HERTI - AD

CONSOLIDATED FINANCIAL STATEMENTS
AND
AUDITOR'S REPORT

December 31, 2017

SHUMEN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2017

	Notes	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Non-current assets			
Property, plant and equipment	*4*	25 421	21 666
Intangible assets	*5*	399	528
Investments	*6*	120	112
Total non-current assets		**25 940**	**22 306**
Current assets			
Inventories	*7*	7 047	6 607
Trade and other receivables	*8*	9 728	9 565
Cash and bank balances	*9*	987	746
Total current assets		**17 762**	**16 918**
Total assets		**43 702**	**39 224**
Equity			
Share capital	*10*	12 014	12 014
Retained earnings		2 454	1 727
Total equity		**14 468**	**13 741**
Non-current liabilities			
Non-current bank loans	*11*	12 838	10 338
Government grants	*12*	1 998	2 237
Deferred tax liabilities	*13*	786	796
Other non-current liabilities	*14*	523	420
Total non-current liabilities		**16 145**	**13 791**
Current liabilities	*15*	**13 089**	**11 692**
Total liabilities		**29 234**	**25 483**
Total equity and liabilities		**43 702**	**39 224**

Chief Executive Officer: (signed)
Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

April 24, 2018

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2017

	Notes	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Revenue	*16*	38 538	34 360
Other income	*17*	4 801	3 378
Total revenue and other income		**43 339**	**37 738**
Raw materials and consumables used	*18*	25 521	20 776
Hired services	*19*	3 355	3 458
Employee benefits expense	*20*	9 331	7 770
Depreciation and amortisation expenses		2 521	2 200
Impairment losses	*21*	550	478
Other expenses	*22*	551	478
Total operating expenses		**41 829**	**35 160**
Cost of goods sold		3 015	945
Changes of inventories of finished goods and work in progress		(2 924)	441
Construction expenditure capitalised		(1)	(476)
Total adjustments		**90**	**910**
Interest income/(expenses)	*23*	(467)	(529)
Share of profits of associates	*24*	11	2
Exchange rate gain/(loss)		(67)	(210)
Other finance costs		(105)	(109)
Total finance income/(costs)		**(628)**	**(846)**
Profit before tax		**792**	**822**
Tax income/(expenses)	*25*	(73)	(59)
Profit for the year		**719**	**763**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses), net of income tax		4	(3)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		4	3
Other comprehensive income for the year		**8**	**-**
Total comprehensive income for the year		**727**	**763**
Earnings per share in BGN	*26*	**0,06**	**0,06**

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April 24, 2018

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2017

	Share capital	Share premium	Legal reserve	Additional reserve	Retained earnings	Profit/ (loss)	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Balance at January 1, 2016	**12 014**	**29**	**168**	**446**	**(154)**	**475**	**12 978**
Transfer to retained earnings	-	-	-	-	475	(475)	**-**
Total comprehensive income for the year	-	-	-	-	-	763	**763**
Balance at December 31, 2016	**12 014**	**29**	**168**	**446**	**321**	**763**	**13 741**
Transfer to retained earnings	-	-	-	-	763	(763)	**-**
Transfer to legal reserve	-	-	68	-	(68)	-	-
Total comprehensive income for the year	-	-	-	-	8	719	**727**
Balance at December 31, 2017	**12 014**	**29**	**236**	**446**	**1 024**	**719**	**14 468**

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April 24, 2018

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CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2017

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Cash and cash equivalents at the beginning of the year	**746**	**513**
Cash flows from operating activities		
Receipts from customers and other debtors	43 881	48 072
Payments to suppliers and other creditors	(29 911)	(38 455)
Payments for salaries, social security and other	(9 036)	(7 438)
Refunded/(paid) taxes, net	(532)	795
Other cash flows from operating activities	(23)	(64)
Net cash generated by operating activities	**4 379**	**2 910**
Парични потоци от инвестиционна дейност		
Payments for property, plant and equipment	(6 077)	(3 812)
Proceeds from disposal of property, plant and equipment	-	88
Dividends received	-	43
Net cash used in investing activities	**(6 077)**	**(3 681)**
Cash flows from financing activities		
Proceeds from borrowings	5 325	3 931
Repayment of borrowings	(2 623)	(2 034)
Payment for leases	(247)	(291)
Interest and bank commisions paid	(549)	(586)
Net cash generated by financing activities	**1 906**	**1 020**
Net increase in cash and cash equivalents	**208**	**249**
Effects of exchange rate changes on cash and cash equivalents	**33**	**(16)**
Cash and cash equivalents at the end of the year	**987**	**746**

Chief Executive Officer: (signed)
Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

April 24, 2018

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017

1. General information

These consolidated financial statements present the financial position, the financial performance and the cash flows of Herti – AD (the Parent) and its subsidiaries together further referred as the Group. The Parent is registered as a joint-stock company under company file No in the Shumen District Court and entered in the Commercial Register at the Registry Agency under Unified Identification Code 127631592. The seat and the address of management of the Group is Shumen, 38, Antim I Str.

Herti AD is a public company and its shares are traded on the unofficial market of the Bulgarian Stock Exchange. The main activity of the Group is related mainly with the production of aluminium closures, plastic closures and thermo contractible capsules for wine bottles, lacquering and lithography on metal sheets.

The Group has a one-tier management system. At the date of preparation of these consolidated financial statements, the Group is managed by a Board of Directors consisting of five members and is represented by the Chief Executive Officer and the Chairman of the Board of Directors individually and jointly according to the size of the transactions specified in the Articles of Association of the Group. These consolidated annual financial statements have been approved by the Board of Directors for issue on April 24, 2018.

