

Latvian Business Guide

THE ENHANCED BUSINESS ENVIRONMENT IN LATVIA



Latvia has experienced strong and continuous growth for a decade, with real GDP growth rates exceeding the average growth rate in the EU by far. Since 2004, Latvia's GDP has increased by an average of 10.4% annually, and last year growth reached a record high of 11.9%. Swift but sustainable growth is helping us to quickly catch up with the most developed countries in Europe economically.

Foreign direct investment has been a major driving force behind our economic development. The volume of foreign direct investment in Latvia has doubled every 4 to 5 years. About 85% of these investments have been from EU countries. Foreign investment has helped create the most dynamic financial sector in the Baltic Sea Region, a growing high-tech sector, and a promising logistics cluster. Latvia is gradually changing its profile from an exporter of raw materials, such as timber and base metals, to one that provides a diverse range of export products, including many with high added value.

Important factors that draw investment to Latvia include our country's strategic location and cost advantages in the knowledge-intensive and added value sectors. For Eastern investors, Latvia is a perfect springboard to the EU market in the West. For Western investors, Latvia provides the perfect platform for business in the rapidly growing Russian and CIS markets to the East.

Latvia has an advanced transit infrastructure with three large, ice-free ports and a well-developed railway network that is fully integrated with Russia's and suitable for high-capacity cargo transfers. By using the railway corridors that go through Latvia, Western exporters can cut their delivery times to East Asia threefold, for instance – from 45 to just 15 days – with comparatively small cost increases. Asian exporters can likewise optimize their deliveries to the Nordic countries through Latvia. In terms of air transport, Riga International Airport is the hub of the Baltic States. Nearly 2.5 million passengers utilised Riga International Airport in 2006. As of 2007, there are regular direct flights from Riga to 60 cities. Latvia has been rapidly developing competitive industrial parks, attractive technological business parks, modern logistics centres and special economic zones that offer vast advantages to foreign investors.

By implementing the *Action Plan for the Improvement of the Business Environment*, Latvia steadily improves its global ratings every year. The World Bank survey "*Doing Business in 2007: How to reform*" showed that the Latvian business environment is continually improving and ranked 24th among 175 countries in 2006. One of the most appealing features of Latvia's business climate is its 15% Corporate Income Tax, which is one of the lowest in the EU.

Riga, the capital of Latvia, has recently become a magnet for major international events. Last year we hosted the World Ice Hockey Championship and the NATO Summit of Heads of State and Government. The tourist industry has seen spectacular growth, especially in Riga. A UNESCO World Heritage Site, Riga is Northern Europe's capital of Art Nouveau architecture and one of the most beautiful cities in the region.

Latvia's growing economy is attractive to anyone from the business community exploring our favourable business environment. We welcome foreign investment, especially in the knowledge-based and high added value sectors, as well as in transportation and logistics. I am certain that some of you will decide to do business here after studying what Latvia has to offer, and I hope that your activities in my country will meet with success.

A handwritten signature in black ink that reads "Valdis Zatlers". The signature is written in a cursive, flowing style.

Valdis Zatlers
President of the Republic of Latvia

DISCOVER OPPORTUNITIES FOR YOUR BUSSINESS IN LATVIA



In the name of Investment and Development Agency of Latvia (LIAA), I would like to invite you to discover Latvia and many opportunities it offers to your business.

The attraction of foreign investments has been one of the national priorities and is recognized as a key source of economic growth. LIAA is a state agency set up to promote Latvia as an attractive investment destination and trade partner. Our services include assistance and comprehensive information on financial, legal, fiscal, and bureaucratic aspects of doing business in Latvia, establishing contacts with Latvian partners, identifying property options. They are tailor-made to suit our client's individual needs and are provided during all stages of our clients' investment projects.

The key principle of Latvian economic legislation is equal treatment of foreign investors and domestic companies. Latvian government acknowledges the importance of establishing a structured dialogue with foreign investors, which are represented officially by the Foreign Investors' Council, by implementing 95% of their recommendations. There are numerous incentives offered to investors, ranging from support via the EU structural funds to favourable legislation on depreciation to special economic zones.

These arrangements have proven successful. With LIAA's direct involvement, in the last year ca. 48 million EUR was invested into Latvian economy and ca. 1110 new jobs were created. The number of LIAA's employees promoting foreign trade and attracting investments quadrupled which has enhanced LIAA's overall capacity and enlarged its areas of expertise.

Joining the European Union gave the country numerous advantages, such as the broad and stable common market, free movement of goods and services, labour and capital. The LIAA objective is to assist both Latvian and foreign companies in becoming fully aware of these new openings. We support domestic businesses in raising their competitiveness and gaining recognition abroad, and we administer state aid from the EU structural funds.

The Latvian Business Guide, which has been published for ten years, aims at helping foreign companies and organisations in developing business contacts with Latvia. I invite you to discover this newly updated version of the guide, and explore Latvia as a business partner with great potential.

A handwritten signature in black ink, appearing to read 'A. Ozols'.

Andris Ozols
Director

Investment and Development Agency of Latvia

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LATVIA IN FACTS

Location

The Baltic country of Latvia is located at the crossroads of northern and eastern Europe, on the east coast of the Baltic Sea. The Republic of Latvia is bounded by Estonia to the north, Russia and Belarus to the east and Lithuania to the south, and has a maritime border with Sweden to the west. Other neighbouring countries include Finland, Poland and Germany. The strategic location of Latvia has been the major influence on the country's diverse historical and cultural experiences. Today, it is this location which forms the basis for Latvia's economic success.



General Information

Major Facts & Figures

Political system	Republic, parliamentary democracy
International membership	Member of EU and NATO since 2004 Member of WTO since 1998
Capital	Riga
Other major cities	Ventspils, Liepaja, Daugavpils, Jelgava, Jurmala
Population (2007)	2.281 million
Area	64 589 km ²
Language	Latvian (official); Russian, English and German are also widely spoken
Legal system	Based on civil law
Currency	1 'Lats' (LVL) = 100 'santims'
Average exchange rate (2006)	1 LVL = 1.423 EUR 1 LVL = 1.78 USD
GDP (2006)	EUR 16027 billion
GDP growth (2006)	11.9%
GDP growth rate, average over 5 years	9.0%
GDP per capita (2006)	EUR 7002
Inflation, annual average over 5 years	6.9%
Accumulated FDI (2006)	EUR 5744 billion
Accumulated FDI per capita (2006)	EUR 2503

Source: Central Statistical Bureau of Latvia, 2007

Additional information at:

www.csb.lv

www.bank.lv

www.li.lv

Investment Ratings (long term)*

Agency	Foreign Currency	Local Currency
Fitch Ratings	BBB+(Outlook: Stable)	A (Outlook: Negative)
Moody's	A2 (Outlook: Stable)	A2 (Outlook:Stable)
Standard&Poor's	BBB+ (Outlook: Negative)	A- (Outlook: Negative)

*As at September 2007

Additional information at:

www.fitchratings.com

www.moodyseurope.com

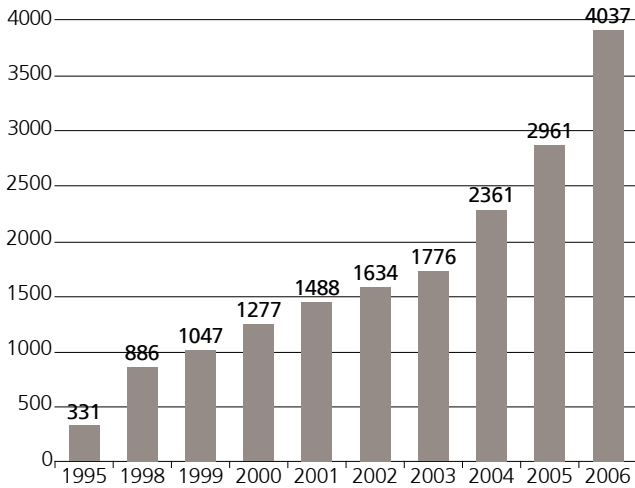
www.standardandpoors.com

FDI TRACK RECORD

FDI Inflows

Ever since Latvia regained independence, foreign direct investment has been a major driving force of the economy, showing steady growth with FDI stock doubling every 4-5 years. Currently ranked 6th among the new EU states for FDI stock per capita, Latvia continues to enjoy high recognition among both regional and global FDI contributors.

FDI Stock at the End of the Period, LVL million



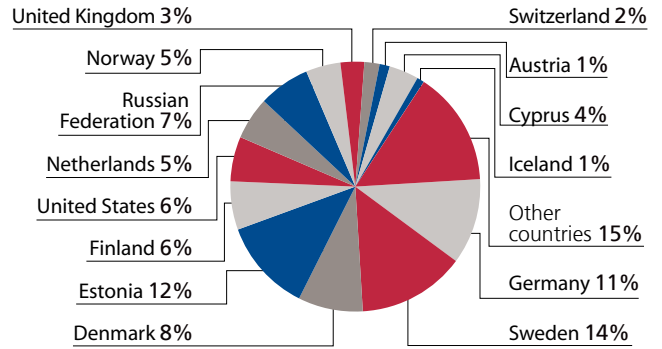
Source: Bank of Latvia, 2007

Sources and Destinations

The main sources of foreign direct investment in Latvia have been, and remain neighbouring countries in the Baltic Sea region which have been active in Latvia from the very beginning of the 1990s. Currently, investment from Germany, Sweden, Denmark, Finland and Estonia makes up more than 51% of total FDI stock, covering a variety of fields from finance, telecommunications and trade to fully export-oriented manufacturing. The high level of interest in Latvia has two basic reasons:

- substantial differences in operating costs between the 'east' and 'west' coasts of the Baltic Sea;
- investors striving to establish a presence in the fast growing Baltic market and looking at further strategic opportunities in Russia and the CIS.

FDI Stock by Country of origin, End of Year 2006

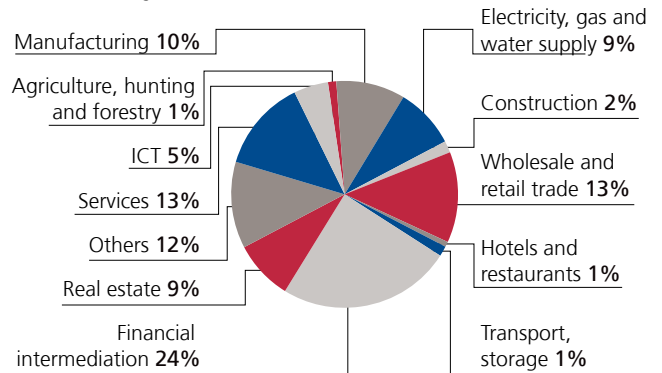


Total FDI stock LVL4 037.2 million

Source: Bank of Latvia, 2007

The other group of more remote investing countries is led by the USA, Netherlands and United Kingdom, who tend to choose Latvia both as a market base for the Baltic region and as a favourable manufacturing location. Countries to the east, mostly Russia, have chosen Latvia for transit/value-added logistics operations for their main export commodities — oil products, chemicals and metals.

FDI Stock by Sector, End of Year 2006



Total FDI stock LVL4 037.2 million

Source: Bank of Latvia, 2007

Additional information at:

www.bank.lv

www.csb.gov.lv

A list of established foreign investment projects in Latvia

Sector	Company	Activity	Location
Energy, Infrastructure & Construction	Gazprom (Russia), Ruhrgas AG (Germany)	Major shareholders in the national gas utility; gas storage and distribution across the Baltic States	Latvia
	OY Rudus AB (Finland)	Specialised construction services	Riga
	Massonyx Ltd	Gas production, storage, wholesale and retail	Riga
	Itera CIS LLC (USA) Inter Energia Holding (Denmark)	Acquisition of crude-oil and natural-gas extraction company	Riga
	ABB Norden Holding AB	Engineering and technology services	Riga
	Merko Ehitus	Construction, construction site preparation	Riga
	Financial Services	Hansapank AS (Estonia)	Pan-Baltic network of commercial banks
Skandinaviska Enskilda Banken (Sweden)		Acquisition of a formerly state-owned commercial bank	Latvia
Norddeutsche Landesbank Girozentrale (Germany)		Acquisition of a formerly locally-owned commercial bank	Latvia
Vereins- und Westbank AG (Germany)		Establishment of a new regional bank	Riga
Europe Holdings LLC (Isle of Man)		Major shareholder in the largest Latvian bank ; banking operations	Riga
Ergo International AG (Germany)		Insurance company	Latvia
Sampo Life Insurance Company (Finland)		Acquisition of local insurance company	Latvia
	Moskovskij Delevoj Mir	Financial intermediary	



Sector	Company	Activity	Location
IT&T	Uab Bite Lietuva	New operator of mobile, internet services	Riga
	Tilts Communications A/S (Denmark)	Acquisition of national fixed-telecommunications operator, IT & ISP services	Latvia
	Tele 2 Sverige Aktiebolag (Sweden)	Acquisition of a locally-established mobile operator, mobile & fixed telecoms, internet services	Riga
	TietoEnator Oy (Finland)	Acquisition of Latvian software houses; software development in banking solutions, POC/POS and telecoms systems	Riga
	TeliaSonera Aktiebolag (Sweden)	Shareholder in a locally-established mobile operator, IT & IS provider	Riga
	Nexus Corporation	Computers, programming, standard software production and distribution	Riga
Manufacturing	Swedwood Holding B.v.	Furniture production, forestry, timber-product processing	Riga
	P-D Glasseiden GmbH Oschatz (Germany)	Acquisition of chemical (fibreglass) plant	Valmiera
	BSW Europe Limited (UK)	Greenfield wood-processing plant (saw mill)	Riga region
	CC Beverages Holdings B.V. (Netherlands)	Acquisition of beverage company	Riga
	Baltic Beverages Holding AB (Sweden)	Acquisition of the largest and best-known local brewery	Riga
	Rhodia Industrial Yarns AG (Switzerland)	Acquisition of synthetic fibre/yarn plant	Daugavpils
	Thomesto OY (Finland)	Forestry & wood processing	Latvia
	Aga Ab	Production of chemicals, transport and retail	Riga
	Knauf International GmbH	Concrete, gypsum and cement-product production	Riga
	VAE Aktiengesellschaft AGF (Austria)	Manufacture of railway hardware	Riga
	Rinzai Limited (Hong Kong)	Acquisition of metal-fabricating plant; manufacture of crude iron steel and ferro-alloy	Riga
	Gesil Limited (Ireland)	Manufacture of hardware, steel and rolled steel	Liepaja
	Corpora Winery and Trading U.K. Limited (United Kingdom)	Acquisition of a locally-based beverage company	Riga
	S.p.i. Distilleries B.v.	Alcoholic beverage production, wholesale and retail	Riga
	Dinex A/S (Denmark)	Greenfield automotive components plant	Jelgava
	Ziegler Maschinenbau (Germany)	Plant for automotive industry contract manufacturing; manufacture of agricultural machinery	Daugavpils
	Baltic SME Fund C.V.	Joint-venture with local electronics contract manufacturer	Riga, Ogre
	Linstow AS (Norway)	Real estate operations for wholesalers & retailers, HoReCa, logistics operations	Riga
Real Estate	RIMI Baltic AB (Sweden)	Real estate operations for retailers	Riga
	Svalbork Invest Hypermarket AS (Estonia)	Real estate operations	Riga
	SIVA (Norway)	Industrial estate developers	Ogre
	As Portpro	Real estate operations	Riga
	New Europe Real Estate Ltd.	Real estate operations	Riga
	Erfolg Trading and Investments Ltd.	Real estate operations	Riga
	Ostermalm Property Investment Fund Ab	Real estate operations	Riga
	As Lohmus Haavel & Viisemann	Real estate operations	Riga
	Ce-beteiligungs-gmbh Ltd	Wholesaler	Riga

Sector	Company	Activity	Location
Wholesale & Retail	Statoil ASA (Norway)	Import of petrochemicals, chain of service stations	Latvia
	Neste Oil Finance (Netherlands)	Import of petrochemicals, chain of service stations	Latvia
	RAUTAKIRJA OY REITAN SERVICEHANDEL (Finland/Norway)	Establishment of retail chain throughout Baltic states	Latvia
	Kemira Growhow OY (Finland)	DIY & agricultural hardware & supplies chain	Latvia
	Alexela Oil As	Fuel retailing. Automobile and motor bike sales. Solid, fluid and gas fuel wholesaling	Riga
	Lansing Ventures (USA)	Hotel operations	Riga
Tourism & Hospitality	PBR Hotel Ltd. (USA)	A major business-class hotel	Riga
	Geit B.V.	Rail freight, logistics	Ventspils
Transport & Logistics	Beleggingsmaatschappij Geit B.V.	Maritime transport, logistics	Riga
	Ojay Limited	Maritime transport, logistics	Riga
	Noord Natie B.V. (Belgium)	Greenfield project for the largest multi-modal container terminal in the Baltic States	Ventspils Free Port
	Deutsche Bank Trust Company Americas (USA)	Cargo and passenger transportation	Riga
	Transnefteprodukt AO (Russia)	Pipe-line transportation	Daugavpils
	Lavinia CORPORATION Fishfriends Corp. S.A. (Liberia/ Germany)	Maritime transport, logistics	Riga

Source: Latvian Enterprise Register / Investment and Development Agency of Latvia, 2007



HUMAN RESOURCES

General Labour Market Facts, 2006

	Economically active population ('000)	Unemployment (% , annual average)	Average gross monthly salary (EUR)
Latvia	1167.5	6.8	350
By Region and City:			
Riga region	181.5	4.9	397
Riga	404.9	5.8	409
Vidzeme region	112.2	6.4	280
Kurzeme region	149.7	7.5	289
Liepaja	41.1*	4.9	289
Zemgale region	138.6	6.7	289
Jelgava	43.2*	5.5	289
Latgale region	180.5	10.8	
Daugavpils	73.2*	4.3	261
Rezekne	24.3	7.5	

*2005 data

Source: Central Statistical Bureau of Latvia, 2007

The total size of the Latvian labour market is 1.17 million persons, of whom the majority are concentrated in the largest cities — Riga, Daugavpils, Liepaja and Jelgava. The overall unemployment rate is moderate, yet stable; fluctuating between 6.8% and 8.7% over 2003-2006, but there are significant regional differences. Thus, any business setting up and seeking a workforce will find one in Latvia.

Education & Skills

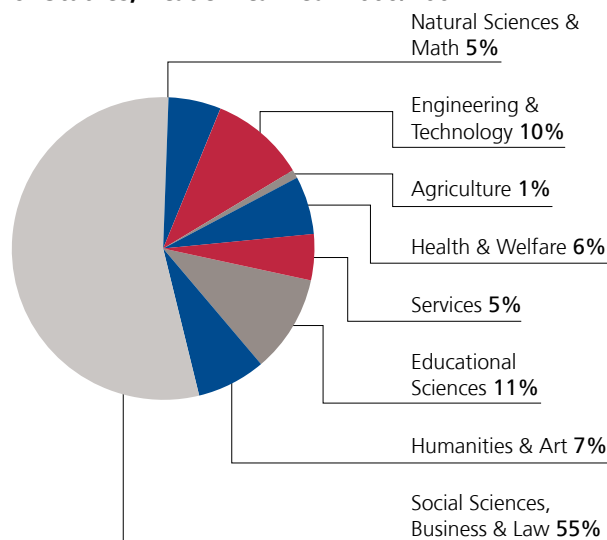
In addition to its location, Latvia's key economic asset is its people, who have historically benefited from a sound education system, even under different ruling powers. With the first technical university having been established in 1862, Latvia currently boasts a modern three-level education system, which has achieved international recognition through good average standards and outstanding results in international competitions for students.

Latvia, having one of the biggest per capita ratio of students in the world, is maintaining the inflow and availability of new specialists in labour and intellectual capacity markets. As a result of an underestimation of needs for commerce-oriented subjects, like business, law and communications, during the Soviet period, and the resulting scarcity of specialists, these subjects have now become the most popular with students. However, the natural sciences and technology, particularly IT and applied technologies, are currently experiencing increased popularity, as a direct result of the demand for such skills in the expanding industrial sector.

As well as offering high levels of academic and technical competence, a number of educational institutions provide higher education in an international milieu, successfully

participating as host universities within various student-mobility schemes such as the EU's Socrates/Erasmus and Leonardo da Vinci programmes, Nordplus and HESP. Latvia also 'exports' higher education, especially in the areas of technology, transport and health sciences, as Latvian universities provide excellent, but very cost-effective education.

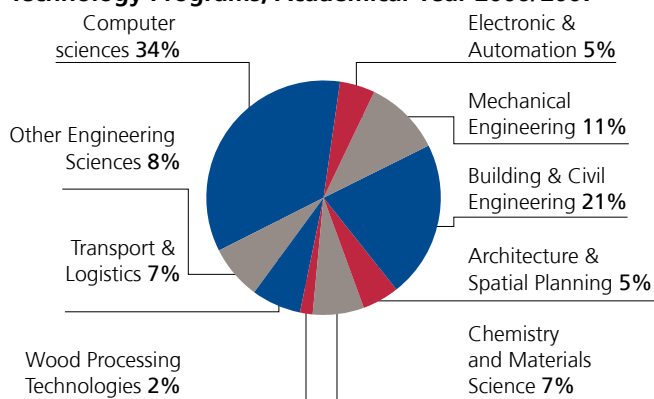
Breakdown of University/Colleague Students by Fields of Studies, Academic Year 2006/2007



Total 129 503

Source: Ministry of Education and Science, 2007

Number of Students in Selected Engineering/Technology Programs, Academic Year 2006/2007



Total 18 162

Source: Ministry of Education and Science, 2007

Vocational education institutions throughout the country provide a variety of programmes for the industrial, e.g. metalworking, industrial electronics/automation, forestry/wood processing and construction sectors, as well as for the service industry. These also function as centres for the further or re-qualification of persons already in the labour market.

Labour Costs

Latvia offers significant labour cost advantages across virtually all industries and positions. Although rising steadily, labour cost increases lag behind those in productivity, which means that currently labour costs in a variety of positions, from factory worker to software engineer, amount to only 20–30% of equivalent EU averages. Potential investors should also be aware that regional differences in labour costs are considerable, as much as 40% when comparing those in capital city Riga with the remote Latgale region, a significant additional advantage when choosing locations for highly labour-intensive operations.

Additional information at:

www.fontes.lv

Recruitment Procedures & HRM Services

To find an appropriate employee, employers can manage the entire recruitment process themselves or use the services of recruitment companies. When foreign investors establish a new business or take over an existing local operation, they can rely on international HRM competence and the in-depth local knowledge of recruitment service providers who specialise in all the stages, from the advertising of vacancies to customised executive search.

Overall feedback from the market suggests that recruitment and selection procedures for specialists and middle management in medium-sized companies require no more than 60 days, while the process for senior management may take up to 90 days. Recruitment services have been brought into the Latvian market, but are still developing towards western European levels. Other HR-related services include management of the assessment process, audits of organisational structure, improvement of HRM procedures, performance improvement, motivation systems, internal communications schemes, assessments of job satisfaction and training or retraining of employees. The reasons for requiring these types of service in an increasingly dynamic economy are: company take-overs, mergers and acquisitions, privatisation, strategic changes and restructuring, revitalisation and reduction of companies, standardising or structuring of organisational effectiveness (to downsize/restructure). Such methods can provide senior decision makers with professional reports on the capabilities of individual team members, the functioning of entire teams or organisations and recommendations on improving the efficiency of organisations.

The *State Employment Agency* is the national authority responsible for the labour market and can assist with selection of candidates from the non-employed population. The Agency also licenses and supervises commercial employ-

Average Gross Monthly Wages/Salaries for Selected Positions, 2006

Area of Activity	Indicative Position/Qualification	EUR/month
Management	Managing director of medium-size company	4480
	IT department manager	2840
	Logistics department manager	2020
	Manufacturing manager in medium-size company	2020
IT&T	Network administrator of a small/medium-size company	880
	Programmer-analyst	1300
	Call centre operator	460
Logistics	Truck driver	660
	Warehouse worker	510
Manufacturing	Engineer, CAD design	960
	Engineer, manufacturing equipment	900
	Qualified worker	780

Source: Fontes R&I Salary Survey, 2006

ment agencies and administrates state-subsided training programmes adapted to the requirements of employers. (for additional information see also "Incentives for Investors")

Legal Aspects of Employment Relations

All aspects of employment relations, including the legal status, rights and obligations of employer and employee, are governed by the Labour Law, which came into force in June 2002 and whose latest amendments were adopted in November 2005. Labour relations with foreign nationals are governed by the legislation of Latvia, by bilateral agreements concluded between Latvia and the corresponding state, and by international law.

Under Latvian legislation, equal rights in employment relationships are guaranteed to natural persons regardless of race, colour, gender, age, invalidity, religious, political or other opinions, ethnic or social origin, property or family status and other conditions. An employee is entitled to protect these rights in court. Any discriminating provisions and age should be excluded from the text of job advertisements, except in cases when sex/age is a specific requirement of a particular position. Any questions relating to family status, religion, membership of political parties/trade unions and national/ethnic origin are prohibited in job interviews.

Work Days and Holidays

The Labour Law prescribes that normal working hours cannot exceed eight hours per day or 40 hours per week. Shorter working hours are prescribed for young people according to

their age and to mothers with small children. Overtime is permissible if employer and employee have agreed in writing, except in some emergency situations. Overtime may not exceed 48 hours in a four-week period and 200 hours in a calendar year.

The standard working week is five working days with two days off. Under certain production and working conditions, employers may set a six-day working week with one day off. Working hours still cannot exceed 40 days per week or those prescribed for young people, etc.

During a working day, employees are entitled to a break of not less than 30 minutes for rest and meals. Working hours on the days before national holidays (January 1, Good Friday, Easter Sunday and Easter Monday, May 1, May 4, the 2nd Sunday of May, Pentecost Sunday, June 23 and 24, November 18, December 25, 26 and 31) are reduced by one hour.

The annual vacation entitlement is for a term not less than four calendar weeks (in addition to national holidays). Vacation days that have not been used cannot be remunerated in money, except when employment is being terminated and the employee has not used the full vacation entitlement.

Employment Contracts

Employers are entitled to employ citizens, permanent residents and foreigners with temporary residence, permanent residence or working permits issued by the Republic of Latvia. EU citizens are not required to have working permits. (For more details see the section on Entry, Residence and Work Permits.)



An employment contract must be made in writing, however it is considered to have been concluded at the time the employer and the employee agree on the duties and remuneration and if at least one of the parties has started to fulfil the obligations; an oral agreement has the same legal standing as a written contract.

The Labour Law prescribes a list of compulsory and optional provisions for inclusion in contracts, for example:

Compulsory: place of work, employee's occupation (position, profession) and general description of the work agreed, salary and terms of payment, the notice period before the termination of the contract, provisions of the collective work agreement and work-procedure regulations that are applicable to the legal employment relationship (or a reference to said documents), etc.

Optional: probation period; order and type of salary; granting of annual paid vacation; a list of commercial secrets and the obligation of employee not to disclose them; restrictions of employees' professional activities during the employment term, etc.

Generally, employment contracts are concluded for an unlimited term, except cases of specific projects, in accordance with regulations passed by the Cabinet of Ministers relating to seasonal projects, the entertainment industry, etc.

Any provisions of an employment contract that are less beneficial to the employee than those stipulated by law are not valid.

Probation

Labour contracts may include the provision of a probationary period which cannot exceed three months. If employees, at the end of the trial period, continue fulfilling their duties, this is considered to be a successful conclusion of the probationary period and termination of the labour contract is allowed only under the standard conditions of the corresponding legislation. However, within the trial period, labour relations may be terminated without providing any reasons to the employee.

Termination of Employment Contracts

The most common grounds for the termination of employment contracts before their expiry date are an agreement between the parties. Other possibilities include: expiration of the term of employment, except cases where labour relations continue in fact, and neither party has demanded that these relations cease; employees giving notices; employers issuing notice (e. g. violation of an agreement or agenda; illegal activity by employee; being intoxicated at work; violation of labour safety; incompetence, etc.); personnel reduction; collective dismissal; demands of third parties (in cases of under-age employees), etc. If labour relations are terminated by employers issuing notice, the employer must comply with prescribed terms e. g.,-immediate (in cases of unlawful actions or being

intoxicated); one month (in cases of reduction of staff, etc.) The Labour Law proscribes dismissal (except cases of breach of employment contract, illegal activities, intoxication, etc.). The amount of termination allowance is based on the time that has been worked in the company: 1 average monthly salary if the employee has worked up to 5 years, 2 monthly salaries — 5 to 10 years, 3 monthly salaries — 10 to 20 years, 4 monthly salaries — more than 20 years.

