LATVIJAS BALZAMS

AS LATVIJAS BALZAMS

ANNUAL REPORT 2020

prepared in accordance with

International Financial Reporting Standards as adopted by the EU

CONTENTS

INFORMATION ON THE COMPANY

Name of the Company	Latvijas balzams
Legal status of the Company	Joint stock company
Number, place and date of registration	Companies register Nr. 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 Valizhan Abidov – Vice Chairman of the Council Petr Aven – Member 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 Stuģe – Member of the Board (until 27.05.2020.) Sergejs Ļimarenko – Member of the Board (from 09.04.2020. until 07.07.2020.) Ronalds Žarinovs – Member of the Board (until 09.04.2020.)
The auditor of the Company and certified auditor in charge	PricewaterhouseCoopers SIA Licence No. 5 Kr. Valdemāra Street 21-21 Riga, LV-1010 Latvia Certified auditor in charge: Jana Smirnova Certified auditor Certificate No. 188
Statement of corporate governance	www.lb.lv/en/corporate-governance/

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 1st state alcohol warehouse and has been operating under the current name since 1970. Amber Beverage Group Holding S.à r.l., which owns 89.99% of the Company's share capital, has been the major shareholder of the Company since 7 May 2018.

Nowadays AS Latvijas balzams is operating two alcohol production facilities in Riga: a factory for the production of strong alcoholic beverages (hereinafter also – the Caka Street factory) and a factory for the production of sparkling wines and light alcoholic beverages (hereinafter also – the Briana Street factory). These factories produce most types of alcoholic beverages, such as sparkling wines, fortified wines, ciders, RTDs (ready-to-drink beverages), vodka, liqueurs, brandy, strong alcoholic beverages, gin, etc. 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 180 export markets mediated by SPI Group and to more than 40 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 artesian wells located in territories 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 a significant part of the Company's business. This competence has been increasingly developing over the last years as well in 2020. For the most part, services are rendered to related companies, but the volume of services, such as transit assurance services, bonded warehouse services, value-added services, picking and other logistic services provided to other enterprises of the alcohol industry are 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, the Remote Work Policy and other internal documents. These documents, policies and procedures contained therein are reviewed regularly in accordance with the Quality Management System. The results of reviews and planned corrective measures are considered at the Company's management meetings.

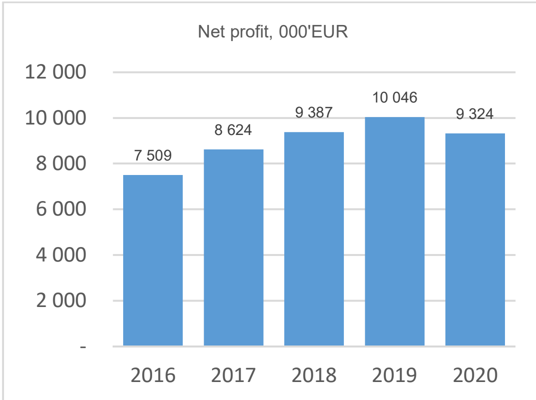
Performance of the Company during the financial year

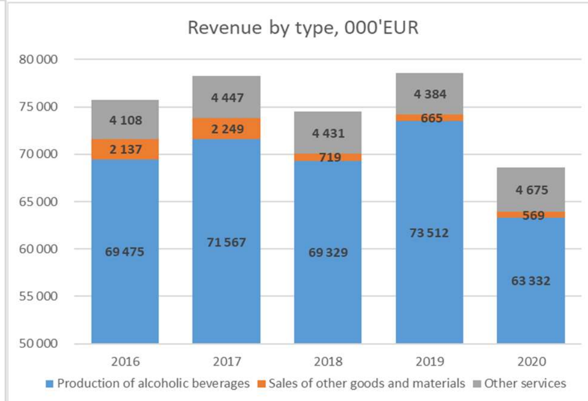
Financial performance

The audited net revenue of the Company for the year 2020 reached EUR 68.6 million, a decrease by 12.7% against the year 2019, mainly affected by the Covid-19 pandemic situation in many parts of the world and the restrictions implemented by national governments.

The audited net profit for the reporting period is EUR 9.3 million, which is 7.2 % less as in the respective period in the year 2019 due to a decrease in sales volumes. The main reasons which help to secure the profit level on the existing level despite the pandemic challenges were the imposed measures emphasizing revenue and profitability management, active efforts undertaken to cut fixed costs and a positive impact of investments made in production processes. The profit was also largely affected by the supply of logistics services to other enterprises of the alcohol industry, mainly the handling of consignments in transit to Russia and Ukraine.

REPORT OF THE MANAGEMENT (continued)





The operating profit (calculated as gross profit less distribution, administrative expenses, other operating income and expenses) for the year 2020 amounts to EUR 7.4 million, which is less than as in respective period on the year 2019 (EUR 8.00 million). The operating profit/turnover for the year 2020 is 10.8% (2019: 10.2%).

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

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

	2020	2019	2018
ROA*	5.7%	6.5%	6.4%
ROE**	7.2%	8.4%	8.6%

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

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

	2020 EUR 000	2019 EUR 000	2018 EUR 000
EBITDA*	9 976	10 645	9 443
EBIT **	7 388	7 995	7 595

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

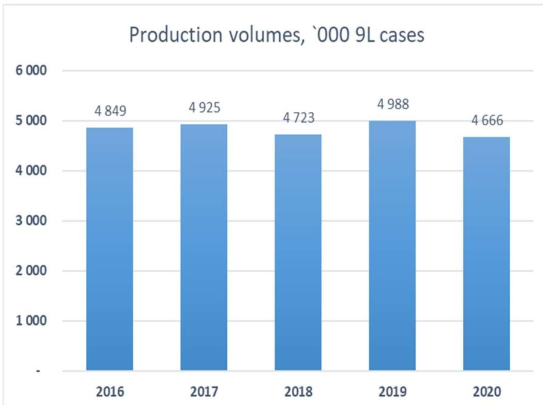
The Company's management uses the aforementioned alternative performance metrics in assessing the financial performance for a particular financial period and in making decisions.

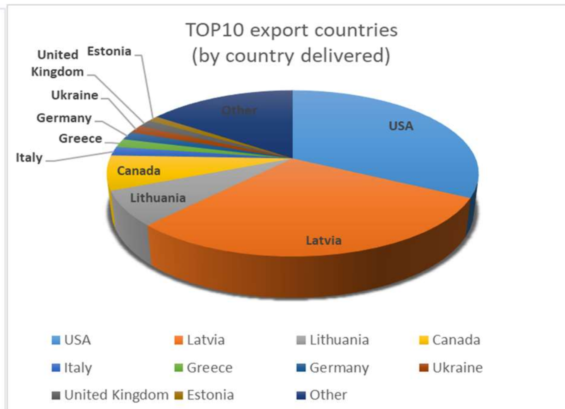
AS Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid taxes of EUR 70.3 million to the state budget, including excise tax amounting to EUR 55.6 million.

REPORT OF THE MANAGEMENT (continued)

Non-financial performance and activities for the reporting year

Similarly to the decrease in net revenue, also the production volume has decreased in 2020. The decrease in volume was smaller as for turnover as part of volume decrease was compensated by starting of production of disinfectants on the first quarter of 2020 as the response to the extraordinary increase in demand. Even though Company's largest export markets have remained unchanged, there have been newcomers to the TOP 10 list, such as Spain and Germany.





AS Latvijas balzams has been successfully operating as a European logistics hub for the distribution of the Group's brands (Rooster Rojo tequila, KAH Tequila, Bayou Rum, Arinzano, Achaval Ferrer, Se Busca, Cenote and Kentucky Owl) in Europe and Russia.

In 2020, the Company continued investing in a production base, specifically focusing on improvements of efficiency, adaptability and the preservation of the low-cost base. Total investments made by the Company in the acquisition of property, plant and equipment and intangible assets in 2020 were EUR 1,95 million. Main investment projects were:

- the installation of semi-automated depalletizing equipment;
- the installation of a new washer for the plant in Briana Street;
- introduction of a new shape of bottles for alcoholic cocktails, brands Grand Cavalier® and Bonaparte®;
- the launch of the production of carbonated soft drinks, etc.

In addition, AS Latvijas balzams has undergone a quality management system re-certification audit, which successfully resulted in receiving of certificate of conformity of the system with the new version of ISO 9001:2015.

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 98.6%, which is an improvement compared to 2019 – 97.8%. The OTIF result for 2020 is 94.4%, which is an improvement in comparison to the year 2019 – 89,0%.

REPORT OF THE MANAGEMENT (continued)

Despite the global pandemic, 2020 was an active production period for AS Latvijas balzams, during which it introduced more than 100 new products. The best known are Riga Black Balsam® XO, which is the most prestigious version of this legendary drink, complementing the original balm with exquisite French brandy. A special Riga Black Balsam® series in honour of the 120th anniversary of AS Latvijas balzams was made; new Riga Black Balsam® Chocolate and Mint gained wide popularity in the winter season. With the resumption of the can filling line, last year the Company launched Black Balsam Currant in a handy can format, developed a new Moskovskaya® Street Hard Seltzer cocktail, and started the production of the European award-winning Green Cola lemonade for the Baltic market.

The Company launched several well-known beverage brands, such as Moskovskaya® Vodka, Bonaparte®, Grand Cavalier® and others filling it in a new format: 100ml bottles. In addition to this news, AS Latvijas balzams continued to expand its gin portfolio with a rare and specific to the region beverage - Cross Keys Gin® Sea Buckthorn. Expanding the vodka assortment, the Company started production of two new drinks for the iconic brand Moskovskaya® - Moskovskaya® Percovaya with pepper notes and Moskovskaya® Kedrovaya with cedar nut notes.

The Covid-19 pandemic has led to major changes in the daily operations of the Company:

- orders from European countries that were 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 the largest customer of AS “Latvijas balzams” - Stoli Group - have decreased;
- a large number of customers have deferred their orders or asked to “freeze” them;
- customers are delaying their payments or requesting extensions of payment deadlines.

With a view to minimizing the impact of the pandemic, the management team of the Company 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. Part of the Company’s employees was on furlough during the reporting period as well.

To secure additional workload for the employees of the Company and to reduce the deficit in the market during the Covid-19 pandemic, the Company started production of new products - hand and surface disinfectants Virudes. 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 of the Republic of Latvia to ensure the availability of these commodities by reacting faster than other market participants.

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

During the reporting period, the Company has used several support measures granted by the state and lenders to reduce the impact of the pandemic. The most important are:

- in April 2020, taking into account the conditions created by Covid-19 and their impact on the Latvian economy, the AS Luminor Bank Latvian branch granted the Company a grace period of six months for the repayment of long-term loans;
- in October 2020, the Investment and Development Agency of Latvia granted support to the Company in the amount of 750 thousand euros within the support program “Covid-19 for exporters of goods and services affected by the crisis to overcome the consequences of the crisis”;
- for the period when the Company's employees were on furlough, the Company has applied for receiving furlough benefits, which have been approved in time by the responsible institutions.

