AS LATVIJAS BALZAMS

ANNUAL REPORT

for the year ended 31 December 2008

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MANAGEMENT

Names and positions of the Counsel members

Aleksandrs Kovaļevs - Chairman of the Counsel

Vitolds Kokars – Vice Chairman of the Counsel

Andrejs Skurihins – Member of the Counsel

Pjotrs Aven - Member of the Counsel

Aleksandrs Jerņevs - Member of the Counsel
(from 29.04.2008 until 18.07.2008)

Valizhan Abidov - Member of the Counsel (from 29.04.2008)

Georgy Kipiani - Member of the Counsel (from 18.07.2008)

Brian Andrew Dublin - Member of the Counsel (until 29.04.2008)

Aleksejs Olijniks – Member of the Counsel (until 18.07.2008)

Names and positions of the Board members

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

Rolands Gulbis – Chairman of the Board (until 28.04.2008)

Aleksandrs Jerņevs – Member of the Board (until 28.04.2008)

Valižans Abidovs – Member of the Board (until 28.04.2008)

Egils Dzerelis – Member of the Board,
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

REPORT OF THE MANAGEMENT

Type of operations

AS Latvijas balzams (further in text the Company) is the largest alcoholic beverage producer in the Baltic States, whose product range includes more than 130 kinds of alcoholic beverages.

Performance of the Company during the financial year

The year 2008 for the Company has been successful, that is indicated by achieved operating results, however, a significant impact on the results achieved was left by the decline of population purchasing power in the domestic market on second half of 2008. Company's net sales in 2008 was 103.6 million lats, that is for 1.4% less than in 2007. The turnover decrease in the domestic market was for 12% in comparence with 2007. Significant growth in sales has been achieved in the export market. In comparence with 2007, export sales rose by 18.9%, that is for about 6.8 million lats. The main export directions of 2008 have been the Baltic States, Poland, Scandinavia and Russia. Besides new export market channels were actively developed. An exports of production to Switzerland, Canada and Australia was started. The company has paid great attention to rise efficiency of performance and as a result the profit compared to the previous period has increased significantly. The profit of the Company in reporting year was 5.9 million lats, that is for 2.6 million lats more than in 2007.
Operating results of the Company in 2008 was negatively affected by high inflation rate in the country and the economic downturn in Latvia and other countries affected by the world financial crisis.
Previously AS Latvijas balzams transfered 45.5 million lats in taxes to the state budget, including 35.1 million lats on the excise tax.

In 2008 the Company employed 773 employees in average, and their gross monthly salary last year was 676 lats in average.

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

	2008 Ls
Profit share to be distributed	**5 908 519**
Proposed profit distribution:	
Retained earnings	5 908 519

Future prospects

Despite the deepening of global financial crisis and the difficult economic conditions in Latvia, in 2009 AS Latvijas balzams has set objectives to develop new export markets and preserve market share achieved in the domestic market. For the achievement of these objectives and rise of production efficiency, the priorities for the further will be further production and control and optimization of logistics costs.

Kārlis Andersons
Chairman of the Board

Riga, 14 April 2009

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 by 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 ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 8 to page 36 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

Riga, 14 April 2009

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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 36. The period of financial statements is from 1 January 2008 till 31 December 2008 (the Financial year). These financial statements include the balance sheet as at 31 December 2008, and the income statement, 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.

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

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

Riga, 29 April 2009

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

INCOME STATEMENT

	Notes	2008 Ls	2007 Ls
Net sales	(2)	73 165 979	69 036 293
Cost of sales	(3)	(59 014 653)	(55 352 643)
Gross profit or losses		**14 151 326**	**13 683 650**
Distribution expenses	(4)	(5 139 031)	(5 028 696)
Administrative expenses	(5)	(3 512 700)	(4 021 775)
Other income	(6)	1 621 664	876 293
Other expenses	(7)	(130 215)	(562 556)
Finance income	(9)	2 480 900	1 227 651
Finance costs	(10)	(2 440 052)	(2 158 232)
Profit before tax		**7 031 892**	**4 016 335**
Income tax expenses	(11)	(1 123 373)	(695 644)
Net profit		**5 908 519**	**3 320 691**
Earnings per share (in santims)			
Basic	(12)	78.81	44.29
Diluted	(12)	78.81	44.29

Notes on pages 12 to 36 are an integral part of these financial statements.

BALANCE SHEET

	Notes	31.12.2008. Ls	31.12.2007. Ls
ASSETS			
Non-current assets			
Intangible assets	(13)	2 047	5 563
Property, plant and equipment	(13)	22 542 647	23 221 084
Loans to group companies	(25)	17 780 941	27 128 234
Other non-current assets		24 000	24 000
Total non-current assets:		**40 349 635**	**50 378 881**
Current assets			
Inventories	(14)	19 924 678	17 863 268
Trade receivables	(15)	1 471 103	574 546
Receivables from group companies	(25)	24 117 321	23 928 201
Other current assets	(16)	294 733	401 572
Cash and cash equivalents	(17)	204 795	87 837
Total current assets:		**46 012 630**	**42 855 424**
Total assets		**86 362 265**	**93 234 305**

	Notes	31.12.2008. Ls	31.12.2007. Ls
EQUITY AND LIABILITIES			
Equity			
Share capital	(18)	7 496 900	7 496 900
Share premium		61 767	61 767
Revaluation reserve		12 102 691	12 193 932
Retained earnings		19 860 780	13 952 261
Total equity:		**39 522 138**	**33 704 860**
Liabilities:			
Non-current liabilities:			
Borrowings	(19)	10 785 146	16 529 513
Deferred income tax liabilities	(11)	2 067 197	2 251 713
Total non-current liabilities:		**12 852 343**	**18 781 226**
Current liabilities:			
Borrowings	(19)	15 232 181	21 189 645
Trade payables		3 185 427	5 740 228
Payables to group companies	(25)	2 361 590	2 065 310
Current income tax payables	(11)	250 003	58 101
Other liabilities	(20)	12 958 583	11 694 935
Total current liabilities:		**33 987 784**	**40 748 219**
Total liabilities:		**46 840 127**	**59 529 445**
Total equity and liabilities:		**86 362 265**	**93 234 305**

Notes on pages 12 to 36 are an integral part of these financial statements.

