



**MANAGEMENT REPORT
ON THE UNAUDITED
CONSOLIDATED FINANCIAL STATEMENTS
FOR 6 MONTHS OF 2019**

WEBINAR / 4.09.2019

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1. OVERVIEW H1 2019
2. IMPORTANT EVENTS

FULL MANAGEMENT REPORT AND
FINANCIAL STATEMENTS 2019
AVAILABLE HERE:

<http://bit.ly/2lrFLQa>



PRESENTING:

Uldis Iltners, Management Board member

PROFILE

BUSINESS CATEGORIES

OWN BRANDS: MADARA AND MOSSA

+ CONTRACT MANUFACTURING

UNIQUE ELEMENTS/STRENGTHS

NATURAL AND ORGANIC SKINCARE AND MAKE UP
(from 09.2019) PRODUCTS

OWN LABORATORY/ R&D TEAM

MODERN PRODUCTION FACILITY NEAR RIGA AIRPORT
IN-HOUSE "DESIGN&MARKETING AGENCY"

GROWTH TRENDS H1 2019

TURNOVER GROWTH 20% Y-O-Y

EBITDA (8,7%) Y-O-Y

NET PROFIT (18,8%) Y-O-Y

MAKE UP R&D INFLUENCE ON PROFITS AROUND 4PP

INNOVATION

ONE OF THE MOST INNOVATIVE ORGANIC CERTIFIED
COSMETICS PRODUCERS IN EUROPE

CLOSE COOPERATION WITH LATVIAN UNIVERSITY

SCIENTIFICALLY PROVEN EFFICACY AND CLAIMS

NEW INNOVATIVE PRODUCT LAUNCHES EVERY YEAR

INVESTOR RELATIONS

LISTED ON NASDAQ RIGA FIRST NORTH (11.2017)

SHAREHOLDERS BENEFITS PROGRAM

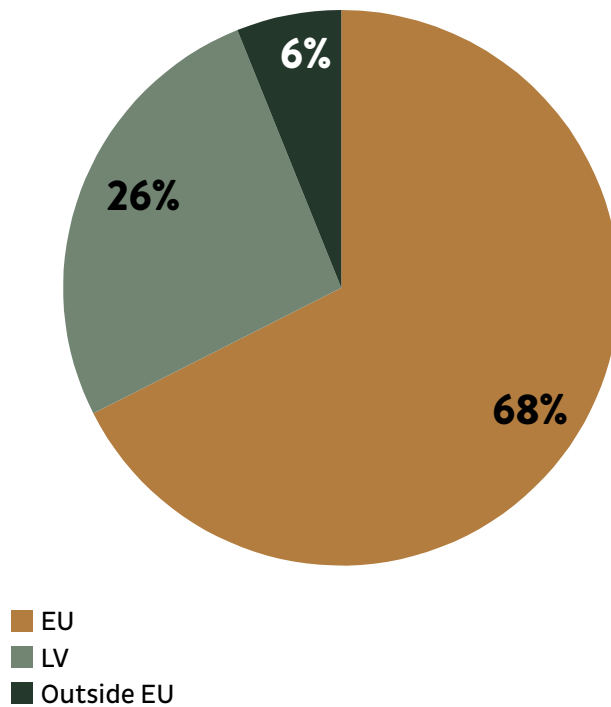
BEST INVESTOR RELATIONS ON FIRST NORTH 2019

ESG REPORTING

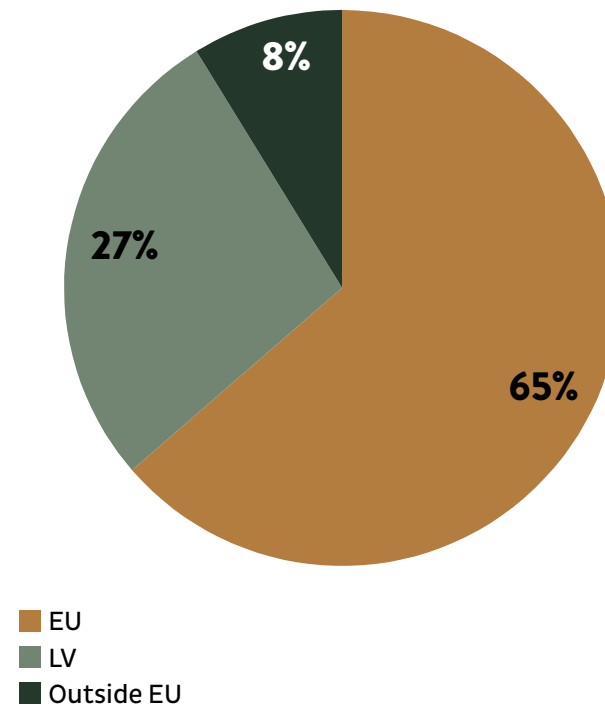
RETAIL INVESTOR FRIENDLY

GEOGRAPHICAL SALES BREAKDOWN

Sales distribution in Latvia, the EU and outside EU (2019 H1)

