

# MÁDARA

organic skincare

## MANAGEMENT REPORT OF AS MADARA COSMETICS ON THE UNAUDITED FINANCIAL STATEMENTS FOR 2017

REPORTING PERIOD

01.01.2017 — 31.12.2017



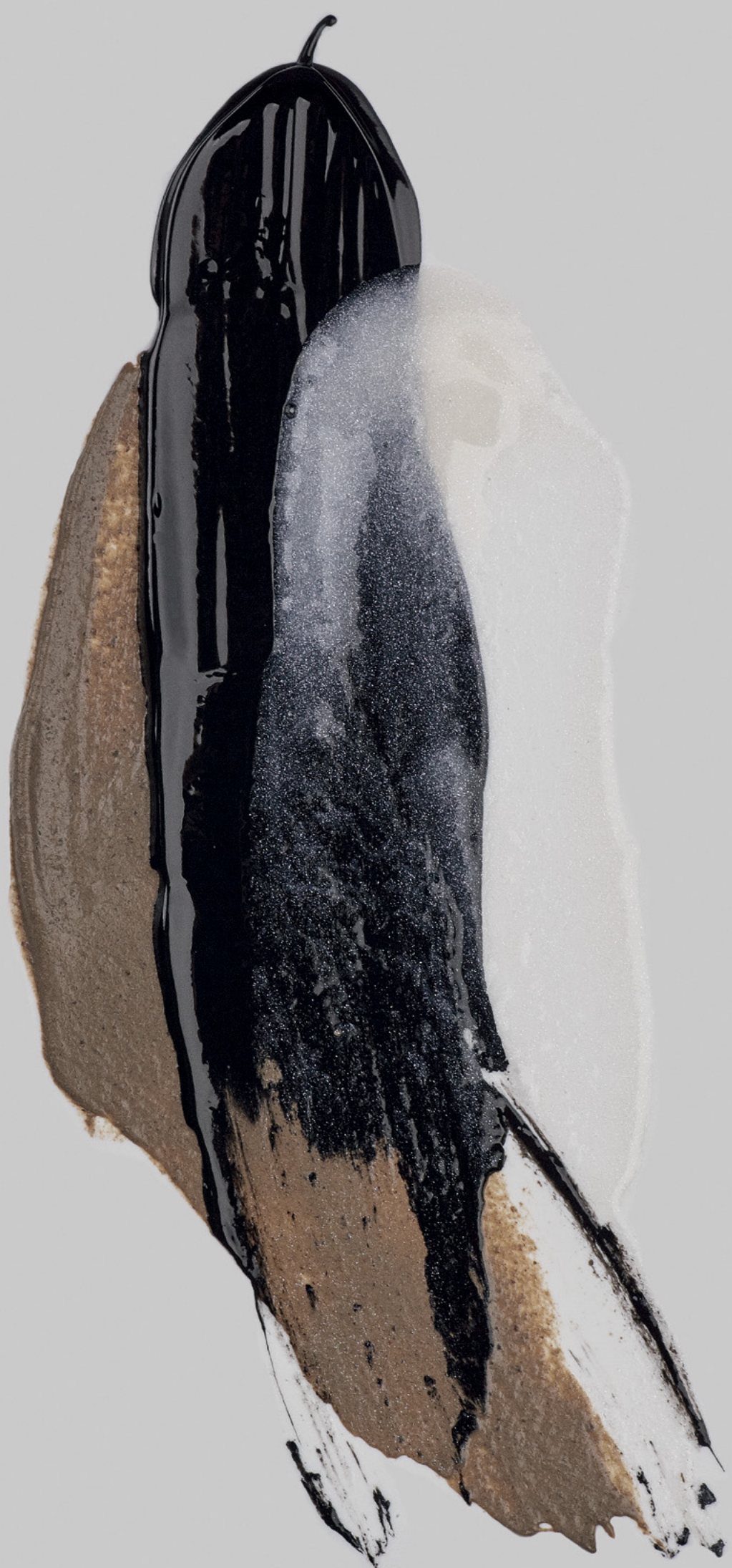




# GENERAL INFORMATION

Name of the Group	Madara Cosmetics
Parent Company	Madara Cosmetics AS (till 11.01.2017.: Limited liability company)
Parent Company's registration number	No 40003844254
Registration place and date	Riga, 28 July 2006
Parent Company's legal address	Zeltinu Street 131, Marupe, LV-2167
Shareholders ( above 5 % )	Lote Tisenkopfa Iltnere - 23,92 % Uldis Iltners - 23,92 % Sustainable Investments SIA - 17,09 % Zane Tamane - 10,25 % Liene Drāzniece - 6,83 % Oy Transmeri Group Ab - 6,00 %
Type of operation	Manufacture of perfumes and toilet preparations - 20.42 Wholesale of perfume and cosmetics - 46.45% Retail sale of cosmetic and toilet articles - 47.75%
The board members of the Parent Company	Lote Tisenkopfa - Iltnere - Chairman of the Board Uldis Iltners - Member of the Board Paula Tisenkopfa - Member of the Board
