



**MANAGEMENT REPORT  
ON THE UNAUDITED  
FINANCIAL STATEMENTS  
FOR H1 2018**

**WEBINAR / 04.09.2018**

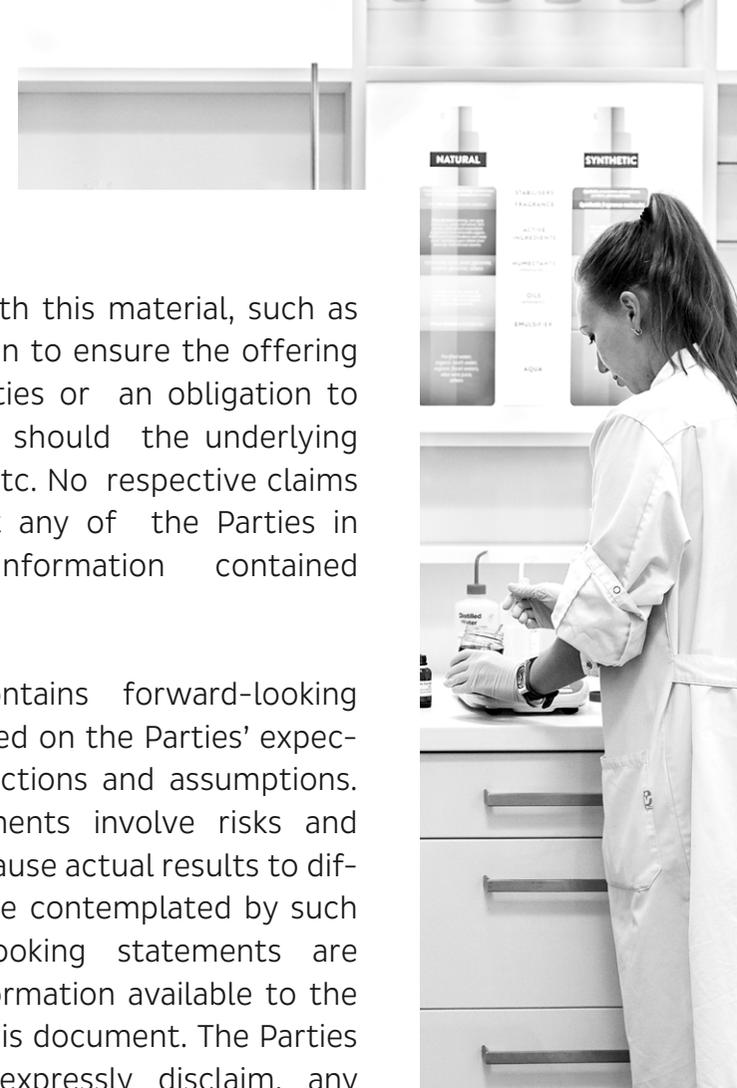
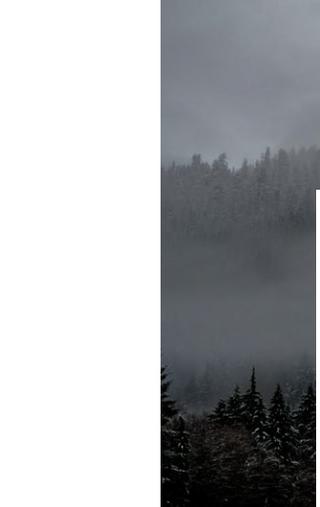
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1. OVERVIEW 2018 H1
2. IMPORTANT EVENTS
3. TRENDS

FULL MANAGEMENT  
REPORT AND FINANCIAL  
STATEMENTS 2018 H1  
AVAILABLE HERE:

<https://cns.omxgroup.com/cdsPublic>



**PRESENTING:**  
Uldis Iltners, Management Board

## OVERVIEW

The 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

Growth focus yet 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.

