



JSC LATVIJAS BALZAMS

(Registration number 40003031873)

UNAUDITED CONDENSED FINANCIAL STATEMENTS

for the first three months of 2020

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

JSC Latvijas balzams
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INFORMATION ON THE COMPANY

Name of the Company	Latvijas balzams
Legal status of the Company	Joint Stock Company
Number, place and date of registration	Companies register No. 40003031873 Riga, 2 October 1991 Re-registered on 20 October 1998 Commercial Register Riga, 19 June 2014
Address	A. Čaka Street 160 Riga, LV- 1012 Latvia
Main business activities	Production of alcoholic beverages NACE2 11.01
Major shareholder	Amber Beverage Group Holding S.à r.l. (89.99%)
Names and positions of the Council Members	Rolands Gulbis – Chairman of the Council Petr Aven – Member of the Council Valizhan Abidov – Vice Chairman of the Council Aleksandrs Maslo - Member of the Council Velga Celmiņa - Member of the Council
Names and positions of the Board Members	Intars Geidāns – Chairman of the Board Jekaterina Stūģe – Member of the Board (until 26.05.2020) Sergejs Ļimarenko - Member of the Board (from 09.04.2020) Ronalds Žarinovs – Member of the Board (until 09.04.2020)

REPORT OF THE MANAGEMENT

Type of operations

AS Latvijas balzams (hereinafter also - the Company) is a leading producer of alcoholic beverages in the Baltic states. The Company was established in 1900 as Riga's first state alcohol warehouse and has been operating under the current name since 1970. 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 from 7 May 2018. The mission of AS Latvijas balzams is "Excellence in everything we do".

Nowadays AS Latvijas balzams is operating two alcohol production facilities in Riga: a factory for the production of strong alcoholic beverages and a factory for the production of sparkling wines and light alcoholic beverages. These factories produce most types of alcoholic beverages, such as sparkling wines, fortified wines, ciders, RTDs (ready to drink), vodka, liqueurs, brandy, gin, 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.

At present, AS Latvijas balzams has a range of more than 100 different brands. Its products are exported to more than 175 export markets as mediated by SPI Group and to more than 42 markets via the Company's direct export route.

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

Logistics services represent a small but still significant part of the Company's business; this competence has been increasingly developing over the last years. For the most part, services are rendered to related companies, but the volume of services, such as transit assurance services, bonded warehouse services, logistics services, value added services, picking, etc., provided to other enterprises of the alcohol industry is growing. The utilization of available resources has become effective owing to our targeted efforts.

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

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

Performance of the Company during the reporting period

Financial performance

The unaudited net revenue of the Company for the first quarter of 2020 reached EUR 15.9 million, 0.3% up against first quarter 2019, which is predominantly owing to changes in sold product mix.

The unaudited net profit for the reporting period is EUR 0.64 million, which is 37% less than first quarter 2019. Changes of the net profit indicator were mainly driven by price changes in several categories of key raw materials, sold product mix, salary changes and one-off personnel costs related to restructuring of business due to COVID-19 impact.

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REPORT OF THE MANAGEMENT (continued)

The operating profit for the first quarter of 2020 amounts to EUR 0.2 million, which is less than first quarter 2019 (EUR 0.5 million). The profit/turnover for the first quarter of 2020 is 0.9 % (2019: 3.3%).

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

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

	31.03.2020	31.03.2019	31.03.2018
ROA*	0.4%	0.7%	0.5%
ROE**	0.5%	0.9%	0.7%

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

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

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

	01.01.2020- 31.03.2020	01.01.2019- 31.03.2019	01.01.2018- 31.03.2018
		EUR 000	EUR 000
EBITDA*	847	1 187	865
EBIT **	151	524	444

* EBIT = earnings before interest and taxes

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

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

JSC Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid taxes of EUR 17.0 million to the state budget, including excise duty amounting to EUR 14.0 million.

