

**JOINT STOCK COMPANY LATVIJAS BALZAMS**  
**(ENTERPRISE REGISTER NUMBER LV40003031873)**

**UNAUDITED FINANCIAL STATEMENTS**  
**FOR THE FIRST 9 MONTHS OF 2010**

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

Riga, 2010

## MANAGEMENT

### Names and positions of Council members

Aigars Kalvītis – Chairman of the Council

Val Mendeleev – Chairman's of the Council Deputy

Petr Aven – Member of the Council

Andrey Skurikhin – Member of the Council

Alexander Kovalev – Member of the Council

Sebastiaan Boelen - Member of the Council

### Names and positions of Board members

Karlis Andersons – Chairman of the Board  
General director of AS Latvijas balzams

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

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

Sergey Limarenko – Member of the Board  
Chief of internal control department of AS Latvijas balzams

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

### Reporting period

1 January – 30 September 2010

## **Management report**

### **Field of activity**

The enterprise was founded in 1900, but the actual name it has got in 1970. AS “Latvijas balzams” is a leading producer of alcoholic beverages in the Baltic States producing more than 130 different kinds of alcoholic drinks. AS “Latvijas balzams” major shareholder is “SPI Regional Business Unit BV”, having 89.53% of the company's equity capital.

### **The activity of enterprise in first nine months of year 2010**

AS “Latvijas balzams” is the biggest producer of alcoholic beverages in Latvia, as well as one of the largest taxpayers in Latvia. During first nine months of 2010 AS “Latvijas balzams” paid 24.7 millions lats to the state budget, including excise tax amounting to 18.2 million lats.

The unaudited turnover of the company in the first nine months of year 2010 was 52.5 million lats, or by 12.6% less than during first nine months of 2009. The decrease in turnover at local market was 20.6% or 7 013 thousands lats compared to the same period in 2009. In comparison with 2009, the export market sales have decreased by 23.7% or 1 193 thousands lats while export related to S.P.I. Group orders increased by 3.0%. During the first nine months of year 2010 sales to the EU countries decreased by 18.8% in comparison with the same period in 2009 - sales to Lithuania decreased by 23.2%, sales to Estonia decreased by 11.5% . Decrease of sales is related to the increase of excise tax, decline in consumption on the domestic market while economy is growing only because of export, increase of illegal alcohol trade and uncertain economical situation in the main markets. During first nine months of year 2010 the top sales markets were Baltic States, Russia, Scandinavia and Poland meanwhile new export markets such as Bulgaria, China, Australia and Kazakhstan were being acquired.

The Company has paid great attention to production cost control and improvement of productivity, thus maintaining the positive profit. Despite the fact that company's unaudited turnover has decreased by 12.6%, the profit for the reporting period was 2 147 thousands lats, that is 12.2% less than during the first nine months of year 2009 (2 444 thousands lats).

### **Future business prospects**

The economic situation in country has started to stabilize, however, purchasing power of consumers is still very low, therefore company aims to hold existing market share as well as to continue export business development by improving existing products portfolio. In the last quarter of year 2010 AS “Latvijas balzams” priorities will be control of production and logistics costs, optimization and increase of production effectiveness, enhancement of company's competitiveness.

AS Latvijas balzams  
Chairman of the Board

Karlis Andersons

Riga, 30 November, 2010

A/s Latvijas balzams  
Address: A. Čaka 160, Riga, LV-1012  
Reg. number: LV40003031873



Riga  
30.11.2010.

### **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.

A/s "Latvijas balzams"  
Chairman of the Board

Karlis Andersons

## Income statement for the period ended September 30, 2010

|  | Notes | 01.01.2010 -<br>30.09.2010<br>LVL | 01.01.2009 -<br>30.09.2009<br>LVL |
|--|-------|-----------------------------------|-----------------------------------|
| Net turnover                                 | 1     | 52 538 457                        | 60 113 885                        |
| Cost of sales                                | 2     | (45 211 419)                      | (52 360 662)                      |
| Gross profit or loss                         |       | 7 327 038                         | 7 753 223                         |
| Distribution costs                           | 3     | (2 315 590)                       | (2 605 522)                       |
| Administrative expenses                      | 4     | (2 429 030)                       | (2 229 378)                       |
| Other operating income                       |       | 553 189                           | 550 341                           |
| Interest receivable and similar income       |       | 441 334                           | 643 779                           |
| Interest payable and similar expenses        |       | (870 203)                         | (1 174 479)                       |
| Profit or loss before taxes                  |       | 2 706 737                         | 2 937 964                         |
| Corporate income tax                         |       | (503 554)                         | (431 380)                         |
| Other taxes                                  |       | (56 451)                          | (62 094)                          |
| <b>Profit or loss for the reporting year</b> |       | <b>2 146 732</b>                  | <b>2 444 489</b>                  |
| Earnings per share (in santims)              |       | 28.63                             | 32.61                             |

