

AS LATVIJAS BALZAMS
ANNUAL REPORT FOR THE YEAR ENDED
31 DECEMBER 2007

Translation from the original in Latvian

AS LATVIJAS BALZAMS
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

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MANAGEMENT

Names and offices of members of the Council	Aleksandrs Kovaļevs – Chairman of the Council
	Pjotrs Avens – Member of the Council
	Vitolds Kokars – Vice Chairman of the Council
	Aleksejs Oļiniks – Member of the Council
	Brian Andrew Dublin– Member of the Council (from 15 May 2007)
	Andrejs Skurihins – Member of the Council
Names and offices of members of the Board	Rolands Gulbis– Chairman of the Board, Director General of JSC Latvijas balzams
	Aleksandrs Jerņevs – Member of the Board, Chief Engineer of JSC Latvijas balzams
	Egils Dzerelis – Member of the Board, Director of Logistics of JSC Latvijas balzams
	Sergejs Ļimarenko – Member of the Board, Chief of Internal Security Department of JSC Latvijas balzams
	Valižans Abidovs – Member of the Board

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Report of the Management

Type of operations

JSC Latvijas balzams (hereinafter referred to as the Company) is the largest manufacturer of alcoholic drinks in the Baltic States, which range of products include more than 120 different names of alcoholic drinks.

Performance of the Company during the reporting year

The year 2007 was successful for the Company because the planned goals have been achieved. Turnover of the Company was 69 million Lats (98.23 million EUR), profit of the reporting year – 3.3 million Lats (4.7 million EUR). Turnover growth in the local market was 20.1%, in comparison with 2006. Considerable sales growth was achieved in the export market. As against the year 2006, export sales grew by 14.6% or by 4.6 million Lats (6.5 million EUR). The key export directions this year have been the Baltic States, Poland and Scandinavian countries. At the same time, new export markets have been conquered and export of products commenced to a lot of new countries – Portugal, Armenia, Finland, China, Belgium and Italy. Sale of JSC Latvijas balzams products in shops on ferry lines continued during the year.

Profit for the reporting year was influenced by the increase in key production costs, inflation growth in Latvia, negative fluctuations of USD exchange rate.

Last year JSC Latvijas balzams transferred to the state budget as taxes 48.9 million Lats (69.6 million EUR), including 37.6 million Lats (53.5 million EUR) as excise tax.

Average number of employees in 2007 was 808 with an average monthly gross salary of 650 Lats (924 EUR).

Distribution of the profit proposed by the Board

The Board does not propose to distribute the dividends.

Future prospects

One of the priorities of JSC Latvijas balzams for the year 2008 will be promotion of export sales, new export market development as well as control of production costs and improvement of efficiency under decrease in economic development. At the same time, one of the goals is to keep the leading position in the local market.

Management

In 2007 management of the Company underwent changes. Composition of the Management is presented on page 3.

Responsibility of the Management for these Financial Statements

The Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards as adopted the EU. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 8 to page 35 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent except for the accounting of land at revalued amount. The Management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the Company's assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

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Report of the Member (continued)

Post balance sheet events

During the period between the last day of the financial year and the date of signing of this report there have been no significant events that would have a material effect on the year-end results.

Auditors

The audit of the financial statements included on pages 8 to 37 was performed by the audit firm MRI Revision Ltd. in accordance with the International Auditing Standards.

For and on behalf of the Management of JSC Latvijas balzams:

Rolands Gulbis
Chairman of the Board

14 April 2008

MRI Revision

KRONVALDA BULV. 10-32
RIGA, LV-1010, LATVIA
TEL: +371 6732 1000
FAX: +371 6732 4444
EMAIL: mri@revision.lv
www.mrirevision.lv

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Latvijas Balzams AS

Report on the Financial Statements

We have audited the accompanying financial statements of Latvijas Balzams AS (the Company) included in the Annual report as set out on pages 8 to 37. The period of financial statements is from 1 January 2007 till 31 December 2007 (the Financial year). These financial statements include the balance sheet as at 31 December 2007, and the income statement, cash flow statement, statement of changes in equity for the Financial year, and summary of significant accounting policy and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the above mentioned financial statements give a true and fair view of the financial position of the Company as at the end of the Financial year, and of its financial performance and cash flow for the Financial year in accordance with International Financial Reporting Standards as adopted by European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report for the Financial year as set on pages 4 and 5 and did not identify material inconsistencies of the financial information presented in the Management Report and that contained in the financial statements.

MRI Revision SIA
Certified auditors' company
License No. 80

Eriks Bahirs
Certified Auditor
Certificate No.136
Chairman of the Board

Riga, 29 April 2008

This report is English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

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Balance sheet as at 31 December 2007

	Notes	31.12.2007 LVL	31.12.2007 EUR	31.12.2006 LVL	31.12.2006 EUR
<u>Assets</u>					
Non-current assets					
Property, plant and equipment	3	23,221,084	33,040,626	22,815,965	32,464,193
Intangible assets	4	5,563	7,916	9,823	13,977
Other securities and investments		24,000	34,150	24,000	34,149
Loans to related parties	27(h)	27,128,234	38,600,000	14,477,762	20,600,000
		50,378,881	71,682,692	37,327,550	53,112,319
Current assets					
Inventories	5	17,863,268	25,417,140	14,582,063	20,748,406
Trade receivables	6	398,917	567,607	8,753,504	12,455,114
Receivables from related parties	27(g)	24,103,830	34,296,661	7,646,440	10,879,904
Loans to related parties	27(h)	-	-	101,063	143,800
Other current assets	7	401,572	571,385	674,304	959,448
Corporate income tax	21	-	-	28,348	40,336
Cash and cash equivalents	8	87,837	124,980	79,707	113,413
		42,855,424	60,977,773	31,865,429	45,340,421
Total assets		93,234,305	132,660,465	69,192,979	98,452,740
<u>Equity</u>					
Share capital	9	7,496,900	10,667,128	7,496,900	10,667,128
Share premium		61,767	87,887	61,767	87,887
Revaluation reserve	3	12,193,932	17,350,402	12,193,932	17,350,402
Other reserves		-	-	-	-
Merger reserve		-	-	-	-
Retained earnings		13,952,261	19,852,278	10,811,497	15,383,374
Total equity		33,704,860	47,957,695	30,564,096	43,488,791
<u>Liabilities</u>					
Non-current liabilities					
Deferred income tax liabilities	21(c)	2,251,713	3,203,899	2,426,022	3,451,919
Borrowings	10	16,529,513	23,519,378	12,982,523	18,472,466
		18,781,226	26,723,277	15,408,545	21,924,385
Current liabilities					
Borrowings	10	21,189,645	30,150,149	7,097,336	10,098,599
Trade payables		5,739,983	8,167,261	4,658,195	6,628,015
Payables to related parties	27(f)	2,065,555	2,939,020	1,220,173	1,736,150
Corporate income tax	21	58,101	82,670	-	-
Other liabilities	11	11,694,935	16,640,393	10,244,634	14,576,800
		40,748,219	57,979,493	23,220,338	33,039,564
Total liabilities		59,529,445	84,702,770	38,628,883	54,963,949
Total equity and liabilities		93,234,305	132,660,465	69,192,979	98,452,740

The Notes on pages 8 to 37 are an integral part of these financial statements.

Rolands Gulbis
Chairman of the Board

14 April 2008

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Income statement for year 2007

	Note	2007 LVL	2007 EUR	2006 LVL	2006 EUR
Net sales	13	69,036,293	98,229,796	58,943,083	83,868,451
Cost of sales	14	<u>(55,215,034)</u>	<u>(78,563,915)</u>	<u>(47,766,871)</u>	<u>(67,966,134)</u>
Gross profit		31,821,259	19,665,881	11,176,212	15,902,317
Selling expenses	15	(4,994,929)	(7,107,145)	(4,926,012)	(7,009,085)
Administrative expenses	16	(4,193,151)	(5,966,316)	(4,561,454)	(6,490,363)
Other income	17	876,293	1,246,853	2,204,100	3,136,152
Other costs	18	(562,556)	(800,445)	(75,520)	(107,455)
Finance income	20	1,227,651	1,746,790	574,084	816,848
Finance costs	20	<u>(2,158,232)</u>	<u>(3,070,888)</u>	<u>(1,226,608)</u>	<u>(1,745,306)</u>
Profit before income tax		4,016,335	5,714,730	3,164,802	4,503,108
Corporate income tax	21	<u>(695,644)</u>	<u>(989,812)</u>	<u>(585,983)</u>	<u>(833,779)</u>
Profit for the year		<u>3,320,691</u>	<u>4,724,918</u>	<u>2,578,819</u>	<u>3,669,329</u>
Earnings per share (in santims and Euro cents)					
– basic	22	44,29	63,02	34.40	48.94
– diluted	22	44,29	63,02	34.40	48.94

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Statement of changes in equity for year 2007

