

AS "Latvijas Balzams"
ANNUAL REPORT
for the period ended 31 December 2011

in accordance with EU approved
International Financial Reporting Standards

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

CONTENTS

Management	3
Report of the Management	4 - 5
Statement of the management responsibility	6
Independent Auditor's Report	7 - 8
Financial statements	
Income statement	9
Statement of comprehensive income	10
Statement of financial position	11
Statement of changes in equity	12
Cash flow statement	13
Notes to the financial statements	14 - 41

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

MANAGEMENT

Names and positions of the Council members

Aigars Kalvītis - Chairman of the Council

Valery Mendelev - Vice Chairman of the Council

Andrejs Skurihins – Member of the Council (until 29.04.2011)

Alexander Kovalev - Member of the Council (until 29.04.2011)

Pjotrs Aven - Member of the Council

Sebastianus Antonius Theodorus Boelen - Member of the Council

David Ronald Surbey - Member of the Council (from 29.04.2011)

Blaine Alan Rowlette - Member of the Council (from 29.04.2011)

Names and positions of the Board members

Guntis Āboliņš - Āboliņš – Chairman of the Board
(from 01.04.2012),
General Director of AS Latvijas balzams

Kārlis Andersons – Chairman of the Board (until 05.05.2011),
General Director of AS Latvijas balzams

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

Intars Geidāns – Member of the Board (from 17.06.2011),
Director of Logistics department of AS Latvijas balzams

Sergejs Ļimarenko – Member of the Board,
Chief of Internal Security Department 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 (until 17.06.2011),
Financial Director of AS Latvijas balzams

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

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 80 countries around the world. The company was established in the 1900, but the existing name was acquired in 1970.

Performance of the Company during the financial year

The year 2011 was a successful year for AS "Latvijas balzams". Despite of decline in economic activity in Latvia and in Company's key export markets, AS „Latvijas balzams” has been able to increase operational efficiency and also, once again, increased its equity ratio of the balance sheet.

Net turnover of the Company in year 2011 was 66 million eiro, which is for 12 % less than in year 2010. Turnover in the domestic market compared with last year, has fallen for 6%. Company's principal activity results in 2011 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

Exports of S.P.I. Group orders has fallen by 17%, turnover in the export market has decreased by 14% compared to the previous year.

The main export directions in 2011 were the Baltic countries, Russia, Norway, Poland, Ukraine and Turkey. In many important direct export markets has achieved a significant revenue growth over the previous year - production exports to Ukraine increased by 32%, Poland - 14%, doubled for free trade zone partners in Latvia. In parallel the active strategy for penetrating new markets has been achieved, the development work has started in Bulgaria, Spain, Finland, Azerbaijan, Slovenia, Iceland and other markets.

In 2011 special attention was devoted to strengthening the major brands and new product development. AS „Latvijas balzams” leading brands like Rīgas Melnais balzams, brandy Grand Cavalier and liqueur Moka, in 2011 received a total of 11 prestigious awards at international competitions in Europe and the United States. AS „Latvijas balzams” has continued development of new products and acquisition of new market segments, including starting work in the field of soft drinks. In 2011 the Company successfully released in the Latvian market conceptually new product - Rīgas Dzirkstošais bezalkoholiskais dzēriens.

The Company has paid great attention to cost control in production and to improvement of operation's efficiency, as a result the Company has finished the reporting year with a 5,2 million eiro net profit, which is close to the 2010 result, despite of decrease in net turnover by 12%. Therefore the Company's profitability ratio (net profit to sales) in 2011 increased by 0.4 percentage points over the previous year.

AS „Latvijas balzams” is not only the largest producer of alcoholic beverages in Latvia, but also one of the largest taxpayers. In 2011 the Company has transferred in taxes the 52 million eiro to the state budget, including 37 million eiro of excise tax.

During the reporting year the Company has continued to invest in production technology and infrastructure. The most important projects implemented are introduction of production of newly designed bottles of Stolichnaya (invested 167 thousand eiro) and improvement of efficiency of manufacturing equipment and process (invested 98 thousand eiro).

In 2011 AS „Latvijas balzams” consistently continued to implement responsible, for sustainable development-oriented business strategy. The Company provides a consistently high level of international quality management system ISO 9001:2008 standard implementation, as well as ensuring the safety of consumers is implemented and keeps food self-regulatory system in accordance with HACCP principles. Caring for the environment AS „Latvijas balzams” production practice priority is given to environmentally sound technologies and packaging, as well as the waste and used packaging separate collection and transfer for processing.

A major role in achieving the Company's performance rests on the Company's employees. AS „Latvijas balzams” in the Latvian economy context is a significant employer and, in spite of the challenges, steady average number of employees has remained in 2011. The Company constantly invests in staff development - in 2011, various types of training and professional development activities attended by close to 40% of the Company's employees. AS „Latvijas balzams” regularly provides practice opportunities for emerging professionals, some of them later becomes the Company's employees.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

In 2011 the Company has employed an average of 613 employees (in 2010 - 634), and their average gross monthly salary amounted to 811 eiro (in 2010 - 822 eiro).

Targeted AS „Latvijas balzams” strategy has earned the recognition of society and experts. This is evidenced by Company' awarded Silver rating assessment of the national sustainability index, as well as the superior performance of Latvian companies Reputation TOP 2011 - AS „Latvijas balzams” standings among all Latvian companies ranked high 12nd place, and this is the only ranking strong alcohol producer. In 2011 AS "Latvijas balzams" has won the second place in the Baltics in NASDAQ OMX Baltic Market Awards - an award for the best investor relations in category the most visible improvement over the year.

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

**2011
EUR**

Profit share to be distributed	5 196 131
Proposed profit distribution:	
Retained earnings	5 196 131

Future prospects

The economic situation in the country has started to stabilize and, although purchasing power is still very low, the Company's goal is to keep the existing market share in Latvia, as well as increased sales volume in major export markets and further entering new export markets.

In 2012 AS "Latvijas balzams" priorities will be manufacturing and logistics cost control, optimization and production efficiency, increasing the competitiveness of the Company. Special attention will be paid to the development of new competitive products, their design being based on in-depth consumer understanding of the needs and desires.

The Company continues to implement responsible, the sustainability-oriented policies, focusing on environmental, work safety and market relations aspects, ever-improving efforts to reduce Company's harmful effects on the environment, setting high standards for ourselves and our partners.

Guntis Āboltiņš - Āboliņš
Chairman of the Board

Riga, 24 April, 2012

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards (IFRS) 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 9 to page 41 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.

Guntis Ābolīņš - Ābolīņš
Chairman of the Board

Riga, 24 April, 2012



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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 set out on pages 9 to 41 of the annual report. These financial statements comprise the statement of financial position as at 31 December 2011, and income statement, the statement of comprehensive income, statement of cash flow and statement of changes in equity for the period from 1 January 2011 to 31 December 2011 (the Financial year), and a summary of significant accounting policies and other explanatory information.

