

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(not audited)*

FOR THE FIRST 9 MONTHS OF 2008

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

Riga, 2008

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

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

Ronalds Zarinovs – Member of the Board
Production director of AS Latvijas balzams

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

Signe Bidermane – Member of the Board
Director of human resources department of AS Latvijas
balzams

Reporting period

1 January – 30 September 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 88% shares of the company's equity capital.

The activity of enterprise in 9 month of year 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 nine months of 2008 LB paid 33.5 millions lats to the state budget, including excise tax amounting to 25.8 million lats.

The unaudited turnover of the company in the first nine months of year 2008 was 78.9 million lats, which is by 5.9% more than during first nine months of 2007. The decrease in turnover at local market was 5.5% as compared to the same period in 2007. In comparison with 2007, the export market sales increased by 25%, or 1 1194 thousands lats. During the first nine months of year 2008, the sales to the EU counties increased by 17.5% in comparison with the same period in 2007. Sales to Lithuania increased by 17.7% and to Estonia by 14% 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.

Company pays large attention to its business efficiency increase as a result comparing to the same period of year 2007 profit has increased noticeably. The profit for the reporting period was 3 165 thousands lats, that's 85% more than in the first nine months in 2007 (1 714 thousands lats).

Future perspectives of activity

For the 4th quarter of year 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

Riga, 28 November, 2008

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



Riga
28.11.2008

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

Income statement for the period ended September 30, 2008

	Notes	01.01.2008 - 30.09.2008	01.01.2007 - 30.09.2007
		Eur	Eur
Net turnover	1	1 12,278,604	104,993,782
Cost of sales	2	(96,059,728)	(92,995,835)
Gross profit or loss		16,218,876	11,997,947
Distribution costs	3	(4,939,147)	(4,868,909)
Administrative expenses	4	(6,883,023)	(4,334,570)
Other operating income		1,523,006	732,068
Interest receivable and similar income		1,865,106	1,118,749
Interest payable and similar expenses		(2,348,742)	(1,656,012)
Extraordinary expense		(42,686)	-
Profit or loss before taxes		5,393,391	2,989,272
Corporate income tax		(794,766)	(430,370)
Other taxes		(94,948)	(120,136)
Profit or loss for the reporting year		4,503,677	2,438,765
Earnings per share (in eurocents)		60.07	32.53

Karlis Andersons
Chairman of the Executive Board

Balance sheet as at September 30, 2008

ASSETS

	30.09.2008	30.09.2007
	EUR	EUR
NON-CURRENT ASSETS		
Intangible fixed assets		
Concessions, patents, licences and similar rights	3,724	9,360
Goodwill	-	-
TOTAL	3,724	9,360
Tangible fixed assets		
Land, buildings, constructions and perennial plants	24,970,671	26,088,957
Equipment and machinery	4,933,090	4,773,154
Other fixtures and fittings, tools and equipment	847,540	1,087,377
Construction in progress	395,462	206,269
Prepayments for tangible fixed assets	768,095	606,377
TOTAL	31,914,858	32,762,134
Non-current financial assets		
Loans to related companies	35,300,000	33,599,999
Deposit	34,149	-
TOTAL	35,334,149	33,599,999
TOTAL NON-CURRENT ASSETS	67,252,732	66,371,494
CURRENT ASSETS		
Inventories		
Raw materials	23,090,683	16,471,470
Work in progress	1,046,690	998,158
Finished goods and goods for resale	7,156,425	8,802,929
Purchased productin for resale	485,860	547,466
Finished products in possession	581,425	-
Prepayments for goods	848,674	11,663
TOTAL	33,209,757	26,831,686
Receivables		
Trade receivables	1,124,639	14,271,426
Debts of related comapnies	26,298,234	7,455,852
Other receivables	1,582,454	146,905
Next period expense	187,088	212,673
TOTAL	29,192,415	22,086,855
Cash (TOTAL)	77,133	145,036
TOTAL CURRENT ASSETS	62,479,305	49,063,577
TOTAL ASSETS	129,732,036	115,435,070

Karlis Andersons
Chairman of the Executive Board

EQUITY AND LIABILITIES

	30.09.2008	30.09.2007
	EUR	EUR
CAPITAL AND RESERVES		
Share capital	10,667,128	10,667,128
Share premium	87,887	87,887
Non-current assets revaluation reserve	17,197,667	17,350,403
Retained earnings:		
brought forward	19,852,278	15,127,361
for the period	4,503,675	2,404,727
TOTAL EQUITY	52,308,635	45,637,505
PROVISIONS FOR LIABILITIES AND CHARGES		
Provisions for expected taxes	3,203,899	3,451,918
Other provisions	8,705,922	2,365,732
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES	11,909,822	5,817,650
LIABILITIES		
Non-current liabilities		
Loans from credit institutions	29,611,790	32,906,527
TOTAL	29,611,790	32,906,527
Current liabilities		
Loans from credit institutions	11,729,517	12,618,394
Trade payables	9,562,779	6,652,266
Taxes payable	13,712,987	10,852,181
Other liabilities	889,058	943,098
Undrawn dividends of previous years	7,449	7,449
TOTAL	35,901,790	31,073,388
TOTAL LIABILITIES	65,513,580	63,979,915
TOTAL EQUITY AND LIABILITIES	129,732,036	115,435,070

