

“LATVIJAS BALZAMS”

ANNUAL REPORT 2017

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

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INFORMATION ON THE COMPANY

Name of the Company	Latvijas balzams
Legal status of the Company	Joint stock company
Number, place and date of registration	Companies register Nr. 40003031873 Riga, 2 October 1991 Re-registered on 20 October 1998 Commercial register Riga, 19 June 2014
Address	A. Čaka street 160 Riga, LV- 1012 Latvia
Main business activities	Production of alcoholic beverages NACE2 11.01
Major shareholder	Amber Beverage Group SIA (89.99%)
Names and positions of the Council members:	Rolands Gulbis – Chairman of the Council Oļegs Alainis – Vice Chairman of the Council Sergejs Ļimarenko – Member of the Council Pjotr Aven – Member of the Council Valizhan Abidov – Member of the Council
Names and positions of the Board members:	Intars Geidāns – Chairman of the Board Ronalds Žarinovs – Member of the Board Jekaterina Stūge – Member of the Board
Statement of corporate governance	www.lb.lv

REPORT OF THE MANAGEMENT

Type of operations

AS Latvijas balzams (hereinafter also - the Company) was established in 1900 as Riga's first state alcohol warehouse and has been operating under the current name since 1970. As a result of SPI Group internal reorganization, SIA Amber Beverage Group became the major shareholder owning 89.99% of the Company's shares in October 2014.

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. We use raw materials from around the world and we have retained our traditional beverage production technologies. The recipes for some of our key products date back hundreds of years, for example, the formula of Riga Black Balsam has officially written down in 1752. Our mission is excellence in everything we do.

AS Latvijas balzams is a leading Baltic producer of alcoholic beverages, we have leading presence in all key spirits segments, as well as in the segments of sparkling wines, ciders and RTDs. At present, AS Latvijas balzams has a range of more than 100 different brands. Our products are exported to more than 170 export markets as mediated by SPI Group and to 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 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.

As a socially responsible and sustainable undertaking, the Company has formulated and adheres to the basic principles of corporate social responsibility. They are harmonized with the guidelines of the United Nations, the Organization for Economic Cooperation and Development and the International Organization for Standardization and are also published on the Company's website: <http://www.lb.lv/lv/uznemums/sabiedriskas-aktivitates>. With a view to ensuring compliance with these guidelines, the Company has drawn up or is applying the following procedures: the Corporate Responsibility Policy, the Corporate Procurement Policy, the Collective Agreement, the Quality Management Handbook, the Code of Ethical Marketing Communication, the Anti-corruption Policy, the Risk Management and other internal documents. These documents and procedures incorporated therein are reviewed on a regular basis, as part of both internal audits (according to the Quality Management System) and external audits. Audit results and planned corrective actions are considered by management at their meetings.

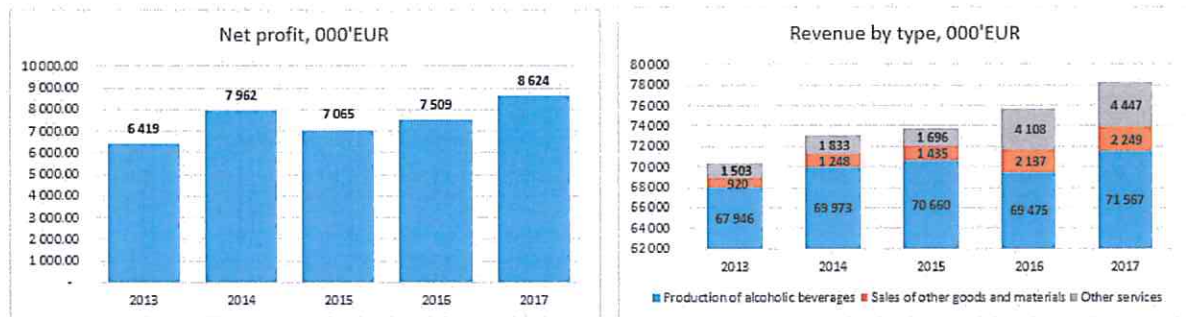
Performance of the Company during the financial year

Financial performance

The audited net turnover of the Company for the year 2017 reached EUR 78.3 million, up 3.4% against 2016. The increase was achieved owing to the growth of orders from our biggest private label customer SPI Cyprus and the significant increase in sales of AS Latvijas Balzams brands on the local market through SIA Amber Distribution Latvia. An additional positive effect on turnover came from warehouse and logistics services provided to both external customers and related companies.

REPORT OF THE MANAGEMENT (continued)

The audited net profit for the year 2017 is EUR 8.6 million, which represents 11% of turnover, up 15% from 2016. The growth of profit was considerably affected by changes in the corporate income tax system stipulated by the Law on Corporate Income Tax of the Republic of Latvia, which entered into force on 1 January 2018. As a result of these changes, the Company has reversed deferred tax liabilities and recognized a gain from reversal through the income tax expense caption of the income statement.



The operating profit for the year 2017 amounts to EUR 8.4 million, which is in line with the previous year's result, although last year it was affected by income earned from one-off transactions, such as insurance compensation of EUR 280 thousand received for a fire that occurred in the plant's territory in 2014 and a gain on disposal of real estate amounting to EUR 594 thousand.

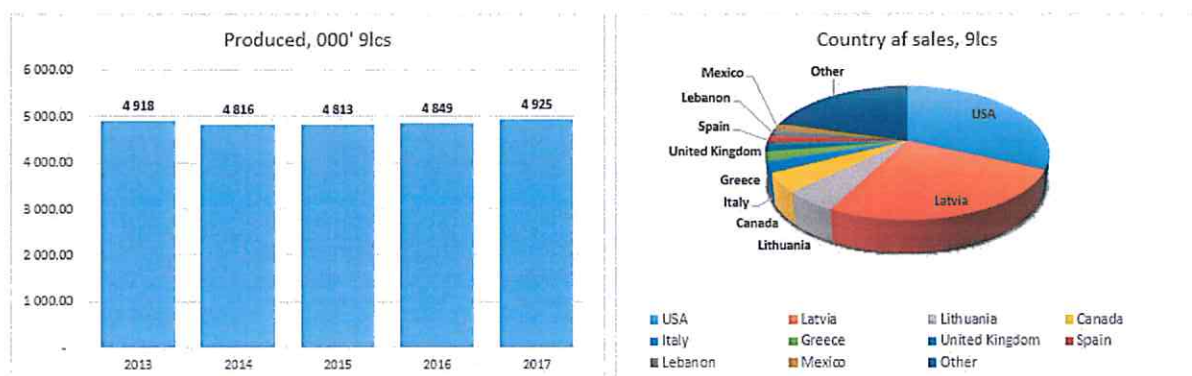
The Company's return on equity (ROE) and return on assets (ROA) for the last three years are as follows:

	2017	2016	2015
ROA	6.4%	6.1%	5.9%
ROE	8.6%	8.4%	8.7%

AS Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid taxes of EUR 59.7 million to the state budget, including excise duty amounting to EUR 47.5 million.

Non-financial performance and activities for the reporting year

In 2017, a small increase in volumes was achieved, and 4.9 million nine-liter cases of various alcoholic beverages were produced. Traditionally, the USA, Lithuania, Canada, Italy, Greece and the UK remain our key export markets.



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.

REPORT OF THE MANAGEMENT (continued)

The year 2016 saw the launch of a multiple-year efficiency improvement program, which is based on the LEAN method and automation solutions. In 2017, 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 2017 were EUR 1.66 million. Several projects were launched, and they are expected to bring returns starting from 2018 and to the full extent in 2019:

- a LEAN project on the involvement of employees in the implementation of suggestions for improvement;
- a LEAN project on the reduction of the inter-format transition time;
- the preparation of the plants for the installation of automated packaging machines scheduled for 2018;
- an increase in the capacity of the specialized Elit drink line;
- an inventory management module in order to improve purchase planning;
- the management of inventories of Baltic distributors by AS Latvijas balzams (VMI – vendor managed inventory);
- automatic data exchange with sea freight forwarders;
- the automation of the materials acceptance process;
- etc.

