

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 Mendeleev - 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 Bidermane – Member of the Board,
Director of Personnel and administrative department of AS Latvijas
balzams

REPORT OF THE MANAGEMENT

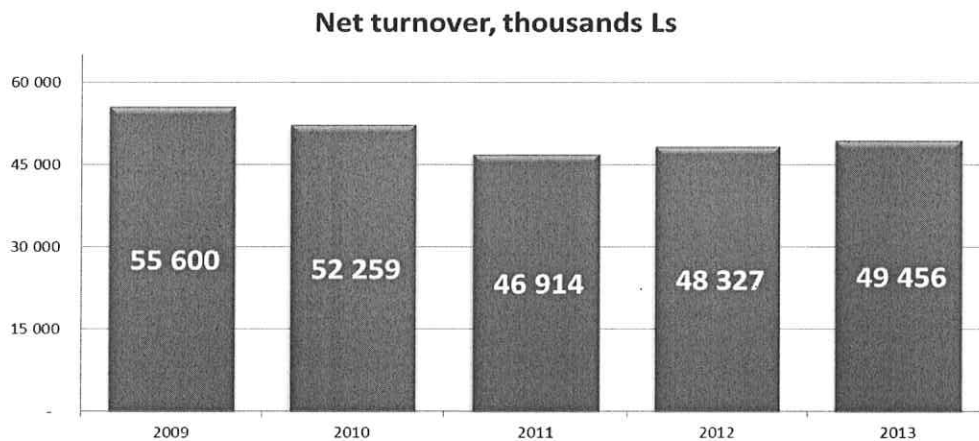
Type of operations

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.

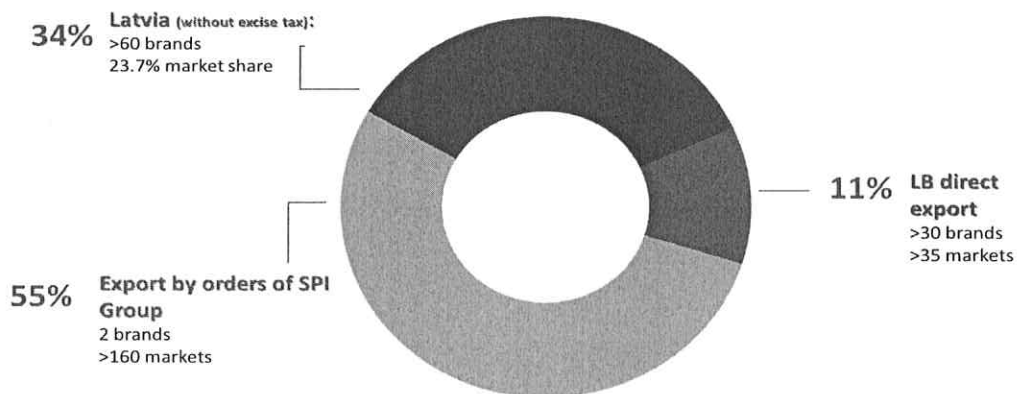
Performance of the Company during the financial year

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 49.5 million lats, 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.

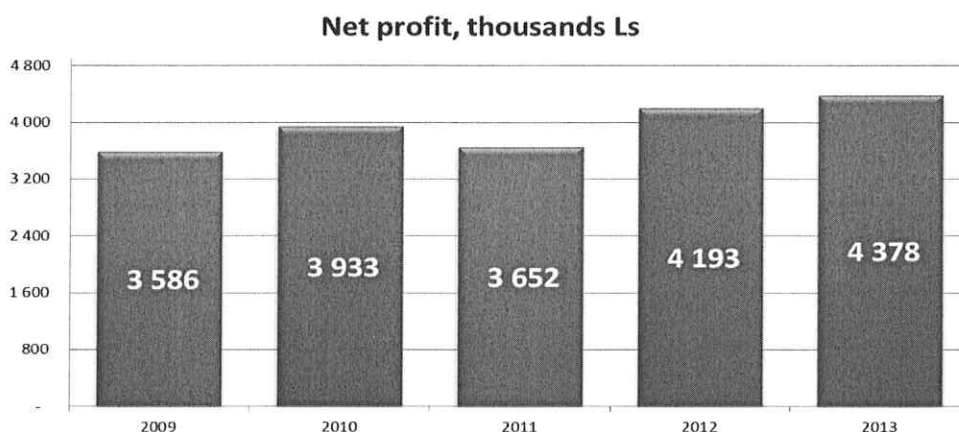


In year 2013, the turnover in domestic market has retained 2012 volumes though the turnover in the Baltic States has decreased due to managed beverage portfolio changes. The Company's sales in export markets, excluding the Baltic States, has increased by 14.7%, hence the total turnover in direct export 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 4.4 million lats, 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.

