

MÁDARA

organic skincare

AS MADARA COSMETICS
2021 SEPARATE AND CONSOLIDATED ANNUAL
REPORT PREPARED IN ACCORDANCE
WITH LATVIAN STATUTORY REQUIREMENTS,
AND INDEPENDENT AUDITORS' REPORT*

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



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INFORMATION ABOUT THE GROUP

Name of the Group	MADARA Cosmetics
Legal Status of the Parent Company	Joint stock company
Registration number of the Parent Company	No 40003844254
Registration place and date	Riga, 28 July 2006
Registered address of Parent Company	131 Zeltinu Street, Marupe, Marupe district, LV-2167, Latvia
Shareholders (above 5 %)	Uldis Iltners – owns 23.92% of shares Lote Tisenkopfa - Iltnere – owns 23.76% of shares Oy Transmeri Group Ab – owns 22.93% of shares Liene Drāzniece – owns 6.79% of shares Zane Tamane – owns 6.35% of shares
Type of operations and NACE code	Manufacture of perfumes and cosmetic preparations 20.42 Wholesale of perfume and cosmetics 46.45 Retail sale of cosmetic and related articles in specialized stores 47.75 Retail sale via mail order houses or via Internet 47.91
Board of the Parent Company	Lote Tisenkopfa - Iltnere – Chairman of the Board Uldis Iltners – Member of the Board Paula Tisenkopfa – Member of the Board until 29.08.2021 Tatjana Čornija – Member of the Board since 30.08.2021
Council of the Parent Company	Anna Ramata Stunda – Chairman of the Council Liene Drāzniece – Deputy Chairman of the Council Anna Andersone – Member of the Council Edgars Pētersons – Member of the Council Sari Hannele Rosin – Member of the Council
Reporting year	From 1.1.2021 to 31.12.2021
Previous reporting year	From 1.1.2020 to 31.12.2020
Subsidiaries of the Group	Madara Retail SIA, reg. No 40103212103 – 100% Cosmetics Nord SIA, reg. No 40103277805 – 100% Selfnamed SIA, reg.No 40103277805 – 100% of shares owned by Cosmetics Nord SIA Madara Cosmetics GmbH, reg. No HRB 177689 - 100%
Independent auditor and its address	Deloitte Audits Latvia SIA Reg. No 40003606960 License No 43 4a Gredu Street, Riga, LV-1019, Latvia
Certified Auditor	Inguna Staša LR Certified Auditor Certificate No 145

STATEMENT OF MANAGEMENT RESPONSIBILITIES

The Board of MADARA Cosmetics AS (hereinafter – “Parent Company” or “Company”) is responsible for the preparation of the separate and consolidated financial statements of the Parent Company and its subsidiaries (hereinafter – the Group).


The separate and consolidated financial statements are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Parent Company and the Group as of 31 December 2021 and the results of its operations and cash flows for the year 2021.

Separate and the consolidated financial statements have been prepared in accordance with the law “On the Annual Reports and Consolidated Annual Reports”. Appropriate accounting policies have been used and applied consistently, reasonable and prudent judgements and estimates have been made by the Board in the preparation of these financial statements.

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



Lote Tisenkopfa - Iltnere
Chairman of the Board



Tatjana Čornija
Member of the Board



Uldis Iltners
Member of the Board

MANAGEMENT REPORT

During the reporting period, MADARA Cosmetics Group consisted of the Parent Company MADARA Cosmetics AS and its subsidiaries MADARA Retail SIA, Cosmetics NORD SIA, Madara Cosmetics GmbH (Germany) and Selfnamed SIA, founded in 2021, which is a subsidiary of Cosmetics NORD SIA.

MADARA Cosmetics AS is the largest cosmetics producer in Latvia and one of the most significant natural cosmetics producers in the Baltics and Nordic region. The Group's products are exported to more than 20 countries, mainly the EU. The key business of the Group is the production of natural, Ecocert/Cosmos certified cosmetics products and sales of MĀDARA and MOSSA brand products, as well as the provision of contract manufacturing services.

The Group's Parent Company operates in a leased office and production plant on 131 Zeltinu Street in Marupe, which is one of the most advanced and capacity-wise largest cosmetics production plant in the Baltic and Northern European region. In addition, the Parent Company uses leased warehouse premises on Kauguru Street 6, Riga as well as office premises on Baložu Street 20A, Riga.

In 2021, we continued to implement our growth strategy and moved closer to the end customer by increasing sales in the online store [madaracosmetics.com](https://www.madaracosmetics.com), expanding our cooperation with the third-party online stores and increasing the number of countries where we fulfil a direct product distributor function by cooperating directly with the retailers. The Group's turnover for 2021 amounted to EUR 19.37 million, a 20% increase compared to the prior year. In 2021, the Group's profit before taxes increased by 12.7% and profit after taxes by 6.5% compared to the prior year.

In 2021, we brought a range of innovative and long-awaited products to the market. The turnover of the new products amounted to EUR 1.4 million. Among the 16 innovations introduced by the MĀDARA brand, it is important to note the development of a technologically sophisticated Vitamin C cream and serum formula, SPF 50 products for higher sun protection and the Deep Matter Bold Volume Mascara.

In 2021, the Group's long-term investments were over EUR 1.7 million, of which more than EUR 600 thousand were invested in production equipment.

The production capacity of the Group's Parent Company is still sufficient to continue the growth at the current pace.

In the coming years, the Group's expansion will be based on stronger development of such markets where we take over the distribution function, we will develop trade in new and growing markets (including third-party online stores), continue to actively develop our online shop platform, and strengthen cooperation with third-party online store channels. We also expect growth in the contract manufacturing and print-on-demand segments. Selfnamed is the first technological startup of MADARA Cosmetics AS, which we developed to satisfy the demand for the production of small batches. We have created a separate production process and a self-service online platform selfnamed.com. The Company had a successful launch and we see a positive market response.

In 2021, MADARA Cosmetics AS increased the number of work places by 24. In order to achieve the goals set, the expansion of the team will also actively continue in 2022. The financial risk management policy adopted by the Group is disclosed under Note 32 to the financial statements.

In the first quarter of 2022, the Group continued growth. The high rates of COVID-19 in several of the Group's focus countries in January and February, as well as the war in Ukraine and related sanctions against the Russian Federation, could affect the European and global economies. The Group has no significant direct contacts with Ukraine, Russia, or Belarus. In the first quarter of the year, activity declined in several markets. Nonetheless, we have been able to achieve an increase in turnover compared to the same period last year. Supply chains operate smoothly, and the production process is going on under a normal regime. The Group has sufficient stock of finished products and raw materials for future periods. However, this conclusion is based on information available at the time of the signing of this financial statement and the impact of future events on the Group's activities may differ since the further impact on the overall economic situation is not predictable and the actual results may differ.

