

AS "Latvijas balzams"  
FINANCIAL STATEMENTS  
for the period ended 31 December 2010

**AS Latvijas balzams**  
**ANNUAL REPORT**  
**for the period ended 31 December 2010**  
in accordance with EU approved  
International Financial Reporting Standards

AS "Latvijas balzams"  
FINANCIAL STATEMENTS  
for the period ended 31 December 2010

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**MANAGEMENT**

Names and positions of the Council members

Aigars Kalvītis – Chairman of the Council  
(from 16.10.2009)

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

Andrejs Skurihins – Member of the Council

Alexander Kovalev – Member of the Council  
(from 16.10.2009)

Pjotrs Aven - Member of the Council

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

Names and positions of the Board members

Kārlis Andersons – Chairman of the Board  
General Director of AS Latvijas balzams

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

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

Ronalds Žarinovs – Member of the Board,  
Director of Production of AS Latvijas balzams

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

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

## **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 100 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 2010 was 52.2 million lats, which is for 6% less than in year 2009. Turnover in the domestic market compared with last year, has fallen by 13%, in the export market - by 18%, meanwhile export orders of "S.P.I. Group" has increased by 2% compared with last year. In 2010 sales to EU member states compared with last year, has fallen by 15%. Sales to Lithuania and Estonia has fallen respectively by 28% and 1%. Company's principal activity results in 2010 was significantly affected by the decline of purchasing power, the increase of excise tax and illegal alcohol sales increase as well as the decrease in economic activity in Latvia, taking under consideration, that economical development is associated solely with exports, as well as economical uncertainty in main markets of the Company. The main export directions in 2010 were the Baltic countries, Russia, Scandinavia, Germany and Italy. Meanwhile new export markets were actively acquired, for example, Bulgaria, China, Australia and Kazakhstan.

The Company has paid great attention to production cost control and operation's efficiency improvement, as a result, despite the decrease in net turnover in 2010, the Company has finished the reporting year with a 3.9 million lats net profit, that is 0.3 million lats or 9.3% better than in 2009.

During the reporting year the Company has continued to invest in production technology improvement. During the reporting year a new overhang was built for material storage, as well as investments in adjustments of the production machinery, for launching a new design of bottles for world-wide known brand Stolichnaya. The Company is one of the biggest tax payers in Latvia. During the reporting year AS Latvijas balzams transferred 34.4 million lats in taxes to the state budget, including 25.5 million lats as the excise tax.

In 2010 the Company employed 634 employees in average (2009 - 681), and their gross monthly salary last year was 578 lats in average (2009 - 610 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>2010</b>
	<b>Ls</b>
Profit share to be distributed	<b>3 920 535</b>
Proposed profit distribution:	
Retained earnings	3 920 535

### **Future prospects**

Economical situation in Latvia has started to stabilise and, even though customer purchasing power is very low, the objectives of the Company is to maintain the existing market share and to continue new market acquirement by improving product portfolio. In 2011 the priorities of AS Latvijas balzams will be further control of production and logistics costs, optimization and production efficiency improvement, rise of Company's competitiveness. AS Latvijas balzams will continue to support nature friendly solutions, persistently improving activities, that decrease Company's negative impact on the environment, establishing high requirements for itself and Company's partners.

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Kārlis Andersons  
Chairman of the Board

Riga, 14 April, 2011

**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 37 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, 2011



Baker Tilly Baltics SIA  
Kronvalda bulv. 10-32  
Rīga, LV-1010  
Latvia  
Tel.: +371 6732 1000  
Fax: +371 6732 4444  
www.bakertillybaltics.lv

## **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 37. The period of financial statements is from 1 January 2010 till 31 December 2010 (the Financial year). These financial statements include the the statement of financial position as at 31 December 2010, 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.



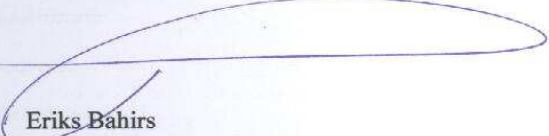
*Opinion*

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, 28 April 2010

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

AS "Latvijas balzams"  
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**INCOME STATEMENT**

	Notes	2010 Ls	2009 Ls
Net sales	(1)	52 259 342	55 599 546
Cost of sales	(2)	(41 579 432)	(44 683 501)
<b>Gross profit (loss)</b>		<b><u>10 679 910</u></b>	<b><u>10 916 045</u></b>
Distribution expenses	(3)	(3 548 150)	(4 079 867)
Administrative expenses	(4)	(2 270 072)	(2 576 634)
Other income	(5)	1 404 104	1 259 090
Other expenses	(6)	(231 964)	(30 545)
Finance income	(8)	608 622	797 174
Finance costs	(9)	(1 973 571)	(1 881 595)
<b>Profit before tax</b>		<b><u>4 668 879</u></b>	<b><u>4 403 668</u></b>
Corporate income tax	(10)	(748 344)	(817 263)
<b>Net profit</b>		<b><u><u>3 920 535</u></u></b>	<b><u><u>3 586 405</u></u></b>
<b>Earnings per share (in santims)</b>			
Basic	(11)	52.30	47.84
Diluted	(11)	52.30	47.84



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**STATEMENT OF COMPREHENSIVE INCOME**

	Notes	2010 Ls	2009 Ls
<b>Net profit</b>		<b><u>3 920 535</u></b>	<b><u>3 586 405</u></b>
<b>Other comprehensive income / (loss)</b>			
Revaluation of property, plant and equipment	(12)	-	(4 419 322)
Changes in deferred income tax liabilities resulted to revaluation of property, plant and equipment	(10)	1 921	662 898
Changes in fair value of financial instruments	(19)	128 482	(333 471)
Changes in deferred income tax liabilities resulted to changes of fair value of derivatives	(10)	(19 273)	50 021
<b>Other comprehensive income / (loss)</b>		<b><u>111 130</u></b>	<b><u>(4 039 874)</u></b>
<b>Total comprehensive income / (loss)</b>		<b><u>4 031 665</u></b>	<b><u>(453 469)</u></b>

Notes on pages 13 to 37 are an integral part of these financial statements.