REPORT OF THE MANAGEMENT (continued)

Corporate social responsibility

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

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

In 2015, the UN General Assembly adopted a resolution Transforming our World: the 2030 Agenda for Sustainable Development. This includes 17 Sustainable Development Goals (SDGs) and 169 sub-goals to be reached in order to reduce poverty in the world and make global development sustainable. The SDGs balance three dimensions: economic, social and environmental.

17 UN Sustainable Development Goals

The Company has adopted, for the purposes of its business, 8 of the Sustainable Development Goals that can be impacted by the management:

- Goal 3: Good Health and Well-Being (point 3.5)
- Goal 4: Quality Education (point 4.3, 4.4)
- Goal 5: Gender Equality (points 5.1, 5.5)
- Goal 6: Clean Water and Sanitation (points 6.3, 6.4)
- Goal 8: Decent Work and Economic Growth (points 8.2, 8.3, 8.4, 8.8)
- Goal 10: Reduced Inequalities (points 10.2, 10.3, 10.4)
- Goal 11: Sustainable Cities and Communities (point 11.5)
- Goal 12: Responsible Consumption and Production (points 12.2, 12.4)

Activities implemented to achieve these goals are presented in this report below for responsibility to the parties affected by the Company and for responsibility for the environment, specifying introduced SDGs.

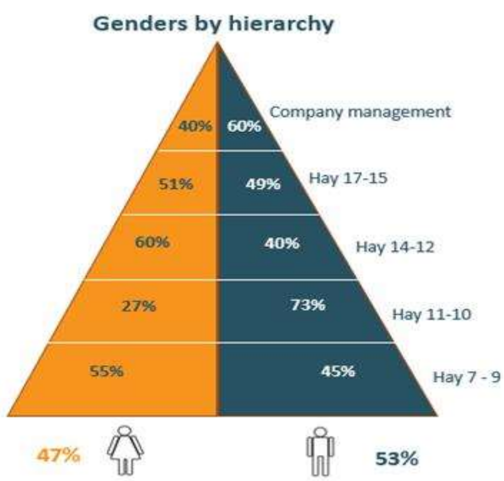
REPORT OF THE MANAGEMENT (continued)

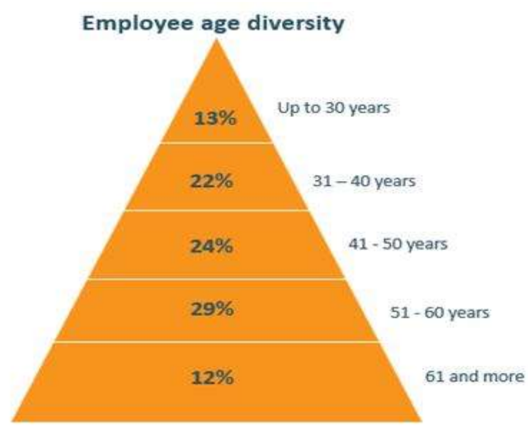
Responsibility to the parties affected by the Company

The priority of the Company's corporate social responsibility (hereinafter - CSR) is employees, suppliers, distributors, customers, society and the state as a whole. The Company is reporting measurable values and activities implemented for each sub-section.

Employees (SDG 5, SDG 8, SDG 10, SDG 11)

AS Latvijas balzams is a stable and reliable employer, which has provided more than 550 jobs in 2020 (in previous year – 600). Although the pandemic significantly affected the Company's operations, the priority of AS Latvijas balzams was to secure as many jobs as possible. 99% of the staff are employed on the basis of permanent employment contracts. The Company respects the principle of equality - from the persons employed in 2020, 47% are women and 53% are men. The world's recommended good practice for an optimal proportion of gender equality in companies is 60% to 40%, thus the indicators of AS "Latvijas balzams" are excellent Gender equality is also ensured in the AS Latvijas balzams hierarchy; during year 202043% women and 57% men holding management positions. Diversity and equality are also respected in terms of employee age.





AS Latvijas balzams as a socially responsible employer has signed a collective bargaining agreement with its employees, which applies to all employees. The Company provides specific benefits and support to employees in different life situations, such as the birth of children, marriage, significant work anniversary, retirement, parents of first-graders, large families, health improvement, funerals of close relatives or in situations when material losses are suffered. In accordance with the collective bargaining agreement, AS Latvijas balzams continues to provide life-long pensions to three former employees who have significantly contributed to the development and growth.

Safety is one of priorities set by AS Latvijas balzams. To this end, the Company ensures regular awareness-raising and educational activities for the staff, for which purpose various materials are prepared and briefing and training sessions are organized. Employees are constantly reminded not to come to work sick also in Covid-19 circumstances. It is also reminded regularly that the staff have to use appropriate workwear and personal protective equipment and observe hygiene requirements to prevent any risk of product contamination. The Company regularly reminds about reporting of near misses. Working areas have all required warning and information signs, such as those concerning the risk of explosion, the availability of first-aid kits, the mandatory use of hearing protectors, slippery surfaces, irritant and corrosive substances, repairs in progress, etc. (SDG 8.8). The Company monitors the workplace environment on a regular basis by conducting audits and checks.

REPORT OF THE MANAGEMENT (continued)

AS Latvijas balzams cares for the workplace environment, therefore, several Company's offices and production facilities faced significant improvements - at the Caka Street factory in the pump room of the Alcohol warehouse, in the Water treatment department, in the Non-aromatic substances department of the Material warehouse, as well as in the Finished goods warehouse. Among other things, the automatic gates for the Filling station were installed to prevent drafts and to ensure additional work safety, also, metal fire safety doors were installed for the Archive and the Mechanical workshop.

Multiple repairs were also carried out at the Briana Street factory: repair of the Filtration and coupage department, construction of the floor of the Reception department, repair of the bath and floor of the Biochemistry filtration department and repair of the Filling station's manager's office. Asphalt pavement repair or replacement works were performed in all territories of the Company, improving the quality of road pavement. A total of more than EUR 151 thousand were spent in 2020 to improve the environment for employees.

Since the Company cares to have healthy and work-capable employees, in 2020 it spent more than EUR 70 thousand on employee health insurance, mandatory health checks and accident insurance.

The Company is constantly working towards the professional and individual development of its employees; therefore, also in the year 2020, AS Latvijas balzams carried out a variety of systematic training sessions. 33% of all the Company's employees participated in training in the previous year, while the reporting year saw 12% attendance. This can be explained both by the Company's intentions to reduce the spread of Covid-19 and not to promote the gathering of employees together, as well as by the fact that the production facilities are idle several times during the last year. Despite the Company's goal has remained unchanged: to achieve 2% growth of the number of training participants next year unless it will not be disturbed by global challenges.

The Company is also raising employee awareness about guidelines of the Anti-Corruption Policy and the Commercial Confidentiality and Data Protection Policy, explaining the substance of these policies to the staff and organizing recurring training sessions.

As employees are very loyal and work for the Company many years, aging of employees is an issue for the Company, and it actively promotes the transmission of knowledge between generations. One should note that whenever there is a vacancy at the Company, it is first offered to the existing employees.

The Company believes that encouraging employees to do their job at the highest quality is essential for sustainable development, and it is something that is facilitated by the workplace environment. The Company's management is taking an array of measures for improving the workplace environment. Workplace environment and employee satisfaction are evaluated by AS Latvijas balzams regularly; however, for the year 2020, the survey was postponed due to a pandemic situation. Its results will be announced subsequently.

AS Latvijas balzams prevents discrimination, ensuring equal opportunities for all employees, irrespective of age, sex, race, origin, etc. (SDG 5.1, 10.2, 10.3, 10.4). AS Latvijas balzams has both women and men in leadership positions (SDG 5.5). The Company facilitates the achievement of higher levels of economic productivity through new technologies and artificial intelligence (AI) solutions (SDG 8.2). The Company also pursues development-oriented policies, providing decent work for all people, including migrant workers, and representation by a trade union (SDG 8.3, 8.8). AS Latvijas balzams ensures regular awareness-raising activities about the Company's Anti-Corruption Policy. The Company is actively evaluating the efficiency of its production resources (SDG 8.4).

Suppliers

AS Latvijas balzams implements fair partnerships with its business partners and adheres to a transparent purchasing policy, demanding that suppliers conform to the highest quality standards. In 2020, the Company implemented cooperation with suppliers in accordance with the Company's Anti-Corruption Policy and Procurement Procedure; no violations were recorded in 2020.

REPORT OF THE MANAGEMENT (continued)

Distributors

The Company defines as affected parties the following distributors: SIA Amber Distribution Latvia, OU Amber Distribution Estonia, Bennet Distributors UAB, Amberbev International Ltd, S.P.I. Spirits (Cyprus) Ltd., LLC Synergy Import, OOO Vinfort, Cellar Trends Ltd. and others. The Company implements responsible cooperation with the distributors of its products in Latvia, the Baltics and on a global scale in a planned way, guaranteeing the quality of production and respecting arm's length pricing principles in cooperation with associated enterprises.

Customers (SDG 3)

The Company sees the minimization of potential negative effects of its products on society as one of its main corporate social responsibility tasks (SDG 3.5). AS Latvijas balzams relentlessly educates society about responsible drinking and reminds consumers of the adverse impact that its products may produce on health, especially by means of a warning put on each bottle about the unsuitability of use of the product during pregnancy or when operating a motor vehicle. These activities are not required by law, it is an initiative supported by the Company and executed together with other members of the Latvian Alcohol Industry Association (LANA). The Company joined this project in 2014, and now most of the products are bearing the aforementioned warning labels.

The Company respects its Ethical Marketing Communications Code, which was created in 2013. This code determines the offering of the Company's products on the market in a responsible manner and sets clear marketing guidelines, which are aimed at consistent compliance with requirements of the legislation of the Republic of Latvia. In 2020, no violation was recorded by the Company in product communication (press releases, articles in the mass media, communication via social networks, event management, etc.) in a way that would promote the incorrect or excessive use of alcoholic beverages. The Company also processes customer information in accordance with the Data Protection Policy of AS Latvijas balzams, which is developed in accordance with the General Data Protection Regulation.

Society (SDG 3, SDG 4)

AS Latvijas balzams maintains cooperation with several educational institutions, where future industry specialists are trained, offering internship opportunities to familiarize them with the specifics of the Company's business (SDG 4.3, 4.4). In 2020, the Company established a scholarship fund and selected educational sectors and scholarship projects to be supported. The Company supports the granting of scholarships to Riga Technical University and Latvia University of Life Sciences and Technologies starting from 2020.

To facilitate the responsible use of products in society, the Company educates consumers about responsible drinking by conducting socio-educational campaigns in the public and digital environment (SDG 3.5). The Company performs this task in cooperation with the Latvian Alcohol Industry Association (LANA), to whose activities the Company contributed more than EUR 9.8 thousand in 2020. The Company is also supporting the educational website www.atbildigi.lv.

During 2020, together with LANA, the Company continued activities of the socio-educational campaign *"Would you sell alcohol to your child?"*, which began three years ago. During the reporting year, the campaign was implanted only partly due to Covid-19 circumstances. Also the Company jointly with association has continued implementation of social responsibility campaign "*Remember your emotions and not the blackout!*" which was the main project for year 2020. The campaign was conducted mainly via social media, by involving various vloggers, making podcasts and carrying out other activities that would be of interest for today's young people with the aim of promoting responsible drinking by young people and changing the attitude of society towards excessive alcohol use and overall drinking culture. In this and other ways, the Company contributes to positive alcohol use traditions and lessening negative effects.

