

**JSC LATVIJAS BALZAMS**

(Registration number 40003031873)

**CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**  
for the year of 2018

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

JSC Latvijas balzams  
Condensed financial statements (unaudited)  
for the year of 2018

## 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

JSC 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 JSC 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 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 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.

JSC 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, JSC 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

The unaudited turnover of the Company for the year 2018 reached EUR 75.1 million, which is 4% less than in 2017 due to lower orders and sales volumes from key customers and markets, especially Stoli Group. Decrease in sales volumes of Stoli Group come mainly from new more efficient stock management and accordingly decreasing stock held at the distributors side.

However, the unaudited profits for the reporting period are EUR 9.38 million, which represents a 9% increase from the year 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.

JSC Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid EUR 64.3 million into the state budget, including excise tax, which amounted to EUR 48.7 million.

Projects completed during the 2018:

- New shaped bottle introduced for Company signature brand - RĪGAS Šampanietis and for Cosmopolitan Diva;
- 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%.

The Company continues significant investments in promotions of its core brands – Riga Black Balsam, Cosmopolitan Diva, and a 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 2018, the Company's share price fluctuated from EUR 8 to EUR 9.15.



### Financial risk management

In the ordinary course of business, JSC 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.

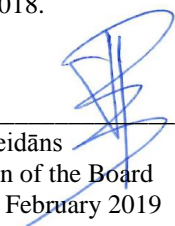
The Company pursues a prudent liquidity risk management policy, according to which adequate credit resources are ensured to settle liabilities when they fall due. The Company's management manages liquidity and cash flow risk by maintaining adequate cash reserves and securing sufficient financing by means 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 54.6 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 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 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, 28 February 2019

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**STATEMENT OF THE MANagements' 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.



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Intars Geidāns  
Chairman of the Board  
Riga, 28 February 2019

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## INCOME STATEMENT

	Notes	01.01.2018- 31.12.2018 EUR	01.01.2017- 31.12.2017 EUR
Revenue	3	75 137 639	78 263 078
Cost of sales	4	(57 247 462)	(60 238 914)
<b>Gross profit</b>		<b>17 890 177</b>	<b>18 024 164</b>
Distribution expenses	5	(6 343 888)	(5 764 219)
Administrative expenses	6	(4 344 436)	(4 406 847)
Other operating income		942 992	986 574
Other operating expenses		(557 275)	(471 362)
Finance income		2 090 496	1 535 512
Finance expenses		(298 476)	(364 794)
<b>Profit before tax</b>		<b>9 379 590</b>	<b>9 539 028</b>
Corporate income tax		-	(914 605)
<b>Net profit</b>		<b>9 379 590</b>	<b>8 624 423</b>

## STATEMENT OF COMPREHENSIVE INCOME

	01.01.2018- 31.12.2018 EUR	01.01.2017- 31.12.2017 EUR
<b>Net profit</b>	<b>9 379 590</b>	<b>8 624 423</b>
<b>Other comprehensive income</b>		
<b>Items that may be reclassified subsequently to income statement</b>		
Changes in fair value of financial instruments	16 217	32 578
Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments	-	(7 672)
<b>Other comprehensive income</b>	<b>16 217</b>	<b>24 906</b>
<b>Total comprehensive income for the period</b>	<b>9 395 807</b>	<b>8 649 329</b>

