



AS LATVIJAS BALZAMS

(Registration number 40003031873)

UNAUDITED CONDENSED FINANCIAL STATEMENTS

for the first six months of 2020

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

AS Latvijas balzams
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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 No. 40003031873 Riga, 2 October 1991 Re-registered on 20 October 1998 Commercial Register Riga, 19 June 2014
Address	A. Caka Street 160 Riga, LV- 1012 Latvia
Main business activities	Production of alcoholic beverages NACE2 11.01
Major shareholder	Amber Beverage Group Holding S.à r.l. (89.99%)
Names and positions of the Council Members	Rolands Gulbis – Chairman of the Council Petr Aven – Member of the Council Valizhan Abidov – Vice Chairman of the Council Velga Celmiņa - Member of the Council Jānis Buks – Member of the Council (from 07.07.2020) Aleksandrs Maslo - Member of the Council (until 07.07.2020)
Names and positions of the Board Members	Intars Geidāns – Chairman of the Board Guntars Betlers – Member of the Board (from 12.06.2020) Jekaterina Stūge – Member of the Board (until 27.05.2020) Sergejs Ļimarenko - Member of the Board (from 06.04.2020 until 07.07.2020) Ronalds Žarinovs – Member of the Board (until 06.04.2020)

REPORT OF THE MANAGEMENT

Type of operations

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

Nowadays AS Latvijas balzams operates two alcohol production facilities in Riga- a factory for the production of strong alcoholic beverages and a factory for the production of sparkling wines and light alcoholic beverages. These factories produce most types of alcoholic beverages, such as sparkling wines, fortified wines, ciders, RTDs (ready to drink), vodka, liqueurs, brandy, gin and other strong alcoholic beverages. The recipes for some of AS Latvijas balzams products date back hundreds of years; for example, the formula of Riga Black Balsam® was officially written down in 1752. The mission of AS Latvijas balzams is "Excellence in everything we do".

Overall AS Latvijas balzams produces more than 100 different brands. Products produced by Company are exported to more than 175 export markets mediated by SPI Group and to more than 42 markets via the Company's direct export route.

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

Logistics services represent a small but still significant part of the Company's business - its competence has been increasingly developing over the last 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. The utilization of available resources has become effective owing to our targeted efforts.

The Company as a socially responsible and sustainable enterprise has developed and complies with basic principles of corporate social responsibility. They have been harmonized with the United Nations Sustainable Development Goals for 2030, guidelines published by the Organization for Economic Cooperation and Development and the Financial Instrument Market Law of the Republic of Latvia and are available in the section [Corporate Social Responsibility](#) on the Company's website.

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

Performance of the Company during the reporting period

Financial performance

The net revenue of the Company for the first half of year 2020 reached EUR 30.2 million, decrease by 10.7% against first half of year 2019, mainly affected by the COVID-19 pandemic situation in many parts of the world and the restrictions implemented by national governments.

The net profit for the reporting period is EUR 2.45 million, which is 24% less as in respective period on year 2019 due to decrease of sales volumes.

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REPORT OF THE MANAGEMENT (continued)

The operating profit for the first half of year 2020 amounts to EUR 1.5 million, which is less than as in respective period on year 2019 (EUR 2.2 million). The operating profit/turnover for the first half of year 2020 is 5 % (2019: 6.6%).

The Company's alternative performance indicators for past reporting periods are as follows:

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

	30.06.2020	30.06.2019	30.06.2018
ROA*	1.6%	2.2%	2.1%
ROE**	2.0%	2.9%	2.8%

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

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

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

	01.01.2020- 30.06.2020	01.01.2019- 30.06.2019	01.01.2018- 30.06.2018
		EUR 000	EUR 000
EBITDA*	2 782	3 540	3 066
EBIT **	1 493	2 227	2 206

* EBIT = earnings before interest and taxes

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

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

AS Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid taxes of EUR 32.5 million to the state budget, including excise duty amounting to EUR 25.4 million.

