

AS Latvijas balzams

**CONSOLIDATED FINANCIAL
STATEMENTS FOR THE YEAR
ENDED 31 DECEMBER 2004**

Translation from the original in Latvian

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

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AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

MANAGEMENT AND AUDITORS

Names and positions of Council members
of the Parent company

Alexander Kovalev – Chairman of the Council

Pjotr Aven – Member of the Council

Vitolds Kokars – Member of the Council
Director for quality control of AS Latvijas balzams

Yury Shefler – Member of the Council (from 23 February
2004)

Alexey Oliynik – Member of the Council
(from 23 February 2004)

Juris Gulbis – Member of the Council (from 23 February
2004)

Kaspars Ievins-Brambis – Member of the Council
(till 23 February 2004)

Eric Stuart Whitman – Member of the Council
(till 23 February 2004)

Hans Emanuel Urlus – Member of the Council
(till 23 February 2004)

Names and positions of Board members
of the Parent company

Rolands Gulbis – 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
(from 23 February 2004)

Juris Gulbis – Member of the Board (until 23 February 2004)

Reporting year

1 January – 31 December 2004

Name and address of the auditor and
responsible certified auditor

PricewaterhouseCoopers SIA
Audit company licence No. 5
Kr.Valdemara Street 19
Riga LV – 1010
Latvia

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

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

REPORT OF THE MANAGEMENT

Type of operations

The Parent company was incorporated in 1900; however the current name of the Parent company was established in 1970. The Parent company is a producer of a wide range of alcoholic drinks. At present AS Latvijas balzams produces more than 115 different types of drinks. Shares of the Parent company are listed in the second list of Riga Stock Exchange.

Performance of the Group during the reporting year

AS Latvijas balzams 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 27.4 million lats to the State budget, including 21.9 million lats for excise tax.

The turnover of the Group was 61.1 million Lats, the profit for the reporting year was 707 thousand Lats. The total amount of investment in fixed assets exceeded 1.5 million Lats. Profit for the reporting year was influenced by the increase of depreciation expenses due to prior year investments in property, plant and equipment, as well as by increase of advertising and marketing expenses devoted to strengthening of AS Latvijas balzams positions in the Baltic market.

Average number of employees in 2004 was 675 with an average monthly gross salary of 401 Lats.

Financial risk management

The Group's activities expose it to a variety of financial risks, including credit risk, risk of changing foreign currency exchange rates and interest rates. The Group's management seeks to minimise potential adverse effects of financial risk on the financial performance of the Group.

The Group is exposed to foreign exchange risk arising from various currency exposures primarily because the majority of raw materials are purchased in EUR, but significant part of goods are sold in local market or exported to the markets dominated by US dollar. As of 1 January 2005 the Lat exchange rate has been pegged to euro, therefore the Lat/euro exchange rate fluctuation possibilities are limited, and any substantial influence of this exchange rate on future financial results is not foreseen. The management of the Group considers possibilities to apply risk hedging instruments in order to minimize the effect of USD rate fluctuations.

The Parent company's borrowings have variable interest rates. The management of the Parent company considers possibilities to apply risk hedging instruments in order to minimize the effect of variable interest rates.


The Group pursues a prudent liquidity risk management maintaining sufficient credit resources that allow to settle liabilities when they fall due. As at 31 December 2004 the Group's current assets exceeded its current liabilities by 12.3 million Lats. Therefore the management of the Group considers that the Group will have sufficient cash resources and its liquidity will not be endangered.

Future prospects

One of the priorities for the year 2005 of AS Latvijas balzams will be promotion of export sales. 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

Riga, 8 April 2005



Alexander Kovalev
Chairman of the Council

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

STATEMENT OF THE RESPONSIBILITIES OF THE BOARD

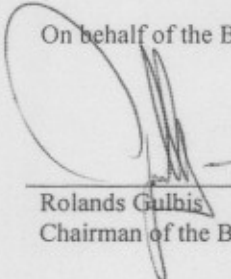
The Board of AS Latvijas balzams and its subsidiary undertaking (further – the Group) is responsible for the preparation of the financial statements of the Group.

The consolidated financial statements on pages 7 to 26 are prepared in accordance with the source documents and present fairly the financial position of the Group as of 31 December 2004 and the results of its operations and cash flows for the year ended 31 December 2004.

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgements and estimates have been made by the Board in the preparation of the financial statements.

The Board of AS Latvijas balzams is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. It is also responsible for operating in compliance with the legislation.

On behalf of the Board of AS Latvijas balzams:



Rolands Gulbis
Chairman of the Board

8 April 2005

AUDITORS' REPORT

To the shareholders of AS Latvijas balzams

We have audited the consolidated financial statements of AS Latvijas balzams and its subsidiary undertaking ("the Group") for the year ended 31 December 2004 set out on pages 7 to 26. The audited consolidated financial statements include the consolidated balance sheet as of 31 December 2004, related consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and note disclosure. These consolidated financial statements are the responsibility of AS Latvijas balzams management, as referred to on page 5. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Except as discussed in the following paragraph, 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 management, as well as evaluating the overall consolidated financial statement presentation. We read the management report set out on page 4 and did not identify material inconsistencies with the audited consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

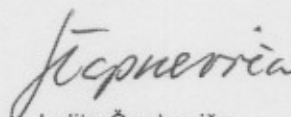
The Group's accounting policy is to account for buildings at revalued amount less subsequent depreciation. No valuation of the buildings has been performed since 1 January 1998. International Accounting Standard 16 provides that the revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Considering the general increase in real estate prices in the Latvian market over recent years the fair value of the buildings may have changed materially since 1998. In the absence of more recent revaluation performed, we were unable to satisfy ourselves as to the carrying amount of the buildings of Ls 6,316 thousand as at 31 December 2004 by other audit procedures.

