



JOINT STOCK MADARA COSMETICS

**2018 SEPARATED AND CONSOLIDATED ANNUAL REPORT
PREPARED IN ACCORDANCE WITH LATVIAN STATUTORY
REQUIREMENTS, AND INDEPENDENT AUDITORS' REPORT***

** This version of separated and consolidated financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of separated and consolidated financial statements takes precedence over this translation.*



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INFORMATION ABOUT THE GROUP

Name of the Parent Company	Madara Cosmetics
Legal status of the Parent Company	Joint stock company
Registration number of the Parent Company	No 40003844254
Registration place and date	Riga, 28 July 2006
Registered address of Parent Company	131 Zeltinu Street, Marupe, LV-2167, Latvia
Shareholders (above 5 %)	Uldis Iltners – owns 24,08 % of shares Lote Tisenkopfa Iltnere - owns 23,92 % of shares Oy Transmeri Group Ab - owns 23,09 % of shares Zane Tamane - owns 9,64 % of shares Liene Drāzniece – owns 6,83 % of shares
Type of operations and NACE code	Manufacture of perfumes and toilet preparations 20.42 Wholesale of perfume and cosmetics 46.45 Retail sale of cosmetic and toilet articles in specialized stores 47.75
Board of the Parent Company	Lote Tisenkopfa - Iltnere – Chairman of the Board Uldis Iltners –Member of the Board Paula Tisenkopfa – Member of the Board
Council of the Parent Company	Zane Tamane - Chairman of the Council Anna Ramata Stunda – Deputy of the Chairman of the Council, Member of the Council till 21.05.2019 Anna Andersone - Member of the Council Anu Pauliina Koskinen - Member of the Council from 22.05.2018 Liene Drāzniece - Deputy of the Chairman of the Council till 21.05.2018 Solvita Kurtiša - Member of the Council till 15.01.2019
Reporting year	from 1.1.2018 to 12.31.2018
Previous reporting year	from 1.1.2017 to 12.31.2017
Subsidiaries	Madara Retail SIA, reg. No 40103212103, owns 100% Cosmetics Nord SIA, reg. No 40103277805, owns 100% Madara Cosmetics GmbH, reg. No HRB 177689, owns 100%
Auditor and its address	Deloitte Audits Latvia SIA Reg. No 40003606960 License No 43 4a Gredu Street, Riga, LVL-1019, Latvia
Certified Auditor	Anastasija Gromova-Cvetkova LR Certified Auditor Certificate No 209

STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

The separated and consolidated financial statements are prepared in accordance with the accounting records and source documents and present fairly the financial position of Parent Company and the Group as of 31 December 2018 and the results of its operations and cash flows for the year 2018 ended.

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

Lote Tisenkopfa - Iltnere
Chairman of the Board

Paula Tisenkopfa
Member of the Board

Uldis Iltners
Member of the Board

MANAGEMENT REPORT

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

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

The Groups' Parent Company operates in a leased office and production plant at 131 Zeltinu Street in Marupe, which is one of the largest and most advanced cosmetic plants in the Baltic and Northern European region. MADARA Retail SIA operates three MÁDARA brand stores in Riga, Galerija Centrs, Spice and Alfa shopping malls. In April 2019, the fourth MÁDARA brand store has opened in Riga, in the Akropole shopping mall.

The core business of Cosmetics NORD SIA is rendering of contract manufacturing services using the production infrastructure and capacity of MADARA Cosmetics AS. 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.

The reporting 2018 year for MADARA Cosmetics AS has been dynamic, the Group has continued its rapid growth in major sales channels. The reporting year has been important with the introduction of new, innovative products on the market. It has been a significant contribution to the growth and reputation of the Group, which has reaffirmed itself as one of the most innovative companies in the industry in Europe. In 2018, several large-scale development projects were launched. One of the most significant projects of the last 5 years is the development of a natural certified makeup line. The Group has also continued active work and invested in the brand recognition in foreign markets, creating positive conditions for future growth.

In 2018, the Group has successfully worked on the sales channels developed in previous years, reaching a 29% increase in turnover compared to 2017. The turnover of the Group has increased along with increase of profit to 1,52 million EUR after taxes, which is an increase of 21.7% compared to previous year.

In 2018, the Group continued to improve and automate the production process at the plant in Marupe, 131 Zeltinu Street, resulting in the gross profit margin increase from 62,9% in 2017 to 63,5% in 2018. During 2018 the total investments have been made in the amount of 321 000 EUR in order to improve the production process. Improvement of the production process will be continued further in the next years.

The production capacity of the Parent Company is sufficient to sustain growth at its current pace. The 2018 year is important for the Group with the successful launch of new products in the trade markets. The main achievement is the introduction of a mineral-based sunscreen range, which has been one of the most successful new product launches in recent years. The sun care range has been developed further, and three new products of this category have been launched in the market in 2019: SUN20 Weightless Sun Milk SPF20, SUN15 Beach BB Shimmering Sunscreen SPF15 and FAKE IT Natural Look Self Tan Milk. Sun protection products will be also introduced in the MOSSA brand.

