

MÁDARA
organic skincare

MANAGEMENT REPORT

**ON THE UNAUDITED
FINANCIAL STATEMENTS FOR 2020**

01.01.2020 - 31.12.2020



PREPARED IN ACCORDANCE WITH LATVIAN LEGISLATION REQUIREMENTS
RIGA, 2021



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DEAR SHAREHOLDERS OF AS MADARA COSMETICS,

DISRUPTIONS OFTEN MEAN NEW OPPORTUNITIES, AND THIS IS EXACTLY HOW WE ARE PERCEIVING THESE TIMES. IN MARCH LAST YEAR, IN THE FACE OF THE CHALLENGES CREATED BY THE NEW SITUATION, WE FOCUSED ON OUR STRENGTHS, RAPIDLY ADAPTING TO THE CHANGED CIRCUMSTANCES. ALREADY IN APRIL, THE COMPANY WAS SUCCESSFULLY WORKING IN THE NEW CONDITIONS, AND WE ARE READY TO GET ALONG WITH THEM FOR AS LONG AS NECESSARY.

2020 HAS BEEN THE YEAR OF MOST RAPID GROWTH FOR THE COMPANY IN RECENT TIMES. WITH NEARLY 40% GROWTH AND STRONG FINANCIAL RESULTS, THIS HAS BEEN A TRULY GREAT AND SIGNIFICANT YEAR. THE ACHIEVED RESULTS AND THE COMPANY'S RESOURCES ARE A GOOD BASIS FOR FURTHER DEVELOPMENT.

WE CONTINUE TO LOOK FOR NEW OPPORTUNITIES AND WE ARE DETERMINED TO ACHIEVE FURTHER GROWTH!



ULDIS ILTNERIS
AS MADARA COSMETICS
BOARD MEMBER

A stylized, handwritten signature in white ink, consisting of several loops and a long horizontal stroke.



GENERAL INFORMATION ABOUT MADARA COSMETICS GROUP

Name of the Group	MADARA Cosmetics AS	
Parent Company	MADARA Cosmetics AS	
Parent Company's registration number	Nr. 40003844254	
Registration place and date	Riga, 28 July 2006	
Parent Company's legal address	Zeltinu Street 131, Marupe, LV-2167, Latvia	
Shareholders (above 5 %) as of 09.02.2021	Uldis Iltners - owns 23.93 % of shares Lote Tisenkopfa - Iltnere - owns 23.77 % of shares Oy Transmeri Group Ab - owns 22.94 % of shares Liene Drāzniece - owns 6.79 % of shares Zane Tamane - owns 6.67 % of shares	
Type of operation 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 47.75 Retail sale via mail order houses or via Internet 47.91	
The board members of the Parent Company	Lote Tisenkopfa - Iltnere - Chairman of the Board Uldis Iltners - Member of the Board Paula Tisenkopfa - Member of the Board	
Council of the Parent Company	Anna Ramata Stunda - Chairman of the Council, Deputy Chairman of the Council till 28.07.2020 Liene Drāzniece - Deputy Chairman of the Council, Member of the Council till 28.07.2020 Anu Pauliina Koskinen - Member of the Council till 30.06.2020 Zane Tamane - Chairman of the Council till 28.07.2020 Anna Andersone - Member of the Council Edgars Pētersons - Member of the Council from 29.07.2020 Sari Hannele Rosin - Member of the Council from 29.07.2020	
Reporting period	01.01.2020 until 31.12.2020	
Previous reporting period	01.01.2019 until 31.12.2019	
Subsidiaries	Madara Retail SIA, reg. No 40103212103 - 100% Cosmetics Nord SIA, reg. No 40103277805 - 100% Madara Cosmetics GmbH, reg No HRB 177689 - 100%	

THE MOST IMPORTANT EVENTS IN 2020

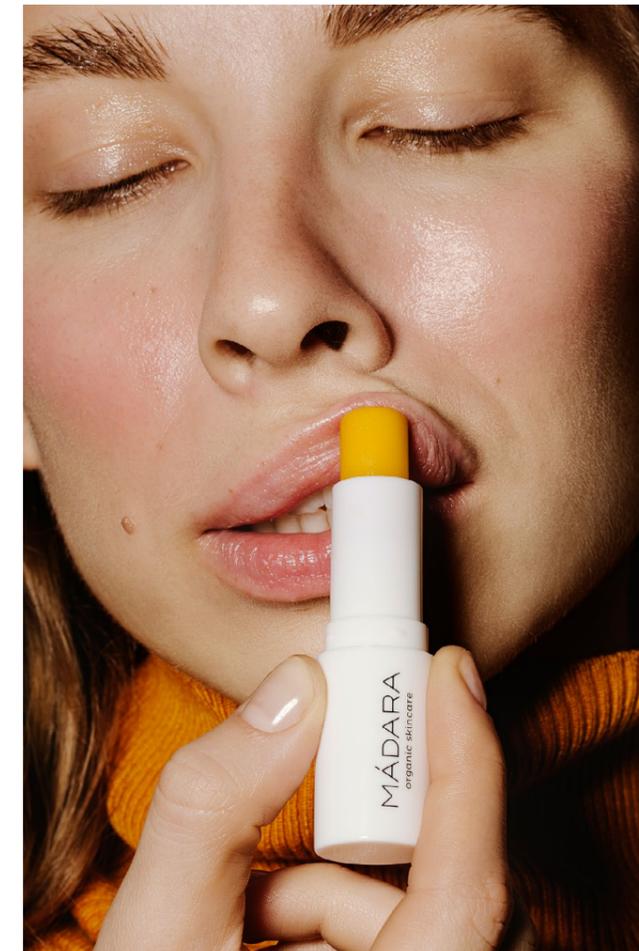
ADAPTING TO THE NEW SITUATION AND FOCUS ON DEVELOPMENT

The highlight of last year was the adaptation of the Company to the new regime created by the Covid-19 pandemic, while at the same time continuing the rapid development of the Company. Turnover growth of nearly 40% is the fastest growth in recent years. The Company's well-diversified sales channels with a relatively high proportion of e-commerce allowed us to not only compensate for the decline of some sales channels, but also to experience growth. The revenue share from direct e-commerce has risen by 14 percentage points in comparison to 2019. The work and the investments in the development of e-commerce during the former years has been fully justified. AS MADARA Cosmetics has advantages and better preparedness in this respect than most direct competitors in Europe. In general, last year meant that the sales of cosmetics was weighted heavily in favour of e-commerce, and it will continue to be an important focus for the Company.



