AS LATVIJAS BALZAMS

ANNUAL REPORT 2019

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. 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 Valizhan Abidov – Vice Chairman of the Council (from 27.06.2019), Member of the Council (until 27.06.2019) Pjotr Aven – Member of the Council Aleksandrs Maslo - Member of the Council (from 27.06.2019) Velga Celmiņa - Member of the Council (from 27.06.2019) Oļegs Alainis – Vice Chairman of the Council (until 27.06.2019) Sergejs Ļimarenko – Member of the Council (until 27.06.2019)
Names and positions of the Board members:	Intars Geidāns – Chairman of the Board Jekaterina Stuģe – Member of the Board Sergejs Ļimarenko - Member of the Board (from 09.04.2020) 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 Latvija Certified auditor in charge: Jana Smirnova Certified auditor Cerificate 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 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.

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, 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".

At present, AS Latvijas balzams has a range of more than 100 different brands. Its products are exported to more than 180 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. More information about corporate social responsibility activities undertaken by the Company is available in thematic subsections.

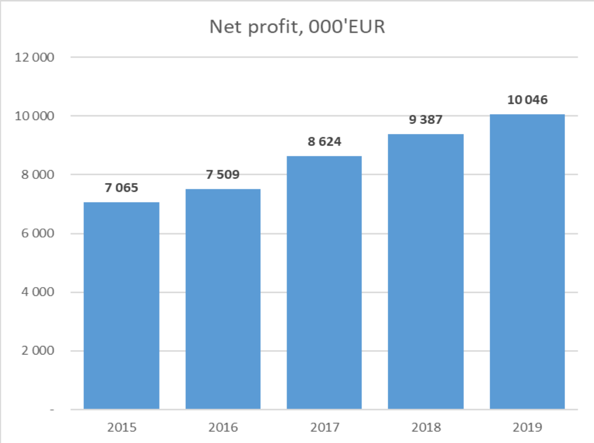
Performance of the Company during the financial year

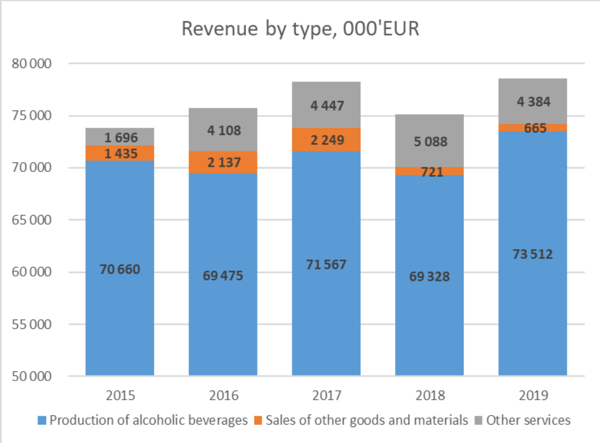
Financial performance

The audited net revenue of the Company for the year 2019 reached EUR 78.6 million, 4.6% up against 2018, which is predominantly owing to increased order and sales volumes from key customers and markets, including Latvian customers, and Bennet Distributors UAB.

The audited net profit for the reporting period is EUR 10.05 million, which is 7% more than in 2018. Changes of the net profit indicator were mainly driven by the improvement of sales and profitability, 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, chiefly 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 2019 amounts to EUR 8.0 million, which is in line with the previous year's result in terms of the profit/revenue ratio: 10.1% in 2018, 10.2% in the reporting year.

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 five years:

	2019	**2018**	**2017**	**2016**	**2015**
ROA*	6.5%	6.4%	6.1%	6.7%	5.9%
ROE**	8.4%	8.6%	8.2%	9.2%	8.7%

* 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 five years are as follows:

	2019 000' EUR	**2018 000' EUR**	**2017 000' EUR**	**2016 000' EUR**	**2015 000' EUR**
EBITDA*	10 984	9 443	10 036	11 098	8 910
EBIT **	7 995	7 595	8 368	9 701	7 468

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

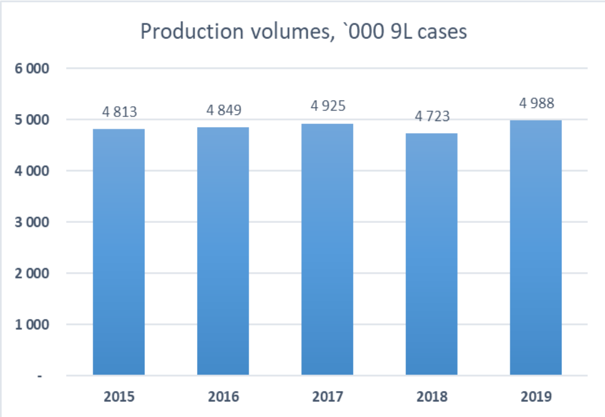
The Company's management uses the previously reported alternative performance metrics in assessing the Company's performance for a particular financial period and in making decisions.

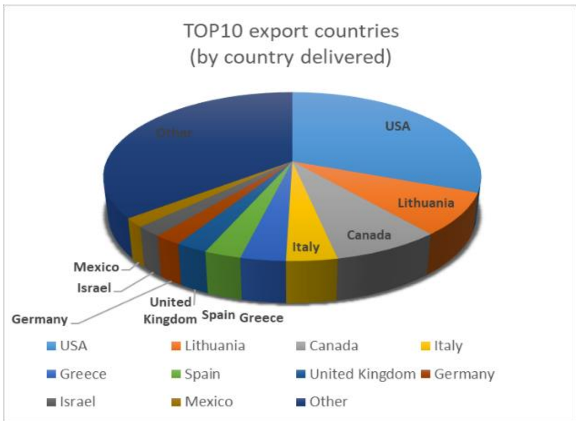
AS Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid taxes of EUR 72.3 million into the state budget, including excise duty amounting to EUR 57.1 million.

REPORT OF THE MANAGEMENT (continued)

<u>Non-financial performance and activities for the reporting year</u>

In 2019, production volumes grew from the year 2018. Even though our 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, KAH, Bayou, Arinzano, Achaval Ferrer) in Europe and Russia as of the year 2016. In 2019, the portfolio was supplemented with new Stoli Group's brands (Se Busca, Cenote, Kentucky Owl).

In 2019, the Company continued investing in production, specifically focusing on the improvement of efficiency and 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 2019 were EUR 3.1 million. Main investment projects were:

- the installation of automated product recording equipment at the plant in Čaka Street;
- the installation of product quality control equipment for high-speed lines;
- the installation of automated box palletization equipment at the warehouse in Čaka Street;
- the introduction of a new bottle shape for the popular Moskovskaya® Vodka brand;
- the set-up of Factory Tour center in the territory of the plant in Čaka Street;
- the improvement of the carbonated drink production line;
- various investments under the LEAN project;
- etc.

In addition, AS Latvijas balzams has undergone a quality management system re-certification audit, with the result that the Company has obtained a certificate of conformity of the system with the new version of ISO 9001:2015.

Apart from financial indicators referred to in the 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 high-quality products manufactured right the first time. RTF for 2019 reached 97.8%, which is an improvement compared to the previous year. OTIF & quality is a combined indicator demonstrating the execution of customers' orders within the required time-frame and to the required extent and the ratio of claims and complaints received to sales. As a rule, the industry controls OTIF and quality separately, but we have combined these indicators to simplify our operations. The result for the year 2019 was 89.0%, which is below the 91.5% target. In 2019, the accounting methodology for this indicator was changed by introducing performance against both the order inflow and the service level standard, with the result that this indicator has become stricter and the results achieved in 2019 are not directly comparable to those of the previous reporting period.

REPORT OF THE MANAGEMENT (continued)

During 2019, the Company continued introducing new products and proceeded with packaging renewal projects. Following global market tendencies, AS Latvijas balzams started the production of a premium pink gin – Cross Keys Gin® Black Currant. Meanwhile, one of Latvia's most legendary brands – Riga Black Balsam® - successfully responded to increasing global coffee trends. The fifth version of this old drink brand – Riga Black Balsam® Espresso – was offered to the market at the beginning of last summer. Supported by a new global campaign spanning more than 65 countries across the world, popular Moskovskaya® Vodka brand with a renewed packaging design came up with a special response to the pink gin trend - Moskovskaya® Pink Vodka. The sparkling Cosmopolitan Diva® line saw its design refreshed by premiumizing the product using a new design for the bottle, cork and beverage overall. The production of a new product Cosmopolitan Diva® Passion Fruit Fusion with tempting tropical flavour and sweet-and-sour taste was started.

The Company has always been working to develop its presence also in the production of private label products. As an affirmation of high production standards, AS Latvijas balzams has been granted an opportunity to produce one of Russia's biggest vodka brands – Five Lakes (*Пять Озер*). The Company ensures the bottling of this product for the client's foreign customers. The production of this brand has been growing considerably as a result of cooperating with Amber Beverage Group, which has taken over the distribution function for this product on the Baltic market.

