

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(NOT AUDITED)*

FOR THE 12 MONTHS OF 2010

PREPARED UNDER LATVIAN ACCOUNTING STANDARDS

Riga, 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.

Results of the business in year 2010

AS “Latvijas balzams” is the biggest producer of alcoholic beverages in the Baltic States as well as one of the largest taxpayers in Latvia. In 2010 AS “Latvijas balzams” paid 34.7 millions lats to the state budget, including excise tax amounting to 25.8 million lats.

The unaudited turnover of the company in 2010 was 74.9 million lats, which is 9% less than in 2009. The decrease in turnover on the local market was 14%, export market 18% while export related to S.P.I. Group orders increased by 2% in comparison with previous year. In 2010 the sales to the EU countries decreased by 17% in comparison with 2009. Sales to Lithuania and Estonia decreased by 24% and 5% accordingly. 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 and consumer spending is low, increase of illegal alcohol trade and uncertain economical situation in the main export markets. In 2010 the top focus sales markets were Baltic States, Russia, Poland and Scandinavia; 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, as a result reaching 3 640 thousands lats unaudited profit, that is 2% more than in 2009, despite the 9% decrease in turnover.

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 2011 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” will continue to support solutions that are environmentally friendly, persistently improving activities that would reduce company’s business negative influence on the nature by setting high requirements for ourselves and collaboration partners.

AS Latvijas balzams
Chairman of the Board

Karlis Andersons

Rīga, 28 February, 2011

Rīga
28.02.2011.

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

MANAGEMENT

Names and positions of Council members

Aigars Kalvitis – Chairman of the Council

Val Mendelev – 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 Zarinovs – 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 – 31 December 2010

Income statement for the period ended December 31, 2010

	Notes	01.01.2010 - 31.12.2010 LVL	01.01.2009 - 31.12.2009 LVL
Net turnover	1	74 939 922	82 459 653
Cost of sales	2	(64 173 564)	(71 243 835)
Gross profit or loss		10 766 357	11 215 818
Distribution costs	3	(3 286 435)	(3 671 866)
Administrative expenses	4	(2 139 297)	(2 493 429)
Other operating income		1 263 841	1 259 090
Other operating expense		(667 531)	(738 320)
Interest receivable and similar income		609 060	797 174
Interest payable and similar expenses		(1 973 571)	(1 881 595)
Profit or loss before taxes		4 572 424	4 486 872
Corporate income tax		(853 833)	(817 263)
Other taxes		(78 567)	(83 204)
Profit or loss for the reporting year		3 640 024	3 586 405
Earnings per share		0.49	0.48

Karlis Andersons
Chairman of the Executive Board

Balance sheet as at December 31, 2010

ASSETS		31.12.2010	31.12.2009
		LVL	LVL
NON-CURRENT ASSETS			
Intangible fixed assets			
Concessions, patents, licences and similar rights		5 276	266
TOTAL		5 276	266
Tangible fixed assets			
Land, buildings, constructions and perennial plants		12 536 703	12 876 372
Equipment and machinery		2 876 205	3 499 691
Other fixtures and fittings, tools and equipment		405 309	546 904
Construction in progress		130 060	95 910
Prepayments for tangible fixed assets		33 479	4 523
TOTAL		15 981 756	17 023 400
Non-current financial assets			
Loans to related companies		24 808 981	24 808 981
Other investments		24 000	24 000
TOTAL		24 832 981	24 832 981
TOTAL NON-CURRENT ASSETS		40 820 014	41 856 647
CURRENT ASSETS			
Inventories			
Raw materials		9 927 445	11 820 118
Work in progress		443 927	520 693
Finished goods and goods for resale		4 638 716	4 890 380
Prepayments for goods		1 050 894	175 659
TOTAL		16 060 982	17 406 850
Receivables			
Trade receivables		406 767	519 060
Receivables from related companies		26 539 442	19 851 375
Other receivables		59 780	453 515
Prepaid expense		56 573	66 263
TOTAL		27 062 562	20 890 213
Cash (TOTAL)		102 994	402 431
TOTAL CURRENT ASSETS		43 226 538	38 699 494
TOTAL ASSETS		84 046 551	80 556 141