Non-financial performance and activities for the reporting year

Apart from the financial indicators referred to in these 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 on the first time. During 2020, RFT reached 99.4%, which is improvement compared to 2019. The OTIF result for the first half of year 2020 is 95.2%, which is significant improvement to compare with year 2019.

In April 2020, considering the situation caused by COVID-19 and its impact on Latvia's national economy, AS Luminor Bank Latvian branch has granted a six-month loan repayment holiday for non-current loans issued to the Company.

REPORT OF THE MANAGEMENT (continued)

The COVID-19 pandemic has led to major changes in the daily operations of Latvijas balzams:

- orders from European countries that are most hit by the spread of the virus and have the strictest restrictions introduced, such as Spain, Italy, the UK, etc., have plunged;
- orders from Stoli Group, which is the major customer of Latvijas balzams, have decreased;
- a large number of customers have frozen or deferred their orders;
- customers are delaying their payments or requesting extension of payment deadlines.

With a view to minimizing the impact of the pandemic, the management team of Latvijas balzams has rapidly curtailed costs, reviewed projects in progress and decided on their cancellation or suspension, revised the terms of cooperation with suppliers and adapted the supply chain to the new situation, a part of Company's employees was on furlough during the reporting period as well. Unfortunately, the Company has been forced to suspend the activities of the Tour centre of Latvijas balzams.

To secure additional workload for the employees of AS "Latvijas balzams and to reduce deficit in the market during the COVID-19 pandemic, the Company started production of new products - hand and surface disinfectants VIRUDES. This is the only case in Latvia so far when a producer of alcoholic beverages also ensures the production of disinfectants. At a time when disinfectants had become a deficit commodity, the Company considered as its duty to respond to the call of the Ministry of Health to ensure the availability of these commodities.

AS Latvijas balzams gives high prominence to employee safety. Most of restrictions and recommendations had been implemented in the office and production facilities before they were officially announced in the country.

The impact of the pandemic cannot yet be quantified at the date of publication of this annual report because it will depend on the duration of restrictions introduced in various countries; however, it is evident that the effect on annual performance will be substantial. Most probably, the pandemic will affect also the results for 2021.

Risk assessment and management

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

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

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

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REPORT OF THE MANAGEMENT (continued)

Stock and fund market

In the first quarter of 2020, the Company's share price fluctuated from EUR 7.05 to EUR 11.30 per share.



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 handles financial risks on an ongoing basis in order to minimize their potential adverse effects on the financial performance of the Company.

The Company's borrowings have variable interest rates. The Company's management is considering the use of hedging instruments in order to minimize the effect of variable interest rates.

Financial assets which potentially expose the Company to a certain degree of credit risk concentration are primarily trade receivables, receivables from related companies and loans. The Company has introduced and pursues a credit policy whereby goods are sold on credit only to customers having sound credit histories. In international transactions, the Company also complies with the sanctions regime based on the information published on the website of the Ministry of Foreign Affairs of the Republic of Latvia. The Company's counterparties in cash transactions are highly reputable local financial institutions.

The Company pursues a prudent liquidity risk management policy, according to which adequate credit resources are ensured to settle liabilities when they fall due. The Company's management handles liquidity and cash flow risks by maintaining adequate cash reserves and securing sufficient financing by means of loans, credit lines, finance leases, etc., by monitoring forecasted and actual cash flows and by matching the maturities of financial assets and liabilities on an ongoing basis. As at 31 March 2020, the Company's current assets exceeded its current liabilities by EUR 72.6 million (31 December 2019: EUR 72.1 million). The Company has a strong ability to meet its current liabilities as they fall due. The Company's liquidity ratios for last three years are as follows:

	2020	2019	2018
Current ratio*	3.44	3.45	2.54
Quick ratio**	2.60	2.77	1.92

* Current ratio = current assets / current liabilities

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

REPORT OF THE MANAGEMENT (continued)

Events after the reporting date

Since the last day of the first half of 2020 until the date of signing of these condensed financial statements, there have been no subsequent events which would have a significant effect on the financial position of the Company as at 30 June 2020.