In the reporting year, work on product research and development has been successful. Work on the development of functional hair care products has been successfully completed. These products will complement the existing hair care range of the MÁDARA brand, offering specific solutions for hair growth, volume, texture and resistance, as well as for reducing scalp irritation and preventing dandruff. Three new hair care products have been launched in the first quarter of 2019.

In 2018, special emphasis was put on the development of e-commerce system and implementation of IT projects with the aim of automating various business processes. The existing e-commerce system has gained a number of significant improvements and tools to enhance its performance. Regarding IT projects, the introduction of a business intelligence system will help to speed up data processing and analytics. In total, EUR 280 000 were invested in the development of e-commerce system and IT projects during the reporting period.

MANAGEMENT REPORT (continued)

In the following years, the growth of the Group will be based mainly on the development in foreign markets – the activities will be strengthened in the existing export markets and will be expanded in several new markets. In order to achieve this goal, the Group company's organization has been improved and 25 new job positions have been established in 2018. Group's organization improvement will continue in the upcoming years.

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

The financial risk management policy adopted by the Group is disclosed in Note 33 to these financial statements. Since the reporting year-end, no material changes have taken place which would not be reflected in these financial statements and would be significant to reassess the Group's assets and liabilities, its financial position and the financial result of the reporting year.

According to the Parent Company's management's recommendation, the part of the profit 2018 year in the amount of 425 000 EUR shall be distributed into dividends, residual amount shall be reinvested for the Group development.



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 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Revenue	2	9,529,315	7,401,932	9,094,835	7,050,490
Cost of goods sold	3	(3,478,157)	(2,749,547)	(3,474,554)	(2,805,746)
Gross profit		6,051,158	4,652,385	5,620,281	4,244,744
Selling expenses	4	(3,554,105)	(2,323,617)	(3,248,447)	(2,083,826)
Administration expenses	5	(1,124,514)	(1,078,380)	(977,320)	(923,474)
Other operating income	6	174,479	185,816	178,732	187,556
Other operating expenses	7	(73,038)	(84,563)	(73,032)	(84,518)
Interest and similar income	8	64,776	4,479	64,776	4,479
Interest and similar expenses	9	(22,002)	(27,438)	(21,996)	(27,429)
Profit before taxes		1,516,754	1,328,682	1,542,994	1,317,532
Corporate income tax for the reporting year	10	(175)	(156,090)	(175)	(152,663)
Profit after corporate income tax calculation		1,516,579	1,172,592	1,542,819	1,164,869
Changes in deferred tax liabilities	10	-	73,505	-	73,505
Profit for the year		1,516,579	1,246,097	1,542,819	1,238,374

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

BALANCE SHEET

Assets	Note	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Non-current assets					
Intangible assets					
Concession, licenses, patents, trademarks and software		380,227	133,361	380,227	133,361
Advance payments for intangible assets		2,325	7,899	2,325	7,899
Total intangible assets	11	382,552	141,260	382,552	141,260
Property, plant and equipment					
Land		213,722	133,237	213,722	133,237
Leasehold improvements		448,535	476,443	417,365	470,395
Technological equipment and machinery		860,730	751,348	860,730	751,348
Other fixed assets and equipment		288,209	268,060	285,103	265,197
Construction in progress		243,178	14,874	234,246	14,874
Advance payments for property, plant and equipment		1,434	14,065	-	14,065
Total property, plant and equipmen	12	2,055,808	1,658,027	2,011,166	1,649,116
Non-current financial investments					
Investments in subsidiaries	13	-	-	18,156	18,156
Other non-current receivables	14	42,491	40,000	42,491	40,000
Other securities and investments	15	826	826	826	826
Total non-current financial investments		43,317	40,826	61,473	58,982
Total non-current assets		2,481,677	1,840,113	2,455,191	1,849,358
Current assets					
Inventories					
Raw materials, materials and consumables	16	1,039,634	859,164	1,036,988	855,643
Finished goods and goods for sale	17	875,982	674,319	844,332	651,560
Advance payments for inventories		174,519	96,392	174,519	96,392
Total inventories		2,090,135	1,629,875	2,055,839	1,603,595
Receivables					
Trade receivables	18	986,539	923,709	868,484	756,033
Trade receivables from related parties	19	-	-	307,009	180,453
Other receivables	20	107,176	85,823	76,252	57,691
Deferred expenses		6,034	34,210	5,770	18,293
Accrued revenue		48,037	18,293	42,242	29,645
Total receivables		1,147,786	1,062,035	1,299,757	1,042,115
Current financial investments					
Other securities	21	700,000	500,000	700,000	500,000
Total current financial investments		700,000	500,000	700,000	500,000
Cash	22	3,425,756	4,086,345	3,350,914	4,050,826
Total current assets		7,363,677	7,278,255	7,406,510	7,196,536
Total assets		9,845,354	9,118,368	9,861,701	9,045,894