In our opinion, except for the effects of such adjustments, if any, which might have been determined to be necessary had we been able to satisfy ourselves as to the carrying amounts of the buildings as described in the preceding paragraph, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers SIA
Audit company licence No. 5



Juris Lapshe
Member of the Board



Lolita Čapkeviča
Certified auditor
Certificate No. 120

8 April 2005

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004
CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 Ls	2003 Ls
Net sales	4	61,119,546	52,387,270
Cost of sales	5	(53,772,030)	(44,440,261)
Gross profit		7,347,516	7,947,009
Selling expenses	6	(3,270,159)	(3,061,270)
Administrative expenses	7	(2,982,663)	(2,751,081)
Other operating income	8	432,426	963,229
Other operating expenses	9	(106,649)	(3,159)
Operating profit		1,420,471	3,094,728
Finance expenses, net	10	(514,784)	(696,221)
Profit before taxes		905,687	2,398,507
Corporate income tax	11	(198,854)	(419,141)
Net profit for the reporting year		706,833	1,979,366
Earnings per share (in santims)	12	9.43	26.40

Notes on pages 11 to 26 form an integral part of these consolidated financial statements.

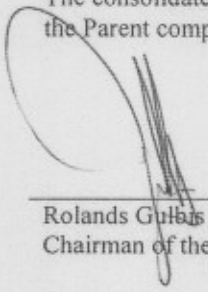
AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

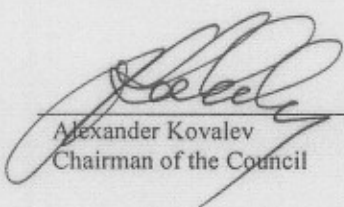
CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2004

	Notes	31.12.2004 Ls	31.12.2003 Ls
Assets			
Non-current assets			
Intangible assets	13	328,966	555,577
Property, plant and equipment	14	12,913,594	12,979,979
		13,242,560	13,535,556
Current assets			
Inventories	16	10,779,533	7,934,997
Debtors	17	7,403,423	6,133,928
Receivables from related parties	29(g)	4,834,696	3,401,522
Other current assets	18	469,695	364,493
Corporate income tax		292,440	555,020
Cash and bank	19	898,246	174,275
		24,678,033	18,564,235
Total assets		37,920,593	32,099,791
Shareholders' equity and liabilities			
Shareholders' equity			
Share capital	20	7,496,900	7,496,900
Share premium		61,767	61,767
Revaluation reserve		984,878	984,878
Other reserves		1,249,047	1,249,047
Merger reserve		(11,101,905)	(11,101,905)
Retained earnings		15,886,958	15,180,125
		14,577,645	13,870,812
Liabilities			
Non-current liabilities			
Deferred tax	21	577,421	484,910
Borrowings	22	10,376,540	7,613,793
		10,953,961	8,098,703
Current liabilities			
Borrowings	22	2,042,497	2,950,037
Trade payables		3,483,034	3,875,879
Payables to related parties	29(f)	856,204	38,911
Other payables	23	6,007,252	3,265,449
		12,388,987	10,130,276
Total liabilities		23,342,948	18,228,979
Total liabilities and shareholders' equity		37,920,593	32,099,791

Notes on pages 11 to 26 form an integral part of these consolidated financial statements.

The consolidated financial statements on pages 7 to 26 have been approved by the Council and the Board of the Parent company and signed on their behalf by:


 Rolands Gulbis
 Chairman of the Board


 Alexander Kovalev
 Chairman of the Council

8 April 2005

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2004

	Share capital Ls	Share premium Ls	Revaluation reserve * Ls	Other reserves Ls	Merger reserve ** Ls	Retained earnings Ls	Total Ls
Balance as at 31 December 2002	7,496,900	61,767	998,736	1,249,047	(11,101,905)	13,186,901	11,891,446
Disposed revalued fixed assets	-	-	(13,858)	-	-	13,858	-
Profit for the year	-	-	-	-	-	1,979,366	1,979,366
Balance as at 31 December 2003	7,496,900	61,767	984,878	1,249,047	(11,101,905)	15,180,125	13,870,812
Profit for the year	-	-	-	-	-	706,833	706,833
Balance as at 31 December 2004	7,496,900	61,767	984,878	1,249,047	(11,101,905)	15,886,958	14,577,645

* As at 31 December 2004 the deferred tax charged to equity is Ls 173,802 (31.12.2003 – Ls 173,802).

** In accordance with decisions made by the general meetings of shareholders on 1 January 2000 AS Rīgas vīni was reorganised by merging with AS Latvijas balzams. With a view to maximally approximate the value of the shareholders' funds in the financial statements of the Company and the Group, the management decided to include the difference between the value of the investment in the shareholders' funds of AS Rīgas vīni and acquisition cost in the balance sheet under the shareholders' funds as merger reserve. The reserve cannot be covered from the profit of previous or current reporting period.

