

AS Latvijas balzams

ANNUAL REPORT

for period ended 31 December 2013

in accordance with EU approved
International Financial Reporting Standards

AS "Latvijas balzams"
ANNUAL REPORT
for the period ended 31 December 2013

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MANAGEMENT

Names and positions of the Council members

Aigars Kalvītis - Chairman of the Council

Valery Mendelev - Vice Chairman of the Council

Pjotrs Aven - Member of the Council

David Ronald Surbey - Member of the Council

Seymour Paul Ferreira - Member of the Council
(from 09.05.2013)

Sebastianus Antonius Theodorus Boelen - Member of the Council (from
09.05.2013)

Blaine Alan Rowlette - Member of the Council (till 28.12.2012)

Names and positions of the Board members

Guntis Āboliņš - 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

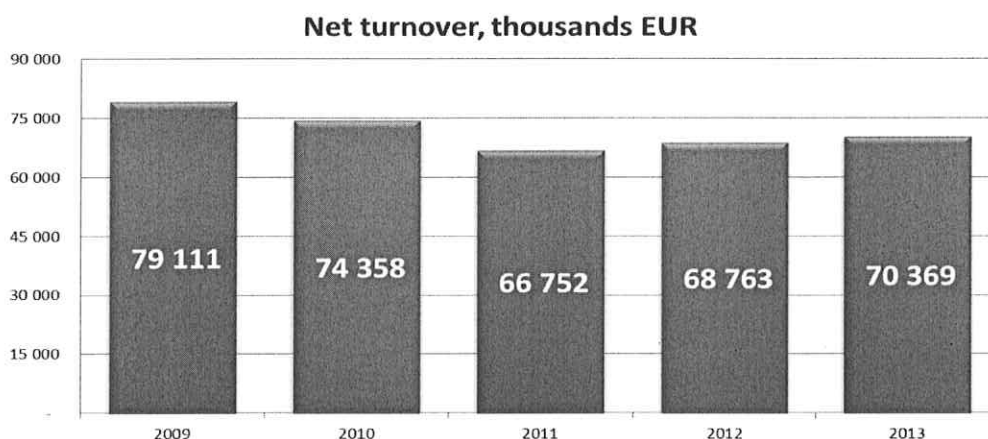
Type of operations

The Company was established in 1900 and operates under the current name since 1970. The major shareholder of AS Latvijas balzams is SPI Regional Business Unit B.V., which owns 89.53% of the Company's equity capital. AS Latvijas balzams is the largest alcoholic beverages producer in the Baltic States, whose product range includes more than 100 different alcoholic beverages. 73% of our production is sold in more than 160 export markets through mediation of SPI Group, as well in more than 30 markets via the Company's direct export route.

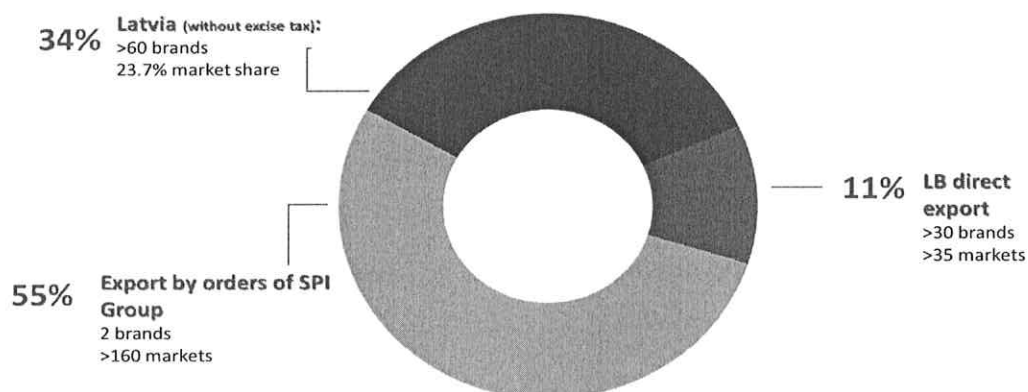
Performance of the Company during the financial year

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

The net turnover of the Company in financial year 2013 was 70.4 million euro, which is by 2.3% more than in year 2012. The turnover growth has been achieved by launching new products, establishing collaboration with new partners and a solid teamwork.

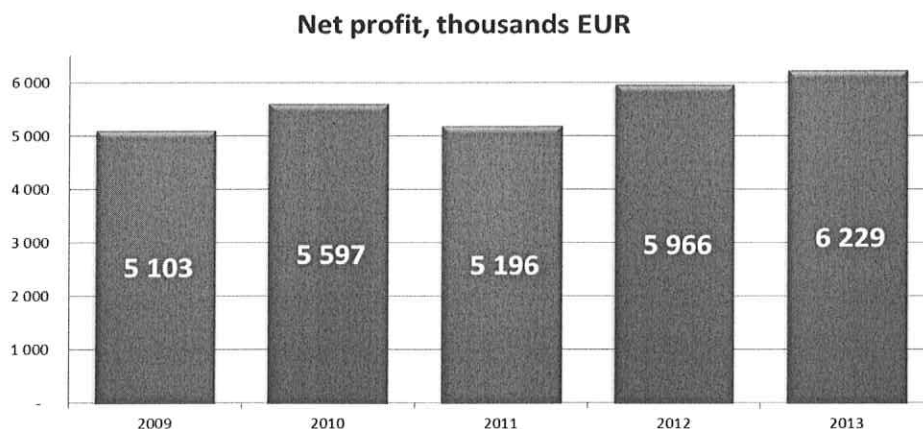


In year 2013, the turnover in domestic market has retained 2012 volumes though the turnover in the Baltic States has decreased due to managed beverage portfolio changes. The Company's sales in export markets, excluding the Baltic States, has increased by 14.7%, hence the total turnover in direct export markets has been increased by 2.8%. The most significant sales increase was achieved in Russia (+5.5%), Retail Travel and Duty-free market (18.2%) and Ukraine (+38.3%). The Baltic States, Russia, Germany and Scandinavia remained core focus markets in export business in 2013. At the same time the Company has penetrated new export markets, such as China. SPI Group mediated export has grown by 4.4% in 2013.



Report of the management (continuation)

The profit for the financial year reached 6.2 million euro, which represents 4.4% increase versus 2012. The result achieved due to targeted work on product portfolio development and export development strategy. The Company's return on equity (ROE) amounts to 8.2%, but return on assets (ROA) amounts to 4.9%.



In 2013, the Company has successfully participated in several international exhibitions receiving the highest quality and competitiveness appraisal. Its core products such as Riga Black Balsam, Riga Black Balsam Currant, Riga Black vodka and Moka liqueur have been awarded gold, silver and bronze medals at major international competitions: International Wine & Spirits Competition (London, UK), Los Angeles International Spirits Competition and New York World Wine & Spirits Competition (USA).

AS Latvijas balzams has been appraised as 15th best company in The National Business Reputation Top among 100 enterprises with the best reputation in the country. The Company is one of the top 25 Latvian exporters awarded by "The Red Jackets" initiative. The Company has achieved a remarkable growth in the annual TOP 101 Most Valuable Enterprises rating by NASDAQ OMXRiga and IBS Prudentia moving up from 45th to 29th place which confirms sustainable growth and improvements in investor relations.

