

AS “Latvijas balzams”

JOINT STOCK COMPANY LATVIJAS BALZAMS
(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS (*NOT
AUDITED*)

FOR THE FIRST 6 MONTHS OF 2011
PREPARED UNDER LATVIAN ACCOUNTING STANDARD

Riga, 2011

AS “Latvijas balzams”

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 that produces more than 100 different kinds of alcoholic drinks. AS “Latvijas balzams” major shareholder is “SPI Regional Business Unit BV” which owns 89.53% of the company’s equity capital.

The activity of enterprise in 1st half year of 2011

AS “Latvijas balzams” is the biggest producer of alcoholic beverages in Latvia, as well as one of the largest taxpayers in Latvia. During first half of 2011 AS “Latvijas balzams” paid 17.6 millions lats to the state budget, including excise tax amounting to 12.6 millions lats.

The unaudited turnover of the company in the first half of year 2011 was 29.4 million lats, which is by 17% less than in the first half of 2010. Turnover in the domestic market has fallen by 10%, in the export market by 7%, while export orders of "S.P.I. Group" has decreased by 26%. During the first half of year 2011, sales to the EU countries decreased by 13%, sales to Estonia decreased by 14%, sales to Lithuania decreased by 8%. Decrease of sales is related to the increase of excise tax, illegal alcohol trade and decrease of economical activity in the main markets. During the first half of year 2011 the top focus sales markets were Baltic States, Russia, Norway, Poland, Ukraine and Turkey. Meanwhile new export markets were actively acquired, for example, Bulgaria, China, Australia and Kazakhstan.

The Company has paid great attention to production cost control and improvement of productivity, as a result reaching 1.15 million lats unaudited profit, that is 4% less than in the first half of 2010, despite the 17% decrease in turnover.

Future perspectives of activity

Despite the critical economic situation and low purchasing power in Latvia, 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 improvement of production efficiency, 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.

AS Latvijas balzams
Per procura

Ronalds Žarinovs

Riga, August 31, 2011

AS “Latvijas balzams”

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.

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Ronalds Žarinovs

AS “Latvijas balzams”

MANAGEMENT

Names and positions of Council members

Aigars Kalvītis – Chairman of the Council

Valery Mendelev – Vice Chairman of the Council

Pjotrs Aven – Member of the Council

Andrejs Skurihins - Member of the Council until 29.04.2011

David Ronald Surbey – Member of the Council from 29.04.2011

Alexander Kovalev - Member of the Council until 29.04.2011

Blaine Alan Rowlette – Member of the Council from 29.04.2011

Boelem Sebastianus Antonius Theodorus – Member of the Council

Names and positions of Board members

Kārlis Andersons – Chairman of the Board and General director of AS Latvijas balsams until 05.05.2011

Gunita Kronberga – Member of the Board and Chief Financial Officer of AS “Latvijas balzams” until 17.06.2011

Intars Geidāns - Member of the Board and Director of logistics department of AS “Latvijas balzams” from 17.06.2011

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

Sergejs Ļimarenko – Member of the Board
Chief of internal control department of AS Latvijas balzams

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

Reporting period 1 January – 30 June 2011

AS “Latvijas balzams”

Income statement for the period ended June 30, 2011

	Notes	01.01.2011 - 30.06.2011 EUR	01.01.2010 - 30.06.2010 EUR
Net sales	1	41 859 987	50 218 534
Cost of sales	2	(36 267 039)	(43 565 493)
Gross profit or losses		5 592 948	6 653 042
Distribution expenses	3	(2 223 892)	(2 096 377)
Administrative expenses	4	(1 357 464)	(1 545 707)
Other operating income		1 377 821	768 219
Other operating expenses		(1 016 953)	(358 399)
Interest and similar income		543 268	408 527
Interest and similar expenses		(828 388)	(1 671 938)
Profit or losses prior to extraordinary items and taxes		2 087 340	2 157 367
Corporate income tax		(384 532)	(399 730)
Other taxes		(63 485)	(53 527)
Net profit or losses		1 639 322	1 704 111
Earnings per share (in santims)		21,87	22,73

Ronalds Žarinovs
Per procura

AS "Latvijas balzams"

Balance sheet as at June 30, 2011

ASSETS

	2011.06.30 EUR	2010.06.30 EUR
Non-current assets		
Intangible assets		
Concessions, patents, licenses, trademarks and similar rights	6 522	8 707
Total intangible assets:	6 522	8 707
Fixed assets		
Land and buildings	17 398 383	17 886 502
Equipment and machinery	3 872 711	4 456 769
Other fixed assets and equipment	478 482	643 392
Fixed assets under construction	84 768	197 078
Advances for fixed assets	42 400	110 647
Total fixed assets:	21 876 744	23 294 388
Non-current financial investments		
Receivables from group companies	25 300 000	35 300 000
Other securities and investments	34 149	34 149
Total non-current financial investments:	25 334 149	35 334 149
Total non-current assets:	47 217 415	58 637 244
Current assets		
Inventories		
Raw materials and consumables	14 574 083	15 410 030
Work in progress	965 626	693 380
Finished goods and goods for sale	8 375 122	8 279 442
Advances for inventories	466 659	552 201
Total inventories:	24 381 490	24 935 053
Account receivable:		
Trade receivables	398 195	820 633
Receivables from group companies	43 325 146	31 769 389
Other receivables	259 061	169 460
Deferred expenses	189 285	185 138
Total receivables:	44 171 687	32 944 620
Cash and bank:	37 393	27 672
Total current assets:	68 590 570	57 907 345
Total assets	115 807 985	116 544 589

