

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(NOT AUDITED)*

FOR THE YEAR OF 2015

PREPARED IN ACCORDANCE WITH EU APPROVED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Riga, 2016

Management Report

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 JSC Latvijas balzams from October 2014 is Amber Beverage Group LLC which owns 89.99% of the Company's equity capital (previous major shareholder – S.P.I. Regional Business Unit B.V.).

JSC Latvijas balzams 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.

The Company's Activity

The unaudited turnover of the Company in 2015 was 73.41 million Euros, which is 0.5% more than in 2014. 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 unaudited profit for the reporting period reached 7.06 million Euros that represents 11% decrease versus 2014 that based on decrease of sales in most profitable markets, as well as developing of platform for future growth in other export markets by investing in advertising and sales promo activities for JSC Latvijas balzams branded products.

During 2015 JSC Latvijas balzams paid 53 million Euros into the state budget, including excise tax amounting to 40.1 million Euros.

Outlook of Future Activities

Latvijas Balsam'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 slowed 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.

Latvijas Balsams will by active participation in the Industry Association and by cooperating with non-governmental organizations, represent the interests of industry in any dialogue with legislators and law enforcement institutions and promote a responsible policy on development in the alcohol market and to focus on the public education on these issues. For example Latvijas Balsams will continue to combat the production and illegal distribution of non-commercial alcoholic beverages.




Seymour Ferreira
Chairman of the Board

Riga, February 29, 2016

Declaration of Management Responsibility

Management of the Company declares that in accordance with the information in their possession, the condensed financial statements presented were prepared under actual laws and regulations and represent truthful and clear information on company assets, equity, liabilities, financial situation and profit or loss.

The Management Report contains truthful information.



Seymour Ferreira
Chairman of the Board

Riga, February 29, 2016

MANAGEMENT

Names and positions of 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 Mendelev – 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)

Names and positions of Board members:

Seymour Paul Ferreira – Chairman of the Board (from 01.09.2015)
Chairman of the Board of Amber Beverage Group LLC

Intars Geidāns – Member of the Board
Director of logistics department of JSC Latvijas balzams

Ronalds Žarinovs – Member of the Board
Production director of JSC Latvijas balzams

Jekaterina Stūģe – Member of the Board (from 30.12.2014)
Member of the Board of Amber Beverage Group LLC

Guntis Āboliņš – Āboliņš – Chairman of the Board (until 31.08.2015)
General director of JSC Latvijas balzams

Sergejs Ļimarenko – Member of the Board (until 25.04.2015)
Chief of internal control department of JSC Latvijas balzams

Signe Bīdermane – Member of the Board (until 30.12.2014)
Director of human resources department of JSC Latvijas balzams

Līga Sļeņģe – Member of the Board (from 30.12.2014 until 20.05.2015)
Member of the Board of Amber Beverage Group LLC

Council and Board members do not have JSC Latvijas balzams shares.

INCOME STATEMENT

		2015	2014
		EUR	EUR
	Notes		
Revenue	1	73 419 541	73 052 305
Cost of sales	2	(56 994 476)	(56 499 986)
Gross profit		16 425 065	16 552 319
Distribution expenses	3	(6 024 754)	(4 709 476)
Administrative expenses	4	(3 833 883)	(3 538 905)
Other income		1 363 224	858 515
Other expenses		(452 824)	(348 939)
Finance income		1 540 512	1 433 979
Finance costs		(602 400)	(765 963)
Profite before tax		8 414 940	9 481 530
Corporate income tax		(1 359 700)	(1 519 122)
Net profit		7 055 240	7 962 408

