



MÁDARA

organic skincare

AS MADARA COSMETICS

**2019 SEPARATE AND CONSOLIDATED ANNUAL
REPORT PREPARED IN ACCORDANCE
WITH LATVIAN STATUTORY REQUIREMENTS,
AND INDEPENDENT AUDITORS' REPORT***

** This version of separated and consolidated financial statements is a translation from the original, which was prepared in the Latvian language. 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 separated and consolidated financial statements takes precedence over this translation.*



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INFORMATION ABOUT THE GROUP

Name of the Parent Company	Madara Cosmetics
Legal status of the Parent Company	Joint stock company
Registration number of the Parent Company	No 40003844254
Registration place and date	Riga, 28 July 2006
Registered address of Parent Company	131 Zeltinu Street, Marupe, LV-2167, Latvia
Shareholders (above 5%)	Uldis Iltners – owns 24,08% of shares Lote Tisenkopfa Iltnere – owns 23,92% of shares Oy Transmeri Group Ab – owns 23,09% of shares Zane Tamane – owns 7,61% of shares Liene Drāzniece – owns 6,83% of shares
Type of operations and NACE code	Manufacture of perfumes and toilet preparations 20.42 Wholesale of perfume and cosmetics 46.45 Retail sale of cosmetic and toilet articles in specialized stores 47.75
Board 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 Anna Ramata Stunda – Deputy of the Chairman of the Council Anna Andersone – Member of the Council Anu Pauliina Koskinen – Member of the Council Liene Drāzniece – Member of the Council from 29.05.2019 Solvita Kurtiša – Member of the Council till 15.01.2019
Reporting year	from 1.1.2019 to 12.31.2019
Previous reporting year	from 1.1.2018 to 12.31.2018
Subsidiaries	Madara Retail SIA, reg. No 40103212103 – 100% Cosmetics Nord SIA, reg. No 40103277805 – 100% Madara Cosmetics GmbH, reg. No HRB 177689 – 100%
Auditor and its address	Deloitte Audits Latvia SIA Reg. No 40003606960 License No 43 4a Gredu Street, Riga, LVL-1019, Latvia
Certified Auditor	Jeļena Mihejenkova LR Certified Auditor Certificate No 166

STATEMENT OF MANAGEMENT RESPONSIBILITIES

The Board of AS "MADARA Cosmetics" (hereinafter – "Parent Company" or "Company") is responsible for the preparation of the separate and consolidated financial statements of the Parent Company and its subsidiaries (hereafter – the Group).

The separate and consolidated financial statements are prepared in accordance with the accounting records and source documents and present fairly the financial position of Parent Company and the Group as of 31 December 2019 and the results of its operations and cash flows for the year 2019 ended.

Separate and the consolidated financial statements have been prepared in accordance with the law "On the Annual Reports and Consolidated Annual Reports". Appropriate accounting policies have been used and applied consistently, reasonable and prudent judgements and estimates made by Board have been made in the preparation of the these financial statements.

The Board of the Parent Company is also responsible for maintaining proper accounting records, for taking reasonable steps to safeguard the assets of the Parent and the Group, and to prevent and detect fraud and other irregularities

Lote Tisenkopfa – Iltnere
Chairman of the Board

Paula Tisenkopfa
Member of the Board

Uldis Iltners
Member of the Board

MANAGEMENT REPORT

During the reporting year the Group consists of MADARA Cosmetics AS and its subsidiaries – MADARA Retail SIA, Cosmetics NORD SIA and Madara Cosmetics GmbH (Germany).

MADARA Cosmetics AS is the largest cosmetic manufacturer in Latvia and one of the most important natural cosmetics manufacturers in the Baltic and North European region. The Group's products are exported to more than 20 countries, mainly EU developed countries. The Group's core business is the production of natural, Ecocert/Cosmos certified cosmetics and trade with the brand names "MÁDARA" and "MOSSA", and rendering of contract manufacturing services.

The Groups' Parent Company operates in a leased office and production plant at 131 Zeltinu Street in Marupe, is one of the most advanced and largest in terms of capacity cosmetic plants in the Baltics and Northern European region.

MADARA Retail SIA manages three MADARA brand stores in Riga, shopping centers "Galerija Centrs", "Spice" and "Alfa". In April 2019, the fourth MÁDARA brand store is opened in Riga, in the shopping center "Akropole". In 2019, net turnover of the Company was 937,8 thousands EUR which is increase by 28% comparing with year 2018. Net result for year 2019 was loss of 9,9 thousands EUR. Main reason for loss is related to investments and starting of operations in shopping center "Akropole", as well as expanded marketing activities.

The core business of Cosmetics NORD SIA is rendering of contract manufacturing services using the production infrastructure and capacity of MADARA Cosmetics AS. In 2019, the Company had turnover of 601,9 thousands EUR and profit of 17,4 thousands EUR. Comparing with year 2018 Company had decrease in net turnover of 15% and is related to decrease in sales in major customer. Nevertheless, the Company has attracted several new customers as well as performed development of several new products for contract manufacturing customers.

MADARA Cosmetics GmbH provides cosmetics marketing services in Germany and organizes the distribution of products manufactured by the Parent Company on the market of Germany.

In 2019, the Group has worked successfully, continuing stable growth in most important sales channels. During the reporting year, one of most significant events was the successful completion of development of a natural certified make-up line, which was followed by the launch of the sale of make-up products in September 2019.

In 2019, the Group has successfully worked on the sales channels developed in previous years and reached turnover of 11,5 million EUR that is 21% increase comparing with 2018. The profit after tax of the Group was 1,56 million EUR that is 3% increase comparing with previous reporting year.

In 2019, the Group's long term investments amounted to 1,301 thousand EUR of which 648 thousand EUR has been invested in the improvement of production process.

The production capacity of the Parent Company is sufficient to sustain growth at its current pace.

In the reporting year work on product research and development has been successful. In addition to completion of development of the make-up line, Group has also completed research and development of several types of eye care products, self-tanning products, make-up remover products, herbal active ingredient concentrates, hyaluronic acid and birch sap gels and care products for problematic skin.

In the following years, the growth of the Group mainly will be based on the development in foreign markets – the activities will be strengthened in the existing export markets and will be expanded in several new markets. In order to achieve this goal, already in 2019 the Group company's organization has been improved and 12 new job positions have been established. Group's organization improvement will continue in the upcoming years.

In the reporting year, co-operation with cosmetics raw material and packaging suppliers has also been developed, diversifying suppliers and reducing the risk of supply.

The financial risk management policy adopted by the Group is disclosed in Note 34 to the consolidated financial statements.

MANAGEMENT REPORT (continued)

In 2020, the economic situation caused by COVID-19 affected certain sales channels of the Group. There is an increase in e-commerce channels and a decrease in physical sales channels. Despite these changes the Group has managed to maintain growth and achieve the planned turnover for 4 months 2020. The production process is organized in a normal way and no supply chain disruptions are observed. There are also no significant changes in customer payment discipline. However, this assessment is based on information available at the date of signing of these financial statements and the effect of future events on the future performance of the Group may differ from management's judgement.

In 2020, the Group sold all short term financial instruments. The sales were made at a value that created a positive financial effect for the Group.

Apart from effect of COVID-19 and sale of financial instruments, since the reporting year-end no other material changes have taken place that would not be reflected in these financial statements and would be significant to reassess the Group's assets and liabilities, its financial position and the financial result of the reporting year.