Collective dismissal presumes dismissal of a number of employees, if within a 30-day term: at least five employees are dismissed from companies with 20-50 employees; at least ten employees from companies with 50 to 100 employees; at least 10% of employees from companies with 100 to 300 employees, and at least 30 employees in companies with more than 300 employees. Prior to collective dismissal, the employer must consult with employees' representatives and the dismissal process cannot be commenced less than 60 days after the employer has submitted a formal notification to the State Employment Service and the appropriate municipality.

Employers cannot give notice of dismissal (with some exceptions) to pregnant women or to women on maternity leave for at least one year (or during the entire period of breastfeeding); if a person is declared to be a disabled person; during any period of temporary disability or vacation.

An employee is entitled to terminate his/her employment contract unilaterally by notifying the employer in writing one calendar month before the termination.

Wages & Salaries

Salaries should be equal for both genders and, for normal working hours, cannot be less than the minimum salary set in Latvian legislation in force at the time. From January 2008, the minimum salary is set at LVL160 (approx. EUR228). Salaries must be paid twice a month, but, if mutually agreed, salary should be paid not less than once a month.

Under material responsibility, employees are obliged to use the employer's property with all relevant care and are responsible for direct losses (excluding potential profit) caused to the employer by improper performance of their duties or other illegal actions, but it is advisable to conclude a separate agreement on material responsibility.

Trade Unions

Under the Law on Trade Unions, employees have the right to join trade unions based on professional, branch, territorial or any other principles. If the employee is a member of a trade union, in cases where an employment contract is terminated by the employer, the agreement of the relevant trade union is required, except, when an employment contract is terminated because of liquidation of the company, disciplinary measures, etc.

BUSINESS INFRASTRUCTURE

Transport & Logistics

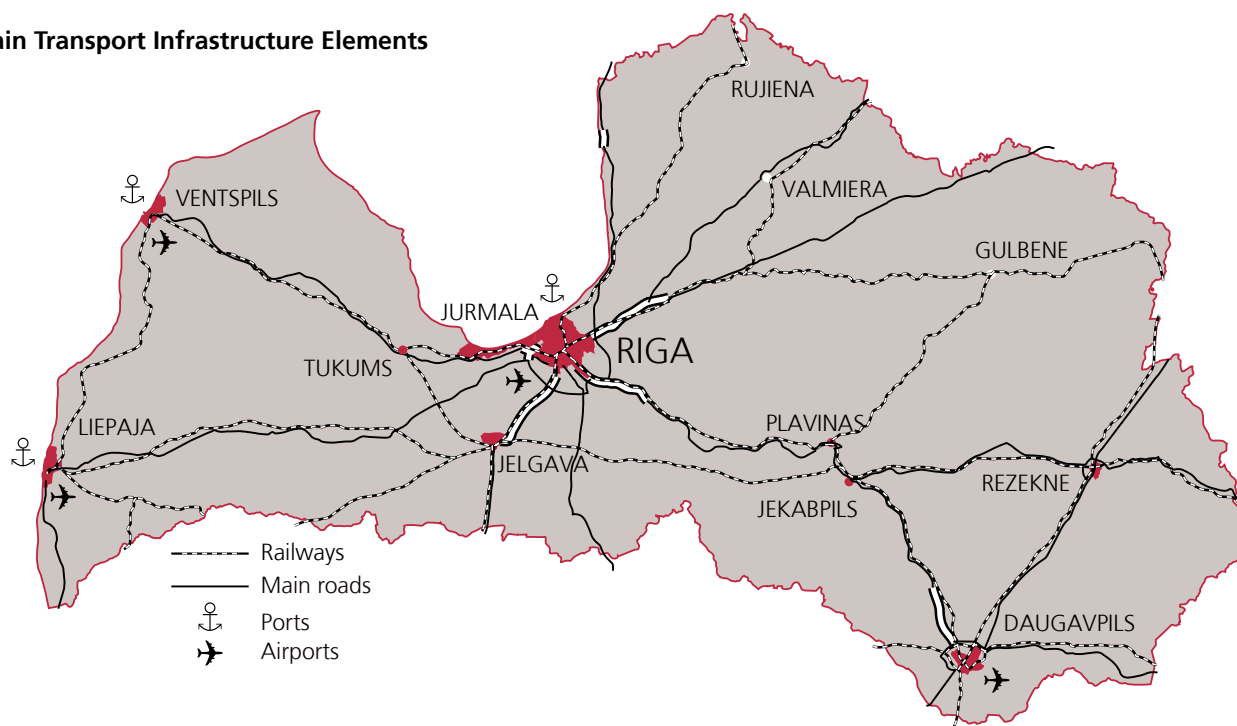
Latvia's transport system provides an appropriate infrastructure base to facilitate the growing trade flows between the EU and Russia/CIS, and to serve the needs of local export/import operators:

- Free ports in Ventspils, Riga and Liepaja, with a total cargo throughput of 102.9 million metric tonnes in 2005, predominantly transit shipments;
- An extensive and functional road network, connecting with both European and CIS road networks, as well as Latvia's ports;
- The shortest route between the EU and the CIS;
- Specialised, high-capacity railway corridor linking Latvian ports with Russia and the Far East;
- Riga International Airport — competitive Baltic passenger hub, high-speed cargo distribution centre;
- Pipeline systems for Russian oil/natural gas transit and distribution.

Ports

As vitally important export- and transit-transshipment points for Latvia itself, and for several neighbouring countries, the three largest Latvian ice-free ports ensure reliable access, 365 days a year. Connections to all other transport infrastructure elements, along with attractive tax-free zone incentives, have resulted in the ports becoming regional centres of industrial activity. Nonetheless, there are still a number of port locations available for businesses, within customs-free zones and with direct sea access. Latvian ports are highly export-oriented, with the proportion of loaded-on cargo being about 95% of all cargo throughput, mostly shipping cargo for transit and export from Latvia. The leading port in terms of unloaded cargo volume is Riga. RO-PAX transport connections with Germany and Sweden are important logistics services available at all three free ports. All the ports are equipped with the required infrastructure — tanks for bulk liquids, terminals, warehouses and cranes, communications infrastructure- and have operating service-providers — stevedores, agents, customs brokers and banks, with a number of internationally recognised names such as

Main Transport Infrastructure Elements



	Cargo Throughput ('000 MT in 2006)	Maximum Draught (m)	Port Territory (land; ha)	Specialisation and Facilities
Ventspils	29.1	17.5	2624	Oil products, crude oil, fertilisers, RO-RO/RO-PAX
Riga	25.4	12.2	7337.7	General/container cargo (timber), oil products, dry bulk, RO-RO/RO-PAX
Liepaja	4.0	9.5	1180	General/container cargo (metals), oil products, dry bulk, RO-RO/RO-PAX
Minor ports	1.1	4-7	N/A	General cargo (timber), dry bulk (seafood)

Source: Central Statistical Bureau of Latvia/Ministry of Transport, 2007

Kuehne & Nagel, Maersk Sealine and P&O Nedloyd being a visible part of the service offer.

Additional information at:

- www.ventspils.lv

- www.rop.lv

- www.lsez.lv

- www.transport.lv

- www.sam.gov.lv

Roads

Latvia is placed between Austria and Portugal in the European rankings for traffic density. The average density of roads in Latvia is 1.079 km per km².

The Latvian road system provides direct access to destinations in the east (Russia/CIS) and south west (central/western Europe), and is, through other countries, and/or RO-PAX-capable ports, well connected to northern Europe (Finland and Sweden). Generally, all roads are fully public and toll-free, as funds for maintenance are collected from excise tax on fuel and vehicle registration fees paid to the Road Traffic Safety Directorate. With financial support from the EU, Latvia's major road infrastructure development project is the upgrading of the Latvian section of the *Via Baltica* — the first pan-European transport corridor, connecting Finland and the Baltic States to Poland and Western Europe.

Transportation Costs & Duration to/from Riga

(13.6 m standard tilt trailer; EUR*; one way)

	Export	Import	Duration (days)
Moscow (Russia)	1 600	700	3-4
Warsaw (Poland)	550	1 100	2
Budapest (Hungary)	970	1 560	3
Amsterdam (the Netherlands)	1 000	1 900	3-4
Frankfurt am Main (Germany)	950	1 800	3-4
Mainz (Germany)	950	1 800	3-4
Milan (Italy)	1 300	2 700	4

*18% VAT not included

Source: BALTSHIP LATVIA Ltd., 2007

Forwarding services is a comparatively developed market with a large number of actively competing operators, including international companies like *Schenker, Danzas* and *DFDS Transport*. Transport-freight intensity is increasing rapidly together with the growth in foreign trade and transit operations — international freight volumes passing through Latvia have risen by 53% since 1999.

Additional information at:

- www.lad.lv

Railways

Latvia possesses a dense railroad network connecting the country to destinations as far as the Russian Far East, wherever the former Soviet railway gauge standard is in operation. There are additional opportunities for trade connection with Japan and Southeast Asia. Currently, Latvian railways mostly serve as a transit trunk-line with as much as 76% of total freight volumes being transit connected to Latvian ports and more than 60% of freight rolling-stock being tanker-wagons. Movement in the opposite direction — to Moscow and other parts of Russia/CIS is dominated by container cargo.

In order to facilitate trade flows in the north-south direction, it is planned to implement a pan-Baltic railway route with Estonia and Lithuania, connecting Finland to central Europe. This project would also serve as the first step in Latvia's transition to European railway gauge technical standards.

Additional information at:

- www.ldz.lv

Air Transport Connections

There are three operating airports in Latvia: Riga International Airport, Liepaja International Airport and Ventspils Airport. Nearly 99% of all air passenger and freight transport in Latvia is carried from Riga International Airport.

Riga International Airport is the leading air transport and transit centre of the three Baltic States, serving a number of airlines including Latvia's flag carrier *airBaltic*, linked to the Star Alliance through its shareholder, *Scandinavian Airlines SAS*, and European leaders like *KLM* and *Lufthansa*. These and other companies ensure fast and reliable direct travel from the recently reconstructed Riga International Airport to more than 60 destinations in the USA, Asia and Europe, including Helsinki, Stockholm, Copenhagen, Berlin, Frankfurt and London, all of which provide further connections to transcontinental air routes. In 2004, two low-fare carriers *Ryanair* and *Easyjet* started flights to Riga International airport. An increase in the number of carriers and EU accession to has resulted in unprecedented growth of passenger numbers by 77% in 2005, with the number of flights increasing by 26.4%. This positions Riga International Airport as the most rapidly developing airport hub in the whole of Europe. In 2006, the number of passengers using Riga airport reached 2.5 million.

Riga is directly connected by air to Austria, Azerbaijan, Belgium, Belarus, Czech Republic, Denmark, Estonia, Finland, France, Georgia, Germany, Greece, Ireland, Italy, Lithuania, Netherlands, Norway, Poland, Russia, Spain, Sweden, Tunisia, Turkey, United Kingdom, Ukrain, USA and Uzbekistan.

The air cargo and/or express package services of international providers like *SAS Cargo, Lufthansa, DHL, UPS* and

TNT ensure one-day delivery within Europe or two days for the rest of the world.

Additional information at:

www.riga-airport.com

Pipeline Systems

The pipeline system in Latvia provides transport and storage of oil, oil products and gas. The total lengths of oil and oil-product pipelines within Latvia are 437km and 329km respectively. They connect oil extraction and refinery plants in Russia/CIS, the nearest being in Polock (Belarus), to Latvia's ports. Connected to the Russian pipeline system, pipeline management company *LatRosTrans* provides a competitive alternative to railway transport.

Additional information at:

www.lrt.lv

Utilities

A number of utility services in Latvia are still state-owned or corporate monopoly operations. In order to ensure reasonable pricing in these areas, the Public Utilities Commission of Latvia, whose responsibilities include utilities, telecommunications, and post and railway services, regulates the tariff policies of monopoly utility providers.

Additional information at:

www.sprk.gov.lv

Gas

Latvia is endowed with a unique natural resource — the Incukalns Gas Reservoir, which is the largest natural gas storage in Europe with a capacity of approximately 4.4 billion m³. As a result, the country is in a very favourable position in terms of gas supply costs, also providing gas storage for the two other Baltic States and the western borders of the Russian Federation. The reservoir enables the operator JSC *Latvijas Gaze* to overcome problems arising out of seasonal demand fluctuations and to more effectively utilise existing gas pipeline networks.

Natural gas in Latvia is used in heat generation, power generation, and the manufacture of construction materials, agriculture, food and many other industries as well as for the utility needs of enterprises. *Latvijas Gaze* supplies natural gas to industrial clients through its centralised gas supply network, also carrying out and financing parts of engineering and installation works for the establishment of new connections.

Additional information at:

www.lg.lv

Electrical Power

State JSC *Latvenergo* provides about 90% of all the electricity generated in Latvia as well as ensuring its import, transmission, distribution and supply to consumers. The company, whose restructuring/privatisation is a major issue to be resolved in the next few years, operates the whole electrical energy cycle from power generation (combustion



and hydro-electric plants) through to distribution to sub-stations and user networks. About 100 independent producers, operating small-capacity hydro-electric plants, wind generators or heat and electricity co-generation plants, produce a very small proportion of electrical power. All the same, 'new energy' production is growing substantially and is expected to be of increasing importance in the future.

Connection of a new facility to the electricity network can be carried out by *Latvenergo*, or by any other licensed electrical-engineering supplier.

Additional information at:

www.energo.lv

District Heating & Water Supply

District heating and water supply services are generally provided by separate operators in each municipality, however, where necessary or more convenient, any company is free to construct its own system as long as it meets existing technical/environmental regulations. The municipalities mostly own local operators, but some are privatised and have attracted foreign investors.

Waste Disposal

Several local and regional waste management companies throughout the country provide general waste disposal services. The present capacity for recycling, re-use and recovery of packaging in Latvia is very limited. Some facilities exist for metals, glass, paper and cardboard recycling, but these are not currently operating at full capacity or on any significant scale. There are also installations for hazardous waste incineration, mercury recovery from luminescent lamps, water-oil separation facilities, incinerators of oil waste, medical waste incinerators, and three new installations for the disinfecting of medical waste.

Additional information at:

www.varam.gov.lv

www.zalaispunkts.lv

Telecommunications

Once lagging behind in the telecoms infrastructure field, Latvia secured major 'hard' investment after regaining independence in 1991 when it concluded a privatisation deal with *Tilts Communications* (now owned by Finland's *Sonera Holding B.V.*) who became a minority shareholder (49%) of the national operator LLC *Lattelecom*. The country is now widely equipped with digital communications networks. Since 1 January 2003, the fixed telecommunications sector has been open to competition, thus shortening *Lattelecom's* period of monopoly rights. New participants are entering this sector of the telecommunications market and offering their

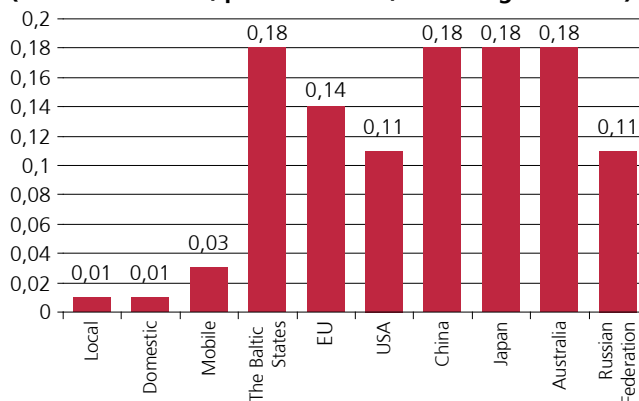
services as licences to work in this sector have been issued to many companies. The biggest of them are *CSC Telecom*, *Baltkom*, *Lattelenet*, *Telecom Baltija* and *Latvijas dzelzceļš*.

To date, telephone line digitalisation has reached 90%. Other advanced fixed-voice and data-transmission services offered by *Lattelecom* include the leasing of digital lines, ISDN, LANs and ADSL. *Lattelecom's* current *UltraDSL* package also includes a number of additional services such as conference calls, call waiting and number detection.

Internet services ranging from simple dial-up or radio links to lease-line connections are available from around 35 ISPs. International connections are provided by high-capacity, broadband optical-network links to Estonia, Lithuania, Russia and Sweden. Recently, WiFi and GPRS services were launched in Latvia. The number of public wireless internet hotspots is being increased. Currently, the number of such hotspots is more than 600.

Indicative Telephone Call Tariffs, 2006

(lowest available, peak EUR/min, including 18% VAT)



Source: *Lattelecom*, *Baltkom*, *LMT*, 2007

There are three mobile operators — *LMT*, *Tele2* and *Bite GSM* -with around 63% of Latvia's population being subscribers and an additional number utilising pre-paid cards. GSM network coverage of the largest operator (*LMT*) is as much as 99% of Latvia. Mobile operators offer a wide range of data-transmission services — high-speed GPRS data transmission and MMS. WAP is a common service both for Latvian mobile operators and on-line media. *LMT*, *Tele2* and *Bite* all offer services in UMTS-system networks.

Additional information at:

www.lattelecom.lv

www.baltkom.lv

www.lmt.lv

www.tele2.lv

www.bite.lv

www.triatel.lv

www.telecomgroup.lv

www.sam.gov.lv

Real Estate

As a country with a relatively low density of population, Latvia can provide a range of location choices for both industrial and office operations. There are a number of factory buildings in all the largest cities, along with historic city centres that are gradually developing new functions, evolving from residential into commercial, entertainment and shopping areas. In addition to the availability of individual properties, several business-hosting parks have been established or are being developed for different types of tenants. The first greenfield industrial territory, *Riga Industrial Park* (www.rip.lv), was established in 1998. *Riga Industrial Park* offers developed infrastructure in line with European standards, tailor-made warehouses, offices and production units with connections to all necessary engineering communications just eight kilometres (or a ten-minute drive) to the east of central Riga.

The largest industrial parks in Latvia are *Nordic Industrial Park* and *Nordic Technology Park* (www.industrial-park.lv). Their success story is based on buying huge factories, complete or partial renovation of buildings, and attracting foreign companies to set up their businesses in Latvia by providing a favourable business environment and an extensive range of services. It is also popular for local companies to launch their businesses in a modern and safe business environment like the NIP and NTP territories.

Some industrial parks have been established and designed for specific industrial branches or for the large-scale needs of particular tenants. For example, *Siva Industrial Park* (www.siva.lv), developed as a new industrial park in Ogre, was specifically designed for the Norwegian SME sector.

The majority of Latvian industrial parks are continuing to expand by constructing new or renovating out-dated premises. Experience shows that business and industry is also moving to other cities and regions of Latvia. The largest industrial and business parks being developed in Latvia are:

- Nordic Industrial Park, Olaine (Riga region);
- Riga Airport Business Park, (Riga International Airport);

- Granita Street Industrial Park, (Riga);
- Business Park Vega, (Riga Free Port);
- Karosta Industrial Park, Liepaja (southwest Latvia);
- Pulvera Street Business Park, Liepaja (southwest Latvia);
- Pumac Industrial Park, Liepaja (southwest Latvia);
- Daugavpils Industrial Zone, Daugavpils (southeast Latvia);
- Timber processing Industrial Zone, Jekabpils (southeast Latvia);
- Ventspils Industrial Park, Ventspils Free Port, (northwest Latvia);
- Ventspils High-tech Park, (northwest Latvia).

Average Commercial Rents (EUR/m² per month)

	Riga city	Riga suburbs	Other cities
Office	6-25	3-15	3-10
Retail trade	30-55	10-25	5-25
Modern warehouse/industry	3-8	2-5	1-4

Average land selling prices, EUR/m²

	Riga city	Riga suburbs	Other cities
Commercial use suburban land	65-800	20-800	5-300
Greenfield land plots	10-45 depending on location, condition, communications and encumbrances		

Source: Ober-Haus Real Estate, 2007

For greenfield projects there are no barriers to using the services of local real estate agents and construction companies. The construction services market in Latvia is very competitive with a number of local and international players like SIA *Constructus*, SIA *NCC Konstrukcija* and *PEAB*. The real estate business is also well developed and competitive, featuring companies such as *Latio*, *Ober-Haus*, *Arco Real Estate* and *Colliers*.

PROMISING BUSINESS SECTORS

Latvia's Economy in Brief

	2006	Growth in 2006
GDP at current prices, EUR millions	16028.3	11.9%
Major sectors (share of GDP)		
Manufacturing	2069.8	5.8%
Services:	10575.9	13.1%
Trade	2918.1	17.5%
Transport & Communications	1836.0	9.3%
Real Estate & Business Services	2087.1	17.6%
Financial Operations	875.2	15.5%

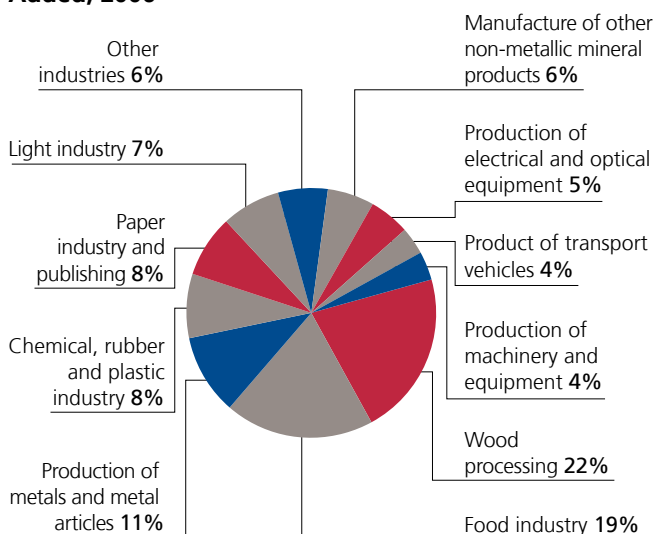
Source: Central Statistical Bureau of Latvia, 2007

During the last three years, Latvia has attained and maintained a rapid pace of development — GDP has grown by an annual average of 10.4%, which is one of the fastest growth rates in the whole of Europe. Along with the expansion of the service sector as a proportion of GDP, the economy continues to develop its own niche in global markets, as shown by increasing foreign trade volumes.

Manufacturing

Manufacturing in Latvia is undergoing stable growth; in the last four years, average annual growth rate of manufacturing has been 6.3%, but it still lags behind the overall growth of the economy. In the majority of sectors, most of the output is being exported; therefore the growth of individual sectors largely depends on the expansion of export opportunities. The leading growth industries in this sector have been chemicals, paper and printing, electrical and optical equipment, and light industry.

Structure of Manufacturing Industries by Value Added, 2006



Source: Central Statistical Bureau of Latvia, 2007

Forestry & Wood Processing

The forestry sector is Latvia's most important export industry, contributing as much as one third of total export turnover, and plays an essential role in rural and regional employment generation. The major markets for the industry are EU member states (mostly Great Britain, Germany and Scandinavia), but recent diversification in product range and the desire to improve profit margins have seen Latvian producers increasing their direct presence in more remote markets like the USA and Japan. The industry's success is based on Latvia's favourable combination of vast forest resources, strategic location and cost-effective labour force. Latvia has one of the richest forest resources in Europe, covering 45.2 % of the country's area with a total of 585 million cubic meters of growing stock. In addition to this bountiful supply, the wood is of a high quality, as Baltic Pine is one of the most straight and knot-free softwood species in the world. Other available wood species include birch, spruce and aspen, as well as classically more valuable woods like ash and oak. Additionally, timber import from Russia is a growing trend and is expected to reach significant volumes in the next few years.

Currently the leading sub-sector of the industry is timber sawing, which makes up nearly half of total wood-product exports (38%), followed by roundwood (12%) and furniture (10%). It is clear that the value added to Latvian wood prior to export is increasing consistently. Further expansion of more advanced manufacturing can be anticipated from the fact that furniture export is growing faster than the export of other wood products, thus forming the final link in the local value-added chain and consuming a growing proportion of less value-added materials.

As the timber supply market features a number of huge local and international players, investment opportunities in Latvia's woodworking industry exist mostly for:

- More advanced and/or labour-intensive manufacturing utilising locally manufactured sawn wood or components;
- Commercial utilisation of wood residues, such as manufacturing of fuel pellets/briquettes or the production of wood-based chemicals like *furfural*.

Key advantages of the sector: availability of vast domestic and imported wood resources, skilled labour force, established wood-processing cluster including proven R&D capability.

Additional information at:

www.silava.lv

www.lvm.lv

www.latviantimber.lv

www.latvianwood.lv

Metal Processing & Engineering

Metal processing and engineering have historically been one of the leading industrial sectors in Latvia as the country was one of the high-tech manufacturing centres for the Soviet military and aerospace industries. Currently, the sector is mainly involved in export-oriented contract manufacturing activities, however, the development boom in the domestic construction market has seen metal processing rapidly evolving in this direction. The major sub-sectors are the production of basic metals and manufacturing of fabricated metal products, transport vehicles such as ships, trailers, machines and machine tools, as well as electrical/electromechanical machinery and equipment. In the long term, the most promising sub-sectors are electronics contract manufacturing, tool production (moulds & dies), automotive contract manufacturing and shipbuilding. There is potential for extending production into other areas where the key factors are proximity to the EU market and an attractive labour skill/cost ratio. These factors are exemplified by the Latvian tooling industry, which is currently a true success story, continuously increasing its competitive edge with outsourced orders from engineering multinationals such as *ABB*, *Audi*, *Ford*, *GM*, *Philips* and *Volvo*. The industry is dominated by geographically dispersed SMEs, whereas Riga remains the main educational (Riga Technical University, Riga Technical College) and commercial R&D base. Companies working in the sector widely utilise modern technologies: CNC machines, CAD/CAM systems, and advanced surface coating. To supplement higher education, a vocational education centre, with advanced digital metal-processing and other manufacturing technology courses in its curriculum, has been opened in Valmiera.

Key advantages of the sector: skilled and cost-effective workforce, strong R&D capability, access to metal supplies from Russia and markets in the west.

Additional information at:

www.masoc.lv

www.letera.lv

Textiles

The textile industry is another traditionally highly export-oriented (76%) manufacturing sector, historically based on a small number of giant enterprises, but now 'clustered' with newly emerged, flexible and specialised SMEs. The major market for Latvian textile goods is EU member states (72.9%), where, in countries such as Sweden, Denmark and Germany, quality product is a must. In these markets, local Latvian enterprises, along with a number of foreign-owned companies, act mostly as CMT producers, a good example being a number of contracts with major brands and retail chains. On the other hand, high productivity and competitive design services also ensure remarkable success in the price-sensitive regional and eastern (Russia and CIS)

markets. Cotton and wool garments, knitted garments, linen, and other goods make up two thirds of Latvian textile export goods. Textile companies also produce semi-finished goods — fabrics, synthetic fibres, threads and others.

Beyond pure manufacturing, a number of related sub-sectors such as textile R&D and fashion design are rapidly expanding their presence in both domestic and export markets, most often included in the complete product package with manufacturing. Design activities carried out by spin-offs of educational institutions, as well as by commercial designers, range from high fashion to hip clothing for the youth market.

Key advantages of the sector: highly cost-effective and motivated labour force, historic traditions and manufacturing infrastructure, applied arts activities, access to western markets.

Chemicals & Pharmaceuticals

Latvia's chemical industry comprises two main segments — export production of pharmaceuticals, and raw materials and part-processed products (e.g. casein, glass fibre and its products), and the manufacturing of paints, industrial and household chemicals for the domestic and regional markets. As a result, exports make up 56.5% of manufacturing volumes. Volume manufacturing of chemical products is mostly carried out by large companies located in the Riga area, in Valmiera and in Dobele.

Another traditional sub-sector within the industry now experiencing a resurgence is R&D, in areas such as the life sciences, wood chemistry and the development of new materials for the aerospace, automotive and construction industries. As there are three notable research institutions within the materials science area (Institute of Solid State Physics and Institute of Polymer Mechanics, University of Latvia and Institute of Inorganic Chemistry, Riga Technical University), this R&D track has been designated a national long-term priority.