AS "Latvijas balzams"

EQUITY, PROVISIONS AND LIABILITIES

	2011.06.30 EUR	2010.06.30 EUR
Equity		
Share capital	10 667 128	10 667 128
Share premium	87 887	87 887
Non-current investments revaluation reserve	11 860 184	11 875 669
Financial instruments revaluation reserves	(247 921)	(403 313)
Retained earnings		
previous year's retained earnings	38 958 973	33 362 339
current years profit or losses	1 639 322	1 704 111
Total equity:	62 965 572	57 293 819
Liabilities:		
Non-current liabilities:		
Loans from banks	12 808 709	16 550 765
Deferred income tax liabilities	1 899 329	2 002 903
Derivative financial instruments	291 673	474 486
Total non-current liabilities:	14 999 711	19 028 154
Current liabilities:		
Loans from banks	19 919 189	20 843 725
Trade payables	4 405 682	3 155 141
Payables to group companies	1 663 509	825 775
Taxes and social insurance payments	9 918 165	9 149 244
Other liabilities	312 061	349 560
Deferred income	188 560	277 714
Accrued liabilities	1 435 534	5 621 456
Total current liabilities:	37 842 702	40 222 616
Total liabilities:	52 842 413	59 250 770
Total equity, provisions and liabilities	115 807 985	116 544 589

Ronalds Žarinovs
Per procura

AS "Latvijas balzams"

Statement of changes in equity for the period ended June 30, 2011

	Share capital	Share premium	Revaluation reserves of non- current assets	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
2009.12.31	10 667 128	87 887	11 875 669	(403 313)	33 362 339	55 589 708
Increase of share capital	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	1 704 111	1 704 111
2010.06.30	10 667 128	87 887	11 875 669	(403 313)	35 066 450	57 293 819
2010.12.31	10 667 128	87 887	11 860 184	(247 921)	38 958 973	61 326 250
Increase of share capital	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	1 639 322	1 639 322
2011.06.30	10 667 128	87 887	11 860 184	(247 921)	40 598 295	62 965 572

AS "Latvijas balzams"

Cash flow statement for the period ended June 30, 2011

	01.01.2011 - 30.06.2011 EUR	01.01.2010 - 30.06.2010 EUR
Cash flow from operating activities		
Profit or losses before taxes	2 087 340	2 157 367
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	1 123 258	1 148 184
profit from disposal of fixed assets	1 733	5 716
changes in provisions	40 067	74 627
foreign exchange (gains)/losses	-	418 669
interest expenses	746 705	816 691
interest income	(543 268)	(403 275)
Cash flow prior to changes in current assets and liabilities	3 455 834	4 217 978
 Inventory (increase)/decrease	 (1 460 053)	 1 119 059
Account receivable (increase)/decrease	4 392 293	(1 599 405)
Account payable increase/(decrease)	(3 024 601)	(1 582 882)
Gross cash flow generated from operating activities	3 363 473	2 154 750
Interest payments	(745 145)	(816 691)
Corporate income tax paid	(685 705)	(1 077 690)
Net cash flow generated from operating activities	1 932 623	260 368
 Cash flow from investing activities		
Acquisition of fixed and intangible assets	(260 761)	(165 461)
Loans issued	-	(620 372)
Loans interest received	21 168	14 781
Net cash flow generated from investing activities	(239 593)	(771 053)
 Cash flow from financing activities		
Changes in credit lines	400 716	2 115 171
Borrowings repaid	(2 202 899)	(2 149 423)
Net cash flow generated from financing activities	(1 802 182)	(34 252)
Net increase / (decrease) in cash and cash equivalents	(109 153)	(544 936)
 Cash and cash equivalents at the beginning of the financial year	146 546	572 608
 Cash and Cash equivalents at the end of the financial year	37 393	27 672

AS “Latvijas balzams”

	01.01.2011 – 30.06.2011	01.01.2010 – 30.06.2010
	EUR	EUR
1. Net sales		
Sales of drinks in local market	22 890 207	25 319 017
Export of drinks and services	18 927 703	24 893 630
Other sales (spirits, raw materials)	42 076	5 888
TOTAL	41 859 987	50 218 534