Non-financial performance and activities for the reporting year

Apart from the financial indicators referred to in these financial statements, the Company is using the following comparative indicators for the purposes of operational analysis: RFT (*right first time*) and OTIF (*on time in full*) & quality. RFT shows the share of products manufactured right on the first time. During quarter 1 2020, RFT reached 99,0%, which is improvement compared to 2019. The OTIF result for the reporting period in 2020 is 96,1%, which is a significant improvement comparing to same period 2019.

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 the regulatory framework.

Stock and fund market

In the first quarter of 2020, the Company's share price fluctuated from EUR 7.05 to EUR 11.40 per share mainly due to the Covid-19 pandemic.



The Management Board and the Supervisory Board do not own the shares of AS Latvijas balzams.

Financial risk management

In the ordinary course of business, JSC Latvijas balzams is exposed to a variety of financial risks, including credit risk, liquidity risk and interest rate risk. The Company's management handles financial risks on an ongoing basis in order to minimize their potential adverse effects on the financial performance of the Company.

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

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

REPORT OF THE MANAGEMENT (continued)

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

	2020	2019	2018
Current ratio*	3.25	2.64	2.54
Quick ratio**	2.48	1.95	1.92

* Current ratio = current assets / current liabilities

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

Events after the reporting date

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

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

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

With a view to minimizing the impact of the pandemic, the management team of AS Latvijas balzams has rapidly curtailed costs, revised the terms of cooperation with suppliers and adapted the supply chain to the new situation. Unfortunately, the Company has been forced to suspend the activities of the Tour center of AS Latvijas balzams.

Providing additional workload for the employees of AS Latvijas balzams and reducing the market deficit during the Covid-19 pandemic, the Company started production of a new product - hand and surface disinfectants VIRUDES. In Latvia, this is so far the only case when a producer of alcoholic beverages also ensures the production of disinfectants. At a time when disinfectants have become a commodity in short supply, the Company considers it as its duty to respond to the call of the Ministry of Health to ensure the availability of these commodities.

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

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

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

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Future prospects

In 2020, AS Latvijas balzams will continue improving the efficiency of production, with a focus on purchase, planning and infrastructure improvements to support its goal, which is to deliver quality products with a competitive cost advantage.

During the first quarter of 2020, following projects have been finished:

- the installation of semi-automated depalletizing equipment;
- the installation of a new washer for the plant in Briāna Street.

To this end, the work on the following projects will be continued in 2020:

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

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

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



Intars Geidāns
Chairman of the Board
Riga, 29 May 2020

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STATEMENT OF THE MANagements' RESPONSIBILITY

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

The Management Report contains truthful information.



Intars Geidāns
Chairman of the Board
Riga, 29 May 2020

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INCOME STATEMENT

	Notes	01.01.2020- 31.03.2020 EUR	01.01.2019- 31.03.2019 EUR
Revenue	3	15 946 127	15 893 149
Cost of sales	4	(13 198 526)	(12 845 940)
Gross profit		2 747 601	3 047 209
Distribution expenses	5	(1 594 123)	(1 484 236)
Administrative expenses	6	(1 124 742)	(1 179 589)
Other operating income		323 977	247 900
Other operating expenses		(201 316)	(107 686)
Finance income		512 435	549 417
Finance expenses		(23 574)	(54 929)
Net profit		640 258	1 018 086

STATEMENT OF COMPREHENSIVE INCOME

	01.01.2020- 31.03.2020 EUR	01.01.2019- 31.03.2019 EUR
Net profit	640 258	1 018 086
Total comprehensive income for the period	640 258	1 018 086

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STATEMENT OF FINANCIAL POSITION

