

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(NOT AUDITED)*

FOR THE FIRST 6 MONTHS OF 2014

PREPARED UNDER LATVIAN ACCOUNTING STANDARDS

Riga, 2014

Management Report

Type of Operations

The Company was established in 1900 and operates under the current name since 1970. The major shareholder of JSC Latvijas balzams is *SPI Regional Business Unit BV* which owns 89.53% of the Company's equity capital.

JSC Latvijas balzams is the largest producer of alcoholic beverages in the Baltic States with a range of more than 100 different products. 73% of our production is exported to more than 160 export markets, as mediated by SPI group, and an additional 30 markets via the Company's direct export route.

The Company's Activity in the First Half of 2014

The unaudited turnover of the Company in the first half of 2014 was 45.1 million Euros, which is 2.5% less than in the first half of 2013. The turnover in the domestic market decreased by 2.2% due to changes in the beverage portfolio. Also the export by the orders of *SPI Group* has decreased by 3.5%. The most significant increase in sales was achieved in the Baltic countries and in Retail Travel and Duty-free market (+13%).

The unaudited profit for the reporting period reached 2.6 million Euros, which represents 27% growth *versus* the first half of 2013. The result was achieved through focused development of the beverage portfolio and production process efficiency.

During the first half of 2014, JSC Latvijas balzams paid 24.4 million Euros into the state budget, including excise tax, amounting to 17.7 million Euros.

Outlook of Future Activities

The main objectives for this year for the Company has been to focus on the new and competitive products for both domestic and export markets, ongoing implementation of sustainable export strategy and development of strong international brands.

By active participation in the Industry Association, the Company will represent the interests of industry in the dialogue with legislators and law enforcement institutions, and promote advised policy development in the alcohol market. The Company, as a member of the Latvian Alcoholic Beverage Industry Association, will continue to focus on combat distribution of non-commercial alcoholic beverages in Latvia.

To ensure sustainable development of the Company, production efficiency, cost control and process optimization in logistics, implementation of innovative and environmentally friendly solutions will remain the key focus areas to increase the Company's competitiveness.

JSC Latvijas balzams
Chairman of the Board



Guntis Āboliņš – Āboliņš

Rīga, August 22nd, 2014

Rīga
22.08.2014.

Declaration of Management Responsibility

Management of the Company 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 Ābolīņš - Ābolīņš

MANAGEMENT

Names and positions of Council members:

Aigars Kalvītis – Chairman of the Council

Valery Mendeleev – Vice Chairman of the Council

Pjotrs Avens – Member of the Council

David Ronald Surbey – Member of the Council

Boelen Sebastianus Antonius Theodorus – Member of the Council

Seymour Ferreira - Member of the Council

Names and positions of Board members:



Guntis Āboliņš-Āboliņš – Chairman of the Board
General director of JSC “Latvijas balzams”



Intars Geidāns – Member of the Board
Director of logistics department of JSC “Latvijas balzams”



Ronalds Žarinovs – Member of the Board
Production director of JSC “Latvijas balzams”



Sergejs Ļimarenko – Member of the Board
Chief of internal control department of JSC “Latvijas balzams”



Signe Bīdermane – Member of the Board
Director of human resources department of JSC “Latvijas balzams”

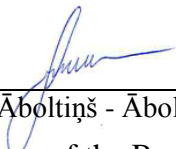
Reporting period

1st January – 30th June 2014

Council and board members do not have JSC “Latvijas balzams” shares.

Income statement for the period ended June 30, 2014

	Notes	01.01.2014 - 30.06.2014 EUR	01.01.2013 - 30.06.2013 EUR
Net sales	1	45 140 044	46 277 384
Cost of sales	2	(38 632 468)	(40 723 737)
Gross profit or losses		6 507 576	5 553 647
Distribution expenses	3	(2 085 213)	(1 925 246)
Administrative expenses	4	(1 714 145)	(1 626 737)
Other operating income		1 313 014	1 151 563
Other operating expenses		(1 052 048)	(847 638)
Interest and similar income		708 110	660 165
Interest and similar expenses		(375 495)	(352 886)
Profit or losses prior to extraordinary items and taxes		3 301 799	2 612 867
Corporate income tax		(613 854)	(483 774)
Other taxes		(70 990)	(66 688)
Net profit or losses		2 616 955	2 062 405
Earnings per share (in cents)		34.91	27.51



