# AS “LATVIJAS BALZAMS”

# ANNUAL REPORT 2018

**prepared in accordance with**

**International Financial Reporting Standards as adopted by the EU**

## CONTENTS

## 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<br>Nr. 40003031873<br>Riga, 2 October 1991<br>Re-registered on<br>20 October 1998<br><br>Commercial register<br>Riga, 19 June 2014 |
| Address | A. Čaka street 160<br>Riga, LV- 1012<br>Latvia |
| Main business activities | Production of alcoholic beverages<br>NACE2 11.01 |
| Major shareholder | Amber Beverage Group Holding S.à r.l. (89.99%) (from 07.05.2018.)<br>Amber Beverage Group SIA (89.99%) (until 07.05.2018.) |
| Names and positions of the Council members: | Rolands Gulbis – Chairman of the Council<br>Oļegs Alainis – Vice Chairman of the Council<br>Sergejs Ļimarenko – Member of the Council<br>Pjotr Aven – Member of the Council<br>Valizhan Abidov – Member of the Council |
| Names and positions of the Board members: | Intars Geidāns – Chairman of the Board<br>Ronalds Žarinovs – Member of the Board<br>Jekaterina Stuģe – Member of the Board |
| The auditor of the Company and certified auditor in charge | PricewaterhouseCoopers SIA<br>Licence No. 5<br>Kr. Valdemāra street 21-21<br>Riga, LV-1010<br>Latvija<br><br>Certified auditor in charge:<br>Jana Smirnova<br>Certified auditor<br>Cerificate No. 188 |
| Statement of corporate governance | https://lb.lv/en/corporate-governance/ |

# REPORT OF THE MANAGEMENT

## Type of operations

AS Latvijas balzams (hereinafter also - the Company) is a leading producer of alcohol beverages in the Baltic States. It was established in 1900 as Riga’s first state alcohol warehouse and has been operating under the current name since 1970. Amber Beverage Group Holding S.a r.l., which owns 89.99% of the Company’s share capital, has been the major shareholder of the Company from 7 May 2018.

Nowadays AS Latvijas balzams is operating two alcohol production facilities in Riga: a plant for the production of strong alcoholic beverages and a plant for the production of 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. The recipes for some of AS Latvijas balzams key products date back hundreds of years; for example, the formula of Riga Black Balsam was officially written down in 1752. The mission of AS Latvijas balzams is “Excellence in everything we do”.

At present, AS Latvijas balzams has a range of more than 100 different brands. Its products are exported to more than 170 export markets as mediated by SPI Group and to more than 42 markets via the Company’s direct export route.

The key suppliers of raw materials and consumables for AS Latvijas balzams represent Latvia, Russia, Lithuania, Estonia, Poland, Germany and Slovakia. The key resources are water and alcoholic materials. Water is derived from an artesian well located in the territory of the Company. Alcohol for the production of most products is supplied by a related company Tambovskoe spirtovoe predpriyatie Talvis OAO, which is one of the largest producers of high-quality alcohol in the Russian Federation.

Logistics services represent a small, but still significant share of the Company’s business; this competence has been increasingly developing over the last two years. For the most part, services are rendered to related companies, but the volume of services, such as transit assurance services, bonded warehouse services, logistics services, value added services, picking, etc., provided to other enterprises of the alcohol industry is growing. Actions taken have ensured more effective utilization of available resources.

The Company as a socially responsible and sustainable enterprise has drafted and complies with basic principles of corporate social responsibility. These have been harmonized with the United Nations Sustainable Development Goals for 2030, the Organization for Economic Cooperation and Development guidelines and Article $56^3$ of the Financial Instrument Market Law of the Republic of Latvia, which are mentioned in the chapter Corporate Social Responsibility on the Company’s website.

For compliance with these guidelines, the Company has drafted and adheres to the following procedures: the Corporate Social Responsibility Policy, the Company Procurement Procedure, the Collective Bargaining Agreement, the Quality Management Handbook, the Ethical Marketing Communications Code, the Anti-Corruption Policy, the Data Protection Policy, Risk Management Policy and other internal documents. These documents, policies and the procedures contained therein are reviewed regularly in accordance with the Quality Management System and by external auditors. The results of audits and planned corrective measures are considered at the Company’s management meetings. More information about the Company’s social responsibility activities is available in thematic subsections.

## Performance of the Company during the financial year

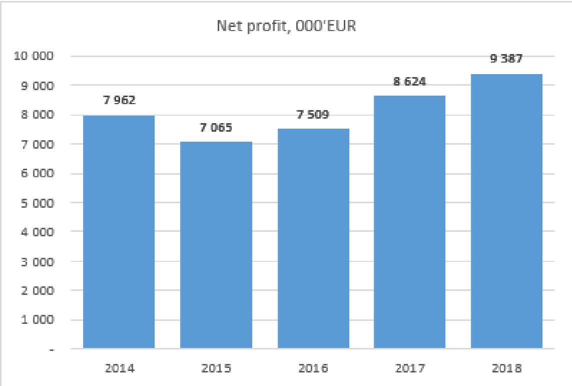
Financial performance

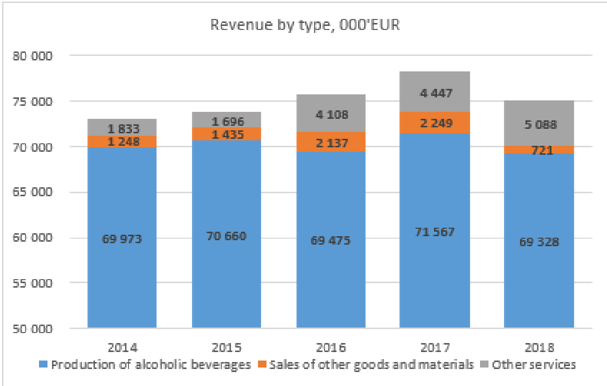
The audited net turnover of the Company for the year 2018 reached EUR 75.1 million, 4% down against 2017, due to lower orders and sales volumes from key customers and markets, especially Stoli Group. The decrease in sales volumes to Stoli Group comes mainly from new more efficient stock management practices and, accordingly, lower stocks held by distributors.

At the same time, the audited profit has reached EUR 9.38 million, which is 9% more than in 2017.

Major reasons were:
- owing to changes in CIT legislation, net profit improved and further investments in automation of the production facility became possible;
- good inventory management, when the major part of slow-moving inventory was realized through other channels and accruals were released.

## REPORT OF THE MANAGEMENT (continued)




The operating profit for the year 2018 amounts to EUR 7.6 million, which is in line with the previous year's result in terms of the profit/turnover ratio: 10.7% in 2017, 10.1% in 2018.

The Company's alternate performance metrics for past reporting periods are as follows:

The Company's return on equity (ROE) and return on assets (ROA) for the last five years:

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| ROA* | 6.4% | 6.1% | 6.7% | 5.9% | 6.5% |
| ROE** | 8.6% | 8.2% | 9.2% | 8.7% | 10.6% |

* ROA = Net profit / average asset value x 100%

** ROE = Net profit / average total equity x 100%

The Company's EBIT* and EBITDA** indicators for the last five years are as follows:

| | 2018<br>000' EUR | 2017<br>000' EUR | 2016<br>000' EUR | 2015<br>000' EUR | 2014<br>000' EUR |
|---|---|---|---|---|---|
| EBITDA* | 9 445 | 10 036 | 11 098 | 8 910 | 9 993 |
| EBIT ** | 7 595 | 8 368 | 9 701 | 7 468 | 8 814 |

* EBIT = earnings before interest and taxes

** EBITDA = earnings before interest and taxes, depreciation and amortization

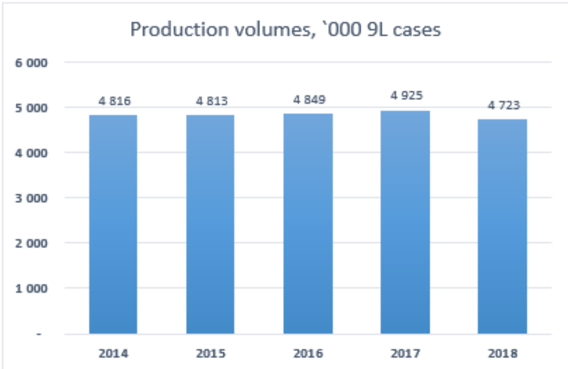
The Company's management uses the previously reported alternative performance indicators in assessing the Company's performance for a particular financial period and in making decisions.

AS Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid taxes of EUR 64.3 million to the state budget, including excise duty amounting to EUR 48.7 million.

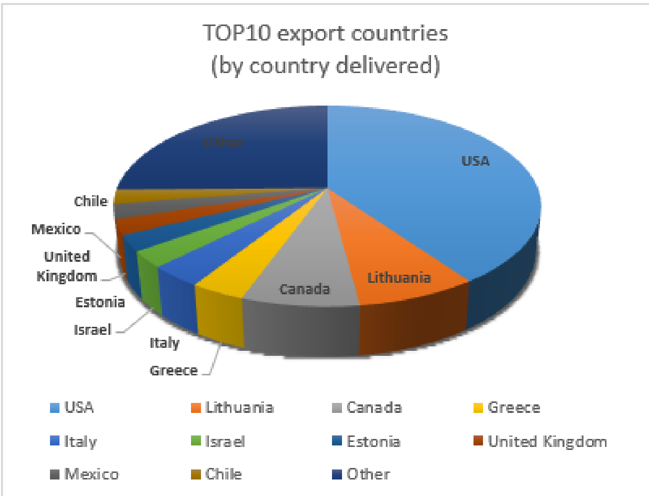
# REPORT OF THE MANAGEMENT (continued)

<u>Non-financial performance and activities for the reporting year</u>

The fall in turnover in 2018 resulted from a decline in order volumes, as mentioned above. Even though our largest export markets have remained unchanged, there have been newcomers to the TOP 10 list.




AS Latvijas balzams has been successfully operating as a European logistics hub for the distribution of group's brands in Europe, including Scandinavia and Russia (KAH, Bayou, Arinzano, Achaval Ferrer), as of the year 2016. The Customer Service Center of AS Latvijas balzams has taken over also customer service and inventory management services for these brands since the third quarter of 2017. Since the fourth quarter of 2018, AS Latvijas balzams has been executing all customer service center's functions for all Amber Beverage Group's brands all over the world.




In 2018, the Company continued investing in production, specifically focusing on the improvement of efficiency and adaptability and the preservation of the low cost base. Investments made by the Company in the acquisition of property, plant and equipment and intangible assets in 2018 were EUR 2.86 million, which is 62% more than in 2017. Main projects were:

- the installation of automated packaging and marking machines for three high-speed filling lines;
- the implementation of the inventory management module in the Company's ERP system;
- the management of inventories of Baltic distributors by AS Latvijas balzams (VMI – vendor managed inventory);
- the upgrading of a specialized small-volume line;
- changes in electricity connection input;
- the introduction of new bottle designs for a Company's core brand *Rīgas Šampanietis*;
- etc.

## REPORT OF THE MANAGEMENT (continued)

AS Latvijas balzams has undergone a yearly quality management system re-certification audit, with the result that the Company has obtained a certificate of conformity of the system with the new version of ISO 9001:2015.

Apart from the financial indicators referred to in the financial statements, the Company is using the following comparative indicators for the purposes of operational analysis: RFT (right first time) and OTIF (on time in full) & quality. RFT shows the share of products manufactured right the first time. During 2018, RTF reached 97.7%, which is improvement compared to 2017. OTIF & quality is a combined indicator demonstrating the execution of customers’ orders within the required time-frame and to the required extent and claims and complaints received concerning the products sold. As a rule, the industry controls OTIF and quality separately, but we have combined these indicators to simplify our operations. The result for the year 2018 is 96.5%, which means that there is still room for improvement. In 2019, the accounting methodology for this indicator will be changed by including in it execution both according to order inflow and against a service level standard, with the result that it will be stricter and the set target level will be reduced.

In 2018, the production of several new products started, and packaging renewal projects were executed for the following products: Apple Garden winter cider, Lucky Dog black currant, raspberry and lime cider, juniper flavor Piparu rūgtais and others. Among completely new beverages, one must definitely make note of the higher-price segment Cross Keys Gin, a gin distilled in house, as well as the Riga Black Balsam limited series in honor of Latvia’s centenary.

The Company has also developed its presence in the production of private label products. As an affirmation of high production quality standards, AS Latvijas balzams has been granted an opportunity to produce one of Russia’s largest vodka brands Five Lakes (*Пять Озер*). The Company ensures the bottling of this product for the client’s foreign customers.

### AS Latvijas balzams corporate social responsibility

Social responsibility is a significant part of the business model adopted by AS Latvijas balzams. AS Latvijas balzams conducts responsible and sustainable business operations, defining its three main spheres of responsibility as the following:

1) responsibility to the parties affected by the Company;
2) responsibility for the Company’s production;
3) responsibility for the environment.

In 2015, the UN General Assembly adopted a resolution Transforming our World: the 2030 Agenda for Sustainable Development. This includes 17 Sustainable Development Goals (SDGs) and 169 sub-goals to be reached in order to reduce poverty in the world and make global development sustainable. The SDGs are balanced in three dimensions: economic, social aspects and environment. Following the IOGT International Guidelines, which are specially drafted for the alcoholic beverages industry, AS Latvijas balzams has evaluated its operations in accordance with the SDGs, adopting for its business 13 of the 17 sustainable development goals that it can influence. In 2019, the Company will make a deeper analysis of its impact and responsibility for reaching these goals.