Council of the Parent Company	Zane Tamane - Chairman of the Council Liene Drāzniece - Deputy Chairman of the Council Solvita Kurtiša - Member of the Council Anna Ramata Stunda - Member of the Council Anna Andresone - Member of the Council The Council begins its work on 11 January 2017
Reporting year	No 01/01/2017 till 31/12/2017
Previous reporting year	No 01/01/2016 till 31/12/2016
Subsidiaries	Madara Retail SIA, reg. No 40103212103 - 100% Cosmetics Nord SIA, reg. No 40103277805 - 100% Madara Cosmetics GmbH, reg No HRB 177689 - 100%





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DEAR SHAREHOLDERS!

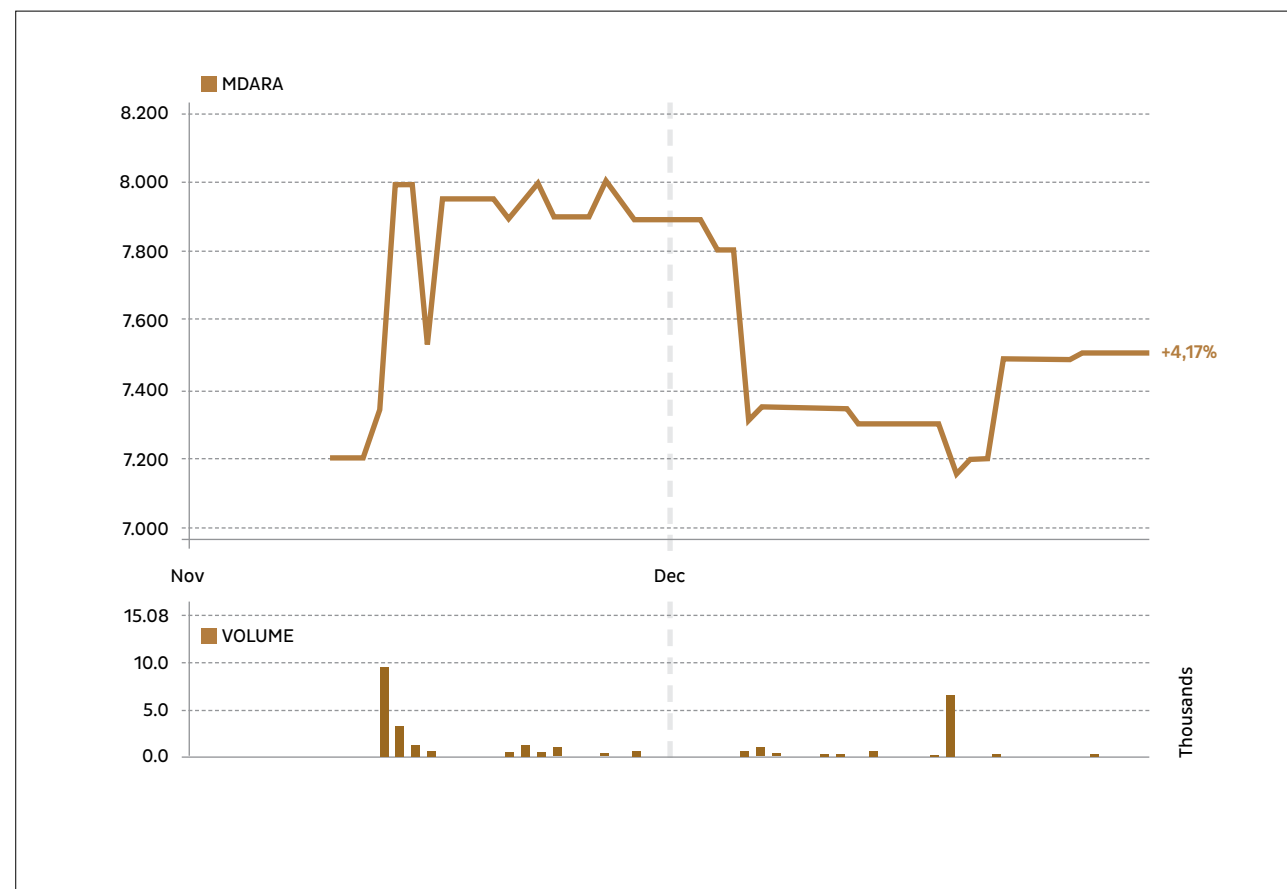
THE YEAR 2017 WAS SUCCESSFUL FOR THE COMPANY – IT RESULTED IN A NUMBER OF SIGNIFICANT EVENTS AND STRATEGICALLY IMPORTANT ACHIEVEMENTS, CREATING POSITIVE CONDITIONS FOR THE FUTURE DEVELOPMENT OF THE COMPANY. IN 2017 WE SUCCESSFULLY CONTINUED TO STRENGTHEN OUR POSITION AS ONE OF THE MOST INNOVATIVE PRODUCERS OF CERTIFIED NATURAL COSMETICS IN EUROPE, PROVING THAT THERE ARE GREAT POSSIBILITIES FOR INNOVATIONS AND GROWTH WITHIN THE INDUSTRY.



