

AS "Latvijas balzams"

JOINT STOCK COMPANY LATVIJAS BALZAMS
(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS (*NOT*
AUDITED)

FOR THE 2011
PREPARED UNDER LATVIAN ACCOUNTING STANDARD

Riga, 2011

Management report

Field of activity

The enterprise was founded in 1900 operating under the current name since 1970. AS "Latvijas balzams" is a leading producer of alcoholic beverages in the Baltic States that produces more than 100 different kinds of alcoholic drinks. AS "Latvijas balzams" major shareholder is "SPI Regional Business Unit BV" which owns 89.53% of the company's equity capital.

The activity of enterprise in 2011

Year 2011 has been successful for AS "Latvijas balzams". In spite of the economic recession in Latvia and important export markets, AS "Latvijas balzams" has managed to increase operational effectiveness and deliver sustainable return to its shareholders.

The unaudited turnover of the company in the 2011 was 67.7 million lats, which is by 10% less than in 2010. Turnover in the domestic market has declined by 6% driven by increase of the excise tax rate and growth of illicit alcohol market. The major export destinations for AS "Latvijas balzams" in 2011 have been the Baltics, Russia, Norway, Poland, Ukraine and Turkey. A significant growth of business has been achieved in most of the direct export markets – sales in Estonia have grown by 8%, Russia – by 19%, Ukraine – by 32%, Norway – by 11% and Poland – by 14%. At the same time, pro-active new market penetration strategy was exercised by entering Bulgaria, Spain, Finland, Azerbaijan, Slovenia, Iceland and other markets.

A particular attention was given to development of the core brands and new products in 2011. The leading AS "Latvijas balzams" brands, such as Riga Black balsam, Grand Cavalier brandy and Moka liqueur, were awarded in total 11 prestigious awards at international competitions in Europe and United States. AS "Latvijas balzams" has focused on new product development and expansion into new market segments including non-alcohol market. A successful launch of innovative Non-alcoholic Riga Sparkling drink marked 2011.

The Company has paid a great attention to production cost control and improvement of productivity, as a result reaching 3.8 million lats unaudited profit that is close to that of 2010 despite the 10% decrease in turnover. Thus the Company increased its profit margin (net profit to turnover) by 0.5pp in 2011 versus prior year.

AS "Latvijas balzams" is not just the largest producer of alcoholic beverages in Latvia but also one of the largest taxpayers in Latvia. AS "Latvijas balzams" has paid 36.5 millions lats to the state budget in 2011, including excise tax amounting to 26.1 millions lats.

AS "Latvijas balzams" immutably keeps focused on executing responsible and sustainable development strategy in 2011.

The Company instantly maintains a high degree of compliance to quality management according to implemented ISO 9001:2008 standards; it has introduced and maintains the food self-control system based on HACCP principles. Caring for the environment, AS "Latvijas balzams" gives priority to environmentally friendly technologies and packaging utilized for production, performs separated waste collection and transfer for processing.

AS "Latvijas balzams"

A credit for the contribution to good operational results is given to employees of AS "Latvijas balzams". AS "Latvijas balzams" is a significant employer in Latvia, and despite challenges, it has managed to maintain the average number of employees throughout in 2011 at the previous level. AS "Latvijas balzams" continuously invest in personnel development – almost 40% of the employees have attended trainings and professional development programmes in 2011. AS "Latvijas balzams" provides internship opportunities for new specialists on a regular base, with quite a few of them joining the Company later.

The sustainable strategy of AS "Latvijas balzams" has been appraised by both society and experts in 2011. It is evident in Silver category awarded to AS "Latvijas balzams" at national Sustainability Index as well as outstanding achievement in National Business Reputation Top 2011 - AS "Latvijas balzams" was ranked 12th among all Latvian enterprises being the only strong spirits producer to enter the top. AS "Latvijas balzams" has shown the second most remarkable increase in quality of the of investor relations across the Baltics according to NASDAQ OMX Baltic Market Awards in 2011.

Future perspectives of activity

As economic conditions show signs of improvement in Latvia, despite a low purchasing power in Latvia, the objectives of the Company is to secure its market share in Latvia and both grow in current core export markets and enter new markets. Further optimization of production and logistics costs, improvement of production effectiveness, and increase of the competitiveness will be AS "Latvijas balzams" priorities in 2012. A particular attention will be devoted to new product development based on in-depth consumer insights.

The Company will immutably follow its responsible sustainable development strategy with primary focus on environment, workplace safety and market relationship aspects. AS Latvijas balzams will continue to support nature friendly solutions, persistently improving activities that decrease Company's negative impact on the environment, establishing high requirements for itself and Company's partners.