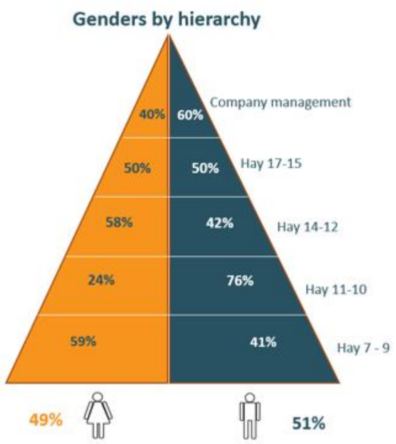
## REPORT OF THE MANAGEMENT (continued)

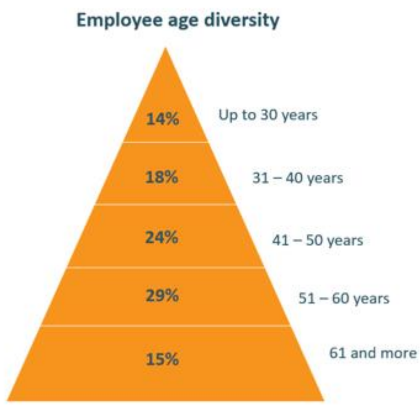

Responsibility to the parties affected by the Company

The priority of the Company’s corporate social responsibility (hereinafter - CSR) is people: employees, suppliers, distributors, customers, society and the state as a whole. The Company reviewed its CSR activities hitherto in 2018, and next year it plans to map the impact of significant parties.

*Employees*

AS Latvijas balzams is a stable and reliable employer, providing more than 600 jobs in 2018. 99% of the staff are employed on the basis of permanent employment contracts. The Company respects the principle of equality. Of the persons employed in 2018, 49% are women and 51% are men. The world’s recommended good practice for an optimal proportion of gender equality in companies is 60% to 40%, so the indicators of AS Latvijas balzams are really good. Gender equality is also ensured in the AS Latvijas balzams hierarchy, employing 40% women and 60% men in management positions. Diversity and equality are also respected in terms of employee age.




AS Latvijas balzams has signed a collective bargaining agreement with its employees, which applies 100% to all employees. The Company provides gifts and support to employees in different life situations, such as the birth of children, marriage, work anniversary, retirement, for parents of first-graders, for families with many children, for improving health, for the funeral of close relatives and when material loss is suffered. In accordance with the collective bargaining agreement, AS Latvijas balzams continues to provide life-long pensions to four former employees who have significantly contributed to the development and growth of the Company.

## REPORT OF THE MANAGEMENT (continued)

AS Latvijas balzams also cares for the workplace environment; therefore, several Company’s offices and production facilities were improved last year. As examples, one can cite cosmetic repairs of the wine material department, renovation of the entryway, renovation of the stairwell, renovation of the water processing area and other production facilities, insulating the roof of the historic production building, renovating the asphalt pavement of the area and many other jobs done. More than EUR 138 000 were spent in 2018 to improve the environment for employees.

Since the Company cares to have healthy and work-capable employees, in 2018 it spent more than EUR 55 000 on employee health insurance, mandatory health checks and accident insurance.

The Company works toward the professional and individual development of its employees; therefore, AS Latvijas balzams carried out a variety of systematic training sessions in 2018. 18% of all the Company’s employees participated in training, and the next year’s goal is to increase this number by two percentage points, achieving 20% of all employees. As part of its annual training, the Company has also educated employees on guidelines of the Anti-Corruption Policy and the Data Protection Policy, organizing recurring content training sessions for long-term employees, while new employees are familiarized with the essence of the policies. Since aging employees are an issue for the Company, it actively promotes the transmission of knowledge between generations. One should note that when there is a vacancy at the Company, it is first announced by an internal invitation to apply, offering growth opportunities to the existing employees.

Every year, AS Latvijas balzams employees participate in Company’s support projects or engage in non-professional activities, such as “The Great Cleanup” or donating toys and household items to shelters and orphanages, educational and professional guidance work activities at secondary and higher education institutions.

The Company believes that for sustainable development it is necessary to encourage employees to do their jobs at the highest quality, and it is something which is facilitated by the workplace environment. The Company’s management ensures a number of measures for improving the workplace environment. Employee workplace environment and satisfaction are evaluated at AS Latvijas balzams regularly; the 2018 survey result indicator was 4.6 (good level) on a 6-point scale. The highest evaluation was given to the atmosphere in the work ground (4.9 points), the manager (4.96 points) and the employer image (4.9 points). Employees were also proud of the Company’s products, recommending them to consumers; the survey results for this indicator reached 4.96 points on a 6-point scale.

*Suppliers*

During the review of the Company’s CSR activities in 2018, the Company defines its suppliers as a separate affected party. AS Latvijas balzams implements fair partnerships with its business partners and a transparent purchasing policy by demanding from suppliers conformity with the highest quality standards. In 2018, the Company implemented cooperation with suppliers in accordance with the Company’s Anti-Corruption Policy and Procurement Procedure; no violations were recorded in 2018.

*Distributors*

During the review of the Company’s CSR activities in 2018, the Company defines its distributors: SIA Amber Distribution Latvia, OU Amber Distribution Estonia, UAB Bennet Distributors, DDE Holding Ltd., S.P.I. Spirits (Cyprus) Ltd. and others as a separate affected party. The Company implements a responsible, planned cooperation with the distributors of its products in Latvia, the Baltics and on a global scale, guaranteeing the quality of production and implementing the business according to statutory requirements.

*Customers*

The Company sees the minimisation of potential negative effects of its products on society as one of its main social responsibility tasks; therefore, it educates society and consumers on responsible consumption of alcoholic beverages by conducting social education campaigns in the public and digital environment. The Company performs this task in cooperation with the Latvian Alcohol Industry Association (LANA), to whose activities the Company contributed more than EUR 15 000 in 2018. The Company is also supporting the educational website www.atbildīgi.lv.

## REPORT OF THE MANAGEMENT (continued)

AS Latvijas balzams relentlessly educates society about moderate alcohol consumption and reminds consumers of the potential impact of its products on health, especially by means of a warning put on each bottle about the unsuitability of use of the product during pregnancy or when operating a motor vehicle. These activities are not required by law, it is an initiative supported by the Company and executed together with other LANA members. The Company started participating in this initiative and refreshing the design of several products in 2014, and now most of the products bear the aforementioned warning labels.

The Company respects its Ethical Marketing Communications Code, which was drafted in 2013. This code determines the offering of the Company’s products on the market in a responsible manner and sets clear marketing guidelines, which are aimed at consistent compliance with the requirements of the legislation of the Republic of Latvia. In 2018, no violation was recorded by the Company in product communication (press releases, articles in the press, communication in social networks, event management, etc.) in a way that would promote the incorrect or excessive use of alcoholic beverages. The Company also processes customer information in accordance with the Data Protection Policy of AS Latvijas balzams, which is developed in accordance with the General Data Protection Regulation.

*Society*

AS Latvijas balzams cooperates with several educational institutions, where future industry specialists are trained, offering internship opportunities to familiarize them with the specifics of the Company’s business. The Company has also started a scholarship fund to support talented young specialists majoring in logistics, economics, quality management, production automation and chemistry. As an exception, in 2018 the Company did not conduct any scholarship fund activities with its partner schools of higher education, but now work is being done on renewing the scholarship plan.

Together with the Latvian Alcohol Industry Association (LANA), AS Latvijas balzams continued the social education campaign activities, which began in 2017: Party with Style and Would you sell alcohol to your child? In this and other ways, the Company contributes to positive alcohol use traditions and to lessening negative effects.

The Company also actively participates in nationwide social projects, for instance, last year, when Latvia’s centenary was celebrated, AS Latvijas balzams participated in financing a special project that gave both visitors and local residents knowledge about Latvia’s history in an easy and engaging form. In 2018, another nationwide project was continued with AS Latvijas balzams participation, which is the construction of Albert’s Square in Riga, where it is intended to erect a monument to the apothecary Abraham Kunze, the master who made the recipe for Riga Black Balsam.

*State*

AS Latvijas balzams is one of the largest taxpayers in the country, having paid EUR 64.3 million (including excise tax) to the state budget in 2018. In conducting its operations, the Company cooperated with state oversight institutions, for example, the State Revenue Service. In 2018, the Company received recognition under the State Revenue Service’s In-depth Cooperation Program or the so-called White List for implementing transparent company practices and thereby taking the 14th place. In addition, what is especially important, the Company took this ranking at the Gold level, being one of 79 companies among the most responsible taxpayers in the country.

The Company also actively cooperates with Latvia’s farmers, purchasing from them raw materials for making legendary beverages, such as Riga Black Balsam. Just to make this beverage, AS Latvijas balzams bought the greater part of raw materials from domestic farmers: 7.5 tons of dried blueberries, 4.5 tons of dried apples, and 300 kg of honey, which in money terms is considerable support for Latvian agriculture, thus promoting economic activity in Latvia.

## REPORT OF THE MANAGEMENT (continued)

AS Latvijas balzams is actively involved in Latvia’s largest industrial and non-governmental organization activities as a member of the Employers’ Confederation of Latvia, the Latvian Chamber of Commerce and Industry and the Latvian Federation of Food Companies. In cooperation with these organizations, the Company supports initiatives that are aimed at reducing the proportion of the shadow economy in the alcohol industry in the country.

To ensure the Company’s transparency, it visibly shows both on its website and in reports published through the Nasdaq Riga Bourse, the ownership structure, the composition of the Company’s management and supervisory board, as well as the Company’s goals and vision and its relations with investors.

*Responsibility for products*

AS Latvijas balzams production processes are carried out in accordance with the Quality Management Manual developed by the Company. Moreover, AS Latvijas balzams has implemented a certified quality management system in accordance with the ISO 9001:2015 standard, affirming the compliance of production processes with international requirements. The Company has developed, implemented and maintains the self-controlling system according to HACCP principles to ensure the compliance of products with European Union, Republic of Latvia and other special market requirements.

In 2018, the Quality Department of AS Latvijas balzams in cooperation with the Finance Department of SIA Amber Beverage Group developed a supplier quality cost calculator, which shows additional estimates of costs that are related to downtimes or additional work due to bad quality raw materials. The goal of the project is to create a supplier history (quality valuation) that can be taken into account in future procurement tenders. Hence, it will be possible to evaluate suppliers in terms of not only prices offered but also actual quality costs.

An event worth mentioning is that new test equipment was installed at both of the Company’s laboratories for testing the content of both distilled spirits and fermented beverages, thereby significantly improving the work by reducing beverage testing times. One of the most successful and at the same time significant projects implemented in 2018 was the transition to electronic requests for quality testing and the management of result data in the Company’s accounting system Axapta, which allows collection of all data in a single place, ensuring efficient communication between the test requester and the laboratory and significantly reducing the amount of paperwork.

The year 2018 saw the intensive implementation of LEAN (a group of management principles and methods focusing on the value for the end consumer and the creation of value for a company’s product/service, linking it directly to the wishes of the end consumer) with the goal of reducing losses, which under LEAN are both losses of materials and non-material losses (inefficient processes, needless movements, waiting times, etc.).

The LEAN activities planned for 2018 were realized to the extent of 91%. More than 200 employees were trained in one of the LEAN methods and its application to daily work. Activities are continued to implement 5S at the production units and materials warehouses, thereby creating an orderly work environment so that employees have access to all that is needed to do high-quality work.

In order to maintain the 5S standard at the necessary level, 5S audits were started and two workplaces that had achieved a high level of 5S implementation and were able to sustain this level were nominated every quarter. In 2018, 145 employee improvement suggestions were implemented (compared with 92 in 2017). As a result of SMED projects, transportation to several filling lines were standardized and optimized, thereby allowing the reduction of the transportation time of specific installations between 7% and 28%.

The consumers of AS Latvijas balzams products are those affected parties for whose satisfaction the Company’s employees at the Customer Service Center care every day. The Company ensures an instantaneous feedback link from consumers, using the toll-free phone number 80009990. In 2018, 172 complaints, suggestions, reviews or simply questions were received from consumers and customers and forwarded to relevant Company’s specialists. 100% of the feedback are accepted and resolved (in the case of complaints). All viewpoints expressed are regularly analysed, and data are compiled for a customer and consumer satisfaction index once a month, thereby making it possible to evaluate general trends or consumer reactions to changes in particular product recipes. The customer satisfaction analysis shows that consumer activity in providing feedback has been relatively unchanged over the last three years.

## REPORT OF THE MANAGEMENT (continued)

*Responsibility for the environment*

When modernizing production processes and buying new equipment, AS Latvijas balzams always evaluates the compliance of new equipment with environmentally friendly requirements. One can say with full confidence that all equipment purchased in 2018 promotes lower energy use, narrowing the Company’s footprint on environmental factors. The next energy audit for the Company is scheduled for 2020, and all the necessary indicators for the audit were fixed in 2018. The Company conducts $CO_2$ emissions controls, with $CO_2$ emissions of 1 204.683 tons reported in 2018, which is 2% more than in 2017, when the amount of $CO_2$ emissions was 1 183.195 tons.

In selecting its packaging, AS Latvijas balzams prioritizes environmentally friendly solutions that are commensurate with the requirements of production processes. The Company also assumes responsibility for waste management, regularly delivering scrap paper, scrap metal and environmentally dangerous waste for recycling. In addition, the Company is supplying packaging of its products for appropriate treatment as part of cooperation with the society Zaļā Josta (*Green Belt*). In 2018, supplies intended for recycling amounted to 1 010.76 tons, including 96.23 tons of polyethylene, 377.75 tons of cardboard, 203.34 tons of glass and 13.81 tons of scrap metal.

The Company uses an artesian well located in its territory (A. Čaka Street 160) for production processes, and its use of water as a resource is careful and thoughtful. Last year, the Company used 74 091 $m^3$ of water, which is 5.98% more by volume than in 2017, when 69 657 $m^3$ of water were consumed. This is because last year more raw materials were used for the production of apple wines, thereby making the Company more competitive and ensuring lower costs of production.

