AS LATVIJAS BALZAMS

ANNUAL REPORT

for the year ended 31 December 2008

CONTENTS

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 147.4 million EUR, 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 9.68 million EUR. 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 8.39 million EUR, that is for 3.69 million EUR 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 transferred 64.74 million EUR in taxes to the state budget, including 49.94 million EUR on the excise tax.

In 2008 the Company employed 773 employees in average, and their gross monthly salary last year was 961.86 EUR 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 EUR
Profit share to be distributed	**8 407 065**
Proposed profit distribution:	
Retained earnings	8 407 065

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 EUR	2007 EUR
Net sales	(2)	104 105 809	98 229 795
Cost of sales	(3)	(83 970 286)	(78 759 715)
Gross profit or losses		**20 135 523**	**19 470 080**
Distribution expenses	(4)	(7 312 182)	(7 155 190)
Administrative expenses	(5)	(4 998 122)	(5 722 470)
Other income	(6)	2 307 420	1 246 853
Other expenses	(7)	(185 279)	(800 445)
Finance income	(9)	3 530 003	1 746 790
Finance costs	(10)	(3 471 881)	(3 070 887)
Profit before tax		**10 005 482**	**5 714 731**
Income tax expenses	(11)	(1 598 416)	(989 812)
Net profit		**8 407 065**	**4 724 918**

Earnings per share (in santims)			
Basic	(12)	112	63
Diluted	(12)	112	63

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

BALANCE SHEET

		31.12.2008. EUR	31.12.2007. EUR
ASSETS			
Non-current assets			
Intangible assets	(13)	2 913	7 915
Property, plant and equipment	(13)	32 075 297	33 040 626
Loans to group companies	(25)	25 300 000	38 599 999
Other non-current assets		34 149	34 149
Total non-current assets:		**57 412 359**	**71 682 689**
Current assets			
Inventories	(14)	28 350 263	25 417 140
Trade receivables	(15)	2 093 191	817 505
Receivables from group companies	(25)	34 315 856	34 046 763
Other current assets	(16)	419 367	571 385
Cash and cash equivalents	(17)	291 397	124 981
Total current assets:		**65 470 074**	**60 977 774**
Total assets		**122 882 433**	**132 660 463**

		31.12.2008. EUR	31.12.2007. EUR
EQUITY AND LIABILITIES			
Equity			
Share capital	(18)	10 667 128	10 667 128
Share premium		87 887	87 887
Revaluation reserve		17 220 578	17 350 402
Retained earnings		28 259 344	19 852 279
Total equity:		**56 234 937**	**47 957 696**
Liabilities:			
Non-current liabilities:			
Borrowings	(19)	15 345 880	23 519 378
Deferred income tax liabilities	(11)	2 941 356	3 203 899
Total non-current liabilities:		**18 287 236**	**26 723 277**
Current liabilities:			
Borrowings	(19)	21 673 441	30 150 149
Trade payables		4 532 454	8 167 609
Payables to group companies	(25)	3 360 240	2 938 671
Current income tax payables	(11)	355 722	82 670
Other liabilities	(20)	18 438 402	16 640 393
Total current liabilities:		**48 360 259**	**57 979 492**
Total liabilities:		**66 647 495**	**84 702 769**
Total equity and liabilities:		**122 882 432**	**132 660 465**

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
	EUR	EUR	EUR	EUR	EUR
31.12.2006.	**10 667 128**	**87 887**	**17 350 402**	**15 383 374**	**43 488 791**
Profit for the year				4 724 918	4 724 918
Total recognised income and expense	0	0	0	4 724 918	4 724 918
Dividends				(256 013)	(256 013)
31.12.2007.	**10 667 128**	**87 887**	**17 350 402**	**19 852 279**	**47 957 696**
Disposal of revalued property, pant and equipment			(152 734)		(152 734)
Changes in deferred income tax liabilities resulted to disposal of revalued assets (see note 11c.)			22 910		22 910
Net income recognised directly in equity	0	0	(129 824)	0	(129 824)
Profit for the year				8 407 065	8 407 065
Total recognised income and expense	0	0	(129 824)	8 407 065	8 277 241
31.12.2008.	**10 667 128**	**10 667 128**	**17 220 578**	**28 259 344**	**56 234 936**

