

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

**CONDENSED FINANCIAL STATEMENTS** *(not audited)*  
**FOR THE 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	01.01.2005 - 31.12.2005
		Ls	Ls
Net turnover	1	88 943 763	78 493 641
Cost of sales	2	(77 870 412)	(68 155 361)
<b>Gross profit or loss</b>		<b>11 073 350</b>	<b>10 338 280</b>
Distribution costs	3	(4 804 184)	(3 842 796)
Administrative expenses	4	(5 132 837)	(3 947 274)
Other operating income		1 150 493	1 024 951
Other operating expense			-
Income from investments in subsidiaries and associates		1 213 432	68 450
Interest receivable and similar income		574 084	144 675
Interest payable and similar expenses		(1 029 210)	(654 125)
<b>Profit or loss before taxes</b>		<b>3 045 130</b>	<b>3 132 161</b>
Corporate income tax		(456 769)	(612 344)
Other taxes		(175 534)	(138 493)
<b>Profit or loss for the reporting year</b>		<b>2 412 826</b>	<b>2 381 324</b>
Earnings per share (in santims)		32.18	31.76

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Rolands Gulbis  
Chairman of the Executive Board

## Balance sheet as at December 31, 2006

### ASSETS

	31.12.2006 LVL	31.12.2005 LVL
<b>NON-CURRENT ASSETS</b>		
<b>Intangible fixed assets</b>		
Concessions, patents, licences and similar rights	9 823	116 786
Goodwill		-
TOTAL	<b>9 823</b>	<b>116 786</b>
<b>Tangible fixed assets</b>		
Land, buildings, constructions and perennial plants	18 855 484	12 224 941
Equipment and machinery	2 678 669	3 156 588
Other fixtures and fittings, tools and equipment	873 173	1 058 702
Construction in progress	322 149	3 063 168
Prepayments for tangible fixed assets	86 489	619 594
TOTAL	<b>22 815 965</b>	<b>20 122 993</b>
<b>Non-current financial assets</b>		
Investments in share capital of related companies		-
TOTAL	-	-
<b>TOTAL NON-CURRENT ASSETS</b>	<b>22 825 789</b>	<b>20 239 779</b>
<b>CURRENT ASSETS</b>		
<b>Inventories</b>		
Raw materials	10 612 732	8 607 907
Work in progress	679 619	737 368
Finished goods and goods for resale	3 738 754	2 898 711
Work in progress for third parties		
Prepayments for goods	35 750	
TOTAL	<b>15 066 854</b>	<b>12 243 986</b>
<b>Receivables</b>		
Trade receivables	11 588 300	11 127 988
Receivables from related companies	19 199 322	8 107 546
Other receivables	146 785	406 382
Prepaid expense	137 826	105 352
TOTAL	<b>31 072 232</b>	<b>19 747 268</b>
Cash (TOTAL)	103 707	906 186
<b>TOTAL CURRENT ASSETS</b>	<b>46 242 794</b>	<b>32 897 440</b>
<b>TOTAL ASSETS</b>	<b>69 068 582</b>	<b>53 137 219</b>

Rolands Gulbis  
 Chairman of the Executive Board

## EQUITY AND LIABILITIES

	31.12.2006	31.12.2005
	LVL	LVL
<b>CAPITAL AND RESERVES</b>		
Share capital	7 496 900	7 496 900
Share premium	61 767	61 767
Non-current assets revaluation reserve	13 404 396	5 334 638
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	18 085 535	15 884 138
for the period	2 412 826	2 381 324
<b>TOTAL EQUITY</b>	<b>31 608 566</b>	<b>21 305 909</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>		
Provisions for expected taxes	1 336 030	1 336 030
Other provisions	1 918 957	756 565
<b>TOTAL PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>3 254 987</b>	<b>2 092 595</b>
<b>LIABILITIES</b>		
<b>Non-current liabilities</b>		
Loans from credit institutions	12 982 523	8 931 808
<b>TOTAL</b>	<b>12 982 523</b>	<b>8 931 808</b>
<b>Current liabilities</b>		
Bonds issued		
Loans convertible into shares		
Loans from credit institutions	7 097 336	4 412 897
Other loans		
Prepayments received from customers		
Trade payables	5 068 082	6 790 002
Bills of exchange payable		
Payables to related companies		
Payables to associates		
Taxes payable	8 480 372	9 402 764
Other liabilities	571 482	196 008
Deferred income		
Dividends for the reporting year		
Undrawn dividends of previous years	5 235	5 235
Accrued liabilities		
<b>TOTAL</b>	<b>21 222 506</b>	<b>20 806 906</b>
<b>TOTAL LIABILITIES</b>	<b>34 205 029</b>	<b>29 738 714</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>69 068 582</b>	<b>53 137 219</b>