Moreover, in 2017 the Company started producing several new types of products, such as the Stoli Crushed range, which is a mix of vodka and natural juices intended for the US market, and Rigensis, which is a mix of sparkling brut and liqueur better known in Europe as kir, and it is produced on the basis of a private label customer's order. Of course, the expansion of the Riga Black Balsam range should also be mentioned: sales of Riga Black Balsam Cherry reached the annual target figure just over a couple of months. Together with the above, 25 new product launch projects were implemented in 2017. In addition, the work on the opening of a representation center of AS Latvijas balzams was continued during 2017.

AS Latvijas balzams has undergone a 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. In the case of AS Latvijas balzams, RFT is 96.6%, which is 3.3 sigmas, and it is a decent level. 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 2017 is 96%, which means that still there is room for improvement.

The organization of work at AS Latvijas balzams is clear and understandable; the objectives pursued by the Company are consistent with those of the staff. The Company ensures the improvement of their work organization and communication, adhering to the principle of openness in internal communication, and facilitates effective communication, with the participation of employees in business improvement processes being valued.

The Company believes that employees should be encouraged to execute their duties to the highest standards, which is the cornerstone of sustainable development. Work environment and employee satisfaction surveys are conducted on a regular basis, and the result for the year 2017 was 4.6 (good) out of 6 points. The management of AS Latvijas balzams carries out activities to improve the work environment, provides employee health protection and maintains occupational safety standards.

REPORT OF THE MANAGEMENT (continued)

Risk assessment

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:

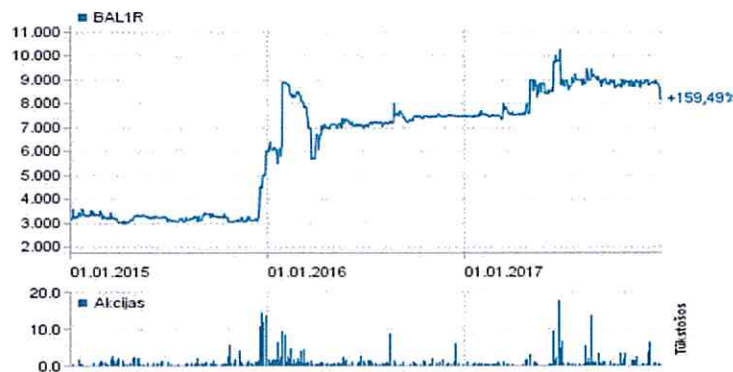
- the timely identification and compliance with statutory requirements;
- the ensuring of production continuity;
- the creation of adequate jobs by investing in the development of production, services and human resources by means of training.

In the course of business, the Company strictly complies with the legislation of the Republic of Latvia. AS Latvijas balzams is a participant of the in-depth cooperation program, which is a measure to combat shadow economy according to a relevant plan of the Ministry of Finance of the Republic of Latvia, and it has been introduced to facilitate closer and more effective cooperation between taxpayers and the tax administration. Considering the industry, the Company is devoting a great deal of attention to the assessment of transactions and their conformity with laws.

The biggest challenge for the year 2017 was the lack of available workforce, which is a problem faced by Latvia's undertakings. It was particularly pressing in the second half of 2017, when orders and, accordingly, production volumes were up. Salary increases for critical positions are budgeted for the year 2018 in order to mitigate this risk.

Stock market

In 2017, the Company's share price fluctuated from EUR 7.37 to EUR 10.40. The price per share fluctuated between EUR 2.16 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. The Company's counterparties in cash transactions are highly reputable local financial institutions.

REPORT OF THE MANAGEMENT (continued)

The Company pursues a prudent liquidity risk management policy, according to which adequate credit resources are ensured to settle liabilities when they fall due. The Company's management manages liquidity and cash flow risk by maintaining adequate cash reserves and securing sufficient financing by means of loans, credit lines, finance leases, etc., by monitoring forecasted and actual cash flows and by matching the maturities of financial assets and liabilities on an ongoing basis. As at 31 December 2017, the Company's current assets exceeded its current liabilities by EUR 46.3 million (31 December 2016: EUR 39.2 million). The Company has a strong ability to meet its current liabilities as they fall due. The Company's current ratio as at 31 December 2017 was 2.34 (31 December 2016: 2.37) and quick ratio was 1.66 and 1.61 respectively.

Financial risk management is disclosed in Note 30.

Events after the reporting date

In March 2018 Amber Beverage Group S.a.r.l. concluded a share purchase agreement with SIA Amber Beverage Group for the acquisition of all Company's shares owned by SIA Amber Beverage Group.

On 24 April, 2018 within the the existing loan agreement Company issued an additional euro loan in amount of GBP 4 million to Amber Beverage Group Holding S.a.r.l..

On 26 April, 2018 Company concluded the amendments of the existing loan agreement with Swedbank AS extending the term of the agreement until May 31, 2021.

As of the last day of the financial year until the date of signing these financial statements there have been no other events that would have a significant effect on the financial position of the Company as at 31 December 2017.

Further development

In 2018, 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, 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 2018:

- the installation of automated packaging and marking machines of filling lines;
- the upgrading of a specialized small-volume line;
- changes in electricity connection input;
- the introduction of the automated recording of products;
- the installation of automated quality control equipment;
- the continuation of the existing LEAN projects;
- the introduction of new bottle designs;
- the updating of the Company's website;
- the set-up of the Company's representation center.

In 2018, 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.

It is essential to note that in 2018 the prices of key raw materials, such as alcohol, wine material, cardboard and concentrated juices, are soaring in Europe, and they will adversely affect also the financial performance of AS Latvijas balzams, which will strive to retain their market share.

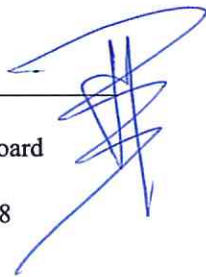
REPORT OF THE MANAGEMENT (continued)

The Company as a participant of the alcohol industry is affected by the decision adopted in 2017 to increase excise duty as of 1 March 2018, which may lead to a decline in domestic consumption and, accordingly, tax payments. Although the industry expects that the upward revision of excise duty will be compensated by border trade, it may be influenced by Estonia's budget deficit caused by cross-border trade, which in turn is likely to lead to the downward revision of excise duty by this neighboring country. Bearing this in mind, Latvia's public authorities should revise the growth rates planned for excise duty.

AS Latvijas balzams is an active member of the Latvian Alcohol Industry Association and cooperates with non-governmental organizations, representing the interests of the industry in any dialogue with legislators and law enforcement institutions. The Company supports the development of a sound industry policy in Latvia and promotes responsible alcohol consumption and public education on these issues. The Company also continues combating the production and distribution of illegal alcohol.

Intars Geidāns
Chairman of the Board

Riga, 26 April 2018



STATEMENT OF THE MANagements' RESPONSIBILITY

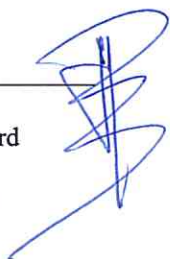
The Management is responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The financial statements give a true and fair view of the financial position of the Company at the end of the reporting year, and 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 56 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, 2018





Translation from Latvian original*

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Latvijas Balzams AS

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 2017, 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.

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at 31 December 2017;
- the income statement and the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year ended;
- the cash flow statement for the year then ended; and
- the 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 with the ethical requirements and auditor's independence rules 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.

