

# **A/S Latvijas balzams**

## **Consolidated annual accounts for the year ended 31 December 2003**

Translation from the original in Latvian

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

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**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

**Information on the Group**

Name of the Parent company	A/S Latvijas balzams
Legal status of the parent company	Public joint stock company
Number, place and date of registration	000 303 187 Latvian Enterprise register Riga, 2 October 1991 Recurrent registration on 20 February 1998
Address	A. Čaka Street 160 Riga LV-1012 Republic of Latvia Phone: +371 7081213 Fax: +371 7828071
The largest shareholder as at 31.12.2003	S.P.I. Distilleries B.V. (87.98%) Reg. No. 2725557 Martinus Nijhofflaan 2 2624 ES Delft. Netherlands
Names and positions of the Board members of the parent company	<p>Rolands Gulbis – Chairman of the Board General director of A/S Latvijas balzams (from 14 August 2003)</p> <p>Juris Gulbis – Chairman of the Board General director of A/S Latvijas balzams (till 14 August 2003)</p> <p>Alexander Yernev – Member of the Board Chief engineer of A/S Latvijas balzams</p> <p>Egils Dzerelis – Member of the Board (from 4 April 2003) Director of logistics of A/S Latvijas balzams</p> <p>Sergey Limarenko – Member of the Board (from 4 April 2003) Chief of internal security department of A/S Latvijas balzams</p> <p>Juris Gulbis – Member of the Board (from 14 August 2003 till 19 January 2004)</p> <p>Valizhan Abidov – Member of the Board (from 19 January 2004)</p> <p>Rolands Gulbis – Member of the Board Finance director of A/S Latvijas balzams (till 14 August 2003)</p> <p>Oleg Voroshin – Member of the Board (till 4 April 2003) Deputy general director for production of A/S Latvijas balzams</p> <p>Indra Ozola – Member of the Board (till 4 April 2003) Marketing director of A/S Latvijas balzams</p>
Names and positions of the Council members of the parent company	<p>Alexander Kovalev – Chairman of the Council</p> <p>Pjotr Aven – Member of the Council</p> <p>Vitolds Kokars – Member of the Council (from 4 April 2003) Director for quality control of A/S Latvijas balzams</p>

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

**Information on the Group (continued)**

Names and positions of the Council members of the parent company (continued)	Yury Shefler – Member of the Council (till 4 April 2003, from 19 January 2004)
	Alexey Oliynik – Member of the Council (till 4 April 2003, from 19 January 2004)
	Juris Gulbis – Member of the Council (from 19 January 2004)
	Kaspars Ievins-Brambis – Member of the Council (till 19 January 2004)
	Eric Stuart Whitman – Member of the Council (from 4 April 2003 till 19 January 2004)
	Hans Emanuel Urlus – Member of the Council (from 4 April 2003 till 19 January 2004)
	Jurgis Abele – Member of the Council (till 4 April 2003)

Some of the Board and the Council members of A/S Latvijas balzams own shares of several companies registered in the Enterprise Register. During the reporting year A/S Latvijas balzams had no significant transactions with these companies except those mentioned in these financial statements.

Information on shares owned by the members of the Board and Council of A/S Latvijas balzams is available in the Board office of A/S Latvijas balzams.

Reporting year	1 January – 31 December 2003
Name, personal ID and address of the auditor and responsible certified auditor	<p>PricewaterhouseCoopers SIA  Audit company licence No. 5  Kr. Valdemara street 19  Riga LV-1010  Latvia</p> <p>Responsible certified auditor:  Lolita Čapkeviča  Personal ID: 211168-11503  Certified auditor  Certificate Nr. 120</p>
Subsidiary undertakings and Group ownership	<p>UAB Baltijos alkoholiniai produktai (100%)  Reg. No. 1180264  A. Smetonos G. 6-6  Vilnius, Lithuania</p> <p>SIA Bravo (100%)  Registration Nr. 280300143  Palidzibas street 2  Riga LV-1001  Latvia  (subsidiary undertaking until 31 August 2003)</p>

**A/S LATVIJAS BALZAMS**  
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**Report of the Management**

**Type of operations**

The Parent company is incorporated in 1900, however the current name of the Parent company was created in 1970. The Parent company is regarded as producer of a wide range of alcoholic drinks. At present A/S Latvijas balzams produces more than 130 different types of drinks.

**Performance of the Group during the reporting period**

The Group is the largest producer of alcoholic drinks in Latvia and also one of the largest state taxpayers. During the last year the Parent company paid 24 million lats to the State budget, including 21 million lats for excise tax.

