### **JOINT STOCK COMPANY LATVIJAS BALZAMS**

(ENTERPRISE REGISTER NUMBER LV40003031873)

# **CONDENSED FINANCIAL STATEMENTS** (NOT AUDITED)

FOR THE YEAR OF 2013

PREPARED UNDER LATVIAN ACCOUNTING STANDARDS



### Management report

#### Field of activity

The Company 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 markets 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.

#### Company's activity in 2013

JSC "Latvijas balzams" is the leading producer of alcoholic beverages in Latvia, as well as one of the largest local taxpayers. During 2013, JSC "Latvijas balzams" paid 41.3 million lats (58.7 million euro) to the state budget, including excise tax, amounting to 30.5 million lats (43.4 million euro).

The unaudited turnover of the Company in 2013 was 71.1 million lats (101.1 million euro), which is 1.5% more than in 2012. The growth of the turnover achieved by implementation of new products in production, establishing a cooperation with new partners and solid teamwork.

In 2013 the turnover in domestic market has remained practically unchanged comparing to 2012, though the turnover in the Baltic States totally has decreased due to planned beverage portfolio changes.

The Company's sales in export market has increased by 14.7%, except the Baltic States market, thereby the total turnover of export markets increased by 2.8%. The most significant increase in sales was achieved in such important markets as Russia (+5.5%), Travel Retail channel (18.2%) and Ukraine (+38.3%). The main focus markets in 2013 were the Baltic countries, Russia, Germany and Scandinavia. Meanwhile, new export markets, such as China, were actively acquired. Also the export by the orders of *SPI Group* has increased by 4.4%.

The unaudited profit for the reporting period reached 4.0 million lats (5.7 million euro), which represents 3.8% decrease versus 2012. The decrease in profit involves the rise of price for raw materials and different total sales split between product categories.

JSC "Latvijas balzams" achieved a significant growth of 16 positions and ranked 29<sup>th</sup> place in *TOP 101* company assessment, conducted annually by the NASDAQ OMX, investment banking company IBS Prudentia and the business magazine "Kapitals", considering the largest Latvian enterprise business value (enterprise value). The company was acknowledged as one the 25 best Latvian exporters who received the symbolic "The Red Jacket" award of the best exporting brands from Latvia.

Also in the Annual Sustainability Index assessment JSC "Latvijas balzams" maintained the Silver Medal and raised the growth rate in the number of sections of the evaluation, including communication with the public.

In order to facilitate staff training and education, the Company realizes long - term Talents and New Heads Development programs, as well as started to implement Competency model as the base for employee's individual development plan.

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#### Outlook of future activities

The Company will continue to focus on the production of new and competitive products for domestic and export markets by continuing to implement targeted export strategy.

As one of the leading enterprises in food industry JSC "Latvijas balzams" will continue to invest into training and managerial programs, increasing the level of professional competences and production efficiency, project management skills and sales proficiency.

By thinking about sustainable development, the Company will continue increase the efficiency of production processes and logistics cost control and optimization. The Company's priorities will include environmental and safety aspects.

The Company will continue to develop community support program, including the Company's launched scholarship fund project, granting scholarships to students from universities.

JSC "Latvijas balzams" will focus on significant issues of corporate social responsibility - environmental protection, public education about the dangers of alcohol and non-commercial implications, as well as educating young people about addiction issues in collaboration with other social partners.

As the member of Latvian Alcoholic Beverages Association and one of the leading companies of industry JSC "Latvijas balzams" will continue the dialogue with legislators and law enforcement institutions to adjust processes of legal alcoholic beverages business and combat distribution of noncommercial alcoholic beverages in Latvia.

JSC "Latvijas balzams"

Chairman of the Board

Riga, 28th February, 2014

Guntis Āboltiņš - Āboliņš



Riga 28.02.2014.

#### **Declaration of Management Responsibility**

Management of the Company 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 Āboltiņš - 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

Boelen Sebastianus Antonius Theodorus – Member of the Council

Names and positions of Board members



Guntis Āboltiņš-Āboliņš – Chairman of the Board General director of JSC "Latvijas balzams"



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



Ronalds Žarinovs – Member of the Board Production director of JSC "Latvijas balzams"



Sergejs Limarenko – Member of the Board Chief of internal control department of JSC "Latvijas balzams"



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

Reporting period

1st January – 31st December 2013

Council and board members do not have JSC "Latvijas balzams" shares.