Kārlis Andersons
Chairman of the Board

Riga, 14 April 2009

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserve	Retained earnings	Total
	Ls	Ls	Ls	Ls	Ls
31.12.2006.	**7 496 900**	**61 767**	**12 193 932**	**10 811 497**	**30 564 096**
Profit for the year	0	0	0	3 320 691	3 320 691
Total recognised income and expense	0	0	0	3 320 691	3 320 691
Dividends	0	0	0	(179 927)	(179 927)
31.12.2007.	**7 496 900**	**61 767**	**12 193 932**	**13 952 261**	**33 704 860**
Disposal of revalued property, pant and equipment	0	0	(107 342)	0	(107 342)
Changes in deferred income tax liabilities resulted to disposal of revalued assets (see note 11c.)	0	0	16 101	0	16 101
Net income recognised directly in equity	0	0	(91 241)	0	(91 241)
Profit for the year	0	0	0	5 908 519	5 908 519
Total recognised income and expense	0	0	(91 241)	5 908 519	5 817 278
31.12.2008.	**7 496 900**	**61 767**	**12 102 691**	**19 860 780**	**39 522 138**

CASH FLOW STATEMENT

	Notes	2008 Ls	2007 Ls
Cash flow from operating activities			
Cash flow from operating activities	(21)	12 667 899	(339 172)
Interest paid		(2 166 174)	(1 845 497)
Corporate income tax paid		(1 099 886)	(783 500)
Net cash flow generated from operating activities		**9 401 839**	**(2 968 169)**
Cash flow from investing activities			
Acquisition of property, plant and equipment		(1 266 532)	(2 362 251)
Proceeds from sales of property, plant and equipment		20 237	86 705
Loans granted		(3 514 020)	(12 650 472)
Loans repayment received		5 833 273	101 064
Loans interest received		1 374 493	4 318
Net cash flow generated from investing activities		**2 447 451**	**(14 820 636)**
Cash flow from financing activities			
Borrowings received		4 568 226	7 618 790
Changes in credit lines (net)		(5 234 103)	12 837 690
Borrowings repaid		(11 066 455)	(2 479 619)
Dividends paid		0	(179 926)
Net cash flow generated from financing activities		**(11 732 332)**	**17 796 935**
Net increase / (decrease) in cash and cash equivalents		**116 958**	**8 130**
Cash and cash equivalents at the beginning of the financial year		**87 837**	**79 707**
Cash and Cash equivalents at the end of the financial year	(17)	**204 795**	**87 837**

Notes on pages 12 to 36 are an integral part of these financial statements.

Kārlis Andersons
Chairman of the Board

Riga, 14 April 2009

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 main shareholder of the Company, who owns 89.52% of the Company's share capital, is 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.

These financial statements were authorised for issue by the Board of Directors of the Company on 14 April 2009, and Chairman of the Board Karlis Andersons signed these for and on behalf of the Board of Directors.

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).

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 judgements applying the accounting policies adopted by the Company. Critical estimates and judgements are represented in note (20).

a) Standards, amendments and interpretations, that are effective from 1 January 2008, but are not relevant to the Company

IFRS 7 Financial Instruments: disclosures and complementary amendment to IAS 1, Financial reporting - Financial asset reclassification.

Through these amendments the IASB implemented additional options for reclassification of certain financial instruments categorised as held-for-trading or available-for-sale under specified circumstances. Related disclosures were added to IFRS 7. The Company did not have financial instruments caught by these amendments.

IFRIC No.11 "IFRS 2 – Group and Treasury Share Transactions";
IFRIC No.12 "Service Concession Arrangements";
IFRIC No.14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction".

The interpretation of all of the above standards does not affect activities of the Company and as a result also does not affect the Company's financial statements.

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

The following standards and IFRS interpretations have been published and are mandatory for the accounting periods beginning on or after 1 March 2008 but are not yet adopted by the Company:

IAS 1 Presentation of financial statements (effective from the date of adoption by the European Union but not earlier than in the reporting period that begins on 1 January 2009).
IAS 1 was revised to improve use of the disclosures in the financial statements. Many amendments have been introduced including new definitions, representation of disclosures on equity transactions as well as other amendments. The Company at the moment considers amendments to the disclosures in accordance with these amendments. The Company will adopt the amendments to IAS 1, beginning on 1 January 2009.

IFRS 8, "Operating segments" (mandatory for accounting periods beginning on 1 January 2009).
IFRS 8 replaces IAS 14 and aligns segment reporting with the US FASB 131 Disclosures about Segments of an Enterprise and Related Information. The Company assessed IFRS 8 and concluded that additional notes to financial statements will not be needed.

IAS 23, Borrowing costs, amendments (that are effective from 1 January 2009)
IAS 23 excludes the possibility to recognise borrowing costs that are directly attributable to construction and acquisition of the relevant asset immediately in the income statement. The current accounting policy of the Company complies with this amendment.

Amendments to *IFRS 1 First-time Adoption of International Financial Reporting Standards* and *IAS 27 Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).

The amendment to IFRS 1 allows an entity to determine the 'cost' of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the income statement in the separate financial statements. The new requirements affect only the parent's separate financial statements and do not have an impact on the consolidated financial statements.

Besides, a new version of IFRS 1 was issued in November 2008. It retains the substance of the previous version, but within a changed structure and replaces the previous version of IFRS 1 (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Amendment to *IFRS 2 Share-based Payment* (effective for financial years beginning on or after 1 January 2009).
The amendment clarifies the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. The amendment will have no impact on the financial position or performance of the Company, as the Company does not have share-based payments.

Amendments to *IFRS 3 Business Combinations* and *IAS 27 Consolidated and Separate Financial Statements* (effective for financial years beginning on or after 1 July 2009 once adopted by the EU).

Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27A requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The amendments will have no impact on the financial position or performance of the Company, as the Company does not have investments in capitals.

Amendments to *IAS 32 Financial Instruments: Presentation* and *IAS 1 Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for financial years beginning on or after 1 January 2009 once adopted by the EU).
The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. The amendments to the standards will have no impact on the financial position or performance of the Company, as the Company has not issued such instruments.

Amendment to *IAS 39 Financial Instruments: Recognition and Measurement* – Eligible Hedged Items (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. The Company intends to apply the amendments to IAS 39, starting with the current period of 2009. 1. January.