Notes on pages 11 to 26 form an integral part of these consolidated financial statements.

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 Ls	2003 Ls
Cash flows from operating activities			
Cash generated from operations	24	1,287,245	4,149,496
Interest paid		(716,352)	(640,167)
Tax paid		(397,213)	(668,499)
Net cash from operating activities		<u>173,680</u>	<u>2,840,830</u>
Cash flows from investing activities			
Disposal of subsidiary undertaking		357,526	-
Purchase of property, plant and equipment		(1,541,825)	(5,290,471)
Proceeds from sale of property, plant and equipment		6,631	174,257
Net cash used in investing activities		<u>(1,177,668)</u>	<u>(5,116,214)</u>
Cash flows from financing activities			
Net loans received		1,727,959	1,902,415
Net cash from financing activities		<u>1,727,959</u>	<u>1,902,415</u>
Net increase / (decrease) in cash and cash equivalents		723,971	(372,969)
Movement in cash and cash equivalents			
At the beginning of the year		174,275	547,244
Increase		723,971	(372,969)
At the end of the year	19	<u>898,246</u>	<u>174,275</u>

Notes on pages 11 to 26 form an integral part of these consolidated financial statements.

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES

1. OPERATING ACTIVITIES

AS Latvijas balzams is joint stock company whose shares are quoted on second list of Riga stock exchange. 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 widest range of alcoholic drinks. At present AS Latvijas balzams produces more than 115 different types of drinks.

UAB Baltijos alkoholiniai produktai, which is the only subsidiary undertaking, basic operations are provision of consulting and marketing services to AS Latvijas balzams to facilitate the sales in Lithuania.

The largest shareholder of the Parent company, who owns 87.98% of the shares of the Parent company, is S.P.I. Distilleries B.V., which is incorporated in Netherlands.

The registered office of the Parent company is A. Čaka iela 160, Rīga, LV-1012, Republic of Latvia.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The consolidated financial statements have been prepared under the historical cost convention as modified by the valuation of property, plant and equipment as disclosed in Note (e).

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

The Group adopted IFRS 3 as of 31 March 2004. Since no business combinations took place after that date there was no effect of the adoption of IFRS 3. In accordance with transitional provisions of IFRS 3 the Group continued to account for goodwill as described in Note (i).

(b) Group accounting

The purchase method of accounting is used in preparation of the consolidated financial statement. The Parent company AS Latvijas balzams and 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 the right to exercise control over the operations, are consolidated. Subsidiary undertakings are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies of subsidiary undertakings have been changed to ensure consistency with the policies adopted by the Group

(c) Income recognition and net sales

The Group's main operation is the production and sale 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. Income from sales of goods in Latvia is recognised when the customer has accepted the goods. Income from the sales of goods outside Latvia is recognised in accordance with the goods delivery terms. Income from penalties is recognised at the moment of receipt.

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

2. ACCOUNTING POLICIES (continued)

(d) Foreign currency translation into Lats

Items included in the consolidated financial statements of the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to this group ("the measurement currency"). All amounts shown in these financial statements are presented in Latvian Lats (Ls), which is the measurement currency of the Group.

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 year. The resulting profit or loss is charged to the income statement.

	31.12.2004	31.12.2003
	Ls	Ls
1 USD	0.516	0.541
1 EUR	0.703	0.674
1 LTL	0.203	0.195

(e) Intangible assets

Intangible assets are recorded at historic cost net of accumulated amortisation. Amortisation is calculated on a straight-line basis to write down each intangible asset to its estimated residual value over its estimated useful life using. Software licences and patents are amortised over 5 years.

(f) Property, plant and equipment

Buildings are shown at revalued amount less accumulated depreciation. Other property, plant and equipment is stated at historic cost less accumulated depreciation.

Increase in value arising on revaluation is shown in equity under "Revaluation reserve". A decrease that offsets a previous increase of the same asset's value (net of deferred tax) recognised in the said reserve is charged against that reserve; any further decrease is charged to the current year's income statement. The revaluation surplus is transferred directly to retained earnings when the surplus is realised on retirement or disposal of the asset.

Depreciation is calculated on a straight-line basis to write down each asset to its estimated residual value over its estimated useful life as follows:

	Years
Buildings	50-83
Production equipment	2-25
Other equipment and machinery	2-25

Costs of borrowing to finance assets under construction and other direct charges related to the particular 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 asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount and the decrease is reflected as the expenses or recognised in reserves, in case the asset was previously re-valued. Recoverable amount is the higher of the fair value less costs to sell and the value in use of the related 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.

Gains or losses on disposals are determined by comparing carrying amount with proceeds and are charged to the income statement during the period in which they are incurred.

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

2. ACCOUNTING POLICIES (continued)

(g) Inventories

The inventories are 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 inventories is lower than their cost, provisions are created to reduce the value of inventories to their net realisable value.

(h) Accounts receivable

Accounts receivable are carried at original invoice less provisions made for impairment of these receivables. A provision for impairment is 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 the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(i) 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 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.

(j) Borrowings

Borrowings are recognised initially at the proceeds received net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement or capitalised to assets under construction over the period of borrowings.

(k) Taxation

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

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 inventory, accruals for unused annual leave and accruals for bonuses. Where an overall deferred taxation asset arises, it is only recognised to the extent it is probable future taxable profits will be available against which the temporary differences can be utilised.

