

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(NOT AUDITED)*

FOR THE FIRST 3 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 Quarter of 2014

JSC Latvijas balzams is the leading producer of alcoholic beverages in Latvia, as well as one of the largest local taxpayers. During the first quarter of 2014, JSC Latvijas balzams paid 11.8 million Euros into the state budget, including excise tax, amounting to 7.7 million Euros.

The unaudited turnover of the Company in the first quarter of 2014 was 21.8 million Euros, which is 0.8% more than in the first quarter of 2013. The growth of the turnover was achieved by a sales increase in the Baltic countries and other strategic export markets.

The most significant increase in sales was achieved in such important markets as Germany (+54%) and Retail Travel and Duty-free market (+34%). The main focus markets in the first quarter of 2014 were the Baltic countries, Russia, Germany and Scandinavia. Meanwhile, new export markets, such as Romania, were actively acquired.

Due to competent export management, the Company has been able to provide continuity in trade in *force majeure* conditions in Ukraine, and also successfully trade in Russia.

Also the export by the orders of *SPI Group* has increased by 1.5%. The turnover in the domestic market, meanwhile, decreased insignificantly due to changes in the beverage portfolio.

The unaudited profit for the reporting period reached 1.3 million euro, which is twice as high as the profit in the first quarter of 2013. The result was achieved through focused development of the beverage portfolio and production process efficiency.

The Company has successfully participated in China's largest and most prestigious international beverage contest *China Wine & Spirits Awards Best Value 2014*, where it received 8 medals, which will facilitate a more successful implementation of export plans to Asian markets.

The Company realizes long-term "Talents and New Heads Development" programs to facilitate staff training, and has implemented a "Competency Model" as the base for the development of individual employees.

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.

As the industry leader and one of the largest employers JSC Latvijas balzams will focus on internal projects to facilitate the development of internal competencies in project management, production efficiency and sales areas.

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 Ābolīņš - Āboliņš

Rīga, May 31st, 2014

Rīga
31.05.2014.

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 Āboliņš - Āboliņš

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 Ābolņiņš-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”

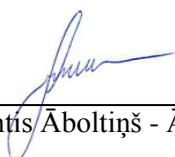
Reporting period

1st January – 31st March 2014

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

Income statement for the period ended March 31, 2014

	Notes	01.01.2014 - 31.03.2014 EUR	01.01.2013 - 31.03.2013 EUR
Net sales	1	21 834 901	21 652 490
Cost of sales	2	(18 790 231)	(19 370 349)
Gross profit or losses		3 044 669	2 282 141
Distribution expenses	3	(1 018 644)	(925 970)
Administrative expenses	4	(802 252)	(782 253)
Other operating income		445 385	385 758
Other operating expenses		(262 648)	(308 726)
Interest and similar income		350 529	327 459
Interest and similar expenses		(64 615)	(156 568)
Profit or losses prior to extraordinary items and taxes		1 692 424	821 840
Corporate income tax		(314 817)	(149 814)
Other taxes		(35 495)	(33 344)
Net profit or losses		1 342 113	638 681
Earnings per share (in cents)		17.90	8.52

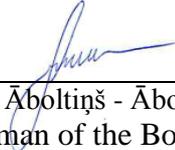

Guntis Āboliņš - Āboliņš
Chairman of the Board

Balance sheet as at March 31, 2014

<u>ASSETS</u>	31.03.2014	31.03.2013
	EUR	EUR
Non-current assets		
Intangible assets		
Concessions, patents, licenses, trademarks and similar rights	19 991	29 735
Investments in intangible assets	165 135	97 592
Advances for intangible assets	22 512	-
Total intangible assets:	207 638	127 327
Fixed assets		
Land and buildings	16 233 475	15 275 818
Equipment and machinery	1 817 325	2 410 322
Other fixed assets and equipment	206 958	297 260
Fixed assets under construction	101 516	76 298
Advances for fixed assets	67 681	15 145
Total fixed assets:	18 426 956	18 074 842
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:	55 720 413	43 536 319
Current assets		
Inventories		
Raw materials and consumables	10 272 092	10 341 615
Work in progress	809 461	799 500
Finished goods and goods for sale	11 250 280	11 048 687
Advances for inventories	274 622	969 213
Total inventories:	22 606 456	23 159 015
Account receivable:		
Trade receivables	1 477 213	1 522 329
Receivables from group companies	49 238 912	49 080 198
Other receivables	432 910	313 925
Deferred expenses	141 856	221 034
Total receivables:	51 290 891	51 137 486
Cash and bank:	1 588	125 287
Total current assets:	73 898 934	74 421 788
Total assets	129 619 347	117 958 107

EQUITY, PROVISIONS AND LIABILITIES

	31.03.2014	31.03.2013
	EUR	EUR
Equity		
Share capital	10 667 128	10 667 128
Share premium	87 887	87 887
Non-current investments revaluation reserve	12 600 197	11 518 963
Retained earnings		
previous year's retained earnings	56 755 065	50 121 212
current years profit or losses	1 342 113	638 681
Total equity:	81 452 389	73 033 870
Liabilities:		
Non-current liabilities:		
Loans from banks	2 512 518	4 612 518
Other borrowings	-	5 807
Deferred income tax liabilities	1 863 986	1 733 136
Total non-current liabilities:	4 376 504	6 351 460
Current liabilities:		
Loans from banks	21 473 733	21 513 733
Other borrowings	3 647	6 348
Advances from customers	4 168	10 499
Trade payables	3 519 779	3 045 467
Payables to group companies	3 061 739	1 108 383
Taxes and social insurance payments	14 061 656	11 342 497
Other liabilities	337 463	299 155
Deferred income	-	34 416
Accrued liabilities	1 328 270	1 212 278
Total current liabilities:	43 790 455	38 572 776
Total liabilities:	48 166 958	44 924 237
Total equity, provisions and liabilities	129 619 347	117 958 107