Guntis Āboliņš - Āboliņš
Chairman of the Board

Balance sheet as at June 30, 2014

<u>ASSETS</u>	30.06.2014 EUR	30.06.2013 EUR
Non-current assets		
Intangible assets		
Concessions, patents, licenses, trademarks and similar rights	17 709	26 885
Investments in intangible assets	165 135	106 664
Advances for intangible assets	26 512	-
Total intangible assets:	209 356	133 549
Fixed assets		
Land and buildings	15 923 176	15 054 256
Equipment and machinery	2 180 801	2 170 989
Other fixed assets and equipment	195 293	289 412
Fixed assets under construction	97 556	74 285
Advances for fixed assets	7 673	24 601
Total fixed assets:	18 404 500	17 613 544
Non-current financial investments		
Receivables from group companies	37 051 671	25 300 000
Other securities and investments	34 149	34 149
Total non-current financial investments:	37 085 820	25 334 149
Total non-current assets:	55 699 675	43 081 242
Current assets		
Inventories		
Raw materials and consumables	12 195 977	11 324 526
Work in progress	936 178	833 039
Finished goods and goods for sale	11 293 224	13 549 059
Advances for inventories	189 007	311 312
Total inventories:	24 614 386	26 017 935
Account receivable:		
Trade receivables	1 115 056	780 656
Receivables from group companies	52 833 249	52 620 661
Other receivables	1 097 635	441 489
Deferred expenses	132 991	209 272
Total receivables:	55 178 930	54 052 077
Cash and bank:	2 586	26 246
Total current assets:	79 795 903	80 096 259
Total assets	135 495 578	123 177 500

EQUITY, PROVISIONS AND LIABILITIES

	30.06.2014	30.06.2013
	EUR	EUR
Equity		
Share capital	10 667 128	10 667 128
Share premium	87 887	87 887
Non-current investments revaluation reserve	12 600 194	11 518 963
Retained earnings		
previous year's retained earnings	56 755 065	50 121 212
current years profit or losses	2 616 955	2 062 404
Total equity:	82 727 229	74 457 593
Liabilities:		
Non-current liabilities:		
Loans from banks	1 987 518	5 137 518
Other borrowings	362 761	5 807
Deferred income tax liabilities	1 863 986	1 733 136
Total non-current liabilities:	4 214 264	6 876 461
Current liabilities:		
Loans from banks	22 210 377	21 531 323
Other borrowings	162 381	5 007
Trade payables	5 651 748	5 662 800
Payables to group companies	3 341 075	1 753 062
Taxes and social insurance payments	15 393 094	11 304 428
Other liabilities	365 520	307 187
Deferred income	-	34 408
Accrued liabilities	1 429 890	1 245 232
Total current liabilities:	48 554 085	41 843 447
Total liabilities:	52 768 349	48 719 907
Total equity, provisions and liabilities	135 495 578	123 177 500


 Guntis Āboliņš - Āboliņš
 Chairman of the Board

Statement of changes in equity for the period ended June 30, 2014

	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
31.12.2012	10 667 128	87 887	11 518 963	0	50 121 212	72 395 188
Increase of share capital	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	2 062 404	2 062 404
30.06.2013	10 667 128	87 887	11 518 963	0	52 183 616	74 457 593
	-	-	-	0	-	-
31.12.2013	10 667 128	87 887	12 600 194	0	56 755 065	80 110 274
Increase of share capital	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	2 616 955	2 616 955
30.06.2014	10 667 128	87 887	12 600 194	0	59 372 020	82 727 229