Corporate social responsibility

Social responsibility is a significant part of the business model adopted by AS Latvijas balzams. AS Latvijas balzams conducts responsible and sustainable business operations, defining its three main spheres 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

REPORT OF THE MANAGEMENT (continued)

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

- 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)

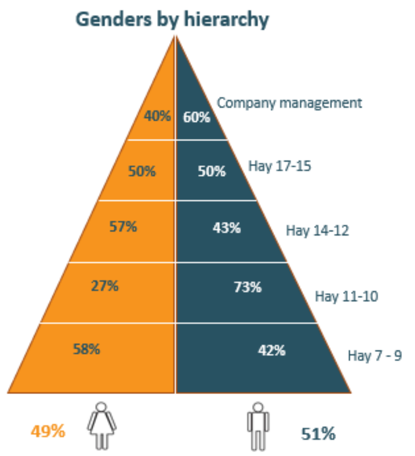
Activities implemented to achieve these goals are presented in this report below for responsibility to the parties affected by the Company and for responsibility for the environment, specifying introduced SDGs.

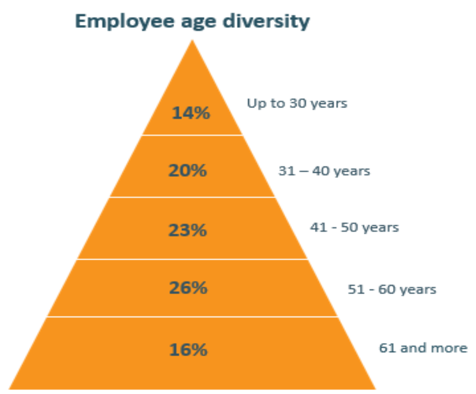
Responsibility to the parties affected by the Company

The priority of the Company's corporate social responsibility (hereinafter - CSR) is people: 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 provided more than 600 jobs in 2019. 99% of the staff are employed on the basis of permanent employment contracts. The Company respects the principle of equality. Of the persons employed in 2019, 49% are women and 51% are men. The world's recommended good practice for an optimal proportion of gender equality in companies is 60% to 40%, so the indicators of AS Latvijas balzams are really good. Gender equality is also ensured in the AS Latvijas balzams hierarchy, with 40% women and 60% men holding management positions in 2019. 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 100% to all employees. The Company provides gifts 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 and in situations when material losses are suffered. In accordance with the collective bargaining agreement, AS Latvijas balzams continues to provide life-long pensions to four former employees who have significantly contributed to the development and growth of the Company.

REPORT OF THE MANAGEMENT (continued)

Employee 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. It is also reminded regularly that the staff have to use appropriate workwear and personal protective equipment and observe minimal hygiene requirements to prevent any risk of product contamination. The Company also 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.

AS Latvijas balzams cares for the workplace environment, therefore, several Company's offices and production facilities were improved also last year. This includes repairs of the Biochemistry Division, the Dry Raw Materials Warehouse, the office of the Financial Department, bottling staff's rooms, etc. The plant in Briāna Street had a pallet jack and a vertical lift gate repaired. Asphalt road surfaces were repaired or replaced at both plants. A total of more than EUR 102 000 were spent in 2019 to improve the environment for employees.

Since the Company cares to have healthy and work-capable employees, in 2019 it spent more than EUR 73 000 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, AS Latvijas balzams carried out a variety of systematic training sessions in 2019. 18% of all the Company's employees participated in training in the previous year, while the reporting year saw 33% attendance. This means that the target set by the Company last year, which was to increase the number of training participants by 2%, has been attained and even surpassed. This was achieved owing to both training held for career and development of the staff and regular training sessions organized at specific intervals according to a training schedule drawn up by the Company. The Company's goal has remained unchanged: to achieve 2% growth of the number of training participants also next year.

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. Since aging employees are an issue for the Company, 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 jobs 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; the overall survey result for the year 2019 was 4.6 (good level) on a 6-point scale. The highest evaluation was given to immediate superiors (5.18 points on a 6-point scale, which is a very good result), goals (4.72 points; employees know and understand corporate goals of the company and its bodies and individual employees' goals) and employer's image (4.85 points). Employees are proud of the Company's products and consider that the Company is a reliable business partner; the survey result for this indicator reached 5.07 points on a 6-point scale.

Fulfilment of SDGs: 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 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).

REPORT OF THE MANAGEMENT (continued)

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 2019, the Company implemented cooperation with suppliers in accordance with the Company's Anti-Corruption Policy and Procurement Procedure; no violations were recorded in 2019.

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 and 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 drafted 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 2019, 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 2019, the Company established a scholarship fund and selected educational sectors and scholarship projects to be supported. The Company will support the granting of scholarships to Riga Technical University and Latvia University of Agriculture starting from 2020.

To facilitate the responsible use of products manufactured by AS Latvijas balzams by 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 9 700 in 2019. The Company is also supporting the educational website www.atbildigi.lv.

REPORT OF THE MANAGEMENT (continued)

During 2019, together with the Latvian Alcohol Industry Association, AS Latvijas balzams continued activities of the socio-educational campaign Would you sell alcohol to your child?, which began two years ago. During the reporting period, the Company jointly with the Latvian Alcohol Industry Association implemented a social responsibility campaign Remember your emotions and not the blackout!. 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.

State

AS Latvijas balzams is one of the largest taxpayers in the country, having paid EUR 72.3 million (including excise duty) into the state budget in 2019. In the course of its operations, the Company maintains continuous cooperation with state oversight institutions, for example the State Revenue Service. In 2019, the Company repeatedly received recognition under the State Revenue Service's In-depth Cooperation Program, or the so-called White List, for implementing transparent company practices. It is especially important that the Company took this ranking at the Gold level, being one of 95 companies among the most responsible taxpayers in the country.

The Company also actively cooperates with Latvia's farmers, purchasing from them raw materials for making legendary beverages, such as Riga Black Balsam®. In 2019, just to make this beverage, AS Latvijas balzams bought from domestic farmers 10.5 tons of dried blueberries, 4.8 tons of dried apples and 750 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 developed by the Company. 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.

The Quality Department of AS Latvijas balzams in cooperation with the Finance Department of SIA Amber Beverage Group has developed a supplier quality cost calculator, which shows additional estimates of costs that are related to downtime or additional work to be done due to the poor quality of raw materials. The goal of the project is to create a supplier history (quality valuation) that can be taken into account in future procurement tenders. Hence, the Company is able to evaluate suppliers in terms of not only prices offered but also actual quality costs.

With a view to optimizing incoming quality control upon the acceptance of new bottles, the existing equipment of the Company's laboratory has been improved and new digital measuring devices have been acquired. A new AlcoTest-RI device measuring alcohol content has been installed at the plant in Čaka Street producing strong alcoholic beverages. Owing to this device, it takes less time to start bottling lines at the beginning of every shift and the workload of laboratory's chemists is reduced.

REPORT OF THE MANAGEMENT (continued)

In the reporting period, a semi-automatic Kjeldahl distillation unit was supplied to the laboratory in Briāna Street for determining the content of alcohol and volatile acids of products. Thanks to the new unit, a 4-5 times decrease in the time required for the analysis of alcohol and volatile acids has been achieved in comparison with methods employed by the Company previously. This unit is also safer in terms of occupational safety. It was decided in 2019 to purchase one more unit to ensure complete and fast analyses.

In 2019, a new Anton Paar CboxQC meter was acquired for measuring the quantity of dissolved oxygen and CO_2 in finished products. The new device checks the quantity of oxygen of products in aluminium cans, which is important because high oxygen content causes cans to corrode. Oxygen is removed from products by means of a deaerator during the production process, and now the laboratory is able to ensure fast and high-quality control of this indicator.

The year 2019 saw further 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 2019 were realized to the extent of 62%. More than 90 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 that had achieved a high level of 5S implementation and were able to sustain this level were nominated every quarter. In 2019, 95 suggestions for improvement provided by employees were implemented (against 145 in 2018). As a result of SMED projects, transportation to several bottling lines was standardized and optimized, thereby allowing the reduction of transportation time of specific installations between 14.3% and 35%.

The consumers of AS Latvijas balzams products are those affected parties for whose satisfaction the Company's employees at the Customer Service Center care every day. The Company ensures an instantaneous feedback link from consumers, using toll-free phone number 80009990. In 2019, 128 complaints, suggestions, reviews or simply questions (compared to 172 in 2018) 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). The 128 feedbacks included 104 complaints, of which only 56% 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 the number of complaints concerning the inadequate quantity of supplies decreased 20% and complaints about the inadequate quality of pallets (wrapping, pallet overturn, etc.) plunged 60%. More positive feedback has been achieved owing to considerable process improvements made by the Company's Logistics Department.

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 2019 promotes lower energy use, reducing the Company's environmental footprint (SDG 12.2). The next energy audit of the Company is scheduled for 2020, and all indicators necessary for the audit were fixed also in 2019. In accordance with the existing requirements, the Company conducts CO_2 emission control, with CO_2 emissions of 2 522.5 tons reported across the Company's territories in 2019. As a member of the Latvian Alcohol Industry

REPORT OF THE MANAGEMENT (continued)

AS Latvijas balzams as one of the members of LANA has signed a cooperation memorandum for the establishment of a deposit system (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 2019, supplies intended for recycling amounted to 841.67 tons, including 106 tons of polyethylene, 378 tons of cardboard, 220 tons of glass and 5.5 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 territory for production processes, and its use of water as a resource is careful and prudent (SDG 6.4). Last year, the Company used 159 206 m^3 of water across all its territories, which is 1.5% more by volume than in 2018, when 156 932 m^3 of water were consumed. This is due to production specifics: the quantity of apple wine materials used in the production of some products increased last year, thereby making the Company more competitive and ensuring lower costs of production.