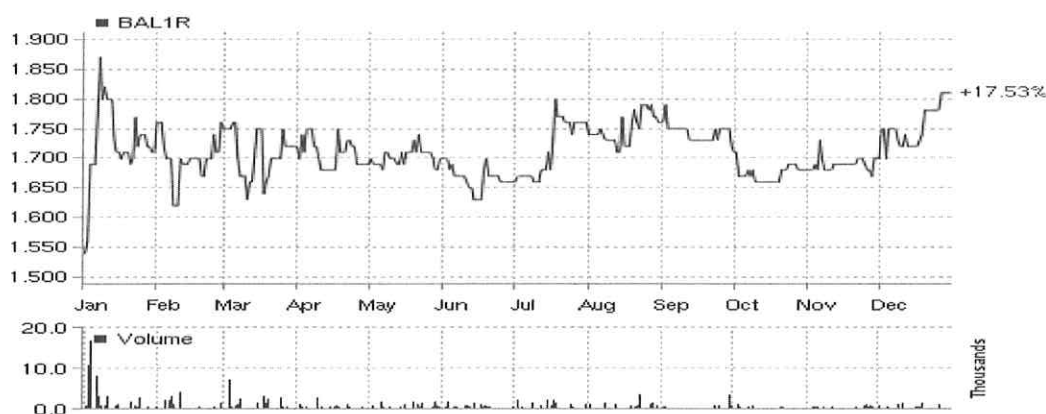
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Report of the management (continuation)

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 1.55 to 1.88 lats. The financial year was marked with the lowest share price – 1.55 lats per 1 share while at the end of the January it increased rapidly and reached the highest price – 1.88 lats per 1 share. Overall, during 2013 share price has increased by 17.53%.

**AS Latvijas balzams share price in NASDAQ OMX Riga (Ls)
(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

Ls

Profit share to be distributed	4 377 596
Proposed profit distribution:	
Retained earnings	4 377 596

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 Āboliņš - Āboliņš
Chairman of the Board

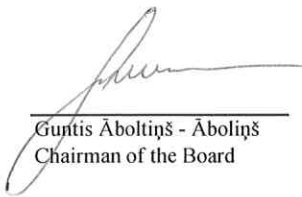
Riga, 25 April, 2013

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

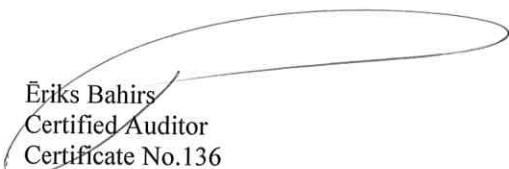
In our opinion, the above mentioned financial statements give a true and fair view of the financial position of the Company as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted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



Ēriks 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 Ls	2012 Ls
Revenue	(1)	49 455 526	48 326 641
Cost of sales	(2)	(39 512 687)	(39 008 102)
Gross profit		9 942 839	9 318 539
Distribution expenses	(3)	(2 900 268)	(2 583 460)
Administrative expenses	(4)	(2 416 507)	(2 493 171)
Other income	(5)	182 811	540 270
Other expenses	(6)	(118 404)	(118 037)
Finance income	(8)	943 398	1 089 099
Finance costs	(9)	(532 832)	(743 857)
Profit before tax		5 101 037	5 009 383
Corporate income tax	(10)	(723 441)	(816 380)
Net profit		4 377 596	4 193 003
Earnings per share (in santims)			
Basic	(11)	58,39	55,93
Diluted	(11)	58,39	55,93

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STATEMENT OF COMPREHENSIVE INCOME

	Notes	2013 Ls	2012 Ls
Net profit		<u>4 377 596</u>	<u>4 193 003</u>
Other comprehensive income / (loss)			
Items that will not be reclassified to income statement			
Revaluation of property, plant and equipment	(13)	1 228 850	-
Changes in deferred income tax liabilities resulted from revaluation and disposals of property, plant and equipment	(10)	(184 252)	-
		<u>1 044 598</u>	<u>-</u>
Items that may be reclassified subsequently to income statement			
Changes in fair value of financial instruments	(21)	-	57 101
Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments	(10)	-	(8 566)
		<u>-</u>	<u>48 535</u>
Other comprehensive income		<u>1 044 598</u>	<u>48 535</u>
Total comprehensive income		<u>5 422 194</u>	<u>4 241 538</u>

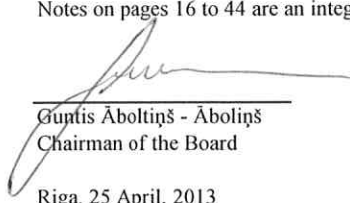
Notes on pages 16 to 44 are an integral part of these financial statements.

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STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2013. Ls	31.12.2012. Ls
ASSETS			
Non-current assets			
Intangible assets	(12)	147 558	97 216
Property, plant and equipment	(13)	13 274 853	13 033 872
Loans to group companies	(26f)	26 040 062	17 780 941
Other non-current assets		24 000	24 000
Total non-current assets:		39 486 473	30 936 029
Current assets			
Inventories	(14)	15 013 168	16 493 010
Trade receivables	(15)	653 745	602 400
Receivables from group companies	(26e)	36 558 996	38 762 923
Other current assets	(16)	387 115	569 973
Corporate income tax	(10)	154 757	-
Cash and cash equivalents	(17)	18 090	65 290
Total current assets:		52 785 871	56 493 596
Total assets		92 272 344	87 429 625
EQUITY AND LIABILITIES			
Equity			
Share capital	(19)	7 496 900	7 496 900
Share premium		61 767	61 767
Revaluation reserves of non-current assets	(13)	8 855 468	7 811 370
Retained earnings		39 887 687	35 509 591
Total equity:		56 301 822	50 879 628
Liabilities:			
Non-current liabilities:			
Borrowings	(20)	2 134 780	3 614 749
Deferred income tax liabilities	(10)	1 310 017	1 218 055
Total non-current liabilities:		3 444 797	4 832 804
Current liabilities:			
Borrowings	(20)	15 673 626	14 458 440
Trade payables		3 982 609	3 898 258
Payables to group companies	(26e,g)	2 144 286	1 345 150
Current corporate income tax payables	(10)	-	155 193
Other liabilities	(22)	10 725 204	11 860 152
Total current liabilities:		32 525 725	31 717 193
Total liabilities:		35 970 522	36 549 997
Total equity and liabilities:		92 272 344	87 429 625