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**STATEMENT OF FINANCIAL POSITION**

	Notes	31.12.2010. Ls	31.12.2009. Ls
<b><u>ASSETS</u></b>			
<b>Non-current assets</b>			
Intangible assets	(12)	5 276	266
Property, plant and equipment	(12)	15 981 757	17 023 400
Loans to group companies	(24g)	17 780 941	24 808 981
Other non-current assets		24 000	24 000
<b>Total non-current assets:</b>		<b>33 791 974</b>	<b>41 856 647</b>
<b>Current assets</b>			
Inventories	(13)	15 035 340	17 231 191
Trade receivables	(14)	405 675	519 060
Receivables from group companies	(24g)	34 070 691	19 851 375
Other current assets	(15)	389 755	376 136
Corporate income tax	(10)	-	377 374
Cash and cash equivalents	(16)	102 993	402 431
<b>Total current assets:</b>		<b>50 004 454</b>	<b>38 757 567</b>
<b><u>Total assets</u></b>		<b>83 796 428</b>	<b>80 614 214</b>
<b><u>EQUITY AND LIABILITIES</u></b>			
		31.12.2010. Ls	31.12.2009. 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)	8 335 385	8 346 267
Revaluation reserves of derivative financial instruments	(19)	(174 241)	(283 450)
Retained earnings		27 380 523	23 447 185
<b>Total equity:</b>		<b>43 100 334</b>	<b>39 068 669</b>
<b>Liabilities:</b>			
<b>Non-current liabilities:</b>			
Borrowings	(18)	9 002 012	11 631 944
Deferred income tax liabilities	(10)	1 334 857	1 407 648
Derivative financial instruments	(19)	204 989	333 471
<b>Total non-current liabilities:</b>		<b>10 541 858</b>	<b>13 373 063</b>
<b>Current liabilities:</b>			
Borrowings	(18)	15 265 868	14 378 883
Trade payables		3 362 198	3 848 663
Payables to group companies	(24g)	1 465 116	588 566
Current income tax payables	(10)	70 327	-
Other liabilities	(20)	9 990 727	9 356 370
<b>Total current liabilities:</b>		<b>30 154 236</b>	<b>28 172 482</b>
<b>Total liabilities:</b>		<b>40 696 094</b>	<b>41 545 545</b>
<b><u>Total equity and liabilities:</u></b>		<b>83 796 428</b>	<b>80 614 214</b>

Notes on pages 13 to 37 are an integral part of these financial statements.

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Kārlis Andersons  
Chairman of the Board

Riga, 14 April, 2011

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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>31.12.2008.</b>	<b>7 496 900</b>	<b>61 767</b>	<b>12 102 691</b>	-	<b>19 860 780</b>	<b>39 522 138</b>
<b>Net profit</b>	-	-	-	-	<b>3 586 405</b>	<b>3 586 405</b>
Changes in fair value of derivative financial instruments	-	-	-	(333 471)	-	(333 471)
Revaluation of property, plant and equipment	-	-	(4 419 322)	-	-	(4 419 322)
Changes in deferred income tax liabilities	-	-	662 898	50 021	-	712 919
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>(3 756 424)</b>	<b>(283 450)</b>	<b>3 586 405</b>	<b>(453 469)</b>
<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>
<b>Net profit</b>	-	-	-	-	<b>3 920 535</b>	<b>3 920 535</b>
Changes in fair value of derivative financial instruments	-	-	-	128 482	-	128 482
Changes in deferred income tax liabilities	-	-	1 921	(19 273)	-	(17 352)
Revaluation of property, plant and equipment	-	-	(12 803)	-	12 803	-
<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>(10 882)</b>	<b>109 209</b>	<b>3 933 338</b>	<b>4 031 665</b>
<b>31.12.2010.</b>	<b>7 496 900</b>	<b>61 767</b>	<b>8 335 385</b>	<b>(174 241)</b>	<b>27 380 523</b>	<b>43 100 334</b>

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**STATEMENT OF CASH FLOW**

	Notes	2010 Ls	2009 Ls
<b>Cash flow from operating activities</b>			
Cash granted from operations	(21)	4 492 349	4 849 522
Interest paid		(1 194 675)	(1 670 276)
Income tax paid		(712 713)	(1 391 270)
<b>Net cash flow generated from operating activities from continuing operations</b>		<b>2 584 961</b>	<b>1 787 976</b>
<b>Cash flow from investing activities</b>			
Acquisition of property, plant and equipment		(592 409)	(1 052 350)
Loans granted		(436 000)	(2 780 000)
Loans repayment received		-	2 216 000
Loans interest received		187 715	14 410
<b>Net cash flow generated from investing activities from continuing operations</b>		<b>(840 694)</b>	<b>(1 601 940)</b>
<b>Cash flow from financing activities</b>			
Changes in credit lines (net)		940 734	4 955 650
Borrowings repaid		(2 984 439)	(4 944 050)
<b>Net cash flow generated from financing activities from continuing operations</b>		<b>(2 043 705)</b>	<b>11 600</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(299 438)</b>	<b>197 636</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>402 431</b>	<b>204 795</b>
<b>Cash and Cash equivalents at the end of the financial year</b>	(16)	<b>102 993</b>	<b>402 431</b>

Notes on pages 13 to 37 are an integral part of these financial statements.

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Kārlis Andersons  
Chairman of the Board

Riga, 14 April, 2011

## **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 2010 up to 31 December 2010.

These financial statements were authorized for issue by the Board of Directors of the Company on 29 April 2011, 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 property, as represented in Note (6) to accounting policies and evaluation of derivative financial instruments at fair value, as represented in Note (11) 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) to accounting policies.

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

There are no amendments to existing standards and interpretations effective in 2010 that would be relevant to the Company's financial statements.

#### **b) Standards, amendments and interpretations that are effective from 1 January 2010, but not relevant for operations of the Company**

*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. This amendment does not have any material effect to the Company's financial statements.

*IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements* - Amendments (effective for financial years beginning on or after 1 July 2009). As the Company holds no investments in subsidiaries the revised standards do not have any impact to Company's financial statements.

*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 for annual periods beginning after 31 December 2009).

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*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 for 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).

*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).

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

*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 for 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 for annual periods beginning after 30 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 for 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 for annual periods beginning after 31 October 2009).

*Improvements to IFRS issued in April 2009*

Amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009, amendments to IFRS 5, IFRS 8, IAS 1, IAS 17, IAS 36, and IAS 39 are effective for annual periods beginning on or after 1 January 2010, the amendments as adopted by EU are effective for annual periods beginning on or after 1 January 2010). Improvements consist of a mixture of substantive changes and clarifications in the different areas. The amendments do not have significant impact to the Company's financial statements.

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

*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 does not expect the amendment to have any material effect on 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 Company's financial statements and the timing of its adoption.

*Improvements to IFRS issued in May 2010*

Amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. Most of are effective for annual periods beginning on or after 1 January 2011, 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.

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

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

*IFRS 7 Limited exemption from comparative disclosures for first-time adopters - Amendments to IFRS 1* (effective for annual periods beginning on or after 1 July 2010, not yet adopted by the EU).

*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 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). Financial statements are presented in Latvian lat (Ls), which is the Company's functional and presentation currency.

**(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.

Exchange rates used at the year-end are as follows:

	<b>31.12.2010.</b>	<b>31.12.2009.</b>
	<b>Ls</b>	<b>Ls</b>
1 USD	0.535	0.489
1 EUR	0.702804	0.702804
1 LTL	0.203	0.204
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 revalued 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 revalue 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 revalued 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 intangible and 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 last revaluation of real estate assets has been made during the preparation of the 2009 financial statements. As to the Managements estimates during the reporting period no factors were identified, that would give rise to potential material changes in market value, due to this no procedures for revaluation of land and buildings were performed. The total carrying amount of land and buildings as at 31 December 2010 is Ls 12 536 703 (31.12.2009. - Ls 12 876 372).

