

**Explanatory notes to the Consolidated Financial Statement of Herti JSC**  
**For the period 01.01-30.09.2016**

**1. Important events, that took place in the period 01/01 – 30/09/2016**

In January Herti successfully passed the recertification audit for ISO 9001-2008.

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

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

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.

In June Herti applied for financing from the EU under the de minimis funding for Improving the working conditions in the factory.

A General meeting of the shareholders was held on June, 28<sup>th</sup> where no decision for dividends was taken.

In August the building of a Water treatment plant was started and in September started the building of a new warehouse according to the investment program.

In September representatives of the management made some transactions with shares of the company on BSE.

**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 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. Negative impact on the financial costs has the devaluation of the British pound. Possible unfavorable circumstances for Herti UK could arise as a result of the Brekzit.

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

For the period 01.01- 30.09.2016, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	1 568
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
IGM Holding	Expenses	6

IGM Holding	Purchasing of fixed assets	33
Timshel OOD	Rent	59
Raifen OOD	Transport services received	630

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 consolidated financial statement for the nine months of 2016 gives a fair and complete view of the financial position of the company and the risks it faces.

23 November 2016

**Chief Executive Officer:**

Zahari Zahariev

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

For the third quarter of 2016

*In thousands of BGN*

	30.9.2016	30.9.2015
Revenue	27 416	25 522
Other income	2 255	2 162
Carrying amount of materials and goods sold	-1 913	-1 842
Increase/(decrease) of inventories of finished goods and work in progress	800	494
Capitalised expenses		
Expenses for materials	-16 376	-16 311
Hired services	-2 511	-2 368
Depreciation and amortisation	-1 718	-1 913
Personnel expenses	-5 515	-4 197
Other operating expenses	-1 144	-415
Finance expenses	-709	-540
Share of profit/loss in associated companies	6	-32
<b>Profit before tax</b>	<b>591</b>	<b>560</b>
<b>Income tax expense/income/</b>		
<b>Profit /Loss for the period</b>	<b>591</b>	<b>560</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>591</b>	<b>560</b>

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

As at 30 September 2016

*In thousands of BGN*

	<b>30.9.2016</b>	<b>31.12.2015</b>
<b>Assets</b>		
Property, plant and equipment	20 794	19 946
Intangible assets	548	648
Investments	138	133
<b>Total non-current assets</b>	<b>21 480</b>	<b>20 727</b>
Related parties receivables	649	570
Inventories	6 394	5 966
Trade and other receivables	9 618	9 590
Cash and cash equivalents	719	513
<b>Total current assets</b>	<b>17 380</b>	<b>16 639</b>
<b>Total assets</b>	<b>38 860</b>	<b>37 366</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	674	614
Retained earnings	903	321
<b>Total Equity</b>	<b>13 620</b>	<b>12 978</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	9 549	8 979
Deferred tax liabilities	795	790
Other ( earned income)	205	213
Financing	2 296	2 328
<b>Total non- current liabilities</b>	<b>12 845</b>	<b>12 310</b>
Related party payables	173	195
Interest bearing loans and finance lease	5 399	5 308
Trade and other payables	6 584	6 189
Financing	239	386
<b>Total current liabilities</b>	<b>12 395</b>	<b>12 078</b>
<b>Total liabilities</b>	<b>25 240</b>	<b>24 388</b>
<b>Total equity and liabilities</b>	<b>38 860</b>	<b>37 366</b>

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

For the period ended 30 June 2016

*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 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					17	17
Current net profit/loss	-	-			591	591
Balance at 30 September 2016	12 014	29	168	446	929	13 586

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

For the third quarter of 2016

*In thousands of BGN*

	30.9.2016	30.9.2015
<b>Cash flows from operating activities</b>		
Cash receipts from customers	29 109	26 798
Cash paid to suppliers	-21 642	-21 227
Net cash flow for salaries and wages of personnel	-5 218	-4 366
Other payments from operating activities	-242	-82
Income taxes paid /received	24	234
<b>Cash from operating activities</b>	<b>2 031</b>	<b>1 357</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-2 316	-2 802
Proceeds from non-current assets	88	107
Other proceeds/ payments from investment activities	43	1 767
<b>Cash from investing activities</b>	<b>-2 185</b>	<b>-928</b>
<b>Cash flows from financing activities</b>		
Loans received	2 310	3 239
Repayment of borrowings	-1 459	-3 005
Other financial payments/received		
Payment of finance lease liabilities	-215	-284
Interest paid	-276	-361
Other financial payments		
<b>Cash from financing activities</b>	<b>360</b>	<b>-411</b>
Net increase in cash and cash equivalents	206	18
Cash and cash equivalents at 1 January	513	462
Effect of change of currency exchange rate		
<b>Cash and cash equivalents at the end of the period</b>	<b>719</b>	<b>480</b>