

MÁDARA

organic skincare

AS MADARA COSMETICS

**2020 SEPARATE AND CONSOLIDATED ANNUAL
REPORT PREPARED IN ACCORDANCE
WITH LATVIAN STATUTORY REQUIREMENTS,
AND INDEPENDENT AUDITORS' REPORT***



** This version of separate 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 separate 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, Marupe district, LV-2167, Latvia
Shareholders (above 5%)	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 operations and NACE code	Manufacture of perfumes and cosmetics preparations 20.42 Wholesale of perfume and cosmetics 46.45 Retail sale of cosmetic and related articles in specialized stores 47.75 Retail sale via mail order houses or via Internet 47.91
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	Anna Ramata Stunda – Chairman of the Council, Deputy Chairman of the Council until 28.07.2020 Liene Drāzniece – Deputy Chairman of the Council, Member of the Council until 28.07.2020 Anu Pauliina Koskinen – Member of the Council until 30.06.2020 Zane Tamane – Chairman of the Council until 28.07.2020 Anna Andersone – Member of the Council Edgars Pētersons – Member of the Council since 29.07.2020 Sari Hannele Rosin – Member of the Council since 29.07.2020
Reporting year	from 1.1.2020 to 31.12.2020
Previous reporting year	from 1.1.2019 to 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%
Independent auditor and its address	Deloitte Audits Latvia SIA Reg. No 40003606960 License No 43 4a Gredu Street, Riga, LVL-1019, Latvia
Certified Auditor	Inguna Stasa LR Certified Auditor Certificate No 145


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 the Parent Company and the Group as of 31 December 2020 and the results of its operations and cash flows for the year 2020 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 have been made by the Board in the preparation of 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 consisted 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 the 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 on 131 Zeltinu Street in Marupe, which is one of the most advanced and capacity-wise largest cosmetics production plant in the Baltic and Northern European region.

Despite the challenges posed by the pandemic, 2020 has been a particularly successful year for the Group. The Group has successfully adapted to the new trading conditions and by putting emphasis on e-commerce channels has achieved excellent results. In 2020, the Group achieved the highest turnover so far of EUR 16.074 million, a 39% increase compared to the previous reporting year, and EUR 3.445 million in profit, a 120% increase over the corresponding period last year.

2020 has been productive in terms of launching new products. The turnover of new products amounted to EUR 2.2 million and several products ranked high on the Parent Company's list of bestsellers. The development of lipsticks and hygienic lip balms and mastering the new production process was an important milestone of 2020. The products have been available for sale since autumn 2020 and have been positively rated by customers. In addition, the Parent Company has developed eyelash and eyebrow fixation and growth serum, ANTI skin disinfectant line, IMMU oral protection line, Derma Collagen facial skin care product line, as well as moisturizing cream with Centella Asiatica (CICA) plant extract in SOS Hydration skin care line.

In 2020, the Group's long-term investments amounted to EUR 617 thousand, of which EUR 307 thousand were invested in the production facility.

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

In the coming years, the Group's growth will be based on developments in foreign markets – activities will continue in existing and will be expanded in several new markets. Direct e-commerce channels of the Parent Company MADARA Cosmetics AS, which showed very good results in 2020, will also play an important role in further development. In 2020, MADARA Cosmetics AS created 14 new job positions to achieve these goals, and further expansion of the team is planned this year as well.

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

The financial risk management policy adopted by the Group is disclosed in Note 33 to the consolidated financial statements.

In the first quarter of 2021, the Group has achieved its sales targets and continues to grow. The production process is organized in regular mode, strict security measures are followed to limit the spread of the COVID-19 virus. No disruptions in supply chain or customers payment discipline are observed.

Information on subsidiaries

MADARA Retail SIA (hereinafter – MADARA Retail SIA or subsidiary) manages four MÁDARA brand stores in Riga, shopping centers "Galerija Centrs", "Spice", "Alfa" and "Akropole". In 2020, net turnover of the subsidiary was EUR 858.4 thousand, an 8.5% drop compared to the previous year. Despite the turnover drop, the subsidiary gained EUR 13.6 thousand profit, contrary to the loss in 2019. Employees of the subsidiary received downtime financial aid from the State in months when the turnover decline and other criteria to qualify for the aid were met. Taking into account the trade restrictions imposed in Latvia in relation to the groups of goods selling by the subsidiary and shopping centres, the stores of

MANAGEMENT REPORT (continued)

the subsidiary remain closed until the restrictions are amended or lifted. On the Annual report publication day, the Group has no information on the date, when the restrictions are expected to be amended or lifted. In 2021, the subsidiary affected by the COVID-19 crisis received financial aid from the State, both for employee downtime financial aid and benefit for working capital flow. Stores will resume their work as soon as the government decides to lift restrictions on shop operations in shopping centres.