CASH FLOW STATEMENT

	Notes	2008 EUR	2007 EUR
Cash flow from operating activities			
Cash flow from operating activities	(21)	18 024 796	(482 598)
Interest paid		(3 082 188)	(2 625 906)
Corporate income tax paid		(1 564 997)	(1 114 820)
Net cash flow generated from operating activities		**13 377 612**	**(4 223 324)**
Cash flow from investing activities			
Acquisition of property, plant and equipment		(1 802 113)	(3 361 180)
Proceeds from sales of property, plant and equipment		28 795	123 370
Loans granted		(5 000 000)	(18 000 000)
Loans repayment received		8 300 000	143 801
Loans interest received		1 955 727	6 144
Net cash flow generated from investing activities		**3 482 409**	**(21 087 865)**
Cash flow from financing activities			
Borrowings received		6 500 000	10 840 562
Changes in credit lines (net)		(7 447 458)	18 266 387
Borrowings repaid		(15 746 147)	(3 528 180)
Dividends paid		0	(256 012)
Net cash flow generated from financing activities		**(16 693 605)**	**25 322 757**
Net increase / (decrease) in cash and cash equivalents		**166 416**	**11 568**
Cash and cash equivalents at the beginning of the financial year		**124 981**	**113 413**
Cash and Cash equivalents at the end of the financial year	(17)	**291 397**	**124 981**

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 estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The interpretation is not yet endorsed in EU. IFRIC 15 will not be relevant to the Company's operations because it does not have any agreements for the construction of real estate

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 of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

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	0.2030	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 EUR	2007 EUR
Latvia	43 109 766	46 942 415
Sales to overseas markets though S.P.I group companies	48 761 645	48 327 825
Other income form export	12 234 398	2 959 555
	104 105 809	**98 229 795**

(2) Net sales

Domestic market	43 109 766	46 877 324
Export	60 976 345	51 287 380
Other sales (spirit, raw materials)	19 698	65 091
	104 105 809	**98 229 795**

(3) Cost of sales

Materials	66 085 993	64 291 490
Salary expense	3 407 815	3 444 488
Energy resources	1 026 054	818 854
Goods purchased	887 118	1 006 113
Mandatory state social insurance contributions	817 924	826 893
Inventory changes of finished goods	796 141	(2 077 208)
Increase in provisions for accounts receivable, inventories and other accrued liabilities	735 983	104 952
Natural recourse tax	658 357	793 335
Accrued unused annual leave expenses (variable)	3 075	53 718
Other variable costs	3 655 140	3 791 546
Variable costs total:	*78 073 599*	*73 054 182*
	0	0
Depreciation and amortisation	1 868 743	1 852 706
Salary expenses	1 498 419	1 576 923
Repair expenses	801 248	787 700
Mandatory state social insurance contributions	358 586	373 924
Insurance payments	138 727	154 679
Laboratory expenses	52 951	63 718
Accrued unused annual leave expenses (fixed)	(10 491)	34 421
Other fixed expenses	1 188 503	861 464
Fixed costs total:	*5 896 687*	*5 705 534*
	83 970 286	**78 759 716**

(4) Distribution expenses

	2008 EUR	2007 EUR
Advertising expenses	2 711 205	2 449 400
Salary expenses	1 956 456	2 069 014
Transportation expenses	977 220	1 014 345
Mandatory state social insurance contributions	468 552	492 346
Depreciation and amortisation	332 800	345 210
Warehouse maintenance expenses	277 017	211 481
Accrued unused annual leave expenses	(6 934)	49 280
Other expenses	595 866	524 113
	7 312 182	**7 155 189**

(5) Administrative expenses

Salary expenses	1 840 412	1 656 332
Management services and expenses	1 159 056	1 458 034
Depreciation and amortisation	354 082	423 220
Representation expenses	302 319	264 068
Mandatory state social insurance contributions	243 408	206 807
Professional fees	240 703	232 366
Real estate tax	126 597	161 953
Expenses for liabilities against employees for the annual results	107 866	254 885
Office expenses	104 380	131 330
Communication and postal expenses	90 483	175 789
Transportation expenses	79 920	157 207
Financial support, sponsorship	76 835	72 306
Accrued unused annual leave expenses	(74 046)	141 395
IT maintenance	71 186	79 490
Business trip expenses	24 422	33 706
Employee training	15 138	24 627
Healthcare, health insurance	14 115	37 362
Other expense	221 245	211 592
	4 998 121	**5 722 469**

