

JOINT STOCK COMPANY LATVIJAS BALZAMS
(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS
FOR THE FIRST 6 MONTHS OF 2006

Riga, 2006

MANAGEMENT

Names and positions of Council members

Alexander Kovalev – Chairman of the Council

Vitolds Kokars – Chairman's of the Council Deputy

Pjotr Aven – Member of the Council

Andrey Skurikhin – Member of the Council

Alexey Oliynik – Member of the Council

Juris Gulbis – Member of the Council

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

Reporting period

1 January – 30 June 2006

AS “Latvijas balzams”

Management report

Field of activity

The enterprise was founded in 1900, but the actual name it has got since 1970. Today, LB is a leading producer of alcoholic beverages. Totally, AS “Latvijas balzams” produces more than 130 different kinds of alcoholic beverages. AS “Latvijas balzams” major shareholder is “S.P.I. Distilleries. B. V.” which owns 6,595,745 shares or 87.98% of the company equity capital.

The activity of enterprise in half-year 2006

AS “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 2006 LB paid 18.9 millions lats to the state budget, including excise tax amounting to 15.2 millions lats.

The turnover of the company in the first six months 2006 was 38.3 millions lats, which is by 18% more than during first six months in 2005. The increase in turnover at local market is 7% as compared to the same period in 2005. The substantial increase of sales is reached in export market. In comparison with 2005, the export market sales increased for 41%, or else for 4 286 thousands lats. During the first six months in 2006, the sales to the EU counties increased for 20%, in comparison with the same period in 2005. Sales to Lithuania and Estonia increased by 40% and 62% respectively, as compared to the same period in 2005. The prior markets are Baltic States, Poland and Scandinavia, meanwhile new export markets are being acquired.

The profit for the reporting period was 739 thousands lats, that’s 12% more than in the first six months in 2005 (662 thousands lats).

Future perspectives of activity

For the second half-year 2006 one of the AS “Latvijas balzams” priorities is export expansion. Special emphasize is set to Poland and Scandinavian countries.

AS Latvijas balzams
Chairman of the Board

Rolands Gulbis

Riga, 29 August, 2006

A/s Latvijas balzams

Address: A. Čaka iela 160, Rīga, LV-1012

Reg. number: LV40003031873



Rīga

29.08.2006

Declaration of Management Responsibility

Management of a company declares that in accordance with possessed information, presented condensed financial statements are prepared under actual laws and regulations and represent truthful and clear information on the company assets, equity, liabilities, financial situation and profit or loss.

Interim Management Report contains truthful information.

A/s "Latvijas balzams"
Chairman of the Board

Rolands Gulbis

Income statement for the period ended June 30, 2006

	Notes	01.01.2006 - 30.06.2006 Ls	01.01.2005 - 30.06.2005 Ls
Net turnover	1	38 312 783	32 480 559
Cost of sales	2	(33 934 456)	(28 917 594)
Gross profit or loss		4 378 327	3 562 965
Distribution costs	3	(1 907 197)	(1 629 171)
Administrative expenses	4	(1 767 791)	(1 283 017)
Other operating income		511 157	259 736
Interest receivable and similar income		169 242	225 696
Interest payable and similar expenses		(415 803)	(295 743)
Profit or loss before taxes		967 935	840 466
Corporate income tax		(145 190)	(126 070)
Other taxes		(83 822)	(51 992)
Profit or loss for the reporting year		738 922	662 404
Earnings per share (in santims)		9.86	2.09

Rolands Gulbis
Chairman of the Executive Board

Balance sheet as at June 30, 2006

		ASSETS	
	Notes	30.06.2006 LVL	30.06.2005 LVL
NON-CURRENT ASSETS			
Intangible fixed assets			
Concessions, patents, licences and similar rights		27 731	220 395
Goodwill			-
TOTAL		27 731	220 395
Tangible fixed assets			
Land, buildings, constructions and perennial plants		19 066 078	7 477 443
Equipment and machinery		2 856 940	3 267 103
Other fixtures and fittings, tools and equipment		881 970	969 428
Construction in progress		859 329	746 395
Prepayments for tangible fixed assets		512 443	1 111 099
TOTAL		24 176 759	13 571 468
Non-current financial assets			
Investments in share capital of related companies		3 909 000	4 651
TOTAL		3 909 000	4 651
TOTAL NON-CURRENT ASSETS		28 113 490	13 796 514
CURRENT ASSETS			
Inventories			
Raw materials		11 983 959	10 380 160
Work in progress		631 911	679 827
Finished goods and goods for resale		5 229 036	3 904 265
TOTAL		17 888 998	14 964 252
Receivables			
Trade receivables		7 403 137	6 054 515
Receivables from related companies		19 414 027	4 005 978
Other receivables		90 117	648 082
Prepaid expense		151 082	121 326
TOTAL		27 058 363	10 829 901
Cash (TOTAL)		264 612	169 296
TOTAL CURRENT ASSETS		45 211 973	25 963 449
TOTAL ASSETS		73 325 463	39 759 963

