

## **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 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 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, as follows- by the Chairman of the Board of directors **together** with the Chief Executive Officer.

##### **■ 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 8 722 thousands of BGN, while for the same period of 2015 it is 7 676 thousands of BGN which is a 13.63 % increase. At the same time the Company registers profit of 147 thousands of BGN, which is 126.15% more compared to 65 thousands BGN profit for the same period of 2015. The company generated an operating profit (EBITDA) of 968 thousands of BGN, while for the first quarter of the previous year the operating profit amounted to 762 thousands BGN, which shows a 27.03% increase.

The increased net profit is due to the increase in sales. The financial indicators in table 1 show rising both of variable and fixed expenses, but they are compensated by the increased turnover.

**Tab. 1 Net sales and Structure of the operating expenses**

	31.03.2016	31.03.2015	Variation	
			Value	Percentage
1. Net revenue	8 722	7 676	1 046	13.63%
2. Expenses for materials	(4 948)	(4 757)	191	4.02%
3. Hired services	(691)	(626)	65	10.38%
4. Depreciation	(545)	(587)	(42)	(7.16%)
5. Personal expenses	(1 312)	(1 049)	263	25.07%
6. Other expenses	(318)	(110)	163	189.09%

The price of the main material used is formed at the stock exchange and can not be influenced by the company. The steps taken by the Management for renewing the equipment and investing in new machines, helped to decrease the production costs. The management works actively for enlarging market share by launching new products. The budgeted costs are monitored constantly. The implemented ERP system gives detailed and up-to-date information and helps to take better decisions. The increased sales can stabilize the profits of the Company. The liquidity ratio for the period is 1.47 which is increased with 1 points compared to last quarter of the previous year. The ratio is good for an industrial company having in mind the production cycle and the specific industry the company operates in. We should also have in mind that through the period the company has paid back 296 thousand BGN of its long term loans.

In January Herti signed an agreement for a short term credit.

## 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, Pro Wine in Germany and Prodexpo in Moscow. 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 period is 66 000 BGN.

#### 8. Subsidiaries and associated companies as at 31.03.2016

<b>Daughter 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
<b>Shareholders</b>	<b>Share in Herti JSC</b>	<b>Headquarters</b>
IGM Holding	33.90 %	Austria
<b>Companies under common control</b>		
Timshel Ltd		Bulgaria
Rifen Ltd		Bulgaria

#### 9. 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
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		BGN)
Herti Group International	Sales of product	456
Herti UK	Sales of product	813
Herti France	Sales of product	1 701
Herti Germany	Sales of products	297
TIHERT JSC	Services sales	31
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
Herti UK	Transport and commission services	6
Herti France	Expenses	1
Herti Germany	Purchasing of fixed assets	3
IGM Holding	Expenses	3
Timshel OOD	Rent	20
TIHERT JSC	Purchase of spare parts	85
TIHERT JSC	Fixed assets manufacturing	103
TIHERT JSC	Maintaining services	35
Raifen OOD	Transport services received	142

#### **10. 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.

#### **11. Corporate social responsibility**

Herti follows the principles of the National code for Corporate governance. The principles of transparency and free loyal competition are adopted in the ethical code of the company. Herti is a socially responsible company and supports cultural and sport events in the regions in which it operates.

#### **12. Responsibility of the Management**

The management confirms that the 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.

22 April 2016

**Chief Executive Officer :**  
Zahari Zahariev

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

For the first quarter of 2016

*In thousands of BGN*

	31.3.2016	31.3.2015
Revenue	7 933	6 873
Other income	789	803
Carrying amount of materials and goods sold	-364	-134
Increase/(decrease) of inventories of finished goods and work in progress	-120	-234
Capitalised expenses	-1	-4
Expenses for materials	-4 948	-4 757
Hired services	-691	-626
Depreciation and amortisation	-545	-587
Personnel expenses	-1 312	-1 049
Other operating expenses	-318	-110
Finance income	0	88
Finance expenses	-276	-198
<b>Profit before tax</b>	<b>147</b>	<b>65</b>
<b>Income tax expense</b>		
<b>Profit for the period</b>	<b>147</b>	<b>65</b>

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

As at 31 March 2016

*In thousands of BGN*

	31.3.2016	31.12.2015
<b>Assets</b>		
Property, plant and equipment	20 200	20 026
Intangible assets	573	605
Investments	336	336
<b>Total non-current assets</b>	<b>21 109</b>	<b>20 967</b>
Related parties receivables	3 809	3 526
Inventories	5 541	5 515
Trade and other receivables	7 571	7 313
Cash and cash equivalents	437	303
<b>Total current assets</b>	<b>17 358</b>	<b>16 657</b>
<b>Total assets</b>	<b>38 467</b>	<b>37 624</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	549	549
Retained earnings	1 458	1 311
<b>Total Equity</b>	<b>14 050</b>	<b>13 903</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	9 221	8 979
Deferred tax liabilities	861	861
Other non-current liabilities	198	198
Financing	2 342	2 328
<b>Total non-current liabilities</b>	<b>12 622</b>	<b>12 366</b>
Related party payables	217	212
Interest bearing loans and finance lease	5 372	5 308
Taxes payable		5
Trade and other payables	5 893	5 444
Financing	313	386
<b>Total current liabilities</b>	<b>11 795</b>	<b>11 355</b>
<b>Total liabilities</b>	<b>24 417</b>	<b>23 721</b>
<b>Total equity and liabilities</b>	<b>38 467</b>	<b>37 624</b>

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

For the period ended 31 March 2016

*In thousands of BGN*

	<b>Authorised Capital</b>	<b>Reserves</b>	<b>Additional Reserves</b>	<b>Premium of issued capital</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance at 1 January 2015	12 014	105	382	29	927	13 457
Current net profit/loss	-				598	598
Transform of liabilities to reserves		62			-62	0
Other income					-152	-152
Balance at 31 December 2015	12 014	167	382	29	1 311	13 903
Balance at 1 January 2016	12 014	167	382	29	1 311	13 903
Current net profit/loss	-		-			0
Retained earnings					292	292
Other changes/ reserves						0
Balance at 31 March 2016	12 014	167	382	29	1 603	14 195

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

For the first quarter of 2016

*In thousands of BGN*

	01.01-31.03.2016	01.01.-31.03.2015
<b>Cash flows from operating activities</b>		
Cash receipts from customers	8 254	7 729
Cash paid to suppliers	-6 524	-6 236
Net cash flow for salaries and wages of personnel	-1 377	-1 155
Income taxes paid /received	218	323
<b>Cash from operating activities</b>	<b>571</b>	<b>661</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-656	-2 343
Proceeds from non-current assets	78	94
Investment in daughter companies	0	0
Cash receipts from financing	0	0
<b>Cash from investing activities</b>	<b>-578</b>	<b>-2 249</b>
<b>Cash flows from financing activities</b>		
Loans received	1 022	2 237
Repayment of borrowings	-654	-558
Payment of finance lease liabilities	-72	-92
Interest paid	-127	-156
Transactions costs	-17	-28
Other financing activities		
<b>Cash from financing activities</b>	<b>152</b>	<b>1 403</b>
Net increase in cash and cash equivalents	145	-185
Cash and cash equivalents at 1 January	303	224
Effect of change of currency exchange rate on cash held	-11	45
<b>Cash and cash equivalents at the end of the period</b>	<b>437</b>	<b>84</b>