**b) Estimates of assets useful life**

In estimating useful life of tangible assets the management relies on the historical information, technical survey of the current condition and external evaluations. In 2009 while performing procedures for determining market value of buildings, the technical conditions of the building and estimated useful life were reassessed and a decision was made to revise the useful life of the building. Effect of the change in the useful life is disclosed in Note (12) of the financial statement. Tangible asset balance value as at 31 December 2010 is Ls 15818217 (31.12.2009. - Ls 16 922 967).

**c) 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. Information on amount and structure of receivables is disclosed in Note (28) of the financial statements.

**d) 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 2010 is Ls 15 035 340 (31.12.2009 - Ls 17231191).

### 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 balsams 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 S.P.I Spirits (Cyprus) Ltd orders and other export sales. Distribution of sales among these segments is as follows:

	2010 Ls	2009 Ls
Sales in Latvia	17 095 761	19 537 811
Export sales under S.P.I. Group company's S.P.I. Spirits (Cyprus) Ltd. orders	29 002 694	28 511 776
Other income from export sales		
Lithuania	3 174 395	4 427 986
Russia	996 865	1 031 522
Estonia	632 376	641 911
Poland	231 406	325 020
Norway	292 435	255 285
Belarus	-	200 055
Other countries	833 410	668 180
Other income from export sales (total)	<u>6 160 887</u>	<u>7 549 959</u>
	<u><b>52 259 342</b></u>	<u><b>55 599 546</b></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 with Group entities is disclosed in Note (24). There are no non-related clients with whom the amount of transactions would be 10% or more of total revenues.

	2010 Ls	2009 Ls
Sales to S.P.I. group companies	50 118 698	52 824 287
Sales to other customers	2 140 644	2 775 259
	<u><b>52 259 342</b></u>	<u><b>55 599 546</b></u>

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(2) Cost of sales	2010 Ls	2009 Ls
Materials	34 061 684	36 669 314
Salary expense	1 509 183	1 749 414
Energy resources	531 296	594 408
Changes of inventory value of finished goods	387 550	(225 078)
Mandatory state social insurance contributions	361 374	419 783
Natural recourse tax	273 613	312 258
Increase in provisions for accounts receivable, inventories and other accrued liabilities	111 754	55 448
Goods purchased	56 830	121 229
Accrued expenses on unused annual leave (variable)	40 664	(34 946)
Other variable costs	1 000 730	1 150 767
<b>Variable costs total:</b>	<b>38 334 678</b>	<b>40 812 597</b>
Depreciation of non-current assets	1 284 112	1 345 222
Salary expenses	789 378	946 656
Repair expenses	352 516	354 092
Mandatory state social insurance contributions	187 076	226 002
Insurance payments	64 755	76 682
Laboratory expenses	33 810	43 039
Accrued expenses on unused annual leave (fixed)	2 467	(81 296)
Net losses from revaluation of tangible assets	-	244 324
Other fixed expenses	530 640	716 183
<b>Fixed costs total:</b>	<b>3 244 754</b>	<b>3 870 904</b>
	<b>41 579 432</b>	<b>44 683 501</b>
(3) Distribution expenses		
Advertising expenses	1 025 560	1 209 251
Salary expenses	1 074 528	1 179 488
Transportation expenses	433 680	448 937
Mandatory state social insurance contributions	256 360	282 015
Depreciation of non-current assets	241 169	301 791
Warehouse maintenance expenses	226 582	352 839
Accrued expenses on unused annual leave	5 141	(25 903)
Other expenses	285 130	331 449
	<b>3 548 150</b>	<b>4 079 867</b>
(4) Administrative expenses		
Salary expenses	1 032 287	1 098 743
Management services and expenses	364 934	553 791
Mandatory state social insurance contributions	240 633	259 073
Professional fees	86 434	67 517
Real estate tax	78 567	83 204
Depreciation of non-current assets	72 678	152 525
Representation expenses	62 419	45 359
Office expenses	54 230	52 421
Communication and postal expenses	38 276	43 064
Business trip expenses	26 420	25 614
IT maintenance	22 068	24 722
Financial support, sponsorship	22 580	16 000
Transportation expenses	17 647	28 663
Accrued expenses on unused annual leave	(10 563)	(15 844)
Healthcare, health insurance	6 545	7 140
Employee training	3 593	5 688
Other expense	151 324	128 954
	<b>2 270 072</b>	<b>2 576 634</b>

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(5) Other income	2010	2009
	Ls	Ls
Income from other services rendered	415 196	318 479
Income from services rendered in warehouses of excise tax goods	319 684	321 707
Income from production supporting services rendered	296 642	-
Income from lease of warehouse and office premises	171 603	225 664
Sold consumable materials	102 497	56 898
Sold packages, boxes and pallets	7 207	6 017
Other income	91 275	330 325
	<b><u>1 404 104</u></b>	<b><u>1 259 090</u></b>
(6) Other expenses		
Bank commissions	78 108	80 988
Other expenses	153 856	(50 443)
	<b><u>231 964</u></b>	<b><u>30 545</u></b>
(7) Expenses by Nature		
Materials	34 061 684	36 669 314
Employee expenses	5 488 528	6 003 185
Depreciation of non-current assets	1 597 959	1 800 054
Advertising expenses	1 025 560	1 209 251
Transportation expenses	451 327	477 600
Management services and expenses	364 934	553 791
Repair expenses	352 516	354 092
Natural recourse tax	273 613	312 258
Increase in provision for accounts receivables, inventories and other accrued liabilities	111 754	55 448
Real estate tax	78 567	83 204
IT maintenance expenses	22 068	24 722
Net losses from revaluation of tangible assets	-	244 324
Other expenses	3 801 108	3 583 304
	<b><u>47 629 618</u></b>	<b><u>51 370 547</u></b>
(8) Finance income		
Interest income	601 622	796 170
Income from fines and penalties	7 000	1 004
	<b><u>608 622</u></b>	<b><u>797 174</u></b>
(9) Finance expenses		
Net loss from exchange rate fluctuations	624 013	129 766
Interest for use of credit lines facilities	535 855	933 312
Interest for long-term loan	391 219	572 354
Net loss for hedging activities	219 913	208 268
Net loss from purchase - sale of foreign currency	202 571	37 895
	<b><u>1 973 571</u></b>	<b><u>1 881 595</u></b>

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**(10) Corporate income tax**

	2010	2009
	Ls	Ls
<b>a) Components of corporate income tax</b>		
Changes in deferred income tax	(90 143)	53 370
Corporate income tax according to the tax return	838 487	763 893
	<u><b>748 344</b></u>	<u><b>817 263</b></u>

**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:

	2010	2009
	Ls	Ls
Profit before taxes	4 668 879	4 403 668
Theoretically calculated tax at 15% tax rate	<u><b>700 332</b></u>	<u><b>660 550</b></u>
Tax effects on:		
Non-deductible expenses for tax purposes	93 454	57 811
Tax discounts for donations	(18 275)	(13 600)
Tax discounts for reinvested profits	(27 167)	-
Tax relief for the acquired technological equipment	-	(28 876)
Changes in recognition of temporary differences for other accruals	-	141 378
<b>Total corporate tax charge</b>	<u><b>748 344</b></u>	<u><b>817 263</b></u>

