

**AS Latvijas balzams**  
**ANNUAL REPORT**  
**for the period ended 31 December 2012**  
in accordance with EU approved  
International Financial Reporting Standards

AS "Latvijas balzams"  
ANNUAL REPORT  
for the period ended 31 December 2012

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## **MANAGEMENT**

### Names and positions of the Council members

Aigars Kalvītis - Chairman of the Council

Valery Mendeleev - Vice Chairman of the Council

Pjotrs Aven - Member of the Council

Sebastianus Antonius Theodorus Boelen - Member of the Council

David Ronald Surbey - Member of the Council

Blaine Alan Rowlette - Member of the Council

### Names and positions of the Board members

Guntis Āboltiņš - Āboltiņš – Chairman of the Board (from 29.03.2012),  
General Director of AS Latvijas balzams

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

Intars Geidāns – Member of the Board,  
Director of Logistics department of AS Latvijas balzams

Sergejs Ļimarenko – Member of the Board,  
Chief of Internal Security Department of AS Latvijas balzams

Signe Bīdermane – Member of the Board,  
Director of Personnel and administrative department of AS Latvijas  
balzams

## **REPORT OF THE MANAGEMENT**

### **Type of operations**

AS Latvijas balzams (further - Company) is the largest alcoholic beverage producer in the Baltic States, whose product range includes more than 100 kinds of alcoholic beverages. The company confirms its export capacity to actively conquering global market. 75% of production is sold in more than 160 export markets through mediation of "SPI Group", as well as more than 30 markets for the Company's direct export route. The company was established in the 1900, but the existing name was acquired in 1970. Its major shareholder is "SPI Regional Business Unit BV", which owns 89.53% stake in the share capital.

### **Performance of the Company during the financial year**

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

Net turnover of the Company in year 2012 was 47,4 million lats, which is for 1% more than in year 2011. This has been achieved thanks to the active new products put into production, good sales performance and united team work where everyone plays an important role. Turnover in the domestic market compared with last year, has increased for 6%. Seven of the ten best-selling alcoholic beverages in Latvia in 2012 are produced by AS Latvijas balzams, confirming consumer loyalty to our products and product quality. Export of S.P.I. Group orders has increased by 1,4%, while turnover in the export market has decreased by 13% compared to the previous year.

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

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

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

The Company has paid a great attention to cost control in production and to improvement of operation's efficiency, as a result the Company has finished the reporting year with a 4.2 million lats net profit, which is by 15% more than in 2011. Therefore, the Company's profitability ratio (net profit to sales) in 2012 increased by 1.1 percentage points over the previous year.

AS „Latvijas balzams” is not only the largest producer of alcoholic beverages in Latvia, but also one of the largest taxpayers. In 2012 the Company has paid taxes of 36.6 million lats to the state budget, including 25.5 million lats of excise tax. In October 2012 AS "Latvijas balzams" has joined to the State Revenue Service's intensive cooperation program ("white list"). This demonstrates the consistency of the Company's economic activity with the program requirements and commitment to work even more closely with the tax authorities, in order to continue to improve the management and control processes in the company.

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In 2012 the Company consistently continued to implement responsible, for sustainable development-oriented business strategy. The Company provides a consistently high level of international quality management system ISO 9001:2008 standard implementation, as well as ensuring the safety of consumers is implemented and keeps food self-regulatory system in accordance with HACCP principles. Caring for the environment AS „Latvijas balzams” production practice priority is given to environmentally sound technologies and packaging, as well as the waste and used packaging separate collection and transfer for processing.

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

In 2012 the Company has employed an average of 613 employees, just as in 2011 - 613, and their average gross monthly salary amounted to 631 lats (in 2011 - 570 lats).

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

#### Financial risk management

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

#### Post balance sheet events

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

#### Distribution of profit proposed by the Board

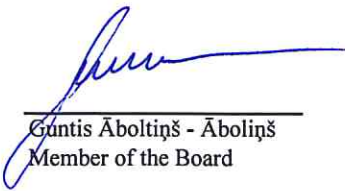
	2012 Ls
Profit share to be distributed	4 193 003
Proposed profit distribution:	
Retained earnings	4 193 003

#### Future prospects

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

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

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

  
Guntis Āboliņš - Āboliņš  
Member of the Board


Riga, 19 April, 2013

**STATEMENT OF THE MANAGEMENT RESPONSIBILITY**

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

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 9 to page 40 and decisions and assessments were made with proper discretion and prudence. The accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

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



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Guntis Ābolītiņš - Āboliņš  
Member of the Board

Rīga, 19 April, 2013



# BAKER TILLY BALTICS

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## ***INDEPENDENT AUDITOR'S REPORT***

*to the Shareholders of Latvijas balzams AS*

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Latvijas balzams AS set out on pages 9 to 40 of the annual report. These financial statements comprise the statement of financial position as at 31 December 2011, and income statement, the statement of comprehensive income, statement of cash flow and statement of changes in equity for the period from 1 January 2012 to 31 December 2012 (the Financial year), and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's responsibility*

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

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

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

#### *Opinion*

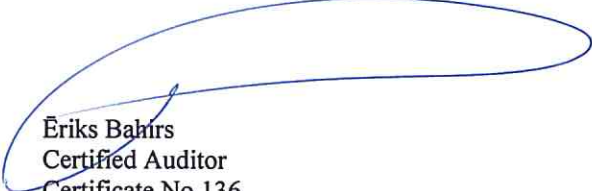
In our opinion, the above mentioned financial statements give a true and fair view of the financial position of Latvijas balzams AS as at 31 December 2012, and of its financial performance and its cash flows for the financial year in accordance with International Financial Reporting Standards as adopted by the European Union.



## Report on Other Legal and Regulatory Requirements

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

Baker Tilly Baltics SIA  
License No. 80



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

Riga, 23 April 2013

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**INCOME STATEMENT**

	Notes	2012 Ls	2011 Ls
Net sales	(1)	47 365 207	46 913 835
Cost of sales	(2)	(38 409 723)	(37 143 229)
<b>Gross profit (loss)</b>		<b>8 955 484</b>	<b>9 770 606</b>
Distribution expenses	(3)	(3 229 895)	(3 680 294)
Administrative expenses	(4)	(2 488 073)	(2 059 090)
Other income	(5)	1 368 797	1 180 288
Other expenses	(6)	(75 079)	(268 039)
Finance income	(8)	1 089 099	793 778
Finance costs	(9)	(610 950)	(1 300 880)
<b>Profit before tax</b>		<b>5 009 383</b>	<b>4 436 369</b>
Corporate income tax	(10)	(816 380)	(784 508)
<b>Net profit</b>		<b>4 193 003</b>	<b>3 651 862</b>
<b>Earnings per share (in santims)</b>			
Basic	(11)	55,93	48,71
Diluted	(11)	55,93	48,71

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**STATEMENT OF COMPREHENSIVE INCOME**

	Notes	2012 Ls	2011 Ls
<b>Net profit</b>		<u>4 193 003</u>	<u>3 651 862</u>
<b>Other comprehensive income / (loss)</b>			
Revaluation of property, plant and equipment	(13)	-	(282 132)
Changes in deferred income tax liabilities resulted from revaluation of property, plant and equipment	(10)	-	42 320
Changes in fair value of financial instruments	(20)	57 101	147 889
Changes in deferred income tax liabilities resulted from changes of fair value of derivatives	(10)	(8 566)	(22 183)
<b>Other comprehensive income / (loss)</b>		<u>48 535</u>	<u>(114 106)</u>
<b>Total comprehensive income</b>		<u>4 241 538</u>	<u>3 537 756</u>

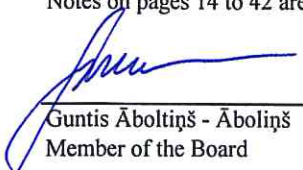
Notes on pages 14 to 42 are an integral part of these financial statements.

