

Latvijas EB Balzams

Yearbook 2010

About our company

Type of operations

AS Latvijas balzams (further - Company) is the largest alcoholic beverage producer in the Baltic States, whose product range includes more than 100 kinds of alcoholic beverages, of whom 53% of beverages are with low alcohol content. The Company products are exported to nearly 30 countries around the world, while in performing export orders of "S.P.I. Group" to more than 70 countries around the world.

Performance of the Company during the financial year

Net turnover of the Company in year 2010 was 52.2 million lats, which is for 6% less than in year 2009. Turnover in the domestic market compared with last year, has fallen by 13%, in the export market - by 18%, meanwhile export orders of "S.P.I. Group" has increased by 2% compared with last year. In 2010 sales to EU member states compared with last year, has fallen by 15%. Sales to Lithuania and Estonia has fallen respectively by 28% and 1%. Company's principal activity results in 2010 was significantly affected by the decline of purchasing ower, the increase of excise tax and illegal alcohol sales increase as well as the decrease in economic activity in Latvia, taking under consideration, that economical development is associated solely with exports, as well as economical uncertainty in main markets of the Company. The main export directions in 2010 were the Baltic countries, Russia, Scandinavia, Germany and Italy. Meanwhile new export markets were actively acquired, for example, Bulgaria, China, Australia and Kazakhstan. Economical situation in Latvia has started to stabilise and, even though customer purchasing power is very low, the objectives of the Company is to maintain the existing market share and to continue new market acquirement by improving product portfolio. In 2011 the priorities of AS Latvijas balzams will be further control of production

and logistics costs, optimization and production efficiency improvement, rise of Company's competitiveness. 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. The Company has aid great attention to production cost control and operation's efficiency improvement, as a result, despite the decrease in net turnover in 2010, the Company has finished the reporting year with a 3.9 million lats net profit, that is 0.3 million lats or 9.3% better then in 2009. During the reporting year the Company has continued to invest in production technology improvement. During the reporting year a new overhang was built for material storage, as well as investments in adjustments of the production machinery, for launching a new design of bottles for world-wide known brand Stolichnaya. The Company is one of the biggest tax payers in Latvia. During the reporting year *AS Latvijas* balzams transferred 34.4 million lats in taxes to the state budget, including 25.5 million lats as the excise tax.

In 2010 the Company employed 634 employees in average (2009 - 681), and their gross monthly salary last year was 578 lats in average (2009 - 610 lats).

Post balance sheet events

In the time period between the last day of the financial year and the date of signing the financial statements by the Board there have been no important events that would have a significant effect on the financial results of the year or the financial position of the company.

Distribution of profit proposed by the Board	2010 (Ls)
Profit share to be distributed	3,920,535
Proposed profit distribution: Retained earnings	3,920,535

Future prospects

Economical situation in Latvia has started to stabilise and, even though customer purchasing power is very low, the objectives of the Company is to maintain the existing market share and to continue new market acquirement by improving product portfolio. In 2011 the priorities of AS Latvijas balzams will be further control of production and logistics costs, optimization and production efficiency improvement, rise of Company's competitiveness. 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.



Kārlis Andersons

Chairman of the Board

Riga, 14 April, 2011



General information

AS Latvijas balzams is a leading producer of alcohol beverages in the Baltics with a history steeped in tradition since 1900. The company has two production factories in Riga - distillery of strong alcohol beverages and sparkling wines and light alcohol beverages production plant. AS Latvijas balzams ensures workplace for more than 600 employees.

AS Latvijas balzams is represented in all segments of strong and light alcohol beverages with more than 100 product names. With many of them AS Latvijas balzams definitely is a market leader in Latvia.

Vision

Become the leading Spirits producer and exporter across the Baltic states with market leading brands and organizational capability



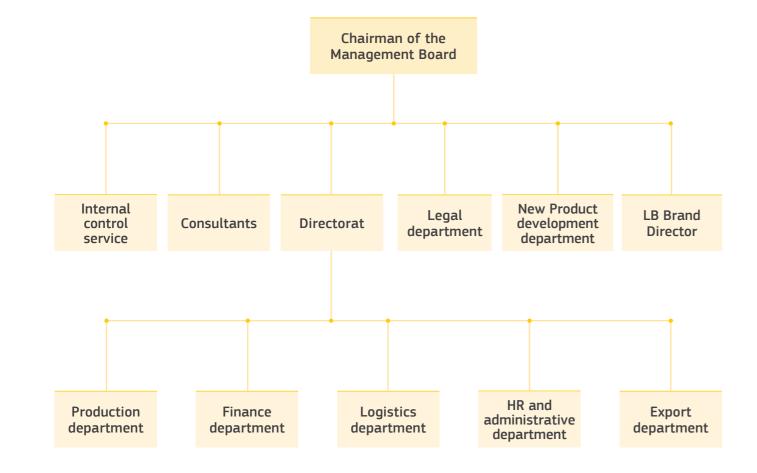


/ Corporate Governance

Structure

In its operation AS Latvijas balzams adheres to high standards of corporate governance and ensures that the company is managed in accordance with the Corporate Governance Principles adopted by "NASDAQ OMX Riga" in 2010. The corporate governance report is submitted simultaneously with the audited annual report and it can be acquired at both "NASDAQ OMX Riga" and AS Latvijas balzams homepages.

