

AS “LATVIJAS BALZAMS”

(Registration number 40003031873)

CONDENSED FINANCIAL STATEMENTS (NOT AUDITED)
for the first 9 months of 2016

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

Riga, 2016

AS Latvijas balzams
Address: A.Čaka iela 160, Rīga,
LV-1012
Reg. number: 40003031873

INFORMATION ON THE COMPANY

Name of the Company	Latvijas balzams
Legal status of the Company	Joint stock company
Number, place and date of registration	Companies register Nr. 40003031873 Rīga, 2 October 1991 Re-registered on 20 October 1998 Commercial register Rīga, 19 June 2014
Address	A. Čaka street 160 Rīga, LV- 1012 Latvia
Main business activities	Production of alcoholic beverages NACE2 11.01
Parent company	SIA “Amber Beverage Group” (89.99%)
Names and positions of the Council members:	Rolands Gulbis – Chairman of the Council (from 12.11.2015.) Oļegs Alainis – Vice Chairman of the Council (from 12.11.2015) Sergejs Ļimarenko – Member of the Council (from 12.11.2015) Pjotr Aven – Member of the Council Valizhan Abidov – Member of the Council (from 21.05.2015) Oļegs Alainis – Member of the Council (from 21.05.2015 until 11.11.2015) Aigars Kalvītis – Chairman of the Council (until 11.11.2015) Sergejs Ļimarenko – Vice Chairman of the Council (from 21.05.2015 until 11.11.2015) Valery Mendelev – Vice Chairman of the Council (until 20.05.2015) David Ronald Surbey – Member of the Council (until 20.05.2015) Seymour Paul Ferreira – Member of the Council (until 20.05.2015) Sebastianus Antonius Theodorus Boelen – Member of the Council (until 20.05.2015)
Names and positions of the Board members:	Intars Geidāns – Chairman of the Board (from 03.03.2016.) Ronalds Žarinovs – Member of the Board Jekaterina Stūge – Member of the Board Seymour Paul Ferreira – Chairman of the Board (from 01.09.2015. until 02.03.2016.) Guntis Āboliņš – Āboliņš – Chairman of the Board (until 31.08.2015.) Intars Geidāns – Member of the Board (until 02.03.2016.) Sergejs Ļimarenko – Member of the Board (until 25.04.2015.) Līga Sleņģe – Member of the Board (from 30.12.2014. until 20.05.2015.)

REPORT OF THE MANAGEMENT

Type of operations

The Company was established in 1900 and operates under the current name since 1970. Due to SPI Group internal reorganization the major shareholder of Latvijas balzams AS from October 2014 is Amber Beverage Group SIA, which owns 89.99% of the Company's equity capital.

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

The Company's Activity in the first nine months of 2016

The unaudited turnover of the Company in the first nine months of 2016 was 54.6 million Euros, which is 1.2% less than in the same period of Year 2015. While the unaudited profit for the reporting period reached 4.99 million euro that represents 3% increase versus the nine months of Year 2015.

Although the Company has expanded its export geography this year and the turnover drop has been impacted by the decrease of sales in the most profitable markets. To compensate production and sales volume drop during first half of 2016, Latvijas balzams AS has started providing an additional services – using employee competence and warehouse resources. From beginning of 2016 Company is providing a number of warehousing and logistics services, mostly to alcohol beverage companies – like transit assurance service, bonded warehouse services, 3PL services, value added services, picking, etc. Actions taken, has allowed to increase profit and more efficient use of available resources and assets.

Latvijas balzams AS is the leading producer of alcoholic beverages in Latvia, as well as one of the largest local taxpayers. During the first nine months of 2016, Latvijas balzams AS paid 37.5 million euro to the state budget, including excise tax, amounting to 28.6 million euro.

Share market

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



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LATVIJAS  BALZAMS

Future prospects

Latvijas balzams AS year-end outlook remains cautious due to the impact of the situation with oil prices in Russia slow down in China and the uncertainty around the EU.

The Company will continue its purposeful focus on the achievement of objectives in both domestic and export markets. Our priorities will be focused on strengthening of the domestic business, building our international brands, and on implementation of effective production strategy to increase the Company's competitiveness.