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**STATEMENT OF FINANCIAL POSITION**

	Notes	31.12.2012. Ls	31.12.2011. Ls
<b><u>ASSETS</u></b>			
<b>Non-current assets</b>			
Intangible assets	(12)	97 216	28 781
Property, plant and equipment	(13)	13 033 872	14 203 154
Loans to group companies	(25f)	17 780 941	17 780 941
Other non-current assets		24 000	24 000
<b>Total non-current assets:</b>		<u>30 936 029</u>	<u>32 036 876</u>
<b>Current assets</b>			
Inventories	(14)	16 493 010	15 416 749
Trade receivables	(15)	602 400	692 074
Receivables from group companies	(25f)	38 762 923	35 375 106
Other current assets	(16)	569 973	676 943
Corporate income tax	(10)	-	114 942
Cash and cash equivalents	(17)	65 290	23 058
<b>Total current assets:</b>		<u>56 493 596</u>	<u>52 298 872</u>
<b><u>Total assets</u></b>		<u><u>87 429 625</u></u>	<u><u>84 335 748</u></u>
 <b><u>EQUITY AND LIABILITIES</u></b>			
		31.12.2012. Ls	31.12.2011. Ls
<b>Equity</b>			
Share capital	(18)	7 496 900	7 496 900
Share premium		61 767	61 767
Revaluation reserves of non-current assets	(13)	8 095 573	8 095 573
Revaluation reserves of derivative financial instruments	(20)	-	(48 535)
Retained earnings		35 225 388	31 032 385
<b>Total equity:</b>		<u>50 879 628</u>	<u>46 638 090</u>
<b>Liabilities:</b>			
<b>Non-current liabilities:</b>			
Borrowings	(19)	3 614 749	4 767 945
Deferred income tax liabilities	(10)	1 218 055	1 340 948
<b>Total non-current liabilities:</b>		<u>4 832 804</u>	<u>6 108 893</u>
<b>Current liabilities:</b>			
Borrowings	(19)	14 458 440	17 346 892
Trade payables		3 898 258	4 055 407
Payables to group companies	(25e)	1 345 150	1 522 703
Current corporate income tax payables	(10)	155 193	-
Derivative financial instruments	(20)	-	57 101
Other liabilities	(21)	11 860 152	8 606 663
<b>Total current liabilities:</b>		<u>31 717 193</u>	<u>31 588 766</u>
<b>Total liabilities:</b>		<u>36 549 997</u>	<u>37 697 659</u>
<b><u>Total equity and liabilities:</u></b>		<u><u>87 429 625</u></u>	<u><u>84 335 748</u></u>

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

  
Guntis Ābolņiņš - Ābolņiņš  
Member of the Board

Riga, 19 April, 2013

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**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Revaluation reserves of non-current assets	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	Ls	Ls	Ls	Ls	Ls	Ls
<b>31.12.2010.</b>	<b>7 496 900</b>	<b>61 767</b>	<b>8 335 385</b>	<b>(174 241)</b>	<b>27 380 523</b>	<b>43 100 334</b>
<b>Net profit</b>	-	-	-	-	3 651 862	3 651 862
<i>Other income / (loss)</i>						
Changes in fair value of derivative financial instruments	-	-	-	147 889	-	147 889
Changes in deferred income tax liabilities	-	-	42 320	(22 183)	-	20 137
Disposal of property, plant and equipment	-	-	(282 132)	-	-	(282 132)
<b>Total comprehensive income</b>	-	-	<b>(239 812)</b>	<b>125 706</b>	<b>3 651 862</b>	<b>3 537 756</b>
<b>31.12.2011.</b>	<b>7 496 900</b>	<b>61 767</b>	<b>8 095 573</b>	<b>(48 535)</b>	<b>31 032 385</b>	<b>46 638 090</b>
<b>Net profit</b>	-	-	-	-	4 193 003	4 193 003
<i>Other income / (loss)</i>						
Changes in fair value of derivative financial instruments	-	-	-	57 101	-	57 101
Changes in deferred income tax liabilities	-	-	-	(8 566)	-	(8 566)
<b>Total comprehensive income</b>	-	-	-	<b>48 535</b>	<b>4 193 003</b>	<b>4 241 538</b>
<b>31.12.2012.</b>	<b>7 496 900</b>	<b>61 767</b>	<b>8 095 573</b>	-	<b>35 225 388</b>	<b>50 879 628</b>

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**CASH FLOW STATEMENT**

	Notes	2012 Ls	2011 Ls
<b>Cash flow from operating activities</b>			
Gross cash flow from operating activities	(22)	5 742 555	4 126 399
Interest paid		(753 468)	(1 038 552)
Income tax paid		(678 834)	(948 512)
<b>Net cash flow generated from operating activities from continuing operations</b>		<u>4 310 253</u>	<u>2 139 335</u>
<b>Cash flow from investing activities</b>			
Acquisition of property, plant and equipment and intangible assets	(12), (13)	(395 659)	(264 576)
Loans interest received		21 411	33 301
<b>Net cash flow generated from investing activities from continuing operations</b>		<u>(374 248)</u>	<u>(231 275)</u>
<b>Cash flow from financing activities</b>			
Changes in credit lines (net)	(19)	(699 188)	1 334 280
Loans received	(25g)	150 000	210 000
Borrowings repaid	(19)	(3 338 862)	(3 530 430)
Finance lease payments		(5 723)	(1 845)
<b>Net cash flow generated from financing activities from continuing operations</b>		<u>(3 893 773)</u>	<u>(1 987 995)</u>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<u>42 232</u>	<u>(79 935)</u>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>23 058</b>	<b>102 993</b>
<b>Cash and Cash equivalents at the end of the financial year</b>	(17)	<u>65 290</u>	<u>23 058</u>

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

## **NOTES TO THE FINANCIAL STATEMENTS**

### **I. GENERAL INFORMATION**

The Company is the biggest producer of alcoholic drinks in the Baltic States. In total, AS Latvijas balzams produces more than 130 different names of alcoholic drinks. The largest shareholder of the Company, who owns 89.53% of the Company's share capital, is S.P.I. Regional Business Unit B.V. (previous name S.P.I. Distilleries B.V.), which is incorporated in the Netherlands.

AS Latvijas balzams is a joint-stock company, which is incorporated and has its registered office in Latvia. The Company was founded in 1900, but acquired its current name in 1970. Registered address of the Company is at 160 A. Čaka Street, Riga, LV-1012, Republic of Latvia. Shares of AS Latvijas balzams are quoted on second list of the Riga Stock Exchange.

The current financial year of the Company is from 1 January 2012 up to 31 December 2012.

These financial statements were authorized for issue by the Board of Directors of the Company on 19 April 2013, and Chairman of the Board Guntis Āboliņš - Āboliņš signed these for and on behalf of the Board of Directors.

The auditor of the Company is Baker Tilly Baltics SIA.

### **II. ACCOUNTING POLICIES**

#### **(1) Basis of preparation**

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

The financial statements have been prepared on the basis of cost accounting method modified by revaluation of the property, plant and equipment as represented in Note (7) to accounting policies and evaluation of derivative financial instruments at fair value, as represented in Note (12) to accounting policies.

Preparation of the financial statements in compliance with the IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgments applying the accounting policies adopted by the Company. Critical estimates and judgments are represented in Note (21) to accounting policies.

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

*IFRS 7 Financial Instruments: Disclosures - Transfer of financial assets - Amendment* (effective for annual periods beginning on or after 1 July 2011).

The amendment promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on a entity's financial position, particularly those involving securitisation of financial assets. This amendment did not affect these financial statements because the Company does not have such transactions.

