

AS LATVIJAS BALZAMS

(Registration number 40003031873)

CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

for the first three months of 2018

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

AS Latvijas balzams
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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 No. 40003031873 Riga, 2 October 1991 Re-registered on 20 October 1998 Commercial Register Riga, 19 June 2014
Address	A. Čaka Street 160 Riga, LV- 1012 Latvia
Main business activities	Production of alcoholic beverages NACE2 11.01
Major shareholder	Amber Beverage Group Holding S.a.r.l. (89.99%) (from 07.05.2018) SIA “Amber Beverage Group” (89.99%) (until 07.05.2018)
Names and positions of the Council Members	Rolands Gulbis – Chairman of the Council Oļegs Alainis – Vice Chairman of the Council Sergejs Ļimarenko – Member of the Council Pjotr Aven – Member of the Council Valizhan Abidov – Member of the Council
Names and positions of the Board Members	Intars Geidāns – Chairman of the Board Ronalds Žarinovs – Member of the Board Jekaterina Stūģe – Member of the Board

MANAGEMENT REPORT

Type of operations

AS Latvijas balzams (hereinafter also - the Company) was established in 1900 as Riga's first state alcohol warehouse and has been operating under the current name since 1970. As a result of SPI Group internal reorganization, SIA Amber Beverage Group became the major shareholder owning 89.99% of the Company's shares in October 2014.

Nowadays, AS Latvijas balzams is operating two alcohol production facilities in Riga: a plant for the production of strong alcoholic beverages and a plant for the production of sparkling wines and light alcoholic beverages. These plants produce most of the alcoholic beverages, such as sparkling wines, fortified wines, ciders, RTDs (Ready to drink), vodka, liqueurs, brandy, strong alcoholic beverages, gin, etc. We use raw materials from around the world and we have retained our traditional beverage production technologies. The recipes for some of our key products date back hundreds of years, for example, the formula of Riga Black Balsam was officially written down in 1752. Our mission is excellence in everything we do.

AS Latvijas balzams is the leading Baltic producer of alcoholic beverages. We have leading presence in all key spirits segments, as well as in the segments of sparkling wines, ciders and RTDs. At present, AS Latvijas balzams has 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 over 42 markets via the Company's direct export route.

As a socially responsible and sustainable enterprise, the Company has formulated and adheres to the basic principles of corporate social responsibility. They are harmonized with the guidelines of the United Nations, the Organization for Economic Cooperation and Development and the International Organization for Standardization and are also published on the Company's website: <http://www.lb.lv/lv/uznemums/sabiedriskas-aktivitates>. With a view to ensuring compliance with these guidelines, the Company has drawn up or is applying the following procedures: the Corporate Responsibility Policy, the Corporate Procurement Policy, the Collective Agreement, the Quality Management Handbook, the Code of Ethical Marketing Communication, the Anti-corruption Policy, the Risk Management and other internal documents. These documents and procedures incorporated therein are reviewed on a regular basis, as part of both internal audits (according to the Quality Management System) and external audits. Audit results and planned corrective actions are considered by management at their meetings.

The Company's Activity in the first quarter of 2018

The unaudited turnover of the Company in the first quarter of 2018 reached EUR 15 million, which is 14.8% less than in the first quarter of 2017. The main driver is decreasing of orders and sales volumes from key customers and markets – Lithuania, USA, Spain, Stoli Group. The main reasons are as follows:

- Lithuania suffers from increased excise tax in 2017 and ban of marketing activities; the market is stagnating and shrinking.
- USA and Stoli Group depletions are still at a decent level and orders have decreased mainly because of stock management - decreasing stock at the distributors' end - thus shifting orders towards the second half of the calendar year. This is reflected also partly as an increase of inventories at the AS Latvijas balzams end.

The Company expects turnover will also underperform the results of 2017 during the second quarter of the year. At the same time, markets show healthy overall depletions so total yearly sales volumes should outperform results for the year 2017.

Accordingly, the unaudited profits for the reporting period are EUR 0.74 million which represents a 37% decrease versus the first quarter of 2017. The main reasons are as follows: 1) investments in promotion of our core brands in existing and new export markets; 2) fixed costs that are at the same level as last year.

AS Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid EUR 15.5 million into the state budget, including excise tax, amounting to EUR 11.9 million.

Projects from year 2018 finished during the first quarter:

- New shaped bottle introduced for Company signature brand - RĪGAS šampanietis
- First line equipped with automated packaging equipment according modernization and reconstruction project plan.

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MANAGEMENT REPORT (continued)

Share market

In the first quarter of 2018, the Company's share price fluctuated from EUR 8.25 to EUR 9.15.



