

Explanatory notes to the Consolidated Financial Statement of Herti JSC

For the period 01.01-30.09.2017

1. Important events, that took place in the period 01/01 – 30/09/2017

In January Herti took part in the exhibition Unified Wine&Grape Symposium in Sacramento California for the first time.

Traditionally Herti exhibited its products at the international trade show Vinaria (Plovdiv) in February and at the world trade show Prowein in Germany in March.

The regular participations in different exhibitions acknowledge the trade mark HL and attracts new customers.

In May Herti successfully passed the recertification audit for BRC/IOP, obtaining the higher grade “A”.

Observing the rules of the standards and currently updating the certificates give confidence and trust to our existing customers and helps to attract new clients.

In May Herti applied for Financing from the European funds a program for Improving the Energy Efficiency in the Company.

Following its policy for organic growth Herti established a new daughter company Herti US in California on May 25th.

A General meeting of the shareholders was held on June, 27th where no decision for dividends was taken.

In July Herti signed an investment loan contract with RBB for one million EUR for financing new production equipment.

An Extraordinary General Meeting of the shareholders was held on 21.09.2017 where a new Audit committee was elected.

2. Risk reduction and Financial instruments

The functional currency of the Company is BGN. Most of the deals on the external market are conducted in EURO, which minimizes the currency risk. The contracted terms with the clients and suppliers give the Company the possibility not to be dependent on financial instruments such as hedging.

Having in mind the volatility of the prices of raw materials, specifically of the aluminium , and the risk to the operating profit, the management works for increasing incomes and controls strictly the expenses and the cash flows and tries to optimize them.

3. Information on the transactions between the Company and related parties

For the period 01.01- 30.09.2017, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	1 799

Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
IGM Holding	Expenses	3
Timshel OOD	Rent	59
Raifen OOD	Transport services received	549

4. There are no new considerable and important receivables or payables arisen for the period.

5. Responsibility of the Management

The management confirms that the financial statement for the third quarter of 2017 gives a fair and complete view of the financial position of the company and the risks it faces.

27 November 2017

Chief Executive Officer:

Zahari Zahariev

HERTI JSC**Income statement**

For the third quarter of 2017

In thousands of BGN

	30.9.2017	30.9.2016
Revenue	28 924	27 237
Other income	3 139	2 434
Carrying amount of materials and goods sold	-2 111	-1 913
Increase/(decrease) of inventories of finished goods and work in progress	3 226	800
Capitalised expenses		
Expenses for materials	-19 577	-16 376
Hired services	-2 802	-2 511
Depreciation and amortisation	-1 871	-1 718
Personnel expenses	-6 119	-5 515
Other operating expenses	-1 623	-1 144
Finance expenses	-476	-709
Share of profit/loss in associated companies	16	
Profit before tax	726	585
Income tax expense/income/		
Profit /Loss for the period	726	585
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	726	585

HERTI JSC**Balance sheet**

As at 30 September 2017

In thousands of BGN

	30.9.2017	31.12.2016
Assets		
Property, plant and equipment	24 793	21 666
Intangible assets	418	514
Investments	140	126
Total non-current assets	25 351	22 306
Related parties receivables	679	707
Inventories	6 898	6 607
Trade and other receivables	10 583	8 858
Cash and cash equivalents	664	746
Total current assets	18 824	16 918
Total assets	44 175	39 224
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	743	674
Retained earnings	1 681	1 024
Total Equity	14 467	13 741
Liabilities		
Interest bearing loans and finance lease	12 924	10 514
Deferred tax liabilities	796	796
Other (earned income)	228	244
Financing	2 058	2 237
Total non- current liabilities	16 006	13 791
Related party payables	225	166
Interest bearing loans and finance lease	5 478	5 435
Trade and other payables	7 760	5 852
Financing	239	239
Total current liabilities	13 702	11 692
Total liabilities	29 708	25 483
Total equity and liabilities	44 175	39 224

HERTI JSC**Change in equity**

For the period ended 30 September 2017

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2016	12 014	29	168	446	321	12 978
Total recognised income and expenses	-	-			763	763
Revaluation of investments in associates						0
Translations of financial statements of foreign companies						0
Translations of reserves			60		-60	0
Balance at 31 December 2016	12 014	29	228	446	1 024	13 741
Balance at 1 January 2017	12 014	29	228	446	1 024	13 741
Translations of financial statements of foreign companies			1		-1	0
Revaluation of investments in associates						0
Other transactions for the period			68		-68	0
Current net profit/loss	-	-			726	726
Balance at 30 September 2017	12 014	29	297	446	1 681	14 467

HERTI JSC**Cash flow**

For the third quarter of 2017

In thousands of BGN

	30.9.2017	30.9.2017
Cash flows from operating activities		
Cash receipts from customers	31 899	29 109
Cash paid to suppliers	-21 890	-21 642
Net cash flow for salaries and wages of personnel	-6 333	-5 218
Other payments from operating activities	-119	24
Income taxes paid /received	-486	-242
Cash from operating activities	3 071	2 031
Cash flows from investing activities		
Acquisition of property, plant and equipment	-5 296	-2 316
Proceeds from non-current assets		131
Other proceeds/ payments from investment activities		
Cash from investing activities	-5 296	-2 185
Cash flows from financing activities		
Loans received	4 200	2 310
Repayment of borrowings	-1 567	-1 459
Other financial payments/received		
Payment of finance lease liabilities	-191	-215
Interest paid	-282	-276
Other financial payments	-17	
Cash from financing activities	2 143	360
Net increase in cash and cash equivalents	-82	206
Cash and cash equivalents at 1 January	746	513
Effect of change of currency exchange rate		
Cash and cash equivalents at the end of the period	664	719