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

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

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

### **Basis of preparation (continuation)**

*IAS 12 Income Taxes – Recovery of Underlying Assets - Amendment* (effective for annual periods beginning on or after 1 January 2013). The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured at fair value will be recognized on a sale basis. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The Company has assessed that this amendment will not affect its financial position and performance because the Company does not have investment properties' assets.

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

*IFRS 1 First-time Adoption of IFRS - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters - Amendment* (effective for annual periods beginning on or after 1 January 2013).

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

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

The amendment addresses how a first-time adopter would account for a government loan a below-market rate of interest when transition to IFRS. This amendment will not have an impact to Company's financial statements.

*IFRS 13 Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013).

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

*IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities - Amendment* (effective for annual periods beginning on or after 1 January 2013).

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

*IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities - Amendment* (effective for annual periods beginning on or after 1 January 2013).

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

*IFRS 10 Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2014, not yet adopted by the EU).

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

**Basis of preparation (continuation)**

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

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

*IFRS 12 Disclosures of Involvement with Other Entities* (effective for annual periods beginning on or after 1 January 2014).

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

*IAS 27 Separate Financial Statements - Revised* (effective for annual periods beginning on or after 1 January 2014).

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

*IAS 28 Investments in Associates and Joint Ventures - Revised* (effective for annual periods beginning on or after 1 January 2014).

As a result of the new IFRS 11 and IFRS 12, revised IAS 28 has been renamed as IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. As the Company does not hold any investments in jointly controlled entities and associates, there is no impact of revised standard on the Company's financial statements.

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

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

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

Amendments has been made to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. Improvements consist mostly of a mixture of insignificant changes and clarifications in the different areas. These amendments did not have any material effect on Company's financial statements.

*IFRS 10, IFRS 11 and IFRS 12 - Transition guidance- Amendment* (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

These amendments provide additional transition relief to IFRS 10, 11 and 12, limiting the requirements to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirements to present comparative information for period before IFRS 12 is first applied. As the Company does not have any investments in other companies, there is no impact of this standard on Company's financial statements.

*IFRS 9, Financial Instruments Part 1: Classification and Measurements*(effective for annual periods beginning on or after 1 January 2015, not yet adopted by the EU).

The IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Company is considering the impact of the standard on the Company's financial statements.



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**(2) Reclassification of comparatives**

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

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

Name of items reclassified	2012	2011	Amount Ls
	Adjusted Name of line item	Prior adjustments Name of line item	
Income from production support services	Net sales	Other income	858 308
Direct cost of production support services	Cost of sales	Other expenses	817 435
Direct cost of other services provided, classified under "Other income"	Distribution expenses	Other expenses	100 612
	Cost of sales	Other expenses	27 185

**(3) Foreign currencies**

**(a) Functional and presentation currency**

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

**(b) Transactions and balances**

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

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

	31.12.2012.	31.12.2011.
	Ls	Ls
1 USD	0,531	0,544
1 EUR	0,702804	0,702804
1 LTL	0,204	0,204

**(4) Segment disclosure**

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

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

**(5) Income recognition**

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

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

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

**(6) Intangible assets**

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

	<b>Years</b>
Licenses and patents	3-5

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

**(7) Property, plant and equipment (tangible assets)**

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

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

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

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

	<b>Years</b>
Buildings	10 - 71
Technological equipment	2 - 25
Other machinery and equipment	2 - 25

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

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

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

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

**(8) Impairment of tangible and intangible assets**

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

**(9) Lease without redemption rights (operating lease)**

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

**(10) Inventories**

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

**(11) Loans and trade receivables**

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

**(12) Derivative financial instruments and hedging activities**

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

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

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

**(13) Cash and cash equivalents**

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

**(14) Share capital and dividends**

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

**(15) Borrowings**

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

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

**(16) Pension obligations**

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

**(17) Accrued liabilities for unused annual leave**

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

**(18) Income tax**

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

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

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

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

**(19) Earnings per share**

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

**(20) Related parties**

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

**(21) Critical accounting estimates and judgments**

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

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

a) Revaluation of land and buildings

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

The Management believes that assets must be revaluated at least once in 5 years or earlier if any indicators show the potential material changes in market values. By the management estimates, in the reporting year the factors that indicate a potentially significant changes in the value of those assets has not been identified, and, as a result, fair value measurement procedures has not been made. Previous land and building evaluation has been conducted during the preparation of 2011 year annual financial statements. The total carrying amount of land and buildings as at 31 December 2012 is Ls 10 891 621 (31.12.2011 - Ls 11 489 746).

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

In estimating useful life of property, plant and equipment (PPE) the management relies on the historical information, technical survey, assessing the current state of the active and external evaluations. During the reporting and previous year there are no factors that indicate a need on changes of the useful life of the Company's PPE. The total carrying amount of PPE as at 31 December 2012 is Ls 12 980 796 (31.12.2011 - Ls 14 138 838).

c) Recoverability of receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. Information on amount and structure of receivables is disclosed in Note (29) of the financial statements.

d) Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realization probability and net selling value of the inventories shall be considered. The total carrying amount of inventories as at 31 December 2012 is Ls 16 493 010 (31.12.2011 - Ls 15 416 749).

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**III. OTHER NOTES**

**(1) Segment Information and net sales**

**(a) Operation and reportable segment**

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

**(b) Geographical markets**

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

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

	2012 Ls	2011 Ls
Sales in Latvia	16 570 675	15 728 177
Export sales under S.P.I. Group company S.P.I. Spirits (Cyprus) Ltd. orders	25 594 376	25 238 075
Other income from export sales		
Lithuania	2 417 600	3 087 242
Russia	874 811	672 172
Estonia	492 739	617 358
Poland	81 364	264 074
Norway	290 651	285 752
Other countries	1 042 991	1 020 985
Other income from export sales (total)	<u>5 200 156</u>	<u>5 947 583</u>
	<u><u>47 365 207</u></u>	<u><u>46 913 835</u></u>

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

**(c) Major customers**

Most of the Company's sales transactions in domestic markets as well as sales to overseas markets are made through S.P.I. Group companies. The information on transactions of Group entities is disclosed in Note (25). There are no nonrelated clients with the amount of transactions is more than 10% of total revenues.

	2012 Ls	2011 Ls
Sales to S.P.I. group companies	44 688 552	44 682 005
Sales to other customers	<u>2 676 655</u>	<u>2 231 830</u>
	<u><u>47 365 207</u></u>	<u><u>46 913 835</u></u>

