A/S Madara Cosmetics

2016 Consolidated Annual Report
prepared in accordance with
Latvian statutory requirements,
*and Independent auditors' report**

* This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

Riga, 2017

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GENERAL INFORMATION ABOUT THE GROUP

Name of the Group	Madara Cosmetics
Parent Company	Madara Cosmetics AS (till 11.01.2017.: Limited liability company)
Parent Company's registration number	No 40003844254
Registration place and date	Riga, 28 July 2006
Parent Company's legal address	Zeltinu Street 131, Marupe, LV-2167
Shareholders	Liene Drāzniece - 8 % Uldis Iltners - 28 % Zane Tamane - 12 % Lote Tisenkopfa - Iltnere - 28 % Paula Tisenkopfa - 4 % ALPS Investments, A/S, Reg No 40103684497 - 20 %
Type of operation	Manufacture of perfumes and toilet preparations 20.42 Wholesale of perfume and cosmetics 46.45 Retail sale of cosmetic and toilet articles 47.75
The board members of the Parent Company	Lote Tisenkopfa - Iltnere - Chairman of the Board Uldis Iltners - Member of the Board Solvita Kurtiša - Member of the Board
Council of the Parent Company	Paula Tisenkopfa - Chairman of the Council Liene Drāzniece - Deputy Chairman of the Council Zane Tamane - Member of the Council The Council begins its work on 11 January 2017
Reporting year	1/1/2016 till 12/31/2016
Previous reporting year	1/1/2015 till 12/31/2015
Subsidiaries	Madara Retail SIA, reg. No 40103212103 - 100% Cosmetics Nord SIA, reg. No 40103277805 - 100% Madara Cosmetics GmbH, reg No HRB 177689 - 100%
Independent Auditors:	Deloitte Audits Latvia SIA Reg. No 40003606960 Licence No 43 4a Gredu Street, Riga, LV-1019, Latvia
Certified Auditor	Jeļena Mihejenkova Certified Auditor Certificate No 166

MANAGEMENT REPORT

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

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

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

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

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

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

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

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

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

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

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

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

The Group's online store www.madaracosmetics.lv was further developed during the reporting year.

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

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

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

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

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

Lote Tisenkopfa - Iltnere Chairman of the Board	Solvita Kurtiša Member of the Board	Uldis Iltners Member of the Board

6 July 2017

CONSOLIDATED INCOME STATEMENT
(by turnover method)

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

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

CONSOLIDATED BALANCE SHEET

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

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

CONSOLIDATED BALANCE SHEET

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

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

CONSOLIDATED CASH FLOW STATEMENT

(Indirect method)

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(1) STATEMENT OF ACCOUNTING POLICIES – GENERAL INFORMATION

Basis of preparation of the financial statements

Consolidated financial statements have been prepared in accordance with the Laws of the Republic of Latvia on Accounting and on Annual Reports and Consolidated Annual Reports. The statement of profit and loss is prepared according to turnover costs method. Balance sheet position "Deferred tax liabilities" is recognized and valued in accordance with International Accounting Standard No. 12 "Income taxes" requirements.

Accounting principles applied

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

a) Going concern assumption – the Group will continue as a going concern.
b) Evaluation principles are consistent with the prior year.
c) Items have been valued in accordance with the principle of prudence:
  - the financial statements reflect only the profit generated till the date of the balance sheet;
  - all incurred liabilities and current or prior year losses have been taken into consideration even if discovered within the period after the balance sheet date;
  - all impairments and depreciation have been taken into consideration irrespective of whether the financial result was a loss or profit.

d) Income and expenses incurred during the reporting year have been taken into consideration irrespective of the payment date or date when the invoice was issued or received. Expenses have been matched with revenue for the reporting period.
e) Asset and liability items have been valued separately.
f) The consolidated financial statements contains all items, that have considerable influence in evaluation and economic decision making.
g) Business transactions are recorded taking into account their economic content and substance, not merely the legal form.