AS "Latvijas balzams" structure



The Council of the company

Aigars Kalvītis – the chairman of the council;

Val Mendeleev - deputy chairman of the council;

Petr Aven – member of the council;

David Ronald Surbey - member of the council;

Blaine Alan Rowlette – member of the council;

Sebastian Boelen – member of the council;

Company Management



Kārlis Andersons

CEO / Chairman of the Management Board

Education

The University of Latvia, faculty of economics and management, bachelor degree

The University of Latvia, faculty of law, justice, qualification of lawyer Business school of Aarhus (Denmark), Aarhus University – master degree in finances

Tenable positions

Chairman of the Management Board of *AS Latvijas balzams* since 29.04.2008 Member of the Board of Latvian Association of Alcohol Producers and Traders (ARTA) since 24.02.2009

Chairman of the Board of Association of Latvian Spirits Producers and Distributors (LADRIA) since 04.06.2008

Member of the Board of Latvian Federation of Food Enterprises since 30.05.2008

Member of the Board of Yury Shefler Fund since 04.06.2008 Member of the Supervisory Board of Employers' Confederation of Latvia since 31.03.2009

Past experience

2006 – 2008 AS Lavijas balzams, CFO

2005 – 2006 Member of the Management Board of VP Market

2004 – 2006 CFO of VP Group Latvija

Members of the **Board**



Ronalds Žarinovs

production director / member of the Management Board

Education

Latvia University of Agriculture, bachelor degree Riga International School of Economics and Business Administration (RSEBAA), master degree

Past Experience

1998 – 2003 Director of production of AS Rīgas Piena kombināts



Gunita Kronberga

CFO / member of the Management Board

Education

The University of Latvia, faculty of economics, bachelor degree

Past Experience

2007 - 2008 CFO of SIA AV&D

2006 – 2007 Chief accountant of SIA MAXIMA Latvija



Signe Bīdermane

HR director / member of the Management Board

Education

The University of Latvia, faculty of economics, business economics, bachelor degree

Past Experience

1999 – 2004 HR manager of AS Ventspils Tirdzniecības osta



Sergejs Ļimarenko

head of internal security service / member of the Management Board

Past Experience

The University of Latvia, faculty of law, lawyer







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INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS

to the Shareholders of Latvijas Balzams AS

The accompanying summary financial statements of Latvijas Balzams AS (the Company) which comprise the statement of financial position as at December 31, 2010, the summary income statement and summary of statement of comprehensive income for the year then ended are derived from the audited financial statements of the Company for the year ended December 31, 2010. We expressed an unmodified audit opinion on those financial statements in our report dated April 28, 2011.

The summary financial statements do not contain all the disclosures required by EU approved International Financial Reporting Standards. Reading the summary financial statements, therefore, is not substitute for reading the audited financial statements of the Company.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of a summary of the audited financial statements prepared from the audited financial statements for the year ended December 31, 2010.

Auditor's responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements".

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of the Company for the year ended December 31, 2010 are consistent in all material aspects, with those financial statements.

Baker Tilly Baltics SIA

Eriks Bahirs Certified Auditor Chairman of the Board

Riga, 28 April 2011

INCOME STATEMENT

	2010 Ls	2009 Ls
Net sales	52,259,342	55,599,546
Cost of sales	(41,579,432)	(44,683,501)
Gross profit (loss)	10,679,910	10,916,045
Distribution expenses	(3,548,150)	(4,079,867)
Administrative expenses	(2,270,072)	(2,576,634)
Other income	1,404,104	1,259,090
Other expenses	(231,964)	(30,545)
Finance income	608,622	797,174
Finance costs	(1,973,571)	(1,881,595)
Profit before tax	4,668,879	4,403,668
Corporate income tax	(748,344)	(817,263)
Net profit	3,920,535	3,586,405
Earnings per share (in santims)		
Basic	52.30	47.84
Diluted	52.30	47.84

In accordance with EU approved International Financial Reporting Standards



STATEMENT OF FINANCIAL POSITION

	2010 Ls	2009 Ls
Net profit	3,920,535	3,586,405
Other comprehensive income / (loss)	, ,	
Revaluation of property, plant and equipment reserves		(4,419,322)
Changes in deferred income tax liabilities resulted to revaluation of property, plant and equipment	1,921	662,898
Changes in fair value of financial instruments	128,482	(333,471)
Changes in deferred income tax liabilities resulted to changes of fair value of derivatives	(19,273)	50,021
Other comprehensive income	111,130	(4,039,874)
Total comprehensive income	4,031,665	(453,469)

In accordance with EU approved International Financial Reporting Standards

ASSETS	31/12/2010/ Ls	31/12/2009/ Ls
Non-current assets		
Intangible assets	5,276	266
Property, plant and equipment	15,981,757	17,023,400
Loans to group companies	17,780,941	24,808,981
Other non-current assets	24,000	24,000
Total non-current assets:	33,791,974	41,856,647
Current assets		
Inventories	15,035,340	17,231,191
Trade receivables	405,675	519,060
Receivables from group companies	34,070,691	19,851,375
Other current assets	389,755	376,136
Corporate income tax	-	377,374
Cash and cash equivalents	102,993	402,431
Total current assets:	50,004,454	38,757,567
Total assets	83,796,428	80,614,214

In accordance with EU approved International Financial Reporting Standards

n	1,900 LVL
	2,500 LVL
	1,640 LVL
	1,955 LVL
nge	2,895%
ls	680
led volume	71 234
nover	142 373,98 LVL