Next year, the Company intends to participate in the project LIFE Fit for REACH, the goal of which is to determine all the chemicals used by AS Latvijas balzams, to count these substances and evaluate their dangerousness, and, possibly, replace some harmful substances with those harmless. Under this project, the Company could obtain up to EUR 10 000 in co-financing for purchasing appropriate equipment and inventory.

**Risk assessment and management**

As regards the Company’s products and risk management process, the following factors to which greater consideration is given should be mentioned on the basis of an assessment of external and internal factors that are likely to affect the Company’s operations:

- the timely identification and compliance with statutory requirements by taking into account timely information and education of staff;
- the ensuring of production continuity by timely planning production capacity and load;
- the creation of adequate jobs by investing in the development of production, services and human resources by means of training.

In the course of business, the Company strictly complies with the legislation of the Republic of Latvia. Considering the industry, the Company is devoting a great deal of attention to the assessment of transactions and their conformity with laws.

The greatest challenges in 2018 were as follows:

- to retain the cost base at the previous level, regardless of a decrease in orders from main customers;
- to ensure the timely and complete implementation of planned investment projects, which are the most complex among those we have implemented over the past 15 years.

# REPORT OF THE MANAGEMENT (continued)

## Stock and fund market

In 2018, the Company's share price fluctuated from EUR 8.00 to EUR 9.15 per share. In 2018, the average share price was EUR 8.47. The price per share fluctuated between EUR 5.40 and EUR 10.40 during the last three years.


## 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 in order to minimize their potential 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 in order 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 having sound credit histories. In international transactions, the Company also complies with the sanctions regime based on the information published on the website of the Ministry of Foreign Affairs of the Republic of Latvia. 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 risks 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. As at 31 December 2018, the Company's current assets exceeded its current liabilities by EUR 54.6 million (31 December 2017: EUR 46.3 million). The Company has a strong ability to meet its current liabilities as they fall due. The Company's liquidity ratios for last three years are as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Current ratio* | 2.54 | 2.34 | 2.37 |
| Quick ratio** | 1.92 | 1.66 | 1.61 |

* Current ratio = current assets / current liabilities

** Quick ratio = (cash and cash equivalents, short-term investments, and current receivables) / current liabilities.

Financial risk management is disclosed in Note 30.

## REPORT OF THE MANAGEMENT (continued)

**Events after the reporting date**

In January 2019, Company signed amendments with regard to the extension of the existing guarantee under the overdraft agreement concluded between S.P.I. Spirits (Cyprus) Ltd and AS Luminor Bank Latvia branch and with regard to the extension of the previous period of the guarantee under the loan agreement concluded between Amber Beverage Group Holding S.à r.l. and AS Luminor Bank Latvia branch.

By the date of signing of these financial statements, receivables from the Group companies for goods have decreased from EUR 53 million to EUR 33 million.

Since the last day of the financial year until the date of signing of these financial statements, there have been no other subsequent events which would have a significant effect on the financial position of the Company as at 31 December 2018.

**Future prospects**

In 2019, AS Latvijas balzams will keep focusing on the following:

1) investment opportunities in both the existing and new export markets with strong growth potential and accelerating sales;
2) the efficiency improvement program.

We shall keep the strong focus on our core export brands, i.e., Riga Black Balsam and Cosmopolitan Diva, as well as the new premium gin brand Cross Keys Gin, by investing into their international recognition and the promotion of brand equity and market share.

The Company will also continue improving the efficiency of production, with a focus on purchase, planning and infrastructure improvements to support our goal, which is to deliver quality products with a competitive cost advantage. To this end, the work on the following projects will be continued in 2019:

- the introduction of the automated recording of products;
- the installation of automated quality control equipment;
- the installation of semi-automated depalletizing equipment to substitute manual operations;
- the continuation of the LEAN project;
- the implementation of new bottle shapes for the popular Moskovskaya brand;
- the updating of the Company's website;
- the set-up of the Company's representation center at the factory in A.Čaka Street.

In 2019, the Company will proceed with the plant modernization and reconstruction project with the aim of integrating both plants under the same roof. It is expected that the project will result in the improvement of the Company's competitive position among regional producers by decreasing labor, logistics and production costs. Total costs of the project are estimated at EUR 23 million. The Company has obtained a Cabinet's decision granting a corporate income tax discount for the implementation of the project and is currently drawing up the technical part of the project.

In 2019, the Company in its planning of corporate social responsibility activities will make a deeper analysis of the Company's impact and responsibility in terms of reaching 17 Sustainable Development Goals. Also, in 2019 the Company plans to review its activities in relation to responsibility for the environment and to draft a Company's environmental policy. Of equal importance in 2019 is the Company paying special attention to reporting corporative governance principles in accordance with the best practices.

Regardless of the potentially expected drop in prices for alcohol, wine materials, juice and concentrates in Europe in 2019, the price of secondary packaging and primary packaging (glass bottles) may still increase. In addition, production costs could be negatively affected by rises in the prices of all energy sources (electricity, gas, water). The total effect on the cost of production could be minimally negative. Despite these factors, the Company does not plan to change its sales prices and plans to keep its current level of profitability by making the aforementioned investments and thereby reducing fixed costs.

## REPORT OF THE MANAGEMENT (continued)

The Company as an alcohol industry enterprise was affected by the rise in the excise tax rate on 1 March 2018, which resulted in a small decline in domestic consumption, especially in the second half of the year. Domestic consumption will continue to fall, because the excise tax rates were raised again on 1 March 2019 and cross-border commerce will not compensate for this fall. Border trade will tend to diminish due to the tax policies of neighboring countries. Under these conditions, Latvian state institutions should review the pace of planned excise tax raises (the next regular tax rate raise is expected in 2020).

Intars Geidāns
Chairman of the Board

Riga, 26 April 2019

## STATEMENT OF THE MANAGEMENTS’ RESPONSIBILITY

The Management is responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and the results of its operations and cash flows for the year then ended.

The Management certifies that proper accounting methods were applied in preparation of these financial statements on page 17 to page 59 and decisions and assessments were made with proper discretion and prudence. The Management confirms that the financial statements have been prepared on a going concern basis.

The Management is responsible for maintaining the accounting records and for safeguarding the Company’s assets and preventing and detecting of fraud and other irregularities in the Company. It is also responsible for operating the Company in compliance with the legislation of the Republic of Latvia.

Intars Geidāns
Chairman of the Board

Riga, 26 April 2019

# INCOME STATEMENT

| | Notes | 2018 EUR | 2017 EUR |
|---|---|---|---|
| Revenue | 1 | 75 137 639 | 78 263 078 |
| Cost of sales | 2 | (57 247 462) | (60 238 914) |
| **Gross profit** | | **17 890 177** | **18 024 164** |
| Distribution expenses | 3 | (6 343 888) | (5 764 219) |
| Administrative expenses | 4 | (4 335 908) | (4 406 847) |
| Other operating income | 5 | 1 054 617 | 986 574 |
| Other operating expenses | 6 | (669 718) | (471 362) |
| Finance income | 8 | 2 090 496 | 1 535 512 |
| Finance expenses | 9 | (298 476) | (364 794) |
| **Profit before tax** | | **9 387 300** | **9 539 028** |
| Corporate income tax | 10 | - | (914 605) |
| **Net profit** | | **9 387 300** | **8 624 423** |
| **Earnings per share** | | | |
| Basic | 11 | 1.25 | 1.15 |
| Diluted | 11 | 1.25 | 1.15 |

Notes on pages 22 to 59 form an integral part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

| | Notes | 2018<br>EUR | 2017<br>EUR |
|---|---|---|---|
| **Net profit** | | **9 387 300** | **8 624 423** |
| **Other comprehensive income** | | | |
| **Items that may be reclassified subsequently to income statement** | | | |
| Changes in fair value of financial instruments | 20 | 16 217 | 32 578 |
| Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments | | - | (7 672) |
| **Other comprehensive income** | | **16 217** | **24 906** |
| **Total comprehensive income for the period** | | **9 403 517** | **8 649 329** |

Notes on pages 22 to 59 form an integral part of these financial statements.

## STATEMENT OF FINANCIAL POSITION

| | Notes | 31.12.2018. EUR | 31.12.2017. EUR |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 12 | 401 388 | 514 728 |
| Property, plant and equipment | 13 | 12 987 295 | 12 622 301 |
| Investment property | 13 | 1 912 137 | 664 305 |
| Loans to group companies | 25 (h) | 38 231 771 | 35 611 255 |
| Receivables from group companies | 25 (h) | 9 870 000 | 10 000 000 |
| Other non current assets | 16 | 258 339 | 555 028 |
| **Total non-current assets:** | | **63 660 930** | **59 967 617** |
| **Current assets** | | | |
| Inventories | 14 | 21 385 788 | 23 098 633 |
| Trade receivables | 15 | 1 578 736 | 1 099 612 |
| Receivables from group companies | 25 (i) | 66 435 043 | 56 153 146 |
| Other current assets | 16 | 681 693 | 341 338 |
| Corporate income tax | | 5 000 | - |
| Cash and cash equivalents | | 12 822 | 132 970 |
| **Total current assets:** | | **90 099 082** | **80 825 699** |
| ***Total assets*** | | **153 760 012** | **140 793 316** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 17 | 10 495 660 | 10 495 660 |
| Share premium | | 87 887 | 87 887 |
| Revalution reserves of derivative financial instruments | | (2 353) | (18 570) |
| Reserves | 18 | 2 318 823 | 2 318 823 |
| Retained earnings | | 101 221 866 | 91 842 893 |
| **Total equity:** | | **114 121 883** | **104 726 693** |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 19 | 4 184 617 | 1 560 806 |
| Derivative financial instruments | 20 | 2 353 | 18 570 |
| **Total non-current liabilities:** | | **4 186 970** | **1 579 376** |
| **Current liabilities** | | | |
| Borrowings | 19 | 1 778 863 | 6 953 979 |
| Trade payables | | 6 402 576 | 6 641 437 |
| Payables to group companies | 25 (j) | 2 040 007 | 1 314 858 |
| Taxes payable | 21 | 22 508 103 | 17 217 726 |
| Other liabilities | 21 | 2 721 610 | 2 359 247 |
| **Total current liabilities:** | | **35 451 159** | **34 487 247** |
| **Total liabilities:** | | **39 638 129** | **36 066 623** |
| ***Total equity and liabilities*** | | **153 760 012** | **140 793 316** |

Notes on pages 22 to 59 form an integral part of these financial statements.

Intars Geidāns
Chairman of the Board
Riga, 26 April, 2019

# STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium | Reserves | Revalution reserves of derivative financial instru-ments | 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 | - | - | - | - | 8 624 423 | 8 624 423 |
| Other comprehensive income | - | - | - | 24 906 | - | 24 906 |
| **Total comprehensive income** | **-** | **-** | **-** | **24 906** | **8 624 423** | **8 649 329** |
| **31.12.2017.** | **10 495 660** | **87 887** | **2 318 823** | **(18 570)** | **91 842 893** | **104 726 693** |
| Change in accounting policy* | - | - | - | - | (8 327) | (8 327) |
| **01.01.2018. adjusted** | **10 495 660** | **87 887** | **2 318 823** | **(18 570)** | **91 834 566** | **104 718 366** |
| Net profit | - | - | - | - | 9 387 300 | 9 387 300 |
| Other comprehensive income | - | - | - | 16 217 | - | 16 217 |
| **Total comprehensive income** | **-** | **-** | **-** | **16 217** | **9 387 300** | **9 403 517** |
| **31.12.2018.** | **10 495 660** | **87 887** | **2 318 823** | **(2 353)** | **101 221 866** | **114 121 883** |

* see Note 30

Notes on pages 22 to 59 form an integral part of these financial statements.

## CASH FLOW STATEMENT

| | Notes | 2018<br>EUR | 2017<br>EUR |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Profit for the period before taxation | | 9 387 300 | 9 539 028 |
| Adjustments for: | | | |
| Deprecition and amortisation | 12,13 | 1 847 603 | 1 667 750 |
| Net profit on sales and disposal of property, plant and equipment and intangibles | | (7 220) | (1 001) |
| Accruals | | (259 935) | (247 346) |
| Interest income | 8 | (2 090 496) | (1 535 512) |
| Interest expense | 9 | 298 476 | 364 794 |
| Changes in working capital: | | | |
| Decrease / (increase) in inventories | | 1 876 355 | (2 008 506) |
| Increase in trade and other receivables | | (8 824 657) | (12 253 549) |
| Increase in trade and other payables | | 7 412 538 | 5 332 331 |
| **Cash generated from operations** | | **9 639 964** | **12 316 268** |
| Interest paid | | (223 786) | (253 910) |
| Corporate income tax paid | | (1 354 543) | (45 495) |
| **Net cash generated from operating activities** | | **8 061 635** | **12 016 863** |
| **Cash flow from investing activities** | | | |
| 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 |
| Interest received | | 232 139 | 246 831 |
| **Net cash used in investing activities** | | **(5 053 031)** | **(11 057 547)** |
| **Cash flow from financing activities** | | | |
| Borrowings repaid | | (2 673 451) | (2 926 448) |
| Finance lease payments | | (455 301) | (577 213) |
| **Net cash used in financing activities** | | **(3 128 752)** | **(3 503 661)** |
| **Net decrease in cash and cash equivalents** | | **(120 148)** | **(2 544 345)** |
| **Cash and cash equivalents at the beginnging of the period** | | **132 970** | **2 677 315** |
| **Cash and cash equivalents at the end of the period** | | **12 822** | **132 970** |

Notes on pages 22 to 59 form an integral part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

## I. GENERAL INFORMATION

The Company is the largest producer of alcohol beverages in the Baltic States. In total, Latvijas balzams AS produces more than 100 different alcohol beverages. The major shareholder of the Company, who owns 89.99% of the Company’s share capital as of 31 December 2018, is Amber Beverage Group Holding S.à r.l..

AS Latvijas balzams 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. Registered address of the Company is at 160 A. Čaka Street, Riga, LV-1012, Republic of Latvia. Shares of AS Latvijas balzams are quoted on second list of the Nasdaq Riga AS.

