

**AS  
ALDARIS**

**Annual Report  
for 2016**

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## Information on the Company

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Name of the company	<i>Aldaris</i>
Legal status	<i>Joint Stock Company</i>
Number, place and date of registration	<i>40003073627, Riga, 6 May 1992</i>
Legal and postal address	<i>Tvaika iela 44, Riga, LV-1005</i>
Manager	<i>Rolandas Viršilas – Chief Executive Officer from 23.08.2016</i> <i>Margus Kastein - Chief Executive Officer until 23.08.2016</i>
Council members and their positions	<i>Joao Abecasis, Chairman of the Council from 03.08.2016</i> <i>Lars Lehmann, Chairman of the Council until 03.08.2016</i> <i>Anna Cecilia Lundgren Gunnarsson, Council Member</i> <i>Ināra Šure, Deputy Chairman of the Council</i>
Members of the Board and their positions	<i>Sigita Ozola, Board Member from 23.08.2016</i> <i>Artūrs Ilziņš, Board Member from 23.08.2016 to 10.05.2017</i> <i>Margus Kastein, Chairman of the Board until 23.08.2016</i> <i>Laura Krastiņa, Board Member until 19.04.2016</i>
Information on the parent company	<i>Baltic Beverages Holding AB</i> <i>P.O. Box 3040, SE-169 03 Solna, Sweden,</i> <i>99.04 % (until 03.08.2016)</i> <i>99.50% (from 03.08.2016 to 05.10.2016)</i>  <i>Carlsberg Sweden Holding 2 AB</i> <i>Evenemangsgatan 31, Box 3040, 169 03</i> <i>Solna, Sweden</i> <i>99.50% (from 05.10.2016)</i>
Information on associated companies	<i>SIA Alus un dzērienu iepakojumu savienība</i> <i>Riga, Tvaika iela 44, LV-1005</i> <i>Holdīng: 25%</i>
Auditor	<i>KPMG Baltics SIA</i> <i>Vesetas iela 7</i> <i>Riga, Latvia, LV-1013</i> <i>Licence No. 55</i>

## **Management Report**

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### **Line of business**

The key line of business of the Company is the production and wholesale of beer and other beverages.

### **Description of the Company's activities in the reporting year**

In 2016, the Company retained the status of the leading Latvian brewery with the total market share of beer sold of 26.1%. The sales volume in Latvia in 2016 was 42.6 million litres, which is 1.4% less than the previous year and reflects the stagnation prevalent in the Latvian beer industry. Most of the sales were made in the local market.

The net sales of the Company amounted to EUR 25.9 million, which is less than the previous year and is the result of the decrease in the Latvian beer market by more than 6.2% (Nielsen data base).

During the reporting period, the Company incurred a loss of EUR 3.2 million, which exceeds the cost of the previous period related to the above mentioned market reduction and the waiver from the distribution rights of Baltika. Loss of the 2016 year is intended to be covered from future operating profits.

In 2016, Aldaris continued changing its image and introducing new products to the market. Aldaris continued to target consumers with the new design and commenced active work on changing the design of the existing products to align them to the new image of Aldaris. Mežpils brand became more powerful and gained a stable position on the Latvian market.


The focus of Aldaris was 1865 anniversary beer and Mežpils, which was supplemented with Mežpils Senču beer. Significant attention was directed by Aldaris to craft beer and offered to consumers great products such as Baltijas Lāģers and wheat beer – Oranžais Kviesis. Cider begun its victory march on the Latvian market and Somersby contributed to the growth of the cider segment in Latvia. Somersby has reached its consumer and has become one of the most popular ciders in Latvia. Somersby and Mežpils became an integral part of festivals. Aldaris celebrated its cooperation with the festival Positivus by creating a unique festival beer – Positivus. Notable attention was paid to the series Aldaris Izlase, which won over even the greatest beer sceptics thanks to its modern design and production quality.

Aldaris is a socially active company, which supports and organises various events. During 2016 Aldaris was the first to organise the largest Craft Beer festival in Latvia, which brought together all kinds of breweries from around the world as well as the most demanding beer enthusiasts. Aldaris museum has become a popular place for organising various events.

Like all modern beverage producers, Aldaris has strengthened its position not only in beer but also in other beverage categories. We have greatly expanded the categories of beer cocktails, ciders, alcoholic cocktails and soft drinks. One of the main brands in non-beer category is cider Somersby, which has successfully proven itself worldwide and continues to attract new admirers of this cider in Latvia as well where the cider segment is not very developed.

### **Subsequent events**

No significant subsequent events have occurred that would materially impact the financial statement presentation.

  
\_\_\_\_\_  
Sigita Ozola  
Board Member

22 June 2017

The Annual Report has been approved at the shareholders' meeting on \_\_\_\_\_.

\_\_\_\_\_  
Chairman of the Meeting

## ***Profit and Loss Statement for 2016***

	Note	2016 EUR	2015 EUR
Net sales	2	25 857 386	26 243 617
Cost of goods sold	3	(12 184 032)	(12 960 905)
<b>Gross profit</b>		<b>13 673 354</b>	<b>13 282 712</b>
Selling expenses	4	(14 402 905)	(13 677 370)
Administrative expenses	5	(2 416 589)	(2 608 383)
Other operating income	6	113 354	665 741
Other operating expenses	7	(76 760)	(163 795)
Interest and similar expenses	8	(68 666)	(113 110)
<b>Loss before tax</b>		<b>(3 178 212)</b>	<b>(2 614 205)</b>
Corporate income tax for the reporting year		-	-
<b>Loss after tax</b>		<b>(3 178 212)</b>	<b>(2 614 205)</b>
Income or expenses from changes in balances of deferred tax assets or liabilities	21	-	-
<b>Loss for the reporting year</b>		<b>(3 178 212)</b>	<b>(2 614 205)</b>

The accompanying notes on pages 10 to 26 form an integral part of these financial statements.

