

AS "Latvijas balzams"

ANNUAL REPORT 2014

prepared in accordance with EU approved
International Financial Reporting Standards

CONTENTS

Management	3
Report of the Management	4 - 6
Statement of the management responsibility	7
Independent Auditor's Report	8 - 9
Financial statements	
Income statement	10
Statement of comprehensive income	11
Statement of financial position	12
Statement of changes in equity	13
Cash flow statement	14
Notes to the financial statements	15 - 43

MANAGEMENT

Names and positions of the Council members

Aigars Kalvītis - Chairman of the Council

Valery Mendelev - Vice Chairman of the Council

Pjotrs Aven - Member of the Council

David Ronald Surbey - Member of the Council

Seymour Paul Ferreira - Member of the Council

Sebastianus Antonius Theodorus Boelen - Member of the Council

Names and positions of the Board members

Guntis Āboliņš - Āboliņš - Chairman of the Board,
General Director of JSC Latvijas balzams

Ronalds Žarinovs – Member of the Board,
Director of Production of JSC Latvijas balzams

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

Sergejs Ļimarenko – Member of the Board,
Chief of Internal Security Department of JSC Latvijas balzams

Signe Bīdermane – Member of the Board (until 19.01.2015),
Director of Personnel and administrative department of JSC Latvijas

Līga Slepģe - Member of the Board (from 19.01.2015),
SIA Amber Beverage Group member of the board

Jekaterīna Stūģe - Member of the Board (from 19.01.2015),
SIA Amber Beverage Group member of the board)

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 JSC Latvijas balzams from October 2014 is SIA Amber Beverage Group which owns 89.53% of the Company's equity capital (previous major shareholder - S.P.I. Regional Business Unit B.V.).

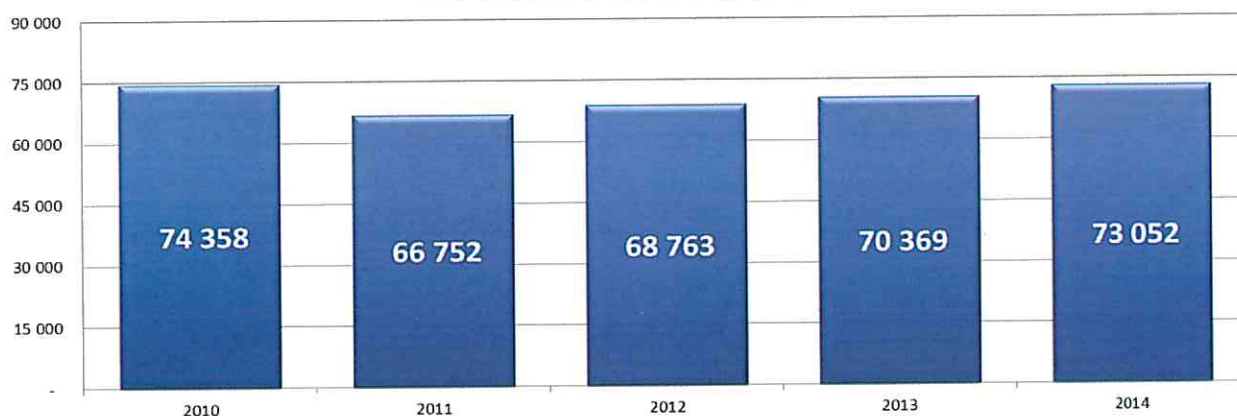
JSC Latvijas balzams is the largest producer of alcoholic beverages in the Baltic States with a range of more than 100 different products. 73% of our production is exported to more than 160 export markets, as mediated by SPI Group, and an additional 30 markets via the Company's direct export route.

Performance of the Company during the financial year

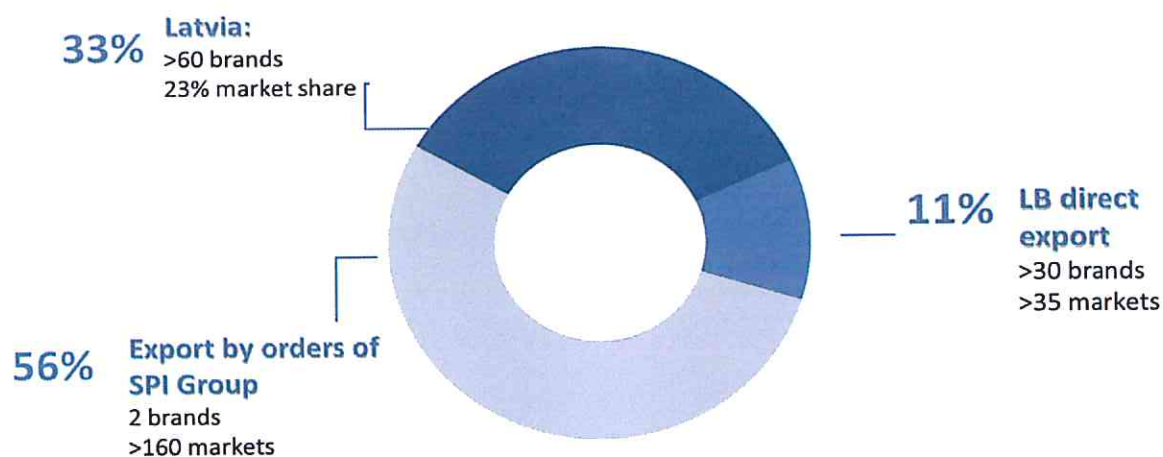
The financial year for the Company has been successful. JSC Latvijas balzams has been able to increase operational efficiency and as a result increased its equity ratio of the balance sheet.

The net turnover of the Company in financial year 2014 was 73.05 million euro, which is by 3.8% more than in year 2013. 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 influenced by significant increase in sales in export markets, for example, orders of SPI Group has increased by 5.6%. The most significant increase in sales was achieved in Lithuania and Estonia (+22%) and Norway (+5%), and also in Travel Retail and Duty free market (+8%). Continuing purposeful growth in strategically significant markets, the Company has successfully expanded assortment and developed in China's market, and also led the foundation for future growth in USA and UK markets.



Report of the management (continuation)

The profit for the financial year reached 7.96 million euro, which represents 24% increase versus 2013. The result achieved through focused development of the beverage portfolio, volume growth in strategically significant export markets and production process efficiency. The Company's return on equity (ROE) amounts to 10.6%, but return on assets (ROA) amounts to 6.5%.

JSC Latvijas balzams is the leading producer of alcoholic beverages in Latvia, as well as one of the largest local taxpayers. During 2014, JSC Latvijas balzams paid 53.5 million euro to the state budget, including excise tax, amounting to 39.2 million euro.

In 2014, the Company has successfully participated in international exhibitions receiving an assessment for the highest beverage quality and competitiveness. The Company's products as "Riga Black Balsam", "Riga Black Balsam Currant", "Riga Black Balsam Element", "Riga Black Vodka", "Amber Gold Vodka", liqueur "Moka" and "Cosmopolitan Diva" received gold, silver and bronze awards by participating in major international exhibitions as China Wine & Spirits Best Value Award 2014, San Francisco "World Spirits Competition 2014" and Las Vegas "Wine & Spirits Wholesalers America".

By continuing to implement the Company's corporate social responsibility policy, the Company started to take care on particular marking on product packing, as well as realize various activities in the field of environmental protection. Overall, in 2014 nine hundred tons of waste materials were collected and recycled.

Share market

The improvement of the Company's financial performance has been reflected on its share price on NASDAQ OMX Riga. In 2014, the Company's share price fluctuated from 2.16 to 4.33 euro. Total amount of shares traded was 143 thousands. Overall, during 2014 share price has increased by 22.7%.

JSC Latvijas balzams share price in NASDAQ OMX Riga (EUR)
(January of 2014 – December of 2014)



Financial risk management

The policy of financial risk management of the Company is described in financial report's Notes 30

Post balance sheet events

On 5th January 2015, the Company has acquired 100% of Daugavgrivas 7 SIA capital and in 2015 has planned to merge it into the Company (see also Note (32)).

Except the above mentioned, in the time period between the last day of the financial year and the date of signing the financial statements by the Board there have been no important events that would have a significant effect on the financial results of the year or the financial position of the Company.

Distribution of profit proposed by the Board

**2014
EUR**

Profit share to be distributed	7 962 408
Proposed profit distribution:	
Retained earnings	7 962 408


Report of the management (continuation)

Future prospects

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 is planning in the future to set up the museum and show rooms to promote the dialogue with consumers and give the opportunity to present JSC Latvijas balzams produced brands and their history.

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.



Guntis Āboltiņš - Āboltiņš
Chairman of the Board

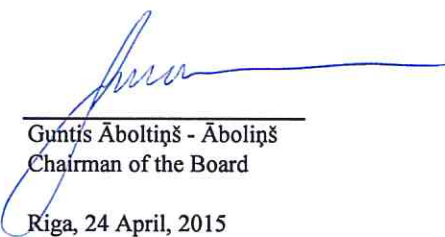
Rīga, 24 April, 2015

STATEMENT OF THE MANAGEMENT RESPONSIBILITY

The Management is responsible for the preparation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted the EU. The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the results of its operations and cash flow for the year then ended.

