanges introduced the classification of companies according to the Global Industry Classification Standard ("**GICS**"). All companies listed on the Helsinki, Tallinn, Riga, Stockholm, Copenhagen, Reykjavik and Vilnius Stock exchanges are classified now under the GICS standard developed by Morgan Stanley Capital International (MSCI) and Standard & Poor's (S&P). As of 1 January 2006, the classification standard has been made applicable to the Secondary list companies of the Baltic States.

A contract, creating a new "NASDAQ OMX Group, Inc." enterprise, was signed on 27 February 2008 between NASDAQ Stock Market and OMX. VSE, which was formerly operated by the OMX Group, became a part of NASDAQ OMX Group, Inc. The latter owns and operates the NASDAQ stock market and seven European stock exchanges in the Nordic and Baltic regions. The NASDAQ OMX Group subsequently became the world's largest exchange company. In January 2009, the VSE was renamed NASDAQ OMX Vilnius.

As at 31 December 2008, the VSE Main List included seventeen companies and the Secondary List consisted of 25 Lithuanian issuers (including two banks), with nine companies admitted to the Debt Securities List. In 2007, VSE share trading volumes reached LTL 2.41 billion, representing an increase of 64 per cent. as compared to 2006 (LTL 1.47 billion). In 2008, NASDAQ OMX Vilnius share trading volumes reached LTL 1.15 billion, representing a decrease of 56.1 per cent as compared to 2007 (LTL 2.61 billion).

The overall turnover at NASDAQ OMX Vilnius in 2007 reached LTL 3.35 billion, having exceeded the figure of LTL 3.00 billion for 2006 by 12 per cent. These figures do not include trading statistics in respect of Mazeikiu Nafta, the share trading volumes of which reached LTL 4.08 billion due to a takeover bid in 2006, but which was delisted in 2007. The overall turnover of the VSE during 2008 was LTL 1.72 billion, representing a decrease of 48.7 per cent when compared to 2007. The reduction in turnover was primarily due to the current financial market situation.

In comparison with 2006, the Stock Exchange index OMX Vilnius (formerly VILSE) increased by 4.38 per cent. However, due to the delisting of four companies in 2007, the market's aggregate capitalisation during 2006 decreased from LTL 26.68 billion to LTL 23.79 billion. In 2008, the Stock Exchange index OMX Vilnius decreased by 65.14 per cent. The market's aggregate capitalisation in the above period decreased from LTL 23.79 billion to LTL 9 billion.

Among others, the Litas-denominated securities issued by the Government are also traded on NASDAQ OMX Vilnius. Trades are either order-driven or are arranged privately and subsequently registered on NASDAQ OMX Vilnius.

All securities and related instruments in public circulation are dematerialised, being recorded in the securities accounts opened with the Central Depository in accordance with the Rules on Accounting of Securities and their Circulation (the latest version of which came into force on 6 January 2008).

During 2006 and 2007, the Lithuanian capital markets witnessed a tangible increase in investment from private and institutional investors, due to the improvement of the investment climate in Lithuania. The increased number of traders, contributing to an increase in market liquidity and the growing number of investment funds are other indications of the improvement in the Lithuanian investment climate.

During 2007, the number of foreign collective investment undertakings ("**CIUs**") operating in Lithuania increased. During the year, the Securities Commission approved the regulation of 12 foreign CIUs. On 31 December 2008, holders of licences to distribute investment units in the Lithuanian collective investment undertakings market included: one investment company with variable capital; 34 investment funds and 63 foreign CIUs. On 31 December 2008, CIUs were managing assets worth LTL 386.7 million. They were also managing foreign investment funds and pension funds, respectively, in an estimated amount of LTL 470.1 million and LTL 2.3 billion. The reduction in the assets as against the amounts managed on 31 December 2007 was due to the decrease in the unit value and investors leaving the funds.