IFRIC 13, 'Customer loyalty programmes' (effective for annual periods on or after 1 July 2008; for entities applying IFRS as adopted in the EU effective for annual periods beginning after 31 December 2008).
The interpretation clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation does not have an impact on the Company's financial statements.

IFRIC 14, 'IAS 19 -The limit on a defined benefit asset, minimum funding requirements and their interaction', (effective for annual periods beginning on or after 1 January 2008; for entities applying IFRS as adopted in the EU effective for annual periods beginning after 31 December 2008).
The interpretation provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement.

IFRIC 15, 'Agreements for construction of real estates' (effective for annual periods beginning on or after 1January 2009).
The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real es

IFRIC 16, 'Hedges of a net investment in a foreign operation' (effective for annual periods beginning on or after 1 October 2008).
IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The interpretation is not yet endorsed in EU.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).
The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not
relevant to the Company's operations because it does not distribute non-cash assets to owners.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).
The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition o

c) Standards and improvement projects of interpretations that are yet mandatory

In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards.

The substantive changes relate to the following areas:
- classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary;
- possibility of presentation of financial instruments held for trading as noncurrent under IAS 1;
- accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities;
- clarification of definition of curtailment under IAS 19;
- accounting for below market interest rate government loans in accordance with IAS 20;
- making the definition of borrowing costs in IAS 23 consistent with the effective interest rate method;
- clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5 reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31;
- enhancement of disclosures required by IAS 36;
- clarification of accounting for advertising costs under IAS 38;
- amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39;
- introduction of accounting for investment properties under construction in accordance with IAS 40;
- and reduction in restrictions over manner of determining fair value of biological assets under IAS 41.

Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Company does not expect the amendments to have any material effect on the financial statements. The Company does not expect the amendments to have any material effect on the financial statements.

(2) Foreign currencies

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

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 / Ls (1 EUR = Ls 0.702804) for the period from 1 January 2007 to 31 December 2008.

(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 recognised in the income statement for the period.

Exchange rates used at the balance sheet date are as follows:

	31.12.2008.	31.12.2007.
	Ls	Ls
1 USD	0.495	0.484
1 EUR	0.702804	0.702804
1 LTL	0.203	0.204
1 EEK	0.0449	0.0449

(3) Segment disclosure

A business segment is the identified part of Company's engaged in selling goods and providing services that are subject to risks and returns that are different from those of other Company parts. A geographical segment is the identified Company part engaged in selling goods or providing services within a particular economic environment that are subject to risks and returns that are different from those of Company's parts operating in other economic environments.

(4) Income recognition

Main operation of the Company is the production and sales of alcoholic drinks. Net sales represents the total goods and services sold during the year less 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 at the moment of provision.

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

(5) Intangible assets

Intangible assets, in general, consist of licences and patents. Intangible assets are shown 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
Licences 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

Buildings are shown 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 shown at their fair value on the basis of assessment made by independent valuator from time to time. Other assets are shown at their acquisition value less accumulated depreciation. Acquisition value includes the costs directly related to acquisition of the asset.

Subsequent costs are shown in the asset's carrying amount or recognised 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 charged to the income statement during the financial period in which they are incurred.

Fixed assets (continued)

Increase in value arising on revaluation is shown in equity under "Revaluation reserve", 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 charged to the income statement for the year.

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 balance sheet date.

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 capitalised during the time that is required to complete and prepare the asset for its intended use as part of the cost of the asset. Capitalisation 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" are charged to the retained earnings.

(7) Impairment of tangible and intangible assets

All tangible and intangible assets of the Company except land 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)

In cases, when the material part of the risks and rewards of ownership of the leased assets are remained to the lesser, the transaction is classified as operating lease. Lease payments and prepayment for lease are included in income statement on a straight-line basis over the lease period.

(9) Inventories

The inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realisable value of inventories is lower than their cost, provisions are created to reduce the value of inventories to their net realisable 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 reorganisation, 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 asset' s carrying amount and the present value of estimated future cash flows, discounted at the original effective rate. Changes in inventories are shown in the income statement.

(11) Derivative financial instruments

The Company manages the interest rate risk applying such derivative financial instruments as future interest rate fixation agreements. The derived financial instruments are initially recognised at their fair value on the date of the agreement, and thereafter are re-valued to their fair value at the date of the balance sheet. The derivative financial instruments are accounted as assets if their fair value is positive, and as liabilities – if their fair value is negative.

Any gain or loss arising from change in fair value of the derivative financial instruments that are classified as risk-limiting instruments, are represented exactly in the income statement.

(12) Cash and cash equivalents

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

(13) Share capital and dividends

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

(14) Borrowings

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

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

(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 shown 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 balance sheet date and are expected to apply when the deferred income tax is settled.

The principal temporary differences, in general, arise from different fixed 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 the Company's parent company, members of the Board and the Council, their close relatives and companies, in which they have a significant influence or control. The related parties also all companies controlled by the ultimative controlling party or companies where the ultimative controlling party has significant influence.

(20) Critical accounting estimates and judgements

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 judgements 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 shown in the financial statements, and disclosures in the notes at the date of the balance sheet 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 fixed assets, determination of revaluation regularity, assumptions and estimates of the Management made estimating their useful lives as well as recoverable receivables and inventories as well as disclosed in the relevant notes.

Revaluation of assets

Management of the Company determines fair value of the assets based on assessment made by independent certified valuators in accordance with the property valuation standards and based on the local construction costs in the reporting year.

The Management believes that assets must be revaluated at leased once in 5 years, or more often if any signs of decreased value appears. During the reporting year the Company has performed the impairment test for land and buildings.

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.

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, realisation probability and net selling value of the inventories shall be considered.

III. OTHER NOTES

(1) Segment Information

(a) Primary Reporting Segment – Business Segment
Core activity of the Company is production of alcoholic drinks. AS Latvijas balsams produces over 130 different types of drinks. Since the Company's basic activity is mainly the production of alcoholic drinks, the Company has only one reportable business segment. These financial statements represent the information related to the primary business segment.

