AS "LATVIJAS BALZAMS"

ANNUAL REPORT 2016

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

Translation from Latvian original*

* This version of financial statements is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

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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
Parent company	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 (from 03.03.2016.) Ronalds Žarinovs – Member of the Board Jekaterina Stuģe – Member of the Board Seymour Paul Ferreira – Chairman of the Board (from 01.09.2015. until 02.03.2016.) Intars Geidāns – Member of the Board (until 02.03.2016.)
Statement of corporate governance	www.lb.lv

REPORT OF THE MANAGEMENT

Type of operations

The Company was established in 1900 as the Riga`a 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 formula for Riga Black Balsam was officially written down in 1752, but our renown Moskovskaya Vodka dates back to the end of the 19th century.

Now we have a 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.

Performance of the Company during the financial year

The turnover of the Company in 2016 was 75.7 million euro, which is 2.6% more than in 2015. The positive results are mainly due to increased level of warehouse and logistics services provided to non-related and related companies.

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 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 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).

In 2016 we have continued investing in our manufacturing base, with a continuous focus on improving efficiency, increasing flexibility and maintaining a low cost base:

- we have started LEAN project, which will result in bottling efficiency increase;
- we have installed new equipment on light alcoholic beverage plant to improve outlook of our products
- we have developed our logistics competence and taken in-house deliveries to port
- our customer service and logistics competence growth has resulted in establishing of European hub for Amber Beverage Group and SPI Group distributed spirits (tequila, rum, wines)

It all together allows us to achieve growth of profit by 6% in comparison to 2015 by reporting 7.51 million euro in profit line.

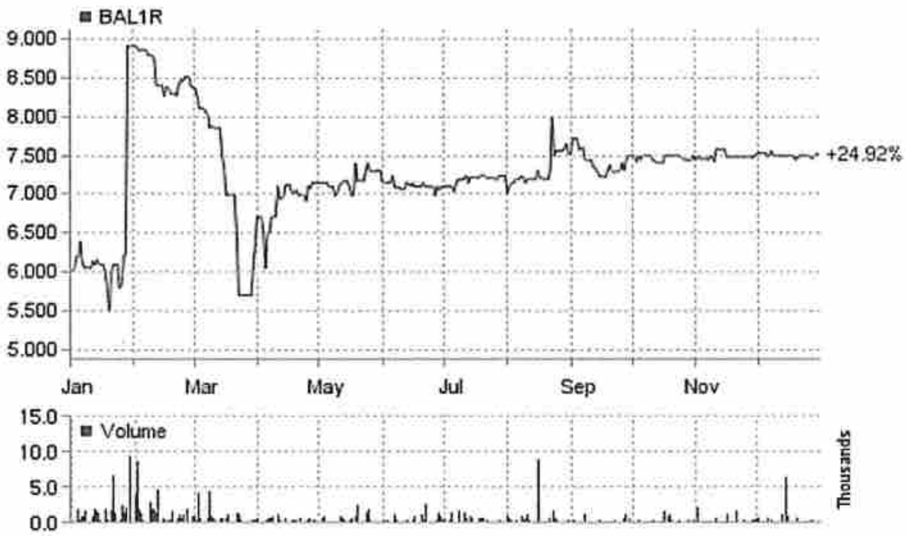
REPORT OF THE MANAGEMENT (continued)

The Company`s return on equity (ROE) amounts to 8.4%, but return on assets (ROA) amounts to 6.1%.

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, the 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.



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 39.2 million euro (31.12.2015. – 32.7 million euro). The Company has a strong ability to meet its short-term obligations. The Current ratio of the Company as at 31 December 2016 is 2.37 (as at 31 December 2015 – 2.38) and Quick ratio accordingly: 1.61 and 1.44.

The financial fisk management is further disclosed in Note 30.

REPORT OF THE MANAGEMENT (continued)

Post balance sheet events

In the period between the last day of the financial year and the date of signing these financial statements by the Board there have been no subsequent events that would have a significant effect on the financial position of the Company as at 31 December 2016.

Distribution of profit proposed by the Board

Profit share to be distributed	EUR 7 472 039
Proposed profit distribution:	
Distribution of dividends	EUR 7 472 039

Future prospects

In 2017 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.

Also 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 are estimated at amount of 23 million euro. Application for project CIT discount has been submitted to Ministry of Economics and technical project works are currently going on. After finalizing those two phases shareholders will be introduced to Project in details to obtain their final approval on investment.

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.

Intars Geidāns
Chairman of the Board

Riga, 27 April, 2017

STATEMENT OF THE MANAGEMENTS' RESPONSIBILITY

The Management is responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by 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 flows for the year then ended.

The Management certifies that proper accounting methods were applied in preparation of these financial statements on page 13 to page 50 and decisions and assessments were made with proper discretion and prudence. The Management confirms that the financial statements have been prepared on a going concern basis.

The Management is responsible for maintaining the 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.

Intars Geidāns
Chairman of the Board

Riga, 27 April, 2017

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Independent auditor's report

(Translation of the Latvian original)*

To the Shareholders of Latvijas Balzams AS

Report on the audit of the financial statements

Our opinion

In our opinion, the accompanying financial statements set out on pages 13 to 50 of the accompanying annual report give a true and fair view of the financial position of AS "Latvijas balzams" (the Company) as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2016;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year ended;
- the cash flow statement for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements and auditor's independence rules that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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Our audit approach

Overview

Materiality

Overall materiality is EUR 740 thousand, which represents approximately 1% of total revenue.

Audit scope

A full scope audit was performed by PwC Latvia on the financial statements of the Company.

Key audit matter

Valuation of inventory.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	Overall materiality is EUR 740 thousand.
How we determined it	Overall materiality is approximately 1% of total revenue.
Rationale for the materiality benchmark applied	We consider total revenue to be the key performance indicator that determines the Company's performance and is monitored by management and investors.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 74 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Inventory valuation as of year end (refer to Note 14 for further details). As at 31 December 2016 the Company's inventory amounts to EUR 20.8 million, EUR 9 million of which is related to finished goods. Inventory valuation is not considered to be an area of significant risk for our audit. However, it requires significant time and resource to audit due to its magnitude, and is therefore considered to be a key audit matter. Inventories are stated at the lower of cost and net realisable value (NRV). In case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. The standard costing process is complicated and involves certain judgement level in the process of allocation of production overheads. The Company's management assesses the NRV of inventories by grouping them by brands and by client. Such groups of inventories include a large number of different inventory items under the same brand and thus the net realisable value of individual items included in the same group may be lower than the value determined on the group basis.	We assessed whether the Company's accounting policies in relation to valuation of inventories are in compliance with IFRS. We have tested the design and operating effectiveness of key controls in relation to inventory, by focusing on automated control on standard costing calculation and manual control over authorisation of inventory purchases. We did not identify any exceptions that would have impacted our audit approach. We selected a sample of self-produced finished goods and reconciled their cost in the accounting system to their standard cost in the production system. We further verified that the cost of finished goods determined by the standard costing did not differ materially from the cost determined by the actually incurred production expenses during the reporting period. We made a selection of items of finished goods, choosing the largest by value and additional items on a random basis, and compared their book value to the subsequent selling price to identify whether the selling price of any items was lower than the book value. As a result of our work, we noted no material exceptions. We also considered whether the disclosures made in Note 14 to the financial statements met the requirements set out in IFRS and noted no issues.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Company, the accounting processes and controls, and the industry in which the Company operates. Our audit procedures were tailored considering that the Company's core activity is the production of alcoholic drinks and the Company comprises a single operating segment.

