

"Latvijas balzams"  
FINANCIAL STATEMENTS  
for the period ended 31 december 2009

**AS "Latvijas Balzams"**

**2009 ANNUAL REPORT**

prepared in accordance with the EU approved  
International Financial Reporting Standards

"Latvijas balzams"  
FINANCIAL STATEMENTS  
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**MANAGEMENT**

Names and positions of the Council members

Aleksandrs Kovaļevs – Chairman of the Council  
(until 16.10.2009)

Aigars Kalvītis - Chairman of the Council (from 16.10.2009)

Vitolds Kokars – Vice Chairman of the Council  
(until 16.10.2009)

Valery Mendelev - Vice Chairman of the Council  
(from 16.10.2009)

Andrejs Skurihins – Member of the Council

Pjotrs Aven - Member of the Council

Aleksandrs Jerņevs - Member of the Council  
(from 29.04.2009 until 16.10.2009)

Valizhan Abidov - Member of the Council  
(until 16.10.2009)

Georgy Kipiani - Member of the Council (until 29.04.2009)

Sebastianus Antonius Theodorus Boelen – Member of the Council  
(from 16.10.2009)

Aleksandrs Kovaļevs – Member of the Council  
(from 16.10.2009)

Names and positions of the Board members

Kārlis Andersons – Chairman of the Board (from 29.04.2008)  
General Director of AS Latvijas balzams

Valērijs Paršikovs – Member of the Board  
(from 18.05.2009 until 22.03.2010)

Egils Dzerelis – Member of the Board (until 18.05.2009)  
Director of Logistics of AS Latvijas balzams

Sergejs Ļimarenko – Member of the Board, Chief of Internal Security  
Department of AS Latvijas balzams

Ronalds Žarinovs – Member of the Board (from 29.04.2008),  
Director of Production of AS Latvijas balzams

Signe Bīdermane – Member of the Board (from 29.04.2008),  
Director of Personnel and administrative department of AS Latvijas  
balzams

Gunita Kronberga -Member of the Board (from 22.03.2010)  
Financial Director of AS Latvijas balzams

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**REPORT OF THE MANAGEMENT**

**Type of operations**

AS Latvijas balzams (further - Company) is the largest alcoholic beverage producer in the Baltic States, whose product range includes more than 130 kinds of alcoholic beverages, of whom 53% of beverages are with low alcohol content. The Company products are exported to nearly 30 countries around the world, while in performing export orders of "S.P.I. Group" to more than 70 countries around the world.

**Performance of the Company during the financial year**

Net turnover of the Company in year 2009 was 55.6 million lats, which is for 24% less than in year 2008. Turnover in the domestic market compared with last year, has fallen for 35.5%, in the export market - for 15.9%. Company's principal activity results in 2009 was significantly affected by the decline of purchasing power, the increase of excise tax and illegal alcohol sales increase in Latvia as well as the decrease in economic activity in key trade markets. The main export directions in 2009 were the Baltic countries, Poland, Scandinavia and Russia. Meanwhile new export markets were actively acquired. In 2009 export of production to Morocco and Slovakia has begun.

The profit of the Company in the reporting year is 3.6 million lats, that is for 2.3 million lats less than in 2008. The Company has paid great attention to production cost control and operation's efficiency improvement, thus maintaining the leading position in the market of alcohol beverages in all major categories and maintaining the positive profit rate in economic downturn conditions. During the reporting year the Company has continued to invest in production technology improvement. During the reporting year new equipment was purchased in order to provide new, advanced production closure possibilities. During the last year AS Latvijas balzams transferred 43 million lats in taxes to the state budget, including 33 million lats as the excise tax.

In 2009 the Company employed 681 employees in average (2008 - 773), and their gross monthly salary last year was 610 lats in average (2008 - 676 lats).

**Post balance sheet events**

In the time period between the last day of the financial year and the date of signing the financial statements by the Board there have been no important events that would have a significant effect on the financial results of the year or the financial position of the company.

**Distribution of profit proposed by the Board**

	<b>2009</b>
	<b>Ls</b>
Profit share to be distributed	<b>3 586 405</b>
Proposed profit distribution:	
Retained earnings	3 586 405

**Future prospects**

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 2010 the priorities of AS Latvijas balzams will be further control of production and logistics costs, optimization and production efficiency improvement, rise of Company's competitiveness.

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Kārlis Andersons  
Chairman of the Board

Riga, 14 April, 2010

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**STATEMENT OF THE MANAGEMENT RESPONSIBILITY**

The Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards as adopted the EU. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 8 to page 35 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the Company's assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

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Kārlis Andersons  
Chairman of the Board

Riga, 14 April, 2010



## BAKER TILLY BALTICS

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### **INDEPENDENT AUDITOR'S REPORT**

#### ***To the Shareholders of "Latvijas balzams" AS***

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of "Latvijas balzams" AS (the Company) included in the Annual report as set out on pages 8 to 35. The period of financial statements is from 1 January 2009 till 31 December 2009 (the Financial year). These financial statements include the the statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, cash flow statement, statement of changes in equity for the financial year, and summary of significant accounting policy and other explanatory notes.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### ***Auditor's responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.




### *Opinion*

In our opinion, the above mentioned financial statements give a true and fair view of the financial position of the Company as at the end of the financial year, and of its financial performance and cash flow for the financial year in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Report on Other Legal and Regulatory Requirements**

We have read the Management Report for the financial year as set on page 4 and did not identify material inconsistencies of the financial information presented in the Management Report and that contained in the financial statements.

Baker Tilly Baltics SIA  
Certified auditors' company  
License No. 80



Eriks Bahirs  
Certified Auditor  
Certificate No.136  
Chairman of the Board

Riga, 29 April 2010

This report is English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

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**INCOME STATEMENT**

	Notes	2009 Ls	2008 Ls
Net sales	(1)	55 599 546	73 165 979
Cost of sales	(2)	(44 683 501)	(59 014 653)
<b>Gross profit (loss)</b>		<b>10 916 045</b>	<b>14 151 326</b>
Distribution expenses	(3)	(4 079 867)	(5 139 031)
Administrative expenses	(4)	(2 576 634)	(3 512 700)
Other income	(5)	1 259 090	1 621 664
Other expenses	(6)	(30 545)	(130 215)
Finance income	(8)	797 174	2 451 551
Finance expenses	(9)	(1 881 595)	(2 410 703)
<b>Profit before tax</b>		<b>4 403 668</b>	<b>7 031 892</b>
Corporate income tax	(10)	(817 263)	(1 123 373)
<b>Net profit</b>		<b>3 586 405</b>	<b>5 908 519</b>
<b>Earnings per share (in santims)</b>			
Basic	(11)	47.84	78.81
Diluted	(11)	47.84	78.81



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**STATEMENT OF COMPREHENSIVE INCOME**

	Notes	2009 Ls	2008 Ls
<b>Net profit</b>		<b><u>3 586 405</u></b>	<b><u>5 908 519</u></b>
<b>Other comprehensive income / (loss)</b>			
Revaluation of property, plant and equipment reserves	(12)	(4 419 322)	(107 342)
Changes in deferred income tax liabilities resulted to revaluation of property, plant and equipment	(10)	662 898	16 101
Changes in fair value of financial instruments	(19)	(333 471)	-
Changes in deferred income tax liabilities resulted to changes of fair value of derivatives	(10)	50 021	-
<b>Other comprehensive income</b>		<b><u>(4 039 874)</u></b>	<b><u>(91 241)</u></b>
<b>Total comprehensive income</b>		<b><u>(453 469)</u></b>	<b><u>5 817 278</u></b>

Notes on pages 13 to 35 are an integral part of these financial statements.

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**STATEMENT OF FINANCIAL POSITION**

	Notes	31.12.2009. Ls	31.12.2008. Ls
<b><u>ASSETS</u></b>			
<b>Non-current assets</b>			
Intangible assets	(12)	266	2 047
Property, plant and equipment	(12)	17 023 400	22 542 647
Loans to group companies	(24g)	24 808 981	17 780 941
Other non-current assets		24 000	24 000
<b>Total non-current assets:</b>		<b>41 856 647</b>	<b>40 349 635</b>
<b>Current assets</b>			
Inventories	(13)	17 231 191	19 924 678
Trade receivables	(14)	519 060	1 471 103
Receivables from group companies	(24g)	19 851 375	24 117 321
Other current assets	(15)	318 063	294 733
Corporate income tax	(10)	377 374	-
Cash and cash equivalents	(16)	402 431	204 795
<b>Total current assets:</b>		<b>38 699 494</b>	<b>46 012 630</b>
<b><u>Total assets</u></b>		<b>80 556 141</b>	<b>86 362 265</b>
<b><u>EQUITY AND LIABILITIES</u></b>			
		31.12.2009. Ls	31.12.2008. Ls
<b>Equity</b>			
Share capital	(17)	7 496 900	7 496 900
Share premium		61 767	61 767
Revaluation reserves of non-current assets	(12)	8 346 267	12 102 691
Revaluation reserves of derivative financial instruments	(19)	(283 450)	-
Retained earnings		23 447 185	19 860 780
<b>Total equity:</b>		<b>39 068 669</b>	<b>39 522 138</b>
<b>Liabilities:</b>			
<b>Non-current liabilities:</b>			
Borrowings	(18)	11 631 944	10 785 146
Deferred income tax liabilities	(10)	1 407 648	2 067 197
Derivative financial instruments	(19)	333 471	-
<b>Total non-current liabilities:</b>		<b>13 373 063</b>	<b>12 852 343</b>
<b>Current liabilities:</b>			
Borrowings	(18)	14 378 883	15 232 181
Trade payables		3 790 590	3 185 427
Payables to group companies	(24g)	588 566	2 361 590
Current income tax payables	(10)	-	250 003
Other liabilities	(20)	9 356 370	12 958 583
<b>Total current liabilities:</b>		<b>28 114 409</b>	<b>33 987 784</b>
<b>Total liabilities:</b>		<b>41 487 472</b>	<b>46 840 127</b>
<b><u>Total equity and liabilities:</u></b>		<b>80 556 141</b>	<b>86 362 265</b>

Notes on pages 13 to 35 are an integral part of these financial statements.

