MÁDARA
organic skincare

# AS MADARA COSMETICS

## 2017 Consolidated Annual Report prepared in accordance with Latvian statutory requirements, and Independent auditors' report*

RIGA, 2018

* This version of 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, he original language version of consolidated financial statements takes precedence over this translation.

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# INFORMATION ABOUT THE GROUP

| Name of the Group | Madara Cosmetics |
|---|---|
| Legal status of the Parent Company | Joint stock company<br>(till 10.01.2017: Limited liability 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 % ) | Lote Tisenkopfa Iltnere - owns 23,92 % of shares<br>Uldis Iltners – owns 23,92 % of shares<br>Sustainable Invenstments SIA - owns 17,09 % of shares<br>Zane Tamane - owns 10,25 % of shares<br>Liene Drāzniece - owns 6,83 % of shares<br>Oy Transmeri Group Ab - owns 6,00 % of shares |
| Type of operations and NACE code | Manufacture of perfumes and toilet preparations 20.42<br>Wholesale of perfume and cosmetics 46.45<br>Retail sale of cosmetic and toilet articles in specialized stores 47.75 |
| Board of the Parent Company | Lote Tisenkopfa - Iltnere – Chairman of the Board<br>Uldis Iltners –Member of the Board<br>Solvita Kurtiša – Member of the Board till 23.08.2017<br>Paula Tisenkopfa – Member of the Board from 24.08.2017 |
| Council of the Parent Company | Zane Tamane – Member of the Council from 11.01.2017 to 23.08.2017;<br>Chairman of the Council from 24.08.2017<br>Liene Drāzniece – Deputy Chairman of the Council from 11.01.2017<br>Anna Ramata Stunda – Member of the Council from 24.08.2017<br>Anna Andersone - Member of the Council from 24.08.2017<br>Solvita Kurtiša - Member of the Council from 24.08.2017<br>Paula Tisenkopfa - Member of the Council from 11.01.2017 to<br>23.08.2017<br>The Council of the Parent Company started its work on 11 January 2017 |
| Reporting year | from 1.1.2017 to 12.31.2017 |
| Previous reporting year | from 1.1.2016 to 12.31.2016 |
| Subsidiaries | Madara Retail SIA, reg. No 40103212103 - 100%<br>Cosmetics Nord SIA, reg. No 40103277805 – 100%<br>Madara Cosmetics GmbH, reg. No HRB 177689 – 100% |
| Auditor and its address | Deloitte Audits Latvia SIA<br>Reg. No 40003606960<br>License No 43<br>4a Gredu Street, Riga, LVL-1019,<br>Latvia |
| Certified Auditor | Kitija Ķepīte<br>LR Certified Auditor<br>Certificate No 182 |



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# STATEMENT OF MANAGEMENT RESPONSIBILITIES

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

The consolidated financial statements are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Group as of 31 December 2017 and the results of its operations and cash flows for the year 2017 ended.

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 consolidated financial statements.

The Board of the Parent Company is also responsible for maintaining proper accounting records, for taking reasonable steps to safeguard the assets of the Group, and to prevent and detect fraud and other irregularities.

**Lote Tisenkopfa - Iltnere**
Chairman of the Board

**Paula Tisenkopfa**
Member of the Board

**Uldis Iltners**
Member of the Board

25 April 2018

# MANAGEMENT REPORT

The Group, of which this consolidated report is prepared, consists of MADARA Cosmetics AS (hereinafter – the Parent Company) and its subsidiaries (hereinafter – the Group) MADARA Retail SIA, Cosmetics NORD SIA and Madara Cosmetics GmbH (Germany).

The Groups' main type of operating activities is the production of natural cosmetics and personal care products with the brand names „MÁDARA" and „MOSSA", and providing services of contract manufacturing of cosmetic products and provision of cosmetic marketing services in Germany.

The Groups' Parent Company operates in a leased office and production plant at 131 Zeltinu Street in Marupe, is one of the most advanced and largest in terms of capacity cosmetic plants in the Baltics and Northern European region.
MADARA Retail SIA provides operation of three MÁDARA brand stores in Riga, "Galerija Centrs", "Spice" and "Alfa" shopping malls.

The main business of Cosmetics NORD SIA is the provision 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 year has been completed successfully – it has resulted in a number of significant events and strategically important successes creating positive conditions for the Group's future development. In 2017, we continued to strengthen our position as one of the most innovative certified natural cosmetics manufacturers in Europe, proving that there are great opportunities for innovation and growth in the industry.

As the most significant strategic success in the reporting period, the Parent Company has successfully completed the initial public offering of shares (IPO) and the listing of shares in Nasdaq Riga alternative list First North. After the listing of the Parent Company's shares on the stock exchange the market reaction was positive for less than two months the share price in secondary listing trade increased by 20% from the price of the IPO from 6,25 EUR to 7,50 EUR.