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

BALANCE SHEET

Equity and liabilities	Note	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Equity					
Share capital	23	374,524	374,524	374,524	374,524
Share premium		4,023,454	4,023,454	4,023,454	4,023,454
Retained earnings:					
a) previous years` retained earnings		2,517,550	1,608,525	2,551,920	1,650,618
b) profit for the year		1,516,579	1,246,097	1,542,819	1,238,374
Total equity		8,432,107	7,252,600	8,492,717	7,286,970
Liabilities					
Non-current liabilities					
Bank borrowings	24	109,238	244,383	109,238	244,383
Other liabilities	25	140,680	182,042	140,680	182,042
Deferred revenue		56,287	145,213	56,287	145,213
Total non-current liabilities		306,205	571,638	306,205	571,638
Current liabilities					
Bank borrowings	24	135,145	135,145	135,145	135,145
Advances from customers		23,977	77,164	23,725	25,112
Trade payables		357,641	542,648	351,433	531,488
Taxes and mandatory state social insurance contributions	26	103,496	122,086	93,055	111,644
Other liabilities	27	182,985	161,253	155,117	129,463
Deferred revenue		88,926	88,926	88,926	88,926
Accrued liabilities	28	214,872	166,908	215,378	165,508
Total current liabilities		1,107,042	1,294,130	1,062,779	1,187,286
Total liabilities		1,413,247	1,865,768	1,368,984	1,758,924
Total equity and liabilities		9,845,354	9,118,368	9,861,701	9,045,894

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

STATEMENT OF CASH FLOWS

	Note	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Cash flow of operating activities					
Profit before tax		1,516,741	1,328,682	1,542,994	1,317,532
Adjustments for					
Depreciation of property, plant and equipment	12	455,483	411,517	444,222	394,913
Amortization of intangible assets	11	65,437	4,073	65,437	4,073
Income from ERAF fund co-financing	6	(168,629)	(180,922)	(168,629)	(180,922)
Interest income and similar income	8	(64,776)	(4,479)	(64,776)	(4,479)
Interest expense and similar expenses	9	22,002	21,847	21,996	21,838
Profit before adjustments for current assets and current liabilities		1,826,2658	1,580,718	1,841,244	1,552,955
Adjustments for					
Increase in receivables		(367,050)	(82,470)	(283,990)	(43,738)
Increase in inventories		(382,084)	(321,277)	(374,117)	(318,203)
Increase/ (decrease) in payables and other payables		114,007	461,132	(78,326)	430,637
Gross cash flow of operating activities		1,191,131	1,638,103	1,104,811	1,621,651
Interest paid	9	(22,002)	(21,847)	(21,996)	(21,838)
Corporate income tax paid		(100,709)	(159,906)	(100,709)	(153,347)
Net cash flow of operating activities		1,068,420	1,456,350	982,106	1,446,466
Cash flow from Investment activities					
Other investments	21	(200,000)	(500,000)	(200,000)	(500,000)
Payments for property, plant and equipment and intangible assets		(1,139,942)	(443,896)	(1,092,951)	(443,254)
Proceeds from loan repayment		-	2,513	-	2,513
Issued loans		(2,491)	-	(2,491)	-
Received interest		64,776	4,479	64,776	4,479
Net cash flows from investment activities		(1,277,657)	(936,904)	(1,230,666)	(936,262)
Cash flow from financing activities					
Proceeds from issue of equity shares		-	3,316,770	-	3,316,770
Proceeds from ERAF funds co-financing		79,703	91,997	79,703	91,996
Repayment of finance leases		(58,838)	(86,361)	(58,838)	(86,361)
Dividends paid		(337,072)	(200,000)	(337,072)	(200,000)
Repaid loan	24	(135,145)	(135,145)	(135,145)	(135,145)
Net cash flows from financing activities		(451,352)	2,987,261	(451,352)	2,987,260
Net (decrease)/ increase in cash and cash equivalents		(660,589)	3,506,707	(699,912)	3,497,464
Cash and cash equivalents at the beginning of the reporting year	22	4,086,345	579,638	4,050,826	553,362
Cash and cash equivalents at the end of the financial year	22	3,425,756	4,086,345	3,350,914	4,050,826

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

STATEMENT OF CHANGES IN EQUITY

Group	Share capital EUR	Share premium EUR	Other reserves EUR	Retained earnings EUR	Total equity EUR
Balance as of 31.12.2016	106,652	761,236	-	2,021,845	2,889,733
Distribution of dividends	-	-	-	(200,000)	(200,000)
Increase in share capital	213,320	-	-	(213,320)	-
Issue of shares	54,552	3,262,218	-	-	3,316,770
Profit for the reporting year	-	-	-	1,246,097	1,246,097
Balance as of 31.12.2017	374,524	4,023,454	-	2,854,622	7,252,600
Distribution of dividends	-	-	-	(337,072)	(337,072)
Profit for the reporting year	-	-	-	1,516,579	1,516,579
Balance as of 31.12.2018	374,524	4,023,454	-	4,034,129	8,432,107

Company	Share capital EUR	Share premium EUR	Other reserves EUR	Retained earnings EUR	Total equity EUR
Balance as of 31.12.2016	106,652	761,236	-	2,063,938	2,931,826
Distribution of dividends	-	-	-	(200,000)	(200,000)
Increase in share capital	213,320	-	-	(213,320)	-
Issue of shares	54,552	3,262,218	-	-	3,316,770
Profit for the reporting year	-	-	-	1,238,374	1,238,374
Balance as of 31.12.2017	374,524	4,023,454	-	2,888,992	7,286,970
Distribution of dividends	-	-	-	(337,072)	(337,072)
Profit for the reporting year	-	-	-	1,542,819	1,542,819
Balance as of 31.12.2018	374,524	4,023,454	-	4,094,739	8,492,717

