

**AS “LATVIJAS BALZAMS”**

(Registration number 40003031873)

**CONDENSED FINANCIAL STATEMENTS (NOT AUDITED)**  
for the first 3 months of 2017

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

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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 Nr. 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
Parent company	SIA "Amber Beverage Group" (89.99%)
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 (from 03.03.2016.) Ronalds Žarinovs – Member of the Board Jekaterina Stuģe – Member of the Board Seymour Paul Ferreira – Chairman of the Board (from 01.09.2015. until 02.03.2016.) Intars Geidāns – Member of the Board (until 02.03.2016.)

## REPORT OF THE MANAGEMENT

### Type of operations

The Company was established in 1900 as the Riga's first state alcohol warehouse 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.

Nowadays Latvijas balzams operates two alcohol production facilities in Riga – production plant for strong alcohol beverages and a production plant for sparkling wines and light alcohol beverages. We use ingredients from around the world and have retained our traditional beverage production technologies. The recipes for some of our signature products date back hundreds of years, for example the recipe of Riga Black Balsam is rooted back in 1752, but our renowned Moskovskaya Vodka dates back to the end of the 19th century.

The company keeps the leading presence in all key spirits segments, as well as in sparkling wines, ciders, and RTDs, in the Baltic region. The newest generation of spirits, including Riga Black Vodka and Amber Gold Vodka, are produced using innovative filtration technologies that results in particular character profiles for beverage connoisseurs.

We are proud for our ability to produce high quality liquids consistently, and develop new products driven by consumer insights. On the same time we are able to maintain high-quality international standards required by SPI Group, so that sales of Stolichnaya are possible around the world, including sales to Japan.

Latvijas balzams AS is the largest producer of alcoholic beverages in the Baltic States with 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 42 markets via the Company's direct export route.

### The Company's Activity in the first quarter of 2017

The unaudited turnover of the Company in the first quarter of 2017 reached 17.7 million euro, which is 5% more than in the first quarter of 2016. The positive results are achieved mainly due to increased level of warehouse and logistics services provided to both 3rd part and Group companies. In addition to mentioned, increase in turnover was effected by higher orders of Lithuanian distributor before the planned rise of excise tax, unfortunately, it will negatively effects orders in 2nd quarter.

From beginning of 2016, the Company is providing a number of warehouse and logistics services, mostly to beverage companies – like transit assurance services, bonded warehouse services, 3-rd party logistic services, value added services, picking, etc. Actions taken, has allowed to use available resources and assets in more efficient way. Latvijas balzams AS has been performing as European hub for group distributed brands in Europe, including Scandinavia and Russia (KAH, Bayou, Arinzano, Achaval Ferrer).

In the reporting period we have continued investing in our manufacturing base, with a continuous focus on improvement of efficiency and new product development:

- Following the latest trends of beverage industry and based on order of Stoli Group, we have produced new product for the USA market that will be introduced in retail chains across USA in May – vodka with natural juice;
- The Company has performed export product filling lines layout change with partial upgrade to rise the competitiveness and quality standard of beverages.

The Company continues to implement LEAN in order to higher efficiency and productivity in all core processes.

The unaudited profit for the reporting period reached 1.18 million euro that represents 2% decrease versus the first quarter of 2016, mainly due to product mix, based on changes in consumer preferences.

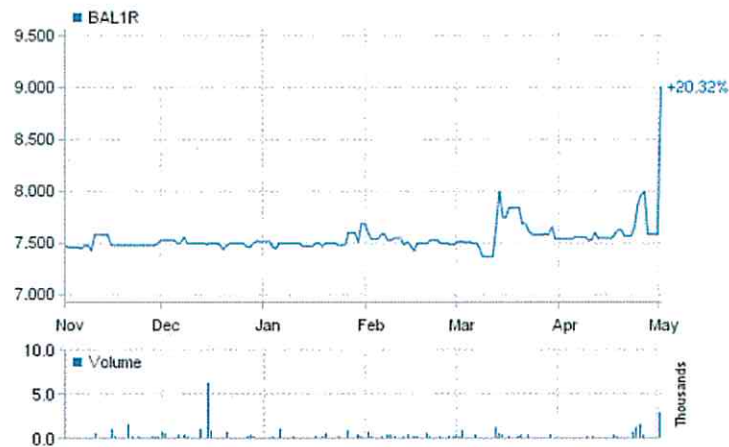
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## REPORT OF THE MANAGEMENT (continued)

Latvijas balzams AS is the leading producer of alcoholic beverages in Latvia, as well as one of the largest local taxpayers. During the reporting period, the Company paid 11.7 million euro to the state budget, including excise tax, amounting to 8.8 million euro.