Information on subsidiaries

MADARA Retail SIA (hereinafter – MADARA Retail SIA or the subsidiary) ensures the operation of MĀDARA brand stores in Riga, in the shopping centres "Galerija Centrs", "Spice", "Alfa" and "Akropole". In 2021, net turnover of

MANAGEMENT REPORT (continued)

the subsidiary amounted to EUR 462 thousand, which is EUR 396 thousand or 46% less than in the prior year. The profit of the subsidiary in 2021 amounted to EUR 151 thousand, while in 2020 the profit amounted to EUR 14 thousand. In 2021, the subsidiary used the state support programme for companies affected by the Covid-19 crisis, which helped to cover costs and close 2021 with positive profit results.

The subsidiary used the state downtime financial aid for employees in months when the turnover decline and other criteria to qualify for the aid were met. Taking into account the trade restrictions imposed in Latvia in relation to the groups of goods sold by the subsidiary and shopping centres, the stores of the subsidiary were closed for the first 5 months of the year. Commercial activities resumed on 1 June 2021, but the government restrictions and safety measures also had a certain effect on sales performance in the second half of the year.

The core business of Cosmetics NORD SIA (hereinafter – Cosmetics NORD SIA or the subsidiary) is providing contract manufacturing services using the production infrastructure and capacity of MADARA Cosmetics AS. In 2021, the subsidiary reached the turnover of EUR 1.13 million, which is EUR 831 thousand or 282% more compared to the previous year. Moreover, the subsidiary has also achieved an increase in turnover compared to 2019 – growing by

EUR 524 thousand. The result for 2021 was a profit of EUR 21 thousand compared to the loss in 2020.

In 2021, work began on the print-on-demand project Selfnamed. The self-service platform selfnamed.com was launched in the first quarter of 2022, and it offers customers a unique opportunity to create their own certified cosmetic product line or to order products with their own brand logo and personalised design.

MADARA Cosmetics GmbH provides cosmetics marketing services in Germany and organizes the distribution of products manufactured by the Parent Company on the market of Germany.

Except for the events listed in Note 33 to the financial statements, no other material events have taken place since the reporting year-end that should be reflected in these financial statements and would be relevant for the reassessment the Group's assets and liabilities, its financial position and the financial results of the reporting year.

According to the Parent Company's Board recommendation, the part of the year's 2021 profit in the amount of EUR 1 885 288 is proposed to be distributed into dividends, residual amount shall be reinvested in the development of the Group.



Lote Tisenkopfa - Iltnerē
Chairman of the Board



Tatjana Čornija
Member of the Board



Uldis Iltneris
Member of the Board

INCOME STATEMENT

	Note	Group 2021 / EUR	Group 2020 / EUR	Company 2021 / EUR	Company 2020 / EUR
Revenue	2	19 368 885	16 074 5 81	18 914 072	15 591 888
Cost of goods sold	3	(6 310 185)	(5 216 275)	(6 303 950)	(5 208 869)
Gross profit		13 058 700	10 858 306	12 610 122	10 383 019
Selling expenses	4	(7 717 049)	(6 294 735)	(7 464 026)	(5 944 338)
Administration expenses	5	(1 520 902)	(1 221 272)	(1 316 949)	(1 033 657)
Other operating income	6	381 738	437 5 21	301 5 98	287 3 89
Other operating expenses	7	(176 057)	(245 304)	(299 201)	(147 758)
Interest and similar income	8	1 014	57 0 14	1 014	57 0 14
Interest and similar expenses	9	(13 269)	(28 456)	(11 020)	(28 411)
Profit before corporate income tax		4 014 175	3 563 074	3 821 538	3 573 258
Corporate income tax for the reporting year	10	(345 484)	(117 902)	(345 484)	(117 902)
Profit after corporate income tax		3 668 691	3 445 172	3 476 054	3 455 356
Profit for the year		3 668 691	3 445 172	3 476 054	3 455 356

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

BALANCE SHEET

Assets	Note	Group 31.12.2021. EUR	Group 31.12.2020. EUR	Company 31.12.2021. EUR	Company 31.12.2020. EUR
Non-current assets					
Intangible assets					
Development costs		32 157	64 314	32 157	64 314
Concession, licenses, patents, trademarks, software and similar rights		994 507	589 267	993 719	588 269
Prepayments for intangible assets		86 827	12 095	8 599	12 095
Total intangible assets	11	1 113 491	665 676	1 034 475	664 678
Property, plant and equipment					
Land		468 722	213 722	468 722	213 722
Leasehold improvements		306 991	378 186	2 81 479	338 635
Technological equipment and machinery		1 479 495	1 091 948	1 479 495	1 091 948
Other fixed assets and equipment		418 442	333 369	405 398	316 335
Construction in progress		213 637	31 869	77 460	31 869
Prepayments for property, plant and equipment		19 064	200 128	19 064	200 128
Total property, plant and equipment	12	2 906 351	2 249 222	2 731 618	2 192 637
Non-current financial investments					
Investments in subsidiaries	13	-	-	18 156	18 156
Other non-current receivables	14	82 124	68 027	40 000	40 000
Other securities and investments		826	826	826	826
Total non-current financial investments		82 950	68 853	58 982	58 982
Total non-current assets		4 102 792	2 983 751	3 825 075	2 916 297
Current assets					
Inventories					
Raw materials, materials and consumables	15	2 507 205	2 002 631	2 503 585	2 001 224
Finished goods and goods for sale	16	1 531 759	1 671 361	1 487 705	1 625 381
Prepayments for inventories		289 856	549 484	289 856	549 484
Total inventories		4 328 820	4 223 476	4 281 146	4 176 089
Receivables					
Trade receivables	17	1 459 592	1 208 837	1 221 492	1 205 559
Trade receivables from related parties	18	-	-	1 012 380	189 601
Other receivables	19	176 437	53 082	128 367	51 420
Accrued revenue		12 976	34 500	12 684	33 530
Deferred expenses		27 819	36 808	21 071	30 701
Total receivables		1 676 824	1 333 227	2 395 994	1 510 811
Cash	20	6 600 065	5 645 859	5 949 035	5 578 578
Total current assets		12 605 709	11 202 562	12 626 175	11 265 478
Total assets		16 708 501	14 186 313	16 451 250	14 181 775

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

BALANCE SHEET

Equity and liabilities	Note	Group 31.12.2021. EUR	Group 31.12.2020. EUR	Company 31.12.2021. EUR	Company 31.12.2020. EUR
Equity					
Share capital	21	377 058	376 924	377 058	376 924
Share premium		4 023 454	4 023 454	4 023 454	4 023 454
Retained earnings:					
a) prior year retained earnings		6 520 961	4 583 619	6 579 059	4 631 533
b) profit for the year		3 668 691	3 445 172	3 476 054	3 455 356
Total equity		14 590 164	12 429 169	14 455 625	12 487 267
Liabilities					
Non-current liabilities					
Other liabilities	23	346	26 991	346	26 991
Total non-current liabilities		346	26 991	346	26 991
Current liabilities					
Bank borrowings	22	-	5 952	-	5 952
Advances from customers		74 618	76 059	25 460	26 291
Trade payables		942 769	626 138	908 193	622 921
Debts to affiliated companies		-	-	11 805	20 775
Taxes and mandatory state social insurance contributions	24	302 627	157 405	290 350	149 839
Other liabilities	25	256 322	252 504	230 129	231 059
Deferred revenue		15 428	-	15 428	-
Accrued liabilities	26	526 227	612 095	513 914	610 680
Total current liabilities		2 117 991	1 730 153	1 995 279	1 667 517
Total liabilities		2 118 337	1 757 144	1 995 625	1 694 508
Total equity and liabilities		16 708 501	14 186 313	16 451 250	14 181 775

