

AS “LATVIJAS BALZAMS”

ANNUAL REPORT 2015

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EU**

CONTENTS

Information on the Company.....	3-4
Report of the Management.....	5-7
Statement of the management responsibility.....	8
Independent Auditor's Report.....	9-10
Financial statements:	
Income statement.....	11
Statement of comprehensive income.....	12
Statement of financial position.....	13
Statement of changes in equity.....	14
Cash flow statement.....	15
Notes to the financial statements.....	16-48

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

INFORMATION ON THE COMPANY

Name of the Company	Latvijas balzams
Legal status of the Company	Joint stock company
Number, place and date of registration	Companies register Nr. 40003031873 Riga, 2 October 1991 Re-registered on 20 October 1998 Commercial register Riga, 19 June 2014
Address	A. Čaka street 160 Riga, LV- 1012 Latvia
Main business activities	Production of alcoholic beverages NACE2 11.01
Parent company	SIA "Amber Beverage Group" (89.99%) (from 24 October 2014) (S.P.I. Regional Business Unit B.V. (89.53%) till 24 October 2014)
Names and positions of the Council members:	Rolands Gulbis – Chairman of the Council (from 12.11.2015.) Oļegs Alainis – Vice Chairman of the Council (from 12.11.2015) Sergejs Ļimarenko – Member of the Council (from 12.11.2015) Pjotr Aven – Member of the Council Valizhan Abidov – Member of the Council (from 21.05.2015) Oļegs Alainis – Member of the Council (from 21.05.2015 until 11.11.2015) Aigars Kalvītis – Chairman of the Council (until 11.11.2015) Sergejs Ļimarenko – Vice Chairman of the Council (from 21.05.2015 until 11.11.2015) Valery Mendeleev – Vice Chairman of the Council (until 20.05.2015) David Ronald Surbey – Member of the Council (until 20.05.2015) Seymour Paul Ferreira – Member of the Council (until 20.05.2015) Sebastianus Antonius Theodorus Boelen – Member of the Council (until 20.05.2015)

INFORMATION ON THE COMPANY (continued)

Names and positions of the Board members:

Intars Geidāns – Chairman of the Board (from 03.03.2016.)

Ronalds Žarinovs – Member of the Board

Jekaterina Stūģe – Member of the Board (from 30.12.2014)

Seymour Paul Ferreira – Chairman of the Board (from 01.09.2015. until 02.03.2016.)

Guntis Āboliņš – Āboliņš – Chairman of the Board (until 31.08.2015.)

Intars Geidāns – Member of the Board (until 02.03.2016.)

Sergejs Ļimarenko – Member of the Board (until 25.04.2015.)

Signe Bīdermane – Member of the Board (until 30.12.2014.)

Līga Sleņģe – Member of the Board (from 30.12.2014. until 20.05.2015.)

REPORT OF THE MANAGEMENT

Type of operations

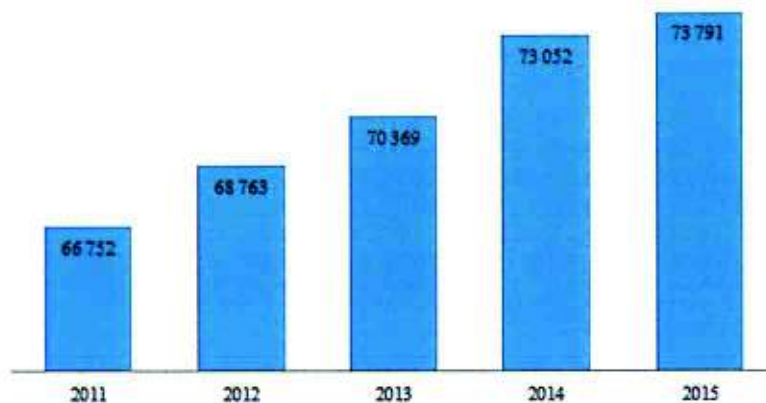
The Company was established in 1900 and operates under the current name since 1970. Due to SPI Group internal reorganization the major shareholder of Latvijas balzams AS from October 2014 is Amber Beverage Group SIA, which owns 89.99% of the Company's equity capital (previous major shareholder - S.P.I. Regional Business Unit B.V.).

Latvijas balzams AS is the largest producer of alcoholic beverages in the Baltic States with a range of more than 100 different products. Our production is exported to more than 160 export markets as mediated by Stoli Group, and to 42 markets via the Company's direct export route.

Performance of the Company during the financial year

The turnover of the Company in 2015 was 73.8 million Euros, which is 1% more than in 2014. The turnover growth has been achieved by launching new products, establishing collaboration with new partners and a solid teamwork.

Net turnover, thousands EUR



The growth of turnover was mainly driven by increase in orders from Stoli Group by 4.85%, however there is significant decrease in sales volumes to Russia and Ukraine.

The profit for the financial year reached 7.07 million euro that represents 11% decrease versus 2014 that caused by decrease of sales in the most profitable markets, as well as development of a platform for future growth in other export markets by investing in advertising and sales promo activities for Latvijas balzams AS branded products. The Company's return on equity (ROE) amounts to 8.7%, but return on assets (ROA) amounts to 5.9%.

Latvijas balzams AS is the leading producer of alcoholic beverages in Latvia, as well as one of the largest local taxpayers. During 2015, Latvijas balzams AS paid 54 million euro to the state budget, including excise tax, amounting to 40 million euro.

In 2015, the Company has successfully participated in international exhibitions receiving an assessment for the highest beverage quality and competitiveness. The Company's products as "Moka", "Moskovskaya Vodka", "Cosmopolitan Diva", "Amber Gold Vodka", "Rīgas Melnais balzams", "Rīga Black Vodka" received gold, silver and bronze awards by participating in major international exhibitions like International Wine & Spirits Competition London; China Wine & Spirits Award 2015; Sanfrancisko World Spirits Competition 2015; Wine & Spirits Wholesalers America (Orlando); World Wine&Spirits Competition New York.

In 2015 the Company acquired from the related party within the SPI Group a real estate management company Daugavgrīvas 7 SIA, which subsequently was merged with Latvijas Balzams AS.

REPORT OF THE MANAGEMENT (continued)

Share market

In 2015 the Company's share price fluctuated from 2.99 to 6.58 euro. Total amount of shares traded was 163 thousands.



Financial risk management

The financial risk management policies of the Company are described in financial statement's Notes.

Post balance sheet events

In the period between the last day of the financial year and the date of signing these 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

Profit share to be distributed	EUR 7 065 496
Proposed profit distribution:	
Retained earnings	EUR 7 065 496

Future prospects


As Latvijas Balsams's outlook for the year ahead is one of caution as the impact of the situation in Russia, with the price of oil coupled with the slow down in China and the uncertainty around the EU is expected to dampen growth in 2016.

The Company will continue its purposeful focus on the achievement of objectives in both domestic and export markets. Our priorities will continue to be to focus on our domestic business, on building our international brands, and on implementation of effective production strategy to increase the Company's competitiveness.

REPORT OF THE MANAGEMENT (continued)

Future prospects (continued)

Latvijas Balsams AS actively participates in the Industry Association and cooperate with non-governmental organizations, represents the interests of industry in any dialogue with legislators and law enforcement institutions and promotes a responsible policy of development of the alcohol market and focuses on the public education on these issues. For example, Latvijas Balsams AS will continue to combat the illegal production and distribution of non-commercial alcoholic beverages.



Intars Geidāns
Chairman of the Board


Riga, 15 April, 2016

STATEMENT OF THE MANagements' RESPONSIBILITY

The Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards (IFRS) 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 flows for the year then ended.

The Management certifies that proper accounting methods were applied in preparation of these financial statements on page 16 to page 45 and decisions and assessments were made with proper discretion and prudence. The Management confirms that the financial statements have been prepared on a going concern basis.

The Management is responsible for maintaining the 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.



Intars Geidāns
Chairman of the Board

Riga, 15 April 2016



INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AS "Latvijas balzams"

Report on the Financial Statements

We have audited the accompanying financial statements of AS "Latvijas balzams" set out on pages 11 to 48 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2015, income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 financial statements give a true and fair view of the financial position of AS "Latvijas balzams" as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on Other Legal and Regulatory Requirements

We have read the Management Report for 2015 set out on pages 5 to 7 of the accompanying annual report for 2015 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2015.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A handwritten signature in blue ink, appearing to read 'I. Lejina', written over a faint circular stamp.