\_\_\_\_\_  
Sigita Ozola  
Board Member

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Laura Brakša  
Financial controller

22 June 2017

**Balance Sheet as at 31 December 2016**

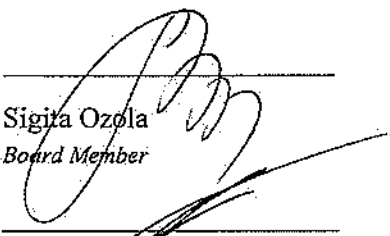
Assets	Note	2016 EUR	2015 EUR
<b>Long-term investments</b>			
<b>Intangible assets</b>			
Development costs		-	130
Concessions, patents, licenses, trademarks and similar rights		-	1 015 289
<b>Total intangible assets</b>	9	<b>-</b>	<b>1 015 419</b>
<b>Fixed assets</b>			
Land, buildings and engineering structures		4 172 222	4 713 531
Equipment and devices		2 989 942	2 938 372
Construction in progress		39 300	55 283
<b>Total fixed assets</b>	10	<b>7 201 464</b>	<b>7 707 186</b>
<b>Long term financial investments</b>			
Investments in associated companies	11	3 557	3 557
<b>Total long term financial investments</b>		<b>3 557</b>	<b>3 557</b>
<b>Total long-term investments</b>		<b>7 205 021</b>	<b>8 726 162</b>
<b>Current assets</b>			
<b>Stock</b>			
Raw materials		1 455 594	773 457
Work in progress		22 800	21 350
Finished goods and goods for sale	12	945 285	980 238
<b>Total stock</b>		<b>2 423 679</b>	<b>1 775 045</b>
<b>Receivables</b>			
Trade receivables	13	2 538 590	2 197 615
Due from related parties	14	314 858	794 555
Other receivables	15	524 625	1 337 616
Prepaid expenses	16	700 704	564 017
<b>Total receivables</b>		<b>4 078 777</b>	<b>4 893 803</b>
<b>Cash</b>	17	<b>48 387</b>	<b>87 445</b>
<b>Total current assets</b>		<b>6 550 843</b>	<b>6 756 293</b>
<b>Total assets</b>		<b>13 755 864</b>	<b>15 482 455</b>

The accompanying notes on pages 10 to 26 form an integral part of these financial statements.

**Balance Sheet as at 31 December 2016**

<b>Liabilities</b>	<b>Note</b>	<b>2016 EUR</b>	<b>2015 EUR</b>
<b>Equity</b>			
Share capital	18	20 671 536	10 671 536
Reserves		3	3
Accumulated losses:			
losses carried forward from previous years	19	(18 782 697)	(16 168 492)
loss of the reporting year		(3 178 212)	(2 614 205)
<b>Total equity</b>		<b>(1 289 370)</b>	<b>(8 111 158)</b>
<b>Provisions</b>			
Other provisions	20	330 619	306 517
<b>Total provisions</b>		<b>330 619</b>	<b>306 517</b>
<b>Liabilities</b>			
<b>Long-term liabilities</b>			
Due to related parties	23	9 965 821	18 762 323
<b>Total long-term liabilities</b>		<b>9 965 821</b>	<b>18 762 323</b>
<b>Short term liabilities</b>			
Customer advances		266 611	222 849
Accounts payable to suppliers and contractors	22	1 113 763	1 685 651
Due to related parties	23	1 783 202	1 165 086
Taxes and social contributions	24	1 107 823	964 579
Other liabilities	25	113 947	141 051
Dividends payable brought forward from previous years	26	9 960	9 960
Accrued liabilities	27	353 488	335 597
<b>Total short-term liabilities</b>		<b>4 748 794</b>	<b>4 524 773</b>
<b>Total liabilities</b>		<b>14 714 615</b>	<b>23 287 096</b>
<b>Total liabilities</b>		<b>13 755 864</b>	<b>15 482 455</b>

The accompanying notes on pages 10 to 26 form an integral part of these financial statements.

  
 Sigita Ozola  
 Board Member

  
 Laura Burkša  
 Financial controller

22 June 2017

## Statement of Cash Flows for 2016

	Note	2016 EUR	2015 EUR
<b>Cash flows from operating activities</b>			
Profit/(loss) before taxes		(3 178 212)	(2 614 205)
depreciation and adjustments to impairment of fixed assets;		917 639	210 632
amortization and adjustments to impairment of intangible assets;		1 015 419	67 490
provisions (except for doubtful debt allowance);		24 102	(752 899)
interest payments		68 462	113 039
2. Profit / (loss) before adjustments for the effect of changes to current assets and short term liabilities		(1 152 590)	(2 975 943)
Adjustments for:			
(increase)/decrease of receivables;		815 026	1 126 509
(increase)/decrease of stock;		(648 634)	426 481
increase/(decrease) of accounts payable to suppliers, contractors and other creditors		224 021	(1 270 206)
3. Gross cash flows from operating activities		(762 177)	(2 693 159)
4. Interest paid		(68 462)	(113 039)
5. Recovered overpaid taxes		-	328 000
<b>Net cash flows from operating activities</b>		<b>(830 639)</b>	<b>(2 478 198)</b>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets		(562 413)	(1 110 261)
Proceeds from disposal of fixed assets		150 496	723 676
<b>Net cash flows from investing activities</b>		<b>(411 917)</b>	<b>(386 585)</b>
<b>Cash flows from financing activities</b>			
Proceeds from share issue		10 000 000	-
Loans received from a related company		-	2 857 316
Repayment of loans from related company		(8 796 502)	-
<b>Net cash flows from financing activities</b>		<b>1 203 498</b>	<b>2 857 316</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(39 058)</b>	<b>(7 467)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>87 445</b>	<b>94 912</b>
<b>Cash and cash equivalents at the end of the period</b>	17	<b>48 387</b>	<b>87 445</b>

The accompanying notes on pages 10 to 26 form an integral part of these financial statements.