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**STATEMENT OF FINANCIAL POSITION**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	<b>EUR</b>	<b>EUR</b>
<b><u>ASSETS</u></b>		
<b>Non-current assets</b>		
Intangible assets	401 388	514 728
Property, plant and equipment	12 987 295	12 622 301
Investment property	1 912 137	664 305
Loans to group companies	38 231 771	35 611 255
Receivables from group companies	9 870 000	10 000 000
Other non current assets	258 382	555 028
<b>Total non-current assets:</b>	<b>63 660 973</b>	<b>59 967 617</b>
<b>Current assets</b>		
Inventories	21 385 788	23 098 633
Trade receivables	1 578 534	1 099 612
Receivables from group companies	66 361 691	56 153 146
Other current assets	984 866	341 338
Cash and cash equivalents	12 822	132 970
<b>Total current assets:</b>	<b>90 323 701</b>	<b>80 825 699</b>
<b><u>Total assets</u></b>	<b>153 984 674</b>	<b>140 793 316</b>
<b><u>EQUITY AND LIABILITIES</u></b>		
<b>Equity</b>		
Share capital	10 495 660	10 495 660
Share premium	87 887	87 887
Revaluation reserves of derivative financial instruments	(2 353)	(18 570)
Reserves	2 318 823	2 318 823
Retained earnings	101 222 483	91 842 893
<b>Total equity:</b>	<b>114 122 500</b>	<b>104 726 693</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	4 184 617	1 560 806
Derivative financial instruments	2 353	18 570
<b>Total non-current liabilities:</b>	<b>4 186 970</b>	<b>1 579 376</b>
<b>Current liabilities</b>		
Borrowings	1 778 863	6 953 979
Trade payables	6 401 760	6 641 437
Payables to group companies	2 264 871	1 314 858
Taxes payable	22 508 103	17 217 726
Other liabilities	2 721 607	2 359 247
<b>Total current liabilities:</b>	<b>35 675 204</b>	<b>34 487 247</b>
<b>Total liabilities:</b>	<b>39 862 174</b>	<b>36 066 623</b>
<b><u>Total equity and liabilities</u></b>	<b>153 984 674</b>	<b>140 793 316</b>

Intars Geidāns  
Chairman of the Board  
Riga, 28 February 2019

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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
<b>31.12.2016.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>2 318 823</b>	<b>(43 476)</b>	<b>83 218 470</b>	<b>96 077 364</b>
Net profit	-	-	-	-	8 624 423	8 624 423
Other comprehensive income	-	-	-	24 906	-	24 906
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24 906</b>	<b>8 624 423</b>	<b>8 649 329</b>
<b>31.12.2017.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>2 318 823</b>	<b>(18 570)</b>	<b>91 842 893</b>	<b>104 726 693</b>
Net profit	-	-	-	-	9 379 590	9 379 590
Other comprehensive income	-	-	-	16 217	-	16 217
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16 217</b>	<b>9 379 590</b>	<b>9 395 807</b>
<b>31.12.2018.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>2 318 823</b>	<b>(2 353)</b>	<b>101 222 483</b>	<b>114 122 500</b>



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**CASH FLOW STATEMENT**

	<b>01.01.2018- 31.12.2018</b>	<b>01.01.2017- 31.12.2017</b>
	<b>EUR</b>	<b>EUR</b>
<b>Cash flow from operating activities</b>		
Profit for the period before taxation	9 379 590	9 539 028
<u>Adjustments for:</u>		
Depreciation and amortisation	1 849 500	1 667 750
Net loss (profit) on sales and disposal of property, plant and equipment and intangibles	(7 220)	(1 001)
Accruals	(259 935)	(247 346)
Interest income	(2 090 496)	(1 535 512)
Interest expense	298 476	364 794
<u>Changes in working capital:</u>		
Decrease / (increase) in inventories	1 876 355	(2 008 506)
Increase in trade and other receivables	(9 045 992)	(795 270)
Increase in trade and other payables	7 634 686	5 332 331
<b>Cash generated from operations</b>	<b>9 634 964</b>	<b>12 316 268</b>
Interest paid	(223 786)	(253 910)
Corporate income tax paid	(1 349 543)	(45 495)
<b>Net cash generated from operating activities</b>	<b>8 061 635</b>	<b>12 016 863</b>
<b>Cash flow from investing activities</b>		
Acquisition of property, plant and equipment and intangible assets	(2 682 242)	(1 657 417)
Proceeds from sales of property, plant and equipment	17 588	11 317
Loan issued	(5 866 516)	-
Received repayment of loans	3 246 000	1 800 001
Changes in credit lines (net)	-	(11 458 279)
Interest received	232 139	246 831
<b>Net cash flow (used in) / generated from investing activities</b>	<b>(5 053 031)</b>	<b>(11 057 547)</b>
<b>Cash flow from financing activities</b>		
Borrowings repaid	(2 673 451)	(2 926 448)
Finance lease payments	(455 301)	(577 213)
<b>Net cash flow used in financing activities</b>	<b>(3 128 752)</b>	<b>(3 503 661)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(120 148)</b>	<b>(2 544 345)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>132 970</b>	<b>2 677 315</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>12 822</b>	<b>132 970</b>

## NOTES

### (1) GENERAL INFORMATION

JSC 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 JSC 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, JSC 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 December 2018, is Amber Beverage Group Holding S.a r.l.

