



**MANAGEMENT REPORT
ON THE UNAUDITED
FINANCIAL STATEMENTS
FOR 2019**

WEBINAR / 9.03.2020.

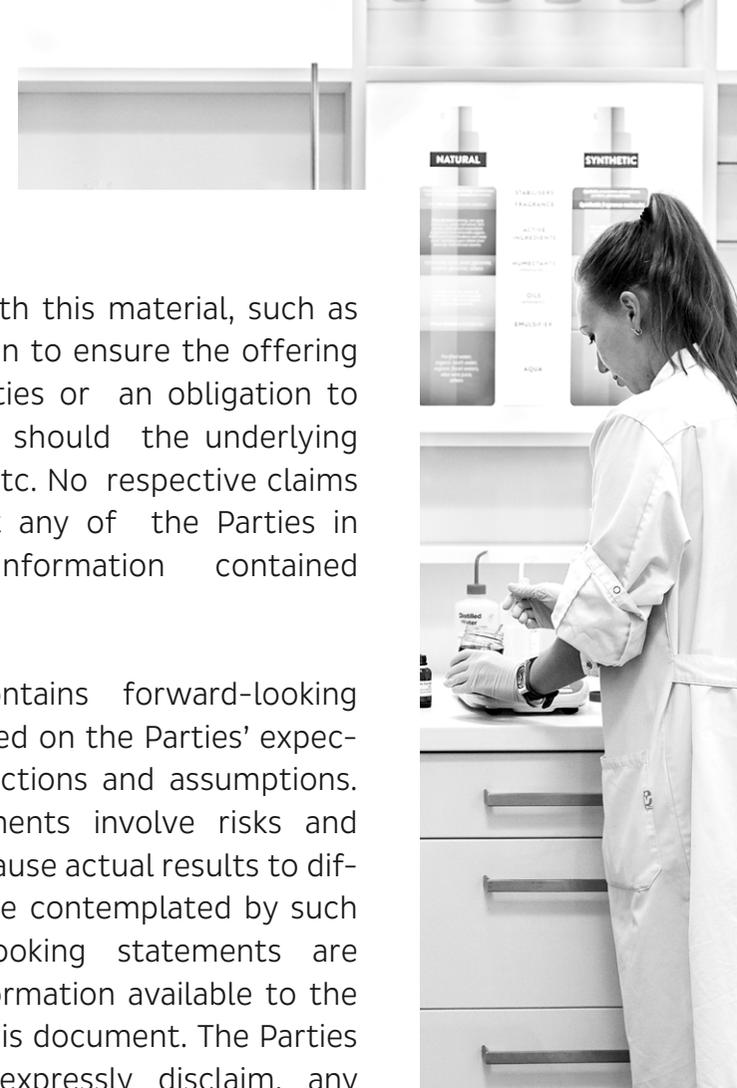
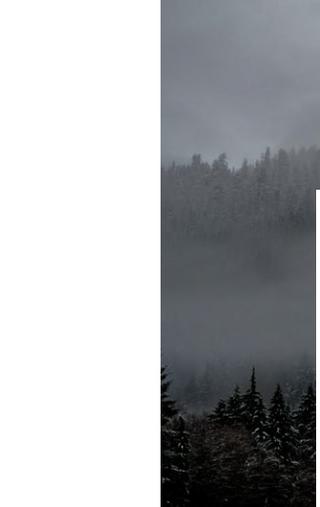
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1. OVERVIEW 2019
2. IMPORTANT EVENTS

FULL MANAGEMENT REPORT AND
UNAUDITED FINANCIAL STATEMENTS 2019
AVAILABLE HERE:

<http://bit.ly/2PL8A6F>



PRESENTING:

Uldis Iltners, Management Board

PROFILE

BUSINESS CATEGORIES

OWN BRANDS: MADARA AND MOSSA
+ CONTRACT MANUFACTURING
SKINCARE & MAKEUP

UNIQUE ELEMENTS/STRENGTHS

UNIQUE ECOCERT&COSMOS CERTIFIED PRODUCTS
OWN LABORATORY/ R&D TEAM
MODERN PRODUCTION FACILITY NEAR RIGA AIRPORT
IN-HOUSE "DESIGN&MARKETING AGENCY"

GROWTH TRENDS 2019

TURNOVER GROWTH 21.2% Y-O-Y
EBITDA GROWTH 11.1% Y-O-Y
NET PROFIT GROWTH 4.2% Y-O-Y

INNOVATION

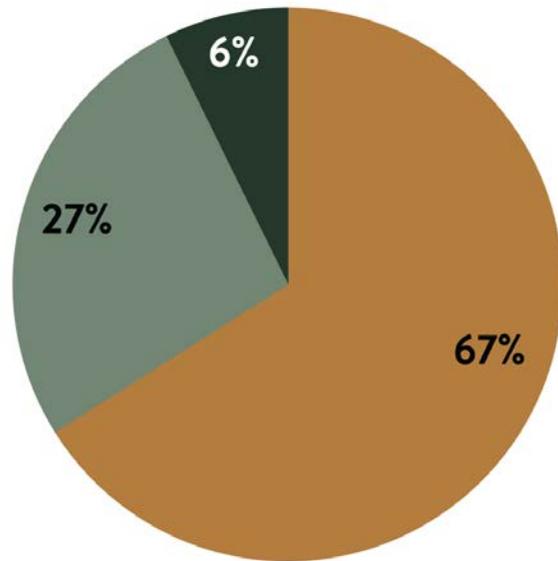
ONE OF THE MOST INNOVATIVE ORGANIC CERTIFIED
COSMETICS PRODUCERS IN EUROPE
CLOSE COOPERATION WITH LATVIAN UNIVERSITY
SCIENTIFICALLY PROVEN EFFICACY AND CLAIMS
NEW INNOVATIVE PRODUCT LAUNCHES EVERY YEAR