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

Deferred tax liabilities (asset) at the beginning of the financial year	1 407 648	2 067 197
Deferred tax changes charged to the income statement	(90 143)	53 370
Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve	(1 921)	(662 898)
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	19 273	(50 021)
<b>Deferred tax liabilities (asset) at the end of the financial year</b>	<u><b>1 334 857</b></u>	<u><b>1 407 648</b></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):

	31.12.2010.	31.12.2009.
	Ls	Ls
Temporary difference on depreciation of tangible and intangible assets	1 613 397	1 674 108
Gross deferred tax liabilities	<u><b>1 582 649</b></u>	<u><b>1 624 087</b></u>
Temporary difference on provisions for slow moving and obsolete stock	(185 047)	(171 265)
Temporary difference on accruals for annual leave	(48 582)	(42 926)
Temporary difference on derivative financial instruments revaluation reserve	(30 748)	(50 021)
Temporary differences in accrued liabilities	(14 163)	(2 248)
Gross deferred tax assets	<u><b>(93 493)</b></u>	<u><b>(95 195)</b></u>
<b>Net deferred tax liability (assets)</b>	<u><b>1 334 857</b></u>	<u><b>1 407 648</b></u>



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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:

	<b>31.12.2010.</b>	<b>31.12.2009.</b>
	<b>Ls</b>	<b>Ls</b>
Deferred tax assets:		
deferred tax asset to be recovered within a year	(268 291)	(235 712)
deferred tax liabilities to be recovered after more than a year	(10 249)	(30 748)
	<u>(278 540)</u>	<u>(266 460)</u>
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	119 017	73 329
deferred tax liabilities to be recovered after more than a year	1 494 380	1 600 779
	<u>1 613 397</u>	<u>1 674 108</u>
<b>Net deferred tax liabilities (assets)</b>	<u><b>1 334 857</b></u>	<u><b>1 407 648</b></u>

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 and property revaluation	Accruals for unused annual leave	Expected liabilities	Provisions for slow moving stock	Total
	Ls	Ls	Ls	Ls	Ls	Ls
<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>
Charged / (credited) to income statement	-	(58 790)	(5 656)	(11 915)	(13 782)	(90 143)
Charged / (credited) to equity	19 273	(1 921)	-	-	-	17 352
<b>31.12.2010</b>	<b>(30 748)</b>	<b>1 613 397</b>	<b>(48 582)</b>	<b>(14 163)</b>	<b>(185 047)</b>	<b>1 334 857</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.

	<b>2010</b>	<b>2009</b>
Profit attributed to shareholders of the Company (Ls)	3 920 535	3 586 405
Average annual number of shares	7 496 900	7 496 900
<b>Earnings per share (expressed in santims)</b>	<u><b>52.30</b></u>	<u><b>47.84</b></u>

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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>31.12.2008.</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)	-	(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>
<b>2010</b>							
Opening net book value	266	12 876 372	3 499 691	546 904	95 910	4 523	17 023 400
Acquired	-	-	-	-	-	623 092	623 092
Disposed	-	(6 275)	(24 232)	(577)	-	(30 684)	(61 768)
Reclassified	6 379	275 664	172 366	74 892	34 151	(563 452)	-
Depreciation	(1 369)	(609 058)	(771 620)	(215 910)	-	-	(1 596 588)
<b>Closing book value</b>	<b>5 276</b>	<b>12 536 703</b>	<b>2 876 205</b>	<b>405 309</b>	<b>130 061</b>	<b>33 479</b>	<b>15 988 136</b>
<b>31.12.2010.</b>							
Initial cost/ revaluated	1 170 423	13 157 745	13 509 372	3 448 852	130 061	33 479	30 279 509
Accumulated depreciation	(1 165 147)	(621 042)	(10 633 167)	(3 043 543)	-	-	(14 297 752)
<b>Net book value</b>	<b>5 276</b>	<b>12 536 703</b>	<b>2 876 205</b>	<b>405 309</b>	<b>130 061</b>	<b>33 479</b>	<b>15 981 757</b>

a) Revaluation of land and building

Preparing the 2009 financial statements the Company completed the revaluation of land and buildings. Real estate was measured at market value, the assessment was prepared by an independent evaluator Reeksperts SIA. The real estate market value was determined using the comparable transaction method, discounted cash flow and construction cost methods.

As the result of revaluation the decrease of the assets fair value of Ls 4 663 646 had been recognized, where Ls 4 419 322 had been charged against the previous year revaluation surplus, while impairment of Ls 244 324 was recognized in income statement of 2009.

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In 2010 the revaluation reserve of non-current assets has been decreased by Ls 12 803 for disposed assets revaluation difference charged directly to retained earnings. Total revaluation surplus of tangible assets on 31 December 2010 was Ls 9 819 140. (31.12.2009. - Ls 9819140). Revaluation amount less the attributable deferred income tax liabilities is recognized in equity in the 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 (31.12.2009 Ls 3 817 thousand). If the land plots would not have been revalued, than on December 31 2010 the book value of the land plot would be Ls 633 thousand (31.12.2009 - Ls 633 thousand).

The book value of revalued buildings on 31 December 2010 is Ls 8 720 thousand (31.12.2009 - Ls 9 059 thousand). If the revaluation would not have been performed, the residual value of buildings on 31 December 2010 would be Ls 5043 thousand (31.12.2009 - Ls 5 330 thousand).

b) Effect of changes in estimates

The Company in 2010 evaluated the buildings and premises technical conditions, as a result of which was identified, that actual useful life is longer than the previously estimated. In 2010 building and premises calculated depreciation, that is recognized to income statement amounts to Ls 609 058. If the changes in the useful life would not have been performed the depreciation charged to income statement would amount to Ls 1 056 819.

c) Other comments

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 property, plant and equipment 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)).

<b>(13) Inventories</b>	<b>31.12.2010.</b>	<b>31.12.2009.</b>
	<b>Ls</b>	<b>Ls</b>
Raw materials and consumables	5 939 961	7 940 553
Finished goods and goods for sale	4 663 989	4 890 380
Excise tax stamps	3 987 463	3 839 150
Work in progress	443 927	520 693
Inventory in transit	-	40 415
	<b><u>15 035 340</u></b>	<b><u>17 231 191</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>2010</b>	<b>2009</b>
	<b>Ls</b>	<b>Ls</b>
Provisions at the beginning of the year	1 141 768	1 177 889
Changes on provisions shown in the income statement	91 882	(36 121)
Provisions at the end of the year	<b><u>1 233 650</u></b>	<b><u>1 141 768</u></b>

<b>(14) Trade receivables</b>	<b>31.12.2010.</b>	<b>31.12.2009.</b>
	<b>Ls</b>	<b>Ls</b>
Book value of trade receivables	766 642	860 154
Provisions for impairment of trade receivables	(360 967)	(341 094)
	<b><u>405 675</u></b>	<b><u>519 060</u></b>

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	<b>2010</b>	<b>2009</b>
	<b>Ls</b>	<b>Ls</b>
Provisions at the beginning of the year	341 094	2 435 561
Receivables written off as uncollectible	-	(2 074 068)
Provisions	25 934	14 720
Paid during the year	(6 061)	(35 119)
Provisions at the end of the year	<u><b>360 967</b></u>	<u><b>341 094</b></u>

<b>(15) Other current assets</b>	<b>31.12.2010.</b>	<b>31.12.2009.</b>
	<b>Ls</b>	<b>Ls</b>
Advances for raw materials	267 656	232 691
Advances for services	43 472	51 056
Other deferred expenses	41 807	47 117
VAT accepted	19 533	23 353
Deferred insurance costs	14 766	19 146
Other receivables	2 521	2 773
	<u><b>389 755</b></u>	<u><b>376 136</b></u>

<b>(16) Cash and cash equivalents</b>		
Cash at bank on current accounts	74 626	382 970
Cash on hand	28 367	19 461
	<u><b>102 993</b></u>	<u><b>402 431</b></u>

**(17) Share capital**

As on 31 December 2010 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)).

