



**MANAGEMENT REPORT OF
AS MADARA COSMETICS ON THE
UNAUDITED FINANCIAL
STATEMENTS FOR 2018**

**FOR THE PERIOD FROM 1 JANUARY
2018 TILL 31 DECEMBER 2018**

PREPARED IN ACCORDANCE WITH
LATVIAN LEGISLATION REQUIREMENTS

RIGA, 2019



TABLE OF CONTENTS

Statement	2
GENERAL INFORMATION ABOUT THE GROUP	5
THE MOST IMPORTANT EVENTS IN 2018	6
SALES	10
FINANCIAL INDICATORS	13
 UNAUDITED CONSOLIDATED FINANCIAL REPORT	
Consolidated income statement	15
Consolidated balance sheet	16
Consolidated cash flow statement	18
Consolidated statement of changes in equity	19
Notes to the consolidated financial statements	20

DEAR SHAREHOLDERS,

AS MADARA COSMETICS HAS HAD A SUCCESSFUL AND DYNAMIC YEAR OF 2018, CONTINUING ITS RAPID GROWTH IN THE MOST IMPORTANT TRADE CHANNELS.

THE YEAR HAS BEEN SIGNIFICANT DUE TO THE INTRODUCTION OF NEW, INNOVATIVE PRODUCTS INTO THE MARKET. THESE PRODUCTS HAVE PROVIDED A SIGNIFICANT CONTRIBUTION TO BOTH THE GROWTH AND REPUTATION OF THE COMPANY, ONCE AGAIN ATTESTING THE FACT THAT WE ARE ONE OF THE MOST INNOVATIVE EUROPEAN COMPANIES IN OUR FIELD. WE HAVE NOT STOPPED AT WHAT HAS BEEN ACHIEVED AND IN 2018 WE STARTED WORK ON SEVERAL LARGE-SCALE DEVELOPMENT PROJECTS. ONE OF THE MOST IMPORTANT DURING THE LAST 5 YEARS – THE DEVELOPMENT OF A NATURAL, CERTIFIED MAKE-UP LINE.

WE HAVE BEEN ACTIVELY WORKING AND INVESTING IN RISING OUR BRAND AWARENESS IN FOREIGN MARKETS, CREATING POSITIVE CONDITIONS FOR THE COMPANY'S DEVELOPMENT IN FUTURE PERIODS – WE ARE PURPOSEFULLY AIMING FOR THIS GOAL.



ULDIS ILTNERS
AS MADARA COSMETICS BOARD MEMBER

A handwritten signature in black ink, consisting of stylized, flowing letters.



GENERAL INFORMATION ABOUT THE GROUP

Name of the Group	Madara Cosmetics
Parent Company	Madara Cosmetics AS
Registration number of the Parent Company	No 40003844254
Registration place and date	Riga, 28 July 2006
Registered address of Parent Company	Zeltinu Street 131, Marupe, LV-2167, Latvia
Shareholders (above 5 %)	Lote Tisenkopfa Iltnere - owns 23.92 % of shares Uldis Iltners - owns 24.08 % of shares Oy Transmeri Group Ab - owns 23.09 % of shares Zane Tamane - owns 9.64% of shares Liene Drāzniece - owns 6.83 % 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
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	Zane Tamane - Chairman of the Council Solvita Kurtiša - Member of the Council till 15.01.2019 Anu Pauliina Koskinen - Member of the Council from 22.05.2018 Anna Ramata Stunda -Member of the Council, Deputy Chairman of the Council from 22.05.2018 Anna Andersone - Member of the Council
Reporting period	01/01/2018 till 31/12/2018
Previous reporting period	01/01/2017 till 31/12/2017
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 2018:

1

A highly successful introduction of new products. We take most pride in our **SUNSCREEN** product line, which has been one of the most successful new product launches in recent years. The company's assumptions about the demand for these products in the market have been confirmed. In 2019, we continue to develop this line. Three new products of this category are launched in February this year: SPF20 sun protection milk, SPF15 shimmering sunscreen, as well as our long-awaited self-tan cream. Sunscreen products will also be introduced in the assortment of the MOSSA brand.



2

In 2018, the development of the new, **FUNCTIONAL HAIR CARE** products has been completed. Added to the existing hair care products of the MÁDARA brand, they will offer more specific solutions for hair growth, volume, improved texture and resistance, as well as reduced scalp irritation and elimination of dandruff. The new hair care products will be introduced into the market in the first half of 2019.



3

Following the market trends, in the second half of 2018, the company has started development of a **NATURAL, CERTIFIED MAKE-UP RANGE**. Decorative cosmetics or make-up is the second largest category according to market size after the skincare category – in some strategically important markets to the company it is even equivalent. This is considered to be the largest development project of the company over the last 5 years, which involves the development of about 50 new products and also the strengthening of the know-how and increasing the production capacity of decorative cosmetics. For the implementation of this project new jobs have been created in the laboratory, marketing department and administration. A gradual introduction of the make-up products into the market is planned at the end of 2019 and in the first half of 2020 – depending on the success of product development and the production processes. The management expects that successful implementation of the project and a product launch will make a sizable contribution to the company's development and the scope of activity. To implement this project, significant investments are planned in 2019 – both long term (development of production technologies) and short term (commencement of the production of products, provision of marketing support, etc.).