The Company decided to join the project LIFE Fit for REACH in 2018 and participated in this project also in 2019. As a result, the Company was able to successfully determine all chemicals and mixtures used, count these substances and evaluate hazard produced by them for the environment and employees. The Company identified substances and compounds that could be replaced with those less harmful. In 2020, the Company will continue participation in the project.

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 changes in statutory requirements, ensuring timely informing and education of the staff;
- the ensuring of production continuity by means of the timely planning of production capacity and load;
- the creation of adequate jobs by investing in the development of production, services and human resources by means of relevant training.

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

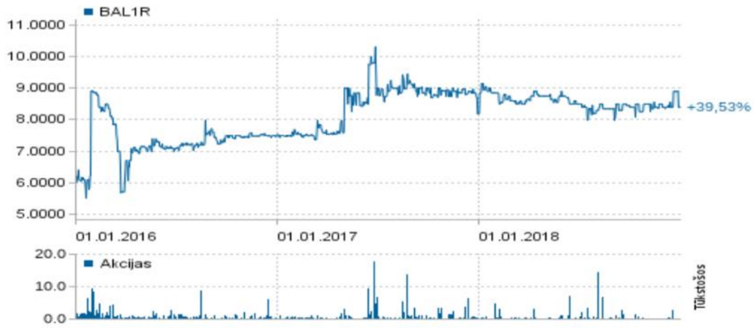
The greatest challenges in 2019 were as follows:

- the retaining of the cost base at the previous level, regardless of constantly rising market prices of resources;
- workforce shortage in Latvia – the unemployment rate dropped to nearly 6% in the second half of 2019;
- the implementation of planned investment projects fully according to the schedule.

REPORT OF THE MANAGEMENT (continued)

Stock and fund market

In 2019, the Company's share price fluctuated from EUR 8.45 to EUR 11.50 per share. In 2019, the average share price was EUR 9.06. The price per share fluctuated between EUR 7.37 and EUR 11.50 during the last three years.



The Management Board and Supervisory Board members do not own the 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 manages 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 information published on the website of the Ministry of Foreign Affairs of the Republic of Latvia. The Company's counterparties in cash transactions are highly reputable local financial institutions.

The Company pursues a prudent liquidity risk management policy, according to which adequate credit resources are ensured to settle liabilities when they fall due. The Company's management manages 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 December 2019, the Company's current assets exceeded its current liabilities by EUR 72.1 million (31 December 2018: EUR 54.6 million). The Company has a strong ability to meet its current liabilities as they fall due. The Company's liquidity ratios for the last three years are as follows:

	2019	**2018**	**2017**
Current ratio*	3.45	2.54	2.34
Quick ratio**	2.77	1.92	1.66

* 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 31.

REPORT OF THE MANAGEMENT (continued)

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 loan repayment holiday for non-current loans issued to the Company (see Note 19).

The COVID-19 pandemic has led to major changes in the daily operations of Latvijas balzams:
- orders from European countries that are most hit by the spread of the virus and have the strictest restrictions introduced, such as Spain, Italy, the UK, etc., have plunged;
- orders from Stoli Group, which is the major customer of Latvijas balzams, have decreased;
- a large number of customers have frozen or deferred their orders;
- customers are delaying their payments or requesting extension of payment deadlines.

Meanwhile, there are also positive changes. For example, sales on the Baltic market have grown and Latvijas balzams has started the production of disinfectants.

With a view to minimizing the impact of the pandemic, the management team of Latvijas balzams has rapidly curtailed costs, reviewed projects in progress and decided on their cancellation or suspension, revised the terms of cooperation with suppliers and adapted the supply chain to the new situation. Unfortunately, the Company has been forced to suspend the activities of the Tour center of Latvijas balzams.

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 December 2019.

Future prospects

In 2020, AS Latvijas balzams will keep focusing on the following:

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

We shall keep the strong focus on our core export brands, i.e., Riga Black Balsam® and Cosmopolitan Diva®, as well as the new 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 2020:
- the installation of semi-automated depalletizing equipment;
- the installation of a new washer for the plant in Briāna Street;
- the introduction of new bottle shapes for RTDs and Grand Cavalier® and Bonaparte brands;
- the launch of the production of carbonated soft drinks;
- the continuation of the LEAN project;
- the improvement of quality of incoming materials.

REPORT OF THE MANAGEMENT (continued)

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, 30 April 2020

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 preparation of these financial statements on page 18 to page 62 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.

Intars Geidāns
Chairman of the Board

Riga, 30 April 2020

FINANCIAL STATEMENTS:

Income Statement

	Notes	2019 EUR	2018 EUR
Revenue	1	78 561 391	75 137 639
Cost of sales	2	(59 841 158)	(57 247 462)
Gross profit		**18 720 233**	**17 890 177**
Distribution expenses	3	(6 718 984)	(6 353 241)
Administrative expenses	4	(4 763 224)	(4 326 555)
Other operating income	5	1 775 111	1 054 617
Other operating expenses	6	(1 017 661)	(669 718)
Finance income	8	2 334 128	2 090 496
Finance expenses	9	(238 366)	(298 476)
Profit before tax		**10 091 237**	**9 387 300**
Corporate income tax	10	(45 175)	-
Net profit		**10 046 062**	**9 387 300**
Earnings per share			
Basic	11	1.34	1.25
Diluted	11	1.34	1.25

Notes on pages 24 to 62 form an integral part of these financial statements.

Statement of Comprehensive Income

	Notes	2019 EUR	2018 EUR
Net profit		**10 046 062**	**9 387 300**
Other comprehensive income			
Items that may be reclassified subsequently to income statement			
Changes in fair value of financial instruments	20	2 353	16 217
Other comprehensive income		**2 353**	**16 217**
Total comprehensive income for the period		**10 048 415**	**9 403 517**

Notes on pages 24 to 62 form an integral part of these financial statements.

Statement of Financial Position

		31.12.2019. EUR	31.12.2018. EUR
ASSETS	**Notes**		
Non-current assets			
Intangible assets	12	196 907	401 388
Property, plant and equipment	13	12 373 308	12 987 295
Right-of-use assets	27	3 091 025	-
Investment property	13	1 808 421	1 912 137
Loans to group companies	26 (i)	36 660 642	38 231 771
Receivables from group companies	26 (i)	-	9 870 000
Other non current assets	16	374 930	258 339
Total non-current assets:		**54 505 233**	**63 660 930**
Current assets			
Inventories	14	19 622 090	21 385 788
Trade receivables	15	1 687 932	1 578 736
Receivables from group companies	26 (j)	47 455 117	63 567 201
Loans to group companies within the Group account	26 (k)	31 603 077	2 867 842
Other current assets	16	298 982	681 693
Corporate income tax		12 590	5 000
Cash and cash equivalents		833 329	12 822
Total current assets:		**101 513 117**	**90 099 082**
Total assets		**156 018 350**	**153 760 012**

Statement of Financial Position

		31.12.2019. EUR	31.12.2018. EUR
EQUITY AND LIABILITIES	**Pielikums**		
Equity			
Share capital	17	10 495 660	10 495 660
Share premium		87 887	87 887
Revalution reserves of derivative financial instruments		-	(2 353)
Reserves	18	2 318 823	2 318 823
Retained earnings		111 267 928	101 221 866
Total equity:		**124 170 298**	**114 121 883**
Liabilities			
Non-current liabilities			
Borrowings	19	2 443 536	4 184 617
Derivative financial instruments	20	-	2 353
Total non-current liabilities:		**2 443 536**	**4 186 970**
Current liabilities			
Borrowings	19	1 177 402	1 778 863
Trade payables		5 976 204	6 402 576
Payables to group companies	26 (I)	1 163 338	2 040 007
Taxes payable	21	18 882 314	22 508 103
Other liabilities	22	2 205 258	2 721 610
Total current liabilities:		**29 404 516**	**35 451 159**
Total liabilities:		**31 848 052**	**39 638 129**
Total equity and liabilities		**156 018 350**	**153 760 012**

Notes on pages 24 to 62 form an integral part of these financial statements.

Intars Geidāns
Chairman of the Board

Riga, 30 April 2020

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**
31.12.2017.	**10 495 660**	**87 887**	**2 318 823**	**(18 570)**	**91 834 566**	**104 718 366**
Net profit	-	-	-	-	9 387 300	9 387 300
Other comprehensive income	-	-	-	16 217	-	16 217
Total comprehensive income	**-**	**-**	**-**	**16 217**	**9 387 300**	**9 403 517**
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**

Notes on pages 24 to 62 form an integral part of these financial statements.

