

MÁDARA

organic skincare

**AS MADARA COSMETICS
2023 STANDALONE AND 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.*

MARUPE, 2024

SKIN *TINTS*



SKIN *LOVES*

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GENERAL INFORMATION ABOUT THE GROUP

Name of the Group	MADARA Cosmetics AS
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
Parent Company's legal address	Zeltinu Street 131, Marupe, Marupe district, LV-2167, Latvia
Shareholders (above 5 %)	Uldis Iltners – owns 23.88% of shares Lote Tisenkopfa - Iltnerne – owns 23.72% of shares Oy Transmeri Group Ab – owns 22.89% of shares Liene Drāzniece – owns 6.78% of shares Zane Tamane – owns 6.34% 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 - Iltnerne – Chairman of the Board Uldis Iltners – Member of the Board Tatjana Nagle – Member of the Board Gunta Šulte – Member of the Board from 31.07.2023
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 period	From 1.1.2023 to 31.12.2023
Previous reporting period	From 1.1.2022 to 31.12.2022
Subsidiaries of the Group	Madara Retail SIA, reg. No 40103212103 – 100% Cosmetics Nord SIA, reg. No 40103277805 – 100% Nord Beauty SIA, reg. No 40203354922 – 100% of shares owned by Cosmetics Nord SIA Madara Cosmetics GmbH, reg. No HRB 177689 – 100% MADARA Cosmetics Inc., reg. No 37-2087771 – 100%
Independent auditor and its address	Deloitte Audits Latvia SIA Reg. No 40003606960 License No 43 Republikas laukums 2A, Riga, LV-1010, 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 2023 and the results of its operations and cash flows for the year 2023.

The separate and 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 - Iltnerne
Chairman of the Board



Tatjana Nagle
Member of the Board



Uldis Iltners
Member of the Board



Gunta Šulte
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), MADARA Cosmetics Inc. (USA), and NORD Beauty SIA, which is a subsidiary of Cosmetics NORD SIA.

MADARA Cosmetics AS is the largest cosmetics producer in Latvia and one of the most notable natural cosmetics producers in the Baltics and Nordic regions. The Group's products are exported to more than 30 countries, mainly the EU. The key business of the Group is the production of natural, Ecocert/Cosmos certified cosmetics products and sales of MÁDARA 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 Zeltinu Street 131 in Marupe, one of the region's most advanced and capacity-wise largest cosmetics production plants. In addition, the Parent Company uses leased office premises on Baložu Street 20A, Riga. For the core business operations, the subsidiary Cosmetics NORD SIA uses leased office and warehouse premises on Kauguru Street 6, Riga.

Despite the downturn in the first half of 2023, the second half of the year demonstrated the Group team's ability to deliver results with purpose, resulting in double-digit growth and improved profitability compared to the previous year. The Group's turnover in 2023 amounted to EUR 20.23 million. This represents an increase of 8.2% compared to the previous reporting year. Profit after corporation tax in 2023 was 1.60 million, up 42.5% compared to the previous year. The Group's earnings per share in 2023 were EUR 0.42 (total number of shares in 2023: 3 776 578 shares).

In 2023, the Group launched 6 new MÁDARA skincare and make-up products. In 2023, the Group unveiled MÁDARA's innovation in the skincare world – Time Miracle Retinol Alternative Serum – a plant-based alternative to synthetic retinol that has been dermatologically proven to be equivalent to retinol in its rejuvenating properties, but without the chemicals and irritants. Time Miracle Retinol Alternative Serum, after its launch in August, reached one of the top 5 best-selling products by the end of the year. In addition to the new Time Miracle Retinol Alternative Serum, 5 more new products were launched in 2023. Another success story is Skinonym Semi-Matte Tinted Cream with Peptides, a natural-textured, light to medium-weight foundation that blends seamlessly with the skin's unique

texture and provides long-term skincare benefits. Since its launch, it has received praise from both everyday make-up users and professional make-up artists around the world. New product sales in 2023 amounted to over 556 thousand EUR.

In 2023, the Group's long-term investments exceeded EUR 1.38 million, of which EUR 367 thousand was invested in the MÁDARA brand WEB page. Meanwhile, more than EUR 891 thousand has been invested in technological equipment.

The Group continued to raise additional funding for various strategically important projects. In 2023, the Group's parent company completed a project under the Norwegian Financial Instruments Programme Activity – Green Innovation and Introduction of Information and Communication Technology Products into Production, with total funding of EUR 247 288. In addition, the parent company is active in the joint ventures ECSEL project Intelligent Motion Control, Competence centre projects with new product development, the project Support for ICT and non-technological training and training to facilitate investor attraction etc., receiving EUR 99 009 in 2023 as co-financing to achieve the project objectives.

The production capacity of the Group's Parent Company remains sufficient to maintain growth at the current pace.

For the next reporting year, the Group's growth focus will be on increased market development, attracting and partnering with new B2C customers, as well as increased sales on third-party online stores. As in previous years, the development of the e-commerce channel will be one of the primary areas for growth.

In 2023, MADARA Cosmetics AS created 13 new jobs, strengthening the team to achieve its goals.

The financial risk management policy adopted by the Group is disclosed under Note 30 to the financial statements.

MADARA Retail SIA (hereinafter – MADARA Retail SIA or the subsidiary) ensures the operation and retail function of MÁDARA brand stores in Riga, in the shopping centers "Galerija Centrs", "Spice", "AKROPOLE Alfa", "AKROPOLE Rīga" and "Galleria Riga". The subsidiary's net turnover in 2023 was EUR 998.2 thousand. This is EUR 136.6 thousand or 16% more than last year. The subsidiary's profit in 2023 amounted to EUR 17.7 thousand EUR or 208% more than last year. The increase in turnover and profit is due to changes in the operations of MÁDARA brand stores in Riga. In 2023, a new MÁDARA brand store was opened in the

MANAGEMENT REPORT (continued)

Galleria Riga shopping centre and an existing brand store in the Spice shopping centre was refurbished, bringing the MÁDARA retail experience to a new level.