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
	Ls	Ls	Ls	Ls	Ls	Ls
31.12.2011.	7 496 900	61 767	8 095 573	(48 535)	31 032 385	46 638 090
Net profit	-	-	-	-	4 193 003	4 193 003
<i>Other income / (loss)</i>						
Changes in fair value of derivative financial instruments	-	-	-	57 101	-	57 101
Changes in deferred income tax liabilities	-	-	-	(8 566)	-	(8 566)
Total comprehensive income	-	-	-	48 535	4 193 003	4 241 538
31.12.2012.	7 496 900	61 767	8 095 573	-	35 225 388	50 879 628
Prior year adjustments (see Note 32)	-	-	(284 203)	-	284 203	-
31.12.2012. adjusted	7 496 900	61 767	7 811 370	-	35 509 591	50 879 628
Net profit	-	-	-	-	4 377 596	4 377 596
<i>Other income / (loss)</i>						
Revaluation of property, plant and equipment	-	-	1 228 850	-	-	1 228 850
Changes in deferred income tax liabilities	-	-	(184 252)	-	-	(184 252)
Disposals of revalued property, plant and equipment	-	-	(500)	-	500	-
Total comprehensive income	-	-	1 044 098	-	4 378 096	5 422 194
31.12.2013.	7 496 900	61 767	8 855 468	-	39 887 687	56 301 822

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CASH FLOW STATEMENT

	Notes	2013 Ls	2012 Ls
Cash flow from operating activities			
Gross cash flow from operating activities	(23)	2 151 321	5 742 555
Interest paid		(534 053)	(753 468)
Income tax paid		(1 125 681)	(678 834)
Net cash flow generated from operating activities from continuing operations		491 587	4 310 253
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets	(12), (13)	(316 496)	(395 659)
Loans repayment received	(26f)	42 168	-
Loans interest received		35 150	21 411
Net cash flow generated from investing activities from continuing operations		(239 178)	(374 248)
Cash flow from financing activities			
Changes in credit lines (net)	(20)	1 219 111	(699 188)
Loans received	(26g)	-	150 000
Borrowings repaid	(20)	(1 511 888)	(3 338 862)
Finance lease payments		(6 832)	(5 723)
Net cash flow generated from financing activities from continuing operations		(299 609)	(3 893 773)
Net increase / (decrease) in cash and cash equivalents		(47 200)	42 232
Cash and cash equivalents at the beginning of the financial year		65 290	23 058
Cash and cash equivalents at the end of the financial year	(17)	18 090	65 290

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 Ābolpiņš - Ābolpiņš 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 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 I: 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	961 434
Direct cost of other services	Cost of sales	Other expenses	104 356

(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 live, as follows:

	Years
Buildings	10 - 71
Technological equipment	2 - 25
Other machinery and equipment	2 - 25

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

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

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

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within the income statement for the relevant period. As soon as the re-valued assets are sold 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 Ls 11 626 936 (31.12.2012 - Ls 10 891 621).

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 Ls 13 147 201 (31.12.2012 - Ls 12 980 796).

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 Ls 15 013 168 (31.12.2012 - Ls 16 493 010).

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III. OTHER NOTES

(1) Segment Information and net sales

(a) Operation and reportable segment

Core activity of the Company is production of alcoholic drinks. AS Latvijas balzams produces over 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 Ls	2012 Ls
Sales and services provided in Latvia	17 056 436	17 136 264
Export sales under S.P.I. Group company S.P.I. Spirits (Cyprus) Ltd. orders	27 139 270	25 933 184
Other income from export sales and services provided		
Lithuania	2 248 210	2 452 207
Russia	923 498	874 811
Estonia	447 235	496 751
Poland	146 816	81 364
Norway	296 299	290 651
Other countries	1 197 761	1 061 409
Other income from export sales (total)	<u>5 259 819</u>	<u>5 257 192</u>
	<u><u>49 455 526</u></u>	<u><u>48 326 641</u></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 Ls	2012 Ls
Sales to S.P.I. group companies	46 273 105	45 548 427
Sales to other customers	<u>3 182 421</u>	<u>2 778 213</u>
	<u><u>49 455 526</u></u>	<u><u>48 326 641</u></u>

(d) Revenue by types

	2013 Ls	2012 Ls
Production of alcoholic drinks	47 752 809	46 817 320
Excise warehouse services, storage and office rental	589 459	497 700
Other services	467 010	712 861
Sales of other goods and materials	<u>646 248</u>	<u>298 760</u>
	<u><u>49 455 526</u></u>	<u><u>48 326 641</u></u>

