

**AS “LATVIJAS BALZAMS”**

(Registration number 40003031873)

**CONDENSED FINANCIAL STATEMENTS (NOT AUDITED)**

for the first 9 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 Stuge – 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 rotated 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 nine months of 2017

The unaudited turnover of the Company in the first nine months of 2017 reached 55.5 million euro, which is 1.7% more than in the first nine months of Year 2016. Increase in turnover was mainly achieved by increase of orders from our biggest Private Label customer SPI Cyprus, although the overall profitability level is lower than selling Latvijas Balzams brands. Additional positive effect on turnover come from increased level of warehouse and logistics services provided to both 3rd part and Group companies.

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 utilize the 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). From third quarter Latvijas balzams Customer service center has also overtaken customer service and inventory management service for those brands.

The unaudited profit for the reporting period is 4.59 million euro that represents 8% decrease versus the first nine months of 2016. Profit decrease is mainly due to the fact that 2016 numbers include income from one-off transactions like compensation received from insurance company for fire case in 2014 in amount of 280 thousand EUR and profit from sale of real estate in amount of 594 thousand EUR.

Latvijas balzams AS is one of the largest local taxpayers. During the reporting period, the Company paid 43.5 million euro to the state budget, including excise tax, amounting to 34.8 million euro.

## REPORT OF THE MANAGEMENT (continued)

### Share market

In the first nine months of 2017 the Company's share price fluctuated from 7.37 to 10.40 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 44.2 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 the last quarter of 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.

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 estimated at amount of 23 million euro. Latvian government supported project by granting CIT discount after fulfillment of the project. At this moment Company finalizing technical project works and is going to present project to shareholders to obtain their final approval on investment during regular shareholder meeting.

Latvijas balsams 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.

  
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Intars Geidāns  
Chairman of the Board

Riga, 30 November, 2017

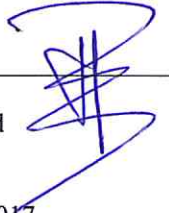
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**STATEMENT OF THE MANAGERMENTS' RESPONSIBILITY**

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.

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Intars Geidāns  
Chairman of the Board



Riga, 30 November, 2017

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**INCOME STATEMENT**

	Notes	01.01.2017- 30.09.2017 EUR	01.01.2016- 30.09.2016 EUR
Revenue	1	55 540 449	54 597 808
Cost of sales	2	(44 296 472)	(42 978 750)
<b>Gross profit</b>		<b>11 243 977</b>	<b>11 619 058</b>
Distribution expenses	3	(4 079 207)	(4 080 234)
Administrative expenses	4	(3 193 860)	(3 252 891)
Other operating income		869 561	1 488 692
Other operating expenses		(328 929)	(296 385)
Finance income		1 089 257	963 049
Finance expenses		(199 017)	(283 681)
<b>Profit before tax</b>		<b>5 401 782</b>	<b>6 157 608</b>
Corporate income tax		(810 267)	(1 169 946)
<b>Net profit</b>		<b>4 591 515</b>	<b>4 987 662</b>

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**STATEMENT OF FINANCIAL POSITION**

	30.09.2017	31.12.2016
	EUR	EUR
<b><u>ASSETS</u></b>		
<b>Non-current assets</b>		
Intangible assets	530 415	550 874
Property, plant and equipment	12 533 605	11 636 504
Investment property	669 163	683 737
Loans to group companies	46 936 982	47 236 983
Other non current assets	546 236	897 990
<b>Total non-current assets:</b>	<b>61 216 401</b>	<b>61 006 088</b>
<b>Current assets</b>		
Inventories	21 458 729	20 842 781
Trade receivables	854 361	908 697
Receivables from group companies	49 913 443	42 543 946
Other current assets	550 575	430 534
Corporate income tax	-	573 558
Cash and cash equivalents	143 909	2 677 315
<b>Total current assets:</b>	<b>72 921 017</b>	<b>67 976 831</b>
<b><u>Total assets</u></b>	<b><u>134 137 418</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	87 809 985	83 218 470
<b>Total equity:</b>	<b>100 668 879</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	5 626 381	7 945 159
Trade payables	5 734 536	4 653 523
Payables to group companies	2 654 636	1 629 720
Other liabilities	14 703 182	14 510 568
<b>Total current liabilities:</b>	<b>28 718 735</b>	<b>28 738 970</b>
<b>Total liabilities:</b>	<b>33 468 539</b>	<b>32 905 555</b>
<b><u>Total equity and liabilities</u></b>	<b><u>134 137 418</u></b>	<b><u>128 982 919</u></b>

Intars Geidāns  
Chairman of the Board

Rīga, 30 November, 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	-	-	-	-	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
<b>30.09.2016.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>2 318 823</b>	<b>(69 951)</b>	<b>80 697 566</b>	<b>93 529 985</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	-	-	-	-	4 591 515	4 591 515
income	-	-	-	-	4 591 515	4 591 515
<b>30.09.2017.</b>	<b>10 495 660</b>	<b>87 887</b>	<b>2 318 823</b>	<b>(43 476)</b>	<b>87 809 985</b>	<b>100 668 879</b>