According to the Parent Company's management's recommendation, the part of the profit 2019 year in the amount of 500 000 EUR is proposed to be distributed into dividends, residual amount shall be reinvested for the Group development.



Lote Tisenkopfa - Iltnerē
Chairman of the Board



Paula Tisenkopfa
Member of the Board



Uldis Iltners
Member of the Board



CONSOLIDATED STATEMENT OF PROFIT AND LOSS

	Note	Group 2019 / EUR	Group 2018 / EUR	Company 2019 / EUR	Company 2018 / EUR
Revenue	2	11,546,205	9,529,315	11,004,164	9,094,835
Cost of goods sold	3	(4,462,151)	(3,478,157)	(4,477,000)	(3,474,554)
Gross profit		7,084,054	6,051,158	6,527,164	5,620,281
Selling expenses	4	(4,497,098)	(3,554,105)	(4,117,817)	(3,248,447)
Administration expenses	5	(1,288,697)	(1,124,514)	(1,128,278)	(977,320)
Other operating income	6	256,150	174,479	260,641	178,732
Other operating expenses	7	(78,489)	(73,038)	(78,489)	(73,032)
Interest and similar income	8	105,869	64,776	105,869	64,776
Interest and similar expenses	9	(18,684)	(22,002)	(18,681)	(21,996)
Profit before taxes		1,563,105	1,516,754	1,550,409	1,542,994
Corporate income tax for the reporting year		-	-175	-	-175
Profit after corporate income tax calculation		1,563,105	1,516,579	1,550,409	1,542,819
Profit for the year		1,563,105	1,516,579	1,550,409	1,542,819

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

BALANCE SHEET

Assets	Note	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR Reclassified*	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Non-current assets					
Intangible assets					
Development costs		96,471	-	96,471	-
Concession, licenses, patents, trademarks and software		500,154	380,227	500,154	380,227
Advance payments for intangible assets		85,075	2,325	85,075	2,325
Total intangible assets	10	681,700	382,552	681,700	382,552
Property, plant and equipment					
Land		213,722	213,722	213,722	213,722
Leasehold improvements		447,318	448,535	393,727	417,365
Technological equipment and machinery		1,089,745	860,730	1,089,745	860,730
Other fixed assets and equipment		437,878	288,209	412,428	285,103
Construction in progress		20,700	243,178	20,700	234,246
Advance payments for property, plant and equipment		26,468	1,434	26,468	-
Total property, plant and equipmen	11	2,235,831	2,055,808	2,156,790	2,011,166
Non-current financial investments					
Investments in subsidiaries	12	-	-	18,156	18,156
Other non-current receivables	13	68,027	62,219	40,000	42,491
Other securities and investments	14	826	826	826	826
Total non-current financial investments		68,853	63,045	58,982	61,473
Total non-current assets		2,986,384	2,501,405	2,897,472	2,455,191
Current assets					
Inventories					
Raw materials, materials and consumables	15	1,556,781	1,039,634	1,556,040	1,036,988
Finished goods and goods for sale	16	1,198,325	875,982	1,154,312	844,332
Advance payments for inventories		227,006	174,519	227,006	174,519
Total inventories		2,982,112	2,090,135	2,937,358	2,055,839
Receivables					
Trade receivables	17	1,351,431	986,539	1,136,769	868,484
Trade receivables from related parties	18	-	-	382,007	307,009
Other receivables	19	308,958	87,448	299,063	76,252
Accrued revenue		58,663	6,034	58,425	5,770
Deferred expenses		60,725	48,037	54,784	42,242
Total receivables		1,779,777	1,128,058	1,931,048	1,299,757
Current financial investments					
Other securities	20	950,000	700,000	950,000	700,000
Total current financial investments		950,000	700,000	950,000	700,000
Cash	21	2,329,384	3,425,756	2,263,872	3,350,914
Total current assets		8,041,273	7,343,949	8,082,278	7,406,510
Total assets		11,027,657	9,845,354	10,979,750	9,861,701

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

*Reclassification disclosed in Note 28.

BALANCE SHEET

Equity and liabilities	Note	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Equity					
Share capital	22	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 years` retained earnings		3,584,700	2,517,550	3,645,310	2,551,920
b) profit for the year		1,563,105	1,516,579	1,550,409	1,542,819
Total equity		9,545,783	8,432,107	9,593,697	8,492,717
Liabilities					
Non-current liabilities					
Bank borrowings	23	5,952	109,238	5,952	109,238
Other liabilities	24	81,546	140,680	81,546	140,680
Deferred revenue		-	56,287	-	56,287
Total non-current liabilities		87,498	306,205	87,498	306,205
Current liabilities					
Bank borrowings	23	103,286	135,145	103,286	135,145
Advances from customers		51,706	23,977	26,733	23,725
Trade payables		498,271	357,641	474,033	351,433
Taxes and mandatory state social insurance contributions	25	149,360	103,496	137,781	93,055
Other liabilities	26	213,839	182,985	183,311	155,117
Deferred revenue		56,287	88,926	56,287	88,926
Accrued liabilities	27	321,627	214,872	317,124	215,378
Total current liabilities		1,394,376	1,107,042	1,298,555	1,062,779
Total liabilities		1,481,874	1,413,247	1,386,053	1,368,984
Total equity and liabilities		11,027,657	9,845,354	10,979,750	9,861,701

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Note	Group 2019 / EUR	Group 2018 / EUR	Company 2019 / EUR	Company 2018 / EUR
Cash flow of operating activities					
Profit before tax		1,563,105	1,516,754	1,550,409	1,542,994
Adjustments for					
Depreciation of property, plant and equipment	12	606,558	455,483	589,469	444,222
Amortization of intangible assets	11	100,732	65,437	100,732	65,437
Income from ERAF fund co-financing	6	(242,479)	(168,629)	(242,479)	(168,629)
Interest income and similar income	8	(105,499)	(64,776)	(105,499)	(64,776)
Interest expense and similar expenses	9	13,834	22,002	13,834	21,996
Profit before adjustments for current assets and current liabilities		1,936,251	1,826,271	1,906,466	1,841,244
Adjustments for					
Increase in receivables		(552,229)	(367,050)	(375,353)	(283,990)
Increase in inventories		(839,490)	(382,084)	(829,032)	(374,117)
Increase/ (decrease) in payables and other payables		498,492	113,994	298,785	(78,326)
Gross cash flow of operating activities		1,043,024	1,191,131	1,000,866	1,104,811
Interest paid	9	(13,834)	(22,002)	(13,834)	(21,996)
Corporate income tax paid		-	(100,709)	-	(100,709)
Net cash flow of operating activities		1,029,190	1,068,420	987,032	982,106
Cash flow from Investment activities					
Other investments	20	(250,000)	(200,000)	(250,000)	(200,000)
Payments for property, plant and equipment and intangible assets		(1,186,461)	(1,139,942)	(1,134,973)	(1,092,951)
Proceeds from loan repayment		2,491	-	2,491	-
Issued loans		(250,000)	(2,491)	(250,000)	(2,491)
Received interest		85,915	64,776	85,915	64,776
Net cash flows from investment activities		(1,598,055)	(1,277,657)	(1,546,567)	(1,230,666)
Cash flow from financing activities					
Proceeds from ERAF funds co-financing		114,712	79,703	114,712	79,703
Repayment of finance leases		(57,645)	(58,838)	(57,645)	(58,838)
Dividends paid		(449,429)	(337,072)	(449,429)	(337,072)
Repaid loan	23	(135,145)	(135,145)	(135,145)	(135,145)
Net cash flows from financing activities		(527,507)	(451,352)	(527,507)	(451,352)
Net (decrease)/ increase in cash and cash equivalents		(1,096,372)	(660,589)	(1,087,042)	(699,912)
Cash and cash equivalents at the beginning of the reporting year	21	3,425,756	4,086,345	3,350,914	4,050,826
Cash and cash equivalents at the end of the financial year	21	2,329,384	3,425,756	2,263,872	3,350,914