Following the successful launch of the alternative market "First North" in the Nordic countries, OMX extended the concept of First North to the Baltic region in 2007. First North in Lithuania is seen as an alternative to the regulated market with less stringent requirements. It is an exchange-regulated marketplace for new and growing companies. It gives an opportunity for Lithuanian and other Baltic small and medium-enterprises to improve their access to finance by diversifying away from bank financing and accessing the market directly through equity and bond issuance. With a view to further promoting the development of investment services and expanding the scope of investment objects, relevant amendments to the Law on Collective Investment Undertakings were made. The amended law came into force on 1 March 2008. These amendments are aimed at providing the legal basis for the operation in the Lithuanian capital markets of immovable property, alternative investment and private capital collective investment undertakings. On 23 June 2008, further amendments to the Law on Collective Investment Undertakings came into force. These amendments were aimed at implementing Directive 2007/16/EC and clarifying certain definitions of UCITS Directive 85/611/EEC.

The Securities Commission is accountable directly to the Seimas. The main functions of the Securities Commission are to regulate the activities of the VSE and intermediaries, pension funds and collective investment undertakings, to establish rules for the circulation of securities and the issuing of prospectuses, to publish official interpretations regarding the securities and investment management market, to issue licences for intermediaries and management companies, to authorise pension funds and investment funds, to impose penalties for violations of securities legislation and to approve prospectuses.

PUBLIC FINANCES

The Lithuanian National Budget comprises the State Budget and the budgets of 60 municipalities ("**Municipal Budgets**"). The public finance sector also comprises six extra-budgetary funds, the most important of which are the State Social Insurance Fund, the Health Insurance Fund and the Privatisation Fund. Set out below is a summary of the General Government Budget (which comprises the State Budget, the Municipal Budgets and the extra-budgetary funds) for the four years ended 31 December 2007 and the first three quarters of 2008:

General Government Budget[(1)]

Indices	2004		2005		2006		2007		First Three Quarters of 2008[(1)]	
	(LTL million)	*(% GDP)*	*(LTL million)*	*(% GDP)*	*(LTL million)*	*(% GDP)*	*(LTL million)*	*(% GDP)*	*(LTL million)*	*(% GDP)*
Revenue	**19,939.4**	**31.9**	**23,872.2**	**33.4**	**27,644.6**	**33.8**	**33,504.6**	**34.6**	**27,485.9**	**24.6**
Taxes	12,379.0	19.8	14,439.1	20.2	17,143.9	20.9	20,523.7	21.2	16,682.0	15.0
Taxes on income, profits	5,428.9	8.7	6,461.1	9.1	7,918.7	9.7	9,063.6	9.4	7,195.3	6.5
Taxes on goods and services	6,598.8	10.5	7,703.5	10.8	8,919.5	10.9	11,132.2	11.5	9,214.6	8.3
Other Taxes	351.3	0.6	274.5	0.4	305.7	0.4	327.9	0.3	272.1	0.2
Social contributions	5,746.4	9.2	6,449.8	9.0	7,584.1	9.3	9,135.5	9.4	8,075.9	7.2
Grants	560.0	0.9	704.7	1.0	1,094.9	1.3	1,760.4	1.8	987.9	0.9
Other revenue	1,254.0	2.0	2,278.6	3.2	1,821.7	2.2	2,085.0	2.2	1,740.1	1.6
Expense	**19,555.9**	**31.2**	**22,714.7**	**31.8**	**25,742.3**	**31.4**	**30,771.9**	**31.8**	**27,285.7**	**24.5**
Compensation of employees	5,542.7	8.9	7,152.8	10.0	8,307.4	10.1	9,373.4	9.7	8,061.7	7.2
Use of goods and services	2,956.7	4.7	4,069.2	5.7	4,721.3	5.8	5,299.8	5.5	4,171.8	3.7
Consumption of fixed capital	682.1	1.1	913.0	1.3	1,018.1	1.2	1,133.7	1.2	1,758.4	1.6
Interest	626.0	1.0	600.8	0.8	618.9	0.8	698.0	0.7	55.9	0.5
Subsidies	438.2	0.7	590.0	0.8	584.6	0.7	890.2	0.9	643.9	0.6
Grants	332.2	0.5	547.1	0.8	627.2	0.8	679.6	0.7	549.6	0.5
Social benefits	7,795.0	12.5	7,483.7	10.5	8,898.0	10.9	11,175.0	11.6	10,751.5	9.6
Other expense	1,183.0	1.9	1,358.1	1.9	967.8	1.2	1,522.2	1.6	792.9	0,7
Net Operating balance	**383.5**	**0.6**	**1,157.5**	**1.6**	**1,901.3**	**2.3**	**2,732.7**	**2.8**	**200.2**	**0.2**
Net Acquisition of Non-financial Assets	**1,348.3**	**2.2**	**1,523.3**	**2.1**	**2,333.9**	**2.8**	**3,908.0**	**4.0**	**1,394.4**	**1.3**
Net Lending (+)/ Borrowing (-)	**(964.8)**	**(1.5)**	**(365.8)**	**(0.5)**	**(432.6)**	**(0.5)**	**(1,175.3)**	**(1.2)**	**(1,194.2)**	**(1.1)**
GDP	**62,586.7**		**71,380.4**		**81,905.2**		**96,739.7**		**115,225.0**[(2)]	