REPORT OF THE MANAGEMENT (continued)

State

AS Latvijas balzams is one of the largest taxpayers in the country, having paid EUR 70.3 million (including excise duty) into the state budget in 2020. In the course of its operations, the Company maintains continuous cooperation with state oversight institutions, for example the State Revenue Service. The Company is a member of the State Revenue Service's In-depth Cooperation Program, or the so-called *White List* being among the most responsible taxpayers in the country.

The Company actively cooperates with Latvian farmers by purchasing raw materials for making legendary beverages, such as Riga Black Balsam®. In 2020, just to support production of Riga Black Balsam® brand, the Company bought from domestic farmers 7.5 tons of dried blueberries, 4.5 tons of dried apples and 300 kg of honey, which in money terms is considerable support for Latvia's agriculture, thus fuelling economic activity in Latvia.

AS Latvijas balzams is actively involved in the activities of Latvia's largest industry and non-governmental organizations as a member of the Employers' Confederation of Latvia, the Latvian Chamber of Commerce and Industry and the Latvian Federation of Food Companies. In cooperation with these organizations, the Company supports initiatives that are aimed at reducing the proportion of the shadow economy in the alcohol industry of the country, developing a sustainable tax policy, establishing a competitive business environment, etc.

For the sake of transparency, the Company clearly shows both on its website and in reports published through Nasdaq Riga Stock Exchange the ownership structure, the composition of the Company's management and supervisory board, the Company's goal and vision and its relations with investors.

Responsibility for products

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

In 2020 the management continued intensive implementation of LEAN (a set of management principles and methods focusing on value for the end consumer and the creation of value for a company's product/service, linking it directly to the wishes of the end consumer) with the aim of reducing losses, which under LEAN are both material and non-material (inefficient processes, needless movements, waiting times, etc.).

LEAN activities planned for 2020 were realized to the extent of 53%. which is very good achievement taking into accounting pandemic situation. More than 40 employees were trained in one of the LEAN methods and its application to daily work. Activities were continued to implement 5S at the production units and materials warehouses, thereby creating an orderly work environment so that employees may have access to all that is needed to do high-quality work.

In order to maintain the 5S standard at the necessary level, 5S audits were conducted and two best workplaces/departments – Vodka department and the 8th and 9th bottling line teams of Filling department - that had achieved a high level of 5S implementation and were able to sustain this level were nominated for the year 2020. In 2020, 22 suggestions for improvement provided by employees were implemented (2019: 95). As a result of SMED projects, transportation to the mostly used 7th bottling line was standardized and optimized, thereby allowing the reduction of transportation time of specific installations by 6.3%.

REPORT OF THE MANAGEMENT (continued)

The consumers of AS Latvijas balzams products are those affected parties for whose satisfaction the Company's employees at the Customer Service Centre care every day. The Company ensures an instantaneous feedback link from consumers, using toll-free phone number 80009990. In 2020, 161 complaints, suggestions, reviews or simply questions (2019: 128) were received from consumers and customers and forwarded to relevant Company's specialists. 100% of feedbacks were accepted and resolved (in the case of complaints). From all feedbacks there were 114 complaints, of which only 55% were justified.

All opinions provided to AS Latvijas balzams are regularly analysed, and data are compiled for a customer and consumer satisfaction index once a month, thereby making it possible to evaluate general trends or consumer response to changes in particular product recipes. The customer satisfaction analysis shows that in 2020 the number of complaints concerning the inadequate quantity of supplies has increased by 11%. Also, complaints about the inadequate quality of pallets (wrapping, pallet overturn, etc.) has increased by 50%. Complains on breakage of bottles in the Baltics has increased by 40%. At the same time the complains about sparkling production due to issues with openings and labelling has decreased by 50%. Complains on Riga Black Balsam® bottles with micro-breakages has decreased by 100%; in 2020 no such complaints have been registered.

Responsibility for the environment (SDG 6, SDG 12)

When modernizing production processes and buying new equipment, AS Latvijas balzams always evaluates the conformity of new equipment with environmentally friendly requirements. One can say with full confidence that all equipment purchased in 2020 promotes lower energy use, reducing the Company's environmental footprint (SDG 12.2)., All indicators necessary for the energoaudit were fixed also in 2020. In accordance with the existing requirements, the Company conducts CO_2 emission control, with CO_2 emissions of 2 391,9 tons reported across the Company's territories achieving decrease by 5,2% in 2020. (SDG 12.2).

AS Latvijas balzams has implemented SDG 6 (Clean Water and Sanitation) and, in selecting packaging for products, prioritizes environmentally friendly solutions that are commensurate with the requirements of production processes. The Company also assumes responsibility for waste management, regularly delivering scrap paper, scrap metal and environmentally dangerous waste for recycling. In addition, the Company is supplying packaging of its products for appropriate treatment as part of cooperation with *Zaļā Josta* (Green Belt) (SDG 6.3, 12.4). In 2020, supplies intended for recycling amounted to 495.7 tons, including 83.1 tons of polyethylene, 269.8 tons of cardboard, 245.4 tons of glass and 5.3 tons of scrap metal.

AS Latvijas balzams ensures the collection of hazardous waste and hands it over for recycling to a properly licensed service provider. Alcoholic effluents are collected from both Company's plants on a centralized basis and transported in tanks for recycling. Regular wastewater inspections are also carried out in the Company's territory (SDG 6.3).

The Company uses artesian wells located within its territories for production processes, and its use of water as a resource is careful and prudent (SDG 6.4). In 2020, the Company used 158 768 m^3 of water across all its territories, which is 3% less than in 2019 (2019: 159 206 m^3).

Since the year 2018 the Company has joined the project LIFE Fit for REACH. The Company was able to successfully determine all chemicals and mixtures used, count these substances and evaluate hazards produced by them for the environment and employees. The Company identified substances and compounds that could be replaced with those less harmful.

Pursuant to the legislation of Latvia a beverage packaging deposit system shall be implemented from 1 February 2022. The Company as a produced is proactively following the implementation process, including the selection process for the deposit system operator to comply with the legislation from 1 February 2022 and to support the implementation of an effective deposit system solution in Latvia.

REPORT OF THE MANAGEMENT (continued)

Risk assessment and management

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

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

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

The biggest challenges in 2020 have been:

- Reduce the cost base in line with the fall in turnover;
- To ensure business continuity in conditions of increased epidemiological safety;
- To implement the planned investment projects and new products in time and in full.

Stock and fund market

In 2020, the Company's share price fluctuated between EUR 7.05 and 11.30 per share. The average transaction price was 8.83 euros per share. Over the last three years, the price has fluctuated from 7.05 to 11.50 euros per share. The fall in stock prices in March 2020 was linked to the general fall in stock prices and was short-lived; the stock price recovered quickly.

The members of the Management Board and the Council of the Company do not own shares of AS Latvijas balzams.

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.

REPORT OF THE MANAGEMENT (continued)

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 sanctions regimes based on the information published on the website of the Ministry of Foreign Affairs of the Republic of Latvia for international transactions.

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.

At 31 December 2020, the Company's current assets exceeded its current liabilities by EUR 80.5 million (31.12.2019: EUR 72.1 million). The Company has a strong ability to meet its current liabilities as they fall due. The Company's liquidity ratio (*current ration*) and short-term liquidity ratio (*quick ratio*) for last three years are as follows:

	2020	2019	2018
Current ratio*	3.30	3.45	2.54
Quick ratio**	2.55	2.77	1.92

* Current ratio = current assets / current liabilities.
** Quick ratio = (trade receivables + receivables from related companies + cash and cash equivalents) / current liabilities.

Financial risk management is disclosed in Note 30.

Events after the reporting date

The impact of Covid-19 on the Company's commercial performance will continue in year 2021. Thus, in February of this year, the Company were on furlough for two weeks because the order volumes were too low.

At the time of publishing the report, the speed of economic recovery in Latvia and the world is still unclear. It is already clear that the pandemic will affect the whole of 2021, but a quantitative assessment is not possible at the moment.

There were no subsequent events since the last date of the financial year until the date of signing of these financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2020.

REPORT OF THE MANAGEMENT (continued)

Future prospects

In 2021, AS Latvijas balzams will keep focusing on the following:

1. investments in core brands to build international recognition;
2. the efficiency improvement program.

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

The Company will continue improving the efficiency of production, with a focus on purchase, planning and infrastructure improvements to support our goal, which is to deliver quality products with a competitive cost advantage. To this end, the work on the following projects will be continued in 2021:

- the installation of semi-automated depalletizing equipment for line of Riga Black Balsam® and sparkling drinks;
- the change of automatic packing equipment to two lines;
- to start production of new alcoholic drinks filled in cans, including in fast growing categories like RTD (ready-to-drink) and Hard Seltzer;
- investments in infrastructure objects.

On behalf of the Board:

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Intars Geidāns
Chairman of the Board

Riga, 30 April 2021

REMUNERATION REPORT

The remuneration report is published simultaneously in Latvian and English languages together with the audited annual report of the Company as a separate component of the annual report on the Company's website, section „For investors”, as well as on the stock exchange Nasdaq Riga website

STATEMENT OF THE MANAGEMENTS' RESPONSIBILITY

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

The Management certifies that proper accounting methods were applied in the preparation of the financial statements set out on pages 19 to 58 and decisions and assessments were made with proper discretion and prudence. The Management confirms that the financial statements have been prepared on a going concern basis.

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

On behalf of the Board:

Intars Geidāns
Chairman of the Board

Riga, 30 April 2021

FINANCIAL STATEMENTS

Income Statement

	Notes	2020 EUR	2019 EUR
Revenue	1	68 577 034	78 561 391
Cost of sales	2	(52 627 722)	(59 841 158)
Gross profit		**15 949 312**	**18 720 233**
Distribution expenses	3	(5 981 472)	(6 718 984)
Administrative expenses	4	(4 390 911)	(4 763 224)
Other operating income	5	2 440 914	1 775 111
Other operating expenses	6	(629 918)	(1 017 661)
Finance income	8	2 029 581	2 334 128
Finance expenses	9	(93 201)	(238 366)
Profit before tax		**9 324 305**	**10 091 237**
Corporate income tax	10	-	(45 175)
Net profit		**9 324 305**	**10 046 062**
Earnings per share			
Basic	11	1.24	1.34
Diluted	11	1.24	1.34

Notes on pages 25 to 58 form an integral part of these financial statements.

Statement of Comprehensive Income

	Notes	2020 EUR	2019 EUR
Net profit		**9 324 305**	**10 046 062**
Other comprehensive income			
Items that may be reclassified subsequently to income statement			
Changes in fair value of financial instruments		-	2 353
Other comprehensive income		**-**	**2 353**
Total comprehensive income for the period		**9 324 305**	**10 048 415**

Notes on pages 25 to 58 form an integral part of these financial statements.