Kārlis Andersons  
Chairman of the Board

Riga, 14 April, 2010

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**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Revaluation reserves of non-current assets	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	Ls	Ls	Ls	Ls	Ls	Ls
<b>31.12.2007.</b>	<b>7 496 900</b>	<b>61 767</b>	<b>12 193 932</b>	<b>-</b>	<b>13 952 261</b>	<b>26 207 960</b>
Net profit					5 908 519	5 908 519
Revaluation of property, plant and equipment	-	-	(107 342)	-	-	(107 342)
Changes in deferred income tax liabilities	-	-	16 101	-	-	16 101
Total comprehensive income	-	-	(91 241)	-	5 908 519	5 817 278
<b>31.12.2008.</b>	<b>7 496 900</b>	<b>61 767</b>	<b>12 102 691</b>	<b>-</b>	<b>19 860 780</b>	<b>39 522 138</b>
Net profit	-	-	-	-	3 586 405	3 586 405
Changes in fair value of derivative financial instruments	-	-	-	(333 471)	-	(333 471)
Changes in deferred income tax liabilities	-	-	-	50 021	-	50 021
Revaluation of property, plant and equipment	-	-	(4 419 322)	-	-	(4 419 322)
Changes in deferred income tax liabilities	-	-	662 898	-	-	662 898
Total comprehensive income	-	-	(3 756 424)	(283 450)	3 586 405	(453 469)
<b>31.12.2009.</b>	<b>7 496 900</b>	<b>61 767</b>	<b>8 346 267</b>	<b>(283 450)</b>	<b>23 447 185</b>	<b>39 068 669</b>

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**CASH FLOW STATEMENT**

	Notes	2009 Ls	2008 Ls
<b>Cash flow from operating activities</b>			
Cash granted from operations	(21)	4 849 522	12 667 899
Interest paid		(1 670 276)	(2 166 174)
Income tax paid		(1 391 270)	(1 099 886)
<b>Net cash flow generated from operating activities from continuing operations</b>		<b>1 787 976</b>	<b>9 401 839</b>
<b>Cash flow from investing activities</b>			
Acquisition of property, plant and equipment		(1 052 350)	(1 266 532)
Proceeds from sales of property, plant and equipment		-	20 237
Loans granted		(2 780 000)	(3 514 020)
Loans repayment received		2 216 000	5 833 273
Loans interest received		14 410	1 374 493
<b>Net cash flow generated from investing activities from continuing operations</b>		<b>(1 601 940)</b>	<b>2 447 451</b>
<b>Cash flow from financing activities</b>			
Borrowings received		-	4 568 226
Changes in credit lines (net)		4 955 650	(5 234 103)
Borrowings repaid		(4 944 050)	(11 066 455)
<b>Net cash flow generated from financing activities from continuing operations</b>		<b>11 600</b>	<b>(11 732 332)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>197 636</b>	<b>116 958</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>204 795</b>	<b>87 837</b>
<b>Cash and Cash equivalents at the end of the financial year</b>	(16)	<b>402 431</b>	<b>204 795</b>

Notes on pages 13 to 35 are an integral part of these financial statements.

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Kārlis Andersons  
Chairman of the Board

Riga, 14 April, 2010

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**NOTES TO THE FINANCIAL STATEMENTS**

**I. GENERAL INFORMATION**

The Company is the biggest producer of alcoholic drinks in the Baltic States. In total, AS Latvijas balzams produces more than 130 different names of alcoholic drinks. The largest shareholder of the Company, who owns 89,53% of the Company's share capital, is S.P.I. Regional Business Unit B.V. (previous name S.P.I. Distilleries B.V.), which is incorporated in the Netherlands.

AS Latvijas balzams is a joint-stock company, which is incorporated and has its registered office in Latvia. The Company was founded in 1900, but acquired its current name in 1970. Registered address of the Company is at 160 A. Čaka Street, Riga, LV-1012, Republic of Latvia. Shares of AS Latvijas balzams are quoted on second list of the Riga Stock Exchange.

The current financial year of the Company is from 1 January 2009 up to 31 December 2009.

These financial statements were authorized for issue by the Board of Directors of the Company on 14 April 2010, and Chairman of the Board Karlis Andersons signed these for and on behalf of the Board of Directors.

The auditor of the Company is Baker Tilly Baltics SIA.

## II. ACCOUNTING POLICIES

### (1) Basis of preparation

These financial statements have been prepared in accordance with the EU-approved International Financial Reporting standards.

The financial statements have been prepared on the basis of cost accounting method modified in revaluation of the assets, as represented in Note (6) to accounting policies.

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgments applying the accounting policies adopted by the Company. Critical estimates and judgments are represented in note (20).

#### a) Standards, amendments and interpretations effective in the current year

##### *IAS 1, Presentation of Financial Statements*

The main changes in IAS 1 is the replacement of income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of property, plant and equipment and available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Company has decided to present both income statement and statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (previously - balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Company's financial statements but no impact on the recognition or measurement of specific transactions or balances.

##### *IAS 23, Borrowing Costs*

The amendment to IAS 23 removes the option of immediately recognizing as an expense the borrowing costs and requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. As the Company has not previously used that option the amendments do not impact the measurement of assets.

##### *IFRS 8, Operating Segments*

IFRS 8 replaced IAS 14 Segment Reporting. The Company concluded that the operation segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 1 Segment Information, including the related revised comparative information.

##### *IFRS 7, Financial Instruments: Disclosure*

The amendment to IFRS 7 requires additional disclosure on the fair value measurements and liquidity risks. An entity is required to disclose analysis of financial instruments by using three-level hierarchy for fair value measurements. The enhanced disclosures are included in these financial statements.

#### b) Standards, amendments and interpretations that are effective from 1 January 2009, but not relevant for operations of the Company

*IFRS 1, First-time Adoption of IFRS - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments)

*IFRS 2, Share-based Payment - Vesting Conditions and Cancellations* (Amendment)

*IAS 27, Consolidated and Separate Financial Statements - Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate* (Amendments)

*IAS 32, Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* (Amendment)

*Annual Improvements to IFRS, issued in May 2008.*

*IFRIC 13 Customer Loyalty Programmes*

*IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.*

**c) Standards, amendments and interpretations, which are not yet effective and not yet adopted by the Company**

*Improvements to IFRS issued in April 2009*

Amendments to IFRS 2, IAS 38, IFRIC 16 are effective for annual periods beginning on or after 1 July 2009, amendments to IFRS 5, IFRS 8, IAS1, IAS 36, and IAS 39 are effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU). Improvements consist of a mixture of substantive changes and clarifications in the different areas. The Company does not expect the amendments to have any material effect on its financial statements.

*IAS 24, Related Party Disclosures* - Amendments (effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU).

The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Company is currently assessing the impact of the amendments on disclosure in its financial statements.

*IFRS 9, Financial Instruments Part 1: Classification and Measurements, issued in November 2009* (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

The IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Company is considering the implications of the standard, the impact on the Group and the timing of its adoption.

*IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items* - Amendments (effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Company is currently considering the impact of this standard changes to the financial statements.

**d) Standards, amendments and interpretations that are not yet effective and not relevant for operations of the Company**

*IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements* - Amendments (effective for financial years beginning on or after 1 July 2009).

*IFRIC 9 and IAS 39 Embedded Derivatives* - Amendment issued in March 2009 (effective for annual periods beginning on or after 30 June 2009, amendments to IFRIC 9 and IAS 39 as adopted by the EU is effective fro annual periods beginning after 31 December 2009).

*IAS 32 Classification of Rights Issues* - Amendment issued in October 2009 (effective for annual periods beginning on or after 1 February 2010).

*IFRS 1 First-time Adoption of IFRS* - Revised in December 2008 (effective for annual periods beginning on or after 1 July 2009, restructured IFRS 1 as adopted by the EU is effective fro annual periods beginning after 31 December 2009).

*IFRS 1 First-time Adoption of IFRS - Additional Exemptions for First-time Adopters* - Amendments (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU).

*IFRS 2 - Group settled Share-based Payment Transactions* - Amendments (effective for annual periods beginning on or after 1 January 2010, not yet adopted by EU).

*IFRS 7 Limited exemption from comparative disclosures for first-time adopters* - Amendments (effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU).

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*IFRIC 12 Service Concession Arrangements (IFRIC as adopted by the EU is effective for annual periods beginning on or after 30 March 2009).*

*IFRIC 14 - Prepayments of a Minimum Funding Requirements - Amendment (effective for annual periods beginning on or after 1 January 2011, not yet adopted by EU).*

*IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2008, IFRIC 15 as adopted by the EU is effective from annual periods beginning after 31 December 2009).*

*IFRIC 16, Hedges of a net investment in a foreign operation (effective for annual periods beginning on or after 1 October 2008, IFRIC 16 as adopted by the EU is effective from annual periods beginning after 31 June 2009).*

*IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009, IFRIC 17 as adopted by the EU is effective from annual periods beginning after 31 October 2009).*

*IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009, IFRIC 18 as adopted by the EU is effective from annual periods beginning after 31 October 2009).*

*IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010, not yet adopted by EU).*

## (2) Foreign currencies

### (a) Functional and presentation currency

Items shown in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency).