<b>(18) Borrowings</b>	<b>31.12.2010.</b>	<b>31.12.2009.</b>
	<b>Ls</b>	<b>Ls</b>
<b>Non-current</b>		
AS Swedbank (previously Hansabanka) <sup>b)</sup>	6 726 750	8 399 074
Nordea Bank Finland Plc. Latvian branch <sup>b), c)</sup>	2 275 262	3 232 870
	<u><b>9 002 012</b></u>	<u><b>11 631 944</b></u>
<b>Current</b>		
Credit line facilities <sup>a), d)</sup>	12 339 454	11 398 720
AS Swedbank (previously Hansabanka) <sup>b)</sup>	1 968 805	2 022 555
Nordea Bank Finland Plc. Latvian branch <sup>b), c)</sup>	957 609	957 608
	<u><b>15 265 868</b></u>	<u><b>14 378 883</b></u>

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

	<b>2010</b>	<b>2009</b>
	<b>Ls</b>	<b>Ls</b>
At beginning of the year	26 010 827	26 017 327
Received borrowings during the year	940 734	4 955 650
Repaid borrowings during the year	(2 984 439)	(4 944 050)
Currency exchange rate fluctuation results	300 758	(18 100)
At the end of the year	<u><b>24 267 880</b></u>	<u><b>26 010 827</b></u>

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a) 2004 year credit line

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 assignment agreement of 24 July 2007, credit line of the Company has been refinanced to Nordea Bank Finland Plc. Latvian branch.

At the end of 2010 the limit of credit line granted by Nordea Bank Finland Plc is in amount Ls 6 308 285, which consists of EUR 3000000 and 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 and EUR 5 612 184.

On 31 December 2010 the liabilities of the Company for above mentioned credit lines to Nordea Bank Finland Plc Latvian branch consists of Ls 4 046 143 and EUR 2 806 356, to AS Swedbank Ls 2 501 171 and EUR 5 435 117.

Credit lines last repayment date to Nordea Bank Finland Plc. Latvian branch is 30 December 2011, AS Swedbank 30 April 2011. The management is planning to prolong credit line facilities for one year.

b) 2007 year loans

On 24 July 2004 a loan agreement was signed with AS Swedbank and Nordea Bank Finland Plc. Latvian branch for a loan in amount of EUR 13 000 000, divided as EUR 7 000 000 provided by Nordea Bank Finland Plc. Latvian branch and EUR 6 000 000 AS Swedbank. In 2008 the Company signed amendments to the loan agreements for additional loan in the amount of EUR 1 500 000 to be provided under the previously mentioned agreement, the funds have been received in previous reporting periods.

During the reporting period loan agreements have been signed with AS Swedbank for additional financing in the amount of EUR 10500000. The additional funds is used to cover Company's liabilities against AS Swedbank, that arise form previously signed loan agreements dated 21 September 2005 and 30 April 2004.

On 31 December 2010 the debt of the Company for above mentioned loans to Nordea Bank Finland Plc Latvian branch are EUR 2382675, to AS Swedbank EUR 12 372 661.

c) 2004 year loans

On 30 April 2004 a long-term loan agreement was signed with AS Swedbank and AS SEB Latvijas Unibanka for 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, as a result Nordea Bank Finland Plc took over all obligations of AS SEB Unibanka and granted the Company a loan in the amount of EUR 4 500 000.

During the reporting period the Company repaid the liabilities to AS Swedbank for the previously mentioned loan, using the additional financing in accordance with he 24 July 2007 loan agreement amendments. The Company's liabilities to Nordea Bank Finland Plc Latvian branch as at 31 December 2010 are EUR 2 217 284. Loan from Nordea Bank Finland Plc Latvian branch is repayable till 30 June 2012.

d) 2005 year loans

On 21 September 2005 a credit agreement was signed with AS Swedbank for a loan in amount of EUR 20 667 200. At the end of the reporting period has been fully repaid using the additional financing received under 24 July 2007 loan agreement.

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

	31.12.2010	31.12.2009
Loans	1.731% - 4.080%	1.663% - 2.478%
Credit line facilities	2.785% - 4.496%	9.381% - 10.471%

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

	<b>31.12.2010</b>	<b>31.12.2009</b>
	<b>Ls</b>	<b>Ls</b>
6 months or less	24 267 880	26 010 827
	<u><b>24 267 880</b></u>	<u><b>26 010 827</b></u>
Maturity of the total borrowings is as follows:		
Payable in 1 year	15 265 868	14 378 883
Payable in 2 – 5 years	9 002 012	11 045 986
Payable in more than 5 years	-	585 958
	<u><b>24 267 880</b></u>	<u><b>26 010 827</b></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 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 2010 is Ls 83 796 428 (31.12.2009. - Ls 80 614 214).

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

The Company uses hedge accounting for variable interest payments for received loans from Nordea Bank Finland Plc. for the period up to June 2012. 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 Note (11) in accounting policy).

The fair value of derivative financial instruments at the end of the reporting year is estimated in Ls 204 998 (31.12.2009. - Ls 333 471). Liabilities on derivative financial instruments are classified as long-term as the period of swap contract is up to June, 2012. Effective part of the derivatives financial instruments, that is used and classified as cash flow hedge, less changes in deferred tax liabilities, is recognized in the in equity under "Revaluation reserve of derivative financial instruments".