The current financial year of the Company is from 1 January 2018 to 31 December 2018.

These financial statements were authorized for issue by the Board of the Company on 26 April 2019, and Chairman of the Board Intars Geidāns signed these for and on behalf of the Board.

The approval of the annual report of a Company at a meeting of shareholders shall be postponed if, disputing the correctness of separate positions in the annual report, the postponement is requested by shareholders who represent at least one tenth of the equity capital.

The auditor of the Company is certified audit company PricewaterhouseCoopers SIA and certified auditor in charge – Jana Smirnova.

## II. ACCOUNTING POLICIES

### (1) Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS).

The financial statements have been prepared using the measurement, recognition, presentation and disclosure bases specified by IFRS for each type of asset, liability, income and expense.

The financial statements are presented in accordance with IAS 1 Presentation of Financial Statements. The Company has elected to present the Income statement and Statement of comprehensive income as separate statements. The financial statements are prepared on a going concern basis. As at 31 December 2018 the Company meets the criteria for a large company in accordance with the Law On the Annual Financial Statements and Consolidated Financial Statements.

Expenses in the income statement are classified by function.

The cash flow statement is prepared according to indirect method.

Preparation of the financial statements in compliance with IFRS requires critical assumptions. Moreover, preparation of the financial statements requires from the Management to make estimates and judgments applying the accounting policies adopted by the Company. Critical estimates and judgments are disclosed in Note (21) to accounting policies.

In 2018, the Company revised its accounting policy dealing with the impairment of financial assets following the adoption of IFRS 9 “Financial Instruments”. The Company has recognised differences between the carrying amounts of financial assets resulting from the adoption of IFRS 9 in retained earnings as at 1 January 2018.

Except as described above, the accounting policies applied are consistent with those of the previous financial year.

**II. ACCOUNTING POLICIES** (continued)

**(1) Basis of preparation** (continued)

**a) The following new and amended IFRS and interpretations became effective in 2018, but have no significant impact on the operations of the Company and these financial statements:**

IFRS 9 “Financial instruments” (effective for annual periods beginning on or after 1 January 2018)

Key features of the new standard are:

Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).

Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets, but will be included in assessing the SPPI condition.

Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.

IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018).

The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed.

Amendments to IFRS 15 “Revenue from Contracts with Customers” (effective for annual periods beginning on or after 1 January 2018).

**II. ACCOUNTING POLICIES** (continued)

**(1) Basis of preparation** (continued)

**a) The following new and amended IFRS and interpretations became effective in 2018, but have no significant impact on the operations of the Company and these financial statements** (continued)**:**

The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018).

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts ((effective, depending on the approach, for annual periods beginning on or after 1 January 2018 for entities that choose to apply temporary exemption option, or when the entity first applies IFRS 9 for entities that choose to apply overlay approach).

Annual Improvements to IFRSs 2014–2016 Cycle (effective for annual periods beginning on or after 1 January 2018 (changes to IFRS 1 and IAS 28)).

Amendments to IAS 40 “Investment Property” – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018).

IFRIC 22 “Foreign Currency Transactions and Advance Consideration” (effective for annual periods beginning on or after 1 January 2018).

**b) Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2019 or later periods or are not yet endorsed by the European Union:**

IFRS 16 “Leases” (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The management has evaluated the impact of the new standard. The standard will impact the accounting for operating leases. The Company will recognise assets and lease liabilities amounting to EUR 1 605 471 as at 1 January 2019. The operations of the Company as a lessor are insignificant; therefore, the Company’s management believes that the adoption of IFRS 16 will not produce any significant impact on the Company’s financial statements. However, more extensive disclosures will be required starting from the next reporting year. The Company will adopt this standard as of 1 January 2019. The Company plans to apply the simplified approach, without restating comparative information for the previous reporting year. At the time of the transition, lease assets will be recognised at the same amounts as lease liabilities (adjusted for prepayments made and accrued lease expense).

IFRIC 23 “Uncertainty over Income Tax Treatments” (effective for annual periods beginning on or after 1 January 2019).

**II. ACCOUNTING POLICIES** (continued)

**(1) Basis of preparation** (continued)

**b) Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2019 or later periods or are not yet endorsed by the European Union** (continued):

Amendments to IFRS 9 “Prepayment Features with Negative Compensation” (effective for annual periods beginning on or after 1 January 2019).

Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures” (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

Annual Improvements to IFRSs 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement” (effective for annual periods beginning on or after 1 January 2019; not yet adopted by the EU).

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

Amendments to IFRS 3 “Definition of a business” (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

Amendments to IAS 1 and IAS 8 “Definition of materiality” (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

IFRS 17 “Insurance Contracts” (effective for annual periods beginning on or after 1 January 2021; not yet adopted by the EU).

Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture” (effective date to be determined by the IASB; not yet adopted by the EU).

The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of all standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial, except as described above in relation to IFRS 16.

## II. ACCOUNTING POLICIES (continued)

### (2) Revenue recognition

The Company is in the business of production and selling the alcoholic beverages. Revenue from contracts with customers is recognised when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods before transferring them to the customer.

*Sale of finished goods*

Revenue from sale of finished goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the finished goods. The normal credit term is 30 to 90 days upon delivery.

In determining the transaction price for the sale of finished goods, the Company considers the effects of variable consideration.

*Variable consideration*

If the consideration in a contract includes a variable amount, the Company estimates the amount of consideration to which it will be entitled in exchange for transferring the goods to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer.

### (3) Functional currency and revaluation

The functional and presentation currency of the Company is official currency of the Republic of Latvia - euro (EUR).

Foreign currency transactions have been translated into euro applying the exchange rate valid at the beginning of the day of transaction determined by the conversion procedure between central banks of the European System of Central Banks and other central banks and which is published on the European Central Bank's website.

On the last day of the reporting period all monetary assets and liabilities were translated into euros in accordance with the rates (at the end of the day) published on the European Central Bank's website.

The profit or loss resulting from the exchange rate fluctuations of the foreign currency are recognized net in the income statement in the respective period.

| | **31.12.2018.<br>EUR** | **31.12.2017.<br>EUR** |
|---|---|---|
| 1 USD | 0.8734 | 0.8338 |
| 1 GBP | 1.1179 | 1.1271 |
| 1 RUB | 0.0126 | 0.0144 |
| 1 CAD | 0.6408 | 0.6649 |

## II. ACCOUNTING POLICIES (continued)

### (4) Property, plant and equipment (PPE)

Property, plant and equipment is recognised at cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly related to the acquisition of the asset.

Subsequent costs are recognised in the asset’s carrying amount or as a separate asset only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Other repairs and maintenance are recognised as an expense during the financial period when they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful live, as follows:

| | **Years** |
|---|---|
| Buildings | 10 - 71 |
| Technological equipment | 2 - 25 |
| Other machinery and equipment | 2 - 25 |

The asset’s residual values and useful lives are reviewed, and adjusted if appropriate, at each end of the financial year.

Costs of borrowing to finance assets under construction and other direct charges related to the particular asset under construction are capitalized during the time that is required to complete and prepare the asset for its intended use as part of the cost of the asset. Capitalization of the borrowing costs is suspended during extended periods in which active developments are interrupted.

Gains or losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised in the income statement in the relevant period when incurred.

### (5) Intangible assets

Intangible assets, in general, consist of licenses, software and related implementation costs.

Intangible assets are recognised at the cost of acquisition less accumulated amortisation and impairment. Amortisation is calculated from the moment the assets are available to use. Amortisation of intangible assets is calculated using the straight-line method to allocate amounts to their residual values over their estimated useful lives of 3 to 5 years.

### (6) Investment property

Investment property is land, building or part of building held by the Company to earn rentals or for capital appreciation rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business and are not occupied by the Company. Investment property is initially recognised at acquisition cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The depreciation is calculated using the straight-line method. Applied depreciation rates are based on estimated useful life set for respective fixed asset categories. The useful lives are reviewed, and adjusted if appropriate, at each end of the financial year.

## II. ACCOUNTING POLICIES (continued)

### (7) Impairment of property, plant and equipment, investment property and intangible assets

All fixed assets, investment properties and intangible assets of the Company have their estimated useful lives and they are amortised or depreciated. Assets that are subject to amortisation and depreciation are assessed for impairment every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Impairment is recognised as difference between book value of the asset and its recoverable value. Recoverable amount is the higher of the fair value less costs of disposal and the value in use of the related fixed asset, investment property or intangible asset. The decrease is recognised in the income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash inflows that are largerly independent of the cash inflows from other assets or groups of assets (cash generating units).

### (8) The Company is lessee

**Finance lease**

Leases of assets under which the Company has substantially all the risks and rewards or ownership are classified as finance leases. Assets under the finance lease are recognized at the inception of lease at the lower of fair value of the leased assets and the present value of the minimum lease payments. Lease interest payments are included in the income statement by method to produce a constant periodic rate of interest on the remaining balance of the liability.

**Operating lease**

Leases under which substantially all of the ownership risks and rewards are granted to the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

### (9) Operating lease - the Company as a lessor

Assets that are leased according to operating lease conditions, are disclosed as investment property at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the period of useful life of the appropriate asset, to write off the value of the asset to its estimated residual value at the end of the period of useful life by using the rates specified for similar assets of the Company. Rental income from operating lease including advances received is recognised on a straight-line basis over the period of the lease.

### (10) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. When the net realisable value of inventories is lower than its cost, provisions are created to reduce the value of inventories to its net realisable value.

The cost of inventories is determined based on FIFO method and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

## II. ACCOUNTING POLICIES (continued)

### (11) Financial instruments

From 1 January 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Company reclassifies debt investments when and only when its business model for managing those assets changes.

*Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

*Measurement*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

*Debt instruments*

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Company classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

## II. ACCOUNTING POLICIES (continued)

### (11) Financial instruments (continued)

*Equity instruments*

The Company subsequently measures all equity investments at fair value. Where the Company’s management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company’s right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable.

*Impairment*

From 1 January 2018, the Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 30 for further details.

*Financial liabilities*

Liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

*Accounting policies applied until 31 December 2017*

The Company has applied IFRS 9 retrospectively but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company’s previous accounting policy.

The Company classifies its financial instruments in the following categories:

- Loans and receivables;
- Financial assets at fair value through profit or loss;
- Financial liabilities at amortised cost;
- Financial liabilities at fair value through profit and loss.

The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

*Recognition and derecognition*

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

*Measurement*

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Gains or losses arising from changes in the fair value of financial instruments at fair value through other comprehensive income are recognised in other comprehensive income. Interest on loans and receivables is calculated using the effective interest method is recognised in the income statement. Details on how the fair value of financial instruments is determined are disclosed in Note 29.

## II. ACCOUNTING POLICIES (continued)

### (11) Financial instruments (continued)

*Impairment of financial assets*

A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the impairment is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Impairment loss is recognised in the income statement.

### (12) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value as at the date when the contract is concluded. Derivatives are subsequently measured at fair value at the end of each reporting period. The method of recognising the resulting gain and loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designates derivatives as hedges of an interest rates changes of its borrowings (cash flow hedge).

The effective portion of changes in the fair value of derivatives that are designated and qualify for cash flow hedges is recognised in equity item "Revaluation reserves of derivative financial instruments". The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified in the income statement in the periods when the hedged item effects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within "Finance costs". The gain or loss relating to the ineffective portion is recognised in the income statement within "Other expenses".

### (13) Cash and cash equivalents

Cash and cash equivalents consist of banks' current accounts balances and other highly liquid investments with original maturities up to 90 days.

### (14) Share capital

Ordinary shares are classified as share capital.

### (15) Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

### (16) Accrued liabilities for unused annual leave

Amount of accumulated unused annual leave is determined by multiplying the average day rate of employees for the last six months of the financial year by the amount of accrued but unused annual leave at the end of the reporting year.

## II. ACCOUNTING POLICIES (continued)

### (17) Income tax

Corporate income tax comprises current and deferred tax of the reporting year. Corporate income tax for the reporting period is included in the financial statements based on the management’s calculations prepared in accordance with requirements of tax legislation of the Company. Deferred tax assets/liabilities are written off in the profit and loss account of the reporting period based on the legislative changes resulting in a change in deferred tax base. Income taxes are recognized through profit or loss unless they relate to items recognized directly in equity.

### (18) Earnings per share

Earnings per share are determined dividing the net gains or losses attributable to shareholders of the Company by the average weighted quantity of the shares in the reporting year.

### (19) Related parties

Related parties are defined as the shareholders of the Company, who have a significant influence or control over the Company, members of the Board and the Council, their close relatives and companies, in which they have a significant influence or control.

### (20) Employee benefits

Short-term employee benefits, including salaries and social security contributions, bonuses and paid vacation benefits are included in the income statement on an accrual basis.

The Company pays social security contributions to state pension insurance and to the state funded pension scheme in accordance with Latvian legislation.

In accordance with the Rules of the Cabinet of Ministers of Latvia Republic 71.87% (2017: 72%) of the social security contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Company pay fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the Company.

### (21) Critical accounting estimates and judgments

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management must make estimates and judgments applying the accounting policies adopted by the Company.

Preparation of financial statements in compliance with IFRS require estimates and assumptions affecting value of assets and liabilities recognised in the financial statements, and disclosures in the notes at the year-end, as well as income and expenditures recognised in the reporting period. Actual results may differ from these estimates. Items that are mostly affected by assumptions are determination of useful life period for buildings and equipment, as well as recoverable amount of receivables and inventories as disclosed in the relevant notes.

