

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.

AS Latvijas balzams
Per procura

Ronalds Žarinovs

AS “Latvijas balzams”

MANAGEMENT

Names and positions of Council members

Aigars Kalvītis – Chairman of the Council

Valery Mendeleev – 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 - 31.03.2011 LVL | 01.01.2010 - 31.03.2010 LVL |
|--|-------|-----------------------------------|-----------------------------------|
| Net sales | 1 | 29 419 366 | 35 293 787 |
| Cost of sales | 2 | (25 488 620) | (30 618 002) |
| Gross profit or losses | | 3 930 746 | 4 675 784 |
| Distribution expenses | 3 | (1 562 960) | (1 473 342) |
| Administrative expenses | 4 | (954 031) | (1 086 329) |
| Other operating income | | 968 338 | 539 907 |
| Other operating expenses | | (714 719) | (251 884) |
| Interest and similar income | | 381 811 | 287 115 |
| Interest and similar expenses | | (582 194) | (1 175 045) |
| Profit or losses prior to extraordinary items and taxes | | 1 466 991 | 1 516 206 |
| Corporate income tax | | (270 251) | (280 932) |
| Other taxes | | (44 618) | (37 619) |
| Net profit or losses | | 1 152 122 | 1 197 656 |
| Earnings per share (in santims) | | 15,37 | 15,98 |

Ronalds Žarinovs
Per procura

AS "Latvijas balzams"

**Balance sheet as at June 30,
2011**

ASSETS

| | 2011.06.30 | 2010.06.30 |
|---|-------------------|-------------------|
| | LVL | LVL |
| Non-current assets | | |
| Intangible assets | | |
| Concessions, patents, licenses, trademarks and similar rights | 4 584 | 6 119 |
| Total intangible assets: | 4 584 | 6 119 |
| Fixed assets | | |
| Land and buildings | 12 227 653 | 12 570 705 |
| Equipment and machinery | 2 721 757 | 3 132 235 |
| Other fixed assets and equipment | 336 279 | 452 178 |
| Fixed assets under construction | 59 575 | 138 507 |
| Advances for fixed assets | 29 799 | 77 763 |
| Total fixed assets: | 15 375 063 | 16 371 389 |
| Non-current financial investments | | |
| Receivables from group companies | 17 780 941 | 24 808 981 |
| Other securities and investments | 24 000 | 24 000 |
| Total non-current financial investments: | 17 804 941 | 24 832 981 |
| Total non-current assets: | 33 184 588 | 41 210 490 |
| Current assets | | |
| Inventories | | |
| Raw materials and consumables | 10 242 724 | 10 830 231 |
| Work in progress | 678 646 | 487 310 |
| Finished goods and goods for sale | 5 886 069 | 5 818 825 |
| Advances for inventories | 327 970 | 388 089 |
| Total inventories: | 17 135 409 | 17 524 455 |
| Account receivable: | | |
| Trade receivables | 279 853 | 576 744 |
| Receivables from group companies | 30 449 086 | 22 327 654 |
| Other receivables | 182 069 | 119 097 |
| Deferred expenses | 133 030 | 130 116 |
| Total receivables: | 31 044 038 | 23 153 611 |
| Cash and bank: | 26 280 | 19 448 |
| Total current assets: | 48 205 727 | 40 697 514 |
| Total assets | 81 390 315 | 81 908 004 |

AS "Latvijas balzams"

| <u>EQUITY, PROVISIONS AND LIABILITIES</u> | 2011.06.30 | 2010.06.30 |
|--|-------------------|-------------------|
| | LVL | LVL |
| Equity | | |
| Share capital | 7 496 900 | 7 496 900 |
| Share premium | 61 767 | 61 767 |
| Non-current investments revaluation reserve | 8 335 385 | 8 346 267 |
| Financial instruments revaluation reserves | (174 240) | (283 450) |
| Retained earnings | | |
| previous year's retained earnings | 27 380 522 | 23 447 185 |
| current years profit or losses | 1 152 122 | 1 197 656 |
| Total equity: | 44 252 456 | 40 266 325 |
| Liabilities: | | |
| Non-current liabilities: | | |
| Loans from banks | 9 002 012 | 11 631 944 |
| Deferred income tax liabilities | 1 334 856 | 1 407 648 |
| Derivative financial instruments | 204 989 | 333 471 |
| Total non-current liabilities: | 10 541 857 | 13 373 063 |
| Current liabilities: | | |
| Loans from banks | 13 999 286 | 14 649 053 |
| Trade payables | 3 096 331 | 2 217 446 |
| Payables to group companies | 1 169 121 | 580 358 |
| Taxes and social insurance payments | 6 970 526 | 6 430 125 |
| Other liabilities | 219 318 | 245 672 |
| Deferred income | 132 521 | 195 179 |
| Accrued liabilities | 1 008 899 | 3 950 782 |
| Total current liabilities: | 26 596 002 | 28 268 615 |
| Total liabilities: | 37 137 859 | 41 641 678 |
| Total equity, provisions and liabilities | 81 390 315 | 81 908 004 |