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

2. ACCOUNTING POLICIES (continued)

(l) Accruals for unused annual leave

Employee entitlements to annual leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave based on actual number of outstanding days of paid leave as at the end of the reporting period multiplied by the average daily salary over the last six months of each employee.

(m) Social security contribution

The Group pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian legislation. State funded pension scheme is a defined contribution plan under which the Group pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included within staff costs.

(n) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

(o) Operating lease

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

(p) Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

(q) Related parties

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

(r) Segment reporting

Business segments provide products or services that are subject to risk and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risk and returns that are different from those of components operating in other economic environment.

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

3. SEGMENT REPORTING

The only operational activity of the Parent company, which qualifies for business segment, is production of alcoholic drinks. At present AS Latvijas balzams produces more than 115 different types of drinks. There are no material differences between risks and returns attributable to production of different alcoholic drinks.

The Parent company operates in Latvia and it sells drinks in the local market, as well as foreign markets. In case of export transactions the risks and rewards are transferred to the buyer already in Latvia. There are no material differences between risks and returns from the sales in local and foreign markets. The operations of the subsidiary undertaking do not qualify for separate geographical segment.

Considering the above the Group does not identify any reportable business and geographical segment.

4. NET SALES

	2004 Ls	2003 Ls
Local sales	44,892,501	43,015,810
Export sales	16,217,804	9,363,231
Other sales (spirit, raw materials)	9,241	8,229
	<u>61,119,546</u>	<u>52,387,270</u>

5. COST OF SALES

Variable costs	50,499,402	41,000,466
<i>Materials</i>	48,003,392	36,387,587
<i>Goods bought</i>	134,399	2,364,606
<i>Salary expenses</i>	1,153,813	1,124,380
<i>Social insurance</i>	277,258	269,902
<i>Electricity</i>	321,960	328,270
<i>Natural resources tax</i>	456,753	420,216
<i>Other expenses</i>	151,827	105,505
Fixed costs	3,272,628	3,439,795
<i>Depreciation and amortisation</i>	1,511,247	1,395,026
<i>Salary expenses</i>	659,602	718,750
<i>Social insurance</i>	157,706	167,402
<i>Repair expenses</i>	598,196	573,518
<i>Insurance</i>	71,085	63,050
<i>Laboratory expenses</i>	31,961	50,116
<i>Other expenses</i>	242,831	471,933
	<u>53,772,030</u>	<u>44,440,261</u>

6. SELLING EXPENSES

Salary expenses	710,606	906,464
Social insurance	170,919	218,110
Depreciation and amortisation	119,617	143,861
Advertising	1,509,626	813,881
Transportation cost	557,139	672,071
Warehouse maintenance	48,544	116,630
Other expenses	153,708	190,253
	<u>3,270,159</u>	<u>3,061,270</u>

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

7. ADMINISTRATIVE EXPENSES

	2004	2003
	Ls	Ls
Salary expenses	718,278	718,041
Social insurance	131,917	144,281
Communication and postal expenses	172,912	153,618
Office expenses	100,971	89,284
Professional fees	239,902	404,222
IT maintenance	365,896	320,663
Representations	81,260	40,666
Security	172,794	168,723
Management services	183,547	205,924
Transportation	130,882	58,037
Business trip	48,225	43,690
Personnel education and training	31,955	15,843
Depreciation	200,673	183,322
Real estate tax	96,140	62,153
Financial help, sponsorship	42,991	6,082
Healthcare, health insurance	48,724	15,660
Trade union, cultural and other expenses	16,734	13,774
Other expenses	198,862	107,098
	<u>2,982,663</u>	<u>2,751,081</u>

8. OTHER OPERATING INCOME

Proceeds from sale of inventory	8,633	1,410
Proceeds from sale of materials	53,283	70,891
Services rendered	306,014	419,489
Net gain on release of provisions	-	351,010
Net gain on disposal of property, plant and equipment	3,347	25,137
Other income	61,149	95,292
	<u>432,426</u>	<u>963,229</u>

9. OTHER OPERATING EXPENSES

Net increase of provisions	67,878	-
Other expenses	38,771	3,159
	<u>106,649</u>	<u>3,159</u>

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

10. FINANCE EXPENSES, NET

	2004	2003
	Ls	Ls
Net gain from exchange rate fluctuations	126,956	-
Interest income	17,219	852
Penalties received	14,871	6,043
Interest on long-term loans	(553,816)	(212,493)
Credit-line interest	(120,014)	(214,162)
Net loss from exchange rate fluctuations	-	(276,461)
	<u>(514,784)</u>	<u>(696,221)</u>

11. CORPORATE INCOME TAX

Deferred tax (see Note 21)	92,511	176,216
Corporate income tax charge for the current year	106,343	242,925
	<u>198,854</u>	<u>419,141</u>

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 15% rate stipulated by the law to profit before taxation:

Profit before taxation	<u>905,687</u>	<u>2,398,507</u>
Theoretically calculated tax at a tax rate of 15% (2003 – 19%)	135,853	455,716
Expenses not deductible for tax purposes	92,013	51,568
Non-taxable income	(19,645)	(74,783)
Effect of changes in enacted tax rates	-	(39,433)
Tax discount for donations	(26,585)	(816)
Effect of disposed revalued property, plant and equipment	-	2,446
Adjustment for deviation from statutory accounts	17,218	24,443
Tax charge	<u>198,854</u>	<u>419,141</u>

Deferred tax is calculated by using the enacted tax rate - 15%.