The core business of Cosmetics NORD SIA (hereinafter – Cosmetics Nord SIA or subsidiary) is providing contract manufacturing services using the production infrastructure and capacity of MADARA Cosmetics AS. In 2020, the subsidiary had turnover of EUR 294.8 thousand and loss of EUR 20.5 thousand. The 51% drop in turnover was due to challenging circumstances related to the COVID-19 restrictions in the operation of several partners. In response to the drop in turnover,

the subsidiary developed a new contract manufacturing strategy, which is actively implemented in 2021.

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.

Except for the events listed in Note 34 to the financial statements, no other material events have taken place since the reporting year-end that should be reflected in these financial statements and would be relevant for the reassessment the Group's assets and liabilities, its financial position and the financial results of the reporting year.

According to the Parent Company's Board recommendation, the part of the year's 2020 profit in the amount of EUR 1 507 697 is proposed to be distributed into dividends, residual amount shall be reinvested in the development of the Group.



Lote Tisenkopfa - Iltnere
Chairman of the Board



Paula Tisenkopfa
Member of the Board



Uldis Iltners
Member of the Board



STATEMENT OF PROFIT AND LOSS

	Note	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Revenue	2	16,074,581	11,546,205	15,591,888	11,004,164
Cost of goods sold	3	(5,216,275)	(4,462,151)	(5,208,869)	(4,477,000)
Gross profit		10,858,306	7,084,054	10,383,019	6,527,164
Selling expenses	4	(6,294,735)	(4,497,098)	(5,944,338)	(4,117,817)
Administration expenses	5	(1,221,272)	(1,288,697)	(1,033,657)	(1,128,278)
Other operating income	6	437,521	256,150	287,389	260,641
Other operating expenses	7	(245,304)	(78,489)	(147,758)	(78,489)
Interest and similar income	8	57,014	105,869	57,014	105,869
Interest and similar expenses	9	(28,456)	(18,684)	(28,411)	(18,681)
Profit before taxes		3,563,074	1,563,105	3,573,258	1,550,409
Corporate income tax for the reporting year	10	(117,902)	-	(117,902)	-
Profit after corporate income tax		3,445,172	1,563,105	3,455,356	1,550,409
Profit for the year		3,445,172	1,563,105	3,455,356	1,550,409

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

BALANCE SHEET

Assets	Note	Group 31.12.2020 /EUR	Group 31.12.2019 /EUR	Company 31.12.2020 /EUR	Company 31.12.2019 /EUR
Non-current assets					
Intangible assets					
Development costs		64,314	96,471	64,314	96,471
Concession, licenses, patents, trademarks, software and similar rights		589,267	500,154	588,269	500,154
Advance payments for intangible assets		12,095	85,075	12,095	85,075
Total intangible assets	11	665,676	681,700	664,678	681,700
Property, plant and equipment					
Land		213,722	213,722	213,722	213,722
Leasehold improvements		378,186	447,318	338,635	393,727
Technological equipment and machinery		1,091,948	1,089,745	1,091,948	1,089,745
Other fixed assets and equipment		333,369	437,878	316,335	412,428
Construction in progress		31,869	20,700	31,869	20,700
Advance payments for property, plant and equipment		200,128	26,468	200,128	26,468
Total property, plant and equipment	12	2,249,222	2,235,831	2,192,637	2,156,790
Non-current financial investments					
Investments in subsidiaries	13	-	-	18,156	18,156
Other non-current receivables	14	68,027	68,027	40,000	40,000
Other securities and investments		826	826	826	826
Total non-current financial investments		68,853	68,853	58,982	58,982
Total non-current assets		2,983,751	2,986,384	2,916,297	2,897,472
Current assets					
Inventories					
Raw materials, materials and consumables	15	2,002,631	1,556,781	2,001,224	1,556,040
Finished goods and goods for sale	16	1,671,361	1,198,325	1,625,381	1,154,312
Advance payments for inventories		549,484	227,006	549,484	227,006
Total inventories		4,223,476	2,982,112	4,176,089	2,937,358
Receivables					
Trade receivables	17	1,208,837	1,351,431	1,205,559	1,136,769
Trade receivables from subsidiaries	18	-	-	189,601	382,007
Other receivables	19	53,082	308,958	51,420	299,063
Accrued income		34,500	58,663	33,530	58,425
Deferred expenses		36,808	60,725	30,701	54,784
Total receivables		1,333,227	1,779,777	1,510,811	1,931,048
Current financial investments					
Other securities	20	-	950,000	-	950,000
Total current financial investments		-	950,000	-	950,000
Cash	21	5,645,859	2,329,384	5,578,578	2,263,872
Total current assets		11,202,562	8,041,273	11,265,478	8,082,278
Total assets		14,186,313	11,027,657	14,181,775	10,979,750