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

CASH FLOW STATEMENT

	Note	Group 2021 / EUR	Group 2020 / EUR	Company 2021 / EUR	Company 2020 / EUR
Cash flow of operating activities					
Profit before taxes		4 014 175	3 563 074	3 821 538	3 573 258
Adjustments for:					
Depreciation of property, plant and equipment	12	464 043	545 405	440 738	522 666
Amortisation of intangible assets	11	2 11 600	186 216	2 11 390	186 164
Net revenue from the disposal of property, plant and equipment	6	(2 420)	-	(2 420)	-
Government and the EU institutions aid	6	(349 705)	(254 728)	(143 603)	(254 728)
Interest and similar income	8	(1 014)	(55 010)	(1 014)	(55 010)
Interest and similar expense	9	6 100	8 578	3 866	8 533
Profit before adjustments for current assets and current liabilities		4 342 779	3 993 535	4 330 495	3 980 883
Adjustments for:					
Increase in receivables		(60 948)	(119 166)	(653 224)	(145 479)
Increase in inventories		(364 972)	(918 886)	(238 985)	(916 253)
Increase in payables and other payables		432 983	493 977	265 147	527 162
Gross cash flow of operating activities		4 349 842	3 449 460	3 703 433	3 446 313
Interest paid	9	(6 100)	(8 578)	(3 866)	(8 533)
Corporate income tax paid		(374 707)	(140 447)	(374 707)	(140 447)
Net cash flow of operating activities		3 969 035	3 300 435	3 324 860	3 297 333
Cash flow of investment activities					
Other current financial investments		(14 097)	-	-	-
Proceeds from the disposal of current financial investments		-	950 000	-	950 000
Payments for property, plant and equipment and intangible assets		(1 798 911)	(728 988)	(1 579 230)	(727 655)
Proceeds from the property, plant and equipment sale	6	20 744	-	20 744	-
Proceeds of loan repayments		-	250 000	-	250 000
Received interest	8	1 014	59 621	1 014	59 621
Net cash flow of investing activities		(1 791 250)	530 633	(1 557 472)	531 966
Cash flow of financing activities					
Received government and the EU institutions aid	6, 31	344 624	209 613	171 272	209 613
Repaid financial lease liabilities	25	(54 555)	(59 134)	(54 555)	(59 134)
Dividends paid		(1 507 696)	(561 786)	(1 507 696)	(561 786)
Repayment of bank borrowings	22	(5 952)	(103 286)	(5 952)	(103 286)
Net cash flow of financing activities		(1 223 579)	(514 593)	(1 396 931)	(514 593)
Net (decrease)/ increase in cash and cash equivalents		954 206	3 316 475	370 457	3 314 706
Cash and cash equivalents at the beginning of the reporting year	20	5 645 859	2 329 384	5 578 578	2 263 872
Cash and cash equivalents at the end of the financial year	20	6 600 065	5 645 859	5 949 035	5 578 578

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

STATEMENT OF CHANGES IN EQUITY

Group	Share capital EUR	Share premium EUR	Retained earnings EUR	Total equity EUR
Balance as of 31.12.2019.	374 524	4 023 454	5 147 805	9 545 783
Distribution of dividends	-	-	(561 786)	(561 786)
Increase in share capital	2 400	-	(2 400)	-
Profit for the reporting year	-	-	3 445 172	3 445 172
Balance as of 31.12.2020.	376 924	4 023 454	8 028 791	12 429 169
Distribution of dividends	-	-	(1 507 696)	(1 507 696)
Increase in share capital	134	-	(134)	-
Profit for the reporting year	-	-	3 668 691	3 668 691
Balance as of 31.12.2021.	377 058	4 023 454	10 189 652	14 590 164

Company	Share capital EUR	Share premium EUR	Retained earnings EUR	Total equity EUR
Balance as of 31.12.2019.	374 524	4 023 454	5 195 719	9 593 697
Distribution of dividends	-	-	(561 786)	(561 786)
Increase in share capital	2 400	-	(2 400)	-
Profit for the reporting year	-	-	3 455 356	3 455 356
Balance as of 31.12.2020.	376 924	4 023 454	8 086 889	12 487 267
Distribution of dividends	-	-	(1 507 696)	(1 507 696)
Increase in share capital	134	-	(134)	-
Profit for the reporting year	-	-	3 476 054	3 476 054
Balance as of 31.12.2021.	377 058	4 023 454	10 055 113	14 455 625

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

NOTES TO THE FINANCIAL STATEMENTS

(1) STATEMENT OF ACCOUNTING POLICIES

Basis of preparation

The annual Report has been prepared in accordance with the Laws of the Republic of Latvia on Accounting and on Annual Reports and Consolidated Annual Reports. The income statement is prepared by function of expense method and cash flow statement is prepared using the indirect method.

These are consolidated and separate financial statements of the Company.

Principal accounting policies adopted

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

- a) Going concern assumption, the Parent Company and Group will continue as a going concern.
- b) Evaluation principles are consistent with the prior year.
- c) Items have been valued in accordance with the principle of prudence:
 - The Annual Report reflects 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 current reporting year corresponds to the closing balance sheet of the previous year.
- g) All accounts, which significantly affect the evaluation and decision-making of the annual report users, have been disclosed. Insignificant items have been combined and the details disclosed in the Notes.
- h) Business transactions are recorded in the annual report taking into account their economic content and substance, not merely the legal form.

Consolidation principles

Subsidiaries, in which the Group has direct or indirect control over operating activities, are consolidated. Control is obtained if the Group has an ability to influence the financial and management matters in a subsidiary, thereby benefiting from it. The control is obtained if the Group is entitled to influence the financial and operating policies applied in a subsidiary, as well as to benefit from its transactions. The consolidation of subsidiaries is based on a cost or acquisition method. The subsidiaries of the Group are consolidated from the moment when the Group has taken over control and the consolidation is discontinued with the divestment of the Group's subsidiary. The financial statements of subsidiaries are consolidated in the Group's financial statements, combining the respective assets, liabilities, profit and loss items. All transactions between the Group companies, settlements and unrealised profit or loss from transactions are eliminated. If necessary, the accounting policies of the Group's subsidiaries have been changed to the Group's accounting policies to ensure compliance with the accounting and measurement methods used by the Group.

The reporting period

The reporting year covers the period from 1.1.2021 to 31.12.2021.

Foreign currency transactions

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

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

Profit or loss resulting from the exchange rate fluctuations is recognised in the corresponding period's income statement. As of 31 December of the reporting year, the Group has no significant assets and liabilities denominated in foreign currencies.

Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties are defined as shareholders, senior management, members of the management and council, their close relatives and companies that directly or indirectly through one or more intermediaries control the Group or are controlled by the Group, or are jointly controlled by the Group.

Investments in subsidiaries and associated companies and other financial investments

Investments in subsidiaries (i.e. where the Company owns more than 50% of share capital or otherwise controls the investee company) are measured initially at cost. The control is the power to govern the financial and operating policies of the investee company.

Associated companies are entities over which the Company has significant influence but not control, generally between 20% and 50% of the voting rights. Significant influence is the power to participate in the financial and operating policy decisions of the other company but it is not control or joint control over those policies. Investments in associates are initially measured at cost.

Other financial investments are investments in the share capital of other companies in the amount not exceeding 20% of the company's share capital.

Subsequent to initial recognition, all investments are stated at historical cost less any accumulated impairment losses. The carrying amounts of investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment loss is recognised in the income statement.

Intangible assets and property, plant and equipment

In the balance sheet, intangible assets and property, plant and equipment are recognised at their cost of acquisition less accumulated depreciation and amortisation. The Group capitalises items of property, plant and equipment with an initial cost exceeding 1 000 EUR.

Acquired fixed assets below 1 000 EUR are recognised in low value inventory account.

The asset purchase value is the sum of the purchase price, import duties, non-deductible taxes and other directly attributable expenses needed to deliver the asset to its intended location and prepare it for its intended use.

Only the rights acquired for consideration are recognised as "Concession, patents, licenses, trademarks and software".

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

<i>Intangible assets:</i>		%
Licenses	20-33	%
Other intangible assets	10-20	%
<i>Property, plant and equipment:</i>		%
Technological equipment	10-20	%
Hardware and electronic equipment	33	%
Vehicles	20	%
Other fixed assets	20-33	%

Profit or loss arising from the asset disposal is recognised in the income statement.

Repair and renovation expenses increasing useful life or asset value are capitalised and depreciated over its useful life. All other repair and maintenance costs are recognised on income statement, in the period when they incurred.

Leasehold improvements are capitalised and are included in the asset's carrying amount. Leasehold improvements are depreciated using the straight line method over the shortest period - useful life or lease term.

Research costs are recognised in the income statement in the reporting period they incurred. The development costs are capitalised if the ability of the asset to generate economic benefits can be reliably demonstrated. Amortisation is calculated over the period of development cost use.

Impairment of non-current assets

If the non-current asset's recoverable amount at the balance sheet date is lower than its acquisition value less accumulated depreciation, the asset is measured at the lower of cost. The value of assets is reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the amount by which the asset's carrying amount exceeds its recoverable amount.

Inventories

Inventory cost is determined using the weighted average cost method.

Inventories are stated at the lower cost, purchasing or net realisable value. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less all estimated costs of completion and sales expenses.

Inventories held in net realisable value are recognised at carrying amount of inventories reduced by allowances.

Receivables

Receivables are recognised according to the value of initial invoices less allowances for doubtful debts. An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amount. Receivables are written off if their recovery is considered to be impossible.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, current bank account balances and short-term bank deposits with the initial maturity of 90 days or less.

Deferred expenses

Expenses incurred before the balance sheet date but related to the next reporting periods are recognised as deferred expenses.

Financial assets

- Non-current loans and claims

are financial assets created by the Company and Group by providing money or rendering services directly to the debtor and which are not intended to be sold immediately or in a short time period. Initially loans are recognised at fair value plus costs related to the loan issuance. Subsequent to initial recognition loans are stated at amortised value, using the effective interest rate method. Amortised value is calculated considering loan issuance costs incurred, as well as any loan-related discounts or premiums. Profit or loss arising from the amortisation is recognised in the income statement as an interest income or expense. If events or changes in circumstances indicate that the carrying amount is impaired, provisions of asset impairment are recognised.

- Other non-current financial investments

Held-to-maturity investments are financial assets with fixed or determinable payments and fixed maturities that the Company or the Group has decided and is able to hold to maturity. Borrowings are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition all loans are carried at amortised value, using the effective interest rate method.

Held-for-sale financial assets are financial assets other than issued loans, invoices and held-to-maturity investments.

These assets can be sold in order to increase liquidity or in the event of changes in interest rates, exchange rates and capital value. If there is an objective indication that the carrying amount of an asset could be impaired, an allowance for impairment is made.

- Current financial investments

are financial assets held for trading, which are acquired or incurred for the primary purpose of making profit from short-term fluctuations of price or profit margins. Financial assets held for trading are initially recognised at cost value plus transaction costs directly attributable to the acquisition of the financial asset. Cost value usually corresponds to the amount paid for the asset, including fees and commissions.

Cost value is an amount at which a financial asset is measured at initial recognition less principal repayments, and is adjusted for any allowance for impairment.

Accrual for unused employee vacations

Accrual is computed by multiplying employees' average daily 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.

Borrowings

Initially borrowings are recognised at fair value minus transaction costs incurred. Subsequent to initial recognition all borrowings are stated at amortised purchase value, using the effective interest rate method. Borrowings are classified as current liabilities unless the Company and the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period.

Finance lease liabilities

An asset leased under finance lease arrangement is initially recognised on the balance sheet in the acquisition value and as a liability at an amount equal to the asset. Depreciation is calculated over the useful life of the asset. Finance lease payments are split between financial expenses indicated as interest payment in the income statement and the outstanding liability reduction.

Leases

Lease that in essence transfers all the risks and rewards associated with the asset to the lessee is classified as finance lease. All other leases are classified as operating leases.

Payments made under operating leases are recognised in the income statement over the term of the lease, using the linear method.

Operating lease

Lease under which the risks and rewards of ownership are not transferred to the lessee is classified as operating lease. Operating lease payments are recognised in the income statement over the term of the lease.

Provisions

Provisions are recognised when the Company and the Group has a liability (legal or reasonable) due to a past event and it is probable that an outflow of resources embodying economic benefits from the Company or Group will be required to settle the obligation and the amount of the liability can be measured reliably.

Trade payables

Initially trade payables are recognised at fair value. In subsequent periods, the carrying amount of trade receivables is measured at amortised initial value by applying the effective interest rate. Trade payables are classified as current liabilities if the payment is due within one year or less. Otherwise, they are classified as non-current liabilities. The amount of the Group's liabilities can be measured reliably.

Revenue recognition

Revenue from the sale of goods is recognised when the significant ownership rights and risks related to the goods have been transferred to the buyer and the revenue can be reliably assessed.

Revenue from rendering of services is recognised proportionally to the order completion stage.

Dividend income is recognised when the shareholder's right to receive the payment is established.

Interest income is recognised on a time proportion basis.

Corporate income tax

Corporate income tax is recognised in the income statement on the basis of calculations made by the management in accordance with the laws and regulations of the Republic of Latvia.

