

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 Ls	01.01.2007 - 30.09.2007 Ls
Net turnover	1	78,909,852	73,790,050
Cost of sales	2	(67,511,161)	(65,357,845)
Gross profit or loss		11,398,691	8,432,205
Distribution costs	3	(3,471,252)	(3,421,889)
Administrative expenses	4	(4,837,416)	(3,046,353)
Other operating income		1,070,375	514,500
Interest receivable and similar income		1,310,804	786,261
Interest payable and similar expenses		(1,650,705)	(1,163,852)
Extraordinary expense		(30,000)	-
Profit or loss before taxes		3,790,497	2,100,872
Corporate income tax		(558,565)	(302,466)
Other taxes		(66,730)	(84,432)
Profit or loss for the reporting year		3,165,202	1,713,974
Earnings per share (in santims)		42.22	22.86

Karlis Andersons
Chairman of the Executive Board

Balance sheet as at September 30, 2008

ASSETS

	30.09.2008	30.09.2007
	LVL	LVL
NON-CURRENT ASSETS		
Intangible fixed assets		
Concessions, patents, licences and similar rights	2,618	6,578
Goodwill		
TOTAL	2,618	6,578
Tangible fixed assets		
Land, buildings, constructions and perennial plants	17,549,488	18,335,423
Equipment and machinery	3,466,995	3,354,592
Other fixtures and fittings, tools and equipment	595,654	764,213
Construction in progress	277,932	144,967
Prepayments for tangible fixed assets	539,820	426,164
TOTAL	22,429,890	23,025,359
Non-current financial assets		
Loans to related companies	24,808,981	23,614,214
Deposit	24,000	
TOTAL	24,832,981	23,614,214
TOTAL NON-CURRENT ASSETS	47,265,489	46,646,151
CURRENT ASSETS		
Inventories		
Raw materials	16,228,224	11,576,215
Work in progress	735,618	701,509
Finished goods and goods for resale	5,029,564	6,186,733
Purchased productin for resale	341,465	384,761
Finished products in possession	408,628	
Prepayments for goods	596,451	8,197
TOTAL	23,339,950	18,857,416
Receivables		
Trade receivables	790,401	10,030,015
Debts of related comapnies	18,482,504	5,240,002
Other receivables	1,112,155	103,245
Next period expense	131,486	149,467
TOTAL	20,516,546	15,522,730
Cash (TOTAL)	54,209	101,932
TOTAL CURRENT ASSETS	43,910,705	34,482,078
TOTAL ASSETS	91,176,194	81,128,229

Karlis Andersons
Chairman of the Executive Board

EQUITY AND LIABILITIES

	30.09.2008	30.09.2007
	LVL	LVL
CAPITAL AND RESERVES		
Share capital	7,496,900	7,496,900
Share premium	61,767	61,767
Non-current assets revaluation reserve	12,086,589	12,193,932
Retained earnings:		
brought forward	13,952,260	10,631,570
for the period	3,165,201	1,690,052
TOTAL EQUITY	36,762,718	32,074,221
PROVISIONS FOR LIABILITIES AND CHARGES		
Provisions for expected taxes	2,251,713	2,426,022
Other provisions	6,118,557	1,662,646
TOTAL PROVISIONS FOR LIABILITIES AND CHARGES	8,370,270	4,088,668
LIABILITIES		
Non-current liabilities		
Loans from credit institutions	20,811,284	23,126,839
TOTAL	20,811,284	23,126,839
Current liabilities		
Loans from credit institutions	8,243,551	8,868,258
Trade payables	6,720,759	4,675,239
Taxes payable	9,637,542	7,626,956
Other liabilities	624,834	662,813
Undrawn dividends of previous years	5,235	5,235
TOTAL	25,231,921	21,838,502
TOTAL LIABILITIES	46,043,206	44,965,340
TOTAL EQUITY AND LIABILITIES	91,176,194	81,128,229