2. Basis of preparation of the consolidated financial statements and accounting principles

2.1. Basis of preparation

The annual closing of accounts and preparation of annual financial statements for 2017 is carried out in accordance with the Accountancy Act, which entered into force from January 1, 2016. Under that Act the local enterprises are entitled to apply either the International Accounting Standards approved by the European Union (IAS) or the National Accounting Standards, approved by the Bulgarian Government (NAS). All companies of public interest are obliged to prepare its financial statements in accordance with the requirements of IAS. Those companies that have adopted and apply IAS under the repealed Accountancy Act may continue with their application in the future. The Group is a public entity, so, the present consolidated financial statements are prepared under the International Accounting Standards, issued by the International Accounting Standards Board as adopted by the European Union. As of December 31, 2017 the IAS include the International Accounting Standards, the International Financial Reporting Standards (IFRS), Interpretations of the Standing Interpretations Committee and Interpretations of the International Financial Reporting Interpretations Committee. The IAS and the Interpretations are reissued annually and after the formal approval of the European Union become applicable for the year, in which they are issued. Most of them are not yet applicable to the Group's activity due to the specific issues discussed. The Group has complied with all standards and interpretations that are applicable to its activities and that are officially approved by the European Union as of the date of preparation of these consolidated financial statements.

2.2. New Accounting Standards and Interpretations not yet applied by the Group

As of December 31, 2017 there are some new Standards, changes have been made to some of the existing Standards and Interpretations, which have been issued and approved for application by the European Union in future reporting periods. The management of the Group believes that only the following may be relevant to its activity:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

(a) IFRS 9 Financial Instruments

This new Standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. This Standard essentially changes the criteria for classification of financial instruments. Furthermore, the previous impairment model of "incurred losses" is replaced by that of "expected credit losses". This means that it is no longer necessary for a credit event to have occurred before credit losses on financial instruments are recognised. The management of the Group will apply IFRS 9 since January 1, 2018. Based on an analysis, the management of the Group does not expect the new requirements to have any significant effect on the consolidated financial statements of the Group. Due to the nature of the financial instruments used in the Group's operations, the management does not expect any changes in their classification, initial and subsequent measurement. It is possible that impairment losses are increased without significantly affecting the presentation in the Group's consolidated financial statements.

(b) IFRS 15 Revenue from Contracts with Customers

The new IFRS 15 provides a comprehensive framework for recognising revenue from contracts with customers. The Standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted. IFRS 15 fully covers the existing guidance in the current Standards for revenue recognition, including IAS 18 Revenue, IAS 11 Construction Contracts and four Interpretations of those Standards, which are superseded. Due to the nature of the Group's operations, its management does not expect that the initial and subsequent application of this Standard will have a significant effect on the presentation in its consolidated financial statements.

(c) IFRS 16 Leases

IFRS 16 introduces a single approach for accounting of all leases of lessees, whether it is an operating lease or a finance lease. This new Accounting Standard supersedes the existing guidance on accounting for leases in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The new Standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers. IFRS 16 introduces a single lessee accounting model for all leases. A lessee is required to recognise in its statement of financial position a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. The accounting treatment of the lessor continues to be the current model of accounting for both types of leases. The management of the Group has not yet fully estimated the financial effect of the application of IFRS 16 on the presentation in its consolidated financial statements. The financial effect depends on the chosen method of transition, the possible recognition exceptions and further concluded lease contracts. The management of the Group expects to disclose its transition approach and the financial effect of changes prior to the initial application of IFRS 16.

Beyond the above- stated, the management of the Group does not consider necessary to disclose in the consolidated annual financial statements the name of the International Accounting Standards and Interpretations that have been amended, whether formally approved by the European Union or not, which will take effect in future periods if they do not relate to or seriously affect its activity. Such disclosure of the names of Standards and Interpretations could lead to misunderstanding or mislead of the users of the information from the present consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

2.3. Applicable measurement base

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and/or liabilities to their fair value as of the end of the reporting period as far it is required by the relevant accounting standards and as far as this value can be reliably measured. All such deviations from the historical cost convention are disclosed in the further disclosure of accounting principles. All figures and disclosures for 2017 and 2016 are presented in thousands of Bulgarian Lev (BGN) unless otherwise stated. Earnings per share are calculated and disclosed in BGN.

2.4. Fair value measurement

Some accounting standards permit initial and subsequent measurement of certain assets and liabilities at their fair value. The accounting standards require fair value measurement of certain financial assets and liabilities at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability at the measurement date. The fair value of a liability reflects the effect of non-performance risk. Where possible the Group measures the fair value of an asset or liability using quoted prices in active markets that the entity can access. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When quoted prices in active markets are not available the Group applies valuation techniques that maximizes the relevant observable inputs and minimises unobservable inputs. The chosen valuation technique captures all factors that market participants would take into account when pricing the asset or liability. The fair value concept assumes that financial instruments which will be realized through the market. In most cases, however, especially regarding current trade receivables and payables as well as borrowings granted, the Group expects them to be realized or settled through their collection or payment at the due date. Therefore, such financial instruments are reported at their nominal value or amortized cost. The majority of financial assets and liabilities are current so, their fair value approximates their carrying amount. The management of the Group believes that under the existing circumstances the fair value of the financial instruments reported in the consolidated statement of financial position are most adequate and reliable for the purposes of financial reporting.

