

# **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 1<sup>st</sup> 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

Rīga  
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	01.01.2008 - 30.06.2008 Ls	01.01.2007 - 30.06.2007 Ls
Net turnover	1	50,966,572	50,022,655
Cost of sales	2	(44,425,778)	(44,140,403)
<b>Gross profit or loss</b>		<b>6,540,794</b>	<b>5,882,252</b>
Distribution costs	3	(2,226,513)	(2,152,752)
Administrative expenses	4	(2,685,020)	(1,965,765)
Other operating income		371,851	237,723
Interest receivable and similar income		892,940	385,126
Interest payable and similar expenses		(1,181,817)	(573,547)
<b>Profit or loss before taxes</b>		<b>1,712,235</b>	<b>1,813,037</b>
Corporate income tax		(250,162)	(271,955)
Other taxes		(44,487)	(46,305)
<b>Profit or loss for the reporting year</b>		<b>1,417,586</b>	<b>1,494,777</b>
Earnings per share (in santims)		18.91	19.94

Karlis Andersons  
Chairman of the Executive Board

## Balance sheet as at June 30, 2008

		<b>ASSETS</b>	
	Notes	30.06.2008	30.06.2007
		LVL	LVL
<b>NON-CURRENT ASSETS</b>			
<b>Intangible fixed assets</b>			
Concessions, patents, licences and similar rights		3,600	7,660
TOTAL		<b>3,600</b>	<b>7,660</b>
<b>Tangible fixed assets</b>			
Land, buildings, constructions and perennial plants		17,865,707	18,469,689
Equipment and machinery		3,644,864	2,560,671
Other fixtures and fittings, tools and equipment		581,000	566,425
Construction in progress		144,446	774,073
Prepayments for tangible fixed assets		356,433	160,790
TOTAL		<b>22,592,450</b>	<b>22,531,648</b>
<b>Non-current financial assets</b>			
Loans to related companies		24,832,981	14,501,762
TOTAL		<b>24,832,981</b>	<b>14,501,762</b>
<b>TOTAL NON-CURRENT ASSETS</b>		<b>47,429,031</b>	<b>37,041,070</b>
<b>CURRENT ASSETS</b>			
<b>Inventories</b>			
Raw materials		12,002,862	12,907,366
Work in progress		643,869	623,704
Finished goods and goods for resale		4,715,504	6,747,002
Imported goods for resale		596,851	-
Prepayments for goods		2,280,380	25,195
TOTAL		<b>20,239,466</b>	<b>20,303,267</b>
<b>Receivables</b>			
Trade receivables		577,570	9,406,639
Receivables from related companies		15,969,842	5,038,718
Other receivables		22,018	157,543
Prepaid expense		172,678	200,406
TOTAL		<b>16,742,109</b>	<b>14,803,306</b>
Cash (TOTAL)		994,401	299,006
<b>TOTAL CURRENT ASSETS</b>		<b>37,975,976</b>	<b>35,405,579</b>
<b>TOTAL ASSETS</b>		<b>85,405,007</b>	<b>72,446,649</b>

Karlis Andersons  
Chairman of the Executive Board

## EQUITY AND LIABILITIES

	Notes	30.06.2008 LVL	30.06.2007 LVL
<b>CAPITAL AND RESERVES</b>			
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		13,952,260	10,631,570
for the period		1,417,586	1,494,777
<b>TOTAL EQUITY</b>		<b>35,122,445</b>	<b>31,878,946</b>
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>			
Deferred taxation		2,251,713	2,426,022
Other provisions		3,845,623	1,656,346
<b>TOTAL PROVISIONS FOR LIABILITIES AND CHARGES</b>		<b>6,097,337</b>	<b>4,082,368</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans from credit institutions		21,887,063	14,788,613
<b>TOTAL</b>		<b>21,887,063</b>	<b>14,788,613</b>
<b>Current liabilities</b>			
Loans from credit institutions		9,349,231	7,533,678
Trade payables		5,138,032	4,308,102
Taxes payable		7,167,275	9,185,225
Other liabilities		638,389	664,482
Undrawn dividends of previous years		5,235	5,235
<b>TOTAL</b>		<b>22,298,162</b>	<b>21,696,722</b>
<b>TOTAL LIABILITIES</b>		<b>44,185,225</b>	<b>36,485,335</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>85,405,007</b>	<b>72,446,649</b>

