AS LATVIJAS BALZAMS

ANNUAL REPORT 2021

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 2004
Address	A. Caka Street 160 Riga, LV- 1012 Latvia
Main business activities	Production of alcoholic beverages NACE2 11.01
Major shareholder	Amber Beverage Group Holding S.à r.l. (89.99%)
Names and positions of the Council members:	Rolands Gulbis – Chairman of the Council Valizhan Abidov – Vice Chairman of the Council Velga Celmiņa – Member of the Council Boriss Ņešatajevs – Member of the Council (from 30.09.2021) Guntars Reidzāns - Member of the Council (from 30.09.2021) Jānis Buks – Member of the Council (until 30.09.2021) Petr Aven – Member of the Council (until 30.09.2021)
Names and positions of the Board members:	Intars Geidāns – Chairman of the Board Guntars Betlers – Member of the Board
The auditor of the Company and certified auditor in charge	PricewaterhouseCoopers SIA Licence No. 5 Kr. Valdemāra Street 21-21 Riga, LV-1010 Latvia Certified auditor in charge: Jana Smirnova Certified auditor Certificate No. 188
Statement of corporate governance	www.lb.lv/en/corporate-governance/

REPORT OF THE MANAGEMENT

Type of operations

AS Latvijas balzams (hereinafter also - the Company) is a leading producer of alcoholic beverages in the Baltic states. The Company was established in 1900 as Riga's 1st state alcohol warehouse and has been operating under the current name since 1970. Amber Beverage Group Holding S.à r.l., which owns 89.99% of the Company's share capital, has been the major shareholder of the Company since 7 May 2018.

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

Overall AS Latvijas balzams produces more than 100 different brands. Products produced by the Company are exported via the Company's direct export route and through Stoli Group in such region as Europe, Australia, Americas, and Asia.

Key suppliers of raw materials and consumables for AS Latvijas balzams represent Latvia, Lithuania, Estonia, Poland, Russia, Germany and Slovakia. Key resources are water and alcoholic raw materials. Water is derived from artesian wells located in territories of the Company.

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

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

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

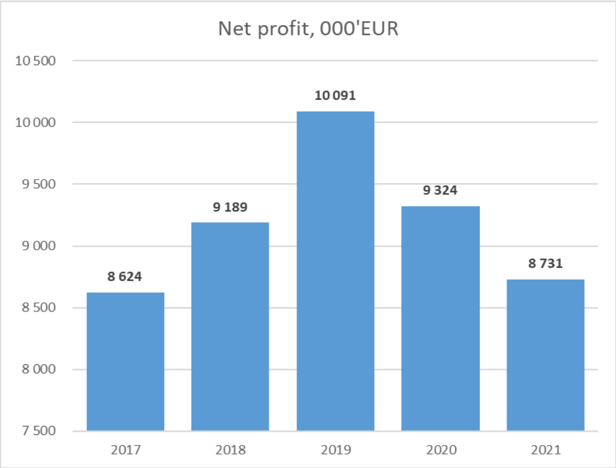
Performance of the Company during the financial year

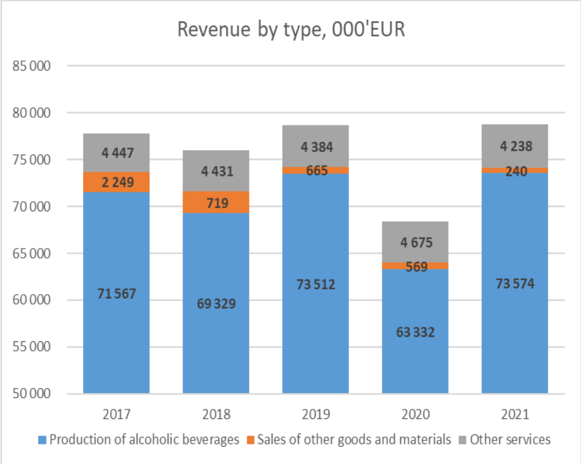
Financial performance

The net revenue of the Company for the year 2021 reached EUR 78.1 million, an increase of 13.8% against the year 2020. The increase in turnover is due to the improvement of the economic situation and the release of the restrictions imposed by the national governments on the Covid-19 pandemic situation.

The audited net profit for the reporting period is EUR 8.7 million, which is 6.4% less than in the respective period in the year 2020, because, although the net turnover has increased for the reporting year, the decrease in net profit was influenced by changes in the share of production, i.e., a higher share of production of third-party brands; as well as an increase in costs related to marketing activities of AS Latvijas balzams brands.

REPORT OF THE MANAGEMENT (continued)





The operating profit (calculated as gross profit less distribution, administrative expenses, other operating income, and expenses) for the year 2021 amounts to EUR 7.4 million, which is almost the same as in the respective period in the year 2020 (EUR 7.39 million). The operating profit/turnover ratio for the year 2021 is very close to the previous period – 9.5% (2020: 10.8%).

The Company's alternative performance metrics for the reporting period and their comparative figures for previous reporting periods are as follows:

The Company's return on equity (ROE) and return on assets (ROA):

	2021	2020	2019
ROA*	5.1%	5.7%	6.5%
ROE**	6.4%	7.2%	8.4%

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

Return on assets ratio (ROA) has decreased by 0.6% during the year 2021 due to an increase in asset value and a decrease in net profit. Return on equity ratio (ROE) is influenced by a decrease in net profit and by payment of dividends in the amount of EUR 3.4 million during the year 2021 as well.

The Company's EBIT* and EBITDA** indicators:

	2021 EUR 000	2020 EUR 000	2019 EUR 000
EBITDA*	9 771	9 976	10 645
EBIT **	7 398	7 388	7 995

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

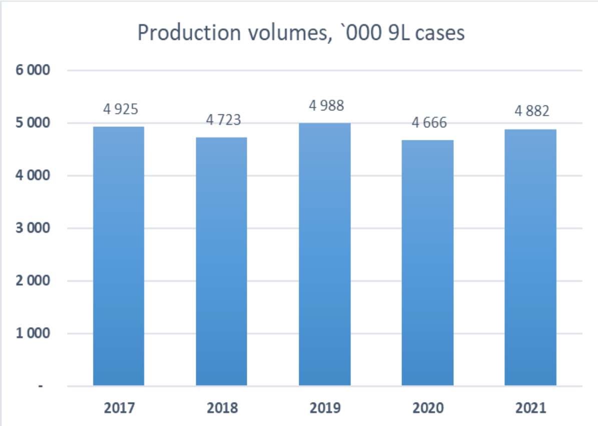
The Company's management uses the aforementioned alternative performance metrics in assessing the financial performance for a particular financial period and in making decisions.

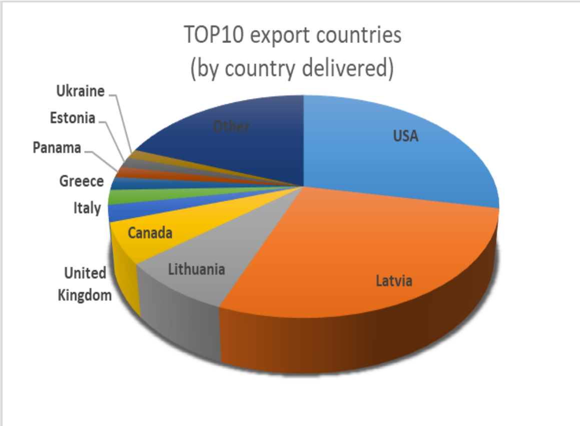
AS Latvijas balzams is one of the largest local taxpayers. During the reporting period, the Company paid taxes of EUR 75.8 million to the state budget, including excise tax amounting to EUR 61.2 million.

REPORT OF THE MANAGEMENT (continued)

Non-financial performance and activities for the reporting year

Similar to net revenue, during the year 2021, the production volume has increased also by 4.6% compared with the year 2020. The increase in production volume was smaller as for turnover influenced by differences in the share of the product range (by economic segment and premium segment). The largest export markets have remained unchanged, although the share of the United Kingdom has grown since the Group's company Amber Beverage UK has been operating successfully there.





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

In 2021, the Company continued investing in the development of production, specifically focusing on improvements in efficiency, adaptability, and the preservation of the low-cost base. Total investments made by the Company in the property, plant, and equipment and intangible assets in 2021 were EUR 2.7 million. The main investment projects were:

- the installation of a bottle packing machine;
- replacement of electric forklifts;
- reconstruction of the heating system;
- investments in infrastructure.

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

Apart from the financial indicators referred to in these financial statements, the Company is using the following comparative indicators for the purposes of operational analysis: RFT (*right first time*) and OTIF (*on time in full*) & quality. RFT shows the share of products manufactured right on the first time. In 2021, RFT reached 97.6%, which shows an improvement compared to 2020 – 98.6%. The OTIF result for the reporting period is 96%, which is an improvement in comparison to the year 2020 – 94.4%.

During the year AS Latvijas balzams continued to develop and work on new products by launching more than 30 new products. As the most known can be named products from the Moskovskaya® Street product line in cans, Cross Keys Gin® in cans, new alcoholic cocktail Black Balsam Spritz in cans, Cosmopolitan Diva® Pina Colada, Hektors with cannabis taste, vodka Gradus, also hot drink House of Riga Black Balsam Hot Drink.