4

In 2018, special attention was devoted to the development of e-commerce system and implementation of IT projects with the goal of automating various business processes. The existing e-commerce system has acquired a number of significant improvements and additional tools that promote the efficiency of its operation. Among the most notable IT projects is the business intelligence system implementation that helps to process and analyze data more quickly, consequently resulting in a more efficient decision-making process across all departments. Overall, we have invested 280 000 EUR in upgrading the e-commerce system and implementing IT projects.



5

The company has continued improving its production processes and has successfully installed two new filling and packaging lines:

- 1) automated filling of tubes;
- 2) automated filling and sealing of vials.

These devices significantly increase the overall production capacity of the company, and according to the management estimates, production volume can be doubled with the current capacity, if compared to the production volume in 2018.



6

The company has published its second ESG report on the company activities in 2017:

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



7

Awards

- ▶ Green Excellence Prize 2018 by the State Environmental Service of the Republic of Latvia: AS MADARA Cosmetics
- ▶ SME Star Awards 2018 by the SME Europe, the Role Model Award
- ▶ European Small & Mid-Cap Awards 2018, Nomination: AS MADARA Cosmetics IPO (Category: Rising Stars)
- ▶ L'Officiel Beau Awards 2018
- ▶ Export and Innovation Awards 2018, A Certificate of Recognition in the category "The most Innovative Product" for the SPF product line.
- ▶ NASDAQ Baltic Awards 2019, winner in the category "Best Investor Relations on First North"

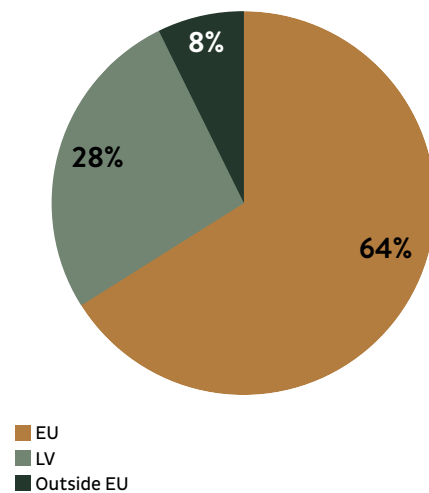


SALES

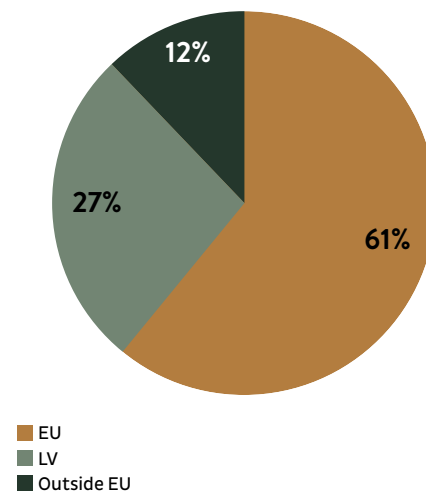
In 2018, the company continued to grow at a pace similar to previous years, resulting in 29% year-over-year turnover growth. In the second half of 2018, the company's turnover increased by 27% compared to the same period in 2017. Consolidated turnover amounted to EUR 9.51m in 2018, from which EUR 4.85m were gained in the second half of the year.

The development of the company was facilitated by the strengthening of existing market channels and the acquisition of new channels, the successful introduction of new products and rising brand awareness. Introduced in the beginning of the year, the company's first sunscreen products ranked among the company's most demanding products.

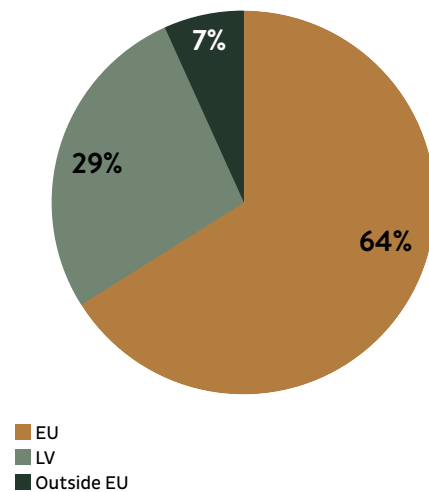
Sales distribution in Latvia, the EU and outside EU (2018)



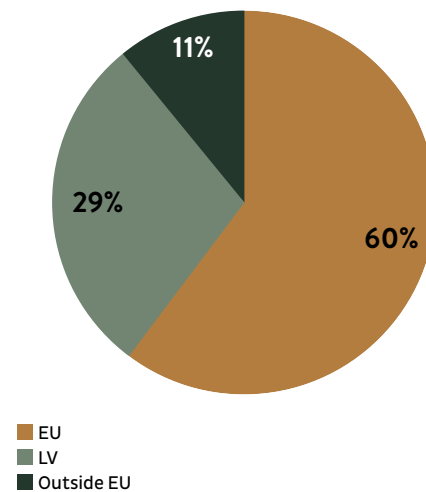
Sales distribution in Latvia, the EU and outside EU (2017)



Sales distribution in Latvia, the EU and outside EU (2018 H2)



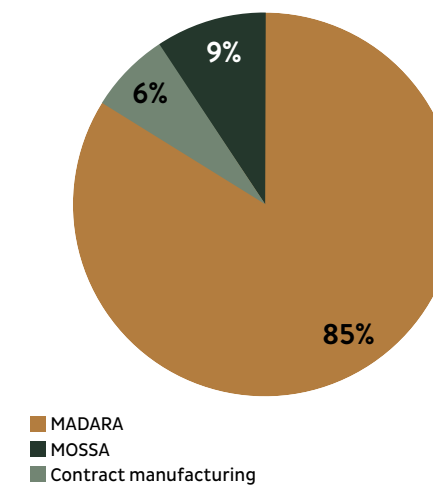
Sales distribution in Latvia, the EU and outside EU (2017 H2)