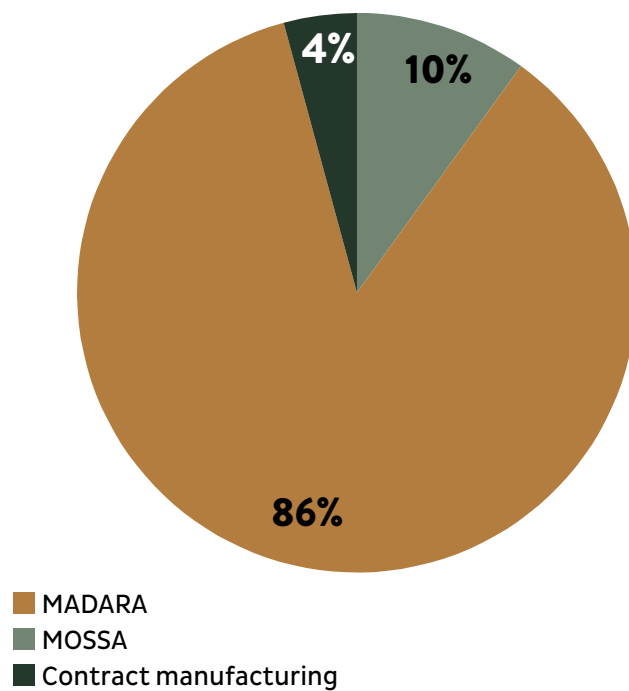


Sales distribution in Latvia, the EU and outside EU (2018 H1)

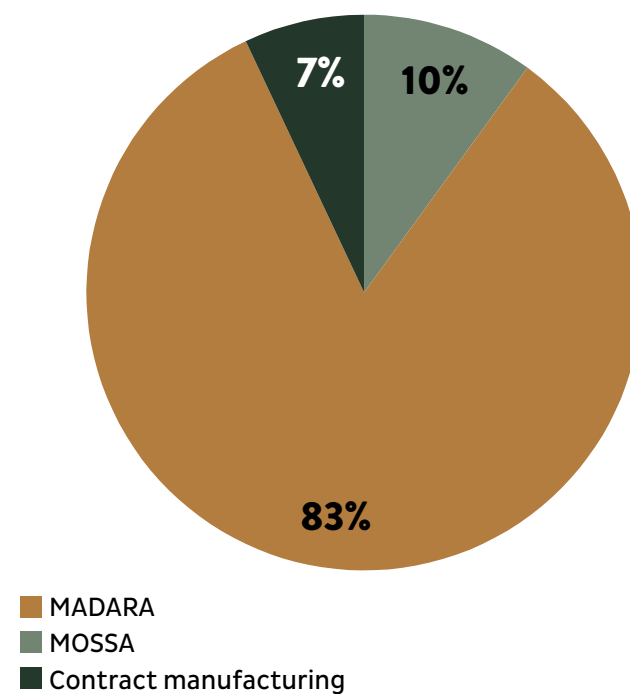


SALES BY CATEGORIES

Sales distribution by
product categories (2019 H1)

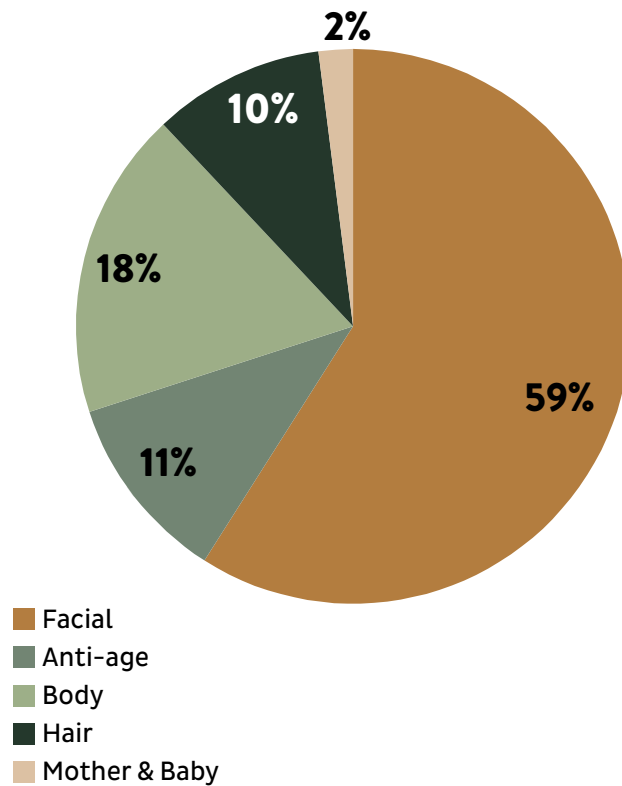


Sales distribution by
product categories (2018 H1)