Karlis Andersons  
Chairman of the Executive Board

Balance sheet as at September 30, 2010

**ASSETS**

|   | 30.09.2010        | 30.09.2009        |
|---|-------------------|-------------------|
|   | LVL               | LVL               |
| <b>NON-CURRENT ASSETS</b>                           |                   |                   |
| <b>Intangible fixed assets</b>                      |                   |                   |
| Concessions, patents, licences and similar rights   | 5 710             | 400               |
| TOTAL   | 5 710             | 400               |
| <b>Tangible fixed assets</b>                        |                   |                   |
| Land, buildings, constructions and perennial plants | 12 429 279        | 17 720 748        |
| Equipment and machinery                             | 2 959 597         | 3 318 198         |
| Other fixtures and fittings, tools and equipment    | 421 710           | 556 812           |
| Construction in progress                            | 138 507           | 163 857           |
| Prepayments for tangible fixed assets               | 361 290           | 382 317           |
| TOTAL   | 16 310 383        | 22 141 932        |
| <b>Non-current financial assets</b>                 |                   |                   |
| Loans to related companies                          | 24 808 981        | 17 780 940        |
| Other investments                                   | 24 000            | 24 000            |
| TOTAL   | 24 832 981        | 17 804 940        |
| <b>TOTAL NON-CURRENT ASSETS</b>                     | <b>41 149 074</b> | <b>39 947 273</b> |
| <b>CURRENT ASSETS</b>                               |                   |                   |
| <b>Inventories</b>                                  |                   |                   |
| Raw materials                                       | 12 731 411        | 15 108 511        |
| Work in progress                                    | 501 448           | 810 100           |
| Finished goods and goods for resale                 | 5 730 530         | 6 409 538         |
| TOTAL   | 18 963 389        | 22 328 149        |
| <b>Receivables</b>                                  |                   |                   |
| Trade receivables                                   | 583 859           | 1 523 304         |
| Receivables from related companies                  | 23 716 939        | 21 504 794        |
| Other receivables                                   | 132 163           | 321 204           |
| Prepaid expense                                     | 109 045           | 101 521           |
| TOTAL   | 24 542 006        | 23 450 823        |
| Cash (TOTAL)  | 103 983           | 109 084           |
| <b>TOTAL CURRENT ASSETS</b>                         | <b>43 609 378</b> | <b>45 888 056</b> |
| <b>TOTAL ASSETS</b>                                 | <b>84 758 452</b> | <b>85 835 329</b> |

Karlis Andersons  
 Chairman of the Executive Board

## EQUITY AND LIABILITIES

|  | 30.09.2010        | 30.09.2009        |
|--|-------------------|-------------------|
|  | LVL               | LVL               |
| <b>CAPITAL AND RESERVES</b>                              |                   |                   |
| Share capital  | 7 496 900         | 7 496 900         |
| Share premium  | 61 767            | 61 767            |
| Non-current assets revaluation reserve                   | 8 346 267         | 12 102 691        |
| Revaluation reserves of derivative financial instruments | (283 450)         | -                 |
| Retained earnings:                                       |                   |                   |
| brought forward  | 23 447 185        | 19 860 780        |
| for the period   | 2 146 732         | 2 444 489         |
| <b>TOTAL EQUITY</b>                                      | <b>41 215 402</b> | <b>41 966 627</b> |
| <b>LIABILITIES</b>                                       |                   |                   |
| <b>Non-current liabilities</b>                           |                   |                   |
| Loans from credit institutions                           | 11 631 944        | 10 785 146        |
| Deferred taxation  | 1 407 648         | 2 067 197         |
| Derivative financial instruments                         | 333 471           | -                 |
| <b>TOTAL</b>   | <b>13 373 063</b> | <b>12 852 343</b> |
| <b>Current liabilities</b>                               |                   |                   |
| Loans from credit institutions                           | 13 618 788        | 16 565 097        |
| Trade payables   | 3 494 569         | 3 242 382         |
| Payables to related companies                            | 1 050 639         | 390 760           |
| Taxes payable  | 7 591 952         | 6 055 951         |
| Other liabilities  | 249 488           | 258 743           |
| Deferred income  | 194 027           | 250 110           |
| Undrawn dividends of previous years                      | -                 | 5 235             |
| Accrued liabilities                                      | 3 970 527         | 4 248 082         |
| <b>TOTAL</b>   | <b>30 169 988</b> | <b>31 016 360</b> |
| <b>TOTAL LIABILITIES</b>                                 | <b>43 543 051</b> | <b>43 868 703</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>                      | <b>84 758 452</b> | <b>85 835 329</b> |