### Share market

In the first quarter of 2017 the Company's share price fluctuated from 7.37 to 9.10 euro.



### Financial risk management

The Company's activities expose it to a variety of financial risks, including the credit risk, liquidity risk and risk of changing interest rates. The Company's management seeks to minimise potential adverse effects of financial risk on the financial performance of the Company.

The Company's borrowings have variable interest rates. The management of the Company considers possibilities to apply risk hedging instruments in order to minimise the effect of variable interest rates.

The financial assets, which potentially expose the Company to a certain degree of credit risk concentration are primarily cash, trade receivables, receivables from Group companies and loans. The Company's policy provides that the goods are sold and services provided to customers with appropriate credit history. For the bank transactions only the local and foreign financial institutions with appropriate ranking is accepted.

The Company pursues a prudent liquidity risk management maintaining sufficient credit resources that allow settling liabilities when they fall due. The management of the Company manages the liquidity and cash flow risk by maintaining adequate cash reserves and securing sufficient financing, by using borrowings, overdrafts, financial leases as well as by monitoring forecasted and actual cash flows and by matching term structure of financial assets and liabilities. The Company's current assets exceeded its current liabilities by 42.1 million euro (31.12.2016. – 39.2 million euro). The Company has a strong ability to meet its short-term obligations.

## REPORT OF THE MANAGEMENT (continued)

### Future prospects

In 2017 the Company will keep focusing on investment opportunities in existing and new export markets with strong growth potential and accelerating sales. We'll keep the strong focus on our core brands - Riga Black Balsam and Cosmopolitan Diva - investing into international recognition, brand equity and increasing market share.

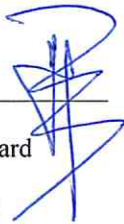
The Company will also continue to improve the efficiency of production with focus on purchasing, planning and infrastructure improvements to support our goal - to deliver quality products with a competitive cost advantage.

Also Company has developed large-scale plant modernization and reconstruction project with aim to merge both production plants into one territory. Project will allow to improve company's competitive positions among the region producers by decreasing labour, logistics and production costs. Total costs of project are estimated at amount of 23 million euro. Application for project CIT discount has been submitted to Ministry of Economics and technical project works are currently going on. After finalizing those two phases shareholders will be introduced to Project in details to obtain their final approval on investment.

Latvijas balzams AS is an active member of Latvian Alcohol Industry Association and cooperates with core non-governmental organizations, representing the interests of industry in any dialogue with legislators and law enforcement institutions. The 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 alcohol.

Intars Geidāns  
Chairman of the Board

Riga, 30 May, 2017



## STATEMENT OF THE MANagements' 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



Riga, 30 May, 2017

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**INCOME STATEMENT**

	Notes	01.01.2017- 31.03.2017 EUR	01.01.2016- 31.03.2016 EUR
Revenue	1	17 653 959	16 812 532
Cost of sales	2	(14 277 296)	(13 496 355)
<b>Gross profit</b>		<b>3 376 663</b>	<b>3 316 177</b>
Distribution expenses	3	(1 346 385)	(1 256 674)
Administrative expenses	4	(1 054 531)	(1 072 774)
Other operating income		186 871	256 793
Other operating expenses		(90 411)	(55 022)
Finance income		389 401	409 201
Finance expenses		(70 575)	(110 164)
<b>Profit before tax</b>		<b>1 391 033</b>	<b>1 487 537</b>
Corporate income tax		(208 655)	(282 632)
<b>Net profit</b>		<b>1 182 378</b>	<b>1 204 905</b>

