



**MANAGEMENT REPORT  
ON THE UNAUDITED  
FINANCIAL STATEMENTS  
FOR 2017**

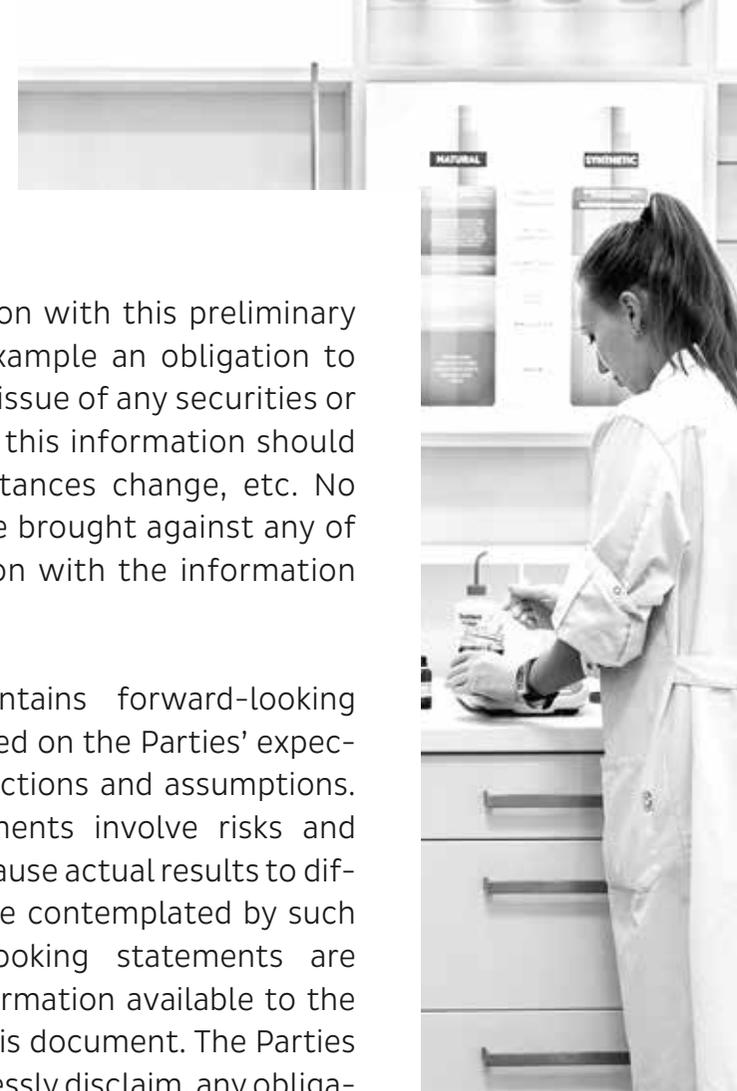
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1. OVERVIEW 2017
2. IMPORTANT EVENTS
3. TRENDS



**PRESENTING:**

Uldis Iltners, Management Board

## OVERVIEW

Leading and fast growing organic cosmetics and skincare producer in the Baltics with firmly-established position in Finland and expanding further.

One of the strongest brands in natural cosmetics in Europe. Company is offering shareholder benefit program. Nasdaq Riga First North listed.

## KEY STRENGTHS

Unique self-made formulas.  
 ECOCERT certified.  
 Own design and PR agency in-house.  
 Operates modern and state of the art factory near Riga International Airport.  
 In business since 2006 and well-established BRAND.

## STRATEGY

Focused on growth while keeping eye on steady profit margins. Convert existing and new customers into direct stakeholders (loyalty).  
 Increased international visibility and reputational enhancement via listing.  
 Expand via own e-commerce webstores.  
 Offers contract manufacturing to others.

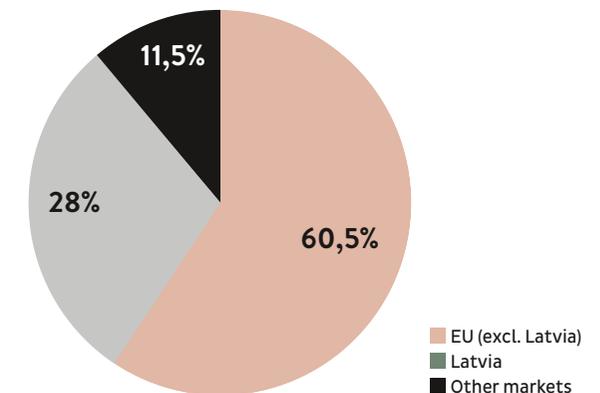
## INVESTMENT OPPORTUNITY

Company has platform and knowledge for growth. Experienced and skilled management.  
 Macro: EC expects Baltics to have above average EU growth rates.

