HERTI AD
Consolidated Financial Statements
For the Year Ended 31 December 2013
With Auditor's Report Thereon

Unofficial translation from original
Bulgarian
Consolidated Financial Statements

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Independent auditors' report

Consolidated statement of financial position

In thousands of BGN	*Note*	31.12.2013	31.12.2012
Assets			
Property, plant and equipment	*15*	17,063	14,579
Intangible assets	*16*	596	187
Equity-accounted investees	*17*	214	201
Other investments	*17*	3	3
Total non-current assets		17,876	14,970
Inventories	*18*	5,502	5,497
Related party receivables	*28*	286	540
Trade and other receivables	*19*	10,419	8,593
Cash and cash equivalents	*20*	733	339
Total current assets		16,940	14,969
Total assets		34,816	29,939
Equity			
Registered capital	*21*	12,014	12,014
Share premium		29	29
Reserves		521	475
Retained earnings (accumulated loss)		(436)	(584)
Total equity attributable to owners of the Company		12,128	11,934
Liabilities			
Interest bearing loans and borrowings	*22*	4,544	2,897
Deferred tax liabilities	*23*	813	795
Employee benefits	*24*	54	56
Government grants	*26*	1,499	-
Total non-current liabilities		6,910	3,748
Related parties payables	*28*	401	517
Interest bearing loans and borrowings	*22*	9,686	8,555
Trade and other payables	*25*	5,691	5,185
Total current liabilities		15,778	14,257
Total liabilities		22,688	18,005
Total equity and liabilities		34,816	29,939

The notes on pages 8 to 41 are an integral part of these consolidated financial statements.
The consolidated financial statements are prepared on 15 April 2014.

Chief Executive Officer:

Zahari Zahariev

Prepared by:

Ivaylo Petrov – Financial Director

In accordance with auditors' report:
KPMG Bulgaria OOD

Gilbert McCaul
Manager

Dobrina Kaloyanova
Registered Auditor

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

In thousands of BGN	*Note*	2013	2012
Revenue	*7*	28,965	28,665
Other operating income	*8*	2,827	2,757
Carrying amount of materials sold		(2,467)	(1,205)
Increase of finished goods and work in progress		75	(228)
Capitalized expenses		469	514
Expenses for materials	*9*	(19,035)	(19,632)
Hired services	*10*	(2,954)	(2,812)
Depreciation and amortization	*15;16*	(1,435)	(1,470)
Personnel expenses	*11*	(4,859)	(4,610)
Other operating expenses	*12*	(576)	(808)
Profit from operating activities		1,010	1,171
Finance costs		(802)	(714)
Finance income		-	15
Net finance cost	*13*	(802)	(699)
Profit of equity-accounted investees		14	3
Profit before income tax		222	475
Income tax (expense) income	*14*	(27)	(45)
Profit for the year		195	430
Other comprehensive income			
Foreign currency translation differences – foreign operations		(1)	(12)
Total other comprehensive income for the year		(1)	(12)
Total comprehensive income for the year		194	418
			-
Basic earnings per share (in BGN)	*30*	0.016	0.036

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In accordance with independent auditors' report:
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Gilbert McCaul
Manager

Dobrina Kaloyanova
Registered auditor

Consolidated statement of changes in equity

For the year ended 31 December 2013

In thousands of BGN	Registered Capital	Share premium	Legal Reserves	Additional Reserves	Retained loss	Total Equity
Balance at 1 January 2012	12,014	29	27	450	(1,004)	11,516
Total comprehensive income for the period						
Profit for the period	-	-	-	-	430	430
Other comprehensive income for the period	-	-	-	(2)	(10)	(12)
Total comprehensive income for the period	-	-	-	(2)	420	418
Balance at 31 December 2012	12,014	29	27	448	(584)	11,934
Balance at 1 January 2013	12,014	29	27	448	(584)	11,934
Total comprehensive income for the period						
Profit for the period	-	-	-	-	195	195
Other comprehensive income for the period	-	-	-	-	(1)	(1)
Total comprehensive income for the period	-	-	-	-	194	194
Transfer between reserves based on shareholders' decision	-	-	46	-	(46)	-
Balance at 31 December 2013	12,014	29	73	448	(436)	12,128

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Consolidated statement of cash flows

For the year ended 31 December 31.12.2013

In thousands of BGN	*Note*	2013	2012
Cash flows from operating activities			
Cash receipts from customers		32,284	32,424
Cash paid to suppliers		(26,397)	(27,379)
Net cash flow for salaries and wages		(4,942)	(4,559)
Other payments from operating activities		(21)	57
Indirect taxes and property taxes (paid)/refunded		830	763
Cash flow from operating activities		1,754	1,306
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3,766)	(757)
Proceeds from sale of property, plant and equipment		339	1
Other cash flows from investing activities		345	-
Net cash used in investing activities		(3,082)	(756)
Cash flows from financing activities			
Loans and borrowings received		5,144	5,427
Repayment of loans and borrowings		(2,464)	(5,095)
Payment of finance lease liabilities		(258)	(188)
Interest paid		(727)	(703)
Other cash flows from financing activities		36	(14)
Net cash used in financing activities		1,731	(573)
Net (decrease) increase in cash and cash equivalents		403	(23)
Cash and cash equivalents at 1 January		339	373
Effect of exchange rate fluctuations on cash held		(9)	(11)
Cash and cash equivalents at 31 December 2012	*20*	733	339