The turnover of the Group was 52.4 million Lats, the profit for the reporting year was 2.11 million Lats. The total amount of investment in fixed assets exceeded 5.1 million Lats. Decrease of the profit during the reporting year was caused by the participation in the privatisation process of the Lithuanian alcoholic producer Stumbras, as well as fluctuations of the currency exchange rates.

The average number of employees in the Group in 2003 was 852 with the average monthly gross salary 339 Lats.

In March 2003 as a part of restructuring of SPI group, the agreement was signed on the transfer of 49,95% A/S Latvijas balzams shares owned by SIA NTDBC LB to SPI Distilleries B.V., registered in the Netherlands. Additionally SPI Distilleries B.V. made the offer to acquire A/S Latvijas balsams shares also from other investors, as a result of which it gained the control over more than 50% of A/S Latvijas balzams shares.

In September 2003 as the part of the restructuring of SPI Group A/S Latvijas balzams sold shares of SIA Bravo to SPI group company ONETANGO Ltd, registered in Cyprus.

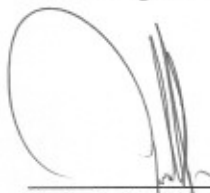

In 2003 A/S Latvijas balzams have incorporated subsidiary undertaking UAB Baltijos alkoholiniai produktai, whose basic operations are provision of consulting and marketing services to A/S Latvijas balzams in Lithuanian market.

**Future prospects**

One of the priorities for the year 2004 of A/S Latvijas balzams will be promotion of export sales. The special consideration is given to the Baltic countries. Latvia's accession to Europe Union will facilitate sales in EU market. It is planned to increase export volumes to the countries such as Poland, Greece, Czech Republic, Slovakia. At the same time, the Group plans to keep its leading position in the local market.

**Post balance sheet events**

During the period between the last day of the financial year and the date of signing of this report there have been no significant events that would have a material effect on the year-end results.

  
\_\_\_\_\_  
Rolands Gulbis  
Chairman of the Board, General director  
\_\_\_\_\_  
Alexander Kovalev  
Chairman of the Council

Riga, 13 April 2004

The consolidated annual accounts have been approved at the general shareholders' meeting on \_\_\_\_\_ April 2004.

Chairman of the general shareholders' meeting \_\_\_\_\_


**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

**Profit and loss account for the year ended 31 December 2003**

	Notes	2003 Ls	2002 Ls
1. Net sales	1	52,387,270	51,926,436
2. Cost of sales	2	(44,440,261)	(42,768,216)
<b>3. Gross profit</b>		<b>7,947,009</b>	<b>9,158,220</b>
4. Selling expenses	3	(3,061,270)	(3,247,379)
5. Administrative expenses	4	(2,747,230)	(2,995,211)
6. Other operating income	5	1,147,310	643,599
10. Interest income and similar income	6	6,895	14,439
12. Interest expenses and similar expenses	7	(703,407)	(617,030)
<b>16. Profit before taxes</b>		<b>2,589,307</b>	<b>2,956,638</b>
17. Corporate income tax for the reporting year	8	(419,141)	(504,589)
18. Other taxes	9	(62,153)	(64,362)
<b>19. Current year's profit</b>		<b>2,108,013</b>	<b>2,387,687</b>
<b>20. Earnings per share (santims)</b>	10	<b>28.12</b>	<b>31.85</b>

Notes on pages 11 to 21 form an integral part of these financial statements.

  
 Rolands Gulbis  
 Chairman of the Board, General director

  
 Alexander Kovalev  
 Chairman of the Council

13 April 2004

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

**Balance sheet as at 31 December 2003**

**(1)**

<u>Assets</u>	Notes	31.12.03. Ls	31.12.02. Ls
<b>Long-term investments</b>			
<b>I Intangible assets:</b>			
2. Licenses, patents		555,577	794,225
4. Goodwill		(114,788)	(229,577)
<b>Total intangible assets:</b>	11	<b>440,789</b>	<b>564,648</b>
<b>II Fixed assets:</b>			
1. Land and buildings		7,445,616	3,715,960
2. Leasehold improvements		-	29,386
3. Equipment and machinery		4,487,180	2,466,395
4. Other fixed assets		585,198	712,877
5. Fixed assets under construction		404,242	1,461,846
6. Advances for fixed assets		57,743	1,255,036
<b>Total fixed assets:</b>	12	<b>12,979,979</b>	<b>9,641,500</b>
<b>Total long-term investments:</b>		<b>13,420,768</b>	<b>10,206,148</b>
<b>Current assets</b>			
<b>I Stock:</b>			
1. Raw materials and consumables		6,276,916	5,911,925
2. Work-in-progress		376,383	217,855
3. Finished goods and goods for sale		1,281,698	2,676,896
<b>Total stock:</b>		<b>7,934,997</b>	<b>8,806,676</b>
<b>II Debtors:</b>			
1. Trade debtors	14	6,182,601	6,639,270
2. Receivables from affiliated companies	15	2,995,323	-
4. Other debtors	16	1,149,144	326,584
7. Deferred expenses	17	127,895	76,925
<b>Total debtors:</b>		<b>10,454,963</b>	<b>7,042,779</b>
<b>IV Cash and bank:</b>	18	<b>174,275</b>	<b>547,244</b>
<b>Total current assets:</b>		<b>18,564,235</b>	<b>16,396,699</b>
<b>Total assets</b>		<b>31,985,003</b>	<b>26,602,847</b>

Notes on pages 11 to 21 form an integral part of these financial statements.