Notes

(14) According to the Government Finance Statistics Manual 2001 (GFSM 2001) methodology.

(15) Forecast for 2008.

Source: Ministry of Finance

Budget Process

The budget process in Lithuania is regulated by the Constitution, the Republic of Lithuania Law on the Budget Structure, the Government of the Republic of Lithuania Resolution on Drafting of Financial Indicators for the State Budget and Municipal Budgets, other resolutions adopted by the Government and other annual legislation passed by the Seimas on the budget at the end of each year. The process is coordinated by the Ministry of Finance. The Republic's budget planning commences on 1 January and runs until 31 December each year.

In order to retain flexibility in its budget planning, the Government has tended to adjust certain budget targets after the Budget Plan has been approved and the relevant new year has begun. Such adjustments are made to prevent an increase in the budget deficit and provide for expenditure cuts or the reallocation of funds within the overall approved expenditure limits.

The Ministry of Finance organises the overall process of budget drafting through, for example, preparing macroeconomic and fiscal projections, providing technical and methodological guidance to appropriations managers, the drafting of the budget and the Public Investment Programme.

Municipal Budgets

Municipalities enjoy considerable autonomy within the limits of the legal acts that establish tax rates and tax allocations between central and local government. The municipalities are required to keep their budgets balanced or in surplus, as are the extra-budgetary funds, after receipt of any state transfers. Since 1998, the revenue base of the municipalities has comprised mainly personal income tax ("**PIT**").

Since 2002, the share of the PIT revenue to be allocated to the budget of each municipal government has been fixed as a percentage of the PIT collected within the territory of the municipality after a transfer of a share of receipts to the Compulsory Health Insurance Fund and the State Budget. Since the fiscal capability of the municipal governments differs greatly, a revenue equalisation system is applied. In addition, a more objective basis has been established for revenue equalisation outlays. Revenue equalisation funds are used to promote redistribution of resources from more prosperous to poorer regions.

From 2002, the implementation of a majority of the functions conducted by municipal governments (implementing about 40 per cent. of total expenditure) that were previously funded from general revenue sources allotted to municipal budgets have been funded by transfers from the State Budget in the form of special target grants. The amount of these grants is allocated in accordance with the methodology used for the calculation of funds necessary for carrying out a certain function and the total for all municipal governments. In addition, municipalities receive transfers from the State Budget, the precise amount of which again depends on the specific needs of the locality.

Revenues

The principal source of revenue in the National Budget is taxation, particularly PIT and value added tax ("**VAT**").

Amendments to the tax laws at the end of 2008 were adopted in accordance with measures provided in the Crisis Management Plan, which is a part of Government's Activity Programme for 2008-2012.

Law on Income Tax of Individuals

In recent years seeking to reduce the personal income tax burden and to ensure a better balance between labour and capital taxation the rate of personal income tax was gradually reduced from 33 per cent to 24 per cent in two stages: to 27 per cent. (by 6 percentage points) from 1 July 2006 and to 24 per cent (by a further 3 percentage points) from 1 January 2008.