## Income statement for the period ended December 31, 2013

	Notes	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012	01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012
		LVL	LVL	EUR	EUR
Net sales	1	71 075 248	70 022 301	101 130 966	99 632 758
Cost of sales	2	(61 852 300)	(60 955 192)	(88 007 894)	(86 731 424)
Gross profit or losses	_	9 222 947	9 067 109	13 123 072	12 901 334
Distribution expenses	3	(2 922 824)	(2 710 661)	(4 158 803)	(3 856 923)
Administrative expenses	4	(2 319 770)	(2 383 242)	(3 300 736)	(3 391 047)
Other operating income		1 698 746	1 916 684	2 417 098	2 727 196
Other operating expenses		(1 047 970)	(1 253 825)	(1 491 126)	(1 784 032)
Interest and similar income		943 398	1 089 099	1 342 334	1 549 648
Interest and similar expenses		(503 370)	(610 950)	(716 231)	(869 304)
Profit or losses prior to extraordinary items and taxes		5 071 158	5 114 214	7 215 608	7 276 872
Corporate income tax		(945 808)	(816 380)	(1 345 764)	(1 161 604)
Other taxes		(93 220)	(104 831)	(132 640)	(149 161)
Net profit or losses	_	4 032 130	4 193 003	5 737 204	5 966 106
Earnings per share (in santims)		53.78	55.93	76.53	79.58

Guntis Āboltiņš - Āboliņš

Chairman of the Board



### Balance sheet as at December 31, 2013

<u>ASSETS</u>	31.12.2013 LVL	31.12.2012 LVL	31.12.2013 EUR	31.12.2012 EUR
Non-current assets				
Intangible assets				
Concessions, patents, licenses, trademarks and similar rights	15 679	22 252	22 310	31 662
Intangible assets under construction	116 058	74 964	165 135	106 664
Advance payments for intangible assets	15 821	-	22 512	-
Total intangible assets:	147 558	97 216	209 957	138 326
Fixed assets				
Land and buildings	11 626 936	10 891 621	16 543 639	15 497 380
Equipment and machinery	1 355 697	1 858 321	1 928 983	2 644 153
Other fixed assets and equipment	164 568	230 853	234 159	328 475
Fixed assets under construction	59 980	54 310	85 343	77 276
Advances for fixed assets	757	(1 233)	1 077	(1 754)
Total fixed assets:	13 207 937	13 033 872	18 793 201	18 545 530
Non-current financial investments				
Receivables from group companies	26 040 062	17 780 941	37 051 671	25 300 000
Other securities and investments	24 000	24 000	34 149	34 149
Total non-current financial investments:	26 064 062	17 804 941	37 085 820	25 334 149
Total non-current assets:	39 419 558	30 936 030	56 088 978	44 018 004
Current assets				
Inventories				
Raw materials and consumables	7 492 666	7 475 675	10 661 103	10 636 927
Work in progress	492 678	448 251	701 018	637 803
Finished goods and goods for sale	6 784 179	8 569 084	9 653 016	12 192 708
Advances for inventories	115 742	286 270	164 686	407 326
Total inventories:	14 885 265	16 779 280	21 179 824	23 874 764
Account receivable:				
Trade receivables	633 128	602 400	900 860	857 138
Receivables from group companies	36 567 501	38 762 923	52 030 866	55 154 670
Other receivables	242 799	190 692	345 471	271 330
Deferred expenses	60 545	93 011	86 147	132 343
Total receivables:	37 503 972	39 649 026	53 363 344	56 415 481
Cash and bank:	18 090	65 290	25 740	92 899
Total current assets:	52 407 327	56 493 596	74 568 908	80 383 145
Total assets	91 826 885	87 429 625	130 657 886	124 401 149

