

First Quarter Consolidated management report of Herti JSC
For the period 01.01-31.03.2015

Introduction

The following report has been prepared, based on the fourth quarter financial statements of Herti JSC as at 31 March 2015.

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 7 798 thousands of BGN, while for the same period of 2014 it is 7 472 thousands of BGN and shows 4.36% growth. The EBITDA (earnings before interest, taxes, depreciation and amortization) has decreased with 0.71% and is now 837 thousand BGN.

The financial results of the Company are staying stable mainly due to controlling costs in spite of the increased 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 2013 and 2014 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 2015 in Plovdiv, and Pro Wine in Germany.

Special attention is paid to the wine industry to which Herti offers numerous closures under the trade mark “Vinstar”.

In December 2013 Herti signed a contract with the Ministry of economy for financing part of the investment in a new composite closure by the Innovation program of the European funds. The production equipment was delivered in January 2015 and in February started the production of the new DORADO closure.

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.

During the last quarter of 2014 Herti passed successfully the Evaluation of IMP 3rove assessment for Innovation management performance. The Quality department was reorganized into “Department of R&D, quality and risk management, investigation and analysis” with the main cause to develop new and improve the existing products and guarantee their sustainability and constant high quality.

5. Important events, that took place in the period 01/01 – 31/03/2015

In January 2015 Herti launched a new deep drawn aluminum closure for spirits size 18x24.

In February the new DORADO closure was launched.

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

6. Post balance sheet events.

In April 2015 Herti accessed the full rights of possessing the utility model for the composite closure Sirius by buying the share of Vinprom "Peshtera" from the co-owned registered utility model.

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 2015 is 99 000 BGN.

8. Subsidiaries and associated companies as at 31.03.2015

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 due to the weak euro and the Management takes steps to minimize this risk.

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

For the period 01.01- 31.03.2015, 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	451
Herti Group International	Purchase of materials	7

IGM Holding	Purchase of machines	127
Timshel OOD	Rent	19
Timshel OOD	Service rendered	1
Raifen OOD	Purchase of transport services	177
Raifen OOD	Sales of services	1

11. Responsibility of the Management

The management confirms that the consolidated financial statement for the first quarter of 2015 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.

27 May 2015

CEO:

Zahari Zahariev

HERTI JSC**Income statement**

For the first quarter of 2015

In thousands of BGN

	31.3.2015	31.3.2014
Revenue	7 165	6 702
Other income	719	813
Carrying amount of materials and goods sold	-133	-317
Increase/(decrease) of inventories of finished goods and work in progress	-32	476
Capitalised expenses		
Expenses for materials	-4 720	-4 824
Hired services	-720	-690
Depreciation and amortisation	-599	-465
Personnel expenses	-1 322	-1 200
Other operating expenses	-120	-117
Finance expenses	-112	-195
Share of profit/loss in associated companies	-4	-1
Profit before tax	122	182
Income tax expense/income/		
Profit /Loss for the period	122	182
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	122	182
Total comprehensive income for the period		
Earnings per share	0,01	0,015

HERTI JSC**Balance sheet**

As at 31 March 2015

In thousands of BGN

	31.3.2015	31.12.2014
Assets		
Property, plant and equipment	20 770	19 039
Intangible assets	549	583
Investments	173	174
Total non-current assets	21 492	19 796
Related parties receivables	477	442
Inventories	6 330	6 223
Trade and other receivables	8 975	9 242
Cash and cash equivalents	233	462
Total current assets	16 015	16 369
Total assets	37 507	36 165
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	554	553
Retained earnings	25	-91
Total Equity	12 622	12 505
Liabilities		
Interest bearing loans and finance lease	7 797	5 283
Deferred tax liabilities	794	794
Other (earned income)	46	60
Financing	1 067	1 156
Total non- current liabilities	9 704	7 293
Related party payables	251	231
Interest bearing loans and finance lease	8 489	9 420
Trade and other payables	6 441	6 716
Total current liabilities	15 181	16 367
Total liabilities	24 885	23 660
Total equity and liabilities	37 507	36 165

HERTI JSC**Change in equity**

For the period ended 31 March 2015

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2014	12 014	29	73	448	-436	12 128
Total recognised income and expenses	-	-			393	393
Revaluation of investments in associates						0
Translations of financial statements of foreign companies					-16	-16
Translations of reserves			32		-32	0
Balance at 31 December 2014	12 014	29	105	448	-91	12 505
Balance at 1 January 2015	12 014	29	105	448	-91	12 505
Translations of financial statements of foreign companies				1	-6	-5
Revaluation of investments in associates						0
Other transactions for the period						0
Current net profit/loss	-	-			122	122
Balance at 31 March 2015	12 014	29	105	449	25	12 622

HERTI JSC**Cash flow**

For the first quarter of 2015

In thousands of BGN

	01.01-31.03.2015	31.12.2014
Cash flows from operating activities		
Cash receipts from customers	8 380	33 465
Cash paid to suppliers	-6 666	-26 251
Net cash flow for salaries and wages of personnel	-1 506	-5 446
Other payments from operating activities	-40	-20
Income taxes paid /received	227	413
Cash from operating activities	395	2 161
Cash flows from investing activities		
Acquisition of property, plant and equipment	-2 199	-3 262
Proceeds from non-current assets	94	833
Other proceeds/ payments from investment activities		1 201
Cash from investing activities	-2 105	-1 228
Cash flows from financing activities		
Loans received	2 237	3 490
Repayment of borrowings	-558	-3 549
Other financial payments/received		
Payment of finance lease liabilities	-102	-453
Interest paid	-96	-749
Cash from financing activities	1 481	-1 261
Net increase in cash and cash equivalents	-229	-328
Cash and cash equivalents at 1 January	462	733
Effect of change of currency exchange rate		57
Cash and cash equivalents at the end of the period	233	462