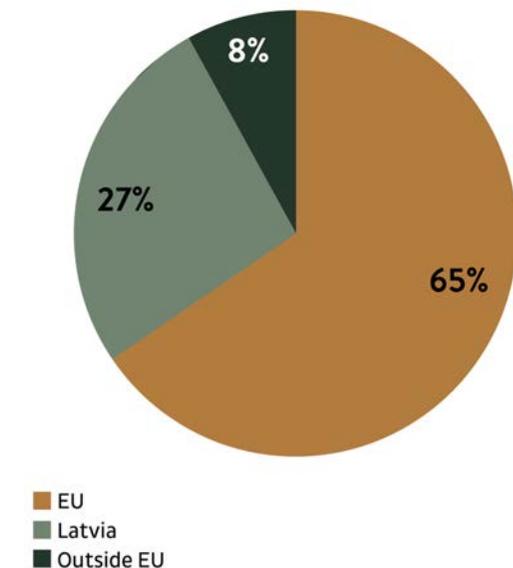
## INVESTMENT OPPORTUNITY

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

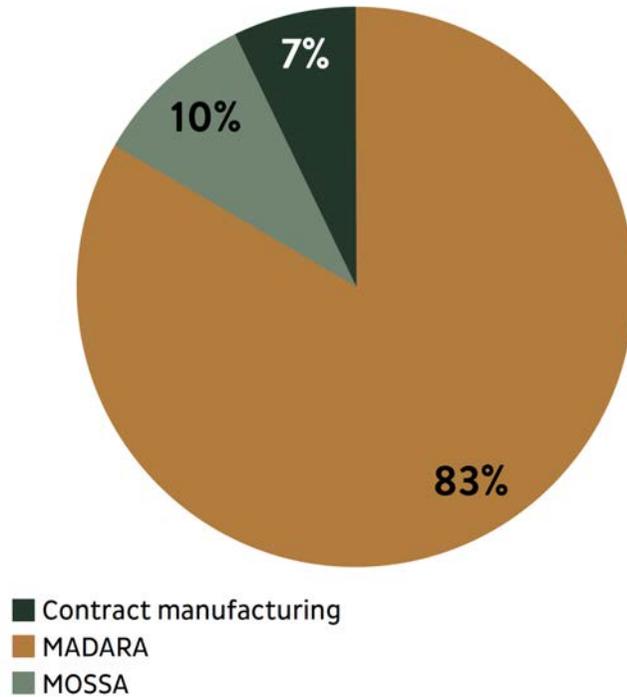
## 2018 H1 continues the established growth trend:

- ▶ Sales growth 30% y-o-y
- ▶ EBITDA growth 18.6% y-o-y
- ▶ Net profit growth 39.8% y-o-y

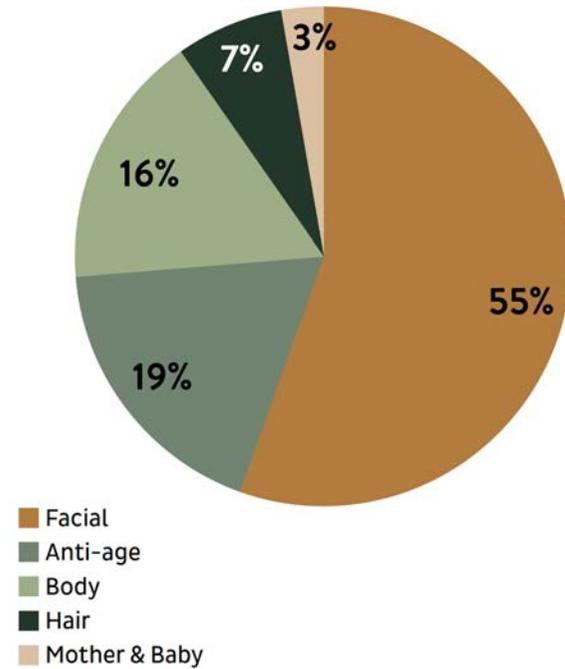
Sales distribution in LV, the EU and outside of the EU (2018 H1)



Sales distribution of MADARA products in 2018 H1



Sales distribution by product categories: facial, body and anti-age cosmetics, hair care products, children cosmetics etc. (2018 H1)



## FINANCIAL OVERVIEW

The main financial indicators are as follows:

Key Ratios and Indicators	2018 H1	2017 H1
Revenue	4 660 388	3 585 078
Cost of goods sold	-1 637 581	-1 360 952
<b>Gross profit</b>	<b>3 022 807</b>	<b>2 224 126</b>
Depreciation of property, plant and equipment	-184 460	-161 943
Leasehold improvements write-off expense	-35 703	-39 263
<b>Operating profit</b>	<b>981 464</b>	<b>824 200</b>
Interest income	26 183	-
Interest expense	-11 615	-12 990
<b>Profit before taxes</b>	<b>996 032</b>	<b>811 210</b>
<b>Net profit for the reporting period</b>	<b>995 991</b>	<b>712 594</b>

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

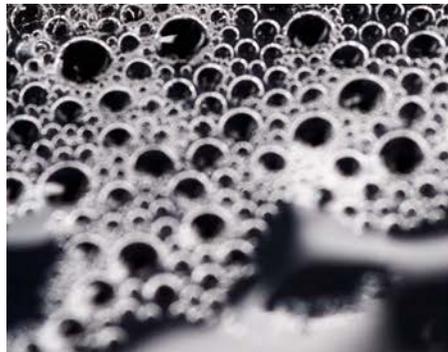
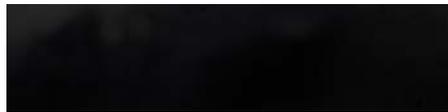
## KEY EVENTS FOR THE FIRST 6 MONTHS OF 2018

1

The new sunscreen product line – one of the most successful introductions of a new product in recent years – all 4 new sunscreen products rank among MÁDARA TOP10 bestsellers in the first half of 2018.

2

Highly successful introduction of new products. Range of natural sunscreens, BOOSTER ampoules, RE:GENE Volume Rebuild Lifting Mask and VOLCANO/CHARCOAL fragranced soap bars.



3

Upgrade of e-commerce system and implementation of IT projects.  
The current e-commerce system has undergone several significant improvements and has acquired additional tools that promote the system's operating effectiveness. Among the most notable IT projects we highlight the implementation of business intelligence system. Investments in upgrading the e-commerce system and implementing IT projects amounted to EUR 113 000.

4

The company also continues to enhance its manufacturing processes.

Two new filling machines were ordered:

- automated cosmetic filling and capping line (EUR 207 295);
- high-performing tube filling machine for cosmetic products (EUR 277 400).

Both machines will be supplied and installed by the end of the year.

5

New sales points:

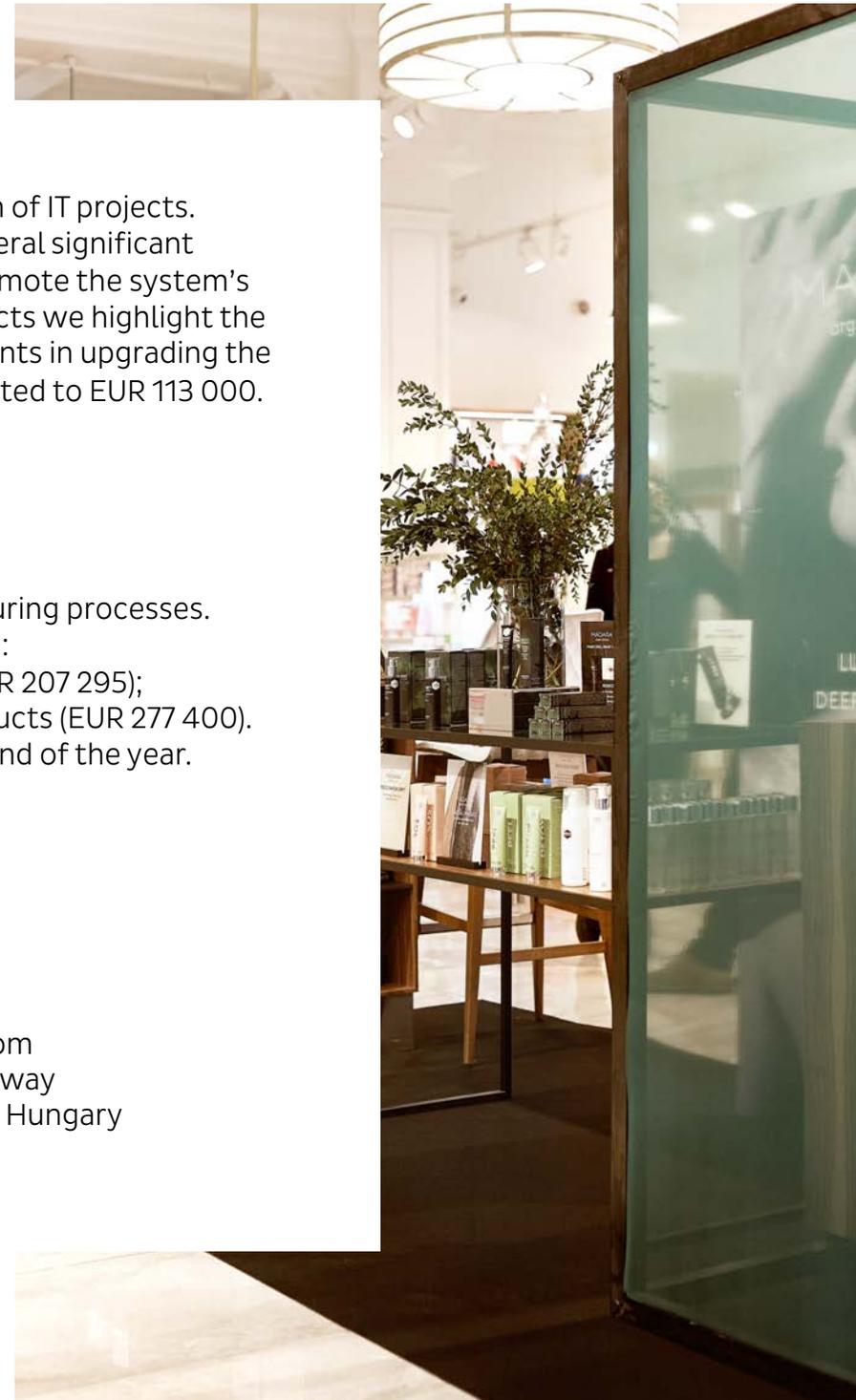
John Bell & Croyden and Selfridges

Cosmetic Departments in the United Kingdom

Hehku stores in Finland / Apotek Boots in Norway

Parafarmaci markets in Albania / Unipatika chain in Hungary

20 Healthy Planet stores in Canada



# ESG REPORT

The company has published its ESG report on 2017 activities,  
<http://www.geet.me/uBMxb0>

KEY INDICATOR	2016	2017
CO2 emissions:	67.44 t	110.38 t
Energy intensity per 1 product manufactured:	2817 KJ	1777 kJ
Renewable energy intensity (% of electricity coming from renewable sources):	40%	60%
CEO pay ratio:	1.86:1	1.68:1
Board diversity:	Men: 12.5% Women: 87.5%	Men: 12.5% Women: 87.5%
Gender diversity (% of female full-time employees)	76.92%	72.22%
Temporary Worker Ratio:	Full-time: 80% Part-time: 20%	Full-time: 86.75% Part-time: 13.25%
Employee Turnover Ratio:	8.85%	2.33%
Injury rate	0	0
Helping the community (Sponsored free of charge legal or psychological consultation sessions for victims of human trafficking, domestic violence, mostly women and children)	555	365

- Replacement of synthetic components.
- Demand for more organic food also has fueled demand for organic cosmetics.
- Fighting against green-washing in cosmetics industry.
- Clean beauty - support for non-toxic products.
- Environmentally-friendly products and packaging.
- Gender-neutral cosmetics.
- Rapid growth of beauty e-commerce (from market share of 1.5% in 2017 to 7-10% in 2020).
- Private labels.
- Labels with «free-from», «natural» and «organic».
- Traceability of ingredients.

### **ORGANIC IN NUMBERS:**

The global organic personal care market is expected to reach USD 25.1 billion by 2025. Global market in 2017 was USD 14.8bn: leading markets Europe (Germany) and the USA. Currently it is around 3% compared to the size of the conventional cosmetics market size. Organic skin care products are expected to grow with a CAGR of 11.1% during 2018-2026 due to increasing consumer awareness about organic skincare products and growing e-commerce and disposable income.

