

JOINT STOCK COMPANY LATVIJAS BALZAMS
(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS
FOR THE FIRST 6 MONTHS OF 2007

**PREPARED IN ACCORDANCE WITH REPUBLIC OF LATVIA STANDARDS OF
BOOKKEEPING**

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

Brian Andrew Dublin - Member of the Council

Names and positions of Board members

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

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

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

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

Valizhan Abidov – member of the Board

Reporting period

1 January – 30 June 2007

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



Riga
31.08.2007

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.

Interim Management Report contains truthful information.

A/s "Latvijas balzams"
Chairman of the Board

Rolands Gulbis

AS “Latvijas balzams”

Management report

Field of activity

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

The activity of enterprise in half-year 2007

AS “Latvijas balzams” is the biggest producer of alcoholic beverages in Latvia, as well as one of the largest taxpayers in Latvia. During first six month of 2007 LB paid 19.4 millions lats to the state budget, including excise tax amounting to 16 millions lats.

The unaudited turnover of the company in the first six months of year 2007 was 48.7 million lats, which is by 27.3% more than during first six months in 2006. The increase in turnover at local market is 33.7% as compared to the same period in 2006. The substantial increase of sales is reached in export market. In comparison with 2006, the export market sales increased for 17%, or else for 2 532 thousands lats. During the first six months in 2007, the sales to the EU counties increased for 15%, in comparison with the same period in 2006. Sales to Lithuania increased by 40% as compared to the same period in 2006. The top sales focus markets are Baltic States, Poland and Scandinavia, meanwhile new export markets are being acquired.

The profit for the reporting period was 1 494 thousands lats, that’s 102% more than in the first six months in 2006 (739 thousands lats).

Future perspectives of activity

For the second half-year 2007 one of the AS “Latvijas balzams” priorities is export expansion. Special emphasize is set to Poland and Scandinavian countries.

AS Latvijas balzams
Chairman of the Board

Rolands Gulbis

Riga, 31. August, 2007

Income statement for the period ended June 30, 2007

	Notes	01.01.2007 - 30.06.2007 Ls	01.01.2006 - 30.06.2006 Ls
Net turnover	1	48,770,590	38,312,783
Cost of sales	2	(42,888,338)	(33,934,456)
Gross profit or loss		5,882,252	4,378,327
Distribution costs	3	(2,152,752)	(1,907,197)
Administrative expenses	4	(1,965,765)	(1,767,791)
Other operating income		237,723	511,157
Interest receivable and similar income		385,126	169,242
Interest payable and similar expenses		(573,547)	(415,803)
Profit or loss before taxes		1,813,037	967,935
Corporate income tax		(271,955)	(145,190)
Other taxes		(46,305)	(83,822)
Profit or loss for the reporting year		1,494,777	738,922
Earnings per share (in santims)		19.94	9.86

Rolands Gulbis
Chairman of the Executive Board

Balance sheet as at June 30, 2007

ASSETS		Notes	30.06.2007 LVL	30.06.2006 LVL
NON-CURRENT ASSETS				
Intangible fixed assets				
Concessions, patents, licences and similar rights			7,660	27,731
Goodwill				
	TOTAL		7,660	27,731
Tangible fixed assets				
Land, buildings, constructions and perennial plants			18,469,689	19,066,078
Equipment and machinery			2,560,671	2,856,940
Other fixtures and fittings, tools and equipment			566,425	881,970
Construction in progress			774,073	859,329
Prepayments for tangible fixed assets			160,790	512,443
	TOTAL		22,531,648	24,176,759
Non-current financial assets				
Investments in share capital of related companies				3,909,000
	TOTAL			3,909,000
	TOTAL NON-CURRENT ASSETS		22,539,308	28,113,490
CURRENT ASSETS				
Inventories				
Raw materials			12,907,366	11,983,959
Work in progress			623,704	631,911
Finished goods and goods for resale			6,747,002	5,229,036
	TOTAL		20,303,267	17,888,998
Receivables				
Trade receivables			9,406,639	7,403,137
Receivables from related companies			19,516,480	19,414,027
Other receivables			157,543	90,117
Prepaid expense			200,406	151,082
	TOTAL		29,281,068	27,058,363
Cash (TOTAL)			323,006	264,612
	TOTAL CURRENT ASSETS		49,907,341	45,211,973
TOTAL ASSETS			72,446,649	73,325,463

Rolands Gulbis
Chairman of the Executive Board

EQUITY AND LIABILITIES

	Notes	30.06.2007	30.06.2006
		LVL	LVL
CAPITAL AND RESERVES			
Share capital		7,496,900	7,496,900
Share premium		61,767	61,767
Non-current assets revaluation reserve		12,193,932	13,404,396
Reserves:			
unrealized gain from investment in subsidiary undertakings			
other reserves			1,249,000
margin reserve			(11,101,905)
Retained earnings:			
brought forward		10,631,570	18,085,535
for the period		1,494,777	738,922
TOTAL EQUITY		31,878,946	29,934,615
PROVISIONS FOR LIABILITIES AND CHARGES			
Provisions for expected taxes		2,426,022	1,336,000
Other provisions		1,656,346	1,493,465
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES		4,082,368	2,829,465
LIABILITIES			
Non-current liabilities			
Loans from credit institutions		14,788,613	17,118,131
TOTAL		14,788,613	17,118,131
Current liabilities			
Loans from credit institutions		7,533,678	10,566,268
Trade payables		4,308,102	4,350,700
Taxes payable		9,185,225	8,109,852
Other liabilities		664,482	263,431
Undrawn dividends of previous years		5,235	5,235
TOTAL		21,696,722	23,443,252
TOTAL LIABILITIES		36,485,335	40,561,383
TOTAL EQUITY AND LIABILITIES		72,446,649	73,325,463

