



MÁDARA  
organic skincare

## AS MADARA COSMETICS

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

RIGA, 2018

\* 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.



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## CORPORATE INFORMATION

Name of the Group	Madara Cosmetics
Name of the Company	Madara Cosmetics
Legal status of the Company	Joint stock company (till 10.01.2017: Limited liability company)
Registration number	No 40003844254
Registration place and date	Riga, 28 July 2006
Registered address	131 Zeltinu Street, Marupe, LV-2167, Latvia
Shareholders ( above 5 % )	Lote Tisenkopfa Iltnerne - owns 23,92 % of shares Uldis Iltners - owns 23,92 % of shares Sustainable Investments SIA - owns 17,09 % of shares Zane Tamane - owns 10,25 % of shares Liene Drāzniece - owns 6,83 % of shares Oy Transmeri Group Ab - owns 6,00 % of shares
Type of operations	Manufacture of perfumes and toilet preparations
NACE code	20.42
Board of the Company	Lote Tisenkopfa - Iltnerne - Chairman of the Board Uldis Iltners - Member of the Board Solvita Kurtiša - Member of the Board till 23.08.2017 Paula Tisenkopfa - Member of the Board from 24.08.2017
Council of the Company	Zane Tamane - Member of the Council from 11.01.2017 to 23.08.2017; Chairman of the Council from 24.08.2017 Liene Drāzniece - Deputy Chairman of the Council from 11.01.2017 Anna Ramata Stunda - Member of the Council from 24.08.2017 Anna Andersone - Member of the Council from 24.08.2017 Solvita Kurtiša - Member of the Council from 24.08.2017 Paula Tisenkopfa - Member of the Council from 11.01.2017 to 23.08.2017 The Council 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% Cosmetics Nord SIA, reg. No 40103277805 - 100% Madara Cosmetics GmbH, reg. No HRB 177689 - 100%
Independent Auditors and its address	Deloitte Audits Latvia SIA Reg. No 40003606960 License No 43 4a Gredu Street, Riga, LVL-1019, Latvia
Certified Auditor	Kitija Kēpīte LR Certified Auditor Certificate No 182

## STATEMENT OF MANAGEMENT RESPONSIBILITIES

The Board of AS "MADARA Cosmetics" (hereinafter - the Company) is responsible for the preparation of these financial statements.

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

The 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 financial statements.

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

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

**Paula Tisenkopfa**  
 Member of the Board

**Uldis Iltners**  
 Member of the Board

25 April 2018

## MANAGEMENT REPORT

The main type of AS „MADARA Cosmetics” (hereinafter – the Company ) 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.

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 Company'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 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 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 6,25 EUR to 7,50 EUR.

In 2017, the Company has successfully worked on the sales channels developed in previous years, reaching a 27,15% increase in turnover compared to 2016. The profit of the Company has increased along with the increase of turnover to 1,24 million EUR after corporate income tax, which is an increase of 56,39% compared to 2016. Profit growth has been higher than the increase in turnover and demonstrates an improvement in the Company'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 53,0% in 2016 to 60,2% 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 company'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 most technically 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.

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 Company will be mainly 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 Company's organization has been improved and 11 new job positions have been established. Company'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 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-Iltner as one of the best business leaders in Latvia, and AS MADARA Cosmetics ranked as the company with the highest export potential among companies of Latvia.

## MANAGEMENT REPORT (continued)

The 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.

The financial risk management policy adopted by the Company is disclosed in Note 34 to the financial statements.

Since the reporting year-end, no material changes have taken place which would not be reflected in the financial

statements and would be significant to reassess the Company's assets and liabilities, its financial position and the financial result of the reporting year.

According to the 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 Company's development.



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



**Paula Tisenkopfa**  
Member of the Board



**Uldis Iltners**  
Member of the Board

## STATEMENT OF PROFIT AND LOSS



	Note	2017 / EUR	2016 / EUR
Revenue	2	7,050,490	5,544,922
Cost of goods sold	3	(2,805,746)	(2,605,543)
<b>Gross profit</b>		<b>4,244,744</b>	<b>2,939,379</b>
Selling expenses	4	(2,083,826)	(1,620,996)
Administration expenses	5	(923,474)	(480,035)
Other operating income	6	187,556	132,550
Other operating expenses	7	(84,518)	(52,535)
Interest and similar income	8	4,479	2,603
Interest and similar expenses	9	(27,429)	(23,141)
<b>Profit before taxes</b>		<b>1,317,532</b>	<b>897,825</b>
Corporate income tax for the reporting year	10	(152,663)	(91,157)
<b>Profit after corporate income tax calculation</b>		<b>1,164,869</b>	<b>806,668</b>
Changes in deferred tax liabilities	10	73,505	(14,818)
<b>Profit for the year</b>		<b>1,238,374</b>	<b>791,850</b>