12. EARNING PER SHARE (IN SANTIMS)

The Group has no dilutive potential shares therefore diluted earnings per share are equal to basic earning per share.

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.

	2004	2003
Current year's profit	706,833	1,979,366
Average number of shares during the reporting year	7,496,900	7,496,900
Earnings per share (in santims)	<u>9.43</u>	<u>26.40</u>

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

13. INTANGIBLE ASSETS

	Licenses, patents Ls
Cost	
31.12.2003	1,160,952
Additions	1,194
31.12.2004	<u>1,162,146</u>
Amortisation	
31.12.2003	605,375
Charge for 2004	227,805
31.12.2004	<u>833,180</u>
Net book value 31.12.2004	<u>328,966</u>
Net book value 31.12.2003	<u>555,577</u>

All intangible assets are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note 22).

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings Ls	Equipment and machinery Ls	Other assets Ls	Assets under construction Ls	Advances for assets Ls	Total Ls
Cost / Valuation						
31.12.2003	8,613,804	11,030,086	2,381,305	404,242	57,743	22,487,180
Additions	-	-	-	-	1,540,631	1,540,631
Disposals	-	(162,489)	(62,954)	-	-	(225,443)
Reclassified from advance payments	245,764	84,738	601,199	243,037	(1,174,738)	-
Reclassification	-	208,466	168,260	(376,726)	-	-
31.12.2004	<u>8,859,568</u>	<u>11,160,801</u>	<u>3,087,810</u>	<u>270,553</u>	<u>423,636</u>	<u>23,802,368</u>
Deprecation						
31.12.2003	1,168,188	6,542,906	1,796,107	-	-	9,507,201
Charge for 2004	226,616	1,074,472	302,644	-	-	1,603,732
Disposals	-	(162,489)	(59,670)	-	-	(222,159)
31.12.2004	<u>1,394,804</u>	<u>7,454,889</u>	<u>2,039,081</u>	<u>-</u>	<u>-</u>	<u>10,888,774</u>
Net book value						
31.12.2004	<u>7,464,764</u>	<u>3,705,912</u>	<u>1,048,729</u>	<u>270,553</u>	<u>423,636</u>	<u>12,913,594</u>
Net book value						
31.12.2003	<u>7,445,616</u>	<u>4,487,180</u>	<u>585,198</u>	<u>404,242</u>	<u>57,743</u>	<u>12,979,979</u>

The Parent company performed revaluation of buildings on 1 January 1998, when the revaluation was performed by independent valuers Latvian State Land Service Bureau by applying replacement cost method. As at 31 December 2004 total revaluation surplus represents Ls 1,158,680 (31.12.2003 – Ls 1,158,680).

If revalued buildings were stated on the historical cost basis, the carrying value of these buildings as at 31 December 2004 would be Ls 1,315 thousand (2003: Ls 1,297 thousand). The carrying value of the revalued buildings as at 31 December 2004 is Ls 1,982 thousand (2003: Ls 1,980 thousand).

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

14. PROPERTY, PLANT AND EQUIPMENT (continued)

All property, plant and equipment are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note 22).

15. INFORMATION ON SUBSIDIARY UNDERTAKINGS

Name	Address	Participating interest in share capital of subsidiary undertakings		Shareholders' funds		Profit / (loss) for the reporting year	
		31.12.2004	31.12.2003	31.12.2004	31.12.2003	2004	2003
		%	%	Ls	Ls	Ls	Ls
UAB Baltijos alkoholiniai produktai	Lithuania, Vilnius A.Smetonos G.6-6 Reg. No. 1180264	100	100	4,651	1,445	3,206	(385)

16. INVENTORIES

	31.12.2004	31.12.2003
	Ls	Ls
Raw materials and consumables (at net realisable value)	5,208,922	4,486,246
Inventory in transit (at cost)	142,861	-
Finished goods and goods for sale (at net realisable value)	2,924,804	1,281,698
Excise tax stamps (at net realisable value)	1,876,219	1,790,670
Work-in-progress (at cost)	626,727	376,383
	<u>10,779,533</u>	<u>7,934,997</u>

All inventories are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note 22).

17. TRADE DEBTORS

Trade debtors	9,694,335	8,409,238
Provisions for impairment of trade debts	(2,290,912)	(2,275,310)
	<u>7,403,423</u>	<u>6,133,928</u>

18. OTHER CURRENT ASSETS

VAT accepted	20,597	58,586
Loans to the management of the Parent company	22,000	-
Insurance	69,806	85,450
Other deferred expenses	14,405	42,445
Other debtors	342,887	178,012
	<u>469,695</u>	<u>364,493</u>

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

19. CASH AND BANK

	31.12.2004	31.12.2003
	Ls	Ls
Cash in hand	47,158	11,468
Cash at bank	851,088	162,807
	<u>898,246</u>	<u>174,275</u>

20. SHARE CAPITAL

Registered share capital	<u>7,496,900</u>	<u>7,496,900</u>
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As at 31 December 2004 the subscribed and fully paid share capital of the Parent company consists of 7,496,900 (31.12.2003 - 7,496,900) ordinary shares. Nominal value of one share is Ls 1 (31.12.2003 - Ls 1).