Statement of Financial Position

	Notes	31.12.2020. EUR	31.12.2019. EUR
ASSETS			
Non-current assets			
Intangible assets	12	87 191	196 907
Property, plant and equipment	13	12 559 124	12 373 308
Right-of-use assets	27	2 620 852	3 091 025
Investment property	13	1 712 785	1 808 421
Loans to related parties	25 (e)	37 778 791	36 660 642
Other non current assets	16	281 745	374 930
Total non-current assets:		**55 040 488**	**54 505 233**
Current assets			
Inventories	14	25 459 313	19 622 090
Trade receivables	15	976 628	1 687 932
Receivables from related parties	25 (a)	52 870 659	47 455 117
Loans to related parties	25 (f)	34 645 647	31 603 077
Other current assets	16	710 579	298 982
Corporate income tax		-	12 590
Cash and cash equivalents		279 563	833 329
Total current assets:		**114 942 389**	**101 513 117**
Total assets		**169 982 877**	**156 018 350**

Statement of Financial Position

		31.12.2020. EUR	31.12.2019. EUR
EQUITY AND LIABILITIES	**Pielikums**		
Equity			
Share capital	17	10 495 660	10 495 660
Share premium		87 887	87 887
Reserves	18	2 318 823	2 318 823
Retained earnings		120 592 233	111 267 928
Total equity:		**133 494 603**	**124 170 298**
Liabilities			
Non-current liabilities			
Borrowings and lease liabilities	19	1 662 635	2 443 536
Total non-current liabilities:		**1 662 635**	**2 443 536**
Current liabilities			
Borrowings and lease liabilities	19	1 246 452	1 177 402
Trade payables		5 478 413	5 976 204
Payables to related parties	25 (b)	1 482 774	1 163 338
Taxes payable	20	24 746 837	18 882 314
Other liabilities	21	1 871 163	2 205 258
Total current liabilities:		**34 825 639**	**29 404 516**
Total liabilities:		**36 488 274**	**31 848 052**
Total equity and liabilities		**169 982 877**	**156 018 350**

Notes on pages 25 to 58 form an integral part of these financial statements.

On behalf of the Board:

Intars Geidāns
Chairman of the Board

Riga, 30 April 2021

Statement of Changes in Equity

	Share capital	Share premium	Reserves	Revalution 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	-	-	-	-	10 046 062	10 046 062
Other comprehensive income	-	-	-	2 353	-	2 353
Total comprehensive income	-	-	-	**2 353**	**10 046 062**	10 048 415
31.12.2019.	**10 495 660**	**87 887**	**2 318 823**	-	**111 267 928**	**124 170 298**
Net profit	-	-	-	-	9 324 305	9 324 305
Total comprehensive income	-	-	-	-	**9 324 305**	**9 324 305**
31.12.2020.	**10 495 660**	**87 887**	**2 318 823**	-	**120 592 233**	**133 494 603**

Notes on pages 25 to 58 form an integral part of these financial statements.

Cash Flow Statement

	Notes	2020 EUR	2019 EUR
Cash flow from operating activities			
Profit for the period before taxation		9 324 305	10 091 237
Adjustments for:			
deprecition and amortisation	7	2 588 131	2 649 326
net profit on sales and disposal of property, plant and equipment and intangibles		(353)	(32 315)
impairment of long-term investments		-	339 225
changes in provisions for slow moving stock		(100 194)	96 116
interest income	8	(2 029 581)	(2 334 128)
interest expense	9	93 201	238 366
Changes in working capital:			
Decrease / (increase) in inventories		(5 737 029)	1 667 582
(Increase)/ decrease in trade and other receivables		(3 891 910)	26 652 021
Increase / (decrease) in trade and other payables		5 392 037	(5 479 186)
Cash generated from operations		**5 638 607**	**33 888 244**
Interest paid		(93 201)	(202 834)
Corporate income tax paid		-	(55 000)
Net cash generated from operating activities		**5 545 406**	**33 630 410**
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets		(1 951 460)	(3 111 331)
Proceeds from sales of property, plant and equipment		8 564	53 590
Received repayment of loans		-	1 666 700
Interest received		692 040	1 457 093
Changes in loan to related parties (creditline)		(3 941 328)	(28 466 785)
Net cash (used in) / generated from investing activities		**(5 192 184)**	**(28 400 733)**
Cash flow from financing activities			
Borrowings repaid		(144 955)	(3 480 835)
Lease payments		(762 033)	(928 335)
Net cash used in financing activities		**(906 988)**	**(4 409 170)**
Net (decrease) / increase in cash and cash equivalents		**(553 766)**	**820 507**
Cash and cash equivalents at the beginnging of the period		**833 329**	**12 822**
Cash and cash equivalents at the end of the period		**279 563**	**833 329**

Notes on pages 25 to 58 form an integral part of these financial statements.

Notes to the Financial Statements

I. GENERAL INFORMATION

AS Latvijas balzams ("the Company") is the largest producer of alcohol beverages in the Baltic States. The Company 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 December 2020, is Amber Beverage Group Holding S.à r.l. Since 14 May 2020 the ultimate parent company of the Group is SPI Group Holding Limited (until 14 May 2020 - SPI Group S. à r.l)

AS Latvijas balzams is a joint-stock company, which is incorporated and has its registered office in Latvia. The Company was founded in 1900 but acquired its current name in 1970. Registered address of the Company is at 160 A. Caka Street, Riga, LV-1012, Republic of Latvia. Shares of AS Latvijas balzams are quoted on the second list of the Nasdaq Riga AS.

The current financial year of the Company is from 1 January 2020 to 31 December 2020.

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

II. ACCOUNTING POLICIES

(1) Basis of preparation

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

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

The financial statements are presented in accordance with IAS 1 Presentation of Financial Statements. The Company has elected to present the Income statement and Statement of comprehensive income as separate statements. The financial statements are prepared on a going concern basis. As of 31 December 2020, the Company meets the criteria for a large company in accordance with the Law on the Annual Accounts and Consolidated Annual Accounts of the Republic of Latvia.

Expenses in the income statement are classified by function.

The cash flow statement is prepared according to indirect method.

Preparation of the financial statements in compliance with IFRS requires critical assumptions. Moreover, preparation of the financial statement requires the management to make estimates and judgments applying the accounting policies adopted by the Company. Critical estimates and judgments are disclosed in Section 20 to Accounting Policies.

For comparability purposes, some minor items of the statement of financial position and the income statement for the year ended 31 December 2020 have been reclassified.

II. ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

a) The following new and revised standards and interpretations became effective on 1 January 2020, but have no significant impact on the operations of the Company and these financial statements:

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes a new chapter on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular, the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business - Amendments to IFRS 3 (effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020). The amendments revise definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organized workforce should be present as a condition for classification as a business if are no outputs. The definition of the term ‘outputs’ is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a ‘concentration test’. The assets acquired would not represent a business if substantially all of the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

Interest rate benchmark reform – Amendments to IFRS 9, IAS 39 and IFRS 7 (effective for annual periods beginning on or after 1 January 2020). These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

The Company considers that aforementioned amendments to standards have no or have no material impact on these financial statements.

Covid-19 Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 January 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to Covid-19 is a lease modification. The Company has applied the optional exemption while evaluating the existing lease agreements. See also Note 26.

b) Certain new standards and interpretations have been issued and become effective for annual periods beginning on or after 1 January 2021 or are not yet endorsed by the European Union:

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after a date to be determined by the IASB, not yet adopted by the EU).

II. ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

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

Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU).

Amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU).

Amendments to IFRS 17 and an amendment to IFRS 4 (effective for annual periods beginning on or after 1 January 2023, not yet adopted by the EU).

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU).

The Company has not early adopted new standards and interpretations and believes that the adoption of new or revised standards and interpretations has no material impact on the Company's financial statements.

(2) Revenue recognition

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

Income from rendering of services

Revenue from rendering of services (mainly logistic services) are recognized when the service has been provided, over time.

Sale of finished goods

Revenue from the sale of finished goods is recognized net of discounts, returns, value-added taxes, export duties, excise tax. The Company acts as an agent in collecting the excise duty from customers and transferring it to responsible tax collection authorities. Thus the revenue is recognized net of excise tax levied on the customers. Revenue is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the finished goods. The normal credit term is 30 to 90 days upon delivery.

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

Variable consideration

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

Financing component

The Company does not enter into contracts whereby the period between the transfer of the promised goods and the customers' payment is more than one year. Accordingly, the Company does not adjust the transaction price for the time value of money.

II. ACCOUNTING POLICIES (continued)

(3) Functional currency and revaluation

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

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

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

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

	31.12.2020. EUR	**31.12.2019. EUR**
1 USD	0.8149	0.8902
1 GBP	1.1123	1.1754
1 RUB	0.0109	0.0126

(4) Property, plant and equipment (PPE)

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

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

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful live, as follows:

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

Land is not depreciated.

Items of PPE in the course of construction for production, supply or administrative purposes are carried at cost less any impairment recognized. Depreciation of these assets, on the same basis as other PPE items, commences when the assets are ready for their intended use.

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

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

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

II. ACCOUNTING POLICIES (continued)

(5) Intangible assets

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

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

(6) Investment property

Investment property is land, building or part of a building held by the Company to earn rentals or for capital appreciation rather than use in the production or supply of goods or services or for administrative purposes or sale in the ordinary course of business and are not occupied by the Company. Investment property is initially recognised at acquisition cost. Subsequently investment property is carried at its cost less any accumulated depreciation and any accumulated impairment losses. The depreciation is calculated using the straight-line method. Applied depreciation rates are based on estimated useful life set for respective asset and are within the range of 20 to 40 years. The useful lives are reviewed, and adjusted if appropriate, at each end of the financial year.

(7) Impairment of property, plant and equipment, investment property, intangible assets and right-of use assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of the fair value less costs of disposal and the value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Impairment loss is recognized as an expense in the statement of comprehensive income. Non-financial assets that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

(8) Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset of a period of time in exchange for consideration.

The Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

II. ACCOUNTING POLICIES (continued)

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). The Company's right-of-use assets represent leases of real estate and production equipment. Right-of-use assets are measured at cost, less any accumulated depreciation and impairment, and adjusted for any remeasurement of lease liabilities. Cost includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made before the commencement date less any lease incentives received. Except where the Company has sufficient confidence that the ownership of leased assets will be transferred at the end of the lease term, recognized right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets (3 to 10 years). Right-of-use assets are subject to assessing for impairment indicators.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities relating to real estate and production equipment measured at the present value of lease payments. Lease liabilities represent fixed lease payments. In calculating the liabilities, the Company uses its incremental borrowing rate at the lease commencement date, except where the borrowing rate is readily determined. The Company has applied the discount rate of 2.75% for the calculation of lease liabilities upon initial recognition and their subsequent re-calculation at the year end. The carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in the assessment of an option to purchase the underlying asset at the end of the period. Every lease payment is apportioned between lease liabilities and interest expenses thereon. Interest paid on lease liabilities is recognized in the income statement over the lease term.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of other property, plant and equipment items (i.e., those leases that have a lease term less than 12 months from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payment on short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term.