2.5. Consolidation

Consolidated financial statements of the Group include the separate financial statements of the Parent and the financial statements of the subsidiaries prepared as of December 31, 2017. All assets, liabilities, equity, income, expenses and cash flows of the companies within the Group are presented as those of a single economic entity. Subsidiaries are companies that are controlled by the Parent. Control is achieved where the Parent is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. When preparing consolidated financial statements, a uniform accounting policies for reporting like transactions and other events in similar circumstances is used by all companies within the Group. All mutual participations in equity as well as all significant inter-company transactions, balances and unrealized gains on transactions within the Group are eliminated in full. The results from the activities of the subsidiaries are included in the consolidated financial statements from the date the Parent gains control until the date when the Parent ceases to control the subsidiary. On acquisition of a subsidiary due to internal Group restructuring its net assets and financial results are included at the beginning of the earliest period presented in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

2.6. Subsidiaries

As of December 31, 2017 the Group`s direct or indirect interest in subsidiaries consolidated in these financial statements is as follows:

Name of subsidiary	31.12.2017 Proportion of ownership interest	31.12.2016 Proportion of ownership interest
Tihert – EAD	100	100
Herti US	100	100
Herti France	100	100
Herti Germany	100	100
Herti US	100	-

2.7. Investments in associates

Associates are those entities over which the Group has significant influence but not control over the financial and operating activities. Associates are accounted for and presented in the consolidated financial statements using the equity method. The consolidated financial statements include the proportion of the Group consistent with its participation in the revenue and expenses of the associates as at the end of the reporting period. As of December 31, 2017 the Group has significant influence in Herti Group International Romania. The proportion of ownership interest in the capital of this company is 49%.

2.8. Non-controlling interest

Non-controlling interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly by the Parent. As of December 31, 2017 all subsidiaries are 100 % owned by the Group so, no non-controlling interest is presented in these consolidated financial statements.

2.9. Comparative figures

According to the Bulgarian accounting legislation and the requirement of IAS, the reporting year ends as of December 31 and entities are obliged to present financial statements as of the same date together with comparative figures for the prior year. If the Group has retrospectively amended its accounting policy or has restated or reclassified certain items, it presents comparative figures for two prior periods in the consolidated statements of financial position and in the corresponding notes as follows:

a) as of the end of the prior reporting period;
b) as of the end of the earliest comparative reporting period.

Regarding the rest of the elements of the consolidated financial statements and the corresponding notes, the comparative figures are presented only as of the end of the prior reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

2.10. Use of accounting estimates

The preparation of the financial statements in conformity with IAS requires the management to apply some accounting assumptions and accounting estimates which affect the reported assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the preparation of the consolidated financial statements, as well as the reported amounts of income and expenses during the reporting period. All accounting estimates and assumptions are based on the best estimate performed by the management as at the date of the consolidated financial statements. The actual results may differ from the results presented in the accompanying consolidated financial statements.

2.11. Functional currency and presentation currency

Functional currency is the currency of the primary economic environment in which the Group operates and in which the Group primarily generates and expends cash. The functional currency of the Group is Bulgarian Lev (BGN) which is the national currency of Bulgaria, and has been pegged to the EURO at a fixed exchange rate of EUR 1: BGN 1.95583. The exchange rates of BGN to the other foreign currencies are determined by the Bulgarian National Bank (BNB) applying the exchange rate of EURO to the respective currency on the international markets. The foreign exchange rate differences arising upon the settlement of these monetary positions or at restatement of these positions at rates, different from those when initially recorded, are reported as financial income or financial expenses for the period in which they arise.

The consolidated financial statements presentation currency of the Group is also BGN. The monetary positions denominated in foreign currency as of December 31, 2017 are stated in these consolidated financial statements as follows:

- Assets and liabilities are stated at the closing exchange rate of BGN to the respective functional currency as at the end of the reporting period;
- Income and expenses are recalculated applying the weighted average exchange rate of BGN to the respective functional currency for the period;
- All exchange rates differences resulting from the recalculations are reported as other comprehensive income for the period.

The closing exchange rate of the Bulgarian Lev to the main currencies with which the Group operates, at the end of the current and prior reporting periods is as follows:

December 31, 2017	December 31, 2016
USD 1 = BGN 1.63081	USD 1 = BGN 1.85545
GBP 1 = BGN 2.20442	GBP 1 = BGN 2.28437

2.12. Financial risks management

The Group’s activities expose it to a variety of financial risks. Market risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate as a result of changes in market prices, including currency (foreign exchange) risk, interest rate risk, and other price risk. Credit risk is the risk that the financial instrument counterparties could cause each other financial losses should they fail to perform as contracted. Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

2.12. Financial risks management (continued)

The Board of Directors is responsible for identifying and managing the risks to which the Group is exposed. The Group's risk management policy is developed to identify and analyze the risks it faces, to establish limits for taking risks and controls, to monitor risks and to comply with established limits. These policies are subject to periodic review to reflect changes in market conditions and business activity. Through its standards and procedures for training and management, the Group aims to develop constructive control environment in which all employees understand their roles and obligations.

2.12.1. Foreign currency risk

The Group’s activities are carried out mainly in Europe but it also has relationships with foreign suppliers and customers from America and other continents and therefore, it is currently exposed to a risk of exchange rate fluctuations as it sells or purchases goods and services denominated in USD and EURO. Major part of the transactions of the Group is denominated in EURO. Since the exchange rate of the Bulgarian Lev is pegged to the EURO, the Group is not exposed to a foreign currency risk. The Group is exposed to a risk associated with possible changes in the exchange rate of other foreign currencies with which it operates. Part of the risk is hedged naturally by synchronizing the incoming and outgoing cash flows denominated in foreign currency. The Group is using also other options, including foreign currency transactions with pre-fixed rates in order to minimize the foreign currency risk.

