



AS LATVIJAS BALZAMS

(Registration number 40003031873)

UNAUDITED CONDENSED FINANCIAL STATEMENTS

for the first nine 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 Stūģe – 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 the 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 raw 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 AO, 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

Unaudited net revenue of the Company for the first nine months of year 2020 reached EUR 47.3 million, decrease by 10.6% against first nine months 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 4.5 million, which is 20.6% less as in respective period on year 2019 due to decrease of sales volumes.





AS Latvijas balzams
Unaudited condensed financial statements
for the first nine months of 2020

REPORT OF THE MANAGEMENT (continued)

The operating profit for the first nine months of year 2020 amounts to EUR 3.1 million, which is less than as in respective period on year 2019 (EUR 4.2 million). The operating profit/turnover for the first nine months of year 2020 is 6.6 % (2019: 7.9%).

The Company's alternative performance indicators for past reporting periods are listed below.

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

	30.09.2020	30.09.2019	30.09.2018
ROA*	2.9% 	3.8% 	3.8% ¹
ROE**	3.6% 	4.9% 	5.0% ¹

* 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- 30.09.2020	01.01.2019- 30.09.2019	01.01.2018- 30.09.2018
	EUR 000	EUR 000	EUR 000
EBITDA*	5 158	6 179	5 382
EBIT **	3 104	4 175	4 078

* 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 53.3 million to the state budget, including excise tax amounting to EUR 42.7 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 99.3%, 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.

AS Latvijas balzams
Unaudited condensed financial statements
for the first nine months of 2020

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:

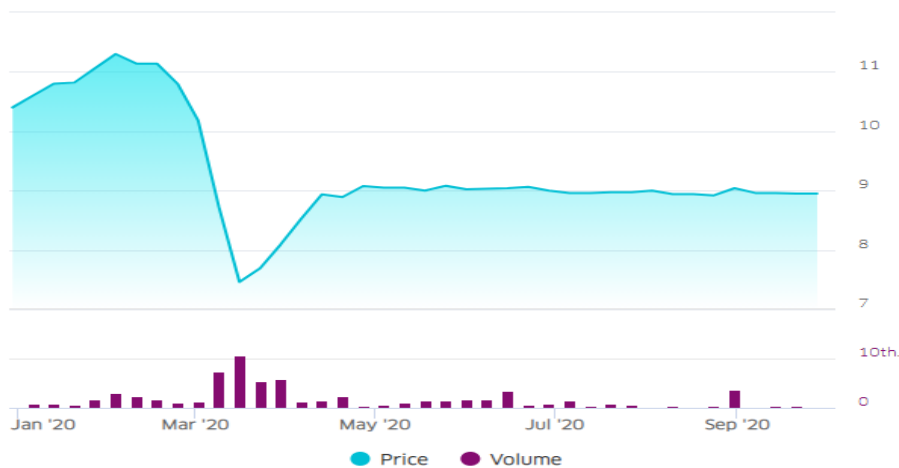
- the timely identification and compliance with statutory requirements by taking into account timely information and education of staff;
- the ensuring of production continuity by timely planning production capacity and load;
- the creation of adequate jobs by investing in the development of production,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

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. 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 for the international transactions. 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 30 September 2020, the Company's current assets exceeded its current liabilities by EUR 77.1 million (30 September 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*	3.54	3.45	2.65
Quick ratio**	2.58	2.77	1.79

* 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

On October 23, 2020, Investment and Development Agency of Latvia subsidized the Company in the amount of 750 thousand euros within the support program "To overcome the consequences of the Covid-19 crisis for exporters of goods and services".

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

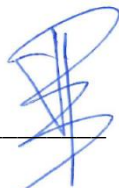
During the first half of year 2020 the following projects were finalized:

- the installation of semi-automated depalletizing equipment;
- the installation of a new washer for the plant in Briana Street;
- the launch of the production of carbonated soft drinks.

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

- the continuation of the LEAN project;
- the improvement of quality of incoming materials.