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

BALANCE SHEET

Equity and liabilities	Note	Group 31.12.2020 /EUR	Group 31.12.2019 /EUR	Company 31.12.2020 /EUR	Company 31.12.2019 /EUR
Equity					
Share capital	22	376,924	374,524	376,924	374,524
Share premium		4,023,454	4,023,454	4,023,454	4,023,454
Retained earnings:					
a) previous years' retained earnings		4,583,619	3,584,700	4,631,533	3,645,310
b) profit for the year		3,445,172	1,563,105	3,455,356	1,550,409
Total equity		12,429,169	9,545,783	12,487,267	9,593,697
Liabilities					
Non-current liabilities					
Bank borrowings	23	-	5,952	-	5,952
Other liabilities	24	26,991	81,546	26,991	81,546
Total non-current liabilities		26,991	87,498	26,991	87,498
Current liabilities					
Bank borrowings	23	5,952	103,286	5,952	103,286
Advances from customers		76,059	51,706	26,291	26,733
Trade payables		626,138	498,271	622,921	474,033
Debts to affiliated companies		-	-	20,775	-
Taxes and mandatory state social insurance contributions	25	157,405	149,360	149,839	137,781
Other liabilities	26	252,504	213,839	231,059	183,311
Deferred income		-	56,287	-	56,287
Accrued liabilities	27	612,095	321,627	610,680	317,124
Total current liabilities		1,730,153	1,394,376	1,667,517	1,298,555
Total liabilities		1,757,144	1,481,874	1,694,508	1,386,053
Total equity and liabilities		14,186,313	11,027,657	14,181,775	10,979,750

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

STATEMENT OF CASH FLOWS

	Note	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Cash flow from operating activities					
Profit before tax		3,563,074	1,563,105	3,573,258	1,550,409
Adjustments for:					
Depreciation of property, plant and equipment	12	545,405	606,558	522,666	589,469
Amortisation of intangible assets	11	186,216	100,732	186,164	100,732
Income from ERAF fund co-financing	6	(254,728)	(242,479)	(254,728)	(242,479)
Interest and similar income	8	(55,010)	(105,499)	(55,010)	(105,499)
Interest and similar expense	9	8,578	13,834	8,533	13,834
Profit before adjustments for current assets and current liabilities		3,993,535	1,936,251	3,980,883	1,906,466
Adjustments for:					
Increase in receivables		(119,166)	(552,229)	(145,479)	(375,353)
Increase in inventories		(918,886)	(839,490)	(916,253)	(829,032)
Increase in payables and other payables		493,977	498,492	527,162	298,785
Gross cash flow from operating activities		3,449,460	1,043,024	3,446,313	1,000,866
Interest paid	9	(8,578)	(13,834)	(8,533)	(13,834)
Corporate income tax paid	10	(140,447)	-	(140,447)	-
Net cash flow from operating activities		3,300,435	1,029,190	3,297,333	987,032
Cash flow from investment activities					
Other current financial investments		-	(250,000)	-	(250,000)
Proceeds from the disposal of current financial investments	20	950,000	-	950,000	-
Payments for property, plant and equipment and intangible assets		(728,988)	(1,186,461)	(727,655)	(1,134,973)
Loan repaid	19	250,000	2,491	250,000	2,491
Loans issued	19	-	(250,000)	-	(250,000)
Interest received		59,621	85,915	59,621	85,915
Net cash flow from investing activities		530,633	(1,598,055)	531,966	(1,546,567)
Cash flow from financing activities					
Income from ERAF funds co-financing	32	209,613	114,712	209,613	114,712
Repayment of finance leases	26	(59,134)	(57,645)	(59,134)	(57,645)
Dividends paid		(561,786)	(449,429)	(561,786)	(449,429)
Repayment of bank borrowings	23	(103,286)	(135,145)	(103,286)	(135,145)
Net cash flow from financing activities		(514,593)	(527,507)	(514,593)	(527,507)
Net increase/ (decrease) in cash and cash equivalents		3,316,475	(1,096,372)	3,314,706	(1,087,042)
Cash and cash equivalents at the beginning of the reporting year	21	2,329,384	3,425,756	2,263,872	3,350,914
Cash and cash equivalents at the end of the financial year	21	5,645,859	2,329,384	5,578,578	2,263,872

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

STATEMENT OF CHANGES IN EQUITY

The Group	Share capital EUR	Share premium EUR	Retained earnings EUR	Total equity EUR
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
Distribution of dividends	-	-	(561,786)	(561,786)
Increase in share capital	2,400	-	(2,400)	-
Profit for the reporting year	-	-	3,445,172	3,445,172
Balance as of 31.12.2020.	376,924	4,023,454	8,028,791	12,429,169

The Company	Share capital EUR	Share premium EUR	Retained earnings EUR	Total equity EUR
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.			5,195,719	9,593,697
Distribution of dividends	-	-	(561,786)	(561,786)
Increase in share capital	2,400	-	(2,400)	-
Profit for the reporting year	-	-	3,455,356	3,455,356
Balance as of 31.12.2020.	376,924	4,023,454	8,086,889	12,487,267

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

The annual Report has 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 by function of expense method and statement of cash flows is prepared using the indirect method.

