

**AS “LATVIJAS BALZAMS”**

(Registration number 40003031873)

**CONDENSED FINANCIAL STATEMENTS (NOT AUDITED)**  
for the year of 2016

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

**Riga, 2017**

AS Latvijas balzams  
Address: A.Čaka iela, Rīga,  
LV-1012  
Reg. number: 40003031873

## 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 Rīga, 2 October 1991 Re-registered on 20 October 1998  Commercial register Rīga, 19 June 2014
Address	A. Čaka street 160 Rīga, LV- 1012 Latvia
Main business activities	Production of alcoholic beverages NACE2 11.01
Parent company	SIA “Amber Beverage Group” (89.99%)
Names and positions of the Council members:	Rolands Gulbis – Chairman of the Council (from 12.11.2015.) Oļegs Alainis – Vice Chairman of the Council (from 12.11.2015) Sergejs Ļimarenko – Member of the Council (from 12.11.2015) Pjotr Aven – Member of the Council Valizhan Abidov – Member of the Council (from 21.05.2015) Oļegs Alainis – Member of the Council (from 21.05.2015 until 11.11.2015) Aigars Kalvītis – Chairman of the Council (until 11.11.2015) Sergejs Ļimarenko – Vice Chairman of the Council (from 21.05.2015 until 11.11.2015) Valery Mendeleev – Vice Chairman of the Council (until 20.05.2015) David Ronald Surbey – Member of the Council (until 20.05.2015) Seymour Paul Ferreira – Member of the Council (until 20.05.2015) Sebastianus Antonius Theodorus Boelen – Member of the Council (until 20.05.2015)
Names and positions of the Board members:	Intars Geidāns – Chairman of the Board (from 03.03.2016.) Ronalds Žarinovs – Member of the Board Jekaterina Stūģe – Member of the Board Seymour Paul Ferreira – Chairman of the Board (from 01.09.2015. until 02.03.2016.) Guntis Āboltiņš – Āboliņš – Chairman of the Board (until 31.08.2015.) Intars Geidāns – Member of the Board (until 02.03.2016.) Sergejs Ļimarenko – Member of the Board (until 25.04.2015.) Līga Sleņģe – Member of the Board (from 30.12.2014. until 20.05.2015.)

## 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 Latvijas balzams AS from October 2014 is Amber Beverage Group SIA, which owns 89.99% of the Company's equity capital.

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

### The Company's Activity

The unaudited turnover of the Company reached 75.7 million Euros in Year 2016 that represents 2.6% growth versus the Year 2015. The positive results are rooted mainly into increased level of provided 3-rd party services.

Based on new services the company managed to increase unaudited profit for the reporting period to 7.45 million euro that represents 5.3% increase in comparison to Year 2015.

Although the Company has expanded its export geography this year, the turnover from sales of alcoholic drinks dropped by 1.7%. To compensate production and sales volume drop, Latvijas balzams AS has started providing an additional services – using employee competence and warehouse resources. From beginning of 2016 Company is providing a number of warehousing and logistics services, mostly to beverage companies – like transit assurance service, bonded warehouse services, 3-rd party logistic services, value added services, picking, etc. Actions taken, has allowed to increase the profit due to more efficient use of available resources and assets. Latvijas balzams AS has been performing as European hub for group distributed brands in Europe, including Scandinavia and Russia (KAH, Bayou, Arinzano, Achaval Ferrer).

Latvijas balzams AS is the leading producer of alcoholic beverages in Latvia, as well as one of the largest local taxpayers. During the reporting period, Company paid 52.3 million euro to the state budget, including excise tax, amounting to 40.1 million euro.

### Share market

In 2016 the Company's share price fluctuated from 5.40 to 9.00 euro.



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LATVIJAS  BALZAMS

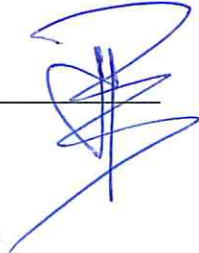
### Future prospects

In 2017 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.

Latvijas balzams 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. 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



Rīga, 28 February 2017

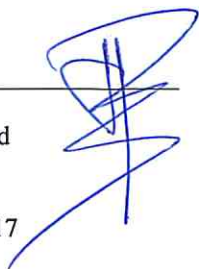
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## DECLARATION OF THE MANAGEMENT RESPONSIBILITY

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

The Management Report contains truthful information.