EQUITY AND LIABILITIES	31/12/2010/ Ls	31/12/2009/ Ls
Equity		
Share capital	7,496,900	7,496,900
Share premium	61,767	61,767
Revaluation reserves of non-current assets	8,335,385	8,346,267
Revaluation reserves of derivative financial	(174,241)	(283,450)
instruments		
Retained earnings	27,380,523	23,447,185
Total equity:	43,100,334	39,068,669
Liabilities:		
Non-current liabilities:		
Borrowings	9,002,012	11,631,944
Deferred income tax liabilities	1,334,857	1,407,648
Derivative financial instruments	204,989	333,471
Total non-current liabilities:	10,541,858	13,373,063
Current liabilities:		
Borrowings	15,265,868	14,378,883
Trade payables	3,362,198	3,848,663
Payables to group companies	1,465,116	588,566
Current income tax payables	70,327	-
Other liabilities	9,990,727	9,356,370
Total current liabilities:	30,154,236	28,172,482
Total liabilities:	40,696,094	41,545,545
Total equity and liabilities:	83,796,428	80,614,214

In accordance with EU approved International Financial Reporting Standards

Kārlis Andersons Chairman of the Board



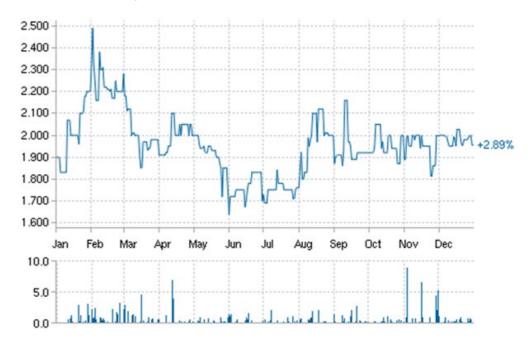
/ 4. Information from NASDAQ OMX Riga

The shares of AS "Latvijas balzams" are listed at NASDAQ OMX Riga on the second market since October 15, 1998:

ISIN	LV0000100808
Stock exchange code	BAL1R
Nominal value	1,00 LVL
Total number of securities	7 496 900
Number of securities in public	5 791 900
trading	

AS Latvijas balzams share price development:

(01.01.10 - 31.12.10)



Currency: LVL

Riga, 29 April, 2011

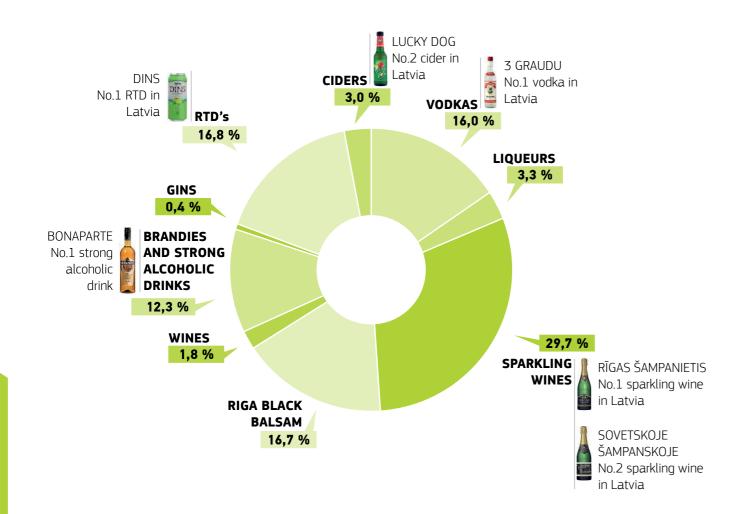
Open	1,900 LVL
Max	2,500 LVL
Min	1,640 LVL
Last	1,955 LVL
Change	2,895%
Deals	680
Traded volume	71 234
Turnover	142 373,98 LVL

Products and Production

Domestic Market

AS Latvijas balzams is a leading producer of alcoholic beverages in Latvia which is represented in almost all main segments of alcoholic beverages.

LB portfolio by categories in Latvia, (LVL)





SPARKLING WINES AND LIGHT ALCOHOLIC BEVERAGES

Expert comment



Natālija Antoņenko is a head technologist of light alcoholic beverages and sparkling wines; she has been working at AS "Latvijas balzams" for 35 years.

"I am privileged to work at the enterprise with old traditions and experienced professionals. Sparkling wine is an old beverage, but at the same time it is still very young. Sparkling wine is a beverage of happiness; it brings happiness to every home."

Since 2000, after merging with AS Rīgas Vīni, the company also became the producer of light alcoholic beverages. This production unit has the most ancient traditions of sparkling wine production in the Baltics. And in Riga in particular, where sparkling wine has been produced since 1952, the ongoing fermentation method was introduced for the first time which ensures the natural saturation of wine with carbon dioxide. Today this technology has gained wide international recognition and is included in the International Code of Technologies. Sparkling wines produced by AS Latvijas balzams have received more than 40 awards in various international competitions.

Winemakers of *AS Latvijas balzams* offer also a product line of classical sparkling wine in the market which is produced according to the method approved through centuries fermenting wine in bottles from carefully selected varietal wines.

Using this method, special thick glass bottles are filled with the selected wine together with cultured yeast and sugar, then they are corked. Thus the wine is fermented and aged for the second time for not less than 9 months. During ageing the position of each bottle is changed from horizontal to almost vertical, thus sediment occurring during fermentation process is directed to the bottleneck. At the end of the process the sediment is separated from the wine.

Rīgas classical sparkling wine is produced in small batches; a unique sequence number is granted to each bottle which is registered by winemakers on a label manually.

In 2010 sparkling wines retained leading role of the total range of beverages marketed in Latvia. Every fourth bottle of sparkling wine consumed in Latvia is Rīgas šampanietis.

AS Latvijas balzams produces also 24 various cocktails and 10 types of ciders. The company was the first in Latvia which started production of ciders dominating the market with its Lucky Dog brand.

In 2010 two new products – Lucky Dog strawberry flavour cider and carbonated wine drink Dolce Mia – joined the group of light alcoholic beverages.