Corporate income tax is calculated on distributed profit, calculated at 20/80 of the net amount payable to the shareholders, and on certain expenses deemed as distributed profit, by applying a coefficient of 0.8. Corporate income tax on distributed profit is recognised when the Company's shareholders make a decision to distribute the profit.

At the time of distribution of dividends, the retained earnings subject to corporate income tax at the end of the reporting year are EUR 7 952 622.

Fair value

The fair value represents the value, at which an asset may be sold or liabilities settled within the normal market conditions. If based on the management assessment the fair value of financial assets and liabilities significantly differs from its carrying value, the fair value is disclosed separately in notes to the financial statements.

Use of estimates

To prepare the financial statements, the management of the Company and the Group 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 based on all the available information the financial statements give a true and fair view of the financial position.

- Allowance for doubtful and bad trade receivables:

The Group's management evaluates the carrying amounts of trade receivables and assesses their recoverability, making an allowance for doubtful and bad trade receivables, if necessary. The management has evaluated trade receivables and believes that no significant additional allowance is required as of 31 December 2021.

- Net realizable value of inventories:

The Group's management evaluates the net realisable value of inventories based on the expected sales prices and selling expenses, as well as assesses the physical condition of inventories during the annual inventory counting. If the net realisable value of inventories is lower than the cost of inventories, then an allowance is recorded. The Group's management has evaluated the net realisable value of inventories and believes that no significant additional allowance is required as of 31 December 2021.

- Useful life of property, plant and equipment:

Useful life of property, plant and equipment is assessed at each balance sheet date and adjusted, if necessary, to reflect the Company's management current view on the remaining useful life of the assets, taking into account changes in technology, the remaining economic life of the assets and their physical condition.

- Contingent liabilities:

Contingent liabilities are disclosed in notes to these financial statements. They are recognised as liabilities only if the possibility of an outflow of resources embodying economic benefits becomes probable.

Government and the EU institutions aid

Government and EU institution aid is included in the balance sheet of the Company and the Group when it is certain that the terms will be met and the Company and Group will be eligible to receive it. If state aid is received for long-term investments, state aid is reflected in the balance sheet as a deferred income.

Government and the EU institutions aid is not recognised until there is reasonable assurance that the Company and Group will comply with the terms and that the aid will be received. Aid is recognised as revenue over the period in which the Company and the Group incur costs that are offset by government aid. Thus, government aid, the aim of which is a purchase or creation of the non-current assets, is recognised as deferred revenue in the balance sheet and included in the income statement in a systemation and rational manner over the non-current asset's useful life.

Events after the reporting date

The financial statements reflect such events after the balance sheet date that provide additional information about the financial position of the Company and the Group at the balance sheet date (adjusting events). If the events after the end of the reporting year are not adjusting, they are reflected in the notes to the financial statements only if they are significant.

(2) Net turnover

Turnover is the revenue generated during the year from the main operating activities – the sale of goods and rendering services less value added tax and discounts given. Revenue is generated from the production and sale of cosmetics, as well as from the provision of services and the sale of makeup stands.

	Group 2021 / EUR	Group 2020 / EUR	Company 2021 / EUR	Company 2020 / EUR
Turnover across geographical markets:				
Revenue from the sale of goods in the European Union	12 552 163	10 665 000	11 578 551	10 395 440
Revenue from the sale of goods in Latvia	4 833 273	4 238 904	5 455 305	4 063 598
Revenue from the sale of goods in other markets	1 790 294	947 727	1 687 061	938 689
Revenue from the sale of services	179 262	203 661	179 262	174 872
Other revenue from operating services	13 893	19 289	13 893	19 289
Total	19 368 885	16 074 581	18 914 072	15 591 888

	Group 2021 / EUR	Group 2020 / EUR	Company 2021 / EUR	Company 2020 / EUR
(3) Cost of goods sold				
Raw materials consumed	3 340 726	2 467 138	3 337 436	2 459 732
Remuneration for work	1 386 037	1 187 136	1 385 140	1 187 136
Mandatory state social insurance contributions	325 890	285 534	325 678	285 534
Fixed asset depreciation (see Note 12)	247 963	329 791	247 963	329 791
Current assets write-off	239 018	256 818	237 632	256 818
Production service costs	206 774	1 61 973	206 774	1 61 973
New product research and development costs	150 499	137 921	150 049	137 921
Premises rent and maintenance costs	149 123	149 123	149 123	149 123
Resource costs	84 000	54 413	84 000	54 413
Leasehold improvements write-off (see Note 12)	72 402	70 449	72 402	70 449
Development costs write-off (see Note 11)	32 157	32 157	32 157	32 157
ECOCERT quality certificate maintenance costs	24 735	31 660	24 735	31 660
Car maintenance, fuel and repair costs	20 169	20 626	20 169	20 626
Other production and maintenance related costs	30 692	31 536	30 692	31 536
Total	6 310 185	5 216 275	6 303 950	5 208 869
(4) Selling expenses				
Advertising and marketing costs	2 753 315	2 181 187	2 723 213	2 144 031
Remuneration for work	1 500 966	1 251 894	1 375 501	1 063 587
Transport costs	1 115 072	889 125	1 077 869	880 827
Sample production costs	637 768	631 724	637 768	631 724
Mandatory state social insurance contributions	355 015	303 286	325 399	257 880
Intermediate services costs	324 838	144 744	437 938	238 200
Trade promotion costs	269 347	235 303	269 347	235 303
Asset depreciation and amortisation of intangible assets (see Note 12)	245 513	214 367	236 247	205 615
Maintenance costs of sales platforms	155 967	71 442	155 967	71 442
Premises rent and maintenances costs	112 659	133 687	-	-
Royalties	54 381	27 917	53 381	27 917
Business trip and exhibitions costs	39 715	64 391	39 715	64 391
Warehouse service costs	32 234	34 163	32 234	34 163
Car maintenance, fuel and repair costs	22 547	20 179	22 547	20 179
E-shop WEB page maintenance costs and other IT costs	20 351	3 421	20 351	3 421
Leasehold improvements write-off (see Note 12)	14 039	14 040	-	-
Representation costs	7 099	10 842	7 079	10 842
Other selling expenses	56 223	63 023	49 470	54 816
Total	7 717 049	6 294 735	7 464 026	5 944 338