(b) Secondary Reporting Segment – Geographical Segment
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 through S.P.I group companies and unallocated sales, which mainly represent export sales to unrelated parties. Distribution of sales among these segments is as follows:

	2008 Ls	2007 Ls
Latvia	30 297 716	32 991 317
Sales to overseas markets though S.P.I group companies	34 269 879	33 964 989
Other income form export	8 598 384	2 079 987
	73 165 979	**69 036 293**

(2) Net sales

Domestic market	30 297 716	32 945 571
Export	42 854 419	36 044 976
Other sales (spirit, raw materials)	13 844	45 746
	73 165 979	**69 036 293**

(3) Cost of sales

Materials	46 445 500	45 184 316
Salary expense	2 395 026	2 420 800
Energy resources	721 115	575 494
Goods purchased	623 470	707 100
Mandatory state social insurance contributions	574 840	581 144
Inventory changes of finished goods	559 531	(1 459 870)
Increase in provisions for accounts receivable, inventories and other accrued liabilities	517 252	73 761
Natural recourse tax	462 696	557 559
Accrued unused annual leave expenses (variable)	2 161	37 753
Other variable costs	2 568 847	2 664 714
Variable costs total:	*54 870 438*	*51 342 771*
	0	0
Depreciation and amortisation	1 313 360	1 302 089
Salary expenses	1 053 095	1 108 268
Repair expenses	563 120	553 599
Mandatory state social insurance contributions	252 016	262 795
Insurance payments	97 498	108 709
Laboratory expenses	37 214	44 781
Accrued unused annual leave expenses (fixed)	(7 373)	24 191
Other fixed expenses	835 285	605 440
Fixed costs total:	*4 144 215*	*4 009 872*
	59 014 653	**55 352 643**

(4) Distribution expenses	**2008**	**2007**
	Ls	**Ls**
Advertising expenses	1 905 446	1 721 448
Salary expenses	1 375 005	1 454 111
Transportation expenses	686 794	712 886
Mandatory state social insurance contributions	329 300	346 023
Depreciation and amortisation	233 893	242 615
Warehouse maintenance expenses	194 689	148 630
Accrued unused annual leave expenses	(4 873)	34 634
Other expenses	418 777	368 349
	5 139 031	**5 028 696**

(5) Administrative expenses

Salary expenses	1 293 449	1 164 077
Management services and expenses	814 589	1 024 712
Depreciation and amortisation	248 850	297 441
Representation expenses	212 471	185 588
Mandatory state social insurance contributions	171 068	145 345
Professional fees	169 167	163 308
Real estate tax	88 973	113 821
Expenses for liabilities against employees for the annual results	75 809	179 134
Office expenses	73 359	92 299
Communication and postal expenses	63 592	123 545
Transportation expenses	56 168	110 486
Financial support, sponsorship	54 000	50 817
Accrued unused annual leave expenses	(52 040)	99 373
IT maintenance	50 030	55 866
Business trip expenses	17 164	23 689
Employee training	10 639	17 308
Healthcare, health insurance	9 920	26 258
Other expense	155 492	148 708
	3 512 700	**4 021 775**

(6) Other income

Income from services rendered	503 290	402 297
Income form services rendered in warehouses of excise tax goods*	319 591	0
Income form lease of fixed assets	157 814	63 117
Auxiliary materials sold	83 540	107 661
Sold packages, boxes and pallets	11 626	19 543
Net profit form disposal and sale of fixed assets	0	31 039
Other income	545 803	252 636
	1 621 664	**876 293**

* During the Reporting year the Company has started to render new kind of services- services of excise tax goods warehouse. The incomes from rendered services are a net of calculated and regained from clients excise tax.

(7) Other expenses	2008 Ls	2007 Ls
Bank commission	39 567	80 465
Other expenses	90 648	482 091
	130 215	**562 556**

(8) Expenses by Nature

	2008 Ls	2007 Ls
Materials	46 445 500	45 184 316
Employee expenses	7 381 673	7 661 698
Depreciation and amortisation	1 796 103	1 842 145
Advertising expenses	1 905 446	1 721 448
Management services and expenses	814 589	1 024 712
Repair expenses	574 026	568 947
Increase in provision for accounts receivables, inventories and other accrued liabilities	517 252	73 761
Transportation expenses	742 962	823 372
Natural recourse tax	462 696	557 559
IT maintenance expenses	65 854	70 100
Real estate tax	88 973	113 821
Other expenses	7 001 525	5 323 789
	67 796 599	**64 965 670**

(9) Finance income

	2008 Ls	2007 Ls
Interest income	1 731 338	1 216 228
Net profit from exchange rate fluctuations	743 617	0
Income form penalties	5 945	11 423
Finance income	**2 480 900**	**1 227 651**

(10) Finance expenses

	2008 Ls	2007 Ls
Long-term loan interest	1 408 712	1 125 577
Interest for use of credit lines	799 061	686 983
Net loss form exchange rate fluctuations	0	239 784
Net loss form purchase - sale of currency	232 279	105 788
Finance expenses	**2 440 052**	**2 158 132**

(11) Corporate income tax

a) Components of corporate income tax

	2008 Ls	2007 Ls
Changes in deferred income tax	(168 415)	(174 308)
Corporate income tax according to the tax return	1 291 788	869 952
	1 123 373	**695 644**

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:

	2008 Ls	2007 Ls
Profit before taxes	7 031 892	4 016 335
Theoretically calculated tax at 15% tax rate	**1 054 784**	**602 450**
Tax effects on:		
Non-deductible expenses for tax purposes	150 993	184 905
Tax rebate for donations	(43 350)	(43 095)
Tax relief for the acquired technological equipment	(39 054)	(48 616)
Total tax charge	**1 123 373**	**695 644**

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	2 251 713	2 426 022
Deferred tax charged to the income statement	(168 415)	(174 309)
Changes in deferred tax recognised in non-current assets revaluation reserve	(16 101)	0
Deferred tax liabilities (asset) at the end of the financial year	**2 067 197**	**2 251 713**

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):

	31.12.2008. Ls	31.12.2007. Ls
Temporary difference on depreciation of fixed and intangible assets	2 433 227	2 483 963
Gross deferred tax liabilities	**2 433 227**	**2 483 963**
Temporary difference on accruals for annual leave	(66 624)	(75 943)
Temporary difference on provisions for slow moving and obsolete stock	(158 674)	(86 533)
Expected temporary difference	(140 732)	(69 774)
Gross deferred tax assets	**(366 030)**	**(232 250)**
Net deferred tax liability (assets)	**2 067 197**	**2 251 713**

