

Strategic Plan for Genesi: Latvia

TELE2 Customer

I am a Latvian. Our country is not very rich. I have less than the equivalent of \$10,000 US dollars in disposable income to spend each year. Our country makes tools such as the internet available to us, but we do not have many affordable ways to access it. I have visited the Tele2 store, and have found a Genesi computer with a two-year contract, and it is reasonable for my budget. I hope to see a more affordable computer available soon.

LITKA Training Center User

I currently do not have a job. The job market's shift from manufacturing based jobs to technology and service based jobs has left me underprepared to enter the job market. I am furthering my education through the local LIKTA training center. There, they introduce me to new technology where I can learn to become proficient with electronic devices. The only problem is waiting for my turn to use the device. I am sure myself and others would benefit if the center had more computers available.

Strategic Business Plan



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II. Executive Summary

We believe that entering the Latvian market through a licensing agreement with Tele2 and a corporate sponsorship of LIKTA provides a strong consumer base using a focused-cost strategy. Latvia is a safe test market for the Eastern European region since Latvia is one of the first Eastern European nations admitted to the European Union.

The approach we will take with Tele2 will consist of negotiating a licensing agreement for use of our proprietary software and the resale of our hardware. In this agreement, we will push for arbitration clauses in the event either party mismanages the others' brand. We will push to receive above average returns relative to other firms competing in the low cost computing industry, such as the Samsung N150 also offered by Tele2. Our cost leader strategy along with following closely behind the first movers will help us attain market share.

We believe that a corporate sponsorship of LIKTA (Latvian Information and Communication Technology Association) will be beneficial to Genesi because the Latvian government supports the use and spread of computers and internet by its citizens. Internet penetration in Latvia was projected to exceed 70% in 2010. Our goal in partnering with LIKTA is creating brand recognition and familiarity with our products. We believe that we can form a corporate partnership because our goals are in line with theirs, to promote development of an information society and have every resident in the country benefit from the Internet.

We plan to form a sustainable core competency by fulfilling four critical criteria:

- Valuable Capability- Create strong business relationships with regional authorities
- Rare Capability- Provide low-cost computing hardware along with a customizable system image
- Costly-to-Imitate Capability- Fulfill a higher goal by having laptops for the masses
- Non-substitutable Capability- Retain internal intellectual capacity and innovation

III. Vision & Mission

Genesi has the opportunity to step into an emerging market in Latvia and become known as a reliable, energy efficient, low cost computer and software provider. The immediate customers will be established telecommunications company, and through resale, the average Latvian consumer. In addition, our products will target technical proficiency training centers run by LIKTA. Genesi can fill these consumers need for internet access. Genesi is adding value to the existing internet availability by providing a low cost way for consumers to access it.

Genesi will sell its computers to a telecommunications provider, such as Tele2, who will in turn resell these products to the general Latvian public through postpaid subscriptions with a frontloaded fee.

It will also sell computers to LIKTA training centers, where members will be able to use the products, and be offered a chance to purchase one for them.

Vision Statement

Our vision is to be recognized as a reliable partner in the information and communication technology industry and make internet and computing widely available.

Mission Statement

Offering vertically integrated low cost energy efficient computing products and services to emerging markets while enhancing the knowledge of new computer users through community development and open source operating systems.



IV. External Analysis

Seven Segments of the General Environment

Demographic Segment Analysis

Latvia has an estimated population of 2,204,708 according to the CIA World Factbook. As of 2006, the economically active population was about 1,168,000 which was a 2.8% growth from 2005. In addition, the country is trending towards a more urban population with 66% of the population living in cities in 2010. The urban population is expected to increase to 73% by 2030.

The average salary in Latvia has increased year over year and is projected to be \$10,892 USD per capita. Consumer expenditures have also increased year over year and are projected to be \$10,202 USD per capita. The poorest 20% of Latvians spend around \$3,367 USD per capita and the richest 20% spend \$22,802 USD per capita.

The shift from a rural population to an urban population coupled with increasing consumer buying power and expenditures makes Latvia a strong potential market.

Economic Segment Analysis

Latvia experienced inflation of -1.2% in 2010 and 3.5% in 2009. The Latvian Central Bank discount rate was 4% at the end of 2009 and 6% at the end of 2008. The 2010 estimated budget deficit was -\$1.835 billion USD and the 2010 estimated trade deficit was -\$1.259 billion USD. Although Latvia has a relatively low absolute GDP of \$24.05 billion USD, GDP is expected to increase over the next 10 years by 4.9% a year. Latvia has the fastest growing economy in the European Union and output growth is supported by strong productivity gains and high investment spending, roughly 30% of GDP.

Traditionally, Latvia was an economy embedded in manufacturing, but after independence the country has moved to a predominantly service based economy. Consumer electronics is one of the top ten fastest growing industries over the next five years in Latvia.

Political/Legal Segment Analysis

Latvia has a relatively unstable government. The average lifespan for controlling coalitions since Latvian independence has been 15 months and corruption remains an obstacle to a smooth running government. Although there seems to be some instability within the Latvian government, the controlling coalitions have exercised fiscal restraint and have taken steps towards European Union integration and Euro currency adoption. Another strength of the Latvian legal system is the low corporate tax rate, 15%.

The risks associated with past corruption and government coalition turnover seem to be negligible although it will need to be monitored in the future.

Global Segment Analysis

Latvia has a growing private sector because of improving regulatory environment and growing support from the government. The country has also been ranked 24th in the World Bank's *Ease of Doing Business Index* because of the ease of paying taxes, obtaining licenses, and ease of formation and dissolution. Latvia has very low labor costs compared to its European Union counterparts. This labor wage disparity gives companies that operate in Latvia a competitive advantage in export oriented ventures. A threat to doing business in Latvia is high European inflation coupled with a fixed exchange rate and a delay in adopting the Euro.

Latvia will be a strong competitor in the Eastern European market due to its business friendly laws, its membership in the European Union, and its location near a port. A key issue that will need to be monitored as sales increase will be inflation within Latvia and the Euro valuation when the Euro is adopted. Forecasting currency valuation through the entire European market will be necessary as Genesi expands its business throughout Europe. Mitigating measures such as currency hedges and post-manufacturing contract negotiation will be crucial if the current economic turmoil in Europe continues long-term.

Socio-Cultural Segment Analysis

The Latvian workforce is not very diverse. The population is primarily dominated by Latvians (58.2%) and Russians (29.2%). There is an overall concern for health and safety issues in the

work environment, although these concerns center primarily on physical work (such as wood processing and construction). Since gaining its independence, Latvia has shifted primarily to service industries, primarily in the information and communication technology sector and customer service sector.

Latvian citizens generally embrace Western business culture and have a strong working knowledge of Russian business customs. The general business atmosphere within Latvia will be beneficial for an American company such as Genesi because both parties have similar business practices.

Physical Environment Analysis

Since gaining its independence, Latvia has shifted primarily to service based industries. Work conditions have benefited since the shift, although there are still environmental concerns regarding the improvement of drinking water quality, reduction of air pollution, and sewage system, household, and hazardous waste management.

Most developing nations struggle with environmental hazard as they grow. Promoting environmental awareness within Latvia while selling our products could give Genesi a competitive advantage in the long run as people's mind frames shift from saving energy for cost purposes towards saving energy for socially conscious purposes.

Technological Segment Analysis

Latvia has made efforts to become a major player in the information and communication technology market. Computer literacy support from associations such as LIKTA coupled with various EU Funds targeting business and education growth in Latvia generate a strong consumer base. The Latvian population is developing computer and technology based work skills and Latvian businesses are focusing on providing value added technology based services.