INVESTOR RELATIONS

LISTED ON NASDAQ RIGA FIRST NORTH (11.2017)
SHAREHOLDERS BENEFITS PROGRAM
ESG REPORTING
RETAIL INVESTOR FRIENDLY

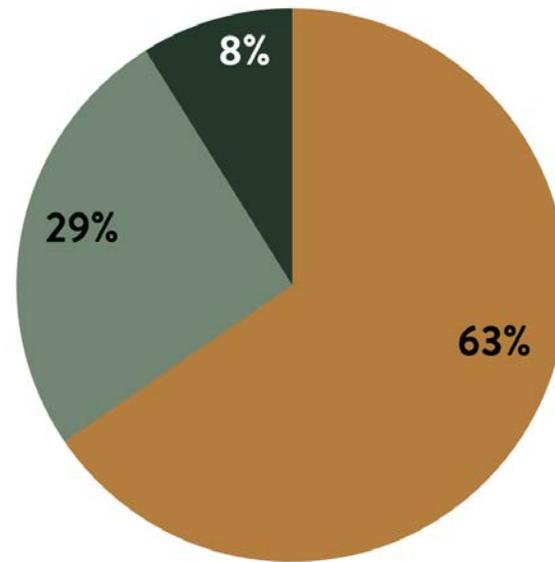
GEOGRAPHICAL SALES BREAKDOWN

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



■ EU
■ LV
■ Outside EU

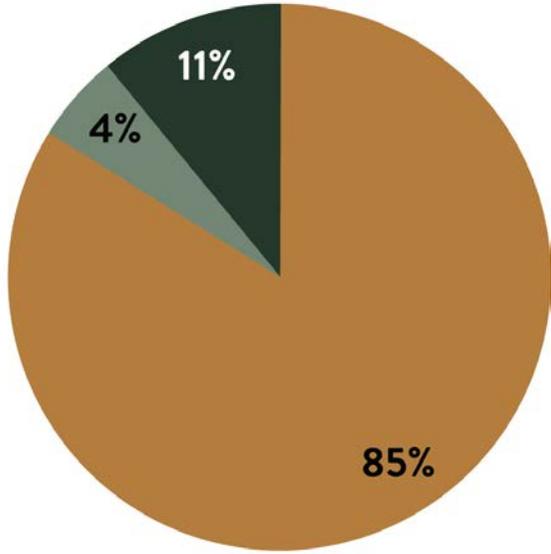
Sales distribution in Latvia, the EU and outside EU (2019 H2)



■ EU
■ LV
■ Outside EU

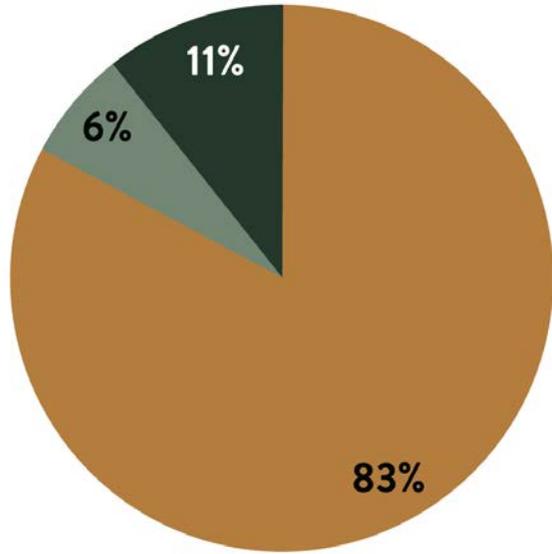
SALES BY CATEGORIES

Sales distribution by product categories (2019)



- MADARA
- MOSSA
- Contract manufacturing

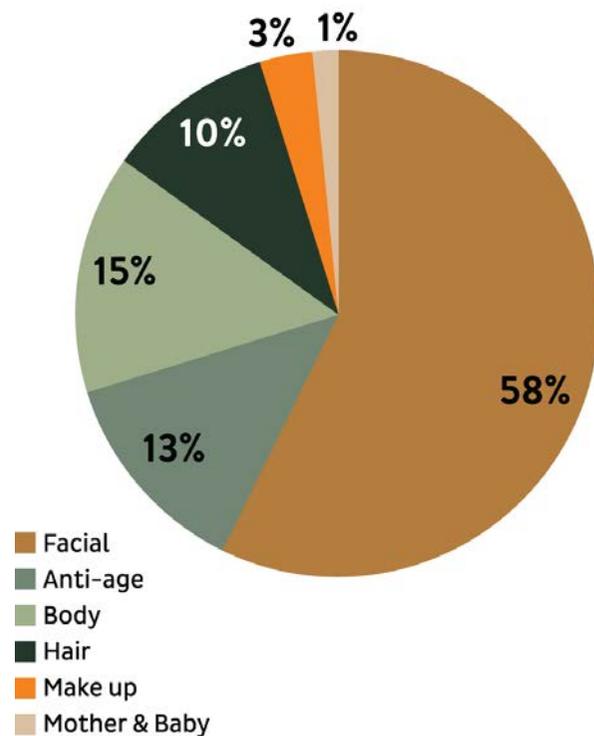
Sales distribution by product categories (2019 H2)