AS Latvijas balzams is the leading producer of alcoholic beverages in Latvia, as well as one of the largest local taxpayers. During 2013, AS Latvijas balzams paid 41.2 million lats to the state budget, including excise tax, amounting to 30.6 million lats.

According to the Company's corporate social responsibility policy a number of activities to protect the environment were implemented in 2013. For example, in 2013 several thousands of tons of waste materials were collected and recycled.

AS Latvijas balzams retained the Silver Level in the annual National Sustainability Index and improved the performance across several categories, including public communication.

The Company has been an active member of the industry associations in 2013. Key activities included dialogue with government and NGO's to facilitate the combat of the illicit alcohol market. In 2013 the industry association signed a memorandum of cooperation with Latvian Doctors Association to join forces to facilitate responsible drinking and develop legislative initiatives to improve alcohol market regulation and combat shadow market.

In order to facilitate competency and talent development, the Company has implemented a long-term Talent and Management Development programs, and commenced internal competency development model which underlies each employee's individual development plan.

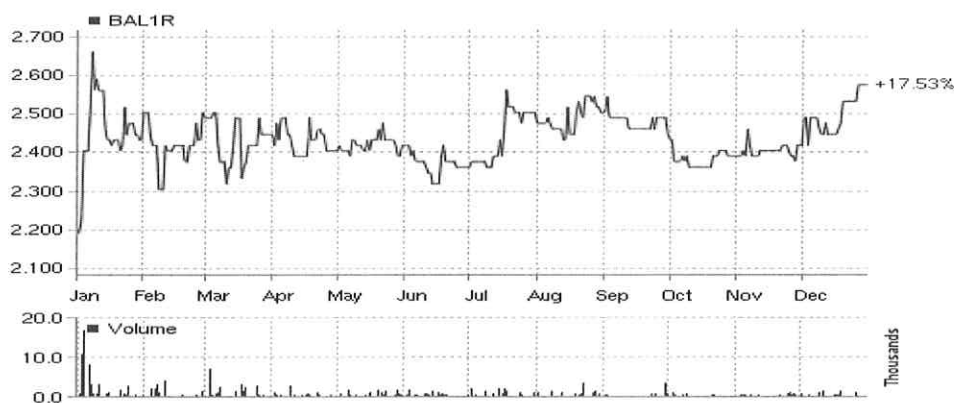
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Report of the management (continuation)

Share market

The improvement of the Company's financial performance has been reflected on its share price on NASDAQ OMX Riga. In 2013, the Company's share price fluctuated from 2.21 to 2.67 euro. The financial year was marked with the lowest share price – 2.21 euro per 1 share while at the end of the January it increased rapidly and reached the highest price – 2.67 euro per 1 share. Overall, during 2013 share price has increased by 17.53%.

**AS Latvijas balzams share price in NASDAQ OMX Riga (EUR)
(January of 2013 – December of 2013)**



Financial risk management

The policy of financial risk management of the Company is described in financial report's Notes 31

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

	2013 EUR
Profit share to be distributed	6 228 758
Proposed profit distribution:	
Retained earnings	6 228 758

Report of the management (continuation)


Future prospects

In future the Company will particularly focus on the new and competitive products for both domestic and export markets, ongoing implementation of sustainable export strategy and development of strong international brands.

By active participation in the industry association, the Company will represent the interests of industry in dialogue with legislators and law enforcement institutions and promote advised policy development in alcohol market.

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

To ensure a sustainable development of the Company, production efficiency, cost control and process optimization in logistics, implementation of innovative and environmentally friendly solutions will remain the key focus areas to increase the Company's competitiveness.



Guntis Abolins - Abolins
Chairman of the Board


Riga, 25 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 10 to page 44 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 Āboliņš - Āboliņš
Chairman of the Board

Riga, 25 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 (the Company) set out on pages 11 to 44 of the annual report. These financial statements comprise the statement of financial position as at 31 December 2013, and income statement, the statement of comprehensive income, statement of cash flow and statement of changes in equity for the year then ended, 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 the 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

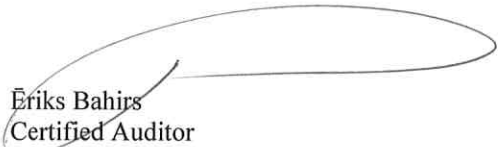
In our opinion, the above mentioned financial statements give a true and fair view of the financial position of the Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.



Report on Other Legal and Regulatory Requirements

We have read the management report for 2013 as set on pages 4 to 7 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
Licence No. 80



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

Riga, 29 April 2014

Baker Tilly Baltics is an independent member of Baker Tilly International. Baker Tilly International Limited is an English company. Baker Tilly International provides no professional services to clients. Each member firm is a separate and independent legal entity and each describes itself as such. Baker Tilly UK Group LLP, the independent member of Baker Tilly International in the United Kingdom, is the owner of the Baker Tilly trademark. Baker Tilly Baltics is not Baker Tilly International's agent and does not have the authority to bind Baker Tilly International or act on Baker Tilly International's behalf. None of Baker Tilly International, Baker Tilly Baltics, or any of the other member firms of Baker Tilly International has any liability for each other's acts or omissions. In addition, neither Baker Tilly International nor any other member firm has a right to exercise management control over any other member firm.

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INCOME STATEMENT

	Notes	2013 EUR	2012 EUR
Revenue	(1)	70 368 874	68 762 616
Cost of sales	(2)	(56 221 488)	(55 503 530)
Gross profit		14 147 386	13 259 086
Distribution expenses	(3)	(4 126 709)	(3 675 933)
Administrative expenses	(4)	(3 438 379)	(3 547 463)
Other income	(5)	260 117	768 736
Other expenses	(6)	(168 474)	(167 951)
Finance income	(8)	1 342 334	1 549 648
Finance costs	(9)	(758 152)	(1 058 413)
Profit before tax		7 258 123	7 127 710
Corporate income tax	(10)	(1 029 365)	(1 161 604)
Net profit		6 228 758	5 966 106
Earnings per share (in santims)			
Basic	(11)	83,08	79,58
Diluted	(11)	83,08	79,58

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	2013 EUR	2012 EUR
Net profit		<u>6 228 758</u>	<u>5 966 106</u>
Other comprehensive income / (loss)			
Items that will not be reclassified to income statement			
Revaluation of property, plant and equipment	(13)	1 748 496	-
Changes in deferred income tax liabilities resulted from revaluation and disposals of property, plant and equipment	(10)	(262 167)	-
		<u>1 486 329</u>	<u>-</u>
Items that may be reclassified subsequently to income statement			
Changes in fair value of financial instruments	(21)	-	81 247
Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments	(10)	-	(12 188)
		<u>-</u>	<u>69 059</u>
Other comprehensive income		<u>1 486 329</u>	<u>69 059</u>
Total comprehensive income		<u>7 715 087</u>	<u>6 035 165</u>

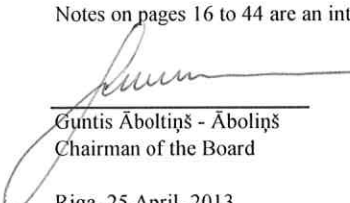
Notes on pages 16 to 44 are an integral part of these financial statements.