Latvian pharmaceutical companies have proved themselves by holding patents for 12 new drugs, despite lacking the sort of R&D investment required for such projects, typically by world standards, in excess of EUR500 million. The rest of their production revolves around generic drugs for the domestic market or export to Russia/CIS.

Key advantages of the sector: strong R&D capability, established manufacturing infrastructure, geographical and cultural proximity to eastern markets.

Additional information at:

www.lakifa.lv

www.nki.lv

www.pmi.lv

Food & Beverages

It is no surprise that the food industry is one of the largest and the least export-oriented (24.3%) manufacturing sectors in Latvia, or that, along with the wood industry, it

experienced its first significant foreign investment activities in the early 1990s.

In 2006, sales of food products increased both in internal and external markets, with faster growth of export to EU member states, constituting 66% of the sector's total foreign trade.

The leading food industry sub-sectors are beverages, dairy products, meat products, followed by fish products, cereal products and fruit & vegetables. Latvia's main food exports are prepared fish products, of which 64.6% were exported in 2005, mainly to Russia and the other two Baltic States. Dairy products form the major proportion of trade with EU member states.

Key advantages of the sector: high quality raw materials, stable and traditional 'taste' and demand within the domestic market, high recognition in Russian and CIS markets.

Additional information at:

www.li.lv/food_specialities

Services

ICT

The ICT industry is Latvia's fastest growing economic sector with annual growth of 20-30% over the last decade. Sector exports have increased rapidly in recent years, growing by approximately 20% annually. The industry's main asset is highly qualified human resources with more than 10 000 graduate IT specialists and an additional 9 000 students in universities and colleges. Support for ICT throughout the education system is key to further development. That this has been understood is shown by the doubling of software engineering students in Latvian universities/colleges over the last three years, and the increasing popularity of the ICT profession among the brightest school-leavers.

The key competence areas of the Latvian ICT industry include customised ICT solutions, financial applications, localisation, implementation of large-scale projects and application services. In addition to the development of software, Latvian ICT companies offer integrated solutions in complex areas like project implementation, business process engineering and business strategy. The competence of the Latvian IT industry has been proven by the successful outsourcing activities of ICT giants like *IBM, Microsoft, Unisys, Sybase, Sun*, and by the acquisition of Latvian companies by *Exigen, TietoEnator* and others.

Global software outsourcing and ASP have been identified as the most important types of service in the future. As a driving force for the implementation and success of this, a diverse and interconnected ICT cluster has evolved. The cluster features a strong R&D presence, together with a broad range of additional services such as front/back office support, telecoms; banking operations and web-design, all supported by appropriate industry associations.

Key advantages of the sector: internationally competitive human resources at all levels of expertise at very competitive

costs, highly developed telecoms and data-transmission infrastructure.

Additional information at:

www.litta.lv

www.is.lv

www.edi.lv

www.balticcybercity.lv

Logistics, Transit & Value Added Services

Having been a transport and trade gateway between the east and west since Hanseatic League times, Latvia has managed to successfully revitalise the role of its location as part of its economic success since regaining independence. With the main component being the handling of Russian/CIS crude material exports, transport and communications made a contribution of 11.5% to the country's GDP in 2006. The sector's growth in 2006 was above the average of 9.3%, showing that the proportion of value-added services provided by Latvian companies is increasing. Total revenue in the transport and communications sector has gone up by 11% over last three years. The backbone of Latvia's multi-modal transport corridor is the developed east-west railway and pipeline system concluding at three ice-free ports, with highly developed oil, metals and chemicals transit handling operations. Conversely, value-added handling of freight for regional markets (the Baltic States, Russia and Belarus) shows increased growth.

Currently, the freight that flows through Latvia represents the low-value added logistics segment, with highly intensive and time-consuming, mono-directional operations. More value-added operations are gradually replacing these, as local and foreign investors recognise the potential offered by the country's location and relative cost advantages. The most common value added-operations include re-packaging, assembling and testing/sorting of goods.

Latvia's location in the centre of the Baltic Sea region and access to transport corridors crossing the region are facilitating factors for the development of freight-distribution centres for north European and CIS markets. Access to the Trans-Siberian railway provides additional opportunities for freight distribution, enabling Latvia to act as an important logistics hub servicing EU and Far East trade flows (Japanese, Chinese, Korean and North Indian) in both directions. In addition, Latvia can offer many large vacant buildings, such as former factories, and strategic land within ports (including free ports), for the expansion of logistics operations.

Key advantages of the sector: strategic location and proximity to large markets in the Baltic Sea Region and Russia/CIS, availability of vacant buildings and land, cost advantages.

Additional information at:

www.transit.lv/about.html

Financial Operations

Accounting for as much as 24.6% of total FDI stock, the financial services industry has experienced remarkable growth rates with tripled commercial bank assets and a four-fold increase in loans since 2003. Experts estimate that the financial market in Latvia and the Baltic countries will maintain the same growth tempo, considerably higher than average indicators in the EU, for at least 5-10 more years. The Latvian banking and insurance market is dominated by important regional players including *FöreningsSparbanken*, *SEB* (Sweden), *Nord/LB* (Germany) and *Nordea* (Finland) who are present either as owners of, or important/majority shareholders in banking operations initially established locally. However, there are still a number of niche opportunities within the domestic financial services market, especially in the field of corporate banking. Particular growth within the banking sector is expected in the financing of loan operations, export/import deals and online banking. It is anticipated that the most rapidly growing insurance markets will be for services related to corporate and social insurance. Growth is expected also in unexplored areas such as pension and investment funds. The most important driving force for further growth remains the constant increase of purchasing power and overall economic activity in the country. This, in combination with the stable, conservative monetary policy of the Bank of Latvia, makes Latvia an attractive financial environment.

Key advantages of the sector: Latvia's stable monetary policy, growing purchasing power and demand for financial services.

Additional information at:

www.bank.lv

www.fktk.lv

www.bankasoc.lv

Construction & Real Estate

Construction is one of the most dynamic sectors of the Latvian national economy. For the last three years, the average annual growth rate of construction stands at 14.1%. Most growth is being seen in new construction for public use such as shopping centres, government buildings, and private housing. In 2006, construction outputs were 38% higher than in the preceding year. The proportion of new construction in the total output has increased, particularly in the construction of single-occupancy housing. Industrial buildings and civil engineering projects follow these and are expected to experience further rapid growth with access to EU Structural Funds.

Recent years have seen increased activity in the private mortgage market, resulting in additional construction activity within the private housing sector. This is expected to increase even further with the growth of purchasing power, as consumers

will wish to increase their living space, which, currently at 25.1 square meters per person, is only half the EU average.

The export of construction services is another trend, benefiting from integration in the EU single market and friendly relations with eastern neighbours. The main export directions are price-competitive services to neighbouring countries like Sweden and Norway, and advanced civil engineering projects on behalf of international companies.

Key advantages of the sector: growing private, corporate and public demand, established manufacturing of construction materials, availability of cost-effective and qualified labour force at all levels of operations.

Energy

The most essential elements of Latvia's energy system are the electricity and gas distribution infrastructures, and oil transportation. The energy market in Latvia can be considered liberalised, with the exception of the gas market, where *Latvijas Gaze* has secured a monopoly until 2010.

The market for electricity generation, distribution and sales in Latvia is officially liberalised, however a single player — *Latvenergo* (state joint stock company under privatisation/dissolution) owns the entire energy infrastructure. As a result, until privatisation is complete, it is not possible to implement integrated nationwide power utility projects. However opportunities do exist for localised investment projects in co-generation stations (particularly involving bio-fuels) to supply large industrial customers and/or regional cities with electricity and heat energy.

A number of Latvian cities have attracted private investment to their district heating/water supply networks, either as acquisitions/concessions of municipal companies or through risk/debt financing. Further opportunities within this sector are still available for interested foreign investors.

A new energy segment was opened in Latvia with the bid for the license for oil exploration on the Baltic shelf, in two blocks of more than 2 000 km² off the west coast of Latvia, where *Odin Energi AVS* (Denmark) acquired an exclusive exploration and production licence. In order to fulfil the contracted work schedule, the following was done in the first year: setting up a database, supplementing and reprocessing of seismic data, summarising of seismic and well-drilling data. The licensee has commenced the training of Latvian specialists in the modern technologies for conducting geophysical operations and data interpretation that are used in prospecting and exploration for hydrocarbons. The future involvement of other players will be determined by other tenders, depending on the results of this exploration.

Additional information at:

www.sprk.gov.lv

www.petroleum.lv

INCENTIVES FOR INVESTORS

As a small country with limited private capital resources, Latvia fully appreciates the crucial impact of foreign direct investment on its continuing economic development. The government and local authorities, through cooperation with various business organisations, are committed to further improving the legal and administrative environment for foreign and local business ventures wishing to establish themselves in the country, by a number of methods and means. As an example, Latvia was one of first countries to execute a gradual reduction of the standard rate of corporate income tax from 25% in 2001 to 15% from January 2004.

Start-up Assistance

Company registration procedures in Latvia are fast and streamlined, allowing for the establishment of a business within two business days.

Preferential work and residence permit formalities for key company personnel (for detailed information see the section on Entry, Residence and Work Permits).

Location, establishment and local networking guidance is provided by the Investment and Development Agency of Latvia, regional development agencies and local authorities.

State Support Programmes and Grant Schemes

The Latvian government has developed state support programmes for enterprises registered in Latvia. The programmes for 2007-2013 anticipate grants for the following activities:

- The foundation and support of a Centre of Competence;
- Support for the Technology Transfer Centre;
- Technology incubator;
- Business incubators in regions;
- Development of new products, services and technologies;
- Recruitment of highly qualified employees;
- Development of industrial areas used by businesses;
- Development of investment in small and medium-sized enterprises in regions with special support status;
- Education and re-training of employees;
- Support for start-up commercial activities;
- Risk capital funding;
- Loan guarantees for small and medium-sized enterprises;
- Alternative investment market.

The state support programs are co-financed from EU Structural Funds.

In order to apply for grants, enterprises need to prepare and submit project applications in line with the criteria described in guidelines for the submitters of projects.

Additional information at:

www.liaa.gov.lv

www.vraa.gov.lv

www.lga.lv

www.hipo.lv

www.em.gov.lv

Grants for Enterprises in Priority Development Areas

For companies registered in regions with special support status, grant schemes are available allotting subsidies for loan interest payments, if the loan has been used for the purchase, creation or fundamental reconstruction of fixed assets, or for initial investment in fixed assets by enterprises that have implemented development projects anticipating rapid growth in sectors with high value added (processing, services) or that facilitate the development of innovative enterprises.

To apply for grants, enterprises need to prepare and submit project applications in line with the criteria described in guidelines for the submitters of projects.

Additional information at:

www.vraa.gov.lv

Grants for Job Creation

Employers intending to hire new employees from the unemployed or socially excluded population can apply for subsidies from the Employment State Agency.

In order to apply for subsidies, enterprises need to prepare and submit project applications in line with criteria determined by public tender.

Additional information at:

www.nvd.gov.lv

Real Estate & Infrastructure Provisions

Regional and local authorities may provide or sell land and real estate under favourable conditions to companies intending to create employment. Several local authorities in Latvia have established or intend to establish below market-price industrial estates through either their own, national, or international financing. In particular, EU Structural Funds have been allocated to the infrastructure-development projects of local authorities for the establishment of several business-hosting estates across the country.

Tax Incentives

Corporate Income Tax

The latest tax rebate was introduced on 1 January 2006 and affects new technological equipment for manufacturing, utilised in a commercial activity. Before calculation of depreciation value of fixed assets, asset value will be increased multiplying it by a ratio (for fixed assets, purchased or obtained within the taxation period); starting in 2007 ratio 1.4, in 2008 - 1.3, in 2009-1.2 and in 2010-1.1. As a result of this, depreciation is higher than usual, but the tax applicable is lower.

For example, if the value of a fixed asset is LVL20 000, then in a standard situation with annual depreciation set at 40%, depreciation is LVL8 000, but where this coefficient is applied, depreciation becomes LVL11 200 in 2007.

In such cases, new technological equipment for manufacturing is understood to be working machinery for carrying out the entire technological operation, or certain successive stages thereof, as a result of which a product's characteristics are changed in such a way that the value of the item being processed will increase. This ruling also applies to auxiliary units of such equipment, to machinery, textile production equipment and production lines.

Within a year of disposing of the fixed asset, previously applied depreciation will need to be added to taxable income, if the fixed asset is disposed of within five years of its acquisition.

Corporate income tax rebates also apply to:

- Corporate income tax may be reduced by the amount of corporate tax paid in foreign countries, but the reduction may not exceed the amount of tax calculated in Latvia for the income gained abroad;
- Corporate income tax relief for agricultural companies.

In addition to the above, local authorities may grant support of up to 90% reduction in real estate tax for investment projects that comply with their local or regional development strategies and zoning demands.

Dividends

Domestic dividends and dividends paid by EU companies are exempt from taxation; foreign dividends paid by third-country resident companies are taxable (with a participation exemption). Latvia is a favourable location for holding companies because corporate income tax is not levied on dividends received by Latvian holding companies.

Tonnage tax

Tonnage tax may be paid by companies which are engaged in international carriage. The State Revenue Service assigns the status of tonnage tax payers. Tonnage tax is calculated by multiplying the net tonnage of the ship by an income co-efficient; the results are added and the sum multiplied by the number of days within the taxation period that the specific ship was in operation.

Covering losses from the sale of securities

Losses within a taxation period from the sale of securities (except securities which are in public circulation) may be covered in chronological sequence from the taxable income of the next five subsequent taxation periods, but not may not exceed the amount of the original loss, if the taxpayer does not sell securities on a regular basis (not more than once in a taxation period) and the sold securities were in their ownership for more than 12 months.



Special Taxation Regimes

The Law on the Application of Taxes in Free Ports and Special Economic Zones came into force on 1 January 2002. It prescribes a special tax regime applicable to companies operating in the Liepaja and Rezekne Special Economic Zones, and the Riga and Ventspils Free Ports.

The main concessions for such enterprises are as follows:

- 0% VAT for most goods and services supplied in the free zones, including construction services;
- VAT, excise tax and customs duty exemption on imports to free zones from foreign countries and on exports to free zones abroad
- 80-100% rebate on real estate tax;
- 80% rebate on corporate income tax on activities carried out within the zones;
- 80% rebate on the applicable withholding tax for dividends; management fee and payments for use of intellectual property;
- Expatriates who pay social tax in their home country may pay a reduced social tax based on 15 minimum monthly salaries.

Since January 2003, rebates may not exceed 50% of the amount invested.

Tax holidays are applied only if authorisation from the Authority of the particular Special Economic Zone or Free Port has been received. Authorisation may be issued only to those companies which are located in the territory of special economic zones or free ports and only carrying out business activities in those territories.

The location of administrative institutions outside special economic zones or free ports, the conduct of negotiations and the concluding of contracts outside of the territories of special economic zones or free ports, the transit of goods from or to the territory of a special economic zone or free port, and other activities not having the nature of the execution of a goods-money transaction are not considered to be business activities within special economic zones or free ports.

Personal income tax

Capital gains, incomes from real property is held less than 12 months, dividends received from the Latvian company or EU company, which have not exemption from corporate income tax, are not taxable for Latvian residents.

Protection & Representation of Business Interests

For several years, the Latvian government has been successfully cooperating with a non-government organisation which unites the largest businesses from different countries and sectors that have made significant investments in Latvia's economy — the Foreign Investors Council in Latvia (FICIL). Seven foreign Chambers of Commerce in Latvia have also joined FICIL. The

goal of FICIL is to improve the business environment in Latvia through active dialogue with the government.

FICIL and the government meet regularly in so-called High Council Meetings. These meetings are jointly chaired by the incumbent Latvian prime minister and the executive director of a FICIL member's parent company. The major areas of the dialogues between governments and FICIL have been the reduction of corruption, increasing the effectiveness of the judicial system, achieving greater transparency, reduction of the grey economy, objective and transparent public procurement, improving tax collection, customs administration and the attractiveness of the overall investment climate.

In the process of the dialogue, an Action Plan, comprising the recommendations of the business community, has been developed to facilitate the improvement of Latvia's business environment. The Action Plan is an inter-ministerial planning document that summarises existing problems, specific tasks to be undertaken in order to solve those problems, the institutions responsible, implementation deadlines and performance indicators. The Action Plan is revised regularly. The first Action Plan was signed in 1999, since then, it has been the main tool in the process of improving Latvia's business environment. As a result, 135 of the 143 tasks listed in the Action Plan were successfully implemented between 1999 and 2004, and today Latvia is among the top 30 countries worldwide in terms of the ease of doing business.

Through its members, FICIL represents a cross-section of industries in which foreign direct investments have been made in Latvia. FICIL company members include: Baltic Car Import, Dalkia Latvia, Ernst&Young Baltic, Fazer Maiznicas, GE Money, Hansabanka, HVB Bank, Rimi Baltic, Knauf, Latvian Business Bank, Latvija Statoil, Linstow, Metsaliitto Group, Neste Latvija, NCH Advisors, DnB NORD Bank, Scandinavian Tobacco, Stora Enso, SEB Unibanka, Telia Sonera AB, VAE Rīga, Volvo Truck Latvia. Associate members include the American, British, Danish, Swedish Chambers of Commerce, German-Baltic Chamber of Commerce in Estonia, Latvia, Lithuania, as well as the Finnish Trade Guild. Latvia has signed bilateral agreements on the mutual promotion and protection of investments with Austria, Belgium, Bulgaria, Belarus, Canada, China, Czech Republic, Croatia, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Israel, Italy, Kazakhstan, Korea, Kuwait, Lithuania, Luxembourg, Moldova, Netherlands, Norway, Poland, Portugal, Rumania, Singapore, Slovakia, Spain, Sweden, Switzerland, Turkey, Ukraine, Uzbekistan, Vietnam, United Kingdom and USA, which protect the security of capital invested in Latvia.

Latvia has also joined a number of other international conventions relating to international business development within and with the country, such as: The Hague Convention on Civil Procedure, 1954 (in effect since 1993); The United Nations

(New York) Convention on Recognition and Enforcement of Foreign Arbitral Awards, 1958 (in effect since 1992); The Washington Patent Cooperation Treaty, 1970 (in effect since 1993); The Convention on the International Transport of Goods Under Cover of TIR Carnet, 1975; Convention Establishing the Multilateral Investment Guarantee Agency, 1985; The Geneva Trademark Law Treaty, 1994. On 1 May 2004 Latvia joined the EU and its single market, which entitles all companies registered in Latvia to the free movement of goods, services, workers and capital within the EU/EFTA customs territory. Trade relations, outside EU/EFTA countries, are regulated by EU External Trade policies.

Definition of investment

Investment agreements protect foreign investment in Latvia. Within the meaning of such agreements, investments are considered to be any assets within Latvia, invested into by an entity or individual from the respective state which is a party to the agreement, or, vice versa, assets in a foreign state, invested into by Latvian entities or individuals. These assets include: movable assets and real estate; any property rights, such as mortgages, liens, pledges, shares, debentures and other forms of participation in companies; claims to money or to any activity having economic value; loans; intellectual property rights (such as copyright and neighbouring rights, industrial property rights, trademarks, patents, industrial designs and technical processes, know-how, trade secrets, trade names and goodwill) and rights to engage in economic and commercial activities. In older agreements, the term "investments" is used rather than "assets", and the types of investments are split differently, with some specific types being emphasised (for example: rights to exploit natural resources) but this does not change the essence of the matter.

Prohibited actions

The intention of investment agreements is to provide investors of the contracting states with no less favourable a regime than that applying to the host state's residents, and to prohibit the disturbing of investments by arbitrary or discriminatory measures.

The prohibited measures include expropriation or nationalisation of investments, unless that is shown to be in the public interest, on a non-discriminatory basis, under due process of law, and prompt, adequate and effective compensation is paid.

Land acquisition

Investment agreements apply also to the purchasing of land in Latvia. Rural land not requiring the specific approval of a municipality or under certain zoning restrictions, may be acquired as property by i) citizens of Latvia; ii) the Latvian state or a municipal company; iii) companies incorporated in Latvia

more than 50%-owned by Latvian or EU citizens or by citizens or companies of a state having an investment agreement with Latvia that was ratified by Latvia before 1997 (Austria, Belgium, Canada, Czech Republic, Estonia, Finland, France, Germany, Greece, Israel, Korea, Lithuania, Luxembourg, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Uzbekistan, Vietnam, United Kingdom, USA); iv) public joint stock companies having shares quoted on the stock exchange; iv) state and municipal universities, v) religious organisations incorporated in Latvia before July 21, 1940.

Land can be acquired by a company, incorporated in Latvia or another EU state and more than 50%-owned by citizens or companies of a state having an investment agreement ratified by Latvia after 1996, without specific restrictions, if these agreements provide reciprocal rights for Latvian residents to acquire real estate in the respective state.

At present there is a transitional period regarding rural property. After 1 May 2011, land can be sold to any EU company or citizen without current restrictions. Until then, rural land may be acquired, only with the approval of the respective municipality, excluding certain types (in nature reserves, etc.), by citizens from another EU Member State who have lived in Latvia for at least three years without discontinuation, have actively participated in Latvian agriculture for three years and having the wish to carry out business in Latvia as a self-employed farmer; by other EU citizens and legal entities incorporated in EU countries, unless the purpose of use of such land is farming or forestry.

Ownership of land in the cities and towns of Latvia can be acquired by citizens of Latvia or any other EU Member State; the Latvian State a, municipality or state/municipal companies; a company incorporated in Latvia or any other state of the EU where at least 51 percent of the share capital is owned by citizens of Latvia or the EU, or of countries having an investment agreement with Latvia which was approved before 31 December 1996; public limited companies incorporated in Latvia or another EU country whose stock is quoted on the stock exchange; etc.

Settlement of disputes

To ensure neutrality, the agreements referred to provide specific rules for the settlement of disputes between foreign investors and the host state.

These rules prescribe that disputes on the protection of investments shall be settled by negotiation. If negotiation fails, the dispute shall be settled by international arbitration as specified by individual agreements (International Centre for Settlement of Investment Disputes (ICSID), or in arbitration pursuant to UNICITRAL, or by arbitration pursuant to the rules of the International Chamber of Commerce (ICC)) or by a competent court of a contracting state at the investor's request.

OPERATING ENVIRONMENT

Setting up a Business in Latvia

Forms of Business Organisation

The main law regulating commercial relations is the Commercial Law adopted on 13 April 2000 (entered into force on 1 January 2002). The Commercial Law defines 'commercial activity' as 'an open economic activity, which is performed by merchants in their own name for the purposes of gaining a profit'. The Commercial Law defines a 'Merchant' (in Latvian-*komersants*) as a natural person (individual merchant) or a commercial company (partnership or capital company) registered with the Commercial Register. All merchants have to be registered in the Commercial Register.

According to the Commercial Law, commercial activities in Latvia are carried out by:

- 1) individual merchants (*sole trader*);
- 2) partnerships (general and limited partnerships);
- 3) capital companies (limited liability companies (LLC-in Latvian, *SIA*) and stock companies (SC- in Latvian, *AS*)).

Individual merchants

An individual merchant is a natural person who is registered as a merchant with the Commercial Register. Individuals are obliged to register as merchants when they carry out commercial activities and their annual turnover from those activities exceeds LVL200 000 or if they employ more than five employees concurrently and their annual turnover exceeds LVL20 000.

At the same time, any individual performing commercial activities, is able to register as an individual merchant at their own discretion even if his or her commercial activities do not exceed the criteria above.

Partnerships

The Commercial Law provides for two types of partnerships-general partnerships and limited partnerships.

A general partnership is a partnership, the purpose of which is the performance of commercial activities utilising a joint name, and in which two or more persons (members) have united, on the basis of a partnership agreement, without limiting their liability against creditors of the general partnership. Members of general partnerships can be both individuals and legal entities, either foreign or local. Compared to LLCs and SCs, the Commercial Law grants the members of partnerships wide discretion in the contents of their partnership agreement (in particular on issues like decision making, profit sharing and representation).

A limited partnership is a partnership in which at least one of the members has limited their liability against creditors of

the partnership up to the amount of investment in the partnership. A member of a partnership with limited liability has certain restrictions in terms of representing the partnership and the distribution of profits. Otherwise, in limited partnerships the same provisions apply as for general partnerships.

Limited liability companies

The LLC is the most widely used form of business organisation. The liability of the shareholders of an LLC is limited to the amount of their investment in the share capital of the LLC, however, an LLC can also be incorporated as a company with supplemental liability where one or several shareholders are personally liable against creditors of the company with all of their assets.

The provisions of an LLC's charter may differ from those specified by the Commercial Law only if such deviations are explicitly permitted.

(a) Share capital

The minimum share capital of an LLC is LVL2000. Capital may be contributed both as cash or in kind (tangibles or intangibles). Investments in kind must be evaluated by qualified experts, except if the total value of the investment does not exceed LVL4000 and does not constitute more than half of the share capital. In such cases, contributions in kind may be evaluated by the incorporators themselves.

(b) Company management

The administrative institutions of a company are the meeting of shareholders, the board of directors, and the supervisory council (if such has been formed). The Commercial Law prescribes the following issues within the exclusive competence of the meeting of shareholders:

- amendments to the charter;
- increases and decreases in share capital;
- election and dismissal of supervisory council and management board members, auditors, controllers and liquidators;
- approval of annual accounts and distribution of profits;
- bringing actions against members of the supervisory council and management board, founders or shareholders of the company;
- termination or continuation of activities, or reorganisation of the company.

Other issues may be included within the competence of the shareholders' meeting by inserting the relevant provisions in the charter of the company. The shareholders' meeting is also entitled to decide any issue within the competence of the supervisory council or management board. However, in such cases the shareholders become jointly and separately

liable for losses caused to the company as the result of such decisions (if such have been caused).

The Commercial Law designates two-tier management systems consisting of a supervisory council and a management board. However, the supervisory council is optional for LLCs. If a supervisory council is constituted, it is responsible for the supervision of the management board and the approval of major transactions. The management board is charged with daily management matters. The management board may consist of any number of members, even just one. The law does not prescribe any restrictions to board membership based on citizenship.

The right of representation of the company by the management board cannot be limited against third parties. Nevertheless, management board members may be granted either joint or individual representation rights.

The Commercial Law prescribes liability for losses to the company caused by the management board and supervisory council members. The burden of proof rests with council/board members to show that they have acted as honest and diligent managers.

Stock companies

SCs are designed to be public companies. As a result, they have higher minimum capital requirements and a more complex management structure. Consequently, SCs are a less popular form of business organisation than LLCs. The description of regulations covering LLCs in the previous section is also applicable to SCs, unless stated otherwise below.

(a) Share capital

The minimum share capital for SCs is LVL25 000. The entire amount of capital, as specified by the charter, must be subscribed by the date of submission of the application for registration.

SCs may issue various categories of shares which grant the shareholders one or some of the following rights: the right to receive dividends and liquidation quotas, voting rights at shareholders' meetings. Shares may be issued as registered shares or bearer shares; they may be issued either in paper form or as dematerialised shares.

The Commercial Law also allows the issue of preferential shares which grant specific rights regarding dividends and liquidation quotas. Holders of preferential shares do not have voting rights. Personnel shares may be issued to employees and members of the management board. The total nominal value of personnel shares may not exceed 10% of the subscribed share capital.

A further option is convertible bonds which entitle the holder to convert them into company shares within a specified term. Convertible bonds can be either registered or bearer securities. If the company decides to issue convertible bonds,

the shareholders have the right of refusal to acquire such bonds.

(b) Company management

The exclusive competences of the meeting of shareholders of an SC are:

- issuing and conversion of securities;
- the remuneration of the members of the supervisory council and the auditor.

Contrary to LLCs, the Commercial Law does not allow shareholders' meetings of SCs to decide any other issues other than those listed above, except if explicitly provided by law.

A supervisory council is mandatory for SCs. The supervisory council has to appoint the management board which should have a minimum of three members if the SC's shares are traded publicly (if not, one member is enough).

Units of Merchants Carrying Out Commercial Activities in Latvia

Undertakings

The Commercial Law prescribes undertakings as economic units of organisations. An undertaking comprises both tangible and intangible items belonging to the merchant, as well as other economic benefits (value) which are utilised by the merchant to perform commercial activities. A merchant can run one or more undertakings, for example, shops, factories, etc.