In 2017, the Group has successfully worked on the sales channels developed in previous years, reaching a 26,28% increase in turnover compared 2016. The profit of the Group has increased along with increase of turnover to 1,25 million EUR after income tax, which is an increase of 55.16% compared to 2016. Profit growth has been higher than the increase in turnover and shows an increase in the Group's efficiency.

2017 was the first full year of the operations at the new plant in Marupe, 131 Zeltinu Street, where the production process has become much more effective, resulting in the gross profit margin increase from 56,7% in 2016 to 62,9% in 2017. In 2017, investments have been made to improve the production process in the amount of 148 000 EUR, and the process will be continued further in the next years with the aim of increasing the productivity of production work.

The Group's production capacity is sufficient to sustain growth at its current pace.

During the reporting year, successful work on product research and development continued. The main achievement that needs to be emphasized is the development of a sun protection solution based on mineral filters. The current solution provides sun protection factors SPF15 and SPF30. In the certified natural cosmetics industry, sun protection products are considered as one of the technically most complex solutions.

Products with sun protection factors SPF15 and SPF30 were released on the market in February 2018.

Successful was development of other products, which in the first half of 2018 will allow launching in a total of 10 new MÁDARA brand products.



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# MANAGEMENT REPORT (continued)

At the end of 2017, a new e-commerce platform has been successfully introduced, which offers a significantly wider range of features and allows the integration of a number of new e-commerce and marketing tools and solutions.
In the following years, the growth of the Group mainly will be based 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, already in 2017 the Group company's organization has been improved and 12 new job positions have been established. Group's improvement will continue in the upcoming years.

In the reporting year, co-operation with cosmetics raw material and packaging suppliers has also been developed, diversifying suppliers and reducing the risk of supply.
In 2017, in the Corporate Reputation Awards, the Parent Company got the 2nd place as the company with the best reputation among all companies of Latvia and 1st place in its operating industry. The Corporate Reputation Awards acknowledged Chairman of the Board of AS MADARA Cosmetics Lotte Tisenkopfa-Iltnere as one of the best business leaders in Latvia, and AS MADARA Cosmetics as the company with the highest export potential among companies of Latvia.

The financial risk management policy adopted by the Group is disclosed in Note 31 to the consolidated financial statements.

Since the reporting year-end, no material changes have taken place which would not be reflected in the consolidated 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 2017 year in the amount of 315 000 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

25 April 2018



# CONSOLIDATED STATEMENT OF PROFIT AND LOSS

| | Note | 2017 / EUR | 2016 / EUR |
|---|---|---|---|
| Revenue | 2 | 7,401,932 | 5,861,571 |
| Cost of goods sold | 3 | (2,749,547) | (2,540,235) |
| **Gross profit** | | **4,652,385** | **3,321,336** |
| Selling expenses | 4 | (2,323,617) | (1,863,825) |
| Administration expenses | 5 | (1,078,380) | (599,819) |
| Other operating income | 6 | 185,816 | 129,731 |
| Other operating expenses | 7 | (84,563) | (52,539) |
| Interest and similar income | 8 | 4,479 | 2,603 |
| Interest and similar expenses | 9 | (27,438) | (23,279) |
| **Profit before taxes** | | **1,328,682** | **914,208** |
| Corporate income tax for the reporting year | 10 | (156,090) | (96,286) |
| **Profit after corporate income tax calculation** | | **1,172,592** | **817,922** |
| Changes in deferred tax liabilities | 10 | 73,505 | (14,818) |
| **Profit for the year** | | **1,246,097** | **803,104** |

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

# CONSOLIDATED BALANCE SHEET

| Assets | Note | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|---|
| **Non-current assets** | | | |
| **Intangible assets** | | | |
| Concession, licenses, patents, trademarks and software | | 133,361 | 11,575 |
| Advance payments for intangible assets | | 7,899 | - |
| **Total intangible assets** | 11 | **141,260** | **11,575** |
| **Property, plant and equipment** | | | |
| Land | | 133,237 | - |
| Leasehold improvements | | 476,443 | 544,821 |
| Technological equipment and machinery | | 751,348 | 853,850 |
| Other fixed assets and equipment | | 268,060 | 174,889 |
| Construction in progress | | 14,874 | 2,670 |
| Advance payments for property, plant and equipment | | 14,065 | 12,305 |
| **Total property, plant and equipment** | **12** | **1,658,027** | **1,588,535** |
| **Non-current financial investments** | | | |
| Other receivables | 13 | 40,000 | 42,513 |
| Other securities and investments | 14 | 826 | 826 |
| **Total non-current financial investments** | | **40,826** | **43,339** |
| **Total non-current assets** | | **1,840,113** | **1,643,449** |
| **Current assets** | | | |
| **Inventories** | | | |
| Raw materials, materials and consumables | 15 | 859,164 | 755,590 |
| Finished goods and goods for sale | 16 | 674,319 | 456,582 |
| Advance payments for inventories | | 96,392 | 74,072 |
| **Total inventories** | | **1,629,875** | **1,286,244** |
| **Receivables** | | | |
| Trade receivables | 17 | 923,709 | 899,368 |
| Other receivables | 18 | 85,823 | 39,010 |
| Accrued revenue | | 18,293 | 28,154 |
| Deferred expenses | | 34,210 | 19,033 |
| **Total receivables** | | **1,062,035** | **985,565** |
| **Current financial investments** | | | |
| Other securities | 19 | 500,000 | - |
| **Total current financial investments** | | **500,000** | **-** |
| **Cash** | **20** | **4,086,345** | **579,638** |
| **Total current assets** | | **7,278,255** | **2,851,447** |
| **Total assets** | | **9,118,368** | **4,494,896** |