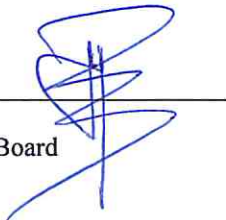
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Intars Geidāns  
Chairman of the Board



Rīga, 28 February 2017

## INCOME STATEMENT

	Notes	2016 EUR	2015 EUR
Revenue	1	75 719 709	73 790 638
Cost of sales	2	(58 512 569)	(56 999 389)
<b>Gross profit</b>		<b>17 207 140</b>	<b>16 791 249</b>
Distribution expenses	3	(5 441 155)	(6 364 893)
Administrative expenses	4	(4 405 423)	(3 869 000)
Other operating income		1 667 778	1 363 224
Other operating expenses		(434 416)	(452 830)
Interest and similar income		1 230 755	1 540 512
Interest and similar expense		(358 924)	(602 400)
<b>Profit before tax</b>		<b>9 465 755</b>	<b>8 405 862</b>
Corporate income tax		(2 014 448)	(1 340 366)
<b>Net profit</b>		<b>7 451 307</b>	<b>7 065 496</b>

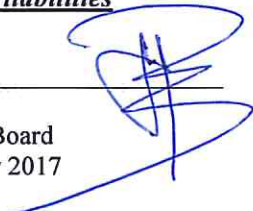
  
Intars Geidāns  
Chairman of the Board

Rīga, 28 February 2017

**STATEMENT OF FINANCIAL POSITION**

	<b>31.12.2016</b>	<b>31.12.2015</b>
	<b>EUR</b>	<b>EUR</b>
<b><u>ASSETS</u></b>		
<b>Non-current assets</b>		
Intangible assets	550 874	603 823
Property, plant and equipment	11 636 504	10 513 300
Investment property	683 737	703 169
Long term loans to group companies and receivables	47 236 983	47 505 730
Deferred income tax assets	-	945 680
Other non current assets	897 990	1 187 320
<b>Total non-current assets:</b>	<b>61 006 088</b>	<b>61 459 022</b>
<b>Current assets</b>		
Inventories	20 304 563	19 976 909
Trade receivables	908 697	625 461
Receivables from group companies	43 473 788	33 465 601
Other current assets	430 907	821 279
Corporate income tax	571 224	1 487 434
Cash and cash equivalents	2 677 315	24 471
<b>Total current assets:</b>	<b>68 366 494</b>	<b>56 401 155</b>
<b><u>Total assets</u></b>	<b><u>129 372 582</u></b>	<b><u>117 860 177</u></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	(43 476)	(69 951)
Reserves	2 318 823	(2 992 951)
Retained earnings	83 161 211	75 709 904
<b>Total equity:</b>	<b>96 020 105</b>	<b>83 230 549</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	7 928 268	10 846 085
Deferred income tax liabilities	498 297	-
Derivative financial instruments	51 148	82 295
<b>Total non-current liabilities:</b>	<b>8 477 713</b>	<b>10 928 380</b>
<b>Current liabilities</b>		
Borrowings	3 137 255	3 257 789
Trade payables	4 681 238	3 538 661
Payables to group companies	2 002 794	4 753 547
Current corporate income tax payables	-	-
Other liabilities	15 053 477	12 151 251
<b>Total current liabilities:</b>	<b>24 874 764</b>	<b>23 701 248</b>
<b>Total liabilities:</b>	<b>33 352 477</b>	<b>34 629 628</b>
<b><u>Total equity and liabilities</u></b>	<b><u>129 372 582</u></b>	<b><u>117 860 177</u></b>

Intars Geidāns  
 Chairman of the Board  
 Rīga, 28 February 2017



**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>31.12.2014.</b>	<b>10 667 128</b>	<b>87 887</b>	-	<b>(78 212)</b>	<b>68 644 408</b>	<b>79 321 211</b>
Net profit	-	-	-	-	7 065 496	7 065 496
Other comprehensive income	-	-	-	8 261	-	8 261
Total comprehensive income	-	-	-	8 261	7 065 496	7 073 757
Reorganisation reserve	-	-	(3 164 419)	-	-	(3 164 419)
Share capital denomination	(171 468)	-	171 468	-	-	-
<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	-	-	-	-	7 451 307	7 451 307
Other comprehensive income	-	-	-	26 475	-	26 475
Total comprehensive income	-	-	-	26 475	7 451 307	7 477 782
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>83 161 211</b>	<b>96 020 105</b>