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 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 the risks 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

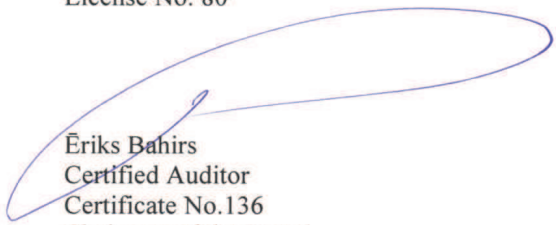
In our opinion, the above mentioned financial statements give a true and fair view of the financial position of Latvijas balsams AS as at 31 December 2011, and of its financial performance and its cash flows for the financial year in accordance with International Financial Reporting Standards as adopted by the European Union.



Report on Other Legal and Regulatory Requirements

We have read the management report for the financial year as set on pages 4 to 5 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements.

Baker Tilly Baltics SIA
License No. 80



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

Riga, 27 April 2012

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AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

INCOME STATEMENT

	Notes	2011 EUR	2010 EUR
Net sales	(1)	65 531 111	74 358 345
Cost of sales	(2)	(51 648 268)	(59 162 202)
Gross profit (loss)		13 882 844	15 196 143
Distribution expenses	(3)	(5 093 429)	(5 048 563)
Administrative expenses	(4)	(2 929 821)	(3 230 021)
Other income	(5)	2 900 661	1 997 860
Other expenses	(6)	(1 726 329)	(330 055)
Finance income	(8)	1 129 444	865 991
Finance costs	(9)	(1 850 985)	(2 808 139)
Profit before tax		6 312 385	6 643 216
Corporate income tax	(10)	(1 116 254)	(1 064 798)
Net profit		5 196 131	5 578 419
Earnings per share (in cents)			
Basic	(11)	69,31	74,42
Diluted	(11)	69,31	74,42

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2011 EUR	2010 EUR
Net profit		<u>5 196 131</u>	<u>5 578 419</u>
Other comprehensive income / (loss)			
Revaluation of property, plant and equipment reserves	(12)	(401 438)	-
Changes in deferred income tax liabilities resulted to revaluation of property, plant and equipment	(10)	60 216	2 733
Changes in fair value of financial instruments	(19)	210 427	182 813
Changes in deferred income tax liabilities resulted to changes of fair value of derivatives	(10)	(31 564)	(27 423)
Other comprehensive income		<u>(162 358)</u>	<u>158 124</u>
Total comprehensive income		<u>5 033 773</u>	<u>5 736 542</u>

Notes on pages 14 to 41 are an integral part of these financial statements.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2011. EUR	31.12.2010. EUR
<u>ASSETS</u>			
Non-current assets			
Intangible assets	(12)	40 952	7 507
Property, plant and equipment	(12)	20 209 267	22 739 992
Loans to group companies	(24g)	25 300 000	25 300 000
Other non-current assets		34 149	34 149
Total non-current assets:		45 584 368	48 081 647
Current assets			
Inventories	(13)	21 936 058	21 393 361
Trade receivables	(14)	984 733	577 224
Receivables from group companies	(24g)	50 334 241	48 478 226
Other current assets	(15)	963 203	554 571
Corporate income tax	(10)	163 548	-
Cash and cash equivalents	(16)	32 809	146 546
Total current assets:		74 414 591	71 149 928
<u>Total assets</u>		<u>119 998 958</u>	<u>119 231 575</u>
<u>EQUITY AND LIABILITIES</u>			
		31.12.2011. EUR	31.12.2010. EUR
Equity			
Share capital	(17)	10 667 128	10 667 128
Share premium		87 887	87 887
Revaluation reserves of non-current assets	(12)	11 518 963	11 860 184
Revaluation reserves of derivative financial instruments	(19)	(69 059)	(247 923)
Retained earnings		44 155 105	38 958 974
Total equity:		66 360 023	61 326 250
Liabilities:			
Non-current liabilities:			
Borrowings	(18)	6 784 174	12 808 709
Deferred income tax liabilities	(10)	1 907 997	1 899 330
Derivative financial instruments	(19)	-	291 673
Total non-current liabilities:		8 692 171	14 999 713
Current liabilities:			
Borrowings	(18)	24 682 404	21 721 373
Trade payables		5 770 323	4 783 977
Payables to group companies	(24g)	2 166 611	2 084 672
Current income tax payables	(10)	-	100 066
Revaluation reserves of derivative financial instruments	(19)	81 247	-
Other liabilities	(20)	12 246 178	14 215 524
Total current liabilities:		44 946 764	42 905 612
Total liabilities:		53 638 936	57 905 325
<u>Total equity and liabilities:</u>		<u>119 998 958</u>	<u>119 231 575</u>

Notes on pages 14 to 41 are an integral part of these financial statements.

Guntis Ābolpiņš - Ābolpiņš
Chairman of the Board

Riga, 24 April, 2012

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserves of non-current assets	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2009.	10 667 128	87 887	11 875 668	(403 313)	33 362 339	55 589 708
Net profit	-	-	-	-	5 578 419	5 578 419
<i>Other income / (loss)</i>						
Changes in fair value of derivative financial instruments	-	-	-	182 813	-	182 813
Changes in deferred income tax liabilities	-	-	2 733	(27 423)	-	(24 690)
Disposal of property, plant and equipment	-	-	(18 217)	-	18 217	-
Total comprehensive income	-	-	(15 484)	155 390	5 596 636	5 736 542
31.12.2010.	10 667 128	87 887	11 860 184	(247 923)	38 958 974	61 326 250
Net profit	-	-	-	-	5 196 131	5 196 131
<i>Other income / (loss)</i>						
Changes in fair value of derivative financial instruments	-	-	-	210 427	-	210 427
Changes in deferred income tax liabilities	-	-	60 216	(31 564)	-	28 652
Revaluation of property, plant and equipment	-	-	(401 438)	-	-	(401 438)
Total comprehensive income	-	-	(341 222)	178 864	5 196 131	5 033 773
31.12.2011.	10 667 128	87 887	11 518 963	(69 059)	44 155 105	66 360 023

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

CASH FLOW STATEMENT

	Notes	2011 EUR	2010 EUR
Cash flow from operating activities			
Cash granted from operations	(21)	5 871 337	6 392 037
Interest paid		(1 477 726)	(1 699 869)
Income tax paid		(1 349 611)	(1 014 099)
Net cash flow generated from operating activities from continuing operations		3 044 000	3 678 068
Cash flow from investing activities			
Acquisition of property, plant and equipment	(12)	(376 458)	(842 922)
Loans granted		-	(620 372)
Loans interest received		47 383	267 094
Net cash flow generated from investing activities from continuing operations		(329 075)	(1 196 200)
Cash flow from financing activities			
Changes in credit lines (net)		1 898 509	1 338 544
Loans received	(24g)	298 803	-
Borrowings repaid		(5 023 349)	(4 246 474)
Finance lease payments		(2 625)	-
Net cash flow generated from financing activities from continuing operations		(2 828 662)	(2 907 930)
Net increase / (decrease) in cash and cash equivalents		(113 737)	(426 062)
Cash and cash equivalents at the beginning of the financial year		146 546	572 608
Cash and Cash equivalents at the end of the financial year	(16)	32 809	146 546

Notes on pages 14 to 41 are an integral part of these financial statements.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 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 2011 up to 31 December 2011.