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**STATEMENT OF FINANCIAL POSITION**

	<b>31.03.2017</b>	<b>31.12.2016</b>
	<b>EUR</b>	<b>EUR</b>
<b><u>ASSETS</u></b>		
<b>Non-current assets</b>		
Intangible assets	518 981	550 874
Property, plant and equipment	12 587 360	11 636 504
Investment property	678 879	683 737
Loans to group companies	32 936 982	34 736 983
Receivables from group companies	12 500 000	12 500 000
Other non current assets	701 069	897 990
<b>Total non-current assets:</b>	<b>59 923 271</b>	<b>61 006 088</b>
<b>Current assets</b>		
Inventories	22 288 472	20 842 781
Trade receivables	665 199	908 697
Receivables from group companies	47 853 874	42 543 946
Other current assets	557 102	430 534
Corporate income tax	364 903	573 558
Cash and cash equivalents	12 586	2 677 315
<b>Total current assets:</b>	<b>71 742 136</b>	<b>67 976 831</b>
<b><u>Total assets</u></b>	<b><u>131 665 407</u></b>	<b><u>128 982 919</u></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	(43 476)	(43 476)
Reserves	2 318 823	2 318 823
Retained earnings	84 400 848	83 218 470
<b>Total equity:</b>	<b>97 259 742</b>	<b>96 077 364</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Borrowings	3 703 583	3 120 364
Deferred income tax liabilities	995 073	995 073
Derivative financial instruments	51 148	51 148
<b>Total non-current liabilities:</b>	<b>4 749 804</b>	<b>4 166 585</b>
<b>Current liabilities</b>		
Borrowings	7 425 870	7 945 159
Trade payables	4 579 961	4 653 523
Payables to group companies	1 510 240	1 629 720
Other liabilities	16 139 790	14 510 568
<b>Total current liabilities:</b>	<b>29 655 861</b>	<b>28 738 970</b>
<b>Total liabilities:</b>	<b>34 405 665</b>	<b>32 905 555</b>
<b><u>Total equity and liabilities</u></b>	<b><u>131 665 407</u></b>	<b><u>128 982 919</u></b>

Intars Geidāns  
Chairman of the Board

Riga, 30 May, 2017



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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>31.12.2015.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>(2 992 951)</b>	<b>(69 951)</b>	<b>75 709 904</b>	<b>83 230 549</b>
Net profit	-	-	-	-	1 204 905	1 204 905
income	-	-	-	-	1 204 905	1 204 905
<b>31.03.2016.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>(2 992 951)</b>	<b>(69 951)</b>	<b>76 914 809</b>	<b>84 435 454</b>
<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	-	-	-	-	1 182 378	1 182 378
income	-	-	-	-	1 182 378	1 182 378
<b>31.03.2017.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>2 318 823</b>	<b>(43 476)</b>	<b>84 400 848</b>	<b>97 259 742</b>

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**CASH FLOW STATEMENT**

	<b>01.01.2017- 31.03.2017 EUR</b>	<b>01.01.2016- 31.03.2016 EUR</b>
<b>Cash flow from operating activities</b>		
Profit for the period before taxation from continuing operations	1 391 033	1 487 537
<u>Adjustments for:</u>		
Depreciation and amortisation	361 573	338 228
Net profit on sales and disposal of fixed assets and intangibles	(103)	(7 890)
Provisions	90 634	103 484
Interest income	(389 401)	(409 201)
Interest expense	70 575	110 164
<u>Changes in working capital:</u>		
(Increase) / Decrease in inventories	(1 633 278)	(4 321 343)
(Increase) / Decrease in trade and other receivables	(4 926 450)	4 184 096
Increase / (Decrease) in trade and other payables	<u>1 853 227</u>	<u>(2 910 530)</u>
<b>Cash generated from operations</b>	<b><u>(3 182 190)</u></b>	<b><u>(1 425 455)</u></b>
Interest paid	(70 895)	(110 164)
Corporate income tax paid	-	(371 433)
<b>Net cash generated by operating activities</b>	<b><u>(3 253 085)</u></b>	<b><u>(1 907 052)</u></b>
<b>Cash flow from investing activities</b>		
Acquisition of property, plant and equipment and intangible assets	(1 276 192)	(584 174)
Proceeds from sales of property, plant and equipment	617	10 946
Loans repayment received	1 800 001	3 300 000
Changes in credit lines (net)	<u>950 549</u>	<u>(98 490)</u>
<b>Net cash flow generated from investing activities</b>	<b><u>1 474 975</u></b>	<b><u>2 628 282</u></b>
<b>Cash flow from financing activities</b>		
Borrowings received	-	57 783
Borrowings repaid	(731 612)	(731 611)
Finance lease payments	<u>(155 007)</u>	<u>(61 111)</u>
<b>Net cash flow generated from financing activities</b>	<b><u>(886 619)</u></b>	<b><u>(734 939)</u></b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b><u>(2 664 729)</u></b>	<b><u>(13 709)</u></b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b><u>2 677 315</u></b>	<b><u>24 471</u></b>
<b>Cash and cash equivalents at the end of the period</b>	<b><u>12 586</u></b>	<b><u>10 762</u></b>