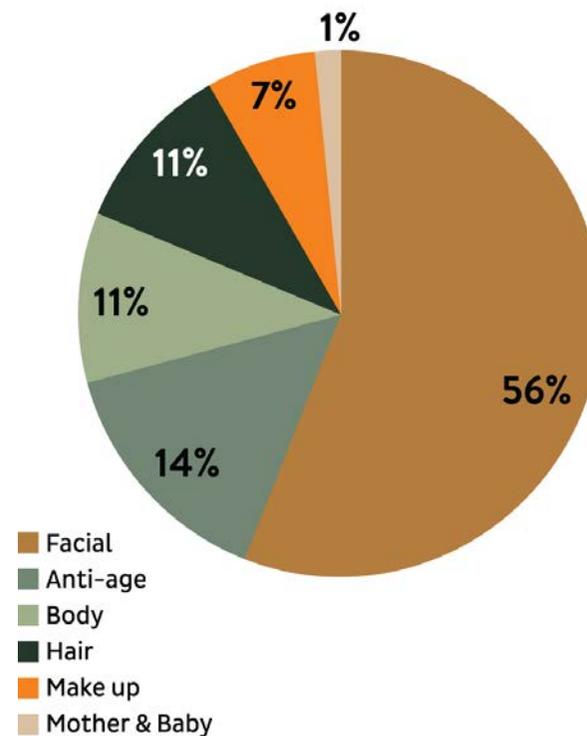
- MADARA
- MOSSA
- Contract manufacturing

SALES BY PRODUCT GROUPS

Sales distribution of MÁDARA products by categories (2019)



Sales distribution of MÁDARA products by categories (2019 H2)

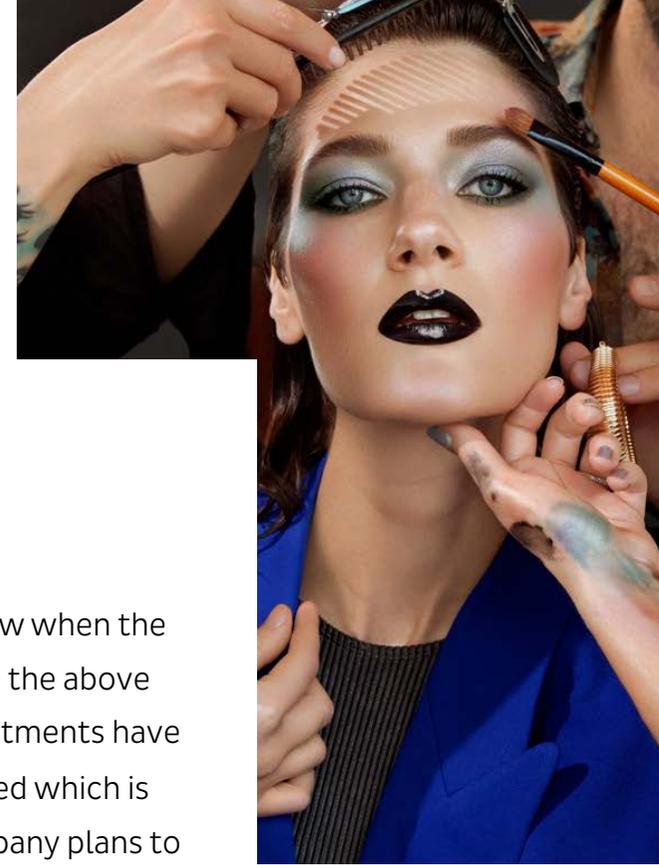


FINANCIAL OVERVIEW

The main financial indicators are as follows.

Key ratios and indicators	2019	2018	2019 H2	2018 H2
Net turnover	11 545 151	9 529 315	5 954 989	4 853 360
Cost of goods sold	-4 469 341	-3 478 157	-2 335 968	-1 846 219
Gross profit	7 075 810	6 051 158	3 619 021	3 007 141
Depreciation, amortisation and write-downs	626 966	432 843	330 781	232 037
Leasehold improvements write-off expense	80 324	73 560	41 079	37 857
Operating profit	1 492 591	1 473 980	715 856	471 647
Interest income	105 869	64 776	63 787	38 593
Interest expense	-18 542	-22 002	-8 732	-10 387
Profit before taxes	1 579 918	1 516 579	770 911	499 853
Net profit for the period	1 579 918	1 516 579	770 911	499 719

Turnover target of EUR 15 million in 2020 remains intact.



INVESTMENTS IN DEVELOPMENT

2019 has been a significant year of investments and is the second year in a row when the long-term investments of the Company have exceeded EUR 1m. Apart from the above mentioned investments in the development of makeup, comprehensive investments have been made in all company departments and an organization has been created which is optimal for further development activities of the Company. In 2020, the Company plans to reduce its long-term investments and focus more on using its existing organization and resources to develop the Company.