Taking into consideration provisions of aforementioned Crisis Management Plan, under which direct 6 per cent pre – tax health insurance contributions were introduced instead of allocating 30 per cent share of personal income tax to Compulsory Health Insurance Fund, from 1 January 2009 the personal income tax rate was reduced to 15 per cent (except dividends which are subject to 20 per cent income tax). Moreover, the procedure of application of tax-exempt amount was changed. Tax exempt amount is applied only to employment income and is increased for low-income persons and gradually reduced taking into account a level of the income of the individual. Furthermore, seeking to apply only socially-grounded and saving-orientated tax incentives all income tax incentives were reviewed by abolishing some of them: from 1 January 2009 income from agricultural activities is considered to be taxable income (except income earned in small farms); tax incentives for interest paid on credit taken for the building or acquisition of housing, as well as for payments for acquiring personal computer unit with software are not applied anymore (except cases when credit was taken or personal computer acquired before 1 January 2009); tax incentives for payments for vocational training or studies can be applied only in case when first higher education or first qualification is obtained.

Law on Profit Tax

Taking into consideration provisions of Crisis Management Plan the Law on Profit tax was also amended. According to these amendments, which are applied from 1 January 2009, the profit tax rate was increased from 15 per cent to 20 per cent, sectoral tax incentives for most agricultural entities and credit unions were abolished, and profit tax is also levied on dividends which are paid out from untaxed profit. On the other hand profit tax incentive for entities which invest into essential technological modernisation was established allowing to reduce taxable profit up to 50 per cent by expenses incurred acquiring the property, defined in the Law.

Law on Real Estate Tax

On 1 January, 2006 the Law on Real Estate Tax came into force, creating a coherent system of taxation of real estate. The Law aims at ensuring equal business conditions for commercial-economic entities, i.e. to expand the real estate tax base to include not only real estate owned by legal persons, but also real estate owned by natural persons, but used by legal persons, and real estate owned and used by natural persons for commercial-economic purposes, and to harmonise with internationally employed principles of property valuation for tax purposes.. Real estate tax rates ranges from 0.3 per cent.up to 1 per cent of the taxable value of immovable property. Specific tax rates which shall apply to the territory of a municipality from the beginning of the next tax period are established by a municipal council by 1 June of the current tax period.

VAT

From 1 January 2009 the standard VAT rate of 18 % was increased to 19 %. All reduced VAT rates were abolished (with the exception of a reduced 5% VAT rate applicable to the supply of some pharmaceuticals and medical aids, a reduced 9% VAT rate applicable to books and not periodical informational publication which will be applied until 30 June 2009, and some other transitional measures).

Excise duties

Increased excise duties on fuel and alcoholic beverages are applied as from 1 January 2009. Moreover excise duties on tobacco products will be increased from March and September 2009.

Financing of Tax Reform

Pursuant to preliminary estimates, personal income tax reform was expected to generate some general Government budgetary revenue losses of approximately LTL 490 million (0.6 per cent. of GDP) in 2006 and further losses of LTL 611 million (0.6 per cent. of GDP) in 2007 and LTL 808 million (0.8 per cent. of GDP) in 2008. However, these general Government revenue losses were expected to be offset by the new social tax payable by legal entities on their taxable profits. The social tax generated LTL 365.5 million revenue in 2006, LTL 481.9 million in 2007, and it is planned to generate approximately LTL 44.6 million in 2008 (due to tax payment order), or approximately LTL 892 million in additional budgetary revenue in total.

Expenditure

From 2000 to 2003, the share of general Government expenditure in total GDP continuously declined from 35.3 per cent. in 2000 to 30.5 per cent. in 2003. This downward trend was the outcome of the strict fiscal deficit reduction policy and the increasingly lower involvement of the Government in the goods and services market. In 2004 to2007, the share of general Government expenditure stood at approximately 31.4 per cent. of GDP.

General Government subsidies varied at around 0.8 per cent. of GDP during 2000 to 2007. Upon accession to the EU, national subsidies were partly replaced by EU subsidies. As a result, the level of national subsidies fell to 0.5 per cent. of GDP.