Other information

Management is responsible for the other information. The other information comprises:

- the Report of the Management, as set out on pages 4 to 6 of the accompanying Annual Report,
- the Statement of the Management Responsibility, as set out on page 7 of the accompanying Annual Report, and
- the Statement of Corporate Governance, set out in separate statement prepared by the Company's management and available on the Company's website http://www.lb.lv/ as at the date of this audit report,

but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information included in the Annual Report and we do not express any form of assurance conclusion thereon, except as described in the Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia

In addition, in accordance with the Law on Audit Services with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

Based solely on the work required to be undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in accordance with Article 56.[1], section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.[2], section two, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.[2], section two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Based solely on the work required to be undertaken in the course of our audit, in our opinion, the Statement of Corporate Governance, available on the Company's website http://www.lb.lv/ as at the date of this audit report, includes, in all material respects, the information in accordance with Article 56.[1], section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.[2], section two, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56.[2], section two, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board

Jana Smirnova
Certified auditor in charge
Certificate No. 188

Riga, Latvia

28 April 2017

INCOME STATEMENT

	Notes	2016 EUR	2015 EUR
Revenue	1	75 719 709	73 790 638
Cost of sales	2	(58 523 110)	(56 999 389)
Gross profit		**17 196 599**	**16 791 249**
Distribution expenses	3	(5 443 800)	(6 364 893)
Administrative expenses	4	(4 405 422)	(3 869 000)
Other operating income	5	1 605 157	1 363 224
Other operating expenses	6	(367 302)	(452 830)
Finance income	8	1 263 836	1 540 512
Finance expenses	9	(358 924)	(602 400)
Profit before tax		**9 490 144**	**8 405 862**
Corporate income tax	10	(1 981 578)	(1 340 366)
Net profit		**7 508 566**	**7 065 496**
Earnings per share (in cents)			
Basic	11	100.16	94.25
Diluted	11	100.16	94.25

Notes on pages 18 to 50 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2016 EUR	2015 EUR
Net profit		**7 508 566**	**7 065 496**
Other comprehensive income			
Items that may be reclassified subsequently to income statement			
Changes in fair value of financial instruments	20	31 147	9 719
Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments	10 (c)	(4 672)	(1 458)
Other comprehensive income		**26 475**	**8 261**
Total comprehensive income for the period		**7 535 041**	**7 073 757**

Notes on pages 18 to 50 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2016. EUR	31.12.2015. EUR
ASSETS			
Non-current assets			
Intangible assets	12	550 874	603 823
Property, plant and equipment	13	11 636 504	10 513 300
Investment property	13	683 737	703 169
Loans to group companies	25 (i)	34 736 983	41 505 730
Receivables from group companies	25 (i)	12 500 000	6 000 000
Deferred income tax assets	10	-	945 680
Other non current assets	16	897 990	1 187 320
Total non-current assets:		**61 006 088**	**61 459 022**
Current assets			
Inventories	14	20 842 781	19 976 909
Trade receivables	15	908 697	625 461
Receivables from group companies	25 (j)	42 543 946	33 465 601
Other current assets	16	430 534	821 279
Corporate income tax		573 558	1 487 434
Cash and cash equivalents		2 677 315	24 471
Total current assets:		**67 976 831**	**56 401 155**
Total assets		**128 982 919**	**117 860 177**
EQUITY AND LIABILITIES			
Equity			
Share capital	17	10 495 660	10 495 660
Share premium		87 887	87 887
Revalution reserves of derivative financial instruments		(43 476)	(69 951)
Reserves	18	2 318 823	(2 992 951)
Retained earnings		83 218 470	75 709 904
Total equity:		**96 077 364**	**83 230 549**
Liabilities			
Non-current liabilities			
Borrowings	19	3 120 364	10 846 085
Deferred income tax liabilities	10	995 073	-
Derivative financial instruments	20	51 148	82 295
Total non-current liabilities:		**4 166 585**	**10 928 380**
Current liabilities			
Borrowings	19	7 945 159	3 257 789
Trade payables		4 653 523	3 538 661
Payables to group companies	25 (k)	1 629 720	4 753 547
Other liabilities	21	14 510 568	12 151 251
Total current liabilities:		**28 738 970**	**23 701 248**
Total liabilities:		**32 905 555**	**34 629 628**
Total equity and liabilities		**128 982 919**	**117 860 177**

Notes on pages 18 to 50 form an integral part of these financial statements.

Intars Geidāns
Chairman of the Board
Riga, 27 April, 2017

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Revalution reserves of derivative financial instru-ments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2014.	**10 667 128**	**87 887**	**-**	**(78 212)**	**68 644 408**	**79 321 211**
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 (see Note 18)	-	-	(3 164 419)	-	-	(3 164 419)
Share capital denomination	(171 468)	-	171 468	-	-	-
31.12.2015.	**10 495 660**	**87 887**	**(2 992 951)**	**(69 951)**	**75 709 904**	**83 230 549**
Net profit	-	-	-	-	7 508 566	7 508 566
Other comprehensive income	-	-	-	26 475	-	26 475
Total comprehensive income	**-**	**-**	**-**	**26 475**	**7 508 566**	**7 535 041**
Special purpose reserves fund (see Note 18)	-	-	5 311 774	-	-	5 311 774
31.12.2016.	**10 495 660**	**87 887**	**2 318 823**	**(43 476)**	**83 218 470**	**96 077 364**

Notes on pages 18 to 50 form an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	2016 EUR	2015 EUR
Cash flow from operating activities			
Profit for the period before taxation from continuing operations		9 490 144	8 405 862
Adjustments for:			
Deprecition and amortisation	12,13	1 397 191	1 442 431
Net (profit) / loss on sales and disposal of fixed assets and intangibles		(592 762)	11 472
Provisions		(23 939)	(195 754)
Interest income	8	(1 263 836)	(1 540 512)
Interest expense	9	358 924	602 400
Changes in working capital:			
(Increase) / Decrease in inventories		(839 196)	3 591 193
(Increase) / Decrease in trade and other receivables		(10 009 807)	308 089
Decrease / (Increase) in trade and other payables		5 373 113	(3 754 269)
Cash generated from operations		**3 889 832**	**8 870 912**
Interest paid		(367 449)	(592 607)
Corporate income tax paid		(619 055)	(1 742 738)
Net cash generated by operating activities		**2 903 328**	**6 535 567**
Cash flow from investing activities			
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
Changes in credit lines (net)		(5 171 699)	-
Interest received		99 501	911
Net cash flow generated from investing activities		**1 181 834**	**1 840 638**
Cash flow from financing activities			
Changes in credit lines (net)		(3 424 713)	(10 819 620)
Borrowings received		-	5 263 000
Borrowings repaid		(2 926 448)	(3 025 247)
Paid in special purpose fund reserve		5 311 774	-
Finance lease payments		(392 931)	(168 054)
Net cash flow used in financing activities		**(1 432 318)**	**(8 749 921)**
Net increase / (decrease) in cash and cash equivalents		**2 652 844**	**(373 716)**
Cash and cash equivalents at the beginnging of the period		**24 471**	**398 187**
Cash and cash equivalents at the end of the period		**2 677 315**	**24 471**

Notes on pages 18 to 50 form 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, Latvijas balzams AS produces more than 100 different alcoholic drinks. The largest shareholder of the Company, who owns 89.99% of the Company's share capital as of 31 December 2016, 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.

The current financial year of the Company is from 1 January 2016 till 31 December 2016.

These financial statements were authorized for issue by the Board of Directors of the Company on 27 April 2017, and Chairman of the Board Intars Geidāns signed these for and on behalf of the Board.

The approval of the annual accounts of a company at a meeting of shareholders shall be postponed if, disputing the correctness of separate positions in the annual accounts, the postponement is requested by shareholders who represent at least one tenth of the equity capital.

The auditor of the Company is certified audit company PricewaterhouseCoopers SIA and certified auditor in charge – Jana Smirnova.

II. ACCOUNTING POLICIES

(1) Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

The financial statements have been prepared using the measurement, recognition, presentation and disclosure bases specified by IFRS for each type of asset, liability, income and expense.

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. The financial statements are prepared on a going concern basis. As at 31 December 2016 the Company meets the criteria for a large company.

The profit and loss account is prepared in accordance with the turnover method.

The cash flow statement is prepared according to indirect method.

Preparation of the financial statements in compliance with 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 disclosed in Note (21) to accounting policies.

The accounting policies applied are consistent with those of the previous financial year.

II. ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

a) The following new and amended IFRS and interpretations became effective in 2016 and have no significant impact on these financial statements:

Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets" - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture" – regarding bearer plants (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 27 "Separate Financial Statements" - Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016).