## II. ACCOUNTING POLICIES (continued)

### (21) Critical accounting estimates and judgments (continued)

a) Determination of the useful life of property, plant and equipment

In estimating useful life of property, plant and equipment (PPE) the management relies on the historical information, technical survey, assessing the current state of the asset and external evaluations. During the reporting and previous year there are no factors that indicate a need on changes of the useful life of the Company's PPE.

b) Provisions for bad debts and inventory obsolescence

Provisions are made with reference to the ageing of receivable and inventory balances and the view of the management as to whether amounts are recoverable. Bad debt provisions are determined based on considerations regarding recent customer trading, management experience and expected sales forecasts. When the net realisable value of inventories is lower than its cost, provisions are created to reduce the value of inventories to its net realisable value.

## III. OTHER NOTES

### (1) Segment Information and net sales

#### a) Operation and reportable segment

Core activity of the Company is production of alcohol beverages. AS Latvijas balsams produces over 100 different types of beverages. Since the Company’s core activity is mainly the production of alcohol beverages, the Company has only one operation and reportable segment.

#### b) Revenue by type

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| 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 |
| | **75 137 639** | **78 263 078** |

#### c) Revenue by geography

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Cyprus | 39 596 086 | 43 454 934 |
| Latvia | 29 908 824 | 29 569 360 |
| Lithuania | 3 468 319 | 3 443 307 |
| Russia | 1 093 380 | 826 075 |
| Estonia | 691 969 | 738 870 |
| USA | 130 569 | 162 522 |
| Other countries | 248 492 | 68 010 |
| | **75 137 639** | **78 263 078** |

### (2) Cost of sales

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| 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 and amortisation 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 |
| Changes of accrued expenses on unused annual leave | 16 871 | 56 413 |
| Other costs | 677 815 | 1 803 411 |
| | **57 247 462** | **60 238 914** |

## III. OTHER NOTES (continued)

### (3) Distribution expenses

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| 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 and amortisation of non-current assets | 399 894 | 394 846 |
| Other expenses | 524 642 | 489 031 |
| | **6 343 888** | **5 764 219** |

### (4) Administrative expenses

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Management services and expenses | 2 063 897 | 2 236 441 |
| Salary expenses | 590 820 | 598 761 |
| Depreciation and amortisation 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 | 489 458 | 392 233 |
| | **4 335 908** | **4 406 847** |

### (5) Other operating income

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Income from auxiliary and package materials sales | 550 584 | 558 644 |
| Net profit from exchange rate fluctuations | - | 216 356 |
| Gains on sale of property, plant and equipment | 8 678 | 10 069 |
| Other income | 495 355 | 201 505 |
| | **1 054 617** | **986 574** |

## III. OTHER NOTES (continued)

### (6) Other operating expenses

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Penalties paid | 125 300 | 56 249 |
| Net losses from exchange rate fluctuations | 112 442 | - |
| Other expenses | 431 976 | 415 113 |
| | **669 718** | **471 362** |

### (7) Expenses by nature

| | EUR | EUR |
|---|---|---|
| Materials | 42 550 870 | 43 883 675 |
| Employee expenses | 10 222 524 | 9 695 067 |
| Management services and expenses | 2 063 897 | 2 236 441 |
| Depreciation of non-current assets | 1 849 500 | 1 667 751 |
| Advertising and sales promotion expenses | 1 469 857 | 970 383 |
| Repair and maintenance expenses | 688 563 | 662 093 |
| Transportation expenses | 675 043 | 751 313 |
| Management of packaging | 480 643 | 392 904 |
| Real estate tax | 159 558 | 161 636 |
| Other expenses | 8 436 521 | 10 460 079 |
| | **68 596 976** | **70 881 342** |

### (8) Finance income

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Interest income | 2 090 496 | 1 535 512 |
| | **2 090 496** | **1 535 512** |

### (9) Finance expenses

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Interest expenses | 298 476 | 364 794 |
| | **298 476** | **364 794** |

## III. OTHER NOTES (continued)

### (10) Corporate income tax

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Corporate income tax | - | 1 390 038 |
| Changes in deferred income tax | - | (475 433) |
| | **-** | **914 605** |

### (11) Earnings per Share (expressed in euro per share)

Since the Company has not executed any transactions that could cause changes in the share capital, which would change the amount of earning per share, the adjusted earnings per share is equivalent to the basic earnings per share.

Earnings per share are calculated by dividing the net profit of the reporting year by the average number of shares in the reporting year.

| | 2018 | 2017 |
|---|---|---|
| Profit attributed to shareholders of the Company (EUR) | 9 387 300 | 8 624 423 |
| Average annual number of shares | 7 496 900 | 7 496 900 |
| **Earnings per share (EUR)** | **1.25** | **1.15** |

## III. OTHER NOTES (continued)

### (12) Intangible assets

| | Licences and software | Intangible assets under development | Total |
|---|---|---|---|
| | EUR | EUR | EUR |
| **31.12.2016.** | | | |
| Initial cost | 1 066 342 | - | 1 066 342 |
| Accumulated amortisation | (515 468) | - | (515 468) |
| **Net book value** | **550 874** | **-** | **550 874** |
| **2017** | | | |
| Opening net book value | 550 874 | - | 550 874 |
| Additions | - | 152 092 | 152 092 |
| Reclassification | 152 092 | (152 092) | - |
| Amortisation | (188 238) | - | (188 238) |
| **Closing net book value** | **514 728** | **-** | **514 728** |
| **31.12.2017.** | | | |
| Initial cost | 1 195 200 | - | 1 195 200 |
| Accumulated amortisation | (680 472) | - | (680 472) |
| **Net book value** | **514 728** | **-** | **514 728** |
| **2018** | | | |
| Opening net book value | 514 728 | - | 514 728 |
| Additions | - | 122 066 | 122 066 |
| Reclassification | 48 232 | (48 232) | - |
| Amortisation | (235 406) | - | (235 406) |
| **Closing net book value** | **327 554** | **73 834** | **401 388** |
| **31.12.2018.** | | | |
| Initial cost | 1 243 432 | 73 834 | 1 317 266 |
| Accumulated amortisation | (915 878) | - | (915 878) |
| **Net book value** | **327 554** | **73 834** | **401 388** |

## III. OTHER NOTES (continued)

### (13) Property, plant and equipment and Investment property

| | Lands and buildings | Equipment and machinery | Other assets | Assets under construction | Total | Investment property |
|---|---|---|---|---|---|---|
| | EUR | EUR | EUR | EUR | EUR | EUR |
| **31.12.2016.** | | | | | | |
| Initial cost | 13 364 047 | 20 043 489 | 4 798 618 | 2 090 516 | 40 296 670 | 777 281 |
| Accumulated depreciation | (6 906 284) | (17 956 458) | (3 797 424) | - | (28 660 166) | (93 544) |
| **Net book value** | **6 457 763** | **2 087 031** | **1 001 194** | **2 090 516** | **11 636 504** | **683 737** |
| **2017** | | | | | | |
| Opening net book value | 6 457 763 | 2 087 031 | 1 001 194 | 2 090 516 | 11 636 504 | 683 737 |
| Additions | - | - | - | 2 456 194 | 2 456 194 | - |
| Disposals | - | (8 572) | (1 745) | - | (10 317) | - |
| Reclassification | 446 447 | 1 830 149 | 485 406 | (2 762 002) | - | - |
| Depreciation | (527 318) | (593 961) | (338 801) | - | (1 460 080) | (19 432) |
| **Closing net book value** | **6 376 892** | **3 314 647** | **1 146 054** | **1 784 708** | **12 622 301** | **664 305** |
| **31.12.2017.** | | | | | | |
| Initial cost | 13 810 494 | 21 315 871 | 5 072 351 | 1 784 708 | 41 983 424 | 777 281 |
| Accumulated depreciation | (7 433 602) | (18 001 224) | (3 926 297) | - | (29 361 123) | (112 976) |
| **Net book value** | **6 376 892** | **3 314 647** | **1 146 054** | **1 784 708** | **12 622 301** | **664 305** |
| **2018** | | | | | | |
| Opening net book value | 6 376 892 | 3 314 647 | 1 146 054 | 1 784 708 | 12 622 301 | 664 305 |
| Additions | - | - | - | 3 129 107 | 3 129 107 | - |
| Disposals | - | (510) | - | - | (510) | - |
| Reclassification | 592 764 | 2 143 181 | 229 109 | (5 095 408) | (2 130 354) | 2 130 354 |
| Reversal of impairment | - | - | - | 96 426 | 96 426 | - |
| Depreciation | (511 633) | (638 656) | (358 200) | - | (1 508 489) | (103 708) |
| Reclassification | - | - | - | 778 814 | 778 814 | (778 814) |
| **Closing net book value** | **6 458 023** | **4 818 662** | **1 016 963** | **693 647** | **12 987 295** | **1 912 137** |
| **31.12.2018.** | | | | | | |
| Initial cost | 14 403 258 | 23 398 024 | 5 197 788 | 693 647 | 43 692 717 | 2 907 635 |
| Accumulated depreciation | (7 945 235) | (18 579 362) | (4 180 825) | - | (30 705 422) | (995 498) |
| **Net book value** | **6 458 023** | **4 818 662** | **1 016 963** | **693 647** | **12 987 295** | **1 912 137** |

The gross carrying value of fully depreciated property, plant and equipment that is still in use is EUR 14 475 809 (31.12.2017. - EUR 15 630 815).

The net book value of assets held under finance lease amount to EUR 2 087 001 (31.12.2017. - EUR 1 696 534).

All tangible assets and largest part of real estate of the Company are pledged under conditions of the agreement of the Commercial and Mortgage pledge as the security for loans from the credit institutions (see Note 19, Note 28).

The fair value of Investment property as at 31 December 2018 is EUR 2 011 000 (31.12.2017. – EUR 1 850 000). In August 2018 real estate objects market value was determined by an independent valuer.

Total income from Investment property – EUR 156 019 (2017: EUR 39 068), direct costs – EUR 65 277 (2017: EUR 42 660).

## III. OTHER NOTES (continued)

### (14) Inventories

| | 31.12.2018. EUR | 31.12.2017. EUR |
|---|---|---|
| Finished goods and goods for sale | 11 377 208 | 11 267 196 |
| Raw materials and consumables | 10 387 036 | 12 530 669 |
| Inventory in transit | 546 803 | 372 033 |
| Work in progress | 62 816 | 80 321 |
| Provisions | (988 075) | (1 151 586) |
| | **21 385 788** | **23 098 633** |

Inventories are recognized at cost less provision for potential impairment. Movement in provisions is as follows:

| | 2018 EUR | 2017 EUR |
|---|---|---|
| Provisions at the beginning of the year | 1 151 586 | 904 239 |
| Changes in provisions recognized in the income statement | (163 511) | 247 347 |
| Provisions at the end of the year | **988 075** | **1 151 586** |

All inventories of the Company are pledged in accordance with terms of Commercial pledge agreements as security for loans from the credit institutions (see Note 19, Note 28).

### (15) Trade receivables

| | 31.12.2018. EUR | 31.12.2017. EUR |
|---|---|---|
| Trade receivables | 1 661 118 | 1 129 700 |
| Allowances for doubtful trade receivables | (82 382) | (30 088) |
| | **1 578 736** | **1 099 612** |

For additional information see Note 30.

All trade receivables of the Company are pledged in accordance with terms of Commercial pledge agreements as security for loans from the credit institutions (see Note 19).

## III. OTHER NOTES (continued)

### (16) Other assets

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| | EUR | EUR |
| **Financial assets:** | | |
| **Current** | | |
| Settlements for services | 49 704 | 46 803 |
| Other receivables | 17 126 | 18 946 |
| | **66 830** | **65 749** |
| **Non-financial assets:** | | |
| **Non-current** | | |
| Deferred expenses | 249 998 | 356 252 |
| Other receivables | 8 341 | 198 776 |
| | **258 339** | **555 028** |
| **Current** | | |
| Settlements for raw materials and finished goods | 203 790 | 51 305 |
| Deferred expenses | 209 237 | 183 210 |
| Accrued income | 201 836 | 41 074 |
| | **614 863** | **275 589** |
| **Other non-current assets** | **258 339** | **555 028** |
| **Other current assets** | **681 693** | **341 338** |

### (17) Share capital

As at 31 December 2018 and 31 December 2017 the registered and fully paid share capital is in amount of EUR 10 495 660, that consists of 7 496 900 ordinary shares with nominal value of EUR 1.4 each.

All shares guarantees equal rights to dividends, reception of liquidation quotas and voting rights in the shareholder's meeting. One share gives rights to 1 vote. 1 705 000 shares are registered shares in a form of paper. 5 791 900 shares are dematerialized. The Company, or someone else in it's interest, does not hold its own shares. Shares are not convertible, exchangeable or guaranteed.

The Company's shares are quoted in Nasdaq Riga AS stock exchange in Secondary list. At the end of financial period 5 791 900 shares are quoted. Shares are registered in Latvia. ISIN code LV0000100808. Total number of registered shareholders is more than 10 000.

All shares owned by the main shareholder of the Company Amber Beverage Group Holding S.à r.l., as well as any other shares that Amber Beverage Group Holding S.à r.l. may acquire in the future are pledged in accordance with terms of Commercial pledge agreement as security for loans of the credit institutions (see Note 19).

## III. OTHER NOTES (continued)

### (18) Reserves

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| | EUR | EUR |
| Special purpose reserve fund ** | 5 311 774 | 5 311 774 |
| Share capital denomination | 171 468 | 171 468 |
| Reorganisation reserve * | (3 164 419) | (3 164 419) |
| | **2 318 823** | **2 318 823** |

*In 2015 the Company acquired from the related party within the SPI Group a real estate management company Daugavgrīvas 7 SIA. After the acquisition, in order to reduce the administrative burden of the two companies governance, the Company decided to carry out a merger with the subsidiary. As a result of the acquisition and following reorganisation, the negative reorganisation reserve in the amount of EUR 3 164 419 was recognised.

** On 8 September 2016, extraordinary meeting of shareholders decided to amend the Company's Articles of Association, providing establishment of Special Purpose Reserves in the amount of EUR 5 311 774 for real estate and reorganization related projects development and prevention of related risks. Special Purpose Reserve in the amount of EUR 5 311 774 was established by contributions of shareholders and was incorporated into the Company's equity.