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Notes to the consolidated financial statements

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Notes to the consolidated financial statements

1. Reporting entity

Herti AD (the "Company") is a joint stock company domiciled in Bulgaria. The Company is registered in Bulgaria under court case No. 567/2007 of Shoumen District Court in compliance with the Commercial Law of Republic of Bulgaria. The Company's address of management is 9700, Shoumen, 38, "Antim I" street. The consolidated financial statements of the Company for the year ended 31 December 2013 comprise the Company and its subsidiaries (together referred to as the "Group" and separately referred to as the "Entities from the Group") and Group's interests in associates.
The main activities of the Group consists of production of aluminum screw caps, production of plastic caps, varnishing and lithography on metal sheets and thermo-contractible capsules for wine bottles.
The shares of the company are traded on a regulated market on the Bulgarian Stock Exchange – Sofia with ticker symbol HTV.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).
The consolidated financial statements were authorised for issue by the Board of Directors on 16 April 2014.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the liability for employee benefits which is stated at net present value.

(c) Functional and presentation currency

These financial statements are presented in Bulgarian Lev (BGN), which is the Company's functional currency. All financial information presented in BGN has been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgements

In preparing these financial statements ,management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Judgements

Information about critical judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 15 – Property, plant and equipment;
- Note 27 – Financial instruments

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2014 is included in the following notes:

- Note 27 – in respect of measurement and management of credit risk;

Notes to the consolidated financial statements

2. Basis of preparation, continued

(e) Going concern

These financial statements are prepared on a going concern principle assuming that the Group is able to continue its operations in foreseeable future. Management expectations for the trends for the Group's sales in 2014 are favorable for increasing margins, maximizing profits and increasing of net cash inflows. In this regard, Management believes that existing capital resources and sources of funding (cash flows from sales and financing contracts) will be adequate for liquidity needs in 2014.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(ii) Investments in subsidiaries

Subsidiaries are entities controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Loss of control

When the Group losses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controling interest (NCI) and the other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(a) Basis of consolidation, continued

(iv) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence ceases.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Acquisitions of non-controlling interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are not retranslated.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss),

Effective 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(b) Foreign currency, continued

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into BGN at exchange rates at the reporting date. The income and expenses of foreign operations are translated into BGN at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI, and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially, such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising from such item form part of the net investment in the foreign operation. Accordingly, such differences are recognised in OCI, and accumulated in the translation reserve.

(c) Financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables, and available-for-sale financial assets.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(c) Financial instruments, continued

(ii) Non-derivative financial assets – measurement

Loans and receivables
These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents
In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Available-for-sale financial assets
Other investments are recognized as available for sale financial assets. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments (see (b)(i)), are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

(iii) Non-derivative financial liabilities – measurement
Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(iv) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Group's capital is represented by historical cost as at date of registration.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment loss.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

- buildings 25 - 30 years;
- machinery and equipment 2 – 30 years;
- vehicles 5 - 15 years;
- fixtures and fittings 5 - 20 years;

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(e) Intangible assets, continued

(ii) Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent costs

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is expensed as incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis in profit or loss over the estimated useful lives of intangible assets.

The estimated useful lives are as follows:

- software 2 years
- patents 15 years
- others 15- 20 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(f) Leased assets

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position (see note 3m).

3. Significant accounting policies, continued

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average principle. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(h) Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security;
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

3. Significant accounting policies, continued

(h) Impairment, continued

(i) Non-derivative financial assets, continued

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through in profit or loss; otherwise, it is reversed through OCI.

Equity accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit and loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(i) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Group's contributions to the defined contribution pension plan are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Other long term benefits

The Group has obligation to pay certain amounts to each employee who retires with the Group in accordance with Art. 222, § 3 of the Labor Code in Bulgaria (LC). According to these regulations in the LC, when a labor contract of a company's employee, who has acquired a pension right, is ended, the employer is obliged to pay him compensations amounted to two gross monthly salaries. In case the employee's length of service in the company equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries. As at balance sheet date, the Management of the Company estimates the approximate amount of the potential expenditures for every employee. The amount of the obligation is disclosed in note 24.

(iii) Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(j) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(j) Provisions, continued

(ii) Litigation and claims

The Group recognizes provisions to cover litigation and claims when it is probable that an outflow of resources embodying economic benefits will be required to settle obligation. The provision is based on the best estimate made by the legal advisers of the Group. In cases when reliable valuation of the size of the liability cannot be done, it is disclosed as a contingent liability.

(k) Revenue

(i) Sale of production and goods

Revenue is recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement, which in general are CPT (Carriage paid to).

(ii) Rendering of services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is usually determined by analysis of work performed. Revenue from services usually includes mechanical works and works on technical works.

(l) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(m) Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease.

At inception or upon reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(ii) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(n) Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- dividend income;
- the net gain or loss on the disposal of available-for-sale financial assets;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses recognised on financial assets (other than trade receivables).

Interest income or expense is recognised using the effective interest rate method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(o) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Current tax also includes any tax arising from dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(q) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group's primary format for segment reporting is based on geographical segments. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly non-current assets, inventories, other receivables and liabilities.