As a general rule, in cases when an undertaking or a separate part of an undertaking is transferred into the ownership or use of another person, the acquirer of the undertaking shall be liable for all the obligations of the undertaking or its respective part. However, in respect to those obligations which have been created prior to the transfer of the undertaking or part of it into the ownership or use of another person, and the term or pre-conditions for the fulfilment of which has come into effect within five years of the transfer of the undertaking, the transferor of the undertaking and the acquirer of the undertaking shall bear joint and separate liability if the transfer agreement does not specify otherwise.

Branches and Representative Offices

A branch is an organisationally independent part of an undertaking which is territorially or otherwise separated from the principle undertaking and at a location where commercial activities are systematically carried out in the name of the merchant. Branches are not separate legal entities and they may be opened by both local and foreign merchants. They must be recorded in the Commercial Register.

Foreign merchants (as opposed to local) may open representative offices in Latvia. A representative office, like a

branch, is not a separate legal entity, but in contrast to a branch it may not carry out commercial activities in Latvia. Usually, representative offices are maintained for market research and business promotion activities.

Choice of Corporate Presence for Foreign Merchants

According to the Commercial Law, foreign merchants have the following options to establish a corporate presence in Latvia:

- LLC;
- SC;
- partnership;
- branch;
- representative office.

The choice of the most appropriate form of presence depends on a number of factors.

Partnership, as a commercial entity, is chosen very rarely by foreign investors. Most often partnerships are created between local and foreign construction companies. Such partnerships are normally set up for a limited period, e.g. for the duration of a joint construction project.

Comparing the choice between setting up branches or subsidiaries (LLCs or SCs, respectively), the most important advantage of a subsidiary is limited liability. Branches do not have a separate legal persona, therefore, the creditor of a branch may pursue the assets of the foreign entity. On the other hand, branches have certain other advantages, such as the option to transfer branch profits abroad without the imposition of withholding tax (there is a 5-10% withholding

tax on dividends remitted abroad) and the ability to allocate head office expenses to a branch in proportion to the profit generated by the branch against global income.

The choice of the form of presence will also depend on the type of business to be conducted in Latvia, for example, banks and insurance companies may only be established as SCs (not as LLCs). Foreign banks may also operate as branches in Latvia.

If there is an intention to raise capital on public markets, an SC is the form that must be used, since only SCs may offer their shares to the public.

Overall, the most common choice of foreign investors is an LLC, also the most popular choice for local businesses.

Law on Groups of Companies

In Latvia, a separate law regulates the formation and operation of 'groups of companies'. The Law on Groups of Companies entered into force in 2000. It defines 'a group of companies' as a dominant undertaking together with one or several dependant companies. A dominant undertaking is an undertaking that has a decisive influence over one or more companies located in Latvia or in any other country. For the purposes of the law, only companies registered in Latvia meet the criteria of dependant companies. The law prescribes the liability of the dominant undertaking, protective measures for minority shareholders of the dependant undertaking and creditors, etc.

Additional information at:

www.ur.gov.lv



Entry, Residence and Work Permits

A foreign citizen wishing to come to Latvia needs a valid travel document and, if necessary, a visa or residence permit (for exceptions see section on EU citizens).

Visas

Citizens of the following countries may enter the Republic of Latvia without a visa — Andorra, Argentina, Australia, Bolivia, Brazil, Brunei, Canada, Chile, Costa Rica, Croatia, El Salvador, Guatemala, Honduras, Hong Kong, Israel, Japan, Macao, Malaysia, Mexico, Monaco, New Zealand, Nicaragua, Panama, Paraguay, San Marino, Singapore, South Korea, Switzerland, The Holy See, United States, Uruguay, and Venezuela. Most of the agreements provide for visa-free stays in Latvia of up to 90 days within a 6 month period.

For citizens of countries not listed above, prior to the issuing of a visa, the Office of Citizenship and Migration Affairs (OCMA) needs to approve a formal invitation to enter Latvia. In order to obtain such invitations, foreign individuals or an authorised representative of the legal entity inviting them, should submit appropriate information about the invitee to OCMA for approval. Most invitations are approved within 5 working days and then they are sent to the appropriate Latvian diplomatic or consular office abroad, where the invited person should have submitted their visa application before the decision was made. However, OCMA officials have the right to extend the approval term in order to complete checking of the invited person's data, but not beyond 10 working days.

Residence Permits and Work Permits

A residence permit is required if a foreigner intends to stay in Latvia for more than 90 days within a six month period, counted from the first day of entry. Persons requiring residence permits related to commercial activities can vary from the head of a representative office and members of company supervisory and management boards, to individual merchants.

Any individual or legal entity is entitled to employ a foreigner on the basis of an employment contract or on another contractual basis whose outcome is the receipt of remuneration, but in such cases working permits are mandatory for the foreigners.

The State Employment Agency (SEA) is the state institution that approves work invitations within 10 days, thereby allowing foreigners to engage in paid job relations in Latvia. Work invitations are approved after vacant positions, registered with the SEA by employers, remain vacant for 30 calendar days. During this period, the SEA may recommend to the employer any unemployed person who meets the vacancy's requirements.

After 40 calendar days, the employer and foreigner are free to sign an employment contract and the latter is entitled to receive a temporary residence permit and a work permit. The

term of the said permits may not exceed 4 years. Fees for each of these permits are set at the rate of LVL35 (around EUR50) per calendar month of employment.

Temporary residence permits and work permits are issued, without the requirement to approve work invitations, as follows:

- to individual merchants (sole proprietor) or sole founders of commercial companies registered in the Commercial Register (not exceeding 1 year);
- to members of partnerships with signatory rights registered in the Commercial Register (not exceeding 4 years);
- to self-employed persons (not exceeding 1 year);
- to members of supervisory or management boards of capital companies registered in the Commercial Register (not exceeding 4 years);
- to persons who have invested not less than LVL600 000 (EUR855 000) in the share capital of a capital company (not exceeding 5 years);
- to employees of foreign companies' representative offices (not exceeding 4 years).

Additionally, foreigners who come within the categories listed above are exempted from the payment of a fee for their work permit.

Temporary residence permits may also be issued to foreigners involved in scientific cooperation projects (not exceeding 4 years) and for certain non-commercial reasons (religious activities, studies, etc.).

EU citizens and citizens of Iceland, Liechtenstein and Norway

Citizens of the EU, Iceland, Liechtenstein and Norway may enter Latvia upon presentation of a valid travel document (passport or identity card). A residence permit is required only if the person stays in Latvia for more than 90 days within a 6 month period. Work permits are not required.

If the person wishes to work in Latvia and the 90-day period will be exceeded, a formal registration process has to be carried out. A term residence permit is issued for up to 5 years after submission of the following documents to OCMA:

- employment contract or other type of agreement;
- two photos;
- application form.

A residence permit may also be issued to persons wishing to stay in Latvia for more than 90 days in a 6 month period for reasons other than employment. In such cases, the person must demonstrate adequate financial resources — around LVL100 (~ EUR 142) per month.

Additional information at:

www.pmlp.gov.lv

Real Estate in Latvia

The majority of real estate is in the possession of individuals and legal entities, which means that investors looking for locations are most likely to interact with the private sector and, unless there are specific reasons and requirements, will not need to request the allocation of land from the state or municipalities.

Real Estate Transactions

There are no restrictions on foreign individuals and legal entities transferring ownership or otherwise engaging in transactions with buildings, apartments or commercial space. When it comes to the purchase of land, there are a number of restrictions depending on whether the land is located in urban or rural areas.

(a) Restrictions in Cities

Currently, land in cities may only be purchased without hindrance by citizens of Latvia and citizens of European Union member states, companies registered in Latvia's Commercial Register and companies registered in member states of the European Union, provided that more than a half of the share capital is owned by:

- citizens of Latvia, citizens of a member state of the European Union and/or Latvian government bodies;
- individuals or legal entities from other countries with which Latvia has signed and ratified an international agreement on the promotion and protection of investment by 31 December 1996, or for agreements concluded after that date, if the agreement provides reciprocal rights regarding the acquisition of land.

Countries, with whom Latvia has signed and ratified agreements on the promotion and protection of investment before 1997 include Austria, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Israel, Korea, Lithuania, Netherlands, Norway, Poland, Portugal, Spain, Sweden, Switzerland, Taiwan, United States of America, Uzbekistan and Vietnam. Countries, with whom Latvia has signed and ratified agreements on the promotion and protection of investment since 1997 include Belarus, Belgium, Egypt, Greece, Hungary, Iceland, Italy, Moldova, Luxembourg, Romania, Singapore, Slovakia, Turkey, and Ukraine.

Other individuals and legal entities that are not mentioned in any of the categories above may acquire land if they receive permission from the local authority under whose jurisdiction the land is situated, except land in:

- border zones;
- dune areas of the Baltic Sea and Gulf of Riga and protected areas of other public waters, except cases when construction has been planned in accordance with the relevant municipal master plan;

- agricultural and forest land designated as such in the relevant municipal master plan.

(b) Restrictions in Rural Areas

Unlike urban land, land in rural areas may only be purchased by citizens of Latvia or companies registered in Latvia's Commercial Register, provided that more than half of their share capital is owned by:

- citizens of Latvia, citizens of a member state of the European Union and/or Latvian government bodies;
- Individuals or legal entities from other countries with whom Latvia signed and ratified an international agreement on the promotion and protection of investment by 31 December 1996, or for agreements concluded after that date, if the agreement provides reciprocal rights regarding the acquisition of land.

Other individuals and legal entities not mentioned in any of the above categories, may acquire land if they receive permission from the local authority under whose jurisdiction the land is situated, except land in:

- border zones;
- dune areas of the Baltic Sea and Gulf of Riga;
- protected areas of public waters, except cases, when construction has been planned in accordance with local territorial planning;
- agricultural and forest land designated as such in local territorial planning;
- mineral deposits of state importance.

There is, however, a transition period for citizens of the European Union intending to acquire agricultural land. This transition period lasts until 1 May 2011, and until then, only persons wishing to engage in farming may acquire agricultural land without restrictions, provided that they have previously engaged in farming in Latvia for three consecutive years.

Identification of Real Estate

Identification of real estate will usually include a verification of the current status of the real estate title and any related encumbrances (pledges, joint ownership, prohibition to sell, etc.), which are registered in the Land Register (*Zemesgrāmata*). While the process of identification is going on, it is also necessary to clarify the actual and permitted use of the property in accordance with approved territorial planning documents. Information about real estate ownership and related rights can be obtained from the relevant Land Register department or from the centralised and computerised Land Register, which is available on-line for subscribers.

Purchase Agreements and Registration of Title

When the real estate has been identified and agreement has been reached between the parties, the next step is to sign a purchase agreement and an application for the registration of the transfer of title in the Land Register. The signatures of the parties on the application must be notarised. Quite often, notaries will prepare purchase agreements themselves.

Additionally, for the signing of the purchase agreement and before the submission of the documents to the Land Register, the following should be carried out:

- Agents or their authorised representatives must obtain a statement from the municipality on the status of real estate tax payments. This can also be done before the signing of the agreement.
- Agents or their authorised representatives must submit a copy of the signed agreement to the relevant municipality so that it can exercise its right of refusal, where applicable. This applies to all transfers of land, but not for transfers of individual apartments or to transfers of any undivided interest in real estate. Theoretically, every town and district has a regional plan that indicates areas where the local government may or may not have an interest in exercising its right of refusal option. In practice, most municipalities have not yet prepared such regional plans. Upon submission of a signed copy of the contract, the municipality issues a dated receipt. For any transfer, the municipality has 20 calendar days to make its decision, after that it loses the right to refusal option. If it chooses to exercise that option, it must pay the purchase price in full within ten days. Moreover, the municipality is not then allowed to sell the land within five years, except by public auction.
- Agents or their authorised representatives (which often are the buyers or their lawyers) must obtain a statement of the cadastral value of the land and/or the building(s) from the State Land Service. In accordance with the relevant regulations, cadastral values are valid for an unspecified period of time, if the value has not changed. This fact has to be certified by a State Land Service statement which can be issued on paper or in electronic form.

Once the documents have been obtained, state duty must be paid to the amount of 2% of whichever is the largest of: (a) the contract value, (b) the cadastral value of the land and/or buildings assessed by the State Land Service, or (c) the valuation of a credit institution undertaken for the purpose of mortgaging the real estate. The maximum amount of state duty is limited to LVL30 000 (approximately EUR43 000).

Additional information at:

www.zemesgramata.lv

Protection of Intellectual Property

Legal Framework

Since Latvia became a member of the World Intellectual Property Organisation in 1993, it has adopted most of the international treaties in the field of intellectual property protection, including the Paris Convention for the Protection of Industrial Property, the Madrid Agreement Concerning the International Registration of Marks and Madrid Protocol, the Berne Convention for the Protection of Literary and Artistic Works, the Trademark Law Treaty, etc.

When Latvia joined the World Trade Organisation in February 1999, it became a member of the Agreement on Trade-Related Aspects of Intellectual Property Rights of 1993 (TRIPS).

Trademark registration and protection in Latvia is regulated by the law On Trademarks and Geographical Indications of 16 June 1999 (entered into force 15 July 1999) - hereinafter the Trademark Law; the Madrid Agreement Concerning the International Registration of Marks, as well as applicable EU legislation in the area of trademarks (e.g. Council Regulation No 40/94 on the Community trade mark).

Patent registration and protection matters are regulated by the Law on Patents of 30 March 1995 (entered into force 20 April 1995) containing, *inter alia*, provisions on patent rights, the procedure for granting patents under the Patent Co-operation Treaty, the European patent extension to Latvia, the infringement of patents, the use and licensing of a patent and the enforcement of patent rights. The Regulations on Industrial Designs, which entered into force on 15 April 2004, regulate matters concerning industrial designs.

The Copyright Law of 6 April 2000 (entered into force 11 May 2000) sets the principal legal framework for the protection for copyright and neighbouring rights.

Regulatory Authorities

Patent Office

The Patent Office of the Republic of Latvia (*Patentu valde*) is an independent state institution established by the Cabinet of Ministers and operates under the supervision of the Ministry of Justice. It supervises industrial intellectual property matters in Latvia. The Patent Office maintains the official registers of patents for inventions, industrial designs and for trademarks; it certifies individuals qualifying to act as intermediaries in the registration process (referred to as patent attorneys), advises on issues relating to the protection and registration of intellectual property in Latvia, etc. In contrast to local individuals and companies, foreign individuals and companies may only apply to and correspond with the Patent Office via patent attorneys. The Patent Office maintains the register of patent attorneys.

Board of Appeal

A special body has been established, acting under the supervision of the Patent Office, for the examination of disputes relating to registration of intellectual property rights — the Board of Appeal of the Patent Office (hereinafter the Board of Appeal). The Board of Appeal is made up of three representatives of the Patent Office, as well as of four independent specialists in science, technology and law. Members of the Board of Appeal are appointed for a term of three years by order of the Minister of Justice at the instigation of the director of the Patent Office.

The Board of Appeal examines appeals on the basis of written claims submitted by legal entities or individuals against decisions of the Patent Office (for example, claims on decisions to reject application for registration brought by the applicant, as well as the applications of third parties claiming illegal registration).

Each appeal petition shall be reviewed by no less than three members of the Board of Appeal and one of them must be a lawyer. A specialist who has participated in an earlier examination of an application cannot take part in the proceedings of the Board of Appeal relating to the same application. Claims brought before the Board of Appeal must be examined within three months. Decisions of the Board of Appeal may be appealed in the courts.

Trademarks

(a) Rights of Trademark Owners

According to the Law on Trademarks, there are several categories of trademark :

1. words – consisting of letters, words, also forenames, surnames, numerals;
2. graphic – pictures, drawings, graphic symbols, shades of colours, combinations of colours;
3. three-dimensional – three-dimensional shapes, the shapes of goods or of their packaging;
4. a combination – consisting of a combination of the aforementioned elements (labels, etc.);
5. specific types or special – sound or light signals and the like.

There are several restrictions on signs which cannot be registered as trademarks, for example: signs, which are contrary to public order or to socially accepted principles of morality; signs, which could be confused with previously registered trademarks, widely known trademarks or ones that have had other rights registered.

The Law on Trademarks permits the use of unregistered trademarks provided they do not infringe the rights of other persons and do not violate the provisions of laws and regulations. However, only the registration of a trademark grants exclusive rights to its use. The registered owner of a trademark has an exclusive right to prohibit other persons from using the following signs in the course of their commercial activities:

- any sign which is identical to the trademark in relation to goods or services which are identical to those for which the trademark is registered;
- any sign where, because of its identity or similarity to the trademark and because of the identity or similarity of the goods or services, for which the trademark is registered and for which the sign is used, there exists a possibility of confusion or a possibility of association by customers between the sign and the trademark.

(b) Registration of Trademarks

A person, wishing to register a trademark, has to file an application at the Patent Office. The applicant may apply for national registration of the trademark, effective in the territory of Latvia only, or for international registration of the trademark under the Madrid Agreement Concerning the International Registration of Marks and Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, or for European Community registration of the trademark under Council Regulation No 40/94 on the Community trade mark.

The application, as well as the list of target goods and/or services, must be in Latvian. Other materials and documents accompanying the application may be submitted in English, French, German or Russian. However, the Patent Office is entitled to request a translation of the submitted materials and documents into Latvian. Such translations shall be submitted within a term specified by the Patent Office.

Registration of a trademark is effective for a term of ten years starting from the application date. It can be extended an unrestricted number of times, each time for an additional ten-year period.

Patents

(a) Rights of Patent Owners

Under the Law on Patents, a patent shall be granted for a new invention that possesses an aspect of invention and is industrially applicable. The invention is considered to be new if it does not repeat any professional knowledge, the entire sum of which forms the technical level. With regard to invention, the technical level includes any professional knowledge, which, prior to the filing or priority date of the patent application, either by means of public use or in any other way (in writing or in words), has been disclosed to the general public. The object of invention may, *inter alia*, be a device, a process, a substance, a micro-organism, or plant or animal cell culture, as well as a new use of known devices, processes, substances and micro-organisms. The following shall not be recognised as inventions:

- discoveries, scientific theories, and mathematical methods;
- designs;

- schemes or methods for performing mental acts, rules and methods for playing games and conducting business, as well as computer programs;
- methods of presenting information.

This provision shall exclude the patentability of the mentioned objects only if patent protection is claimed for these objects as such.

The rights to patents belong to inventors or their successors in title. If several persons have jointly created the invention, the right to the patent shall belong to all of them jointly. If several persons have created an invention independent of each other the right to the patent shall belong to the person who is the first to file an application with the Patent Office. These rights shall also be retained by a person who filed the first application in a country which is a party to the Paris Convention for the Protection of Industrial Property, and who has then, in accordance with the provisions of the Paris Convention, filed an application for the same invention with the Patent Office within 12 months.

Having a patent ensures the owner the exclusive right to use the invention. Third parties are not allowed, without the consent of the patent owner, to produce a patented product (device, substance, micro-organism, etc.), to offer it on the market, to put it into economic circulation or to use the product, as well as to import or stock it for the above purposes; to use a patented process; to put into economic circulation, to use, as well as to import and stock for the above purposes, a product which has been obtained by using the patented process. The patent owner has non-transferable rights of authorship.

(b) Patent Registration

A person, who wishes to obtain a patent for an invention, shall file an application with the Patent Office. The patent application may be filed in Latvian, English, French, German, or Russian. If the application has been filed in any of the said foreign languages, the applicant shall, within three months, submit a translation of the invention formula (claims) and certain other items in Latvian.

The filing date (priority date) of the application for a patent, on condition that all requirements are met, shall be the date when the Patent Office receives the application. If the requirements are not met, the filing date shall be the date when the deficiencies were corrected.

According to the Law on Patents, patents for inventions are issued for a term of 20 years starting from the application filing date. This term may be extended for a period not exceeding five years only if the patented invention is a pharmaceutical substance that is subject to compulsory testing and registration before being sold in Latvia, or a method of its preparation or unknown application of the substance.

Industrial Designs

(a) Rights of Owners of Industrial Design

An industrial design is granted with legal protection if it is new and has an individual character. An industrial design is considered to be new if, prior to the application filing date or priority date, the industrial design has not been disclosed to the public. It is considered to have individual characteristics if an informed user (consumer) distinguishes the overall appearance of the industrial design from other industrial designs publicly disclosed earlier.

Inter alia, legal protection is not granted to:

- industrial designs which are in contradiction with public morals;
- characteristics of the industrial design's outer surface if they are dependent only on the technical functions of the design.

The designer, rather than the owner of or applicant for registration of the industrial design, has non-transferable moral rights of authorship. Designers also have the right for their name to be included in the application for the industrial design registration and official publications, and they also have the right not to disclose their name.

Upon registration of an industrial design, the owner acquires exclusive rights to use the industrial design, to offer it for sale, to put it into circulation and import, export or stock the industrial design for the purposes listed above.

(b) Registration of Industrial Designs

A person, wishing to register an industrial design, must file an application with the Patent Office. The applicant must indicate a designer, unless the designer wishes no publicity and has filed a request stating that.

The industrial design name must be filed in Latvian; other documents accompanying the application may be filed in English, French, German or Russian. However, a translation into Latvian may be requested. One application may contain more than one industrial design, but in such cases, the designs must be in the same class of the international classification of industrial designs.

The exclusive rights of industrial designs are in force from the date they are granted and expire no later than five years after the filing date, but the rights may be renewed for subsequent five-year periods with a maximum of 25 years from the filing date.

Copyright and Neighbouring Rights

(a) Rights of Copyright and Neighbouring Rights Owners

The objects of copyright, regardless of their manner or form of expression, comprise literary works (such as books, speeches, computer programs, etc.); dramatic and dramatic-musical works, scripts and treatments of audio-visual works;

choreographic works and pantomimes; musical works with or without lyrics; audio-visual works; drawings, sculptures and other works of art; works of applied art; design works; photographic and analogous; sketches, drafts and plans for buildings and other architectural designs; geographical maps, plans, sketches, and moulded works which relate to geography, topography and other sciences; and other works of authors, irrespective of the purpose or merit of the work — irrespective of whether the work has been finished or not. Copyright may also be obtained for derivative works, such as translations and adaptations, revised works, annotations, theses, summaries, reviews, musical arrangements and for collections of works — encyclopaedias, anthologies, atlases, databases and other compiled works which are the result of creative activity. In order to be subject to copyright, the works, ideas and concepts must be made known to the public in some form.

The author has non-transferable rights of authorship. Authors have the right to use their work in any manner, to permit or prohibit its use, receive remuneration for permission to use the work and for the use of the work except in cases prescribed by the Copyright Law.

In terms of neighbouring rights, the Copyright Law prescribes the rights of performers, the producers of recordings, film producers and broadcasting organisations to apply for the protection of performances, their recordings, films and broadcasts.

Copyright is in effect for the entire lifetime of an author and for 70 years after their death. 70-year copyright terms are also granted to audio-visual works after the death of any of: the director, author of the screenplay, author of dialogue or composer. In cases where such works are created under a pseudonym or anonymously, copyright is protected 70 years after the work was originally made available to the public. Copyright expires, unless calculated from the author's death, if the work was never made public, according to the law, within a period of 70 years. Anyone can acquire copyright for a period of 25 years, if the copyright of the previous author has expired and the work was never made public in accordance with laws.

Neighbouring rights are in effect for 50 years after the first performance or production. The same period is fixed for rights with respect to producers of sound recordings and broadcasting organisations – from the date of the first public broadcast.

All personal rights to work created by the assignment of an employer shall remain with the employee, irrespective of the form or type of work. All economic rights to work created by employees in the conduction of their employment duties shall be deemed to be transferred to the employer, unless the parties have expressly agreed otherwise.

(b) Protective Measures for Copyright and Neighbouring Rights

An action, whereby the moral or economic rights of a holder of copyright or neighbouring rights are infringed, is considered to be an infringement of copyright and neighbouring rights. To protect their rights, holders of a copyright or neighbouring rights may exercise any legal measures to protect their rights, including submitting a claim in the court in order to prevent unauthorised use of intellectual property, and to recover damages. In accordance with the plaintiff's claim, the court may apply measures specified in the Civil Procedure Law to secure the claim, to prevent illegal actions or to stop them.

The court may, corresponding to the plaintiff's claim, make a decision that the materials and equipment used for the production of infringing copies may be sold to compensate the losses incurred by the author, or also that such materials and equipment be donated for use in charitable purposes, or confiscated. The infringing copies are destroyed.

Regulation of Competition, Mergers & Acquisitions

Regulatory Framework

Foreign enterprises, starting-up business or engaging in mergers and/or acquisitions in Latvia, have to comply with the requirements of the Competition Law and government regulations. As the EU exercises exclusive competence in the area of competition and merger regulation, the Latvian legislation is fully in correspondence with the appropriate EU regulations and directives.

Since 1 May 2004 the European Commission, national competition authority and national courts have had the authority to apply all EC competition rules fully in Latvia. If the companies concerned carry out activities that may affect trade between Member States; have the intention to, or achieve the prevention, restriction or distortion of competition within the internal market, then national and EC competition laws apply in parallel, i.e., a national competition authority or a national court applies national competition law in cases where trade between Member States is affected and applies Articles 81 and 82 of the Treaty establishing the European Economic Communities. With the growth of business activity, compliance with the competition regulations has become one of the key prerequisites for large equity transactions by foreign investors.

Competition Council

The supervisory institution of competition in Latvia is the Competition Council (*Konkurences padome*). The main functions of the council are to monitor the activities of market participants in order to prevent the development of dominant positions, unfair competition and collusion, to

review disclosures on mergers and acquisitions of market participants, and to limit market concentration by allowing or prohibiting particular mergers and acquisitions.

The council has the right to carry out market research and on-site inspections of market participants, to make use of experts, submit court claims, announce decisions and take other preventive or punitive measures to ensure that the activities of market participants comply with fair competition regulations. In cases of non-compliance, the council may forbid transactions or charge substantial penalties, as much as 5-10% of annual net turnover, but not less than LVL250-500 (EUR355-710).

Prohibited Agreements

The Competition Law prohibits or makes null and void any collusion among market participants that is intended to restrict competition within the geographical market of Latvia. For example, agreements such as the fixing of prices, division of markets by influence, territory, contractors, etc. are regarded as prohibited.

Unless competition regulations allow a general block exemption (such exemptions exist for inland rail, road and sea transportation, and there is joint regulation of block exemptions for some other services), any agreements have to be submitted to the council. The council may decide to allow an agreement to continue if the claimant can demonstrate that it would be beneficial to the long term development of the market.

Disclosure of Market Concentration

Under the Competition Law, mergers and acquisitions are considered to be transactions leading to market concentration. If the combined turnover of the parties involved in such a transaction exceeds LVL25 million (EUR36 million), or at least one of the parties has a leading market position (its market share exceeds 40%), the transaction must be disclosed to the council. Information has to be submitted prior to the conclusion of the transaction. The council may either prohibit or allow the transaction, or allow it under certain conditions. In some cases, even the merger of two foreign companies may become the subject of disclosure requirements, since the council and Latvian courts have adopted a broad view of what constitutes a market participant.

Additional information at:

www.ttc.lv

Protection of the rights and interests of investors

One of the issues to be considered when making decisions to invest in foreign countries is an evaluation of the legal

measures available to protect the rights and interests of the investor in that country.

To explain the situation in Latvia, this section provides an overview of the relevant national legislation and touches on applicable European Union regulations. In summary, Latvia does provide various mechanisms for the protection of investors. The Latvian legal system is evolving to a level of legal quality similar to that of other European states but already provides satisfactory procedures for the protection of investors' rights.

The basic principle of Latvian law is that every natural or legal person has a right to the protection and enforcement of their rights or interests, and there are appropriate remedies for breaches of such rights.

The laws of the Republic of Latvia take into account all civil disputes that are subject to court verdicts, unless the law provides otherwise or the parties have agreed on other procedures for settling the dispute. After a court judgement or an arbitration award has been delivered, an execution process becomes available. At any stage of court or arbitration proceedings the parties are encouraged to reach a harmonious resolution.

Latvian Court System

Under the Law on Judicial Power, a three level court system has been established and each level has its own defined jurisdiction:

1. District Courts

A district (city) court is the court of first instance for civil and criminal matters, and matters which arise from administrative legal relations.

