

**AS "LATVIJAS BALZAMS"**  
(Registration number 40003031873)

**CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
for the year of 2017

prepared in accordance with  
**International Financial Reporting Standards as adopted by the EU**

AS "Latvijas balzams"  
Condensed financial statements (unaudited)  
for the year of 2017

**INFORMATION ON THE COMPANY**

Name of the Company	Latvijas balzams
Legal status of the Company	Joint Stock Company
Number, place and date of registration	Companies register Nr. 40003031873 Riga, 2 October 1991 Re-registered on 20 October 1998  Commercial register Riga, 19 June 2014
Address	A. Čaka street 160 Riga, LV- 1012 Latvia
Main business activities	Production of alcoholic beverages NACE2 11.01
Major shareholder	SIA "Amber Beverage Group" (89.99%)
Names and positions of the Council members:	Rolands Gulbis – Chairman of the Council Oļegs Alainis – Vice Chairman of the Council Sergejs Ļimarenko – Member of the Council Pjotr Aven – Member of the Council Valizhan Abidov – Member of the Council
Names and positions of the Board members:	Intars Geidāns – Chairman of the Board Ronalds Žarinovs – Member of the Board Jekaterina Stūģe – Member of the Board

## REPORT OF THE MANAGEMENT

### Type of operations

The Company was established in 1900 as the Riga's first state alcohol warehouse and operates under the current name since 1970. Due to SPI Group internal reorganization the major shareholder of Latvijas balzams AS from October 2014 is Amber Beverage Group SIA, which owns 89.99% of the Company's equity capital.

Nowadays Latvijas balzams operates two alcohol production facilities in Riga – production plant for strong alcohol beverages and a production plant for sparkling wines and light alcohol beverages. We use ingredients from around the world and have retained our traditional beverage production technologies. The recipes for some of our signature products date back hundreds of years, for example the recipe of Riga Black Balsam is rotated back in 1752, but our renown Moskovskaya Vodka dates back to the end of the 19th century.

The company keeps the leading presence in all key spirits segments, as well as in sparkling wines, ciders, and RTDs, in the Baltic region. The newest generation of spirits, including Riga Black Vodka and Amber Gold Vodka, are produced using innovative filtration technologies that results in particular character profiles for beverage connoisseurs.

We are proud for our ability to produce high quality liquids consistently, and develop new products driven by consumer insights. On the same time we are able to maintain high-quality international standards required by SPI Group, so that sales of Stolichnaya are possible around the world, including sales to Japan.

Latvijas balzams AS is the largest producer of alcoholic beverages in the Baltic States with a range of more than 100 different brands. Our products are exported to more than 170 export markets as mediated by SPI Group, and to 42 markets via the Company's direct export route.

### The Company's Activity

The unaudited turnover of the Company was 78.3 million euro, which is 3.4% more than in 2016. Increase in turnover was achieved by increase of orders from our biggest Private Label customer SPI Cyprus, as well as due to significant growth in sales of Latvijas Balzams brands within local market through Amber Distribution Latvia. Additional positive effect on turnover come from increased level of warehouse and logistics services provided to both 3rd part and Group companies.

From beginning of 2016, the Company is providing a number of warehouse and logistics services, mostly to beverage companies – like transit assurance services, bonded warehouse services, 3-rd party logistic services, value added services, picking, etc. Actions taken, has allowed to utilize the available resources and assets in more efficient way. Latvijas balzams AS has been performing as European hub for group distributed brands in Europe, including Scandinavia and Russia (KAH, Bayou, Arinzano, Achaval Ferrer). From third quarter Latvijas balzams Customer service center has also overtaken customer service and inventory management service for those brands.

The unaudited profit for the reporting period is 8.58 million euro that represents 14% increase in comparison to Year 2016. Profit result is materially affected by changes in taxation principles as stipulated by the Law on Corporate Income Tax of Republic of Latvia effective from 01.01.2018. As a result of those changes the Company in these condensed financial statements has fully reversed the deferred tax liability and recognized the gain from reversal through income tax expense position in Income Statement.

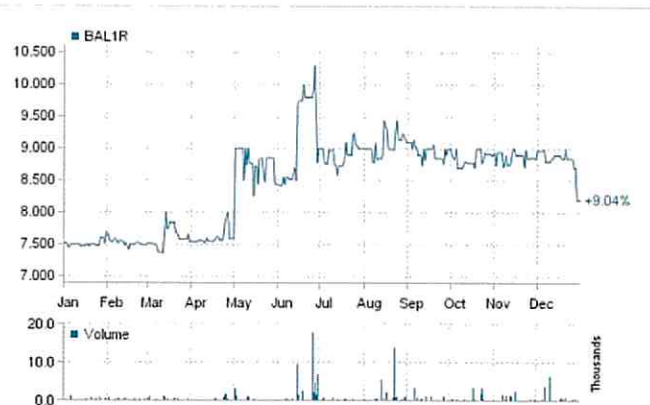
Profit from operational activities are in line with last year, even last year results include income from one-off transactions like compensation received from insurance company for fire case in 2014 in amount of 280 thousand EUR and profit from sale of real estate in amount of 594 thousand EUR. It is mainly achieved through higher sales volumes and more effective business operations.