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	2012	2011
(2) Cost of sales	Ls	Ls
Materials	31 747 604	30 629 667
Salary expense	1 600 526	1 519 123
Energy resources	704 145	580 871
Mandatory state social insurance contributions	381 261	362 972
Natural recourse tax	257 959	234 801
Changes of inventory value of finished goods	(235 072)	(332 336)
Changes in provision for receivables, inventories and other accrued liabilities	116 954	(779 444)
Goods purchased	37 055	25 451
Accrued expenses on unused annual leave (variable)	19 577	(11 776)
Other variable costs	950 262	1 787 574
<b>Variable costs total:</b>	<b><u>35 580 271</u></b>	<b><u>34 016 903</u></b>
Depreciation of non-current assets	1 187 041	1 279 710
Salary expenses	806 032	777 071
Repair expenses	265 896	342 621
Mandatory state social insurance contributions	189 644	184 428
Insurance payments	76 137	73 611
Laboratory expenses	37 008	40 932
Accrued expenses on unused annual leave (fixed)	6 041	(2 124)
Net losses from revaluation of tangible assets	-	158 562
Other fixed expenses	261 653	271 515
<b>Fixed costs total:</b>	<b><u>2 829 452</u></b>	<b><u>3 126 326</u></b>
	<b><u>38 409 723</u></b>	<b><u>37 143 229</u></b>
(3) Distribution expenses		
Salary expenses	1 177 365	1 100 392
Advertising expenses	591 250	1 124 051
Transportation expenses	464 230	462 873
Mandatory state social insurance contributions	281 540	262 967
Depreciation of non-current assets	237 991	240 941
Warehouse maintenance expenses	171 180	182 822
Accrued expenses on unused annual leave	1 227	(7 920)
Other expenses	305 112	314 168
	<b><u>3 229 895</u></b>	<b><u>3 680 294</u></b>
(4) Administrative expenses		
Salary expenses	1 041 486	929 386
Management services and expenses	426 083	356 208
Mandatory state social insurance contributions	246 625	221 721
Real estate tax	104 831	89 259
Professional service costs	76 577	63 464
Depreciation of non-current assets	65 720	65 981
Office expenses	43 519	49 244
Representation expenses	37 082	29 732
Accrued expenses on unused annual leave	(35 720)	(18 070)
Communication and postal expenses	32 293	32 312
Employee training	21 795	18 032
Business trip expenses	17 496	21 649
Transport costs	16 750	15 471
Computer maintenance	7 678	22 824
Financial support, sponsorship	6 514	6 160
Healthcare, health insurance	5 072	4 415
Other expense	374 272	151 302
	<b><u>2 488 073</u></b>	<b><u>2 059 090</u></b>



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(5) Other income	2012 Ls	2011 Ls
Income from other services rendered	463 734	349 007
Income from services rendered in warehouses of excise tax goods	317 478	335 903
Income from lease of warehouse and office premises	180 222	184 985
Sold consumable materials	83 514	83 267
Sold packages, boxes and pallets	29 164	66 176
Other income	294 685	160 950
	<u>1 368 797</u>	<u>1 180 288</u>
(6) Other expenses		
Bank commissions	29 500	29 453
Other expenses	45 579	238 586
	<u>75 079</u>	<u>268 039</u>
(7) Expenses by Nature		
Materials	31 747 604	30 629 667
Employee expenses	5 715 604	5 318 170
Depreciation of non-current assets	1 490 752	1 586 632
Advertising expenses	591 250	1 124 051
Increase in provision for accounts receivables, inventories and other accrued liabilities	116 954	(779 442)
Transportation expenses	480 980	478 344
Management services and expenses	426 083	356 208
Repair expenses	265 896	342 621
Natural recourse tax	257 959	234 801
Real estate tax	104 831	89 259
Net losses from revaluation of tangible assets	-	158 562
Other expenses	3 004 857	3 611 778
	<u>44 202 770</u>	<u>43 150 651</u>
(8) Finance income		
Interest income	1 074 201	749 498
Income from fines and penalties	14 898	44 280
	<u>1 089 099</u>	<u>793 778</u>
(9) Finance expenses		
Interest for use of credit lines facilities	444 659	489 498
Interest for long-term loans	239 929	415 734
Net loss/(profit) from purchase - sale of foreign currency	(91 789)	207 568
Net loss/(profit) for hedging activities	59 269	144 138
Net loss/(profit) from exchange rate fluctuations	(41 118)	43 942
	<u>610 950</u>	<u>1 300 880</u>

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**(10) Corporate income tax**

<b>a) Components of corporate income tax</b>	<b>2012</b>	<b>2011</b>
	<b>Ls</b>	<b>Ls</b>
Changes in deferred income tax	(131 459)	26 228
Corporate income tax according to the tax return	948 969	763 243
Compensated corporate income tax	(1 130)	(4 963)
	<u><b>816 380</b></u>	<u><b>784 508</b></u>

**b) Reconciliation of accounting profit to income tax charges**

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

	<b>2012</b>	<b>2011</b>
	<b>Ls</b>	<b>Ls</b>
Profit before taxes	<u>5 009 383</u>	<u>4 436 369</u>
Theoretically calculated tax at 15% tax rate	<u><b>751 407</b></u>	<u><b>665 455</b></u>
Tax effects on:		
Non-deductible expenses for tax purposes	146 759	184 542
Tax relief for reinvested profits	(65 857)	(49 292)
Tax relief for the acquired technological equipment	(9 262)	(11 234)
Tax discounts for donations	(5 537)	-
Compensated corporate income tax	(1 130)	(4 963)
<b>Total corporate tax charge</b>	<u><b>816 380</b></u>	<u><b>784 508</b></u>

**c) Movement and components of deferred tax**

Deferred tax liabilities (asset) at the beginning of the financial year	1 340 948	1 334 857
Deferred tax changes charged to the income statement	(131 459)	26 228
Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve	-	(42 320)
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	8 566	22 183
<b>Deferred tax liabilities (asset) at the end of the financial year</b>	<u><b>1 218 055</b></u>	<u><b>1 340 948</b></u>

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

	<b>31.12.2012.</b>	<b>31.12.2011.</b>
	<b>Ls</b>	<b>Ls</b>
Temporary difference on depreciation of tangible and intangible assets	<u>1 358 443</u>	<u>1 469 231</u>
Gross deferred tax liabilities	<u><b>1 358 443</b></u>	<u><b>1 469 231</b></u>
Temporary difference on provisions for slow moving and obsolete stock	(85 212)	(64 707)
Temporary difference on accruals for annual leave	(41 267)	(42 598)
Temporary difference on derivative financial instruments revaluation reserve	-	(8 565)
Temporary differences on accrued liabilities	(13 909)	(12 412)
Gross deferred tax assets	<u><b>(140 388)</b></u>	<u><b>(128 283)</b></u>
<b>Net deferred tax liability (assets)</b>	<u><b>1 218 055</b></u>	<u><b>1 340 948</b></u>

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**Corporate income tax (continuation)**

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

	31.12.2012. Ls	31.12.2011. Ls
Deferred tax assets:		
deferred tax asset to be recovered within a year	(140 390)	(128 283)
deferred tax liabilities to be recovered after more than a year	-	-
	(140 390)	(128 283)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	144 321	145 022
deferred tax liabilities to be recovered after more than a year	1 214 124	1 324 209
	1 358 445	1 469 231
<b>Net deferred tax liabilities (assets)</b>	<b>1 218 055</b>	<b>1 340 948</b>

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 reevaluation	Accruals for unused annual leave	Accrued liabilities	Provisions for slow moving stock	Total
	Ls	Ls	Ls	Ls	Ls	Ls
<b>2010.12.31</b>	<b>(30 749)</b>	<b>1 613 398</b>	<b>(48 582)</b>	<b>(14 163)</b>	<b>(185 047)</b>	<b>1 334 857</b>
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)
<b>2011.12.31</b>	<b>(8 566)</b>	<b>1 469 231</b>	<b>(42 598)</b>	<b>(12 412)</b>	<b>(64 707)</b>	<b>1 340 948</b>
Charged / (credited) to income statement	-	(110 788)	1 331	(1 497)	(20 505)	(131 459)
Charged / (credited) to equity	8 566	-	-	-	-	8 566
<b>2012.12.31</b>	<b>-</b>	<b>1 358 443</b>	<b>(41 267)</b>	<b>(13 909)</b>	<b>(85 212)</b>	<b>1 218 055</b>

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

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

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

	2012	2011
Profit attributed to shareholders of the Company (Ls)	4 193 003	3 651 862
Average annual number of shares	7 496 900	7 496 900
<b>Earnings per share (expressed in santims)</b>	<b>55,93</b>	<b>48,71</b>

