AS "Latvijas Balzams"

ANNUAL REPORT

for the period ended 31 December 2012

in accordance with EU approved

International Financial Reporting Standards

CONTENTS

MANAGEMENT

Names and positions of the Council members

Aigars Kalvītis - Chairman of the Council

Valery Mendeleev - Vice Chairman of the Council

Pjotrs Aven - Member of the Council

Sebastianus Antonius Theodorus Boelen - Member of the Council

David Ronald Surbey - Member of the Council

Blaine Alan Rowlette - Member of the Council

Names and positions of the Board members

Guntis Āboltiņš - Āboliņš – Chairman of the Board (from 29.03.2012),
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,
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

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. The company confirms its export capacity to actively conquering global market. 75% of production is sold in more than 160 export markets through mediation of S.P.I. Group, as well as more than 30 markets for the Company's direct export route. The company was established in the 1900, but the existing name was acquired in 1970. Its major shareholder is S.P.I. Regional Business Unit B.V., which owns 89.53% stake in the share capital.

Performance of the Company during the financial year

The year 2012 was a successful year for the Company. AS Latvijas balzams has been able to increase operational efficiency and also, as a result increased its equity ratio of the balance sheet.

Net turnover of the Company in year 2012 was 67.4 million euro, which is for 1% more than in year 2011. This has been achieved thanks to the active new products put into production, good sales performance and united team work where everyone plays an important role. Turnover in the domestic market compared with last year, has increased for 6%. Seven of the ten best-selling alcoholic beverages in Latvia in 2012 are produced by AS Latvijas balzams, confirming consumer loyalty to our products and product quality. Export of S.P.I. Group orders has increased by 1,4%, while turnover in the export market has decreased by 13% compared to the previous year.

In 2012 the Company continued to implement previously realized export strategy in key markets, maintaining similar sales volumes to major customers abroad. The most significant increase in sales achieved in important markets such as Russia, Ukraine and outlets at international airports. In some countries, like Lithuania, Estonia and Poland, the decrease in sales against the previous year is due to specifity of customer order flow. Redistribution of customer order flow of significant private label customers between multiple markets reflected in the reduction of the amount on the market of the Netherlands and the increase on the German market, maintaining stable overall sales. In parallel actively held penetrating into new export markets, such as Georgia and Kazakhstan.

Year 2012 has been an outstanding in terms of new products - the Company has developed and begun to produce eighteen new or renewed products that successfully compete with local and import drinks. At 2012 year end the production of the year innovative beverages - Riga Black Vodka has been launched, which first batch already shipped to the export markets.

The company's pride - "Riga Black Balsam" has shown excellent sales results - products "Riga Black Balsam" and "Riga Black Balsam with black currant flavors" total sales in the local and export markets have grown by 19%, reaching 1 205 932 litres. Particularly successful has been the year 2012 to product "Riga Black Balsam with black currant flavors", that the sales figures in the export market have grown by 61%, but in local market - by 52%. The Company sees the potential to increase "Riga Black Balsam" sales in 2013, developing of new projects in local, European and other markets.

The Company has paid a 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 6 million euro net profit, which is by 15% more than in 2011. Therefore, the Company's profitability ratio (net profit to sales) in 2012 increased by 1.1 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 2012 the Company has paid taxes of 51.7 million euro to the state budget , including 36.3 million. euro of excise tax. In October 2012 AS Latvijas balzams has joined to the State Revenue Service's intensive cooperation program ("white list"). This demonstrates the consistency of the Company's economic activity with the program requirements and commitment to work even more closely with the tax authorities, in order to continue to improve the management and control processes in the company.

In 2012 the Company 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. The Company in the Latvian economy context is a significant employer and, in spite of the challenges, steady average number of employees has remained in 2012. The Company constantly invests in staff development - in 2012, various types of training and professional development activities attended by close to 40% of the Company's employees. The Company regularly provides practice opportunities for emerging professionals, some of them later becomes the Company's employees. The Company has received a Silver Medal of Sustainability Index, which is the high rating for those processes and achievements that have been implemented in the Company.

In 2012 the Company has employed an average of 613 employees, just as in 2011 - 613, and their average gross monthly salary amounted to 898 euro (in 2011 - 811 euro).

The Company's experience and precurse in supporting of older workers are estimated at the national level - the Company is among the top five Latvian companies that have received special assessment - recognition "Senior friendly company" from the Ministry of Welfare.

Financial risk management

The policy of financial risk management of the Company is described in financial report's Notes 29

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	**2012** **EUR**
Profit share to be distributed	**5 966 106**
Proposed profit distribution:	
Retained earnings	5 966 106

Future prospects

In future particular attention will be paid to the development of new competitive products and maintaining existing market share in Latvia, and growth on export markets. This is not possible without a focused and knowledgeable team. In the last year the Company's professional rows are supplemented by many new employees, and the Company has greeted those, who work at AS Latvijas balzams twenty or more years.

In 2013 AS Latvijas balzams priorities will be manufacturing and logistics cost control, optimization and production efficiency, through the introduction of innovative and environmentally friendly solutions that will enhance the Company's competitiveness.

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
Member of the Board

Riga, 19 April, 2013

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 40 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 Āboltiņš - Āboliņš
Member of the Board

Riga, 19 April, 2013

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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 40 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 2012 to 31 December 2012 (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 balzams AS as at 31 December 2012, 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, 23 April 2013

INCOME STATEMENT

	Notes	2012 EUR	2011 EUR
Net sales	(1)	67 394 618	66 752 373
Cost of sales	(2)	(54 652 112)	(52 850 053)
Gross profit (loss)		**12 742 506**	**13 902 320**
Distribution expenses	(3)	(4 595 727)	(5 236 587)
Administrative expenses	(4)	(3 540 209)	(2 929 821)
Other income	(5)	1 947 623	1 679 399
Other expenses	(6)	(106 828)	(381 385)
Finance income	(8)	1 549 648	1 129 444
Finance costs	(9)	(869 304)	(1 850 985)
Profit before tax		**7 127 710**	**6 312 384**
Corporate income tax	(10)	(1 161 604)	(1 116 254)
Net profit		**5 966 106**	**5 196 131**
Earnings per share (in EUR cents)			
Basic	(11)	79.58	69.31
Diluted	(11)	79.58	69.31

