

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(NOT AUDITED)*

FOR THE FIRST 6 MONTHS OF 2012

**PREPARED IN ACCORDANCE WITH REPUBLIC OF LATVIA STANDARDS OF
BOOKKEEPING**

Riga, 2012

Management report

Field of activity

The enterprise was founded in 1900, but the actual name it has got in 1970. AS "Latvijas balzams" is the leading producer of alcoholic beverages in the Baltic States that produces more than 100 different kinds of alcoholic drinks. Our products can be found in more than 30 countries as the direct export of „Latvijas balzams” and in more then 160 countries via the export of the SPI group. The major shareholder of AS “Latvijas balzams” is SPI Regional Business Unit BV which owns 89.53% of the company’s equity capital.

The activity of enterprise in year 2012 first half

AS Latvijas balzams is the leading producer of alcoholic beverages in Latvia, as well as one of the largest taxpayers in Latvia. During first half of 2012 AS Latvijas balzams paid 16.1 millions lats to the state budget, including excise tax amounting to 11.2 millions lats.

The unaudited turnover of the company in the first half of 2012 was 31.7 million lats, which is by 8% more than in the first half of 2011. Turnover in the domestic market has risen by 10%, in the export market by 10.6%, and export orders of S.P.I. Group has increased by 6%. During the first half of 2012, sales to the EU countries were in the same level as last year, sales to Ukraine increased by 53%, to Russia by 45% , to Latvia’s tax free zone increased by 38% and significantly sales increased to Germany. Increase in sales was affected by strengthening targeted market relations with partners in the main markets. During the first half of 2012 the top focus sales markets were the Baltic States, Russia, Ukraine and Scandinavia. Meanwhile, new export markets were actively acquired, for example, Croatia and Georgia.

The unaudited profit for the reporting period was 1,1 million lats, that is 3% less than in the first half of 2011. Decrease in profit comparing to the first half of 2011 were caused by the increase in raw material costs and by difference of total sales distribution between product categories.

Future perspectives of activity

The company has thus improving product portfolio and since the beginning of the year “Latvijas balzams” has successfully introduced more then 10 new products.

Increased attention will be put on development of new competitive products, extension of the existing market share, as well growth in export market. AS Latvijas balzams 2012 priorities will be further control of production and logistics costs, optimization and improvement of production efficiency, increase of company's competitiveness, analysis of potential export markets.

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 and following the principles of sustainable business.

AS Latvijas balzams
Chairman of the Board



Guntis Ābolīņš - Ābolīņš

Riga, August 10, 2012

Riga
10.08.2012.

Declaration of Management Responsibility

Management of the 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
Chairman of the Board



Guntis Ābolīņš - Āboliņš

MANAGEMENT

Names and positions of Council members

Aigars Kalvītis – Chairman of the Council

Valery Mendelev – Vice Chairman of the Council

Pjotrs Avens – Member of the Council

David Ronald Surbey – Member of the Council

Blain Alan Rowlette – Member of the Council

Boelen Sebastianus Antonius Theodorus – Member of the Council

Names and positions of Board members

Guntis Ābolpiņš-Āboliņš – Chairman of the Board
General director of AS Latvijas balzams

Intars Geidāns – Member of the Board
Director of logistics department of AS Latvijas balzams

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 – 30 June 2012

Income statement for the period ended June 30, 2012

	Notes	01.01.2012 - 30.06.2012 EUR	01.01.2011 - 30.06.2011 EUR
Net sales	1	45 114 639	41 859 987
Cost of sales	2	(40 114 090)	(36 267 039)
Gross profit or losses		5 000 549	5 592 948
Distribution expenses	3	(1 970 896)	(2 223 892)
Administrative expenses	4	(1 560 099)	(1 357 464)
Other operating income		1 062 811	1 377 821
Other operating expenses		(736 355)	(1 016 953)
Interest and similar income		832 554	543 268
Interest and similar expenses		(592 012)	(828 388)
Profit or losses prior to extraordinary items and taxes		2 036 552	2 087 340
Corporate income tax		(372 774)	(384 532)
Other taxes		(74 582)	(63 485)
Net profit or losses		1 589 196	1 639 322
Earnings per share (in santims)		21.20	21.87



Guntis Āboliņš - Āboliņš
Chairman of the Board

Balance sheet as at June 30, 2012

ASSETS

30.06.2012 30.06.2011
EUR EUR

Non-current assets

Intangible assets

Concessions, patents, licenses, trademarks and similar rights

Total intangible assets:

37 631	6 522
<u>37 631</u>	<u>6 522</u>

Fixed assets

Land and buildings

Equipment and machinery

Other fixed assets and equipment

Fixed assets under construction

Advances for fixed assets

Total fixed assets:

15 907 604	17 398 383
2 863 075	3 872 711
348 565	478 482
79 592	84 768
<u>96 927</u>	<u>42 400</u>
<u>19 295 764</u>	<u>21 876 744</u>