Rolands Gulbis
Chairman of the Executive Board

EQUITY AND LIABILITIES

	Notes	30.06.2006 LVL	30.06.2005 LVL
CAPITAL AND RESERVES			
Share capital		7 496 900	7 496 900
Share premium		61 767	61 767
Non-current assets revaluation reserve		13 404 396	984 878
Reserves:			
unrealized gain from investment in subsidiary undertakings			
other reserves		1 249 000	1 249 047
merger reserve		(11 101 905)	(11 101 905)
Retained earnings:			
brought forward		18 085 535	15 886 958
for the period		738 922	662 404
TOTAL EQUITY		29 934 615	15 240 049
PROVISIONS FOR LIABILITIES AND CHARGES			
Provisions for expected taxes		1 336 000	577 421
Other provisions		1 493 465	1 190 380
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES		2 829 465	1 767 801
LIABILITIES			
Non-current liabilities			
Loans from credit institutions		17 118 131	9 982 000
TOTAL		17 118 131	9 982 000
Current liabilities			
Loans from credit institutions		10 566 268	1 526 183
Trade payables		4 350 700	3 888 238
Taxes payable		8 109 852	7 095 611
Other liabilities		263 431	254 846
Undrawn dividends of previous years		5 235	5 235
TOTAL		23 443 252	12 770 113
TOTAL LIABILITIES		40 561 383	22 752 113
TOTAL EQUITY AND LIABILITIES		73 325 463	39 759 963

Rolands Gulbis
Chairman of the Executive Board

Cash flow statement for the period ended June 30, 2006

Notes	01.01.2006 - 30.06.2006 LVL	01.01.2005 - 30.06.2005 LVL
Cash flows to/ from operating activities		
Net profit or loss before extraordinary items and taxes	967 935	840 466
Adjustments for:		
Amortisation and depreciation	1 019 263	855 190
Interest income/expense	415 803	295 832
Increase/(decrease) in provisions	379	(2 052)
Gain/loss on disposal of fixed assets	365 634	
Operating profit or loss before working capital changes	2 769 014	1 989 436
(Increase)/decrease in inventories	(5 120 601)	(3 644 881)
(Increase)/decrease in receivables	(7 099 059)	2 348 741
Increase/(decrease) in payables	(7 452 300)	1 319 531
Cash generated from operations	(16 902 946)	2 012 827
Interest paid	(416 361)	(295 832)
Dividends paid	(179 927)	
Corporate income tax paid	(706 080)	(130 016)
Net cash flows to/ from operating activities	(18 205 314)	1 586 979
Cash flows to/ from investing activities		
Purchase of fixed assets	(688 851)	(1 404 493)
Acquisition of subsidiary	(500 000)	
Net cash flows to/ from investing activities	(1 188 851)	(1 404 493)
Cash flows to/ from financing activities		
Net loans paid	18 752 591	(910 854)
Net cash flows to/ from financing activities	18 752 591	(910 854)
Change in cash and cash equivalents	(641 574)	(728 368)
Cash and cash equivalents at the beginning of the reporting year	906 186	897 664
Cash and cash equivalents at the end of the reporting year	264 612	169 296

Statement of changes in equity for the period ended June 30, 2006

	Share capital	Share premium	Long-term investments revaluation reserve	Other reserves	Merger reserve	Retained earnings	Total
Balance as at 1 January 2006	7 496 900	61 767	5 334 638	1 249 047	(11 101 905)	18 265 462	21 305 909
Profit/loss for the reporting period			8 069 758	(47)		738 922	8 808 633
Dividends paid from the previous year's profit						(179 927)	(179 927)
Balance as at 30 June 2006	7 496 900	61 767	13 404 396	1 249 000	(11 101 905)	18 824 457	29 934 615

A/s Latvijas balzams

Address: A. Čaka iela, Rīga, LV-1012

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**1. Net sales**

	01.01.2006 – 30.06.2006	01.01.2005 – 30.06.2005
Sales of drinks in local market	23 428 595	21 882 595
Export of drinks and services	14 881 481	10 595 328
Other sales (spirits, raw materials)	2 707	2 636
TOTAL:	38 312 783	32 480 559

2. Cost of sales

Variable costs	32 051 277	27 215 063
<i>Materials</i>	29 126 317	25 706 030
<i>Goods bought</i>	122 306	208 098
<i>Salary expenses</i>	924 306	686 400
<i>Social insurance</i>	221 867	164 908
<i>Electricity</i>	221 556	179 678
<i>Natural resources tax</i>	186 549	194 218
<i>Other expenses</i>	1 248 376	75 731
Fixed costs	1 883 179	1 702 531
<i>Depreciation and amortisation</i>	745 907	700 026
<i>Salary expenses</i>	435 629	357 056
<i>Social insurance</i>	103 912	85 297
<i>Repair expenses</i>	361 169	348 551
<i>Services for production needs</i>	31 930	36 926
<i>Insurance</i>	29 594	29 625
<i>Laboratory and quality maintenance expenses</i>	17 719	13 706
<i>Other expenses</i>	157 319	131 344
TOTAL:	33 934 456	28 917 594

3. Selling expenses

Salary expenses	534 397	390 822
Social insurance	128 403	93 920
Depreciation and amortisation	119 578	50 507
Advertising	397 420	640 823
Transportation cost	520 665	317 280
Warehouse maintenance	32 064	18 127
Other expenses	174 670	117 692
TOTAL:	1 907 197	1 629 171

4. Administrative expenses

	01.01.2006 – 30.06.2006	01.01.2005– 30.06.2005
Salary expenses	455 171	389 835
Social insurance	99 113	90 636
Communication and postal expenses	90 108	93 021
Office expenses	43 319	29 775
Professional fees	40 470	51 283
IT maintenance	89 425	61 998
Representations	102 558	22 153
Security	85 176	100 283
Management services	158 707	79 742
Transportation	66 670	44 997
Business trip	41 221	29 546
Personnel education and training	2 053	6 933
Depreciation and amortisation	153 778	104 657
Financial help, sponsorship	85 604	46 006
Healthcare, health insurance	31 373	39 770
Other expenses	223 045	92 382
TOTAL:	1 767 791	1 283 017