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

Group	Share capital EUR	Share premium EUR	Retained earnings EUR	Total equity EUR
Balance as of 31.12.2017	374,524	4,023,454	2,854,622	7,252,600
Distribution of dividends	-	-	(337,072)	(337,072)
Profit for the reporting year	-	-	1,516,579	1,516,579
Balance as of 31.12.2018	374,524	4,023,454	4,034,129	8,432,107
Distribution of dividends	-	-	(449,429)	(449,429)
Profit for the reporting year	-	-	1,563,105	1,563,105
Balance as of 31.12.2019	374,524	4,023,454	5,147,805	9,545,783

Company	Share capital EUR	Share premium EUR	Retained earnings EUR	Total equity EUR
Balance as of 31.12.2017	374,524	4,023,454	2,888,992	7,286,970
Distribution of dividends	-	-	(337,072)	(337,072)
Profit for the reporting year	-	-	1,542,819	1,542,819
Balance as of 31.12.2018	374,524	4,023,454	4,094,739	8,492,717
Distribution of dividends	-	-	(449,429)	(449,429)
Profit for the reporting year	-	-	1,550,409	1,550,409
Balance as of 31.12.2019	374,524	4,023,454	5,195,719	9,593,697

The accompanying notes on pages 13 to 30 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(1) STATEMENT OF ACCOUNTING POLICIES

Basis of preparation

Annual Report have been prepared in accordance with the Laws of the Republic of Latvia on Accounting and on Annual Reports and Consolidated Annual Reports. The statement of profit and loss is prepared according to the by function expense method and statement of cash flows is prepared using the indirect method. This is the combined consolidated and separated financial statements of the Company.

Principal accounting policies adopted

The Annual Report have been prepared in accordance with the following policies:

- a)** Going concern assumption, the Parent Company and Group will continue as a going concern.
- b)** Evaluation principles are consistent with the prior year.
- c)** Items have been valued in accordance with the principle of prudence:
 - The Annual Report reflect only the profit generated till the date of the balance sheet;
 - All incurred liabilities and current or prior year losses have been taken into consideration even if discovered within the period after the balance sheet date;
 - All impairments and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit.
- d)** Income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received. Expenses have been matched with revenue for the reporting period.
- e)** Asset and liability items have been valued separately.
- f)** The current year's financial statements opening balance sheet of the beginning of the year matches with the closing balance sheet of the prior reporting year, except for the reclassified balances.
- g)** Have been shown all accounts, that have considerable influence on the process of evaluation and economic decision making of annual report users, non-significant items have been combined and the details are disclosed in the Notes.
- h)** Business transactions are recorded in annual report taking into account their economic content and substance, not merely the legal form.

Consolidation principal accounting policies

Subsidiaries, in which Group have a directly or indirect control over operating activities, are consolidated. Control is obtained if the Group has an ability to influence the financial and management matters in a subsidiary, thereby benefiting from it. The control is obtained if the Group is entitled to influence the financial and operating policies applied in subsidiary, as well as to benefit from its transactions. The consolidation of subsidiaries is based on a cost or acquisition method. The subsidiaries of the Group are consolidated from the moment when the Group has taken over control and the consolidation is discontinued with the disinvestment of the Group's subsidiary. The financial statements of subsidiaries are consolidated in the Group's financial statements, combining the respective assets, liabilities, profit and loss items. All transactions occurred between the Group companies, settlements and unrealized gains or losses from transactions are eliminated. If necessary, the accounting policies of the Group's subsidiaries have been changed to the Groups accounting policies to ensure compliance with the accounting and measurement methods used by the Group.

The reporting period

The reporting year covers the period from 1.1.2019 to 31.12.2019.

Translation of foreign currencies

These financial statements are presented in the currency of the European Union, the Euro (hereinafter - EUR), which is the Group's functional and presentation currency.

All the transactions denominated in foreign currencies are translated into the EUR at the European Central Bank rate of exchange prevailing on the transaction day. At the balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the European Central Bank rate of exchange prevailing on 31 December.

Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies into the EUR are recognized in the statement of profit and loss. As at 31 December of the reporting year, the Group has no significant assets and liabilities denominated in foreign currencies.

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, employees, members of the management board, their close relatives and companies that directly, or indirectly through one or more intermediaries, control Group, or are controlled by Group, or are under common control with the Group.

Investments

Investments in subsidiaries (i.e. where the Company holds more than 50% of interest in the share capital or otherwise controls the investee company) are measured initially at cost. Control is achieved where the Company has the power to govern the financial and operating policies of the investee company.

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the investee company but is not control or joint control over those policies. Investments in associates are measured initially at cost.

Other financial investments represent investments in the share capital of another company which does not exceed 20% of the company's total share capital.

Subsequent to initial recognition, all investments are stated at historical cost less any accumulated impairment losses. The carrying amounts of investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised in the statement of profit and loss.

Intangible assets and property, plant and equipment

In the balance sheet intangible assets and property, plant and equipment are recognized at their cost of acquisition less depreciation and amortization charged. The Group capitalizes items of property, plant and equipment with initial cost exceeding 1000 EUR (till 30.09.2018 - 600 EUR).

Acquired fixed assets below 1000 EUR are recognized in low value inventory account.

The cost comprises the purchase price, import duties, and non-deductible taxes, and other directly attributable expenses related to the acquisition or implementation. Only the rights acquired are recognized as "Concession, patents, licenses, trademarks and software".

Depreciation and amortization is calculated over the useful life of the asset according to the straight-line method applying the following depreciation rates at the basis of calculation:

Intangible assets:

Licenses	20-33	%
Other intangible assets	10-20	%
Property, plant and equipment:		%
Technological equipment	10-20	%
Hardware and electronic equipment	33	%
Vehicles	20	%
Other fixed assets	20-33	%

The gain or loss arising on the disposal of an item of property, plant and equipment is determined as the difference between the carrying amount and the sales proceeds of the asset and is recognized in the statement of profit and loss.

Repair and renovation expenses increasing the useful life or the value of the property, plant and equipment are capitalized and depreciated over useful life of asset. All other repairs and maintenance are charged to the statement of profit and loss for the period in which they incurred.

Leasehold improvements are capitalized and are included in the asset's carrying amount. Leasehold improvements are amortized over the shorter of the useful life of the improvement and the term of the lease agreement on a straight-line basis.

Research costs are recognized in the statement of profit and loss of the reporting period they are incurred. The development costs are capitalized if it can demonstrate reliable the ability asset will generate economic benefits. Amortization is calculated over the period of development cost use.

Impairment of non-current assets

If the non-current asset carrying amount on the balance sheet date is lower than its acquisition value less accumulated depreciation, the asset is measured at the lower of cost.

Inventories

Inventory cost price is determined using the average weighted cost.