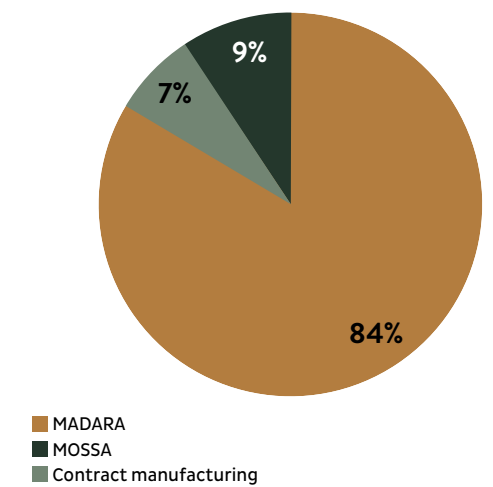
In the second half of 2018, 93% of the turnover came from the European Union (including Latvia), which was by 4 percentage points more than in the respective period last year, 7% of the turnover came from outside the European Union.

In 2018, turnover generated in the European Union was 92%, 8% - outside the European Union. The increase of turnover share in the European Union was in line with the company's trade strategy.

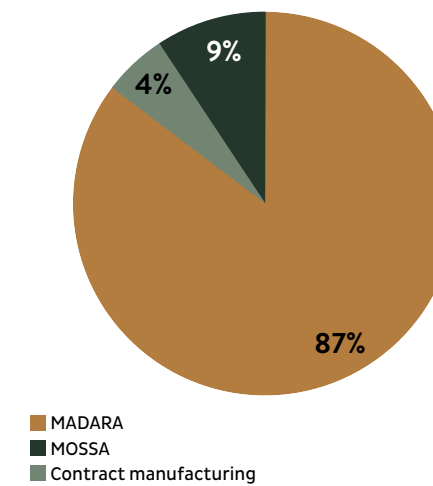
Sales distribution by product categories (2018)



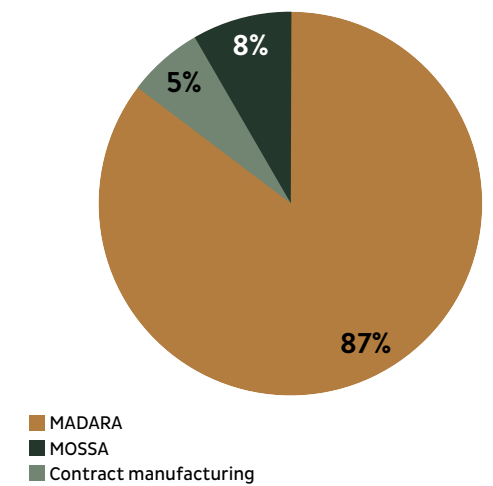
Sales distribution by product categories (2017)



Sales distribution by product categories (2018 H2)



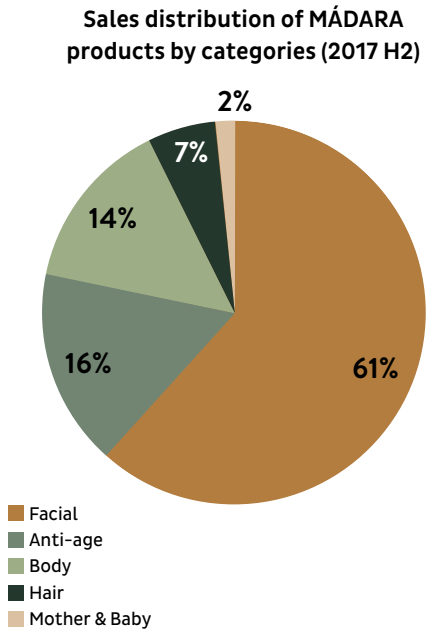
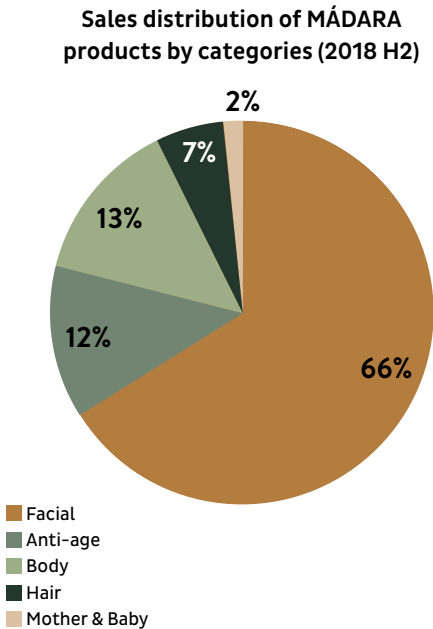
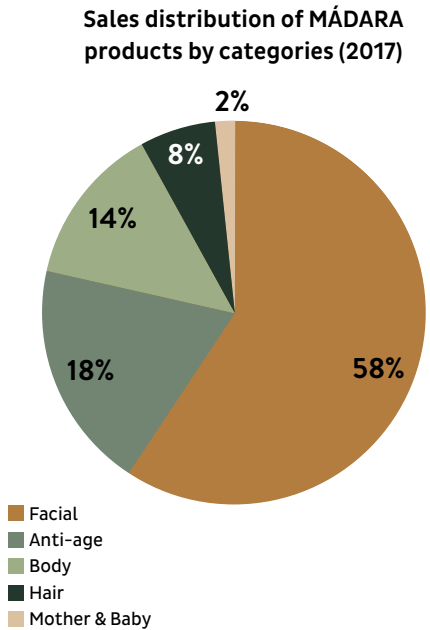
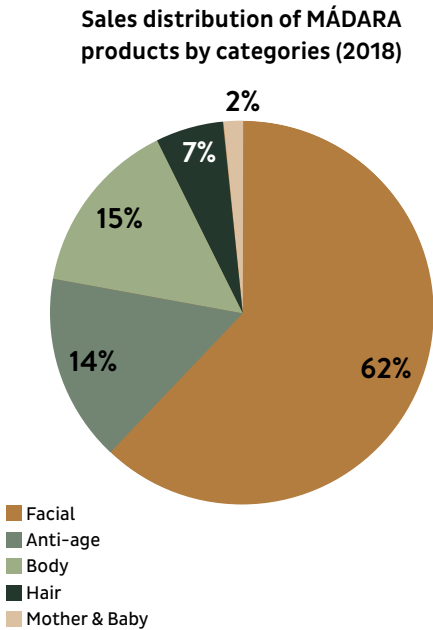
Sales distribution by product categories (2017 H2)