Latvijas balzams AS is one of the largest local taxpayers. During the reporting period, the Company paid 59.7 million euro to the state budget, including excise tax, amounting to 47.5 million euro.

## REPORT OF THE MANAGEMENT (continued)

### Share market

In 2017 the Company's share price fluctuated from 7.37 to 10.40 euro.



### Financial risk management

The Company's activities expose it to a variety of financial risks, including the credit risk, liquidity risk and risk of changing interest rates. The Company's management seeks to minimise potential adverse effects of financial risk on the financial performance of the Company.

The Company's borrowings have variable interest rates. The management of the Company considers possibilities to apply risk hedging instruments in order to minimise the effect of variable interest rates.

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

The Company pursues a prudent liquidity risk management maintaining sufficient credit resources that allow settling liabilities when they fall due. The management of the Company manages the liquidity and cash flow risk by maintaining adequate cash reserves and securing sufficient financing, by using borrowings, overdrafts, financial leases as well as by monitoring forecasted and actual cash flows and by matching term structure of financial assets and liabilities. The Company's current assets exceeded its current liabilities by 46.3 million euro (31.12.2016. – 39.2 million euro). The Company has a strong ability to meet its short-term obligations.

## REPORT OF THE MANAGEMENT (continued)

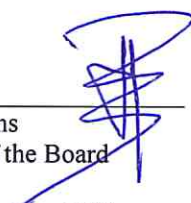
### Future prospects

In 2018 the Company will keep focusing on investment opportunities in existing and new export markets with strong growth potential and accelerating sales. We'll keep the strong focus on our core brands - Riga Black Balsam and Cosmopolitan Diva - investing into international recognition, brand equity and increasing market share.

The Company will also continue to improve the efficiency of production with focus on purchasing, planning and infrastructure improvements to support our goal - to deliver quality products with a competitive cost advantage.

Company has developed large-scale plant modernization and reconstruction project with aim to merge both production plants into one territory. Project will allow to improve company's competitive positions among the region producers by decreasing labour, logistics and production costs. Total costs of project estimated at amount of 23 million euro. Latvian government supported project by granting CIT discount after fulfillment of the project. At this moment Company finalizing technical project works and is going to present project to shareholders to obtain their final approval on investment during regular shareholder meeting.

Latvijas balsams AS is an active member of Latvian Alcohol Industry Association and cooperates with core non-governmental organizations, representing the interests of industry in any dialogue with legislators and law enforcement institutions. The Company supports development of well - considered industry policy in Latvia and promotes responsible consumption and public education on these issues, as well as continues to combat the illegal production and distribution of non-commercial alcohol.



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Intars Geidāns  
Chairman of the Board

Riga, 28 February 2018

## STATEMENT OF THE MANAGERMENTS' RESPONSIBILITY

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

The Management Report contains truthful information.

Intars Geidāns  
Chairman of the Board



Rīga, 28 February 2018

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## INCOME STATEMENT

	Notes	2017 EUR	2016 EUR
Revenue	3	78 263 078	75 719 709
Cost of sales	4	(60 238 914)	(58 523 110)
<b>Gross profit</b>		<b>18 024 164</b>	<b>17 196 599</b>
Distribution expenses	5	(5 764 219)	(5 443 800)
Administrative expenses	6	(4 386 269)	(4 405 422)
Other operating income		965 997	1 605 157
Other operating expenses		(471 362)	(367 302)
Finance income		1 535 512	1 263 836
Finance expenses		(364 794)	(358 924)
<b>Profit before tax</b>		<b>9 539 029</b>	<b>9 490 144</b>
Corporate income tax		(955 421)	(1 981 578)
<b>Net profit</b>		<b>8 583 608</b>	<b>7 508 566</b>

## STATEMENT OF COMPREHENSIVE INCOME

	2017 EUR	2016 EUR
<b>Net profit</b>	<b>8 583 608</b>	<b>7 508 566</b>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to income statement</b>		
Changes in fair value of financial instruments	32 578	31 147
Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments	(7 672)	(4 672)
<b>Other comprehensive income</b>	<b>24 906</b>	<b>26 475</b>
<b>Total comprehensive income for the period</b>	<b>8 608 514</b>	<b>7 535 041</b>

