

**JOINT STOCK COMPANY LATVIJAS BALZAMS**

(ENTERPRISE REGISTER NUMBER LV40003031873)

**CONDENSED FINANCIAL STATEMENTS *(NOT AUDITED)***

**FOR THE FIRST 9 MONTHS OF 2015**

**PREPARED UNDER INTERNATIONAL ACCOUNTING STANDARDS**

**Riga, 2015**

## 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 89.53% 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 SPI Group, and to 30 markets via the Company's direct export route.

### The Company's Activity

The unaudited turnover of the Company in the first nine months of 2015 was 55.27 million Euros, which is 7.9% more than for the first nine months of 2014. The growth of turnover influenced by increase in sales in export markets, for example, orders of SPI Group has increased by 14.8% comparing to the first nine months of 2014. Significant sales volume increase excluding SPI Group orders was achieved in Lithuania (+38%), Estonia (+16%) and also in China and Romania. Continuing purposeful growth in strategically significant export markets, the Company has successfully expanded assortment and partnerships.

The unaudited profit for the reporting period reached 5.99 million Euros that represents 20.4% growth versus the first nine months of 2014. The result was achieved through focused development of the beverage portfolio, volume growth in strategically significant export markets and growth of production process efficiency as well as changes in corporate income tax related to the reorganization and taken over accumulated tax losses.

During the first nine months of 2015 JSC Latvijas balzams paid 40 million Euros into the state budget, including excise tax amounting to 29.6 million Euros.

### Outlook of Future Activities

The Company will continue purposeful focus on achieve of settled objectives in both domestic and export markets. Our priorities still will be beverage portfolio consummate with the focus on exportable beverages and internationally acknowledged brands, as well as focus on implementation of effective production strategy to increase the Company's competitiveness.

The Company will continue to execute active external marketing activities by participating in international exhibitions and by presenting for global consumers their brands.

By active participation in the Industry Association and cooperating with non-governmental organizations, the Company will represent the interests of industry in the dialogue with legislators and law enforcement institutions, and promote advised policy development in the alcohol market. The Company will continue to focus on activities of combating non-commercial alcoholic beverages and to focus on the public education on these issues.

JSC Latvijas balzams  
Proctor

Rīga, November 25, 2015



Ronalds Žarinovs

## 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.

JSC Latvijas balzams  
Proctor

Rīga, November 25, 2015



Ronalds Žarinovs

## MANAGEMENT

### Names and positions of Council members:

Rolands Gulbis – Chairman of the Council (from 20.11.2015)  
Oļegs Alainis – Vice Chairman of the Council (from 20.11.2015)  
Sergejs Ļimarenko – Member of the Council (from 20.11.2015)  
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 19.11.2015)  
Aigars Kalvītis – Chairman of the Council (until 19.11.2015)  
Sergejs Ļimarenko – Vice Chairman of the Council (from 21.05.2015 until 19.11.2015)  
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)

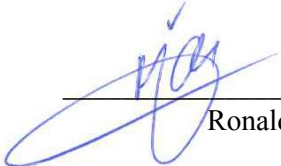
### Names and positions of Board members:

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 Stuģe – Member of the Board (from 19.01.2015)  
Member of the Board of Amber Beverage Group LLC  
  
Guntis Āboltiņš – 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 19.01.2015)  
Director of human resources department of JSC Latvijas balzams  
  
Līga Sleņģe – Member of the Board (from 19.01.2015 until 21.05.2015)  
Member of the Board of Amber Beverage Group LLC

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


## Income statement for the period ended September 30, 2015

		01.01.2015 - 30.09.2015	01.01.2014 - 30.09.2014 restated*
	Notes	EUR	EUR
Revenue	1	55 267 128	51 205 816
Cost of sales	2	(43 579 465)	(39 596 149)
<b>Gross profit</b>		<b>11 687 663</b>	<b>11 609 666</b>
Distribution expenses	3	(4 456 329)	(3 345 563)
Administrative expenses	4	(2 546 467)	(2 608 796)
Other income		878 853	162 039
Other expenses		(251 861)	(321 439)
Finance income		1 156 994	1 061 894
Finance costs		(470 338)	(542 483)
<b>Profit before tax</b>		<b>5 998 515</b>	<b>6 015 319</b>
Corporate income tax		-	(1 032 055)
<b>Net profit</b>		<b>5 998 515</b>	<b>4 983 264</b>