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

## BALANCE SHEET

Assets	Note	31.12.2017 / EUR	31.12.2016 / EUR
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Concession, licenses, patents, trademarks and software		133,361	11,575
Advance payments for intangible assets		7,899	-
<b>Total intangible assets</b>	11	<b>141,260</b>	<b>11,575</b>
<b>Property, plant and equipment</b>			
Land		133,237	-
Leasehold improvements		470,395	523,808
Technological equipment and machinery		751,348	853,850
Other fixed assets and equipment		265,197	171,030
Construction in progress		14,874	2,670
Advance payments for property, plant and equipment		14,065	12,305
<b>Total property, plant and equipment</b>	12	<b>1,649,116</b>	<b>1,563,663</b>
<b>Non-current financial investments</b>			
Investments in affiliates	13	18,156	18,156
Other receivables	14	40,000	42,513
Other securities and investments	15	826	826
<b>Total non-current financial investments</b>		<b>58,982</b>	<b>61,495</b>
<b>Total non-current assets</b>		<b>1,849,358</b>	<b>1,636,733</b>
<b>Current assets</b>			
<b>Inventories</b>			
Raw materials, materials and consumables	16	855,643	753,895
Finished goods and goods for sale	17	651,560	435,105
Advance payments for inventories		96,392	74,036
<b>Total inventories</b>		<b>1,603,595</b>	<b>1,263,036</b>
<b>Receivables</b>			
Trade receivables	18	756,033	783,274
Trade receivables from affiliates	19	180,453	187,064
Other receivables	20	57,691	12,471
Accrued revenue		18,293	23,406
Deferred expenses		29,645	14,518
<b>Total receivables</b>		<b>1,042,115</b>	<b>1,020,733</b>
<b>Current financial investments</b>			
Other securities	21	500,000	-
<b>Total current financial investments</b>		<b>500,000</b>	<b>-</b>
<b>Cash</b>	22	<b>4,050,826</b>	<b>553,362</b>
<b>Total current assets</b>		<b>7,196,536</b>	<b>2,837,131</b>
<b>Total assets</b>		<b>9,045,894</b>	<b>4,473,864</b>

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

## BALANCE SHEET

Equity and liabilities	Note	31.12.2017 / EUR	31.12.2016 / EUR
<b>Equity</b>			
Share capital	23	374,524	106,652
Share premium		4,023,454	761,236
<b>Retained earnings:</b>			
a) previous years` retained earnings		1,650,618	1,272,088
b) profit for the year		1,238,374	791,850
<b>Total equity</b>		<b>7,286,970</b>	<b>2,931,826</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank borrowings	24	244,383	379,529
Other liabilities	25	182,042	53,526
Deferred revenue		145,213	234,139
Deferred tax liabilities	10	-	73,505
<b>Total non-current liabilities</b>		<b>571,638</b>	<b>740,699</b>
<b>Current liabilities</b>			
Bank borrowings	24	135,145	135,145
Advances from customers		25,112	19,373
Trade payables		531,488	241,522
Taxes and mandatory state social insurance contributions	27	111,644	101,820
Other liabilities	28	129,463	82,629
Deferred revenue		88,926	88,926
Accrued liabilities		165,508	131,924
<b>Total current liabilities</b>		<b>1,187,286</b>	<b>801,339</b>
<b>Total liabilities</b>		<b>1,758,924</b>	<b>1,542,038</b>
<b>Total equity and liabilities</b>		<b>9,045,894</b>	<b>4,473,864</b>