Future prospects of Company

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

During the first half of year 2020 the following projects were finalized:

- the installation of semi-automated depalletizing equipment;
- the installation of a new washer for the plant in Briana Street
- the introduction of new bottle shapes for RTDs.

To fulfil the targets the work on the following projects will be continued during the second half of year 2020:

- the introduction of new bottle shapes for Grand Cavalier® and Bonaparte brands;
- the launch of the production of carbonated soft drinks
- the continuation of the LEAN project;
- the improvement of quality of incoming materials.

The prices of raw materials and consumables are expected to rise in 2020 for wine materials, juice concentrates and sugar. Minimal changes are expected in other groups, including bottles, in spite of a glass shortage observed in Europe for the second consecutive year. It is forecasted that the glass shortage will persist in Europe until 2021 inclusive. Despite of these factors, the Company does not plan to change its sales prices and plans to keep its current level of profitability by making the aforementioned investments and thereby reducing fixed costs.

Starting from the second half of 2020, energy costs are expected to drop because, owing to the overall economic situation, Latvijas balzams has obtained better electricity and gas prices by way of an open tender. At the same time, energy costs form only an insignificant portion of the total cost base of Latvijas balzams.

Taking into account the impact of the COVID-19 pandemic on order volumes, it will be lower according to prognosis also for next periods. The Company's operations will continue to be promptly adapted to the market situation in order to minimize the impact of COVID-19.

Intars Geidāns
Chairman of the Board
Riga, 31st August 2020

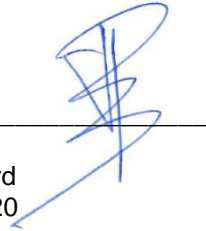
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STATEMENT OF THE MANagements' RESPONSIBILITY

The management of the Company declares that in accordance with the information at its disposal, the condensed financial statements presented were prepared under laws and regulations in force and represent truthful and clear information on the company's assets, equity, liabilities, financial situation and profits or losses.

The Management Report contains truthful information.

Intars Geidāns
Chairman of the Board
Riga, 31st August 2020



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INCOME STATEMENT

	Notes	01.01.2020- 30.06.2020 EUR	01.06.2019- 30.06.2019 EUR
Revenue	2	30 170 607	33 769 654
Cost of sales	3	(24 337 225)	(26 349 547)
Gross profit		<u>5 833 382</u>	<u>7 420 107</u>
Distribution expenses	4	(2 711 715)	(3 002 019)
Administrative expenses	5	(2 258 651)	(2 512 931)
Other operating income		869 040	616 302
Other operating expenses		(238 810)	(294 835)
Finance income		990 626	1 105 999
Finance expenses		(37 631)	(105 134)
Net profit		<u><u>2 446 241</u></u>	<u><u>3 227 489</u></u>

STATEMENT OF COMPREHENSIVE INCOME

	01.01.2020- 30.06.2020 EUR	01.06.2019- 30.06.2019 EUR
Net profit	<u><u>2 446 241</u></u>	<u><u>3 227 489</u></u>
Total comprehensive income for the period	<u><u>2 446 241</u></u>	<u><u>3 227 489</u></u>

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STATEMENT OF FINANCIAL POSITION