<b>(20) Other liabilities</b>	<b>31.12.2010.</b>	<b>31.12.2009.</b>
	<b>Ls</b>	<b>Ls</b>
Excise tax	7 575 673	5 845 917
Value Added Tax	1 074 193	691 752
Accrued liabilities	434 627	1 921 254
Accruals for unused annual leave	323 881	286 171
Salaries	213 175	194 336
Deferred income	136 608	197 705
Mandatory State social insurance contributions	106 419	101 547
Personal income tax	78 661	65 647
Real estate tax	1 123	1 310
Other receivables	46 367	50 731
	<u><b>9 990 727</b></u>	<u><b>9 356 370</b></u>

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<b>(21) Cash granted from operations</b>	<b>2010</b>	<b>2009</b>
	<b>Ls</b>	<b>Ls</b>
Profit before corporate income tax	4 668 879	4 403 668
<u>Adjustments for:</u>	-	-
depreciation and amortization (Note 12)	1 597 959	1 800 054
increase / (decrease) in provisions for stock impairment	111 754	(193 415)
loss / (profit) from foreign currency exchange rate fluctuations	300 758	(18 100)
interest expenses (Note 9)	1 146 987	1 713 934
interest income (Note 8)	(601 622)	(796 170)
loss / (profit) from revaluation of property	-	244 324
loss / (profit) from disposal of property, plant and equipment	31 085	48 963
	-	-
<u>Changes in working capital</u>	-	-
inventories	1 172 717	2 486 630
receivables	(4 952 848)	(336 211)
liabilities	1 016 680	(4 504 155)
	-	-
	<b><u>4 492 349</u></b>	<b><u>4 849 522</u></b>
<b>(22) Average number of employees</b>	<b>2010</b>	<b>2009</b>
Average number of people employed during the financial year	<u>634</u>	<u>681</u>
<b>(23) Remuneration to personnel</b>	<b>2010</b>	<b>2009</b>
	<b>Ls</b>	<b>Ls</b>
Salaries and mandatory State social insurance contributions for production personnel	2 890 142	3 225 613
Salaries and mandatory State social insurance contributions for distribution personnel	1 336 029	1 435 600
Salaries and social insurance contributions for administration personnel	1 262 357	1 341 972
	<b><u>5 488 528</u></b>	<b><u>6 003 185</u></b>
Including key management		
salary expenses	434 429	552 498
mandatory State social insurance contributions	133 666	135 926
including Mandatory State social contributions recognized in personnel expenses	858 367	1 211 751
<b>(24) Transactions with related parties</b>		

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 2010 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), SPI Production B.V.(Netherlands), Tambovskoje spirtovodocnoje predpriyatije 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 SPI Distribution (Latvia) (the previous name is AV&D), SIA Interlat (Latvia). The Company also had economic transactions with the related company SIA Meierovica 35 (Latvia) which is not a men

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), SIA S.Alkc

The value of the transactions are disclosed with excise tax.

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<b>(a) Sale of Goods</b>	<b>2010</b>	<b>2009</b>
	<b>Ls</b>	<b>Ls</b>
SIA SPI Distribution (Latvia)	39 335 069	45 979 035
S.P.I. Spirits (Cyprus) Ltd.	29 194 175	28 544 582
UAB Bennet Distributors	3 172 595	4 427 777
Torgovi Dom Rosvestalko	544 175	458 459
OU Divinum	527 951	-
SIA Bravo	221 436	231 183
SPI-RVVK OAO	18 230	114 408
	<b><u>73 013 631</u></b>	<b><u>79 755 444</u></b>
<b>(b) Service Rendered (Including Loan Interest)</b>	<b>2010</b>	<b>2009</b>
	<b>Ls</b>	<b>Ls</b>
SIA SPI Distribution (Latvia)	2 718 127	206 533
S.P.I. Spirits (Cyprus) Ltd.	759 351	548 543
SIA L.D.V.	734 636	-
SIA Mono M	291 590	-
SPI Production B.V.	283 099	399 306
SIA Interlat	132 432	408 070
SIA Meierovica 35	33 069	9 612
S.P.I.Regional Business Unit B.V.	24 312	-
SIA S.Alko	13 333	-
SIA Bravo	11 165	25 573
Spirits International B.V. (branch)	6 157	1 730
SPI-RVVK OAO	2 487	-
UAB Bennet Distributors	690	-
Spirits Product International IP B.V.	226	-
SIA SPV Distributor	102	133
	<b><u>5 010 776</u></b>	<b><u>1 599 500</u></b>
<b>(c) Purchase of Goods</b>		
Tambovskoje spiritovodocnoje predpriyatije Talvis OAO	2 426 665	276 718
SPI-RVVK OAO	2 319 674	5 489 051
UAB Bennet Distributors	32 125	-
S.P.I. Spirits (Cyprus) Ltd.	9 939	69 471
	<b><u>4 788 403</u></b>	<b><u>5 835 240</u></b>
<b>(d) Services Received</b>		
S.P.I.Spirits (Cyprus) Ltd.	168 270	205 093
SIA Meierovica 35	102 076	102 076
SIA SPI Distribution (Latvia)	88 467	69 394
UAB Bennet Distributors	57 250	35 973
OU Divinum	20 723	-
Spirits Product International IP B.V.	12 760	27 094
Spirits International B.V.	8 181	4 516
SIA Bravo	6 751	365
Torgovi Dom Rosvestalko	1 351	-
SPI-RVVK OAO	668	1 777
	<b><u>466 497</u></b>	<b><u>446 288</u></b>



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(e) Accounts Receivable and Payable

	31.12.2010.		31.12.2009.	
	Receivables Ls	Payables Ls	Receivables Ls	Payables Ls
S.P.I.Spirits (Cyprus) Ltd.	15 966 444	64 954	12 865 554	467 878
SIA SPI Distribution (Latvia)	5 171 351	57 188	2 487 866	52 560
UAB Bennet distributors	1 462 986	81 579	1 549 637	28 882
S.P.I.Production B.V.	1 417 026	-	1 133 928	-
SPI Group S.a.r.l	-	1 037 816	-	-
SIA Meierovica 35 *	1 005 462	-	566 927	-
Tambovskoje spirtovodocnoje predprijatije Talvis OAO	857 262	-	-	-
OU Divinum	402 774	9 472	419 605	11 661
Torgovi Dom Rosvestalko	400 367	1 351	10 640	-
Spirits International B.V.	300 304	-	300 278	-
SPI-RVVK OAO	-	167 272	-	-
S.P.I.Regional Business Unit B.V.	24 312	2 480	-	-
SIA Bravo	23 157	6 831	21 013	442
Spirits International B.V.(branch)	8 251	-	2 094	-
SPI-RVVK OAO	2 466	-	7 624	-
Spirits Product International IP B.V.	407	25 452	166	18 384
Spirits International B.V.	-	10 721	-	8 759
SIA SPV Distributor	82	-	57	-
SIA L.D.V.	-	-	265 050	-
SIA Mono M	-	-	203 054	-
SIA Interlat	-	-	16 572	-
SIA S.Alko	-	-	1 310	-
	<u>27 042 651</u>	<u>1 465 116</u>	<u>19 851 375</u>	<u>588 566</u>
The short term part of the loan (see section (g))	<u>7 028 040</u>		-	
<b>Total short term liabilities</b>	<u><b>34 070 691</b></u>		<u><b>19 851 375</b></u>	

Repayment of the debts will be made in cash, and they are not secured with guarantee or otherwise. In 2010 and 2009 there are no significant bad debts from related parties.

\* In 2009, the Company signed 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. During the reporting period the repayment date was changed from 1 October, 2010 to 1 October 2011. On 31 December 2010 the issued and outstanding amount of the loan is Ls 1 000 000.