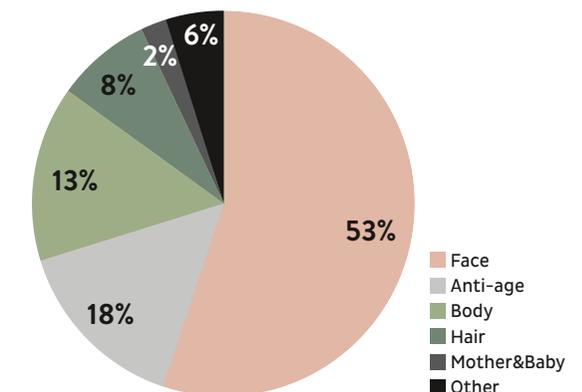
## 2017 continues the established growth trend:

- ▶ Sales growth 26% y-o-y
- ▶ EBITDA growth 35% y-o-y
- ▶ Net profit growth 54% y-o-y

Geographical Sales Breakdown 2017 6M



Sales Breakdown by Product Type 2017



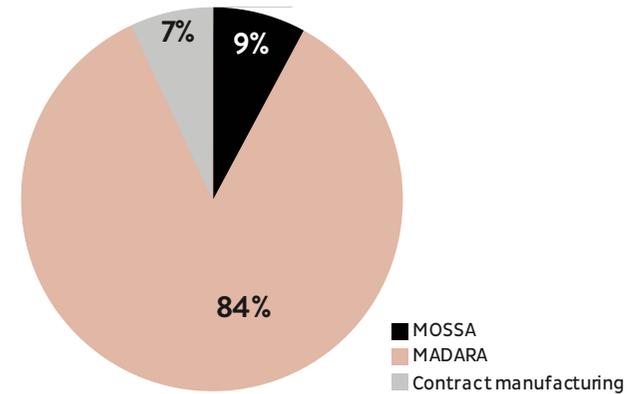
## OVERVIEW (II)

- ▶ *Wide range of existing products*
- ▶ *Constantly developing new products*
- ▶ *Still place for expansion in product range and revenue diversification and growth*

### QUALITY AND TRANSPARENCY

- ▶ *Pure/organic ingredients: essences of Northern herbs, arctic berries and unique seeds oils, containing powerful antioxidants, essential omega oils and strong anti-aging activities*
- ▶ *ECOCERT certification*
- ▶ *Transparency of ingredients: listed on the webpage and indicated in which product*
- ▶ *Transparency of operations: factory tours are open to everyone*
- ▶ *Works with leading scientists to search for unique scientifically-supported formulas*

Sales Breakdown by Brand in 2017



### CURRENT

Anti-age

Body

Face

Mother & baby

Hair

Sets

## FINANCIAL OVERVIEW

<b>EURm</b>	<b>2016</b>	<b>2017</b>
T/o	5.86	7.40
T/o growth (y-o-y)	-	26.3%
Gross profit	3.32	4.65
Net profit	0.80	1.24
EBITDA	1.31	1.77
Net debt	0.01	- 3.47
Net cash flow of operating activities	0.61	1.46
Investment activities cash flow	-0.12	-0,93
Financing activities cash flow	-0,28	2.97
Increase /(decrease) in cash and cash equivalents	0.22	3.50

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*The management's revenue guidance for 2018 remains 10 MEUR.*

## MOST IMPORTANT EVENTS 2017

Successful initial public offering (IPO) and admission to trading on Nasdaq Riga First North alternative market. Positive market reaction - the price of the shares in secondary trading rose by 20% from the IPO price - hence from EUR 6.25 to EUR 7.50 by the end of December.

Launch of shareholder benefits programme.

The first full year of activity at the new plant at 131 Zeltiņu Street, in Mārupe  
→ significant increase of production efficiency.

Successful work of R&D → formulation for SPF 15 and SPF30 sun protection products  
+ other new products coming 2018.

New e-commerce platform launched

First ESG report

A leading position in the Top Reputable Companies Survey in Latvia

The global Cosmetic Skin Care market to grow with a CAGR between 4.7 % and 5.3 % from 2017 to 2023.

The global Cosmetic Skin Care market was worth USD 130.7 Billion in 2016.\*

Skincare maintains the top billing in the global organic beauty market, and is expected to emerge the most attractive segment with 30.9% share by 2024, followed by haircare. This means that natural and organic skincare will form close to one-third of the total global organic beauty market.

Owing to increasing popularity and consumer preference towards online retail channel for purchasing cosmetics and hair care products, the global market is expected to witness significant growth over the forecast period.\*\*

Development of know-how in ecommerce and its infrastructure is one of our top priorities, where significant part of the raised IPO funds will be invested.