### (19) Borrowings

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| | EUR | EUR |
| **Non-current** | | |
| AS Swedbank a) | 2 088 501 | - |
| AS Luminor Bank Latvian branch b) | 1 346 382 | 897 588 |
| Liabilities under finance leases d) | 749 734 | 663 218 |
| | **4 184 617** | **1 560 806** |
| **Current** | | |
| AS Swedbank a) | 1 392 404 | 4 808 492 |
| AS Luminor Bank Latvian branch b) | - | 1 797 723 |
| Liabilities under finance leases d) | 386 459 | 347 764 |
| | **1 778 863** | **6 953 979** |
| **Total borrowings** | **5 963 480** | **8 514 785** |

a) AS Swedbank loan

The Company has in force loan agreement with Swedbank AS with repayment date until 31 March 2021. Interest rate applied to the loan is 2.20% plus 3 month EURIBOR. Unpaid balance on 31 December 2018 is EUR 3 480 905 (31.12.2017. – EUR 4 808 492).

**III. OTHER NOTES** (continued)

**(19) Borrowings** (continued)

b) AS Luminor Bank Latvian branch loan

At the end of 2018 the Group completed restructuring of Group's loans received from AS Luminor Bank Latvian branch. As a result the Company concluded the amendments of the existing loan agreement with AS Luminor Bank Latvian branch extending the term of the agreement until December 31, 2023. Interest rate applied to the loan is 2.20% plus 1 month EURIBOR. Unpaid balance on 31 December 2018 is EUR 1 346 382 (31.12.2017. – EUR 2 695 311).

c) Collateral

Fulfilment of the Company's liabilities arising from the both mentioned loan agreements is secured and enforced by:

(i) the mortgage of largest part of real estate owned by the Company,
(ii) commercial pledge of all Company's assets as aggregation of property on the date of pledging, as well as future parts of the aggregation of property,
(iii) all pledged shares of the Company, owned by the largest shareholder of the Company Amber Beverage Group Holding S.à r.l., and any other shares that may be acquired in the future, and
(iv) guarantee from the largest shareholder of the Company Amber Beverage Group Holding S.à r.l..

d) Liabilities under finance leases

The Company has purchased several fixed assets on finance lease. Interest is payable monthly at a rate of 1.90 – 2.50 % plus 3 month EURIBOR per annum. Finance lease term is from 36 to 70 months.

In case of breaking an agreement the Company may have a duty to pay extra payments in accordance with the terms of the agreement.

Gross finance lease liabilities – minimum lease payments:

| | **31.12.2018.** | **31.12.2017.** |
|---|---|---|
| | **EUR** | **EUR** |
| Payable within 1 year | 405 948 | 364 980 |
| Payable from 2 to 5 years | 767 906 | 681 700 |
| Finance lease gross liabilities | **1 173 854** | **1 046 680** |
| Future finance charges | (37 661) | (35 698) |
| Present value of finance lease liabilities | **1 136 193** | **1 010 982** |

## III. OTHER NOTES (continued)

### (20) Derivative financial instruments and hedging activities

In 2014 the Company has entered into interest rate swap contract to hedge the interest rate on borrowing from Nordea Bank AB Latvian branch (currently Luminor bank AS). The hedge was assessed as fully effective (no ineffectiveness) and the Company uses the accounting policy for hedge accounting (see section (12) in accounting policy).

As at 31 December 2018 the fair value of interest rate swap contract has been determined as EUR 2 353 (31.12.2017. – EUR 18 570). The maturity of the hedged item is December 31, 2023, therefore, the full fair value of a hedging derivative is classified as a non-current liability.

The notional principal amount of the outstanding interest rate swap contract as at 31 December 2018 was EUR 1 346 382 (31.12.2017. – EUR 2 695 311). The effective part of the derivative financial instrument that has been used and is classified as a cash flow hedge, net of the deferred tax effect, is recognized in other comprehensive income under "Revaluation reserves of derivative financial instruments".

### (21) Other liabilities

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| | EUR | EUR |
| Excise tax | 20 600 301 | 14 125 169 |
| Accrued liabilities | 1 573 739 | 1 313 285 |
| Value added tax | 1 528 596 | 1 397 274 |
| Accruals for unused annual leave | 571 731 | 530 068 |
| Salaries | 503 426 | 442 474 |
| The state compulsory social insurance contributions | 259 700 | 230 814 |
| Personal income tax | 119 523 | 120 253 |
| Corporate income tax | - | 1 344 543 |
| Other liabilities | 72 697 | 73 093 |
| | **25 229 713** | **19 576 973** |

### (22) Auditors remuneration

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Fees paid for audit and audit related services | 24 650 | 28 314 |
| | **24 650** | **28 314** |

## III. OTHER NOTES (continued)

### (23) Average number of employees

| | 2018 | 2017 |
|---|---|---|
| Average number of people employed during the financial year: | | |
| Council members * | 2 | 2 |
| Board members * | 2 | 2 |
| Other employees | 632 | 626 |
| | **636** | **630** |

* Council and board members who have employment contracts.

### (24) Remuneration to personnel

Council and board members do not receive remuneration for membership in the Council and the Board.

### (25) Transactions with related parties

The major shareholder of the Company, who owns 89.99% of the Company’s share capital as of 31 December 2018, is Amber Beverage Group Holding S.à r.l., which is incorporated in Luxembourg. The ultimate Parent company of the Group is S.P.I. Group S.a.r.l, which is incorporated in Luxembourg and its majority shareholder is Mr. Yuri Shefler.

#### a) Sale of goods

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| S.P.I. Spirits (Cyprus) Ltd. | 36 977 327 | 42 479 216 |
| Amber Distribution Latvia SIA* | 20 599 050 | 20 062 900 |
| Bennet Distributors UAB | 3 494 269 | 3 436 678 |
| DDE Holding Ltd. | 3 316 229 | 3 205 599 |
| Amber Distribution Estonia OU | 680 670 | 718 889 |
| Cellar Trends Ltd | 101 732 | 56 916 |
| Remedia AS | 19 372 | - |
| Bravo SIA * | 15 942 | 18 332 |
| Think Spirits Pty Ltd. | 10 845 | - |
| Fabrica de Tequilas Finos S.A. de C.V. | 5 896 | - |
| Louisiana Spirits LLC | 661 | - |
| SPI Group S.a r.l. | - | 3 526 |
| | **65 221 993** | **69 982 056** |

* The value of transactions is disclosed net of excise tax.

## III. OTHER NOTES (continued)

### (25) Transactions with related parties (continued)

**b) Services provided** (warehouse services, services related to the contract manufacturing, storage and office rental and other services)

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| S.P.I. Spirits (Cyprus) Ltd. | 3 158 311 | 2 438 588 |
| Amber Distribution Latvia SIA | 1 557 846 | 1 472 576 |
| Towers Construction Management AS | 156 019 | 63 140 |
| Stoli Group (USA) LLC | 92 300 | - |
| Amber Beverage Group SIA | 82 392 | 77 134 |
| Bravo SIA | 51 546 | 53 065 |
| DDE Holding Ltd. | 20 144 | 17 272 |
| Interbaltija AG AS | 15 744 | 551 |
| Remedia AS | 11 568 | - |
| Bennet Distributors UAB | 10 210 | 6 630 |
| Amber Distribution Estonia OU | 6 256 | 19 981 |
| SPI Group S.a.r.l. | 3 253 | 1 228 |
| Fabrica de Tequilas Finos S.A. de C.V. | 2 266 | 302 |
| Kentucky Owl LLC (USA) | 1 697 | - |
| ZHS IP Americas S.à r.l. | 1 500 | - |
| ZHS IP Worldwide S.à r.l. | 1 213 | - |
| Meierovica 35 SIA | 1 165 | 1 165 |
| Louisiana Spirits LLC | 234 | - |
| Achaval Ferrer S.A. | - | 1 865 |
| ADL IP SIA | - | 600 |
| | **5 173 664** | **4 154 097** |

**c) Interest income**

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Amber Beverage Group Holding S.a r.l. | 1 188 865 | - |
| S.P.I. Spirits (Cyprus) Ltd. | 396 248 | 52 972 |
| Amber Distribution Latvia SIA | 305 627 | 246 831 |
| Amber Beverage Group SIA | 199 756 | 1 235 709 |
| | **2 090 496** | **1 535 512** |

**III. OTHER NOTES** (continued)

**(25) Transactions with related parties** (continued)

**d) Purchase of goods**

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Tambovskoe spirtovoe predpriyatie Talvis OAO | 6 855 532 | 7 519 470 |
| Fabrica de Tequilas Finos S.A. de C.V. | 644 104 | 573 509 |
| S.P.I. Spirits (Cyprus) Ltd. | 358 428 | 448 966 |
| Achaval Ferrer S.A. | 270 097 | 302 410 |
| Amber Distribution Latvia SIA | 198 219 | 520 190 |
| Bennet Distributors UAB | 74 352 | 185 174 |
| Propiedad de Arinzano SLU | 53 045 | 38 962 |
| Permalko OAO | 28 399 | 25 428 |
| Louisiana Spirits LLC | 23 994 | 85 150 |
| Remedia AS | 17 621 | - |
| Interbaltija AG AS | 4 990 | - |
| Bravo SIA | 300 | - |
| | **8 529 081** | **9 699 259** |

**e) Services received** (management services, royalty payments, marketing services and other services)

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Amber Beverage Group SIA | 2 274 708 | 2 172 413 |
| S.P.I. Spirits (Cyprus) Ltd. | 96 735 | 120 301 |
| DDE Holding Ltd. | 79 918 | 96 191 |
| Amber Distribution Latvia SIA | 43 960 | 15 833 |
| Cellar Trends Ltd | 24 020 | - |
| Bennet Distributors UAB | 16 704 | 71 420 |
| Towers Construction Management AS | 3 555 | 42 660 |
| Bravo SIA | 2 036 | 1 566 |
| Amber Distribution Estonia OU | 930 | - |
| CJSC Sojuzplodimport | - | 8 842 |
| Interbaltija AG AS | - | 62 |
| | **2 542 566** | **2 529 288** |

**f) Interest expenses**

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Amber Beverage Group SIA | 116 484 | 109 030 |
| | **116 484** | **109 030** |

## III. OTHER NOTES (continued)

### (25) Transactions with related parties (continued)

#### g) Purchase of non-current assets

| | 2018 | 2017 |
|---|---|---|
| | EUR | EUR |
| Amber Beverage Group SIA | 56 930 | 10 193 |
| | **56 930** | **10 193** |

#### h) Long-term receivables from the Group companies

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| | EUR | EUR |
| Amber Beverage Group Holding S.a r.l. (see subpoint k)) | 38 231 771 | 35 611 255 |
| Amber Distribution Latvia SIA * | 9 870 000 | 10 000 000 |
| | **48 101 771** | **45 611 255** |

* The Company receives the annual interest rate in amount of 3% as a consideration for postponement of the payments due from Amber Distribution Latvia for the delivered goods till 29 December 2020.

#### i) Short-term receivables from the Group companies

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| | EUR | EUR |
| Amber Distribution Latvia SIA | 38 635 996 | 16 744 365 |
| S.P.I. Spirits (Cyprus) Ltd. | 22 069 906 | 17 411 196 |
| Amber Beverage Group SIA (see subpoint k)) | 2 504 093 | 20 346 340 |
| Bennet Distributors UAB | 1 347 732 | 478 514 |
| DDE Holding Ltd. | 1 059 135 | 741 002 |
| Amber Distribution Estonia OU | 267 703 | 233 103 |
| Towers Construction Management AS | 217 696 | 75 107 |
| Bravo SIA | 170 262 | 42 866 |
| Tambovskoe spirtovoe predpriyatie Talvis OAO | 90 974 | - |
| Amber Beverage Group Holding S.a.r.l. | 16 475 | - |
| Interbaltija AG AS | 13 038 | 26 |
| Think Spirits Pty Ltd. | 10 845 | - |
| Cellar Trends Ltd | 12 323 | 56 916 |
| SPI Group S.a.r.l. | 8 868 | 5 615 |
| Remedia AS | 5 843 | - |
| Kentucky Owl LLC (USA) | 1 697 | - |
| ZHS IP Worldwide S.à r.l. | 1 213 | - |
| Louisiana Spirits LLC | 895 | - |
| S.P.I. Regional Business Unit B.V. | 302 | 302 |
| Meierovica 35 SIA | 47 | 47 |
| Stoli Group (USA) LLC | - | 11 029 |
| ZHS IP Europe S.a.r.l. | - | 6 234 |
| Fabrica de Tequilas Finos S.A. de C.V. | - | 302 |
| ADL IP SIA | - | 182 |
| | **66 435 043** | **56 153 146** |

**III. OTHER NOTES** (continued)

**(25) Transactions with related parties** (continued)

**i) Short-term receivables from the Group companies** (continued)

The receivables from related parties arise mainly from sales of goods and services. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related party (31.12.2017.: nil).

After year end receivables from the Group companies for goods decrease from EUR 53 million to EUR 33 million.

**j) Payables to the Group companies**

| | **31.12.2018.** | **31.12.2017.** |
|---|---|---|
| | **EUR** | **EUR** |
| Amber Beverage Group SIA | 1 358 760 | 172 230 |
| S.P.I. Spirits (Cyprus) Ltd. | 188 812 | 120 301 |
| Fabrica de Tequilas Finos S.A. de C.V. | 116 573 | 149 616 |
| Achaval Ferrer S.A. | 116 117 | 110 898 |
| Louisiana Spirits LLC | 86 861 | 82 957 |
| Amber Beverage Group SIA | 78 565 | - |
| Propiedad de Arinzano SLU | 53 045 | - |
| Cellar Trends Ltd | 21 730 | - |
| Permalko OAO | 10 369 | - |
| DDE Holding Ltd. | 8 925 | - |
| Tambovskoe spirtovoe predpriyatie Talvis OAO | 250 | 678 856 |
| | **2 040 007** | **1 314 858** |

The payables to related parties arise mainly from purchase of goods and services. The payables are unsecured in nature and bear no interest.

