

HERTI AD
Consolidated Financial Statements
For the Year Ended 31 December 2014
With Auditor's Report Thereon

Unofficial translation from original
Bulgarian
Consolidated Financial Statements

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Independent auditors' report

Consolidated statement of financial position

In thousands of BGN

	Note	31.12.2014	31.12.2013
Assets			
Property, plant and equipment	15	19,039	17,063
Intangible assets	16	583	596
Equity-accounted investees	17	171	214
Other investments	17	3	3
Total non-current assets		19,796	17,876
Inventories	18	6,223	5,502
Related party receivables	28	442	286
Trade and other receivables	19	9,242	10,419
Cash and cash equivalents	20	462	733
Total current assets		16,369	16,940
Total assets		36,165	34,816
Equity			
Share capital	21	12,014	12,014
Share premium		29	29
Reserves		553	521
Accumulated loss		(91)	(436)
Total equity attributable to owners of the Company		12,505	12,128
Liabilities			
Loans and borrowings	22	5,283	4,544
Deferred tax liabilities	23	794	813
Employee benefits	24	60	54
Government grants	26	1,156	1,326
Total non-current liabilities		7,293	6,737
Related party payables	28	231	401
Loans and borrowings	22	9,420	9,686
Trade and other payables	25	6,546	5,691
Government grants	26	170	173
Total current liabilities		16,367	15,951
Total liabilities		23,660	22,688
Total equity and liabilities		36,165	34,816

The notes on pages 7 to 41 are an integral part of these consolidated financial statements.
The consolidated financial statements are prepared on 19 February 2015.

Chief Executive Officer:

Zahari Zahariev

In accordance with auditors' report:
KPMG Bulgaria OOD

Maria Peneva
Manager

Prepared by:

Ivaylo Petrov – Financial Director

Tsvetelinka Koleva
Registered Auditor

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

	Note	2014	2013
<i>In thousands of BGN</i>			
Revenue	7	30,340	28,965
Other operating income	8	3,067	2,827
Carrying amount of materials sold		(2,545)	(2,467)
Increase of finished goods and work in progress		696	75
Capitalized expenses		321	469
Expenses for materials	9	(19,442)	(19,035)
Hired services	10	(3,151)	(2,954)
Depreciation and amortization	15;16	(1,914)	(1,435)
Personnel expenses	11	(5,335)	(4,859)
Other operating expenses	12	(884)	(576)
Profit from operating activities		1,153	1,010
Finance costs		(812)	(802)
Finance income		77	-
Net finance cost	13	(735)	(802)
Profit of equity-accounted investees		1	14
Profit before income tax		419	222
Income tax (expense) income	14	(26)	(27)
Profit for the year		393	195
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Foreign operations – foreign currency translation differences		(16)	(1)
Total other comprehensive income for the year		(16)	(1)
Total comprehensive income for the year		377	194
Basic earnings per share (in BGN)	30	0.033	0.016

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Manager

Tsvetelinka Koleva
Registered Auditor

Consolidated statement of changes in equity

In thousands of BGN

	Share Capital	Share premium	Legal Reserves	Additional Reserves	Retained loss	Total Equity
Balance at 1 January 2013	12,014	29	27	448	(584)	11,934
Total comprehensive income for the period						
Profit for the period	-	-	-	-	195	195
Other comprehensive income for the period	-	-	-	-	(1)	(1)
Total comprehensive income for the period	-	-	-	-	194	194
Transfer between reserves based on shareholders' decision	-	-	46	-	(46)	-
Balance at 31 December 2013	12,014	29	73	448	(436)	12,128
Balance at 1 January 2014	12,014	29	73	448	(436)	12,128
Total comprehensive income for the period						
Profit for the period	-	-	-	-	393	393
Other comprehensive income for the period	-	-	-	-	(16)	(16)
Total comprehensive income for the period	-	-	-	-	377	377
Transfer between reserves based on shareholders' decision	-	-	32	-	(32)	-
Balance at 31 December 2014	12,014	29	105	448	(91)	12,505

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Maria Peneva
Manager

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Registered Auditor

Consolidated statement of cash flows

For the year ended 31 December

<i>In thousands of BGN</i>	<i>Note</i>	2014	2013
Cash flows from operating activities			
Cash receipts from customers		33,465	32,284
Cash paid to suppliers		(26,251)	(26,397)
Net cash flow for salaries and wages		(5,446)	(4,942)
Other payments from operating activities		(20)	(21)
Indirect taxes and property taxes (paid)/refunded		413	830
Cash flow from operating activities		2,161	1,754
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3,262)	(3,766)
Proceeds from sale of property, plant and equipment		833	339
Other cash flows from investing activities		1,201	345
Net cash used in investing activities		(1,228)	(3,082)
Cash flows from financing activities			
Loans and borrowings received		3,490	5,144
Repayment of loans and borrowings		(3,549)	(2,464)
Payment of finance lease liabilities		(453)	(258)
Interest paid		(749)	(727)
Other cash flows from financing activities		-	36
Net cash (used in)/from financing activities		(1,261)	1,731
Net (decrease) increase in cash and cash equivalents		(328)	403
Cash and cash equivalents at 1 January		733	339
Effect of exchange rate fluctuations on cash held		57	(9)
Cash and cash equivalents at 31 December 2014	20	462	733

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Notes to the consolidated financial statements

Notes to the consolidated financial statements

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Notes to the consolidated financial statements

1. Reporting entity

Herti AD (the “Company”) is a joint stock company domiciled in Bulgaria and has its address of management at Shumen, 38 Antim I Str. The Company is registered in Bulgaria under court case No. 567/2007 of Shoumen District Court in compliance with the Commercial Law of Republic of Bulgaria. The Company is registered with the Commercial Register at the Bulgarian Registry Agency with ID code 127631592.

The consolidated financial statements of the Company for the year ended 31 December 2014 comprise the Company and its subsidiaries (together referred to as the “Group” and separately referred to as the “Entities from the Group”) and Group’s interests in associates.

