

AS LATVIJAS BALZAMS

(Registration number 40003031873)

CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

for the first six 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 (hereafter also - the Company) was established in 1900 as Riga's first state alcohol warehouse and has been operating under the current name since 1970. 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..

Presently, AS Latvijas balzams operates 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 through 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: 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 half of 2018

The unaudited turnover of the Company in the first half of 2018 reached EUR 32.3 million, which is 10.2% less than in the first half of 2017. The main reason is decreasing orders and sales volumes from key customers and markets – Lithuania, USA, Spain, and the Stoli Group. The main reasons are as follows:

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

However, the unaudited profits for the reporting period are EUR 2.9 million, which represents a 15% increase from the first half of 2017. The main reasons good Inventory management when material part of slow moving inventory was realized through other channels, as well as Procurement department managed to get more favorable deals for price of core raw materials. In addition to this change in CIT legislation helped to improve Net Income position and provide a possibility of further investment in automatization of production facility.

Also the Company has expanded its contract manufacturing business by starting cooperation with one of the largest Russian vodka producers, - Alcohol Siberian Group - for bottling of orders for distribution in European Union.

AS Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid EUR 30.4 million into the state budget, including excise tax, which amounted to EUR 23.5 million.

2018 projects completed during the first half of the year:

- New shaped bottle introduced for Company signature brand - RĪGAS šampanietis
- A first production line equipped with automated packaging equipment according to the modernization and reconstruction plan
- Changes in the electricity connection, which will decrease electricity costs by 20%
- Specialized small-volume line upgraded - productivity increased by 50%.

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

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MANAGEMENT REPORT (continued)

Share market

In the first half 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 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 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 48 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, the following 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 on filling lines;
- introduction of the automated recording of products;
- installation of automated quality control equipment;
- updating of the Company's website;
- set-up of the Company's representation center.

As mentioned earlier in the 2017 annual report, prices of key raw materials are rising. The effect of this is already noticeable during the first half of the year and despite improvements in sourcing, the price of core raw materials will continue to challenge our results during 2018.


Intars Geidāns
Chairman of the Board
Riga, 31 August 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 laws and regulations in force 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 August 2018

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INCOME STATEMENT

	Notes	01.01.2018- 30.06.2018 EUR	01.01.2017- 30.06.2017 EUR
Revenue	3	32 339 163	35 993 827
Cost of sales	4	(25 294 542)	(29 186 953)
Gross profit		7 044 621	6 806 874
Distribution expenses	5	(2 906 614)	(2 684 562)
Administrative expenses	6	(2 096 318)	(2 144 765)
Other operating income		405 898	526 646
Other operating expenses		(241 843)	(184 306)
Finance income		804 794	785 224
Finance expenses		(98 586)	(137 436)
Profit before tax		2 911 952	2 967 675
Corporate income tax		-	(445 151)
Net profit		2 911 952	2 522 524

STATEMENT OF COMPREHENSIVE INCOME

	01.01.2018- 30.06.2018 EUR	01.01.2017- 30.06.2017 EUR
Net profit	2 911 952	2 522 524
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	2 911 952	2 522 524

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STATEMENT OF FINANCIAL POSITION

	30.06.2018	31.12.2017
	EUR	EUR
<u>ASSETS</u>		
Non-current assets		
Intangible assets	476 851	514 728
Property, plant and equipment	13 116 672	12 622 301
Investment property	654 589	664 305
Loans to group companies	40 175 381	35 611 255
Receivables from group companies	10 000 000	10 000 000
Other non current assets	875 717	555 028
Total non-current assets:	65 299 210	59 967 617
Current assets		
Inventories	26 210 254	23 098 633
Trade receivables	1 090 149	1 099 612
Receivables from group companies	53 343 109	56 153 146
Other current assets	509 140	341 338
Cash and cash equivalents	45 062	132 970
Total current assets:	81 197 714	80 825 699
<u>Total assets</u>	<u>146 496 924</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	94 754 845	91 842 893
Total equity:	107 638 645	104 726 693
Liabilities		
Non-current liabilities		
Borrowings	5 640 409	1 560 806
Derivative financial instruments	18 570	18 570
Total non-current liabilities:	5 658 979	1 579 376
Current liabilities		
Borrowings	1 791 694	6 953 979
Trade payables	3 392 400	6 641 437
Payables to group companies	5 588 494	1 314 858
Taxes payable	19 759 013	17 217 726
Other liabilities	2 667 699	2 359 247
Total current liabilities:	33 199 300	34 487 247
Total liabilities:	38 858 279	36 066 623
<u>Total equity and liabilities</u>	<u>146 496 924</u>	<u>140 793 316</u>