REPORT OF THE MANAGEMENT (continued)

Corporate social responsibility

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

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

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

17 UN Sustainable Development Goals

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

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

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

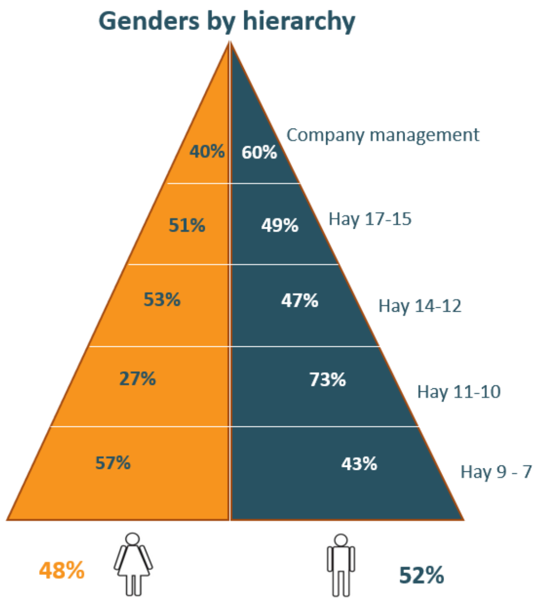
REPORT OF THE MANAGEMENT (continued)

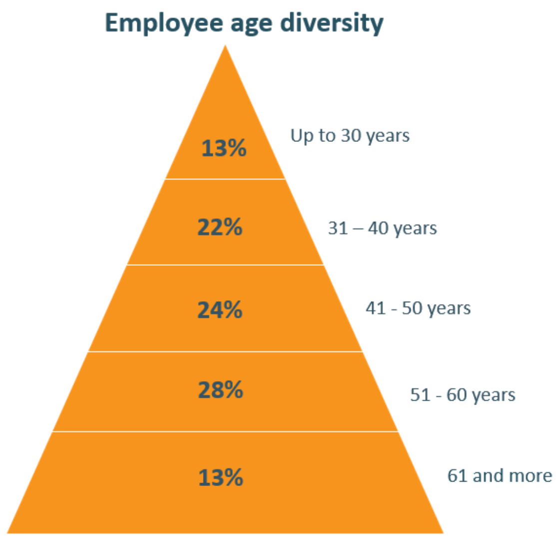
Responsibility to the parties affected by the Company

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

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

AS Latvijas balzams is a stable and reliable employer, which has provided more than 550 jobs in 2021 (in the previous year – the same count). Although the Covid-19 pandemic significantly affected the Company's operations also in the second year, the priority of AS Latvijas balzams was to secure as many jobs as possible. 99% of the staff are employed on the basis of permanent employment contracts. The Company respects the principle of equality - of the persons employed in 2021, 48% are women and 52% are men. The world's recommended good practice for an optimal proportion of gender equality in companies is 60% to 40%, thus the indicators of AS "Latvijas balzams" are excellent. Gender equality is also ensured in the AS Latvijas balzams hierarchy; during the year 2021, 40% women and 60% men Diversity and equality are also respected in terms of employee age.





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

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

REPORT OF THE MANAGEMENT (continued)

AS Latvijas balzams cares for the workplace environment, therefore, several of the Company's offices and production facilities faced significant improvements in the amount of 116 thousand euros:

1. Renovated work and dining rooms of Energy Service employees;
2. The damaged net of Caka Street 160 Material warehouse has been replaced with modern tent material;
3. Asphalt pavement was restored at Caka Street 160, Briana Street 7, and Briana Street 9;
4. Cosmetic repairs have been carried out and a shower room has been built in the workrooms for receiving dirty laundry and cleaning;
5. Reconstructed sewerage wells at Caka Street 160, Briana Street 7, and Briana Street 9;
6. Cosmetic repairs were performed in the dispensing zone of Caka Street 160;
7. Cosmetic repairs of the Quality control cabinet have been implemented;
8. Renovation of transport and pedestrian traffic markings in the territories of AS Latvijas balzams;
9. Repair of the roof and ventilation room at Briana Street 7;
10. The facade was repaired at the Briana Street 7 crossing point.

Since the Company cares to have healthy and work-capable employees, in 2021 it spent more than EUR 69 thousand on employee health insurance, mandatory health checks, and accident insurance.

The Company is constantly working towards the professional and individual development of its employees; therefore, also in the year 2021, AS Latvijas balzams carried out a variety of systematic training sessions. 12% of all the Company's employees participated in training in the previous year, while the reporting year saw 18% attendance. The Company's goal has remained unchanged: to achieve a 2% growth in the number of training participants next year, thus the results of 2021 are welcomed.

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

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

The Company believes that encouraging employees to do their job at the highest quality is essential for sustainable development, and it is something that is facilitated by the workplace environment. The Company's management is taking an array of measures for improving the workplace environment. Workplace environment and employee satisfaction are evaluated by AS Latvijas balzams regularly; in 2021, the total score is 4.6 points (out of a maximum of 5 points), which is an excellent result.

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

Suppliers

AS Latvijas balzams implements fair partnerships with its business partners and adheres to a transparent purchasing policy, demanding that suppliers conform to the highest quality standards. In 2021, the Company implemented cooperation with suppliers in accordance with the Company's Anti-Corruption Policy and Procurement Procedure; no violations were recorded in 2021.

REPORT OF THE MANAGEMENT (continued)

Distributors

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

Customers (SDG 3)

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

The Company respects its Ethical Marketing Communications Code, which was created in 2013. This code determines the offering of the Company's products on the market in a responsible manner and sets clear marketing guidelines, which are aimed at consistent compliance with the requirements of the legislation of the Republic of Latvia. In 2021, 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 2021, the Company established a scholarship fund and selected educational sectors and scholarship projects to be supported. At the sum of EUR 1.2 thousand, the Company supported the granting of scholarships to Latvia University of Life Sciences and Technologies.

To facilitate the responsible use of products in society, the Company educates consumers about responsible drinking by conducting socio-educational campaigns in the public and digital environment (SDG 3.5). The Company performs this task in cooperation with the Latvian Alcohol Industry Association (LANA), to whose activities the Company contributed more than EUR 9.4 thousand in 2021. The Company is also supporting the educational website www.atbildigi.lv.

State

AS Latvijas balzams is one of the largest taxpayers in the country, having paid EUR 75.8 million (including excise duty) into the state budget in 2021. In the course of its operations, the Company maintains continuous cooperation with state oversight institutions, for example, the State Revenue Service. The Company is a member of the State Revenue Service's In-depth Cooperation Program, or the so-called *White List* being among the most responsible taxpayers in the country.

The Company actively cooperates with Latvian farmers by purchasing raw materials for making legendary beverages, such as Riga Black Balsam®. In 2021, just to support the production of the Riga Black Balsam® brand, the Company bought from domestic farmers 7.5 tons of dried blueberries, 4.8 tons of dried apples, and 340 kg of honey. For the production of Cross Keys Gin® Sea Buckthorn, the company bought 500 kg of sea buckthorn juice. In money terms, this is considerable support for Latvia's agriculture, thus fuelling economic activity in Latvia.

REPORT OF THE MANAGEMENT (continued)

AS Latvijas balzams is 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 the Nasdaq Riga Stock Exchange the ownership structure, the composition of the Company's management and supervisory board, the Company's mission, vision and values and its relations with investors.

Responsibility for products

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

In 2021 the management continued intensive implementation of LEAN (a set of management principles and methods focusing on value for the end consumer and the creation of value for a company's product/service, linking it directly to the wishes of the end consumer) with the aim of reducing losses, which under LEAN are both material and non-material (inefficient processes, needless movements, waiting times, etc.).

LEAN activities planned for 2021 were realized to the extent of 61%, which is a very good achievement taking into account the pandemic situation. More than 45 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 required level, 5S audits were carried out, as a result of which several units/departments which had achieved the highest results were nominated in 2021:

Quarter of 2021	Bottling unit/performance		Other units/performance	
Q1	L08/L09	85.19%	Liquor workshop	88.89%
Q2	L04	77.78%	Material warehouse Caka	92.59%
Q3	L06	88.89%	Material warehouse Caka	92.59%
Q4	L12	74.07%	Laboratory Briana	88.89%

The average performance indicator of the Company in 2021 was 73.35%, which has improved by 10.55% compared to the results of 2020 (in 2020 the corresponding indicator was 62.8%).

In 2021, altogether 79 suggestions for improvements provided by employees were implemented (in 2020: 22). As a result of SMED projects, transfers for the L04 line, L07 case former, L01 line, as well as L12 line have been optimized and standardized.

REPORT OF THE MANAGEMENT (continued)

The consumers of AS Latvijas balzams products are those affected parties for whose satisfaction the Company's employees at the Customer Service Centre care every day. The Company ensures an instantaneous feedback link from consumers, using the toll-free phone number 8000 9990. In 2021, overall 174 complaints, suggestions, reviews, or simply questions were received from consumers and customers and forwarded to relevant Company specialists (in 2020: 161). 100% of feedback was accepted and resolved (in the case of complaints). From all 174 feedbacks, there were 107 complaints, of which only 57% were justified.