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 |
|-----------------------------------|------------------|---------------|--|--|-------------------|-------------------|
| | LVL | LVL | LVL | LVL | LVL | LVL |
| 2009.12.31 | 7 496 900 | 61 767 | 8 346 267 | (283 450) | 23 447 185 | 39 068 669 |
| Increase of share capital | - | - | - | - | - | - |
| Revaluation | - | - | - | - | - | - |
| Disposal of revalued fixed assets | - | - | - | - | - | - |
| Profit for the year | - | - | - | - | 1 197 656 | 1 197 656 |
| 2010.06.30 | 7 496 900 | 61 767 | 8 346 267 | (283 450) | 24 644 841 | 40 266 325 |
| 2010.12.31 | 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 |
| 2011.06.30 | 7 496 900 | 61 767 | 8 335 385 | (174 240) | 28 532 644 | 44 252 456 |

AS "Latvijas balzams"

Cash flow statement for the period ended June 30, 2011

| | 01.01.2011 - 30.06.2011 | 01.01.2010 - 30.06.2010 |
|---|------------------------------------|------------------------------------|
| | LVL | LVL |
| Cash flow from operating activities | | |
| Profit or losses before taxes | 1 466 991 | 1 516 206 |
| <u>Adjustments for:</u> | | |
| depreciation of fixed and intangible assets | 789 430 | 806 948 |
| profit from disposal of fixed assets | 1 218 | 4 017 |
| changes in provisions | 28 159 | 52 448 |
| foreign exchange (gains)/losses | - | 294 242 |
| interest expenses | 524 787 | 573 974 |
| interest income | (381 811) | (283 423) |
| Cash flow prior to changes in current assets and liabilities | 2 428 774 | 2 964 412 |
| | | |
| Inventory (increase)/decrease | (1 026 131) | 786 479 |
| Account receivable (increase)/decrease | 3 086 921 | (1 124 068) |
| Account payable increase/(decrease) | (2 125 702) | (1 112 456) |
| Gross cash flow generated from operating activities | 2 363 862 | 1 514 367 |
| Interest payments | (523 691) | (573 974) |
| Corporate income tax paid | (481 916) | (757 405) |
| Net cash flow generated from operating activities | 1 358 255 | 182 988 |
| | | |
| Cash flow from investing activities | | |
| Acquisition of fixed and intangible assets | (183 264) | (116 287) |
| Loans issued | - | (436 000) |
| Loans interest received | 14 877 | 10 388 |
| Net cash flow generated from investing activities | (168 387) | (541 899) |
| | | |
| Cash flow from financing activities | | |
| Changes in credit lines | 281 625 | 1 486 551 |
| Borrowings repaid | (1 548 206) | (1 510 623) |
| Net cash flow generated from financing activities | (1 266 581) | (24 072) |
| | | |
| Net increase / (decrease) in cash and cash equivalents | (76 713) | (382 983) |
| | | |
| Cash and cash equivalents at the beginning of the financial year | 102 993 | 402 431 |
| | | |
| Cash and Cash equivalents at the end of the financial year | 26 280 | 19 448 |

AS "Latvijas balzams"

| | 01.01.2011 – 30.06.2011 | 01.01.2010 – 30.06.2010 |
|--------------------------------------|----------------------------|----------------------------|
| | LVL | LVL |
| 1. Net sales | | |
| Sales of drinks in local market | 16 087 329 | 17 794 307 |
| Export of drinks and services | 13 302 466 | 17 495 342 |
| Other sales (spirits, raw materials) | 29 571 | 4 138 |
| TOTAL | 29 419 366 | 35 293 787 |

2. Cost of Sales

| | | |
|--|-------------------|-------------------|
| Materials | 23 353 767 | 27 172 212 |
| Salary expenses | 724 488 | 705 234 |
| Energy resources | 285 723 | 260 415 |
| Mandatory state social insurance contributions | 173 213 | 168 942 |
| Natural recourse tax | 103 122 | 114 099 |
| Changes in accrued expenses on unused annual leave | 3 227 | 30 032 |
| Changes of inventory value of finished goods | (928 136) | 51 814 |
| Goods purchased | 8 526 | 22 038 |
| Other variable costs | 277 899 | 478 805 |
| Variable costs total: | 24 001 831 | 29 003 591 |
| Depreciation of non-current assets | 637 113 | 648 931 |
| Salary expenses | 386 971 | 388 934 |
| Services for production needs | 77 588 | 234 535 |
| Repair expenses | 177 666 | 143 265 |
| Mandatory state social insurance contributions | 91 875 | 92 390 |
| Insurance payments | 34 321 | 33 265 |
| Laboratory expenses | 16 488 | 14 747 |
| Changes in accrued expenses on unused annual leave | 14 189 | 5 912 |
| Other production expenses | 50 578 | 52 431 |
| Fixed costs total: | 1 486 790 | 1 614 411 |
| TOTAL | 25 488 620 | 30 618 002 |