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(12) Intangible assets

	Licences	Intangible assets under development	Advances for intangible assets	Total
	Ls	Ls	Ls	Ls
<b>2010.12.31</b>				
Initial cost	1 170 423	-	-	1 170 423
Accumulated depreciation	(1 165 147)	-	-	(1 165 147)
<b>Net book value</b>	<b>5 276</b>	<b>-</b>	<b>-</b>	<b>5 276</b>
<b>2011</b>				
Opening net book value	5 276	-	-	5 276
Reclassified	27 738	-	-	27 738
Depreciation	(4 233)	-	-	(4 233)
<b>Net book value</b>	<b>28 781</b>	<b>-</b>	<b>-</b>	<b>28 781</b>
<b>2011.12.31</b>				
Initial cost	1 198 161	-	-	1 198 161
Accumulated depreciation	(1 169 380)	-	-	(1 169 380)
<b>Net book value</b>	<b>28 781</b>	<b>-</b>	<b>-</b>	<b>28 781</b>
<b>2012</b>				
Opening net book value	28 781	-	-	28 781
Acquired	-	67 585	2 469	70 054
Reclassified	1 710	7 379	(2 469)	6 620
Depreciation	(8 239)	-	-	(8 239)
<b>Net book value</b>	<b>22 252</b>	<b>74 964</b>	<b>-</b>	<b>97 216</b>
<b>2012.12.31</b>				
Initial cost	1 199 871	74 964	-	1 274 835
Accumulated depreciation	(1 177 619)	-	-	(1 177 619)
<b>Net book value</b>	<b>22 252</b>	<b>74 964</b>	<b>-</b>	<b>97 216</b>

All intangible assets of the Company are pledged under conditions of the agreement of the Mortgage and Commercial pledge as the security for loans in favour of the credit institutions (see Note (19)).

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**(13) Property, plant and equipment**

	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Advances for property, plant and equipment	Total property, plant and equipment
	Ls	Ls	Ls	Ls	Ls	Ls
<b>2010.12.31</b>						
Initial cost/ revaluated	13 157 745	13 509 372	3 448 852	130 061	33 479	30 279 509
Accumulated depreciation	(621 042)	(10 633 167)	(3 043 543)	-	-	(14 297 752)
<b>Net book value</b>	<b>12 536 703</b>	<b>2 876 205</b>	<b>405 309</b>	<b>130 061</b>	<b>33 479</b>	<b>15 981 757</b>
<b>2011</b>						
Opening net book value	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	8 239	269 166	71 513	(74 882)	(301 774)	(27 738)
Depreciation	(614 503)	(783 517)	(184 378)	-	-	(1 582 398)
<b>Closing book value</b>	<b>11 489 746</b>	<b>2 356 792</b>	<b>292 300</b>	<b>55 179</b>	<b>9 137</b>	<b>14 203 154</b>
<b>2011.12.31</b>						
Initial cost/ revaluated	11 532 717	13 696 352	3 414 706	55 179	9 137	28 708 091
Accumulated depreciation	(42 971)	(11 339 560)	(3 122 406)	-	-	(14 504 937)
<b>Net book value</b>	<b>11 489 746</b>	<b>2 356 792</b>	<b>292 300</b>	<b>55 179</b>	<b>9 137</b>	<b>14 203 154</b>
<b>2012</b>						
Opening net book value	11 489 746	2 356 792	292 300	55 179	9 137	14 203 154
Acquired	-	-	-	-	335 559	335 559
Revaluated	-	-	-	-	-	-
Disposed	(1 676)	(5 373)	(443)	-	(8 216)	(15 708)
Reclassified	24 153	240 447	67 363	(8 247)	(330 336)	(6 620)
Depreciation	(620 602)	(733 544)	(128 367)	-	-	(1 482 513)
<b>Closing book value</b>	<b>10 891 621</b>	<b>1 858 322</b>	<b>230 853</b>	<b>46 932</b>	<b>6 144</b>	<b>13 033 872</b>
<b>2012.12.31</b>						
Initial cost/ revaluated	11 554 791	13 805 725	3 430 178	46 932	6 144	28 843 770
Accumulated depreciation	(663 170)	(11 947 403)	(3 199 325)	-	-	(15 809 898)
<b>Net book value</b>	<b>10 891 621</b>	<b>1 858 322</b>	<b>230 853</b>	<b>46 932</b>	<b>6 144</b>	<b>13 033 872</b>

a) Revaluation of land and building

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

In the result of evaluation the decrease of the assets fair value of 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.

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

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**Property, plant and equipment ( continuation)**

Total revaluation surplus of tangible assets on 31 December 2012 was Ls 9 524 206 (31.12.2010 Ls 9 524 206). Revaluation amount less the attributable deferred income tax liabilities is recognized in equity under "Revaluation reserve of non-current assets".

	2012 Ls	2011 Ls
Provisions at the beginning of the year	8 095 573	8 335 385
Revaluation effect	-	(282 132)
Changes in deferred tax liabilities as a result of revaluation	-	42 320
Provisions at the end of the year	<u><u>8 095 573</u></u>	<u><u>8 095 573</u></u>

If the land plots and buildings would not be revalued, then on December 31, 2012 the book value of the land plots and buildings would be Ls 5 066 thousand (31.12.2011 - Ls 5 297 thousand).

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

b) Other notes

During the 2012 the borrowing costs has not been capitalized, as the Company did not use the financing for the acquisition of tangible assets.

All intangible and tangible assets of the Company are pledged under conditions of the agreement of the Mortgage and Commercial pledge as the security for loans in favour of the credit institutions (see Note (19)).

	31.12.2012. Ls	31.12.2011. Ls
<b>(14) Inventories</b>		
Finished goods and goods for sale	8 563 769	6 569 226
Raw materials and consumables	7 174 593	7 082 504
Work in progress	448 251	1 691 284
Inventory in transit	306 397	73 735
	<u><u>16 493 010</u></u>	<u><u>15 416 749</u></u>

All inventories of the Company are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note (19)).

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

	2012 Ls	2011 Ls
Provisions at the beginning of the year	431 379	1 233 650
Changes on provisions recognized in the income statement	136 709	(802 271)
Provisions at the end of the year	<u><u>568 088</u></u>	<u><u>431 379</u></u>

	31.12.2012. Ls	31.12.2011. Ls
<b>(15) Trade receivables</b>		
Book value of trade receivables	634 074	912 525
Provisions for impairment of trade receivables	(31 674)	(220 451)
	<u><u>602 400</u></u>	<u><u>692 074</u></u>

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<b>Trade receivables ( continuation)</b>	<b>2012</b>	<b>2011</b>
	Ls	Ls
Provisions at the beginning of the year	220 451	360 967
Receivables written off as uncollectible	(169 022)	(163 343)
Created/(decreased) provisions	(20 644)	19 146
Exchange rate difference	889	3 681
Provisions at the end of the year	<u>31 674</u>	<u>220 451</u>

All trade and other receivables of the Company are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note (19)).

<b>(16) Other current assets</b>	<b>31.12.2012.</b>	<b>31.12.2011.</b>
	Ls	Ls
Settlements for raw materials	286 270	393 348
Settlements for services	158 111	32 306
Other deferred expenses	73 654	40 461
VAT accepted	30 551	26 996
Deferred insurance costs	19 357	16 248
Other receivables	2 030	167 584
	<u>569 973</u>	<u>676 943</u>

<b>(17) Cash and cash equivalents</b>		
Cash at bank on current accounts	50 474	84
Cash on hand	14 816	22 974
	<u>65 290</u>	<u>23 058</u>

**(18) Share capital**

As at 31 December 2012 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 (19)).

