

AS "Latvijas balzams"

ANNUAL REPORT

for the period ended 31 December 2009

in accordance with EU approved
International Financial Reporting Standards

"Latvijas balzams"
ANNUAL REPORT
for the period ended 31 december 2009

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MANAGEMENT

Names and positions of the Council members

Aleksandrs Kovalevs – Chairman of the Council
(until 16.10.2009)

Aigars Kalvītis - Chairman of the Council (from 16.10.2009)

Vitolds Kokars – Vice Chairman of the Council
(until 16.10.2009)

Valery Mendelev - Vice Chairman of the Council
(from 16.10.2009)

Andrejs Skurihins – Member of the Council

Pjotrs Aven - Member of the Council

Aleksandrs Jerņevs - Member of the Council
(from 29.04.2009 until 16.10.2009)

Valizhan Abidov - Member of the Council
(until 16.10.2009)

Georgy Kipiani - Member of the Council (until 29.04.2009)

Sebastianus Antonius Theodorus Boelen – Member of the Council
(from 16.10.2009)

Aleksandrs Kovalevs – Member of the Council
(from 16.10.2009)

Names and positions of the Board members

Kārlis Andersons – Chairman of the Board (from 29.04.2008)
General Director of AS Latvijas balzams

Valērijs Paršikovs – Member of the Board
(from 18.05.2009 until 22.03.2010)

Egils Dzerelis – Member of the Board (until 18.05.2009)
Director of Logistics of AS Latvijas balzams

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

Ronalds Žarinovs – Member of the Board (from 29.04.2008),
Director of Production of AS Latvijas balzams

Signe Bīdermane – Member of the Board (from 29.04.2008),
Director of Personnel and administrative department of AS Latvijas
balzams

Gunita Kronberga -Member of the Board (from 22.03.2010)
Financial Director of AS Latvijas balzams

REPORT OF THE MANAGEMENT

Type of operations

AS Latvijas balzams (further - Company) is the largest alcoholic beverage producer in the Baltic States, whose product range includes more than 130 kinds of alcoholic beverages, of whom 53% of beverages are with low alcohol content. The Company products are exported to nearly 30 countries around the world, while in performing export orders of "S.P.I. Group" to more than 70 countries around the world.

Performance of the Company during the financial year

Net turnover of the Company in year 2009 was 55.6 million lats, which is for 24% less than in year 2008. Turnover in the domestic market compared with last year, has fallen for 35.5%, in the export market - for 15.9%. Company's principal activity results in 2009 was significantly affected by the decline of purchasing power, the increase of excise tax and illegal alcohol sales increase in Latvia as well as the decrease in economic activity in key trade markets. The main export directions in 2009 were the Baltic countries, Poland, Scandinavia and Russia. Meanwhile new export markets were actively acquired. In 2009 export of production to Morocco and Slovakia has begun.

The profit of the Company in the reporting year is 3.6 million lats, that is for 2.3 million lats less than in 2008. The Company has paid great attention to production cost control and operation's efficiency improvement, thus maintaining the leading position in the market of alcohol beverages in all major categories and maintaining the positive profit rate in economic downturn conditions. During the reporting year the Company has continued to invest in production technology improvement. During the reporting year new equipment was purchased in order to provide new, advanced production closure possibilities. During the last year AS Latvijas balzams transferred 43 million lats in taxes to the state budget, including 33 million lats as the excise tax.

In 2009 the Company employed 681 employees in average (2008 - 773), and their gross monthly salary last year was 610 lats in average (2008 - 676 lats).

Post balance sheet events

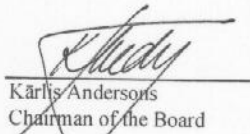
In the time period between the last day of the financial year and the date of signing the financial statements by the Board there have been no important events that would have a significant effect on the financial results of the year or the financial position of the company.

Distribution of profit proposed by the Board

| | 2009 EUR |
|--|-------------|
| Profit share to be distributed | 5 102 995 |
| Proposed profit distribution: Retained earnings | 5 102 995 |

Future prospects

Despite the critical economic situation and low purchasing power in Latvia, the objectives of the Company is to maintain the existing market share and to continue new market acquirement by improving product portfolio. In 2010 the priorities of AS Latvijas balzams will be further control of production and logistics costs, optimization and production efficiency improvement, rise of Company's competitiveness.

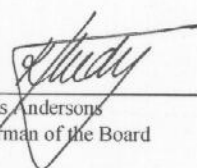

Kārlis Andersons
Chairman of the Board
Riga, 14 April, 2010

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards 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 8 to page 35 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.



Kārlis Andersons
Chairman of the Board
Rīga, 14 April, 2010



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of "Latvijas balzams" AS

Report on the Financial Statements

We have audited the accompanying financial statements of "Latvijas balzams" AS (the Company) included in the Annual report as set out on pages 8 to 35. The period of financial statements is from 1 January 2009 till 31 December 2009 (the Financial year). These financial statements include the the statement of financial position as at 31 December 2009, and the income statement, statement of comprehensive income, cash flow statement, statement of changes in equity for the financial year, and summary of significant accounting policy and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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



Opinion

In our opinion, the above mentioned financial statements give a true and fair view of the financial position of the Company as at the end of the financial year, and of its financial performance and cash flow 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 page 4 and did not identify material inconsistencies of the financial information presented in the Management Report and that contained in the financial statements.

Baker Tilly Baltics SIA
Certified auditors' company
License No. 80

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

Riga, 29 April 2010

This report is English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.

"Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 december 2009

INCOME STATEMENT

| | Notes | 2009 EUR | 2008 EUR |
|--|-------|-------------------|-------------------|
| Net sales | (1) | 79 111 027 | 104 105 809 |
| Cost of sales | (2) | (63 578 894) | (83 970 286) |
| Gross profit (loss) | | 15 532 133 | 20 135 523 |
| Distribution expenses | (3) | (5 805 128) | (7 312 182) |
| Administrative expenses | (4) | (3 666 220) | (4 998 122) |
| Other income | (5) | 1 791 524 | 2 307 420 |
| Other expenses | (6) | (43 462) | (185 279) |
| Finance income | (8) | 1 134 276 | 3 488 243 |
| Finance expenses | (9) | (2 677 268) | (3 430 121) |
| Profit before tax | | 6 265 855 | 10 005 481 |
| Corporate income tax | (10) | (1 162 860) | (1 598 416) |
| Net profit | | 5 102 994 | 8 407 065 |
| Earnings per share (in santims) | | | |
| Basic | (11) | 68.00 | 112.00 |
| Diluted | (11) | 68.00 | 112.00 |

"Latvijas balzams"
FINANCIAL STATEMENTS
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STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 2009 EUR | 2008 EUR |
|---|-------|---------------------------|-------------------------|
| Net profit | | <u><u>5 102 994</u></u> | <u><u>8 407 065</u></u> |
| Other comprehensive income / (loss) | | | |
| Revaluation of property, plant and equipment reserves | (12) | (6 288 129) | (152 734) |
| Changes in deferred income tax liabilities resulted to revaluation of property, plant and equipment | (10) | 943 219 | 22 910 |
| Changes in fair value of financial instruments | (19) | (474 486) | - |
| Changes in deferred income tax liabilities resulted to changes of fair value of derivatives | (10) | 71 173 | - |
| Other comprehensive income | | <u><u>(5 748 223)</u></u> | <u><u>(129 824)</u></u> |
| Total comprehensive income | | <u><u>(645 229)</u></u> | <u><u>8 277 241</u></u> |

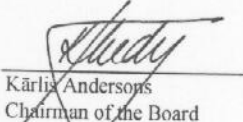
Notes on pages 13 to 35 are an integral part of these financial statements.