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STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2013. EUR	31.12.2012. EUR
ASSETS			
Non-current assets			
Intangible assets	(12)	209 956	1 38 326
Property, plant and equipment	(13)	18 888 414	18 545 529
Loans to group companies	(26f)	37 051 670	25 300 000
Other non-current assets		34 149	34 149
Total non-current assets:		56 184 189	44 018 004
Current assets			
Inventories	(14)	21 361 814	23 467 439
Trade receivables	(15)	930 195	857 138
Receivables from group companies	(26e)	52 018 765	55 154 670
Other current assets	(16)	550 815	810 999
Corporate income tax	(10)	220 199	-
Cash and cash equivalents	(17)	25 740	92 899
Total current assets:		75 107 528	80 383 145
Total assets		131 291 717	124 401 149
EQUITY AND LIABILITIES			
Equity			
Share capital	(19)	10 667 128	10 667 128
Share premium		87 887	87 887
Revaluation reserves of non-current assets	(13)	12 600 197	11 114 579
Retained earnings		56 755 064	50 525 595
Total equity:		80 110 275	72 395 188
Liabilities:			
Non-current liabilities:			
Borrowings	(20)	3 037 518	5 143 324
Deferred income tax liabilities	(10)	1 863 986	1 733 136
Total non-current liabilities:		4 901 504	6 876 461
Current liabilities:			
Borrowings	(20)	22 301 560	20 572 507
Trade payables		5 666 743	5 546 721
Payables to group companies	(26e,g)	3 051 045	1 913 976
Current corporate income tax payables	(10)	-	220 820
Other liabilities	(22)	15 260 590	16 875 476
Total current liabilities:		46 279 938	45 129 500
Total liabilities:		51 181 442	52 005 961
Total equity and liabilities:		131 291 717	124 401 149

Notes on pages 16 to 44 are an integral part of these financial statements.


Guntis Ābolpiņš - Ābolpiņš
Chairman of the Board

Riga, 25 April, 2013

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserves of non-current assets	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
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
<i>Other income / (loss)</i>						
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
Prior year adjustments (see Note 32).	-	-	(404 384)	-	404 384	-
31.12.2012. adjusted	10 667 128	87 887	11 114 579	-	50 525 595	72 395 188
Net profit	-	-	-	-	6 228 758	6 228 758
<i>Other income / (loss)</i>						
Revaluation of property, plant and equipment	-	-	1 748 496	-	-	1 748 496
Changes in deferred income tax liabilities	-	-	(262 167)	-	-	(262 167)
Disposals of revalued property, plant and equipment	-	-	(711)	-	-	-
Total comprehensive income	-	-	1 485 618	-	6 229 469	7 715 087
31.12.2013.	10 667 128	87 887	12 600 197	-	56 755 064	80 110 275

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CASH FLOW STATEMENT

	Notes	2013 EUR	2012 EUR
Cash flow from operating activities			
Gross cash flow from operating activities	(23)	3 061 056	8 170 920
Interest paid		(759 889)	(1 072 088)
Income tax paid		(1 601 700)	(965 894)
Net cash flow generated from operating activities from continuing operations		699 467	6 132 937
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets	(12), (13)	(450 333)	(562 972)
Loans repayment received	(26f)	60 000	-
Loans interest received		50 014	30 465
Net cash flow generated from investing activities from continuing operations		(340 319)	(532 507)
Cash flow from financing activities			
Changes in credit lines (net)	(20)	1 734 637	(994 856)
Loans received	(26g)	-	213 431
Borrowings repaid	(20)	(2 151 223)	(4 750 773)
Finance lease payments		(9 721)	(8 143)
Net cash flow generated from financing activities from continuing operations		(426 307)	(5 540 341)
Net increase / (decrease) in cash and cash equivalents		(67 159)	60 089
Cash and cash equivalents at the beginning of the financial year		92 899	32 809
Cash and cash equivalents at the end of the financial year	(17)	25 740	92 899

Notes on pages 16 to 44 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 2013 up to 31 December 2013.

These financial statements were authorized for issue by the Board of Directors of the Company on 25 April 2014, and Chairman of the Board Guntis Āboltiņš - Āboltiņš 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 International Financial Reporting Standards as adopted by European Union (IFRS).

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the following notes.

The financial statements are presented in accordance with IAS 1 Presentation of Financial Statements (Revised 2007). The Company has elected to present the Income statement and Statement of comprehensive income as separate statements.

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

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 affected the presentation of Other Comprehensive Income, but did not have any impact on the Company's financial position or performance.

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. This amendment did not affected the Company's financial position and performance.

Basis of preparation (continuation)

IAS 19 Employee Benefits - Revised (effective for annual periods beginning on or after 1 January 2013).

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 amendments have no significant impact on the Company's 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 July 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. These amendments did not affect the Company's financial statements.

IFRS 1 First-time Adoption of IFRS - Government Loans - Amendment (effective for annual periods beginning on or after 1 July 2013).

The amendment addresses how a first-time adopter would account for a government loan at a below-market rate of interest when transition to IFRS. These amendments did not affect the 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. The Company presented additional disclosures in the 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 have no significant impact 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 have no significant impact 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 does not involve in mining activities and, therefore, the interpretation does not affect the Company's financial statements.

Improvements to IFRS issued in 2011 (effective for annual periods beginning on or after 1 January 2013).

Amendments have 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 significant effect on the Company's financial statements.

Basis of preparation (continuation)

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

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2014).

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, this standard is not relevant to the Company's financial statements.

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 jointly controlled entities, this standard will not affect the 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, this standard will not affect the 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, the revised standard will not affect the 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, the revised standard will not affect the Company's financial statements.

IFRS 10, IFRS 11 and IFRS 12 - Transition guidance - Amendment (effective for annual periods beginning on or after 1 January 2014).

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, the amendments are not relevant to the 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.

Basis of preparation (continuation)

IAS 36, Recoverable amount disclosures for non-financial assets - Amendment (effective for annual periods beginning on or after 1 January 2014).

The amendment remove the requirements to disclose the recoverable amount when a cash generated unit contains goodwill or indefinite lived intangible assets but there has been no impairment. The Company does not expect, that this amendment to have significant impact on the financial statements.

IAS 39, Novation of derivatives and continuation of hedge accounting - Amendment (effective for annual periods beginning on or after 1 January 2014).

The amendment will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedge instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of law or regulation, if specific condition are met. The Company does not apply hedge accounting, consequently, the Company does not expect, that this amendment to have significant impact on the financial statements.

IFRS 10, IFRS 12 and IAS 27 - Amendments (effective for annual periods beginning on or after 1 January 2014).

The amendments introduce a definition of a investment entity as an entity that (i) obtain funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. The Company does not expect, that this amendment to have an impact on its financial statements.

c) Standards, amendments and interpretations, which are not yet effective and not yet endorsed by the EU

IFRS 9, Financial instruments: Classification and Measurement, IFRIC 21 - Levies (effective for annual periods beginning on or after 1 January 2014).

IAS 19, Defined benefit plans: Employee contributions - Amendment (effective for annual periods beginning on or after 1 July 2014).

Improvements to IFRS issued in 2012 (effective for annual periods beginning on or after 1 July 2014).

Improvements to IFRS issued in 2013 (effective for annual periods beginning on or after 1 July 2014).