Cash Flow Statement

	Notes	2019 EUR	2018 EUR
Cash flow from operating activities			
Profit for the period before taxation		10 091 237	9 387 300
Adjustments for:			
Deprecition and amortisation	12,13, 27	2 649 326	1 847 603
Net profit on sales and disposal of property, plant and equipment and intangibles		(32 315)	(7 220)
Impairment of long-term investments		339 225	-
Accruals		96 116	(259 935)
Interest income	8	(2 334 128)	(2 090 496)
Interest expense	9	238 366	298 476
Changes in working capital:			
Decrease in inventories		1 667 582	1 876 355
Decrease / (increase) in trade and other receivables		26 652 021	(26 866 660)
(Decrease) / increase in trade and other payables		(5 479 186)	7 412 538
Cash generated from / (used in) operations		**33 888 244**	**(8 402 039)**
Interest paid		(202 834)	(223 786)
Corporate income tax paid		(55 000)	(1 354 543)
Net cash generated from / (used in) operating activities		**33 630 410**	**(9 980 368)**
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets		(3 111 331)	(2 682 242)
Proceeds from sales of property, plant and equipment		53 590	17 588
Loan issued		-	(5 866 516)
Received repayment of loans		1 666 700	3 246 000
Interest received		1 457 093	232 139
Changes in credit lines (net)		(28 466 785)	18 042 003
Net cash (used in) / generated from investing activities		**(28 400 733)**	**12 988 972**
Cash flow from financing activities			
Borrowings repaid		(3 480 835)	(2 673 451)
Lease payments		(928 335)	(455 301)
Net cash used in financing activities		**(4 409 170)**	**(3 128 752)**
Net ncrease / (decrease) in cash and cash equivalents		**820 507**	**(120 148)**
Cash and cash equivalents at the beginnging of the period		**12 822**	**132 970**
Cash and cash equivalents at the end of the period		**833 329**	**12 822**

Notes on pages 24 to 62 form an integral part of these financial statements.

Notes to the Financial Statements

I. GENERAL INFORMATION

The Company is the largest producer of alcohol beverages in the Baltic States. In total, AS Latvijas balzams produces more than 100 different alcoholic beverages. The major shareholder of the Company, who owns 89.99% of the Company's share capital as of 31 December 2019, is Amber Beverage Group Holding 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. Čaka 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 2019 to 31 December 2019.

These financial statements were authorized for issue by the Board of the Company on 30 April 2020, and Chairman of the Board Intars Geidāns signed these for and on behalf of the Board.

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.

The auditor of the Company is certified audit company PricewaterhouseCoopers SIA and certified auditor in charge – Jana Smirnova.

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 at 31 December 2019 the Company meets the criteria for a large company in accordance with the Law On the Annual Financial Statements and Consolidated Financial Statements.

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 Note (20) to accounting policies.

For comparability purposes, some items of the statement of financial position and the income statement for the year ended 31 December 2018 have been reclassified. The most significant reclassification is related to the Receivables from related companies within Current assets of the Statement of Financial Position, where the Loans to group companies within the Group account are disclosed separately, showing the same classification in comparative information.

II. ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

a) New IFRS that became effective on 1 January 2019:

IFRS 16, Leases (hereinafter – IFRS 16) (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees recognize: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Company adopted IFRS 16 using the modified retrospective method, with the date of initial application of 1 January 2019. According to this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company elected to use the transition practical expedient, according to which the standard is applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

The effect of the initial application of IFRS 16 as at 1 January 2019 is as follows:

	01.01.2019. EUR
Assets	
Right-of-use assets	3 595 161
Property, plant and equipment	(2 070 371)
Total assets	**1 524 790**
Liabilities	
Borrowings	1 524 790
Total liabilities	**1 524 790**

The effect of the initial application of IFRS 16 on lease liabilities as at 1 January 2019 is as follows:

Lease liabilities arising from existing finance lease agreements as at 31 December 2018	1 136 193
Non-cancelable operating lease liabilities as at 31 December 2018	583 808
Change in assumptions on future lease payments from existing agreements	1 021 663
Discounting effect	(80 681)
Total lease liabilities as at 1 January 2019	**2 660 983**
including:	
Current portion of lease liabilities	954 642
Non-current portion of lease liabilities	1 706 341

II. ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

a) New IFRS that became effective on 1 January 2019 (continued)**:**

If the Company had not applied IFRS 16, the rent of premises and depreciation of property, plant and equipment included in distribution expenses would be higher by EUR 583 808 and EUR 275 546 respectively, while depreciation of right-of-use assets would be lower by EUR 830 015.

In 2019, the Company also recognized interest expenses of EUR 41 932.

The cash flow effect can be described as a decrease in net cash generated from operating activities and cash from financing activities by EUR 928 335 and EUR 928 335 respectively.

b) The following new and revised standards and interpretations became effective on 1 January 2019, but have no significant impact on the operations of the Company and these financial statements:

Prepayment Features with Negative Compensation - Amendments to IFRS 9 (effective for annual periods beginning on or after 1 January 2019).

IFRIC 23, Uncertainty over Income Tax Treatments (effective for annual periods beginning on or after 1 January 2019).

Annual Improvements to IFRSs 2015-2017 cycle (effective for annual periods beginning on or after 1 January 2019) (effective for IFRS 3, IFRS 11, IAS 12 and IAS 23).

Long-term Interests in Associates and Joint Ventures - Amendments to IAS 28 (effective for annual periods beginning on or after 1 January 2019).

Plan Amendment, Curtailment or Settlement – Amendments to IAS 19 (effective for annual periods beginning on or after 1 January 2019).

c) Certain new standards and interpretations have been issued and become effective for annual periods beginning on or after 1 January 2020 or are not yet endorsed by the European Union:

Amendments to the Conceptual Framework for Financial Reporting (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). 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 annual periods beginning on or after 1 January 2020; not yet adopted by the EU).

Definition of materiality – Amendments to IAS 1 and IAS 8 (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has been 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.

Amendments to IFRS 9 and IFRS 7 – Interest rate benchmark reform (effective for annual periods beginning on or after 1 January 2020; not yet adopted by the EU). 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.

II. ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

c) Certain new standards and interpretations have been issued and become effective for annual periods beginning on or after 1 January 2020 or are not yet endorsed by the European Union (continued)**:**

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

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective date to be determined by the IASB; 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 are recognized when the service has been provided, over time.

Sale of finished goods

Revenue from sale of finished goods 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.

The Company provides retrospective volume rebates to certain customers once the quantity of products purchased during the period exceeds a threshold specified in the contract. Rebates are offset against amounts payable by the customer.

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.

	31.12.2019. EUR	**31.12.2018. EUR**
1 USD	0.8902	0.8734
1 GBP	1.1754	1.1179
1 RUB	0.0126	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.

Land is not depreciated. 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

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 fixed asset categories. 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

All fixed assets, investment properties, right-of use assets and intangible assets of the Company have their estimated useful lives and they are amortised or depreciated. Assets that are subject to amortisation and depreciation are assessed for impairment every time when events or circumstances evidence of probable non-recoverability of their carrying amount. Impairment is recognised as a difference between book value of the asset and its recoverable value. Recoverable amount is the higher of the fair value less costs of disposal and the value in use of the related fixed asset, investment property, intangible asset or right-of-use asset. The decrease is recognised in the income statement. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separate identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

(8) Leases

The accounting policy applied as of 1 January 2019

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. Right-of-use assets are subject to assessing for impairment indicators.

II. ACCOUNTING POLICIES (continued)

(8) Leases (continued)

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.

The accounting policy applied until 31 December 2018

Finance lease

Leases of assets under which the Company has substantially all the risks and rewards or ownership are classified as finance leases. Assets under finance leases are recognized at the inception of the lease at the lower of fair value of the leased assets and the present value of the minimum lease payments. Lease interest payments are included in the income statement by a method to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating lease

Leases under which substantially all of the ownership risks and rewards are granted to the lessor are classified as operating leases. Payments made under operating leases (net of any financial incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(9) Operating lease - the Company as a lessor

Assets that are leased according to operating lease conditions, are disclosed as investment property at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the period of useful life of the appropriate asset, to write off the value of the asset to its estimated residual value at the end of the period of useful life by using the rates specified for similar assets of the Company. Rental income from operating lease including advances received is recognised on a straight-line basis over the period of the lease.

II. ACCOUNTING POLICIES (continued)

(10) 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 and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

(11) 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.

II. ACCOUNTING POLICIES (continued)

(11) Financial instruments (continued)

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. Impairment 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.

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

The Company assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. See also Note 31.

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)

(12) 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.

(13) Share capital

Ordinary shares are classified as share capital.

(14) 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.

(15) Accrued liabilities for unused annual leave

Amount of accumulated unused annual leave 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.

(16) 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 profit or loss statement in the year for which it is assessed. Corporate income tax for the distributed profit and corporate income tax for the conditionally distributed profit is included in the profit and loss statement line item “Corporate income tax for the reporting year” and disclosed by the components in the notes to the financial statements.

(17) 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.

II. ACCOUNTING POLICIES (continued)

(18) 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.

(19) 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 Latvia Republic 71.87% (2018: 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.

(20) Critical accounting estimates and judgments

In order to prepare financial statements in accordance with IFRS it is necessary to make critical estimates. Therefore, preparing these financial statements the Management must make estimates and judgments applying the accounting policies adopted by the Company.