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2012 EUR	2011 EUR
Net profit		5 966 106	5 196 131
Other comprehensive income / (loss)			
Revaluation of property, plant and equipment	(13)	-	(401 438)
		-	-
Changes in deferred income tax liabilities resulted from revaluation of property, plant and equipment	(10)	-	60 216
Changes in fair value of financial instruments	(20)	81 247	210 427
Changes in deferred income tax liabilities resulted from changes of fair value of derivatives	(10)	(12 188)	(31 564)
Other comprehensive income / (loss)		69 059	(162 358)
Total comprehensive income		6 035 165	5 033 773

Notes on pages 14 to 42 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2012. EUR	31.12.2011. EUR
ASSETS			
Non-current assets			
Intangible assets	(12)	138 326	40 952
Property, plant and equipment	(13)	18 545 529	20 209 267
Loans to group companies	(25f)	25 300 000	25 300 000
Other non-current assets		34 149	34 149
Total non-current assets:		**44 018 004**	**45 584 368**
Current assets			
Inventories	(14)	23 467 439	21 936 058
Trade receivables	(15)	857 138	984 733
Receivables from group companies	(25e)	55 154 670	50 334 241
Other current assets	(16)	810 999	963 203
Corporate income tax	(10)	-	163 548
Cash and cash equivalents	(17)	92 899	32 809
Total current assets:		**80 383 145**	**74 414 591**
Total assets		**124 401 149**	**119 998 958**

EQUITY AND LIABILITIES		31.12.2012. EUR	31.12.2011. EUR
Equity			
Share capital	(18)	10 667 128	10 667 128
Share premium		87 887	87 887
Revaluation reserves of non-current assets	(13)	11 518 963	11 518 963
Revaluation reserves of derivative financial instruments	(20)	-	(69 059)
Retained earnings		50 121 211	44 155 105
Total equity:		**72 395 188**	**66 360 023**
Liabilities:			
Non-current liabilities:			
Borrowings	(19)	5 143 324	6 784 174
Deferred income tax liabilities	(10)	1 733 136	1 907 997
Total non-current liabilities:		**6 876 461**	**8 692 171**
Current liabilities:			
Borrowings	(19)	20 572 507	24 682 404
Trade payables		5 546 721	5 770 324
Payables to group companies	(25e)	1 913 976	2 166 611
Current corporate income tax payables	(10)	220 820	-
Derivative financial instruments	(20)	-	81 247
Other liabilities	(21)	16 875 476	12 246 178
Total current liabilities:		**45 129 500**	**44 946 764**
Total liabilities:		**52 005 960**	**53 638 935**
Total equity and liabilities:		**124 401 148**	**119 998 958**

Notes on pages 14 to 42 are an integral part of these financial statements.

Guntis Āboltiņš - Āboliņš
Member of the Board

Riga, 19 April, 2013

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
31.12.2010.	**10 667 128**	**87 887**	**11 860 184**	**(247 923)**	**38 958 974**	**61 326 250**
Net profit	-	-	-	-	**5 196 131**	**5 196 131**
Other income / (loss)						
Changes in fair value of derivative financial instruments	-	-	-	210 427	-	210 427
Changes in deferred income tax liabilities	-	-	60 216	(31 564)	-	28 652
Disposal 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**
Net profit	-	-	-	-	**5 966 106**	**5 966 106**
Other income / (loss)						
Changes in fair value of derivative financial instruments	-	-	-	81 247	-	81 247
Changes in deferred income tax liabilities	-	-	-	(12 188)	-	(12 188)
Total comprehensive income	-	-	-	**69 059**	**5 966 106**	**6 035 165**
31.12.2012.	**10 667 128**	**87 887**	**11 518 963**	-	**50 121 211**	**72 395 188**

CASH FLOW STATEMENT

	Notes	2012 EUR	2011 EUR
Cash flow from operating activities			
Gross cash flow from operating activities	(22)	8 170 920	5 871 337
Interest paid		(1 072 088)	(1 477 726)
Income tax paid		(965 894)	(1 349 611)
Net cash flow generated from operating activities from continuing operations		**6 132 937**	**3 044 000**
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets	(12), (13)	(562 972)	(376 458)
Loans interest received		30 465	47 383
Net cash flow generated from investing activities from continuing operations		**(532 507)**	**(329 075)**
Cash flow from financing activities			
Changes in credit lines (net)	(19)	(994 856)	1 898 509
Loans received	(25g)	213 431	298 803
Borrowings repaid	(19)	(4 750 773)	(5 023 349)
Finance lease payments		(8 143)	(2 625)
Net cash flow generated from financing activities from continuing operations		**(5 540 341)**	**(2 828 662)**
Net increase / (decrease) in cash and cash equivalents		**60 089**	**(113 737)**
Cash and cash equivalents at the beginning of the financial year		**32 809**	**146 546**
Cash and Cash equivalents at the end of the financial year	(17)	**92 899**	**32 809**

Notes on pages 14 to 42 are an integral part of these financial statements.

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 2012 up to 31 December 2012.

These financial statements were authorized for issue by the Board of Directors of the Company on 23 April 2013, and Chairman of the Board Guntis Āboltiņš - 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-adopted 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 (7) to accounting policies and evaluation of derivative financial instruments at fair value, as represented in Note (12) 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 (21) to accounting policies.

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

IFRS 7 Financial Instruments: Disclosures - Transfer of financial assets - Amendment (effective for annual periods beginning on or after 1 July 2011).
The amendment promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on a entity's financial position, particularly those involving securitisation of financial assets. This amendment did not affect these financial statements because the Company does not have such transactions.

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

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income - Amendment (effective for annual periods beginning on or after 1 July 2012).
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.

Basis of preparation (continuation)

IAS 12 Income Taxes – Recovery of Underlying Assets - Amendment (effective for annual periods beginning on or after 1 January 2013).
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 Company does not have investment properties' assets.

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 the its financial statements.

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 January 2013).
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.

IFRS 1 First-time Adoption of IFRS - Government Loans - Amendment (effective for annual periods beginning on or after 1 January 2013).
The amendment addresses how a first-time adopter would account for a government loan a below-market rate of interest when transition to IFRS. This amendment will not have an impact to Company's financial statements.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013).
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 2013).
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).
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 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014, 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.

Basis of preparation (continuation)

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014).
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 2014).
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.

IAS 27 Separate Financial Statements - Revised (effective for annual periods beginning on or after 1 January 2014).
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 2014).
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. As the Company does not hold any investments in jointly controlled entities and associates, there is no impact of revised standard on the Company's financial statements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013).
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.