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	2013	2012
	Ls	Ls
(2) Cost of sales		
Materials	30 480 616	31 747 604
Changes of inventory value of finished goods	1 728 440	(235 072)
Salary expense	1 673 450	1 701 034
Goods purchased	1 022 663	321 588
Energy resources	681 698	704 145
Mandatory state social insurance contributions	398 492	405 508
Natural recourse tax	278 488	257 959
Changes in provision for receivables, inventories and other accrued liabilities	(171 725)	116 954
Accrued expenses on unused annual leave (variable)	(21 904)	19 577
Other variable costs	743 874	1 054 618
Variable costs total:	36 814 092	36 093 915
Depreciation of non-current assets	1 122 064	1 230 294
Salary expenses	793 014	806 032
Repair expenses	315 636	265 896
Mandatory state social insurance contributions	186 657	189 644
Insurance payments	47 684	50 926
Laboratory expenses	31 827	37 008
Accrued expenses on unused annual leave (fixed)	(7 342)	6 041
Net income from revaluation of property, plant and equipment	(126 755)	-
Other fixed expenses	335 810	328 346
Fixed costs total:	2 698 595	2 914 187
	39 512 687	39 008 102
(3) Distribution expenses		
Salary expenses	1 091 684	1 076 857
Advertising expenses	479 514	306 717
Transportation expenses	434 863	464 230
Mandatory state social insurance contributions	260 799	257 293
Depreciation of non-current assets	197 587	194 738
Warehouse maintenance expenses	107 563	104 487
Accrued expenses on unused annual leave	(15 709)	1 227
Other expenses	343 967	177 911
	2 900 268	2 583 460
(4) Administrative expenses		
Salary expenses	1 170 694	1 041 486
Mandatory state social insurance contributions	277 881	246 625
Management services and expenses	255 368	431 181
Real estate tax	93 220	104 831
Professional service costs	79 828	76 577
Depreciation of non-current assets	62 981	65 720
Financial support, sponsorship	59 607	6 514
Office expenses	36 463	43 519
Communication and postal expenses	33 865	32 293
Business trip expenses	25 926	17 496
Representation expenses	23 980	37 082
Employee training	17 459	21 795
Computer maintenance	16 859	7 678
Transport costs	15 137	16 750
Accrued expenses on unused annual leave	(5 752)	(35 720)
Healthcare, health insurance	5 044	5 072
Other expenses	247 947	374 272
	2 416 507	2 493 171

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(5) Other income	2013 Ls	2012 Ls
Sold auxiliary materials	80 953	83 514
Net loss/(profit) from exchange rate fluctuations	19 992	41 118
Net loss/(profit) from purchase - sale of foreign currency	9 470	91 789
Sold packages, boxes and pallets	1 542	29 164
Other income	70 854	294 685
	<u>182 811</u>	<u>540 270</u>
 (6) Other expenses		
Bank commissions	58 847	29 500
Other expenses	59 557	88 537
	<u>118 404</u>	<u>118 037</u>
 (7) Expenses by Nature		
Materials	30 480 616	31 747 604
Employee expenses	5 801 964	5 715 604
Depreciation of non-current assets	1 382 652	1 490 752
Advertising expenses	479 514	306 717
Transportation expenses	450 000	480 980
Repair expenses	315 636	265 896
Natural recourse tax	278 488	257 959
Management services and expenses	255 368	431 181
Real estate tax	93 220	104 831
Increase/ (decrease) in provision for accounts receivables, inventories and other accrued liabilities	(171 725)	116 954
Other expenses	5 582 133	3 284 292
	<u>44 947 866</u>	<u>44 202 770</u>
 (8) Finance income		
Interest income	942 470	1 074 201
Income from fines and penalties	928	14 898
	<u>943 398</u>	<u>1 089 099</u>
 (9) Finance expenses		
Interest for use of credit lines facilities	396 098	444 659
Interest for long-term loans	136 734	239 929
Net loss/(profit) from hedging activities	-	59 269
	<u>532 832</u>	<u>743 857</u>

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(10) Corporate income tax

	2013	2012
	Ls	Ls
a) Components of corporate income tax		
Changes in deferred income tax	(92 290)	(131 459)
Corporate income tax according to the tax return	815 731	948 969
Compensated corporate income tax	-	(1 130)
	<u>723 441</u>	<u>816 380</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
	Ls	Ls
Profit before taxes	5 101 037	5 009 383
Theoretically calculated tax at 15% tax rate	<u>765 156</u>	<u>751 407</u>
Tax effects on:		
Permanent differences	116 817	146 759
Tax relief for reinvested profits	(103 250)	(65 857)
Tax discounts for donations	(49 725)	(5 537)
Tax relief for the acquired technological equipment	(5 557)	(9 262)
Compensated corporate income tax	-	(1 130)
Total corporate tax charge	<u>723 441</u>	<u>816 380</u>

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	1 218 055	1 340 948
Deferred tax changes charged to the income statement	(92 290)	(131 459)
Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve	184 252	-
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	-	8 566
Deferred tax liabilities (asset) at the end of the financial year	<u>1 310 017</u>	<u>1 218 055</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.
	Ls	Ls
Temporary difference on depreciation of PPE and intangible assets	1 428 619	1 358 443
Gross deferred tax liabilities	<u>1 428 619</u>	<u>1 358 443</u>
Temporary difference on provisions for slow moving and obsolete stock	(57 943)	(85 212)
Temporary difference on accruals for annual leave	(33 662)	(41 267)
Temporary differences on other accrued liabilities	(26 997)	(13 909)
Gross deferred tax assets	<u>(118 602)</u>	<u>(140 388)</u>
Net deferred tax liability (assets)	<u>1 310 017</u>	<u>1 218 055</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. Ls	31.12.2012. Ls
Deferred tax assets:		
deferred tax asset to be recovered within a year	(118 602)	(140 390)
deferred tax liabilities to be recovered after more than a year	-	-
	<u>(118 602)</u>	<u>(140 390)</u>
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	126 927	144 321
deferred tax liabilities to be recovered after more than a year	1 301 692	1 214 124
	<u>1 428 619</u>	<u>1 358 445</u>
Net deferred tax liabilities (assets)	<u>1 310 017</u>	<u>1 218 055</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
	Ls	Ls	Ls	Ls	Ls	Ls
31.12.2011.	(8 566)	1 469 231	(42 598)	(12 412)	(64 707)	1 340 948
Charged / (credited) to income statement	-	(110 788)	1 331	(1 497)	(20 505)	(131 459)
Charged / (credited) to equity	8 566	-	-	-	-	8 566
31.12.2012.	-	1 358 443	(41 267)	(13 909)	(85 212)	1 218 055
Charged / (credited) to income statement	-	(114 076)	7 605	(13 088)	27 269	(92 290)
Charged / (credited) to equity	-	184 252	-	-	-	184 252
31.12.2013.	-	1 428 619	(33 662)	(26 997)	(57 943)	1 310 017