These are consolidated and separate financial statements of the Company.

Principal accounting policies adopted

The Annual Report has 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 reflects 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 current year corresponds to the closing balance sheet of the prior reporting year.
- g) All accounts have been disclosed 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 the annual report taking into account their economic content and substance, not merely the legal form.

Consolidation general policy

Subsidiaries, in which Group has direct 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 a 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 1.1.2020 to 31.12.2020.

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 of 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 in subsidiaries and associates and other financial 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 amortisation charged. The Group capitalizes items of property, plant and equipment with an initial cost exceeding 1,000 EUR.

Acquired fixed assets below 1,000 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 amortisation 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:

<i>Intangible assets:</i>		%
Licenses	20-33	%
Other intangible assets	10-20	%
<i>Property, plant and equipment:</i>		%
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 shortest period of the improvement' useful life using the straight line method.

Research costs are recognized in the statement of profit and loss in the reporting period they are incurred. The development costs are capitalized if the ability of the asset to generate economic benefits can be reliably demonstrated. Amortisation is calculated over the period of development cost use.

Impairment of non-current assets

If the non-current asset recoverable amount on the balance sheet date is lower than its acquisition value less accumulated depreciation, the asset is measured at the lower of cost. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Inventories

Inventory cost price is determined using the average weighted cost.

Inventories are stated at the lower 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 number 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 to be 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 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 loan period. 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 are initially recognised on the balance sheet in the acquisition value and as a liability 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 calculated 20/80 of the net amount payable to the shareholders, and certain expenses deemed as distributed profit, by applying a coefficient of 0.8. Corporate tax on distributed profits is recognized when the Company's shareholders make a decision to distribute the profit. At the time of distribution of dividends, the retained earnings taxable with corporate income tax at the end of the reporting year are EUR 5,984,398.

Fair value

The fair value represents the value, at which an asset may be sold off 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 2020.

- 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 2020.

- 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.

(2) NET TURNOVER

Turnover is the revenue generated during the year from the main operating activities – the sale of goods and rendering services less value added tax and discounts

Turnover across geographical markets:	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Revenue from the sale of goods in the European Union	10,665,000	7,547,839	10,395,440	7,030,730
Revenue from the sale of goods in Latvia	4,238,904	3,096,329	4,063,598	3,144,588
Revenue from the sale of goods in other markets	947,727	711,382	938,689	690,799
Revenue from the sale of services	203,661	178,564	174,872	125,956
Other revenue from operating activities	19,289	12,091	19,289	12,091
Total	16,074,581	11,546,205	15,591,888	11,004,164

- Contingent liabilities

Contingent liabilities are disclosed in notes to these financial statements. They are recognised as liabilities only if the possibility of an outflow of resources embodying economic benefits becomes probable.

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 attached 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.

given. Revenues are generated from the production and sale of cosmetics, as well as from the provision of services and the sale of cosmetic stands.

(3) COST OF GOODS SOLD

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Raw materials consumed	2,467,138	2,109,354	2,459,732	2,124,203
Remuneration for work	1,187,136	872,051	1,187,136	872,051
Property, plant and equipment depreciation (see Note 12)	329,791	438,538	329,791	438,537
Mandatory state social insurance contributions	285,534	206,401	285,534	206,401
Current assets write-off	256,818	185,720	256,818	185,720
Production service costs	161,973	147,390	161,973	147,390
Premises rent and maintenance	149,123	149,123	149,123	149,123
New product research and development costs	137,921	141,733	137,921	141,733
Leasehold improvements write-off (see Note 12)	70,449	66,741	70,449	66,741
Resource costs	54,413	56,982	54,413	56,982
Development costs write-off	32,157	-	32,157	-
ECOCERT quality certificate maintenance costs	31,660	39,641	31,660	39,641
Car maintenance and fuel costs	20,626	10,206	20,626	10,206
Travel expenses	1,449	17,143	1,449	17,143
Other production and maintenance related expenses	30,087	21,128	30,087	21,129
Total	5,216,275	4,462,151	5,208,869	4,477,000