"Latvijas balzams"
FINANCIAL STATEMENTS
for the period ended 31 december 2009

STATEMENT OF FINANCIAL POSITION

| | Notes | 31.12.2009. EUR | 31.12.2008. EUR |
|--|-------|---------------------------|---------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | | | |
| Property, plant and equipment | (12) | 379 | 2 913 |
| Loans to group companies | (12) | 24 222 116 | 32 075 297 |
| Other non-current assets | (24g) | 35 300 000 | 25 300 000 |
| Total non-current assets: | | <u>34 149</u> | <u>34 149</u> |
| | | 59 556 643 | 57 412 358 |
| Current assets | | | |
| Inventories | (13) | 24 517 776 | 28 350 263 |
| Trade receivables | (14) | 738 556 | 2 093 191 |
| Receivables from group companies | (24g) | 28 245 962 | 34 315 856 |
| Other current assets | (15) | 452 562 | 419 367 |
| Corporate income tax | (10) | 536 955 | - |
| Cash and cash equivalents | (16) | 572 608 | 291 397 |
| Total current assets: | | <u>55 064 419</u> | <u>65 470 074</u> |
| Total assets | | <u>114 621 062</u> | <u>122 882 432</u> |
| EQUITY AND LIABILITIES | | | |
| | | 31.12.2009. EUR | 31.12.2008. EUR |
| Equity | | | |
| Share capital | (17) | 10 667 128 | 10 667 128 |
| Share premium | | 87 887 | 87 887 |
| Revaluation reserves of non-current assets | (12) | 11 875 668 | 17 220 578 |
| Revaluation reserves of derivative financial instruments | (19) | (403 313) | - |
| Retained earnings | | 33 362 339 | 28 259 344 |
| Total equity: | | <u>55 589 708</u> | <u>56 234 936</u> |
| Liabilities: | | | |
| Non-current liabilities: | | | |
| Borrowings | (18) | 16 550 765 | 15 345 880 |
| Deferred income tax liabilities | (10) | 2 002 903 | 2 941 356 |
| Derivative financial instruments | (19) | 474 486 | - |
| Total non-current liabilities: | | <u>19 028 154</u> | <u>18 287 237</u> |
| Current liabilities: | | | |
| Borrowings | (18) | 20 459 307 | 21 673 441 |
| Trade payables | | 5 393 524 | 4 532 454 |
| Payables to group companies | (24g) | 837 454 | 3 360 240 |
| Current income tax payables | (10) | - | 355 722 |
| Other liabilities | (20) | 13 312 915 | 18 438 402 |
| Total current liabilities: | | <u>40 003 200</u> | <u>48 360 260</u> |
| Total liabilities: | | <u>59 031 354</u> | <u>66 647 496</u> |
| Total equity and liabilities: | | <u>114 621 062</u> | <u>122 882 432</u> |

Notes on pages 13 to 35 are an integral part of these financial statements.


Kārlis Andersons
Chairman of the Board

Riga, 14 April, 2010

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STATEMENT OF CHANGES IN EQUITY

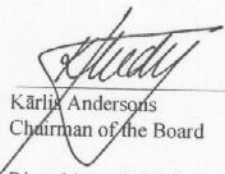
| | Share capital | Share premium | Revaluation reserves of non-current assets | Revaluation reserves of derivative financial instruments | Retained earnings | Total |
|--|-------------------|---------------|---|--|----------------------|-------------------|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| 31.12.2007. | 10 667 128 | 87 887 | 17 350 402 | - | 19 852 279 | 50 385 |
| Net profit | | | | | 8 407 065 | 8 407 065 |
| Revaluation of property, plant and equipment | - | - | (152 734) | - | - | (152 734) |
| Changes in deferred income tax liabilities | - | - | 22 910 | - | - | 22 910 |
| Total comprehensive income | - | - | (129 824) | - | 8 407 065 | 8 277 241 |
| 31.12.2008. | 10 667 128 | 87 887 | 17 220 578 | - | 28 259 344 | 56 234 936 |
| Net profit | - | - | - | - | 5 102 995 | 5 102 995 |
| Changes in fair value of derivative financial instruments | - | - | - | (474 486) | - | (474 486) |
| Changes in deferred income tax liabilities | - | - | - | 71 173 | - | 71 173 |
| Revaluation of property, plant and equipment | - | - | (6 288 129) | - | - | (6 288 129) |
| Changes in deferred income tax liabilities | - | - | 943 219 | - | - | 943 219 |
| Total comprehensive income | - | - | (5 344 910) | (403 313) | 5 102 995 | (645 228) |
| 31.12.2009. | 10 667 128 | 87 887 | 11 875 668 | (403 313) | 33 362 339 | 55 589 708 |

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CASH FLOW STATEMENT

| | Notes | 2009 EUR | 2008 EUR |
|---|-------|--------------------|---------------------|
| Cash flow from operating activities | | | |
| Cash granted from operations | | | |
| Interest paid | (21) | 6 900 248 | 18 024 796 |
| Income tax paid | | (2 376 589) | (3 082 188) |
| Net cash flow generated from operating activities from continuing operations | | <u>2 544 061</u> | <u>13 377 612</u> |
| Cash flow from investing activities | | | |
| Acquisition of property, plant and equipment | | (1 497 359) | (1 802 113) |
| Proceeds from sales of property, plant and equipment | | - | 28 795 |
| Loans granted | | (3 955 584) | (5 000 000) |
| Loans repayment received | | 3 153 084 | 8 300 000 |
| Loans interest received | | 20 504 | 1 955 727 |
| Net cash flow generated from investing activities from continuing operations | | <u>(2 279 355)</u> | <u>3 482 409</u> |
| Cash flow from financing activities | | | |
| Borrowings received | | - | 6 500 000 |
| Changes in credit lines (net) | | 7 051 255 | (7 447 458) |
| Borrowings repaid | | (7 034 749) | (15 746 147) |
| Net cash flow generated from financing activities from continuing operations | | <u>16 505</u> | <u>(16 693 604)</u> |
| Net increase / (decrease) in cash and cash equivalents | | <u>281 211</u> | <u>166 416</u> |
| Cash and cash equivalents at the beginning of the financial year | | 291 397 | 124 981 |
| Cash and Cash equivalents at the end of the financial year | (16) | <u>572 608</u> | <u>291 397</u> |

Notes on pages 13 to 35 are an integral part of these financial statements.


Kārlis Andersons
Chairman of the Board

Riga, 14 April, 2010

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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 2009 up to 31 December 2009.

These financial statements were authorized for issue by the Board of Directors of the Company on 14 April 2010, and Chairman of the Board Karlis Andersons signed these for and on behalf of the Board of Directors.

The auditor of the Company is Baker Tilly Baltics SIA.

II. ACCOUNTING POLICIES

(1) Basis of preparation

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

The financial statements have been prepared on the basis of cost accounting method modified in revaluation of the assets, as represented in Note (6) to accounting policies.

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

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

IAS 1, Presentation of Financial Statements

The main changes in IAS 1 is the replacement of income statement by a statement of comprehensive income which includes all non-owner changes in equity, such as the revaluation of property, plant and equipment and available-for-sale financial assets. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Company has decided to present both income statement and statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (previously - balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Company's financial statements but no impact on the recognition or measurement of specific transactions or balances.

IAS 23, Borrowing Costs

The amendment to IAS 23 removes the option of immediately recognizing as an expense the borrowing costs and requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. As the Company has not previously used that option the amendments do not impact the measurement of assets.

IFRS 8, Operating Segments

IFRS 8 replaced IAS 14 Segment Reporting. The Company concluded that the operation segments determined in accordance with IFRS 8 are the same as the business segments previously identified under IAS 14. IFRS 8 disclosures are shown in Note 1 Segment Information, including the related revised comparative information.

IFRS 7, Financial Instruments: Disclosure

The amendment to IFRS 7 requires additional disclosure on the fair value measurements and liquidity risks. An entity is required to disclose analysis of financial instruments by using three-level hierarchy for fair value measurements. The enhanced disclosures are included in these financial statements.

b) Standards, amendments and interpretations that are effective from 1 January 2009, but not relevant for operations of the Company

IFRS 1, First-time Adoption of IFRS - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)

IFRS 2, Share-based Payment - Vesting Conditions and Cancellations (Amendment)

IAS 27, Consolidated and Separate Financial Statements - Cost of investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)

IAS 32, Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation (Amendment)

Annual Improvements to IFRS, issued in May 2008.

IFRIC 13 Customer Loyalty Programmes

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

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

Improvements to IFRS issued in April 2009

Amendments to IFRS 2, IAS 38, IFRIC 16 are effective for annual periods beginning on or after 1 July 2009, amendments to IFRS 5, IFRS 8, IAS 1, IAS 36, and IAS 39 are effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU). Improvements consist of a mixture of substantive changes and clarifications in the different areas. The Company does not expect the amendments to have any material effect on its financial statements.

IAS 24, Related Party Disclosures - Amendments (effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU).

The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. The Company is currently assessing the impact of the amendments on disclosure in its financial statements.

IFRS 9, Financial Instruments Part 1: Classification and Measurements, issued in November 2009 (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU).

The IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. The Company is considering the implications of the standard, the impact on the Group and the timing of its adoption.

IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items - Amendments (effective for financial years beginning on or after 1 July 2009).

The amendment addresses the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. It clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as hedged item. The Company is currently considering the impact of this standard changes to the financial statements.

d) Standards, amendments and interpretations that are not yet effective and not relevant for operations of the Company

IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements - Amendments (effective for financial years beginning on or after 1 July 2009).

IFRIC 9 and IAS 39 Embedded Derivatives - Amendment issued in March 2009 (effective for annual periods beginning on or after 30 June 2009, amendments to IFRIC 9 and IAS 39 as adopted by the EU is effective for annual periods beginning after 31 December 2009).

IAS 32 Classification of Rights Issues - Amendment issued in October 2009 (effective for annual periods beginning on or after 1 February 2010).

