

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(not audited)*

FOR THE FIRST 12 MONTHS OF 2007

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

Riga, 2008

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 88.05% of the company equity capital.

The activity of enterprise in year 2007

AS “Latvijas balzams” is the biggest producer of alcoholic beverages in Baltic States, as well as one of the largest taxpayers in Latvia. During first nine month of 2007 LB paid 46.7 millions lats to the state budget, including excise tax amounting to 36 millions lats.

The unaudited turnover of the company in year 2007 was 103.6 million lats, which is by 16.5% more than year 2006. The increase in turnover at local market is 20% as compared to the same period in 2006.

The production of AS “Latvijas balzams” takes leader position in local market keeping market share above 40% in category of strong and low alcoholic beverages. In accordance with State Revenue Service, in first nine months of this year, mainly sold alcoholic beverages were AS “Latvijas balzams” products (cider *Lucky Dog*, sparkling wine *Rīgas šampanietis* and vodka *3 graudu*)

In comparison with 2006, the export market sales increased for 10%, or else for 3 150 thousands lats. Sales to Lithuania increased by 48% as compared to the same period in 2006. The top sales focus markets are Baltic States and Scandinavia; meanwhile new export markets are being acquired. In year 2007, we have begun to sell AS “Latvijas balzams” products in new export markets such as Portugal, Armenia, China, Finland, Belgium and Italy.

The unaudited net profit from main business activities for the reporting period was 2 474 thousands lats, that is 4% less than in year 2006 (2 579 thousands lats). Profit decrease is entailed with sharp rise of resources and raw materials prices.

Future perspectives of activity

In year 2008 one of the AS “Latvijas balzams” priorities is export expansion. Special emphasis is set to Scandinavian countries.

AS Latvijas balzams
Chairman of the Board

Rolands Gulbis

Riga, 28 February, 2007

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



Riga
28.02.2008

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

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 – 31 December 2007

Income statement for the period ended December 31, 2007

	Notes	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
		Eur	Eur
Net turnover	1	147,418,661	126,555,573
Cost of sales	2	(129,692,731)	(110,330,044)
Gross profit or loss		17,725,930	16,225,529
Distribution costs	3	(6,895,528)	(6,993,422)
Administrative expenses	4	(6,692,271)	(5,983,611)
Other operating income		1,230,987	3,136,152
Other operating expense		-	(703,320)
Interest receivable and similar income		1,746,144	816,848
Interest payable and similar expenses		(2,579,182)	(1,745,306)
Profit or loss before taxes		4,536,080	4,752,870
Corporate income tax		(855,088)	(833,779)
Other taxes		(161,179)	(249,762)
Profit or loss for the reporting year		3,519,813	3,669,329
Earnings per share (in eurocents)		46.95	48.94

Rolands Gulbis
Chairman of the Executive Board

Balance sheet as at December 31, 2007

ASSETS

	Notes	31.12.2007 EUR	31.12.2006 EUR
NON-CURRENT ASSETS			
Intangible fixed assets			
Concessions, patents, licences and similar rights		7,916	13,977
TOTAL		7,916	13,977
Tangible fixed assets			
Land, buildings, constructions and perennial plants		25,952,428	26,833,292
Equipment and machinery		4,930,291	3,811,403
Other fixtures and fittings, tools and equipment		957,617	1,242,414
Construction in progress		954,251	458,377
Prepayments for tangible fixed assets		231,547	118,707
TOTAL		33,026,134	32,464,193
Non-current financial assets			
Loans to related companies		38,600,000	20,599,999
TOTAL		38,600,000	20,599,999
TOTAL NON-CURRENT ASSETS		71,634,050	53,078,170
CURRENT ASSETS			
Inventories			
Raw materials		17,148,024	14,479,652
Work in progress		587,165	967,011
Finished goods and goods for resale		7,789,465	5,301,744
TOTAL		25,524,654	20,748,406
Receivables			
Trade receivables		562,515	12,455,114
Receivables from related companies		31,707,549	11,023,704
Other receivables		86,815	798,493
Prepaid expense		194,274	201,291
TOTAL		32,551,153	24,478,601
Cash (TOTAL)		159,129	147,562
TOTAL CURRENT ASSETS		58,234,936	45,374,570
TOTAL ASSETS		129,868,986	98,452,739

Rolands Gulbis
 Chairman of the Executive Board

EQUITY AND LIABILITIES

	Notes	31.12.2007	31.12.2006
CAPITAL AND RESERVES		EUR	EUR
Share capital		10,667,128	10,667,128
Share premium		87,887	87,887
Non-current assets revaluation reserve		17,350,403	17,350,402
Retained earnings:			
brought forward		15,127,361	11,714,045
for the period		3,519,813	3,669,329
TOTAL EQUITY		46,752,591	43,488,791
LIABILITIES			
Non-current liabilities			
Loans from credit institutions		37,054,406	18,472,466
Deferred taxation		3,451,918	3,451,918
TOTAL		40,506,325	21,924,385
Current liabilities			
Loans from credit institutions		16,615,120	10,098,599
Trade payables		9,124,760	6,628,014
Payables to related companies		3,683,711	2,111,136
Taxes payable		11,572,306	12,425,806
Other liabilities		631,463	502,477
Undrawn dividends of previous years		7,449	7,449
Accrued liabilities		975,262	1,266,083
TOTAL		42,610,071	33,039,564
TOTAL LIABILITIES		83,116,396	54,963,949
TOTAL EQUITY AND LIABILITIES		129,868,986	98,452,739