(6) Other income

Income from services rendered	716 117	572 417
Income form services rendered in warehouses of excise tax goods*	454 737	
Income form lease of fixed assets	224 549	89 807
Auxiliary materials sold	118 867	153 188
Sold packages, boxes and pallets	16 542	27 807
Net profit form disposal and sale of fixed assets		44 165
Other income	776 608	359 469
	2 307 420	**1 246 853**

* 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 EUR	2007 EUR
Bank commission	56 299	114 491
Other expenses	128 980	685 954
	185 279	**800 445**

(8) Expenses by Nature

	2008 EUR	2007 EUR
Materials	66 085 993	64 291 490
Employee expenses	10 503 174	10 901 614
Depreciation and amortisation	2 555 624	2 621 136
Advertising expenses	2 711 205	2 449 400
Management services and expenses	1 159 056	1 458 034
Repair expenses	816 765	809 539
Increase in provision for accounts receivables, inventories and other accrued liabilities	735 983	104 952
Transportation expenses	1 057 140	1 171 553
Natural recourse tax	658 357	793 335
IT maintenance expenses	93 702	99 743
Real estate tax	126 597	161 953
Other expenses	9 962 273	7 575 069
	96 465 869	**92 437 820**

(9) Finance income

	2008 EUR	2007 EUR
Interest income	2 463 472	1 730 537
Net profit from exchange rate fluctuations	1 058 072	
Income form penalties	8 459	16 253
Finance income	**3 530 003**	**1 746 790**

(10) Finance expenses

	2008 EUR	2007 EUR
Long-term loan interest	2 004 417	1 601 552
Interest for use of credit lines	1 136 961	977 489
Net loss form exchange rate fluctuations		341 182
Net loss form purchase - sale of currency	330 503	150 523
Finance expenses	**3 471 881**	**3 070 746**

(11) Corporate income tax

a) Components of corporate income tax

	2008 EUR	2007 EUR
Changes in deferred income tax	(239 633)	(248 018)
Corporate income tax according to the tax return	1 838 049	1 237 830
	1 598 416	**989 812**

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 EUR	2007 EUR
Profit before taxes	10 005 481	5 714 730
Theoretically calculated tax at 15% tax rate	**1 500 822**	**857 209**
Tax effects on:		
Non-deductible expenses for tax purposes	214 844	263 096
Tax rebate for donations	(61 681)	(61 319)
Tax relief for the acquired technological equipment	(55 569)	(69 174)
Total tax charge	**1 598 416**	**989 812**

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	3 203 899	3 451 918
Deferred tax charged to the income statement	(239 633)	(248 019)
Changes in deferred tax recognised in non-current assets revaluation reserve	(22 910)	
Deferred tax liabilities (asset) at the end of the financial year	**2 941 356**	**3 203 899**

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. EUR	31.12.2007. EUR
Temporary difference on depreciation of fixed and intangible assets	3 462 170	3 534 361
Gross deferred tax liabilities	**3 462 170**	**3 534 361**
Temporary difference on accruals for annual leave	(94 797)	(108 057)
Temporary difference on provisions for slow moving and obsolete stock	(225 772)	(123 125)
Expected temporary difference	(200 244)	(99 279)
Gross deferred tax assets	**(520 813)**	**(330 461)**
Net deferred tax liability (assets)	**2 941 357**	**3 203 900**

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:

	31.12.2008.	31.12.2007.
Deferred tax assets:	EUR	EUR
deferred tax asset to be recovered within a year	(520 814)	(330 461)
	(520 814)	(330 461)
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	130 661	152 217
deferred tax liabilities to be recovered after more than a year	3 331 509	3 382 144
	3 462 170	3 534 361
Net deferred tax liabilities (assets)	**2 941 356**	**3 203 899**

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
	EUR	EUR	EUR	EUR	EUR
31.12.2006	**3 625 936**	**(66 235)**		**(107 783)**	**3 451 918**
Charged / (credited) to income statement	(91 575)	(41 822)	(99 279)	(15 343)	(248 019)
31.12.2007	**3 534 361**	**(108 057)**	**(99 279)**	**(123 125)**	**3 203 899**
Charged / (credited) to income statement	(72 191)	13 260	(200 244)	(102 647)	(361 822)
31.12.2008	**3 462 170**	**(94 797)**	**(200 244)**	**(225 773)**	**2 941 356**