STRONG ALCOHOLIC DRINKS

Alcoholic beverages the alcohol content of which is more than 15 % by volume are produced in the production unit of strong alcoholic drinks which is located on 160 A.Čaka Street. The brands Stolichnaya, Moskovskaya and Riga Black Balsam recognised in the world are produced here. Riga Black Balsam is one of the oldest alcohol brands in Europe. It began as far back as 1752. Vodka has kept its leading position in the production of strong alcoholic drinks.

Several significant investments were made in the production of vodka in 2010. In the production of LB vodka classical Russian technology was supplemented with cold technology for treatment of vodka – Classic plus, which ensures continuously high and stable quality of taste and aroma.

In 2010 in the category of vodkas several new products were introduced of which the following in the Latvian market: vodka "Штопор", product line of vodkas "Просто песня - Чёрный ворон", "Просто песня - Соловей российский", "Просто песня - Орёл степной".



Expert comment



Aija Zablocka is a head technologist of strong alcoholic beverages; she has been working at *AS Latvijas* balzams for 15 years:

"I am very proud to work at the enterprise, where technological development and innovations are highly appreciated and solid funds are invested."



Irēna Malahovska is a manager of vodka workshop; she has been working at *AS Latvijas* balsams for 17 years.

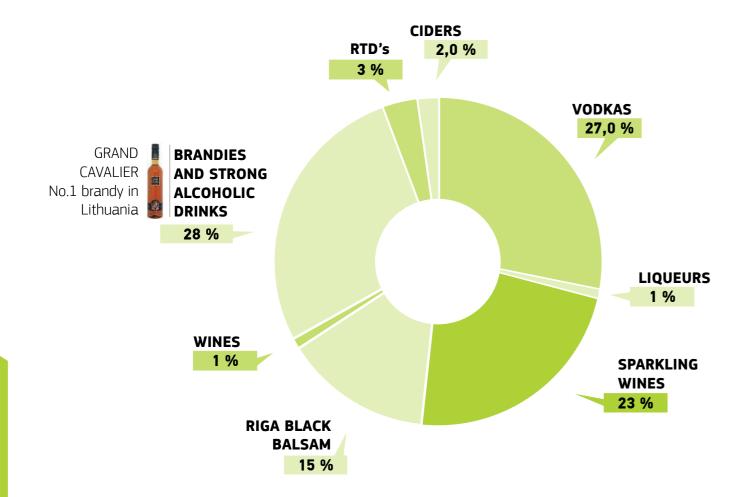
"Vodka is a beverage for those who can define his own condition and the result is only with stimulating effect, but not drunkenness."



Export Market

AS Latvijas balzams offers a wide range of production for export markets from the standard range and also makes individual orders in accordance with the wishes of customers.

LB export portfolio by categories, **(LVL)**



The company produces the leading private label products for customers from many countries, for example, from the United Kingdom, Germany, Denmark, Norway, Sweden and China. The capacity of production installations of *AS Latvijas balzams* and employees working there allows the production of a wide range of products in large amounts. The two most successful projects are Dannoff vodka which won a gold medal in the category of Premium vodkas in the international competition in London for three years in a row for its excellent taste, and Kirow vodka which at the moment holds 9% of the market of imported vodkas in Norway.



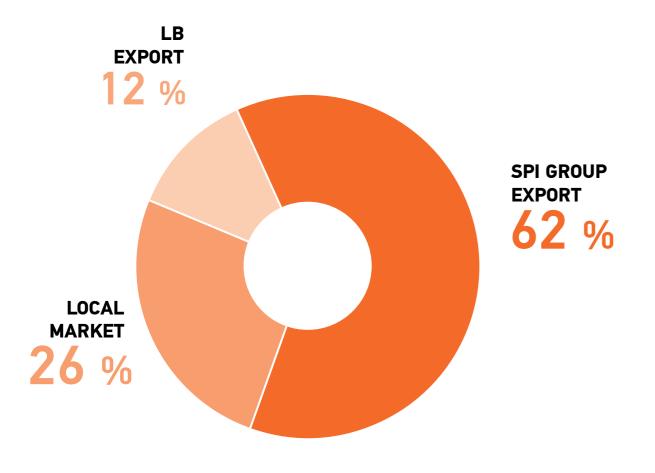
In 2010 several new products were introduced – private label vodka Black Queen, Tik Tak product line was supplemented with new orange taste, cocktail Kirow Mojito, Riga Black balsam Currant in PET bottle and Tube vodka.





AS Latvijas balzams offers a wide range of alcoholic beverages for the domestic and export markets, as well as implements different private label projects.

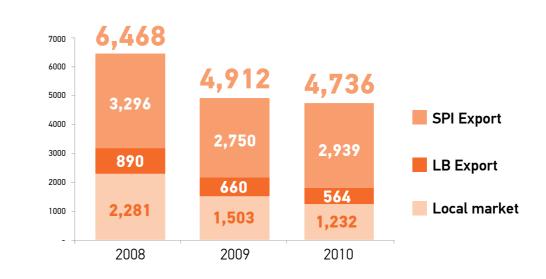
The company's products, including SPI Group orders, are available in more than 70 world countries and more and more new export markets are entered every year.



Most of LB's export production is sent to such countries as Lithuania, Estonia, Russia and Norway, while Stolichnaya and Moskovskaya vodkas produced according to SPI Group orders are mostly exported to such countries as USA, Germany, Canada, Spain, Greece, Italy, Lebanon, Mexico and Chile.