Improvements to IFRS issued in 2011(effective for annual periods beginning on or after 1 January 2013).
Amendments has been made to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. 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.

IFRS 10, IFRS 11 and IFRS 12 - Transition guidance- Amendment (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
These amendments provide additional transition relief to IFRS 10, 11 and 12, limiting the requirements to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirements to present comparative information for period before IFRS 12 is first applied. As the Company does not have any investments in other companies, there is no impact of this standard on Company's financial statements.

*IFRS 9, Financial Instruments Part 1: Classification and Measurements(*effective for annual periods beginning on or after 1 January 2015, 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.

(2) Reclassification of comparatives

To improve the integrity of the financial statements' data in 2012 the Company has made the reclassification of other and expenses in the income statements. Reclassification does not have the impact on the financial results. The previous year comparatives have been reclassified accordingly and are comparable.

Based on S.P.I. Group companies orders the Company provides services, related to production support, and receive the separate remuneration. Taken into account that these services are the component of production cycle, in the current year this remuneration is classified as net sales, and cost of services provided is classified by its nature as cost of sales. Also the direct cost of other services provided, that recognized under other income, is classified by its nature.

Name of items reclassified	2012 Adjusted Name of line item	2011 Prior adjustments Name of line item	Amount EUR
Income from production support services	Net sales	Other income	1 221 262
Direct cost of production support services	Cost of sales	Other expenses	1 163 105
Direct cost of other services provided, classified under "Other income"	Distribution expenses	Other expenses	143 158
	Cost of sales	Other expenses	38 681

(3) 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, converted to EUR.

(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:

	31.12.2012. EUR	31.12.2011. EUR
1 USD	0.756	0.774
1 LVL	1.423	1.423
1 LTL	0.290	0.290

(4) 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.

(5) 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.

(6) 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.

(7) 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 in other comprehensive income 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	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.

(8) 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.

(9) 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.

(10) 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.

(11) 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.

(12) 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".

(13) 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.

(14) 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.

(15) 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.

(16) 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.

(17) 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.

(18) 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.

(19) 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.

(20) 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.

(21) 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 valuators 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 not been identified, and, as a result, fair value measurement procedures has not been made. Previous land and building evaluation has been conducted during the preparation of 2011 year annual financial statements. The total carrying amount of land and buildings as at 31 December 2012 is EUR 15 497 380 (31.12.2011 - EUR 16 348 436).

b) 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 2012 is EUR 18 470 009 (31.12.2011 - EUR 20 117 754).

c) 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 (29) of the financial statements.

d) Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realization probability and net selling value of the inventories shall be considered. The total carrying amount of inventories as at 31 December 2012 is EUR 23 467 439 (31.12.2011 - EUR 21 936 058).

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:

	2012 EUR	2011 EUR
Sales in Latvia	23 577 946	22 379 180
Export sales under S.P.I. Group company S.P.I. Spirits (Cyprus) Ltd. orders	36 417 516	35 910 545
Other income from export sales		
Lithuania	3 439 935	4 392 750
Russia	1 244 744	956 415
Estonia	701 104	878 421
Poland	115 771	375 743
Norway	413 559	406 588
Other countries	1 484 042	1 452 731
Other income from export sales (total)	7 399 155	8 462 648
	67 394 618	66 752 373

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 (25). There are no nonrelated clients with the amount of transactions is more than 10% of total revenues.

	2012 EUR	2011 EUR
Sales to S.P.I. group companies	63 586 081	63 576 765
Sales to other customers	3 808 537	3 175 608
	67 394 618	66 752 373

(2) Cost of sales	2012 EUR	2011 EUR
Materials	45 172 771	43 582 090
Salary expense	2 277 343	2 161 517
Energy resources	1 001 908	826 505
Mandatory state social insurance contributions	542 486	516 463
Natural recourse tax	367 043	334 092
Changes of inventory value of finished goods	(334 477)	(472 872)
Changes in provision for receivables, inventories and other accrued liabilities	166 411	(1 109 049)
Goods purchased	52 725	36 214
Accrued expenses on unused annual leave (variable)	27 856	(16 756)
Other variable costs	1 352 101	2 543 489
Variable costs total:	***50 626 165***	***48 401 692***
Depreciation of non-current assets	1 689 007	1 820 863
Salary expenses	1 146 880	1 105 672
Repair expenses	378 336	487 506
Mandatory state social insurance contributions	269 839	262 417
Insurance payments	108 333	104 739
Laboratory expenses	52 658	58 241
Accrued expenses on unused annual leave (fixed)	8 596	(3 022)
Net losses from revaluation of tangible assets	-	225 613
Other fixed expenses	372 299	386 331
Fixed costs total:	***4 025 947***	***4 448 361***
	54 652 112	**52 850 053**

(3) Distribution expenses		
Salary expenses	1 675 239	1 565 717
Advertising expenses	841 273	1 599 380
Transportation expenses	660 540	658 609
Mandatory state social insurance contributions	400 595	374 168
Depreciation of non-current assets	338 631	342 828
Warehouse maintenance expenses	243 567	260 132
Accrued expenses on unused annual leave	1 746	(11 269)
Other expenses	434 135	447 021
	4 595 727	**5 236 587**

(4) Administrative expenses		
Salary expenses	1 481 901	1 322 397
Management services and expenses	606 261	506 838
Mandatory state social insurance contributions	350 916	315 481
Real estate tax	149 161	127 004
Professional service costs	108 959	90 301
Depreciation of non-current assets	93 511	93 883
Office expenses	61 922	70 068
Representation expenses	52 763	42 305
Accrued expenses on unused annual leave	(50 825)	(25 711)
Communication and postal expenses	45 949	45 976
Employee training	31 011	25 657
Business trip expenses	24 895	30 804
Transport costs	23 833	22 013
Computer maintenance	10 925	32 476
Financial support, sponsorship	9 269	8 765
Healthcare, health insurance	7 217	6 282
Other expense	532 541	215 283
	3 540 209	**2 929 821**

(5) Other income

	2012 EUR	2011 EUR
Income from other services rendered	659 834	496 592
Income from services rendered in warehouses of excise tax goods	451 730	477 947
Income from lease of warehouse and office premises	256 433	263 210
Sold consumable materials	118 830	118 478
Sold packages, boxes and pallets	41 497	94 160
Other income	419 299	229 011
	1 947 623	1 679 399