All opinions provided to AS Latvijas balzams are regularly analysed, and data are compiled for a customer and consumer satisfaction index once a month, thereby making it possible to evaluate general trends or consumer response to changes in particular product recipes. The customer satisfaction analysis shows that in 2021 the number of complaints concerning the inadequate quantity of supplies has increased by 2% (previously – by 11%). This is mainly due to claims about leakage of products filled in aluminium cans, and rupture of product packaging. The share of negative feedback on the provided logistics services has slightly increased.

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 2021 promotes lower energy use, reducing the Company's environmental footprint (SDG 12.2)., All indicators necessary for the energy audit were fixed also in 2021. In accordance with the existing requirements, the Company conducts CO_2 emission control, with CO_2 emissions of 2 816,3 tons reported across the Company's territories achieving an increase of 17.7%% in 2020. (SDG 12.2). This can be explained by higher consumption of natural gas, especially at the Briana Street 7 (by 28%), as an increase in technological operations compared to the previous period was observed.

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 2021, supplies intended for recycling amounted to 421.29 tons, including 107.1 tons of polyethylene, 263.5 tons of cardboard, 206.94 tons of glass, and 17.5 tons of scrap metal. A significant increase can be seen in the category of transferred scrap metal, which can be explained by the reconstruction of the heat supply system performed at AS Latvijas balzams by dismantling obsolete pipes.

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

The Company uses artesian wells located within its territories for production processes, and its use of water as a resource is careful and prudent (SDG 6.4). In 2021, the Company used 181 274 m^3 of water across all its territories, which is 14.2% more than in 2020 (2020: 158 768 m^3). The increase in water consumption can be explained by higher production volumes than in 2020 when the factory was first affected by the Covid-19 pandemic.

Pursuant to the legislation of Latvia a beverage packaging deposit system shall be implemented from 1 February 2022. The Company as a producer is proactively following the implementation process. Cider and sparkling drinks produced by AS Latvijas balzams with the new deposit system mark are planned to be handed over to beverage distributors starting from the beginning of April.

REPORT OF THE MANAGEMENT (continued)

During reporting year AS Latvijas balzams is gradually preparing for the launch of the packaging deposit system in Latvia, indicating the appropriate markings on the products. The first of the products that the Company will start producing with the new deposit system label is the cider Lucky Dog, followed by several other beverages produced by the Company in glass and PET bottles: the non-alcoholic Riga Sparkling, the Apple Garden cider, and the world-renowned sparkling drink Cosmopolitan Diva®. The full transition to these four brands, including the deposit system label, is launched from 1 April 2022.

Information on environmentally sustainable economic activity

In accordance with European Commission Regulation (EC) No. 2020/852 and No. 2021/2178, the Company presents qualitative and quantitative information for economic activities related to taxonomy and non-related to the taxonomy for each of the three indicators: turnover, capital expenditures, operating expenses.

According to the classification included in the taxonomy compass (EU Taxonomy Compass), the economic activity of the Company is fully considered to be as non-related to taxonomy economic activity.

Risk assessment and management

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

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

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

The biggest challenges in 2021 have been:

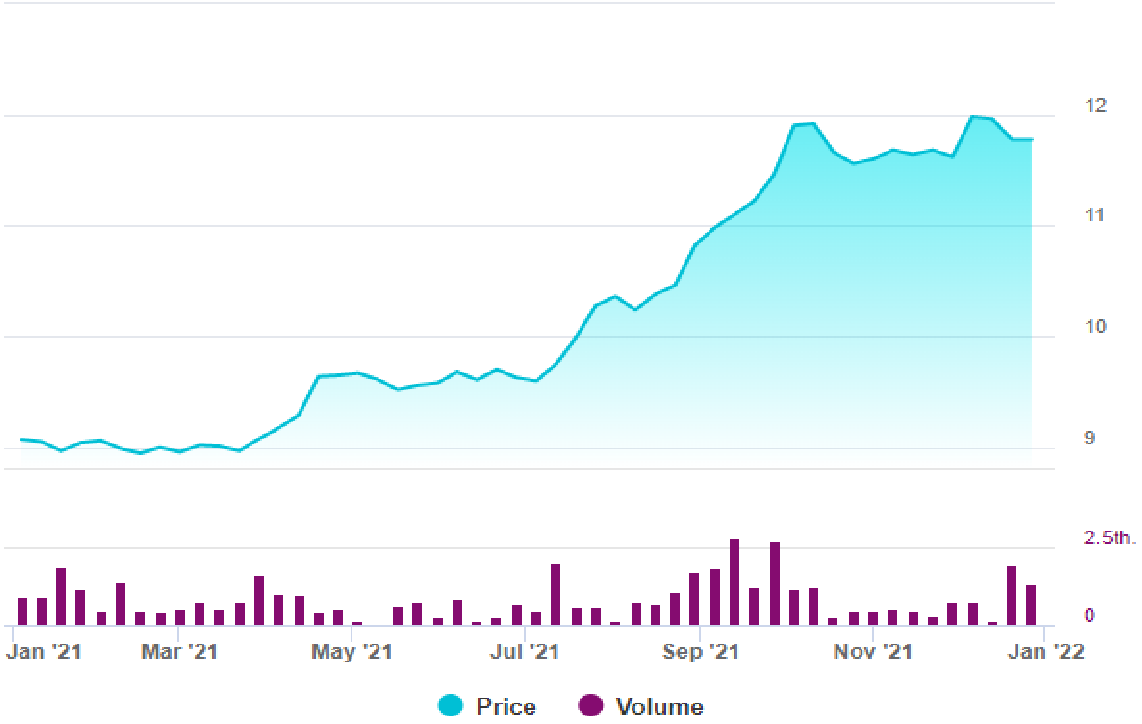
- Reduce the cost base in line with the fall in turnover;
- To ensure business continuity in conditions of increased epidemiological safety;
- To implement the planned investment projects and new products in time and in full.

REPORT OF THE MANAGEMENT (continued)

Stock and fund market

In 2021, the Company's share price fluctuated between EUR 8.95 and 11.98 per share. The average transaction price was 11.80 euros per share. Over the last three years, the price has fluctuated from 7.05 to 11.98 euros per share.

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



Financial risk management

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

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

Financial assets which potentially expose the Company to a certain degree of credit risk concentration are primarily trade receivables, receivables from related companies and loans. The Company has introduced and pursues a credit policy whereby goods are sold on credit only to customers having sound credit histories. The Company also complies with sanctions regimes based on the information published on the website of the Ministry of Foreign Affairs of the Republic of Latvia for international transactions.

The Company pursues a prudent liquidity risk management policy, according to which adequate credit resources are ensured to settle liabilities when they fall due. The Company's management handles liquidity and cash flow risks by maintaining adequate cash reserves and securing sufficient financing by means of loans, credit lines, finance leases, etc., by monitoring forecasted and actual cash flows and by matching the maturities of financial assets and liabilities on an ongoing basis.

REPORT OF THE MANAGEMENT (continued)

On 31 December 2021, the Company's current assets exceeded its current liabilities by EUR 123.88 million (31.12.2020: EUR 80.1 million). The Company has a strong ability to meet its current liabilities as they fall due. The Company's liquidity ratio (*current ration*) and short-term liquidity ratio (*quick ratio*) for the last three years are as follows:

	2021	**2020**	**2019**
Current ratio*	4.56	3.30	3.45
Quick ratio**	3.83	2.55	2.77

* 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 29.

Events after the reporting date

The beginning of 2022 showed a decrease in the negative impact of Covid-19 on the Company's commercial performance from the perspective of turnover and production volumes, however, the sharp rise in energy and raw material prices, which was observed at the end of the year, encouraged the Company's management to actively continue internal work efficiency.

In January 2022, the Company started cooperation with one of the leading creators of robotics and production process automation solutions in the Baltic region - SIA "Peruza". As a result of the investment project, a new automatic cardboard box scanning, sorting, palletizing and packaging line will be established at the Company's plant at 160 Caka Street. The total project investment is planned in the amount of 1 million euros.

In March 2022, the Company's largest shareholder Amber Beverage Group Holding S.a r.l. extended the overdraft and letter of a credit agreement entered into on 19 December 2018 with AS Luminor Bank until 31 January 2023, in which the Company together with other companies belonging to the Amber Beverage Group acts as guarantor.

Russia's military invasion of Ukraine in February 2022 has posed significant new challenges to the Company's operations: due to the war, the Company has had to restructure its supply chain, to restructure and improve its pricing mechanisms greatly affected by higher commodity prices, as well as to follow and to comply to the requirements of the established regime of sanctions. The Company's management has taken all necessary steps to be able to fulfil the promises made to its partners, however, it is necessary to be aware that the turbulence in the global economy, as well as in the segments of production and consumption of beverages, is currently unpredictable.

There were no subsequent events since the last date of the financial year until the date of signing of these financial statements, which would have a significant effect on the financial position of the Company as of 31 December 2021.

REPORT OF THE MANAGEMENT (continued)

Future prospects

In 2022, AS Latvijas balzams will keep focusing on the following:

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

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

The Company will continue improving the efficiency of production, with a focus on purchase, planning and infrastructure improvements to support our goal, which is to deliver quality products with a competitive cost advantage. To this end, the work on the following projects will be continued in 2022:

- investments in production infrastructure objects to promote the reduction of energy consumption;
- installation of an automatic palletizing equipment in the finished product warehouse at 160 Caka Street on the next production lines;
- pilot project installation of empty inspection equipment.

