

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(not audited)*

FOR THE 12 MONTHS OF 2007

PREPARED UNDER LATVIAN ACCOUNTING STANDARDS

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 Ls	01.01.2006 - 31.12.2006 Ls
Net turnover	1	103,606,425	88,943,763
Cost of sales	2	(91,148,571)	(77,540,396)
Gross profit or loss		12,457,854	11,403,367
Distribution costs	3	(4,846,205)	(4,915,005)
Administrative expenses	4	(4,703,355)	(4,205,306)
Other operating income		865,142	2,204,100
Other operating expense		-	(494,296)
Interest receivable and similar income		1,227,197	574,084
Interest payable and similar expenses		(1,812,660)	(1,226,608)
Profit or loss before taxes		3,187,975	3,340,336
Corporate income tax		(600,960)	(585,983)
Other taxes		(113,277)	(175,534)
Profit or loss for the reporting year		2,473,738	2,578,819
Earnings per share (in santims)		33.00	34.40

Rolands Gulbis
Chairman of the Executive Board

Balance sheet as at December 31, 2007

ASSETS

	31.12.2007 LVL	31.12.2006 LVL
NON-CURRENT ASSETS		
Intangible fixed assets		
Concessions, patents, licences and similar rights	5,563	9,823
TOTAL	5,563	9,823
Tangible fixed assets		
Land, buildings, constructions and perennial plants	18,239,470	18,858,545
Equipment and machinery	3,465,028	2,678,669
Other fixtures and fittings, tools and equipment	673,017	873,173
Construction in progress	670,652	322,149
Prepayments for tangible fixed assets	162,732	83,428
TOTAL	23,210,899	22,815,965
Non-current financial assets		
Loans to related companies	27,128,234	14,477,762
TOTAL	27,128,234	14,477,762
TOTAL NON-CURRENT ASSETS	50,344,697	37,303,550
CURRENT ASSETS		
Inventories		
Raw materials	12,051,700	10,176,357
Work in progress	412,662	679,619
Finished goods and goods for resale	5,474,467	3,726,087
TOTAL	17,938,829	14,582,063
Receivables		
Trade receivables	395,338	8,753,504
Receivables from related companies	22,284,192	7,747,503
Other receivables	61,014	561,184
Prepaid expense	136,536	141,468
TOTAL	22,877,080	17,203,659
Cash (TOTAL)	111,837	103,707
TOTAL CURRENT ASSETS	40,927,746	31,889,429
TOTAL ASSETS	91,272,443	69,192,979

Rolands Gulbis
Chairman of the Executive Board

EQUITY AND LIABILITIES

	31.12.2007	31.12.2006
	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	12,193,932
Retained earnings:		
brought forward	10,631,570	8,232,678
for the period	2,473,738	2,578,819
TOTAL EQUITY	32,857,908	30,564,096
LIABILITIES		
Non-current liabilities		
Loans from credit institutions	26,041,985	12,982,523
Deferred taxation	2,426,022	2,426,022
TOTAL	28,468,007	15,408,545
Current liabilities		
Loans from credit institutions	11,677,173	7,097,336
Trade payables	6,412,918	4,658,195
Payables to related companies	2,588,927	1,483,715
Taxes payable	8,133,063	8,732,906
Other liabilities	443,795	353,143
Undrawn dividends of previous years	5,235	5,235
Accrued liabilities	685,418	889,808
TOTAL	29,946,528	23,220,338
TOTAL LIABILITIES	58,414,535	38,628,883
TOTAL EQUITY AND LIABILITIES	91,272,443	69,192,979