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



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# CONSOLIDATED BALANCE SHEET

| Equity and liabilities | Note | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|---|
| **Equity** | | | |
| Share capital | 21 | 374,524 | 106,652 |
| Share premium | | 4,023,454 | 761,236 |
| Retained earnings: | | | |
| a) previous years` retained earnings | | 1,608,525 | 1,218,741 |
| b) profit for the year | | 1,246,097 | 803,104 |
| **Total equity** | | **7,252,600** | **2,889,733** |
| Liabilities | | | |
| **Non-current liabilities** | | | |
| Bank borrowings | 22 | 244,383 | 379,529 |
| Other liabilities | 25 | 182,042 | 53,526 |
| Deferred revenue | | 145,213 | 234,139 |
| Deferred tax liabilities | | - | 73,505 |
| **Total non-current liabilities** | | **571,638** | **740,699** |
| **Current liabilities** | | | |
| Bank borrowings | 22 | 135,145 | 135,145 |
| Advances from customers | | 77,164 | 26,372 |
| Trade payables | | 542,648 | 251,683 |
| Taxes and mandatory state social insurance contributions | 24 | 122,086 | 113,609 |
| Other liabilities | 25 | 161,253 | 108,322 |
| Deferred revenue | | 88,926 | 88,926 |
| Accrued liabilities | | 166,908 | 140,407 |
| **Total non-current liabilities** | | **1,294,130** | **864,464** |
| **Total liabilities** | | **1,865,768** | **1,605,163** |
| **Total equity and liabilities** | | **9,118,368** | **4,494,896** |

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | 2017 / EUR | 2016 / EUR |
|---|---|---|---|
| **Cash flow of operating activities** | | | |
| Profit before tax | | 1,328,682 | 914,208 |
| **Adjustments for:** | | | |
| Depreciation of property, plant and equipment | 12 | 411,517 | 383,828 |
| Amortization of intangible assets | 11 | 4,073 | 5,329 |
| Income from ERAF fund co-financing | 6 | (180,922) | (90,985) |
| Interest income and similar income | 8 | (4,479) | (2,603) |
| Interest expense and similar expenses | 9 | 21,847 | 23,278 |
| **Profit before adjustments for current assets and current liabilities** | | **1,580,718** | **1,233,055** |
| **Adjustments for:** | | | |
| Increase in receivables | | (82,470) | (96,923) |
| Increase in inventories | | (321,277) | (464,133) |
| Increase / (decrease) in payables and other payables | | 461,132 | (13,694) |
| **Gross cash flow of operating activities** | | **1,638,103** | **658,305** |
| Interest paid | | (21,847) | (23,278) |
| Corporate income tax paid | | (159,906) | (28,190) |
| **Net cash flow of operating activities** | | **1,456,350** | **606,837** |
| **Cash flow from Investment activities** | | | |
| Other investments | 19 | (500,000) | (3,083) |
| Payments for property, plant and equipment and intangible assets | | (443,896) | (114,806) |
| Proceeds from loan repayment | | 2,513 | - |
| Received interest | | 4,479 | 2,603 |
| **Investment activities cash flow** | | **(936,904)** | **(115,286)** |
| **Cash flow from financing activities** | | | |
| Proceeds from issue of equity shares | | 3,316,770 | - |
| Proceeds from ERAF funds co-financing | | 91,997 | 2,059 |
| Repayment of finance leases | | (86,361) | (22,617) |
| Dividends paid | | (200,000) | (120,000) |
| Repaid loan | 22 | (135,145) | (135,145) |
| **Net cash flows from financing activities** | | **2,987,261** | **(275,703)** |
| **Increase in cash and cash equivalents** | | **3,506,707** | **215,848** |
| **Cash and cash equivalents at the beginning of the reporting year** | **20** | **579,638** | **363,790** |
| **Cash and cash equivalents at the end of the financial year** | **20** | **4,086,345** | **579,638** |

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



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# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital EUR | Share premium EUR | Other reserves EUR | Retained earnings EUR | Total equity EUR |
|---|---|---|---|---|---|
| **Balance as of 31.12.2015 (unaudited)** | **106,652** | **761,236** | **63** | **1,338,678** | **2,206,629** |
| Denomination of the share capital | - | - | (63) | 63 | **-** |
| Distribution of dividends | - | - | - | (120,000) | **(120,000)** |
| Profit for the reporting year | - | - | - | 803,104 | **803,104** |
| **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** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## (1) STATEMENT OF ACCOUNTING POLICIES

**Basis of preparation**
Consolidated 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 consolidated statement of profit and loss is prepared according to the function of expense method and consolidated statement of cash flows is prepared using the indirect method. Balance sheet item “Deferred tax liabilities” is recognized and valued in accordance with International Accounting Standard No 12 “Income taxes” requirements.

