

First Quarter Consolidated management report of Herti JSC
For the period 01.01-31.03.2016

Introduction

The following report has been prepared, based on the first quarter financial statements of Herti JSC as at 31 March 2016.

1. Current state and development of the Company.

■ **General information and management.**

Herti JSC is a public limited company with one stage management system and headquarter situated in Shumen, Bulgaria. The company has been registered under the law suit № 567/2007 by Shumen district court according to the Bulgarian Commercial law.

Address of the headquarters: 38 Antim 1st Str., 9700 Shumen, Bulgaria

The management of the company is conducted by a Board of directors, consisted of five members.

Members of the Board of directors:

Alexander Yulianov – Chairman of the Board of directors

Zahari Zahariev – Chief Executive Officer;

Dipl. Eng. Josef Mayer – Member of the Board of directors

Svetoslav Stamenov- Member of the Board of directors

Maria Georgieva Velinova- Member of the Board of directors

The Board of directors hasn't authorized a procurator or any other representative.

■ **Company's assets management**

The Company is represented separately by Zahari Zahariev – CEO and Alexander Yulianov – Chairman of the Board of directors for business transactions up to 15 000 (fifteen thousand) BGN. For transactions with amount over 15 000 BGN the Company is represented by the Chief Executive Officer, **together** with the Chairman of the Board of directors.

■ **The capital structure**

The registered capital of the Company consists of 12 013 797 ordinary, voting shares, with nominal value of 1 BGN each.

Main shareholders	Number of shares	Amount (in thousands)
IGM Holding	4 072 400	4 073
Alexander Yulianov	3 953 920	3 954
Zahari Zahariev	2 993 122	2 993

Elena Zaharieva	960 000	960
Others	34 355	34

2. Financial result

The net revenue for the period covered by the report is 8 825 thousands of BGN, while for the same period of 2015 it is 7 884 thousands of BGN and shows 11.94% growth. The EBITDA (earnings before interest, taxes, depreciation and amortization) has increased with 17.56% and is now 984 thousand BGN.

The financial result of the Company is improving due to controlling costs and steady prices of raw materials. The constant work for optimizing the processes in the Company and controlling the expenses lead to stabilizing financial indicators. The variable costs stay stable. The investments made in 2014 and 2015 influence the cost price and the profit.

3. Future development strategy

The company has a good development potential. Every year it launches new products and regularly takes part in international trade shows to attract new clients. During the period the Company took part in Agrartrade in Germany, Vinaria 2016 in Plovdiv, ProWine in Germany and ProdExpo in Russia. Special attention is paid to the wine industry to which Herti offers numerous closures under the trade mark “Vinstar”.

4. Research and Development activities

The Company is developing innovative methodologies, procedures and technological means for increasing the quality of the products and maintaining its sustainable competitive advantage.

Conscious of the importance of immaterial capital for the development of any organization, the Company is developing a program for personnel professional education and driving them to a culture of involvement in the added value generated by the company. The 5S system was implemented in all departments of the Factory.

5. Important events, that took place in the period 01/01 – 31/03/2016

In March Herti successfully passed the recertification audit for BRC/IOP.

6. Post balance sheet events.

In April Herti signed a contract with RBB for a long term credit for 2 million EUR for financing the investment program of the company that aims to increase capacity and shorten the delivery terms for production.

7. Board of directors remunerations and reacquired owned shares.

As at the date of the following report, the Company didn't reacquire any of its own shares as specified under article 187 of the Bulgarian Commercial law.

The amount total remuneration for the members of the Board of directors for the first quarter of 2016 is 83 000 BGN.

8. Subsidiaries and associated companies as at 31.03.2016

Company	Herti JSC share in the company	Headquarters
TIHERT JSC	100%	Shumen - Bulgaria
Herti UK	100%	Great-Britain
Herti France	100%	France
Herti Germany	100%	Germany
Herti Group International	49%	Romania

9. 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.

The main risk is increasing the price of raw materials, and the Management takes steps to minimize this risk.