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:

Deferred tax assets:		
deferred tax asset to be recovered within a year	(366 030)	(232 249)
	(366 030)	(232 249)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	91 829	106 979
deferred tax liabilities to be recovered after more than a year	2 341 398	2 376 984
	2 433 227	2 483 963
Net deferred tax liabilities (assets)	**2 067 197**	**2 251 713**

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:

	Accelerated depreciation	**Accruals for unused annual leave**	**Other accruals**	**Provisions for slow moving stock**	**Total**
	Ls	**Ls**	**Ls**	**Ls**	**Ls**
31.12.2006	**2 548 322**	**(46 550)**	**0**	**(75 750)**	**2 426 022**
Charged / (credited) to income statement	(64 359)	(29 393)	(69 774)	(10 783)	(174 309)
31.12.2007	**2 483 963**	**(75 943)**	**(69 774)**	**(86 533)**	**2 251 713**
Charged / (credited) to income statement	(50 736)	9 319	(140 732)	(72 141)	(254 290)
31.12.2008	**2 433 227**	**(66 624)**	**(140 732)**	**(158 674)**	**2 067 197**

(12) 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 profit of the reporting year by the average number of shares in the reporting year.

	2008	**2007**
Profit attributed to shareholders of the Company (Ls)	5 908 519	3 320 691
Average annual number of shares	7 496 900	7 496 900
Earnings per share (expressed in santims)	**78.81**	**44.29**

(13) Intangible assets, property, plant and equipment

	Licenses and patens	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Advances for assets	Total
	Ls	Ls	Ls	Ls	Ls	Ls	Ls
01.01.2007							
Initial cost/ valuation	1 163 608	19 889 525	11 312 992	3 361 012	322 150	83 428	36 132 715
Accumulated depreciation	(1 153 785)	(1 030 980)	(8 634 323)	(2 487 839)	0	0	(13 306 927)
Net book value	**9 823**	**18 858 545**	**2 678 669**	**873 173**	**322 150**	**83 428**	**22 825 788**
		0	0	0	0	0	0
2007		0	0	0	0	0	0
Opening net book value	9 823	18 858 545	2 678 669	873 173	322 150	83 428	22 825 788
Additions		0	0	0	0	2 362 250	2 362 250
Disposal		0	(7 209)	(43 310)	(5 338)	(63 580)	(119 437)
Reclassified		149 785	1 554 589	159 733	353 839	(2 217 946)	0
Depreciation	(4 260)	(768 860)	(752 588)	(316 246)	0	0	(1 841 954)
Closing net book value	**5 563**	**18 239 470**	**3 473 461**	**673 350**	**670 651**	**164 152**	**23 226 647**
31.12.2007							
Initial cost/ valuation	1 163 608	20 039 309	12 306 280	3 139 668	670 651	164 152	37 483 668
Accumulated depreciation	(1 158 045)	(1 799 839)	(8 832 819)	(2 466 318)	0	0	(14 257 021)
Net book value	**5 563**	**18 239 470**	**3 473 461**	**673 350**	**670 651**	**164 152**	**23 226 647**
		0	0	0	0	0	0
2008		0	0	0	0	0	0
Opening net book value	5 563	18 239 470	3 473 461	673 350	670 651	164 152	23 226 647
Additions		0	0	0	0	1 416 650	1 416 650
Disposal		(134 712)	(6 795)	(18 204)		(142 788)	(302 499)
Reclassified	436	147 091	1 151 852	266 042	(298 889)	(1 266 532)	0
Depreciation	(3 952)	(729 330)	(794 015)	(268 807)	0	0	(1 796 104)
Closing net book value	**2 047**	**17 522 519**	**3 824 503**	**652 381**	**371 762**	**171 482**	**22 544 694**
31.12.2008							
Initial cost/ valuation	1 164 044	20 030 120	13 055 992	3 271 027	371 762	171 482	38 064 427
Accumulated depreciation	(1 161 997)	(2 507 601)	(9 231 489)	(2 618 646)			(15 519 733)
Net book value	**2 047**	**17 522 519**	**3 824 503**	**652 381**	**371 762**	**171 482**	**22 544 694**

Intangible assets, property, plant and equipment (continued)

The Company performed revaluation of buildings on 1 September 2005 by applying replacement cost method; revaluation was performed by independent valuator - AS BDO Invest Rīga.

SIA Valuators Aplēse on 30 May 2006 performed revaluation of land owned by the Company. Value of the land after revaluation was Ls 8,561,513. Book value of revaluated buildings at 31 December 2008 is Ls 8,961 thousand (31.12.2007: Ls 9,677 thousand).

Total revaluation amount of fixed property at 31 December 2008 was Ls 14,238,460. Revaluation amount less the attributable deferred income tax liabilities is shown in equity under "Revaluation reserve". In 2007 and 2008 the revaluation of assets have not been performed.

If the revaluation have not been performed the value of land and building would be the following:

	31.12.2008. Ls	31.12.2007. Ls
Land		
Cost	491 755	491 755
Accumulated depreciation	0	0
Net carrying amount	**491 755**	**491 755**
Buildings		
Cost	7 802 046	7 718 815
Accumulated depreciation	(2 157 134)	(1 946 233)
Net carrying amount	**5 644 912**	**5 772 582**

According to the valuators SIA Vērtētāju birojs Aplēse opinion on 16 April 2009 the market value of land plots owned by Company is not lower than the estimated by SIA Vērtētāju birojs Aplēse on 30 May 2006. Accordingly, the management of the Company believes that net book value of land plots on 31 December 2008 meets the recoverable value.

During 2008 loan expenses have not been capitalised, because the Company did not use the target financing for acquisition of fixed assets.

All intangible and property, plant and equipment are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see note 19).