Inventories are stated at the lower of cost or net realizable value. Net realizable value represents the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and costs necessary to make the sale.

Inventories held in net realizable value are recognized at carrying amount of inventories reduced by allowances.

Receivables

Receivables are recognized according to the amount of initial invoices, less allowances for doubtful debts. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts. Receivables are written off if their recovery is considered as impossible.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances of current accounts with banks and short-term deposits held at call with banks with the initial maturity of less than 90 days.

Deferred expenses

Expenses incurred before the balance sheet date, but which relate to the next reporting periods, are recognised as deferred expenses.

Financial assets

- *Non-current loans and claims*

Are financial assets created by the Company and Group by providing money or rendering services directly to the debtor and which are not intended to be sold immediately or in a short time of period. Loans are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition all loans are stated at amortized cost, using the effective interest rate method. Amortized cost is calculated considering transaction costs incurred, as well as any loan-related discounts or premiums. Differences between the principal amount and the repayable value are gradually recognized in the statement of profit and loss over the period of the loan. If events or changes in circumstances indicate that the carrying amount is impaired, provisions of asset impairment are recognized.

- *Other non-current financial investments*

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity dates that the Group has ability to hold to maturity. Loans are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition all loans are stated at amortized cost, using the effective interest rate method.

Held-for-sale financial assets are financial assets which are not issued loans, invoices and held-to-maturity investments.

These assets can be sold in order to increase liquidity or interest rates and capital value in case of change. If events or changes in circumstances indicate that the carrying amount is impaired, provisions of asset impairment are recognized.

- *Current financial investments*

Are financial assets held for trading which are acquired or incurred for the primary purpose of making a profit from short-term fluctuations of price or profit margins. Financial assets held for trading are initially recognized at cost value plus transaction costs directly attributable to

the acquisition of the financial asset. Cost value usually corresponds to the amount paid for the asset, including fees and commissions. Cost value is amount at which a financial asset is measured at initial recognition less principal repayments, and adjusted for any allowance for impairment.

Accrual for unused employee vacations

Accrual for unused vacations is computed by multiplying employees' average salary for the last 6 months by the number of unused vacation days at the end of the reporting year, additionally calculating employers' mandatory social insurance contributions.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition all borrowings are stated at amortised cost, using the effective interest rate method.

Borrowings are classified as current liabilities unless the Company and Group has an unconditional right to defer settlement of the liability at least for 12 months after the end of reporting period.

Finance lease liabilities

Assets purchased under finance lease arrangement recognizes in the balance sheet the asset as an item of property, plant and equipment in the acquisition value and as a liabilities at an amount equal to the asset. Depreciation is calculated over the useful life of the asset. Each lease payment is allocated between the liability and finance charge so as to achieve a constant interest rate on the balance of liability outstanding.

Leases

Leases of assets under which the lessee assumes substantially all the risks and rewards of ownership associated with the asset are classified as finance leases. All other leases are classified as operating leases.

Operating lease

Lease in which a significant portion of the risk and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of profit and loss on a straight-line basis over the period of the lease.

Provisions

Provisions are recognized when the Company and Group has a liability (legal or reasonable) due to a past event and it is probable that the outflow of resources embodying

economic benefits from the Company and Group will be required to settle the obligation and the amount of the liability can be measured reliably.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables are classified as current liabilities if payment is due within one year or less. Otherwise, they are classified as non-current liabilities. The amount of the Group and its liabilities can be measured reliably.

Revenue recognition

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods has transferred to the buyer and the amount of revenue can be measured reliably.

Revenue from rendering of services is recognized in proportion to the stage of completion of the order.

Dividend income is recognized when the shareholder's right to receive the payment is established. Interest income is recognized on a time proportion basis.

Corporate income tax

Corporate income tax is recognized in the statement of profit and loss, on the basis of calculations made by the management in accordance with the laws and regulations of the Republic of Latvia.

Corporate income tax is calculated on distributed profits (20/80 of the net amount payable to the members). Corporate tax on distributed profits will be recognized when the Company's shareholders make a decision to distribute the profit.

Fair value

The fair value represents the value, at which an asset may be sold of or liabilities settled within the normal market conditions. If based on the management assessment the fair value of financial assets and liabilities significantly differ from its carrying value, the fair value is disclosed in notes to the financial statements.

Use of estimates

In preparing the financial statements, the management of the Company and Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The management has assessed the

profit and loss and believes that the financial statements give a true and fair view of the financial position, based on all the information available.

Allowance for doubtful and bad trade receivables

The Company's management evaluates the carrying amounts of trade receivables and assesses their recoverability, making an allowance for doubtful and bad trade receivables, if necessary. The Company's management has evaluated the trade receivables and considers that it is not necessary to make an additional significant allowance as of 31 December 2019.

Net realizable value of inventories

The Company's management evaluates the net realisable value of inventories based upon the expected sales prices and selling costs and assesses the physical condition of inventories during the annual stock count. If the net realisable value of inventories is lower than the cost of inventories then an allowance is recorded. The Company's management has evaluated the net realisable value of inventories and considers that it is not necessary to make an additional significant allowance as of 31 December 2019.

Useful lives of property, plant and equipment

Useful lives of property, plant and equipment are assessed at each balance sheet date and changed, if necessary, to reflect the Company's management current view on their remaining useful lives in the light of changes in technology, the remaining prospective

economic utilisation of the assets and their physical condition.

Government and EU institutions grants

Government and EU institution grants are included in the balance sheet of the Company and Group when it is certain that the conditions set out in the aid will be met and will be eligible for state aid. If state aid is received for long-term investments, state aid is reflected in the balance sheet as a deferred income.

Government grants are not recognised until there is reasonable assurance that the Company and Group will comply with the conditions attaching to them and that the grants will be received. Grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Accordingly, grants whose primary condition is that the Company and Group should purchase or construct non-current assets are recognised as deferred revenue in the balance sheet and transferred to the statement of profit or loss on a systematic and rational basis over the useful lives of the related assets.

Events after the reporting date

Post-period-end events that provide additional information about the Company's and Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-period-end events that are not adjusting events are disclosed in the notes when material.

and rendering services less value added tax and discounts given. The revenue generated from production and wholesale of cosmetic products.

Turnover across geographical markets:	Group 2019 / EUR	Group 2018 / EUR	Company 2019 / EUR	Company 2018 / EUR
Revenue from the sale of goods in European Union	7,547,839	5,991,218	7,030,730	5,542,495
Revenue from the sale of goods in Latvia	3,096,329	2,702,891	3,144,588	2,812,599
Revenue from the sale of goods in other markets	711,382	741,522	690,799	694,310
Revenue from the sale of services	178,564	93,407	125,956	45,431
Other revenue from operating activities	12,091	277	12,091	-
Total	11,546,205	9,529,315	11,004,164	9,094,835

