AS "Latvijas Balzams"

ANNUAL REPORT

for the period ended 31 December 2011

in accordance with EU approved
International Financial Reporting Standarts

CONTENTS

MANAGEMENT

Names and positions of the Council members	Aigars Kalvītis - Chairman of the Council
	Valery Mendeleev - Vice Chairman of the Council
	Andrejs Skurihins – Member of the Council (until 29.04.2011)
	Alexander Kovalev - Member of the Council (until 29.04.2011)
	Pjotrs Aven - Member of the Council
	Sebastianus Antonius Theodorus Boelen - Member of the Council
	David Ronald Surbey - Member of the Council (from 29.04.2011)
	Blaine Alan Rowlette - Member of the Council (from 29.04.2011)
Names and positions of the Board members	Guntis Āboltiņš - Āboliņš – Chairman of the Board (from 01.04.2012), General Director of AS Latvijas balzams
	Kārlis Andersons – Chairman of the Board (until 05.05.2011), General Director of AS Latvijas balzams
	Ronalds Žarinovs – Member of the Board, Director of Production of AS Latvijas balzams
	Intars Geidāns – Member of the Board (from 17.06.2011), Director of Logistics department of AS Latvijas balzams
	Sergejs Ļimarenko – Member of the Board, Chief of Internal Security Department of AS Latvijas balzams
	Signe Bīdermane – Member of the Board, Director of Personnel and administrative department of AS Latvijas balzams
	Gunita Kronberga - Member of the Board (until 17.06.2011), Financial Director of AS Latvijas balzams

REPORT OF THE MANAGEMENT

Type of operations

AS Latvijas balzams (further - Company) is the largest alcoholic beverage producer in the Baltic States, whose product range includes more than 100 kinds of alcoholic beverages, of whom 53% of beverages are with low alcohol content. The Company products are exported to nearly 30 countries around the world, while in performing export orders of "S.P.I. Group" to more than 80 countries around the world. The company was established in the 1900, but the existing name was acquired in 1970.

Performance of the Company during the financial year

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

Net turnover of the Company in year 2011 was 46 million lats, which is for 12% less than in year 2010. Turnover in the domestic market compared with last year, has fallen for 6%. Company's principal activity results in 2011 was significantly affected by the decline of purchasing power, the increase of excise tax and illegal alcohol sales increase as well as the decrease in economic activity in Latvia

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

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

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

The Company has paid great attention to cost control in production and to improvement of operation's efficiency, as a result the Company has finished the reporting year with a 3.7 million lats net profit, which is close to the 2010 result, despite of decrease in net turnover by 12%. Therefore the Company's profitability ratio (net profit to sales) in 2011 increased by 0.4 percentage points over the previous year.

AS „Latvijas balzams” is not only the largest producer of alcoholic beverages in Latvia, but also one of the largest taxpayers. In 2011 the Company has transferred in taxes the 36.5 million lats to the state budget , including 26.1 million. lats of excise tax.

During the reporting year the Company has continued to invest in production technology and infrastructure. The most important projects implemented are introduction of production of newly designed bottles of Stolichnaya (invested 117 thousand lats) and improvement of efficiency of manufacturing equipment and process (invested 69 thousand lats).

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

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

In 2011 the Company has employed an average of 613 employees (in 2010 - 634), and their average gross monthly salary amounted to 570 lats (in 2010 - 578 lats).

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

Post balance sheet events

In the time period between the last day of the financial year and the date of signing the financial statements by the Board there have been no important events that would have a significant effect on the financial results of the year or the financial position of the company.

Distribution of profit proposed by the Board	**2011** **Ls**
Profit share to be distributed	**3 651 862**
Proposed profit distribution:	
Retained earnings	3 651 862

Future prospects

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

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

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

Guntis Āboltiņš - Āboliņš
Chairman of the Board

Riga, 24 April, 2012

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted the EU. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 9 to page 41 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the Company's assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Guntis Āboltiņš - Āboliņš
Chairman of the Board

Riga, 24 April, 2012

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INDEPENDENT AUDITOR'S REPORT

to the Shareholders of Latvijas balzams AS

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Report on Other Legal and Regulatory Requirements

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

Baker Tilly Baltics SIA
License No. 80

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

Riga, 27 April 2012

INCOME STATEMENT

	Notes	2011 Ls	2010 Ls
Net sales	(1)	46 055 527	52 259 342
Cost of sales	(2)	(36 298 609)	(41 579 432)
Gross profit (loss)		**9 756 918**	**10 679 910**
Distribution expenses	(3)	(3 579 682)	(3 548 150)
Administrative expenses	(4)	(2 059 090)	(2 270 072)
Other income	(5)	2 038 596	1 404 104
Other expenses	(6)	(1 213 271)	(231 964)
Finance income	(8)	793 778	608 622
Finance costs	(9)	(1 300 880)	(1 973 571)
Profit before tax		**4 436 369**	**4 668 879**
Corporate income tax	(10)	(784 508)	(748 344)
Net profit		**3 651 862**	**3 920 535**
Earnings per share (in santims)			
Basic	(11)	48,71	52,30
Diluted	(11)	48,71	52,30

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2011 Ls	2010 Ls
Net profit		**3 651 862**	**3 920 535**
Other comprehensive income / (loss)			
Revaluation of property, plant and equipment reserves	(12)	(282 132)	-
Changes in deferred income tax liabilities resulted to revaluation of property, plant and equipment	(10)	42 320	1 921
Changes in fair value of financial instruments	(19)	147 889	128 482
Changes in deferred income tax liabilities resulted to changes of fair value of derivatives	(10)	(22 183)	(19 273)
Other comprehensive income		**(114 106)**	**111 130**
Total comprehensive income		**3 537 756**	**4 031 665**

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

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2011. Ls	31.12.2010. Ls
ASSETS			
Non-current assets			
Intangible assets	(12)	28 781	5 276
Property, plant and equipment	(12)	14 203 154	15 981 757
Loans to group companies	(24g)	17 780 941	17 780 941
Other non-current assets		24 000	24 000
Total non-current assets:		**32 036 876**	**33 791 974**
Current assets			
Inventories	(13)	15 416 749	15 035 340
Trade receivables	(14)	692 074	405 675
Receivables from group companies	(24g)	35 375 106	34 070 691
Other current assets	(15)	676 943	389 755
Corporate income tax	(10)	114 942	-
Cash and cash equivalents	(16)	23 058	102 993
Total current assets:		**52 298 872**	**50 004 454**
Total assets		**84 335 748**	**83 796 428**

	Notes	31.12.2011. Ls	31.12.2010. Ls
EQUITY AND LIABILITIES			
Equity			
Share capital	(17)	7 496 900	7 496 900
Share premium		61 767	61 767
Revaluation reserves of non-current assets	(12)	8 095 573	8 335 385
Revaluation reserves of derivative financial instruments	(19)	(48 535)	(174 241)
Retained earnings		31 032 385	27 380 523
Total equity:		**46 638 090**	**43 100 334**
Liabilities:			
Non-current liabilities:			
Borrowings	(18)	4 767 945	9 002 012
Deferred income tax liabilities	(10)	1 340 948	1 334 857
Derivative financial instruments	(19)	-	204 989
Total non-current liabilities:		**6 108 893**	**10 541 858**
Current liabilities:			
Borrowings	(18)	17 346 892	15 265 868
Trade payables		4 055 407	3 362 198
Payables to group companies	(24g)	1 522 703	1 465 116
Current income tax payables	(10)	-	70 327
Revaluation reserves of derivative financial instruments	(19)	57 101	-
Other liabilities	(20)	8 606 663	9 990 727
Total current liabilities:		**31 588 766**	**30 154 236**
Total liabilities:		**37 697 659**	**40 696 094**
Total equity and liabilities:		**84 335 748**	**83 796 428**