**STATEMENT OF FINANCIAL POSITION**

	<b>31.12.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
<b><u>ASSETS</u></b>		
<b>Non-current assets</b>		
Intangible assets	514 728	550 874
Property, plant and equipment	12 622 301	11 636 504
Investment property	664 305	683 737
Loans to group companies	45 611 255	47 236 983
Other non current assets	555 028	897 990
<b>Total non-current assets:</b>	<b>59 967 617</b>	<b>61 006 088</b>
<b>Current assets</b>		
Inventories	23 098 633	20 842 781
Trade receivables	1 099 612	908 697
Receivables from group companies	56 153 146	42 543 946
Other current assets	341 338	430 534
Corporate income tax	-	573 558
Cash and cash equivalents	132 970	2 677 315
<b>Total current assets:</b>	<b>80 825 699</b>	<b>67 976 831</b>
<b><u>Total assets</u></b>	<b>140 793 316</b>	<b>128 982 919</b>
<b><u>EQUITY AND LIABILITIES</u></b>		
<b>Equity</b>		
Share capital	10 495 660	10 495 660
Share premium	87 887	87 887
Revaluation reserves of derivative financial instruments	(18 570)	(43 476)
Reserves	2 318 823	2 318 823
Retained earnings	91 802 078	83 218 470
<b>Total equity:</b>	<b>104 685 878</b>	<b>96 077 364</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	1 560 806	3 120 364
Deferred income tax liabilities	-	995 073
Derivative financial instruments	18 570	51 148
<b>Total non-current liabilities:</b>	<b>1 579 376</b>	<b>4 166 585</b>
<b>Current liabilities</b>		
Borrowings	6 953 979	7 945 159
Trade payables	6 791 053	4 653 523
Payables to group companies	1 165 242	1 629 720
Other liabilities	19 617 788	14 510 568
<b>Total current liabilities:</b>	<b>34 528 062</b>	<b>28 738 970</b>
<b>Total liabilities:</b>	<b>36 107 438</b>	<b>32 905 555</b>
<b><u>Total equity and liabilities</u></b>	<b>140 793 316</b>	<b>128 982 919</b>

Intars Geidāns  
Chairman of the Board  
Rīga, 28 February 2018



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**STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Reserves	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<b>31.12.2015.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>(2 992 951)</b>	<b>(69 951)</b>	<b>75 709 904</b>	<b>83 230 549</b>
Net profit	-	-	-	-	7 508 566	7 508 566
Other comprehensive income	-	-	-	26 475	-	26 475
<b>Total comprehensive income</b>	-	-	-	<b>26 475</b>	<b>7 508 566</b>	<b>7 535 041</b>
Special purpose reserves fund	-	-	5 311 774	-	-	5 311 774
<b>31.12.2016.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>2 318 823</b>	<b>(43 476)</b>	<b>83 218 470</b>	<b>96 077 364</b>
Net profit	-	-	-	-	8 583 608	8 583 608
Other comprehensive income	-	-	-	24 906	-	24 906
<b>Total comprehensive income</b>	-	-	-	<b>24 906</b>	<b>8 583 608</b>	<b>8 608 514</b>
<b>31.12.2017.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>2 318 823</b>	<b>(18 570)</b>	<b>91 802 078</b>	<b>104 685 878</b>

## CASH FLOW STATEMENT

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
<b>Cash flow from operating activities</b>		
Profit for the period before taxation	9 539 029	9 490 144
<u>Adjustments for:</u>		
Depreciation and amortisation	1 667 751	1 397 191
Net profit on sales and disposal of fixed assets and intangibles	(1 001)	(592 762)
Provisions	(275 574)	(23 939)
Interest income	(1 535 512)	(1 263 836)
Interest expense	364 794	358 924
<u>Changes in working capital:</u>		
(Increase) / Decrease in inventories	(1 980 279)	(839 196)
(Increase) / Decrease in trade and other receivables	(2 083 951)	(10 009 807)
Increase / (Decrease) in trade and other payables	6 621 011	5 373 113
<b>Cash generated from operations</b>	<b>12 316 268</b>	<b>3 889 832</b>
Interest paid	(253 910)	(367 449)
Corporate income tax paid	(45 495)	(619 055)
<b>Net cash generated by operating activities</b>	<b>12 016 863</b>	<b>2 903 328</b>
<b>Cash flow from investing activities</b>		
Acquisition of property, plant and equipment and intangible assets	(1 657 417)	(2 329 759)
Proceeds from sales of property, plant and equipment	11 317	683 790
Loans repayment received	1 800 001	7 900 001
Changes in credit lines (net)	(11 458 279)	(5 171 699)
Interest received	246 831	99 501
<b>Net cash flow generated from investing activities</b>	<b>(11 057 547)</b>	<b>1 181 834</b>
<b>Cash flow from financing activities</b>		
Changes in credit lines (net)	-	(3 424 713)
Borrowings repaid	(2 926 448)	(2 926 448)
Paid in special purpose fund reserve	-	5 311 774
Finance lease payments	(577 213)	(392 931)
<b>Net cash flow generated from financing activities</b>	<b>(3 503 661)</b>	<b>(1 432 318)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(2 544 345)</b>	<b>2 652 844</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>2 677 315</b>	<b>24 471</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>132 970</b>	<b>2 677 315</b>