(6) Other expenses

Bank commissions	41 975	41 908
Other expenses	64 853	339 477
	106 828	381 385

(7) Expenses by Nature

Materials	45 172 771	43 582 090
Employee expenses	8 132 572	7 567 074
Depreciation of non-current assets	2 121 149	2 257 574
Advertising expenses	841 273	1 599 380
Increase in provision for accounts receivables, inventories and other accrued liabilities	166 411	(1 109 046)
Transportation expenses	684 373	680 622
Management services and expenses	606 261	506 838
Repair expenses	378 336	487 506
Natural recourse tax	367 043	334 092
Real estate tax	149 161	127 004
Net losses from revaluation of tangible assets	-	225 613
Other expenses	4 275 526	5 139 097
	62 894 875	61 397 845

(8) Finance income

Interest income	1 528 450	1 066 440
Income from fines and penalties	21 198	63 005
	1 549 648	1 129 444

(9) Finance expenses

Interest for use of credit lines facilities	632 693	696 493
Interest for long-term loans	341 388	591 536
Net loss/(profit) from purchase - sale of foreign currency	(130 604)	295 343
Net loss/(profit) for hedging activities	84 332	205 090
Net loss/(profit) from exchange rate fluctuations	(58 506)	62 524
	869 304	1 850 985

(10) Corporate income tax

a) Components of corporate income tax

	2012 EUR	2011 EUR
Changes in deferred income tax	(187 049)	37 319
Corporate income tax according to the tax return	1 350 261	1 085 997
Compensated corporate income tax	(1 608)	(7 062)
	1 161 604	**1 116 254**

b) Reconciliation of accounting profit to income tax charges

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

	2012 EUR	2011 EUR
Profit before taxes	7 127 710	6 312 385
Theoretically calculated tax at 15% tax rate	**1 069 156**	**946 858**
Tax effects on:		
Non-deductible expenses for tax purposes	208 819	262 580
Tax relief for reinvested profits	(93 706)	(70 136)
Tax relief for the acquired technological equipment	(13 179)	(15 985)
Tax discounts for donations	(7 878)	-
Compensated corporate income tax	(1 608)	(7 062)
Total corporate tax charge	**1 161 604**	**1 116 254**

c) Movement and components of deferred tax

	2012 EUR	2011 EUR
Deferred tax liabilities (asset) at the beginning of the financial year	1 907 997	1 899 330
Deferred tax changes charged to the income statement	(187 049)	37 319
Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve	-	(60 216)
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	12 188	31 564
Deferred tax liabilities (asset) at the end of the financial year	**1 733 136**	**1 907 997**

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):

	31.12.2012. EUR	31.12.2011. EUR
Temporary difference on depreciation of tangible and intangible assets	1 932 890	2 090 527
Gross deferred tax liabilities	**1 932 890**	**2 090 527**
Temporary difference on provisions for slow moving and obsolete stock	(121 246)	(92 070)
Temporary difference on accruals for annual leave	(58 718)	(60 612)
Temporary difference on derivative financial instruments revaluation reserve	-	(12 187)
Temporary differences on accrued liabilities	(19 791)	(17 661)
Gross deferred tax assets	**(199 754)**	**(182 530)**
Net deferred tax liability (assets)	**1 733 136**	**1 907 997**

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:

	31.12.2012. EUR	31.12.2011. EUR
Deferred tax assets:		
deferred tax asset to be recovered within a year	(199 757)	(182 530)
deferred tax liabilities to be recovered after more than a year	-	-
	(199 757)	(182 530)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	205 350	206 348
deferred tax liabilities to be recovered after more than a year	1 727 543	1 884 180
	1 932 893	2 090 527
Net deferred tax liabilities (assets)	**1 733 136**	**1 907 997**

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	Accrued liabilities	Provisions for slow moving stock	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2010	**(43 752)**	**2 295 659**	**(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	**(12 188)**	**2 090 527**	**(60 611)**	**(17 661)**	**(92 070)**	**1 907 997**
Charged / (credited) to income statement	-	(157 637)	1 894	(2 130)	(29 176)	(187 049)
Charged / (credited) to equity	12 188	-	-	-	-	12 188
31.12.2012	**-**	**1 932 890**	**(58 718)**	**(19 791)**	**(121 246)**	**1 733 136**

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

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

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

	2012	2011
Profit attributed to shareholders of the Company (EUR)	5 966 106	5 196 131
Average annual number of shares	7 496 900	7 496 900
Earnings per share (expressed in EUR cents)	**79.58**	**69.31**

(12) Intangible assets

	Licences	Intangible assets under development	Advances for intangible assets	Total
	EUR	EUR	EUR	EUR
31.12.2010				
Initial cost	1 665 362	-	-	1 665 362
Accumulated depreciation	(1 657 855)	-	-	(1 657 855)
Net book value	**7 507**	**-**	**-**	**7 507**
2011				
Opening net book value	7 507	-	-	7 507
Reclassified	39 468	-	-	39 468
Depreciation	(6 023)	-	-	(6 023)
Net book value	**40 952**	**-**	**-**	**40 952**
31.12.2011				
Initial cost	1 704 830	-	-	1 704 830
Accumulated depreciation	(1 663 878)	-	-	(1 663 878)
Net book value	**40 952**	**-**	**-**	**40 952**
2012				
Opening net book value	40 952	-	-	40 952
Acquired	-	96 165	3 513	99 678
Reclassified	2 433	10 499	(3 513)	9 419
Depreciation	(11 723)	-	-	(11 723)
Net book value	**31 662**	**106 664**	**-**	**138 326**
31.12.2012				
Initial cost	1 707 263	106 664	-	1 813 927
Accumulated depreciation	(1 675 601)	-	-	(1 675 601)
Net book value	**31 662**	**106 664**	**-**	**138 326**

All intangible 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 (19)).