(r) New standards and interpretations adopted during the year

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 13 Fair Value Measurement
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
- IAS 19 Employee Benefits (2012)

Adoption of these new standards and interpretations did not changed the accounting policy of the company.

(s) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 31 December 2013, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early.

Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the European Commission (EC)

- IFRS 10 *Consolidated Financial Statements* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. IFRS 10 introduces a single control model to determine whether an investee should be consolidated. The Group does not expect the new standard to have an impact on these financial statements since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

- IFRS 11 *Joint Arrangements*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the new standard to have any impact on the financial statements, since the assessment of the joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.

- IFRS 12 *Disclosures of Interests in Other Entities,* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect that the new Standard will have a material impact on the financial statements.

- IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect that the new Standard will have a material impact on the financial statements.

- IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28(2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.

Notes to the consolidated financial statements

3. Significant accounting policies, continued
(s) New standards and interpretations not yet adopted, continued

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Group does not expect the Amendments to have any impact on the financial statements since the Group does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements
- Amendments to IFRS 10, IFRS 12 and IAS 27 – *Investment Entities* shall be applied for annual periods beginning on or after 1 January 2014. The Group does not expect the new standard to have any impact on the financial statements, since the parent company does not qualify as an investment entity.
- Amendments to IAS 36 – *Recoverable Amount Disclosures for Non-Financial Assets s*hall be applied for annual periods beginning on or after 1 January 2014. The Group does not expect that the Amendment will have a material impact on the financial statements.
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting s*hall be applied for annual periods beginning on or after 1 January 2014. The Group does not expect the Amendment to have any impact on the financial statements, since the Group does not apply hedge accounting.

IASB/IFRIC documents not yet endorsed by EC:

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these consolidated financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- IFRS 9 *Financial Instruments* (2009), additions to IFRS 9 (2010 and 2013) and Amendment to IFRS 9 and IFRS 7 *Mandatory effective date and transitional disclosures* (Effective date not yet determined; to be applied retrospectively. Earlier application is permitted.)
- Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions* (Effective for annual periods beginning on or after 1 July 2014. Earlier application is permitted. The amendments apply retrospectively).
- IFRIC 21 – *Levies* (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted).

4. Measurement of fair values

A number of the Group’s accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values and reports directly to the Chief Executive Officer.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services is used to measure fair values, then the valuation team assesses the evidence obtained from third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different level in a fair value hierarchy based on the inputs in the valuation techniques as follows.

Notes to the consolidated financial statements

4. Measurement of fair values, continued

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 27 – Financial instruments

5. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Management has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk arises principally from the Group's receivables from customers and investment securities.

Notes to the consolidated financial statements

5. Financial risk management, continued

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. This exposure may also depend on the default risk of the industry and the internal market on which the Group operates. Approximately 59% of the Group's revenue for the period is attributable to sales transactions with ten clients (2012: 65%), and 81% of the Group's revenue for the period is attributable to export transactions (2012: 84%).

According to the Group's established credit policy each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery items and conditions are offered. The Group's policy includes granting of a credit period in accordance with the market type, customer's size and whether the customer is of long standing. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on an advanced payment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; The Group also monitors the level of expected cash inflows on trade and other receivables to ensure that sufficient cash inflows exist in order to meet expected cash outflows on trade and other payables. In addition, the Group maintains lines of credits in amount sufficient to provide liquidity for the Company's activities.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

As a whole, the Group has limited exposure to currency risk as:

- purchases of main goods and materials used in the Group's trading activities as well as production are denominated in euro or BGN
- export sales also are denominated mainly in euro.

Interest rate risk

The Group manages its interest rate risk by determining its loans to be generally with variable interest rate and fixed margin.

5. Financial risk management, continued

Capital management

The Board's policy is to maintain a strong capital base so as to maintain owners and market confidence and to sustain future development of the business.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on capital of between 8 and 10 percent; during the period the return is 2.6% (2012: 3.5%). In comparison the weighted average interest expense on interest-bearing borrowings was 3.90% (2012: 5.10%). The Management takes measures for optimization of production process aiming to increase gross margin. Also efforts are made for decrease of operational expenses - mostly those for hired services, administrative and management expenses.

There were no changes in the Group capital management during the year.

The Group is not subject to externally imposed capital requirements either by contract or regulation.

6. Segment reporting

The Group has three main segments, as described below, which are the Group's strategic geographical divisions of Group operations. Different strategic divisions are managed separately because they require different marketing strategies. For each of the strategic divisions, the Board of Directors (the chief operating decision maker) reviews internal management reports on at least a quarterly basis. Information regarding the results of each reportable segment is included below. Segment revenue is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these geographical segments.