	Share capital LVL	Share premium LVL	Evaluation reserve LVL	Other reserves* LVL	Merger reserve** LVL	Retained earnings LVL	Total LVL
Balance at 31 December 2005	7,496,900	61,767	5,334,638	1,249,047	(11,101,905)	18,265,462	21,305,909
Disposed revaluated assets	-	-		-	-		-
Assets revaluation (see note 3)	-	-	8,069,758	-	-	-	8,069,758
Changes in deferred income tax liabilities resulted from assets revaluation (see note 21c)	-	-	(1,210,464)	-	-	-	(1,210,464)
<i>Net income recognised directly in equity</i>	-	-	6,859,294	-	-	-	6,859,294
Profit for the year	-	-	-	-	-	2,578,819	2,578,819
Total recognised income and expense for year 2006	-	-	6,859,294	-	-	2,578,819	9,438,113
Dividends for year 2005	-	-	-	-	-	(179,926)	(179,926)
Reserves attributable to retained earnings	-	-	-	-	11,101,905	(11,101,905)	-
Other reserves attributable to retained earnings	-	-	-	(1,249,047)	-	1,249,047	-
Balance at 31 December 2006	7,496,900	61,767	12,193,932	-	-	10,811,497	30,564,096
Profit for the year	-	-	-	-	-	3,320,691	
Total recognised income and expense for year 2007	-	-		-	-		
Dividends for year 2006	-	-	-	-	-	(179,927)	
Balance at 31 December 2007	7,496,900	61,767	12,193,932	-	-	13,952,261	33,704,860

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Statement of changes in equity for year 2007 (continued)

	Share capital EUR	Share premium EUR	Evaluation reserve EUR	Other reserves* EUR	Merger reserve** EUR	Retained earnings EUR	Total EUR
Balance at 31 December 2005	10,667,128	87,887	7,590,506	1,777,234	(15,796,588)	25,989,411	30,315,578
Disposed revaluated assets	-	-	-	-	-	-	-
Assets revaluation (see note 3)	-	-	11,482,231	-	-	-	11,482,231
Changes in deferred income tax liabilities resulted from assets revaluation (see note 21c)	-	-	(1,722,335)	-	-	-	(1,722,335)
<i>Net income recognised directly in equity</i>	-	-	9,759,896	-	-	-	9,759,896
Profit for the year	-	-	-	-	-	3,669,329	3,669,329
Total recognised income and expense for year 2006	-	-	9,759,896	-	-	3,669,329	13,429,225
Dividends for year 2005	-	-	-	-	-	(256,012)	(256,012)
Reserves attributable to retained earnings	-	-	-	-	15,796,588	(15,796,588)	-
Other reserves attributable to retained earnings	-	-	-	(1,777,234)	-	1,777,234	-
Balance at 31 December 2006	10,667,128	87,887	17,350,402	-	-	15,383,374	43,488,791
Profit for the year	-	-	-	-	-	4,724,918	-
Total recognised income and expense for year 2007	-	-	-	-	-	-	-
Dividends for year 2006	-	-	-	-	-	(256,014)	-
Balance at 31 December 2007	10,667,128	87,887	17,350,402	-	-	19,852,278	47,957,695

* Other reserves were made before the required re-registration of the Company in the Commercial Register in the amount of 5% from annual profit in accordance with Latvian legal requirements. Since neither the Commercial Law, nor Statutes of the Company now require the creation of such reserves, shareholders have made a decision on transfer of reserves to retained earnings.

** The merger reserve arose as a result of merger of the Company with its subsidiary in 2000. The Company chose to account for the merger in accordance with pooling of interests method. The merger reserve represents the excess of the pre-merger carrying amount of the investment in the subsidiary over the carrying amount of net assets absorbed by the Company as a result of the merger. Shareholders have made a decision on transfer of reserves to retained earnings.

The Notes on pages 8 to 37 are an integral part of these financial statements.

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Cash flow statement for year 2007

	Note	2007 LVL	2007 EUR	2006 LVL	2006 EUR
Cash flow from operating activities					
Cash generated from operations	23	(339,172)	(482,598)	2,438,722	3,469,990
Interest paid		(1,845,497)	(2,625,905)	(1,042,267)	(1,483,011)
Income tax paid		<u>(783,500)</u>	<u>(1,114,820)</u>	<u>(1,204,333)</u>	<u>(1,713,611)</u>
Net cash generated from operating activities		(2,968,169)	(4,223,323)	192,122	273,368
Cash flows from investing activities					
Purchases of property, plant and equipment		(2,362,251)	(3,361,180)	(1,005,404)	(1,430,564)
Proceeds from sale of property, plant and equipment		86,705	123,370	4,622,432	6,577,128
Purchase of other financial assets				(24,000)	(34,149)
Loans granted	27(h)	(12,650,472)	(18,000,000)	(18,728,371)	(26,648,071)
Interest received		4,318	6,143	375,886	534,838
Loan repayments received		<u>101,064</u>	<u>143,801</u>	<u>7,080,583</u>	<u>10,074,762</u>
Net cash used in investing activities		(14,820,636)	(21,087,866)	(7,678,874)	(10,926,056)
Cash flows from financing activities					
Proceeds from borrowings		20,456,480	29,106,947	15,591,726	22,185,027
Dividends paid		(179,926)	(256,012)	(179,926)	(256,012)
Repayments of borrowings		<u>(2,479,619)</u>	<u>(3,528,179)</u>	<u>(8,751,527)</u>	<u>(12,452,301)</u>
Net cash used in financing activities		17,796,935	25,322,756	6,660,273	9,476,714
Net (decrease)/increase in cash and cash equivalents in the year		(8,130)	11,567	(826,479)	(1,175,974))
Cash and cash equivalents at beginning of the year		<u>79,707</u>	<u>113,413</u>	<u>906,186</u>	<u>1,289,387</u>
Cash and cash equivalents at end of the year	8	<u>87,837</u>	<u>124,980</u>	<u>79,707</u>	<u>113,413</u>

The Notes on pages 8 to 37 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 General information

The Company is the biggest producer of alcoholic drinks in the Baltic States. In total, JSC Latvijas balzams produces more than 120 different names of alcoholic drinks. The largest shareholder of the Company, who owns 88.05% of the Company's share capital, is S.P.I. Distilleries B.V., which is incorporated in the Netherlands.

JSC Latvijas balzams is a joint-stock company, which is incorporated and has its registered office in Latvia. The Company was founded in 1900, but acquired its current name in 1970. Registered address of the Company is at 160 A. Čaka Street, Riga, LV-1012, Republic of Latvia. Shares of JSC Latvijas balzams are quoted on second list of the Riga Stock Exchange.

These financial statements were authorised for issue by the Board of Directors of the Company on 14 April 2008, and Chairman of the Board Rolands Gulbis signed these for and on behalf of the Board of Directors.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

These financial statements have been prepared in accordance with the EU-approved International Financial Reporting standards.

The financial statements have been prepared on the basis of cost accounting method modified in revaluation of the assets, as represented in note (e).

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgements applying the accounting policies adopted by the Company. Critical estimates and judgements are represented in note (u).

a) Standards, amendments and interpretations, which are not yet effective and not yet adopted by the Company

The Published new accounting standards and amendments thereto that are mandatory to the Company beginning on or after 1 March 2007, and that have not yet been adopted by the Company:

IAS 1 Presentation of financial statements (effective from the date of adoption by the European Union but not earlier than in the reporting period that begins on 1 January 2009). IAS 1 was revised to improve use of the disclosures in the financial statements. Many amendments have been introduced including new definitions, representation of disclosures on equity transactions as well as other amendments. The Company at the moment considers amendments to the disclosures in accordance with these amendments. The Company will adopt the amendments to IAS 1, beginning on 1 January 2009.

IFRS 8, "Operating segments" (mandatory for accounting periods beginning on 1 January 2009).

IFRS 8 replaces IAS 14 and aligns segment reporting with the US FASB 131 Disclosures about Segments of an Enterprise and Related Information. The Company assessed IFRS 8 and concluded that additional notes to financial statements will not be needed.

IAS 23, Borrowing costs, amendments (that are effective from 1 January 2009)

IAS 23 excludes the possibility to recognise borrowing costs that are directly attributable to construction and acquisition of the relevant asset immediately in the income statement. The current accounting policy of the Company complies with this amendment.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies (continued)

(a) Basis of preparations (continued)

b) Standards, amendments and interpretations effective in the year

IFRS 7 Financial instruments: disclosures and complementary amendments to IAS 1, Presentation of financial statements – Capital disclosures (effective from 1 January 2007).

IFRS 7 introduces new disclosures of information relating to financial assets. The standard requirements include both qualitative and quantitative data about risks arising from the financial instruments, incorporating specific requirements to disclosures about credit risk, liquidity risk and market risk. The standard replaces IAS 32, Financial instruments: Disclosures. The standard must be adopted by all companies which prepare financial statements in compliance with IFRS. Amendments to IAS 1 introduce disclosures requirements about sufficiency of the capital and management of the capital by the Company. The Company assessed effect from amendments to IFRS 7 and IAS 1 and concluded that the key additions are additions to capital disclosures according to IAS 1. The Company adopted IFRS 7 and amendments to IAS 1 beginning on 1 January 2007.

As against the previous reporting year the accounting and assessment methods adopted by the Company have not changed, except for application of new standards IFRS 7 and IAS 1.

c) Standards, amendments and interpretations that are effective from 1 January 2007, but not relevant for operations of the Company

IFRS 7	"Repeated adoption of IAS 39 „Financial reporting in hyperinflation cautionary economies"
IFRS 8	"Scope of IFRS No. 2"
IFRS 9	"Reassessment of embedded derivatives"
IFRIC 10	"Interim financial reporting and impairment"

d) Standards, amendments and interpretations that are not yet effective and not relevant for operations of the Company

The following standards and IFRS interpretations have been published and are mandatory for the accounting periods beginning on or after 1 March 2007 but are not relevant to, or need not affect accounting policy of the Company or presentation in the financial statements:

IAS 27 – Consolidated and separate financial statements (mandatory for accounting periods beginning on or after 1 January 2009).