The main activities of the Group consists of production of aluminium screw caps, production of plastic caps, varnishing and lithography on metal sheets and thermo-contractible capsules for wine bottles.

The shares of the company are traded on a regulated market on the Bulgarian Stock Exchange – Sofia with ticker symbol HTV.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

The consolidated financial statements were authorised for issue by the Board of Directors on 19 February 2015.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the liability for employee benefits which is stated at net present value.

The methods used to measure fair values are discussed further in note 4.

(c) Functional and presentation currency

These financial statements are presented in Bulgarian Lev (BGN), which is the Company’s functional currency. All financial information presented in BGN has been rounded to the nearest thousand, except when otherwise indicated.

(d) Use of estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group’s accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is included in the following notes:

- Note 27 – in respect of measurement and management of credit risk;

Notes to the consolidated financial statements

2. Basis of preparation, continued

(e) Going concern

These financial statements are prepared on a going concern principle assuming that the Group is able to continue its operations in foreseeable future. Management expectations for the trends for the Group's sales in 2015 are favorable for increasing margins, maximizing profits and increasing of net cash inflows. In this regard, Management believes that existing capital resources and sources of funding (cash flows from sales and financing contracts) will be adequate for liquidity needs in 2015.

(f) Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2014.

- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- IFRIC 21 Levies
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (2011), IAS 28 *Investments in Associates and Joint Ventures* (2011)

a) Amendments to IAS 36

As a result of the amendments to IAS 36, the Group expanded its disclosures in terms of recoverable amounts.

b) IFRIC 21 Levies

This change in the accounting policy had no material impact on the consolidated financial statements of the Group.

c) Amendments to IAS 32

The amendments to IAS 32 had no impact on the consolidated financial statements since the Group does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

d) New set of consolidation standards

The Group has applied IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosures of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (2011), IAS 28 *Investments in Associates and Joint Ventures* (2011) with a date of initial application - 1 January 2014.

The application of these new/amended standards had no material impact on the consolidated financial statements, since it did not result in a change of the accounting policy.

Notes to the consolidated financial statements

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

(ii) Investments in subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest (NCI) and the other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(a) Basis of consolidation, continued

(iv) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence ceases.

(v) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(vi) Non-controlling interests

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are not retranslated.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss),

Effective 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(b) Foreign currency, continued

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into BGN at exchange rates at the reporting date. The income and expenses of foreign operations are translated into BGN at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI, and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially, such that control or significant influence is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

If the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, then foreign currency differences arising from such item form part of the net investment in the foreign operation. Accordingly, such differences are recognised in OCI, and accumulated in the translation reserve.

(c) Financial instruments

The Group classifies non-derivative financial assets into the following categories: loans and receivables, and available-for-sale financial assets.

Loans and receivables comprise trade and other receivables.

(i) Non-derivative financial assets and financial liabilities – recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(c) Financial instruments, continued

(ii) Non-derivative financial assets – measurement

Loans and receivables

These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Available-for-sale financial assets

Other investments are recognized as available for sale financial assets. These assets are initially recognised at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on debt instruments (see (b)(i)), are recognised in OCI and accumulated in the fair value reserve. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

(iii) Non-derivative financial liabilities – measurement

Non-derivative financial liabilities are initially recognised at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

(iv) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects. Group's capital is represented by historical cost as at date of registration.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment loss.

If significant parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Non-current assets are presented in the Statement of financial position at their historical cost less accumulated depreciation and impairment loss.

Any gain or loss on sale of an item of property, plant and equipment is measured by comparison of the proceeds from the sale with the carrying amount of property, plant and equipment and is recognised in “Other income” in profit or loss.

(ii) Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Items of property, plant and equipment are depreciated from the date they are available for use or, in respect of self-constructed assets, from the date that the asset is completed and ready for use. Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line basis over their estimated useful lives. Depreciation is generally recognised in profit or loss, unless the amount is included in the carrying amount of another asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of items of property, plant and equipment for the current and comparative years are as follows:

■ buildings	25 - 30 years;
■ machinery and equipment	2 – 30 years;
■ vehicles	5 - 15 years;
■ fixtures and fittings	5 - 20 years;

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(e) Intangible assets, continued

(ii) Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

(iii) Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

(iv) Subsequent costs

Subsequent expenditure on intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is expensed as incurred.

(v) Amortisation

Amortisation is charged to the income statement on a straight-line basis in profit or loss over the estimated useful lives of intangible assets.

The estimated useful lives are as follows:

■ software	2 years
■ patents	15 years
■ others	15- 20 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(f) Leased assets

Assets held by the Group under leases which transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position (see note 3m).

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average principle. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

(h) Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security;
- observable data indicating that there is measurable decrease in expected cash flows from a group of financial assets.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Group considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

Financial assets measured at amortised cost

The Group considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics.

In assessing collective impairment the Group uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(h) Impairment, continued

(i) Non-derivative financial assets, continued

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the fair value reserve to profit or loss. The amount reclassified is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss previously recognised in profit or loss. If the fair value of an impaired available-for-sale debt security subsequently increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through in profit or loss; otherwise, it is reversed through OCI.

Equity accounted investees

An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit and loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, investment property, inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(i) Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided.

The Government of Bulgaria is responsible for providing pensions in Bulgaria under a defined contribution pension plan. The Group's contributions to the defined contribution pension plan are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(ii) Other long term benefits

The Group has obligation to pay certain amounts to each employee who retires with the Group in accordance with Art. 222, § 3 of the Labor Code in Bulgaria (LC). According to these regulations in the LC, when a labor contract of a company's employee, who has acquired a pension right, is ended, the employer is obliged to pay him compensations amounted to two gross monthly salaries. In case the employee's length of service in the company equals to or is greater than 10 or more years, as at retirement date, then the compensation amounts to six gross monthly salaries. As at balance sheet date, the Management of the Company estimates the approximate amount of the potential expenditures for every employee. The amount of the obligation is disclosed in note 24.

