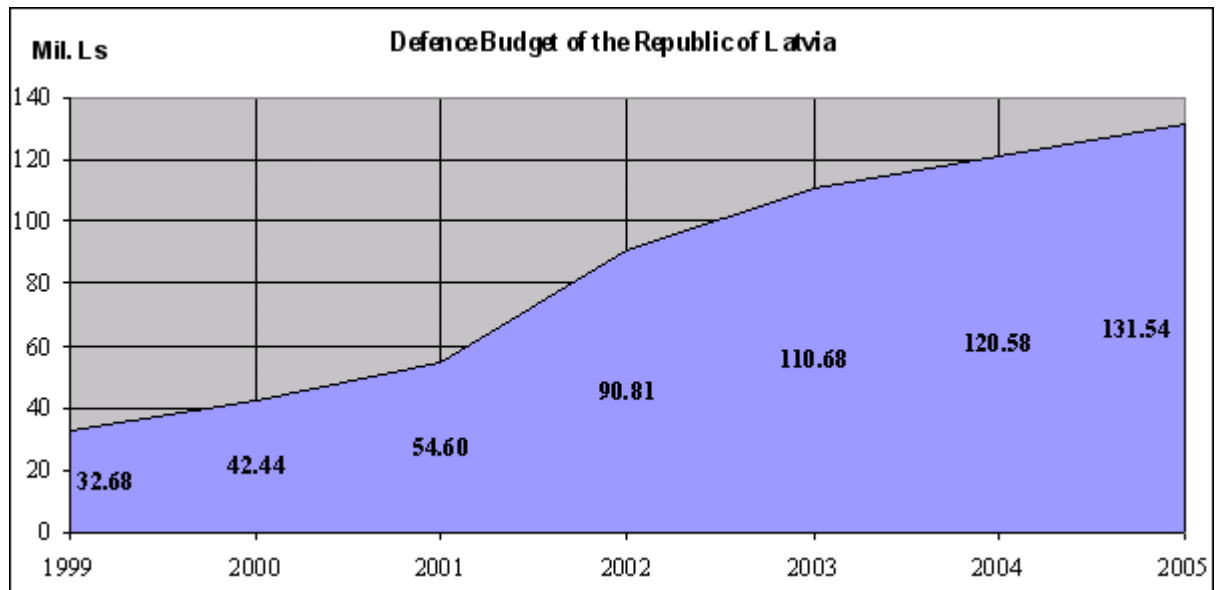




**Ministry of Defence
Republic of Latvia**

**THE DEFENCE BUDGET OF THE REPUBLIC OF LATVIA FOR 2003.
FACTS AND FIGURES**

The total budget allocated by the Government for defence in 2003 is 110.68 million lats (Ls) (2.00% of GDP), Ls 83.41 million of which is directly allocated to the Ministry of Defence. The remaining 27.28 million lats are defence-related items managed outside the Ministry of Defence. The Defence Budget of the Republic of Latvia in absolute figures is shown in Figure 1.



The Defence Budget in Table 1 is shown in actual cash terms. Figures are in millions of lats (Ls) (USD1 = Ls 0.585)