IFRS 3 Business combinations and – related revisions (mandatory for accounting periods beginning on or after 1 January 2009).

IFRIC 11, "IFRS 2 – "Group and treasury share transactions" (mandatory for accounting periods beginning on or after 1 March 2007).

IFRIC 12, "Service concession arrangements (mandatory for accounting periods beginning on or after 1 January 2008).

IFRIC 13, "Customer loyalty programmes" (mandatory for accounting periods beginning on or after 1 July 2008).

IFRIC 14, "IAS No. 19 – The limit on a defined benefit asset, minimum funding and their interaction" (mandatory for accounting periods beginning on or after 1 January 2008).

(b) Segment reporting

A business segment is the identified business segment engaged in selling goods and providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is the identified business segment engaged in selling goods or providing services within a particular economic environment that are subject to risks and returns that are different from those of business segments operating in other economic environments.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies (continued)

(c) Income recognition

Main operation of the Company is the production and sale of alcoholic drinks. Net sales represent the total of goods and services sold during the year net of discounts, value added tax and excise tax.

Income from sales of goods in Latvia is recognised when the customer has accepted the goods. Income from sales of goods outside Latvia is recognised in accordance with the goods delivery terms. Income from penalties is recognised at the moment of receipt. Income from provision of services is recognised at the moment of provision.

Interest income or expenses are recognised in the income statement for all loans and borrowings assessed at amortised cost applying the effective interest rate method.

(d) Foreign currency translation to LVL

(a) Functional and presentation currency

Items are shown in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates the functional currency). Financial statements are presented in Latvian lat (LVL), which is the Company's functional and presentation currency. In accordance with the Riga Stock Exchange requirements all balances are presented in Euro (EUR). For the purposes of disclosures translation is performed applying the official exchange rate adopted by the Bank of Latvia EUR / LVL (1 EUR = LVL 0.702804) for the period from 1 January 2006 to 31 December 2007.

(b) Transactions and balances

All foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement for the period.

Exchange rates used at the balance sheet date are as follows:

	31.12.2007 LVL	31.12.2006 LVL
USD 1	0.4840	0.5360
EUR 1	0.702804	0.702804

(e) Property , plant and equipment

Buildings are shown at their fair value on the basis of assessment made by independent valuator from time to time less accumulated depreciation. Accumulated depreciation is liquidated as of revaluation date, net sum is charged to the revaluated cost. Land is shown at their fair value on the basis of assessment made by independent valuator from time to time. Other assets are shown at their acquisition value less accumulated depreciation. Acquisition value includes the costs directly related to acquisition of the asset.

Subsequent costs are shown in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increase in value arising on revaluation is shown in equity under "Revaluation reserve", but decrease that offsets a previous increase of the same asset' s value (net of deferred tax) recognised in the said reserve is charged against that reserve; any further decrease is charged to the income statement for the year.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful live, as follows:

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NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies (continued)

(e) Property, plant and equipment (continued)

	years
Buildings	10-71
Production equipment	2-25
Other equipment and machinery	2-25

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. The decrease is reflected as the expenses or recognised in reserves in case the asset was previously re-valued.

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalised during the time that is required to complete and prepare the asset for its intended use as part of the cost of the asset. Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within the income statement for the relevant period. As soon as the re-valued assets are sold, values in the "Revaluation reserve" are charged to the retained earnings.

(f) Intangible assets

Intangible assets, in general, consist of licences and patents. Intangible assets are shown at the cost of acquisition less accumulated amortisation. Amortisation is calculated from the moment the assets are available to use. Amortisation of intangible assets is calculated using the straight-line method to allocate amounts to their residual values over their estimated useful lives, as follows:

	years
Licences un patents	3-5

Where the carrying amount of an intangible asset exceeds its recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount exceeds the fair value of the relevant intangible asset less selling or use expenses.

(g) Inventories

The inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realisable value of inventories is lower than their cost, provisions are created to reduce the value of inventories to their net realisable value.

(h) Impairment of tangible and intangible assets

All material and intangible assets of the Company have their estimated useful lives and they are amortised or depreciated. Assets that are subject to amortisation and depreciation are revaluated every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Loss from value decrease is recognised at difference between book value of the asset and its recoverable value. Recoverable value is the higher of an asset's fair value less costs to sell and its value in use. In order to determine decrease of the value, assets are classified based on the lower level of identifiable cash flows (cash-bearing units). Assets, which value has been decreased, are assessed at the end of every reporting year to identify the probable value decrease reservation.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies (continued)

(i) Loans and trade receivables

Loans and trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective rate. Changes in inventories are shown in the income statement.

(j) Fixed capital and dividends

Ordinary shares are classified as equity. Dividends to be paid to shareholders of the Company are represented as liabilities during the financial period of the Company, within which shareholders of the Company approve the dividends.

(k) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(l) Corporate income tax

Corporate income tax is calculated in accordance with tax laws of the Republic of Latvia. Effective laws provide for 15 % tax rate.

(m) Deferred income tax

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the balance sheet date and are expected to apply when the deferred income tax is settled.

The principal temporary differences, in general, arise from different fixed assets depreciation rates as well as provisions for slow-circulating goods, accruals for unused annual leave and accruals for bonuses. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business dilution, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognised.

(n) Accruals for unused annual leave

Accruals for unused annual leave are based on actual number of outstanding days of paid leave as at the end of the reporting period multiplied by the average daily salary over the last six months of each employee.

(o) Pension obligations

The Company pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian laws. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are shown in the staff costs.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2 Accounting policies (continued)

(p) Operating lease – the Company is the Lessor

Assets leased out under operating lease are represented in the property, plant and equipment or revaluation value less the amortisation. Amortisation is calculated based on straight-line method during the period of use to write-off value of the assets to its calculated residual value at the end of the period of use applying the rates established for the similar assets of the Company.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits held at call with banks.

(r) Related parties

Related parties are defined as shareholders of the Company, who have a significant influence or control over the Company, members of the Board and the Council, their close relatives and companies, in which they have a significant influence or control.

(s) Earnings per share

Earnings per share are determined dividing the net gains or losses attributable to shareholders of the Company by the average weighted quantity of the shares in the reporting year.

(t) Derivative financial documents

The Company manages the interest rate risk applying such derivative financial instruments as future interest rate fixation agreements. The derived financial instruments are initially recognised at their fair value on the date of the agreement, and thereafter are re-valued to their fair value at the date of the balance sheet. The derivative financial instruments are accounted as assets if their fair value is positive, and as liabilities – if their fair value is negative.

Any gain or loss arising from change in fair value of the derivative financial instruments that are classified as risk-limiting instruments, are represented exactly in the income statement.

(u) Critical accounting estimates and judgements

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management must make estimates and judgements applying the accounting policies adopted by the Company.

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities shown in the financial statements, and disclosures in the notes at the date of the balance sheet as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are revaluation of the fixed assets, determination of revaluation regularity, assumptions and estimates of the Management made estimating their useful lives as well as recoverable receivables and inventories as well as disclosed in the relevant notes.

Revaluation of assets

Management of the Company determines fair value of the assets based on assessment made by independent certified valuers in accordance with the property valuation standards and based on the local construction costs in the reporting year.

The Management thinks that assets must be revaluated at leased once in 5 years.

Recoverable receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment.

Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realisation probability and net selling value of the inventories shall be considered.

AS LATVIJAS BALZAMS
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Property, plant and equipment

	Lands and buildings	Equipment and machinery	Other assets	Assets under constructio n	Advances for assets	Total
	LVL	LVL	LVL	LVL	LVL	LVL
1 January 2006						
Cost / revaluation	12,481,642	11,352,060	3,316,434	3,063,168	619,594	30,832,898
Accumulated amortisation	(256,701)	(8,195,472)	(2,257,732)	-	-	(10,709,905)
Net book value	12,224,941	3,156,588	1,058,702	3,063,168	619,594	20,122,993
The year ended on 31 December 2006						
Acquisition cost	12,224,941	3,156,588	1,058,702	3,063,168	619,594	20,122,993
Acquired	-	-	-	-	993,856	993,856
Revaluated	8,069,758	-	-	-	-	8,069,758
Disposed	(841,769)	(3,978)	(123,913)	(3,567,569)	-	(4,537,229)
Reclassified	179,893	270,937	252,641	826,551	(1,530,022)	-
Amortised	(774,278)	(744,878)	(314,257)	-	-	(1,833,413)
Closing book value	18,858,545	2,678,669	873,173	322,150	83,428	22,815,965
31 December 2006						
Cost/revaluation	19,889,525	11,312,992	3,361,012	322,150	83,428	34,969,107
Accumulated amortisation	(1,030,980)	(8,634,323)	(2,487,839)	-	-	(12,153,142)
Net book value	18,858,545	2,678,669	873,173	322,150	83,428	22,815,965
The year ended on 31 December 2007						
Acquisition cost	18,858,545	2,678,669	873,173	322,150	83,428	22,815,965
Acquired	-	-	-	-	2,362,250	2,362,250
Revaluated	-	-	-	-	-	-
Disposed	-	(7,209)	(43,310)	(5,338)	(63,580)	(119,437)
Reclassified	149,785	1,554,589	159,733	353,839	(2,217,946)	-
Amortised	(768,860)	(752,588)	(316,246)	-	-	(1,837,694)
Closing book value	18,239,470	3,473,461	673,350	670,651	164,152	23,221,084
31 December 2007						
Cost /revaluation	20,039,309	12,306,280	3,139,668	670,651	164,152	36,320,060
Accumulated amortisation	(1,799,839)	(8,832,819)	(2,466,318)	-	-	(13,098,976)
Net book value	18,239,470	3,473,461	673,350	670,651	164,152	23,221,084