Non-current financial investments

Receivables from group companies

Other securities and investments

Total non-current financial investments:

25 300 000	25 300 000
34 149	34 149
<u>25 334 149</u>	<u>25 334 149</u>

Total non-current assets:

<u>44 667 543</u>	<u>47 217 415</u>
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Current assets

Inventories

Raw materials and consumables

Work in progress

Finished goods and goods for sale

Advances for inventories

Total inventories:

14 734 840	14 574 083
796 809	965 626
6 693 839	8 375 122
<u>623 993</u>	<u>466 659</u>
<u>22 849 481</u>	<u>24 381 490</u>

Account receivable:

Trade receivables

Receivables from group companies

Other receivables

Deferred expenses

Total receivables:

504 546	398 195
49 870 395	43 325 146
1 027 215	259 061
<u>166 562</u>	<u>189 285</u>
<u>51 568 718</u>	<u>44 171 687</u>

Cash and bank:

25 930	37 393
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Total current assets:

<u>74 444 129</u>	<u>68 590 570</u>
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Total assets

<u>119 111 673</u>	<u>115 807 985</u>
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Guntis Āboliņš - Āboliņš
Chairman of the Board

EQUITY, PROVISIONS AND LIABILITIES

	30.06.2012 EUR	30.06.2011 EUR
Equity		
Share capital	10 667 128	10 667 128
Share premium	87 887	87 887
Non-current investments revaluation reserve	11 518 963	11 860 184
Financial instruments revaluation reserves	(69 059)	(247 921)
Retained earnings		
previous year's retained earnings	44 155 106	38 958 973
current years profit or losses	1 589 196	1 639 322
Total equity:	67 949 219	62 965 572
Liabilities:		
Non-current liabilities:		
Loans from banks	6 187 518	12 808 709
Other borrowings	14 228	-
Deferred income tax liabilities	1 907 997	1 899 329
Derivative financial instruments	-	291 673
Total non-current liabilities:	8 109 743	14 999 711
Current liabilities:		
Loans from banks	21 234 944	19 919 189
Other borrowings	4 085	-
Advances from customers	5 587	-
Trade payables	3 873 400	4 405 682
Payables to group companies	2 757 139	1 663 509
Taxes and social insurance payments	12 953 621	9 918 165
Other liabilities	305 715	312 061
Deferred income	101 120	188 560
Accrued liabilities	1 735 852	1 435 534
Derivative financial instruments	81 247	-
Total current liabilities:	43 052 710	37 842 702
Total liabilities:	51 162 453	52 842 413
Total equity, provisions and liabilities	119 111 673	115 807 985



Guntis Āboliņš - Āboliņš
Chairman of the Board

Statement of changes in equity for the period ended June 30, 2012

	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
31.12.2010	10 667 128	87 887	11 860 184	(247 922)	38 958 973	61 326 250
Increase of share capital	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	1 639 322	1 639 322
30.06.2011	10 667 128	87 887	11 860 184	(247 922)	40 598 295	62 965 572
31.12.2011	10 667 128	87 887	11 518 963	(69 059)	44 155 106	66 360 024
Increase of share capital	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	1 589 196	1 589 196
30.06.2012	10 667 128	87 887	11 518 963	(69 059)	45 744 301	67 949 219

Cash flow statement for the period ended June 30, 2012

	01.01.2012 - 30.06.2012 EUR	01.01.2011 - 30.06.2011 EUR
Cash flow from operating activities		
Profit or losses before taxes	2 036 552	2 087 340
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	1 083 641	1 123 258
profit from disposal of fixed assets	4 210	1 733
changes in provisions	110 512	40 067
interest expenses	629 615	746 705
interest income	(832 554)	(543 268)
Cash flow prior to changes in current assets and liabilities	3 031 976	3 455 834
Inventory (increase)/decrease	(469 780)	(1 460 053)
Account receivable (increase)/decrease	1 133 645	4 392 293
Account payable increase/(decrease)	1 318 790	(3 024 601)
Gross cash flow generated from operating activities	5 014 631	3 363 473
Interest payments	(628 672)	(745 145)
Corporate income tax paid	(431 200)	(685 705)
Net cash flow generated from operating activities	3 954 760	1 932 623
Cash flow from investing activities		
Acquisition of fixed and intangible assets	(171 026)	(260 761)
Loans interest received	21 757	21 168
Net cash flow generated from investing activities	(149 269)	(239 593)
Cash flow from financing activities		
Changes in credit lines	(1 315 673)	400 716
Borrowings repaid	(2 706 124)	(2 202 899)
Loans received	213 431	-
Financial leasing	(4 004)	-
Net cash flow generated from financing activities	(3 812 370)	(1 802 182)
Net increase / (decrease) in cash and cash equivalents	(6 880)	(109 153)
Cash and cash equivalents at the beginning of the financial year	32 809	146 546
Cash and Cash equivalents at the end of the financial year	25 929	37 393