Information on the transactions between the Company and related parties

For the period 01.01- 31.03.2016, the Company has realized the following transactions with related parties:

Tab. 2 Transactions with related parties

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	456
IGM Holding	Expenses	3
Timshel OOD	Rent	20
Timshel OOD	Service rendered	1
Raifen OOD	Purchase of transport services	142
Raifen OOD	Sales of services	1

10. Responsibility of the Management

The management confirms that the consolidated financial statement for the first quarter of 2016 is prepared according to the International Financial Reporting Standards and gives a fair and complete view of the financial position of the company and the risks it faces.

19 May 2016

CEO:
Zahari Zahariev

HERTI JSC**Income statement**

For the first quarter of 2016

In thousands of BGN

	31.3.2016	31.3.2015
Revenue	8 055	7 165
Other income	770	719
Carrying amount of materials and goods sold	-616	-133
Increase/(decrease) of inventories of finished goods and work in progress	385	-32
Capitalised expenses		
Expenses for materials	-5 012	-4 720
Hired services	-669	-720
Depreciation and amortisation	-538	-599
Personnel expenses	-1 603	-1 322
Other operating expenses	-327	-120
Finance expenses	-282	-112
Share of profit/loss in associated companies	0	-4
Profit before tax	163	122
Income tax expense/income/		
Profit /Loss for the period	163	122
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	163	122
Earnings per share	0.014	0.01

HERTI JSC**Balance sheet**

As at 31 March 2016

In thousands of BGN

	31.3.2016	31.12.2015
Assets		
Property, plant and equipment	20 058	19 039
Intangible assets	609	583
Investments	134	174
Total non-current assets	20 801	19 796
Related parties receivables	638	442
Inventories	6 304	6 223
Trade and other receivables	9 967	9 242
Cash and cash equivalents	604	462
Total current assets	17 513	16 369
Total assets	38 314	36 165
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	615	553
Retained earnings	486	-91
Total Equity	13 144	12 505
Liabilities		
Interest bearing loans and finance lease	9 221	5 283
Deferred tax liabilities	795	794
Other (earned income)	198	60
Financing	2 342	1 156
Total non- current liabilities	12 556	7 293
Related party payables	179	231
Interest bearing loans and finance lease	5 372	9 420
Trade and other payables	6 750	6 546
Financing	313	170
Total current liabilities	12 614	16 367
Total liabilities	25 170	23 660
Total equity and liabilities	38 314	36 165

HERTI JSC**Change in equity**

For the period ended 31 March 2016

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2015	12 014	29	105	448	-91	12 505
Total recognised income and expenses	-	-			641	641
Revaluation of investments in associates						0
Translations of financial statements of foreign companies				-2	-166	-168
Translations of reserves			63		-63	0
Balance at 31 December 2015	12 014	29	168	446	321	12 978
Balance at 1 January 2016	12 014	29	168	446	321	12 978
Translations of financial statements of foreign companies						0
Revaluation of investments in associates						0
Other transactions for the period				1	2	3
Current net profit/loss	-	-			163	163
Balance at 31 March 2016	12 014	29	168	447	486	13 144

HERTI JSC**Cash flow**

For the first quarter of 2016

In thousands of BGN

	31.3.2016	31.3.2015
Cash flows from operating activities		
Cash receipts from customers	8 563	8 380
Cash paid to suppliers	-6 816	-6 666
Net cash flow for salaries and wages of personnel	-1 661	-1 506
Other payments from operating activities	-70	-40
Income taxes paid /received	33	227
Cash from operating activities	49	395
Cash flows from investing activities		
Acquisition of property, plant and equipment	-223	-2 199
Proceeds from non-current assets	78	94
Other proceeds/ payments from investment activities		
Cash from investing activities	-145	-2 105
Cash flows from financing activities		
Loans received	1 022	2 237
Repayment of borrowings	-654	-558
Other financial payments/received		
Payment of finance lease liabilities	-72	-102
Interest paid	-90	-96
Other financial payments		
Cash from financing activities	206	1 481
Net increase in cash and cash equivalents	110	-229
Cash and cash equivalents at 1 January	494	462
Effect of change of currency exchange rate		
Cash and cash equivalents at the end of the period	604	233