

JOINT STOCK COMPANY LATVIJAS BALZAMS

(ENTERPRISE REGISTER NUMBER LV40003031873)

CONDENSED FINANCIAL STATEMENTS *(NOT AUDITED)*

FOR THE FIRST 6 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. 73% of our production is exported to more than 160 export markets, as mediated by SPI Group, and to 34 markets via the Company's direct export route.

The Company's Activity in the First Half of 2015

The unaudited turnover of the Company in the first half of 2015 was 34.98 million Euros, which is 10.5% more than in the first half of 2014. The growth of turnover influenced by significant increase in sales in export markets, for example, orders of *SPI Group* has increased by 17.9%. The most significant increase in sales was achieved in Lithuania (+39%), United Kingdom (+9%), and also in Israel and China. Continuing purposeful growth in strategically significant export markets, the Company has successfully expanded assortment and partnerships.

The unaudited profit for the reporting period reached 3.38 million Euros that represents 15.3% growth *versus* the first half 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.

During the first half of 2015, JSC Latvijas balzams paid 27 million Euros into the state budget, including excise tax, amounting to 19.9 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 enterprise will continue to realize 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”
Chairman of the Board
Rīga, August 31st, 2015



Guntis Ābolītiņš - Ābolītiņš

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”
Chairman of the Board
Rīga, August 31st, 2015



Guntis Āboliņš – Āboliņš

MANAGEMENT

Names and positions of Council members:

Aigars Kalvītis – Chairman of the Council

Pjotrs Avens – Member of the Council

Seymour Paul Ferreira - Member of the Council
(until 20.05.2015.)

Sergejs Ļimarenko – Vice Chairman of the
Council (from 21.05.2015.)

Valizhan Abidov - Member of the Council (from
21.05.2015.)

Valery Mendelev – Vice Chairman of the Council
(until 20.05.2015.)

David Ronald Surbey – Member of the Council (until
20.05.2015)

Boelen Sebastianus Antonius Theodorus – Member
of the Council (until 20.05.2015.)

Oļegs Alainis - Member of the Council (from
21.05.2015.)

Names and positions of Board members:



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

From 01.09.2015. Chairman of the Board - Seymour Paul Ferreira



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



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



Jekaterina Stūģe – Member of the Board (from 19.01.2015.)
Amber Beverage Group LLC Member of the board



Līga Slepģe – Member of the Board (from 19.01.2015. until 21.05.2015.)
Amber Beverage Group LLC Member of the board

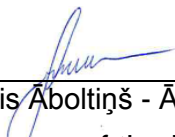
Reporting period

1st January – 30th June 2015

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

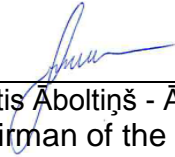
Income statement for the period ended June 30, 2015

	Notes	01.01.2015 - 30.06.2015 EUR	01.01.2014 - 30.06.2014 restated* EUR
Revenue	1	34 983 882	31 664 413
Cost of sales	2	(27 197 327)	(24 380 330)
Gross profit		7 786 555	7 284 083
Distribution expenses	3	(2 892 894)	(2 140 678)
Administrative expenses	4	(1 814 293)	(1 772 207)
Other income		856 343	119 665
Other expenses		(201 536)	(204 283)
Finance income		766 643	708 110
Finance costs		(326 708)	(375 495)
Profit before tax		4 174 110	3 619 194
Corporate income tax		(793 081)	(687 647)
Net profit		3 381 029	2 931 547


Guntis Āboliņš - Āboliņš
Chairman of the Board

Balance sheet as at June 30, 2015

<u>ASSETS</u>	30.06.2015 EUR	30.06.2014 restated* EUR
Non-current assets		
Intangible assets	518 844	209 356
Property, plant and equipment	9 394 371	8 571 324
Loans to group companies	44 332 772	37 051 671
Other non-current assets	484 149	34 149
Total non-current assets:	54 730 136	45 866 500
Current assets		
Inventories	26 011 086	24 591 131
Trade receivables	1 761 972	1 115 056
Receivables from group companies	45 520 795	52 833 249
Other current assets	815 090	1 230 625
Cash and cash equivalents	47 615	2 586
Total current assets:	74 156 557	79 772 648
<u>Total assets</u>	<u>128 886 693</u>	<u>125 639 147</u>
<u>EQUITY AND LIABILITIES</u>		
Equity		
Share capital	10 667 128	10 667 128
Share premium	87 887	87 887
Revaluation reserves of derivative financial instruments	(78 212)	-
Retained earnings	72 025 438	63 613 547
Total equity:	82 702 240	74 368 561
Liabilities:		
Non-current liabilities:		
Borrowings	11 546 117	1 987 518
Deferred income tax liabilities	388 772	366 223
Derivative financial instruments	92 014	-
Other borrowings	588 746	362 761
Total non-current liabilities:	12 615 649	2 716 501
Current liabilities:		
Borrowings	7 314 538	22 210 377
Other borrowings	262 575	162 381
Trade payables	6 577 601	5 651 748
Financial liabilities from related parties	1 438 122	-
Payables to group companies	618 497	3 341 075
Current corporate income tax payables	435 131	-
Other liabilities	16 922 340	17 188 504
Total current liabilities:	33 568 805	48 554 085
Total liabilities:	46 184 453	51 270 587
<u>Total equity and liabilities:</u>	<u>128 886 693</u>	<u>125 639 147</u>