The breakdown of turnover by product categories indicates a slight increase in the proportion of MÁDARA brand. Overall, the breakdown resembles the trends of the previous periods.

In the second half of 2018 the share of contract manufacturing products shrank a bit due to the faster growth rate of the MÁDARA brand.

Distribution of MÁDARA products by product groups is similar to the previous year. In 2018, an increase of 4 percentage points in the proportion of facial care products is observed and is partly attributed to the significant sales amounts of the new sun care products. In general, the distribution of products by categories is in line with the MÁDARA brand focus.



FINANCIAL INDICATORS

In 2018, the company was able to reach a notable turnover of EUR 9.5m. Profit for the period was roughly EUR 1.5m, which is 20% more than last year. In the second half of the year, the company generated profit of EUR 0.5m, 4% lower than last year. The company's second half-year figures are explained by investments

in the development of market channels, developments and advertising of e-commerce platforms and building a customer base. The company expects a positive investment return in the future periods. In addition, in 2018 the company improved its liquidity and capital structure indicators.

The main financial indicators are as follows:

Key ratios and indicators	2018	2017	2018 H2	2017 H2
Net turnover	9 513 748	7 401 932	4 853 360	3 816 854
Cost of goods sold	-3 483 800	-2 749 547	-1 846 219	-1 388 595
Gross profit	6 029 948	4 652 385	3 007 141	2 428 259
Depreciation and write-downs	477 699	411 517	257 535	210 307
Leasehold improvements write-off expense	43 221	4 073	26 876	2 099
Operating profit	1 350 454	1 250 388	432 190	482 594
Interest income	64 776	4 479	38 593	4 479
Interest expense	-22 002	-27 438	-10 387	-14 448
Profit before taxes	1 495 885	1 328 682	499 853	517 472
Net profit for the period	1 495 710	1 246 097	499 719	520 387

Key ratios and indicators	2018	2017	2018 H2	2017 H2
EBITDA (TEUR)	1 974	1 767	756	740
Profitability and sustainability ratios				
1. Gross Margin (%)	63	63	62	64
2. Operating Margin (%)	14	17	9	13
3. Net Margin (%)	16	17	10	14
4. ROE (%)	19	25	12	14
5. ROA (%)	14	18	9	10
Liquidity ratios				
6. Current ratio (x)	6.76	5.62	6.76	5.62
7. Quick ratio (x)	4.85	4.36	4.85	4.36
8. Working capital (TEUR)	6 251	5 984	6 251	5 984
Leverage ratios				
9. Financial debt to equity (x)	0.05	0.09	0.05	0.09
10. Debt to equity (x)	0.17	0.26	0.17	0.26
11. Net financial debt (TEUR)	-2 983	-3 469	-2 983	-3 469
12. Net gearing (%)	-35.47	-47.84	-35.47	-43.85

* EBITDA = Operating profit + depreciation expense + amortisation expense + leasehold improvements write-off expense

1. Gross profit/Net turnover*100
2. Operating profit/Net turnover*100
3. Net profit/Net turnover*100
4. Net profit*2/Shareholder's equity (average)*100 (*2 only for interim periods)
5. Net profit*2/Total assets (average)*100 (*2 only for interim periods)
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.

CONSOLIDATED INCOME STATEMENT

By turnover method

	Notes	01.01.2018 -31.12.2018 (unaudited)	1.07.2018 -31.12.2018 (unaudited)	1.01.2017 -31.12.2017	1.07.2017 -31.12.2017 (unaudited)
Net turnover	2	9 513 748	4 853 360	7 401 932	3 816 854
Cost of goods sold	3	-3 483 800	-1 846 219	-2 749 547	-1 388 595
Gross profit		6 029 948	3 007 141	4 652 385	2 428 259
Selling expenses	4	-3 560 833	-1 936 636	-2 323 617	-1 288 418
Administration expenses	5	-1 118 661	-638 315	-1 078 380	-657 247
Other operating income	6	175 707	88 073	185 816	114 022
Other operating expenses	7	-73 050	-48 616	-84 563	-69 175
Interest and similar income	8	64 776	38 593	4 479	4 479
Interest and similar expenses	9	-22 002	-10 387	-27 438	-14 448
Profit before corporate income tax		1 495 885	499 853	1 328 682	517 472
Corporate income tax for the financial year*	10	-175	-134	-82 585	2 915
Profit for the reporting period		1 495 710	499 719	1 246 097	520 387