Latvijas balzams AS is an active member of Latvian Alcohol Industry Association and cooperates with non-governmental organizations, represents the interests of industry in any dialogue with legislators and law enforcement institutions. Company supports development of well - considered industry policy in Latvia and promotes responsible consumption and public education on these issues, as well as continues to combat the illegal production and distribution of non-commercial alcoholic beverages.

Intars Geidāns
Chairman of the Board



Rīga, 30 November, 2016

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DECLARATION OF THE MANAGEMENT RESPONSIBILITY

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

The Management Report contains truthful information.

Intars Geidāns
Chairman of the Board



Rīga, 30 November, 2016

INCOME STATEMENT

	Notes	01.01.2016 - 30.09.2016 EUR	01.01.2015 - 30.09.2015 EUR
Revenue	1	54 597 808	55 267 128
Cost of sales	2	(42 978 750)	(43 579 465)
Gross profit		11 619 058	11 687 663
Distribution expenses	3	(4 080 234)	(4 456 329)
Administrative expenses	4	(3 252 891)	(2 603 804)
Other operating income		1 488 692	878 853
Other operating expenses		(296 385)	(251 861)
Interest and similar income		963 049	1 156 994
Interest and similar expense		(283 681)	(413 001)
Profit before tax		6 157 608	5 998 515
Corporate income tax *		(1 169 946)	(1 139 718)
Net profit		4 987 662	4 858 797

* Operating Income Statement for nine months' period of 2015 adjusted by Corporate income tax expenses

Intars Geidāns
Chairman of the Board




Rīga, 30 November, 2016

STATEMENT OF FINANCIAL POSITION

	30.09.2016	31.12.2015
	EUR	EUR
<u>ASSETS</u>		
Non-current assets		
Intangible assets	592 568	603 823
Property, plant and equipment	11 260 164	10 513 300
Investment property	688 595	703 169
Loans to group companies	35 155 729	41 505 730
Receivables from group companies	-	6 000 000
Deferred income tax assets	945 680	945 680
Other non current assets	1 073 179	1 187 320
Total non-current assets:	49 715 915	61 459 022
Current assets		
Inventories	23 295 543	19 976 909
Trade receivables	559 931	625 461
Receivables from group companies	49 795 492	33 465 601
Other current assets	396 952	821 279
Corporate income tax	-	1 487 434
Cash and cash equivalents	4 836	24 471
Total current assets:	74 052 754	56 401 155
<u>Total assets</u>	<u>123 768 669</u>	<u>117 860 177</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	(69 951)	(69 951)
Reserves	2 318 823	(2 992 951)
Retained earnings	80 697 566	75 709 904
Total equity:	93 529 985	83 230 549
Liabilities		
Non-current liabilities		
Borrowings	11 064 672	10 846 085
Deferred income tax liabilities	-	-
Derivative financial instruments	82 295	82 295
Total non-current liabilities:	11 146 967	10 928 380
Current liabilities		
Borrowings	820 180	3 257 789
Trade payables	2 442 770	3 538 661
Payables to group companies	1 870 241	4 753 547
Current corporate income tax payables	550 891	-
Other liabilities	13 407 635	12 151 251
Total current liabilities:	19 091 717	23 701 248
Total liabilities:	30 238 684	34 629 628
<u>Total equity and liabilities</u>	<u>123 768 669</u>	<u>117 860 177</u>

Intars Geidāns
 Chairman of the Board



Rīga, 30 November, 2016

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Revaluation 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 *	-	-	-	-	4 858 797	4 858 797
Total comprehensive income	-	-	-	-	4 858 797	4 858 797
Reorganisation reserve	-	-	(3 164 418)	-	-	(3 164 418)
30.09.2015.	10 667 128	87 887	(3 164 418)	(78 212)	73 503 205	81 015 590
31.12.2015.	10 495 660	87 887	(2 992 951)	(69 951)	75 709 904	83 230 549
Net profit	-	-	-	-	4 987 662	4 987 662
Total comprehensive income	-	-	-	-	4 987 662	4 987 662
Special purpose reserves fund	-	-	5 311 774	-	-	5 311 774
30.09.2016.	10 495 660	87 887	2 318 823	(69 951)	80 697 566	93 529 985

* Operating net profit for nine months' period of 2015 adjusted by Corporate income tax expenses