AS LATVIJAS BALZAMS
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Property, plant and equipment (continued)

	Lands and buildings	Equipment and machinery	Other assets	Assets under constructio n	Advances for assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR
1 January 2006						
Cost / revaluation	17,759,777	16,152,526	4,718,860	4,358,495	881,603	43,871,261
Accumulated amortisation	(365,253)	(11,661,106)	(3,212,463)	-	-	(15,238,822)
Net book value	17,394,524	4,491,420	1,506,397	4,358,495	881,603	28,632,439
The year ended on 31 December 2006						
Acquisition cost	17,394,524	4,491,420	1,506,397	4,358,495	881,603	28,632,439
Acquired	-	-	-	-	1,414,129	1,414,129
Revaluated	11,482,231	-	-	-	-	11,482,231
Disposed	(1,197,729)	(5,660)	(176,312)	(5,076,193)	-	(6,455,894)
Reclassified	255,965	385,509	359,475	1,176,076	(2,177,025)	-
Amortised	(1,101,699)	(1,059,866)	(447,147)	-	-	(2,608,712)
Closing book value	26,833,292	3,811,403	1,242,413	458,378	118,707	32,464,193
31 December 2006						
Cost/revaluation	28,300,244	16,096,938	4,782,289	458,378	118,707	49,756,556
Accumulated amortisation	(1,466,952)	(12,285,535)	(3,539,876)	-	-	(17,292,363)
Net book value	26,833,292	3,811,403	1,242,413	458,378	118,707	32,464,193
The year ended on 31 December 2007						
Acquisition cost	26,833,292	3,811,403	1,242,413	458,378	118,707	32,464,193
Acquired	-	-	-	-	3,361,179	3,361,179
Revaluated	-	-	-	-	-	-
Disposed	-	(10,257)	(61,625)	(7,596)	(90,466)	(169,943)
Reclassified	213,125	2,211,981	227,280	503,468	(3,155,853)	-
Amortised	(1,093,989)	(1,070,836)	(449,978)	-	-	(2,614,803)
Closing book value	25,952,428	4,942,290	958,091	954,250	233,567	33,040,626
31 December 2007						
Cost /revaluation	28,513,368	17,510,259	4,467,345	954,250	233,567	51,678,791
Accumulated amortisation	(2,560,940)	(12,567,969)	(3,509,254)	-	-	(18,638,165)
Net book value	25,952,428	4,942,290	958,091	954,250	233,567	33,040,626

The Company performed revaluation of buildings on 1 September 2006 by applying replacement cost method; revaluation was performed by independent valuator - JSC BDO Invest Rīga.

Valuators Aplēse Ltd. on 30 May 2006 performed revaluation of land owned by the Company. Value of the land after revaluation was LVL 8,561,513 (12,181,936 EUR). If the lands have not been revaluated then book value of the land on 31.12.2007 would amount to LVL 491,755 (699,704 EUR). Book value of revaluated buildings at 31 December 2007 is LVL 11,477,796 or 16,331,433 EUR (31.12.2006: LVL 10,297,032 or 14,651,356 EUR). If the buildings have not been revaluated, the closing book value at 31 December 2007 would be LVL 5,773 thousand or 8,214 thousand EUR (31.12.2006: LVL 5,996 thousand or 8,532 thousand EUR).

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ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

NOTES TO THE FINANCIAL STATEMENTS (continued)

3 Property, plant and equipment (continued)

Total revaluation amount of property, plant and equipment at 31 December 2007 was LVL 14,345,802 (20,412,237 EUR). Revaluation amount less the attributable deferred income tax liabilities is shown in equity under "Revaluation reserve".

All property, plant and equipment are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note 10).

During 2007 loan expenses have not been capitalised, because the Company did not use the target financing for acquisition of property, plant and equipment.

4 Intangible assets

	Licences, patents LVL	Licences, patents EUR
1 January 2006		
Initial value	1,162,460	1,654,032
Accumulated amortisation	(1,045,674)	(1,487,860)
Book value	116,786	166,172
The year ended on 31 December 2006		
Acquisition cost	116,786	166,172
Acquired	11,548	16,431
Disposed	(65)	(93)
Amortisation	(118,446)	(168,533)
Closing book value	9,823	13,977
31 December 2006		
Initial value	1,163,608	1,655,665
Accumulated amortisation	(1,153,785)	(1,641,688)
Book value	9,823	13,977
The year ended on 31 December 2007		
Acquisition cost	9,823	13,977
Acquired	-	-
Disposed	-	-
Amortisation	(4,260)	(6,061)
Closing book value	5,563	7,916
31 December 2007		
Initial value	1,163,608	1,655,665
Accumulated amortisation	(1,158,045)	(1,647,749)
Book value	5,563	7,916

All intangible assets are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note 10).

5 Inventories

	31.12.2007 LVL	31.12.2007 EUR	31.12.2006 LVL	31.12.2006 EUR
Raw materials and consumables	9,711,903	13,818,794	7,625,761	10,850,480
Inventory in transit	1,163,988	1,656,206	838,069	1,192,465
Finished goods and goods for sale	5,506,252	7,834,691	3,726,087	5,301,744
Excise tax stamps	1,055,541	1,501,899	1,712,527	2,436,706
Work in progress	425,583	605,550	679,619	967,011
	17,863,267	25,417,140	14,582,063	20,748,406

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ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

NOTES TO THE FINANCIAL STATEMENTS (continued)

5 Inventories (continued)

In 2007 provisions for inventories have been increased by LVL 106,517 (151,560 EUR) (in 2006 increased by LVL 92,558 (131,698 EUR)). Increase of provisions is shown in "Production costs of sold products". At 31 December 2007 provisions for inventories amounted to LVL 723,486 (1,029,428 EUR) (31.12.2006: LVL 616,969 (877,868 EUR)).

All inventories of the Company are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note 10).

6 Trade receivables

	31.12.2007	31.12.2007	31.12.2006	31.12.2006
	LVL	EUR	LVL	EUR
Carrying amount of trade receivables	2,805,816	3,992,316	11,193,160	15,926,432
Provisions for impairment of trade receivables	(2,406,899)	(3,424,709)	(2,439,656)	(3,471,318)
	<u>398,917</u>	<u>567,607</u>	<u>8,753,504</u>	<u>12,455,114</u>

7 Other current assets

VAT accepted	46,798	66,587	42,218	60,071
Deferred insurance costs	68,176	97,006		
			66,766	95,000
Other deferred expenses	66,762	94,994	74,701	106,290
Receivables for raw materials	105,701	150,399	250,635	356,621
Receivables for services	43,654	62,115	145,749	207,382
Other receivables	70,481	100,284	94,235	134,084
	<u>401,572</u>	<u>571,385</u>	<u>674,304</u>	<u>959,448</u>

8 Cash and cash equivalents

Cash on hand	28,565	40,643	47,037	66,928
Cash in bank	59,272	84,337	32,670	46,485
	<u>87,837</u>	<u>124,980</u>	<u>79,707</u>	<u>113,413</u>

9 Share capital

Registered share capital	<u>7,496,900</u>	<u>10,667,128</u>	<u>7,496,900</u>	<u>10,667,128</u>
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As at 31 December 2007 the subscribed and fully paid share capital consists of 7,496,900 (31.12.2006: 7,496,900) ordinary shares with nominal value of one share is LVL 1 (1.42 EUR) (31.12.2006: LVL 1 (1.42 EUR)). Bank borrowings (see Note 10) are secured by a pledge of all shares owned by the shareholder of the Company, who have a significant influence or control over the Company, - S.P.I. Distilleries B.V., as well as any other shares that S.P.I. Distilleries B.V. may acquire in the future.

In 2007, the Company paid dividends for year 2006 - LVL 179,926 (256,012 EUR) (LVL 0.024 (0.034 EUR) per a share).

AS LATVIJAS BALZAMS
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Borrowings

	31.12.2007	31.12.2007	31.12.2006	31.12.2006
	LVL	EUR	LVL	EUR
JSC SEB Latvijas Unibanka	-	-	2,635,400	3,749,836
Nordea Bank Finland plc	4,093,880	5,825,066		
JSC Hansabanka	12,435,633	17,694,312	10,347,123	14,722,630
Non-current borrowings	16,529,513	23,519,378	12,982,523	18,472,466
JSC SEB Latvijas Unibanka	-	-	850,000	1,209,441
JSC Hansabanka	5,725,924	8,147,256	2,188,953	3,114,599
Credit line	11,677,173	16,615,120	4,058,383	5,774,559
Nordea Bank Finland Plc	3,786,548	5,387,773	-	-
Current borrowings	21,189,645	30,150,149	7,097,336	10,098,599
Total borrowings	37,719,158	53,669,527	20,079,859	28,571,065

The carrying value of borrowings does not materially differ from their fair value.