Karlis Andersons
Chairman of the Executive Board

EQUITY AND LIABILITIES

	31.12.2010 LVL	31.12.2009 LVL
CAPITAL AND RESERVES		
Share capital	7 496 900	7 496 900
Share premium	61 767	61 767
Non-current assets revaluation reserve	8 333 464	8 346 267
Revaluation reserves of financial instruments	(283 450)	(283 450)
Retained earnings:		
brought forward	23 447 185	19 860 780
for the period	3 640 024	3 586 405
TOTAL EQUITY	42 695 890	39 068 669
LIABILITIES		
Non-current liabilities		
Loans from credit institutions	9 002 012	11 631 944
Deferred taxation	1 407 648	1 407 648
Derivative financial instruments	333 471	333 471
TOTAL	10 743 131	13 373 063
Current liabilities		
Loans from credit institutions	15 265 868	14 378 883
Prepayments received from customers	13 024	18 292
Trade payables	3 269 810	3 790 590
Payables to related companies	1 420 664	588 566
Taxes payable	8 911 232	6 706 173
Other liabilities	246 128	226 775
Deferred income	136 608	197 705
Accrued liabilities	1 344 195	2 207 425
TOTAL	30 607 530	28 114 409
TOTAL LIABILITIES	41 350 661	41 487 472
TOTAL EQUITY AND LIABILITIES	84 046 551	80 556 141

Karlis Andersons
Chairman of the Executive Board

Cash flow statement for the period ended December 31, 2010

	01.01.2010 - 31.12.2010 LVL	01.01.2009 - 31.12.2009 LVL
Cash flows to/ from operating activities		
Net profit or loss before extraordinary items and taxes	4 572 424	4 486 872
Adjustments for:		
Amortisation and depreciation	1 599 328	1 800 054
Interest income/expense	537 929	917 764
Increase/(decrease) in provisions	(111 754)	(193 415)
Gain/loss from fluctuations of currency exchange rates	300 758	(18 100)
Gain/loss on disposal of fixed assets	18 281	293 287
Operating profit or loss before working capital changes	6 916 966	7 286 462
(Increase)/decrease in inventories	1 437 748	2 486 630
(Increase)/decrease in receivables	(5 295 131)	(336 211)
Increase/(decrease) in payables	1 386 713	(4 587 359)
Cash generated from operations	4 446 296	4 849 522
Interest paid	(1 146 988)	(1 670 276)
Corporate income tax paid	(712 713)	(1 391 270)
Net cash flows to/ from operating activities	2 586 595	1 787 976
Cash flows to/ from investing activities		
Purchase of fixed assets	(594 042)	(1 052 350)
Loans granted	(436 000)	(2 780 000)
Repayment of granted loans	-	2 216 000
Interests received	187 715	14 410
Net cash flows to/ from investing activities	(842 327)	(1 601 940)
Cash flows to/ from financing activities		
Borrowings repaid	(2 984 439)	(4 944 050)
Changes in credit lines (net)	940 734	4 955 650
Net cash flows to/ from financing activities	(2 043 705)	11 600
Change in cash and cash equivalents	(299 437)	197 636
Cash and cash equivalents at the beginning of the reporting year	402 431	204 795
Cash and cash equivalents at the end of the reporting year	102 994	402 431

Statement of changes in equity for the period ended December 31, 2010

	Share capital LVL	Share premium LVL	Long-term investments revaluation reserve LVL	Revaluation reserves of derivative financial instruments LVL	Retained earnings LVL	Total 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	-	-	(3 756 424)	(283 450)	3 586 405	(453 469)
Balance as at 31 December 2009	7 496 900	61 767	8 346 267	(283 450)	23 447 185	39 068 669
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	-	-	(12 803)	-	3 640 024	3 627 221
Balance as at 31 December 2010	7 496 900	61 767	8 333 464	(283 450)	27 087 209	42 695 890

1. Net sales

	01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
	LVL	LVL
Sales of drinks in local market	39 760 304	46 385 936
Export of drinks and services	35 163 582	36 061 735
Other sales (spirits, raw materials)	16 037	11 982
TOTAL:	74 939 922	82 459 653