Ilandra Lejina
Member of the Board

A large, stylized handwritten signature in blue ink, appearing to read 'Jana Smirnova', written over a faint circular stamp.

Jana Smirnova
Certified auditor in charge
Certificate No.188

Riga, Latvia
15 April 2016

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

INCOME STATEMENT

	Notes	2015 EUR	2014 EUR
Revenue	1	73 790 638	73 052 305
Cost of sales	2	(56 999 389)	(56 499 986)
Gross profit		16 791 249	16 552 319
Distribution expenses	3	(6 364 893)	(4 709 476)
Administrative expenses	4	(3 869 000)	(3 538 905)
Other operating income	5	1 363 224	858 515
Other operating expenses	6	(452 830)	(348 939)
Interest and similar income	8	1 540 512	1 433 979
Interest and similar expense	9	(602 400)	(765 963)
Profit before tax		8 405 862	9 481 530
Corporate income tax	10	(1 340 366)	(1 519 122)
Net profit		7 065 496	7 962 408
Earnings per share (in cents)			
Basic	11	94.25	106.21
Diluted	11	94.25	106.21

Notes on pages 16 to 48 form an integral part of these financial statements.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2015 EUR	2014 EUR
Net profit		<u>7 065 496</u>	<u>7 962 408</u>
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to income statement			
Changes in fair value of financial instruments	20	9 719	(92 014)
Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments	10	(1 458)	13 802
Other comprehensive income / (loss)		<u>8 261</u>	<u>(78 212)</u>
Total comprehensive income for the period		<u>7 073 757</u>	<u>7 884 196</u>

Notes on pages 16 to 48 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

		31.12.2015. EUR	31.12.2014. EUR
ASSETS	Notes		
Non-current assets			
Intangible assets	12	603 823	397 861
Property, plant and equipment	13	10 513 300	9 328 129
Investment property	13	703 169	-
Loans to group companies	25	41 505 730	43 566 129
Receivables from group companies	25	6 000 000	-
Deferred income tax assets	10	945 680	-
Other non current assets	16	1 187 320	285 634
Total non-current assets:		61 459 022	53 577 753
Current assets			
Inventories	14	19 976 909	23 377 056
Trade receivables	15	625 461	1 472 183
Receivables from group companies	25	33 465 601	43 928 410
Other current assets	16	821 279	744 035
Corporate income tax		1 487 434	-
Cash and cash equivalents		24 471	398 187
Total current assets:		56 401 155	69 919 871
Total assets		117 860 177	123 497 624
EQUITY AND LIABILITIES			
Equity			
Share capital	17	10 495 660	10 667 128
Share premium		87 887	87 887
Revaluation reserves of derivative financial instruments		(69 951)	(78 212)
Reserves	18	(2 992 951)	-
Retained earnings		75 709 904	68 644 408
Total equity:		83 230 549	79 321 211
Liabilities			
Non-current liabilities			
Borrowings	19	10 846 085	6 871 863
Deferred income tax liabilities	10	-	388 772
Derivative financial instruments	20	82 295	92 014
Total non-current liabilities:		10 928 380	7 352 649
Current liabilities			
Borrowings	19	3 257 789	15 910 744
Trade payables		3 538 661	2 084 209
Payables to group companies	25	4 753 547	1 526 461
Current corporate income tax payables		-	255 304
Other liabilities	21	12 151 251	17 047 046
Total current liabilities:		23 701 248	36 823 764
Total liabilities:		34 629 628	44 176 413
Total equity and liabilities		117 860 177	123 497 624

Notes on pages 16 to 48 form an integral part of these financial statements.

Intars Geidāns
Chairman of the Board
Riga, 15 April, 2016

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Revaluation reserves of derivative financial instru- ments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2013.	10 667 128	87 887	-	-	60 682 000	71 437 015
Net profit	-	-	-	-	7 962 408	7 962 408
Other comprehensive (loss)	-	-	-	(78 212)	-	(78 212)
Total comprehensive income	-	-	-	(78 212)	7 962 408	7 884 196
31.12.2014.	10 667 128	87 887	-	(78 212)	68 644 408	79 321 211
Net profit	-	-	-	-	7 065 496	7 065 496
Other comprehensive income	-	-	-	8 261	-	8 261
Total comprehensive income	-	-	-	8 261	7 065 496	7 073 757
Reorganisation reserve (see Note 18)	-	-	(3 164 419)	-	-	(3 164 419)
Share capital denomination (see Note 17)	(171 468)	-	171 468	-	-	-
31.12.2015.	10 495 660	87 887	(2 992 951)	(69 951)	75 709 904	83 230 549

Notes on pages 16 to 48 form an integral part of these financial statements.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

CASH FLOW STATEMENT

	Notes	2015 EUR	2014 EUR
Cash flow from operating activities			
Profit for the period before taxation from continuing operations		8 405 862	9 481 530
<u>Adjustments for:</u>			
Depreciation and amortisation	12,13	1 442 431	1 179 898
Net loss on sales and disposal of fixed assets and intangibles		11 472	5 645
Provisions		(195 754)	141 401
Interest income	8	(1 540 512)	(1 428 427)
Interest expense	9	602 400	765 963
<u>Changes in working capital:</u>			
Decrease / (Increase) in inventories		3 591 193	(2 526 239)
Decrease in trade and other receivables		308 089	2 359 587
Increase in trade and other payables		(3 754 269)	(3 431 339)
Cash generated from operations		8 870 912	6 548 019
Interest paid		(592 607)	(778 973)
Corporate income tax paid		(1 742 738)	(1 007 267)
Net cash generated by operating activities		6 535 567	4 761 779
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets		(1 789 207)	(1 157 672)
Proceeds from sales of property, plant and equipment		28 934	51 174
Loans repayment received		3 600 000	198 995
Interest received		911	65 312
Net cash flow generated from investing activities		1 840 638	(842 191)
Cash flow from financing activities			
Changes in credit lines (net)		(10 819 620)	(9 358 696)
Loans received (reclassified from credit line)		-	8 975 881
Borrowings received		5 263 000	73 129
Borrowings repaid		(3 025 247)	(2 997 588)
Finance lease payments		(168 054)	(239 867)
Net cash flow generated from financing activities		(8 749 921)	(3 547 141)
Net increase / (decrease) in cash and cash equivalents		(373 716)	372 447
Cash and cash equivalents at the beginning of the period		398 187	25 740
Cash and cash equivalents at the end of the period		24 471	398 187

Notes on pages 16 to 48 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

I. GENERAL INFORMATION

The Company is the biggest producer of alcoholic drinks in the Baltic States. In total, Latvijas balzams AS produces more than 100 different alcoholic drinks. The largest shareholder of the Company, who owns 89.99% of the Company's share capital as of 31 December 2015, is Amber Beverage Group SIA (until 24 October 2014 the largest shareholder of the Company was S.P.I. Regional Business Unit B.V.).

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 Nasdaq Riga AS.

The current financial year of the Company is from 1 January 2015 till 31 December 2015.

These financial statements were authorized for issue by the Board of Directors of the Company on 15 April 2016, and Chairman of the Board Intars Geidāns signed these for and on behalf of the Board of Directors.

The approval of the annual accounts of a company at a meeting of shareholders shall be postponed if, disputing the correctness of separate positions in the annual accounts, the postponement is requested by shareholders who represent at least one tenth of the equity capital.

The auditor of the Company is PricewaterhouseCoopers SIA.

II. ACCOUNTING POLICIES

(1) Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

The financial statements have been prepared using the measurement, recognition, presentation and disclosure bases specified by IFRS for each type of asset, liability, income and expense.

The financial statements are presented in accordance with IAS 1 Presentation of Financial Statements (Amended in 2011). The Company has elected to present the Income statement and Statement of comprehensive income as separate statements.

Preparation of the financial statements in compliance with IFRS requires critical assumptions. Moreover, preparation of the statements requires from the Management to make estimates and judgments applying the accounting policies adopted by the Company. Critical estimates and judgments are disclosed in Note (22) to accounting policies.

