

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(NOT AUDITED)*

FOR THE YEAR OF 2012

PREPARED UNDER LATVIAN ACCOUNTING STANDARDS

Riga, 2012

Management report

Field of activity

The enterprise was founded in 1900, but received its current name in 1970. JSC “Latvijas balzams” is the leading producer of alcoholic beverages in the Baltic states, and produces more than 100 different kinds of alcoholic drinks. 75% of our products can be found in more than 160 countries via SPI Group exports and in more than 30 countries as the direct export of JSC “Latvijas balzams”. The major shareholder of JSC “Latvijas balzams” is SPI Regional Business Unit BV which owns 89.53% of the company’s equity capital.

Enterprise activity in 2012

JSC “Latvijas balzams” is the leading producer of alcoholic beverages in Latvia, as well as one of the largest taxpayers in Latvia. During 2012, JSC “Latvijas balzams” paid 36.4 millions lats to the state budget, including excise taxes amounting to 25.5 millions lats.

The unaudited turnover of the company reached 70.0 million lats in 2012, which is 3% more than for 2011. This has been achieved through developing new products, good sales results and cohesive teamwork where everyone plays an important role. Turnover in the domestic market increased by 6.4%, and in the export market dropped by 13%. Export orders of SPI Group have increased by 2.8%. In 2012, JSC “Latvijas balzams” continued to implement previously realized strategies in key markets and maintain similar sales to major customers abroad. The most significant increase in sales was achieved in important markets such as Russia, Ukraine, and retail travel channel. In some countries, like Lithuania, Estonia, and Poland, there was a decrease in sales compared with the previous year, due to customer order flow specifics. The significant customer order flow redistribution of private labels between multiple markets has been reflected in the decrease of volume in The Netherlands and the increase of volume in Germany, keeping total sales stable. Meanwhile, new export markets were actively acquired, such as Georgia and Kazakhstan.

The unaudited profit for 2012 was 4.07 million lats, which represents 11.53% growth versus 2011. The result was achieved through focused development of the beverage portfolio.

For JSC “Latvijas balzams”, 2012 has been a great year for introducing new products; namely, the enterprise has started to develop and produce eighteen new products that successfully compete with domestic and imported products. At the end of 2012, JSC “Latvijas balzams” began to produce an innovative product - Riga Black Vodka.

JSC “Latvijas balzams” main pride - "Riga Black Balsam" - has produced excellent sales results. Total sales of “Riga Black Balsam” and “Riga Black Balsam Currant” products in the domestic and export markets increased by 19% achieving 1,205,932 liters. "Riga Black Balsam Currant" was particularly successful in 2012, for which sales performance in the export markets increased by 61%, while in the domestic market 52%. The enterprise has identified potential for increasing sales in 2013 by developing new projects both in the domestic market as well as in European and other markets.

In 2012, JSC “Latvijas balzams” consistently continued to implement responsible and sustainable development-oriented business strategy. The enterprise has received the Silver Medal in the Sustainability Index, which evaluated the processes and achievements that have been introduced in the enterprise highly.

JSC “Latvijas balzams” has received a special award from the Ministry of Welfare of Latvia for being a “Senior-friendly company”. This acknowledges JSC “Latvijas balzams” expertise and the quality of its social programmes for supporting employees.

JSC “Latvijas balzams” implements an ambitious and open communication with the public and the media regularly and informs for the latest developments, innovations, achievements and related issues.

Future outlook of activities

JSC “Latvijas balzams” will continue to focus on development of competitive products, retain existing market share, and grow in export markets. This is not possible without a focused and knowledgeable team. In 2012, JSC “Latvijas balzams” supplemented its existing team with new employees, and congratulated those who have worked with the enterprise for twenty years or more. The value of the enterprise lies with its employees.

JSC “Latvijas balzams” priorities for 2013 include further control of production and logistics costs, optimization and improvement of production efficiency, increasing the company's competitiveness, and analysis and planning of potential export development opportunities.

JSC “Latvijas balzams” will continue to support nature-friendly solutions, persistently improving activities that decrease the company's negative impact on the environment, establishing high requirements for itself and company partners, and following the principles of sustainable business.

JSC Latvijas balzams
Chairman of the Board



Guntis Āboltiņš - Āboliņš

Rīga, 28 February 2013

Rīga
28.02.2013.

Declaration of Management Responsibility

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

The Management Report contains truthful information.

JSC Latvijas balzams
Chairman of the Board



Guntis Ābolītiņš - Āboliņš

MANAGEMENT

Names and positions of Council members

Aigars Kalvītis – Chairman of the Council

Valery Mendeleev – 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 until
28.12.2012.