Amendments to IAS 1 "Presentation of financial statements" regarding disclosure initiative (effective for annual periods beginning on or after 1 January 2016).

Amendments to IFRS 10 "Consolidated financial statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in associates and joint ventures" – Investment Entities: Applying the Consolidation Exception (effective for annual periods beginning on or after 1 January 2016).

Annual improvements to IFRS's 2014 (effective for annual periods beginning on or after 1 January 2016). The amendments include changes that affect 4 standards:

- IFRS 5 "Non-current assets held for sale and discontinued operations",
- IFRS 7 "Financial instruments: Disclosures" with consequential amendments to IFRS 1,
- IAS 19 "Employee benefits", and
- IAS 34 "Interim financial reporting".

Amendments to IAS 19 "Employee benefits plans" regarding defined benefit plans (effective for annual periods beginning on or after 1 February 2015).

Annual improvements to IFRS's 2012 (effective for annual periods beginning on or after 1 February 2015). These amendments include changes that affect 6 standards:

- IFRS 2 "Share-based payment",
- IFRS 3 "Business Combinations",
- IFRS 8 "Operating segments",
- IAS 16 "Property, plant and equipment" and IAS 38 "Intangible assets", and
- IAS 24 "Related party disclosures".

b) Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2017 or later periods or are not yet endorsed by the European Union:

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

IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018);

Amendments to IFRS 10 "Consolidated financial statements", IAS 28 "Investments in associates and joint ventures" – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB, not yet endorsed in the EU);

IFRS 16 "Leases" (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU);

II. ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

b) Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2017 or later periods or are not yet endorsed by the European Union (continued)**:**

Amendments to IAS 12 "Income taxes" - recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU);

Amendments to IFRS 15 "Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IFRS 2 "Share-based Payment" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IFRS 4 "Insurance Contracts" – Applying IFRS 9 "Financial statements" with IFRS 4 "Insurance contracts" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Annual improvements to IFRS's 2016. The amendments include changes that affect 3 standards:

- IFRS 12 "Disclosure of Interests in Other Entities" (effective for annual periods beginning on or after 1 January 2017, not yet endorsed in the EU),
- IFRS 1 "First-time Adoption of International Financial Reporting Standards" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU), and
- IAS 28 "Investments in Associates and Joint Ventures" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU);

Amendments to IAS 40 "Investment Property" - Transfers (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of all standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

(2) Revenue recognition

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 recognised 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 provision of services is recognised when services are rendered.

Income from penalties is recognised at the moment of receipt.

Interest income or expenses are recognised in the income statement on all interest bearing financial instruments applying the effective interest rate method.

II. ACCOUNTING POLICIES (continued)

(3) Functional currency and revaluation

The functional and presentation currency of the Company is official currency of the Republic of Latvia - euro (EUR).

Foreign currency transactions have been translated into euro applying the exchange rate valid at the beginning of the day of transaction determined by the conversion procedure between central banks of the European System of Central Banks and other central banks and which is published on the European Central Bank's website.

On the last day of the reporting period all monetary assets and liabilities were translated into euros in accordance with the rates (at the end of the day) published on the European Central Bank's website.

The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized net in the income statement in the respective period.

	31.12.2016. EUR	31.12.2015. EUR
1 USD	0.9487	0.9185
1 RUB	0.0155	0.0124

(4) Property, plant and equipment (PPE)

Property, plant and equipment is recognised at cost less accumulated depreciation and impairment. 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.

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

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 in the income statement in the relevant period when incurred.

II. ACCOUNTING POLICIES (continued)

(5) 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 and impairment. 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 of 3 to 5 years.

(6) Investment property

Investment property is land, building or part of building held by the Company to earn rentals or for capital appreciation rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business and are not occupied by the Company. Investment property is initially recognised at acquisition cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The applied depreciation rates are based on estimated useful life set for respective fixed asset categories.

(7) Impairment of fixed assets, investment property and intangible assets

All fixed assets, investment properties 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 assessed for impairment every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Impairment is recognised as difference between book value of the asset and its recoverable value. Recoverable amount is the higher of the fair value less costs of disposal and the value in use of the related fixed asset, investment property or intangible asset. The decrease is recognised in the income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash inflows that are largerly independent of the cash inflows from other assets or groups of assets (cash generating units).

(8) The Company is lessee

Finance lease

Leases of assets under which the Company has substantially all the risks and rewards or ownership are classified as finance leases. Assets under the finance lease are recognized at the inception of lease at the lower of fair value of the leased assets and the present value of the minimum lease payments. Lease interest payments are included in the income statement by method to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease

Leases under which substantially all of the ownership risks and rewards are granted to the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(9) The Company as a lessor

Assets that are leased according to operating lease conditions, are disclosed as investment property at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the period of useful life of the appropriate asset, to write off the value of the asset to its estimated residual value at the end of the period of useful life by using the rates specified for similar assets of the Company. Rental income from operating lease including advances received is recognised on a straight-line basis over the period of the lease.

II. ACCOUNTING POLICIES (continued)

(10) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. When the net realisable value of inventories is lower than its cost, provisions are created to reduce the value of inventories to its net realisable value.

The cost of inventories is determined based on FIFO method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(11) Financial instruments

The Company classifies its financial instruments in the following categories:

- Loans and receivables;
- Financial assets at fair value at fair value through profit or loss.

The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of financial instruments at fair value through other comprehensive income are recognised in other comprehensive income. Interest on loans and receivables is calculated using the effective interest method is recognised in the income statement. Details on how the fair value of financial instruments is determined are disclosed in Note 29.

Impairment of financial assets

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 impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Impairment loss is recognised in the income statement.

II. ACCOUNTING POLICIES (continued)

(12) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value as at the date when the contract is concluded. Derivatives are subsequently measured at fair value at the end of each reporting period. 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 an 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".

(13) Cash and cash equivalents

Cash and cash equivalents consist of banks' current accounts balances and other highly liquid investments with original maturities up to 90 days.

(14) Share capital

Ordinary shares are classified as equity.

(15) 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.

(16) 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.

(17) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

II. ACCOUNTING POLICIES (continued)

(17) Income tax (continued)

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(18) 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.

(19) 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.

(20) Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and paid vacation benefits are included in the income statement on an accrual basis.

The Company pays social security contributions to the state pension insurance and to the state funded pension scheme in accordance with Latvian legislation.

In accordance with the Rules of the Cabinet of Ministers of the Republic of Latvia 69.99% (2015: 71.55%) of the social insurance contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by law and will have no legal or constructive obligation 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 accrued in the year in which the associated services are rendered by the employees of the Company.

II. ACCOUNTING POLICIES (continued)

(21) 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. Items that are mostly affected by assumptions are determination of useful life period for buildings, 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 asset 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.

b) Provisions for bad debts and inventory obsolescence

Provisions are made with reference to the ageing of receivable and inventory balances and the view of the management as to whether amounts are recoverable. Bad debt provisions are determined based on considerations regarding recent customer trading, management experience and expected sales forecasts. When the net realisable value of inventories is lower than its cost, provisions are created to reduce the value of inventories to its net realisable value.

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 balsams 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.

b) Revenue by types

	2016 EUR	2015 EUR
Production 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
	75 719 709	**73 790 638**

During 2016 and 2015 the Company had significant sales to related companies SPI Spirits (Cyprus) Ltd. and Amber Distribution Latvia SIA. The tranactions with related parties are disclosed in Note 25. During 2016 and 2015 there were no other client which turnover would exceed 10% of the Company's total turnover.

In 2016 we centralized Latvian logistic and warehousing services under Latvijas Balzams AS roof that allow more efficient and flexible loading in addition to improvements in inventory management and it is major driver for increase in revenue amount achieved in Other services.