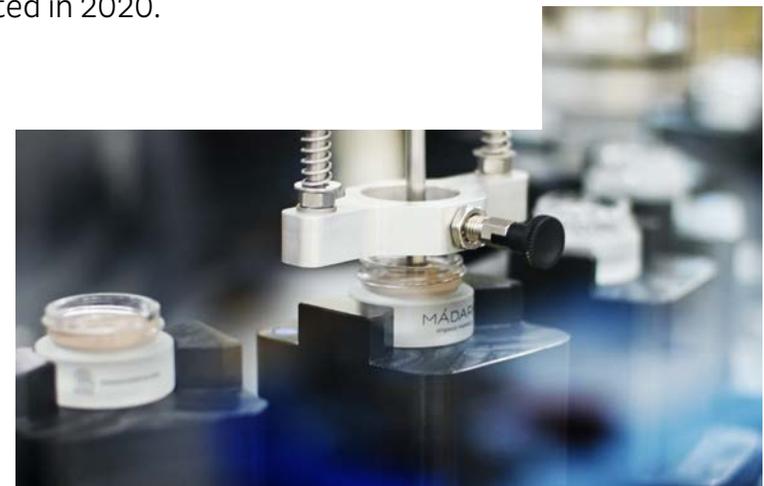
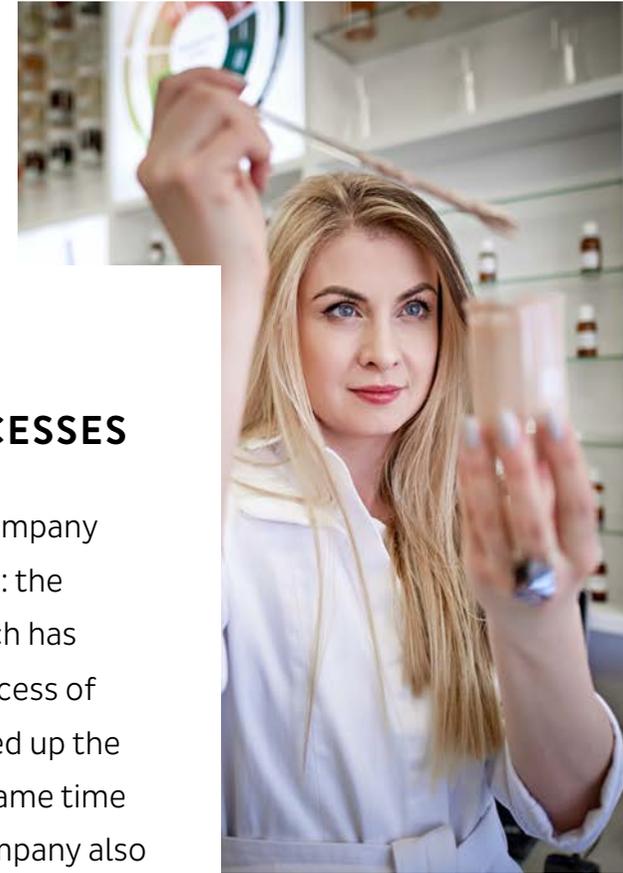
DEVELOPMENT OF THE MAKEUP LINE AND ITS SUCCESSFUL LAUNCH IN THE MARKET

A particularly important event in 2019 was the development of the makeup line and its successful launch at the end of September. By the end of the year, the sales of makeup were launched in several focus countries of the Company, such as Latvia, Finland, Germany and France. Feedback and market response is very positive and is expected to promote acquisition of broader sales channels in 2020. This year it is planned to launch the sales of makeup in a number of new countries, as well as to expand the sales channels in the countries where the sale has already been launched. In 2020 the proportion of makeup from total turnover could be 7-10%, with a gradual increase in the following years. Two new, modern production devices have been installed at our plant – a reactor for high pigmentation products and an automatic makeup filling and sealing device. Total long-term investments in the makeup development project were around EUR 470 000, out of which EUR 96 000 were development expenses and EUR 374 000 were investments in makeup production equipment.

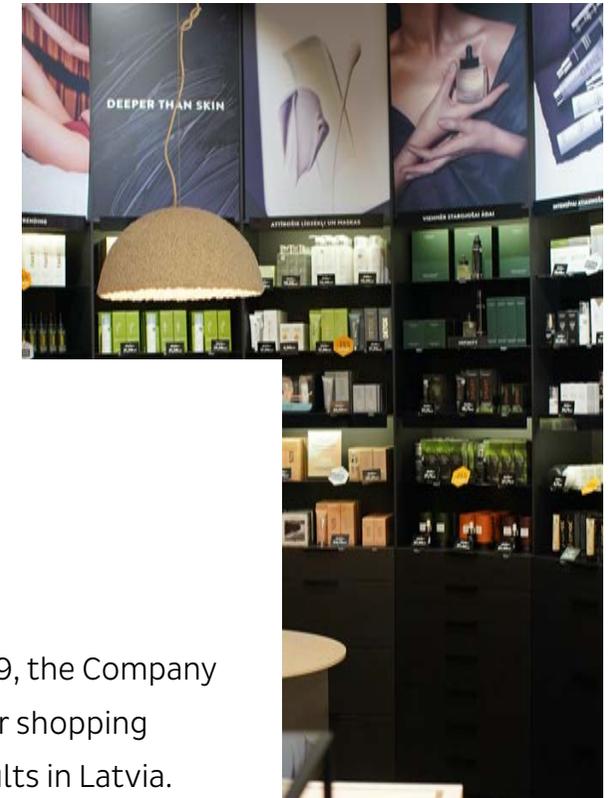
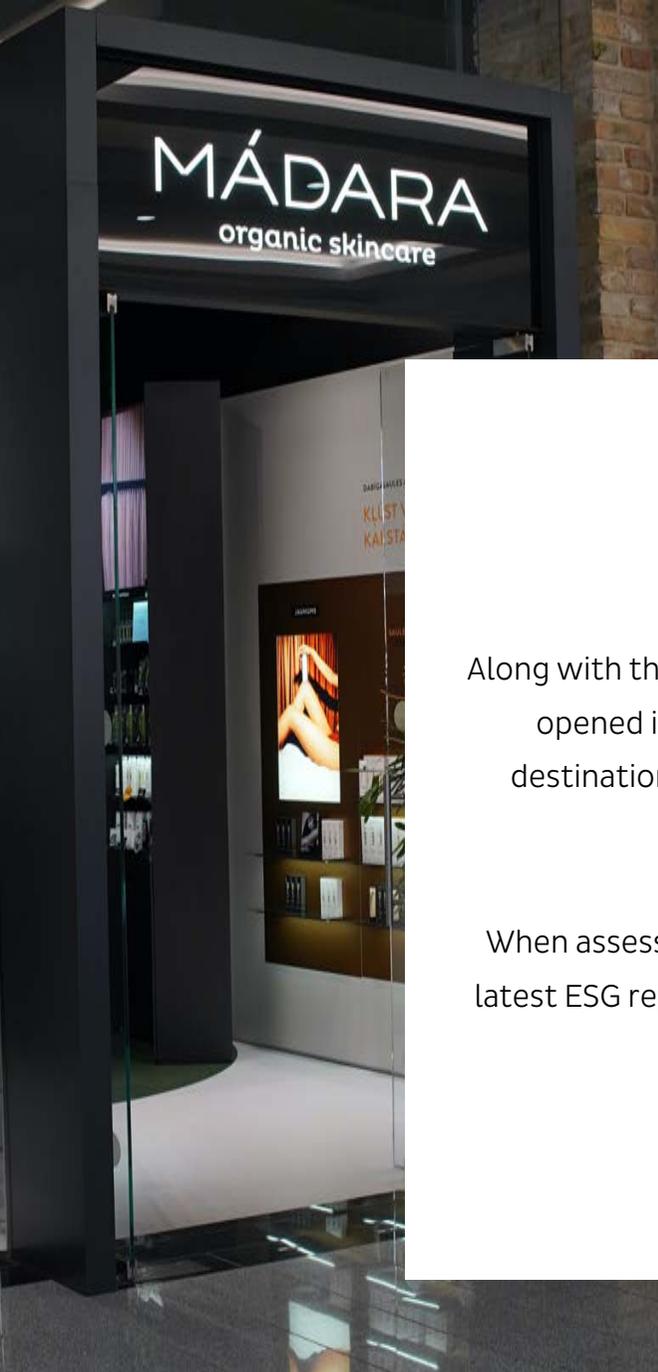