Bank borrowings (see Note 22) are secured by a pledge of all shares owned by the Parent company's largest shareholder, S.P.I. Distilleries B.V., and any other shares that S.P.I. Distilleries B.V. may acquire in the future.

21. DEFERRED TAX

	2004	2003
	Ls	Ls
Deferred tax liability at the beginning of the reporting year	484,910	311,140
Increase of deferred tax charged to income statement (see Note 11)	92,511	176,216
Deferred tax charged to revaluation reserve	-	(2,446)
Deferred tax liability at the end of the reporting year	<u>577,421</u>	<u>484,910</u>

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

	31.12.2004	31.12.2003
	Ls	Ls
Temporary difference on property, plant and equipment depreciation	676,262	611,105
Temporary difference on accruals for unused annual leave	(32,411)	(28,582)
Temporary difference on accruals for bonuses	(2,250)	(11,076)
Temporary difference on provisions for slow moving stock	(64,180)	(86,537)
Deferred tax liability	<u>577,421</u>	<u>484,910</u>

22. BORROWINGS

AS Parex banka	-	7,613,793
AS Latvijas Unibanka	5,070,267	-
AS Hansabanka	5,306,273	-
Non-current borrowings from credit institutions	<u>10,376,540</u>	<u>7,613,793</u>
AS Parex banka	-	1,268,966
AS Latvijas Unibanka	680,000	-
AS Hansabanka	645,000	-
Credit line	717,497	1,681,071
Current borrowings from credit institutions	<u>2,042,497</u>	<u>2,950,037</u>
Total borrowings	<u>12,419,037</u>	<u>10,563,830</u>

The carrying value of borrowings does not materially differ from their fair value.

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

22. BORROWINGS (continued)

As the result of refinancing of the credit facilities in May 2004 the long-term loan and the credit line from AS Parex banka were fully repaid. On 30 April 2004 the Parent company signed long-term loan agreement with AS Hansabanka and AS Latvijas Unibanka for USD 12,500,000 and Ls 6,800,000 respectively. Interest rate constitutes 6 months LIBOR plus 1.6% for the part of the loan in USD and 3 months RIGIBOR plus 1.6% for the part of the loan in lats.

As at 31 December 2004 the Parent company's liability to AS Hansabanka for received loan is USD 11,562,500, which represents Ls 5,966,250, translated at the exchange rate set by the Bank of Latvia as at 31 December 2004.

As at 30 April 2004 the Parent company signed credit line agreement with AS Hansabanka and AS Latvijas Unibanka for Ls 2,675,000 and Ls 2,800,000 respectively. Interest rate is 3 months RIGIBOR plus 1.6%.

As at 31 December 2004 the Parent company has unutilised credit line in amount of Ls 4,752,941.

The effective interest rates at the balance sheet date were as follows:

	31.12.2004	31.12.2003
Borrowings	3.946% - 6.003%	5.445%
Credit line	6.137%	5.473%

The exposure of the total principal amount of borrowings of the Parent company to interest rate changes and the periods in which the borrowings reprice are as follows:

	31.12.2004. Ls	31.12.2003. Ls
6 months or less	<u>12,419,037</u>	<u>10,563,830</u>

The loan principal has to be repaid until 30 April 2009. According to the loan agreement with AS Hansabanka and AS Latvijas Unibanka the Parent company has a right to prolong the repayment of the loan until 30 April 2015. Maturity of the total borrowings is as follows:

Payable in 1 year	2,042,497	2,950,037
Payable between 2 and 5 years	<u>10,376,540</u>	<u>7,613,793</u>
	<u>12,419,037</u>	<u>10,563,830</u>

The loans are secured by the mortgage of (i) all real estate owned by the Parent company and (ii) commercial pledge of all Parent company's assets on the date of pledging and all assets that might be acquired in the future, and (iii) all shares owned by the Parent company's largest shareholder, S.P.I. Distilleries B.V., and any other shares that S.P.I. Distilleries B.V. may acquire in the future. Carrying value of the pledged assets as at 31 December 2004 is Ls 37,912,580.

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

23. OTHER LIABILITIES

	31.12.2004	31.12.2003
	Ls	Ls
Excise tax	4,411,475*	2,311,291
Value added tax	738,270	328,427
Social insurance	94,719	78,791
Personal income tax	75,583	57,448
Natural resources tax	37,990	32,364
Real estate tax	5,296	859
Salaries	161,826	141,800
Accrued interest expenses	-	42,522
Prior years' unpaid dividends	5,235	5,235
Accruals for unused annual leave	216,070	190,549
Other accrued liabilities	235,000	-
Other creditors	25,788	76,163
	<u>6,007,252</u>	<u>3,265,449</u>

* Includes deferred excise tax in amount Ls 2,739,150 calculated in accordance with Latvian legislation after joining the European Union.