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

NOTES TO THE FINANCIAL STATEMENTS

(1) STATEMENT OF ACCOUNTING POLICIES

Basis of preparation

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

Principal accounting policies adopted

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

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

Consolidation principal accounting policies

Subsidiaries, in which Group have a directly or indirect control over operating activities, are consolidated. Control is obtained if the Group has an ability to influence the financial and management matters in a subsidiary, thereby benefiting from it. The control is obtained if the Group is entitled to influence the financial and operating policies applied in subsidiary, as well as to benefit from its transactions. The consolidation of subsidiaries is based on a cost or acquisition method. The subsidiaries of the Group are consolidated from the moment when the Group has taken over control and the consolidation is discontinued with the sale 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 1.1.2018 to 31.12.2018.

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.

	31.12.2018	31.12.2017
USD	1.1450	1.1993
SEK	10.2548	9.8430
GBP	0.8945	0.8872

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.

Related parties

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

Investments

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

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

Intangible assets:

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

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

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

Intangible assets and property, plant and equipment

In the balance sheet intangible assets and property, plant and equipment are recognized at their cost of acquisition less depreciation and amortization charged. The Group capitalizes items of property, plant and equipment with initial cost exceeding 1000 EUR (till 30.09.2018 – 600 EUR). Acquired fixed assets below 1000 EUR are recognized in low value inventory account.

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

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

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

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

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

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

Valuation of inventories

Inventory cost price is determined using the average weighted cost.

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

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

Receivables

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

Cash and cash equivalents

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

Deferred expenses

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

Financial assets

- *Non-current loans and claims*

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

- *Other non-current financial investments*

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity dates that the Group has ability to hold to maturity. Loans are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition all loans are stated at amortized cost, using the effective interest rate method. Held-for-sale financial assets are financial assets which are not issued loans, invoices and held-to-maturity investments. These assets can be sold in order to increase liquidity or interest rates and capital value in case of change. Held-for-sale financial assets are recognized at fair value and changes in the carrying amount are recognized in the equity as revaluation reserve. 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 at amortized cost are initially recognized at fair value plus transaction costs directly attributable to the acquisition of the financial asset and subsequently measured at amortized cost. Fair value usually corresponds to the amount paid for the asset, including fees and commissions. Amortized cost is the amount by which a financial asset is measured at initial recognition less principal repayments, plus or less the cumulative amortization method, using the effective interest method for the difference between that original amount and the maturity amount, and adjusted for any allowance for impairment.

Accrual for unused employee vacations

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

Borrowings

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

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

Finance lease liabilities

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

Leases

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

Operating lease

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

Provisions

Provisions are recognized when the Company and Group has a liability (legal or reasonable) due to a past event and it is probable that the outflow of resources embodying economic benefits from the Company and Group will be required to settle the obligation and the amount of the liability can be measured reliably.

Trade payables

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

Revenue recognition

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

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

Dividend income is recognized when the shareholder's right to receive the payment is established.

Interest income is recognized on a time proportion basis.

Corporate income tax

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

On July 28, 2017, a new Corporate Income Tax Law was adopted, which provides that as of January 1, 2018, corporate profits will be taxed after 2017 if it is distributed. The new Corporate Income Tax Law no longer contains provisions that create temporary differences between the carrying amounts of assets and liabilities in the financial accounts and their tax base. Other provisions of the Law provide that taxpayers will be able to use the provisions established for the reduction of taxable profit until 31 December 2017, for which the taxable income has been increased in the respective taxation periods, for the amount of their reduction. Such amounts do not create deferred tax assets as at 31 December 2017 and thereafter, as in the case of different tax rates for distributed profits and retained earnings, the deferred tax is calculated at the rate applicable to retained earnings - 0%. As a result of aforementioned circumstances, there is no longer any reason for the deferred tax asset or liability as at 31 December 2017, and the Company's deferred tax liability as at 31 December 2017 was reduced to zero, including a decrease in these liabilities in the 2017 profit and loss statement.

Starting with tax year 2018, corporate income tax will be calculated on distributed profits (20/80 of the net amount payable to the members). Corporate tax on distributed profits will be recognized when the Company's shareholders make a decision to distribute the profit.

Fair value

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

Use of estimates

In preparing the financial statements, the management of the Company and Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The management has assessed the profit and loss and believes that the financial statements give a true and fair view of the financial position, based on all the information available.

-Allowance for doubtful and bad trade receivables

The Company's management evaluates the carrying amounts of trade receivables and assesses their recoverability, making an allowance for doubtful and bad trade receivables, if necessary. The Company's management has evaluated the trade receivables and considers that it is not necessary to make an additional significant allowance as of 31 December 2018.

-Net realisable value of inventories

KThe 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 2018.