	30.06.2020	31.12.2019
	EUR	EUR
ASSETS		
Non-current assets		
Intangible assets	105 508	196 907
Property, plant and equipment	12 793 602	12 373 308
Right-of-use assets	2 743 399	3 091 025
Investment property	1 756 564	1 808 421
Loans to group companies	36 660 642	36 660 642
Other non current assets	304 449	374 930
Total non-current assets:	54 364 164	54 505 233
Current assets		
Inventories	25 028 902	19 622 090
Trade receivables	551 428	1 687 932
Receivables from group companies	39 161 041	47 455 117
Loans to group companies within the Group account	34 769 576	31 603 077
Other current assets	787 854	298 982
Corporate income tax	-	12 590
Cash and cash equivalents	5 012 334	833 329
Total current assets:	105 311 135	101 513 117
<u>Total assets</u>	<u>159 675 299</u>	<u>156 018 350</u>
EQUITY AND LIABILITIES		
Equity		
Share capital	10 495 660	10 495 660
Share premium	87 887	87 887
Reserves	2 318 823	2 318 823
Retained earnings	113 714 169	111 267 928
Total equity:	126 616 539	124 170 298
Liabilities		
Non-current liabilities		
Borrowings	2 443 536	2 443 536
Total non-current liabilities:	2 443 536	2 443 536
Current liabilities		
Borrowings	711 081	1 177 402
Trade payables	4 161 741	5 976 204
Payables to group companies	4 931 570	1 163 338
Taxes payable	19 175 892	18 882 314
Other liabilities	1 634 940	2 205 258
Total current liabilities:	30 615 224	29 404 516
Total liabilities:	33 058 760	31 848 052
<u>Total equity and liabilities</u>	<u>159 675 299</u>	<u>156 018 350</u>

Intars Geidāns
Chairman of the Board
Riga, 31st August 2020

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STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Revaluation reserves of derivative financial instrument s	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2018.	10 495 660	87 887	2 318 823	(2 353)	101 221 866	114 121 883
Net profit	-	-	-	-	3 227 489	3 227 489
Total comprehensive income	-	-	-	-	3 227 489	3 227 489
30.06.2019.	10 495 660	87 887	2 318 823	(2 353)	104 449 355	117 349 372
31.12.2019.	10 495 660	87 887	2 318 823	-	111 267 928	124 170 298
Net profit	-	-	-	-	2 446 241	2 446 241
Total comprehensive income	-	-	-	-	2 446 241	2 446 241
30.06.2020.	10 495 660	87 887	2 318 823	-	113 714 169	126 616 539

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CASH FLOW STATEMENT

	01.01.2020- 30.06.2020 EUR	01.06.2019- 30.06.2019 EUR
Cash flow from operating activities		
Profit for the period before taxation	2 446 241	3 227 489
<u>Adjustments for:</u>		
Depreciation and amortisation	1 289 137	1 313 632
Net (profit) / loss on sales and disposal of property, plant and equipment and intangibles	(7 064)	(31 188)
Accruals	(120 410)	(30 000)
Interest income	(990 626)	(1 105 999)
Interest expense	37 631	105 134
<u>Changes in working capital:</u>		
Increase in inventories	(5 406 815)	(1 446 445)
Decrease in trade and other receivables	9 145 190	24 173 873
Increase / (decrease) in trade and other payables	1 672 578	(5 211 817)
Cash generated from operations	<u>8 065 862</u>	<u>20 994 679</u>
Interest paid	(33 177)	(60 815)
Net cash generated from operating activities	<u>8 032 685</u>	<u>20 933 864</u>
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	(1 218 549)	(2 670 744)
Proceeds from sales of property, plant and equipment	7 064	44 025
Received interest payments from borrowings	460 858	-
Changes in credit lines (net)	(2 636 732)	(17 371 211)
Net cash flow (used in) / generated from investing activities	<u>(3 387 359)</u>	<u>(19 997 930)</u>
Cash flow from financing activities		
Borrowings repaid	(102 485)	(696 167)
Lease payments	(363 836)	(217 464)
Net cash flow used in financing activities	<u>(466 321)</u>	<u>(913 631)</u>
Net increase / (decrease) in cash and cash equivalents	<u>4 179 005</u>	<u>22 303</u>
Cash and cash equivalents at the beginning of the period	833 329	12 822
Cash and cash equivalents at the end of the period	<u><u>5 012 334</u></u>	<u><u>35 125</u></u>

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NOTES

(1) GENERAL INFORMATION

AS Latvijas balzams (the Company) 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. The registered address of the Company is at 160 A. Caka Street, Riga, LV-1012, Republic of Latvia. Shares of AS Latvijas balzams are listed on the Baltic Secondary List of the Nasdaq Riga AS.

The Company is the largest producer of alcohol beverages in the Baltic States. AS Latvijas balzams produces more than 100 different alcohol beverages. The major shareholder of the Company, which owns 89.99% of the Company's share capital as of 31 March 2020, is Amber Beverage Group Holding S.à r.l.