(9) Inventories

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

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

II. ACCOUNTING POLICIES (continued)

(10) Financial instruments

Classification

The Company classifies its financial assets in the following measurement categories:

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

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

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

Recognition and derecognition

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

Measurement

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

Debt instruments

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

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

II. ACCOUNTING POLICIES (continued)

(10) Financial instruments (continued)

Equity instruments

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

Impairment of financial assets – provisions for expected credit losses (ECL)

Expected credit loss on financial assets are recognised and measured using one of two approaches: the general approach or the simplified approach.

The Company measures debt instruments (including loans) at amortised cost using the ECL. The Company determines the ECL and establish loan loss provisions at each reporting date. The principle of determining the ECL reflects: (i) an objective, transaction-weighted amount determined by analysing a range of possible outcomes; (ii) the time value of money; and (iii) all reasonable and demonstrable information about past events, current conditions, and future projections available without undue cost or effort at the end of each reporting period.

The Company applies the simplified approach under IFRS 9 in determining expected credit losses for trade receivables, which requires the recognition of provisions for lifetime expected credit losses for all trade receivables that are grouped based on common credit characteristics and past due payments. The amount of the expected credit losses depends on the days in arrears.

For all other financial assets for which impairment monitoring is required under IFRS 9, the Company applies the general approach of a three-step impairment model based on changes in credit quality since initial recognition. A financial instrument that is not impaired at initial recognition is classified as a Level 1 financial instrument. A Level 1 financial asset is measured at an amount equal to the portion of the lifetime ECL that would be incurred in the event of default within the next 12 months or until contractual maturity, whichever is shorter ("the 12-month ECL"). If the Company identifies a significantly increased credit risk ("SICR") at initial recognition, the relevant asset is transferred to Level 2 and its ECL is determined using the lifetime ECL, i.e., until the expiry of the contract but considering expected prepayments, if any ("the lifetime ECL"). If the Company determines that a financial asset is impaired, the asset is transferred to Level 3 and measured using a lifetime ECL.

Financial assets measured at amortised cost are presented in the balance sheet net of provisions for ECL.

The carrying amount of the financial assets is reduced using a provision account and the amount of the loss is recognised in the Statement of comprehensive income under *Other operating expenses*.

Financial liabilities

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

II. ACCOUNTING POLICIES (continued)

(11) Cash and cash equivalents

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

(12) Share capital

Ordinary shares are classified as share capital.

(13) Borrowings

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

(14) Vacation accruals

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

(15) Income tax

Corporate income tax for the reporting period is included in the financial statements based on the management's calculations prepared in accordance with Latvian Republic tax legislation.

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

The Company calculates and pays corporate income tax also for the conditionally distributed profit (20/80 of calculated taxable base), which includes taxable objects in accordance with the Corporate Income Tax law, such as the expenditure not related to economic activity, the doubtful debts of debtors and the loans to the related parties, if they meet criteria provided in the Corporate Income Tax law, as well other expenses exceeding statutory limits for deduction. Corporate income tax for the conditionally distributed profit is recognized in the income statement in the year for which it is assessed.

In accordance with International Accounting Standard No 12 Income Taxes requirements, in cases where income tax is payable at a higher or lower rate, depending on whether the profit is distributed, the deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. In Latvia the applicable rate for undistributed profits is 0%.

(16) Earnings per share

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

(17) Related parties

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

II. ACCOUNTING POLICIES (continued)

(18) Employee benefits

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

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

In accordance with the Rules of the Cabinet of Ministers of the Republic of Latvia 71.87% (2019: 71.87%) of the social security contributions are used to fund the state defined contribution pension system. State funded pension scheme is a defined contribution plan under which the Company pays fixed contributions determined by law and will have no legal or constructive obligation to pay further contributions if the state pension insurance system or state funded pension scheme are not able to settle their liabilities to employees. The social security contributions are accrued in the year in which the associated services are rendered by the employees of the Company.

(19) Government grants

Government grants are recognized where there is a reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as deduction of expense on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

(20) Critical accounting estimates and judgments

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

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

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

b) Expected credit loss allowance

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses lifetime expected credit loss allowance for all trade receivables. To measure the lifetime expected credit loss allowance, receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2020 and the corresponding historical lifetime expected credit loss allowance experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. (See also Note 30).

III. OTHER NOTES

(1) Segment Information and net sales

a) Operation and reportable segment

The core business segment of the Company is production of alcoholic beverages. AS Latvijas balzams produces over 100 different types of beverages under own and 3rd party brands using shared technologies, assets and other resources, the Company considers production of alcoholic beverages to be the only operation and reportable segment.

b) Revenue by type

	2020 EUR	2019 EUR
Production of alcoholic beverages	63 332 446	73 511 636
Sales of other goods and materials	569 289	665 376
Other services	4 675 299	4 384 379
	68 577 034	**78 561 391**

c) Revenue by geography (by customer)

	2020 EUR	2019 EUR
Cyprus	37 459 472	41 590 941
Latvia	24 855 724	30 083 721
Lithuania	3 546 371	3 537 669
Estonia	639 128	828 527
Romania	270 751	427 913
Other	1 805 588	2 092 620
	68 577 034	**78 561 391**

(2) Cost of sales

	2020 EUR	2019 EUR
Raw materials and consumables	40 552 395	46 523 624
Salary expense	5 446 094	5 904 084
The state compulsory social insurance contributions	1 303 935	1 412 049
Depreciation of non-current assets	1 271 431	1 166 469
Energy resources	756 204	939 489
Repair and maintenance expenses	620 598	681 663
Goods purchased	563 706	637 604
Management of packaging	554 399	601 138
Insurance payments	36 330	39 666
Laboratory expenses	22 244	35 270
Accrued expenses on unused annual leave	(48 358)	21 991
Other costs	1 548 744	1 878 111
	52 627 722	**59 841 158**

III. OTHER NOTES (continued)

(3) Distribution expenses

	2020 EUR	2019 EUR
Advertising and sales promotion expenses	1 324 463	1 973 139
Salary expenses	1 780 278	1 856 451
Depreciation of non-current assets	1 000 756	910 015
Transportation expenses	601 736	625 060
The state compulsory social insurance contributions	427 556	445 970
Warehouse maintenance expenses	381 625	420 319
Other expenses	465 058	488 030
	5 981 472	**6 718 984**

(4) Administrative expenses

	2020 EUR	2019 EUR
Management services and expenses	2 074 977	2 119 820
Salary expenses	686 820	697 276
Depreciation of non-current assets	315 944	572 841
Computer maintenance	234 731	222 372
Financial support, sponsorship	116 492	-
The state compulsory social insurance contributions	162 085	165 963
Real estate tax	161 355	161 162
Professional service costs	120 589	133 713
Transport costs	33 001	38 006
Representation expenses	12 995	26 316
Communication and postal expenses	15 553	21 134
Office expenses	34 323	17 974
Business trip expenses	1 494	13 485
Bank commissions	10 891	12 164
Other expenses	409 661	560 998
	4 390 911	**4 763 224**

(5) Other operating income

	2020 EUR	2019 EUR
Income from auxiliary and package materials sales	853 164	487 943
Gains on sale of property, plant and equipment	353	37 260
Net gains from exchange rate fluctuations	50 747	-
Income from renting of premises	331 436	213 497
Government grants received	491 495	-
Other income	713 719	1 036 411
	2 440 914	**1 775 111**

Government grants received includes the grant received provided by the Investment and Development Agency of Latvia within the support program “Covid-19 for exporters of goods and services affected by the crisis to overcome the consequences of the crisis”.

III. OTHER NOTES (continued)

(6) Other operating expenses

	2020 EUR	2019 EUR
Impairment of long-term investments	-	339 225
Penalties paid	229 068	179 609
Net losses from exchange rate fluctuations	-	28 864
Other expenses	400 850	469 963
	629 918	**1 017 661**

(7) Expenses by nature

	2020 EUR	2019 EUR
Materials	40 552 395	46 523 624
Employee expenses	9 758 410	10 503 784
Management services and expenses	2 074 977	2 119 820
Depreciation of non-current assets	2 588 131	2 649 325
Advertising and sales promotion expenses	1 440 955	1 973 139
Repair and maintenance expenses	620 598	681 663
Transportation expenses	634 737	663 066
Management of packaging	554 399	601 138
Real estate tax	161 355	161 162
Other expenses	5 244 066	6 464 306
	63 630 023	**72 341 027**

(8) Finance income

	2020 EUR	2019 EUR
Interest income from related parties	2 029 581	2 334 128
	2 029 581	**2 334 128**

(9) Finance expenses

	2020 EUR	2019 EUR
Interest expenses	74 919	183 351
Interest expenses to related parties	18 282	55 015
	93 201	**238 366**

III. OTHER NOTES (continued)

(10) Corporate income tax

	2020 EUR	2019 EUR
Corporate income tax on conditionally distributed profit	-	45 175
	-	**45 175**

(11) Earnings per share

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

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

	2020	2019
Profit attributed to shareholders of the Company (EUR)	9 324 305	10 046 062
Average annual number of shares	7 496 900	7 496 900
Earnings per share (EUR)	**1.24**	**1.34**

III. OTHER NOTES (continued)

(12) Intangible assets

	Licences and software	Intangible assets under development	Total
	EUR	EUR	EUR
Initial cost			
31.12.2018.	**1 243 432**	**73 834**	**1 317 266**
Additions	-	66 791	66 791
Disposals	(35 431)	-	(35 431)
Reclassification	139 962	(139 962)	-
31.12.2019.	**1 347 963**	**663**	**1 348 626**
Additions	-	23 621	23 621
Disposals	-	(4 872)	(4 872)
Reclassification	6 825	(11 802)	(4 977)
31.12.2020.	**1 354 788**	**7 610**	**1 362 398**
Accumulated amortisation			
31.12.2018.	**(915 878)**	-	**(915 878)**
Amortisation	(266 092)	-	(266 092)
Disposals	30 251		30 251
31.12.2019.	**(1 151 719)**	-	**(1 151 719)**
Amortisation	(123 488)	-	(123 488)
31.12.2020.	**(1 275 207)**	-	**(1 275 207)**
Net book value			
31.12.2019.	**196 244**	**663**	**196 907**
31.12.2020.	**79 581**	**7 610**	**87 191**