(2) NET TURNOVER

Turnover is the revenue generated during the year from the main operating activities – the wholesale of goods

Turnover across geographical markets:	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Revenue from the sale of goods in European Union	5,991,218	4,482,297	5,542,495	3,979,099
Revenue from the sale of goods in Latvia	2,702,891	2,021,218	2,812,599	2,238,997
Revenue from the sale of goods in other markets	741,522	848,514	694,310	827,489
Revenue from the rendering services	93,407	43,491	-	-
Other revenue from operating activities	277	6,412	45,431	4,905
Total	9,529,315	7,401,932	9,094,835	7,050,490

-Useful lives of property, plant and equipment

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

Government and EU institutions grants

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

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

Events after the reporting date

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

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

(3) COST OF GOODS SOLD

	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Raw materials consumed	1,631,384	1,322,299	1,627,781	1,378,498
Remuneration for work	713,236	549,435	713,236	549,435
Property, plant and equipment depreciation (see Note 12)	307,177	277,571	307,177	277,571
Mandatory state social insurance contributions	171,943	129,589	171,943	129,589
Premises rent and maintenance	149,123	149,123	149,123	149,123
Current assets write-off	140,493	69,267	140,493	69,267
Production service costs	96,874	54,084	96,874	54,084
New products research and development costs	80,440	42,704	80,440	42,704
Leasehold improvements write-off (see Note 12)	64,487	62,809	64,487	62,809
Resource costs	53,212	45,306	53,212	45,306
ECOCERT quality certificate maintenance costs	27,101	21,809	27,101	21,809
Other production and production maintenance related costs	42,687	25,551	42,687	25,551
Total	3,478,157	2,749,547	3,474,554	2,805,746

(4) SELLING EXPENSES

	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Advertising and marketing costs	927,626	537,098	903,355	524,994
Remuneration for work	859,726	586,999	685,426	437,228
Production costs of samples	508,035	274,581	508,035	274,581
Transport costs	425,054	288,708	407,375	267,779
Mandatory state social insurance contributions	207,416	95,801	165,422	60,519
Selling bonus costs	147,174	87,342	147,174	87,342
Business trips and exhibitions costs	146,195	82,306	146,195	82,306
Office maintenance costs and premises rent	106,270	78,819	-	-
Intermedium services costs	59,775	53,003	135,975	131,743
Depreciation and amortization (see Note 11 and 12)	35,466	48,127	25,579	32,899
Representation costs	23,483	15,807	23,483	15,807
Internet shop WEB page maintenance costs and other IT costs	17,715	27,381	17,715	27,381
Packaging materials costs	4,530	44,738	4,530	44,738
Royalties	2,852	13,536	2,852	13,536
Product registration fees in foreign markets	-	23,021	-	23,021
Other sales expenses	82,788	66,350	75,331	59,952
Total	3,554,105	2,323,617	3,248,447	2,083,826

(5) ADMINISTRATION EXPENSES

	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Remuneration for work	421,787	322,862	325,479	227,174
Office costs	111,185	66,483	107,893	64,594
Mandatory state social insurance contributions	100,516	117,676	78,561	96,233
Depreciation and amortization <i>(see Note 11 and 12)</i>	90,200	25,660	90,200	25,706
Premises rent and maintenance	71,712	71,712	71,712	71,712
Cash outflow related costs	66,851	45,812	58,628	38,330
Allowance for doubtful receivables <i>(see Note 18)</i>	57,092	6,136	57,092	6,136
Legal and other professional service costs*	31,024	16,448	31,024	16,448
Communication costs	20,832	24,086	19,299	21,660
Cost of personnel team-building events	17,979	-	17,979	-
Audit costs	15,680	17,805	15,680	17,805
Car maintenance, fuel and repair costs	15,143	8,949	15,143	8,949
Employees health insurance	9,837	6,468	9,837	6,468
Accounting and management system's software maintenance costs	6,985	6,402	6,985	6,402
The cost of organizing the initial public offering of shares	-	281,357	-	281,357
Other management and administration costs	87,691	60,524	71,808	34,500
Total	1,124,514	1,078,380	977,320	923,474

*Except for the legal services costs related to the initial public offering of shares.

(6) OTHER OPERATING INCOME

	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Revenue from the ERAF project No L-APV-14-0111	88,926	88,926	88,926	88,926
Revenue from the ERAF project No 1.2.1.1/16/A/006	61,822	77,266	61,822	77,266
Revenue from the ERAF project No SKV-L-2017-215	17,881	14,730	17,881	14,730
Other revenues	5,850	4,894	10,103	6,634
Total	174,479	185,816	178,732	187,556

(7) OTHER OPERATING EXPENSES

	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Purchased goods and services for resale	21,154	16,287	21,154	16,287
Donations	20,000	29,000	20,000	29,000
Nature protection costs	10,992	6,443	10,992	6,443
Labor protection costs	3,786	3,689	3,786	3,689
Other expenses	17,106	29,144	17,100	29,099
Total	73,038	84,563	73,032	84,518

(8) INTEREST AND SIMILAR INCOME

	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Interest on short term financial investments	54,555	-	54,555	-
Other interest income	10,221	4,479	10,221	4,479
Total	64,776	4,479	64,776	4,479

(9) INTEREST AND SIMILAR EXPENSES

	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Interest on borrowings	10,886	15,537	10,886	15,537
Interest on obligations under finance leases	5,830	4,513	5,830	4,513
Currency exchange rate fluctuations	3,217	5,591	3,217	5,591
Factoring fees	1,805	1,582	1,805	1,582
Penalties paid	264	215	258	206
Total	22,002	27,438	21,996	27,429