Intars Geidāns
Chairman of the Board
Riga, 31 August 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	-	-	-	-	2 522 524	2 522 524
Total comprehensive income	-	-	-	-	2 522 524	2 522 524
30.06.2017.	10 495 660	87 887	2 318 823	(43 476)	85 740 994	98 599 888
31.12.2017.	10 495 660	87 887	2 318 823	(18 570)	91 842 893	104 726 693
Net profit	-	-	-	-	2 911 952	2 911 952
Total comprehensive income	-	-	-	-	2 911 952	2 911 952
30.06.2018.	10 495 660	87 887	2 318 823	(18 570)	94 754 845	107 638 645

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CASH FLOW STATEMENT

	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
	EUR	EUR
Cash flow from operating activities		
Profit for the period before taxation	2 911 952	2 967 675
<u>Adjustments for:</u>		
Depreciation and amortisation	860 438	728 007
Net profit on sales and disposal of property, plant and equipment and intangibles	-	(7 603)
Accruals	63 000	(959 366)
Interest income	(804 794)	(785 224)
Interest expense	97 806	137 436
<u>Changes in working capital:</u>		
Increase in inventories	(3 174 621)	1 062 170
Increase in trade and other receivables	(14 339 263)	(6 898 053)
(Decrease) / increase in trade and other payables	3 895 220	2 097 397
Cash generated from operations	(10 490 262)	(1 657 561)
Interest paid	(99 234)	(130 848)
Corporate income tax paid	(22 746)	-
Net cash generated from operating activities	(10 612 242)	(1 788 409)
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	(685 041)	(1 761 794)
Proceeds from sales of property, plant and equipment	8 910	8 117
Loan issued	(4 564 126)	-
Received repayment of loans	-	1 800 001
Changes in credit lines (net)	17 475 066	699 836
Net cash flow (used in) / generated from investing activities	12 234 809	746 160
Cash flow from financing activities		
Borrowings repaid	(1 528 489)	(1 463 224)
Finance lease payments	(181 986)	(155 007)
Net cash flow used in financing activities	(1 710 475)	(1 618 231)
Net decrease in cash and cash equivalents	(87 908)	(2 660 480)
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	45 062	16 835

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 30 June 2018, is Amber Beverage Group Holding S.a.r.l..

(2) ACCOUNTING POLICIES

Basis for preparation

The interim condensed financial statements for the first six 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 if 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 in 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 based on 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 decide 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 brands 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- 30.06.2018	01.01.2017- 30.06.2017
	EUR	EUR
Production of alcoholic beverages	29 950 597	32 168 489
Sales of other goods and materials	430 158	1 633 061
Other services	1 958 408	2 192 277
	<u>32 339 163</u>	<u>35 993 827</u>

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(4) COST OF SALES

	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
	EUR	EUR
Raw materials and consumables	19 023 984	21 039 480
Salary expense	2 815 895	2 516 103
Changes of inventory value of finished goods	786 713	1 253 413
The state compulsory social insurance contributions	672 231	585 902
Depreciation of non-current assets	469 686	435 784
Goods purchased	426 092	1 584 154
Energy resources	421 147	401 673
Repair and maintenance expenses	326 632	283 559
Management of packaging	179 425	160 697
Insurance payments	25 016	26 135
Laboratory expenses	15 611	13 113
Accrued expenses on unused annual leave	(55 100)	88 087
Changes in provision for inventories	(596 480)	-
Other costs	783 690	798 853
	<u>25 294 542</u>	<u>29 186 953</u>

(5) DISTRIBUTION EXPENSES

	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
	EUR	EUR
Salary expenses	876 366	878 268
Advertising and sales promotion expenses	600 606	356 345
Warehouse maintenance expenses	530 128	493 399
Transportation expenses	257 899	316 556
The state compulsory social insurance contributions	210 595	206 099
Depreciation of non-current assets	201 207	177 427
Other expenses	229 813	256 468
	<u>2 906 614</u>	<u>2 684 562</u>

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(6) ADMINISTRATIVE EXPENSES

	01.01.2018- 30.06.2018	01.01.2017- 30.06.2017
	EUR	EUR
Management services and expenses	1 027 303	1 067 437
Salary expenses	283 871	306 407
Depreciation of non-current assets	189 545	154 266
Computer maintenance	98 304	94 824
Real estate tax	78 314	80 154
The state compulsory social insurance contributions	67 350	70 696
Professional service costs	45 348	45 812
Transport costs	23 147	26 840
Office expenses	14 374	31 337
Representation expenses	8 734	11 195
Financial support, sponsorship	8 453	2 006
Communication and postal expenses	6 359	12 944
Business trip expenses	5 668	9 069
Bank commissions	5 299	6 899
Other expenses	234 249	224 879
	<u>2 096 318</u>	<u>2 144 765</u>

(7) SUBSEQUENT EVENTS

In July 2018 the Company has prolonged the previously granted guarantee related to an Overdraft Agreement concluded between S.P.I. Spirits (Cyprus) Limited and Luminor Bank AS.

The Company takes part of the Group overdraft agreements with Luminor Bank AS managed by SIA Amber Beverage Group, which subsequently have been prolonged till 30 June 2019. All other terms and conditions remained unchanged.

There were no other subsequent events since the last date of the first half 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 30 June 2018.