The Government investment strategy is reflected in the Public Investment Programme (the "**PIP**") which defines the financing requirement for investment projects implemented as part of Government supported programmes, as well as the sources of financing and the timeframes for implementation of the investment projects concerned. The PIP attributes a higher priority to those investment projects that are co-financed by the EU and that are in line with EU requirements, as well as to those that aim at developing national defence as a part of the collective security and defence system.

Since its accession to the EU, Lithuania has received support from the EU Structural Funds and the Cohesion Fund, outlined in the Single Programming Document ("**SPD**") for 2004-2006 and in the Cohesion Fund Strategy for 2004-2006, respectively. The EU Structural Funds and the Cohesion Fund, as financial instruments of the EU structural policy, are employed to co-finance priority projects in Member States.

The SPD for 2004-2006 was approved by the Government of the Republic of Lithuania and by the European Commission. The SPD sets forth the action plans, priorities and the development strategy of the EU Structural.. Lithuania specifies the contributions of the EU Structural Funds and other financing sources.

The allocations envisaged under the SPD of Lithuania for 2004-2006 amounted to LTL 4,167 million, of which the assistance from the European Union Structural Funds reached up to LTL 3,091 million. During this period, over 3,500 projects were under implementation, 2,802 of which have been completed as at 30 September 2008.

A total of LTL 3,910.5 million, LTL 2,748.1 million of which were EU funds (88.9 per cent. of EU allocations), were absorbed from the beginning of the implementation of the SPD to 30 September 2008 (funds paid to contractors and suppliers of goods and services, recognised as eligible to declare to the Commission). The deadline for the implementation of the SPD projects is the end of 2008.

The Cohesion Fund Strategy for 2004-2006 was approved by the Ministers of Finance, Environment, and Transport and Communications and agreed with the EU Commission on 20 February 2004. The assistance is committed to projects that are consistent with long-term Lithuanian policy objectives and EU policy guidelines in the transport and environment sectors. Therefore, the list of projects is first negotiated in the Ministry of Environment and Ministry of Transport and Communications and must be agreed with the European Commission in advance.

Since the beginning of implementation, Lithuania was granted LTL 2,823 million in Cohesion fund assistance, and until 30 September 2008 absorbed 67 per cent. Currently Lithuania implements 41 projects in the transport and environment sectors financed by the Cohesion fund, the implementation of which must be finished not later than 31 December 2010.

Total allocation of EU structural assistance for Lithuania for the period from 2007 to 2013, provided from the European Social Fund, European Regional Development Fund and Cohesion fund, amounts to more than LTL 23.39 billion. This assistance will be allocated in accordance with the national Strategic Reference Framework for Lithuania for 2007 to 2013 and with operational programmes for implementation of this strategy.

The primary purpose of employment of EU structural assistance, according to the strategy, is to rapidly improve conditions to invest, work and live in Lithuania and to support the economy so its products would reach all of the citizens of Lithuania. Operational programmes will support the implementation of goals and tasks set in the strategy.

The operational programme for the Development of Human Resources is dedicated to the mobilisation of all employable Lithuanian citizens. 13.8 per cent. of EU structural assistance funds has been allocated to this programme for the period from 2007 until 2013.

It is estimated that the largest part of the funds (45.72 per cent.) will be allocated to the operational programme for Economic Growth. In particular, 10 per cent. of overall EU structural assistance for Lithuania will be allocated to scientific research, the technological development of competitiveness and the growth of the economy.

For the purposes of improvement of the environment and quality of life, and in order to minimise differences between separate regions, 39.08 per cent. of total funds is allocated to the Operational programme for Promotion of Cohesion.

In addition, 1.4 per cent. of EU structural support funds were allocated for the Operational programme of technical assistance for the period from 2007 to 2013.