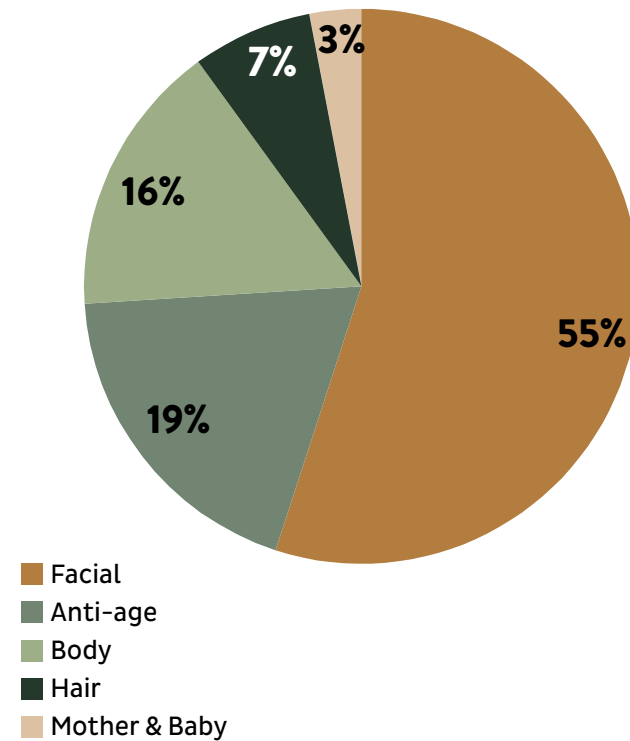


SALES BY PRODUCT GROUPS

Sales distribution of MÁDARA products by categories (2019 H1)



Sales distribution of MÁDARA products by categories (2018 H1)

