

*A/S Madara Cosmetics  
2016 Consolidated Annual Report  
prepared in accordance with  
Latvian statutory requirements,  
and Independent auditors' report\**

\* This version of 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 financial statements takes precedence over this translation.

Riga, 2017

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**GENERAL INFORMATION ABOUT THE GROUP**

Name of the Group	Madara Cosmetics	
Parent Company	Madara Cosmetics AS (till 11.01.2017.: Limited liability company)	
Parent Company's registration number	No 40003844254	
Registration place and date	Riga, 28 July 2006	
Parent Company's legal address	Zeltinu Street 131, Marupe, LV-2167	
Shareholders	Liene Drāzniece - 8 % Uldis Iltners - 28 % Zane Tamane - 12 % Lote Tisenkopfa - Iltnerne - 28 % Paula Tisenkopfa - 4 % ALPS Investments, A/S, Reg No 40103684497 - 20 %	
Type of operation	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 - Iltnerne - Chairman of the Board Uldis Iltners - Member of the Board Solvita Kurtiša - Member of the Board	
Council of the Parent Company	Paula Tisenkopfa - Chairman of the Council Liene Drāzniece - Deputy Chairman of the Council Zane Tamane - Member of the Council The Council begins its work on 11 January 2017	
Reporting year	1/1/2016 till 12/31/2016	
Previous reporting year	1/1/2015 till 12/31/2015	
Subsidiaries	Madara Retail SIA, reg. No 40103212103 - 100% Cosmetics Nord SIA, reg. No 40103277805 - 100% Madara Cosmetics GmbH, reg No HRB 177689 - 100%	
Independent Auditors:	Deloitte Audits Latvia SIA Reg. No 40003606960 Licence No 43 4a Gredu Street, Riga, LV-1019, Latvia	
Certified Auditor	Jeļena Mihejenkova Certified Auditor Certificate No 166	

### MANAGEMENT REPORT

The Group, for which this consolidated statement is prepared, consists of parent company MADARA Cosmetics AS and subsidiaries MADARA Retail SIA, Cosmetics NORD Ltd. and Madara Cosmetics GmbH (Germany).

The main types of activities of the Group is the production of daily care cosmetics with the brand names "MÁDARA" and "MOSSA", providing services of contract manufacturing and sales of cosmetics in Germany.

The Group's parent company operates in leased office and manufacturing premises in 131 Zeltinu Street, Marupe, which is one of the most modern and the largest in terms of capacity cosmetic plants in the Baltic and Northern Europe.

MADARA Retail SIA runs three MADARA brand stores in Riga shopping centers - Galerija centrs, Spice and Alfa.

The main activity of Cosmetics NORD SIA is the provision of contract manufacturing services using the production infrastructure and capacity of MADARA Cosmetics AS. Providing contractual manufacturing services is part of a growing business for the Group and the growth is expected in the future. In the reporting year, the subsidiary provided contractual manufacturing services to ten clients mostly in the Scandinavian countries.

MADARA Cosmetics GmbH provides cosmetics trading services in Germany and organizes the distribution of products manufactured by the parent company on the German market.

The reporting year has been completed successfully and the financial objectives have been achieved. In 2016, the Group has successfully worked on the sales channels developed in previous years, reaching a 39,7% increase in turnover compared to 2015. The profit of the company has increased along with increase of turnover to EUR 803,104 after income tax. The EBITDA result is EUR 1.32 million.

In spite of the rapid growth of the Group, the production capacity available in the factory built in 2015 is sufficient to continue the pace of the Group's current development. In 2016, the improvement of the production process was continued and it will continue also in 2017 with the aim of becoming the technologically most advanced cosmetics manufacturing concern in the Baltic and Northern European region.

During the reporting year, the Group continued to actively invest in research and development of new products. The Parent company is a participant in the competence center SIA "Farmācijas, biomedicīnas un medicīnas tehnoloģiju kompetences centrs", In cooperation with which the Company's research program is implemented. The company invested EUR 42,326 in research and development of new products in 2016. The new face skincare cosmetic line was introduced in the market - Smart Antioxidants. New cosmetic line is based on antioxidant-rich extracts of lichens, mosses, ferns and alchemilla. These plants come from evergreen and always damp northern forests, and without intensive moisturizing and moisture-retaining features also contain valuable antioxidants that helps restore skin cells, maintain skin elasticity and prevent wrinkles formation.

As one of the most successful marketed products in 2016 was SOS moisturizing + shiny hydromassage mask, which has also won international recognition as the year's best natural cosmetic product in Switzerland - Anabelle Prix de Beauté 2017, a luxury and popular cosmetics category prizewinner.