Industry Analysis

Mobile Internet Usage

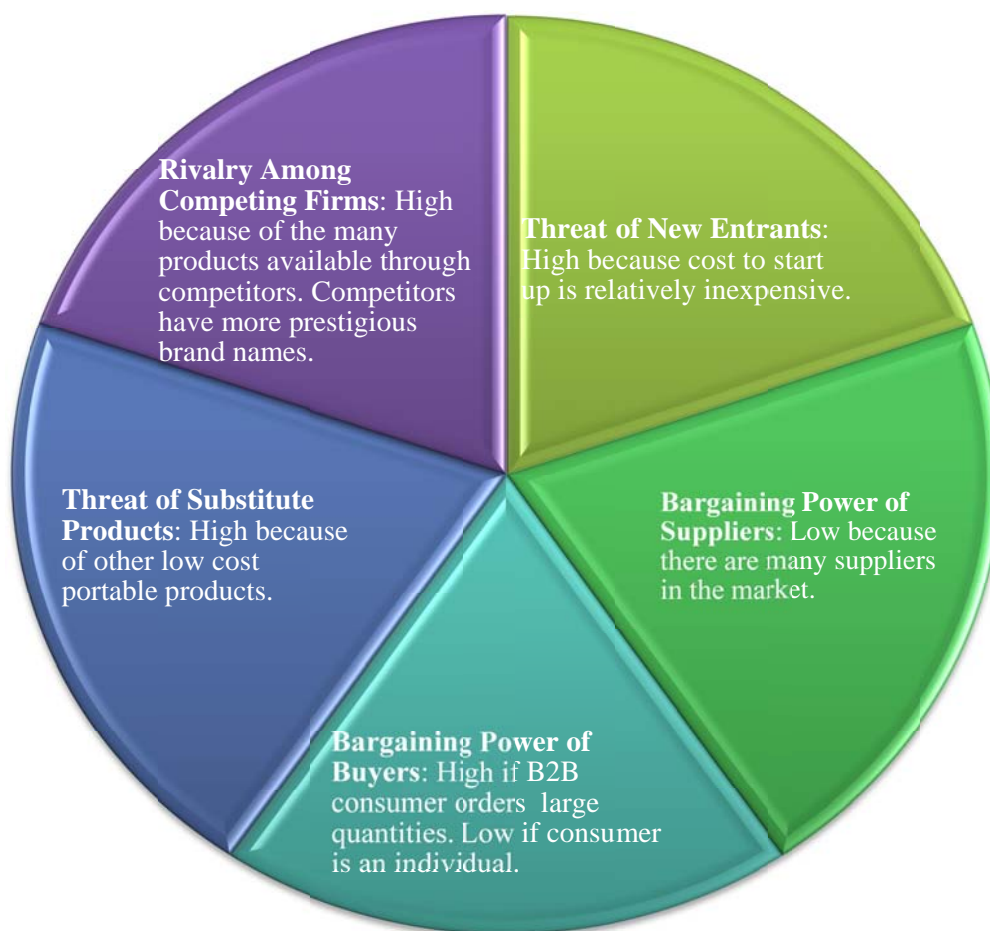
The latest data on internet usage in Latvia surpassed analyst expectations with 1.5 million users in Latvia at the end of 2009. This reflects 66.7% of the population with a growth rate of 5% from the previous year. Internet user penetration rates are expected to grow over the next five years through the use of mobile computers and phones. 84% of Latvians are expected to be regular internet users by the end of 2015.

Currently, Latvian telecommunication companies are expanding their broadband networks along with mobile networks. We believe that the broadband sector of the Internet connectivity business will not be in direct competition with mobile internet service. We believe that mobile and fixed internet connectivity are not mutually exclusive because of the growing buying power of Latvian citizens. In addition, over the next five years, we expect much weaker demand for broadband services such as DSL and cable because of trends towards device mobility.

Growth in Wi-Fi and 3G coverage is expected in Latvia. Major cities within Latvia are Wi-Fi and/or 3G connected and the telecommunication companies are expanding coverage throughout the rural areas and smaller towns.

Given the current market conditions and the economic background of Latvia, it is safe to assume an increased demand for the smarttop computer and other netbook style products in the near future.

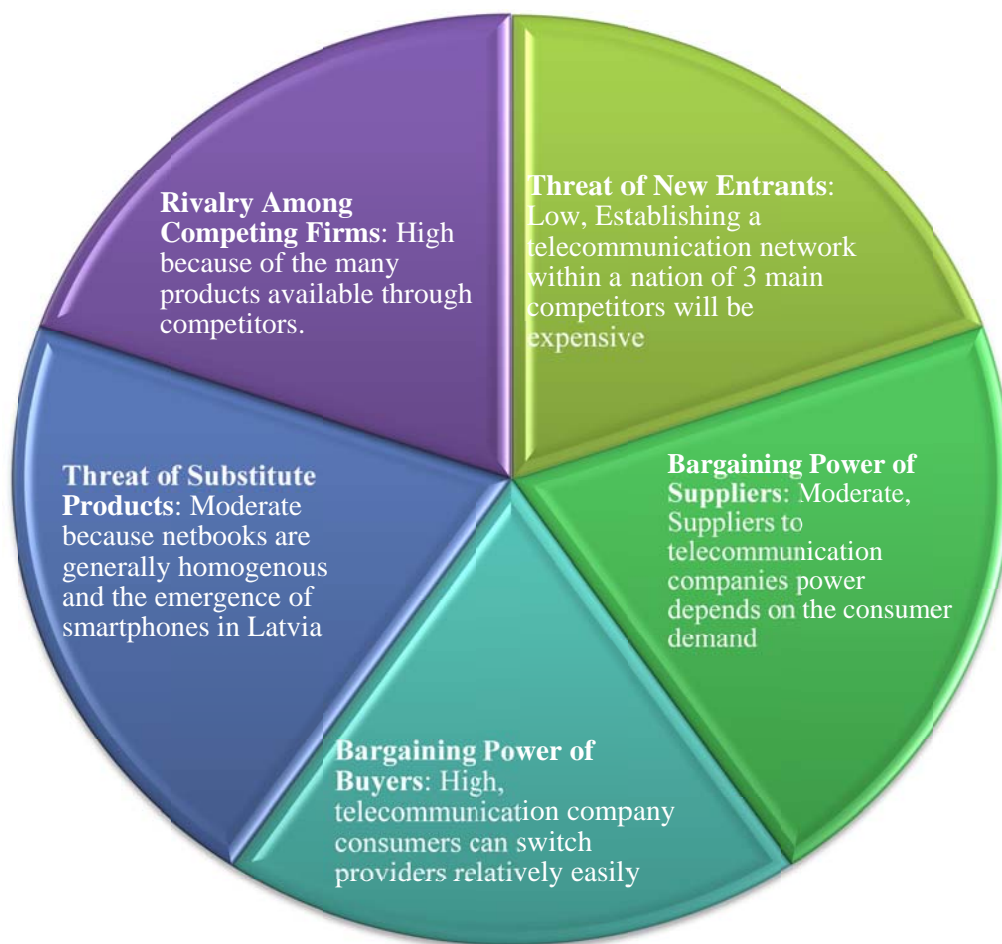
The 5 Forces Model of Computer Industry



Overall Industry Perspective

The netbook market is fairly homogeneous; Genesi's product could develop a competitive advantage because of its differentiated ARM architecture.

Latvian Telecommunication Industry with a Focus on Mobile Computers



Rivalry Among Competing Firms

The three main telecommunication companies in the Latvian market all offer a mobile computing device. Tele2, our desired partner for Genesi, successfully uses a cost leader strategy

and is the second largest mobile provider in Latvia. We believe that Tele2's cost leader strategy will produce above average returns in a Latvian market because of a large target market, based on average consumer salaries and expenditures.