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**NOTES**

**(1) Revenue**

	<b>01.01.2017- 31.03.2017</b>	<b>01.01.2016- 31.03.2016</b>
	<b>EUR</b>	<b>EUR</b>
Sales of alcoholic drinks	15 934 107	15 510 196
Sales of other goods and materials	479 379	268 427
Other services	1 240 473	1 033 909
	<u><b>17 653 959</b></u>	<u><b>16 812 532</b></u>

In 2016 we centralized Latvian logistic and warehousing services under Latvijas Balzams AS roof that allow more efficient and flexible loading in addition to improvements in inventory management and it is major driver for increase in revenue amount achieved in Other services.

**(2) Cost of sales**

	<b>01.01.2017- 31.03.2017</b>	<b>01.01.2016- 31.03.2016</b>
	<b>EUR</b>	<b>EUR</b>
Raw materials and consumables	10 728 400	9 971 235
Changes of inventory value of finished goods	441 275	646 055
Salary expense	1 235 833	1 142 459
Goods purchased	462 012	253 045
Mandatory state social insurance contributions	288 129	265 482
Depreciation of non-current assets	217 482	219 741
Energy resources	224 276	235 870
Repair and maintenance expenses	135 733	153 167
Management of packaging	73 622	72 067
Insurance payments	12 763	13 296
Laboratory expenses	6 336	9 674
Accrued expenses on unused annual leave	43 455	21 998
Other costs	407 980	492 266
	<u><b>14 277 296</b></u>	<u><b>13 496 355</b></u>

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**(3) Distribution expenses**

	<b>01.01.2017- 31.03.2017</b>	<b>01.01.2016- 31.03.2016</b>
	<b>EUR</b>	<b>EUR</b>
Advertising and sales promotion expenses	208 049	125 839
Salary expenses	427 416	406 545
Transportation expenses	146 711	158 392
Warehouse maintenance expenses	256 318	274 629
Mandatory state social insurance contributions	100 428	95 222
Depreciation of non-current assets	87 425	52 541
Accrued expenses on unused annual leave	3 184	23 229
Other expenses	116 854	120 277
	<u><b>1 346 385</b></u>	<u><b>1 256 674</b></u>

**(4) Administrative expenses**

	<b>01.01.2017- 31.03.2017</b>	<b>01.01.2016- 31.03.2016</b>
	<b>EUR</b>	<b>EUR</b>
Management services and expenses	526 872	475 401
Salary expenses	142 965	212 225
Depreciation of non-current assets	76 479	65 946
Mandatory state social insurance contributions	33 040	48 690
Real estate tax	39 855	47 917
Professional service costs	14 893	13 437
Communication and postal expenses	7 183	24 725
Bank commissions	3 651	4 174
Computer maintenance	44 656	16 911
Business trip expenses	2 047	2 092
Office expenses	17 141	14 836
Transport costs	12 813	12 936
Representation expenses	7 137	3 631
Financial support, sponsorship	1 301	-
Other expenses	124 498	129 853
	<u><b>1 054 531</b></u>	<u><b>1 072 774</b></u>