In accordance with the Riga Stock Exchange requirements all balances are presented in euro (EUR). For the purposes of disclosures translation is performed applying the official exchange rate adopted by the Bank of Latvia EUR / LVL (1 EUR = LVL 0.702804) for the period from 1 January 2008 to 31 December 2009.

### (b) Transactions and balances

All foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement for the period.

	31.12.2009.	31.12.2008.
	Ls	Ls
1 USD	0.489	0.495
1 EUR	0.702804	0.702804
1 LTL	0.204	0.203
1 EEK	0.0449	0.0449

## (3) Segment disclosure

An operation segment is a component of entity which qualifies for the following criteria: (i) engages in business activities from which it may earn revenues and incur expenses; (ii) whose operation results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (iii) for which discrete financial information is available.

Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

## (4) Income recognition

Main operation of the Company is the production and sale of alcoholic drinks. Net sales represent the total of goods and services sold during the year net of discounts, value added tax and excise tax.

Income from sales of goods in Latvia is recognised when the customer has accepted the goods. Income from sales of goods outside Latvia is recognised in accordance with the goods delivery terms. Income from penalties is recognised at the moment of receipt. Income from provision of services is recognised based on the stage of completion method.

Interest income or expenses are recognised in the income statement for all loans and borrowings assessed at amortised cost applying the effective interest rate method.



**(5) Intangible assets**

Intangible assets, in general, consist of licenses and patents. Intangible assets are recognised at the cost of acquisition less accumulated amortisation. Amortisation is calculated from the moment the assets are available to use. Amortisation of intangible assets is calculated using the straight-line method to allocate amounts to their residual values over their estimated useful lives, as follows:

	<b>Years</b>
Licenses and patents	3-5

Where the carrying amount of an intangible asset exceeds its recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount exceeds the fair value of the relevant intangible asset less selling or use expenses.

**(6) Property, plant and equipment (tangible assets)**

Buildings are recognised at their fair value on the basis of assessment made by independent valuator from time to time less accumulated depreciation. Accumulated depreciation is liquidated as of revaluation date, net sum is charged to the revaluated cost. Land is recognised at their fair value on the basis of assessment made by independent valuator from time to time. Other assets are recognised at their acquisition value less accumulated depreciation. Acquisition value includes the costs directly related to acquisition of the asset.

Subsequent costs are recognised in the asset's carrying amount or as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Other repairs and maintenance are recognised as an expense during the financial period when they are incurred.

Increase in value arising on revaluation is recognised in equity under "Revaluation reserve of non - current assets", but decrease that offsets a previous increase of the same asset's value (net of deferred tax) recognised in the said reserve is charged against that reserve; any further decrease is recognised as an expense for the year incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful live, as follows:

	<b>Years</b>
Buildings	10 - 71
Technological equipment	2 - 25
Other machinery and equipment, transport vehicles	2 - 25

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the financial year.

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. The decrease is reflected as the expenses or recognised in reserves in case the asset was previously re-valued.

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalized during the time that is required to complete and prepare the asset for its intended use as part of the cost of the asset. Capitalization of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within the income statement for the relevant period. As soon as the re-valued assets are sold, values in the "Revaluation reserve of non- current assets" are charged to the retained earnings.

**(7) Impairment of tangible and intangible assets**

All tangible and intangible assets of the Company have their estimated useful lives and they are amortised or depreciated. Assets that are subject to amortisation and depreciation are revaluated every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Loss from value decrease is recognised at difference between book value of the asset and its recoverable value. Recoverable value is the higher of an asset's fair value less costs to sell and its value in use. In order to determine decrease of the value, assets are classified based on the lower level of identifiable cash flows (cash-bearing units). Assets, which value has been decreased, are assessed at the end of every reporting year to identify the probable value decrease reservation.

**(8) Lease without redemption rights (operating lease)**

Assets that are leased to operating leases, are disclosed in tangible assets at purchase price or revalued value, less depreciation. Depreciation is calculated on the straight-line basis over the period of useful life of the appropriate tangible asset, to write off the value of tangible asset until its estimated book value at the end of the period of useful life by using the rates specified for similar tangible assets of the Company.

**(9) Inventories**

The inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realizable value of inventories is lower than their cost, provisions are created to reduce the value of inventories to their net realizable value.

**(10) Loans and trade receivables**

Loans and trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective rate. Changes in impairment are recognised in the income statement.

**(11) Derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain and loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Currently, the Company designates derivatives as hedges of a interest rates changes of its borrowings (cash flow hedge).

The effective portion of changes in the fair value of derivatives that are designated and qualify for cash flow hedges is recognised in equity item "Revaluation reserves of derivative financial instruments". The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified in the income statement in the periods when the hedged item effects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within "Finance costs". The gain or loss relating to the ineffective portion is recognised in the income statement within "Other expenses".

**(12) Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and the balances of the current bank account.

**(13) Share capital and dividends**

Ordinary shares are classified as equity. Dividends to be paid to shareholders of the Company are represented as liabilities during the financial period of the Company, when shareholders of the Company approve the dividends.

**(14) Borrowings**

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of financial year.

**(15) Pension obligations**

The Company pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian laws. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included in the staff costs.

**(16) Accrued liabilities for unused annual leave**

Amount of accumulated unused annual leave is determined by multiplying the average day rate of employees for the last six months of the financial year by the amount of accrued but unused annual leave at the end of the reporting year.

**(17) Income tax**

Corporate income tax is calculated in accordance with tax laws of the Republic of Latvia. Effective laws provide for 15% tax rate.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted by the year-end and are expected to apply when the deferred income tax is settled.

The principal temporary differences, in general, arise from different tangible assets depreciation rates as well as provisions for slow-circulating goods, accruals for unused annual leave and accruals for bonuses. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business dilution, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognised.

**(18) Earnings per share**

Earnings per share are determined dividing the net gains or losses attributable to shareholders of the Company by the average weighted quantity of the shares in the reporting year.

**(19) Related parties**

Related parties are defined as shareholders of the Company, who have a significant influence or control over the Company, members of the Board and the Council, their close relatives and companies, in which they have a significant influence or control.

**(20) Critical accounting estimates and judgments**

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management must make estimates and judgments applying the accounting policies adopted by the Company.

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities recognised in the financial statements, and disclosures in the notes at the year-end as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are revaluation of the land and building, determination of revaluation regularity, as well as recoverable amount of receivables and inventories as disclosed in the relevant notes.

**a) Revaluation of land and buildings**

Management of the Company determines fair value of the assets based on assessment made by independent certified valuers in accordance with the property valuation standards and based on observable market price as well as future cash flow and construction costs methods.

The Management believes that assets must be revaluated at least once in 5 years or earlier if any indicators show the potential material changes in market values. The revaluation of real estate assets has been made during the preparation of the current year financial statements. The total carrying amount of land and buildings as at 31 December 2009 is Ls 12 876 372 (31.12.2008 - Ls 17 522 519).

**b) Recoverable receivables**

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment.

**c) Valuation of inventories**

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realization probability and net selling value of the inventories shall be considered. The total carrying amount of inventories as at 31 December 2009 is Ls 17 231 191 (31.12.2008 - Ls 19 924 678).

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### III. OTHER NOTES

#### (1) Segment Information and net sales

##### (a) Operation and reportable segment

Core activity of the Company is production of alcoholic drinks. AS Latvijas balzams produces over 130 different types of drinks. Since the Company's core activity is mainly the production of alcoholic drinks, the Company has only one operation and reportable segment. Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

##### (b) Geographical markets

The Company operates in Latvia by selling the produced drinks in the domestic market, as well as exports the produced drinks.

The operations of the Company can be divided into three geographical segments, which are sales in Latvia, sales to overseas markets, executing orders of S.P.I group companies and other export sales. Distribution of sales among these segments is as follows:

	2009 Ls	2008 Ls
Sales in Latvia	19 537 811	30 311 560
Export sales under S.P.I. Group company S.P.I. Spirits (Cyprus) Ltd. orders	28 511 776	34 269 879
Other income from export sales	-	-
Lithuania	4 427 986	5 900 915
Russia	1 031 522	1 375 576
Estonia	641 911	634 821
Poland	325 020	375 619
Norway	255 285	196 414
Belarus	200 055	32 558
Other countries	668 180	668 180
Other income from export sales (total)	7 549 959	9 184 083
	<u><u>55 599 546</u></u>	<u><u>73 165 979</u></u>

##### (c) Major customers

Most of the Company's sales transactions in domestic markets as well as sales to overseas markets are made through S.P.I. Group companies. The information on transactions of Group entities is disclosed in Note 24. There are no non-related clients with whom the amount of transactions would be 10 per cent or more of total revenues.