IFRS 1 First-time Adoption of IFRS - Revised in December 2008 (effective for annual periods beginning on or after 1 July 2009, restructured IFRS 1 as adopted by the EU is effective for annual periods beginning after 31 December 2009).

IFRS 1 First-time Adoption of IFRS - Additional Exemptions for First-time Adopters - Amendments (effective for annual periods beginning on or after 1 January 2010, not yet adopted by the EU).

IFRS 2 - Group settled Share-based Payment Transactions - Amendments (effective for annual periods beginning on or after 1 January 2010, not yet adopted by EU).

IFRS 7 Limited exemption from comparative disclosures for first-time adopters - Amendments (effective for annual periods beginning on or after 1 January 2011, not yet adopted by the EU).

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IFRIC 12 Service Concession Arrangements (IFRIC as adopted by the EU is effective for annual periods beginning on or after 30 March 2009).

IFRIC 14 - Prepayments of a Minimum Funding Requirements - Amendment (effective for annual periods beginning on or after 1 January 2011, not yet adopted by EU).

IFRIC 15 Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 October 2008, IFRIC 15 as adopted by the EU is effective for annual periods beginning after 31 December 2009).

IFRIC 16, Hedges of a net investment in a foreign operation (effective for annual periods beginning on or after 1 October 2008, IFRIC 16 as adopted by the EU is effective for annual periods beginning after 31 June 2009).

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009, IFRIC 17 as adopted by the EU is effective for annual periods beginning after 31 October 2009).

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009, IFRIC 18 as adopted by the EU is effective for annual periods beginning after 31 October 2009).

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010, not yet adopted by EU).

(2) Foreign currencies

(a) Functional and presentation currency

Items shown in the financial statements of the Company are measured using the currency of the primary economic environment in which the Company operates (the functional currency).

In accordance with the Riga Stock Exchange requirements all balances are presented in euro (EUR). For the purposes of disclosures translation is performed applying the official exchange rate adopted by the Bank of Latvia EUR / LVL. (1 EUR = LVL 0.702804) for the period from 1 January 2008 to 31 December 2009.

(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.

| | 31.12.2009. | 31.12.2008. |
|-------|-------------|-------------|
| | Ls | Ls |
| 1 USD | 0.489 | 0.495 |
| 1 EUR | 0.702804 | 0.702804 |
| 1 LTL | 0.204 | 0.203 |
| 1 EEK | 0.0449 | 0.0449 |

(3) Segment disclosure

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

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

(4) Income recognition

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

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

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

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(5) Intangible assets

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

| | Years |
|----------------------|-------|
| Licenses and patents | 3-5 |

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

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

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

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

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

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

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

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

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

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

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

(7) Impairment of tangible and intangible assets

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

(8) Lease without redemption rights (operating lease)

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

(9) Inventories

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

(10) Loans and trade receivables

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

(11) Derivative financial instruments and hedging activities

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

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

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

(12) Cash and cash equivalents

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

(13) Share capital and dividends

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

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(14) Borrowings

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

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

(15) Pension obligations

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

(16) Accrued liabilities for unused annual leave

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

(17) Income tax

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

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. 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.

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.

(18) Earnings per share

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

(19) Related parties

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

(20) Critical accounting estimates and judgments

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

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities recognised in the financial statements, and disclosures in the notes at the year-end as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Scopes, the most-affected by assumptions are revaluation of the land and building, 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. The revaluation of real estate assets has been made during the preparation of the current year financial statements. The total carrying amount of land and buildings as at 31 December 2009 is Ls 12 876 372 (31.12.2008 - Ls 17 522 519).

b) Recoverable 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.

c) Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realization probability and net selling value of the inventories shall be considered. The total carrying amount of inventories as at 31 December 2009 is Ls 17 231 191 (31.12.2008 - Ls 19 924 678).

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III. OTHER NOTES

(1) Segment Information and net sales

(a) Operation and reportable segment

Core activity of the Company is production of alcoholic drinks. AS Latvijas balzams produces over 130 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:

| | 2009 EUR | 2008 EUR |
|---|--------------------------|---------------------------|
| Sales in Latvia | 27 799 800 | 43 129 464 |
| Export sales under S.P.I. Group company S.P.I. Spirits (Cyprus) Ltd. orders | 40 568 603 | 48 761 645 |
| Other income from export sales | - | - |
| Lithuania | 6 300 456 | 8 396 246 |
| Russia | 1 467 724 | 1 957 268 |
| Estonia | 913 357 | 903 269 |
| Poland | 462 462 | 534 458 |
| Norway | 363 238 | 279 472 |
| Belarus | 284 653 | 46 326 |
| Other countries | 950 734 | 950 734 |
| Other income from export sales (total) | <u>10 742 623</u> | <u>13 067 772</u> |
| | <u><u>79 111 027</u></u> | <u><u>104 105 809</u></u> |

(c) Major customers

Most of the Company's sales transactions in domestic markets as well as sales to overseas markets are made through S.P.I. Group companies. The information on transactions of Group entities is disclosed in Note 24. There are no non-related clients with whom the amount of transactions would be 10 per cent or more of total revenues.

| | 2009 EUR | 2008 EUR |
|---------------------------------|--------------------------|---------------------------|
| Sales to S.P.I. group companies | 75 162 189 | 100 626 261 |
| Sales to other customers | <u>3 948 838</u> | <u>3 479 548</u> |
| | <u><u>79 111 027</u></u> | <u><u>104 105 809</u></u> |

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| (2) Cost of sales | 2009 EUR | 2008 EUR |
|---|-------------------|-------------------|
| Materials | 52 175 733 | 66 085 993 |
| Salary expense | 2 489 192 | 3 407 815 |
| Energy resources | 845 766 | 1 026 054 |
| Mandatory state social insurance contributions | 597 297 | 817 924 |
| Natural recourse tax | 444 303 | 658 357 |
| Changes of inventory value of finished goods | (320 257) | 796 141 |
| Goods purchased | 172 493 | 887 118 |
| Increase in provisions for accounts receivable, inventories and other accrued liabilities | 78 895 | 735 983 |
| Accrued expenses on unused annual leave (variable) | (49 724) | 3 075 |
| Other variable costs | 1 637 394 | 3 655 140 |
| Variable costs total: | 58 071 094 | 78 073 599 |
| Depreciation of non-current assets | 1 914 078 | 1 868 743 |
| Salary expenses | 1 346 970 | 1 498 419 |
| Repair expenses | 503 827 | 801 248 |
| Mandatory state social insurance contributions | 321 572 | 358 586 |
| Net losses from revaluation of tangible assets | 347 642 | - |
| Accrued expenses on unused annual leave (fixed) | (115 674) | (10 491) |
| Insurance payments | 109 109 | 138 727 |
| Laboratory expenses | 61 239 | 52 951 |
| Other fixed expenses | 1 019 037 | 1 188 503 |
| Fixed costs total: | 5 507 800 | 5 896 687 |
| | 63 578 894 | 83 970 286 |
| (3) Distribution expenses | | |
| Advertising expenses | 1 720 609 | 2 711 205 |
| Salary expenses | 1 678 260 | 1 956 456 |
| Transportation expenses | 638 780 | 977 220 |
| Mandatory state social insurance contributions | 401 271 | 468 552 |
| Depreciation of non-current assets | 429 410 | 332 800 |
| Warehouse maintenance expenses | 502 045 | 277 017 |
| Accrued expenses on unused annual leave | (36 857) | (6 934) |
| Other expenses | 471 609 | 595 866 |
| | 5 805 128 | 7 312 182 |
| (4) Administrative expenses | | |
| Salary expenses | 1 563 370 | 1 927 449 |
| Management services and expenses | 787 974 | 1 159 056 |
| Mandatory state social insurance contributions | 368 628 | 264 237 |
| Depreciation of non-current assets | 217 024 | 354 082 |
| Real estate tax | 118 389 | 126 597 |
| Professional fees | 96 068 | 240 703 |
| Office expenses | 74 588 | 104 380 |
| Representation expenses | 64 540 | 302 319 |
| Communication and postal expenses | 61 275 | 90 483 |
| Transportation expenses | 40 784 | 79 920 |
| Business trip expenses | 36 445 | 24 422 |
| IT maintenance | 35 176 | 71 186 |
| Financial support, sponsorship | 22 766 | 76 835 |
| Accrued expenses on unused annual leave | (22 544) | (74 046) |
| Healthcare, health insurance | 10 159 | 14 115 |
| Employee training | 8 093 | 15 138 |
| Other expense | 183 485 | 221 245 |
| | 3 666 220 | 4 998 122 |