DEVELOPMENT OF NEW PRODUCTS

In 2020, the Company introduced a number of new products to the market, continuing to prove itself as an innovative and contemporary manufacturer of natural cosmetics. New products have been added to the existing product categories, as well as new categories have been launched. Among the new product categories, the ACNE range for problem-prone skin should be highlighted, which has successfully attracted a new segment of cosmetics users for the Company. We are also pleased to announce that we have started the production of both classic lip balms and long-awaited lipsticks, which is an important addition to our makeup line. By investing more than EUR 100 000 in 2020, lipstick production equipment was added to the production facility, which allows flexible production of various types and shapes of lip care and decorative cosmetics products.



Rapid and integrated development processes of the new products also played an important role in achieving good results, as the Company was able to respond quickly and launch new, demanded products. Also, the popularity of sustainably created and natural products in Europe has grown rapidly over the past year, and this trend is very beneficial for the Company.

Currently, AS MADARA Cosmetics has fully adapted to the existing conditions and is able to continue to operate effectively in this mode for an indefinite period of time.

The most important individual new products are Time Miracle Hydra-Firm Hyaluron Concentrate Jelly and FAKE IT Healthy Glow Self Tan Serum for the face, which have rapidly become the Mádara bestsellers.

Last year, the new products accounted for EUR 2.2 million of the Company's total turnover.



DOUBLING THE PRODUCTION CAPACITY

At the end of 2020, the Company announced a goal to reach turnover of 27 million euros in 2023. Shareholders might ask, how the Company plans to deliver this increase in terms of production and logistics processes. At the end of last year, work began on preparing the Company for doubling its production capacity. The goal is to improve the Company's organisation, production and logistics processes, as well as to supplement the technological equipment of production in the existing plant, doubling the production capacity compared to the level of 2020. According to the management, by improving the mentioned aspects, the Company will be able to ensure doubling of the production volume in the existing premises, and the capital investments will not significantly exceed the level of previous years.

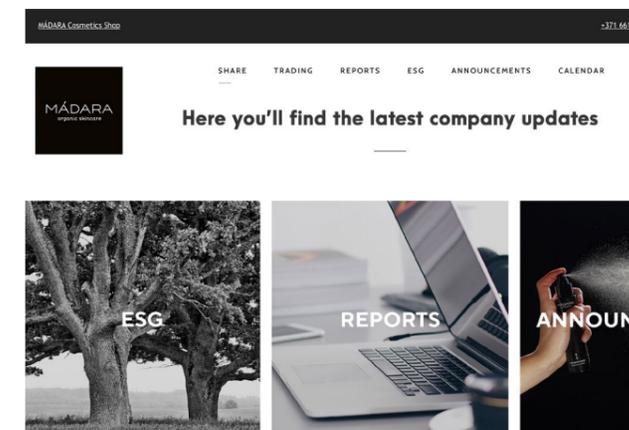
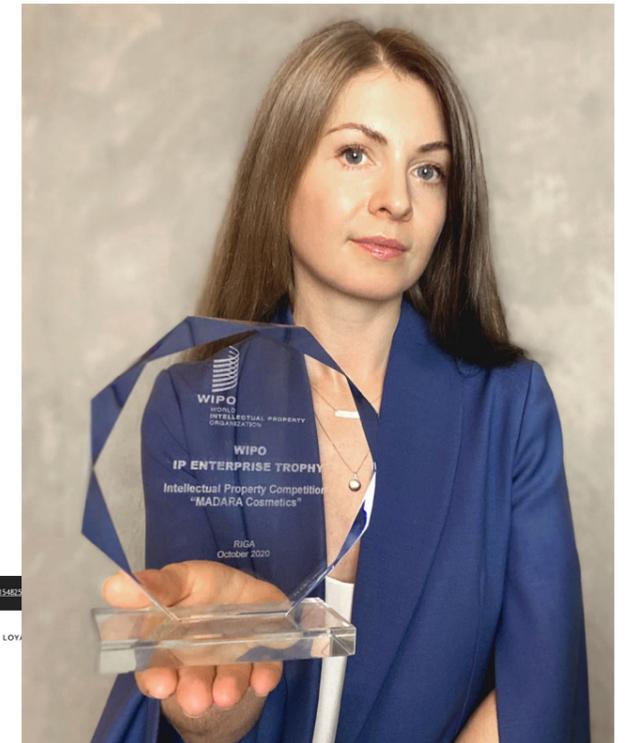


The Company's technological equipment consists of high quality equipment purchased in the time period since 2008. Although some of the equipment units have an accounting value of "0" due to depreciation requirements in accordance to accounting standards, the equipment is in excellent condition and well maintained in order to be fully operational for the next 10 years. The initial purchase value of the currently used equipment was approximately 3.1 million euros.



AS MADARA Cosmetics has implemented strict safety measures in the Company's office and production plant to minimise the risks of infection. The office staff performs their duties remotely. Production and warehouse staff are divided into small groups, and each group belongs to a separate flow. This procedure has not reduced the work efficiency of the Company in any way.

We are proud to announce that at the end of last year, AS MADARA Cosmetics received the WIPO Intellectual Property Enterprise Trophy 2020 for knowledge-based entrepreneurship and internationally recognized, sustainably produced natural beauty products. We are especially glad for the recognition right now, when WIPO is focusing on green innovation and technologies.