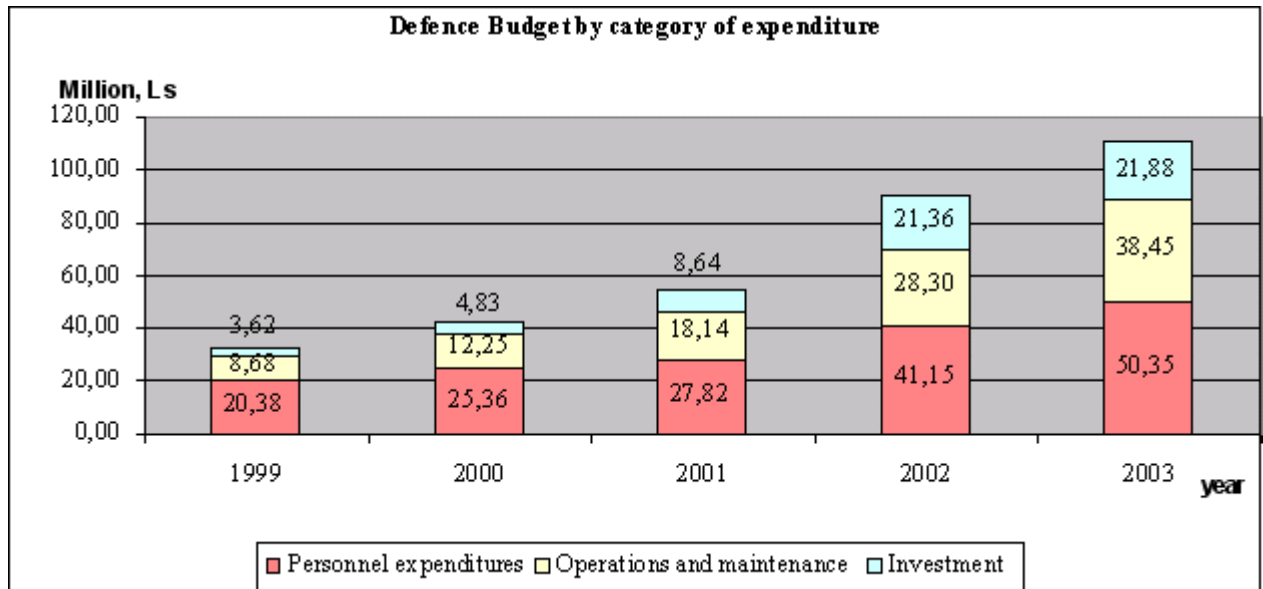
Table 1: Defence Budget and Projected growth

| Year | Expected GDP, Million Ls | Defence Budget | |
|---------|--------------------------|----------------|------------|
| | | % of GDP | Million Ls |
| 1999 | 3,889.7 | 0.84 | 32.68 |
| 2000 | 4,348.3 | 0.98 | 42.44 |
| 2001 | 4,758.6 | 1.15 | 54.60 |
| 2002 | 5,096.0 | 1.78 | 90.81 |
| 2003 * | 5,536.8 | 2.0 | 110.68 |
| 2004 ** | 6,027.7 | 2.0 | 120.58 |
| 2005 ** | 6,573.6 | 2.0 | 131.54 |

* Planned

** Projected

Figure 2 illustrates the total Defence budget broken down into personnel costs, operations and maintenance, and investment costs.



The 2003 budget of the Ministry of Defence is Ls 83.41 million, this represents an increase of Ls 15.06 million or 22% over the 2002 budget. Table 2 shows the breakdown of the 2003 budget and compares it to the previous year. You can clearly see the changes in the amount spent on defence.

Table 2: Comparison of the budget of the Ministry of Defence for 2002 and 2003 (by program)

| Program | Million lats | | |
|--|----------------|----------------|-----------------------|
| | Budget FY 2002 | Budget FY 2003 | Increase from FY 2002 |
| State Defence Management and Administration* | 5.960 | 6.622 | 11% |
| Accounting of State Military Service and the Conscript Service | 3.573 | 3.602 | 1% |
| Maintenance and construction | 5.525 | 6.815 | 23% |
| National Armed Forces (NAF) | 52.098 | 64.754 | 24% |
| NAF HQ | 6.825 | 6.961 | 2% |
| Support units | 12.045 | 7.520 | -38% |
| Air Force | 7.666 | 9.379 | 22% |
| Navy | 5.776 | 6.445 | 12% |
| Land Forces | 17.716 | 10.389 | -41% |
| National Defence Academy** | 2.070 | 0.440 | -79% |
| Logistics support centre*** | - | 15.491 | 100% |
| TRADOC**** | - | 8.129 | 100% |
| Other programs***** | 1.147 | 1.617 | 41% |
| Total Budget | 68.303 | 83.406 | 22% |

* Also included: Military retirees' pension fund, Military attaches and representatives.

** The Law on the State budget for 2003 was adopted late in 2003, consequently for the first three months of 2003 the National Defence Academy was financed independently, after that – from TRADOC.

*** The logistics support centre was included under Support units prior to 2003.

**** TRADOC has been established combining the National Defence Academy and armed forces training bases.

***** Includes the War museum, the Military Counterintelligence Service and payments to international organisations, etc.