2. Regional Courts

A regional court is the court of first instance for those civil matters and criminal matters, which are within the jurisdiction of regional courts in accordance with law.

And it is a court of appellate instance for civil matters, criminal matters and administrative matters, which have been adjudicated by a district court, or by a single judge.

3. The Supreme Court

The Supreme Court is composed of the Senate and two judicial panels- the Civil Matters Panel and the Criminal Matters Panel.

A panel of the court is the court of appellate instance for matters, which have been adjudicated, by regional courts as courts of first instance, but the Senate of the Supreme Court is the court of cassation instance for all matters, which have been adjudicated, by district courts and regional courts, and is the court of first instance for matters concerning decisions of the Council of the State Audit Office.

Appeal and cassation procedures under Latvian law

Latvian legislation prescribes two levels of appeal. The first level of appeal is an appeal against the first instance judgment in cases of error in fact or law and may involve a substantive review of the whole case. The second level of appeal is to the Senate of the Supreme Court, and can only be appealed by means of cassation, which relates to errors of substantive or procedural law including cases where the lower courts have acted outside their jurisdiction.

Territorial jurisdiction under Latvian law

The general rule of territorial jurisdiction is that actions against natural persons must be brought to the court in accordance with their place of residence, whereas actions against legal persons must be brought to the court in accordance with the location of their registered address.

Jurisdiction according to European Council Regulation No.44/2001

European Council Regulation No.44/2001 prescribes the jurisdiction and the recognition and enforcement of judgements in civil and commercial matters on the level of EU law with a binding and directly applicable legal instrument. The scope of this Regulation covers all the main civil and commercial matters apart from certain well-defined ones.

The crucial principle is that persons domiciled in a member state must be sentenced in the courts of that member state, irrespective of their nationality. The place of domicile is determined in accordance with the domestic law of the member state where the court case is being held. In the case of legal persons, their domicile is determined by the country where they have their statutory seat, central administration or main place of business.

Execution of court judgements under Latvian law

The judgment of any Latvian court that has come into legal effect is executed in accordance with the Civil Procedures Law. The basic document for executing a judgement is an execution order issued by the court in which the judgement was passed. The order of execution is submitted to a sworn bailiff.

Execution of foreign court judgements

Executions of foreign court judgements are carried out in accordance with both the provisions of the Civil Procedure Law and international agreements, especially the agreements on legal aid and legal relationships, but also according to the provisions of Council Regulation No.44/2001.

Firstly, according to international agreements, the legal protection of persons from one of the contracting states

is the same as for persons of the other contracting state. International agreements equally apply to natural and legal persons from the contracting states.

Therefore, persons of one contracting party to an international agreement have rights to apply, without hindrance, to courts and other legal institutions, to file claims and take other procedural steps under the same conditions as people from the contracting state where the procedural activities are carried out.

Latvia has entered into several agreements on legal aid and legal relationships, with Estonia, Lithuania, Belarus, Kyrgyzstan, Moldova, People's Republic of China, Poland, the Russian Federation, Ukraine, United States of America (in criminal matters only), and Uzbekistan.

Secondly, Regulation No.44/2001 of the European Council prescribes the recognition and enforcement of any judgement delivered by the court of another member state. The enforcement procedure is based on the principle of automatic recognition of judgements given within the European Union. If a party against whom judgement has been passed denies that recognition, provisions are made for a special procedure to declare the enforceability of a judgement in another member state.

It will be impossible to enforce, within Latvia, a judgement passed in one of the states with which no international agreement on legal aid and legal relationship has been concluded, or where the legal relationship falls outside the European Union.

Nonetheless, in cases where international agreements have previously been concluded with new member states of the European Union, particularly those with Bulgaria, Romania, Estonia, Lithuania and Poland, Council Regulation No.44/2001 will replace those agreements, which will then only be applicable to issues not covered by EU law.

Arbitration

Civil disputes are not only adjudicated by the state courts prescribed by the Law on Judicial Power, but also commonly by private arbitration tribunals. An ad hoc arbitration tribunal can be established, on the agreement of the parties, to resolve a single specific dispute or the parties may agree to transfer their dispute to an existing permanent arbitration institution.

Contractual arbitration

An arbitration agreement may either be the subject of a separate contract or in an arbitration clause forming part of a wider contract. Either of these forms is accepted, but such an agreement is the sole legal basis for the jurisdiction and operation of an arbitration tribunal. In cases of civil disputes, the duty of each party is to submit the dispute to

the arbitration tribunal and follow the procedure specified in the arbitration agreement.

An arbitration agreement may be concluded by civil law subjects, but the Civil Procedures Law lists a number of subjects, which may not assign mediation of a particular dispute to arbitration, including disputes regarding establishment, alteration or termination of property rights relating to real estate if, among the parties to the dispute, there is any person whose rights to acquire ownership, possession or use of real estate are restricted by law, the adjudication of which may infringe the rights or the interests of third parties, protected by law, who are not a party to the arbitration agreement in which one party, even just one, is a state or local government institution.

Arbitration foreseen in international agreements

International agreements concluded by Latvia determine procedures for the settlement of disputes arising under the scope of the corresponding agreements.

Latvia have concluded a number of bilateral agreements on the promotion and protection of investment with countries including Austria, Belarus, Belgium, Luxembourg, Switzerland, Canada, Czech Republic, Germany, Denmark, Estonia, Egypt, Spain, Finland, France, United Kingdom, Greece, Croatia, Hungary, Iceland, Israel, Italy, Korea, Kuwait, Lithuania, Moldova, the Netherlands, Norway, Poland, Portugal, Romania, Singapore, Slovakia, Sweden, Turkey, China, Ukraine, United States of America, Uzbekistan and Vietnam.

These bilateral agreements prescribe procedures for the settlement of disputes between a contracting state and a natural or legal person of the other party, concerning the obligations of the latter relating to the investment of the former.

The bilateral agreements prescribe that first of all there should be an attempt to resolve any disputes by negotiation. Further, if the parties to the dispute fail to reach an agreement in discussion, then the dispute should be handed over to the ICSID Centre established under the 1965 Convention on the Settlement of Investment Disputes between States and Nationals of Other States. The ICSID Convention came into force in Latvia on 9 August 1997. Otherwise, if the concerned state is not a Contracting State of the ICSID Convention, the dispute should be settled by a panel of three arbitrators according to the UNCITRAL arbitration policy and procedure.

Another example of an international instrument providing specific rules on the negotiation and settlement of disputes is the Energy Charter Treaty (sets out a procedure for settlement of disputes where an investor from one contracting state holds a view that another contracting state has not

fulfilled its obligations under the investment protection provisions). Disputes, between parties from contracting states, relating to the investments of one in the area of the other are to be settled in a friendly manner. If that is not possible, then the investor can choose to submit the dispute to the national court of the contracting state, or in accordance with any previously agreed dispute settlement procedure, or to international arbitration through the ICSID Centre, the ICSID Centre's Additional Facility, UNCITRAL or the Stockholm Chamber of Commerce depending on the conditions stipulated in the Treaty.

Execution of arbitration awards

If an arbitration award is to be executed in Latvia, the concerned party is entitled to apply to a district court for the issue of a court order for compulsory execution of the arbitration award.

Latvia is a party to the 1958 New York Convention On Recognition and Enforcement of Foreign Arbitral Awards, which applies to the recognition and enforcement of arbitration awards made in the territory of a state other than the state where the recognition and enforcement of such awards are sought, and arising out of differences between persons, whether physical or legal. Under this convention each contracting state recognises arbitration awards as binding and enforces them in accordance with the rules of procedure of the territory where the award is relied upon under the conditions laid down in the Convention.

Settlement agreements

The Civil Procedures Law also prescribes the option to conclude a settlement agreement, which may be concluded at any stage of a procedure or any civil dispute, with minor exceptions provided by law, for example, disputes relating to real estate, if the parties include persons, whose rights to own or possess real estate are restricted in accordance with procedures prescribed by law or if the terms of the settlement infringe the rights of another person or their interests provided by law.

The Civil Procedures Law considers the possibility of settling an agreement at some stage during arbitration proceedings, which would then bring the arbitration to an end.

Conclusion

Adequate legal remedies are available for the protection of the rights and interests of investors in the Republic of Latvia. They include both judicial and arbitration proceedings. Additionally, these legal measures provide protection of rights and interests which are developing to meet international standards. Thus, investors considering investment in Latvia can be in no doubt that appropriate mechanisms for the protection of their rights are ensured.

FINANCIAL ENVIRONMENT

Institutional Framework

Latvia's central bank — the Bank of Latvia, is an independent financial institution, whose main goal is to implement and maintain a conservative and consistent monetary policy, to ensure a stable and predictable financial environment in the country. The Latvian bank supervision system corresponds to the requirements of EU directives and Basic Core Principles on Effective Banking Supervision, and has been evaluated by a number of foreign experts as one of the strictest in the CEEC. As of 1 January 2005, the national currency — the Latvian 'lats (LVL) has been pegged to the Euro at the rate 1 EUR = 0.702804 LVL. The re-pegging from SDR to EUR was done in order to achieve the key objective of facilitating a favourable macroeconomic environment for the growth of the national economy in the long term, as well as to successfully join the EMU.

As a result of strict monetary policy, inflation rates were kept at an average level of 2.46% in the period 1999-2003. In 2004, the inflation rose to hit 6.7%. Higher inflation growth in 2005 and 2006 resulted from a combination of several one-off factors, mainly increases in administratively regulated prices, the harmonisation of indirect tax rates, high world oil prices, and rises in gas and electricity tariffs.

The supervision function over financial service providers (banks, insurance companies, stock exchanges) is discharged

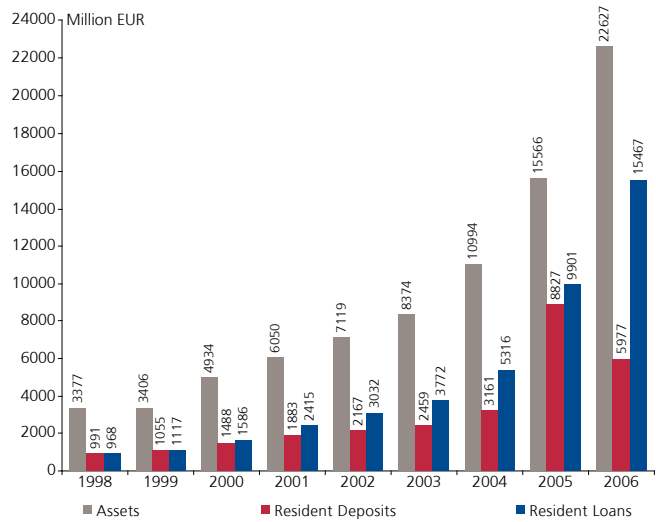
by the Financial and Capital Markets Commission, which was established to protect the interests of investors, depositors and insured individuals and entities.

Additional information at:

www.bank.lv

www.fktk.lv

Banking Sector



Source: The Financial and Capital Markets Commission, 2007



The number of commercial banks operating in Latvia exceeds twenty (at the end of 2006 21 banks and 3 branches of foreign banks (Nordea Bank Finland Plc, SKANDINAVISKA ENSKILDA BANKEN AB and GE Money Bank AB), and 35 credit unions were registered), which ensures a good choice in banking services. The ratio of the total assets of the banking system to GDP is 1.41, considerably less than the EU average, but return on capital was 26.3%, which is almost triple that which is usual for European banks.

A number of foreign investors, including FöreningsSparbanken, SEB (Sweden); Nord/LB; Vereins- und Westbank (Germany), Nordea (Finland), Sampo Bank Plc.. (Finland) operate and together constitute approximately 68.8% of the commercial bank capital in the country, bringing additional stability and customer security to the Latvian market. Only 8–10 banks operate as full-range banking service providers to both private and corporate customers. All the others have positioned themselves in certain niche markets with specialised services. In addition to an extensive network of ATM terminals, a number of banks also provide Internet banking and/or mobile banking services to their customers. The most popular brands of credit/payment cards in Latvia are Visa/Visa Electron and MasterCard/Maestro, however, most internationally used cards are accepted by banks and ATMs in Latvia. Additional corporate business services provided by commercial banks in Latvia include mergers & acquisitions, business advisory and privatisation advisory.

The banking sector is still growing steadily, mainly because of additional investment and high profit margins, which are being achieved as a result of relatively high, albeit decreasing loan interest rates.

Additional information at:

www.bank.lv

www.bankasoc.lv

www.fktk.lv

Insurance

Apart from personal life insurance, the insurance industry is relatively new to Latvian consumers and companies. In 2006, the Latvian market for insurance services was at EUR 127.2

per capita, an increase of 31% compared with the previous year. Currently, the leading insurance services are transport (38% of the total market), car owners' compulsory liability (OCTA, 19%), health (14%) and property (15.6%), although a number of insurance companies also offer other services covering freight, loans and guaranties, and losses.

Further growth and diversification of corporate insurance services is expected to develop with the overall growth in economic activity. In total, 16 insurance companies were active in Latvia at the end of 2006 and constituted 1.54% of the total national financial system assets. Around half of the total insurance industry stock capital comprises foreign investment, including from internationally known names like Codan (Denmark), Alte Leipziger, Schreiber Maron Anstalt, ERGO (Germany) and Sampo (Finland).

Additional information at:

www.fktk.lv

www.laa.lv

The Stock Exchange

The Riga Stock Exchange is the Latvia's sole regulated market organiser. Although relatively small compared to mature EU stock markets, at the end of 2006 market capitalisation stood at EUR 2.03 billion, with 40 companies listed. The average number of equity trades per day is 150, and average daily turnover is EUR 0.5 million. Apart from equities, debt securities and fund units are traded. The Riga Stock Exchange is 93% owned by OMX Group (Finland, Sweden and Denmark), who run 80% of Nordic and Baltic equity markets. Riga Stock Exchange is sharing the SAXESS trading platform with 5 other markets within the OMX Group, and two other Nordic stock exchanges. This has encouraged new memberships and more investor interest. During 2005, the market experienced a notable appreciation in the value of companies, evidenced by an increase of the OMX Riga (OMXR) capitalisation index of 63.3%.

Additional information at:

www.rfb.lv

TAXATION

General Principles

The Law on Taxes and Fees, originally adopted in February 1995, sets out the general principles of taxation in Latvia.

The overriding principle used in the application of tax laws is that, in cases where matters are regulated by a specific law, the specific law (e.g. VAT, corporate income tax) will apply over and above the general Law on Taxes and Fees.

In accordance with the law, fees are imposed by the state or municipalities. The most frequent state-imposed fees are:

Company registration fee LVL 100 (the fee is tripled if registration is required within 1 business day; additionally, payment for compulsory publication is also required LVL 24). Registration of amendments to board membership and other records costs LVL10 (registration within 3 business days), and LVL30 (registration within 1 business day), plus publication costs of LVL8. If a company registers changes to its board at the same time as amendments to its Articles of Association, state duty will be LVL20 for registration within 3 business days and LVL60 within 1 business day, plus publication costs of LVL8. The fee for the registration of a new permanent establishment (carrying out commercial activities but without legal entity status) is LVL20 for registration within 3 business days, LVL60 within 1 business day, plus publication costs LVL 16. The fee for registering amendments is LVL10 for registration within 3 business days, LVL30 within 1 business day, plus publication LVL8. The fee for the registration of a new representative office (not carrying out commercial activities and without legal entity status) of a foreign entity or organisation is LVL20 for registration within 11 business days, LVL40 within 4 business days, LVL60 within 1 business day. The fee for registering amendments is LVL10 for registration within 11 business days, LVL20 within 4 business days, LVL30 within 1 business day. The fee for the registration of restructuring is LVL50 if within 3 business days plus publication LVL8. If, as a result of the restructuring, a new company is established (limited liability company (SIA) or joint-stock company (AS)), the registration of each new SIA costs LVL100 and each new AS LVL250 within 3 business days, plus publication LVL24.

In all other cases the fee for each company involved in the reorganisation is LVL20 for registration within 3 business days plus publication LVL8.

For immigration purposes, the state fee for a residence permit is LVL70, if the permit is issued within 30 days, LVL120 if the permit is issued in 10 working days and LVL170 if it is issued in 5 working days. The state fee for the issuing of work permits is LVL35 per month. The State fee for residence permits does not apply to citizens of EU member states.

Registration of the transfer of real estate and property ownership in the Land Register, with a sales agreement, is

subject to a fee at 2% of the value of the property, with a cap of LVL30 000, but, where the transfer is a gift, the duty is 3% of the value of the property, with a cap of LVL50 000.

Confirmation of a trademark for one class of goods or services costs LVL60 and registration thereof LVL65.

Taxes imposed by the central government are:

- Corporate income tax, including withholding taxes;
- Gambling and lottery tax;
- Value-added tax;
- Social insurance;
- Personal income tax;
- Real estate tax;
- Natural resources tax;
- Excise tax;
- Customs duties;
- Car and motorcycle tax.

Taxpayers are entitled to postpone payment of certain taxes for a period from three months up to one year, subject to prior approval by the tax authorities. Unpaid taxes are subject to an overdue payment fee at the rate of 0.05% for each day behind schedule. Additionally, the unpaid amount is increased by a refinancing rate determined by the Bank of Latvia. Since November 2004, the refinancing rate has been 4% per annum. Overdue payment and refinancing amounts no longer increase when the sum of both equals the original debt amount.

The amount of imposed tax penalties depends on the type of tax non-conformity. The head of the tax authority has the discretion to reduce the penalty to 30%. Late filing of tax declarations results in penalties of no more than: LVL50 if filed within 15 days of the due date, no more than LVL200 if filed less than 30 days late, and no more than LVL500 if filed more than 30 days late.

A taxpayer is allowed to make voluntary corrections to a tax declaration for a three-year period after the payable term, if an audit by the tax administration has not been commenced. That results in the annulment of any penalties pending on tax non-conformities.

All decisions of the tax authorities can be appealed to the Director of the State Revenue Service within 30 days of the date the decision was received.

Insolvency Risk Duty

State insolvency risk duty was introduced in 2003. Since 2006, this duty is LVL3.00 per annum for each employee.

Personal Income Tax

The Law on Individual Income Tax was adopted in 1993 and sets out the taxation level of individuals' personal income.

Expatriates are liable for Latvian taxes depending on their tax residency. Latvian residents are taxable on their worldwide income. Consequently non-Latvian residents are liable for the income they receive in Latvia.

Latvian residency

According to national legislation, an individual is regarded as a resident of Latvia, if:

- the permanent place of residence is Latvia; or
- the person resides in Latvia for 183 days or longer in any given 12-month period beginning or finishing during the taxation year; or
- the person is a citizen of the Republic of Latvia employed abroad by the Latvian government.

Overall, people who do not meet the criteria referred to are considered to be non-residents of Latvia for tax purposes.

Individuals who are not considered to be residents during the year before taxation payments are due are considered to be residents from the date they entered Latvia during the taxation year.

Individuals who are not considered to be residents during the post-taxation year are not considered to be residents for that period of the taxation year after the date that they left Latvia, if during that period they had closer collaboration with another country than with Latvia.

Closer collaboration with another country may be confirmed by ownership of property in that country, contributions to that country's social security system, or the fact that the expatriate's family is residing in a foreign country.

On the other hand, certain periods are not included when determining residency. For example, any period of less than 24 hours spent in passage during the course of a trip between two points outside Latvia.

An actual presence test is used to find out how many days an individual has been in Latvia. When the test is applied, the following days are included in the calculation as full days: days of partial presence (less than 24 hours), days of entry and departure, Saturdays and Sundays, public holidays, days of annual leave and periods of illness, except when the illness prevented the person's departure.

The status of tax residency in relation to states with whom Tax Treaties have been concluded must be determined according to the relevant Tax Treaty.

Latvia has concluded Tax Treaties with all EU member states, excluding Austria, Italy and Cyprus. According to these treaties, the taxation status of individuals is determined by use of a tie-breaker test:

- an individual is considered to be a resident of the country where his permanent place of residence is located; if the

individual's permanent place of residence is both countries, the country with closer personal and economic relations (centre of vital interests) must be determined, and this will be deemed the country of residence;

- if it is not possible to determine the country in which individuals have their centre of vital interests, or the permanent residence of an individual is somewhere else, then the country in which the individual is usually domiciled will be deemed the country of residence;
- if the usual domicile of individuals is in both or neither of them, then the country of citizenship will be considered as their residence country.

If the individual is a citizen of both or neither of them, then competent authorities of both countries resolve this issue by mutual agreement.

Taxation of Latvian residents

Latvian residents are liable for personal income tax that is withdrawn at source and remitted to the tax authorities at a flat rate of 25%.

The taxable income of residents is calculated as in the Table, below:

Calculations as from January 2008

Gross income	1 000
Less: personal allowance	80.00
Less: allowance for dependants	56.00
Less: (on a monthly basis) social security tax of 9%	90.00
Less: (on an annual basis) deductible expenses incurred in the course of obtaining intellectual property rights	
Less: (on an annual basis) deductible expenses for health care and education (maximum LVL150 (EUR215) per person and LVL150 (EUR215) per dependent)	
Less: (on an annual basis) donations to qualifying organisations	
Less: contributions to private pension funds and insurance premiums (up to 10% of gross income)	
Equals: taxable income	825.00
Times: tax rate of 25%	193.50
Gross income less social tax and personal income tax	716.50
Equals: income after taxes	

Exempt income

Personal income tax-exempt income in Latvia is listed below:

- dividends paid by Latvian or other EU companies;
- income from deposits in banks registered in Latvia;
- lottery wins, if the amount does not exceed expenses incurred on them, maximum LVL500;

- income from the sale of personal property, excluding the sale of real estate held for a period less than 12 months;
- compensation paid by an employer to an individual (final consumer), provided the individual purchases a certain amount of goods from that company;
- insurance benefits received — except compensation payments for life, health or accident insurance if premiums were paid by the employer — upon expiration or breach of agreements;
- income derived from Latvian State or municipality bonds;
- certain business travel expenses;
- a number of government benefits.

Taxation of non-residents

Personal income tax paid in a foreign country may be accredited against tax payable in Latvia, but not more than 25% of the income taxed abroad. To credit foreign paid tax, reports from foreign tax authorities must be submitted to the Latvian tax authorities. Allowances and deductions are not permitted for non-residents.

Expatriates who have received remuneration abroad and stayed in Latvia for more than 183 days within any 12-month period starting or ending within a year, or who have received a Latvian residence permit, must file a Latvian individual income tax declaration, except where tax treaty exemptions are applicable.

Some guiding principles on how to become fully taxable in Latvia and how to obtain personal tax exemptions in home countries.

Norwegian expatriates

If individuals stay abroad for one year and submit proof of foreign tax paid, or if they stay outside Norway for four years, they may become non-taxable in Norway.

Swedish expatriates

If residents of Sweden stay out of Sweden for more than six months, and are not in Sweden for more than 36 days, their income may be exempt from taxation in Sweden.

Austrian expatriates

Individuals whose place of residence or customary place of abode is located in Austria are subject to unlimited tax liability, which means that they are taxable on their worldwide income. The place of residence will be assumed to be where the tax subject is staying if circumstances lead to the opinion that they will continue to keep and use this home. The habitual place of abode is assumed to be in Austria, if a person stays in Austria permanently (a stay of more than 6 months).

Taxation of capital gains

The sale of shares in Latvia has not been a taxable transaction for personal income tax purposes since 2002.

Interest income

Income from deposits in EU banks has been exempt since January 2005.

Pension funds

Payments, not exceeding 10% of annual taxable income (calculated jointly with payments for health insurance), to EU-based pension funds and insurance companies, are exempt income.

Foreign tax credits

Personal income tax paid on investment instruments within the EU, or territories with agreements on income from savings, is creditable without limitation in Latvia.

Tax treaties

Latvia is a signatory to a Treaty for the Prevention of Double Taxation with: Armenia, USA, Moldova, the Czech Republic, Denmark, Estonia, Iceland, Canada, Croatia, Georgia, Germany, Greece, Ireland, Uzbekistan, Lithuania, the Netherlands, Norway, Poland, Finland, France, Sweden, UK, Slovenia, Belarus, China, Ukraine, Malta, Slovakia, Singapore, Switzerland, Kazakhstan, Rumania, Belgium, Bulgaria, Spain, Turkey, Hungary and Portugal. A Double Taxation Prevention Treaty, in principle, enables tax paid in one of the two countries to be off-set against the tax payable in the other. It is of the utmost importance that the Double Taxation Prevention Treaty takes precedence over the Latvian Income Tax Ordinance.

In July 2005, an EU directive covering taxation on savings came into force, as did agreements with other countries. Consequently, Latvia has recently concluded agreements with the Netherlands Antilles, Aruba, Isle of Man, Anguilla, the Turks and Caicos Islands, the United Kingdom Overseas Territory of Montserrat, the British Virgin Islands, the Cayman Islands, Jersey, and Guernsey. As a result of these agreements, countries will exchange information about interest paid to depositors or withhold tax from savings income.

Social Insurance Payments (Social Tax)

The Law on State Social Insurance, passed in 1998, sets out the application of mandatory statutory social insurance payments to salaries. Social insurance payments are made to the combined budget. Social insurance payments are collected from: resident employers, employees of Latvian companies, resident employees employed by non-residents, resident expatriates assigned to work in Latvia, and self-employed individuals.

Taxable income

Taxable income subject to social tax is any income derived from work under contract in Latvia and that is subject to personal income tax.

Tax rates

The duty of an employer is to withhold social tax on a monthly basis at the rate of 24.09% of gross income. The total tax that must be paid is 33.09%, therefore the employee must contribute a payment of 9%.

Expatriates employed by non-residents are subject to social taxes at the rate of 31.04%. The self-employed (as well as I and II disability group) rate of social insurance payments is 29.95%. Residents working for non-resident employers pay the same amount of taxes as if they were working for residents.

The maximum annual income subject to social tax is LVL23 800, but the minimum is LVL1 800.

Administration

The administration of insurance premiums is the duty of the State Revenue Service (SRS). It issues a social insurance payer registration certificate, with reporting dates listed, to each company.

Employees must be registered by the 5th day of the following month after an employment contract has been signed. Resident employers must submit statements of social insurance contributions till the date set by the SRS.

Real Estate Tax

The Law on Real Estate Tax was passed in 1997. Under this law, taxable entities are individuals, legal entities and non-residents that own or possess real estate in Latvia.

The real estate tax rate is 1.0%. From 1 January 2008, the basis for taxation will be the cadastral value. The first year after completing the construction of a building for business purposes is exempt from real estate tax if the building was completed after 1 January 2001.

Corporate Income Tax

Corporate income tax at a glance

Corporate income tax rate (%)	15
Withholding tax (%) *	
Dividends	10
Interest to related parties	10
Management (consultancy) fees	10
Royalties	15 or 5
Payments to low-tax countries	15
Sale of Latvian real estate	1
Net operating losses (years)	
Carry back	0
Carry forward	5

*These taxes apply to payments to non-residents.

Taxable income

In accordance with the Law on Corporate Income Tax, initially adopted in 1995, companies registered in Latvia are subject to tax on their world-wide income. Non-resident companies without a permanent enterprise in Latvia are subject to tax on their profits in Latvia.

Non-resident companies operating through permanent enterprises in Latvia are subject to tax on profits gained by permanent establishments, as well as on profits in other countries independently gained by a permanent establishment.

If a non-resident company engages in business activities that are analogous to the business activities performed by its permanent establishment in Latvia, income derived from the non-resident company's activities is incorporated in the taxable income of the permanent establishment.

Resident companies are established, registered or required to be established or registered, in compliance with the law. All other companies are considered to be non-resident.

Tonnage tax

To qualify for Tonnage Tax payer status, it should be a Latvian-registered company operating vessels engaged in international trade for the transportation of goods or passengers or in towage and salvage operations. Such vessels shall be in ownership, or in joint ownership or under bareboat charter party, registered in the Latvian Shipping Register and engaged in international trade. The calculation of this tax is based on multiplying ships' net tonnage by an income coefficient. Every separate tonnage part is multiplied by a respective part of the income coefficient. The obtained sum is multiplied by the number of calendar days that the vessel was in operation. The income coefficient, expressed in LVL per netto tonnage unit, shall be applied as follows:

- for tonnages from 100 to 1 000 tonnage units - 0.0022;
- for tonnages from 1 001 to 10 000 tonnage units (for the tonnage over 1000) -0.0019;
- for tonnages from 10 001 to 25 000 (for the tonnage over 10 000) - 0.0016;
- for tonnages over 25 000 tonnage units -0.0007.

