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Special Focus: Latvian Economy

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For centuries Latvia used its geographic location in order to become an important East-West commercial and trading center. During the Cold War, the country's economy was integrated in the Soviet economy and served its large internal industrial needs. After reestablishing its independence, Latvia proceeded with market-oriented reforms, albeit at a measured pace. During the first years of the new millennium the Latvian economy was successful. It had tremendous growth, with gross domestic product (GDP) increasing by 10.3% and 12.2% in 2007 and 2006, respectively. This situation was averted in 2008 as the country entered a severe recession that was a result of current account deficit and large debt exposure amid the softening world economy. In 2009 Latvia had one of the world's worst declines as GDP plunged nearly 18%.

After the fall of the communist regime in 1989 Latvia found itself in a rather inconvenient situation as it had to adjust in the new international environment and create new socio-economical structures. Therefore, Latvia proceeded with market-oriented reforms, albeit at a measured pace. Nowadays, the majority of companies, banks, and real estate have been privatized, although the state still holds sizable stakes in a few large enterprises. Additionally, Latvia joined the most important international organizations. It became a member of the World Trade Organization in February 1999 and obtained EU membership, a top foreign policy goal for the country, in May 2004.



As it is already mentioned the first years of the new millennium was a flourish period for the Latvian economy. However there were several factors that led the economy to overheating. The most important was that the credit grew at an annualized rate of more than 50%. Additionally, domestic demand cultivated excessively, especially private consumption and real estate investment, so that the current account deficit peaked in late 2006 at more than 25% of GDP. Finally, wage and price inflation accelerated in early 2007, with core inflation rising to almost 10% by mid-2007. Substantial wage increases and low productivity growth eroded competitiveness of Latvia significantly. This situation continued during 2009 when GDP was decreased by 18%.

In order to face the crisis Latvia implements structural reforms and shifts the economy to a more sustainable path – towards an economy based on exports. The first positive results



have already been seen as several important indicators show that the situation in the national economy has started to stabilize. In January 2010 the overall manufacturing produce has increased by +5.7% compared to January 2009. Furthermore, in March 9, 2010

the NASDAQ OMX Riga index has increased by +56% since the lowest point in March 9, 2009.



Acknowledging the positive development of the national economy the credit rating agency Standard & Poor's changed the future perspective of Latvia's rating from negative to stable. The main reasons were the ongoing economic recovery of the country, the government's efforts in stabilization of the state financial sector and finally the reduction of the global imbalances. The aforementioned ascertainment of Standard & Poor's was also endorsed by the international lenders of the country that have granted further support. On February 17, 2010 International Monetary Fund (IMF) decided to proceed with the 3rd

tranche (EUR 200 mln) of the financial support package to Latvia.

The economic problem of Latvia actually started to be cultivated during the period of the economic growth of the country. Between 2005 and 2008, wages doubled. Much of the wealth created directed into property, causing a bubble in real estate prices. Additionally, in 2006 and 2007, the current account deficit grew to more than 20% of GDP, meaning that in order for the country to "make ends meet" it had to borrow 20% of its income from abroad. This definitely created an economic unbalance that had to be corrected. The massive economic recession of 2008-2009 was part of this correction. Currently, Latvian economy is recovering and in the long term, the country's return to economic growth will depend on comprehensive structural reforms, economic adjustment and improvements to the business environment.