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

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

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

	2013	2012
Profit attributed to shareholders of the Company (Ls)	4 377 596	4 193 003
Average annual number of shares	7 496 900	7 496 900
Earnings per share (expressed in santims)	<u>58,39</u>	<u>55,93</u>

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(12) Intangible assets

	Licences	Intangible assets under development	Advances for intangible assets	Total
	Ls	Ls	Ls	Ls
31.12.2011.				
Initial cost	1 198 161	-	-	1 198 161
Accumulated depreciation	(1 169 380)	-	-	(1 169 380)
Net book value	28 781	-	-	28 781
2012				
Opening net book value	28 781	-	-	28 781
Acquired	0	67 585	2 469	70 054
Reclassified	1 710	7 379	(2 469)	6 620
Depreciation	(8 239)	-	-	(8 239)
Closing book value	22 252	74 964	-	97 216
31.12.2012.				
Initial cost	1 199 871	74 964	-	1 274 835
Accumulated depreciation	(1 177 619)	-	-	(1 177 619)
Net book value	22 252	74 964	-	97 216
2013				
Opening net book value	22 252	74 964	-	97 216
Acquired	-	15 822	41 993	57 815
Disposed	(57)	-	-	(57)
Reclassified	900	41 093	(41 993)	-
Depreciation	(7 416)	-	-	(7 416)
Closing book value	15 679	131 879	-	147 558
31.12.2013.				
Initial cost	202 047	131 879	-	333 926
Accumulated depreciation	(186 368)	-	-	(186 368)
Net book value	15 679	131 879	-	147 558

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
	Ls	Ls	Ls	Ls	Ls	Ls
31.12.2011.						
Initial cost/ revaluated	11 532 717	13 696 352	3 414 706	55 179	9 137	28 708 091
Accumulated depreciation	(42 971)	(11 339 560)	(3 122 406)	-	-	(14 504 937)
Net book value	11 489 746	2 356 792	292 300	55 179	9 137	14 203 154
2012						
Opening net book value	11 489 746	2 356 792	292 300	55 179	9 137	14 203 154
Acquired	-	-	-	-	335 559	335 559
Revaluated	-	-	-	-	-	-
Disposed	(1 676)	(5 373)	(443)	-	(8 216)	(15 708)
Reclassified	24 153	240 447	67 363	(8 247)	(330 336)	(6 620)
Depreciation	(620 602)	(733 544)	(128 367)	-	-	(1 482 513)
Closing book value	10 891 621	1 858 322	230 853	46 932	6 144	13 033 872
31.12.2012.						
Initial cost/ revaluated	11 554 791	13 805 725	3 430 178	46 932	6 144	28 843 770
Accumulated depreciation	(663 170)	(11 947 403)	(3 199 325)	-	-	(15 809 898)
Net book value	10 891 621	1 858 322	230 853	46 932	6 144	13 033 872
2013						
Opening net book value	10 891 621	1 858 322	230 853	46 932	6 144	13 033 872
Acquired	-	-	-	10 925	258 681	269 606
Revaluated	1 355 605	-	-	-	-	1 355 605
Disposed	(2 638)	(2 855)	(3 335)	-	(166)	(8 994)
Reclassified	5 306	134 871	54 687	13 490	(208 354)	-
Depreciation	(622 958)	(634 641)	(117 637)	-	-	(1 375 236)
Closing book value	11 626 936	1 355 697	164 568	71 347	56 305	13 274 853
31.12.2013.						
Initial cost/ revaluated	11 684 068	13 862 469	3 301 890	71 347	56 305	28 976 079
Accumulated depreciation	(57 132)	(12 506 772)	(3 137 322)	-	-	(15 701 226)
Net book value	11 626 936	1 355 697	164 568	71 347	56 305	13 274 853

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	60 - 400 Ls	251 Ls

In the result of evaluation the total increase of the assets fair value of Ls 1 355 605 has been recognized, where Ls 1 228 850 has been credited to revaluation reserves, Ls 126 755 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 Ls 10 418 198 (31.12.2012 - Ls 9 524 206). 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 Ls 284 203 (see Note (32)).