Please follow the Company news and current affairs on our investor page:

[INVESTORS.MADARACOSMETICS.COM](https://investors.madaracosmetics.com)

SALES

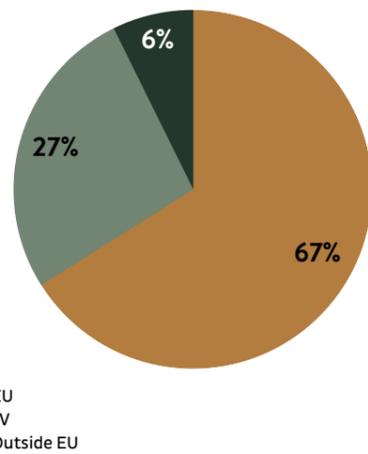
The Company closed 2020 with EUR 16.1 million consolidated turnover, achieving the fastest growth in recent years - roughly 40% increase compared to the previous year. Turnover in the second half of 2020 reached EUR 7.9 million, a 32% increase compared to the corresponding period last year. The Company successfully adapted to the conditions of COVID-19, putting special emphasis on e-commerce tools, which have been the Company's focus for many years. Despite various restrictions, the Company

continued to develop new products, offering consumers up-to-date solutions in new segments. In the first half of 2020, the ANTI skin cleansing and disinfectant product line was launched, while in the second half of the year, the Company's first lip balms in stick form and lipsticks were presented to the market. In addition, the Company has developed several new facial product lines (ACNE, IMMU, Derma Collagen) and various innovative products that complement existing product lines.

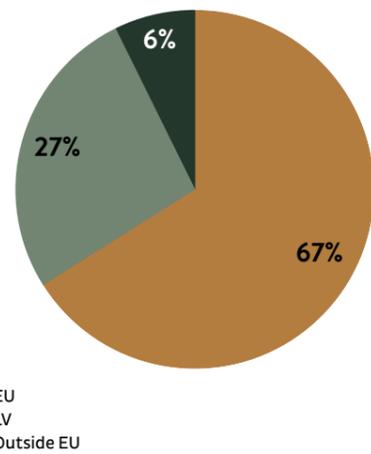
The distribution of sales has not changed on an annual basis. The largest share of turnover is still attributed to the European Union countries (including Latvia) - 94%, while 6% - outside the European Union. In the second half of 2020, Latvia's turnover share decreased by 3 percentage points due to retail sales restrictions on certain

product groups in the last months of the year, as well as faster growth rates in other countries. The largest market outside Latvia is still Finland, whose turnover in 2020 was EUR 2.68 million, a 6.3% increase compared to 2019. The Company continues to actively develop markets in other countries, such as France, Germany, the United Kingdom.

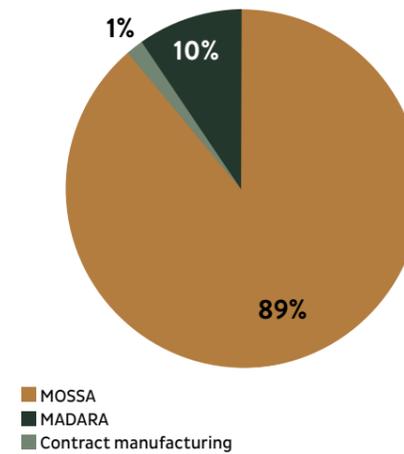
Sales distribution in Latvia, the EU and outside EU (2020)



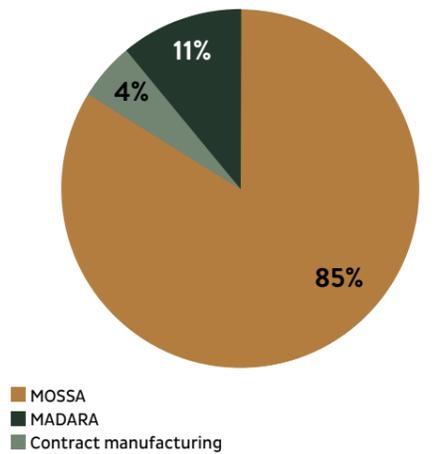
Sales distribution in Latvia, the EU and outside EU (2019)



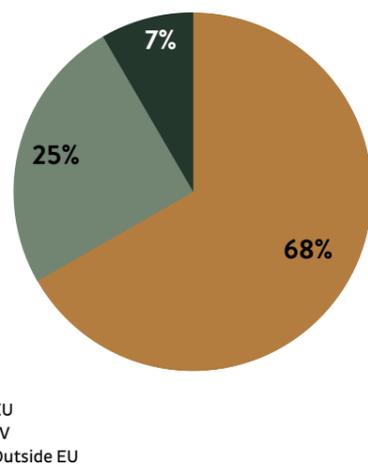
Sales distribution by product categories (2020)



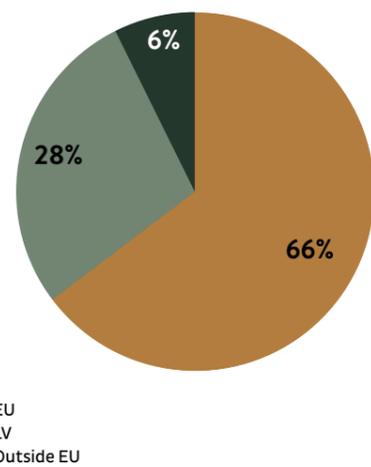
Sales distribution by product categories (2019)



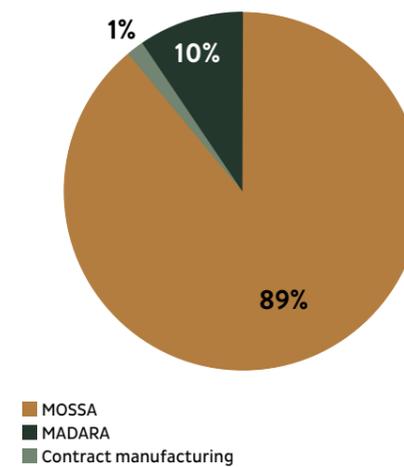
Sales distribution in Latvia, the EU and outside EU (2020 H2)