III. OTHER NOTES (continued)

(13) Property, plant and equipment and Investment property

	Lands and buildings EUR	Equipment and machinery EUR	Other assets EUR	Assets under construction EUR	Total EUR	Investment property EUR
Initial cost						
31.12.2018	**14 403 258**	**23 398 024**	**5 197 788**	**693 647**	**43 692 717**	**2 907 635**
Additions	-	-	-	3 044 540	3 044 540	-
Disposals	-	(274 513)	(203 758)	-	(478 271)	-
Reclassification	666 957	994 038	365 342	(2 035 569)	(9 232)	-
Reclassification to right-of use assets	-	(2 844 019)	-	-	(2 844 019)	-
Reclassification from right-of use assets	-	837 049	-	-	837 049	-
31.12.2019.	**15 070 215**	**22 110 579**	**5 359 372**	**1 702 618**	**44 242 784**	**2 907 635**
Additions	-	-	-	1 927 839	1 927 839	-
Disposals	(12 650)	(15 124)	(69 005)	(117 023)	(213 802)	-
Reclassification	678 823	1 869 028	387 861	(2 942 278)	(6 566)	8 110
Reclassification to right-of use assets	-	-	(17 026)	-	(17 026)	-
31.12.2020.	**15 736 388**	**23 964 483**	**5 661 202**	**571 155**	**45 933 229**	**2 915 745**
Accumulated depreciation						
31.12.2018.	**(7 945 235)**	**(18 579 362)**	**(4 180 825)**	**-**	**(30 705 422)**	**(995 498)**
Depreciation	(500 946)	(531 007)	(417 549)	-	(1 449 502)	(103 716)
Disposals	-	260 019	202 827	-	462 846	-
Reclassification to right-of use assets	-	773 648	-	-	773 648	-
Reclassification from right-of use assets	-	(611 821)	-	-	(611 821)	-
Impairment	-	-	-	(339 225)	(339 225)	-
31.12.2019.	**(8 446 181)**	**(18 688 523)**	**(4 395 547)**	**(339 225)**	**(31 869 476)**	**(1 099 214)**
Depreciation	(467 215)	(752 070)	(392 216)	-	(1 611 501)	(103 746)
Disposals	12 650	18 011	66 356	-	97 016	-
Reclassification to right-of use assets	-	-	9 856	-	9 856	-
31.12.2020.	**(8 900 746)**	**(19 422 583)**	**(4 711 552)**	**(339 225)**	**(33 374 105)**	**(1 202 960)**
Net book value						
31.12.2019.	**6 624 034**	**3 422 056**	**963 825**	**1 363 393**	**12 373 308**	**1 808 421**
31.12.2020.	**6 835 643**	**4 541 900**	**949 651**	**231 930**	**12 559 124**	**1 712 785**

The gross carrying value of fully depreciated property, plant and equipment that is still in use is EUR 14 344 781 (31.12.2019: EUR 13 511 046).

All tangible assets and the largest part of real estate of the Company into total amount of EUR 12,3 million (EUR 6,8 million – lands and buildings, EUR 4,5 million – equipment and machinery, EUR 1,0 million – other assets) are pledged under conditions of the agreement of the Commercial and Mortgage pledge as the security for loans from the credit institutions (see Note 19, Note 28).

OTHER NOTES (continued)

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

The fair value of Investment property as of 31 December 2020 is EUR 2 011 000 (31.12.2019: EUR 2 011 000). In August 2018 real estate objects market value was determined by an independent valuer. The Company's management considers that the fair value of investment property has not significantly changed since the last valuation.

Total income from Investment property – EUR 130 032 (2019: EUR 154 022), direct costs – EUR 30 448 (2019: EUR 54 489).

(14) Inventories

	31.12.2020. EUR	31.12.2019. EUR
Raw materials and consumables	13 567 287	10 247 759
Finished goods and goods for sale	12 592 288	10 083 139
Inventory in transit	265 201	271 165
Work in progress	18 535	104 219
Provisions	(983 998)	(1 084 192)
	25 459 313	**19 622 090**

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

	2020 EUR	2019 EUR
Provisions at the beginning of the year	1 084 192	988 075
Changes in provisions recognized in the income statement	(100 194)	96 117
Provisions at the end of the year	**983 998**	**1 084 192**

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

(15) Trade receivables

	31.12.2020. EUR	31.12.2019. EUR
Trade receivables	1 156 639	1 872 494
Expected credit losses allowance	(180 011)	(184 562)
	976 628	**1 687 932**

For additional information about trade receivables see Note 30.

III. OTHER NOTES (continued)

(16) Other assets

	31.12.2020. EUR	31.12.2019. EUR
Financial assets:		
Current		
Advance payments for goods and services	89 717	103 641
Other receivables	63 370	55 854
	153 087	**159 495**
Non-financial assets:		
Non-current		
Deferred expenses	210 891	238 185
Other receivables	70 854	136 745
	281 745	**374 930**
Current		
Deferred expenses	178 793	139 487
Accrued income	378 699	-
	557 492	**139 487**
Other non-current assets	**281 745**	**374 930**
Other current assets	**710 579**	**298 982**

(17) Share capital

As of 31 December 2020, and 31 December 2019 the registered and fully paid share capital is in the amount of EUR 10 495 660, which consists of 7 496 900 ordinary shares with a nominal value of EUR 1.4 each.

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

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

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

III. OTHER NOTES (continued)

(18) Reserves

	31.12.2020. EUR	31.12.2019. EUR
Special purpose reserve fund **	5 311 774	5 311 774
Share capital denomination	171 468	171 468
Reorganisation reserve *	(3 164 419)	(3 164 419)
	2 318 823	**2 318 823**

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

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

(19) Borrowings and lease liabilities

	31.12.2020. EUR	31.12.2019. EUR
Non-current		
AS Luminor Bank Latvian branch	890 684	1 077 106
Lease liabilities (see note 26)	771 951	1 366 430
	1 662 635	**2 443 536**
Current		
AS Luminor Bank Latvian branch b)	310 946	269 309
Lease liabilities (see note 26)	935 506	908 093
	1 246 452	**1 177 402**
Total borrowings and lease liabilities	**2 909 087**	**3 620 938**

III. OTHER NOTES (continued)

(19) Borrowings and lease liabilities (continued)

a) Loan from AS Luminor Bank Latvian branch

At the end of 2018, the Group completed the restructuring of its loan portfolio from AS Luminor Bank Latvian branch. As a result, in January 2019 the duration of the existing loan agreement was extended until 31 December 2023. The interest rate applied to the loan is EURIBOR plus 2.65% (2019: EURIBOR plus 2.2%). The outstanding balance of the Company's liabilities as at 31 December 2020 was EUR 1 201 630 (31.12.2019 - EUR 1 346 415).

b) Collateral

The fulfilment of the Company's liabilities arising from the above loan agreement signed with AS Luminor Bank Latvian branch is secured and enforced by:

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

Information about net book value of real estate and assets under commercial pledge in Note 13.

(20) Taxes payable

	31.12.2020. EUR	31.12.2019. EUR
Excise tax	22 827 083	16 860 751
Value added tax	1 528 577	1 648 517
The state compulsory social insurance contributions	285 221	252 798
Personal income tax	105 416	120 047
Other taxes	540	201
	24 746 837	**18 882 314**

III. OTHER NOTES (continued)

(21) Other liabilities

	31.12.2020. EUR	31.12.2019. EUR
Accrued liabilities	624 768	1 128 806
Vacation accruals	497 973	550 323
Salaries	438 287	473 956
Other liabilities	310 135	52 173
	1 871 163	**2 205 258**

(22) Auditors remuneration

	2020 EUR	2019 EUR
Fees paid for audit and audit related services	28 238	24 650
	28 238	**24 650**

(23) Average number of employees

	2020	2019
Average number of people employed during the financial year:		
Council members	5	5
Board members	2	2
Other employees	576	625
	583	**632**

(24) Remuneration to Board and Supervisory Council members

	2020	2019
Salary	217 883	44 000
Mandatory state social insurance contributions	51 487	10 600
	269 370	**54 600**

The remuneration to the members of the Board and Supervisory Council is stipulated in the Policy for Remuneration of the Board members (effective from 07 July 2020) and Policy for Remuneration of the Supervisory Council members (effective from 27 June 2019). Until effective date of Policy for Remuneration of the Board members, the Board members did not receive remuneration for membership in the Board.

III. OTHER NOTES (continued)

(25) Transactions with related parties

The major shareholder (the Parent company) of AS Latvijas balzams, who as of 31 December 2020 owns 89.99% of share capital, is Amber Beverage Group Holding S.à r.l., incorporated in Luxembourg. The ultimate parent company of the Group since 14 May 2020 is S.P.I. Group Holding Ltd, incorporated in Cyprus, (until 14 May 2020) SPI Group S.à r.l., incorporated in Luxembourg) whose sole shareholder is Yuri Shefler.

For additional information about guaranties see Note 28.

a) Accounts receivable from related parties

	31.12.2020. EUR	31.12.2019. EUR
Parent company	22 045	22 045
Other related parties	52 848 614	47 433 072
	52 870 659	**47 455 117**

The receivables from related parties arise mainly from sales of goods and services. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (31.12.2019: nil).

b) Accounts payable to related parties

	31.12.2020. EUR	31.12.2019. EUR
Parent company	153 022	-
Other related parties	1 329 752	1 163 338
	1 482 774	**1 163 338**

c) Sales of services and goods to related parties

	2020 EUR	2019 EUR
Other related parties	64 541 160	73 042 121
	64 541 160	**73 042 121**

The value of transactions is disclosed net of discounts, excise and value added tax.

III. OTHER NOTES (continued)

(25) Transactions with related parties (continued)

d) Purchase sales and goods from related parties

	2020 EUR	2019 EUR
Parent company	134 740	103 547
Other related parties	14 202 223	11 699 624
	14 336 963	**11 803 171**

e) Non-current loans to related parties

	31.12.2020. EUR	31.12.2019. EUR
Parent company	37 778 791	36 660 642
	37 778 791	**36 660 642**

The loan granted to Amber Beverage Group Holding S.à r.l. matures on 29 December 2022. The currency of loan is EUR and interest rate 3%.

f) Current loans to related parties

	31.12.2020. EUR	31.12.2019. EUR
Parent company	33 545 715	30 546 519
Other related parties	1 099 932	1 056 558
	34 645 647	**31 603 077**

Current loans to Parent company includes the positive cash-pool balance due from Amber Beverage Group Holding S.à r. l as the Group account holder.

III. OTHER NOTES (continued)

(26) Right-of-use assets

	Right-of-use assets			
	Buildings EUR	Machinery and Equipment EUR	**Total EUR**	Lease liabilities EUR
As at 1 January 2019	**1 524 790**	**2 070 371**	**3 595 161**	**2 660 983**
Additions	-	9 232	**9 232**	-
Impact of changes in assumptions	541 875	-	**541 875**	541 875
Reclassification to PPE	-	(225 228)	**(225 228)**	-
Depreciation expense	(554 469)	(275 546)	**(830 015)**	-
Payment	-	-	-	(928 335)
As at 31 December 2019	**1 512 196**	**1 578 829**	**3 091 025**	**2 274 523**
Additions	-	6 566	**6 566**	-
Reclassification	7 170	-	**7 170**	-
Impact on change in assumption	265 487	-	**265 487**	265 487
Depreciation expense	(553 911)	(195 486)	**(749 396)**	-
Interest expense	-	-	-	29 259
Payment interest	-	-	-	(46 788)
Negative variable lease payment	-	-	-	(52 991)
Payment	-	-	-	(762 033)
As at 31 December 2020	**1 230 942**	**1 389 909**	**2 620 852**	**1 707 457**

See Note 19 for the breakdown of lease liabilities by maturity profile.

Negative variable lease payments represent the rent concessions granted by lessors within existing lease agreements due to Covid-19, where the Company has elected to use the practical expedient not to account for as lease medication.

(27) Contingent liabilities

Litigation with SIA Interjeru iekārtošanas un restaurācijas firma Ierosme

Following the acquisition of the limited liability company Daugavgrivas 7, the Company, which is the legal successor to the limited liability company Daugavgrivas 7, joined a lawsuit against SIA Interjeru iekārtošanas un restaurācijas firma Ierosme as a defendant.