Karlis Andersons
Chairman of the Executive Board

Cash flow statement for the period ended September 30, 2008

	01.01.2008 - 30.09.2008 LVL	01.01.2007 - 30.09.2007 LVL
Cash flows to/ from operating activities		
Net profit or loss before extraordinary items and taxes	3,790,496	2,100,872
Adjustments for:		
Amortisation and depreciation	1,348,986	1,387,490
Interest income/expense	342,137	1,163,852
Increase/(decrease) in provisions	1,626,826	18,900
Gain/loss from fluctuations of currency exchange rates	(13,376)	
Gain/loss on disposal of fixed assets	27,383	14,773
Operating profit or loss before working capital changes	7,122,452	4,685,887
(Increase)/decrease in inventories	(5,057,928)	(7,309,790)
(Increase)/decrease in receivables	4,960,626	(14,719,456)
Increase/(decrease) in payables	1,049,396	10,760,312
Cash generated from operations	8,074,546	(6,583,047)
Interest paid	(1,650,705)	(1,163,852)
Dividends paid		(179,926)
Corporate income tax paid	(810,698)	(576,072)
Cash flows before extraordinary items	5,613,143	(8,502,897)
Net cash flows to/ from operating activities	5,613,143	(8,502,897)
Cash flows to/ from investing activities		
Purchase of fixed assets	(709,812)	(1,539,487)
Proceeds from disposal of fixed assets	20,239	
Interest received	1,374,494	
Loans granted	(3,514,020)	
Repayment of loans granted	5,833,273	
Net cash flows to/ from investing activities	3,004,174	(1,539,487)
Cash flows to/ from financing activities		
Net loans paid	(8,650,947)	10,144,316
Net cash flows to/ from financing activities	(8,650,947)	10,144,316
Change in cash and cash equivalents	(33,630)	101,932
Cash and cash equivalents at the beginning of the reporting year	87,837	101,932

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

	Share capital	Share premium	Long-term investments revaluation reserve	Other reserves	Merger reserve	Retained earnings	Total
Balance as at 1 January 2007	7,496,900	61,767	13,404,396	1,249,047	(11,101,905)	21,263,140	32,373,345
Profit/loss for the reporting period			(1,210,464)		11,101,905	1,690,052	11,581,493
Retained earnings from previous years						(10,631,570)	(10,631,570)
Dividends paid from the previous year's profit				(1,249,047)			(1,249,047)
Balance as at 30 September 2007	7,496,900	61,767	12,193,932	-	-	12,321,622	32,074,221
Balance as at 1 January 2008	7,496,900	61,767	12,193,932	-	-	27,904,520	47,657,119
Profit/loss for the reporting period			(107,343)			3,165,201	3,057,858
Retained earnings from previous years						(13,952,260)	(13,952,260)
Balance as at 30 September 2008	7,496,900	61,767	12,086,589	-	-	17,117,461	36,762,718

1. Net sales

	01.01.2008 – 30.09.2008	01.01.2007 – 30.09.2007
Sales of drinks in local market	47,052,008	48,201,339
Export of drinks and services	31,847,940	25,556,385
Other sales (spirits, raw materials)	9,904	32,326
TOTAL:	78,909,852	73,790,050

2. Cost of sales

Variable costs:	64,475,914	62,511,867
Materials	59,009,679	57,207,041
Goods bought	480,680	301,062
Salary expenses	1,793,475	1,806,303
Social insurance	430,618	434,018
Electricity	495,238	378,914
Natural resources tax	330,560	359,857
Other expenses	1,935,665	2,024,672
Fixed costs:	3,035,247	2,845,978
Depreciation and amortization	984,844	974,973
Salary expenses	784,821	803,493
Social insurance	187,800	191,484
Repair expenses	322,885	410,101
Services for production needs	277,465	118,707
Insurance	73,378	52,734
Laboratory and quality maintenance expenses	25,373	30,725
Other expenses	378,681	263,761
TOTAL:	67,511,161	65,357,845

3. Selling expenses

Salary expenses	1,028,272	1,024,988
Social insurance	246,373	247,232
Depreciation and amortization	173,474	181,787
Advertising	1,024,218	1,110,332
Transportation cost	590,980	519,934
Warehouse maintenance	128,030	77,150
Other expenses	279,906	260,466
TOTAL:	3,471,252	3,421,889

4. Administrative expenses

	01.01.2008 – 30.09.2008	01.01.2007 – 30.09.2007
Salary expenses	1,035,423	812,034
Social insurance	139,213	113,563
Communication and postal expenses	54,643	111,370
Office expenses	42,940	57,544
Professional fees	106,629	151,201
IT maintenance	45,009	54,833
Representations	145,483	119,176
Security	45,101	106,003
Management services	465,277	532,079
Transportation	30,683	81,420
Business trip	12,005	17,403
Personnel education and training	8,837	17,279
Depreciation and amortization	190,669	230,730
Financial help, sponsorship	52,437	64,342
Healthcare, health insurance	7,441	50,280
Other expenses	2,455,626	527,096
TOTAL:	4,837,416	3,046,353