(10) CORPORATE INCOME TAX FOR THE REPORTING YEAR

	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Current corporate income tax charge	(175)	(156,090)	(175)	(152,663)
Deferred tax release	-	73,505	-	73,505
Total	(175)	(82,585)	(175)	(79,158)

(11) INTANGIBLE ASSETS

Group	Concessions, patents, licenses, trademarks and software EUR	Advance payments for intangible assets EUR	Total intangible assets EUR
Cost as of 31.12.2017	189,667	7,899	197,566
Additions	-	284,522	284,522
Disposals	(15,904)	-	(15,904)
Transferred	290,096	(290,096)	-
Cost as of 31.12.2018	463,859	2,325	466,184
Accumulated amortization as of 31.12.2017	56,306	-	56,306
Amortization charged	43,221	-	43,221
Disposals	(15,895)	-	(15,895)
Accumulated amortization as of 31.12.2018	83,632	-	83,632
Net carrying amounts as of 31.12.2017	133,361	7,899	141,260
Net carrying amounts as of 31.12.2018	380,227	2,325	382,552

(11) INTANGIBLE ASSETS *(continued)*

Company	Concessions, patents, licenses, trademarks and software EUR	Advance payments for intangible assets EUR	Total intangible assets EUR
Cost as of 31.12.2017	189,382	7,899	197,281
Additions	-	284,522	284,522
Disposals	(15,904)	-	(15,904)
Transferred	290,096	(290,096)	-
Cost as of 31.12.2018	463,574	2,325	465,899
Accumulated depreciation as of 31.12.2017	56,021	-	56,021
Depreciation charged	43,221	-	43,221
Disposals	(15,895)	-	(15,895)
Accumulated depreciation as of 31.12.2018	83,347	-	83,347
Net carrying amounts as of 31.12.2017	133,361	7,899	141,260
Net carrying amounts as of 31.12.2018	380,227	2,325	382,552

(12) PROPERTY, PLANT AND EQUIPMENT

Group	Land EUR	Leasehold improve-ments EUR	Technological equipment and machinery EUR	Other fixed assets and equipment EUR	Construction in progress EUR	Advance payments for property, plant and equipment EUR	Total property, plant and equipment EUR
Cost as of 31.12.2017	133,237	629,467	1,771,957	578,068	14,874	14,065	3,141,668
Additions	-	-	-	-	888,102	488,554	1,376,656
Disposals	-	-	(18,790)	(201,697)	(7,639)	(501,185)	(729,311)
Transferred	80,485	45,651	401,285	131,273	(658,694)	-	-
Cost as of 31.12.2018	213,722	675,118	2,154,452	507,644	236,643	1,434	3,789,013
Accumulated depreciation 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)
Accumulated depreciation as of 31.12.2018	-	226,583	1,293,722	219,435	(6,535)	-	1,733,205
Net carrying amounts as of 31.12.2017	133,237	476,443	751,348	268,060	14,874	14,065	1,658,027
Net carrying amounts as of 31.12.2018	213,722	448,535	860,730	288,209	243,178	1,434	2,055,808

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

Company	Land EUR	Leasehold improvements EUR	Technological equipment and machinery EUR	Other fixed assets and equipment EUR	Construction in progress EUR	Advance payments for property, plant and equipment EUR	Total property, plant and equipment EUR
Cost as of 31.12.2017	133,237	573,589	1,771,957	559,421	14,874	14,065	3,067,143
Additions	-	-	-	-	842,544	487,120	1,329,664
Disposals	-	-	(18,790)	(201,697)	(1,104)	(501,185)	(722,776)
Transferred	80,485	11,457	401,285	128,841	(622,068)	-	-
Cost as of 31.12.2018	213,722	585,046	2,154,452	486,565	234,246	-	3,674,031
Accumulated depreciation as of 31.12.2017	-	103,194	1,020,609	294,224	-	-	1,418,027
Depreciation charged	-	64,487	291,903	87,832	-	-	444,222
Disposals	-	-	(18,790)	(180,594)	-	-	(199,384)
Transferred	-	-	-	-	-	-	-
Accumulated depreciation as of 31.12.2018	-	167,681	1,293,722	201,462	-	-	1,662,865
Net carrying amounts as of 31.12.2017	133,237	470,395	751,348	265,197	14,874	14,065	1,649,116
Net carrying amounts as of 31.12.2018	213,722	417,365	860,730	285,103	234,246	-	2,011,166

(13) INVESTMENTS IN SUBSIDIARIES

	31.12.2018 / EUR	31.12.2017 / EUR
Acquisition value	18,156	18,156
Investments in subsidiaries:	18,156	18,156

Company name	Owned parts, %	Acquisition value	Value of the investment 31.12.2018.
Madara Retail SIA	100	2,828	18,156
Cosmetics Nord SIA	100	2,828	18,156
Madara Cosmetics GmbH	100	12,500	12,500
Total	100	18,156	18,156

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

(13) INVESTMENTS IN SUBSIDIARIES *(continued)*

	31.12.2018 / EUR	31.12.2017 / EUR
Share capital, EUR	22,571	19,986
Profit for the reporting year, EUR	2,585	14,972

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

	31.12.2018 / EUR	31.12.2017 / EUR
Share capital, EUR	(5,256)	12,304
Profit or loss for the reporting year, EUR	(17,560)	3,346