On behalf of the Board:

____

Intars Geidāns
Chairman of the Board

Riga, 28 April 2022

REMUNERATION REPORT

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

STATEMENT OF THE MANAGEMENTS' RESPONSIBILITY

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

The Management certifies that proper accounting methods were applied in the preparation of the financial statements set out on pages 19 to 57 and decisions and assessments were made with proper discretion and prudence. The Management confirms that the financial statements have been prepared on a going concern basis.

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

On behalf of the Board:

____
Intars Geidāns
Chairman of the Board

Riga, 28 April 2022

Income Statement

	Notes	2021 EUR	2020 EUR
Revenue	1	78 052 067	68 577 034
Cost of sales	2	(60 076 529)	(52 627 722)
Gross profit		**17 975 538**	**15 949 312**
Distribution expenses	3	(7 179 735)	(5 981 472)
Administrative expenses	4	(4 665 686)	(4 390 911)
Other operating income	5	2 041 976	2 440 914
Other operating expenses	6	(773 656)	(629 918)
Finance income	8	1 429 765	2 029 581
Finance expenses	9	(96 935)	(93 201)
Profit before tax		**8 731 267**	**9 324 305**
Net profit		**8 731 267**	**9 324 305**
Earnings per share			
Basic	11	1.16	1.24
Diluted	11	1.16	1.24

Notes on pages 25 to 57 form an integral part of these financial statements.

Statement of Comprehensive Income

	Notes	2021 EUR	2020 EUR
Net profit		**8 731 267**	**9 324 305**
Total comprehensive income for the period		**8 731 267**	**9 324 305**

Notes on pages 25 to 57 form an integral part of these financial statements.

Statement of Financial Position

	Notes	31.12.2021 EUR	31.12.2020 EUR
ASSETS			
Non-current assets			
Intangible assets	11	231 191	87 191
Property, plant and equipment	12	13 358 670	12 559 124
Right-of-use assets	25	2 533 275	2 620 852
Investment property	12	-	1 712 785
Loans to related parties	24 (e)	-	37 778 791
Other non current assets	15	423 325	281 745
Total non-current assets:		**16 546 461**	**55 040 488**
Current assets			
Inventories	13	24 908 893	25 459 313
Trade receivables	14	1 311 505	976 628
Receivables from related parties	24 (a)	64 593 875	52 870 659
Loans to related parties	24 (f)	67 296 278	34 645 647
Other current assets	15	476 842	710 579
Cash and cash equivalents		88 909	279 563
Total current assets:		**158 676 302**	**114 942 389**
Total assets		**175 222 763**	**169 982 877**

Statement of Financial Position

		31.12.2021 EUR	31.12.2020 EUR
EQUITY AND LIABILITIES	**Pielikums**		
Equity			
Share capital	16	10 495 660	10 495 660
Share premium		87 887	87 887
Reserves	17	2 318 823	2 318 823
Retained earnings		125 874 927	120 592 233
Total equity:		**138 777 297**	**133 494 603**
Liabilities			
Non-current liabilities			
Borrowings and lease liabilities	18	1 648 701	1 662 635
Total non-current liabilities:		**1 648 701**	**1 662 635**
Current liabilities			
Borrowings and lease liabilities	18	1 051 163	1 246 452
Trade payables		7 004 576	5 478 413
Payables to related parties	24 (b)	1 925 224	1 482 774
Taxes payable	19	22 489 422	24 746 837
Other liabilities	20	2 326 380	1 871 163
Total current liabilities:		**34 796 765**	**34 825 639**
Total liabilities:		**36 445 466**	**36 488 274**
Total equity and liabilities		**175 222 763**	**169 982 877**

Notes on pages 25 to 57 form an integral part of these financial statements.

On behalf of the Board:

Intars Geidāns
Chairman of the Board

Riga, 28 April 2022

Statement of Changes in Equity

	Share capital	Share premium	Reserves	Retained earnings	Total
	EUR	**EUR**	**EUR**	**EUR**	**EUR**
31.12.2019.	**10 495 660**	**87 887**	**2 318 823**	**111 267 928**	**124 170 298**
Net profit	-	-	-	9 324 305	9 324 305
Total comprehensive income	-	-	-	9 324 305	9 324 305
31.12.2020.	**10 495 660**	**87 887**	**2 318 823**	**120 592 233**	**133 494 603**
Net profit	-	-	-	8 731 267	8 731 267
Total comprehensive income	-	-	-	8 731 267	8 731 267
Dividends	-	-	-	(3 448 573)	(3 448 573)
31.12.2021.	**10 495 660**	**87 887**	**2 318 823**	**125 874 927**	**138 777 297**

Notes on pages 25 to 57 form an integral part of these financial statements.

Cash Flow Statement

	Notes	2021 EUR	2020 EUR
Cash flow from operating activities			
Profit for the period before taxation		8 731 267	9 324 305
Adjustments for:			
deprecition and amortisation	7	2 372 128	2 588 131
net (profit) lon sales and disposal of property, plant and equipment, investment property and intangible assets		(502 489)	(353)
changes in provisions for slow moving stock		366 848	(100 194)
interest income	8	(1 429 765)	(2 029 581)
interest expense	9	96 935	93 201
Changes in working capital:			
Decrease / (increase) in inventories		183 572	(5 737 029)
Increase in trade and other receivables		(9 791 499)	(3 891 910)
Increase in trade and other payables		142 203	5 392 037
Net cash generated from operating activities		**169 200**	**5 638 607**
Cash flow from investing activities			
Acquisition of property, plant and equipment and intangible assets		(2 000 329)	(1 951 460)
Proceeds from sales of property, plant and equipment		33 652	8 564
Interest received		1 339 645	692 040
Changes in loan to related parties (creditline)		5 218 280	(3 941 328)
Net cash generated from / (used in) investing activities		**4 591 248**	**(5 192 184)**
Cash flow from financing activities			
Borrowings repaid		(310 704)	(144 955)
Lease payments	25	(1 094 890)	(762 033)
Interest paid		(96 935)	(93 201)
Payment of dividends		(3 448 573)	-
Net cash used in financing activities		**(4 951 102)**	**(1 000 189)**
Net decrease in cash and cash equivalents		**(190 654)**	**(553 766)**
Cash and cash equivalents at the beginnging of the period		**279 563**	**833 329**
Cash and cash equivalents at the end of the period		**88 909**	**279 563**

Notes on pages 25 to 57 form an integral part of these financial statements.

Notes to the Financial Statements

I. GENERAL INFORMATION

AS Latvijas balzams (“the Company”) is the largest producer of alcoholic beverages in the Baltic States. The Company produces more than 100 different alcoholic beverages. The major shareholder of the Company, which owns 89.99% of the Company’s share capital as of 31 December 2021, is Amber Beverage Group Holding S.à r.l. (a company incorporated in Luxembourg). The ultimate parent company of the Group is SPI Group Holding Limited (a company incorporated in Cyprus).

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. The registered address of the Company is 160 A. Caka Street, Riga, LV-1012, Republic of Latvia. Shares of AS Latvijas balzams are quoted on the second list of the Nasdaq Riga AS.

The current financial year of the Company is from 1 January 2021 to 31 December 2021.

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

II. ACCOUNTING POLICIES

(1) Basis of preparation

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

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

The financial statements are presented in accordance with IAS 1 Presentation of Financial Statements. The Company has elected to present the Income statement and Statement of comprehensive income as separate statements. The financial statements are prepared on a going concern basis. As of 31 December 2021, the Company meets the criteria for a large company in accordance with the Law on the Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Expenses in the income statement are classified by function.

The cash flow statement is prepared according to the indirect method.

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

II. ACCOUNTING POLICIES (continued)

(1) Basis of preparation (continued)

a) Standards and amendments that became effective for the first time for the annual periods beginning 1 January 2021:

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to Covid-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8. (See Note 25.)

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (effective for annual periods beginning on or after 1 January 2021). Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform.

The Company believes that the amendments to the standards mentioned above has no material impact on the Company's financial statements.

b) Certain new standards and interpretations have been issued and become effective for annual periods beginning on or after 1 January 2022 or are not yet endorsed by the European Union:

- Amendments to IFRS 4 – deferral of IFRS 9 (effective for annual periods beginning on or after 1 January 2023).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 (effective for annual periods beginning on or after a date to be determined by the IASB, not yet adopted by the EU).
- IFRS 17 "Insurance Contracts" (effective for annual periods beginning on or after 1 January 2021, not yet adopted by the EU).
- Classification of liabilities as current or non-current – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2022, not yet adopted by the EU).
- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS9, IFRS16 and IAS 41 (effective for annual periods beginning on or after 1 January 2022).

The Company believes that the amendments to the standards mentioned above will have no material impact on the Company's financial statements

II. ACCOUNTING POLICIES (continued)

(2) Revenue recognition

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

Income from rendering of services

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

Sale of finished goods

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

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

Variable consideration

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

Financing component

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

(3) Functional currency and revaluation

The functional and presentation currency of the Company is the 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.

