

**JOINT STOCK COMPANY LATVIJAS BALZAMS**  
(ENTERPRISE REGISTER NUMBER LV40003031873)

**CONDENSED FINANCIAL STATEMENTS** *(not audited)*  
**FOR THE FIRST 12 MONTHS OF 2006**  
*PREPARED UNDER LATVIAN ACCOUNTING STANDARDS*

**Riga, 2007**

## 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 – 31 December 2006

## **AS “Latvijas balzams”**

### **Management report**

#### **Field of activity**

AS “Latvijas balzams” LB is a leading producer of alcoholic beverages in Baltics and one of the largest taxpayers in Latvia. 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 88.05% of the company equity capital.

#### **The activity of the company in 2006**

The turnover of the company in 2006 was 89 million lats, which is by 13% more than 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 respective activity in 2005, the export market sales increased by 26% or 6,4 million lats. The prior export sales markets have been Baltic States, Poland and Scandinavia. At the same time new export sales markets have been developed and export sales have been made to Kirghizstan, Finland and China. As started at the beginning of the year successful sales of the company have been made in the shops of various ferry lines.

During 2006 AS “Latvijas balzams” has paid 42,5 million lats in tax, including excise tax amounting to 31,6 million lats.

The unaudited profit for the reporting period was 2,41 million lats.

#### **Future prospects**

During 2007 one of the AS “Latvijas balzams” priorities will be export sales expansion and marketing of new sales areas.

The company has started feasibility study in order to evaluate possibility to move its production facilities located in Riga, A.Briana iela 7 and A.Briana iela 9 to new location outside central part of Riga city.

AS Latvijas balzams  
Chairman of the Board

Rolands Gulbis

Riga, 28 February, 2007

A/s Latvijas balzams  
Address: A. Čaka iela 160, Rīga, LV-1012  
Reg. number: LV40003031873



Rīga  
28.02.2007

### **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.

Management Report contains truthful information.

A/s "Latvijas balzams"  
Chairman of the Board

Rolands Gulbis

## Income statement for the period ended December 31, 2006

	Notes	01.01.2006 - 31.12.2006 EUR	01.01.2005 - 31.12.2005 EUR
Net turnover	1	126 555 573	111 686 389
Cost of sales	2	(110 799 615)	(96 976 342)
<b>Gross profit or loss</b>		<b>15 755 958</b>	<b>14 710 047</b>
Distribution costs	3	(6 835 738)	(5 467 806)
Administrative expenses	4	(7 303 369)	(5 616 465)
Other operating income		1 637 005	1 458 374
Other operating expense			-
Income from investments in subsidiaries and associates		1 726 558	97 396
Interest receivable and similar income		816 848	205 854
Interest payable and similar expenses		(1 464 434)	(930 736)
<b>Profit or loss before taxes</b>		<b>4 332 829</b>	<b>4 456 664</b>
Corporate income tax		(649 924)	(871 287)
Other taxes		(249 762)	(197 058)
<b>Profit or loss for the reporting year</b>		<b>3 433 142</b>	<b>3 388 319</b>
Earnings per share (in eurocents)		45.79	45.20

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Rolands Gulbis  
Chairman of the Executive Board

## Balance sheet as at December 31, 2006

### ASSETS

	31.12.2006 EUR	31.12.2005 EUR
<b>NON-CURRENT ASSETS</b>		
<b>Intangible fixed assets</b>		
Concessions, patents, licences and similar rights	13 977	166 172
Goodwill		-
TOTAL	<b>13 977</b>	<b>166 172</b>
<b>Tangible fixed assets</b>		
Land, buildings, constructions and perennial plants	26 828 937	17 394 524
Equipment and machinery	3 811 403	4 491 420
Other fixtures and fittings, tools and equipment	1 242 414	1 506 397
Construction in progress	458 377	4 358 495
Prepayments for tangible fixed assets	123 063	881 603
TOTAL	<b>32 464 194</b>	<b>28 632 439</b>
<b>Non-current financial assets</b>		
Investments in share capital of related companies		-
TOTAL	-	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>32 478 171</b>	<b>28 798 611</b>
<b>CURRENT ASSETS</b>		
<b>Inventories</b>		
Raw materials	15 100 557	12 247 948
Work in progress	967 011	1 049 180
Finished goods and goods for resale	5 319 767	4 124 494
Work in progress for third parties	-	-
Prepayments for goods	50 867	-
TOTAL	<b>21 438 202</b>	<b>17 421 623</b>
<b>Receivables</b>		
Trade receivables	16 488 665	15 833 700
Receivables from related companies	27 318 173	11 535 999
Other receivables	208 856	578 229
Prepaid expense	196 108	149 902
TOTAL	<b>44 211 803</b>	<b>28 097 831</b>
Cash (TOTAL)	147 562	1 289 387
<b>TOTAL CURRENT ASSETS</b>	<b>65 797 568</b>	<b>46 808 840</b>
<b>TOTAL ASSETS</b>	<b>98 275 739</b>	<b>75 607 451</b>