(2) Cost of sales

	2016 EUR	2015 EUR
Raw materials and consumables	42 833 870	44 590 764
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	1 497 781
The state compulsory social insurance contributions	1 134 127	1 149 097
Depreciation of non-current assets	916 851	1 030 491
Repair and maintenance expenses	814 497	687 559
Energy resources	781 165	925 165
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	1 810 665	2 150 287
	58 523 110	**56 999 389**

(3) Distribution expenses

	2016 EUR	2015 EUR
Salary expenses	1 766 134	1 476 385
Warehouse maintenance expenses	1 003 946	1 012 587
Transportation expenses	760 765	765 267
Advertising and sales promotion expenses	743 230	1 707 863
The state compulsory 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
	5 443 800	**6 364 893**

During 2016 the Company implemented sales promotion evaluation tool allowed to identify and reduce marketing expenses with non-effective return on investments.

(4) Administrative expenses

	2016 EUR	2015 EUR
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
Computer maintenance	163 903	53 587
Real estate tax	161 816	142 604
The state compulsory social insurance contributions	155 030	161 839
Professional service costs	101 057	127 050
Office expenses	70 594	41 915
Communication and postal expenses	66 243	98 801
Transport costs	56 216	25 169
Business trip expenses	40 510	44 240
Representation expenses	19 070	23 680
Bank commissions	18 969	66 129
Financial support, sponsorship	3 980	21 500
Other expenses	510 986	358 442
	4 405 422	**3 869 000**

* 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 as it enables Latvijas balzams AS to focus on the production process, to produce and offer in the market high value and high quality products.

(5) Other income

	2016 EUR	2015 EUR
Gains on sale of property, plant and equipment	610 178	-
Income from auxiliary and package materials sales	493 495	271 847
Net profit from exchange rate fluctuations	10 993	-
Insurance compensation	-	829 533
Other income	490 491	261 844
	1 605 157	**1 363 224**

(6) Other expenses

	2016 EUR	2015 EUR
Net losses from exchange rate fluctuations	-	174 787
Penalties paid	28 784	58 820
Other expenses	338 518	219 223
	367 302	**452 830**

(7) Expenses by Nature

	2016 EUR	2015 EUR
Materials	42 833 870	44 590 764
Employee expenses	9 136 990	9 113 185
Management services and expenses	1 978 236	1 453 260
Depreciation of non-current assets	1 422 392	1 442 432
Transportation expenses	816 981	790 436
Repair and maintenance expenses	814 497	687 559
Advertising and sales promotion expenses	743 230	1 707 863
Management of packaging	397 545	352 448
Real estate tax	161 816	142 604
Increase in provision for inventories	146 000	302 009
Other expenses	10 288 077	7 103 552
	68 739 634	**67 686 112**

(8) Finance income

	2016 EUR	2015 EUR
Interest income	1 263 836	1 540 512
	1 263 836	**1 540 512**

(9) Finance expenses

	2016	2015
	EUR	EUR
Interest expenses	358 924	602 400
	358 924	**602 400**

(10) Corporate income tax

a) Components of corporate income tax

	2016	2015
	EUR	EUR
Corporate income tax	45 497	-
Changes in deferred income tax	1 936 081	1 340 366
	1 981 578	**1 340 366**

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:

	2016	2015
	EUR	EUR
Profit before taxes	**9 490 144**	**8 405 862**
Corporate income tax calculated at 15%	1 423 522	1 260 879
Tax effects on:		
Permanent differences	579 953	93 654
Tax relief for the acquired technological equipment	(21 897)	(14 167)
Total corporate income tax charge	**1 981 578**	**1 340 366**

c) Movement and components of deferred tax

	2016	2015
	EUR	EUR
Deferred tax (asset) / liabilities at the beginning of the financial year	(945 680)	388 772
Deferred tax asset recognized at reorganization	-	(2 676 276)
Deferred tax changes charged to the income statement	1 936 081	1 340 366
Changes in deferred tax recognised in derivative financial instruments revaluation reserve	4 672	1 458
Deferred tax liabilities / (asset) at the end of the financial year	**995 073**	**(945 680)**

(10) Corporate income tax (continued)

The deferred 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):

	31.12.2016. EUR	31.12.2015. EUR
Temporary difference on depreciation of PPE and intangible assets	1 180 992	615 901
Gross deferred tax liabilities	**1 180 992**	**615 901**
Temporary difference on accruals for bonuses	(30 003)	(73 644)
Temporary difference on provisions for slow moving and obsolete stock	(136 184)	(133 124)
Temporary difference on derivative financial instruments revaluation reserve	(7 672)	(12 344)
Tax loss carried forwards	-	(1 333 685)
Temporary differences on other accrued liabilities	(12 060)	(8 784)
Gross deferred tax assets	**(185 919)**	**(1 561 581)**
Net deferred tax liability / (assets)	**995 073**	**(945 680)**

(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.

	2016	2015
Profit attributed to shareholders of the Company (EUR)	7 508 566	7 065 496
Average annual number of shares	7 496 900	7 496 900
Earnings per share (expressed in euro cents)	**100.16**	**94.25**

(12) Intangible assets

	Licences and software EUR	Intangible assets under development EUR	Total EUR
31.12.2014.			
Initial cost	394 444	276 503	670 947
Accumulated amortisation	(273 086)	-	(273 086)
Net book value	**121 358**	**276 503**	**397 861**
2015			
Opening net book value	121 358	276 503	397 861
Additions	-	302 894	302 894
Disposals	580 837	(579 397)	1 440
Amortisation	(98 372)	-	(98 372)
Closing net book value	**603 823**	**-**	**603 823**
31.12.2015.			
Initial cost	975 281	-	975 281
Accumulated amortisation	(371 458)	-	(371 458)
Net book value	**603 823**	**-**	**603 823**
2016			
Opening net book value	603 823	-	603 823
Additions	-	105 021	105 021
Reclassification	105 021	(105 021)	-
Amortisation	(157 970)	-	(157 970)
Closing net book value	**550 874**	**-**	**550 874**
31.12.2016.			
Initial cost	1 066 342	-	1 066 342
Accumulated amortisation	(515 468)	-	(515 468)
Net book value	**550 874**	**-**	**550 874**

All intangible assets of the Company are pledged under conditions of the agreement of the Commercial pledge as the security for loans from the credit institutions (see Note 19).

(13) Property, plant and equipment and Investment property

	Lands and buildings	Equipment and machinery	Other assets	Assets under construc-tion	Total	Investment property
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2014.						
Initial cost	12 608 874	20 080 680	4 419 862	229 166	37 338 582	-
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**	**9 328 129**	**-**
2015						
Opening net book value	6 075 516	2 103 002	920 445	229 166	9 328 129	-
Additions at reorganization	-	-	-	1 065 114	1 065 114	709 268
Additions	-	-	-	1 498 422	1 498 422	-
Disposals	(18 572)	(2 724)	(19 109)	-	(40 405)	-
Reclassification	389 638	327 027	245 802	(962 467)	-	-
Depreciation	(396 239)	(688 805)	(252 916)	-	(1 337 960)	(6 099)
Closing net book value	**6 050 343**	**1 738 500**	**894 222**	**1 830 235**	**10 513 300**	**703 169**
31.12.2015.						
Initial cost	12 969 944	19 385 255	4 776 798	1 830 235	38 962 232	777 281
Accumulated depreciation	(6 919 601)	(17 646 755)	(3 882 576)	-	(28 448 932)	(74 112)
Net book value	**6 050 343**	**1 738 500**	**894 222**	**1 830 235**	**10 513 300**	**703 169**
2016						
Opening net book value	6 050 343	1 738 500	894 222	1 830 235	10 513 300	703 169
Additions	-	-	-	2 415 566	2 415 566	-
Disposals	(60 772)	(1 789)	(10 012)	-	(72 573)	-
Reclassification	778 915	983 172	393 198	(2 155 285)	-	-
Depreciation	(310 723)	(632 852)	(276 214)	-	(1 219 789)	(19 432)
Closing net book value	**6 457 763**	**2 087 031**	**1 001 194**	**2 090 516**	**11 636 504**	**683 737**
31.12.2016.						
Initial cost	13 364 047	20 043 489	4 798 618	2 090 516	40 296 670	777 281
Accumulated depreciation	(6 906 284)	(17 956 458)	(3 797 424)	-	(28 660 166)	(93 544)
Net book value	**6 457 763**	**2 087 031**	**1 001 194**	**2 090 516**	**11 636 504**	**683 737**

The gross carrying value of fully depreciated property, plant and equipment that is still in use is EUR 13 979 232 (31.12.2015: EUR 13 820 083).

