

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(NOT AUDITED)*

FOR THE FIRST 6 MONTHS OF 2012

PREPARED UNDER LATVIAN ACCOUNTING STANDARDS

Riga, 2012

Management report

Field of activity

The enterprise was founded in 1900, but the actual name it has got in 1970. AS "Latvijas balzams" is the leading producer of alcoholic beverages in the Baltic States that produces more than 100 different kinds of alcoholic drinks. Our products can be found in more than 30 countries as the direct export of „Latvijas balzams” and in more than 160 countries via the export of the SPI group. The major shareholder of AS “Latvijas balzams” is SPI Regional Business Unit BV which owns 89.53% of the company’s equity capital.

The activity of enterprise in year 2012 first half

AS Latvijas balzams is the leading producer of alcoholic beverages in Latvia, as well as one of the largest taxpayers in Latvia. During first half of 2012 AS Latvijas balzams paid 16.1 millions lats to the state budget, including excise tax amounting to 11.2 millions lats.

The unaudited turnover of the company in the first half of 2012 was 31.7 million lats, which is by 8% more than in the first half of 2011. Turnover in the domestic market has risen by 10%, in the export market by 10.6%, and export orders of S.P.I. Group has increased by 6%. During the first half of 2012, sales to the EU countries were in the same level as last year, sales to Ukraine increased by 53%, to Russia by 45% , to Latvia’s tax free zone increased by 38% and significantly sales increased to Germany. Increase in sales was affected by strengthening targeted market relations with partners in the main markets. During the first half of 2012 the top focus sales markets were the Baltic States, Russia, Ukraine and Scandinavia. Meanwhile, new export markets were actively acquired, for example, Croatia and Georgia.

The unaudited profit for the reporting period was 1,1 million lats, that is 3% less than in the first half of 2011. Decrease in profit comparing to the first half of 2011 were caused by the increase in raw material costs and by difference of total sales distribution between product categories.

Future perspectives of activity

The company has thus improving product portfolio and since the beginning of the year “Latvijas balzams” has successfully introduced more than 10 new products.

Increased attention will be put on development of new competitive products, extension of the existing market share, as well growth in export market. AS Latvijas balzams 2012 priorities will be further control of production and logistics costs, optimization and improvement of production efficiency, increase of company's competitiveness, analysis of potential export markets.

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 and following the principles of sustainable business.

AS Latvijas balzams
Chairman of the Board



Guntis Āboliņš - Āboliņš

Rīga, August 10, 2012

Rīga
10.08.2012.

Declaration of Management Responsibility

Management of the 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.

AS Latvijas balzams
Chairman of the Board



Guntis Āboliņš - Āboliņš

MANAGEMENT

Names and positions of Council members

Aigars Kalvītis – Chairman of the Council

Valery Mendelev – Vice Chairman of the Council

Pjotrs Avens – Member of the Council

David Ronald Surbey – Member of the Council

Blain Alan Rowlette – 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 AS Latvijas balzams

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

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

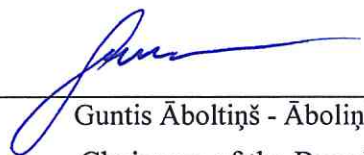
Signe Bīdermane – Member of the Board
Director of human resources department of AS Latvijas balzams

Reporting period

1 January – 30 June 2012

Income statement for the period ended June 30, 2012

	Notes	01.01.2012 - 30.06.2012 LVL	01.01.2011 - 30.06.2011 LVL
Net sales	1	31 706 749	29 419 366
Cost of sales	2	(28 192 343)	(25 488 620)
Gross profit or losses		3 514 406	3 930 746
Distribution expenses	3	(1 385 154)	(1 562 960)
Administrative expenses	4	(1 096 444)	(954 031)
Other operating income		746 948	968 338
Other operating expenses		(517 514)	(714 719)
Interest and similar income		585 122	381 811
Interest and similar expenses		(416 068)	(582 194)
Profit or losses prior to extraordinary items and taxes		1 431 297	1 466 991
Corporate income tax		(261 987)	(270 251)
Other taxes		(52 416)	(44 618)
Net profit or losses		1 116 893	1 152 122
Earnings per share (in santims)		14.90	15.37



Guntis Āboliņš - Āboliņš
Chairman of the Board

Balance sheet as at June 30, 2012

ASSETS

30.06.2012 30.06.2011
LVL LVL

Non-current assets

Intangible assets

Concessions, patents, licenses, trademarks and similar rights

Total intangible assets:

26 447	4 584
<u>26 447</u>	<u>4 584</u>

Fixed assets

Land and buildings

Equipment and machinery

Other fixed assets and equipment

Fixed assets under construction

Advances for fixed assets

Total fixed assets:

11 179 928	12 227 653
2 012 181	2 721 757
244 973	336 279
55 938	59 575
68 121	29 799
<u>13 561 140</u>	<u>15 375 063</u>

Non-current financial investments

Receivables from group companies

Other securities and investments

Total non-current financial investments:

17 780 941	17 780 941
24 000	24 000
<u>17 804 941</u>	<u>17 804 941</u>

Total non-current assets:

<u>31 392 528</u>	<u>33 184 588</u>
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Current assets

Inventories

Raw materials and consumables

Work in progress

Finished goods and goods for sale

Advances for inventories

Total inventories:

10 355 705	10 242 724
560 000	678 646
4 704 457	5 886 069
438 545	327 970
<u>16 058 707</u>	<u>17 135 409</u>

Account receivable:

Trade receivables

Receivables from group companies

Other receivables

Deferred expenses

Total receivables:

354 597	279 853
35 049 113	30 449 086
721 931	182 069
117 061	133 030
<u>36 242 701</u>	<u>31 044 038</u>

Cash and bank:

18 223	26 280
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Total current assets:

<u>52 319 632</u>	<u>48 205 727</u>
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Total assets

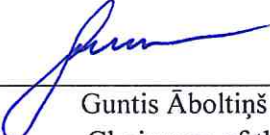
<u>83 712 160</u>	<u>81 390 315</u>
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Guntis Āboliņš - Āboliņš
Chairman of the Board

EQUITY, PROVISIONS AND LIABILITIES

	30.06.2012	30.06.2011
	LVL	LVL
Equity		
Share capital	7 496 900	7 496 900
Share premium	61 767	61 767
Non-current investments revaluation reserve	8 095 573	8 335 385
Financial instruments revaluation reserves	(48 535)	(174 240)
Retained earnings		
previous year's retained earnings	31 032 385	27 380 522
current years profit or losses	1 116 893	1 152 122
Total equity:	47 754 983	44 252 456
Liabilities:		
Non-current liabilities:		
Loans from banks	4 348 612	9 002 012
Other borrowings	10 000	-
Deferred income tax liabilities	1 340 948	1 334 856
Derivative financial instruments	-	204 989
Total non-current liabilities:	5 699 560	10 541 857
Current liabilities:		
Loans from banks	14 924 004	13 999 286
Other borrowings	2 871	-
Advances from customers	3 926	-
Trade payables	2 722 241	3 096 331
Payables to group companies	1 937 728	1 169 121
Taxes and social insurance payments	9 103 857	6 970 526
Other liabilities	214 858	219 318
Deferred income	71 067	132 521
Accrued liabilities	1 219 963	1 008 899
Derivative financial instruments	57 101	-
Total current liabilities:	30 257 617	26 596 002
Total liabilities:	35 957 177	37 137 859
Total equity, provisions and liabilities	83 712 160	81 390 315



Guntis Āboliņš - Āboliņš
Chairman of the Board

Statement of changes in equity for the period ended June 30, 2012

	Share capital	Share premium	Revaluation reserves of non-current assets	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	LVL	LVL	LVL	LVL	LVL	LVL
31.12.2010	7 496 900	61 767	8 335 385	(174 240)	27 380 522	43 100 334
Increase of share capital	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	1 152 122	1 152 122
30.06.2011	7 496 900	61 767	8 335 385	(174 240)	28 532 644	44 252 456
31.12.2011	7 496 900	61 767	8 095 573	(48 535)	31 032 385	46 638 090
Increase of share capital	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	1 116 893	1 116 893
30.06.2012	7 496 900	61 767	8 095 573	(48 535)	32 149 278	47 754 983

Cash flow statement for the period ended June 30, 2012

	01.01.2012 - 30.06.2012 LVL	01.01.2011 - 30.06.2011 LVL
Cash flow from operating activities		
Profit or losses before taxes	1 431 297	1 466 991
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	761 587	789 430
profit from disposal of fixed assets	2 959	1 218
changes in provisions	77 668	28 159
interest expenses	442 496	524 787
interest income	(585 122)	(381 811)
Cash flow prior to changes in current assets and liabilities	2 130 885	2 428 774
 Inventory (increase)/decrease	 (330 163)	 (1 026 131)
Account receivable (increase)/decrease	796 730	3 086 921
Account payable increase/(decrease)	926 851	(2 125 702)
Gross cash flow generated from operating activities	3 524 303	2 363 862
Interest payments	(441 833)	(523 691)
Corporate income tax paid	(303 049)	(481 916)
Net cash flow generated from operating activities	2 779 421	1 358 255
 Cash flow from investing activities		
Acquisition of fixed and intangible assets	(120 198)	(183 264)
Loans interest received	15 291	14 877
Net cash flow generated from investing activities	(104 907)	(168 387)
 Cash flow from financing activities		
Changes in credit lines	(924 660)	281 625
Borrowings repaid	(1 901 875)	(1 548 206)
Loans received	150 000	-
Financial leasing	(2 814)	-
Net cash flow generated from financing activities	(2 679 349)	(1 266 581)
Net increase / (decrease) in cash and cash equivalents	(4 835)	(76 713)
 Cash and cash equivalents at the beginning of the financial year	23 058	102 993
 Cash and Cash equivalents at the end of the financial year	18 223	26 280