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(19) Borrowings	31.12.2012.	31.12.2011.
	Ls	Ls
<b>Non-current</b>		
AS Swedbank - repayable in 2-5 years <sup>c)</sup>	3 610 668	4 757 945
Liabilities under finance leases - repayable in 2-5 years	4 081	10 000
	<u>3 614 749</u>	<u>4 767 945</u>
<b>Current</b>		
Credit line facilities <sup>a), b)</sup>	12 974 546	13 673 734
AS Swedbank <sup>c)</sup>	1 475 888	1 968 805
Nordea Bank Finland Plc. Latvian branch <sup>c), d)</sup>	-	1 698 668
Liabilities under finance leases	8 006	5 685
	<u>14 458 440</u>	<u>17 346 892</u>

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

	2012	2011
	Ls	Ls
At beginning of the year	22 099 153	24 267 880
Received borrowings during the year	(699 189)	1 334 280
Repaid borrowings during the year (net)	(3 338 862)	(3 530 430)
Currency exchange rate fluctuation results	-	27 423
At the end of the year	<u>18 061 102</u>	<u>22 099 153</u>

*a) 2004 year credit line*

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

At the end of 2012 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 2012 the liabilities of the Company for above mentioned credit lines to Nordea Bank Finland Plc. Latvian branch consists of Ls 3 471 047 and EUR 2 973 588, to AS Swedbank - Ls 2 518 466, EUR 5 574 899.

Credit lines last repayment date to Nordea Bank Finland Plc. Latvian branch is 31 January 2014, AS Swedbank - 31 May 2013. The management is planning to prolong credit line facilities for one year.

*b) 2011 year overdraft*

On 27 October 2011 entered into an overdraft agreement with Nordea Bank Finland Plc. Latvian branch. Overdraft limit granted in accordance with the contract - Ls 980 000, the overdraft limit used at 31 December 2012 is Ls 977 122. Final repayment date is 31 January 2014.



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**Borrowings (continuation)**

*c) 2007 year loans*

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

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

On 31 December 2012 the debt of the Company for above mentioned loans to AS Swedbank EUR 7 237 518 (Ls 5 086 556) and Nordea Bank Finland Plc. Latvian branch loan balance of the loan was fully repaid during the year.

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

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

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

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

	31.12.2012. Ls	31.12.2011. Ls
6 months or less	<u>18 073 189</u>	<u>22 114 837</u>
	<u><b>18 073 189</b></u>	<u><b>22 114 837</b></u>
Payable in 1 year	14 458 440	17 346 892
Payable in 2 – 5 years	<u>3 614 749</u>	<u>4 767 945</u>
	<u><b>18 073 189</b></u>	<u><b>22 114 837</b></u>

*d) Collateral*

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

- (i) the mortgage of all real estate owned by the Company,
- (ii) commercial pledge of all Company's assets as aggregation of property on the date of pledging as well as future parts of the aggregation of property,
- (iii) all pledged shares of the Company, owned by the largest shareholder of the Company S.P.I. Regional Business B.V. (previous name S.P.I. Distilleries B.V.), and any other shares that S.P.I. Regional Business B.V. may acquire in the future. Carrying value of the pledged assets of the Company as at 31 December 2012 was Ls 87 429 625 (31.12.2011- Ls 84 335 748).

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**(20) Derivatives financial instruments and hedging activities**

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

In June 2012 the derivative financial instruments contract expired. On 31 December 2012 the fair value of derivative financial instruments is estimated in Ls 57 101. Effective part of a derivative financial instrument that has been used and are classified as cash flow hedging instrument, less effect of deferred tax, recognized in equity under "Financial instruments revaluation reserve".

**(21) Other liabilities**

	31.12.2012.	31.12.2011.
	Ls	Ls
Excise tax	10 122 450	6 570 865
Value Added Tax	656 041	769 615
Accrued liabilities	379 739	512 535
Accruals for unused annual leave	275 115	283 990
Salaries	205 435	200 629
Mandatory State social insurance contributions	114 266	113 992
Personal income tax	74 039	72 105
Deferred income	24 188	75 137
Natural resource tax	1 528	1 722
Other receivables	7 351	6 073
	<u>11 860 152</u>	<u>8 606 663</u>

**(22) Cash granted from operations**

	2012	2011
	Ls	Ls
Profit before corporate income tax	5 009 383	4 436 369
<u>Adjustments for:</u>		
depreciation and amortization (Note 7)	1 490 752	1 586 631
provisions	121 076	(779 444)
loss / (profit) from foreign currency exchange rate fluctuations	-	27 423
interest expenses (Note 9)	743 857	1 049 370
interest income (Note 8)	(1 074 201)	(749 498)
loss / (profit) from revaluation of property, plant and equipment	-	158 562
loss / (profit) from disposal of property, plant and equipment	7 492	5 206
<u>Changes in working capital</u>		
inventories	(1 212 972)	295 492
receivables	(2 007 807)	(1 171 844)
liabilities	2 664 975	(731 868)
	<u>5 742 555</u>	<u>4 126 399</u>

**(23) Average number of employees**

	2012	2011
Average number of people employed during the financial year	<u>613</u>	<u>613</u>

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(24) Remuneration to personnel	2012	2011
	Ls	Ls
Salaries and mandatory State social insurance contributions for production personnel	3 003 081	2 829 694
Salaries and mandatory State social insurance contributions for distribution personnel	1 460 132	1 355 439
Salaries and social insurance contributions for administration personnel	1 252 391	1 133 037
	<u>5 715 604</u>	<u>5 318 170</u>
Including key management salary expenses	301 862	287 124
mandatory State social insurance contributions	71 595	67 698
Mandatory State social contributions included in personnel expenses	1 099 070	1 032 088

**(25) Transactions with related parties**

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

In 2012 the Company had economic transactions with the Parent company of the Group the S.P.I. Group S.a.r.l. and the following S.P.I. Group companies that are directly or indirectly subsidiaries of S.P.I. Group S.a.r.l - S.P.I.Spirits (Cyprus) Ltd. (Cyprus), Spirits Product International IP B.V.(Luxembourg), Spirits Product International IP B.V. branch (Switzerland), SPI Production B.V. (Netherlands), Tambovskoje spirtovodocnoje predprijetije Talvis OAO (Russia), SPI-RVVK OAO (Russia), Bravo SIA (Latvia), Bennet Distributors UAB (Lithuania), SPV Distributor SIA (Latvia), Spirits International B.V. (Luxembourg), Spirits International B.V. branch (Switzerland), SPI Distribution (Latvia) SIA, SPI Distribution OU (Estonia). The Company also had economic transactions with the related companies Meierovica 35 SIA (Latvia) and LB Agro SIA (Latvia), which are not a member of the SPI Group.

The value of the transactions are disclosed with excise tax.

(a) Sale of Goods	2012	2011
	Ls	Ls
SPI Distribution (Latvia) SIA	39 276 965	36 860 525
S.P.I. Spirits (Cyprus) Ltd.	25 362 963	24 492 758
Bennet Distributors UAB	2 423 246	3 084 692
SPI Distribution OU (Estonia)	496 638	571 208
Bravo SIA	114 546	196 541
SPI-RVVK OAO	-	3 311
	<u>67 674 358</u>	<u>65 209 035</u>

**(b) Service Rendered (Including Loan Interest)**

SPI Distribution (Latvia) SIA	5 104 252	4 380 824
S.P.I. Spirits (Cyprus) Ltd.	1 184 392	1 476 831
SPI Production B.V.	588 841	367 093
Meierovica 35 SIA	38 331	35 069
S.P.I.Regional Business Unit B.V	11 924	19 382
Bravo SIA	11 500	16 432
SPI Distribution (Estonia)	3 710	-
Bennet Distributors UAB	3 457	1 243
Spirits International B.V. (branch)	1 094	8 544
S.P.I.Group S.a.r.l.	813	-
LB Agro SIA	716	-
SPV Distributor SIA	102	102
SPI-RVVK OAO	42	-
	<u>6 949 174</u>	<u>6 305 520</u>