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(5) Other income

| | 2009 EUR | 2008 EUR |
|---|------------------|------------------|
| Income from services rendered in warehouses of excise tax goods | 457 748 | 454 737 |
| Income from other services rendered | 453 154 | 716 117 |
| Income from lease of warehouse and office premises | 321 091 | 224 549 |
| Sold consumable materials | 80 959 | 118 867 |
| Sold packages, boxes and pallets | 8 561 | 16 542 |
| Other income | 470 010 | 776 608 |
| | <u>1 791 524</u> | <u>2 307 420</u> |

(6) Other expenses

| | | |
|------------------|---------------|----------------|
| Bank commissions | 115 236 | 56 299 |
| Other expenses | (71 774) | 128 980 |
| | <u>43 462</u> | <u>185 279</u> |

(7) Expenses by Nature

| | | |
|---|-------------------|-------------------|
| Materials | 52 175 733 | 66 085 993 |
| Employee expenses | 8 541 763 | 10 611 041 |
| Depreciation of non-current assets | 2 561 246 | 2 555 624 |
| Advertising expenses | 1 720 609 | 2 711 205 |
| Management services and expenses | 787 974 | 1 159 056 |
| Transportation expenses | 679 564 | 1 057 140 |
| Repair expenses | 503 827 | 816 765 |
| Natural recourse tax | 444 303 | 658 357 |
| Net losses from revaluation of tangible assets | 347 642 | - |
| Real estate tax | 118 389 | 126 597 |
| Increase in provision for accounts receivables, inventories and other accrued liabilities | 78 895 | 735 983 |
| IT maintenance expenses | 35 176 | 93 702 |
| Other expenses | 5 098 583 | 9 854 406 |
| | <u>73 093 704</u> | <u>96 465 870</u> |

(8) Finance income

| | | |
|--|------------------|------------------|
| Interest income | 1 132 848 | 2 421 712 |
| Net profit from exchange rate fluctuations | - | 1 058 072 |
| Income from fines and penalties | 1 429 | 8 459 |
| | <u>1 134 276</u> | <u>3 488 243</u> |

(9) Finance expenses

| | | |
|---|------------------|------------------|
| Interest for use of credit lines facilities | 1 327 983 | 1 136 961 |
| Interest for long-term loan | 814 386 | 2 004 417 |
| Net loss for hedging activities | 296 339 | (41 760) |
| Net loss from exchange rate fluctuations | 184 640 | - |
| Net loss from purchase - sale of foreign currency | 53 920 | 330 503 |
| | <u>2 677 268</u> | <u>3 430 121</u> |

(10) Corporate income tax

a) Components of corporate income tax

| | | |
|--|------------------|------------------|
| Changes in deferred income tax | 75 939 | (239 633) |
| Corporate income tax according to the tax return | 1 086 922 | 1 838 049 |
| | <u>1 162 860</u> | <u>1 598 416</u> |

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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:

| | 2009 EUR | 2008 EUR |
|--|-------------------------|-------------------------|
| Profit before taxes | 6 265 855 | 10 005 481 |
| Theoretically calculated tax at 15% tax rate | <u>939 878</u> | <u>1 500 822</u> |
| Tax effects on: | | |
| Non-deductible expenses for tax purposes | 82 258 | 214 844 |
| Tax discounts for donations | (19 351) | (61 681) |
| Tax relief for the acquired technological equipment | (41 087) | (55 569) |
| Changes in recognition of temporary differences for other accruals | 201 163 | - |
| Total corporate tax charge | <u>1 162 861</u> | <u>1 598 415</u> |

c) Movement and components of deferred tax

| | | |
|--|-------------------------|-------------------------|
| Deferred tax liabilities (asset) at the beginning of the financial year | 2 941 356 | 3 203 899 |
| Deferred tax changes charged to the income statement | 75 939 | (239 633) |
| Changes in deferred tax recognised in non-current investment (tangible assets) revaluation reserve | (943 219) | (22 910) |
| Changes in deferred tax recognised in derivative financial instruments revaluation reserve | (71 173) | - |
| Deferred tax liabilities (asset) at the end of the financial year | <u>2 002 903</u> | <u>2 941 356</u> |

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

| | 31.12.2009. EUR | 31.12.2008. EUR |
|--|-------------------------|-------------------------|
| Temporary difference on depreciation of tangible and intangible assets | 2 382 041 | 3 462 170 |
| Temporary difference on derivative financial instruments revaluation reserve | (71 173) | - |
| Gross deferred tax liabilities | <u>2 310 868</u> | <u>3 462 170</u> |
| Temporary difference on accruals for annual leave | (61 078) | (94 797) |
| Temporary difference on provisions for slow moving and obsolete stock | (243 688) | (225 772) |
| Temporary differences in accrued liabilities | (3 199) | (200 244) |
| Gross deferred tax assets | <u>(307 965)</u> | <u>(520 814)</u> |
| Net deferred tax liability (assets) | <u>2 002 903</u> | <u>2 941 356</u> |

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:

| | 31.12.2009 EUR | 31.12.2008 EUR |
|---|-------------------------|-------------------------|
| Deferred tax assets: | | |
| deferred tax asset to be recovered within a year | (307 965) | (520 814) |
| Deferred tax liabilities: | (307 965) | (520 814) |
| deferred tax liabilities to be recovered within a year | 104 338 | 130 661 |
| deferred tax liabilities to be recovered after more than a year | 2 206 530 | 3 331 511 |
| Net deferred tax liabilities (assets) | <u>2 310 868</u> | <u>3 462 172</u> |
| | <u>2 002 903</u> | <u>2 941 356</u> |

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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 | Accruals for unused annual leave | Accrued liabilities | Provisions for slow moving stock | Total |
|--|--|-----------------------------|--|------------------------|--|------------------|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| 31.12.2007 | - | 3 534 361 | (108 057) | (99 279) | (123 125) | 3 203 899 |
| Charged / (credited) to income statement | - | (49 281) | 13 260 | (100 964) | (102 647) | (239 633) |
| Charged / (credited) to equity | - | (22 910) | - | - | - | (22 910) |
| 31.12.2008 | - | 3 462 170 | (94 797) | (200 244) | (225 773) | 2 941 356 |
| Charged / (credited) to income statement | - | (136 910) | 33 719 | 197 045 | (17 915) | 75 939 |
| Charged / (credited) to equity | (71 173) | (943 219) | - | - | - | (1 014 392) |
| 31.12.2009 | (71 173) | 2 382 041 | (61 078) | (3 199) | (243 688) | 2 002 903 |

(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.

| | 2009 EUR | 2008 EUR |
|--|--------------|---------------|
| Profit attributed to shareholders of the Company (EUR) | 5 102 994 | 8 407 065 |
| Average annual number of shares | 10 667 128 | 10 667 128 |
| Earnings per share (expressed in santims) | 68.00 | 112.00 |

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(12) Intangible assets and property, plant and equipment

| | Intangible assets | Property, plant and equipment | | | | | Total property, plant and equipment |
|---------------------------|----------------------|-------------------------------|----------------------------|----------------|------------------------------|---|---|
| | | Lands and buildings | Equipment and machinery | Other assets | Assets under construction | Advances for property, plant and equipment | |
| | EUR | EUR | EUR | EUR | EUR | EUR | EUR |
| 31.12.2007 | | | | | | | |
| Initial cost/ revaluated | 1 655 665 | 28 513 368 | 17 510 259 | 4 467 345 | 954 250 | 233 567 | 51 678 790 |
| Accumulated depreciation | (1 647 750) | (2 560 940) | (12 567 969) | (3 509 254) | - | - | (18 638 164) |
| Net book value | 7 915 | 25 952 428 | 4 942 290 | 958 091 | 954 250 | 233 567 | 33 040 626 |
| 2008 | | | | | | | |
| Opening net book value | 7 915 | 25 952 428 | 4 942 290 | 958 091 | 954 250 | 233 567 | 33 040 626 |
| Acquired | - | - | - | - | - | 2 015 711 | 2 015 711 |
| Disposed | - | (191 678) | (9 668) | (25 902) | - | (203 169) | (430 417) |
| Reclassified | 620 | 209 292 | 1 638 938 | 378 544 | (425 281) | (1 802 113) | (620) |
| Depreciation | (5 623) | (1 037 743) | (1 129 782) | (382 478) | - | - | (2 550 003) |
| Closing book value | 2 913 | 24 932 298 | 5 441 778 | 928 255 | 528 970 | 243 997 | 32 075 297 |
| 31.12.2008. | | | | | | | |
| Initial cost/ revaluated | 1 656 285 | 28 500 293 | 18 577 003 | 4 654 252 | 528 970 | 243 997 | 52 504 515 |
| Accumulated depreciation | (1 653 373) | (3 567 995) | (13 135 225) | (3 725 998) | - | - | (20 429 218) |
| Net book value | 2 913 | 24 932 298 | 5 441 778 | 928 255 | 528 970 | 243 997 | 32 075 297 |
| 2009 | | | | | | | |
| Opening net book value | 2 913 | 24 932 298 | 5 441 778 | 928 255 | 528 970 | 243 997 | 32 075 297 |
| Acquired | - | - | - | - | - | 1 552 733 | 1 552 733 |
| Revaluated | - | (6 635 770) | - | - | (69 413) | - | (6 705 184) |
| Disposed | - | (62 867) | (6 329) | (472) | (2 866) | (69 485) | (142 018) |
| Reclassified | - | 1 138 394 | 663 521 | 239 118 | (320 223) | (1 720 810) | - |
| Depreciation | (2 534) | (1 050 629) | (1 119 358) | (388 726) | - | - | (2 558 712) |
| Closing book value | 378 | 18 321 427 | 4 979 612 | 778 174 | 136 468 | 6 436 | 24 222 116 |
| 31.12.2009. | | | | | | | |
| Initial cost/ revaluated | 1 656 285 | 18 365 264 | 19 106 237 | 4 849 314 | 136 468 | 6 436 | 42 463 718 |
| Accumulated depreciation | (1 655 907) | (43 837) | (14 126 626) | (4 071 139) | - | - | (18 241 602) |
| Net book value | 378 | 18 321 427 | 4 979 612 | 778 174 | 136 468 | 6 436 | 24 222 116 |