Karlis Andersons  
 Chairman of the Executive Board

## Cash flow statement for the period ended September 30, 2010

|   | 01.01.2010 -<br>30.09.2010<br>LVL | 01.01.2009 -<br>30.09.2009<br>LVL |
|---|-----------------------------------|-----------------------------------|
| <b>Cash flows to/ from operating activities</b>                   |                                   |                                   |
| Net profit or loss before extraordinary items and taxes           | 2 706 737                         | 2 937 964                         |
| Adjustments for:  |                                   |                                   |
| Amortisation and depreciation                                     | 1 206 349                         | 1 388 027                         |
| Interest income/expense   | 433 033                           | 530 828                           |
| Increase/(decrease) in provisions                                 | 17 762                            | (51 448)                          |
| Gain/loss from fluctuations of currency exchange rates            | 300 758                           | (51 038)                          |
| Gain/loss on disposal of fixed assets                             | 4 976                             | 4 592                             |
| Operating profit or loss before working capital changes           | 4 669 615                         | 4 758 925                         |
| (Increase)/decrease in inventories                                | (560 849)                         | (1 180 933)                       |
| (Increase)/decrease in receivables                                | (2 388 512)                       | 3 712 827                         |
| Increase/(decrease) in payables                                   | 1 332 009                         | (5 249 865)                       |
| Cash generated from operations                                    | 3 052 263                         | 2 040 954                         |
| Interest paid   | (870 203)                         | (1 174 479)                       |
| Corporate income tax paid   | (546 372)                         | (1 104 811)                       |
| <b>Net cash flows to/ from operating activities</b>               | <b>1 635 688</b>                  | <b>(238 336)</b>                  |
| <b>Cash flows to/ from investing activities</b>                   |                                   |                                   |
| Purchase of fixed assets  | (455 233)                         | (989 857)                         |
| Loans granted   | (436 000)                         | (2 467 570)                       |
| Repayment of granted loans  | -                                 | 2 216 000                         |
| Interests received  | 17 950                            | 97                                |
| <b>Net cash flows to/ from investing activities</b>               | <b>(873 283)</b>                  | <b>(1 241 330)</b>                |
| <b>Cash flows to/ from financing activities</b>                   |                                   |                                   |
| Borrowings repaid   | (2 252 836)                       | (3 716 046)                       |
| Changes in credit lines (net)                                     | 1 191 983                         | 5 100 001                         |
| <b>Net cash flows to/ from financing activities</b>               | <b>(1 060 853)</b>                | <b>1 383 955</b>                  |
| <b>Change in cash and cash equivalents</b>                        | <b>(298 448)</b>                  | <b>(95 711)</b>                   |
| Cash and cash equivalents at the beginning of the reporting year  | 402 431                           | 204 795                           |
| <b>Cash and cash equivalents at the end of the reporting year</b> | <b>103 983</b>                    | <b>109 084</b>                    |



## Statement of changes in equity for the period ended September 30, 2010

|                                      | Share<br>capital<br>LVL | Share<br>premium<br>LVL | Long-term investments<br>revaluation reserve<br>LVL | Revaluation reserves of<br>derivative financial instruments<br>LVL | Retained<br>earnings<br>LVL | Total<br>LVL |
|--------------------------------------|-------------------------|-------------------------|---|--|-----------------------------|--------------|
| Balance as at 1 January 2009         | 7 496 900               | 61 767                  | 12 102 691  | -  | 19 860 780                  | 39 522 138   |
| Profit/loss for the reporting period | -                       | -                       | -   | -  | 2 444 489                   | 2 444 489    |
| Balance as at 30 September 2009      | 7 496 900               | 61 767                  | 12 102 691  | -  | 22 305 269                  | 41 966 627   |
| Balance as at 1 January 2010         | 7 496 900               | 61 767                  | 8 346 267   | (283 450)  | 23 447 185                  | 39 068 669   |
| Profit/loss for the reporting period | -                       | -                       | -   | -  | 2 146 732                   | 2 146 732    |
| Balance as at 30 September 2009      | 7 496 900               | 61 767                  | 8 346 267   | (283 450)  | 25 593 917                  | 41 215 402   |