Financial risk management

In the ordinary course of business, AS Latvijas balzams is exposed to a variety of financial risks, including credit risk, liquidity risk and interest rate risk. The Company's management manages financial risks on an ongoing basis in order to minimize their potentially adverse effects on the financial performance of the Company.

The Company's borrowings have variable interest rates. The Company's management is considering the use of hedging instruments in order to minimize the effect of variable interest rates.

Financial assets which potentially expose the Company to a certain degree of credit risk concentration are primarily trade receivables, receivables from related companies and loans. The Company has introduced and pursues a credit policy whereby goods are sold on credit only to customers with sound credit histories. The Company's counterparties in cash transactions are highly reputable local financial institutions.

The Company pursues a prudent liquidity risk management policy, according to which adequate credit resources are ensured to settle liabilities when they fall due. The Company's management manages liquidity and cash flow risk by maintaining adequate cash reserves and securing sufficient financing by means of loans, credit lines, finance leases, etc., by monitoring forecasted and actual cash flows and by matching the maturities of financial assets and liabilities on an ongoing basis. The Company's current assets exceeded its current liabilities by EUR 47 million (31.12.2017 – EUR 46.3 million). The Company has a strong capacity to meet its short-term obligations.

Future prospects

According to the efficiency improvement program, projects are proceeding as per the planned timeline and will be finished over the course of the year:

- installation of automated packaging and marking machines of filling lines;
- upgrading of a specialized small-volume line;
- changes in electricity connection input;
- introduction of the automated recording of products;
- installation of automated quality control equipment;
- continuation of existing LEAN projects;
- updating of the Company's website;
- set-up of the Company's representation center.

As mentioned before in the 2017 annual report, prices of key raw materials are soaring. The effect of this is already noticeable during the first quarter and is reflected in decreased profits and will continue to challenge results during 2018.

Intars Geidans
Chairman of the Board
Riga, 31 May 2018

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STATEMENT OF THE MANAGERMENTS' RESPONSIBILITY

The management of the Company declares that in accordance with the information at its disposal, the condensed financial statements presented were prepared under actual laws and regulations and represent truthful and clear information on the company's assets, equity, liabilities, financial situation and profits or losses.

The Management Report contains truthful information.

Intars Geidāns
Chairman of the Board
Riga, 31 May 2018



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INCOME STATEMENT

	Notes	01.01.2018- 31.03.2018 EUR	01.01.2017- 31.03.2017 EUR
Revenue	3	15 041 478	17 653 959
Cost of sales	4	(12 145 423)	(14 277 296)
Gross profit		2 896 055	3 376 663
Distribution expenses	5	(1 483 235)	(1 346 385)
Administrative expenses	6	(1 064 348)	(1 054 531)
Other operating income		186 909	186 871
Other operating expenses		(91 226)	(90 411)
Finance income		348 020	389 401
Finance expenses		(49 928)	(70 575)
Profit before tax		742 247	1 391 033
Corporate income tax		-	(208 655)
Net profit		742 247	1 182 378

STATEMENT OF COMPREHENSIVE INCOME

	01.01.2018- 31.03.2018 EUR	01.01.2017- 31.03.2017 EUR
Net profit	742 247	1 182 378
Other comprehensive income		
Items that may be reclassified subsequently to income statement		
Changes in fair value of financial instruments	-	-
Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments	-	-
Other comprehensive income	-	-
Total comprehensive income for the period	742 247	1 182 378

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STATEMENT OF FINANCIAL POSITION

	31.03.2018	31.12.2017
	EUR	EUR
<u>ASSETS</u>		
Non-current assets		
Intangible assets	503 744	514 728
Property, plant and equipment	12 954 134	12 622 301
Investment property	659 447	664 305
Loans to group companies	35 611 255	35 611 255
Receivables from group companies	10 000 000	10 000 000
Other non current assets	364 941	555 028
Total non-current assets:	60 093 521	59 967 617
Current assets		
Inventories	26 751 232	23 098 633
Trade receivables	738 058	1 099 612
Receivables from group companies	52 368 563	56 153 146
Other current assets	703 441	341 338
Cash and cash equivalents	15 002	132 970
Total current assets:	80 576 296	80 825 699
<u>Total assets</u>	<u>140 669 817</u>	<u>140 793 316</u>
<u>EQUITY AND LIABILITIES</u>		
Equity		
Share capital	10 495 660	10 495 660
Share premium	87 887	87 887
Revaluation reserves of derivative financial instruments	(18 570)	(18 570)
Reserves	2 318 823	2 318 823
Retained earnings	92 585 140	91 842 893
Total equity:	105 468 940	104 726 693
Liabilities		
Non-current liabilities		
Borrowings	1 560 806	1 560 806
Derivative financial instruments	18 570	18 570
Total non-current liabilities:	1 579 376	1 579 376
Current liabilities		
Borrowings	6 132 788	6 953 979
Trade payables	4 546 754	6 641 437
Payables to group companies	1 566 130	1 314 858
Taxes payable	18 852 220	14 161 495
Other liabilities	2 523 609	5 415 478
Total current liabilities:	33 621 501	34 487 247
Total liabilities:	35 200 877	36 066 623
<u>Total equity and liabilities</u>	<u>140 669 817</u>	<u>140 793 316</u>