AS Latvijas balzams
Member of the Board

Riga, February 24, 2012



Signe Bīdermane

AS "Latvijas balzams"

Declaration of Management Responsibility

Management of a company declares that in accordance with possessed information, presented condensed financial statements are prepared under actual laws and regulations and represent truthful and clear information on the company assets, equity, liabilities, financial situation and profit or loss.

Management Report contains truthful information.

AS Latvijas balzams
Member of the Board



Signe Bīdermane

AS "Latvijas balzams"

MANAGEMENT

Names and positions of Council members

Aigars Kalvītis – Chairman of the Council

Valery Mendelev – Vice Chairman of the Council

Pjotrs Aven – Member of the Council

Andrejs Skurihins - Member of the Council until 29.04.2011

David Ronald Surbey – Member of the Council from 29.04.2011

Alexander Kovalev - Member of the Council until 29.04.2011

Blaine Alan Rowlette – Member of the Council from 29.04.2011

Boelem Sebastianus Antonius Theodorus – Member of the Council

Names and positions of Board members

Kārlis Andersons – Chairman of the Board and General director of AS Latvijas balsams until 05.05.2011

Gunita Kronberga – Member of the Board and Chief Financial Officer of AS "Latvijas balzams" until 17.06.2011

Intars Geidāns - Member of the Board and Director of logistics department of AS "Latvijas balzams" from 17.06.2011

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

Sergejs Ļimarenko – Member of the Board
Chief of internal control department of AS Latvijas balzams

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

Reporting period 1 January – 31 December 2011

AS "Latvijas balzams"

Income statement for the period ended December 31, 2011

	Notes	01.01.2011 - 31.12.2011 EUR	01.01.2010 - 31.12.2010 EUR
Net sales	1	96 362 744	106 629 902
Cost of sales	2	(83 378 361)	(91 274 748)
Gross profit or losses		12 984 383	15 355 154
Distribution expenses	3	(4 689 745)	(4 680 425)
Administrative expenses	4	(2 894 899)	(3 118 230)
Other operating income		2 856 939	2 016 078
Other operating expenses		(667 555)	(857 205)
Interest and similar income		1 129 445	865 991
Interest and similar expenses		(1 850 987)	(2 808 139)
Profit or losses prior to extraordinary items and taxes		6 867 582	6 773 224
Corporate income tax		(1 280 710)	(1 064 797)
Other taxes		(127 004)	(111 791)
Net profit or losses		5 459 868	5 596 636
Earnings per share (in santims)		72.83	74.65

Signe Bidermane
Member of the Board



AS "Latvijas balzams"

Balance sheet as at December 31, 2011

<u>ASSETS</u>	31.12.2011 EUR	31.12.2010 EUR
Non-current assets		
Intangible assets		
Concessions, patents, licenses, trademarks and similar rights	40 951	7 507
Total intangible assets:	40 951	7 507
Fixed assets		
Land and buildings	16 975 485	17 838 121
Equipment and machinery	3 353 413	4 092 471
Other fixed assets and equipment	415 905	576 703
Fixed assets under construction	78 512	185 060
Advances for fixed assets	13 001	47 636
Total fixed assets:	20 836 316	22 739 992
Non-current financial investments		
Receivables from group companies	35 300 000	25 300 000
Other securities and investments	34 149	34 149
Total non-current financial investments:	35 334 149	25 334 149
Total non-current assets:	56 211 417	48 081 647
Current assets		
Inventories		
Raw materials and consumables	13 598 288	14 125 452
Work in progress	790 589	631 651
Finished goods and goods for sale	7 540 409	6 636 258
Advances for inventories	218 676	381 297
Total inventories:	22 147 962	21 774 658
Account receivable:		
Trade receivables	1 664 961	577 224
Receivables from group companies	39 660 528	48 478 226
Other receivables	238 659	92 778
Deferred expenses	82 912	80 496
Total receivables:	41 647 060	49 228 724
Cash and bank:	32 809	146 546
Total current assets:	63 827 831	71 149 928
Total assets	120 039 247	119 231 575

AS "Latvijas balzams"