Consolidation principles

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

The reporting period of the consolidated financial statements

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

Translation of foreign currencies

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

All transactions denominated in foreign currencies are translated into the EUR at the European Central Bank rate of exchange prevailing on the transaction day. At the balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the European Central Bank rate of exchange prevailing on 31 December.

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

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

Related parties

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

Intangible assets and fixed assets

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

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

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

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

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

Intangible assets:

Licences	20-33	%
Other intangible assets	20	%

Fixed assets:

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

Intangible assets and fixed assets (continued)

The gain or loss arising from the sale of fixed assets are recognized in the statement of profit or loss for the respective period.
Repair and renovation expenses increasing the useful life or the value of the fixed asset are capitalized and depreciated over their useful life. Other repair and maintenance expenses are charged in income statement of the reporting period they are incurred.
Leasehold improvements are capitalized and are included in the asset's carrying amount. Leasehold improvements are amortised over the shorter of the useful life of the improvement and the term of the lease agreement on a straight-line
Research costs are recognized in the income statement of the reporting period they are incurred. The Company's development costs are capitalized when its future recoverability can reasonably be demonstrated. Amortisation is calculated over the period of development cost recovery.

Impairment of non-current assets

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

Valuation of inventories

The cost of inventories is stated using the weighted average price method.
Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of product completion and selling expenses.
Inventories are recognized at net realisation value by decreasing the cost of inventories by the amount of provisions made.

Receivables

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

Cash and cash equivalents

Cash and cash equivalents includes cash in bank accounts.

Financial instruments

- *Non-current loans and claims*

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

- *Other non-current financial investments*

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

Available-for-sale financial assets are financial assets which are not issued loans, invoices and held-to-maturity investments. These assets can be sold in order to increase liquidity or interest rates in case of changes in rates or capital value. Available-for-sale financial assets are recognised at fair value. Changes in the carrying amount of available-for-sale financial assets are recognised in the equity under the revaluation reserve. Provisions are created if there is objective indication on impairment of an asset.

- *Current financial investments*

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

Finance lease liabilities

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

Operating lease

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

Revenue recognition

Revenue from the sale of goods is recognized as soon as a significant portion of ownership rights and risks of goods are transferred to the customer, and the reward can be measured reliably.
Revenue from rendering of services is recognized in proportion to the stage of completion of the order.
Interest income is recognized in the corresponding period of time.

Corporate income tax

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

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

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

Fair value

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

Use of estimates

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

Government support

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

(2) Net turnover

Turnover is the income received during the year from the Group's main activities - the provision of services without value added tax. Revenue has been generated from the production and sale of cosmetics.

Turnover by geographical markets:

	2016	2015 (unaudited)
	EUR	EUR
European Union	3,756,743	2,473,052
Latvia	1,844,655	1,646,534
Other	712,795	361,301
Revenue from services	41,914	40,368
Trade discounts	(500,112)	(328,115)
Other revenue	5,576	2,635
Total	**5,861,571**	**4,195,775**

(3) Cost of goods sold

	2016	2015 (unaudited)
	EUR	EUR
Materials cost	1,262,905	1,003,803
Remuneration for work	441,112	240,683
Fixed assets depreciation	275,909	101,833
Premises rent and management costs	200,383	191,564
Social security contributions	103,827	55,726
Current assets write-off	74,087	74,021
Resource costs	51,806	34,383
New products research and development costs	42,326	89,109
Leasehold improvements write-off	40,385	-
Production service costs	31,949	22,125
Other production and production maintenance costs	15,546	3,873
Total	**2,540,235**	**1,817,120**