The principal activity of Cosmetics NORD SIA (hereinafter referred to as Cosmetics NORD SIA or the subsidiary) is the provision of contract manufacturing services using the manufacturing infrastructure and capacity of MADARA Cosmetics AS. In 2023, the subsidiary operated with a turnover of EUR 2.03 million, which is a 70% increase compared to the previous reporting year. The year 2023 ended with a loss of EUR 104 thousand (2022: loss of EUR 282 thousand), mainly due to the investment costs incurred to launch, develop and operate the SELFNAMED.COM platform.

In 2023, SELFNAMED.COM was developed, offering customers the possibility to create a cosmetic line with their own personalised design in small volumes. In 2023, several major improvements were made to the SELFNAMED.COM platform, including the creation of a layout builder that allows customers to automatically create images with the designs they create. Integration with WooCommerce and Shopify was completed in the first half of 2023, and in the second half users were able to connect their online stores and use the platform's drop-shipping services.

NORD Beauty SIA (a subsidiary of Cosmetics NORD SIA) provides the administrative product registration function.

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

In 2023, MADARA Cosmetics Inc., a subsidiary in the USA, was established to distribute and sell products. In 2023, no active operations had yet commenced.

Subsequent to the end of the reporting year, the Group closed a significant brand sale at a profit. On 30 April 2024, MADARA Cosmetics AS signed a binding agreement with Oy Transmeri Ab for EUR 4 million for the asset-based carve-out and future contract manufacturing facilitation for the MOSSA brand. This transaction is expected to ensure further growth of the MOSSA brand in the Finnish market while increasing contract manufacturing volumes. The Group will also continue to provide MOSSA's product development function as well as production and distribution in the Latvian market and in the Baltic region.

After the end of the reporting year, in 2024, MADARA Retail SIA discontinued the retail sale of branded products in the store "AKROPOLE Rīga". MÁDARA branded products continue to be sold in the shopping centres "Galerija Centrs", "Spice", "AKROPOLE Alfa" and "Galleria Riga".

No other material events have occurred since the reporting-year end which should be disclosed in these financial statements and would be relevant for reassessing the Group's assets and liabilities, its financial position and the financial results of the reporting year.

Based on proposal of the management of the Parent Company, the portion of retained earnings for 2023 and prior years to be paid out as dividends is EUR 2 190 415.24, or EUR 0.58 per share, where EUR 1 694 339.00 is the profit of the Parent Company for 2023 and the remaining EUR 496 076.24 represents retained earnings from prior years.



Lote Tisenkopfa - Iltner
Chairman of the Board



Tatjana Nagle
Member of the Board



Uldis Iltners
Member of the Board



Gunta Šulte
Member of the Board



PROFIT AND LOSS STATEMENT

	Note	Group 2023 / EUR	Group 2022 / EUR	Company 2023 / EUR	Company 2022 / EUR
Revenue	2	20 234 218	18 696 482	18 940 466	17 895 610
Cost of goods sold	3	(6 886 013)	(6 587 382)	(6 796 326)	(6 497 344)
Gross profit		13 348 205	12 109 100	12 144 140	11 398 266
Selling expenses	4	(9 139 174)	(8 543 425)	(8 173 755)	(7 835 010)
Administration expenses	5	(2 199 268)	(1 964 384)	(1 891 647)	(1 870 427)
Other operating income	6	236 236	200 370	239 729	201 148
Other operating expenses	7	(281 089)	(217 341)	(258 402)	(201 810)
Interest and similar income	8	12 229	577	12 217	577
Interest and similar expenses	9	(43 988)	(30 459)	(42 784)	(29 662)
Profit before corporate income tax		1 933 151	1 554 438	2 029 498	1 663 082
Corporate income tax for the reporting year	10	(335 772)	(433 612)	(335 159)	(433 533)
Profit after corporate income tax		1 597 379	1 120 826	1 694 339	1 229 549
Profit for the year		1 597 379	1 120 826	1 694 339	1 229 549

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

BALANCE SHEET

Assets	Note	Group 31.12.2023. EUR	Group 31.12.2022. EUR	Company 31.12.2023. EUR	Company 31.12.2022. EUR
Non-current assets					
Intangible assets					
Concessions, patents, licenses, trademarks and similar rights		1 337 192	1 188 664	1 072 495	981 663
Other intangible assets		21 386	27 646	21 386	27 646
Prepayments for intangible assets		12 570	16 369	12 570	16 369
Total intangible assets	11	1 371 148	1 232 679	1 106 451	1 025 678
Property, plant and equipment					
Land		468 722	468 722	468 722	468 722
Leasehold improvements		400 724	312 688	275 022	298 109
Technological equipment and machinery		2 077 800	1 450 499	1 948 981	1 338 215
Other fixed assets and equipment		416 081	388 621	387 251	371 839
Assets under construction		40 758	273 670	38 739	273 670
Prepayments for property, plant and equipment		24 569	233 200	21 786	233 200
Total property, plant and equipment	12	3 428 654	3 127 400	3 140 501	2 983 755
Non-current financial investments					
Investments in subsidiaries	13	-	-	18 156	18 156
Other non-current receivables	14	96 728	82 736	40 000	40 000
Other securities and investments		826	826	826	826
Total non-current financial investments		97 554	83 562	58 982	58 982
Total non-current assets		4 897 356	4 443 641	4 305 934	4 068 415
Current assets					
Inventories					
Raw materials, materials and consumables	15	2 435 579	2 642 042	2 434 869	2 641 152
Finished goods and goods for sale	16	1 762 900	1 221 757	1 574 011	1 100 693
Prepayments for inventories		282 168	376 133	282 168	376 133
Total inventories		4 480 647	4 239 932	4 291 048	4 117 978
Receivables					
Trade receivables	17	1 677 087	1 385 528	1 534 628	1 238 880
Trade receivables from affiliated parties	18	-	-	1 752 058	1 351 723
Other receivables	19	136 590	155 219	116 818	139 078
Accrued income		12 057	24 421	12 057	23 991
Deferred expenses		133 975	55 196	121 515	44 999
Total receivables		1 959 709	1 620 364	3 537 076	2 798 671
Cash	20	5 486 715	5 950 884	4 546 407	5 092 293
Total current assets		11 927 071	11 811 180	12 374 531	12 008 942
Total assets		16 824 427	16 254 821	16 680 465	16 077 357