In 2015 the Company changed accounting policy for inventory cost determination from weighted average to first-in, first-out (FIFO) method. The reason for the change of accounting policy is to ensure consistent accounting policy application within the whole group. The change of accounting policy does not have material impact on these financial statements. The management of the Company did not restate comparative numbers as of 31 December 2014 in accordance with changed accounting policy as the effect of such restatement on overall presentation is considered to be immaterial.

Except for the change in inventory cost determination policy described above, the accounting policies applied are consistent with those of the previous financial year.

II. ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

a) The following new and amended IFRS and interpretations come into force in 2015 and have no significant impact on these financial statements:

Amendments to IAS 19 "Employee benefits plans" regarding defined benefit plans (effective for annual periods beginning on or after 1 July 2014, endorsed by EU for annual periods beginning on or after 1 February 2015).

Annual improvements 2012 (effective for annual periods beginning on or after 1 July 2014, by EU for annual periods beginning on or after 1 February 2015). These amendments include changes that affect 6 standards:

- IFRS 2 "Share-based payment";
- IFRS 3 "Business Combinations";
- IFRS 8 "Operating segments";
- IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets";
- IAS 24 "Related party disclosures".

Annual improvements 2013 (effective for annual periods beginning on or after 1 July 2014, endorsed by EU for annual periods beginning on or after 1 January 2015). The amendments include changes that affect 3 standards:

- IFRS 3 "Business combinations";
- IFRS 13 "Fair value measurement"; and
- IAS 40 "Investment property".

b) A number of new standards and interpretations have been published and come into force for financial periods beginning on or after 1 January 2016, or are not endorsed by the European Union:

IFRS 14 "Regulatory deferral accounts" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendment to IFRS 11 "Joint arrangements" on acquisition of an interest in a joint operation (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendments to IAS 16 "Property, plant and equipment" and IAS 41 "Agriculture" regarding bearer plants (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendment to IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets" on depreciation and amortisation (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendments to IAS 27 "Separate financial statements" on the equity method (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendments to IFRS 10 "Consolidated financial statements" and IAS 28 "Investments in associates and joint ventures" (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Amendments to IAS 1 "Presentation of financial statements" regarding disclosure initiative effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU);

Annual improvements 2014 (effective for annual periods beginning on or after 1 January 2016, not yet endorsed in the EU). The amendments include changes that affect 4 standards:

- IFRS 5 "Non-current assets held for sale and discontinued operations";
- IFRS 7 "Financial instruments: Disclosures" with consequential amendments to IFRS 1;
- IAS 19 "Employee benefits";
- IAS 34 "Interim financial reporting".

IFRS 15 "Revenue from contracts with customers" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

IFRS 9 "Financial instruments" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

II. ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

IFRS 16 "Leasing" (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

The management of the Company is assessing the impact of new and revised accounting standards on the Company's financial statements.

(2) Revenue recognition

Revenue represent the total of goods and services sold during the year net of discounts, value added tax and excise tax.

Sales of goods are recognized after significant ownership risk and rewards have been passed to the buyer. 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 provision of services is recognised when services are rendered.

Income from penalties is recognised at the moment of receipt.

Interest income or expenses are recognised in the income statement on all interest bearing financial instruments applying the effective interest rate method.

(3) Functional currency and revaluation

The functional and presentation currency of the Company is euro (EUR).

All transactions denominated in foreign currencies are converted into euro at the exchange rate set by the European Central Bank on the day of transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into euro in accordance with the official exchange rate set by European Central Bank for the last day of the financial year. The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized net in the income statement in the respective period.

	31.12.2015. EUR	31.12.2014. EUR
1 USD	0.9185	0.8237
1 RUB	0.0124	0.0138

(4) Property, plant and equipment (PPE)

Property, plant and equipment is recognised at cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly related to the acquisition of the asset.

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

II. ACCOUNTING POLICIES (continued)

(4) Property, plant and equipment (PPE) (continued)

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

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

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

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

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised in the income statement in the relevant period when incurred.

(5) Intangible assets

Intangible assets, in general, consist of licenses, software and related implementation costs.

Intangible assets are recognised at the cost of acquisition less accumulated amortisation and impairment. 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 of 3 to 5 years.

Where the carrying amount of an intangible asset exceeds its recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount is the higher of the fair value less costs to sell and the value in use of the related intangible asset.

(6) Impairment of fixed assets and intangible assets

All fixed assets, investment properties and intangible assets of the Company have their estimated useful lives and they are amortised or depreciated. Assets that are subject to amortisation and depreciation are assessed for impairment every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Impairment is recognised as difference between book value of the asset and its recoverable value. Recoverable amount is the higher of the fair value less costs of disposal and the value in use of the related fixed or intangible asset. The decrease is recognised in the income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

II. ACCOUNTING POLICIES (continued)

(7) Investment property

Investment property is land, building or part of building held by the Company to earn rentals or for capital appreciation rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business and are not occupied by the Company. Investment property is initially recognised at acquisition cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The applied depreciation rates are based on estimated useful life set for respective fixed asset categories.

(8) The Company is lessee

Financial lease

Leases of assets under which the Company has substantially all the risks and rewards or ownership are classified as finance leases. Assets under the finance lease are recognized at the inception of lease at the lower of fair value of the leased assets and the present value of the minimum lease payments. Lease interest payments are included in the income statement by method to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease

Leases under which substantially all of the ownership risks and rewards are granted to the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(9) The Company as a lessor

Assets that are leased according to operating lease conditions, are disclosed as fixed assets at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the period of useful life of the appropriate asset, to write off the value of the asset to its estimated residual value at the end of the period of useful life by using the rates specified for similar tangible assets of the Company. Rental income from operating lease including advances received is recognised on a straight-line basis over the period of the lease.

(10) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is determined based on FIFO method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(11) Financial instruments

The Company classifies its financial instruments in the following categories:

- Loans and receivables;
- Financial assets and liabilities at fair value through other comprehensive income.

The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

II. ACCOUNTING POLICIES (continued)

(11) Financial instruments (continued)

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of financial instruments at fair value through other comprehensive income are recognised in other comprehensive income. Interest on loans and receivables is calculated using the effective interest method is recognised in the income statement. Details on how the fair value of financial instruments is determined are disclosed in Note 28.

Impairment of financial assets

A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Impairment loss is recognised in the income statement.

(12) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value as at the date when the contract is concluded. Derivatives are subsequently measured at fair value at the end of each reporting period. The method of recognising the resulting gain and loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates derivatives as hedges of a interest rates changes of its borrowings (cash flow hedge).

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

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

(13) Cash and cash equivalents

Cash and cash equivalents consist of banks' current accounts balances and other highly liquid investments with original maturities up to 90 days.

(14) Share capital

Ordinary shares are classified as equity.

II. ACCOUNTING POLICIES (continued)

(15) Borrowings

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

(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

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(18) Earnings per share

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

(19) Related parties

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

(20) Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and paid vacation benefits are included in the income statement on an accrual basis.

The Company pays social security contributions to the state pension insurance and to the state funded pension scheme in accordance with Latvian legislation.

II. ACCOUNTING POLICIES (continued)

(20) Employee benefits (continued)

In accordance with the Rules of the Cabinet of Ministers of Latvia Republic 71.55% (2014: 73.80%) of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by law and will have no legal or constructive obligation 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 accrued in the year in which the associated services are rendered by the employees of the Company.

(21) Business combinations and accounting for reorganisation

On 5 January 2015 the Company has acquired 100% of SPI group's company SIA Daugavgrivas 7 capital. SIA Daugavgrivas 7 main activity is real estate leasing and development. SIA Daugavgrivas 7 was previously 100% subsidiary of SPI Group. The Company's policy is to account for business combinations under common control according to predecessor accounting method.

On 7 September 2015 the Company was reorganised, merging it with Daugavgrivas 7 SIA. As a result of reorganisation, assets and liabilities of the merged company were included in the statement of financial position of the Company as at the moment of the reorganisation. The transaction was accounted for prospectively from the date of merger.

As a result of this reorganisation comparative information included into balance sheet and profit and loss account for the reporting year are not comparable with the information for the year ended 31 December 2014, as at the end of current period these disclose balances and transactions of two merged companies. For more information refer to Note 18.