## THE MOST IMPORTANT EVENTS OF 2017:

- We successfully implemented the initial public offering (IPO) and admission to trading on Nasdaq Riga alternative market First North for the Company's shares. The market reaction was positive and within less than two months the price of the shares in secondary trading rose by 20% from the IPO price – hence from EUR 6.25 to EUR 7.50 by the end of December. We also launched

a shareholder benefits programme, for which one third of AS MADARA Cosmetics shareholders have registered. The goal of this programme is to form closer relations with shareholders, offering various material and non-material advantages. All shareholders, who have not yet registered for participation in the programme, are welcome to do it on our home page: [bit.ly/2oyFOYq](http://bit.ly/2oyFOYq)





- The first full year of activity at the new plant at 131 Zeltiņu Street, in Mārupe has passed, in which the new production process has become significantly more effective, by increasing the gross profit margins from 56.7% in 2016 to 62.9% in 2017. In 2017 we implemented investments for the improvement of production processes in the amount of EUR 148 000 and the development will also be continued in the coming years with the goal to increase work productivity.

The company's production capacity is sufficient to continue growth at the current pace.

- We have successfully worked in the research and development of new products. Our most significant achievement the development of a sun protection formulation based on mineral filters. The current formulation provides sun protection factors SPF15 and SPF30. In the industry of certified natural cosmetics sun protection products are considered as one of the technically most complicated products. AS MADARA Cosmetics has been working on the development of these products for almost 5 years.

The products with a sun protection factor of SPF15 and SPF30 are being launched in February 2018.

The development of other products has also been successfully completed, which will allow a total of 10 new MÁDARA branded products to be launched in the first half of 2018.