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 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) Provisions for bad debts and inventory obsolescence

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses lifetime expected loss allowance for all 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 loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 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.

When the net realizable value of inventories is lower than its cost, provisions are created to reduce the value of inventories to its net realizable value.

II. ACCOUNTING POLICIES (continued)

(20) Critical accounting estimates and judgments (continued)

c) Determination of the lease term

The carrying amount of lease liabilities is measured on basis of existing lease agreements or management's expectations of expected reasonable extension of existing lease period if such extension option is contractually possible. The lease liabilities are remeasured if there is a modification, a change in the lease term, a change in the lease payments or a change in assessment of an option to purchase the underlying asset at the end of the lease period.

III. OTHER NOTES

(1) Segment Information and net sales

a) Operation and reportable segment

Core activity of the Company is production of alcohol beverages. AS Latvijas balsams produces over 100 different types of beverages. Since the Company's core activity is mainly the production of alcohol beverages, the Company has only one operation and reportable segment.

b) Revenue by type

	2019 EUR	2018 EUR
Production of alcoholic beverages	73 511 636	69 327 980
Sales of other goods and materials	665 376	721 267
Other services	4 384 379	5 088 392
	78 561 391	**75 137 639**

c) Revenue by geography

	2019 EUR	2018 EUR
Cyprus	41 590 941	39 882 331
Latvia	30 083 721	27 317 949
Lithuania	3 537 669	3 516 637
Russia	1 256 169	1 093 380
Estonia	828 527	980 560
Romania	427 913	264 316
Other	836 451	2 082 466
	78 561 391	**75 137 639**

In the last quarter of 2018, the Company started selling its products to international customers through Amberbev International Ltd (former DDE Holding Ltd) acting as an intermediary, thereby reducing the administrative load relating to international customer service and minimizing debtor risk.

(2) Cost of sales

	2019 EUR	2018 EUR
Raw materials and consumables	46 523 624	45 568 297
Salary expense	5 904 084	5 792 171
The state compulsory social insurance contributions	1 412 049	1 384 266
Depreciation of non-current assets	1 166 469	982 835
Energy resources	939 489	860 867
Repair and maintenance expenses	681 663	688 563
Goods purchased	637 604	715 902
Management of packaging	601 138	480 643
Insurance payments	39 666	46 214
Laboratory expenses	35 270	33 018
Accrued expenses on unused annual leave	21 991	16 871
Other costs	1 878 111	677 815
	59 841 158	**57 247 462**

III. OTHER NOTES (continued)

(3) Distribution expenses

	2019 EUR	2018 EUR
Advertising and sales promotion expenses	1 973 139	1 479 210
Salary expenses	1 856 451	1 852 366
Depreciation of non-current assets	910 015	399 894
Transportation expenses	625 060	626 788
The state compulsory social insurance contributions	445 970	445 505
Warehouse maintenance expenses	420 319	1 024 836
Other expenses	488 030	524 642
	6 718 984	**6 353 241**

(4) Administrative expenses

	2019 EUR	2018 EUR
Management services and expenses	2 119 820	2 063 897
Salary expenses	697 276	590 820
Depreciation of non-current assets	572 841	466 771
Computer maintenance	222 372	195 134
The state compulsory social insurance contributions	165 963	140 525
Real estate tax	161 162	159 558
Professional service costs	133 713	93 414
Transport costs	38 006	48 255
Representation expenses	26 316	21 752
Communication and postal expenses	21 134	14 907
Office expenses	17 974	25 405
Business trip expenses	13 485	8 068
Bank commissions	12 164	8 591
Other expenses	560 998	489 458
	4 763 224	**4 326 555**

(5) Other operating income

	2019 EUR	2018 EUR
Income from auxiliary and package materials sales	487 943	550 584
Gains on sale of property, plant and equipment	37 260	8 678
Other income	1 249 908	495 355
	1 775 111	**1 054 617**

III. OTHER NOTES (continued)

(6) Other operating expenses

	2019 EUR	2018 EUR
Impairment of long-term investments	339 225	-
Penalties paid	179 609	125 300
Net losses from exchange rate fluctuations	28 864	112 442
Other expenses	469 963	431 976
	1 017 661	**669 718**

(7) Expenses by nature

	2019 EUR	2018 EUR
Materials	46 523 624	45 568 297
Employee expenses	10 503 784	10 222 524
Management services and expenses	2 119 820	2 063 897
Depreciation of non-current assets	2 649 325	1 849 500
Advertising and sales promotion expenses	1 973 139	1 479 210
Repair and maintenance expenses	681 663	688 563
Transportation expenses	663 066	675 043
Management of packaging	601 138	480 643
Real estate tax	161 162	159 558
Other expenses	6 464 306	5 409 741
	72 341 027	**68 596 976**

(8) Finance income

	2019 EUR	2018 EUR
Interest income	2 334 128	2 090 496
	2 334 128	**2 090 496**

(9) Finance expenses

	2019 EUR	2018 EUR
Interest expenses	238 366	298 476
	238 366	**298 476**

III. OTHER NOTES (continued)

(10) Corporate income tax

	2019 EUR	2018 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.

	2019	2018
Profit attributed to shareholders of the Company (EUR)	10 046 062	9 387 300
Average annual number of shares	7 496 900	7 496 900
Earnings per share (EUR)	**1.34**	**1.25**

III. OTHER NOTES (continued)

(12) Intangible assets

	Licences and software	Intangible assets under development	Total
	EUR	EUR	EUR
Initial cost			
31.12.2017.	**1 195 200**	**-**	**1 195 200**
Additions	-	122 066	122 066
Reclassification	48 232	- 48 232	-
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**
Accumulated amortisation			
31.12.2017.	**(680 472)**	**-**	**(680 472)**
Amortisation	(235 406)	-	(235 406)
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)**
Net book value			
31.12.2018.	**327 554**	**73 834**	**401 388**
31.12.2019.	**196 244**	**663**	**196 907**

III. OTHER NOTES (continued)

(13) Property, plant and equipment and Investment property

	Lands and buildings	Equipment and machinery	Other assets	Assets under construction	Total	Investment property
	EUR	EUR	EUR	EUR	EUR	EUR
Initial cost						
31.12.2017.	**13 810 494**	**21 315 871**	**5 072 351**	**2 659 948**	**42 858 664**	**777 281**
Additions	-	-	-	3 129 107	3 129 107	-
Disposals	-	(61 028)	(103 672)	-	(164 700)	-
Reclassification	592 764	2 143 181	229 109	(5 095 408)	(2 130 354)	2 130 354
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**
Accumulated depreciation						
31.12.2017.	**(7 433 602)**	**(18 001 224)**	**(3 926 297)**	**(875 240)**	**(30 236 363)**	**(112 976)**
Depreciation	(511 633)	(638 656)	(358 200)	-	(1 508 489)	(103 708)
Disposals	-	60 518	103 672	-	164 190	-
Reclassification	-	-	-	875 240	875 240	(875 240)
Reversal of impairment	-	-	-	-	-	96 426
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)**
Net book value						
31.12.2018.	**6 458 023**	**4 818 662**	**1 016 963**	**693 647**	**12 987 295**	**1 912 137**
31.12.2019.	**6 624 034**	**3 422 056**	**963 825**	**1 363 393**	**12 373 308**	**1 808 421**

The gross carrying value of fully depreciated property, plant and equipment that is still in use is EUR 13 511 046 (31.12.2018. - EUR 14 475 809).

All tangible assets and the largest part of real estate of the Company 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 29).

III. OTHER NOTES (continued)

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

The fair value of Investment property as at 31 December 2019 is EUR 2 011 000 (31.12.2018. – 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 154 022 (2018: EUR 156 019), direct costs – 54 489 EUR (2018: EUR 65 277).

(14) Inventories

	31.12.2019. EUR	31.12.2018. EUR
Finished goods and goods for sale	10 247 759	10 387 036
Raw materials and consumables	10 083 139	11 377 208
Inventory in transit	271 165	546 803
Work in progress	104 219	62 816
Provisions	(1 084 192)	(988 075)
	19 622 090	**21 385 788**

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

	2019 EUR	2018 EUR
Provisions at the beginning of the year	988 075	1 151 586
Changes in provisions recognized in the income statement	96 117	(163 511)
Provisions at the end of the year	**1 084 192**	**988 075**

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 29).

(15) Trade receivables

	31.12.2019. EUR	31.12.2018. EUR
Trade receivables	1 872 494	1 661 118
Allowances for doubtful trade receivables	(184 562)	(82 382)
	1 687 932	**1 578 736**

For additional information about trade receivables see Note 31.