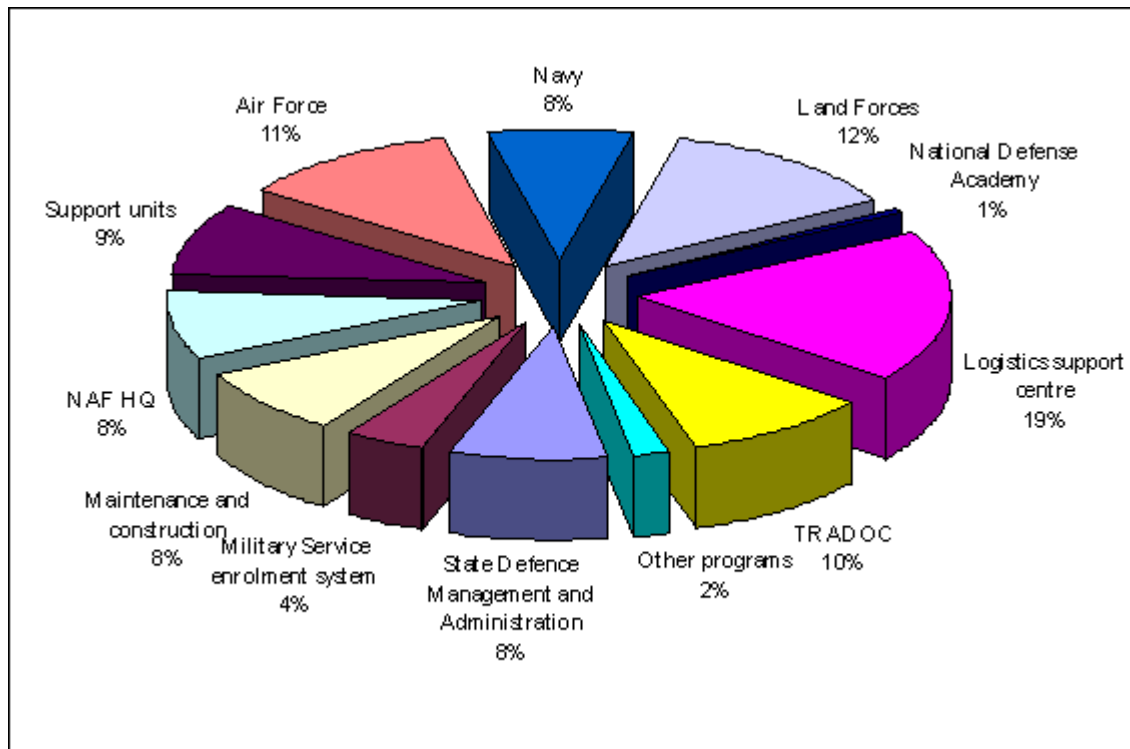


Figure 3 shows the breakdown of the Ministry of Defence budget for 2003 by program. 'Other programs' includes the War museum, the Military Counterintelligence Service and payments to international organisations, etc.

The main priorities for 2003:

General

- Integration into NATO (an increase of personnel in Latvia's mission to NATO) – Ls 0.437 million

Development niche capabilities

- Weapons for Special operations forces – Ls 0.406 million
- Equipment for NBC unit – Ls 0.424 million
- Equipment for EOD unit – Ls 0.150 million

Improvements to the soldiers' quality of life – Ls 1.564 million

- Holiday allowance – Ls 1.1 million
- Allowance after 5 years of service – Ls 0.101 million
- Loans upon graduation from the National Defence Academy – Ls 0.042 million
- Other allowances – Ls 0.321 million

Maintenance and construction

- Command center – Ls 0.300 million
- BALTCIS infrastructure – Ls 0.230 million
- EOD school construction – Ls 0.439 million
- The renovation of educational buildings at the National Defence Academy – Ls 0.350 million
- Barracks renovation – Ls 0.520 million

Land Forces (National Guard)

- Development of a NAF communication system – Ls 2.000 million
- Development of storage facilities – Ls 0.381 million

Air Force

- Final payment for 3D long-range radar – Ls 4.027 million
- Construction of a radio-relay line through Riga-Rezekne-Lielvarde – Ls 0.400 million
- Development of a military apron for Riga airport – Ls 1.000 million
- Mi-8 MTV Helicopter and equipment – Ls 1.000 million

