

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

UNAUDITED FINANCIAL STATEMENTS

FOR THE FIRST 6 MONTHS OF 2008

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

Riga, 2008

Management report

Field of activity

The enterprise was founded in 1900, but the actual name it has got in 1970. Today, LB is a leading producer of alcoholic beverages in the Baltics. 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’s equity capital.

The activity of enterprise in 1st half year of 2008

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 months of 2008 LB paid 22.9 millions lats to the state budget, including excise tax amounting to 17.5 million lats.

The unaudited turnover of the company in the first six months of year 2008 was 50.9 million lats, which is by 2% more than during first six months of 2007. The decrease in turnover at local market was 4.8% as compared to the same period in 2007. In comparison with 2007, the export market sales increased by 14.5%, or 2 529 thousands lats. During the first six months of year 2008, the sales to the EU counties increased by 16.2% in comparison with the same period in 2007. Sales to Lithuania increased by 19.4% and to Estonia by 10.8% as compared to the same period in 2007. The top sales focus markets are Baltic States, Poland and Scandinavia, meanwhile new export markets are being acquired.

After losses in 1st quarter of 2008 the company, having proceeded with steps to increase its business efficiency and amend price policy, has returned to profitability. The profit for the reporting period was 1 418 thousands lats, that’s 5% less than in the first six months in 2007 (1 495 thousands lats).

Future perspectives of activity

For the second half year of 2008 AS “Latvijas balzams” priorities will be control of production expenses and limitation of cost increase as well as continuation of export business development.

AS Latvijas balzams
Chairman of the Board

Karlis Andersons

Rīga, 26 August, 2008

Riga
26.08.2008

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

Karlis Andersons

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

Valizhan Abidov– Member of the Council

Georgy Kipiani- Member of the Council

Names and positions of Board members

Karlis Andersons – 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 2008

Income statement for the period ended June 30, 2008

	Notes	01.01.2007 - 30.06.2007 EUR*	01.01.2006 - 30.06.2006 EUR*
Net turnover	1	72,518,898	71,175,826
Cost of sales	2	(63,212,187)	(62,806,136)
Gross profit or loss		9,306,711	8,369,690
Distribution costs	3	(3,168,043)	(3,063,090)
Administrative expenses	4	(3,820,439)	(2,797,032)
Other operating income		529,096	338,249
Interest receivable and similar income		1,270,539	547,985
Interest payable and similar expenses		(1,681,574)	(816,084)
Profit or loss before taxes		2,436,291	2,579,719
Corporate income tax		(355,949)	(386,957)
Other taxes		(63,299)	(65,886)
Profit or loss for the reporting year		2,017,043	2,126,876
Earnings per share (cents)		26.91	28.37

* - after currency exchange rate set by Bank of Latvia (1 EUR = 0.702804 LVL)

Karlis Andersons
Chairman of the Executive Board

Balance sheet as at June 30, 2008

		Notes	30.06.2008 EUR*	30.06.2007 EUR*
ASSETS				
NON-CURRENT ASSETS				
Intangible fixed assets				
	Concessions, patents, licences and similar rights		5,122	10,899
	TOTAL		5,122	10,899
Tangible fixed assets				
	Land, buildings, constructions and perennial plants		25,420,611	26,280,000
	Equipment and machinery		5,186,175	3,643,507
	Other fixtures and fittings, tools and equipment		826,688	805,950
	Construction in progress		205,528	1,101,407
	Prepayments for tangible fixed assets		507,158	228,784
	TOTAL		32,146,160	32,059,647
Non-current financial assets				
	Loans to related companies		35,334,149	20,634,148.92
	TOTAL		35,334,149	20,634,148.92
	TOTAL NON-CURRENT ASSETS		67,485,431	52,704,695
CURRENT ASSETS				
Inventories				
	Raw materials		17,078,534	18,365,527
	Work in progress		916,143	887,451
	Finished goods and goods for resale		6,709,558	9,600,119
	Imported goods for resale		849,243	-
	Prepayments for goods		3,244,689	35,849
	TOTAL		28,798,166	28,888,946
Receivables				
	Trade receivables		821,808	13,384,441
	Receivables from related companies		22,723,038	7,169,449
	Other receivables		31,329	224,163
	Prepaid expense		245,699	285,152
	TOTAL		23,821,875	21,063,206
	Cash (TOTAL)		1,414,905	425,447
	TOTAL CURRENT ASSETS		54,034,946	50,377,600
	TOTAL ASSETS		121,520,377	103,082,295