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 Sigita Ozola  
 Board Member

\_\_\_\_\_  
 Laura Bunkša  
 Financial controller

22 June 2017



**Statement of Changes to the Shareholders Equity for 2016**

	Share capital EUR	Reserves EUR	Losses carried forward from previous years EUR	Loss for the reporting year EUR	Total shareholders ' equity EUR
<b>31.12.2014.</b>	<b>10 671 539</b>	<b>-</b>	<b>(12 761 349)</b>	<b>(3 407 143)</b>	<b>(5 496 953)</b>
Reduction in share capital resulting from denomination	(3)	3	-	-	-
Loss of 2014 transferred to loss of previous years	-	-	(3 407 143)	3 407 143	-
Loss for the reporting year	-	-	-	(2 614 205)	(2 614 205)
<b>31.12.2015.</b>	<b>10 671 536</b>	<b>3</b>	<b>(16 168 492)</b>	<b>(2 614 205)</b>	<b>(8 111 158)</b>
Share capital increase	10 000 000	-	-	-	10 000 000
Loss of 2015 transferred to loss of previous years	-	-	(2 614 205)	2 614 205	-
Loss for the reporting year	-	-	-	(3 178 212)	(3 178 212)
<b>31.12.2016.</b>	<b>20 671 536</b>	<b>3</b>	<b>(18 782 697)</b>	<b>(3 178 212)</b>	<b>(1 289 370)</b>

The accompanying notes on pages 10 to 26 form an integral part of these financial statements.

\_\_\_\_\_  
 Sigita Ozola  
 Board Member

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 Laura Bunka  
 Financial controller

22 June 2017

## ***Notes to the Financial Statements***

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### **(1) Information on the Company's activities and summary of significant accounting principles – general principles**

#### ***Information on the Company's activities***

Aldaris is a Joint Stock Company. The legal and actual address is Riga, Tvaika iela 44. The parent company of AS Aldaris is Carlsberg Sweden Holding 2 AB, legal address: Evenemangsgatan 31, Box 3040 169 03, Solna, Sweden.

The ultimate company of AS Aldaris is Carlsberg Breweries AS, legal address: 100 Ny Carlsberg Vej, 1799 Copenhagen V, Denmark. The consolidated financial statements of the group parent company are available from the parent company of the group at request.

The core business of the company is the production and sale of beer, mineral water and other beverages. The NACE codes of the Company are 11.05 and 11.07.

#### ***Basis of preparation***

The financial statements were prepared in accordance with the Latvian law 'On Accounting' and the 'Annual Reports and Consolidated Annual Report Law'.

The profit and loss statement was prepared according to the turnover costing method. The cash flow statement was prepared according to the indirect method. The financial statements are prepared on the historical cost basis.

#### ***Accounting principles***

The financial statements were prepared in accordance with the following policies:

- a) Going concern assumption that the Company will continue as a going concern
- b) Consistent valuation principles with those used in the prior year;
- c) Items were valued in accordance with the principle of prudence:
  - the financial statements reflect only the profit generated to the balance sheet date;
  - all incurred liabilities and current or prior year losses have been taken into consideration even if identified within the period after the date of the balance sheet and preparation of the financial statements;
  - all impairment and depreciation amounts have been calculated and taken into consideration.
- d) Income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received. Expenses were matched with revenue for the reporting period.
- e) Assets and liabilities have been valued separately.

Certain balances for 2016 were classified differently from the prior year, due to management judgment. The reclassification has no impact on the financial result. The comparative information for 2015 disclosed in the financial statements for 2016 was classified in line with the principles used in 2016 and is comparable. The opening balances before reclassification agree with the prior year closing balances.
- f) All material items, which would influence the decision-making process of users of the financial statements, have been recognised and insignificant items have been combined and their explanations are disclosed in the notes.
- g) Business transactions are recorded taking into account their economic contents and substance, not solely the legal form.

## Notes to the Financial Statements

### Reclassification

According to the new "Annual Reports and Consolidated Annual Reports Law" certain items have been reclassified so that the comparative data for the prior period are classified according to the principles used in the reporting period and are comparable. The reclassification has no impact on the financial result.

<u>Balance Sheet</u>	2015, after reclassification, EUR	Reclassification, EUR	2015, before reclassification, EUR
Provisions	306 517	(231 714)	538 231
Accrued liabilities	335 597	335 597	-
Prepaid expenses	564 017	103 883	460 134

### *A new law on the preparation of annual reports and consolidated annual reports applicable in Latvia, which applies to these financial statements*

Effective from 1 January 2016, the new Annual Reports and Consolidated Annual Reports Law and the related Cabinet of Ministers Regulation No. 775 entered into force in Latvia superseding the Annual Reports Law and the related Cabinet of Ministers Regulations No. 488 and 481 that were used as the framework for preparing the financial statements for the previous year.