In 2016, the products of the Group have gained many international accolades, the most important of which are: The Natural Health International Beauty Awards 2016, where Micellar water is recognized as the "Best New Product of 2016"; BEAUTY SHORTLIST AWARDS 2016, where TIME MIRACLE eye cream received the award "WINNER - best product for tired eyes" and the entire TIME MIRACLE product line nominated as "HIGHLY RECOMMENDED - BEST AGE-TARGETED SKINCARE BRAND (AGE 40+)"; as well as a long-standing MÁDARA bestseller hand cream has entered the Good Housekeeping Lab. The "BEST BUY" category and Moon Flower toning fluids have received The Green Parent's "WINNER of SILVER 2016" award; while Micellar water has earned WINNER status in the Daily Mail Test for Equivalent Products. The year ended with the recognition of the Swedish magazine Amelia, including the latest product of MÁDARA oil-to-milk scrub in the "best product they tested" category.

MÁDARA brand has also successfully used chances of currently trending beauty boxes or "beauty subscription boxes" in cooperation with GLOSSYBOX in England and developing the "MÁDARA INSIDER Beauty box" project.

The Group's online store [www.madaracosmetics.lv](http://www.madaracosmetics.lv) was further developed during the reporting year.


In the future, the growth of the Group will be based on the expansion on foreign markets - development of foreign markets, which will consolidate and expand operations in the existing export markets and launch operations in several new markets. In 2016, the Group's organization has been improved to achieve this goal and 19 new jobs have been created. The Company's organization improvement will continue in the future.

In the reporting year, co-operation with cosmetic raw materials and packaging suppliers has also been developed, diversifying suppliers and reducing supply risks.


In 2016, the parent company of the Group started reorganizing from a limited liability company to a joint stock company. The reorganization was completed on 11 January 2017. The purpose of the reorganization into joint stock company is to become a publicly listed company. It is planned to start a stock quote at Nasdaq Riga in the second half of 2017. A website [www.madaracosmetics.lv/investors](http://www.madaracosmetics.lv/investors) has been created for information on potential investors.

Since the end of the reporting year no material changes have taken place which would not be reflected in the financial statements and would be significant to assess the Group's assets and liabilities, its financial position and the financial result of the reporting year.

According to the Group management's decision, the part of the profit for 2016 in the amount of EUR 200 000 will be distributed in dividends, residual amount will be allocated to the Group's development.

  
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Lote Tisenkopfa - Iltneris  
Chairman of the Board

  
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Solvita Kurtiša  
Member of the Board

  
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Uldis Iltners  
Member of the Board

6 July 2017

**CONSOLIDATED INCOME STATEMENT**  
 (by turnover method)

	Note	2016 EUR	2015 (unaudited) EUR
Net turnover	2	5,861,571	4,195,775
Cost of goods sold	3	<u>(2,540,235)</u>	<u>(1,817,120)</u>
<b>Gross profit</b>		<b>3,321,336</b>	<b>2,378,655</b>
Selling expenses	4	(1,863,825)	(1,470,007)
Administration expenses	5	(599,819)	(414,481)
Other operating income	6	129,731	41,101
Other operating expenses	7	(52,539)	(21,581)
Interest and similar income	8	2,603	36
Interest and similar expenses	9	<u>(23,279)</u>	<u>(31,306)</u>
<b>Profit before corporate income tax</b>		<b>914,208</b>	<b>482,417</b>
Corporate income tax for the financial year	10	<u>(96,286)</u>	<u>(663)</u>
<b>Profit after corporate income tax calculation</b>		<b>817,922</b>	<b>481,754</b>
Costs of changes in deferred tax liabilities	10	<u>(14,818)</u>	<u>(33,849)</u>
<b>Profit for the financial year</b>		<b><u>803,104</u></b>	<b><u>447,905</u></b>

The accompanying notes on pages 11 to 26 are an integral part of these consolidated financial statements.