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

## STATEMENT OF CASH FLOWS

	Note	2017 / EUR	2016 / EUR
<b>Cash flow of operating activities</b>			
Profit before tax		1,317,532	897,825
<b>Adjustments for:</b>			
Depreciation of property, plant and equipment	12	394,913	365,099
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	21,838	23,141
<b>Profit before adjustments for current assets and current liabilities</b>		<b>1,552,955</b>	<b>1,197,806</b>
<b>Adjustments for:</b>			
Increase in receivables		(43,738)	(69,285)
Increase in inventories		(318,203)	(461,377)
Increase / (decrease) in payables and other payables		430,637	(10,129)
<b>Gross cash flow of operating activities</b>		<b>1,621,651</b>	<b>657,015</b>
Interest paid		(21,838)	(23,141)
Corporate income tax paid		(153,347)	(27,812)
<b>Net cash flow of operating activities</b>		<b>1,446,466</b>	<b>606,062</b>
<b>Cash flow from Investment activities</b>			
Acquisition of shares in affiliates		-	(12,500)
Other investments	21	(500,000)	(3,083)
Payments for property, plant and equipment and intangible assets		(443,254)	(114,806)
Proceeds from loan repayment		2,513	-
Received interest		4,479	2,603
<b>Investment activities cash flow</b>		<b>(936,262)</b>	<b>(127,786)</b>
<b>Cash flow from financing activities</b>			
Proceeds from issue of equity shares		3,316,770	-
Proceeds from ERAF funds co-financing		91,996	2,059
Repayment of finance leases		(86,361)	(22,617)
Dividends paid		(200,000)	(120,000)
Repaid loan	24	(135,145)	(135,145)
<b>Net cash flows from financing activities</b>		<b>2,987,260</b>	<b>(275,703)</b>
<b>Increase in cash and cash equivalents</b>		<b>3,497,464</b>	<b>202,573</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>	<b>22</b>	<b>553,362</b>	<b>350,789</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>22</b>	<b>4,050,826</b>	<b>553,362</b>

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

## STATEMENT OF CHANGES IN EQUITY

	Share capital EUR	Share premium EUR	Other reserves EUR	Retained earnings EUR	Total equity EUR
<b>Balance as of 31.12.2015</b>	<b>106,652</b>	<b>761,236</b>	<b>63</b>	<b>1,392,025</b>	<b>2,259,976</b>
Denomination of the share capital	-	-	(63)	63	-
Distribution of dividends	-	-	-	(120,000)	<b>(120,000)</b>
Profit for the reporting year	-	-	-	791,850	<b>791,850</b>
<b>Balance as of 31.12.2016</b>	<b>106,652</b>	<b>761,236</b>	<b>-</b>	<b>2,063,938</b>	<b>2,931,826</b>
Distribution of dividends	-	-	-	(200,000)	<b>(200,000)</b>
Increase in share capital	213,320	-	-	(213,320)	-
Issue of shares	54,552	3,262,218	-	-	<b>3,316,770</b>
Profit for the reporting year	-	-	-	1,238,374	<b>1,238,374</b>
<b>Balance as of 31.12.2017</b>	<b>374,524</b>	<b>4,023,454</b>	<b>-</b>	<b>2,888,992</b>	<b>7,286,970</b>

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

# NOTES TO THE FINANCIAL STATEMENT

## (1) STATEMENT OF ACCOUNTING POLICIES

### Basis of preparation

Annual Report have been prepared in accordance with the Laws of the Republic of Latvia on Accounting and on Annual Reports and Consolidated Annual Reports. The statement of profit and loss is prepared according to the function of expense method and statement of cash flows is prepared using the indirect method. The balance sheet item "Deferred tax liabilities" is recognized and valued in accordance with International Accounting Standard No 12 "Income Taxes" requirements.

These are the Company's stand-alone financial statements.

### Principal accounting policies adopted

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

- a)** Going concern assumption, the Company 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 opening balance sheet of the beginning of the year matches with the closing balance sheet of the prior 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, non-significant items have been combined and the details are disclosed in the Notes.

**h)** Business transactions are recorded taking into account their economic content and substance, not merely the legal form.

### Reporting year

Reporting year is from 1.1.2017 to 31.12.2017.

### Transactions in 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.

	31.12.2017	31.12.2016
USD	1.1993	1.0541
SEK	9.8430	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 statement of profit and loss.

### Related parties

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

### Investments

#### - Affiliated Companies

Affiliated Company is a company, directly or indirectly controlled by another company (parent company – more than 50% of the shareholders or members voting rights in the company). The parent company controls the subsidiary's financial and business policies.

#### - Associated Companies

Associated company is a company, in which the investor has, directly or indirectly, significant influence (not less than 20% but not more than 50% of the voting rights of the shareholders or members in the company) without control over the financial and operating policy decisions.

