

**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 12<sup>th</sup> 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

## 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 LVL	01.01.2010 - 31.12.2010 LVL
Net sales	1	67 724 122	74 939 922
Cost of sales	2	(58 598 645)	(64 148 258)
<b>Gross profit or losses</b>		<b>9 125 477</b>	<b>10 791 664</b>
Distribution expenses	3	(3 295 972)	(3 289 421)
Administrative expenses	4	(2 034 546)	(2 191 505)
Other operating income		2 007 868	1 416 907
Other operating expenses		(469 160)	(602 447)
Interest and similar income		793 778	608 622
Interest and similar expenses		(1 300 881)	(1 973 571)
<b>Profit or losses prior to extraordinary items and taxes</b>		<b>4 826 564</b>	<b>4 760 249</b>
Corporate income tax		(900 088)	(748 344)
Other taxes		(89 259)	(78 567)
<b>Net profit or losses</b>		<b>3 837 217</b>	<b>3 933 338</b>
Earnings per share (in santims)		51.18	52.47

Signe Bīdermane  
Member of the Board



# AS "Latvijas balzams"

## Balance sheet as at December 31, 2011

<b><u>ASSETS</u></b>	<b>31.12.2011 LVL</b>	<b>31.12.2010 LVL</b>
<b>Non-current assets</b>		
<b>Intangible assets</b>		
Concessions, patents, licenses, trademarks and similar rights	28 781	5 276
<b>Total intangible assets:</b>	<b>28 781</b>	<b>5 276</b>
<b>Fixed assets</b>		
Land and buildings	11 930 439	12 536 703
Equipment and machinery	2 356 792	2 876 205
Other fixed assets and equipment	292 300	405 309
Fixed assets under construction	55 179	130 061
Advances for fixed assets	9 137	33 479
<b>Total fixed assets:</b>	<b>14 643 847</b>	<b>15 981 757</b>
<b>Non-current financial investments</b>		
Receivables from group companies	24 808 981	17 780 941
Other securities and investments	24 000	24 000
<b>Total non-current financial investments:</b>	<b>24 832 981</b>	<b>17 804 941</b>
<b>Total non-current assets:</b>	<b>39 505 609</b>	<b>33 791 974</b>
<b>Current assets</b>		
<b>Inventories</b>		
Raw materials and consumables	9 556 931	9 927 424
Work in progress	555 629	443 927
Finished goods and goods for sale	5 299 430	4 663 989
Advances for inventories	153 686	267 977
<b>Total inventories:</b>	<b>15 565 676</b>	<b>15 303 317</b>
<b>Account receivable:</b>		
Trade receivables	1 170 141	405 675
Receivables from group companies	27 873 577	34 070 691
Other receivables	167 731	65 205
Deferred expenses	58 271	56 573
<b>Total receivables:</b>	<b>29 269 720</b>	<b>34 598 144</b>
<b>Cash and bank:</b>	<b>23 058</b>	<b>102 993</b>
<b>Total current assets:</b>	<b>44 858 455</b>	<b>50 004 454</b>
<b>Total assets</b>	<b>84 364 063</b>	<b>83 796 428</b>

# AS "Latvijas balzams"

## EQUITY, PROVISIONS AND LIABILITIES

	31.12.2011 LVL	31.12.2010 LVL
<b>Equity</b>		
Share capital	7 496 900	7 496 900
Share premium	61 767	61 767
Non-current investments revaluation reserve	8 335 385	8 335 385
Financial instruments revaluation reserves	(48 535)	(174 241)
Retained earnings		
previous year's retained earnings	27 380 522	23 447 185
current years profit or losses	3 837 217	3 933 338
<b>Total equity:</b>	<b>47 063 256</b>	<b>43 100 334</b>
<b>Liabilities:</b>		
<b>Non-current liabilities:</b>		
Loans from banks	4 757 945	9 002 012
Deferred income tax liabilities	1 357 040	1 334 857
Derivative financial instruments	57 101	204 989
<b>Total non-current liabilities:</b>	<b>6 172 085</b>	<b>10 541 858</b>
<b>Current liabilities:</b>		
Loans from banks	17 341 207	15 265 868
Advances from customers	-	13 413
Trade payables	3 810 342	3 362 199
Payables to group companies	1 522 579	1 465 116
Taxes and social insurance payments	7 535 216	8 906 396
Other liabilities	200 599	246 128
Deferred income	75 137	136 608
Accrued liabilities	643 642	758 508
<b>Total current liabilities:</b>	<b>31 128 722</b>	<b>30 154 236</b>
<b>Total liabilities:</b>	<b>37 300 807</b>	<b>40 696 094</b>
<b>Total equity, provisions and liabilities</b>	<b>84 364 063</b>	<b>83 796 428</b>