(4) SELLING EXPENSES

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Advertising and marketing costs	2,181,187	1,309,050	2,144,031	1,281,162
Remuneration for work	1,251,894	1,051,582	1,063,587	848,952
Transport costs	889,125	482,518	880,827	470,055
Sample production costs	631,724	523,513	631,724	523,513
Mandatory state social insurance contributions	303,286	254,677	257,880	205,863
Trade promotion costs	235,303	222,422	235,303	222,422
Depreciation and amortisation of intangible assets (see Note 12)	214,367	41,256	205,615	37,752
Costs of intermediary services	144,744	93,669	238,200	174,569
Premises rent and maintenance	133,687	135,055	-	-
Maintenance costs of sales platforms	71,442	41,927	71,442	41,927
Business trip and exhibitions costs	64,391	166,543	64,391	166,543
Warehouse service costs	34,163	22,562	34,163	22,562
Royalties	27,917	16,970	27,917	16,970
Car maintenance and fuel costs	20,179	22,057	20,179	22,057
Leasehold improvements write-off (see Note 12)	14,040	13,583	-	-
Representation costs	10,842	8,739	10,842	8,739
Sales training and store inspection costs	7,100	17,279	7,100	17,279
Internet shop WEB page maintenance costs and other IT costs	3,421	4,579	3,421	4,579
Other selling expenses	55,923	69,117	47,716	52,873
Total	6,294,735	4,497,098	5,944,338	4,117,817

(5) ADMINISTRATION EXPENSES

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Remuneration for work	447,826	507,149	335,354	402,374
Cash transactions related costs	153,128	78,124	144,933	68,777
Office costs	146,571	127,148	145,021	124,399
Mandatory state social insurance contributions	103,821	120,050	80,787	96,932
Premises rent and maintenances costs	71,712	71,712	71,712	71,712
Depreciation and amortisation of intangible assets (see Notes 11 and 12)	70,818	147,170	70,818	147,170
Legal and other professional service costs	40,965	16,417	37,853	16,417
Personnel sustainability expenses	25,347	39,101	25,347	39,101
Securities circulation costs	23,254	20,980	23,254	20,980
Car maintenance, fuel and repair costs	21,810	20,284	21,810	15,143
Audit costs	20,145	20,295	20,145	20,295
Allowance for doubtful receivables	19,206	27,533	-	27,533
Employee health insurance	14,799	12,354	14,799	12,354
Communication service costs	13,746	19,813	11,908	18,040
Travel expenses	3,658	5,562	3,658	5,562
Other management and administration costs	44,466	55,005	26,258	41,489
Total	1,221,272	1,288,697	1,033,657	1,128,278

(6) OTHER OPERATING INCOME

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Income from ERAF project L-APV-14-0111 (see Note 32)	56,287	88,926	56,287	88,926
Income from other ERAF projects (see Note 32)	198,441	153,553	198,441	153,553
Income from the resold packaging	148,075	-	-	-
Income from current assets sale	22,221	3,382	22,221	3,382
Other income	12,497	10,289	10,440	14,780
Total	437,521	256,150	287,389	260,641

(7) OTHER OPERATING EXPENSES

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Costs of packaging resale	97,398	-	-	-
Donations	42,000	12,500	42,000	12,500
Costs of purchased goods and services for resale	36,700	4,917	36,700	4,917
Nature protection costs	17,753	22,383	17,753	22,383
Labor protection costs	17,051	3,783	17,051	3,783
Staff recruitment and training costs	10,695	19,194	10,695	19,194
Other expenses	23,707	15,712	23,559	15,712
Total	245,304	78,489	147,758	78,489

(8) INTEREST AND SIMILAR INCOME

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Interest income from current financial investments	47,129	100,729	47,129	100,729
Penalties and fines received	2,004	370	2,004	370
Other interest income	7,881	4,770	7,881	4,770
Total	57,014	105,869	57,014	105,869

(9) INTEREST AND SIMILAR EXPENSES

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Foreign currency exchange rate fluctuations	19,591	4,365	19,550	4,365
Factoring fees	3,833	3,238	3,833	3,238
Leasing interest payments	2,872	4,361	2,872	4,361
Loan interest payments	1,828	6,235	1,828	6,235
Penalties paid	332	485	328	482
Total	28,456	18,684	28,411	18,681

(10) CORPORATE INCOME TAX FOR THE REPORTING YEAR

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Corporate income tax calculated on previously retained 2019-year distributed profit into dividends during 2020, less tax benefit	117,902	-	117,902	-
Total	117,902	-	117,902	-