Notes to the consolidated financial statements

	Russia		European Union (excluding Bulgaria)		Bulgaria		Other		Entity as a whole	
In thousands of BGN	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Revenue from external clients:										
Sales	6,061	5,212	14,159	15,474	4,078	3,748	4,667	4,231	28,965	28,665
Other income – sale of waste	-	-	370	674	1,060	780	-	-	1,430	1,454
Revenue	6,061	5,212	14,529	16,148	5,138	4,528	4,667	4,231	30,395	30,119
Segment result	334	502	2,483	2,551	610	586	867	639	4,294	4,278
Unallocated revenue									1,397	1,303
Unallocated expenses									(4,681)	(4,410)
Profit from operations									1,010	1,171
Net financial cost									(802)	(699)
Profit (loss) of associates accounted on equity method									14	3
Income tax (expense) income									(27)	(45)
Profit for the year									195	430
Segment assets	4,246	3,916	3,370	3,589	1,305	830	727	673	9,648	9,008
Unallocated assets									25,168	20,931
Total assets									34,816	29,939
Unallocated liabilities									22,688	18,005
Total liabilities									22,688	18,005
Capital expenditures									4,190	1,066
Depreciation									1,435	1,470

7. Revenue from sale of production

In thousands of BGN	**2013**	**2012**
Aluminum closures	22,061	23,185
Plastic closures	2,163	2,038
Composite closures	2,123	2,131
Goods for resale	2,354	1,066
Proportioning devices	126	70
Other	138	175
	28,965	28,665

Notes to the consolidated financial statements

8. Other operating income

In thousands of BGN	*Note*	2013	2012
Income from sale of aluminum waste		1,430	1,454
Income from sales of materials		237	198
Transport services provided to clients		774	620
Profit from sale of property, plant and equipment		-	45
Discounts from suppliers		116	99
Proceeds from government grants	*26*	48	-
Other		222	341
		2,827	2,757

	2013	2012
Revenue from sale of property, plant and equipment	339	153
Carrying amount of sold property, plant and equipment	(339)	(108)
	-	45

9. Expenses for materials

In thousands of BGN	2013	2012
Aluminum	9,495	10,138
Polish	2,504	2,467
Polythene HDPE; LDPE	2,114	1,983
Packing	2,044	2,234
Electricity	831	779
Methane	537	572
Other	1,510	1,459
	19,035	19,632

10. Hired services

In thousands of BGN	2013	2012
Transport	1,859	1,912
External subcontractors	88	102
Advertising and consulting services	261	153
Rents	207	145
Communication services	65	57
Insurance	28	35
Other	446	408
	2,954	2,812

11. Personnel expenses

In thousands of BGN	2013	2012
Wages and salaries	4,123	3,925
Social security contributions	715	663
Freelance contracts	25	3
Accruals for unused paid vacations (net)	(2)	(3)
Accruals for retirement benefits (net)	(2)	22
	4,859	4,610

Average number of employees at 31.12.2013 is 413 (2012: 407).

Notes to the consolidated financial statements

12. Other operating expenses

In thousands of BGN	2013	2012
Business trips	62	81
Scrap of finished goods	10	160
Food vouchers and medicines	280	249
Other	224	318
	576	808

13. Net finance expense

In thousands of BGN	2013	2012
Interest income	-	5
Net profit from foreign currency exchange	-	10
Finance income	-	15
Interest expense	(635)	(617)
Bank charges	(130)	(97)
Net loss from foreign currency exchange	(37)	-
Finance costs	(802)	(714)
Net finance expense	(802)	(699)

14. Income tax expense (income)

Recognized in the Income statement

In thousands of BGN	2013	2012
Current tax expense		
Current year	9	-
Deferred tax expense (income)		
Origination and reversal of temporary differences	18	45
Total income tax expense (income) in income statement	27	45

Reconciliation of effective tax rate

In thousands of BGN	2013	2013	2012	2012
Profit (loss) before tax		222		475
Income tax using the Company's domestic tax rate	10%	22	10%	47
Non-deductible expenses	0.5%	1	0.2%	1
Tax exempt income	(2.25%)	(5)		
Current losses, for which no tax assets were recognized	4.05%	9		
Recognition of previously unrecognized tax assets from prior periods	-	-	(0.6%)	(3)
	12.15%	27	9.6%	45

Notes to the consolidated financial statements

15. Property, plant and equipment

In thousands of BGN	Land and buildings	Plant and equipment	Fixtures and fittings and vehicles	Assets Under construction	Total
Cost					
Balance at 1 January 2012	8,091	13,830	230	497	22,648
Additions	13	319	12	708	1,052
Transfers	8	223	-	(231)	-
Effect of movements in exchange rates	-	3	-	-	3
Disposals	-	(181)	(34)	(126)	(341)
Balance at 31 December 2012	8,112	14,194	208	848	23,362
Balance at 1 January 2013	8,112	14,194	208	848	23,362
Additions	17	388	9	3,776	4,190
Transfers	250	3,002	2	(3,254)	-
Effect of movements in exchange rates	-	(2)	-	-	(2)
Disposals	-	-	-	(340)	(340)
Balance at 31 December 2013	8,379	17,582	219	1,030	27,210
Depreciation and impairment losses					
Balance at 1 January 2012	1,328	6,037	168	-	7,533
Depreciation for the year	262	1,169	16	-	1,447
Effect of movements in exchange rates	-	2	-	-	2
Disposals	-	(165)	(34)	-	(199)
Balance at 31 December 2012	1,590	7,043	150	-	8,783
Balance at 1 January 2013	1,590	7,043	150	-	8,783
Depreciation for the year	263	1,089	14	-	1,366
Effect of movements in exchange rates	-	(2)	-	-	(2)
Disposals	-	-	-	-	-
Balance at 31 December 2013	1,853	8,130	164	-	10,147
Carrying amount					
At 1 January 2012	6,763	7,793	62	497	15,115
At 31 December 2012	6,522	7,151	58	848	14,579
At 1 January 2013	6,522	7,151	58	848	14,579
At 31 December 2013	6,526	9,452	55	1,030	17,063

(i) Assets under construction

Property plant and equipment under construction represent capitalised works on overhauls, improvements and development of own equipment.