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
At beginning of the year	20,079,859	28,571,065	13,684,705	19,471,581
Borrowings in the year	23,431,880	33,340,562	15,591,726	22,185,027
Repaid borrowings in the year	(5,455,019)	(7,761,793)	(8,751,527)	(12,452,301)
Currency exchange rate fluctuation results	(337,562)	(480,307)	(445,045)	(633,242)
At the end of the year	37,719,158	53,669,527	20,079,859	28,571,065

The carrying value of borrowings does not materially differ from their fair value.

On 30 April 2004, a long-term loan agreement was signed with JSC Hansabanka and JSC SEB Latvijas Unibanka for, respectively, a loan USD 12,500,000, that according to official currency exchange rate of the Bank of Latvia on 30 April 2004 amounted to LVL 6,912,500 (10,533,435 EUR) and LVL 6,800,000 (10,381,769 EUR). According to assignment agreement of 24 July 2007, credit of the Company has been refinanced to Nordea Bank Finland Plc, in the result thereof Nordea Bank Finland Plc took over all obligations of JSC SEB Unibanka and granted to the Company a credit in the amount of EUR 4,500,000.

At 31 December 2007 debt of the Company to JSC Hansabanka for the received credit amounted to USD 5,812,500 that according to the official exchange rate of the Bank of Latvia on 31 December 2007 amounted to LVL 2,813,250 (4,002,894 EUR), but, in turn, that to Nordea Bank Finland Plc. amounted to EUR 4,212,840, that according to the official exchange rate of the Bank of Latvia on 31 December 2007 amounted to Ls 2,960,800.

Principal sum of the said loans must be repaid by 30 April 2009.

On 30 April 2004 a credit line agreement was signed with JSC Hansabanka and JSC SEB Latvijas Unibanka for granting of the credit line in the amount of LVL 2,675,000 and LVL 2,800,000 respectively. Interest rate was 3-month RIGIBOR plus 1.6%. On 20 May 2005 amendments have been made to the credit line agreement about assignment of credit limit. Assigned credit line limits are JSC SEB Latvijas Unibanka - LVL 4,058,000 (5,774,014 EUR) and JSC Hansabanka - LVL 4,025,000 (5,727,059 EUR).

In the result of agreement of 24 July 2007 about claim assignment and takeover, the Company's obligations have been refinanced to Nordea Bank Finland Plc.

Amendments to the credit line have been made on 22 November 2007, in the result of which JSC Hansabanka and Nordea Bank Finland Plc. agreed on joint issued credit limit of LVL 12,616,570, where overdraft limit awarded by Nordea Bank Finland was LVL 8,065,295 (11,475,881 EUR), but that of JSC Hansabanka - Ls 4,551,275 (6,475,881 EUR). At 31 December 2007, debt of the Company on the said credit line to Nordea Bank Finland Plc amounted to LVL 7 827 356 (11,137,324 EUR), in turn, to JSC Hansabanka - LVL 3,849,816 (5,477,795). Deadline of the credit line is 30 April 2008.

On 21 September 2005 a credit agreement was signed with JSC Hansabanka for granting a credit of EUR 20,667,200. Credit repayment term – 20 July 2015. Credit not paid as at the end of the reported period amounted to EUR 10,838,673.

AS LATVIJAS BALZAMS
ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2007

NOTES TO THE FINANCIAL STATEMENTS (continued)

10 Borrowings (continued)

On 24 July 2007 a loan agreement was concluded among Nordea Bank Finland Plc, AS Hansabanka and the Company regarding granting of the loan of EUR 13,000,000 in accordance with which Nordea Bank Finland Plc disburses EUR 7,000,000 and AS Hansabanka disburses EUR 6,000,000. Maturity – 30 June 2012 with the right to extend the repayment date by 30 June 2014.

After the reporting year the Company concluded amendments to the above-mentioned agreement regarding additional loan of EUR 1,500,000. Until signing the amendments to the agreement the Company had repaid to Nordea Bank Finland Plc EUR 4,000,000.

On 28 December 2007 the Company concluded a loan agreement with AS Hansabanka regarding granting of the loan of EUR 10,000,000. The loan has been granted for the financing of SPI Group projects. Loan repayment date – 28 December 2009.

At the end of the reporting year a loan of EUR 5,000,000 was received that was repaid in full by the date the annual accounts were signed. After the reporting year the Company has received the second part of the loan amounting to EUR 5,000,000.

The effective interest rates at the balance sheet date were as follows:

	31.12.2007	31.12.2006
Borrowings	5.782% - 6.627%	4.461% - 6.989%
Credit line	12.104%	6.556%

Borrowings made by the Company are exposed to the interest rate fluctuations in the following revaluation periods:

	31.12.2007 LVL	31.12.2007 EUR	31.12.2006 LVL	31.12.2006 EUR
6 months or less	37,719,158	53,669,527	20,079,859	28,571,065
6 – 12 months	-	-	-	-
	<u>37,719,158</u>	<u>53,669,527</u>	<u>20,079,859</u>	<u>28,571,065</u>

Maturity of the total borrowings is as follows:

Payable in 1 year	21,189,645	30,150,148	7,097,336	10,098,599
Payable in 2 – 5 years	13,934,553	19,827,083	12,982,523	18,472,466
Payable in more than 5 years	2,594,960	3,692,295	20,079,859	28,571,065
	<u>37,719,158</u>	<u>53,669,527</u>	<u>20,079,859</u>	<u>28,571,065</u>

Fulfilment of the Company's liabilities is secured and enforced by (i) the mortgage of all real estate owned by the Company, (ii) commercial pledge of all Company's assets as aggregation of property on the date of pledging as well as parts of the aggregation of property, and (iii) all pledged shares of the Company, owned by the largest shareholder of the Company S.P.I. Distilleries B.V., and any other shares that S.P.I. Distilleries B.V. may acquire in the future. Carrying value of the pledged assets of the Company as at 31 December 2007 was LVL 93,234,306 (132,660,465 EUR) (as at 31 December 2006 it was LVL 69,192,979 (98,452,739 EUR)).

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NOTES TO THE FINANCIAL STATEMENTS (continued)

11 Other Payables

	31.12.2007	31.12.2007	31.12.2006	31.12.2006
	LVL	EUR	LVL	EUR
Excise tax	7,736,119	11,007,505	7,557,928	10,753,963
Value added tax	915,216	1,302,235	910,883	1,296,070
Mandatory State social insurance contributions	164,841	234,548	112,461	160,018
Personal income tax	125,460	178,513	101,780	144,820
Natural resource tax	18,985	27,013	49,762	70,805
Real estate tax	677	963	92	131
Salaries	337,897	480,784	239,732	341,107
Unpaid dividends of the previous years	5,235	7,448	5,235	7,448
Accruals for unused annual leave	506,284	720,378	310,333	441,564
Other accrued liabilities	1,508,792	2,146,817	579,474	824,517
Deferred income	333,208	474,112	375,560	534,374
Other creditors	42,221	60,077	1,394	1,983
	11,694,935	16,640,393	10,244,634	14,576,800

12 Segment Information

(a) Primary Reporting Segment – Business Segment

Core activity of the Company is production of alcoholic drinks. AS Latvijas balsams produces over 120 different types of drinks. Since the Company's core activity is mainly the production of alcoholic drinks, the Company has only one reportable business segment. These financial statements represent the information related to the primary business segment.

(b) Secondary Reporting Segment – Geographical Segment

The Company operates in Latvia by selling the produced drinks in the domestic market, as well as exports the produced drinks.

The operations of the Company can be divided into three geographical segments, which are sales in Latvia, sales to overseas markets through S.P.I group companies and unallocated sales, which mainly represent export sales to unrelated parties. Distribution of sales among these segments is as follows:

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Latvia	32,991,317	46,942,416	27,477,574	39,097,065
Sales to overseas markets through S.P.I group companies	33,964,989	48,327,825	29,156,954	41,486,608
Other income from export	2,079,987	2,959,555	2,308,555	3,284,778
	69,036,293	98,229,796	58,943,083	83,868,451

13 Revenue

Domestic market	32,945,571	46,877,326	27,477,574	39,097,065
Export	36,044,976	51,287,379	31,439,632	44,734,566
Other sales (spirit, raw materials)	45,746	65,091	25,877	36,820
	69,036,293	98,229,796	58,943,083	83,868,451

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NOTES TO THE FINANCIAL STATEMENTS (continued)

14 Cost of Sales

Variable costs	51,342,771	73,054,181	43,854,172	62,398,865
<i>Raw materials, auxiliary materials, packing</i>	45,184,316	64,291,490	38,097,402	54,207,719
<i>Goods purchased</i>	707,100	1,006,112	336,683	479,057
<i>Salary expenses</i>	2,420,800	3,444,488	1,895,106	2,696,493
<i>Mandatory State social insurance contributions</i>	581,144	826,894	455,190	647,677
<i>Energy resources</i>	575,494	818,854	448,279	637,844
<i>Natural resource tax</i>	557,559	793,335	517,307	736,062
<i>Increase in provisions for accounts receivable, stock and other accrued liabilities</i>	73,761	104,952	224,444	319,355
<i>Accrued unused annual leave expenses (variable)</i>	37,753	53,718	(6,575)	(9,355)
<i>Other variable expenses</i>	1,204,844	1,714,338	1,886,336	2,684,013
Fixed costs	3,872,263	5,509,734	3,912,699	5,567,269
<i>Depreciation and amortization</i>	1,302,089	1,852,706	1,403,266	1,996,668
<i>Salary expenses</i>	1,108,268	1,576,923	884,778	1,258,926
<i>Mandatory State social insurance contributions</i>	262,795	373,924	209,798	298,516
<i>Repair expenses</i>	568,947	809,539	971,129	1,381,792
<i>Insurance payments</i>	71,603	101,882	62,644	89,134
<i>Laboratory expenses</i>	44,781	63,718	54,453	77,480
<i>Accrued unused annual leave expenses (fixed)</i>	24,191	34,422	9,286	13,213
<i>Other fixed expenses</i>	489,589	696,620	317,345	451,540
	<u>55,215,034</u>	<u>78,563,915</u>	<u>47,766,871</u>	<u>67,966,134</u>