According to the new law, balance sheet items *Investment Property, Biological Assets, Deferred Tax Assets, Long-term Investments Held for Sale* and *Deferred Tax Liabilities* are to be used only by a company that following an exemptions stipulated in the law, recognises and measures these items in accordance with the International Accounting Standards (international Financial Reporting Standards as adopted by the EU).

The new law further simplifies the preparation of financial statements of small and medium-sized companies but, meanwhile, stipulates that the financial statements should give a true and fair view of the company's financial position and profit or loss and of its cash flows.

The Company meets the definition of a medium company.

The Company is a subsidiary of a Group where the Group parent company prepares its financial statements according to the International Accounting Standards and, accordingly, in the preparation of these financial statements the management used the exemption under Section 13 of the Annual Reports and Consolidated Annual Reports Law and continues to recognise, measure and disclose deferred tax assets and deferred tax liabilities according to the International Accounting Standards and provides appropriate disclosures on these items.

The management believes that the accounting policies used in the preparation of these financial statements are largely consistent with those used last year.

### Related parties

Related parties represent both legal entities and private individuals related to the company in accordance with the following rules.

- a) A person or a close member of that person's family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has a significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

## ***Notes to the Financial Statements***

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- b) An entity is related to a reporting entity if any of the following conditions applies:
- i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
  - iii. Both entities are joint ventures of the same third party;
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - viii. The entity or any member of the group to which the entity belongs provides management personnel services to the entity or the parent of company of the entity.

Related party transaction – A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

### ***Investments***

#### ***Investments in associates***

An associated company is a company under a significant influence of another company, where the significant influence is ensured via not less than 20 and not more than 50 per cent of voting rights in the associated company.

Investments in associated companies are initially recognized at cost. If the value of such investments at the balance sheet date is lower than the acquisition cost or valuation in the previous year's balance sheet, and such decrease is expected to be permanent, investments are recognized at the lower value. If the value of such investments at the balance sheet date is significantly higher than the acquisition cost or the valuation in the previous year's balance sheet, they can be recognized at the higher value, if such an increase may be assumed to be permanent.

### ***Financial instruments and financial risks***

Financial instrument is an agreement that simultaneously results in financial assets of one party and financial liabilities or equity securities of the other party.

The key financial instruments held by the Company are financial assets such as trade receivables and other receivables and financial liabilities – loans, accounts payable to suppliers and contractors and other creditors arising directly from its business activities.

#### ***Financial risks connected with the Company's financial instruments, financial risk management***

Key financial risks related to the Company's financial instruments are:

- Credit risk is the risk that the Company may incur financial losses if parties to the transactions fail to fulfil their liabilities under the contracts, and credit risk is primarily connected with trade receivables;
- Currency risk – risk that the Company may suffer unexpected losses arising from fluctuations in the foreign exchange rates.  
The Company is exposed to currency risk in relation to sales, purchases, loans and other monetary assets and liabilities denominated in DKK, RUB, USD, etc.
- Interest rate risk – risk that the Company may incur losses due to fluctuations in interest rates;
- Liquidity risk – risk that the Company will not be able to meet its financial liabilities in due time.

## ***Notes to the Financial Statements***

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Management has implemented the following procedures to control the key risks.

### ***Credit risk***

For the purposes of credit risk management, the Company's management has established a procedure that sales of goods against payments on delivery or completion are made based on client evaluation procedures and certain limits are set on the amount of such sales. Management has developed a credit policy which includes regular control procedures over debtors to ensure identification of problems on a timely basis.

### ***Currency risk***

For the purposes of currency risk management, the Company's management performs regular oversight to ensure that the currency structure of assets and liabilities is matched.

### ***Interest rate risk***

Based on the existing agreements, management believes interest rate risk is not material.

Management believes that derivative financial instruments should not be used for hedging the existing currency risks.

### ***Liquidity risk***

The Company supervises the liquidity risk. If necessary it has a credit line available from Carlsber Breweries AS.

### ***Use of derivatives***

Derivatives are not used for hedging risks.

### ***Fair value of financial assets and liabilities***

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If according to management, the fair value of an asset or liability is significantly different from the carrying amount, fair value disclosures are made in the notes to the financial statements.

### ***Reporting period***

The reporting period is the 12 months from 1 January 2016 to 31 December 2016.

### ***Currency unit and revaluation of foreign currency***

All amounts in these financial statements are expressed in the Latvian national currency – euro (EUR).

Transactions in foreign currencies are translated into euros at the reference exchange rate published by the European Central Bank as at the transaction date.

All monetary asset and liability items were revalued to euros according to the reference exchange rate published by the European Central Bank on the reporting date. Non-monetary items of assets and liabilities are revalued to euros in accordance with the reference exchange rate published by the European Central Bank on the transaction date.

	<b>31.12.2016</b>	<b>31.12.2015</b>
DKK	7.43440	7.462600
SEK	9.55250	9.189500
PLN	4.41030	4.263900
USD	1.05410	1.088700
RUB	64.30000	80.67360

## ***Notes to the Financial Statements***

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Profit or loss arising from the fluctuations in the exchange rate on assets and liabilities denominated in a foreign currency are recognized in the profit and loss statement in the respective period in which the fluctuation occurs.

### ***Estimates and judgments***

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expense. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in the accounting estimates are recognised in the period when those estimates are reviewed and in the future periods.