(ii) Plant and machinery under finance lease

The Group leases production equipment under a finance lease agreement. At 31 December 2013, the carrying amount of leased plant and machinery is BGN 842 thousands (2012: BGN 575 thousands). The leased equipment secures lease obligations.

Notes to the consolidated financial statements

16. Intangible assets

In thousands of BGN	Software	Patents and licenses	Development costs	Other	Goodwill	Total
Cost						
Balance at 1 January 2012	102	93	97	152	234	678
Additions	14	-	-	-	-	14
Effect of movements in exchange rates	-	-	-	3	-	3
Disposals			(1)			(1)
Balance at 31 December 2012	116	93	96	155	234	694
Balance at 1 January 2013	116	93	96	155	234	694
Additions	475	5	-	-	-	480
Effect of movements in exchange rates	-	-	-	(3)	-	(3)
Disposals	-	-	(96)	-	-	(96)
Balance at 31 December 2013	591	98	-	152	234	1,075
Amortisation and impairment losses						
Balance at 1 January 2012	100	-	97	67	220	484
Amortisation for the year	1	6	-	16	-	23
Effect of movements in exchange rates	-	-	-	1	-	1
Disposals			(1)			(1)
Balance at 31 December 2012	101	6	96	84	220	507
Balance at 1 January 2013	101	6	96	84	220	507
Amortisation for the year	48	6	-	15	-	69
Effect of movements in exchange rates	-	-	-	(1)	-	(1)
Written-off amortisation	-	-	(96)	-	-	(96)
Balance at 31 December 2013	149	12	-	98	220	479
Carrying amount						
As at 1 January 2012	2	93	-	85	14	194
As at 31 December 2012	15	87	-	71	14	187
As at 1 January 2013	15	87	-	71	14	187
As at 31 December 2013	442	86	-	54	14	596

Notes to the consolidated financial statements

17. Investments

The Group has the following investments:

		Ownership in shares		Ownership in thousands of BGN	
Equity accounted investees	**Country**	**2013**	**2012**	**2013**	**2012**
Herti Group International	Romania	49%	49%	214	201
				214	201
Other investments					
Ecopack AD	Bulgaria	5.6%	5.6%	3	3
				3	3

Summarized financial information about the equity accounted investees, unadjusted to the percentage of ownership of the Group:

In thousands of BGN	Owner ship	Non-current assets	Current assets	Total assets	Non-current liabilities	Current liabilities	Total liabilities	Revenues	Expenses	Profit (Loss)
2012										
Herti Group International	49%	5	1,050	1,055	-	647	647	2,691	2,684	7
		5	1,050	1,055	-	647	647	2,691	2,684	7
2013										
Herti Group International	49%	3	782	785	-	351	351	2,561	2,532	29
		3	782	785	-	351	351	2,561	2,532	29

18. Inventories

In thousands of BGN	**2013**	**2012**
Raw materials and consumables	2,775	2,509
Work in progress	600	535
Finished goods	1,583	1,589
Materials in transit	391	706
Goods	153	158
	5,502	5,497

19. Trade and other receivables

In thousands of BGN	*Note*	**2013**	**2012**
Trade receivables		8,455	7,773
Advances given		476	463
Tax receivables		147	163
Personnel receivables		3	8
Litigations and claims		124	125
Government grants receivables	*26*	1,201	-
Other receivables		13	61
		10,419	8,593

Credit risk, currency risk and impairment risk of trade and other receivables are disclosed in Note 27

Notes to the consolidated financial statements

20. Cash and cash equivalents

In thousands of BGN	2013	2012
Cash in hand	2	3
Bank balances	731	336
Cash and cash equivalents in the statement of cash flows	733	339

21. Capital and reserves

Share capital

At 31 December 2007 Herti AD's registered share capital amounts BGN 12 million, comprising of 12 million shares.
On 25 January 2008, Herti AD has realized initial public offering of 3million ordinary shares with nominal value of BGN 1 and price of BGN 3.10, calculated by the bookbuilding method.
As at 31 December 2013 Herti AD's registered share capital amounts BGN 12,014 thousand, comprising of 12,014 thousand shares. The owners of the Group are as follows:

	Number of shares/shareholding (%)				Thousands of BGN	
	2013		2012		2013	2012
	Number of shares	%	Number of shares	%		
IGM Holding	4,072,400	33.9	4,072,400	33.9	4,073	4,073
Alexander Blagoev Yuliyanov	3,953,920	32.9	3,953,920	32.9	3,954	3,954
Zahari Ganev Zahariev	2,993,122	24.9	2,993,422	24.9	2,993	2,993
Elena Petkova Zaharieva	960,000	8	960,000	8	960	960
Physical persons	34,355	0.3	34,055	0.3	34	34
	12,013,797	100	12,013,797	100	12,014	12,014

	Ordinary shares	
	2013	2012
On issue at 1 January	12,014	12,014
Issued for cash	-	-
On issue at 31 December – fully paid	12,014	12,014

Notes to the consolidated financial statements

22. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

In thousands of BGN	**2013**	**2012**
Long-term liabilities		
Secured bank loans	4,295	2,705
Finance lease liabilities	249	192
	4,544	2,897
Short-term liabilities		
Current portion of long-term bank loans and short-term bank loans	9,503	8,410
Current portion of finance lease liabilities	183	145
	9,686	8,555

Bank loans are secured over items of property, plant and equipment with a carrying amount of BGN 12,185 thousand (2012: 10,513 thousand), inventories with carrying amount of BGN 1,467 thousand (2012: 1,467 thousand) and trade receivables with carrying amount of BGN 3,057 thousand (2012: 2,950 thousand).