(2) Reclassification of comparatives

To improve the analysis of the financial statements' data in 2013 the Company has made the reclassification of other income and expenses in the income statements. The Company provides excise warehouse services, storage and office rental and other services. Considering that these are ordinary activities of the Company, in the reporting year the income is classified as revenue, and cost of services provided is classified as cost of sales by its nature. Reclassification does not have the impact on the financial results. The previous year comparatives have been reclassified accordingly and are comparable.

Name of items reclassified	2012	2012	Amount
	Adjusted Name of line item	Prior adjustments Name of line item	
Income from excise warehouse services, storage and office rental and other services	Net sales	Other income	1 367 997
Direct cost of other services	Cost of sales	Other expenses	148 485

(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.

(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:

	31.12.2013.	31.12.2012.
	Ls	Ls
1 USD	0,515	0,544
1 EUR	0,702804	0,702804
1 LTL	0,204	0,204

(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) Revenue recognition

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

Sales of goods are recognized after significant ownership risk and rewards have been passed to the buyer. 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 (PPE)

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 the income statement 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 life, 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 or written off, 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) Employee benefits

Short-term employee benefits, including salaries, social security contributions and bonuses are included in the statement of profit or loss on an accrual basis.

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 valuers in accordance with the property valuation standards and based on observable market price as well as future cash flow and construction costs methods.

The Management believes that assets must be revaluated at least once in 5 years or earlier if any indicators show the potential material changes in market values. In the reporting year the fair value valuation of all Companies' land and buildings has been made (see Note (13)). Previous valuation of land and buildings has been conducted during the preparation of 2011 year financial statements. The total carrying amount of land and buildings as at 31 December 2013 is EUR 16 543 639 (31.12.2012 - EUR 15 497 380).

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 2013 is EUR 18 706 781 (31.12.2012 - EUR 18 470 009).

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 (31) 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 2013 is EUR 21 361 814 (31.12.2012 - EUR 23 467 439).

III. OTHER NOTES

(I) Segment Information and net sales

(a) Operation and reportable segment

Core activity of the Company is production of alcoholic drinks. AS Latvijas balzams produces over 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:

	2013 EUR	2012 EUR
Sales and services provided in Latvia	24 269 122	24 382 707
Export sales under S.P.I. Group company S.P.I. Spirits (Cyprus) Ltd. orders	38 615 703	36 899 597
Other income from export sales and services provided		
Lithuania	3 198 915	3 489 176
Russia	1 314 019	1 244 744
Estonia	636 358	706 813
Poland	208 901	115 771
Norway	421 595	413 559
Other countries	1 704 261	1 510 249
Other income from export sales (total)	<u>7 484 049</u>	<u>7 480 312</u>
	<u>70 368 874</u>	<u>68 762 616</u>

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

(c) Major customers

Most of the Company's sales transactions in domestic markets as well as sales to overseas markets are made through S.P.I. Group companies. The information on transactions of Group entities is disclosed in Note (26). There are no nonrelated clients with the amount of transactions is more than 10% of total revenues.

	2013 EUR	2012 EUR
Sales to S.P.I. group companies	65 840 696	64 809 573
Sales to other customers	<u>4 528 178</u>	<u>3 953 043</u>
	<u>70 368 874</u>	<u>68 762 616</u>

(d) Revenue by types

	2013 EUR	2012 EUR
Production of alcoholic drinks	67 946 126	66 615 045
Excise warehouse services, storage and office rental	838 725	708 163
Other services	664 495	1 014 311
Sales of other goods and materials	<u>919 528</u>	<u>425 097</u>
	<u>70 368 874</u>	<u>68 762 616</u>

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(2) Cost of sales	2013 EUR	2012 EUR
Materials	43 370 009	45 172 771
Changes of inventory value of finished goods	2 459 349	(334 477)
Salary expense	2 381 105	2 420 353
Goods purchased	1 455 118	457 578
Energy resources	969 969	1 001 908
Mandatory state social insurance contributions	567 003	576 986
Natural recourse tax	396 253	367 043
Changes in provision for receivables, inventories and other accrued liabilities	(244 343)	166 411
Accrued expenses on unused annual leave (variable)	(31 167)	27 856
Other variable costs	1 058 437	1 500 586
Variable costs total:	52 381 733	51 357 015
Depreciation of non-current assets	1 596 553	1 750 551
Salary expenses	1 128 357	1 146 880
Repair expenses	449 110	378 336
Mandatory state social insurance contributions	265 589	269 839
Insurance payments	67 848	72 461
Laboratory expenses	45 286	52 658
Accrued expenses on unused annual leave (fixed)	(10 447)	8 596
Net income from revaluation of property, plant and equipment	(180 356)	-
Other fixed expenses	477 815	467 194
Fixed costs total:	3 839 755	4 146 515
	56 221 488	55 503 530
(3) Distribution expenses		
Salary expenses	1 553 326	1 532 229
Advertising expenses	682 287	436 419
Transportation expenses	618 754	660 540
Mandatory state social insurance contributions	371 084	366 095
Depreciation of non-current assets	281 141	277 087
Warehouse maintenance expenses	153 048	148 672
Accrued expenses on unused annual leave	(22 352)	1 746
Other expenses	489 421	253 145
	4 126 709	3 675 933
(4) Administrative expenses		
Salary expenses	1 665 747	1 481 901
Mandatory state social insurance contributions	395 389	350 916
Management services and expenses	363 356	613 515
Real estate tax	132 640	149 161
Professional service costs	113 585	108 959
Depreciation of non-current assets	89 614	93 511
Financial support, sponsorship	84 813	9 269
Office expenses	51 882	61 922
Communication and postal expenses	48 186	45 949
Business trip expenses	36 889	24 895
Representation expenses	34 120	52 763
Employee training	24 842	31 011
Computer maintenance	23 988	10 925
Transport costs	21 538	23 833
Accrued expenses on unused annual leave	(8 184)	(50 825)
Healthcare, health insurance	7 177	7 217
Other expenses	352 797	532 541
	3 438 379	3 547 463

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(5) Other income	2013 EUR	2012 EUR
Sold auxiliary materials	115 186	118 830
Net loss/(profit) from exchange rate fluctuations	28 446	58 506
Net loss/(profit) from purchase - sale of foreign currency	13 475	130 604
Sold packages, boxes and pallets	2 194	41 497
Other income	<u>100 816</u>	<u>419 299</u>
	<u>260 117</u>	<u>768 736</u>
 (6) Other expenses		
Bank commissions	83 732	41 975
Other expenses	<u>84 742</u>	<u>125 976</u>
	<u>168 474</u>	<u>167 951</u>
 (7) Expenses by Nature		
Materials	43 370 009	45 172 771
Employee expenses	8 255 451	8 132 572
Depreciation of non-current assets	1 967 337	2 121 149
Advertising expenses	682 287	436 419
Transportation expenses	640 292	684 373
Repair expenses	449 110	378 336
Natural recourse tax	396 253	367 043
Management services and expenses	363 356	613 515
Real estate tax	132 640	149 161
Increase/ (decrease) in provision for accounts receivables, inventories and other accrued liabilities	(244 343)	166 411
Other expenses	<u>7 942 658</u>	<u>4 673 127</u>
	<u>63 955 050</u>	<u>62 894 877</u>
 (8) Finance income		
Interest income	1 341 014	1 528 450
Income from fines and penalties	<u>1 320</u>	<u>21 198</u>
	<u>1 342 334</u>	<u>1 549 648</u>
 (9) Finance expenses		
Interest for use of credit lines facilities	563 597	632 693
Interest for long-term loans	194 555	341 388
Net loss/(profit) from hedging activities	<u>-</u>	<u>84 332</u>
	<u>758 152</u>	<u>1 058 413</u>