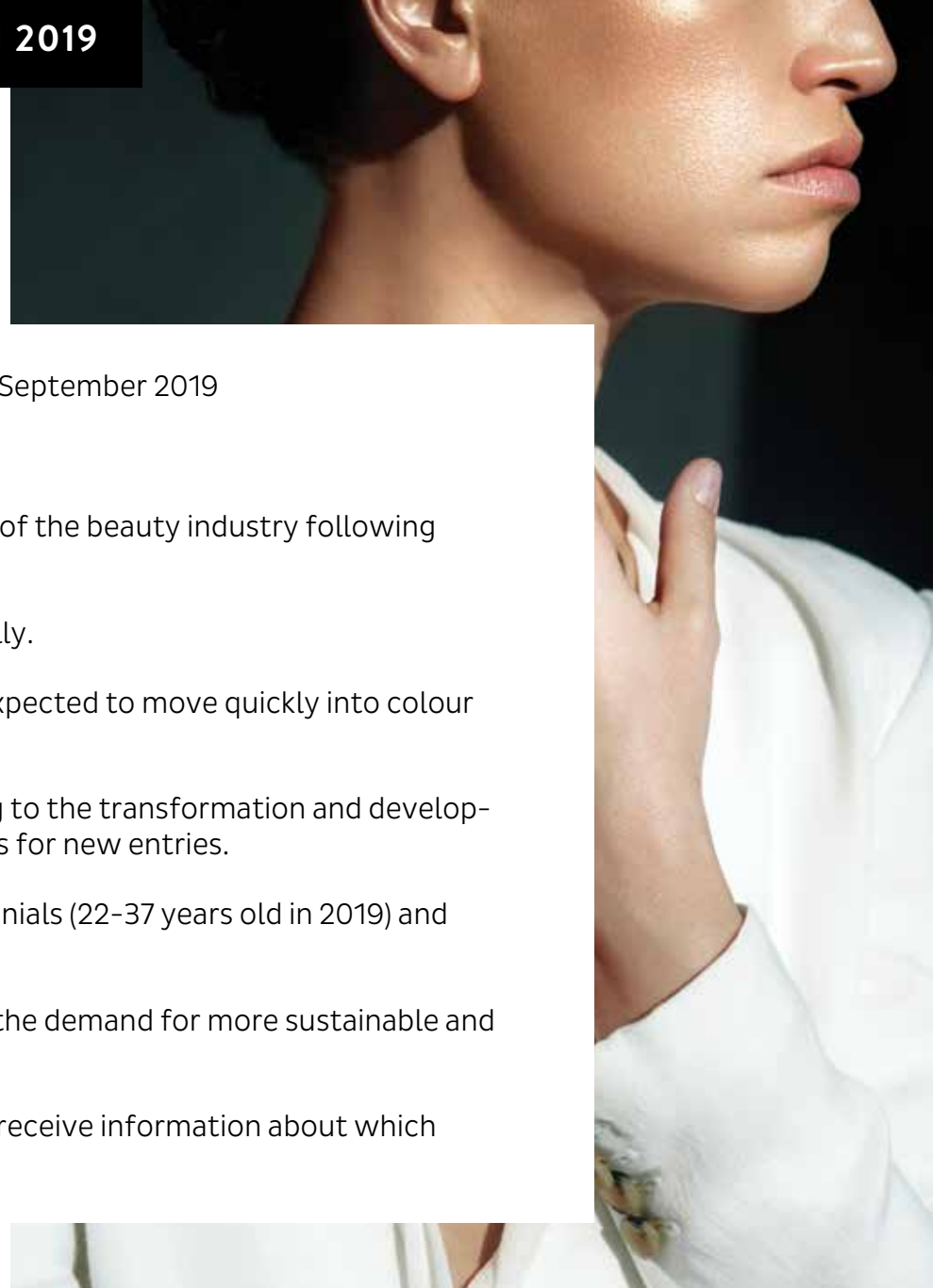


FINANCIAL OVERVIEW

The main financial indicators are as follows:

Key Ratios and Indicators	2019 H1	2018 H1
Net turnover	5 590 162	4 660 388
Cost of goods sold	-2 133 373	-1 637 581
Gross profit	3 456 789	3 022 807
Depreciation, amortization and write-downs	296 185	200 806
Leasehold improvements write-off expense	39 245	35 703
Operating profit	776 735	981 464
Interest income	42 082	26 183
Interest expense	-9 810	-11 615
Profit before taxes	809 007	996 032
Net profit for the period	809 007	995 991

KEY EVENTS OF H1 2019



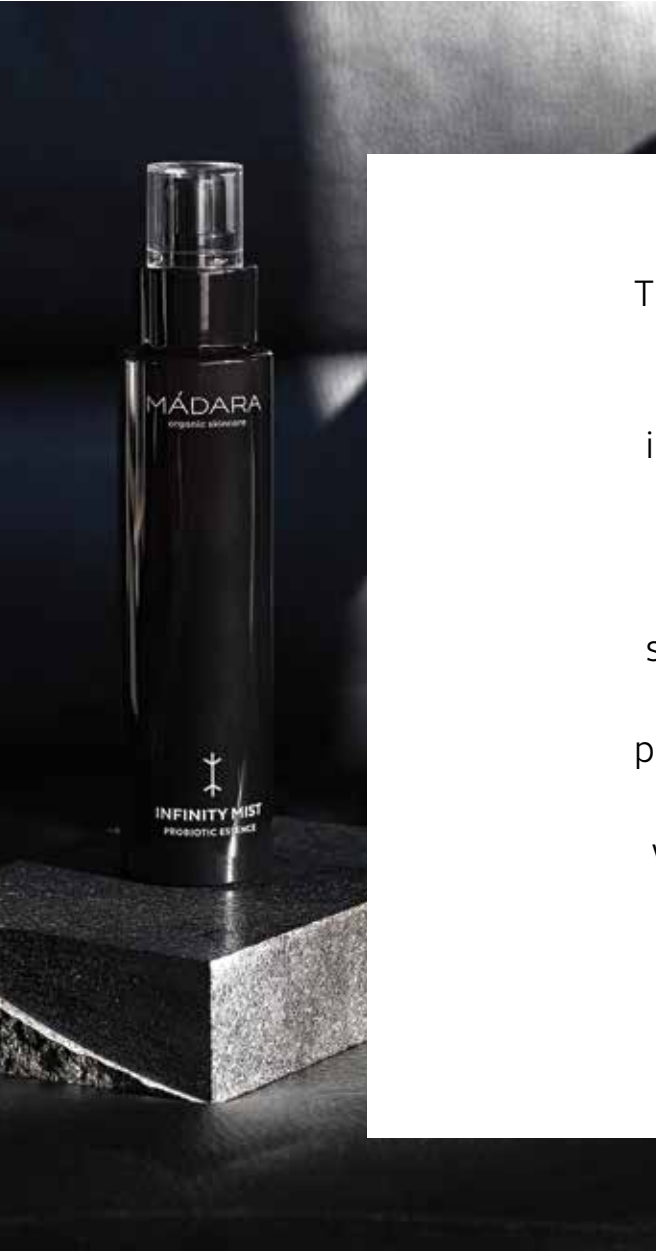
- ▶ Has developed makeup products, ready-to-launch in September 2019
- ▶ Natural trend emerging in color cosmetics
- ▶ Color cosmetics globally is the third largest category of the beauty industry following skincare/sun care and hair care.
- ▶ Makeup segment grows with a healthy 6% rate globally.
- ▶ Natural trend, which started out in skincare, is now expected to move quickly into colour cosmetics.
- ▶ Social media, including selfie-culture are contributing to the transformation and development of the category, giving interesting opportunities for new entries.
- ▶ The key customer target groups of makeup are millennials (22-37 years old in 2019) and generation Z (up to 22 in 2019).
- ▶ These two generations of “eco boomers” are driving the demand for more sustainable and ethical products
- ▶ 66% of UK female beauty buyers aged 16-24 want to receive information about which products are environmentally-friendly (Mintel).