	2013 Ls	2012 Ls
Provisions at the beginning of the year	7 811 370	8 095 573
Previous year adjustment	-	(284 203)
Provisions at the beginning of the year (adjusted)	7 811 370	7 811 370
Revaluation of assets	1 228 350	-
Changes in deferred tax liabilities as a result of revaluation	(184 252)	-
Provisions at the end of the year	<u>8 855 468</u>	<u>7 811 370</u>

If the land plots and buildings would not be revalued, then on 31 December 2013 the book value of the land plots and buildings would be Ls 4 727 thousand (31.12.2012 - Ls 5 066 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. Ls	31.12.2012. Ls
Finished goods and goods for sale	6 836 284	8 563 769
Raw materials and consumables	7 423 799	7 174 593
Work in progress	492 681	448 251
Inventory in transit	260 404	306 397
	<u>15 013 168</u>	<u>16 493 010</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 Ls	2012 Ls
Provisions at the beginning of the year	568 088	431 379
Changes on provisions recognized in the income statement	(181 671)	136 709
Provisions at the end of the year	<u>386 417</u>	<u>568 088</u>

(15) Trade receivables	31.12.2013. Ls	31.12.2012. Ls
Book value of trade receivables	676 243	634 074
Provisions for impairment of trade receivables	(22 498)	(31 674)
	<u>653 745</u>	<u>602 400</u>

	2013 Ls	2012 Ls
Provisions at the beginning of the year	31 674	220 451
Receivables written off as uncollectible	(30 098)	(169 022)
Created/(decreased) provisions	20 922	(20 644)
Exchange rate difference	-	889
Provisions at the end of the year	<u>22 498</u>	<u>31 674</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. Ls	31.12.2012. Ls
Financial assets:		
Settlements for services	165 284	158 111
VAT accepted	23 550	30 551
Other receivables	1 986	2 030
	<u>190 820</u>	<u>190 692</u>
Non-financial assets		
Settlements for raw materials	135 875	286 270
Other deferred expenses	38 447	73 654
Deferred insurance costs	21 973	19 357
	<u>196 295</u>	<u>379 281</u>
	<u>387 115</u>	<u>569 973</u>

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	31.12.2013.	31.12.2012.
	Ls	Ls
(17) Cash and cash equivalents		
Cash at bank on current accounts	18 090	50 474
Cash on hand	-	14 816
	<u>18 090</u>	<u>65 290</u>

(18) Financial instruments by category

All financial assets of the Company amounting at the year end to Ls 63 640 470 (31.12.2012 - Ls 57 426 246) fell under the category of loans and receivables.

All financial liabilities of the Company amounting to Ls 34 660 505 (31.12.2012 - Ls 35 331 942) 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 Ls 7 496 900, that consists of 7 496 900 ordinary shares with nominal value of Ls 1 each. In the current year the number of registered and fully paid shares has not been changed.

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

	31.12.2013.	31.12.2012.
	Ls	Ls
(20) Borrowings		
Non-current		
AS Swedbank - repayable in 2-5 years ^{c)}	2 134 780	3 610 668
Liabilities under finance leases - repayable in 2-5 years	-	4 081
	<u>2 134 780</u>	<u>3 614 749</u>
Current		
Credit line facilities ^{a), b)}	14 193 657	12 974 546
AS Swedbank ^{c)}	1 475 888	1 475 888
Liabilities under finance leases	4 081	8 006
	<u>15 673 626</u>	<u>14 458 440</u>
Total borrowings:	<u>17 808 406</u>	<u>18 073 189</u>

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

	2013	2012
	Ls	Ls
At beginning of the year	18 061 102	22 099 153
Received borrowings during the year	1 219 111	(699 189)
Repaid borrowings during the year (net)	(1 475 888)	(3 338 862)
At the end of the year	<u>17 804 325</u>	<u>18 061 102</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 and EUR 3 000 000 and credit line limit granted by AS Swedbank under the loan agreement is Ls 2 610 085 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 and EUR 2 990 185, to AS Swedbank - Ls 2 600 584, 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, the overdraft limit used at 31 December 2013 is Ls 976 826. 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 (Ls 7 379 442). Addition loan is given credit for Swedbank fighting arising from loan agreements entered into on 21 September 2005 and 30 April 2004. 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 5 137 518 (Ls 3 610 668). 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. Ls	31.12.2012. Ls
6 months or less	17 808 406	18 073 189
	<u>17 808 406</u>	<u>18 073 189</u>
Payable in 1 year	15 673 626	14 458 440
Payable in 2 – 5 years	2 134 780	3 614 749
	<u>17 808 406</u>	<u>18 073 189</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 Ls 92 272 344 (31.12.2012 - Ls 87 429 625).

(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. Ls	31.12.2012. Ls
Excise tax	8 579 892	10 122 450
Value Added Tax	974 740	656 041
Accrued liabilities	491 357	379 739
Accruals for unused annual leave	224 407	275 115
Salaries	239 010	205 435
Mandatory State social insurance contributions	130 718	114 266
Personal income tax	71 923	74 039
Deferred income	7 641	24 188
Natural resource tax	2 206	1 528
Other liabilities	3 310	7 351
	<u>10 725 204</u>	<u>11 860 152</u>

(23) Cash granted from operations	2013 Ls	2012 Ls
Profit before corporate income tax	5 101 037	5 009 383
<u>Adjustments for:</u>		
depreciation and amortization (Note 7)	1 382 652	1 490 752
provisions	(171 725)	121 076
interest expenses (Note 9)	532 832	743 857
interest income (Note 8)	(942 470)	(1 074 201)
loss / (profit) from revaluation of property, plant and equipment	(126 755)	-
loss / (profit) from disposal of property, plant and equipment	8 885	7 492
<u>Changes in working capital</u>		
inventories	1 676 033	(1 212 972)
receivables	(5 237 752)	(2 007 807)
liabilities	(71 416)	2 664 975
	<u>2 151 321</u>	<u>5 742 555</u>