	31.03.2020	31.12.2019
	EUR	EUR
<u>ASSETS</u>		
Non-current assets		
Intangible assets	127 789	196 907
Property, plant and equipment	12 831 267	12 373 308
Right-of-use assets	2 896 245	3 091 025
Investment property	1 782 492	1 808 421
Loans to group companies	36 660 642	36 660 642
Other non current assets	321 384	374 930
Total non-current assets:	54 619 819	54 505 233
Current assets		
Inventories	24 283 063	19 622 090
Trade receivables	936 537	1 687 932
Receivables from group companies	39 980 133	47 455 117
Loans to group companies within the Group account	36 651 030	31 603 077
Other current assets	463 624	298 982
Corporate income tax	12 590	12 590
Cash and cash equivalents	2 357 370	833 329
Total current assets:	104 684 347	101 513 117
<u>Total assets</u>	<u>159 304 166</u>	<u>156 018 350</u>
<u>EQUITY AND LIABILITIES</u>		
Equity		
Share capital	10 495 660	10 495 660
Share premium	87 887	87 887
Reserves	2 318 823	2 318 823
Retained earnings	111 908 186	111 267 928
Total equity:	124 810 556	124 170 298
Liabilities		
Non-current liabilities		
Borrowings	2 443 536	2 443 536
Total non-current liabilities:	2 443 536	2 443 536
Current liabilities		
Borrowings	890 282	1 177 402
Trade payables	6 672 423	5 976 204
Payables to group companies	3 195 863	1 163 338
Taxes payable	19 466 231	18 882 314
Other liabilities	1 825 275	2 205 258
Total current liabilities:	32 050 074	29 404 516
Total liabilities:	34 493 610	31 848 052
<u>Total equity and liabilities</u>	<u>159 304 166</u>	<u>156 018 350</u>

Intars Geidāns
Chairman of the Board
Riga, 29 May 2020



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STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Reserves	Revaluation reserves of derivative financial instrument s	Retained earnings	Total
	EUR	EUR	EUR	EUR	EUR	EUR
31.12.2018.	10 495 660	87 887	2 318 823	(2 353)	101 221 866	114 121 883
Net profit	-	-	-	-	1 018 086	1 018 086
Total comprehensive income	-	-	-	-	1 018 086	1 018 086
31.03.2019.	10 495 660	87 887	2 318 823	(2 353)	102 239 951	115 139 968
31.12.2019.	10 495 660	87 887	2 318 823	-	111 267 928	124 170 298
Net profit	-	-	-	-	640 258	640 258
Total comprehensive income	-	-	-	-	640 258	640 258
31.03.2020.	10 495 660	87 887	2 318 823	-	111 908 186	124 810 556

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CASH FLOW STATEMENT

	01.01.2020- 31.03.2020	01.01.2019- 31.03.2019
	EUR	EUR
Cash flow from operating activities		
Profit for the period before taxation	640 258	1 018 086
<u>Adjustments for:</u>		
Depreciation and amortisation	695 359	663 677
Net (profit) / loss on sales and disposal of property, plant and equipment and intangibles	(283)	(1 221)
Accruals	39 590	(30 000)
Interest income	(512 435)	(549 417)
Interest expense	23 574	54 929
<u>Changes in working capital:</u>		
Increase in inventories	(4 700 563)	(1 198 055)
Decrease in trade and other receivables	8 163 256	22 913 114
Increase / (decrease) in trade and other payables	3 025 698	(225 570)
Cash generated from operations	7 374 454	22 645 543
Interest paid	(22 481)	(31 972)
Net cash generated from operating activities	7 351 973	22 613 571
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	(863 491)	(1 905 792)
Proceeds from sales of property, plant and equipment	283	2 070
Changes in credit lines (net)	(4 583 491)	(20 256 945)
Net cash flow (used in) / generated from investing activities	(5 446 699)	(22 160 667)
Cash flow from financing activities		
Borrowings repaid	(67 319)	(348 084)
Lease payments	(313 914)	(111 901)
Net cash flow used in financing activities	(381 233)	(459 985)
Net increase / (decrease) in cash and cash equivalents	1 524 041	(7 081)
Cash and cash equivalents at the beginning of the period	833 329	12 822
Cash and cash equivalents at the end of the period	2 357 370	5 741

NOTES

(1) GENERAL INFORMATION

JSC Latvijas balzams (the Company) is a joint-stock company, which is incorporated and has its registered office in Latvia. The Company was founded in 1900 but acquired its current name in 1970. The registered address of the Company is at 160 A. Čaka Street, Riga, LV-1012, Republic of Latvia. Shares of JSC Latvijas balzams are listed on the Baltic Secondary List of the Nasdaq Riga AS.