(4) Selling expenses

	2016	2015 (unaudited)
	EUR	EUR
Advertising costs	513,234	446,994
Remuneration for work	354,838	278,988
Transport costs	269,782	223,926
Social security contributions	96,045	74,169
Premises maintenance and rent costs	94,689	93,895
Sample production costs	94,470	46,615
Packaging materials costs	83,077	32,739
Mediation services costs	66,213	51,157
Marketing bonus costs	64,806	31,727
Fixed assets depreciation	40,964	33,035
Work trip and exhibitions costs	38,321	28,162
Internet store's WEB page maintenance costs and other IT costs	37,813	43,171
ECOSERT quality certificate maintenance costs	27,791	12,838
Representation costs	20,782	20,660
Royalties	10,003	12,150
Other sales expenses	50,997	39,781
Total	**1,863,825**	**1,470,007**

(5) Administration expenses

	2016	2015 (unaudited)
	EUR	EUR
Remuneration for work	289,677	172,319
Office costs	103,069	82,951
Social security contributions	55,444	32,302
Cash outflow related costs	38,692	34,425
Communication costs	18,477	15,260
Depreciation and amortisation	14,681	6,080
Legal and other professional service costs	19,830	8,462
Accounting and management software maintenance costs	7,067	8,654
Employee health insurance	5,250	4,907
Allowance for doubtful receivables (see Note 17)	2,840	7,713
Other management and administration costs	44,792	41,408
Total	**599,819**	**414,481**

(6) Other operating income

	2016	2015 (unaudited)
	EUR	EUR
Revenues from the ERAF project No L-APV-14-0111	88,926	32,622
Revenues from the ERAF project No 1.2.1.1/16/A/006	23,406	-
Revenues from the ERAF project No L-ĀTA-15-3765	2,059	-
Revenue from sales of current assets	826	6,281
Other revenues	14,514	2,198
Total	**129,731**	**41,101**

(7) Other operating expenses

	2016	2015 (unaudited)
	EUR	EUR
Donations	15,000	-
Nature protection costs	8,260	4,304
Resold purchased goods and services	6,339	8,439
Other expenses	22,940	8,838
Total	**52,539**	**21,581**

(8) Interest and similar income

	2016	2015 (unaudited)
	EUR	EUR
Net gain on foreign currency exchange rate fluctuations	2,340	-
Other interest income	263	36
Total	**2,603**	**36**

(9) Interest and similar expenses

	2016	2015 (unaudited)
	EUR	EUR
Interest on borrowings	20,248	18,876
Interest on finance lease	1,562	1,513
Currency exchange rate fluctuations	-	1,299
Factoring fees	1,010	680
Penalties paid	459	8,938
Total	**23,279**	**31,306**

(10) Corporate income tax for the financial year

Significant components of corporate income tax:

	2016	2015 (unaudited)
	EUR	EUR
Current corporate income tax charge	(96,286)	(663)
Deferred tax charge	(14,818)	(33,849)
Total	**(111,104)**	**(34,512)**

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.

	2016	2015 (unaudited)
	EUR	EUR
Profit before corporate income tax	914,208	482,417
Corporate income tax at the statutory rate of 15%	137,131	72,363
Tax effect of:		
Non-deductible expenses for tax purposes	4,773	9,493
Non-taxable income for tax purposes	(94)	(80)
Tax deductions for donations	(12,750)	-
Tax incentives for new technological equipment	(20,573)	(32,641)
Effect of unrecognised deferred tax asset from previous years	4,043	(23,062)
Other	(1,426)	1,867
Total	**111,104**	**27,940**
Effective corporate income tax rate	12.15%	5.79%

Deferred tax liabilities and assets are attributable to the following temporary differences:

	2016	2015 (unaudited)
	EUR	EUR
Deferred tax liabilities:		
Temporary difference on finance and tax depreciation values of fixed assets	75,528	69,378
Total	**75,528**	**69,378**
Deferred tax assets:		
Temporary difference on accrual for unused employee vacations and bonuses	-	(7,032)
Temporary difference on allowance for obsolete and slow moving inventories	(2,023)	(2,237)
Temporary difference on tax losses to be carried forward	-	(1,422)
Total	**(2,023)**	**(10,691)**
Neto atzītās atliktā nodokļa saistībasNet deferred tax liabilities recognised	**73,505**	**58,687**

Deferred tax is calculated by applying the currently enacted tax rate of 15%.