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**Transactions with related parties (continuation)**

<b>(c) Purchase of Goods</b>	<b>2012</b> Ls	<b>2011</b> Ls
Tambovskoje spirtovodocnoje predprijetije Talvis OAO	5 792 104	4 940 903
S.P.I. Spirits (Cyprus) Ltd.	72 905	227
SPI-RVVK OAO	-	155 117
Bennet Distributors UAB	-	4 439
SPI Distribution (Latvia) SIA	-	790
	<b>5 865 009</b>	<b>5 101 476</b>

**(d) Services Received**

SPI Distribution (Latvia) SIA	233 098	175 079
S.P.I. Spirits (Cyprus) Ltd.	114 717	170 740
Meierovica 35 SIA	127 200	84 360
Bravo SIA	13 049	10 584
Spirits International B.V. (branch)	6 019	54 716
Spirits Product International IP B.V.(branch)	5 066	8 125
Bennet Distributors UAB	-	69 066
SPI Distribution OU (Estonia)	-	8 063
SPI-RVVK OAO	-	478
	<b>499 149</b>	<b>581 211</b>

**(e) Accounts Receivable and Payable**

	31.12.2012.		31.12.2011.	
	Receivables Ls	Payables Ls	Receivables Ls	Payables Ls
S.P.I. Spirits(Cyprus) Ltd.	15 437 371	278 479	16 511 971	83 682
SPI Distribution (Latvia) SIA	11 111 143	302 721	6 170 945	46 816
S.P.I. Production B.V.	2 372 960	-	1 784 119	-
Bennet Distributors UAB	1 030 498	-	1 928 267	-
Meierovica 35 SIA *	1 020 846	-	1 003 312	-
SPI Distribution OU (Estonia)	186 553	-	452 504	4 899
Spirits International B.V.	300 302	-	300 309	-
Tambovskoje spirtovodocnoje predprijetije Talvis OAO	-	276 262	66 703	-
Spirits International B.V. (branch)	17 890	77 675	16 796	71 656
Bravo SIA	18 436	5 678	67 974	10 629
Spirits Product International IP B.V.(branch)	-	44 335	-	39 268
S.P.I.Regional Business Unit B.V.	55 618	-	43 694	-
S.P.I. Group S.a.r.l.	813	-	-	1 055 275
Spirits Product International IP B.V.	406	-	410	-
SPI-RVVK OAO	14	-	-	478
SPV Distributor SIA	10	-	62	-
	<b>31 552 860</b>	<b>985 150</b>	<b>28 347 066</b>	<b>1 312 703</b>
The short term part of the loan (see section (f))	7 210 063	-	7 028 040	-
The short term part of the loan (see section (g))	-	360 000	-	210 000
<b>Total short term liabilities</b>	<b>38 762 923</b>	<b>1 345 150</b>	<b>35 375 106</b>	<b>1 522 703</b>
	0	0	0	

Repayment of the debts will be made in cash, and they are not secured with guarantee or otherwise. In 2012 and 2011 there are no significant bad debts from related parties.

\* In 2009, the Company concluded a loan agreement with Meirovica 35 SIA for the loan in amount of 1 000 000 lats. The loan is issued as credit line facilities in separate parts. During the reporting year the Company entered into a supplementary agreement on the repayment extension up to 1 October 2013. On 31 December 2012 the issued and outstanding amount of the loan is Ls 1 000 000.

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**Transactions with related parties (continuation)**

<b>(g) Loans to Group companies</b>	<b>31.12.2012.</b>	<b>31.12.2011.</b>
	Ls	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
SPI Distribution OU (Estonia) ***	182 023	-
	<u><b>24 991 004</b></u>	<u><b>24 808 981</b></u>
At beginning of the year	24 808 981	24 808 981
Borrowings issued during the year	199 593	-
Repaid borrowings during the year	(17 570)	-
At the end of the year	<u><b>24 991 004</b></u>	<u><b>24 808 981</b></u>
Maturity of the total borrowings is as follows:		
Payable in 1 year	7 210 063	7 028 040
Payable in 2 – 5 years	<u>17 780 941</u>	<u>17 780 941</u>
	<u><b>24 991 004</b></u>	<u><b>24 808 981</b></u>

\* On 20 April 2006 the Company concluded a long-term loan agreement with S.P.I. Production B.V. in the amount of EUR 20 600 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2012 amounted Ls 14 477 762. The repayment term by mutually concluded agreement is 20 July 2015.

\*\* On 26 July 2007 the Company concluded a loan agreement with S.P.I.Spirits (Cyprus) Limited regarding loan of EUR 13 000 000. During year 2008 the loan was partly repaid for EUR 8 300 000. The unpaid part of principal sum of the loan on 31 December 2012 is in amount EUR 4 700 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2012 amounted to Ls 3 303 179.

Loan repayment date is 30 June 2014.

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

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

\*\*\* On 29 June 2012 the Company concluded a long-term loan agreement with SPI Distribution OU (Estonia) in the amount of EUR 283 995, consisting of long-term trade receivables debt. The outstanding part of loan on 31 December 2012 amounted to Ls 182 023. Maturity is defined by 31 December 2013.

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

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

	<b>31.12.2012.</b>	<b>31.12.2011.</b>
Loans issued	3.492%-3.750%	2.525%-3.408%

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**Transactions with related parties (continuation)**

<b>(g) Borrowings from Group companies</b>	<b>31.12.2012.</b>	<b>31.12.2011.</b>
	<b>Ls</b>	<b>Ls</b>
At beginning of the year	210 000	-
Loans received during the year	<u>150 000</u>	<u>210 000</u>
At the end of the year	<u><u>360 000</u></u>	<u><u>210 000</u></u>
consist of:		
short-term loan	<u>360 000</u>	<u>210 000</u>
	<u><u>360 000</u></u>	<u><u>210 000</u></u>

In 2011 the Company received short-term loan with a credit limit of Ls 210 000 from Group company Bravo SIA. During the financial year the credit limit was increased up to Ls 360 000 and the additional borrowing of Ls 150 000 has been received. On 31 December 2012 the outstanding part of loan is Ls 360 000. The maturity of the loan is 31 December 2013.

**(h) Royalty Payments**

The Company leases trade marks from S.P.I. group companies. The amount of the royalties depends on the amount of the produced drinks subjected to royalty payments. The payments are included in the amount of received services (Note 24(d)). In accordance with the Management's estimates in 2013 no significant changes are expected in the amount of royalty payments.

**(26) Contingent Liabilities**

**(a) Royalty related**

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

The Financial statements do not include any provisions for liabilities, that could arise from the previously mentioned court decision.

**(b) Tax contingencies**

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

**(27) Lease agreements**

**(a) The Company is the lessor**

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

**(b) The Company is the lessee**

In the previous years the Company has signed a lease agreement for a container crane till 31 December 2012. During the financial year in connection with the expiration of the contract, signed a new operating lease agreement with Nordea Finance Latvia SIA of a container crane rental for three years, till July 2015. As per the agreement the contract can be terminated due to improper lessee activities, compensating the lease payments for the remaining lease period. As at 31 December 2012 the non-cancellable lease payments are Ls 102 840 (31 December 2011 based on the previous lease agreement - Ls 25 385).

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

The total rental cost of Ls 148 015 (in 2011 - Ls 249 453) has included in income statement.

**(28) Guaranties issued**

On 25 May 2011 the Group companies, Bravo SIA and SPI Distribution (Latvia) SIA, has concluded with Nordea Bank Finland Plc. Latvian branch an overdraft agreement with a limit of EUR 5 000 000, where as the security AS Latvijas balzams has issued guarantee of EUR 4 000 000. A guarantee valid until the fulfilment of all overdraft contract obligations. The overdraft contract completion date defined as 31 January 2014.