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

Guntis Āboltiņš - Āboliņš
Chairman of the Board

Riga, 24 April, 2012

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
31.12.2009.	**7 496 900**	**61 767**	**8 346 267**	**(283 450)**	**23 447 185**	**39 068 669**
Net profit	**-**	**-**	**-**	**-**	**3 920 535**	**3 920 535**
Other income / (loss)						
Changes in fair value of derivative financial instruments	-	-	-	128 482	-	128 482
Changes in deferred income tax liabilities	-	-	1 921	(19 273)	-	(17 352)
Disposal of property, plant and equipment	-	-	(12 803)	-	12 803	-
Total comprehensive income	**-**	**-**	**(10 882)**	**109 209**	**3 933 338**	**4 031 665**
31.12.2010.	**7 496 900**	**61 767**	**8 335 385**	**(174 241)**	**27 380 523**	**43 100 334**
Net profit	-	-	-	-	**3 651 862**	**3 651 862**
Other income / (loss)						
Changes in fair value of derivative financial instruments	-	-	-	147 889	-	147 889
Changes in deferred income tax liabilities	-	-	42 320	(22 183)	-	20 137
Revaluation of property, plant and equipment	-	-	(282 132)	-	-	(282 132)
Total comprehensive income	**-**	**-**	**(239 812)**	**125 706**	**3 651 862**	**3 537 756**
31.12.2011.	**7 496 900**	**61 767**	**8 095 573**	**(48 535)**	**31 032 385**	**46 638 090**

CASH FLOW STATEMENT

	Notes	2011 Ls	2010 Ls
Cash flow from operating activities			
Cash granted from operations	(21)	4 126 399	4 492 349
Interest paid		(1 038 552)	(1 194 675)
Income tax paid		(948 512)	(712 713)
Net cash flow generated from operating activities from continuing operations		**2 139 335**	**2 584 961**
Cash flow from investing activities			
Acquisition of property, plant and equipment	(12)	(264 576)	(592 409)
Loans granted		-	(436 000)
Loans interest received		33 301	187 715
Net cash flow generated from investing activities from continuing operations		**(231 275)**	**(840 694)**
Cash flow from financing activities			
Changes in credit lines (net)		1 334 280	940 734
Loans received	(24g)	210 000	-
Borrowings repaid		(3 530 430)	(2 984 439)
Finance lease payments		(1 845)	-
Net cash flow generated from financing activities from continuing operations		**(1 987 995)**	**(2 043 705)**
Net increase / (decrease) in cash and cash equivalents		**(79 935)**	**(299 438)**
Cash and cash equivalents at the beginning of the financial year		**102 993**	**402 431**
Cash and Cash equivalents at the end of the financial year	(16)	**23 058**	**102 993**

Notes on pages 14 to 41 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 2011 up to 31 December 2011.

These financial statements were authorized for issue by the Board of Directors of the Company on 24 April 2012, and Chairman of the Board Guntis Āboltiņš - Āboliņš signed these for and on behalf of the Board of Directors.

The auditor of the Company is Baker Tilly Baltics SIA.

II. ACCOUNTING POLICIES

(1) Basis of preparation

These financial statements have been prepared in accordance with the EU-approved International Financial Reporting Standards.

The financial statements have been prepared on the basis of cost accounting method modified by revaluation of the property, plant and equipment as represented in Note (6) to accounting policies and evaluation of derivative financial instruments at fair value, as represented in Note (11) to accounting policies.

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgments applying the accounting policies adopted by the Company. Critical estimates and judgments are represented in note (20) to accounting policies.

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

IAS 24, Related Party Disclosures - Amendment
The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The amendment is applied retrospectively. The amendment did not have any material effect on related parties disclosures in these financial statements.

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

IFRIC 14 - Prepayments of a Minimum Funding Requirements - Amendment
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of minimum funding requirements to be recognised as a pension asset. The amendment is applied retrospectively. This amendment did not affect these financial statements because the Company does not have defined benefit assets.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments
The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. This interpretation did not affect these financial statements because the Company does not have such transactions.

Basis of preparation (continuation)

Improvements to IFRS issued in May 2010
Amendments has been made to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13. Improvements consist mostly of a mixture of insignificant changes and clarifications in the different areas. These amendments did not have any material effect on Company's financial statements.

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

IAS 12 Income Taxes – Recovery of Underlying Assets - Amendment (effective for annual periods beginning on or after 1 January 2012, not yet adopted by the EU).
The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured at fair value will be recognized on a sale basis. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Company has assessed that this amendment will not affect its financial position and performance because the Group/ Bank measure their investment properties according to the cost model.

IFRS 1 First-time Adoption of IFRS - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - Amendment (effective for annual periods beginning on or after 1 July 2012, not yet adopted by the EU).
The amendment provides guidance on how an entity should resume presenting IFRS financial statements when its functional currency ceases to be subject to severe hyperinflation. This amendment will not have an impact to Company's financial statements.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income - Amendment (effective for annual periods beginning on or after 1 July 2012, not yet adopted by the EU).
The amendments to IAS 1 change the grouping of items presented in Other Comprehensive Income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects only presentation of Other Comprehensive Income and will not impact the Company's financial position or performance. The Company is considering the impact of amendment on its financial statements.

IAS 19 Employee Benefits - Revised (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
The revised standard includes a number of amendments that range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Company is considering the impact of amendment on the its financial statements.

IAS 27 Separate Financial Statements - Revised (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
As a result of the new IFRS 10 and IFRS 12, revised IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. As the Company does not have any investments in subsidiaries, jointly controlled entities and associates there is no impact of revised standard to Company's financial statements.

IAS 28 Investments in Associates and Joint Ventures -Revised (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
As a result of the new IFRS 11 and IFRS 12, revised IAS 28 has been renamed as IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The Company is in the process of assessing the impact of this amendment on the financial position or performance of the Company.

IFRS 10 Consolidated Financial Statements (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 does not change the consolidation procedures, rather changes whether an entity is consolidated by revising the definition of control. As the Company does not have any investments in subsidiaries and special purpose entities there is no impact of this standard on Company's financial statements.

Basis of preparation (continuation)

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

IFRS 12 Disclosures of Involvement with Other Entities (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. As the Company does not have any investments in other companies there is no impact of this standard on Company's financial statements.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather describes how to measure fair value where fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. The Company is considering the impact of the standard on the Company's financial statements.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities - Amendment (effective for annual periods beginning on or after 1 January 2014, not yet adopted by the EU).
This amendment clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarifies the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted, but only with the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. The Company is considering the impact of the amendment on the Company's financial statements.

IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendment (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. The Company is considering the impact of the amendment on the Company's financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurements, issued in November 2009 (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
The IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Company is considering the impact of the standard on the Company's financial statements.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).
This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). The Company do not involved in mining activities and, therefore, the interpretations will not effect its financial statements.

(2) Foreign currencies

(a) Functional and presentation currency
Items shown in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency). Financial statements are presented in Latvian lat (Ls), which is the Company's functional and presentation currency.

(b) Transactions and balances
All foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement for the period.

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

	31.12.2011.	**31.12.2010.**
	Ls	**Ls**
1 USD	0,544	0,535
1 EUR	0,702804	0,702804
1 LTL	0,204	0,203

(3) Segment disclosure

An operation segment is a component of entity which qualifies for the following criteria: (i) engages in business activities from which it may earn revenues and incur expenses; (ii) whose operation results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (iii) for which discrete financial information is available.

Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(4) Income recognition

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

Income from sales of goods in Latvia is recognised when the customer has accepted the goods. Income from sales of goods outside Latvia is recognised in accordance with the goods delivery terms. Income from penalties is recognised at the moment of receipt. Income from provision of services is recognised based on the stage of completion method.

Interest income or expenses are recognised in the income statement for all loans and borrowings assessed at amortised cost applying the effective interest rate method.