We have not provided non-audit services to the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

Materiality - Overall materiality is EUR 742 thousand, which represents approximately 1% of total revenue for 2017.

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 the 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 742 thousand.
How we determined it	Overall materiality is approximately 1% of total revenue for 2017.
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. 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 74 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

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.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
Inventory valuation as of year-end (refer to Note 14 for further details). As at 31 December 2017 the Company's inventory amounts to EUR 23.1 million, EUR 10.9 million of which is related to finished goods. 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. 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. The standard costing process is complicated and involves certain judgement level in the process of allocation of production overheads. 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. We have tested the design and operating effectiveness of key controls in relation to inventory. We did not identify any exceptions that would have impacted our audit approach. We selected a sample of internally produced finished goods and reconciled their cost in the accounting system to their standard cost in the production system. 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. We made a selection of items of finished goods, choosing the largest by value and additional items on a random basis, and compared their book value to the subsequent selling price to identify whether the selling price of any items was lower than the book value. As a result of our work, we noted no material exceptions. We also considered whether the disclosures made in Note 14 to the financial statements met the requirements set out in IFRS and noted no issues.

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 9 of the accompanying Annual Report,
- the Statement of the Management Responsibility, as set out on page 10 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 2018 and available on the Company's website <http://www.lb.lv/> as at the date of this audit report,

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(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, including the Report of the Management (including Non-financial Statement), the Statement of the Management Responsibility and the Statement of Corporate Governance.

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 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 (including Non-financial Statement), we also performed the procedures required by Law on Audit Services. Those procedures include considering whether the Report of the Management (including Non-financial Statement) is prepared in accordance with the requirements of the applicable legislation.

In addition, 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 Report of the Management (including Non-financial Statement), the Statement of the Management Responsibility and the Statement of Corporate Governance for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Report of the Management (including Non-financial Statement) 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 2018, 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 (including Non-financial Statement), the Statement of the Management Responsibility and the Statement of Corporate Governance, 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 IFRS 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.

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- 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.

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 3 years. Our appointment for the year ended 31 December 2017 was by resolution of general meeting of shareholders dated 28 June 2017.


Ilandra Lejiņa
Member of the Board

Riga, Latvia
26 April 2018

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5


Jana Smirnova
Certified auditor in charge
Certificate No. 188

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

AS "Latvijas balzams"
ANNUAL REPORT
for the year ended 31 December 2017

INCOME STATEMENT

	Notes	2017 EUR	2016 EUR
Revenue	1	78 263 078	75 719 709
Cost of sales	2	(60 238 914)	(58 523 110)
Gross profit		18 024 164	17 196 599
Distribution expenses	3	(5 764 219)	(5 443 800)
Administrative expenses	4	(4 406 847)	(4 405 422)
Other operating income	5	986 574	1 605 157
Other operating expenses	6	(471 362)	(367 302)
Finance income	8	1 535 512	1 263 836
Finance expenses	9	(364 794)	(358 924)
Profit before tax		9 539 028	9 490 144
Corporate income tax	10	(914 605)	(1 981 578)
Net profit		8 624 423	7 508 566
Earnings per share (in cents)			
Basic	11	115.04	100.16
Diluted	11	115.04	100.16

Notes on pages 22 to 56 form an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2017 EUR	2016 EUR
Net profit		<u>8 624 423</u>	<u>7 508 566</u>
Other comprehensive income			
Items that may be reclassified subsequently to income statement			
Changes in fair value of financial instruments	20	32 578	31 147
Changes in deferred income tax liabilities resulted from changes of fair value of financial instruments	10 (c)	(7 672)	(4 672)
Other comprehensive income		<u>24 906</u>	<u>26 475</u>
Total comprehensive income for the period		<u>8 649 329</u>	<u>7 535 041</u>

Notes on pages 22 to 56 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

		31.12.2017. EUR	31.12.2016. EUR
<u>ASSETS</u>	Notes		
Non-current assets			
Intangible assets	12	514 728	550 874
Property, plant and equipment	13	12 622 301	11 636 504
Investment property	13	664 305	683 737
Loans to group companies	25 (i)	35 611 255	34 736 983
Receivables from group companies	25 (i)	10 000 000	12 500 000
Other non current assets	16	555 028	897 990
Total non-current assets:		59 967 617	61 006 088
Current assets			
Inventories	14	23 098 633	20 842 781
Trade receivables	15	1 099 612	908 697
Receivables from group companies	25 (j)	56 153 146	42 543 946
Other current assets	16	341 338	430 534
Corporate income tax		-	573 558
Cash and cash equivalents		132 970	2 677 315
Total current assets:		80 825 699	67 976 831
<u>Total assets</u>		140 793 316	128 982 919
<u>EQUITY AND LIABILITIES</u>			
Equity			
Share capital	17	10 495 660	10 495 660
Share premium		87 887	87 887
Revaluation reserves of derivative financial instruments		(18 570)	(43 476)
Reserves	18	2 318 823	2 318 823
Retained earnings		91 842 893	83 218 470
Total equity:		104 726 693	96 077 364
Liabilities			
Non-current liabilities			
Borrowings	19	1 560 806	3 120 364
Deferred income tax liabilities	10	-	995 073
Derivative financial instruments	20	18 570	51 148
Total non-current liabilities:		1 579 376	4 166 585
Current liabilities			
Borrowings	19	6 953 979	7 945 159
Trade payables		6 641 437	4 653 523
Payables to group companies	25 (k)	1 314 858	1 629 720
Other liabilities	21	19 576 973	14 510 568
Total current liabilities:		34 487 247	28 738 970
Total liabilities:		36 066 623	32 905 555
<u>Total equity and liabilities</u>		140 793 316	128 982 919

Notes on pages 22 to 56 form an integral part of these financial statements.

Intars Geidāns
Chairman of the Board
Riga, 26 April, 2018

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Revaluation reserves of derivative financial instru- ments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2015.	10 495 660	87 887	(2 992 951)	(69 951)	75 709 904	83 230 549
Net profit	-	-	-	-	7 508 566	7 508 566
Other comprehensive income	-	-	-	26 475	-	26 475
Total comprehensive income	-	-	-	26 475	7 508 566	7 535 041
Special purpose reserves fund (see Note 18)	-	-	5 311 774	-	-	5 311 774
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

Notes on pages 22 to 56 form an integral part of these financial statements.

CASH FLOW STATEMENT

	Notes	2017 EUR	2016 EUR
Cash flow from operating activities			
Profit for the period before taxation		9 539 028	9 490 144
<u>Adjustments for:</u>			
Depreciation and amortisation	12,13	1 667 750	1 397 191
Net profit on sales and disposal of property, plant and equipment and intangibles		(1 001)	(592 762)
Accruals		(247 346)	(23 939)
Interest income	8	(1 535 512)	(1 263 836)
Interest expense	9	364 794	358 924
<u>Changes in working capital:</u>			
Increase in inventories		(2 008 506)	(839 196)
Increase in trade and other receivables		(795 270)	(10 009 807)
Increase in trade and other payables		5 332 331	5 373 113
Cash generated from operations		12 316 268	3 889 832
Interest paid		(253 910)	(367 449)
Corporate income tax paid		(45 495)	(619 055)
Net cash generated from operating activities		12 016 863	2 903 328
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets		(1 657 417)	(2 329 759)
Proceeds from sales of property, plant and equipment		11 317	683 790
Received repayment of loans		1 800 001	7 900 001
Changes in credit lines (net)		(11 458 279)	(5 171 699)
Interest received		246 831	99 501
Net cash flow (used in) / generated from investing activities		(11 057 547)	1 181 834
Cash flow from financing activities			
Changes in credit lines (net)		-	(3 424 713)
Borrowings repaid		(2 926 448)	(2 926 448)
Paid in special purpose fund reserve		-	5 311 774
Finance lease payments		(577 213)	(392 931)
Net cash flow used in financing activities		(3 503 661)	(1 432 318)
Net (decrease) / increase in cash and cash equivalents		(2 544 345)	2 652 844
Cash and cash equivalents at the beginning of the period		2 677 315	24 471
Cash and cash equivalents at the end of the period		132 970	2 677 315

Notes on pages 22 to 56 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 2017, is Amber Beverage Group SIA.