Kyriazis Vasileios,
Epicos Newsletter Head Editor



Ministry of Finance of the Republic of Latvia



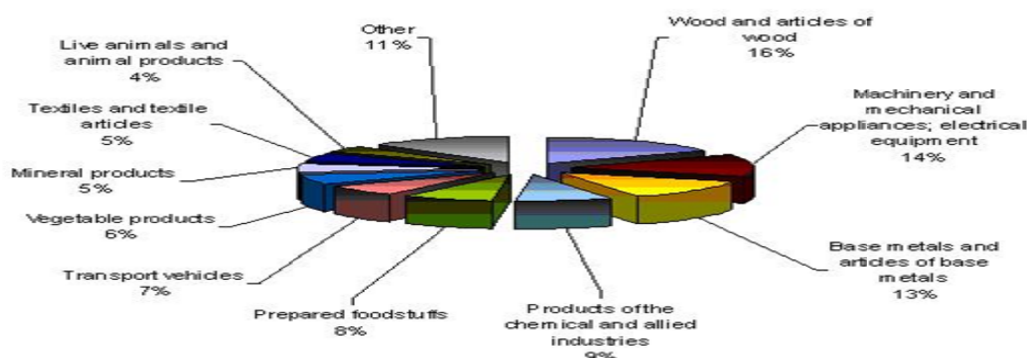
Latvia possesses a rather unique geographical location in the crossroad between east and west. Therefore, the country has traditionally been

a major commercial hub. Furthermore, Latvia was at the centre of the Hanseatic League, the world's first Free Trade Area. Nowadays, Latvia is one of only three EU countries to have a direct-access border with Russia, making it an ideal trading point between Russia and EU. Thus, its geographical location remains central to strategically relevant transportation flows connecting major world economies such as the European Union, Russia, the CIS and the Far East. Additionally, the country has a good infrastructure. The Trans-Siberian railway connects Riga with Moscow by the shortest and most direct route, Riga International Airport is the fastest growing capital city airport in Europe with direct flights to more than 70 destinations and finally the country has three major ice-free international ports. These are the reasons why Latvia is a country with viable foreign trade.

After the fall of the communist regime Latvia tried to delineate new trade relations as the one that have been cultivated throughout the years with the USSR and the other communist countries were devastated. The attempts of the Latvian authorities were successful, as since then foreign trade has been consistently increasing. One of the main reasons of this success is undoubtedly the accession of the country to the EU in 2004. New perspectives were created as Latvia became a member of an important and elitist economic group.

Throughout the first decade of the new millennium Latvian trade flourished. It is indicative that during the first half of 2008, Latvia saw continued growth of exports in sectors such as wood and wood products (18.4%), metals and metal products (18.1%), machinery and

Latvian Exports by Sector, 2009



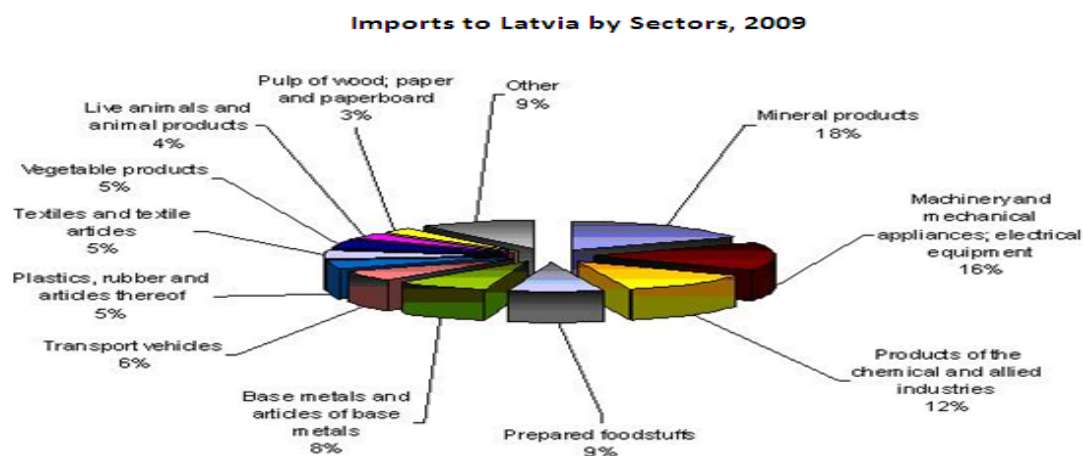
Source: Central Statistical Bureau of Latvia, 2010

electrical products (11.6%). This situation was averted, in 2009, mainly due to the global economic crisis. Exports decreased by 19% whereas imports decreased by 38% compared with the previous year. The decrease in exports should be contributed to the overall economic slowdown. Latvian goods lost a proportion of their share in the international

market. Regarding the decrease in imports, it can be easily explained if we take into consideration the fact that the internal demand was reduced.