  
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Ronalds Žarinovs  
Proctor

## Balance sheet as at September 30, 2015

	30.09.2015	30.09.2014 restated*
	EUR	EUR
<b><u>ASSETS</u></b>		
<b>Non-current assets</b>		
Intangible assets	506 848	278 139
Property, plant and equipment	10 375 512	8 779 253
Investment property	708 027	-
Loans to group companies	44 722 447	36 590 660
Deferred tax assets	2 287 504	-
Other non-current assets	484 149	34 149
<b>Total non-current assets:</b>	<b>59 084 487</b>	<b>45 682 201</b>
<b>Current assets</b>		
Inventories	20 511 210	24 980 221
Trade receivables	1 352 080	1 184 306
Receivables from group companies	36 735 730	48 988 991
Other current assets	2 403 344	1 220 428
Cash and cash equivalents	6 301	1 246
<b>Total current assets:</b>	<b>61 008 665</b>	<b>76 375 192</b>
<b><u>Total assets</u></b>	<b>120 093 152</b>	<b>122 057 393</b>
<b><u>EQUITY AND LIABILITIES</u></b>		
<b>Equity</b>		
Share capital	10 667 128	10 667 128
Share premium	87 887	87 887
Reorganization reserve	(3 164 418)	-
Revaluation reserves of derivative financial instruments	(78 212)	-
Retained earnings	74 642 923	65 665 264
<b>Total equity:</b>	<b>82 155 308</b>	<b>76 420 279</b>
<b>Liabilities:</b>		
<b>Non-current liabilities:</b>		
Borrowings	11 546 117	8 194 429
Deferred income tax liabilities	-	366 223
Derivative financial instruments	92 014	-
Other borrowings	588 746	441 090
<b>Total non-current liabilities:</b>	<b>12 226 877</b>	<b>9 001 742</b>
<b>Current liabilities:</b>		
Borrowings	2 621 451	14 242 439
Other borrowings	42 224	110 003
Trade payables	3 495 911	6 188 849
Financial liabilities from related parties	4 526 033	-
Payables to group companies	878 274	1 071 703
Other liabilities	14 147 074	15 022 378
<b>Total current liabilities:</b>	<b>25 710 967</b>	<b>36 635 372</b>
<b>Total liabilities:</b>	<b>37 937 844</b>	<b>45 637 114</b>
<b><u>Total equity and liabilities:</u></b>	<b>120 093 152</b>	<b>122 057 393</b>

  
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## Statement of changes in equity for the period ended September 30, 2015

	Share capital	Share premium	Revaluation reserves of derivative financial instruments	Reorganization reserve	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<b>31.12.2013 restated*</b>	<b>10 667 128</b>	<b>87 887</b>	-	-	<b>60 682 000</b>	<b>71 437 015</b>
Net profit	-	-	-	-	4 983 264	<b>4 983 264</b>
<b>30.09.2014 restated*</b>	<b>10 667 128</b>	<b>87 887</b>	-	-	<b>65 665 264</b>	<b>76 420 279</b>
<b>31.12.2014</b>	<b>10 667 128</b>	<b>87 887</b>	<b>(78 212)</b>	-	<b>68 644 408</b>	<b>79 321 211</b>
Net profit	-	-	-	-	5 998 515	<b>5 998 515</b>
Other income / (loss)	-	-	-	(3 164 418)	-	<b>(3 164 418)</b>
<b>30.09.2015</b>	<b>10 667 128</b>	<b>87 887</b>	<b>(78 212)</b>	<b>(3 164 418)</b>	<b>74 642 923</b>	<b>82 155 308</b>