Payers of tonnage tax do not pay corporate income tax and corporate income tax rebates are not applicable to them.

Tax Rebates for Investment

Companies that are carrying out large, state-supported investment projects (more than LVL10 million (EUR14.2 million) within a three-year period) may receive a tax allowance equal to 40% of the full amount invested. To gain this tax rebate, the investment plan must be approved by the government.

The tax holiday starts from the year that the investment project is completed. If the corporate income tax imposed is less than the tax rebate granted, the unexploited part of the

tax rebate may be carried forward for ten years. Corporate income tax at the 25% rate is applied to companies that have benefited from rebates.

Interest deductions

Deductible interest for corporate income tax purposes is the least of: a) the interest calculated by multiplying 1.2 times the average short term credit interest rate set by the Central Statistical Bureau within the last month of the taxation year (since July 2005, the rate has been 5.5%); b) the ratio of the difference between debt and 4 times the equity within the first month of the taxation year. Calculations of equity must exclude any amounts in long-term re-evaluation and other reserves. The above applies to loans from Latvian banks. Interest accrued before 2003 may be carried forward for up to five years in amounts of 20% of interest accrued. The rules applicable as of 2003 do not permit interest to be carried forward.

The remainder of the prohibited interest may be carried forward until more than 50% of the company's shares are disposed of.

Average rates for short term loans in Lats

	Total	I	II	III	IV	V	VI
1999	13,9	17,3	17,0	16,3	15,8	15,5	15,8
2000	12,1	9,7	10,6	9,9	10,6	11,0	11,2
2001	10,8	130	12,5	13,1	11,8	11,5	11,1
2002	7,5	10,4	10,2	9,4	9,5	9,2	7,8
2003	5,4	5,5	5,2	5,2	5,2	5,5	5,6
2004	7,5	6,6	7,0	7,9	7,5	7,5	7,5
2005	5,9	7,4	7,5	7,3	6,4	5,8	5,7
2006	7,2	6,5	6,9	6,6	6,8	7,3	7,0

	Total	VII	VIII	IX	X	XI	XII
1999	13,9	12,3	12,6	11,5	12,4	11,5	12,5
2000	12,1	12,1	14,2	13,7	14,1	13,6	11,8
2001	10,8	11,8	10,8	10,6	8,8	9,3	9,9
2002	7,5	7,7	6,8	6,5	6,4	6,3	5,4
2003	5,4	5,1	5,4	5,3	5,2	5,6	5,8
2004	7,5	7,0	7,5	7,9	7,8	7,6	7,6
2005	5,9	5,5	5,5	5,4	5,5	5,6	5,7
2006	7,2	7,4	7,8	8,1	8,3	7,5	7,3

Source: Central Statistical Bureau of Latvia, 2007

Capital gains

Resident companies and non-resident companies operating through a permanent establishment in Latvia must include capital gains on securities or shares in their taxable income. Foreign, non-resident, companies that sell real estate in Latvia must deduct a final tax of 1% from the proceeds of the sale. Individuals who sell real estate are exempt from tax on the condition that they have owned the property for at least 12 months.

Administration

The tax year in the main is the calendar year, but it may differ if so stipulated in a company's charter. The fiscal year should be 12 months. Nevertheless, companies may have a tax period which is longer or shorter than 12 months (18 months is the maximum possible).

The annual income declaration must be filed within 30 days of the annual shareholders meeting, but not later than four months after the end of the year.

Companies must make advance tax payments by the 15th date of each month. Overall, for the period from the first month of the taxation period up to and including the month when the annual report is filed, but not later than four months after the taxation year ends, monthly advance payments are equal to 1/12th of the annual tax calculated for the year, two years prior to the current tax year, adjusted for inflation.

For the remaining months, the monthly advance payments are each equal to 1/8th of the following: the tax calculated for the preceding year, adjusted for inflation and reduced by the advance tax payments made in accordance with the above procedure.

Any outstanding tax must be paid within 15 days of the due date for the annual income declaration.

Dividends

The new taxation procedure for dividends paid to residents of EU countries is that withholding tax on dividend payments is not applicable if the receiver has owned at least 20% of capital and voting rights in the company distributing the dividends for at least two years.

An EU company holding shares in a Latvian company paying dividends shall submit a notification regarding the shareholder's capital and voting rights, stating how long at least 20 % of the capital and voting rights have been owned.

If payment is made within the assumed two-year period, exemption may be granted from withholding tax if a bank guarantee to the amount of 10% of the dividend is submitted to tax authorities. The bank guarantee should list the tax authority to whom the guarantee was given; full information about the bank; the EU company receiving the dividends; the Latvian company paying the dividends; the payment-guarantee amount i.e. 10% of the amount of dividends; confirmation that the bank guarantees to pay the money immediately, to the guaranteed amount, to the tax authority, if the EU company loses its right not to withhold tax and has not paid tax. All disputes related to such guarantees shall be settled according to the law. Currently, withholding tax is set at 10% on dividend distributions, unless a relevant tax treaty determines a lower rate.

To qualify for exemptions, EU residents should correspond to a type of company prescribed by the Law on Corporate

Income Tax and shall be a payer of taxes in their home country as prescribed. From 1 January 2007 until 31 December 2008 a shareholding of only 15% will be required, but from 1 January 2009, the required shareholding will be reduced further to 10%.

List of low tax countries adopted in Latvia

Payments to low tax countries are ordinarily subject to 15% withholding tax. The list of low tax countries is as follows: Antilles (Netherlands), Andorra, Anguilla, Antigua & Barbuda, Aruba (the Netherlands), Bahamas, Bahrain, Barbados, Belize, Bermuda, British Virgin Islands, Brunei Darussalam, Cayman Islands, Cook Islands (New Zealand), Costa Rica, Cyprus, Dominican Republic, Ecuador, Gibraltar, Grenada, Guam, Guatemala, Guernsey, Hong Kong (Sjangan), Isle of Man, Jamaica, Jersey, Jordan, Jisbuty, Kampione, Kenya, Kuwait, Labuana (Malaysia), Lebanon, Liechtenstein, Liberia, Maldives, Macao, Madeira (Portugal), Mauritius, Marshall Islands, Monaco, Montserrat, Nauru, New Caledonia, Niue (New Zealand), Olderne, Panama, Qatar, San Marino, Seychelles, St. Helens, St. Kitts and Nevis, St. Maria Island (Portugal), St. Pierre and Michel (France), Samoa, Santome and Prinsipi Republic, St. Lucia, St. Vincent and Grenada, Tahiti (French Polynesia), Tonga, Turks and Caicos Islands, United Arab Emirates, Uruguay East Republic, Vanuatu, Venezuela, Virgin Islands (USA) and Zanzibar Islands (Tanzania).

Foreign tax relief

It is possible to reduced corporate income tax up to the amount of corporate tax paid in foreign countries, but the reduction may not exceed the amount of tax calculated in Latvia on the income gained in a foreign country.

Determination of taxable income

Taxable income is the profit or loss reported in a company's profit and loss report in accordance with the Law on the Companies' Annual Reports" and subject to the provisions specified below:

I. Profit (losses) shown in profit or loss statement:

- plus: losses from the maintenance of community infrastructure;
- plus: expenses not directly related to entrepreneurial activity;
- equals: adjustable taxable income (loss).

II. Increases in adjustable taxable income:

- total cost of depreciation of fixed assets and written-off intangible assets shown in the annual report;
- total of penalties arising from contracts;
- outstanding losses resulting from embezzlement and theft;

- payments to non-residents if no withholding tax is paid, including:
 - fees for management and consultancy services;
 - interest;
 - royalties for intellectual property;
 - royalties for usage of property located in Latvia;
 - payments to low tax countries.
- 40% of representation expenses;
- reserves for bad debts (does not apply to credit institutions);
- losses on sales of securities, except losses from securities which are in public circulation;
- capital expenditure costs;
- expenses related to securities which are in public circulation;
- expenditure which a tonnage tax payer has incurred in obtaining income from the utilisation of ships for international carriage and associated activities;
- the amount of depreciation of fixed assets and the value of written-off intangible investments specified in the annual report of the company if these fixed assets and intangible investments were utilised to gain income from the utilisation of ships in international carriage and associated activities;
- borrowings;
- cost reserves and accruals;
- total of payments for above-limit usage of natural resources and environmental pollution;
- decrease in the total of the costs incurred in the revaluing of balance sheet items, except for amounts related to changes in foreign currency exchange rates;
- interest in excess of admissible amounts (thin capitalisation);
- compensation for losses transferred within a group;
- compensation payments received and not re-invested within 12 months for forced loss of land, buildings, parts thereof and other constructions;
- losses arising from the sale of fixed assets to associated companies or individuals related to the company;
- differences in the value of goods (production, services);
- differences between transaction values and market values;
- certain costs of improvement and reconstruction;
- decreases in the equity of subsidiaries;
- income from participation in non-resident companies or companies with tax rebates, if increases in participation and differences in dividends do not appear in reserves;
- insurance premiums paid to non-resident insurance companies for services that can be provided by Latvian insurance companies;
- certain dividends received from non-residents;
- decrease in value because of revaluation of assets and transferring of liabilities of a company to be transferred, acquired or divided;

- decrease in value because of revaluation of transferred shares;
- sums counted in reserve for the purchase of passenger buses.

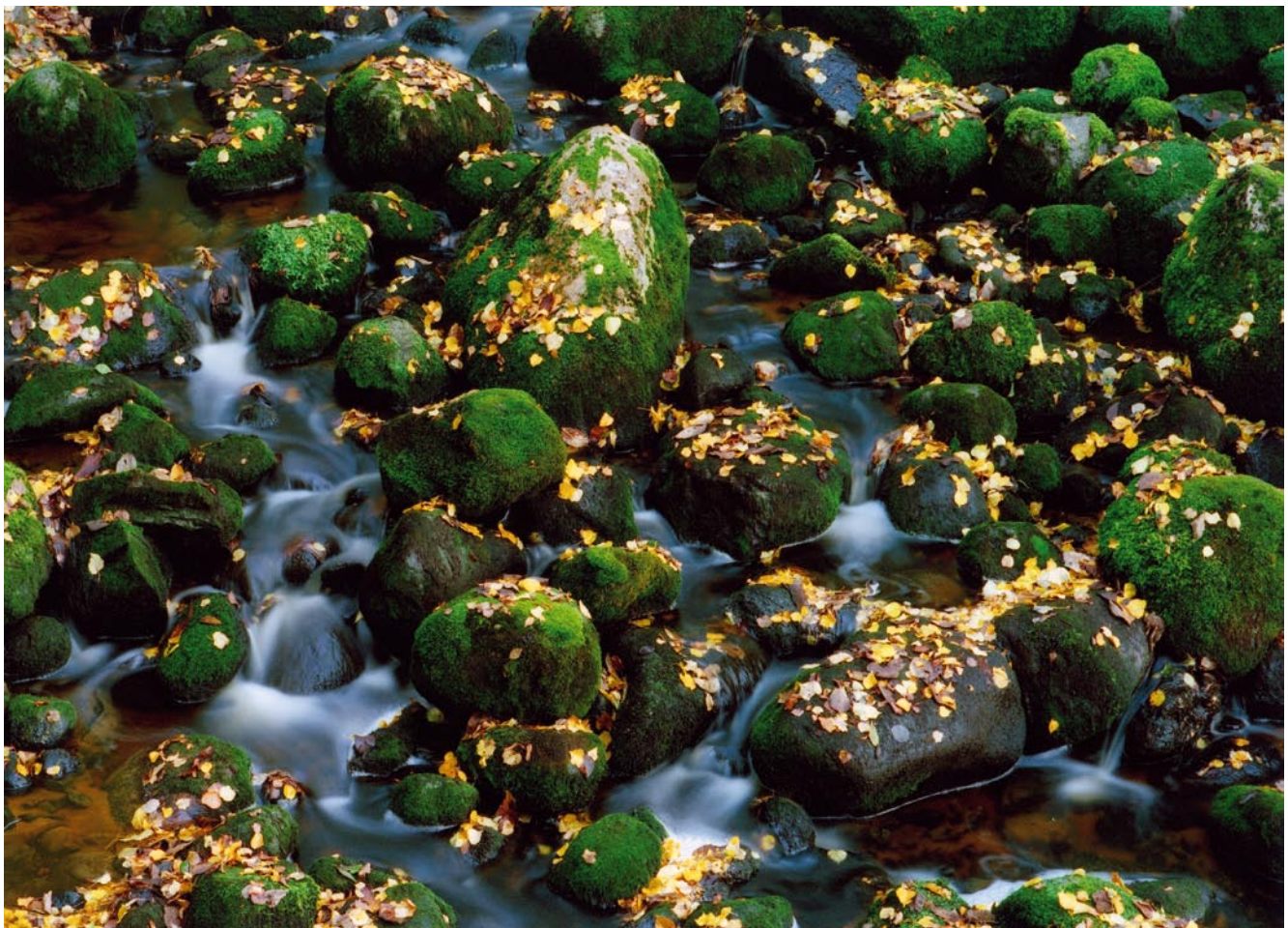
III. Decreases in adjustable taxable income:

- total of depreciation of fixed assets and intangible investments according to the tax laws;
- real estate tax;
- total of duties and taxes on gambling and lotteries;
- amount of agricultural subsidies;
- total of bad debts, if the debtor has been declared bankrupt by the courts;
- increases in the total costs incurred as a result of revaluing balance sheet items, except for amounts related to changes in foreign currency exchange rates;
- decreases in reserves for bad debts compared to the previous tax period;
- compensation received for the forced loss of land, buildings, parts thereof and other constructions;
- dividends received;
- compensation received for transfers of losses within groups;
- interest deductions carried forward (acquired before 31 December 2002);

- for tonnage tax payers: income from the utilisation of ships in international carriage;
- income from securities which are in public circulation;
- income from bad will in cases of privatisation;
- income from the difference between the face value of privatisation vouchers and the selling price of privatised property acquired with the said vouchers;
- late payment fees for taxes which are subsequently decreased;
- value of PCs and other electronic equipment donated to educational establishments;
- participation increase in the equity of subsidiaries;
- increase in value because of revaluation of assets and liabilities of a company to be transferred, or acquired or divided;
- increase of value because of revaluation of transferred shares;
- equals: TAXABLE INCOME;
- losses carried forward, adjusted taxable income, group relief, losses from sales of securities in certain cases;
- equals: ADJUSTED TAXABLE INCOME.

IV. Tax relief:

- corporate income tax paid in foreign countries, but not more than 25% of the foreign source income;
- tax relief for agricultural companies;



- tax relief for employment of convicted persons;
- 85-90% of qualifying donations;
- amounts transferred to qualifying foundations or programmes.

Permanent establishments

There are two methods for determining the taxable income of a branch. In accordance with the first method, taxable income is determined based on information specified in a corporate income tax declaration which, along with a balance sheet and a profit and loss statement, must be submitted to the tax authorities within four months of the end of the taxation period (year).

When the branch office has been active for less than 12 months, a simplified method may be used to calculate taxable income. According to this method, costs are 80% of income. As a result, the taxable income is 20% of revenue subject to a corporate income tax of 15% for 2006. Therefore, this method of calculation determines an effective tax rate of 3% for 2006. A payer may, upon agreement with a branch office, withhold tax on behalf of the branch. If there are no more than three payers and an agreement is concluded between the payers on withholding the tax, neither a profit and loss statement nor a balance sheet need be submitted to tax authorities.

Non-deductible expenses for corporate income tax purposes applicable to branches include payments to a head office

for royalties, any services such as consultancy, management, etc. and interest payments (exceptions apply to branches of banks). Deductible costs comprise head office costs supported by documents relating to the branch office. This rule remove limitations on the deduction of overhead costs borne by the head office, but deductible in the branch only in proportion to the income of the branch office measured against the income of the head office.

The rule on 'transfer of taxpayer's burden' is also eliminated by the new regulations. The rule was applied in instances when, in fact, a permanent presence had been established, but it was not possible to levy a corporate tax against it. In such instances, a Latvian resident who derived income from the permanent establishment was obliged to withhold and afterwards pay corporate income tax.

The simple method of calculation may not be applied to branches of entities resident in low tax countries, a list of which is shown above.

Interest, royalties, rent and payments for services that are paid to the head office are non-deductible expenses against corporate income tax.

The taxable income of permanent establishments may be reduced by costs borne by the parent company, if those expenses are actually connected to the permanent establishment.



Expenses related to the acquisition of intellectual property, interest payments and administration costs that are deductible are subject to the appropriate withholding taxes.

Depreciation for tax purposes

Tax depreciation for fixed assets is calculated using the double-declining balance depreciation method. There is an opportunity for a taxpayer to calculate tax depreciation from a higher initial value of fixed assets (new technological equipment bought in 2006-2010). To promote investment in fixed assets, the law determines increased depreciation rates. Double depreciation rates range from 15% to 70% for oil-extraction tankers, technical equipment, machinery, office equipment, furniture and certain other assets. The depreciation rate for buildings, constructions and long-term plantations is 10%. The acquisition costs of patents, licences and trademarks are amortised in accordance with the straight-line method for five years, but concessions are amortised over ten years. Patents, licences and trademarks issued for a term of less than five years, can be cancelled within the term of their validity for tax purposes. Research and development costs can be cancelled for tax purposes in the same year that they are incurred. Amortisation is not allowed for trade secrets and goodwill.

Group Relief

Latvia does not allow for group consolidation for tax purposes. Companies within a corporate income tax group are allowed to transfer losses to profitable group member companies, in this manner equalising the tax burden. To qualify for group relief, the superior must own at least 90% of subsidiaries and the superior-subsidiary relationship must have existed for the entire financial year. In accordance with changes, the main company or the sub-company for group purposes may be located in EU countries, as long as this company is not recognised as a non-EU tax resident, based on a double-taxation treaty.

Withholding Taxes

The following table shows withholding-tax rates applicable to dividend, interest and royalty payments to designated countries. If the non-treaty country rate of withholding tax for a particular class of payment is lower than the rate applicable to the designated countries, the non-treaty rate is applicable. The non-treaty country rate is determined by domestic legislation.

Withholding tax rates

	Dividends %	Interest %	Royalties %
Armenia	5/15 ^(a)	10	10
Belarus	10	10	10
Belgium	5/15 ^(a)	10	5/10 ^(d)
Bulgaria	5/10 ^(a)	5	5/7 ⁽ⁱ⁾
Canada	5/15 ^(b)	10	10
China	5/10 ^(a)	10	10
Czech Republic	5/15 ^(a)	10	10
Croatia	5/10 ^(a)	10	10
Denmark	5/15 ^(a)	10	5/10 ^(d)
Estonia	5/15 ^(a)	10	5/10 ^(d)
Finland	5/15 ^(a)	10	5/10 ^(d)
France	5/10 ^(h)	10	5/10 ^(d)
Germany	5/10 ^(a)	10	5/10 ^(d)
Hungary	5/10 ^(a)	10	5/10 ^(d)
Iceland	5/15 ^(a)	10	5/10 ^(d)
Ireland	5/15 ^(b)	10	5/10 ^(d)
Kazakhstan	5/15 ^(a)	10	10
Lithuania	0/15 ^(c)	0	0
Moldova	10	10	10
Malta	5/10 ^(a)	10	10
Norway	5/15 ^(a)	10	5/10 ^(d)
Poland	5/15 ^(a)	10	10
Portugal	10	10	10
Rumania	10	10	10
Sweden	5/15 ^(a)	10	5/10 ^(d)
Singapore	5/10 ^(a)	10	7.5
Slovenia	5/15 ^(a)	10	10
Slovakia	10	10	10
Spain	5/10 ^(a)	10	5/10 ^(d)
Switzerland	5/15 ^(l)	10	5/10 ^(d)
The Netherlands	5/15 ^(a)	10	5/10 ^(d)
Turkey	10	10	5/10 ^(d)
UK	5/15 ^(b)	10	5/10 ^(d)
Ukraine	5/15 ^(a)	10	10
USA	5 ^(g) /15	10	5 ^(d) /10
Uzbekistan	10	10	10
Non-treaty country	10	0/5/10 ^(f)	5/15 ^(e)

^(a) 5% of the gross amount of the dividends, if the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends.

^(b) 5% of the gross amount of the dividends, if the beneficial owner is a company which holds directly at least 25% of the shareholders' votes of the company paying the dividends.

^(c) 0% if the recipient of the dividends is a company other than a partnership that holds shares representing at least

25% of the capital and the shareholders' votes of the company paying the dividends.

- (d) 5% of the gross amount of royalties paid for the use of industrial, commercial or scientific equipment.
- (e) 5% rate applies to royalties for intellectual property, except royalties for copyright or neighbouring rights on works of art or literature, including films and audio recordings, to which 15% applies.
- (f) 5% rate applies to interest paid by a Latvia-registered bank to related parties. 10% is applicable to interest paid to related party.
- (g) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 10% of the shareholders' votes of the company paying the dividends.
- (h) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends.
- (i) 5% of the gross amount of the dividends if the beneficial owner is a company which holds directly at least 20% of the capital of the company paying the dividends.
- (j) 5% rate applies to royalties for intellectual property, except royalties paid for the use of, or the right to use, cinematographic films and films or tapes for radio or television broadcasting, any patent, trade mark, design or model, plan, secret formula or process to which 7% applies.

Consultancy fees

The definition of consultancy fees (subject to 10% withholding tax) has been broadened, to include in it all consulting and management services provided to a company, not just services provided to a company's management. To avoid withholding double taxes, treaty benefits may be utilised for payments to tax-treaty countries.

Payments for sale of real estate

According to the Law on Corporate Income Tax, a withholding tax of 2% on non-residents' income from the disposal of real estate is applied. The new rules determine that, in cases where the tax of 2% is not withheld on payments, the payable amount does not become a non-deductible expense for corporate income tax purposes. The common rule is that, where payments are made to non-residents, there is an option to withhold tax on consultancy (10%), interest to related parties (10%) and royalty fees (5% or 15%). If the withholding tax is not paid by the 15th of the following month, the full payable amount becomes a non-deductible expense for corporate income tax purposes.

Value-added Tax

According to the Law on Value-added Tax, adopted in 1995, VAT must be charged on any supply of goods or services, on the import of goods, as well as on self-consumption. VAT rates are 18%, 5% and 0%.

The supply of goods is the transfer of their ownership to another entity so entitling the latter to dispose of the transferred possession. The first sale after completion of the construction of a building is also regarded as the supply of goods.

The supply of services is a transaction based on activities carried out by an entity for a consideration. They include the activities of self-employed individuals, the transfer (sale) of any obligations, rights or intangible assets, obligations to refrain from activities or to accept any activity, as well as the lease of goods. Personal (self)-consumption is the supply of one's own goods and services to an entrepreneur, his family members, employees or other persons free of charge.

VAT Rate of 5%

The rate of VAT at 5% came into effect on 1 May 2004. It is applied to pharmaceuticals, veterinary medicines; infant products, books, certain mass media products, hotel accommodation costs, certain water-supply and utility services and tickets to sports events.

Zero-rated Supplies and Exemptions

Pursuant to the law, the following groups of supplies and services are subject to the 0% VAT rate:

- export of goods if documents show that the goods are to be transported outside the EU;
- services which are related to export of goods outside the EU;
- services which are defined as 'not supplied within Latvia';
- goods and services related to the maintenance and service of international transportation;
- certain tourism services;
- on the basis of reciprocity, services and goods related to diplomatic and consular officers enjoying immunity;
- certain services, if the recipient is a non-resident, such as assignment, transfer or grant of intellectual property rights; services related to advertising and public relations; legal, accounting, audit, consulting, interpretation, expert, engineering, market research, and management services, services of patent offices; data processing; exchange of know-how, supply of information; supply of staff, except education and training services; leasing except real estate and vehicles; telecommunication services; broker agency services.

A number of goods and services are exempt from VAT, e.g. certain services with an educational value or cultural

function, the sale of shares and not-newly constructed real estate, lotteries as well as land.

The 0% VAT rate for intra-community supplies is applied if the recipient of goods is an EU entity which is registered in its home country's VAT register and transport documents demonstrate that the goods were actually delivered. The 0% rate is also applied to intermediaries who re-sell goods to end consumers within EU countries. Reports on such intra-EU supplies must be submitted to tax authorities quarterly.

Input and Output VAT

The VAT system is based on the principle that the tax burden should be borne by the final consumer and is neutral to businesses. VAT taxpayers are entitled to deduct the tax paid on their supplies (input VAT) from the tax which they charge their customers (output VAT), if those incoming supplies ensure the entrepreneurial activity of the taxpayer.

Input VAT may be deducted on an accrual basis without payment of VAT shown in the VAT invoice for local supplies:

- after receiving tax invoices and receiving the goods or services;
- after paying the amount of tax shown in tax invoices.

Entities whose sales, excluding exempted sales exceed LVL10 000 within a 12-month period, are obliged, within the following 30 days, to register as VAT payers with the State Revenue Service.

Fiscal Representatives

Changes to the VAT law, effective since May 2004, introduce the concept of VAT fiscal representatives. If the responsibility for VAT payment lies within a fiscal representative, it is mandatory that the Latvian VAT registration number, name and registered address of the VAT representative are mentioned in VAT invoices. In addition, VAT invoices must include the following items:

Date and number of invoice:

- Supplier's and recipient's names, addresses and VAT numbers;
- Date of supply;
- Type of goods or services and quantity supplied;
- Prices and applicable discounts;
- VAT rate and amount plus cost of goods without VAT;
- If the 0% rate is applicable, or the responsibility for tax payment is on the recipient of the goods or services — reference to the Article of the VAT law on which the zero rate is based; the same applies to fiscal representatives.

Real Estate

Real estate tax is charged annually at the standard tax rate of 1.0% and is payable by any entity holding Latvian real estate. If a real estate property (or any part of it) is sold or put into operation within 10 years of the date of purchase, part of the VAT deducted at the time of purchase must be repaid to the government. The amount is calculated as 1/10



of the deducted input tax multiplied by the number of years remaining until the end of the said 10-year period (from the date of purchase or placement into operation). This repayable input tax amount is included in the value of the real estate, and a buyer shall not be entitled to deduct it as input tax.

VAT Refunds

VAT paid on purchased goods and received services in Latvia by a company registered as a VAT payer in any EU country, and is not actively engaged in business activities in Latvia, may be refunded.

VAT paid on goods purchased and services received in Latvia by a company from any third country which is not registered as a company in Latvia may be refunded according to the reciprocity principle.

VAT refunds may be requested in the following cases:

- the term where VAT repayment is requested between 3 and 12 months, and VAT paid for goods and services totals more than LVL135;
- the term of VAT repayment requested is
 - a calendar year;
 - a period less than 3 months and those are the last months of a calendar year.
- and VAT paid for goods and services is more than LVL20.

Documents required for VAT repayment are the application form, invoices (originals), payment documents and a statement from the appropriate tax authority that the company is registered as a VAT payer in another country.

VAT paid by an individual from any third country on goods of value greater than LVL25 purchased in Latvia and brought out of the EU may only be refunded by licensed companies.

Investment in Equity

The rules effective from January 2002 determine that it is possible to invest property in the equity of another company and to deduct paid VAT without restriction.

VAT paid on goods and services purchased for the construction and repair of buildings are deductible. VAT deductions do not apply to VAT paid on the construction of facilities used for VAT-exempt businesses or community infrastructure, such as apartment buildings, sports, medical and educational facilities, if the community facilities do not relate directly to the commercial activities of the company.

Any VAT deducted shall be repaid to the state if the real estate is sold within 10 years of its purchase, or if it has been used for VAT-exempt transactions.

Importing Fixed Assets

In cases where fixed assets are imported (except cars), not intended for leasing companies, VAT need not actually be paid, but, it is shown as VAT-payable and -deductible. A new

limitation is imposed, requiring, in instances when asset value exceeds LVL50 000, to report to the tax authorities within 5 years on the use of those assets for VAT-exempt activities, and if any VAT-exempt products are made, the proportion of how much VAT may be deducted must be calculated. The proportion is calculated as all taxable supplies without VAT (including transactions with 0% VAT rate) divided by all transactions exempt from VAT. If the proportion (including exempt transactions) changes within a year, the VAT deductible must be adjusted.