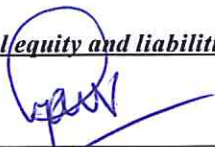


Seymour Ferreira
 Chairman of the Board

Riga, February 29, 2016

STATEMENT OF FINANCIAL POSITION

	31.12.2015. EUR	31.12.2014. EUR
<u>ASSETS</u>		
Non-current assets		
Intangible assets	603 823	399 301
Property, plant and equipment	10 678 460	9 363 174
Investment property	703 169	-
Loans to group companies	41 505 730	43 566 129
Receivables from group companies	6 000 000	-
Deferred income tax assets	926 346	-
Other non current assets	1 041 919	249 149
Total non-current assets:	61 459 447	53 577 753
Current assets		
Inventories	19 976 909	23 377 056
Trade receivables	616 238	1 472 183
Receivables from group companies	33 465 601	43 928 410
Other current assets	808 641	744 035
Corporate income tax	2 713 205	-
Cash and cash equivalents	24 477	398 187
Total current assets:	57 605 071	69 919 871
<u>Total assets</u>	<u>119 064 518</u>	<u>123 497 624</u>
<u>EQUITY AND LIABILITIES</u>		
Equity		
Share capital	10 495 660	10 667 128
Share premium	87 887	87 887
Reserves	(2 992 951)	-
Revaluation reserves of derivative financial instruments	(69 951)	(78 212)
Retained earnings	75 699 648	68 644 408
Total equity:	83 220 293	79 321 211
Liabilities:		
Non-current liabilities:		
Borrowings	10 169 910	6 871 863
Deferred income tax liabilities	-	388 772
Derivative financial instruments	82 295	92 014
Total non-current liabilities:	10 252 205	7 352 649
Current liabilities:		
Borrowings	3 933 964	15 910 744
Trade payables	4 144 995	2 084 209
Payables to group companies	4 078 187	1 526 461
Corporate income tax	-	255 304
Other liabilities	13 434 874	17 047 046
Total current liabilities:	25 592 020	36 823 764
Total liabilities:	35 844 225	44 176 413
<u>Total equity and liabilities:</u>	<u>119 064 518</u>	<u>123 497 624</u>


 Seymour Ferreira
 Chairman of the Board
 Riga, February 29, 2016

Statement of changes in equity

	Share capital	Share premium	Reserves	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2013 restated*	10 667 128	87 887	-	-	60 682 000	71 437 015
Net profit	-	-	-	-	7 962 408	7 962 408
Other income / loss	-	-	-	(78 212)	-	(78 212)
Total income / loss	-	-	-	(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	-	-	-	-	7 055 240	7 055 240
Share capital denomination	(171 468)	-	171 468	-	-	-
Other income / loss	-	-	(3 164 419)	8 261	-	(3 156 158)
Total income / loss	(171 468)	-	(2 992 951)	8 261	7 055 240	3 899 082
31.12.2015.	10 495 660	87 887	(2 992 951)	(69 951)	75 699 648	83 220 293

*In 2014 the Company's management has decided to change real estate accounting policy from revaluation model to cost model. Management's decision was based on various arguments:

- Most of the buildings and land plots are used in production process and therefore they affect the goods production cost, as well as indirectly have impact on the selling price. This situation can lead to large fluctuations in the cost calculation with the impact on the Company's profitability indicators;
- Real estate fair value is dependent on a variety of internal and external factors as given the specifics of the Company assets comparative market information is not always available. The transition from the revaluation model to cost model would reduce dependence on management's estimates and therefore will allow to provide more reliable information;
- The analysis of the direct competitors in the Baltic States as well as accounting principles applied in other alcohol production companies of SPI Group shows that the competitors are applying cost model for valuation of land and buildings. Thus moving to cost model will improve the Company's financial statements comparability to other industry participants.

In condensed financial statements for the year 2015 and financial statements for year 2014 the changes in accounting policy are reflected retrospectively.