**Principal accounting policies adopted**
The Consolidated Annual Report 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 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 Consolidated annual report 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 consolidated annual report users, non-significant items have been combined and the details are disclosed in the Notes.
**h)** Business transactions are recorded into consolidated 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 of the consolidated report**
The consolidated reporting year covers the period of 12 month from 1.1.2017 to 31.12.2017.





**Translation of foreign currencies**
The consolidated 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.

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| USD | 1.1993 | 1.0541 |
| SEK | 9.843 | 9.5525 |
| GBP | 0.8872 | 0.8562 |
| DKK | 7.4449 | 7.4344 |

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 consolidated statement of profit and loss.

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

**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 600 EUR.
Acquired fixed assets below 600 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:

*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 | % |

**Intangible assets and property, plant and equipment (continued)**

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 consolidated 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 consolidated 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 consolidated statement of profit and loss of the reporting period they are incurred. The Group's 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.

**Impairment of non-current assets**
If the non-current asset carrying amount on the balance sheet date is lower than its acquisition value less accumulated depreciation, the asset is measured at the lower of cost.

**Valuation of inventories**
Inventory cost price is determined using the average weighted cost.
Inventory purchase cost comprises the purchase price, import charges and other fees and charges, transport costs as well as other directly attributable costs incurred in bringing the inventories to their present location and condition.
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 includes cash in bank accounts with banks and short-term deposits held at call with banks with the initial maturity of less than 90 days.



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**Financial assets**
*- Non-current loans and claims*
Are financial assets created by the 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 consolidated 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 sale which are acquired or incurred for the primary purpose of making a profit from short-term fluctuations of price or profit margins. Current financial investments are recognized at fair value. Changes in the carrying amount of current financial investments are recognized in the consolidated statement of profit and loss.

**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.

**Finance lease liabilities**
Assets purchased under finance lease arrangement the Group 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.

**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 consolidated statement of profit and loss on a straight-line basis over the period of the lease.

**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 includes current and deferred taxes. Corporate income tax is recognized in the consolidated statement of profit and loss.

The corporate income tax calculated for the reporting period is calculated in accordance with the requirements of the Law "On Corporate income tax", determining the taxable income and applying the applicable tax rate 15% ", except for the "Deferred tax liabilities ". Using the exceptions set out in the law "Annual Report and the Consolidated Annual Report", the deferred tax is recognized and measured in accordance with International Accounting Standard No 12 "Income Taxes".

Based on the new Corporate Income tax law of the Republic of Latvia announced in 2017, starting from 1 January 2018 corporate income tax will be applicable to distributed profits and several expenses that would be treated as profit distribution. In case of reinvestment of profit corporate income tax shall not be applied. The applicable corporate income tax rate has increased from the 15% to 20%.

Based on International Accounting Standard No 12 "Income Taxes" requirements, which Group applies in accordance to Article 13 of the law "On the Annual Reports and Consolidated Annual Reports", income tax are payable at a higher or lower rate if part or all of the net profit or retained earnings is paid out as a dividend to shareholders of the entity then current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. In Latvia the applicable rate for undistributed profits is 0%. Therefore, in the consolidated financial statements the deferred tax liabilities are released to the consolidated statement of profit and loss for 2017.

In the prior reporting years deferred corporate income tax is arising from temporary differences in the timing of the recognition of items in the tax returns and these consolidated financial statements is calculated using the liability method.

**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 consolidated financial statements, the management of the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated 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 consolidated financial statements give a true and fair view of the financial position, based on all the information available

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



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## (2) NET TURNOVER

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

| Turnover across geographical markets: | 2017 / EUR | 2016 / EUR |
|---|---|---|
| Revenue from the sale of goods in European Union | 4,482,297 | 3,446,359 |
| Revenue from the sale of goods in Latvia | 2,021,218 | 1,714,627 |
| Revenue from the sale of goods in Other markets | 848,514 | 653,095 |
| Revenue from the sale services | 43,491 | 41,914 |
| Other revenue from operating activities | 6,412 | 5,576 |
| **Total** | **7,401,932** | **5,861,571** |

## (3) COST OF GOODS SOLD

| | 2017 / EUR | 2016 / EUR |
|---|---|---|
| Materials cost | 1,322,299 | 1,262,905 |
| Remuneration for work | 549,435 | 441,112 |
| Property, plant and equipment depreciation | 277,571 | 275,909 |
| Premises rent and maintenance at Marupe, 131 Zeltinu Street | 149,123 | 149,123 |
| Mandatory state social insurance contributions | 129,589 | 103,827 |
| Current assets write-off | 69,267 | 74,087 |
| Leasehold improvements write-off | 62,809 | 40,385 |
| Production service costs | 54,084 | 31,949 |
| Resource costs | 45,306 | 51,806 |
| New products research and development costs | 42,704 | 42,326 |
| ECOCERT quality certificate maintenance costs* (see Note 4) | 21,809 | - |
| Premises rent and maintenance costs at Riga, 2 Sampetera Street | - | 51,260 |
| Other production and production maintenance related expenses | 25,551 | 15,546 |
| **Total** | **2,749,547** | **2,540,235** |

* In the 2016 Consolidated Annual Report, the costs of the ECOCERT Quality Certificate were included in the selling expenses.