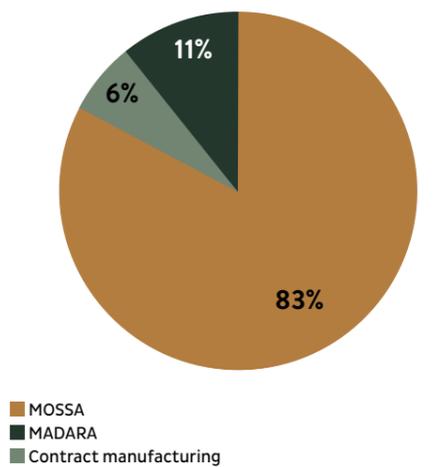
Sales distribution in Latvia, the EU and outside EU (2019 H2)



Sales distribution by product categories (2020 H2)



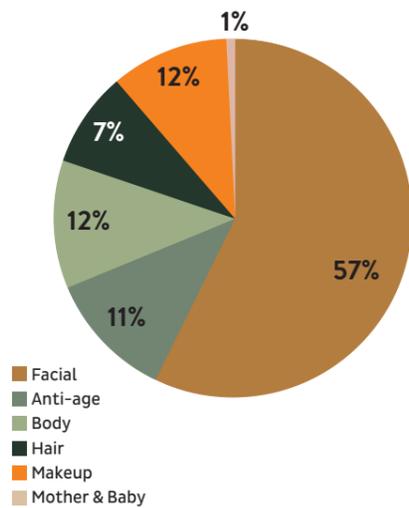
Sales distribution by product categories (2019 H2)



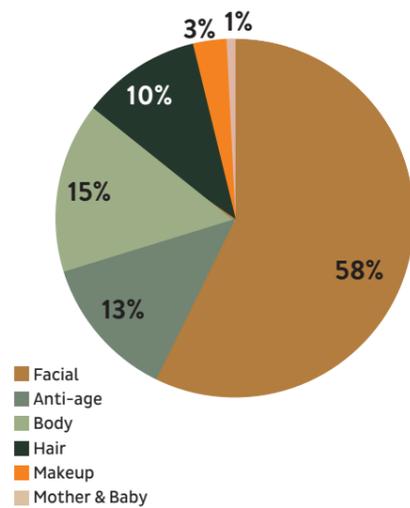
The turnover share of the MÁDARA brand in 2020 was 89%, an increase of 4 percentage points year-on-year with the second half of 2020 showing a faster increase of 6 percentage points compared to the same last year. The turnover share of contract manufacturing in 2020 was 1%, a 4 percentage point decrease compared to 2019. The decline is related to the challenging conditions posed by COVID-19 restrictions in various areas of the contract clients' activity (e.g., hotels). Despite this, the Company has reframed its strategy to develop the contract manufacturing segment and expects growth in the future.

There are changes in the distribution of the MÁDARA brand turnover by product groups. The changes are mainly related to the performance of makeup product group, launched in September 2019, which accounts for 12% of the MÁDARA brand's turnover of 2020. On an annual basis, the share of facial products has not changed and constitutes 57% of the MÁDARA brand's turnover. Relatively faster sales growth of facial and makeup categories explains why the turnover share of other categories decreased. Facial and makeup categories also outperformed due to more new product launches in these segments.

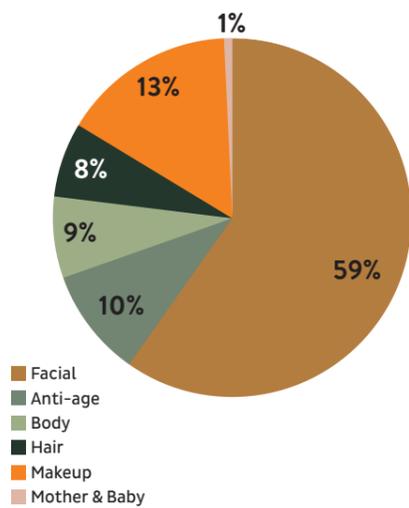
Sales distribution of MÁDARA products by categories (2020)



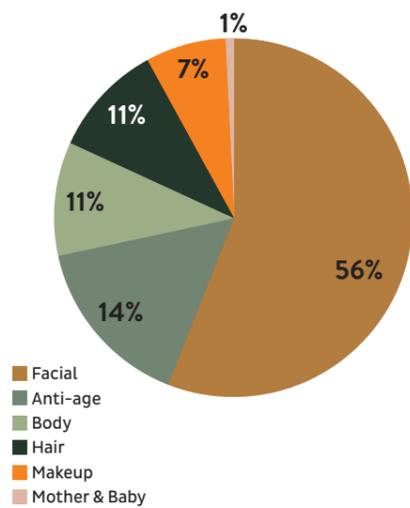
Sales distribution of MÁDARA products by categories (2019)



Sales distribution of MÁDARA products by categories (2020 H2)



Sales distribution of MÁDARA products by categories (2019 H2)



FINANCIAL INDICATORS

The Company has closed 2020 with the highest profit so far – EUR 3.4 million after taxes, an outstanding, roughly 120% increase compared to the previous year. Profitability indicators also improved significantly. In 2020, the gross profit margin was 68%, an increase of 7 percentage points compared to the previous year, while the net

profit margin was 21%, a growth of 6 percentage points compared to 2019. The Company continues to implement research and development of new products within the Competence Centres' program, and in 2020 received EUR 161 thousand support for R&D activities. The turnover target for 2023 is EUR 27 million.