Changes in deferred tax liabilities / (assets):	12/31/2016	12/31/2015
	EUR	EUR
Deferred tax liabilities at the begining of the reporting year	58,687	24,838
Deferred tax changes in the income statement	14,818	33,849
Deferred tax liabilities at the end of the reporting year	**73,505**	**58,687**

(11) Intangible assets

	Concessions, patents, licenses, trademarks and similar rights	Total intangible assets
	EUR	EUR
Cost as of 31.12.2015	**57,882**	**57,882**
Additions	5,926	**5,926**
Cost as of 31.12.2016	**63,808**	**63,808**
Accumulated amortisation as of 31.12.20	**46,904**	**46,904**
Charge	5,329	**5,329**
Accumulated amortisation as of 31.12.20	**52,233**	**52,233**
Net book value as of 31.12.2015	**10,978**	**10,978**
Net book value as of 31.12.2016	**11,575**	**11,575**

(12) Fixed assets movement table

	Leasehold improve-ments	Equipment and machinery	Other fixed assets	Construc-tion in progress	Prepay-ments for property, plant and equipment	Total fixed assets
	EUR	EUR	EUR	EUR	EUR	EUR
Cost as of 31.12.2015	**55,878**	**1,591,610**	**346,140**	**553,094**	**-**	**2,546,722**
Additions	-	-	-	176,854	12,305	**189,159**
Disposals	-	(14,305)	(52,057)	-	-	**(66,362)**
Transfers	564,193	36,151	126,934	(727,278)	-	**-**
Cost as of 31.12.2016	**620,071**	**1,613,456**	**421,017**	**2,670**	**12,305**	**2,669,519**
Accumulated depreciation as of 31.12.2015	**19,021**	**511,591**	**232,906**	**-**	**-**	**763,518**
Calculated depreciation	56,229	262,320	65,279	-	-	**383,828**
Disposals	-	(14,305)	(52,057)	-	-	**(66,362)**
Accumulated depreciation as of 31.12.2016	**75,250**	**759,606**	**246,128**	**-**	**-**	**1,080,984**
Net book value as of 31.12.2015	**36,857**	**1,080,019**	**113,234**	**553,094**	**-**	**1,783,204**
Net book value as of 31.12.2016	**544,821**	**853,850**	**174,889**	**2,670**	**12,305**	**1,588,535**

(13) Other non-current receivables and other receivables

	12/31/2016 EUR	12/31/2015 EUR
Rent security deposit	40,000	40,000
FBMT Kompetences Centrs SIA	2,513	-
Total	**42,513**	**40,000**

(14) Other securities and investments

	12/31/2016 EUR	12/31/2015 EUR
Other investments	826	256
Total	**826**	**256**

(15) Raw materials

	12/31/2016 EUR	12/31/2015 EUR
Net book value of raw materials	769,078	477,042
Allowance for slow moving inventories	(13,488)	(14,913)
Total	**755,590**	**462,129**

(16) Finished goods and goods for sale

	12/31/2016 EUR	12/31/2015 EUR
Cosmetic products	438,490	269,026
Advertising materials	18,092	16,920
Total	**456,582**	**285,946**

(17) Trade receivables

	12/31/2016 EUR	12/31/2015 EUR
Net book value of trade receivables	911,083	617,836
Allowance for doubtful trade receivables	(11,715)	(8,875)
Total	**899,368**	**608,961**

	2016 EUR	2015 EUR
Allowance for doubtful trade receivables at the begining of the reporting year	8,875	37,614
Allowances created	3,468	8,248
Recovered doubtful receivables	(628)	(535)
Doubtful receivables write-off	-	(36,452)
Allowance for doubtful trade receivables at the end of the reporting year	**11,715**	**8,875**

See also Note 5. Allowance for doubtful trade receivables in the note is formed as an amount from created allowances and recovered doubtful debt amounts.