## (4) SELLING EXPENSES

| | 2017 / EUR | 2016 / EUR |
|---|---|---|
| Remuneration for work | 586,999 | 354,838 |
| Advertising costs | 537,098 | 513,234 |
| Transport costs | 288,708 | 269,782 |
| Production costs of samples | 274,581 | 94,470 |
| Mandatory state social insurance contributions | 95,801 | 96,045 |
| Selling bonus costs | 87,342 | 64,806 |
| Business trips and exhibitions costs | 82,306 | 38,321 |
| Office maintenance costs and premises rent | 78,819 | 94,689 |
| Intermedium services costs | 53,003 | 66,213 |
| Packaging materials costs | 44,738 | 83,077 |
| Property, plant and equipment depreciation | 33,162 | 40,964 |
| Internet shop WEB page maintenance costs and other IT costs | 27,381 | 37,813 |
| Product registration fees in foreign markets | 23,021 | - |
| Representation costs | 15,807 | 20,782 |
| Leasehold improvements write-off | 14,965 | 15,844 |
| Royalties | 13,536 | 10,003 |
| ECOCERT quality certificate maintenance costs (see Note 3) | - | 27,791 |
| Other sales expenses | 66,350 | 35,153 |
| **Total** | **2,323,617** | **1,863,825** |

## (5) ADMINISTRATION EXPENSES

| | 2017 / EUR | 2016 / EUR |
|---|---|---|
| Remuneration for work | 322,862 | 289,677 |
| The cost of organizing the initial public offering of shares | 281,357 | - |
| Mandatory state social insurance contributions | 117,676 | 55,444 |
| Premises rent and maintenance at Marupe, 131 Zeltinu Street | 71,712 | 71,712 |
| Office costs | 66,483 | 31,357 |
| Cash outflow related costs | 45,812 | 38,692 |
| Depreciation and amortization | 25,660 | 14,681 |
| Communication costs | 24,086 | 18,477 |
| Audit costs | 17,805 | 9,896 |
| Legal and other professional service costs* | 16,448 | 19,830 |
| Public relations and marketing consulting | 15,065 | - |
| Car maintenance, fuel and repair costs | 8,949 | 4,831 |
| Employees health insurance | 6,468 | 5,250 |
| Accounting and management software maintenance costs | 6,402 | 7,067 |
| Allowance for doubtful receivables* (see Note 17) | 6,136 | 2,840 |
| Other management and administration costs | 45,459 | 30,065 |
| **Total** | **1,078,380** | **599,819** |

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





## (6) OTHER OPERATING INCOME

| | 2017 / EUR | 2016 / EUR |
|---|---|---|
| Revenue from the ERAF project No L-APV-14-0111 | 88,926 | 88,926 |
| Revenue from the ERAF project No 1.2.1.1/16/A/006 | 77,266 | 23,406 |
| Revenue from the ERAF project No SKV-L-2017-215 | 14,730 | - |
| Revenue from the ERAF project No L-ĀTA-15-3765 | - | 2,059 |
| Other revenues | 4,894 | 15,340 |
| **Total** | **185,816** | **129,731** |

## (7) OTHER OPERATING EXPENSES

| | 2017 / EUR | 2016 / EUR |
|---|---|---|
| Donations | 29,000 | 15,000 |
| Purchased goods and services for resale | 16,287 | 6,339 |
| Nature protection costs | 6,443 | 8,260 |
| Labor protection costs | 3,689 | 2,662 |
| Other expenses | 29,144 | 20,278 |
| **Total** | **84,563** | **52,539** |

## (8) INTEREST AND SIMILAR INCOME

| | 2017 / EUR | 2016 / EUR |
|---|---|---|
| Net gain on foreign currency exchange rate fluctuations | - | 2,340 |
| Other interest income | 4,479 | 263 |
| **Total** | **4,479** | **2,603** |

## (9) INTEREST AND SIMILAR EXPENSES

| | 2017 / EUR | 2016 / EUR |
|---|---|---|
| Interest on borrowings | 15,537 | 20,248 |
| Currency exchange rate fluctuations | 5,591 | - |
| Interest on obligations under finance leases | 4,513 | 1,562 |
| Factoring fees | 1,582 | 1,010 |
| Penalties paid | 215 | 459 |
| **Total** | **27,438** | **23,279** |