(3) COST OF GOODS SOLD

	Group 2019 / EUR	Group 2018 / EUR	Company 2019 / EUR	Company 2018 / EUR
Raw materials consumed	2,109,354	1,631,384	2,124,203	1,627,781
Remuneration for work	872,051	713,236	872,051	713,236
Property, plant and equipment depreciation (see Note 11)	438,538	307,177	438,537	307,177
Mandatory state social insurance contributions	206,401	171,943	206,401	171,943
Current assets write-off	185,720	140,493	185,720	140,493
Premises rent and maintenance	149,123	149,123	149,123	149,123
Production service costs	147,390	96,874	147,390	96,874
New products research and development costs	141,733	80,440	141,733	80,440
Leasehold improvements write-off (see Note 11)	66,741	64,487	66,741	64,487
Resource costs	56,982	53,212	56,982	53,212
ECOCERT quality certificate maintenance costs	39,641	27,101	39,641	27,101
Travel expenses	17,143	17,617	17,143	17,617
Car maintenance and fuel costs	10,206	-	10,206	-
Other production and production maintenance related costs	21,128	25,070	21,129	25,070
Total	4,462,151	3,478,157	4,477,000	3,474,554

(4) SELLING EXPENSES

	Group 2019 / EUR	Group 2018 / EUR	Company 2019 / EUR	Company 2018 / EUR
Advertising and marketing costs	1,309,050	927,626	1,281,162	903,355
Remuneration for work	1,051,582	859,726	848,952	685,426
Production costs of samples	523,513	508,035	523,513	508,035
Transport costs	482,518	425,054	470,055	407,375
Mandatory state social insurance contributions	254,677	207,416	205,863	165,422
Selling bonus costs	222,422	147,174	222,422	147,174
Business trips and exhibitions costs	166,543	146,195	166,543	146,195
Office maintenance costs and premises rent	135,055	106,270	-	-
Intermedium services costs	93,669	59,775	174,569	135,975
Costs of trading platform maintenance services	41,927	24,054	41,927	24,054
Property, plant and equipment depreciation (see Note 11)	41,256	35,466	37,752	25,579
Warehouse service costs	22,562	7,793	22,562	7,793
Car maintenance and fuel costs	22,057	21,686	22,057	21,686
Sales training and store inspection costs	17,279	11,319	17,279	11,319
Royalties	16,970	2,852	16,970	2,852
Leasehold improvements write-off	13,583	9,073	-	-
Representation costs	8,739	23,483	8,739	23,483
Internet shop WEB page maintenance costs and other IT costs	4,579	17,715	4,579	17,715
Other sales expenses	69,117	13,393	52,873	15,009
Total	4,497,098	3,554,105	4,117,817	3,248,447

(5) ADMINISTRATION EXPENSES

	Group 2019 / EUR	Group 2018 / EUR	Company 2019 / EUR	Company 2018 / EUR
Remuneration for work	507,149	421,787	402,374	325,479
Depreciation and amortization <i>(see Note 10 and 11)</i>	147,170	90,200	147,170	90,200
Office costs	127,148	111,185	124,399	107,893
<i>Mandatory state social insurance contributions</i>	120,050	100,516	96,932	78,561
Cash outflow related costs	78,124	66,851	68,777	58,628
Premises rent and maintenance	71,712	71,712	71,712	71,712
Personnel sustainability expenses	39,101	17,979	39,101	17,979
Allowance for doubtful receivables <i>(see Note 17)</i>	27,533	57,092	27,533	57,092
Securities circulation costs	20,980	11,099	20,980	11,099
Audit costs	20,295	15,680	20,295	15,680
Car maintenance, fuel and repair costs	20,284	15,143	15,143	15,143
Communication costs	19,813	20,832	18,040	19,299
Legal and other professional services	16,417	31,024	16,417	31,024
Employees health insurance	12,354	9,837	12,354	9,837
Travel expenses	5,562	-	5,562	-
Other management and administration costs	55,005	83,577	41,489	67,694
Total	1,288,697	1,124,514	1,128,278	977,320

(6) OTHER OPERATING INCOME

	Group 2019 / EUR	Group 2018 / EUR	Company 2019 / EUR	Company 2018 / EUR
Revenue from the ERAF project No L-APV-14-0111	88,926	88,926	88,926	88,926
Revenue from other ERAF projects	153,553	79,703	153,553	79,703
Other revenues	13,671	5,850	18,162	10,103
Total	256,150	174,479	260,641	178,732

(7) OTHER OPERATING EXPENSES

	Group 2019 / EUR	Group 2018 / EUR	Company 2019 / EUR	Company 2018 / EUR
Nature protection costs	22,383	10,992	22,383	10,992
Staff recruitment and training costs	19,194	8,836	19,194	8,836
Donations	12,500	20,000	12,500	20,000
Purchased goods and services for resale	4,917	21,154	4,917	21,154
Labor protection costs	3,783	3,786	3,783	3,786
Other expenses	15,712	8,270	15,712	8,264
Total	78,489	73,038	78,489	73,032

(8) INTEREST AND SIMILAR INCOME

	Group 2019 / EUR	Group 2018 / EUR	Company 2019 / EUR	Company 2018 / EUR
Interest income on short - term financial investments	100,729	54,555	100,729	54,555
Penalties received	370	-	370	-
Other interest income	4,770	10,221	4,770	10,221
Total	105,869	64,776	105,869	64,776

(9) INTEREST AND SIMILAR EXPENSES

	Group 2019 / EUR	Group 2018 / EUR	Company 2019 / EUR	Company 2018 / EUR
Interest on borrowings	6,235	10,886	6,235	10,886
Foreign currency exchange rate fluctuations	4,365	3,217	4,365	3,217
Interest on obligations under finance leases	4,361	5,830	4,361	5,830
Factoring fees	3,238	1,805	3,238	1,805
Penalties paid	485	264	482	258
Total	18,684	22,002	18,681	21,996

(10) INTANGIBLE ASSETS

Group	Development costs EUR	Concessions, patents, licenses, trademarks and software EUR	Advance payments for intangible assets EUR	Total intangible assets EUR
Cost as of 31.12.2018.	-	463,859	2,325	466,184
Additions	96,471	-	311,115	407,586
Adjustments	-	487	(7,706)	(7,219)
Transferred	-	220,659	(220,659)	-
Disposals	-	(285)	-	(285)
Cost as of 31.12.2019.	96,471	684,720	85,075	866,266
Accumulated depreciation as of 31.12.2018.	-	83,632	-	83,632
Depreciation charged		100,732	-	100,732
Adjustments	-	487	-	487
Disposals	-	(285)	-	(285)
Accumulated depreciation as of 31.12.2019.	-	184,566	-	184,566
Net carrying amounts as of 31.12.2018.	-	380,227	2,325	382,552
Net carrying amounts as of 31.12.2019.	96,471	500,154	85,075	681,700

(10) INTANGIBLE ASSETS *(continued)*

Company	Development costs EUR	Concessions, patents, licenses, trademarks and software EUR	Advance payments for intangible assets EUR	Total intangible assets EUR
Cost as of 31.12.2018.	-	463,574	2,325	465,899
Additions	96,471	-	311,115	407,586
Adjustments	-	487	(7,706)	(7,219)
Transferred	-	220,659	(220,659)	-
Cost as of 31.12.2019.	96,471	684,720	85,075	866,266
Accumulated depreciation as of 31.12.2018.	-	83,632	-	83,632
Depreciation charged		100,732	-	100,732
Adjustments	-	487	-	487
Accumulated depreciation as of 31.12.2019.	-	184,566	-	184,566
Net carrying amounts as of 31.12.2018.	-	380,227	2,325	382,552
Net carrying amounts as of 31.12.2019.	96,471	500,154	85,075	681,700