These financial statements were authorized for issue by the Board of Directors of the Company on 24 April 2012, and Chairman of the Board Guntis Āboliņš - Āboliņš 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 by revaluation of the property, plant and equipment 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

IAS 24, Related Party Disclosures - Amendment

The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The amendment is applied retrospectively. The amendment did not have any material effect on related parties disclosures in these financial statements.

IAS 32 Classification of Rights Issues - Amendment

The amendments alter the definition of a financial liabilities in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applied retrospectively. The adoption of this amendment did not affect the Company's financial position or performance because the Company does not have such instruments.

IFRIC 14 - Prepayments of a Minimum Funding Requirements - Amendment

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of minimum funding requirements to be recognised as a pension asset. The amendment is applied retrospectively. This amendment did not affect these financial statements because the Company does not have defined benefit assets.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. This interpretation did not affect these financial statements because the Company does not have such transactions.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Basis of preparation (continuation)

Improvements to IFRS issued in May 2010

Amendments have been made to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. Improvements consist mostly of a mixture of insignificant changes and clarifications in the different areas. These amendments did not have any material effect on Company's financial statements.

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

IAS 12 Income Taxes – Recovery of Underlying Assets - Amendment (effective for annual periods beginning on or after 1 January 2012, not yet adopted by the EU).

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured at fair value will be recognized on a sale basis. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Company has assessed that this amendment will not affect its financial position and performance because the Group/ Bank measure their investment properties according to the cost model.

IFRS 1 First-time Adoption of IFRS - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - Amendment (effective for annual periods beginning on or after 1 July 2012, not yet adopted by the EU).

The amendment provides guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. This amendment will not have an impact to Company's financial statements.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income - Amendment (effective for annual periods beginning on or after 1 July 2012, not yet adopted by the EU).

The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects only presentation of Other Comprehensive Income and will not impact the Company's financial position or performance. The Company is considering the impact of amendment on its financial statements.

IAS 19 Employee Benefits - Revised (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

The revised standard includes a number of amendments that range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company is considering the impact of amendment on its financial statements.

IAS 27 Separate Financial Statements - Revised (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

As a result of the new IFRS 10 and IFRS 12, revised IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. As the Company does not have any investments in subsidiaries, jointly controlled entities and associates there is no impact of revised standard to Company's financial statements.

IAS 28 Investments in Associates and Joint Ventures -Revised (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

As a result of the new IFRS 11 and IFRS 12, revised IAS 28 has been renamed as IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Company is in the process of assessing the impact of this amendment on the financial position or performance of the Company.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 does not change the consolidation procedures, rather changes whether an entity is consolidated by revising the definition of control. As the Company does not have any investments in subsidiaries and special purpose entities there is no impact of this standard on Company's financial statements.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Basis of preparation (continuation)

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. As the Company does not have any investments in subsidiaries and special purpose entities there is no impact of this standard on Company's financial statements.

IFRS 12 Disclosures of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. As the Company does not have any investments in other companies there is no impact of this standard on Company's financial statements.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather describes how to measure fair value where fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. The Company is considering the impact of the standard on the Company's financial statements.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities - Amendment (effective for annual periods beginning on or after 1 January 2014, not yet adopted by the EU).

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted, but only with the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. The Company is considering the impact of the amendment on the Company's financial statements.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendment (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The Company is considering the impact of the amendment on the Company's 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 impact of the standard on the Company's financial statements.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). The Company do not involved in mining activities and, therefore, the interpretations will not effect its financial statements.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(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.

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 2010 to 31 December 2011.

(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:

	31.12.2011.	31.12.2010.
	EUR	EUR
1 USD	0,770	0,760
1 LVL	1,423	1,423
1 LTL	0,290	0,290

(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:

	Years
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.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(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:

	Years
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.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(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.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(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. 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.

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.

(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.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(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 and determination of their useful life period, 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. By the management estimates, in the reporting year the factors that indicate a potentially significant changes in the value of those assets has been identified, and , as a result, fair value measurement procedures has been made. Previous land and building evaluation has been conducted during the preparation of 2009 year annual financial statements. The total carrying amount of land and buildings as at 31 December 2011 is EUR 16 348 435 (31.12.2010. -EUR 17 838 121).

c) Determination of the useful life of property, plant and equipment

In estimating useful life of property, plant and equipment (PPE) the management relies on the historical information, technical survey, assessing the current state of the active and external evaluations. During the reporting and previous year there are no factors that indicate a need on changes of the useful life of the Company's PPE. The total carrying amount of PPE as at 31 December 2011 is EUR 20 117 754 (31.12.2010. - EUR 22 507 295).

b) Recoverability of 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.

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 2011 is EUR 21 936 057 (31.12.2010 - EUR 21 393 361).

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

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 100 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:

	2011 EUR	2010 EUR
Sales in Latvia	22 379 180	24 325 076
Export sales under S.P.I. Group company S.P.I. Spirits (Cyprus) Ltd. orders	34 689 283	41 267 116
Other income from export sales		
Lithuania	4 392 750	4 516 757
Russia	956 415	1 418 411
Estonia	878 421	899 790
Poland	375 743	329 261
Norway	406 588	416 098
Other countries	1 452 731	1 185 836
Other income from export sales (total)	<u>8 462 648</u>	<u>8 766 152</u>
	<u>65 531 111</u>	<u>74 358 345</u>

All Company's property, plant and equipment are located in Latvia.

(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 nonrelated clients with the amount of transactions more than 10% of total revenues.

	2011 EUR	2010 EUR
Sales to S.P.I. group companies	62 355 503	71 312 483
Sales to other customers	3 175 608	3 045 861
	<u>65 531 111</u>	<u>74 358 345</u>