VAT on company liquidation

If a company is liquidated, the total residual value of fixed assets and stock on which VAT has been deducted shall be calculated in total and subjected to VAT. VAT is payable not later than 30 days after the liquidation is recorded with the Commercial register.

Advances

Advances are not subject to VAT, if services have not yet been provided. However, if the services are provided on a continual basis, the advance is VAT taxable in the 7th month after the receipt of the advance.

Pricing

A new rule has been introduced on prices charged for goods and services. If the price charged to a buyer is, systematically and continually, below a commercially-substantiated level, additional VAT will be charged on the omitted difference at the end of a taxation year, except for discounts.

Intra-Community Acquisitions

If Latvian-registered VAT payers receive goods from EU-registered VAT payers, they have to show VAT as payable and deductible in their VAT declarations, based on invoices received. If a Latvian non-VAT-registered entity receives goods from an EU-registered VAT payer, and the total value of the goods received exceeds LVL7 000, the Latvian entity has to register itself as a VAT payer in Latvia.

Mandatory VAT Registration

The law stipulates instances when EU companies must register as VAT payers in Latvia:

- If an EU-registered VAT payer supplies goods to a Latvian entity not registered as a VAT payer and that supply exceeds LVL 24 000 within a 12 month period;
- Regardless of the amount, if a recipient is not a VAT-registered entity and the excised goods are to be supplied in, or the goods are to be installed in Latvia;
- If the services provided are related to culture, art, education, science, sport or real estate — regardless of the amount;

- If the services provided relate to warehousing, transportation of goods or relate to non-fixed assets (such as repair, assessment, maintenance), except leasing services.

Triangular supplies

According to the latest changes in VAT law, non-EU entities (for example, US companies) may register as VAT payers, utilising fiscal representation, in any EU country, based on local rules. The use of a Latvian registration number will be accepted for zero-VAT export on triangular transactions in the following circumstances:

Example 1

The export of goods from the EU will be subject to zero VAT if a customs seal is affixed to an export declaration, confirming that the goods left the EU, if other documents (payments, orders, etc.) support the fact of export.

Example 2

Supply of goods to EU-registered VAT entities will be subject to zero VAT if transport documents support the fact that goods were supplied to the EU recipient.

Example 3

There is a seller, a broker and a buyer in a triangular transaction. All those entities must be VAT-registered in different EU countries. Goods should have been supplied to the buyer at the instruction of the broker. Invoices issued by the brokers will be subject to zero VAT if the recipient of the goods is a VAT-registered entity.

Administration

VAT owed to the government must be paid on a monthly basis by the 15th day of the following month or, with the agreement of tax authorities, by the 25th day of the following month for companies with multiple branches. Monthly VAT returns are also required to be filed. The annual VAT declaration is due by 1 April of the following year.

Excise Tax

Pursuant to the Law on Excise Tax, adopted in October 2004, excise tax rates are as follows:

- Soft drinks (LVL2 per 100 litres);
- Coffee (LVL50 per 100 kilograms);
- Beer (LVL1.30 per 100 litres for each % proof, but not less than LVL2);
- Wines and other fermented drinks (LVL30 per 100 litres);
- Alcoholic beverages up to 15 proof (LVL42 per 100 litres);
- Alcoholic beverages between 15-22 proof (LVL70 per 100 litres);
- Other spirits and alcoholic beverages (LVL630 per 100 litres);

- Cigarettes (LVL 17.8 per 1000 cigarettes; 32.2% of the maximum retail price);
- Rates for cars depend on age (decreases from LVL250 to LVL75 per car up to 7 years of age, and increases from LVL75 to LVL250 per car up to 25 years);
- Cigars (LVL11 per 1000 cigars);
- Tobacco (LVL14-21 per 1000 grams);
- Petrol, diesel (LVL164-281 per 1000 litres);
- Gas and other hydrocarbons (LVL83 per 1000 kilograms);
- Products used for heating (LVL14 per 1000 litres).

Generally, excise tax for alcohol and tobacco products is paid by purchasing excise tax stamps.

Natural Resources Tax

According to the new Law on Natural Resources Tax, adopted in 2005 and enforced in 2006, natural resource tax is payable by individuals or legal entities or associations who under the respective licence (if such is required under law) perform any of following actions:

- In the territory of Republic of Latvia (or continental shelf) acquire any taxable natural resources;
- In the territory of Republic of Latvia (or continental shelf) makes taxable pollution;
- Import environmentally non-friendly goods or packaged goods for distribution in the customs territory of the Republic of Latvia;
- In the Republic of Latvia, distributes locally produced, environmentally non-friendly goods or packaged goods.

The **Law on Packaging** was adopted on 2002. Tax on the packaging of products is calculated on every unit of packaging. The number of packaging units should be specified by accounting documentation and a document listing standard packaging units, or by a supplier's statement, or by agreement on obtaining the goods, or by a cargo waybill approved by a customs authority, or by the consumption of standard packaging units.

If the taxpayer is not aware of packaging type and size, an opinion should be obtained from the Latvian Packaging Certification Centre.

Tax is imposed on the following packaging types: glass (tax rate in 2007 — LVL0.16, 2008 — LVL0.20, 2009 — LVL0.25 per kg), polymers (2007 — LVL0.40, 2008 — LVL0.60, 2009 — LVL0.65), metal (2007 — LVL0.24, 2008 — LVL0.45, 2009 — LVL0.70), pulp and other natural-fibre raw materials, paper, cardboard (2007 — LVL0.05, 2008 — LVL0.15, 2009 — LVL0.30), laminates with polymer or metal components are taxed according to which component makes up the major proportion in the material.

Tax relief may be granted to a taxpayer who finances projects aimed at reducing environmental pollution, up to the total of the sum invested, or implements a voluntary programme

for the management of packaging waste, or participates in an emission-quota-trading system.

Gambling Tax

According to the Law on Gambling and Lottery Taxes, adopted in 2005, gambling and lottery tax is levied on business entities that have been issued gambling licences. The cost of a licence is LVL 300 000 and for every next year LVL25 000. Totalisator gambling service licence costs 30 000 annually.

Gambling tax is payable annually for each gambling facility and machine. For example, each roulette table is subject to LVL9 600 gambling tax, each slot machine LVL1680 or 2280, depending on whether it is situated in a casino, another gambling venue or not, and each bingo venue with up to 100 seats LVL12 000, up to 200 — LVL18 000, up to 300 — LVL24 000 and more than 300 — LVL36 000. Telephone gambling games must pay 10% of their revenue in tax.

Lottery tax at 8% is imposed on the sale of lottery tickets, except instant lottery tickets, which attract 10% tax.

Starting from January 2007, it is prohibited to set up and operate slot-machines outside casinos and licensed gambling venues.

Special Taxation Regimes

There are four special economic zones (SEZ) across the country, three of which are situated in the free ports of Ventspils,

Riga and Liepaja, and the fourth being an inland zone in the city of Rezekne, eastern Latvia, close to the Russian and Belarus borders. The basic facilitating package available for companies establishing within these zones includes rebates on real estate tax, on corporate income tax on income derived within the zone, on withholding tax for dividends, management fees and payments for use of intellectual property and on VAT.

However, it should be taken into consideration that these rebates may not exceed 50% of the amount invested.

Tax holidays are granted by the Authority of each Special Economic Zone or Free Port for companies located in their territory and carrying out entrepreneurial activities only in the territory of that special economic zone or free port.

Such activities as the location of the administrative institutions outside of the territory of a special economic zone or free port, the conduct of negotiations and the concluding of contracts outside of the territory of a special economic zone or free port, the transit of goods from or to the territory of a special economic zone or free port, and other activities not having the nature of the execution of a goods-money transaction are not considered to be an entrepreneurial activity outside of the territory of a special economic zone or free port.



TRADE AND CUSTOMS

General

With Latvia's accession to the European Union, the *acquis communautaire* has been adopted, although certain transitional rules remain in place and the process of practical implementation may still be deficient in some areas. For both investors and merchants, Latvia has become a member of the European Trade and Customs Union as part of the Single Market. Trade with member states is therefore subject to EU and implementing domestic legislation only, while trade with countries outside the EU has come under a largely new regime defined by EU legislation and treaties.

The EU customs regime is mainly governed by the EU Customs Code as the main body of substantive law, as enforced by Council Regulation No. 2913/92 and implemented by Commission Regulation No. 2454/93,

Council Regulation 918/83, which establishes a unified system of customs duty relief, and Council Regulation No 2658/87, which institutes a binding tariff and statistical nomenclature as well as the Common Customs Tariff, but in practice defined as well through:

- domestic legislation incorporating various EU Directives,
- domestic legislation regulating customs authorities and organisations,

and further supplemented by international treaties, among them the WTO legislative body including the General Agreement on Tariffs and Trade (GATT) Convention on Harmonized Commodity Description and Coding System, the TIR Convention and the ATA Convention on Temporary Imports and Exports.

Trade with EU Member States

The following changes currently affect trade with EU member states:

Most customs barriers have been abolished, eliminating all customs clearance procedures within the Single Market and instead placing them under the regime of the Community Customs Code, specified by the Latvian implementing legislation and several immediately applicable EU regulations.

With the exception of certain rules on allowances for individual travellers that remain in force until all relevant EU law has been transformed, no quantitative restrictions exist any longer.

VAT, excise duties and special taxes are no longer treated as customs duties.

Goods that either originate in any of the old or new member states, or products coming from a third country which are considered to be in free circulation in a member state, are now fully eligible for free intra-community circulation.

Products coming from a third country shall therefore be considered to be in free circulation in a member state if import

formalities have been complied with and any customs duties or charges with equivalent effect, which are payable, have been levied in that Member state, and if they have not benefited from a total or partial drawback of such duties or charges.

Declarations of the Latvian customs authorities on the origin of goods (BOI) or compliance to tariff code (BTI) have become valid throughout the EU.

The database-reliant NCTS (New Computerised Transit System) — in some parts operational since July 2003 — has replaced paper-bound transit proceedings, enabling both companies and customs authorities to trace and control the movement of goods electronically.

Transitional rules and exceptions

Certain rules and exceptions apply until full practical and legal integration into the customs union is accomplished:

- Ongoing clearance proceedings started prior to accession must be completed, although no duties apply if all proper documentation is provided.
- Certain exceptions apply with regard to agricultural goods and goods from production facilities that fall short of EU licensing standards; the latter may not be exported to other EU countries or be subject to specific rules and procedures.
- Licences issued prior to May 1, 2004 have to be reviewed with regard both to their overall validity and necessity.
- Authorisations issued by Latvian authorities prior to accession concerning (1) inward processing (2) outward processing and (3) conversion, are void as of 30 April 2005. Community law must be adhered to additionally.
- Authorisations issued by Latvian authorities prior to accession concerning (1) bonded warehousing, (2) temporary admission/usage, (3) special handling and (4) free zones and free warehouses must fully comply with Community as from 1 May 2005, either by way of formal adjustment, or revocation and re-issuance.
- Statements and declarations made by Latvian authorities have lost all binding character they may have had prior to accession.
- Latvia maintains four free trade zones (FTZ) following bilateral negotiations with the EU during accession talks. These areas are the Free Ports of Riga and Ventspils and the Special Economic Zones of Liepaja and Rezekne. These privileged areas provide largely similar benefits to the investor, including significant tax reductions.
- Deliveries of agricultural goods are subject to specific regulations and exceptions from general procedures.

Trade with Countries Outside the EU

General

National customs tariffs have been replaced by the Common Customs Tariff (CCT), which applies to the import of goods across the external borders of the EU. While the tariff is common to all EU members, the rates of duty differ depending on the type and origin of the product, as gauged along economic and political considerations. The 'tariff' refers to the combination of the classification of goods (so-called nomenclature) and the duty rate that applies to the respective class. The tariff further reflects all other specific EU legislation that impacts the customs duty rate on a particular import. In order to facilitate some degree of practicality, the Customs Code (Art. 12) requires the issuance of binding tariff information (BTI) to any economic operator, allowing for proper classification of the goods in the tariff and statistical nomenclature.

The BTI system has been established by way of a database maintained by the Commission, available at:

http://europa.eu.int/comm/taxation_customs/dds/en/ebticau.htm.

As a EU member since 1 May 2004, Latvia enjoys preferential treatment stipulated in the trade agreements between the EU and third countries. The EU has concluded preferential agreements with individual countries or groups of countries by means of free-trade agreements and customs treaties.

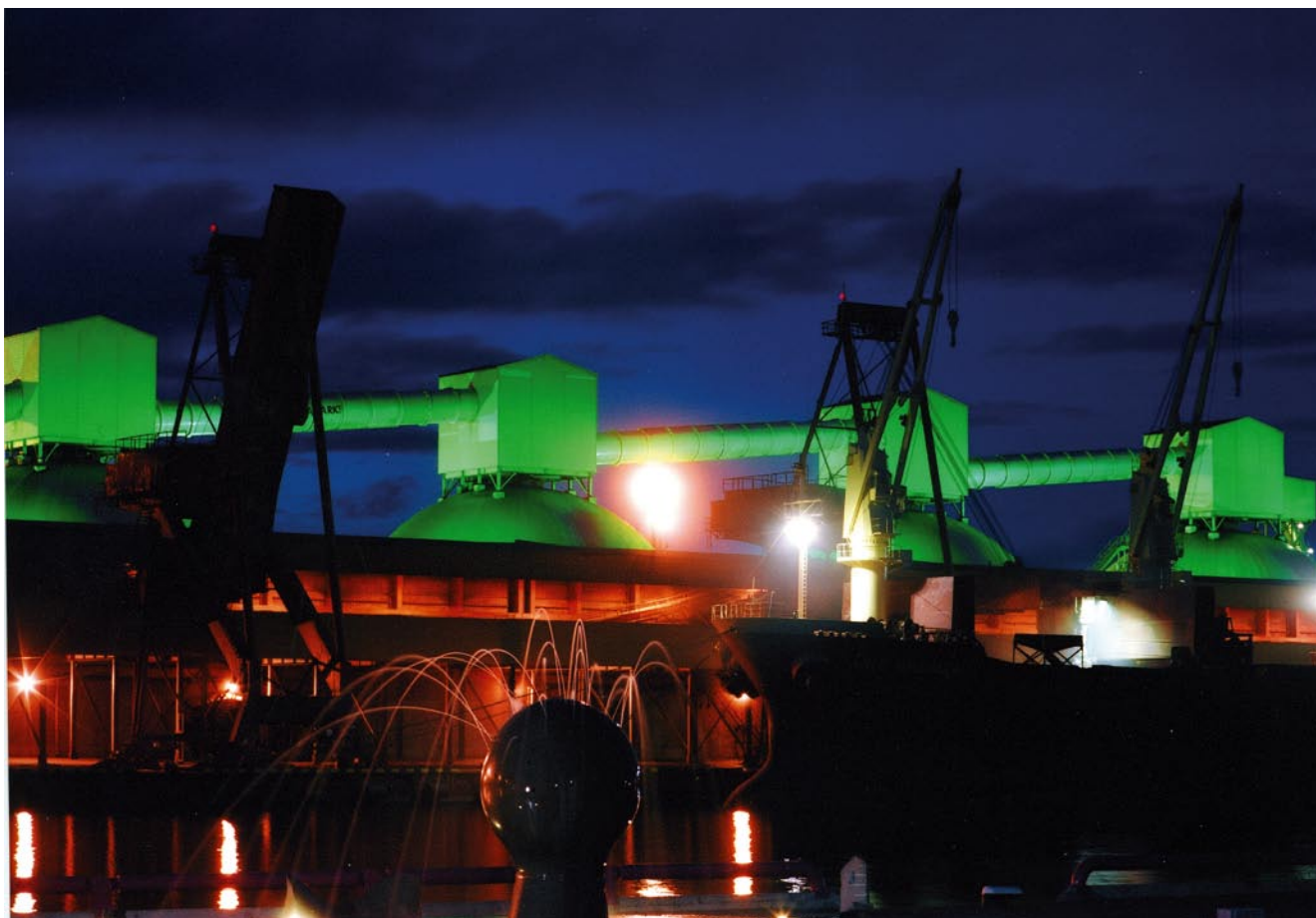
There are free-trade agreements such as the European Economic Area (EEA) — the EU, Iceland, Norway and Liechtenstein — which promote and maintain trade links between the European Union and its neighbouring countries and include most of the former EFTA countries. There is also a free-trade agreement with Switzerland, which is the member of EFTA, but did not join the EEA. Customs play an important role in this context, since these agreements aim at achieving trade promotion by mutual tariff concessions and help to prepare for accession.

All these agreements are linked, as the origin rules allow the use of each other's products in further manufacture.

Additionally, the European Union has concluded Customs Union agreements with Turkey, San Marino and Andorra.

Customs duties are payable in the country of entry, where imported goods are cleared for intra-Community circulation. Certificates of origin issued between Latvia and third countries have remained in force only if they do not contradict existing EU preferential agreements (which will regularly not constitute an obstacle), were issued prior to accession and were notified to the customs authorities before 1 September 2004. The certificates will so remain valid for up to three years and warrant preferential tariff treatment, rendering the goods free of customs duty.

General information on the rules of origin can be found at: http://europa.eu.int/comm/taxation_customs/customs/origin/rules_origin/rules_origin_0_en.htm



Importing Goods

Various rules apply to specific products being imported into the customs territory of the EU or, in some cases, when exported from it. The Integrated Tariff of the Community, referred to as TARIC (*Tarif Intégré de la Communauté*), contains and makes accessible all product-related regulations.

Additional information at:

www.europa.eu.int/comm/taxation_customs/dds/en/tarhome.htm

Importing goods is subject to two key concepts the EU has implemented in order to ensure product safety and standardise quality: the CE mark and the New Approach directives. The former certifies that a specific product meets EU health and safety requirements and so allows manufacturers to circulate industrial products freely within the EU, while the latter establishes standards for broad product groups. Certification can be obtained through (1) manufacturers by self-certification, (2) the European standards organisations CEN, CENELEC and ETSI, and, (3) so-called 'notified bodies', i.e., product certification authorities appointed by national governments.

Labelling requirements are now completely harmonised with EU regulations. The exact requirements depend on the type of product and the intended usage. Labels must generally be in Latvian, can be either affixed to the product or placed on an attached leaflet, containing the name of the product, the name of the manufacturer, and in some cases, instructions for use.

Additional information at:

http://europa.eu.int/comm/trade/issues/respectrules/tdi_enlarg/exporters.htm

Trade Defence

Since EU accession, the new member states no longer apply trade defence actions on a national basis. All measures taken by the new member states have become inoperative, and any on-going investigations by the new member states have not been continued. At the same time, EU trade defence measures in place have now taken full effect with regard to Latvia.

Repayments and Remission

The threshold value up to which Member States are authorised to make decisions with regard to non-recovery and repayment or remission of customs duties is currently set at EUR500 000, with new procedural rules having been implemented quite recently. All claims up to this amount must thus be brought before Latvian authorities.

More information on this practically quite relevant aspect can be found at: http://europa.eu.int/comm/taxation_customs/customs/rem_en.htm#titre.

EU Tariff Quotas

Commencing 1 May 2004, companies have been able to fulfil EU tariff quotas that allow for the importation of a limited amount of specific goods in a limited period of time at reduced or zero-rate customs duties.

Depending largely on political developments currently in the balance, the EU is likely to further increase the quotas for steel and textiles and other goods from certain countries, namely Russia, the Ukraine and Kazakhstan (steel) and China (certain consumer products), in order to meet growing demand following expansion.

The quotas are determined on an annual basis; only declarants may apply to participate in quota allocation and will be supplied on a first-come, first-served basis.

Information on the respective quotas and their allocation status can be obtained at (under the keyword 'quota'):

http://europa.eu.int/comm/taxation_customs/databases/database.htm

Details on Latvian domestic administration and the fulfilment of tariff quotas are available on the home page of the State Revenue Service at:

<http://www.vid.gov.lv/user/view.asp?CIID=3&ID=120>

Russia and the CIS

Trade with Russia has been and will remain a mainstay of Latvia's economy, with Russia being Latvia's largest non-EU trade partner, and entrepreneurs from the old member states increasingly using Latvia's unique capacities as a cultural and commercial 'bridge' to approach Russian markets.

Trade relations between Russia and the EU are subject to the Partnership and Cooperation Agreement (PCA) of 1997 that grants Russia Most-favoured-nation status. The Agreement was extended to the new member states, including Latvia, by the Protocol of 27 April 2004.

Consequently, with the exception of certain steel products, no restrictions on import or export quantities exist.

Similar (but not always as favourably) PCAs have been concluded with Armenia, Kyrgyzstan, Turkmenistan, Azerbaijan, Moldova, Ukraine, Belarus, Mongolia, Uzbekistan, Georgia, Kazakhstan and Tajikistan.

A good starting point for researching EU trade relations with CIS countries is:

http://europa.eu.int/comm/external_relations/ceeca/index.htm.

Additional information at:

www.fm.gov.lv

www.vid.gov.lv

www.komin.lv

www.latsert.lv

ACCOUNTING AND AUDITING

General information

The Law on Accounting and the Law on the Annual Accounts of Undertakings are the basic laws regulating bookkeeping and financial reporting in Latvia. The Law on Certified (sworn) Auditors regulates the professional activities of persons carrying out auditing and related services.

Legislation

The Law on Accounting and the Law on the Annual Accounts of Undertakings are based on the 4th and 7th European Union Directives. Latvian accounting principles are being brought into line with the international standards applicable in their respective fields.

The Law on Accounting

This Law sets out the basic principles and rules to be followed in accounting records and stocktaking.

The Law applies to all enterprises and non-profit organisations registered with the Enterprise Register of the Republic of Latvia, regardless of the type of commercial transactions they carry out, or of the type of ownership. It also applies to the permanent establishments (subsidiaries, departments) of foreign-owned enterprises registered with the Enterprise Register of the Republic of Latvia, to all institutions and organisations which are financed from state and municipal budgets, to all public organisations, associations,

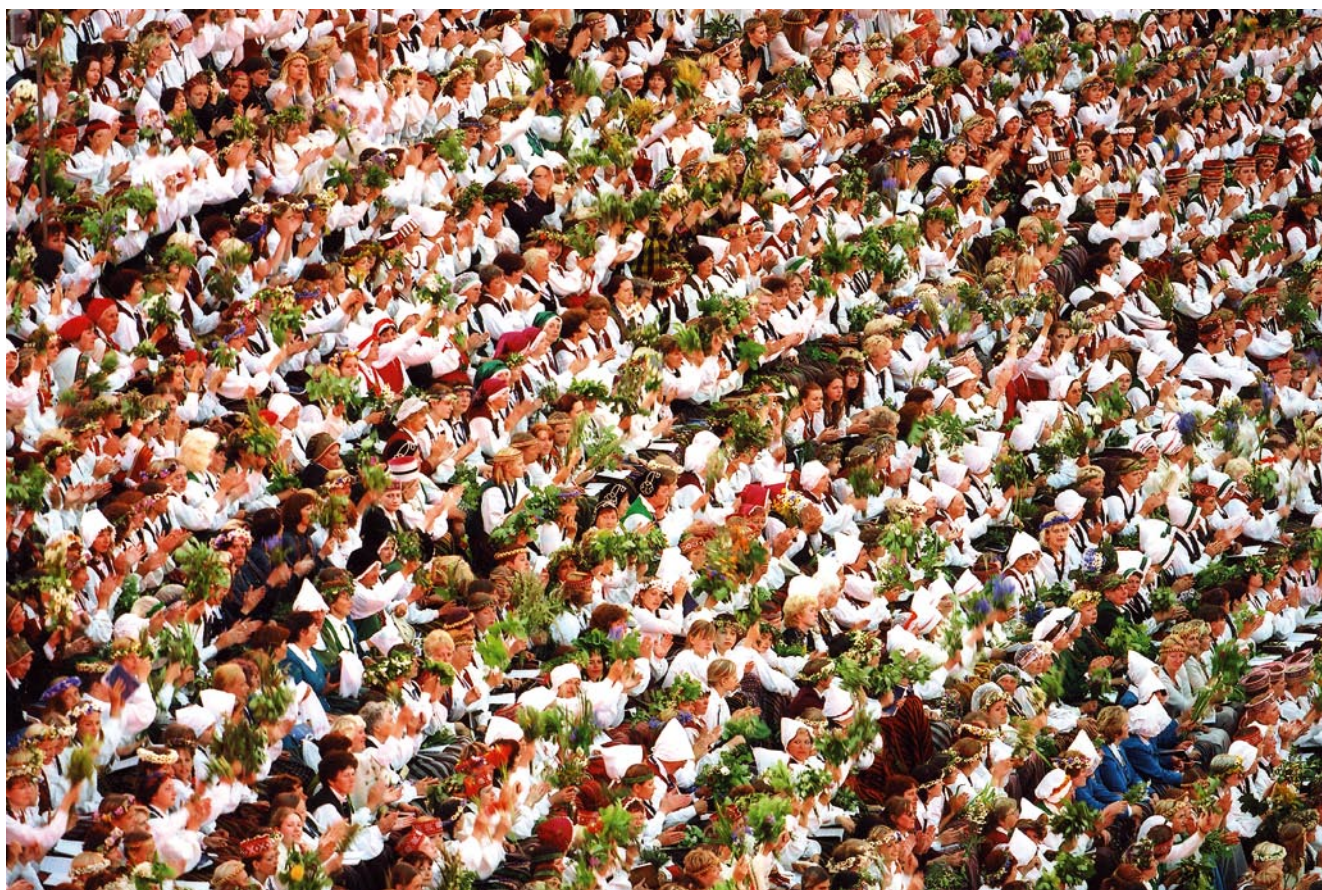
foundations with limited numbers of participants, religious organisations and trade unions.

The Law on the Annual Accounts of Undertakings

This Law applies to all enterprises and non-profit organisations that are registered with the Enterprise Register of the Republic of Latvia, irrespective of the type of commercial transactions they carry out or of the type of ownership. The law defines which companies must prepare annual reports and which are exempt from this requirement. The law does not apply to farms, fishery farms or to individual businesses where the annual income from business transactions is LVL200 000 (EUR285 000) or less at the beginning of the reporting year. In addition, the law does not apply to banks, to credit institutions and insurance companies, nor to private pension funds, all of which are regulated by special acts passed by Parliament.

The Law on Certified (Sworn) Auditors

This Law sets out the legislative basis for the professional activities of persons qualified to provide auditing services. The law explains the rights and obligations of individual certified auditors and companies providing these services. In addition, the Law elaborates the principles and activities of the Latvian Association of Certified Auditors.



Accounting and annual financial reporting

Accounting records

According to current legislation, company accounts must clearly present the transactions and financial results of the company, and give a true and fair view of its financial position. The records shall be kept in such a manner as to enable any person qualified in accounting to clearly identify the financial position of a company, the business transactions made during a given period of time, and to ascertain both the beginning and the sequence of each transaction.

The measure of value must be a monetary unit of the Republic of Latvia, and Latvian must be used as the language of accounting. If a partner in the economic entity is a foreign private individual, or a legal entity (registered company), a second language, agreed upon by the parties and acceptable to the auditors, may be used. The accounting records and all the confirming documentation must be stored in Latvia. Each entry in the accounting ledger must be confirmed by a document justifying that entry. A justifying document should contain: the name of the company; the company's registration number; the name, number and date of the document; a description and justification of the transaction; units (quantities, sums) and the signatures of persons responsible for the execution of the transaction and the accuracy of the information presented. The Cabinet of Ministers has passed regulations with additional requirements for specific types of supporting documentation, such as the presence of the company seal, etc. The information and data to be included in an annual report are not considered to be business secrets of the company. All other information included in the accounting records is deemed to be confidential. A company's confidential information shall be disclosed to the auditors, to the tax administration reviewing declared taxes, as well as to other state institutions, in accordance with the procedures provided for by legislation.

The reporting period shall cover 12 months. Usually, the beginning and the end of an accounting period corresponds to the calendar year, however, this period could differ if the minutes of a company shareholders' meeting so provide. Companies forming a group shall have the same accounting period.