**CONSOLIDATED BALANCE SHEET**

Assets	Note	12/31/2016 EUR	12/31/2015 EUR (unaudited)
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Concessions, licences, patents, trade marks and similar rights		11,575	10,978
<b>Total intangible assets</b>	11	<b>11,575</b>	<b>10,978</b>
<b>Property, plant and equipment</b>			
Leasehold improvements		544,821	36,857
Plant and equipment		853,850	1,080,019
Other fixed assets		174,889	113,234
Construction in progress		2,670	553,094
Prepayments for property, plant and equipment		12,305	-
<b>Total property, plant and equipment</b>	12	<b>1,588,535</b>	<b>1,783,204</b>
<b>Non-current financial investments</b>			
Other non-current receivables and other receivables	13	42,513	40,000
Other securities and investments	14	826	256
<b>Total non-current financial investments</b>		<b>43,339</b>	<b>40,256</b>
<b>Total non-current assets</b>		<b>1,643,449</b>	<b>1,834,438</b>
<b>Current assets</b>			
<b>Inventories</b>			
Raw materials	15	755,590	462,129
Finished goods and goods for sale	16	456,582	285,946
Prepayments for inventories		74,072	79,933
<b>Total inventories</b>		<b>1,286,244</b>	<b>828,008</b>
<b>Receivables</b>			
Trade receivables	17	899,368	608,961
Other receivables	18	39,010	236,953
Accrued revenue		28,154	-
Deferred expenses		19,033	8,641
<b>Total receivables</b>		<b>985,565</b>	<b>854,555</b>
<b>Cash</b>	19	<b>579,638</b>	<b>363,790</b>
<b>Total current assets</b>		<b>2,851,447</b>	<b>2,046,353</b>
<b>Total assets</b>		<b>4,494,896</b>	<b>3,880,791</b>

The accompanying notes on pages 11 to 26 are an integral part of these consolidated financial statements.

**CONSOLIDATED BALANCE SHEET**

<b>Equity and liabilities</b>	<b>Note</b>	<b>12/31/2016 EUR</b>	<b>12/31/2015 EUR (unaudited)</b>
<b>Equity</b>			
Share capital	20	106,652	106,652
Share premium		761,236	761,236
Other reserves		-	63
Retained earnings:			
a) prior year retained earnings		1,218,741	890,773
b) profit for the year		803,104	447,905
<b>Total equity</b>		<b>2,889,733</b>	<b>2,206,629</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank borrowings	21	379,529	514,674
Other liabilities	22	53,526	14,862
Deferred revenue		234,139	323,065
Deferred tax liabilities	10	73,505	58,687
<b>Total non-current liabilities</b>		<b>740,699</b>	<b>911,288</b>
<b>Current liabilities</b>			
Bank borrowings	21	135,145	135,145
Advances from customers		26,372	39,034
Trade payables		251,683	277,893
Taxes and social insurance contributions	23	113,609	34,104
Other payables	24	108,322	84,446
Deferred revenue		88,926	88,926
Accrued liabilities		140,407	103,326
<b>Total non-current liabilities</b>		<b>864,464</b>	<b>762,874</b>
<b>Total liabilities</b>		<b>1,605,163</b>	<b>1,674,162</b>
<b>Total equity and liabilities</b>		<b>4,494,896</b>	<b>3,880,791</b>

The accompanying notes on pages 11 to 26 are an integral part of these consolidated financial statements.

**CONSOLIDATED CASH FLOW STATEMENT**  
 (Indirect method)

	Note	2016 EUR	2015 EUR (unaudited)
<b>Cash flow of operating activities</b>			
Profit before taxes		914,208	482,417
<b>Corrections:</b>			
Depreciation of fixed assets	12	383,828	157,758
Amortisation of intangible assets	11	5,329	3,805
Revenue from the recognition of ERAF funds		(90,985)	(32,622)
Investment value write-off		-	35
decrease in provisions		-	(29,988)
Interest and similar income	8	(2,603)	(36)
Interest and similar expenses	9	23,278	31,306
<b>Profit before adjustments for current assets and current liabilities</b>		<b>1,233,055</b>	<b>612,675</b>
<b>Corrections:</b>			
Increase in receivables		(96,923)	(263,172)
Increase in inventories		(464,133)	(38,496)
(Decrease)/increase in payables and other payables		(13,694)	210,452
<b>Gross cash flow of operating activities</b>		<b>658,305</b>	<b>521,459</b>
Interest payments		(23,278)	(31,306)
Income tax payments		(28,190)	(90,378)
<b>Net cash flow of operating activities</b>		<b>606,837</b>	<b>399,775</b>
<b>Investment activities cash flow</b>			
Other investments		(3,083)	-
Acquisition of fixed assets and intangible assets		(114,806)	(1,267,731)
Proceeds of loan repayments		-	36,974
Proceeds of bank guarantee repayment		-	17,999
Received interest		2,603	36
<b>Investment activities cash flow</b>		<b>(115,286)</b>	<b>(1,212,722)</b>
<b>Financing activities cash flow</b>			
Proceeds from ERAF funds		2,059	444,613
Received loans		-	919,605
Repaid financial lease liabilities		(22,617)	(52,462)
Dividends paid		(120,000)	(45,440)
Repaid loan	21	(135,145)	(462,501)
<b>Financing activities cash flow</b>		<b>(275,703)</b>	<b>803,815</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>215,848</b>	<b>(9,132)</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>	19	<b>363,790</b>	<b>372,922</b>
<b>Cash and cash equivalents at the end of the financial year</b>	19	<b>579,638</b>	<b>363,790</b>