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(2) Cost of sales	2011 EUR	2010 EUR
Materials	43 582 090	48 465 410
Salary expense	2 161 517	2 147 374
Changes in provision for receivables, inventories and other accrued liabilities	(1 109 049)	159 012
Energy resources	826 505	755 966
Mandatory state social insurance contributions	516 463	514 189
Changes of inventory value of finished goods	(472 872)	551 434
Natural recourse tax	334 092	389 316
Goods purchased	36 214	80 862
Accrued expenses on unused annual leave (variable)	(16 756)	57 860
Other variable costs	1 341 703	1 423 911
Variable costs total:	47 199 906	54 545 333
Depreciation of non-current assets	1 820 863	1 827 127
Salary expenses	1 105 672	1 123 184
Repair expenses	487 506	501 585
Mandatory state social insurance contributions	262 417	266 185
Net losses from revaluation of tangible assets	225 613	-
Insurance payments	104 739	92 138
Laboratory expenses	58 241	48 107
Accrued expenses on unused annual leave (fixed)	(3 022)	3 510
Other fixed expenses	386 331	755 033
Fixed costs total:	4 448 361	4 616 869
	51 648 268	59 162 202
 (3) Distribution expenses		
Advertising expenses	1 456 223	1 459 240
Salary expenses	1 565 717	1 528 916
Transportation expenses	658 609	617 071
Mandatory state social insurance contributions	374 168	364 767
Depreciation of non-current assets	342 828	343 153
Warehouse maintenance expenses	260 132	322 397
Accrued expenses on unused annual leave	(11 269)	7 315
Other expenses	447 021	405 703
	5 093 429	5 048 563
 (4) Administrative expenses		
Salary expenses	1 322 397	1 468 812
Management services and expenses	506 838	519 254
Mandatory state social insurance contributions	315 481	342 390
Real estate tax	127 004	111 791
Depreciation of non-current assets	93 883	103 411
Professional service costs	90 301	122 985
Office expenses	70 068	77 162
Communication and postal expenses	45 976	54 462
Representation expenses	42 305	88 814
Computer maintenance	32 476	31 400
Business trip expenses	30 804	37 592
Accrued expenses on unused annual leave	(25 711)	(15 030)
Employee training	25 657	5 112
Transportation expenses	22 013	25 109
Financial support, sponsorship	8 765	32 128
Healthcare, health insurance	6 282	9 313
Other expense	215 283	215 315
	2 929 821	3 230 021

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(5) Other income	2011 EUR	2010 EUR
Income from production supporting services rendered	1 221 262	422 084
Income from services rendered in warehouses of excise tax goods	477 947	454 869
Income from other services rendered	496 592	590 771
Income from lease of warehouse and office premises	263 210	244 169
Sold packages, boxes and pallets	94 160	10 255
Sold consumable materials	118 478	145 840
Other income	229 011	129 873
	<u>2 900 661</u>	<u>1 997 860</u>
 (6) Other expenses		
Bank commissions	41 908	111 138
Other expenses	1 684 421	218 917
	<u>1 726 329</u>	<u>330 055</u>
 (6) Expenses by Nature		
Materials	43 582 090	48 465 410
Employee expenses	7 567 074	7 809 472
Depreciation of non-current assets	2 257 574	2 273 691
Advertising expenses	1 456 223	1 459 240
Increase in provision for accounts receivables, inventories and other accruals	(1 109 046)	159 012
Transportation expenses	680 622	642 180
Management services and expenses	506 838	519 254
Repair expenses	487 506	501 585
Natural recourse tax	334 092	389 316
Real estate tax	127 004	111 791
Computer maintenance	32 476	31 400
Net losses from revaluation of tangible assets	225 613	-
Other expenses	5 249 779	5 408 489
	<u>61 397 845</u>	<u>67 770 841</u>
 (8) Finance income		
Interest income	1 066 440	856 031
Income from fines and penalties	63 004	9 960
	<u>1 129 444</u>	<u>865 991</u>
 (9) Finance expenses		
Interest for use of credit lines facilities	696 493	762 453
Interest for long-term loan	591 536	556 654
Net loss for hedging activities	205 090	312 908
Net loss from exchange rate fluctuations	62 524	887 891
Net loss from purchase - sale of foreign currency	295 343	288 233
	<u>1 850 985</u>	<u>2 808 139</u>

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(10) Corporate income tax

	2011	2010
	EUR	EUR
a) Components of corporate income tax		
Changes in deferred income tax	37 319	(128 262)
Corporate income tax according to the tax return	1 085 997	1 193 060
Compensated corporate income tax	(7 062)	-
	<u>1 116 254</u>	<u>1 064 798</u>

b) Reconciliation of accounting profit to income tax charges

In 2011 corporate income tax by the tax declaration is different from corporate income tax expenses recognized as expense for EUR 7 062. This amount will be compensated S.P.I. Spirits (Cyprus) Ltd. . 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:

	2011	2010
	EUR	EUR
Profit before taxes	6 312 385	6 643 216
Theoretically calculated tax at 15% tax rate	<u>946 858</u>	<u>996 482</u>
Tax effects on:		
Non-deductible expenses for tax purposes	262 580	132 973
Tax discounts for donations	-	(26 003)
Tax discounts for reinvested profits	(70 136)	(38 654)
Tax relief for the acquired technological equipment	(15 985)	-
Compensated corporate income tax	(7 062)	-
Total corporate tax charge	<u>1 116 254</u>	<u>1 064 798</u>

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	1 899 330	2 002 903
Deferred tax changes charged to the income statement	37 319	(128 262)
Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve	(60 216)	(2 733)
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	31 564	27 423
Deferred tax liabilities (asset) at the end of the financial year	<u>1 907 997</u>	<u>1 899 330</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):

	31.12.2011.	31.12.2010.
	EUR	EUR
Temporary difference on depreciation of tangible and intangible assets	2 090 527	2 295 657
Gross deferred tax liabilities	<u>2 090 527</u>	<u>2 295 657</u>
Temporary difference on provisions for slow moving and obsolete stock	(92 070)	(263 298)
Temporary difference on accruals for annual leave	(60 612)	(69 126)
Temporary difference on derivative financial instruments revaluation reserve	(12 187)	(43 750)
Temporary differences in accrued liabilities	(17 661)	(20 152)
Gross deferred tax assets	<u>(182 530)</u>	<u>(396 327)</u>
Net deferred tax liability (assets)	<u>1 907 997</u>	<u>1 899 330</u>

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Corporate income tax (continuation)

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:

	31.12.2011. EUR	31.12.2010. EUR
Deferred tax assets:		
deferred tax asset to be recovered within a year	(182 530)	(381 744)
deferred tax liabilities to be recovered after more than a year	-	(14 583)
	<u>(182 530)</u>	<u>(396 327)</u>
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	206 348	169 346
deferred tax liabilities to be recovered after more than a year	1 884 180	2 126 311
	<u>2 090 527</u>	<u>2 295 657</u>
Net deferred tax liabilities (assets)	<u>1 907 997</u>	<u>1 899 330</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
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2009.	(71 173)	2 382 041	(61 078)	(3 199)	(243 688)	2 002 903
Charged / (credited) to income statement	-	(83 651)	(8 048)	(16 954)	(19 610)	(128 262)
Charged / (credited) to equity	27 423	(2 733)	-	-	-	24 690
31.12.2010.	(43 750)	2 295 657	(69 126)	(20 152)	(263 298)	1 899 330
Charged / (credited) to income statement	-	(144 915)	8 514	2 491	171 228	37 319
Charged / (credited) to equity	31 564	(60 216)	-	-	-	(28 652)
31.12.2011.	(12 187)	2 090 526	(60 611)	(17 661)	(92 070)	1 907 997

(11) Earnings per Share (Expressed in cents 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.