(14) Inventories	31.12.2008. Ls	31.12.2007. Ls
Raw materials and consumables	10 871 382	9 711 904
Finished goods and goods for sale	4 884 508	5 506 252
Excise tax stamps	3 231 202	1 055 541
Work in progress	484 852	425 583
Inventory in transit	452 734	1 163 988
	19 924 678	**17 863 268**

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

Accruals at the beginning of the year	723 486	616 969
Changes in provisions shown in the income statement	454 403	106 517
Accruals at the end of the year	1 177 889	723 486

(15) Trade receivables

Book value of trade receivables	3 906 234	2 981 445
Provisions for impairment of trade receivables	(2 435 131)	(2 406 899)
	1 471 103	**574 546**

(16) Other current assets

Receivables for services	72 597	43 654
Deferred insurance costs	64 893	68 176
Other deferred expenses	60 896	66 762
Receivables for raw materials	44 649	105 701
VAT accepted	39 868	46 798
Other receivables	11 830	70 481
	294 733	**401 572**

(17) Cash and cash equivalents

Cash at bank on current accounts	179 696	59 272
Cash on hand	25 099	28 565
	204 795	**87 837**

(18) Share capital

As at 31 December 2008 the subscribed and fully paid share capital consists of 7,496,900 (31.12.2007: 7,496,900) ordinary shares with nominal value of one share is Ls 1 (31.12.2007: Ls 1). Bank borrowings (see Note 19) are secured by a pledge of all shares owned by the main shareholder of the Company, who have a significant influence or control over the Company, - S.P.I. Distilleries B.V., as well as any other shares that S.P.I. Distilleries B.V. may acquire in the future. (see note 19).

(19) Borrowings

	31.12.2008. Ls	31.12.2007. Ls
Non-current		
AS Swedbank (before Hansabanka)	8 620 479	12 435 633
Nordea Bank Finland Plc. Latvian branch	2 164 667	4 093 880
	10 785 146	**16 529 513**
Current		
Credit line	6 443 070	11 677 173
AS Swedbank (before Hansabanka)	5 805 692	5 725 924
Nordea Bank Finland Plc. Latvian branch	2 983 419	3 786 548
	15 232 181	**21 189 645**

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

	2008 Ls	2007 Ls
At beginning of the year	37 719 158	20 079 859
Borrowings in the year	4 568 226	23 431 880
Repaid borrowings in the year	(16 300 557)	(5 455 019)
Currency exchange rate fluctuation results	30 500	(337 562)
At the end of the year	**26 017 327**	**37 719 158**

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. At the end of 2008 the limit of overdraft granted by Nordea Bank Finland Plc is in amount Ls 6 308 285, respectively granted by AS Swedbank - Ls 4 610 085.

During the reporting year AS Swedbank has granted two credit lines in foreign currencies to the Company. The limit of granted credit line is EUR 500 000, and USD 3 000 000.
At 31 December 2008 debt of the Company for above mentioned credit line to Nordea Bank Finland Plc is Ls 2 908 286, and to AS Swedbank Ls 1 297 040, EUR 324 087, whereas credit line in USD has not been used. The term of repayment of credit line is 30 April 2009. The management is planning to prolonged agreement of credit lines 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. According to assignment agreement of 24 July 2007, credit of the Company has been refinanced to Nordea Bank Finland Plc, in the result thereof Nordea Bank Finland Plc took over all obligations of AS SEB Unibanka and granted to the Company a credit in the amount of EUR 4,500,000.
At 31 December 2008 debt of the Company for above mentioned credit to AS Swedbank amounted to USD 4,562,500, and to Nordea Bank Finland Plc. amounted to EUR 3,547,654. Principal amount of the said loans must be repaid by 30 April 2009 with the right to prolong repayment date till 30 April 2014. The management plans to prolong the repayment date.

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. Credit not paid as at the end of the reported period amounted to EUR 9,409,397.

On 24 July 2007 a loan agreement was concluded among Nordea Bank Finland Plc, AS Swedbank and the Company regarding granting of the loan of EUR 13,000,000 in accordance with which Nordea Bank Finland Plc disburses EUR 7,000,000 and AS Swedbank disburses EUR 6,000,000. During the reporting year the Company has concluded amendments to the above-mentioned agreement regarding additional loan of EUR 1,500,000, which has been received.
Maturity – 30 June 2012 with the right to extend the repayment date by 30 June 2014.
On 31 December 2008 the debt of the Company for above mentioned agreement consists of - to AS Swedbank EUR 5 142 857, respectively, to Nordea Bank Finland Plc - EUR 3 777 412.

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 SPI Group projects. Loan repayment date - 28 December 2009. At the end of the reporting year the debt of the Company is EUR 2 760 870.

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

	31.12.2008	**31.12.2007**
Loans	3.910%-4.742%	5.782%-6.627%
Credit line	15.492%	12.104%

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

	31.12.2008	**31.12.2007**
	Ls	Ls
6 months or less	26 017 327	37 719 158
6 – 12 months	0	0
	26 017 327	**37 719 158**

Maturity of the total borrowings is as follows:	31.12.2008	31.12.2007
	Ls	Ls
Payable in 1 year	15 232 181	21 189 645
Payable in 2 – 5 years	9 194 687	13 934 553
Payable in more than 5 years	1 590 459	2 594 960
	26 017 327	37 719 158

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, and
(iii) all pledged shares of the Company, owned by the largest shareholder of the Company S.P.I. Distilleries B.V., and any other shares that S.P.I. Distilleries B.V. may acquire in the future.
Carrying value of the pledged assets of the Company as at 31 December 2008 was Ls 86,362,265 (as at 31 December 2007 it was Ls 93,234,305).

(20) Other liabilities	**31.12.2008.**	**31.12.2007.**
	Ls	Ls
Excise tax	9 127 668	7 736 119
Other accrued liabilities	1 991 119	1 508 792
Value Added Tax	574 656	915 216
Accruals for unused annual leave	444 160	506 284
Salaries	284 833	337 897
Deferred income	255 639	333 208
Mandatory State social insurance contributions	140 888	164 841
Personal income tax	92 812	125 460
Unpaid dividends of the previous years	5 235	5 235
Natural resource tax	1 381	18 985
Real estate tax	0	677
Other receivables	40 192	42 221
	12 958 583	11 694 935

(21) Cash Granted from Operations	**2008**	**2007**
	Ls	Ls
Profit before corporate income tax	7 031 892	4 016 335
Adjustments for:	0	0
depreciation and amortization (Notes 8)	1 796 103	1 842 145
increase / (decrease) in provisions for stock impairment	476 363	139 273
loss / (profit) from foreign currency exchange rate fluctuations	30 500	(337 563)
interest expenses (Note 10)	2 207 775	1 812 660
interest income (Note 9)	(1 731 338)	(1 216 228)
loss / (profit) from sale and revaluation of fixed assets	32 131	32 731
	0	0
Changes in working capital	0	0
receivables	6 428 737	(6 622 571)
inventories	(2 560 462)	(3 387 722)
liabilities	(1 043 802)	3 381 768
	12 667 899	(339 172)