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 2017 to 31 December 2017.

These financial statements were authorized for issue by the Board of the Company on 26 April 2018, 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 (Amended in 2011). 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 2017 the Company meets the criteria for a large company.

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.

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 2017, but have no significant impact on the operations of the Company and these financial statements:

Amendments to IAS 12 "Income taxes" – recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017).

Amendments to IAS 7 "Statement of Cash Flows" – Disclosure initiative (effective for annual periods beginning on or after 1 January 2017).

b) Certain new standards and interpretations have been published that become effective for the accounting periods beginning on 1 January 2018 or later periods or are not yet endorsed by the European Union:

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.
- 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.

The Company assessed the estimated impact that the initial application of IFRS 9 will have on its financial statements and no material impact was identified. The actual impact of adopting IFRS 9 at 1 January 2018 may change because the Company have not finalised the assessment of new accounting policies and controls, therefore the assessment can be subject to changes until the Company presents its first full financial statements that include the date of initial application.

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. The Company is in the process of assessment of changes that it believes will be necessary to capture the required data. The Company chose the option of not restating the comparative information for prior periods. Differences in the carrying amounts of financial assets resulting from adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

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 2018 or later periods or are not yet endorsed by the European Union (continued):

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. The new standard is not expected to have a material impact on the Company's financial statements as the accounting principles for the absolute majority of Company's revenues are the same under the new IFRS 15 regulations.

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 assessed the impact of new standard and concluded that for operating lease contracts an asset and lease liability will be recognised upon implementation of the standard.

Amendments to IFRS 15 "Revenue from Contracts with Customers" (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, not yet endorsed in the EU);

IFRIC 23 "Uncertainty over Income Tax Treatments" (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU).

Amendments to IAS 40 "Investment Property" – Transfers of investment property (effective for annual periods beginning on or after 1 January 2018, not yet endorsed in the EU).

Annual improvements to IFRS's 2017 (effective for annual periods beginning on or after 1 January 2019, not yet endorsed in the EU). The amendments include changes that affect 4 standards:

- IFRS 3 - "Business Combinations",
- IFRS 11 - "Joint Arrangements"
- IAS 12 - "Income taxes"
- IAS 23 - "Borrowing costs".

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 application.

II. ACCOUNTING POLICIES (continued)

(2) Revenue recognition

Revenue represent the total of goods and services sold during the year net of discounts, value added tax and excise tax. Sales of goods are recognised after significant ownership risk and rewards have been passed to the buyer. Income from sales of goods in Latvia is recognised when the customer has accepted the goods. Income from sales of goods outside Latvia is recognised in accordance with the goods delivery terms. Income from provision of services is recognised when services are rendered. Income from penalties is recognised at the moment of receipt. Interest income or expenses are recognised in the income statement on all interest bearing financial instruments applying the effective interest rate method.

(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.

	31.12.2017 EUR	31.12.2016 EUR
1 USD	0.8338	0.9487
1 GBP	1.1271	1.1679
1 RUB	0.0144	0.0155

(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

II. ACCOUNTING POLICIES (continued)

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

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 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.

(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 largely independent of the cash inflows from other assets or groups of assets (cash generating units).

II. ACCOUNTING POLICIES (continued)

(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) 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.

(11) Financial instruments

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.

II. ACCOUNTING POLICIES (continued)

(11) Financial instruments (continued)

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.

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.

II. ACCOUNTING POLICIES (continued)

(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.

(17) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in the income statement except to the extent that it relates to items recognised directly in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Until 31 December 2016 deferred tax was provided for, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The principal temporary differences arose from different fixed asset depreciation rates, as well as accrued costs and provisions which were deductible in the future taxation periods.

On July 28, 2017, a new Corporate Income Tax Law was adopted, which stipulates that from January 1, 2018, the corporate income tax is levied on profit that arose after 2017 if it is distributed. The new tax law does not include rules which result into timing differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Transitional provisions of the law provide that taxpayers will be able to utilise the unused tax losses accumulated by 31 December 2017 during next 5 taxation years for reducing the tax payable on distributed profits by no more than 50% each year, as well as to use provisions created by 31 December 2017 that resulted in the increase of taxable income during the respective tax periods, for reduction of taxable profits, in the amount of their reduction. Such amounts, if any, do not give rise to deferred income tax assets as at 31 December 2017 and thereafter, as in the situation where there is a different tax rate on distributed profit and retained earnings, the deferred tax is calculated according to the tax rate applicable to retained earnings, i.e. 0%. Given the circumstances, there is no longer any reason for the existence of a deferred tax asset or liability at 31 December 2017, and the deferred tax liability recognized by the Company as at 31 December 2016 was reduced to zero, including a reduction in that liability in the income statement for the year 2017, except for the deferred tax recognised outside the profit or loss as the amount of this tax is allocated to the same item in shareholders' equity against which it was attributed when recognised.

From taxation year 2018, corporate income tax will be calculated on the basis of distributed profit (20/80 of the net amount payable to shareholders). Corporate tax on distributed profit will be recognized when the shareholders of the Company make a decision about profit distribution.

(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.

II. ACCOUNTING POLICIES (continued)

(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 72% (2016: 70%) 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.

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

	2017	2016
	EUR	EUR
Production of alcoholic beverages	71 567 106	69 474 787
Sales of other goods and materials	2 248 922	2 137 206
Other services	4 447 050	4 107 716
	<u>78 263 078</u>	<u>75 719 709</u>

During 2017 and 2016 the Company had significant sales to related companies SPI Spirits (Cyprus) Ltd. and Amber Distribution Latvia SIA. The transactions with related parties are disclosed in Note 25. During 2017 and 2016 there were no other client which turnover would exceed 10% of the Company's total turnover.

(2) Cost of sales

	2017	2016
	EUR	EUR
Raw materials and consumables	43 883 675	42 833 870
Salary expense	5 413 959	4 877 411
Changes of inventory value of finished goods	2 765 679	2 686 901
Goods purchased	2 188 626	2 023 763
The state compulsory social insurance contributions	1 263 010	1 134 127
Depreciation of non-current assets	909 445	916 851
Energy resources	819 358	781 165
Repair and maintenance expenses	662 093	814 497
Management of packaging	392 904	397 545
Changes in provision for inventories	243 690	146 000
Accrued expenses on unused annual leave	56 413	16 871
Insurance payments	47 882	52 801
Laboratory expenses	32 459	30 643
Other costs	1 559 721	1 810 665
	<u>60 238 914</u>	<u>58 523 110</u>

III. OTHER NOTES (continued)

(3) Distribution expenses

	2017	2016
	EUR	EUR
Salary expenses	1 801 204	1 766 134
Warehouse maintenance expenses	990 354	1 003 946
Advertising and sales promotion expenses	970 383	743 230
Transportation expenses	695 237	760 765
The state compulsory social insurance contributions	423 164	414 161
Depreciation of non-current assets	394 846	222 113
Other expenses	489 031	533 451
	<u>5 764 219</u>	<u>5 443 800</u>

(4) Administrative expenses

	2017	2016
	EUR	EUR
Management services and expenses	2 236 441	1 978 236
Salary expenses	598 761	775 384
Depreciation of non-current assets	363 460	283 428
Computer maintenance	197 523	163 903
Real estate tax	161 636	161 816
The state compulsory social insurance contributions	138 556	155 030
Professional service costs	107 071	101 057
Office expenses	63 348	70 594
Transport costs	56 076	56 216
Representation expenses	24 971	19 070
Communication and postal expenses	24 173	66 243
Business trip expenses	17 510	40 510
Bank commissions	14 582	18 969
Financial support, sponsorship	10 506	3 980
Other expenses	392 233	510 986
	<u>4 406 847</u>	<u>4 405 422</u>

