

news2bizLATVIA

| No 346 | 29 October 2012 | Creating transparency in emerging markets since 1991 | www.news2biz.com |



What took Denmark 50 years people have done in 10-15 years here.

Jakob Hauptmann of BAC Metal **PAGE 2**

MANUFACTURING

Danish sock manufacturer grants more independence to its Latvian plant **PAGE 4**

FINANCE

Not again! Rumours of possible closure haunt another Latvian bank **PAGE 5**

PROPERTY & CONSTRUCTION

Sotheby's completes

Baltic coverage in Vilnius **PAGE 6**

ENERGY & RESOURCES

Long, cold and expensive winter ahead for Latvia **PAGE 7**

TRANSPORT & LOGISTICS

British rail freight company reportedly considering the Latvian market **PAGE 7**

FOOD & AGRICULTURE

Local mill Dobeles Dzirnavnieks starts supplies to McDonald's **PAGE 8**

IT & TELECOM

Medroom.lv opens an online pharmacy **PAGE 9**

RETAIL & SERVICES

The other ISO: International Shopfitting Organisation helps retailers sell more merchandise **PAGE 12**

ECONOMY & POLITICS

Saeima lends initial support to the 2013 state budget **PAGE 14**

Bonnier Group/Äripäev publishes similar business reports on Poland, Estonia, Lithuania and China. As a subscriber you have access to your country report ten years back through our on-line archives at www.news2biz.com. Multiple user access available – write contact@news2biz.com or phone +372 667 0251.



This year, the Swedish Business Awards are awarded in four categories – and the competition is fiercer than ever. Photo: Swedish Business Awards

Celebrating Swedish business in Latvia

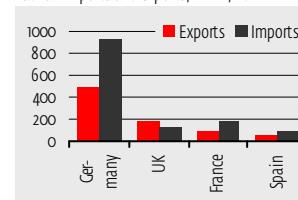
The annual Swedish Business Awards is becoming more and more prestigious. This year, the awards were presented by the President of Latvia Andris Berzins and the competition reached almost a hundred companies. news2biz presents an overview of the awards and an interview with the winner of the Sustainable Growth Award, Swedish book printer Livonia Print. **PAGE 2**

Linking Spain and Latvia

Spain and Latvia are not the likeliest business partners, as their very limited trade shows. But Pablo Criado, an enthusiastic Spanish expat, believes that the two countries have a much larger potential and aims to foster closer business ties. **PAGE 10**

Small trade partner

Latvian imports and exports, LVLm, 2011



Source: Centrālā statistikas pārvalde

Right size for Latvia

Latvia has often been called a great destination for Nordic SMEs, so news2biz spoke with one. Danish BAC Metal shares with us its insights from more than a decade in the Latvian market. **PAGE 2**

Most important updated key figures in this issue

Construction price index **PAGE 17**

Money supply, credit **PAGE 18**

Foreign trade **PAGE 18**

SEE ALL KEY FIGURES PAGES 17-19

ALSO IN THIS ISSUE

- Converging expectations promise more M&A deals **PAGE 5**
- Lithuanian voters say no, but Latvia still is for Visaginas NPP **PAGE 7**
- Top Estonian logistics company acquires Latvian peer **PAGE 8**
- DK Daugava sells its retail store chain, still seeks investors **PAGE 9**
- Samlerhuset cashes in on national sentiment **PAGE 9**
- Retail Baltic looks at the current Latvian retail market **PAGE 14**
- One step closer to EUR: Latvia meets the inflation criterion **PAGE 15**

EVENTS **PAGE 15**

- Seminars, luncheons, meetings and conferences in Riga

MANUFACTURING

PRINTING

Livonia Print wins Swedish Business Award

The Swedish Business Awards in Latvia are becoming increasingly popular. Held for the fourth year in a row, this year the contest received record-high 98 entries in four categories.

The event was opened by President of Latvia Andris Berzins, who also presented the awards. The largest competition was in the Sustainable Growth Award; a total of 30 companies competed for the award which was won by the Swedish owned and run book printing house **Livonia Print**.



President of Latvia Andris Berzins presented the awards and opened the ceremony. Photo: President.lv

The Social Responsibility Initiative of the Year went to the state-owned IT and telecom operator **Lattelecom** with its Pieslēdzies, Latvija! (Get connected, Latvia!) programme. The programme provides

free computer literacy courses to elderly Latvians.

The winner of the Young Entrepreneur of the Year was Toms Erenpreiss, a young Latvian businessman who is producing hand-made, retro-styled bicycles inspired by his great-grandfather's legendary Latvian bicycle brand **Erenpreiss**.

Finally, new for this year was the Environmental Award, which went to the local household chemicals producer **Spodriba** for its new eco-friendly cleaning products line.

news2biz spoke with Trond Erik Isaksen, managing director of Livonia Print, to learn more about his company.

► Why did you choose this particular business and why did you decide on Latvia?

I chose this business because I was educated in this field. I went for Latvia because I already was working with a printing house in Latvia – so, when I started my own business, I already had contacts. I had been working with Latvia for ten years; we started the printing house six years ago.

► What have been the main challenges you have faced in your business?

The main challenge has been to start from zero; to get all the machines, set up production and to keep growing.

We train the people who work with us every day. At the same time, we have also been lucky enough to

find skilled workers which has allowed us to save time, energy and money. Currently, however, we take people from the street and train them ourselves.

► What are your main markets and how do you compete in them?

99% of our output goes to exports, and Scandinavia is our main market. We were founded from the very start as an export-oriented company.

Compared to Scandinavian printers, we are able to deliver lower prices. Compared to China, we deliver high quality and delivering the job at the right time.

► Who are your customers, how long have they been with you and how do they learn about you?

The biggest part – more than a half – of our turnover comes from long-term customers who have been with us for years. Most of our customers are referred to us by our existing customers.

Livonia Print is one of the largest book printing houses in the Baltics. It offers a full range of services, including both printing and binding the books, and currently employs 293 workers. Its production facility is located in Riga and in 2010 it produced 4,000 titles and a total of 14.25m books. Its turnover reached EUR 20.35m.

We have talked to

Trond Erik Isaksen trond@livoniaprint.lv

Tel +371 22 300 001 (mobile)

METAL

BAC Metal: made-to-order metal products since 1997

Even though Latvia has attracted its share of large multinational companies, it can be an even more attractive destination for small and medium enterprises. Often keeping a low profile, they move to Latvia to take advantage of its lower production costs and closeness to the rest of Europe.

The Danish owned and run metal processor **BAC Metal** is a good example of such a company. It has been working in Latvia since 1997, producing made-to-order metal parts for its Danish clients. Located in Jelgava, an industrial centre 40 km from Riga, it specialises on small and medium orders and can deliver fast results at acceptable prices.

"Our main export market is Denmark, but many things are re-exported from there," says Jakob Hauptmann, co-owner and director of BAC Metal, to news2biz. "We are a sub-supplier and we produce many parts for our customers. We do not sell anything locally; we only do some little local orders for other Danish companies in Latvia."

So why did BAC Metal choose Latvia?

"First and foremost, it is because of the lower labour costs," Hauptmann notes. "But we do not compete with companies in Denmark; our competitors are in countries like Poland, Ukraine and maybe

China, so we cannot just ask any price we want."

"Our main advantage is that I speak Danish. I can speak with a customer in Denmark and understand what they mean. When we reach an agreement, it is an agreement; if we have a problem, we can sit down and see how we can solve that. In some companies over here, the mentality is quite different."

Frugal and prudent

The company has survived both the boom years and the recession. The key to the company's sustainability has been its thrifty management style and focus on long-term clients.

"We have been working with most of our clients for many years; we seldom have a client for just one order," says Hauptmann. "We do not do much to find new clients; most of our clients get to us through our existing clients. Some clients have even recommended us to their competitors."

The company always buys its machinery used and pays cash for it; it only has two small loans for its buildings. Also, disregarding the common wisdom that encourages to outsource, the company prefers keeping as much of its operations in-house as possible.

In part this self-reliance is encouraged by the specific nature of the plant's equipment. As it is imported from different European countries, the technicians needed to repair it also come from abroad.

"When we had a French technician over installing a new piece of equipment, I was filming all the time what he was doing. I then gave the video to my own worker, telling him to study it, as the next time, he will have to do it," Hauptmann notes.



BAC Metal uses a laser cutter that allows it to take smaller offers – and, as it is completely paid for, it does not have to maintain high volumes. Photo: news2biz

On the other hand, doing things themselves also means that the company can be sure of the quality.

"My experience shows that it often is the same work to do it yourself than to ask somebody to do it for you. When we were expanding our production premises, we hired a small local company to do the foundation. But when they started to put up the metal anchors, just two out of eighteen stood correctly. I had to ask my own people to replace them. So I always say – maybe I will not get it much cheaper, but at least I will know how it is made."

Of course, during the boom years, BAC Metal received numerous offers for additional funding.

"The banks were offering us money all the time, saying: 'Maybe you want to buy a house or an apartment?' But the prices for real estate were almost as high as in Denmark, and I thought – there is no way how that can be right. So I was not tempted."

This has proved to be a good decision: when the recession hit, the company's turnover dropped. But, as it had few fixed costs, it could continue operating even with the lower turnover.

Unfinished changes

As Hauptmann has been in Latvia for more than a decade, he has also seen it change from a post-Soviet country to a free market economy.

"Everything has changed. I remember that in the beginning, we could not call Denmark; you had to call an operator and they would call you back in half an hour, connecting you manually. What took Denmark 50 years people have done in 10-15 years here; it has been rapid development."

All the rapid development notwithstanding, Hauptmann believes that Latvia still has not caught up with Europe: "Everybody who goes abroad can still see the gap." He notes that Latvia has quickly bridged the main differences. The ones that remain, however, will be much more difficult to overcome.

"One of the big fields that has a huge influence on everything is corruption," he admits. "That has to change, and that will be difficult to change. Only Latvians themselves can do that. If the corruption level does not change, there will be no further development and things will stay the same."

BAC Metal itself has always insisted on operating completely legally and paying all the necessary taxes.

"We used to get regular visits from the tax department. One day some ten years ago they came and checked everything. I told them that they could freely go around the production plant and talk to the workers, so they did that," Hauptmann remembers.

”

If the corruption level does not change, there will be no further development.

Jakob Hauptmann of BAC Metal

"When they wanted to leave, I stopped them and asked to explain what they found. The tax inspector turned around, looked at me and told me: 'You even have your cleaning lady officially hired and paying taxes!' She shook her head in disbelief: if I was so stupid to have the cleaning lady officially hired, there

could not be anything wrong. I have not heard from them since."