Rolands Gulbis  
 Chairman of the Executive Board

## EQUITY AND LIABILITIES

	31.12.2006	31.12.2005
	EUR	EUR
<b>CAPITAL AND RESERVES</b>		
Share capital	10 667 128	10 667 128
Share premium	87 887	87 887
Non-current assets revaluation reserve	19 072 737	7 590 506
Reserves:	-	-
unrealized gain from investment in subsidiary undertakings	-	-
other reserves	1 777 234	1 777 234
merger reserve	(15 796 588)	(15 796 588)
Retained earnings:	-	-
brought forward	25 733 398	22 601 092
for the period	3 433 142	3 388 319
<b>TOTAL EQUITY</b>	<b>44 974 938</b>	<b>30 315 577</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		
Provisions for expected taxes	1 900 999	1 900 999
Other provisions	2 730 430	1 076 495
<b>TOTAL PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>4 631 429</b>	<b>2 977 494</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Loans from credit institutions	18 472 466	12 708 818
<b>TOTAL</b>	<b>18 472 466</b>	<b>12 708 818</b>
<b>Current liabilities</b>		
Loans from credit institutions	10 098 599	6 278 987
Prepayments received from customers	-	-
Trade payables	7 211 230	9 661 302
Taxes payable	12 066 482	13 378 928
Other liabilities	813 146	278 894
Undrawn dividends of previous years	7 449	7 449
<b>TOTAL</b>	<b>30 196 905</b>	<b>29 605 560</b>
<b>TOTAL LIABILITIES</b>	<b>48 669 372</b>	<b>42 314 378</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>98 275 739</b>	<b>75 607 451</b>

Rolands Gulbis  
 Chairman of the Executive Board

## Cash flow statement for the period ended December 31, 2006

	01.01.2006 - 31.12.2006 EUR	01.01.2005 - 31.12.2005 EUR
<b>Cash flows to/ from operating activities</b>		
Net profit or loss before extraordinary items and taxes	4 332 828	5 639 954
Adjustments for:	-	
Amortisation and depreciation	2 777 245	2 575 425
Interest income/expense	1 464 434	784 017
Increase/(decrease) in provisions	652 705	315 270
Gain/loss on disposal of fixed assets	542 356	308 067
<b>Operating profit or loss before working capital changes</b>	<b>9 769 569</b>	<b>9 622 733</b>
(Increase)/decrease in inventories	(3 376 287)	(2 061 778)
(Increase)/decrease in receivables	10 870 645	(5 751 932)
Increase/(decrease) in payables	1 876 813	7 857 929
<b>Cash generated from operations</b>	<b>19 140 740</b>	<b>9 666 951</b>
Interest paid	(1 440 353)	(837 828)
Dividends paid	(256 013)	
Corporate income tax paid	(1 742 768)	(216 006)
<b>Net cash flows to/ from operating activities</b>	<b>15 701 606</b>	<b>8 613 117</b>
<b>Cash flows to/ from investing activities</b>		
Purchase of fixed assets	(3 600 742)	(4 677 677)
Acquisition of subsidiary	(1 422 872)	99 999
<b>Net cash flows to/ from investing activities</b>	<b>(5 023 614)</b>	<b>(4 577 677)</b>
<b>Cash flows to/ from financing activities</b>		
Net loans paid	(11 819 816)	(4 023 314)
<b>Net cash flows to/ from financing activities</b>	<b>(11 819 816)</b>	<b>(4 023 314)</b>
<b>Change in cash and cash equivalents</b>	<b>(1 141 824)</b>	<b>12 126</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>	<b>1 289 387</b>	<b>1 277 261</b>
<b>Cash and cash equivalents at the end of the reporting year</b>	<b>147 562</b>	<b>1 289 387</b>