(22) Critical accounting estimates and judgments

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

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

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

In estimating useful life of property, plant and equipment (PPE) the management relies on the historical information, technical survey, assessing the current state of the asset and external evaluations. During the reporting and previous year there are no factors that indicate a need on changes of the useful life of the Company's PPE.

b) Provisions for bad debts and inventory obsolescence

Provisions are made with reference to the ageing of receivable and inventory balances and the view of the management as to whether amounts are recoverable. Bad debt provisions are determined based on considerations regarding recent customer trading and management experience, and provision for inventory obsolescence to the latest sales forecasts.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

III. OTHER NOTES

(1) Segment Information and net sales

a) Operation and reportable segment

Core activity of the Company is production of alcoholic drinks. AS Latvijas balzams produces over 100 different types of drinks. Since the Company's core activity is mainly the production of alcoholic drinks, the Company has only one operation and reportable segment.

b) Revenue by types

	2015	2014
	EUR	EUR
Production of alcoholic drinks	70 659 625	69 972 730
Sales of other goods and materials	1 435 058	1 248 452
Other services	1 695 955	1 831 123
	<u>73 790 638</u>	<u>73 052 305</u>

During 2015 and 2014 the Company had significant sales to related companies SPI Spirits (Cyprus) Ltd. and Amber Distribution Latvia SIA. The transactions with related parties are disclosed in Note 25. During 2015 and 2014 there were no other client which turnover would exceed 10% of the Company's total turnover.

(2) Cost of sales

	2015	2014
	EUR	EUR
Materials	44 590 764	47 003 588
Changes of inventory value of finished goods	(687 952)	(1 614 983)
Salary expense	4 912 131	4 035 078
Goods purchased	1 497 781	1 330 297
Mandatory state social insurance contributions	1 149 097	938 320
Depreciation of non-current assets	1 030 491	951 600
Energy resources	925 165	968 961
Repair and maintenance expenses	687 559	422 136
Management of packaging	352 448	382 437
Changes in provision for inventories	302 009	(68 958)
Insurance payments	48 874	76 667
Laboratory expenses	24 864	57 812
Accrued expenses on unused annual leave	15 871	77 260
Other costs	2 150 287	1 939 771
	<u>56 999 389</u>	<u>56 499 986</u>

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(3) Distribution expenses

	2015	2014
	EUR	EUR
Advertising and sales promotion expenses	1 707 863	602 916
Salary expenses	1 476 385	1 821 633
Transportation expenses	765 267	707 619
Warehouse maintenance expenses	1 012 587	352 694
Mandatory state social insurance contributions	353 722	425 385
Depreciation of non-current assets	209 841	151 512
Accrued expenses on unused annual leave	(4 544)	64 907
Other expenses	843 772	582 810
	<u>6 364 893</u>	<u>4 709 476</u>

In 2015 the Company performed significant investments in marketing and sales promotion activities with the purpose of developing new distribution markets. As a result the Company started sales to Czech Republic, Bulgaria, Malta, Panama, South Africa, as well as increased sales to China by 40%.

Increase in warehouse maintenance expenses is related to usage of larger warehouse space required during reconstruction of warehouse affected by fire accident in 2014. Additional expenses in relation to this are partially compensated by insurance (see Note 5).

(4) Administrative expenses

	2015	2014
	EUR	EUR
Management services and expenses *	1 453 260	694 781
Salary expenses	1 048 684	1 564 955
Depreciation of non-current assets	202 100	76 786
Mandatory state social insurance contributions	161 839	262 031
Real estate tax	142 604	139 941
Professional service costs	127 050	98 652
Communication and postal expenses	98 801	51 072
Bank commissions **	66 129	80 600
Computer maintenance	53 587	26 460
Business trip expenses	44 240	58 493
Office expenses	41 915	73 177
Transport costs	25 169	22 231
Representation expenses	23 680	47 106
Financial support, sponsorship	21 500	10 293
Other expenses **	358 442	332 327
	<u>3 869 000</u>	<u>3 538 905</u>

* As of June 2015 the Company's management and administrative functions were transferred to the parent company Amber Beverage Group SIA. This organizational structure of group companies economic activities allows the maximum optimization of group's management and administrative processes. As well as it enables Latvijas balzams AS to focus on the production process, to produce and offer in the market high value and high quality products.

** In 2015 the Company reclassified Bank commission expenses as part of administration expenses, however accrued holiday expenses, medical expenses, health insurance and employees training are included as part of Other expenses. The comparative amounts for 2014 were reclassified accordingly and are therefore comparable

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(5) Other income

	2015	2014
	EUR	EUR
Sold auxiliary and package materials	271 847	113 072
Net profit from exchange rate fluctuations	-	671 229
Insurance compensation	829 533	-
Other income	261 844	74 214
	<u>1 363 224</u>	<u>858 515</u>

(6) Other expenses

	2015	2014
	EUR	EUR
Net losses from exchange rate fluctuations	174 787	-
Penalties paid	58 820	121 013
Provisions for fire destroyed and damaged finished products	-	221 691
Other expenses *	219 223	6 235
	<u>452 830</u>	<u>348 939</u>

* In 2015 the Company reclassified Bank commission expenses as part of administration expenses. The comparative amounts for 2014 were reclassified accordingly and are therefore comparable.

(7) Expenses by Nature

	2015	2014
	EUR	EUR
Materials	44 590 764	47 003 588
Employee expenses	9 113 185	9 213 620
Depreciation of non-current assets	1 442 432	1 179 898
Transportation expenses	790 436	729 850
Management services and expenses	1 453 260	694 781
Advertising and sales promotion expenses	1 707 863	602 916
Repair and maintenance expenses	687 559	422 136
Management of packaging	352 448	382 437
Real estate tax	142 604	139 941
Increase/ (decrease) in provision for inventories	302 009	(68 958)
Other expenses	7 103 552	4 797 097
	<u>67 686 112</u>	<u>65 097 306</u>

(8) Finance income

	2015	2014
	EUR	EUR
Interest income	1 540 512	1 428 427
Income from fines and penalties	-	5 552
	<u>1 540 512</u>	<u>1 433 979</u>

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(9) Finance expenses

	2015 EUR	2014 EUR
Interest expenses	602 400	765 963
	<u>602 400</u>	<u>765 963</u>

(10) Corporate income tax

a) Components of corporate income tax

	2015 EUR	2014 EUR
Corporate income tax	-	1 482 771
Changes in deferred income tax	1 340 366	36 351
	<u>1 340 366</u>	<u>1 519 122</u>

b) Reconciliation of accounting profit to income tax charges

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

	2015 EUR	2014 EUR
Profit before taxes	8 405 862	9 481 530
Corporate income tax calculated at 15%	1 260 879	1 422 230
Tax effects on:		
Permanent differences	93 654	115 667
Tax relief for the acquired technological equipment	(14 167)	(18 775)
Total corporate income tax charge	<u>1 340 366</u>	<u>1 519 122</u>

c) Movement and components of deferred tax

	2015 EUR	2014 EUR
Deferred tax liabilities at the beginning of the financial year	388 772	366 223
Deferred tax asset recognized at reorganization (see Note 18)	(2 676 276)	-
Deferred tax changes charged to the income statement	1 340 366	36 351
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	1 458	(13 802)
Deferred tax (asset) / liabilities at the end of the financial year	<u>(945 680)</u>	<u>388 772</u>

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(10) Corporate income tax (continued)

The deferred 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):

	31.12.2015. EUR	31.12.2014. EUR
Temporary difference on depreciation of PPE and intangible assets	615 901	569 135
Gross deferred tax liabilities	<u>615 901</u>	<u>569 135</u>
Temporary difference on accruals for annual leave	(73 644)	(72 828)
Temporary difference on provisions for slow moving and obsolete stock	(133 124)	(70 430)
Temporary difference on derivative financial instruments revaluation reserve	(12 344)	(13 802)
Tax loss carried forwards	(1 333 685)	-
Temporary differences on other accrued liabilities	(8 784)	(23 303)
Gross deferred tax assets	<u>(1 561 581)</u>	<u>(180 363)</u>
Net deferred tax (assets) / liability	<u>(945 680)</u>	<u>388 772</u>

(11) Earnings per Share (Expressed in Euro Cents per Share)

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

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

	2015	2014
Profit attributed to shareholders of the Company (EUR)	7 065 496	7 962 408
Average annual number of shares	7 496 900	7 496 900
Earnings per share (expressed in euro cents)	<u>94.25</u>	<u>106.21</u>