(f) Loans to Group companies

	31.12.2010 Ls	31.12.2009 Ls
S.P.I.Production B.V. **	14 477 762	14 477 762
S.P.I.Spirits (Cyprus) Ltd *	10 331 219	10 331 219
	<u><b>24 808 981</b></u>	<u><b>24 808 981</b></u>
At beginning of the year	24 808 981	24 808 981
Borrowings issued during the year	-	2 216 000
Repaid borrowings during the year	-	(2 216 000)
At the end of the year	<u><b>24 808 981</b></u>	<u><b>24 808 981</b></u>

Maturity of the total borrowings is as follows:

Payable in 1 year	7 028 040	-
Payable in 2 – 5 years	17 780 941	24 808 981
	<u><b>24 808 981</b></u>	<u><b>24 808 981</b></u>

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\* 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 2008 the loan was partly repaid for EUR 8 300 000. The unpaid part of principal sum of the loan on 31 December 2010 is in amount EUR 4 700 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2010 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 regarding loan 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 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 2010 is EUR 10 000 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2010 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 2010 amounted Ls 14 477 762. Repayment date is 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:

	31.12.2010.	31.12.2009.
Loans issued	1.731% - 4.080%	1.856 - 3.712%

**(g) 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 (24(d))). In accordance with the Management's estimates in 2011 no significant changes are expected in the amount of royalty payments.

**(25) Tax Contingent Liabilities**

On 3 June 2010 Republic of Latvia has received a European Commissions (EC) formal notice on violation on procedures concerning the inconsistent usage of the signs, that include or mention the protected origin's name "Šampanietis", or wine beverages, that are not originated in the Champagne region. The Management concedes, that in Latvia name "champagne" has become a common expression and it is not associated with Champagne region beverages. At present Republic of Latvia has not received answers from EC on the existence of the violation and argument opinion or Republic of Latvia eventual argument opinion appeal in the European Union court. As a result of a negative court ruling the Company would not be able to use the brand names "Rīgas šampanietis", "Klasiskais Rīgas šampanietis", "Советское Шампанское" and "Советское Шампанское ЗОЛОТОЕ".

The Financial statements do not include any provisions for liabilities, that could arise from the previously mentioned court decision.

The tax authorities may at any time conduct the tax audit for the last three years after the taxation period and apply additional tax liabilities and penalties. In March 2011 the Company has received Latvian tax authorities resolution on the start of an tax audit for the period from 1 January 2009 till 31 December 2010. The Management of the Company is not aware of any circumstances that could cause potential significant liabilities during the tax audit.

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**(26) Lease agreements**

During the reporting period the Company leased office space in its owned properties to related parties SIA Bravo, SIA Meirovica 35, SIA SPI Distribution (Latvia), SIA L.D.V., Sea Mono M, SIA S.Alko, SIA Interlat and non-group company SIA AveLat.

The Company has signed a lease agreement for a container crane till 31 December 2011. As per the agreement the contract can be terminated due to leases activities, compensating the lease payments for the remaining lease period. As at 31 December 2010 the mandatory lease payments is Ls 51 867 (31.12.2009. - Ls 49 739).

The Company has signed a unlimited time tank container lease agreement. One of the contracts that included terms of cancelation of the contract was terminated in 2011. The remaining contracts do not include any additional terms on cancelation of the contract, respectively no mandatory lease payments are recognised. Due to changes in the production process, lease tank containers are gradually returned to the leaser starting from September 2010, and their number in 2011 has significantly decreased. Tank container lease payments, that are included in 2010 amount to Ls 538 669 (2009 - Ls 604 831).

**(27) Guaranties issued**

In January 2009 SIA Bravo has signed credit line agreement with Nordea Bank Finland Plc, Latvian branch for credit line of EUR 5 000 000 limit, where AS Latvijas balzams issued guarantee in amount EUR 4 000 000 serves as the security. 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. During the reporting period the guarantee has been cancelled.

**(28) 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.

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>31.12.2010.</b>	<b>31.12.2009.</b>
Financial assets, EUR	42 585 957	50 282 524
Financial liabilities, EUR	(28 277 009)	(28 266 685)
Open position EUR, net	14 308 948	22 015 839
<b>Open position EUR calculated in lats, net</b>	<b><u>10 056 386</u></b>	<b><u>15 472 820</u></b>
Financial assets, USD	724 859	775 633
Financial liabilities, USD	(2 109 393)	(6 914 265)
Open position USD, net	(1 384 534)	(6 138 632)
<b>Open position USD calculated in lats, net</b>	<b><u>(740 726)</u></b>	<b><u>(3 001 791)</u></b>

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**(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 (see Note (18)), as well as the Company's interest bearing assets have variable interest rate (see 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>31.12.2010.</b>	<b>31.12.2009.</b>
	<b>Ls</b>	<b>Ls</b>
Financial assets with variable interest rate, EUR calculated in LVL	24 808 981	24 808 981
Financial liabilities with variable interest rate, EUR calculated in LVL	(17 720 565)	(17 071 851)
Financial liabilities with variable interest rate, USD calculated in LVL	-	(3 244 277)
Financial liabilities with variable interest rate, LVL	(6 547 314)	(5 694 699)
<b>Open position, net, LVL</b>	<b><u>541 102</u></b>	<b><u>(1 201 846)</u></b>

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 some of the 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.

Maximum exposure to credit risk	<b>31.12.2010.</b>	<b>31.12.2009.</b>
	<b>Ls</b>	<b>Ls</b>
Issued loans to Group companies	17 780 941	24 808 981
Trade receivables - Group companies	34 070 691	19 851 375
Trade receivables - non -related parties	405 675	519 060
Cash	102 993	402 431
	<b><u>52 360 300</u></b>	<b><u>45 581 847</u></b>

The largest concentration of credit risk arises from the Group company's debts: on 31 December 2010 99% of the total trade receivables related to Group companies (31.12.2009: 97%). Taking into account the Group's policy and the sound 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	Trade spited in: in due term	Past due*		
					< 90 days	90-180 days	> 180 days
31.12.2010	766 643	(360 968)	405 675	405 675	-	-	-
31.12.2009	860 154	(341 094)	519 060	249 636	263 408	6 016	-

**(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 12,863 thousand (31.12.2009: Ls 12,737 thousand). On 31 December 2010 the unused part of the credit line was Ls 523 thousand (2009: Ls 1,338 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.

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

<b>On 31 December, 2010</b>	<b>Total</b>	<b>&lt;1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>&gt;5 years</b>
	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>
Long-term loans	9 002 012	-	4 244 067	4 757 944	-
Derivatives financial instruments	204 989	-	204 989	-	-
Short -term loans	15 265 868	15 265 868	-	-	-
Trade payables	3 362 198	3 362 198	-	-	-
Debts to Group companies	1 465 116	1 465 116	-	-	-
	<b>29 300 183</b>	<b>20 093 182</b>	<b>4 449 056</b>	<b>4 757 944</b>	<b>-</b>
<b>On 31 December, 2009</b>	<b>Total</b>	<b>&lt;1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>&gt;5 years</b>
	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>
Long-term loans	11 631 944	-	2 980 162	8 065 824	585 958
Derivatives 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>

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

**(f) 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 equity capital (gearing ratio). During the reporting year this figure has decreased to 56% (2009: 66%), that confirms the stability of the Company. The positive trend in 2010 is also the increased proportion of equity to total assets up to 51% (2009: 48%).