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III. OTHER NOTES (continued)

(5) Other operating income

	2017	2016
	EUR	EUR
Income from auxiliary and package materials sales	558 644	493 495
Net profit from exchange rate fluctuations	216 356	10 993
Gains on sale of property, plant and equipment	10 069	610 178
Other income	201 505	490 491
	<u>986 574</u>	<u>1 605 157</u>

(6) Other operating expenses

	2017	2016
	EUR	EUR
Penalties paid	56 249	28 784
Other expenses	415 113	338 518
	<u>471 362</u>	<u>367 302</u>

(7) Expenses by nature

	2017	2016
	EUR	EUR
Materials	43 883 675	42 833 870
Employee expenses	9 695 067	9 136 990
Management services and expenses	2 236 441	1 978 236
Depreciation of non-current assets	1 667 751	1 422 392
Transportation expenses	751 313	816 981
Repair and maintenance expenses	662 093	814 497
Advertising and sales promotion expenses	970 383	743 230
Management of packaging	392 904	397 545
Real estate tax	161 636	161 816
Increase in provision for inventories	243 690	146 000
Other expenses	10 216 389	10 288 077
	<u>70 881 342</u>	<u>68 739 634</u>

(8) Finance income

	2017	2016
	EUR	EUR
Interest income	1 535 512	1 263 836
	<u>1 535 512</u>	<u>1 263 836</u>

III. OTHER NOTES (continued)

(9) Finance expenses

	2017 EUR	2016 EUR
Interest expenses	364 794	358 924
	<u>364 794</u>	<u>358 924</u>

(10) Corporate income tax

a) Components of corporate income tax

	2017 EUR	2016 EUR
Corporate income tax	1 390 038	45 497
Changes in deferred income tax	(475 433)	1 936 081
	<u>914 605</u>	<u>1 981 578</u>

b) Reconciliation of accounting profit to income tax charges

The actual corporate tax expenses consisting of corporate income tax as per tax return and changes in deferred tax differ from the theoretically calculated tax amount for:

	2017 EUR	2016 EUR
Profit before taxes	9 539 028	9 490 144
Corporate income tax calculated at 15%	1 430 854	1 423 522
Tax effects on:		
Deferred tax liability write-off	(475 433)	-
Permanent differences	10 837	579 953
Tax relief for the acquired technological equipment	(51 653)	(21 897)
Total corporate income tax charge	<u>914 605</u>	<u>1 981 578</u>

c) Movement and components of deferred tax

	2017 EUR	2016 EUR
Deferred tax liabilities / (asset) at the beginning of the financial year	995 073	(945 680)
Deferred tax (credited) / changes charged to the income	(475 433)	1 936 081
Reclassification	(527 312)	-
Changes in deferred tax recognised in derivative financial	7 672	4 672
Deferred tax liabilities at the end of the financial year	<u>-</u>	<u>995 073</u>

III. OTHER NOTES (continued)

(10) Corporate income tax (continued)

c) Movement and components of deferred tax (continued)

Taking into account changes in taxation principles as stipulated by the Law on Corporate Income Tax of Republic of Latvia effective from 01.01.2018, the Company in these financial statements has fully reversed the deferred tax liability and recognized the gain from reversal through income tax expense position in Income Statement.

Deferred income tax has been calculated from the following temporary differences between value of assets and liabilities in the financial statements and their tax base (31.12.2016. tax effect 15% from temporary differences):

	31.12.2017. EUR	31.12.2016. EUR
Temporary difference on depreciation of PPE and intangible assets	-	1 180 992
Gross deferred tax liabilities	-	1 180 992
Temporary difference on accruals for bonuses	-	(30 003)
Temporary difference on provisions for slow moving and	-	(136 184)
Temporary difference on derivative financial instruments	-	(7 672)
Tax loss carried forwards	-	-
Temporary differences on other accrued liabilities	-	(12 060)
Gross deferred tax assets	-	(185 919)
Net deferred tax liability	-	995 073

(11) Earnings per Share (expressed in euro cents 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.

	2017	2016
Profit attributed to shareholders of the Company (EUR)	8 624 423	7 508 566
Average annual number of shares	7 496 900	7 496 900
Earnings per share (expressed in euro cents)	115.04	100.16

III. OTHER NOTES (continued)

(12) Intangible assets

	Licences and software	Intangible assets under development	Total
	EUR	EUR	EUR
31.12.2015.			
Initial cost	975 281	-	975 281
Accumulated amortisation	(371 458)	-	(371 458)
Net book value	603 823	-	603 823
2016			
Opening net book value	603 823	-	603 823
Additions	-	105 021	105 021
Reclassification	105 021	(105 021)	-
Amortisation	(157 970)	-	(157 970)
Closing net book value	550 874	-	550 874
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

III. OTHER NOTES (continued)

(13) Property, plant and equipment and Investment property

	Lands and buildings	Equipment and machinery	Other assets	Assets under construc- tion	Total	Investment property
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2015.						
Initial cost	12 969 944	19 385 255	4 776 798	1 830 235	38 962 232	777 281
Accumulated depreciation	(6 919 601)	(17 646 755)	(3 882 576)	-	(28 448 932)	(74 112)
Net book value	6 050 343	1 738 500	894 222	1 830 235	10 513 300	703 169
2016						
Opening net book value	6 050 343	1 738 500	894 222	1 830 235	10 513 300	703 169
Additions	-	-	-	2 415 566	2 415 566	-
Disposals	(60 772)	(1 789)	(10 012)	-	(72 573)	-
Reclassification	778 915	983 172	393 198	(2 155 285)	-	-
Depreciation	(310 723)	(632 852)	(276 214)	-	(1 219 789)	(19 432)
Closing net book value	6 457 763	2 087 031	1 001 194	2 090 516	11 636 504	683 737
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

The gross carrying value of fully depreciated property, plant and equipment that is still in use is EUR 15 630 815 (31.12.2016: EUR 13 979 232).

The net book value of assets held under finance lease amount to EUR 1 696 534 (31.12.2016: EUR 781 096).

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).

The fair value of Investment property – EUR 1 850 000 (31.12.2016: EUR 1 850 000). Real estate objects market value determined by an independent valuer.

Total income from Investment property – EUR 39 068 (2016: EUR 39 068), direct costs – EUR 42 660 (2016: EUR 42 660).

III. OTHER NOTES (continued)

(14) Inventories

	31.12.2017. EUR	31.12.2016. EUR
Finished goods and goods for sale	11 267 196	9 001 403
Raw materials and consumables	12 530 669	11 864 709
Inventory in transit	372 033	861 062
Work in progress	80 321	19 846
Provisions	(1 151 586)	(904 239)
	<u>23 098 633</u>	<u>20 842 781</u>

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

	2017 EUR	2016 EUR
Provisions at the beginning of the year	904 239	877 563
Changes in provisions recognized in the income statement	247 347	26 676
Provisions at the end of the year	<u>1 151 586</u>	<u>904 239</u>

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).