Threat of New Entrants

There is a low threat of new entrants to the Latvian telecommunication industry because of the high capital requirements to enter the market.

Bargaining Power of Suppliers

Bargaining power of suppliers will be correlated to the demand for supplier products from the end consumer. Given a certain level of consumer demand, suppliers will have the upper hand in negotiating favorable deals concerning pricing, licensing, and product placement in retail locations.

In general, for mobile computers, suppliers will have moderate to low bargaining power because of the homogeneity of products. Genesi will have an upper hand over other suppliers if the ARM based computers are well received by the end consumer since Genesi computers are differentiated from its competitors based on an ARM architecture.

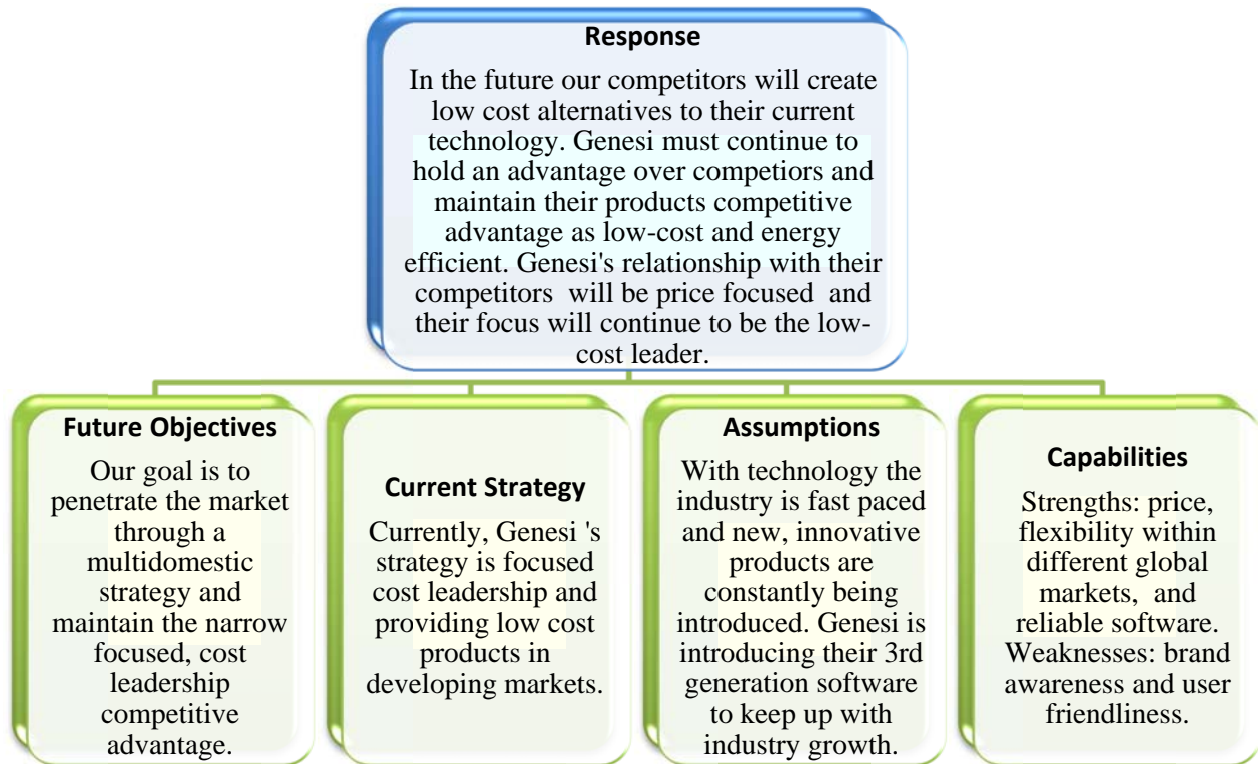
Bargaining Power of Buyers

Buyers in the Latvian market have high bargaining power because the end consumer will be able to choose which provider to use. A large portion of Latvians are prepaid subscriber which means they are free to switch carriers at any time. The recent shift towards postpaid subscriptions will be beneficial to the telecommunication companies in the future because the companies will be able to lock in consumers for longer periods of time. Tele2 currently estimates that around 77% of its customers are prepaid, but sees that number falling over the next few years.

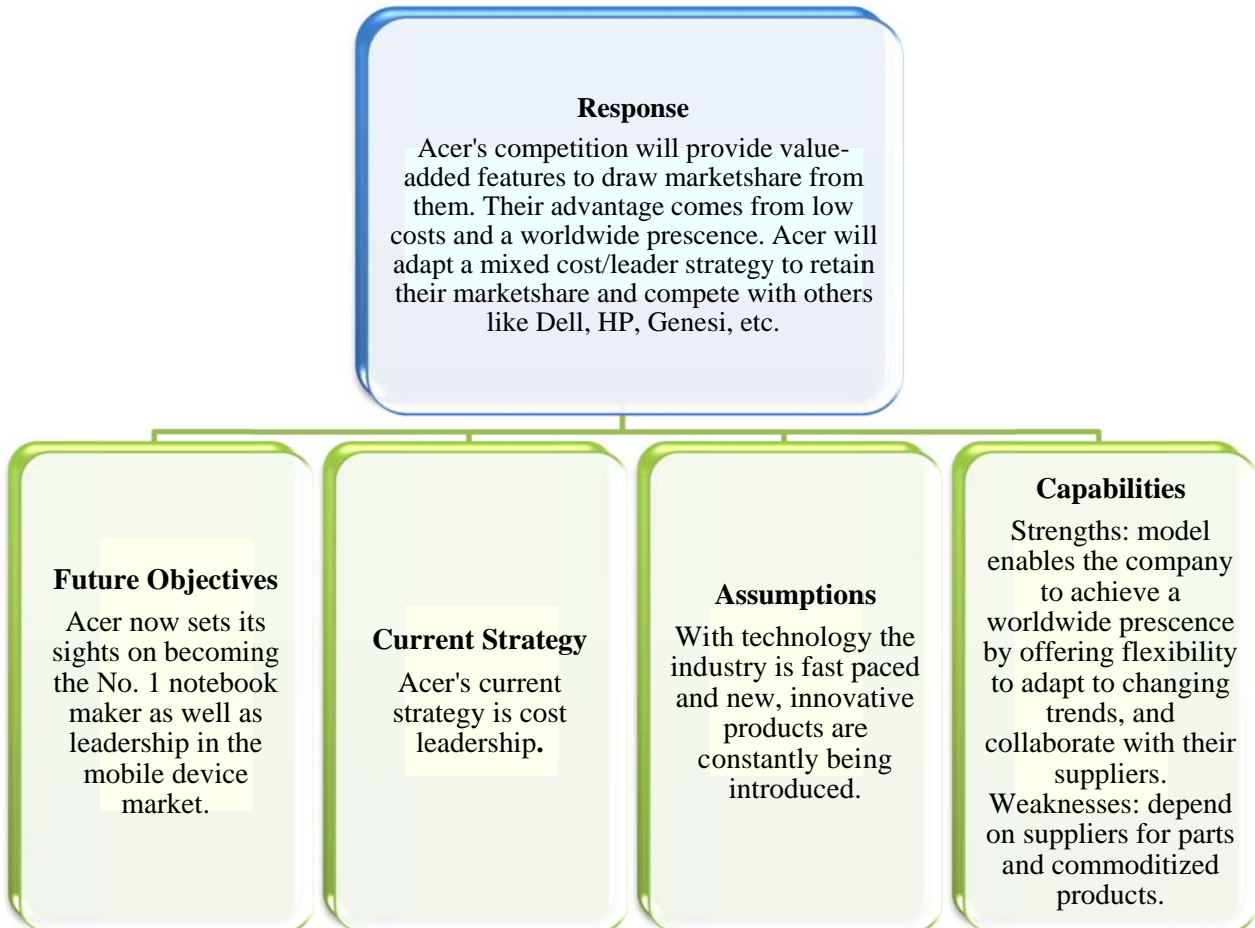
Threat of Substitute Products

The substitute product to the mobile computer in Latvia is the smart phone. In 2005, a competitor of Tele2's introduced the iPhone to its product offerings. Also, smart phones in general are cheaper in Latvia and provide the calling option in an easier to use format.