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(12) Intangible assets

	Licences and software EUR	Intangible assets under development EUR	Total EUR
31.12.2013.			
Initial cost	287 487	187 647	475 134
Accumulated amortisation	(265 178)	-	(265 178)
Net book value	22 309	187 647	209 956
2014			
Opening net book value	22 309	187 647	209 956
Additions	109 392	119 695	229 087
Disposals	(109)	(30 839)	(30 948)
Amortisation	(10 234)	-	(10 234)
Closing net book value	121 358	276 503	397 861
31.12.2014.			
Initial cost	394 444	276 503	670 947
Accumulated amortisation	(273 086)	-	(273 086)
Net book value	121 358	276 503	397 861
2015			
Opening net book value	121 358	276 503	397 861
Additions	-	302 894	302 894
Reclassification	580 837	(579 397)	-
Amortisation	(98 372)	-	(98 372)
Closing net book value	603 823	-	603 823
31.12.2015.			
Initial cost	975 281	-	975 281
Accumulated amortisation	(371 458)	-	(371 458)
Net book value	603 823	-	603 823

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

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(13) Property, plant and equipment and Investment property

	Lands and buildings	Equipment and machinery	Other assets	Assets under construc- tion	Total	Investment property
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2013.						
Initial cost	12 538 103	19 724 516	4 698 166	101 518	37 062 303	-
Accumulated depreciation	(6 145 469)	(17 795 533)	(4 464 007)	-	(28 405 009)	-
Net book value	6 392 634	1 928 983	234 159	101 518	8 657 294	-
2014						
Opening net book value	6 392 634	1 928 983	234 159	101 518	8 657 294	-
Additions	-	-	-	1 948 281	1 948 281	-
Disposals	-	(9 726)	(46 984)	(51 073)	(107 783)	-
Reclassification	70 771	827 421	871 368	(1 769 560)	-	-
Depreciation	(387 889)	(643 676)	(138 098)	-	(1 169 663)	-
Closing net book value	6 075 516	2 103 002	920 445	229 166	9 328 129	-
31.12.2014.						
Initial cost	12 608 874	20 080 680	4 419 862	229 166	37 338 582	-
Accumulated depreciation	(6 533 358)	(17 977 678)	(3 499 417)	-	(28 010 453)	-
Net book value	6 075 516	2 103 002	920 445	229 166	9 328 129	-
2015						
Opening net book value	6 075 516	2 103 002	920 445	229 166	9 328 129	-
Additions at reorganization (see Note 18)	-	-	-	1 065 114	1 065 114	709 268
Additions	-	-	-	1 498 422	1 498 422	-
Disposals	(18 572)	(2 724)	(19 109)	-	(40 405)	-
Reclassification	389 638	327 027	245 802	(962 467)	-	-
Depreciation	(396 239)	(688 805)	(252 916)	-	(1 337 960)	(6 099)
Closing net book value	6 050 343	1 738 500	894 222	1 830 235	10 513 300	703 169
31.12.2015.						
Initial cost	12 969 944	19 385 255	4 776 798	1 830 235	38 962 232	777 281
Accumulated depreciation	(6 919 601)	(17 646 755)	(3 882 576)	-	(28 448 932)	(74 112)
Net book value	6 050 343	1 738 500	894 222	1 830 235	10 513 300	703 169

The gross carrying value of fully depreciated property, plant and equipment that is still in use is EUR 13 820 083 (31.12.2014: EUR 12 638 326).

The net book value of assets held under finance lease amount to EUR 716 445 (31.12.2014: EUR 846 801).

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

Information on property, plant and equipment acquired through business combinations is disclosed in Note 18.

The fair value of Investment property – EUR 1 632 400 (31.12.2014: EUR 1 632 400). Real estate objects market value determined by an independent valuer.

Total income from Investment property – EUR 14 206, direct costs – EUR 22 364.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(14) Inventories

	31.12.2015.	31.12.2014.
	EUR	EUR
Finished goods and goods for sale	9 674 104	10 459 716
Raw materials and consumables	10 740 287	13 502 214
Inventory in transit	436 146	96 684
Work in progress *	3 935	9 665
(Provisions)	<u>(877 563)</u>	<u>(691 223)</u>
	<u>19 976 909</u>	<u>23 377 056</u>

* In 2015 the Company classified work in progress as part of raw materials and consumables, the comparative amounts for 2014 were reclassified accordingly and are therefore comparable.

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

	2015	2014
	EUR	EUR
Provisions at the beginning of the year	691 223	549 821
Changes in provisions recognized in the income statement	<u>186 340</u>	<u>141 402</u>
Provisions at the end of the year	<u>877 563</u>	<u>691 223</u>

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

(15) Trade receivables

	31.12.2015.	31.12.2014.
	EUR	EUR
Trade receivables	630 059	1 477 062
Allowances for doubtful trade receivables	<u>(4 598)</u>	<u>(4 879)</u>
	<u>625 461</u>	<u>1 472 183</u>

The movement on the allowance for doubtful debts is set out below:

	2015	2014
	EUR	EUR
Balance at the beginning of the year	4 879	32 012
Receivables written off as uncollectible	(6 237)	-
Increase / (decrease) in provisions	<u>5 956</u>	<u>(27 133)</u>
Balance at the end of the year	<u>4 598</u>	<u>4 879</u>

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

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(16) Other assets

	31.12.2015.	31.12.2014.
	EUR	EUR
Financial assets:		
Non-current		
Other receivables	34 149	36 485
	<u>34 149</u>	<u>36 485</u>
Current		
Settlements for services	59 756	62 247
Other receivables	7 133	722
	<u>66 889</u>	<u>62 969</u>
Non-financial assets:		
Non-current		
Settlements for services	1 007 770	249 149
Other receivables	145 401	-
	<u>1 153 171</u>	<u>249 149</u>
Current		
Settlements for raw materials	603 889	542 911
Deferred expenses	150 501	116 652
Accrued income	-	21 503
	<u>754 390</u>	<u>681 066</u>
Non-current assets	<u><u>1 187 320</u></u>	<u><u>285 634</u></u>
Current assets	<u><u>821 279</u></u>	<u><u>744 035</u></u>

(17) Share capital

As at 31 December 2015 the registered and fully paid share capital is in amount of EUR 10 495 660, that consists of 7 496 900 ordinary shares with nominal value of EUR 1.4 each.

During the reporting year the share capital was denominated from lats to euro. The difference arising from the Company's shares denomination in the amount of EUR 171 468 was transferred into the Company's reserves.

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

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

All shares owned by the main shareholder of the Company Amber Beverage Group SIA, as well as any other shares that Amber Beverage Group SIA may acquire in the future are pledged in accordance with terms of Commercial pledge agreement as security for loans of the credit institutions (see Note 19).

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(18) Reorganisation reserve

In 2015 the Company acquired from the related party within the SPI Group a real estate management company Daugavgrīvas 7 SIA. After the acquisition, in order to reduce the administrative burden of the two company's governance, the Company decided to carry out a merger with the subsidiary.

As a result of the acquisition and following reorganisation, the following assets and liabilities were acquired by the Company:

ASSETS

Non-current assets

Property, plant and equipment	1 065 114
Investment property	709 268
Deferred income tax assets	2 676 276
Total non-current assets:	4 450 658

Current assets

Trade receivables	510
Receivables from group companies	51 305
Other current assets	568
Cash and cash equivalents	455
Total current assets:	52 838

Total assets

4 503 496

EQUITY AND LIABILITIES

Reserves	(3 164 418)
Total equity:	(3 164 418)

Liabilities

Current liabilities

Trade payables	12 661
Payables to group companies	7 523 121
Other liabilities	132 132
Total current liabilities:	7 667 914

Total liabilities:

7 667 914

Total equity and liabilities

4 503 496

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(19) Borrowings

	31.12.2015.	31.12.2014.
	EUR	EUR
Non-current		
AS Swedbank ^{a)}	5 939 175	-
Nordea Bank AB Latvian branch ^{b)}	4 487 941	6 283 117
Liabilities under finance leases	418 969	588 746
	<u>10 846 085</u>	<u>6 871 863</u>
Current		
AS Swedbank ^{a)}	1 131 772	3 037 518
Nordea Bank AB Latvian branch ^{b)}	1 795 857	1 795 176
Credit lines ^{d)}	-	10 837 059
Liabilities under finance leases ^{c)}	169 586	167 863
Factoring contractual obligations ^{g)}	160 574	73 128
	<u>3 257 789</u>	<u>15 910 744</u>
Total borrowings	<u>14 103 874</u>	<u>22 782 607</u>

a) AS Swedbank loan

In the reporting year the loan agreement with Swedbank AS was amended, according to which Swedbank AS issues additional EUR 5 263 000 with the repayment date until 2 March 2018. Interest rate applied to the loan is 2.55% plus 3 month EURIBOR. Unpaid balance on 31 December 2015 is EUR 7 070 947 (31.12.2014. - EUR 3 037 518).

b) Nordea Bank AB Latvian branch loan

The Company has in force loan agreement signed in July 2014 with Nordea Bank AB Latvian branch with repayment date until 30 June 2019. Interest rate applied to the loan is 2.50% plus 1 month EURIBOR. Unpaid balance on 31 December 2015 is EUR 6 283 798 (31.12.2014. - EUR 8 078 293).

c) Collateral

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

- (i) the mortgage of largest part of real estate owned by the Company,
- (ii) commercial pledge of all Company's assets as aggregation of property on the date of pledging, as well as future parts of the aggregation of property,
- (iii) all pledged shares of the Company, owned by the largest shareholder of the Company Amber Beverage Group SIA, and any other shares that may be acquired in the future, and
- (iv) guarantees from related companies S.P.I. Spirits (Cyprus) Limited and SPI Group S.a.r.l.

d) Credit lines

In the reporting year the Company's shareholder Amber Beverage Group SIA carried out the restructuring of the bank short-term borrowing facilities of the Group, as a result all existing individual credit line agreements of Group companies with the banks were terminated. The Company's shareholder Amber Beverage Group SIA has entered into group account credit line agreements with credit institutions, which allow managing of intra-group financial resources in rational way and reduce a need for additional external financing of each separate company and costs associated with borrowing (see Note 25).

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(19) Borrowings (continued)

e) Liabilities under finance leases

The Company has purchased several fixed assets on finance lease. Interest is payable monthly at a rate of 2,2 - 2,5% plus 3 month EURIBOR per annum. Finance lease term is from 24 to 60 months.

In case of breaking an agreement the Company may have a duty to pay extra payments in accordance with the terms of the agreement.

Gross finance lease liabilities – minimum lease payments:

	31.12.2015.	31.12.2014.
	EUR	EUR
Payable within 1 year	181 104	184 335
Payable from 2 to 5 years	431 731	615 550
Finance lease gross liabilities	<u>612 835</u>	<u>799 885</u>
Future finance charges	(24 280)	(43 276)
Present value of finance lease liabilities	<u>588 555</u>	<u>756 609</u>

f) Factoring contractual obligations

In order to ensure the repayment of certain receivables, the Company during the reporting year has entered into factoring agreement with the right of recourse with Nordea Finance Latvia SIA. As at the end of the year the factoring payments received to cover receivables amounted to EUR 160 574 (31.12.2014. – EUR 73 128).

(20) Derivatives financial instruments and hedging activities

In 2014 the Company has entered into interest rate swap contract to hedge the interest rate on borrowing from Nordea Bank AB Latvian branch. The hedge was assessed as fully effective (no ineffectiveness) and the Company uses the accounting policy for hedge accounting (see section (12) in accounting policy).

As at 31 December 2015 the fair value of interest rate swap contract has been determined as EUR 82 295 (31.12.2014.: 92 014). The maturity of the hedged item is in June 2019, therefore, the full fair value of a hedging derivative is classified as a non-current liability.

The notional principal amount of the outstanding interest rate swap contract as at 31 December 2015 was EUR 6 283 798 (31.12.2014. - EUR 8 078 293). The effective part of the derivative financial instrument that has been used and is classified as a cash flow hedge, net of the deferred tax effect, is recognized in other comprehensive income under "Revaluation reserves of derivative financial instruments".

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(21) Other liabilities

	31.12.2015.	31.12.2014.
	EUR	EUR
Excise tax	9 116 348	13 485 733
Value Added Tax	944 014	1 375 763
Accrued liabilities	733 042	926 705
Accruals for unused annual leave	469 184	485 520
Salaries	444 999	427 703
Mandatory state social insurance contributions	199 361	204 002
Personal income tax	126 618	130 716
Other liabilities	117 685	10 904
	<u>12 151 251</u>	<u>17 047 046</u>

(22) Auditors remuneration

	2015	2014
	EUR	EUR
Fees paid for audit and audit related services	24 000	33 950
	<u>24 000</u>	<u>33 950</u>

(23) Average number of employees

	2015	2014
Average number of people employed during the financial year	631	609
	<u>631</u>	<u>609</u>

(24) Remuneration to personnel

	2015	2014
	EUR	EUR
Board members		
Salary	380 493	511 078
Mandatory state social insurance contributions	28 124	58 984
	<u>408 617</u>	<u>570 062</u>

Council members do not receive remuneration.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(25) Transactions with related parties

The main shareholder of the Company, who owns 89.99% of shares of the Company, is Amber Beverage Group SIA (until 24 October 2014 S.P.I Regional Business Unit B.V.), which is incorporated in Latvia. The ultimate Parent company of the Group is S.P.I. Group S.a.r.l, which is incorporated in Luxemburg and its majority shareholder is Mr. Yuri Shefler.

a) Sale of goods

	2015	2014
	EUR	EUR
S.P.I. Spirits (Cyprus) Ltd.	40 307 845	40 074 323
Amber Distribution Latvia SIA *	19 472 011	21 853 198
Bennet Distributors UAB	4 619 939	3 576 170
Amber Distribution Estonia OU	988 704	904 356
DDE Holding Ltd.	251 167	-
Bravo SIA *	20 927	73 959
Meierovica 35 SIA	1 182	-
Permalko OAO	441	-
SPI Group S.a.r.l	286	-
	<u>65 662 502</u>	<u>66 482 006</u>

* The value of transactions is disclosed without excise tax.

b) Services provided (warehouse services, services related to the contract manufacturing, storage and office rental and other services)

	2015	2014
	EUR	EUR
S.P.I. Spirits (Cyprus) Ltd.	1 164 795	899 810
Amber Distribution Latvia SIA	830 823	9 152 245
Bravo SIA	52 109	54 512
Amber Beverage Group SIA	33 259	-
Towers Construction Management AS	19 981	253
Bennet Distributors UAB	8 858	30 799
Amber Distribution Estonia OU	3 328	2 737
Permalko OAO	87	-
SPI Production B.V.	-	608 734
Spirits International B.V. (branch)	-	4 281
SPV Distributor SIA	-	145
Meierovica 35 SIA	-	46 323
	<u>2 113 240</u>	<u>10 799 839</u>

c) Interest income

	2015	2014
	EUR	EUR
Amber Beverage Group SIA	1 539 601	256 848
	<u>1 539 601</u>	<u>256 848</u>

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(25) Transactions with related parties (continued)

d) Sale of non-current assets

	2015	2014
	EUR	EUR
Amber Beverage Group SIA	9 256	-
	9 256	-

e) Purchase of Goods

	2015	2014
	EUR	EUR
Tambovskoe spirtovodochnoe predpriyatie Talvis OAO	7 755 178	9 398 203
S.P.I. Spirits (Cyprus) Ltd.	103 822	149 380
Permalco OAO	-	19 742
Bennet Distributors UAB	-	17 548
	7 859 000	9 584 873

f) Services received (management services, royalty payments, marketing services and other services)

	2015	2014
	EUR	EUR
Amber Beverage Group SIA *	1 083 149	-
Spirits International B.V. (branch)	558 407	12 704
S.P.I. Spirits (Cyprus) Ltd.	450 222	149 241
Amber Distribution Latvia SIA	513 351	494 188
Towers Construction Management AS	14 220	-
Bennet Distributors UAB	7 822	3 039
Bravo SIA	3 429	2 497
Amber Distribution Estonia OU	110	-
Meierovica 35 SIA	-	127 200
	2 630 710	788 869

* As of June 2015 the Company's management and administrative functions were transferred to the parent company Amber Beverage Group SIA.