Terms and dept repayment schedule

In thousands of BGN				31 December 2013		31 December 2012	
	Currency	Nominal interest	Payable to	Nominal	Carrying amount	Nominal	Carrying amount
Secured long-term investment credit	EUR	3M EURIBOR + margin	2020	2,447	2,447	-	-
Secured long-term investment credit	EUR	1M EURIBOR + margin	2018	2,458	2,458	3,056	3,056
Secured long-term investment credit	EUR	6M EURIBOR + margin	2017	369	369	380	380
Secured short-term loan	EUR	1M EURIBOR + margin	2014	3,912	3,912	3,912	3,912
Secured short-term loan	EUR	1M EURIBOR + margin	2016	247	247	247	247
Secured short-term loan	EUR	6M EURIBOR + margin	2015	367	367	-	-
Bank overdraft(credit facility)	EUR	1M EURIBOR + margin	2015	1,173	1,173	587	587
Bank overdraft (credit facility)	EUR	6M EURIBOR + margin	2014	2,825	2,825	2,933	2,933
Finance lease liabilities	EUR	3M EURIBOR + margin	2015	432	432	337	337
				14,230	14,230	11,452	11,452

The value of the margin for the loans stated above is no greater than 5.52 percentage points per year (2012: 4.91 percentage points per year).

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum Lease Payments	Interest	Present value of minimum lease payments	Minimum Lease Payments	Interest	Current amount of minimum lease payments
In thousands of BGN	**2013**	**2013**	**2013**	**2012**	**2012**	**2012**
Less than one year	201	18	183	160	15	145
Between one and five years	265	16	249	201	9	192
	466	34	432	361	24	337

Under the terms of the lease agreements, no contingent rents are payable.

Notes to the consolidated financial statements

23. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of BGN	**Assets**		**Liabilities**		**Net**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Property, plant and equipment	-	-	833	852	833	852
Employee benefits	(12)	(14)	-	-	(12)	(14)
Trade and other receivables	(8)	(15)	-	-	(8)	(15)
Tax loss carry-forwards	-	(28)	-	-	-	(28)
Tax (assets)/ liabilities	(20)	(57)	833	852	813	795
Set off of tax	20	57	(20)	(57)	-	-
Tax (assets)/ liabilities, net	-	-	813	795	813	795

The Company believes that the accrued tax liabilities are adequate for all open tax years, based on the assessment of multiple factors, including interpretation of tax laws and previous experience.

Movement in temporary differences during the year

In thousands of BGN	**Balance 1 January 2013**	**Recognized in profit or loss**	**Recognized directly other comprehensive income**	**Balance 31 December 2013**
Property, plant and equipment	852	(19)	-	833
Employee benefits	(14)	2	-	(12)
Trade and other receivables	(15)	7	-	(8)
Tax loss carry-forwards	(28)	28	-	-
	795	18	-	813

In thousands of BGN	**Balance 1 January 2012**	**Recognized in profit or loss**	**Recognized directly other comprehensive income**	**Balance 31 December 2012**
Property, plant and equipment	909	(57)	-	852
Employee benefits	(11)	(3)	-	(14)
Inventories	(2)	2	-	-
Trade and other receivables	-	(15)	-	(15)
Tax loss carry-forwards	(146)	118	-	(28)
	750	45	-	795

Unrecognised deferred tax assets

In thousands of BGN	**2013**	**2012**
Tax effect from temporary differences related to:		
Tax loss carry-forwards	35	19
Fixed assets	17	35
	52	54

Unrecognized deferred tax assets refer to the individual financial statement of foreign subsidiaries and there is no security for their reversal in future periods.

Notes to the consolidated financial statements

24. Employee benefits

In thousands of BGN	2013	2012
Retirement benefits provision	54	56
	54	56

25. Trade and other payables

In thousands of BGN	2013	2012
Trade payables	4,393	4,225
Advances received	586	309
Tax payables	207	200
Payables to personnel	308	268
Social security payables	131	115
Other payables	66	68
	5,691	5,185

Currency risk and liquidity risk related to Trade and other payables are disclosed in Note 27.

26. Government grants

In 2012 the Parent company entered into two agreements with the Ministry of Economy and Energy for financial grant under the Operational programme "Development of the Competitiveness of the Bulgarian Economy" for the period 2007-2013. The first project "Enhancing the competitiveness of Herti AD through the implementation of an integrated information system for business process management" has a total amount of the project of up to BGN 634 thousand and a total amount of the grant of up to BGN 375 thousand. At the end of 2013, after an inspection by the Ministry of Economy and Energy of the reports, presented by the Company, the amount of BGN 346 thousand, representing the part of the financial grant for the project, was transferred to the Company. In 2013 proceeds from financing at the amount of BGN 48 thousand have been recognized, and accordingly as at 31 December the liability is at the amount of BGN 298 thousand.