Key ratios and indicators	2020	2019	2020 H2	2019 H2
Net turnover	16 078 244	11 546 205	7 860 713	5 954 989
Cost of goods sold	(5 190 974)	(4 462 151)	(2 150 904)	(2 335 968)
Gross profit	10 887 270	7 084 054	5 709 809	3 619 021
Depreciation, amortisation and write-downs	(614 976)	(626 964)	(266 191)	(330 779)
Leasehold improvements write-off expense	(84 489)	(80 324)	(42 575)	(41 079)
Operating profit	3 518 268	1 475 920	1 750 584	715 856
Interest income	57 014	105 869	9 827	63 787
Interest expense	(28 456)	(18 684)	(20 369)	(8 732)
Profit before taxes	3 546 826	1 563 105	1 740 042	770 911
Net profit for the period	3 428 924	1 563 105	1 622 140	770 911

Key ratios and indicators	2020	2019	2020 H2	2019 H2
EBITDA (TEUR)	4 218	2 183	2 059	1 088
Profitability and sustainability ratios				
1. Gross Margin (%)	68	61	73	61
2. Operating Margin (%)	22	13	22	12
3. Net Margin (%)	21	14	21	13
4. TTM ROE (%)	31	17	31	17
5. TTM ROA (%)	28	14	28	14
Liquidity ratios				
6. Current ratio (x)	7.49	5.77	7.49	5.77
7. Quick ratio (x)	4.77	3.63	4.77	3.63
8. Working capital (TEUR)	9 456	6 647	9 456	6 647
Leverage ratios				
9. Financial debt to equity (x)	0.01	0.03	0.01	0.03
10. Debt to equity (x)	0.12	0.16	0.12	0.16
11. Net financial debt (TEUR)	(5 558)	(2 079)	(5 558)	(2 079)
12. Net gearing (%)	(44.78)	(21.78)	(44.78)	(21.78)

* 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

UNAUDITED CONSOLIDATED FINANCIAL REPORT

The financial statements have been prepared in accordance with Republic of Latvia accountancy Standards, full description coming in annual report.

CONSOLIDATED INCOME STATEMENT

By turnover method

	Note	01.01.2020 -31.12.2020 unaudited EUR	1.07.2020 -31.12.2020 unaudited EUR	1.01.2019 -31.12.2019 audited EUR	1.07.2019 -31.12.2019 unaudited EUR
Net turnover	2	16 078 244	7 860 713	11 546 205	5 954 989
Cost of goods sold	3	(5 190 974)	(2 150 904)	(4 462 151)	(2 335 968)
Gross profit		10 887 270	5 709 809	7 084 054	3 619 021
Selling expenses	4	(6 311 325)	(3 365 168)	(4 497 098)	(2 355 070)
Administration expenses	5	(1 197 570)	(617 201)	(1 288 697)	(607 331)
Other operating income	6	404 761	130 229	256 150	99 225
Other operating expenses	7	(264 868)	(107 085)	(78 489)	(39 989)
Interest and similar income	8	57 014	9 827	105 869	63 787
Interest and similar expenses	9	(28 456)	(20 369)	(18 684)	(8 732)
Profit before corporate income tax		3 546 826	1 740 042	1 563 105	770 911
Corporate income tax for the financial year		(117 902)	(117 902)	-	-
Profit for the reporting period		3 428 924	1 622 140	1 563 105	770 911

The accompanying notes on pages 20 to 30 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

Assets	Note	31.12.2020 unaudited EUR	30.06.2020 unaudited EUR	31.12.2019 audited EUR	30.06.2019 unaudited EUR
Non-current assets					
Intangible assets					
Development costs		64 314	80 392	96 471	50 699
Concessions, licences, patents, trade marks and similar rights		589 267	554 622	500 154	427 687
Prepayments for intangible assets		12 095	52 035	85 075	42 444
Total intangible assets	10	665 676	687 049	681 700	520 830
Property, plant and equipment					
Land		213 722	213 722	213 722	213 722
Leasehold improvements		378 186	407 591	447 318	451 359
Plant and equipment		1 091 948	974 255	1 089 745	887 152
Other fixed assets		333 369	382 595	437 878	296 686
Construction in progress		31 869	20 700	20 700	7 797
Prepayments for property, plant and equipment		200 128	22 638	26 468	159 357
Total property, plant and equipment	11	2 249 222	2 021 501	2 235 831	2 016 073
Non-current financial investments					
Other non-current receivables and other receivables	12	68 027	68 027	68 027	40 000
Other securities and investments	13	826	826	826	826
Total non-current financial investments		68 853	68 853	68 853	40 826
Total non-current assets		2 983 751	2 777 403	2 986 384	2 577 729
Current assets					
Inventories					
Raw materials	14	1 703 305	1 410 356	1 556 781	1 168 339
Finished goods and goods for sale	15	1 712 015	1 146 380	1 198 325	994 880
Prepayments for inventories		540 226	284 170	227 006	465 348
Total inventories		3 955 546	2 840 906	2 982 112	2 628 567
Receivables	16	1 208 901	1 681 118	1 351 431	1 387 947
Trade receivables	17	52 669	264 586	308 958	108 049
Other receivables		14 503	4 611	60 725	51 800
Accrued revenue		36 807	30 358	58 663	31 142
Deferred expenses		1 312 880	1 980 673	1 779 777	1 578 938
Total current financial investments	18	-	-	950 000	700 000
Cash	19	5 645 859	5 574 113	2 329 384	3 006 732
Total current assets		10 914 285	10 395 692	8 041 273	7 914 237
Total assets		13 898 036	13 173 095	11 027 657	10 491 966

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Note	31.12.2020 unaudited EUR	30.06.2020 unaudited EUR	31.12.2019 audited EUR	30.06.2019 unaudited EUR
Equity					
Share capital	20	376 924	374 524	374 524	374 524
Share premium		4 023 454	4 023 454	4 023 454	4 023 454
Retained earnings:					
a) prior year retained earnings		4 583 619	5 147 805	3 584 700	3 584 700
b) profit for the year		3 428 924	1 806 784	1 563 105	809 007
Total equity		12 412 921	11 352 567	9 545 783	8 791 685
Liabilities					
Non-current liabilities					
Bank borrowings	21	-	-	5 952	41 666
Other liabilities	22	26 991	51 407	81 546	111 301
Deferred revenue		-	-	-	11 824
Total non-current liabilities		26 991	51 407	87 498	164 791
Current liabilities					
Bank borrowings	21	5 952	41 666	103 286	135 145
Advances from customers		76 136	97 554	51 706	83 591
Trade payables		610 174	841 916	498 271	615 522
Taxes and social insurance contributions	23	157 451	238 511	149 360	166 097
Other payables	24	253 191	264 515	213 839	210 500
Deferred revenue		-	11 824	56 287	88 926
Accrued liabilities		355 220	273 135	321 627	235 709
Total current liabilities		1 458 124	1 769 121	1 394 376	1 535 490
Total liabilities		1 485 115	1 820 528	1 481 874	1 700 281
Total equity and liabilities		13 898 036	13 173 095	11 027 657	10 491 966