(15) Trade receivables

	31.12.2017. EUR	31.12.2016. EUR
Trade receivables	1 129 700	910 558
Allowances for doubtful trade receivables	(30 088)	(1 861)
	<u>1 099 612</u>	<u>908 697</u>

The movement on the allowance for doubtful debts is set out below:

	2017 EUR	2016 EUR
Balance at the beginning of the year	1 861	4 598
Increase / (Decrease) in provisions	28 227	(2 737)
Balance at the end of the year	<u>30 088</u>	<u>1 861</u>

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

	31.12.2017. EUR	31.12.2016. EUR
Financial assets:		
Non-current		
Other receivables	-	34 149
	-	34 149
Current		
Settlements for services	46 803	23 583
Other receivables	18 946	24 588
	65 749	48 171
Non-financial assets:		
Non-current		
Settlements for services	356 252	712 357
Other receivables	198 776	151 484
	555 028	863 841
Current		
Settlements for raw materials	51 305	5 515
Deferred expenses	183 210	152 386
Accrued income	41 074	224 462
	275 589	382 363
Non-current assets	555 028	897 990
Current assets	341 338	430 534

(17) Share capital

As at 31 December 2017 and 31 December 2016 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.

All shares owned by the main shareholder of the Company Amber Beverage Group SIA, as well as any other shares that Amber Beverage Group SIA 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

	31.12.2017. EUR	31.12.2016. EUR
Special purpose reserve fund **	5 311 774	5 311 774
Share capital denomination	171 468	171 468
Reorganisation reserve *	<u>(3 164 419)</u>	<u>(3 164 419)</u>
	<u>2 318 823</u>	<u>2 318 823</u>

*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 at 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

	31.12.2017. EUR	31.12.2016. EUR
Non-current		
AS Luminor Bank ^{b)}	897 588	2 692 764
Liabilities under finance leases ^{e)}	<u>663 218</u>	<u>427 600</u>
	<u>1 560 806</u>	<u>3 120 364</u>
Current		
AS Swedbank ^{a)}	4 808 492	5 939 907
AS Luminor Bank ^{b)}	1 797 723	1 795 700
Liabilities under finance leases ^{e)}	<u>347 764</u>	<u>209 552</u>
	<u>6 953 979</u>	<u>7 945 159</u>
Total borrowings	<u>8 514 785</u>	<u>11 065 523</u>

a) AS Swedbank loan

The Company has in force loan agreement with Swedbank AS with repayment date until 2 March 2018. Interest rate applied to the loan is 2.20% plus 3 month EURIBOR. Unpaid balance on 31 December 2017 is EUR 4 808 492 (31.12.2016. - EUR 5 939 907).

In February 2018 the Company concluded with the bank technical prolongation of the maturity date till 2 June 2018.

III. OTHER NOTES (continued)

(19) Borrowings (continued)

b) Luminor Bank loan

The Company has in force loan agreement signed in July 2014 with Nordea Bank AB Latvian branch (currently Luminor bank AS) with repayment date until 30 June 2019. Interest rate applied to the loan is 2.20% plus 1 month EURIBOR. Unpaid balance on 31 December 2017 is EUR 2 695 311 (31.12.2016. - EUR 4 488 464).

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 SIA, and any other shares that may be acquired in the future, and
- (iv) guarantee from the largest shareholder of the Company Amber Beverage Group SIA.

d) Credit lines

In 2015 the Company's shareholder Amber Beverage Group SIA carried out a restructuring of short-term bank borrowing facilities of the Group, as a result all existing individual credit line agreements of the Group companies with the banks were terminated. The Company's shareholder Amber Beverage Group SIA has entered into group account credit line agreements with credit institutions, which allow managing of intra-group financial resources in rational way and reduce a need for additional external financing of each separate company and costs associated with borrowing (see Note 25).

e) 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 24 to 60 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:

	31.12.2017. EUR	31.12.2016. EUR
Payable within 1 year	364 980	221 310
Payable from 2 to 5 years	681 700	439 336
Finance lease gross liabilities	<u>1 046 680</u>	<u>660 646</u>
Future finance charges	(35 698)	(23 494)
Present value of finance lease liabilities	<u><u>1 010 982</u></u>	<u><u>637 152</u></u>

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 2017 the fair value of interest rate swap contract has been determined as EUR 18 570 (31.12.2016.: 51 148). The maturity of the hedged item is in June 2019, 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 2017 was EUR 2 695 311 (31.12.2016. - EUR 4 488 464). 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

	31.12.2017.	31.12.2016.
	EUR	EUR
Excise tax	14 125 169	11 154 292
Value added tax	1 397 274	1 171 703
Corporate income tax	1 344 543	-
Accrued liabilities	1 313 285	892 231
Accruals for unused annual leave	530 068	501 482
Salaries	442 474	417 389
The state compulsory social insurance contributions	230 814	218 383
Personal income tax	120 253	108 878
Other liabilities	73 093	46 210
	<u>19 576 973</u>	<u>14 510 568</u>

(22) Auditors remuneration

	2017	2016
	EUR	EUR
Fees paid for audit and audit related services	28 314	24 000
	<u>28 314</u>	<u>24 000</u>

III. OTHER NOTES (continued)

(23) Average number of employees

	2017	2016
Average number of people employed during the financial year:		
Council members *	2	2
Board members *	2	2
Other employees	626	622
	<u>630</u>	<u>626</u>

* 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 2017, is Amber Beverage Group SIA, which is incorporated in Latvia. The ultimate Parent company of the Group is S.P.I. Group S.a.r.l, which is incorporated in Luxemburg and its majority shareholder is Mr. Yuri Shefler.

a) Sale of goods

	2017 EUR	2016 EUR
S.P.I. Spirits (Cyprus) Ltd.	42 479 216	40 922 945
Amber Distribution Latvia SIA*	20 062 900	19 776 548
Bennet Distributors UAB	3 436 678	3 487 316
DDE Holding Ltd.	3 205 599	3 233 419
Amber Distribution Estonia OU	718 889	598 767
Cellar Trends Ltd	56 916	-
Bravo SIA *	18 332	48 113
SPI Group S.a.r.l.	3 526	-
Stoli Group (USA) LLC	-	11 745
	<u>69 982 056</u>	<u>68 078 853</u>

* 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)

	2017	2016
	EUR	EUR
S.P.I. Spirits (Cyprus) Ltd.	2 438 588	2 238 903
Amber Distribution Latvia SIA	1 472 576	1 279 667
Amber Beverage Group SIA	77 134	63 607
Towers Construction Management AS	63 140	59 583
Bravo SIA	53 065	51 295
Amber Distribution Estonia OU	19 981	5 008
DDE Holding Ltd.	17 272	43 594
Bennet Distributors UAB	6 630	6 590
Achaval Ferrer S.A.	1 865	-
SPI Group S.a.r.l.	1 228	575
Meierovica 35 SIA	1 165	-
ADL IP SIA	600	-
Interbaltija AG AS	551	-
Fabrica de Tequilas Finos S.A. de C.V.	302	1 171
Propiedad de Arinzano SLU	-	976
	<u>4 154 097</u>	<u>3 750 969</u>

c) Interest income

	2017	2016
	EUR	EUR
Amber Beverage Group SIA	1 235 709	1 149 919
Amber Distribution Latvia SIA	246 831	101 196
S.P.I. Spirits (Cyprus) Ltd.	52 972	11 986
	<u>1 535 512</u>	<u>1 263 101</u>

d) Sale of non-current assets

	2017	2016
	EUR	EUR
Amber Beverage Group SIA	-	5 566
Bennet Distributors UAB	-	3 000
	<u>-</u>	<u>8 566</u>

III. OTHER NOTES (continued)

(25) Transactions with related parties (continued)

e) Purchase of goods

	2017 EUR	2016 EUR
Tambovskoe spirtovoe predpriyatie Talvis OAO	7 519 470	6 860 790
Fabrica de Tequilas Finos S.A. de C.V.	573 509	-
Amber Distribution Latvia SIA	520 190	88 602
S.P.I. Spirits (Cyprus) Ltd.	448 966	824 085
Achaval Ferrer S.A.	302 410	-
Bennet Distributors UAB	185 174	53 946
Louisiana Spirits LLC	85 150	-
Propiedad de Arinzano SLU	38 962	58 977
Permalko OAO	25 428	32 250
Amber Distribution Estonia OU	-	15 144
	<u>9 699 259</u>	<u>7 933 794</u>