	Group 2021 / EUR	Group 2020 / EUR	Company 2021 / EUR	Company 2020 / EUR
(5) Administration expenses				
Remuneration for work	557 485	447 826	417 793	335 354
Office costs	193 708	146 571	190 041	145 021
Cash transactions related costs	181 146	153 128	173 961	144 933
Mandatory state social insurance contributions	128 348	103 821	98 234	80 787
Premises rent and maintenance costs	75 227	71 712	75 227	71 712
Personnel sustainability costs	64 011	25 347	64 011	25 347
Asset depreciation and amortisation of intangible assets (see Note 11 and 12)	63 571	70 818	63 361	70 818
Employee health insurance	49 314	14 799	43 142	14 799
Legal and other professional service costs	31 182	40 965	31 182	37 853
Securities circulation costs	24 412	23 254	24 412	23 254
Car maintenance, fuel and repair costs	23 086	21 810	23 086	21 810
Audit costs	22 681	20 145	19 681	20 145
Communication service costs	16 995	13 746	15 066	11 908
Allowance for doubtful receivables (see Note 17)	4 027	19 206	3 027	-
Other management and administration costs	85 709	48 124	74 725	29 916
Total	1 520 902	1 221 272	1 316 949	1 033 657
(6) Other operating income				
State aid to overcome the COVID-19 crisis	206 172	-	-	-
Income from ERAF projects (see Note 31)	143 603	254 728	143 603	254 728
Revenue from the current assets sale	7 087	22 221	7 087	22 221
Income from purchased goods and services	-	148 075	128 540	-
Net revenue from the disposal of property, plant and equipment	2 420	-	2 420	-
<i>Proceeds from the disposal of property, plant and equipment</i>	<i>20 744</i>	<i>-</i>	<i>20 744</i>	<i>-</i>
<i>Remaining balance sheet value of property, plant and equipment (see Note 12)</i>	<i>(18 324)</i>	<i>-</i>	<i>(18 324)</i>	<i>-</i>
Other income	22 456	12 497	19 948	10 440
Total	381 738	437 521	301 598	287 389
(7) Other operating expenses				
Donations	77 000	42 000	77 000	42 000
Nature protection costs	23 191	17 753	23 191	17 753
Staff recruitment and training costs	16 862	10 695	16 862	10 695
Labor protection costs	11 119	17 051	11 119	17 051
Resold purchased goods and services	6 621	134 098	132 626	36 700
Other expenses	41 264	23 707	38 403	23 559
Total	176 057	245 304	299 201	147 758

	Group 2021 / EUR	Group 2020 / EUR	Company 2021 / EUR	Company 2020 / EUR
(8) Interest and similar income				
Interest income on current financial investments	-	47 129	-	47 129
Penalties and fines received	-	2 004	-	2 004
Other interest income	1 014	7 881	1 014	7 881
Total	1 014	57 014	1 014	57 014
(9) Interest and similar expenses				
Currency exchange rate fluctuations	6 979	19 591	6 979	19 550
Factoring fees	4 718	3 833	2 484	3 833
Interest on obligations under finance leases	1 365	2 872	1 365	2 872
Interest on borrowings	17	1 828	17	1 828
Penalties paid	190	332	175	328
Total	13 269	28 456	11 020	28 411
(10) Corporate income tax for the reporting year				
Corporate income tax calculated on previously retained 2020-year distributed profit into dividends during 2021, less tax benefit	345 484	117 902	345 484	117 902
Total	345 484	117 902	345 484	117 902



(11) INTANGIBLE ASSETS

Group	Development costs (EUR)	Concessions, patents, licenses, trademark, software, and similar rights (EUR)	Prepayments for intangible assets (EUR)	Total intangible assets (EUR)
Cost as of 31.12.2020.	96 471	927 892	12 095	1 036 458
Additions	-	-	660 265	660 265
Adjustments	-	-	(850)	(850)
Transfers	-	584 683	(584 683)	-
Cost as of 31.12.2021.	96 471	1 512 575	86 827	1 695 873
Accumulated amortisation as of 31.12.2020.	32 157	338 625	-	370 782
Amortisation charged	32 157	179 443	-	211 600
Accumulated amortisation as of 31.12.2021.	64 314	518 068	-	582 382
Net carrying amounts as of 31.12.2020.	64 314	589 267	12 095	665 676
Net carrying amounts as of 31.12.2021.	32 157	994 507	86 827	1 113 491

Company	Development costs (EUR)	Concessions, patents, licenses, trademark, software, and similar rights (EUR)	Prepayments for intangible assets (EUR)	Total intangible assets (EUR)
Cost as of 31.12.2020.	96 471	926 842	12 095	1 035 408
Additions	-	-	582 037	582 037
Adjustments	-	-	(850)	(850)
Transfers	-	584 683	(584 683)	-
Cost as of 31.12.2021.	96 471	1 511 525	8 599	1 616 595
Accumulated amortisation as of 31.12.2020.	32 157	338 573	-	370 730
Amortisation charged	32 157	179 233	-	211 390
Accumulated amortisation as of 31.12.2021.	64 314	517 806	-	582 120
Net carrying amounts as of 31.12.2020.	64 314	588 269	12 095	664 678
Net carrying amounts as of 31.12.2021.	32 157	993 719	8 599	1 034 475



(12) PROPERTY, PLANT AND EQUIPMENT

Group	Land (EUR)	Leasehold improvements (EUR)	Technological equipment and machinery (EUR)	Other fixed assets and equipment (EUR)	Construction in progress (EUR)	Prepayments for property, plant and equipment (EUR)	Total property, plant and equipment (EUR)
Cost as of 31.12.2020.	213 722	769 584	3 062 909	784 585	3 186 9	200 128	5 062 797
Additions	-	-	-	-	530 798	610 690	1 141 488
Disposals	-	-	(7 700)	(91 618)	-	-	(99 318)
Adjustments					(2 535)	543	(1 992)
Transfers	255 000	15 245	601 606	266 941	(346 495)	(792 297)	-
Cost as of 31.12.2021.	468 722	784 829	3 656 815	959 908	213 637	19 064	6 102 975
Accumulated depreciation as of 31.12.2020.	-	391 398	1 970 961	451 216	-	-	2 813 575
Depreciation charged	-	86 440	214 059	163 544	-	-	464 043
Disposals	-	-	(7 700)	(73 294)	-	-	(80 994)
Accumulated depreciation as of 31.12.2021.	-	477 838	2 177 320	541 466	-	-	3 196 624
Net carrying amounts as of 31.12.2020.	213 722	378 186	1 091 948	333 369	3 186 9	200 128	2 249 222
Net carrying amounts as of 31.12.2021.	468 722	306 991	1 479 495	418 442	213 637	19 064	2 906 351

Company	Land (EUR)	Leasehold improvements (EUR)	Technological equipment and machinery (EUR)	Other fixed assets and equipment (EUR)	Construction in progress (EUR)	Prepayments for property, plant and equipment (EUR)	Total property, plant and equipment (EUR)
Cost as of 31.12.2020.	213 722	643 507	3 062 909	743 909	31 869	200 128	4 896 044
Additions	-	-	-	-	386 810	610 690	997 500
Disposals	-	-	(7 700)	(91 618)	-	-	(99 318)
Adjustments						543	543
Transfers	255 000	15 245	601 606	261 665	(341 219)	(792 297)	-
Cost as of 31.12.2021.	468 722	658 752	3 656 815	913 956	77 460	19 064	5 794 769
Accumulated depreciation as of 31.12.2020.	-	304 872	1 970 961	427 574	-	-	2 703 407
Depreciation charged	-	72 401	214 059	154 278	-	-	440 738
Disposals	-	-	(7 700)	(73 294)	-	-	(80 994)
Accumulated depreciation as of 31.12.2021.	-	377 273	2 177 320	508 558	-	-	3 063 151
Net carrying amounts as of 31.12.2020.	213 722	338 635	1 091 948	316 335	31 869	200 128	2 192 637
Net carrying amounts as of 31.12.2021.	468 722	281 479	1 479 495	405 398	77 460	19 064	2 731 618

(13) INVESTMENTS IN SUBSIDIARIES

	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Acquisition value	18 156	18 156
Investments in subsidiaries:	18 156	18 156

Company name	Owned shares, %	Acquisition value	Value of the investment 31.12.2021
MADARA Retail SIA	100	2 828	2 828
Cosmetics NORD SIA	100	2 828	2 828
MADARA Cosmetics GmbH	100	12 500	12 500
Total		18 156	18 156

MADARA Retail SIA, registration number 40103212103, 131 Zeltinu street, Marupe, Latvia.
Type of operations – retail sale of cosmetics products.