II. ACCOUNTING POLICIES (continued)

	31.12.2021 EUR	31.12.2020 EUR
1 USD	0.8829	0.8149
1 GBP	1.1901	1.1123
1 RUB	0.0117	0.0109

(4) Property, plant and equipment (PPE)

Property, plant, and equipment are 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.

The 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 life, as follows:

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

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

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

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

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

(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.

II. ACCOUNTING POLICIES (continued)

(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 the estimated useful life set for respective assets and are within the range of 20 to 40 years. The useful lives are reviewed, and adjusted if appropriate, at each end of the financial year.

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

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

(8) Leases

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

The Company as a lessee

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

Right-of-use assets

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

Lease liabilities

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

II. ACCOUNTING POLICIES (continued)

is apportioned between lease liabilities and interest expenses thereon. Interest paid on lease liabilities is recognized in the income statement over the lease term.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of other property, plant, and equipment items (i.e., those leases that have a lease term less than 12 months from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term. All other fixed assets with a purchase value of up to EUR 500 (five hundred euros), regardless of their useful life, or above EUR 500 (five hundred euros) if they have a useful life of up to one year, are accounted for as low-value inventory.

(9) Inventories

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

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

(10) Financial instruments

Classification

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

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

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

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

Recognition and derecognition

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

Measurement

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

III. **ACCOUNTING POLICIES** (continued)

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

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.

II. ACCOUNTING POLICIES (continued)

(10) Financial instruments (continued)

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

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

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

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

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

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

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

Financial liabilities

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

(11) Cash and cash equivalents

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

(12) Share capital

Ordinary shares are classified as share capital.

(13) Borrowings

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

II. ACCOUNTING POLICIES (continued)

(14) Vacation accruals

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

(15) Income tax

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

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

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

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

(16) Earnings per share

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

(17) Related parties

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

(18) Employee benefits

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

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

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

II. ACCOUNTING POLICIES (continued)

(19) Government grants

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

(20) Critical accounting estimates and judgments

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

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

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

b) Expected credit loss allowance

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses lifetime expected credit loss allowance for all trade receivables. To measure the lifetime expected credit loss allowance, receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2021 and the corresponding historical lifetime expected credit loss allowance experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. (See also Note 29).

IV. OTHER NOTES

(1) Segment Information and net sales

a) Operation and reportable segment

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

b) Revenue by type

	2021 EUR	2020 EUR
Production of alcoholic beverages	73 574 468	63 332 446
Sales of other goods and materials	239 542	569 289
Other services	4 238 057	4 675 299
	78 052 067	**68 577 034**

c) Revenue by geography (by customer)

	2021 EUR	2020 EUR
Cyprus	43 506 265	37 459 472
Latvia	26 288 996	24 855 724
Lithuania	4 309 057	3 546 371
Estonia	779 633	639 128
Russia	1 422 599	481 238
Ukraine	281 675	310 729
Romania	415 510	270 751
Turkey	269 419	232 768
Other	778 913	780 853
	78 052 067	**68 577 034**

(2) Cost of sales

	2021 EUR	2020 EUR
Raw materials and consumables	47 905 262	40 552 395
Salary expense	5 691 781	5 446 094
The state compulsory social insurance contributions	1 331 880	1 303 935
Depreciation of non-current assets	1 205 140	1 271 431
Energy resources	860 998	756 204
Repair and maintenance expenses	655 685	620 598
Goods purchased	219 586	563 706
Management of packaging	726 092	554 399
Insurance payments	27 958	36 330
Laboratory expenses	24 791	22 244
Accrued expenses on unused annual leave	80 869	(48 358)
Other costs	1 346 487	1 548 744
	60 076 529	**52 627 722**

III. OTHER NOTES (continued)

(3) Distribution expenses

	2021 EUR	2020 EUR
Advertising and sales promotion expenses	2 118 900	1 324 463
Salary expenses	1 922 746	1 780 278
Depreciation of non-current assets	992 726	1 000 756
Transportation expenses	696 162	601 736
The state compulsory social insurance contributions	452 534	427 556
Warehouse maintenance expenses	430 398	381 625
Other expenses	566 269	465 058
	7 179 735	**5 981 472**

(4) Administrative expenses

	2021 EUR	2020 EUR
Management services and expenses	2 433 359	2 074 977
Salary expenses	670 816	686 820
Depreciation of non-current assets	174 262	315 944
Computer maintenance	209 880	234 731
Financial support, sponsorship	103 954	116 492
The state compulsory social insurance contributions	154 388	162 085
Real estate tax	161 355	161 355
Professional service costs	78 868	120 589
Transport costs	27 664	33 001
Representation expenses	17 142	12 995
Communication and postal expenses	12 601	15 553
Office expenses	8 734	34 323
Business trip expenses	2 159	1 494
Bank commissions	15 685	10 891
Other expenses	594 819	409 661
	4 665 686	**4 390 911**

(5) Other operating income

	2021 EUR	2020 EUR
Income from auxiliary and package materials sales	488 959	853 164
Gains on sale of property, plant and equipment	502 489	353
Net gains from exchange rate fluctuations	23 727	50 747
Income from renting of premises	281 785	331 436
Government grants received	358 790	491 495
Other income	386 226	713 719
	2 041 976	**2 440 914**

Government grants received include the grant provided by the Investment and Development Agency of Latvia within the support program “COVID-19 for exporters of goods and services affected by the crisis to overcome the consequences of the crisis” and State support for companies affected by the Covid-19 crisis - a grant to ensure the flow of working capital.

III. OTHER NOTES (continued)

(6) Other operating expenses

	2021 EUR	2020 EUR
Penalties paid	218 936	229 068
Other expenses	554 720	400 850
	773 656	**629 918**

(7) Expenses by nature

	2021 EUR	2020 EUR
Materials	47 905 262	40 552 395
Employee expenses	10 305 014	9 758 410
Management services and expenses	2 433 359	2 074 977
Depreciation of non-current assets	2 372 128	2 588 131
Advertising and sales promotion expenses	2 222 854	1 440 955
Repair and maintenance expenses	655 685	620 598
Transportation expenses	723 826	634 737
Management of packaging	726 092	554 399
Real estate tax	161 355	161 355
Other expenses	5 190 031	5 244 066
	72 695 606	**63 630 023**

(8) Finance income

	2021 EUR	2020 EUR
Interest income from related parties	1 429 765	2 029 581
	1 429 765	**2 029 581**

(9) Finance expenses

	2021 EUR	2020 EUR
Interest expenses	83 244	74 917
Interest expenses to related parties	13 691	18 284
	96 935	**93 201**

III. OTHER NOTES (continued)

(10) 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 are 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.

	2021	2020
Profit attributed to shareholders of the Company (EUR)	8 731 267	9 324 305
Average annual number of shares	7 496 900	7 496 900
Earnings per share (EUR)	**1.16**	**1.24**

(11) Intangible assets

	Licences and software EUR	Intangible assets under development EUR	Total EUR
Initial cost			
31.12.2019	**1 347 963**	**663**	**1 348 626**
Additions	-	23 621	23 621
Disposals	-	(4 872)	(4 872)
Reclassification	6 825	(11 802)	(4 977)
31.12.2020	**1 354 788**	**7 610**	**1 362 398**
Additions	-	181 929	181 929
Disposals	(212 504)	(2 799)	(215 303)
Reclassification	11 705	(11 705)	-
31.12.2021	**1 153 989**	**175 035**	**1 329 024**
Accumulated amortisation			
31.12.2019	**(1 151 719)**	**-**	**(1 151 719)**
Amortisation	(123 488)	-	(123 488)
31.12.2020	**(1 275 207)**	**-**	**(1 275 207)**
Amortisation	(34 291)	-	(34 291)
Disposals	211 665	-	211 665
31.12.2021	**(1 097 833)**	**-**	**(1 097 833)**
Net book value			
31.12.2020	**79 581**	**7 610**	**87 191**
31.12.2021	**56 156**	**175 035**	**231 191**