## Statement of changes in equity for the period ended December 31, 2006

	Share capital	Share premium	Long-term investments revaluation reserve	Other reserves	Merger reserve	Retained earnings	Total
<b>Balance as at 1 January 2005</b>	10 667 128	87 887	1 401 355	1 777 234	(15 796 588)	22 605 105	20 742 120
Profit/loss for the reporting period	-	-	6 189 151	-	-	3 384 306	9 573 457
Dividends paid from the previous year's profit							-
<b>Balance as at 31 December 2005</b>	<b>10 667 128</b>	<b>87 887</b>	<b>7 590 506</b>	<b>1 777 234</b>	<b>(15 796 588)</b>	<b>25 989 411</b>	<b>30 315 577</b>
<b>Balance as at 1 January 2006</b>	<b>10 667 128</b>	<b>87 887</b>	<b>7 590 507</b>	<b>1 777 234</b>	<b>(15 796 588)</b>	<b>25 989 411</b>	<b>30 315 578</b>
Profit/loss for the reporting period			11 482 231	-	-	3 433 142	14 915 373
Dividends paid from the previous year's profit			-	-	-	(256 013)	(256 013)
<b>Balance as at 31 December 2006</b>	<b>10 667 128</b>	<b>87 887</b>	<b>19 072 738</b>	<b>1 777 234</b>	<b>(15 796 588)</b>	<b>29 166 540</b>	<b>44 974 937</b>

### 1. Net sales

	01.01.2006 – 31.12.2006	01.01.2005 – 31.12.2005
Sales of drinks in local market	81 784 187	76 163 176
Export of drinks and services	44 734 566	35 505 516
Other sales (spirits, raw materials)	36 820	17 696
<b>TOTAL:</b>	<b>126 555 573</b>	<b>111 686 389</b>

### 2. Cost of sales

Variable costs	105 246 118	91 917 755
<i>Materials</i>	100 032 934	87 101 768
<i>Goods bought</i>	479 057	545 333
<i>Salary expenses</i>	2 696 493	2 133 576
<i>Social insurance</i>	647 677	512 794
<i>Electricity</i>	694 758	518 943
<i>Natural resources tax</i>	966 582	757 047
<i>Other expenses</i>	-271 379	348 293
Fixed costs	5 553 496	5 058 587
<i>Depreciation and amortisation</i>	1 996 668	2 022 755
<i>Salary expenses</i>	1 258 926	1 040 190
<i>Social insurance</i>	298 516	246 463
<i>Repair expenses</i>	1 233 970	1 196 378
<i>Services for production needs</i>	94 910	145 580
<i>Insurance</i>	89 134	87 942
<i>Laboratory and quality maintenance expenses</i>	60 836	49 524
<i>Other expenses</i>	520 536	269 755
<b>TOTAL:</b>	<b>110 799 615</b>	<b>96 976 342</b>

### 3. Selling expenses

Salary expenses	1 562 793	1 181 668
Social insurance	374 271	283 988
Depreciation and amortisation	345 065	207 523
Advertising	2 718 486	2 428 088
Transportation cost	1 279 209	947 002
Warehouse maintenance	114 222	79 638
Other expenses	441 692	339 898
<b>TOTAL:</b>	<b>6 835 738</b>	<b>5 467 806</b>

#### 4. Administrative expenses

	01.01.2006 – 31.12.2006	01.01.2005– 31.12.2005
Salary expenses	1 652 217	1 135 924
Social insurance	261 722	206 520
Communication and postal expenses	346 964	302 581
Office expenses	154 565	132 563
Professional fees	228 169	272 612
IT maintenance	375 763	422 880
Representations	303 762	127 854
Security	235 327	282 951
Management services	1 125 894	1 460 797
Transportation	181 342	149 892
Business trip	104 587	118 084
Personnel education and training	15 206	14 937
Depreciation and amortisation	435 513	345 147
Financial help, sponsorship	268 140	144 999
Healthcare, health insurance	97 874	76 947
Other expenses	1 516 323	421 775
<b>TOTAL:</b>	<b>7 303 369</b>	<b>5 616 465</b>