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

	31.12.2018 / EUR	31.12.2017 / EUR
Share capital, EUR	8,211	5,219
Profit or loss for the reporting year, EUR	2,992	(3,493)

(14) OTHER NON-CURRENT RECEIVABLES

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Rent security deposits	40,000	40,000	40,000	40,000
Other receivables	2491	-	2491	-
Total	42,491	40,000	42,491	40,000

(15) OTHER SECURITIES AND INVESTMENTS

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Other investments	826	826	826	826
Total	826	826	826	826

(16) RAW MATERIALS, MATERIALS AND CONSUMABLES

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Raw materials and materials, gross value	1,051,090	863,796	1,048,444	860,275
Allowance for obsolete and slow moving inventories	(11,456)	(4,632)	(11,456)	(4,632)
Total	1,039,634	859,164	1,036,988	855,643

(17) FINISHED GOODS AND GOODS FOR SALE

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Cosmetics products	848,024	655,718	816,374	632,959
Advertising materials	27,958	18,601	27,958	18,601
Total	875,982	674,319	844,332	651,560

(18) TRADE RECEIVABLES

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Trade receivables, gross value	1,043,631	926,372	925,576	758,696
Allowance for doubtful trade receivables <i>(see Note 5)</i>	(57,092)	(2,663)	(57,092)	(2,663)
Total	986,539	923,709	868,484	756,033

	Group 2018 / EUR	Group 2017 / EUR	Company 2018 / EUR	Company 2017 / EUR
Allowance for doubtful trade receivables at the beginning of the reporting year	2,663	11,715	2,663	11,715
Allowance charged <i>(see Note 5)</i>	57,092	6,136	57,092	6,136
Doubtful trade receivables write-off	(2,663)	(15,188)	(2,663)	(15,188)
Allowance for doubtful trade receivables at the end of the reporting year	57,092	2,663	57,092	2,663

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

(19) TRADE RECEIVABLES FROM RELATED PARTIES

	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Cosmetics Nord SIA	145,061	115,827
Madara Retail SIA	161,948	64,626
Total	307,009	180,453

(20) OTHER RECEIVABLES

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
CIT overpayment	53,801	2,984	51,779	-
Rent security deposits for retail premises	19,729	14,282	-	-
Payments in PAY PAL system	8,261	1,092	8,261	1,092
VAT overpayment	4,348	39,288	4,348	39,288
Unpaid collected balances	3,860	5,808	-	-
Advance payments for services	2,760	8,614	2,760	8,614
Payments of vehicles operating lease	2,645	3,591	2,645	3,591
VAT from received advances	1,982	1,268	1,982	1,268
Other receivables	9,790	8,896	4,477	3,838
Total	107,176	85,823	76,252	57,691

(21) OTHER SECURITIES

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Short-term financial securities with a fixed income of 12 (10+2)% per annum	700,000	500,000	700,000	500,000
Total	700,000	500,000	700,000	500,000

(22) CASH

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Cash in bank accounts	3,425,756	4,086,345	3,350,914	4,050,826
Total	3,425,756	4,086,345	3,350,914	4,050,826

(23) SHARE CAPITAL

As of 31 December 2018 and 2017 the registered and fully paid-in share capital of the Group's Parent Company is in amount of 374,524,20 EUR and consists of 3 745 242 shares; nominal value per 1 share is 0,10 EUR.

(24) BANK BORROWINGS

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
SWEDBANK loan - agreement 14-009243	148,806	220,234	148,806	220,234
SWEDBANK loan - agreement 15-025534	95,577	159,294	95,577	159,294
Total bank borrowings	244,383	379,528	244,383	379,528

(24) BANK BORROWINGS (CONTINUED)

Non-current borrowings	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
SWEDBANK loan - agreement 14-009243	77,379	148,807	77,379	148,807
SWEDBANK loan - agreement 15-025534	31,859	95,576	31,859	95,576
Total non-current borrowings	109,238	244,383	109,238	244,383

Current borrowings	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
SWEDBANK loan - agreement 14-009243	71,427	71,427	71,427	71,427
SWEDBANK loan - agreement 15-025534	63,718	63,718	63,718	63,718
Total current borrowings	135,145	135,145	135,145	135,145
Total bank borrowings	244,383	379,528	244,383	379,528

Borrowings split by maturity	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Less than 1 year	135,145	135,145	135,145	135,145
From 2 till 3 years	109,238	244,383	109,238	244,383
Total borrowings	244,383	379,528	244,383	379,528

Borrowings split by currency	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
EUR	244,383	379,528	244,383	379,528
Total borrowings	244,383	379,528	244,383	379,528

Movement in borrowings	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Borrowings at the beginning of the reporting year	379,528	514,674	379,528	514,674
Repayment of borrowings	(135,145)	(135,146)	(135,145)	(135,146)
Borrowings at the end of the reporting year	244,383	379,528	244,383	379,528

Borrowing 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 was 3 month EURIBOR +3,5%.

Borrowing maturity dates

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

Pledges

The Company has pledged a portion of its assets as security for bank borrowings. As of 31 December 2018 and 2017, assets in amount of EUR 1 340 900 had been pledged to secure agreement No 14-009243 and assets in amount of EUR 420 000 had been pledged to secure agreement No 15-025534.