The accompanying notes on pages 20 to 30 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Indirect method

	Note	1.01.2020 -31.12.2020 unaudited EUR	1.07.2020 -31.12.2020 unaudited EUR	1.01.2019 -31.12.2019 audited EUR	1.07.2019 -31.12.2019 unaudited EUR
Cash flow of operating activities					
Profit before taxes		3 546 826	1 740 042	1 563 105	770 911
Corrections:					
Depreciation of fixed assets	11	545 406	226 518	606 558	315 022
Amortisation of intangible assets	10	186 216	98 326	100 732	56 121
Revenue from the recognition of ERAF funds		(227 059)	(114 259)	(242 479)	(142 062)
Interest and similar income	8	(55 010)	(7 823)	(105 499)	(63 787)
Interest and similar expenses	9	8 536	3 950	13 834	8 732
Profit before adjustments for current assets and current liabilities		4 004 915	1 946 754	1 936 251	944 937
Corrections:					
Increase / decrease in receivables		(87 499)	161 737	(552 229)	269 803
Increase / decrease in inventories		(659 324)	(858 584)	(839 490)	(499 875)
Increase / decrease in payables and other payables		234 778	(240 269)	498 492	(181 240)
Gross cash flow of operating activities		3 492 870	1 009 638	1 043 024	533 625
Interest payments		(8 536)	(3 950)	(13 834)	(8 732)
Income tax payments		(140 447)	(140 447)	-	-
Net cash flow of operating activities		3 343 887	865 241	1 029 190	524 893
Investment activities cash flow					
Other investments		-	-	(250 000)	(250 000)
Acquisition of fixed assets and intangible assets		(728 988)	(531 192)	(1 186 461)	(751 771)
Issued loans		-	-	(250 000)	(250 000)
Proceeds of loan repayments		250 000	250 000	2 491	-
Received interest		55 010	7 823	85 915	63 787
Investment activities cash flow		(423 978)	(273 369)	(1 598 055)	(1 187 984)
Financing activities cash flow					
Proceeds from ERAF funds		170 772	102 435	114 712	82 322
Proceeds from the disposal of investments		950 000	-	-	-
Repaid financial lease liabilities		(59 134)	(25 061)	(57 645)	(29 006)
Dividends paid		(561 786)	(561 786)	(449 429)	-
Repaid loan	21	(103 286)	(35 714)	(135 145)	(67 573)
Financing activities cash flow		396 566	(520 126)	(527 507)	(14 257)
Increase / decrease in cash and cash equivalents		3 316 475	71 746	(1 096 372)	(677 348)
Cash and cash equivalents at the beginning of the reporting period	19	2 329 384	5 574 113	3 425 756	3 006 732
Cash and cash equivalents at the end of the financial period	19	5 645 859	5 645 859	2 329 384	2 329 384

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital EUR	Share premium EUR	Retained earnings EUR	Total equity EUR
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	-	-	1 563 105	1 563 105
Balance as of 31 December 2019	374 524	4 023 454	5 147 805	9 545 783
Profit for the reporting period	-	-	1 806 784	1 806 784
Balance as of 30 June 2020 (unaudited)	374 524	4 023 454	6 954 589	11 352 567
Distribution of dividends	-	-	(561 786)	(561 786)
Increase in share capital	2 400	-	(2 400)	-
Profit for the reporting period	-	-	1 622 140	1 622 140
Balance as of 31 December 2020 (unaudited)	376 924	4 023 454	8 012 543	12 412 921

The accompanying notes on pages 20 to 30 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(2) NET TURNOVER

Turnover is the income received during the year from the Group's main activities - sale of goods and provision of services without value added tax.

Turnover by geographical markets:

	01.01.2020 -31.12.2020 unaudited EUR	01.01.2019 -31.12.2019 audited EUR
Revenue from the sale of goods in European Union	10 665 000	7 547 839
Revenue from the sale of goods in Latvia	4 238 905	3 096 329
Revenue from the sale of goods in other markets	951 390	711 382
Revenue from rendering services	203 660	178 564
Revenue from the sale of stands	19 289	12 091
Total	16 078 244	11 546 205

(3) COST OF GOODS SOLD

	01.01.2020 -31.12.2020 unaudited EUR	01.01.2019 -31.12.2019 audited EUR
Materials cost	2 445 400	2 109 354
Remuneration for work	1 187 136	872 051
Fixed asset depreciation	329 791	438 538
Social security contributions	285 534	206 401
Current assets write-off	253 413	185 720
Production service costs	161 816	147 390
Premises rent and management costs	149 123	149 123
New product research and development costs	137 921	141 733
Leasehold improvements write-off	70 449	66 741
Resource costs	54 413	56 982
Development costs write-off	32 157	-
ECOCERT quality certificate maintenance costs	31 660	39 641
Car maintenance, fuel and repair costs	20 626	10 206
Business trip costs	1 449	17 143
Other production and production maintenance costs	30 086	21 128
Total	5 190 974	4 462 151

(4) SELLING EXPENSES

	01.01.2020 -31.12.2020 unaudited EUR	01.01.2019 -31.12.2019 audited EUR
Advertising costs	2 181 376	1 309 050
Remuneration for work	1 251 894	1 051 582
Transport costs	889 093	482 518
Sample production costs	631 724	523 513
Social security contributions	303 286	254 677
Marketing bonus costs	235 303	222 422
Fixed asset depreciation*	214 315	41 256
Intermediate services costs	144 744	93 669
Premises rent and maintenances costs	131 290	135 055
Maintenance costs of sales platforms	71 442	41 927
Business trip and exhibitions costs	64 391	166 543
Costs of warehouse services	34 163	22 562
Royalties	27 917	16 970
Car maintenance, fuel and repair costs	20 179	22 057
Leasehold improvements write-off	14 040	13 583
Representation costs	11 402	8 739
Sales training and store inspection costs	7 100	17 279
Other sales expenses	77 666	73 696
Total	6 311 325	4 497 098

* In 2020, the accounting structure of intangible assets write-downs was changed as part of the Group's expenses. Therefore, part of the intangible assets write-downs, which were included in administration expenses in 2019, from 2020 onwards are included in selling expenses, creating differences in the comparative financial indicators for the reporting period.