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\* [https://www.researchandmarkets.com/research/kjks4d/cosmetic\\_skin](https://www.researchandmarkets.com/research/kjks4d/cosmetic_skin)

\*\* <https://formulabotanica.com/global-organic-beauty-market-22bn-2024/>

A woman with long blonde hair is sitting against the trunk of a large, textured tree. She is wearing a black sleeveless top and is looking off to the side. The background is a soft-focus landscape with green grass and a hazy sky. The overall mood is serene and natural.

MÁDARA  
organic skincare

**THANK YOU!**

APPENDICES

**STRUCTURE  
FINANCIALS**



# STRUCTURE (I)

## MANAGEMENT



### **LOTTE TISENKOPFA – ILTNERE**

Chairman of management board.  
Responsible for new formulas/  
development.  
Co-operation with scientists.  
A spokesperson for the Co.



### **ULDIS ILTNERIS**

Member of management board.  
Responsible for finances  
and management of Co.



### **PAULA TISENKOPFA**

Member of management board.  
Responsible for export and sales.

## OWNERSHIP

*Oy Transmeri  
Group AB  
6%*

*Lotte  
Tisenkopfa-Iltnere  
23.92%*

*Uldis Iltners  
23.92%*

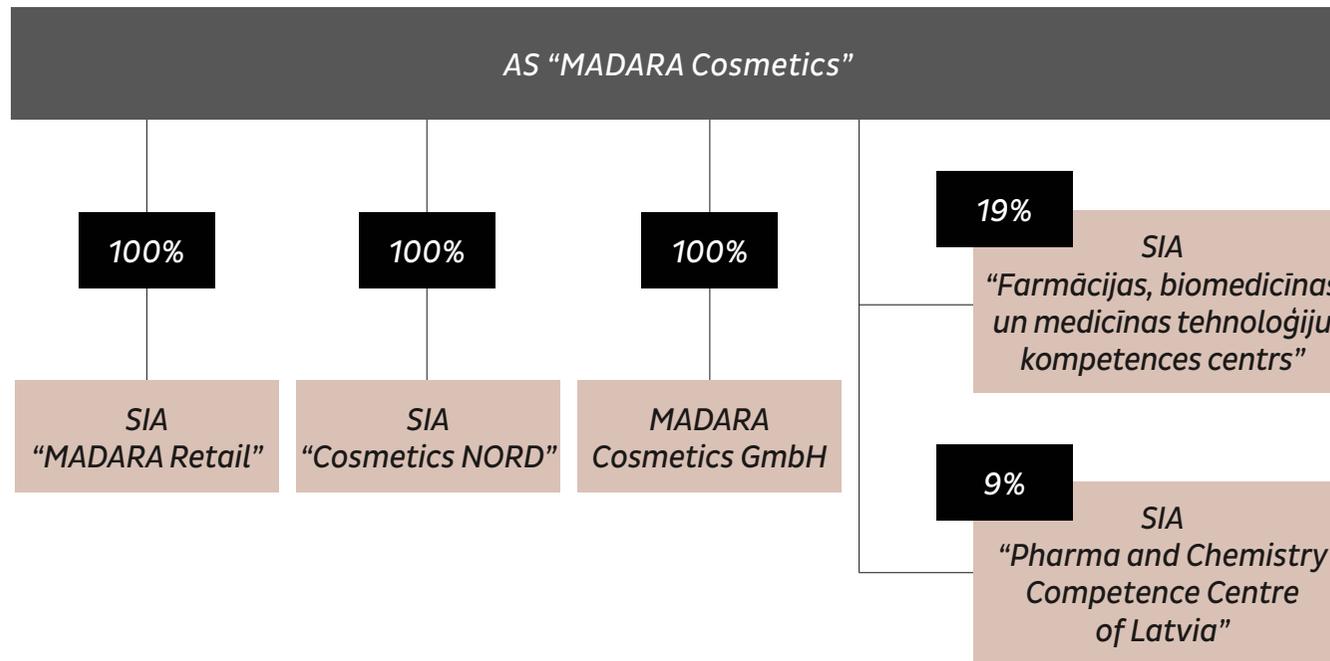
*AS  
MADARA  
Cosmetics  
(shareholders  
above 5%)*

*Liene Drāzniece  
6.83%*

*SIA Sustainable  
Investments  
17.09%*

*Zane Tamane  
10.25%*

## STRUCTURE (II)



### 100% SUBSIDIARIES:

- ▶ *MADARA Retail, SIA: runs Latvian retail stores*
- ▶ *Cosmetics NORD, SIA: offers contract manufacturing in MADARA Cosmetics, AS facilities*
- ▶ *MADARA Cosmetics, GmbH: Sales and distribution unit for Germany*