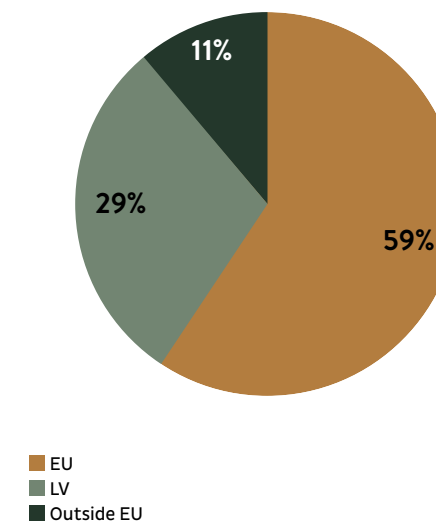
- At the end of 2017 a new e-commerce platform was successfully introduced, which functionally provides significantly wider possibilities and allows a number of new e-commerce and marketing tools and solutions to be integrated.
- The company issued its first ESG report, which characterises the company's activities and policies regarding environmental, social responsibility and corporate governance issues. We suggest to read the ESG report along with the company's financial report, because it provides answers to questions about the values and principles used to organise the company work and how the results of the financial reports have been achieved. Read the ESG report here: [bit.ly/2orKmAv](https://bit.ly/2orKmAv)
- In the 2017 Top Reputable Companies Survey AS MADARA Cosmetics acquired 2nd place as the company with the best reputation among all companies in Latvia, and 1st place in its field. Also, the Top Reputable Companies Survey has recognised the Company's management board's chairperson Lotte Tisenkopfa-Iltne as one of the best company managers in Latvia, but AS MADARA Cosmetics – as the company with the highest export potential among Latvian companies.

## SALES

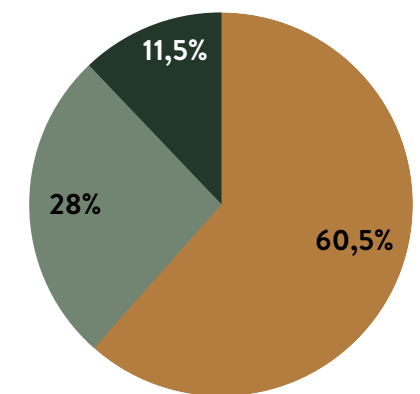
In 2017 very good sales results were achieved. The consolidated turnover of the company formed EUR 7.4 M, which constituted a 26.3% increase in comparison to 2016, and continues the established growth trend. This is very similar to the turnover guidance for 2017, which was EUR 7.6 M. It is positive that the growth was

essentially reached in existing sales channels, which have continued to develop solidly. The growth can be characterised as balanced and healthy, and is relatively evenly distributed among all sales channels. The management's revenue guidance for 2018 remains in place (EUR 10 M).

**The sale distribution in LV, EU and outside EU, in comparison to distribution in 2016.**



**The sale distribution in LV, EU and outside EU, in comparison to distribution in 2017.**

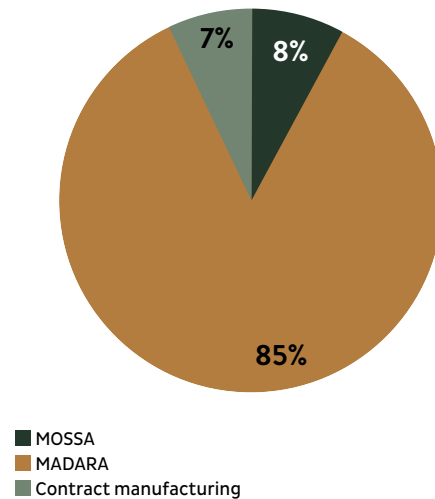


Similarly to 2016, almost 90% of the turnover came from EU countries (including Latvia). In 2017 the proportion of EU countries increased to 60.5% of turnover. The largest market outside of Latvia is Finland. Turnover in Finland in 2017 formed EUR 1.7 M, which is a 13% year-on-year increase. The parent company (Oy Transmeri Group Ab) of the distributor of the Company's

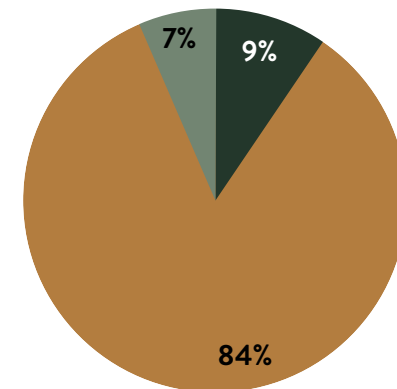
production in Finland – Oy Natcos parent company, has become one of the company's shareholders (6%), which is considered a positive signal for future development in the market of Finland. At the end of the year a new 4-year distribution agreement with Oy Natcos was signed, which during a period of 4 years plans to double the 2017 Finnish sales results.