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

BALANCE SHEET

Equity and liabilities	Note	Group 31.12.2023. EUR	Group 31.12.2022. EUR	Company 31.12.2023. EUR	Company 31.12.2022. EUR
Equity					
Share capital	21	377 658	377 391	377 658	377 391
Share premium		4 023 455	4 023 455	4 023 455	4 023 455
Retained earnings:					
a) retained earnings in prior years		8 103 370	8 304 031	8 077 554	8 169 492
b) profit for the year		1 597 379	1 120 826	1 694 339	1 229 549
Total equity		14 101 862	13 825 703	14 173 006	13 799 887
Liabilities					
Non-current liabilities					
Deferred revenue		281 374	130 518	281 374	130 518
Total non-current liabilities		281 374	130 518	281 374	130 518
Current liabilities					
Advances from customers		173 995	93 592	79 616	31 712
Trade payables		742 509	1 082 165	687 460	1 024 714
Debts to affiliated parties		-	-	95 267	72 153
Taxes and mandatory state social insurance contributions	22	477 446	352 949	422 373	326 531
Other liabilities	23	286 228	247 744	238 357	211 550
Deferred revenue	29	54 084	3 922	54 084	3 648
Accrued liabilities	24	706 929	518 228	648 928	476 644
Total current liabilities		2 441 191	2 298 600	2 226 085	2 146 952
Total liabilities		2 722 565	2 429 118	2 507 459	2 277 470
Total equity and liabilities		16 824 427	16 254 821	16 680 465	16 077 357

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

STATEMENT OF CASH FLOWS

	Note	Group 2023 / EUR	Group 2022 / EUR	Company 2023 / EUR	Company 2022 / EUR
Cash flow of operating activities					
Profit before corporate income tax		1 933 151	1 554 438	2 029 498	1 663 082
Adjustments for:					
Depreciation of property, plant and equipment	12	530 974	556 175	486 203	511 530
Amortisation of intangible assets	11	410 107	569 341	349 373	539 406
Net gain from the disposal of property, plant and equipment	6	(7 438)	(20 020)	(7 438)	(20 020)
Government and the EU institution aid	6	(145 005)	(138 384)	(145 005)	(138 384)
Interest and similar income	8	(12 229)	(577)	(12 217)	(577)
Interest and similar expenses	9	-	456	-	453
Profit before adjustments for current assets and current liabilities		2 709 560	2 521 429	2 700 414	2 555 490
Adjustments for:					
(Increase)/ decrease in receivables		(339 521)	(74 426)	(738 405)	(411 220)
(Increase)/ decrease in inventories		(240 715)	(36 812)	(173 070)	37 468
Increase/ (decrease) in payables and other payables		87 450	463 931	23 805	315 799
Gross cash flow of operating activities		2 216 774	2 874 122	1 812 744	2 497 537
Interest paid	9	-	(456)	-	(453)
Corporate income tax paid	10	(330 879)	(419 044)	(330 266)	(418 965)
Net cash flow of operating activities		1 885 895	2 454 622	1 482 478	2 078 119
Cash flow of investment activities					
Payments for property, plant and equipment and intangible assets	11,12	(1 380 804)	(1 507 224)	(1 073 096)	(1 338 282)
Issued loans		(13 992)	-	-	-
Proceeds from the sale of property, plant and equipment	6	7 438	64 026	7 438	64 026
Received interest	8	12 217	577	12 217	577
Net cash flow of investing activities		(1 375 141)	(1 442 621)	(1 053 441)	(1 273 679)
Cash flow of financing activities					
Received government and the EU institution aid	6,29	346 297	251 097	346 297	251 097
Repaid financial lease liabilities	24	-	(26 991)	-	(26 991)
Dividends paid		(1 321 220)	(1 885 288)	(1 321 220)	(1 885 288)
Net cash flow of financing activities		(974 923)	(1 661 182)	(974 923)	(1 661 182)
Net (decrease)/ increase in cash and cash equivalents		(464 169)	(649 181)	(545 886)	(856 742)
Cash and cash equivalents at the beginning of the reporting year	20	5 950 884	6 600 065	5 092 293	5 949 035
Cash and cash equivalents at the end of the reporting year	20	5 486 715	5 950 884	4 546 407	5 092 293

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 31.12.2021.	377 058	4 023 455	10 189 652	14 590 165
Distribution of dividends	-	-	(1 885 288)	(1 885 288)
Increase in share capital	333	-	(333)	-
Profit for the reporting year	-	-	1 120 826	1 120 826
Balance as of 31.12.2022.	377 391	4 023 455	9 424 857	13 825 703
Distribution of dividends	-	-	(1 321 220)	(1 321 220)
Increase in share capital	267	-	(267)	-
Profit for the reporting year	-	-	1 597 379	1 597 379
Balance as of 31.12.2023.	377 658	4 023 455	9 700 749	14 101 862