The Management certifies that proper accounting methods were applied to preparation of these financial statements on page 10 to page 43 and decisions and assessments were made with proper discretion and prudence. During the current year the Company's management has decided to change real estate accounting policy from revaluation model to cost model in order to provide reliable and more relevant information on the Company's financial position. Except for above mentioned, the accounting policies applied have been consistent with the previous period. The Management confirms that the financial statements have been prepared on going concern basis.

The Management is responsible for accounting records and for safeguarding the Company's assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.



Guntis Āboliņš - Āboliņš
Chairman of the Board

Riga, 24 April, 2015

INDEPENDENT AUDITOR'S REPORT***to the Shareholders of Latvijas balzams AS*****Report on the Financial Statements**

We have audited the accompanying financial statements of Latvijas balzams AS (the Company) set out on pages 10 to 43 of the annual report. These financial statements comprise the statement of financial position as at 31 December 2014, and income statement, the statement of comprehensive income, statement of cash flow and statement of changes in equity 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 and fair presentation of these financial statements in accordance with the 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 and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the above mentioned financial statements give a true and fair view of the financial position of the Company as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.



Report on Other Legal and Regulatory Requirements

We have read the management report for 2014 as set on pages 4 to 6 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements.

Baker Tilly Baltics SIA
Licence No. 80

Jekaterina Dzikevica
Certified Auditor
Certificate No.194

Ēriks Bahirs
Chairman of the board

Riga, 24 April 2015

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INCOME STATEMENT

	Notes	2014 EUR	2013 restated EUR
Revenue	(1)	73 052 305	70 368 874
Cost of sales	(2)	(56 499 986)	(56 090 377)
Gross profit		16 552 319	14 278 497
Distribution expenses	(3)	(4 709 476)	(4 014 377)
Administrative expenses	(4)	(3 458 305)	(3 430 244)
Other income	(5)	858 515	260 117
Other expenses	(6)	(429 539)	(168 474)
Finance income	(8)	1 433 979	1 342 334
Finance costs	(9)	(765 963)	(758 152)
Profit before tax		9 481 530	7 509 701
Corporate income tax	(10)	(1 519 122)	(1 090 785)
Net profit		7 962 408	6 418 916
Earnings per share (in cents)			
Basic	(11)	106.21	85.62
Diluted	(11)	106.21	85.62

STATEMENT OF COMPREHENSIVE INCOME

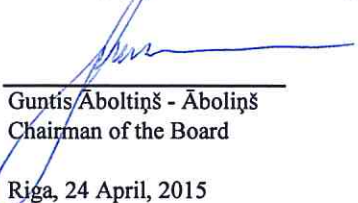
	Notes	2014 EUR	2013 restated EUR
Net profit		<u>7 962 408</u>	<u>6 418 916</u>
Other comprehensive income / (loss)			
Items that may be reclassified subsequently to income statement			
Changes in fair value of financial instruments	(21)	92 014	-
Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments	(10)	(13 802)	-
Other comprehensive income		<u>78 212</u>	<u>-</u>
Total comprehensive income		<u>8 040 620</u>	<u>6 418 916</u>

Notes on pages 15 to 43 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

		31.12.2014.	31.12.2013 restated	31.12.2012 restated
	Notes	EUR	EUR	EUR
<u>ASSETS</u>				
Non-current assets				
Intangible assets	(12)	399 301	209 956	138 326
Property, plant and equipment	(13)	9 363 174	8 737 409	9 894 847
Loans to group companies	(26f)	43 566 129	37 051 670	25 300 000
Other non-current assets		249 149	34 149	34 149
Total non-current assets:		53 577 753	46 033 184	35 367 322
Current assets				
Inventories	(14)	23 377 056	21 341 796	23 444 015
Trade receivables	(15)	1 472 183	930 195	857 138
Receivables from group companies	(26e)	43 928 410	52 018 765	55 154 670
Other current assets	(16)	744 035	550 815	810 999
Corporate income tax	(10)	-	220 199	-
Cash and cash equivalents	(17)	398 187	25 740	92 899
Total current assets:		69 919 871	75 087 510	80 359 721
<u>Total assets</u>		<u>123 497 624</u>	<u>121 120 694</u>	<u>115 727 043</u>
<u>EQUITY AND LIABILITIES</u>				
		31.12.2014.	31.12.2013 restated	31.12.2012 restated
		EUR	EUR	EUR
Equity				
Share capital	(19)	10 667 128	10 667 128	10 667 128
Share premium		87 887	87 887	87 887
Revaluation reserves of derivative financial instruments	(21)	(78 212)	-	-
Retained earnings		68 644 408	60 682 000	54 263 084
Total equity:		79 321 211	71 437 015	65 018 099
Liabilities:				
Non-current liabilities:				
Borrowings	(20)	6 871 863	3 037 518	5 143 324
Deferred income tax liabilities	(10)	388 772	366 223	436 120
Derivative financial instruments	(21)	92 014	-	-
Total non-current liabilities:		7 352 649	3 403 741	5 579 444
Current liabilities:				
Borrowings	(20)	15 910 744	22 301 560	20 572 507
Trade payables		2 084 209	5 666 743	5 546 721
Payables to group companies	(26e)	1 526 461	3 051 045	1 913 976
Current corporate income tax payables	(10)	255 304	-	220 820
Other liabilities	(22)	17 047 046	15 260 590	16 875 476
Total current liabilities:		36 823 764	46 279 938	45 129 500
Total liabilities:		44 176 413	49 683 679	50 708 944
<u>Total equity and liabilities:</u>		<u>123 497 624</u>	<u>121 120 694</u>	<u>115 727 043</u>

Notes on pages 15 to 43 are an integral part of these financial statements.


Guntis Ābolpiņš - Ābolpiņš
Chairman of the Board

Riga, 24 April, 2015

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Revaluation reserves of non-current assets	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2012.	10 667 128	87 887	11 114 579	-	50 525 595	72 395 188
Effect of changes in accounting policy (see Note 31)	-	-	(11 114 579)	-	3 737 489	(7 377 090)
31.12.2012. restated	10 667 128	87 887	-	-	54 263 084	65 018 099
Net profit	-	-	-	-	6 418 916	6 418 916
Total comprehensive income	-	-	-	-	6 418 916	6 418 916
31.12.2013.	10 667 128	87 887	-	-	60 682 000	71 437 015
Net profit	-	-	-	-	7 962 408	7 962 408
Other comprehensive income	-	-	-	(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

CASH FLOW STATEMENT

	Notes	2014 EUR	2013 EUR
Cash flow from operating activities			
Gross cash flow from operating activities	(23)	6 548 019	3 061 056
Interest paid		(778 973)	(759 889)
Income tax paid		(1 007 267)	(1 601 700)
Net cash flow generated from operating activities from continuing operations		4 761 779	699 467
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets	(12), (13)	(1 157 672)	(450 333)
Proceeds from sales of property, plant and equipment		51 174	-
Loans repayment received	(26f)	198 995	60 000
Loans interest received		65 312	50 014
Net cash flow generated from investing activities from continuing operations		(842 191)	(340 319)
Cash flow from financing activities			
Changes in credit lines (net)	(20)	(9 358 696)	1 734 637
Loans received (reclassified from credit line)	(20)	8 975 881	-
Factoring money received	(20)	73 129	-
Borrowings repaid	(20)	(2 997 588)	(2 151 223)
Finance lease payments	(20)	(239 867)	(9 721)
Net cash flow generated from financing activities from continuing operations		(3 547 141)	(426 307)
Net increase / (decrease) in cash and cash equivalents		372 447	(67 159)
Cash and cash equivalents at the beginning of the financial year		25 740	92 899
Cash and cash equivalents at the end of the financial year	(17)	398 187	25 740

Notes on pages 15 to 43 are 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, AS Latvijas balzams produces more than 100 different names of alcoholic drinks. The largest shareholder of the Company, who owns 89.53% of the Company's share capital, is SIA Amber Beverage Group (until 24 October 2014 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 Riga Stock Exchange.

The current financial year of the Company is from 1 January 2014 up to 31 December 2014.

These financial statements were authorized for issue by the Board of Directors of the Company on 24 April 2015, and Chairman of the Board Guntis Āboliņš - Āboliņš signed these for and on behalf of the Board of Directors.

The auditor of the Company is Baker Tilly Baltics 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 European Union (IFRS).

The financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the following notes.

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 the 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 represented in Note (23) to accounting policies.

a) Standards, amendments and interpretations effective in the current year

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 does not change the consolidation procedures, rather changes whether an entity is consolidated by revising the definition of control. As the Company does not have any investments in subsidiaries and special purpose entities, this standard is not relevant to the Company's financial statements.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities using proportionate consolidation. Instead, jointly controlled entities that meet the definition of a joint venture must be accounted for using the equity method. As the Company does not have any investments in jointly controlled entities, this standard does not affect the Company's financial statements.

IFRS 12 Disclosures of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. As the Company does not have any investments in other companies, this standard does not affect the Company's financial statements.

Basis of preparation (continuation)

IAS 27 Separate Financial Statements - Revised

As a result of the new IFRS 10 and IFRS 12, revised IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. As the Company does not have any investments in subsidiaries, jointly controlled entities and associates, the revised standard does not affect the Company's financial statements.

IAS 28 Investments in Associates and Joint Ventures - Revised

As a result of the new IFRS 11 and IFRS 12, revised IAS 28 has been renamed as IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. As the Company does not hold any investments in jointly controlled entities and associates, the revised standard does not affect the Company's financial statements.