Rolands Gulbis
Chairman of the Executive Board

Cash flow statement for the period ended June 30, 2007

Notes	01.01.2007 - 30.06.2007 LVL	01.01.2006 - 30.06.2006 LVL
Cash flows to/ from operating activities		
Net profit or loss before extraordinary items and taxes	1,872,284	967,935
Adjustments for:		
Amortisation and depreciation	922,705	1,019,263
Interest income/expense	573,547	415,803
Increase/(decrease) in provisions	-182,077	379
Gain/loss on disposal of fixed assets	372,772	365,634
Operating profit or loss before working capital changes	3,559,231	2,769,014
(Increase)/decrease in inventories	-5,104,235	(5,120,601)
(Increase)/decrease in receivables	2,731,999	(7,099,059)
Increase/(decrease) in payables	-753,714	(7,452,300)
Cash generated from operations	433,281	(16,902,946)
Interest paid	-573,547	(416,361)
Dividends paid	-179,927	(179,927)
Corporate income tax paid	-693,943	(706,080)
Net cash flows to/ from operating activities	-1,014,136	(18,205,314)
Cash flows to/ from investing activities		
Purchase of fixed assets	-1,008,997	(688,851)
Acquisition of subsidiary	0	(500,000)
Net cash flows to/ from investing activities	-1,008,997	(1,188,851)
Cash flows to/ from financing activities		
Net loans paid	2,242,432	18,752,591
Net cash flows to/ from financing activities	2,242,432	18,752,591
Change in cash and cash equivalents	219,299	(641,574)
Cash and cash equivalents at the beginning of the reporting year	103,707	906,186
Cash and cash equivalents at the end of the reporting year	323,006	264,612

Statement of changes in equity for the period ended June 30, 2007

	Share capital	Share premium	Long-term investments revaluation reserve	Other reserves	Retained earnings	Total
Balance as at 1 January 2007	7,496,900	61,767	13,404,396	1,249,000	7,722,552	29,934,615
Profit/loss for the reporting period			(1,210,464)			(1,210,464)
Retained earnings					4,403,795	-
Dividends paid from the previous year's profit				(1,249,000)		(1,249,000)
Balance as at 30 June 2007	7,496,900	61,767	12,193,932	-	12,126,347	31,878,946

A/s Latvijas balzams

Address: A. Čaka , Rīga, LV-1012

Reg. number: LV40003031873

**1. Net sales**

	01.01.2007 – 30.06.2007	01.01.2006 – 30.06.2006
Sales of drinks in local market	31 332 527	23 428 595
Export of drinks and services	17 413 578	14 881 481
Other sales (spirits, raw materials)	24 485	2 707
TOTAL:	48 770 590	38 312 783

2. Cost of sales

Variable costs	41 215 032	32 051 277
<i>Materials</i>	37 622 449	29 126 317
<i>Goods bought</i>	200 374	122 306
<i>Salary expenses</i>	1 215 504	924 306
<i>Social insurance</i>	292 101	221 867
<i>Electricity</i>	257 778	221 556
<i>Natural resources tax</i>	189 928	186 549
<i>Other expenses</i>	1 436 898	1 248 376
Fixed costs	1 673 306	1 883 179
<i>Depreciation and amortisation</i>	645 438	745 907
<i>Salary expenses</i>	529 683	435 629
<i>Social insurance</i>	126 196	103 912
<i>Repair expenses</i>	249 877	361 169
<i>Services for production needs</i>	27 686	31 930
<i>Insurance</i>	34 918	29 594
<i>Laboratory and quality maintenance expenses</i>	17 100	17 719
<i>Other expenses</i>	42 408	157 319
TOTAL:	42 888 338	33 934 456

3. Selling expenses

Salary expenses	678 200	534 397
Social insurance	160 318	128 403
Depreciation and amortisation	120 993	119 578
Advertising	619 922	397 420
Transportation cost	332 864	520 665
Warehouse maintenance	57 811	32 064
Other expenses	182 644	174 670
TOTAL:	2 152 752	1 907 197

4. Administrative expenses

	01.01.2007 – 30.06.2007	01.01.2006– 30.06.2006
Salary expenses	539 741	455 171
Social insurance	85 010	99 113
Communication and postal expenses	71 765	90 108
Office expenses	37 005	43 319
Professional fees	40 342	40 470
IT maintenance	37 844	89 425
Representations	88 253	102 558
Security	71 388	85 176
Management services	15 143	158 707
Transportation	54 370	66 670
Business trip	14 200	41 221
Personnel education and training	5 578	2 053
Depreciation and amortisation	156 274	153 778
Financial help, sponsorship	24 281	85 604
Healthcare, health insurance	31 797	31 373
Other expenses	692 774	223 045
TOTAL:	1 965 765	1 767 791