 Rolands Gulbis
 Chairman of the Executive Board

Cash flow statement for the period ended December 31, 2007

Notes	01.01.2007 - 30.09.2007 EUR	01.01.2006 - 30.09.2006 EUR
Cash flows to/ from operating activities		
Net profit or loss before extraordinary items and taxes	4,536,080	4,332,828
Adjustments for:		
Amortisation and depreciation	2,621,136	2,777,245
Interest income/expense	977,489	1,464,434
Increase/(decrease) in provisions	148,534	652,705
Gain/loss on disposal of fixed assets	44,165	542,356
Operating profit or loss before working capital changes	8,327,403	9,769,569
(Increase)/decrease in inventories	2,406,164	(3,376,287)
(Increase)/decrease in receivables	9,045,351	10,870,645
Increase/(decrease) in payables	6,040,321	1,876,813
Cash generated from operations	25,819,240	19,140,740
Interest paid	(1,557,131)	(1,440,353)
Dividends paid	(256,012)	(256,013)
Corporate income tax paid	(1,155,170)	(1,742,768)
Net cash flows to/ from operating activities	22,850,927	15,701,606
Cash flows to/ from investing activities		
Purchase of fixed assets	(3,622,182)	(3,600,742)
Acquisition of subsidiary	-	(1,422,872)
Net cash flows to/ from investing activities	(3,622,182)	(5,023,614)
Cash flows to/ from financing activities		
Net loans paid	(19,217,177)	(11,819,816)
Net cash flows to/ from financing activities	(19,217,177)	(11,819,816)
Change in cash and cash equivalents	11,568	(1,141,824)
Cash and cash equivalents at the beginning of the reporting year	147,562	1,289,387
Cash and cash equivalents at the end of the reporting year	159,130	147,562

Statement of changes in equity for the period ended December 31, 2007

	Share capital	Share premium	Long-term investments revaluation reserve	Other reserves	Merger reserve	Retained earnings	Total
Balance as at 1 January 2006	10,667,128	87,887	7,590,506	1,777,234	(15,796,588)	25,989,411	30,315,578
Revaluated fixed assets	-	-	11,482,231	-	-	-	11,482,231
Changes in liabilities of deferred taxation	-	-	(1,722,335)	-	-	-	(1,722,335)
Dividends	-	-	-	-	-	(256,013)	(256,013)
Transfer of reserves to retained earnings	-	-	-	-	15,796,588	(15,796,588)	-
Transfer of other reserves to retained earnings	-	-	-	(1,777,234)	-	1,777,234	-
Profit/loss for the reporting period	-	-	-	-	-	3,669,329	3,669,329
Balance as at 31 December 2006	10,667,128	87,887	17,350,403	-	-	15,383,373	43,488,790
Balance as at 1 January 2007	10,667,128	87,887	17,350,403	-	-	15,383,373	43,488,790
Dividends	-	-	-	-	-	(256,012)	(256,012)
Profit/loss for the reporting period	-	-	-	-	-	3,519,812	3,519,812
Balance as at 31 December 2007	10,667,128	87,887	17,350,403	-	-	18,647,173	46,752,590

1. Net sales

	01.01.2007 – 31.12.2007	01.01.2006 – 31.12.2006
Sales of drinks in local market	98,132,200	81,784,187
Export of drinks and services	49,221,370	44,734,566
Other sales (spirits, raw materials)	65,091	36,820
TOTAL:	147,418,662	126,555,573

2. Cost of sales

Variable costs:	124,270,252	104,775,987
Materials	115,584,894	96,894,841
Goods bought	1,006,113	479,057
Salary expenses	3,444,488	2,696,493
Social insurance	826,893	647,677
Electricity	818,854	637,844
Natural resources tax	793,383	736,062
Other expenses	1,795,626	2,684,014
Fixed costs:	5,422,479	5,554,056
Depreciation and amortization	1,852,706	1,996,668
Salary expenses	1,576,923	1,258,926
Social insurance	373,924	298,516
Repair expenses	657,912	1,381,792
Services for production needs	288,699	129,168
Insurance	101,882	89,134
Laboratory and quality maintenance expenses	63,723	77,480
Other expenses	506,710	322,373
TOTAL:	129,692,731	110,330,044

3. Selling expenses

Salary expenses	2,069,014	1,561,417
Social insurance	492,346	372,896
Depreciation and amortization	345,210	345,065
Advertising	2,335,936	2,841,499
Transportation cost	1,013,018	1,279,997
Warehouse maintenance	189,387	114,533
Other expenses	450,618	478,015
TOTAL:	6,895,528	6,993,422

A/s Latvijas balzams

Address: A. Čaka street, Riga, LV-1012

Reg. number: LV40003031873



4. Administrative expenses

	01.01.2007 – 31.12.2007	01.01.2006 – 31.12.2006
Salary expenses	1,656,332	1,408,697
Social insurance	206,933	229,949
Communication and postal expenses	213,821	346,964
Office expenses	131,167	154,565
Professional fees	326,163	240,373
IT maintenance	99,743	375,763
Representations	283,963	304,398
Security	168,455	235,327
Management services	1,054,603	1,508,926
Transportation	157,207	181,349
Business trip	33,476	104,587
Personnel education and training	24,627	15,206
Depreciation and amortization	423,220	435,513
Financial help, sponsorship	101,289	193,437
Healthcare, health insurance	98,618	97,872
Other expenses	1,712,654	150,685
TOTAL:	6,692,271	5,983,611