Signe Bīdermane  
Member of the Board



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

	Share capital LVL	Share premium LVL	Revaluation reserves of non- current assets LVL	Revaluation reserves of derivative financial instruments LVL	Retained earnings LVL	Total LVL
31.12.2009	7 496 900	61 767	8 346 267	(283 450)	23 447 185	39 068 669
Increase of share capital	-	-	(10 882)	109 209	-	98 327
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	3 933 338	3 933 338
31.12.2010	7 496 900	61 767	8 335 385	(174 241)	27 380 523	43 100 334
31.12.2010	7 496 900	61 767	8 335 385	(174 241)	27 380 523	43 100 334
Increase of share capital	-	-	-	125 706	-	125 706
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	3 837 217	3 837 217
31.12.2011	7 496 900	61 767	8 335 385	(48 535)	31 217 739	47 063 256

AS "Latvijas balzams"

**Cash flow statement for the period ended December 31, 2011**

	<b>01.01.2011 - 31.12.2011 LVL</b>	<b>01.01.2010 - 31.12.2010 LVL</b>
<b>Cash flow from operating activities</b>		
Profit or losses before taxes	4 826 564	4 760 249
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	1 586 631	1 597 957
profit from disposal of fixed assets	5 206	18 282
changes in provisions	786 079	111 754
foreign exchange (gains)/losses	27 423	300 758
interest expenses	1 049 370	1 146 988
interest income	(749 499)	(601 622)
<b>Cash flow prior to changes in current assets and liabilities</b>	<b>7 531 774</b>	<b>7 334 366</b>
Inventory (increase)/decrease	(145 168)	1 172 717
Account receivable (increase)/decrease	(1 886 688)	(4 952 848)
Account payable increase/(decrease)	(1 358 289)	938 114
<b>Gross cash flow generated from operating activities</b>	<b>4 141 629</b>	<b>4 492 349</b>
Interest payments	(1 042 770)	(1 194 675)
Corporate income tax paid	(948 512)	(712 713)
<b>Net cash flow generated from operating activities</b>	<b>2 150 347</b>	<b>2 584 961</b>
<b>Cash flow from investing activities</b>		
Acquisition of fixed and intangible assets	(277 433)	(592 409)
Loans issued	-	(436 000)
Loans interest received	33 302	187 715
<b>Net cash flow generated from investing activities</b>	<b>(244 131)</b>	<b>(840 694)</b>
<b>Cash flow from financing activities</b>		
Changes in credit lines	1 334 280	940 734
Borrowings repaid	(3 530 431)	(2 984 439)
Borrowings received	210 000	-
<b>Net cash flow generated from financing activities</b>	<b>(1 986 151)</b>	<b>(2 043 705)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(79 935)</b>	<b>(299 438)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>102 993</b>	<b>402 431</b>
<b>Cash and Cash equivalents at the end of the financial year</b>	<b>23 058</b>	<b>102 993</b>

## AS "Latvijas balzams"

	01.01.2011 – 31.12.2011	01.01.2010 – 31.12.2010
	LVL	LVL
<b>1. Net sales</b>		
Sales of drinks in local market	37 396 772	39 760 304
Export of drinks and services	30 268 008	35 163 582
Other sales (spirits, raw materials)	59 342	16 037
<b>TOTAL</b>	<b>67 724 122</b>	<b>74 939 922</b>

## 2. Cost of Sales

Materials	30 658 981	34 061 684
Excise	21 668 595	22 680 580
Salary expenses	1 520 322	1 509 183
Energy resources	580 232	531 296
Mandatory state social insurance contributions	363 261	361 374
Natural recourse tax	234 801	273 613
Changes in accrued expenses on unused annual leave	(11 776)	40 664
Changes of inventory value of finished goods	(334 583)	387 550
Goods purchased	25 451	56 830
Other variable costs	924 897	1 000 730
<b>Variable costs total:</b>	<b>55 630 180</b>	<b>60 903 504</b>
Depreciation of non-current assets	1 279 710	1 284 112
Salary expenses	777 638	789 378
Services for production needs	156 392	414 523
Repair expenses	342 620	352 516
Mandatory state social insurance contributions	184 564	187 076
Insurance payments	73 611	64 755
Laboratory expenses	40 932	33 810
Changes in accrued expenses on unused annual leave	(2 124)	2 467
Other production expenses	115 122	116 117
<b>Fixed costs total:</b>	<b>2 968 466</b>	<b>3 244 754</b>
<b>TOTAL</b>	<b>58 598 645</b>	<b>64 148 258</b>