(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 (EUR)	8 407 065	4 724 918
Average annual number of shares	10 667 128	10 667 128
Earnings per share (expressed in santims)	**112**	**63**

(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
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
01.01.2007							
Initial cost/ valuation	1 655 665	28 300 244	16 096 937	4 782 289	458 378	118 707	51 412 222
Accumulated depreciation	(1 641 688)	(1 466 952)	(12 285 535)	(3 539 876)			(18 934 051)
Net book value	**13 977**	**26 833 292**	**3 811 403**	**1 242 413**	**458 378**	**118 707**	**32 478 170**
2007							
Opening net book value	13 977	26 833 292	3 811 403	1 242 413	458 378	118 707	32 478 170
Additions						3 361 179	3 361 179
Disposal			(10 257)	(61 625)	(7 595)	(90 466)	(169 944)
Reclassified		213 125	2 211 981	227 280	503 468	(3 155 853)	
Depreciation	(6 061)	(1 093 989)	(1 070 836)	(449 978)			(2 620 864)
Closing net book value	**7 915**	**25 952 428**	**4 942 290**	**958 091**	**954 250**	**233 567**	**33 048 541**
31.12.2007							
Initial cost/ valuation	1 655 665	28 513 368	17 510 259	4 467 345	954 250	233 567	53 334 455
Accumulated depreciation	(1 647 750)	(2 560 940)	(12 567 969)	(3 509 254)			(20 285 913)
Net book value	**7 915**	**25 952 428**	**4 942 290**	**958 091**	**954 250**	**233 567**	**33 048 541**
2008							
Opening net book value	7 915	25 952 428	4 942 290	958 091	954 250	233 567	33 048 541
Additions						2 015 711	2 015 711
Disposal		(191 678)	(9 668)	(25 902)		(203 169)	(430 417)
Reclassified	620	209 292	1 638 938	378 544	(425 281)	(1 802 113)	
Depreciation	(5 623)	(1 037 743)	(1 129 782)	(382 478)			(2 555 626)
Closing net book value	**2 913**	**24 932 298**	**5 441 778**	**928 255**	**528 970**	**243 997**	**32 078 210**
31.12.2008							
Initial cost/ valuation	1 656 285	28 500 293	18 577 003	4 654 252	528 970	243 997	54 160 800
Accumulated depreciation	(1 653 373)	(3 567 995)	(13 135 225)	(3 725 998)			(22 082 591)
Net book value	**2 913**	**24 932 298**	**5 441 778**	**928 255**	**528 970**	**243 997**	**32 078 210**

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 12,181,935 EUR. Book value of revaluated buildings at 31 December 2008 is 12,750 thousand EUR (31.12.2007: 13,769 thousand EUR).

Total revaluation amount of fixed property at 31 December 2008 was 2,025,970 EUR. 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. EUR	31.12.2007. EUR
Land		
Cost	699 704	699 704
Accumulated depreciation		
Net carrying amount	699 704	699 704
Buildings		
Cost	11 101 311	10 982 884
Accumulated depreciation	(3 069 325)	(2 769 240)
Net carrying amount	8 031 986	8 213 644

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. EUR	31.12.2007. EUR
Raw materials and consumables	15 468 583	13 818 794
Finished goods and goods for sale	6 950 029	7 834 691
Excise tax stamps	4 597 586	1 501 900
Work in progress	689 882	605 550
Inventory in transit	644 182	1 656 206
	28 350 262	25 417 141

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	1 029 428	877 868
Changes in provisions shown in the income statement	646 557	151 560
Accruals at the end of the year	1 675 985	1 029 428

(15) Trade receivables	**31.12.2008. EUR**	**31.12.2007. EUR**
Book value of trade receivables	5 558 070	4 242 214
Provisions for impairment of trade receivables	(3 464 879)	(3 424 709)
	2 093 191	**817 505**

(16) Other current assets

Receivables for services	103 296	62 114
Deferred insurance costs	92 334	97 006
Other deferred expenses	86 647	94 994
Receivables for raw materials	63 530	150 399
VAT accepted	56 727	66 588
Other receivables	16 833	100 285
	419 367	**571 386**

(17) Cash and cash equivalents

Cash at bank on current accounts	255 684	84 336
Cash on hand	35 713	40 644
	291 397	**124 980**