The net book value of assets held under finance lease amount to EUR 781 096 (31.12.2015: EUR 716 445).

All tangible assets and largest part of real estate of the Company are pledged under conditions of the agreement of the Commercial and Mortgage pledge as the security for loans of the credit institutions (see Note 19).

The fair value of Investment property – EUR 1 850 000 (31.12.2015: EUR 1 632 400). In 2016 real estate objects market value determined by an independent valuer.

Total income from Investment property – EUR 42 619 (2015: EUR 14 206), direct costs – EUR 42 660 (2015: EUR 22 364).

(14) Inventories

	31.12.2016. EUR	31.12.2015. EUR
Finished goods and goods for sale	9 001 403	9 674 104
Raw materials and consumables	11 864 709	10 740 287
Inventory in transit	861 062	436 146
Work in progress	19 846	3 935
Provisions	(904 239)	(877 563)
	20 842 781	**19 976 909**

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

	2016 EUR	2015 EUR
Provisions at the beginning of the year	877 563	691 223
Changes in provisions recognized in the income statement	26 676	186 340
Provisions at the end of the year	**904 239**	**877 563**

All inventories of the Company are pledged in accordance with terms of Commercial pledge agreements as security for loans from the credit institutions (see Note 19).

(15) Trade receivables

	31.12.2016. EUR	31.12.2015. EUR
Trade receivables	910 558	630 059
Allowances for doubtful trade receivables	(1 861)	(4 598)
	908 697	**625 461**

The movement on the allowance for doubtful debts is set out below:

	2016 EUR	2015 EUR
Balance at the beginning of the year	4 598	4 879
Receivables written off as uncollectible	-	(6 237)
(Decrease) / increase in provisions	(2 737)	5 956
Balance at the end of the year	**1 861**	**4 598**

All trade receivables of the Company are pledged in accordance with terms of Commercial pledge agreements as security for loans from the credit institutions (see Note 19).

(16) Other assets

	31.12.2016. EUR	31.12.2015. EUR
Financial assets:		
Non-current		
Other receivables	34 149	34 149
	34 149	**34 149**
Current		
Settlements for services	23 583	59 756
Other receivables	24 588	7 133
	48 171	**66 889**
Non-financial assets:		
Non-current		
Settlements for services	712 357	1 007 770
Other receivables	151 484	145 401
	863 841	**1 153 171**
Current		
Settlements for raw materials	5 515	603 889
Deferred expenses	152 386	150 501
Accrued income	224 462	-
	382 363	**754 390**
Non-current assets	**897 990**	**1 187 320**
Current assets	**430 534**	**821 279**

(17) Share capital

As at 31 December 2016 the registered and fully paid share capital is in amount of EUR 10 495 660, that consists of 7 496 900 ordinary shares with nominal value of EUR 1.4 each.

In 2015 the share capital was denominated from lats to euro. The difference arising from the Company's shares denomination in the amount of EUR 171 468 was transferred into the Company's reserves.

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, or someone else in it's interest, does not hold its own shares. Shares are not convertible, exchangeable or guaranteed.

The Company's shares are quoted in Nasdaq Riga AS stock exchange in Secondary list. At the end of financial period 5 791 900 shares are quoted.

All shares owned by the main shareholder of the Company Amber Beverage Group SIA, as well as any other shares that Amber Beverage Group SIA may acquire in the future are pledged in accordance with terms of Commercial pledge agreement as security for loans of the credit institutions (see Note 19).

(18) Reserves

	31.12.2016. EUR	31.12.2015. EUR
Special purpose reserve fund **	5 311 774	-
Share capital denomination (see Note 17)	171 468	171 468
Reorganisation reserve *	(3 164 419)	(3 164 419)
	2 318 823	**(2 992 951)**

*In 2015 the Company acquired from the related party within the SPI Group a real estate management company Daugavgrīvas 7 SIA. 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. As a result of the acquisition and following reorganisation, the negative reorganisation reserve in the amount of EUR 3 164 419 was recognised.

** On 8 September 2016, extraordinary meeting of shareholders decided to amend the Company's Articles of Association, providing establishment of Special Purpose Reserves at the amount of EUR 5 311 774 for real estate and reorganization related projects development and prevention of related risks. Special Purpose Reserve the amount of EUR 5 311 774 was established from contributions of shareholders and was incorporated into the Company's equity.

(19) Borrowings

	31.12.2016. EUR	31.12.2015. EUR
Non-current		
Nordea Bank AB Latvian branch [b)]	2 692 764	4 487 941
AS Swedbank [a)]	-	5 939 175
Liabilities under finance leases [e)]	427 600	418 969
	3 120 364	**10 846 085**
Current		
AS Swedbank [a)]	5 939 907	1 131 772
Nordea Bank AB Latvian branch [b)]	1 795 700	1 795 857
Liabilities under finance leases [e)]	209 552	169 586
Factoring contractual obligations [f)]	-	160 574
	7 945 159	**3 257 789**
Total borrowings	**11 065 523**	**14 103 874**

a) AS Swedbank loan

The Company has in force loan agreement with Swedbank AS with repayment date until 2 March 2018. Interest rate applied to the loan is is 2.20% plus 3 month EURIBOR. Unpaid balance on 31 December 2016 is EUR 5 939 907 (31.12.2015. - EUR 7 070 947).

(19) Borrowings (continued)

b) Nordea Bank AB Latvian branch loan

The Company has in force loan agreement signed in July 2014 with Nordea Bank AB Latvian branch with repayment date until 30 June 2019. Interest rate applied to the loan is 2.20% plus 1 month EURIBOR. Unpaid balance on 31 December 2016 is EUR 4 488 464 (31.12.2015. - EUR 6 283 798).

c) Collateral

Fulfilment of the Company's liabilities arising from the both mentioned loan agreements 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 Amber Beverage Group SIA, and any other shares that may be acquired in the future, and
(iv) guarantee from the largest shareholder of the Company Amber Beverage Group SIA.
In 2016 guarantees from related companies S.P.I. Spirits (Cyprus) Limited and SPI Group S.a.r.l was terminated.

d) Credit lines

In 2015 the Company's shareholder Amber Beverage Group SIA carried out the restructuring of the bank short-term borrowing facilities of the Group, as a result all existing individual credit line agreements of the Group companies with the banks were terminated. The Company's shareholder Amber Beverage Group SIA has entered into group account credit line agreements with credit institutions, which allow managing of intra-group financial resources in rational way and reduce a need for additional external financing of each separate company and costs associated with borrowing (see Note 25).

e) Liabilities under finance leases

The Company has purchased several fixed assets on finance lease. Interest is payable monthly at a rate of 1.90 – 2.50 % 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:

	31.12.2016.	**31.12.2015.**
	EUR	**EUR**
Payable within 1 year	221 310	181 104
Payable from 2 to 5 years	439 336	431 731
Finance lease gross liabilities	**660 646**	**612 835**
Future finance charges	(23 494)	(24 280)
Present value of finance lease liabilities	**637 152**	**588 555**

f) Factoring contractual obligations

In 2016 the Company terminated the factoring agreement with Nordea Finance Latvia SIA, which was concluded in 2015 in order to ensure the repayment of certain receivables.

(20) Derivatives financial instruments and hedging activities

In 2014 the Company has entered into interest rate swap contract to hedge the interest rate on borrowing from Nordea Bank AB Latvian branch. The hedge was assessed as fully effective (no ineffectiveness) and the Company uses the accounting policy for hedge accounting (see section (12) in accounting policy).

As at 31 December 2016 the fair value of interest rate swap contract has been determined as EUR 51 148 (31.12.2015.: 82 295). 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 amount of the outstanding interest rate swap contract as at 31 December 2016 was EUR 4 488 464 (31.12.2015. - EUR 6 283 798). 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 other comprehensive income under "Revaluation reserves of derivative financial instruments".