## 3. Distribution expenses

Advertising expenses	954 533	1 025 560
Salary expenses	1 003 614	978 158
Transportation expenses	462 859	433 680
Mandatory state social insurance contributions	239 733	233 627
Depreciation of non-current assets	202 112	204 665
Warehouse maintenance expenses	126 872	123 460
Changes in accrued expenses on unused annual leave	(7 920)	5 141
Other distribution expenses	314 169	285 130
<b>TOTAL</b>	<b>3 295 972</b>	<b>3 289 421</b>

## AS "Latvijas balzams"

<b>4. Administrative expenses</b>	<b>01.01.2011 – 31.12.2011</b>	<b>01.01.2010 – 31.12.2010</b>
	<b>LVL</b>	<b>LVL</b>
Salary expenses	929 386	1 032 287
Management services	347 390	364 934
Mandatory state social insurance contributions	221 721	240 633
Professional fees	63 464	86 434
Depreciation of non-current assets	65 981	72 678
Representations	29 235	62 419
Office expenses	49 244	54 230
Communication and postal expenses	32 312	38 276
Business trips	21 649	26 420
IT maintenance	22 824	22 068
Financial help, sponsorship	6 160	22 580
Transportation	15 441	17 647
Healthcare, health insurance	4 415	6 545
Personnel education and trainings	18 032	3 593
Changes in accrued expenses on unused annual leave	-18 070 -	10 563
Other administrative expenses	225 365	151 325
	<b><u>2 034 546</u></b>	<b><u>2 191 505</u></b>

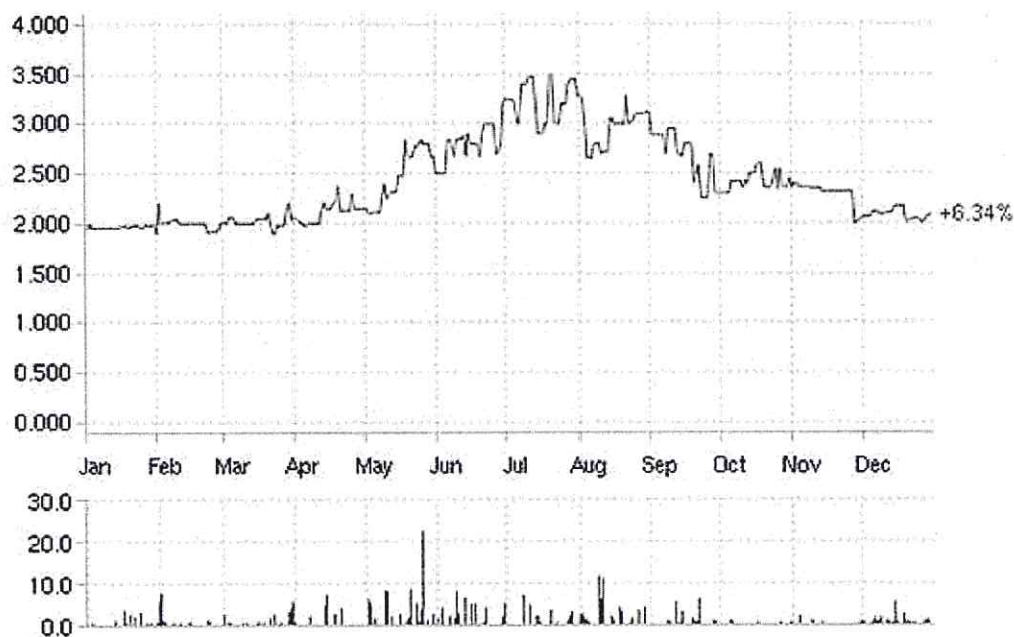
## AS "Latvijas balzams"

### 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



Currency: LVL

Open	1,970 LVL
Max	3,488 LVL
Min	1,899 LVL
Last	2,079 LVL
Change	6,343 %
Trades	1 177
No of shares traded	133 473
Turnover	338 148,46 LVL