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**


**Balance sheet as at 31 December 2003**

**(2)**

<u>Liabilities</u>	Notes	31.12.03. Ls	31.12.02. Ls
<b>Shareholders' funds:</b>			
1. Share capital	19	7,496,900	7,496,900
2. Share premium		61,767	61,767
3. Long-term investments revaluation reserve		984,878	998,736
4. Reserves:			
- statutory reserves		1,249,047	1,249,047
- merger reserve		(11,101,905)	(11,101,905)
5. Retained profit:			
- previous years' retained earnings		12,957,324	10,569,637
- current year's profit		2,108,013	2,387,687
<b>Total shareholders' funds:</b>		<b>13,756,024</b>	<b>11,661,869</b>
<b>Provisions:</b>			
2. Provisions for taxes		484,910	311,140
3. Other provisions		264,387	339,626
<b>Total provisions:</b>	20	<b>749,297</b>	<b>650,766</b>
<b>Creditors</b>			
<b>Long-term creditors:</b>			
3. Loans from credit institutions	21	7,613,793	986,834
11. Other creditors		-	4,567
<b>Total long-term creditors:</b>		<b>7,613,793</b>	<b>991,401</b>
<b>Short-term creditors:</b>			
3. Loans from credit institutions	21	2,950,037	7,674,581
6. Trade creditors		3,914,790	2,778,742
10. Taxes and social insurance	22	2,809,180	2,716,503
11. Other creditors	23	186,647	123,750
14. Prior years' unpaid dividends		5,235	5,235
<b>Total short-term creditors:</b>		<b>9,865,889</b>	<b>13,298,811</b>
<b>Total liabilities and shareholders' funds</b>		<b>31,985,003</b>	<b>26,602,847</b>

Notes on pages 11 to 21 form an integral part of these financial statements.

  
 Rolands Gulbis  
 Chairman of the Board, General director

  
 Alexander Kovalev  
 Chairman of the Council

13 April 2004



**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

**Statement of changes in equity for the year ended 31 December 2003**

	Share capital	Share premium	Long term investments revaluation reserve	Merger reserve	Statutory reserve	Retained earnings	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
<b>31.12.2001</b>	<b>7,496,900</b>	<b>61,767</b>	<b>1,007,192</b>	<b>(11,101,905)</b>	<b>1,249,047</b>	<b>10,569,637</b>	<b>9,282,638</b>
Disposed revalued fixed assets	-	-	(8,456)	-	-	-	(8,456)
Current year's profit	-	-	-	-	-	2,387,687	2,387,687
<b>31.12.2002</b>	<b>7,496,900</b>	<b>61,767</b>	<b>998,736</b>	<b>(11,101,905)</b>	<b>1,249,047</b>	<b>12,957,324</b>	<b>11,661,869</b>
Disposed revalued fixed assets	-	-	(13,858)	-	-	-	(13,858)
Current year's profit	-	-	-	-	-	2,108,013	2,108,013
<b>31.12.2003</b>	<b>7,496,900</b>	<b>61,767</b>	<b>984,878</b>	<b>(11,101,905)</b>	<b>1,249,047</b>	<b>15,065,337</b>	<b>13,756,024</b>

Notes on pages 11 to 21 form an integral part of these financial statements.