(13) Property, plant and equipment

	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Advances for property, plant and equipment	Total property, plant and equipment
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2010						
Initial cost/ revaluated	18 721 784	19 222 105	4 907 274	185 060	47 636	43 083 860
Accumulated depreciation	(883 663)	(15 129 634)	(4 330 572)	-	-	(20 343 868)
Net book value	**17 838 121**	**4 092 471**	**576 703**	**185 060**	**47 636**	**22 739 992**
2011						
Opening net book value	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	11 723	382 989	101 754	(106 547)	(429 386)	(39 468)
Depreciation	(874 359)	(1 114 844)	(262 346)	-	-	(2 251 550)
Closing book value	**16 348 436**	**3 353 413**	**415 905**	**78 513**	**13 001**	**20 209 267**
31.12.2011						
Initial cost/ revaluated	16 409 578	19 488 153	4 858 689	78 513	13 001	40 847 933
Accumulated depreciation	(61 142)	(16 134 740)	(4 442 783)	-	-	(20 638 666)
Net book value	**16 348 436**	**3 353 413**	**415 905**	**78 513**	**13 001**	**20 209 267**
2012						
Opening net book value	16 348 436	3 353 413	415 905	78 513	13 001	20 209 267
Acquired	-	-	-	-	477 457	477 457
Revaluated	-	-	-	-	-	-
Disposed	(2 385)	(7 645)	(630)	-	(11 690)	(22 350)
Reclassified	34 367	342 125	95 849	(11 734)	(470 026)	(9 419)
Depreciation	(883 037)	(1 043 739)	(182 650)	-	-	(2 109 426)
Closing book value	**15 497 380**	**2 644 154**	**328 474**	**66 778**	**8 742**	**18 545 529**
31.12.2012						
Initial cost/ revaluated	16 440 986	19 643 777	4 880 704	66 778	8 742	41 040 987
Accumulated depreciation	(943 606)	(16 999 623)	(4 552 229)	-	-	(22 495 458)
Net book value	**15 497 380**	**2 644 154**	**328 474**	**66 778**	**8 742**	**18 545 529**

a) Revaluation of land and building

In the 2011 financial statements, the Company completed the revaluation of land and buildings. 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.

During the financial year the factors that indicate a potentially significant changes in the value of market value of the Company's real estate has not been identified, and, as a result, fair value measurement procedures has not been made.

Property, plant and equipment (continuation)

Total revaluation surplus of tangible assets on 31 December 2012 was EUR 13 551 724 (31.12.2011 - EUR 13 551 724). Revaluation amount less the attributable deferred income tax liabilities is recognizes in equity under "Revaluation reserve of non- current assets".

	2012 EUR	2011 EUR
Provisions at the beginning of the year	11 518 963	11 860 184
Revaluation effect	-	(401 438)
Changes in deferred tax liabilities as a result of revaluation	-	60 216
Provisions at the end of the year	11 518 963	11 518 963

If the land plots and buildings would not be revalued, then on December 31, 2012 the book value of the land plots and buildings would be EUR 7 208 thousand (31.12.2011 - EUR 7 537 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 2012 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 (19)).

(14) Inventories	31.12.2012. EUR	31.12.2011. EUR
Finished goods and goods for sale	12 185 146	9 347 166
Raw materials and consumables	10 208 526	10 077 495
Work in progress	637 804	2 406 480
Inventory in transit	435 964	104 915
	23 467 439	21 936 058

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 (19)).

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

	2012 EUR	2011 EUR
Provisions at the beginning of the year	613 797	1 755 326
Changes on provisions recognized in the income statement	194 519	(1 141 529)
Provisions at the end of the year	808 316	613 797

(15) Trade receivables	31.12.2012. EUR	31.12.2011. EUR
Book value of trade receivables	902 206	1 298 406
Provisions for impairment of trade receivables	(45 068)	(313 674)
	857 138	984 733

Trade receivables (continuation)	2012 EUR	2011 EUR
Provisions at the beginning of the year	313 674	513 610
Receivables written off as uncollectible	(240 497)	(232 416)
Created/(decreased) provisions	(29 374)	27 242
Exchange rate difference	1 265	5 238
Provisions at the end of the year	45 068	313 674

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 (19)).

(16) Other current assets	31.12.2012. EUR	31.12.2011. EUR
Settlements for raw materials	407 326	559 684
Settlements for services	224 972	45 967
Other deferred expenses	104 800	57 571
VAT accepted	43 470	38 412
Deferred insurance costs	27 543	23 119
Other receivables	2 888	238 451
	810 999	963 203

(17) Cash and cash equivalents

Cash at bank on current accounts	71 818	120
Cash on hand	21 081	32 689
	92 899	32 809

(18) Share capital

As at 31 December 2012 the registered and fully paid share capital is in amount Ls 7 496 900 (EUR 10 667 128), that consists of 7 496 900 ordinary shares with nominal value of Ls 1 (EUR 1.423) 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 (19)).

(19) Borrowings

	31.12.2012. EUR	31.12.2011. EUR
Non-current		
AS Swedbank - repayable in 2-5 years [c)]	5 137 518	6 769 946
Liabilities under finance leases - repayable in 2-5 years	5 807	14 228
	5 143 324	6 784 174
Current		
Credit line facilities [a), b)]	18 461 116	19 455 971
AS Swedbank [c)]	2 099 999	2 801 357
Nordea Bank Finland Plc. Latvian branch [c), d)]	-	2 416 987
Liabilities under finance leases	11 392	8 089
	20 572 507	24 682 404

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

	2012 EUR	2011 EUR
At beginning of the year	31 444 262	34 530 082
Received borrowings during the year	(994 856)	1 898 509
Repaid borrowings during the year (net)	(4 750 773)	(5 023 349)
Currency exchange rate fluctuation results	-	39 019
At the end of the year	25 698 633	31 444 262

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 2012 the limit of overdraft granted by Nordea Bank Finland Plc. is in amount Ls 6 308 285 (EUR 8 975 881), which consists of: EUR 3 000 000, Ls 4 199 873 (EUR 5 975 881). 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 (EUR 3 713 816).

On 31 December 2012 the liabilities of the Company for above mentioned credit lines to Nordea Bank Finland Plc. Latvian branch consists of Ls 3 471 047 (EUR 4 938 855) and EUR 2 973 588, to AS Swedbank - Ls 2 518 466 (EUR 3 583 454), EUR 5 574 899.

Credit lines last repayment date to Nordea Bank Finland Plc. Latvian branch is 31 January 2014, AS Swedbank - 31 May 2013. 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 (EUR 1 394 414), the overdraft limit used at 31 December 2012 is Ls 977 122 (EUR 1 390 319). Final repayment date is 31 January 2014.

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 00 (Ls 7 379 442). 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 2012 the debt of the Company for above mentioned loans to AS Swedbank EUR 7 237 518 (Ls 5 086 556) and Nordea Bank Finland Plc. Latvian branch loan balance of the loan was fully repaid during the year.

The repayment term of loan from Swedbank is 30 May 2015.