The sale distribution of MÁDARA products, in comparison to distribution in 2016.

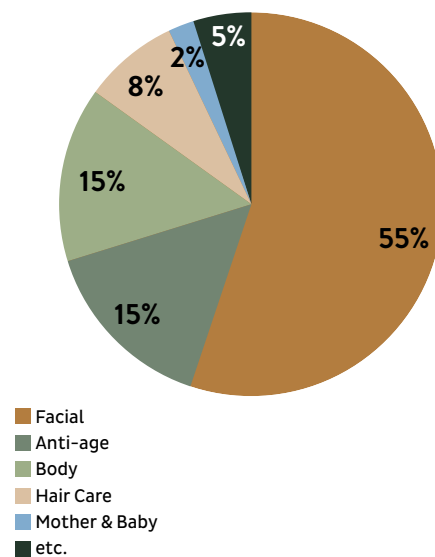


The sale distribution of MÁDARA products, in comparison to distribution in 2016.

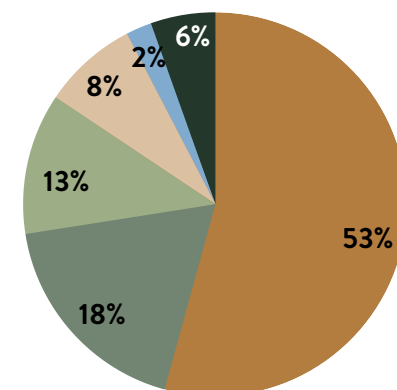


In 2017 the proportion of MOSSA products slightly increased. Overall trends of previous years by type of activity were intact.

Sale distribution by product categories: facial, body and anti-age cosmetics, hair care products, children cosmetics etc. in comparison to distribution in 2016.



Sale distribution by product categories: facial, body and anti-age cosmetics, hair care products, children cosmetics etc. in comparison to distribution in 2017.



The sales distribution of MÁDARA products by product categories retained former tendencies. The most important categories are still facial care products and anti-age cosmetics. In comparison to 2016, the proportion of anti-age cosmetics increased by almost 3 percentage points. The situation in the natural cosmetics sector

in Europe can be assessed as positive. The Company's position and future expectations can be assessed as stable. Natural cosmetics convincingly continue their success, by occupying an ever-increasing market share. The Company expects that the existing trends will also continue in the coming years.





# FINANCIAL INDICATORS

In 2017 AS MADARA Cosmetics reached its best-ever financial results (both relatively and in absolute numbers) and achieved a EUR 1.24 M net profit, which is a 54% increase in comparison to 2016. In 2017 all IPO related costs were written off as expenses in the amount

of almost EUR 300 T, which can be considered as one-time costs, and the mentioned result reflects the Company's activity result after the write-off of IPO costs. EBITDA\* formed EUR 1766 T, which is a 35% increase compared to 2016.

The main financial indicators are as follows:

Key Ratios and Indicators (12 months, unaudited)	2017	2016
EBITDA (TEUR)	1766	1307
<b>Profitability and sustainability ratios</b>	<b>2017</b>	<b>2016</b>
1. Gross Margin (%)	63	57
2. Operating Margin (%)	18	16
3. Net Margin (%)	17	14
4. ROE (%)	17	28
5. ROA (%)	14	18
<b>Liquidity ratios</b>	<b>2017</b>	<b>2016</b>
6. Current ratio	5.62	3.30
7. Quick ratio	4.36	1.81
8. Working capital (TEUR)	5,979	1,987
<b>Leverage ratios</b>	<b>2017</b>	<b>2016</b>
9. Financial debt to equity	9%	21%
10. Interest coverage	49.4	40.2
11. Net financial debt (TEUR)	-3,465	14
12. Net gearing	-48%	0%