III. OTHER NOTES (continued)

(12) Property, plant and equipment and Investment property

	Lands and buildings EUR	Equipment and machinery EUR	Other assets EUR	Assets under construction EUR	Total EUR	Investment property EUR
Initial cost						
31.12.2019	**15 070 215**	**22 110 579**	**5 359 372**	**1 702 618**	**44 242 784**	**2 907 635**
Additions	-	-	-	1 927 839	1 927 839	-
Disposals	(12 650)	(15 124)	(69 005)	(117 023)	(213 802)	-
Reclassification	678 823	1 869 028	387 861	(2 942 278)	(6 566)	8 110
Reclassification from right-of use assets	-	-	(17 026)	-	(17 026)	-
31.12.2020	**15 736 388**	**23 964 483**	**5 661 202**	**571 156**	**45 933 229**	**2 915 745**
Additions	-	-	-	2 518 712	2 518 712	-
Disposals	(22 561)	(1 060 742)	(887 407)	(3 444)	(1 974 154)	(2 915 745)
Reclassification	398 869	856 689	749 901	(2 005 459)	-	-
Reclassification to right-of use assets	-	(10 560)	(578 770)	(2 062)	(591 392)	-
Reclassification from right-of use assets	-	739 575	-	-	739 575	-
31.12.2021	**16 112 696**	**24 489 445**	**4 944 926**	**1 078 903**	**46 625 970**	**-**
Accumulated depreciation						
31.12.2019	**(8 446 181)**	**(18 688 523)**	**(4 395 547)**	**(339 225)**	**(31 869 476)**	**(1 099 214)**
Depreciation	(467 215)	(752 070)	(392 216)	-	(1 611 501)	(103 746)
Disposals	12 650	18 010	66 356	-	97 016	-
Reclassification to right-of use assets	-	-	9 856	-	9 856	-
31.12.2020	**(8 900 746)**	**(19 422 583)**	**(4 711 551)**	**(339 225)**	**(33 374 105)**	**(1 202 960)**
Depreciation	(424 694)	(769 681)	(356 987)	-	(1 551 362)	(69 388)
Disposals	21 373	1 023 482	870 736	-	1 915 591	1 272 348
Reclassification to right-of use assets	-	34 350	-	-	34 350	-
Reclassification from right-of use assets	-	(291 774)	-	-	(291 774)	-
31.12.2021	**(9 304 067)**	**(19 426 206)**	**(4 197 802)**	**(339 225)**	**(33 267 300)**	**-**
Net book value						
31.12.2020	**6 835 642**	**4 541 900**	**949 651**	**231 931**	**12 559 124**	**1 712 785**
31.12.2021	**6 808 629**	**5 063 239**	**747 124**	**739 678**	**13 358 670**	**-**

The gross carrying value of the fully depreciated property, plant, and equipment that is still in use is EUR 12 307 824 (31.12.2020: EUR 14 344 781).

During the reporting year to review the plans for the further development and use of the real estate structure, the Company disposed of the investment property in Riga to a related party, SPI RE Holding Sarl (a company incorporated in Luxembourg). Net gain on disposal is included in the income statement item “Other operating income” (see also Note 5).

All tangible assets and the largest part of real estate of the Company in the total amount of EUR 12.7 million (EUR 6.8 million – lands and buildings, EUR 5.1 million – equipment and machinery, EUR 0.8 million – other assets) are pledged under conditions of the agreement of the Commercial and Mortgage pledge as the security for loans from the credit institutions (see also Note 18, Note 27).

OTHER NOTES (continued)

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

Total income from Investment property – EUR 63 570 (2020: EUR 130 032), direct costs – EUR 28 300 (2020: EUR 30 448).

(13) Inventories

	31.12.2021 EUR	31.12.2020 EUR
Raw materials and consumables	12 194 852	13 567 287
Finished goods and goods for sale	13 681 695	12 592 288
Inventory in transit	363 849	265 201
Work in progress	19 343	18 535
Provisions	(1 350 846)	(983 998)
	24 908 893	**25 459 313**

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

	2021 EUR	2020 EUR
Provisions at the beginning of the year	983 998	1 084 192
Changes in provisions recognized in the income statement	366 848	(100 194)
Provisions at the end of the year	**1 350 846**	**983 998**

All inventories of the Company are pledged in accordance with terms of Commercial pledge agreements as security for loans from the credit institutions (see also Note 18, Note 27).

(14) Trade receivables

	31.12.2021 EUR	31.12.2020 EUR
Trade receivables	1 607 644	1 156 639
Expected credit losses allowance	(296 138)	(180 011)
	1 311 506	**976 628**

For additional information about trade receivables see Note 29.

III. OTHER NOTES (continued)

(15) Other assets

	31.12.2021 EUR	31.12.2020 EUR
Financial assets:		
Current		
Advance payments for goods and services	202 357	89 717
Other receivables	64 983	63 370
	267 340	**153 087**
Non-financial assets:		
Non-current		
Deferred expenses	178 305	210 891
Other receivables	245 020	70 854
	423 325	**281 745**
Current		
Deferred expenses	118 703	178 793
Accrued income	90 799	378 699
	209 502	**557 492**
Other non-current assets	**423 325**	**281 745**
Other current assets	**476 842**	**710 579**

(16) Share capital

As of 31 December 2021, and 31 December 2020 the registered and fully paid share capital is in the amount of EUR 10 495 660, which consists of 7 496 900 ordinary shares with a nominal value of EUR 1.4 each.

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

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

All shares owned by the main shareholder of the Company Amber Beverage Group Holding S.à r.l., as well as any other shares that Amber Beverage Group Holding S.à r.l. may acquire in the future are pledged in accordance with terms of the Commercial pledge agreement as security for loans of the credit institutions (see Note 18).

III. OTHER NOTES (continued)

(17) Reserves

	31.12.2021 EUR	31.12.2020 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.

(18) Borrowings and lease liabilities

	31.12.2021 EUR	31.12.2020 EUR
Non-current		
AS "Luminor Bank"	579 980	890 684
Lease liabilities (see Note 26)	1 068 721	771 951
	1 648 701	**1 662 635**
Current		
AS "Luminor Bank"	310 704	310 946
Lease liabilities (see Note 26)	740 459	935 506
	1 051 163	**1 246 452**
Total borrowings and lease liabilities	**2 699 864**	**2 909 087**

III. OTHER NOTES (continued)

(19) Borrowings and lease liabilities (continued)

a) Loan from AS Luminor Bank Latvian branch

At the end of 2018, the Group completed the restructuring of its loan portfolio from AS Luminor Bank Latvian branch. As a result, in January 2019 the duration of the existing loan agreement was extended until 31 December 2023. The interest rate applied to the loan is EURIBOR plus 2.65. The outstanding balance of the Company's liabilities as of 31 December 2021 was EUR 890 684 (31.12.2020 - EUR 1 201 630).

b) Collateral

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

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

For information about the net book value of the real estate and assets under the commercial pledge see also Notes 12,13,25.

(19) Taxes payable

	31.12.2021 EUR	31.12.2020 EUR
Excise tax	20 513 890	22 827 083
Value added tax	1 561 098	1 528 577
The state compulsory social insurance contributions	274 516	285 221
Personal income tax	139 703	105 416
Other taxes	215	540
	22 489 422	**24 746 837**

(20) Other liabilities

	31.12.2021 EUR	31.12.2020 EUR
Accrued liabilities	961 130	624 768
Vacation accruals	625 510	497 973
Salaries	502 596	438 287
Other liabilities	237 144	310 135
	2 326 380	**1 871 163**

III. OTHER NOTES (continued)

(21) Auditors remuneration

	2021 EUR	2020 EUR
Fees paid for audit and audit related services	29 500	28 238
	29 500	**28 238**

(22) Average number of employees

	2021	2020
Average number of people employed during the financial year:		
Council members	5	5
Board members	2	2
Other employees	555	576
	562	**583**

(23) Remuneration to Board and Council members

	2021 EUR	2020 EUR
Average number of people employed during the financial year:		
Council members	5	5
Board members	2	2
Other employees	555	576
	562	**583**

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

(24) Transactions with related parties

The majority shareholder (the Parent company) of AS Latvijas balzams, who as of 31 December 2021 owns 89.99% of share capital, is Amber Beverage Group Holding S.à r.l. (incorporated in Luxembourg). The ultimate parent company of the Group is S.P.I. Group Holding Ltd (incorporated in Cyprus) whose sole shareholder is Yuri Shefler.

For additional information about guaranties see Note 27.

III. OTHER NOTES (continued)

24. Transactions with related parties (continued)

a) Accounts receivable from related parties

	31.12.2021 EUR	31.12.2020 EUR
Parent company	823 790	22 045
Other related parties	63 770 085	52 848 614
	64 593 875	**52 870 659**

The receivables from related parties arise mainly from the sales of goods and services. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (31.12.2020: nil).

b) Accounts payable to related parties

	31.12.2021 EUR	31.12.2020 EUR
Parent company	127 843	153 022
Other related parties	1 797 381	1 329 752
	1 925 224	**1 482 774**

c) Sales of services and goods to related parties

	2021 EUR	2020 EUR
Other related parties	74 959 033	64 541 160
	74 959 033	**64 541 160**

The value of transactions is disclosed net of discounts, excise and value added tax. Revenue from the sale of goods and services also includes revenue from the disposal of long term investments (investment property) for a total amount of EUR 2.14 million.

d) Purchase of services and goods from related parties

	2021 EUR	2020 EUR
Parent company	122 452	134 740
Other related parties	14 895 276	14 202 223
	15 017 728	**14 336 963**

e) Non-current loans to related parties

	31.12.2021 EUR	31.12.2020 EUR
Parent company	-	37 778 791
	-	**37 778 791**

III. OTHER NOTES (continued)

24. Transactions with related parties (continued)

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

f) Current loans to related parties

	31.12.2021. EUR	31.12.2020. EUR
Parent company	66 128 256	33 545 715
Other related parties	1 168 022	1 099 932
	67 296 278	**34 645 647**

	31.12.2021 EUR	31.12.2020 EUR
Parent company	66 128 256	33 545 715
Other related parties	1 168 022	1 099 932
	67 296 278	**34 645 647**

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

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

III. OTHER NOTES (continued)

(25) Right-of-use assets

	Buildings	Right-of-use assets Machinery and equipment	Total	Lease liabilities
	EUR	EUR	EUR	EUR
As at 31 December 2019	**1 512 196**	**1 578 829**	**3 091 025**	**2 274 523**
Additions	-	6 566	**6 566**	-
Reclassification	7 170	-	**7 170**	-
Impact on change in assumption	265 487	-	**265 487**	265 487
Depreciation expense	(553 910)	(195 486)	**(749 396)**	-
Interest expense	-	-	**-**	29 259
Payment interest	-	-	**-**	(46 788)
Negative variable lease payment	-	-	**-**	(52 991)
Payment	-	-	**-**	(762 033)
As at 31 December 2020	**1 230 943**	**1 389 909**	**2 620 852**	**1 707 457**
Impact on change in assumption	520 268	-	**520 268**	459 455
Additions	2 062	582 931	**584 993**	700 312
Reclassification	-	(475 751)	**(475 751)**	-
Depreciation expense	(549 609)	(167 478)	**(717 087)**	-
Interest expense	-	-	-	63 540
Payment interest	-	-	-	(26 693)
Payment	-	-	-	(1 094 891)
As at 31 December 2021	**1 203 664**	**1 329 611**	**2 533 275**	**1 809 180**

See Note 18 for the breakdown of lease liabilities by maturity profile.