(11) INTANGIBLE ASSETS - GROUP

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

(11) INTANGIBLE ASSETS - COMPANY

Company	Development costs EUR	Concessions, patents, licenses, trademark, software and similar rights EUR	Advance payments for intangible assets EUR	Total intangible assets EUR
Cost as of 31.12.2019.	96,471	684,720	85,075	866,266
Additions	-	-	178,723	178,723
Adjustments	-	-	(9,581)	(9,581)
Transfers	-	242,122	(242,122)	-
Cost as of 31.12.2020.	96,471	926,842	12,095	1,035,408
Accumulated amortisation as of 31.12.2019.	-	184,566	-	184,566
Amortisation charged	32,157	154,007	-	186,164
Accumulated amortisation as of 31.12.2020	32,157	338,573	-	370,730
Net carrying amounts as of 31.12.2019.	96,471	500,154	85,075	681,700
Net carrying amounts as of 31.12.2020.	64,314	588,269	12,095	664,678

(12) PROPERTY, PLANT AND EQUIPMENT - GROUP

Group	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 31.12.2019.	213,722	754,227	2,755,566	733,317	20,700	26,468	4,504,000
Additions	-	-	-	-	123,134	435,663	558,797
Disposals	-	-	-	-	-	-	-
Transfers	-	15,357	307,343	51,268	(111,965)	(262,003)	-
Cost as of 31.12.2020.	213,722	769,584	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 carrying amounts as of 31.12.2019.	213,722	447,318	1,089,745	437,878	20,700	26,468	2,235,831
Net carrying amounts as of 31.12.2020.	213,722	378,186	1,091,948	333,369	31,869	200,128	2,249,222

(12) PROPERTY, PLANT AND EQUIPMENT - COMPANY

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 31.12.2019.	213,722	628,150	2,755,566	692,924	20,700	26,468	4,337,530
Additions	-	-	-	-	122,851	435,663	558,514
Disposals	-	-	-	-	-	-	-
Transfers	-	15,357	307,343	50,985	(111,682)	(262,003)	-
Cost as of 31.12.2020.	213,722	643,507	3,062,909	743,909	31,869	200,128	4,896,044
Accumulated depreciation as of 31.12.2019.	-	234,423	1,665,821	280,496	-	-	2,180,740
Depreciation charged	-	70,449	305,140	147,078	-	-	522,667
Accumulated depreciation as of 31.12.2020.	-	304,872	1,970,961	427,574	-	-	2,703,407
Net carrying amounts as of 31.12.2019.	213,722	393,727	1,089,745	412,428	20,700	26,468	2,156,790
Net carrying amounts as of 31.12.2020.	213,722	338,635	1,091,948	316,335	31,869	200,128	2,192,637

(13) INVESTMENTS IN SUBSIDIARIES

	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Acquisition value	18,156	18,156
Investments in subsidiaries:	18,156	18,156

Company name	Owned shares, %	Acquisition value	Value of the investment 31.12.2020.
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		18,156	18,156

(13) INVESTMENTS IN SUBSIDIARIES *(continued)*

Madara Retail SIA, registration number 40103212103, 131 Zeltinu street, Marupe, Latvia.

Type of operations – retail sale of cosmetics products.

	31.12.2020 / EUR	31.12.2019 / EUR
Equity, EUR, unaudited	26,196	12,629
Profit for the reporting year, EUR, unaudited	13,567	(9,942)

Cosmetics Nord SIA, registration number 40103277805, 131 Zeltinu street, Marupe, Latvia.

Type of operations – wholesale of cosmetics products.

	31.12.2020 / EUR	31.12.2019 / EUR
Equity, EUR, unaudited	(8,355)	12,111
Profit or loss for the reporting year, EUR, unaudited	(20,466)	17,367

Madara Cosmetics GmbH, registration number HRB 177689, Potsdamer Platz 1, Berlin.

Type of operations – cosmetics products distribution services.

	31.12.2020 / EUR	31.12.2019 / EUR
Equity, EUR, unaudited	17,760	13,627
Profit or loss for the reporting year, EUR, unaudited	4,133	(7,084)

(14) OTHER NON-CURRENT RECEIVABLES

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Rent security deposits	68,027	68,027	40,000	40,000
Total other receivables	68,027	68,027	40,000	40,000

(15) RAW MATERIALS, MATERIALS AND CONSUMABLES

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Raw materials and materials, gross value	1,749,006	1,517,310	1,747,599	1,516,569
Goods in transit	262,542	68,730	262,542	68,730
Allowance for obsolete and slow-moving inventories	(8,917)	(29,259)	(8,917)	(29,259)
Total	2,002,631	1,556,781	2,001,224	1,556,040

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Allowance for obsolete and slow-moving inventories at the beginning of the year	29,259	11,456	29,259	11,456
Allowance charged	-	17,803	-	17,803
Allowance written-off	(20,342)	-	(20,342)	-
Allowance for obsolete and slow-moving inventories at the end of the year	8,917	29,259	8,917	29,259