2.12.2. Interest risk

The financial instruments that potentially expose the Group to an interest rate risk are primarily bank borrowings and finance lease contracts. The Group uses bank borrowings and leases, whose interest rates are variable according to the general economic and financial conditions. As the negotiated interest rate of the most borrowings and leases is determined by a fixed margin over EURIBOR/SOFIBOR, the Group is potentially exposed to a cash flow risk. The management performs periodic analyzes of the macroeconomic environment and assesses the future interest rate risks for the Group. In the event of deterioration in the overall interest rates, the Group has the ability to use hedging instruments. The management of the Group does not believe that currently there are conditions for a substantial negative change in the agreed total cost of financing that would lead to additional financial risks in respect to borrowings and finance lease contracts as at 31 December 2017.

2.12.3. Price risk

The Group is exposed to price risk as it uses in its production process inventories whose prices are influenced by those on international markets. The Group does not hedge the risk of changes in commodity prices. The policy is to negotiate fixed prices with suppliers with predominant maturity up to half a year, thus avoiding the negative effect of possible increase in the price of raw materials during this period.

2.12.4. Credit risk

Credit risk is the risk that the Group’s clients will not be able to pay the amounts of trade receivables due in full and in time. The financial assets of the Group are concentrated in two groups: cash and receivables. The Group’s funds and cash transactions are concentrated in commercial banks with strong liquidity, which limits the credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

2.12. Financial risks management (continued)

2.12.4. Credit risk (continued)

Trade receivables

Exposure to credit risk is the result of the individual characteristics of clients. This exposure may also depend on the risk of non-payment inherent in the industry or the domestic market in which the Group operates. The Group's credit policy provides for each new customer to be considered for creditworthiness before offering standard delivery and payment terms. The Group's policy includes providing a credit period according to the type of market, the size of the client, and whether the relationship with the client is long-lasting. Clients not eligible for creditworthiness may make purchases against a down payment. The Group does not require collateral in respect of trade and other receivables.

Guarantees

The policy of the Group is to provide financial guarantees only after prior approval by the majority shareholder. As of December 31, 2017, some Bulgarian banks issued bank guarantees on behalf of Herti AD to third parties.

2.12.5. Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties in fulfilling its obligations when they become due. In order to manage this risk, the management of the Group maintains an optimal level of fast liquid assets and an ability to utilize credit lines. The Group has no difficulty in servicing its current commercial and financial obligations within the agreed deadlines. The Group applies cost calculations based on activities for its products and services, helping to monitor cash flows and optimize return on investment. The Group makes financial planning to meet the expenses and current liabilities for a period of 30 days, including the servicing of financial obligations. The Group monitors the level of expected cash inflows from trade and other receivables together with the expected outflows to trade and other payables.

2.12.6. Capital risk management

The policy of the management is to maintain a strong capital base so as to maintain the confidence of the owners and the market as a whole in order to provide the conditions for business development in the future. The aim of the Group is to maintain a balance between the higher returns that may be possible with higher levels of indebtedness and the benefits and security of a strong capital position. The Group's goal is to achieve a return of capital between 8% and 10%. In 2017, the return is 5.02 % (2016 – 5.6%). In order to prevent the increase of the loss and decrease of the capital, the management takes measures in the direction of optimization of the production process in order to improve the gross profitability. Efforts are also being made to reduce operating costs and above all costs of hired services and administrative management costs.

During the year there were no changes in the management of the Groups capital. In accordance with the provisions of Art. 252, para. 1, item 5 of the Commercial Act, the ‘Group should maintain the amount of its net assets above the amount of the registered capital. As at 31 December 2017, the Group fulfills these requirements because its net assets amount to BGN 14,468 thousand and the amount of the registered capital is BGN 12,014 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

2.13. Definition and valuation of the consolidated statement of financial position elements

2.13.1. Property, plant and equipment

Property, plant and equipment are valued at cost comprising purchase price and any installation costs incurred, less accumulated depreciation and impairment. The Group has approved a threshold amounting to BGN 500 in determining an asset as property, plant and equipment. Subsequent expenditure on property, plant and equipment, which improves the condition of the asset beyond its originally assessed standard of performance or increases the future economic benefits which will flow to the enterprise, should be capitalized to the carrying amount of the asset. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

Property, plant and equipment acquired in accordance with finance lease agreements are presented in the statement of financial position and are depreciated using the depreciated rates applied for own property, plant and equipment. These assets are initially valued and presented at fair value as at the date of acquisition. The interest expenses are recognized in the consolidated statement of comprehensive income on a straight line basis according to the lease schedule.

The carrying amounts of property, plant and equipment are subject of a review for impairment when there are indications that the carrying amounts differ substantially from their recoverable amounts. If such indicators exist an asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An impairment loss is recognized immediately in profit or loss unless the asset is carried at revalued amount. Then impairment loss is charged as a revaluation decrease and is recognised in other comprehensive income. If the impairment loss exceeds the amount of the revaluation surplus, the difference is charged as a current expense in the consolidated statement of comprehensive income.

2.13.2. Intangible assets

Intangible assets are valued at cost comprising purchase price and any installation costs incurred, less accumulated amortisation and impairment. The carrying amount of intangible assets is subject of an annual review for impairment when there are indications that the carrying amounts differ substantially from their recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive income.

2.13.3. Investments in associates

These investments are recorded and presented in the consolidated annual financial statements using the equity method. Under this method the Group's share in the comprehensive income of the associate is consolidated so that the value of the investment corresponds to the Group's share in the associate's net assets as of December 31 of that year.