Rolands Gulbis  
 Chairman of the Executive Board

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

	01.01.2006 - 31.12.2006 LVL	01.01.2005 - 31.12.2005 LVL
<b>Cash flows to/ from operating activities</b>		
Net profit or loss before extraordinary items and taxes	3 045 129	3 963 782
Adjustments for:		
Amortisation and depreciation	1 951 859	1 810 019
Interest income/expense	1 029 210	551 010
Increase/(decrease) in provisions	458 724	221 573
Gain/loss on disposal of fixed assets	381 170	216 511
<b>Operating profit or loss before working capital changes</b>	<b>6 866 092</b>	<b>6 762 895</b>
(Increase)/decrease in inventories	(2 372 868)	(1 449 026)
(Increase)/decrease in receivables	7 639 933	(4 042 481)
Increase/(decrease) in payables	1 319 031	5 522 584
<b>Cash generated from operations</b>	<b>13 452 188</b>	<b>6 793 972</b>
Interest paid	(1 012 286)	(588 829)
Dividends paid	(179 927)	
Corporate income tax paid	(1 224 824)	(151 810)
<b>Net cash flows to/ from operating activities</b>	<b>11 035 151</b>	<b>6 053 333</b>
<b>Cash flows to/ from investing activities</b>		
Purchase of fixed assets	(2 530 616)	(3 287 490)
Acquisition of subsidiary	(1 000 000)	70 280
<b>Net cash flows to/ from investing activities</b>	<b>(3 530 616)</b>	<b>(3 217 210)</b>
<b>Cash flows to/ from financing activities</b>		
Net loans paid	(8 307 014)	(2 827 601)
<b>Net cash flows to/ from financing activities</b>	<b>(8 307 014)</b>	<b>(2 827 601)</b>
<b>Change in cash and cash equivalents</b>	<b>(802 479)</b>	<b>8 522</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>	<b>906 186</b>	<b>897 664</b>
<b>Cash and cash equivalents at the end of the reporting year</b>	<b>103 707</b>	<b>906 186</b>



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

<b>Balance as at 1 January 2005</b>	<b>7 496 900</b>	<b>61 767</b>	<b>984 878</b>	<b>1 249 047</b>	<b>(11 101 905)</b>	<b>15 886 958</b>	<b>14 577 645</b>
Profit/loss for the reporting period			4 349 760			2 378 504	6 728 264
Dividends paid from the previous year's profit							-
<b>Balance as at 31 December 2005</b>	<b>7 496 900</b>	<b>61 767</b>	<b>5 334 638</b>	<b>1 249 047</b>	<b>(11 101 905)</b>	<b>18 265 462</b>	<b>21 305 909</b>
<b>Balance as at 1 January 2006</b>	<b>7 496 900</b>	<b>61 767</b>	<b>5 334 638</b>	<b>1 249 047</b>	<b>(11 101 905)</b>	<b>18 265 462</b>	<b>21 305 909</b>
Profit/loss for the reporting period			8 069 758			2 412 826	10 482 584
Dividends paid from the previous year's profit						(179 927)	(179 927)
<b>Balance as at 31 December 2006</b>	<b>7 496 900</b>	<b>61 767</b>	<b>13 404 396</b>	<b>1 249 047</b>	<b>(11 101 905)</b>	<b>20 498 361</b>	<b>31 608 566</b>

### 1. Net sales

	01.01.2006 – 31.12.2006	01.01.2005 – 31.12.2005
Sales of drinks in local market	57 478 254	53 527 785
Export of drinks and services	31 439 632	24 953 419
Other sales (spirits, raw materials)	25 877	12 437
<b>TOTAL:</b>	<b>88 943 763</b>	<b>50 346 884</b>

### 2. Cost of sales

Variable costs	73 967 393	64 600 166
<i>Materials</i>	70 303 546	61 215 471
<i>Goods bought</i>	336 683	383 262
<i>Salary expenses</i>	1 895 106	1 499 486
<i>Social insurance</i>	455 190	360 394
<i>Electricity</i>	488 279	364 715
<i>Natural resources tax</i>	679 318	532 056
<i>Other expenses</i>	-190 726	244 782
Fixed costs	3 903 019	3 555 195
<i>Depreciation and amortisation</i>	1 403 266	1 421 600
<i>Salary expenses</i>	884 778	731 050
<i>Social insurance</i>	209 798	173 215
<i>Repair expenses</i>	867 239	840 819
<i>Services for production needs</i>	66 703	102 314
<i>Insurance</i>	62 644	61 806
<i>Laboratory and quality maintenance expenses</i>	42 756	34 806
<i>Other expenses</i>	365 835	189 585
<b>TOTAL:</b>	<b>77 870 412</b>	<b>68 155 361</b>

### 3. Selling expenses

Salary expenses	1 098 337	830 481
Social insurance	263 039	199 588
Depreciation and amortisation	242 513	145 848
Advertising	1 910 563	1 706 470
Transportation cost	899 033	665 557
Warehouse maintenance	80 276	55 970
Other expenses	310 423	238 882
<b>TOTAL:</b>	<b>4 804 184</b>	<b>3 842 796</b>

#### 4. Administrative expenses

	01.01.2006 – 31.12.2006	01.01.2005– 31.12.2005
Salary expenses	1 161 185	798 332
Social insurance	183 939	145 143
Communication and postal expenses	243 848	212 655
Office expenses	108 629	93 166
Professional fees	160 358	191 593
IT maintenance	264 088	297 202
Representations	213 485	89 856
Security	165 389	198 859
Management services	791 283	1 026 654
Transportation	127 448	105 345
Business trip	73 504	82 990
Personnel education and training	10 687	10 498
Depreciation and amortisation	306 080	242 571
Financial help, sponsorship	188 450	101 906
Healthcare, health insurance	68 786	54 079
Other expenses	1 065 678	296 425
<b>TOTAL:</b>	<b>5 132 837</b>	<b>3 947 274</b>