	01.01.2012 – 30.06.2012	01.01.2011 – 30.06.2011
	EUR	EUR
1. Net sales		
Sales of drinks in local market	25 086 245	22 890 207
Export of drinks and services	20 009 210	18 927 703
Other sales (spirits, raw materials)	19 184	42 076
TOTAL	45 114 639	41 859 987

2. Cost of Sales

Materials	35 238 050	33 229 417
Salary expenses	1 077 776	1 030 854
Energy resources	541 672	406 547
Mandatory state social insurance contributions	256 666	246 460
Natural recourse tax	150 272	146 730
Changes in accrued expenses on unused annual leave	61 696	4 592
Changes of inventory value of finished goods	414 340	(1 320 618)
Goods purchased	20 747	12 132
Other variable costs	297 284	395 415
Variable costs total:	38 058 503	34 151 528
Depreciation of non-current assets	855 525	906 529
Salary expenses	563 579	550 610
Services for production needs	102 959	110 398
Repair expenses	195 065	252 796
Mandatory state social insurance contributions	132 857	130 727
Insurance payments	53 677	48 835
Laboratory expenses	23 211	23 460
Changes in accrued expenses on unused annual leave	29 666	20 189
Other production expenses	99 047	71 966
Fixed costs total:	2 055 587	2 115 511
TOTAL	40 114 090	36 267 039

3. Distribution expenses

Advertising expenses	242 034	609 164
Salary expenses	738 747	701 940
Transportation expenses	308 326	308 871
Mandatory state social insurance contributions	176 593	167 801
Depreciation of non-current assets	140 258	144 151
Warehouse maintenance expenses	86 951	92 875
Changes in accrued expenses on unused annual leave	50 319	22 671
Other distribution expenses	227 667	176 419
TOTAL	1 970 896	2 223 892

4. Administrative expenses

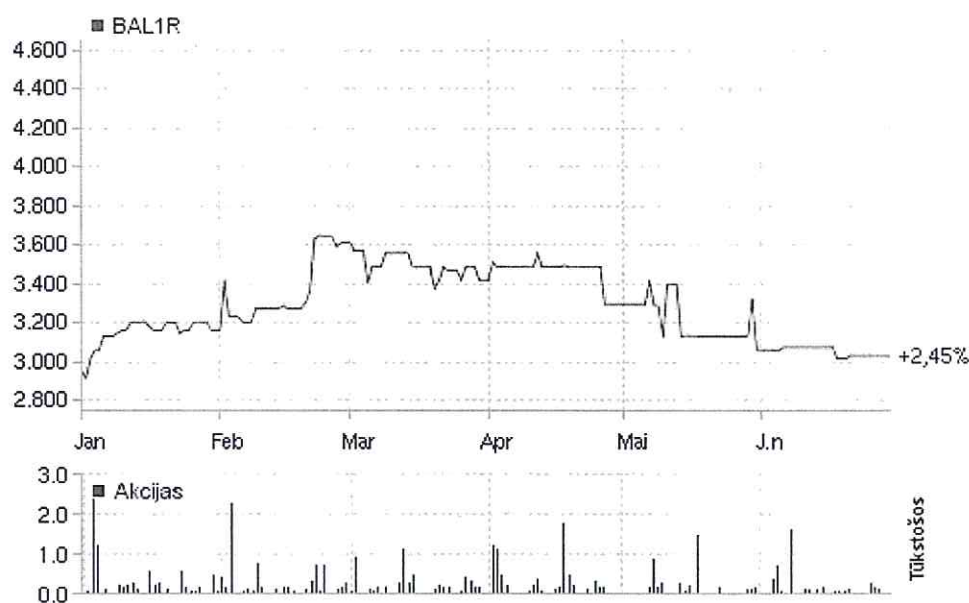
	01.01.2012 – 30.06.2012	01.01.2011 – 30.06.2011
	EUR	EUR
Salary expenses	717 818	673 854
Management services	250 465	219 703
Mandatory state social insurance contributions	170 026	160 797
Professional fees	44 637	46 493
Depreciation of non-current assets	47 306	45 654
Representations	25 411	12 279
Office expenses	33 541	26 374
Communication and postal expenses	22 782	23 449
Business trips	9 657	13 372
IT maintenance	5 625	14 742
Financial help, sponsorship	4 269	-
Transportation	12 033	16 529
Healthcare, health insurance	3 508	2 830
Personnel education and trainings	23 026	3 298
Changes in accrued expenses on unused annual leave	41 838	(3 312)
Other administrative expenses	148 156	101 402
	1 560 099	1 357 464

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	B30GI, B30PI, OMXBGI, OMXBPI, OMXRGI

JSC "Latvijas balzams" share price development for the period 01.01.12 – 30.06.12



Currency: EUR

Open	2.913 EUR
Max	4.425 EUR
Min	2.869 EUR
Last	3.031 EUR
Change	2.45 %
Deals	543
No of shares traded	33 635
Turnover	111 360.83 EUR