EQUITY, PROVISIONS AND LIABILITIES

	31.12.2011 EUR	31.12.2010 EUR
Equity		
Share capital	10 667 128	10 667 128
Share premium	87 887	87 887
Non-current investments revaluation reserve	11 860 184	11 860 184
Financial instruments revaluation reserves	(69 059)	(247 923)
Retained earnings		
previous year's retained earnings	38 958 973	33 362 339
current years profit or losses	5 459 868	5 596 636
Total equity:	66 964 980	61 326 250
Liabilities:		
Non-current liabilities:		
Loans from banks	6 769 946	12 808 709
Deferred income tax liabilities	1 930 893	1 899 330
Derivative financial instruments	81 247	291 673
Total non-current liabilities:	8 782 086	14 999 713
Current liabilities:		
Loans from banks	24 674 315	21 721 373
Advances from customers	-	19 085
Trade payables	5 421 628	4 783 978
Payables to group companies	2 166 435	2 084 672
Taxes and social insurance payments	10 721 647	12 672 660
Other liabilities	285 426	350 209
Deferred income	106 910	194 376
Accrued liabilities	915 821	1 079 260
Total current liabilities:	44 292 181	42 905 612
Total liabilities:	53 074 267	57 905 325
Total equity, provisions and liabilities	120 039 247	119 231 575

Signe Bīdermane
Member of the Board



Statement of changes in equity for the period ended December 31, 2011

	Share capital	Share premium	Revaluation reserves of non-current assets	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2009	10 667 128	87 887	11 875 669	(403 313)	33 362 339	55 589 708
Increase of share capital	-	-	(15 484)	155 390	-	139 906
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	5 596 636	5 596 636
31.12.2010	10 667 128	87 887	11 860 184	(247 923)	38 958 974	61 326 250
31.12.2010	10 667 128	87 887	11 860 184	(247 923)	38 958 974	61 326 250
Increase of share capital	-	-	-	178 864	-	178 864
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	5 459 868	5 459 868
31.12.2011	10 667 128	87 887	11 860 184	(69 059)	44 418 841	66 964 981

AS "Latvijas balzams"

Cash flow statement for the period ended December 31, 2011

	01.01.2011 - 31.12.2011 EUR	01.01.2010 - 31.12.2010 EUR
Cash flow from operating activities		
Profit or losses before taxes	6 867 582	6 773 224
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	2 257 573	2 273 688
profit from disposal of fixed assets	7 407	26 013
changes in provisions	1 118 490	159 012
foreign exchange (gains)/losses	39 019	427 940
interest expenses	1 493 119	1 632 017
interest income	(1 066 441)	(856 031)
Cash flow prior to changes in current assets and liabilities	10 716 749	10 435 863
 Inventory (increase)/decrease	 (206 555)	 1 668 626
Account receivable (increase)/decrease	(2 684 515)	(7 047 268)
Account payable increase/(decrease)	(1 932 671)	1 334 816
Gross cash flow generated from operating activities	5 893 007	6 392 037
Interest payments	(1 483 728)	(1 699 869)
Corporate income tax paid	(1 349 611)	(1 014 099)
Net cash flow generated from operating activities	3 059 668	3 678 068
 Cash flow from investing activities		
Acquisition of fixed and intangible assets	(394 752)	(842 922)
Loans issued	-	(620 372)
Loans interest received	47 384	267 094
Net cash flow generated from investing activities	(347 367)	(1 196 200)
 Cash flow from financing activities		
Changes in credit lines	1 898 509	1 338 543
Borrowings repaid	(5 023 351)	(4 246 474)
Borrowings received	298 803	-
Net cash flow generated from financing activities	(2 826 038)	(2 907 931)
Net increase / (decrease) in cash and cash equivalents	(113 737)	(426 062)
 Cash and cash equivalents at the beginning of the financial year	146 546	572 608
 Cash and Cash equivalents at the end of the financial year	32 809	146 546

AS "Latvijas balzams"

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
	EUR	EUR
1. Net sales		
Sales of drinks in local market	53 210 813	56 573 815
Export of drinks and services	43 067 495	50 033 269
Other sales (spirits, raw materials)	84 436	22 818
TOTAL	96 362 744	106 629 902

2. Cost of Sales

Materials	43 623 799	48 465 410
Excise	30 831 633	32 271 557
Salary expenses	2 163 223	2 147 374
Energy resources	825 596	755 966
Mandatory state social insurance contributions	516 873	514 189
Natural recourse tax	334 092	389 317
Changes in accrued expenses on unused annual leave	(16 756)	57 860
Changes of inventory value of finished goods	(476 069)	551 434
Goods purchased	36 213	80 862
Other variable costs	1 316 010	1 423 910
Variable costs total:	79 154 614	86 657 880
Depreciation of non-current assets	1 820 864	1 827 127
Salary expenses	1 106 480	1 123 184
Services for production needs	222 526	589 813
Repair expenses	487 504	501 585
Mandatory state social insurance contributions	262 611	266 186
Insurance payments	104 739	92 138
Laboratory expenses	58 241	48 107
Changes in accrued expenses on unused annual leave	(3 022)	3 510
Other production expenses	163 803	165 219
Fixed costs total:	4 223 746	4 616 868
TOTAL	83 378 361	91 274 748