"Of course, paying all the taxes is expensive, so we cannot compete in the local market," he adds. "We also could not afford to buy new machinery." Still, considering that the focus on exports and the low operating costs have been the very things that have helped the company to survive the recession, its honesty indeed has paid off.

Much like other business people, Hauptmann also agrees that finding skilled people is another problem.

"Most of the people who call themselves professional builders or workers are self-taught. This, of course, is good, but many of them miss lots of basic knowledge."

Moreover, the current Latvian educational system does little to solve this problem, as the study programs are inadequate and incomplete.

"I see lots of people who say they have a university degree, but they have only taken it as an evening course once a week. It is good that people are doing it and I understand that this is often the only way how they can work and study at the same time. But you cannot compare this education with Western European university degrees."

"People here have been fighting much more to get an education, and I admire them for that. But this is something that the government needs to look into and say: 'The only resource we have is people. So, if we

want Latvia to develop the last bit, we need to invest in them.'"

Finally, Hauptmann also warns that the rising Latvian immigration will become a serious problem.

"We all know that all the good people have left the country. After some years, the shrinking workforce in Latvia will become a problem."

As the workforce shrinks, the remaining workers could start demanding higher salaries – much like during the boom years.

"Back in the boom years, many factories had to close down because they could not find workers. We, too, had trouble finding good workers. Of course, the salaries have to rise, but the companies should be able to adapt," he concludes.

We have talked to

Jakob Hauptmann jh@bacmetal.lv

Tel + 371 29 234 120 (mobile)

SOCKS

Greater independence for MP Socks Latvian plant

Danish **Martin Pedersen Strømpefabrik** or **MP Socks** has had production in its own name in Tukums, 60 km west of Riga, since 2008, but after a DKK 1m loss in 2011, the company is now facing a turnaround which will mean greater independence for the Latvian plant (see no 297 page 2).

"We will no longer have any detailed management from Denmark, but leave the running of the plant up to the management there. It will turn it into a stand-alone plant,

which is how it should be. If we had to meddle in everything they do, there would be no reason to move production to Latvia," says Poul Plougmann, who has stepped in as chairman of the supervisory board and also taking care of management functions until the company has found a new CEO.



Danish sock manufacturer MP Socks has decided to grant more independence to its Tukums production plant.

Photo: MP Socks.

Plougmann adds that MP Socks wants to offer co-ownership for the Latvian management in order to secure motivation and stability in the unit.

Right now the company is moving production equipment from Tjørring near Herning in Western Denmark to Tukums and according to the chairman of the board the last machines will have left Denmark before Christmas. This will leave 10-15 staff in Tjørring whereas the staff level in Tukums will be 60-70. In Tjørring, the company will still be doing production development and production maturing as well as sales and administration. Production maturing means that the company keeps a couple of technicians and a

couple of sock machines on the premises so that all new productions are thoroughly tested in Denmark before Tukums gets the go-ahead.

In connection with Plougmann taking over the position as chairman of the supervisory board, the former CEO and co-owner Henriette Funch has left the company and this exit has meant that the company says good bye to its ambitions of adding a kidswear line to the core sock line.

"For Latvia, this will have very little impact, as indeed for the entire company. The kidswear line and the Funch and Footsie brands have supplied very few per cent of the turnover. As for the Funch brand, we were starting to phase it in, but I believe that building a kidswear brand is much too big a task for a relatively small company like ours. You need more muscles," says Poul Plougmann.

According to Plougmann, MP Socks' future is in developing the concept of socks to a new level.

"For the last decade there has been a tremendous development in clothes and footwear, adding, e.g., moisture and heat transporting technologies to the products. We haven't seen that development in socks and this is what we have to start working on. We are well equipped to do so as we have 75 years of experience in making socks," says Plougmann.

Also, the company must focus on developing sales in existing markets.

"We have one market which is doing really well and if we can just

lift a couple of neighbouring markets up to that level, we would be very well off. So, the task is doable indeed," says Plougmann.

Which is probably why Plougmann took it upon himself to carry it out in the first place. Plougmann has a background as an independent entrepreneur, but has also worked in management positions at **LEGO** and **Bang & Olufsen**.

We have talked to

Poul Plougmann poul.plougmann@btinternet.com

Tel +44 7429 08 3113 (mobile)

FINANCE

BANKING

Closure rumours plague another Latvian bank

It seems that lately hardly a year can pass by without some stir-up in the Latvian banking system. 2011 saw the collapse of **Latvijas Krajbanka**, followed by a **Swedbank** rumour-fuelled bank run less than a month later (see no 328 page 3).

The latest bank to be rumoured as having financial troubles is nowhere near the size – and impact – of Swedbank or even Latvijas Krajbanka. Still, the news that the Icelandic-owned **Norvik banka** could be facing closure have caused some minor ripples in the Latvian financial system.

The bank's largest shareholders currently are the Icelandic investment company **Straumborg ehf.** and

two Latvian individuals. Allegedly, Straumborg is facing financial difficulties and cannot keep the bank's basic capital at the legally required level. Therefore, if it does not increase its basic capital by LVL 50m, it could face closure.

The bank's official comment on the matter does not go into much detail. "The bank's current operations are stable and we continue with our normal everyday operations," it says. "Currently, the bank's capital exceeds the legal requirement."



Norvik banka, allegedly desperately in need for more cash, has received EUR 11.6m from Hungarian investor Sandor Demjak. Photo: Granir bank.

It should be noted that Straumborg ehf. has recently decreased its share in the bank. Previously, it held 50.15% of the bank's shares; now, its share has fallen to 19.82%. The other two Latvian owners each own 19.77%, while 40.64% is owned by undisclosed shareholders who each hold less than 10% of the total shares and appear to have stepped up to buy Straumborg's shares.

The bank has revealed the identity of one of its investors: Hungarian banker Sandor Demjak who has invested EUR 11.6m in the bank's

basic capital. This gives him slightly less than 5% of the bank's entire capital. "Mr Demjan has expressed his interest in obtaining a significant share in the bank's capital, but it would be too early to name any specific sums yet," says Valda Kipane, spokesperson for Norvik, to news2biz. "The talks with shareholders are still ongoing."

The bank's official explanation what it plans to do with the money also has been rather vague. One of the stated goals is to expand in Latvia and abroad.

"The investments will also be used to strengthen our existing market position, which includes expanding our existing market share – offering competitive services to corporate and private clients as well as providing attractive deposit rates," Kipane adds.

Demjan is well-known in Hungary for his banking businesses. He is the founder of real estate development company **TriGranit** and owner of Hungary's **Granit Bank**.

Norvik banka's gross asset value reached LVL 679.3m by the end of Q2 2012, making it the eighth largest Latvian bank. Like many other Latvian banks, it is suffering losses due to bad loans. However, unlike the larger Swedish banks which are the Latvian market leaders, its Icelandic owner apparently had trouble providing the necessary funding to compensate for the losses.

We have talked to:

Valda Kipane valda.kipane@norvik.lv

Tel +371 29 223 609 (direct)

M&A

Converging expectations promise more M&A deals

More M&A deals could materialise in the Baltics during the next 12 years due to converging expectations of buyers and sellers, a recent M&A survey claims, although such prospects could be undermined by indecisive sellers.

The survey, carried by **Sorainen** pan-Baltic law firm together with the national business dailies in the three Baltic countries (Verslo žinios, Äripäev and Dienas bizness), polled some 130 regional companies from various business sectors.

Although most of potential buyers (64%) would still seek to acquire a controlling stake in the target company, this share was by 10 percentage points higher in last year's survey.

"Baltic equity capital and venture capital funds are among the most eager investors today (not least because they are facing deadlines of investing their EU co-sponsored funds), and they most often acquire sizeable but still minority stakes, leaving the original owners in charge of the companies' day-to-day management," Sergej Butov, senior associate at Sorainen, explains the figures to news2biz.

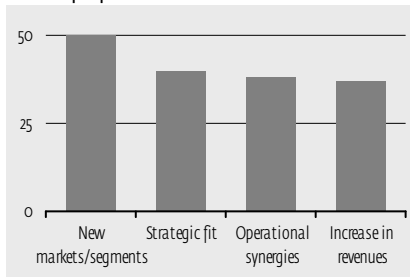
At the other end of the scale are potential sellers, almost half of whom (41%) are not sure how big a stake in the company they would be ready to part with. Such indecisiveness, according to Sorainen, rests on

the general lack of clear and predictable expectations about the economic environment during the next 12 months.

Companies that plan to attract new investments (43% of those polled, mostly operating in the energy, media, entertainment, telecom/media/technology and wholesale/retail trade sectors) plan to do so first of all by way of attracting strategic (29%) or private equity/venture capital (31%) investors.

Main reasons driving M&A

Number of responses



Sources: 2012 Baltic M&A Survey, Sorainen

Geographically, most active M&A actors promise to be Lithuanian companies: these plan to participate in 50% of potential sale and 36% of acquisition deals.

In terms of geographic expansion, the 2012 survey found that more companies want to broaden their growth horizons: the number of companies looking for acquisition targets at home or in the Baltics went down during the last year (from 63 to 51) while non-Baltic

markets (CEE, Nordics, CIS in the order of preference) are gaining prevalence (from 28 to 37).

"The Baltics with 7m population is indeed a small market, and when a company hits this ceiling, there's not much more to do than to expand elsewhere," Butov explains the trend. "In fact, many Baltic companies consider the whole region – not their own country – as their home market."

We have talked to

Sergej Butov sergej.butov@sorainen.com

Tel +370 5 2649 327 (direct)

Further info: the M&A survey is available from www.sorainen.com

PROPERTY & CONSTRUCTION

LUXURY PROPERTY Sotheby's completes Baltic coverage in Vilnius

Sotheby's International Realty up-market residential property broker added Lithuania to its Baltic map that so far included offices in Riga, Jurmala and Tallinn.

Like in the other two Baltic states, in Lithuania Sotheby's will focus on broking luxury residential property buy/sell and rent deals. Fittingly, the Vilnius office is located in Pirkliu klubas, the latest addition to the capital city's office area market and about most expensive.

With, understandably, little to say about its achievements in Lithuania so far, Vestards Rozenbergs,

owner of the Sotheby's franchise in the Baltics, has shared his experience with luxury property in the Baltics.