IFRS 10, IFRS 11 and IFRS 12 - Transition guidance - Amendment

These amendments provide additional transition relief to IFRS 10, 11 and 12, limiting the requirements to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirements to present comparative information for period before IFRS 12 is first applied. As the Company does not have any investments in other companies, the amendments are not relevant to the Company's financial statements.

IFRS 10, IFRS 12 and IAS 27 - Amendments

The amendments introduce a definition of a investment entity as an entity that (i) obtain funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. These amendments do not affect the Company's financial statements.

IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities - Amendment.

This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems which apply gross settlement mechanisms that are not simultaneous. This amendment did not affected the Company's financial statements.

IAS 36, Recoverable amount disclosures for non-financial assets - Amendment

The amendment remove the requirements to disclose the recoverable amount when a cash generated unit contains goodwill or indefinite lived intangible assets but there has been no impairment. This amendment does not have an impact on the Company's financial statements.

IAS 39, Novation of derivatives and continuation of hedge accounting - Amendment

The amendment will allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedge instrument, is novated (i.e. parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of law or regulation, if specific condition are met. The Company does not consider, that this amendment to have significant impact on the financial statements.

b) Standards, amendments and interpretations, which are not yet effective and not yet adopted by the Company

IAS 19, Defined benefit plans: Employee contributions - Amendment (effective for annual periods beginning on or after 1 July 2014).

Improvements to IFRS: 2010-2012 cycle (effective for annual periods beginning on or after 1 July 2014).

Improvements to IFRS: 2011-2013 cycle (effective for annual periods beginning on or after 1 July 2014).

IFRIC 21 Levies (effective for annual periods beginning on or after 20 June 2014).

The Group does not expect, that these amendments to have significant impact on the financial statements.

Basis of preparation (continuation)

c) Standards, amendments and interpretations, which are not yet effective and not yet endorsed by the EU

IFRS 9, Financial instruments - 2014 (effective for annual periods beginning on or after 1 January 2018).

IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016).

IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2017).

IAS 1, Disclosure Initiative - Amendment (effective for annual periods beginning on or after 1 January 2016).

IFRS 10, 12, IAS 28, Investment Entities: Applying the Consolidation Exemption - Amendment (effective for annual periods beginning on or after 1 January 2016).

IFRS 10, IAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendment (effective for annual periods beginning on or after 1 January 2016).

IFRS 11, Accounting for Acquisitions of Interest in Joint Operations - Amendment (effective for annual periods beginning on or after 1 January 2016).

IAS 16, 38, Clarification of Acceptable Methods of Depreciation and Amortization - Amendment (effective for annual periods beginning on or after 1 January 2016).

IAS 16, 41, Bearer Plants - Amendment (effective for annual periods beginning on or after 1 January 2016).

IAS 27, Equity Method in Separate Financial Statements - Amendment (effective for annual periods beginning on or after 1 January 2016).
Improvements to IFRS: 2012-2014 cycle (effective for annual periods beginning on or after 1 July 2016).

The Company is considering the impact of the new and amended standards on the Group's financial statements.

(2) 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.

The accounting policy change has been applied retrospectively by adjusting each affected financial statements line item as if the new accounting policy had always been applied. Comparative income statement, statement of financial position, statement of changes in equity and related notes for the year 2013 have been adjusted accordingly. The effect of changes in accounting policies disclosed in Note 31.

Except the above mentioned, the accounting policies used by the Company are consistent with those used in the previous period.

(3) Foreign currencies / change of functional currency

(a) Functional and presentation currency / change of functional currency

Items are recognized in the financial statements of the Group as measured using the currency of the primary economic environment in which the Group operates (the functional currency). Before 2014 year the functional currency of the Company was Latvian lat (LVL), but starting from 2014 the functional and presentation currency of the Company is euro (EUR).

Starting from the 1st January 2014 the national currency of the Latvian Republic is euro (EUR), as a result from this date the functional and presentation currency of the Company has been changed. All assets, liabilities and components of equity are converted from the lats to the euros, applying flat rate 0.702804 LVL/EUR. This conversion has no impact on the income statement. Financial statement comparative indicators for the previous year also are converted, using flat rate 0.702804 LVL/EUR.

Foreign currencies / change of functional currency (continuation)

(b) Transactions and balances

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 in the income statements in the respective period on net amount.

	31.12.2014.	31.12.2013.
	EUR	EUR
1 USD	0.8237	0.7251
1 RUB	0.0138	0.0221

(4) Segment disclosure

An operation segment is a component of entity which qualifies for the following criteria: (i) engages in business activities from which it may earn revenues and incur expenses; (ii) whose operation results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and (iii) for which discrete financial information is available.

Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(5) Revenue recognition

Main operation of the Company is the production and sale of alcoholic drinks. 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 penalties is recognised at the moment of receipt. Income from provision of services is recognised based on the stage of completion method.

Interest income or expenses are recognised in the income statement for all loans and borrowings assessed at amortised cost applying the effective interest rate method.

(6) 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. Amortisation is calculated from the moment the assets are available to use. Amortisation of intangible assets is calculated using the straight-line method to allocate amounts to their residual values over their estimated useful lives, as follows:

	Years
Licenses and software	3-5

Where the carrying amount of an intangible asset exceeds its recoverable amount, it is written down immediately to its recoverable amount. Recoverable amount exceeds the fair value of the relevant intangible asset less selling or use expenses.

(7) Property, plant and equipment (PPE)

According with the cost model property, plant and equipment are recognised at cost value less accumulated depreciation. As mentioned in the policy notes 2 in the reporting year the Company has changed its accounting policy for real from revaluation model to acquisition cost model. 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.

Property, plant and equipment (PPE) (continuation)

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost or revaluated amounts to their residual values over their estimated useful life, 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.

Where the carrying amount of an asset exceeds its estimated recoverable amount, it is written down immediately to its recoverable amount. The decrease is reflected as the expenses or recognised in reserves in case the asset was previously re-valued.

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are 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 within the income statement for the relevant period. As soon as the re-valued assets are sold or written off, values in the "Revaluation reserve of non-current assets" are charged to the retained earnings.

(8) Impairment of tangible and intangible assets

All tangible 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 revaluated every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Loss from value decrease is recognised at difference between book value of the asset and its recoverable value. Recoverable value is the higher of an asset's fair value less costs to sell and its value in use. In order to determine decrease of the value, assets are classified based on the lower level of identifiable cash flows (cash-bearing units). Assets, which value has been decreased, are assessed at the end of every reporting year to identify the probable value decrease reservation.

(9) The company as a lessee

In cases when leased assets are received with lease-to-buy (financial lease) conditions, under which all risks and rewards of ownership are transferred to the Company, are recognized as Company's assets. Assets under the finance lease are recognized at the inception of lease at the lower of fair value of the leased assets or the present value of the minimum lease payments. Lease interest payments are included in the statement of comprehensive income by method to produce a constant periodic rate of interest on the remaining balance of the liability. Leases under which substantially all of the ownership risks and rewards are granted to the lessor are classified as operating leases. Operating lease payments are recognized in the income statement as incurred.

(10) The company as a lessor

Assets that are leased to operating leases, are disclosed in tangible assets at purchase price, less depreciation. Depreciation is calculated on the straight-line basis over the period of useful life of the appropriate tangible asset, to write off the value of tangible asset until its estimated book value at the end of the period of useful life by using the rates specified for similar tangible assets of the Company.

(11) Inventories

The inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average method. Net realizable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. When the net realizable value of inventories is lower than their cost, provisions are created to reduce the value of inventories to their net realizable value. The Company regularly assesses whether the value of inventories has decreased due to storage or damage reasons. Impairment losses are recognized in the income statement.

(12) Loans and trade receivables

Loans and trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method less provision for impairment. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the original effective rate. Changes in impairment are recognised in the income statement.

(13) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. 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".

(14) Cash and cash equivalents

Cash and cash equivalents consist of banks' current accounts balances.

(15) Share capital and dividends

Ordinary shares are classified as equity. Dividends to be paid to shareholders of the Company are represented as liabilities during the financial period of the Company, when shareholders of the Company approve the dividends.

(16) Borrowings

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

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the end of financial year.

(17) Employee benefits

Short-term employee benefits, including salaries, social security contributions and bonuses are included in the statement of profit or loss on an accrual basis.

The Company pays social security contributions for state pension insurance and to the state funded pension scheme in accordance with Latvian laws. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by the law and they will have no legal or constructive obligations to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are recognised as an expense on an accrual basis and are included in the staff costs.

(18) Grants

Grants or subsidies received for the acquisition of fixed assets or other non-current assets are recorded as deferred income and recognized as an income in the statement of comprehensive income on straight-line basis over the useful life of the assets acquired. Subsidies or grants to cover the expenses are recognized as an income in the same period when the respective expenses have arisen and all material conditions in respect of the grants received has been fulfilled.

(19) 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.

(20) Income tax

Corporate income tax is calculated in accordance with tax regulations of the Republic of Latvia. Effective laws provide for 15% tax rate.

Deferred income tax is provided in full using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, where the deferred income tax arise from recognition of the assets and obligations resulted from transactions, which are not the business dilution, and at the moment of transaction do not affect profit or loss neither in the financial statements nor for the taxation purposes, the deferred income tax is not recognised.

Deferred income tax is determined using tax rates that have been enacted by the year-end and are expected to apply when the deferred income tax is settled.