In 2017, turnover of natural cosmetics in Germany grew by EUR 1.2bn, by far the largest natural cosmetics market in Europe.

Organic and natural hair care, skincare and beauty products are expected to drive market growth during the coming 5-10 years.

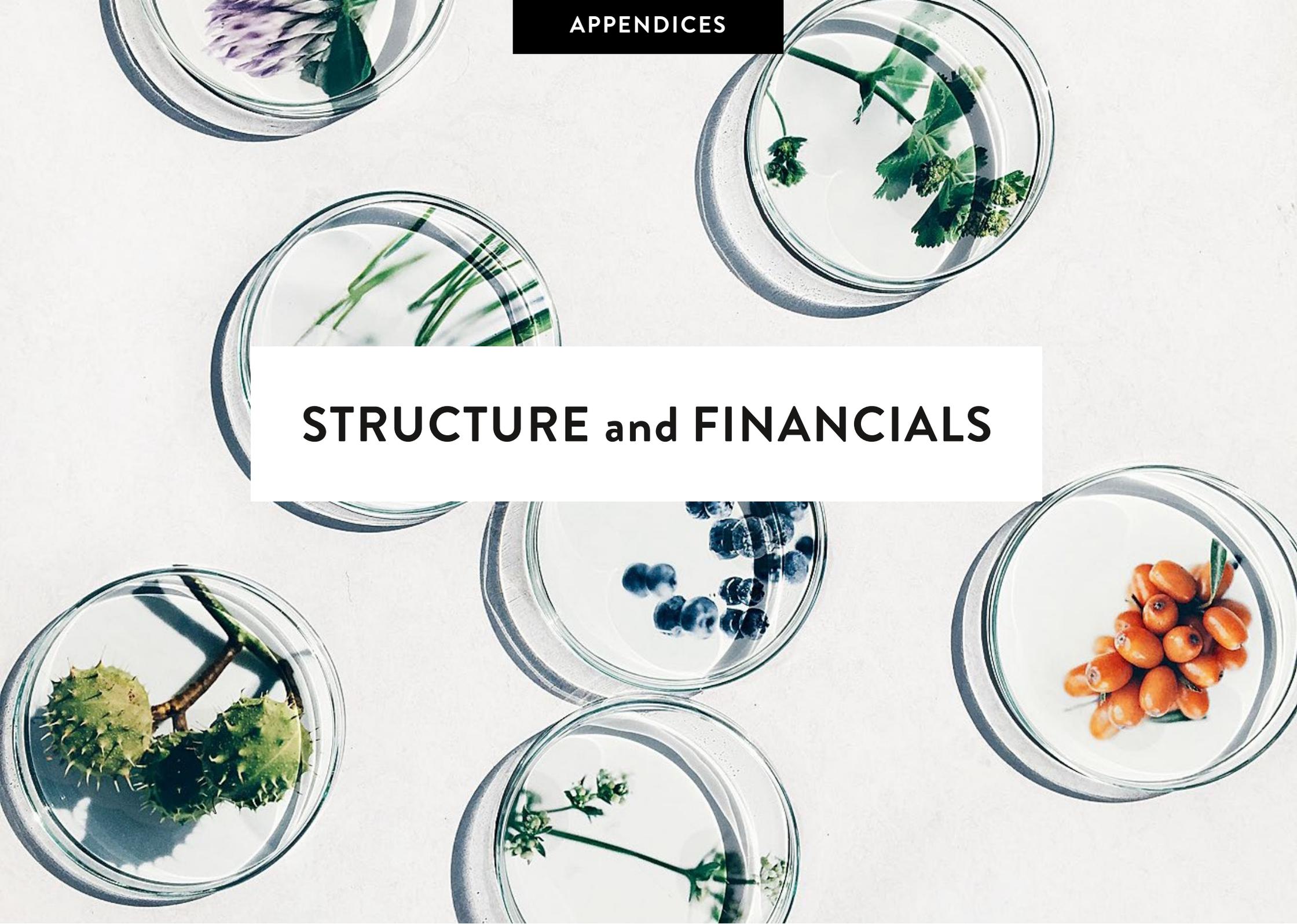
A woman with long blonde hair, wearing a black sleeveless dress, is sitting on the ground against the trunk of a large, textured tree. She is looking to the left. The background is a soft-focus landscape of green grass and trees under a pale sky.