Key sources of estimation uncertainty are the following:

#### ***(i) Useful lives of fixed and intangible assets***

Management estimates the useful lives of fixed and intangible assets in proportion to the expected duration of use of the asset (its expected capacity or effectiveness) based on historical experience with similar fixed assets and future plans. According to management estimates, the useful lives of certain fixed and intangible assets are the following:

##### ***Intangible assets:***

Licenses	10 - 20 years
Cost of research and development activities	10 years

##### ***Fixed assets:***

Buildings and constructions	10 - 40 years
Computers and data storage equipment, communication equipment	3 - 5 years
Vehicles (cars)	5 years
Vehicles (trucks)	5 - 10 years
Trade equipment	3 - 5 years
Other fixed assets	5 - 14 years

#### ***(ii) Fixed asset valuation***

Fixed assets are measured in accordance with the cost method and carried at cost less accumulated depreciation and impairment losses. Depreciation is not calculated for land. In case the fair value of fixed assets at the balance sheet date is lower than their carrying amount, and such impairment is expected to be permanent, fixed assets are recognized at the lower value. The revaluation result is recognized in the profit and loss statement.

#### ***(iii) Net realizable value of stock***

Stock is carried at the lower of cost and net realizable value. Management estimates the net realizable value of stock upon identifying that the recoverable amount of stock is lower than cost or acquisition value. If this has occurred, inventories are written down to their net realizable value, i.e., the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale.

## ***Notes to the Financial Statements***

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### ***(iv) Valuation of receivables***

A number of significant risks and uncertainties are inherent to the process of monitoring financial assets and estimating impairment. These risks and uncertainties include the risk that the Company's assessment of the customer's ability to meet all of its contractual obligations will change based on changes in the credit characteristics of the customer and the risk that the economic outlook will be worse than expected or have more of an impact on the customer or issuer than anticipated.

Receivables are valued according to the principle of prudence and recognized at amount due less allowance for doubtful trade receivables.

Doubtful debt allowances are recognized based on an individual management assessment of the recoverability of each receivable.

### ***(v) Provisions***

Provisions are recognized when a past event has given rise to a present obligation or losses and the amount can be estimated reasonably. The likelihood of loss is assessed based on management assumptions. Determining the amount of loss requires management to select an appropriate calculation method and make specific assumptions connected with the specific risk.

As at the year-end, the following provisions have been recognized:

- provision for bonuses is calculated in accordance with the procedures approved by management.
- provisions for bonuses for buyers are calculated for amounts of December 2016, IV quarter and year, in accordance with the signed agreements.
- provisions for restructuring.

### ***(vi) Deferred tax asset***

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax amounts are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The calculation of deferred tax has resulted in a deferred tax asset that is not recognized in the balance sheet as the recovery is not probable.

### ***Revenue recognition***

#### ***Income from sales of goods***

Revenue from the sales of goods is recognized in the profit and loss statement after the risks and rewards of ownership are transferred to the client.

No revenue is recognized if according to the provisions of the transaction the Company retains significant risks pertaining to the ownership of goods and the goods can be returned.

#### ***Interest income***

Interest income is recognized in the profit and loss statement using the effective interest rate method.

### ***Long and short-term classification***

Amounts whose terms of receipt, payment or write off are due more than one year after the balance sheet date are classified as long-term. Amounts to be received, paid or written off within one year are classified as short-term.

## ***Notes to the Financial Statements***

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### ***Operating lease transactions***

Payments for operating lease are recognized in the profit and loss statement on a straight-line basis over the period of lease.

### ***Intangible and fixed assets***

Intangible assets and fixed assets are recognised at historical cost, less accumulated amortization and depreciation. Amortization and depreciation is calculated from the first day of the month following their putting to operation and until the first day of the month following their disposal. Depreciation is calculated on a straight-line basis and written-off over the useful lives of the relevant fixed assets.

The depreciation method is reviewed at least on an annual basis, at the year-end.

### ***Stock***

Stock has been valued according to the average weighted method.

Stock accounting is based on the perpetual method.

### ***Corporate income tax***

Corporate income tax comprises current and deferred tax. Corporate income tax is recognized in the profit and loss statement.

#### ***Current tax***

Current tax is calculated in accordance with the law "On Corporate Income Tax" by setting the amount of taxable income and applying a tax rate of 15% for 2016.

#### ***Deferred tax***

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting using the balance sheet method providing for purposes and the amounts used for taxation purposes. These differences have primarily occurred due to different depreciation rates used for fixed assets in tax accounting and financial accounting, recognized provisions and tax losses available to be carried forward according to the tax declaration.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is calculated based on the current statutory rate of 15%.

Deferred tax assets are recognized only to the extent that their recovery is probable.



## Notes to the Financial Statements

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### (2) Net sales

Net sales represents revenue generated during the reporting period from the Company's basic activities – sales of goods, net of value added tax and discounts.

### (3) Cost of goods sold

Cost of goods sold represents costs incurred for generating net sales – such as costs of goods recognized at production or acquisition cost, and costs related to purchase of goods.

	2016	2015
	EUR	EUR
Cost of materials	11 283 544	11 699 756
Personnel costs	444 368	499 786
Depreciation	172 458	144 707
Other expenses	283 662	616 656
	<u>12 184 032</u>	<u>12 960 905</u>

### (4) Selling expenses

	2016	2015
	EUR	EUR
Personnel costs	3 207 045	3 479 913
Depreciation of fixed assets	706 544	643 344
Other expenses	10 489 316	9 554 113
	<u>14 402 905</u>	<u>13 677 370</u>

### (5) Administrative expenses

	2016	2015
	EUR	EUR
Personnel costs	712 126	833 853
Depreciation and amortization	189 949	150 251
Other expenses	1 514 514	1 624 279
	<u>2 416 589</u>	<u>2 608 383</u>