IMPROVEMENT AND AUTOMATION OF COMPANY PROCESSES

2019 has also been significant due to the improvement and automation of company processes. Among the most important ones we can mention the following: the implementation of the Business Intelligence tool has been completed, which has significantly improved supply chain management and data analytics. The process of developing new products has also been significantly improved, which will speed up the development and introduction of new products into the market, while at the same time significantly reducing the occurrence of potential deficiencies. Last year the Company also began work on implementing a production resource planning system that will allow more efficient planning and utilization of the existing production resources. Implementation of the system is planned to be completed in 2020.



KEY EVENTS OF 2019



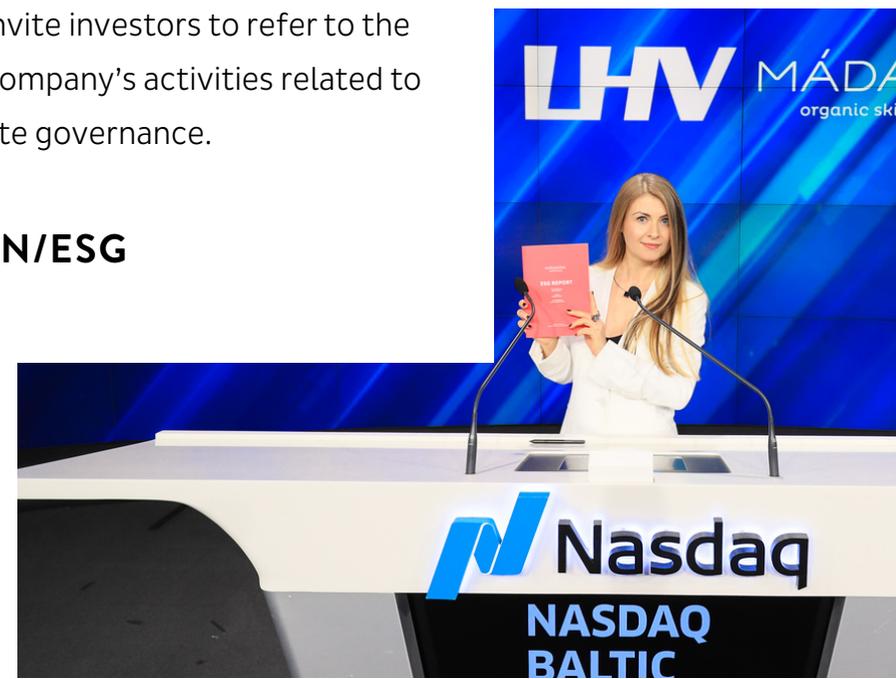
OPENING OF THE BRAND STORE IN THE SHOPPING CENTRE AKROPOLE

Along with the opening of the Shopping Centre Akropole in the spring of 2019, the Company opened its 4th MÁDARA brand store in Riga, which has become a popular shopping destination for MÁDARA products and has strengthened overall sales results in Latvia.

When assessing the performance of the Company, we also invite investors to refer to the latest ESG report on sustainability, which characterizes the Company's activities related to sustainability, social responsibility and corporate governance.