### 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 Company 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 at their cost 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	%
<b>Property, plant and equipment:</b>		<b>%</b>
Technological equipment	20	%
Hardware and electronic equipment	33	%
Vehicles	20	%
Other fixed assets	20	%

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

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

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

Research costs are recognized in the statement of profit and loss of the reporting period they are incurred. The Company's development costs are capitalized if the Company 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 Company 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.

#### **Financial assets**

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

Are financial assets 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 a short time of period. Loans are recognized initially at fair value, net of transaction costs incurred. Subsequent to initial recognition all loans are stated at amortized cost, using the effective interest rate method. Amortized cost is calculated considering transaction costs incurred, as well as any loan-related discounts or premiums. Differences between the principal amount and the repayable value are gradually recognized in the statement of profit and loss over the period of the loan. If events or changes in circumstances indicate that the carrying amount is impaired, provisions of asset impairment are recognized.

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

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturity dates that the Company 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 statement of profit and loss.

#### **Finance lease liabilities**

Assets purchased under finance lease arrangement the Company 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 statement of profit and loss on a straight-line basis over the period of the lease.

#### **Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

#### **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.

#### **Revenue recognition**

Revenue from the sale of goods is recognized when the Company has transferred to the buyer the significant risks and rewards of ownership of the goods 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 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 CIT shall not be applied. The applicable CIT rate has increased from the 15% to 20%.

Based on International Accounting Standard No 12 "Income Taxes" requirements, which Company 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 individual financial statements the deferred tax liabilities are released to the 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 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 financial statements the management of the Company makes estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The management has assessed the profit and loss and believes that the financial statements give a true and fair view of the financial position, based on all the information available.

#### Government grants

Government grants are not recognised until there is reasonable assurance that the Company will comply with the conditions attaching to them and that the grants will be received. Accordingly, grants whose primary condition is that the Company should purchase or construct non-current assets are recognized as deferred revenue in the balance sheet.

#### Events after the reporting date

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

## (2) Net turnover

Turnover is the revenue generated during the reporting year from the Company's main operating activities – the wholesale of goods and provision of the services less value

added tax and discounts given. The revenue generated from production and wholesale of cosmetic products.

Turnover by geographical markets:	2017 / EUR	2016 / EUR
Revenue from the sale of goods in European Union	3,979,099	2,988,924
Revenue from the wholesale of goods in Latvia market	2,238,997	1,934,845
Revenue from the wholesale of goods in Other markets	827,489	617,473
Other revenue from operating activities	4,905	3,680
<b>Total</b>	<b>7,050,490</b>	<b>5,544,922</b>

## (3) Cost of goods sold

	2017 / EUR	2016 / EUR
Materials cost	1,378,498	1,328,213
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 costs	25,551	15,546
<b>Total</b>	<b>2,805,746</b>	<b>2,605,543</b>

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

#### (4) SELLING EXPENSES

	2017 / EUR	2016 / EUR
Advertising costs	524,994	493,264
Remuneration for work	437,228	238,522
Production costs of samples	274,581	94,470
Transport costs	267,779	250,771
Intermedium services costs	131,743	107,429
Selling bonus costs	87,342	64,806
Business trips and exhibitions costs	82,306	38,321
Mandatory state social insurance contributions	60,519	68,352
Packaging materials costs	44,738	83,077
Property, plant and equipment depreciation	32,899	39,454
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
Royalties	13,536	10,003
ECOCERT quality certificate maintenance costs (see Note 3)	-	27,791
Other selling expenses	59,952	46,141
<b>Total</b>	<b>2,083,826</b>	<b>1,620,996</b>

#### (5) ADMINISTRATION EXPENSES

	2017 / EUR	2016 / EUR
The cost of organizing the initial public offering of shares	281,357	-
Remuneration for work	227,174	215,656
Mandatory state social insurance contributions	96,233	38,940
Premises rent and maintenance costs at Marupe, 131 Zeltinu Street	71,712	71,712
Office costs	64,594	28,458
Cash outflow related costs	38,330	31,518
Depreciation and amortization	25,706	14,681
Communication costs	21,660	15,720
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 18)	6,136	2,840
Other management and administration costs	19,435	13,636
<b>Total</b>	<b>923,474</b>	<b>480,035</b>

\* Except for the legal services costs 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	6,634	18,159
<b>Total</b>	<b>187,556</b>	<b>132,550</b>