 Guntis Āboliņš - Āboliņš
 Chairman of the Board

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

	Share capital	Share premium	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR
31.12.2013 restated*	10 667 128	87 887	0	60 682 000	71 437 014
Net profit	-	-	-	2 931 547	2 931 547
30.06.2014 restated*	10 667 128	87 887	0	63 613 547	74 368 561
31.12.2014	10 667 128	87 887	0	68 644 408	79 399 423
Net profit	-	-	-	3 381 029	3 381 029
Other income / (loss)	-	-	(78 212)	-	(78 212)
30.06.2015	10 667 128	87 887	(78 212)	72 025 438	82 702 240

Cash flow statement for the period ended June 30, 2015

	01.01.2015 - 30.06.2015	01.01.2014 - 30.06.2014
	EUR	EUR
Cash flow from operating activities		
Profit or losses before taxes	4 174 111	3 619 194
<u>Adjustments for:</u>		
depreciation of fixed and intangible assets	589 953	565 783
changes in provisions	750 839	233 843
interest expenses	344 739	351 308
interest income	(766 643)	(707 690)
Cash flow prior to changes in current assets and liabilities	5 092 999	4 062 438
Inventory (increase)/decrease	(2 456 073)	(3 263 958)
Account receivable (increase)/decrease	(2 183 596)	(1 238 126)
Account payable increase/(decrease)	3 965 415	2 712 398
Gross cash flow generated from operating activities	4 418 745	2 272 752
Interest payments	(344 739)	(350 107)
Corporate income tax paid	(613 254)	(574 947)
Net cash flow generated from operating activities	3 460 752	1 347 698
Cash flow from investing activities		
Acquisition of fixed and intangible assets	(740 693)	(509 072)
Loans repayed	-	198 995
Loans interest received	-	65 407
Net cash flow generated from investing activities	(740 693)	(244 670)
Cash flow from financing activities		
Changes in credit lines	(6 794 518)	(85 377)
Borrowings repaid	3 807 369	(1 050 000)
Financial leasing	(83 482)	9 195
Net cash flow generated from financing activities	(3 070 631)	(1 126 182)
Net increase / (decrease) in cash and cash equivalents	(350 572)	(23 154)
Cash and cash equivalents at the beginning of the financial year	398 187	25 740
Cash and Cash equivalents at the end of the financial year	47 615	2 586

	01.01.2015 - 30.06.2015 EUR	01.01.2014 - 30.06.2014 restated* EUR
1. Net sales		
Production of alcoholic drinks	33 373 209	30 420 425
Excise warehouse services, storage and office rental	458 660	421 198
Other services	167 094	254 096
Sales of other goods and materials	984 918	568 694
TOTAL	34 983 882	31 664 413
2. Cost of Sales		
Materials	19 658 084	21 302 934
Changes of inventory value of finished goods	1 440 666	(1 093 851)
Salary expense	1 729 070	1 154 938
Goods purchased	39 492	63 030
Energy resources	485 305	458 700
Mandatory state social insurance contributions	341 340	269 230
Natural recourse tax	118 033	167 385
Changes in provision for receivables, inventories and other accrued liabilities	39 103	37 655
Accrued expenses on unused annual leave (variable)	32 706	37 551
Other variable costs	685 634	227 918
Variable costs total:	24 569 432	22 625 489
Depreciation of non-current assets	486 835	460 377
Salary expense	951 402	585 809
Repair expenses	330 740	117 295
Mandatory state social insurance contributions	226 229	194 653
Insurance payments	22 995	36 099
Laboratory expenses	1 467	24 125
Accrued expenses on unused annual leave (fixed)	53 182	26 933
Other fixed expenses	555 044	309 550
Fixed costs total:	2 627 895	1 754 841
TOTAL	27 197 327	24 380 330
3. Distribution expenses		
Salary expense	799 349	821 270
Advertising expenses	674 596	243 048
Transport costs	371 328	283 782
Mandatory state social insurance contributions	193 530	192 357
Depreciation of non-current assets	65 070	68 050
Warehouse maintenance expenses	352 089	246 790
Accrued expenses on unused annual leave	22 640	31 987
Other expenses	414 292	253 396
TOTAL	2 892 894	2 140 678

	01.01.2015 - 30.06.2015	01.01.2014 - 30.06.2014
	EUR	restated* EUR
4. Administrative expenses		
Salary expense	610 068	749 494
Mandatory state social insurance contributions	130 128	294 086
Management services and expenses	456 177	162 438
Real estate tax	70 376	70 990
Professional service costs	52 603	45 362
Depreciation of non-current assets	38 048	37 356
Financial support, sponsorship	20 000	8 609
Office expenses	18 406	31 778
Communication and postal expenses	38 933	22 793
Business trip expenses	27 710	41 568
Representation expenses	24 297	28 961
Employee training	10 168	6 110
Computer maintenance	26 487	7 678
Transport costs	10 301	10 748
Accrued expenses on unused annual leave	125 816	69 669
Healthcare, health insurance	3 383	4 342
Other expenses	151 392	180 225
TOTAL	<u>1 814 293</u>	<u>1 772 207</u>

* 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 01.01.15 – 30.06.15.



	EUR
Open	3.160
Max	3.590
Min	2.990
Last	3.080
Change	-2.53%
Deals	349
No of shares traded	43 498
Turnover	140 847