## (10) CORPORATE INCOME TAX FOR THE FINANCIAL YEAR

| | 2017 / EUR | 2018 / EUR |
|---|---|---|
| Current corporate income tax charge | (156,090) | (96,286) |
| Deferred tax release*/ charge | 73,505 | (14,818) |
| **Total** | **(82,585)** | **(111,104)** |

Corporate income tax differs from the theoretically calculated tax amount that would arise applying the 15% rate stipulated by the law to consolidated profit before taxation.

| | 2017 / EUR | 2016 / EUR |
|---|---|---|
| Profit before corporate income tax | 1,328,682 | 914,208 |
| Corporate income tax at the statutory rate of 15% | 199,302 | 137,131 |
| *Tax effect of:* | | |
| Non-deductible expenses for tax purposes | 10,337 | 4,773 |
| Tax deduction for donations | (24,650) | (12,750) |
| Tax incentives for new technological equipment | (16,636) | (20,573) |
| Deferred tax release* | (73,505) | 4,043 |
| Other | (12,263) | (1,520) |
| **Total** | **82,585** | **111,104** |

*Due to changes in tax legislation deferred tax in the reporting year was released, see Note 1 to the consolidated financial statements.

| | | |
|---|---|---|
| Effective corporate income tax rate | 6.22% | 12.15% |



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## (11) INTANGIBLE ASSETS

| | Concessions, patents, licenses, trademarks and software EUR | Advance payments for intangible assets EUR | Total intangible assets EUR |
|---|---|---|---|
| **Cost as of 31.12.2016** | **63,808** | **-** | **63,808** |
| Additions | 125,859 | 7,899 | 133,758 |
| **Cost as of 31.12.2017** | **189,667** | **7,899** | **197,566** |
| **Accumulated amortization as of 31.12.2016 31.12.2016** | **52,233** | **-** | **52,233** |
| Amortization charged | 4,073 | - | 4,073 |
| **Accumulated amortization as of 31.12.2017** | **56,306** | **-** | **56,306** |
| **Net book value as of 31.12.2016** | **11,575** | **-** | **11,575** |
| **Net book value as of 31.12.2017** | **133,361** | **7,899** | **141,260** |

## (12) PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improve-ments EUR | Land EUR | Techno-logical equipment and machinery EUR | Other fixed assets and equipment EUR | Construc-tion in progress EUR | Advance payments for property, plant and equipment EUR | Total property, plant and equip-ment EUR |
|---|---|---|---|---|---|---|---|
| **As of 31.12.2016** | **620,071** | **-** | **1,613,456** | **421,017** | **2,670** | **12,305** | **2,669,519** |
| Additions | | - | - | - | 479,249 | 1,760 | 481,009 |
| Disposals | | - | (2,109) | (6,751) | - | - | (8,860) |
| Transferred | 9,396 | 133,237 | 160,610 | 163,802 | (467,045) | - | - |
| **As of 31.12.2017** | **629,467** | **133,237** | **1,771,957** | **578,068** | **14,874** | **14,065** | **3,141,668** |
| **Accumulated depreciation as of 31.12.2016** | **75,250** | **-** | **759,606** | **246,128** | **-** | **-** | **1,080,984** |
| Depreciation charged | 77,774 | - | 263,112 | 70,631 | - | - | 411,517 |
| Disposals | - | - | (2,109) | (6,751) | - | - | (8,860) |
| **Accumulated depreciation as of 31.12.2017** | **153,024** | **-** | **1,020,609** | **310,008** | **-** | **-** | **1,483,641** |
| **Net carrying amount as of 31.12.2016** | **544,821** | **-** | **853,850** | **174,889** | **2,670** | **12,305** | **1,588,535** |
| **Net carrying amount as of 31.12.2017** | **476,443** | **133,237** | **751,348** | **268,060** | **14,874** | **14,065** | **1,658,027** |





## (13) NON-CURRENT OTHER RECEIVABLES

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| **Rent security deposits** | **40,000** | **40,000** |
| Other receivables | - | 2,513 |
| **Total** | **40,000** | **42,513** |

## (14) OTHER SECURITIES AND INVESTMENTS

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| Rent security deposits | 826 | 826 |
| **Total** | **826** | **826** |

## (15) RAW MATERIALS, MATERIALS AND CONSUMABLES

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| Gross book value of raw materials and materials | 863,796 | 769,078 |
| Allowance for obsolete and slow moving inventories | (4,632) | (13,488) |
| **Total** | **859,164** | **755,590** |

## (16) FINISHED GOODS AND GOODS FOR SALE

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| Cosmetics products | 655,718 | 438,490 |
| Advertising materials | 18,601 | 18,092 |
| **Total** | **674,319** | **456,582** |