#### (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	29,099	20,274
<b>Total</b>	<b>84,518</b>	<b>52,535</b>

#### (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
<b>Total</b>	<b>4,479</b>	<b>2,603</b>

#### (9) INTEREST AND SIMILAR EXPENSES

	2017 / EUR	2016 / EUR
Interest on borrowings	15,537	20,248
Net loss on foreign currency exchange rate fluctuations	5,591	-
Interest on obligations under finance leases	4,513	1,562
Factoring fees	1,582	1,010
Penalties paid	206	321
<b>Total</b>	<b>27,429</b>	<b>23,141</b>

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

Significant components of corporate income tax:	2017 / EUR	2016 / EUR
Current corporate income tax charge	(152,663)	(91,157)
Deferred tax release* / charge	73,505	(14,818)
<b>Total</b>	<b>(79,158)</b>	<b>(105,975)</b>

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

	2017 / EUR	2016 / EUR
Profit before corporate income tax	1,164,869	897,825
Corporate income tax at the statutory rate of 15%	174,730	134,674

### Tax effect of:

Non-deductible expenses for tax purposes	10,330	4,752
Tax deduction for donations	(24,650)	(12,750)
Tax incentives for new technological equipment	(16,636)	(20,573)
Deferred tax release*	(73,505)	-
Other	8,889	(128)
<b>Total</b>	<b>79,158</b>	<b>105,975</b>

\* During the reporting year deferred tax was released due to changes in corporate income tax law, see Note 1.

Effective corporate income tax rate	6.80%	11.80%
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## (11) INTANGIBLE ASSETS

	Concessions, patents, licenses, trademarks and software EUR	Advance payments for intangible assets EUR	Total intangible assets EUR
<b>Cost as of 31.12.2016</b>	<b>63,523</b>	<b>-</b>	<b>63,523</b>
Additions	125,859	7,899	<b>133,758</b>
<b>Cost as of 31.12.2017</b>	<b>189,382</b>	<b>7,899</b>	<b>197,281</b>
<b>Accumulated amortization as of 31.12.2016</b>	<b>51,948</b>	<b>-</b>	<b>51,948</b>
Amortization charged	4,073	-	<b>4,073</b>
<b>Accumulated amortization as of 31.12.2017</b>	<b>56,021</b>	<b>-</b>	<b>56,021</b>
<b>Net book value as of 31.12.2016</b>	<b>11,575</b>	<b>-</b>	<b>11,575</b>
<b>Net book value as of 31.12.2017</b>	<b>133,361</b>	<b>7,899</b>	<b>141,260</b>

## (12) PROPERTY, PLANT AND EQUIPMENT

	Land EUR	Leasehold improvements EUR	Technological equipment and machinery EUR	Other fixed assets and equipment EUR	Construction in progress EUR	Advance payments for property, plant and equipment EUR	Total property, plant and equipment EUR
<b>Cost as of 31.12.2016</b>	-	564,193	1,613,456	403,013	2,670	12,305	2,595,637
Additions		-	-	-	478,606	1,760	480,366
Disposals		-	(2,109)	(6,751)	-	-	(8,860)
Transferred	133,237	9,396	160,610	163,159	(466,402)	-	-
<b>Cost as of 31.12.2017</b>	<b>133,237</b>	<b>573,589</b>	<b>1,771,957</b>	<b>559,421</b>	<b>14,874</b>	<b>14,065</b>	<b>3,067,143</b>
<b>Accumulated depreciation as of 31.12.2016</b>	-	40,385	759,606	231,983	-	-	1,031,974
Depreciation charged	-	62,809	263,112	68,992	-	-	394,913
Disposals	-	-	(2,109)	(6,751)	-	-	(8,860)
<b>Accumulated depreciation as of 31.12.2017</b>	-	103,194	1,020,609	294,224	-	-	1,418,027
<b>Net book value as of 31.12.2016</b>	-	523,808	853,850	171,030	2,670	12,305	1,563,663
<b>Net book value as of 31.12.2017</b>	133,237	470,395	751,348	265,197	14,874	14,065	1,649,116

## (13) INVESTMENTS IN AFFILIATES

	31.12.2017 / EUR	31.12.2016 / EUR
Acquisition value	18,156	18,156
<b>Investments in affiliated companies:</b>	<b>18,156</b>	<b>18,156</b>

Company name	Participating interest, %	Acquisition value	Investment carrying value 31.12.2017
Madara Retail SIA	100	2,828	2,828
Cosmetics Nord SIA	100	2,828	2,828
Madara Cosmetics GmbH	100	12,500	12,500
<b>Total</b>		<b>18,156</b>	<b>18,156</b>

Madara Retail SIA, Reg. No 40103212103, 131 Zeltinu Street, Marupe, Latvia. Type of operating activities - retail sale of cosmetic products.