Intars Geidāns
Chairman of the Board
Riga, 31 May 2018

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2016.	10 495 660	87 887	2 318 823	(43 476)	83 218 470	96 077 364
Net profit	-	-	-	-	1 182 378	1 182 378
Total comprehensive income	-	-	-	-	1 182 378	1 182 378
31.03.2017.	10 495 660	87 887	2 318 823	(43 476)	84 400 848	97 259 742
31.12.2017.	10 495 660	87 887	2 318 823	(18 570)	91 842 893	104 726 693
Net profit	-	-	-	-	742 247	742 247
Total comprehensive income	-	-	-	-	742 247	742 247
31.03.2018.	10 495 660	87 887	2 318 823	(18 570)	92 585 140	105 468 940

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CASH FLOW STATEMENT

	01.01.2018- 31.03.2018	01.01.2017- 31.03.2017
	EUR	EUR
Cash flow from operating activities		
Profit for the period before taxation	742 247	1 391 033
<u>Adjustments for:</u>		
Depreciation and amortisation	421 025	361 573
Net profit on sales and disposal of property, plant and equipment and intangibles	-	(103)
Interest income	(348 020)	(389 401)
Interest expense	49 928	70 575
<u>Changes in working capital:</u>		
Increase in inventories	(3 652 599)	(1 633 278)
Increase in trade and other receivables	(6 988 396)	(4 926 450)
(Decrease) / increase in trade and other payables	(35 108)	1 943 861
Cash generated from operations	(9 810 923)	(3 182 190)
Interest paid	(50 988)	(70 895)
Corporate income tax paid	(11 373)	-
Net cash generated from operating activities	(9 873 284)	(3 253 085)
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	(737 016)	(1 276 192)
Proceeds from sales of property, plant and equipment	-	617
Received repayment of loans	-	1 800 001
Changes in credit lines (net)	11 310 536	950 549
Net cash flow (used in) / generated from investing activities	10 573 520	1 474 975
Cash flow from financing activities		
Borrowings repaid	(731 612)	(731 612)
Finance lease payments	(86 592)	(155 007)
Net cash flow used in financing activities	(818 204)	(886 619)
Net decrease in cash and cash equivalents	(117 968)	(2 664 729)
Cash and cash equivalents at the beginning of the period	132 970	2 677 315
Cash and cash equivalents at the end of the period	15 002	12 586

NOTES

(1) GENERAL INFORMATION

AS Latvijas balzams (the Company) 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. The 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 the second list of the Nasdaq Riga AS.

The Company is the largest producer of alcohol beverages in the Baltic States. In total, AS Latvijas balzams produces more than 100 different alcohol beverages. The major shareholder of the Company, which owns 89.99% of the Company's share capital as of 31 March 2018, is Amber Beverage Group SIA.

(2) ACCOUNTING POLICIES

Basis for preparation

The interim condensed financial statements for the first three months of 2018 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements as at 31 December 2017.

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

Changes in accounting policy and disclosures

The accounting policies are consistent with those followed in the preparation of the Company's annual financial statement for the previous periods. The Company has evaluated new and amended IFRSs and IFRICs effective for annual periods beginning on or after 1 January 2018. No material impact on the interim financial statements of the Company was identified.

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

Income tax

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

Current tax is the expected tax payable or receivable on the taxable income or losses 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.

Until 31 December 2016 deferred tax was provided for, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arose from different fixed asset depreciation rates, as well as accrued costs and provisions which were deductible in the future taxation periods.