Vestards Rozenbergs: the current luxury property market is more active in Latvia, but Sotheby's sees the Baltics as a long-term market.

► What differences do you see between luxury residential market supply and demand among the three Baltic capitals?

The demand and supply is different in all three Baltic states due to domestic economic differences and also different patterns from foreign clients.

The size of local markets is one aspect of economic factors which influence local demand, then there's also the impact of the crisis between 2007 and 2010. For example, in terms of impact, Latvia experienced the biggest price reduction in real estate market and after the stabiliza-

tion, started from lower point, compared to Estonia and Lithuania.

From 2011, premium class market in Latvia has been more active than in Estonia and Lithuania as a result of rising demand from foreign buyers, due to investment support programme adopted in summer 2010. The demand from CIS buyers is therefore higher; Estonia on the other hand has a more Scandinavian clientele, but also within commercial real estate, due to conversion to EUR currency.

► Lithuania has more bigger cities (Vilnius, Kaunas, Klaipeda) than Latvia and Estonia – do you see it as a drawback in your business or an advantage?

The bigger size of cities or a country as such is beneficial in terms of potential market growth and local client growth in correlation with population size, when the economy stabilizes. There are regional differences in terms of what potential buyers are seeking – either primary residence, or investment or vacation home property, the latter more related to cities in resort areas, such as Klaipeda or Jurmala.

► Could you sum up Sotheby's experience in Latvia and Estonia so far? In what aspects were your expectations exceeded, and where did they fail to live up?

The experience is satisfactory, since we focus on long term business in accordance with the strategy and approach of brand in general.

Comparing Latvia and Estonia, Latvia's premium class market has been much more active due to the demand from foreigners, predominantly from CIS countries. From this year we see also a higher activity among local clients. The markets have been quite segmented – either budget class or premium class.

We have talked to

Vestards Rozenbergs

vestards.rozenbergs@balticsothebysrealty.com

Tel +371 2924 5002 (mobile)

ENERGY & RESOURCES

HEATING SEASON

Latvia prepares for a long and cold winter

This year, Latvia has been hit by an unusually early winter: the first snow fell by the end of October and at least in the northern regions of the country it shows no signs of melting. In addition to seriously compromising road safety, the unexpected arrival of the winter, coupled with rising natural gas prices, brings a weightier problem: larger heating bills.

In its Baltic household overview, **SEB** estimates that the heating costs in Riga could rise by 20% y-o-y this autumn and even up to 40-50% y-o-y this December. This would make the rising energy costs the main driver behind the Latvian inflation.

Even the existing heating costs are too high for many Latvians. This September, their debt for supplied

heating reached LVL 5m in Riga and LVL 23.91m in entire Latvia.

The problem is even more pressing because several local heating companies do not supply heating to houses with large debts. Flat owners in Kekava, a satellite town of Riga, have even decided to turn to drastic measures: forcibly removing the heating radiators from the flats of their non-paying neighbours.

In an attempt to somewhat solve the problem, Riga City Council has suggested to decrease the VAT for heating to 5%, effective immediately. The proposal has been flatly rejected by the Minister of Economy Daniels Pavluts, who believes that the decreased rate would increase the consumption of Russian natural gas and increase Latvia's dependence on foreign energy. Instead, Pavluts has encouraged the city council to focus more on increasing the energy efficiency of its housing and considering other sources of heating, such as biomass, which also costs less.

The current cost of heating in Riga reaches LVL 45.42/MWh without VAT. It is the cheapest rate in the Baltic capitals and one of the cheapest in Latvia.

NUCLEAR POWER

Latvia still firmly supports Visaginas NPP

On 14 October, Lithuania held an advisory referendum on the construction of the new Visaginas Nuclear Power Plant, and an over-

whelming 63% of the voters said 'no' to the plan.



The Lithuanian voters have rejected the Visaginas NPP project, but Latvia still lends its support to it. Picture: Lithuanian Ministry of Energy

The referendum is not legally binding, so the project's developer **Visagino Atomine Elektrine** has already announced that it will continue the preparatory works.

The referendum has not shaken Latvia's stand on the project, either. The Latvian PM Valdis Dombrovskis has confirmed that Latvia is still interested in the Visaginas project and awaits the reaction from its regional partners, whereas the Latvian Minister of Economy Daniels Pavluts has repeated that Latvia would be ready to join the project if it is economically justified and benefits the state.

Latvia would invest about EUR 1bn in the project, receiving a 20% share in the joint company. It is seen as an important step towards ensuring Latvia's energy independence, although it is not yet clear if it would also lead to lower electricity prices.

TRANSPORT & LOGISTICS

RAIL FREIGHT

Brits eyeing Latvian rail freight market

The Latvian rail authority Valsts dzelzceļa administrācija (VDA) reports that the UK-based rail freight carrier **Freightliner Group Ltd** could enter the Latvian rail freight market and start offering Eastern-Western freight connections. It would also use the Latvian ports.

The claim has been confirmed by the Latvian Ministry of Transportation, whereas Freightliner itself has neither confirmed nor denied it, explaining that it does not comment on speculation.

According to VDA, the company could decide on the move by the beginning of the next year, although the company is currently carrying out market research. If it decides to enter Latvia, it would create a local subsidiary. The Ministry of Transportation adds that Freightliner's existing clients have recommended Latvia as a good transit country for their cargo.

The company would face a few problems. First, it has no experience with the 1520mm rail gauge. Second, even though it has a EU rail operator licence, it may face considerable problems trying to obtain a Russian licence.

Freightliner is not the first company trying to enter the Latvian rail market. Earlier this year, Russian-Estonian **EuroRailTrans** announced

that it wants to become an operator in the Latvian rail freight market. However, it has not yet taken any further steps towards acquiring the operator's licence.

The largest rail freight operator in the Latvian market remains the state-owned **LDz Cargo**, which has commented that it is not afraid of additional competition. In fact, as LDz Cargo mainly focuses on container freight, it claims that it would gladly welcome a new carrier which would work with new cargo and attract more volume to the entire Latvian rail infrastructure.

ACQUISITIONS

CF&S Estonia acquires Latvian peer

CF&S Estonia, one of the top logistics companies in Estonia, acquired **Transekspedicija LV**, the Latvian subsidiary of the Lithuanian **Transekspedicija**, for an undisclosed price in October.

CF&S had a subsidiary in Latvia also before; though the purchase gives Estonians a much larger client base and bigger share of the logistics market of the southern neighbour. "The acquisition lets us expand much faster and get a larger share quicker compared to the organical growth," says Kuno Väin, member of the board of CF&S, who is also to join the board of Transekspedicija LV in the end of the year, to news2biz.

According to Väin, the operations of Transekspedicija LV will now be

merged with those of CF&S' Latvian unit, and the companies will continue to operate under CF&S brand. The merger raises CF&S to the heavy league of logistics enterprises in Latvia in terms of volume of operations as well as of the count of rolling stock.

"Transekspedicija had 18 own trucks in Latvia, and along with rented trucks, the total count reaches 40," says Väin. "Additionally, we plan to use the railroad rolling stock we have in Estonia in Latvia as well, which adds a new dimension to the operations there."

Last year, CF&S invested EUR 2.3m in railroad cars (see news2biz ESTONIA no 338 page 7).

Väin does not rule out further expansion of the company but says it will most probably not happen in the near future. "At the moment, we are very busy with merging two structures in Latvia, and I guess that task keeps us busy for quite a while," he notes.



Combined harvesters on the rail car of CF&S. The company now adds railroad logistics operations in Latvia as well. Photo: CF&S

A month ago, CF&S expanded its operations in the eastern direction as

well, adding an office in St. Petersburg, Russia, to the company's first representation which was opened in Moscow 6 years ago.

CF&S Estonia turned over EUR 36.4m, consolidated, in 2011, up by 22.2% compared to the previous year. The company's net profit rose by 53.6% to EUR 2.6m.

Transekspedicija LV turned over EUR 17.2m, profiting EUR 0.9m.

CF&S belongs to **Baltic Maritime Logistics Group**, the holding company of five Estonian businessmen, which also owns majority in **ESTEVE Terminal**, the terminal operator in the Southern port of Paldiski and **ESTEVE Stevedoring**, offering stevedoring services for cruise ships in the Vanasadam port of Tallinn.

We have talked to

Kuno Väin kuno.vain@cfs.ee

Tel +372 666 4400 (switchboard)

FOOD & AGRICULTURE

CEREALS

Dobeles Dzirnāvniesks starts supplies to McDonald's

Latvian grain processor Dobeles Dzirnāvniesks has signed a supply agreement with **Fresh Start Bakeries** (FSB). Dobeles Dzirnāvniesks will be supplying flour to FSB's bakeries in Poland and Sweden, which in turn supply hamburger buns to the **McDonald's** fast food restaurant chain in the Baltics and parts of Scandinavia, respectively.

"We have been investing in expansion and upgrades for the last couple of years. In 2011, we opened the most advanced wheat mill in the Baltics. With the new technology, we were ready for new challenges. As a result, we started co-operation with McDonald's, which has very strict quality requirements," says Maija Brikmāne, head of marketing for Dobeles Dzirnāvniesks, to news2biz.

"We also underwent the certification of our grain suppliers according to the McDonald's standards," she adds.

Neither Dobeles Dzirnāvniesks nor McDonald's elaborated how large the deal is and whether it could be expanded in the future.

Dobeles Dzirnāvniesks is not the first Latvian or Baltic supplier to McDonald's. The Russian-owned Latvian dairy processor **Food Union** supplies milk, Estonian **Tartu Mill** also supplies flour and Lithuanian **UAB Salprone** supplies lettuce and vegetables.

Dobeles Dzirnāvniesks exports 44% of its output, having grown from 22% in 2009. In addition to European countries, it is also exporting its products to more exotic destinations such as Asia and Africa. The company believes that these markets have the highest growth potential.

Unfortunately, news2biz could not obtain a comment from McDonald's.

We have talked to:

Maija Brikmāne maija@dzirnavnieks.lv

Tel +371 29 103 005 (mobile)

SALES**DK Daugava sells its retail store chain**

The Latvian bread and dairy producer **DK Daugava** has sold an 80% share in its retail store chain to the Lithuanian businessman Vilius Kaikaris. Kaikaris has had a food wholesale company in Latvia since 2006. He also owns a logistics business in Lithuania.