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, 30st November 2020

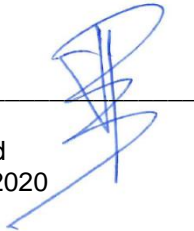
AS Latvijas balzams
Unaudited condensed financial statements
for the first nine months of 2020

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, 30st November 2020



AS Latvijas balzams
Unaudited condensed financial statements
for the first nine months of 2020

INCOME STATEMENT

	Notes	01.01.2020- 30.09.2020 EUR	01.01.2019- 30.09.2019 EUR
Revenue	2	47 282 405	52 905 918
Cost of sales	3	(37 589 060)	(41 070 233)
Gross profit		<u>9 693 345</u>	<u>11 835 685</u>
Distribution expenses	4	(4 204 550)	(4 558 896)
Administrative expenses	5	(3 246 715)	(3 629 410)
Other operating income		1 213 907	953 763
Other operating expenses		(351 625)	(426 459)
Finance income		1 449 288	1 653 104
Finance expenses		(51 372)	(154 186)
Net profit		<u><u>4 502 278</u></u>	<u><u>5 673 601</u></u>

STATEMENT OF COMPREHENSIVE INCOME

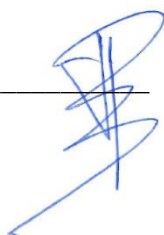
	01.01.2020- 30.09.2020 EUR	01.01.2019- 30.09.2019 EUR
Net profit	<u><u>4 502 278</u></u>	<u><u>5 673 601</u></u>
Total comprehensive income for the period	<u><u>4 502 278</u></u>	<u><u>5 673 601</u></u>

AS Latvijas balzams
Unaudited condensed financial statements
for the first nine months of 2020

STATEMENT OF FINANCIAL POSITION

	30.09.2020 EUR	31.12.2019 EUR
ASSETS		
Non-current assets		
Intangible assets	98 136	196 907
Property, plant and equipment	12 764 877	12 373 308
Right-of-use assets	2 546 601	3 091 025
Investment property	1 730 635	1 808 421
Loans to group companies	36 660 642	36 660 642
Other non current assets	255 052	374 930
Total non-current assets:	54 055 943	54 505 233
Current assets		
Inventories	28 475 407	19 622 090
Trade receivables	856 998	1 687 932
Receivables from group companies	46 117 738	47 455 117
Loans to group companies within the Group account	29 965 486	31 603 077
Other current assets	634 196	298 982
Corporate income tax	-	12 590
Cash and cash equivalents	1 332 770	833 329
Total current assets:	107 382 595	101 513 117
<u>Total assets</u>	<u>161 438 538</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	115 770 206	111 267 928
Total equity:	128 672 576	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	488 453	1 177 402
Trade payables	4 376 671	5 976 204
Payables to group companies	3 114 562	1 163 338
Taxes payable	20 711 146	18 882 314
Other liabilities	1 631 594	2 205 258
Total current liabilities:	30 322 426	29 404 516
Total liabilities:	32 765 962	31 848 052
<u>Total equity and liabilities</u>	<u>161 438 538</u>	<u>156 018 350</u>

Intars Geidāns
Chairman of the Board
Riga, 30st November 2020



AS Latvijas balzams
Unaudited condensed financial statements
for the first nine months of 2020

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Revaluation reserves of derivative financial instruments	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2018.	10 495 660	87 887	2 318 823	(2 353)	101 221 866	114 121 883
Net profit	-	-	-	-	5 673 601	5 673 601
Total comprehensive income	-	-	-	-	5 673 601	5 673 601
30.09.2019.	10 495 660	87 887	2 318 823	(2 353)	106 895 467	119 795 484
31.12.2019.	10 495 660	87 887	2 318 823	-	111 267 928	124 170 298
Net profit	-	-	-	-	4 502 278	4 502 278
Total comprehensive income	-	-	-	-	4 502 278	4 502 278
30.09.2020.	10 495 660	87 887	2 318 823	-	115 770 206	128 672 576

AS Latvijas balzams
Unaudited condensed financial statements
for the first nine months of 2020