Guntis Aboltiņš - Āboliņš Chairman of the Board



EQUITY, PROVISIONS AND LIABILITIES	31.12.2013 LVL	31.12.2012 LVL	31.12.2013 EUR	31.12.2012 EUR
Equity				
Share capital	7 496 900	7 496 900	10 667 128	10 667 128
Share premium	61 767	61 767	87 887	87 887
Non-current investments revaluation reserve	9 323 923	8 095 573	13 266 747	11 518 963
Retained earnings				
previous year's retained earnings	35 225 388	31 032 385	50 121 211	44 155 105
current years profit or losses	4 032 130	4 193 003	5 737 204	5 966 106
Total equity:	56 140 108	50 879 628	79 880 177	72 395 188
Liabilities:				
Non-current liabilities:				
Loans from banks	2 134 780	3 610 668	3 037 518	5 137 518
Other borrowings	-	4 081	-	5 806
Deferred income tax liabilities	1 218 055	1 218 055	1 733 136	1 733 136
Total non-current liabilities:	3 352 834	4 832 804	4 770 654	6 876 460
Current liabilities:				
Loans from banks	15 669 545	14 450 434	22 295 754	20 561 115
Other borrowings	4 081	8 007	5 806	11 393
Advances from customers	1 532	7 351	2 179	10 460
Trade payables	3 978 816	3 898 257	5 661 346	5 546 720
Payables to group companies	1 901 034	1 345 151	2 704 928	1 913 977
Taxes and social insurance payments	9 748 723	11 123 517	13 871 183	15 827 338
Other liabilities	240 335	205 435	341 966	292 308
Deferred income	24 188	24 188	34 416	34 416
Accrued liabilities	765 688	654 854	1 089 476	931 774
Total current liabilities:	32 333 943	31 717 193	46 007 055	45 129 500
Total liabilities:	35 686 777	36 549 997	50 777 709	52 005 960
Total equity, provisions and liabilities	91 826 885	87 429 625	130 657 886	124 401 149

Guntis Āboltiņš - Āboliņš Chairman of the Board



## Statement of changes in equity for the period ended December 31, 2013

	Share capital	Share premium	Revaluation reserves of non-current assets	Financial instruments revaluation reserve	Retained earnings	Total
	LVL	LVL	LVL	LVL	LVL	LVL
31.12.2011	7 496 900	61 767	8 095 573	(48 535)	31 032 385	46 638 090
Financial instruments revaluation reserve	-	-	-	57 101	-	57 101
Changes in deferred income tax liabilities	-	-	-	(8 566)	-	(8 566)
Disposal of property, plant and equipment	-	-	-	-	-	-
Profit for the year	-	-	=	-	4 193 003	4 193 003
31.12.2012	7 496 900	61 767	8 095 573	0	35 225 388	50 879 628
31.12.2012	7 496 900	61 767	8 095 573	0	35 225 388	50 879 628
Financial instruments revaluation reserve	-	-	-	-	-	-
Changes in deferred income tax liabilities	-	-	-	-	-	-
Disposal of property, plant and equipment	-	-	1 228 350	-	-	1 228 350
Profit for the year	-	-	-	-	4 032 130	4 032 130
31.12.2013	7 496 900	61 767	9 323 923	0	39 257 518	56 140 108

	Share capital	Share premium	Revaluation reserves of non-current assets	Financial instruments revaluation reserve	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2011	10 667 128	87 887	11 518 963	(69 059)	44 155 105	66 360 023
Financial instruments revaluation reserve	-	-	-	81 247	-	81 247
Changes in deferred income tax liabilities	-	-	-	(12 189)	-	(12 189)
Disposal of property, plant and equipment	-	_	-	-	-	
Profit for the year		-	-	-	5 966 106	5 966 106
31.12.2012	10 667 128	87 887	11 518 963	0	50 121 211	72 395 189
31.12.2012	10 667 128	87 887	11 518 963	0	50 121 211	72 395 189
Financial instruments revaluation reserve	_	_	_	_	_	_
Changes in deferred income tax liabilities	-	-	-	-	_	_
Disposal of property, plant and equipment	-	_	1 747 785	-	_	1 747 785
Profit for the year		-		-	5 737 204	5 737 204
31.12.2013	10 667 128	87 887	13 266 747	0	55 858 415	79 880 177