### MINORITY SHAREHOLDING COMPANIES:

- ▶ *Farmācijas, biomedicīnas un medicīnas tehnoloģiju Kompetences centrs, SIA: Competence centre established jointly with industry experts*
- ▶ *Pharma and Chemistry Competence Centre of Latvia, SIA: Competence centre established jointly with industry experts*

## CONSOLIDATED INCOME STATEMENT

(by turnover method)

	2017 (EUR) unaudited	2016 (EUR)
Net turnover	7 401 932	5 861 571
Cost of goods sold	-2 749 803	-2 540 235
<b>Gross profit</b>	<b>9 942 167</b>	<b>3 321 336</b>
Selling expenses	-2 316 214	-1 863 825
Administration expenses	-1 071 700	-599 819
Other operating income	171 155	129 731
Other operating expenses	-84 391	-52 539
Interest and similar income	4 479	2 603
Interest and similar expenses	-27 348	-23 279
<b>Profit before corporate income tax</b>	<b>6 618 148</b>	<b>914 208</b>
Corporate income tax for the financial year	-163 859	-96 286
<b>Profit after corporate income tax calculation</b>	<b>6 454 289</b>	<b>817 922</b>
Costs of changes in deferred tax liabilities	73 505	-14 818
<b>Profit for the financial year</b>	<b>6 527 794</b>	<b>803 104</b>

## CONSOLIDATED BALANCE SHEET

Assets	31/12/2017 (EUR) unaudited	31/12/2016 (EUR)
<b>Non-current assets</b>		
<b>Intangible assets</b>		
Concessions, licences, patents, trade marks and similar rights	14 569	11 575
Prepayments for intangible investments	7 899	-
<b>Total intangible assets</b>	<b>22 468</b>	<b>11 575</b>
<b>Property, plant and equipment</b>		
Land and buildings	133 237	-
Leasehold improvements	476 443	544 821
Plant and equipment	751 348	853 850
Other fixed assets	386 853	174 889
Construction in progress	14 874	2 670
Prepayments for property, plant and equipment	11 052	12 305
<b>Total property, plant and equipment</b>	<b>1 773 807</b>	<b>1 588 535</b>
<b>Non-current financial investments</b>		
Other non-current receivables and other receivables	40 000	42 513
Other securities and investments	826	826
<b>Total non-current financial investments</b>	<b>40 826</b>	<b>43 339</b>
<b>Total non-current assets</b>	<b>1 837 101</b>	<b>1 643 449</b>
<b>Current assets</b>		
<b>Inventories</b>		
Raw materials	856 175	755 590
Finished goods and goods for sale	674 440	456 582
Prepayments for inventories	98 227	74 072
<b>Total inventories</b>	<b>1 628 842</b>	<b>1 286 244</b>
<b>Receivables</b>		
Trade receivables	926 046	899 368
Other receivables	88 976	39 010
Accrued revenue	7 732	28 154
Deferred expenses	38 225	19 033
<b>Total receivables</b>	<b>1 060 979</b>	<b>985 565</b>
<b>Short term financial investments</b>	<b>500 000</b>	<b>-</b>
<b>Cash</b>	<b>4 082 017</b>	<b>579 638</b>
<b>Total current assets</b>	<b>7 271 838</b>	<b>2 851 447</b>
<b>Total assets</b>	<b>9 108 939</b>	<b>4 494 896</b>

## CONSOLIDATED BALANCE SHEET

Equity and liabilities	31/12/2017 (EUR) unaudited	31/12/2016 (EUR)
<b>Equity</b>		
Share capital	374 524	106 652
Share premium	4 023 454	761 236
Retained earnings:		
a) prior year retained earnings	1 608 525	1 218 741
b) profit for the year	1 237 756	803 104
<b>Total equity</b>	<b>7 244 259</b>	<b>2 889 733</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Bank borrowings	244 383	379 529
Other liabilities	182 042	53 526
Deferred revenue	145 213	234 139
Deferred tax liabilities	-	73 505
<b>Total non-current liabilities</b>	<b>571 638</b>	<b>740 699</b>
<b>Current liabilities</b>		
Bank borrowings	135 145	135 145
Advances from customers	77 164	26 372
Trade payables	558 083	251 683
Taxes and social insurance contributions	130 012	113 609
Other payables	142 632	108 322
Deferred revenue	88 926	88 926
Accrued liabilities	161 080	140 407
<b>Total current liabilities</b>	<b>1 293 042</b>	<b>864 464</b>
<b>Total liabilities</b>	<b>1 864 680</b>	<b>1 605 163</b>
<b>Total equity and liabilities</b>	<b>9 108 939</b>	<b>4 494 896</b>