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**CASH FLOW STATEMENT**

	<b>01.01.2017- 30.09.2017</b>	<b>01.01.2016- 30.09.2016</b>
	<b>EUR</b>	<b>EUR</b>
<b>Cash flow from operating activities</b>		
Profit for the period before taxation from continuing operations	5 401 782	6 157 608
<u>Adjustments for:</u>		
Depreciation and amortisation	1 145 890	1 063 387
Net profit on sales and disposal of fixed assets and intangibles	(6 594)	(601 196)
Provisions	(959 366)	118 406
Interest income	(1 089 257)	(963 049)
Interest expense	199 017	283 681
<u>Changes in working capital:</u>		
(Increase) / Decrease in inventories	343 418	(3 434 301)
(Increase) / Decrease in trade and other receivables	(8 583 448)	(3 174 438)
Increase / (Decrease) in trade and other payables	2 922 996	4 075 723
<b>Cash generated from operations</b>	<b>(625 562)</b>	<b>3 525 821</b>
Interest paid	(199 554)	(283 010)
Corporate income tax paid	(18 198)	(619 055)
<b>Net cash generated by operating activities</b>	<b>(843 314)</b>	<b>2 623 756</b>
<b>Cash flow from investing activities</b>		
Acquisition of property, plant and equipment and intangible assets	(2 009 482)	(1 866 274)
Proceeds from sales of property, plant and equipment	8 117	683 048
Loans repayment received	2 046 832	6 448 766
Changes in credit lines (net)	950 332	(6 608 064)
<b>Net cash flow generated from investing activities</b>	<b>995 799</b>	<b>(1 342 524)</b>
<b>Cash flow from financing activities</b>		
Borrowings received	-	1 202 223
Borrowings repaid	(2 194 836)	(2 194 836)
Finance lease payments	(491 055)	(308 254)
<b>Net cash flow generated from financing activities</b>	<b>(2 685 891)</b>	<b>(1 300 867)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>(2 533 406)</b>	<b>(19 635)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>2 677 315</b>	<b>24 471</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>143 909</b>	<b>4 836</b>

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**NOTES**

**(1) Revenue**

	<b>01.01.2017- 30.09.2017</b>	<b>01.01.2016- 30.09.2016</b>
	<b>EUR</b>	<b>EUR</b>
Sales of alcoholic drinks	50 268 057	49 506 692
Sales of other goods and materials	2 083 205	2 035 700
Other services	3 189 187	3 055 416
	<u><b>55 540 449</b></u>	<u><b>54 597 808</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- 30.09.2017</b>	<b>01.01.2016- 30.09.2016</b>
	<b>EUR</b>	<b>EUR</b>
Raw materials and consumables	32 112 587	31 675 715
Changes of inventory value of finished goods	2 082 000	1 038 473
Salary expense	3 912 115	3 628 851
Goods purchased	2 027 030	2 211 512
Mandatory state social insurance contributions	912 083	844 330
Depreciation of non-current assets	661 619	693 728
Energy resources	582 294	571 279
Repair and maintenance expenses	465 644	639 850
Management of packaging	277 561	259 663
Insurance payments	37 313	40 000
Laboratory expenses	23 436	23 872
Accrued expenses on unused annual leave	58 275	(21 149)
Other costs	1 144 515	1 372 626
	<u><b>44 296 472</b></u>	<u><b>42 978 750</b></u>

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**(3) Distribution expenses**

	<b>01.01.2017- 30.09.2017</b>	<b>01.01.2016- 30.09.2016</b>
	<b>EUR</b>	<b>EUR</b>
Advertising and sales promotion expenses	623 982	592 935
Salary expenses	1 312 841	1 298 830
Transportation expenses	497 440	556 863
Warehouse maintenance expenses	719 464	754 654
Mandatory state social insurance contributions	308 229	304 521
Depreciation of non-current assets	272 781	160 350
Accrued expenses on unused annual leave	-8 179	(56)
Other expenses	352 649	412 137
	<u><b>4 079 207</b></u>	<u><b>4 080 234</b></u>

**(4) Administrative expenses**

	<b>01.01.2017- 30.09.2017</b>	<b>01.01.2016- 30.09.2016</b>
	<b>EUR</b>	<b>EUR</b>
Management services and expenses	1 596 258	1 443 798
Salary expenses	451 125	580 428
Depreciation of non-current assets	269 974	209 308
Mandatory state social insurance contributions	104 266	110 471
Real estate tax	120 895	123 815
Professional service costs	85 716	76 477
Communication and postal expenses	19 122	56 463
Bank commissions	11 018	15 505
Computer maintenance	145 070	129 116
Business trip expenses	13 065	24 962
Office expenses	45 967	56 699
Transport costs	40 256	39 967
Representation expenses	16 212	13 033
Financial support, sponsorship	2 006	2 501
Other expenses	272 910	370 348
	<u><b>3 193 860</b></u>	<u><b>3 252 891</b></u>