The owner of DK Daugava Aigars Vaivars has explained that, from now on, he will focus on food production, rather than retail, which is too hard and complicated. The store chain would still carry Daugava's dairy products and bread. It previously also carried Daugava-branded meat products not produced by DK Daugava itself, but this May the entire line was dropped, as Vaivars claimed that its supplier could not deliver the necessary quality and quantity.

Vaivars is also still looking for buyers for the main food processing company. Earlier this year, he already tried selling his company, explaining that he aims to attract an investor that could help it enter the Russian market (see no 341 page 8). The attempted sale, however, also raised rumours that DK Daugava is experiencing serious financial hardship. The company maintains that the aim of the sale is to enter the Russian market and, even though it has reportedly received numerous offers, it has not been satisfied with them.

IT & TELECOM**NEW OPENINGS****Medroom.lv opens Internet pharmacy**

The locally-owned company behind the Latvian online contact lens shop **manaslecas.lv** has opened another online store: **medroom.lv**. Even though medroom.lv bills itself as an Internet pharmacy, it does not yet offer over-the-counter or prescription drugs; instead, its current offerings are limited to medicine goods, hygiene products, vitamins, food supplements and the like. Eventually, though, the company would like to start offering over-the-counter drugs.

"Our company already owns several retail brands," says Inese Kaktina, co-owner of medroom.lv, to news2biz. "We have experience in optics, running manaslecas.lv. When we started selling eyesight-improving food supplements on our online store, we saw increased interest from our buyers, so we decided that it is time to expand."

Kaktina lists several advantages the online pharmacy has over its physical counterpart. "First and foremost it is the price. The second is service. We have found that people spend lots of time reading instructions and product sheets, which is something you cannot easily do in a pharmacy. The third is that our shop affords more privacy. In smaller Latvian towns and villages, the local pharmacist often knows all

his customers by name, so people are too shy to ask for some preparations, fearing that the entire town will know it the next day."

Although medroom.lv has been online for just a month, it already has found an unexpected group of customers: Latvians who live abroad.

"The prices of drugs and health products are much higher in other countries, and they do not always know the language of their new host countries well enough to fully understand the product sheets. So they rather prefer to buy them online in Latvia," Kaktina explains.



One of the key advantages of an online pharmacy – or, rather, a food supplements store – is that the customers can order in the privacy of their own homes.

Picture: medroom.lv

This means, however, that medroom.lv could run into problems with customs as it is trying to ship abroad food supplements which might not be licenced in the destination country.

"We are yet to run into these problems, although we are aware that they may arise in the future. This is a new field for us and we still

are learning as we go," Kaktina admits.

As the online store does not sell actual drugs, the regulations are somewhat more relaxed, although Kaktina explains that both the store's workers and the supplements it sells have to abide by certain limitations.

"Every person who works in this online pharmacy needs to follow the health regulations set forth by [the food safety watchdog – ed.] **Partikas un veterinārais dienests**. All the food supplements we sell also have to be fully certified and registered, so it is not that we can sell anything we feel like selling."

The company's older undertaking manaslecas.lv has won two customer appreciation awards in a row, and medroom.lv hopes it can replicate its success. In addition to the Internet optics store, the company also owns the largest regional optics store chain Optikas saloni Metropole as well as two stores – Outlet Optika and Optikas studija Lonija – in Riga.

We have talked to

Inese Kaktina inese@medroom.lv

Tel +371 259 08 454 (mobile)

ONLINE RETAIL**Samlerhuset grows on national commemoration**

Since 2008, Norwegian-owned and Dutch-registered coin collecting company **Samlerhuset group** has been operating in Latvia, first at a physical shop in Riga and since a couple of years solely through online sales and mail order.

The group started in the Baltics by expanding from Helsinki to Tallinn in 2003 and in 2009, Vilnius was also added, which somewhat paradoxically is the company's largest representation in the Baltics today.

The Baltic and Latvian markets are still small in comparison with major markets like Norway, but demand is growing and like other markets, clients want products with national motives.



news2biz speaks to Håkan Forsgård, Head of PR at Samlerhuset Group.

Photo: Samlerhuset

► **Mr Forsgård, please explain what Samlerhuset is doing in the Baltics.**

Samlerhuset Group's business is to sell coin and medal subscriptions through direct marketing. In short, Samlerhuset is a mail order company. In some countries we launched the business with the help of a local store – we had stores in cities such as Helsinki, Tallinn and Riga – but later closed those stores in order to focus on our main activities, which is sending our products home to our customers. That way we make it easier and more comfortable for them to collect our products, not having to go out and search for the products themselves. We are keenly aware of how important and convenient the internet is

as a form of shopping. The use of direct channels means we do not build fixed costs which could mean higher prices to customers and lower profits to us.

► **Where are you employees located physically?**

The Baltics is a growing market and we currently have 12 people working in these countries. We have 2 persons managing the business in Estonia, 2 in Latvia and 8 in Lithuania. The office in Vilnius is our Baltic headquarters, i.e., the place where the strategy and the campaigning for all the Baltic countries are decided.

► **How do you create sales in the Baltics?**

We offer our products to new and existing customers through direct mail, e-mail, banners and sales on our home page. We also sell through telemarketing. The idea is to create active and delighted customers, who want to continue doing business with us, ordering coins and medals.

► **Who are your customers in the Baltics?**

People interested in history and culture – and wanting to remember events through coins and medals. The typical customer is a man over 50, but many women and younger people are also interested in collecting coins. It very much depends on the kind of products we offer, of course. In some markets we also sell

jewellery, such as necklaces, to a certain extent.

► **You are present in a number of markets – how are the Baltic markets different?**

The Baltic markets are very small compared to, for example Poland, Finland, the Czech Republic and Norway. Otherwise we follow the same business concept in every market where we operate, and that is creating collections for collectors and making them as delighted as only possible. A common trait in all markets is that collectors are mainly interested in coins and medals with a national motive. This is also the case in the Baltics.

► **Are the products exclusively connected to an occasion or do you also sell 'international' products in the Baltics?**

Even though a majority of our customers as mentioned earlier are interested in national themes and collections, we also offer a great variety of international products, ranging from really old coins over the 2 euro commemorative coins to the latest Olympic commemorative coins (Sochi 2014). We also offer commemorative ingots.

► **How come Lithuania has emerged as the largest market in the Baltics, even though you started six years before in Estonia and five years before in Latvia?**

Estonia is still the largest market as far as turnover is concerned. But

Lithuania is definitely a market where the interest towards coin collecting is growing.

Samlerhuset Group's key business activity is the direct marketing of coins and commemorative medals, and other related collectibles to national markets. Samlerhuset has 400 employees across the group and turns over EUR 160m.

The long-term vision for the group is to be a global coin collection company and to make this happen it enters new markets on a regular basis, but based on what Samlerhuset calls a very careful and analytical step-by-step approach.

In order to raise the general interest towards coins and coin collecting, Samlerhuset has also been involved in several coin exhibitions and numismatic events, the latest being the tour of the legendary 1933 double eagle with the US Smithsonian institution, which gave Samlerhuset Group a bronze Stevie award in 2012.

We have talked to

Håkan Forsgård hakan.forsgard@nordicmoneta.com

Tel +358-50-4911821 (mobile)

RETAIL & SERVICE

BUSINESS CONTACTS

Balticco sees future in linking Latvia and Spain

When you think of Latvia's trade partners, Spain seldom comes to mind. But newly-founded **Baltic Commercial Office (Balticco)**, run by

the Spanish expat Pablo Criado, believes that there is much potential for doing business between the two countries – and has set about to make it happen.

Criado is no stranger to Latvia. He first came to Riga in 2001, just in time for Riga's 800-year anniversary. "It was the best time to come: the city was really beautiful, people were happy, so I fell in love with Riga and Latvia and kept going back every year. One of these times I met my wife," says Pablo Criado to news2biz.

Before coming to Latvia, Criado – a lawyer and economist by training – had his own law firm in Spain. However, having grown tired of the job, he decided it was time for a change.

"The recession in Spain made that decision easier," Criado admits. "If it was not for the recession, I would still be living in Spain and would not have come here. If everything is going great, you do not want to change."

He believes that he has come at the right time: "I had looked into buying something here a few years ago, but then the prices were much too high. Now, I knew that Latvia is already growing again, so I understood that this is now or never. And, when everything comes back to normal, I will be in the right place."

Criado also found a Spanish partner who had been living in Riga for five years and had considered setting up a similar venture before.

His Latvian partner, like him, is also an economist.

Promising market

Even though both Spain and Latvia have been hit by the recession, Criado firmly believes that both markets have good growth prospects.

"The Baltic market is very interesting, and it has promising future. I think it will come back to pre-crisis level, only on much more stable foundation."

"One of the advantages is geographic location. I am not the first one to say it, but it is true: it is a bridge between the East and the West. So the commercial tradition has always been really important. And, even though the world is now so globalised, a good location still is important."



Spain is not a significant trade partner for Latvia, but Pablo Criado believes that both countries have good potential.

Photo: Baltico

In fact, that is one thing Latvia has in common with Spain. "In Spain, we see something like that, too: we are a bridge between Africa and Europe and South America and Europe, because of our cultural similarities."

In addition to just being close to Russia, people in the Baltics also understand the country: "If there is someone who knows how Russians work, it is people from the Baltics. Many Spanish companies are scared of going directly to Russia; they do not know how they work, and they are afraid of being cheated. So that is one thing we tell our Spanish clients: you can find the right partner to help you with that in the Baltics."

Criado also points out that Latvia is more than just a link to Russia: it is also very close to the Nordic countries. "Even though we have lots of Scandinavian people living in Spain, it is still a very different culture for us, so there is not much business between Spain and Scandinavia. I see that Riga is the perfect place where to settle down and build contacts, starting with Finland, then expanding to Sweden and Norway. Moreover, you already have lots of Nordic business people in the Baltics. So if you put together both markets, it is really interesting."

This combined advantage can make the 5.5m Baltic market interesting to companies from Spain with its 45m people.

"We tell our clients that you cannot expect huge results right here, but you can find many different people and cultures here and try out your product: if Latvians and Latvian Russians like it, odds are Scandinavians and Russians will like it, too. It can be an interesting test market."

"Spanish companies now are very cost-conscious. If you cannot afford

doing market research in Russia, you can do it here, and the results will be quite accurate. So that is what we are selling, and it seems to be working: we have had many interested companies."