g) Interest expenses

	2015	2014
	EUR	EUR
Amber Beverage Group SIA	64 922	-
Bravo SIA	-	7 782
	64 922	7 782

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(25) Transactions with related parties (continued)

h) Purchase of non-current assets

	2015	2014
	EUR	EUR
Amber Distribution Latvia SIA	145 342	37 754
	<u>145 342</u>	<u>37 754</u>

i) Long-term receivables from Group companies

	31.12.2015.	31.12.2014.
	EUR	EUR
Amber Beverage Group SIA (see section I))	41 505 730	43 566 129
Amber Distribution Latvia SIA	6 000 000	-
	<u>47 505 730</u>	<u>43 566 129</u>

j) Short-term receivables from Group companies

	31.12.2015.	31.12.2014.
	EUR	EUR
S.P.I. Spirits (Cyprus) Ltd.	16 092 438	24 359 284
Amber Distribution Latvia SIA	11 372 894	17 693 185
Amber Beverage Group SIA (see section I))	3 495 901	-
Bennet Distributors UAB	1 490 820	844 979
Amber Distribution Estonia OU	697 272	516 044
DDE Holding Ltd.	251 167	-
Towers Construction Management AS	60 920	-
Bravo SIA	3 553	8 098
S.P.I. Regional Business Unit B.V.	302	302
SPI Group S.a.r.l.	286	-
Meierovica 35 SIA	48	-
Amber Beverage Group SIA	-	506 454
SPV Distributor SIA	-	14
Meierovica 35 SIA	-	50
	<u>33 465 601</u>	<u>43 928 410</u>

The receivables from related parties arise mainly from sales of goods and services. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related party (31.12.2014.: nil).

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(25) Transactions with related parties (continued)

k) Payables to Group companies

	31.12.2015.	31.12.2014.
	EUR	EUR
Amber Beverage Group SIA (see section m))	3 424 713	-
Tambovskoe spirtovodochnoe predpriyatie Talvis OAO	1 089 778	409 898
Amber Beverage Group SIA	221 598	-
S.P.I. Spirits (Cyprus) Ltd.	10 641	290 039
Spirits International B.V. (branch)	6 817	110 996
Bennet Distributors UAB	-	12 594
Bravo SIA	-	3 021
Spirits Product International IP B.V. (branch)	-	63 755
Amber Distribution Latvia SIA	-	636 158
	<u>4 753 547</u>	<u>1 526 461</u>

The payables to related parties arise mainly from purchase of services. The payables are unsecured in nature and bear no interest.

l) Loans to Group companies

	2015	2014
	EUR	EUR
At beginning of the year	43 566 129	37 250 666
Borrowings issued during the year *	1 539 601	-
Repaid borrowings during the year	(3 600 000)	(198 996)
Changes in credit lines **	3 495 901	-
Repaid borrowings during the year (through set-off)	-	(461 010)
Renewed loan agreements	-	6 975 469
At the end of the year	<u>45 001 631</u>	<u>43 566 129</u>
Maturity of the total loans is as follows:		
Receivable in 1 year	3 495 901	-
Receivable in 2 – 5 years	41 505 730	43 566 129
	<u>45 001 631</u>	<u>43 566 129</u>

In the reporting year the Company's shareholder Amber Beverage Group SIA carried out the restructuring of the bank short-term borrowing facilities of the Group, as a result all existing individual credit line agreements of Group companies with the banks were terminated. In March 2015 the Parent company has entered into overdraft agreement with Nordea Bank AB Latvian Branch with the maximum credit limit of EUR 12.4 million and into group account credit line agreement with Swedbank AS with maximum credit limit of EUR 11.7 million. At the same time the Group account agreements were concluded between banks and Amber Beverage Group SIA and other Group companies, including the Company. The credit facilities were assigned to Group account and could be used by the Company and other Group companies within internal limit set by the Parent company.

* In accordance with the Loan agreement signed on 31 October 2014 with Amber Beverage Group SIA accrued interest is capitalised to Loan principal amount at the end of each year. The maturity of the loan is 30 October 2019.

** As at 31 December 2015, in accordance with credit line agreement concluded with Amber Beverage Group, the Company issued to Amber Beverage Group SIA a loan in amount of EUR 3 495 901 within the Group credit line account.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(25) Transactions with related parties (continued)

m) Borrowings from Group companies

	2015 EUR	2014 EUR
At beginning of the year	-	461 010
Changes in credit lines **	3 424 713	-
Renewed loan agreements	-	(461 010)
At the end of the year	<u>3 424 713</u>	<u>-</u>
Maturity of the total borrowings is as follows:		
Payable in 1 year	<u>3 424 713</u>	<u>-</u>
	<u>3 424 713</u>	<u>-</u>

** Balance within the Group account in accordance with credit line agreement concluded with Amber Beverage Group.

n) Royalty Payments

The Company leases trade marks from S.P.I. group companies. The amount of the royalties depends on the amount of the produced drinks subject to royalty payments. The payments are included in the amount of received services (Note f)). In accordance with the Management's estimates in 2016 no significant changes are expected in the amount of royalty payments.

(26) Lease agreements

a) The Company is the lessor

During the reporting period the Company leased office space in its owned properties to third parties and related parties. Leases are short term with extension rights. Rental income are recognized in the income statement in the amount of EUR 307 549 (in 2014 – EUR 314 343).

b) The Company is the lessee

The Company has concluded several agreements for the operating lease of assets. The total rental costs of EUR 722 653 (in 2014 – EUR 314 462) were included in income statement. According to the signed lease agreements, the Company has the following non-cancellable lease liabilities:

	31.12.2015. EUR	31.12.2014. EUR
Payable in 1 year	686 516	633 861
Payable in 2 – 5 years	215 701	-
	<u>902 217</u>	<u>633 861</u>

(27) Contingent liabilities

In the reporting year the Company carried out a reorganization by way of merger with Daugavgrīvas 7 SIA (see Note 18). Daugavgrīvas 7 SIA is a defendant in the lawsuit against Ierosme SIA. The claim relates to construction work done for a total amount of EUR 248 291, including fines and interest. Daugavgrīvas 7 SIA has filed the counter claim for the compensation of losses for the total amount of EUR 881 875.

(27) Contingent liabilities (continued)

According to the Riga Regional Court, Court judgment of 22 January 2014, Ierosme SIA claim was satisfy partially. Daugavgrīvas 7 SIA has submitted an appeal against the Supreme Court of the Civil Division, the hearing date is not yet know. The outcome of the case is not clearly stated at this moment, but according to the managements assessments it will be in favour of the Company. The financial statements include provisions for the principal amount, but the potential penalties and statutory interest, which could arise from the negative result of the law suit has not been recognized.

(28) Guaranties issued

On 2 March 2015 the Company's shareholder Amber Beverage Group SIA has concluded an overdraft agreement with Nordea Bank AB Latvian branch with a limit of EUR 12 420 000, where as the security Latvijas balzams AS has issued a guarantee. The guarantee is valid until the fulfilment of all overdraft contract obligations. The overdraft contract completion date defined as 30 May 2016.

On 2 March 2015 the Company's shareholder Amber Beverage Group SIA has concluded an Group account agreement with Swedbank AS with a limit of EUR 11 700 000, where as the security Latvijas balzams AS has issued a guarantee. The guarantee is valid until the fulfilment of all overdraft contract obligations. The overdraft contract completion date is defined as 30 April 2016.

The Company issued a guarantee to Nordea AB Latvian branch for the related company S.P.I. Spirits (Cyprus) Limited liabilities of USD 15 045 000, resulting from overdraft agreement signed in July 2007. The guarantee is valid until the fulfilment of all overdraft contract obligations and the deadline is defined as 30 June 2016.

Taking into account the financial position of the Group companies it is not expected that the Company shall be required to execute guarantee, as a result no provisions have been recognized in the financial statements.