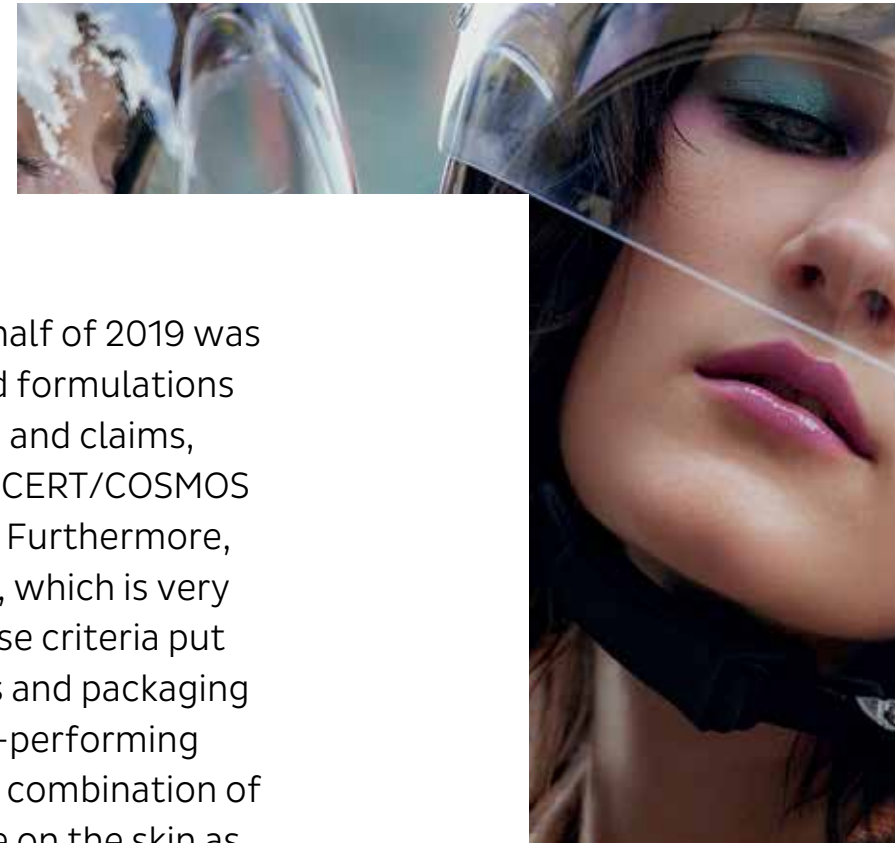
LAUNCH RANGE



KEY EVENTS OF H1 2019



The goal of the makeup project in the first half of 2019 was to develop manufacturing techniques and formulations which match a set of important criteria and claims, including natural/organic ingredients, ECOCERT/COSMOS certification, vegan, talc-free and others. Furthermore, packaging materials should be recyclable, which is very rare in the color cosmetics. Although these criteria put significant constraints on the raw materials and packaging choices, the outcome is a range of high-performing products for face, lips, eyes and brows. The combination of product claims, certification, performance on the skin as well as price-value ratio - the “magic” USP - which might give us a significant competitive advantage over conventional and green competitors.



KEY EVENTS OF H1 2019

Our production facility is upgraded with two new production machines – a reactor for highly pigmented formulations and automatic make up filling and capping machine.

Production of makeup branding strategy and communication materials was another key task of the first half of 2019.

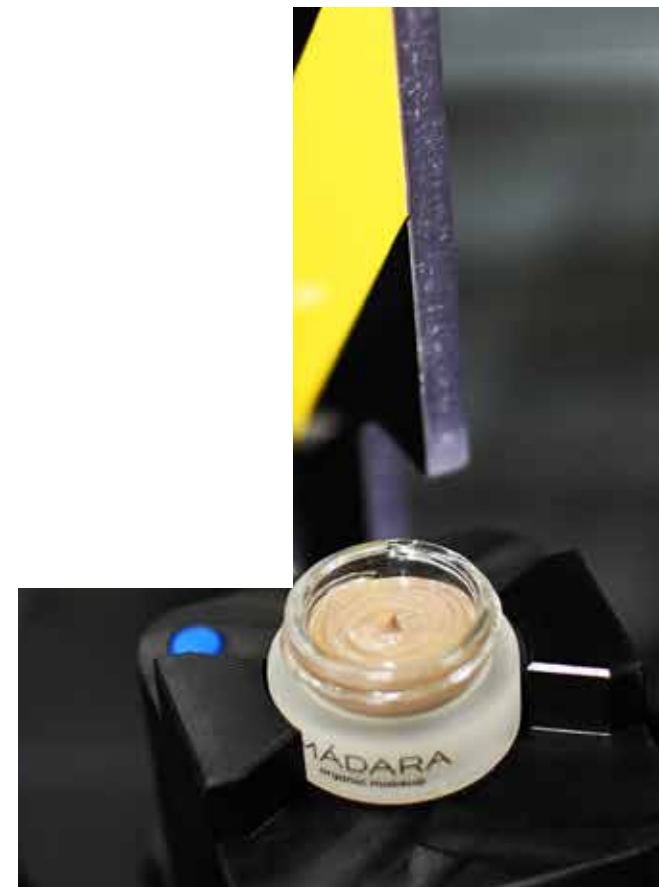
The ready-to-launch products to this date are:

- SKIN EQUAL soft glow foundation SPF 15, 10 shades
- THE CONCEALER, 8 shades
- COSMIC DROPS buildable highlighter, 4 shades
- GUILTY SHADES eye and cheek multi-shadow, 6 shades
- GLOSSY VENOM lip gloss, 7 shades
- BROW POMADE, 4 shades.

KEY EVENTS OF H1 2019



During the reporting period, the company has signed two new contracts about the research and development project implementation as a part of the Latvian Competence Center program, where until the end of 2020 the company expects EUR 0.3 million co-funding. Starting from March 1, 2019, the company is conducting 2 research projects as part of the 2 Competence Center projects - Farmācijas, biomedicīnas un medicīnas tehnoloģiju Kompetences centrs and Viedo Materiālu un Tehnoloģiju Kompetences centrs.



THE COMPANY HAS PUBLISHED ITS ESG REPORT ON 2018 ACTIVITIES,

<http://bit.ly/2koHipW>

ESG key figures:	2016	2017	2018
CO2 emissions:	67.44 t	110.38 t	112.89 t
Energy intensity per 1 product manufactured:	2817 KJ	1177 kJ	1271 kJ
Renewable energy intensity (% of electricity coming from renewable sources)	40%	60%	100%
CEO pay ratio:	1.86:1	1.68:1	1.67:1
Board diversity:	Men: 12.5% Women: 87.5%	Men: 12.5% Women: 87.5%	Men: 12.5% Women: 87.5%
Gender diversity (% of female full-time employees)	76.92%	72.22%	70.37%
Temporary Worker Ratio: Share of full time employees	Full-time: 80% Part-time: 20%	Full-time: 86.75% Part-time: 13.25%	Full-time: 93.1% Part-time: 6.9%
Employee Turnover Ratio:	8.85%	2.33%	4.23%
Injury rate	0	0	0
Helping the community: Sponsored free of charge legal or psychological consultation sessions for victims of human trafficking, domestic violence, mostly women and children	555	365	555



MÁDARA
organic skincare

THANK YOU!

A low-angle, black and white photograph of several modern skyscrapers. The buildings are covered in glass and steel, with their lines converging towards the top of the frame. The perspective creates a sense of height and scale. A white rectangular box is centered over the middle of the image, containing the main title.

STRUCTURE and FINANCIALS

STRUCTURE (I)

MANAGEMENT



LOTTE TISENKOPFA – ILTNERE

Chairman of management board.
Responsible for new formulas/
development.
Co-operation with scientists.
A spokesperson for the Co.



ULDIS ILTNERIS

Member of management board.
Responsible for finances
and management of Co.



PAULA TISENKOPFA

Member of management board.
Responsible for export and sales.