Full ESG report is available here:

[MADARACOSMETICS.COM/EN/ESG](https://www.madaracosmetics.com/en/esg)



NEW PRODUCT LAUNCHES



MÁDARA
organic skincare
TIME MIRACLE
HYDRA
FIRM
HYALURON
CONCENTRATE JELLY
all skin types
INTENSE MOISTURE.
ANTI-AGE



MÁDARA
organic skincare
FAKE IT
HEALTHY GLOW
SELF TAN SERUM
SERUM AUTOBRONZANT
TONE: LIGHT TO MEDIUM
FOR FACE
STREAK-FREE,
DELICATE TAN



MÁDARA
organic skincare
MELTING
CLEANSING OIL
NOURISHING
LIPIDS
HUILE NETTOYANTE
easy rinse
MELTS AWAY MAKEUP
AND SUNSCREEN

A woman with long blonde hair is sitting against the trunk of a large, textured tree. She is wearing a black sleeveless top and is looking off to the side. The background is a soft-focus field of tall grass under a pale sky.

MÁDARA
organic skincare

THANK YOU!



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

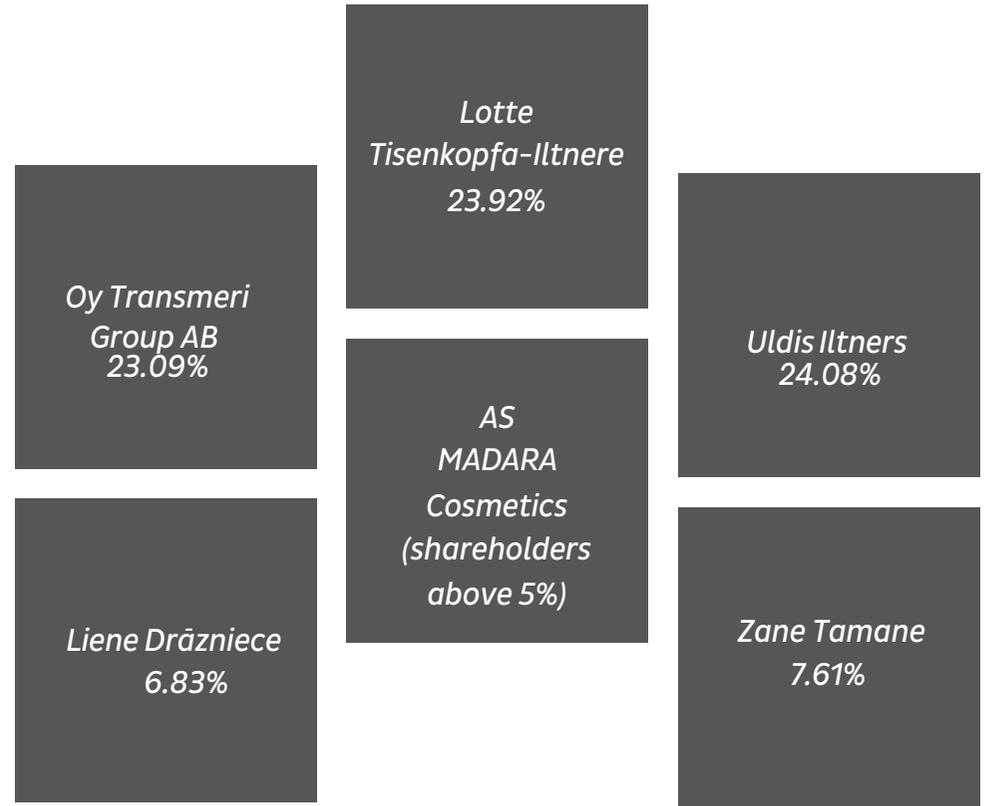
Member of management board.
Responsible for finances
and management of Co.