## Cash flow statement for the period ended December 31, 2013

	01.01.2013 -	01.01.2012 -	01.01.2013 -	01.01.2012 -
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
	LVL	LVL	EUR	EUR
Cash flow from operating activities				
Profit or losses before taxes	5 071 158	5 114 214	7 215 608	7 276 871
Adjustments for:				
depreciation of fixed and intangible assets	1 382 651	1 490 752	1 967 335	2 121 149
changes in provisions	132 990	121 076	189 228	172 276
interest expenses	503 370	743 857	716 231	1 058 413
interest income	(943 398)	(1 074 201)	(1 342 334)	(1 528 450)
Cash flow prior to changes in current assets and liabilities	6 155 656	6 403 190	8 758 709	9 110 919
Inventory (increase)/decrease	1 726 896	(1 105 894)	2 457 152	(1 573 545)
Account receivable (increase)/decrease	(5 171 691)	(2 114 885)	(7 358 653)	(3 009 210)
Account payable increase/(decrease)	(473 000)	2 560 144	(673 018)	3 642 757
Gross cash flow generated from operating activities	2 237 861	5 742 555	3 184 189	8 170 920
Interest payments	(506 178)	(753 468)	(720 226)	(1 072 088)
Corporate income tax paid	(1 125 681)	(678 834)	(1 601 700)	(965 894)
Net cash flow generated from operating activities	606 002	4 310 253	862 263	6 132 937
Cash flow from investing activities				
Acquisition of fixed and intangible assets	(387 593)	(395 659)	(551 495)	(562 972)
Loans interest received	35 150	21 411	50 014	30 465
Net cash flow generated from investing activities	(352 443)	(374 248)	(501 481)	(532 507)
Cash flow from financing activities		(500,100)	4.724.540	(004055)
Changes in credit lines	1 219 112	(699 188)	1 734 640	(994 855)
Borrowings repaid	(1 511 888)	(3 338 862)	(2 151 223)	(4 750 773)
Proceeds from borrowings	- (7.002)	150 000	- (11.050)	213 431
Financial leasing	(7 983)	(5 723)	(11 359)	(8 143)
Net cash flow generated from financing activities	(300 759)	(3 893 773)	(427 942)	(5 540 340)
Net increase / (decrease) in cash and cash equivalents	(47 200)	42 232	(67 160)	60 091
Cash and cash equivalents at the beginning of the financial year	65 290	23 058	92 899	32 809
Cash and Cash equivalents at the end of the financial year	18 090	65 290	25 740	92 899