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

	2017 EUR	2016 EUR
Amber Beverage Group SIA	2 172 413	1 993 620
S.P.I. Spirits (Cyprus) Ltd.	120 301	133 338
DDE Holding Ltd.	96 191	59 851
Towers Construction Management AS	42 660	42 660
Amber Distribution Latvia SIA	15 833	13 327
Bennet Distributors UAB	71 420	7 569
CJSC Sojuzplodimport	8 842	-
Bravo SIA	1 566	2 990
Interbaltija AG AS	62	-
Amber Distribution Estonia OU	-	110
	<u>2 529 288</u>	<u>2 253 465</u>

g) Interest expenses

	2017 EUR	2016 EUR
Amber Beverage Group SIA	109 030	12 601
	<u>109 030</u>	<u>12 601</u>

III. OTHER NOTES (continued)

(25) Transactions with related parties (continued)

h) Purchase of non-current assets

	2017	2016
	EUR	EUR
Amber Beverage Group SIA	10 193	33 022
Amber Distribution Latvia SIA	-	10 667
	<u>10 193</u>	<u>43 689</u>

i) Long-term receivables from Group companies

	31.12.2017.	31.12.2016.
	EUR	EUR
Amber Beverage Group Holding S.a.r.l. (see section I))	35 611 255	-
Amber Beverage Group SIA (see section I))	-	34 736 983
Amber Distribution Latvia SIA *	10 000 000	12 500 000
	<u>45 611 255</u>	<u>47 236 983</u>

* 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.

j) Short-term receivables from Group companies

	31.12.2017.	31.12.2016.
	EUR	EUR
Amber Beverage Group SIA (see section I))	20 346 340	8 667 600
S.P.I. Spirits (Cyprus) Ltd.	17 411 196	17 065 491
Amber Distribution Latvia SIA	16 744 365	13 861 343
DDE Holding Ltd.	741 002	345 417
Bennet Distributors UAB	478 514	1 945 143
Amber Distribution Estonia OU	233 103	461 543
Towers Construction Management AS	75 107	72 204
Cellar Trends Ltd	56 916	-
Bravo SIA	42 866	11 522
Stoli Group (USA) LLC	11 029	12 548
ZHS IP Europe S.a.r.l.	6 234	6 234
SPI Group S.a.r.l.	5 615	861
Fabrica de Tequilas Finos S.A. de C.V.	302	-
S.P.I. Regional Business Unit B.V.	302	302
ADL IP SIA	182	-
Interbaltija AG AS	26	-
Meierovica 35 SIA	47	47
Amber Beverage Group SIA	-	84 525
Propiedad de Arinzano SLU	-	8 792
Tambovskoe spirtovoe predpriyatie Talvis OAO	-	374
	<u>56 153 146</u>	<u>42 543 946</u>

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 (31.12.2016.: nil).

III. OTHER NOTES (continued)

(25) Transactions with related parties (continued)

k) Payables to Group companies

	31.12.2017.	31.12.2016.
	EUR	EUR
Tambovskoe spirtovoe predpriyatie Talvis OAO	678 856	1 288 803
Amber Beverage Group SIA	172 230	286 900
Fabrica de Tequilas Finos S.A. de C.V.	149 616	-
S.P.I. Spirits (Cyprus) Ltd.	120 301	-
Achaval Ferrer S.A.	110 898	-
Louisiana Spirits LLC	82 957	-
DDE Holding Ltd.	-	35 532
Permalko OAO	-	18 485
	<u>1 314 858</u>	<u>1 629 720</u>

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

l) Loans to Group companies

	2017	2016
	EUR	EUR
Receivable in 1 year *	20 346 340	8 667 600
Receivable in 2 – 5 years **	35 611 255	34 736 983
	<u>55 957 595</u>	<u>43 404 583</u>

* In March 2015 the Company's shareholder Amber Beverage Group SIA has entered into overdraft agreement with Nordea Bank AB Latvian Branch (currently Luminor Bank AS) with the maximum credit limit of EUR 12.4 million (changed to EUR 20.3 million in 2016 and to EUR 21.7 million in 2017) 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). At the same time the Group account agreements were concluded between banks and Amber Beverage Group SIA and other Group companies, including the Company. The credit facilities were assigned to 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 29 December 2017 Amber Beverage Group SIA carried out the restructuring of the intra-group long-term loans. As a result Loan agreement signed on 31 October 2014 with Amber Beverage Group SIA with capitalised interests was assigned to Amber Beverage Group Holding S.a.r.l. and maturity of loan was extended to 29 December, 2022.

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 144 123 (in 2016 – EUR 182 600).

b) The Company is the lessee

The Company has concluded several agreements for the operating lease of assets. The total rental costs of EUR 667 370 (in 2016 – EUR 736 117) were included in income statement. According to the signed lease agreements, the Company has the following non-cancellable lease liabilities:

	31.12.2017. EUR	31.12.2016. EUR
Payable in 1 year	612 160	641 784
Payable in 2 – 5 years	17 288	17 288
	<u>629 448</u>	<u>659 072</u>

(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 Daugavgrīvas 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 the Company's shareholder Amber Beverage Group SIA has concluded an overdraft agreement with Nordea Bank AB Latvian branch (currently Luminor Bank AS) with a limit of EUR 12.4 million, where as the security Latvijas balzams AS among other Group companies has issued a guarantee. The guarantee is valid until the fulfilment of all overdraft contract obligations. In 2016 the overdraft limit was increased to EUR 21.0 million and completion date was extended till 30 June 2017. In 2017 new amendments of an overdraft contract were signed increasing the overdraft limit to EUR 21.7 million and extending the overdraft completion date till 30 June 2018.

III. OTHER NOTES (continued)

(28) Guaranties issued (continued)

On 2 March 2015 the Company's shareholder Amber Beverage Group SIA has concluded a Group account agreement with Swedbank AS with a limit of EUR 11.7 million, where as the security Latvijas balzams AS among other Group companies has issued a guarantee. The guarantee is valid until the fulfilment of all overdraft contract obligations. In 2016 amendments of an overdraft contract were signed reducing the overdraft limit to EUR 4.0 million and extending the overdraft completion date till 30 April 2017. On 18 April 2017 overdraft completion date was extended till 30 June 2017 and on 3 August 2017 – till 30 June 2018.

The Company issued a guarantee to Nordea Bank AB Latvian branch (now Luminor Bank AS) for the related company S.P.I. Spirits (Cyprus) Ltd of USD 15.0 million, resulting from overdraft agreement signed in July 2007. The guarantee is valid until the fulfilment of all overdraft contract obligations and the deadline was defined as 30 June 2017. On 29 June 2017 the overdraft completion date was extended till 30 June 2018. S.P.I. Spirits (Cyprus) Limited pays a guarantee fee to the Company in amount equal to the annual interest rate of 1.2% of the used overdraft amount.

On 1 September 2016 the Company's shareholder Amber Beverage Group SIA has signed a loan contract with Nordea Bank AB Latvian branch (now Luminor Bank AS) to finance purchase of Fabrica de Tequilas Finos – a tequila manufacturing company in Mexico. The amount of loan was EUR 12.0 million with repayment date until 30 September 2021. The fulfilment of this loan was guaranteed by all Amber Beverage Group SIA subsidiaries, including commercial pledge of all Company's assets and mortgage of the largest part of real estate owned by the Company. Amber Beverage Group SIA pays a guarantee fee to the Company in amount equal to the annual interest rate of 0.47% of the outstanding loan amount.