(22) Fees paid to auditors	**2008 Ls**	**2007 Ls**
For the audit of financial statements	27 550	27 690
	27 550	**27 690**

(23) Average number of employees	**2008**	**2007**
Average number of people employed during the financial year	773	808

(24) Remuneration to personnel	**2008 Ls**	**2007 Ls**
Salaries and mandatory State social insurance contributions for production staff*	4 269 764	4 434 951
Salaries and mandatory State social insurance contributions for distribution staff*	1 699 432	1 834 768
Salaries and social insurance contributions for administration staff*	1 488 285	1 587 929
	7 457 481	**7 857 648**
Including key management		
salary expenses	760 542	660 130
mandatory State social insurance contributions	49 518	37 718
* including Mandatory State social contributions included in personnel expenses	1 341 863	1 360 621

In accordance with the regulations of the Cabinet of Ministers of the Republic Latvia in years 2007 and 2008 75% of the mandatory State social insurance contributions are used to finance the State defined contribution pension system. During the reporting year, no loans were issued to members of the Council, the Board or the Management staff.

(25) Transactions with related parties

The main shareholder of the Company, who owns 89.52% of shares of the Company, 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. Shefler.

In 2008 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 predprijatije 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). The Company had economic transactions with the related company SIA Meierovica 35 (Latvia) which is not a member of the SPI Group.
All the transaction values are shown with excise tax.

(a) Sale of Goods	**2008 Ls**	**2007 Ls**
SIA AV&D	60 418 400	32 333 792
S.P.I. Spirits (Cyprus) Ltd.	33 777 343	28 444 032
UAB Bennet Distributors	5 902 770	4 847 607
Torgovi Dom Rosvestalko	607 241	496 909
SPI-RVVK OAO	311 255	210 724
SIA Bravo	109 616	93 502
	101 126 625	**66 426 566**

(b) Sale of Fixed Assets	**2008**	**2007**
	Ls	**Ls**
Sale of trade mark to Spirits International B.V.	300 000	0
Sale of fixed assets to SIA AV&D	5 084	0
	305 084	**0**

(c) Service Rendered (Including Loan Interest)	**2008**	**2007**
	Ls	**Ls**
S.P.I. Spirits (Cyprus) Ltd.	908 422	474 358
SPI Production B.V.	870 292	768 627
SIA Interlat	487 126	0
SIA AV&D	85 945	19 803
SIA Meierovica 35	72 291	187 622
SIA Bravo	13 859	6 097
SIA Z Towers	416	384
Spirits International B.V. (Luksemburga)	252	552
Spirits Product International IP B.V.	168	1 946
SPI-RVVK OAO	0	1 757
SIA SPV Distributor	102	206
S.P.I.Spirits (UK) Ltd.	0	629
UAB Bennet Distributors	0	9 886
S.P.I.Group S.a.r.l	0	9 810
S.P.I.Group SA	0	346
	2 438 873	**1 482 023**

(d) Purchase of Goods

SPI-RVVK OAO	4 926 732	6 156 566
Tambovskoje spirtovodocnoje predprijatije Talvis OAO	443 765	576 452
S.P.I. Spirits (Cyprus) Ltd.	15 820	48 685
UAB Bennet Distributors	20 000	7 762
SIA Bravo	863	886
UAB Darija	0	10
	5 407 180	**6 790 361**

(e) Services Received

S.P.I. Group S.a.r.l	617 328	313 632
SIA Meierovica 35	84 360	84 360
Spirits Product International IP B.V.	62 691	92 993
UAB Bennet Distributors	38 950	11 370
S.P.I.Spirits (Cyprus) Ltd.	341 983	714 639
SIA AV&D	13 147	0
Spirits International B.V.	4 243	0
SPI-RVVK OAO	2 468	0
SIA Interlat	86	
SIA Bravo	31	179
	1 165 287	**1 217 173**

(f) Accounts Receivable and Payable to Related Parties

	31.12.2008.		31.12.2007.	
	Receivables	Payables	Receivables	Payables
	Ls	Ls	Ls	Ls
S.P.I.Spirits(Cyprus) Ltd.	8 858 358	1 924 138	8 272 136	1 631 847
UAB Bennet distributors	1 681 213	5 178	1 379 291	0
SIA AV&D	5 191 394	6 073	10 949 860	0
S.P.I.Production B.V.	734 621	0	826 735	0
Spirits Product International IP B.V.	168	405 331	11 259	260 384
Spirits International B.V.	300 281	0	542	0
Torgovi Dom Rosvestalko	191 734	0	211 191	0
SIA Interlat	54 219	0	0	0
SPI-RVVK OAO	42 698	0	60 385	0
SIA Bravo	33 756	36	13 389	212
SIA Meierovica 35	499	16 591	2 118 514	0
Spirits International B.V.	0	4 243	0	0
SIA SPV Distributor	340	0	220	0
S.P.I.Group S.a.r.l	0	0	11 572	0
Tambovskoje spirtovodocnoje predprijatije Talvis OAO	0	0	0	172 867
S.P.I.Worldwide TradeLtd.			70 280	
S.P.I. Resources B.V.			2 786	
Torgovy dom SPI-Trade	0	0	41	0
	17 089 281	**2 361 590**	**23 928 201**	**2 065 310**

In 2008 and 2007 there were no significant unrecoverable debts of related parties.

* Regarding debt of Meierovica 35 SIA – on 13 December 2007 effective interest rate was 12.738%. Other debts are interest-free.

(g) Loans to Related Parties	**2008**	**2007**
	Ls	**Ls**
S.P.I.Production B.V. **	14 477 762	14 477 762
S.P.I.Spirits (Cyprus) Ltd *	10 331 219	12 650 472
	24 808 981	**27 128 234**

	2008	**2007**
	Ls	**Ls**
At beginning of the year	27 128 234	14 578 825
Borrowings in the year	3 514 020	12 650 472
Repaid borrowings in the year	(5 833 273)	(101 063)
At the end of the year	**24 808 981**	**27 128 234**

Maturity of the total borrowings is as follows:

Payable in 1 year	7 028 040	0
Payable in 2 – 5 years	17 780 941	27 128 234
	24 808 981	**27 128 234**

* 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 the reporting year the loan was partly repaid for EUR 8,300,000. The unpaid part of principal sum of loan on 31 December 2008 is in amount EUR 4,700,000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2008 amounted to Ls 3,303,179. Loan repayment date is 30 June 2014.