MÁDARA  
organic skincare

**THANK YOU!**

APPENDICES

**STRUCTURE and 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.



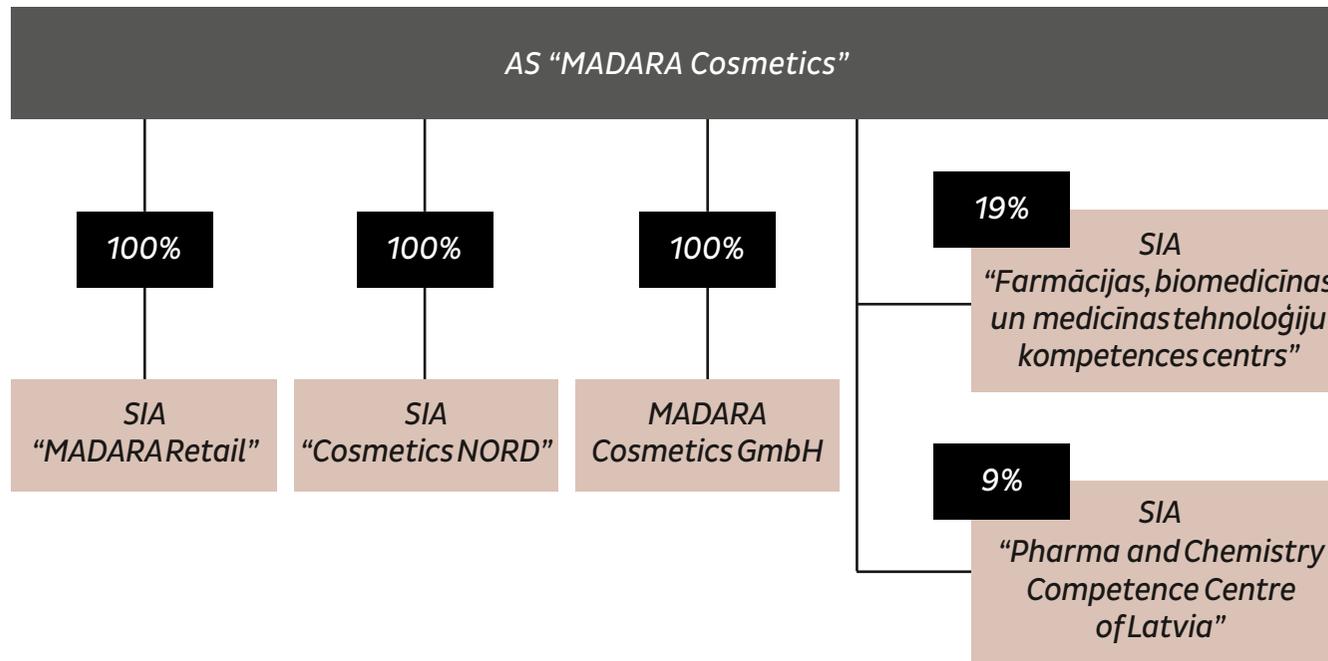
### PAULA TISENKOPFA

Member of management board.  
Responsible for export and sales.

## OWNERSHIP



## 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*

# FINANCIAL OVERVIEW

Key Ratios and Indicators	2018 H1	2017 H1
EBITDA (TEUR)	1 218	1 027
<b>Profitability and sustainability ratios</b>		
1. Gross Margin (%)	65	62
2. Operating Margin (%)	21	23
3. Net Margin (%)	21	20
4. ROE (%)	26%	44%
5. ROA (%)	21%	34%
<b>Liquidity ratios</b>		
6. Current ratio	6.30	3.79
7. Quick ratio	4.49	2.15
8. Working capital (TEUR)	6 210	2 511
<b>Leverage ratios</b>		
9. Financial debt to equity	11%	18%
10. Debt to equity	20%	45%
11. Net financial debt (TEUR)	-2 807	-373
12. Net gearing	-35%	-10%