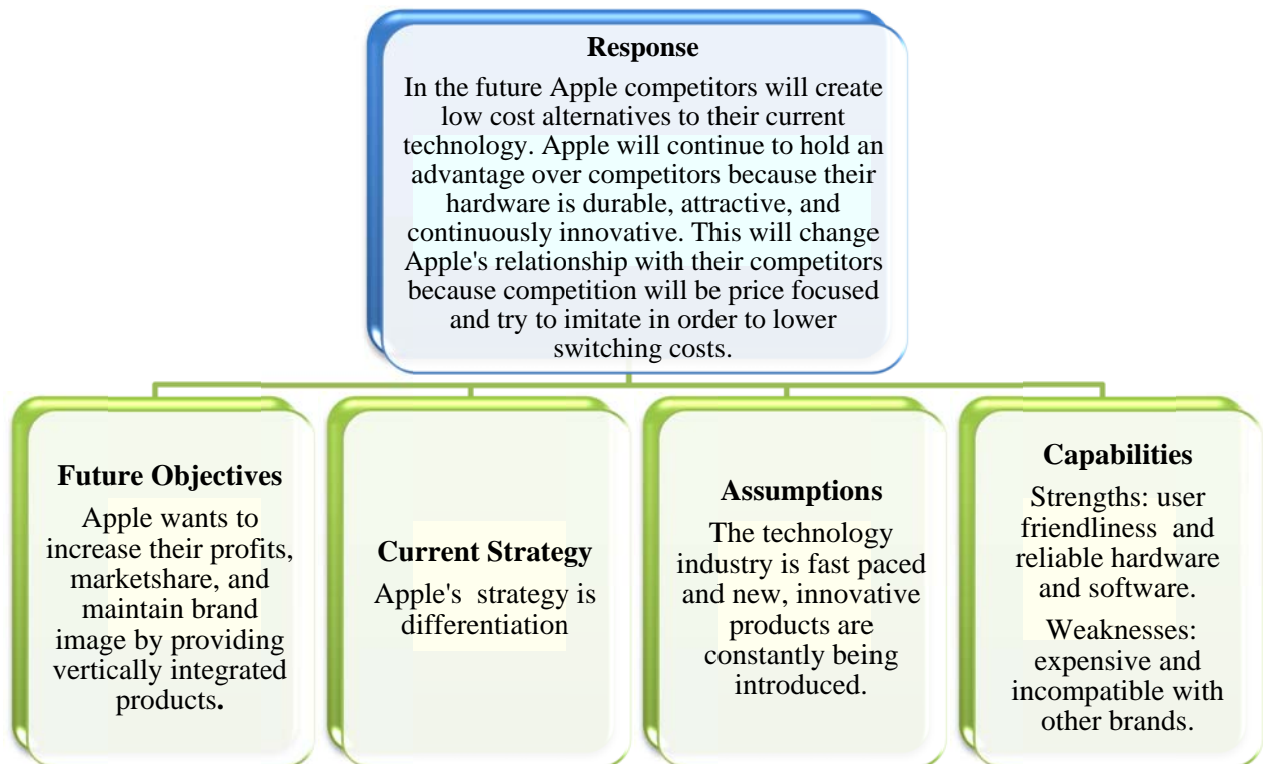
Genesi Competitor Analysis



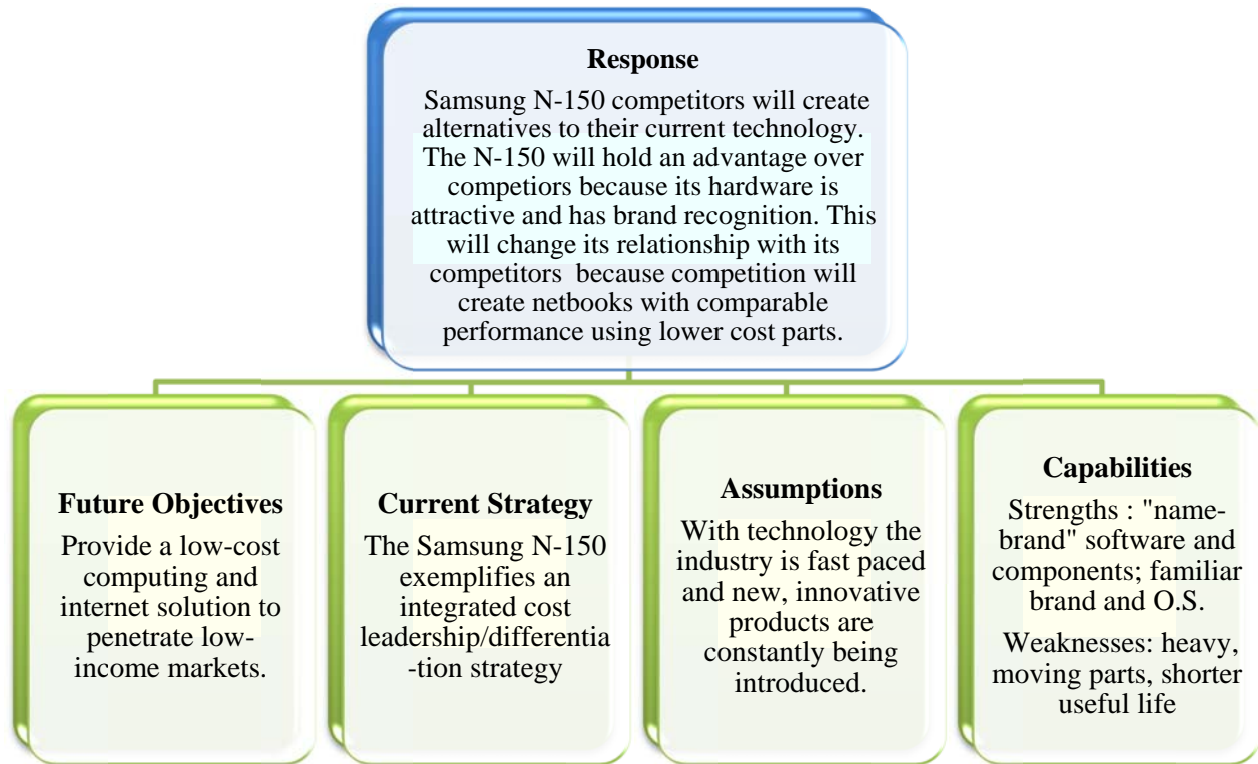
Acer Competitor Analysis



Apple Competitor Analysis



Samsung N150 Competitor Analysis



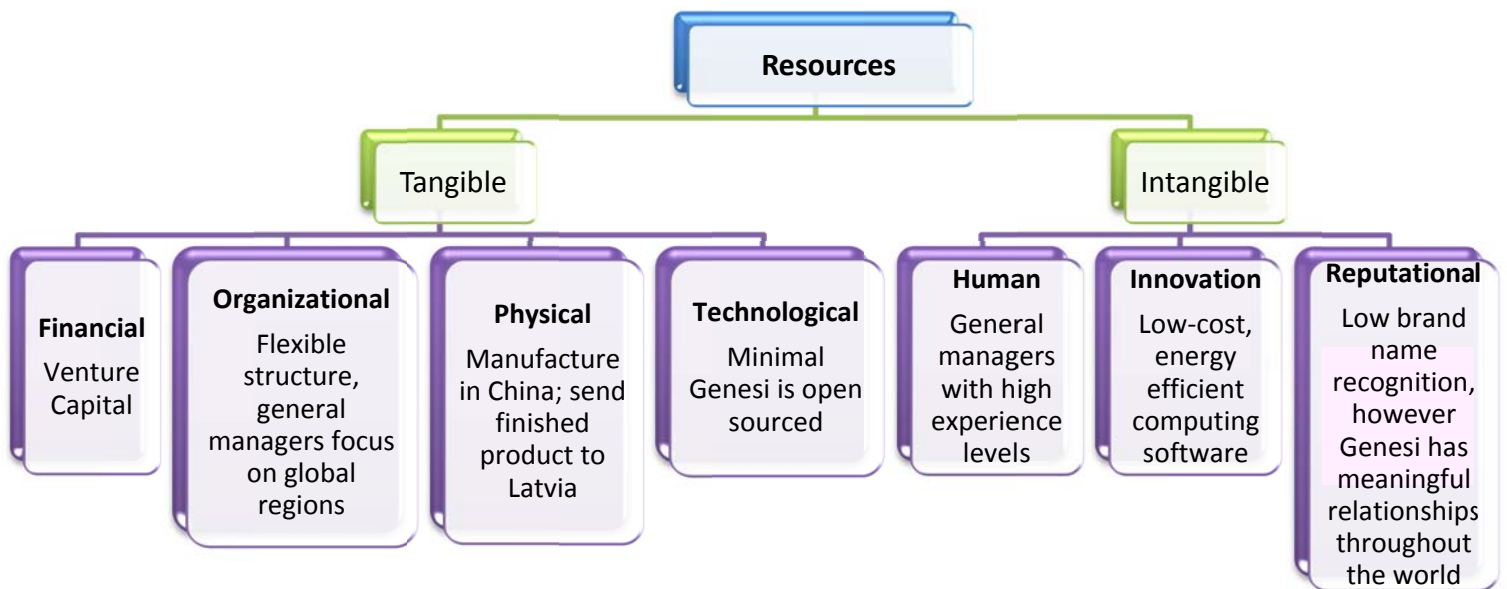
V. Internal Analysis

Resources & Capabilities

In order for our strategic plan to succeed Genesi must maintain its low cost advantage and improved reliability. In order to increase its user experience, a capability that Genesi should invest in is customer service.

The activity that adds value to Genesi is servicing. The services Genesi will provide to Tele2 and LIKTA will be image licensing services, tech support and maintenance, and upgrades on current systems when the new generations of Genesi's products are available.

Resources: Tangible and Intangible



Financial Resources

Genesi currently has ample borrowing and funding from its investors. In the near term, the company will survive off of its investor but will eventually start to generate positive cash flows.

Organizational Resources

Genesi has the ability to maneuver its focus from region to region and react fairly quickly to market changes. Also, the firm is willing to incorporate in most regions if a significant sales opportunity exists abroad. Its general managers have regional expertise and language skills which makes managing projects overseas effective.

Physical Resources

Genesi's manufacturing process is common, but the company fully realizes this issue. All product parts can be obtained on the open market. Genesi compensates for having widely attainable parts by differentiating on a systems intelligence level.

Technological Resources

Genesi's products operate on a Linux operating system. Therefore any development is open sourced through Linux's user agreement. We believe that the company benefits from Linux open source because tech users contribute to the development of the system and fine tune the product through collaboration. Open source is also a disadvantage because source code is published for free.

Human Resources

Genesi has a dedicated system and product development team that collaboratively holds large amounts of intellectual capital. Members within Genesi have expertise that has synergy when combined.



Innovation Resources

Genesi has the intellectual capital within the company's employee base to innovate and create new generations of hardware. The staff will be able to keep the technology current while looking towards the future. Risks associated with having intellectual capital are associated with key employees leaving the company. To mitigate this risk, above average compensation and good fringe benefits are absolutely necessary.

Reputational Resources

Currently, the Genesi brand name carries very little weight outside a niche group of technophiles. To improve the reputation of the company, it is necessary to provide excellent customer service and tech support. In addition, pairing with a telecommunications company that has strong brand recognition will improve Genesi's brand worth.

Value Chain Analysis

Support Activities	nding unding						Profit Margin
	egions. only products.						
	roducts of ecember 011 for lucts will						
	nd ready						
Primary Activities	will be ct to a added etween 22 nt.	as 1	will ifature nble the act in a and the ied s to a.	he	icing will enesi's est value d trait use it will ide anty and ades for products i newer rations eleased.		

Partnering