15 Selling Expenses

	2007 LVL	2007 EUR	2006 LVL	2006 EUR
Salary expenses	1,454,111	2,069,014	1,097,370	1,561,417
Mandatory State social insurance contributions	346,023	492,347	262,073	372,896
Depreciation and amortization	242,615	345,210	242,513	345,065
Advertising expenses	1,721,448	2,449,399	1,997,017	2,841,499
Transportation expenses	712,886	1,014,346	899,587	1,279,997
Warehouse maintenance expenses	133,281	189,642	80,494	114,533
Accrued unused annual leave expenses	34,634	49,820	9,807	13,954
Other expenses	349,931	497,907	337,151	479,724
	<u>4,994,929</u>	<u>7,107,145</u>	<u>4,926,012</u>	<u>7,009,085</u>

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NOTES TO THE FINANCIAL STATEMENTS (continued)

16 Administrative Expenses

Salary expenses	1,164,077	1,656,333	990,038	1,408,697
Mandatory State social insurance contributions	145,345	206,807	161,609	229,949
Communication and postal expenses	149,478	212,687	243,848	346,964
Office expenses	92,299	131,330	108,629	154,565
Professional fees	163,308	232,366	168,935	240,373
IT maintenance	70,100	99,743	264,088	375,763
Representation expenses	185,588	264,067	213,932	304,398
Security	118,391	168,455	165,389	235,327
Management services and expenses	1,024,712	1,458,034	988,789	1,406,920
Transportation expenses	110,486	157,208	127,453	181,349
Business trip expenses	23,689	33,707	73,504	104,587
Employee training	17,308	24,627	10,687	15,206
Depreciation	297,441	423,220	306,080	435,513
Real estate tax	113,821	161,953	175,534	249,762
Financial support, sponsorship	50,817	72,307	135,948	193,437
Healthcare, health insurance	70,747	100,664	68,785	97,872
Accrued unused annual leave expenses	99,373	141,395	13,595	19,344
Trade union, cultural events and other expenses	21,681	30,849	53,956	76,772
Other expenses	95,356	135,679	97,522	138,761
Expenses for liabilities against employees for the annual results	179,134	254,885	193,132	274,802
	4,193,151	5,966,316	4,561,454	6,490,363

17 Other Income

Sold packages, boxes and pallets	19,543	27,807	18,573	26,427
Auxiliary materials sold	107,661	153,188	120,121	170,917
Income from services rendered	402,297	572,417	467,514	665,212
Income from lease of fixed assets	63,117	89,807	38,576	54,889
Net profit from disposal and sale of fixed assets (see Note 27b)	31,039	44,165	1,118,710	1,591,781
Other income	252,636	359,469	440,606	626,926
	876,293	1,246,853	2,204,100	3,136,152

18 Other Expenses

	2007 LVL	2007 EUR	2006 LVL	2006 EUR
Bank commission	80,465	114,491	38,624	54,957
Other expenses	482,091	685,954	36,896	52,498
	562,556	800,445	75,520	107,455

AS LATVIJAS BALZAMS
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NOTES TO THE FINANCIAL STATEMENTS (continued)

19 Expenses by Nature

Raw materials, auxiliary materials, packing	45,184,316	64,291,490	38,097,402	54,207,719
Employee expenses	7,661,698	10,901,614	6,150,294	8,751,080
Depreciation and amortization	1,842,145	2,621,136	1,951,859	2,777,245
Advertising expenses	1,721,448	2,449,399	1,997,017	2,841,499
Management services and expenses	1,024,712	1,458,034	988,789	1,406,920
Repair expenses	568,947	809,539	971,129	1,381,792
Increase in provisions for accounts receivable, stock and other accrued liabilities	73,761	104,952	224,444	319,355
Transportation expenses	823,372	1,171,553	1,027,040	1,461,346
Natural resource tax	557,559	793,335	517,307	736,062
IT maintenance	70,100	99,743	264,088	375,763
Real estate tax	113,821	161,953	175,534	249,762
Other expenses	5,323,789	7,575,073	4,964,952	7,064,494
	64,965,670	92,437,821	57,329,857	81,573,037

20 Finance Income / Expenses

Interest income	1,216,228	1,730,536	501,613	713,731
Income from penalties	11,423	16,254	72,471	103,117
Finance income	1,227,651	1,746,790	574,084	816,848
Long-term loan interest	(1,125,677)	(1,601,694)	(847,270)	(1,205,558)
Interest for use of credit lines	(686,983)	(977,488)	(228,964)	(325,786)
Net loss from exchange rate fluctuations	(239,784)	(341,182)	(114,859)	(163,430)
Net loss from purchase-sale of currency	(105,788)	(150,524)	(35,514)	(50,532)
Finance expenses	(2,158,232)	(3,070,888)	(1,226,608)	(1,745,306)

21 Corporate Income Tax

(a) Income Tax

Deferred tax	(174,308)	(248,019)	(120,472)	(171,416)
Corporate income tax for the reporting year	869,952	1,237,831	706,455	1,005,195
	695,644	989,812	585,983	833,779

(b) Reconciliation of accounting profit to income tax charges:

Corporate income tax differs from the theoretically calculated tax amount that would arise applying 15% rate stipulated by the law to the Company's profit before taxes:

	2007 LVL	2007 EUR	2006 LVL	2006 EUR
Profit before taxation	4,016,335	5,714,729	3,164,802	4,503,108
Theoretically calculated tax by applying 15% rate	602,450	857,209	474,720	675,466
Expenses not deductible for tax purposes	184,905	263,096	164,969	234,730
Tax rebate for donations	(43,095)	(61,318)	(53,706)	(76,417)
Tax relief for the acquired technological equipment	(48,616)	(69,175)	-	-
Tax charge	(695,644)	(989,812)	585,983	833,779

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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Corporate Income Tax (continued)

(c) Deferred Income Tax Liabilities

The Company offsets the deferred tax assets and the deferred tax liabilities only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax is related to the same taxation authority. The offset amounts are as follows:

	31.12.2007 LVL	31.12.2007 EUR	31.12.2006 LVL	31.12.2006 EUR
Deferred tax assets:				
- deferred tax asset to be recovered within a year	(232,249)	(300,462)	(122,300)	(174,017)
	(232,249)	(223,332)	(122,300)	(174,017)
Deferred tax liabilities:				
- deferred tax liabilities to be recovered within a year	106,979	152,217	1,281,430	1,823,312
- deferred tax liabilities to be recovered after more than a year	2,376,984	3,382,144	1,266,892	1,802,624
	2,483,963	3,534,361	2,548,322	3,625,936
Net deferred tax liabilities	2,251,713	3,203,899	2,426,022	3,451,919

Total movement on the deferred tax is as follows:

	2007 LVL	2007 EUR	2006 LVL	2006 EUR
At the beginning of the reporting year	2,426,022	3,451,919	1,336,030	1,900,999
Change in the deferred tax related to the long-term investment revaluation reserve			1,210,464	1,722,335
Change in the deferred tax related to the income statement	(174,309)	(248,019)	(120,472)	(171,416)
At the end of the reporting year	2,251,713	3,203,899	2,426,022	3,451,918

The movement of deferred tax assets and liabilities during the reporting year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Fixed assets LVL	Accruals for unused annual leave LVL	Expected liabilities	Accruals for bonuses LVL	Provisions for slow moving stock LVL	Total LVL
As at 1 January 2006	1,440,581	(42,633)	-	(52)	(61,866)	1,336,030
Charged / (credited) to income statement	(102,723)	(3,917)		52	(13,884)	(120,472)
Charged to equity	1,210,464	-		-	-	1,210,464
As at 31 December 2006	2,548,322	(46,550)	-	-	(75,750)	2,426,022
Charged / (credited) to income statement	(64,359)	(29,393)	(69,774)	-	(10,783)	(174,309)
As at 31 December 2007	2,483,963	(75,943)	(69,774)	-	(86,533)	2,251,713

AS LATVIJAS BALZAMS
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NOTES TO THE FINANCIAL STATEMENTS (continued)

21 Corporate Income Tax (continued)

c) Deferred Income Tax Liabilities (continued)

	Fixed assets LVL	Accruals for unused annual leave LVL	Expected liabilities LVL	Accruals for bonuses LVL	Provisions for slow moving stock LVL	Total LVL
	EUR	EUR	EUR	EUR	EUR	EUR
As at 1 January 2006	2,049,762	(60,661)		(74)	(88,027)	1,901,000
Charged / (credited) to income statement	(146,161)	(5,574)		74	(19,755)	(171,416)
Charged to equity	1,722,335	-		-	-	1,722,335
As at 31 December 2006	3,625,936	(66,235)	-	-	(107,783)	3,451,918
Charged / (credited) to income statement	(91,575)	(41,822)	(99,279)	-	(15,341)	(248,01)
As at 31 December 2007	3,534,361	(108,057)	(99,279)	-	(123,124)	3,203,899

22 Earnings per Share (Expressed in Santims and Euro Cents per Share)

Since the Company has not executed any transactions that could cause changes in the share capital, which would change the amount of earning per share, the adjusted earnings per share is equivalent to the basic earnings per share.