2. Cost of Sales

Materials	33 229 417	38 662 575
Salary expenses	1 030 854	1 003 457
Energy resources	406 547	370 537
Mandatory state social insurance contributions	246 460	240 383
Natural recourse tax	146 730	162 348
Changes in accrued expenses on unused annual leave	4 592	42 731
Changes of inventory value of finished goods	(1 320 618)	73 724
Goods purchased	12 132	31 358
Other variable costs	395 415	681 279
Variable costs total:	34 151 528	41 268 392
Depreciation of non-current assets	906 529	923 346
Salary expenses	550 610	553 403
Services for production needs	110 398	333 714
Repair expenses	252 796	203 848
Mandatory state social insurance contributions	130 727	131 460
Insurance payments	48 835	47 332
Laboratory expenses	23 460	20 983
Changes in accrued expenses on unused annual leave	20 189	8 411
Other production expenses	71 966	74 603
Fixed costs total:	2 115 511	2 297 100
TOTAL	36 267 039	43 565 493

3. Distribution expenses

Advertising expenses	609 164	543 427
Salary expenses	701 940	699 945
Transportation expenses	308 871	282 811
Mandatory state social insurance contributions	167 801	167 175
Depreciation of non-current assets	144 151	149 034
Warehouse maintenance expenses	92 875	81 811
Changes in accrued expenses on unused annual leave	22 671	11 979
Other distribution expenses	176 419	160 195
TOTAL	2 223 892	2 096 377

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4. Administrative expenses	01.01.2011 – 30.06.2011	01.01.2010 – 30.06.2010
	EUR	EUR
Salary expenses	673 854	710 413
Management services	219 703	243 413
Mandatory state social insurance contributions	160 797	166 189
Professional fees	46 493	48 191
Depreciation of non-current assets	45 654	51 667
Representations	12 279	55 449
Office expenses	26 374	30 686
Communication and postal expenses	23 449	29 328
Business trips	13 372	17 552
IT maintenance	14 742	9 685
Financial help, sponsorship	-	29 880
Transportation	16 529	15 131
Healthcare, health insurance	2 830	4 470
Personnel education and trainings	3 298	3 598
Changes in accrued expenses on unused annual leave	-3 312	41 786
Other administrative expenses	101 402	88 269
	1 357 464	1 545 707

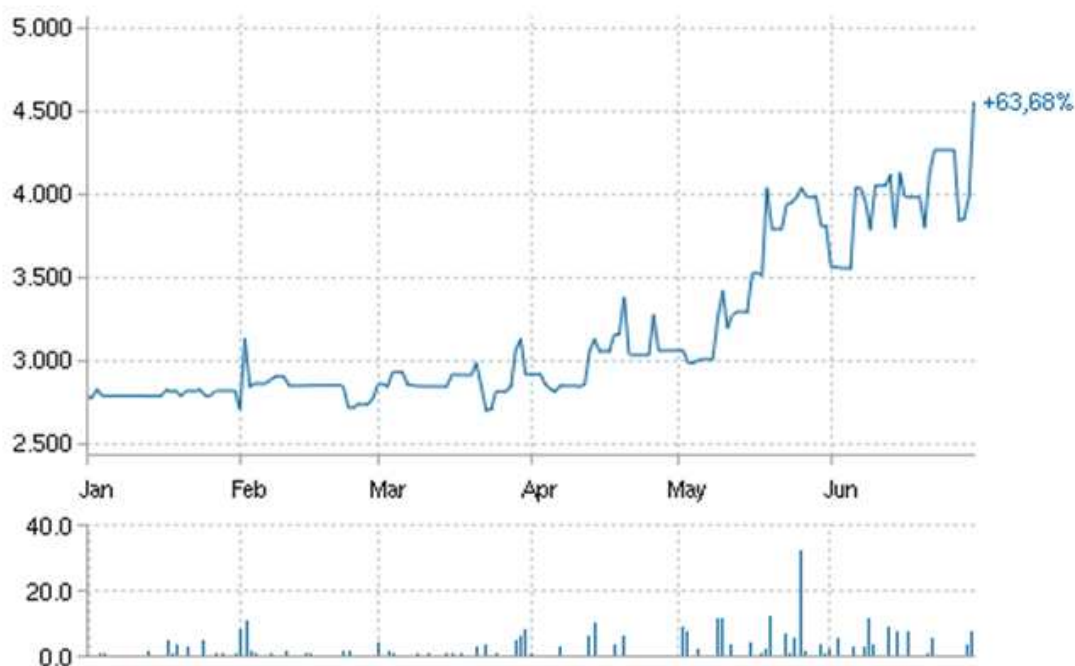
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Shares

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 01.01.11 – 30.06.11



Currency: EUR

Open	2,803 EUR
Max	4,553 EUR
Min	2,702 EUR
Last	4,553 EUR
Change	63,683 %
Deals	559
No of shares traded	85 963
Turnover	293 742,80 EUR