III. OTHER NOTES (continued)

(16) Other assets

	31.12.2019. EUR	31.12.2018. EUR
Financial assets:		
Current		
Settlements for services	9 943	49 704
Other receivables	55 854	17 126
	65 797	**66 830**
Non-financial assets:		
Non-current		
Deferred expenses	238 185	249 998
Other receivables	136 745	8 341
	374 930	**258 339**
Current		
Settlements for raw materials and finished goods	93 698	203 790
Deferred expenses	139 487	209 237
Accrued income	-	201 836
	233 185	**614 863**
Other non-current assets	**374 930**	**258 339**
Other current assets	**298 982**	**681 693**

(17) Share capital

As at 31 December 2019 and 31 December 2018 the registered and fully paid share capital is in the amount of EUR 10 495 660, that consists of 7 496 900 ordinary shares with 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. 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 Commercial pledge agreement as security for loans of the credit institutions (see Note 19).

III. OTHER NOTES (continued)

(18) Reserves

	31.12.2019. EUR	31.12.2018. 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

	31.12.2019. EUR	31.12.2018. EUR
Non-current		
AS Swedbank a)	-	2 088 501
AS Luminor Bank Latvian branch b)	1 077 106	1 346 382
Lease liabilities (see note 27)	1 366 430	749 734
	2 443 536	**4 184 617**
Current		
AS Swedbank a)	-	1 392 404
AS Luminor Bank Latvian branch b)	269 309	-
Lease liabilities (see note 27)	908 093	386 459
	1 177 402	**1 778 863**
Total borrowings	**3 620 938**	**5 963 480**

In the previous reporting year, the Company recognized lease assets and liabilities according to IAS 17 Leases. Assets were reported as property, plant and equipment, while finance lease liabilities were included in total borrowings.

a) Loan from AS Swedbank

In 2019, the Group refinanced its liabilities towards several credit institutions in cooperation with Credit Suisse AG. As a result, the Company's liabilities towards AS Swedbank were fully settled, while the existing collateral established for the benefit of AS Swedbank was released.

III. OTHER NOTES (continued)

(19) Borrowings (continued)

b) 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 one-month EURIBOR plus 2.65% (until December 2019: one-month EURIBOR plus 2.2%). The outstanding balance of the Company's liabilities as at 31 December 2019 was EUR 1 346 415 (31.12.2018 - EUR 1 346 382).

c) 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.

As a result of the refinancing of the Group's liabilities towards several credit institutions, in 2019 the collateral established for the benefit of AS Swedbank was released, while most of the Company's movable properties and real estate have been pledged in favour of 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.

(20) Derivative financial instruments and hedging activities

The interest rate swap contract signed by the Company in 2014 to hedge interest rate risk associated with the borrowing from AS Luminor Bank Latvian branch expired in June 2019.

(21) Taxes payable

	31.12.2019. EUR	31.12.2018. EUR
Excise tax	16 860 751	20 600 301
Value added tax	1 648 517	1 528 579
The state compulsory social insurance contributions	252 798	259 700
Personal income tax	120 047	119 523
Other taxes	201	-
	18 882 314	**22 508 103**

III. OTHER NOTES (continued)

(22) Other liabilities

	31.12.2019. EUR	31.12.2018. EUR
Accrued liabilities	1 128 806	1 573 739
Accruals for unused annual leave	550 323	571 731
Salaries	473 956	503 426
Other liabilities	52 173	72 714
	2 205 258	**2 721 610**

(23) Auditors remuneration

	2019 EUR	2018 EUR
Fees paid for audit and audit related services	24 650	24 650
	24 650	**24 650**

(24) Average number of employees

	2019	2018
Average number of people employed during the financial year:		
Council members *	5	2
Board members *	2	2
Other employees	625	632
	632	**636**

* Council and board members who have employment contracts.

(25) Remuneration to personnel

Board members do not receive remuneration for membership in the Council and the Board.

	2019	2018
Salary	44 000	-
Mandatory state social insurance contributions	10 600	-
	54 600	-

III. OTHER NOTES (continued)

(26) Transactions with related parties

The major shareholder of the Company, who owns 89.99% of the Company's share capital as of 31 December 2019, is Amber Beverage Group Holding S.à r.l., which is incorporated in Luxembourg. The ultimate Parent company of the Group is S.P.I. Group S.à r.l., which is incorporated in Luxembourg and its majority shareholder is Mr. Yuri Schefler.

a) Sale of goods

	2019 EUR	2018 EUR
S.P.I. Spirits (Cyprus) Ltd.	38 009 802	36 977 327
Amber Distribution Latvia SIA*	22 691 197	20 599 050
Amberbev International Ltd.	4 819 253	3 316 229
Bennet Distributors UAB	3 487 013	3 494 269
Amber Distribution Estonia OU	701 486	680 670
Remedia AS	55 095	19 372
Bravo SIA *	20 974	15 942
Cellar Trends Ltd	3 395	101 732
SPI Group S.a r.l.	188	-
Think Spirits Pty Ltd.	-	10 845
Fabrica de Tequilas Finos S.A. de C.V.	-	5 896
Louisiana Spirits LLC	-	661
	69 788 403	**65 221 993**

* The value of transactions is disclosed net of excise tax.

b) Services provided (warehouse services, services related to the contract manufacturing, storage and office rental and other services)

	2019 EUR	2018 EUR
Amber Distribution Latvia SIA	1 556 437	1 557 846
S.P.I. Spirits (Cyprus) Ltd.	1 323 442	3 158 311
Towers Construction Management AS	154 022	156 019
Amber Beverage Group SIA	77 890	82 392
Bravo SIA	61 769	51 546
Interbaltija AG AS	30 228	15 744
Stoli Group (USA) LLC	13 110	92 300
Bennet Distributors UAB	8 170	10 210
Amberbev International Ltd.	7 931	20 144
ZHS IP Worldwide S.à r.l.	5 007	1 213
Amber Distribution Estonia OU	2 151	6 256
Remedia AS	2 090	11 568
Achaval Ferrer S.A.	1 816	-
Meierovica 35 SIA	1 165	1 165
SPI Group S.a.r.l.	1 135	3 253
Cellar Trends Ltd	660	-
Fabrica de Tequilas Finos S.A. de C.V.	-	2 266
Kentucky Owl LLC (USA)	-	1 697
ZHS IP Americas S.à r.l.	-	1 500
Louisiana Spirits LLC	-	234
	3 247 023	**5 173 664**

III. OTHER NOTES (continued)

(26) Transactions with related parties (continued)

c) Interest income

	2019 EUR	2018 EUR
Amber Beverage Group Holding S.a r.l.	1 277 758	1 188 865
S.P.I. Spirits (Cyprus) Ltd.	742 023	396 248
Amber Distribution Latvia SIA	298 013	305 627
Amber Beverage Group SIA	16 334	199 756
	2 334 128	**2 090 496**

d) Sale of non-current assets

	2019 EUR	2018 EUR
Bennet Distributors UAB	6 200	-
Amber Beverage Group SIA	495	-
	6 695	**-**

e) Purchase of goods

	2019 EUR	2018 EUR
Tambovskoe spirtovoe predpriyatie Talvis OAO	6 451 113	6 855 532
S.P.I. Spirits (Cyprus) Ltd.	1 645 725	358 428
Fabrica de Tequilas Finos S.A. de C.V.	621 303	644 104
Achaval Ferrer S.A.	205 942	270 097
Amber Distribution Latvia SIA	202 914	198 219
Remedia AS	78 412	17 621
Bennet Distributors UAB	43 320	74 352
Propiedad de Arinzano SLU	24 024	53 045
Cellar Trends Ltd	8 406	-
Permalko OAO	6 245	28 399
Amber Beverage Group SIA	768	-
Louisiana Spirits LLC	-	23 994
Interbaltija AG AS	-	4 990
Bravo SIA	-	300
	9 288 172	**8 529 081**

III. OTHER NOTES (continued)

(26) Transactions with related parties (continued)

f) Services received (management services, royalty payments, marketing services and other services)

	2019 EUR	2018 EUR
Amber Beverage Group SIA	2 159 598	2 274 708
S.P.I. Spirits (Cyprus) Ltd.	118 374	96 735
Amber Beverage Group Holding S.a r.l.	103 547	-
Amber Distribution Latvia SIA	53 420	43 960
Cellar Trends Ltd	39 855	24 020
Amberbev International Ltd.	21 358	79 918
Bennet Distributors UAB	12 596	16 704
Think Spirits Pty Ltd.	1 963	-
Bravo SIA	1 873	2 036
Interbaltija AG AS	688	-
Towers Construction Management AS	-	3 555
Amber Distribution Estonia OU	-	930
	2 513 272	**2 542 566**

g) Interest expenses

	2019 EUR	2018 EUR
Amber Beverage Group SIA	55 015	116 484
	55 015	**116 484**

h) Purchase of non-current assets

	2019 EUR	2018 EUR
Amber Beverage Group SIA	1 727	56 930
	1 727	**56 930**

i) Long-term receivables from the Group companies

	31.12.2019. EUR	31.12.2018. EUR
Amber Beverage Group Holding S.a r.l. (see subpoint m))	36 660 642	38 231 771
Amber Distribution Latvia SIA *	-	9 870 000
	36 660 642	**48 101 771**

* The Company receives the annual interest rate in amount of 3% as a consideration for postponement of the payments due from Amber Distribution Latvia for the delivered goods till 29 December 2020.