	31.12.2017	31.12.2016
Equity, EUR	19,986	5,014
Profit for the reporting year, EUR	14,972	3,916

Cosmetics Nord SIA, Reg. No 40103277805, Z131 Zeltinu Street, Marupe, Latvia. Type of operating activities - wholesale of cosmetic products.

	31.12.2017	31.12.2016
Equity, EUR	12,304	8,958
Profit for the reporting year, EUR	3,346	20,154

Madara Cosmetics GmbH, Reg. No HRB 177689, Potsdamer Platz 1, Berlin, Germany. Type of operating activities - distribution services of cosmetic products.

	31.12.2017	31.12.2016
Equity, EUR	5,219	8,712
Profit for the reporting year, EUR	(3,493)	(3,788)

## (14) NON-CURRENT OTHER RECEIVABLES

	31.12.2017 / EUR	31.12.2016 / EUR
Rent security deposit	40,000	40,000
Other receivables	-	2,513
<b>Total</b>	<b>40,000</b>	<b>42,513</b>

## (15) OTHER SECURITIES AND INVESTMENTS

	31.12.2017 / EUR	31.12.2016 / EUR
Other investments	826	826
<b>Total</b>	<b>826</b>	<b>826</b>

## (16) RAW MATERIALS, MATERIALS AND CONSUMABLES

	31.12.2017 / EUR	31.12.2016 / EUR
Gross book value of raw materials and materials	860,275	767,383
Allowance for obsolete and slow moving inventories	(4,632)	(13,488)
<b>Total</b>	<b>855,643</b>	<b>753,895</b>

## (17) FINISHED GOODS AND GOODS FOR SALE

	31.12.2017 / EUR	31.12.2016 / EUR
Cosmetics products	632,959	418,929
Advertising materials	18,601	16,176
<b>Total</b>	<b>651,560</b>	<b>435,105</b>

## (18) TRADE RECEIVABLES

	31.12.2017 / EUR	31.12.2016 / EUR
Gross book value of trade receivables	758,696	794,989
Allowance for doubtful trade receivables	(2,663)	(11,715)
<b>Total</b>	<b>756,033</b>	<b>783,274</b>

	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)	-
<b>Allowance for doubtful trade receivables at the end of the reporting year</b>	<b>2,663</b>	<b>11,715</b>

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

## (19) TRADE RECEIVABLES FROM AFFILIATES

	31.12.2017 / EUR	31.12.2016 / EUR
Cosmetics Nord SIA	115,827	101,107
Madara Retail SIA	64,626	85,957
<b>Total</b>	<b>180,453</b>	<b>187,064</b>

## (20) CURRENT OTHER RECEIVABLES

	31.12.2017 / EUR	31.12.2016 / EUR
<b>Current borrowings</b>		
VAT overpayment	39,288	-
Advance payments for services	8,614	-
Payments of vehicles operating lease	3,591	4,533
VAT from received advances	1,268	4,313
Payments in PAY PAL system	1,092	293
Other receivables	3,838	3,332
<b>Other receivables</b>	<b>57,691</b>	<b>12,471</b>

## (21) OTHER SECURITIES

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

## (22) CASH

	31.12.2017 / EUR	31.12.2016 / EUR
<b>Current borrowings</b>		
Cash in bank accounts	4,050,826	553,362
<b>Total</b>	<b>4,050,826</b>	<b>553,362</b>

## (22) SHARE CAPITAL

As of 31 December 2017, the registered and fully paid-in share capital of the 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 a cash investment in the amount of 1 508 EUR was made into the share capital and new 15 080 bearer shares with the value of each share 0.10 EUR were issued.

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, and share premium increased by 3 262 218 EUR.