## Cash flow statement for the period ended September 30, 2015

	01.01.2015 - 30.09.2015 EUR	01.01.2014 - 30.09.2014 EUR
<b>Cash flow from operating activities</b>		
Profit or losses before taxes	5 998 515	6 015 319
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	1 058 346	860 438
profit from disposal of fixed assets	12 251	7 931
changes in provisions	2 164 468	102 328
interest expenses	470 338	540 767
interest income	(1 156 994)	(1 056 938)
<b>Cash flow prior to changes in current assets and liabilities</b>	<b>8 546 924</b>	<b>6 469 845</b>
Inventory (increase) / decrease	2 718 675	(3 566 852)
Account receivable (increase) / decrease	(1 810 064)	3 391 028
Account payable increase / (decrease)	(3 488 425)	(1 538 459)
<b>Gross cash flow generated from operating activities</b>	<b>5 967 110</b>	<b>4 755 562</b>
Interest payments	(470 338)	(537 058)
Corporate income tax paid	(1 306 496)	(728 027)
<b>Net cash flow generated from operating activities</b>	<b>4 190 276</b>	<b>3 490 477</b>
<b>Cash flow from investing activities</b>		
Acquisition of fixed and intangible assets	(1 124 126)	(1 013 222)
Loans repayed	-	198 995
Revenue of fixed and intangible assets sales	-	49 687
Loans interest received	-	65 407
<b>Net cash flow generated from investing activities</b>	<b>(1 124 126)</b>	<b>(699 133)</b>
<b>Cash flow from financing activities</b>		
Changes in credit lines	(6 321 341)	-
Received loans	5 263 000	-
Borrowings repaid	(2 274 056)	(2 563 670)
Financial leasing	(125 639)	(252 168)
<b>Net cash flow generated from financing activities</b>	<b>(3 458 036)</b>	<b>(2 815 838)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(391 886)</b>	<b>(24 494)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>	<b>398 187</b>	<b>25 740</b>
<b>Cash and Cash equivalents at the end of the financial year</b>	<b>6 301</b>	<b>1 246</b>



## Notes

	01.01.2015 - 30.09.2015	01.01.2014 - 30.09.2014 restated*
	EUR	EUR
<b>1. Revenue</b>		
Production of alcoholic drinks	53 177 556	49 029 785
Excise warehouse services, storage and office rental	752 498	620 863
Other services	228 743	537 384
Sales of other goods and materials	1 108 332	1 017 785
<b>TOTAL</b>	<b>55 267 128</b>	<b>51 205 816</b>
<b>2. Cost of sales</b>		
Materials	34 377 183	34 769 103
Changes of inventory value of finished goods	(31 247)	(1 749 428)
Salary expense	2 240 154	1 867 950
Goods purchased	54 007	81 918
Energy resources	673 282	684 004
Mandatory state social insurance contributions	523 063	435 657
Natural recourse tax	222 274	264 237
Changes in provision for receivables, inventories and other accrued liabilities	55 794	102 328
Accrued expenses on unused annual leave (variable)	(29 312)	25 905
Other variable costs	860 633	333 008
<b>Variable costs total:</b>	<b>38 945 830</b>	<b>36 814 683</b>
Depreciation of non-current assets	808 270	703 222
Salary expense	1 436 964	895 066
Repair expenses	499 909	307 501
Mandatory state social insurance contributions	338 682	206 147
Insurance payments	35 910	57 820
Laboratory expenses	18 942	42 422
Accrued expenses on unused annual leave (fixed)	(573)	1 132
Net income from revaluation of property, plant and equipment	-	-
Other fixed expenses	1 495 530	568 156
<b>Fixed costs total:</b>	<b>4 633 634</b>	<b>2 781 467</b>
<b>TOTAL</b>	<b>43 579 465</b>	<b>39 596 149</b>
<b>3. Distribution expenses</b>		
Salary expense	1 152 290	1 275 104
Advertising expenses	1 113 836	402 055
Transport costs	591 066	463 521
Mandatory state social insurance contributions	274 984	298 987
Depreciation of non-current assets	160 058	100 759
Warehouse maintenance expenses	512 325	390 406
Accrued expenses on unused annual leave	(16 102)	25 570
Other expenses	667 870	389 161
<b>TOTAL</b>	<b>4 456 329</b>	<b>3 345 563</b>

## Notes (continuation)

	01.01.2015 - 30.09.2015	01.01.2014 - 30.09.2014 restated*
	EUR	EUR
<b>4. Administrative expenses</b>		
Salary expense	818 286	1 194 984
Mandatory state social insurance contributions	145 293	220 710
Management services and expenses	751 647	470 176
Real estate tax	105 573	105 542
Professional service costs	76 710	71 685
Depreciation of non-current assets	90 018	56 457
Financial support, sponsorship	20 000	8 631
Office expenses	24 205	43 579
Communication and postal expenses	53 368	34 305
Business trip expenses	32 319	51 082
Representation expenses	19 374	45 870
Employee training	14 955	7 267
Computer maintenance	37 999	9 248
Transport costs	17 658	14 463
Accrued expenses on unused annual leave	115 010	36 111
Healthcare, health insurance	8 433	7 195
Other expenses	215 619	231 490
<b>TOTAL</b>	<b>2 546 467</b>	<b>2 608 796</b>

### \* Adjustments for changes in accounting policies

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.

## 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 – 30.09.2015.



	EUR
Open	3.160
Max	3.590
Min	2.990
Last	3.250
Change	+2.85%
Deals	500
No of shares traded	57 575
Turnover	186 781