The Company has completed the revaluation of land and buildings on March 16, 2010, 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. Depending on the type of real estate, the share of the comparable transaction method in the total identified market value ranged from 33% to 50%.

In the result of evaluation the decrease of the assets fair value of EUR 944 283 has been recognized, where EUR 6 288 129 has been charged against the previous year revaluation surplus, while impairment of EUR 347 642 was recognized in income statement.

Total revaluation surplus of tangible assets on 31 December 2009 was EUR 13 971 378. Revaluation amount less the attributable deferred income tax liabilities is recognizes in equity under "Revaluation reserve of non- current assets". The previous revaluation of buildings and constructions was performed in 2005 - 2006.

The value of land plots after revaluation is EUR 5 431 thousand (31.12.2008 EUR 12 181 thousand). If the land plots would not be revalued, then on December 31, 2009 the book value of the land plot would be EUR 901 thousand (31.12.2008 - EUR 700 thousand).

The book value of revalued buildings on 31 December 2009 is EUR 12 890 thousand (31.12.2008 - EUR 12 750 thousand). If the revaluation would not be performed, the residual value of buildings on 31 December 2009 would be EUR 7 584 thousand (31.12.2008 - EUR 8 032 thousand).

During the 2009 the borrowing costs has not been capitalized, as the Company didn't use the financing for the acquisition of tangible assets.

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

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| (13) Inventories | | 31.12.2009. | 31.12.2008. |
|--|--|--------------------------|--------------------------|
| | | EUR | EUR |
| Raw materials and consumables | | 11 298 389 | 15 468 583 |
| Finished goods and goods for sale | | 6 958 384 | 6 950 029 |
| Excise tax stamps | | 5 462 618 | 4 597 586 |
| Work in progress | | 740 879 | 689 882 |
| Inventory in transit | | 57 505 | 644 182 |
| | | <u>24 517 776</u> | <u>28 350 263</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 18). | | | |
| | | 2009 | 2008 |
| | | EUR | EUR |
| Provisions at the beginning of the year | | 1 675 985 | 1 029 428 |
| Changes on provisions shown in the income statement | | (51 396) | 646 557 |
| Provisions at the end of the year | | <u>1 624 590</u> | <u>1 675 985</u> |
| (14) Trade receivables | | 31.12.2009. | 31.12.2008. |
| | | EUR | EUR |
| Book value of trade receivables | | 1 223 889 | 5 558 070 |
| Provisions for impairment of trade receivables | | (485 333) | (3 464 879) |
| | | <u>738 556</u> | <u>2 093 191</u> |
| | | 2009 | 2008 |
| | | EUR | EUR |
| Provisions at the beginning of the year | | 3 464 879 | 3 424 709 |
| Receivables written off as uncollectible | | (2 951 161) | - |
| Provisions at the end of the year | | <u>513 718</u> | <u>3 424 709</u> |
| (15) Other current assets | | 31.12.2009. | 31.12.2008. |
| | | EUR | EUR |
| Advances for raw materials | | 248 459 | 63 530 |
| Advances for services | | 72 646 | 103 296 |
| Other deferred expenses | | 67 041 | 86 647 |
| VAT accepted | | 33 228 | 56 727 |
| Deferred insurance costs | | 27 242 | 92 334 |
| Other receivables | | 3 946 | 16 833 |
| | | <u>452 562</u> | <u>419 367</u> |
| (16) Cash and cash equivalents | | | |
| Cash at bank on current accounts | | 544 917 | 255 684 |
| Cash on hand | | 27 691 | 35 713 |
| | | <u>572 608</u> | <u>291 397</u> |
| (17) Share capital | | | |

As on 31 December 2009 the registered and fully paid share capital is in amount Ls 7 496 900 (EUR 10 667 128), that consists of 7 496 900 ordinary shares with nominal value of Ls 1 each.

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

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| (18) Borrowings | 31.12.2009. EUR | 31.12.2008. EUR |
|---|--------------------|--------------------|
| Non-current | | |
| AS Swedbank (previously Hansabanka) | 11 950 806 | 12 265 837 |
| Nordea Bank Finland Plc. Latvian branch | <u>4 599 960</u> | <u>3 080 044</u> |
| | 16 550 765 | 15 345 880 |
| Current | | |
| Credit line facilities | | |
| AS Swedbank (previously Hansabanka) | 16 218 917 | 9 167 663 |
| Nordea Bank Finland Plc. Latvian branch | <u>2 877 836</u> | <u>8 260 755</u> |
| | <u>1 362 553</u> | <u>4 245 023</u> |
| | 20 459 307 | 21 673 441 |

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

| | 2009 EUR | 2008 EUR |
|--|-------------------|-------------------|
| At beginning of the year | 37 019 321 | 53 669 527 |
| Received borrowings during the year | 7 051 254 | 6 500 000 |
| Repaid borrowings during the year | (7 034 749) | (23 193 603) |
| Currency exchange rate fluctuation results | <u>(25 754)</u> | <u>43 398</u> |
| At the end of the year | 37 010 072 | 37 019 321 |

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 2009 the limit of overdraft granted by Nordea Bank Finland Plc is in amount Ls 6 308 285, which consists of:
EUR 3 000 000, 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 Ls 2 610 085, EUR 3 345 744 and USD 3 000 000.

On 31 December 2009 the debt of the Company for above mentioned credit lines consists of:

- Nordea Bank Finland Plc. Latvia branch Ls 3 264 166, EUR 2 811 497,
- AS Swedbank Ls 2 430 533, EUR 3 251 209, USD 2 951 181.

The term of repayment:

- Nordea Bank Finland Plc. Latvia branch - 30 December 2010;
- AS Swedbank - 30 April 2010. The management is planning to prolong credit line facilities for one year.

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

On 31 December 2009 the debt of the Company for above mentioned loan to AS Swedbank amounted to USD 3 683 333 (Ls 1801150), and to Nordea Bank Finland Plc. Latvian branch - amounted to EUR 2 882 469 (Ls 2 025 811). Principal amount of the said loans must be repaid by:

- 30 April 2014 to AS Swedbank;
- 30 June 2012 to Nordea Bank Finland Plc. Latvian branch, with the right to prolong repayment date till 30 April 2014.

On 21 September 2005 a credit agreement was signed with AS Swedbank for granting a credit of EUR 20 667 200. Credit repayment term - 20 July 2015. At the end of reporting year the outstanding loan amount is EUR 7 980 122 (Ls 5 608 462).

On 24 July 2007 a loan agreement was concluded between Nordea Bank Finland Plc, AS Swedbank and the Company on granting the loan in amount EUR 13 000 000, spited as EUR 7 000 000 disbursed from Nordea Bank Finland Plc and EUR 6 000 000 disbursed from AS Swedbank. In 2008 the Company has concluded amendments to the above-mentioned agreement regarding additional loan of EUR 1 500 000, which has been received during the previous reporting year.

The maturity of the loan is 30 June 2012 with the right to extend the repayment date till 30 June 2014.

On 31 December 2009 the debt of the Company for above mentioned agreement consists of EUR 4 285 714 (Ls 3 012 017) to AS Swedbank, and respectively, EUR 3 080 044 (Ls 2 164 667) to Nordea Bank Finland Plc.

On 28 December 2007 the Company has concluded a loan agreement with AS Swedbank for granting a loan in amount EUR 10 000 000. The loan is granted for financing S.P.I. Group projects. At the end of the reporting year the loan is repaid in full; during the year 2009 the repaid sum is EUR 2 760 870 (Ls 1 940 350).