The second project "Investments for reducing the energy consumption in the production system of Herti AD" has a total amount of BGN 2,450 thousand, and an amount of the grant of up to BGN 1,225 thousand. In December 2013 the Company has presented the Ministry a report with the performed actions, as well as a request for payment of the grant as per the signed agreement, and has recognized a receivable due at the amount of BGN 1,201 thousand. In March 2014, after a verification of the investments made, the amount of BGN 1,201 thousand was transferred to the Company.

27. Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In thousands of BGN	*Note*	2013	2012
Trade and other receivables	*19*	9,669	7,834
Related party trade receivables	*28*	286	540
Cash and cash equivalents	*20*	731	336
Investments	*17*	3	3
		10,689	8,713

In 2013 Bulgarian banks have issued bank guarantees as Herti AD's guarantors in favour of third parties (see note 31).

Notes to the consolidated financial statements

27. Financial instruments, continued
Credit risk, continued

The maximum exposure to credit risk as at the reporting date for the trade receivables, other receivables and trade receivables from related parties of the Group by geographic regions are:

In thousands of BGN	2013	2012
Domestic	2,122	682
European Union (excluding Bulgaria)	2,860	3,103
Russia	4,246	3,916
Other	727	673
	9,955	8,374

Impairment losses
The aging of Group's trade receivables, other receivables and related party receivables at the reporting date is:

In thousands of BGN	2013 Gross	2013 Impairment	2013 Net	2012 Gross	2012 Impairment	2012 Net
Not past due	4,388	-	4,388	3,083	-	3,083
Between 0-30 days	1,929	-	1,929	1,642	-	1,642
Between 31-360 days	3,041	-	3,041	3,639	76	3,563
Overdue more than one year	673	76	597	164	78	86
	10,031	76	9,955	8,528	154	8,374

Impairment losses (reversals) of trade and other receivables during the year are as follows:

In thousands of BGN	2013	2012
Impairment at 1 January	154	-
Impairment for the year	-	186
Impairment reversed during the period	-	-
Total in the income statement	-	186
Written-off receivables	(78)	(32)
Impairment at 31 December	76	154

The Group believes that the amounts past due are collectible in full, based on historic payment behaviour and extensive analyses of customer credit risk for each customer. The credit quality of trade and other receivables is assessed based on a credit policy established by the management. The credit risk is assessed on individual base. Based on the Group's analysis of customer credit risk, the Group believes that, except as indicated above, no impairment allowance is necessary in respect of trade receivables not past due.

Notes to the consolidated financial statements

27. Financial instruments, continued

Liquidity risk
The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2013

In thousands of BGN	Book value	Agreed cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Secured long-term bank loans	6,447	(7,166)	(1,841)	(601)	(1,168)	(3,182)	(374)
Secured short-term bank loan	4,279	(4,447)	(424)	(4,023)	-	-	-
Short-term bank loans	247	(287)	(9)	(9)	(18)	(251)	-
Bank overdraft	2,825	(3,008)	(3,008)	-	-	-	-
Finance lease	432	(467)	(102)	(97)	(136)	(132)	-
Trade and other payables	4,459	(4,459)	(4,459)	-	-	-	-
Related party payables	401	(401)	(401)	-	-	-	-
	19,090	(20,235)	(10,244)	(4,730)	(1,322)	(3,565)	(374)

31 December 2012

In thousands of BGN	Book value	Agreed cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Secured long-term bank loans	3,436	(3,901)	(460)	(439)	(861)	(2,083)	(58)
Secured short-term bank loan	3,912	(4,072)	(94)	(3,978)	-	-	-
Short-term bank loans	247	(261)	(5)	(6)	(250)	-	-
Bank overdraft	3,520	(3,632)	(3,021)	(14)	(597)	-	-
Finance lease	337	(361)	(81)	(79)	(131)	(70)	-
Trade and other payables	4,293	(4,293)	(4,293)	-	-	-	-
Related party payables	517	(517)	(517)	-	-	-	-
	16,262	(17,037)	(8,471)	(4,516)	(1,839)	(2,153)	(58)

Foreign currency risk
Exposure to foreign currency risk
The Group’s exposure to foreign currency risk is insignificant because 19% of the sales for 2013 (2012: 16%) are realized on local markets in Bulgarian leva and 74% of the sales for 2013 are realized in Euro (2012: 69 %).

The import of materials in 2013 and 2012 is realized completely in Euro.

Foreign currency loans are granted in Euro.