OWNERSHIP

*Oy Transmeri
Group AB
23.09%*

*Lotte
Tisenkopfa-Iltnere
23.92%*

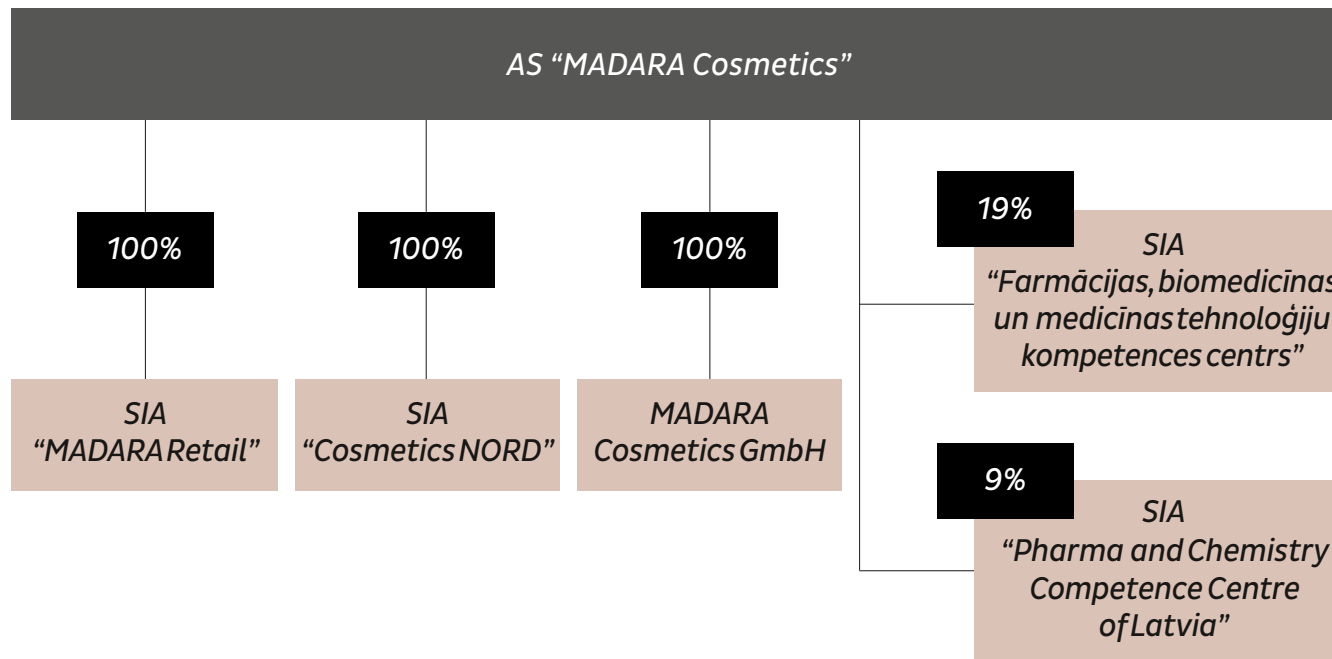
*Uldis Iltners
24.08%*

*AS
MADARA
Cosmetics
(shareholders
above 5%)*

*Liene Drāzniece
6.83%*

*Zane Tamane
7,61%*

STRUCTURE (II)



100% SUBSIDIARIES:

- ▶ *MADARA Retail, SIA: runs Latvian retail stores*
- ▶ *Cosmetics NORD, SIA: offers contract manufacturing in MADARA Cosmetics, AS facilities*
- ▶ *MADARA Cosmetics, GmbH: Sales and distribution unit for Germany*

MINORITY SHAREHOLDING COMPANIES:

- ▶ *Farmācijas, biomedicīnas un medicīnas tehnoloģiju Kompetences centrs, SIA: Competence centre established jointly with industry experts*
- ▶ *Pharma and Chemistry Competence Centre of Latvia, SIA: Competence centre established jointly with industry experts*

FINANCIAL OVERVIEW

Key Ratios and Indicators	2019 H1	2018 H1
EBITDA (TEUR)	1 112	1 218
Profitability and sustainability ratios		
1. Gross Margin (%)	62	65
2. Operating Margin (%)	12	20
3. Net Margin (%)	14	21
4. ROE (%)	19	26
5. ROA (%)	15	20
Liquidity ratios		
6. Current ratio (x)	5.15	6.30
7. Quick ratio (x)	3.44	4.49
8. Working capital (TEUR)	6 379	6 210
Leverage ratios		
9. Financial debt to equity (x)	0.04	0.11
10. Debt to equity (x)	0.19	0.20
11. Net financial debt (TEUR)	-2 660	-2 807
12. Net gearing (%)	-0.30	-0.35

* 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*2/Shareholder's equity (average)*100
5. Operating profit *2/Total assets (average)*100
6. Current assets/Current liabilities
7. (Current assets-Inventories)/Current liabilities
8. Current assets-Current liabilities
9. Loans from financial institutions/Total equity
10. Total debt/Total equity
11. Total financial debt-Cash
12. (Total financial debt-Cash)/Total equity*100

CONSOLIDATED INCOME STATEMENT

	Note	1.01.2019 -30.06.2019 (unaudited) EUR	1.01.2018 -30.06.2018 (unaudited) EUR
Net turnover	2	5 590 162	4 660 388
Cost of goods sold	3	(2 133 373)	(1 637 581)
Gross profit		3 456 789	3 022 807
Selling expenses	4	(2 137 465)	(1 618 060)
Administration expenses	5	(638 741)	(486 483)
Other operating income	6	134 651	87 634
Other operating expenses	7	(38 499)	(24 434)
Interest and similar income	8	42 082	26 183
Interest and similar expenses	9	(9 810)	(11 615)
Profit before corporate income tax		809 007	996 032
Corporate income tax for the financial year		-	(41)
Profit for the reporting period		809 007	995 991

Please refer to the full set of financials / financial report which can be found here: <http://bit.ly/2lrFLQa>

CONSOLIDATED BALANCE SHEET

Assets	Note	30.06.2019 EUR (unaudited)	31.12.2018 EUR
Non-current assets			
Intangible assets			
Development costs		50 699	-
Concessions, licences, patents, trade marks and similar rights		427 687	380 227
Prepayments for intangible assets		42 444	2 325
Total intangible assets	10	520 830	382 552
Property, plant and equipment			
Land		213 722	213 722
Leasehold improvements		451 359	448 535
Plant and equipment		887 152	860 730
Other fixed assets		296 686	288 209
Construction in progress		7 797	243 178
Prepayments for property, plant and equipment		159 357	1 434
Total property, plant and equipment	11	2 016 073	2 055 808
Non-current financial investments			
Other non-current receivables and other receivables	12	40 000	42 491
Other securities and investments		826	826
Total non-current financial investments		40 826	43 317
Total non-current assets		2 577 729	2 481 677