CASH FLOW STATEMENT

	01.01.2016 - 30.09.2016 EUR	01.01.2015 - 30.09.2015 EUR
Cash flow from operating activities		
Profit for the period before taxation from continuing operations	6 157 608	5 998 515
<u>Adjustments for:</u>		
Depreciation and amortisation	1 063 387	1 058 346
Net profit on sales and disposal of fixed assets and intangibles	(601 196)	12 251
Provisions	118 406	2 164 468
Interest income	(963 049)	(1 156 994)
Interest expense	283 681	470 338
<u>Changes in working capital:</u>		
Decrease / (Increase) in inventories	(3 434 301)	2 718 675
Decrease / (Increase) in trade and other receivables	(3 174 438)	(1 810 064)
Increase / (Decrease) in trade and other payables	4 075 723	(3 488 425)
Cash generated from operations	3 525 821	5 967 110
Interest paid	(283 010)	(470 338)
Corporate income tax paid	(619 055)	(1 306 496)
Net cash generated by operating activities	2 623 756	4 190 276
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	(1 866 274)	(1 124 126)
Proceeds from sales of property, plant and equipment	683 048	-
Loans repayment received	6 350 001	-
Interest received	98 765	-
Net cash flow generated from investing activities	5 265 540	(1 124 126)
Cash flow from financing activities		
Changes in credit lines (net)	(6 608 064)	(6 321 341)
Borrowings received	1 202 223	5 263 000
Borrowings repaid	(2 194 836)	(2 274 056)
Finance lease payments	(308 254)	(125 639)
Net cash flow generated from financing activities	(7 908 931)	(3 458 036)
Net increase / (decrease) in cash and cash equivalents	(19 635)	(391 886)
Cash and cash equivalents at the beginning of the period	24 471	398 187
Cash and cash equivalents at the end of the period	4 836	6 301

NOTES

(1) Revenue

	01.01.2016 - 30.09.2016	01.01.2015 - 30.09.2015
	EUR	EUR
Production of alcoholic drinks	49 506 692	53 177 556
Sales of other goods and materials	2 035 700	1 108 332
Other services	3 055 416	981 240
	<u>54 597 808</u>	<u>55 267 128</u>

(2) Cost of sales

	01.01.2016 - 30.09.2016	01.01.2015 - 30.09.2015
	EUR	EUR
Materials	31 675 715	34 377 183
Changes of inventory value of finished goods	1 038 473	(31 247)
Salary expense	3 628 851	3 677 118
Goods purchased	2 211 512	54 007
Mandatory state social insurance contributions	844 330	861 745
Depreciation of non-current assets	693 728	808 270
Energy resources	571 279	673 282
Repair and maintenance expenses	639 850	499 909
Management of packaging	259 663	222 274
Changes in provision for inventories	-	55 794
Insurance payments	40 000	35 910
Laboratory expenses	23 872	18 942
Accrued expenses on unused annual leave	-21 149	(29 885)
Other costs	1 372 626	2 356 163
	<u>42 978 750</u>	<u>43 579 465</u>

(3) Distribution expenses

	01.01.2016 - 30.09.2016	01.01.2015 - 30.09.2015
	EUR	EUR
Advertising and sales promotion expenses	592 935	1 113 836
Salary expenses	1 298 830	1 152 290
Transportation expenses	556 863	591 066
Warehouse maintenance expenses	754 654	512 325
Mandatory state social insurance contributions	304 521	274 984
Depreciation of non-current assets	160 350	160 058
Accrued expenses on unused annual leave	(56)	(16 102)
Other expenses	412 137	667 872
	<u>4 080 234</u>	<u>4 456 329</u>

(4) Administrative expenses

	01.01.2016 - 30.09.2016	01.01.2015 - 30.09.2015
	EUR	EUR
Management services and expenses *	1 443 798	751 647
Salary expenses	580 428	818 286
Depreciation of non-current assets	209 308	90 018
Mandatory state social insurance contributions	110 471	145 293
Real estate tax	123 815	105 573
Professional service costs	76 477	76 710
Communication and postal expenses	56 463	53 368
Bank commissions	15 505	57 337
Computer maintenance	129 116	37 999
Business trip expenses	24 962	32 319
Office expenses	56 699	24 205
Transport costs	39 967	17 658
Representation expenses	13 033	19 374
Financial support, sponsorship	2 501	20 000
Other expenses	370 348	354 017
	<u><u>3 252 891</u></u>	<u><u>2 603 804</u></u>

* 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.