\* 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\*2/Shareholder's equity (average)\*100
4. Net profit\*2/Total assets (average)\*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. Total debt/Total equity\*100
11. Total financial debt-Cash
12. (Total financial debt-Cash)/Total equity\*100

## CONSOLIDATED INCOME STATEMENT

	Note	2018 I-VI (unaudited)	2017 I-VI
Net turnover	2	4 660 388	3 585 078
Cost of goods sold	3	-1 637 581	-1 360 952
<b>Gross profit</b>		<b>3 022 807</b>	<b>2 224 126</b>
Selling expenses	4	-1 618 060	-1 035 199
Administration expenses	5	-486 483	-421 133
Other operating income	6	87 634	71 794
Other operating expenses	7	-24 434	-15 388
Interest and similar income	8	26 183	-
Interest and similar expenses	9	-11 615	-12 990
<b>Profit before corporate income tax</b>		<b>996 032</b>	<b>811 210</b>
Corporate income tax for the reporting period	10	-41	-98 616
<b>Profit for the reporting period</b>		<b>995 991</b>	<b>712 594</b>

The accompanying notes on pages 11 to 27 are an integral part of these consolidated financial statements.

Please refer to the full set of financials / financial report which can be found here: <https://cns.omxgroup.com/cdsPublic>

## CONSOLIDATED BALANCE SHEET

Assets	Note	30/06/2018 (EUR) (unaudited)	31/12/2017 (EUR)
<b>Non-current assets</b>			
<b>Intangible assets</b>			
Concessions, licences, patents, trade marks and similar rights		173 132	133 361
Concessions, licences, patents, trade marks and similar rights		66 081	7 899
<b>Total intangible assets</b>	<b>11</b>	<b>239 213</b>	<b>141 260</b>
<b>Property, plant and equipment</b>			
Land		133 237	133 237
Leasehold improvements		482 927	476 443
Plant and equipment		664 968	751 348
Other fixed assets		284 914	268 060
Construction in progress		78 298	14 874
Prepayments for property, plant and equipment		193 878	14 065
<b>Total property, plant and equipment</b>	<b>12</b>	<b>1 838 222</b>	<b>1 658 027</b>
<b>Non-current financial investments</b>			
Other non-current receivables and other receivables	13	70 600	40 000
Other securities and investments	14	826	826
<b>Total non-current financial investments</b>		<b>71 426</b>	<b>40 826</b>

## CONSOLIDATED BALANCE SHEET

Assets	Note	30/06/2018 (EUR) (unaudited)	31/12/2017 (EUR)
<b>Total non-current assets</b>		<b>2 148 861</b>	<b>1 840 113</b>
<b>Current assets</b>			
<b>Inventories</b>			
Raw materials	15	1 047 088	859 164
Finished goods and goods for sale	16	872 665	674 319
Prepayments for inventories		203 831	96 392
<b>Total inventories</b>		<b>2 123 584</b>	<b>1 629 875</b>
<b>Receivables</b>			
Trade receivables	17	973 701	923 709
Other receivables	18	101 554	85 823
Accrued revenue		-	18 293
Deferred expenses		7 225	34 210
<b>Total receivables</b>		<b>1 082 480</b>	<b>1 062 035</b>
<b>Total current financial investments</b>		<b>500 000</b>	<b>500 000</b>
<b>Cash</b>		<b>3 675 882</b>	<b>4 086 345</b>
<b>Total current assets</b>		<b>7 381 946</b>	<b>7 278 255</b>
<b>Total assets</b>		<b>9 530 807</b>	<b>9 118 368</b>