(iii) Short-term employee benefits

Short-term employee benefit obligations are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The Company recognises as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange for the employee's service for the period completed.

(j) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(j) Provisions, continued

(ii) Litigation and claims

The Group recognizes provisions to cover litigation and claims when it is probable that an outflow of resources embodying economic benefits will be required to settle obligation. The provision is based on the best estimate made by the legal advisers of the Group. In cases when reliable valuation of the size of the liability cannot be done, it is disclosed as a contingent liability.

(k) Revenue

(i) Sale of production and goods

Revenue is recognised when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

The timing of the transfer of risks and rewards varies depending on the individual terms of the sales agreement, which in general are CPT (Carriage paid to).

(ii) Rendering of services

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is usually determined by analysis of work performed. Revenue from services usually includes mechanical works and works on technical works.

(l) Government grants

Government grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant; they are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(m) Leases

(i) *Determining whether an arrangement contains a lease*

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease.

At inception or upon reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

(ii) *Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(n) Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- dividend income;
- the net gain or loss on the disposal of available-for-sale financial assets;
- the foreign currency gain or loss on financial assets and financial liabilities;
- impairment losses recognised on financial assets (other than trade receivables).

Interest income or expense is recognised using the effective interest rate method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(o) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

(i) Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable or receivable in respect of previous years. Current tax also includes any tax arising from dividends.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

In determining the amount of current and deferred tax the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

(p) Earnings per share, net

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

Notes to the consolidated financial statements

3. Significant accounting policies, continued

(q) Segment reporting

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and returns that are different from those of other segments. The Group's primary format for segment reporting is based on geographical segments. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly non-current assets, inventories, other receivables and liabilities.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations, endorsed by the EC, are available for early adoption in the annual period ended 31 December 2014, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early.

Standards, Interpretations and amendments to published Standards that have not been early adopted – endorsed by the European Commission (EC)

- Annual improvements to IFRSs *2010-2012 and 2011-2013 Cycles*. The improvements introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations. None of these amendments are expected to have a significant impact on the financial statements of the Group;
- Amendments to IAS 19 – *Defined benefit plans: Employee contributions*. The entity does not expect the Amendments to have any impact on the financial statements since it does not have any defined benefit plans that involve contributions from employees or third parties.

IASB/IFRIC documents not yet endorsed by EC:

Management believes that it is appropriate to disclose that the following new or revised standards, new interpretations and amendments to current standards, which are already issued by the International Accounting Standards Board (IASB), are not yet endorsed for adoption by the European Commission, and therefore are not taken into account in preparing these financial statements. The actual effective dates for them will depend on the endorsement decision by the EC.

- IFRS 9 *Financial instrument (issued 24 July 2014)*;
- IFRS 14 *Regulatory Deferral Accounts (issued 30 January 2014)*;
- IFRS 15 *Revenue from contracts with customers (issued 28 May 2014)*;
- Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment Entities: Applying the Consolidation Exception (issued on 18 December 2014)*;
- Amendments to IAS 1 *Disclosure initiative (issued 18 December 2014)*;
- *Annual improvements to IFRSs 2012-2014 Cycle (issued 25 September 2014)*
- Amendments to IFRS 10 and IAS 28: *Sale or contribution of assets between an investor and its associated or jointly controlled investee (issued 11 September 2014)*;
- Amendments to IAS 27 – *Equity method in separate financial statements (issued 12 August 2014)*;
- Amendments to IAS 16 and IAS 41 – *Bearer plants (issued 30 June 2014)*;
- Amendments to IAS 16 and IAS 38 – *Clarification for acceptable methods of depreciation and amortization (issued 12 May 2014)*;
- Amendments to IFRS 11 – *Accounting for acquisitions of interests in joint operations (issued 6 May 2014)*.

Notes to the consolidated financial statements

4. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Group regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used then the evidence obtained is assessed to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

When measuring the fair value of an asset or liability, the Group uses market observable data as far as possible. Fair values are categorised into different level in a fair value hierarchy based on the inputs in the valuation techniques as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 27 – Financial instruments

5. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The Management has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The credit risk arises principally from the Group's receivables from customers and investment securities.

Notes to the consolidated financial statements

5. Financial risk management, continued

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. This exposure may also depend on the default risk of the industry and the internal market on which the Group operates. Approximately 60% of the Group's revenue for the period is attributable to sales transactions with ten clients (2013: 59%), and 83% of the Group's revenue for the period is attributable to export transactions (2013: 81%).

According to the Group's established credit policy each new customer is analyzed individually for creditworthiness before the Group's standard payment and delivery items and conditions are offered. The Group's policy includes granting of a credit period in accordance with the market type, customer's size and whether the customer is of long standing. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on an advanced payment basis.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; The Group also monitors the level of expected cash inflows on trade and other receivables to ensure that sufficient cash inflows exist in order to meet expected cash outflows on trade and other payables. In addition, the Group maintains lines of credits in amount sufficient to provide liquidity for the Company's activities (see note 22).

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

As a whole, the Group has limited exposure to currency risk as:

- purchases of main goods and materials used in the Group's trading activities as well as production are denominated in euro or BGN
- export sales also are denominated mainly in euro.

Interest rate risk

The Group manages its interest rate risk by determining its loans to be generally with variable interest rate and fixed margin.

Notes to the consolidated financial statements

5. Financial risk management, continued

Capital management

The Board's policy is to maintain a strong capital base so as to maintain owners and market confidence and to sustain future development of the business.

The Group seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Group's target is to achieve a return on capital of between 8 and 10 percent; during the period the return is 2.8% (2013: 2.6%). The Management takes measures for optimization of production process aiming to increase gross margin. Also efforts are made for decrease of operational expenses - mostly those for hired services, administrative and management expenses.

There were no changes in the Group capital management during the year.

In accordance with the provisions of art. 252 of the Commercial Act, the Company must maintain the value of its net assets above the value of its share capital. As at 31 December 2014 the Company is in compliance with these requirements, since its net assets in its separate financial statements are at the amount of BGN 13,457 thousand and the value of share capital is BGN 12,014 thousand.