\* EBITDA = Operating profit + depreciation expense + amortisation expense + leasehold improvements write-off expense

1. Gross profit/Net turnover\*100
2. Operating profit/Net turnover\*100
3. Net profit/Net turnover\*100
4. Net profit/Shareholder's equity\*100
5. Net profit/Total assets\*100
6. Current assets/Current liabilities
7. (Current assets-Inventories)/Current liabilities
8. Current assets-Current liabilities
9. Loans from financial institutions/Total equity\*100
10. Operating profit/Interest expense
11. Total financial debt-Cash
12. (Total financial debt-Cash)/Total equity\*100







BOARD MEMBER ULDIS ILTNERIS

# UNAUDITED FINANCIAL STATEMENTS FOR 2017

The financial statements have been prepared in accordance with Republic of Latvia accountancy Standards.

## CONSOLIDATED INCOME STATEMENT

By turnover method

	2017 (EUR) unaudited	2016 (EUR)
Net turnover	7 401 932	5 861 571
Cost of goods sold	-2 749 803	-2 540 235
Gross profit	4 652 129	3 321 336
Selling expenses	-2 316 214	-1 863 825
Administration expenses	-1 071 700	-599 819
Other operating income	171 155	129 731
Other operating expenses	-84 391	-52 539
Interest and similar income	4 479	2 603
Interest and similar expenses	-27 348	-23 279
Profit before corporate income tax	1 328 110	914 208
Corporate income tax for the financial year	-163 859	-96 286
Profit after corporate income tax calculation	1 164 251	817 922
Costs of changes in deferred tax liabilities	73 505	-14 818
Profit for the financial year	1 237 756	803 104



## CONSOLIDATED BALANCE SHEET

Assets	31/12/2017 (EUR) unaudited	31/12/2016 (EUR)
<b>Non-current assets</b>		
<b>Intangible assets</b>		
Concessions, licences, patents, trade marks and similar rights	14 569	11 575
Prepayments for intangible investments	7 899	-
<b>Total intangible assets</b>	<b>22 468</b>	<b>11 575</b>
<b>Property, plant and equipment</b>		
Land and buildings	133 237	-
Leasehold improvements	476 443	544 821
Plant and equipment	751 348	853 850
Other fixed assets	386 853	174 889
Construction in progress	14 874	2 670
Prepayments for property, plant and equipment	11 052	12 305
<b>Total property, plant and equipment</b>	<b>1 773 807</b>	<b>1 588 535</b>
<b>Non-current financial investments</b>		
Other non-current receivables and other receivables	40 000	42 513
Other securities and investments	826	826
<b>Total non-current financial investments</b>	<b>40 826</b>	<b>43 339</b>
<b>Total non-current assets</b>	<b>1 837 101</b>	<b>1 643 449</b>
<b>Current assets</b>		
<b>Inventories</b>		
Raw materials	856 175	755 590
Finished goods and goods for sale	674 440	456 582
Prepayments for inventories	98 227	74 072
<b>Total inventories</b>	<b>1 628 842</b>	<b>1 286 244</b>
<b>Receivables</b>		
Trade receivables	926 046	899 368
Other receivables	88 976	39 010
Accrued revenue	7 732	28 154
Deferred expenses	38 225	19 033
<b>Total receivables</b>	<b>1 060 979</b>	<b>985 565</b>
<b>Short term financial investments</b>	<b>500 000</b>	<b>-</b>
<b>Cash</b>	<b>4 082 017</b>	<b>579 638</b>
<b>Total current assets</b>	<b>7 271 838</b>	<b>2 851 447</b>
<b>Total assets</b>	<b>9 108 939</b>	<b>4 494 896</b>