Navy

- Diving school development in Liepaja – Ls 0.900 million
- Development of Tosmare channel – Ls 0.300 million
- Introduction of the ship “Virsaitis” into the Navy – Ls 0.500 million
- Contract payment (2003) for a “Storm”-class fast patrol boat – Ls 0.140 million

Current plans and programs call for substantial restructuring and organisational improvements in the Armed Forces. Training will receive special emphasis during the coming years so that sufficient personnel can be trained to meet NATO interoperability requirements. Special projects and plans include:

- Continuing to implement a new structure for the Armed Forces;
- Continuing to improve the command, control, and communications system;
- Organising personnel recruitment and the preparation of units for international missions and positions at NATO headquarters;
- Modernising Armed Forces armament and equipment;
- Continuing improvements to important infrastructure;
- Improving the personnel planning system and personnel's social guarantees;
- Developing an air-space control system (BALTNET);
- Improving the system of military education.

In total 6.07 million Ls worth of maintenance and construction has been planned for 2003, which is 5% more in real terms than 2002. The attribution of these financial resources is divided both between forces and separate bases - see figure 4. Other 0.745 million Ls in program "Maintenance and Construction" are planned for the management expenses.

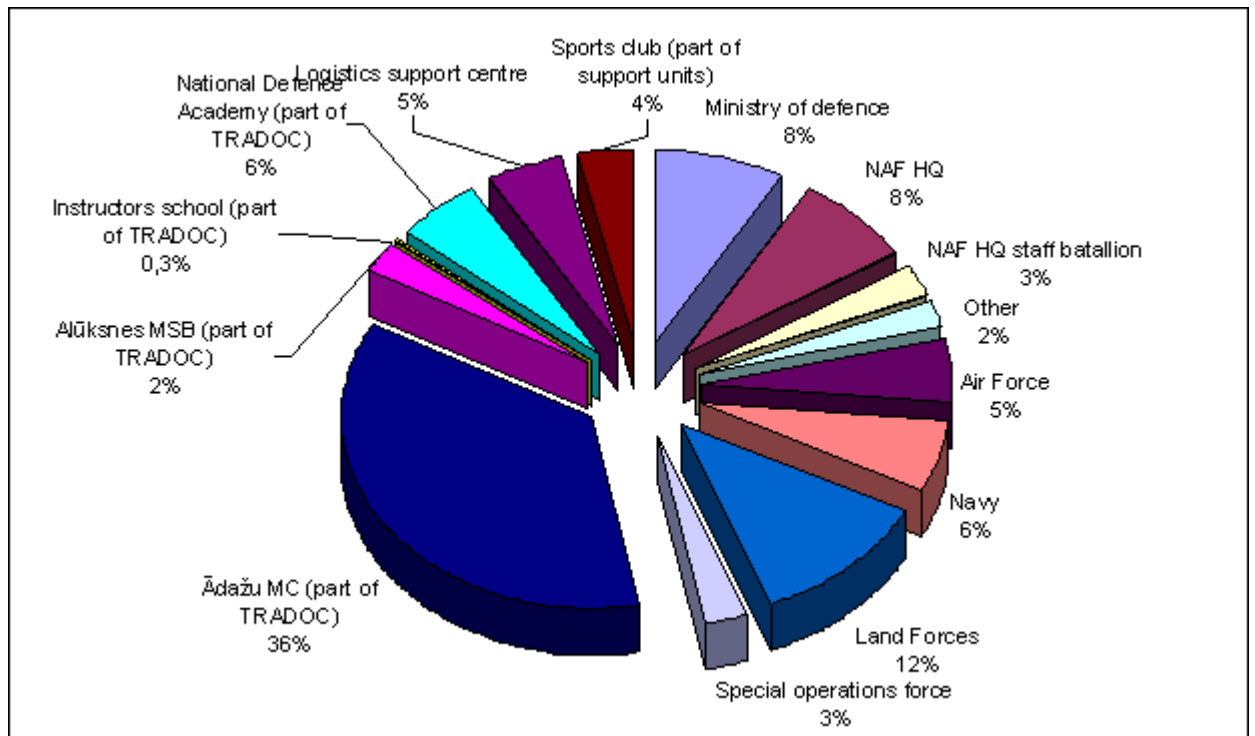


Figure 4 reflect attribution of construction and maintenance budget for 2003 - Ls 6.07 million.

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