On 14 October 2016, the Supreme Court of the Republic of Latvia ruled to dismiss both the claim filed by SIA Interjeru iekārtošanas un restaurācijas firma Ierosme against the Company for recovery of the debt of EUR 110 721 and the penalty of EUR 74 684 and the Company's counterclaim against SIA Interjeru iekārtošanas un restaurācijas firma Ierosme for damages of EUR 881 874 and offsetting.

On 19 January 2017, SIA Interjeru iekārtošanas un restaurācijas firma Ierosme filed a cassation seeking to set aside the judgment in relation to the recovery of the Company's debt and penalty and to refer the case for retrial. Based on a judgment delivered by the Senate of the Republic of Latvia on 12 September 2019, the judgement of the Judicial Panel of Civil Cases of the Supreme Court dated 14 October 2016 was set aside and the case was referred to Riga Regional Court for retrial. Riga Regional Court decided in favour of Ierosme. The Company filed a cassation claim. The litigation is still in process.

III. OTHER NOTES (continued)

(27) Contingent liabilities (continued)

Appeal against a decision of the Financial Administration of the Republic of Slovenia

In 2015, the Company supplied excise goods, hereinafter – the Goods, to a customer SLCC Holding d.o.o. In March 2017, the Company received a decision issued by the Ministry of Finance of the Republic of Slovenia requesting payment of excise duty of nearly EUR 335 000 on grounds that the goods in question had been released for circulation instead of being kept at a warehouse designated for unloading in Slovenia. On 3 July 2017, an appeal was lodged against the tax authority's decision, seeking to suspend the payment until the final decision was made. It was allowed to suspend the payment within the next few days. The Company's appeal was dismissed on 5 March 2019 as unfounded. Considering that no ordinary remedies were available for contesting the appellate body's decision, an administrative case was initiated against the decision of the body of first instance. The case was filed to the Administrative Court of the Republic of Slovenia on 10 April 2019. Due to COVID-19 the process was postponed, and the litigation is still in progress, and the court has not set a hearing date yet.

The Company considers the aforementioned legal proceedings as insufficiently grounded, therefore no accruals in these respects have been recognized.

Contingent tax liabilities

At the moment of distribution of profits generated after 1 January 2018, the Company will calculate corporate income tax in the amount of 20/80 from net amount payable to shareholders. Contingent tax liabilities as at 31 December 2020 are EUR 7.1 million (31.12.2019: EUR 4.8 million).

(28) Guarantees issued

The Company has issued a guarantee to AS Luminor Bank Latvian branch for securing liabilities of its related company S.P.I. Spirits (Cyprus) Ltd., which arose out of the overdraft agreement signed in July 2007 and extension amendments thereto. In January 2019, the initial amount of the agreement was converted from the US dollar to the euro and now is fixed as EUR 13.27 million. The guarantee will be valid till the complete settlement of the liabilities until 31 January 2022.

The Company together with other group companies have provided security for liabilities of the Parent company Amber Beverage Group Holding S.à r.l. towards AS Luminor Bank Latvian branch under an overdraft agreement of 19 December 2018, with the maximum overdraft limit amounting to EUR 22.7 million.

The Company together with other group companies have provided security for liabilities of the Parent company Amber Beverage Group Holding S.à r.l. towards AS Luminor Bank Latvian branch regarding the financing of the purchase of Fabrica de Tequilas Finos S.A. de C.V., which is a tequila manufacturing company in Mexico, which arise out of a novation agreement signed on 19 December 2018. The maximum secured limit is EUR 9.2 million.

On 27 April 2018, the Company's Parent company Amber Beverage Group Holding S.à r.l. signed a loan agreement with AS Luminor Bank Latvian branch to finance the purchase of Think Spirits Pty Ltd.

As a result of the refinancing of the Group's liabilities towards AS Swedbank, on 3 December 2019 the Company's Parent company Amber Beverage Group Holding S.à r.l. signed with Credit Suisse AG an agreement on a loan of EUR 27 million.

A pledge on the Company's movable properties, a mortgage on most of the Company's real estate and a guarantee have been registered as security to aforementioned liabilities of the Parent company. The security will be valid till the complete settlement of the liabilities under the agreements.

III. OTHER NOTES (continued)

(28) Guarantees issued (continued)

According to agreements, the Company receives remuneration from the Parent company for the collateral provided as a percentage of the total collateral value. Interest rates for the issued guarantees vary from 0.34% to 6.3% depending on the number of guarantors securing respective loans. If loans are guaranteed by multiple parties, the interest rate is calculated on a proportionate basis, depending on the value of assets of the guarantors.

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

The most of the Company's movable properties and real estate have been pledged in favour to Credit Suisse AG as security for the loan obtained at the Group level. According to agreements, the Company receives remuneration from the parent for the collateral provided as a percentage of the total collateral value.

Information about net book value of real estate and assets under commercial pledge in Note 13.

(29) Financial assets and financial liabilities

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

The Company holds the following financial instruments:

On 31 December 2020

	Financial assets at amortised cost	**Financial liabilities at amortised cost**	**Total**
	EUR	**EUR**	**EUR**
Financial assets:			
Loans to related parties	72 424 438	-	**72 424 438**
Cash and cash equivalents	279 563	-	**279 563**
Trade and other receivables	53 856 728	-	**53 856 728**
	126 560 729	**-**	**126 560 729**
Financial liabilities:			
Borrowings:			
(i) Lease liabilities	-	(1 707 457)	**(1 707 457)**
(ii) Loans from credit institutions	-	(1 201 630)	**(1 201 630)**
Trade payables	-	(6 961 187)	**(6 961 187)**
	-	**(9 870 274)**	**(9 870 274)**

III. OTHER NOTES (continued)

(29) Financial assets and financial liabilities (continued)

On 31 December 2019

	Financial assets at amortised cost	**Financial liabilities at amortised cost**	**Total**
	EUR	**EUR**	**EUR**
Financial assets:			
Loans to related parties	68 263 719	-	**68 263 719**
Cash and cash equivalents	833 329	-	**833 329**
Trade and other receivables	49 302 544	-	**49 302 544**
	118 399 592	**-**	**118 399 592**
Financial liabilities:			
Borrowings:			
(i) Lease liabilities	-	(2 274 523)	**(2 274 523)**
(ii) Loans from credit institutions	-	(1 346 415)	**(1 346 415)**
Trade payables	-	(7 139 542)	**(7 139 542)**
	-	**(10 760 480)**	**(10 760 480)**

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

(30) Financial and capital risk management

Fair value of financial assets and financial liabilities

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

Fair value hierarchy

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

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

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

III. OTHER NOTES (continued)

(30) Financial and capital risk management (continued)

On 31 December 2020

	Level 1	Level 2	Level 3	Total
	EUR	EUR	EUR	EUR
Financial assets:				
Loans to related parties	-	-	72 424 438	**72 424 438**
Cash and cash equivalents	-	279 563	-	**279 563**
Trade and other receivables	-	-	53 981 728	**53 981 728**
	-	**279 563**	**126 406 166**	**126 685 729**
Financial liabilities:				
Borrowings:				
(i) Lease liabilities	-	-	(1 707 457)	**(1 707 457)**
(ii) Loans from credit institutions	-	-	(1 201 630)	**(1 201 630)**
Trade payables	-	-	(6 961 187)	**(6 961 187)**
	-	**-**	**(9 870 274)**	**(9 870 274)**

On 31 December 2019

	Level 1	Level 2	Level 3	Total
	EUR	EUR	EUR	EUR
Financial assets:				
Loans to related parties	-	-	68 263 719	**68 263 719**
Cash and cash equivalents	-	833 329	-	**833 329**
Trade and other receivables	-	-	49 302 544	**49 302 544**
	-	**833 329**	**117 566 263**	**118 399 592**
Financial liabilities:				
Borrowings:				
(i) Lease liabilities	-	-	(2 274 523)	**(2 274 523)**
(ii) Loans from credit institutions	-	-	(1 346 415)	**(1 346 415)**
Trade payables	-	-	(7 139 542)	**(7 139 542)**
	-	**-**	**(10 760 480)**	**(10 760 480)**

III. OTHER NOTES (continued)

(30) Financial and capital risk management (continued)

Foreign exchange risks

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

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

	31.12.2020. EUR	31.12.2019. EUR
Financial assets, USD	471 022	42 425
Financial liabilities, USD	(349 134)	(486 683)
Open position USD, net	**121 888**	**(444 258)**
Open position USD calculated in euro, net	**99 249**	**(397 049)**
Financial assets, GBP	-	2 928
Financial liabilities, GBP	(57 586)	(39 393)
Open position GBP net	**(57 586)**	**(36 465)**
Open position GBP calculated in euro, net	**(63 767)**	**(42 795)**
Financial assets, RUB	463 241	-
Open position RUB, net	**463 241**	-
Open position RUB calculated in euro, net	**5 041**	-

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

	2020		2019	
	Change in exchange rates	**Effect on equity EUR**	**Change in exchange rates**	**Effect on equity EUR**
USD	+10%	(9 925)	+10%	39 705
	-10%	9 925	-10%	(39 705)
GBP	+10%	6 377	10%	4 280
	-10%	(6 377)	-10%	(4 280)

Interest rate risks

The Company is exposed to interest rate risk as the main part of the liabilities are interest bearing borrowings with variable interest rate.

	31.12.2020. EUR	31.12.2019. EUR
Financial liabilities with variable interest rate, EUR	(2 909 087)	(3 620 938)
Total financial liabilities, EUR	**(2 909 087)**	**(3 620 938)**

III. OTHER NOTES (continued)

(30) Financial and capital risk management (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest risk on outstanding financial liabilities. According to the current agreements, the variable interest rate is set at 3 months EURIBOR. With all the other variables held constant the Company's profit before tax is affected as follows:

	2020		2019	
	Increase/ decrease in basis points	Effect on profit before tax EUR	Increase/ decrease in basis points	Effect on profit before tax EUR
EUR	+30	(9 795)	+30	(12 357)
	-30	9 795	-30	12 357

Other price risk

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

Credit risk

Financial assets, which potentially expose the Company to a certain degree of credit risk concentration are primarily cash, trade receivables, receivables from the Group companies and loans. The Company's policy provides that the goods are sold, and services provided to customers with appropriate credit history. If there is no independent rating available, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Company. The compliance with credit limits by customers is regularly monitored by line management. For the bank transactions only the local and foreign financial institutions with appropriate ranking are accepted.

Maximum exposure to credit risk:

	31.12.2020. EUR	31.12.2019. EUR
Issued loans to Group companies	72 424 438	68 263 719
Trade receivables - Group companies	52 870 659	47 455 117
Financial guarantees issued	5 133 468	11 624 888
Trade receivables - non-related parties	976 628	1 687 932
Other current assets	153 086	159 495
Cash	279 563	833 329
	131 837 842	**130 024 480**

The largest concentration of credit risk arises from the Group companies' debts: on 31 December 2020 98% of the total trade receivables related to Group companies (31.12.2019: 98%). Taking into account the strong financial position of the Group, no lifetime expected credit loss allowance for receivables from the Group companies have been recognized as the Company's management believes that the credit risk is considered to be immaterial.