2.13.4. Inventories

Inventories are recorded at cost comprising purchase price and any purchase costs incurred. Upon consumption, the cost of inventories is calculated using the weighted average cost method. At the year - end inventories are valued at the lower of cost or net realizable value. The costs of conversion of inventories include costs directly related to the units of production. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

2.13. Definition and valuation of the consolidated statement of financial position elements (continued)

2.13.5. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group recognises a financial asset or a financial liability in its consolidated statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument. At initial recognition financial assets/ (liabilities) are designated at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets are derecognised when, and only when the contractual rights to the cash flows from the financial asset expire, or the Group transfers the financial asset and the transfer qualifies for derecognition in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Financial liabilities are removed from the statement of financial position when, and only when, they are extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires. The Group classifies financial assets and liabilities as subsequently measured in the current and prior reporting periods as trade and other receivables, cash and bank balances, current and non-current liabilities. Classification under each category depends on the purpose and the term of the respective contract.

(a) Available-for-sale financial assets

The Group presents as available-for-sale financial assets investments in other companies that ensure up to 20% of the voting rights. These investments are measured at cost less impairment, if any.

(b) Trade and other receivables

Trade and other receivables in BGN are valued at nominal value and those in foreign currency are revalued at the closing exchange rate of the Bulgarian National Bank as of December 31, 2017, less allowance for doubtful debts.

The allowance is provided when there is certainty about the non-collectiveness of the trade receivables till the maturity date. The indications for impairment are considerable financial difficulties of the debtor, probable debtor insolvency or non-fulfilment of the terms of the contract and payments delay from the maturity date. The allowance for doubtful debts is reported as reduction in the value of receivables and allowances are presented in the consolidated statement of comprehensive income as expenses. If a receivable is non-collectable and there is an allowance accrued, the receivable is written-off by decrease of the respective allowance account. The reversal of the allowance for doubtful debts of trade receivables is reported in the consolidated statement of comprehensive income as decrease in the item, in which the allowance was previously recorded.

(c) Cash and bank balances

Cash and cash equivalents are stated at nominal value and cash in foreign currency is stated at the closing exchange rate of BNB as of December 31, 2017. For cash flow purposes cash and cash equivalents include non-restricted cash at banks and in hand.

(d) Non-current liabilities

Non-current liabilities in BGN are valued at face value and those in foreign currency are valued at the closing exchange rate of the Bulgarian National Bank as of December 31, 2017.

2.13. Definition and valuation of the consolidated statement of financial position elements (continued)

2.13.5. Financial instruments (continued)

(e) Current liabilities

Current liabilities in BGN are valued at face value and those in foreign currency are valued at the closing exchange rate of the Bulgarian National Bank as of December 31, 2017.

2.13.6. Non-current assets held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Group measures a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

2.13.7. Share capital

The subscribed share capital is represented by the amount of the actually paid shares. Share capital is entered in the Trade Register to the amount subscribed by the shareholders and it has to be fully paid within two years. Share capital registered as a contribution in kind is valued by the amount adopted by the General Assembly of Shareholders, which cannot be higher than the value of the contribution in kind determined by licensed appraisers specially appointed by court. Costs that are directly attributable to the issue of new shares or options through an initial public offering of organized stock market are presented as a deduction in equity net of tax, if such is stipulated.

2.13.8. Reserves

The reserves of the Group are formed by allocating its financial results for the period after corporate income tax. The reserves of the Group can be used only by decision of the General Meeting of Shareholders under the Commercial Act and the Articles of Association of the Parent.

2.13.9. Employee benefits

(a) Defined contribution plans

The Government of the Republic of Bulgaria is responsible for the ensuring of the statutory minimum threshold of the pensions pursuant to defined contributions plans. The expenses of the Group for transferring of funds pursuant to the defined contributions plans are recognized in the consolidated statement of comprehensive income upon their occurrence.

(b) Annual paid leave

The Group recognizes as a payable the non-discounted amount of the estimated expenses for annual paid leave, expected to be paid to the employees for the past reported period.

(c) Retirement benefits

Pursuant to the requirements of the Labour Code, upon termination of the employment contract the employees are entitled to retirement benefits amounting to two gross monthly salaries when the overall length of service of the employee in the Group is less than 10 years, or six gross monthly salaries, when the overall length of service is more than consecutive 10 years. The Group records as an expense the discounted amount of the accrued retirement benefit obligations and an interest expense based on an estimation made by a licensed actuary.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

2.13. Definition and valuation of the consolidated statement of financial position elements (continued)

2.14. Depreciation and amortization

The Group consistently applies the straight-line depreciation method. Depreciation is not charged on land and assets under construction before they are completed and put into operation.

The depreciation and amortization rates for the class of assets determined on the ground of their expected useful lives are as follows:

Classes of assets	**2017**	**2016**
Buildings	25 - 30	25 - 30
Plant and equipment	2 - 30	2 - 30
Vehicles	5 - 15	5 – 15
Office equipment	5 - 20	5 – 20
Software	2 - 8	2 - 8
Patents and trademarks	6 - 20	6 - 20

The management of the Group has determined depreciation rates for the classes of assets on the grounds of their expected useful lives. As of the year end the management of the Group performs a review of the expected useful lives and carrying amounts of the assets for indications for impairment and/or change of depreciation rates.

2.15. Provisions

Provisions are accrued in the consolidated statement of comprehensive income and recognized in the consolidated statement of financial position when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are discounted where the effect of the time value of money is material, using discount rate, which shall be pre-tax rate and shall reflect current market assessments of the time value of money and if appropriate, risks specific to the liability.

2.16. Finance lease

Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. The assets acquired under finance lease are recognized at the lower of their fair value as of the date of acquisition or the present value of the minimum lease payments. The existing liability to the lessor is presented in the consolidated statement of financial position as a finance lease liability. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability. Finance charge is recognized in the consolidated statement of comprehensive income.

