

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

**CONDENSED FINANCIAL STATEMENTS** *(NOT AUDITED)*  
FOR THE YEAR OF 2012

PREPARED UNDER LATVIAN ACCOUNTING STANDARDS

Riga, 2012

## Management report

### Field of activity

The enterprise was founded in 1900, but received its current name in 1970. JSC “Latvijas balzams” is the leading producer of alcoholic beverages in the Baltic states, and produces more than 100 different kinds of alcoholic drinks. 75% of our products can be found in more than 160 countries via SPI Group exports and in more than 30 countries as the direct export of JSC “Latvijas balzams”. The major shareholder of JSC “Latvijas balzams” is SPI Regional Business Unit BV which owns 89.53% of the company’s equity capital.

### Enterprise activity in 2012

JSC “Latvijas balzams” is the leading producer of alcoholic beverages in Latvia, as well as one of the largest taxpayers in Latvia. During 2012, JSC “Latvijas balzams” paid 36.4 millions lats to the state budget, including excise taxes amounting to 25.5 millions lats.

The unaudited turnover of the company reached 70.0 million lats in 2012, which is 3% more than for 2011. This has been achieved through developing new products, good sales results and cohesive teamwork where everyone plays an important role. Turnover in the domestic market increased by 6.4%, and in the export market dropped by 13%. Export orders of SPI Group have increased by 2.8%. In 2012, JSC “Latvijas balzams” continued to implement previously realized strategies in key markets and maintain similar sales to major customers abroad. The most significant increase in sales was achieved in important markets such as Russia, Ukraine, and retail travel channel. In some countries, like Lithuania, Estonia, and Poland, there was a decrease in sales compared with the previous year, due to customer order flow specifics. The significant customer order flow redistribution of private labels between multiple markets has been reflected in the decrease of volume in The Netherlands and the increase of volume in Germany, keeping total sales stable. Meanwhile, new export markets were actively acquired, such as Georgia and Kazakhstan.

The unaudited profit for 2012 was 4.07 million lats, which represents 11.53% growth versus 2011. The result was achieved through focused development of the beverage portfolio.

For JSC “Latvijas balzams”, 2012 has been a great year for introducing new products; namely, the enterprise has started to develop and produce eighteen new products that successfully compete with domestic and imported products. At the end of 2012, JSC “Latvijas balzams” began to produce an innovative product - Riga Black Vodka.

JSC “Latvijas balzams” main pride - "Riga Black Balsam" - has produced excellent sales results. Total sales of “Riga Black Balsam” and “Riga Black Balsam Currant” products in the domestic and export markets increased by 19% achieving 1,205,932 liters. "Riga Black Balsam Currant" was particularly successful in 2012, for which sales performance in the export markets increased by 61%, while in the domestic market 52%. The enterprise has identified potential for increasing sales in 2013 by developing new projects both in the domestic market as well as in European and other markets.

In 2012, JSC “Latvijas balzams” consistently continued to implement responsible and sustainable development-oriented business strategy. The enterprise has received the Silver Medal in the Sustainability Index, which evaluated the processes and achievements that have been introduced in the enterprise highly.

JSC “Latvijas balzams” has received a special award from the Ministry of Welfare of Latvia for being a “Senior-friendly company”. This acknowledges JSC “Latvijas balzams” expertise and the quality of its social programmes for supporting employees.

JSC “Latvijas balzams” implements an ambitious and open communication with the public and the media regularly and informs for the latest developments, innovations, achievements and related issues.

### **Future outlook of activities**

JSC “Latvijas balzams” will continue to focus on development of competitive products, retain existing market share, and grow in export markets. This is not possible without a focused and knowledgeable team. In 2012, JSC “Latvijas balzams” supplemented its existing team with new employees, and congratulated those who have worked with the enterprise for twenty years or more. The value of the enterprise lies with its employees.

JSC “Latvijas balzams” priorities for 2013 include further control of production and logistics costs, optimization and improvement of production efficiency, increasing the company's competitiveness, and analysis and planning of potential export development opportunities.

JSC “Latvijas balzams” will continue to support nature-friendly solutions, persistently improving activities that decrease the company's negative impact on the environment, establishing high requirements for itself and company partners, and following the principles of sustainable business.

