

## **Third Quarter Consolidated management report of Herti JSC**

### **For the period 01.01-30.09.2015**

#### **Introduction**

The following report has been prepared, based on the third quarter financial statements of Herti JSC as at 30 September 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 1<sup>st</sup> 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.

<b>Main shareholders</b>	<b>Number of shares</b>	<b>Amount (in thousands)</b>
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 27 402 thousands of BGN, while for the same period of 2014 it is 24 643 thousands of BGN and shows 11.12% growth. The EBITDA (earnings before interest, taxes, depreciation and amortization) has increased with 18.71% and is now 3 045 thousand BGN.

The financial result of the Company is improving 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. In June the financing from the EU funds was received.

## **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.

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.

## **5. Important events, that took place in the period 01/01 – 30/09/2015**

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

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

In the beginning of July Herti joined and became a co-founder of the regional branch of the Bulgarian Confederation of the employers and industrialists in Shumen.

#### **6. Post balance sheet events.**

There are no important post balance sheet events.

#### **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 251 000 BGN.

#### **8. Subsidiaries and associated companies as at 30.06.2015**

<b>Company</b>	<b>Herti JSC share in the company</b>	<b>Headquarters</b>
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- 30.09.2015, 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	1280
Herti Group International	Purchase of materials	14
IGM Holding	Purchase of machines	130
Timshel OOD	Rent	58
Timshel OOD	Service rendered	2
Raifen OOD	Purchase of transport services	535
Raifen OOD	Sales of services	2

#### **11. Responsibility of the Management**

The management confirms that the consolidated financial statement for the third 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.

25 November 2015

CEO:

Zahari Zahariev

**HERTI JSC****Income statement**

For the third quarter of 2015

*In thousands of BGN*

	<b>30.9.2015</b>	<b>30.9.2014</b>
Revenue	25 090	22 507
Other income	2 594	2 266
Carrying amount of materials and goods sold	-1 842	-1 319
Increase/(decrease) of inventories of finished goods and work in progress	494	794
Capitalised expenses		
Expenses for materials	-16 311	-14 858
Hired services	-2 368	-2 148
Depreciation and amortisation	-1 913	-1 486
Personnel expenses	-4 197	-3 773
Other operating expenses	-415	-904
Finance expenses	-540	-530
Share of profit/loss in associated companies	-32	-3
<b>Profit before tax</b>	<b>560</b>	<b>546</b>
<b>Income tax expense/income/</b>		
<b>Profit /Loss for the period</b>	<b>560</b>	<b>546</b>
<b>Transitions of financial statements of foreign companies</b>		
<b>Revaluation of investments in foreign associates</b>		
<b>Total comprehensive income for the period</b>	<b>560</b>	<b>546</b>
<b>Total comprehensive income for the period</b>		
<b>Earnings per share</b>	<b>0,047</b>	<b>0,045</b>

**HERTI JSC****Balance sheet**

As at 30 September 2015

*In thousands of BGN*

	30.9.2015	31.12.2014
<b>Assets</b>		
Property, plant and equipment	20 122	19 039
Intangible assets	689	583
Investments	143	174
<b>Total non-current assets</b>	<b>20 954</b>	<b>19 796</b>
Related parties receivables	633	442
Inventories	6 685	6 223
Trade and other receivables	9 679	9 242
Cash and cash equivalents	480	462
<b>Total current assets</b>	<b>17 477</b>	<b>16 369</b>
<b>Total assets</b>	<b>38 431</b>	<b>36 165</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	615	553
Retained earnings	414	-91
<b>Total Equity</b>	<b>13 072</b>	<b>12 505</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	9 330	5 283
Deferred tax liabilities	794	794
Other ( earned income)	46	60
Financing	2 425	1 156
<b>Total non- current liabilities</b>	<b>12 595</b>	<b>7 293</b>
Related party payables	176	231
Interest bearing loans and finance lease	5 354	9 420
Trade and other payables	6 848	6 546
Financing	386	170
<b>Total current liabilities</b>	<b>12 764</b>	<b>16 367</b>
<b>Total liabilities</b>	<b>25 359</b>	<b>23 660</b>
<b>Total equity and liabilities</b>	<b>38 431</b>	<b>36 165</b>

**HERTI JSC****Change in equity**

For the period ended 30 September 2015

*In thousands of BGN*

	<b>Authorised Capital</b>	<b>Premium of issued capital</b>	<b>Compulsory reserves</b>	<b>Other Reserves</b>	<b>Retained Earnings</b>	<b>Total</b>
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	8	7
Revaluation of investments in associates						0
Other transactions for the period						0
Current net profit/loss	-	-			560	560
Balance at 30 September 2015	12 014	29	105	447	477	13 072

**HERTI JSC****Cash flow**

For the third quarter of 2015

*In thousands of BGN*

	30.9.2015	30.9.2014
<b>Cash flows from operating activities</b>		
Cash receipts from customers	26 798	24 811
Cash paid to suppliers	-21 227	-19 278
Net cash flow for salaries and wages of personnel	-4 366	-3 892
Other payments from operating activities	-82	-309
Income taxes paid /received	234	-351
<b>Cash from operating activities</b>	<b>1 357</b>	<b>981</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-2 802	-2 219
Proceeds from non-current assets	107	800
Other proceeds/ payments from investment activities	1 767	1 201
<b>Cash from investing activities</b>	<b>-928</b>	<b>-218</b>
<b>Cash flows from financing activities</b>		
Loans received	3 239	2 422
Repayment of borrowings	-3 005	-3 034
Other financial payments/received		
Payment of finance lease liabilities	-284	-342
Interest paid	-361	-266
<b>Cash from financing activities</b>	<b>-411</b>	<b>-1 220</b>
Net increase in cash and cash equivalents	18	-457
Cash and cash equivalents at 1 January	462	733
Effect of change of currency exchange rate		
<b>Cash and cash equivalents at the end of the period</b>	<b>480</b>	<b>276</b>