2.17. Income and expenses recognition

Income and expenses are accrued when incurred, regardless of the date of the cash flow. Income and expenses recognition is based on the principal for matching costs and revenues. Income and expenses denominated in foreign currencies are translated into BGN at the rate of exchange ruling at the date of the accrual.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

2.17. Income and expenses recognition (continued)

2.17.1. Revenue from sale of finished goods, goods for resale and rendering of services

Revenue from the sale of finished goods and goods for resale is recognized when the entity has transferred to the buyer the significant risks and rewards of ownership of the goods. Revenue from rendering of services is recognised in the consolidated statement of comprehensive income by reference to the stage of completion of the transaction at the end of the reporting period. The stage of completion of a transaction is determined by surveys of work performed. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised.

2.17.2. Finance income/ (costs)

Interest income and expenses are accrued based on the current negotiated interest rate and the amount of the related receivable or payable. They are accrued directly in the consolidated statement of comprehensive income as incurred. Interest expenses on bank loans are calculated and recognised in the consolidated statement of comprehensive income using the effective interest method. Finance income and costs are presented net in the consolidated statement of comprehensive income.

2.17.3. Income from government grants

Government grants related to depreciable assets are recognized in the consolidated profit or loss over the periods and in proportions in which depreciation expense is recognized on those assets, acquired as a result of the grants after all conditions of the agreement are met. Government grants are recognized in in the consolidated profit or loss over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.

2.18. Earnings per share

The Group presents basic and diluted earnings per share of its ordinary shares. Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares of the Parent outstanding during the period.

2.19. Operating segments

An operating segment is a component of the Group that relates to provision of related products or services (business segment) or provision of products or services within a particular economic environment (geographical segment). The Group presents its financial information in three main segments, which represent the geographic strategic directions of its activity. The results of the segments are estimated based on their profits and losses before taxes. For each strategic direction, the Board of Directors examines internal management reports, at least on a quarterly basis. Performance evaluation is based on segment revenue, and management considers that this is the most relevant indicator to measure its performance compared to other companies operating in these geographical segments.

2.20. Taxation

According to the Bulgarian tax legislation for 2017 the Group is subject to a corporate income tax, which is 10 % of the taxable profit (2016 – 10%). For 2018 the rate of corporate income tax is 10 %. According to the tax legislation the current taxation is based on the financial results of the companies' individual accounts within the Group and no additional consolidation adjustments are required. This applies both to companies registered in the country and to those registered abroad.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

2.20. Taxation (continued)

The Group accounts for deferred taxes on the basis of the balance sheet liability method. Deferred tax is provided for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax shall be recognised as income or an expense and included in the consolidated profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity. Deferred tax assets and liabilities should are offset and the tax effect is measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The deferred tax liabilities should be recognized for all taxable temporary differences. The deferred tax assets should be recognized when it is probable that taxable profits will be available against which the deferred tax assets can be utilized.

2.21. Dividends

Dividends are reported as decrease in the net assets against a current liability to the shareholders in the period the dividends are approved for distribution.

2.22. Related parties

For the purposes of these consolidated financial statements, the shareholders, key management personnel, together with the close members of their families, including companies controlled by them are considered and referred to as related parties.

3. Segment information

The Group has three main segments described below, which represent the geographic strategic directions in its operations. Different directions are managed differently, as they require a specific marketing strategy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

3. Segment information (continued)

	Russia		European Union (excluding Bulgaria)		Bulgaria		Other		Group as a whole	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	BGN’000	BGN’000	BGN’000	BGN’000	BGN’000	BGN’000	BGN’000	BGN’000	BGN’000	BGN’000
Revenue from external customers:										
Sales	4,038	4,232	22,619	19,787	5,639	4,241	5,942	6,100	38,238	34,360
Other income	-	-	293	14	2,059	1,649	-	-	2,352	1,663
Total	**4,038**	**4,232**	**22,912**	**19,801**	**7,698**	**5,890**	**5,942**	**6,100**	**40,590**	**36,023**
Cost of sales	3,380	3,841	19,214	14,140	6,764	5,168	4,987	4,568	34,345	27,717
Gross profit	**658**	**391**	**3,698**	**5,661**	**934**	**722**	**955**	**1,532**	**6,245**	**8,306**
Unallocated revenue									2,740	1,734
Unallocated expenses									(7,565)	(8,372)
Profit before tax									**1,420**	**1,668**
Finance income/(costs)									(628)	(848)
Tax expenses									(65)	(59)
Profit for the year									**727**	**763**
Segment assets	3,184	3,511	4,210	3,683	1,465	1,412	869	869	9,728	9,475
Unallocated assets									33,974	29,749
Total assets									**43,702**	**39,224**
Unallocated liabilities									29,234	25,483
Total liabilities									**29,234**	**25,483**
Capital costs									8,589	3,916
Depreciation and amortisation expenses									2,521	2,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

4. Property, plant and equipment

	Land and buildings BGN'000	Plant and equipment BGN'000	Other BGN'000	Assets under construction BGN'000	Total BGN'000
Cost:					
Balance at January 1, 2016	8,390	24,301	296	888	**33,875**
Additions	83	729	53	3,021	**3,886**
Transferred	-	1,186	54	(1,240)	**-**
Disposals	-	(180)	-	-	**(180)**
Effect of foreign currency exchange differences	-	(9)	-	-	**(9)**
Balance at December 31, 2016	**8,473**	**26,027**	**403**	**2,669**	**37,572**
Additions	-	723	65	5,347	**6,135**
Transferred	-	2,842	99	(2,941)	**-**
Disposals	-	(19)	(5)	-	**(24)**
Effect of foreign currency exchange differences	-	9	-	-	**9**
Balance atDecember 31, 2017	**8,473**	**29,582**	**562**	**5,075**	**43,692**
Accumulated depreciation:					
Balance at January 1, 2016	2,400	11,332	197	-	**13,929**
Depreciation expense	273	1,747	32	-	**2,052**
Eliminated on disposal	-	(69)	-	-	**(69)**
Effect of foreign currency exchange differences	-	(6)	-	-	**(6)**
Balance at December 31, 2016	**2,673**	**13,004**	**229**	**-**	**15,906**
Depreciation expense	274	2,055	35	-	**2,364**
Eliminated on disposal	-	(7)	-	-	**(7)**
Effect of foreign currency exchange differences	-	6	2	-	**8**
Balance at December 31, 2017	**2,947**	**15,058**	**266**	**-**	**18,271**
Carrying amount at December 31, 2017	**5,526**	**14,524**	**296**	**5,075**	**25,421**
Carrying amount at December 31, 2016	**5,800**	**13,023**	**174**	**2,669**	**21,666**