(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) (EUR 1,423). 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. EUR**	**31.12.2007. EUR**
Non-current		
AS Swedbank (before Hansabanka)	12 265 837	17 694 312
Nordea Bank Finland Plc. Latvian branch	3 080 044	5 825 066
	15 345 881	**23 519 378**
Current		
Credit line	9 167 663	16 615 120
AS Swedbank (before Hansabanka)	8 260 755	8 147 256
Nordea Bank Finland Plc. Latvian branch	4 245 023	5 387 772
	21 673 441	**30 150 148**

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

	2008 EUR	**2007 EUR**
At beginning of the year	53 669 527	28 571 065
Borrowings in the year	6 500 000	33 340 562
Repaid borrowings in the year	(23 193 603)	(7 761 793)
Currency exchange rate fluctuation results	43 398	(480 307)
At the end of the year	**37 019 322**	**53 669 527**

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 (EUR 8,975,881), respectively granted by AS Swedbank - Ls 4,610,085 (EUR 6,559,560).

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 (EUR 4,138,118), and to AS Swedbank Ls 1,297,040 (EUR 1,845,522), 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 (EUR 9,675,528). 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 EUR	**31.12.2007 EUR**
6 months or less	37 019 321	53 669 527
6 – 12 months		
	37 019 321	53 669 527

Maturity of the total borrowings is as follows:	31.12.2008	31.12.2007
	EUR	**EUR**
Payable in 1 year	21 673 441	30 150 149
Payable in 2 – 5 years	13 082 861	19 827 083
Payable in more than 5 years	2 263 019	3 692 295
	37 019 321	**53 669 527**

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 (EUR 122,882,432) (as at 31 December 2007 it was Ls 93,234,305 (EUR 132,660,464).

(20) Other liabilities	**31.12.2008.**	**31.12.2007.**
	EUR	**EUR**
Excise tax	12 987 501	11 007 506
Other accrued liabilities	2 833 107	2 146 818
Value Added Tax	817 662	1 302 235
Accruals for unused annual leave	631 983	720 377
Salaries	405 281	480 784
Deferred income	363 742	474 112
Mandatory State social insurance contributions	200 466	234 548
Personal income tax	132 060	178 513
Unpaid dividends of the previous years	7 449	7 449
Natural resource tax	1 965	27 013
Real estate tax		963
Other receivables	57 188	60 075
	18 438 404	**16 640 393**

(21) Cash Granted from Operations	**2008**	**2007**
	EUR	**EUR**
Profit before corporate income tax	10 005 481	5 714 730
Adjustments for:		
depreciation and amortization (Notes 8)	2 555 624	2 621 136
increase / (decrease) in provisions for stock impairment	677 803	198 168
loss / (profit) from foreign currency exchange rate fluctuations	43 398	(480 309)
interest expenses (Note 10)	3 141 381	2 579 183
interest income (Note 9)	(2 463 472)	(1 730 537)
loss / (profit) from sale and revaluation of fixed assets	45 718	46 572
Changes in working capital		
receivables	9 147 269	(9 423 070)
inventories	(3 643 209)	(4 820 294)
liabilities	(1 485 196)	4 811 822
	18 024 797	**(482 599)**

(22) **Fees paid to auditors**	**2008** **EUR**	**2007** **EUR**
For the audit of financial statements	39 200	39 399
	39 200	**39 399**

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

(24) **Remuneration to personnel**	**2008** **EUR**	**2007** **EUR**
Salaries and mandatory State social insurance contributions for production staff*	6 075 327	6 310 367
Salaries and mandatory State social insurance contributions for distribution staff*	2 418 074	2 610 640
Salaries and social insurance contributions for administration staff*	2 117 639	2 259 419
	10 611 040	**11 180 426**
Including key management		
salary expenses	1 082 154	939 280
mandatory State social insurance contributions	70 458	53 668
* including Mandatory State social contributions included in personnel expenses	1 909 299	1 935 989

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** **EUR**	**2007** **EUR**
SIA AV&D	85 967 638	46 006 841
S.P.I. Spirits (Cyprus) Ltd.	48 060 829	40 472 211
UAB Bennet Distributors	8 398 885	6 897 523
Torgovi Dom Rosvestalko	864 026	707 038
SPI-RVVK OAO	442 876	299 833
SIA Bravo	155 970	133 041
	143 890 224	**94 516 487**