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

	31.12.2012.	31.12.2011.
Loans	2.069%-3.080%	2.693%-4.444%
Credit line facilities	2.311%-3.433%	3.350%-5.483%

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

	31.12.2012. EUR	31.12.2011. EUR
6 months or less	25 715 831	31 466 578
	25 715 831	**31 466 578**
Payable in 1 year	20 572 507	24 682 404
Payable in 2 – 5 years	5 143 324	6 784 174
	25 715 831	**31 466 578**

d) 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 2012 was EUR 124 401 149 (31.12.2011- EUR 119 998 958).

(20) 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).

In June 2012 the derivative financial instruments contract expired. On 31 December 2012 the fair value of derivative financial instruments is estimated in EUR 81 247. 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".

(21) Other liabilities	**31.12.2012. EUR**	**31.12.2011. EUR**
Excise tax	14 402 949	9 349 499
Value Added Tax	933 462	1 095 063
Accrued liabilities	540 320	729 272
Accruals for unused annual leave	391 453	404 081
Salaries	292 308	285 469
Mandatory State social insurance contributions	162 586	162 196
Personal income tax	105 348	102 596
Deferred income	34 416	106 910
Natural resource tax	2 174	2 450
Other receivables	10 460	8 641
	16 875 476	12 246 178

(22) Cash granted from operations	**2012 EUR**	**2011 EUR**
Profit before corporate income tax	7 127 710	6 312 385
Adjustments for:		
depreciation and amortization (Note 7)	2 121 149	2 257 573
provisions	172 276	(1 109 049)
loss / (profit) from foreign currency exchange rate fluctuations	-	39 019
interest expenses (Note 9)	1 058 413	1 493 119
interest income (Note 8)	(1 528 450)	(1 066 440)
loss / (profit) from revaluation of property, plant and equipment	-	225 613
loss / (profit) from disposal of property, plant and equipment	10 660	7 407
Changes in working capital		
inventories	(1 725 904)	420 447
receivables	(2 856 852)	(1 667 384)
liabilities	3 791 918	(1 041 354)
	8 170 920	5 871 337

(23) Average number of employees	**2012**	**2011**
Average number of people employed during the financial year	613	613

(24) Remuneration to personnel

	2012 EUR	2011 EUR
Salaries and mandatory State social insurance contributions for production personnel	4 272 999	4 026 292
Salaries and mandatory State social insurance contributions for distribution personnel	2 077 581	1 928 616
Salaries and social insurance contributions for administration personnel	1 781 992	1 612 166
	8 132 572	7 567 074

	2012	2011
Including key management		
salary expenses	429 511	408 541
mandatory State social insurance contributions	101 871	96 326
Mandatory State social contributions included in personnel expenses	1 563 836	1 468 529

(25) 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 2012 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 predprijatije 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 OU (Estonia). The Company also had economic transactions with the related companies Meierovica 35 SIA (Latvia) and LB Agro SIA (Latvia), which are not a member of the SPI Group.

The value of the transactions are disclosed with excise tax.

(a) Sale of Goods

	2012 EUR	2011 EUR
SPI Distribution (Latvia) SIA	55 886 086	52 447 802
S.P.I. Spirits (Cyprus) Ltd.	36 088 245	34 850 055
Bennet Distributors UAB	3 447 968	4 389 121
SPI Distribution OU (Estonia)	706 652	812 756
Bravo SIA	162 984	279 653
SPI-RVVK OAO	-	4 711
	96 291 936	92 784 098

(b) Service Rendered (Including Loan Interest)

	2012	2011
SPI Distribution (Latvia) SIA	7 262 696	6 233 351
S.P.I. Spirits (Cyprus) Ltd.	1 685 238	2 101 341
SPI Production B.V.	837 845	522 326
Meierovica 35 SIA	54 540	49 899
S.P.I.Regional Business Unit B.V	16 966	27 578
Bravo SIA	16 363	23 381
SPI Distribution (Estonia)	5 279	-
Bennet Distributors UAB	4 919	1 769
Spirits International B.V. (branch)	1 557	12 157
S.P.I.Group S.a.r.l.	1 157	-
LB Agro SIA	1 019	-
SPV Distributor SIA	145	145
SPI-RVVK OAO	60	-
	9 887 784	8 971 947

Transactions with related parties (continuation)

(c) Purchase of Goods

	2012 EUR	2011 EUR
Tambovskoje spirtovodocnoje predprijatije Talvis OAO	8 241 422	7 030 272
S.P.I. Spirits (Cyprus) Ltd.	103 734	323
SPI-RVVK OAO	-	220 712
Bennet Distributors UAB	-	6 316
SPI Distribution (Latvia) SIA	-	1 124
	8 345 156	7 258 746

(d) Services Received

	2012 EUR	2011 EUR
SPI Distribution (Latvia) SIA	331 669	249 115
S.P.I. Spirits (Cyprus) Ltd.	163 228	242 941
Meierovica 35 SIA	180 989	120 033
Bravo SIA	18 567	15 060
Spirits International B.V. (branch)	8 564	77 854
Spirits Product International IP B.V.(branch)	7 208	11 561
Bennet Distributors UAB	-	98 272
SPI Distribution OU (Estonia)	-	11 473
SPI-RVVK OAO	-	680
	710 225	826 989

(e) Accounts Receivable and Payable

	31.12.2012.		31.12.2011.	
	Receivables EUR	Payables EUR	Receivables EUR	Payables EUR
S.P.I. Spirits(Cyprus) Ltd.	21 965 400	396 240	23 494 418	119 069
SPI Distribution (Latvia) SIA	15 809 732	430 733	8 780 464	66 613
S.P.I. Production B.V.	3 376 418	-	2 538 573	-
Bennet Distributors UAB	1 466 267	-	2 743 677	-
Meierovica 35 SIA *	1 452 533	-	1 427 584	-
SPI Distribution OU (Estonia)	265 441	-	643 855	6 971
Spirits International B.V.	427 291	-	427 301	-
Tambovskoje spirtovodocnoje predprijatije Talvis OAO	-	393 085	94 910	-
Spirits International B.V. (branch)	25 455	110 522	23 899	101 957
Bravo SIA	26 232	8 079	96 718	15 124
Spirits Product International IP B.V.(branch)	-	63 083	-	55 873
S.P.I.Regional Business Unit B.V.	79 137	-	62 171	-
S.P.I. Group S.a.r.l.	1 157	-	-	1 501 521
Spirits Product International IP B.V.	578	-	583	-
SPI-RVVK OAO	20	-	-	680
SPV Distributor SIA	14	-	88	-
	44 895 675	1 401 742	40 334 241	1 867 808
The short term part of the loan (see section (f))	10 258 995	-	10 000 000	-
The short term part of the loan (see section (g))	-	512 234	-	298 803
Total short term liabilities	55 154 670	1 913 976	50 334 241	2 166 611

Repayment of the debts will be made in cash, and they are not secured with guarantee or otherwise. In 2012 and 2011 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 (1 422 872 euro). 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 2013. On 31 December 2012 the issued and outstanding amount of the loan is EUR 1 422 872.