	2009 Ls	2008 Ls
Sales to S.P.I. group companies	52 824 287	70 720 539
Sales to other customers	2 775 259	2 445 440
	<u><u>55 599 546</u></u>	<u><u>73 165 979</u></u>

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	2009	2008
	Ls	Ls
<b>(2) Cost of sales</b>		
Materials	36 669 314	46 445 500
Salary expense	1 749 414	2 395 026
Energy resources	594 408	721 115
Mandatory state social insurance contributions	419 783	574 840
Natural recourse tax	312 258	462 696
Changes of inventory value of finished goods	(225 078)	559 531
Goods purchased	121 229	623 470
Increase in provisions for accounts receivable, inventories and other accrued liabilities	55 448	517 252
Accrued expenses on unused annual leave (variable)	(34 946)	2 161
Other variable costs	1 150 767	2 568 847
<b>Variable costs total:</b>	<b>40 812 597</b>	<b>54 870 438</b>
Depreciation of non-current assets	1 345 222	1 313 360
Salary expenses	946 656	1 053 095
Repair expenses	354 092	563 120
Mandatory state social insurance contributions	226 002	252 016
Net losses from revaluation of tangible assets	244 324	-
Accrued expenses on unused annual leave (fixed)	(81 296)	(7 373)
Insurance payments	76 682	97 498
Laboratory expenses	43 039	37 214
Other fixed expenses	716 183	835 285
<b>Fixed costs total:</b>	<b>3 870 904</b>	<b>4 144 215</b>
	<b>44 683 501</b>	<b>59 014 653</b>
<b>(3) Distribution expenses</b>		
Advertising expenses	1 209 251	1 905 446
Salary expenses	1 179 488	1 375 005
Transportation expenses	448 937	686 794
Mandatory state social insurance contributions	282 015	329 300
Depreciation of non-current assets	301 791	233 893
Warehouse maintenance expenses	352 839	194 689
Accrued expenses on unused annual leave	(25 903)	(4 873)
Other expenses	331 449	418 777
	<b>4 079 867</b>	<b>5 139 031</b>
<b>(4) Administrative expenses</b>		
Salary expenses	1 098 743	1 354 619
Management services and expenses	553 791	814 589
Mandatory state social insurance contributions	259 073	185 707
Depreciation of non-current assets	152 525	248 850
Real estate tax	83 204	88 973
Professional fees	67 517	169 167
Office expenses	52 421	73 359
Representation expenses	45 359	212 471
Communication and postal expenses	43 064	63 592
Transportation expenses	28 663	56 168
Business trip expenses	25 614	17 164
IT maintenance	24 722	50 030
Financial support, sponsorship	16 000	54 000
Accrued expenses on unused annual leave	(15 844)	(52 040)
Healthcare, health insurance	7 140	9 920
Employee training	5 688	10 639
Other expense	128 954	155 492
	<b>2 576 634</b>	<b>3 512 700</b>

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(5) Other income	2009 Ls	2008 Ls
Income from services rendered in warehouses of excise tax goods	321 707	319 591
Income from other services rendered	318 479	503 290
Income from lease of warehouse and office premises	225 664	157 814
Sold consumable materials	56 898	83 540
Sold packages, boxes and pallets	6 017	11 626
Other income	330 325	545 803
	<b><u>1 259 090</u></b>	<b><u>1 621 664</u></b>
 (6) Other expenses		
Bank commissions	80 988	39 567
Other expenses	(50 443)	90 648
	<b><u>30 545</u></b>	<b><u>130 215</u></b>
 (7) Expenses by Nature		
Materials	36 669 314	46 445 500
Employee expenses	6 003 185	7 457 482
Depreciation of non-current assets	1 800 054	1 796 103
Advertising expenses	1 209 251	1 905 446
Management services and expenses	553 791	814 589
Transportation expenses	477 600	742 962
Repair expenses	354 092	574 026
Natural recourse tax	312 258	462 696
Net losses from revaluation of tangible assets	244 324	-
Real estate tax	83 204	88 973
Increase in provision for accounts receivables, inventories and other accrued liabilities	55 448	517 252
IT maintenance expenses	24 722	65 854
Other expenses	3 583 304	6 925 716
	<b><u>51 370 547</u></b>	<b><u>67 796 599</u></b>
 (8) Finance income		
Interest income	796 170	1 701 989
Net profit from exchange rate fluctuations	-	743 617
Income from fines and penalties	1 004	5 945
	<b><u>797 174</u></b>	<b><u>2 451 551</u></b>
 (9) Finance expenses		
Interest for use of credit lines facilities	933 312	799 061
Interest for long-term loan	572 354	1 408 712
Net loss for hedging activities	208 268	(29 349)
Net loss from exchange rate fluctuations	129 766	-
Net loss from purchase - sale of foreign currency	37 895	232 279
	<b><u>1 881 595</u></b>	<b><u>2 410 703</u></b>
 (10) Corporate income tax		
a) Components of corporate income tax		
Changes in deferred income tax	53 370	(168 415)
Corporate income tax according to the tax return	763 893	1 291 788
	<b><u>817 263</u></b>	<b><u>1 123 373</u></b>

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**b) Reconciliation of accounting profit to income tax charges**

The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

	2009 Ls	2008 Ls
Profit before taxes	4 403 668	7 031 892
Theoretically calculated tax at 15% tax rate	<u>660 550</u>	<u>1 054 784</u>
Tax effects on:		
Non-deductible expenses for tax purposes	57 811	150 993
Tax discounts for donations	(13 600)	(43 350)
Tax relief for the acquired technological equipment	(28 876)	(39 054)
Changes in recognition of temporary differences for other accruals	141 378	-
<b>Total corporate tax charge</b>	<u><u>817 263</u></u>	<u><u>1 123 373</u></u>

**c) Movement and components of deferred tax**

Deferred tax liabilities (asset) at the beginning of the financial year	2 067 197	2 251 713
Deferred tax changes charged to the income statement	53 370	(168 415)
Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve	(662 898)	(16 101)
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	(50 021)	-
<b>Deferred tax liabilities (asset) at the end of the financial year</b>	<u><u>1 407 648</u></u>	<u><u>2 067 197</u></u>

The deferred company income tax has been calculated from the following temporary differences between value of assets and liabilities in the financial statements and their tax base (tax effect 15% from temporary differences):

	31.12.2009. Ls	31.12.2008. Ls
Temporary difference on depreciation of tangible and intangible assets	1 674 108	2 433 227
Temporary difference on derivative financial instruments revaluation reserve	(50 021)	-
Gross deferred tax liabilities	<u>1 624 087</u>	<u>2 433 227</u>
Temporary difference on accruals for annual leave	(42 926)	(66 624)
Temporary difference on provisions for slow moving and obsolete stock	(171 265)	(158 674)
Temporary differences in accrued liabilities	(2 248)	(140 732)
Gross deferred tax assets	<u>(216 439)</u>	<u>(366 030)</u>
<b>Net deferred tax liability (assets)</b>	<u><u>1 407 648</u></u>	<u><u>2 067 197</u></u>

The Company offsets the deferred tax assets and the deferred tax liabilities only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax is related to the same taxation authority. The offset amounts are as follows:

	31.12.2009 Ls	31.12.2008 Ls
Deferred tax assets:		
deferred tax asset to be recovered within a year	(216 439)	(366 030)
	<u>(216 439)</u>	<u>(366 030)</u>
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	-	-
deferred tax liabilities to be recovered within a year	73 329	91 829
deferred tax liabilities to be recovered after more than a year	1 550 758	2 341 399
	<u>1 624 087</u>	<u>2 433 228</u>
<b>Net deferred tax liabilities (assets)</b>	<u><u>1 407 648</u></u>	<u><u>2 067 197</u></u>



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The movement of deferred tax assets and liabilities during the reporting year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Derivative financial instruments	Accelerated depreciation	Accruals for unused annual leave	Accrued liabilities	Provisions for slow moving stock	Total
	Ls	Ls	Ls	Ls	Ls	Ls
<b>31.12.2007</b>	-	<b>2 483 963</b>	<b>(75 943)</b>	<b>(69 774)</b>	<b>(86 533)</b>	<b>2 251 713</b>
Charged / (credited) to income statement	-	(34 635)	9 319	(70 958)	(72 141)	(168 415)
Charged / (credited) to equity	-	(16 101)	-	-	-	(16 101)
<b>31.12.2008</b>	-	<b>2 433 227</b>	<b>(66 624)</b>	<b>(140 732)</b>	<b>(158 674)</b>	<b>2 067 197</b>
Charged / (credited) to income statement	-	(96 221)	23 698	138 484	(12 591)	53 370
Charged / (credited) to equity	(50 021)	(662 898)	-	-	-	(712 919)
<b>31.12.2009</b>	<b>(50 021)</b>	<b>1 674 108</b>	<b>(42 926)</b>	<b>(2 248)</b>	<b>(171 265)</b>	<b>1 407 648</b>

**(11) Earnings per Share (Expressed in Santims per Share)**

Since the Company has not executed any transactions that could cause changes in the share capital, which would change the amount of earning per share, the adjusted earnings per share is equivalent to the basic earnings per share.

Earnings per share are calculated by dividing the net profit of the reporting year by the average number of shares in the reporting year.