	01.01.2012 – 30.06.2012	01.01.2011 – 30.06.2011
	LVL	LVL
1. Net sales		
Sales of drinks in local market	17 630 713	16 087 329
Export of drinks and services	14 062 553	13 302 466
Other sales (spirits, raw materials)	13 483	29 571
TOTAL	31 706 749	29 419 366

2. Cost of Sales

Materials	24 765 443	23 353 767
Salary expenses	757 465	724 488
Energy resources	380 689	285 723
Mandatory state social insurance contributions	180 386	173 213
Natural recourse tax	105 612	103 122
Changes in accrued expenses on unused annual leave	43 360	3 227
Changes of inventory value of finished goods	291 200	(928 136)
Goods purchased	14 581	8 526
Other variable costs	208 932	277 899
Variable costs total:	26 747 668	24 001 831
Depreciation of non-current assets	601 266	637 113
Salary expenses	396 086	386 971
Services for production needs	72 360	77 588
Repair expenses	137 093	177 666
Mandatory state social insurance contributions	93 373	91 875
Insurance payments	37 724	34 321
Laboratory expenses	16 313	16 488
Changes in accrued expenses on unused annual leave	20 849	14 189
Other production expenses	69 611	50 578
Fixed costs total:	1 444 675	1 486 790
TOTAL	28 192 343	25 488 620

3. Distribution expenses

Advertising expenses	170 103	428 123
Salary expenses	519 194	493 326
Transportation expenses	216 693	217 076
Mandatory state social insurance contributions	124 110	117 931
Depreciation of non-current assets	98 574	101 310
Warehouse maintenance expenses	61 110	65 273
Changes in accrued expenses on unused annual leave	35 365	15 933
Other distribution expenses	160 006	123 988
TOTAL	1 385 154	1 562 960

4. Administrative expenses

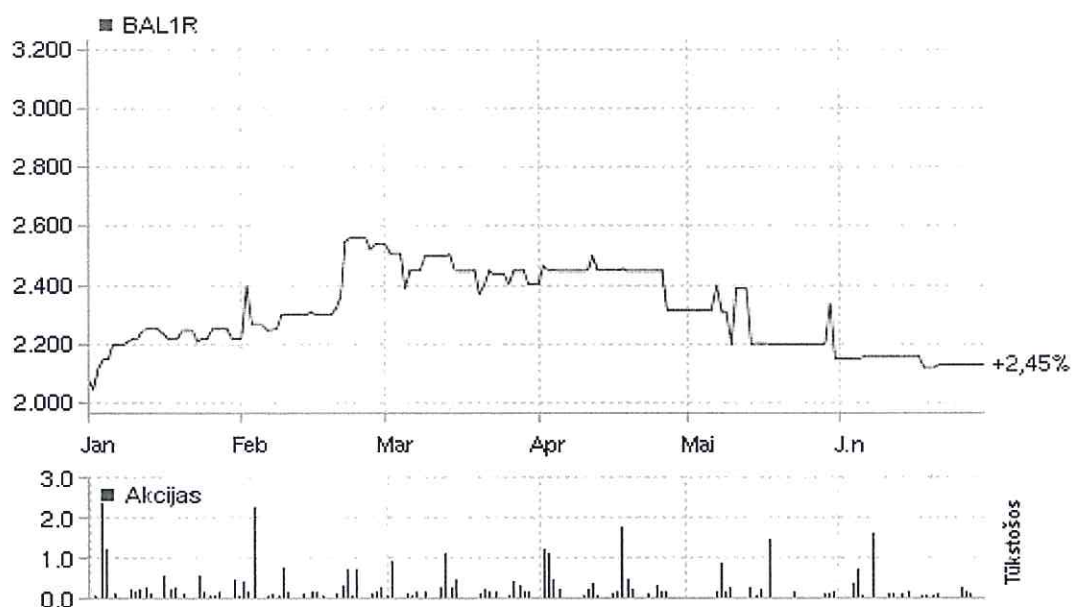
	01.01.2012 – 30.06.2012	01.01.2011 – 30.06.2011
	LVL	LVL
Salary expenses	504 485	473 587
Management services	176 028	154 408
Mandatory state social insurance contributions	119 495	113 009
Professional fees	31 371	32 675
Depreciation of non-current assets	33 247	32 086
Representations	17 859	8 630
Office expenses	23 573	18 535
Communication and postal expenses	16 012	16 480
Business trips	6 787	9 398
IT maintenance	3 953	10 361
Financial help, sponsorship	3 000	-
Transportation	8 457	11 617
Healthcare, health insurance	2 466	1 989
Personnel education and trainings	16 183	2 318
Changes in accrued expenses on unused annual leave	29 404	(2 328)
Other administrative expenses	104 125	71 266
	1 096 444	954 031

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 01.01.12 – 30.06.12



Currency: LVL

Open	2.047 LVL
Max	3.110 LVL
Min	2.016 LVL
Last	2.130 LVL
Change	2.45 %
Deals	543
No of shares traded	33 635
Turnover	78 264.84 LVL