

## **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 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 26 222 thousands of BGN, while for the same period of 2014 it is 23 701 thousands of BGN which is a 10.64 % increase. At the same time the Company registers profit of 503 thousands of BGN, which is 2.39% less compared to 515 thousands BGN profit for the same period of 2014. The company generated an operating profit (EBITDA) of 2 896 thousands of BGN, while for the third quarter of the previous year the operating profit amounted to 2 452 thousands BGN, which shows a 18.06% 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**

	30.09.2015	30.09.2014	Variation	
			Value	Percentage
1. Net revenue	26 222	23 701	2 521	10.64%
2. Expenses for materials	(16 084)	(14 578)	1 506	10.33%
3. Hired services	(1 946)	(1 912)	34	1.78%
4. Depreciation	(1 860)	(1 419)	441	31.08%
5. Personal expenses	(3 371)	(3 016)	355	11.77%
6. Other expenses	(2 207)	(1 873)	334	17.83%

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 1.44 which is increased with 40 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 916 000 BGN of its long term loans.

In April Herti signed an agreement for a short term credit for financing the production of the new Dorado closure.

## 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. 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 February the new DORADO closure was launched.

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 period is 201 000 BGN.

#### **8. Subsidiaries and associated companies as at 30.09.2015**

<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- 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	1 280
Herti UK	Sales of product	2 587
Herti France	Sales of product	3 399
Herti Germany	Sales of products	632
TIHERT JSC	Services sales	170
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
Herti UK	Transport and commission services	17
Herti Group International Romania	Purchase of raw materials	14
IGM Holding	Purchase of fixed assets	130
Timshel OOD	Rent	58
TIHERT JSC	Purchase of spare parts	290
TIHERT JSC	Fixed assets manufacturing	297
TIHERT JSC	Maintaining services	112
Raifen OOD	Transport services received	535

## 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 Corporative 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 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.

22 October 2015

**Chief executive officer:**

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	23 801	21 599
Other income	2 703	2 232
Carrying amount of materials and goods sold	-1 843	-1 320
Increase/(decrease) of inventories of finished goods and work in progress	26	310
Capitalised expenses	-4	
Expenses for materials	-16 084	-14 578
Hired services	-1 946	-1 912
Depreciation and amortisation	-1 860	-1 419
Personnel expenses	-3 371	-3 016
Other operating expenses	-386	-863
Finance income	45	88
Finance expenses	-578	-606
<b>Profit before tax</b>	<b>503</b>	<b>515</b>
<b>Income tax expense</b>		
<b>Profit for the period</b>	<b>503</b>	<b>515</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	20 307	19 314
Intangible assets	640	522
Investments	336	336
<b>Total non-current assets</b>	<b>21 283</b>	<b>20 172</b>
Related parties receivables	3 565	2 667
Inventories	5 672	5 660
Trade and other receivables	7 953	7 857
Cash and cash equivalents	264	224
<b>Total current assets</b>	<b>17 454</b>	<b>16 408</b>
<b>Total assets</b>	<b>38 737</b>	<b>36 580</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	549	487
Retained earnings	1 368	927
<b>Total Equity</b>	<b>13 960</b>	<b>13 457</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	9 330	5 283
Deferred tax liabilities	860	860
Other non-current liabilities	46	46
Financing	2 425	1 156
<b>Total non-current liabilities</b>	<b>12 661</b>	<b>7 345</b>
Related party payables	217	322
Interest bearing loans and finance lease	5 354	9 405
Trade and other payables	6 159	5 881
Financing	386	170
<b>Total current liabilities</b>	<b>12 116</b>	<b>15 778</b>
<b>Total liabilities</b>	<b>24 777</b>	<b>23 123</b>
<b>Total equity and liabilities</b>	<b>38 737</b>	<b>36 580</b>

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

For the period ended 30 September 2015

*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 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					503	503
Other changes/ reserves						0
Balance at 30 September 2015	12 014	167	382	29	1 368	13 960



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

For the third quarter of 2015

*In thousands of BGN*

	01.01-30.09.2015	01.01.-30.09.2014
<b>Cash flows from operating activities</b>		
Cash receipts from customers	25 139	23 334
Cash paid to suppliers	-20 557	-18 904
Net cash flow for salaries and wages of personnel	-3 552	-3 179
Income taxes paid /received	565	440
<b>Cash from operating activities</b>	<b>1 595</b>	<b>1 691</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-2 942	-2 570
Proceeds from non-current assets	107	800
Investment in daughter companies	0	0
Cash receipts from financing	1 767	1 201
<b>Cash from investing activities</b>	<b>-1 068</b>	<b>-569</b>
<b>Cash flows from financing activities</b>		
Loans received	3 239	2 422
Repayment of borrowings	-3 005	-3 034
Payment of finance lease liabilities	-269	-295
Interest paid	-456	-465
Transactions costs	-100	-120
Other financing activities		
<b>Cash from financing activities</b>	<b>-591</b>	<b>-1 492</b>
Net increase in cash and cash equivalents	-64	-370
Cash and cash equivalents at 1 January	224	527
Effect of change of currency exchange rate on cash held	104	52
<b>Cash and cash equivalents at the end of the period</b>	<b>264</b>	<b>209</b>