(21) Other liabilities

	31.12.2016. EUR	31.12.2015. EUR
Excise tax	11 154 292	9 116 348
Value added tax	1 171 703	944 014
Accrued liabilities	892 231	733 042
Accruals for unused annual leave	501 482	469 184
Salaries	417 389	444 999
The state compulsory social insurance contributions	218 383	199 361
Personal income tax	108 878	126 618
Other liabilities	46 210	117 685
	14 510 568	**12 151 251**

(22) Auditors remuneration

	2016 EUR	2015 EUR
Fees paid for audit and audit related services	24 000	24 000
	24 000	**24 000**

(23) Average number of employees

	2016	2015
Average number of people employed during the financial year:		
Council members	2	2
Board members	2	2
Other employees	622	627
	626	**631**

(24) Remuneration to personnel

	2016	2015
	EUR	EUR
Board members		
Salary	162 102	380 493
Mandatory state social insurance contributions	28 124	28 124
	190 226	**408 617**

Council members do not receive remuneration for membership in the Council.

(25) Transactions with related parties

The main shareholder of the Company, who owns 89.99% of shares of the Company, is Amber Beverage Group SIA, 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.

a) Sale of goods

	2016	2015
	EUR	EUR
S.P.I. Spirits (Cyprus) Ltd.	40 922 945	40 307 845
Amber Distribution Latvia SIA*	19 776 548	19 472 011
Bennet Distributors UAB	3 487 316	4 619 939
DDE Holding Ltd.	3 233 419	251 167
Amber Distribution Estonia OU	598 767	988 704
Bravo SIA *	48 113	20 927
Stoli Group (USA) LLC	11 745	-
Meierovica 35 SIA	-	1 182
Permalko OAO	-	441
SPI Group S.a.r.l.	-	286
	68 078 853	**65 662 502**

* The value of transactions is disclosed without excise tax.

b) Services provided (warehouse services, services related to the contract manufacturing, storage and office rental and other services)

	2016	2015
	EUR	EUR
S.P.I. Spirits (Cyprus) Ltd.	2 238 903	1 164 795
Amber Distribution Latvia SIA	1 279 667	830 823
Amber Beverage Group SIA	63 607	33 259
Towers Construction Management AS	59 583	19 981
Bravo SIA	51 295	52 109
DDE Holding Ltd.	43 594	-
Bennet Distributors UAB	6 590	8 858
Amber Distribution Estonia OU	5 008	3 328
Meierovica 35 SIA	1 171	-
Propiedad de Arinzano SLU	976	-
SPI Group S.a.r.l.	575	-
Permalko OAO	-	87
	3 750 969	**2 113 240**

(25) Transactions with related parties (continued)

c) Interest income

	2016 EUR	2015 EUR
Amber Beverage Group SIA	1 149 919	1 539 601
Amber Distribution Latvia SIA	101 196	-
S.P.I. Spirits (Cyprus) Ltd.	11 986	-
	1 263 101	**1 539 601**

d) Sale of non-current assets

	2016 EUR	2015 EUR
Amber Beverage Group SIA	5 566	9 256
Bennet Distributors UAB	3 000	-
	8 566	**9 256**

e) Purchase of goods

	2016 EUR	2015 EUR
Tambovskoe spirtovodochnoe predpriyatie Talvis OAO	6 860 790	7 755 178
S.P.I. Spirits (Cyprus) Ltd.	824 085	103 822
Amber Distribution Latvia SIA	88 602	-
Propiedad de Arinzano SLU	58 977	-
Bennet Distributors UAB	53 946	-
Permalko OAO	32 250	-
Amber Distribution Estonia OU	15 144	-
Bennet Distributors UAB	-	-
	7 933 794	**7 859 000**

f) Services received (management services, royalty payments, marketing services and other services)

	2016 EUR	2015 EUR
Amber Beverage Group SIA *	1 993 620	1 083 149
S.P.I. Spirits (Cyprus) Ltd.	133 338	450 222
DDE Holding Ltd.	59 851	-
Towers Construction Management AS	42 660	14 220
Amber Distribution Latvia SIA	13 327	513 351
Bennet Distributors UAB	7 569	7 822
Bravo SIA	2 990	3 429
Amber Distribution Estonia OU	110	110
Spirits International B.V. (branch)	-	558 407
	2 253 465	**2 630 710**

* As of June 2015 the Company's management and administrative functions were transferred to the parent company Amber Beverage Group SIA.

(25) Transactions with related parties (continued)

g) Interest expenses

	2016 EUR	2015 EUR
Amber Beverage Group SIA	12 601	64 922
	12 601	**64 922**

h) Purchase of non-current assets

	2016 EUR	2015 EUR
Amber Beverage Group SIA	33 022	-
Amber Distribution Latvia SIA	10 667	145 342
	43 689	**145 342**

i) Long-term receivables from Group companies

	31.12.2016. EUR	31.12.2015. EUR
Amber Beverage Group SIA (see section l))	34 736 983	41 505 730
Amber Distribution Latvia SIA *	12 500 000	6 000 000
	47 236 983	**47 505 730**

* The Company receives the annual interest rate in amount of 3% as a consideration for postponement of the payments due from Amber Distribution Latvia for the delivered goods till 30 October, 2019.

j) Short-term receivables from Group companies

	31.12.2016. EUR	31.12.2015. EUR
S.P.I. Spirits (Cyprus) Ltd.	17 065 491	16 092 438
Amber Distribution Latvia SIA	13 861 343	11 372 894
Amber Beverage Group SIA (see section l))	8 667 600	3 495 901
Bennet Distributors UAB	1 945 143	1 490 820
Amber Distribution Estonia OU	461 543	697 272
DDE Holding Ltd.	345 417	251 167
Amber Beverage Group SIA	84 525	-
Towers Construction Management AS	72 204	60 920
Stoli Group (USA) LLC	12 548	-
Bravo SIA	11 522	3 553
Propiedad de Arinzano SLU	8 792	-
ZHS IP Europe SARL	6 234	-
SPI Group S.a.r.l.	861	286
Tambovskoe spirtovodochnoe predpriyatie Talvis OAO	374	-
S.P.I. Regional Business Unit B.V.	302	302
Meierovica 35 SIA	47	48
	42 543 946	**33 465 601**

The receivables from related parties arise mainly from sales of goods and services. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related party (31.12.2015.: nil).

(25) Transactions with related parties (continued)

k) Payables to Group companies

	31.12.2016. EUR	31.12.2015. EUR
Tambovskoe spirtovodochnoe predpriyatie Talvis OAO	1 288 803	1 089 778
Amber Beverage Group SIA	286 900	221 598
DDE Holding Ltd.	35 532	-
Permalko OAO	18 485	-
Amber Beverage Group SIA (see section m))	-	3 424 713
S.P.I. Spirits (Cyprus) Ltd.	-	10 641
Spirits International B.V. (branch)	-	6 817
	1 629 720	**4 753 547**

The payables to related parties arise mainly from purchase of goods and services. The payables are unsecured in nature and bear no interest.

l) Loans to Group companies

	2016 EUR	2015 EUR
At beginning of the year	45 001 631	43 566 129
Loans issued during the year *	1 131 254	1 539 601
Repaid loans during the year	(7 900 001)	(3 600 000)
Changes in credit lines **	5 171 699	3 495 901
At the end of the year	**43 404 583**	**45 001 631**
Maturity of the total loans is as follows:		
Receivable in 1 year	8 667 600	3 495 901
Receivable in 2 – 5 years	34 736 983	41 505 730
	43 404 583	**45 001 631**

In 2015 the Company's shareholder Amber Beverage Group SIA carried out the restructuring of the bank short-term borrowing facilities of the Group, as a result all existing individual credit line agreements of the Group companies with the banks were terminated. In March 2015 the Parent company has entered into overdraft agreement with Nordea Bank AB Latvian Branch with the maximum credit limit of EUR 12.4 million (changed to EUR 20.3 million in 2016) and into group account credit line agreement with Swedbank AS with maximum credit limit of EUR 11.7 million (changed to EUR 4.0 million in 2016). At the same time the Group account agreements were concluded between banks and Amber Beverage Group SIA and other Group companies, including the Company. The credit facilities were assigned to Group account and could be used by the Company and other Group companies within internal limit set by the Parent company.