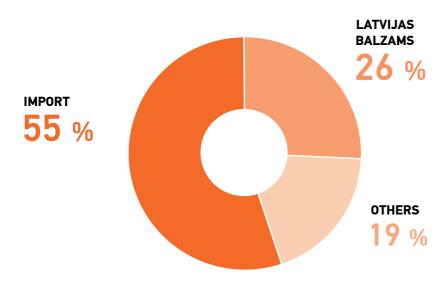
Global export according to SPI Group order: 62%	LB export: 12%	Local market: 26%
Main brands Stolichnaya & Moskovskaya SPI Group distribution network	AS Latvijas balzams brands Private label projects	AS Latvijas balzams brands
> 70 countries	> 30 countries	Market leader

Dynamics of sales breakdown '000 DAL, 1 DAL=10 liters



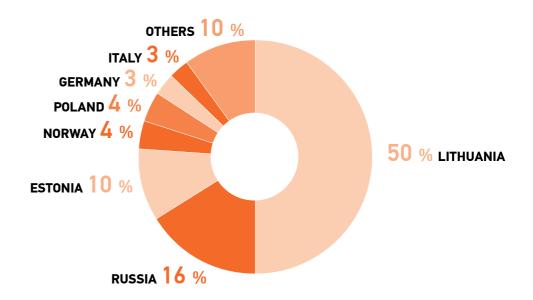
Latvia

In 2010 sales in the domestic market decreased due to increase of excise tax and share of illegal alcohol. However, *AS Latvijas balzams* has still retained its leader position with a market proportion of 26% in the Latvian market.



LB export

The main export markets of *AS Latvijas balzams* are Baltic countries, Poland and Norway. Due to the sales volumes' decrease in the domestic market, *AS Latvijas balzams* is actively looking for new export possibilities by continuously entering new export markets. In 2010 *AS Latvijas balzams* has started cooperation with 13 new customers. The export to Kazakhstan, Belgium and exotic country Namibia and others was commenced.



TOP 10 products

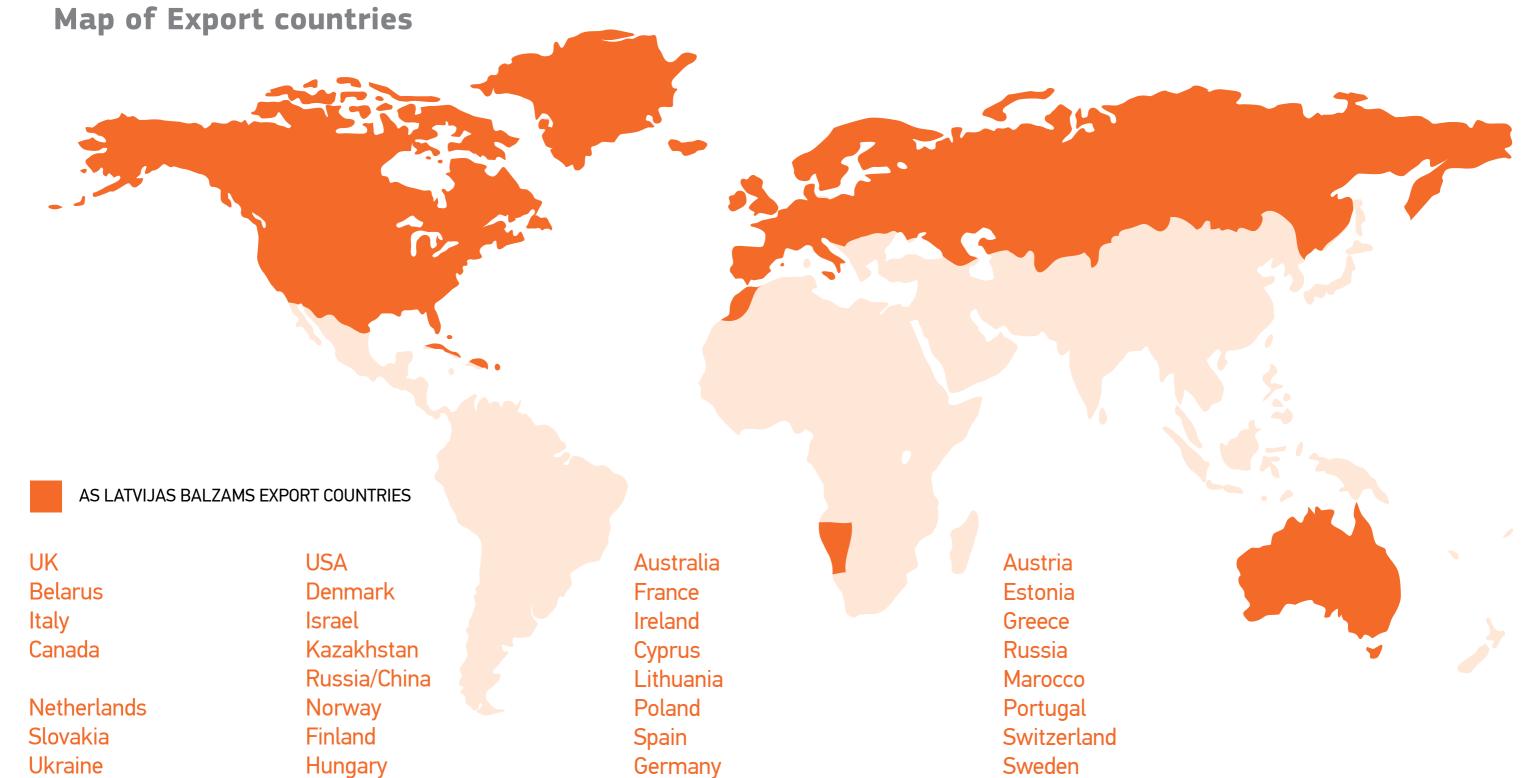
TOP 10 products

in the domestic market

Rīgas sparkling wine
Riga Black Balsam
Bonaparte
Svetskoje šampanskoje
Sovetskoje šampanskoje
Cocktail Dins
3 Graudu vodka
Moskovskaya vodka
BBC product line of cocktails
Cider Lucky Dog

in LB export markets

Brandy Grand Cavalier
Riga Black Balsam
Sovetskoje šampanskoje
Moskovskaya vodka
Rīgas sparkling wine
Dannoff vodka
Bravo vodka
Kirow vodka
Alcoholic cocktail Bang
Muskatnoe šampanskoje