## 1. Net sales

|                                      | 01.01.2010 –<br>30.09.2010 | 01.01.2009 –<br>30.09.2009 |
|--------------------------------------|----------------------------|----------------------------|
|                                      | LVL                        | LVL                        |
| Sales of drinks in local market      | 27 031 701                 | 34 044 632                 |
| Export of drinks and services        | 25 499 067                 | 26 061 097                 |
| Other sales (spirits, raw materials) | 7 689                      | 8 156                      |
| <b>TOTAL:</b>                        | <b>52 538 457</b>          | <b>60 113 885</b>          |

## 2. Cost of Sales

|   |                   |                   |
|---|-------------------|-------------------|
| Variable costs:                             | 42 780 952        | 49 581 588        |
| Materials                                   | 39 707 736        | 47 411 148        |
| Goods bought                                | 34 417            | 111 457           |
| Salary expenses                             | 1 096 231         | 1 326 282         |
| Social insurance                            | 262 514           | 318 130           |
| Electricity                                 | 375 844           | 458 444           |
| Natural resources tax                       | 189 679           | 228 783           |
| Other expenses                              | 1 114 531         | -272 656          |
| Fixed costs:                                | 2 430 467         | 2 779 074         |
| Depreciation and amortization               | 970 033           | 1 040 532         |
| Salary expenses                             | 578 779           | 684 151           |
| Social insurance                            | 137 303           | 163 055           |
| Repair expenses                             | 173 416           | 188 615           |
| Services for production needs               | 259 711           | 352 405           |
| Insurance                                   | 48 750            | 61 374            |
| Laboratory and quality maintenance expenses | 22 582            | 31 252            |
| Other expenses                              | 239 893           | 257 691           |
| <b>TOTAL:</b>                               | <b>45 211 419</b> | <b>52 360 662</b> |

## 3. Selling expenses

|                               |                  |                  |
|-------------------------------|------------------|------------------|
| Salary expenses               | 712 493          | 826 390          |
| Social insurance              | 170 495          | 198 268          |
| Depreciation and amortization | 154 300          | 174 047          |
| Advertising                   | 681 407          | 737 419          |
| Transportation cost           | 314 238          | 364 955          |
| Warehouse maintenance         | 83 837           | 87 266           |
| Other expenses                | 198 820          | 217 178          |
| <b>TOTAL:</b>                 | <b>2 315 590</b> | <b>2 605 522</b> |

#### 4. Administrative expenses

|                                   | 01.01.2010 –<br>30.09.2010<br>LVL | 01.01.2009 –<br>30.09.2009<br>LVL |
|-----------------------------------|-----------------------------------|-----------------------------------|
| Salary expenses                   | 714 100                           | 798 702                           |
| Social insurance                  | 166 847                           | 188 147                           |
| Communication and postal expenses | 29 422                            | 30 819                            |
| Office expenses                   | 29 809                            | 32 539                            |
| Professional fees                 | 41 704                            | 25 728                            |
| IT maintenance                    | 11 274                            | 19 789                            |
| Representations                   | 46 593                            | 36 403                            |
| Security                          | 596                               | 63                                |
| Management services               | 141 569                           | 469 559                           |
| Transportation                    | 14 368                            | 23 603                            |
| Business trip                     | 17 738                            | 21 002                            |
| Personnel education and training  | 3 038                             | 2 700                             |
| Depreciation and amortization     | 54 878                            | 125 651                           |
| Financial help, sponsorship       | 21 635                            | 17 123                            |
| Healthcare, health insurance      | 4 718                             | 5 119                             |
| Other expenses                    | 1 130 740                         | 432 429                           |
| <b>TOTAL:</b>                     | <b>2 429 030</b>                  | <b>2 229 378</b>                  |

## 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,<br>OMXRGI |

### JSC “Latvijas balzams” share price development for the period 01.01.10 – 30.09.10



Currency: LVL

|                     |               |
|---------------------|---------------|
| Open                | 1,90 LVL      |
| Max                 | 2,50 LVL      |
| Min                 | 1,64 LVL      |
| Last                | 1,92 LVL      |
| Change              | 1,05 %        |
| Deals               | 490           |
| No of shares traded | 49 585        |
| Turnover            | 99 343,75 LVL |