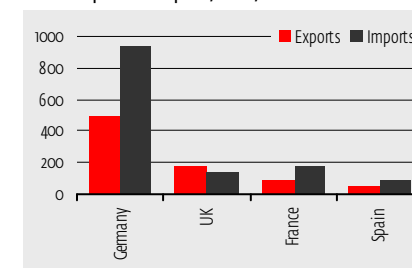
Going both ways

Having started with bringing Spanish companies to Latvia, Baltico is now looking for Latvians who could sell their products in Spain.

"Of course, there already is timber that is selling well in Spain, but we are looking for new things. For example, one really interesting thing we see is wooden toys. We have been checking one company which makes beautiful children's bicycles from wood. And there is market for that: people in Spain do not want the metal toys anymore because they can be dangerous. The quality is much better than what you would find in Spain, and the prices are still lower."

Small trade partner

Latvian imports and exports, LVLm, 2011



Source: Centraļā statistikas parvalde

Criado points out that, for Latvian companies, Spain can still be an attractive export destination even as it is undergoing its recession.

"Spain still has lots of people with lots of money. The market is so big that I do not see any Latvian company covering the entire Spanish market. So we focus on those areas of Spain where people still have more money. It leaves us with a market of some 20m people."

So why would Latvian companies want to export to Spain? For one, Criado notes that it can diversify their export portfolio.

"The companies who can export already do export to Scandinavia and Germany, so they already have the experience. That can help them to export to Spain, because we are not that different."

Spanish market can offer some seasonal advantages. Balticco works with a construction materials company which already exports to Scandinavia and Germany, but its business is seasonal: it has to stop in winter, because then construction and refurbishment stops and there is no demand. In the Spanish climate, the work does not stop in the winter, so the company can continue working and exporting.

Finally, in stark contrast to some countries where Latvian products are viewed with suspicion, Criado claims that the "Made in Latvia" label serves as an additional endorsement.

"People in Spain do not know where Latvia is, but, when we pre-

sent Latvian products, they always think they have high quality. We see things coming from the Northern Europe as higher in quality. So when we say them Latvia is in the Northern Europe, they respond very favourably," Criado explains. "They think of innovative products such as **Ericcson** or **Nokia**, something we never had in Spain – and we can work with that."

As to his experience with opening and running a business in Latvia, Criado notes that it has been overwhelmingly positive.



If you want to find the best place in the Baltics to work with the three countries, it is Riga.

Pablo Criado of Balticco

He lists the advantages: "Starting business in Latvia is very easy, especially compared with Spain. You can have a company registered in one week; in Spain it takes a month and costs three times more. Office space is cheaper. There is lots of support from the government, again, unlike in Spain. Everybody receives us very warmly, and it is not difficult for us to open doors. Everybody speaks English, so we can get by without even knowing Latvian. I really think it would be much harder for a Latvian to open business in Spain."

As to the advantages Latvia has over the other Baltic countries, Criado mentions Riga: "It is right in the middle and very well connected. So if you want to find the best place in the Baltics to work with the three countries, it is Riga."

"Another advantage for foreigners like us is Riga's large Russian population. You really get much more information from the market that way – which is not the case in Lithuania."

"The only advantage Estonia has is that they already have the euro, but I do not see it as a big problem."

When asked what problems he sees in Latvia, he mentions the low salaries.

"If I took an assistant, I could not afford to pay them a large salary; I could not compete with my competitors. On the other hand, if they are not satisfied with their salaries, they leave as soon as they get better offers."

On the other hand, it can also be an advantage: "You can produce things cheaper because of the lower salaries, and you must use it to increase your standard of living."

Criado believes that, if Latvia uses this competitive advantage, its salaries will also eventually rise to the average EU level.

Another issue that often is mentioned when talking about Latvia is transparency.

Says Criado: "A few years ago I would have said that transparency in Latvia is a problem. But things have improved, and now we also have

similar problems in European countries. So if a Spanish business says, we are afraid to come to Latvia, I reply, see what is happening in Spain. The difference is not that huge anymore. I, for one, have not seen any kind of these problems in my business."

As the company is too young, it is still a bit too early to talk about any results or success stories. But Balticco has had a better start than initially planned.

"In three months, we thought we would have some four-five Spanish companies as our clients. We already have fifteen. Some of them are major companies in their field in Spain, so it is a huge advantage for us to have them among our clients: it helps attract other clients, as they see – they work with these companies, so they must be good."

"We think we have the right idea at the right time, and we are here to stay for a long time," he concludes.

We have talked to

Pablo Criado pablo.criado@balticco.net

Tel +371 263 62 744 (mobile)

RETAIL ENVIRONMENT

The other ISO: International Shopfitting Organisation

When you hear ISO, the first association is, no doubt, the **International Organization for Standardization**. But there is another organisation that bears the same abbreviation and, even though it is much smaller, it can boast a long-standing history and multi-national membership. The

International Shopfitting Organisation, founded in 1958, has more than thousand members throughout the world, although it mostly focuses on Europe.

Earlier this month, ISO went to a study tour to Lithuania and Latvia to learn more about its retail environment as well as find new business contacts.

"Originally, a shopfitter simply made shelves. But today, shelves and other fixtures are probably just one-third of the entire shop," says Preben Bailey, Secretary General of ISO, to news2biz. "You need a nice floor, you need the right dimensions for aisles, and, more than anything, you need to display the merchandise. This is not a museum; you want people to say: 'This is fantastic,' and grab things. If a customer picks up a product, it is already half sold. You tempt your customers and encourage them to touch things, increasing your sales and making better shops."

"A good shop moves more merchandise than a poor shop," he adds. "We are selling the retail industry a tool how to make more money."

So what does ISO do for its members?

"We help our members to talk to each other and exchange information. Our members can be competitors, but if we talk to each other, we find out that we have much more in common than in conflict. If you are open, adaptive and take advice, you take much more from our meetings than you give away," Bailey explains.

"It is public knowledge that Latvian GDP crashed in 2009 and is now recovering in 2012; that is fine and we are all interested in that. But where do you get the information how the shopfitting business in Latvia is doing? From me, and I get it from my members, suppliers and friends in the industry."



ISO often organises meetings and study tours for its members: one of the last ones took it to St Petersburg, Russia. Photo: ISO

Bailey shares some of his insights: "The interesting thing about the Baltic countries is that twenty years ago you did not have any shops. You had a huge market gap, a white spot on the map, where you could open stores. So many local and international companies did that."

"In many ways, shopping malls in Riga are nicer than what we have in Sweden and Denmark, because they fill the gap that we did not have. If you build a new shopping mall in Denmark, you get lots of negative feedback – oh, you are destroying the small shops in the old town. Not

here, because you did not have the small shops to destroy, so you welcomed the new shopping malls. There is another attitude here; you like good shops and good malls."

Bailey also notes that the Latvian retail has weathered the recession and is now up again: "Among other things, you now see H&M coming to the Baltics, which is a very good sign. Any new business here is business for our members or our prospective members."

Finally, Bailey points out that the Latvian retail is very closely tied with the international retail: "The important thing to realise is that the retail companies today are international. Danish companies like **Jysk**, and **Jack & Jones** or Swedish companies like **H&M** and **IKEA** are successfully operating all over the world. They are our clients and, because they are global, we have to be global, too."

And, even in this global world, Latvia remains closer to Scandinavia than to other countries: "I very much like the Chinese, and they are very clever, but they are not like us. You are. A shop that works in Copenhagen will also work in Riga – and vice versa. Many of the concepts you have developed we do not yet have over in Denmark – but they are very good, so your retailers can have success if they go west."

Niche producer

In addition to customers, ISO also has suppliers in Latvia. They can

successfully occupy a particular niche: orders that are too large to be produced locally but too small to be moved to China.

"For example, when Christmas is coming and a Danish retailer decides in late October that they want a new display, they want it to be there yesterday; at the very best, they can wait until the next Tuesday. So this short-notice, short-run production is done in Denmark. But the Baltic countries come in when you have to produce larger amounts – some 500 to 1,000 items. You can do it quickly and cheaply here. And, if you want 100,000 items, you buy it in China."

Moreover, Bailey suggests that this niche is a perfect match for most shopfitting needs.

"Shopfitting is not like IKEA, where you can sell million copies of one chair throughout the world. It often is medium-sized runs which have to be delivered quickly – and you can supply it from the Baltics."

In conclusion, Bailey adds that, in the future, the Baltic states have a good potential as a gateway to the Eastern Europe.

"One French scientist calculated that the geographical centre of Europe is in Lithuania. As we were passing it on our study tour, I told our members: for fifty years, you have been doing business west from this point. Imagine how much business now can be done in the east. If things develop the way we would like them to – more openness and stability and less military threats – then there is a huge market in coun-

tries like Russia, Ukraine and Belarus. And you are in the hotspot."

We have talked to

Preben Bailey info@iso-shopfitting.com

Tel +46 4653 202 (direct)

RETAIL CONSULTANTS

Retail Baltic: helping shops sell more

Few would argue that the Latvian retail was far from being in the best shape in 2010. Yet this did not stop Zulfukar Tosun, a German expat, from leaving his Baltic position with the German fashion retailer **Peek & Cloppenburg** and open his own consulting company called **Retail Baltic**.

"We are a full retail consulting agency. Basically, if you have a store and want to increase its turnover, you talk to us," says Zulfukar Tosun to news2biz.



Zulfukar Tosun notes that Latvian malls now increasingly think about their concept – as they have no other choice. Photo: Retail Baltic

"First, we do everything to improve the service: mystery shopping, sales trainings directly at the point of sales. Second, we are consulting the retail companies how to improve their turnover. Third, we are publishing an overview of Latvian shop-

ping centres, covering 13 major malls in Riga and six in the regions."

Currently, the company has about 20 clients, and Tosun notes that Retail Baltic is focusing on long-term co-operation.

Despite the retail slump, 2010 probably was a very good time to start a retail consulting business. Tosun notes that, back in 2007, things were going so well that shopping malls did not really have to think about having a certain concept.

"Before the crisis, it was like: OK, everybody can come. But then in 2009 something interesting started to happen: they understood that they have to have a strategy and define who their client is. In the last few years, the shopping centres have started to specialise and attract a certain kind of customer."

Not everybody has adapted to the new rules, however. "There are still some shopping centres in Riga that are struggling with their concept, like Galleria Riga [see no 304 page 5 – ed.] It is a seven-floor shopping centre, and in Latvia it goes like this: the first floor is busy, second floor has fewer customers, and the fourth floor is empty."

Tosun notes that another very positive development is the entrance of two major international fashion retailers: Swedish **H&M** (see no 343 page 11) and British **Next** (see no 342 page 11) – previously, there has been much discussion whether Latvia is not too small for large retailers.