JSC Latvijas balzams  
Chairman of the Board



Guntis Āboliņš - Āboliņš

Riga, 28 February 2013

Riga  
28.02.2013.

## **Declaration of Management Responsibility**

Company Management declares that in accordance with the information in their possession, the condensed financial statements presented were prepared under actual laws and regulations and represent truthful and clear information on company assets, equity, liabilities, financial situation and profit or loss.

The Management Report contains truthful information.

JSC Latvijas balzams  
Chairman of the Board



Guntis Āboltiņš - 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 until  
28.12.2012.

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<sup>st</sup> January – 31<sup>st</sup> December 2012

## Income statement for the period ended December 31st, 2012


	Notes	01.01.2012 - 31.12.2012 EUR	01.01.2011 - 31.12.2011 EUR
Net sales	1	99 632 758	96 380 218
Cost of sales	2	(86 715 858)	(83 374 458)
<b>Gross profit or losses</b>		<b>12 916 900</b>	<b>13 005 761</b>
Distribution expenses	3	(3 877 657)	(4 785 999)
Administrative expenses	4	(3 103 491)	(2 802 817)
Other operating income		2 730 642	2 900 662
Other operating expenses		(2 042 935)	(1 156 676)
Interest and similar income		1 549 648	1 129 445
Interest and similar expenses		(869 304)	(1 850 986)
<b>Profit or losses prior to extraordinary items and taxes</b>		<b>7 303 804</b>	<b>6 439 390</b>
Corporate income tax		(1 359 382)	(1 116 254)
Other taxes		(149 162)	(127 004)
<b>Net profit or losses</b>		<b>5 795 260</b>	<b>5 196 132</b>
Earnings per share (in santims)		77.30	69.31

  
Guntis Āboliņš - Āboliņš  
Chairman of the Board

## Balance sheet as at December 31st, 2012

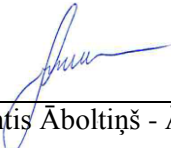
### ASSETS

	31.12.2012 EUR	31.12.2011 EUR
<b>Non-current assets</b>		
<b>Intangible assets</b>		
Concessions, patents, licenses, trademarks and similar rights	31 661	40 951
<b>Total intangible assets:</b>	<b>31 661</b>	<b>40 951</b>
<b>Fixed assets</b>		
Land and buildings	15 497 380	16 348 436
Equipment and machinery	2 644 153	3 353 413
Other fixed assets and equipment	328 475	415 905
Fixed assets under construction	77 276	78 512
Advances for fixed assets	8 745	13 001
<b>Total fixed assets:</b>	<b>18 556 029</b>	<b>20 209 267</b>
<b>Non-current financial investments</b>		
Receivables from group companies	25 300 000	25 300 000
Other securities and investments	34 149	34 149
<b>Total non-current financial investments:</b>	<b>25 334 149</b>	<b>25 334 149</b>
<b>Total non-current assets:</b>	<b>43 921 839</b>	<b>45 584 367</b>
<b>Current assets</b>		
<b>Inventories</b>		
Raw materials and consumables	15 206 543	13 810 734
Work in progress	631 251	2 406 481
Finished goods and goods for sale	7 637 117	5 718 843
Advances for inventories	232 449	559 685
<b>Total inventories:</b>	<b>23 707 361</b>	<b>22 495 742</b>
<b>Account receivable:</b>		
Trade receivables	891 485	984 732
Receivables from group companies	55 092 463	50 334 241
Other receivables	229 204	486 378
Deferred expenses	109 874	80 689
<b>Total receivables:</b>	<b>56 323 026</b>	<b>51 886 041</b>
<b>Cash and bank:</b>	<b>92 899</b>	<b>32 809</b>
<b>Total current assets:</b>	<b>80 123 286</b>	<b>74 414 592</b>
<b>Total assets</b>	<b>124 045 125</b>	<b>119 998 959</b>