Cash flow statement for the period ended June 30, 2014

	01.01.2014 - 30.06.2014 EUR	01.01.2013 - 30.06.2013 EUR
Cash flow from operating activities		
Profit or losses before taxes	3 301 799	2 612 867
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	992 791	1 037 229
changes in provisions	233 843	(51 208)
interest expenses	351 308	382 102
interest income	(707 690)	(660 016)
Cash flow prior to changes in current assets and liabilities	4 172 846	3 324 011
Inventory (increase)/decrease	(3 263 958)	(2 126 836)
Account receivable (increase)/decrease	(1 238 126)	3 055 616
Account payable increase/(decrease)	2 601 990	(3 979 975)
Gross cash flow generated from operating activities	2 272 752	272 816
Interest payments	(350 107)	(360 223)
Corporate income tax paid	(574 947)	(848 147)
Net cash flow generated from operating activities	1 347 698	(935 554)
Cash flow from investing activities		
Acquisition of fixed and intangible assets	(509 072)	(103 501)
Loans repayed	198 995	-
Loans interest received	65 407	8 573
Net cash flow generated from investing activities	(244 670)	(94 928)
Cash flow from financing activities		
Changes in credit lines	(85 377)	2 020 181
Borrowings repaid	(1 050 000)	(1 050 000)
Financial leasing	9 195	(6 352)
Net cash flow generated from financing activities	(1 126 182)	963 829
Net increase / (decrease) in cash and cash equivalents	(23 154)	(66 653)
Cash and cash equivalents at the beginning of the financial year	25 740	92 899
Cash and Cash equivalents at the end of the financial year	2 586	26 246

	01.01.2014 – 30.06.2014	01.01.2013 – 30.06.2013
	EUR	EUR
1. Net sales		
Sales of drinks in local market	24 302 395	24 886 405
Export of drinks and services	20 809 946	21 369 134
Other sales (spirits, raw materials)	27 703	21 845
TOTAL	45 140 044	46 277 384
2. Cost of Sales		
Materials	35 428 998	35 770 860
Salary expenses	1 154 938	1 062 438
Energy resources	458 700	535 674
Mandatory state social insurance contributions	269 230	253 221
Natural recourse tax	167 385	180 665
Changes in accrued expenses on unused annual leave	37 551	(7 199)
Changes of inventory value of finished goods	(1 093 851)	752 648
Goods purchased	63 030	28 710
Other variable costs	227 918	179 739
Variable costs total:	36 713 898	38 756 756
Depreciation of non-current assets	712 610	816 726
Salary expenses	585 809	542 286
Services for production needs	117 295	100 497
Repair expenses	194 653	210 443
Mandatory state social insurance contributions	135 093	127 604
Insurance payments	36 099	34 513
Laboratory expenses	24 125	20 953
Changes in accrued expenses on unused annual leave	26 933	24 692
Other production expenses	85 953	89 268
Fixed costs total:	1 918 570	1 966 981
TOTAL	38 632 468	40 723 737
3. Distribution expenses		
Advertising expenses	243 048	240 664
Salary expenses	821 270	737 060
Transportation expenses	283 782	316 863
Mandatory state social insurance contributions	192 357	176 151
Depreciation of non-current assets	191 274	141 870
Warehouse maintenance expenses	68 100	77 675
Changes in accrued expenses on unused annual leave	31 987	11 709
Other distribution expenses	253 396	223 253
TOTAL	2 085 213	1 925 246

4. Administrative expenses	01.01.2014 – 30.06.2014	01.01.2013 – 30.06.2013
	EUR	EUR
Salary expenses	749 494	831 174
Management services	294 086	145 984
Mandatory state social insurance contributions	162 438	197 514
Professional fees	45 362	52 915
Depreciation of non-current assets	50 284	46 997
Representations	28 961	22 989
Office expenses	31 778	19 894
Communication and postal expenses	22 793	23 897
Business trips	41 568	23 666
IT maintenance	7 678	4 952
Financial help, sponsorship	8 609	28 460
Transportation	10 748	9 608
Healthcare, health insurance	4 342	3 347
Personnel education and trainings	6 110	12 592
Changes in accrued expenses on unused annual leave	69 669	51 306
Other administrative expenses	180 225	151 442
	1 714 145	1 626 737

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 01.01.14 – 30.06.14.



	EUR
Open	2.450
Max	3.380
Min	2.160
Last	3.050
Change	+18.43%
Deals	575
No of shares traded	83 076
Turnover	222 175