The principal temporary differences, in general, arise from different tangible assets depreciation rates as well as provisions for slow-circulating goods, accruals for unused annual leave and accruals for bonuses. Where an overall deferred income tax arises it is only recognised to the extent it is probable which the temporary differences can be utilised.

(21) 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.

(22) 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.

(23) 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 revaluation of the land and building and determination of their useful life period, determination of revaluation regularity, 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 active 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. The total carrying amount of PPE as at 31 December 2014 is EUR 9 098 963 (31.12.2013 - EUR 8 555 776).

Critical accounting estimates and judgments (continuation)

c) Recoverability of receivables

The calculation of recoverable value is assessed for every customer individually. Should individual approach to each customer be impossible due to great number of the customers only bigger receivables shall be assessed individually. Receivables not assessed individually are arranged in groups with similar indicators of credit risks and are assessed jointly considering historical losses experience. Historical losses experience is adjusted on the basis of current data to reflex effect of the current conditions that did not exist at acquisition of the historical loss, effect and of conditions in the past that do not exist at the moment. Information on amount and structure of receivables is disclosed in Note (30) of the financial statements.

d) Valuation of inventories

In valuation of inventories the Management relies on the knowledge, considering the historical experience, general information, probable assumptions and future occurrences. Determining impairment of inventories, realization probability and net selling value of the inventories shall be considered. During the reporting year provisions for inventories were made by evaluating each inventory item separately. The total carrying amount of inventories as at 31 December 2014 is EUR 23 377 056 (31.12.2013 - EUR 21 341 796).

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. Operation segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker being the Board.

(b) Geographical markets

The Company operates in Latvia by selling the produced drinks in the domestic market, as well as exports the produced drinks.

The operations of the Company can be divided into three geographical segments, which are sales in Latvia, sales to overseas markets, executing orders of S.P.I. Spirits (Cyprus) Ltd. and other export sales. Distribution of sales among these segments is as follows:

	2014 EUR	2013 EUR
Sales and services provided in Latvia	23 941 311	24 269 122
Export sales under S.P.I. Group company S.P.I. Spirits (Cyprus) Ltd. orders	40 774 792	38 615 703
Other income from export sales and services provided		
Lithuania	3 620 502	3 198 915
Russia	1 093 006	1 314 019
Estonia	1 064 284	636 358
Norway	444 558	421 595
Poland	123 472	208 901
Other countries	1 990 380	1 704 261
Other income from export sales (total)	<u>8 336 202</u>	<u>7 484 049</u>
	<u>73 052 305</u>	<u>70 368 874</u>

(c) Major customers

Most of the Company's sales transactions in domestic markets as well as sales to overseas markets are made through S.P.I. Group companies. The information on transactions of Group entities is disclosed in Note (26). Except for transactions with S.P.I. group companies there are no clients with the amount of transactions more than 10% of total revenues.

	2014 EUR	2013 EUR
Sales to S.P.I. group companies	68 087 170	65 840 696
Sales to other customers	<u>4 965 135</u>	<u>4 528 178</u>
	<u>73 052 305</u>	<u>70 368 874</u>

(d) Revenue by types

	2014 EUR	2013 EUR
Production of alcoholic drinks	69 972 730	67 946 126
Sales of other goods and materials	1 248 452	919 528
Production provision and other services	982 505	664 495
Excise warehouse services, storage and office rental	<u>848 618</u>	<u>838 725</u>
	<u>73 052 305</u>	<u>70 368 874</u>

AS "Latvijas balzams"
ANNUAL REPORT
for the period ended 31 December 2014

	2014 EUR	2013 restated EUR
(2) Cost of sales		
Materials	47 003 588	43 370 009
Changes of inventory value of finished goods	(1 614 983)	2 452 192
Salary expense	2 826 474	2 381 105
Goods purchased	1 330 297	1 455 118
Energy resources	968 961	969 969
Mandatory state social insurance contributions	659 956	567 003
Natural recourse tax	382 437	396 253
Changes in provision for receivables, inventories and other accrued liabilities	(68 958)	(244 343)
Accrued expenses on unused annual leave (variable)	60 362	(31 167)
Other variable costs	1 426 102	1 058 437
Variable costs total:	52 974 236	52 374 576
Depreciation of non-current assets	951 600	1 292 243
Salary expenses	1 208 604	1 128 357
Repair expenses	422 136	449 110
Mandatory state social insurance contributions	278 364	265 589
Insurance payments	76 667	67 848
Laboratory expenses	57 812	45 286
Accrued expenses on unused annual leave (fixed)	16 898	(10 447)
Other fixed expenses	513 669	477 815
Fixed costs total:	3 525 750	3 715 801
	56 499 986	56 090 377
(3) Distribution expenses		
Salary expenses	1 821 633	1 553 326
Transportation expenses	707 619	618 754
Advertising expenses	602 916	682 287
Mandatory state social insurance contributions	425 385	371 084
Warehouse maintenance expenses	352 694	153 048
Depreciation of non-current assets	151 512	168 809
Accrued expenses on unused annual leave	64 907	(22 352)
Other expenses	582 810	489 421
	4 709 476	4 014 377
(4) Administrative expenses		
Salary expenses	1 564 955	1 665 747
Management services and expenses	694 781	363 356
Mandatory state social insurance contributions	262 031	395 389
Real estate tax	139 941	132 640
Professional service costs	98 652	113 585
Depreciation of non-current assets	76 786	81 479
Office expenses	73 177	51 882
Business trip expenses	58 493	36 889
Communication and postal expenses	51 072	48 186
Representation expenses	47 106	34 120
Computer maintenance	26 460	23 988
Accrued expenses on unused annual leave	24 051	(8 184)
Transport costs	22 231	21 538
Healthcare, health insurance	14 526	7 177
Financial support, sponsorship	10 293	84 813
Employee training	8 971	24 842
Other expenses	284 779	352 797
	3 458 305	3 430 244

AS "Latvijas balzams"
ANNUAL REPORT
for the period ended 31 December 2014

(5) Other income	2014 EUR	2013 EUR
Net profit from exchange rate fluctuations	589 589	28 446
Sold auxiliary and package materials	113 072	117 380
Net profit from purchase - sale of foreign currency	81 640	13 475
Other income	74 214	100 816
	<u>858 515</u>	<u>260 117</u>
 (6) Other expenses		
Bank commissions	80 600	83 732
Provisions for fire destroyed and damaged finished products	221 691	-
Penalties paid	121 013	79 825
Other expenses	6 235	4 917
	<u>429 539</u>	<u>168 474</u>
 (7) Expenses by Nature		
Materials	47 003 588	43 370 009
Employee expenses	9 213 620	8 255 450
Depreciation of non-current assets	1 179 898	1 542 531
Transportation expenses	729 850	640 292
Management services and expenses	694 781	363 356
Advertising expenses	602 916	682 287
Repair expenses	422 136	449 110
Natural recourse tax	382 437	396 253
Real estate tax	139 941	132 640
Increase/ (decrease) in provision for accounts receivables, inventories and other accrued	(68 958)	(244 343)
Other expenses	4 797 097	8 115 887
	<u>65 097 306</u>	<u>63 703 472</u>
 (8) Finance income		
Interest income	1 428 427	1 341 014
Income from fines and penalties	5 552	1 320
	<u>1 433 979</u>	<u>1 342 334</u>
 (9) Finance expenses		
Interest for use of credit lines facilities	536 793	563 597
Interest for long-term loans	229 170	194 555
	<u>765 963</u>	<u>758 152</u>

(10) Corporate income tax

	2014 EUR	2013 restated EUR
a) Components of corporate income tax		
Corporate income tax according to the tax return	1 482 771	1 160 682
Changes in deferred income tax	36 351	(69 897)
	<u>1 519 122</u>	<u>1 090 785</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:

	2014 EUR	2013 restated EUR
Profit before taxes	9 481 530	7 509 701
Theoretically calculated tax at 15% tax rate	1 422 230	1 126 455
Tax effects on:		
Permanent differences	115 667	189 900
Tax relief for reinvested profits	-	(146 911)
Tax discounts for donations	-	(70 752)
Tax relief for the acquired technological equipment	(18 775)	(7 907)
Total corporate tax charge	<u>1 519 122</u>	<u>1 090 785</u>

c) Movement and components of deferred tax

Deferred tax liabilities (asset) at the beginning of the financial year	366 223	436 120
Deferred tax changes charged to the income statement	36 351	(69 897)
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	(13 802)	-
Deferred tax liabilities (asset) at the end of the financial year	<u>388 772</u>	<u>366 223</u>

The deferred company income tax has been calculated from the following temporary differences between value of assets and liabilities in the financial statements and their tax base (tax effect 15% from temporary differences):

	31.12.2014. EUR	31.12.2013 restated EUR	31.12.2012 restated EUR
Temporary difference on depreciation of PPE and intangible assets	569 135	534 978	635 876
Gross deferred tax liabilities	<u>569 135</u>	<u>534 978</u>	<u>635 876</u>
Temporary difference on accruals for annual leave	(72 828)	(47 897)	(58 718)
Temporary difference on provisions for slow moving and obsolete stock	(70 430)	(82 445)	(121 247)
Temporary difference on derivative financial instruments revaluation reserve	(13 802)	-	-
Temporary differences on other accrued liabilities	(23 303)	(38 413)	(19 791)
Gross deferred tax assets	<u>(180 363)</u>	<u>(168 755)</u>	<u>(199 756)</u>
Net deferred tax liability (assets)	<u>388 772</u>	<u>366 223</u>	<u>436 120</u>