In Lithuania, budgetary expenditure targets and priorities are defined in an integrated set of policy documents. These include the Long-Term Development Strategy of the State (which is in line with Lisbon Strategy goals[1]) , SPD, operational programmes for 2007-2013, the Programme of the Government of the Republic of Lithuania and the regional development plans. The State Budget for 2007 to 2009 has been planned and relevant programmes have been prepared in line with certain strategic goals approved by the Government of the Republic of Lithuania on 11 September 2006, including:

- improving the welfare of the population, strengthening family values, reducing poverty and social exclusion, enhancing good-quality employment, ensuring a healthy and safe living environment, considerably reducing the use of energy and heat by modernising and renovating multi-family houses, seeking further rural economic and social development;

- enhancing productivity in all sectors of the economy, developing the economic infrastructure, creating a favourable business climate, and strengthening economic security;

- promoting scientific and technological progress in the country, developing information and knowledge within society, improving the financing of education, culture, science, and healthcare;

- strengthening public administration and self-governance, ensuring public order, improving performance in the legal system, seeking to curb corruption;

- seeking to become a full member of the Economic and Monetary Union as early as possible, and integrating into the Schengen area; and

- pursuing a co-ordinated foreign policy, actively participating in the European Union's activities, and developing the national defence system as part of NATO's collective security and defence system.

The Government has planned a number of actions in order to achieve these goals. These include the restructuring of the municipal budgeting and financial management process, creating institutional and

[1] The Lisbon Strategy sets a goal for the EU to become the most competitive and dynamic knowledge-based economy in the world within 10 years. There are 4 priority areas in the Strategy: investing more in knowledge and innovation, unlocking the business potential, increasing employment opportunities for priority categories and EU energy policy. The Long-Term Development Strategy repeats the goals of the Lisbon Strategy and defines ways in which these goals are to be reached.

administrative conditions to ensure the maximum absorption of EU budget allocations and completing the privatisation of state-owned property.

General Government expenditure allocations that might remain unspent due to delays in co-financing EU support or for other reasons are marked to be used for a further reduction of the fiscal deficit.

General Government Deficit

The General Government fiscal result has remained stable over recent years. Due to the Government's fiscal policy, the General Government sector recorded a fiscal deficit which is well below the Maastricht criteria. It recorded 1.5 per cent. of GDP in 2004, 0.5 per cent. of GDP in 2005 and 0.5 per cent. of GDP in 2006. The increased deficit for 2004 was due to an increase in the Public Investment Programme, expenditures related to co-financing of EU funds, and pensions system and tax reforms. The General Government deficit for 2007 increased to 1.2 per cent. of GDP largely due to the following one-off measure, following the Government's decision in November 2007 to compensate pensions underpaid in 1995-2002. According to the Draft Law on State Budget, the deficit for 2008 is forecast to amount to 2.3 per cent. of GDP.

General Government Subsectors

The fiscal deficits recorded in Central Government sector operations were 2.4 per cent. of GDP in 2004, 1.0 per cent. of GDP in 2005, 0.8 per cent. of GDP in 2006 and 0.7 per cent. of GDP in 2007.

In social security funds, a surplus of 0.7 per cent. of GDP was recorded in 2004, 0.6 per cent. of GDP in 2005 and 0.7 per cent. of GDP in 2006, which produced an overall surplus of 2.8 per cent. of GDP over the last five years. In 2007, the social security funds recorded a deficit of 0.1 per cent. of GDP. The central government sector transferred the subsidy of 0.3 per cent. of GDP to the social insurance fund subsector in 2006 and in 2007 it transferred the subsidy of 0.4 per cent. of GDP.

Improved administration of the collection of municipal revenues and strict control over municipal borrowing have served to form a slight overall surplus in municipal budgets in 2004 (about 0.1 per cent. of GDP) and close-to-balance position in 2005. In 2006 municipalities recorded -0.4 per cent. of GDP deficit, mostly due to increasing investments (to compare: in 2005 net acquisition of non financial assets was about 0.3 per cent. of GDP, and in 2006, 0.6 per cent. of GDP). In the medium term, in accordance with the provisions of the Law on the Structure of the Budget, the local government sub-sectoral balance is expected to be close to balanced.

Due to increasing social payments and decreasing central government subsector subsidies, the budget excess of the State Social Insurance Fund is expected to decrease, although the number of the employed and wage increase trends is expected to allow for the planning of larger social contributions.