## (24) 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
<b>Total bank borrowing</b>	<b>379,528</b>	<b>514,674</b>

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

## (24) 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
<b>Total current borrowings</b>	<b>135,145</b>	<b>135,145</b>
<b>Total bank borrowings</b>	<b>379,528</b>	<b>514,674</b>

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
<b>Total borrowings</b>	<b>379,528</b>	<b>514,674</b>

Borrowings split by currency	31.12.2017 / EUR	31.12.2016 / EUR
EUR	379,528	514,674
<b>Total borrowings</b>	<b>379,528</b>	<b>514,674</b>

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

### 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 Annual Report preparation the credit line facilities agreement is not prolonged.

### Undrawn committed borrowing facilities

As of 31 December 2017, the Company had an access to EUR 600 000 of undrawn credit line facilities.

### Pledges

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

### Bank loan covenants

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

## (25) CURRENT OTHER LIABILITIES

	31.12.2017 / EUR	31.12.2016 / EUR
Finance lease liabilities	182,042	53,526
<b>Total</b>	<b>182,042</b>	<b>53,526</b>

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

	31.12.2017	31.12.2016
Corporate income tax	48,754	49,439
Mandatory state social insurance contributions	40,615	29,486
Personal income tax	22,241	16,209
Value added tax	-	6,657
Risk duty	34	29
<b>Total</b>	<b>111,644</b>	<b>101,820</b>

## (28) CURRENT OTHER LIABILITIES

	31.12.2017	31.12.2016
Salaries	70,994	53,177
Finance lease liabilities	55,360	25,167
Advance payments	473	880
Other liabilities	2,636	3,405
<b>Total</b>	<b>129,463</b>	<b>82,629</b>

## (29) RELATED PARTIES TRANSACTIONS DURING THE REPORTING YEAR

	Sales of goods and services	Purchases of goods and services
Madara Retail SIA *	319,003	-
Cosmetics Nord SIA *	512,118	-
MC PROPERTIES SIA	960	220,835
Madara Cosmetics GmbH	-	78,740
Wolf Candles SIA	-	4,614
<b>Total</b>	<b>832,081</b>	<b>304,189</b>

\* Outstanding balances of these counterparties are included in the balance sheet \*Trade receivables from affiliates\*.

## (30) NUMBER OF EMPLOYEES IN THE COMPANY

	2017	2016
Average number of employees in the Company during reporting year, including:	79	65
Members of the Board	3	3
Members of the Council	4	-

### (31) 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	-
<b>Total</b>	<b>3,481</b>	<b>2,058</b>

### (32) OFF BALANCE SHEET LIABILITIES

On 17 March 2015, the 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 Company is the warrantor of the MC Properties obtained borrowings; warranty is in the total amount of EUR 1,138,461.

### (33) RECEIVED ERAF FINANCING

In 2015 the 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 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 Company 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".

### (34) FINANCIAL RISK MANAGEMENT

The Company'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 Company 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 Company due to adverse fluctuations in foreign currency exchange rates. This risk arises when financial assets denominated in a foreign currency do not match financial liabilities in that currency which results in open currency positions. The Company does not have any material balances of financial assets and liabilities denominated in currencies. Therefore, during the reporting year the Company'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 Company. Credit risk mainly arises from cash with banks, trade receivables and issued non-current and current loans. The Company has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics.

### (34) FINANCIAL RISK MANAGEMENT (CONTINUED)

#### *Liquidity risk*

Liquidity risk is the risk that the Company 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 Company'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 24) to settle its obligations at a given date. The Company assesses the repayment term matching of its financial assets and liabilities and the stability of long-term investment sources of funding on a regular basis.

### (35) EVENTS AFTER THE REPORTING DATE

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

#### The Annual Report approved by:

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

**Paula Tisenkopfa**  
 Member of the Board

**Uldis Iltners**  
 Member of the Board

#### The Annual Report prepared by:

**Armands Bērziņš**  
 Chief accountant

## Independent Auditor's Report

### To the shareholders of MADARA Cosmetics AS:

#### *Our Opinion on the Financial Statements*

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

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

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

We are independent of the Company 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 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 management is responsible for the other information. The other information comprises:

- Information about the Company, as set out on page 3 of the accompanying 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 pages 5 and 6 of the accompanying Annual Report.

Our opinion on the 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 related to other information* section of our report.

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## Independent Auditor's Report (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 entity 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 related to other information*

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 financial statements are prepared is consistent with the 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 Financial Statements*

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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## Independent Auditor's Report (continued)

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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Roberts Stūģis  
Board member

Riga, Latvia  
25 April 2018



Kitija Kēpīte  
Certified auditor  
Certificate No 182





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