Karlis Andersons
Chairman of the Executive Board

Cash flow statement for the period ended September 30, 2008

	Notes	01.01.2008 - 30.09.2008 EUR	01.01.2007 - 30.09.2007 EUR
Cash flows to/ from operating activities			
Net profit or loss before extraordinary items and taxes		5,393,390	2,989,272
Adjustments for:			
Amortisation and depreciation		1,919,434	1,974,220
Interest income/expense		486,817	1,656,012
Increase/(decrease) in provisions		2,314,765	26,892
Gain/loss from fluctuations of currency exchange rates		(19,032)	-
Gain/loss on disposal of fixed assets		38,962	21,020
Operating profit or loss before working capital changes		10,134,336	6,667,417
(Increase)/decrease in inventories		(7,196,783)	(10,400,894)
(Increase)/decrease in receivables		7,058,335	(20,943,899)
Increase/(decrease) in payables		1,493,156	15,310,545
Cash generated from operations		11,489,044	(9,366,832)
Interest paid		(2,348,742)	(1,656,012)
Dividends paid		-	(256,012)
Corporate income tax paid		(1,153,519)	(819,677)
Cash flows before extraordinary items		7,986,783	(12,098,532)
Net cash flows to/ from operating activities		7,986,783	(12,098,532)
Cash flows to/ from investing activities			
Purchase of fixed assets		(1,009,971)	(2,190,493)
Proceeds from disposal of fixed assets		28,798	-
Interest received		1,955,729	-
Loans granted		(5,000,000)	-
Repayment of loans granted		8,300,000	-
Net cash flows to/ from investing activities		4,274,554	(2,190,493)
Cash flows to/ from financing activities			
Net loans paid		(12,309,189)	14,434,061
Net cash flows to/ from financing activities		(12,309,189)	14,434,061
Change in cash and cash equivalents		(47,851)	145,036
Cash and cash equivalents at the beginning of the reporting year		124,981	145,036

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

	Akciju kapitāls	Akciju emisijas uzcenojums	Ilgtermiņa ieguldījumu pārvērtēšanas rezerve	Citas rezerves	Interesu saplūšanas rezerve	Nesadalītā peļņa	Kopā
Balance as at 1 January 2007	10,667,128	87,887	19,072,737	1,777,234	(15,796,588)	30,254,723	46,063,120
Profit/loss for the reporting period	-	-	(1,722,335)	-	15,796,588	2,404,727	16,478,980
Retained earnings from previous years	-	-	-	-	-	(15,127,361)	-
Dividends paid from the previous year's profit	-	-	-	(1,777,234)	-	-	(1,777,234)
Balance as at 30 September 2007	10,667,128	87,887	17,350,402	-	-	17,532,089	45,637,505
Balance as at 1 January 2008	10,667,128	87,887	17,350,402	-	-	39,704,555	67,809,971
Profit/loss for the reporting period	-	-	(152,735)	-	-	4,503,675	4,350,940
Retained earnings from previous years	-	-	-	-	-	(19,852,277)	(19,852,277)
Balance as at 30 September 2008	10,667,128	87,887	17,197,667	-	-	24,355,953	52,308,635

1. Net sales

	01.01.2008 – 30.09.2008	01.01.2007 – 30.09.2007
Sales of drinks in local market	66,948,976	68,584,326
Export of drinks and services	45,315,535	36,363,460
Other sales (spirits, raw materials)	14,093	45,996
TOTAL:	112,278,604	104,993,782

2. Cost of sales

Variable costs:	91,740,960	88,946,373
Materials	83,963,208	81,398,286
Goods bought	683,945	428,373
Salary expenses	2,551,885	2,570,138
Social insurance	612,714	617,552
Electricity	704,660	539,146
Natural resources tax	470,345	512,030
Other expenses	2,754,203	2,880,849
Fixed costs:	4,318,767	4,049,462
Depreciation and amortization	1,401,307	1,387,262
Salary expenses	1,116,700	1,143,268
Social insurance	267,215	272,457
Repair expenses	459,424	583,521
Services for production needs	394,797	168,905
Insurance	104,407	75,034
Laboratory and quality maintenance expenses	36,103	43,718
Other expenses	538,815	375,298
TOTAL:	96,059,728	92,995,835

3. Selling expenses

Salary expenses	1,463,099	1,458,427
Social insurance	350,556	351,779
Depreciation and amortization	246,831	258,660
Advertising	1,457,331	1,579,860
Transportation cost	840,889	739,799
Warehouse maintenance	182,170	109,775
Other expenses	398,270	370,610
TOTAL:	4,939,147	4,868,909

4. Administrative expenses

	01.01.2008 – 30.09.2008	01.01.2007 – 30.09.2007
Salary expenses	1,473,274	1,155,420
Social insurance	198,082	161,586
Communication and postal expenses	77,750	158,465
Office expenses	61,098	81,878
Professional fees	151,719	215,140
IT maintenance	64,042	78,020
Representations	207,004	169,572
Security	64,173	150,829
Management services	662,030	757,080
Transportation	43,658	115,850
Business trip	17,082	24,762
Personnel education and training	12,574	24,586
Depreciation and amortization	271,298	328,299
Financial help, sponsorship	74,611	91,550
Healthcare, health insurance	10,588	71,542
Other expenses	3,494,041	749,990
TOTAL:	6,883,023	4,334,570