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

III. OTHER NOTES (continued)

(26) Contingent liabilities

Litigation with SIA Interjeru iekārtošanas un restaurācijas firma Ierosme

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

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

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

On October 20, 2020, the court decided to satisfy the claim of Ierosme against the Company for recovery of debt and penalties. The Company appealed against the judgment by filing a cassation claim.

On April 28, 2021, the court refused to initiate cassation proceedings against the part of the judgment regarding the recovery of the principal debt from the Company and the rejection of the Company's counterclaim. The judgment of the Riga Regional Court has entered into force in the part regarding the recovery of the principal debt in the amount of EUR 110.8 thousand from the Company. In the meantime, cassation proceedings have been instituted against the judgment in the part concerning the recovery of contractual penalties and the recovery of legal costs. The litigation is still in process.

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

Contingent tax liabilities

At the moment of distribution of profits generated after 1 January 2018, the Company will calculate corporate income tax in the amount of 20/80 from the net amount payable to shareholders. Contingent tax liabilities as of 31 December 2021 are EUR 9.4 million (31.12.2020: EUR 7.1 million).

(27) Guarantees issued

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

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

On 27 April 2018, the Company’s Parent company Amber Beverage Group Holding S.à r.l. signed a loan agreement with AS Luminor Bank Latvian branch to finance the purchase of Think Spirits Pty Ltd. (since April 2021 Amber Beverage Australia Pty Ltd.). The maximum secured limit is EUR 4.6 million.

III. OTHER NOTES (continued)

27. Guarantees issued (continued)

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. On 2 December 2021, an agreement was concluded, which provides for the extension of the repayment term of the existing loan agreement until 2 December 2023.

Before mentioned securities of liabilities will be valid till the complete settlement of the liabilities under the agreements.

According to the terms of the agreements, the Company receives a fee from the parent company for the provided collateral as a percentage of the total value of the collateral. 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 the 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.

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. The security will be valid till the complete settlement of the liabilities under the agreement. According to the mutual agreements, the Company receives remuneration from the parent for the collateral provided as a percentage of the total collateral value.

Information about net book value of real estate and assets under commercial pledge in Notes 12, 13, and 25.

(28) 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 2021	**Financial assets at amortised cost**	**Financial liabilities at amortised cost**	**Total**
	EUR	**EUR**	**EUR**
Financial assets:			
Loans to related parties	67 296 278	-	**67 296 278**
Cash and cash equivalents	88 909	-	**88 909**
Trade and other receivables	66 172 720	-	**66 172 720**
	133 557 907	**-**	**133 557 907**
Financial liabilities:			
Borrowings:			
(i) Lease liabilities	-	(1 809 180)	**(1 809 180)**
(ii) Loans from credit institutions	-	(890 684)	**(890 684)**
Trade payables	-	(8 929 800)	**(8 929 800)**
	-	**(11 629 664)**	**(11 629 664)**

III. OTHER NOTES (continued)

(28) Financial assets and financial liabilities (continued)

On 31 December 2020

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

The Company's exposure to various risks associated with the financial instruments is discussed in Note 29.

(29) Financial and capital risk management

Fair value of financial assets and financial liabilities

Due to the short-term nature of cash and cash equivalents, trade receivables, trade payables, and other current financial assets and liabilities their carrying amounts largely approximate their fair value. For non-current financial assets and liabilities, the fair values are also not significantly different from 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 that use inputs that 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)

(29) Financial and capital risk management (continued)

On 31 December 2021

	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Financial assets:				
Loans to related parties	-	-	67 296 278	**67 296 278**
Cash and cash equivalents	-	88 909	-	**88 909**
Trade and other receivables	-	-	66 172 720	**66 172 720**
	-	**88 909**	**133 468 998**	**133 557 907**
Financial liabilities:				
Borrowings:				
(i) Lease liabilities	-	-	(1 809 180)	**(1 809 180)**
(ii) Loans from credit institutions	-	-	(890 684)	**(890 684)**
Trade payables	-	-	(8 929 800)	**(8 929 800)**
	-	**-**	**(11 629 664)**	**(11 629 664)**

On 31 December 2020

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

Foreign exchange risks

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

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

***III. OTHER NOTES** (continued)*

(29) Financial and capital risk management (continued)

	31.12.2021 EUR	31.12.2020 EUR
Financial assets, USD	749 509	471 022
Financial liabilities, USD	(242 237)	(349 134)
Open position USD, net	**507 272**	**121 888**
Open position USD calculated in euro, net	**447 871**	**99 249**
Financial liabilities, GBP	(100 675)	(57 586)
Open position GBP net	**(100 675)**	**(57 586)**
Open position GBP calculated in euro, net	**(119 804)**	**(63 767)**
Financial assets, RUB	-	463 241
Open position RUB, net	**-**	**463 241**
Open position RUB calculated in euro, net	**-**	**5 041**

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

	2021		2020	
	Change in exchange rates	Effect on equity EUR	Change in exchange rates	Effect on equity EUR
USD	+10%	(44 787)	+10%	(9 925)
	-10%	44 787	-10%	9 925
GBP	+10%	11 980	10%	6 377
	-10%	(11 980)	-10%	(6 377)

Interest rate risks

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

	31.12.2021 EUR	31.12.2020 EUR
Financial liabilities with variable interest rate, EUR	(2 699 864)	(2 909 087)
Total financial liabilities, EUR	**(2 699 864)**	**(2 909 087)**

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

III. OTHER NOTES (continued)

(29) Financial and capital risk management (continued)

Interest rate risks (continued)

	2021		**2020**	
	Increase/ decrease in basis points	**Effect on profit before tax EUR**	**Increase/ decrease in basis points**	**Effect on profit before tax EUR**
EUR	+30	(8 413)	+30	(9 795)
	-30	8 413	-30	9 795

Other price risk

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

Credit risk

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

Credit risk (continued)

Maximum exposure to credit risk:

	31.12.2021 EUR	**31.12.2020 EUR**
Issued loans to related companies	67 296 278	72 424 438
Trade receivables - related companies	64 593 875	52 870 659
Financial guarantees issued	-	5 133 468
Trade receivables - non-related parties	1 311 505	976 628
Other current assets	267 340	153 087
Cash	88 909	279 563
	133 557 907	**131 837 843**

The largest concentration of credit risk arises from the debts of related parties: on 31 December 2021 98% of the total trade receivables related to Group companies (31.12.2020: 98%). Taking into account the strong financial position of the related parties, no lifetime expected credit loss allowance for receivables from the related parties has been recognized as the Company's management believes that the credit risk is considered to be immaterial.

III. OTHER NOTES (continued)

(29) Financial and capital risk management (continued)

Trade receivables

To measure the expected credit losses (ECL), trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2021 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. On that basis, the lifetime expected credit loss allowance as of 31 December 2021 and 31 December 2020 was determined for trade receivables, as follows:

31.12.2021.	Total	Not due	1-90 days	91-180 days	181-270 days	270-360 days	>361 days
Gross carrying amount - Trade receivables	1 607 643	1 136 656	283 145	-	-	-	187 654
ECL rate		3.3%	25.0%	65.0%	100.0%	100.0%	100.0%
ECL allowance	(296 138)	(37 510)	(70 786)	-	(188)	-	(187 654)

31.12.2020.	Total	Not due	1-90 days	91-180 days	181-270 days	270-360 days	>361 days
Gross carrying amount - Trade receivables	1 156 639	949 088	83 439	0		33 542	90 570
ECL rate		3.69%	25.00%	65.00%	100.00%	100.00%	100.00%
ECL allowance	(180 011)	(35 039)	(20 860)	0	0	(33 542)	(90 570)

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

	2021 EUR	**2020 EUR**
Balance at the beginning of the year	180 011	184 562
Increase / (decrease) in ECL	116 127	(4 551)
Balance at the end of the year	**296 138**	**180 011**

III. OTHER NOTES (continued)

(29) Financial and capital risk management (continued)

Trade receivables (continued)

Maturity analysis of receivables from related companies:

	Gross amount	ECL allowance	Trade receivables, net	split to:	Past due		
				not due	< 90 days	90-180 days	> 180 days
31.12.2021.							
Related parties	64 593 875	-	64 593 875	20 562 905	29 497 942	12 435 721	2 097 308
31.12.2020.							
Related parties	52 870 659	-	52 870 659	19 501 938	22 886 459	7 548 635	2 933 628

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

Liquidity risk

The Company manages its liquidity risk by arranging an adequate amount of committed credit and loans, planning payment terms for trade payables, developing and analysing future cash flows comprising both the existing and planned loans, as well as interest payable on such loans. On 31 December 2021, the Company's current assets exceeded its current liabilities by EUR 123 879 537 (31.12.2020: EUR 80 116 750). 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 2021	**Less than 1 year**	**Between 2 and 5 years**	**Total contractual cash-flows**	**Carrying amount**
	EUR	**EUR**	**EUR**	**EUR**
Interest bearing borrowings	334 307	595 350	929 656	890 684
Leases	745 443	1 069 652	1 815 096	1 809 180
Trade payables	7 004 576	-	7 004 576	7 004 576
Payables to related parties	1 925 224	-	1 925 224	1 925 224
	10 009 550	**1 665 002**	**11 674 552**	**11 629 664**

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

III. OTHER NOTES (continued)

(29) Financial and capital risk management (continued)

Capital management

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

The Company's management controls the net debt to equity (gearing ratio). During the reporting year, this figure has remained at 2% (2020: 2%), confirming the Company's stability.