III. OTHER NOTES (continued)

(30) Financial and capital risk management (continued)

Trade receivables

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2020 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis, the lifetime expected credit loss allowance as at 31 December 2020 and 31 December 2019 was determined for trade receivables, as follows:

31.12.2020.	Total	Not due	1-90 days	91-180 days	181-270 days	270-360 days	>361 days
Gross carrying amount - Trade receivables	1 156 639	949 088	83 439	-	-	33 542	90 570
ECL rate		3.7%	25.0%	65.0%	100.0%	100.0%	100.0%
ECL allowance	(180 011)	(35 039)	(20 860)	-	-	(33 542)	(90 570)

31.12.2019.	Total	Not due	1-90 days	91-180 days	181-270 days	270-360 days	>361 days
Gross carrying amount - Trade receivables	1 872 494	1 497 491	306 174	29 724	-	-	39 105
ECL rate		3.30%	25.00%	65.00%	100.00%	100.00%	100.00%
ECL allowance	(184 562)	(49 593)	(76 543)	(19 321)	-	-	(39 105)

The closing expected credit loss allowances for trade receivables reconcile to the opening expected credit loss allowances as follow:

	2020 EUR	**2019 EUR**
Balance at the beginning of the year	184 562	82 382
Increase / (decrease) in ECL	(4 551)	102 180
Balance at the end of the year	**180 011**	**184 562**

III. OTHER NOTES (continued)

(30) Financial and capital risk management (continued)

Maturity analysis of receivables from Group companies:

	Gross amount	ECL allowance	Trade receivables, net	split to:	Past due		
				not due	< 90 days	90-180 days	> 180 days
31.12.2020.							
Group companies	52 870 659	-	52 870 659	19 501 938	22 886 459	7 548 635	2 933 628
31.12.2019.							
Group companies	47 455 117	-	47 455 117	19 452 246	14 069 270	4 089 152	9 844 448

Receivables from the related parties do not involve material credit risk as there is no evidence that would indicate expected credit loss

Liquidity risk

The Company manages its liquidity risk by arranging an adequate amount of committed credit and loans, planning payment terms for trade payables, developing and analysing future cash flows comprising both the existing and planned loans, as well as interest payable on such loans. The Company's current assets exceeded its current liabilities by EUR 80 117 219 (31.12.2019: EUR 72 108 603). The Company's management believes that the Company will have sufficient cash resources to ensure appropriate liquidity.

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

On 31 December 2020	**Less than 1 year**	**Between 2 and 5 years**	**Total contractual cash-flows**	**Carrying amount**
	EUR	**EUR**	**EUR**	**EUR**
Interest bearing borrowings	342 789	929 650	1 272 439	1 201 630
Leases	947 762	777 867	1 725 629	1 707 457
Trade payables	5 478 413	-	5 478 413	5 478 413
Payables to related parties	1 482 774	-	1 482 774	1 482 774
	8 251 738	**1 707 517**	**9 959 255**	**9 870 274**

On 31 December 2019	**Less than 1 year**	**Between 2 and 5 years**	**Total contractual cash-flows**	**Carrying amount**
	EUR	**EUR**	**EUR**	**EUR**
Interest bearing borrowings	304 989	1 134 193	1 439 182	1 346 415
Leases	920 349	1 372 346	2 292 695	2 274 523
Trade payables	5 976 204	-	5 976 204	5 976 204
Payables to related parties	1 163 338	-	1 163 338	1 163 338
	8 364 880	**2 506 539**	**10 871 419**	**10 760 480**

III. OTHER NOTES (continued)

(30) Financial and capital risk management (continued)

Capital management

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

The Company's management controls the net debt to equity (gearing ratio). During the reporting year this figure has remained at 2% (2019: 2%), confirming the Company's stability.

	31.12.2020.	**31.12.2019.**
	EUR	**EUR**
Total borrowings (long-term and short-term loans)	2 909 087	3 620 938
Less cash and cash equivalents	(279 563)	(833 329)
Net debt	2 629 524	2 787 609
Equity	133 494 603	124 170 298
Total capital (equity and net loans)	**136 124 127**	**126 957 907**
Net debt to equity	2%	2%
Equity ratio on total assets	79%	80%

	Cash and cash equivalents	**Finance lease due after 1 year**	**Finance lease due within 1 year**	**Borrowings due after 1 year**	**Borrowings due within 1 year**	**Total**
	EUR	**EUR**	**EUR**	**EUR**	**EUR**	**EUR**
Net debt as at 31 December 2018	**12 822**	**(749 734)**	**(386 459)**	**(3 434 883)**	**(1 392 404)**	**(5 950 658)**
Impact of the implementation of IFRS 16	-	(956 607)	(568 183)	-	-	**(1 524 790)**
Net debt as at 01 January 2019	**12 822**	**(1 706 341)**	**(954 642)**	**(3 434 883)**	**(1 392 404)**	**(7 475 448)**
Cash flows	820 507	-	928 335	-	3 480 835	**5 229 677**
Other non-cash movement	-	339 911	(881 786)	2 357 777	(2 357 740)	**(541 838)**
Net debt as at 31 December 2019	**833 329**	**(1 366 430)**	**(908 093)**	**(1 077 106)**	**(269 309)**	**(2 787 609)**
Cash flows	(553 766)	-	762 033	-	144 955	**353 222**
Other non-cash movement	-	594 479	(789 446)	186 422	(186 592)	**(195 137)**
Net debt as at 31 December 2020	**279 563**	**(771 951)**	**(935 506)**	**(890 684)**	**(310 946)**	**(2 629 524)**

III. OTHER NOTES (continued)

(31) Distribution of profit proposed by the Board

Profit share to be distributed	EUR 9 324 305
Proposed profit distribution:	
Keep undistributed	EUR 9 324 305

(32) COVID-19 impact

During preparation of Financial statements, we have considered the outbreak of the COVID-19 (Coronavirus) pandemic and its current and future potential effects on the Company. We have reflected the impact of the outbreak in the measurement of assets and liabilities in the financial statements

(33) Subsequent events

There were no subsequent events since the last date of the financial year until the date of signing of these financial statements, which would have a significant effect on the financial position of the Company as at 31 December 2020.

The Annual Report was prepared by the Chief Accountant Liena Galbaliņa (Amber Beverage Group SIA).

The Financial statements of the Company set out on pages 19 to 58 were signed on 30 April 2021 by:

On behalf of the Board:

____
Intars Geidāns
Chairman of the Board

____
Liena Galbaliņa
Chief accountant
Amber Beverage Group SIA

Independent Auditor's Report

To the shareholders of AS Latvijas balzams

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS Latvijas balzams (the Company) as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Our opinion is consistent with our additional report to the Audit Committee dated 30 April 2021.

What we have audited

The Company's financial statements comprise:

- the income statement for the year ended 31 December 2020;
- the statement of comprehensive income for the year ended 31 December 2020;
- the statement of financial position as at 31 December 2020;
- the statement of changes in equity for the year ended 31 December 2020;
- the cash flow statement for the year ended 31 December 2020; and
- notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

We have not provided non-audit services to the Company in the period from 1 January 2020 to 31 December 2020.

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

Our audit approach

Overview

Materiality - Overall materiality is EUR 687 thousand.

Key audit matter – Inventory valuation as of year end.

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

Materiality

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

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

Overall materiality	EUR 687 thousand
How we determined it	Overall materiality is approximately 1% of total revenue of 2020.
Rationale for the materiality benchmark applied	We chose total revenue as the benchmark because total revenue is the key performance indicator that determines the Company's performance and is monitored by management and investors. We chose 1%, which is consistent with quantitative materiality thresholds used for public interest entities in this sector.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 68.7 thousand, as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

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

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Key audit matter	How our audit addressed the key audit matter
Inventory valuation as of year-end As disclosed in Note 14, as at 31 December 2020 the Company's inventory amounts to EUR 25,459 thousand, EUR 12,592 thousand of which is related to finished goods. Inventory valuation is not considered an area of significant risk for our audit. However, it requires significant time and resources to perform audit owing to its magnitude, and is therefore considered to be a key audit matter. Inventories are stated at the lower of cost and net realisable value (NRV). In case of manufactured inventories and work in progress, cost includes an appropriate share of overheads, allocated based on normal operating capacity. The standard costing process is complicated and involves certain judgement level in the process of allocation of production overheads.	We assessed whether the Company's accounting policies in relation to valuation of inventories comply with IFRS. We have tested the design and operating effectiveness of key controls in relation to inventory. We selected a sample of internally produced finished goods and reconciled their cost in the accounting system to their standard cost calculation. We further verified that the cost of finished goods determined by the standard costing did not materially differ from the cost determined by actual production costs incurred during the reporting period. We randomly selected finished goods items and compared their book value to the subsequent selling price after the year end to identify whether there the selling price of those selected items was lower than the book value. We analysed obsolescence data and rates applied in calculations of inventories allowance and compared the inventories allowance to the historical actual write-off amounts. We reviewed the disclosures made in Note 14 to the financial statements.

Reporting on other information including the Report of the Management

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

- the Report of the Management (including Non-financial Statement), as set out on pages 4 to 16 of the accompanying Annual Report,
- the Statement of the Managements' Responsibility, as set out on page 18 of the accompanying Annual Report,
- the Statement of Corporate Governance, set out in separate statement prepared and signed by the Company's management on 30 April 2021 and available on the Company's website http://www.lb.lv/ as at the date of this audit report,
- the Remuneration Report, set out in separate statement prepared and signed by the Company's management on 30 April 2021 and available on the Company's website http://www.lb.lv/ as at the date of this audit report,
- Information on the Company, as set out on page 3 of the accompanying Annual Report,

but does not include the financial statements and our auditor's report thereon.

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

In accordance with the Law on Audit Services of the Republic of Latvia with respect to the Statement of Corporate Governance, our responsibility is to consider whether the Statement of Corporate Governance includes the information required in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and whether it includes the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.

Furthermore, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 59.4 of the Financial Instruments Market Law and whether we have identified material inconsistencies with the financial information included in the annual report.

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

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Report of the Management has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and
- the Statement of Corporate Governance, prepared and signed by the Company's management on 30 April 2021, available on the Company's website http://www.lb.lv/ as at the date of this audit report, includes, the information in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.
- the Remuneration Report, prepared and signed by the Company's management on 30 April 2021, available on the Company's website http://www.lb.lv/ as at the date of this audit report, includes the information in accordance with Article 59.4 of the Financial Instruments Market Law and we have not identified material inconsistencies with the financial information included in the annual report.

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

Appointment

We were first appointed as auditors of the Company by shareholders' resolution on 21 May 2015. Our appointment has been renewed annually by shareholder's resolution representing a total period of uninterrupted engagement appointment of 6 years. Our appointment for the year ended 31 December 2020 was by resolution of general meeting of shareholders dated 7 July 2020.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

Jana Smirnova
Member of the Board
Certified auditor in charge
Certificate No. 188

Riga, Latvia
30 April 2021

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