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

**Cash flow statement for the year ended 31 December 2003**

	Notes	2003 Ls	2002 Ls
<b>Cash flow from operating activities</b>			
Profit before taxes		2,589,307	2,956,638
Adjustments for:			
- depreciation and amortisation		1,731,132	1,812,027
- negative goodwill amortisation		(114,789)	(114,789)
- (profit) / loss from disposal of fixed assets		(38,995)	47,772
- interest expense		426,655	485,557
- change in provisions		(355,791)	417,537
<b>Cash flow from operating activities before changes in working capital</b>		<b>4,237,519</b>	<b>5,604,742</b>
Stock (increase)/decrease		536,874	(3,294,216)
Debtors' increase		(2,520,157)	(617,709)
Creditors' increase		1,895,260	458,982
<b>Cash flow from operating activities</b>		<b>4,149,496</b>	<b>2,151,799</b>
Corporate income tax paid		(668,499)	(692,872)
<b>Net cash flow from operating activities</b>		<b>3,480,997</b>	<b>1,458,927</b>
<b>Cash flow from investing activities</b>			
Acquisition of fixed and intangible assets		(5,290,471)	(4,038,015)
Proceeds from sale of fixed assets		174,257	244,416
<b>Net cash used in investing activities</b>		<b>(5,116,214)</b>	<b>(3,793,599)</b>
<b>Cash flow from financing activities</b>			
Net loans received		1,902,415	2,657,778
Interest paid		(640,167)	(465,632)
<b>Net cash flow from financing activities</b>		<b>1,262,248</b>	<b>2,192,146</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(372,969)</b>	<b>(142,526)</b>
Cash and cash equivalents at the beginning of the reporting year		547,244	689,770
<b>Cash and cash equivalents at the end of the reporting year</b>	18	<b>174,275</b>	<b>547,244</b>

Notes on pages from 11 to 21 form an integral part of these financial statements.

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

**Notes**

**Accounting policies**

**(a) General principles**

Consolidated annual accounts are prepared in accordance with the laws of the Republic of Latvia "On Accounting", "On Consolidated Annual Accounts" and "On the Annual Accounts of Companies".

The profit and loss account is prepared in accordance with the turnover module.

The cash flow statement has been prepared using indirect cash flow method.

The accounting policies used by the Group are consistent with those used in the previous accounting period.

**(b) Consolidation**

Consolidated financial statements have been prepared using the acquisition method. The Parent company A/S Latvijas Balzams and the subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date of disposal of a subsidiary undertaking. All intercompany transactions, balances and unrealised gains from transactions between the Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

**(c) Net sales**

The Group's main operation is the production and selling of alcoholic drinks. Net sales represent the total of goods and services sold during the year net of discounts and value added tax. Net sales include also excise tax.

**(d) Foreign currency translation into Lats**

The Group maintains its accounts in Latvian Lats. All transactions denominated in foreign currencies are converted to Lats at the exchange rate set by the Bank of Latvia prevailing on the day on which the transactions took place.

Monetary assets and liabilities denominated in foreign currencies are translated into Lats in accordance with the official Bank of Latvia exchange rate for the last day of the reporting period. The resulting profit or loss is charged to the profit and loss account.

	<b>31.12.03.</b>	<b>31.12.02.</b>
	<b>Ls</b>	<b>Ls</b>
1 USD	0.541	0.5940
1 EUR	0.674	0.6100

**(e) Intangible assets and fixed assets**

Intangible assets and fixed assets are recorded at historic cost or revalued amount net of accumulated depreciation.

Increase in value arising on revaluation is shown in equity under "Long-term investments revaluation reserve". Decrease that offsets a previous increase of the same asset's value recognised in the said reserve is charged against that reserve; any further decrease is charged to the current year's profit and loss account.

Depreciation is calculated on a straight-line basis to write down each intangible and fixed asset to its estimated residual value over its estimated useful life using following rates set by management:

	<b>% per annum</b>
Buildings, constructions	1 - 5
Technological and other equipment	10 - 50
Other equipment and machinery, transport vehicles	10 - 25

**Notes (continued)**

**Accounting policies (continued)**

**(e) Intangible assets and fixed assets (continued)**

Costs of borrowing to finance fixed assets under construction and other direct charges related to the particular fixed asset under construction are capitalised, during the time that is required to complete and prepare the asset for its intended use, as part of the cost of the asset. Capitalisation of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Where the carrying amount of an intangible or a fixed asset exceeds its estimated recoverable amount, and this is considered to be other than temporary, it is written down immediately to its recoverable amount. Recoverable amount is the higher of the net realisable value and value in use of the related intangible or fixed asset.

Repairs and maintenance are charged to the income statement during the period in which they are incurred.

The cost of major renovations is included in the carrying amount of the asset and is depreciated over the remaining useful life of the related asset.

Leasehold improvements are written down on straight-line basis over the shorter of the estimated useful life of the leasehold improvement or the term of the lease.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and gains from related asset's revaluation reserve write-off and are charged to the income statement during the period in which they are incurred.

**(f) Stock**

The stock is recorded at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realisable value of stock is lower than its cost, provisions are created to reduce the value of stock to its net realisable value.

**(g) Accounts receivables**

Accounts receivable are recorded in the balance sheet at their net value, being original invoice amount less provisions made to cover anticipated loss on bad and doubtful accounts receivable. Provisions for bad and doubtful accounts receivable are established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of provisions for bad and doubtful accounts receivable is the difference between the original invoice amount and the recoverable amount.