 Guntis Āboliņš - Āboliņš
 Chairman of the Board

Statement of changes in equity for the period ended March 31, 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	-	-	-	-	638 681	638 681
31.03.2013	10 667 128	87 887	11 518 963	0	50 759 893	73 033 870
31.12.2013	10 667 128	87 887	12 600 197	0	56 755 065	80 110 276
Increase of share capital	-	-	-	-	-	-
Revaluation	-	-	-	-	-	-
Disposal of revalued fixed assets	-	-	-	-	-	-
Profit for the year	-	-	-	-	1 342 113	1 342 113
31.03.2014	10 667 128	87 887	12 600 197	0	58 097 178	81 452 389

Cash flow statement for the period ended March 31, 2014

	01.01.2014 - 31.03.2014	01.01.2013 - 31.03.2013
	EUR	EUR
Cash flow from operating activities		
Profit or losses before taxes	1 692 424	821 840
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	496 596	531 824
changes in provisions	379 600	(37 451)
interest expenses	111 192	186 467
interest income	(350 529)	(327 458)
Cash flow prior to changes in current assets and liabilities	2 329 283	1 175 221
Inventory (increase)/decrease	(1 402 692)	742 363
Account receivable (increase)/decrease	2 532 876	5 609 927
Account payable increase/(decrease)	(1 411 440)	(7 422 442)
Gross cash flow generated from operating activities	2 048 028	105 069
Interest payments	(151 344)	(170 656)
Corporate income tax paid	(574 947)	(282 360)
Net cash flow generated from operating activities	1 321 737	(347 947)
Cash flow from investing activities		
Acquisition of fixed and intangible assets	(21 895)	(50 138)
Loans interest received	10 187	6 362
Net cash flow generated from investing activities	(11 708)	(43 776)
Cash flow from financing activities		
Changes in credit lines	(822 021)	952 618
Received loans	15 000	(525 000)
Borrowings repaid	(525 000)	-
Financial leasing	(2 160)	(3 507)
Net cash flow generated from financing activities	(1 334 181)	424 111
Net increase / (decrease) in cash and cash equivalents	(24 152)	32 388
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	1 588	125 287

	01.01.2014 – 31.03.2014	01.01.2013 – 31.03.2013
	EUR	EUR
1. Net sales		
Sales of drinks in local market	11 445 246	12 041 376
Export of drinks and services	10 374 777	9 600 876
Other sales (spirits, raw materials)	14 878	10 237
TOTAL	21 834 901	21 652 490

2. Cost of Sales

Materials	17 654 442	16 329 574
Salary expenses	521 715	519 421
Energy resources	265 391	318 458
Mandatory state social insurance contributions	121 476	123 797
Natural recourse tax	77 573	82 300
Changes in accrued expenses on unused annual leave	39 857	(25 680)
Changes of inventory value of finished goods	(959 078)	956 742
Goods purchased	49 173	9 583
Other variable costs	86 757	77 716
Variable costs total:	17 857 306	18 391 909
Depreciation of non-current assets	356 720	419 083
Salary expenses	263 786	260 137
Services for production needs	95 372	44 962
Repair expenses	60 712	111 021
Mandatory state social insurance contributions	54 234	61 288
Insurance payments	15 920	17 444
Laboratory expenses	10 873	8 085
Changes in accrued expenses on unused annual leave	28 654	15 532
Other production expenses	46 655	40 887
Fixed costs total:	932 925	978 440
TOTAL	18 790 231	19 370 349

3. Distribution expenses

Advertising expenses	113 102	118 539
Salary expenses	378 635	363 683
Transportation expenses	129 771	137 142
Mandatory state social insurance contributions	88 604	86 902
Depreciation of non-current assets	94 977	73 609
Warehouse maintenance expenses	39 976	45 964
Changes in accrued expenses on unused annual leave	36 503	(640)
Other distribution expenses	137 077	100 771
TOTAL	1 018 644	925 970

4. Administrative expenses	01.01.2014 –	01.01.2013 –
	31.03.2014	31.03.2013
	EUR	EUR
Salary expenses	348 699	418 851
Management services	134 152	65 988
Mandatory state social insurance contributions	81 085	99 581
Professional fees	15 125	24 855
Depreciation of non-current assets	24 966	23 298
Representations	14 683	5 549
Office expenses	13 263	9 493
Communication and postal expenses	11 515	11 643
Business trips	12 495	10 444
IT maintenance	3 649	3 250
Financial help, sponsorship	8 604	-
Transportation	5 445	3 880
Healthcare, health insurance	2 144	1 782
Personnel education and trainings	3 275	3 004
Changes in accrued expenses on unused annual leave	46 566	24 351
Other administrative expenses	76 585	76 282
	802 252	782 253

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 – 31.03.14.



	EUR
Open	2.575
Max	2.740
Min	2.380
Last	2.310
Change	-10.31%
Deals	273
No of shares traded	38 701
Turnover	99 163