(11) PROPERTY, PLANT AND EQUIPMENT

Group	Land EUR	Leasehold improve-ments EUR	Technological equipment and machinery EUR	Other fixed assets and equipment EUR	Construction in progress EUR	Advance payments for property, plant and equipment EUR	Total property, plant and equipment EUR
Cost as of 31.12.2018.	213,722	675,118	2,154,452	501,109	243,178	1,434	3,789,013
Additions	-	-	-	-	266,293	522,169	788,462
Disposals	-	-	(47,122)	(24,472)	(1,881)	-	(73,475)
Transferred	-	79,109	648,236	256,680	(486,890)	(497,135)	-
Cost as of 31.12.2019.	213,722	754,227	2,755,566	733,317	20,700	26,468	4,504,000
Accumulated depreciation as of 31.12.2018	-	226,583	1,293,722	212,900	-	-	1,733,205
Depreciation charged	-	80,326	419,221	107,011	-	-	606,558
Disposals	-	-	(47,122)	(24,472)	-	-	(71,594)
Accumulated depreciation as of 31.12.2019	-	306,909	1,665,821	295,439	-	-	2,268,169
Net carrying amounts as of 31.12.2018	213,722	448,535	860,730	288,209	243,178	1,434	2,055,808
Net carrying amounts as of 31.12.2019	213,722	447,318	1,089,745	437,878	20,700	26,468	2,235,831

(11) PROPERTY, PLANT AND EQUIPMENT *(continued)*

Company	Land EUR	Leasehold improvements EUR	Technological equipment and machinery EUR	Other fixed assets and equipment EUR	Construction in progress EUR	Advance payments for property, plant and equipment EUR	Total property, plant and equipment EUR
Cost as of 31.12.2018	213,722	585,046	2,154,452	486,565	234,246	-	3,674,031
Additions	-	-	-	-	212,924	522,169	735,093
Disposals	-	-	(47,122)	(24,472)	-	-	(71,594)
Transferred	-	43,104	648,236	230,831	(426,470)	(495,701)	-
Cost as of 31.12.2018	213,722	628,150	2,755,566	692,924	20,700	26,468	4,337,530
Accumulated depreciation as of 31.12.2018	-	167,681	1,293,722	201,462	-	-	1,662,865
Depreciation charged	-	66,742	419,221	103,506	-	-	589,469
Disposals	-	-	(47,122)	(24,472)	-	-	(71,594)
Accumulated depreciation as of 31.12.2019	-	234,423	1,665,821	280,496	-	-	2,180,740
Net carrying amounts as of 31.12.2018	213,722	417,365	860,730	285,103	234,246	-	2,011,166
Net carrying amounts as of 31.12.2019	213,722	393,727	1,089,745	412,428	20,700	26,468	2,156,790

(12) INVESTMENTS IN SUBSIDIARIES

	31.12.2019 / EUR	31.12.2018 / EUR
Acquisition value	18,156	18,156
Investments in subsidiaries:	18,156	18,156

Company name	Owned parts, %	Acquisition value	Value of the investment 31.12.2019.
Madara Retail SIA	100	2,828	2,828
Cosmetics Nord SIA	100	2,828	2,828
Madara Cosmetics GmbH	100	12,500	12,500
Total	100	18,156	18,156

(12) INVESTMENTS IN SUBSIDIARIES *(continued)*

Madara Retail SIA, registration number 40103212103, 131 Zeltinu street, Marupe, Latvia. Type of operations - retail sale of cosmetics.

	31.12.2019 / EUR	31.12.2018 / EUR
Equity, EUR, unaudited	12,629	22,571
Profit for the reporting year, EUR, unaudited	(9,942)	2,585

Cosmetics Nord SIA, registration number 40103277805, 131 Zeltinu street, Marupe, Latvia. Type of operations - wholesale of cosmetics.

	31.12.2019 / EUR	31.12.2018 / EUR
Equity, EUR, unaudited		
Profit or loss for the reporting year, EUR, unaudited	17,367	(17,560)

Madara Cosmetics GmbH, registration number HRB 177689, Potsdamer Platz 1, Berlin. Type of operations - cosmetics distribution services.

	31.12.2019 / EUR	31.12.2018 / EUR
Equity, EUR, unaudited	13,627	20,711
Profit or loss for the reporting year, EUR, unaudited	(7,084)	2,992

(13) OTHER NON-CURRENT RECEIVABLES

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Rent security deposits	68,027	59,728	40,000	40,000
Other receivables	-	2,491	-	2,491
Total other receivables	68,027	62,219	40,000	42,491

(14) OTHER SECURITIES AND INVESTMENTS

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Other investments	826	826	826	826
Total	826	826	826	826

(15) RAW MATERIALS, MATERIALS AND CONSUMABLES

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Raw materials and materials, gross value	1,517,310	1,051,090	1,516,569	1,048,444
Goods in transit	68,730	-	68,730	-
Allowance for obsolete and slow moving inventories	(29,259)	(11,456)	(29,259)	(11,456)
Total	1,556,781	1,039,634	1,556,040	1,036,988

(16) FINISHED GOODS AND GOODS FOR SALE

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Cosmetics products	1,138,210	848,024	1,094,197	816,374
Advertising materials	80,224	27,958	80,224	27,958
Allowance for obsolete and slow moving inventories	(20,109)	-	(20,109)	-
Total	1,198,325	875,982	1,154,312	844,332

(17) TRADE RECEIVABLES

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Trade receivables, gross value	1,436,056	1,043,631	1,221,394	925,576
Allowance for doubtful trade receivables	(84,625)	(57,092)	(84,625)	(57,092)
Total	1,351,431	986,539	1,136,769	868,484

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Allowance for doubtful trade receivables at the beginning of the reporting year	57,092	2,663	57,092	2,663
Allowance charged <i>(see Note 5)</i>	27,533	57,092	27,533	57,092
Doubtful trade receivables write-off	-	(2,663)	-	(2,663)
Allowance for doubtful trade receivables at the end of the reporting year	84,625	57,092	84,625	57,092

Allowance for doubtful trade receivables is an amount of calculated allowances less recovered doubtful debt amounts.

(18) TRADE RECEIVABLES FROM RELATED PARTIES

	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Madara Retail SIA	180,275	161,948
Cosmetics Nord SIA	201,732	145,061
Total	382,007	307,009

(19) OTHER RECEIVABLES

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Short-term loan to SIA KALVI	250,000	-	250,000	-
Accrued coupon for MOGO bond	32,527	-	32,527	-
Other receivables	17,639	17,178	14,198	11,864
Unpaid collected balances	6,279	3,860	-	-
Payments in the PAY PAL system	2,259	8,261	2,259	8,261
Corporate income tax overpayment	254	53,801	79	51,779
VAT overpayment	-	4,348	-	4,348
Total	308,958	87,448	299,063	76,252

(20) OTHER SECURITIES

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Short-term financial securities with a fixed income of 12 (10+2)% per annum	950,000	700,000	950,000	700,000
Total	950,000	700,000	950,000	700,000

(21) CASH

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Cash in bank accounts	2,329,384	3,425,756	2,263,872	3,350,914
Total	2,329,384	3,425,756	2,263,872	3,350,914

(22) SHARE CAPITAL

As of 31 December 2019 and 2018, the registered and fully paid-in capital of the Group's Parent Company is 374 524,20 EUR and consists of 3 745 242 shares; nominal value of 1 share is 0,10 EUR.