**(h) Corporate income tax**

Corporate income tax for the reporting period is included in the consolidated financial statements based on management's calculations prepared in accordance with Latvian Republic tax legislation for each company of the Group.

Deferred taxation is provided for using liability method on all temporary differences arising between tax bases of assets and liabilities and the carrying amounts in the financial statements. The deferred tax is calculated based on currently enacted tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from different fixed assets depreciation rates as well as provisions for slow-moving stock, accruals for unused annual leave and accruals for bonuses. Where an overall deferred taxation asset arises, it is only recognised in the financial statements where its recoverability is foreseen with reasonable certainty.

**(i) Provision for unused annual leave**

Amount of provision for unused annual leave is determined by multiplying the average wage of employees in the reporting year per day by the amount of accrued but unused annual leave at the end of the reporting year.

Notes (continued)

Accounting policies (continued)

**(j) Goodwill**

Goodwill represents the difference between the cost of an acquisition of the subsidiary undertakings and the fair value of the Group's share of the net assets of the acquired subsidiary undertakings at the date of acquisition.

Positive goodwill is amortised using a straight-line method over its estimated useful life. The carrying value of positive goodwill is reviewed on an annual basis and, if necessary, written down where a permanent diminution in value has arisen.

Negative goodwill is recognised as income in the periods, when the Group suffers specific and foreseen expenses or losses associated with the particular investment. If such expenses or losses do not occur or they are not foreseen at the moment of acquisition, then that part of negative goodwill up to the amount of fair value of depreciable Group's subsidiary undertakings assets is recognised as income during the remaining weighted average useful life of depreciable/amortisable assets.

The remaining negative goodwill over the amount of fair value of depreciable Group's subsidiary undertakings assets is recognised as the Group's income at the moment of acquisition.

**(k) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, balances of current account with banks and short-term deposits with original maturity up to 90 days.

**(l) Related parties**

Related parties are defined as Parent company's largest shareholders, members of the Board and the Council of the Parent company, their close relatives and companies in which they have a significant influence or control.

**(m) Operating leases**

When assets are rented under operating lease terms rent payments and advance payments for lease are charged to the profit and loss account statement on a straight-line basis over the period of the lease.

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

Notes (continued)

**(1) Net sales**

	2003 Ls	2002 Ls
Sales in local market	43,015,810	45,995,219
Export of drinks and services	9,363,231	5,922,179
Other sales	8,229	9,038
	<u>52,387,270</u>	<u>51,926,436</u>

**(2) Cost of sales**

Materials	36,157,964	33,241,553
Goods bought	2,364,606	3,254,046
Salary expenses	1,843,130	1,984,240
Social insurance	437,304	508,866
Depreciation and amortisation	1,395,026	1,326,870
Electricity, utilities	328,270	274,509
Equipment and buildings maintenance costs	573,518	1,029,323
Natural resources tax	420,216	417,709
Laboratory expenses	50,116	44,748
Insurance payments	63,050	45,378
Premises rented for production purposes	202,183	155,899
Product declaration, licensing and certification expenses	335,128	269,942
Other expenses	269,750	215,133
	<u>44,440,261</u>	<u>42,768,216</u>

**(3) Selling expenses**

Salary expenses	906,464	926,045
Social insurance	218,110	241,191
Advertising and marketing expenses	813,881	642,492
Transportation expenses	672,071	865,480
Rent of shops, warehouses	108,314	81,709
Depreciation and amortisation	143,861	248,101
Shop security expenses	8,316	9,622
Write-off of leasehold improvements	9,013	29,886
Loss from disposal of fixed assets	-	47,576
Other expenses	181,240	155,277
	<u>3,061,270</u>	<u>3,247,379</u>

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

**Notes (continued)**

**(4) Administrative expenses**

	<b>2003</b>	<b>2002</b>
	<b>Ls</b>	<b>Ls</b>
Salary expenses	718,041	657,322
Social insurance	144,281	139,251
Increase in provisions	55,434	601,323
Security	168,723	154,798
Professional services	404,222	135,657
Bank charges	57,913	20,635
Depreciation and amortisation	183,322	211,405
Employee education, insurance, medical expenses	47,891	150,481
Communications and postal expenses	153,618	128,730
Office maintenance expenses	89,284	90,596
Financial aid, sponsorship	6,082	147,231
Business trip expenses	43,690	35,777
IT systems maintenance expenses	320,663	286,387
Representation expenses	40,666	20,256
Transportation expenses	58,037	48,104
Management services	205,924	132,971
Other administrative expenses	49,439	34,287
	<u><b>2,747,230</b></u>	<u><b>2,995,211</b></u>