Transactions with related parties (continuation)

(g) Loans to Group companies	**31.12.2012.** **EUR**	**31.12.2011.** **EUR**
S.P.I. Production B.V. *	20 599 999	20 599 999
S.P.I. Spirits (Cyprus) Ltd **	14 700 000	14 700 000
SPI Distribution OU (Estonia) ***	258 995	-
	35 558 995	35 300 000
At beginning of the year	35 300 000	35 300 000
Borrowings issued during the year	283 995	-
Repaid borrowings during the year	(25 000)	-
At the end of the year	35 558 995	35 300 000

Maturity of the total borrowings is as follows:

Payable in 1 year	10 258 995	10 000 000
Payable in 2 – 5 years	25 300 000	25 300 000
	35 558 995	35 300 000

* 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, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2012 amounted Ls 14 477 762. The repayment term by mutually concluded agreement is 20 July 2015.

** 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 2012 is in amount EUR 4 700 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2012 amounted to Ls 3 303 179.
Loan repayment date is 30 June 2014.

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

On 20 December 2012 the agreement on prolongation of term till 28 December 2013 was signed. The unpaid part of the loan on 31 December 2012 is EUR 10 000 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2012 amounted to Ls 7 028 040.

*** On 29 June 2012 the Company concluded a long-term loan agreement with SPI Distribution OU (Estonia) in the amount of EUR 283 995, consisting of long-term trade receivables debt. The outstanding part of loan on 31 December 2012 amounted to EUR 258 995. Maturity is defined by 31 December 2013.

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:

	31.12.2012.	**31.12.2011.**
Loans issued	3.492%-3.750%	2.525%-3.408%

Transactions with related parties (continuation)

(g) Borrowings from Group companies	31.12.2012. EUR	31.12.2011. EUR
At beginning of the year	298 803	-
Loans received during the year	213 431	298 803
At the end of the year	**512 234**	**298 803**
consist of:		
short-term loan	512 234	298 803
	512 234	**298 803**

In 2011 the Company received short-term loan with a credit limit of EUR 298 803 from Group company Bravo SIA. During the financial year the credit limit was increased up to EUR 512 234 and the additional borrowing of EUR 213 431 has been received. On 31 December 2012 the outstanding part of loan is EUR 512 234. The maturity of the loan is 31 December 2013.

(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 2013 no significant changes are expected in the amount of royalty payments.

(26) 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 conceders, 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 šampanieties", "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 (for transfer pricing - five 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.

(27) 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

In the previous years the Company has signed a lease agreement for a container crane till 31 December 2012. During the financial year in connection with the expiration of the contract, signed a new operating lease agreement with Nordea Finance Latvia SIA of a container crane rental for three years, till July 2015. 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 2012 the non-cancellable lease payments are EUR 146 328 (31 December 2011 based on the previous lease agreement - EUR 36 120).

In the previous periods the Company has signed a termless tank container lease agreement. Two contracts has been terminated in the 2011. The current contract does not contain additional restrictions on the termination of contracts, so that the minimum lease payments not provided.

The total rental cost of EUR 210 606 (in 2011 - EUR 354 940) has included in income statement.

(28) Guaranties issued

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 31 January 2014.

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 USD 10 000 000, resulting from overdraft agreement signed in July 2007. In March 2012 amendments on the secured obligations increase up to USD 16 545 000 were signed. A guarantee issued to the full implementation of obligations which deadline is defined as at 31 January 2014.

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.

(29) 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 are:

Financial and capital risk management (continuation)

	31.12.2012.	31.12.2011.
Financial assets, EUR	42 996 071	44 154 085
Financial liabilities, EUR	(19 719 091)	(21 548 017)
Open position EUR, net	**23 276 980**	**22 606 068**
Financial assets, USD	537 992	680 173
Financial liabilities, USD	(281 719)	(2 115 214)
Open position USD, net	256 273	(1 435 041)
Open position USD calculated in euro, net	**193 626**	**(1 110 783)**

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:

	2012		2011	
	Change in exchange rates	**Effect on equity**	**Change in exchange rates**	**Effect on equity**
		EUR		**EUR**
EUR	+10%	2 327 698	+10%	2 260 607
	-10%	(2 327 698)	-10%	(2 260 607)
USD	+10%	19 363	+10%	(111 078)
	-10%	(19 363)	-10%	111 078

(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 (19)), as well as the Company's interest bearing assets have variable interest rate (Note (25(f)).

	31.12.2012.	31.12.2011.
	EUR	EUR
Financial assets with variable interest rate, EUR	35 300 000	35 300 000
Financial liabilities with variable interest rate, EUR	(15 786 005)	(18 136 256)
Financial assets with variable interest rate, LVL calculated in EUR	1 791 388	1 422 872
Financial liabilities with variable interest rate, LVL calculated in EUR	(10 424 862)	(13 606 808)
Open position, net	**10 880 521**	**4 979 807**

Due to the number of risk factors, till mid 2012 the Company managed 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:

	2012		2011	
	Increase/ decrease in basis points	**Effect on profit before tax**	**Increase/ decrease in basis points**	**Effect on profit before tax**
		EUR		**EUR**
EUR	+30	63 343	+30	59 221
	-30	(63 343)	-30	(59 221)
LVL	+30	(30 043)	+30	(27 856)
	-30	30 043	-30	27 856

Financial and capital risk management (continuation)

(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	31.12.2012. EUR	31.12.2011. EUR
Issued loans to Group companies	25 300 000	25 300 000
Trade receivables - Group companies	55 154 670	50 334 241
Trade receivables - non -related parties	857 138	984 733
Other current assets	678 656	882 513
Cash	92 899	32 809
	82 083 363	**77 534 295**