Company	Share capital EUR	Share premium EUR	Retained earnings EUR	Total equity EUR
Balance as of 31.12.2021.	377 058	4 023 455	10 055 113	14 455 626
Distribution of dividends	-	-	(1 885 288)	(1 885 288)
Increase in share capital	333	-	(333)	-
Profit for the reporting year	-	-	1 229 549	1 229 549
Balance as of 31.12.2022.	377 391	4 023 455	9 399 041	13 799 887
Distribution of dividends	-	-	(1 321 220)	(1 321 220)
Increase in share capital	267	-	(267)	-
Profit for the reporting year	-	-	1 694 339	1 694 339
Balance as of 31.12.2023.	377 658	4 023 455	9 771 893	14 173 006

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 – GENERAL PRINCIPLES

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 profit and loss 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 revenues 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 disinvestment 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.

Companies included in consolidation

All companies in which MADARA Cosmetics AS is the Group's Parent Company directly or through the subsidiary's intermediation are included in the 2023 consolidation.

Name of the Company	Country	Group's ownership as of 31 December 2023	Group's ownership as of 31 December 2022
MADARA Retail SIA	Latvia	100%	100%
Cosmetics NORD SIA	Latvia	100%	100%
NORD Beauty SIA	Latvia	100%	100%
MADARA Cosmetics GmbH	Germany	100%	100%
MADARA Cosmetics Inc.	United States	100%	-

The reporting period

The reporting year covers the period from 1.1.2023 to 31.12.2023.

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 presentational 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 profit and loss statement. As of 31 December of the reporting year, the Group has no significant assets and liabilities denominated in foreign currencies.

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 profit and loss statement.

Inclusion of an associate in the consolidated financial statements

(1) Where a consolidated entity has an associate, it shall be presented in the consolidated balance sheet under 'Equity interests in associates'.

(2) On initial recognition in the consolidated balance sheet, an interest in an associate shall be measured as the sum of the acquisition value of the associate's shares and the increase or decrease in the value of that interest between the acquisition date and the balance sheet date of the consolidated annual report. The increase or decrease is calculated in accordance with the annual financial statements of the associate on the basis of the proportion (as a percentage) of the contributed capital in the equity of the associate (equity method).

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 the 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 "Concessions, patents, licenses, 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:

<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 profit and loss statement for the respective period.

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 profit and loss 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 profit and loss 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 profit and loss 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 profit and loss 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.

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 profit and loss statement over the term of the lease, using the linear method.

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.

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 profit and loss statement on the basis of calculations made by the management in accordance with the laws and regulations of the Republic of Latvia.

Corporation tax is calculated on the profits distributed, calculated as 20/80 of the net amount payable to members and certain expenses attributable to the distribution of profits, applying a coefficient of 0.8. Corporation tax on distributed profits will be recognised at the time when the members of the Company decide on the distribution of profits.

The accumulated undistributed profits subject to corporation tax at the end of the reporting year amount to EUR 7 669 402 at the time of distribution of dividends.

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 2023.

- Net realisable 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 2023.

- 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 institution 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 institution 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 profit and loss statement in a systematic 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 2023 / EUR	Group 2022 / EUR	Company 2023 / EUR	Company 2022 / EUR
Net turnover across geographical markets:				
Revenue from the sale of goods in the European Union	13 668 174	12 543 810	12 461 240	11 745 694
Revenue from the sale of goods in Latvia	4 482 142	4 468 029	5 116 224	4 734 152
Revenue from the sale of goods in other markets	1 853 538	1 514 256	1 240 828	1 281 360
Revenue from provision of services	219 811	167 719	111 621	131 736
Other revenue from operating activities	10 553	2 668	10 553	2 668
Total	20 234 218	18 696 482	18 940 466	17 895 610

(3) Cost of goods sold

Raw materials consumed	3 178 987	3 114 524	3 270 743	3 193 296
Remuneration for work	1 661 918	1 521 583	1 609 794	1 466 486
Mandatory state social insurance contributions	391 172	358 447	378 863	345 450
Depreciation of fixed assets (see Note 12)	340 383	334 566	319 166	316 166
Production service costs	273 627	223 466	257 599	210 973
Current assets write-off	262 982	221 980	255 860	220 946
New product research and development costs	233 082	198 849	231 654	192 415
Premises rent and maintenance costs	215 140	210 286	149 123	149 123
Resource costs	134 977	165 985	134 977	165 985
Leasehold improvements write-off (see Note 12)	85 981	77 029	85 982	77 029
Development costs write-off (see Note 11)	-	32 157	-	32 157
ECOCERT quality certificate maintenance costs	49 802	30 755	44 619	29 577
Car maintenance, fuel and repair costs	22 627	21 924	22 627	21 924
Business trip costs	11 481	8 067	11 481	8 067
Other production and maintenance-related costs	23 854	67 764	23 838	67 750
Total	6 886 013	6 587 382	6 796 326	6 497 344

(4) Selling expenses

Advertising and marketing costs	3 141 029	2 631 442	2 939 857	2 476 383
Remuneration for work	1 863 189	1 719 484	1 550 129	1 446 429
Transportation costs	1 280 697	1 178 755	1 173 764	1 098 833
Sample production costs	688 221	841 027	688 221	841 027
Asset depreciation and amortisation of intangible assets (see Note 11 and 12)	413 043	592 697	344 000	550 557
Mandatory state social insurance contributions	440 323	405 800	365 764	341 354
Intermediate services costs	321 272	321 363	369 422	407 163
Trade promotion costs	178 588	248 632	279 703	248 632
Maintenance costs of sales platforms	281 275	216 361	178 588	163 442