(5) Intangible assets

Intangible assets, in general, consist of licenses and patents. Intangible assets are recognised at the cost of acquisition less accumulated amortisation. Amortisation is calculated from the moment the assets are available to use. Amortisation of intangible assets is calculated using the straight-line method to allocate amounts to their residual values over their estimated useful lives, as follows:

	Years
Licenses and patents	3-5

Where the carrying amount of an intangible asset exceeds its recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount exceeds the fair value of the relevant intangible asset less selling or use expenses.

(6) Property, plant and equipment (tangible assets)

Buildings are recognised at their fair value on the basis of assessment made by independent valuator from time to time less accumulated depreciation. Accumulated depreciation is liquidated as of revaluation date, net sum is charged to the revaluated cost. Land is recognised at their fair value on the basis of assessment made by independent valuator from time to time. Other assets are recognised at their acquisition value less accumulated depreciation. Acquisition value includes the costs directly related to acquisition of the asset.

Subsequent costs are recognised in the asset's carrying amount or as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Other repairs and maintenance are recognised as an expense during the financial period when they are incurred.

Increase in value arising on revaluation is recognised in equity under "Revaluation reserve of non - current assets", but decrease that offsets a previous increase of the same asset' s value (net of deferred tax) recognised in the said reserve is charged against that reserve; any further decrease is recognised as an expense for the year incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful live, as follows:

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

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

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

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

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within the income statement for the relevant period. As soon as the re-valued assets are sold, values in the "Revaluation reserve of non- current assets" are charged to the retained earnings.

(7) Impairment of tangible and intangible assets

All tangible and intangible assets of the Company have their estimated useful lives and they are amortised or depreciated. Assets that are subject to amortisation and depreciation are revaluated every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Loss from value decrease is recognised at difference between book value of the asset and its recoverable value. Recoverable value is the higher of an asset's fair value less costs to sell and its value in use. In order to determine decrease of the value, assets are classified based on the lower level of identifiable cash flows (cash-bearing units). Assets, which value has been decreased, are assessed at the end of every reporting year to identify the probable value decrease reservation.

(8) Lease without redemption rights (operating lease)

Assets that are leased to operating leases, are disclosed in tangible assets at purchase price or revalued value, less depreciation. Depreciation is calculated on the straight-line basis over the period of useful life of the appropriate tangible asset, to write off the value of tangible asset until its estimated book value at the end of the period of useful life by using the rates specified for similar tangible assets of the Company.

(9) Inventories

The inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realizable value of inventories is lower than their cost, provisions are created to reduce the value of inventories to their net realizable value.

(10) Loans and trade receivables

Loans and trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective rate. Changes in impairment are recognised in the income statement.

(11) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain and loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Currently, the Company designates derivatives as hedges of a interest rates changes of its borrowings (cash flow hedge).

The effective portion of changes in the fair value of derivatives that are designated and qualify for cash flow hedges is recognised in equity item "Revaluation reserves of derivative financial instruments". The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified in the income statement in the periods when the hedged item effects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within "Finance costs". The gain or loss relating to the ineffective portion is recognised in the income statement within "Other expenses".

(12) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and the balances of the current bank account.

(13) Share capital and dividends

Ordinary shares are classified as equity. Dividends to be paid to shareholders of the Company are represented as liabilities during the financial period of the Company, when shareholders of the Company approve the dividends.

(14) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of financial year.

(15) Pension obligations

The Company pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian laws. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included in the staff costs.

(16) Accrued liabilities for unused annual leave

Amount of accumulated unused annual leave is determined by multiplying the average day rate of employees for the last six months of the financial year by the amount of accrued but unused annual leave at the end of the reporting year.

(17) Income tax

Corporate income tax is calculated in accordance with tax laws of the Republic of Latvia. Effective laws provide for 15% tax rate.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business dilution, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognised.

Deferred income tax is determined using tax rates (and laws) that have been enacted by the year-end and are expected to apply when the deferred income tax is settled.

The principal temporary differences, in general, arise from different tangible assets depreciation rates as well as provisions for slow-circulating goods, accruals for unused annual leave and accruals for bonuses. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

(18) Earnings per share

Earnings per share are determined dividing the net gains or losses attributable to shareholders of the Company by the average weighted quantity of the shares in the reporting year.

(19) Related parties

Related parties are defined as shareholders of the Company, who have a significant influence or control over the Company, members of the Board and the Council, their close relatives and companies, in which they have a significant influence or control.

(20) Critical accounting estimates and judgments

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management must make estimates and judgments applying the accounting policies adopted by the Company.

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities recognised in the financial statements, and disclosures in the notes at the year-end as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are revaluation of the land and building and determination of their useful life period, determination of revaluation regularity, as well as recoverable amount of receivables and inventories as disclosed in the relevant notes.

a) Revaluation of land and buildings

Management of the Company determines fair value of the assets based on assessment made by independent certified valuators in accordance with the property valuation standards and based on observable market price as well as future cash flow and construction costs methods.

The Management believes that assets must be revaluated at least once in 5 years or earlier if any indicators show the potential material changes in market values. By the management estimates, in the reporting year the factors that indicate a potentially significant changes in the value of those assets has been identified, and , as a result, fair value measurement procedures has been made. Previous land and building evaluation has been conducted during the preparation of 2009 year annual financial statements. The total carrying amount of land and buildings as at 31 December 2011 is Ls 11 489 746 (31.12.2010 - 12 536 703).

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

In estimating useful life of property, plant and equipment (PPE) the management relies on the historical information, technical survey, assessing the current state of the active and external evaluations. During the reporting and previous year there are no factors that indicate a need on changes of the useful life of the Company's PPE. The total carrying amount of PPE as at 31 December 2011 is Ls 14 138 838 (31.12.2010 - Ls 15 818 217).

b) Recoverability of receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. Information on amount and structure of receivables is disclosed in Note (28) of the financial statements.

c) Valuation of inventories

In valuation of inventories the management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realization probability and net selling value of the inventories shall be considered. The total carrying amount of inventories as at 31 December 2011 is Ls 15 416 749 (31.12.2010 - Ls 15 035 340).

III. OTHER NOTES

(1) Segment Information and net sales

(a) Operation and reportable segment

Core activity of the Company is production of alcoholic drinks. AS Latvijas balsams produces over 100 different types of drinks. Since the Company's core activity is mainly the production of alcoholic drinks, the Company has only one operation and reportable segment. Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(b) Geographical markets

The Company operates in Latvia by selling the produced drinks in the domestic market, as well as exports the produced drinks.

The operations of the Company can be divided into three geographical segments, which are sales in Latvia, sales to overseas markets, executing orders of S.P.I Group companies and other export sales. Distribution of sales among these segments is as follows:

	2011 Ls	2010 Ls
Sales in Latvia	15 728 177	17 095 761
Export sales under S.P.I. Group company S.P.I. Spirits (Cyprus) Ltd. orders	24 379 767	29 002 694
Other income from export sales		
Lithuania	3 087 242	3 174 395
Russia	672 172	996 865
Estonia	617 358	632 376
Poland	264 074	231 406
Norway	285 752	292 435
Other countries	1 020 985	833 410
Other income from export sales (total)	5 947 583	6 160 887
	46 055 527	**52 259 342**

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

(c) Major customers

Most of the Company's sales transactions in domestic markets as well as sales to overseas markets are made through S.P.I. Group companies. The information on transactions of Group entities is disclosed in Note (24). There are no nonrelated clients with the amount of transactions is more than 10% of total revenues.