Quality, Safety and Environment

The basic principles of the quality, safety and environmental policy of AS Latvijas balzams are:

- Constant improvement of operational results of the Company in the fields of quality, working conditions and environment;
- Operation according to interests of shareholders, employees, state and society;
- Compliance with the binding legal regulations.



The Company selects the suppliers of raw materials and controls the purchased materials very carefully, ensures the application of traditional technologies and introduces innovative improvements of such methods to quarantee the highest quality of its products. Only new bottles are used for filling beverages, no repeated use of bottles for production purposes is allowed. Water for production is obtained from artesian wells of 198 m and 189 m depth, and is further purified and processed for purposes of production. The quality of products is carefully controlled and checked in the lab throughout the stages of production.

Quality management system

AS Latvijas balzams ensures a constantly high quality of products that corresponds to the expectations of the customers and the requirements of regulatory enactments. This is confirmed by a management system certified according to the ISO 9001:2008 international standard which covers all stages of production, starting from development of new alcoholic beverage up to its introduction in the production and sale. In the end of 2009 re-certification audit took place in the company in compliance with the requirements of new ISO 9001:2008 standard and in January 2010 AS Latvijas balzams received Det Norske Veritas

Management System Certificate. A company self-monitoring system based on HACCP principles has also been integrated into the management system. In 2010 several certifications in compliance with specific requirements of other world countries were performed. For example, in co-operation with Asahi, distributors from Japan, we have prepared a special quality certificate in which the test results for the force of bottle closing and opening, actual average volume in the bottle and other additional criteria are specified and which is issued to each batch of production sent to Japan.

Production of natural/organic products is in worldwide development at the moment. Their content and production process is especially strictly regulated by regulatory enactments. To commence production of organic flavoured spirits, we have certified spirits production unit and several improvements are made.

In 2010, as in every previous year, the production of SPI Group has received Orthodox Union Kosher certificate what is very significant for export to USA and Israel.

Environment

In caring for the environment, AS Latvijas balzams gives the priority to environmentally friendly technologies and packaging utilized for production. AS Latvijas balzams is supporting environmentally friendly solutions by constantly improving operations to minimize adverse environmental effects and by imposing strict requirements to itself and its co-operation partners. Keeping in mind the environmental requirements and protection, *AS Latvijas* balzams performs separated waste collection and transfer for processing, thus minimizing the volume of dumped waste. Recyclable materials (cardboard, glass, aluminium, dregs, etc.) are transferred to recycling facilities

Main measures for preservation of natural resources in 2010:

1. Economical use of gas and diesel, measures for reduction of emission into the air:

- System for collection of condensate was installed;
- Insulation strengthening for heat exchange surfaces and pipelines;
- Modernisation of air flow management system in the finished production warehouses.

2. Economical use of electricity:

- Installation of frequency regulator for feed-pump for reverse-osmosis device;
- Installation of frequency regulator for several devices;
- In production premises, where technological processes are taking place; without presence of an employee, sensor lighting was created.

3. Economical use of water:

- Installation of automatic control system for underground pumps with water usage registration system for artesian well.

4. Saving of raw materials and materials:

- Design of several product lines was changed avoiding unnecessary design elements;
- Type of packaging was changed.

Expert comment



is a head of production laboratory of strong alcoholic beverages; she has been working at AS Latvijas

Tamāra Ponamorjova

balzams for 35 years. Tamāra:

"I work at the reliable enterprise; it provides the highest quality and safety performances for its products. The quality of products is a key requirement for enterprise to succeed in extremely competitive conditions."

Investments

The company makes significant investments in the development of the company on regular basis in order to satisfy the wishes of the customers and market requirements more and more successfully.

In 2010 the company invested 642 000 lats in total, the main investments were in:

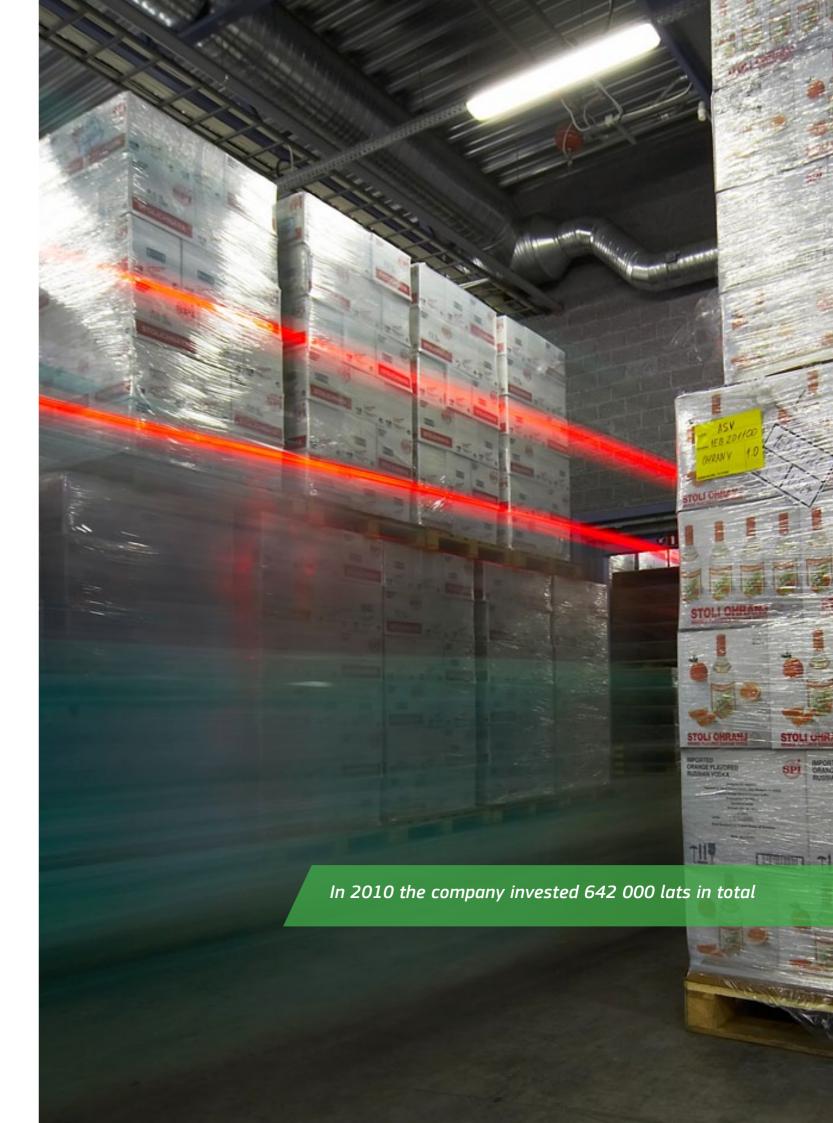
New, modern shed for storage of materials which is equipped with guarding and fire safety alarm systems. The newly built shed avoided the use of rented warehouses, thus reducing costs for warehouses by 11% in 2010. The total investments for the construction of the shed were 266 000 lats.





In 2010 a line of bottles of new design was introduced in the production for world famous brand Stolichnaya. The total investments in this project were 300 000 lats of which 175 000 lats were invested for modification of devices in 2010.

New system for accounting of personnel and calculation of salaries was introduced in the Microsoft Dynamic AX environment.



information

AS Latvijas balzams is a stable company with dynamic working environment and growth opportunities. We are focused in the professional and personal development and we are proud of our team. We highly appreciate the professionalism, sense of responsibility and ability to work as a team in our employees.

Number of employees – 634 **Gender proportion:** men 47%, women 53%

Average age of employees – 45,8 **Average length of service in the company** – 9,5 years

Dynamics of the number of employees



Strategy of Personnel Management Increase of competitiveness through improvement of organisational skills, creating excellent work performance culture and facilitating the development of employees:

- To use work performance management as the basic organisational process which will serve us as:
- The motivator of main influence audiences and employees;
- The instrument for assessment of abilities and potential of the present
- The investment in the planning of individual development and training.
- To establish efficient research planning process in order to reduce activity
- To study the fields of main competences of the business and establish appropriate development programmes:
- To develop mentoring/coaching culture;
- To develop salary system which supports medium-term strategy and high work performance culture;
- To develop regional management team in order to achieve strategic targets.

Work Performance and Planning of **Development**

In 2010 the personnel assessment procedures were improved. Work achievement was assessed for 183 (29% of the number of employees) managers and specialists, as well as the targets for activity and individual development were specified. The fulfilment of targets is assessed once in a six-month period. The assessment consists of self-assessment of an employee and assessment of the manager regarding fulfilment of targets, competences of the employee, attitude towards work duties, ability to work in a team and self-development.

Policy for Improvement of Qualification and Development of **Employees**

In 2010 internal and external training was organised for the employees of

- 218 employees or 34% of employees took part in internal training,
- 214 employees or 38% of employees were involved in external training.
- Internal training hours 1879, external 2936, total 4815 or 7.6 hours per employee,
- · Employees of all levels were involved in the training.

Each year the company covers partially study fees for the employees who are studying in the institutions of higher education, taking into account that the specifics of studies comply with the position and work duties of the employee.

In 2010 AS Latvijas balzams ensured 25 field practice places for new specialists. They were students from Riga Business College, University of Latvia, University of Agriculture, Alberta College and Riga State Technical School. In 2010 the information regarding professions and sector knowledge critical for successful operation of the company was gathered. The research programme was developed in order to prepare new specialists for more responsible works in the future, to ensure the transfer and retaining of professional knowledge and competences in the company. Databases for compilation of knowledge are created additionally.

New Employees

An excursion through the company is organised for new employees during which employees are acquainted with the history of the company, technologies, products and different territories. The developed mentoring programme is intended as support for new employees upon commencement of the work in order for them to become familiar with the team and understand the values and operation of the company.

Traditions

AS Latvijas balzams has several annual traditions - exhibition of hobbies, congratulating graduates from the institutions of higher education, celebration of former employees in the end of the year, sports competitions, as well as other recreational measures.

Exhibtion of hobbies is one of the most unique measures in which any employee of the company may take part presenting his or her hobby to others.

Every summer we congratulate graduates from the institutions of higher education – acquirers of bachelor and master diploma. We highly appreciate the desire and efforts of our employees to study, to develop, because we know that it is also investment in the development of the company.

Each year in summer the sports competition is organised when employees may participate in either competitive or amusing sports activities and have a good time together.