(18) Other receivables

	12/31/2016 EUR	12/31/2015 EUR
Security deposit for leased retail premises	14,282	14,282
Balance of unpaid collected cash	4,864	12,478
Settlement of operating car lease	4,533	-
Accrued VAT on received advances	4,313	-
CIT overpayment	2,188	87,862
Payments in PAY PAL system	293	660
Pharma and Chemistry Competence Centre of Latvia financing	-	80,143
VAT overpayment	-	30,302
Other receivables	8,537	11,226
Total	**39,010**	**236,953**

(19) Cash

	12/31/2016 EUR	12/31/2015 EUR
Cash in bank accounts	579,638	363,790
Total	**579,638**	**363,790**

(20) Share capital

As of 31 December 2016, the registered and fully paid-in share capital of the Group's parent Company amounts EUR 106 652 and consists of 3 809 shares with a nominal value of EUR 28.

(21) Bank borrowings

	12/31/2016 EUR	12/31/2015 EUR
SWEDBANK loan - agreement No 14-009243	291,661	363,088
SWEDBANK loan - agreement No 14-025534	223,013	286,731
Total bank borrowings	**514,674**	**649,819**

Non-current borrowings	12/31/2016 EUR	12/31/2015 EUR
SWEDBANK loan - agreement No 14-009243	220,234	291,661
SWEDBANK loan - agreement No 14-025534	159,295	223,013
Total non-current borrowings	**379,529**	**514,674**

Current borrowings	12/31/2016 EUR	12/31/2015 EUR
SWEDBANK loan - agreement No 14-009243	71,427	71,427
SWEDBANK loan - agreement No 14-025534	63,718	63,718
Total current borrowings	**135,145**	**135,145**
Total bank borrowings	**514,674**	**649,819**

(21) Bank borrowings (continued)

Borrowings split by maturity	12/31/2016 EUR	12/31/2015 EUR
Less than 1 year	135,145	135,145
Over 1 year	379,529	514,674
Total borrowings	**514,674**	**649,819**

Borrowings split by currency	12/31/2016 EUR	12/31/2015 EUR
EUR	514,674	649,819
Total borrowings	**514,674**	**649,819**

Movement in borrowings	12/31/2016 EUR	12/31/2015 EUR
Borrowings at the beginning of the reporting year	**649,819**	**192,715**
Proceeds from borrowings	-	919,605
Repayment of borrowings	(135,145)	(462,501)
Borrowings at the end of the reporting year	**514,674**	**649,819**

Borrowings interest rates

As of 31 December 2016, 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 - 3 month EURIBOR + 3.5%; on the credit line facilities - 3 month EURIBOR + 2.5%. Interest on non-used credit line limit amount - 1% per annum.

Borrowings maturity dates

The maturity date of the non-current borrowing No 14-009243 is 22 January 2021, the maturity date of the non-current borrowing No 15-025534 is 22 June 2020. The maturity date of the credit line facilities - 17 February 2018.

Undrawn committed borrowing facilities

As of 31 December 2016, the Company had an 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 2016, 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 Group has signed commercial pledge agreement and has pleged assets in amount of EUR 840 000 to secure the credit line.

Bank loan covenants

During the reporting year and as of 31 December 2016, the Company had complied with all loan covenants of the borrowing agreements.