	2011 Ls	2010 Ls
Sales to S.P.I. group companies	43 823 697	50 118 698
Sales to other customers	2 231 830	2 140 644
	46 055 527	**52 259 342**

(2) Cost of sales	2011 Ls	2010 Ls
Materials	30 629 667	34 061 684
Salary expense	1 519 123	1 509 183
Changes in provision for receivables, inventories and other accrued liabilities	(779 444)	111 754
Energy resources	580 871	531 296
Mandatory state social insurance contributions	362 972	361 374
Changes of inventory value of finished goods	(332 336)	387 550
Natural recourse tax	234 801	273 613
Goods purchased	25 451	56 830
Accrued expenses on unused annual leave (variable)	(11 776)	40 664
Other variable costs	942 954	1 000 730
Variable costs total:	***33 172 283***	***38 334 678***
Depreciation of non-current assets	1 279 710	1 284 112
Salary expenses	777 071	789 378
Repair expenses	342 621	352 516
Mandatory state social insurance contributions	184 428	187 076
Net losses from revaluation of tangible assets	158 562	-
Insurance payments	73 611	64 755
Laboratory expenses	40 932	33 810
Accrued expenses on unused annual leave (fixed)	(2 124)	2 467
Other fixed expenses	271 515	530 640
Fixed costs total:	***3 126 326***	***3 244 754***
	36 298 609	**41 579 432**

(3) Distribution expenses		
Advertising expenses	1 023 439	1 025 560
Salary expenses	1 100 392	1 074 528
Transportation expenses	462 873	433 680
Mandatory state social insurance contributions	262 967	256 360
Depreciation of non-current assets	240 941	241 169
Warehouse maintenance expenses	182 822	226 582
Accrued expenses on unused annual leave	(7 920)	5 141
Other expenses	314 168	285 130
	3 579 682	**3 548 150**

(4) Administrative expenses		
Salary expenses	929 386	1 032 287
Management services and expenses	356 208	364 934
Mandatory state social insurance contributions	221 721	240 633
Real estate tax	89 259	78 567
Depreciation of non-current assets	65 981	72 678
Professional service costs	63 464	86 434
Office expenses	49 244	54 230
Communication and postal expenses	32 312	38 276
Representation expenses	29 732	62 419
Computer maintenance	22 824	22 068
Bussines trip expenses	21 649	26 420
Accrued expenses on unused annual leave	(18 070)	(10 563)
Employee training	18 032	3 593
Transportation expenses	15 471	17 647
Financial support, sponsorship	6 160	22 580
Healthcare, health insurance	4 415	6 545
Other expense	151 302	151 324
	2 059 090	**2 270 072**

(5) Other income

	2011 Ls	2010 Ls
Income from production supporting services rendered	858 308	296 642
Income from services rendered in warehouses of excise tax goods	335 903	319 684
Income from other services rendered	349 007	415 196
Income from lease of warehouse and office premises	184 985	171 603
Sold packages, boxes and pallets	66 176	7 207
Sold consumable materials	83 267	102 497
Other income	160 950	91 275
	2 038 596	**1 404 104**

(6) Other expenses

	2011 Ls	2010 Ls
Bank commissions	29 453	78 108
Other expenses	1 183 818	153 856
	1 213 271	**231 964**

(6) Expenses by Nature

	2011 Ls	2010 Ls
Materials	30 629 667	34 061 684
Employee expenses	5 318 170	5 488 528
Depreciation of non-current assets	1 586 632	1 597 959
Advertising expenses	1 023 439	1 025 560
Increase in provision for accounts receivables, inventories and other accruals	(779 442)	111 754
Transportation expenses	478 344	451 327
Management services and expenses	356 208	364 934
Repair expenses	342 621	352 516
Natural recourse tax	234 801	273 613
Real estate tax	89 259	78 567
Computer maintenance	22 824	22 068
Net losses from revaluation of tangible assets	158 562	-
Other expenses	3 689 566	3 801 108
	43 150 651	**47 629 618**

(8) Finance income

	2011 Ls	2010 Ls
Interest income	749 498	601 622
Income from fines and penalties	44 280	7 000
	793 778	**608 622**

(9) Finance expenses

	2011 Ls	2010 Ls
Interest for use of credit lines facilities	489 498	535 855
Interest for long-term loan	415 734	391 219
Net loss for hedging activities	144 138	219 913
Net loss from exchange rate fluctuations	43 942	624 013
Net loss from purchase - sale of foreign currency	207 568	202 571
	1 300 880	**1 973 571**

(10) Corporate income tax

	2011	2010
a) Components of corporate income tax	**Ls**	**Ls**
Changes in deferred income tax	26 228	(90 143)
Corporate income tax according to the tax return	763 243	838 487
Compensated corporate income tax	(4 963)	-
	784 508	**748 344**

b) Reconciliation of accounting profit to income tax charges

In 2011 corporate income tax by the tax declaration is different from corporate income tax expenses recognized as expense for Ls 4 963. This amount will be compensated S.P.I. Spirits (Cyprus) Ltd. . The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

	2011	2010
	Ls	**Ls**
Profit before taxes	4 436 369	4 668 879
Theoretically calculated tax at 15% tax rate	**665 455**	**700 332**
Tax effects on:		
Non-deductible expenses for tax purposes	184 542	93 454
Tax discounts for donations	-	(18 275)
Tax discounts for reinvested profits	(49 292)	(27 167)
Tax relief for the acquired technological equipment	(11 234)	-
Compensated corporate income tax	(4 963)	-
Total corporate tax charge	**784 508**	**748 344**

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	1 334 857	1 407 648
Deferred tax changes charged to the income statement	26 228	(90 143)
Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve	(42 320)	(1 921)
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	22 183	19 273
Deferred tax liabilities (asset) at the end of the financial year	**1 340 948**	**1 334 857**

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

	31.12.2011.	31.12.2010.
	Ls	**Ls**
Temporary difference on depreciation of tangible and intangible assets	1 469 231	1 613 397
Gross deferred tax liabilities	**1 469 231**	**1 613 397**
Temporary difference on provisions for slow moving and obsolete stock	(64 707)	(185 047)
Temporary difference on accruals for annual leave	(42 598)	(48 582)
Temporary difference on derivative financial instruments revaluation reserve	(8 565)	(30 748)
Temporary differences in accrued liabilities	(12 412)	(14 163)
Gross deferred tax assets	**(128 283)**	**(278 540)**
Net deferred tax liability (assets)	**1 340 948**	**1 334 857**

Corporate income tax (continuation)

The Company offsets the deferred tax assets and the deferred tax liabilities only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax is related to the same taxation authority. The offset amounts are as follows:

	31.12.2011. Ls	31.12.2010. Ls
Deferred tax assets:		
deferred tax asset to be recovered within a year	(128 283)	(268 291)
deferred tax liabilities to be recovered after more than a year	-	(10 249)
	(128 283)	(278 540)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	145 022	119 017
deferred tax liabilities to be recovered after more than a year	1 324 209	1 494 380
	1 469 231	1 613 397
Net deferred tax liabilities (assets)	**1 340 948**	**1 334 857**

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

	Derivative financial instruments	Accelerated depreciation and property revaluation	Accruals for unused annual leave	Expected liabilities	Provisions for slow moving stock	Total
	Ls	Ls	Ls	Ls	Ls	Ls
31.12.2009.	**(50 021)**	**1 674 108**	**(42 926)**	**(2 248)**	**(171 265)**	**1 407 648**
Charged / (credited) to income statement	-	(58 790)	(5 656)	(11 915)	(13 782)	(90 143)
Charged / (credited) to equity	19 273	(1 921)	-	-	-	17 352
31.12.2010.	**(30 748)**	**1 613 397**	**(48 582)**	**(14 163)**	**(185 047)**	**1 334 857**
Charged / (credited) to income statement	-	(101 847)	5 984	1 751	120 340	26 228
Charged / (credited) to equity	22 183	(42 320)	-	-	-	(20 137)
31.12.2011.	**(8 565)**	**1 469 230**	**(42 598)**	**(12 412)**	**(64 707)**	**1 340 948**

(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.