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(24) Average number of employees **2013** **2012**

Average number of people employed during the financial year	597	613
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(25) Remuneration to personnel **2013** **2012**
Ls **Ls**

Salaries and mandatory state social insurance contributions for production personnel	3 022 367	3 003 081
Salaries and mandatory state social insurance contributions for distribution personnel	1 336 774	1 460 132
Salaries and mandatory state social insurance contributions for administration personnel	1 442 823	1 252 391
	5 801 964	5 715 604
Including key management:		
salary expenses	280 282	301 862
mandatory state social insurance contributions	66 389	71 595
Mandatory state social contributions included in personnel expenses	1 114 150	1 099 070

(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** **2012**
Ls **Ls**

SPI Distribution (Latvia) SIA	39 071 156	39 276 965
S.P.I. Spirits (Cyprus) Ltd.	26 810 858	25 362 963
Bennet Distributors UAB	2 235 814	2 423 246
SPI Distribution OU (Estonia)	446 175	496 638
Bravo SIA	87 743	114 546
ČIEKURI-SHISHKI SIA	2 149	-
	68 653 895	67 674 358

(b) Service Rendered (Including Loan Interest)

SPI Distribution (Latvia) SIA	5 989 722	5 104 252
S.P.I. Spirits (Cyprus) Ltd.	823 493	1 184 392
S.P.I. Production B.V.	508 091	588 841
Bravo SIA	39 103	11 500
Meierovica 35 SIA	38 224	38 331
SPI Distribution OU (Estonia)	6 835	3 710
SPI-RVVK OAO	1 830	42
S.P.I. Group S.a.r.l.	559	813
S.P.I. Regional Business Unit B.V	187	11 924
SPV Distributor SIA	102	102
Bennet Distributors UAB	-	3 457
Spirits International B.V. (branch)	-	1 094
ČIEKURI-SHISHKI SIA	-	716
	7 408 146	6 949 174

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Transactions with related parties (continuation)

	2013	2012
	Ls	Ls
(c) Purchase of Goods (including non-current assets)		
Tambovskoje spirtovodocnoje predprijetije Talvis OAO	5 941 161	5 792 104
S.P.I. Spirits (Cyprus) Ltd.	531 201	72 905
Meierovica 35 SIA	12 488	-
Permalko OAO	4 308	-
Bennet Distributors UAB	2 913	-
	<u>6 492 071</u>	<u>5 865 009</u>

(d) Services Received

SPI Distribution (Latvia) SIA	146 524	233 098
Meierovica 35 SIA	124 050	127 200
S.P.I. Spirits (Cyprus) Ltd.	118 075	114 717
Bravo SIA	12 340	13 049
Spirits International B.V. (branch)	9 294	6 019
Spirits Product International IP B.V.(branch)	473	5 066
	<u>410 756</u>	<u>499 149</u>

(e) Accounts Receivable and Payable

	31.12.2013.		31.12.2012.	
	Receivables	Payables	Receivables	Payables
	Ls	Ls	Ls	Ls
S.P.I. Spirits (Cyprus) Ltd.	18 125 046	702 969	15 437 371	278 479
SPI Distribution (Latvia) SIA	12 678 527	177 179	11 111 143	302 721
S.P.I. Production B.V.	2 881 051	-	2 372 960	-
Bennet Distributors UAB	1 109 796	903	1 030 498	-
Meierovica 35 SIA *	1 026 694	-	1 020 846	-
Spirits International B.V.	300 293	-	300 302	-
SPI Distribution OU (Estonia)	157 789	-	186 553	-
Bravo SIA	64 001	3 814	18 436	5 678
S.P.I.Regional Business Unit B.V.	55 830	-	55 618	-
Spirits International B.V. (branch)	17 890	86 969	17 890	77 675
S.P.I. Group S.a.r.l.	1 490	-	813	-
Spirits Product International IP B.V.	400	-	406	-
Tambovskoje spirtovodocnoje predprijetije Talvis OAO	310	803 645	-	276 262
Spirits Product International IP B.V.(branch)	-	44 807	-	44 335
SPI-RVVK OAO	14	-	14	-
SPV Distributor SIA	10	-	10	-
	<u>36 419 141</u>	<u>1 820 286</u>	<u>31 552 860</u>	<u>985 150</u>
The short term part of the loan (see section (f))	139 855	-	7 210 063	-
The short term part of the loan (see section (g))	-	324 000	-	360 000
Total short term liabilities	<u>36 558 996</u>	<u>2 144 286</u>	<u>38 762 923</u>	<u>1 345 150</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 1 000 000 lats. The loan is issued as credit line facilities in separate parts. During the reporting year the Company entered into a supplementary agreement on the repayment extension up to 1 October 2014. On 31 December 2013 the issued and outstanding amount of the loan is Ls 1 000 000.

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Transactions with related parties (continuation)

(f) Loans to Group companies	31.12.2013.	31.12.2012.
	Ls	Ls
S.P.I. Production B.V. **	14 477 762	14 477 762
SPI Distribution (Latvia) SIA *	11 562 300	-
S.P.I.Spirits (Cyprus) Ltd *	-	10 331 219
SPI Distribution OU (Estonia) ***	139 855	182 023
	<u>26 179 917</u>	<u>24 991 004</u>
At beginning of the year	24 991 004	24 808 981
Borrowings issued during the year *	11 562 300	199 593
Repaid borrowings during the year *	<u>(10 373 387)</u>	<u>(17 570)</u>
At the end of the year	<u>26 179 917</u>	<u>24 991 004</u>
Maturity of the total borrowings is as follows:		
Payable in 1 year	139 855	7 210 063
Payable in 2 – 5 years	<u>26 040 062</u>	<u>17 780 941</u>
	<u>26 179 917</u>	<u>24 991 004</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, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2012 amounted to Ls 3 303 179.