	2011	2010
Profit attributed to shareholders of the Company (EUR)	5 196 131	5 578 419
Average annual number of shares	7 496 900	7 496 900
Earnings per share (expressed in cents)	<u>69,31</u>	<u>74,41</u>

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(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	
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2009.							
Initial cost/ revaluated	1 656 285	18 365 264	19 106 237	4 849 314	136 468	6 436	42 463 718
Accumulated depreciation	(1 655 907)	(43 837)	(14 126 626)	(4 071 139)	-	-	(18 241 602)
Net book value	378	18 321 427	4 979 612	778 174	136 468	6 436	24 222 116
2010							
Opening net book value	378	18 321 427	4 979 612	778 174	136 468	6 436	24 222 116
Acquired	-	-	-	-	-	886 580	886 580
Revaluated	-	-	-	-	-	-	-
Disposed	-	(8 929)	(34 479)	(821)	-	(43 659)	(87 888)
Reclassified	9 077	392 235	245 255	106 562	48 593	(801 720)	(9 077)
Depreciation	(1 948)	(866 611)	(1 097 916)	(307 212)	-	-	(2 271 740)
Closing book value	7 507	17 838 121	4 092 471	576 703	185 060	47 636	22 739 992
31.12.2010.							
Initial cost/ revaluated	1 665 362	18 721 784	19 222 105	4 907 274	185 060	47 636	43 083 860
Accumulated depreciation	(1 657 855)	(883 663)	(15 129 634)	(4 330 572)	-	-	(20 343 868)
Net book value	7 507	17 838 121	4 092 471	576 703	185 060	47 636	22 739 992
2011							
Opening net book value	7 507	17 838 121	4 092 471	576 703	185 060	47 636	22 739 992
Acquired	-	-	-	-	-	411 728	411 728
Revaluated	-	(627 050)	-	-	-	-	(627 050)
Disposed	-	-	(7 203)	(205)	-	(16 978)	(24 385)
Reclassified	39 468	11 723	382 989	101 754	(106 547)	(429 386)	(39 468)
Depreciation	(6 023)	(874 359)	(1 114 844)	(262 346)	-	-	(2 251 550)
Closing book value	40 952	16 348 436	3 353 413	415 905	78 513	13 001	20 209 267
31.12.2011.							
Initial cost/ revaluated	1 704 830	16 409 578	19 488 153	4 858 689	78 513	13 001	40 847 933
Accumulated depreciation	(1 663 878)	(61 142)	(16 134 740)	(4 442 783)	-	-	(20 638 666)
Net book value	40 952	16 348 436	3 353 413	415 905	78 513	13 001	20 209 267

a) Revaluation of land and building

In the 2011 financial statements, the Company completed the revaluation of land and buildings. The previous revaluation of buildings, structures and land was performed in 2009. 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.

In the result of evaluation the decrease of the assets fair value of EUR 627 050 has been recognized, where EUR 401 438 has been charged against the previous year revaluation surplus, while impairment of EUR 225 613 was recognized in income statement of 2011.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Intangible assets and property, plant and equipment (continuation)

Total revaluation surplus of tangible assets on 31 December 2011 was EUR 13 551 724 (31.12.2010 EUR 13 971 377). Revaluation amount less the attributable deferred income tax liabilities is recognizes in equity under "Revaluation reserve of non- current assets".

	2011	2010
	EUR	EUR
Provisions at the beginning of the year	11 860 184	11 875 668
Revaluation effect	(401 438)	-
Disposals effect	-	(18 217)
Changes in deferred tax liabilities as a result of revaluation and disposals	60 216	2 733
Provisions at the end of the year	<u>11 518 963</u>	<u>11 860 184</u>

If the land plots and buildings would not be revalued, then on 31 December 2011 the book value of the land plots and buildings would be EUR 7 537 thousand (31.12.2010 - EUR 8 076 thousand).

Revaluation reserve can not be reclassified to other equity items, except at the disposal of tangible assets, and paid to the shareholders as dividends.

b) Other notes

During the 2011 the borrowing costs has not been capitalized, as the Company did not 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)).

(13) Inventories	31.12.2011.	31.12.2010.
	EUR	EUR
Raw materials and consumables	10 026 437	8 451 803
Finished goods and goods for sale	5 718 843	6 636 258
Excise tax stamps	3 679 381	5 673 649
Work in progress	2 406 480	631 651
Inventory in transit	104 915	-
	<u>21 936 058</u>	<u>21 393 361</u>

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)).

Inventories are disclosed at net value less provision for potential impairment. Movement in provisions are as follows:

	2011	2010
	EUR	EUR
Provisions at the beginning of the year	1 755 326	1 624 590
Changes on provisions recognized in the income statement	(1 141 529)	130 736
Provisions at the end of the year	<u>613 797</u>	<u>1 755 326</u>

During the reporting year has changed methods in calculation of provisions for slow moving stock. If methodology used in previous years has been applied in 2011, the amount of provision would be less for EUR 158 578. A significant decrease of provision at the year end is due to a substantial write-down of materials related to the change of product range and design.

(14) Trade receivables	31.12.2011.	31.12.2010.
	EUR	EUR
Book value of trade receivables	1 298 406	1 090 833
Provisions for impairment of trade receivables	(313 674)	(513 610)
	<u>984 733</u>	<u>577 224</u>

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Trade receivables (continuation)	2011	2010
	EUR	EUR
Provisions at the beginning of the year	513 610	485 333
Receivables written off as uncollectible	(232 416)	-
Provisions	32 480	36 901
Paid during the year	-	(8 624)
Provisions at the end of the year	<u>313 674</u>	<u>513 610</u>

All trade and other receivables 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)).

(15) Other current assets	31.12.2011.	31.12.2010.
	EUR	EUR
Advances for raw materials	559 684	380 840
Other deferred expenses	57 571	59 486
Advances for services	45 967	61 855
VAT accepted	38 412	27 793
Deferred insurance costs	23 119	21 010
Other receivables	238 451	3 587
	<u>963 203</u>	<u>554 571</u>

(16) Cash and cash equivalents		
Cash at bank on current accounts	120	106 183
Cash on hand	32 689	40 363
	<u>32 809</u>	<u>146 546</u>

(17) Share capital

As at 31 December 2011 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. In the current year the number of registered and fully paid shares has not been changed.

All shares guarantees equal rights to dividends, reception of liquidation quotas and voting rights in the shareholder's meeting. One share gives rights to 1 vote. All shares are dematerialized. The Company do not hold own shares or someone else in it's interest. Shares are not convertible, exchangeable or guaranteed.

The Company's shares are quoted in AS NASDAQ OMX stock exchange in Secondary list. At the end of financial period 5 791 000 shares are quoted.

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)).