	2011	2010
Profit attributed to shareholders of the Company (Ls)	3 651 862	3 920 535
Average annual number of shares	7 496 900	7 496 900
Earnings per share (expressed in santims)	**48,71**	**52,30**

(12) Intangible assets and property, plant and equipment

	Intangible assets	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	Ls
31.12.2009.							
Initial cost/ revaluated	1 164 044	12 907 181	13 427 940	3 408 117	95 910	4 523	29 843 671
Accumulated depreciation	(1 163 778)	(30 809)	(9 928 249)	(2 861 213)	-	-	(12 820 271)
Net book value	**266**	**12 876 372**	**3 499 691**	**546 904**	**95 910**	**4 523**	**17 023 400**
2010							
Opening net book value	266	12 876 372	3 499 691	546 904	95 910	4 523	17 023 400
Acquired	-	-	-	-	-	623 092	623 092
Revaluated	-	-	-	-	-	-	-
Disposed	-	(6 275)	(24 232)	(577)	-	(30 684)	(61 768)
Reclassified	6 379	275 664	172 366	74 892	34 151	(563 452)	(6 379)
Depreciation	(1 369)	(609 058)	(771 620)	(215 910)	-	-	(1 596 588)
Closing book value	**5 276**	**12 536 703**	**2 876 205**	**405 309**	**130 061**	**33 479**	**15 981 757**
31.12.2010.							
Initial cost/ revaluated	1 170 423	13 157 745	13 509 372	3 448 852	130 061	33 479	30 279 509
Accumulated depreciation	(1 165 147)	(621 042)	(10 633 167)	(3 043 543)	-	-	(14 297 752)
Net book value	**5 276**	**12 536 703**	**2 876 205**	**405 309**	**130 061**	**33 479**	**15 981 757**
2011							
Opening net book value	5 276	12 536 703	2 876 205	405 309	130 061	33 479	15 981 757
Acquired	-	-	-	-	-	289 364	289 364
Revaluated	-	(440 693)	-	-	-	-	(440 693)
Disposed	-	-	(5 062)	(144)	-	(11 932)	(17 138)
Reclassified	27 738	8 239	269 166	71 513	(74 882)	(301 774)	(27 738)
Depreciation	(4 233)	(614 503)	(783 517)	(184 378)	-	-	(1 582 398)
Closing book value	**28 781**	**11 489 746**	**2 356 792**	**292 300**	**55 179**	**9 137**	**14 203 154**
31.12.2011.							
Initial cost/ revaluated	1 198 161	11 532 717	13 696 352	3 414 706	55 179	9 137	28 708 091
Accumulated depreciation	(1 169 380)	(42 971)	(11 339 560)	(3 122 406)	-	-	(14 504 937)
Net book value	**28 781**	**11 489 746**	**2 356 792**	**292 300**	**55 179**	**9 137**	**14 203 154**

a) Revaluation of land and building

In the 2011 financial statements, the Company completed the revaluation of land and buildings. The previous revaluation of buildings, structures and land was performed in 2009. Real estate was valued at market value, the assessment was prepared by an independent valuer Reeksperts SIA. The real estate market value was determined using the comparable transaction method, future cash flow and construction cost methods.

In the result of evaluation the decrease of the assets fair value of Ls 440 693 has been recognized, where Ls 282 132 has been charged against the previous year revaluation surplus, while impairment of Ls 158 562 was recognized in income statement of 2011.

Intangible assets and property, plant and equipment (continuation)

Total revaluation surplus of tangible assets on 31 December 2011 was Ls 9 524 206 (31.12.2010 Ls 9 819 140). Revaluation amount less the attributable deferred income tax liabilities is recognizes in equity under "Revaluation reserve of non- current assets".

	2011 Ls	2010 Ls
Provisions at the beginning of the year	8 335 385	8 346 267
Revaluation effect	(282 132)	-
Disposals effect	-	(12 803)
Changes in deferred tax liabilities as a result of revaluation and disposals	42 320	1 921
Provisions at the end of the year	**8 095 573**	**8 335 385**

If the land plots and buildings would not be revalued, then on December 31, 2011 the book value of the land plots and buildings would be Ls 5 297 thousand (31.12.2010 - Ls 5 676 thousand).

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

b) Other notes

During the 2011 the borrowing costs has not been capitalized, as the Company did not use the financing for the acquisition of tangible assets.

All intangible and tangible assets of the Company are pledged under conditions of the agreement of the Mortgage and Commercial pledge as the security for loans in favour of the credit institutions (see Note (18)).

(13) Inventories	**31.12.2011.** **Ls**	**31.12.2010.** **Ls**
Raw materials and consumables	7 046 620	5 939 961
Finished goods and goods for sale	4 019 226	4 663 989
Excise tax stamps	2 585 884	3 987 463
Work in progress	1 691 284	443 927
Inventory in transit	73 735	-
	15 416 749	**15 035 340**

All inventories of the Company are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note (18)).

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

	2011 Ls	2010 Ls
Provisions at the beginning of the year	1 233 650	1 141 768
Changes on provisions recognized in the income statement	(802 271)	91 882
Provisions at the end of the year	**431 379**	**1 233 650**

During the reporting year has changed methods in calculation of provisions for slow moving stock. If methodology used in previous years has been applied in 2011, the amount of provision would be less for Ls 111 449. A significant decrease of provision at the year end is due to a substantial write-down of materials related to the change of product range and design.

(14) Trade receivables	**31.12.2011.** **Ls**	**31.12.2010.** **Ls**
Book value of trade receivables	912 525	766 642
Provisions for impairment of trade receivables	(220 451)	(360 967)
	692 074	**405 675**

Trade receivables (continuation)	2011	2010
	Ls	Ls
Provisions at the beginning of the year	360 967	341 094
Receivables written off as uncollectible	(163 343)	-
Provisions	22 827	25 934
Paid during the year	-	(6 061)
Provisions at the end of the year	**220 451**	**360 967**

All trade and other receivables of the Company are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note (18)).

(15) Other current assets	31.12.2011.	31.12.2010.
	Ls	Ls
Advances for raw materials	393 348	267 656
Other deferred expenses	40 461	41 807
Advances for services	32 306	43 472
VAT accepted	26 996	19 533
Deferred insurance costs	16 248	14 766
Other receivables	167 584	2 521
	676 943	**389 755**

(16) Cash and cash equivalents

Cash at bank on current accounts	84	74 626
Cash on hand	22 974	28 367
	23 058	**102 993**

(17) Share capital

As at 31 December 2011 the registered and fully paid share capital is in amount Ls 7 496 900, that consists of 7 496 900 ordinary shares with nominal value of Ls 1 each. In the current year the number of registered and fully paid shares has not been changed.

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

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

All shares owned by the main shareholder of the Company S.P.I. Regional Business Unit B.V., as well as any other shares that S.P.I. Regional Business Unit B.V. may acquire in the future are pledged in accordance with terms of Commercial pledge agreement as security for loans in favour of the credit institutions (see Note (18)).

(18) Borrowings

	31.12.2011. Ls	31.12.2010. Ls
Non-current		
AS Swedbank (previously Hansabanka) - repayable in 2-5 years [c)]	4 757 945	6 726 750
Nordea Bank Finland Plc. Latvian branch - repayable in 2-5 years [c), d)]	-	2 275 262
Liabilities under finance leases - repayable in 2-5 years	10 000	-
	4 767 945	**9 002 012**
Current		
Credit line facilities [a), b)]	13 673 734	12 339 454
AS Swedbank (previously Hansabanka) [c)]	1 968 805	1 968 805
Nordea Bank Finland Plc. Latvian branch [c), d)]	1 698 668	957 609
Liabilities under finance leases	5 685	-
	17 346 892	**15 265 868**

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

	2011 Ls	2010 Ls
At beginning of the year	24 267 880	26 010 827
Received borrowings during the year	1 334 280	940 734
Repaid borrowings during the year (net)	(3 530 430)	(2 984 439)
Currency exchange rate fluctuation results	27 423	300 758
At the end of the year	**22 099 153**	**24 267 880**

a) 2004 year credit line

On 30 April 2004, a credit line agreement was signed with AS Swedbank and AS SEB Latvijas Unibanka for a credit line granting. According to assigned agreement of 24 July 2007, credit line of the Company has been refinanced to Nordea Bank Finland Plc. Latvian branch.

