

Explanatory notes to the 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, 28th 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 Breakzit.

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
Herti UK	Sales of product	2 776
Herti France	Sales of product	4 390
Herti Germany	Sales of products	771

TIHERT JSC	Services sales	92
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
Herti UK	Transport and commission services	21
Herti France	Expenses	1
Herti Germany	Purchasing of fixed assets	3
Herti Germany	Commission services	1
IGM Holding	Expenses	6
IGM Holding	Purchasing of fixed assets	33
Timshel OOD	Rent	59
TIHERT JSC	Purchase of spare parts	258
TIHERT JSC	Fixed assets manufacturing	428
TIHERT JSC	Maintaining services	108
Raifen OOD	Transport services received	550

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 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.

25 October 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	25 484	23 801
Other income	2 573	2 703
Carrying amount of materials and goods sold	-1 146	-1 843
Increase/(decrease) of inventories of finished goods and work in progress	-109	22
Capitalised expenses		
Expenses for materials	-16 110	-16 084
Hired services	-2 021	-1 946
Depreciation and amortisation	-1 674	-1 860
Personnel expenses	-4 642	-3 371
Other operating expenses	-1 107	-386
Finance income	0	45
Finance expenses	-700	-578
Profit before tax	548	503
Income tax expense		
Profit for the period	548	503

HERTI JSC**Balance sheet**

As at 30 September 2016

In thousands of BGN

	30.9.2016	31.12.2015
Assets		
Property, plant and equipment	20 945	20 026
Intangible assets	512	605
Investments	336	336
Total non-current assets	21 793	20 967
Related parties receivables	3 904	3 526
Inventories	5 608	5 515
Trade and other receivables	7 394	7 313
Cash and cash equivalents	424	303
Total current assets	17 330	16 657
Total assets	39 123	37 624
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	609	549
Retained earnings	1 799	1 311
Total Equity	14 451	13 903
Liabilities		
Interest bearing loans and finance lease	9 549	8 979
Deferred tax liabilities	861	861
Other non-current liabilities	198	198
Financing	2 296	2 328
Total non-current liabilities	12 904	12 366
Related party payables	296	212
Interest bearing loans and finance lease	5 399	5 308
Taxes payable		5
Trade and other payables	5 834	5 444
Financing	239	386
Total current liabilities	11 768	11 355
Total liabilities	24 672	23 721
Total equity and liabilities	39 123	37 624

HERTI JSC**Change in equity**

For the period ended 30 September 2016

In thousands of BGN

	Authorised Capital	Reserves	Additional Reserves	Premium of issued capital	Retained Earnings	Total
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					548	548
Other changes/ reserves		60			-60	0
Balance at 30 September 2016	12 014	227	382	29	1 799	14 451

HERTI JSC**Cash flow**

For the third quarter of 2016

In thousands of BGN

	01.01-30.09.2016	01.01.-30.09.2015
Cash flows from operating activities		
Cash receipts from customers	27 728	25 130
Cash paid to suppliers	-21 303	-20 557
Net cash flow for salaries and wages of personnel	-4 354	-3 552
Income taxes paid /received	495	565
Other income/payment from operating activities	-210	-82
Cash from operating activities	2 356	1 504
Cash flows from investing activities		
Acquisition of property, plant and equipment	-2 729	-2 942
Proceeds from non-current assets	88	107
Investment in daughter companies	43	0
Cash receipts from financing	0	1 767
Cash from investing activities	-2 598	-1 068
Cash flows from financing activities		
Loans received	2 310	3 239
Repayment of borrowings	-1 459	-3 005
Payment of finance lease liabilities	-212	-269
Interest paid	-276	-361
Transactions costs		
Other financing activities		
Cash from financing activities	363	-396
Net increase in cash and cash equivalents	121	40
Cash and cash equivalents at 1 January	303	224
Effect of change of currency exchange rate on cash held		
Cash and cash equivalents at the end of the period	424	264