In 2007 the Company issued a guarantee to Nordea Bank Finland Plc. Latvian branch for the related company S.P.I. Spirits (Cyprus) Limited liabilities of USD 10 000 000, resulting from overdraft agreement signed in July 2007. In March 2012 amendments on the secured obligations increase up to USD 16 545 000 were signed. A guarantee issued to the full implementation of obligations which deadline is defined as at 31 January 2014.

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

**(29) Financial and capital risk management**

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

**(a) Market risk**

**(i) Foreign exchange risks**

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

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

The Company's significant open currency positions are:

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**Financial and capital risk management (continuation)**

	<b>31.12.2012.</b>	<b>31.12.2011.</b>
Financial assets, EUR	42 996 071	44 154 085
Financial liabilities, EUR	(19 719 091)	(21 548 017)
Open position EUR, net	<u>23 276 980</u>	<u>22 606 068</u>
<b>Open position EUR calculated in lats, net</b>	<b><u>16 359 155</u></b>	<b><u>15 887 635</u></b>
Financial assets, USD	537 992	680 173
Financial liabilities, USD	(281 719)	(2 115 214)
Open position USD, net	<u>256 273</u>	<u>(1 435 041)</u>
<b>Open position USD calculated in lats, net</b>	<b><u>136 081</u></b>	<b><u>(780 662)</u></b>

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

	2012		2011	
	Change in exchange rates	Effect on equity	Change in exchange rates	Effect on equity
		Ls		Ls
EUR	+10%	1 635 915	+10%	1 588 763
	-10%	(1 635 915)	-10%	(1 588 763)
USD	+10%	13 608	+10%	(78 066)
	-10%	(13 608)	-10%	78 066

**(ii) Interest rate risks**

The Company is exposed to interest rate risk as the main part of the liabilities are interest-bearing borrowings with the variable interest rate (Note (19)), as well as the Company's interest bearing assets have variable interest rate (Note (25(f))).

	<b>31.12.2012.</b>	<b>31.12.2011.</b>
	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	(11 094 467)	(12 746 234)
Financial assets with variable interest rate, LVL	1 258 995	1 000 000
Financial liabilities with variable interest rate, LVL	<u>(7 326 635)</u>	<u>(9 562 919)</u>
<b>Open position, net, LVL</b>	<b><u>7 646 874</u></b>	<b><u>3 499 829</u></b>

Due to the number of risk factors, till mid 2012 the Company managed its cash flow interest rate risk by hedge activities and floating-to-fixed interest rate swaps. Under these contracts the Company fixes the interest rate for some of the long-term borrowings (see Note (19)).

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

	2012		2011	
	Increase/ decrease in basis points	Effect on profit before tax	Increase/ decrease in basis points	Effect on profit before tax
		Ls		Ls
EUR	+30	44 518	+30	41 621
	-30	(44 518)	-30	(41 621)
LVL	+30	(21 114)	+30	(19 578)
	-30	21 114	-30	19 578



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**Financial and capital risk management (continuation)**

**(ii) Other price risk**

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

**(b) Credit risk**

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

Maximum exposure to credit risk	31.12.2012. Ls	31.12.2011. Ls
Issued loans to Group companies	17 780 941	17 780 941
Trade receivables - Group companies	38 762 923	35 375 106
Trade receivables - non -related parties	602 400	692 074
Other current assets	476 962	620 234
Cash	65 290	23 058
	<b><u>57 688 516</u></b>	<b><u>54 491 413</u></b>

The largest concentration of credit risk arises from the Group company's debts: on 31 December 2012 99 % of the total trade receivables related to Group companies (31.12.2011: 99%). Taking into account the Group's policy and the financial position, no provisions for debts and impairment losses of Group companies were made and the Company's management believes that the credit risk of transactions of the Company is considered as low.

Maturity analysis of trade receivables (non-related parties)

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables not impaired	split to:			
				in due term	Past due		
				< 90 days	90-180 days	> 180 days	
31.12.2012.	634 074	(31 674)	602 400	426 226	176 174	-	-
31.12.2011.	912 525	(220 451)	692 074	418 418	273 656	-	-

**(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 (31.12.2011: Ls 13,843 thousand). On 31 December 2012 the unused part of the credit line was Ls 868 thousand (2011: Ls 169 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:

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

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**Financial and capital risk management (continuation)**

<b>On 31 December, 2011</b>	<b>Total</b>	<b>&lt;1 year</b>	<b>1-2 years</b>	<b>2-5 years</b>	<b>&gt;5 years</b>
	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>	<b>Ls</b>
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	-	-	-
	<b>27 750 048</b>	<b>22 982 103</b>	<b>1 974 490</b>	<b>2 793 455</b>	<b>-</b>

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

**(d) Capital Management**

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

Company's management controls the net debt to equity (gearing ratio). During the reporting year this figure has decreased to 35% (2011: 47%), confirming the Company's improvement of stability. The positive trend in 2012 is also the increased ratio of equity to total assets up to 58% (2010: 55%).

	<b>31.12.2012.</b>	<b>31.12.2011.</b>
	<b>Ls</b>	<b>Ls</b>
Total borrowings	18 073 189	22 114 837
Less cash and its equivalents	(65 290)	(23 058)
Net debt	<u>18 007 899</u>	22 091 779
Equity	50 879 628	46 638 090
Total capital	<u>68 887 527</u>	<u>68 729 868</u>
Total assets	87 429 625	84 335 748
Net debt to equity	35%	47%
Equity ratio on total assets	58%	55%

**(30) Subsequent events**

There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2012.

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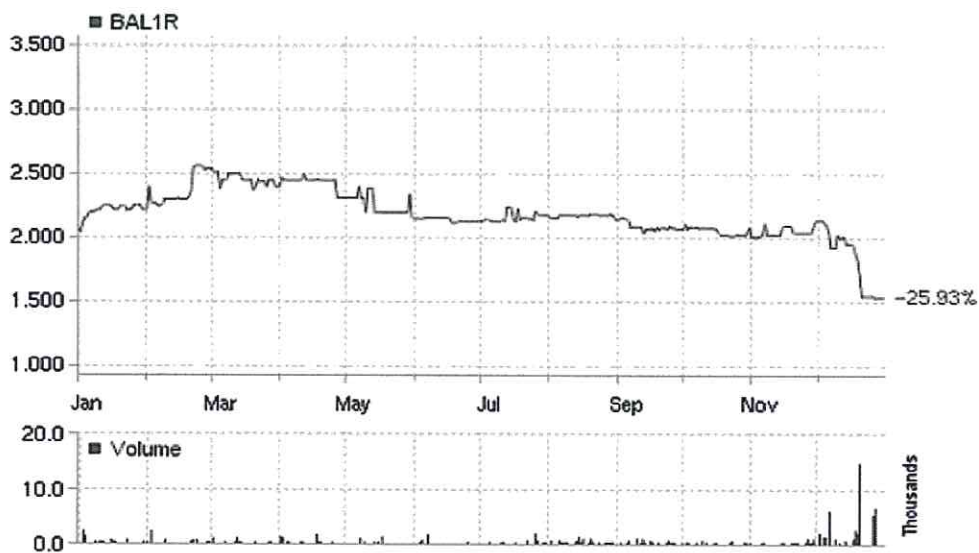
**IV. OTHER INFORMATION**

**Shares**

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

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

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



Currency: LVL

Open	2.047 LVL
Max	3.110 LVL
Min	1.400 LVL
Average price	2.028 LVL
Last	1.540 LVL
Change	-25,93%
Trades	1673
No of shares traded	113 485
Turnover	229 715.89 LVL
Capitalization on 31.12.2012	11 545 226.00 LVL

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



Currency: LVL

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