Corporate income tax (continuation)

The Company offsets the deferred tax assets and the deferred tax liabilities only when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax is related to the same taxation authority. The offset amounts are as follows:

	31.12.2014.	31.12.2013 restated
	EUR	EUR
Deferred tax assets:		
deferred tax asset to be recovered within a year	(180 363)	(168 755)
	<u>(180 363)</u>	<u>(168 755)</u>
Deferred tax liabilities:		
deferred tax liabilities to be recovered within a year	65 889	82 197
deferred tax liabilities to be recovered after more than a year	503 246	452 781
	<u>569 135</u>	<u>534 978</u>
Net deferred tax liabilities (assets)	<u>388 772</u>	<u>366 223</u>

The movement of deferred tax assets and liabilities during the reporting year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Derivative financial instruments	Accelerated depreciation	Accruals for unused annual leave	Estimated liabilities	Provisions for slow moving stock	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2012. restated	-	635 876	(58 718)	(19 791)	(121 247)	436 120
Charged / (credited) to income statement	-	(100 898)	10 822	(18 622)	38 802	(69 897)
31.12.2013. restated	-	534 978	(47 897)	(38 413)	(82 445)	366 223
Charged / (credited) to income statement	-	34 157	(24 931)	15 110	12 015	36 351
Charged to statement of comprehensive	(13 802)	-	-	-	-	(13 802)
31.12.2014.	<u>(13 802)</u>	<u>569 135</u>	<u>(72 828)</u>	<u>(23 303)</u>	<u>(70 430)</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.

	2014	2013 restated	2013 before adjustments
Profit attributed to shareholders of the Company (EUR)	7 962 408	6 418 916	6 228 758
Average annual number of shares	7 496 900	7 496 900	7 496 900
Earnings per share (expressed in euro cents)	<u>106.21</u>	<u>85.62</u>	<u>83.08</u>

(12) Intangible assets

	Licences and software	Intangible assets under development	Advances for intangible assets	Total
	EUR	EUR	EUR	EUR
31.12.2012.				
Initial cost	1 707 263	106 664	-	1 813 927
Accumulated depreciation	(1 675 601)	-	-	(1 675 601)
Net book value	31 662	106 664	-	138 326
2013				
Opening net book value	31 662	106 664	-	138 326
Acquired	-	22 513	59 751	82 264
Disposed	(81)	-	-	(81)
Reclassified	1 281	58 470	(59 751)	-
Depreciation	(10 553)	-	-	(10 553)
Closing book value	22 309	187 647	-	209 956
31.12.2013.				
Initial cost	287 487	187 647	-	475 134
Accumulated depreciation	(265 178)	-	-	(265 178)
Net book value	22 309	187 647	-	209 956
2014				
Opening net book value	22 309	187 647	-	209 956
Acquired	-	-	230 526	230 526
Disposed	(109)	(30 839)	-	(30 948)
Reclassified	109 392	119 695	(229 086)	-
Depreciation	(10 234)	-	-	(10 234)
Closing book value	121 358	276 503	1 440	399 301
31.12.2014.				
Initial cost	394 444	276 503	1 440	672 387
Accumulated depreciation	(273 086)	-	-	(273 086)
Net book value	121 358	276 503	1 440	399 301

All intangible assets of the Company are pledged under conditions of the agreement of the Mortgage and Commercial pledge as the security for loans in favour of the credit institutions (see Note (20)).

(13) Property, plant and equipment

	Lands and buildings (restated)	Equipment and machinery	Other assets	Assets under construction	Advances for property, plant and equipment	Total property, plant and equipment
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2012 restated						
Initial cost	12 534 061	19 643 777	4 880 704	66 778	8 742	37 134 062
Accumulated depreciation	(5 687 363)	(16 999 623)	(4 552 229)	-	-	(27 239 215)
Net book value (restated)	6 846 698	2 644 154	328 475	66 778	8 742	9 894 847
2013						
Opening net book value	6 846 698	2 644 154	328 474	66 778	8 742	9 894 846
Acquired	-	-	-	15 545	368 070	383 615
Disposed	-	(4 062)	(4 745)	-	(236)	(9 043)
Reclassified	7 550	191 904	77 812	19 195	(296 461)	-
Depreciation	(461 614)	(903 013)	(167 382)	-	-	(1 532 009)
Closing book value (restated)	6 392 634	1 928 983	234 159	101 518	80 115	8 737 409
31.12.2013.						
Initial cost	12 538 103	19 724 516	4 698 166	101 518	80 115	37 142 418
Accumulated depreciation	(6 145 469)	(17 795 533)	(4 464 007)	-	-	(28 405 009)
Net book value (restated)	6 392 634	1 928 983	234 159	101 518	80 115	8 737 409
2014						
Opening net book value	6 392 634	1 928 983	234 159	101 518	80 115	8 737 409
Acquired	-	-	-	39 790	1 944 074	1 983 864
Disposed	-	(9 726)	(46 984)	(51 075)	(80 651)	(188 436)
Reclassified	70 771	827 421	871 368	138 933	(1 908 493)	-
Depreciation	(387 889)	(643 676)	(138 098)	-	-	(1 169 663)
Closing book value	6 075 516	2 103 002	920 445	229 166	35 045	9 363 174
31.12.2014.						
Initial cost	12 608 874	20 080 680	4 419 862	229 166	35 045	37 373 627
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	35 045	9 363 174

a) Change of accounting policy for real estate

In 2014 the Company's management has decided to change real estate accounting policy from revaluation model to cost model. Real estate assets after initial recognition are accounted for at cost less accumulated depreciation and any accumulated impairment losses. The accounting policy change resulted in the liquidation of long-term investments revaluation reserve.

Management's decision was based on the fact that, taking into account the specifics of the use of real estate, the cost model provides reliable and more relevant information about the Company's financial performance, providing a more accurate impact on the profitability indicators, as well as improves the comparability of financial statements with other industry participants.

The accounting policy change has been applied retrospectively by adjusting each affected financial statements line item as if the new accounting policy had always been applied. Comparative income statement, statement of financial position, statement of changes in equity and related notes for the year 2013 have been adjusted accordingly (see the effect of changes in accounting policies in Note 31).

b) Other notes

During the 2014 the borrowing costs has not been capitalized, as the Company did not use the financing for the acquisition of tangible assets.

All intangible and tangible assets of the Company are pledged under conditions of the agreement of the Mortgage and Commercial pledge as the security for loans in favour of the credit institutions (see Note (20)).

AS "Latvijas balzams"
ANNUAL REPORT
for the period ended 31 December 2014

	31.12.2014.	31.12.2013 restated	31.12.2012 restated
(14) Inventories	EUR	EUR	EUR
Finished goods and goods for sale	10 133 944	9 707 138	12 161 721
Raw materials and consumables	12 531 680	10 563 114	10 208 526
Work in progress	614 748	701 022	637 804
Inventory in transit	96 684	370 522	435 964
	<u>23 377 056</u>	<u>21 341 796</u>	<u>23 444 015</u>

All inventories of the Company are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note (20)).

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

	2014 EUR	2013 EUR
Provisions at the beginning of the year	549 821	808 316
Changes on provisions recognized in the income statement	141 402	(258 495)
Provisions at the end of the year	<u>691 223</u>	<u>549 821</u>

During the reporting year provisions for inventories were assessed evaluating each inventory item separately.

(15) Trade receivables	31.12.2014. EUR	31.12.2013. EUR
Book value of trade receivables	1 477 062	962 207
Provisions for impairment of trade receivables	<u>(4 879)</u>	<u>(32 012)</u>
	<u>1 472 183</u>	<u>930 195</u>
	2014 EUR	2013 EUR
Provisions at the beginning of the year	32 012	45 068
Receivables written off as uncollectible	-	(42 825)
Created/(decreased) provisions	<u>(27 133)</u>	<u>29 769</u>
Provisions at the end of the year	<u>4 879</u>	<u>32 012</u>

All trade and other receivables of the Company are pledged in accordance with terms of Mortgage and Commercial pledge agreements as security for loans from the credit institutions (see Note (20)).

(16) Other current assets	31.12.2014. EUR	31.12.2013. EUR
Financial assets:		
Settlements for services	62 247	235 178
VAT accepted	-	33 509
Other receivables	<u>722</u>	<u>2 826</u>
	<u>62 969</u>	<u>271 513</u>
Non-financial assets		
Settlements for raw materials	542 911	193 333
Other deferred expenses	83 317	54 704
Deferred insurance costs	33 335	31 265
Accrued income	<u>21 503</u>	<u>-</u>
	<u>681 066</u>	<u>279 302</u>
	<u>744 035</u>	<u>550 815</u>

	31.12.2014. EUR	31.12.2013. EUR
(17) Cash and cash equivalents		
Cash at bank on current accounts	398 187	25 740
	<u>398 187</u>	<u>25 740</u>

(18) Financial instruments by category

All financial assets of the Company amounting at the year end to EUR 89 462 027 (31.12.2013 - EUR 90 552 231) fell under the category of "loans and receivables".

Except of financial liabilities of EUR 92 014 measured at fair value through other comprehensive income - derivatives designated as a hedging instrument, all other financial liabilities of the Company amounting to EUR 43 695 627 (31.12.2013 - EUR 49 317 456) fell under the category of "other financial liabilities at amortised cost".