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

(2) ACCOUNTING POLICIES

Basis for preparation

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

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

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

Changes in accounting policy and disclosures

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

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(3) REVENUE

a) Operation and reportable segment

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

b) Revenue by type

	01.01.2020- 31.03.2020	01.01.2019- 31.03.2019
	EUR	EUR
Production of alcoholic beverages	14 784 538	14 864 734
Sales of other goods and materials	30 789	1 947
Other services	1 130 800	1 026 468
	<u>15 946 127</u>	<u>15 893 149</u>

c) Geographical segmentation

	01.01.2020- 31.03.2020	01.01.2019- 31.03.2019
	EUR	EUR
Cyprus	9 177 757	8 367 385
Latvia	5 262 444	5 574 303
Lithuania	1 095 228	1 516 613
Estonia	201 657	172 009
Romania	44 228	64 230
Other	164 813	198 610
	<u>15 946 127</u>	<u>15 893 149</u>

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(4) COST OF SALES

	01.01.2020- 31.03.2020	01.01.2019- 31.03.2019
	EUR	EUR
Raw materials and consumables	9 917 807	9 741 126
Salary expense	1 465 589	1 388 739
The state compulsory social insurance contributions	351 152	332 223
Depreciation of non-current assets	328 875	295 559
Energy resources	226 688	266 878
Repair and maintenance expenses	172 402	175 939
Management of packaging	129 000	122 403
Goods purchased	32 498	1 781
Insurance payments	9 675	10 562
Laboratory expenses	7 860	9 156
Accrued expenses on unused annual leave	(20 681)	32 035
Other costs	577 661	469 539
	<u>13 198 526</u>	<u>12 845 940</u>

(5) DISTRIBUTION EXPENSES

	01.01.2020- 31.03.2020	01.01.2019- 31.03.2019
	EUR	EUR
Salary expenses	429 584	458 450
Advertising and sales promotion expenses	424 755	278 622
Depreciation of non-current assets	241 320	227 324
Transportation expenses	146 918	143 189
Warehouse maintenance expenses	121 993	135 664
The state compulsory social insurance contributions	103 022	110 097
Other expenses	126 531	130 890
	<u>1 594 123</u>	<u>1 484 236</u>

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(6) ADMINISTRATIVE EXPENSES

	01.01.2020- 31.03.2020	01.01.2019- 31.03.2019
	EUR	EUR
Management services and expenses	493 910	515 508
Salary expenses	187 957	157 650
Depreciation of non-current assets	125 164	140 794
Computer maintenance	57 157	53 558
The state compulsory social insurance contributions	44 260	37 473
Real estate tax	40 118	39 739
Professional service costs	24 820	39 254
Transport costs	9 085	10 471
Office expenses	4 597	3 655
Communication and postal expenses	3 998	7 623
Representation expenses	3 997	6 122
Bank commissions	2 416	4 569
Business trip expenses	1 090	1 619
Other expenses	126 173	161 554
	<u>1 124 742</u>	<u>1 179 589</u>

(7) SUBSEQUENT EVENTS

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

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

- orders from European countries that are most hit by the spread of the virus and have the strictest restrictions introduced, such as Spain, Italy, the UK, etc., have plunged;
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There were no other subsequent events since the last date of the financial year until the date of signing of these financial statements, which would have a significant effect on the financial position of the Company as at 31 March 2020.