6. Segment reporting

The Group has three main segments, as described below, which are the Group's strategic geographical divisions of Group operations. Different strategic divisions are managed separately because they require different marketing strategies. For each of the strategic divisions, the Board of Directors (the chief operating decision maker) reviews internal management reports on at least a quarterly basis. Segment revenue is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these geographical segments.

Notes to the consolidated financial statements

6. Segment reporting, continued

	Russia		European Union (excluding Bulgaria)		Bulgaria		Other		Entity as a whole	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
In thousands of BGN										
Revenue from external clients:										
Sales	5,593	6,061	15,418	14,159	4,104	4,078	5,225	4,667	30,340	28,965
Other income – sale of waste		-	77	370	1,313	1,060		-	1,390	1,430
Revenue	5,593	6,061	15,495	14,529	5,417	5,138	5,225	4,667	31,370	30,395
Segment result	503	334	3,266	2,483	366	610	1,172	867	5,307	4,294
Unallocated revenue									1,677	1,397
Unallocated expenses									(5,831)	(4,681)
Profit from operations									1,153	1,010
Net financial cost									(735)	(802)
Profit (loss) of associates accounted on equity method									1	14
Income tax (expense) income									(26)	(27)
Profit for the year									393	195
Segment assets	4,701	4,246	3,346	3,370	1,114	1,305	935	727	10,096	9,648
Unallocated assets									26,069	25,168
Total assets									36,165	34,816
Unallocated liabilities									23,660	22,688
Total liabilities									23,660	22,688
Capital expenditures									3,871	4,190
Depreciation									1,914	1,435

7. Revenue from sale of production

In thousands of BGN

	2014	2013
Aluminium closures	23,437	22,061
Plastic closures	1,478	2,163
Composite closures	1,993	2,123
Goods for resale	2,565	2,354
Proportioning devices	182	126
Other	685	138
	30,340	28,965

Notes to the consolidated financial statements

8. Other operating income

In thousands of BGN

	<i>Note</i>	2014	2013
Income from sale of aluminium waste		1,390	1,430
Income from sales of materials		84	237
Transport services provided to clients		722	774
Discounts from suppliers		114	116
Proceeds from government grants	26	173	48
Other		584	222
		<u>3,067</u>	<u>2,827</u>

9. Expenses for materials

In thousands of BGN

	2014	2013
Aluminium	9,763	9,495
Polish	2,229	2,504
Polythene HDPE; LDPE	2,020	2,114
Packing	2,147	2,044
Electricity	734	831
Methane	583	537
Other	1,966	1,510
	<u>19,442</u>	<u>19,035</u>

10. Hired services

In thousands of BGN

	2014	2013
Transport	1,759	1,859
External subcontractors	138	88
Advertising and consulting services	267	261
Rents	244	207
Communication services	83	65
Insurance	31	28
Other	629	446
	<u>3,151</u>	<u>2,954</u>

11. Personnel expenses

In thousands of BGN

	2014	2013
Wages and salaries	4,506	4,123
Social security contributions	780	715
Freelance contracts	-	25
Accruals for unused paid vacations (net)	43	(2)
Accruals for retirement benefits (net)	6	(2)
	<u>5,335</u>	<u>4,859</u>

Average number of employees at 31 December 2014 is 433 (2013: 413).

Notes to the consolidated financial statements

12. Other operating expenses

<i>In thousands of BGN</i>	2014	2013
Business trips	75	62
Scrap of finished goods	171	10
Food vouchers and medicines	290	280
Other	348	224
	<u>884</u>	<u>576</u>

13. Net finance expense

<i>In thousands of BGN</i>	2014	2013
Interest income	-	-
Net profit from foreign currency exchange	77	-
Finance income	<u>77</u>	<u>-</u>
Interest expense	(671)	(635)
Bank charges	(141)	(130)
Net loss from foreign currency exchange	-	(37)
Finance costs	<u>(812)</u>	<u>(802)</u>
Net finance expense	<u>(735)</u>	<u>(802)</u>

14. Income tax expense (income)

Recognized in the Income statement

<i>In thousands of BGN</i>	2014	2013
Current tax expense		
Current year	45	9
Deferred tax expense (income)		
Origination and reversal of temporary differences	(19)	18
Total income tax expense (income) in income statement	<u>26</u>	<u>27</u>

Reconciliation of effective tax rate

<i>In thousands of BGN</i>	2014	2014	2013	2013
Profit before tax		<u>419</u>		<u>222</u>
Income tax using the Company's domestic tax rate	10%	42	10%	22
Non-deductible expenses	0.2%	1	0.5%	1
Tax exempt income	(5.25%)	(22)	(2.25%)	(5)
Current losses, for which no deferred tax assets were recognized	1.19%	5	4.05%	9
	6.21%	<u>26</u>	12.15%	<u>27</u>