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(18) Borrowings	31.12.2011. EUR	31.12.2010. EUR
Non-current		
AS Swedbank (previously Hansabanka) - repayable in 2-5 years ^{c)}	6 769 946	9 571 303
Nordea Bank Finland Plc. Latvian branch - repayable in 2-5 years ^{c), d)}	-	3 237 406
Liabilities under finance leases - repayable in 2-5 years	14 228	-
	<u>6 784 174</u>	<u>12 808 709</u>
Current		
Credit line facilities ^{a), b)}	19 455 971	17 557 461
AS Swedbank (previously Hansabanka) ^{c)}	2 801 357	2 801 357
Nordea Bank Finland Plc. Latvian branch ^{c), d)}	2 416 987	1 362 555
Liabilities under finance leases	8 089	-
	<u>24 682 404</u>	<u>21 721 373</u>

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

	2011 EUR	2010 EUR
At beginning of the year	34 530 082	37 010 073
Received borrowings during the year	1 898 509	1 338 544
Repaid borrowings during the year (net)	(5 023 349)	(4 246 474)
Currency exchange rate fluctuation results	39 019	427 940
At the end of the year	<u>31 444 262</u>	<u>34 530 082</u>

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 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 2011 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 EUR 5 612 184, Ls 2 610 085.

On 31 December 2011 the liabilities of the Company for above mentioned credit lines to Nordea Bank Finland Plc. Latvian branch consists of Ls 4 087 882 and EUR 2 984 417, to AS Swedbank - Ls 2 594 235, EUR 5 580 536.

Credit lines last repayment date to Nordea Bank Finland Plc. Latvian branch is 30 December 2012, AS Swedbank - 30 April 2012. The management is planning to prolong credit line facilities for one year.

b) 2011 year overdraft

On 27 October 2011 entered into an overdraft agreement with Nordea Bank Finland Plc. Latvian branch. Overdraft limit granted in accordance with the contract - Ls 980 000, the overdraft limit used at 31 December 2011 is Ls 972 134. Final repayment date is 30 December 2012.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Borrowings (continuation)

c) 2007 year loans

On 24 July 2007 a loan agreement was signed with Nordea Bank Finland Plc. Latvian branch, AS Swedbank and the Company 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.

In 2010 entered into amended loan agreement with Swedbank for additional funding EUR 10 500 000. Addition loan is given credit for Swedbank fighting arising from loan agreements entered into on 21 September 2005 and 30 April 2004.

On 31 December 2011 the debt of the Company for above mentioned loans to AS Swedbank EUR 9 571 304 and Nordea Bank Finland Plc. Latvian branch Ls 1 698 668 (On July 2011 euro loan balance was converted in lats).

The repayment term of loan from Nordea Bank Finland Plc. Latvian branch is 30 June 2012 and a loan from Swedbank - 30 May 2015.

d) 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 2010 the Company repaid the liabilities to AS Swedbank for the previously mentioned loan, using the additional financing in accordance with the 24 July 2007 loan agreement amendments.

In 2011 the Company repaid the debt to Nordea Bank Finland Plc. Latvian branch (debt on 31 December 2010 amounted to EUR 2 217 284), the final settlement is made by the additional funding received pursuant with amendments to the loan agreement on 24 July 2007.

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

	31.12.2011.	31.12.2010.
Loans	2.693%-4.444%	1.731% - 4.080%
Credit line facilities	3.350%-5.483%	2.785% - 4.496%

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

	31.12.2011. EUR	31.12.2010. EUR
6 months or less	31 466 578 <u>31 466 578</u>	34 530 082 <u>34 530 082</u>
Payable in 1 year	24 682 404	21 721 373
Payable in 2 – 5 years	6 784 174 <u>31 466 578</u>	12 808 709 <u>34 530 082</u>

e) Collateral

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. (previous name S.P.I. Distilleries 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 2011 was EUR 119 998 958 (as at 31 December 2010 - EUR 119 231 575).

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(19) Derivatives financial instruments and hedging activities

The Company uses hedge accounting for variable interest payments for received loans from Nordea Bank Finland Plc. Latvian branch. 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 (9) in accounting policy).

The fair value of derivative financial instruments at the end of the reporting year is estimated in EUR 81 247 (31.12.2010 - EUR 291 673). During the reporting year the liabilities for derivative financial instruments is classified as current liabilities, as transaction completion date is 29 June 2012. Effective part of a derivative financial instrument that has been used and are classified as cash flow hedging instrument, less effect of deferred tax, recognized in equity under "Financial instruments revaluation reserve".

(20) Other liabilities	31.12.2011. EUR	31.12.2010. EUR
Excise tax	9 349 499	10 779 212
Value Added Tax	1 095 063	1 528 439
Accrued liabilities	729 272	618 419
Accruals for unused annual leave	404 081	460 841
Salaries	285 469	303 321
Deferred income	106 910	194 376
Mandatory State social insurance contributions	162 196	151 421
Personal income tax	102 596	111 925
Natural resource tax	2 450	1 598
Other receivables	8 641	65 974
	<u>12 246 178</u>	<u>14 215 524</u>

(21) Cash granted from operations	2011 EUR	2010 EUR
Profit before corporate income tax	6 312 385	6 643 216
<u>Adjustments for:</u>		
depreciation and amortization (Note (7))	2 257 573	2 273 691
provisions for current assets	(1 109 049)	159 012
loss / (profit) from foreign currency exchange rate fluctuations	39 019	427 940
interest expenses (Note (9))	1 493 119	1 632 015
interest income (Note (8))	(1 066 440)	(856 031)
loss / (profit) from revaluation of property	225 613	-
loss / (profit) from disposal of property, plant and equipment	7 407	44 230
<u>Changes in working capital</u>		
inventories	420 447	1 668 626
receivables	(1 667 384)	(7 047 268)
liabilities	(1 041 354)	1 446 605
	<u>5 871 337</u>	<u>6 392 037</u>

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(22) Average number of employees	2011	2010
Average number of people employed during the financial year	<u>613</u>	<u>634</u>

(23) Remuneration to personnel	2011 EUR	2010 EUR
Salaries and mandatory State social insurance contributions for production personnel	4 026 292	4 112 302
Salaries and mandatory State social insurance contributions for distribution personnel	1 928 616	1 900 998
Salaries and social insurance contributions for administration personnel	<u>1 612 166</u>	<u>1 796 172</u>
	<u>7 567 074</u>	<u>7 809 472</u>
Including key management salary expenses	408 541	618 137
mandatory State social insurance contributions	96 326	190 190
including Mandatory State social contributions included in personnel expenses	1 468 529	1 487 531

(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. (previous name 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 2011 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.(Luxembourg), Spirits Product International IP B.V. branch (Switzerland), SPI Production B.V. (Netherlands), Tambovskoje spirtovodocnoje predpriyatije Talvis OAO (Russia), SPI-RVVK OAO (Russia), Bravo SIA (Latvia), Bennet Distributors UAB (Lithuania), SPV Distributor SIA (Latvia), Spirits International B.V. (Luxembourg), Spirits International B.V. branch (Switzerland), SPI Distribution (Latvia) SIA, SPI Distribution (Estonia). The Company also had economic transactions with the related company Meierovica 35 SIA (Latvia) which is not a member of the SPI Group.

In 2011 Divinum OU (Estonia) changed its name to SPI Distribution (Estonia) OU.