(b) Sale of Fixed Assets	**2008**	**2007**
	EUR	**EUR**
Sale of trade mark to Spirits International B.V.	426 862	
Sale of fixed assets to SIA AV&D	7 234	
	434 096	**0**

(c) Service Rendered (Including Loan Interest)	**2008**	**2007**
	EUR	**EUR**
0	1 292 568	674 951
SPI Production B.V.	1 238 314	1 093 658
SIA Interlat	693 118	
SIA AV&D	122 289	28 177
SIA Meierovica 35	102 861	266 962
SIA Bravo	19 720	8 675
SIA Z Towers	592	546
Spirits International B.V. (Luksemburga)	359	785
Spirits Product International IP B.V.	239	2 769
SPI-RVVK OAO		2 500
SIA SPV Distributor	145	293
S.P.I.Spirits (UK) Ltd.		895
UAB Bennet Distributors		14 067
S.P.I.Group S.a.r.l		13 958
S.P.I.Group SA		492
	3 470 205	**2 108 728**

(d) Purchase of Goods

SPI-RVVK OAO	7 010 108	8 760 004
Tambovskoje spirtovodocnoje predprijatije Talvis OAO	631 421	820 217
S.P.I. Spirits (Cyprus) Ltd.	22 510	69 273
UAB Bennet Distributors	28 457	11 044
SIA Bravo	1 228	1 261
UAB Darija		14
	7 693 724	**9 661 813**

(e) Services Received

S.P.I. Group S.a.r.l	878 379	446 258
SIA Meierovica 35	120 033	120 033
Spirits Product International IP B.V.	89 201	132 317
UAB Bennet Distributors	55 421	16 178
S.P.I.Spirits (Cyprus) Ltd.	486 598	1 016 840
SIA AV&D	18 706	
Spirits International B.V.	6 037	
SPI-RVVK OAO	3 512	
SIA Interlat	122	
SIA Bravo	44	255
	1 658 053	**1 731 881**

(f) Accounts Receivable and Payable to Related Parties

	31.12.2008.		31.12.2007.	
	Receivables EUR	**Payables EUR**	**Receivables EUR**	**Payables EUR**
S.P.I.Spirits(Cyprus) Ltd.	12 604 308	2 737 802	11 770 189	2 321 909
UAB Bennet distributors	2 392 151	7 368	1 962 554	
SIA AV&D	7 386 688	8 641	15 580 247	
S.P.I.Production B.V.	1 045 272		1 176 338	
Spirits Product International IP B.V.	239	576 734	16 020	370 493
Spirits International B.V.	427 261		771	
Torgovi Dom Rosvestalko	272 813		300 498	
SIA Interlat	77 147			
SPI-RVVK OAO	60 754		85 920	
SIA Bravo	48 030	51	19 051	302
SIA Meierovica 35	710	23 607	3 014 374	
Spirits International B.V.	0	6 037		
SIA SPV Distributor	484		313	
S.P.I.Group S.a.r.l			16 465	
Tambovskoje spirtovodocnoje predprijatije Talvis OAO				245 968
S.P.I.Worldwide TradeLtd.			99 999	
S.P.I. Resources B.V.			3 964	
Torgovy dom SPI-Trade			58	
	24 315 857	**3 360 240**	**34 046 761**	**2 938 672**

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 EUR	**2007 EUR**
S.P.I.Production B.V. **	20 599 999	20 599 999
S.P.I.Spirits (Cyprus) Ltd *	14 700 000	18 000 000
	35 299 999	38 599 999

	2008 EUR	**2007 EUR**
At beginning of the year	38 599 999	20 743 799
Borrowings in the year	5 000 000	18 000 000
Repaid borrowings in the year	(8 300 000)	(143 800)
At the end of the year	35 299 999	38 599 999

Maturity of the total borrowings is as follows:

Payable in 1 year	10 000 000	
Payable in 2 – 5 years	25 300 000	38 599 999
	35 300 000	38 599 999

* 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) Financial 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 EUR	31.12.2007 EUR
Payable within 1 year	23 957	31 717
Payable from 2 to 5 years	30 186	48 299
	54 143	**80 016**

(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		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 EUR 17.07 million (on 31 December 2007: EUR 2.98 million). Total amount of the credit line is EUR 18,148 thousand. As at 31 December 2008 unused part of the credit line was EUR 11.841 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.