* for year 2017 included deferred tax

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

CONSOLIDATED BALANCE SHEET

Assets	Notes	31/12/2018 (EUR) (unaudited)	30/06/2018 (EUR) (unaudited)	31/12/2017 (EUR)	30/06/2017 (EUR)
Non-current assets					
Intangible assets					
Concessions, licences, patents, trade marks and similar rights		380 227	173 132	133 361	9 602
Prepayments for intangible assets		2 325	66 081	7 899	5 000
Total intangible assets	11	382 552	239 213	141 260	14 602
Property, plant and equipment					
Land		213 722	133 237	133 237	-
Leasehold improvements		448 535	482 927	476 443	505 558
Plant and equipment		860 730	664 968	751 348	870 158
Other fixed assets		288 209	284 914	268 060	192 947
Construction in progress		228 378	78 298	14 874	180 174
Prepayments for property, plant and equipment		1 434	193 878	14 065	14 621
Total property, plant and equipment	12	2 041 008	1 838 222	1 658 027	1 763 458
Non-current financial investments					
Other non-current receivables and other receivables	13	42 491	70 600	40 000	42 513
Other securities and investments	14	826	826	826	826
Total non-current financial investments		43 317	71 426	40 826	43 339
Total non-current assets		2 466 877	2 148 861	1 840 113	1 821 399
Current assets					
Inventories					
Raw materials	15	1 058 254	1 047 088	859 164	783 242
Finished goods and goods for sale	16	831 874	872 665	674 319	586 487
Prepayments for inventories		178 451	203 831	96 392	104 799
Total inventories		2 068 579	2 123 584	1 629 875	1 474 528
Receivables					
Trade receivables	17	985 864	973 701	923 709	887 858
Other receivables	18	102 362	101 554	85 823	35 677
Accrued revenue		5 068	-	34 210	-
Deferred expenses		48 037	7 225	18 293	8 488
Total receivables		1 141 331	1 082 480	1 062 035	932 023
Total current financial investments	19	700 000	500 000	500 000	-
Cash	20	3 425 756	3 675 882	4 086 345	1 005 212
Total current assets		7 335 666	7 381 946	7 278 255	3 411 763
Total assets		9 802 543	9 530 807	9 118 368	5 233 162

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

CONSOLIDATED BALANCE SHEET

Equity and liabilities	Notes	31/12/2018 (EUR) (unaudited)	30/06/2018 (EUR) (unaudited)	31/12/2017 (EUR)	30/06/2017 (EUR)
Equity					
Share capital	21	374 524	374 524	374 524	106 660
Share premium		4 023 454	4 023 454	4 023 454	761 236
Retained earnings:					
a) previous periods retained earnings		2 517 550	2 517 550	1 608 525	2 021 845
b) profit for the period		1 495 710	995 991	1 246 097	712 594
Total equity		8 411 238	7 911 519	7 252 600	3 602 335
Liabilities					
Non-current liabilities					
Bank borrowings	22	109 238	176 811	244 383	311 956
Other liabilities	23	140 680	169 686	182 042	141 915
Deferred revenue		56 287	100 750	145 213	189 676
Deferred tax liabilities		-	-	-	86 783
Total non-current liabilities		306 205	447 247	571 638	730 330
Current liabilities					
Bank borrowings	22	135 145	135 145	135 145	135 145
Advances from customers		24 140	41 502	77 164	32 636
Trade payables		345 147	436 888	542 648	198 723
Taxes and social insurance contributions	24	103 391	94 385	122 086	170 658
Other payables	25	180 281	183 619	161 253	140 028
Deferred revenue		88 926	88 926	88 926	104 768
Accrued liabilities		208 070	191 576	166 908	118 539
Total current liabilities		1 085 100	1 172 041	1 294 130	900 497
Total liabilities		1 391 305	1 619 288	1 865 768	1 630 827
Total equity and liabilities		9 802 543	9 530 807	9 118 368	5 233 162

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

CONSOLIDATED CASH FLOW STATEMENT

(Indirect method)