	<b>31.12.2010.</b>	<b>31.12.2009.</b>
	<b>Ls</b>	<b>Ls</b>
Total borrowings	24 267 880	26 010 827
Less cash and its equivalents	(102 993)	(402 431)
Net debt	<u>24 164 887</u>	<u>25 608 396</u>
Equity	43 100 334	39 068 669
Total capital	<u>67 265 221</u>	<u>64 677 065</u>
Total assets	83 796 428	80 614 214
Net debt to equity	56%	66%
Equity ratio on total assets	51%	48%

**(29) Subsequent events**

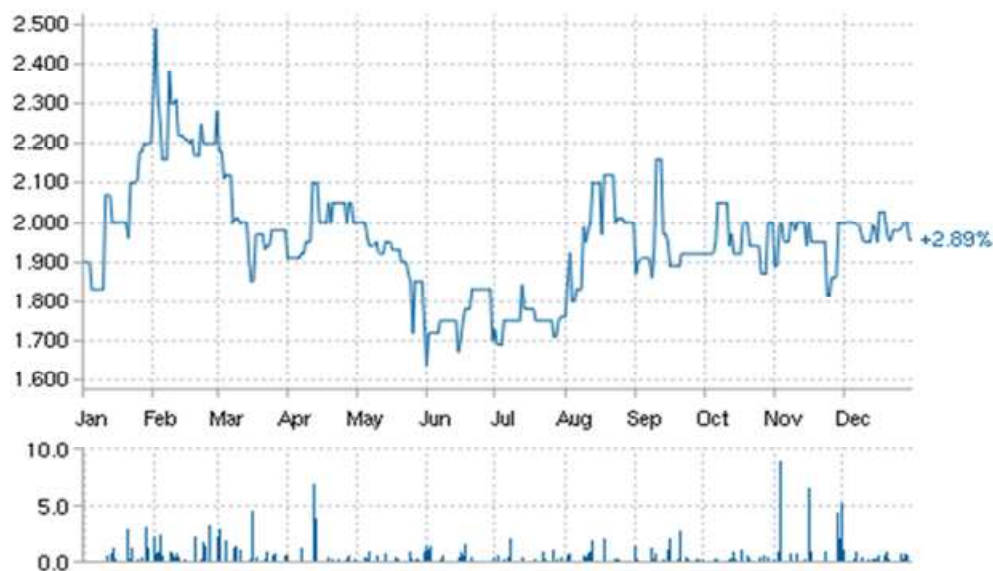
There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2010.

## 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 01.01.10 – 31.12.10



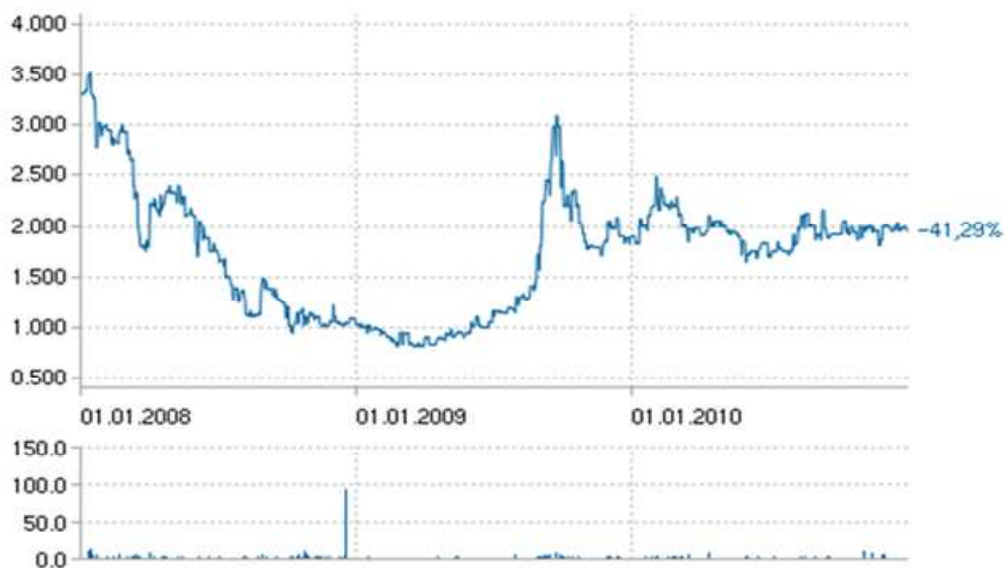
Currency: LVL

### JSC "Latvijas balzams" share price development for the period 01.01.10 – 31.12.10

Open	1,900 LVL
Max	2,500 LVL
Min	1,640 LVL
Average	2,000 LVL
Last	1,955 LVL
Change	2,895%
Deals	680
No of shares traded	71 234
Turnover	142 373,98 LVL
Capitalization on 2010.12.30	14 656 439.50 LVL

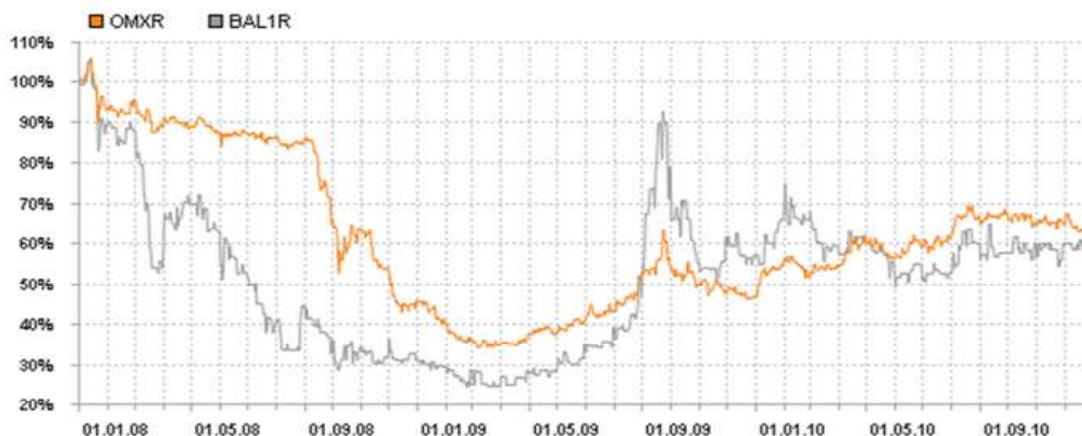
Information source: NASDAQ OMX Riga, AS web page <http://www.nasdaqomxbaltic.com/>

**JSC “Latvijas balzams” share price development for the period 01.01.08 – 31.12.10**



Currency: LVL

**JSC “Latvijas balzams” share price development in comparison with NASDAQ OMX Riga index for the period 01.01.08 – 31.12.10**



Index/Equity	01.01.2008	31.12.2010	+/-%
— OMX Riga	595.30	393.53	-33.89 ↓
— BAL1R	3.33 LVL	1.96 LVL	-41.29 ↓

Information source: NASDAQ OMX Riga, AS web page <http://www.nasdaqomxbaltic.com/>