(19) Share capital

As at 31 December 2014 the registered and fully paid share capital is in amount EUR 10 667 128 (LVL 7 496 900), that consists of 7 496 900 ordinary shares with nominal value of EUR 1.42 (LVL 1) each. In the current year the number of registered and fully paid shares has not been changed.

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 do not hold own shares or someone else in it's interest. 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 SIA Amber Beverage Group, as well as any other shares that SIA Amber Beverage Group may acquire in the future are pledged in accordance with terms of Commercial pledge agreement as security for loans in favour of the credit institutions (see Note (20)).

(20) Borrowings	Notes:	31.12.2014. EUR	31.12.2013. EUR
Non-current			
AS Swedbank - repayable in 2-5 years	c)	-	3 037 518
Nordea Bank AB Latvian branch - repayable in 2-5 years	a)	6 283 117	-
Liabilities under finance leases	d)	588 746	-
		<u>6 871 863</u>	<u>3 037 518</u>
Current			
Credit line facilities	a), b)	10 837 059	20 195 754
AS Swedbank	c)	3 037 518	2 099 999
Nordea Bank Finland Plc. Latvian branch	a)	1 795 176	-
Liabilities under finance leases	d)	167 863	5 807
Factoring contractual obligations	e)	73 128	-
		<u>15 910 744</u>	<u>22 301 560</u>
Total borrowings:		<u>22 782 607</u>	<u>25 339 078</u>

Borrowings (continuation)

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

	2014 EUR	2013 EUR
At beginning of the year	25 333 271	25 698 633
Received borrowings during the year	8 975 882	1 734 637
Changes in credit lines	(9 358 695)	-
Repaid borrowings during the year (net)	(2 997 588)	(2 099 999)
At the end of the year	<u>21 952 870</u>	<u>25 333 271</u>

a) Swedbank AS and Nordea AB Latvian branch credit lines

At the end of the reporting year the limit of AS Swedbank granted credit line is EUR 9 660 000. On 31 December 2014 the liabilities of the Company for above mentioned credit line is EUR 9 446 744 (31.12.2013 - EUR 6 393 523 and Ls 2 600 584). The credit line repayment date is 30 September 2015.

On 15 July 2014 the credit line agreement with Nordea Bank AB Latvian branch was amended, according to which Nordea Bank AB Latvian branch issues EUR 8 975 881 loan with the repayment date until 30 June 2019, which unpaid balance on 31 December 2014 consist of EUR 8 078 293, from which EUR 6 283 117 are repayable in 2-5 years (31.12.2013 credit line balance consisted of EUR 2 990 185 and Ls 4 021 340).

b) Nordea Bank AB Latvian branch overdraft

In October 2011 the Company has entered into an overdraft agreement with Nordea Bank AB Latvian branch. Overdraft limit granted in accordance with the contract - EUR 1 391 414, the overdraft limit used at 31 December 2014 is EUR 1 390 315 (31.12.2013 - EUR 1 389 898). Final repayment date is 30 June 2015.

c) Swedbank AS loan

The Company has in force loan agreement signed in July 2007 with Swedbank AS, according to which the Company was granted with limit of EUR 13 844 768, which unpaid balance on 31 December 2014 consist of EUR 3 037 518 (31.12.2013 - EUR 5 137 517). The loan repayment date is 30 May 2015.

d) Liabilities under finance leases

During the reporting year 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:	31.12.2014. EUR	31.12.2013. EUR
Payable within 1 year	184 335	5 868
Payable from 2 to 5 years	615 550	-
Finance lease gross liabilities	<u>799 885</u>	<u>5 868</u>
Future finance charges	(43 276)	(61)
Present value of finance lease liabilities	<u><u>756 609</u></u>	<u><u>5 807</u></u>

The present value of finance lease liabilities is as follows:

Payable within 1 year	167 863	5 807
Payable from 2 to 5 years	588 746	-
	<u><u>756 609</u></u>	<u><u>5 807</u></u>

Borrowings (continuation)

e) 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 SIA Nordea Finance Latvia. As at the end of the year the factor payments received for the cover receivables amounted to EUR 73 128.

The effective interest rates at the balance sheet date were as follows:

	31.12.2014.	31.12.2013.
Loans	2.28%-2.93%	2.52%-3,18%
Credit line facilities	2.53%-3,28%	2.38%-3.29%

Borrowings made by the Company and finance lease liabilities are exposed to the interest rate fluctuations in the following revaluation periods:

	31.12.2014. EUR	31.12.2013. EUR
6 months or less	22 782 607 <u>22 782 607</u>	25 339 078 <u>25 339 078</u>
Payable in 1 year	15 910 744	22 301 560
Payable in 2 – 5 years	6 871 863 <u>22 782 607</u>	3 037 518 <u>25 339 078</u>

g) 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 SIA Amber beverage Group, 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.

(21) Derivatives financial instruments and hedging activities

In the current year the Company has entered into interest rate swap contract - cash flow hedge of the loan from Nordea Bank AB Latvian branch. Derivative financial instruments was evaluated as fully effective (no ineffectiveness) and the Company uses the accounting policy for hedge accounting (see section (13) in accounting policy).

As at 31 December 2014 the fair value of interest rate swap contract has been evaluated of EUR (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 amounts of the outstanding interest swap contract at 31 December 2014 were EUR 8 078 293. At this date the fixed interest rate is 2,5 % and floating rate is EURIBOR. 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 equity under "Revaluation reserves of derivative financial instruments".

AS "Latvijas balzams"
ANNUAL REPORT
for the period ended 31 December 2014

(22) Other liabilities	31.12.2014. EUR	31.12.2013. EUR
Excise tax	13 485 733	12 208 086
Value Added Tax	1 375 763	1 386 930
Accrued liabilities	926 705	699 138
Accruals for unused annual leave	485 520	319 302
Salaries	427 703	340 081
Mandatory State social insurance contributions	204 002	185 995
Personal income tax	130 716	102 337
Deferred income	-	10 872
Natural resource tax	3 426	3 139
Other liabilities	7 478	4 710
	<u>17 047 046</u>	<u>15 260 590</u>
	2014	2013
(23) Cash granted from operations	EUR	restated EUR
Profit before corporate income tax	9 481 530	7 509 701
<u>Adjustments for:</u>		
depreciation and amortization (Note 7)	1 179 898	1 542 531
profit from sales of fixed assets	(51 174)	-
provisions	141 401	(244 343)
interest expenses (Note 9)	765 963	758 152
interest income (Note 8)	(1 428 427)	(1 341 014)
loss / (profit) from disposal of property, plant and equipment	56 819	12 642
<u>Changes in working capital:</u>		
inventories	(2 526 239)	2 384 780
receivables	2 359 587	(7 452 649)
liabilities	(3 431 339)	(108 744)
	<u>6 548 019</u>	<u>3 061 056</u>
	2014	2013
(24) Average number of employees	EUR	EUR
Average number of people employed during the financial year	<u>609</u>	<u>597</u>
	2014	2013
(25) Remuneration to personnel	EUR	EUR
Salaries and mandatory state social insurance contributions for production personnel	5 050 659	4 300 441
Salaries and mandatory state social insurance contributions for distribution personnel	2 311 925	1 902 058
Salaries and mandatory state social insurance contributions for administration personnel	1 851 037	2 052 952
	<u>9 213 621</u>	<u>8 255 451</u>
including mandatory state social contributions included in personnel expenses	1 657 462	1 585 293

(26) Transactions with related parties

The main shareholder of the Company, who owns 89.53% of shares of the Company, is SIA Amber Beverage Group (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.

In 2014 the Company had economic transactions with the Parent company of the Group the S.P.I. Group S.a.r.l. and the following S.P.I. Group companies that are directly or indirectly subsidiaries of S.P.I. Group S.a.r.l - S.P.I.Spirits (Cyprus) Ltd. (Cyprus), Spirits Product International IP B.V.(Luxembourg), Spirits Product International IP B.V. branch (Switzerland), SPI Production B.V. (Netherlands), Tambovskoje spirtovodocnoje predpriyatije Talvis OAO (Russia), SPI-RVVK OAO (Russia), Bravo SIA (Latvia), Bennet Distributors UAB (Lithuania), SPV Distributor SIA (Latvia), Spirits International B.V. branch (Switzerland), SPI Distribution (Latvia) SIA, SPI Distribution OU (Estonia), Permalko OAO (Russia). The Company also had economic transactions with the related companies Meierovica 35 SIA (Latvia).

The value of transactions is disclosed without excise tax.