**(5) Other operating income**

Sale of packaging and materials	72,301	111,216
Release of provisions	406,444	-
Profit from disposal of fixed assets	38,995	-
Amortisation of negative goodwill	114,789	114,789
Income from services rendered	419,489	190,457
Income from rent of fixed assets	59,489	57,001
Other income	35,803	170,136
	<u><b>1,147,310</b></u>	<u><b>643,599</b></u>

**(6) Interest income and similar income**

Interest income	852	4,693
Received penalties	6,043	9,746
	<u><b>6,895</b></u>	<u><b>14,439</b></u>

**(7) Interest expenses and similar expenses**

Interest on loans	426,655	485,557
Net loss from exchange rate fluctuations	276,461	128,407
Other expenses	291	3,066
	<u><b>703,407</b></u>	<u><b>617,030</b></u>



**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

Notes (continued)

**(8) Corporate income tax for the reporting year**

	<b>2003</b>	<b>2002</b>
	<b>Ls</b>	<b>Ls</b>
Corporate income tax for the current year	242,925	723,735
Change in provisions for deferred tax	176,216	(219,146)
	<u><b>419,141</b></u>	<u><b>504,589</b></u>

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 19% (2002 – 22%) rate stipulated by the law to profit before taxation:

<b>Profit before taxation</b>	<u><b>2,589,307</b></u>	<u><b>2,956,638</b></u>
Theoretically calculated tax at a tax rate of 19% (2002 – 22%)	491,968	650,460
Expenses not deductible for tax purposes	51,568	118,352
Non-taxable income	(86,592)	(85,307)
Tax discount for donations	(816)	(100,359)
Unrecognised deferred tax asset	-	(4,698)
Effect of changes in enacted tax rates	(39,433)	(75,351)
Effect of disposed revaluated assets	2,446	1,492
<b>Tax charge</b>	<u><b>419,141</b></u>	<u><b>504,589</b></u>

Deferred tax is calculated by using currently approved tax rates

<b>Year</b>	<b>Charge rate</b>
2003	19%
2004 and thereafter	15%

**(9) Other taxes**

Real estate and land tax	<u><b>62,153</b></u>	<u><b>64,362</b></u>
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**(10) Earnings per share**

Current year's profit	2,108,013	2,387,687
Average number of shares in issue during the reporting year	7,496,900	7,496,900
<b>Earnings per share (santims)</b>	<u><b>28.12</b></u>	<u><b>31.85</b></u>

Earnings per share are calculated by dividing the profit for the reporting year with the average number of shares in issue during the reporting year.



**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

Notes (continued)

**(11) Intangible assets**

	Licenses, patents Ls	Negative goodwill Ls	Total Ls
<b>Cost</b>			
31 December 2002	1,179,978	(573,942)	606,036
Additions	4,316	-	4,316
Disposal of subsidiary undertaking	(23,342)	-	(23,342)
31 December 2003	1,160,952	(573,942)	587,010
<b>Depreciation</b>			
31 December 2002	385,753	(344,365)	41,388
Charge for 2003	242,315	(114,789)	127,526
Disposal of subsidiary undertaking	(22,693)	-	(22,693)
31 December 2003	605,375	(459,154)	146,221
<b>Net book value 31.12.2003</b>	<b>555,577</b>	<b>(114,788)</b>	<b>440,789</b>
<b>Net book value 31.12.2002</b>	<b>794,225</b>	<b>(229,577)</b>	<b>564,648</b>

**(12) Fixed assets**

	Land and buildings Ls	Equipment and machinery Ls	Other fixed assets Ls	Leasehold improvements Ls	Fixed assets under construction Ls	Advance payments for fixed assets Ls	Total Ls
<b>Cost / Revalued amount</b>							
31 December 2002	4,740,732	8,212,306	2,518,417	55,177	1,461,846	1,255,036	18,243,514
Additions	-	5,500	29,914	24,283	-	5,130,320	5,190,017
Reclassification	2,749,663	2,063,700	-	-	(4,813,363)	-	-
Reclassification from advance payments	1,307,696	957,118	299,562	-	3,760,409	(6,324,785)	-
Disposals	(84,849)	(185,946)	(194,936)	-	(4,650)	(2,222)	(472,603)
Disposal of subsidiary undertaking	(99,438)	(22,592)	(271,652)	(79,460)	-	(606)	(473,748)
31 December 2003	8,613,804	11,030,086	2,381,305	-	404,242	57,743	22,487,180
<b>Depreciation</b>							
31 December 2002	1,024,772	5,745,911	1,805,540	25,791	-	-	8,602,014
Charge for 2003	178,856	985,820	315,128	9,013	-	-	1,488,817
Disposals	(21,280)	(174,820)	(146,268)	-	-	-	(342,368)
Disposal of subsidiary undertaking	(14,160)	(14,005)	(178,293)	(34,804)	-	-	(241,262)
31 December 2003	1,168,188	6,542,906	1,796,107	-	-	-	9,507,201
<b>Net book value</b>							
31 December 2003	7,445,616	4,487,180	585,198	-	404,242	57,743	12,979,979
31 December 2002	3,715,960	2,466,395	712,877	29,386	1,461,846	1,255,036	9,641,500

All fixed assets of A/S Latvijas balzams are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note 21).