Preference for malls

Both H&M and Next chose to enter shopping malls, rather than opening their own stores on shopping streets. Moreover, Tosun's previous employer Peek & Cloppenburg, having started out with a high-street shop, also decided to close it and move to a mall. Tosun believes that it is no coincidence, as the street market remains markedly different and still is dominated by smaller shops that have little or no concept and do not pay much attention to their retail environment.

"Western European customers like shopping streets; Eastern European customers like shopping centres," he points out.

As to the Latvian purchase power, it can be quite high, although that depends on the product group. "Try visiting a major shopping mall on weekend, and you will quickly see how eager Latvians are to spend their money," Tosun notes. "Much of it still is food, however, although clothing is also picking up speed. On the other hand, furniture is still a long way away from what it was in 2007."

"That does not mean that the 2007 sales levels were great; we see how they ended. Everything we reach now must be sustainable. We hope that the large retailers will be able to maintain 5-7% growth each year, but we also have to consider how many people will live in Latvia in a couple of years' time. There are

many questions which still do not have any answers."

We have talked to

Zulfukar Tosun zulfukar@retailbaltic.com

Tel +371 202 59 935

IN BRIEF

Norwegians recruit nurses

Latvian media reports that a number of recruiting agencies are actively seeking Latvian nurses for work in Norway. The agency offers a four-month Norwegian training before moving to Norway, and the nurses would work in old people's homes as well as home care. The applicants have to sign a two-year contract.

Earlier this year, it was reported that a record-high number of students graduated from nursing studies, with many young nurses admitting that they are looking for a job outside Latvia. Although the attention is recent, Norway has been an increasingly popular destination for Latvian immigrants ever since the previous favourite destination – Ireland – was hit by recession.

ECONOMY & POLITICS

BUDGET

Saeima lends initial support to the 2013 state budget

The Latvian Saeima has voted to confirm the 2013 state budget in the first reading. The Saeima now has to vote for it in the second reading on November 15. Still, as the government has now secured support for

the budget, it is almost certain that it will pass it.

The first project in five years to be prepared without any influence from Latvia's international creditors, it marks a definite increase in spending. But, even though international creditors did not demand any changes this time around, Dombrovskis' own coalition partners did. The nationalistic Nacionālā Apvienība (NA) demanded additional funding for demography, threatening to vote against the budget if the change is not made. The budget could not be passed without NA's vote, and a vote against the budget also counts as a vote against the government.

The government has reached an agreement, providing additional LVL 146.84m of additional funding. The largest single portion – LVL 44.94 – going to the Ministry of Health. The demography programme receives an additional LVL 14m. It includes larger child care benefits, more money to kindergartens and child care tax deductions.

In addition to helping pass the 2013 budget, the additional funding actually could alleviate Latvia's dire demographic problems. If the Latvian government continues increasing its allocation for demography, the birth rate could increase as much as 15% by 2015.

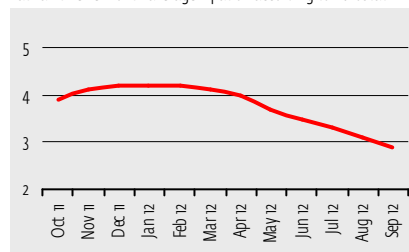
ROAD TO EUR

Latvia meets Maastricht inflation criterion

The Latvian Ministry of Finance reports that, in September 2012, Latvia has achieved the Maastricht inflation criterion. According to the European Union statistics office Eurostat, the Latvian twelve month average inflation in September stood at 2.9%. The EUR convergence criterion sets the inflation at no more than 1.5% higher than the average of the three best-performing EU member states – currently, this means that the inflation cannot exceed 2.94%.

Inflation going down

Latvian twelve month average inflation according to Eurostat



Source: Eurostat

The three "best-performing states" are Greece with 1.56%, Ireland with 1.87% and Sweden with 0.9%. Considering that the first two are undergoing a serious recession, the Latvian state officials have previously complained that it is unfair to compare inflation in countries experiencing economic downturn and economic recovery. Now, however,

the Ministry of Finance believes that, even with these requirements, Latvia shall meet the EUR convergence criteria in early 2013, when the ECB will evaluate whether Latvia meets the necessary criteria.

IMMIGRATION

Up to one-sixth of all Latvians live abroad

The Latvian Ministry of Foreign Affairs estimates that from 350,000 to 400,000 Latvians live outside Latvia. Up to 300,000 have left the country during the recession. In comparison, the latest population census showed that the total population of Latvia reaches 2m, which means that 16-17% of Latvians have left the country.

Even though the recession is easing out in Latvia, the immigration still remains strong. Moreover, about 425,000 Latvians live near poverty – on LVL 150 or less per household member per month. This means that they, too, could eventually leave Latvia.

In addition to the low birth rates, immigration is one of the most serious demographic problems facing Latvia right now. The Ministry of Economy hopes that, by 2030, about 62% of all who have left the country could return. This, however, will be too late to offset the impending labour shortage: the Ministry also estimates that, within the next three to four years, Latvia will face a shortage of about 100,000 to 160,000 labourers.

The Ministry believes that the labour shortage will in turn raise the wages, which would encourage the immigrants to return. However, if that fails, it suggests that Latvia should prepare to accept some immigrants of its own.

IN BRIEF

Ministry fires Lembergs; he continues his work

The Latvian Minister of Environment Protection and Regional Development Edmunds Sprudzs has signed an order firing the Mayor of Ventspils Aivars Lembergs. In addition to his position as a mayor of Ventspils, Lembergs is also often mentioned as one of the Latvian oligarchs. Still, even though technically Lembergs has lost his position, he still continues work, claiming that Sprudzs cannot fire him. Lembergs has been a controversial figure for years and is currently under investigation for corruption. Sprudzs bases his decision on a number of trespasses, conflicts of interest and abuses of authority on Lembergs' behalf.

EVENTS

LiST Speakers Corner

Speakers corner is your chance to introduce your business, meet new contacts, network and exchange information. A leading IT company and an Asian trading house will be presenting.

Time: 31 October

Place: Radisson BLU Daugava

Organiser: B2BLiST & PRIME Recruitment

Details: <http://slidesha.re/PgUgQ3>

Joint Chamber Business Lunch

The Norwegian Chamber in cooperation with the Netherlands-Latvian Chamber of Commerce invite to a Business Lunch with Martins Krievins, Head of the Cross-Sectorial Coordination Center. He will speak on the National Development Plan.

1 November, 13:00-15:00

Place: Restaurant Felicita

Organiser: Norwegian Chamber of Commerce in Latvia, Netherlands-Latvian Chamber of Commerce

Details: <http://www.nccl.lv>

Joint Chamber Event

The New Normal and its implications on customers, the economy and banking: a presentation by Ossi Leikola, Head of Banking Poland and the Baltic countries at Nordea. Followed by snacks, wine and networking.

Time: 6 November, 18:00

Place: Nordea House

Organiser: American, Danish, Finnish, Norwegian and Swedish Chambers of Commerce

Details: <http://www.amcham.lv>

Social Entrepreneurship Forum

Social Entrepreneurship Forum 2012 aims to assemble, inspire and educate social entrepreneurs from the Baltic States and contribute towards creating a favourable working environment among social entrepreneurs and decision-makers.

Time: 8-9 November

Place: Stockholm School of Economics in Riga

Organiser: Stockholm School of Economics in Riga

Details: <http://www.sefriga.lv/>

DCCL Danish Mortensaften

Danish Chamber of Commerce in Latvia invites you to the traditional Danish St Martin's evening. Meet fellow DCCL members, enjoy a good meal and live music.

Time: 9 November, 19:00

Place: Restaurant Elements, Tallink Hotel Riga

Organiser: Danish Chamber of Commerce in Latvia

Details: <http://www.dcc.lv>

BCCL New Members Evening

The first New Members Evening of the British Chamber of Commerce in Latvia with presentations from the new members and networking.

Time: 14 November, 18:00

Place: HM Ambassador's Residence

Organiser: British Chamber of Commerce in Latvia

Details: <http://bccl.lv/>

LIAA Workshop

Venture Capital and Business Angel Investing Workshop for Latvian investors who would like to learn from the experience of other investors. Guest speaker Juha Ruohonen, founder of Finnish start-up investment company Start-up Sauna. Presentation of 10 Latvian start-ups and a contacts exchange follows in the evening.

Time: 15 November, 10:00, 17:00

Place: to be announced

Organiser: Investment and Development Agency of Latvia

Details: <http://www.liaa.gov.lv>

AmCham Movie Night

Viewing of the movie "The Social Network", with an introductory lecture by Ingrida Karina-Berzina, Partner at Raidla, Lejins & Norcous Law Firm, speaking on the topic "Can I protect my ideas from being stolen by someone else?"

Time: 15 November, 18:00

Place: Stockholm School of Economics

Organiser: American of Commerce in Latvia

Details: <http://amcham.lv>

AmCham Movie Night

Viewing of the movie "The Social Network", with an introductory lecture by Ingrida Karina-Berzina, Partner at Raidla, Lejins & Norcous Law Firm, speaking on the topic "Can I protect my ideas from being stolen by someone else?"

Time: 15 November, 18:00

Place: Stockholm School of Economics

Organiser: American of Commerce in Latvia

Details: <http://amcham.lv>

NCCL Big Business Day

Big Business Day 2012 with speaker Benja Fagerland (Norway). Ms Fagerland will present the topic "A walk around Womenomics: why and how women as board members and leaders mean a strengthened bottom line in the long run". Other speakers include Tero Taskila, CEO of Estonian Air; Maksim Je-

gorov, CEO of Accenture in Latvia; Katrine Judovica, board chair of Narvesen Baltija; Eriks Eglitis, Country Lead for Microsoft and Girts Vinnins, Latvian General Manager for Novo Nordisk.

Register until 1 November to receive a discount.

Time: 22 November, 12:00-18:00

Place: Radisson Blu Hotel Latvija

Organiser: Norwegian Chamber of Commerce in Latvia

Details: <http://www.nccl.lv/>

AmCham Luncheon

A luncheon with H.E. Andris Berzins, the President of Latvia. President Berzins will discuss his main priorities towards ensuring further economic growth for Latvia.