At the end of 2011 the limit of overdraft granted by Nordea Bank Finland Plc. is in amount Ls 6 308 285, which consists of: EUR 3000000, Ls 4 199 873. During the previous reporting year AS Swedbank had granted to Company a credit line facilities in multiple currencies. The limits of granted credit line in accordance with loan agreement are EUR 5 612 184, Ls 2 610 085.

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

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

b) 2011 year overdraft

On 27 October 2011 entered into an overdraft agreement with Nordea Bank Finland Plc. Latvian branch. Overdraft limit granted in accordance with the contract - Ls 980 000, the overdraft limit used at 31 December 2011 is Ls 972 134. Final repayment date is 28 December 2012.

Borrowings (continuation)

b) 2007 year loans

On 24 July 2007 a loan agreement was signed with Nordea Bank Finland Plc. Latvian branch, AS Swedbank and the Company for a loan in amount of EUR 13 000 000, divided as EUR 7 000 000 provided by Nordea Bank Finland Plc. Latvian branch and EUR 6 000 000 AS Swedbank. In 2008 the Company signed amendments to the loan agreements for additional loan in the amount of EUR 1 500 000 to be provided under the previously mentioned agreement, the funds have been received in previous reporting periods.

In 2010 entered into amended loan agreement with Swedbank for additional funding EUR 10 500 00 (Ls 7 379 442). Addition loan is given credit for Swedbank fighting arising from loan agreements entered into on 21 September 2005 and 30 April 2004.

On 31 December 2011 the debt of the Company for above mentioned loans to AS Swedbank EUR 9 571 304 (Ls 6 726 750) and Nordea Bank Finland Plc. Latvian branch Ls 1 698 668 (On July 2011 euro loan balance was converted in lats).

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

d) 2004 year loans

On 30 April 2004 a long-term loan agreement was signed with AS Swedbank and AS SEB Latvijas Unibanka for a loan in amount of USD 12 500 000 and Ls 6 800 000. In accordance with signed agreement on 24 July 2007 the loan of the Company has been refinanced to Nordea Bank Finland Plc. Latvian branch, as a result Nordea Bank Finland Plc. took over all obligations of AS SEB Unibanka and granted the Company a loan in the amount of EUR 4 500 000.

During 2010 the Company repaid the liabilities to AS Swedbank for the previously mentioned loan, using the additional financing in accordance with he 24 July 2007 loan agreement amendments.
In 2011 the Company repaid the debt to Nordea Bank Finland Plc. Latvian branch (debt on 31 December 2010 amounted to EUR 2 217 284 (Ls 1 558 316)), the final settlement is made by the additional funding received pursuant with amendments to the loan agreement on 24 July 2007.

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

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

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

	31.12.2011. Ls	31.12.2010. Ls
6 months or less	22 114 837	24 267 880
	22 114 837	**24 267 880**

	31.12.2011. Ls	31.12.2010. Ls
Payable in 1 year	17 346 892	15 265 868
Payable in 2 – 5 years	4 767 945	9 002 012
	22 114 837	**24 267 880**

e) Collateral

Fulfilment of the Company's liabilities is secured and enforced by:
(i) the mortgage of all real estate owned by the Company,
(ii) commercial pledge of all Company's assets as aggregation of property on the date of pledging as well as future parts of the aggregation of property,
(iii) all pledged shares of the Company, owned by the largest shareholder of the Company S.P.I. Regional Business B.V. (previous name S.P.I. Distilleries B.V.), and any other shares that S.P.I. Regional Business B.V. may acquire in the future. Carrying value of the pledged assets of the Company as at 31 December 2011 was Ls 84 335 748 (as at 31 December 2010 - Ls 83 796 428).

(19) Derivatives financial instruments and hedging activities

The Company uses hedge accounting for variable interest payments for received loans from Nordea Bank Finland Plc. Latvian branch. With the derivative financial instruments the Company managed loan interest rate fixation to cover against the negative effects on Company's financial results from interest rate fluctuations. Derivative financial instruments are measured as highly effective and the Company uses the accounting policy for hedge accounting (see section (9) in accounting policy).

The fair value of derivative financial instruments at the end of the reporting year is estimated in Ls 57 101 (31.12.2010 - Ls 204 989). During the reporting year the liabilities for derivative financial instruments is classified as current liabilities, as transaction completion date is 29 June 2012. Effective part of a derivative financial instrument that has been used and are classified as cash flow hedging instrument, less effect of deferred tax, recognized in equity under "Financial instruments revaluation reserve".

(20) Other liabilities	**31.12.2011.**	**31.12.2010.**
	Ls	**Ls**
Excise tax	6 570 865	7 575 673
Value Added Tax	769 615	1 074 193
Accrued liabilities	512 535	434 627
Accruals for unused annual leave	283 990	323 881
Salaries	200 629	213 175
Deferred income	75 137	136 608
Mandatory State social insurance contributions	113 992	106 419
Personal income tax	72 105	78 661
Natural resource tax	1 722	1 123
Other receivables	6 073	46 367
	8 606 663	**9 990 727**

(21) Cash granted from operations	**2011**	**2010**
	Ls	**Ls**
Profit before corporate income tax	4 436 369	4 668 879
Adjustments for:		
depreciation and amortization (Note (7))	1 586 631	1 597 959
provisions for current assets	(779 444)	111 754
loss / (profit) from foreign currency exchange rate fluctuations	27 423	300 758
interest expenses (Note (9))	1 049 370	1 146 987
interest income (Note (8))	(749 498)	(601 622)
loss / (profit) from revaluation of property	158 562	-
loss / (profit) from disposal of property, plant and equipment	5 206	31 085
Changes in working capital		
inventories	295 492	1 172 717
receivables	(1 171 844)	(4 952 848)
liabilities	(731 868)	1 016 680
	4 126 399	**4 492 349**

(22) Average number of employees	**2011**	**2010**
Average number of people employed during the financial year	613	634

(23) Remuneration to personnel	**2011**	**2010**
	Ls	**Ls**
Salaries and mandatory State social insurance contributions for production personnel	2 829 694	2 890 142
Salaries and mandatory State social insurance contributions for distribution personnel	1 355 439	1 336 029
Salaries and social insurance contributions for administration personnel	1 133 037	1 262 357
	5 318 170	**5 488 528**
Including key management		
salary expenses	287 124	434 429
mandatory State social insurance contributions	67 698	133 666
including Mandatory State social contributions included in personnel expenses	1 032 088	1 045 443

(24) Transactions with related parties

The main shareholder of the Company, who owns 89.53% of shares of the Company, is S.P.I Regional Business Unit B.V. (previous name S.P.I. Distilleries B.V.), which is incorporated in the Netherlands. The ultimate Parent company of the Group is S.P.I. Group S.a.r.l, which is incorporated in Luxemburg and its majority shareholder is Mr. Yuri Shefler.