### (6) Other operating income

	2016	2015
	EUR	EUR
Profit on disposal of fixed assets, net	107 943	660 180
Fines received	5 411	5 548
Other income	-	13
	<u>113 354</u>	<u>665 741</u>

**Notes to the Financial Statements**

**(7) Other operating expenses**

	2016	2015
	EUR	EUR
Real estate tax	64 873	63 689
Fines	10 498	57 933
Loss on disposal of fixed assets, net	1 389	42 173
	<u>76 760</u>	<u>163 795</u>

**(8) Interest and similar expenses**

	2016	2015
	EUR	EUR
Interest payments	68 462	113 039
Loss from foreign exchange fluctuations, net	204	71
	<u>68 666</u>	<u>113 110</u>

**(9) Intangible assets**

	Development costs	Concessions, patents, licenses, trademarks and similar rights	Total
	EUR	EUR	EUR
<b>Historical cost</b>			
31.12.2015.	102 400	1 413 084	1 515 484
Disposals	-	(1 350 000)	(1 350 000)
31.12.2016.	102 400	63 084	165 484
<b>Accumulated amortization</b>			
31.12.2015.	102 270	397 795	500 065
Calculated amortization	130	44 628	44 758
Amortization of disposed assets	-	(379 339)	(379 339)
31.12.2016.	102 400	63 084	165 484
<b>Balance as at 31.12.2015</b>	<u>130</u>	<u>1 015 289</u>	<u>1 015 419</u>
<b>Balance as at 31.12.2016</b>	<u>-</u>	<u>-</u>	<u>-</u>

In 2016, a decision was made to cease selling the products of Baltika Breweries and the distribution rights for Baltica beer were written off in the amount of EUR 970 661.

## Notes to the Financial Statements

### (10) Movement of fixed assets

	Land, buildings and engineering structures EUR	Equipment and devices EUR	Construction in progress EUR	Total EUR
<b>Historical cost</b>				
31.12.2015.	7 910 309	31 556 306	55 283	39 521 898
Additions	48 176	478 221	36 016	562 413
Disposals	-	(2 857 099)	(42 553)	(2 899 652)
Transferred	(328 765)	338 211	(9 446)	-
31.12.2016.	7 629 720	29 515 639	39 300	37 184 659
<b>Accumulated depreciation</b>				
31.12.2015.	3 196 778	28 617 934	-	31 814 712
Depreciation	273 422	750 771	-	1 024 193
Depreciation of reclassified intangible assets:	(12 702)	12 702	-	-
Depreciation of disposed fixed assets	-	(2 855 710)	-	(2 855 710)
31.12.2016.	3 457 498	26 525 697	-	29 983 195
<b>Balance as at 31.12.2015</b>	<b>4 713 531</b>	<b>2 938 372</b>	<b>55 283</b>	<b>7 707 186</b>
<b>Balance as at 31.12.2016</b>	<b>4 172 222</b>	<b>2 989 942</b>	<b>39 300</b>	<b>7 201 464</b>

In 2016 the Company's management assessed impairment necessity for fixed assets, particularly for 'Land, buildings and engineering structures'. In accordance with the management assessment based on discount cash flow method, using discount factor of 10% and average price for 1m<sup>2</sup> – 1.50 EUR, net book value does not materially differ from the fair value of the properties.

### (11) Investments in associated companies

	EUR
Balance as at 31.12.2015	3 557
Balance as at 31.12.2016	3 557

Investments in associated companies:

Name of the Company	Number of shares held as at 31.12.2016	Carrying amount of investments	
		Cost EUR	as at 31.12.2016 EUR
SIA Alus un dzērienu iepakojumu savienība	25	3 557	3 557
		<b>3 557</b>	<b>3 557</b>

**Notes to the Financial Statements**

Name of the Company	Number of shares held	Carrying amount of investments	
	as at 31.12.2015	Cost	as at 31.12.2015
	%	EUR	EUR
SIA Alus un dzērienu iepakojumu savienība	25	3 557	3 557
		<u>3 557</u>	<u>3 557</u>

**(12) Finished goods and goods for sale**

	2016	2015
	EUR	EUR
Goods for sale	539 020	593 598
Packaging for goods for sale (boxes, bottles, etc.)	406 265	386 640
	<u>945 285</u>	<u>980 238</u>

**(13) Trade receivables**

	2016	2015
	EUR	EUR
Trade receivables, gross value	2 764 904	2 515 889
Allowance for doubtful debts	(226 314)	(318 274)
	<u>2 538 590</u>	<u>2 197 615</u>

**(14) Due from related parties**

	2016	2015
	EUR	EUR
Due from related parties, gross value	314 858	794 555
	<u>314 858</u>	<u>794 555</u>

The item presents the amounts due from related companies Svyturys-Utenos Alus UAB, Saku Olltehase AS, Carlsberg IT AS, Carlsberg Supply Company AG for goods and services received.

**(15) Other receivables**

	2016	2015
	EUR	EUR
Packaging transferred to buyers at pledge value	467 565	1 281 028
Overpaid taxes	54 962	54 962
Prepayments to staff and other receivables	2 098	1 626
	<u>524 625</u>	<u>1 337 616</u>

The item presents packaging at the pledge value to related companies Svyturys-Utenos Alus UAB and Saku Olltehase AS of EUR 144 191 (2015: EUR 869 688).

## Notes to the Financial Statements

### (16) Prepaid expenses

The item represents expenses incurred during the reporting year but relating to the next reporting periods.