Assets under construction represent capitalized costs in the course of construction of property, plant and equipment, which after put into operation, are used in the activity of the Group.

As of December 31, 2017 property, plant and equipment with carrying amount of BGN 12,587 thousand are mortgaged as collateral on bank loans received by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

5. Intangible assets

	Software	Patents and trade marks	Other intangible assets	Goodwill	Total
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Cost:					
Balance at January 1, 2016	722	337	163	251	**1,473**
Additions	30	-	-	-	**30**
Effect of foreign currency exchange differences	-	-	-	(2)	**(2)**
Balance at December 31, 2016	**752**	**337**	**163**	**249**	**1,501**
Additions	30	-	-	-	**30**
Effect of foreign currency exchange differences	-	-	(2)	-	**(2)**
Balance at December 31, 2017	**782**	**337**	**161**	**249**	**1,529**
Accumulated amortisation:					
Balance at January 1, 2016	400	52	136	237	**825**
Amortisation expense	83	49	16	-	**148**
Effect of foreign currency exchange differences	-	-	1	(1)	**-**
Balance at December 31, 2016	**483**	**101**	**153**	**236**	**973**
Amortisation expense	101	49	**7**	-	**157**
Balance at December 31, 2017	**584**	**150**	**160**	**236**	**1,130**
Carrying amount at December 31, 2017	**198**	**187**	**1**	**13**	**399**
Carrying amount at December 31, 2016	**269**	**236**	**10**	**13**	**528**

Due to the insignificance of the goodwill as a result of business combinations, it is included in intangible assets.

6. Investments

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Investments accounted for using the equity method		
Herti Group International Romania	117	109
Total	**117**	**109**
Other investments		
Ecopack – AD	3	3
Total	**120**	**112**

As of December 31, 2017 the Group has a proportion of ownership interest in Herti Group International Romania amounting to 49 % so, this investment is accounted for using the equity method.

The Group has an investment in Ecopack AD amounting to BGN 3 thousand. Proportion of ownership interest is 5.6 %.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

6. Investments (continued)

As of 31 December 2017, the Group's share of the assets, liabilities, net assets and results of Herti Group International Romania is as follows:

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Current assets	1,074	955
Total assets	**1,074**	**955**
Current liabilities	(836)	(733)
Total liabilities	**(836)**	**(733)**
Net assets	**238**	**222**
Investment of the Group	**117**	**109**

7. Inventories

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Raw materials	3,575	3,587
Finished goods	2,436	1,899
Work in progress	855	948
Goods for resale	181	173
Total	**7,047**	**6,607**

As of December 31, 2017 inventories with a carrying amount of BGN 2,640 thousand serve as collateral for bank loans provided to the Group.

8. Trade and other receivables

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Trade receivables	10,298	9,289
Allowance for doubtful debts	(864)	(327)
Trade receivables, net	9,434	8,962
Receivables on advances given	161	523
Tax receivables	96	68
Litigations and writs	2	2
Other receivables	35	10
Total	**9,728**	**9,565**

8. Trade and other receivables (continued)

Movement of allowance for doubtful debts in 2017 is as follows:

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Balance at the beginning of the year	**327**	**114**
Impairment losses recognised on receivables	537	213
Balance at the end of the year	**864**	**327**

9. Cash and bank balances

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Cash in foreign currency	773	282
Cash in BGN	214	464
Total	**987**	**746**

10. Share capital

As of December 31, 2017 the share capital of the Group comprises 12,013,797 dematerialized ordinary, freely transferable shares with the right to one vote, each with a nominal value of 1 BGN. Initially, on January 25, 2008 Herti AD realized an initial public offering of 3 million ordinary shares at a nominal value of BGN 1 and an issue price determined by the book building method of 3.10 BGN. After the public offering, the registered capital was increased to BGN 12,013,797, distributed in 12,013,797 shares. The shareholders of the Group are as follows:

	Number of shares	Percentage
IGM Holding	3,997,316	33.3
Alexander Yulianov	3,991,420	33.2
Zahari Zahariev	3,030,622	25.2
Elena Zaharieva	960,000	8.0
Other individuals	34,439	0.3
Total	**12,013,797**	**100**

11. Non-current bank loans

11.1. As at 31 December 2017, the Group has two long-term investment loans totaling BGN 2,408 thousand, including a long-term portion of BGN 1,729 thousand and a short-term portion of BGN 679 thousand. The deadline for repayment of the loans is in 2020 and 2021. The annual interest rate is determined by the three-month Sofibor for the relevant period, increased by a certain mark-up. The loans are secured by movable property owned by the Group and a special pledge on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

11. Non-current bank loans (continued)

11.2. As at 31 December 2017, the Group has four long-term investment loans totaling BGN 6,503 thousand, including a long-term portion of BGN 5,689 thousand and a short-term portion of BGN 814 thousand. The term of repayment of one of the long-term loans is in 2018 and therefore the outstanding payable under this loan amounting to BGN 58 thousand is presented in current liabilities. The other three long-term loans have a repayment term in the period 2020 – 2026. The annual interest on two of the loans is determined by the one-month Euribor for the period plus a certain mark-up, and the other two are determined by six –month Euribor for the period plus a mark-up. The loans are secured by property, plant and equipment owned by the Group and a special pledge on receivables.