28 October 2010 as a result of reorganisation Mono M SIA (Latvia), S.D.V. SIA (Latvia), L.D.V. SIA (Latvia), S.Alko SIA (Latvia) and Interlat SIA (Latvia) were merged with SPI Distribution SIA (Latvia).

The value of the transactions are disclosed with excise tax.

(a) Sale of Goods	2011 EUR	2010 EUR
SPI Distribution (Latvia) SIA	52 447 802	55 968 818
S.P.I. Spirits (Cyprus) Ltd.	34 850 055	41 539 569
Bennet Distributors UAB	4 389 121	4 514 196
SPI Distribution (Estonia)	812 756	751 207
Bravo SIA	279 653	315 075
SPI-RVVK OAO	4 711	25 939
Torgovi Dom Rosvestalko OOO	-	774 291
	<u>92 784 098</u>	<u>103 889 094</u>

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Transactions with related parties (continuation)

(b) Service Rendered (Including Loan Interest)	2011 EUR	2010 EUR
SPI Distribution (Latvia) SIA	6 233 351	3 867 546
S.P.I. Spirits (Cyprus) Ltd.	2 101 341	1 080 459
SPI Production B.V.	522 326	402 814
Meierovica 35 SIA	49 899	47 053
S.P.I.Regional Business Unit B.V	27 578	34 593
Bravo SIA	23 381	15 886
Spirits International B.V. (branch)	12 157	8 761
Bennet Distributors UAB	1 769	982
SPV Distributor SIA	145	145
L.D.V. SIA	-	1 045 293
Mono M SIA	-	414 895
Interlat SIA	-	188 434
S.Alko SIA	-	18 971
SPI-RVVK OAO	-	3 539
Spirits Product International IP B.V.	-	322
	<u>8 971 947</u>	<u>7 129 692</u>

(c) Purchase of Goods

Tambovskoje spirtovodocnoje predpriyatije Talvis OAO	7 030 272	3 452 833
SPI-RVVK OAO	220 712	3 300 599
Bennet Distributors UAB	6 316	45 710
S.P.I. Spirits (Cyprus) Ltd.	323	14 142
SPI Distribution (Latvia) SIA	1 124	-
	<u>7 258 746</u>	<u>6 813 284</u>

(d) Services Received

SPI Distribution (Latvia) SIA	249 115	125 877
S.P.I. Spirits (Cyprus) Ltd.	242 941	239 427
Meierovica 35 SIA	120 033	145 241
Bennet Distributors UAB	98 272	81 459
Spirits International B.V. (branch)	77 854	11 641
Bravo SIA	15 060	9 606
Spirits Product International IP B.V.(branch)	11 561	18 156
SPI Distribution (Estonia)	11 473	29 486
SPI-RVVK OAO	680	950
Torgovi Dom Rostvestalko OOO	-	1 922
	<u>826 989</u>	<u>663 765</u>

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Transactions with related parties (continuation)

(e) Accounts Receivable and Payable

	31.12.2011.		31.12.2010.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
S.P.I. Spirits(Cyprus) Ltd.	23 494 418	119 069	22 718 203	92 421
SPI Distribution (Latvia) SIA	8 780 464	66 613	7 358 170	81 371
Bennet Distributors UAB	2 743 677	-	2 081 642	116 076
S.P.I. Production B.V.	2 538 573	-	2 016 246	-
S.P.I. Group S.a.r.l.	-	1 501 521	-	1 476 679
Meierovica 35 SIA *	1 427 584	-	1 430 644	-
Tambovskoje spirtovodocnoje predprijetije Talvis OAO	94 910	-	1 219 774	-
SPI Distribution (Estonia)	643 855	6 971	573 096	13 477
Torgovi Dom Rosvestalko	-	-	569 671	1 922
Spirits International B.V.	427 301	-	427 294	-
SPI-RVVK OAO	-	680	3 509	238 007
S.P.I.Regional Business Unit B.V.	62 171	-	34 593	3 529
Bravo SIA	96 718	15 124	32 949	9 720
Spirits International B.V. (branch)	23 899	101 957	11 740	15 255
Spirits Product International IP B.V.	583	-	579	-
Spirits Product International IP B.V.(branch)	-	55 873	-	36 215
SPV Distributor SIA	88	-	117	-
	40 334 241	1 867 808	38 478 226	2 084 672
The short term part of the loan (see section (f))	10 000 000	-	10 000 000	-
The short term part of the loan (see section (g))	-	298 803	-	-
Total short term liabilities	50 334 241	2 166 611	48 478 226	2 084 672

Repayment of the debts will be made in cash, and they are not secured with guarantee or otherwise. In 2011 and 2010 there are no significant bad debts from related parties.

* In 2009, the Company concluded a loan agreement with Meirovica 35 SIA for the loan in amount of 1 000 000 lats. The loan is issued as credit line facilities in separate parts. During the reporting year the Company entered into a supplementary agreement on the repayment extension up to 1 October 2012. On 31 December 2011 the issued and outstanding amount of the loan is Ls 1 000 000.

(f) Loans to Group companies

	31.12.2011.	31.12.2010.
	EUR	EUR
S.P.I.Production B.V. **	20 600 000	20 600 000
S.P.I.Spirits (Cyprus) Ltd *	14 700 000	14 700 000
	35 300 000	35 300 000
At beginning of the year	35 300 000	35 300 000
Borrowings issued during the year	-	-
Repaid borrowings during the year	-	-
At the end of the year	35 300 000	35 300 000

Maturity of the total borrowings is as follows:

Payable in 1 year	10 000 000	10 000 000
Payable in 2 – 5 years	25 300 000	25 300 000
	35 300 000	35 300 000

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Transactions with related parties (continuation)

* 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 8 300 000. The unpaid part of principal sum of the loan on 31 December 2011 is in amount EUR 4 700 000. 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 23 December 2011 the agreement on prolongation of term till 28 December 2012 was signed. The unpaid part of the loan on 31 December 2011 is EUR 10 000 000.

** 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. The repayment term by mutually concluded agreement 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:

	31.12.2011.	31.12.2010.
Loans issued	2.525%-3.408%	2.167% - 4.029%

(f) Borrowings from Group companies

	31.12.2011. EUR	31.12.2010. EUR
Loans received during the year	298 803	-
At the end of the year	<u>298 803</u>	<u>-</u>
consist of:		
short-term loan	<u>298 803</u>	<u>-</u>
	<u>298 803</u>	<u>-</u>

During the reporting year the Company received short-term loan with a credit limit of Ls 210 000 from group company Bravo SIA. On 31 December 2011 the unpaid part of loan is Ls 210 000. The maturity of the loan is 31 December 2012.

(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 24(d)). In accordance with the Management's estimates in 2012 no significant changes are expected in the amount of royalty payments.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(25) Contingent Liabilities

(a) Royalty related

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.

(b) Tax contingencies

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 2011 the State Revenue Service, Tax Control Board has carried out a complete audit of the Company tax liabilities - excise and value added taxes for the period from 1 January 2009 to December 31, 2010, as well as corporate income tax for the year 2009. The audit results were not significant for these financial statements.