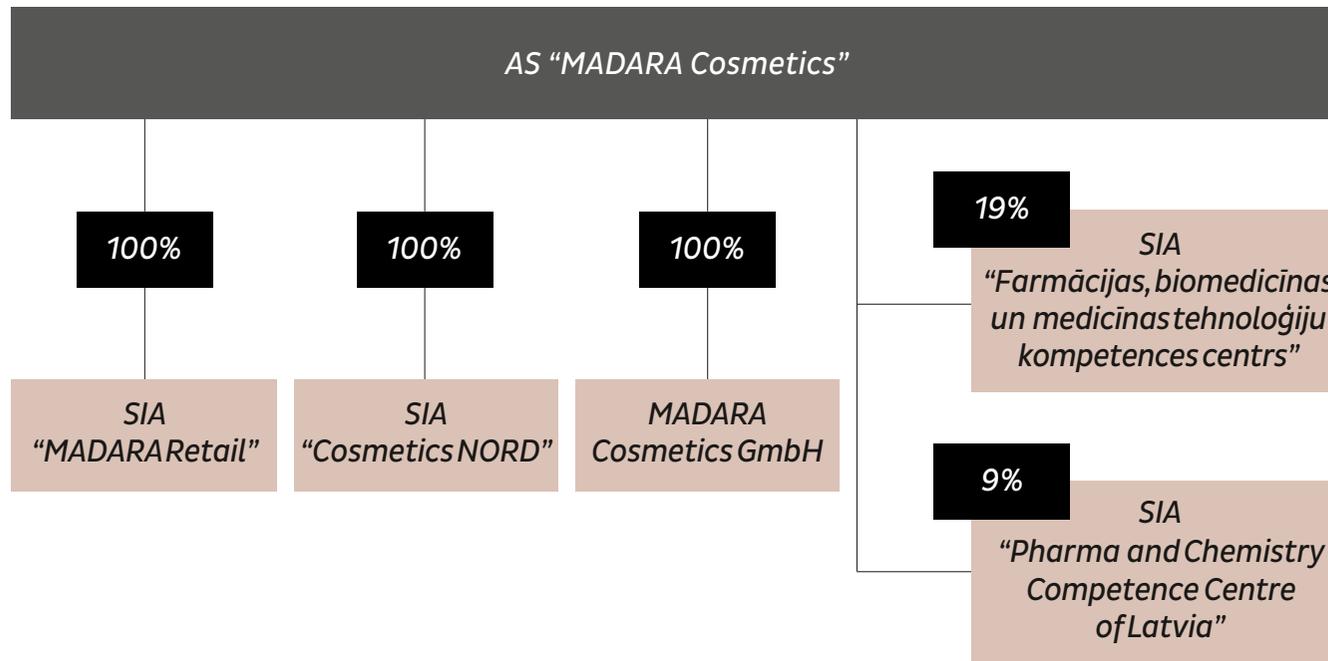
PAULA TISENKOPFA

Member of management board.
Responsible for export and sales.

OWNERSHIP



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	2018	2019 H2	2018 H2
EBITDA (TEUR)	2 200	1 980	1 088	742
Profitability and sustainability ratios				
1. Gross Margin (%)	61	64	61	62
2. Operating Margin (%)	13	15	12	10
3. Net Margin (%)	14	16	13	10
4. TTM ROE (%)	18	19	18	19
5. TTM ROA (%)	14	13	14	13
Liquidity ratios				
6. Current ratio (x)	6.19	6.65	6.19	6.65
7. Quick ratio (x)	3.95	4.76	3.95	4.76
8. Working capital (TEUR)	6 692	6 257	6 692	6 257
Leverage ratios				
9. Financial debt to equity (x)	0.02	0.27	0.02	0.27
10. Debt to equity (x)	0.14	0.17	0.14	0.17
11. Net financial debt (TEUR)	-2 139	-3 041	-2 139	-3 041
12. Net gearing (%)	-22.36	-36.06	-22.36	-36.06

* 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. Trailing 12 Months (TTM) Net Profit/Total equity (average)*100
5. TTM Operating profit/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

By turnover method

	Notes	01.01.2019 -31.12.2019 (unaudited)	1.07.2019 -31.12.2019 (unaudited)	1.01.2018 -31.12.2018 (audited)	1.07.2018 -31.12.2018 (unaudited)
Net turnover	2	11 545 151	5 954 989	9 529 315	4 853 360
Cost of goods sold	3	-4 469 341	-2 335 968	-3 478 157	-1 846 219
Gross profit		7 075 810	3 619 021	6 051 158	3 007 141
Selling expenses	4	-4 492 535	-2 355 070	-3 554 105	-1 936 636
Administration expenses	5	-1 246 072	-607 331	-1 124 514	-638 315
Other operating income	6	233 876	99 225	174 479	88 073
Other operating expenses	7	-78 488	-39 989	-73 038	-48 616
Interest and similar income	8	105 869	63 787	64 776	38 593
Interest and similar expenses	9	-18 542	-8 732	-22 002	-10 387
Profit before corporate income tax		1 579 918	770 911	1 516 754	499 853
Corporate income tax for the financial year		-	-	-175	-134
Profit for the reporting period		1 579 918	770 911	1 516 579	499 719

The accompanying notes on pages 20 to 31 are an integral part of these consolidated financial statements.

Please refer to the full set of financials / financial report which can be found here: <http://bit.ly/2PL8A6F>

FINANCIAL OVERVIEW

CONSOLIDATED BALANCE SHEET

Assets	Notes	31/12/2019 (EUR) (unaudited)	30/06/2019 (EUR) (unaudited)	31/12/2018 (EUR) (audited)	30/06/2018 (EUR) (unaudited)
Non-current assets					
Intangible assets					
Development costs		96 471	50 699	-	-
Concessions, licences, patents, trade marks and similar rights		500 154	427 687	380 227	173 132
Prepayments for intangible assets		85 075	42 444	2 325	66 081
Total intangible assets	10	681 700	520 830	382 552	239 213
Property, plant and equipment					
Land		213 722	213 722	213 722	133 237
Leasehold improvements		447 318	451 359	448 535	482 927
Plant and equipment		1 089 745	887 152	860 730	664 968
Other fixed assets		437 878	296 686	288 209	284 914
Construction in progress		20 700	7 797	243 178	78 298
Prepayments for property, plant and equipment		26 468	159 357	1 434	193 878
Total property, plant and equipment	11	2 235 831	2 016 073	2 055 808	1 838 222
Non-current financial investments					
Other non-current receivables and other receivables	12	40 000	40 000	42 491	70 600
Other securities and investments	13	826	826	826	826
Total non-current financial investments		40 826	40 826	43 317	71 426
Total non-current assets		2 958 357	2 577 729	2 481 677	2 148 861

FINANCIAL OVERVIEW

CONSOLIDATED BALANCE SHEET

Assets	Notes	31/12/2019 (EUR) (unaudited)	30/06/2019 (EUR) (unaudited)	31/12/2018 (EUR) (audited)	30/06/2018 (EUR) (unaudited)
Current assets					
Inventories					
Raw materials	14	1 532 696	1 168 339	1 039 634	1 047 088
Finished goods and goods for sale	15	1 130 398	994 880	875 982	872 665
Prepayments for inventories		217 445	465 348	174 519	203 831
Total inventories		2 880 539	2 628 567	2 090 135	2 123 584
Receivables					
Trade receivables	16	1 385 726	1 387 947	986 539	973 701
Other receivables	17	331 853	108 049	107 176	101 554
Accrued revenue		44 011	51 800	6 034	-
Deferred expenses		60 725	31 142	48 037	7 225
Total receivables		1 822 315	1 578 938	1 147 786	1 082 480
Total current financial investments	18	950 000	700 000	700 000	500 000
Cash	19	2 329 384	3 006 732	3 425 756	3 675 882
Total current assets		7 982 238	7 914 237	7 363 677	7 381 946
Total assets		10 940 595	10 491 966	9 845 354	9 530 807