	Group 2023 / EUR	Group 2022 / EUR	Company 2023 / EUR	Company 2022 / EUR
(4) Selling expenses (continued)				
Premises rent and maintenances costs	169 978	144 378	-	-
Business trips and exhibition costs	62 957	46 624	48 626	46 624
Royalties	9 348	29 019	9 348	29 019
Sales risk insurance	28 905	22 968	28 905	22 968
Warehouse service costs	-	18 621	-	18 621
Leasehold improvements write-off (see Note 12)	15 246	14 040	-	-
E-shop WEB page maintenance costs and other IT costs	14 662	13 413	14 662	13 413
Car maintenance, fuel and repair costs	17 442	12 356	15 766	12 356
Representation costs	20 236	11 432	19 733	11 425
Other selling expenses	192 763	75 013	147 267	106 764
Total	9 139 174	8 543 425	8 173 755	7 835 010
(5) Administration expenses				
Remuneration for work	850 606	743 634	715 686	581 187
Office costs	221 641	259 358	197 623	226 259
Mandatory state social insurance contributions	200 427	173 334	168 671	137 077
Cash transactions related costs	184 873	160 192	137 775	140 088
Premises rent and maintenance costs	119 970	142 003	119 969	142 003
Asset depreciation and amortisation of intangible assets (see Note 11 and 12)	86 428	75 027	86 428	75 027
Employee health insurance	62 521	64 363	49 791	54 277
Employee food costs	79 102	56 817	70 358	50 771
Personnel sustainability costs	67 625	56 770	61 675	55 052
Audit costs*	38 700	37 647	35 100	32 547
Car maintenance, fuel and repair costs	30 849	34 812	30 849	34 812
Securities circulation costs	21 337	28 692	21 337	28 692
Research consultation and conference costs	60 882	28 388	60 882	28 388
Legal and other professional service costs	42 543	28 310	37 085	22 664
Communication service costs	20 063	21 030	15 304	16 758
Allowance for doubtful receivables (see Note 17 and 18)	9 129	9 571	8 805	209 571
Business trip costs	19 464	8 441	19 464	8 441
Other management and administration costs	83 108	35 995	54 845	26 813
Total	2 199 268	1 964 384	1 891 647	1 870 427
(6) Other operating income				
Income from ERAF projects	145 005	138 384	145 005	138 384
Revenue from the sale of current assets	4 172	2 618	4 172	2 618
Net revenue from the disposal of property, plant and equipment	7 438	20 020	7 438	20 020
<i>Proceeds from the disposal of fixed assets</i>	<i>7 438</i>	<i>64 026</i>	<i>7 438</i>	<i>64 026</i>
<i>Residual carrying amount of property, plant and equipment (Note 12)</i>	<i>-</i>	<i>(44 006)</i>	<i>-</i>	<i>(44 006)</i>
Other income	79 621	39 348	83 114	40 126
Total	236 236	200 370	239 729	201 148

*Deloitte Audits Latvia, the auditor of the parent company, provided only services related to the statutory audit of financial statements during the reporting year.

	Group 2023 / EUR	Group 2022 / EUR	Company 2023 / EUR	Company 2022 / EUR
(7) Other operating expenses				
Donations	3 455	65 000	3 455	65 000
Staff recruitment and training costs	134 360	44 696	134 360	44 696
Nature protection costs	36 731	20 001	36 731	20 001
Resold purchased goods and services	6 302	12 409	6 302	12 409
Labour protection costs	8 773	11 046	8 773	11 046
Security costs	7 815	9 368	-	9 368
Other expenses	83 653	54 821	68 781	39 290
Total	281 089	217 341	258 402	201 810
(8) Interest and similar income				
Other interest income	12 229	577	12 217	577
Total	12 229	577	12 217	577
(9) Interest and similar expenses				
Currency exchange rate fluctuations	28 699	23 915	28 699	23 915
Factoring fees	965	854	-	237
Interest on obligations under finance leases	-	216	-	216
Other interest payments	45	-	45	-
Penalties paid	14 279	5 474	14 040	5 294
Total	43 988	30 459	42 784	29 662
(10) Corporate income tax for the reporting year				
Corporate income tax calculated on previously retained 2022-year distributed profit into dividends during 2023, less tax benefits.	335 772	433 612	335 159	433 533
Total	335 772	433 612	335 159	433 533



(11) INTANGIBLE ASSETS

Group	Concessions, patents, licenses, trademarks, and similar rights (EUR)	Other intangible assets (EUR)	Prepayments for intangible assets (EUR)	Total intangible assets (EUR)
Cost as of 31.12.2022.	1 592 988	31 226	16 369	1 640 583
Additions	-	-	548 576	548 576
Transfers	552 376	-	(552 376)	-
Cost as of 31.12.2023.	2 145 364	31 226	12 569	2 189 159
Accumulated amortisation as of 31.12.2022.	404 324	3 580	-	407 904
Amortisation charged	403 847	6 260	-	410 107
Accumulated amortisation as of 31.12.2023.	808 171	9 840	-	818 011
Net carrying amounts as of 31.12.2022.	1 188 664	27 646	16 369	1 232 679
Net carrying amounts as of 31.12.2023.	1 337 193	21 386	12 569	1 371 148

Company	Concessions, patents, licenses, trademarks, and similar rights (EUR)	Other intangible assets (EUR)	Prepayments for intangible assets (EUR)	Total intangible assets (EUR)
Cost as of 31.12.2022.	1 355 791	31 226	16 369	1 403 386
Additions	-	-	430 146	430 146
Transfers	433 945	-	(433 945)	-
Cost as of 31.12.2023.	1 789 736	31 226	12 570	1 833 532
Accumulated amortisation as of 31.12.2022.	374 128	3 580	-	377 708
Amortisation charged	343 113	6 260	-	349 373
Accumulated amortisation as of 31.12.2023.	717 241	9 840	-	727 081
Net carrying amounts as of 31.12.2022.	981 663	27 646	16 369	1 025 678
Net carrying amounts as of 31.12.2023.	1 072 495	21 386	12 570	1 106 451