Notes to the consolidated financial statements

15. Property, plant and equipment

<i>In thousands of BGN</i>	Land and buildings	Plant and equipment	Fixtures and fittings and vehicles	Assets Under construction	Total
Cost					
Balance at 1 January 2013	8,112	14,194	208	848	23,362
Additions	17	388	9	3,776	4,190
Transfers	250	3,002	2	(3,254)	-
Effect of movements in exchange rates	-	(2)	-	-	(2)
Disposals	-	-	-	(340)	(340)
Balance at 31 December 2013	<u>8,379</u>	<u>17,582</u>	<u>219</u>	<u>1,030</u>	<u>27,210</u>
Balance at 1 January 2014	8,379	17,582	219	1,030	27,210
Additions	-	498	5	3,348	3,851
Transfers	-	1,347	-	(1,456)	(109)
Effect of movements in exchange rates	-	4	-	-	4
Balance at 31 December 2014	<u>8,379</u>	<u>19,431</u>	<u>224</u>	<u>2,922</u>	<u>30,956</u>
Depreciation and impairment losses					
Balance at 1 January 2013	1,590	7,043	150	-	8,783
Depreciation for the year	263	1,089	14	-	1,366
Effect of movements in exchange rates	-	(2)	-	-	(2)
Balance at 31 December 2013	<u>1,853</u>	<u>8,130</u>	<u>164</u>	<u>-</u>	<u>10,147</u>
Balance at 1 January 2014	1,853	8,130	164	-	10,147
Depreciation for the year	273	1,478	17	-	1,768
Effect of movements in exchange rates	-	2	-	-	2
Balance at 31 December 2014	<u>2,126</u>	<u>9,610</u>	<u>181</u>	<u>-</u>	<u>11,917</u>
Carrying amount					
At 1 January 2013	<u>6,522</u>	<u>7,151</u>	<u>58</u>	<u>848</u>	<u>14,579</u>
At 31 December 2013	<u>6,526</u>	<u>9,452</u>	<u>55</u>	<u>1,030</u>	<u>17,063</u>
At 1 January 2014	<u>6,526</u>	<u>9,452</u>	<u>55</u>	<u>1,030</u>	<u>17,063</u>
At 31 December 2014	<u>6,253</u>	<u>9,821</u>	<u>43</u>	<u>2,922</u>	<u>19,039</u>

(i) Expenses for acquisition of fixed assets

Property plant and equipment under construction represent capitalised works on overhauls, improvements and development of own equipment. The amount of BGN 1,651 thousand in the carrying amount of assets under construction is the amount of prepayments for purchase of assets, which are part of bank loan collateral.

(ii) Plant and machinery under finance lease

The Group acquired production equipment under a finance lease agreement. At 31 December 2014, the carrying amount of leased plant and machinery is BGN 1,745 thousands (2013: BGN 842 thousands). The leased equipment secures lease obligations.

Notes to the consolidated financial statements

16. Intangible assets

<i>In thousands of BGN</i>	Software	Patents and licenses	Development costs	Other	Goodwill	Total
Cost						
Balance at 1 January 2013	116	93	96	155	234	694
Additions	475	5	-	-	-	480
Effect of movements in exchange rates	-	-	-	(3)	-	(3)
Disposals	-	-	(96)	-	-	(96)
Balance at 31 December 2013	591	98	-	152	234	1,075
Balance at 1 January 2014	591	98	-	152	234	1,075
Additions	20	-	-	-	-	20
Transfers	109	-	-	-	-	109
Effect of movements in exchange rates	-	-	-	11	-	11
Disposals	-	-	-	-	-	-
Balance at 31 December 2014	720	98	-	163	234	1,215
Amortisation and impairment losses						
Balance at 1 January 2013	101	6	96	84	220	507
Amortisation for the year	48	6	-	15	-	69
Effect of movements in exchange rates	-	-	-	(1)	-	(1)
Written-off amortisation	-	-	(96)	-	-	(96)
Balance at 31 December 2013	149	12	-	98	220	479
Balance at 1 January 2014	149	12	-	98	220	479
Amortisation for the year	124	6	-	16	-	146
Effect of movements in exchange rates	-	-	-	7	-	7
Written-off amortisation	-	-	-	-	-	-
Balance at 31 December 2014	273	18	-	121	220	632
Carrying amount						
As at 1 January 2013	15	87	-	71	14	187
As at 31 December 2013	442	86	-	54	14	596
As at 1 January 2014	442	86	-	54	14	596
As at 31 December 2014	447	80	-	42	14	583

Notes to the consolidated financial statements

17. Investments

The Group has the following investments:

Equity accounted investees	Country	Ownership in shares		Ownership in thousands of BGN	
		2014	2013	2014	2013
Herti Group International	Romania	49%	49%	171	214
				171	214
Other investments					
Ecopack AD	Bulgaria	5.6%	5.6%	3	3
				3	3

Summarized financial information about the equity accounted investees, unadjusted to the percentage of ownership of the Group:

In thousands of BGN	Owner ship	Non-current assets			Non-current liabilities	Current liabilities			Revenues	Expenses	Profit (Loss)
		current assets	Current assets	Total assets		Total liabilities	liabilities	liabilities			
2013											
Herti Group International	49%	3	782	785	-	351	351	2,561	2,532	29	
		3	782	785	-	351	351	2,561	2,532	29	
2014											
Herti Group International	49%	1	780	781	-	435	435	2,393	2,391	2	
		1	780	781	-	435	435	2,393	2,391	2	

18. Inventories

In thousands of BGN

	2014	2013
Raw materials and consumables	2,867	2,775
Work in progress	1,106	600
Finished goods	1,754	1,583
Materials in transit	306	391
Goods	190	153
	6,223	5,502

19. Trade and other receivables

In thousands of BGN

	Note	2014	2013
Trade receivables		8,777	8,455
Advances given		87	476
Tax receivables		276	147
Personnel receivables		3	3
Litigation and claims		67	124
Government grants receivables	26	-	1,201
Other receivables		32	13
		9,242	10,419

Credit risk, currency risk and impairment risk of trade and other receivables are disclosed in Note 27

Notes to the consolidated financial statements

20. Cash and cash equivalents

In thousands of BGN

	2014	2013
Cash in hand	2	2
Bank balances	460	731
Cash and cash equivalents in the statement of cash flows	<u>462</u>	<u>733</u>

21. Capital and reserves

Share capital

At 31 December 2007 Herti AD's registered share capital amounts BGN 12 million, comprising of 12 million ordinary shares.

On 25 January 2008, Herti AD has realized initial public offering of 3million ordinary shares with nominal value of BGN 1 and price of BGN 3.10, calculated by the bookbuilding method.