Boelen Sebastianus Antonius Theodorus – Member of the
Council

Names and positions of Board members

Guntis Āboltiņš-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

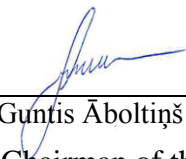
Signe Bīdermane – Member of the Board
Director of human resources department of AS Latvijas
balzams

Reporting period

1st January – 31st December 2012

Income statement for the period ended December 31st, 2012


	Notes	01.01.2012 - 31.12.2012 LVL	01.01.2011 - 31.12.2011 LVL
Net sales	1	70 022 301	67 736 403
Cost of sales	2	(60 944 252)	(58 595 902)
Gross profit or losses		9 078 049	9 140 501
Distribution expenses	3	(2 725 233)	(3 363 619)
Administrative expenses	4	(2 181 146)	(1 969 831)
Other operating income		1 919 106	2 038 597
Other operating expenses		(1 435 783)	(812 916)
Interest and similar income		1 089 099	793 778
Interest and similar expenses		(610 950)	(1 300 880)
Profit or losses prior to extraordinary items and taxes		5 133 143	4 525 629
Corporate income tax		(955 379)	(784 508)
Other taxes		(104 832)	(89 259)
Net profit or losses		4 072 932	3 651 862
Earnings per share (in santims)		54.33	48.71


Guntis Ābolīņš - Ābolīņš
Chairman of the Board

Balance sheet as at December 31st, 2012

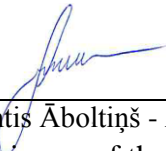
ASSETS

	31.12.2012 LVL	31.12.2011 LVL
Non-current assets		
Intangible assets		
Concessions, patents, licenses, trademarks and similar rights	22 252	28 781
Total intangible assets:	22 252	28 781
Fixed assets		
Land and buildings	10 891 621	11 489 746
Equipment and machinery	1 858 321	2 356 792
Other fixed assets and equipment	230 853	292 300
Fixed assets under construction	54 310	55 179
Advances for fixed assets	6 146	9 137
Total fixed assets:	13 041 252	14 203 154
Non-current financial investments		
Receivables from group companies	17 780 941	17 780 941
Other securities and investments	24 000	24 000
Total non-current financial investments:	17 804 941	17 804 941
Total non-current assets:	30 868 444	32 036 876
Current assets		
Inventories		
Raw materials and consumables	10 687 220	9 706 239
Work in progress	443 646	1 691 284
Finished goods and goods for sale	5 367 397	4 019 226
Advances for inventories	163 366	393 349
Total inventories:	16 661 628	15 810 098
Account receivable:		
Trade receivables	626 540	692 074
Receivables from group companies	38 719 203	35 375 106
Other receivables	161 085	341 828
Deferred expenses	77 220	56 709
Total receivables:	39 584 048	36 465 717
Cash and bank:	65 290	23 058
Total current assets:	56 310 966	52 298 873
Total assets	87 179 410	84 335 748


 Guntis Āboliņš - Āboliņš
 Chairman of the Board

EQUITY, PROVISIONS AND LIABILITIES

	31.12.2012	31.12.2011
	LVL	LVL
Equity		
Share capital	7 496 900	7 496 900
Share premium	61 767	61 767
Non-current investments revaluation reserve	8 095 573	8 095 573
Financial instruments revaluation reserves	-	(48 535)
Retained earnings		
previous year's retained earnings	31 032 385	27 380 522
current years profit or losses	4 072 932	3 651 862
Total equity:	50 759 557	46 638 090
Liabilities:		
Non-current liabilities:		
Loans from banks	3 610 668	4 757 945
Other borrowings	4 081	10 000
Deferred income tax liabilities	1 349 513	1 340 948
Total non-current liabilities:	4 964 262	6 108 893
Current liabilities:		
Loans from banks	14 450 434	17 341 207
Other borrowings	7 983	5 685
Advances from customers	8 008	6 073
Trade payables	3 628 016	4 055 408
Payables to group companies	1 261 745	1 522 703
Taxes and social insurance payments	10 999 124	7 528 300
Other liabilities	205 435	200 629
Deferred income	24 188	75 137
Accrued liabilities	870 659	796 524
Derivative financial instruments	-	57 101
Total current liabilities:	31 455 591	31 588 765
Total liabilities:	36 419 853	37 697 658
Total equity, provisions and liabilities	87 179 410	84 335 748


Guntis Ābolīņš - Āboliņš
Chairman of the Board

Statement of changes in equity for the period ended December 31st, 2012

	Share capital	Share premium	Revaluation reserves of non-current assets	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	LVL	LVL	LVL	LVL	LVL	LVL
31.12.2010	7 496 900	61 767	8 335 385	(174 240)	27 380 522	43 100 334
Increase of share capital	-	-	-	147 889	-	147 889
Revaluation	-	-	42 320	(22 183)	-	20 137
Disposal of revalued fixed assets	-	-	(282 132)	-	-	(282 132)
Profit for the year	-	-	-	-	3 651 862	3 651 862
31.12.2011	7 496 900	61 767	8 095 573	(48 535)	31 032 385	46 638 090
31.12.2011	7 496 900	61 767	8 095 573	(48 535)	31 032 385	46 638 090
Increase of share capital	-	-	-	48 535	-	48 535
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	4 072 932	4 072 932
31.12.2012	7 496 900	61 767	8 095 573	0	35 105 317	50 759 557