CONSOLIDATED BALANCE SHEET

Assets	Note	30.06.2019 EUR (unaudited)	31.12.2018 EUR
Current assets			
Inventories			
Raw materials	13	1 168 339	1 039 634
Finished goods and goods for sale	14	994 880	875 982
Prepayments for inventories		465 348	174 519
Total inventories		2 628 567	2 090 135
Receivables			
Trade receivables	15	1 387 947	986 539
Other receivables	16	108 049	107 176
Accrued revenue		51 800	6 034
Deferred expenses		31 142	48 037
Total receivables		1 578 938	1 147 786
Total current financial investments	17	700 000	700 000
Cash	18	3 006 732	3 425 756
Total current assets		7 914 237	7 363 677
Total assets		10 491 966	9 845 354

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Note	30.06.2019 EUR (unaudited)	31.12.2018 EUR
Equity			
Share capital	19	374 524	374 524
Share premium		4 023 454	4 023 454
Retained earnings:			
a) prior year retained earnings		3 584 700	2 517 550
b) profit for the year		809 007	1 516 579
Total equity		8 791 685	8 432 107

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Note	30.06.2019 EUR (unaudited)	31.12.2018 EUR
Liabilities			
Non-current liabilities			
Bank borrowings	20	41 666	109 238
Other liabilities	21	111 301	140 680
Deferred revenue		11 824	56 287
Total non-current liabilities		164 791	306 205
Current liabilities			
Bank borrowings	20	135 145	135 145
Advances from customers		83 591	23 977
Trade payables		615 522	357 641
Taxes and social insurance contributions	22	166 097	103 496
Other payables	23	210 500	182 985
Deferred revenue		88 926	88 926
Accrued liabilities		235 709	214 872
Total current liabilities		1 535 490	1 107 042
Total liabilities		1 700 281	1 413 247
Total equity and liabilities		10 491 966	9 845 354

CONSOLIDATED CASH FLOW STATEMENT

(Indirect method)

	Note	1.01.2019 -30.06.2019 (unaudited) EUR	1.01.2018 -30.06.2018 (unaudited) EUR
Cash flow of operating activities			
Profit before taxes		809 007	996 032
Corrections:			
Depreciation of fixed assets	11	291 535	220 164
Amortisation of intangible assets	10	44 611	16 345
Revenue from the recognition of ERAF funds		(76 853)	(86 077)
Interest and similar income	8	(42 082)	(26 183)
Interest and similar expenses	9	9 810	11 615
Profit before adjustments for current assets and current liabilities		1 036 028	1 131 896
Corrections:			
Increase in receivables		(429 305)	(74 182)
Increase in inventories		(538 432)	(386 270)
Increase / decrease in payables and other payables		425 861	(124 454)
Gross cash flow of operating activities		494 152	546 990
Interest payments		(9 810)	(11 615)
Income tax payments		-	(53 702)
Net cash flow of operating activities		484 342	481 673

CONSOLIDATED CASH FLOW STATEMENT

(Indirect method)

	Note	1.01.2019 -30.06.2019 (unaudited) EUR	1.01.2018 -30.06.2018 (unaudited) EUR
Investment activities cash flow			
Acquisition of fixed assets and intangible assets		(434 689)	(494 606)
Bank guarantee deposit		-	(30 600)
Revenue from repayment of loans		2 491	-
Received interest		42 082	26 183
Investment activities cash flow		(390 116)	(499 023)
Financing activities cash flow			
Proceeds from ERAF funds		32 390	41 614
Repaid financial lease liabilities		(28 639)	(30 083)
Dividends paid		(449 429)	(337 072)
Repaid loan	20	(67 572)	(67 572)
Financing activities cash flow		(513 250)	(393 113)
Decrease in cash and cash equivalents		(419 024)	(410 463)
Cash and cash equivalents at the beginning of the reporting period	18	3 425 756	4 086 345
Cash and cash equivalents at the end of the financial period	18	3 006 732	3 675 882

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (EUR)	Share premium (EUR)	Retained earnings (EUR)	Total equity (EUR)
Balance as of 31 December 2017	374 524	4 023 454	2 854 622	7 252 600
Distribution of dividends	-	-	(337 072)	(337 072)
Profit for the reporting period	-	-	1 516 579	1 516 579
Balance as of 31 December 2018	374 524	4 023 454	4 034 129	8 432 107
Distribution of dividends	-	-	(449 429)	(449 429)
Profit for the reporting period	-	-	809 007	809 007
Balance as of 30 June 2019 (unaudited)	374 524	4 023 454	4 393 707	8 791 685

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