On July 28, 2017, a new Corporate Income Tax Law was adopted, which stipulates that from January 1, 2018, the corporate income tax is levied on profits that arose after 2017 if it is distributed. The new tax law does not include rules which result into timing differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Transitional provisions of the law stipulate that taxpayers will be able to utilize the unused tax losses accumulated by 31 December 2017 during next five taxation years for reducing the tax payable on distributed profits by no more than 50%

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(2) ACCOUNTING POLICIES (continued)

Income tax (continued)

each year, as well as to use provisions created by 31 December 2017 that resulted in the increase of taxable income during the respective tax periods, for reduction of taxable profits, in the amount of their reduction. Such amounts, if any, do not give rise to deferred income tax assets as at 31 December 2017 and thereafter, as in the situation where there is a different tax rate on distributed profits and retained earnings, the deferred tax is calculated according to the tax rate applicable to retained earnings, i.e. 0%. Given the circumstances, there is no longer any reason for the existence of a deferred tax asset or liability at 31 December 2017, and the deferred tax liability recognized by the Company as at 31 December 2016 was reduced to zero, including a reduction in that liability in the income statement for the year 2017, except for the deferred tax recognized outside the profits or losses as the amount of this tax is allocated to the same item in shareholders' equity against which it was attributed when recognized.

From taxation year 2018, corporate income tax will be calculated on the basis of distributed profits (20/80 of the net amount payable to shareholders). Corporate tax on distributed profits will be recognized when the shareholders of the Company make a decision about profit distribution.

(3) REVENUE

a) Operation and reportable segment

The core activity of the Company is production of alcohol beverages. AS Latvijas balsams produces over 100 different types of beverages. Since the Company's core activity is mainly the production of alcohol beverages, the Company has only one operation and reportable segment.

b) Revenue by type

	01.01.2018- 31.03.2018	01.01.2017- 31.03.2017
	EUR	EUR
Production of alcoholic beverages	13 983 216	15 934 107
Sales of other goods and materials	130 859	479 379
Other services	927 403	1 240 473
	<u>15 041 478</u>	<u>17 653 959</u>

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(4) COST OF SALES

	01.01.2018- 31.03.2018	01.01.2017- 31.03.2017
	EUR	EUR
Raw materials and consumables	9 381 932	10 728 400
Salary expense	1 364 474	1 235 833
The state compulsory social insurance contributions	325 729	288 129
Energy resources	245 906	224 276
Depreciation of non-current assets	228 846	217 482
Repair and maintenance expenses	153 933	135 733
Goods purchased	129 885	462 012
Management of packaging	89 068	73 622
Insurance payments	12 396	12 763
Laboratory expenses	7 017	6 336
Accrued expenses on unused annual leave	(12 948)	43 455
Changes of inventory value of finished goods	(136 412)	441 275
Other costs	355 597	407 980
	<u>12 145 423</u>	<u>14 277 296</u>

(5) DISTRIBUTION EXPENSES

	01.01.2018- 31.03.2018	01.01.2017- 31.03.2017
	EUR	EUR
Salary expenses	425 454	427 416
Warehouse maintenance expenses	296 282	256 318
Advertising and sales promotion expenses	271 557	208 049
Transportation expenses	150 933	146 711
The state compulsory social insurance contributions	102 213	100 428
Depreciation of non-current assets	98 405	87 425
Other expenses	138 391	120 038
	<u>1 483 235</u>	<u>1 346 385</u>

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(6) ADMINISTRATIVE EXPENSES

	01.01.2018- 31.03.2018	01.01.2017- 31.03.2017
	EUR	EUR
Management services and expenses	515 332	526 872
Salary expenses	140 981	142 965
Depreciation of non-current assets	93 774	76 479
Computer maintenance	49 317	44 656
Real estate tax	39 739	39 855
The state compulsory social insurance contributions	33 447	33 040
Professional service costs	19 610	14 893
Office expenses	15 537	17 141
Transport costs	11 204	12 813
Representation expenses	4 262	7 137
Business trip expenses	3 864	2 047
Communication and postal expenses	3 548	7 183
Financial support, sponsorship	2 953	1 301
Bank commissions	2 092	3 651
Other expenses	128 688	124 498
	<u>1 064 348</u>	<u>1 054 531</u>

(7) SUBSEQUENT EVENTS

In March 2018 Amber Beverage Group S.a.r.l. concluded a share purchase agreement with SIA Amber Beverage Group for the acquisition of all Company's shares owned by SIA Amber Beverage Group. Starting from 07.05.2018. the major shareholder of the Company, which owns 89.99% of the Company's share capital is Amber Beverage Group Holding S.a.r.l..

On 24 April, 2018 within the existing loan agreement Company issued an additional euro loan in the amount of GBP 4 million to Amber Beverage Group Holding S.a.r.l..

On 26 April, 2018 Company concluded the amendments of the existing loan agreement with Swedbank AS extending the term of the agreement until May 31, 2021.

There were no other subsequent events since the last date of the first quarter of 2018 until the date of signing of these condensed financial statements, which would have a significant effect on the financial position of the Company as at 31 March 2018.