(26) Lease agreements

(a) The Company is the lessor

During the reporting period the Company leased office space in its owned properties to related parties. Leases are short term with extension rights.

(b) The Company is the lessee

The Company has signed a lease agreement for a container crane till 31 December 2012. As per the agreement the contract can be terminated due to improper lessee activities, compensating the lease payments for the remaining lease period. As at 31 December 2011 the minimum lease payments is EUR 36 120 (31 December 2010 - EUR 73 800).

In the previous periods the Company has signed a termless tank container lease agreement. Two contracts has been terminated in 2011. The current contract does not contain additional restrictions on the termination of contracts, so that the minimum lease payments not provided. Due to a change in the production process, starting with the September 2010 leased tank container is gradually being transferred to lessors and their number significantly decreased in 2011.

The total rental cost of EUR 354 940 (in 2010 - EUR 1 237 557) has included in income statement.

(27) Guaranties issued

In January 2009 Bravo SIA 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. In 2011 Bravo SIA paid back the loan and the Company's guarantee was terminated.

On 25 May 2011 the group companies, Bravo SIA and SPI Distribution (Latvia) SIA, has concluded with Nordea Bank Finland Plc. Latvian branch an overdraft agreement with a limit of EUR 5 000 000, where as the security AS Latvijas balzams has issued guarantee of EUR 4 000 000. A guarantee valid until the fulfilment of all overdraft contract obligations. The overdraft contract completion date defined as 30 December 2012.

In 2007 the Company issued a guarantee to Nordea Bank Finland Plc. Latvian branch for the related company S.P.I. Spirits (Cyprus) Limited liabilities of U.S. USD 10 000 000, resulting from overdraft agreement signed in July 2007. A guarantee issued to the full implementation of obligations which deadline is defined as at 31 December 2012.

Taking into account the financial position of the Group companies it is not expected that the Company shall fulfil the warranty or guarantees obligation, as a result no provisions has been recognized in the financial statements.

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

(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:

	31.12.2011.	31.12.2010.
Financial assets, EUR	44 154 085	42 585 957
Financial liabilities, EUR	(21 548 017)	(28 277 009)
Open position EUR, net	<u>22 606 068</u>	<u>14 308 948</u>
Open position EUR, net	<u>22 606 068</u>	<u>14 308 948</u>
Financial assets, USD	680 173	724 859
Financial liabilities, USD	(2 115 214)	(2 109 393)
Open position USD, net	<u>(1 435 041)</u>	<u>(1 384 534)</u>
Open position USD calculated in EUR, net	<u>(1 110 783)</u>	<u>(1 053 958)</u>

The following table demonstrates the sensitivity to a reasonably possible change in currency rates on outstanding foreign currency financial assets and liabilities. With all the other variables held constant the Company's profit before tax is affected as follows:

	2011		2010	
	Change in exchange rates	Effect on equity EUR	Change in exchange rates	Effect on equity EUR
EUR	+10%	2 260 607	+10%	1 430 895
	-10%	(2 260 607)	-10%	(1 430 895)
USD	+10%	(111 078)	+10%	(105 396)
	-10%	111 078	-10%	105 396

(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 (f))).

	31.12.2011.	31.12.2010.
	EUR	EUR
Financial assets with variable interest rate, EUR	35 300 000	35 300 000
Financial liabilities with variable interest rate, EUR	(18 136 256)	(25 214 092)
Financial liabilities with variable interest rate, LVL calculated in EUR	<u>(13 606 808)</u>	<u>(9 315 989)</u>
Open position, net, EUR	<u>3 556 936</u>	<u>769 919</u>

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Financial and capital risk management (continuation)

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 (see Note (19)).

The following table demonstrates the sensitivity to a reasonably possible change in interest risk on outstanding currency financial assets and liabilities. With all the other variables held constant the Company's profit before tax is affected as follows:

	2011		2010	
	Increase/ decrease in basis points	Effect on profit before tax EUR	Increase/ decrease in basis points	Effect on profit before tax EUR
EUR	+30	59 221	+30	55 899
	-30	(59 221)	-30	(56 315)
LVL	+30	(27 857)	+30	(22 950)
	-30	27 857	-30	22 950

(ii) Other price risk

Other price risk is the risk that the value of financial instruments will fluctuate due to other market factors. The Company's management monitors the market fluctuations on a continuous basis and acts accordingly but does not enter into any hedging transactions.

(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	31.12.2011. EUR	31.12.2010. EUR
Issued loans to Group companies	25 300 000	25 300 000
Trade receivables - Group companies	50 334 241	48 478 226
Trade receivables - non -related parties	984 733	577 224
Cash	32 809	146 546
	<u>76 651 782</u>	<u>74 501 995</u>

The largest concentration of credit risk arises from the Group company's debts: on 31 December 2011 99 % of the total trade receivables related to Group companies (31.12.2010: 99%). 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	spited in: in due term	Past due		
					< 90 days	90-180 days	> 180 days
31.12.2011.	1 298 406	(313 674)	984 733	595 355	389 377	-	-
31.12.2010.	1 090 833	(513 610)	577 224	493 543	83 681	-	-

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Financial and capital risk management (continuation)

(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 EUR 19,697 thousand (31.12.2010: EUR 18,302 thousand). On 31 December 2011 the unused part of the credit line was EUR 240 thousand (2010: EUR 744 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 2011	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years EUR
Long-term loans	6 784 174	-	2 809 446	3 974 728	-
Derivative financial instruments	81 247	81 247	-	-	-
Short-term loans	24 682 404	24 682 404	-	-	-
Trade payables	5 770 324	5 770 324	-	-	-
Debts to Group companies	2 166 611	2 166 611	-	-	-
	39 484 761	32 700 587	2 809 446	3 974 728	-
On 31 December 2010	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years EUR
Long-term loans	12 808 709	-	6 038 764	6 769 945	-
Derivative financial instruments	291 673	-	291 673	-	-
Short-term loans	21 721 373	21 721 373	-	-	-
Trade payables	4 783 977	4 783 977	-	-	-
Debts to Group companies	2 084 672	2 084 672	-	-	-
	41 690 404	28 590 022	6 330 437	6 769 945	-

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

(d) Capital Management

According to the Latvian Commercial Law requirements if the Company's losses exceed half 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 (gearing ratio). During the reporting year this figure has decreased to 47% (2010: 56%), confirming the Company's improvement of stability. The positive trend in 2011 is also the increased ratio of equity to total assets up to 55% (2010: 51%).

AS "Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 December 2011

Financial and capital risk management (continuation)

	31.12.2011.	31.12.2010.
	EUR	EUR
Total borrowings	31 466 578	34 530 082
Less cash and its equivalents	<u>(32 809)</u>	<u>(146 546)</u>
Net debt	31 433 769	34 383 537
Equity	66 360 023	61 326 250
Total capital	<u>97 793 792</u>	<u>95 709 787</u>
Total assets	119 998 958	119 231 575
Net debt to equity	47%	56%
Equity ratio on total assets	55%	51%

(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 2011.