(12) PROPERTY, PLANT AND EQUIPMENT

Group	Land (EUR)	Leasehold improvements (EUR)	Technological equipment and machinery (EUR)	Other fixed assets and equipment (EUR)	Assets under construction (EUR)	Prepayments for property, plant and equipment (EUR)	Total property, plant and equipment (EUR)
Cost as of 31.12.2022.	468 722	883 148	3 897 390	1 072 208	273 670	233 200	6 828 338
Additions	-	-	-	-	332 482	499 746	832 228
Disposals	-	-	-	(30 585)	-	-	(30 585)
Adjustments	-	-	-	-	8 743	(8 743)	-
Transfers	-	191 129	891 650	190 993	(574 138)	(699 634)	-
Cost as of 31.12.2023.	468 722	1 074 277	4 789 040	1 232 616	40 757	24 569	7 629 981
Accumulated amortisation as of 31.12.2022.	-	570 460	2 446 891	683 587	-	-	3 700 938
Depreciation charged	-	103 092	264 349	163 533	-	-	530 974
Disposals	-	-	-	(30 585)	-	-	(30 585)
Accumulated amortisation as of 31.12.2023.	-	673 552	2 711 240	816 535	-	-	4 201 327
Net carrying amounts as of 31.12.2022.	468 722	312 688	1 450 499	388 621	273 670	233 200	3 127 400
Net carrying amounts as of 31.12.2023.	468 722	400 725	2 077 800	416 081	40 757	24 569	3 428 654

Company	Land (EUR)	Leasehold improvements (EUR)	Technological equipment and machinery (EUR)	Other fixed assets and equipment (EUR)	Assets under construction (EUR)	Prepayments for property, plant and equipment (EUR)	Total property, plant and equipment (EUR)
Cost as of 31.12.2022.	468 722	752 411	3 769 107	1 009 465	273 670	233 200	6 506 575
Additions	-	-	-	-	154 730	488 219	642 949
Transfers	-	-	-	(30 585)	-	-	(30 585)
Disposals	-	62 895	856 777	169 622	(389 661)	(699 633)	-
Cost as of 31.12.2023.	468 722	815 306	4 625 884	1 148 502	38 739	21 786	7 118 939
Accumulated amortisation as of 31.12.2022.	-	454 302	2 430 892	637 626	-	-	3 522 820
Depreciation charged	-	85 982	246 011	154 210	-	-	486 203
Disposals	-	-	-	(30 585)	-	-	(30 585)
Accumulated amortisation as of 31.12.2023.	-	540 284	2 676 903	761 251	-	-	3 978 438
Net carrying amounts as of 31.12.2022.	468 722	298 109	1 338 215	371 839	273 670	233 200	2 983 755
Net carrying amounts as of 31.12.2023.	468 722	275 022	1 948 981	387 251	38 739	21 786	3 140 501

(13) INVESTMENTS IN SUBSIDIARIES

	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
Acquisition value	18 156	18 156
Investments in subsidiaries:	18 156	18 156

Name of the company	Owned shares, %	Acquisition value / EUR	Value of the investment 31.12.2023 / EUR
MADARA Retail SIA	100	2 828	2 828
Cosmetics NORD SIA	100	2 828	2 828
MADARA Cosmetics GmbH	100	12 500	12 500
MADARA Cosmetics Inc.	100	-	-
Total		18 156	18 156

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

	31.12.2023, audited (EUR)	31.12.2022, audited (EUR)
Equity	183 032	165 346
Profit or (loss) of the reporting year	17 686	5 737

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

	31.12.2023, audited (EUR)	31.12.2022, audited (EUR)
Equity	(383 471)	(279 520)
Profit or (loss) of the reporting year	(103 412)	(282 170)

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

	31.12.2023, unaudited (EUR)	31.12.2022, unaudited (EUR)
Equity	14 786	20 028
Profit or (loss) of the reporting year	(5 243)	(6 871)

MADARA Cosmetics Inc., registration number 37-2087771, 291 Main Street, Beacon, NY 12508

	31.12.2023, unaudited (EUR)
Equity	-
Profit or (loss) of the reporting year	-

(14) OTHER NON-CURRENT RECEIVABLES

	Group 31.12.2023 / EUR	Group 31.12.2022 / EUR	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
Rent security deposits	96 728	82 736	40 000	40 000
Total	96 728	82 736	40 000	40 000

(15) RAW MATERIALS, MATERIALS AND CONSUMABLES

	Group 31.12.2023 / EUR	Group 31.12.2022/ EUR	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
Raw materials and materials, gross value	2 362 093	2 585 801	2 362 093	2 584 911
Goods in transit	73 486	56 241	72 776	56 241
Total	2 435 579	2 642 042	2 434 869	2 641 152

(16) FINISHED GOODS AND GOODS FOR SALE

	Group 31.12.2023 / EUR	Group 31.12.2022/ EUR	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
Cosmetic products	1 599 731	1 135 313	1 411 639	1 013 632
Advertising materials	135 261	65 072	135 261	65 072
Goods in transit	31 408	28 872	30 611	28 489
Allowance for obsolete and slow-moving inventories	(3 500)	(7 500)	(3 500)	(6 500)
Total	1 762 900	1 221 757	1 574 011	1 100 693