In 2011 the Company had economic transactions with the Parent company of the Group the S.P.I. Group S.a.r.l. and the following S.P.I Group companies that are directly or indirectly subsidiaries of S.P.I. Group S.a.r.l - S.P.I.Spirits (Cyprus) Ltd. (Cyprus), Spirits Product International IP B.V.(Luxembourg), Spirits Product International IP B.V. branch (Switzerland), SPI Production B.V. (Netherlands), Tambovskoje spirtovodocnoje predprijatije Talvis OAO (Russia), SPI-RVVK OAO (Russia), Bravo SIA (Latvia), Bennet Distributors UAB (Lithuania), SPV Distributor SIA (Latvia), Spirits International B.V. (Luxembourg), Spirits International B.V. branch (Switzerland), SPI Distribution (Latvia) SIA, SPI Distribution (Estonia). The Company also had economic transactions with the related company Meierovica 35 SIA (Latvia) which is not a member of the SPI Group.

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

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

The value of the transactions are disclosed with excise tax.

(a) Sale of Goods	**2011**	**2010**
	Ls	**Ls**
SPI Distribution (Latvia) SIA	36 860 525	39 335 109
S.P.I. Spirits (Cyprus) Ltd.	24 492 758	29 194 175
Bennet Distributors UAB	3 084 692	3 172 595
SPI Distribution (Estonia)	571 208	527 951
Bravo SIA	196 541	221 436
SPI-RVVK OAO	3 311	18 230
Torgovi Dom Rosvestalko OOO	-	544 175
	65 209 035	**73 013 671**

Transactions with related parties (continuation)

(b) Service Rendered (Including Loan Interest)

	2011 Ls	2010 Ls
SPI Distribution (Latvia) SIA	4 380 824	2 718 127
S.P.I. Spirits (Cyprus) Ltd.	1 476 831	759 351
SPI Production B.V.	367 093	283 099
Meierovica 35 SIA	35 069	33 069
S.P.I.Regional Business Unit B.V	19 382	24 312
Bravo SIA	16 432	11 165
Spirits International B.V. (branch)	8 544	6 157
Bennet Distributors UAB	1 243	690
SPV Distributor SIA	102	102
L.D.V. SIA	-	734 636
Mono M SIA	-	291 590
Interlat SIA	-	132 432
S.Alko SIA	-	13 333
SPI-RVVK OAO	-	2 487
Spirits Product International IP B.V.	-	226
	6 305 520	**5 010 776**

(c) Purchase of Goods

Tambovskoje spirtovodocnoje predprijatije Talvis OAO	4 940 903	2 426 665
SPI-RVVK OAO	155 117	2 319 674
Bennet Distributors UAB	4 439	32 125
S.P.I. Spirits (Cyprus) Ltd.	227	9 939
SPI Distribution (Latvia) SIA	790	-
	5 101 476	**4 788 403**

(d) Services Received

SPI Distribution (Latvia) SIA	175 079	88 467
S.P.I. Spirits (Cyprus) Ltd.	170 740	168 270
Meierovica 35 SIA	84 360	102 076
Bennet Distributors UAB	69 066	57 250
Spirits International B.V. (branch)	54 716	8 181
Bravo SIA	10 584	6 751
Spirits Product International IP B.V.(branch)	8 125	12 760
SPI Distribution (Estonia)	8 063	20 723
SPI-RVVK OAO	478	668
Torgovi Dom Rostvestalko OOO	-	1 351
	581 211	**466 497**

Transactions with related parties (continuation)

(e) Accounts Receivable and Payable

	31.12.2011.		31.12.2010.	
	Receivables Ls	Payables Ls	Receivables Ls	Payables Ls
S.P.I. Spirits(Cyprus) Ltd.	16 511 971	83 682	15 966 444	64 954
SPI Distribution (Latvia) SIA	6 170 945	46 816	5 171 351	57 188
Bennet Distributors UAB	1 928 267	-	1 462 986	81 579
S.P.I. Production B.V.	1 784 119	-	1 417 026	-
S.P.I. Group S.a.r.l.	-	1 055 275	-	1 037 816
Meierovica 35 SIA *	1 003 312	-	1 005 462	-
Tambovskoje spirtovodocnoje predprijatije Talvis OAO	66 703	-	857 262	-
SPI Distribution (Estonia)	452 504	4 899	402 774	9 472
Torgovi Dom Rosvestalko	-	-	400 367	1 351
Spirits International B.V.	300 309	-	300 304	-
SPI-RVVK OAO	-	478	2 466	167 272
S.P.I.Regional Business Unit B.V.	43 694	-	24 312	2 480
Bravo SIA	67 974	10 629	23 157	6 831
Spirits International B.V. (branch)	16 796	71 656	8 251	10 721
Spirits Product International IP B.V.	410	-	407	-
Spirits Product International IP B.V.(branch)	-	39 268	-	25 452
SPV Distributor SIA	62	-	82	-
	28 347 066	**1 312 703**	**27 042 651**	**1 465 116**
The short term part of the loan (see section (f))	7 028 040	-	7 028 040	-
The short term part of the loan (see section (g))	-	210 000	-	-
Total short term liabilities	**35 375 106**	**1 522 703**	**34 070 691**	**1 465 116**

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

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

(f) Loans to Group companies

	31.12.2011. Ls	31.12.2010. Ls
S.P.I.Production B.V. **	14 477 762	14 477 762
S.P.I.Spirits (Cyprus) Ltd *	10 331 219	10 331 219
	24 808 981	**24 808 981**

At beginning of the year	24 808 981	24 808 981
Borrowings issued during the year	-	-
Repaid borrowings during the year	-	-
At the end of the year	**24 808 981**	**24 808 981**

Maturity of the total borrowings is as follows:

Payable in 1 year	7 028 040	7 028 040
Payable in 2 – 5 years	17 780 941	17 780 941
	24 808 981	**24 808 981**

Transactions with related parties (continuation)

* On 26 July 2007 the Company concluded a loan agreement with S.P.I.Spirits (Cyprus) Limited regarding loan of EUR 13 000 000. During year 2008 the loan was partly repaid for EUR 8 300 000. The unpaid part of principal sum of the loan on 31 December 2011 is in amount EUR 4 700 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2011 amounted to Ls 3 303 179. Loan repayment date is 30 June 2014.

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

On 23 December 2011 the agreement on prolongation of term till 28 December 2012 was signed. The unpaid part of the loan on 31 December 2011 is EUR 10 000 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2011 amounted to Ls 7 028 040.

** On 20 April 2006 the Company concluded a long-term loan agreement with S.P.I. Production B.V. in the amount of EUR 20 600 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2011 amounted Ls 14 477 762. The repayment term by mutually concluded agreement is 20 July 2015.

The debts will be repaid in cash and they are not secured by guarantee or otherwise.

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

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

(f) Borrowings from Group companies	**31.12.2011.**	**31.12.2010.**
	Ls	**Ls**
Loans received during the year	210 000	-
At the end of the year	**210 000**	-
consist of:		
short-term loan	210 000	-
	210 000	-

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

(h) Royalty Payments

The Company leases trade marks from S.P.I. group companies. The amount of the royalties depends on the amount of the produced drinks subjected to royalty payments The payments are included in the amount of received services (Note 24(d)). In accordance with the Management's estimates in 2012 no significant changes are expected in the amount of royalty payments.

(25) Contingent Liabilities

(a) Royalty related

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

(b) Tax contingencies

The tax authorities may at any time conduct the tax audit for the last three years after the taxation period and apply additional tax liabilities and penalties. In 2011 the State Revenue Service, Tax Control Board has carried out a complete audit of the Company tax liabilities - excise and value added taxes for the period from 1 January 2009 to December 31, 2010, as well as corporate income tax for the year 2009. The audit results were not significant for these financial statements.

(26) Lease agreements

(a) The Company is the lessor

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

(b) The Company is the lessee

The Company has signed a lease agreement for a container crane till 31 December 2012. As per the agreement the contract can be terminated due to improper lessee activities, compensating the lease payments for the remaining lease period. As at 31 December 2011 the minimum lease payments is Ls 25 385 (31 December 2010 - Ls 51 867).