Despite the fact that Latvian trade activity was reduced in 2009, the trade partners of the country remained the same. Exports to EU countries made up 71.3% of the total volume of Latvian exports. Analyzed by country the biggest trading partners of Latvia were Lithuania (17% of Latvia's total trade turnover), Germany (10%), Russia (10%), Estonia (10%), Poland (6%) and Sweden (5%).

In 2009 wood and articles of wood comprised the most significant commodity group in Latvian and constituted 16% of total amount of goods exported. The wood industry is traditionally one of the most important in the country. Currently, with about 17.3% of the entire added value created, is the second largest processing sector after the food industry. Apart from wood the country also exports products such as machinery and mechanical appliances, electrical equipment and metal products. Electronics and electrical engineering industry in Latvia has a long and impressive history and has established itself as one of the most promising and important manufacturing sectors. The main reason behind this is the



Source: Central Statistical Bureau of Latvia, 2010

remarkable ability of the country to manufacture and export high-tech products. Regarding the sector of mechanical engineering and metalworking, it has achieved an astonishing average year-on-year growth rate of nearly 23% since 1999, something that place it amongst the most important industrial sectors of the country with a significant share in the national exports.

On the other hand the most important commodities among Latvian imports during 2009 were mineral products (making up 18% of the total value of imports), machinery and mechanical appliances, electrical equipment (16%) and chemical products (12%).

The traditional commercial activities of Latvia have been seriously injured during the global financial crisis. It is remained to be seen if its commercial past will help the country to overcome this serious drawback.

Kyriazis Vasileios,

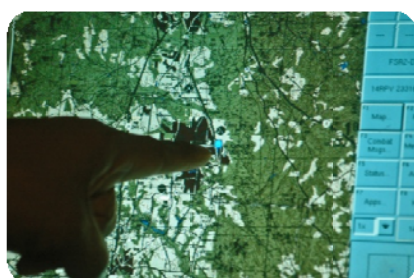
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Epicos "Project Opportunities" provides a unique set of online tools enabling the structure, identification and implementation of comprehensive Offsets programs, through a searchable database. By introducing different offset projects and ideas proposed by local A&D industry it ensures the optimum cost for Prime Contractors and reassures that the priorities of local industry are fully met...

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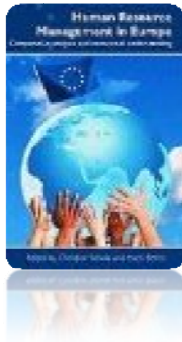
Blue Force Tracking (BFT) System for Military Personnel and Military Vehicles



The network-centric ability to distinguish between friend and foe, a concept known as blue force tracking (BFT), is critical to conducting effective network-focused military operations. Within this frame, a company with extensive expertise in developing Solutions for the aerospace industry, is proposing the utilization of the existing know how -mainly in complicated space missions- in the development of advanced Blue Force Tracking (BFT) and situational awareness capabilities into products and systems used to identify and track friendly forces.

[For Further Information Contact our ICO Department](#)

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Human Resource Management in Europe, by Christian Scholz, Hans Bohm

Throughout the last decade the European Union has been constantly expanding and transforming from being a solid economic organization with members with similar economic structure to a broader socioeconomic union. Wide cultural, political and economic differences within the Union have a significant impact on the management of human resources, so crucial to the success of any enterprise. Businesses within the EU have regularly tried to re-evaluate the context in which they work, and for investors from other continents, notably the US and Asia, the potential for expensive mistakes is only too real. In this comprehensive new book, the varied and particular challenges for human resource management in the EU are fully explored. The key issues are addressed from both theoretical and practical perspectives, whilst each chapter is also complimented by best practice case studies.