Time: 22 November, 11:30

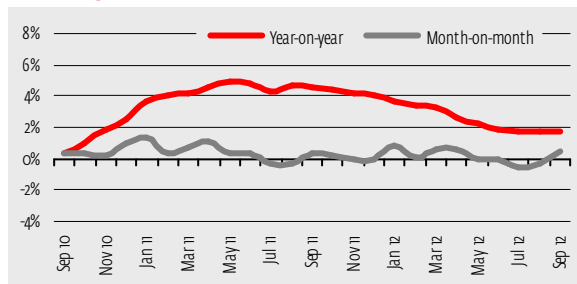
Place: Grand Palace Hotel

Organiser: American Chamber of Commerce in Latvia

Details: <http://www.amcham.lv>

KEY FIGURES

INFLATION



Source: The Latvian statistical office, Centraļa statistikas parvalde

PRODUCER PRICE INDEX

On monthly basis	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12
100 = previous month	99.6	100.9	99.6	100.2	100.5	102.1	100.0
100 = same month prev year	105.4	104.0	102.6	102.3	102.1	108.1	102.6
Year	2005	2006	2007	2008	2009	2010	2011
100 = previous year	107.1	112.6	112.2	109.2	91.6	103.1	107.7

Note: Producer prices are prices of industrial goods excluding VAT and other taxes.

Source: The Latvian statistical office, Centraļa statistikas parvalde

INDUSTRIAL OUTPUT INDEX

On monthly basis	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12	Aug '12
100 = previous month	100.1	102.0	98.8	101.9	101.0	103.3	102.0
100 = same month prev year	107.3	108.5	103.8	106.0	105.4	110.0	108.1
Year	2005	2006	2007	2008	2009	2010	2011
100 = previous year	99.9	106.7	100.9	96.8	82.3	114.2	108.9

Source: The Latvian statistical office, Centraļa statistikas parvalde

RETAIL TRADE

At current prices	May '12	Jun '12	Jul '12	Aug '12
Turnover in LVL '000	359.6	370.7	382.2	400.9
Index 100 = previous month	102.1	102.1	102.7	101.7
Index 100 = same month prev year	107.4	108.4	110.3	110.0
Year	2008	2009	2010	2011
Turnover in LVL '000	4910.2	3665.5	3584.8	3933.3
Index 100 = previous year	103.6	74.6	97.8	104.6

Source: The Latvian statistical office, Centraļa statistikas parvalde

CONSUMER PRICE INDEX

column A: 100 = current 12 months; column B: 100 = previous month

Sector	Jun '12		Jul '12		Aug '12		Sep '12	
	A	B	A	B	A	B	A	B
Food	101.7	99.9	101.6	99.5	102.1	98.5	101.6	99.9
Beverages, tobacco	102.6	98.9	102.5	100.0	101.0	98.8	100.5	101.2
Clothing, footwear	98.3	99.2	99.0	94.4	95.9	97.2	96.0	105.0
Housing	105.6	100.2	105.7	101.3	105.3	100.2	105.3	100.1
Transport	101.6	98.7	100.9	99.3	103.1	102.0	104.4	101.1
Communications	99.1	99.9	97.9	98.7	100.7	100.0	97.9	99.9
Gross CPI	101.9	99.9	101.7	99.5	101.7	99.7	101.8	101.8

Source: The Latvian statistical office, Centraļa statistikas parvalde

GROSS WAGES

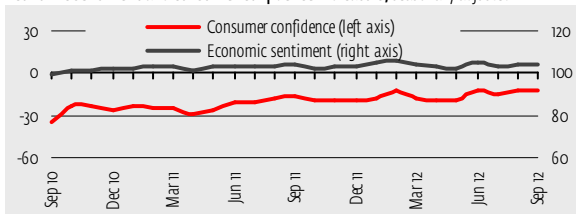
column A: average monthly wages in LVL; column B: indexed average wages, 100=Q1 2005

Sector	Q4 2011		Q1 2012		Q2 2012	
	A	B	A	B	A	B
Manufacturing	440	226	427	219	444	228
Finance, insurance	989	165	1,018	170	1,015	169
Construction	449	241	432	232	435	234
IT	804	173	794	170	768	165
Retail and wholesale	401	277	400	276	407	281
Hotels and restaurants	298	218	310	226	313	228
Transport, logistics	524	217	511	212	563	234
National average	475	210	466	206	481	213

Note: Without taxes; Source: The Latvian statistical office, Centraļa statistikas parvalde

SENTIMENT INDICATORS

Economic sentiment and consumer confidence indicators, seasonally adjusted

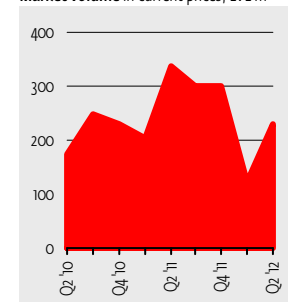


The economic sentiment (1990-2010 average = 100) is a composite made up of five sectoral confidence indicators, which are arithmetic means of seasonally adjusted balances of answers to a selection of questions closely related to the reference variable. Source: Eurostat.

CONSTRUCTION PRICE INDEX

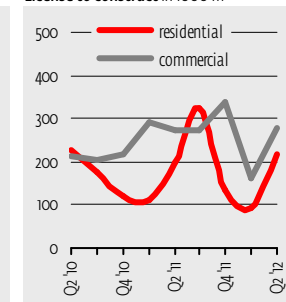
On monthly basis	Apr '12	May '12	Jun '12	Jul '12	Aug '12	Sep '12
100 = previous month	100.7	101.0	100.4	100.6	100.2	100.8
100 = same month prev year	106.5	106.4	107.3	108.3	108.6	108.6
Year	2006	2007	2008	2009	2010	2011
100 = previous year	120.9	126.2	114.4	89.1	97.3	102.1

Market volume in current prices, LVL m



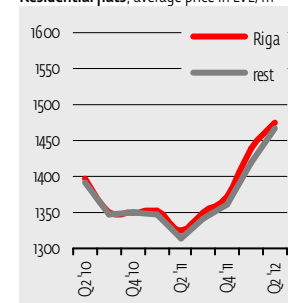
Source: The Latvian statistical office, Centraļa statistikas parvalde

License to construct in 1000 m²

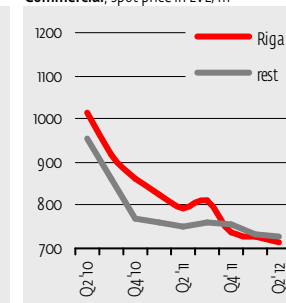


REAL ESTATE PRICES

Residential flats, average price in LVL/m²



Commercial, spot price in LVL/m²



Number of transactions

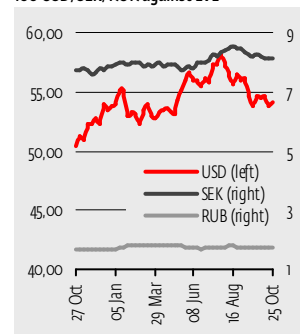
	Q4 '10	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12
Riga	2460	1964	2269	2802	3220	2822	2794	3128
rest	7794	6323	7844	7618	8432	6822	7758	8242

Source: spot.city24.lv; Latvian Land Register, Valsts vienota datorizēta zemesgrāmata

CURRENCY**Central Bank rates**

as of 26 October 2012

100 USD	54.10	↓
100 GBP	86.80	↓
100 CHF	58.10	→
100 DKK	9.42	→
100 SEK	8.11	↓
100 NOK	9.44	↓
100 JPY	0.67	↓
100 UAH	6.63	↓
100 LTL	20.40	→
100 PLN	16.90	↓
100 RUB	1.73	↓

100 USD/SEK/RUR against LVL

Source: Latvia's central bank, Latvijas Banka

MONEY SUPPLY

in LVL m	May '12	Jun '12	Jul '12	Aug '12	Sep '12
Monetary base	1,852.3	1,919.9	2,060.0	2,206.6	2,255.3
M1	4,216.6	4,361.2	4,431.0	4,498.7	4,525.6
- Currency outside banks	997.2	1,029.3	1,042.8	1,051.9	1,062.8
M2	6,452.4	6,539.5	6,541.1	6,607.2	6,518.1
- Time deposits	2,028.3	1,966.4	1,900.6	1,900.2	1,783.8
M3	6,526.9	6,611.9	6,656.6	6,723.2	6,633.4
- Net foreign assets	64.2	54.2	249.9	378.6	155.0

Monetary base: Latvian currency emitted by the central bank and money on accounts held with it. **M1**= currency outside banks + demand deposits **M2**= M1+ time deposits (Inc in foreign currencies) **M3**= the broad measure of money supply. Source: Latvia's central bank, Latvijas Banka

TRADE

Latvian exports and imports divided according to commodity groups, according to Latvian classification

	EXPORTS in LVL m				IMPORTS in LVL m			
	Jan-Aug 2012	Share	Jan-Aug 2011	Share	Jan-Aug 2012	Share	Jan-Aug 2011	Share
Agricultural & food products (I-IV)	721.9	17%	555.0	14%	855.8	15%	685.6	14%
Food, beverages & tobacco (IV) *	344.8	8%	258.1	7%	379.9	7%	305.0	7%
Chemical products (VI)	278.9	6%	336.4	9%	502.9	9%	501.5	11%
Plastic & rubber products (VII)	134.6	3%	118.4	3%	295.6	5%	265.1	6%
Wood & articles of wood (IX)	711.8	17%	678.2	18%	91.7	2%	75.0	2%
Textiles (XI)	173.6	4%	158.0	4%	230.5	4%	194.4	4%
Metal (XV)	665.8	16%	596.6	16%	616.1	11%	559.1	12%
Machinery & electric equipment (XVI)	665.8	13%	451.9	12%	961.4	17%	796.6	17%
Transport vehicles (XVII)	229.5	5%	249.8	7%	462.4	8%	404.8	9%
Various, including furniture (XX)	115.7	3%	93.8	2%	137.9	2%	98.8	2%
Other commodity groups	695.9	16%	598.8	15%	1,417.7	25%	1,191.6	25%
TOTAL	4,287.9	100%	3837.2	100%	5,572.3	100%	4,772.8	100%

INTEREST RATES

Average weighted annual interest rates on credits for corporation

Term / currency	Feb '12	Mar '12	Apr '12	May '12	Jun '12	Jul '12
Short-term (LVL)	5.45%	4.97%	5.07%	4.93%	4.73%	4.58%
Short-term (USD)	5.88%	4.95%	n/a	2.0%	3.04%	n/a
Short-term (EUR)	5.08%	4.89%	4.66%	4.14%	4.52%	4.79%
Long-term (LVL)	5.62%	n/a	4.59%	3.35%	4.70%	3.67%
Long-term (EUR)	6.13%	6.18%	5.74%	5.0%	n/a	4.52%

Riga Inter Bank Offered Rate (RIGIBOR) 26 Sep 2012

	overnight	1 month	3 months	6 months	12 months
	0.16%	0.32%	0.51%	1.10%	1.53%

Note: Short-term credits - up to 12 months, long-term credits - over 1 and up to 5 years.