	2016 EUR	2015 EUR
Advertising	548 449	382 417
Insurance	17 678	14 332
Other	134 577	167 268
	<u>700 704</u>	<u>564 017</u>

Advertisement expenses for future periods are presented at net value, deducting provisions for such payments from the carrying amount, from which there are no future benefits expected of EUR 285 964 (2015: EUR 325 695).

### (17) Cash

By currency:

		2016		2015	
		Currency	EUR	Currency	EUR
Current account	USD	10 682	10 134	11 390	10 462
Current account	LTL	3	1	3	1
Current account	EUR	-	16 400	-	26 896
Current account	RUB	6 756	105	1 541	19
Current account	DKK	42 854	5 764	-	-
Cash in transit	EUR	-	15 983	-	50 067
			<u>48 387</u>		<u>87 445</u>

### (18) Share capital

Share capital of the Company as at 31 December 2016 is EUR 20 671 536 and it is divided into 103 357 682 shares with nominal value of EUR 0.20. The decision on share capital increase by issuing 50 000 000 new shares with the nominal value of EUR 0.20 was made during the shareholders meeting in July 2016.

### (19) Accumulated losses brought forward from previous years

Retained earnings carried forward from previous years as at 31 December 2016 amount to EUR 18 782 697 (2015: EUR 16 168 492).

Loss of the 2016 year is intended to be covered from future operating profits.

### (20) Other provisions

	2016 EUR	2015 EUR
Provision for buyer annual bonuses	247 701	237 043
Provision for annual bonuses	55 089	69 474
Provisions for restructuring	27 829	-
	<u>330 619</u>	<u>306 517</u>

## Notes to the Financial Statements

### (21) Deferred tax liabilities

Deferred tax relates to the following temporary differences:

	2016		2015	
	EUR		EUR	
	assets	liabilities	assets	liabilities
Depreciation	-	(455 490)	-	(566 510)
Provisions	157 759	-	193 605	-
Tax losses brought forward	2 840 321	-	2 552 030	-
Unrecognised deferred tax asset	-	(2 542 590)	-	(2 179 125)
<b>Net deferred tax liabilities</b>	-	-	-	-

#### Unrecognized deferred tax asset

A deferred tax asset on losses of EUR 2 542 590 (2015: EUR 2 179 125) was not recognized as it cannot be measured reliably if future taxable profit will be available to use against this asset. Tax losses do not expire.

### (22) Accounts payable to suppliers and contractors

	2016	2015
	EUR	EUR
Due to foreign suppliers for goods	123 829	194 891
Due to local suppliers for goods and services	989 934	1 490 760
	<b>1 113 763</b>	<b>1 685 651</b>

### (23) Due to related parties

		2016		2015	
		Currency	EUR	Currency	EUR
<b>Long term</b>					
Credit line from Carlsberg Breweries A/S	EUR	-	9 965 821	-	18 762 323
<b>Total long-term part</b>			<b>9 965 821</b>		<b>18 762 323</b>
<b>Short term</b>					
Due to Carlsberg Breweries A/S	EUR	-	474 978	-	481 466
Due to Carlsberg Breweries A/S	DKK	-	-	(42 820)	(5 738)
Due to Carlsberg Business Solutions A/S	EUR	-	154 823	-	146 863
Due to Carlsberg Business Solutions A/S	DKK	1 198 224	161 173	120 321	16 123
Due to Baltika Breweries	RUB	-	-	295 911	3 668
Due to Sinebrychoff AB	EUR	-	-	-	2 559
Due to Saku Ollethase AS	EUR	-	652 701	-	301 910
Due to Švyturys Utenos Alus UAB	EUR	-	307 046	-	215 709
Due to Carlsberg Supply Company AS	EUR	-	36 151	-	1 421
Due to Carlsberg AS	DKK	12 800	1 722	-	-
Due to Carlsberg Supply Company AS	USD	1 024	971	-	-
Due to Carlsberg Group Procurement POS	EUR	-	(6 363)	-	-
Due to Slodownia Strzegom Sp.z.o.o	EUR	-	-	-	1 105
<b>Total short-term part</b>			<b>1 783 202</b>		<b>1 165 086</b>
			<b>11 749 023</b>		<b>19 927 409</b>

## Notes to the Financial Statements

The loan from Carlsberg Breweries A/S was received on 19 January 2013, by way of re-crediting the overdraft from Nordea Bank Finland Plc Latvian branch to Carlsberg Breweries A/S. The balance of the long term loan (credit line) from Carlsberg Breweries A/S as at 31 December 2016 was EUR 9 965 821 (31 December 2015 - 18 762 323). The interest rate is set by the agreement between Carlsberg Breweries A/S and the credit institution and in 2016 and 2015 it comprised EONIA + fixed % rate and the maturity is 2 July 2018.

### (24) Taxes and social contributions

Type of tax	Balance 31.12.2016.	Balance as at 31.12.2015
	EUR	EUR
Corporate income tax	(54 962)	(54 962)
Corporate income tax withheld from payments to non-residents	326	338
Value added tax	369 322	315 432
Excise tax	622 641	540 772
Social contributions	64 003	44 886
Personal income tax	51 531	60 850
Real estate tax	-	2 301
	<b>1 052 861</b>	<b>909 617</b>

Including:	2016 EUR	2015 EUR
Overpaid taxes	(54 962)	(54 962)
Tax liabilities	1 107 823	964 579

Overpaid taxes are disclosed under Other receivables (see Note 15).