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31/12/2019 (EUR) (unaudited)	30/06/2019 (EUR) (unaudited)	31/12/2018 (EUR) (audited)	30/06/2018 (EUR) (unaudited)
Equity					
Share capital	20	374 524	374 524	374 524	374 524
Share premium		4 023 454	4 023 454	4 023 454	4 023 454
Retained earnings:					
a) previous periods retained earnings		3 584 700	3 584 700	2 517 550	2 517 550
b) profit for the period		1 579 918	809 007	1 516 579	995 991
Total equity		9 562 596	8 791 685	8 432 107	7 911 519

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31/12/2019 (EUR) (unaudited)	30/06/2019 (EUR) (unaudited)	31/12/2018 (EUR) (audited)	30/06/2018 (EUR) (unaudited)
Liabilities					
Non-current liabilities					
Bank borrowings	21	5 952	41 666	109 238	176 811
Other liabilities	22	81 546	111 301	140 680	169 686
Deferred revenue		-	11 824	56 287	100 750
Total non-current liabilities		87 498	164 791	306 205	447 247
Current liabilities					
Bank borrowings	21	103 286	135 145	135 145	135 145
Advances from customers		50 303	83 591	23 977	41 502
Trade payables		474 707	615 522	357 641	436 888
Taxes and social insurance contributions	23	150 615	166 097	103 496	94 385
Other payables	24	207 841	210 500	182 985	183 619
Deferred revenue		56 287	88 926	88 926	88 926
Accrued liabilities		247 462	235 709	214 872	191 576
Total current liabilities		1 290 501	1 535 490	1 107 042	1 172 041
Total liabilities		1 377 999	1 700 281	1 413 247	1 619 288
Total equity and liabilities		10 940 595	10 491 966	9 845 354	9 530 807

CONSOLIDATED CASH FLOW STATEMENT

(Indirect method)

	Note	1.01.2019 -31.12.2019 EUR (unaudited)	1.07.2019 -31.12.2019 EUR (unaudited)	1.01.2018 -31.12.2018 EUR (audited)	1.07.2018 -31.12.2018 EUR (unaudited)
Cash flow of operating activities					
Profit before taxes		1 579 918	770 911	1 516 741	499 853
Corrections:					
Depreciation of fixed assets	11	606 558	315 022	455 483	235 319
Amortisation of intangible assets	10	100 732	56 121	65 437	26 876
Fixed assets write-off		-	-	-	22 216
Revenue from the recognition of ERAF funds		-218 915	-142 062	-168 629	-78 739
Interest and similar income	8	-105 869	-63 787	-64 776	-38 597
Interest and similar expenses	9	18 542	8 732	22 002	10 387
Profit before adjustments for current assets and current liabilities		1 980 966	944 937	1 826 258	677 315
Corrections:					
Increase / decrease in receivables		-592 426	269 803	-367 050	-33 471
Increase / decrease in inventories		-748 492	-499 875	-382 084	29 625
Decrease / increase in payables and other payables		387 730	-181 240	114 007	-87 192
Gross cash flow of operating activities		1 027 778	533 625	1 191 131	586 277
Interest payments		-18 542	-8 732	-22 002	-10 387
Income tax payments		-	-	-100 709	-134
Net cash flow of operating activities		1 009 236	524 893	1 068 420	575 756

CONSOLIDATED CASH FLOW STATEMENT

(Indirect method)

	Note	1.01.2019 -31.12.2019 EUR (unaudited)	1.07.2019 -31.12.2019 EUR (unaudited)	1.01.2018 -31.12.2018 EUR (audited)	1.07.2018 -31.12.2018 EUR (unaudited)
Investment activities cash flow					
Other investments		-250 000	-250 000	-200 000	-200 000
Acquisition of fixed assets and intangible assets		-1 186 461	-751 771	-1 139 942	-630 536
Issued loans		-250 000	-250 000	-2 491	-2 491
Proceeds of loan repayments		2 491	-	-	30 600
Received interest		105 869	63 787	64 776	38 597
Investment activities cash flow		-1 578 101	-1 187 984	-1 277 657	-763 830
Financing activities cash flow					
Proceeds from issue equity shares		-	-	-	-
Proceeds from ERAF funds		114 712	82 322	79 703	34 276
Repaid financial lease liabilities		-57 645	-29 006	-58 838	-28 755
Dividends paid		-449 429	-	-337 072	-
Repaid loan	21	-135 145	-67 573	-135 145	-67 573
Financing activities cash flow		-527 507	-14 257	-451 352	-62 052
Decrease / increase in cash and cash equivalents		-1 096 372	-677 348	-660 589	-250 126
Cash and cash equivalents at the beginning of the reporting period	19	3 425 756	3 006 732	4 086 345	3 675 882
Cash and cash equivalents at the end of the financial period	19	2 329 384	2 329 384	3 425 756	3 425 756

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
Profit for the reporting period	-	-	770 911	770 911
Balance as of 31 December 2019 (unaudited)	374 524	4 023 454	5 164 618	9 562 596

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organic skincare