Bank loan covenants

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

(25) OTHER NON-CURRENT LIABILITIES

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Finance lease liabilities	140,680	182,042	140,680	182,042
Total	140,680	182,042	140,680	182,042

(26) TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Mandatory state social insurance contributions	56,972	46,972	49,966	40,615
Personal income tax	27,781	25,894	24,357	22,241
Value added tax (<i>Germany</i>)	18,525	-	18,525	-
Natural resources tax	168	-	168	-
Risk duty	50	44	39	34
Corporate income tax	-	49,176	-	48,754
Total	103,496	122,086	93,055	111,644

(27) OTHER LIABILITIES

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Salaries	105,233	83,595	91,703	70,994
Finance lease liabilities	57,645	55,360	57,645	55,360
Settlements of gift cards	16,063	13,858	2,206	-
Advance payments	1,176	473	1,176	473
Other liabilities	2,868	7,967	2,387	2,636
Total	182,985	161,253	155,117	129,463

(28) ACCRUED LIABILITIES

	Group 31.12.2018 / EUR	Group 31.12.2017 / EUR	Company 31.12.2018 / EUR	Company 31.12.2017 / EUR
Accrual for unused employee vacations	148,196	100,112	148,196	100,112
Accruals for services received	66,676	66,796	67,182	65,396
Total	214,872	166,908	215,378	165,508

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

	Goods sold and services provided	Received goods and services
Madara Retail SIA *	391,145	-
Cosmetics Nord SIA *	619,899	-
MC PROPERTIES SIA	960	220,835
Madara Cosmetics GmbH	-	76,200
Wolf Candles SIA	-	1,223
Total	1,012,004	298,258

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

(30) NUMBER OF EMPLOYEES

	Group 2018	Group 2017	Company 2018	Company 2017
Average number of employees, including:	123	99	101	79
Members of the Board	3	3	3	3
Members of the Council	5	4	5	4

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

	Group 2018	Group 2017	Company 2018	Company 2017
Board members remuneration for the work at the Board	9,332	9,038	2,132	1,838
Council members remuneration for the work at the Council	3,643	1,643	3,643	1,643
Total	12,975	10,681	5,775	3,481

(32) OFF-BALANCE SHEET LIABILITIES AND FUTURE COMMITMENTS

(a) Operating lease agreements

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

(b) Issued guarantees

On 30 June 2015, a mortgage agreement signed between A/S SWEDBANK and Group's Parent Company's lessor MC PROPERTIES SIA on pledged item – real estate on 131 Zeltinu Street, Marupe. Real estate is pledged in favor of A/S SWEDBANK and the Group's Parent Company is guarantor for the MC PROPERTIES SIA obtained borrowings; the amount of the guarantee, in accordance with the terms of the contract, is the amount of the outstanding liabilities. As at 31 December 2018, the outstanding balance of MC PROPERTIES SIA loan to A/S SWEDBANK was EUR 769,230.

(33) RECEIVED ERAF FINANCING

In the previous reporting years, the Parent Company has received co-financing from the European Union fund in the Entrepreneurship and Innovations project - High Value Added Investments. Based on the 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 state co-financing by 2020. In 2018, the Group cooperated and received financing from ERAF support programs (Note 6).

(34) FINANCIAL RISK MANAGEMENT

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

-Interest rate risk

The Parent Company has non-current borrowings with variable interest rate from credit institutions. Therefore it is exposed to any changes in interest rates (Note 24).

-Foreign currency risk

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

-Credit risk

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

-Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle its obligations in full as they fall due. Liquidity risk arises when the maturities of financial assets and liabilities do not match. The aim of the Group's liquidity risk management is to maintain sufficient amount of cash and its equivalents, and to insure the availability of funding through sufficient amount of committed bank credit line facilities to settle its obligations at a given date. As of 31 December 2018, the Group has no active credit line facility agreement. The Parent Company assesses the repayment term matching of its financial assets and liabilities and the stability of long- term investment sources of funding on a regular basis.

(35) EVENTS AFTER THE REPORTING DATE

As of the last day of the reporting year until the date of signing these financial statements there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

The Annual Report were approved by:

Lote Tisenkopfa - Iltnere
Chairman of the Board

Paula Tisenkopfa
Member of the Board

Uldis Iltners
Member of the Board

The Annual Report were prepared by:

Armands Bērziņš
Chief accountant



INDEPENDENT AUDITORS' REPORT

To the shareholders of MADARA Cosmetics AS

Our Opinion on the Separate and Consolidated Financial Statements

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

- the separate and consolidated balance sheet as at 31 December 2018,
- 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 2018, 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 and Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the separate and consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

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

Key Audit Matters

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

Reporting on Other Information

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

- Information about the Group, as set out on page 3 of the accompanying consolidated Annual Report,
- the Management Report, as set out on page 5 and 6 of the accompanying consolidated Annual Report.

INDEPENDENT AUDITORS’ REPORT (Cont.)

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 AUDITORS’ REPORT (Cont.)

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.

Deloitte Audits Latvia SIA
License No 43



Inguna Staša
Board member

Riga, Latvia
30 April 2019



Anastasija Gromova-Cvetkova
Certified auditor
Certificate No 209



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