## (17) TRADE RECEIVABLES

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| Gross book value of trade receivables | 926,372 | 911,083 |
| Allowance for doubtful trade receivables | (2,663) | (11,715) |
| **Total** | **923,709** | **899,368** |

| | 2017 / EUR | 2016 / EUR |
|---|---|---|
| Allowance for doubtful trade receivables at the beginning of the reporting year | 11,715 | 8,875 |
| Allowance calculated (see Note 5) | 6,136 | 3,468 |
| Recovered doubtful receivables | - | (628) |
| Doubtful trade receivables write-off | (15,188) | - |
| **Allowance for doubtful trade receivables at the end of the reporting year** | **2,663** | **11,715** |

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

## (18) CURRENT OTHER RECEIVABLES

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| VAT overpayment | 39,288 | - |
| Rent security deposits for retail premises | 14,282 | 14,282 |
| Advance payments for services | 8,614 | - |
| Unpaid collected balances | 5,808 | 4,864 |
| Payments of vehicles operating lease | 3,591 | 4,533 |
| CIT overpayment of subsidiaries | 2,984 | 2,188 |
| VAT from received advances | 1,268 | 4,313 |
| Payments in PAY PAL system | 1,092 | 293 |
| Other receivables | 8,896 | 8,537 |
| **Total** | **85,823** | **39,010** |

## (19) OTHER SECURITIES

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| Short-term financial securities (bonds) with a fixed income of 12 (10+2)% per annum | 500,000 | - |
| **Total** | **500,000** | **-** |

## (20) CASH

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| Cash in bank accounts | 4,086,345 | 579,638 |
| **Total** | **4,086,345** | **579,638** |

## (21) SHARE CAPITAL

As of 31 December 2017, the registered and fully paid-in share capital of the Group's Parent Company is 374 524,20 EUR and consists of 3 745 242 shares; nominal value of 1 share is 0,10 EUR.
During 2017 year share capital increased from the prior years' retained earnings in the amount of 213 320 EUR and were issued new 2 133 200 bearer shares with the value of each share 0.10 EUR.
During 2017 year into the share capital a cash investment made in the amount of 1 508 EUR and were issued new 15 080 bearer shares with the value of each share 0.10 EUR.
During 2017 year share capital increased in the amount of 53 044 EUR within the initial public offering and were issued new 530 440 bearer shares with the value of each share 0.10 EUR, resulting of 3 262 218 EUR in share premium increase.

## (22) BANK BORROWINGS

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| SWEDBANK loan – agreement No 14-009243 | 220,234 | 291,661 |
| SWEDBANK loan – agreement No 15-025534 | 159,294 | 223,013 |
| **Total bank borrowing** | **379,528** | **514,674** |

| Non-current borrowings | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| SWEDBANK loan – agreement No 14-009243 | 148,807 | 220,234 |
| SWEDBANK loan – agreement No 15-025534 | 95,576 | 159,295 |
| **Total non-current borrowings** | **244,383** | **379,529** |



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## (22) BANK BORROWINGS (CONTINUED)

| Current borrowings | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| SWEDBANK loan – agreement No 14-009243 | 71,427 | 71,427 |
| SWEDBANK loan – agreement No 15-025534 | 63,718 | 63,718 |
| **Total current borrowings** | **135,145** | **135,145** |
| **Total bank borrowings** | **379,528** | **514,674** |

| Borrowings split by maturity | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| Less than 1 year | 135,145 | 135,145 |
| Other 1 year | 244,383 | 379,529 |
| **Total borrowings** | **379,528** | **514,674** |

| Borrowings split by currency | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| EUR | 379,528 | 514,674 |
| **Total borrowings** | **379,528** | **514,674** |

| Movement in borrowings | 2017 / EUR | 2016 / EUR |
|---|---|---|
| **Borrowings at the beginning of the reporting year** | **514,674** | **649,819** |
| Repayment of borrowings | (135,146) | (135,145) |
| **Borrowings at the end of the reporting year** | **379,528** | **514,674** |

**Borrowing interest rates**
As of 31 December 2017, 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%; on the credit line facilities was 3 month EURIBOR + 2,5%. Interest on undrawn credit line facilities was 1% per annum.

**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. The maturity date of the credit line facilities is 17 February 2018.
As of a date of consolidated annual report preparation the credit line facilities agreement is not prolonged.

**Undrawn committed borrowing facilities**
As of 31 December 2017, the Group hand access to EUR 600 000 of undrawn credit line facilities.

**Pledges**
The Group has pledged a portion of its assets as security for bank borrowings. As of 31 December 2017, the Group's assets in amount of EUR 1 340 900 had been pledged to secure agreement No 14-009243 and assets in amount of EUR 420 000 had been pledged to secure agreement No 15-025534. On 17 February 2016, the Group has signed commercial pledge agreement and pledged assets in amount of EUR 840 000 to secure the credit line.

**Bank loan covenants**
During the reporting year and as of 31 December 2017, the Group had complied with all loan covenants of the borrowing agreements.