The shrinking deficit of the central government subsector is expected to cause a total general government deficit reduction in the medium term.

Fiscal Policy

The medium-term objective is to reduce the structural deficit such that it will not exceed 1 per cent. of GDP following 2008 and thereafter continue to narrow to a structural balance or turn into a structural surplus, ensuring the implementation of the economic policy priorities. Tightened fiscal policy objectives were set with regard to nominal GDP growth projections and following expenditure growth restraint rules laid down in the Law on Fiscal Discipline.

The medium-term fiscal policy aims at implementing the following priorities of the macroeconomic policy:

- ensuring macroeconomic stability by pursuing an anti-cyclic fiscal policy;

- creating favourable conditions for the improvement of labour efficiency, improving the competitiveness of the economy, attracting more foreign direct investment, and successfully implementing EU structural policies;

- implementing tax reform aimed at balancing labour and capital taxation;

- promoting further reforms in energy and agriculture;

- continuing the pension reform to ensure long-term sustainability of general Government finances;

- matching fiscal policies with the priorities of social policy;

- during 2008, preparation of proposals on measures toward ensuring consistent use of the economic potential growth necessary for low inflation and high employment, which would not increase the fiscal deficit;

- enhancing general Government financial sustainability and fiscal discipline rules ensuring long-term economic development, in order to implement educational and health reforms;

- applying a quasi-monetary instrument (revise tax subsidies to curtail credit demand) for the implementation of an active monetary policy aiming at ensuring price stability and a natural employment rate; and

- increasing confidence in financial sustainability of the general Government by developing a medium-term State budget planning system.

Seeking to maintain confidence in the Currency Board arrangement, Lithuania aims to further improve the conditions for long-term institutional saving and for a higher labour efficiency, and will aim to successfully complete structural reforms, improve tax administration, promote investment, create a favourable business environment and ensure an effective use of public funds allocated for investment. It is currently expected that any additional general Government revenue or unspent expenditure allocations will be used for the reduction of the fiscal deficit in line with targets and for measures aimed at ensuring long-term sustainability of Government finances.

Once the personal income tax reform has been implemented by balancing capital and labour taxation, it is expected that conditions will be better suited to encourage job creation, business competitiveness and profitability.

In 2005 to 2007, Lithuania mitigated the potentially negative effects of the shadow economy on general Government finances. Owing to better tax administration, tax collection in 2007 was more than one percentage point of GDP higher than originally budgeted. In the medium term, tax collection is expected to improve further, therefore in 2008 structural revenues were expected to increase by more than 1.5 per cent. of GDP. Additional revenues will be used for decreasing fiscal deficit targets.

Additional fiscal policy measures

On 7 January 2006, the majority of the Seimas agreed:

- to bring the general Government deficit to a level not to exceed 0.5 per cent. of GDP no later than 2008 and the general Government balance to be attained no later than 2009;

- to allocate the current year surplus revenue for the reduction of the budget deficit;

- not to take decisions that markedly increase the budget deficit and expenditure.

The Law on Fiscal Discipline was prepared and approved by the Lithuanian Government on 4 July 2007. The purpose of the Law is to establish fiscal discipline rules, in accordance with the provisions of the EU stability and growth pact, necessary for maintenance of the financial sustainability of the Government and stable development of the economy. The Law establishes that general Government finances shall be administered in order to reduce the state budget deficit in the medium term. This shall be achieved through special fiscal norms limiting the state budget's expenditure growth.

The Law on Fiscal Discipline was adopted by the Seimas on 8 November 2007.

TAXATION

Lithuania

The following is a summary of certain Lithuanian tax consequences of ownership and disposition of Notes to a non-resident individual who has no fixed base in Lithuania or non-resident entity which has no permanent establishment in Lithuania that holds such Notes ("**Non-Lithuanian Holder**").

As used in the preceding sentence, a "**non-resident individual**" means an individual, whose personal, social or economic interests are located outside Lithuania and who is present in Lithuania for less than 183 days in the relevant tax period and less than 280 days in two consecutive tax periods, and a "**non-resident entity**" means an entity which is not legally established in Lithuania and has no permanent establishment.