* - after currency exchange rate set by Bank of Latvia (1 EUR = 0.702804 LVL)

Karlis Andersons
 Chairman of the Executive Board

EQUITY AND LIABILITIES

	Notes	30.06.2008	30.06.2007
		EUR*	EUR*
CAPITAL AND RESERVES			
Share capital		10,667,128	10,667,128
Share premium		87,887	87,887
Non-current assets revaluation reserve		17,350,402	17,350,402
Retained earnings:		-	-
brought forward		19,852,278	15,127,361
for the period		2,017,043	2,126,876
	TOTAL EQUITY	49,974,737	45,359,654
PROVISIONS FOR LIABILITIES AND CHARGES			
Deferred taxation		3,203,899	3,451,918
Other provisions		5,471,829	2,356,768
	TOTAL PROVISIONS FOR LIABILITIES AND CHARGES	8,675,729	5,808,686
LIABILITIES			
Non-current liabilities			
Loans from credit institutions		31,142,484	21,042,301
	TOTAL	31,142,484	21,042,301
Current liabilities			
Loans from credit institutions		13,302,757	10,719,458
Trade payables		7,310,761	6,129,877
Taxes payable		10,198,113	13,069,398
Other liabilities		908,346	945,473
Undrawn dividends of previous years		7,449	7,449
	TOTAL	31,727,426	30,871,654
	TOTAL LIABILITIES	62,869,911	51,913,955
TOTAL EQUITY AND LIABILITIES		121,520,377	103,082,295

* - after currency exchange rate set by Bank of Latvia (1 EUR = 0.702804 LVL)

Karlis Andersons
 Chairman of the Executive Board

Cash flow statement for the period ended June 30, 2008

Notes	01.01.2008 - 30.06.2008 EUR*	01.01.2007 - 30.06.2007 EUR*
Cash flows to/ from operating activities		
Net profit or loss before extraordinary items and taxes	2,436,291	2,664,020
Adjustments for:		
Amortisation and depreciation	1,277,453	1,312,891
Interest income/expense	413,783	816,084
Increase/(decrease) in provisions	305,777	(259,072)
Gain/loss from fluctuations of currency exchange rates	(306,896)	-
Gain/loss on disposal of fixed assets	(904)	530,407
Operating profit or loss before working capital changes	4,125,503	5,064,329
(Increase)/decrease in inventories	(2,351,597)	(7,262,672)
(Increase)/decrease in receivables	11,351,126	3,887,284
Increase/(decrease) in payables	(5,433,025)	(1,072,438)
Cash generated from operations	7,692,007	616,503
Interest paid	(1,701,760)	(816,084)
Dividends paid	-	(256,013)
Corporate income tax paid	(659,372)	(987,392)
Net cash flows to/ from operating activities	5,330,875	(1,442,986)
Cash flows to/ from investing activities		
Purchase of fixed assets	(408,082)	(1,435,673)
Loans granted	(5,000,000)	-
Repayment of granted loans	8,300,000	-
Interest received	1,955,727	-
Dividends received	28,793	-
Net cash flows to/ from investing activities	4,876,438	(1,435,673)
Cash flows to/ from financing activities		
Net loans paid	(8,917,388)	3,190,693
Net cash flows to/ from financing activities	(8,917,388)	3,190,693
Change in cash and cash equivalents	1,289,924	312,034
Cash and cash equivalents at the beginning of the reporting year	124,981	147,562
Cash and cash equivalents at the end of the reporting year	1,414,905	459,596

* - after currency exchange rate set by Bank of Latvia (1 EUR = 0.702804 LVL)

Statement of changes in equity for the period ended June 30, 2008

	Share capital	Share premium	Long-term investments revaluation reserve	Retained earnings	Total
Balance as at 1 January 2008, EUR*	10,667,128	87,887	17,350,403	19,852,278	47,957,694
Profit/loss for the reporting period	-	-	-	2,017,043	2,017,043
Retained earnings	-	-	-	-	-
Dividends paid from the previous year's profit	-	-	-	-	-
Balance as at 30 June 2008, EUR*	10,667,128	87,887	17,350,403	21,869,321	49,974,737

* - after currency exchange rate set by Bank of Latvia (1 EUR = 0.702804 LVL)