	2009	2008
Profit attributed to shareholders of the Company (Ls)	3 586 405	5 908 519
Average annual number of shares	7 496 900	7 496 900
<b>Earnings per share (expressed in santims)</b>	<b>47.84</b>	<b>78.81</b>

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**(12) Intangible assets and property, plant and equipment**

	Intangible assets	Property, plant and equipment					Total property, plant and equipment
		Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Advances for property, plant and equipment	
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
<b>31.12.2007</b>							
Initial cost/ revaluated	1 163 608	20 039 309	12 306 280	3 139 668	670 651	164 152	36 320 060
Accumulated depreciation	(1 158 045)	(1 799 839)	(8 832 819)	(2 466 318)	-	-	(13 098 976)
<b>Net book value</b>	<b>5 563</b>	<b>18 239 470</b>	<b>3 473 461</b>	<b>673 350</b>	<b>670 651</b>	<b>164 152</b>	<b>23 221 084</b>
<b>2008</b>							
Opening net book value	5 563	18 239 470	3 473 461	673 350	670 651	164 152	23 221 084
Acquired	-	-	-	-	-	1 416 650	1 416 650
Disposed	-	(134 712)	(6 795)	(18 204)	-	(142 788)	(302 499)
Reclassified	436	147 091	1 151 852	266 042	(298 889)	(1 266 532)	(436)
Depreciation	(3 952)	(729 330)	(794 015)	(268 807)	-	-	(1 792 152)
<b>Closing book value</b>	<b>2 047</b>	<b>17 522 519</b>	<b>3 824 503</b>	<b>652 381</b>	<b>371 762</b>	<b>171 482</b>	<b>22 542 647</b>
<b>31.12.2008.</b>							
Initial cost/ revaluated	1 164 044	20 030 120	13 055 992	3 271 027	371 762	171 482	36 900 383
Accumulated depreciation	(1 161 997)	(2 507 601)	(9 231 489)	(2 618 646)	-	-	(14 357 736)
<b>Net book value</b>	<b>2 047</b>	<b>17 522 519</b>	<b>3 824 503</b>	<b>652 381</b>	<b>371 762</b>	<b>171 482</b>	<b>22 542 647</b>
<b>2009</b>							
Opening net book value	2 047	17 522 519	3 824 503	652 381	371 762	171 482	22 542 647
Acquired	-	-	-	-	-	1 091 267	1 091 267
Revaluated	-	(4 663 646)	-	-	(48 784)	0	(4 712 430)
Disposed	-	(44 183)	(4 448)	(332)	(2 014)	(48 834)	(99 811)
Reclassified	-	800 068	466 325	168 053	(225 054)	(1 209 392)	-
Depreciation	(1 781)	(738 386)	(786 689)	(273 198)	-	-	(1 798 273)
<b>Closing book value</b>	<b>266</b>	<b>12 876 372</b>	<b>3 499 691</b>	<b>546 904</b>	<b>95 910</b>	<b>4 523</b>	<b>17 023 400</b>
<b>31.12.2009.</b>							
Initial cost/ revaluated	1 164 044	12 907 181	13 427 940	3 408 117	95 910	4 523	29 843 671
Accumulated depreciation	(1 163 778)	(30 809)	(9 928 249)	(2 861 213)	-	-	(12 820 271)
<b>Net book value</b>	<b>266</b>	<b>12 876 372</b>	<b>3 499 691</b>	<b>546 904</b>	<b>95 910</b>	<b>4 523</b>	<b>17 023 400</b>

The Company has completed the revaluation of land and buildings on March 16, 2010, real estate was valued at market value, the assessment was prepared by an independent valuer Reeksperts SIA. The real estate market value was determined using the comparable transaction method, future cash flow and construction cost methods. Depending on the type of real estate, the share of the comparable transaction method in the total identified market value ranged from 33% to 50%.

In the result of evaluation the decrease of the assets fair value of Ls 663 646 has been recognized, where Ls 4 419 322 has been charged against the previous year revaluation surplus, while impairment of Ls 244 324 was recognized in income statement.

Total revaluation surplus of tangible assets on 31 December 2009 was Ls 9 819 140. Revaluation amount less the attributable deferred income tax liabilities is recognizes in equity under "Revaluation reserve of non- current assets". The previous revaluation of buildings and constructions was performed in 2005 - 2006.

The value of land plots after revaluation is Ls 3 817 thousand (31.12.2008 Ls 8 561 thousand). If the land plots would not be revalued, then on December 31, 2009 the book value of the land plot would be Ls 633 thousand (31.12.2008 - Ls 492 thousand).

The book value of revalued buildings on 31 December 2009 is Ls 9 059 thousand (31.12.2008 - Ls 8 961 thousand). If the revaluation would not be performed, the residual value of buildings on 31 December 2009 would be Ls 5 330 thousand (31.12.2008 - Ls 5 645 thousand).

During the 2009 the borrowing costs has not been capitalized, as the Company didn't use the financing for the acquisition of tangible assets.

All intangible and tangible assets of the Company are pledged under conditions of the agreement of the Mortgage and Commercial pledge as the security for loans in favour of the credit institutions (see Note 18).

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<b>(13) Inventories</b>	<b>31.12.2009.</b>	<b>31.12.2008.</b>
	<b>Ls</b>	<b>Ls</b>
Raw materials and consumables	7 940 553	10 871 382
Finished goods and goods for sale	4 890 380	4 884 508
Excise tax stamps	3 839 150	3 231 202
Work in progress	520 693	484 852
Inventory in transit	40 415	452 734
	<b><u>17 231 191</u></b>	<b><u>19 924 678</u></b>

All inventories of the Company are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note 18).

	<b>2009</b>	<b>2008</b>
	<b>Ls</b>	<b>Ls</b>
Provisions at the beginning of the year	1 177 889	723 486
Changes on provisions shown in the income statement	(36 121)	454 403
Provisions at the end of the year	<b><u>1 141 768</u></b>	<b><u>1 177 889</u></b>

<b>(14) Trade receivables</b>	<b>31.12.2009.</b>	<b>31.12.2008.</b>
	<b>Ls</b>	<b>Ls</b>
Book value of trade receivables	860 154	3 906 234
Provisions for impairment of trade receivables	(341 094)	(2 435 131)
	<b><u>519 060</u></b>	<b><u>1 471 103</u></b>

	<b>2009</b>	<b>2008</b>
	<b>Ls</b>	<b>Ls</b>
Provisions at the beginning of the year	2 435 131	2 406 899
Receivables written off as uncollectible	(2 074 088)	-
Provisions at the end of the year	<b><u>361 043</u></b>	<b><u>2 406 899</u></b>

<b>(15) Other current assets</b>	<b>31.12.2009.</b>	<b>31.12.2008.</b>
	<b>Ls</b>	<b>Ls</b>
Advances for raw materials	174 618	44 649
Advances for services	51 056	72 597
Other deferred expenses	47 117	60 896
VAT accepted	23 353	39 868
Deferred insurance costs	19 146	64 893
Other receivables	2 773	11 830
	<b><u>318 063</u></b>	<b><u>294 733</u></b>

<b>(16) Cash and cash equivalents</b>		
Cash at bank on current accounts	382 970	179 696
Cash on hand	19 461	25 099
	<b><u>402 431</u></b>	<b><u>204 795</u></b>

**(17) Share capital**

As on 31 December 2009 the registered and fully paid share capital is in amount Ls 7 496 900, that consists of 7 496 900 ordinary shares with nominal value of Ls 1 each.

All shares owned by the main shareholder of the Company S.P.I. Regional Business Unit B.V. , as well as any other shares that S.P.I. Regional Business Unit B.V. may acquire in the future are pledged in accordance with terms of Commercial pledge agreement as security for loans in favour of the credit institutions (see Note 18).

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(18) Borrowings	31.12.2009. Ls	31.12.2008. Ls
<b>Non-current</b>		
AS Swedbank (previously Hansabanka)	8 399 074	8 620 479
Nordea Bank Finland Plc. Latvian branch	3 232 870	2 164 667
	<b><u>11 631 944</u></b>	<b><u>10 785 146</u></b>
<b>Current</b>		
Credit line facilities	11 398 720	6 443 070
AS Swedbank (previously Hansabanka)	2 022 555	5 805 692
Nordea Bank Finland Plc. Latvian branch	957 608	2 983 419
	<b><u>14 378 883</u></b>	<b><u>15 232 181</u></b>

The carrying value of borrowings does not materially differ from their fair value.

	2009 Ls	2008 Ls
At beginning of the year	26 017 327	37 719 158
Received borrowings during the year	4 955 650	4 568 226
Repaid borrowings during the year	(4 944 050)	(16 300 557)
Currency exchange rate fluctuation results	(18 100)	30 500
At the end of the year	<b><u>26 010 827</u></b>	<b><u>26 017 327</u></b>

On 30 April 2004, a credit line agreement was signed with AS Swedbank and AS SEB Latvijas Unibanka for a credit line granting. According to assigned agreement of 24 July 2007, credit line of the Company has been refinanced to Nordea Bank Finland Plc. Latvian branch.

At the end of 2009 the limit of overdraft granted by Nordea Bank Finland Plc is in amount Ls 6 308 285, which consists of:  
EUR 3 000 000, Ls 4 199 873.

During the previous reporting year AS Swedbank had granted to Company a credit line facilities in multiple currencies. The limits of granted credit line in accordance with loan agreement are Ls 2 610 085, EUR 3 345 744 and USD 3 000 000.

On 31 December 2009 the debt of the Company for above mentioned credit lines consists of:

- Nordea Bank Finland Plc. Latvia branch Ls 3 264 166, EUR 2 811 497,
- AS Swedbank Ls 2 430 533, EUR 3 251 209, USD 2 951 181.

The term of repayment:

- Nordea Bank Finland Plc. Latvia branch - 30 December 2010;
- AS Swedbank - 30 April 2010. The management is planning to prolong credit line facilities for one year.

On 30 April 2004 a long - term loan agreement was signed with AS Hansabanka and AS SEB Latvijas Unibanka for, respectively, a loan in amount of USD 12 500 000 and Ls 6 800 000. In accordance with signed agreement on 24 July 2007, the loan of the Company has been refinanced to Nordea Bank Finland Plc. Latvian branch, in the result thereof Nordea Bank Finland Plc took over all obligations of AS SEB Unibanka and granted to the Company a loan in the amount of EUR 4 500 000.

On 31 December 2009 the debt of the Company for above mentioned loan to AS Swedbank amounted to USD 3 683 333 (Ls 1801150), and to Nordea Bank Finland Plc. Latvian branch - amounted to EUR 2 882 469 (Ls 2 025 811). Principal amount of the said loans must be repaid by:

- 30 April 2014 to AS Swedbank;
- 30 June 2012 to Nordea Bank Finland Plc. Latvian branch, with the right to prolong repayment date till 30 April 2014.