2. Cost of Sales

Variable costs:	60 928 777	67 617 255
Materials	56 742 264	63 529 420
Goods bought	56 830	121 229
Salary expenses	1 574 723	1 749 414
Accrued expenses on unused annual leave	(40 664)	(34 946)
Social insurance	377 162	419 783
Electricity	531 296	594 408
Natural resources tax	273 613	312 258
Other expenses	1 413 553	925 689
Fixed costs:	3 244 787	3 626 580
Depreciation and amortization	1 284 111	1 345 222
Salary expenses	793 355	946 656
Accrued expenses on unused annual leave	(2 467)	(81 296)
Social insurance	188 034	226 002
Repair expenses	352 516	354 092
Services for production needs	414 523	583 402
Insurance	64 755	76 682
Laboratory and quality maintenance expenses	33 843	43 039
Other expenses	116 117	132 781
TOTAL:	64 173 564	71 243 835

3. Selling expenses

Salary expenses	986 444	1 086 920
Accrued expenses on unused annual leave	(5 141)	(25 903)
Social insurance	235 624	260 702
Depreciation and amortization	204 665	239 325
Advertising	1 022 150	1 209 251
Transportation cost	433 803	448 937
Warehouse maintenance	123 760	121 185
Other expenses	285 130	331 449
TOTAL:	3 286 435	3 671 866

4. Administrative expenses

01.01.2010 – 31.12.2010	01.01.2009 – 31.12.2009
LVL	LVL

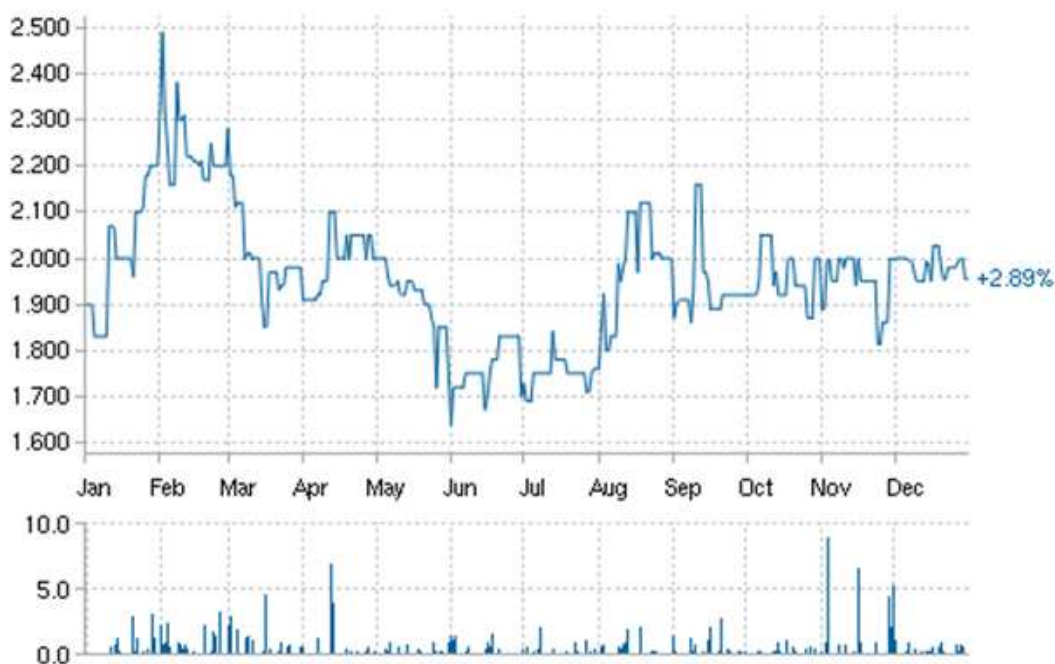
Salary expenses	949 336	1 098 743
Accrued expenses on unused annual leave	10 563	(15 844)
Social insurance	220 649	259 073
Communication and postal expenses	38 276	43 064
Office expenses	54 230	52 421
Professional fees	85 083	67 517
IT maintenance	22 068	24 722
Representations	62 419	45 359
Management services	324 179	553 791
Transportation	17 647	28 663
Business trip	26 420	25 614
Personnel education and training	3 593	5 688
Depreciation and amortization	72 678	152 525
Financial help, sponsorship	22 580	16 000
Healthcare, health insurance	6 545	7 140
Other expenses	223 031	128 953
TOTAL:	2 139 297	2 493 429

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 01.01.10 – 31.12.10



Currency: LVL

Open	1,900 LVL
Max	2,500 LVL
Min	1,640 LVL
Last	1,955 LVL
Change	2,895%
Deals	680
No of shares traded	71 234
Turnover	142 373,98 LVL