24. CASH GENERATED FROM OPERATIONS

	2004	2003
	Ls	Ls
Profit before corporate income tax	905,687	2,398,507
<u>Corrections:</u>		
- depreciation and amortisation	1,831,537	1,731,132
- increase / (decrease) of provisions	68,398	(355,791)
- interest expenses	673,830	426,655
- profit from sale of property, plant and equipment	(3,347)	(25,137)
<u>Change in working capital</u>		
- debtors	(2,853,850)	(2,520,157)
- inventory	(2,695,490)	536,874
- creditors	3,360,480	1,957,413
	<u>1,287,245</u>	<u>4,149,496</u>

25. AVERAGE NUMBER OF EMPLOYEES

	2004	2003
Average number of employees during the reporting year:	<u>675</u>	<u>852</u>

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

26. PERSONNEL EXPENSES

	2004 Ls	2003 Ls
Salaries and social insurance for production staff	2,248,379	2,280,434
Salaries and social insurance for distribution staff	881,525	909,249
Salaries and social insurance for administration staff	850,195	806,707
Total*	<u>3,980,099</u>	<u>3,996,390</u>
including:		
Board members' and management remuneration		
- salary expenses	402,275	320,895
- social insurance	56,379	50,458
Council remuneration		
- salary expenses	402	11,722
- social insurance	97	2,824

According to the shareholders' decision, the Parent company Board and Council members do not receive additional remuneration for fulfilment of their duties.

* Includes social insurance of Ls 737,799 (2003 - Ls 747,919).

27. ISSUED GUARANTEES AND PLEDGES

In 2004 the Parent company issued guarantee to AS Hansabanka and AS Latvijas Unibanka regarding credit line issued to S.P.I. Spirits Ltd. (Cyprus) in amount of USD 15,000,000. The repayment term for this credit line is 30 April 2005.

In 2004 the Parent company issued several other guarantees to companies and employees for the total amount of Ls 74,000 and USD 40,000.

28. CAPITAL COMMITMENTS

During year 2004 the Parent company signed agreement regarding construction works. The capital commitments as at 31 December 2004 were Ls 667 thousand.

29. TRANSACTIONS WITH RELATED PARTIES

The largest shareholder of the Parent company, who owns 87.98% of shares of the Parent company, is S.P.I. Distilleries B.V., which is registered in Netherlands. The ultimate parent company is S.P.I. Group SA, which is registered in Switzerland.

During year 2004 the Group had purchase and sale transactions on arms length basis with the following related companies: S.P.I. Spirits Ltd. (Cyprus), Spirits Product International IP B.V., Spirits International GmbH (Germany), Torgovy dom SPI-TRADE, CJSC Sojuzplodimport, Tambovskoje spirtovoje predpriyatije Talvis, Torgovi Dom Rosvestalko, SPI-RVVC OAO (Russia) and SIA Bravo.

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

29. TRANSACTIONS WITH RELATED PARTIES (continued)

(a) sale of goods

	2004 Ls	2003 Ls
S.P.I. Spirits Ltd. (Cyprus)	12,296,059	312,264
Torgovi Dom Rosvestalko	554,161	-
SIA Bravo	145,591	102,605
	<u>12,995,811</u>	<u>414,869</u>

(b) services rendered

S.P.I. Spirits Ltd. (Cyprus)	215,167	7,205,536
SIA Bravo	8,960	12,726
Spirits Product International IP B.V.	8,870	-
CJSC Sojuzplodimport	2,887	-
Tambovskoje spirtovoje predpriyatije Talvis	1,277	-
SPI-RVVC OAO	999	-
Torgovy dom SPI-TRADE	621	-
	<u>238,781</u>	<u>7,218,262</u>

(c) sold shares

S.P.I. Worldwide Trade Ltd.	<u>-</u>	<u>357,526</u>
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In 2003 in accordance with the decision of the Council of AS Latvijas balzams the shares of SIA Bravo were sold to S.P.I. Worldwide Trade Ltd. (prior - 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.

(d) purchase of goods

SPI-RVVC OAO	4,701,739	8,364
S.P.I. Spirits Ltd. (Cyprus)	171,917	85,640
Spirits International GmbH (Germany)	162,858	74,472
Tambovskoje spirtovoje predpriyatije Talvis	87,222	-
SIA Bravo	1,998	-
	<u>5,125,734</u>	<u>168,476</u>

(e) services received

Spirits Product International IP B.V.	299,119	-
S.P.I. Spirits Ltd. (Cyprus)	322	-
	<u>299,441</u>	<u>-</u>

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

29. TRANSACTIONS WITH RELATED PARTIES (continued)

(f) accounts payable to related parties

	31.12.2004	31.12.2003
	Ls	Ls
SPI-RVVC OAO *	478,678	8,377
SIA Bravo **	202,027	-
Spirits Product International IP B.V.	68,999	-
S.P.I. Spirits Ltd. (Cyprus)	54,610	30,534
Tambovskoje spirtovoje predprijetije Talvis	51,890	-
	<u>856,204</u>	<u>38,911</u>

* As at 31 December 2004 accounts payable to SPI-RVVC OAO include liability for inventory in transit in amount of Ls 142,861.

** On 29 December 2004 the Parent company signed short-term agreement with Bravo SIA regarding loan in amount of Ls 200,000. The repayment term is 29 January 2005. Interest rate is 6% per annum. The loan was fully repaid until 29 January 2005.

(g) accounts receivable from related parties

S.P.I. Spirits Ltd. (Cyprus)	4,579,085	2,995,323
Torgovi Dom Rosvestalko	236,576	28,140
Spirits Product International IP B.V.	8,730	-
SIA Bravo	3,825	20,533
CJSC Sojuzplodimport	3,240	-
Tambovskoje spirtovoje predprijetije Talvis	1,414	-
SPI-RVVC OAO	1,129	-
Torgovy dom SPI-TRADE	697	-
S.P.I Worldwide Trade Ltd.	-	357,526
	<u>4,834,696</u>	<u>3,401,522</u>

(h) issued guarantees

In 2004 the Parent company issued guarantee to AS Hansabanka and AS Latvijas Unibanka regarding credit line issued to S.P.I. Spirits Ltd. (Cyprus) in amount of USD 15,000,000. The repayment term for this credit line is 30 April 2005.