On 21 September 2005 a credit agreement was signed with AS Swedbank for granting a credit of EUR 20 667 200. Credit repayment term – 20 July 2015. At the end of reporting year the outstanding loan amount is EUR 7 980 122 (Ls 5 608 462).

On 24 July 2007 a loan agreement was concluded between Nordea Bank Finland Plc, AS Swedbank and the Company on granting the loan in amount EUR 13 000 000, spited as EUR 7 000 000 disbursed from Nordea Bank Finland Plc and EUR 6 000 000 disbursed from AS Swedbank. In 2008 the Company has concluded amendments to the above-mentioned agreement regarding additional loan of EUR 1 500 000, which has been received during the previous reporting year.

The maturity of the loan is 30 June 2012 with the right to extend the repayment date till 30 June 2014.

On 31 December 2009 the debt of the Company for above mentioned agreement consists of EUR 4 285 714 (Ls 3 012 017) to AS Swedbank, and respectively, EUR 3 080 044 (Ls 2 164 667) to Nordea Bank Finland Plc.

On 28 December 2007 the Company has concluded a loan agreement with AS Swedbank for granting a loan in amount EUR 10 000 000. The loan is granted for financing S.P.I. Group projects. At the end of the reporting year the loan is repaid in full; during the year 2009 the repaid sum is EUR 2 760 870 (Ls 1 940 350).

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The effective interest rates at the balance sheet date were as follows:

	31.12.2009	31.12.2008
Loans	1.663% - 2.478%	3.910% - 4.742%
Credit line facilities	9.381% - 10.471%	15.492%

Borrowings made by the Company are exposed to the interest rate fluctuations in the following revaluation periods.

	31.12.2009 Ls	31.12.2008 Ls
6 months or less	26 010 827	26 017 327
	<u>26 010 827</u>	<u>26 017 327</u>

Maturity of the total borrowings is as follows:

	31.12.2009 Ls	31.12.2008 Ls
Payable in 1 year	14 378 883	15 232 181
Payable in 2 – 5 years	11 045 986	9 194 687
Payable in more than 5 years	585 958	1 590 459
	<u>26 010 827</u>	<u>26 017 327</u>

Fulfilment of the Company's liabilities is secured and enforced by:

- (i) the mortgage of all real estate owned by the Company,
- (ii) commercial pledge of all Company's assets as aggregation of property on the date of pledging as well as future parts of the aggregation of property, (iii) all pledged shares of the Company, owned by the largest shareholder of the Company S.P.I. Regional Business Unit B.V. ., and any other shares that S.P.I. Regional Business B.V. may acquire in the future. Carrying value of the pledged assets of the Company as at 31 December 2009 was Ls 80 556 141 (as at 31 December 2008 - Ls 86 362 265).

**(19) Derivatives financial instruments and hedging activities**

The Company uses hedge accounting for variable interest payments for received loans from Nordea Bank Finland Plc. With the derivative financial instruments the Company managed loan interest rate fixation to cover against the negative effects on Company's financial results from interest rate fluctuations. Derivative financial instruments are measured as highly effective and the Company uses the accounting policy for hedge accounting (see section (11) in accounting policy).

The fair value of derivative financial instruments at the end of the reporting year is estimated in Ls 333 471, and recognized in the in equity under "Financial instruments revaluation reserve" (less changes in deferred tax liabilities). Liabilities on derivative financial instruments are classified as long-term as the period of swap contract is up to June, 2012.

(20) Other liabilities	31.12.2009. Ls	31.12.2008. Ls
Excise tax	5 845 917	9 127 668
Accrued liabilities	1 921 254	1 991 119
Value Added Tax	691 752	574 656
Accruals for unused annual leave	286 171	444 160
Salaries	194 336	284 833
Deferred income	197 705	255 639
Mandatory State social insurance contributions	101 547	140 888
Personal income tax	65 647	92 812
Real estate tax	1 310	1 381
Unpaid dividends of the previous years	-	5 235
Other receivables	50 731	40 192
	<u>9 356 370</u>	<u>12 958 583</u>

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(21) Cash granted from operations	2009 Ls	2008 Ls
Profit before corporate income tax	4 403 668	7 031 892
<i>Adjustments for:</i>		
depreciation and amortization (Note 7)	1 800 054	1 796 103
increase / (decrease) in provisions for stock impairment	(193 415)	476 363
loss / (profit) from foreign currency exchange rate fluctuations	(18 100)	30 500
interest expenses (Note 9)	1 713 934	2 207 775
interest income (Note 8)	(796 170)	(1 731 338)
loss / (profit) from revaluation of tangible assets	244 324	-
loss / (profit) from disposal of tangible assets	48 963	32 131
<i>Changes in working capital</i>		
inventories	2 486 630	(2 560 462)
receivables	(336 211)	6 428 737
liabilities	(4 504 155)	(1 043 802)
	<b><u>4 849 522</u></b>	<b><u>12 667 899</u></b>

(22) Average number of employees	2009	2008
Average number of people employed during the financial year	<u>681</u>	<u>773</u>

(23) Remuneration to personnel	2009 Ls	2008 Ls
Salaries and mandatory State social insurance contributions for production personnel	3 225 613	4 269 764
Salaries and mandatory State social insurance contributions for distribution personnel	1 435 600	1 699 432
Salaries and social insurance contributions for administration personnel	1 341 972	1 488 285
	<b><u>6 003 185</u></b>	<b><u>7 457 481</u></b>
Including key management		
salary expenses	552 498	760 542
mandatory State social insurance contributions	135 926	49 518
including Mandatory State social contributions included in personnel expenses	1 211 751	1 341 863

**(24) Transactions with related parties**

The main shareholder of the Company, who owns 89.53% of shares of the Company, is S.P.I. Regional Business Unit B.V. (the previous name is S.P.I. Distilleries B.V.), which is incorporated in the Netherlands. The ultimate Parent company of the Group is S.P.I. Group S.a.r.l, which is incorporated in Luxemburg and its majority shareholder is Mr. Yuri Shefler.

In 2009 the Company had economic transactions with the Parent company of the Group the S.P.I. Group S.a.r.l. and the following S.P.I. Group companies that are directly or indirectly subsidiaries of S.P.I. Group S.a.r.l - S.P.I. Spirits (Cyprus) Ltd. (Cyprus), Spirits Product International IP B.V. (Luxemburg), S.P.I. Production B.V. (Netherlands), Tambovskoje spirtovodocnoje predpriatije Talvis OAO (Russia), Torgovi Dom Rostvestalko (Russia), SPI-RVVK OAO (Russia), SIA Bravo (Latvia), UAB Bennet Distributors (Lithuania), SIA Z Towers (Latvia), SPV Distributor SIA (Latvia), Spirits International B.V.(Luxemburg), SIA AV&D (Latvia), SIA Interlat (Latvia). On 30 December, 2009 the S.P.I. Group has acquired shares of SIA Mono M (Latvia), SIA S.D.V. (Latvia), SIA L.D.V. (Latvia). The Cor

The value of the transactions are disclosed with excise tax.

(a) Sale of Goods	2009 Ls	2008 Ls
SIA AV&D	45 979 035	60 418 400
S.P.I. Spirits (Cyprus) Ltd.	28 544 582	33 777 343
UAB Bennet Distributors	4 427 777	5 902 770
Torgovi Dom Rosvestalko	458 459	607 241
SIA Bravo	231 183	109 616
SPI-RVVK OAO	114 408	311 255
	<b><u>79 755 444</u></b>	<b><u>101 126 625</u></b>

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(b) Sale of Other Assets	2009	2008		
	Ls	Ls		
Sale of trade mark to Spirits International B.V.	-	300 000		
Sale of tangible assets to SIA AV&D	-	5 084		
	<u>-</u>	<u>305 084</u>		
(c) Service Rendered (Including Loan Interest)				
S.P.I. Spirits (Cyprus) Ltd.	548 543	908 422		
SIA Interlat	408 070	487 126		
S.P.I. Production B.V.	399 306	870 292		
SIA AV&D	206 533	85 945		
SIA Bravo	25 573	13 859		
SIA Meierovica 35	9 612	72 291		
SIA Z Towers	-	416		
Spirits International B.V. (Luxemburg)	-	252		
Spirits Product International IP B.V.	-	168		
Spirits International B.V. (branch)	1 730	-		
SIA SPV Distributor	133	102		
	<u>1 599 500</u>	<u>2 438 873</u>		
(d) Purchase of Goods				
SPI-RVVK OAO	5 489 051	4 926 732		
Tambovskoje spirtovodocnoje predprijatije Talvis OAO	276 718	443 765		
S.P.I. Spirits (Cyprus) Ltd.	69 471	15 820		
UAB Bennet Distributors	-	20 000		
SIA Bravo	-	863		
	<u>5 835 240</u>	<u>5 407 180</u>		
(e) Services Received				
S.P.I. Group S.a.r.l	-	617 328		
S.P.I. Spirits (Cyprus) Ltd.	205 093	341 983		
SIA Meierovica 35	102 076	84 360		
SIA AV&D	69 394	13 147		
UAB Bennet Distributors	35 973	38 950		
Spirits Product International IP B.V.	27 094	62 691		
Spirits International B.V.	4 516	4 243		
SPI-RVVK OAO	1 777	2 468		
SIA Interlat	-	86		
SIA Bravo	365	31		
	<u>446 288</u>	<u>1 165 287</u>		
(f) Accounts Receivable and Payable				
	31.12.2009.	31.12.2008.		
	Receivables	Payables	Receivables	Payables
	Ls	Ls	Ls	Ls
S.P.I. Spirits(Cyprus) Ltd.	12 865 554	467 878	8 858 358	1 924 138
SIA AV&D	2 487 866	52 560	5 191 394	6 073
UAB Bennet distributors	1 549 637	28 882	1 681 213	5 178
S.P.I. Production B.V.	1 133 928	-	734 621	-
SIA Meierovica 35 *	566 927	-	499	16 591
OU Divinum	419 605	11 661	-	-
Spirits International B.V.	300 278	-	300 281	-
SIA L.D.V.	265 050	-	-	-
SIA Mono M	203 054	-	-	-
SIA Bravo	21 013	442	33 756	36
Spirits Product International IP B.V.	166	18 384	168	405 331
SIA Interlat	16 572	-	54 219	-
Torgovi Dom Rosvestalko	10 640	-	191 734	-
Spirits International B.V.	-	8 759	-	4 243
SPI-RVVK OAO	7 624	-	42 698	-
Spirits International B.V.(branch)	2 094	-	-	-
SIA S.Alko	1 310	-	-	-
SIA SPV Distributor	57	-	340	-
	<u>19 851 375</u>	<u>588 566</u>	<u>17 089 281</u>	<u>2 361 590</u>
The short term part of the loan (see section (g))	-	-	7 028 040	-
Total short term liabilities	<u>19 851 375</u>	-	<u>24 117 321</u>	-

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Repayment of the debts will be made in cash, and they are not secured with guarantee or otherwise. In 2009 and 2008 there are no significant bad debts from related parties.