Europe Enlarged: A Handbook of Education, Labour and Welfare Regimes in Central and Eastern Europe, by Irena Kogan (Editor), Michael Gebel (Editor), Clemens Noelke

The expansion of the European Union has put an end to the east-west division of Europe. At the same time it has increased the cultural heterogeneity, social disparities and economic imbalances within the EU - exemplified in the lower living standards and higher unemployment rates in some of the new member states. This important new reference work describes the educational systems, labour markets and welfare production regimes in the ten new Central and Eastern Europe (CEE) countries. In three comparative chapters, discussing each of these domains in turn, the editors provide a set of theory-driven, comprehensive and informative indicators that allow comparisons and rankings within the new EU member states. Then follow ten country-specific chapters - each written by experts from those countries - on: Hungary, Slovenia, the Czech Republic, the Slovak Republic, Poland, Romania, Bulgaria, Estonia, Latvia and Lithuania.



Boeing Awarded Follow-on Contract for US Air Force Wideband Global SATCOM Program

EL SEGUNDO, Calif., Aug. 23, 2010 -- Boeing [NYSE: BA] announced today that the U.S. Air Force has authorized \$182 million for Boeing to begin work on the seventh Wideband Global SATCOM (WGS) satellite, which is being procured under the new WGS Block II follow-on contract. The contract will ultimately include options for production of up to six WGS satellites, which are the highest-capacity communications satellites in the U.S. Department of Defense's arsenal.

"In a time of budgetary pressures, the award of this contract signifies the high-priority need of U.S. warfighters around the world for responsive and robust wideband communications," said Air Force Col. Don Robbins, WGS Group Commander. "It also recognizes the outstanding service being provided to our warfighters every day by the three on-orbit WGS Block I satellites already fielded by the Air Force and Boeing team."

The three on-orbit satellites, which are operating over the Middle East, Pacific and Atlantic regions, are meeting or exceeding mission requirements.

Under the Block II contract, Boeing is building three more WGS satellites that are scheduled to launch in 2012 and 2013. This first award under the Block II follow-on contract covers non-recurring start-up activities and advance procurement of long-lead parts. The order for WGS-7 comes nearly three years after the Department of Defense's December 2007 order for WGS-6.

"It is imperative that we address the warfighter's continuing need for high-capacity communications in a timely, cost-effective manner," said Craig Cooning, vice president and general manager of Boeing Space & Intelligence Systems. "WGS is a battle-tested solution that can evolve, using cost-effective methods, to meet emerging warfighter requirements such as communications-on-the-move for small mobile users, as well as airborne intelligence, surveillance, and reconnaissance data-relay capabilities."

WGS satellites deliver fast, flexible broadband communications services to remote areas. They can deliver service to new users within hours and be repositioned on orbit if necessary to meet changing mission requirements. Built on the proven Boeing 702HP platform, WGS communications payloads provide reconfigurable coverage areas and the ability to connect X-band and Ka-band users anywhere within the satellite's field of view through an onboard digital channelizer – features that enhance security and mission flexibility, and are not available on any other communications satellite.

A unit of The Boeing Company, Boeing Defense, Space & Security is one of the world's largest defense, space and security businesses specializing in innovative and capabilities-driven customer solutions, and the world's largest and most versatile manufacturer of military aircraft. Headquartered in St. Louis, Boeing Defense, Space & Security is a \$34 billion business with 68,000 employees worldwide.

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Source: Epicos, Boeing Defense, Space & Security

Russian Baltic Fleet commander to head Pacific Fleet

MOSCOW, August 23 (RIA Novosti) - Commander of the Russian Baltic Fleet Vice Adm. Viktor Chirkov is likely to be appointed the new commander of the Pacific Fleet, a source in the Russian Defense Ministry said on Monday. "The most likely candidate for the post of the commander of the Pacific Fleet is Vice Admiral Viktor Chirkov," the source told RIA Novosti. Current commander of the Pacific Fleet Adm. Konstantin Sidenko was earlier appointed commander of the operative strategic command Vostok in the Russian Far East.