# CONSOLIDATED CASH FLOW STATEMENT

(Indirect method)

	2017 (EUR) unaudited	2016 (EUR)
<b>Cash flow of operating activities</b>		
Profit before taxes	1 328 110	914 208
<b>Corrections:</b>		
Depreciation of fixed assets	411 515	383 828
Amortisation of intangible assets	4 073	5 329
Revenue from the recognition of ERAF funds	-167 419)	-90 985
Interest and similar income	-4 479)	-2 603
Interest and similar expenses	27 348	23 278
<b>Profit before adjustments for current assets and current liabilities</b>	<b>1 599 148</b>	<b>1 233 055</b>
<b>Corrections:</b>		
Increase in receivables	-74 693)	-96 923
Increase in inventories	-318 452)	-464 133
Increase/(Decrease) in payables and other payables	443 764	-13 694
<b>Gross cash flow of operating activities</b>	<b>1 649 767</b>	<b>658 305</b>
Interest payments	-27 348)	-23 278
Income tax payments	-159 906)	-28 190
<b>Net cash flow of operating activities</b>	<b>1 462 513</b>	<b>606 837</b>
<b>Investment activities cash flow</b>		
Other investments	-500 000	-3 083
Acquisition of fixed assets and intangible assets	-440 883	-114 806
Proceeds of loan repayments	2 513	-
Received interest	4 479	2 603
<b>Investment activities cash flow</b>	<b>-933 891</b>	<b>-115 286</b>
<b>Financing activities cash flow</b>		
Proceeds from share issue	3 316 770	-
Proceeds from ERAF funds	78 493	2 059
Repaid financial lease liabilities	-86 361	-22 617
Dividends paid	-200 000	-120 000
Repaid loan	-135 145	-135 145
<b>Financing activities cash flow</b>	<b>2 973 757</b>	<b>-275 703</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>3 502 379</b>	<b>215 848</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>	<b>579 638</b>	<b>363 790</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>4 082 017</b>	<b>579 638</b>

## CONSOLIDATED 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 December 2015 (unaudited)</b>	<b>106 652</b>	<b>761 236</b>	<b>63</b>	<b>1 338 678</b>	<b>2 206 629</b>
Denomination of the share capital		-	-63	63	-
Distribution of dividends				-120 000	-120 000
Profit for the reporting year	-	-	-	803 104	803 104
<b>Balance as of 31 December 2016</b>	<b>106 652</b>	<b>761 236</b>	<b>-</b>	<b>2 021 845</b>	<b>2 889 733</b>
Distribution of dividends	-	-	-	-200 000	-200 000
Share issue	267 872	3 262 218	-	-213 320	3 316 770
Profit for the reporting year	-	-	-	1 237 756	1 237 756
<b>Balance as of 31 December 2017 (unaudited)</b>	<b>374 524</b>	<b>4 023 454</b>	<b>-</b>	<b>2 846 281</b>	<b>7 244 259</b>

## FINANCIAL INDICATORS

The main financial indicators are as follows:

Key Ratios and Indicators (12 months, unaudited)	2017	2016
EBITDA (TEUR)	1766	1307
<b>Profitability and sustainability ratios</b>	<b>2017</b>	<b>2016</b>
1. Gross Margin (%)	63	57
2. Operating Margin (%)	18	16
3. Net Margin (%)	17	14
4. ROE (%)	17	28
5. ROA (%)	14	18
<b>Liquidity ratios</b>	<b>2017</b>	<b>2016</b>
6. Current ratio	5.62	3.30
7. Quick ratio	4.36	1.81
8. Working capital (TEUR)	5,979	1,987
<b>Leverage ratios</b>	<b>2017</b>	<b>2016</b>
9. Financial debt to equity	9%	21%
10. Interest coverage	49.4	40.2
11. Net financial debt (TEUR)	-3,465	14
12. Net gearing	-48%	0%

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

1. Gross profit/Net turnover\*100
2. Operating profit/Net turnover\*100
3. Net profit/Net turnover\*100
4. Net profit/Shareholder's equity\*100
5. Net profit/Total assets\*100
6. Current assets/Current liabilities
7. (Current assets-Inventories)/Current liabilities
8. Current assets-Current liabilities
9. Loans from financial institutions/Total equity\*100
10. Operating profit/Interest expense
11. Total financial debt-Cash
12. (Total financial debt-Cash)/Total equity\*100