The summary does not purport to be a comprehensive description of all the tax consequences that may be relevant for making a decision to purchase, own or dispose of Notes. The summary is based on the tax laws of Lithuania as in effect on the present date.

Taxation of Payments

Payments in respect of principal and interest on the Notes to a Non-Lithuanian Holder are not subject to Lithuanian withholding tax.

Taxation on Disposition of Notes

The disposition of Notes by a Non-Lithuanian Holder will not be subject to any Lithuanian income or capital gains tax.

Registration and Stamp Duty

Transfers of Notes will not be subject to any registration or stamp duty in Lithuania. Prospective purchasers of Notes are advised to consult their own tax advisers concerning the overall Lithuanian tax consequences of the ownership of Notes.

EU Savings Directive

The European Union has adopted a Directive regarding the taxation of savings income. The Directive requires Member States of the EU ("**Member States**") to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual or to certain other persons in another Member State, except that Belgium, Luxembourg and Austria may instead impose a withholding tax system for a transitional period unless during such period they elect to do otherwise.

SUBSCRIPTION AND SALE

Credit Suisse International (the "**Dealer**") has, in a subscription agreement (the "**Subscription Agreement**") dated 31 March 2009, agreed to subscribe and pay for the Further Notes at their issue price of 100 per cent. of their principal amount plus accrued interest from, and including, 9 March 2009, to but excluding, 31 March 2009, less fees and commissions payable in connection with the issue of the Further Notes. The Issuer has agreed to indemnify the Dealer against certain liabilities in connection with the issue of the Further Notes.

The Further Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Further Notes are subject to US tax law requirements. The Dealer has agreed that, except as permitted under the Subscription Agreement, it will not offer, sell or deliver any Further Notes within the United States or to or for the account or benefit of US persons, except as permitted by the Subscription Agreement.

In addition, until 40 days after the commencement of the offering, an offer or sale of Further Notes within the United States by any dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act.

The Dealer has represented and agreed that it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 with respect to anything done by it in relation to the Further Notes in, from or otherwise involving the United Kingdom.

Neither this Offering Circular nor any other material relating to the offering of the Further Notes may be utilised in connection with any offer of the Further Notes within the Republic of Lithuania, except in compliance with all applicable laws of the Republic of Lithuania.

Each purchaser of Further Notes must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers or sells Further Notes or possesses or distributes this Offering Circular or any part of it and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of Further Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales and neither the Issuer nor the Dealer shall have any responsibility therefor.

GENERAL INFORMATION

1. The Further Notes have been accepted for clearance through the Clearstream, Luxembourg and Euroclear systems. From and including the Issue Date to and including the Exchange Date, the Common Code of the Further Notes is 042025135 and the ISIN of the Further Notes is XS0420251356. Following the Exchange Date, the Common Code of the Notes is 041008393 and the ISIN is XS0410083934.

2. Application has been made to list the Further Notes on the Luxembourg Stock Exchange. As long as any of the Notes are listed on the Luxembourg Stock Exchange, the Issuer will maintain a paying agent (which may be the Fiscal Agent) in Luxembourg. Copies (and English translations where the documents in question are not in English) of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the offices of the Paying Agent in Luxembourg as long as any of the Notes are listed on the Luxembourg Stock Exchange:

   2.1 the Fiscal Agency Agreement, which includes the forms of the Global Notes; and

   2.2 English translations of the authorisations referred to in item 4 below.

   This Offering Circular will be published on the website of the Luxembourg Stock Exhange (www.bourse.lu).

3. The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue of, and performance of its obligations under, the Further Notes.

4. The issue of the Further Notes is being made pursuant to The Law on State Debt of the Republic of Lithuania and shall not cause a breach of the net borrowing ceiling specified in Law No. XI-96 of 22 December 2008.

5. The Issuer is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Further Notes nor, so far as the Issuer is aware, is any such litigation or arbitration pending or threatened.

6. The Notes, Receipts and Coupons will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.".

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