As at 31 December 2003 cadastral value of the land plots owned by the Group is Ls 1,052,526. Cadastral value for the buildings is not yet determined.

During the reporting year loan interest has been capitalised to "Fixed assets under construction". Interest capitalised for 2003 was Ls 234,299 (in 2002 no interest was capitalised).

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

Notes (continued)

**(13) Information on subsidiary undertakings**

Name	Address	Participating interest in share capital of subsidiary undertakings		Shareholders' funds		Profit/(loss) for the reporting year	
		31.12.03	31.12.02	31.12.03	31.12.02	2003	2002
		%	%	Ls	Ls	Ls	Ls
SIA Bravo	Rīga, Palīdzības iela 2 Reģ.Nr. 280300143	-	100	-	367,017	(9,491)*	22,260
UAB Baltijos alkoholiniai produktai	Lietuva, Vilnius A.Smetonos G.6-6 Reģ.Nr.1180264	100	-	1,445	-	(385)	-

\* reflects SIA Bravo result for 8 months period till the date of the sale of the Company's investment in this subsidiary.

UAB Baltijos alkoholiniai produktai basic operations are provision of consulting and marketing services to A/S Latvijas balzams.

In accordance with the decision of the Council of A/S Latvijas balsams SIA Bravo was sold to ONETANGO Ltd. (reg. No. HE 121993), which is registered in Cyprus. The sales price of the investment in SIA Bravo was determined based on investment's carrying value at the date of sale. As the result, no profit or loss was incurred on the sale of investment in SIA Bravo.

**(14) Trade debtors**

	31.12.03	31.12.02
	Ls	Ls
Trade debtors	6,353,460	7,309,397
Provisions for doubtful debts	(170,859)	(670,127)
	<u>6,182,601</u>	<u>6,639,270</u>

**(15) Receivables from affiliated companies**

SPI Spirits Ltd. (Cyprus)	<u>2,995,323</u>	<u>-</u>
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**(16) Other debtors**

Overpaid corporate income tax	555,020	78,253
Overpaid real estate tax	-	916
Receivables for sold SIA Bravo shares	357,525	-
VAT accepted	58,586	152,407
Other debtors	178,013	95,008
	<u>1,149,144</u>	<u>326,584</u>

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

Notes (continued)

**(17) Deferred expenses**

	31.12.2003. Ls	31.12.2002. Ls
Insurance	85,450	41,173
Embossing plates expenses	8,928	13,392
Subscription fees	2,496	1,679
Maintenance	2,123	2,282
Rent	23,961	12,101
Other deferred expenses	4,937	6,298
	<u>127,895</u>	<u>76,925</u>

**(18) Cash and bank**

Cash in hand	11,468	73,173
Cash at bank	162,807	419,573
Money in transit	-	54,498
	<u>174,275</u>	<u>547,244</u>

**(19) Share capital**

Registered and paid share capital	<u>7,496,900</u>	<u>7,496,900</u>
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As at 31 December 2003 the subscribed and fully paid share capital consists of 7,496,900 ordinary shares including 5,000 Board members' shares that do not have voting right. Nominal value of one share is Ls 1.

**(20) Provisions**

	Provisions for deferred tax liabilities Ls	Accruals for unused annual leave Ls	Other provisions Ls	Total Ls
At the beginning of the reporting year	311,140	248,351	91,275	650,766
Increase	173,770	-	-	173,770
Decrease	-	(42,794)	(16,162)	(58,956)
Disposal of subsidiary undertaking	-	(15,008)	(1,275)	(16,283)
At the end of the reporting year	<u>484,910</u>	<u>190,549</u>	<u>73,838</u>	<u>749,297</u>

Other provisions include management bonus costs.