As at 31 December 2014 Herti AD's registered share capital amounts BGN 12,014 thousand, comprising of 12,014 thousand shares. The owners of the Group are as follows:

	Number of shares/shareholding (%)				Thousands of BGN	
	2014		2013		2014	2013
	Number of shares	%	Number of shares	%		
IGM Holding	4,072,400	33.9	4,072,400	33.9	4,073	4,073
Alexander Blagoev Yuliyarov	3,953,920	32.9	3,953,920	32.9	3,954	3,954
Zahari Ganev Zahariev	2,993,122	24.9	2,993,122	24.9	2,993	2,993
Elena Petkova Zaharieva	960,000	8	960,000	8	960	960
Other individuals	34,355	0.3	34,355	0.3	34	34
	<u>12,013,797</u>	<u>100</u>	<u>12,013,797</u>	<u>100</u>	<u>12,014</u>	<u>12,014</u>

Ordinary shares

	2014	2013
On issue at 1 January	12,014	12,014
Issued for cash	-	-
On issue at the end of the reporting period – fully paid	<u>12,014</u>	<u>12,014</u>

Notes to the consolidated financial statements

22. Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

<i>In thousands of BGN</i>	2014	2013
Long-term liabilities		
Secured bank loans	4,638	4,295
Finance lease liabilities	645	249
	<u>5,283</u>	<u>4,544</u>
Short-term liabilities		
Current portion of long-term bank loans and short-term bank loans	9,100	9,503
Current portion of finance lease liabilities	320	183
	<u>9,420</u>	<u>9,686</u>
Total loans and borrowings	<u>14,703</u>	<u>14,230</u>

Bank loans are secured over items of property, plant and equipment with a carrying amount of BGN 12,272 thousand (2013: 12,185 thousand), inventories with carrying amount of BGN 1,467 thousand (2013: 750 thousand) and trade receivables with carrying amount of BGN 4,594 thousand (2013: 2,349 thousand). The amount of BGN 1,651 thousand in the carrying amount of assets under construction is the amount of prepayments for purchase of assets, which are part of bank loan collateral.

Terms and debt repayment schedule

<i>In thousands of BGN</i>				31 December 2014		31 December 2013	
	Currency	Nominal interest	Payable to	Nominal	Carrying amount	Nominal	Carrying amount
Secured long-term investment loan	EUR	3M EURIBOR + margin	2020	1,280	1,280	2,447	2,447
Secured long-term investment loan	EUR	1M EURIBOR + margin	2018	1,857	1,857	2,458	2,458
Secured long-term investment loan	EUR	6M EURIBOR + margin	2017	678	678	369	369
Secured long-term investment loan	BGN	3M SOFIBOR + margin	2021	1,618	1,618	-	-
Secured short-term loan	EUR	1M EURIBOR + margin	2015	3,912	3,912	3,912	3,912
Secured short-term loan	EUR	1M EURIBOR + margin	2016	316	316	247	247
Secured short-term loan	EUR	6M EURIBOR + margin	2014	-	-	367	367
Bank overdraft	EUR	1M EURIBOR + margin	2016	1,173	1,173	1,173	1,173
Bank overdraft	EUR	6M EURIBOR + margin	2014	2,904	2,904	2,825	2,825
Finance lease liabilities	EUR	3M EURIBOR + margin	2014	-	-	3	3
Finance lease liabilities	EUR	3M EURIBOR + margin	2015	67	67	189	189
Finance lease liabilities	EUR	3M EURIBOR + margin	2018	182	182	240	240
Finance lease liabilities	EUR	3M EURIBOR + margin	2019	626	626	-	-
Finance lease liabilities	EUR	3M EURIBOR + margin	2017	90	90	-	-
				<u>14,703</u>	<u>14,703</u>	<u>14,230</u>	<u>14,230</u>

The value of the margin for the loans stated above is no greater than 5.00 percentage points per year.

Notes to the consolidated financial statements

22. Loans and borrowings, continued

Finance lease liabilities

Finance lease liabilities are payable as follows:

	Minimum Lease Payments	Interest	Present value of minimum lease payments	Minimum Lease Payments	Interest	Current amount of minimum lease payments
<i>In thousands of BGN</i>	2014	2014	2014	2013	2013	2013
Less than one year	360	40	320	201	18	183
Between one and five years	689	44	645	265	16	249
	1,049	84	965	466	34	432

Under the terms of the lease agreements, no contingent rents are payable.

23. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of BGN</i>	Assets		Liabilities		Net	
	2014	2013	2014	2013	2014	2013
Property, plant and equipment	-	-	823	833	823	833
Employee benefits	(18)	(12)	-	-	(18)	(12)
Trade and other receivables	(11)	(8)	-	-	(11)	(8)
Tax (assets)/ liabilities	(29)	(20)	823	833	794	813
Set off of tax	29	20	(29)	(20)	-	-
Tax (assets)/ liabilities, net	-	-	794	813	794	813

The Company believes that the accrued tax liabilities are adequate for all open tax years, based on the assessment of multiple factors, including interpretation of tax laws and previous experience.

Movement in temporary differences during the year

<i>In thousands of BGN</i>	Balance		Recognized	Balance
	1 January 2014	Recognized in profit or loss	directly other comprehensive income	31 December 2014
Property, plant and equipment	833	(10)	-	823
Employee benefits	(12)	(6)	-	(18)
Trade and other receivables	(8)	(3)	-	(11)
	813	(19)	-	794

<i>In thousands of BGN</i>	Balance		Recognized	Balance
	1 January 2013	Recognized in profit or loss	directly other comprehensive income	31 December 2013
Property, plant and equipment	852	(19)	-	833
Employee benefits	(14)	2	-	(12)
Trade and other receivables	(15)	7	-	(8)
Tax loss carry-forwards	(28)	28	-	-
	795	18	-	813

Notes to the consolidated financial statements

23. Deferred tax assets and liabilities, continued

Unrecognised deferred tax assets

In thousands of BGN

Tax effect from temporary differences related to:

	2014	2013
Tax loss carry-forwards	40	35
Fixed assets	12	17
	<u>52</u>	<u>52</u>

Unrecognized deferred tax assets refer to the individual financial statement of foreign subsidiaries and there is no security for their reversal in future periods.