(5) ADMINISTRATION EXPENSES

	01.01.2020 -31.12.2020 unaudited EUR	01.01.2019 -31.12.2019 audited EUR
Remuneration for work	424 699	507 149
Cash outflow related costs	153 126	78 124
Social security contributions	100 819	120 050
Office equipment and software maintenance costs	77 550	41 001
Premises rent and maintenances costs	71 712	71 712
Depreciation and amortisation*	70 870	147 170
Office costs	55 021	76 998
Legal and other professional service costs	37 853	16 417
Staff sustainability costs	25 347	39 101
Securities circulation costs	23 254	20 980
Car maintenance, fuel and repair costs	21 810	20 284
Audit costs	20 445	20 295
Allowance for doubtful receivables	19 611	27 533
Employee health insurance	17 559	12 354
Communication costs	13 746	19 813
Maintenance costs of the resource management and accounting program	10 208	9 149
Work trip costs	3 658	5 562
Other management and administration costs	50 282	55 005
Total	1 197 570	1 288 697

* In 2020, the accounting structure of intangible assets write-downs was changed as part of the Group's expenses. Therefore, part of the intangible assets write-downs, which were included in administration expenses in 2019, from 2020 onwards are included in selling expenses, creating differences in the comparative financial indicators for the reporting period.

(6) OTHER OPERATING INCOME

	01.01.2020 -31.12.2020 unaudited EUR	01.01.2019 -31.12.2019 audited EUR
Revenues from the ERAF project No L-APV-14-0111	56 287	88 926
Revenues from other ERAF projects	170 771	153 553
Revenue from the resold packaging	148 075	-
Other revenues	29 628	13 671
Total	404 761	256 150

(7) OTHER OPERATING EXPENSES

	01.01.2020 -31.12.2020 unaudited EUR	01.01.2019 -31.12.2019 audited EUR
Resold purchased goods and services	153 761	4 917
Donations	42 000	12 500
Nature protection costs	17 753	22 383
Labor protection costs	17 051	3 783
Other expenses	34 303	34 906
Total	264 868	78 489

(8) INTEREST AND SIMILAR INCOME

	01.01.2020 -31.12.2020 unaudited EUR	01.01.2019 -31.12.2019 audited EUR
Interest income on current financial investments	47 129	100 729
Other interest income	9 885	5 140
Total	57 014	105 869

(9) INTEREST AND SIMILAR EXPENSES

	01.01.2020 -31.12.2020 unaudited EUR	01.01.2019 -31.12.2019 audited EUR
Currency exchange rate fluctuations	19 592	4 365
Factoring fees	3 833	3 238
Interest on obligations under finance leases	2 872	4 361
Interest on borrowings	1 828	6 235
Other interest payments	331	485
Total	28 456	18 684

(10) INTANGIBLE ASSETS

	Concessions, patents, licenses, trademarks and similar rights EUR	Prepayments for intangible assets EUR	Development costs EUR	Total intangible assets EUR
Cost as of 31.12.2019	684 720	85 075	96 471	866 266
Additions	-	179 773	-	179 773
Adjustments	-	(9 581)	-	(9 581)
Transfers	243 172	(243 172)	-	-
Cost as of 31.12.2020	927 892	12 095	96 471	1 036 458
Accumulated amortisation as of 31.12.2019	184 566	-	-	184 566
Amortisation charged	154 059	-	32 157	186 216
Accumulated amortisation as of 31.12.2020	338 625	-	32 157	370 782
Net book value as of 31.12.2019	500 154	85 075	96 471	681 700
Net book value as of 31.12.2020	589 267	12 095	64 314	665 676

(11) FIXED ASSETS MOVEMENT TABLE

	Leasehold improve- ments	Land	Equipment and ma- chinery	Other fixed assets	Construc- tion in progress	Prepay- ments for property, plant and equipment	Total fixed assets
Cost as of 31.12.2019	754 227	213 722	2 755 566	733 317	20 700	26 468	4 504 000
Additions	-	-	-	-	123 134	435 663	558 797
Transfers	15 357	-	307 343	51 268	(111 965)	(262 003)	-
Cost as of 31.12.2020	769 584	213 722	3 062 909	784 585	31 869	200 128	5 062 797
Accumulated depreciation as of 31.12.2019	306 909	-	1 665 821	295 439	-	-	2 268 169
Depreciation charged	84 489	-	305 140	155 777	-	-	545 406
Accumulated depreciation as of 31.12.2020	391 398	-	1 970 961	451 216	-	-	2 813 575
Net book value as of 31.12.2019	447 318	213 722	1 089 745	437 878	20 700	26 468	2 235 831
Net book value as of 31.12.2020	378 186	213 722	1 091 948	333 369	31 869	200 128	2 249 222

(12) OTHER NON-CURRENT RECEIVABLES AND OTHER RECEIVABLES

	31.12.2020 EUR	31.12.2019 EUR
Rent security deposit	68 027	68 027
Total	68 027	68 027

(13) OTHER SECURITIES AND INVESTMENTS

	31.12.2020 EUR	31.12.2019 EUR
Other investments	826	826
Total	826	826

(14) RAW MATERIALS

	31.12.2020 EUR	31.12.2019 EUR
Net book value of raw materials	1 749 869	1 586 040
Allowance for slow moving inventories	(46 564)	(29 259)
Total	1 703 305	1 556 781