	Note	1.01.2018 -31.12.2018 EUR (unaudited)	1.07.2018 -31.12.2018 EUR (unaudited)	1.01.2017 -31.12.2017 EUR	1.07.2017 -31.12.2017 EUR (unaudited)
Cash flow of operating activities					
Profit before taxes		1 495 885	499 853	1 328 682	520 387
Corrections:					
Depreciation of fixed assets	12	455 483	235 319	411 517	210 307
Amortisation of intangible assets	11	43 221	26 876	4 073	2 099
Fixed assets write-off		22 216	22 216	-	-
Revenue from the recognition of ERAF funds	6	-168 629	-78 739	-180 922	-71 519
Interest and similar income	8	-64 776	-38 597	-4 479	-4 479
Interest and similar expenses	9	22 005	10 387	21 847	14 448
Profit before adjustments for current assets and current liabilities		1 805 405	677 315	1 580 718	671 243
Corrections:					
Increase / decrease in receivables		-413 195	-33 471	-82 470	-121 605
Increase / decrease in inventories		- 357 610	29 625	-321 277	-163 754
Decrease / increase in payables and other payables		41 200	-87 192	461 132	225 184
Gross cash flow of operating activities		1 075 800	586 277	1 638 103	611 068
Interest payments		-22 005	-10 387	-21 847	-14 448
Income tax payments		-175	-134	-159 906	-
Net cash flow of operating activities		1 053 620	575 756	1 456 350	596 620
Investment activities cash flow					
Other investments		-200 000	-200 000	-500 000	-500 000
Acquisition of fixed assets and intangible assets		-1 125 142	-630 536	-443 896	-62 763
Issued loans		-2 491	-2 491	-	-
Proceeds of loan repayments		-	30 600	2 513	2 513
Received interest		64 776	38 597	4 479	4 479
Investment activities cash flow		-1 262 857	-763 830	-936 904	-555 771
Financing activities cash flow					
Proceeds from issue equity shares		-	-	3 316 770	3 316 762
Proceeds from ERAF funds		79 703	34 276	91 997	27 056
Repaid financial lease liabilities		-58 838	-28 755	-86 361	-35 961
Dividends paid		-337 072	-	-200 000	-200 000
Repaid loan	22	-135 145	-67 573	-135 145	-67 573
Financing activities cash flow		-451 352	-62 052	2 987 261	3 040 284
Decrease / increase in cash and cash equivalents		-660 589	-250 126	3 506 707	3 081 133
Cash and cash equivalents at the beginning of the reporting period	20	4 086 345	3 675 882	579 638	1 005 212
Cash and cash equivalents at the end of the financial period	20	3 425 756	3 425 756	4 086 345	4 086 345

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (EUR)	Share premium (EUR)	Retained earnings (EUR)	Total equity (EUR)
Balance as of 31 December 2016	106 652	761 236	2 021 845	2 889 733
Issue of shares	8	-	-	8
Profit for the reporting period	-	-	712 594	712 594
Balance as of 30 June 2017	106 660	761 236	2 734 439	3 602 335
Distribution of dividends	-	-	-200 000	-200 000
Increase in share capital	213 320	-	-213 320	-
Issue of shares	54 544	3 262 218	-	3 316 762
Profit for the reporting period	-	-	533 503	533 503
Balance as of 31 December 2017	374 524	4 023 454	2 854 622	7 252 600
Distribution of dividends	-	-	-337 072	-337 072
Profit for the reporting period	-	-	995 991	995 991
Balance as of 30 June 2018 (unaudited)	374 524	4 023 454	3 513 541	7 911 519
Profit for the reporting period	-	-	499 719	499 719
Balance as of 31 December 2018 (unaudited)	374 524	4 023 454	4 013 260	8 411 238

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

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(2) NET TURNOVER

Turnover is the revenue generated during the period from the Group's main operating activities – the wholesale of goods and provision of the services less value added tax and discounts given. The revenue generated from production and wholesale of cosmetic products.

Turnover by geographical markets:

	1.01.2018 -31.12.2018 EUR (unaudited)	1.01.2017 -31.12.2017 EUR
Revenue from the sale of goods in the European Union	5 992 141	4 482 297
Revenue from the sale of goods in Latvia	2 681 235	2 021 218
Revenue from the sale of goods in other countries	746 955	848 514
Revenue from services	93 140	43 491
Revenue from other operating activities	277	6 412
Total	9 513 748	7 401 932

(3) COST OF GOODS SOLD

	1.01.2018 -31.12.2018 EUR (unaudited)	1.01.2017 -31.12.2017 EUR
Materials cost	1 666 072	1 322 299
Remuneration for work	713 236	549 435
Property, plant and equipment depreciation	307 177	277 571
Mandatory state social insurance contributions	171 943	129 589
Premises rent and maintenance	149 123	149 123
Current assets write-off	114 185	69 267
Production service costs	96 900	54 084
Leasehold improvements write-off	64 487	62 809
Resource costs	53 212	45 306
New products research and development costs	77 420	42 704
ECOCERT quality certificate maintenance costs	27 101	21 809
Other production and production maintenance costs	42 944	25 551
Total	3 483 800	2 749 547

(4) SELLING EXPENSES

	1.01.2018 -31.12.2018 EUR (unaudited)	1.01.2017 -31.12.2017 EUR
Advertising costs	933 993	537 098
Remuneration for work	859 726	586 999
Sample production costs	508 617	274 581
Transport costs	425 054	288 708
Social security contributions	207 417	95 801
Marketing bonus costs	147 174	87 342
Work trip and exhibitions costs	146 195	82 306
Premises rent and maintenances costs	106 270	78 819
Intermedium services costs	59 775	53 003
Fixed assets depreciation	27 769	33 162
Representation costs	23 500	15 807
Internet store's WEB page maintenance costs and other IT costs	17 715	27 381
Leashold improvements write-off	9 073	14 965
Royalties	2 852	13 536
Product registration fees in foreign markets	-	23 021
Other sales expenses	85 703	111 088
Total	3 560 833	2 323 617

(5) ADMINISTRATION EXPENSES

	1.01.2018 -31.12.2018 EUR (unaudited)	1.01.2017 -31.12.2017 EUR
Remuneration for work	421 787	322 862
Social security contributions	100 515	117 676
Depreciation and amortisation	90 200	25 660
Office costs	103 781	66 483
Premises rent and maintenance costs	71 712	71 712
Cash outflow related costs	67 252	45 812
Legal and other professional service costs	31 024	16 448
Staff sustainability costs	17 979	-
Communication costs	20 969	24 086
Audit costs	15 965	17 805
Car maintenance, fuel and repair costs	15 143	8 949
Accounting and management software maintenance costs	6 985	6 402
Allowance for doubtful receivables	57 092	6 136
Employee health insurance	11 712	6 468
The cost of organizing the initial public offering of shares	-	281 357
Other management and administration costs	86 545	60 524
Total	1 118 661	1 078 380