Cash flow statement

	2015	2014
	EUR	EUR
Cash flow from operating activities		
Profit or losses before taxes	8 414 940	9 481 530
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	1 442 432	1 179 897
profit from disposal of fixed assets	(28 934)	(51 174)
loss/(profit) from disposal of property, plant and equipment	40 406	56 819
changes in provisions	366 605	141 401
interest expenses	602 400	765 963
interest income	(1 540 512)	(1 428 427)
	<u>9 297 337</u>	<u>10 146 009</u>
Cash flow prior to changes in current assets and liabilities		
Inventory (increase) / decrease	3 400 147	(2 526 239)
Account receivable (increase) / decrease	(5 304 296)	2 359 587
Account payable increase / (decrease)	(4 764 824)	(3 431 338)
	<u>2 628 364</u>	<u>6 548 019</u>
Gross cash flow generated from operating activities		
Interest payments	(594 044)	(778 973)
Corporate income tax paid	(1 742 738)	(1 007 267)
	<u>291 582</u>	<u>4 761 779</u>
Net cash flow generated from operating activities		
Cash flow from investing activities		
Acquisition of fixed and intangible assets	(1 931 432)	(1 157 672)
Proceeds from sales of property, plant and equipment	28 934	51 174
Loans repayed	3 600 000	198 995
Loans interest received	-	65 312
	<u>1 697 502</u>	<u>(842 191)</u>
Net cash flow generated from investing activities		
Cash flow from financing activities		
Changes in credit lines	(10 837 059)	(9 358 696)
Loans received (reclassified from credit line)	-	8 975 881
Received loans	16 100 059	73 129
Borrowings repaid	(7 457 740)	(2 997 588)
Financial leasing	(168 054)	(239 867)
	<u>(2 362 794)</u>	<u>(3 547 141)</u>
Net cash flow generated from financing activities		
	<u>(373 710)</u>	<u>372 447</u>
Net increase / (decrease) in cash and cash equivalents		
Cash and cash equivalents at the beginning of the financial year	<u>398 187</u>	<u>25 740</u>
	<u>24 477</u>	<u>398 187</u>
Cash and Cash equivalents at the end of the financial year		

Notes

1. Revenue

	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	1 324 858	1 831 123
	<u>73 419 541</u>	<u>73 052 305</u>

2. Cost of sales

	2015	2014
	EUR	EUR
Materials	44 585 929	47 003 588
Changes of inventory value of finished goods	(687 952)	(1 614 983)
Salary expense	2 992 898	2 826 474
Goods purchased	1 497 781	1 330 297
Energy resources	925 165	968 961
Mandatory state social insurance contributions	698 715	659 956
Management of packaging	352 448	382 437
Changes in provision for inventories	302 009	(68 958)
Accrued expenses on unused annual leave	581	60 362
Other variable costs	1 049 430	1 426 102
	<u>51 717 004</u>	<u>52 974 236</u>
Depreciation of non-current assets	1 030 491	951 600
Salary expense	1 919 233	1 208 604
Repair and maintenance expenses	687 481	422 136
Mandatory state social insurance contributions	450 382	278 364
Insurance payments	48 874	76 667
Laboratory expenses	24 864	57 812
Accrued expenses on unused annual leave	15 290	16 898
Other fixed expenses	1 100 857	513 669
	<u>5 277 472</u>	<u>3 525 750</u>
	<u>56 994 476</u>	<u>56 499 986</u>

3. Distribution expenses

	2015	2014
	EUR	EUR
Advertising and sales promotion expenses	1 700 599	602 916
Salary expenses	1 476 385	1 821 633
Transportation expenses	765 267	707 619
Mandatory state social insurance contributions	353 722	425 385
Warehouse maintenance expenses	682 787	352 694
Depreciation of non-current assets	209 841	151 512
Accrued expenses on unused annual leave	(4 544)	64 907
Other expenses	840 697	582 810
	<u>6 024 754</u>	<u>4 709 476</u>

Notes (continuation)

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	75 113	51 072
Bank commissions	66 129	80 600
Computer maintenance	52 493	26 460
Business trip expenses	44 240	58 493
Office expenses	41 915	73 177
Transport costs	24 770	22 231
Representation expenses	23 680	47 106
Financial support, sponsorship	21 500	10 293
Employee training	17 238	8 971
Health insurance	9 044	14 526
Accrued expenses on unused annual leave	(6 344)	24 051
Other expenses	328 568	284 779
	<u><u>3 833 883</u></u>	<u><u>3 538 905</u></u>

* As of June 2015 the Company's management and administrative functions were transferred to the parent company Amber Beverage Group LLC. 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 JSC to focus on the production process, to produce and offer in the market high value and high quality products.

AS Latvijas balzams

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Reg. number: LV40003031873

LATVIJAS  BALZAMS

Shares

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

ISIN	LV0000100808
Ticker	BAL1R
Nominal value	1.4 EUR
Total number of securities	7 496 900
Number of listed securities	5 791 900
Indexes	B30GI, B30PI, OMXBGI, OMXBPI, OMXRGI

JSC Latvijas balzams share price development for the period 01.01.2015 – 31.12.2015.



Price	EUR
Open	3,160
Max	6,580
Min	2,990
Last	6,020
No of shares	163 570