 Rolands Gulbis
 Chairman of the Executive Board

Cash flow statement for the period ended December 31, 2007

	01.01.2007 - 31.12.2007 LVL	01.01.2006 - 31.12.2006 LVL
Cash flows to/ from operating activities		
Net profit or loss before extraordinary items and taxes	3,187,975	3,045,129
Adjustments for:		
Amortisation and depreciation	1,842,145	1,951,859
Interest income/expense	686,983	1,029,210
Increase/(decrease) in provisions	104,390	458,724
Gain/loss on disposal of fixed assets	31,039	381,170
Operating profit or loss before working capital changes	5,852,532	6,866,092
(Increase)/decrease in inventories	1,691,062	(2,372,868)
(Increase)/decrease in receivables	6,357,109	7,639,933
Increase/(decrease) in payables	4,245,162	1,319,031
Cash generated from operations	18,145,865	13,452,188
Interest paid	(1,094,358)	(1,012,286)
Dividends paid	(179,926)	(179,927)
Corporate income tax paid	(811,858)	(1,224,824)
Net cash flows to/ from operating activities	16,059,723	11,035,151
Cash flows to/ from investing activities		
Purchase of fixed assets	(2,545,684)	(2,530,616)
Acquisition of subsidiary	-	(1,000,000)
Net cash flows to/ from investing activities	(2,545,684)	(3,530,616)
Cash flows to/ from financing activities		
Net loans paid	(13,505,909)	(8,307,014)
Net cash flows to/ from financing activities	(13,505,909)	(8,307,014)
Change in cash and cash equivalents	8,130	(802,479)
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	111,837	103,707

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	7,496,900	61,767	5,334,638	1,249,047	(11,101,905)	18,265,462	21,305,910
Revaluated fixed assets	-	-	8,069,758	-	-	-	8,069,758
Changes in liabilities of deferred taxation	-	-	(1,210,464)	-	-	-	(1,210,464)
Dividends	-	-	-	-	-	(179,927)	(179,927)
Transfer of reserves to retained earnings	-	-	-	-	11,101,905	(11,101,905)	-
Transfer of other reserves to retained earnings	-	-	-	(1,249,047)	-	1,249,047	-
Profit/loss for the reporting period	-	-	-	-	-	2,578,819	2,578,819
Balance as at 31 December 2006	7,496,900	61,767	12,193,932	-	-	10,811,496	30,564,096
Balance as at 1 January 2007	7,496,900	61,767	12,193,932	-	-	10,811,496	30,564,096
Dividends	-	-	-	-	-	(179,926)	(179,926)
Profit/loss for the reporting period	-	-	-	-	-	2,473,738	2,473,738
Balance as at 31 December 2007	7,496,900	61,767	12,193,932	-	-	13,105,308	32,857,908

A/s Latvijas balzams

Address: A. Čaka iela, Rīga, LV-1012

Reg. number: LV40003031873

**1. Net sales**

	01.01.2007 – 31.12.2007	01.01.2006 – 31.12.2006
Sales of drinks in local market	68,967,703	57,478,254
Export of drinks and services	34,592,976	31,439,632
Other sales (spirits, raw materials)	45,746	25,877
TOTAL:	103,606,425	88,943,763

2. Cost of sales

Variable costs:	87,337,630	73,636,983
Materials	81,233,526	68,098,082
Goods bought	707,100	336,683
Salary expenses	2,420,800	1,895,106
Social insurance	581,144	455,190
Electricity	575,494	448,279
Natural resources tax	557,593	517,307
Other expenses	1,261,973	1,886,336
Fixed costs:	3,810,940	3,903,413
Depreciation and amortization	1,302,089	1,403,266
Salary expenses	1,108,268	884,778
Social insurance	262,795	209,798
Repair expenses	462,383	971,129
Services for production needs	202,899	90,780
Insurance	71,603	62,644
Laboratory and quality maintenance expenses	44,785	54,453
Other expenses	356,118	226,565
TOTAL:	91,148,570	77,540,396

3. Selling expenses

Salary expenses	1,454,111	1,097,370
Social insurance	346,023	262,073
Depreciation and amortization	242,615	242,513
Advertising	1,641,705	1,997,017
Transportation cost	711,953	899,587
Warehouse maintenance	133,102	80,494
Other expenses	316,696	335,951
TOTAL:	4,846,205	4,915,005

4. Administrative expenses

	01.01.2007 – 31.12.2007	01.01.2006 – 31.12.2006
Salary expenses	1,164,077	990,038
Social insurance	145,433	161,609
Communication and postal expenses	150,274	243,848
Office expenses	92,185	108,629
Professional fees	229,229	168,935
IT maintenance	70,100	264,088
Representations	199,570	213,932
Security	118,391	165,389
Management services	741,179	1,060,479
Transportation	110,486	127,453
Business trip	23,527	73,504
Personnel education and training	17,308	10,687
Depreciation and amortization	297,441	306,080
Financial help, sponsorship	71,186	135,948
Healthcare, health insurance	69,309	68,785
Other expenses	1,203,660	105,902
TOTAL:	4,703,355	4,205,306