(16) FINISHED GOODS AND GOODS FOR SALE

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Cosmetics products	1,617,425	1,138,210	1,571,445	1,094,197
Advertising materials	88,609	80,224	88,609	80,224
Goods in transit	5,974	-	5,974	-
Allowance for obsolete and slow-moving inventories	(40,647)	(20,109)	(40,647)	(20,109)
Total	1,671,361	1,198,325	1,625,381	1,154,312

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Allowance for obsolete and slow-moving inventories at the beginning of the year	20,109	-	20,109	-
Allowance charged	20,538	20,109	20,538	20,109
Allowance written-off	-	-	-	-
Allowance for obsolete and slow-moving inventories at the end of the year	40,647	20,109	40,647	20,109

(17) TRADE RECEIVABLES

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Trade receivables, gross value	1,307,136	1,436,056	1,281,576	1,221,394
Allowance for doubtful trade receivables	(98,299)	(84,625)	(76,017)	(84,625)
Total	1,208,837	1,351,431	1,205,559	1,136,769

	Group 2020 / EUR	Group 2019 / EUR	Company 2020 / EUR	Company 2019 / EUR
Allowance for doubtful trade receivables at the beginning of the reporting year	84,625	57,092	84,625	57,092
Allowance charged (see Note 5)	23,079	27,533	797	27,533
Doubtful trade receivables write-off	(9,405)	-	(9,405)	-
Allowance for doubtful trade receivables at the end of the reporting year	98,299	84,625	76,017	84,625

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

(18) TRADE RECEIVABLES FROM RELATED PARTIES

	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Madara Retail SIA	182,977	180,275
Cosmetics Nord SIA	6,624	201,732
Total	189,601	382,007

(19) OTHER RECEIVABLES

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Corporate income tax overpayment	22,794	254	22,618	79
VAT overpayment	19,620	-	19,620	-
Cash in transit	654	6,279	-	-
Short-term loan to SIA KALVI	-	250,000	-	250,000
Accumulated coupon for MOGO bonds	-	32,527	-	32,527
Other receivables	10,014	19,898	9,182	16,457
Total	53,082	308,958	51,420	299,063

(20) OTHER SECURITIES

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Short-term financial instruments with fixed income	-	950,000	-	950,000
Total	-	950,000	-	950,000

During the reporting year, the Group sold all held financial instruments.

(21) CASH

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Cash in bank accounts	5,645,859	2,329,384	5,578,578	2,263,872
Total	5,645,859	2,329,384	5,578,578	2,263,872

(22) SHARE CAPITAL

As of 31 December 2020, the registered and fully paid-in capital of the Group's Parent Company is 376,924.20 EUR, which consists of 3 769 242 shares. As of 31 December 2019, the registered and fully paid-in capital of the Group's Parent Company was 374,524.20 EUR, which consisted of 3 745 242 shares. As of 31 December 2020, the fully paid-in capital has increased by EUR 2,400 compared to 31 December 2019. The nominal value of one share is 0.10 EUR.

Since 2017, AS Madara Cosmetics has implemented share options program for its employees as an 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. During 2020, 24,000 share options were issued. As the result, share option program holders received 24,000 Company shares.

(23) BANK BORROWINGS

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
SWEDBANK loan – agreement 14-009243	5,952	77,379	5,952	77,379
SWEDBANK loan – agreement 15-025534	-	31,859	-	31,859
Total bank borrowings	5,952	109,238	5,952	109,238

Non-current borrowings	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
SWEDBANK loan – agreement 14-009243	-	5,952	-	5,952
Total non-current borrowings	-	5,952	-	5,952

Current borrowings	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
SWEDBANK loan – agreement 14-009243	5,952	71,427	5,952	71,427
SWEDBANK loan – agreement 15-025534	-	31,859	-	31,859
Total current borrowings	5,952	103,286	5,952	103,286
Total bank borrowings	5,952	109,238	5,952	109,238

Movement in borrowings	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Borrowings at the beginning of the reporting year	109,238	244,383	109,238	244,383
Repayment of borrowings	(103,286)	(135,145)	(103,286)	(135,145)
Borrowings at the end of the reporting year	5,952	109,238	5,952	109,238

Borrowing interest rates

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

Borrowing maturity dates

The repayment term of the long-term loan 14-009243 is January 22, 2021. At the time of signing the Annual report, the loan 14-009243 has been fully repaid.

Pledges

The Group has pledged part of its assets to secure loans from credit institutions. As of 31 December 2020, the Company's assets in the value of the outstanding amount were pledged as collateral for the loan agreement 14-009243. After the repayment of the loan in January 2021, the pledge agreement is no longer valid.