  
 Guntis Āboliņš - Āboliņš  
 Chairman of the Board

**EQUITY, PROVISIONS AND LIABILITIES**

	<b>31.12.2012</b>	<b>31.12.2011</b>
	<b>EUR</b>	<b>EUR</b>
<b>Equity</b>		
Share capital	10 667 128	10 667 128
Share premium	87 887	87 887
Non-current investments revaluation reserve	11 518 963	11 518 963
Financial instruments revaluation reserves	-	(69 059)
Retained earnings		
previous year's retained earnings	44 155 106	38 958 973
current years profit or losses	5 795 260	5 196 132
<b>Total equity:</b>	<b>72 224 343</b>	<b>66 360 023</b>
<b>Liabilities:</b>		
<b>Non-current liabilities:</b>		
Loans from banks	5 137 518	6 769 946
Other borrowings	5 806	14 228
Deferred income tax liabilities	1 920 184	1 907 997
<b>Total non-current liabilities:</b>	<b>7 063 509</b>	<b>8 692 172</b>
<b>Current liabilities:</b>		
Loans from banks	20 561 115	24 674 315
Other borrowings	11 359	8 090
Advances from customers	11 394	8 641
Trade payables	5 162 202	5 770 326
Payables to group companies	1 795 301	2 166 611
Taxes and social insurance payments	15 650 343	10 711 806
Other liabilities	292 308	285 469
Deferred income	34 416	106 910
Accrued liabilities	1 238 836	1 133 351
Derivative financial instruments	-	81 247
<b>Total current liabilities:</b>	<b>44 757 274</b>	<b>44 946 764</b>
<b>Total liabilities:</b>	<b>51 820 782</b>	<b>53 638 935</b>
<b>Total equity, provisions and liabilities</b>	<b>124 045 125</b>	<b>119 998 959</b>

  
 Guntis Āboltniš - Āboliņš  
 Chairman of the Board



## Statement of changes in equity for the period ended December 31st, 2012

	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
<b>31.12.2010</b>	<b>10 667 128</b>	<b>87 887</b>	<b>11 860 184</b>	<b>(247 922)</b>	<b>38 958 973</b>	<b>61 326 250</b>
Increase of share capital	-	-	-	210 427	-	210 427
Revaluation	-	-	60 216	(31 564)	-	28 652
Disposal of revalued fixed assets	-	-	(401 438)	-	-	(401 438)
Profit for the year	-	-	-	-	5 196 132	5 196 132
<b>31.12.2011</b>	<b>10 667 128</b>	<b>87 887</b>	<b>11 518 963</b>	<b>(69 059)</b>	<b>44 155 106</b>	<b>66 360 024</b>
<b>31.12.2011</b>	<b>10 667 128</b>	<b>87 887</b>	<b>11 518 963</b>	<b>(69 059)</b>	<b>44 155 106</b>	<b>66 360 024</b>
Increase of share capital	-	-	-	69 059	-	69 059
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	5 795 260	5 795 260
<b>31.12.2012</b>	<b>10 667 128</b>	<b>87 887</b>	<b>11 518 963</b>	<b>0</b>	<b>49 950 366</b>	<b>72 224 343</b>

## Cash flow statement for the period ended December 31st

	<b>01.01.2012 - 31.12.2012</b>	<b>01.01.2011 - 31.12.2011</b>
	<b>EUR</b>	<b>EUR</b>
<b>Cash flow from operating activities</b>		
Profit or losses before taxes	7 303 804	6 867 582
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	2 121 149	2 257 573
profit from disposal of fixed assets	10 662	7 407
changes in provisions	38 437	1 118 490
foreign exchange (gains)/losses	-	39 019
interest expenses	1 058 413	1 493 119
interest income	1 528 450	(1 066 441)
<b>Cash flow prior to changes in current assets and liabilities</b>	<b>12 060 916</b>	<b>10 716 749</b>
Inventory (increase)/decrease	(1 017 100)	(206 555)
Account receivable (increase)/decrease	(6 230 481)	(2 684 515)
Account payable increase/(decrease)	3 254 293	(1 932 671)
<b>Gross cash flow generated from operating activities</b>	<b>8 067 628</b>	<b>5 893 007</b>
Interest payments	(1 056 420)	(1 483 728)
Corporate income tax paid	(965 895)	(1 349 611)
<b>Net cash flow generated from operating activities</b>	<b>6 045 313</b>	<b>3 059 668</b>
<b>Cash flow from investing activities</b>		
Acquisition of fixed and intangible assets	(469 283)	(394 752)
Loans interest received	30 465	47 384
<b>Net cash flow generated from investing activities</b>	<b>(438 818)</b>	<b>(347 367)</b>
<b>Cash flow from financing activities</b>		
Changes in credit lines	(994 856)	1 898 509
Borrowings repaid	213 431	298 803
Loans received	(4 750 773)	(5 023 351)
Financial leasing	(14 206)	-
<b>Net cash flow generated from financing activities</b>	<b>(5 546 404)</b>	<b>(2 826 038)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>60 091</b>	<b>(113 737)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>32 809</b>	<b>146 546</b>
<b>Cash and Cash equivalents at the end of the financial year</b>	<b>92 899</b>	<b>32 809</b>