## CONSOLIDATED BALANCE SHEET

Equity and liabilities	31/12/2017 (EUR) unaudited	31/12/2016 (EUR)
<b>Equity</b>		
Share capital	374 524	106 652
Share premium	4 023 454	761 236
Retained earnings:		
a) prior year retained earnings	1 608 525	1 218 741
b) profit for the year	1 237 756	803 104
<b>Total equity</b>	<b>7 244 259</b>	<b>2 889 733</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Bank borrowings	244 383	379 529
Other liabilities	182 042	53 526
Deferred revenue	145 213	234 139
Deferred tax liabilities	-	73 505
<b>Total non-current liabilities</b>	<b>571 638</b>	<b>740 699</b>
<b>Current liabilities</b>		
Bank borrowings	135 145	135 145
Advances from customers	77 164	26 372
Trade payables	558 083	251 683
Taxes and social insurance contributions	130 012	113 609
Other payables	142 632	108 322
Deferred revenue	88 926	88 926
Accrued liabilities	161 080	140 407
<b>Total current liabilities</b>	<b>1 293 042</b>	<b>864 464</b>
<b>Total liabilities</b>	<b>1 864 680</b>	<b>1 605 163</b>
<b>Total equity and liabilities</b>	<b>9 108 939</b>	<b>4 494 896</b>



## CONSOLIDATED CASH FLOW STATEMENT

Indirect method

	2017 (EUR) unaudited	2016 (EUR)
<b>Cash flow of operating activities</b>		
Profit before taxes	1 328 110	914 208
<b>Corrections:</b>		
Depreciation of fixed assets	411 515	383 828
Amortisation of intangible assets	4 073	5 329
Revenue from the recognition of ERAF funds	-167 419)	-90 985
Interest and similar income	-4 479)	-2 603
Interest and similar expenses	27 348	23 278
<b>Profit before adjustments for current assets and current liabilities</b>	<b>1 599 148</b>	<b>1 233 055</b>
<b>Corrections:</b>		
Increase in receivables	-74 693)	-96 923
Increase in inventories	-318 452)	-464 133
Increase/(Decrease) in payables and other payables	443 764	-13 694
<b>Gross cash flow of operating activities</b>	<b>1 649 767</b>	<b>658 305</b>
Interest payments	-27 348)	-23 278
Income tax payments	-159 906)	-28 190
<b>Net cash flow of operating activities</b>	<b>1 462 513</b>	<b>606 837</b>
<b>Investment activities cash flow</b>		
Other investments	-500 000	-3 083
Acquisition of fixed assets and intangible assets	-440 883	-114 806
Proceeds of loan repayments	2 513	-
Received interest	4 479	2 603
<b>Investment activities cash flow</b>	<b>-933 891</b>	<b>-115 286</b>
<b>Financing activities cash flow</b>		
Proceeds from share issue	3 316 770	-
Proceeds from ERAF funds	78 493	2 059
Repaid financial lease liabilities	-86 361	-22 617
Dividends paid	-200 000	-120 000
Repaid loan	-135 145	-135 145
<b>Financing activities cash flow</b>	<b>2 973 757</b>	<b>-275 703</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>3 502 379</b>	<b>215 848</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>	<b>579 638</b>	<b>363 790</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>4 082 017</b>	<b>579 638</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (EUR)	Share premium (EUR)	Other reserves (EUR)	Retained earnings (EUR)	Total equity (EUR)
<b>Balance as of 31 December 2015 (unaudited)</b>	<b>106 652</b>	<b>761 236</b>	<b>63</b>	<b>1 338 678</b>	<b>2 206 629</b>
Denomination of the share capital		-	-63	63	-
Distribution of dividends				-120 000	<b>-120 000</b>
Profit for the reporting year	-	-	-	803 104	<b>803 104</b>
<b>Balance as of 31 December 2016</b>	<b>106 652</b>	<b>761 236</b>	<b>-</b>	<b>2 021 845</b>	<b>2 889 733</b>
Distribution of dividends	-	-	-	-200 000	<b>-200 000</b>
Share issue	267 872	3 262 218	-	-213 320	<b>3 316 770</b>
Profit for the reporting year	-	-	-	1 237 756	<b>1 237 756</b>
<b>Balance as of 31 December 2017 (unaudited)</b>	<b>374 524</b>	<b>4 023 454</b>	<b>-</b>	<b>2 846 281</b>	<b>7 244 259</b>









[WWW.MADARACOSMETICS.COM](http://WWW.MADARACOSMETICS.COM)