3. Distribution expenses

| | | |
|--|------------------|------------------|
| Advertising expenses | 428 123 | 381 923 |
| Salary expenses | 493 326 | 491 924 |
| Transportation expenses | 217 076 | 198 761 |
| Mandatory state social insurance contributions | 117 931 | 117 491 |
| Depreciation of non-current assets | 101 310 | 104 741 |
| Warehouse maintenance expenses | 65 273 | 57 497 |
| Changes in accrued expenses on unused annual leave | 15 933 | 8 419 |
| Other distribution expenses | 123 988 | 112 585 |
| TOTAL | 1 562 960 | 1 473 342 |

AS "Latvijas balzams"

| 4. Administrative expenses | 01.01.2011 – 30.06.2011 | 01.01.2010 – 30.06.2010 |
|--|------------------------------------|------------------------------------|
| | LVL | LVL |
| Salary expenses | 473 587 | 499 281 |
| Management services | 154 408 | 171 072 |
| Mandatory state social insurance contributions | 113 009 | 116 798 |
| Professional fees | 32 675 | 33 869 |
| Depreciation of non-current assets | 32 086 | 36 312 |
| Representations | 8 630 | 38 970 |
| Office expenses | 18 535 | 21 566 |
| Communication and postal expenses | 16 480 | 20 612 |
| Business trips | 9 398 | 12 335 |
| IT maintenance | 10 361 | 6 807 |
| Financial help, sponsorship | - | 21 000 |
| Transportation | 11 617 | 10 634 |
| Healthcare, health insurance | 1 989 | 3 141 |
| Personnel education and trainings | 2 318 | 2 528 |
| Changes in accrued expenses on unused annual leave | -2 328 | 29 367 |
| Other administrative expenses | 71 266 | 62 036 |
| | 954 031 | 1 086 329 |

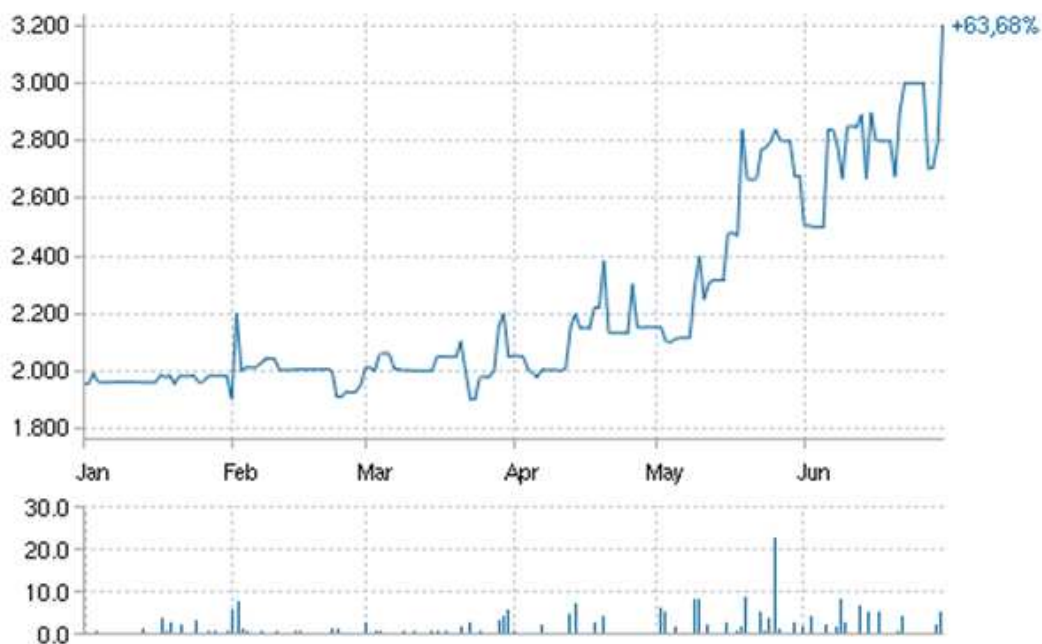
AS "Latvijas balzams"

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: LVL

| | |
|---------------------|----------------|
| Open | 1,970 LVL |
| Max | 3,200 LVL |
| Min | 1,899 LVL |
| Last | 3,200 LVL |
| Change | 63.683 % |
| Deals | 559 |
| No of shares traded | 85 963 |
| Turnover | 206 443,61 LVL |