	01.01.2012 – 31.12.2012	01.01.2011 – 31.12.2011
	EUR	EUR
<b>1. Net sales</b>		
Sales of drinks in local market	56 612 209	53 228 287
Export of drinks and services	42 972 433	43 067 495
Other sales (spirits, raw materials)	48 116	84 436
<b>TOTAL</b>	<b>99 632 758</b>	<b>96 380 218</b>

## 2. Cost of Sales

Materials	78 190 819	74 424 847
Salary expenses	2 275 377	2 161 517
Energy resources	1 001 908	826 506
Mandatory state social insurance contributions	542 012	516 462
Natural recourse tax	367 043	334 092
Changes in accrued expenses on unused annual leave	27 855	(16 756)
Changes of inventory value of finished goods	(333 545)	(472 871)
Goods purchased	53 417	36 213
Other variable costs	580 110	1 341 700
<b>Variable costs total:</b>	<b>82 704 996</b>	<b>79 151 711</b>
Depreciation of non-current assets	1 689 008	1 820 864
Salary expenses	1 134 669	1 105 673
Services for production needs	378 333	487 506
Repair expenses	266 967	262 417
Mandatory state social insurance contributions	198 877	222 526
Insurance payments	108 333	104 739
Laboratory expenses	52 658	58 241
Changes in accrued expenses on unused annual leave	8 596	(3 022)
Other production expenses	173 421	163 803
<b>Fixed costs total:</b>	<b>4 010 862</b>	<b>4 222 747</b>
<b>TOTAL</b>	<b>86 715 858</b>	<b>83 374 458</b>

## 3. Distribution expenses

Advertising expenses	464 491	1 456 222
Salary expenses	1 526 319	1 426 556
Transportation expenses	660 537	658 609
Mandatory state social insurance contributions	364 671	340 758
Depreciation of non-current assets	277 088	287 579
Warehouse maintenance expenses	148 672	180 523
Changes in accrued expenses on unused annual leave	1 745	(11 270)
Other distribution expenses	434 134	447 022
<b>TOTAL</b>	<b>3 877 657</b>	<b>4 785 999</b>

<b>4. Administrative expenses</b>	<b>01.01.2012 – 31.12.2012</b>	<b>01.01.2011 – 31.12.2011</b>
	<b>EUR</b>	<b>EUR</b>
Salary expenses	1 472 153	1 322 397
Management services	572 093	506 838
Mandatory state social insurance contributions	348 856	315 480
Professional fees	108 959	90 301
Depreciation of non-current assets	93 511	93 882
Representations	51 260	42 305
Office expenses	61 923	70 067
Communication and postal expenses	45 949	45 975
Business trips	24 895	30 804
IT maintenance	10 925	32 476
Financial help, sponsorship	9 269	8 765
Transportation	23 819	22 013
Healthcare, health insurance	7 217	6 281
Personnel education and trainings	31 012	25 657
Changes in accrued expenses on unused annual leave	(50 825)	(25 712)
Other administrative expenses	292 478	215 286
	<b>3 103 491</b>	<b>2 802 817</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, OMXRGI

### JSC “Latvijas balzams” share price development for the period 01.01.12 – 31.12.12



Currency: EUR

Open	2.913 EUR
Max	4.425 EUR
Min	1.992 EUR
Last	2.191 EUR
Change	-25.93 %
Deals	1 673
No of shares traded	113 485
Turnover	326 856 EUR