

JOINT STOCK COMPANY LATVIJAS BALZAMS
(ENTERPRISE REGISTER NUMBER LV40003031873)

FIRST 6 MONTHS OF THE YEAR 2005

Riga, 2005

MANAGEMENT

Names and positions of Council members

Alexander Kovalev – Chairman of the Council

Pjotr Aven – Member of the Council

Vitolds Kokars – Member of the Council
Director for quality control of AS Latvijas balzams

Yury Shefler – Member of the Council (from 23 February 2004)

Alexey Oliynik – Member of the Council
(from 23 February 2004)

Juris Gulbis – Member of the Council (from 23 February 2004)

Names and positions of Board members

Rolands Gulbis – Chairman of the Board
General director of AS Latvijas balzams

Alexander Yernev – Member of the Board
Chief engineer of AS Latvijas balzams

Egils Dzerelis – Member of the Board
Director of logistics of AS Latvijas balzams

Sergey Limarenko – Member of the Board
Chief of internal security department of AS Latvijas balzams

Valizhan Abidov – member of the Board
(from 23 February 2004)

Reporting period

1 January – 30 June 2005

JSC “Latvijas balzams”

Management report

Field of activity

The enterprise was founded in 1900, but the actual name it has got since 1970. Today, JSC “Latvijas balzams” is a leading producer of alcoholic beverages. Totally, JSC “Latvijas balzams” produce more than 130 different alcoholic beverages. JSC “Latvijas balzams” major shareholder is “S.P.I. Distilleries. B. V.” which owns 6,600,745 shares or 88.05% of the company’s equity capital.

The activity of enterprise in half-year 2004

JSC “Latvijas balzams” is the biggest producer of alcoholic beverages in Latvia, as well as one of the largest taxpayers in Latvia. During first six month of 2005 JSC “Latvijas balzams” paid 13.9 millions lats to the state budget, including excise tax amounting to 10.8 millions lats.

The turnover of the company in the first six months 2005 was 32.5 millions lats, which is by 25.3% more than during first six months in 2004. The increase in turnover at local market for 14.3%, as compared to the same period in 2004, is explained by marketing activities and new products presented to the market. The substantial increase of sales is reached in export market. In comparison with 2004, the export market sales increased for 56.6%.

The profit for the reporting period was 662 thousands lats, which is by 62.7% more than during the first six months in 2004 (407 thousands lats). Earnings per share amounted to 8.84 santims. The increase of profit is mostly explained by changes in product range, as well as production expenses optimisation.

Future perspectives of activity

For the second half-year 2005 one of the JSC LB priorities is export expansion and production expenses optimisation. Special emphasize is set to Baltic States export, as well as for the EU countries. It’s planned to increase the export sales in such countries as Poland, Greece, Czech Republic, Scandinavian countries, and Slovak Republic. At the same time the target is to keep the leading position at local market.

JSC Latvijas balzams
Chairman of the Board

Rolands Gulbis

Income statement

	Notes	01.01.2005 - 30.06.2005 Ls	01.01.2004 - 30.06.2004 Ls
Net turnover	1	32 480 559	25 914 828
Cost of sales	2	(28 917 594)	(23 159 370)
Gross profit or loss		3 562 965	2 755 458
Distribution costs	3	(1 629 171)	(1 119 411)
Administrative expenses	4	(1 283 017)	(1 240 310)
Other operating income		259 736	417 497
Interest receivable and similar income		225 696	61 871
Interest payable and similar expenses		(295 743)	(347 108)
Profit or loss before taxes		840 466	527 997
Corporate income tax		(126 070)	(79 200)
Other taxes		(51 992)	(41 648)
Profit or loss for the reporting year		662 404	407 149
Earnings per share (in santims)		8.84	5.43

Rolands Gulbis
Chairman of the Executive Board

Balance sheet

		ASSETS	Notes	30.06.2005	30.06.2004
				LVL	LVL
NON-CURRENT ASSETS					
Intangible fixed assets					
		Concessions, patents, licences and similar rights		220 395	458 777
		Goodwill		-	(57 394)
	TOTAL			220 395	401 383
Tangible fixed assets					
		Land, buildings, constructions and perennial plants		7 477 443	7 418 210
		Equipment and machinery		3 267 103	3 981 787
		Other fixtures and fittings, tools and equipment		969 428	722 479
		Construction in progress		746 395	253 346
		Prepayments for tangible fixed assets		1 111 099	395 216
	TOTAL			13 571 468	12 771 038
Non-current financial assets					
		Investments in share capital of related companies		4 651	1 445
	TOTAL			4 651	1 445
		TOTAL NON-CURRENT ASSETS		13 796 514	13 173 866
CURRENT ASSETS					
Inventories					
		Raw materials		10 380 160	6 996 421
		Work in progress		679 827	782 127
		Finished goods and goods for resale		3 904 265	1 920 921
	TOTAL			14 964 252	9 699 469
Receivables					
		Trade receivables		6 054 515	2 711 625
		Receivables from related companies		4 005 978	4 855 822
		Other receivables		648 082	3 847 539
		Prepaid expense		121 326	84 013
	TOTAL			10 829 901	11 498 999
		Cash (TOTAL)		169 296	1 014 517
		TOTAL CURRENT ASSETS		25 963 449	22 212 985
		TOTAL ASSETS		39 759 963	35 386 851