	Group 2023 / EUR	Group 2022 / EUR	Company 2023 / EUR	Company 2022 / EUR
Allowance for obsolete and slow-moving inventories at the beginning of the year	6 500	7 500	6 500	6 500
Provisions excluded	(3 000)	-	(3 000)	-
Allowance for obsolete and slow-moving inventories at the end of the year	3 500	7 500	3 500	6 500

(17) TRADE RECEIVABLES

	Group 31.12.2023 / EUR	Group 31.12.2022/ EUR	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
Trade receivables, gross value	1 695 787	1 416 561	1 753 004	1 268 913
Allowance for doubtful trade receivables	(18 700)	(31 033)	(218 376)	(30 033)
Total	1 677 087	1 385 528	1 534 628	1 238 880

	Group 2023 / EUR	Group 2022 / EUR	Company 2023 / EUR	Company 2022 / EUR
Allowance for doubtful trade receivables at the beginning of the reporting year	31 033	21 462	230 033	20 462
Allowance charged (see Note 5)	9 129	9 571	8 805	9 571
Allowance written-off	(21 462)	-	(20 462)	-
Allowance for doubtful trade receivables at the end of the reporting year	18 700	31 033	218 376	30 033

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

(18) TRADE RECEIVABLES FROM AFFILIATED PARTIES

	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
MADARA Retail SIA	310 970	264 402
Cosmetics NORD SIA	1 641 088	1 287 321
Allowance for doubtful trade receivables	(200 000)	(200 000)
Total	1 752 058	1 351 723

	Company 2023 / EUR	Company 2022 / EUR
Allowance for doubtful trade receivables at the beginning of the reporting year	200 000	-
Allowance charged (see Note 5)	-	200 000
Allowance for doubtful trade receivables at the end of the reporting year	200 000	200 000

(19) OTHER RECEIVABLES

	Group 31.12.2023 / EUR	Group 31.12.2022 / EUR	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
VAT overpayment (Latvia)	42 509	104 197	42 509	104 197
VAT overpayment (Germany)	6 383	13 964	6 383	13 964
Security deposits	882	11 520	882	11 520
Other receivables	86 816	25 538	67 044	9 397
Total	136 590	155 219	116 818	139 078

(20) CASH

	Group 31.12.2023 / EUR	Group 31.12.2022 / EUR	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
Cash in bank accounts	5 486 715	5 950 884	4 546 407	5 092 293
Total	5 486 715	5 950 884	4 546 407	5 092 293

(21) Share capital

As of 31 December 2023, the registered and fully paid-in capital of the Group's Parent Company is 377 657.80 EUR, which consists of 3 776 578 shares (31.12.2022: 377 391.10 EUR, 3 773 911 shares). Share capital as of 31 December 2023, compared to 31 December 2022, has increased by 266.70 EUR, executing previously accumulated retained earnings within the programme of employee share options. The nominal value of one share is EUR 0.10.

Since 2017, the Group's Parent Company MADARA Cosmetics AS has implemented a share options programme 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 programme of share options and, in accordance with the procedure, share options are exercised at par value at the expense of retained earnings. During 2023, 2 667 share options were issued. As a result, share option programme holders received 2 667 Company shares.

As of 31 December 2023, the number of share options granted for which the rights of use will become available in the following reference years is 36 264 (31.12.2022: 13 931 share options). As a result of using these options, share option programme participants – employees will acquire 36 264 shares of the Parent Company.

(22) TAXES AND MANDATORY STATE SOCIAL INSURANCE CONTRIBUTIONS

	Group 31.12.2023 / EUR	Group 31.12.2022 / EUR	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
Value added tax (OSS)	244 764	179 447	227 515	172 083
Mandatory state social insurance contributions	129 139	112 208	114 675	99 510
Personal income tax	64 327	55 827	57 353	49 632
Corporate income tax	5 169	276	5 169	276
Other taxes and duties (Latvia, Italy, United Kingdom)	34 047	5 191	17 661	5 030
Total	477 446	352 949	422 373	326 531

(23) OTHER LIABILITIES

	Group 31.12.2023 / EUR	Group 31.12.2022 / EUR	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
Salaries	244 344	215 472	214 240	188 393
Balance of gift cards	13 656	16 287	4 718	9 641
Other liabilities	28 228	15 985	19 399	13 516
Total	286 228	247 744	238 357	211 550

(24) ACCRUED LIABILITIES

	Group 31.12.2023 / EUR	Group 31.12.2022 / EUR	Company 31.12.2023 / EUR	Company 31.12.2022 / EUR
Accrued liabilities for unused vacations	336 333	315 802	288 837	281 889
Accrued liabilities for services received	215 380	123 768	203 503	116 097
Accrued liabilities for employee remuneration	32 237	22 417	32 237	22 417
Accrued liabilities for goods received	122 979	56 241	124 351	56 241
Total	706 929	518 228	648 928	476 644

(25) GROUP'S PARENT COMPANY'S RELATED PARTY TRANSACTIONS DURING THE REPORTING YEAR

	Goods and services provided / EUR	Goods and services received / EUR
MADARA Retail SIA *	482 824	-
Cosmetics NORD SIA *	1 227 697	34 955
MC PROPERTIES SIA	1 162	220 835
KALVI SIA	-	26 615
MADARA Cosmetics GmbH **	-	48 150
Total	1 711 683	330 555

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

**Outstanding balances with these parties are included in the balance sheet item "Debts to affiliated parties".

(26) NUMBER OF EMPLOYEES

	Group 2023	Group 2022	Company 2023	Company 2022
Average number of employees in the year, including	215	202	176	172
Members of the Board	6	3	4	3
Members of the Council	5	5	5	5

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

	Group 2023	Group 2022	Company 2023	Company 2022
Board members remuneration for the work at the Board	341 768	259 944	332 870	251 046
Council members remuneration for the work at the Council	4 680	4 245	4 680	4 245
Total	346 448	264 189	337 550	255 291

(28) 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 MC Properties SIA Reg. No 40103872324 for leasing production and office premises in Marupe, 131 Zeltinu Street. The agreement matures in 2030. The Parent Company of the Group has concluded an agreement on lease of office premises with Kalvi SIA at 20A Baložu Street, the term of the agreement is 2026. Group has concluded lease agreements for rent of premises in four shopping centers in Riga: "Galerija Centrs", "Spice", "AKROPOLE Alfa" and "AKROPOLE Rīga" 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 2024–2029 with a possibility to prolong.