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(10) Corporate income tax

	2013	2012
a) Components of corporate income tax	EUR	EUR
Changes in deferred income tax	(131 317)	(187 049)
Corporate income tax according to the tax return	1 160 682	1 350 261
Compensated corporate income tax	-	(1 608)
	<u>1 029 365</u>	<u>1 161 604</u>

b) Reconciliation of accounting profit to income tax charges

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

	2013	2012
	EUR	EUR
Profit before taxes	7 258 123	7 127 710
Theoretically calculated tax at 15% tax rate	<u>1 088 718</u>	<u>1 069 156</u>
Tax effects on:		
Permanent differences	166 217	208 819
Tax relief for reinvested profits	(146 911)	(93 706)
Tax discounts for donations	(70 752)	(7 878)
Tax relief for the acquired technological equipment	(7 907)	(13 179)
Compensated corporate income tax	-	(1 608)
Total corporate tax charge	<u>1 029 365</u>	<u>1 161 603</u>

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	1 733 136	1 907 997
Deferred tax changes charged to the income statement	(131 317)	(187 049)
Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve	262 167	-
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	-	12 188
Deferred tax liabilities (asset) at the end of the financial year	<u>1 863 986</u>	<u>1 733 136</u>

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

	31.12.2013.	31.12.2012.
	EUR	EUR
Temporary difference on depreciation of PPE and intangible assets	2 032 741	1 932 890
Gross deferred tax liabilities	<u>2 032 741</u>	<u>1 932 890</u>
Temporary difference on provisions for slow moving and obsolete stock	(82 445)	(121 246)
Temporary difference on accruals for annual leave	(47 897)	(58 718)
Temporary differences on other accrued liabilities	(38 413)	(19 791)
Gross deferred tax assets	<u>(168 755)</u>	<u>(199 754)</u>
Net deferred tax liability (assets)	<u>1 863 986</u>	<u>1 733 136</u>

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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:

	31.12.2013. EUR	31.12.2012. EUR
Deferred tax assets:		
deferred tax asset to be recovered within a year	(168 755)	(199 757)
deferred tax liabilities to be recovered after more than a year	-	-
	<u>(168 755)</u>	<u>(199 757)</u>
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	180 601	205 350
deferred tax liabilities to be recovered after more than a year	1 852 140	1 727 543
	<u>2 032 741</u>	<u>1 932 893</u>
Net deferred tax liabilities (assets)	<u>1 863 986</u>	<u>1 733 136</u>

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

	Derivative financial instruments	Accelerated depreciation and property revaluation difference	Accruals for unused annual leave	Accrued liabilities	Provisions for slow moving stock	Total
	EUR	EUR	EUR	EUR	EUR	EUR
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
Charged / (credited) to income statement	-	(162 316)	10 821	(18 622)	38 801	(131 317)
Charged / (credited) to equity	-	262 167	-	-	-	262 167
31.12.2013.	-	2 032 741	(47 897)	(38 413)	(82 445)	1 863 986

(11) Earnings per Share (Expressed in Euro Cents per Share)

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

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

	2013	2012
Profit attributed to shareholders of the Company (EUR)	6 228 759	5 966 106
Average annual number of shares	<u>7 496 900</u>	<u>7 496 900</u>
Earnings per share (expressed in euro cents)	<u>83,08</u>	<u>79,58</u>

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(12) Intangible assets

	Licences	Intangible assets under development	Advances for intangible assets	Total
	EUR	EUR	EUR	EUR
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)
Closing 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
2013				
Opening net book value	31 662	106 664	-	138 326
Acquired	-	22 513	59 751	82 264
Disposed	(81)	-	-	(81)
Reclassified	1 281	58 470	(59 751)	-
Depreciation	(10 553)	-	-	(10 553)
Closing book value	22 309	187 647	-	209 956
31.12.2013.				
Initial cost	287 487	187 647	-	475 134
Accumulated depreciation	(265 178)	-	-	(265 178)
Net book value	22 309	187 647	-	209 956

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 (20)).

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(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
31.12.2011.						
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	415 906	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
2013						
Opening net book value	15 497 380	2 644 154	328 474	66 778	8 742	18 545 528
Acquired	-	-	-	15 545	368 070	383 615
Revaluated	1 928 852	-	-	-	-	1 928 852
Disposed	(3 754)	(4 062)	(4 745)	-	(236)	(12 797)
Reclassified	7 550	191 904	77 812	19 195	(296 461)	-
Depreciation	(886 389)	(903 013)	(167 382)	-	-	(1 956 784)
Closing book value	16 543 639	1 928 983	234 159	101 518	80 115	18 888 414
31.12.2013.						
Initial cost/ revaluated	16 624 931	19 724 516	4 698 166	101 518	80 115	41 229 246
Accumulated depreciation	(81 292)	(17 795 533)	(4 464 007)	-	-	(22 340 832)
Net book value	16 543 639	1 928 983	234 159	101 518	80 115	18 888 414

a) Revaluation of land and building and fair value techniques used

In the 2013 financial statements, the Company has recognized the revaluation of land and buildings. An independent valuation of the Company's real estate assets was performed by valuers to determine its fair value as at 31 December 2013. The valuation was determined by three valuation techniques:

1) Under market approach (with the effect of 34% to estimated fair value) the recent market transactions for the similar assets has been used. Sales prices of comparable properties are adjusted for differences in key attributes such as property size, location, technical conditions of the buildings. The most significant input into this valuation is price per square meter.

2) Under income approach (with the effect of 37% to estimated fair value) the expected cash flow has been estimated based on the rental income for the similar properties. The projected future rental income less operational running costs and necessary investments has been discounted to present value. The most significant inputs into this valuation are rental price per square meter, discount rate representing the time value for money and risk premium, reversion or multiplier exit (exit multiple).

Property, plant and equipment (continuation)

3) Under cost approach (with the effect of 29% to estimated fair value) estimation of cost, that would be required currently to replace the asset, has been made. This valuation techniques include the projection of construction costs adjusted for the current physical and economical depreciation of the buildings and fair value of land based on the recent market transactions for the similar land plots adjusted for the differences in key attributes such as property size and location. The most significant inputs into this valuation are construction costs per square meter, depreciation rate of the buildings and land price per square meter.

Valuation technique	Unobservable inputs	Range used	
		min- max	weighted average
Income approach	discount rate	9% - 14%	13%
	exit multiple	9% - 12%	11%
Cost approach	construction cost per square meter	85 - 569 EUR	357 EUR

In the result of evaluation the total increase of the assets fair value of EUR 1 928 852 has been recognized, where EUR 1 748 496 has been credited to revaluation reserves, EUR 180 356 has been recognized in the income statements to reverse the impairment of assets in the previous years.

Total revaluation surplus of tangible assets on 31 December 2013 was EUR 14 823 760 (31.12.2012 - EUR 13 551 724). Revaluation amount less the attributable deferred income tax liabilities is recognizes in equity under "Revaluation reserve of non- current assets". During the reporting year the adjustment of the prior years' error in respect of revaluation reserve has been made in amount of EUR 404 384 (see Note (32)).