### (25) Other liabilities

	2016 EUR	2015 EUR
Unpaid remuneration for work	108 643	118 732
Other liabilities	5 304	22 319
	<b>113 947</b>	<b>141 051</b>

### (26) Dividends payable brought forward from previous years

	EUR
Undistributed dividends as at 31.12.2015	9 960
Undistributed dividends as at 31.12.2016	9 960

### (27) Accrued liabilities

	2016 EUR	2015 EUR
Accrued liabilities for services received in December	158 135	55 876
Accrued liabilities for unused vacations	121 598	175 838
Accrued advertisement expenses	73 755	103 883
	<b>353 488</b>	<b>335 597</b>

## ***Notes to the Financial Statements***

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Accrued liabilities for unused vacations calculated in accordance with the number of vacation days unused as at 31. December 2016 and the average remuneration during the last six months of the reporting year.

### **(28) Related party transactions**

The Company has had transactions with related parties during the reporting year. The most significant transactions are the following:

<b>Related party:</b>	<b>Description of transaction</b>
Svyturys-Utenos Alus UAB	export of goods services provided import of goods services received
Saku Ollethase AS	export of goods services provided services received import of goods disposal of fixed assets
Carlsberg IT AS	services provided services received
Carlsberg Supply Company AG	import of raw material and materials services received services provided
Carlsberg Denmark AS	export of goods
Carlsberg Breweries AS	services received paid interest expenses services provided fee for intellectual property
Carlsberg Supply Company Sverige AB	disposal of fixed assets

### **(29) Number of employees**

	<b>2016</b>	<b>2015</b>
Average number of employees in the reporting year	189	202
Average number of board members in the reporting year	2	2
	<b>191</b>	<b>204</b>

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## Notes to the Financial Statements

### (30) Personnel costs

Type of costs	2016 EUR	2015 EUR
Remuneration	2 972 288	3 278 036
Compulsory state social security contributions	716 851	747 456
Other social costs	(9 711)	(40 608)
Other personnel costs	684 111	828 668
	<u>4 363 539</u>	<u>4 813 552</u>

### (31) Information on the remuneration to management

During the reporting year, members of management received the following remuneration for their functions and social security contributions by groups of positions:

	2016 EUR	2015 EUR
Board members		
<i>for execution of the functions of the job position</i>	124 179	146 506
	<u>124 179</u>	<u>146 506</u>

The members of the board changed during the reporting period. The board members did not receive additional remuneration for their work on the board during the reporting period.

### (32) Information on contingent liabilities and pledged assets

As at the end of the reporting year, the Company has no contingent liabilities and pledged assets.

### (33) Information on operating lease and rent agreements with a significant impact on the Company's activities

The Company has effective operating lease agreements for 78 cars. The outstanding part of the agreements as at 31 December 2016 amounts to EUR 673 284 (2015: EUR 502 787). According to those agreements, lease payments are the following:

In 2017	EUR 235 834
In 2018 – 2021	EUR 437 450

### (34) Going concern

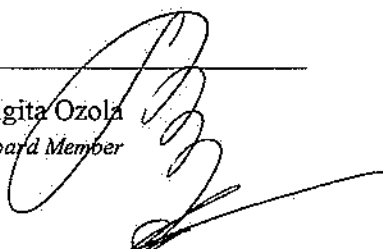
The operating results of the Company for the past years were losses which in 2016 amounted to EUR 3 178 212. Liquidity is ensured by the Company by means of a long term credit line available from Carlsberg Breweries AS, the balance of which as at 31 December 2016 was EUR 9 965 821 (see Note 23). In 2016 the share capital of the Company was increased by 10 million EUR.

In 2013, the Company was restructured. The Company's strategy and the operational model was changed to enable efficient use of resources, reduce fixed costs and increase the operational efficiency and profitability. The Company has set the goal to become the innovation centre for exclusive beers for the Carlsberg Group companies in the Baltic region. Investments in the exclusive beer factory will enable the Company to regain profitability, increase competitiveness and strengthen the market leader position in the beer segment in the

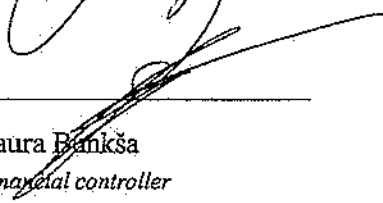
## ***Notes to the Financial Statements***

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future. The management of the Company believes that there is no uncertainty about the ability of the Company to continue as a going concern.



\_\_\_\_\_  
Sigita Ozola  
Board Member



\_\_\_\_\_  
Laura Bankša  
Financial controller

22 June 2017



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## Independent Auditors' Report

### To the shareholders of AS Aldaris

#### *Our Opinion on the Financial Statements*

We have audited the accompanying financial statements of AS Aldaris ("the Company") set out on pages 5 to 26 of the accompanying Annual Report, which comprise:

- the balance sheet as at 31 December 2016,
- the profit and loss statement for the year then ended,
- the statement of changes in equity for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of AS Aldaris as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

#### *Basis for Opinion*

In accordance with the 'Law on Audit Services' of the Republic of Latvia 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 *Auditors' Responsibility for the Audit of the Financial Statements* section of our report.

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 independence requirements included in the 'Law on Audit Services' of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the 'Law on Audit Services' of the Republic of Latvia.

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

#### *Reporting on Other Information*

The Company's management is responsible for the other information. The other information is the Management Report, as set out on page 4 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia* section of our report.

In connection with our audit of the financial statements, our responsibility is to read the other information 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.



If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia*

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

*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 the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia 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.

*Auditors' Responsibility 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 auditors' 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 auditors' 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a 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.

KPMG Baltics SIA  
Licence No. 55

*Valda Užāne*

Valda Užāne  
Member of the Board  
Latvian Certified Auditor  
Certificate No. 4  
Riga, Latvia

22 June 2017

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.