**CASH FLOW STATEMENT**

	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
<b>Cash flow from operating activities</b>		
Profit for the period before taxation from continuing operations	9 465 755	8 405 862
<u>Adjustments for:</u>		
Depreciation and amortisation	1 397 192	1 442 431
Net profit on sales and disposal of fixed assets and intangibles	(592 762)	11 472
Provisions	(23 938)	-195 754
Interest income	(1 230 755)	(1 540 512)
Interest expense	358 924	602 400
<u>Changes in working capital:</u>		
Decrease / (Increase) in inventories	(300 978)	3 591 193
Decrease / (Increase) in trade and other receivables	(7 465 523)	308 089
Increase / (Decrease) in trade and other payables	5 829 921	(3 754 269)
<b>Cash generated from operations</b>	<b>7 437 836</b>	<b>8 870 912</b>
Interest paid	(367 449)	(592 607)
Corporate income tax paid	916 211	(1 742 738)
<b>Net cash generated by operating activities</b>	<b>7 986 598</b>	<b>6 535 567</b>
<b>Cash flow from investing activities</b>		
Acquisition of property, plant and equipment and intangible assets	(2 329 759)	(1 789 207)
Proceeds from sales of property, plant and equipment	683 790	28 934
Loans repayment received	7 900 001	3 600 000
Interest received	99 501	911
<b>Net cash flow generated from investing activities</b>	<b>6 353 533</b>	<b>1 840 638</b>
<b>Cash flow from financing activities</b>		
Changes in credit lines (net)	(9 570 131)	(10 819 620)
Borrowings received	1 202 223	5 263 000
Borrowings repaid	(2 926 448)	(3 025 247)
Finance lease payments	(392 931)	(168 054)
<b>Net cash flow generated from financing activities</b>	<b>(11 687 287)</b>	<b>(8 749 921)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>2 652 844</b>	<b>(373 716)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>24 471</b>	<b>398 187</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>2 677 315</b>	<b>24 471</b>

## NOTES

### (1) Revenue

	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Sales of alcoholic drinks	69 474 787	70 659 625
Sales of other goods and materials	2 137 206	1 435 058
Other services	4 107 716	1 695 955
	<u>75 719 709</u>	<u>73 790 638</u>

### (2) Cost of sales

	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Raw materials and consumables	42 833 870	44 680 633
Changes of inventory value of finished goods	2 686 901	(687 952)
Salary expense	4 877 411	4 912 131
Goods purchased	2 023 763	1 407 912
Mandatory state social insurance contributions	1 134 127	1 149 097
Depreciation of non-current assets	916 851	1 030 491
Energy resources	781 165	925 165
Repair and maintenance expenses	814 497	687 559
Management of packaging	397 545	352 448
Changes in provision for inventories	146 000	302 009
Insurance payments	52 801	48 874
Laboratory expenses	30 643	24 864
Accrued expenses on unused annual leave	16 871	15 871
Other costs	1 800 124	2 150 287
	<u>58 512 569</u>	<u>56 999 389</u>

### (3) Distribution expenses

	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Advertising and sales promotion expenses	743 230	1 707 863
Salary expenses	1 766 134	1 476 385
Transportation expenses	760 765	765 267
Warehouse maintenance expenses	1 001 301	1 012 587
Mandatory state social insurance contributions	414 161	353 722
Depreciation of non-current assets	222 113	209 841
Accrued expenses on unused annual leave	(2 128)	(4 544)
Other expenses	535 579	843 772
	<u>5 441 155</u>	<u>6 364 893</u>

During 2016 Latvijas Balzams AS implemented sales promotion evaluation tool that helps decrease marketing spend if there is not effective return on investments

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**(4) Administrative expenses**

	<b>2016</b>	<b>2015</b>
	<b>EUR</b>	<b>EUR</b>
Management services and expenses *	1 978 236	1 453 260
Salary expenses	775 384	1 048 684
Depreciation of non-current assets	283 428	202 100
Mandatory state social insurance contributions	155 030	161 839
Real estate tax	161 816	142 604
Professional service costs	101 057	127 050
Communication and postal expenses	66 243	98 801
Bank commissions	18 969	66 129
Computer maintenance	163 903	53 587
Business trip expenses	40 510	44 240
Office expenses	70 594	41 915
Transport costs	56 216	25 169
Representation expenses	19 070	23 680
Financial support, sponsorship	3 980	21 500
Other expenses	510 987	358 442
	<b>4 405 423</b>	<b>3 869 000</b>

\* As of June 2015 the Company's management and administrative functions were transferred to the parent company Amber Beverage Group SIA. This organizational structure of group companies economic activities allows the maximum optimization of group's management and administrative processes. As well it enables Latvijas balzams AS to focus on the production process, to produce and offer in the market high value and high quality products.