**k) Loans to Group companies**

| | **31.12.2018** | **31.12.2017** |
|---|---|---|
| | **EUR** | **EUR** |
| receivable in 1 year * | 2 504 093 | 20 346 340 |
| receivable in 2 - 5 years ** | 38 231 771 | 35 611 255 |
| | **40 735 864** | **55 957 595** |

* In March 2015 the Company’s shareholder Amber Beverage Group SIA has entered into overdraft agreement with Luminor Bank AS with the maximum credit limit of EUR 12.4 million (changed to EUR 20.3 million in 2016, to EUR 21.7 million in 2017 and to EUR 22.7 million in 2018)) and into Group account credit line agreement with Swedbank AS with maximum credit limit of EUR 11.7 million (changed to EUR 4.0 million in 2016 and to EUR 9.0 million in 2018). At the same time the Group account agreements were concluded between the banks and Amber Beverage Group SIA and other Group companies, including the Company. The credit facilities were assigned to the Group account and total cash pool funds could be used by the Company and other Group companies within internal limit set by the Parent company. On 19 December 2018 overdraft agreement with Luminor Bank AS was assigned from Amber Beverage Group SIA to Company’s shareholder Amber Beverage Group Holding S.à r.l..

** In the reporting year Company issued an additional loan in amount of GBP 4 million in euro within the frames of the existing Loan agreement.

The Company placed free financial resources in the form of loans in order to maximize the Company`s profitability. Resources have been issued to the related companies based on the interest rates which exceed the rates available from the banking sector.

**III. OTHER NOTES** (continued)

**(26) Lease agreements**

**a) The Company is the lessor**

During the reporting period the Company leased office space in its owned properties to third parties and related parties. Leases are short term with extension rights. Rental income is recognized in the income statement in the amount of EUR 206 593 (in 2017 – EUR 144 123).

**b) The Company is the lessee**

The Company has concluded several agreements for the operating lease of assets. The total rental costs of EUR 669 560 (in 2017 – EUR 667 370) were included in income statement. According to the signed lease agreements, the Company has the following non-cancellable lease liabilities:

| | **31.12.2018.** | **31.12.2017.** |
|---|---|---|
| | **EUR** | **EUR** |
| Payable in 1 year | 583 808 | 612 160 |
| Payable in 2 – 5 years | - | 17 288 |
| | **583 808** | **629 448** |

**(27) Contingent liabilities**

In 2015 the Company carried out a reorganization by way of merger with Daugavgrīvas 7 SIA. Daugavgrīvas 7 SIA was a defendant in the lawsuit against “Interjeru iekārtošanas un restaurācijas firma “Ierosme”” SIA. The claim relates to construction work done for a total amount of EUR 248 291, including fines and interest. Daugavgrīvas 7 SIA has filed the counter claim for the compensation of losses for the total amount of EUR 881 875. The Company joined as a defendant in the lawsuit against “Interjeru iekārtošanas un restaurācijas firma “Ierosme”” SIA as a limited liability company Daugavgrivas 7 legal successor.

On October 14, 2016 the Latvian Supreme Court ruled “Interjeru iekārtošanas un restaurācijas firma “Ierosme”” SIA claim against the Company for debt of EUR 110 721 and the amount of penalty of EUR 74 684 of the recovery and the Company's counterclaim against “Interjeru iekārtošanas un restaurācijas firma “Ierosme”” SIA for damages of EUR 881 875 and offsetting, and judged to dismiss both claims.

On January 19, 2017 “Interjeru iekārtošanas un restaurācijas firma “Ierosme”” SIA has appealed a cassation with request to set aside the judgment in relation to rejection of the Company's debt and penalty recovery and refer the case for retrial. The hearing date is not known yet. The outcome of the case is not clearly stated at this moment, but according to the managements assessments it will be in favour of the Company. The financial statements include provisions for the principal amount, but the potential penalties and statutory interest, which could arise from the negative result of the law suit has not been recognized.

**(28) Guaranties issued**

On 2 March 2015, SIA Amber Beverage Group concluded an overdraft agreement with AS Luminor Bank Latvia branch. Apart from security provided by other group companies, the overdraft is secured by a commercial pledge granted by AS Latvijas balzams on the Company’s movable properties, a mortgage on most of the Company’s real estate and a guarantee. In 2018, amendments to the overdraft agreement were signed to fix the overdraft limit of EUR 22.7 million and extend the overdraft maturity till 30 June 2018. On 31 July 2018, the overdraft maturity was extended till 30 June 2019.

**III. OTHER NOTES** (continued)

**(28) Guaranties issued** (continued)

On 19 December 2018, the above overdraft agreement was novated from SIA Amber Beverage Group to the Company's parent Company Amber Beverage Group Holding S.à r.l. As a result, the previous pledges of the Company have been cancelled and a new pledge on the Company's movable properties, a mortgage on most of the Company's real estate and a guarantee have been registered. The security is valid till the complete fulfilment of obligations under the agreement by 31 December 2019.

On 2 March 2015, SIA Amber Beverage Group concluded a cash pool (credit line) agreement with AS Swedbank. Apart from security provided by other group companies, the credit line is secured by a commercial pledge granted by AS Latvijas balzams on the Company's movable properties, a mortgage on most of the Company's real estate and a guarantee. The security is valid till the complete fulfilment of obligations under the agreement. The overdraft maturity was extended till 30 June 2017 on 18 April 2017 and till 30 June 2018 on 3 August 2017. On 26 April 2018, the duration of the agreement was extended till 30 June 2019; on 11 June 2018, amendments to the overdraft agreement were signed to increase the overdraft limit from EUR 4 million to EUR 9 million.

The Company has issued a guarantee for the amount of USD 15 million to AS Luminor Bank Latvia branch for securing obligations of the related company S.P.I. Spirits (Cyprus) Limited, which arise out of the overdraft agreement signed in July 2007. On 31 July 2018, the overdraft maturity was extended till 31 December 2018. Subsequent to the year end, the duration of the overdraft agreement covered by the guarantee has been extended till 31 December 2020, the amount of the agreement has been converted to the euro and now is fixed as EUR 13.27 million. The guarantee will be valid till the complete fulfilment of obligations.

On 1 September 2016, SIA Amber Beverage Group signed a loan agreement with AS Luminor Bank Latvia branch to finance the purchase of Fabrica de Tequilas Finos, which is a tequila manufacturing company in Mexico. The loan amounts to EUR 12 million and matures on 30 September 2021. The Company together with other group companies provided security for obligations arising out of this agreement, which comprises a commercial pledge on the Company's movable properties, a mortgage on most of the Company's real estate and a guarantee. On 19 December 2018, the loan agreement was novated from SIA Amber Beverage Group to the Company's parent Company Amber Beverage Group Holding S.à r.l. As a result, the previous pledges of the Company have been cancelled and a new pledge on the Company's movable properties, a mortgage on most of the Company's real estate and a guarantee, which secure the claim subject to the maximum limit of EUR 9.2 million, have been registered. The security is valid till the complete fulfilment of obligations under the agreement by 31 December 2023.

On 27 April 2018, the Company's parent Amber Beverage Group Holding S.à r.l. signed a loan agreement with AS Luminor Bank Latvia branch to finance the purchase of Think Spirits Pty, which is an Australian spirits wholesaler. The loan amounts to EUR 3.6 million and matures on 30 April 2023. The Company together with other group companies has provided security for obligations arising out of this agreement, which comprises a commercial pledge on the Company's movable properties, a mortgage on most of the Company's real estate and a guarantee.

Interest rates for the issued guarantees vary from 6.3% to 0.47% depending on the number of guarantors securing respective loans. If loans are guaranteed by multiple parties, the interest rate is calculated on a proportionate basis, depending on the value of assets of the guarantors.

Taking into account the financial position of the group companies, it is not expected that the Company will be required to execute the guarantees; accordingly, no provisions have been recognised for these contingent liabilities in the financial statements.

**(29) Financial assets and financial liabilities**

This note provides information about the Company's financial instruments, including a summary of all financial instruments held by the Company, specific information about each type of financial instrument and information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

**III. OTHER NOTES** (continued)

**(29) Financial assets and financial liabilities** (continued)

The Company holds the following financial instruments:

**On 31 December 2018**

| | Financial assets at amortised cost | Financial instruments at fair value through profit or loss | Financial liabilities at amortised cost | Total |
|---|---|---|---|---|
| | EUR | EUR | EUR | EUR |
| **Financial assets:** | | | | |
| Loans to related parties | 40 735 864 | - | - | **40 735 864** |
| Cash and cash equivalents | 12 822 | - | - | **12 822** |
| Trade and other receivables | 75 446 516 | - | - | **75 446 516** |
| | **116 195 202** | **-** | **-** | **116 195 202** |
| **Financial liabilities:** | | | | |
| Borrowings: | | | | |
| (i) Finance lease liabilities | - | - | (1 136 193) | **(1 136 193)** |
| (ii) Loans from credit institutions | - | - | (4 827 287) | **(4 827 287)** |
| Derivative financial instruments | - | (2 353) | - | **(2 353)** |
| Trade payables | - | - | (8 442 583) | **(8 442 583)** |
| | **-** | **(2 353)** | **(14 406 063)** | **(14 408 416)** |

**On 31 December 2017**

| | Loans and receivables | Financial instruments at fair value through profit or loss | Financial liabilities at amortised cost | Total |
|---|---|---|---|---|
| | EUR | EUR | EUR | EUR |
| **Financial assets:** | | | | |
| Loans to related parties | 55 957 595 | - | - | **55 957 595** |
| Cash and cash equivalents | 132 970 | - | - | **132 970** |
| Trade and other receivables | 46 972 167 | - | - | **46 972 167** |
| | **103 062 732** | **-** | **-** | **103 062 732** |
| **Financial liabilities:** | | | | |
| Borrowings: | | | | |
| (i) Finance lease liabilities | - | - | (1 010 982) | **(1 010 982)** |
| (ii) Loans from credit institutions | - | - | (7 503 803) | **(7 503 803)** |
| Derivative financial instruments | - | (18 570) | - | **(18 570)** |
| Trade payables | - | - | (7 956 295) | **(7 956 295)** |
| | **-** | **(18 570)** | **(16 471 080)** | **(16 489 650)** |

The Company's exposure to various risks associated with the financial instruments is discussed in Note 30.

*Fair value of financial assets and financial liabilities*

Due to short term nature of cash and cash equivalents, trade receivables, trade payables and other current financial assets and liabilities their carrying amounts largely approximates their fair value. For non-current financial assets and liabilities, the fair values are also not significantly different to their carrying amounts. The fair values were estimated based on cash flows discounted using the current lending rate. They are classified as level 3 fair values in the fair value hierarchy due to the inclusion of unobservable inputs including counterparty credit risk.

## III. OTHER NOTES (continued)

### (29) Financial assets and financial liabilities (continued)

*Fair value hierarchy*

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

All Company’s financial assets and financial liabilities are classified in Level 3 excluding cash and cash equivalents that are classified in Level 2.

### (30) Financial and capital risk management

*Foreign exchange risks*

The Company operates internationally and is exposed to foreign currency risk arising mainly from the U.S. dollar, Russian rouble and British Pound fluctuations mainly from purchase of raw materials and consumables.

The Company's significant open currency position at the end of the reporting year is:

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| | EUR | EUR |
| Financial assets, USD | 501 293 | 111 363 |
| Financial liabilities, USD | (446 916) | (1 000 195) |
| Open position USD, net | **54 377** | **(888 832)** |
| **Open position USD calculated in euro, net** | **47 474** | **(741 126)** |
| Financial assets, GBP | 11 124 | 38 821 |
| Financial liabilities, GBP | (20 466) | (3 600) |
| Open position GBP net | **(9 342)** | **35 221** |
| **Open position GBP calculated in euro, net** | **(10 349)** | **39 698** |
| Financial liabilities, RUB | (824 820) | - |
| Open position RUB, net | **(824 820)** | **-** |
| **Open position RUB calculated in euro, net** | **(10 369)** | **-** |

## III. OTHER NOTES (continued)

### (30) Financial and capital risk management (continued)

*Foreign exchange risks* (continued)

The following table demonstrates the sensitivity to a reasonably possible change in currency rates on outstanding foreign currency financial assets and liabilities. With all the other variables held constant the Company's profit before tax is affected as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Change in exchange rates | Effect on equity | Change in exchange rates | Effect on equity |
| | | EUR | | EUR |
| USD | +10% | (4 747) | +10% | 74 113 |
| | -10% | 4 747 | -10% | (74 113) |
| GBP | +10% | 1 035 | 10% | (3 970) |
| | -10% | (1 035) | -10% | 3 970 |
| RUB | +10% | 1 037 | 10% | - |
| | -10% | (1 037) | -10% | - |

*Interest rate risks*

The Company is exposed to interest rate risk as the main part of the liabilities are interest-bearing borrowings with variable interest rate, as well as the Company's interest bearing assets have variable interest rate.

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| | EUR | EUR |
| Financial assets with variable interest rate, EUR | 2 504 093 | 20 346 340 |
| Financial liabilities with variable interest rate, EUR * | (4 617 098) | (5 819 474) |
| **Open position, net, EUR** | **(2 113 005)** | **14 526 866** |

* Disclosed without loan from AS Luminor Bank, where variable interest rate risk exposure is fully hedged by respective hedging instrument as disclosed in Note 20.