## NOTES

### (1) GENERAL INFORMATION

AS Latvijas balzams (the Company) is the biggest producer of alcoholic drinks in the Baltic States. In total, AS Latvijas balzams produces more than 100 different alcoholic drinks. The major shareholder of the Company, who owns 89.99% of the Company's share capital as of 31 December 2017, is Amber Beverage Group SIA.

AS Latvijas balzams is a joint-stock company, which is incorporated and has its registered office in Latvia. The Company was founded in 1900, but acquired its current name in 1970. Registered address of the Company is at 160 A. Čaka Street, Riga, LV-1012, Republic of Latvia. Shares of AS Latvijas balzams are quoted on second list of the Nasdaq Riga AS.

### (2) ACCOUNTING POLICIES

#### *Basis for preparation*

The interim condensed financial statements for 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2016.

The interim financial statements are presented in euro (EUR), the monetary unit of the Republic of Latvia.

#### *Changes in accounting policy and disclosures*

The accounting policies are consistent with those followed in the preparation of the Company's annual financial statement for the previous periods. The Company has evaluated new and amended IFRSs and IFRICs effective for annual periods beginning on or after 1 January 2017. No material impact on the interim financial statements of the Company was identified.

The Company has not applied and has not evaluated the impact of the application of the IFRS and IFRIC interpretations that have been issued as of the date of authorisation of these financial statements for issue, but which are not yet effective. The Company plans to adopt these standards and interpretations on their effectiveness dates provided they are endorsed by the EU.

#### *Deferred tax*

Taking into account changes in taxation principles as stipulated by the Law on Corporate Income Tax of Republic of Latvia effective from 01.01.2018, the Company in these condensed financial statements has fully reversed the deferred tax liability and recognized the gain from reversal through income tax expense position in Income Statement.

### (3) REVENUE

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Sales of alcoholic drinks	71 567 106	69 474 787
Sales of other goods and materials	2 248 922	2 137 206
Other services	4 447 050	4 107 716
	<u><b>78 263 078</b></u>	<u><b>75 719 709</b></u>

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**(4) COST OF SALES**

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Raw materials and consumables	43 883 675	42 833 870
Salary expense	5 413 959	4 877 411
Changes of inventory value of finished goods	2 765 679	2 686 901
Goods purchased	2 188 626	2 023 763
The state compulsory social insurance contributions	1 263 011	1 134 127
Depreciation of non-current assets	909 445	916 851
Energy resources	819 358	781 165
Repair and maintenance expenses	662 093	814 497
Management of packaging	392 904	397 545
Changes in provision for inventories	243 690	146 000
Insurance payments	47 882	52 801
Laboratory expenses	32 459	30 643
Accrued expenses on unused annual leave	56 413	16 871
Other costs	1 559 720	1 810 665
	<u><b>60 238 914</b></u>	<u><b>58 523 110</b></u>

**(5) DISTRIBUTION EXPENSES**

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Salary expenses	1 801 204	1 766 134
Warehouse maintenance expenses	990 354	1 003 946
Advertising and sales promotion expenses	970 383	743 230
Transportation expenses	695 237	760 765
The state compulsory social insurance contributions	423 164	414 161
Depreciation of non-current assets	394 846	222 113
Other expenses	489 031	533 451
	<u><b>5 764 219</b></u>	<u><b>5 443 800</b></u>

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(6) ADMINISTRATIVE EXPENSES

	<b>2017</b>	<b>2016</b>
	<b>EUR</b>	<b>EUR</b>
Management services and expenses	2 236 441	1 978 236
Salary expenses	598 761	775 384
Depreciation of non-current assets	363 460	283 428
Computer maintenance	197 523	163 903
Real estate tax	161 636	161 816
The state compulsory social insurance contributions	138 556	155 030
Professional service costs	107 071	101 057
Office expenses	63 348	70 594
Transport costs	56 076	56 216
Representation expenses	24 971	19 070
Communication and postal expenses	24 173	66 243
Business trip expenses	17 510	40 510
Bank commissions	14 582	18 969
Financial support, sponsorship	10 506	3 980
Other expenses	371 655	510 986
	<u><b>4 386 269</b></u>	<u><b>4 405 422</b></u>

(7) SUBSEQUENT EVENTS

There were no subsequent events since the last date of the financial year until the date of signing of these condensed financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2017.