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

| | 31.12.2009 | 31.12.2008 |
|------------------------|------------------|-----------------|
| Loans | 1.663% - 2.478% | 3.910% - 4.742% |
| Credit line facilities | 9.381% - 10.471% | 15.492% |

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

| | 31.12.2009 EUR | 31.12.2008 EUR |
|------------------|-------------------|-------------------|
| 6 months or less | 37 010 073 | 37 019 321 |
| | <u>37 010 073</u> | <u>37 019 321</u> |

Maturity of the total borrowings is as follows:

| | 31.12.2009 EUR | 31.12.2008 EUR |
|------------------------------|-------------------|-------------------|
| Payable in 1 year | 20 459 307 | 21 673 441 |
| Payable in 2 – 5 years | 15 717 022 | 13 082 861 |
| Payable in more than 5 years | 833 743 | 2 263 019 |
| | <u>37 010 072</u> | <u>37 019 321</u> |

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., 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 2009 was EUR 114 621 062 (as at 31 December 2008 - EUR 122 882 432).

(19) Derivatives financial instruments and hedging activities

The Company uses hedge accounting for variable interest payments for received loans from Nordea Bank Finland Plc. 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 (11) in accounting policy).

The fair value of derivative financial instruments at the end of the reporting year is estimated in EUR 474 486, and recognized in the equity under "Financial instruments revaluation reserve" (less changes in deferred tax liabilities). Liabilities on derivative financial instruments are classified as long-term as the period of swap contract is up to June, 2012.

(20) Other liabilities

| | 31.12.2009. EUR | 31.12.2008. EUR |
|--|--------------------|--------------------|
| Excise tax | 8 317 991 | 12 987 501 |
| Accrued liabilities | 2 733 698 | 2 833 107 |
| Value Added Tax | 984 274 | 817 662 |
| Accruals for unused annual leave | 407 185 | 631 983 |
| Salaries | 276 515 | 405 281 |
| Deferred income | 281 309 | 363 742 |
| Mandatory State social insurance contributions | 144 488 | 200 466 |
| Personal income tax | 93 407 | 132 060 |
| Real estate tax | 1 864 | 1 965 |
| Unpaid dividends of the previous years | - | 7 449 |
| Other receivables | 72 184 | 57 188 |
| | <u>13 312 915</u> | <u>18 438 402</u> |

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(21) Cash granted from operations

| | 2009 EUR | 2008 EUR |
|--|------------------|-------------------|
| Profit before corporate income tax | 6 265 855 | 10 005 481 |
| <u>Adjustments for:</u> | | |
| depreciation and amortization (Note 7) | 2 561 246 | 2 555 624 |
| increase / (decrease) in provisions for stock impairment | (275 205) | 677 803 |
| loss / (profit) from foreign currency exchange rate fluctuations | (25 754) | 43 398 |
| interest expenses (Note 9) | 2 438 708 | 3 141 381 |
| interest income (Note 8) | (1 132 848) | (2 463 472) |
| loss / (profit) from revaluation of tangible assets | 347 642 | - |
| loss / (profit) from disposal of tangible assets | 69 668 | 45 718 |
| <u>Changes in working capital</u> | | |
| inventories | 3 538 156 | (3 643 209) |
| receivables | (478 385) | 9 147 269 |
| liabilities | (6 408 835) | (1 485 196) |
| | <u>6 900 248</u> | <u>18 024 796</u> |

(22) Average number of employees

| | 2009 | 2008 |
|---|------------|------------|
| Average number of people employed during the financial year | <u>681</u> | <u>773</u> |

(23) Remuneration to personnel

| | 2009 EUR | 2008 EUR |
|--|------------------|-------------------|
| Salaries and mandatory State social insurance contributions for production personnel | 4 589 634 | 6 075 327 |
| Salaries and mandatory State social insurance contributions for distribution personnel | 2 042 675 | 2 418 074 |
| Salaries and social insurance contributions for administration personnel | 1 909 454 | 2 117 639 |
| | <u>8 541 763</u> | <u>10 611 039</u> |
| Including key management | | |
| salary expenses | 786 134 | 1 082 154 |
| mandatory State social insurance contributions | 193 405 | 70 458 |
| including Mandatory State social contributions included in personnel expenses | 1 724 166 | 1 909 299 |

(24) Transactions with related parties

The main shareholder of the Company, who owns 89.53% of shares of the Company, is S.P.I. Regional Business Unit B.V. (the previous name is 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 2009 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. (Luxemburg), SPI Production B.V. (Netherlands), Tambovskoje spirtovodocnoje predpriyatije Talvis OAO (Russia), Torgovi Dom Rostvestalko (Russia), SPI-RVVK OAO (Russia), SIA Bravo (Latvia), UAB Bennet Distributors (Lithuania), SIA Z Towers (Latvia), SPV Distributor SIA (Latvia), Spirits International B.V.(Luxemburg), SIA AV&D (Latvia), SIA Interlat (Latvia). On 30 December, 2009 the S.P.I. Group has acquired shares of SIA Mono M (Latvia), SIA S.D.V. (Latvia), SIA L.D.V. (Latvia). The Company also had economic transactions with the related company SIA Meicrovica 35 (Latvia) which is not a member of the SPI Group.

The value of the transactions are disclosed with excise tax.

(a) Sale of Goods

| | 2009 EUR | 2008 EUR |
|------------------------------|--------------------|--------------------|
| SIA AV&D | | |
| S.P.I. Spirits (Cyprus) Ltd. | 65 422 273 | 85 967 638 |
| UAB Bennet Distributors | 40 615 281 | 48 060 829 |
| Torgovi Dom Rosvestalko | 6 300 159 | 8 398 885 |
| SIA Bravo | 652 328 | 864 026 |
| SPI-RVVK OAO | 328 944 | 155 970 |
| | 162 788 | 442 876 |
| | <u>113 481 773</u> | <u>143 890 224</u> |

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(b) Sale of Other Assets

| | 2009 | 2008 |
|--|----------|----------------|
| | EUR | EUR |
| Sale of trade mark to Spirits International B.V. | - | 426 862 |
| Sale of tangible assets to SIA AV&D | - | 7 234 |
| | <u>-</u> | <u>434 095</u> |

(c) Service Rendered (Including Loan Interest)

| | | |
|--|------------------|------------------|
| S.P.I. Spirits (Cyprus) Ltd. | 780 506 | 1 292 568 |
| SIA Interlat | 580 631 | 693 118 |
| S.P.I. Production B.V. | 568 161 | 1 238 314 |
| SIA AV&D | 293 870 | 122 289 |
| SIA Bravo | 36 387 | 19 720 |
| SIA Meierovica 35 | 13 677 | 102 861 |
| SIA Z Towers | - | 592 |
| Spirits International B.V. (Luxemburg) | - | 359 |
| Spirits Product International IP B.V. | - | 239 |
| Spirits International B.V. (branch) | 2 462 | - |
| SIA SPV Distributor | 189 | 145 |
| | <u>2 275 883</u> | <u>3 470 204</u> |

(d) Purchase of Goods

| | | |
|--|------------------|------------------|
| SPI-RVVK OAO | 7 810 216 | 7 010 108 |
| Tambovskoje spirtovodocnoje predpriyatije Talvis OAO | 393 734 | 631 421 |
| S.P.I. Spirits (Cyprus) Ltd. | 98 848 | 22 510 |
| UAB Bennet Distributors | - | 28 457 |
| SIA Bravo | - | 1 228 |
| | <u>8 302 799</u> | <u>7 693 724</u> |

(e) Services Received

| | | |
|---------------------------------------|----------------|------------------|
| S.P.I. Group S.a.r.l | - | 878 379 |
| S.P.I. Spirits (Cyprus) Ltd. | 291 821 | 486 598 |
| SIA Meierovica 35 | 145 241 | 120 033 |
| SIA AV&D | 98 739 | 18 706 |
| UAB Bennet Distributors | 51 185 | 55 421 |
| Spirits Product International IP B.V. | 38 551 | 89 201 |
| Spirits International B.V. | 6 426 | 6 037 |
| SPI-RVVK OAO | 2 528 | 3 512 |
| SIA Interlat | - | 122 |
| SIA Bravo | 519 | 44 |
| | <u>635 011</u> | <u>1 658 054</u> |