The reporting period may be altered. The change must be justified and explained in the notes to the annual report. A newly formed company may have a longer or a shorter accounting period for the first year, but it may not exceed 18 months. The reporting period shall not exceed 12 months if it is changed for an already existing company. The reporting period may also be shorter than 12 months when a company terminates its activities, or changes the beginning of its reporting period.

Reporting requirements

The annual report consists of financial statements and a management report. Financial statements, to be complete, consist of a balance sheet, a profit or loss statement, a cash flow statement, and a statement of changes in equity, with explanatory notes as necessary. The annual report shall give a true and fair view of the company's assets, and of its liabilities and financial position, profit or loss and cash flows, and must be prepared in Latvian.

The monetary unit of the Republic of Latvia shall be used as a measure of value.

The annual report shall be prepared in accordance with the following policies:

- 1) Going-concern assumption — the company will continue as a going concern.
 - 2) Consistent use of the same valuation methods from year to year.
 - 3) Items shall be valued in accordance with the principles of prudence, i.e.:
 - The annual report reflects only that part of the profit generated up to the date of the balance sheet.
 - All incurred liabilities and losses, both current and those for the previous years, must be taken into consideration, even if discovered within the period after the date of the balance sheet but before the preparation of the annual report.
 - All financial impairments and depreciation during the reporting year have to be taken into consideration, irrespective of whether the financial result was a loss or profit.
 - 4) All income gained and expenses incurred during the reporting year have to be taken into consideration irrespective of the payment date or the date the invoice was issued or received. Expenses shall match the revenues for the reporting period.
 - 5) Assets and liabilities must be valued separately.
 - 6) The opening balance must match the previous year's closing balance.
 - 7) Business transactions must be recorded taking into account their economic content and substance, not the legal form.
- These reporting conditions may be disregarded in exceptional cases. Any such deviation shall be explained in the notes, indicating its effect on the assets, liabilities, financial position and the operational results of the company.

Consolidated reporting

Consolidated reporting is regulated by the Law on Consolidated Financial Statements. The parent company has to prepare a consolidated annual report if, for two successive years, figures for the parent company together with its subsidiaries have exceeded any two of the following criteria:

- Total assets: LVL 1 million (EUR 1.4 million);
- Net turnover: LVL 2.4 million (EUR 3.4 million);
- Average number of employees in the reporting year: 250.

The preparation of the consolidated annual report requires the application of the same accounting principles to all companies within the group in order to reflect their business transactions in the same manner. If the accounting principles applied in a subsidiary differ from those applied by the parent company, adjustments must be made to the subsidiary's records when producing the consolidated annual accounts. If it is not possible to adjust the records, this shall be pointed out and explained in the consolidated annual report. Furthermore, the proportion of the subsidiaries applying different accounting principles in the consolidated annual accounts must be indicated.

Statutory audit of financial statements

In the event that the company exceeds two of the criteria listed below, the annual reports must be audited by a certified auditor or by a firm of certified (sworn) auditors, duly elected by the shareholders:

- Total assets: LVL 250 000 (EUR 356 000);
- Net turnover: LVL 500 000 (EUR 711 000);
- Average number of employees in the reporting year: 25.

A company must submit a copy of the annual report and the auditor's report (if the company is audited) to the State Revenue Service, and to the Enterprise Register no later than one month after the annual report is approved, and no later than four months after the end of the reporting year. The time period between the submission of the above-mentioned documents, and the end of the reporting period shall not exceed seven months where the following criteria are exceeded:

- Total assets: LVL 1 million (EUR 1.42 million);
- Net turnover: LVL 2 million (EUR 2.8 million);
- Average number of employees in the reporting year: 250.

Development of the accounting and auditing profession

Currently, all the so-called Big 4 audit firms operate in Latvia, as well as some other international audit companies. Some thirty local audit firms have been established, located in Latvia's largest cities. The Big 4 companies provide audit and other professional services in the same range and quality as globally. Local audit companies provide auditing, accounting and tax consultancy services, but rarely business consulting. The prices for the services offered by local audit companies are generally significantly lower than those offered by international companies.

Local audit companies have shown a tendency to grow from small offices employing one or a few persons to quite large firms. The employees in the local companies consist mainly of certified auditors and of their assistants. International audit companies employ both international professionals and locally certified auditors.

Accounting software

A number of foreign and local accounting software packages are used in Latvia. Most of the foreign accounting software packages are designed for large and medium-size enterprises, whereas locally developed software is designed for small and medium-size enterprises.

The Law on Accounting allows computerised accounting only in cases where the requirements of the law are not violated. Additionally, the data output must be understandable to a third person.



QUALITY OF LIFE AND RECREATION

Sights and Experiences

Apart from being the capital of Latvia and indisputably the largest city in the three Baltic States, Riga is also Europe's capital of *art nouveau* architecture and one of the 'greenest' cities in the region. Entertainment options for all ages and tastes range from upmarket clubs, cinemas and casinos, to traditional theatres and exhibitions, as well as a zoo and open air folklore museum for family visits. The Latvian National Opera, in the very centre of Riga, is a proud architectural symbol of a newly independent nation — hosting internationally renowned orchestras, opera and ballet troupes; it also attracts major international artists touring Europe. Riga's Old Town is on UNESCO's Cultural Heritage List and offers a variety of historical and contemporary influences captured in a number of Lutheran, Catholic and Orthodox churches, a Synagogue and, naturally — a mix of international restaurants and Irish & British pubs all within few blocks. Latvia's own distinctive cuisine is becoming a major attraction for visitors to Riga, with a number of local 'ethnic' restaurants arriving on the scene throughout the capital.

Nevertheless, Riga makes up only half of the country — the rest can offer an array of recreational options from cosy B&Bs with only a light touch of 'virtual rurality' to open-air medieval theatre or rock and pop festivals with international stars. Staying in a country house featuring a Latvian 'herbal sauna', horseback riding across scenic hills or fishing in a murmuring stream or river makes for a refreshing shared break, either for a team or a family. For a more culturally oriented country trip there are numerous castles and manors

complete with a variety of museums. The extensive Baltic seashore is full of traditional fishing villages welcoming hungry visitors with delicious freshly smoked fish or proffering pleasant boat trips.

The most important national celebration in Latvia is St. John's Day — the summer solstice on the 23rd of June, when the entire nation gathers at bonfires to greet each other with seasonal flowers and grasses, and to consume a slice of traditional cheese with a mug of specially-brewed beer. Latvia also boasts its own renowned quadrennial event — the Song and Dance Festival which culminates in an open-air massed choral concert featuring several thousand singers.

Latvia is also fond of modern music traditions — the most popular Latvian pop music group *Brain Storm* has become popular across Europe after its success at the 2000 Eurovision Song Contest. Latvian singer Marie N went one step further by winning Eurovision in 2002 and the 2003 contest subsequently took place in Riga.

For sports fans, Latvia can offer all the traditional activities including basketball, football, tennis, ice hockey, as well as golf, swimming and tenpin bowling. In terms of outdoor activities, the most popular are jogging, hiking, cycling and orienteering. In addition, there are a number of rivers and with good facilities for recreational rafting and canoeing, and for winter sport enthusiasts, several hills equipped for downhill skiing.

The most popular spectator sports are ice-hockey, football and basketball. Since Latvian teams have participated in their respective world championships, Latvian ice-hockey and



football fans have become well-known all over the world. In 2006, Riga hosted the world ice-hockey championship.

Natural Treasures

Despite being a relatively small country of northerly latitude, Latvia features remarkable biodiversity as a result of low-intensity agricultural and forestry activities during the years of worldwide industrialisation. This, together with low rural population density, has ensured the survival of ancient forests which host an incredible variety of small and large fauna. White, and the rarer black, storks have a number of colonies in northern Latvia, along with other rare plant and animal species. This has seen Latvia become a hot spot on international bird watchers' maps. For less 'professional' eco-tourists there is a national park and four nature reserves spread across the country, each with educational nature trails, observation platforms and herds of wild horses.

Settling in Latvia

Along with international chain hotels, Riga and the other largest cities have high quality residential property available for purchase or rent. The prices for these vary greatly, depending largely on location. The purchase of a comfortable country home in close proximity to any major city is guaranteed to be a valuable investment.

Latvia has one of the highest ratios of doctors per head of population and this ensures the quality of medical service in

both public and private health centres and clinics. This, in combination with reasonable costs, has recently created a wave of 'medical tourism' from neighbouring EU countries where medical costs can be excessive. Two international schools, in the seaside suburb of Jurmala, and beside the Daugava River at Kipsala, are highly appreciated by the children of diplomatic staff and the country's expatriate populations. In addition, most Latvian universities and colleges offer education of international quality within the humanities, social and natural sciences, and technologies for English-speaking exchange students or free-movers.

Apart from organisations such as various foreign chambers of commerce, informal circles of expatriates have formed in Riga, uniting people from various countries and professional backgrounds for regular cultural and recreational activities.

Additional information at:

www.inspirationriga.com

www.latviatourism.lv

www.allhotels.lv

www.aic.lv

www.liaa.gov.lv



INTERNATIONAL AND REGIONAL TRADE FAIRS 2007/2008

September, 2007

12th International Trade Fair for Food, Beverages, Food Processing, Technology, Packaging, Catering, Equipment and Services for Groceries
International Food Competitions

RIGA FOOD

September 5-8

Web: www.bt1.lv

Foodstuffs. Delicacies, seafood, spices. Tinned, frozen and ready-to-cook products. Soft drinks and alcoholic beverages. Catering technology and products. Food processing equipment and packaging. Equipment for groceries and restaurants. Hotel equipment. Household and kitchen utensils. Disinfectants and cleansers. Table decoration and design. Souvenirs and gift ideas.

8th International Pet and Animal Industry Exhibition

PET EKSPŌ

September 22-23

Web: www.bt1.lv

Pet food. Accessories. Veterinary medicines. Education and information. The broadest pet show.

3rd International Exhibition of Accountancy and Financial Management

BUSINESS MANAGEMENT AND FINANCE

September 26-28

Web: www.bt1.lv

Business administration systems, economic and business consulting, personnel selection, accountancy and audit, marketing, advertising and printing services, IT solutions, software, system administration, business education and training, office equipment.

10th International Furniture Exhibition

BALTIC FURNITURE MARKET

September 27-30

Web: www.latexpo.lv

Bedroom furniture. Office furniture. Living room furniture. Shop fittings. Sitting room furniture. Bank fittings. Nursery furniture. Hospital furniture. Kitchen furniture. Furniture for hotels. Dining room furniture. Garden furniture. Bathroom fittings. Materials for furniture manufacturing. Furniture restoration. Interior design products. Interior design. Works of art.

October, 2007

International Furniture and Interior Design Fair

BALTIC FURNITURE

October 4-7

Web: www.bt1.lv

Baltic furniture manufacturers' exposition. Public and domestic furniture. Furniture components and hardware. Furniture finishing materials. Interior and design. Baltic Furniture Design Competition.

International exhibition and contact forum for professional furniture making supplies

WOODWORKING. MACHINERY. TECHNOLOGY. TOOLS

October 4-7

Web: www.bt1.lv

Equipment for saw mills and woodworking plants, woodworking machinery, cutting tools and machinery. Tools for woodworking and building, wood finishing materials, furniture making machinery and materials. Furniture, door, window fittings. Packaging.

International Exhibition for Home Improvement and Security

HOME. APARTMENT

October 18-21

Web: www.bt1.lv

Apartment planning, interior design, reconstruction. Refurbishment and furnishing. Finishing materials. Plumbing, thermal engineering. Lighting. Property, security and alarm systems. Household electronic, electrical appliances. Home design, design trends.

Real Estate Exhibition and Forum

REALTY BALTICS

October 18 – -21

Web: www.bt1.lv

Real estate companies, new projects, banking and financial services, architects and building contractors, real estate management and administration, municipal and city development plans. International seminars, conference and panel discussions.

12th International Exhibition of Engineering, Metal Working, Tools and Electric Engineering

BALTIC INDUSTRY 2007

4th International Exhibition of Science and Research

RESEARCH & INNOVATION 2007

October 24-27

Web: www.prima.lv

The most extensive range of equipment for engineering, metal working, electrical engineering and tools, workbenches and materials. Specialists will have the opportunity to evaluate the exhibited pneumatic and hydraulic equipment, machinery for metal cutting and sheet bending. Spare parts and materials. Everything for the electrician: cables, wire, electrical installation materials, automatic switches, lamps, etc.

November, 2007

1st Baltic Consolidated Beauty Industry Project Exhibition, Forum, Festival, Competitions, Conferences, Master Classes, Workshops and Shows

BALTIC BEAUTY WORLD

November 2-4

Web: www.bt1.lv

Curative, professional and consumer cosmetics. Perfumery, hair- and nail-care products. Equipment for hairdressing and beauty salons, Spa centres. Tanning salons. Aromatherapy. Specialised periodicals and literature. Jewellery, bijouterie, watches and accessories.

International Exhibition of Materials and Technologies for Industrial Production, Mechanical Engineering, Metalworking, Automation, Electronics, Electrical Engineering and Tools

TECH INDUSTRY

November 22-24

Web: www.bt1.lv

Metalworking equipment and machinery, bench servicing, metal working processes and services, mechanical engineering, tools, industrial equipment and materials, airflow technologies, hydro-technologies, electronics, electrical engineering, automatics, automation, gas supply equipment and materials, repair and maintenance technologies; hydraulic, pneumatic devices and materials, control systems, abrasive materials and machinery, specialised software, science and consultations.

3rd International Exhibition for Energy and Technologies for the Optimisation of Natural Resource utilisation

ENVIRONMENT AND ENERGY

November 22-24

Web: www.bt1.lv

Energy generation. Transmission, conversion and distribution of electricity. Generation of renewable energy. Wind, solar, hydrogen and bio-energy solutions. Heat supply. Water supply and sewerage. Air, soil, water purification and treatment. Refuse removal, processing and regeneration. Environmental monitoring and controlling systems. Public utilities.

4th Exhibition for work environment safety, labour protection and occupational safety

SAFE WORK

November 22-24

Web: www.bt1.lv

Work environment safety systems, equipment, protection means. Organisation of occupational safety systems, training. Prevention of risks at work. Transport safety. Fire safety. Health protection. Work clothing and protective clothing.

Second time in the Baltic States, specialised exhibition

JOB. CAREER. EDUCATION

November 24-26

Web: www.latexpo.lv

The fair provides a bridge between students, youth, workers and other interested individuals, so that these young people can direct their studies to correspond with the demands of the labour market. It is aimed at enabling Baltic visitors to choose educational programmes that are applicable to their future careers

5th International Exhibition

REAL ESTATE, AUTUMN 2007

November 24-26

Web: www.latexpo.lv

Master plans of Latvian urban development. Investment projects. Real estate. Realtors' services: purchase, sale, lease, exchange. Loans, including second mortgages. Real estate insurance

February, 2008

15th International Travel Trade Fair

BALTOUR

February 8-10

Web: www.bt1.lv

Travel trade. Travel agencies. Professional tourism organisations. Representative offices for outgoing tourism. Airlines. Transportation services. Hotels. Media.

13th international exhibition of textile, clothing, leather garments and production equipment

INTERTEXTIL BALTICUM

February 21-23

Web: www.bt1.lv

Fabrics, materials, sewing utensils and supplies. Clothing, knitwear, underwear, hosiery and footwear. Leathers and furs, home textile. Production equipment and technology. Clothing design. Presentation of fashion collections. Sale of accessories.

8th competition for young fashion artists and designers

HABITUS BALTIJA

February 21-23

Web: www.bt1.lv

Collections of young fashion artists and designers. Competition categories:-

- 1) unique, stylistically subdued and attractive fashion of high artistic value,
- 2) ready-to-wear clothing matching contemporary fashion trends

14th international education exhibition

SCHOOL

February 28-March 2

Web: www.bt1.lv

Educational institutions, centres and courses. Teaching aids, equipment. Education and opportunities to work abroad. Children's and youth summer camps.

11th international exhibition of books and publishers

BALTIC BOOK FAIR

February 28-March 2

Web: www.bt1.lv

Publishers, booksellers, wholesalers. Libraries. Second-hand bookshops, museums. Sector associations.

March, 2008

6th International Exhibition
REAL ESTATE, SPRING 2008

March

Web: www.latexpo.lv

Master plans of Latvian urban development. Investment projects. Real estate. Realtors' services: purchase, sale, lease, exchange. Loans, including second mortgages. Real estate insurance

11th international specialised building and apartment equipment exhibition

BUILDING WORLD

March 6-9

Web: www.prima.lv

Objective – to promote business contacts between Latvian and foreign manufacturers of building materials, merchants, service providers and consumers as well as to introduce Latvian consumers to high-quality building materials and production.

22nd international building industry trade fair

HOUSE I

March 12-16

Web: www.bt1.lv

Architecture. Design. Planning. Building. Reconstruction. Building machinery and materials. Plumbing and thermal engineering. Lighting and wiring. Home technology and equipment. Environmentally safe construction. Real estate. Conference and seminars.

15th Baltic regional exhibition for active recreation and sports

RECREATION AND SPORTS

March 27-30

Web: www.bt1.lv

Goods for tourism, recreation and sport. Sport and recreation complexes. Paraplanes and motor paraplanes, kiting. Recreation, tourism and sports-related services. Tours for active people.

9th exhibition of motorcycles and biking accessories

MOTORCYCLE

March 27-30

Web: www.bt1.lv

Motorcycles, ATVs and scooters, accessories. Bikers' outfit and clubs.

12th exhibition of boats and yachts

BALTIC BOAT SHOW

March 27-30

Web: www.bt1.lv

Boats, yachts, small watercraft, jet skis, catamarans, inflatable and glass fibre boats. Boating equipment and spare parts. Engines, outboards, mooring facilities, navigation equipment. Insurance of boats and yachts.

April, 2008

16th International exhibition

BALTIC STYLE & BEAUTY

April

Web: www.latexpo.lv

The exhibition is focused on the creation of the best environment for advertising, demonstration, promotion and selling of existing and the most advanced samples in the beauty care and perfumery industries.

8th international forest management and wood production exhibition

FOREST AND WOOD

April 3-6

Web: www.bt1.lv

Forest management, forestry machinery, timber preparation, sawing and processing machinery. Occupational safety and work apparel. Consultations and presentations. Machinery demonstration, competitions. Education and training.

6th international exhibition for agricultural production and rural infrastructure

RIGAAGRO

April 3-6

Web: www.bt1.lv

Agricultural, stock farming, horticultural, fish farming equipment and technologies. Rural infrastructure. Rural production management, innovations and consultations. Logistics, finance, scientific developments.

12th garden and floristry exhibition

GARDEN. FLORA

April 3-6

Web: www.bt1.lv

Landscape architecture, greenery arrangement and improvement. Seeds and plants. Flowers and floristry. Gardening machinery, tools. Soil drainage.

4th international exhibition of hunting, game management and hunters' clothing and equipment

HUNTING

April 3-6

Web: www.bt1.lv

Hunting weapons, clothing. Game management. Hunting tours. Seminars. Consultations. Competitions.

4th specialised exhibition for automotive repair tools, service equipment, automotive parts, care and accessories

AUTOMECHANICS

April 24-27

Web: www.bt1.lv

Automotive parts, body parts and automotive accessories, auxiliary equipment. Repairs, maintenance, tuning. Repair and maintenance equipment, service station equipment and tools.

4th international exhibition and conference for transport, communications and logistics

TRANSPORT AND LOGISTICS

April 24-27

Web: www.bt1.lv

Sea and river transport, road transport, aviation, railway and pipeline transport. Services provided by forwarders and terminals. Warehouses, warehousing equipment. Packaging. Freight handling. Financial and data management.

RIGA INTERNATIONAL MOTOR SHOW

April 24-27

Web: www.bt1.lv

International auto tuning show

AUTO EXOTICA 2008-the largest auto tuning show in Eastern Europe. Tuned cars, tuning clubs and organisations, tuning parts, accessories and services. Car audio, audio installation service and accessories.

International exhibition of exclusive cars

AUTO EXCLUSIVE 2008-premium class passenger cars, exclusive convertibles, exclusive sports cars and concept cars from design studios.

Exhibition of new and used passenger vehicles

AUTO SALE 2008-new and used compact and medium class passenger cars at special prices. Leasing, financing, car insurance, traffic safety.

May, 2008

7th International exhibition

GARDEN DESIGN

May

Web: www.latexpo.lv

Objectives: to demonstrate the most modern and promising trends in garden design to people interested in gardening, and create opportunities for Latvian and foreign manufacturers, distributors and service providers to present their products and/or services to the target audience.

4th national specialised exhibition for medicines

MEDBALTICA

May 15-17

Web: www.bt1.lv

Pharmaceutical and medical technologies. Dentistry equipment, materials and instruments. Opticians' equipment. Specialist literature.

International exhibition of goods and services for children

BABY WORLD

May 23-25

Web: www.bt1.lv

Clothing, footwear, prams and buggies, toys, food, furniture, hygiene goods for babies and children. Child safety at home and in cars. Maternity clothing and goods. Pre-school education and nanny services. Finance and insurance. Public organisations. Branch associations and periodicals. Seminars.

June, 2008

5th international flower and garden fair

SUMMER GARDEN FESTIVAL

June 5-8

Web: www.bt1.lv

Flower collections. Seeds and plants. Landscape architecture, greenery arrangement and improvement. Gardening machinery and implements. Soil drainage. Fair.

September, 2008

13th international trade fair for food, beverages, food processing, technology, packaging, catering and equipment and services for groceries

RIGA FOOD

September 3-6

Web: www.bt1.lv

International food competitions International competitions for chefs and confectioners

International bartenders' competition International baristas' championship

Foodstuffs. Delicacies, seafood, spices. Tinned, frozen and ready-to-cook products. Soft drinks and alcoholic beverages. Catering technology and products. Food processing equipment and packaging. Equipment for groceries and restaurants. Hotel equipment. Household and kitchen utensils. Disinfectants and cleansers. Table decoration and design. Souvenirs and gift ideas.

9th international pet and animal industry exhibition

PET EKSPŌ

September 20-21

Web: www.bt1.lv

Pet food. Accessories. Veterinary medicines. Education and information. The broadest pet show.

International business administration and financial management exhibition BUSINESS MANAGEMENT AND FINANCE September 25-27 Web: www.bt1.lv	Business administration systems, economic and business consulting, personnel selection, accountancy and audit, marketing, advertising and printing services, IT solutions, software, system administration, business education and training, office equipment.
October, 2008	
International furniture and interior design fair BALTIC FURNITURE October 9-12 Web: www.bt1.lv	Baltic furniture manufacturers' exposition. Public and domestic furniture. Furniture components and hardware. Furniture finishing materials. Interior and design. Baltic Furniture Design Competition.
International exhibition for building and refurbishment HOME. APARTMENT October 23-26 Web: www.bt1.lv	Architecture, interior design, planning, building, reconstruction. Refurbishment. Finishing and decoration materials. Plumbing, thermal engineering. Lighting, wiring. Home technologies and equipment.
Real estate exhibition and forum REALTY BALTICS October 23-26 Web: www.bt1.lv	Real estate companies, new projects, banking and financial services, architects and building contractors, real estate management and administration, municipal and city development plans. International seminars, conference and panel discussions.
2nd Baltic consolidated beauty industry project Exhibition, forum, festival, competitions, conferences, master classes, workshops and shows BALTIC BEAUTY WORLD October 31-November 2 Web: www.bt1.lv	Curative, professional and consumer cosmetics. Perfumery, hair- and nail-care products. Equipment for hairdressing and beauty salons, Spa centres. Tanning salons. Aromatherapy. Specialised periodicals and literature. Jewellery, bijouterie, watches and accessories.
November, 2008	
International exhibition and contact forum for professional furniture making supplies WOODWORKING. MACHINERY. TECHNOLOGY. TOOLS November 13-15 Web: www.bt1.lv	Equipment for saw mills and woodworking plants, woodworking machinery, cutting tools and machinery. Tools for woodworking and building, wood finishing materials, furniture making machinery and materials. Furniture, door, window fittings. Packaging.
International exhibition of materials and technologies for industrial production, mechanical engineering, metalworking, automation, electronics, electrical engineering and tools TECH INDUSTRY November 27-29 Web: www.bt1.lv	Metalworking equipment and machinery, bench servicing, metal working processes and services, mechanical engineering, tools, industrial equipment and materials, airflow technologies, hydro-technologies, electronics, electrical engineering, automatics, automation, gas supply equipment and materials, repair and maintenance technologies; hydraulic, pneumatic devices and materials, control systems, abrasive materials and machinery, specialised software, science and consultations.

PROMOTION OF ENTREPRENEURSHIP, INVESTMENT AND FOREIGN TRADE



Latvijas Investīciju un attīstības aģentūra
Investment and Development Agency of Latvia

www.liaa.gov.lv
www.exim.lv

Government Agency, the Investment and Development Agency of Latvia (LIAA), reporting to the Ministry of Economics was founded to promote business development by facilitating the growth of foreign investment and increasing the competitiveness of Latvian entrepreneurs in domestic and foreign markets .

With more than 10 years of experience in the attraction of foreign direct investment to Latvia and promotion of foreign trade, LIAA today offers an integrated solution; it supports both companies in Latvia trading internationally, and overseas enterprises seeking business partners or location in Latvia. To meet both these objectives, LIAA administers the State Support Programmes for Entrepreneurs, co-financed from EU Structural Funds.

LIAA is also involved in the implementation of national programmes for export and the promotion of innovation, takes

part in projects under EU 5th Framework Programmes, participates in the facilitation of Public Private Partnerships and executes the State's functions in the energy sector.

Working in close cooperation with the business community (particularly with the Foreign Investors Council in Latvia (FICIL), the National Economic Council and industry associations) LIAA facilitates the steady improvement of the business environment, particularly in the area of administrative procedures.

One-Stop-Shop for Foreign Investors and Buyers

Investment Facilitation

Assistance in investment location selection and implementation of investment projects:



- Provision of all relevant information on business opportunities and investment incentives;
- Identification of the best property options for manufacturing facilities, offices and land;
- Assistance in establishing and developing contacts with Latvian business partners;
- Legal assistance with start-up procedures.

Suppliers' Searches

Assistance in finding appropriate Latvian suppliers and in increasing their competitiveness:

- Provision of information on Latvian exporting companies, export products and services;
- Search of Latvian suppliers according to buyers' requests;
- Distribution of incoming business proposals to Latvian companies directly and via the Internet;
- Organisation of trade seminars and foreign trade missions to Latvia;
- Consultancy and foreign market studies for Latvian enterprises;
- Assistance to Latvian companies at various international exhibitions and trade missions, export promotion campaigns and business matchmaking;
- Provision of information on workforce availability and skills' evaluation.

Follow up service

Follow-up and support after the implementation of investment or sub-contracting projects.

State Support Programmes

Implementation of a number of state support programmes available for companies registered in Latvia, advancing grants for participation in international exhibitions and trade missions, consultancy, modernisation of business-related infrastructure, development of new products and technologies, increasing the qualifications of employees.

Information on EU single market

The Euro Info Centre (EIC) operates within LIAA and provides information about European Union policies, legislation, regulations, trade systems, and assists in the seeking of business partners within the EIC network in 42 countries around the world.

International and regional network

LIAA is local and international at the same time. Its network of foreign representatives and cooperative network with other institutions in Latvia and abroad takes LIAA close to its customers and links them to the main markets, business partners and locations.

LIAA has representative offices in London (UK), Hamburg (Germany), Stockholm (Sweden), Paris (France), Amsterdam (the Netherlands), Oslo (Norway), Copenhagen (Denmark), Almaty (Kazakhstan), Moscow (Russia) and Washington (USA) and a developed network of public representatives in Germany, Israel, USA, Ukraine, China and UAE.

By 2009, LIAA will have a total of 15 offices abroad.

LIAA works in close cooperation with the Ministry of Foreign Affairs and diplomatic missions represented in 75 countries around the world.

LIAA also cooperates with local municipalities and regional development agencies and in the near future will open own regional offices.

Foreign representatives

LIAA foreign representatives provide information about business opportunities in Latvia, relevant legislation, the taxation system, the national economy and external trade. They promote and facilitate cooperation between Latvian companies and businesses in the particular country or region. The representatives assist in finding co-operation partners.

Your shortcut to success in Latvia:

www.liaa.gov.lv

www.exim.lv

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