III. OTHER NOTES (continued)

(26) Transactions with related parties (continued)

j) Short-term receivables from the Group companies

	31.12.2019. EUR	31.12.2018. EUR
Amber Distribution Latvia SIA	25 820 417	38 509 536
S.P.I. Spirits (Cyprus) Ltd.	18 522 156	21 849 092
Amberbev International Ltd.	1 750 660	1 059 135
Bennet Distributors UAB	816 122	1 347 732
Towers Construction Management AS	323 793	217 696
Amber Beverage Group SIA	98 276	-
Interbaltija AG AS	48 781	13 038
Amber Beverage Group Holding S.a.r.l.	22 045	-
Fabrica de Tequilas Finos S.A. de C.V.	15 942	-
Amber Distribution Estonia OU	13 209	267 703
SPI Group S.a.r.l.	10 191	8 868
Bravo SIA	7 019	170 262
Cellar Trends Ltd	3 436	12 323
Achaval Ferrer S.A.	1 816	-
Louisiana Spirits LLC	895	895
ZHS IP Worldwide S.à r.l.	311	1 213
Meierovica 35 SIA	48	47
Tambovskoe spirtovoe predpriyatie Talvis OAO	-	90 974
Think Spirits Pty Ltd.	-	10 845
Remedia AS	-	5 843
Kentucky Owl LLC (USA)	-	1 697
S.P.I. Regional Business Unit B.V.	-	302
	47 455 117	**63 567 201**

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 (31.12.2018: nil).

k) Short-term loans to Group companies

	31.12.2019. EUR	31.12.2018. EUR
Amber Beverage Group Holding S.a r.l. (see subpoint m))	30 546 519	16 475
S.P.I. Spirits (Cyprus) Ltd. (see subpoint m))	553 370	220 814
Amber Beverage Group SIA (see subpoint m))	455 215	2 504 093
Amber Distribution Latvia SIA (see subpoint m))	47 973	126 460
	31 603 077	**2 867 842**

III. OTHER NOTES (continued)

(26) Transactions with related parties (continued)

l) Payables to the Group companies

	31.12.2019. EUR	31.12.2018. EUR
S.P.I. Spirits (Cyprus) Ltd.	550 578	188 812
Amber Beverage Group SIA	338 680	1 437 325
Tambovskoe spirtovoe predpriyatie Talvis OAO	127 464	250
Remedia AS	58 270	-
Cellar Trends Ltd	46 231	21 730
Louisiana Spirits LLC	40 152	86 861
Think Spirits Pty Ltd.	1 963	-
Fabrica de Tequilas Finos S.A. de C.V.	-	116 573
Achaval Ferrer S.A.	-	116 117
Propiedad de Arinzano SLU	-	53 045
Permalko OAO	-	10 369
Amberbev International Ltd.	-	8 925
	1 163 338	**2 040 007**

The payables to related parties arise mainly from purchase of goods and services. The payables are unsecured in nature and bear no interest.

m) Loans to Group companies

	31.12.2019 EUR	31.12.2018 EUR
receivable in 1 year *	31 603 077	2 867 842
receivable in 2 - 5 years **	36 660 642	38 231 771
	68 263 719	**41 099 613**

*Loans to Group companies represent interest amounting to EUR 1.06 million due from Group companies and payments made by the Company into the cash pool with AS Luminor Bank Latvian branch.

**The loan granted to Amber Beverage Group Holding S.à r.l. matures on 29 December 2022. In the reporting year, Amber Beverage Group Holding S.à r.l made a partial repayment amounting to EUR 1.6 million.

III. OTHER NOTES (continued)

(27) Right-of-use assets

Changes in the Company’s right-of-use assets and lease liabilities for the reporting period are as follows:

	Right-of-use assets			
	Buildings	Machinery and Equipment	**Total**	Lease liabilities
	EUR	EUR	**EUR**	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**

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

(28) 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 110 720.91 and the penalty of EUR 74 683.66 and the Company's counterclaim against SIA Interjeru iekārtošanas un restaurācijas firma Ierosme for damages of EUR 881 874.37 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 to suspend the proceedings on 6 February 2020. The litigation is still in progress.

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 335 000.00 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. The litigation is still in progress, and the court has not set a hearing date yet.

III. OTHER NOTES (continued)

(28) Contingent liabilities (continued)

Litigation with LKW WALTER Internationale Transportorganisation AG (Austria)

Considering that the Goods in question had been transported by sub-carriers of LKW WALTER Internationale Transportorganisation AG (Austria), hereinafter – LKW, the Company filed a claim for damages against LKW to Riga Latgale District Court on 4 October 2018. According to the statement of claim, the Company sought recovery of expenses amounting to EUR 334 184.40 from LKW. This amount was calculated by the tax administration of the Republic of Slovenia as outstanding excise duty, and the Company was demanded to pay this amount by a decision issued on 3 March 2017. The additional tax was imposed because LKW had delegated the transportation of the excise Goods produced by the Company to the warehouse in Slovenia designated by the customer to a sub-carrier, which, as established by the tax administration of the Republic of Slovenia, had failed to deliver the Goods concerned to the designated warehouse of unloading in Slovenia; as a result, the tax administration of the Republic of Slovenia concluded that the Goods had been released for free circulation and excise duty was payable. AS Latvijas balzams paid the entire amount, including excise duty of EUR 334’184.40 and interest of EUR 31’340.09, on 4 April 2019. AS Latvijas balzams initiated proceedings with a Latvian court, seeking recovery of expenses amounting to EUR 365’524.49 from LKW. On 11 November 2019, Riga Latgale District Court delivered a judgment in the civil case, by which the claim brought by AS Latvijas balzams was dismissed. AS Latvijas balzams lodged an appeal against this judgment on 6 December 2019. The civil case has not been heard by the appellate court yet.

Contingent corporate income tax liabilities that may arise in the event of a profit distribution after 1 January 2018 amount to EUR 4.8 million.

(29) Guarantees issued

The Company together with other group companies have provided security for liabilities of the parent 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. 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. The security will be valid till the complete settlement of the liabilities under the agreement by 30 June 2020.

On 2 March 2015, SIA Amber Beverage Group concluded a cash pool (credit line) agreement with AS Swedbank. Apart from security provided by other group companies, the credit line is secured by a commercial pledge on the Company’s movable properties, a mortgage on most of the Company’s real estate and a guarantee. On 9 December 2019, as a result of the refinancing of all of the Group’s liabilities towards AS Swedbank, the agreement on the credit line of EUR 9 million was terminated and the pledges provided by AS Latvijas balzams and the mortgage on most of the Company’s real estate were fully released.

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, with the maturity date of the overdraft covered by the guarantee set on 31 December 2020. 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.

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 security comprises a commercial pledge on the Company’s movable properties, a mortgage on most of the Company’s real estate and a guarantee. The maximum secured limit is EUR 9.2 million. The security will be valid till the complete settlement of the liabilities under the agreement by 31 December 2023.

III. OTHER NOTES (continued)

(29) Guarantees issued (continued)

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, which is an Australian spirits wholesaler. The loan amounts to EUR 3.6 million and matures on 30 April 2023. The Company together with other group companies have provided security for liabilities arising out of this agreement, which comprises a commercial pledge on the Company's movable properties, a mortgage on most of the Company's real estate and a guarantee.

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. Security for the liabilities under the loan agreement was provided by several group companies, including the Company, which granted a commercial pledge on movable properties and a mortgage on most of its real estate. The security will be valid till the complete settlement of the liabilities under the agreement by 3 December 2021.

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.

(30) 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 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) Finance 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 assets and financial liabilities (continued)

On 31 December 2018

	Financial assets at amortised cost	Financial instruments at fair value through profit or loss	Financial liabilities at amortised cost	Total
	EUR	EUR	EUR	EUR
Financial assets:				
Loans to related parties	41 099 613	-	-	**40 735 864**
Cash and cash equivalents	12 822	-	-	**12 822**
Trade and other receivables	75 286 557	-	-	**75 446 516**
	116 398 992	**-**	**-**	**116 195 202**
Financial liabilities:				
Borrowings:				
(i) Finance lease liabilities	-	-	(1 136 193)	**(1 136 193)**
(ii) Loans from credit institutions	-	-	(4 827 287)	**(4 827 287)**
Derivative financial instruments	-	(2 353)	-	**(2 353)**
Trade payables	-	-	(8 442 583)	**(8 442 583)**
	-	**(2 353)**	**(14 406 063)**	**(14 408 416)**

The Company's exposure to various risks associated with the financial instruments is discussed in Note 31.

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)

(31) Financial and capital risk management

Foreign exchange risks

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

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

	31.12.2019. EUR	31.12.2018. EUR
Financial assets, USD	42 425	501 293
Financial liabilities, USD	(486 683)	(446 916)
Open position USD, net	**(444 258)**	**54 377**
Open position USD calculated in euro, net	**(397 049)**	**47 474**
Financial assets, GBP	2 928	11 124
Financial liabilities, GBP	(39 393)	(20 466)
Open position GBP net	**(36 465)**	**(9 342)**
Open position GBP calculated in euro, net	**(42 795)**	**(10 349)**
Financial liabilities, RUB	-	(824 820)
Open position RUB, net	**-**	**(824 820)**
Open position RUB calculated in euro, net	**-**	**(10 369)**

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:

	2019		2018	
	Change in exchange rates	Effect on equity EUR	Change in exchange rates	Effect on equity EUR
USD	+10%	39 705	+10%	74 113
	-10%	(39 705)	-10%	(74 113)
GBP	+10%	4 280	10%	1 035
	-10%	(4 280)	-10%	(1 035)
RUB	+10%	-	10%	1 037
	-10%	-	-10%	(1 037)

III. OTHER NOTES (continued)

(31) Financial and capital risk management (continued)

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, as well as the Company's interest bearing assets have variable interest rate.