	2013 EUR	2012 EUR
Provisions at the beginning of the year	11 114 579	11 518 963
Previous year adjustment	-	(404 384)
Provisions at the beginning of the year (adjusted)	11 114 579	11 114 579
Revaluation of assets	1 747 785	-
Changes in deferred tax liabilities as a result of revaluation	(262 167)	-
Provisions at the end of the year	<u>12 600 197</u>	<u>11 114 579</u>

If the land plots and buildings would not be revalued, then on December 31, 2013 the book value of the land plots and buildings would be EUR 6 726 thousand (31.12.2012 - EUR 7 208 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 2013 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 (20)).

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(14) Inventories	31.12.2013. EUR	31.12.2012. EUR
Finished goods and goods for sale	9 727 156	12 185 146
Raw materials and consumables	10 563 114	10 208 526
Work in progress	701 022	637 804
Inventory in transit	370 522	435 964
	<u>21 361 814</u>	<u>23 467 439</u>

All inventories of the Company are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note (20)).

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

	2013 EUR	2012 EUR
Provisions at the beginning of the year	808 316	613 797
Changes on provisions recognized in the income statement	(258 495)	194 519
Provisions at the end of the year	<u>549 821</u>	<u>808 316</u>

(15) Trade receivables	31.12.2013. EUR	31.12.2012. EUR
Book value of trade receivables	962 207	902 206
Provisions for impairment of trade receivables	(32 012)	(45 068)
	<u>930 195</u>	<u>857 138</u>

	2013 EUR	2012 EUR
Provisions at the beginning of the year	45 068	313 674
Receivables written off as uncollectible	(42 825)	(240 497)
Created/(decreased) provisions	29 769	(29 374)
Exchange rate difference	-	1 265
Provisions at the end of the year	<u>32 012</u>	<u>45 068</u>

All trade and other receivables of the Company are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note (20)).

(16) Other current assets	31.12.2013. EUR	31.12.2012. EUR
Financial assets:		
Settlements for services	235 178	224 972
VAT accepted	33 509	43 470
Other receivables	2 826	2 888
	<u>271 513</u>	<u>271 330</u>
Non-financial assets		
Settlements for raw materials	193 333	407 326
Other deferred expenses	54 704	104 800
Deferred insurance costs	31 265	27 543
	<u>279 302</u>	<u>539 669</u>
	<u>550 815</u>	<u>810 999</u>
	31.12.2013.	31.12.2012.

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(17) Cash and cash equivalents

	EUR	EUR
Cash at bank on current accounts	25 740	71 818
Cash on hand	-	21 081
	<u>25 740</u>	<u>92 899</u>

(18) Financial instruments by category

All financial assets of the Company amounting at the year end to EUR 90 552 231 (31.12.2012 - EUR 81 710 186) fell under the category of loans and receivables.

All financial liabilities of the Company amounting to EUR 49 317 456 (31.12.2012 - EUR 50 272 824) fell under the category of other financial liabilities, there are no liabilities at fair value through profit or loss.

(19) Share capital

As at 31 December 2013 the registered and fully paid share capital is in amount EUR 10 667 128, that consists of 7 496 900 ordinary shares with nominal value of EUR 1.42 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 its 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 (20)).

(20) Borrowings

	31.12.2013. EUR	31.12.2012. EUR
Non-current		
AS Swedbank - repayable in 2-5 years ^{c)}	3 037 518	5 137 518
Liabilities under finance leases - repayable in 2-5 years	-	5 807
	<u>3 037 518</u>	<u>5 143 324</u>
Current		
Credit line facilities ^{a), b)}	20 195 754	18 461 116
AS Swedbank ^{c)}	2 099 999	2 099 999
Liabilities under finance leases	5 807	11 392
	<u>22 301 560</u>	<u>20 572 507</u>
Total borrowings:	<u>25 339 078</u>	<u>25 715 831</u>

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

	2013 EUR	2012 EUR
At beginning of the year	25 698 633	31 444 262
Received borrowings during the year	1 734 637	(994 856)
Repaid borrowings during the year (net)	(2 099 999)	(4 750 773)
At the end of the year	<u>25 333 271</u>	<u>25 698 633</u>

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Borrowings (continuation)

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 2013 the limit of overdraft granted by Nordea Bank Finland Plc. is in amount Ls 4 199 873 (EUR 5 975 881) and EUR 3 000 000 and credit line limit granted by AS Swedbank under the loan agreement is Ls 2 610 085 (EUR 3 713 816) and EUR 6 612 184.

On 31 December 2013 the liabilities of the Company for above mentioned credit lines to Nordea Bank Finland Plc. Latvian branch consists of Ls 4 021 340 (EUR 5 721 851) and EUR 2 990 185, to AS Swedbank - Ls 2 600 584 (EUR 3 700 298), EUR 6 393 523.

Credit lines last repayment date to Nordea Bank Finland Plc. Latvian branch is 30 June 2014, AS Swedbank - 30 September 2015.

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 2013 is Ls 976 826 (EUR 1 389 898). Final repayment date is 30 June 2014.

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. Addition loan is given credit for Swedbank fighting arising from loan agreements entered into on 21 September 2005 and 30 April 2004. In 2012 was fully repaid the residual amount of the loan to Nordea Bank Finland Plc. Latvian branch.

On 31 December 2013 the debt of the Company for above mentioned loans to AS Swedbank EUR 5 137 517. The repayment term of loan from Swedbank is 30 May 2015.

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

	31.12.2013.	31.12.2012.
Loans	2.516%-3.182%	2.069%-3.080%
Credit line facilities	2.378%-3.285%	2.311%-3.433%

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

	31.12.2013. EUR	31.12.2012. EUR
6 months or less	25 339 078 <u>25 339 078</u>	25 715 831 <u>25 715 831</u>
Payable in 1 year	22 301 560	20 572 507
Payable in 2 – 5 years	3 037 518 <u>25 339 078</u>	5 143 324 <u>25 715 831</u>

Borrowings (continuation)

d) Collateral

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

- (i) the mortgage of largest part of 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 2013 was EUR 131 291 718 (31.12.2012 - EUR 124 401 149).

(21) Derivatives financial instruments and hedging activities

In previous years, the Company used 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 was evaluated as highly effective and the Company uses the accounting policy for hedge accounting (see section (12) in accounting policy).

In June 2012 the derivative financial instruments contract expired. Effective part of a derivative financial instrument that has been used and are classified as cash flow hedging instrument, less effect of deferred tax, was reclassified from equity under "Financial instruments revaluation reserve" to income statement.