(22) Other non-current liabilities

	12/31/2016 EUR	12/31/2015 EUR
Lease liabilities	53,526	14,862
Total other non-current liabilities	**53,526**	**14,862**

(23) Taxes and social insurance contributions

	12/31/2016 EUR	12/31/2015 EUR
Corporate income tax	52,197	-
Social insurance contributions	35,267	22,405
Personal income tax	19,450	11,670
Value added tax	6,657	-
Risk duty	38	29
Total	**113,609**	**34,104**

(24) Other current liabilities

	12/31/2016 EUR	12/31/2015 EUR
Salaries	64,863	43,110
Lease liabilities	25,167	17,194
Balance of gift cards	12,785	13,401
Advance payment balance	902	3,734
Other liabilities	4,605	7,007
Total other current liabilities	**108,322**	**84,446**

(25) Transactions with related parties during the reporting year

Related party	Sales of goods and services	Purchases of goods and services
MC PROPERTIES SIA	-	273,359
Wolf Candles SIA	-	6,521
Total	**-**	**279,880**

(26) Number of employees in the Group

	2016	2015
Average number of employees per reporting year	84	67

(27) Information on the remuneration of council and board members of the parent company

	2016	2015
Total	2,058	1,764

(28) Off-balance sheet liabilities

On 17 March 2015, the Group's parent company signed a premises lease agreement for renting production and office space with SIA MC PROPERTIES (registration Number 40103872324), which will replace the previous premises lease agreement. Agreement is concluded till 2025.

On 30 June 2015, a mortgage agreement was signed between Swedbank A/S and MC Properties SIA regarding premises leased to the Group's parent company. As a pledge for the agreement stands MC Properties real estate located in Zeltinu street 131, Marupe. The Parent company is the warrantor of pledge for the total amount of EUR 1'138'461.

(29) Received ERAF financing

In 2015, the Parent company received the European Union co-financing in connection with participation in the following project of the European Regional Development Fund:

Entrepreneurship and innovation, sub-program - High value-added investments.

Under the terms of the aid agreement, the Parent company has no right to lease, pledge, sell or otherwise encumber equipment and property created through state aid co-financing within 5 years of receipt of the aid amount.

In 2016, the Group participated and received funding from the support centers of competence of the ERAF within the framework of the operational program "Growth and Employment", in the sub-program "Support for the development of new products and technologies within the competence centers", as well as taking part in the exhibition SANA 2015 in the program "Entrepreneurship and Innovations" in the sub-program "External market acquisition - external marketing".

(30) Financial risk management

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

Interest rate risk

The Group 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 not 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 or group of counterparties having similar characteristics.

(30) 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 21) 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.

(31) Post balance sheet events

In January 2017, the Parent company reorganized its legal status from limited liability company to joint stock company. As a result of the reorganization, the share capital of parent company consists of 1,066,520 shares with a nominal value of one share EUR 0,10.

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

The financial statements approved by:

Lote Tisenkopfa - Iltnere	Solvita Kurtiša	Uldis Iltners
Chairman of the Board	Member of the Board	Member of the Board

The financial statements prepared by:

Armands Bērziņš
Chief accountant

6 July 2017

Deloitte.

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INDEPENDENT AUDITORS` REPORT

To the shareholders of AS "Madara Cosmetics"

Our Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of of AS "Madara Cosmetics" ("the Company") and its subsidiaries ("the Group") set out on pages 6 to 26 of the accompanying consolidated annual report, which comprise:

- the consolidated balance sheet as at 31 December 2016,
- 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 AS "Madara Cosmetics" and its subsidiaries as at 31 December 2016, 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.

Other matter

Consolidated financial statements for 2015 has not been audited.

Reporting on Other Information

The Company`s management is responsible for the other information. The other information is the Management Report, as set out on pages 4-5 of the accompanying consolidated Annual Report.

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.

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INDEPENDENT AUDITORS` REPORT (Continued)

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 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.

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INDEPENDENT AUDITORS` REPORT (Continued)

- 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.

Deloitte Audits Latvia SIA
Licence No. 43

Jeļena Mihejenkova
Board member
Certified auditor
Certificate No. 166

Riga, Latvia
6 July 2017