	31.12.2019. EUR	31.12.2018. EUR
Financial liabilities with variable interest rate, EUR	(3 620 938)	(4 617 098)
Open position, net, EUR	**(3 620 938)**	**(4 617 098)**

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

	2019		2018	
	Increase/ decrease in basis points	Effect on profit before tax EUR	Increase/ decrease in basis points	Effect on profit before tax EUR
EUR	+30	(12 357)	+30	(15 655)
	-30	12 357	-30	15 655

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 Group companies and loans. The Company's policy provides that the goods are sold and services provided to customers with appropriate credit history. For the bank transactions only the local and foreign financial institutions with appropriate ranking are accepted.

III. OTHER NOTES (continued)

(31) Financial and capital risk management (continued)

Credit risk (continued)

Maximum exposure to credit risk:

	31.12.2019. EUR	31.12.2018. EUR
Issued loans to Group companies	68 263 719	41 099 613
Trade receivables - Group companies	47 455 117	73 437 201
Trade receivables - non-related parties	1 687 932	1 578 736
Other current assets	159 495	270 620
Cash	833 329	12 822
	118 399 592	**116 398 992**

The largest concentration of credit risk arises from the Group companies' debts: on 31 December 2019 98% of the total trade receivables related to Group companies (31.12.2018. - 98%). Taking into account the policy as above and the strong financial position of the Group, no provisions for impairment losses on receivables from the Group companies' debts were made and the Company's management believes that the credit risk of the Company is considered as low.

Impairment of financial assets

The Company considers only trade receivables for sales of finished goods and providing of being subject to the expected credit loss model. While cash and cash equivalents are also subject to the impairment requirement of IFRS 9, the identified impairment loss was immaterial. Impairment loss related to intercompany loans and receivables is considered to be immaterial as the cash-flow is managed at the Group level.

Trade receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses lifetime expected loss allowance for all 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 loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2019 or 1 January 2019 respectively and the corresponding historical credit losses experienced within this period.

III. OTHER NOTES (continued)

(31) Financial and capital risk management (continued)

Trade receivables (continued)

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 loss allowance as at 31 December 2019 and 31 December 2018 was determined for trade receivables, as follows:

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
Expected loss rate		3.3%	25.0%	65.0%	100.0%	100.0%	100.0%
Loss allowance	184 562	49 593	76 543	19 321	-	-	39 105

31.12.2018.	Total	Not due	1-90 days	91-180 days	181-270 days	270-360 days	>361 days
Gross carrying amount - Trade receivables	1 661 118	1 042 106	519 236	61 869	10	6 900	30 997
Expected loss rate		0.50%	2.20%	45.00%	100.00%	100.00%	100.00%
Loss allowance	82 382	5 211	11 423	27 841	10	6 900	30 997

Maturity analysis of receivables from Group companies:

	Gross amount	Accruals for bad and doubtful debtors	Trade receivables, net	split to:	Past due		
				not due	< 90 days	90-180 days	> 180 days
31.12.2019.							
Group companies	47 455 117	-	47 455 117	19 452 246	14 069 270	4 089 152	9 844 448
31.12.2018.							
Group companies	73 800 950	-	73 800 950	30 739 100	33 918 784	8 337 141	805 925

The Company's management believes that debts of related companies are not exposed to credit losses.

III. OTHER NOTES (continued)

(31) Financial and capital risk management (continued)

Trade receivables (continued)

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

	2019 EUR	2018 EUR
Balance at the beginning of the year	82 382	30 088
Amounts restated through opening retained earnings	-	8 327
Increase in provisions	102 180	43 967
Balance at the end of the year	**184 562**	**82 382**

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 72 108 603 (31.12.2018. – EUR 54 647 923). 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 2019	**Less than 1 year** **EUR**	**Between 2 and 5 years** **EUR**	**Total contractual cash-flows** **EUR**	**Carrying amount** **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
Debts to Group companies	1 163 338	-	1 163 338	1 163 338
	8 364 880	**2 506 539**	**10 871 419**	**10 760 480**

On 31 December 2018	**Less than 1 year** **EUR**	**Between 2 and 5 years** **EUR**	**Total contractual cash-flows** **EUR**	**Carrying amount** **EUR**
Interest bearing borrowings	1 498 604	3 558 710	5 057 314	4 827 287
Leases	405 948	767 906	1 173 854	1 136 193
Derivative financial instruments	-	2 353	2 353	2 353
Trade payables	6 402 576	-	6 402 576	6 402 576
Debts to Group companies	2 040 007	-	2 040 007	2 040 007
	10 347 135	**4 328 969**	**14 676 104**	**14 408 416**

III. OTHER NOTES (continued)

(31) 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 decreased to 2% (year 2018: 5%), confirming the Company's improvement of stability:

	31.12.2019. EUR	31.12.2018. EUR
Total borrowings (long-term and short-term loans)	3 620 938	5 963 480
Less cash and cash equivalents	(833 329)	(12 822)
Net debt	2 787 609	5 950 658
Equity	124 170 298	114 121 883
Total capital (equity and net loans)	**126 957 907**	**120 072 541**
Net debt to equity	2%	5%
Equity ratio on total assets	80%	74%

	Cash and cash equivalents EUR	Finance lease due after 1 year EUR	Finance lease due within 1 year EUR	Borrowings due after 1 year EUR	Borrowings due within 1 year EUR	Total EUR
Net debt as at 31 December 2017	132 970	(663 218)	(347 764)	(897 588)	(6 606 215)	**(8 381 815)**
Cash flows	(120 148)	-	455 301	-	2 673 451	**3 008 604**
New leases and borrowings	-	(369 510)	(103 462)	-	-	**(472 972)**
Other non-cash movement	-	282 994	(390 534)	(2 537 295)	2 540 360	**(104 475)**
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)**

III. OTHER NOTES (continued)

(32) Distribution of profit proposed by the Board

Profit share to be distributed	EUR 10 046 062
Proposed profit distribution:	
Keep undistributed	EUR 10 046 062

(33) 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 loan repayment holiday for non-current loans issued to the Company (see Note 19).

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

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

Meanwhile, there are also positive changes. For example, sales on the Baltic market have grown and Latvijas balzams has started the production of disinfectants.

With a view to minimizing the impact of the pandemic, the management team of Latvijas balzams has rapidly curtailed costs, reviewed projects in progress and decided on their cancellation or suspension, revised the terms of cooperation with suppliers and adapted the supply chain to the new situation. Unfortunately, the Company was forced to suspend the activities of the Tour center of Latvijas balzams.

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 December 2019.

The Annual Report was prepared by the Amber Beverage Group SIA Head of Accountancy Iveta Lejniece.

The Financial statements of the Company set out on pages 18 to 62 were signed on 30 April 2020 by:

____
Intars Geidāns
Chairman of the Board

____
Iveta Lejniece
Amber Beverage Group SIA Head of Accountancy

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 2019, 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 2020.

What we have audited

The Company's financial statements comprise:

- the income statement for the year ended 31 December 2019;
- the statement of comprehensive income for the year ended 31 December 2019;
- the statement of financial position as at 31 December 2019;
- the statement of changes in equity for the year ended 31 December 2019;
- the cash flow statement for the year ended 31 December 2019; and
- notes to the financial statements, which include significant accounting policies.

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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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 these requirements and 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 2019 to 31 December 2019.

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Our audit approach

Overview

Materiality - Overall materiality is EUR 780 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 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, both individually and in aggregate on the financial statements as a whole.

Overall materiality	EUR 780 thousand
How we determined it	Overall materiality is approximately 1% of total revenue of 2019.
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 78 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 (refer to Note 14 for further details). As at 31 December 2019 the Company's inventory amounts to EUR 19.6 million, EUR 10 million 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. The Company's management assesses the NRV of inventories by grouping them by brands and by customers. Such groups of inventories include a large number of various inventory items under the same brand and thus the NRV of individual items included in the same group may be lower than the value determined on the group basis.	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 in the production module. 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 year end to identify whether there have been cases, were the selling price of any 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 also considered whether the disclosures made in Note 14 to the financial statements met the requirements set out in IFRS.

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 17 of the accompanying Annual Report, and
- the Statement of Corporate Governance, set out in separate statement prepared and signed by the by the Company's management on 30 April 2020 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 Company's Annual Report,

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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.

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 applicable legislation.

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.

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; and

- the Statement of Corporate Governance, prepared and signed by the Company's management on 30 April 2020, 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.

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, related safeguards.

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 5 years. Our appointment for the year ended 31 December 2019 was by resolution of general meeting of shareholders dated 27 June 2019.

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 2020

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