\* In 2009, the Company concluded a loan agreement with SIA Meirovica 35 for the loan in amount of 1 000 000 lats. The loan is issued as credit line facilities in separate parts. Loan repayment term is until 1 October, 2010. On 31 December, 2009 the issued and outstanding amount of the loan is Ls 564 000.

At the end of the reporting year accrued liabilities to S.P.I. Group S.à.r.l. for the services received during the previous years were Ls 950 616 (31.12.2008 - Ls 930 960).

<b>(g) Loans to Group companies</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
	<b>Ls</b>	<b>Ls</b>
S.P.I. Production B.V. **	14 477 762	14 477 762
S.P.I. Spirits (Cyprus) Ltd *	10 331 219	10 331 219
	<b><u>24 808 981</u></b>	<b><u>24 808 981</u></b>
At beginning of the year	24 808 981	27 128 234
Borrowings issued during the year	2 216 000	3 514 020
Repaid borrowings during the year	<u>(2 216 000)</u>	<u>(5 833 273)</u>
At the end of the year	<b><u>24 808 981</u></b>	<b><u>24 808 981</u></b>
Maturity of the total borrowings is as follows:		
Payable in 1 year	-	7 028 040
Payable in 2 – 5 years	24 808 981	17 780 941
	<b><u>24 808 981</u></b>	<b><u>24 808 981</u></b>

\* On 26 July 2007 the Company concluded a loan agreement with S.P.I. Spirits (Cyprus) Limited regarding loan of EUR 13 000 000. During year 2008 the loan was partly repaid for EUR 8300000. The unpaid part of principal sum of the loan on 31 December 2009 is in amount EUR 4 700 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2009 amounted to Ls 3 303 179.

Loan repayment date is 30 June 2014.

\* On 28 December 2007 the Company concluded a loan agreement with S.P.I. Spirits (Cyprus) Limited of EUR 10 000 000. At the end of 2007 the first part of EUR 5 000 000 was transferred, the second part was transferred on January 2008 in amount of EUR 5 000 000.

On 28 December, 2009 the agreement on prolongation of term till 28 December 2011 was signed. The unpaid part of the loan on 31 December 2009 is EUR 10 000 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2009 amounted to Ls 7 028 040.

\*\* On 20 April 2006 the Company concluded a long-term loan agreement with S.P.I. Production B.V. in the amount of EUR 20 600 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2009 amounted Ls 14 477 762. Repayment date is 20 July 2010 or due to signed agreement 20 July 2015.

The debts will be repaid in cash and they are not secured by guarantee or otherwise.

The effective interest rates at the balance sheet date were as follows:

	<b>31.12.2009.</b>	<b>31.12.2008.</b>
Loans issued	1.856 - 3.712%	4.107 - 6.001%

**(h) Royalty Payments**

The Company leases trade marks from S.P.I. group companies. The amount of the royalties depends on the amount of the produced drinks subjected to royalty payments. The payments are included in the amount of received services (Note 25(e)). In accordance with the Management's estimates in 2010 no significant changes are expected in the amount of royalty payments.



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**(25) Tax Contingent Liabilities**

The tax authorities have conducted complex tax audit of the Company for the period from 2002 to 2004. The outcome of this audit was no material to these financial statements.

The tax authorities may at any time conduct the accounting audit for the last three years after the taxation period and apply additional tax liabilities and penalties. The Management of the Company is not aware of any circumstances that could cause potential significant liabilities in the future.

**(26) Guaranties issued**

In January 2009 SIA Bravo has signed credit line agreement with Nordea Bank Finland Plc, Latvian branch for credit line with EUR 5 000 000 limit, where AS Latvijas balzams issued guarantee in amount EUR 4 000 000 serves as the security. The maturity date is 30 December 2010. The guarantee is valid until complete fulfilment of SIA Bravo obligation.

The Company issued guarantees to AS Parex banka as the security of the payment card (Visa Gold) issued to SPI Spirits (UK) Ltd. with the granted credit of USD 100 000.

**(27) Financial and capital risk management**

The Company's activity is exposed to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company's financial position. The Company uses derivative financial instruments to hedge certain risk exposures.

**(a) Market risk**

**(i) Foreign exchange risks**

The Company operates internationally and is exposed to foreign currency risk arising mainly from the U.S. dollar's fluctuations as to the euro and other currencies fixed to the euro. Foreign currency risks arises from future commercial transactions, recognized assets and liabilities. The majority of raw materials and materials are purchased by the Company in euro and US dollars, but the significant part of the production is sold in the domestic market and exported to the markets where euro dominates. In 2009 the Company has reduced the volume of transactions in U.S. dollars. Taking into account the increased amounts of transactions in euro, in 2009 the Company had increased the share of credit line facilities in euro.

Since 2005 the Bank of Latvia has stated a fixed currency exchange rate for lats against euro, i.e. 0.702804, and ensure that the market rate will not differ from the official rate by more than 1%. As far as the Bank of Latvia maintains the above mentioned exchange corridor, the Company will not have a significant currency exchange risks in respect of assets and liabilities nominated in euro.

The Company's significant open currency positions:

	<b>31.12.2009.</b>	<b>31.12.2008</b>
Financial assets, EUR	50 282 524	40 869 444
Financial liabilities, EUR	(28 266 685)	(30 567 545)
Open position EUR, net	22 015 839	10 301 899
<b>Open position EUR calculated in lats, net</b>	<b><u>15 472 820</u></b>	<b><u>7 240 216</u></b>
Financial assets, USD	775 633	17 601 600
Financial liabilities, USD	(6 914 265)	(6 486 477)
Open position USD, net	(6 138 632)	11 115 123
<b>Open position USD calculated in lats, net</b>	<b><u>(3 001 791)</u></b>	<b><u>5 501 986</u></b>

**(ii) Interest rate risks**

The Company is exposed to interest rate risk as the main part of the liabilities are interest-bearing borrowings with the variable interest rate (Note 18), as well as the Company's interest bearing assets have variable interest rate (Note 24(g)). Taking into account that the difference between assets and liabilities with variable interest rates is not significant and mainly depends on EURIBOR fluctuations, the management of the Company believes that risk of interest rate fluctuations is low.

	<b>31.12.2009.</b>	<b>31.12.2008.</b>
	<b>Ls</b>	<b>Ls</b>
Financial assets with variable interest rate, EUR calculated in LVL	10 331 219	10 331 219
Financial liabilities with variable interest rate, EUR calculated in LVL	(17 071 851)	(19 553 563)
Financial liabilities with variable interest rate, USD calculated in LVL	(3 244 277)	(2 258 438)
Financial liabilities with variable interest rate, LVL	(5 694 699)	(4 205 326)
<b>Open position, net, LVL</b>	<b><u>(15 679 608)</u></b>	<b><u>(15 686 108)</u></b>

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Due to the number of risk factors, the Company manages its cash flow interest rate risk by hedge activities and floating-to-fixed interest rate swaps. Under these contracts the Company fixes the interest rate for long-term borrowings.

**(b) Credit risk**

Financial assets, which potentially subject the Company to a certain degree of credit risk concentration are primarily cash, trade receivables and loans. Company's policy provides that the goods are sold and services provided to customers with appropriate credit history. Trade receivables are recognized in recoverable amount. For the bank transactions only the local and foreign financial institutions with appropriate ranking is accepted.

	31.12.2009	31.12.2008
	Ls	Ls
Maximum exposure to credit risk		
Issued loans to Group companies	24 808 981	24 808 981
Trade receivables - Group companies	19 851 375	24 117 321
Trade receivables - non -related parties	519 060	1 471 103
Cash	402 431	204 795
	<b>45 581 847</b>	<b>50 602 200</b>

The largest concentration of credit risk arises from the Group company's debts: on 31 December 2009 97% of the total trade receivables related to Group companies (31.12.2008: 92%). Taking into account the Group's policy and the financial position, no provisions for debts and impairment losses of Group companies were made and the Company's management believes that the credit risk of transactions of the Company is considered as low.

Maturity analysis of trade receivables (non-related parties)

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	spitted as: in due term	Past due*		
					< 90 days	90-180 days	> 180 days
31.12.2009	860 154	(341 094)	519 060	249 636	263 408	6 016	-
31.12.2008	3 906 234	(2 435 131)	1 471 103	892 494	355 755	163 661	59 193

\* The Company has estimated the provisions for impairment losses of assets by estimation the balance of overdue accounts receivable individually. Taking into account repayment of debt in 2010, the Company's management concluded that it is not necessary to make provisions for impairment of assets.