On 27 February 2017 Amber Beverage Group SIA has concluded a short-term loan contract with Nordea Bank AB Latvian branch (now Luminor Bank AS). The amount of loan was EUR 11.0 million with repayment date until 30 October 2017. The purpose of the loan was to provide Bennet Distributors UAB with overdraft to finance additional inventory purchase. The fulfilment of this loan together with Bennet Distributors UAB was secured by commercial pledge of all Company's assets and mortgage of the largest part of real estate owned by the Company. Amber Beverage Group SIA has paid a guarantee fee to the Company in amount equal to the annual interest rate of 0.95% of the outstanding loan amount. On October 2017 the loan was repaid in full and all Company's security agreements were terminated.

Interest rate of guarantee fee receivable by the Company varies from 1.2% to 0.47% depending on the number of guarantors, which secure the respective loan. If loans are guaranteed by multiple parties, rate is calculated based on the assets value of guarantors.

Taking into account the financial position of the Group companies it is not expected that the Company shall be required to execute guarantee, as a result no provisions have been recognised 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 2017

	Loans and receivables	Financial instruments at fair value through profit or loss statement	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)

On 31 December 2016

	Loans and receivables	Financial instruments at fair value through profit or loss statement	Financial liabilities at amortised cost	Total
	EUR	EUR	EUR	EUR
Financial assets:				
Loans to related parties	43 404 583	-	-	43 404 583
Cash and cash equivalents	2 677 315	-	-	2 677 315
Trade and other receivables	47 367 363	-	-	47 367 363
	93 449 261	-	-	93 449 261
Financial liabilities:				
Borrowings:				
(i) Finance lease liabilities	-	-	(637 152)	(637 152)
(ii) Loans from credit institutions	-	-	(10 428 371)	(10 428 371)
Derivative financial instruments	-	(51 148)	-	(51 148)
Trade payables	-	-	(6 283 243)	(6 283 243)
	-	(51 148)	(17 348 766)	(17 399 914)

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.

On 31 December 2017

	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total 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
	-	132 970	102 929 762	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)

On 31 December 2016

	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Financial assets:				
Loans to related parties	-	-	43 404 583	43 404 583
Cash and cash equivalents	-	2 677 315	-	2 677 315
Trade and other receivables	-	-	47 367 363	47 367 363
	-	2 677 315	90 771 946	93 449 261
Financial liabilities:				
Borrowings:				
(i) Finance lease liabilities	-	-	(637 152)	(637 152)
(ii) Loans from credit institutions	-	-	(10 428 371)	(10 428 371)
Derivative financial instruments	-	(51 148)	-	(51 148)
Trade payables	-	-	(6 283 243)	(6 283 243)
	-	(51 148)	(17 348 766)	(17 399 914)

III. OTHER NOTES (continued)

(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 fluctuations mainly from purchase of raw materials and consumables.

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

	31.12.2017. EUR	31.12.2016. EUR
Financial assets, USD	111 363	89 812
Financial liabilities, USD	(1 000 195)	(13 111)
Open position USD, net	<u>(888 832)</u>	<u>76 701</u>
Open position USD calculated in euro, net	<u>(741 126)</u>	<u>72 764</u>
Financial assets, GBP	38 821	-
Financial liabilities, GBP	(3 600)	(6 465)
Open position GBP net	<u>35 221</u>	<u>(6 465)</u>
Open position GBP calculated in euro, net	<u>39 698</u>	<u>(7 551)</u>
Financial liabilities, RUB	-	(1 213 580)
Open position RUB, net	<u>-</u>	<u>(1 213 580)</u>
Open position RUB calculated in euro, net	<u>-</u>	<u>(18 874)</u>

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:

	2017		2016	
	Change in exchange rates	Effect on equity EUR	Change in exchange rates	Effect on equity EUR
USD	+10%	74 113	+10%	(7 276)
	-10%	(74 113)	-10%	7 276

III. OTHER NOTES (continued)

(30) Financial and capital risk management (continued)

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.

	31.12.2017. EUR	31.12.2016. EUR
Financial assets with variable interest rate, EUR	20 346 340	8 701 749
Financial liabilities with variable interest rate, EUR *	<u>(5 819 474)</u>	<u>(6 577 059)</u>
Open position, net, EUR	<u>14 526 866</u>	<u>2 124 690</u>

* 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:

	2017		2016	
	Increase/ decrease in basis points	Effect on profit before tax EUR	Increase/ decrease in basis points	Effect on profit before tax EUR
EUR	+30	24 977	+30	(8 385)
	-30	(24 977)	-30	8 385

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.

III. OTHER NOTES (continued)

(30) Financial and capital risk management (continued)

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:

	31.12.2017. EUR	31.12.2016. EUR
Issued loans to Group companies	55 957 595	43 404 583
Trade receivables - Group companies	45 806 806	46 376 346
Trade receivables - non-related parties	1 099 612	908 697
Other current assets	65 749	48 171
Cash	132 970	2 677 315
	<u>103 062 732</u>	<u>93 415 112</u>

The largest concentration of credit risk arises from the Group companies' debts: on 31 December 2017 98% of the total trade receivables related to Group companies (31.12.2016. - 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.

Maturity analysis of trade receivables:

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables, net	split to:	Past due		
				not due	< 90 days	90-180 days	> 180 days
31.12.2017.							
group companies	45 806 806	-	45 806 806	27 338 336	15 204 068	3 194 199	70 203
non-related parties	1 129 700	(30 088)	1 099 612	937 104	162 430	78	-
31.12.2016.							
group companies	46 376 346	-	46 376 346	26 210 851	14 915 200	4 326 211	924 084
non-related parties	910 558	(1 861)	908 697	771 583	136 982	125	7

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 46 338 452 (31.12.2016. - EUR 39 237 861). The Company's management believes that the Company will have sufficient cash resources to ensure appropriate liquidity.

III. OTHER NOTES (continued)

(30) Financial and capital risk management (continued)

Liquidity risk (continued)

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

On 31 December 2017	Total EUR	<1 year EUR	2-5 years EUR	>5 years 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	-

On 31 December 2016	Total EUR	<1 year EUR	2-5 years EUR	>5 years EUR
Long-term loans	3 276 032	-	3 276 032	-
Derivative financial instruments	51 148	-	51 148	-
Short-term loans	8 138 403	8 138 403	-	-
Trade payables	4 653 523	4 653 523	-	-
Debts to Group companies	1 629 720	1 629 720	-	-
	17 748 827	14 421 646	3 327 180	-

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 8% (2016 - 9%), confirming the Company's improvement of stability:

	31.12.2017. EUR	31.12.2016. EUR
Total borrowings (long-term and short-term loans from banks)	8 514 785	11 065 523
Less cash and cash equivalents	(132 970)	(2 677 315)
Net debt	8 381 815	8 388 208
Equity	104 726 693	96 077 364
Total capital (equity and net loans)	113 108 508	104 465 572
Net debt to equity	8%	9%
Equity ratio on total assets	74%	74%

III. OTHER NOTES (continued)

(31) Distribution of profit proposed by the Board

Profit share to be distributed	EUR 8 624 423
Proposed profit distribution:	
Retained earnings	EUR 8 624 423

(32) Subsequent events

In March 2018 Amber Beverage Group S.a.r.l. concluded a share purchase agreement with SIA Amber Beverage Group for the acquisition of all Company's shares owned by SIA Amber Beverage Group.

On 24 April, 2018 within the the existing loan agreement Company issued an additional euro loan in amount of GBP 4 million to Amber Beverage Group Holding S.a.r.l..

On 26 April, 2018 Company concluded the amendments of the existing loan agreement with Swedbank AS extending the term of the agreement until May 31, 2021.

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 2017.

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 56 were signed on 26 April 2018 by:

Intars Geidāns
Chairman of the Board

Iveta Lejniece
Amber Beverage Group SIA Head of Accountancy