	31.12.2021 / EUR	31.12.2020 / EUR
Equity, EUR, unaudited	177 490	26 196
Profit for the reporting year, EUR, unaudited	151 294	13 567

Cosmetics NORD SIA, registration number 40103277805, 6 Kauguru street, Riga, Latvia.
Type of operations – wholesale of cosmetics products.

	31.12.2021 / EUR	31.12.2020 / EUR
Equity, EUR, unaudited	12 381	(8 355)
Profit or (loss) for the reporting year, EUR, unaudited	20 736	(20 466)

MADARA Cosmetics GmbH, registration number HRB 177689, Potsdamer Platz 1, Berlin.
Type of operations – cosmetics products distribution services.

	31.12.2021 / EUR	31.12.2020 / EUR
Equity, EUR, unaudited	26 899	17 760
Profit for the reporting year, EUR, unaudited	9 139	4 133

(14) OTHER NON-CURRENT RECEIVABLES

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Rent security deposits	82 124	68 027	40 000	40 000
Total	82 124	68 027	40 000	40 000

(15) RAW MATERIALS, MATERIALS AND CONSUMABLES

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Raw materials and materials, gross value	2 381 505	1 749 006	2 377 885	1 747 599
Goods in transit	125 700	262 542	125 700	262 542
Allowance for obsolete and slow-moving inventories	-	(8 917)	-	(8 917)
Total	2 507 205	2 002 631	2 503 585	2 001 224

	Group 2021 / EUR	Group 2020 / EUR	Company 2021 / EUR	Company 2020 / EUR
Allowance for obsolete and slow-moving inventories at the beginning of the year	8 917	29 259	8 917	29 259
Allowance written-off	(8 917)	(20 342)	(8 917)	(20 342)
Allowance for obsolete and slow-moving inventories at the end of the year	-	8 917	-	8 917

(16) FINISHED GOODS AND GOODS FOR SALE

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Cosmetic products	1 440 857	1 617 425	1 395 803	1 571 445
Advertising materials	88 116	88 609	88 116	88 609
Goods in transit	10 286	5 974	10 286	5 974
Allowance for obsolete and slow-moving inventories	(7 500)	(40 647)	(6 500)	(40 647)
Total	1 531 759	1 671 361	1 487 705	1 625 381

	Group 2021 / EUR	Group 2020 / EUR	Company 2021 / EUR	Company 2020 / EUR
Allowance for obsolete and slow-moving inventories at the beginning of the year	40 647	20 109	40 647	20 109
Allowance charged	-	20 538	-	20 538
Allowance written-off	(33 147)	-	(34 147)	-
Allowance for obsolete and slow-moving inventories at the end of the year	7 500	40 647	6 500	40 647

(17) TRADE RECEIVABLES

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Trade receivables, gross value	1 481 054	1 307 136	1 241 954	1 281 576
Allowance for doubtful trade receivables	(21 462)	(98 299)	(20 462)	(76 017)
Total	1 459 592	1 208 837	1 221 492	1 205 559

	Group 2021 / EUR	Group 2020 / EUR	Company 2021 / EUR	Company 2020 / EUR
Allowance for doubtful trade receivables at the beginning of the reporting year	98 299	84 625	76 017	84 625
Allowance charged (see Note 5)	4 027	23 079	3 027	797
Allowance written-off	(80 864)	(9 405)	(58 582)	(9 405)
Allowance for doubtful trade receivables at the end of the reporting year	21 462	98 299	20 462	76 017

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

(18) TRADE RECEIVABLES FROM RELATED PARTIES

	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
MADARA Retail SIA	184 790	182 977
Cosmetics NORD SIA	827 590	6 624
Total	1 012 380	189 601

(19) OTHER RECEIVABLES

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
VAT overpayment	89 933	19 620	89 933	19 620
State aid to overcome the COVID-19 crisis	32 750	-	-	-
Corporate income tax overpayment	14 568	22 794	14 568	22 618
Cash in transit	2 729	654	-	-
Other receivables	36 457	10 014	23 866	9 182
Total	176 437	53 082	128 367	51 420

(20) CASH

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Cash in bank accounts	6 600 065	5 645 859	5 949 035	5 578 578
Total	6 600 065	5 645 859	5 949 035	5 578 578

(21) Share capital

As of 31 December 2021, the registered and fully paid-in capital of the Group's Parent Company is 377 057.60 EUR, which consists of 3 770 576 shares. As of 31 December 2020, the registered and fully paid-in capital of the Group's Parent Company was 376 924.20 EUR, which consists of 3 769 242 shares. As of 31 December 2021, the fully paid-in capital has increased by EUR 133.40 compared to 31 December 2020. The nominal value of one share is 0.10 EUR.

Since 2017, the Group's Parent Company MADARA Cosmetics AS has implemented share options program for its employees as an additional motivation and involvement tool. Share options may be acquired by employees of the Company, managers of departments and members of Council who have made a significant contribution to the Company. The granting of share options is exercised by the Board in accordance with procedures specified in the resolutions of the shareholders' meeting and the amount of options granted. The Company does not apply the fair value model to the program of share options and in accordance with the procedure share options are exercised at par value at the expense of retained earnings. During 2021, 1 334 share options were issued. As a result, share option program holders received 1 334 Company shares. As of 31 December 2021, the number of share options granted for which the rights of use will become available in the following reference years is 10572. As a result of using these options, employees will acquire 10572 shares of the Parent Company. As of 31 December 2020, the number of such options was 7336.