### (2) ACCOUNTING POLICIES

#### *Basis for preparation*

The interim condensed financial statements for the year 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 of 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 January 1, 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**

	<b>01.01.2018- 31.12.2018</b>	<b>01.01.2017- 31.12.2017</b>
	<b>EUR</b>	<b>EUR</b>
Production of alcoholic beverages	69 327 980	71 567 106
Sales of other goods and materials	721 267	2 248 922
Other services	5 088 392	4 447 050
	<u><b>75 137 639</b></u>	<u><b>78 263 078</b></u>

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**(4) COST OF SALES**

	<b>01.01.2018- 31.12.2018</b>	<b>01.01.2017- 31.12.2017</b>
	<b>EUR</b>	<b>EUR</b>
Raw materials and consumables	42 550 870	43 883 675
Salary expense	5 792 171	5 413 959
Changes of inventory value of finished goods	3 017 427	2 765 679
The state compulsory social insurance contributions	1 384 266	1 263 010
Depreciation of non-current assets	982 835	909 445
Energy resources	860 867	819 358
Goods purchased	715 902	2 188 626
Repair and maintenance expenses	688 563	662 093
Management of packaging	480 643	392 904
Insurance payments	46 214	47 882
Laboratory expenses	33 018	32 459
Accrued expenses on unused annual leave	16 871	56 413
Other costs	677 815	1 803 411
	<b><u>57 247 462</u></b>	<b><u>60 238 914</u></b>

**(5) DISTRIBUTION EXPENSES**

	<b>01.01.2018- 31.12.2018</b>	<b>01.01.2017- 31.12.2017</b>
	<b>EUR</b>	<b>EUR</b>
Salary expenses	1 852 366	1 801 204
Advertising and sales promotion expenses	1 469 857	970 383
Warehouse maintenance expenses	1 024 836	990 354
Transportation expenses	626 788	695 237
The state compulsory social insurance contributions	445 505	423 164
Depreciation of non-current assets	399 894	394 846
Other expenses	524 642	489 031
	<b><u>6 343 888</u></b>	<b><u>5 764 219</u></b>

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**(6) ADMINISTRATIVE EXPENSES**

	<b>01.01.2018- 31.12.2018</b>	<b>01.01.2017- 31.12.2017</b>
	<b>EUR</b>	<b>EUR</b>
Management services and expenses	2 063 897	2 236 441
Salary expenses	590 820	598 761
Depreciation of non-current assets	466 771	363 460
Computer maintenance	195 134	197 523
Real estate tax	159 558	161 636
The state compulsory social insurance contributions	140 525	138 556
Professional service costs	93 414	107 071
Transport costs	48 255	56 076
Office expenses	25 405	63 348
Representation expenses	21 752	24 971
Communication and postal expenses	14 907	24 173
Financial support, sponsorship	9 353	10 506
Bank commissions	8 591	14 582
Business trip expenses	8 068	17 510
Other expenses	497 986	392 233
	<b><u>4 344 436</u></b>	<b><u>4 406 847</u></b>

**(7) SUBSEQUENT EVENTS**

In January 2019 Company concluded the amendments of the existing loan agreement with Luminor Bank AS extending the term of the agreement until December 31, 2023.

In January 2019 Company concluded the amendments with regards to extension of previously granted guarantee related to Overdraft Agreement concluded between Company`s group entity S.P.I. Spirits (Cyprus) Limited and Luminor Bank AS and with regard to extension of previously provided collaterals period related to Loan Agreement concluded between Company`s group entity Amber Beverage Group Holding S.à r.l. and Luminor Bank AS.

Until the date signing of these condensed financial statements receivables from group companies for goods decrease from EUR 52 million to EUR 34 million.

There were no other subsequent events since the last date of the year 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 December 2018.