	2014	2013
	EUR	EUR
(a) Sale of Goods		
SPI Distribution (Latvia) SIA	21 853 198	22 480 454
S.P.I. Spirits (Cyprus) Ltd.	40 074 323	38 144 087
Bennet Distributors UAB	3 576 170	3 181 277
SPI Distribution OU (Estonia)	904 356	634 850
Bravo SIA	73 959	101 816
ČIEKURI-SHISHKI SIA	-	3 058
	<u>66 482 006</u>	<u>64 545 542</u>
(b) Service Rendered (Including Loan Interest)		
SPI Distribution (Latvia) SIA	9 152 245	8 522 607
S.P.I. Spirits (Cyprus) Ltd.	899 810	1 171 725
S.P.I. Production B.V.	608 734	722 948
Amber Beverage Group SIA	256 848	-
Bravo SIA	54 512	55 639
Meierovica 35 SIA	46 323	54 388
Bennet Distributors UAB	30 799	-
Spirits International B.V. (branch)	4 281	-
SPI Distribution OU (Estonia)	2 737	9 725
Tower Construction Management	253	-
SPV Distributor SIA	145	145
SPI-RVVK OAO	-	2 604
S.P.I. Group S.a.r.l.	-	795
S.P.I. Regional Business Unit B.V	-	266
	<u>11 056 687</u>	<u>10 540 842</u>
(c) Purchase of Goods (including non-current assets)		
Tambovskoje spirtovodocnoje predpriyatije Talvis OAO	9 398 203	8 453 511
S.P.I. Spirits (Cyprus) Ltd.	149 380	755 831
SPI Distribution (Latvia) SIA	37 754	-
Permalko OAO	19 742	6 130
Bennet Distributors UAB	17 548	4 145
Meierovica 35 SIA	-	17 769
	<u>9 622 627</u>	<u>9 237 386</u>
(d) Services Received		
SPI Distribution (Latvia) SIA	494 188	208 485
S.P.I. Spirits (Cyprus) Ltd.	149 241	168 006
Meierovica 35 SIA	127 200	176 507
Bravo SIA	10 279	17 558
Spirits International B.V. (branch)	12 704	13 224
Bennet Distributors UAB	3 039	-
Spirits Product International IP B.V.(branch)	-	673
	<u>796 651</u>	<u>584 453</u>

Transactions with related parties (continuation)

(e) Accounts Receivable and Payable

	31.12.2014.		31.12.2013.	
	Receivables	Payables	Receivables	Payables
	EUR	EUR	EUR	EUR
S.P.I. Spirits (Cyprus) Ltd.	24 359 284	290 039	25 789 618	1 000 235
SPI Distribution (Latvia) SIA	17 693 185	636 158	18 039 919	252 103
Bennet Distributors UAB	844 979	12 594	1 579 097	1 285
SPI Distribution OU (Estonia)	516 044	-	224 514	-
Amber Beverage Group SIA	506 454	-	-	-
Bravo SIA	8 098	3 021	91 065	5 427
S.P.I.Regional Business Unit B.V.	302	-	79 439	-
Meierovica 35 SIA *	50	-	1 460 854	-
SPV Distributor SIA	14	-	14	-
Spirits International B.V.	-	-	427 278	-
S.P.I. Production B.V.	-	-	4 099 366	-
Spirits International B.V. (branch)	-	110 996	25 455	123 746
S.P.I. Group S.a.r.l.	-	-	2 120	-
Spirits Product International IP B.V.	-	-	569	-
Tambovskoje spirtovodocnoje predpriatije	-	409 898	441	1 143 484
Talvis OAO	-	-	-	-
Spirits Product International IP B.V.(branch)	-	63 755	-	63 755
SPI-RVVK OAO	-	-	20	-
	43 928 410	1 526 461	51 819 769	2 590 035
The short term part of the loan (see section (f))	-	-	198 996	-
The short term part of the loan (see section (g))	-	-	-	461 010
Total short term liabilities	43 928 410	1 526 461	52 018 765	3 051 045

Repayment of the debts will be made in cash, and they are not secured with guarantee or otherwise. In 2014 and 2013 there are no significant bad debts from related parties.

* In 2009, the Company concluded a loan agreement with Meirovica 35 SIA for the loan in amount of EUR 1 422 872. The loan is issued as credit line facilities in separate parts. On 31 October 2014 SIA Amber Beverage Group took over the loan and the accrued unpaid interest obligations from Meierovica 35 SIA.

(f) Loans to Group companies

	31.12.2014.	31.12.2013.
	EUR	EUR
S.P.I. Production B.V. *	-	20 599 999
SPI Distribution (Latvia) SIA *	-	16 451 671
SPI Distribution OU (Estonia) **	-	198 996
Amber Beverage Group SIA *	43 566 129	-
	43 566 129	37 250 666
At beginning of the year	37 250 666	35 558 995
Borrowings issued during the year	-	16 451 671
Repaid borrowings during the year	(198 996)	(14 760 000)
Repaid borrowings during the year (through set-off)	(461 010)	-
Renewed loan agreements *	6 975 469	-
At the end of the year	43 566 129	37 250 666
Maturity of the total borrowings is as follows:		
Payable in 1 year	-	198 996
Payable in 2 – 5 years	43 566 129	37 051 670
	43 566 129	37 250 666

Transactions with related parties (continuation)

* In accordance with the renewal agreements signed on 31 October 2014 Amber Beverage SIA has taken over the obligations of SPI Distribution (Latvia) SIA (EUR 15 990 661), S.P.I. Production B.V. (EUR 20 599 999), Meierovica 35 SIA (EUR 1 422 872 - related company) against the Company capitalizing the outstanding interest debts in amount of EUR 5 295 749. At the end of the reporting year the calculated interest for these renewal agreements amounted to EUR 256 848. The repayment date for the loan to SIA Amber Beverage Group together with interest debts is set until 30 October 2019.

** On 29 June 2012 the Company has signed loan agreement with SPI Distribution OU (Estonia) for amount of EUR 283 995, consisting of long-term outstanding debts for the supply of goods. As at 31 December 2013 the balance of loan amounted to EUR 198 996, which were fully repaid in the reporting year.

The debts will be repaid in cash and they are not secured by guarantee or otherwise.

The effective interest rates at the balance sheet date were as follows:

	31.12.2014.	31.12.2013.
Loans issued	3.50%	3.56%-3.85%
(g) Borrowings from Group companies	31.12.2014.	31.12.2013.
	EUR	EUR
At beginning of the year	461 010	512 233
Loans repaid during the year (through set-off)	<u>(461 010)</u>	<u>(51 223)</u>
At the end of the year	<u><u>-</u></u>	<u><u>461 010</u></u>
consist of:		
short-term loan	<u>-</u>	<u>461 010</u>
	<u><u>-</u></u>	<u><u>461 010</u></u>

In 2011 the Company received short-term loan with a credit limit of EUR 512 234 from Group company Bravo SIA. As at 31 December 2013 the outstanding loan debt amounted to EUR 461 010. During the reporting year the Company has settled this loan debt through the assignment and mutual offsetting.

(h) 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 subjected to royalty payments. The payments are included in the amount of received services (Note 26 (d)). In accordance with the Management's estimates in 2015 no significant changes are expected in the amount of royalty payments.

(i) Key management compensation

Key management includes board members and members of the counsel. There are no significant termination of post-employment benefits granted. The compensation paid or payable to key management for employee services is shown below:

	2014	2013
	EUR	EUR
Salaries	511 078	472 510
Mandatory state social insurance contributions	<u>58 984</u>	<u>106 381</u>
	<u><u>570 062</u></u>	<u><u>578 891</u></u>

(27) Contingent liabilities and assets

(a) Royalty related

On 3 June 2010 Republic of Latvia has received a European Commissions (EC) formal notice on violation on procedures concerning the inconsistent usage of the signs, that include or mention the protected origin's name "Šampanietis", or wine beverages, that are not originated in the Champagne region. The Management concedes, that in Latvia name "champagne" has become a common expression and it is not associated with Champagne region beverages. At present Republic of Latvia has not received answers from EC on the existence of the violation and argument opinion or Republic of Latvia eventual argument opinion appeal in the European Union court. As a result of a negative court ruling the Company would not be able to use the brand names "Rīgas šampanietis", "Klasiskais Rīgas šampanietis", "Советское Шампанское" and "Советское Шампанское ЗОЛЮТОЕ". The Financial statements do not include any provisions for liabilities, that could arise from the previously mentioned court decision.

(b) Tax contingencies

In November 2014 the fire broke out in the Company's finished products warehouse at A.Čaka Street 160, Riga, for which criminal proceedings were launched. In the reporting year the Company has made provisions for fire destroyed and damaged goods cost value, which amounted to EUR 221 691. According to estimates, the Company's total losses are currently estimated at EUR 1.1 million.

Loss estimate does not include the excise tax and customs duty liabilities for fire destroyed and damaged goods, for which the Company at the year end has not made any provisions, as the Company expects that the evidence will be received from the relevant national supervisory and control authorities confirming that the fire destroyed goods were lost as a result of force majeure and therefore for the fire destroyed goods the statutory exemption from duty will be applicable.

The tax authorities may at any time conduct the tax audit for the last three years (for transfer pricing - five years) after the taxation period and apply additional tax liabilities and penalties.

(c) Contingent assets

As mentioned in Note 27 (b) according to Company's preliminary estimates the total loss from the fire amounts to EUR 1.1 million, which the Company expects to recover through compensation from the insurance company. The Company in reporting year's financial statements did not recognize any claims or income for the mentioned insured case.

(28) 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 314 343 (in 2013: EUR 279 812).

(b) The Company is the lessee

The Company has concluded several agreements for the operating leases of assets. During the reporting year the Company has signed warehouse and office premises lease agreements, under which the Company for breach of contract must notify lessors 3-12 months in advance. Part of the leased warehouse and office space has been sublet to a related company SPI Distribution (Latvia) SIA.

The total rental cost of EUR 314 462 (in 2013 - EUR 171 465) and sublease revenue of EUR 61 817 were included in income statement.