		01.01.2013 - 31.12.2013	01.01.2012 - 31.12.2012	01.01.2013 - 31.12.2013	01.01.2012 – 31,12.2012
1. Net sales		LVL	LVL	51.12.2013 EUR	51.12.2012 EUR
1. I (CE BAICE)		EVE	LVL	ECK	LCK
Sales of drinks in local market		39 645 726	39 787 287	56 410 786	56 612 209
Export of drinks and services		31 396 144	30 201 198	44 672 689	42 972 433
Other sales (spirits, raw materials)		33 377	33 816	47 491	48 116
	TOTAL	71 075 248	70 022 301	101 130 966	99 632 758
2. Cost of Sales					
Materials		53 666 157	54 952 585	76 360 063	78 190 485
Salary expenses		1 563 874	1 600 526	2 225 192	2 277 343
Energy resources		681 698	704 145	969 969	1 001 908
Mandatory state social insurance contributions		372 267	381 261	529 688	542 486
Natural recourse tax		278 488	257 959	396 252	367 043
Changes in accrued expenses on unused annual leave		(21 904)	19 577	(31 167)	27 855
Changes of inventory value of finished goods		1 780 544	(235 072)	2 533 486	(334 478)
Goods purchased		407 189	37 055	579 377	52 725
Other variable costs	_	409 350	407 703	582 452	580 110
Variable costs total:		59 137 662	58 125 740	84 145 313	82 705 477
Depreciation of non-current assets		1 076 742	1 187 041	1 532 066	1 689 008
Salary expenses		792 990	806 032	1 128 324	1 146 880
Services for production needs		315 636	265 896	449 110	378 335
Repair expenses		186 681	189 644	265 624	269 839
Mandatory state social insurance contributions		152 654	139 771	217 208	198 877
Insurance payments		47 577	76 137	67 696	108 333
Laboratory expenses		31 827	37 008	45 286	52 658
Changes in accrued expenses on unused annual leave		(7 342)	6 041	(10 447)	8 596
Other production expenses  Fixed costs total:	_	117 871 2 714 638	121 881 2 829 452	167 716 3 862 582	173 421 4 025 947
	TOTAL	61 852 300	60 955 192	88 007 894	86 731 424
3. Distribution expenses	=				
-		105.654	206 717	705.251	126 110
Advertising expenses		495 654	306 717	705 251	436 419
Salary expenses		1 091 789	1 076 857	1 553 475	1 532 229
Transportation expenses		441 123	464 230	627 662	660 540
Mandatory state social insurance contributions		260 850	257 293	371 156	366 095
Depreciation of non-current assets		197 587	194 738	281 140	277 088
Warehouse maintenance expenses		107 563	104 487	153 048	148 672
Changes in accrued expenses on unused annual leave		(15 709)	1 226	(22 352)	1 745
Other distribution expenses	TOTAL -	343 967	305 111	489 422	434 134
	TOTAL_	2 922 824	2 710 661	4 158 803	3 856 923



4. Administrative expenses	01.01.2013 – 31.12.2013 LVL	01.01.2012 – 31.12.2012 LVL	01.01.2013 – 31.12.2013 EUR	01.01.2012 – 31.12.2012 EUR
Salary expenses	1 170 694	1 041 486	1 665 747	1 481 901
Management services	251 303	426 083	357 571	606 261
Mandatory state social insurance contributions	277 881	246 625	395 390	350 916
Professional fees	76 807	76 577	109 286	108 959
Depreciation of non-current assets	62 981	65 720	89 614	93 511
Representations	23 960	37 082	34 091	52 763
Office expenses	36 481	43 519	51 908	61 923
Communication and postal expenses	33 865	32 293	48 185	45 949
Business trips	25 923	17 496	36 886	24 895
IT maintenance	16 510	7 678	23 492	10 925
Financial help, sponsorship	59 607	6 514	84 813	9 269
Transportation	15 137	16 750	21 538	23 833
Healthcare, health insurance	5 026	5 072	7 152	7 217
Personnel education and trainings	17 459	21 795	24 842	31 012
Changes in accrued expenses on unused annual leave	(5 752)	(35 720)	(8 185)	(50 825)
Other administrative expenses	251 888	374 271	358 405	532 540
_	2 319 770	2 383 242	3 300 736	3 391 047



#### **Shares**

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

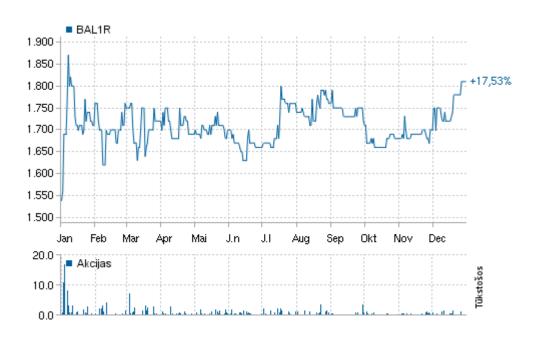
ISIN LV0000100808
Ticker BAL1R
Nominal value 1,00 LVL
Total number of securities 7 496 900

Number of listed securities 5 791 900

Indexes B30GI, B30PI, OMXBGI, OMXBPI,

**OMXRGI** 

#### JSC "Latvijas balzams" share price development for the period 01.01.13 - 31.12.13



	LVL	EUR
Open	1.550	2.205
Max	1.880	2.675
Min	1.530	2.177
Last	1.810	2.575
Change	17.53%	17.53%
Deals	1190	1190
No of shares traded	163 079	163 079
Turnover	277 309	394 575