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 Ls 10 331 219 and accrued loan interest Ls 1 231 081. The total amount of loans from SPI Distribution (Latvia) SIA on 31 December 2013 are Ls 11 562 300 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, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2013 amounted Ls 14 477 762. 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 Ls 139 855. 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%

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Transactions with related parties (continuation)

(g) Borrowings from Group companies	31.12.2013.	31.12.2012.
	Ls	Ls
At beginning of the year	360 000	210 000
Loans received during the year	-	150 000
Loans repaid during the year	(36 000)	-
At the end of the year	<u>324 000</u>	<u>360 000</u>
consist of:		
short-term loan	<u>324 000</u>	<u>360 000</u>
	<u>324 000</u>	<u>360 000</u>

In 2011 the Company received short-term loan with a credit limit of Ls 210 000 from Group company Bravo SIA. In 2012 the credit limit was increased up to Ls 360 000 and the additional borrowing of Ls 150 000 has been received. During the reporting year, the Company repaid Ls 36 000. On 31 December 2013 the outstanding part of loan is Ls 324 000. 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 ЗОЛІТОЕ". 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 Ls 196 653 (in 2012 - Ls 180 222).

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 Ls 120 506 (in 2012 - Ls 148 015) has included in income statement. According to the signed lease agreements, the Company has the following non-cancellable lease liabilities:

	31.12.2013. Ls	31.12.2012. Ls
Payable in 1 year	41 124	41 136
Payable in 2 – 5 years	20 562	61 704
	<u>61 686</u>	<u>102 840</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 or Ls 52 910.

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	(988 966)	(281 719)
Open position USD, net	<u>(960 200)</u>	<u>256 273</u>
Open position USD calculated in lats, net	<u>(494 503)</u>	<u>136 081</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
		Ls		Ls
USD	+10%	(50 987)	+10%	13 608
	-10%	50 987	-10%	(13 608)

(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.
	Ls	Ls
Financial assets with variable interest rate, EUR calculated in LVL	26 179 917	24 991 004
Financial liabilities with variable interest rate, EUR calculated in LVL	(10 201 495)	(11 094 467)
Financial assets with variable interest rate, LVL	24 000	24 000
Financial liabilities with variable interest rate, LVL	<u>(7 922 750)</u>	<u>(7 326 635)</u>
Open position, net, LVL	<u>8 079 672</u>	<u>6 593 902</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
		Ls		Ls
EUR	+30	42 606	+30	44 518
	-30	(42 606)	-30	(44 518)
LVL	+30	(22 770)	+30	(21 114)
	-30	22 770	-30	21 114

(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.

	31.12.2013.	31.12.2012.
	Ls	Ls
Maximum exposure to credit risk:		
Issued loans to Group companies	26 040 062	17 780 941
Trade receivables - Group companies	36 558 996	38 762 923
Trade receivables - non -related parties	653 745	602 400
Other current assets	326 695	476 962
Cash	18 090	65 290
	<u>63 597 588</u>	<u>57 688 516</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.	676 243	(22 498)	653 745	568 072	72 989	854	11 830
31.12.2012.	634 074	(31 674)	602 400	426 226	176 174	-	-

(c) Liquidity risk

Company pursues a prudent liquidity risk management and maintain a sufficient quantity of cash and ensure the availability of financial funds through credit lines provided by banks. At the end of the reporting year total available credit facilities amount is Ls 14,545 thousand (31.12.2012 - Ls 13,843 thousand). On 31 December 2013 the unused part of the credit line was Ls 352 thousand (31.12.2012 - Ls 868 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 Ls	<1 year Ls	1-2 years Ls	2-5 years Ls	>5 years Ls
Long-term loans	2 134 780	-	-	2 134 780	-
Short-term loans	15 673 626	15 673 626	-	-	-
Trade payables	3 982 609	3 982 609	-	-	-
Debts to Group companies	2 144 286	2 144 286	-	-	-
	<u>23 935 301</u>	<u>21 800 521</u>	<u>-</u>	<u>2 134 780</u>	<u>-</u>

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Financial and capital risk management (continuation)

On 31 December 2012	Total	<1 year	1-2 years	2-5 years	>5 years
	Ls	Ls	Ls	Ls	Ls
Long-term loans	3 614 749	-	-	3 614 749	-
Short-term loans	14 458 440	14 458 440	-	-	-
Trade payables	3 898 258	3 898 258	-	-	-
Debts to Group companies	1 345 150	1 345 150	-	-	-
	23 316 597	19 701 848	-	3 614 749	-

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.	31.12.2012.
	Ls	Ls
Total borrowings	17 804 325	18 073 189
Less cash and its equivalents	(18 090)	(65 290)
Net debt	17 786 235	18 007 899
Equity	56 301 822	50 879 628
Total capital	74 088 057	68 887 527
Total assets	92 272 344	87 429 625
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
	Ls
<u>Effect of adjustments of fundamentals errors in previous years</u>	
Decrease in non-current assets revaluation reserve	(284 203)
Increase in retained earnings	284 203
Net results on equity and net profit	-