

JSC LATVIJAS BALZAMS

(Registration number 40003031873)

CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
for the first nine 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. Caka 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. 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.

Nowadays AS Latvijas balzams is operating two alcohol production facilities in Riga: a production plant for strong alcoholic beverages and a plant for sparkling wines and light alcoholic beverages. These plants produce most of 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 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 a 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 mediated by SPI Group and to more than 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/en/company/social-actions/>. With a view to ensuring compliance with these guidelines, the Company has drawn up and 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 nine months of 2018

The unaudited turnover of the Company in the first nine months of 2018 reached EUR 50.5 million, which is 9.2% less than in the first nine months 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 volume suffers from increased excise tax in 2017 and ban of marketing activities; the beverage market is stagnating and shrinking;
- Stoli Group orders have decreased mainly because of stock management - decreasing stock held at the distributors side due to new more efficient Stock management system.

However, the unaudited profits for the reporting period are EUR 5.25 million, which represents a 14% increase from the first nine months of 2017.

Major reasons:

- Change in CIT legislation helped to improve Net Income position and provide a possibility of further investment in automatization of production facility;
- Good Inventory management when material part of slow moving inventory was realized through other channels and accruals was released, as well as Procurement department managed to get more favourable deals for price of core raw materials.

AS Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid EUR 50.7 million into the state budget, including excise tax, which amounted to EUR 38.9 million.

Projects completed during the first nine months of 2018:

- New shaped bottle introduced for Company signature brand - RĪGAS Šampanietis;
- Three production lines were equipped with automated packaging equipment according to the modernization and reconstruction plan;
- Changes in the electricity connection;
- Specialized small-volume line upgraded, productivity increased by 50%.

Company continues significant investments in promotions of its core brands – Riga Black Balsam, Cosmopolitan Diva, and newcomer – Cross Keys Gin – crafted own distilled premium class gin.

MANAGEMENT REPORT (continued)

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.

Share market

In the first nine months of 2018, the Company's share price fluctuated from EUR 8 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 49.7 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:

- Introduction of the automated recording of products;
- Installation of automated quality control equipment;
- Updating the Company's website;
- Set-up of the Company's representation centre.

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 nine months 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, 30 November 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, 30 November 2018

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INCOME STATEMENT

	Notes	01.01.2018- 30.09.2018 EUR	01.01.2017- 30.09.2017 EUR
Revenue	3	50 451 692	55 540 449
Cost of sales	4	(39 060 553)	(44 296 472)
Gross profit		11 391 139	11 243 977
Distribution expenses	5	(4 504 426)	(4 079 207)
Administrative expenses	6	(3 169 791)	(3 193 860)
Other operating income		710 603	869 561
Other operating expenses		(349 192)	(328 929)
Finance income		1 335 131	1 089 257
Finance expenses		(166 390)	(199 017)
Profit before tax		5 247 074	5 401 782
Corporate income tax		-	(810 267)
Net profit		5 247 074	4 591 515

STATEMENT OF COMPREHENSIVE INCOME

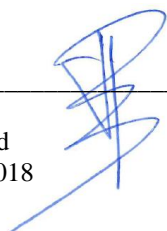
	01.01.2018- 30.09.2018 EUR	01.01.2017- 30.09.2017 EUR
Net profit	5 247 074	4 591 515
Other comprehensive income		
Items that may be reclassified subsequently to income statement		
Changes in fair value of financial instruments	-	-
Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments	-	-
Other comprehensive income	-	-
Total comprehensive income for the period	5 247 074	4 591 515

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STATEMENT OF FINANCIAL POSITION

	30.09.2018	31.12.2017
	EUR	EUR
<u>ASSETS</u>		
Non-current assets		
Intangible assets	437 590	514 728
Property, plant and equipment	12 539 669	12 622 301
Investment property	2 001 271	664 305
Loans to group companies	40 175 381	35 611 255
Receivables from group companies	9 870 000	10 000 000
Other non current assets	776 970	555 028
Total non-current assets:	65 800 881	59 967 617
Current assets		
Inventories	25 008 782	23 098 633
Trade receivables	1 070 380	1 099 612
Receivables from group companies	53 034 607	56 153 146
Other current assets	744 573	341 338
Cash and cash equivalents	47 142	132 970
Total current assets:	79 905 484	80 825 699
<u>Total assets</u>	<u>145 706 365</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	97 089 967	91 842 893
Total equity:	109 973 767	104 726 693
Liabilities		
Non-current liabilities		
Borrowings	5 523 143	1 560 806
Derivative financial instruments	18 570	18 570
Total non-current liabilities:	5 541 713	1 579 376
Current liabilities		
Borrowings	900 644	6 953 979
Trade payables	3 897 252	6 641 437
Payables to group companies	6 757 649	1 314 858
Taxes payable	15 964 534	17 217 726
Other liabilities	2 670 806	2 359 247
Total current liabilities:	30 190 885	34 487 247
Total liabilities:	35 732 598	36 066 623
<u>Total equity and liabilities</u>	<u>145 706 365</u>	<u>140 793 316</u>