* In accordance with the Loan agreement signed on 31 October 2014 with Amber Beverage Group SIA accrued interest is capitalised to Loan principal amount at the end of each year. The maturity of the loan is 30 October 2019.

** As at 31 December 2016, according to the cash pooling agreement and credit line agreement concluded with Amber Beverage Group, the Company`s cash in amount of EUR 8 667 600 (31.12.2015.: EUR 3 495 901) has been included into the Group cash pool account.

The Company placed free financial resources in the form of loans in order to maximize Company`s profitability. Resources have been issued to the related companies based on the interest rates which exceed the rates available from the banking sector.

(25) Transactions with related parties (continued)

m) Borrowings from Group companies

	2016 EUR	2015 EUR
At beginning of the year	3 424 713	-
Changes in credit lines **	(3 424 713)	3 424 713
At the end of the year	-	**3 424 713**
Maturity of the total borrowings is as follows:		
Payable in 1 year	-	3 424 713
	-	**3 424 713**

** Balance within the Group account in accordance with credit line agreement concluded with Amber Beverage Group.

n) 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 subject to royalty payments. The payments are included in the amount of received services (Note f). In accordance with the Management’s estimates in 2017 no significant changes are expected in the amount of royalty payments.

(26) 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 is recognized in the income statement in the amount of EUR 182 600 (in 2015 – EUR 307 549).

b) The Company is the lessee

The Company has concluded several agreements for the operating lease of assets. The total rental costs of EUR 736 117 (in 2015 – EUR 722 653) were included in income statement. According to the signed lease agreements, the Company has the following non-cancellable lease liabilities:

	31.12.2016. EUR	31.12.2015. EUR
Payable in 1 year	641 784	686 516
Payable in 2 – 5 years	17 288	215 701
	659 072	**902 217**

(27) Contingent liabilities

In 2015 Company carried out a reorganization by way of merger with Daugavgrīvas 7 SIA. Daugavgrīvas 7 SIA was a defendant in the lawsuit against “Interjeru iekārtošanas un restaurācijas firma “Ierosme”” SIA. The claim relates to construction work done for a total amount of EUR 248 291, including fines and interest. Daugavgrīvas 7 SIA has filed the counter claim for the compensation of losses for the total amount of EUR 881 875. The Company joined as a defendant in the lawsuit against “Interjeru iekārtošanas un restaurācijas firma “Ierosme”” SIA as a limited liability company Daugavgrivas 7 legal successor.

(27) Contingent liabilities (continued)

On October 14, 2016 the Latvian Supreme Court ruled "Interjeru iekārtošanas un restaurācijas firma "Ierosme"" SIA claim against the Company for debt of EUR 110 721 and the amount of penalty of EUR 74 684 of the recovery and the Company's counterclaim against "Interjeru iekārtošanas un restaurācijas firma "Ierosme"" SIA for damages of EUR 881 875 and offsetting, and judged to dismiss both claims.

On January 19, 2017 "Interjeru iekārtošanas un restaurācijas firma "Ierosme"" SIA has appealed a cassation with request to set aside the judgment in relation to rejection of the Company's debt and penalty recovery and refer the case for retrial. The hearing date is not known yet. The outcome of the case is not clearly stated at this moment, but according to the managements assessments it will be in favour of the Company. The financial statements include provisions for the principal amount, but the potential penalties and statutory interest, which could arise from the negative result of the law suit has not been recognized.

(28) Guaranties issued

On 2 March 2015 the Company's shareholder Amber Beverage Group SIA has concluded an overdraft agreement with Nordea Bank AB Latvian branch with a limit of EUR 12.4 million, where as the security Latvijas balzams AS among other Group companies has issued a guarantee. The guarantee is valid until the fulfilment of all overdraft contract obligations. The overdraft contract completion date was defined as 30 May 2016, when new amendments of an overdraft contract were signed increasing the overdraft limit to EUR 20.3 million and extending the overdraft completion date till 30 June 2017.

On 2 March 2015 the Company's shareholder Amber Beverage Group SIA has concluded an Group account agreement with Swedbank AS with a limit of EUR 11.7 million, where as the security Latvijas balzams AS among other Group companies has issued a guarantee. The guarantee is valid until the fulfilment of all overdraft contract obligations. The overdraft contract completion date was defined as 30 April 2016. In 2016 amendments of an overdraft contract were signed reducing the overdraft limit to EUR 4.0 million and extending the overdraft completion date till 30 April 2017. On 18 April 2017 overdraft completion date was extended till 30 June 2017.

The Company issued a guarantee to Nordea Bank AB Latvian branch for the related company S.P.I. Spirits (Cyprus) Ltd of USD 15.0 million, resulting from overdraft agreement signed in July 2007. The guarantee is valid until the fulfilment of all overdraft contract obligations and the deadline was defined as 30 June 2016. On 30 June 2016 the overdraft completion date was extended till 30 June 2017. S.P.I. Spirits (Cyprus) Limited pays a guarantee fee to the Company in amount equal to the annual interest rate of 1.2% of the used overdraft amount.

On 1 September 2016 the Company's shareholder Amber Beverage Group SIA has signed a loan contract with Nordea Bank AB Latvian branch to finance purchase of *Fabrica de Tequilas Finos* – a tequila manufacturing company in Mexico. The amount of loan was EUR 12.0 million with repayment date until 30 September 2021. The fulfilment of this loan was guaranteed by all Amber Beverage Group SIA subsidiaries, including commercial pledge of all Company`s assets and mortgage of the largest part of real estate owned by the Company. Amber Beverage Group SIA pays a guarantee fee to the Company in amount equal to the annual interest rate of 0.47% of the outstanding loan amount.

On 27 February 2017 Amber Beverage Group SIA has concluded a short-term loan contract with Nordea Bank AB Latvian branch. The amount of loan was EUR 11.0 million with repayment date until 30 October 2017. The purpose of the loan was to provide Bennet Distributors UAB with overdraft to finance additional inventory purchase. The fulfilment of this loan together with Bennet Distributors UAB was secured by commercial pledge of all Company`s assets and mortgage of the largest part of real estate owned by the Company. Amber Beverage Group SIA pays a guarantee fee to the Company in amount equal to the annual interest rate of 0.95% of the outstanding loan amount.

Interest rate of guarantee fee receivable by the Company varies from 1.2% to 0.47% depending on the number of guarantors, which secure the respective loan. If loans are quaranteed by multiple parties, rate is calculated based on the assets value of guarantors.

Taking into account the financial position of the Group companies it is not expected that the Company shall be required to execute guarantee, as a result no provisions have been recognized in the financial statements.

(29) Financial assets and financial liabilities

This note provides information about the Company's financial instruments, including and overvriew of all financial instruments held by the Company, specific information about each type of financial instrument and information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

The Company holds the following financial instruments:

On 31 December 2016

	Loans and receivables	Financial instruments at fair value through other comprehensive income	Financial liabilities at amortised cost	Total
	EUR	EUR	EUR	EUR
Financial assets:				
Loans to related parties	43 404 583	-	-	**43 404 583**
Cash and cash equivalents	2 677 315	-	-	**2 677 315**
Trade and other receivables	47 367 363	-	-	**47 367 363**
	93 449 261	**-**	**-**	**93 449 261**
Financial liabilities:				
Borrowings:				
(i) Finance lease liabilities	-	-	(637 152)	**(637 152)**
(ii) Loans from credit institutions	-	-	(10 428 371)	**(10 428 371)**
(iii) Loans from related parties	-	-	-	**-**
Derivative financial instruments	-	(51 148)	-	**(51 148)**
Trade payables	-	-	(6 283 242)	**(6 283 242)**
	-	**(51 148)**	**(17 348 765)**	**(17 399 913)**

On 31 December 2015

	Loans and receivables	Financial instruments at fair value through other comprehensive income	Financial liabilities at amortised cost	Total
	EUR	EUR	EUR	EUR
Financial assets:				
Loans to related parties	45 001 631	-	-	**45 001 631**
Cash and cash equivalents	24 471	-	-	**24 471**
Trade and other receivables	36 696 199	-	-	**36 696 199**
	81 722 301	**-**	**-**	**81 722 301**
Financial liabilities:				
Borrowings:				
(i) Finance lease liabilities	-	-	(588 555)	**(588 555)**
(ii) Loans from credit institutions	-	-	(13 354 745)	**(13 354 745)**
(iii) Loans from related parties	-	-	(3 424 713)	**(3 424 713)**
Derivative financial instruments	-	(82 295)	-	**(82 295)**
Trade payables	-	-	(5 028 069)	**(5 028 069)**
	-	**(82 295)**	**(22 396 082)**	**(22 478 377)**

The Company's exposure to various risks associated with the financial instruments is discussed in Note 30.