According to the signed lease agreements, the Company has the following non-cancellable lease liabilities:

	31.12.2014. EUR	31.12.2013. EUR
Payable in 1 year	633 861	58 514
Payable in 2 – 5 years	-	29 257
	<u>633 861</u>	<u>87 771</u>

(29) Guaranties issued

On 25 May 2011 the Group companies, Bravo SIA and SPI Distribution (Latvia) SIA, has concluded with Nordea Bank AB Latvian branch an overdraft agreement with a limit of EUR 5 000 000, where as the security AS Latvijas balzams has issued guarantee of EUR 4 000 000. A guarantee valid until the fulfilment of all overdraft contract obligations. The overdraft contract completion date defined as 30 June 2015.

In 2007 the Company issued a guarantee to Nordea AB Latvian branch for the related company S.P.I. Spirits (Cyprus) Limited liabilities of USD 10 000 000, resulting from overdraft agreement signed in July 2007. In March 2012 amendments on the secured obligations increase up to USD 16 545 000 were signed. A guarantee issued to the full implementation of obligations which deadline is defined as at 30 June 2015.

In January 2013 the Company has issued a guarantee to Nordea Bank AB Latvian branch for ČIEKURI-SHISHKI SIA (until 06.02.2014 - LB Agro SIA) for the lease of equipment in the amount of EUR 75 284.

In March 2014 the Company has issued a guarantee to Nordea Bank AB Latvian branch for SPI Distribution (Latvia) SIA liabilities against mentioned bank with the guarantee limit of EUR 600 000 and term until 27 February 2015.

Taking into account the financial position of the Group companies it is not expected that the Company shall fulfil the warranty or guarantees obligation, as a result no provisions has been recognized in the financial statements.

(30) Financial and capital risk management

The Company's activity is exposed to various financial risks, including credit risk, currency risk, liquidity risk and interest rate risk. The Management of the Company considers and adopts risk management policy for each of this risk. The Company's management regularly carries out financial risk assessment and monitoring in order to reduce the negative impact of financial risks on the company's performance.

(a) Market risk

(i) Foreign exchange risks

The Company operates internationally and is exposed to foreign currency risk arising mainly from the U.S. dollar's and Russian rubles fluctuations as to the euro mainly from purchase of raw materials and consumables.

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

	31.12.2014.	31.12.2013.
Financial assets, RUB	5 865	2 118
Financial liabilities, RUB	<u>(29 650 832)</u>	<u>(51 495 819)</u>
Open position RUB, net	<u>(29 644 967)</u>	<u>(51 493 701)</u>
Open position RUB calculated in euro, net	<u>(409 817)</u>	<u>(1 136 109)</u>
Financial assets, USD	21 265	28 766
Financial liabilities, USD	<u>(659 269)</u>	<u>(988 966)</u>
Open position USD, net	<u>(638 004)</u>	<u>(960 200)</u>
Open position USD calculated in euro, net	<u>(525 495)</u>	<u>(696 251)</u>

Financial and capital risk management (continuation)

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:

	2014		2013	
	Change in exchange rates	Effect on equity	Change in exchange rates	Effect on equity
		EUR		EUR
RUB	+10%	(40 982)	+10%	(113 611)
	-10%	40 982	-10%	113 611
USD	+10%	(52 550)	+10%	(69 625)
	-10%	52 550	-10%	69 625

(ii) Interest rate risks

The Company is exposed to interest rate risk as the main part of the liabilities are interest-bearing borrowings with the variable interest rate (Note (20)), as well as the Company's interest bearing assets have variable interest rate.

	31.12.2014.	31.12.2013.
	EUR	EUR
Financial assets with variable interest rate, EUR	34 149	37 284 815
Financial liabilities with variable interest rate, EUR	(21 952 870)	(25 788 477)
Open position, net, EUR	(21 918 721)	11 496 338

During the reporting year the Company entered into interest rate swap agreement to limit interest rate risk (see Note 21).

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

	2014		2013	
	Increase/ decrease in basis points	Effect on profit before tax	Increase/ decrease in basis points	Effect on profit before tax
		EUR		EUR
EUR	+30	(22 574)	+30	60 623
	-30	22 574	-30	(60 623)

(iii) 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.

(b) Credit risk

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

Financial and capital risk management (continuation)

Maximum exposure to credit risk:	31.12.2014. EUR	31.12.2013. EUR
Issued loans to Group companies	43 566 129	37 051 670
Trade receivables - Group companies	43 928 410	52 018 765
Trade receivables - non-related parties	1 472 183	930 195
Other current assets	605 880	464 845
Cash	398 187	25 740
	<u>89 970 789</u>	<u>90 491 215</u>

The largest concentration of credit risk arises from the Group company's debts: on 31 December 2014 97% of the total trade receivables related to Group companies (31.12.2013 - 98%). Taking into account the policy as above and the strong financial position of the Group, no provisions for debts and impairment losses of Group companies were made and the Company's management believes that the credit risk of the Company is considered as low.

No past due issued loans to Group companies has been identified.

Maturity analysis of trade receivables:

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables in net value	split to: in due term	Past due		
					< 90 days	90-180 days	> 180 days
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
31.12.2013.							
group companies	52 018 765	-	52 018 765	17 579 176	17 260 325	10 931 005	6 248 259
non-related parties	962 207	(32 012)	930 195	808 294	103 854	1 215	16 832

All trade receivables, including Group companies, are short-term, with a maturity 1 year or less.

(c) 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 33 096 107 (31.12.2013 - EUR 28 807 572). 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 2014	Total EUR	<1 year EUR	2-5 years EUR	>5 years EUR
Long-term loans	6 871 863	-	6 871 863	-
Derivative financial instruments	92 014	-	92 014	-
Short-term loans	15 910 744	15 910 744	-	-
Trade payables	2 084 209	2 084 209	-	-
Debts to Group companies	1 526 461	1 526 461	-	-
	<u>26 485 291</u>	<u>19 521 414</u>	<u>6 963 877</u>	<u>-</u>

Financial and capital risk management (continuation)

On 31 December 2013	Total EUR	<1 year EUR	2-5 years EUR	>5 years EUR
Long-term loans	3 037 518	-	3 037 518	-
Short-term loans	22 301 560	22 301 560	-	-
Trade payables	5 666 743	5 666 743	-	-
Debts to Group companies	3 051 045	3 051 045	-	-
	34 056 867	31 019 348	3 037 518	-

(d) Capital Management

Equity of the Company meets the Latvian legal requirements. Company's management manages the capital structure on going concern 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.

Company's management controls the net debt to equity (gearing ratio). During the reporting year this figure has decreased to 27% (2013 - 35%), confirming the Company's improvement of stability. The positive trend in 2014 is also the increased ratio of equity to total assets up to 64% (2013 - 59%).

	31.12.2014. EUR	31.12.2013 restated EUR
Total borrowings (long-term and short-term loans from banks)	21 952 870	25 333 271
Less cash and its equivalents	(398 187)	(25 740)
Net debt	<u>21 554 683</u>	<u>25 307 531</u>
Equity	79 321 211	71 437 015
Total capital (equity and net loans)	<u>100 875 894</u>	<u>96 744 546</u>
Total assets	123 497 624	121 120 694
Net debt to equity	27%	35%
Equity ratio on total assets	64%	59%

(31) 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 financial statements for year 2014 the changes in accounting policy are reflected retrospectively.

Adjustments for changes in accounting policies (continuation)

	For the year 2014 EUR	For the year 2013 EUR	For the previous years EUR
<u>Effect of changes in accounting policy</u>			
Land and buildings (initial cost)	-	-	(3 906 925)
Land and buildings (accumulated depreciation)	-	-	(4 743 757)
Land and buildings (net book value)	-	-	(8 650 682)
Total property, plant and equipment	-	-	(8 650 682)
Total non-current assets	-	-	(8 650 682)
Finished goods and goods for sale	(46 511)	(20 018)	(23 424)
Total inventories	(46 511)	(20 018)	(23 424)
Total current assets	(46 511)	(20 018)	(23 424)
Deferred income tax liabilities	-	-	(1 297 016)
Total non-current liabilities	-	-	(1 297 016)
Revaluation reserves of non-current assets	-	-	(11 114 579)
Retained earnings	724 408	190 158	3 737 489
Total equity	724 408	190 158	(7 377 090)
Cost of sales	(481 257)	(131 115)	
Distribution expenses	(316 402)	(112 330)	
Administrative expenses	(29 747)	(8 134)	
Deferred income tax expenses	102 998	61 421	
Net results on current year's profit	(724 408)	(190 158)	

(32) Subsequent events

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. At 31 December 2014 the acquired company's equity was negative, amounting to EUR 5.3 million. SIA Daugavgrivas 7 identified assets and liabilities carrying amounts and fair values at the acquisition date were as follows:

	Carrying amount, EUR	Changes of amounts to fair value	Fair value, EUR
Construction in progress	1 043 299	-	1 043 299
Land and buildings	722 223	910 177	1 632 400
Receivables	66 441	-	66 441
Debts to group companies	(6 992 085)	-	(6 992 085)
Other liabilities	(151 642)	-	(151 642)
Net deferred tax assets	-	2 653 725	2 653 725
Total assets	(5 311 764)	3 563 902	(1 747 862)

Real estate objects are valued at market value, which were determined by an independent valuer. The fair value of accounts receivable and payable correspond to its carrying amount.

After the acquisition, in order to reduce the administrative burden of the two companies governance, the Company decided to carry out a merger with the subsidiary.

Except the above mentioned facts, there are no subsequent events since the last date of the financial year until the date of signing of financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2014.