Earnings per share are calculated by dividing the profit of the reporting year by the average number of shares in the reporting year.

	2007 LVL	2007 EUR	2006 LVL	2006 EUR
Profit attributed to shareholders of the Company	3,320,691	4,724,917	2,578,819	3,669,329
Average annual number of shares	7,496,900	7,496,900	7,496,900	7,496,900
Earnings per share (expressed in santims and euro cents)	44,29	63,02	34,40	48,94

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NOTES TO THE FINANCIAL STATEMENTS (continued)

23 Cash Granted from Operations

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Profit before corporate income tax	4,016,335	5,714,730	3,164,802	4,503,108
<u>Adjustments for:</u>				
- depreciation and amortization (Notes 3 and 4)	1,841,954	2,620,864	1,951,859	2,777,245
- increase / (decrease) in provisions for stock impairment	139,273	198,168	92,558	131,698
- loss / (profit) from foreign currency exchange rate fluctuations	(337,563)	(480,309)	(356,416)	(507,134)
- interest expenses (Note 20)	1,812,660	2,579,183	1,076,235	1,531,344
- interest income (Note 20)	(1,216,228)	(1,730,537)	(501,613)	(713,731)
- loss / (profit) from sale and revaluation of fixed assets	32,731	46,572	(1,118,710)	(1,591,781)
- write-off of borrowing costs	-	-	-	-
<u>Changes in working capital</u>				
- debtors	(6,622,571)	9,423,070	(260,657)	(370,880)
- stock	(3,387,722)	(4,820,294)	(2,430,635)	(3,458,482)
- creditors	3,381,959	4,812,094	821,299	1,168,603
	<u>(339,172)</u>	<u>(482,598)</u>	<u>2,438,722</u>	<u>3,469,990</u>

24 Average Number of Employees

	2007	2006
Average number of employees during the reporting year	<u>808</u>	<u>779</u>

25 Personnel Expenses

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
Salaries and mandatory State social insurance contributions for production staff	4,373,007	6,222,228	3,444,872	4,901,611
Salaries and mandatory State social insurance contributions for distribution staff	1,800,134	2,561,360	1,359,443	1,934,313
Salaries and social insurance contributions for administration staff	1,488,556	2,118,024	1,344,779	1,913,448
Total*	<u>7,611,697</u>	<u>10,901,612</u>	<u>6,149,094</u>	<u>8,749,372</u>
Including Board members and management				
- salary expenses	890,660	1,267,295	568,215	808,497
- mandatory State social insurance contributions	64,866	92,296	61,137	86,990

In accordance with the shareholders' decision, members of the Board and the Council do not receive additional remuneration for the performance of their duties.

* - Includes mandatory State social insurance contributions of LVL 1,355,516 (1,928,726 EUR) (in 2006 – LVL 1,088,670 (1,549,038 EUR)).

In accordance with the regulations of the Cabinet of Ministers of the Republic Latvia 75% (2006: 75%) of the mandatory State social insurance contributions are used to finance the State defined contribution pension system. During the reporting year, no loans were issued to members of the Council, the Board or the Management staff.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

26 Guarantees and Suretyship Issued

As at 31 December 2007 the guarantee issued by the Company in the reporting year 2006 was valid, which serves as security for SIA Bravo credit line of EUR 4,268,615. The purpose of the credit line – increase of current assets, development of store network and acquisition of 100% capital shares of UAB Darija. The repayment date of this credit line is 25 January 2010. The guarantee is valid until complete fulfilment of the liabilities of SIA Bravo.

In the reporting year the Company issued a guarantee to Nordea Bank Finland Plc, Latvian branch for the liabilities of the related company S.P.I. Spirits (Cyprus) Limited amounting to USD 10,000,000 ensuing from the overdraft agreement of July 2007. The guarantee is valid until the liabilities are fulfilled in full.

In November 2007 the Company issued a guarantee to AS Parex banka for the financial obligations of the related person Yury Shefler that ensue from the credit line agreement concluded between Yury Shefler and the bank. The guarantee is valid until the liabilities are fulfilled in full.

The Company issued guarantees to AS Parex banka for the liabilities of SPI Spirits (UK) limited for issue of two payment cards (Visa, Eurocard/MasterCard, Maestro, Visa Electron) and account opening with the granted credit of USD 100,000 for each.

27 Transactions with Related Parties

The parent company of the Company, who owns 88.05% of shares of the Company, is S.P.I. Distilleries B.V., which is registered in the Netherlands. The ultimate parent company is S.P.I. Group S.a.r.l, which is registered in Luxemburg and its majority shareholder is Mr. Shefler.

In 2007 the Company had economic transactions with the following S.P.I. group companies that are directly or indirectly subsidiaries of S.P.I. Group S.a.r.l - S.P.I. Spirits (Cyprus) Ltd. (Cyprus), Spirits Product International IP B.V. (Luxemburg), Tambovskoje spirtovodocnoje predpriatije Talvis OAO (Russia), S.P.I. Worldwide Trade Ltd. (the Netherlands), Torgovi Dom Rosvestalko (Russia), S.P.I. Production B.V. (the Netherlands), Torgovi Dom Rovestalko (Russia), S.P.I. Production B.V (the Netherlands), UAB Baltijos alkoholiniai produktai (Lithuania), SPI-RVVC OAO (Russia), SIA Bravo (Latvia), UAB Darija (Lithuania), UAB Bennet Distributors (Lithuania), SIA Z Towers ** (Latvia), SPV Distributor SIA (Latvia), S.P.I. Spirits UK Ltd. (Great Britain), S.P.I.Group SA (Switzerland), Spirits International B.V.(Luxemburg), SIA AV&D* (Latvia), Divinum OU* (Estonia). In 2007 the Company had economic transactions with the related company SIA Meierovica 35 (Latvia) which is not a member of the SPI Group.

* AV&D SIA and Dininum OU became the related parties in 2007. Transactions for the year 2006 are not presented.

** In 2007 name of SIA Vertikala pasaule was changed to SIA ZTowers.

(a) Sale of Goods

	2007 LVL	2007 EUR	2006 LVL	2006 EUR
S.P.I. Spirits (Cyprus) Ltd.	28,444,032	40,472,211	25,609,163	36,438,556
Torgovi Dom Rosvestalko	496,909	707,038	-	-
SIA AV&D	32,333,792	46,006,841	-	-
SPI-RVVC OAO	210,724	299,833	151,316	215,303
SIA Bravo	93,502	133,041	106,254	151,186
UAB Bennet Distributors	4,847,607	6,897,523	3,217,343	4,577,867
Divinum OU	231,895	329,957	-	-
	66,658,461	94,846,444	29,084,076	41,382,912

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NOTES TO THE FINANCIAL STATEMENTS (continued)

27 Transactions with Related Parties (continued)

(b) Sale of Fixed Assets

Yury Shefler (net)*			4,622,432	6,577,128
SIA Meierovica 35			1,564,001	2,225,373
			6,186,433	8,802,501

* - Sale of fixed assets to Mr Shefler was carried out by initially investing them to the share capital of SIA Meierovica 35 and then selling 35 shares of SIA Meierovica 35. Profit from this transaction is included in net profit from disposal and sale of fixed assets (Note 17).

(c) Service Rendered (Including Loan Interest)

	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
UAB Bennet Distributors	9,886	14,067	504	717
S.P.I. Spirits (Cyprus) Ltd.	474,358	674,951	334,726	476,272
SIA Bravo	6,097	8,675	6,065	8,630
Spirits Product International IP B.V.	1,946	2,769	1,016	1,446
Spirits International B.V.	552	785	-	-
UAB Baltijos alkoholiniai produktai			2,510	3,571
SIA Meierovica 35	187,622	266,962	81,488	115,947
SIA Z Towers	384	546	4,795	6,823
SPI Production B.V.	768,627	1,093,658	454,876	647,230
SPI Resources B.V.			81,234	115,586
AV&D SIA	19,803	28,177		
SPI-RVVK OAO	1,757	2,500		
SPV Distributor SIA	206	293		
S.P.I. Spirits (UK) Ltd.	629	895		
S.P.I.Group S.a.r.l.	9,810	13,958		
S.P.I.Group SA	346	492		
Spirits International.B.V.	2,050	2,917		
	1,484,073	2,111,645	967,214	1,376,222

(d) Purchase of Goods

SPI-RVVK OAO	6,156,566	8,760,004	6,213,290	8,840,715
S.P.I. Spirits Ltd.	48,685	69,273	23,297	33,149
Tambovskoje spirtovodocnoje predpriyatije Talvis	576,452	820,217	2,708,033	3,853,184
UAB Darija	10	14	3,063	4,358
UAB Bennet Distributors	7,762	11,044	50,909	72,437
SIA Bravo	886	1,261	1,358	1,932
	6,790,361	9,661,813	8,999,950	12,805,775

(e) Services Received

Tambovskoje spirtovodocnoje predpriyatije Talvis			1,954	2,780
SIA Meierovica 35	84,360	120,033	42,180	60,017
UAB Bennet Distributors	11,370	16,178	119,330	169,792
SIA Bravo	179	255	7,625	10,849
Spirits Product International IP B.V.	92,993	132,317	249,647	355,216
S.P.I. Spirits (Cyprus) Ltd.	1,028,271	1,463,098	1,103,625	1,570,317
UAB Baltijos alkoholiniai produktai			2,671	3,800
	1,217,173	1,731,881	1,527,032	2,172,771

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NOTES TO THE FINANCIAL STATEMENTS (continued)

28 Transactions with Related Parties (continued)

(f) Accounts Payable to Related Parties

	31.12.2007	31.12.2007	31.12.2006	31.12.2006
	LVL	EUR	LVL	EUR
SIA Meierovica 35			8,295	11,803
Torgovy Dom SPI-Trade			29	41
UAB Bennet Distributors			1,796	2,555
SPI-RVVK OAO			-	-
SIA Bravo	212	302	7,664	10,905
Spirits Product International IP B.V.	260,384	370,493	249,648	355,217
S.P.I. Spirits (Cyprus) Ltd.	1,631,847	2,321,909	946,062	1,346,125
Divinum OU	244	347		
Tambovskoje spirtovodocnoje predprijatije Talvis	172,867	245,968	6,679	9,504
	2,065,555	2,939,020	,1,220,173	1,736,150

The debts will be repaid in cash and they are not secured by guarantee or any other way.