(29) Financial assets and financial liabilities (continued)

Fair value of financial assets and financial liabilities

Due to short term nature of cash and cash equivalents, trade receivables, trade payables and other current financial assets and liabilities their carrying amounts largely approximates their fair value. For non-current financial assets and liabilities, the fair values are also not significantly different to their carrying amounts. The fair values were estimated based on cash flows discounted using the current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

On 31 December 2016

	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Financial assets:				
Loans to related parties	-	-	43 404 583	**43 404 583**
Cash and cash equivalents	-	2 677 315	-	**2 677 315**
Trade and other receivables	-	-	47 367 363	**47 367 363**
	-	**2 677 315**	**90 771 946**	**93 449 261**
Financial liabilities:				
Borrowings:				
(i) Finance lease liabilities	-	-	(637 152)	**(637 152)**
(ii) Loans from credit institutions	-	-	(10 428 371)	**(10 428 371)**
Derivative financial instruments	-	(51 148)	-	**(51 148)**
Trade payables	-	-	(6 283 243)	**(6 283 243)**
	-	**(51 148)**	**(17 348 766)**	**(17 399 914)**

On 31 December 2015

	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Financial assets:				
Loans to related parties	-	-	45 001 631	**45 001 631**
Cash and cash equivalents	-	24 471	-	**24 471**
Trade and other receivables	-	-	36 696 199	**36 696 199**
	-	**24 471**	**81 697 830**	**81 722 301**
Financial liabilities:				
Borrowings:				
(i) Finance lease liabilities	-	-	(588 555)	**(588 555)**
(ii) Loans from credit institutions	-	-	(13 354 745)	**(13 354 745)**
(iii) Loans from related parties	-	-	(3 424 713)	**(3 424 713)**
Derivative financial instruments	-	(82 295)	-	**(82 295)**
Trade payables	-	-	(5 028 069)	**(5 028 069)**
	-	**(82 295)**	**(22 396 082)**	**(22 478 377)**

(30) Financial and capital risk management

Foreign exchange risks

The Company operates internationally and is exposed to foreign currency risk arising mainly from the U.S. dollar fluctuations mainly from purchase of raw materials and consumables. In 2015, in order to reduce the risk of foreign exchange from purchase transactions, the company re-concluded raw material purchase agreements from roubles to euro.

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

	31.12.2016. EUR	31.12.2015. EUR
Financial liabilities, RUB	(1 213 580)	(631 300)
Open position RUB, net	**(1 213 580)**	**(631 300)**
Open position RUB calculated in euro, net	**(18 874)**	**(7 825)**
Financial assets, USD	89 812	195 909
Financial liabilities, USD	(13 111)	(92 419)
Open position USD, net	**76 701**	**103 490**
Open position USD calculated in euro, net	**72 764**	**95 058**

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:

	2016		2015	
	Change in exchange rates	Effect on equity EUR	Change in exchange rates	Effect on equity EUR
USD	+10%	(7 276)	+10%	(9 506)
	-10%	7 276	-10%	9 506

Interest rate risks

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

	31.12.2016. EUR	31.12.2015. EUR
Financial assets with variable interest rate, EUR	8 701 749	3 530 050
Financial liabilities with variable interest rate, EUR *	(6 577 059)	(11 244 789)
Open position, net, EUR	**2 124 690**	**(7 714 739)**

* Dislcosed without loan from Nordea Bank AB Latvian branch, where variable interest rate risk exposure is fully hedged by respective hedging instrument as disclosed in Note 20.

(30) Financial and capital risk management (continued)

Interest rate risks (continued)

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

	2016		2015	
	Increase/ decrease in basis points	Effect on profit before tax EUR	Increase/ decrease in basis points	Effect on profit before tax EUR
EUR	+30	(8 385)	+30	(33 577)
	-30	8 385	-30	33 577

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.

Credit risk

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.

Maximum exposure to credit risk:

	31.12.2016. EUR	31.12.2015. EUR
Issued loans to Group companies	43 404 583	45 001 631
Trade receivables - Group companies	46 376 346	35 969 700
Trade receivables - non-related parties	908 697	625 461
Other current assets	48 171	66 889
Cash	2 677 315	24 471
	93 415 112	**81 688 152**

The largest concentration of credit risk arises from the Group companies' debts: on 31 December 2016 98% of the total trade receivables related to Group companies (31.12.2015. - 98%). Taking into account the policy as above and the strong financial position of the Group, no provisions for impairment losses on receivables from the Group companies' debts were made and the Company's management believes that the credit risk of the Company is considered as low.

(30) Financial and capital risk management (continued)

Credit risk (continued)

Maturity analysis of trade receivables:

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables, net	split to: not due	Past due < 90 days	Past due 90-180 days	Past due > 180 days
31.12.2016.							
group companies	46 376 346	-	46 376 346	26 210 851	14 915 200	4 326 211	924 084
non -related parties	910 558	(1 861)	908 697	771 583	136 982	125	7
31.12.2015.							
group companies	35 969 700	-	35 969 700	15 242 392	16 031 695	4 671 757	23 856
non -related parties	630 059	(4 598)	625 461	480 381	145 080	-	-

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 39 237 861 (31.12.2015. - EUR 32 699 907). 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 2016	**Total EUR**	**<1 year EUR**	**2-5 years EUR**	**>5 years EUR**
Long-term loans	3 276 032	-	3 276 032	-
Derivative financial instruments	51 148	-	51 148	-
Short -term loans	8 138 403	8 138 403	-	-
Trade payables	4 653 523	4 653 523	-	-
Debts to Group companies	1 629 720	1 629 720	-	-
	17 748 827	**14 421 646**	**3 327 180**	**-**

On 31 December 2015	**Total EUR**	**<1 year EUR**	**2-5 years EUR**	**>5 years EUR**
Long-term loans	11 311 441	-	11 311 441	-
Derivative financial instruments	82 295	-	82 295	-
Short -term loans	3 590 894	3 590 894	-	-
Trade payables	3 538 661	3 538 661	-	-
Debts to Group companies	4 753 547	4 753 547	-	-
	23 276 838	**11 883 102**	**11 393 736**	**-**

(30) Financial and capital risk management (continued)

Capital Management

The Company's management manages the capital structure on an ongoing basis. During the reporting period there were no changes in capital management objectives, policies or processes.

The Company's management controls the net debt to equity (gearing ratio). During the reporting year this figure has decreased to 9% (2015 - 17%), confirming the Company's improvement of stability. The positive trend in 2016 is also the increased ratio of equity to total assets:

	31.12.2016.	**31.12.2015.**
	EUR	**EUR**
Total borrowings (long-term and short-term loans from banks)	11 065 523	14 103 874
Less cash and its equivalents	(2 677 315)	(24 471)
Net debt	8 388 208	14 079 403
Equity	96 077 364	83 230 549
Total capital (equity and net loans)	**104 465 572**	**97 309 952**
Net debt to equity	9%	17%
Equity ratio on total assets	74%	71%

(31) Subsequent events

There were no subsequent events since the last date of the financial year until the date of signing of these financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2016.

The Annual Report was prepared by the Amber Beverage Group SIA Head of Accountancy Iveta Lejniece.

The Financial statements of the Company set out on pages 13 to 50 were signed on 27 April 2017 by:

Intars Geidāns
Chairman of the Board

Iveta Lejniece
Amber Beverage Group SIA Head of Accountancy