The following table demonstrates the sensitivity to a reasonably possible change in interest risk on outstanding financial assets and liabilities. With all the other variables held constant the Company's profit before tax is affected as follows:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Increase/ decrease in basis points | Effect on profit before tax | Increase/ decrease in basis points | Effect on profit before tax |
| | | EUR | | EUR |
| EUR | +30 | 18 621 | +30 | 43 581 |
| | -30 | (18 621) | -30 | (43 581) |

## III. OTHER NOTES (continued)

### (30) Financial and capital risk management (continued)

*Other price risk*

Other price risk is the risk that the value of financial instruments will fluctuate due to other market factors. The Company’s management monitors the market fluctuations on a continuous basis and acts accordingly, but does not enter into any hedging transactions.

*Credit risk*

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.

Maximum exposure to credit risk:

| | 31.12.2018. | 31.12.2017. |
|---|---|---|
| | EUR | EUR |
| Issued loans to Group companies | 40 735 864 | 55 957 595 |
| Trade receivables - Group companies | 73 800 950 | 45 806 806 |
| Trade receivables - non-related parties | 1 578 736 | 1 099 612 |
| Other current assets | 66 830 | 65 749 |
| Cash | 12 822 | 132 970 |
| | **116 195 202** | **103 062 732** |

The largest concentration of credit risk arises from the Group companies' debts: on 31 December 2018 98% of the total trade receivables related to Group companies (31.12.2017. - 98%). Taking into account the policy as above and the strong financial position of the Group, no provisions for impairment losses on receivables from the Group companies’ debts were made and the Company's management believes that the credit risk of the Company is considered as low.

*Impairment of financial assets*

The Company has only one type of financial assets that are subject to the expected credit loss model: trade receivables for sales of finished goods and providing of services. While cash and cash equivalents are also subject to the impairment requirement of IFRS 9, the identified impairment loss was immaterial. Impairment loss related to intercompany loans and receivables is considered to the immaterial as the cash-flow is managed at the Group level.

*Trade receivables*

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period.

## III. OTHER NOTES (continued)

### (30) Financial and capital risk management (continued)

*Trade receivables* (continued)

The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined for trade receivables, as follows:

| **31.12.2018.** | Total | Not due | 1-90 days | 91-180 days | 181-270 days | 270-360 days | >361 days |
|---|---|---|---|---|---|---|---|
| Gross carrying amount - Trade receivables | 1 661 118 | 1 042 106 | 519 236 | 61 869 | 10 | 6 900 | 30 997 |
| Expected loss rate | | 0.50% | 2.20% | 45.00% | 100.00% | 100.00% | 100.00% |
| Loss allowance | 82 382 | 5 211 | 11 423 | 27 841 | 10 | 6 900 | 30 997 |

| **01.01.2018.** | Total | Not due | 1-90 days | 91-180 days | 181-270 days | 270-360 days | >361 days |
|---|---|---|---|---|---|---|---|
| Gross carrying amount - Trade receivables | 1 129 700 | 937 104 | 162 430 | 18 | 30 | 28 257 | 1 861 |
| Expected loss rate | | 0.50% | 2.20% | 45.00% | 100.00% | 100.00% | 100.00% |
| Loss allowance | 38 415 | 4 686 | 3 573 | 8 | 30 | 28 257 | 1 861 |

Maturity analysis of receivables from Group companies:

| | Gross amount | Accruals for bad and doubtful debtors | Trade receivables, net | split to: | Past due | | |
|---|---|---|---|---|---|---|---|
| | | | | not due | < 90 days | 90-180 days | > 180 days |
| **31.12.2018.** | | | | | | | |
| Group companies | 73 800 950 | - | 73 800 950 | 30 739 100 | 33 918 784 | 8 337 141 | 805 925 |
| **31.12.2017** | | | | | | | |
| Group companies | 45 806 806 | - | 45 806 806 | 27 338 336 | 15 204 068 | 3 194 199 | 70 203 |

The Company's management believes that debts of related companies are not exposed to credit losses.

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follow:

| | **2018** | **2017** |
|---|---|---|
| | **EUR** | **EUR** |
| Balance at the beginning of the year | 30 088 | 1 861 |
| Amounts restated through opening retained earnings | 8 327 | - |
| Increase in provisions | 43 967 | 28 227 |
| Balance at the end of the year | **82 382** | **30 088** |

## III. OTHER NOTES (continued)

### (30) Financial and capital risk management (continued)

*Liquidity risk*

The Company manages its liquidity risk by arranging an adequate amount of committed credit and loans, planning payment terms for trade payables, developing and analysing future cash flows comprising both the existing and planned loans, as well as interest payable on such loans. The Company's current assets exceeded its current liabilities by EUR 54 647 923 (31.12.2017. - EUR 46 338 452). The Company's management believes that the Company will have sufficient cash resources to ensure appropriate liquidity.

The following table shows the maturity structure of financial liabilities of the Company that is based on non-discounted cash flows:

| **On 31 December 2018** | **Total** | **<1 year** | **2-5 years** | **>5 years** |
|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** |
| Long-term loans | 4 308 444 | - | 4 308 444 | - |
| Derivative financial instruments | 2 353 | - | 2 353 | - |
| Short -term loans | 1 885 063 | 1 885 063 | - | - |
| Trade payables | 6 402 576 | 6 402 576 | - | - |
| Debts to Group companies | 2 040 007 | 2 040 007 | - | - |
| | **14 638 443** | **10 327 646** | **4 310 797** | **-** |

| **On 31 December 2017** | **Total** | **<1 year** | **2-5 years** | **>5 years** |
|---|---|---|---|---|
| | **EUR** | **EUR** | **EUR** | **EUR** |
| Long-term loans | 1 570 679 | - | 1 570 679 | - |
| Derivative financial instruments | 18 570 | - | 18 570 | - |
| Short -term loans | 7 046 394 | 7 046 394 | - | - |
| Trade payables | 6 641 437 | 6 641 437 | - | - |
| Debts to Group companies | 1 314 858 | 1 314 858 | - | - |
| | **16 591 939** | **15 002 689** | **1 589 249** | **-** |

## III. OTHER NOTES (continued)

### (30) Financial and capital risk management (continued)

*Capital Management*

The Company's management manages the capital structure on an ongoing basis. During the reporting period there were no changes in capital management objectives, policies or processes.

The Company's management controls the net debt to equity (gearing ratio). During the reporting year this figure has decreased to 5% (2017 - 8%), confirming the Company's improvement of stability:

| | 31.12.2018.<br>EUR | 31.12.2017.<br>EUR |
|---|---|---|
| Total borrowings (long-term and short-term loans from banks) | 5 963 480 | 8 514 785 |
| Less cash and cash equivalents | (12 822) | (132 970) |
| Net debt | 5 950 658 | 8 381 815 |
| Equity | 114 121 883 | 104 726 693 |
| Total capital (equity and net loans) | **120 072 541** | **113 108 508** |
| Net debt to equity | 5% | 8% |
| Equity ratio on total assets | 74% | 74% |

| | Cash and cash equivalents<br>EUR | Finance lease due after 1 year<br>EUR | Finance lease due within 1 year<br>EUR | Borrowings due after 1 year<br>EUR | Borrowings due within 1 year<br>EUR | Total<br>EUR |
|---|---|---|---|---|---|---|
| Net debt as at 31 December 2016 | 2 677 315 | (427 600) | (209 552) | (2 692 764) | (7 735 607) | **(8 388 208)** |
| Cash flows | (2 544 345) | - | 577 213 | - | 2 926 448 | **959 316** |
| New leases and borrowings | - | (448 202) | (135 017) | - | - | **(583 219)** |
| Other non-cash movement | - | 212 584 | (580 408) | 1 795 176 | (1 797 056) | **(369 704)** |
| **Net debt as at 31 December 2017** | **132 970** | **(663 218)** | **(347 764)** | **(897 588)** | **(6 606 215)** | **(8 381 815)** |
| Cash flows | (120 148) | - | 455 301 | - | 2 673 451 | **3 008 604** |
| New leases and borrowings | - | (369 510) | (103 462) | - | - | **(472 972)** |
| Other non-cash movement | - | 282 994 | (390 534) | (2 537 295) | 2 540 360 | **(104 475)** |
| **Net debt as at 31 December 2017** | **12 822** | **(749 734)** | **(386 459)** | **(3 434 883)** | **(1 392 404)** | **(5 950 658)** |

### (31) Distribution of profit proposed by the Board

| | |
|---|---|
| Profit share to be distributed | EUR 9 387 300 |
| Proposed profit distribution: | |
| Keep undistributed | EUR 9 387 300 |

**III. OTHER NOTES** (continued)

**(32) Subsequent events**

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

Until the date signing of these financial statements receivables from the Group companies for goods decrease from EUR 53 million to EUR 33 million.

There were no other subsequent events since the last date of the financial year until the date of signing of these financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2018.

The Annual Report was prepared by the Amber Beverage Group SIA Head of Accountancy Iveta Lejniece.

The Financial statements of the Company set out on pages 17 to 59 were signed on 26 April 2019 by:

Intars Geidāns
Chairman of the Board

Iveta Lejniece
Amber Beverage Group SIA Head of Accountancy

Translation from Latvian original*

# INDEPENDENT AUDITOR'S REPORT

**To the shareholders of Joint Stock Company "Latvijas balzams"**

## Report on the audit of the financial statements

### Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS "Latvijas balzams" (the Company) as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Audit Committee dated 29 April 2019.

#### *What we have audited*

The Company's financial statements comprise:

- the income statement for the year ended 31 December 2018;
- the statement of comprehensive income for the year ended 31 December 2018;
- the statement of financial position as at 31 December 2018;
- the statement of changes in equity for the year ended 31 December 2018;
- the cash flow statement for the year ended 31 December 2018; and
- notes to the financial statements, which include significant accounting policies.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### *Independence*

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) and the ethical requirements of the Law on Audit Services that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code and the ethical requirements of the Law on Audit Services.

We have not provided non-audit services to the Company in the period from 1 January 2018 to 31 December 2018.

**Our audit approach**

***Overview***

**Materiality -** Overall materiality is EUR 750 thousand

**Key audit matter –** Inventory valuation as of year end.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

***Materiality***

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| ***Overall materiality*** | EUR 750 thousand |
| ***How we determined it*** | Overall materiality is approximately 1% of total revenue of 2018. |
| ***Rationale for the materiality benchmark applied*** | We chose total revenue as the benchmark because total revenue is the key performance indicator that determines the Company's performance and is monitored by management and investors.<br>We chose 1%, which is consistent with quantitative materiality thresholds used for public interest entities in this sector. |

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 37.5 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Inventory valuation as of year-end*** *(refer to Note 14 for further details).*<br><br>As at 31 December 2018 the Company's inventory amounts to EUR 21.4 million, EUR 11.4 million of which is related to finished goods.<br><br>Inventory valuation is not considered an area of significant risk for our audit. However, it requires significant time and resources to perform audit owing to its magnitude, and is therefore considered to be a key audit matter.<br><br>Inventories are stated at the lower of cost and net realisable value (NRV). In case of manufactured inventories and work in progress, cost includes an appropriate share of overheads, allocated based on normal operating capacity.<br><br>The standard costing process is complicated and involves certain judgement level in the process of allocation of production overheads.<br><br>The Company's management assesses the NRV of inventories by grouping them by brands and by customers. Such groups of inventories include a large number of various inventory items under the same brand and thus the NRV of individual items included in the same group may be lower than the value determined on the group basis. | We assessed whether the Company's accounting policies in relation to valuation of inventories comply with IFRS.<br><br>We have tested the design and operating effectiveness of key controls in relation to inventory.<br><br>We selected a sample of internally produced finished goods and reconciled their cost in the accounting system to their standard cost calculation in the production module. We further verified that the cost of finished goods determined by the standard costing did not differ materially from the cost determined by actual production costs incurred during the reporting period.<br><br>We randomly selected finished goods items and compared their book value to the subsequent selling price after year end to identify whether there has been cases, were the selling price of any items was lower than the book value.<br><br>We also considered whether the disclosures made in Note 14 to the financial statements met the requirements set out in IFRS. |

## Reporting on other information including the Report of the Management

Management is responsible for the other information. The other information comprises:

- the Report of the Management (including Non-financial Statement), as set out on pages 4 to 14 of the accompanying Annual Report,
- the Statement of the Managements' Responsibility, as set out on page 15 of the accompanying Annual Report, and
- the Statement of Corporate Governance, set out in separate statement prepared and signed by the by the Company's management on 26 April 2019 and available on the Company's website http://www.lb.lv/ as at the date of this audit report,
- Information on the Company, as set out on page 3 of the accompanying Company's Annual Report,

(but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information identified above.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially

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inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

With respect to the Report of the Management, we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Report of the Management is prepared in accordance with the requirements of the applicable legislation.

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in accordance with Article 56.[1], section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.[2], section 2, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.[2], section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Based on the work undertaken in the course of our audit, in our opinion, in all material respects:

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Report of the Management has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports; and
- the Statement of Corporate Governance, prepared and signed by the Company's management on 26 April 2019, available on the Company's website http://www.lb.lv/ as at the date of this audit report, includes, the information in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Non-financial Statement, our responsibility is to report whether the Company has prepared the Non-financial Statement and whether the Non-financial Statement is included in the Management Report or prepared as a separate element of the Annual Report.

We hereby report that the Company has prepared a Non-financial Statement, and it is included in the Report of the Management.

In addition, in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Report of the Management or other information mentioned above that we obtained prior to the date of this auditor's report. We have nothing to report in this respect.

**Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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**Report on other legal and regulatory requirements**

***Appointment***

We were first appointed as auditors of the Company by shareholders' resolution on 21 May 2015. Our appointment has been renewed annually by shareholder's resolution representing a total period of uninterrupted engagement appointment of 4 years. Our appointment for the year ended 31 December 2018 was by resolution of general meeting of shareholders dated 14 June 2018.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Ilandra Lejiņa
Member of the Board

Jana Smirnova
Certified auditor in charge
Certificate No. 188

Riga, Latvia
29 April 2019

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