(g) Account Receivable from Related Parties

	31.12.2007	31.12.2007	31.12.2006	31.12.2006
	LVL	EUR	LVL	EUR
S.P.I. Spirits (Cyprus) Ltd.	8,272,136	11,770,189	3,889,817	5,534,711
Torgovi Dom Rosvestalko	211,191	300,498	-	-
Spirits Product International IP B.V.	11,259	16,020	11,525	16,399
SIA Bravo	13,389	19,051	48,566	69,103
SIA AV&D	10,949,860	15,580,247	-	-
UAB Bennet Distributors	1,379,291	1,962,554	1,430,001	2,034,708
S.P.I. Production B.V.	826,735	1,176,338	58,109	82,682
SPI-RVVC OAO	60,385	85,920	198,740	282,782
SPI Resources B.V	2,786	3,964	2,786	3,964
Torgovy dom SPI-TRADE	41	58	-	-
Spirits International B.V	542	771	-	-
SIA Z Towers			1,244	1,770
SIA Meierovica 35 *	2,118,514	3,014,374	1,930,744	2,747,201
UAB Baltijos Alkoholiniai Produktai			4,628	6,585
SIA SPV Distributors	220	313		
S.P.I.Group S.a.r.l	11,572	16,465		
Divinum OU	175,629	249,898		
S.P.I Worldwide Trade Ltd.	70,280	100,001	70,280	99,999
	24,103,830	34,296,661	7,646,440	10,879,904

In 2007 and 2006 there were no significant unrecoverable debts of related parties.

* Regarding debt of Meierovica 35 SIA – on 13 December 2007 effective interest rate was 12.738%. Other debts are interest-free.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

29 Transactions with Related Parties (continued)

(h) Loans to Related Parties

S.P.I. Production B.V. **	14,477,762	20,600,000	14,477,762	20,600,000
S.P.I. Spirits (Cyprus) Ltd. *	12,650,472	18,000,000	-	-
SIA Z Towers			35,000	49,800
UAB Baltijos Alkoholiniai Produktai			66,063	94,000
	27,128,234	38,600,000	14,578,825	20,743,800
	2007	2007	2006	2006
	LVL	EUR	LVL	EUR
At the beginning of the reporting year	14,578,825	20,743,800	3,031,063	4,312,814
Loans granted during the reporting year	12,650,472	18,000,000	18,728,371	26,648,071
Loans repaid during the reporting year	(101,063)	(143,800)	(7,080,583)	(10,074,762)
Currency exchange rate fluctuation effect			(100,026)	(142,324)
At the end of the reporting year	27,128,234	38,600,000	14,578,825	20,743,799
Including:				
- short-term loans			101,063	143,800
- long-term loans – receivable within 2 up to 5 years	27,128,234	38,600,00	14,477,762	20,600,000
	27,128,234	38,600,000	14,578,825	20,743,800

* On 26 July 2007 the Company concluded a loan agreement with S.P.I.Spirits (Cyprus) Limited regarding loan of EUR 13,000,000. The value of the loan in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2007 amounted to LVL 9,136,452 (EUR 13,000,000). Loan repayment date is 30 June 2014.

* On 28 December 2007 the Company concluded a loan agreement with S.P.I. Spirits (Cyprus) Limited regarding loan of EUR 10,000,000. On 28 December 2007 the first part of EUR 5,000,000 was transferred, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2007 amounted to LVL 3,514,020. Repayment date - 28 December 2009.

* - On 20 April 2006 the Company concluded a long-term loan agreement with S.P.I. Production B.V. in the amount of EUR 20,600,000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2006 amounted Ls 14,477,762. Repayment date is 20 July 2010 or by mutual agreement 20 July 2015.

The debts will be repaid in cash and they are not secured by guarantee or any other way.

The effective interest rates of the granted loans at the balance sheet date were as follows:

	31.12.2007	31.12.2006
Loans granted	5.982% - 7.907%	4.461% - 6.989%

(i) Royalty Payments

The Company is leasing trade marks from S.P.I. group companies. The amount of the royalties depends on the amount of the produced drinks subject to royalty payments The payments are included in the amount of received services (Note 27(e)). In accordance with the Management's estimates in 2008 no significant changes are expected in the amount of royalty payments.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

28 Financial Risk Management

The Company's activity is exposed to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial standing.

(a) Credit Risk

Financial assets which potentially expose the Company to the certain credit risk concentration level, are mainly cash, trade accounts receivable and loans granted. The Company's policy ensures that goods are sold and services are rendered to customers having respective credit history. Trade accounts receivable are presented at their recoverable value. The Company's partners in cash operations are local and foreign financial institutions having respective credit history. 98% of the total income is made by transactions with related parties (in 2006: 49%). The largest credit risk concentration arises from accounts receivable from related companies, see Notes 27(g) and 27(h). Taking into account financial standing of the Group, the Company's Management believes that credit risk of transaction partners of the Company is considered as low.

(b) Foreign Exchange Risk

The Company is exposed to foreign currency exchange rate fluctuation risk arising from various currencies mainly because the majority of raw materials and materials are purchased by the Company in euro and US dollars, but the significant part of the production is sold in the domestic market and exported to the markets where euro and US dollar dominate. Since as of 1 January 2005 the Lat exchange rate was tied to EUR, therefore the LVL/EUR exchange rate fluctuation possibilities were limited, and any substantial influence of this exchange rate on future financial results is not foreseen. In order to decrease influence of US dollar, part of the financing received from credit institutions is denominated in US dollars.

Most material currency positions of the Company

	USD	31.12.2007 EUR	USD	31.12.2006 EUR
Financial assets in original currency	16,949,543	43,454,948	9,500,620	23,495,329
Financial liabilities in original currency	(8,094,986)	(38,861,294)	(8,216,641)	(17,227,019)
Net position in original currency	8,854,557	4,593,654	1,283,979	6,268,310
Net position in lats	4,285,605	3,228,438	688,213	4,405,393

(c) Interest Rate Risk

The Company is exposed to foreign exchange risk because interest has to be paid for the majority of liabilities that is being calculated by the floating interest rate (Note 10), as well as the Company's interest bearing assets have floating interest rate (Note 27(h)).

On 7 September 2007 the Company concluded an agreement with Nordea Bank Finland Plc regarding use of derivatives. In accordance with this agreement the Company is obliged to make interest payments from the amount of EUR 7,000,000, in its turn Nordea Bank Finland Plc makes interest payments to the Company with the floating interest rate. On 24 July 2007 the Company concluded a loan agreement with Nordea Bank Finland Plc on a loan of EUR 7,000,000. Payment schedules of both above-mentioned agreements coincide, as a result of that the Company makes partial loan interest rate fixation by the used derivatives.

(d) Liquidity Risk

The Company pursues a prudent liquidity risk management maintaining sufficient credit resources that allow settling liabilities when they fall due. On 31 December 2007 the Company's current assets exceeded its short-term liabilities by LVL 8.7 million (12.4 million EUR) (31 December 2006: LVL 11.3 million (16.1 million EUR)). Total amount of the credit line is LVL 8,083 thousand (11,501 thousand EUR). As at 31 December 2007 unused part of the credit line was LVL 4,025 thousand (5,727 thousand EUR).

NOTES TO THE FINANCIAL STATEMENTS (continued)

28 Risk Management (continued)

(e) Fair Value

There are no material difference between the carrying amount of financial assets and liabilities of the Company and fair value thereof.

(f) Capital Management

Equity of the Company meets the requirements of the Commercial Law of the Republic of Latvia. The Management of the Company ensures capital adequacy management in accordance with the good practice of the sector.

29 Tax Contingent Liabilities

The tax authorities have conducted complex tax audit of the Company for the period from 2002 to 2004. The outcome of this audit was not material to these financial statements.

The tax authorities may at any time conduct the accounting audit for the last three years after the taxation period and apply additional tax liabilities and penalties. The Management of the Company is not aware of any circumstances that could cause potential significant liabilities in the future.

30 Subsequent Events

There were no subsequent events since the last date of the reporting year that would have a significant effect on the financial position of the Company as at 31 December 2007.