The largest concentration of credit risk arises from the Group company's debts: on 31 December 2012 99% of the total trade receivables related to Group companies (31.12.2011: 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	split to: in due term	Past due < 90 days	Past due 90-180 days	Past due > 180 days
31.12.2012.	902 206	(45 068)	857 138	606 465	250 673	-	-
31.12.2011.	1 298 406	(313 674)	984 733	595 355	389 377	-	-

(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 (31.12.2011: EUR 19,697 thousand). On 31 December 2012 the unused part of the credit line was EUR 1 million 235 thousand (2011: EUR 240 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, 2012	**Total EUR**	**<1 year EUR**	**1-2 years EUR**	**2-5 years EUR**	**>5 years EUR**
Long-term loans	5 143 324	-	-	5 143 324	-
Derivative financial instruments	-	-	-	-	-
Short -term loans	20 572 507	20 572 507	-	-	-
Trade payables	5 546 721	5 546 721	-	-	-
Debts to Group companies	1 913 976	1 913 976	-	-	-
	33 176 529	**28 033 204**	-	**5 143 324**	-

Financial and capital risk management (continuation)

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**	**-**

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 35% (2011: 47%), confirming the Company's improvement of stability. The positive trend in 2012 is also the increased ratio of equity to total assets up to 58% (2010: 55%).

	31.12.2012. EUR	31.12.2011. EUR
Total borrowings	25 715 831	31 466 578
Less cash and its equivalents	(92 899)	(32 809)
Net debt	25 622 932	31 433 769
Equity	72 395 188	66 360 023
Total capital	98 018 120	97 793 792
Total assets	124 401 149	119 998 958
Net debt to equity	35%	47%
Equity ratio on total assets	58%	55%

(30) 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 2012.

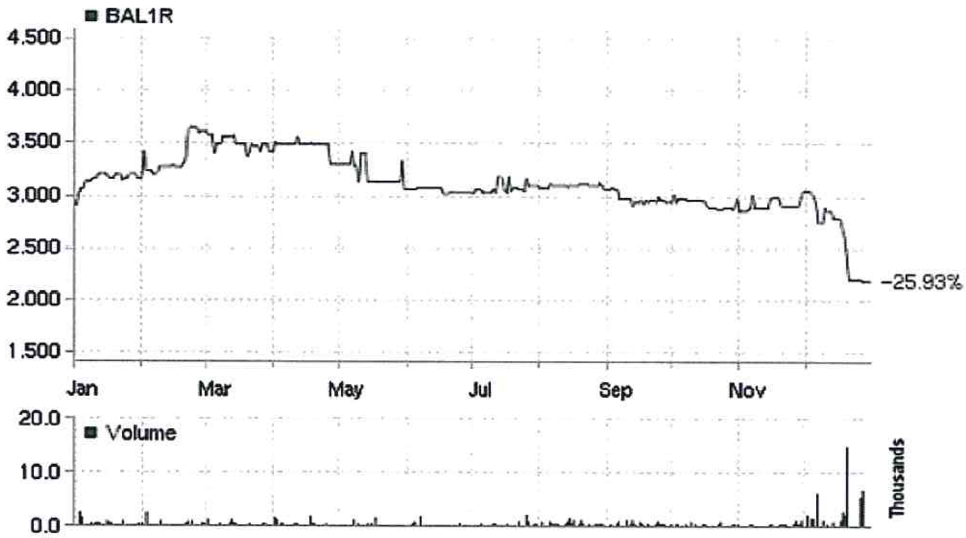
IV. OTHER INFORMATION

Shares

AS Latvijas balzams shares are listed on NASDAQ OMX Riga Secondary market since October 15, 1998

ISIN	LV0000100808
Ticker	BAL1R
Nominal value	1.00 LVL
Total number of securities	7 496 900
Number of listed securities	5 791 900
Indexes	B3000GI, B3000PI, B3500GI, B3500PI, OMXBGI, OMXBPI, OMXRGI

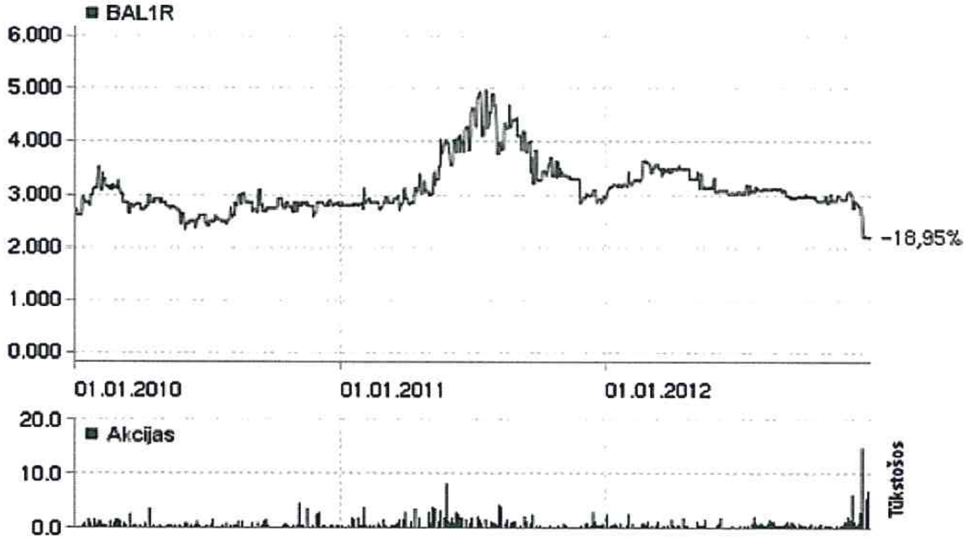
AS Latvijas balzams share price development for the period 01.01.2012 – 31.12.2012



Currency: EUR

Open	2.913 EUR
Max	4.425 EUR
Min	1.992 EUR
Average price	2.886 EUR
Last	2.191 EUR
Change	-25.93%
Trades	1673
No of shares traded	113 485
Turnover	326 856.26 EUR
Capitalization on 31.12.2012	16 427 376.62 EUR

AS Latvijas balzams share price development for the period 01.01.2010 – 31.12.2012



Currency: EUR

AS Latvijas balzams share price development in comparison with NASDAQ OMX Riga index for the period 01.01.2010 – 31.12.2012

Indekss	01.01.2010	31.12.2012	+/-%
OMX Riga	278,94	395,91	41,93↑
BAL1R	1,90 LVL	1,54 LVL	-18,95↓