Intars Geidāns
Chairman of the Board
Riga, 30 November 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	-	-	-	-	4 591 515	4 591 515
Total comprehensive income	-	-	-	-	4 591 515	4 591 515
30.09.2017.	10 495 660	87 887	2 318 823	(43 476)	87 809 985	100 668 879
31.12.2017.	10 495 660	87 887	2 318 823	(18 570)	91 842 893	104 726 693
Net profit	-	-	-	-	5 247 074	5 247 074
Total comprehensive income	-	-	-	-	5 247 074	5 247 074
30.09.2018.	10 495 660	87 887	2 318 823	(18 570)	97 089 967	109 973 767

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CASH FLOW STATEMENT

	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017
	EUR	EUR
Cash flow from operating activities		
Profit for the period before taxation	5 247 074	5 401 782
<u>Adjustments for:</u>		
Depreciation and amortisation	1 303 898	1 145 890
Net loss (profit) on sales and disposal of property, plant and equipment and intangibles	948	(6 594)
Accruals	(96 425)	(959 366)
Interest income	(1 335 131)	(1 089 257)
Interest expense	166 390	199 017
<u>Changes in working capital:</u>		
(Increase) / decrease in inventories	(1 910 149)	343 418
Decrease / (increase) in trade and other receivables	3 987 725	(8 583 448)
Increase in trade and other payables	3 050 506	2 922 996
Cash generated from operations	10 414 836	(625 562)
Interest paid	(163 838)	(199 554)
Corporate income tax paid	(1 349 543)	(18 198)
Net cash generated from operating activities	8 901 455	(843 314)
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	(1 763 441)	(2 009 482)
Proceeds from sales of property, plant and equipment	8 910	8 117
Loan issued	(4 694 126)	-
Received repayment of loans	130 000	2 046 832
Changes in credit lines (net)	-	950 332
Net cash flow (used in) / generated from investing activities	(6 318 657)	995 799
Cash flow from financing activities		
Borrowings repaid	(2 325 367)	(2 194 836)
Finance lease payments	(343 259)	(491 055)
Net cash flow used in financing activities	(2 668 626)	(2 685 891)
Net decrease in cash and cash equivalents	(85 828)	(2 533 406)
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	47 142	143 909

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

b) Revenue by type

	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017
	EUR	EUR
Production of alcoholic beverages	46 781 036	50 268 057
Sales of other goods and materials	512 766	2 083 205
Other services	3 157 890	3 189 187
	<u><u>50 451 692</u></u>	<u><u>55 540 449</u></u>

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(4) COST OF SALES

	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017
	EUR	EUR
Raw materials and consumables	29 115 547	32 112 587
Salary expense	4 276 672	3 912 115
Changes of inventory value of finished goods	1 398 322	2 082 000
The state compulsory social insurance contributions	1 021 890	912 083
Depreciation of non-current assets	717 663	661 619
Energy resources	611 417	582 294
Goods purchased	508 220	2 027 030
Repair and maintenance expenses	492 361	465 644
Management of packaging	274 882	277 561
Insurance payments	35 593	37 313
Laboratory expenses	21 121	23 436
Accrued expenses on unused annual leave	(72 017)	58 275
Other costs	658 882	1 144 515
	<u>39 060 553</u>	<u>44 296 472</u>

(5) DISTRIBUTION EXPENSES

	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017
	EUR	EUR
Salary expenses	1 332 132	1 312 841
Advertising and sales promotion expenses	1 017 629	623 982
Warehouse maintenance expenses	764 471	719 464
Transportation expenses	421 829	497 440
The state compulsory social insurance contributions	320 344	308 229
Depreciation of non-current assets	300 491	272 781
Other expenses	347 530	344 470
	<u>4 504 426</u>	<u>4 079 207</u>

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(6) ADMINISTRATIVE EXPENSES

	01.01.2018- 30.09.2018	01.01.2017- 30.09.2017
	EUR	EUR
Management services and expenses	1 541 792	1 596 258
Salary expenses	432 332	451 125
Depreciation of non-current assets	285 744	269 974
Computer maintenance	147 650	145 070
Real estate tax	118 936	120 895
The state compulsory social insurance contributions	102 722	104 266
Professional service costs	70 516	85 716
Transport costs	33 911	40 256
Office expenses	19 530	45 967
Representation expenses	13 397	16 212
Communication and postal expenses	10 699	19 122
Financial support, sponsorship	9 453	2 006
Bank commissions	6 970	11 018
Business trip expenses	5 492	13 065
Other expenses	370 647	272 910
	<u>3 169 791</u>	<u>3 193 860</u>

(7) SUBSEQUENT EVENTS

There were no subsequent events since the last date of the first nine months 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 September 2018.