Bank loan covenants

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

(24) OTHER NON-CURRENT LIABILITIES

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Finance lease liabilities	26,991	81,546	26,991	81,546
Total	26,991	81,546	26,991	81,546

(25) TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Mandatory state social insurance contributions	86,174	67,933	80,989	60,062
Personal income tax	42,057	32,086	39,689	28,389
Value added tax (Germany)	28,740	33,455	28,740	33,455
Natural resource tax	370	144	370	144
Entrepreneurship risk state duty	64	52	51	41
Value added tax (Latvia)	-	15,690	-	15,690
Total	157,405	149,360	149,839	137,781

(26) OTHER LIABILITIES

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Salaries	164,841	130,392	154,550	115,325
Finance lease liabilities	54,555	59,134	54,555	59,134
Settlements of gift cards	18,036	16,424	7,575	1,447
Advance payments	1,315	1,151	1,315	1,151
Other liabilities	13,757	6,738	13,064	6,254
Total	252,504	213,839	231,059	183,311

(27) ACCRUED LIABILITIES

	Group 31.12.2020 / EUR	Group 31.12.2019 / EUR	Company 31.12.2020 / EUR	Company 31.12.2019 / EUR
Accrued liabilities for received goods	262,542	68,730	262,542	68,730
Accrued liabilities for unused vacation	209,212	170,143	209,212	170,143
Accrued liabilities for services received	88,649	66,381	87,234	61,878
Accrued liabilities for employee remuneration	51,692	16,373	51,692	16,373
Total	612,095	321,627	610,680	317,124

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

	Received previously issued loan	Goods and services provided	Received goods and services
Madara Retail SIA*	-	436,099	-
Cosmetics Nord SIA*	-	238,989	-
KALVI SIA	250,000	-	-
MC PROPERTIES SIA	-	960	220,835
Madara Cosmetics GmbH	-	-	93,456
Total	250,000	676,048	314,291

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

(29) NUMBER OF EMPLOYEES

	Group 2020	Group 2019	Company 2020	Company 2019
Average number of employees, including:	160	146	134	120
Members of the Board	3	3	3	3
Members of the Council	5	5	5	5

(30) INFORMATION ON THE REMUNERATION OF MEMBERS OF THE COUNCIL AND THE BOARD

	Group 2020	Group 2019	Company 2020	Company 2019
Board members remuneration for the work at the Board	21,105	9,846	13,905	2,646
Council members remuneration for the work at the Council	11,806	5,914	11,806	5,914
Total	32,911	15,760	25,711	8,560

(31) OFF-BALANCE SHEET LIABILITIES AND CONTINGENT 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 in 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 the years 2022 – 2024 with a 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 the 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 of 31 December 2020, the outstanding balance of MC PROPERTIES SIA loan to A/S SWEDBANK was EUR 523,076.

(32) 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. See Note 6.

To receive financing, in 2020 the Group's Parent Company participated in ERAF project program "Growth and Employment", in the ERAF project "Support for employee training in the chemical industry and related industries" implemented by the Latvian Association of Chemical and Pharmaceutical Entrepreneurs, as well as in Competence Centers, which provide support for the development of new products and technologies. During the implementation of these projects, all the necessary requirements for participation were met and the Group's Parent Company received funding in 2020 for the total amount of EUR 209,613.

(33) FINANCIAL RISK MANAGEMENT

The Group's and the Company's activities are exposed to a variety of financial risks: foreign currency risk, interest rate 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 companies do not hold any material balances of financial assets and liabilities denominated in currencies. Therefore, during the reporting year, the Group's exposure to foreign currency risk was not significant.

– Credit risk

Credit risk is the risk that the Group will incur financial losses as a result of default a counterparty on its obligations to the Group's companies. Credit risk mainly arises from bank balances, trade receivables and long-term and short-term loans.

The Group does not have significant concentrations 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 ensure 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 2020, the Group has no active credit line facility agreement. The Group's 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.

(34) EVENTS AFTER THE REPORTING DATE

Despite the economic situation caused by COVID-19 disease, in the first quarter of 2021, the Group has achieved its sales targets and continues to grow. The production process is organized in regular mode observing strict safety measures. Disruptions in supply chains, as well as changes in customers payment discipline are not observed.

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.

The Annual Report approved by:

Lote Tisenkopfa - Iltnere
Chairman of the Board

Paula Tisenkopfa
Member of the Board

Uldis Iltners
Member of the Board

The Annual Report prepared by:

Armands Bērziņš
Chief accountant



Translation from Latvian

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 7 to 30 of the accompanying separate and consolidated annual report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2020,
- 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 2020, 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.

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Independent Auditor's Report (continued)

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,
- 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.

Independent Auditor's Report (continued)

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 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
Certified auditor
Certificate no. 145

Deloitte Audits Latvia SIA
Licence no. 43

Riga, Latvia
14 May 2021



