

Management report of Herti JSC

For the period 01.01-30.06.2015

Introduction

The following report has been prepared, based on the first quarter financial statements of Herti JSC as at 30 June 2015.

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 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 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.

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 16 567 thousands of BGN, while for the same period of 2014 it is 15 228 thousands of BGN which is a 8.79 % increase. At the same time the Company registers profit of 368 thousands of BGN, which is 5.44% more compared to 349 thousands BGN profit for the same period of 2014. The company generated an operating profit (EBITDA) of 1 874 thousands of BGN, while for the second quarter of the previous year the operating profit amounted to 1 623 thousands BGN, which shows a 15.47% 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

	30.06.2015	30.06.2014	Variation	
			Value	Percentage
1. Net revenue	16 567	15 228	1 339	8.79%
2. Expenses for materials	(10 379)	(9 562)	817	8.54%
3. Hired services	(1 294)	(1 284)	10	0.78%
4. Depreciation	(1 225)	(927)	142	32.15%
5. Personal expenses	(2 165)	(1 973)	192	9.73%
6. Other expenses	(1 040)	(872)	168	19.27%

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 1.08 which is increased with 4 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. This results show increasing of the working capital. We should also have in mind that through the period the company has paid back 6110 000 BGN of its long term loans.

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. The financing was received in June 2015.

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 – 30/06/2015

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.

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.

6. Post balance sheet events.

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.

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 135 000 BGN.

8. Subsidiaries and associated companies as at 30.06.2015

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

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

For the period 01.01- 30.06.2015, 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	756
Herti UK	Sales of product	1 553
Herti France	Sales of product	2 423
Herti Germany	Sales of products	388
TIHERT JSC	Services sales	61
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
Herti UK	Transport and commission services	11
Herti Group International Romania	Purchase of raw materials	7
IGM Holding	Purchase of fixed assets	205
Timshel OOD	Rent	39
TIHERT JSC	Purchase of spare parts	184
TIHERT JSC	Fixed assets manufacturing	195
TIHERT JSC	Maintaining services	83
Raifen OOD	Transport services received	439

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 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.

28 July 2015

Chief executive officer:

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2015

In thousands of BGN

	30.6.2015	30.6.2014
Revenue	14 972	13 976
Other income	1 780	1 338
Carrying amount of materials and goods sold	-941	-785
Increase/(decrease) of inventories of finished goods and work in progress	178	285
Capitalised expenses	-4	
Expenses for materials	-10 379	-9 562
Hired services	-1 294	-1 284
Depreciation and amortisation	-1 225	-927
Personnel expenses	-2 165	-1 973
Other operating expenses	-273	-372
Finance income	115	53
Finance expenses	-396	-400
Profit before tax	368	349
Income tax expense		
Profit for the period	368	349

HERTI JSC**Balance sheet**

As at 30 June 2015

In thousands of BGN

	30.6.2015	31.12.2014
Assets		
Property, plant and equipment	20 689	19 314
Intangible assets	683	522
Investments	336	336
Total non-current assets	21 708	20 172
Related parties receivables	3 215	2 667
Inventories	5 798	5 660
Trade and other receivables	7 861	7 857
Cash and cash equivalents	126	224
Total current assets	17 000	16 408
Total assets	38 708	36 580
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	549	487
Retained earnings	1 233	927
Total Equity	13 825	13 457
Liabilities		
Interest bearing loans and finance lease	9 201	5 283
Deferred tax liabilities	860	860
Other non-current liabilities	46	46
Financing	2 515	1 156
Total non-current liabilities	12 622	7 345
Related party payables	205	322
Interest bearing loans and finance lease	5 754	9 405
Trade and other payables	5 909	5 881
Financing	393	170
Total current liabilities	12 261	15 778
Total liabilities	24 883	23 123
Total equity and liabilities	38 708	36 580

HERTI JSC**Change in equity**

For the period ended 30 June 2015

In thousands of BGN

	Authorised Capital	Reserves	Additional Reserves	Premium of issued capital	Retained Earnings	Total
Balance at 1 January 2014	12 014	73	382	29	337	12 835
Current net profit/loss	-				622	622
Transform of liabilities to reserves		32			-32	0
Balance at 31 December 2014	12 014	105	382	29	927	13 457
Balance at 1 January 2015	12 014	105	382	29	927	13 457
Current net profit/loss	-	62	-		-62	0
Retained earnings					368	368
Other changes/ reserves						0
Balance at 30 June 2015	12 014	167	382	29	1 233	13 825

HERTI JSC**Cash flow**

For the second quarter of 2015

In thousands of BGN

	01.01-30.06.2015	01.01.-30.06.2014
Cash flows from operating activities		
Cash receipts from customers	16 151	14 827
Cash paid to suppliers	-13 432	-12 358
Net cash flow for salaries and wages of personnel	-2 310	-2 083
Income taxes paid /received	445	310
Cash from operating activities	854	696
Cash flows from investing activities		
Acquisition of property, plant and equipment	-2 768	-1 133
Proceeds from non-current assets	91	710
Investment in daughter companies	0	0
Cash receipts from financing	1 767	1 201
Cash from investing activities	-910	778
Cash flows from financing activities		
Loans received	3 072	1 086
Repayment of borrowings	-2 645	-2 428
Payment of finance lease liabilities	-182	-201
Interest paid	-314	-314
Transactions costs	-66	-79
Other financing activities		
Cash from financing activities	-135	-1 936
Net increase in cash and cash equivalents	-191	-462
Cash and cash equivalents at 1 January	224	527
Effect of change of currency exchange rate on cash held	93	31
Cash and cash equivalents at the end of the period	126	96