(15) FINISHED GOODS AND GOODS FOR SALE

	31.12.2020 EUR	31.12.2019 EUR
Cosmetic products	1 623 406	1 118 101
Advertising materials	88 609	80 224
Total	1 712 015	1 198 325

(16) TRADE RECEIVABLES

	31.12.2020 EUR	31.12.2019 EUR
Net book value of trade receivables	1 307 200	1 436 056
Allowance for doubtful trade receivables	(98 299)	(84 625)
Total	1 208 901	1 351 431

(17) OTHER RECEIVABLES

	31.12.2020 EUR	31.12.2019 EUR
CIT overpayment	22 794	254
VAT overpayment	19 484	-
Balance of unpaid collected cash	654	6 279
Short term loan to SIA KALVI	-	250 000
Other receivables	9 737	52 425
Total	52 669	308 958

(18) TOTAL CURRENT FINANCIAL INVESTMENTS

	31.12.2020 EUR	31.12.2019 EUR
Short term financial securities with a fixed income	-	950 000
Total	-	950 000

(19) CASH

	31.12.2020 EUR	31.12.2019 EUR
Cash in bank accounts and digital payment systems	5 645 859	2 329 384
Total	5 645 859	2 329 384

(20) SHARE CAPITAL

As of 31 December 2020, the registered and fully paid-in share capital of the Group's parent Company amounts to EUR 376 924.20 and consists of 3 769 242 shares with a nominal value of EUR 0.10 per share.

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 to 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.

(21) BANK BORROWINGS

	31.12.2020 EUR	31.12.2019 EUR
SWEDBANK loan - agreement No 14-009243	5 952	77 379
SWEDBANK loan - agreement No 15-025534	-	31 859
Total bank borrowings	5 952	109 238

BORROWINGS SPLIT BY MATURITY

Less than 1 year	5 952	103 286
Over 1 year	-	5 952
Total borrowings	5 952	109 238

MOVEMENT IN BORROWINGS

Borrowings at the beginning of the reporting period	109 238	244 383
Proceeds from borrowings	-	-
Repayment of borrowings	(103 286)	(135 145)
Borrowings at the end of the reporting period	5 952	109 238

BORROWINGS: INTEREST RATES

As of 31 December 2020, the effective interest rate on the non-current borrowing No 14-009243 was 3 month EURI-BOR + 3.3%.

BORROWINGS: MATURITY DATES

The maturity date of the non-current borrowing No 14-009243 is 22 January 2021. At the moment of signing of these financial statements loan 14-009243 was fully repaid.

PLEDGES

The Group has pledged a portion of its assets as security for bank borrowings. As of 31 December 2020, the Company's assets in the amount of outstanding loan had been pledged to secure agreement No 14-009243. After loan repayment in January 2021, the pledge agreement is no longer valid.

BANK LOAN COVENANTS

During the reporting period and as of 31 December 2020, the Company had complied with all loan covenants of the borrowing agreements.

(22) OTHER NON-CURRENT LIABILITIES

	31.12.2020 EUR	31.12.2019 EUR
Lease liabilities	26 991	81 546
Total other non-current liabilities	26 991	81 546

(23) TAXES AND SOCIAL INSURANCE CONTRIBUTIONS

	31.12.2020 EUR	31.12.2019 EUR
Social insurance contributions	86 173	67 933
Personal income tax	42 104	32 086
Value added tax (Germany)	28 740	33 455
Value added tax (Latvia)	-	15 690
Other taxes and duties	434	196
Total	157 451	149 360

(24) OTHER CURRENT LIABILITIES

	31.12.2020 EUR	31.12.2019 EUR
Salaries	164 841	130 392
Lease liabilities	54 555	59 134
Balance of gift cards	18 139	16 424
Other liabilities	15 656	7 889
Total other current liabilities	253 191	213 839

(25) TRANSACTIONS WITH RELATED PARTIES

Related party	Purchases of goods and services during the reporting year	Purchases of goods and services during the previous year
MC PROPERTIES SIA	220 835	220 835
WOLF CANDLES SIA	-	1 201
Total	220 835	222 036

(26) NUMBER OF EMPLOYEES IN THE GROUP

	31.12.2020 EUR	31.12.2019 EUR
Average number of employees per reporting period, including:	160	146
Members of the Board in the Parent Company	3	3
Members of the Council in the Parent Company	5	5

(27) INFORMATION ON THE REMUNERATION OF BOARD MEMBERS AND COUNCIL OF THE PARENT COMPANY

	31.12.2020 EUR	31.12.2019 EUR
Board members remuneration for the work at the Board	21 105	9 846
Council members remuneration for the work at the Council	11 806	5 914
Total	32 911	15 760

(28) OFF-BALANCE SHEET LIABILITIES

On 17 March 2015, the Group's parent Company signed a premises lease agreement for renting production and office space with SIA MC PROPERTIES (registration Number 40103872324), which will replace the previous premises lease agreement. The agreement matures in 2025.

On 30 June 2015, a mortgage agreement was signed between Swedbank A/S and MC Properties SIA regarding premises leased to the Group's parent company. As a pledge for the agreement stands MC Properties real estate located in Zeltinu street 131, Marupe. The Parent Company is the warrantor of the pledge for the total amount of EUR 523 076.

(29) RECEIVED ERAF FINANCING

In 2020 the Group participated in and received funding from the European Union support programs.

(30) FINANCIAL RISK MANAGEMENT

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

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 does not have any material balances of financial assets and liabilities denominated in currencies. Therefore, during the reporting period the Group's 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 or 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. The Group 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.

(31) POST BALANCE SHEET EVENTS

After the repayment in full of loan No 14-009243 in January 2021, the pledge agreement, on the basis of which a portion of Group's assets were pledged, is no longer valid. As of the last day of the reporting year until the date of signing these financial statements there have been no other events requiring adjustment of or disclosure in the financial statements or notes thereto.





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