(2) ACCOUNTING POLICIES

Basis for preparation

The interim condensed financial statements for the first three month of 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements of year 2019.

The interim financial statements are presented in euro (EUR), the monetary unit of the Republic of Latvia.

Changes in accounting policy and disclosures

The accounting policies are consistent with those followed in the preparation of the Company's annual financial statement for the previous periods. The Company has evaluated new and amended IFRSs and IFRICs effective for annual periods beginning on or after 1 January 2020. No material impact on the interim financial statements of the Company was identified.

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(2) REVENUE

a) Operation and reportable segment

The core activity of the Company is production of alcoholic beverages. AS Latvijas balzams produces over 100 different brands of beverages. Since the Company's core activity is mainly the production of alcoholic beverages, the Company has only one operation and reportable segment.

b) Revenue by type

	01.01.2020- 30.06.2020	01.06.2019- 30.06.2019
	EUR	EUR
Production of alcoholic beverages	27 995 144	31 374 741
Sales of other goods and materials	233 667	500 078
Other services	1 941 796	1 894 835
	<u><u>30 170 607</u></u>	<u><u>33 769 654</u></u>

c) Geographical segmentation

	01.01.2020- 30.06.2020	01.06.2019- 30.06.2019
	EUR	EUR
Cyprus	16 949 637	19 836 042
Latvia	10 783 149	11 273 672
Lithuania	1 720 118	1 765 212
Estonia	272 804	331 501
Romania	86 159	145 649
Other	358 740	417 579
	<u><u>30 170 607</u></u>	<u><u>33 769 654</u></u>

(3) COST OF SALES

	01.01.2020- 30.06.2020	01.06.2019- 30.06.2019
	EUR	EUR
Raw materials and consumables	18 385 519	19 830 621
Salary expense	2 694 441	2 765 231
The state compulsory social insurance contributions	645 411	660 891
Depreciation of non-current assets	639 660	579 849
Energy resources	391 924	467 102
Repair and maintenance expenses	320 528	346 865
Management of packaging	236 176	233 564
Goods purchased	234 158	491 473
Insurance payments	20 063	21 349
Laboratory expenses	13 895	20 681
Accrued expenses on unused annual leave	34 220	53 286
Other costs	721 230	878 635
	<u><u>24 337 225</u></u>	<u><u>26 349 547</u></u>

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(4) DISTRIBUTION EXPENSES

	01.01.2020- 30.06.2020	01.06.2019- 30.06.2019
	EUR	EUR
Salary expenses	829 202	944 679
Advertising and sales promotion expenses	524 055	625 632
Depreciation of non-current assets	445 886	455 580
Transportation expenses	271 609	288 678
Warehouse maintenance expenses	205 747	223 083
The state compulsory social insurance contributions	198 870	226 995
Other expenses	236 346	237 372
	<u>2 711 715</u>	<u>3 002 019</u>

(5) ADMINISTRATIVE EXPENSES

	01.01.2020- 30.06.2020	01.06.2019- 30.06.2019
	EUR	EUR
Management services and expenses	987 820	1 026 752
Salary expenses	388 131	298 811
Depreciation of non-current assets	203 591	278 203
Computer maintenance	115 068	113 165
Financial support, sponsorship	110 373	202 756
The state compulsory social insurance contributions	91 845	70 959
Real estate tax	80 237	79 919
Professional service costs	52 289	75 597
Transport costs	19 151	19 005
Office expenses	6 648	7 764
Communication and postal expenses	7 229	12 133
Representation expenses	6 762	11 671
Bank commissions	4 948	6 843
Business trip expenses	1 265	6 528
Other expenses	183 294	302 825
	<u>2 258 651</u>	<u>2 512 931</u>

(6) SUBSEQUENT EVENTS

Since the last day of the first half of 2020 until the date of signing of these condensed financial statements, there have been no subsequent events which would have a significant effect on the financial position of the Company as at 30 June 2020.