30. FINANCIAL RISKS

(a) Credit risk

Financial assets which potentially subject the Group to concentration of credit risk consist principally of cash, trade receivables and issued loans. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Customer debts are reported at their recoverable value. The partners of the Group in money transactions are local and foreign financial institutions with adequate credit history.

(b) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures primarily because the majority of raw materials are purchased in EUR, but significant part of goods are sold in local market and exported to the markets dominated by US dollar. As of 1 January 2005 the Lat exchange rate has been tied to EUR, therefore the Lat/EUR exchange rate fluctuation possibilities are limited, and any substantial influence of this exchange rate on future financial results is not foreseen. In order to decrease influence of US dollar over the operations of the Group, part of the financing received from credit institutions is nominated in US dollars.

AS LATVIJAS BALZAMS
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2004

NOTES (continued)

30. FINANCIAL RISKS (continued)

(c) Interest rate risk

The Group is exposed to changes in interest rates, as largest portion of liabilities is interest bearing liabilities having floating interest rates. The Group continues to monitor the market in general, but at present do not consider it cost efficient to enter into any long-term interest rate swaps to limit the risk of increase in interest cost.

(d) Liquidity risk

The Group pursues a prudent liquidity risk management maintaining sufficient credit resources that allow to settle liabilities when they fall due. As at 31 December 2004 the Group's current assets exceeded its current liabilities by Ls 12.3 million. Additionally during 2004 the Parent company received credit line in amount of Ls 5,475 thousand, which was utilised only partially. Unutilised portion of credit line is Ls 4,753 thousand.

(e) Fair value

The carrying value of financial assets and liabilities of the Group at 31 December 2004 and 31 December 2003 approximates their fair value.

31. CONTINGENT LIABILITIES

The Parent company is involved in litigation with SIA Aroma Floris's, which handed in the claim on compensation of losses in amount of Ls 36,346. In case of unfavourable court decision the Parent company can appeal the court decision. The management of the Parent company considers that the claim is invalid no provisions are recognised.

32. 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 Group as at 31 December 2004.

AS Latvijas balzams
consolidated Financial statements for the year ended 31 December 2004

consolidated income statement for the year ended 31 December 2004

	2004 EUR	2003 EUR
Net sales	86 965 279	77 725 920
Cost of sales	-76 510 706	-65 935 105
Gross profit	10 454 573	11 790 815
Selling expenses	-4 653 017	-4 541 944
Administrative expenses	-4 243 947	-4 081 723
Other operating income	615 287	1 429 123
Other operating expenses	-151 748	-4 687
Operating profit	2 021 148	4 591 584
Finance expenses, net	-732 472	-1 032 969
Profit before taxes	1 288 676	3 558 615
Corporate income tax	-282 944	-621 871
Net profit for the reporting year	1 005 732	2 936 744
Earnings per share (in santims)	13.42	39.17

Transferred into EUR from LVL using Central Bank exchange rate as at 31.12.2004 and 31.12.2003, respectively.

	31.12.2004	31.12.2003
1 EUR	0.703	0.674

AS Latvijas balzams
consolidated Financial statements for the year ended 31 December 2004

consolidated balance sheet as at 31 December 2004

	31.12.2004 EUR	31.12.2003 EUR
Assets		
Non-current assets		
Intangible assets	468 076	824 298
Property, plant and equipment	18 374 389	19 258 129
	<u>18 842 465</u>	<u>20 082 427</u>
Current assets		
Inventories	15 337 894	11 772 993
Debtors	10 534 122	9 100 783
Receivables from related parties	6 879 153	5 046 769
Other current assets	668 316	540 791
Corporate income tax	416 105	823 472
Cash and bank	1 278 089	258 568
	<u>35 113 679</u>	<u>27 543 376</u>
Total assets	<u><u>53 956 144</u></u>	<u><u>47 625 803</u></u>
Shareholders' equity and liabilities		
Shareholders' equity		
Share capital	10 667 128	11 122 997
Share premium	87 887	91 642
Revaluation reserve	1 401 355	1 461 243
Other reserves	1 777 234	1 853 185
Merger reserve	-15 796 588	-16 471 669
Retained earnings	22 605 105	22 522 441
	<u>20 742 121</u>	<u>20 579 839</u>
Liabilities		
Non-current liabilities		
Deferred tax	821 596	719 451
Borrowings	14 764 486	11 296 429
	<u>15 586 082</u>	<u>12 015 880</u>
Current liabilities		
Borrowings	2 906 211	4 376 909
Trade payables	4 955 911	5 750 562
Payables to related parties	1 218 269	57 731
Other payables	8 547 550	4 844 882
	<u>17 627 941</u>	<u>15 030 084</u>
Total liabilities	<u>33 214 023</u>	<u>27 045 964</u>
Total liabilities and shareholders' equity	<u><u>53 956 144</u></u>	<u><u>47 625 803</u></u>

Transferred into EUR from LVL using Central Bank exchange rate as at
31.12.2004 and 31.12.2003, respectively.

	31.12.2004	31.12.2003
1 EUR	0.703	0.674