24. Employee benefits

In thousands of BGN

	2014	2013
Retirement benefits provision	60	54
	<u>60</u>	<u>54</u>

The estimated amount of the obligation as at each reporting date and the expenses for retirement compensations recognised are based on an actuarial report. The principal actuarial assumptions at the reporting date include a discount rate of 5% as at 31 December 2014 (31 December 2013: 4.5 %) and future salary increase of 0% (2013: 0%).

25. Trade and other payables

In thousands of BGN

	2014	2013
Trade payables	5,238	4,393
Advances received	416	586
Tax payables	254	207
Payables to personnel	331	308
Social security payables	184	131
Other payables	123	66
	<u>6,546</u>	<u>5,691</u>

Currency risk and liquidity risk related to Trade and other payables are disclosed in Note 27.

26. Government grants

In 2012 the Company entered into two agreements with the Ministry of Economy and Energy for financial grant under the Operational programme “Development of the Competitiveness of the Bulgarian Economy” for the period 2007-2013. The first project “Enhancing the competitiveness of Herti AD through the implementation of an integrated information system for business process management” has a total amount of the project of up to BGN 634 thousand and a total amount of the grant of up to BGN 375 thousand. At the end of 2013, after an inspection by the Ministry of Economy and Energy of the reports, presented by the Company, the amount of BGN 346 thousand, representing the part of the financial grant for the project, was transferred to the Company. In 2013 proceeds from financing at the amount of BGN 31 thousand have been recognized, and accordingly as at 31 December the liability is at the amount of BGN 315 thousand. In 2014 proceeds from grants at the amount of BGN 73 thousand have been recognized, and accordingly as at 31 December 2014 the liability is at the amount of BGN 242 thousand, from which current liability at the amount of BGN 70 thousand and non-current liability at the amount of BGN 172 thousand.

The second project “Investments for reducing the energy consumption in the production system of Herti AD” has a total amount of BGN 2,450 thousand, and an amount of the grant of up to BGN 1,225 thousand. In December 2013 the Company has presented the Ministry a report with the performed actions, as well as a request for payment of the grant as per the signed agreement, and has recognized a receivable due at the amount of BGN 1,201 thousand. In March 2014, after a verification of the investments made, the amount of BGN 1,201 thousand was transferred to the Company. In 2014 proceeds from grants at the amount of BGN 100 thousand (2013: BGN 17 thousand) have been recognized, and accordingly as at 31 December 2014 the liability is at the amount of BGN 1,084 thousand (2013: BGN 1,184 thousand). Current liability - BGN 100 thousand and non-current liability - BGN 984 thousand.

Notes to the consolidated financial statements

27. Financial instruments

Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

<i>In thousands of BGN</i>	Note	2014	2013
Trade and other receivables	19	8,809	9,669
Related party trade receivables	28	442	286
Litigation and claims	19	67	124
Cash and cash equivalents	20	460	731
Investments	17	3	3
		<u>9,781</u>	<u>10,813</u>

The maximum exposure to credit risk as at the reporting date for the trade receivables, other receivables and trade receivables from related parties of the Group by geographic regions are:

<i>In thousands of BGN</i>	2014	2013
Domestic	777	2,122
European Union (excluding Bulgaria)	2,838	2,860
Russia	4,701	4,246
Other	935	727
	<u>9,251</u>	<u>9,955</u>

Impairment losses

The aging of Group's trade receivables, other receivables and related party receivables at the reporting date is:

<i>In thousands of BGN</i>	2014			2013		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	2,925	-	2,925	4,388	-	4,388
Between 0-30 days	2,369	-	2,369	1,929	-	1,929
Between 31-360 days	3,010	-	3,010	3,041	-	3,041
Overdue more than one year	1,061	114	947	673	76	597
	<u>9,365</u>	<u>114</u>	<u>9,251</u>	<u>10,031</u>	<u>76</u>	<u>9,955</u>

(Impairment losses)/ Reversals of trade and other receivables during the year are as follows:

<i>In thousands of BGN</i>	2014	2013
Impairment at 1 January	76	154
Impairment for the year	38	-
Impairment reversed during the period	-	-
Total in the income statement	<u>38</u>	<u>-</u>
Written-off receivables	-	(78)
Impairment at 31 December	<u>114</u>	<u>76</u>

The Group believes that the amounts past due are collectible in full, based on historic payment behaviour and extensive analyses of customer credit risk for each customer. The credit quality of trade and other receivables is assessed based on a credit policy established by the management. The credit risk is assessed on individual base. Based on the Group's analysis of customer credit risk, the Group believes that, except as indicated above, no impairment allowance is necessary in respect of trade receivables not past due.

Notes to the consolidated financial statements

27. Financial instruments, continued

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2014

In thousands of BGN

	Book value	Agreed cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Secured long-term bank loans	5,432	5,927	715	1,448	1,185	2,040	539
Secured short-term bank loan	3,912	4,038	84	3,954	-	-	-
Short-term bank loans	316	334	7	7	320	-	-
Bank overdraft	4,078	4,209	2,994	28	1,187	-	-
Finance lease	965	1,049	196	164	280	409	-
Trade and other payables	5,361	5,361	5,361	-	-	-	-
Related party payables	231	231	231	-	-	-	-
	20,295	21,150	9,588	5,601	2,973	2,449	539

31 December 2013

In thousands of BGN

	Book value	Agreed cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Secured long-term bank loans	6,447	(7,166)	(1,841)	(601)	(1,168)	(3,182)	(374)
Secured short-term bank loan	4,279	(4,447)	(424)	(4,023)	-	-	-
Short-term bank loans	247	(287)	(9)	(9)	(18)	(251)	-
Bank overdraft	2,825	(3,008)	(3,008)	-	-	-	-
Finance lease	432	(467)	(102)	(97)	(136)	(132)	-
Trade and other payables	4,459	(4,459)	(4,459)	-	-	-	-
Related party payables	401	(401)	(401)	-	-	-	-
	19,090	(20,235)	(10,244)	(4,730)	(1,322)	(3,565)	(374)

Foreign currency risk

Exposure to foreign currency risk

The Group's exposure to foreign currency risk is insignificant because 17% of the sales for 2014 (2013: 19%) are realized on local markets in Bulgarian leva and 72% of the sales for 2014 are realized in Euro (2013: 74%).