**(c) Liquidity risk**

Company pursues a prudent liquidity risk management and maintain a sufficient quantity of cash and ensure the availability of financial funds through credit lines provided by banks. At the end of the reporting year total available credit facilities amount is Ls 12 737 thousand (31.12.2008: Ls 12 755 thousand). On 31 December 2009 the unused part of the credit line was Ls 1 338 thousand (2008: Ls 6 312 thousand). Company's management monitors the operational forecasting of liquidity reserves, based on estimated cash flows. Most of the Company's liabilities are short-term. Management believes that the Company will have sufficient amount of financial resources that will be generated from operating activities and through a credit line facilities from Latvian banks.

The following table shows the maturity structure of financial liabilities of the Company, that is based on non-discounted cash flows:

On 31 December, 2009	Total Ls	<1 year Ls	1-2 years Ls	2-5 years Ls	>5 years Ls
Long-term loans	11 631 944	-	2 980 162	8 065 824	585 958
Derivative financial instruments	333 471	-	-	333 471	-
Short -term loans	14 378 883	14 378 883	-	-	-
Trade payables	3 790 590	3 790 590	-	-	-
Debts to Group companies	588 566	588 566	-	-	-
	<b>30 723 454</b>	<b>18 758 039</b>	<b>2 980 162</b>	<b>8 399 295</b>	<b>585 958</b>
On 31 December, 2008	Total Ls	<1 year Ls	1-2 years Ls	2-5 years Ls	>5 years Ls
Long-term loans	10 785 146	-	2 097 018	7 097 669	1 590 459
Short -term loans	15 232 181	15 232 181	-	-	-
Trade payables	3 185 427	3 185 427	-	-	-
Debts to Group companies	2 361 590	2 361 590	-	-	-
	<b>31 564 344</b>	<b>20 779 198</b>	<b>2 097 018</b>	<b>7 097 669</b>	<b>1 590 459</b>

All trade receivables, including Group companies, are short - term, with a maturity 1 year or less.

"Latvijas balzams"  
FINANCIAL STATEMENTS  
for the period ended 31 december 2009

**(d) Capital Management**

According to the Latvian Commercial Law requirements if the equity of the Company falls below 50% of the share capital, the Board is required to address shareholders to make decisions on Company's going concern. Equity of the Company meets the Latvian legal requirements. Company's management manages the capital structure on going concern basis. During the reporting period there were no changes in capital management objectives, policies or processes. To ensure capital sufficiency, the Company's Board proposes to leave the profit of reporting period not distributed.

Company's management controls the net debt to total capital (gearing ratio). During the reporting year this figure has increased slightly for 1%, that confirms the stability of the Company. The positive trend in 2009 is also the increased proportion of equity to total assets up to 48% (2008: 46%).

	<b>31.12.2009.</b>	<b>31.12.2008</b>
	<b>Ls</b>	<b>Ls</b>
Total borrowings	26 010 827	26 017 327
Less cash and its equivalents	<u>(402 431)</u>	<u>(204 795)</u>
Net debt	25 608 396	25 812 532
Equity	39 068 669	39 522 138
Total capital (equity and net debts)	<u><u>64 677 065</u></u>	<u><u>65 334 670</u></u>
Total assets	80 556 141	86 362 265
Gearing ratio	66%	65%
Equity ratio	48%	46%

**(28) Subsequent events**

There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2009.

**Appendix I**  
**AS „Latvijas balzams”**  
**ANNUAL REPORT**  
**for the period ended 31 December 2009**  
in accordance with EU approved  
International Financial Reporting Standards

## 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
Liquidity providers	None
Indexes	B30GI, B30PI, OMXBGI, OMXBPI, OMXRGI

### JSC “Latvijas balzams” share price development for the period 01.01.09 – 31.12.09



*Currency: LVL*

### JSC “Latvijas balzams” share price development for the period 01.01.09 – 31.12.09

Open	1.03 LVL
Max	3.10 LVL
Min	0.81 LVL
Average	1.71 LVL
Last	1.90 LVL
Change	84.47 %
Deals	899
No of shares traded	74 236
Turnover	126 566.31 LVL
Capitalization on 2009.12.31	14 244 110 LVL

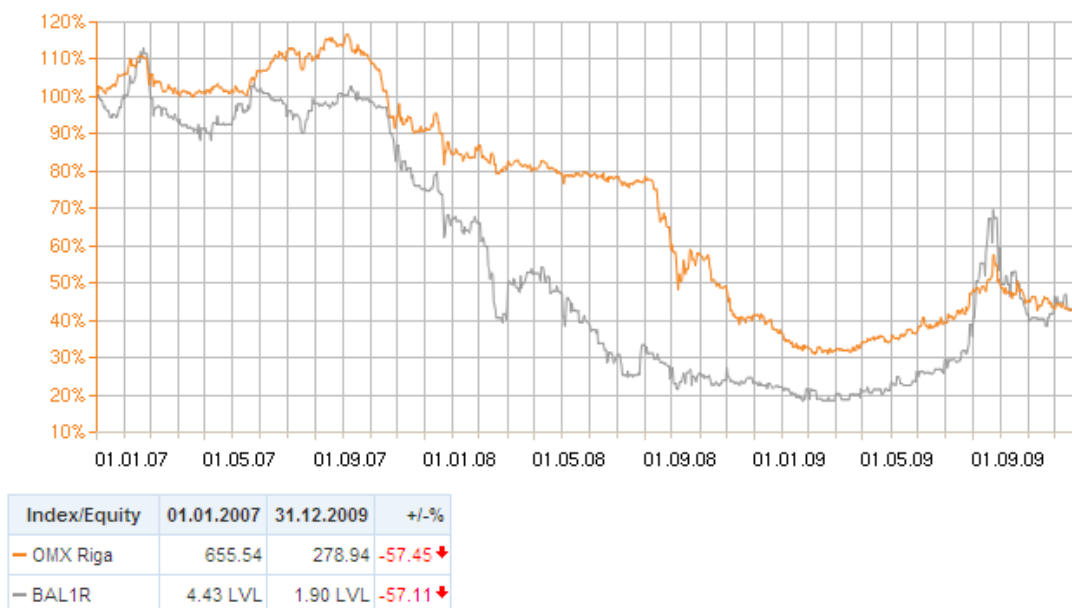
**Appendix I**  
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**JSC “Latvijas balzams” share price development for the period 01.01.07 – 31.12.09**



*Currency: LVL*

**JSC “Latvijas balzams” share price development in comparison with NASDAQ OMX Riga index for the period 01.01.07 – 31.12.09**



**Kārlis Andersons – chairman of the Management Board**  
(since 29.04.2008)  
**General director of AS Latvijas balzams**

Chairman of the Management Board of AS Latvijas balzams since 29.04.2008, chairman of the Management Board of SIA AV&D since 30.03.2010, member of the Board of Latvian Association of Alcohol Producers and Traders (ARTA) since 24.02.2009, chairman of the Board of Association of Latvian Spirits Producers and Distributors (LADRIA) since 04.06.2008, member of the Board of Latvian Federation of Food Enterprises since 30.05.2008, member of the Board of Yury Shefler Fund since 04.06.2008, member of the Supervisory Board of Employers' Confederation of Latvia since 31.03.2009

The University of Latvia, faculty of economics and management, bachelor degree  
The University of Latvia, faculty of law, justice, qualification of lawyer  
Business school of Aarhus (Denmark), Aarhus University – master degree in finances

08.2006 - 04.2008 CFO of AS Latvijas balzams  
2005 - 2006 Member of the Management Board of VP Market  
2004 - 2006 CFO of VP Group Latvija

**Valery Parshikov – member of the Management Board**  
(from 18.05.2009 to 22.03.2010)

Kaliningrad State University, Kaliningrad, Russia

2005 - 2009 OAO SPI RVVC Kaliningrad, Russia, Adviser of Director General in the field of logistics and foreign economic activities

**Ronalds Žarinovs – member of the Management Board**  
(since 29.04.2008),  
**Director of production of AS Latvijas balzams**  
(since 16.06.2003)

Latvia University of Agriculture, bachelor degree  
Riga International School of Economics and Business Administration (RSEBAA), master degree

1998 - 2003 Director of production of AS Rīgas Piena kombināts

**Egils Dzerelis – member of the Management Board**  
(from 06.05.2003. to 20.05.2009),  
**Director of logistics of AS Latvijas balzams**  
(from 31.08.1999 to 18.05.2009)

The University of Latvia, faculty of economics and management, bachelor degree

1997 - 1999 Procurement director of SIA REMA1000LV

**Sergejs Ļimarenko – member of the Management Board**  
(since 06.05.2003),  
**Head of Security Service of AS Latvijas balzams**  
(since 20.02.2002)

The University of Latvia, faculty of law, lawyer

**Signe Bidermane – member of the Management Board**  
(since 29.04.2008),  
**Head of personnel and administration department of AS Latvijas balzams** (since 05.07.2006)

The University of Latvia, faculty of economics, business economics, bachelor degree  
The University of Latvia, faculty of economics and management, master degree

1999 - 2004 HR manager of AS Ventspils Tirdzniecības osta

**Gunita Kronberga - member of the Management Board**  
(since 22.03.2010),  
**CFO of AS Latvijas balzams** (since 29.09.2008)

Member of the Management Board of SIA AV&D since 28.05.2008

The University of Latvia, faculty of economics, bachelor degree  
09.2007 - 09.2008 CFO of SIA AV&D  
01.2006 - 09.2007 Chief accountant of SIA MAXIMA Latvija