The accompanying notes on pages 11 to 26 are an integral part of these consolidated financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Other reserves	Retained earnings	Total equity
	EUR	EUR	EUR	EUR	EUR
<b>Balance as of 31 December 2014 (unaudited)</b>	<b>106,715</b>	<b>761,236</b>	-	<b>890,773</b>	<b>1,758,724</b>
Denomination of the share capital	(63)	-	63	-	-
Profit for the reporting year	-	-	-	447,905	447,905
<b>Balance as of 31 December 2015 (unaudited)</b>	<b>106,652</b>	<b>761,236</b>	<b>63</b>	<b>1,338,678</b>	<b>2,206,629</b>
Distribution of dividends	-	-	-	(120,000)	(120,000)
Profit for the reporting year	-	-	-	803,104	803,104
Denomination of the share capital	-	-	(63)	63	-
<b>Balance as of 31 December 2016</b>	<b>106,652</b>	<b>761,236</b>	-	<b>2,021,845</b>	<b>2,889,733</b>

The accompanying notes on pages 11 to 26 are an integral part of these consolidated financial statements.

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **(1) STATEMENT OF ACCOUNTING POLICIES – GENERAL INFORMATION**

#### **Basis of preparation of the financial statements**

Consolidated financial statements 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 turnover costs method. Balance sheet position "Deferred tax liabilities" is recognized and valued in accordance with International Accounting Standard No. 12 "Income taxes" requirements.

#### **Accounting principles applied**

The consolidated financial statements have been prepared in accordance with the following policies:

- a) Going concern assumption – the 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 financial statements 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 consolidated financial statements contains all items, that have considerable influence in evaluation and economic decision making.
- g) Business transactions are recorded taking into account their economic content and substance, not merely the legal form.

#### **Consolidation principles**

Subsidiaries in which the Group directly or indirectly controls the economic activities of the Company are consolidated. Control is obtained when the Company has the ability to influence the financial and management issues in the subsidiary, thus benefiting from it. Control is achieved if the Company is entitled to manage the company's financial and economic policies, as well as to benefit from its transactions. Acquisition or purchase method is used in consolidation of the Group's subsidiaries. Subsidiaries are consolidated from the date when the Group gains control and excluded from consolidation on the date of sale of subsidiary. Financial statements of subsidiaries are consolidated in the financial statements of the Group by consolidating assets, liabilities and income and expenses. All intercompany transactions, balances between the Group companies and ungained profit or loss from transactions among the Group companies are not included in consolidation. If necessary, the accounting policies of the Group's subsidiaries have been changed to ensure consistency with the accounting and valuation methods used by the Group.

#### **The reporting period of the consolidated financial statements**

The consolidated financial statements cover the period from 1 January to 31 December 2016.

**Translation of foreign currencies**

The accompanying financial statements are presented in the currency of the European Union, the Euro (hereinafter – EUR), which is the Company's functional and presentation currency.

All 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.

	12/31/2016	12/31/2015
USD	1.0541	1.0887
SEK	9.5525	9.1895
GBP	0.8562	0.7339
DKK	7.4344	7.4626

The gain or loss arising from fluctuations in foreign currency exchange rates are recognised in the statement of profit or loss.

**Related parties**

Related parties are shareholders of the Company and Board members, their close family members and companies controlled by these persons or companies in which these persons have significant influence.

**Intangible assets and fixed assets**

Intangible assets and fixed assets are recognized at their cost of acquisition less depreciation and amortisation. Fixed assets are recognized as assets if their cost of acquisition exceeds EUR 600.

Acquired assets under EUR 600 are recognised as low value inventory.

The cost of fixed assets comprises its purchase price, import duties and non-refundable purchase taxes, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Only the rights acquired for consideration are recognized as "Concessions, patents, licences, trademarks and similar rights".