Creating a product licensing agreement with Tele2 Latvia will provide value both to Tele2 and Genesi. Genesi's product prices are in line with Tele2's focused low cost strategy and will help shore up the company's negative revenue growth. Tele2's 2009 recommitment to customer satisfaction, price leadership, and service quality will be beneficial to the Genesi brand name and provide a positive experience for the end user. Service level and quality management would be held to a satisfactory level through certain contractual stipulations and a mutual desire for profit, which in turn will provide satisfaction for the end consumer. Settling differences in opinion and discrepancies in service level and quality level management should be settled through mutually agreed upon arbitration terms.

VI. Business-Level Strategy

We will be following a focused cost leadership strategy for Latvia. Genesi will provide well-designed, functional, high quality products at low prices by using generic hardware and open-source, Linux-based software. Our cost strategy will be focused to Tele2 and the Latvian market.

Our primary customers will be Tele2 and LIKTA. The main providers of Mobile services are LMT, Bité Latvija, and Tele2. LMT and Tele2 have the highest market shares, representing 42.8% and 41%, respectively. Bite represents 9.5% of the market with other small providers representing the remainder. 47.25% of users access the internet through mobile providers such as Tele2. The end-consumers of our products will be subscribers of Tele2 or users of the reading centers sponsored by LIKTA. Tele2 and LIKTA will be responsible for marketing and selling the hardware. Our end consumer target is the middle 60% of Latvians in terms of income, ideally the consumer will be in an urban area.

We will be providing the Genesi EFIKA MX Smartbook along with a Linux operating system and applications. Although Genesi has additional product offerings, such as the EFIKA Smarttop, the Smartbook will initially meet the needs of the Latvian market. However, additional product offerings from Genesi, such as the upcoming tablet PC, may be integrated into our strategy for the future. The software of the devices will be customized in order to meet the needs of our customers. Genesi will provide a “system image” from which any of the devices can be restored from in case of a failure.

The EFIKA MX Smartbook will be assembled in China. By assembling the products ourselves we are able to maintain control over the quality of production as opposed to allowing the product to be assembled by our customers in Latvia. Our production facilities in China will be in closer proximity to our suppliers as well. Latvian import taxes are equivalent regardless of whether the Smartbook is assembled there or not. The licensing agreement will allow our customers to brand the device with their own logo.

The retail price of the EFIKA MX Smartbook is \$199 USD fully assembled. The cost to manufacture is \$120 USD not including shipping and import taxes. In Latvia, a 30% tax deduction is offered to technology companies operating there, further reducing our costs. Tele2

and LITKA will sell or lease to the end-user. Tele2 will sell the product with a subscription contract which will spread the cost of the hardware over the contract (probably two years). This option allows Tele2 to subsidize the cost of the Smartbook with the monthly payments consumers will be paying for telecommunication services. We believe this cost structure aligns with our strategy most effectively by lowering the initial cost of access to our product. LITKA could charge a monthly rate for access to the products or waive this fee entirely and be subsidized by the government. Either way, LIKTA will be paying for the hardware and licensing fees for use of the system image.