Cash flow statement for the period ended December 31st, 2012

	01.01.2012 - 31.12.2012	01.01.2011 - 31.12.2011
	LVL	LVL
Cash flow from operating activities		
Profit or losses before taxes	5 133 143	4 826 564
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	1 490 752	1 586 631
profit from disposal of fixed assets	7 493	5 206
changes in provisions	27 014	786 079
foreign exchange (gains)/losses	-	27 423
interest expenses	743 857	1 049 370
interest income	1 074 201	(749 499)
Cash flow prior to changes in current assets and liabilities	8 476 460	7 531 774
Inventory (increase)/decrease	(714 822)	(145 168)
Account receivable (increase)/decrease	(4 378 807)	(1 886 688)
Account payable increase/(decrease)	2 287 130	(1 358 289)
Gross cash flow generated from operating activities	5 669 961	4 141 629
Interest payments	(742 456)	(1 042 770)
Corporate income tax paid	(678 835)	(948 512)
Net cash flow generated from operating activities	4 248 670	2 150 347
Cash flow from investing activities		
Acquisition of fixed and intangible assets	(329 814)	(277 433)
Loans interest received	21 411	33 302
Net cash flow generated from investing activities	(308 403)	(244 131)
Cash flow from financing activities		
Changes in credit lines	(699 189)	1 334 280
Borrowings repaid	150 000	210 000
Loans received	(3 338 862)	(3 530 431)
Financial leasing	(9 984)	-
Net cash flow generated from financing activities	(3 898 035)	(1 986 151)
Net increase / (decrease) in cash and cash equivalents	42 232	(79 935)
Cash and cash equivalents at the beginning of the financial year	23 058	102 993
Cash and Cash equivalents at the end of the financial year	65 290	23 058

	01.01.2012 – 31.12.2012	01.01.2011 – 31.12.2011
	LVL	LVL
1. Net sales		
Sales of drinks in local market	39 787 287	37 409 053
Export of drinks and services	30 201 198	30 268 008
Other sales (spirits, raw materials)	33 816	59 342
TOTAL	70 022 301	67 736 403

2. Cost of Sales

Materials	54 952 820	52 306 080
Salary expenses	1 599 144	1 519 123
Energy resources	704 145	580 871
Mandatory state social insurance contributions	380 928	362 972
Natural recourse tax	257 959	234 801
Changes in accrued expenses on unused annual leave	19 577	(11 776)
Changes of inventory value of finished goods	(234 417)	(332 336)
Goods purchased	37 542	25 451
Other variable costs	407 703	942 952
Variable costs total:	58 125 402	55 628 139
Depreciation of non-current assets	1 187 041	1 279 710
Salary expenses	797 450	777 071
Services for production needs	265 894	342 621
Repair expenses	187 626	184 428
Mandatory state social insurance contributions	139 771	156 392
Insurance payments	76 137	73 611
Laboratory expenses	37 008	40 932
Changes in accrued expenses on unused annual leave	6 041	(2 124)
Other production expenses	121 881	115 122
Fixed costs total:	2 818 850	2 967 764
TOTAL	60 944 252	58 595 902

3. Distribution expenses

Advertising expenses	326 446	1 023 439
Salary expenses	1 072 703	1 002 589
Transportation expenses	464 228	462 873
Mandatory state social insurance contributions	256 292	239 486
Depreciation of non-current assets	194 738	202 112
Warehouse maintenance expenses	104 487	126 872
Changes in accrued expenses on unused annual leave	1 226	(7 920)
Other distribution expenses	305 111	314 169
TOTAL	2 725 233	3 363 619

4. Administrative expenses	01.01.2012 – 31.12.2012	01.01.2011 – 31.12.2011
	LVL	LVL
Salary expenses	1 034 635	929 386
Management services	402 070	356 208
Mandatory state social insurance contributions	245 177	221 721
Professional fees	76 577	63 464
Depreciation of non-current assets	65 720	65 981
Representations	36 026	29 732
Office expenses	43 519	49 244
Communication and postal expenses	32 293	32 312
Business trips	17 496	21 649
IT maintenance	7 678	22 824
Financial help, sponsorship	6 514	6 160
Transportation	16 740	15 471
Healthcare, health insurance	5 072	4 415
Personnel education and trainings	21 795	18 032
Changes in accrued expenses on unused annual leave	(35 720)	(18 070)
Other administrative expenses	205 555	151 304
	2 181 146	1 969 831

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 – 31.12.12



Currency: LVL

Open	2.047 LVL
Max	3.110 LVL
Min	1.400 LVL
Last	1.540 LVL
Change	-25.93 %
Deals	1 673
No of shares traded	113 485
Turnover	229 716 LVL