* On 28 December 2007 the Company concluded a loan agreement with S.P.I. Spirits (Cyprus) Limited regarding loan of EUR 10,000,000. On 28 December 2007 the first part of EUR 5,000,000 was transferred, the second part was transferred on January 2008 in amount EUR 5,000,000. The unpaid part of the loan on 31 December 2008 is EUR 10,000,000, which in accordance with the official exchange rate set by the Bank of Latvia on 31 December 2008 amounted to Ls 7,028,040. Repayment date - 28 December 2009.

** 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 2008 amounted Ls 14,477,762. Repayment date is 20 July 2010 or by signed agreement 20 July 2015.

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

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

	31.12.2008	**31.12.2007**
Loans issued	4.107-6.001%	5.982% - 7.907%

(h) Royalty Payments

The Company is leasing trade marks from S.P.I. group companies. The amount of the royalties depends on the amount of the produced drinks subject to royalty payments The payments are included in the amount of received services (Note 25(e)). In accordance with the Management's estimates in 2009 no significant changes are expected in the amount of royalty payments.

(26) 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.

(27) Guaranties issued

On 31 December 2008 the guarantee issued by the Company to AS Parex banka in the reporting year 2006 was valid, which served as security for SIA Bravo credit line of EUR 4,268,615. The purpose of the credit line – increase of current assets, development of store network and acquisition of 100% capital shares of UAB Darija. Due to the agreement termination and complete fulfilment of the liabilities on January 2009 the issued guarantee to AS Parex banka is cleared.

On January 2009 the new credit line agreement was signed between BRAVO SIA and Nordea Bank Finland Plc. Latvian branch with the overdraft limit of 5 000 000 EUR, where as collateral serves AS Latvijas balzams guarantee for EUR 4 000 000. The credit line must be repaid until 30 December 2009. The guarantee is valid until full implementation of SIA Bravo commitments.

The Company has issued guarantees to AS Parex banka for SPI Spirits (UK) Ltd. liabilities for issued two credit cards (Visa, Eurocar/Mastercard, Maestro, Visa Elektron) and opening bank account with allowed loan in amount USD 100 000 for each.

(28) Operating lease commitments

For providing own operating activity the Company has concluded two operating lease commitments regarding lease of vehicle. The longest of lease maturity terms is August 2011.

In accordance with the rental agreements, the Company has following non-cancellable lease liabilities:	31.12.2008 Ls	31.12.2007 Ls
Payable within 1 year	16 837	22 291
Payable from 2 to 5 years	21 215	33 945
	38 052	**56 236**

(29) Risk and capital 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 standing.

Financial risks, connected with the financial instruments of the Company, mainly, are interest rate risk, liquidity risk and credit risk.

(a) Foreign currency risks

The Company is exposed to foreign currency exchange rate fluctuation risk arising from various currencies mainly because 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 and US dollar dominate. In order to decrease influence of US dollar, part of the financing received from credit institutions is denominated in US dollars.

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 material open currency positions:

	31.12.2008.	31.12.2007.
Financial assets, EUR	40 869 444	43 463 610
Financial liabilities, EUR	(30 567 545)	(38 376 440)
Open position EUR, net	10 301 899	5 087 170
Open position EUR calculated in lats, net	**7 240 216**	**3 575 283**
Financial assets, USD	17 601 600	16 528 075
Financial liabilities, USD	(6 486 477)	(7 832 628)
Open position USD, net	11 115 123	8 695 447
Open position USD calculated in lats, net	**5 501 986**	**4 208 596**
Financial assets, RUB	0	3 800
Financial liabilities, RUB	(210 389)	(8 259 685)
Open position RUB, net	(210 389)	(8 255 885)
Open position RUB calculated in lats, net	**(3 598)**	**(162 641)**

(b) Credit risk

Financial assets which potentially expose the Company to the certain credit risk concentration level, are mainly cash, trade accounts receivable and loans granted. The Company's policy ensures that goods are sold and services are rendered to customers having respective credit history. Trade accounts receivable are presented at their recoverable value. The Company's partners in cash operations are local and foreign financial institutions having respective credit history. 97% of the total income is made by transactions with related parties (in 2007: 98%). The largest credit risk concentration arises from accounts receivable from related companies, see Notes 27(f) and 27(g). Taking into account financial standing of the Group, the Company's Management believes that credit risk of transaction partners of the Company is considered as low.

(c) Interest rate risks

The Company is exposed to foreign exchange risk because interest has to be paid for the majority of liabilities that is being calculated by the floating interest rate (Note 23), as well as the Company's interest bearing assets have floating interest rate (Note 27(g)).

On 7 September 2007 the Company concluded an agreement with Nordea Bank Finland Plc regarding use of derivatives. In accordance with this agreement the Company is obliged to make interest payments from the amount of EUR 7,000,000, in its turn Nordea Bank Finland Plc makes interest payments to the Company with the floating interest rate. On 24 July 2007 the Company concluded a loan agreement with Nordea Bank Finland Plc on a loan of EUR 7,000,000. Payment schedules of both above-mentioned agreements coincide, as a result of that the Company makes partial loan interest rate fixation by the used derivatives.

(d) Liquidity risk

The Company pursues a prudent liquidity risk management maintaining sufficient credit resources that allow settling liabilities when they fall due. On 31 December 2008 the Company's current assets exceeded its short-term liabilities by Ls 12.0 million (on 31 December 2007: Ls 2.1 million). Total amount of the credit line is Ls 12,755 thousand. As at 31 December 2008 unused part of the credit line was Ls 8,322 thousand.

(e) Fair Value

There are no material difference between the carrying amount of financial assets and liabilities of the Company and fair value thereof.

(f) Capital Management

Equity of the Company meets the requirements of the Commercial Law of the Republic of Latvia. The Management of the Company ensures capital adequacy management in accordance with the good practice of the sector.

(30) Subsequent events

There are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2008.