Genesi will use technology to organize, automate, and synchronize our sales and marketing activities as well as our customer service and technical support to provide a rich, two-way flow of information between us and our customers. Tele2 and LIKTA will be equipped by us with the tools they need to maintain the hardware and software for their subscribers. In the long term, we hope to deliver superior value and build loyalty with our customers by facilitating access to our service resources and engaging in useful interactions.

Our main form of promotion will be through making and maintaining personal relationships with key personnel within the organizations we want to do business with. We feel other indirect forms of advertising will not be as effective as making direct contacts with telecommunication companies. Through our relationships we will determine the needs of the customers we hope to serve and come up with innovative solutions to their needs.

Selling the EFIKA MX Smartbook to our customers Tele2 and LIKTA will satisfy their needs for a reliable, low-cost product they can bundle with the services they provide their subscribers and users. Furthermore, they will fulfill their user's need for economical access to the World Wide Web and other open-source productivity programs, like Open Office. We can satisfy our customer's needs with our innovative approach to computer design and our intellectual capital in order to sell and service the products we provide them.

VII. Competitive Dynamics

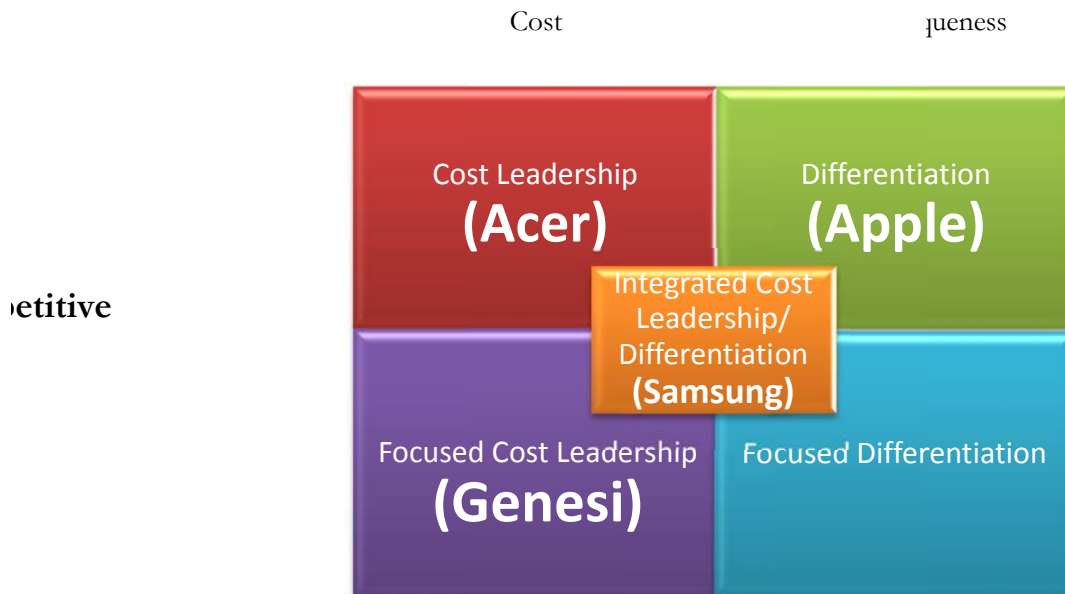
We have identified Genesi's main competitors as Apple and Acer.

Apple focuses its attempts toward the high-cost end of the market and primarily distinguishes itself through differentiation, meanwhile Acer and Genesi both rely on cost leadership as their business strategies and target the low-cost end.

Apple already has experience in dealing with the telecommunications industry through its dealings with AT&T and Verizon, and as of September 2008, LMT launched the Apple iPhone.

Acer and Genesi are both dependent on suppliers to acquire necessary parts for their products, whereas Apple is vertically integrated.

The greatest potential rivalry is between Genesi and Acer because their business strategies and resource supply chain are so similar. However, because the Latvian market represents such a small portion of Apple's and Acer's revenues, the likelihood of an attack or response by either company is not likely to happen.



SWOT Analysis for Genesi

Strengths	<ul style="list-style-type: none"> • Low-cost, energy efficient computing communications products. • Flexible business operations allowing them to facilitate to the buyers needs. • Product durability.
Weaknesses	<ul style="list-style-type: none"> • Brand-name awareness is relatively low. • Although Genesi's products are relatively straightforward, their ease of use is not very high and this is a weakness when targeting new technology users. • Genesi products lack the ability to appeal to high-end consumers.
Opportunities	<ul style="list-style-type: none"> • Genesi is producing their second generation of products and a tablet. • Genesi has the opportunity to penetrate the global market. • Genesi is a smaller company that has the opportunity to react relatively quickly to changes in the market and make products at a lower cost.
Threats	<ul style="list-style-type: none"> • Low-cost goods from competitors are starting to come out and it is important for Genesi to maintain its competitive advantage as being the low-cost leader. • Apple is coming out with a cheaper version of the iPhone, this is a major threat for Genesi because Apple is already a big competitor and if Apple targets the low-cost consumer this could easily decrease Genesi's market share.

SWOT Analysis for Latvia

Strengths	<ul style="list-style-type: none"> Latvia is the fastest growing economy in the EU. Latvia has one of the highest internet user penetration rates. The telecom industry is dominated by four companies and information, communication, technology infrastructure is strong.
Weaknesses	<ul style="list-style-type: none"> There has been a decline in sales reported by mobile operators. The Latvian economy is relatively small and the GDP per capita is the third lowest in the EU.
Opportunities	<ul style="list-style-type: none"> Tele2 is focusing its strategies on a cost based structure and this is an opportunity to take customers away from its rivals, as well as use Genesi to assist in this strategy. Economic growth in Latvia is projected to increase year after year for the next five years.
Threats	<ul style="list-style-type: none"> There has been an economic slowdown in Latvia and this may affect the technology sector.

VIII. Corporate-Level Strategy

As a small business, Genesi uses a single-business diversification strategy. The company lacks strong economies of scale, but still enjoys strong profit margins based on the commoditized prices of computer parts. The majority of its revenue comes from the sale of its computers with a minority of revenue associated with licensing of its products. Genesi expressed a wish during a question and answer session to move the revenue split towards 50%/50%. The desired revenue split will occur as the Genesi brand name builds recognition and products are purchased by the end consumer. Partnering with telecommunication companies will also drive licensing revenue growth.

Our primary focus for Genesi is to target a large deal with one of the telecommunications companies in Latvia, such as Tele2. In addition to the initial sale, we will receive licensing fees from the telecommunications company as they license the Genesi system and graphic interface image. In structuring the deal, Genesi should strive to make the licensing agreement as mutually beneficial as possible. Agreeing to concessions such as a lowered initial selling price and generous accounts receivable terms would help drive the deal.

In addition to striking a large deal, Genesi should also target a smaller deal with the LIKTA training centers in Latvia. Doing so will help familiarize the end consumer with our smartbook. Becoming a corporate partner of LIKTA will create goodwill in a nation which is striving to become technologically proficient.

Accessing Latvia is a strong strategic decision. Although unit sales will be low from a world-wide point of view, testing and honing Genesi's Eastern European strategy in a safe economic and political environment will allow Genesi to enter Eastern Europe more efficiently and profitably. In addition, Latvia provides a strong means of shipping and distribution because of its access to a port in the capital city of Riga.

IX. International Considerations

Opportunities and Incentives

The Latvian political and legal structure heavily supports the private sector and business. The World Bank's ease of doing business index ranks Latvia 24th among ranked nations. Latvia received such a high ranking because of the ease of paying taxes, obtaining licenses, and ease of formation and dissolution. Latvia's entrance into the European Union combined with relatively low labor costs gives companies operating in Latvia a competitive advantage in export oriented ventures and labor intensive ventures. In addition, Latvia's location on the Baltic Sea gives access to one of Europe's fastest developing areas with 600 million potential purchasers.