(f) Accounts Receivable and Payable

| | 31.12.2009. | | 31.12.2008. | |
|---|--------------------|-----------------|--------------------|------------------|
| | Receivables EUR | Payables EUR | Receivables EUR | Payables EUR |
| S.P.I. Spirits(Cyprus) Ltd. | 18 306 034 | 665 730 | 12 604 308 | 2 737 802 |
| SIA AV&D | 3 539 914 | 74 786 | 7 386 688 | 8 641 |
| UAB Bennet distributors | 2 204 935 | 41 095 | 2 392 151 | 7 368 |
| S.P.I. Production B.V. | 1 613 434 | - | 1 045 272 | - |
| SIA Meierovica 35 * | 806 664 | - | 710 | 23 607 |
| OU Divinum | 597 044 | 16 592 | - | - |
| Spirits International B.V. | 427 257 | - | 427 261 | - |
| SIA L.D.V. | 377 132 | - | - | - |
| SIA Mono M | 288 920 | - | - | - |
| SIA Bravo | 29 899 | 629 | 48 030 | 51 |
| Spirits Product International IP B.V. | 236 | 26 158 | 239 | 576 734 |
| SIA Interlat | 23 580 | - | 77 147 | - |
| Torgovi Dom Rosvestalko | 15 139 | - | 272 813 | - |
| Spirits International B.V. | #VALUE! | 12 463 | - | 6 037 |
| SPI-RVVK OAO | 10 848 | - | 60 754 | - |
| Spirits International B.V.(branch) | 2 979 | - | - | - |
| SIA S.Alko | 1 864 | - | - | - |
| SIA SPV Distributor | 81 | - | 484 | - |
| | <u>28 245 962</u> | <u>837 454</u> | <u>24 315 856</u> | <u>3 360 240</u> |
| The short term part of the loan (see section (g)) | - | - | 10 000 000 | - |
| Total short term liabilities | <u>28 245 962</u> | <u>-</u> | <u>34 315 856</u> | <u>-</u> |

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Repayment of the debts will be made in cash, and they are not secured with guarantee or otherwise. In 2009 and 2008 there are no significant bad debts from related parties.

* In 2009, the Company concluded a loan agreement with SIA Meirovica 35 for the loan in amount of 1 000 000 lats (EUR 1 422 872). The loan is issued as credit line facilities in separate parts. Loan repayment term is until 1 October, 2010. On 31 December, 2009 the issued and outstanding amount of the loan is EUR 802 500.

At the end of the reporting year accrued liabilities to S.P.I. Group S.à.r.l. for the services received during the previous years were EUR 1 352 605 (31.12.2008 - EUR 1 324 637).

(g) Loans to Group companies

| | 31.12.2009. EUR | 31.12.2008. EUR |
|---|--------------------------|--------------------------|
| S.P.I. Production B.V. ** | 20 599 999 | 20 599 999 |
| S.P.I. Spirits (Cyprus) Ltd * | <u>14 700 000</u> | <u>14 700 000</u> |
| | <u>35 300 000</u> | <u>35 300 000</u> |
| At beginning of the year | 35 300 000 | 38 599 999 |
| Borrowings issued during the year | 3 153 084 | 5 000 000 |
| Repaid borrowings during the year | <u>(3 153 084)</u> | <u>(8 300 000)</u> |
| At the end of the year | <u>35 300 000</u> | <u>35 300 000</u> |
| Maturity of the total borrowings is as follows: | | |
| Payable in 1 year | - | 10 000 000 |
| Payable in 2 – 5 years | <u>35 300 000</u> | <u>25 300 000</u> |
| | <u>35 300 000</u> | <u>35 300 000</u> |

* On 26 July 2007 the Company concluded a loan agreement with S.P.I. Spirits (Cyprus) Limited regarding loan of EUR 13 000 000. During year 2008 the loan was partly repaid for EUR 8300000. The unpaid part of principal sum of the loan on 31 December 2009 is in amount EUR 4 700 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2009 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 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 of EUR 5 000 000.

On 28 December, 2009 the agreement on prolongation of term till 28 December 2011 was signed. The unpaid part of the loan on 31 December 2009 is EUR 10 000 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2009 amounted to Ls 7 028 040.

** On 20 April 2006 the Company concluded a long-term loan agreement with S.P.I. Production B.V. in the amount of EUR 20 600 000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2009 amounted Ls 14 477 762. Repayment date is 20 July 2010 or due to signed agreement 20 July 2015.

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

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

| | 31.12.2009. | 31.12.2008. |
|--------------|----------------|----------------|
| Loans issued | 1.856 - 3.712% | 4.107 - 6.001% |

(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 25(e)). In accordance with the Management's estimates in 2010 no significant changes are expected in the amount of royalty payments.

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(25) Tax Contingent Liabilities

The tax authorities have conducted complex tax audit of the Company for the period from 2002 to 2004. The outcome of this audit was not material to these financial statements.

The tax authorities may at any time conduct the accounting audit for the last three years after the taxation period and apply additional tax liabilities and penalties. The Management of the Company is not aware of any circumstances that could cause potential significant liabilities in the future.

(26) Guaranties issued

In January 2009 SIA Bravo has signed credit line agreement with Nordea Bank Finland Plc, Latvian branch for credit line with EUR 5 000 000 limit, where AS Latvijas balzams issued guarantee in amount EUR 4 000 000 serves as the security. The maturity date is 30 December 2010. The guarantee is valid until complete fulfilment of SIA Bravo obligation.

The Company issued guarantees to AS Parex banka as the security of the payment card (Visa Gold) issued to SPI Spirits (UK) Ltd. with the granted credit of USD 100 000.

(27) 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. In 2009 the Company has reduced the volume of transactions in U.S. dollars. Taking into account the increased amounts of transactions in euro, in 2009 the Company had increased the share of credit line facilities in euro.

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

The Company's significant open currency positions:

| | 31.12.2009. | 31.12.2008 |
|--|--------------------|------------------|
| Financial assets, EUR | 50 282 524 | 40 869 444 |
| Financial liabilities, EUR | (28 266 685) | (30 567 545) |
| Open position EUR, net | 22 015 839 | 10 301 899 |
| Open position EUR calculated in lats, net | 15 472 820 | 7 240 216 |
| Financial assets, USD | 775 633 | 17 601 600 |
| Financial liabilities, USD | (6 914 265) | (6 486 477) |
| Open position USD, net | (6 138 632) | 11 115 123 |
| Open position USD calculated in lats, net | (3 001 791) | 5 501 986 |

(ii) Interest rate risks

The Company is exposed to interest rate risk as the main part of the liabilities are interest-bearing borrowings with the variable interest rate (Note 18), as well as the Company's interest bearing assets have variable interest rate (Note 24(g)). Taking into account that the difference between assets and liabilities with variable interest rates is not significant and mainly depends on EURIBOR fluctuations, the management of the Company believes that risk of interest rate fluctuations is low.

| | 31.12.2009. | 31.12.2008. |
|--|---------------------|---------------------|
| | EUR | EUR |
| Financial assets with variable interest rate, EUR calculated in LVL | 14 700 000 | 14 700 000 |
| Financial liabilities with variable interest rate, EUR calculated in LVL | (17 071 851) | (19 553 563) |
| Financial liabilities with variable interest rate, USD calculated in LVL | (3 244 277) | (2 258 438) |
| Financial liabilities with variable interest rate, LVL | (5 694 699) | (4 205 326) |
| Open position, net, LVL | (11 310 827) | (11 317 327) |

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

(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 | 31.12.2009 EUR | 31.12.2008 EUR |
|---|-------------------|-------------------|
| Issued loans to Group companies | 35 300 000 | 35 300 000 |
| Trade receivables - Group companies | 28 245 962 | 34 315 856 |
| Trade receivables - non-related parties | 738 556 | 2 093 191 |
| Cash | 572 608 | 291 397 |
| | <u>64 857 125</u> | <u>72 000 444</u> |

The largest concentration of credit risk arises from the Group company's debts: on 31 December 2009 97% of the total trade receivables related to Group companies (31.12.2008: 92%). 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 | spitted as: in due term | Past due* | | |
|------------|--------------|---------------------------------------|--------------------------------|----------------------------|-----------|-------------|------------|
| | | | | | < 90 days | 90-180 days | > 180 days |
| 31.12.2009 | 1 223 889 | (485 333) | 738 556 | 355 200 | 374 796 | 8 560 | - |
| 31.12.2008 | 5 558 070 | (3 464 879) | 2 093 191 | 1 269 905 | 506 194 | 232 869 | 84 224 |

* The Company has estimated the provisions for impairment losses of assets by estimation the balance of overdue accounts receivable individually. Taking into account repayment of debt in 2010, the Company's management concluded that it is not necessary to make provisions for impairment of assets.

(c) Liquidity risk

Company pursues a prudent liquidity risk management and maintain a sufficient quantity of cash and ensure the availability of financial funds through credit lines provided by banks. At the end of the reporting year total available credit facilities amount is EUR 18 123 thousand (31.12.2008: EUR 18 149 thousand). On 31 December 2009 the unused part of the credit line was EUR 1 904 thousand (2008: EUR 8 981 thousand). Company's management monitors the operational forecasting of liquidity reserves, based on estimated cash flows. Most of the Company's liabilities are short-term. Management believes that the Company will have sufficient amount of financial resources that will be generated from operating activities and through a credit line facilities from Latvian banks.