Source: Ria Novosti

Russian military chief to visit Poland

MOSCOW, August 24 (RIA Novosti) - Gen. Nikolai Makarov, the chief of the Russian Armed Forces General Staff, will arrive in Poland on two-day working visit on Tuesday, the Russian Defense Ministry has said. During the visit, Makarov is expected to discuss Russian-Polish military cooperation, as well as relevant international and European security issues, with his Polish counterpart Mieczyslaw Cieniuch, the ministry said in a statement. On Wednesday, Makarov will visit a paratrooper base in Krakow. In Warsaw, the Russian delegation will visit The Tomb of the Unknown Soldier, the Soviet Military Cemetery, and the Powazki Cemetery, where they will pay tribute to Franciszek Gagor, the former chief of the Polish Armed Forces General Staff. Gagor was on board the Polish presidential plane that crashed in western Russia in April, claiming the lives of all 96 passengers, including President Lech Kaczynski and his wife. Russian and Polish experts are jointly probing the causes of the deadly crash, while Polish military prosecutors are conducting their own investigation.

Source: Ria Novosti

Russia may build Chinese pipeline before South Stream

MOSCOW, August 24 (RIA Novosti) - Russian energy giant Gazprom may build a gas pipeline from Russia to China before it implements the South Stream project, planned for gas transportation across the Black Sea, a business daily said on Tuesday. The Altai pipeline is expected to be launched between 2015 and 2018, while the launch of South Stream is not planned until 2015-2024, Vedomosti said, citing the latest draft of a gas sector development plan through 2030. The Russian Energy Ministry, which penned the draft, will submit it to the government by the end of August, Vedomosti quoted a ministry official as saying. Gazprom refused to comment. But with China already investing heavily in the two biggest energy suppliers in Central Asia, Turkmenistan and Kazakhstan, the Altai pipeline will be a white elephant, experts say - costly, fraught with environmental risks and ultimately useless. Russia agreed to build a gas pipeline to China as far back as 2002, but has haggled with Beijing over the gas price ever since. And the odds are that this will go on for quite some time, experts say. Russia wants to sell at European prices, something China is not going to consent to, as it is already getting cheap Central Asian gas. Gazprom's South Stream pipeline will run under the Black Sea through Turkish waters to Bulgaria, Serbia, Greece, Hungary, Slovenia, Croatia and Austria.

Source: Ria Novosti

Russia, Bulgaria to hold Burgas-Alexandroupolis talks Sept 8-9

MOSCOW, August 24 (RIA Novosti) - A Bulgarian delegation will hold talks in Moscow on September 8-9 on construction of the Burgas-Alexandroupolis oil pipeline, its joint project with Russia and Greece, Igor Dyomin, an official representative of Russia's oil pipeline monopoly Transneft, said on Tuesday. Bulgaria's Deputy Prime Minister Simeon Dyankov will head the delegation, Demin told RIA Novosti. "The Bulgarian officials will see a presentation of the Burgas-Alexandroupolis project," he said. Russia, Greece and Bulgaria signed a contract in 2007 on a joint construction of the Burgas-Alexandroupolis oil pipeline to bypass the busy Black Sea. The pipeline's capacity will be 35 million tons per annum with a possible expansion to 50 million tons. Its construction was complicated since Bulgaria formed a new cabinet headed by Boyko Borisov, who has made contradictory statements on energy projects with Russia, including a rejection of plans to participate in construction of Burgas-Alexandroupolis. In July, Bulgaria agreed to pay a 6.5 million euro contribution to the operating costs of the project, but its participation is still uncertain.

Source: Ria Novosti