The Latvian government also provides various tax credits and preferences to businesses entering Latvia. A company incorporated in Latvia may defer filing their first tax return, and therefore defer payment of tax for 18 months. Various other preferences include incentives for providing employment in government targeted areas, grants for cost of hiring new employees, and preferential real estate prices through the government. Additionally, hi-tech companies like Genesi receive up to 30% in tax reductions and if the project is supported by the state, a tax reduction of 40% may be attained.

The Latvian government also funds various organizations and associations that promote internet use and information communication and technology. Internet penetration is estimated to exceed 70% by the end of 2010. This figure is largely due to smartphones and other portable devices such as netbooks.

Liability of Foreignness

We believe that the Genesi product will be well received in Latvia because of the country's push to have its citizens become familiar with computers. Also, the Latvian average income and consumer expenditures align properly with the pricing points of our product. With the Latvian Information and Communication Technology Association actively teaching citizens through its technology training centers we do not see product rejection as a risk.

Entry Modes

Genesi should enter the Latvian market through a licensing agreement with a major telecommunications company, ideally Tele2. In the future, Genesi should consider setting up a manufacturing facility in Latvia because of tax benefits, low wages, and Latvian citizens' manufacturing experience. Incorporating within Latvia would provide a low tax, low labor costs hub for the European market with access to efficient shipping channels.

Competitive Outcomes

We believe that with our plan to enter Latvia and establish a business, Genesi will be able to outperform its competitors with lower pricing points. The company minimizes risk exposure from currency fluctuation and political risk while testing the smartbook product in the Eastern European market and European Union market.

Risks

Political risk related to entering the Latvian market as a foreign company is minimal. Since Latvia is entering the European Union, the European Union's trade, political, and fiscal regulations will apply to Latvia as well. In the past, corruption was a significant problem, but in recent years steps have been taken to limit corruption in the government.

Economic risks related to entering the Latvian market are present. Currently, Latvia remains independent of the Euro at a fixed currency exchange rate while inflation is on the rise which devalues the buying power of the currency. Eventually Latvia will convert their currency to the Euro. Economic risks related to the Euro are derived from the ongoing Greek debt crisis. The countries that lent Greece the bulk of its bailout are strongly tied to the Euro. The Latvian market will then be systemically linked to the European debt crisis.

X. Project Wrap

Simple Financial Plan – See Appendix

Risks and Mitigation Plans

Risk	Mitigation Plan
Tele2 is not sold on the proposed deal	Restructure offer to more favorably suit Tele2's terms. Offer several computers at no cost to serve as a free trial
Tele2 rejects the deal or makes a deal with a competitor beforehand	Propose similar deal with LMT or Bité Latvija
Suppliers increase prices	Negotiate a longer-term deal at a fixed rate
New laws restrict importation	Make deals with local suppliers to produce computers within Latvia or establish a manufacturing plant
A competitor comes in with lower prices	Sell the computers to the telecommunications company at cost or slightly above cost and receive revenue through licensing fees
Customers find the computer too difficult to use	Improve the product to be more user-friendly and reintroduce the product with the next generation
Customers still dislike the computer	Change focus to target businesses or schools, or cease business in Latvia all together

Measurement of Success

Financial:

- Reach breakeven point in Year 1
- Achieve at least 10% ROI in subsequent years
- Tele2's market share in Latvia increases
- Generate positive cash flows in order to become less dependent on investors
- Maintain low expenses while improving our product

Nonfinancial:

- Percent of internet users that use our product in the population increases
- Product remains competitive as new generations are released
- Secure additional deals with Tele2 to expand outside the Latvian market
- Offer products in an environmentally sustainable fashion
- Through our partnership with LIKTA, increase percentage of Latvians with internet access