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

The total rental cost of Ls 249 453 (in 2010 - Ls 869 760) has included in income statement.

(27) Guaranties issued

In January 2009 Bravo SIA has signed credit line agreement with Nordea Bank Finland Plc. Latvian branch for credit line with EUR 5 000 000 limit, where AS Latvijas balzams issued guarantee in amount EUR 4 000 000 serves as the security. In 2011 Bravo SIA paid back the loan and the Company's guarantee was terminated.

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

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

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

(28) Financial and capital risk management

The Company’s activity is exposed to various financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Management of the Company seeks to minimize potential adverse effects of the financial risks on the Company’s financial position. The Company uses derivative financial instruments to hedge certain risk exposures.

(a) Market risk

(i) Foreign exchange risks

The Company operates internationally and is exposed to foreign currency risk arising mainly from the U.S. dollar's fluctuations as to the euro and other currencies fixed to the euro. Foreign currency risks arises from future commercial transactions, recognized assets and liabilities. The majority of raw materials and materials are purchased by the Company in euro and US dollars, but the significant part of the production is sold in the domestic market and exported to the markets where euro dominates.

Since 2005 the Bank of Latvia has stated a fixed currency exchange rate for lats against euro, i.e. 0.702804, and ensure that the market rate will not differ from the official rate by more than 1%. As far as the Bank of Latvia maintains the above mentioned exchange corridor, the Company will not have a significant currency exchange risks in respect of assets and liabilities nominated in euro.

The Company's significant open currency positions:

	31.12.2011.	**31.12.2010.**
Financial assets, EUR	44 154 085	42 585 957
Financial liabilities, EUR	(21 548 017)	(28 277 009)
Open position EUR, net	22 606 068	14 308 948
Open position EUR calculated in lats, net	**15 887 635**	**10 056 386**
Financial assets, USD	680 173	724 859
Financial liabilities, USD	(2 115 214)	(2 109 393)
Open position USD, net	(1 435 041)	(1 384 534)
Open position USD calculated in lats, net	**(780 662)**	**(740 726)**

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

	2011		**2010**	
	Change in exchange rates	**Effect on equity**	**Change in exchange rates**	**Effect on equity**
		Ls		**Ls**
EUR	+10%	1 588 763	+10%	1 005 639
	-10%	(1 588 763)	-10%	(1 005 639)
USD	+10%	(78 066)	+10%	(74 073)
	-10%	78 066	-10%	74 073

(ii) Interest rate risks

The Company is exposed to interest rate risk as the main part of the liabilities are interest-bearing borrowings with the variable interest rate (Note (18)), as well as the Company’s interest bearing assets have variable interest rate (Note (24(f)).

	31.12.2011.	**31.12.2010.**
	Ls	**Ls**
Financial assets with variable interest rate, EUR calculated in LVL	24 808 981	24 808 981
Financial liabilities with variable interest rate, EUR calculated in LVL	(12 746 234)	(17 720 565)
Financial liabilities with variable interest rate, LVL	(9 562 919)	(6 547 314)
Open position, net, LVL	**2 499 829**	**541 102**

Financial and capital risk management (continuation)

Due to the number of risk factors, the Company manages its cash flow interest rate risk by hedge activities and floating-to-fixed interest rate swaps. Under these contracts the Company fixes the interest rate for some of the long-term borrowings (see Note (19)).

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

	2011		**2010**	
	Increase/ decrease in basis points	**Effect on profit before tax**	**Increase/ decrease in basis points**	**Effect on profit before tax**
		Ls		**Ls**
EUR	+30	41 621	+30	39 286
	-30	(41 621)	-30	(39 579)
LVL	+30	(19 578)	+30	(16 129)
	-30	19 578	-30	16 129

(ii) Other price risk

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

(b) Credit risk

Financial assets, which potentially subject the Company to a certain degree of credit risk concentration are primarily cash, trade receivables and loans. Company's policy provides that the goods are sold and services provided to customers with appropriate credit history. Trade receivables are recognized in recoverable amount. For the bank transactions only the local and foreign financial institutions with appropriate ranking is accepted.

Maximum exposure to credit risk	**31.12.2011.**	**31.12.2010.**
	Ls	**Ls**
Issued loans to Group companies	17 780 941	17 780 941
Trade receivables - Group companies	35 375 106	34 070 691
Trade receivables - non -related parties	692 074	405 675
Cash	23 058	102 993
	53 871 179	**52 360 300**

The largest concentration of credit risk arises from the Group company's debts: on 31 December 2011 99 % of the total trade receivables related to Group companies (31.12.2010: 99%). Taking into account the Group's policy and the financial position, no provisions for debts and impairment losses of Group companies were made and the Company's management believes that the credit risk of transactions of the Company is considered as low.

Maturity analysis of trade receivables (non-related parties)

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	spited in: in due term	Past due < 90 days	Past due 90-180 days	Past due > 180 days
31.12.2011.	912 525	(220 451)	692 074	418 418	273 656	-	-
31.12.2010.	766 642	(360 967)	405 675	346 864	58 811	-	-

Financial and capital risk management (continuation)

(c) Liquidity risk

Company pursues a prudent liquidity risk management and maintain a sufficient quantity of cash and ensure the availability of financial funds through credit lines provided by banks. At the end of the reporting year total available credit facilities amount is Ls 13,843 thousand (31.12.2010: Ls 12,863 thousand). On 31 December 2011 the unused part of the credit line was Ls 169 thousand (2010: Ls 523 thousand). Company's management monitors the operational forecasting of liquidity reserves, based on estimated cash flows. Most of the Company's liabilities are short-term. Management believes that the Company will have sufficient amount of financial resources that will be generated from operating activities and through a credit line facilities from Latvian banks.

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

On 31 December 2011	**Total**	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**
Long-term loans	4 767 945	-	1 974 490	2 793 455	-
Derivative financial instruments	57 101	57 101	-	-	-
Short -term loans	17 346 892	17 346 892	-	-	-
Trade payables	4 055 407	4 055 407	-	-	-
Debts to Group companies	1 522 703	1 522 703	-	-	-
	27 750 048	**22 982 103**	**1 974 490**	**2 793 455**	**-**

On 31 December 2010	**Total**	**<1 year**	**1-2 years**	**2-5 years**	**>5 years**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**
Long-term loans	9 002 012	-	4 244 067	4 757 944	-
Derivative financial instruments	204 989	-	204 989	-	-
Short -term loans	15 265 868	15 265 868	-	-	-
Trade payables	3 362 198	3 362 198	-	-	-
Debts to Group companies	1 465 116	1 465 116	-	-	-
	29 300 183	**20 093 182**	**4 449 056**	**4 757 944**	**-**

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

(d) Capital Management

According to the Latvian Commercial Law requirements if the Company's losses exceed half of the share capital, the Board is required to address shareholders to make decisions on Company's going concern. Equity of the Company meets the Latvian legal requirements. Company's management manages the capital structure on going concern basis. During the reporting period there were no changes in capital management objectives, policies or processes. To ensure capital sufficiency, the Company's Board proposes to leave the profit of reporting period not distributed.

Company's management controls the net debt to equity (gearing ratio). During the reporting year this figure has decreased to 47% (2010: 56%), confirming the Company's improvement of stability. The positive trend in 2011 is also the increased ratio of equity to total assets up to 55% (2010: 51%).

Financial and capital risk management (continuation)

	31.12.2011. Ls	31.12.2010. Ls
Total borrowings	22 114 837	24 267 880
Less cash and its equivalents	(23 058)	(102 993)
Net debt	22 091 779	24 164 887
Equity	46 638 090	43 100 334
Total capital	68 729 868	67 265 221
Total assets	84 335 748	83 796 428
Net debt to equity	47%	56%
Equity ratio on total assets	55%	51%

(29) Subsequent events

There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2011.