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

*Intangible assets:*

Licences	20-33	%
Other intangible assets	20	%

*Fixed assets:*

Machinery	20	%
Hardware and electronic equipment	33	%
Vehicles	20	%
Other fixed assets	20	%

**Intangible assets and fixed assets (continued)**

The gain or loss arising from the sale of fixed assets are recognized in the statement of profit or loss for the respective period.

Repair and renovation expenses increasing the useful life or the value of the fixed asset are capitalized and depreciated over their useful life. Other repair and maintenance expenses are charged in income statement of the reporting period they are incurred.

Leasehold improvements are capitalized and are included in the asset's carrying amount. Leasehold improvements are amortised over the shorter of the useful life of the improvement and the term of the lease agreement on a straight-line. Research costs are recognized in the income statement of the reporting period they are incurred. The Company's development costs are capitalized when its future recoverability can reasonably be demonstrated. Amortisation is calculated over the period of development cost recovery.

**Impairment of non-current assets**

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

**Valuation of inventories**

The cost of inventories is stated using the weighted average price method.

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of product completion and selling expenses.

Inventories are recognized at net realisation value by decreasing the cost of inventories by the amount of provisions made.

**Receivables**

Receivables are recognized according to the amount of initial invoices, less allowances for doubtful debts. Allowances are made if receipt of the full amount of the debt is doubtful. Debts are written off if their recovery is considered as impossible.

**Cash and cash equivalents**

Cash and cash equivalents includes cash in bank accounts.

### **Financial instruments**

#### *- Non-current loans and claims*

is financial assets which are created by the Company by providing money or rendering services directly to the debtor and which are not intended to be sold immediately or in short time period. Loans are recognised initially at cost value which is calculated by adding loan related issuance costs to the loan fair value. Subsequent to initial recognition all loans are stated at amortised cost, using the actual interest rate method. The amortised value is calculated using loan issuance costs as well as any discounts or bonuses related to the loan. The profit or loss arising from amortisation is recognised in the income statement under interest income and expenses. Appropriate provisions are created if an asset is impaired.

#### *- Other non-current financial investments*

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intent and ability to hold to maturity. Loans are recognised initially at cost value which is calculated by adding loan related issuance costs to the loan fair value. Subsequent to initial recognition all loans are stated at amortised cost, using the actual interest rate method.

Available-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 in case of changes in rates or capital value. Available-for-sale financial assets are recognised at fair value. Changes in the carrying amount of available-for-sale financial assets are recognised in the equity under the revaluation reserve. Provisions are created if there is objective indication on impairment of an asset.

#### *- Current financial investments*

are financial assets held for sale which are acquired or incurred for the primary purpose of making a profit from short-term fluctuations in price or profit margins. Current financial investments are recognised at fair value. Changes in the carrying amount of current financial investments are recognised in the income statement.

### **Finance lease liabilities**

Finance lease assets initially are recognized at their purchase value, recognizing the same amount of liabilities. Depreciation is calculated within all the economically useful life of the assets. The interest element of lease payments is charged to the income statement so that as to produce a constant periodic rate of interest on the remaining balance of the liability.

### **Operating lease**

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

### **Revenue recognition**

Revenue from the sale of goods is recognized as soon as a significant portion of ownership rights and risks of goods are transferred to the customer, and the reward can be measured reliably.

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

Interest income is recognized in the corresponding period of time.

**Corporate income tax**

Corporate income tax includes current and deferred taxes. Corporate income tax is recognized in the income statement.

The tax for the reporting period is calculated in accordance with the requirements of the tax laws of each country.

Deferred corporate income tax is calculated for differences caused by temporary differences, which are caused by differences between the value of assets and liabilities in the financial statements and their value for tax purposes. Deferred tax is calculated by applying the statutory tax rate. The mentioned differences have mainly occurred due to different depreciation rates of fixed assets, which are used in the tax and financial accounting, for individual non-deductible accruals for tax purposes.

**Fair value**

The fair value represents the value, at which an asset may be disposed of or liabilities performed under normal market conditions. If, in the opinion of the management, the fair value of financial assets and liabilities may differ substantially from their accounting value, the fair value is disclosed in notes to financial statements.

**Use of estimates**

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as income and expenses. The management has assessed the income statement and believes that the financial statements give a true and fair view of the financial position of the Group based on all the information currently available.

**Government support**

Government grants are recognized in the Group's balance sheet when there is assurance that the specific Group company will comply with the conditions for the support and the Company has rights to receive Government grant. If Government grant is received for long-term investments, Grants are recognized as deferred income under liabilities in the balance sheet and are depreciated according to the useful lives of long-term investments.