 Rolands Gulbis
 Chairman of the Executive Board

EQUITY AND LIABILITIES

	Notes	30.06.2005 LVL	30.06.2004 LVL
CAPITAL AND RESERVES			
Share capital		7 496 900	7 496 900
Share premium		61 767	61 767
Non-current assets revaluation reserve		984 878	984 878
Reserves:			
unrealized gain from investment in subsidiary undertakings			
other reserves		1 249 047	1 249 047
merger reserve		(11 101 905)	(11 101 905)
Retained earnings:			
brought forward		15 886 958	15 065 338
for the period		662 404	407 149
	TOTAL EQUITY	15 240 049	14 163 174
PROVISIONS FOR LIABILITIES AND CHARGES			
Provisions for expected taxes		577 421	484 910
Other provisions		1 190 380	975 730
	TOTAL PROVISIONS FOR LIABILITIES AND CHARGES	1 767 801	1 460 640
LIABILITIES			
Non-current liabilities			
Loans from credit institutions		9 982 000	11 809 085
	TOTAL	9 982 000	11 809 085
Current liabilities			
Loans from credit institutions		1 526 183	1 343 415
Trade payables		3 888 238	2 236 331
Taxes payable		7 095 611	4 215 747
Other liabilities		254 846	153 224
Undrawn dividends of previous years		5 235	5 235
	TOTAL	12 770 113	7 953 952
	TOTAL LIABILITIES	22 752 113	19 763 037
TOTAL EQUITY AND LIABILITIES		39 759 963	35 386 851

Rolands Gulbis
 Chairman of the Executive Board

Cash flow statement

Notes	01.01.2005 - 30.06.2005 LVL	01.01.2004 - 30.06.2004 LVL
Cash flows to/ from operating activities		
Net profit or loss before extraordinary items and taxes	840 466	527 997
Adjustments for:		
Amortisation and depreciation	855 190	855 546
Interest income/expense	295 832	371 079
Increase/(decrease) in provisions	(2 052)	(148 399)
Operating profit or loss before working capital changes	1 989 436	1 606 223
(Increase)/decrease in inventories	(3 644 881)	(1 075 588)
(Increase)/decrease in receivables	2 348 741	747 919
Increase/(decrease) in payables	1 319 531	(370 489)
Cash generated from operations	2 012 827	908 065
Interest paid	(295 832)	(347 553)
Corporate income tax paid	(130 016)	(340 296)
Net cash flows to/ from operating activities	1 586 979	220 216
Cash flows to/ from investing activities		
Purchase of fixed assets	(1 404 493)	(607 199)
Net cash flows to/ from investing activities	(1 404 493)	(607 199)
Cash flows to/ from financing activities		
Net loans paid	(910 854)	1 228 670
Net cash flows to/ from financing activities	(910 854)	1 228 670
Change in cash and cash equivalents	(728 368)	841 687
Cash and cash equivalents at the beginning of the reporting year	897 664	172 830
Cash and cash equivalents at the end of the reporting year	169 296	1 014 517

Statement of changes in equity for six months period ended 30 June 2005

	Share capital	Share premium	Long-term investments revaluation reserve	Other reserves	Merger reserve	Retained earnings	Total
Balance as at 1 January 2005	7 496 900	61 767	984 878	1 249 047	(11 101 905)	15 886 958	14 577 645
Profit/loss for the reporting period						662 404	662 404
Balance as at 30 June 2005	7 496 900	61 767	984 878	1 249 047	(11 101 905)	16 549 362	15 240 049

1. Net sales

	01.01.2005 – 30.06.2005	01.01.2004 – 30.06.2004
Sales of drinks in local market	21 882 595	19 145 982
Export of drinks and services	10 595 328	6 765 491
Other sales (spirits, raw materials)	2 636	3 355
TOTAL:	32 480 559	25 914 828

2. Cost of sales

Variable costs	27 215 063	21 557 459
<i>Materials</i>	25 706 030	20 453 515
<i>Goods bought</i>	208 098	16 653
<i>Salary expenses</i>	686 400	516 656
<i>Social insurance</i>	164 908	124 093
<i>Electricity</i>	179 678	161 402
<i>Natural resources tax</i>	194 218	238 416
<i>Other expenses</i>	75 731	46 724
Fixed costs	1 702 531	1 601 911
<i>Depreciation and amortisation</i>	700 026	765 535
<i>Salary expenses</i>	357 056	335 670
<i>Social insurance</i>	85 297	80 246
<i>Repair expenses</i>	348 551	223 912
<i>Services for production needs</i>	36 926	33 266
<i>Insurance</i>	29 625	35 895
<i>Laboratory and quality maintenance expenses</i>	13 706	16 230
<i>Other expenses</i>	131 344	111 157
TOTAL:	28 917 594	23 159 370

3. Selling expenses

Salary expenses	390 822	354 516
Social insurance	93 920	85 275
Depreciation and amortisation	50 507	61 621
Advertising	640 823	336 608
Transportation cost	317 280	191 972
Warehouse maintenance	18 127	27 909
Other expenses	117 692	61 510
TOTAL:	1 629 171	1 119 411

4. Administrative expenses

	01.01.2005 – 30.06.2005	01.01.2004 – 30.06.2004
Salary expenses	389 835	364 784
Social insurance	90 636	86 736
Communication and postal expenses	93 021	75 227
Office expenses	29 775	46 980
Professional fees	51 283	72 248
IT maintenance	61 998	125 007
Representations	22 153	7 669
Security	100 283	95 636
Management services	79 742	70 953
Transportation	44 997	41 499
Business trip	29 546	16 449
Personnel education and training	6 933	5 390
Depreciation and amortisation	104 657	85 784
Financial help, sponsorship	46 006	7 353
Healthcare, health insurance	39 770	29 825
Other expenses	92 382	108 770
TOTAL:	1 283 017	1 240 310