	31.12.2021 EUR	31.12.2020 EUR
Total borrowings (long-term and short-term loans)	2 699 864	2 909 087
Less cash and cash equivalents	(88 909)	(279 563)
Net debt	2 610 955	2 629 524
Equity	138 777 297	133 494 603
Total capital (equity and net loans)	**141 388 252**	**136 124 127**
Net debt to equity	2%	2%
Equity ratio on total assets	79%	79%

	Cash and cash equivalents	Lease due after 1 year	Lease due within 1 year	Borrowings due after 1 year	Borrowings due within 1 year	Total
	EUR	EUR	EUR	EUR	EUR	EUR
Net debt as at 31 December 2019	**833 329**	**(1 366 430)**	**(908 093)**	**(1 077 106)**	**(269 309)**	**(2 787 609)**
Cash flows	(553 766)	-	762 033	-	144 955	**353 222**
Other non-cash movement	-	594 479	(789 446)	186 422	(186 592)	**(195 137)**
Net debt as at 31 December 2020	**279 563**	**(771 951)**	**(935 506)**	**(890 684)**	**(310 946)**	**(2 629 524)**
Cash flows	(190 654)		1 094 890	-	(310 704)	**593 532**
New lease contracts	-	1 285 305	-	-	-	**1 285 305**
Other non-cash movement	-	(1 582 075)	(899 843)	310 704	310 946	**(1 860 268)**
Net debt as at 31 December 2021	**88 909**	**(1 068 721)**	**(740 459)**	**(579 980)**	**(310 704)**	**(2 610 955)**

III. OTHER NOTES (continued)

(30) Distribution of profit proposed by the Board

Profit share to be distributed	EUR 8 731 267
Proposed profit distribution:	
Keep undistributed	EUR 8 731 267

(31) COVID-19 impact

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

(32) Subsequent events

In January 2022, the Company started cooperation with one of the leading creators of robotics and production process automation solutions in the Baltic region - SIA “Peruza”. As a result of the investment project, a new automatic cardboard box scanning, sorting, palletizing and packaging line will be established at the Company's plant at 160 Caka Street. The total project investment is planned in the amount of 1 million euros.

In March 2022, the Company's largest shareholder Amber Beverage Group Holding S.a r.l. extended the overdraft and letter of a credit agreement entered into on 19 December 2018 with AS Luminor Bank until 31 January 2023, in which the Company together with other companies belonging to the Amber Beverage Group acts as guarantor.

Russia's military invasion of Ukraine in February 2022 has posed significant new challenges to the Company's operations: due to the war, the Company has had to restructure its supply chain, to restructure and improve its pricing mechanisms greatly affected by the increase in commodity prices, as well as to follow and to comply to the requirements of the established regime of sanctions.

The Company considers that these are non-adjusting subsequent events, which are not considered for valuation of assets and liabilities as at 31 December 2021. However, the Company took into account these events for assessment of the application of the going concern principle on preparation of these financial statements.

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 of 31 December 2021.

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

The Financial statements of the Company set out on pages 19 to 57 were signed on 28 April 2022 by:

On behalf of the Board:

____
Intars Geidāns
Chairman of the Board

____
Liena Galbaliņa
Chief accountant
Amber Beverage Group SIA

Independent Auditor's Report

To the shareholders of AS Latvijas balzams

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of AS Latvijas balzams (the Company) as at 31 December 2021, 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 28 April 2022.

What we have audited

The Company's financial statements comprise:

- the income statement for the year ended 31 December 2021;
- the statement of comprehensive income for the year ended 31 December 2021;
- the statement of financial position as at 31 December 2021;
- the statement of changes in equity for the year ended 31 December 2021;
- the cash flow statement for the year ended 31 December 2021; and
- notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

We have not provided non-audit services to the Company in the period from 1 January 2021 to 31 December 2021.

PricewaterhouseCoopers SIA
Kr. Valdemāra iela 21-21, Rīga, LV-1010, Latvia, LV40003142793
T: +371 6709 4400, F: +371 6783 0055, www.pwc.lv

Our audit approach

Overview

Materiality - Overall materiality is EUR 770 thousand.

Key audit matter – Inventory valuation as of year end.

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

Materiality

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

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

Overall materiality	EUR 770 thousand
How we determined it	Overall materiality is approximately 1% of total revenue of 2021.
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.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above EUR 77 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.

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

Key audit matter	How our audit addressed the key audit matter
Inventory valuation as of year-end As disclosed in Note 13, as at 31 December 2021 the Company's inventory amounts to EUR 24,909 thousand, EUR 13,682 thousand of which is related to finished goods. Inventory valuation is not considered an area of significant risk for our audit. However, it requires significant time and resources to perform audit owing to its magnitude, and is therefore considered to be a key audit matter. Inventories are stated at the lower of cost and net realisable value (NRV). In case of manufactured inventories and work in progress, cost includes an appropriate share of overheads, allocated based on normal operating capacity. The standard costing process is complicated and involves certain judgement level in the process of allocation of production overheads.	We assessed whether the Company's accounting policies in relation to valuation of inventories comply with IFRS. We have tested the design and operating effectiveness of key controls in relation to inventory. We selected a sample of raw materials and consumables cost of inventories is determined in line with the FIFO (First in, First out) method. We selected a sample of internally produced finished goods and reconciled their cost in the accounting system to their standard cost calculation. We further verified that the cost of finished goods determined by the standard costing did not materially differ from the cost determined by actual production costs incurred during the reporting period. We randomly selected finished goods items and compared their book value to the subsequent selling price after the year end to identify whether the selling price of those selected items was lower than the book value. We analysed obsolescence data and rates applied in calculations of inventories allowance. We reviewed the disclosures made in Note 13 to the financial statements.

Reporting on other information including the Report of the Management

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

- the Report of the Management (including Non-financial Statement), as set out on pages 4 to 16 of the accompanying Annual Report,
- the Statement of the Managements' Responsibility, as set out on page 18 of the accompanying Annual Report,
- the Statement of Corporate Governance, set out in separate statement prepared and signed by the Company's management on 28 April 2022 and available on the Company's website http://www.lb.lv/ as at the date of this audit report,
- the Remuneration Report, set out in separate statement prepared and signed by the Company's management on 28 April 2022 and available on the Company's website http://www.lb.lv/ as at the date of this audit report,
- Information on the Company, as set out on page 3 of the accompanying Annual Report,

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

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

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

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

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

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

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

- the information given in the other information identified above for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the Report of the Management has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia; and
- the Statement of Corporate Governance, prepared and signed by the Company's management on 28 April 2022, available on the Company's website http://www.lb.lv/ as at the date of this audit report, includes, the information in accordance with Article 56.1, section 1, clauses 3, 4, 6, 8 and 9, as well as Article 56.2, section 2, clause 5 of the Financial Instruments Market Law and it includes the information stipulated in Article 56.2, section 2, clauses 1, 2, 3, 4, 7 and 8 of the Financial Instruments Market Law.
- the Remuneration Report, prepared and signed by the Company's management on 28 April 2022, available on the Company's website http://www.lb.lv/ as at the date of this audit report, includes the information in accordance with Article 59.4 of the Financial Instruments Market Law and we have not identified material inconsistencies with the financial information included in the annual report.

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events

in a manner that achieves fair presentation.

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

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

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

Report on other legal and regulatory requirements

Report on the compliance of the presentation of financial statements with the requirements of the European Single Electronic Format ("ESEF")

The electronic reporting format of the financial statements has been applied by the management of the Company to comply with the requirements of art. 3 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). Based on these requirements the financial statements have to be presented in XHTML format. We confirm that the electronic reporting format of the financial statements for the year ended 31 December 2021 complies with the ESEF Regulation in this respect.

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 7 years. Our appointment for the year ended 31 December 2021 was by resolution of general meeting of shareholders dated 30 September 2021.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

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

Riga, Latvia
28 April 2022

Independent Auditor's Report is signed electronically with a secure electronic signature and contains a time stamp.

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