Since 2017, AS Madara Cosmetics has implemented share options program for its employees as additional motivation and involvement tool. Share options may be acquired by employees of the Company, managers of departments and members of Council who have made a significant contribution in the Company. The granting of share options is exercised by the Board in accordance with procedures specified in the resolutions of the shareholders' meeting and the amount of options granted. The Company does not apply the fair value model to the program of share options and in accordance with the procedure share options are exercised at par value at the expense of retained earnings.

(23) BANK BORROWINGS

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
SWEDBANK loan - agreement 14-009243	77,379	148,806	77,379	148,806
SWEDBANK loan - agreement 15-025534	31,859	95,577	31,859	95,577
Total bank borrowings	109,238	244,383	109,238	244,383

(23) BANK BORROWINGS (continued)

Non-current borrowings	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
SWEDBANK loan - agreement 14-009243	5,952	77,379	5,952	77,379
SWEDBANK loan - agreement 15-025534	-	31,859	-	31,859
Total non-current borrowings	5,952	109,238	5,952	109,238

Current borrowings	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
SWEDBANK loan - agreement 14-009243	71,427	71,427	71,427	71,427
SWEDBANK loan - agreement 15-025534	31,859	63,718	31,859	63,718
Total current borrowings	103,286	135,145	103,286	135,145
Total bank borrowings	109,238	244,383	109,238	244,383

Borrowings split by maturity	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Less than 1 year	103,286	135,145	103,286	135,145
Up to 2 years	5,952	109,238	5,952	109,238
Total borrowings	109,238	244,383	109,238	244,383

Borrowings split by currency	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
EUR	109,238	244,383	109,238	244,383
Total borrowings	109,238	244,383	109,238	244,383

Movement in borrowings	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Borrowings at the beginning of the reporting year	244,383	379,528	244,383	379,528
Repayment of borrowings	(135,145)	(135,145)	(135,145)	(135,145)
Borrowings at the end of the reporting year	109,238	244,383	109,238	244,383

Borrowing interest rates

As of 31 December 2019, the effective interest rate on the non-current borrowing No 14-009243 was 3 month EURIBOR +3,3%; on the non-current borrowing No 15-025534 was 3 month EURIBOR +3,5%.

Borrowing maturity dates

The maturity date of the non-current borrowings No 14-009243 is 22 January 2021, the maturity date of the non-current borrowing No 15-025534 is 30 June 2020. At the moment of signing of these financial statements repayment of loan 15-025534 was made in full amount.

Pledges

The Company has pledged a portion of its assets as security for bank borrowings. As of 31 December 2019 and 31 December 2018, the Group's assets in amount of EUR 1 340 900 had been pledged to secure agreement No 14-009243 and assets in amount of EUR 420 000 had been pledged to secure agreement No 15-025534.

Bank loan covenants

During the reporting year and as of 31 December 2019, the Company had complied with all loan covenants of the borrowing agreements.

(24) OTHER NON-CURRENT LIABILITIES

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Finance lease liabilities	81,546	140,680	81,546	140,680
Total	81,546	140,680	81,546	140,680

(25) TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Mandatory state social insurance contributions	67,933	56,972	60,062	49,966
Personal income tax	32,086	27,781	28,389	24,357
Value added tax (<i>Germany</i>)	33,455	18,525	33,455	18,525
Natural resources tax (<i>Latvia</i>)	15,690	-	15,690	-
Natural resources tax	144	168	144	168
Risk duty	52	50	41	39
Total	149,360	103,496	137,781	93,055

(26) OTHER LIABILITIES

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Salaries	130,392	105,233	115,325	91,703
Finance lease liabilities	59,134	57,645	59,134	57,645
Settlements of gift cards	16,424	16,063	1,447	2,206
Advance payments	1,151	1,176	1,151	1,176
Other liabilities	6,738	2,868	6,254	2,387
Total	213,839	182,985	183,311	155,117

(27) ACCRUED LIABILITIES

	Group 31.12.2019 / EUR	Group 31.12.2018 / EUR	Company 31.12.2019 / EUR	Company 31.12.2018 / EUR
Accrued liabilities for unused vacation	170,143	148,196	170,143	148,196
Accrued liabilities for employee remuneration	16,373	15,632	16,373	15,632
Accrued liabilities for goods not received	68,730	-	68,730	-
Accrued liabilities for services received	66,381	51,044	61,878	51,550
Total	321,627	214,872	317,124	215,378

(28) RECLASSIFICATION

In order to disclose correctly split between short term and long-term receivables, in the reporting year reclassification of following comparatives has been made.

Adjusted balance sheet positions	Before reclassification 31.12.2018 EUR	Reclassification, EUR	After reclassification 31.12.2018 EUR
Non-current financial investments:			
Other non-current receivables	42,491	19,728	62,219
Receivables:			
Other receivables	107,176	(19,728)	87,448

(29) GROUP'S PARENT COMPANY RELATED PARTY TRANSACTIONS DURING THE REPORTING YEAR

	Issued loan	Goods and services provided	Received goods and services
Madara Retail SIA*	-	501,946	-
Cosmetics Nord SIA*	-	495,732	-
KALVI SIA	250,000	-	-
MC PROPERTIES SIA	-	960	220,835
Madara Cosmetics GmbH	-	-	80,900
Wolf Candles SIA	-	-	1,063
Total	250,000	998,638	302,798

* Outstanding balances with these counterparties are included in the balance sheet item "Trade receivables from related parties".

(30) NUMBER OF EMPLOYEES

	Group 2019	Group 2018	Company 2019	Company 2018
Average number of employees, including:	146	123	120	101
Members of the Board	3	3	3	3
Members of the Council	5	5	5	5

(31) INFORMATION ON THE REMUNERATION OF GROUP'S PARENT COMPANY COUNCIL AND BOARD MEMBERS

	Group 2019	Group 2018	Company 2019	Company 2018
Board members remuneration for the work at the Board	9,846	9,332	2,646	2,132
Council members remuneration for the work at the Council	5,914	3,643	5,914	3,643
Total	15,760	12,975	8,560	5,775

(32) OFF-BALANCE SHEET LIABILITIES

(a) Operating lease agreements

On 17 March 2015, the Group's Parent Company signed a premises rent agreement with SIA MC PROPERTIES Reg. No 40103872324 for leasing production and office premises at Marupe, 131 Zeltinu Street. Premises rent agreement is in force till 2025.

Group has concluded lease agreements for rent of premises in four shopping centers in Riga: "Galerija Centrs", "Spice", "Alfa" and "Akropole". Maturity of these agreements – up to year 2022 – 2024 with possibility to prolong respective maturity.

(b) Issued guarantees

On 30 June 2015, a mortgage agreement signed between A/S SWEDBANK and Group's Parent Company's lessor MC PROPERTIES SIA on pledged item – real estate on 131 Zeltinu Street, Marupe. Real estate is pledged in favor of A/S SWEDBANK and the Group's Parent Company is guarantor for the MC PROPERTIES SIA obtained borrowings; the amount of the guarantee, in accordance with the terms of the contract, is the amount of the outstanding liabilities. As at 31 December 2019, the outstanding balance of MC PROPERTIES SIA loan to A/S SWEDBANK was EUR 646 153.

(33) RECEIVED ERAF FINANCING

In the previous reporting years, the Parent Company has received co-financing from the European Union fund in the Entrepreneurship and Innovations project – High Value Added Investments.