(b) Issued guarantees

On 15 March 2015, a mortgage agreement was signed between SWEDBANK A/S 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 favour of SWEDBANK A/S 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. As of 31 December 2023, the outstanding amount of MC PROPERTIES SIA loan to SWEDBANK A/S was EUR 770 758 (31 December 2022: EUR 890 877). The Group's Parent Company does not receive any consideration for the guarantee issued. The Group's management has assessed the need to make provisions for the above guarantee and is of the opinion that no such provision is required as at 31 December 2023.

(c) Legal risk

The Company and the Group are subject to various foreign laws, including taxation laws, as the Group's activities related to the supply of goods to individuals and legal entities take place in various foreign markets. The period of supervision by the tax authorities of the relevant countries may vary from country to country, generally between 3 and 5 years from the time of incurring or declaring the tax liability. The Group and the Company are exposed to legal risks related to possible actions by the tax authorities of these countries, including tax liabilities that could arise for periods in which the limitation period has not yet expired as at 31 December 2023 and the date of signing the annual report. The Group's management has considered all known circumstances that have arisen up to the date of signing the annual report and believes that the provision for possible tax liabilities arising from the supervision of these foreign tax administrations is not material and therefore no provision is made as at 31 December 2023.

(29) Received ERAF financing

In order to receive additional funding, the Group's Parent Company in 2023 participated in the Norwegian Financial Instruments Programme Activity – Green Innovation and Introduction of Information and Communication Technology Products into Production, in the ECSEL Joint Venture Project Intelligent Motion Control, as well as in the Competence Centres projects providing support for the development of new products and technologies. During the implementation of these projects, all necessary conditions for participation were met and the Group's Parent Company received funding totalling EUR 247 288 during 2023 (EUR 251 097 in 2022). The Group is in compliance with all contractual conditions related to deferred income in 2023 and as at 31 December 2023. In 2023, other project support payments of EUR 99 009 (2022: EUR 107 097) were received.

(30) 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 other currencies. Therefore, during the reporting year, the Group's exposure to foreign currency risk was not significant. The Group does not undertake measures to mitigate the risk.

- Credit risk

Credit risk is the risk that the Group will incur a financial loss as a result of the counterparty being unable to meet its obligations to the Group's entities. Credit risk arises principally from cash at banks, trade receivables and/or long-term

and short-term borrowings. In order to reduce this risk, the Group monitors trade receivables on a regular basis and, if necessary, takes additional debt recovery measures.

The Group has no significant concentration of credit risk with respect to any single counterparty or group of similar counterparties.

- Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations in full and on time. Liquidity risk arises when the maturities of financial assets and liabilities do not coincide. The Group's liquidity risk management objective is to maintain adequate cash and cash equivalents and to ensure adequate funding through bank credit facilities to enable the Group to meet its obligations as they fall due. As at 31 December 2023, the Group has no active credit facility agreements. The Parent Company of the Group regularly assesses the matching of financial assets and liabilities by maturity and the stability of funding sources for long-term investments.

(31) Events after the reporting date

Subsequent to the end of the annual report on 30 April 2024, MADARA Cosmetics AS has entered into a transaction with Oy Transmeri Ab, a Finnish cosmetics distributor, to divest the MOSSA brand assets and continue contract manufacturing. The transaction resulted in a profit, with a total compensation of EUR 4 million. Due to Oy Transmeri Group Ab's shareholding in the Company this transaction is deemed to have been undertaken with a related party.

After the end of the reporting year 2024, MADARA Retail SIA discontinued the retail sale of branded products in the store "AKROPOLE Rīga". MADARA branded products continue to be sold in the shopping centres "Galerija Centrs", "Spice", "AKROPOLE Alfa" and "Galleria Rīga".

There have been no other events between the last day of the reporting year and the date of signing of these financial statements that have resulted in adjustments or need to be reflected in these financial statements.

(32) Proposal for profit distribution

Based on proposal of the management of the Parent Company, the portion of retained earnings for 2023 and prior years to be paid out as dividends is EUR 2 190 415.24, or EUR 0.58 per share, where EUR 1 694 339.00 is the profit of the Parent Company for 2023 and the remaining EUR 496 076.24 was retained earnings from prior years.

The Annual report approved by:

Lote Tisenkopfa - Iltner
Chairman of the Board

Tatjana Nagle
Member of the Board

Uldis Iltners
Member of the Board

Gunta Šulte
Member of the Board

The Annual Report prepared by:

Dace Reinsone
Chief accountant

21 May 2024



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 8 to 30 of the accompanying separate and consolidated annual report, which comprise:

- the separate and consolidated balance sheet as at 31 December 2023,
- 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 2023, 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) (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 separate and consolidated 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 separate and consolidated 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,
- the Management Report, as set out on page 5 and 6 of the accompanying consolidated Annual Report.

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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.

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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 Stasa
Member of the Board
Certified auditor
Certificate no. 145

Deloitte Audits Latvia SIA
Licence no. 43
Rīga, Latvia
21 May 2024

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