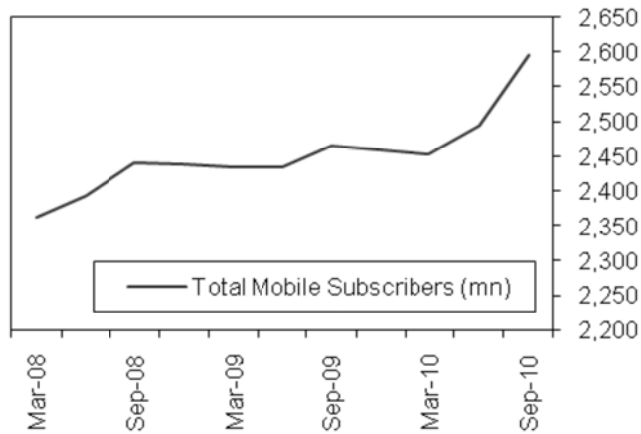
XI. Appendices

Appendix A

Financials

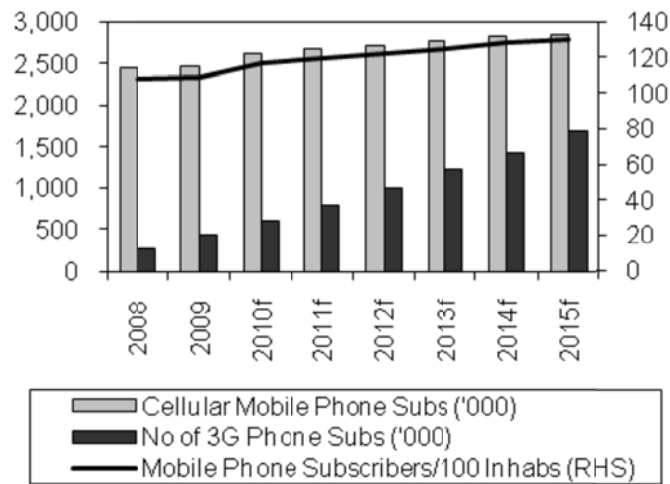
Appendix B Graphs

**Latvia Mobile Market
Growth 2008-2010**



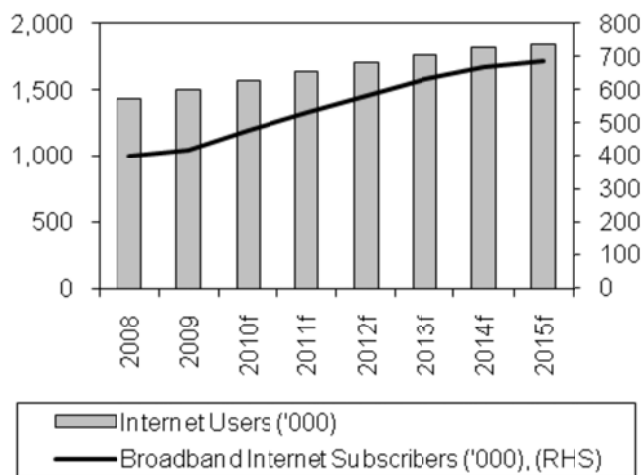
Source: BMI

**Industry Trends – Mobile Sector
2008-2015**



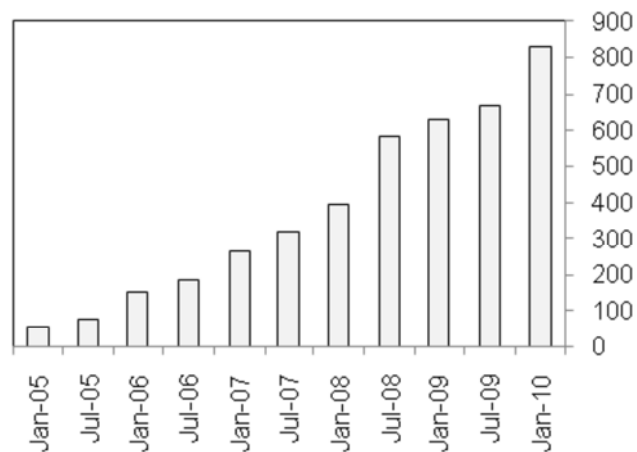
Source: BMI

Industry Trends – Internet Sector 2008-2015



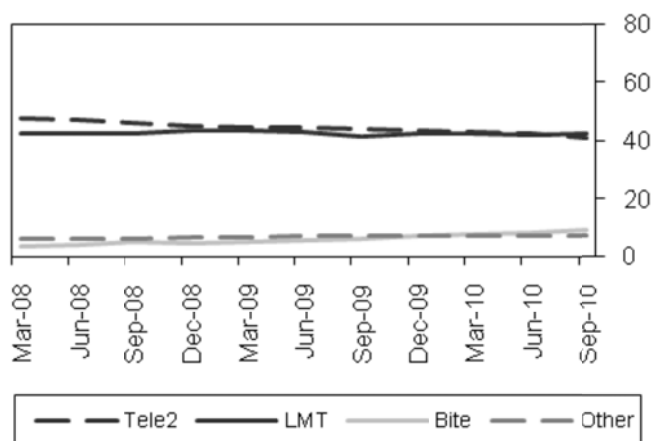
Source: BMI

Latvia Internet Access Lines ('000) 2005 - 2010



Source: BMI

A Comparative Study of Mobile Operator Market Shares 2008-2010



Source: BMI

Table: Latvia Mobile Subscribers Q309-Q310 (000')

	Q309	Q409	Q110	Q210	Q310	% change, Q309-Q310
Tele2	1089	1070	1051	1056	1064	-0.6
Market Share (%)	44.2	43.5	42.8	42.3	41.0	-
LMT	1,052	1042	1042	1,052	1,107	5.2
Market Share (%)	41.5	42.4	42.5	42.2	42.8	-
Bite	153	173	184	209	245	60.1
Market Share (%)	6.3	7.0	7.5	8.4	9.5	-
Others*	172	173	176	178	180	4.7
Market Share (%)	7.0	7.0	7.2	7.1	6.9	-
Total Subscribers	2,466	2,458	2,453	2,495	2,596	5.3

* Others refers to the subscribers of CDMA450 operator Triatel (which is owned by cable TV company Baltkom), as well as several MVNOs, whose subscriber data is not included in the subscriber figures of their host network operators. Source: Operators, BMI

Source: BMI

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Genesi Latvia
20X1-20X5
Income Statement

x1		x2	
<u>Sales Revenue</u>		<u>Sales Revenue</u>	
Sales		\$9,950,000.00	\$24,875,000.00
Less: Sales Discounts	\$149,250.00	Less: Sales Discounts	\$373,125.00
Sales Returns and Allowance	\$199,000.00	Sales Returns and Allowance	\$497,500.00
Net Sales Revenue		\$9,601,750.00	\$24,004,375.00
<u>Cost of Goods Sold</u>		<u>Cost of Goods Sold</u>	
Direct Materials	\$5,000,000.00	Direct Materials	\$12,500,000.00
Direct Labor	\$1,000,000.00	Direct Labor	\$2,500,000.00
Manufacturers Overhead	\$250,000.00	Manufacturers Overhead	\$625,000.00
Freight and Transportation in	\$1,250,000.00	Freight and Transportation in	\$3,125,000.00
Cosst of Goods Sold		\$7,500,000.00	\$18,750,000.00
Gross Profit on Sales		\$2,101,750.00	\$5,254,375.00
<u>Operating Expenses</u>		<u>Operating Expenses</u>	
Sales office salaries		\$200,000.00	\$200,000.00
Rent Expense		\$65,926.00	\$65,926.00
<u>Administrative expenses</u>		\$30,000.00	\$30,000.00
<u>General Expenses</u>		\$50,000.00	\$50,000.00
<u>R&D expense</u>		\$100,000.00	\$90,000.00
EBT		\$1,655,824.00	\$4,818,449.00
<u>Tax expense @ 15%</u>		\$248,373.60	\$1,204,612.25
<u>Technology Tax deduction @ 30%</u>		\$ (74,512.08)	\$ (361,383.68)
<u>Net Operating Income</u>		\$1,481,962.48	\$3,975,220.43
<u>Break Even Analysis</u>		<u>Break Even Analysis</u>	
Total Fixed Costs	\$445,926.00	Total Fixed Costs	\$435,926.00
Contribution Margin	\$42.04	Contribution Margin	\$42.04
Break Even in Units	10608.44534	Break Even in Units	10370.54835

Genesi Latvia
20X1-20X5
Income Statement

x3		x4	
<u>Sales Revenue</u>		<u>Sales Revenue</u>	
Sales		\$9,950,000.00	\$4,975,000.00
Less: Sales Discounts	\$149,250.00	Less: Sales Discounts	\$74,625.00
Sales Returns and Allowance	\$199,000.00	Sales Returns and Allowance	\$99,500.00
Net Sales Revenue		\$9,601,750.00	\$4,800,875.00
<u>Cost of Goods Sold</u>		<u>Cost of Goods Sold</u>	
Direct Materials	\$5,000,000.00	Direct Materials	\$2,500,000.00
Direct Labor	\$1,000,000.00	Direct Labor	\$500,000.00
Manufacturers Overhead	\$250,000.00	Manufacturers Overhead	\$125,000.00
Freight and Transportation in	\$1,250,000.00	Freight and Transportation in	\$625,000.00
Cosst of Goods Sold		\$7,500,000.00	\$3,750,000.00
Gross Profit on Sales		\$2,101,750.00	\$0.00
<u>Operating Expenses</u>		<u>Operating Expenses</u>	
Sales office salaries		\$200,000.00	\$200,000.00
Rent Expense		\$65,926.00	\$65,926.00
<u>Administrative expenses</u>		\$30,000.00	\$30,000.00
<u>General Expenses</u>		\$50,000.00	\$50,000.00
<u>R&D expense</u>		\$75,000.00	\$60,000.00
EBT		\$1,680,824.00	\$644,949.00
<u>Tax expense @15%</u>		\$420,206.00	\$161,237.25
<u>Technology Tax deduction @30%</u>		\$ (126,061.80)	\$ (48,371.18)
<u>Net Operating Income</u>		\$1,386,679.80	\$532,082.93
<u>Break Even Analysis</u>		<u>Break Even Analysis</u>	
Total Fixed Costs	\$420,926.00	Total Fixed Costs	\$405,926.00
Contribution Margin	\$42.04	Contribution Margin	\$42.04
Break Even in Units	10013.70287	Break Even in Units	9656.857381

Genesi Latvia
20X1-20X5
Income Statement

x5

Sales Revenue

Sales		\$1,990,000.00
Less: Sales Discounts	\$29,850.00	
Sales Returns and Allowance	\$39,800.00	
Net Sales Revenue		<u>\$1,920,350.00</u>

Cost of Goods Sold

Direct Materials	\$1,000,000.00	
Direct Labor	\$200,000.00	
Manufacturers Overhead	\$50,000.00	
Freight and Transportation in	\$250,000.00	
Cosst of Goods Sold		<u>\$1,500,000.00</u>
Gross Profit on Sales		\$420,350.00

Operating Expenses

Sales office salaries		\$200,000.00
Rent Expense		\$65,926.00
<u>Administrative expenses</u>		\$30,000.00
<u>General Expenses</u>		\$50,000.00
<u>R&D expense</u>		\$45,000.00
EBT		<u>\$29,424.00</u>
<u>Tax expense @ 15%</u>		\$7,356.00
<u>Technology Tax deduction @ 30%</u>	\$	<u>(2,206.80)</u>
<u>Net Operating Income</u>		\$24,274.80

Break Even Analysis

Total Fixed Costs	\$390,926.00
Contribution Margin	\$42.04
Break Even in Units	9300.011895