# FINANCIAL OVERVIEW

## CONSOLIDATED BALANCE SHEET

Equity and liabilities	Note	30/06/2018 (EUR) (unaudited)	31/12/2017 (EUR)
<b>Equity</b>			
Share capital	21	374 524	374 524
Share premium		4 023 454	4 023 454
Retained earnings:			
a) prior year retained earnings		2 517 550	1 608 525
b) profit for the period		995 991	1 246 097
<b>Total equity</b>		<b>7 911 519</b>	<b>7 252 600</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Bank borrowings	22	176 811	244 383
Other liabilities	23	169 686	182 042
Deferred revenue		100 750	145 213
<b>Total non-current liabilities</b>		<b>447 247</b>	<b>571 638</b>
<b>Current liabilities</b>			
Bank borrowings	22	135 145	135 145
Advances from customers		41 502	77 164
Trade payables		436 888	542 648
Taxes and social insurance contributions	24	94 385	122 086
Other payables	25	183 619	161 253
Deferred revenue		88 926	88 926
Accrued liabilities		191 576	166 908
<b>Total current liabilities</b>		<b>1 172 041</b>	<b>1 294 130</b>
<b>Total liabilities</b>		<b>1 619 288</b>	<b>1 865 768</b>
<b>Total equity and liabilities</b>		<b>9 530 807</b>	<b>9 118 368</b>

## CONSOLIDATED CASH FLOW STATEMENT

(Indirect method)

	Note	2018 I-VI EUR (unaudited)	2017 I-VI EUR
<b>Cash flow of operating activities</b>			
Profit before taxes		996 032	811 210
<b>Corrections:</b>			
Depreciation of fixed assets	12	220 164	201 206
Amortisation of intangible assets	11	16 345	1 973
Revenue from the recognition of ERAF funds		-86 077	-44 463
Interest and similar income	8	-26 183	-
Interest and similar expenses	9	11 615	12 990
<b>Profit before adjustments for current assets and current liabilities</b>		<b>1 131 896</b>	<b>982 916</b>
<b>Corrections:</b>			
Increase / decrease in receivables		-74 182	212 596
Increase in inventories		-386 270	-157 521
Decrease in payables and other payables		-124 454	-104 537
<b>Gross cash flow of operating activities</b>		<b>546 990</b>	<b>933 454</b>
Interest payments		-11 615	-12 990
Income tax payments		-53 702	-53 370
<b>Net cash flow of operating activities</b>		<b>481 673</b>	<b>867 094</b>

## CONSOLIDATED CASH FLOW STATEMENT

(Indirect method)

	Note	2018 I-VI EUR (unaudited)	2017 I-VI EUR
<b>Investment activities cash flow</b>			
Acquisition of fixed assets and intangible assets		-494 606	-354 425
Bank guarantee deposit		-30 600	-
Received interest		26 183	-
<b>Investment activities cash flow</b>		<b>-499 023</b>	<b>-354 425</b>
<b>Financing activities cash flow</b>			
Proceeds from ERAF funds		41 614	8
Repaid financial lease liabilities		-30 083	-19 530
Dividends paid		-337 072	-
Repaid loan	22	-67 572	-67 573
<b>Financing activities cash flow</b>		<b>-393 113</b>	<b>-87 095</b>
<b>Decrease / increase in cash and cash equivalents</b>		<b>-410 463</b>	<b>425 574</b>
<b>Cash and cash equivalents at the beginning of the reporting year</b>		<b>4 086 345</b>	<b>579 638</b>
<b>Cash and cash equivalents at the end of the financial year</b>		<b>3 675 882</b>	<b>1 005 212</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (EUR)	Share premium (EUR)	Retained earnings (EUR)	Total equity (EUR)
<b>Balance as of 31 December 2016</b>	<b>106 652</b>	<b>761 236</b>	<b>2 021 845</b>	<b>2 889 733</b>
Distribution of dividends	-	-	-200 000	-200 000
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 period	-	-	1 246 097	<b>1 246 097</b>
<b>Balance as of 31 December 2017</b>	<b>374 524</b>	<b>4 023 454</b>	<b>2 854 622</b>	<b>7 252 600</b>
Distribution of dividends	-	-	-337 072	-337 072
Profit for the reporting period	-	-	995 991	<b>995 991</b>
<b>Balance as of 30 June 2018 (unaudited)</b>	<b>374 524</b>	<b>4 023 454</b>	<b>3 513 541</b>	<b>7 911 519</b>