**(a) Provisions for deferred tax liabilities**

Deferred tax has been calculated from the following temporary differences between assets and liabilities values for financial and tax purposes:

	31.12.03 Ls	31.12.02 Ls
Fixed assets depreciation	611,105	503,435
SIA Bravo unrealised gain	-	(1,582)
Provisions for obsolete and slow moving stock	(86,537)	(117,693)
Tax loss carried forward	-	(8,733)
Accruals for accrued annual leave and bonuses	(39,658)	(64,287)
Deferred tax liabilities	<u>484,910</u>	<u>311,140</u>

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

Notes (continued)

**(21) Loans from credit institutions**

**(a) long-term loans from credit institutions**

	31.12.03 Ls	31.12.02 Ls
JSC Parekss Banka	8,882,759	-
JSC Latvijas Unibanka	-	1,099,700
JSC Hansabanka	-	1,202,906
Reclassified to short-term loans (see Note 21(b))	(1,268,966)	(1,315,772)
	<u>7,613,793</u>	<u>986,834</u>

As at 23 October 2003 the Parent company signed long-term loan agreement with JSC Parekss Banka for Ls 9,200,000. Interest rate on loan is 3 months RIGIBOR plus 1.6%. The loan principal is repayable till 23 October 2010. As at 31 December 2003 the long-term portion of the loan includes Ls 2,537,931 that is repayable after 31 December 2008.

The amount of the loans from credit institutions in amount of Ls 1,268,966 reflects the short-term portion of the loan from JSC Parekss Banka, which is repayable till 31 December 2004.

The loans are secured by the mortgage of all real estate owned by A/S Latvijas balzams and commercial pledge of all Group's assets on the date of pledging and all assets that might be acquired in the future. Carrying value of the pledged assets as at 31 December 2003 is Ls 31,985,003.

**(b) short-term loans from credit institutions**

Loans from credit institutions repayable within 1 year (see Note

21(a))	1,268,966	1,315,779
Credit line	1,681,071	6,358,802
	<u>2,950,037</u>	<u>7,674,581</u>

As at 23 October 2003 the Company signed credit line agreement with JSC Parekss Banka for Ls 5,600,000. Interest rate is set at 3 months RIGIBOR plus 1.6%.

For the current assets pledged see also Note 21 (a).

**(22) Taxes and social insurance**

Excise tax	2,311,291	2,382,046
Value added tax	328,427	90,055
Social insurance	78,791	124,999
Personal income tax	57,448	87,371
Natural resource tax	32,364	32,032
Real estate tax	859	-
	<u>2,809,180</u>	<u>2,716,503</u>

**(23) Other creditors**

Salaries	141,800	81,595
Accrued interest expenses*	42,522	19,925
Other creditors	2,325	22,230
	<u>186,647</u>	<u>123,750</u>

\* In year 2002 accrued interest expenses were included in Trade creditors. In order to reflect the substance of the balance more precisely in year 2003 it was reclassified to Other creditors. Comparative figure has been reclassified accordingly.

**A/S LATVIJAS BALZAMS**  
**CONSOLIDATED ANNUAL ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2003**

Notes (continued)

**(24) Average number of employees**

	2003	2002
Average number of employees during the reporting year	<u>852</u>	<u>801</u>

**(25) Management remuneration**

	2003 Ls	2002 Ls
Board, Council and management remuneration Including:	385,899	280,153
Council's		
· salary	11,722	17,582
· social insurance	2,824	4,587
Board and other management		
· salary	320,895	233,272
· social insurance	50,458	24,712

According to the shareholders' decision, the Board members do not receive additional remuneration for fulfilling their duties.

**(26) Transactions with related parties**

In 2003 the Group had purchase and sales transactions on an arms length basis with the following related companies - SPI Spirits (Cyprus), SPI-RVVC OAO (Russia) and Spirits International GmbH (Germany).

**(27) Subsequent events**

There are no subsequent events since the last date of the reporting year, which would have a significant effect on the financial position of the Company as at 31 December 2003.

**AUDITORS' REPORT**

**To the shareholders of A/S Latvijas balzams**

We have audited the consolidated financial statements on pages 6 to 21 of A/S Latvijas balzams and its subsidiaries ("the Group") for 2003. The audited consolidated financial statements include the consolidated balance sheet as of 31 December 2003, related consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for 2003 and note disclosure. These consolidated financial statements are the responsibility of A/S Latvijas balzams management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

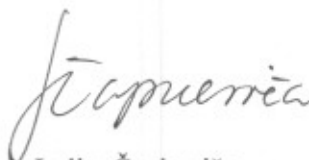
We conducted our audit in accordance with International Standards on Auditing issued by International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall consolidated financial statements presentation. We verified that, in all material respects, the management report is consistent with the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2003, and of the results of its operations and its cash flows for the year then ended in accordance with the requirements of the law On the Consolidated Annual Accounts of the Republic of Latvia.

PricewaterhouseCoopers SIA  
Audit company licence No. 5



Juris Lapshe  
Personal ID: 250670-10408  
Member of the Board



Lolita Čapkeviča  
Personal ID: 211168-11503  
Certified auditor  
Certificate No. 120

13 April 2004