(6) OTHER OPERATING INCOME

	1.01.2018 -31.12.2018 EUR (unaudited)	1.01.2017 -31.12.2017 EUR
Revenues from the ERAF project No L-APV-14-0111	88 926	88 926
Revenues from the ERAF project No 1.2.1.1/16/A/006	61 822	77 266
Revenues from the ERAF project No SKV-L-2017-215	17 881	14 730
Other revenues	7 078	4 894
Total	175 707	185 816

(7) OTHER OPERATING EXPENSES

	1.01.2018 -31.12.2018 EUR (unaudited)	1.01.2017 -31.12.2017 EUR
Resold purchased goods and services	21 154	16 287
Nature protection costs	10 992	6 443
Labor protection costs	3 786	3 689
Donations	20 000	29 000
Other expenses	17 118	29 144
Total	73 050	84 563

(8) INTEREST AND SIMILAR INCOME

	1.01.2018 -31.12.2018 EUR (unaudited)	1.01.2017 -31.12.2017 EUR
Interest income on current financial investments	54 555	4 167
Other interest income	10 221	312
Total	64 776	4 479

(9) INTEREST AND SIMILAR EXPENSES

	1.01.2018 -31.12.2018 EUR (unaudited)	1.01.2017 -31.12.2017 EUR
Interest on borrowings	10 886	15 537
Currency exchange rate fluctuations	3 217	5 591
Interest on obligations under finance leases	5 830	4 513
Factoring fees	1 805	1 582
Other interest payments	264	215
Total	22 002	27 438

(10) CORPORATE INCOME TAX FOR THE FINANCIAL YEAR

	1.01.2018 -31.12.2018 EUR (unaudited)	1.01.2017 -31.12.2017 EUR
Current corporate income tax charge	-175	-156 090
Deferred tax charge	-	73 505
Total	-175	-82 585

(11) INTANGIBLE ASSETS

	Concessions, patents, licenses, trademarks and similar rights	Prepayments for intangible assets	Total intangible assets
Cost as of 31.12.2017	189 667	7 899	197 566
Additions	-	284 522	284 522
Disposals	-15 904	-	-15 904
Transfers	290 096	-290 096	-
Cost as of 31.12.2018	463 859	2 325	466 184
Accumulated amortisation as of 31.12.2017	56 306		56 306
Amortization charged	43 221	-	43 221
Disposals	-15 895	-	-15 895
Accumulated amortisation as of 31.12.2018	83 632	-	83 632
Net book value as of 31.12.2017	133 361	7 899	141 260
Net book value as of 31.12.2018	380 227	2 325	382 552

(12) FIXED ASSETS MOVEMENT TABLE

	Leasehold improve- ments	Land	Equip- ment and ma- chinery	Other fixed assets	Con- struc- tion in progress	Prepay- ments for property, plant and equipment	Total fixed assets
Cost as of 31.12.2017	629 467	133 237	1 771 957	578 068	14 874	14 065	3 141 668
Additions	-	-	-	-	873 302	488 554	1 361 856
Disposals	-	-	-18 790	-201 697	-7 639	-501 185	-729 311
Transfers	45 651	80 485	401 285	131 273	-658 694	-	-
Cost as of 31.12.2018	675 118	213 722	2 154 452	507 644	221 843	1 434	3 774 213
Accumulated depreci- ation as of 31.12.2017	153 024	-	1 020 609	310 008	-	-	1 483 641
Depreciation charged	73 559	-	291 903	90 021	-	-	455 483
Disposals	-	-	-18 790	-180 594	-6 535	-	205 919
Transfers	-	-	-	-	-	-	-
Accumulated depreci- ation as of 31.12.2018	226 583	-	1 293 722	219 435	-6 535	-	1 733 205
Net book value as of 31.12.2017	476 443	133 237	751 348	268 060	14 874	14 065	1 658 027
Net book value as of 31.12.2018	448 535	213 722	860 730	288 209	228 378	1 434	2 041 008

(13) OTHER NON-CURRENT RECEIVABLES AND OTHER RECEIVABLES

	31/12/2018 EUR)	31/12/2017 EUR
Rent security deposit	40 000	40 000
Other receivables	2 491	-
Total	42 491	40 000

(14) OTHER SECURITIES AND INVESTMENTS

	31/12/2018 EUR	31/12/2017 EUR
Other investments	826	826
Total	826	826

(15) RAW MATERIALS

	31/12/2018 EUR	31/12/2017 EUR
Net book value of raw materials	1 062 886	863 796
Allowance for slow moving inventories	-4 632	-4 632
Total	1 058 254	859 164

(16) FINISHED GOODS AND GOODS FOR SALE

	31/12/2018 EUR	31/12/2017 EUR
Cosmetic products	804 254	655 718
Advertising materials	27 620	18 601
Total	831 874	674 319

(17) TRADE RECEIVABLES

	31/12/2018 EUR	31/12/2017 EUR
Net book value of trade receivables	1 042 956	926 372
Allowance for doubtful trade receivables	-57 092	-2 663
Total	985 864	923 709

(18) OTHER RECEIVABLES

	31/12/2018 EUR	31/12/2017 EUR
CIT overpayment	53 802	-
Security deposit for leased retail premises	17 729	14 282
Payments in PAY PAL system	8 261	1 092
Balance of unpaid collected cash	4 423	5 808
Advance payments for services	2 792	8 614
Settlement of operating car lease	2 645	3 591
VAT overpayment	-	39 288
Other receivables	12 710	13 148
Total	102 362	85 823

(19) TOTAL CURRENT FINANCIAL INVESTMENTS

	31/12/2018 EUR	31/12/2017 EUR
Short term financial securities (bonds) with a fixed income	700 000	500 000
Total	700 000	500 000

(20) CASH

	31/12/2018 EUR	31/12/2017 EUR
Cash in bank accounts	3 425 756	4 086 345
Total	3 425 756	4 086 345

(21) SHARE CAPITAL

As of 31 December 2018, the registered and fully paid-in share capital of the Group's parent company amounts EUR 374 524.20 and consists of 3 745 242 shares with a nominal value of EUR 0.10 per share.