Effective 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

Notes to the consolidated financial statements

27. Financial instruments, continued

Foreign currency risk, continued

Sensitivity analysis
A sensitivity analysis for changes in the exchange rates of the BGN and Euro against other currencies would have limited impact on the Company's financial statements due to the facts stated above
The Group's exposure to foreign currency risk is as follows:

In thousands of	EUR	USD	GBP	EUR	USD	GBP
	31 December 2013			31 December 2012		
Trade and other receivables	6,629	-	922	6,413	-	772
Related party receivables	284	-	-	514	-	-
Cash and cash equivalents	244	-	85	191	1	108
Trade and other payables	(2,615)	(165)	(110)	(2,669)	(160)	(58)
Related party payables	(229)	-	-	(366)	-	-
Finance lease	(432)	-	-	(337)	-	-
Bank loans	(13,798)	-	-	(11,115)	-	-
Net exposure	(9,917)	(165)	897	(7,369)	(159)	822

The following foreign currency rates have been applied during the year:

	Average rate		Rate at the balance sheet date	
	2013	**2012**	**2013**	**2012**
USD	1,47362	1,52314	1,41902	1,48360
GBP	2,30321	2,41275	2,33839	2,39406

Interest rate risk

The carrying amount of financial instruments according to the type of interest rate are as follows:

In thousands of BGN	**2013**	**2012**
Fixed rate instruments		
Financial assets	724	336
Financial liabilities	-	-
	724	336
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(14,230)	(11,452)
	(14,230)	(11,452)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect the income statement.

Notes to the consolidated financial statements

27. Financial instruments, continued

Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012.

Effect from change of 1% in interest rate for variable rate instruments:

In thousands of BGN	**Effects of change in the income statement**		**Effects of change in equity**	
	1% increase	**1% decrease**	**1% increase**	**1% decrease**
31 December 2013				
Variable rate instruments	(142)	142	-	-
Cash flow sensitivity (net)	(142)	142	-	-
31 December 2012				
Variable rate instruments	(114)	114	-	-
Cash flow sensitivity (net)	(114)	114	-	-

Fair values versus carrying amounts

Management believes that the carrying amount of financial assets and financial liabilities is a reasonable approximation of fair value.

28. Related parties

Identity of related parties

The Group has a related party relationship with the following parties:

	Country	Ownership 2013	2012
Associates			
Herti Group International	Romania	49%	49%
Shareholders/Owners			
IGM Holding	Austria	33,96%	33,96%
Companies under common control			
Timshel OOD	Bulgaria	-	-
Raifen OOD	Bulgaria	-	-

The Group has a related party relationship with its shareholders, members of the Board of Directors, managers and executive directors.

Related party receivables

Related party trade receivables

In thousands of BGN	2013	2012
Herti Group International	284	514
Raifen OOD	2	26
	286	540

Notes to the consolidated financial statements

28. Related parties, continued

Short-term related party payables

In thousands of BGN	**2013**	**2012**
IGM Holding – trade payables	229	366
Raifen OOD	37	30
Timshel OOD	57	43
Josef Mayer	6	6
Alexander Yuliyanov	63	63
Zahari Zahariev	6	6
Svetoslav Stamenov	3	3
	401	517

Transactions with related parties

During the year the Group have realised the following transactions with related parties:

Sales

In thousands of BGN	**Type of transaction**	**Transaction value**	
		2013	**2012**
Herti Group International	Sale of production	1,674	1,860
IGM Holding	Transferred receivable under cession agreement	-	303
Timshel OOD	Sale of services	3	2
Raifen OOD	Sale of services	3	2

Purchases

In thousands of BGN	**Type of transaction**	**Transaction value**	
		2013	**2012**
IGM Holding	Purchase of materials	608	1,334
IGM Holding	Purchase of fixed assets	54	-
Herti Group International	Purchase of materials	7	4
Timshel OOD	Rental expenses	78	78
Raifen OOD	Transport services received	770	769
Members of Board of Directors	Fees paid	15	15
Alexander Yuliyanov	Loan received	-	57

Transactions with key management personnel

The key management personnel compensations are as follows:
The total remuneration is included in “Personnel Expenses” (see note 11):

In thousands of BGN	**2013**	**2012**
Managers and Board of Directors	468	503
	468	503

Notes to the consolidated financial statements

29. Group entities

Control over the Group
Main shareholders in Herti AD are IGM Holding, Alexander Yuliyanov, Zahari Zahariev and Elena Zaharieva. At the end of the reporting period together they own 99.7% of Herti AD's capital.

Significant subsidiaries

In thousands of BGN		**2013**	**2012**
Herti England	England	100%	100%
Herti France	France	100%	100%
Herti Germany	Germany	100%	-
Tihert EAD	Bulgaria	100%	100%

During fourth quarter of 2012 the Board of Directors has decided to establish "Herti Germany" a subsidiary of Herti AD in the Federal Republic of Germany with capital of EUR 25 000 which is 100% owned by Herti AD. The company is registered on 31.01.2013.

30. Basic earnings per share

Earnings per share at 31 December 2013 is calculated on the basis of net profit of ordinary shareholders – for 2013 profit amounting to BGN 195 thousand (for 2012: profit amounting to BGN 430 thousand) by the weighted average number of ordinary shares outstanding during the period – 12,013,797. Earnings per share in 2013 are - BGN 0.016.

31. Engagements for acquisition of property, plant and equipment

During 2013 the Group has signed an agreement for acquisition of property, plant and equipment at the amount of BGN 1,063 thousand (2012: BGN 1,085 thousand).

32. Subsequent events

No subsequent events, that require adjustments or disclosures in the consolidated financial statements, have occurred during the period from the reporting date to the date the consolidated financial statements were authorised for issue by the Board of Directors.