3. Distribution expenses

Advertising expenses	1 358 178	1 459 241
Salary expenses	1 428 014	1 391 793
Transportation expenses	658 590	617 071
Mandatory state social insurance contributions	341 109	332 422
Depreciation of non-current assets	287 579	291 211
Warehouse maintenance expenses	180 523	175 668
Changes in accrued expenses on unused annual leave	(11 270)	7 315
Other distribution expenses	447 022	405 703
TOTAL	4 689 745	4 680 425

AS "Latvijas balzams"

4. Administrative expenses	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
	EUR	EUR
Salary expenses	1 322 397	1 468 812
Management services	494 291	519 255
Mandatory state social insurance contributions	315 480	342 389
Professional fees	90 301	122 984
Depreciation of non-current assets	93 882	103 412
Representations	41 597	88 814
Office expenses	70 067	77 162
Communication and postal expenses	45 975	54 462
Business trips	30 804	37 592
IT maintenance	32 476	31 399
Financial help, sponsorship	8 765	32 128
Transportation	21 970	25 109
Healthcare, health insurance	6 281	9 313
Personnel education and trainings	25 657	5 112
Changes in accrued expenses on unused annual leave	(25 712)	(15 030)
Other administrative expenses	320 665	215 316
	2 894 899	3 118 230

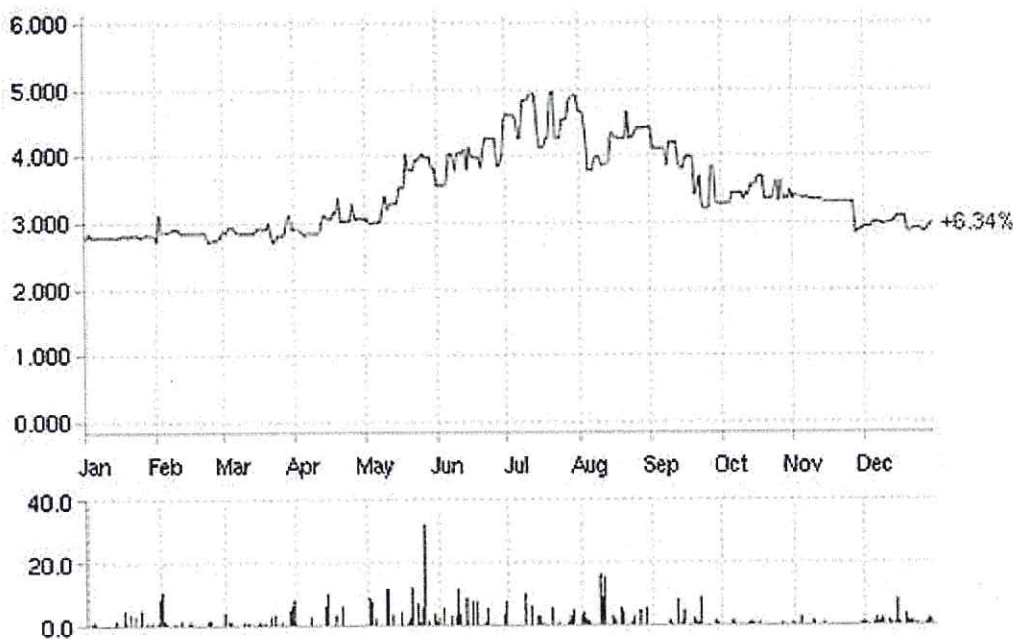
AS "Latvijas balzams"

Shares

JSC "Latvijas balzams" shares are listed on NASDAQ OMX Riga Secondary market since October 15, 1998:

ISIN	LV0000100808
Ticker	BAL1R
Nominal value	1,00 LVL
Total number of securities	7 496 900
Number of listed securities	5 791 900
Indexes	B3000GI, B3000PI, B3500GI, B3500PI, OMXBGI, OMXBPI, OMXRGI

JSC "Latvijas balzams" share price development for the period 01.01.11 – 31.12.11



Open	2,803 EUR
Max	4,963 EUR
Min	2,702 EUR
Last	2,958 EUR
Change	6,343 %
Trades	1 177
No of shares traded	133 473
Turnover	481 141,91 EUR