Source: Latvia's central bank, Latvijas Banka

CREDIT

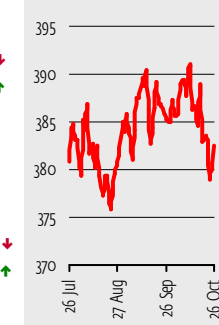
The financial sector's net lending in LVL m, loan stock by the end of period

Type of loan	May '12	Jun '12	Jul '12	Aug '12	Sep '12
Loans to customers	10,418.2	10,439.3	10,424.3	10,447.4	10,420.9
- to private companies	4,827.7	4,826.8	4,826.7	4,869.2	4,884.4
- to individuals	4,874.1	4,837.5	4,815.5	4,785.4	4,744.8
- short term (up to 1 year)	1,726.2	1,725.4	1,722.4	1,804.3	1,829.1
- long term (over 1 year)	8,691.9	8,714.0	8,718.3	8,643.1	8,755.5
Consolidated balance of the banking institutions	19,229.8	19,585.3	19,444.7	19,662.0	19,525.9

Source: Latvia's central bank, Latvijas Banka

STOCK EXCHANGE**Riga Stock Exchange 26 Oct 2012**

main list	Price	Change	Change
in alphabetic order		12 Oct	end of '11
↓ Grindex	4.45	-1%	+4%
↓ Latvijas Balzams	2.03	-2%	-2%
↓ Latvijas Gaze	5.79	-3%	+2%
↓ LASCO	0.23	-8%	-23%
↑ Olainfarm	3.08	+2%	+25%
↓ SAF Tehnika	1.65	-1%	0%
↓ Valmieras SSR	0.68	-4%	+20%
↑ Ventspils Nafta	1.10	+2%	-8%

OMX Riga index**382.58**Change 12 Oct -4% ↓
Change end of '11 +3% ↑**OMX Baltic Benchmark****510.09**Change 12 Oct -1% ↓
Change end of '11 +18% ↑**OMX Riga closing index**
the last three months

Note: The OMX Riga Stock Index is calculated on a continuous basis from the most recent prices of all shares listed on the Riga Stock Exchange's Main List and I-List. Index 100 = 1 January 2000
Source: NASDAQ OMX Riga Stock Exchange

Latvia's largest markets, ranked according to 2011 in LVL m

EXPORT						IMPORT					
No	Country	Jan-Aug 2012	Share	Jan-Aug 2011	Share	No	Country	Jan-Aug 2012	Share	Jan-Aug 2011	Share
1	Lithuania	688.8	16.0%	671.0	17.4%	1	Lithuania	1,096.1	19.7%	863.3	17.56%
2	Estonia	559.0	13.0%	553.7	14.5%	2	Russia	542.6	9.7%	436.1	9.4%
3	Russia	467.6	10.8%	391.1	10.1%	3	Germany	650.9	11.7%	571.1	12.0%
4	Germany	312.2	7.3%	318.4	8.4%	4	Poland	472.4	8.5%	363.4	7.5%
5	Sweden	237.7	5.5%	240.3	6.5%	5	Estonia	412.8	7.4%	320.4	6.6%
6	Poland	286.7	6.7%	218.2	5.7%	6	Finland	244.7	4.4%	232.6	4.9%
7	Denmark	173.7	4.0%	123.2	3.2%	7	Sweden	185.2	3.2%	178.0	3.8%
8	UK	154.7	3.6%	119.4	3.2%	8	Netherlands	179.2	3.1%	168.3	3.6%
EU		3,022.9	70.5%	2,791.2	73.1%	EU		4,258.7	76.4%	3,595.4	75.1%
CIS		635.5	14.8%	548.5	14.2%	CIS		878.7	15.7%	760.3	16.2%

*) included in the previous category. Source: The Latvian statistical office, Latvijas centrālā statistikas pārvalde

GDP

at current prices

Period	Real growth year on year	GDP in LVL m current prices	GDP per capita in EUR	Current account in % of GDP
Q2 2012	+5.0%	3,806	2,663	-4.2%
Q1 2012	+6.9%	3,401	2,357	-3.1%
Q4 2011	+5.7%	3,903	2,076	1.7%
Q3 2011	+6.6%	3,706	2,391	1.4%
Q2 2011	+5.7%	3,505	2,255	0.9%
2011	+5.3%	14,161	9,804	n/a
2010	-0.3%	12,736	8,102	8.6%
2009	-18.0%	13,083	8,234	8.6%

Source: The Latvian statistical office, Centraļa statistikas parvalde;
Latvia's central bank, Latvijas Banka

CURRENT ACCOUNT

excerpts shown in LVL m

	2010	2011	Jun '12	Jul '12	Aug '12
Trade balance	-821.1	-1,405.2	-148.8	-144.9	-117.3
Services	787.5	930.3	95.2	84.8	83.4
Direct investments, net	176.6	736.7	20.2	34.3	58.2
Current account balance	455.8	-170.9	-52.9	-22.2	-27.6

Source: Latvia's central bank, Latvijas Banka

FOREIGN DIRECT INVESTMENT

in EUR m

On quarterly basis	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12
in Latvia	8,796.2	9,087.4	9,339.2	9,372.9	9,381.4	9,497.4
Latvian DI abroad	621.4	647.0	661.9	686.6	713.5	772.0
Year	2006	2007	2008	2009	2010	2011
in Latvia	5,701	7,466	8,126	8,072	8,250	9,372.9
Latvian DI abroad	362.5	637.5	742.2	620.0	634.1	686.6

Source: Latvia's central bank, Latvijas Banka

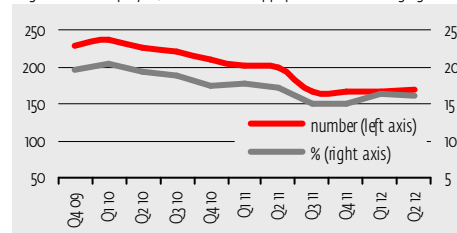
KEY ECONOMIC DATA FORECAST

Indicator	2011	2012		2013	
		Swed	MoE	Swed	MoE
GDP change	+5.3%	+4.0%	+5.0%	+3.5%	n/a
Consumer prices (inflation)	+4.4%	+2.3%	+2.5%	+2.5%	n/a
CA balance, % of GDP	+1.7%	-1.6%	n/a	-2.7%	n/a
Real net wage change	+0.1%	+1.5%	n/a	+2.9%	n/a
Unemployment rate	15.4%	15.6%	13.4%	13.7%	n/a

Sources: the Ministry of Economy (Jun 2012), Swedbank (Aug 2012)

UNEMPLOYMENT

Registered unemployed, in '000 and % of population in working age



Source: The Latvian statistical office, Centraļa statistikas parvalde

REGIONAL DATALatvia's regions
(main cities indicated
in brackets)

	Industrial output Aug 2012*		Monthly wages (LVL) Jun 2012 **		Unemployment Aug 2012		New dwellings 2011	
	Industry	Construction	Public	Private	in '000	%	Number	Index *
Riga region	n/a	n/a	426	356	24.3	5.8	n/a	n/a
Riga city	n/a	n/a	438	367	24.3	5.8	n/a	n/a
Pieriga region	n/a	n/a	370	319	14.5	6.2	n/a	n/a
Vidzeme region	n/a	n/a	292	263	12.7	9.7	n/a	n/a
Kurzeme region	n/a	n/a	297	308	14.6	8.8	n/a	n/a
Zemgale region	n/a	n/a	302	288	15.0	9.4	n/a	n/a
Latgale region	n/a	n/a	275	223	30.3	16.0	n/a	n/a
National average	108.1	108.6	377	331	111.5	11.0	1134	83.2

* Index 100 = same period of the previous year. ** In addition the employer must pay social taxes amounting to app. 20% altogether.

Source: The Latvian statistical office, Centraļa statistikas parvalde; Employment State Agency, Nodarbinātības valsts agentūra

COUNTRY RATING

Agency	rating	outlook
Fitch Ratings	BBB-	stable
Standard & Poor's	BBB-	stable
Moody's Investor Service	Baa3	positive

Source: Investment agencies

GENERAL INFORMATION

Population: 2 237,600

Currency: lats (LVL) = 0.702804 EUR

In power: President Andris Bērziņš. Most seats in parliament Saskaņas Centrs (31%), Vienotība (22%), PM Valdis Dombrovskis, Reformu partija (16%).

Elections: 2014 parliamentary, 2015 presidential

Most important tax rates:

Income tax: individual 25%, corporate 15%

VAT: 21%,

Social tax: up to 33%

**Reports for professionals
doing business
in Eastern Europe & China**
news2biz

news2biz

AS Äripäev, Pärnu mnt 105

EE-19094, Tallinn, Estonia

phone: +372 667 0251 fax: +372 667 0265

e-mail: contact@news2biz.com

web: www.news2biz.com

news2biz POLAND

news2biz LITHUANIA

news2biz LATVIA

news2biz ESTONIA

news2biz CHINA

Investments, companies, market trends,
key figures.

Published on-line every 2 weeks.

Independent news research since 1991.

On-site journalists in Poland, Lithuania, Latvia,
Estonia, China and Sweden.

Publisher

Bonnier Group/AS Äripäev

BONNIER**Äripäev**

Editor-in-Chief Kertu Ruus kertu@news2biz.com

Senior Editor Peter Kyhn peter@news2biz.com

Newsdesk Latvia Didzis Veinbergs

didzis@news2biz.com

Customer Service Toomas Hõbemägi

toomas@news2biz.com

Subscription prices e-access

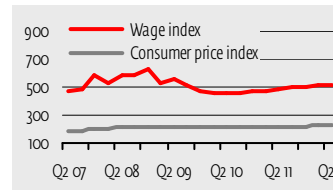
3 months (5 issues) EUR 260

6 months (10 issues) EUR 460

12 months (20 issues) EUR 790

This edition completed 29 Oct 2012

Next issue on-line 12 Nov 2012

REAL EARNINGS

Development of the average gross wages and inflation.

Index 100 = Jan 1996.

Source: Centraļa statistikas parvalde