The import of materials in 2014 and 2013 is realized mainly in Euro.

Foreign currency loans are granted in Euro.

Effective 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

Notes to the consolidated financial statements

27. Financial instruments, continued

Foreign currency risk, continued

Sensitivity analysis

A sensitivity analysis for changes in the exchange rates of the BGN and Euro against other currencies would have limited impact on the Company's financial statements due to the facts stated above

The Group's exposure to foreign currency risk is as follows:

<i>In thousands of</i>	EUR			USD			GBP		
	31 December 2014			31 December 2013					
Trade and other receivables	7,294	-	742	6,629	-	922			
Related party receivables	438	-	-	284	-	-			
Cash and cash equivalents	343	-	74	244	-	85			
Trade and other payables	(3,259)	(91)	(90)	(2,615)	(165)	(110)			
Related party payables	(47)	-	-	(229)	-	-			
Finance lease	(965)	-	-	(432)	-	-			
Bank loans	(12,120)	-	-	(13,798)	-	-			
Net exposure	(8,316)	(91)	726	(9,917)	(165)	897			

The following foreign currency rates have been applied during the year:

	Average rate		Rate at the balance sheet date	
	2014	2013	2014	2013
USD	1,47437	1,47362	1,60841	1,41902
GBP	2,42721	2,30321	2,50010	2,33839

Interest rate risk

The carrying amount of financial instruments according to the type of interest rate are as follows:

In thousands of BGN

Fixed rate instruments

	2014	2013
Financial assets	460	724
Financial liabilities	-	-
	460	724

Variable rate instruments

Financial assets	-	-
Financial liabilities	(14,703)	(14,230)
	(14,703)	(14,230)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit and loss.

Notes to the consolidated financial statements

27. Financial instruments, continued

Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2013.

Effect from change of 1% in interest rate for variable rate instruments:

In thousands of BGN

	Effects of change in the income statement		Effects of change in equity	
	1% increase	1% decrease	1% increase	1% decrease
31 December 2014				
Variable rate instruments	(147)	147	-	-
Cash flow sensitivity (net)	(147)	147	-	-
31 December 2013				
Variable rate instruments	(142)	142	-	-
Cash flow sensitivity (net)	(142)	142	-	-

Fair values versus carrying amounts

Management believes that the carrying amount of financial assets and financial liabilities is a reasonable approximation of fair value.

28. Related parties

Identity of related parties

The Group has a related party relationship with the following parties:

	Country	Ownership	
		2014	2013
Associates			
Herti Group International	Romania	49%	49%
Shareholders/Owners			
IGM Holding	Austria	33.96%	33.96%
Companies under common control			
Timshel OOD	Bulgaria	-	-
Raifen OOD	Bulgaria	-	-

The Group has a related party relationship with its shareholders, members of the Board of Directors, managers and executive directors.

Notes to the consolidated financial statements

28. Related parties, continued

Related party receivables

Related party trade receivables

<i>In thousands of BGN</i>	2014	2013
Herti Group International	393	284
Herti Group International - dividends	44	-
Raifen OOD	5	2
Short-term related party receivables	442	286

Short-term related party payables

<i>In thousands of BGN</i>	2014	2013
IGM Holding – trade payables	47	229
Raifen OOD	32	37
Timshel OOD	92	57
Josef Mayer	6	6
Alexander Yuliyarov	45	63
Zahari Zahariev	6	6
Svetoslav Stamenov	3	3
Short-term related party payables	231	401

Transactions with related parties

During 2014 the Group have realised the following transactions with related parties:

Sales

<i>In thousands of BGN</i>		Type of transaction	Transaction value	
			2014	2013
Herti Group International	Sale of production		1,808	1,674
Timshel OOD	Sale of services		3	3
Raifen OOD	Sale of services		3	3

Purchases

<i>In thousands of BGN</i>		Type of transaction	Transaction value	
			2014	2013
IGM Holding	Purchase of materials		-	608
IGM Holding	Other purchases		7	-
IGM Holding	Purchase of fixed assets		89	54
Herti Group International	Purchase of materials		21	7
Timshel OOD	Rental expenses		78	78
Raifen OOD	Transport services received		806	770
Members of Board of Directors	Fees paid		15	15

Transactions with key management personnel

The total remuneration is included in “Personnel Expenses” (see note 11):

<i>In thousands of BGN</i>	2014	2013
Managers and Board of Directors	482	468
	482	468

Notes to the consolidated financial statements

29. Group entities

Control over the Group

Main shareholders in Herti AD are IGM Holding, Alexander Yuliyarov, Zahari Zahariev and Elena Zaharieva. At the end of the reporting period together they own 99.7% of Herti AD's capital.

Significant subsidiaries

In thousands of BGN

	Country	Ownership	
		2014	2013
Herti England	England	100%	100%
Herti France	France	100%	100%
Herti Germany	Germany	100%	100%
Tihert EAD	Bulgaria	100%	100%

During fourth quarter of 2012 the Board of Directors has decided to establish "Herti Germany" a subsidiary of Herti AD in the Federal Republic of Germany with capital of EUR 25 000 which is 100% owned by Herti AD. The company is registered on 31.01.2013.

30. Basic earnings per share

Earnings per share at 31 December 2014 is calculated on the basis of net profit of ordinary shareholders – for 2014 profit amounting to BGN 393 thousand (for 2013: profit amounting to BGN 195 thousand) by the weighted average number of ordinary shares outstanding during the period – 12,013,797. Earnings per share in 2014 are - BGN 0.033.

31. Engagements for acquisition of property, plant and equipment

During 2014 the Group has signed an agreements for acquisition of property, plant and equipment at the amount of BGN 4,262 thousand (2013: BGN 1,063 thousand).

32. Subsequent events

No subsequent events, that require adjustments or disclosures in the consolidated financial statements, have occurred during the period from the reporting date to the date the consolidated financial statements were authorised for issue by the Board of Directors.