In terms of the grant agreement, the Parent Company is not entitled to lease, pledge, sell or otherwise encumber the equipment and property created by the co-financing of state aid by 2020.

In order to receive additional financing, in 2019 the Parent Company of the Group participated in ERAF project program "Growth and Employment" with the specific support objective "Increase of the proportion of exports of high value-added products and services", ERAF project realized by Association of Latvian Chemical and Pharmaceutical entrepreneurs "Development cluster of Latvian life science sector", as well as in course of Center of Excellence participated in projects that maintain support for development of new products and technologies. During implementation of these projects all necessary conditions for participation were met and Group's Parent Company received funding in 2019 – in the program "Growth and Employment" – 18 588 EUR, in "Development cluster of Latvian life science sector" – 9 412 EUR, in projects with Center of Excellence – 86 712 EUR. In 2020, the Group's Parent Company plans to continue participating in these projects.

(34) FINANCIAL RISK MANAGEMENT

The Group's as the Company's activities are exposed to a variety of financial risks: foreign currency risk, interest rate risk, credit risk and liquidity risk.

-Interest rate risk

The Parent Company has non-current borrowings with variable interest rate from credit institutions. Therefore it is exposed to any changes in interest rates (Note 23).

-Foreign currency risk

Foreign currency risk is the risk of financial losses incurred by the Group due to adverse fluctuations in foreign currency exchange rates. This risk arises when financial assets denominated in a foreign currency do not match financial liabilities in that currency which results in open currency positions. The Group companies does not have any material balances of financial assets and liabilities denominated in currencies. Therefore, during the reporting year the Group exposure to foreign currency risk was not significant.

-Credit risk

Credit risk is the risk of financial losses incurred as a result of default by a counterparty on its obligation to the Group. Credit risk mainly arises from cash with banks, trade receivables and issued non – current and current loans. The Group has no significant concentration of credit risk with any single counterparty of group of counterparties having similar characteristics.

-Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its obligations in full as they fall due. Liquidity risk arises when the maturities of financial assets and liabilities do not match. The aim of the Group's liquidity risk management is to maintain sufficient amount of cash and its equivalents, and to insure the availability of funding through sufficient amount of committed bank credit line facilities to settle its obligations at a given date. As of 31 December 2019, the Group has no active credit line facility agreement. The Parent Company assesses the repayment term matching of its financial assets and liabilities and the stability of long- term investment sources of funding on a regular basis.

(35) EVENTS AFTER THE REPORTING DATE

In 2020, the economic situation caused by COVID-19 affected certain sales channels of the Group. There is an increase in e-commerce channels and a decrease in physical sales channels. Despite these changes the Group has managed to maintain growth and achieve the planned turnover for 4 months 2020. The production process is organized in a normal way and no supply chain disruptions are observed. There are also no significant changes in customer payment discipline. However, this assessment is based on information available at the date of signing of these financial statements and the effect of future events on the future performance of the Group may differ from management's judgement.

In 2020, the Group sold all short term financial instruments. The sales were made at a value that created a positive financial effect for the Group.


Apart from effect of COVID-19 and sale of financial instruments, since the reporting year-end no other material changes have taken place that would not be reflected in these financial statements and would be significant to reassess the Group's assets and liabilities, its financial position and the financial result of the reporting year.

According to the Parent Company's management's recommendation, the part of the profit 2019 year in the amount of 500 000 EUR proposed to be distributed into dividends, residual amount shall be reinvested for the Group development.

The Annual Report were approved by:



Lote Tisenkopfa - Iltnere
Chairman of the Board



Paula Tisenkopfa
Member of the Board



Uldis Iltners
Member of the Board

The Annual Report were prepared by:



Armands Bērziņš
Chief accountant



Independent Auditor's Report

To the shareholders of MADARA Cosmetics AS

Our Opinion on the Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of MADARA Cosmetics AS ("the Company") and accompanying consolidated financial statements of the Company and its subsidiaries ("the Group") set out on pages 8 to 30 of the accompanying separate and consolidated annual report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2019,
- the separate and consolidated profit and loss statement for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and the Group, respectively, as at 31 December 2019, and of their separate and consolidated financial performance and their separate and consolidated cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia 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 Separate and Consolidated Financial Statements* section of our report.

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

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

Key Audit Matters

We have not determined any key audit matters to be communicated in our report of the financial statements of the current period.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Information about the Group, as set out on page 3 of the accompanying consolidated Annual Report,

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Independent Auditor's Report (continued)

- the Management Report, as set out on page 5 and 6 of the accompanying consolidated Annual Report.

Our opinion on the separate and consolidated financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

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

If, based on the work we have performed and in light of the knowledge and understanding of the Company and the Group and their environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the separate and consolidated financial statements are prepared is consistent with the separate and consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance for the Separate and Consolidated Financial Statements

Management is responsible for the preparation of the separate and consolidated financial statements that give a true and fair view in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, management is responsible for assessing the Company's and Group'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 and Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated 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

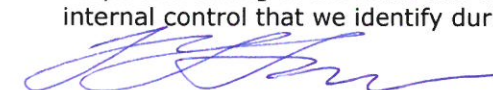
Independent Auditor's Report (continued)

influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

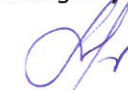
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated 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 and Group'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 and Group'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 separate and consolidated 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 and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves a 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.



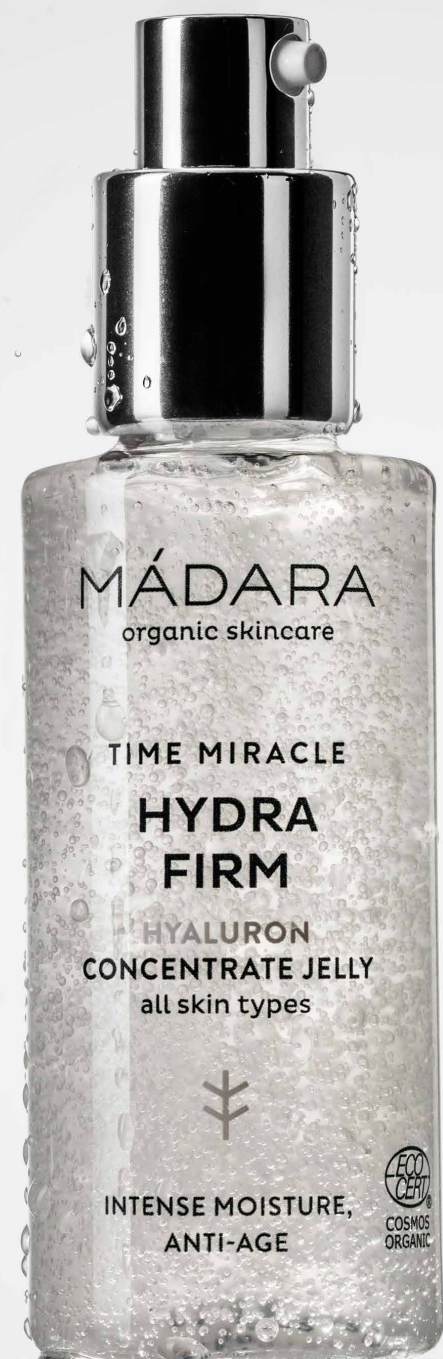
Inguna Stasa
Member of the Board



Jelena Mihejenkova
Certified auditor
Certificate nr. 166

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Riga, Latvia
1 July 2020





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