(22) Other liabilities	31.12.2013. EUR	31.12.2012. EUR
Excise tax	12 208 086	14 402 949
Value Added Tax	1 386 930	933 462
Accrued liabilities	699 138	540 320
Accruals for unused annual leave	319 302	391 453
Salaries	340 081	292 308
Mandatory State social insurance contributions	185 995	162 586
Personal income tax	102 337	105 348
Deferred income	10 872	34 416
Natural resource tax	3 139	2 174
Other liabilities	4 710	10 460
	<u>15 260 590</u>	<u>16 875 476</u>

(23) Cash granted from operations	2013 EUR	2012 EUR
Profit before corporate income tax	7 258 123	7 127 710
<u>Adjustments for:</u>		
depreciation and amortization (Note 7)	1 967 337	2 121 149
provisions	(244 343)	172 276
interest expenses (Note 9)	758 152	1 058 413
interest income (Note 8)	(1 341 014)	(1 528 450)
loss / (profit) from revaluation of property, plant and equipment	(180 356)	-
loss / (profit) from disposal of property, plant and equipment	12 642	10 660
<u>Changes in working capital</u>		
inventories	2 384 780	(1 725 904)
receivables	(7 452 649)	(2 856 852)
liabilities	(101 616)	3 791 918
	<u>3 061 056</u>	<u>8 170 920</u>

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(24) Average number of employees	2013	2012
Average number of people employed during the financial year	<u>597</u>	<u>613</u>

(25) Remuneration to personnel	2013 EUR	2012 EUR
Salaries and mandatory state social insurance contributions for production personnel	4 300 441	4 272 999
Salaries and mandatory state social insurance contributions for distribution personnel	1 902 058	2 077 581
Salaries and mandatory state social insurance contributions for administration personnel	<u>2 052 952</u>	<u>1 781 992</u>
	<u>8 255 451</u>	<u>8 132 572</u>
Including key management:		
salary expenses	398 805	429 511
mandatory state social insurance contributions	94 463	101 871
Mandatory state social contributions included in personnel expenses	1 585 293	1 563 836

(26) 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 2013 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 predprijetije 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), Permalko OAO (Russia). The Company also had economic transactions with the related companies Meierovica 35 SIA (Latvia) and ČIEKURI-SHISHKI SIA (Latvia) (till 6 February 2014 - LB Agro SIA), which are not a member of the SPI Group.

The value of transactions is disclosed with excise tax.

(a) Sale of Goods	2013 EUR	2012 EUR
SPI Distribution (Latvia) SIA	55 593 246	55 886 086
S.P.I. Spirits (Cyprus) Ltd.	38 148 414	36 088 245
Bennet Distributors UAB	3 181 277	3 447 968
SPI Distribution OU (Estonia)	634 850	706 652
Bravo SIA	124 847	162 984
ČIEKURI-SHISHKI SIA	3 058	-
	<u>97 685 692</u>	<u>96 291 936</u>

(b) Service Rendered (Including Loan Interest)

SPI Distribution (Latvia) SIA	8 522 607	7 262 696
S.P.I. Spirits (Cyprus) Ltd.	1 171 725	1 685 238
S.P.I. Production B.V.	722 948	837 845
Bravo SIA	55 639	16 363
Meierovica 35 SIA	54 388	54 540
SPI Distribution OU (Estonia)	9 725	5 279
SPI-RVVK OAO	2 604	60
S.P.I. Group S.a.r.l.	795	1 157
S.P.I. Regional Business Unit B.V	266	16 966
SPV Distributor SIA	145	145
Bennet Distributors UAB	-	4 919
Spirits International B.V. (branch)	-	1 557
ČIEKURI-SHISHKI SIA	-	1 019
	<u>10 540 842</u>	<u>9 887 784</u>

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Transactions with related parties (continuation)

	2013 EUR	2012 EUR
(c) Purchase of Goods (including non-current assets)		
Tambovskoje spirtovodocnoje predprijetije Talvis OAO	8 453 511	8 241 422
S.P.I. Spirits (Cyprus) Ltd.	755 831	103 734
Meierovica 35 SIA	17 769	-
Permalko OAO	6 130	-
Bennet Distributors UAB	4 145	-
	<u>9 237 386</u>	<u>8 345 156</u>

(d) Services Received

SPI Distribution (Latvia) SIA	208 485	331 669
Meierovica 35 SIA	176 507	180 989
S.P.I. Spirits (Cyprus) Ltd.	168 006	163 228
Bravo SIA	17 558	18 567
Spirits International B.V. (branch)	13 224	8 564
Spirits Product International IP B.V.(branch)	673	7 208
	<u>584 453</u>	<u>710 225</u>

(e) Accounts Receivable and Payable

	31.12.2013. Receivables EUR	Payables EUR	31.12.2012. Receivables EUR	Payables EUR
S.P.I. Spirits (Cyprus) Ltd.	25 789 618	1 000 235	21 965 400	396 240
SPI Distribution (Latvia) SIA	18 039 919	252 103	15 809 732	430 733
S.P.I. Production B.V.	4 099 366	-	3 376 418	-
Bennet Distributors UAB	1 579 097	1 285	1 466 267	-
Meierovica 35 SIA *	1 460 854	-	1 452 533	-
Spirits International B.V.	427 278	-	427 291	-
SPI Distribution OU (Estonia)	224 514	-	265 441	-
Bravo SIA	91 065	5 427	26 232	8 079
S.P.I.Regional Business Unit B.V.	79 439	-	79 137	-
Spirits International B.V. (branch)	25 455	123 746	25 455	110 522
S.P.I. Group S.a.r.l.	2 120	-	1 157	-
Spirits Product International IP B.V.	569	-	578	-
Tambovskoje spirtovodocnoje predprijetije Talvis OAO	441	1 143 484	-	393 085
Spirits Product International IP B.V.(branch)	-	63 755	-	63 083
SPI-RVVK OAO	20	-	20	-
SPV Distributor SIA	14	-	14	-
	<u>51 819 769</u>	<u>2 590 035</u>	<u>44 895 675</u>	<u>1 401 742</u>
The short term part of the loan (see section (f))	198 996	-	10 258 995	-
The short term part of the loan (see section (g))	-	461 010	-	512 234
Total short term liabilities	<u>52 018 765</u>	<u>3 051 045</u>	<u>55 154 670</u>	<u>1 913 976</u>

Repayment of the debts will be made in cash, and they are not secured with guarantee or otherwise. In 2012 and 2013 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 1 422 872 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 2014. On 31 December 2013 the issued and outstanding amount of the loan is EUR 1 422 872.

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Transactions with related parties (continuation)

(f) Loans to Group companies	31.12.2013. EUR	31.12.2012. EUR
S.P.I. Production B.V. **	20 599 999	20 599 999
SPI Distribution (Latvia) SIA *	16 451 671	-
S.P.I.Spirits (Cyprus) Ltd *	-	14 700 000
SPI Distribution OU (Estonia) ***	198 996	258 995
	<u>37 250 666</u>	<u>35 558 995</u>
At beginning of the year	35 558 995	35 300 000
Borrowings issued during the year *	16 451 671	283 995
Repaid borrowings during the year *	<u>(14 760 000)</u>	<u>(25 000)</u>
At the end of the year	<u>37 250 666</u>	<u>35 558 995</u>
Maturity of the total borrowings is as follows:		
Payable in 1 year	198 996	10 258 995
Payable in 2 – 5 years	<u>37 051 670</u>	<u>25 300 000</u>
	<u>37 250 666</u>	<u>35 558 995</u>

* 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 was in amount EUR 4 700 000.

On 28 December 2007 the Company concluded a loan agreement with S.P.I. Spirits (Cyprus) Limited regarding loan of EUR 10 000 000, which remained in full outstanding on 31 December 2012.

According to the trilateral agreement, signed 30 November 2013, SPI Distribution (Latvia) SIA took over from S.P.I. Spirits (Cyprus) Limited the liability against the Company on the outstanding loan balance in amount of EUR 14 700 000 and accrued loan interest EUR 1 751 670. The total amount of loans from SPI Distribution (Latvia) SIA on 31 December 2013 are EUR 16 451 671 with a maturity date 30 November 2016.