(22) BANK BORROWINGS

	31/12/2018 EUR	31/12/2017 EUR
SWEDBANK loan - agreement No 14-009243	148 807	220 234
SWEDBANK loan - agreement No 15-025534	95 576	159 294
Total bank borrowings	244 383	379 528

NON-CURRENT BORROWINGS

SWEDBANK loan - agreement No 14-009243	77 379	148 807
SWEDBANK loan - agreement No 15-025534	31 859	95 576
Total non-current borrowings	109 238	244 383

CURRENT BORROWINGS

SWEDBANK loan - agreement No 14-009243	71 427	71 427
SWEDBANK loan - agreement No 15-025534	63 718	63 718
Total current borrowings	135 145	135 145

Total bank borrowings	244 383	379 528
------------------------------	----------------	----------------

BORROWINGS SPLIT BY MATURITY

	31/12/2018 EUR	31/12/2017 EUR
Less than 1 year	135 145	135 145
Over 1 year	109 238	244 383
Total borrowings	244 383	379 528

BORROWINGS SPLIT BY CURRENCY

EUR	244 383	379 528
Total borrowings	244 383	379 528

MOVEMENT IN BORROWINGS

Borrowings at the beginning of the reporting period	379 528	514 673
Proceeds from borrowings	-	-
Repayment of borrowings	-135 145	-135 145
Borrowings at the end of the reporting period	244 383	379 528

BORROWINGS INTEREST RATES

As of 31 December 2018, the effective interest rate on the non-current borrowing No 14-009243 was 3 month EURIBOR + 3.3%; on the non-current borrowing No 15-025534 - 3 month EURIBOR + 3.5%.

BORROWINGS MATURITY DATES

The maturity date of the non-current borrowing No 14-009243 is 22 January 2021, the maturity date of the non-current borrowing No 15-025534 is 30 June 2020.

PLEDGES

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

BANK LOAN COVENANTS

During the reporting period and as of 31 December 2018, the Company had complied with all loan covenants of the borrowing agreements.

(23) OTHER NON-CURRENT LIABILITIES

	31/12/2018 EUR	31/12/2017 EUR
Lease liabilities	140 680	182 042
Total other non-current liabilities	140 680	182 042

(24) TAXES AND SOCIAL INSURANCE CONTRIBUTIONS

	31/12/2018 EUR	31/12/2017 EUR
Corporate income tax	-	49 176
Social insurance contributions	56 947	46 972
Personal income tax	27 704	25 894
Value added tax	18 692	-
Risk duty	48	44
Total	103 391	122 086

(25) OTHER CURRENT LIABILITIES

	31/12/2018 EUR	31/12/2017 EUR
Salaries	105 233	83 595
Lease liabilities	57 645	55 360
Balance of gift cards	13 626	13 858
Other liabilities	3 777	8 440
Total other current liabilities	180 281	161 253

(26) TRANSACTIONS WITH RELATED PARTIES

Sales of goods and services	31/12/2018 EUR	31/12/2017 EUR
MC PROPERTIES SIA	960	960
Wolf Candles SIA	-	-
Total	960	960

Purchases of goods and services	31/12/2018 EUR	31/12/2017 EUR
MC PROPERTIES SIA	223 916	223 916
Wolf Candles SIA	2 389	24 778
Total	226 305	248 694

(27) NUMBER OF EMPLOYEES IN THE GROUP

	31/12/2018 EUR	31/12/2017 EUR
Average number of employees per reporting period, including:	123	99
Members of the Board in the Parent Company	3	3
Members of the Council in the Parent Company	5	4

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

	31/12/2018 EUR	31/12/2017 EUR
Board members remuneration for the work at the Board	2 132	1 838
Council members remuneration for the work at the Council	3 643	1 643
Total	5 775	3 481

(29) 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. Agreement is maturing 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 pledge for the total amount of EUR 1 138 461.

(30) RECEIVED ERAF FINANCING

In the previous years, the Parent company received the European Union co-financing in the project Entrepreneurship and innovation, sub-program - High value-added investments.

Under the terms of the aid agreement, the Parent company has no right to lease, pledge, sell or otherwise encumber equipment and property created through state aid co-financing until 2020.

In 2018 the Group participated and received funding from the European Union support programs.

(31) FINANCIAL RISK MANAGEMENT

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

INTEREST RATE RISK

The Group has non-current borrowings with variable interest rate from credit institutions. Therefore, it is exposed to any changes in interest rates.

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 foreign 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.

(32) POST BALANCE SHEET EVENTS

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 or disclosure in the financial statements or notes thereto.



MÁDARA
organic skincare

INFINITY DROPS
IMMUNO-SERUM



WWW.MADARACOSMETICS.COM