Corporate social responsibility

AS Latvijas balzams is a socially responsible company which continuously invests in its development, thus facilitating sustainable development, not compromising the welfare of society and the environment, optimizing production processes, increasing quality standards and creating new products as well as taking care of the welfare of its employees. The Company is one of the biggest taxpayers in the country and a stable employer which cares about the welfare. professional growth and labour safety of its staff.

Society

AS Latvijas balzams is the initiator of the establishment and an active member of the Latvian Spirits Producer and Distributor Association (LADRIA). The goals of LADRIA include not only representing the producers and distributors of alcoholic beverages, but also provision of significant benefits to society. The latest project of the Association is a website www.dzeratbildigi.lv, which informs society about responsible consumption of alcohol. AS Latvijas balzams is also a member of the Latvian Federation of Food Enterprises (LPUF), the Employers' Confederation of Latvia (LDDK), the Union of Spirits Producers and Distributors (ARTA), the Latvian Chamber of Commerce and Industry (LRTK) and the Latvian Association of Personnel Management (LPVA).

Working environment and safety

AS Latvijas balzams is a stable company with a dynamic working environment and growth opportunities.

AS Latvijas balzams complies with all binding laws and regulations as well as all other requirements set forth within the self-control system to ensure a maximally safe working environment. 139 348,- LVL or 0.3% from turnover where spent for labour safety in year 2010.

Market

AS Latvijas balzams involves consumers in taking any significant decisions related to changes of taste or design of the product by carrying out quantitative and quality surveys and considering their opinions.

A toll-free feedback line 80009990 is in operation to receive immediate consumer response. Any consumer may express his/her opinion about the products of AS Latvijas balzams. All received complaints, suggestions and reviews are addressed to the respective specialists of the Company who explore those to their essence and contact the customer, if contact details are provided,

organize comparative tastings and testing. All persons who file their claims will receive an answer in writing. The complaints, suggestions and reviews received over the tollfree line are summarized and the summarized data are analyzed. A report is produced at the end of the

Already in 2005, the Company developed, adopted and complies with the Code of Marketing Ethics which is based on responsible offering of the products of AS *Latvijas balzams* on the market to consumers who have reached the legal age for consumption of alcohol set in Latvia.

Support from society

AS Latvijas balzams is taking part in socially important projects on a regular basis. The priorities of the Company include sustainable and innovative development of the environment as well as areas of national heritage.

Thinking of today, we look responsibly into the future. We support the initiatives that improve the culture of alcohol consumption. Being a producer of alcohol, we want to facilitate a sense of responsibility in the consumers because we care not only for the development of our business, but also for the health of the population of the country. Supporting the initiative of LADRIA, the Chairman of the Board of AS Latvijas balzams initiated a very valuable tradition of educating Latvian youth at schools on responsible consumption of alcohol within the project www.dzeratbildigi.lv.

Corporate social responsibility

Main Events in 2010









Jānis Mažis

is a manager of liqueur workshop; he has been working at AS Latvijas balzams for 36 years. He is a creator-wizard of almost all sweet strong alcoholic beverages produced at AS Latvijas balzams during recent ten years. Jānis can create a beverage almost from any raw material that catches his eye; however he always follows the classical values and traditions kept for centuries. Concerning his work Jānis says:

"The best way not to work is to do what you like. And I do what I like! "



In 2010 the coffee liqueur produced by *AS Latvijas balzams* acquired a gold medal in the liqueur competition organised by The Spirits Business.

In 2010 the pride of *AS Latvijas balzams* Riga Black Balsam was recognised as a truly unique brand in Latvia. The research of brands was organised by the advertising agency "DDB Latvia" in co-operation with the magazine "Kapitāls" and the market, social and media research agency "TNS Latvia", surveying more than 1000 inhabitants of Latvia. This year 622 brands encountered in Latvia were viewed in this research.

Vodka produced by *AS Latvijas balzams* with a private label Dannoff acquired a gold medal for the third year in a row for its excellent taste in the competition organised by The Spirits Business in London.

AS Latvijas balzams obtained Bronze category in Sustainability Index among 70 companies in Latvia, which presents AS Latvijas balzams as a socially responsible and sustainable company. The sustainability index was measured for the first time in Latvia and its methodology was based on the theory of corporate social responsibility, as well as international Dow Jones Sustainability Index the Corporate Responsibility Index by Business in the Community. The silver category was the highest award this year.

A product line of non-alcoholic beverages was developed and is being filled according to MADARA FOOD order. Madara natural drinks are non-alcoholic, lightly sparkling, pleasant, refreshing and without chemical additives. Drinks are composed of natural plant extracts, juices, fructose and slightly sparkling water.



In co-operation with *AS Laima* and *AS Latvijas balzams* a new chocolate product line with Riga Black Balsam and cream liqueur Riga Black Balsam Cream was created. Technologists and quality specialists of *AS Laima* and *AS Latvijas balzams* co-operated in the development group.

At the end of 2010 the homepage of new design was created: www.lb.lv, which is available in three languages at the moment. More detailed information on the company and products is available in new homepage.

Exhibitions



In 2010 AS Latvijas balzams participated in several international exhibitions promoting its products and acquiring new potential cooperation partners, thus increasing export amounts and discovering new export markets.

 From 30 to 31 April in France / Paris, in the exhibition "The Private Label Expo"



 From 18 May to 19 May in Amsterdam/the Netherlands AS Latvijas balzams participated in the exhibition of PLMA "World of Private Label 2010"



 From 8 to 10 December in China / Shanghai AS Latvijas balzams demonstrated its products at the exhibition "Shanghai Private Label Fair 2010"