** On 20 April 2006 the Company concluded a long-term loan agreement with S.P.I. Production B.V. in the amount of EUR 20 600 000. The outstanding part of loan on 31 December 2013 amounted to EUR 20 600 000. The repayment term by mutually concluded agreement is 20 July 2015.

*** 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 2013 amounted to EUR 198 996. Maturity is defined by 31 December 2014.

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:

	31.12.2013.	31.12.2012.
Loans issued	3.557% - 3.853%	3.492% - 3.750%

Transactions with related parties (continuation)

(g) Borrowings from Group companies	31.12.2013.	31.12.2012.
	EUR	EUR
At beginning of the year	512 233	298 803
Loans received during the year	-	213 431
Loans repaid during the year	<u>(51 223)</u>	<u>-</u>
At the end of the year	<u>461 010</u>	<u>512 234</u>
consist of:		
short-term loan	<u>461 010</u>	<u>512 234</u>
	<u>461 010</u>	<u>512 234</u>

In 2011 the Company received short-term loan with a credit limit of EUR 298 803 from Group company Bravo SIA. In 2012 the credit limit was increased up to EUR 512 234 and the additional borrowing of EUR 213 431 has been received. During the reporting year, the Company repaid EUR 51 223. On 31 December 2013 the outstanding part of loan is EUR 461 010. The maturity of the loan is 31 December 2014.

(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 26 (d)). In accordance with the Management's estimates in 2014 no significant changes are expected in the amount of royalty payments.

(27) Contingent Liabilities

(a) Royalty related

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

(28) Lease agreements

(a) The Company is the lessor

During the reporting period the Company leased office space in its owned properties to third parties and related parties. Leases are short term with extension rights. Rental income are recognized in the income statement in the amount of EUR 279 812 (in 2012 - EUR 256 433).

Lease agreements (continuation)

(b) The Company is the lessee

The Company has concluded several agreements for the operating leases of equipment and other assets. The total rental cost of EUR 171 465 (in 2012 - EUR 210 606) has included in income statement. According to the signed lease agreements, the Company has the following non-cancellable lease liabilities:

	31.12.2013. EUR	31.12.2012. EUR
Payable in 1 year	58 514	58 531
Payable in 2 – 5 years	29 257	87 797
	<u>87 771</u>	<u>146 328</u>

(29) Capital commitment

In August 2013 the Company concluded finance lease agreement with Nordea Finance Latvia SIA for bottle washing, filling equipment purchase. The total purchase amount is 375 thousand EUR including VAT, with a lease term - five years. At the end of the reporting year, the equipment has not yet been delivered.

(30) 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 30 June 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 30 June 2014.

In January 2013 the Company has issued a guarantee to Nordea Bank Finland Plc. Latvian branch for ČIEKURI-SHISHKI SIA for the lease of equipment in the amount of EUR 75 284.

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.

(31) 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.

At the end of the year the Company has an open position in euro, but considering held in 2014 Latvian national currency changeover to the euro at the current exchange rate, 0.702804 LVL/EUR, it do not lead to currency risk.

The Company's significant open currency position is:

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Financial and capital risk management (continuation)

	31.12.2013.	31.12.2012.
Financial assets, USD	28 766	537 992
Financial liabilities, USD	<u>(988 966)</u>	<u>(281 719)</u>
Open position USD, net	<u>(960 200)</u>	<u>256 273</u>
Open position USD calculated in euro, net	<u>(703 614)</u>	<u>193 626</u>

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

	2013		2012	
	Change in exchange rates	Effect on equity	Change in exchange rates	Effect on equity
		EUR		EUR
USD	+10%	(72 547)	+10%	19 363
	-10%	72 547	-10%	(19 363)

(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 (20)), as well as the Company's interest bearing assets have variable interest rate (Note (26 (f))).

	31.12.2013.	31.12.2012.
	EUR	EUR
Financial assets with variable interest rate, EUR	37 250 666	35 558 995
Financial liabilities with variable interest rate, EUR	(14 515 419)	(15 786 005)
Financial assets with variable interest rate, EUR	34 149	34 149
Financial liabilities with variable interest rate, EUR	<u>(11 273 058)</u>	<u>(10 424 862)</u>
Open position, net, EUR	<u>11 496 338</u>	<u>9 382 277</u>

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 (20)). During the reporting year, the Company did not use derivative instruments to limit interest rate risk.

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:

	2013		2012	
	Increase/ decrease in basis points	Effect on profit before tax	Increase/ decrease in basis points	Effect on profit before tax
		EUR		EUR
EUR	+30	60 623	+30	63 343
	-30	(60 623)	-30	(63 343)
LVL	+30	(32 399)	+30	(30 043)
	-30	32 399	-30	30 043

(iii) 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.

Financial and capital risk management (continuation)

(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:	31.12.2013. EUR	31.12.2012. EUR
Issued loans to Group companies	37 051 670	25 300 000
Trade receivables - Group companies	52 018 765	55 154 670
Trade receivables - non -related parties	930 195	857 138
Other current assets	464 845	678 656
Cash	25 740	92 899
	<u>90 491 215</u>	<u>82 083 363</u>

The largest concentration of credit risk arises from the Group company's debts: on 31 December 2013 98% of the total trade receivables related to Group companies (31.12.2012 - 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	90-180 days	> 180 days
31.12.2013.	962 207	(32 012)	930 195	808 294	103 854	1 215	16 832
31.12.2012.	962 206	(45 068)	857 138	606 465	250 673	-	-

(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 20 696 thousand (31.12.2012 - EUR 19 697 thousand). On 31 December 2013 the unused part of the credit line was EUR 501 thousand (31.12.2012 - EUR 1 235 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 2013	Total EUR	<1 year EUR	1-2 years EUR	2-5 years EUR	>5 years EUR
Long-term loans	3 037 518	-	-	3 037 518	-
Short-term loans	22 301 560	22 301 560	-	-	-
Trade payables	5 666 743	5 666 743	-	-	-
Debts to Group companies	3 051 045	3 051 045	-	-	-
	<u>34 056 866</u>	<u>31 019 348</u>	<u>-</u>	<u>3 037 518</u>	<u>-</u>

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Financial and capital risk management (continuation)

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	-
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	-

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 32% (2012 - 35%), confirming the Company's improvement of stability. The positive trend in 2013 is also the increased ratio of equity to total assets up to 61% (2012 - 58%).

	31.12.2013. EUR	31.12.2012. EUR
Total borrowings	25 333 271	25 715 831
Less cash and its equivalents	(25 740)	(92 899)
Net debt	<u>25 307 531</u>	<u>25 622 932</u>
Equity	80 110 275	72 395 188
Total capital	<u>105 417 806</u>	<u>98 018 120</u>
Total assets	131 291 718	124 401 149
Net debt to equity	32%	35%
Equity ratio on total assets	61%	58%

(32) Adjustments for prior year errors

In 2013 the Company has discovered errors in the revaluation of fixed assets, which occurred before 1998. Adjustment of these errors was performed in the financial reports of 2013 with retroactive force.

	Before 2012 EUR
<u>Effect of adjustments of fundamentals errors in previous years</u>	
Decrease in non-current assets revaluation reserve	(404 384)
Increase in retained earnings	<u>404 384</u>
Net results on equity and net profit	<u>-</u>