(29) Financial assets and financial liabilities

This note provides information about the Company's financial instruments, including and overview of all financial instruments held by the Company, specific information about each type of financial instrument and information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(29) Financial assets and financial liabilities (continued)

The Company holds the following financial instruments:

On 31 December 2015

	Loans and receivables	Financial instruments at fair value through other comprehensive income	Financial liabilities at amortised cost	Total
	EUR	EUR	EUR	EUR
Financial assets:				
Loans to related parties	45 001 631	-	-	45 001 631
Cash	24 471	-	-	24 471
Trade and other receivables	36 696 199	-	-	36 696 199
	81 722 301	-	-	81 722 301
Financial liabilities:				
Borrowings:				
(i) Finance lease liabilities	-	-	(588 555)	(588 555)
(ii) Loans from credit institutions	-	-	(13 354 745)	(13 354 745)
(iii) Loans from related parties	-	-	(3 424 713)	(3 424 713)
Derivative financial instruments	-	(82 295)	-	(82 295)
Trade payables	-	-	(5 028 069)	(5 028 069)
	-	(82 295)	(22 396 082)	(22 478 377)

On 31 December 2014

	Loans and receivables	Financial instruments at fair value through other comprehensive income	Financial liabilities at amortised cost	Total
	EUR	EUR	EUR	EUR
Financial assets:				
Loans to related parties	43 566 129	-	-	43 566 129
Cash	398 187	-	-	398 187
Trade and other receivables	45 500 047	-	-	45 500 047
	89 464 363	-	-	89 464 363
Financial liabilities:				
Borrowings:				
(i) Finance lease liabilities	-	-	(756 609)	(756 609)
(ii) Loans from credit institutions	-	-	(21 952 870)	(21 952 870)
(iii) Loans from related parties	-	-	-	-
Derivative financial instruments	-	(92 014)	-	(92 014)
Trade payables	-	-	(3 683 798)	(3 683 798)
	-	(92 014)	(26 393 277)	(26 485 291)

The Company's exposure to various risks associated with the financial instruments is discussed in Note 30.

Fair value of financial assets and financial liabilities

Due to short term nature of cash and cash equivalents, trade receivables, trade payables and other current financial assets and liabilities their carrying amounts largely approximates their fair value. For non-current financial assets and liabilities, the fair values are also not significantly different to their carrying amounts. The fair values were estimated based on cash flows discounted using the current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(29) Financial assets and financial liabilities (continued)

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

	Level 1	Level 2	Level 3	Total carrying value as at 31.12.2015 EUR
	EUR	EUR	EUR	EUR
Liabilities measured at fair value through other comprehensive income				
Derivative financial instruments	-	82 295	-	82 295
	Level 1	Level 2	Level 3	Total carrying value as at 31.12.2014 EUR
	EUR	EUR	EUR	EUR
Liabilities measured at fair value through other comprehensive income				
Derivative financial instruments	-	92 014	-	92 014

(30) Financial and capital risk management

Foreign exchange risks

The Company operates internationally and is exposed to foreign currency risk arising mainly from the U.S. dollar fluctuations mainly from purchase of raw materials and consumables. In 2015, in order to reduce the risk of foreign exchange from purchase transactions, the company re-concluded raw material purchase agreements from roubles to euro.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(30) Financial and capital risk management (continued)

The Company's significant open currency position at the end of the reporting year is:

	31.12.2015.	31.12.2014.
	EUR	EUR
Financial assets, RUB	-	5 865
Financial liabilities, RUB	(631 300)	(29 650 832)
Open position RUB, net	<u>(631 300)</u>	<u>(29 644 967)</u>
Open position RUB calculated in euro, net	<u>(7 825)</u>	<u>(367 468)</u>
Financial assets, USD	195 909	21 265
Financial liabilities, USD	(92 419)	(659 269)
Open position USD, net	<u>103 490</u>	<u>(638 004)</u>
Open position USD calculated in euro, net	<u>(95 058)</u>	<u>(586 023)</u>

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

	2015		2014	
	Change in exchange rates	Effect on equity EUR	Change in exchange rates	Effect on equity EUR
USD	+10%	(9 506)	+10%	(52 550)
	-10%	9 506	-10%	52 550

Interest rate risks

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

	31.12.2015.	31.12.2014.
	EUR	EUR
Financial assets with variable interest rate, EUR	3 530 050	34 149
Financial liabilities with variable interest rate, EUR *	(11 244 789)	(14 704 314)
Open position, net, EUR	<u>(7 714 739)</u>	<u>(14 670 165)</u>

* Disclosed without loan from Nordea Bank AB Latvian branch, where variable interest rate risk exposure is fully hedged by respective hedging instrument as disclosed in Note 20.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(30) Financial and capital risk management (continued)

Interest rate risks (continued)

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

	2015		2014	
	Increase/ decrease in basis points	Effect on profit before tax EUR	Increase/ decrease in basis points	Effect on profit before tax EUR
EUR	+30	(33 577)	+30	(4 761)
	-30	33 577	-30	4 761

Other price risk

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

Credit risk

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

Maximum exposure to credit risk:

	31.12.2015. EUR	31.12.2014. EUR
Issued loans to Group companies	41 505 730	43 566 129
Trade receivables - Group companies	39 465 601	43 928 410
Trade receivables - non-related parties	625 461	1 472 183
Other current assets	66 889	62 969
Cash	24 471	398 187
	81 688 152	89 427 878

The largest concentration of credit risk arises from the Group companies' debts: on 31 December 2015 93% of the total trade receivables related to Group companies (31.12.2014 - 96%). Taking into account the policy as above and the strong financial position of the Group, no provisions for impairment losses on receivables from the Group companies' debts were made and the Company's management believes that the credit risk of the Company is considered as low

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(30) Financial and capital risk management (continued)

Credit risk (continued)

Maturity analysis of trade receivables:

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables, net	split to:		Past due		
				not due	< 90 days	90-180 days	> 180 days	
31.12.2015.								
group companies	35 969 700	-	35 969 700	15 242 392	16 031 695	4 671 757	23 856	
non -related parties	630 059	(4 598)	625 461	480 381	145 080	-	-	
31.12.2014.								
group companies	43 928 410	-	43 928 410	17 208 721	17 724 190	7 820 568	1 174 931	
non -related parties	1 477 062	(4 879)	1 472 183	765 261	575 293	5 708	125 921	

Liquidity risk

The Company manages its liquidity risk by arranging an adequate amount of committed credit and loans, planning payment terms for trade payables, developing and analysing future cash flows comprising both the existing and planned loans, as well as interest payable on such loans. The Company's current assets exceeded its current liabilities by EUR 32 699 907 (31.12.2014. - EUR 33 096 107). The Company's management believes that the Company will have sufficient cash resources to ensure appropriate liquidity.

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

On 31 December 2015	Kopā EUR	<1 gadu EUR	2-5 gadi EUR	>5 gadi EUR
Long-term loans	11 311 441	-	11 311 441	-
Derivative financial instruments	82 295	-	82 295	-
Short -term loans	3 590 894	3 590 894	-	-
Trade payables	3 538 661	3 538 661	-	-
Debts to Group companies	4 753 547	4 753 547	-	-
	23 276 838	11 883 102	11 393 736	-
On 31 December 2014	Kopā EUR	<1 gadu EUR	2-5 gadi EUR	>5 gadi EUR
Long-term loans	7 203 728	-	7 203 728	-
Derivative financial instruments	92 014	-	92 014	-
Short -term loans	16 147 276	16 147 276	-	-
Trade payables	2 084 209	2 084 209	-	-
Debts to Group companies	1 526 461	1 526 461	-	-
	27 053 689	19 757 946	7 295 742	-

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2015

(30) Financial and capital risk management (continued)

Capital Management

The Company's management manages the capital structure on an ongoing basis. During the reporting period there were no changes in capital management objectives, policies or processes. To ensure capital sufficiency, the Company's Board proposes to leave the profit of reporting period not distributed.

The Company's management controls the net debt to equity (gearing ratio). During the reporting year this figure has decreased to 17% (2014 - 28%), confirming the Company's improvement of stability. The positive trend in 2015 is also the increased ratio of equity to total assets:

	31.12.2015.	31.12.2014.
	EUR	EUR
Total borrowings (long-term and short-term loans from banks)	13 943 300	22 709 479
Less cash and its equivalents	<u>(24 471)</u>	<u>(398 187)</u>
Net debt	13 918 829	22 311 292
Equity	<u>83 230 549</u>	<u>79 321 211</u>
Total capital (equity and net loans)	<u>97 149 378</u>	<u>101 632 503</u>
Net debt to equity	17%	28%
Equity ratio on total assets	71%	64%

(31) Subsequent events

There were no subsequent events since the last date of the financial year until the date of signing of these financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2015.