## (23) OTHER NON-CURRENT LIABILITIES

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| Finance lease liabilities | 182,042 | 53,526 |
| **Total** | **182,042** | **53,526** |

## (24) TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| Corporate income tax | 49,176 | 52,197 |
| Mandatory state social insurance contributions | 46,972 | 35,267 |
| Personal income tax | 25,894 | 19,450 |
| Value added tax | - | 6,657 |
| Risk duty | 44 | 38 |
| **Total** | **122,086** | **113,609** |

## (25) CURRENT OTHER LIABILITIES

| | 31.12.2017 / EUR | 31.12.2016 / EUR |
|---|---|---|
| Salaries | 83,595 | 64,863 |
| Finance lease liabilities | 55,360 | 25,167 |
| Settlements of gift cards | 13,858 | 12,785 |
| Advance payments | 473 | 902 |
| Other liabilities | 7,967 | 4,605 |
| **Total** | **161,253** | **108,322** |

## (26) RELATED PARTY TRANSACTIONS DURING THE REPORTING YEAR

| Related party | Sales of goods and services | Purchases of goods and services |
|---|---|---|
| MC PROPERTIES SIA | 960 | 223,916 |
| Wolf Candles SIA | - | 24,778 |
| **Total** | **960** | **248,694** |

## (27) NUMBER OF EMPLOYEES IN THE GROUP

| | 2017 | 2016 |
|---|---|---|
| Average number of employees in the Group, including: | 99 | 84 |
| Members of the Board in the Parent Company | 3 | 3 |
| Members of the Council in the Parent Company | 4 | - |

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

| | 2017 | 2016 |
|---|---|---|
| Board members remuneration for the work at the Board | 1,838 | 2,058 |
| Council members remuneration for the work at the Council | 1,643 | - |
| **Total** | **3,481** | **2,058** |



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## (29) OFF-BALANCE SHEET LIABILITIES

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

On 30 June 2015, a mortgage agreement signed between Swedbank AS and rented premises lessor MC Properties SIA on pledged item – real estate on 131 Zeltinu Street, Marupe. Real estate is pledged in favor of Swedbank AS and the Group's Parent Company is the warrantor of the MC Properties obtained borrowings; warranty is in the total amount of EUR 1,138,461.

## (30) RECEIVED ERAF FINANCING

In 2015 the Parent Company received the European Union co-financing for participation in the following project of the European Regional Development Fund:
Entrepreneurship and innovation, subprogram – "High value added investments".
Based on terms of the agreement, the Parent Company has no right to lease, pledge, sell or otherwise encumber equipment and property purchased via government co-financing within 5 years from the amount receipt.

In 2017, the Group participated and received funding from the ERAF support centers of competence of the operational program "Growth and Employment", in the subprogram "Support for the development of the new products and technologies within the competence centers", as well as taking part in the exhibition SANA 2017 in the program "Entrepreneurship and Innovations" in the subprogram "External market acquisition–external marketing".

## (31) FINANCIAL RISK MANAGEMENT

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

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

*Foreign currency risk*
Foreign currency risk is the risk of financial losses incurred by the Group due to adverse fluctuations in foreign currency exchange rates. This risk arises when financial assets denominated in a foreign currency do no match financial liabilities in that currency which results in open currency positions. The Group does not have any material balances of financial assets and liabilities denominated in currencies. Therefore, during the reporting year the Group's exposure to foreign currency risk was not significant.

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




## (31) FINANCIAL RISK MANAGEMENT (CONTINUED)

*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 (see Note 22) to settle its obligations at a given date. The Group assesses the repayment term matching of its financial assets and liabilities and the stability of long- term investment sources of funding on a regular basis.

## (32) EVENTS AFTER THE REPORTING DATE

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

**The consolidated Annual Report approved by:**

**Lote Tisenkopfa - Iltnere**
Chairman of the Board

**Paula Tisenkopfa**
Member of the Board

**Uldis Iltners**
Member of the Board

**The consolidated Annual Report prepared by:**

**Armands Bērziņš**
Chief accountant

25 April 2018

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**Independent Auditor's Report**

**To the shareholders of MADARA Cosmetics AS**

*Our Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of MADARA Cosmetics AS Reg. No 40003844254 ("the Company") and its subsidiaries ("the Group") set out on pages 8 to 30 of the accompanying consolidated annual report, which comprise:

- the consolidated balance sheet as at 31 December 2017,
- the consolidated profit and loss statement for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of MADARA Cosmetics AS and its subsidiaries as at 31 December 2017, and of its consolidated financial performance and its 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 Consolidated Financial Statements* section of our report.

We are independent of the 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 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.

*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 Statement on Management Responsibility, as set out on page 4 of the accompanying Annual Report,
- the Management Report, as set out on page 5 and 6 of the accompanying consolidated Annual Report.





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Our opinion on the 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 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 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 Group and its 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 consolidated financial statements are prepared is consistent with the 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 Consolidated Financial Statements*

Management is responsible for the preparation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the 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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

*Auditor's Responsibility for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the 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

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**Independent Auditor's Report (continued)**

or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 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 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 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 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

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Roberts Stuģis
Board member

Kitija Ķepīte
Certified auditor
Certificate No 182

Riga, Latvia
25 April 2018


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