Karlis Andersons  
Chairman of the Executive Board

## Cash flow statement for the period ended June 30, 2008

	Notes	01.01.2008 - 30.06.2008 LVL	01.01.2007 - 30.06.2007 LVL
<b>Cash flows to/ from operating activities</b>			
Net profit or loss before extraordinary items and taxes		1,712,235	1,872,284
Adjustments for:			
Amortisation and depreciation		897,799	922,705
Interest income/expense		290,808	573,547
Increase/(decrease) in provisions		214,901	(182,077)
Gain/loss from fluctuations of currency exchange rates		(215,688)	-
Gain/loss on disposal of fixed assets		(635)	372,772
<b>Operating profit or loss before working capital changes</b>		<b>2,899,420</b>	<b>3,559,231</b>
(Increase)/decrease in inventories		(1,652,712)	(5,104,235)
(Increase)/decrease in receivables		7,977,617	2,731,999
Increase/(decrease) in payables		(3,818,352)	(753,714)
<b>Cash generated from operations</b>		<b>5,405,973</b>	<b>433,281</b>
Interest paid		(1,196,004)	(573,547)
Dividends paid			(179,927)
Corporate income tax paid		(463,409)	(693,943)
<b>Net cash flows to/ from operating activities</b>		<b>3,746,560</b>	<b>(1,014,136)</b>
<b>Cash flows to/ from investing activities</b>			
Purchase of fixed assets		(286,802)	(1,008,997)
Loans granted		(3,514,020)	-
Repayment of granted loans		5,833,273	-
Interest received		1,374,493	-
Dividends received		20,236	-
<b>Net cash flows to/ from investing activities</b>		<b>3,427,180</b>	<b>(1,008,997)</b>
<b>Cash flows to/ from financing activities</b>			
Net loans paid		(6,267,176)	2,242,432
<b>Net cash flows to/ from financing activities</b>		<b>(6,267,176)</b>	<b>2,242,432</b>
<b>Change in cash and cash equivalents</b>		<b>906,564</b>	<b>219,299</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>		<b>87,837</b>	<b>103,707</b>
<b>Cash and cash equivalents at the end of the reporting year</b>		<b>994,401</b>	<b>323,006</b>



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

	Share capital	Share premium	Long-term investments revaluation reserve	Retained earnings	Total
<b>Balance as at 1 January 2008</b>	<b>7,496,900</b>	<b>61,767</b>	<b>12,193,932</b>	<b>13,952,260</b>	<b>33,704,860</b>
Profit/loss for the reporting period	-	-	-	1,417,586	1,417,586
Retained earnings	-	-	-	-	-
Dividends paid from the previous year's profit	-	-	-	-	-
<b>Balance as at 30 June 2008</b>	<b>7,496,900</b>	<b>61,767</b>	<b>12,193,932</b>	<b>15,369,846</b>	<b>35,122,445</b>

## 1. Net sales

	01.01.2008 – 30.06.2008	01.01.2007 – 30.06.2007
Sales of drinks in local market	31,016,009	31,332,527
Export of drinks and services	19,942,642	17,413,578
Other sales (spirits, raw materials)	7,921	24,485
<b>TOTAL:</b>	<b>50,966,572</b>	<b>48,770,590</b>

## 2. Cost of sales

Variable costs:	42,418,076	42,343,572
Materials	38,529,047	41,627,537
Goods bought	275,830	200,374
Salary expenses	1,175,917	1,215,505
Social insurance	282,483	292,101
Electricity	346,073	257,778
Natural resources tax	221,765	189,928
Other expenses	1,586,961	(1,439,651)
Fixed costs:	2,007,702	1,796,831
Depreciation and amortization	650,632	645,438
Salary expenses	537,953	529,863
Social insurance	128,594	126,196
Repair expenses	273,545	249,877
Services for production needs	179,082	27,686
Insurance	49,824	34,918
Laboratory and quality maintenance expenses	19,949	17,100
Other expenses	168,123	165,753
<b>TOTAL:</b>	<b>44,425,778</b>	<b>44,140,403</b>

## 3. Selling expenses

Salary expenses	703,630	678,200
Social insurance	168,631	160,318
Depreciation and amortization	117,114	120,993
Advertising	601,183	619,922
Transportation cost	338,110	332,864
Warehouse maintenance	84,462	57,811
Other expenses	213,383	182,644
<b>TOTAL:</b>	<b>2,226,513</b>	<b>2,152,752</b>

#### 4. Administrative expenses

	01.01.2008 – 30.06.2008	01.01.2007 – 30.06.2007
Salary expenses	745,968	539,741
Social insurance	105,568	85,010
Communication and postal expenses	42,244	71,765
Office expenses	31,584	37,005
Professional fees	31,233	40,342
IT maintenance	29,031	37,843
Representations	113,196	88,253
Security	44,979	71,388
Management services	316,835	373,578
Transportation	21,166	54,370
Business trip	9,135	14,200
Personnel education and training	7,272	5,578
Depreciation and amortization	128,090	156,274
Financial help, sponsorship	27,062	24,346
Healthcare, health insurance	5,173	31,797
Other expenses	1,026,485	334,277
<b>TOTAL:</b>	<b>2,685,020</b>	<b>1,965,765</b>