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

On 31 December, 2009

| | Total EUR | <1 year EUR | 1-2 years EUR | 2-5 years EUR | >5 years EUR |
|----------------------------------|-------------------|-------------------|------------------|-------------------|-----------------|
| Long-term loans | 16 550 765 | - | 4 240 389 | 11 476 634 | 833 743 |
| Derivative financial instruments | 474 486 | - | - | 474 486 | - |
| Short-term loans | 20 459 307 | 20 459 307 | - | - | - |
| Trade payables | 5 393 524 | 5 393 524 | - | - | - |
| Debts to Group companies | 837 454 | 837 454 | - | - | - |
| | <u>43 715 537</u> | <u>26 690 285</u> | <u>4 240 389</u> | <u>11 951 120</u> | <u>833 743</u> |

On 31 December, 2008

| | Total EUR | <1 year EUR | 1-2 years EUR | 2-5 years EUR | >5 years EUR |
|--------------------------|-------------------|-------------------|------------------|-------------------|------------------|
| Long-term loans | 15 345 880 | - | 2 983 788 | 10 099 073 | 2 263 019 |
| Short-term loans | 21 673 441 | 21 673 441 | - | - | - |
| Trade payables | 4 532 454 | 4 532 454 | - | - | - |
| Debts to Group companies | 3 360 240 | 3 360 240 | - | - | - |
| | <u>44 912 015</u> | <u>29 566 135</u> | <u>2 983 788</u> | <u>10 099 073</u> | <u>2 263 019</u> |

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

"Latvijas balzams"
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(d) Capital Management

According to the Latvian Commercial Law requirements if the equity of the Company falls below 50% 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 total capital (gearing ratio). During the reporting year this figure has increased slightly for 1%, that confirms the stability of the Company. The positive trend in 2009 is also the increased proportion of equity to total assets up to 48% (2008: 46%).

| | 31.12.2009. | 31.12.2008 |
|--------------------------------------|-------------------|-------------------|
| | EUR | EUR |
| Total borrowings | 37 010 073 | 37 019 321 |
| Less cash and its equivalents | (572 608) | (291 397) |
| Net debt | <u>36 437 465</u> | <u>36 727 924</u> |
| Equity | 55 589 708 | 56 234 936 |
| Total capital (equity and net debts) | <u>92 027 173</u> | <u>92 962 860</u> |
| Total assets | 114 621 062 | 122 882 432 |
| Gearing ratio | 66% | 65% |
| Equity ratio | 48% | 46% |

(28) 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 2009.

Appendix I
AS „Latvijas balzams”
ANNUAL REPORT
for the period ended 31 December 2009
in accordance with EU approved
International Financial Reporting Standards

Shares

JSC “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 |
| Liquidity providers | None |
| Indexes | B30GI, B30PI, OMXBGI, OMXBPI, OMXRGI |

JSC “Latvijas balzams” share price development for the period 01.01.09 – 31.12.09



Currency: EUR

JSC “Latvijas balzams” share price development for the period 01.01.09 – 31.12.09

| | |
|------------------------------|-------------------|
| Open | 1,47 EUR |
| Max | 4,41 EUR |
| Min | 1,15 EUR |
| Last | 2,70 EUR |
| Average | 2,43 EUR |
| Change | 84,47 % |
| Deals | 899 |
| No of shares traded | 74 236 |
| Turnover | 180 087,63 EUR |
| Capitalization on 2009.12.31 | 20 267 542,58 EUR |

Information source: AS „NASDAQ OMX Riga” web page www.nasdaqomxbaltic.com

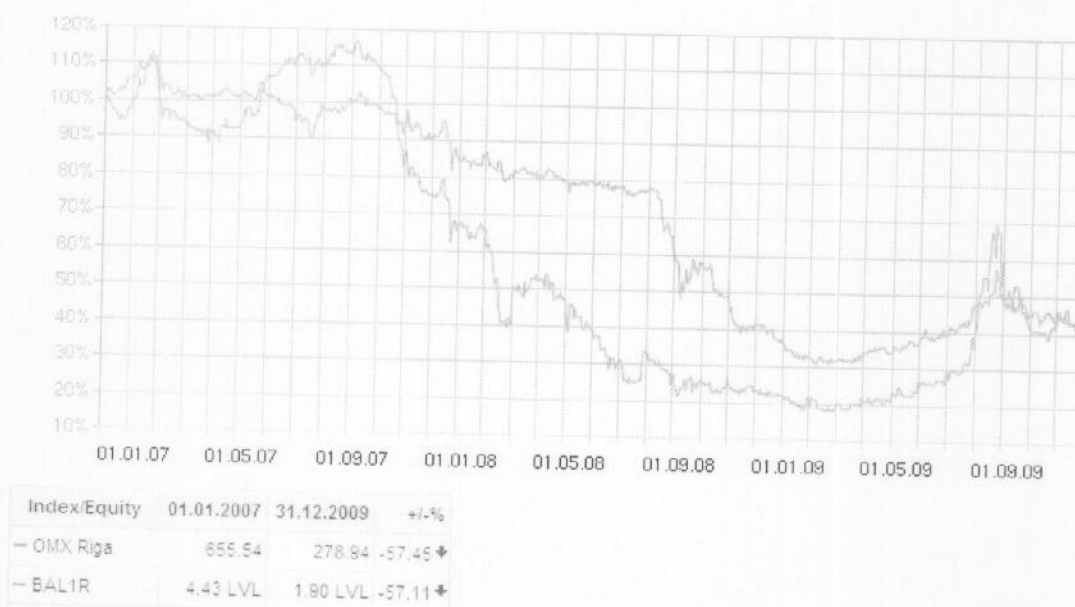
Appendix I
AS „Latvijas balzams”
ANNUAL REPORT
for the period ended 31 December 2009
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 International Financial Reporting Standards

JSC “Latvijas balzams” share price development for the period 01.01.07 – 31.12.09



Currency: EUR

JSC “Latvijas balzams” share price development in comparison with NASDAQ OMX Riga index for the period 01.01.07 – 31.12.09



Kārlis Andersons – chairman of the Management Board
(since 29.04.2008)
General director of AS Latvijas balzams

Chairman of the Management Board of AS Latvijas balzams since 29.04.2008, chairman of the Management Board of SIA AV&D since 30.03.2010, member of the Board of Latvian Association of Alcohol Producers and Traders (ARTA) since 24.02.2009, chairman of the Board of Association of Latvian Spirits Producers and Distributors (LADRIA) since 04.06.2008, member of the Board of Latvian Federation of Food Enterprises since 30.05.2008, member of the Board of Yury Shefler Fund since 04.06.2008, member of the Supervisory Board of Employers' Confederation of Latvia since 31.03.2009

The University of Latvia, faculty of economics and management, bachelor degree

The University of Latvia, faculty of law, justice, qualification of lawyer

Business school of Aarhus (Denmark), Aarhus University – master degree in finances

08.2006 - 04.2008 CFO of AS Latvijas balzams

2005 - 2006 Member of the Management Board of VP Market

2004 - 2006 CFO of VP Group Latvija

Valery Parshikov – member of the Management Board
(from 18.05.2009 to 22.03.2010)

Kaliningrad State University, Kaliningrad, Russia

2005 - 2009 OAO SPI RVVC Kaliningrad, Russia, Adviser of Director General in the field of logistics and foreign economic activities

Ronalds Žarinovs – member of the Management Board
(since 29.04.2008),
Director of production of AS Latvijas balzams
(since 16.06.2003)

Latvia University of Agriculture, bachelor degree

Riga International School of Economics and Business Administration (RSEBAA), master degree

1998 - 2003 Director of production of AS Rīgas Piena kombināts

The University of Latvia, faculty of economics and management, bachelor degree

1997 - 1999 Procurement director of SIA REMA1000LV

The University of Latvia, faculty of law, lawyer

The University of Latvia, faculty of economics, business economics, bachelor degree

The University of Latvia, faculty of economics and management, master degree

1999 - 2004 HR manager of AS Ventspils Tirdzniecības osta

Member of the Management Board of SIA AV&D since 28.05.2008

The University of Latvia, faculty of economics, bachelor degree

09.2007 - 09.2008 CFO of SIA AV&D

01.2006 - 09.2007 Chief accountant of SIA MAXIMA Latvija

Egils Dzerelis – member of the Management Board
(from 06.05.2003. to 20.05.2009),
Director of logistics of AS Latvijas balzams
(from 31.08.1999 to 18.05.2009)

Sergejs Ļimarenko – member of the Management Board
(since 06.05.2003),
Head of Security Service of AS Latvijas balzams
(since 20.02.2002)

Signe Bidermane – member of the Management Board
(since 29.04.2008),
Head of personnel and administration department of AS Latvijas balzams (since 05.07.2006)

Gunita Kronberga - member of the Management Board
(since 22.03.2010),
CFO of AS Latvijas balzams (since 29.09.2008)