(22) BANK BORROWINGS

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
SWEDBANK loan	-	5 952	-	5 952
Total bank borrowings	-	5 952	-	5 952

(23) OTHER NON-CURRENT LIABILITIES

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Finance lease liabilities	346	26 991	346	26 991
Total	346	26 991	346	26 991

(24) TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Value added tax (OSS)	138 162	-	138 162	-
Mandatory state social insurance contributions	99 659	86 174	91 523	80 989
Personal income tax	52 928	42 057	48 801	39 689
Value added tax (Germany)	11 166	28 740	11 166	28 740
Natural resource tax	617	370	617	370
Entrepreneurship risk state duty	95	64	81	51
Total	302 627	157 405	290 350	149 839

(25) OTHER LIABILITIES

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Salaries	202 027	164 841	185 593	154 550
Finance lease liabilities	26 645	54 555	26 645	54 555
Balance of gift cards	14 159	18 036	7 751	7 575
Advance payments	1 731	1 315	1 731	1 315
Other liabilities	11 760	13 757	8 409	13 064
Total	256 322	252 504	230 129	231 059

(26) ACCRUED LIABILITIES

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Accrued liabilities for unused vacations	278 126	209 212	278 126	209 212
Accrued liabilities for services received	99 794	88 649	87 481	87 234
Accrued liabilities for employee remuneration	22 607	51 692	22 607	51 692
Accrued liabilities for goods received	125 700	262 542	125 700	262 542
Total	526 227	612 095	513 914	610 680

(27) GROUPS' PARENT COMPANY'S RELATED PARTY TRANSACTIONS DURING THE REPORTING YEAR

	Goods and services provided	Goods and services received
MADARA Retail SIA *	188 428	-
Cosmetics NORD SIA *	1 081 301	-
MC PROPERTIES SIA	960	220 835
MADARA Cosmetics GmbH	-	113 100
Total	1 270 689	333 935

*Outstanding balances with these parties are included in the balance sheet item "Trade receivables from related parties".

(28) NUMBER OF EMPLOYEES

	Group 2021	Group 2020	Company 2021	Company 2020
Average number of employees, including:	184	160	158	134
Members of the Board	3	3	3	3
Members of the Council	5	5	5	5

(29) INFORMATION ON THE REMUNERATION OF MEMBERS OF THE COUNCIL AND THE BOARD

	Group 31.12.2021 / EUR	Group 31.12.2020 / EUR	Company 31.12.2021 / EUR	Company 31.12.2020 / EUR
Board members remuneration for the work at the Board	23 680	21 105	16 480	13 905
Council members remuneration for the work at the Council	6 676	11 806	6 676	11 806
Total	30 356	32 911	23 156	25 711

(30) Off-balance sheet liabilities and contingent liabilities

(a) Operating lease agreements

On 17 March 2015, the Group's Parent Company signed a premises rent agreement with SIA MC PROPERTIES Reg. No 40103872324 for leasing production and office premises in Marupe, 131 Zeltinu Street. The agreement matures in 2025.

Group has concluded lease agreements for rent of premises in four shopping centers in Riga: "Galerija Centrs", "Spice", "Alfa" and "Akropole" and a long-term rent agreement for leasing storage and office premises in Riga, 6 Kauguru Street, which is at the same time a legal address for the subsidiary company Cosmetics NORD SIA. Maturity of these agreements – up to the years 2022 – 2024 with a possibility to prolong.

(b) Issued guarantees

On 15 March 2015, a mortgage agreement was signed between A/S SWEDBANK and Group's Parent Company's lessor MC PROPERTIES SIA on pledged item – real estate on 131 Zeltinu Street, Marupe. Real estate is pledged in favor of A/S SWEDBANK and the Group's Parent Company is the guarantor for the MC PROPERTIES SIA obtained borrowings; the amount of the guarantee, in accordance with the terms of the contract, is the amount of the outstanding liabilities. In 2021, the Mortgage Agreement was amended and the amount of liabilities was recalculated. Hence, as of 31 December 2021, the outstanding amount of MC PROPERTIES SIA loan to A/S SWEDBANK was EUR 1 010 995.

(31) Received ERAF financing

To receive financing, in 2021 the Group's Parent Company participated in the ERAF project "Support for employee training in the chemical industry and related industries" implemented by the Latvian Association of Chemical and Pharmaceutical Entrepreneurs, in the Intelligent Motion Control under Industry4.E project of the ECSEL Joint Undertaking, as well as in Competence Centers, which provide support for the development of new products and technologies. During the implementation of these projects, all the necessary requirements for participation were met and the Group's Parent Company in 2021 received EUR 171 272 in total.

(32) Financial risk management

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

- 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 companies do not hold 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 that the Group will incur financial losses as a result of default a counterparty on its obligations to the Group's companies. Credit risk mainly arises from bank balances, trade receivables and long-term and short-term loans. The Group does not have significant concentrations of credit risk with any single counterparty or group of counterparties having similar characteristics.

- 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 ensure the availability of funding through sufficient amount of committed bank credit line facilities to settle its obligations at a given date. As of 31 December 2020, the Group has no active credit line facility agreement. The Group's Parent 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.

(33) Events after the reporting date

The high rates of COVID-19 in several of the Group's focus countries in January and February, as well as the war in Ukraine and related sanctions against the Russian Federation, could affect the European and global economies. The Group has no significant direct contacts with Ukraine, Russia, or Belarus. In the first quarter of the year, activity declined in several markets. Nonetheless, we have been able to achieve an increase in turnover compared to the same period last year. Supply chains operate smoothly, and the production process is going on under a regular regime. The Group has sufficient stock of finished products and raw materials for future periods.

However, this conclusion is based on information available at the time of the signing of this financial statement and the impact of future events on the Group's activities may differ since the further impact on the overall economic situation is not predictable and the actual results may differ.

During the period from the last day of the reporting year until the date of the signing of this financial statement, there have been no other events that should result in adjustments or be reflected in this financial statement.

The Annual report approved by:



Lote Tisenkopfa - Iltnera
Chairman of the Board



Tatjana Čornija
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 Separate and Consolidated Financial Statements

We have audited the accompanying separate financial statements of MADARA Cosmetics AS ("the Company") and accompanying consolidated financial statements of the Company and its subsidiaries ("the Group") set out on pages 7 to 30 of the accompanying separate and consolidated annual report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2021,
- the separate and consolidated profit and loss statement for the year then ended,
- the separate and consolidated statement of changes in equity for the year then ended,
- the separate and consolidated statement of cash flows for the year then ended, and
- the notes to the separate and consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying separate and consolidated financial statements give a true and fair view of the separate and consolidated financial position of the Company and the Group, respectively, as at 31 December 2021, and of their separate and consolidated financial performance and their separate and 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 Separate and Consolidated Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) 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 International Code of Ethics for Professional Accountants (including International Independence Standards) 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.

Key Audit Matters

We have not determined any key audit matters to be communicated in our report of the financial statements of the current period.

Reporting on Other Information

The Company's management is responsible for the other information. The other information comprises:

- Information about the Group, as set out on page 3 of the accompanying consolidated Annual Report,



Independent Auditor's Report (continued)

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

Our opinion on the separate and 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 separate and 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 separate and consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Company and the Group and their 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 separate and consolidated financial statements are prepared is consistent with the separate and 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 Separate and Consolidated Financial Statements

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

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

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

Auditor's Responsibility for the Audit of the Separate and Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and 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 separate and consolidated financial statements.

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 separate and 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 Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and 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 separate and 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 Company and Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and 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.



Inguna Staša
Member of the Board
Certified auditor
Certificate No. 145

Deloitte Audits Latvia SIA
Licence No. 43

Riga, Latvia
19 May 2022





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