CASH FLOW STATEMENT

	01.01.2020- 30.09.2020	01.01.2019- 30.09.2019
	EUR	EUR
Cash flow from operating activities		
Profit for the period before taxation	4 502 278	5 673 601
<u>Adjustments for:</u>		
Depreciation and amortisation	1 907 241	2 004 475
Net (profit) / loss on sales and disposal of property, plant and equipment and intangibles	(669)	(31 839)
Accruals		(139 050)
Interest income	(1 449 288)	(1 653 104)
Interest expense	48 083	154 186
<u>Changes in working capital:</u>		
Increase in inventories	(8 853 317)	(2 148 607)
Decrease in trade and other receivables	1 965 569	23 624 244
Increase in trade and other payables	1 602 308	(4 210 657)
Cash generated from operations	(277 795)	23 273 249
Interest paid	(43 519)	(91 613)
Net cash generated from operating activities	(321 314)	23 181 636
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	(1 584 224)	(3 470 002)
Proceeds from sales of property, plant and equipment	7 064	50 470
Received interest payments from borrowings	494 891	-
Changes in credit lines (net)	2 591 987	(17 970 151)
Net cash flow (used in) / generated from investing activities	1 509 718	(21 389 683)
Cash flow from financing activities		
Borrowings repaid	(67 319)	(1 044 251)
Lease payments	(621 644)	(747 583)
Net cash flow used in financing activities	(688 963)	(1 791 834)
Net increase in cash and cash equivalents	499 441	119
Cash and cash equivalents at the beginning of the period	833 329	12 822
Cash and cash equivalents at the end of the period	1 332 770	12 941

AS Latvijas balzams
Unaudited condensed financial statements
for the first nine months of 2020

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 nine 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.

AS Latvijas balzams
Unaudited condensed financial statements
for the first nine months of 2020

(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- 30.09.2020 EUR	01.01.2019- 30.09.2019 EUR
Production of alcoholic beverages	43 624 952	49 381 321
Sales of other goods and materials	448 595	565 427
Other services	3 208 857	2 959 170
	<u>47 282 404</u>	<u>52 905 918</u>

c) Geographical segmentation

	01.01.2020- 30.09.2020 EUR	01.01.2019- 30.09.2019 EUR
Cyprus	26 352 428	28 791 509
Latvia	16 823 068	19 830 708
Lithuania	2 627 355	2 453 147
Estonia	451 021	591 083
Romania	154 092	222 034
Other	874 441	1 017 437
	<u>47 282 404</u>	<u>52 905 918</u>

(3) COST OF SALES

	01.01.2020- 30.09.2020 EUR	01.01.2019- 30.09.2019 EUR
Raw materials and consumables	28 507 861	31 523 062
Salary expense	4 068 128	4 351 150
The state compulsory social insurance contributions	974 199	1 040 139
Depreciation of non-current assets	954 358	863 261
Energy resources	556 987	678 831
Repair and maintenance expenses	476 458	516 298
Management of packaging	345 601	374 910
Goods purchased	459 417	550 844
Insurance payments	28 821	30 720
Laboratory expenses	17 529	27 177
Accrued expenses on unused annual leave	(82 269)	-65 977
Other costs	1 281 970	1 179 818
	<u>37 589 060</u>	<u>41 070 233</u>

AS Latvijas balzams
Unaudited condensed financial statements
for the first nine months of 2020

(4) DISTRIBUTION EXPENSES

	01.01.2020- 30.09.2020	01.01.2019- 30.09.2019
	EUR	EUR
Salary expenses	1 304 238	1 389 005
Advertising and sales promotion expenses	858 899	1 069 158
Depreciation of non-current assets	693 035	701 896
Transportation expenses	427 179	440 604
Warehouse maintenance expenses	291 922	296 686
The state compulsory social insurance contributions	313 093	333 734
Other expenses	316 184	327 813
	<u>4 204 550</u>	<u>4 558 896</u>

(5) ADMINISTRATIVE EXPENSES

	01.01.2020- 30.09.2020	01.01.2019- 30.09.2019
	EUR	EUR
Management services and expenses	1 481 270	1 518 892
Salary expenses	545 560	524 755
Depreciation of non-current assets	259 848	439 318
Computer maintenance	175 768	168 728
Financial support, sponsorship	110 642	203 006
The state compulsory social insurance contributions	128 720	124 903
Real estate tax	120 796	120 540
Professional service costs	87 639	109 596
Transport costs	26 013	26 923
Office expenses	9 413	11 704
Communication and postal expenses	11 000	16 796
Representation expenses	9 598	19 427
Bank commissions	9 108	9 050
Business trip expenses	1 604	8 681
Other expenses	269 736	327 091
	<u>3 246 715</u>	<u>3 629 410</u>

(6) SUBSEQUENT EVENTS

On October 23, 2020, Investment and Development Agency of Latvia subsidized the Company into amount of 750 thousand euros within the support program "To overcome the consequences of the Covid-19 crisis for exporters of goods and services".

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 September 2020.