11.3. As at 31 December 2017, the Group has outstanding liabilities under two bank overdrafts totaling BGN 5,420 thousand. The repayment terms of the loans are in 2020 and 2021. The annual interest rate of one of the overdrafts is determined by the one-month Euribor for the respective period plus a certain mark-up, and the other - by the six –month Euribor for the period plus a mark-up. The loans are secured by property, plant and equipment owned by the Group and a special pledge on receivables.

12. Government grants

In 2011 the Group has concluded two contracts with the Ministry of Economy and Energy for a grant under the Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013. The first project "Raising the Competitiveness of Herti AD through implementation of an integrated information system for business process management" has a maximum total amount of the project of BGN 634 thousand and a maximum grant amount of BGN 375 thousand. In 2017 income from government grants is BGN 42 thousand and the liability as of December 31, 2017 amounts to BGN 88 thousand, of which a short-term portion of BGN 41 thousand and long-term liabilities amounting to BGN 47 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 the maximum amount of the grant is BGN 1,225 thousand. In March 2014 after verification of the investments made, the amount of BGN 1,201 thousand was paid to the Group. In 2017 income from government grants amounts to BGN 80 thousand and the project liability as of December 31, 2017 is BGN 825 thousand, with a short-term portion of BGN 80 thousand and a long-term portion of BGN 745 thousand.

In December 2013 the Group concluded a contract with the Ministry of Economy and Energy for a grant under the Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007 - 2013 under the project "Implementing Innovation in Enterprises". The investment costs for the project amount to BGN 3,528 thousand and the grant amounts to BGN 1,768 thousand. The equipment was delivered in January 2015. All project documents were approved by the contracting authority - the Ministry of Economy and Energy and the grant was paid to the Group in June 2015. In 2017 income from government grants is BGN 117 thousand. The liability as of December 31, 2017 is BGN 1,324 thousand, of which a short-term portion amounting to BGN 118 thousand and long-term portion of BGN 1,206 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

13. Deferred tax liabilities

As of December 31, 2017 the components of the deferred tax liabilities/(assets) are as follows:

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Tax effect of allowance for doubtful debts	(57)	(33)
Tax effect of retirement benefits	(27)	(12)
Tax effect of unused paid leave	(16)	(10)
Total deferred tax assets	**(100)**	**(55)**
Difference between the carrying amount and tax base of depreciable assets	886	851
Total deferred tax liabilities	**886**	**851**
Deferred tax liabilities, net	**786**	**796**

The movement of the deferred tax liabilities/(assets) in 2017 is as follows:

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Balance at the beginning of the year	796	790
Recognised in the statement of comprehensive income	45	6
Recognised in other comprehensive income	1	-
Reversals in the statement of comprehensive income	(56)	-
Balance at the end of the year	**786**	**796**

14. Other non-current liabilities

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Retirement benefit obligation	270	244
Finance lease liabilities	253	176
Total	**523**	**420**

14.1. Retirement benefit obligation

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Balance at the beginning of the year	244	213
Current service cost and interest cost	30	29
Benefits paid	(16)	(1)
Actuarial gains/losses	12	3
Total	**270**	**244**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

14. Other non-current liabilities (continued)

14.1. Retirement benefit obligation (continued)

The demographic statistical assumptions used are based on the following:
(a) Degree of retirement and early retirement due to sickness
(b) Mortality rate of the population of Bulgaria according to data from the National Statistical Institute for the period 2011 – 2013
(c) Statistics from the National Centre for Health Information on disability and early retirement.

14.2. Finance lease liabilities

The Group has an obligation under finance leases for the acquisition of machinery, equipment and vehicles. As of 31 December 2017, the total amount of the liability amounts to BGN 473 thousand, including a long-term portion of BGN 253 thousand. The deadline for repayment of the liabilities is 2019.

15. Текущи пасиви

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Trade payables	5,517	4,518
Bank loans	3,912	3,912
Current portion of non-current bank loans	1,493	1,291
Employees	552	452
Taxes	404	222
Social security	357	418
Advances from customers	271	331
Current portion of government grants	239	239
Current portion of finance lease liabilities	220	232
Other payables	124	77
Total	**13,089**	**11,692**

As of 31 December 2017 the Group has outstanding payables under a short-term bank loan amounting to BGN 3,912 thousand. The term of repayment of the loan is in 2018. The annual interest rate is determined by one-month Euribor for the relevant period plus a certain mark-up. The loan is secured by movable property owned by the Group and a special pledge on receivables.

The Group accrues expenses for unused paid leave for employees and the related social securities in the consolidated statement of comprehensive income. The outstanding balance is presented in the consolidated statement of financial position in payables to employees and social security.

The movement of the unused paid leave is as follows:

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Balance at the beginning of the year	133	115
Accrued	133	99
Used-up and written-off	(113)	(81)
Balance at the end of the year	**153**	**133**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

16. Revenue

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Revenue from sale of aluminium closures	30,669	27,221
Revenue from sale of composite closures	4,602	3,912
Revenue from sale of plastic closures	1,197	1,037
Revenue from sales of goods for resale	595	132
Revenue from sales of pourers	325	1,425
Other	1,150	633
Total	**38,538**	**34,360**

17. Other income

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Income from sale of scrap	2,352	1,663
Transport services	1,394	624
Income from government grants	239	239
Gain/(loss) on sale of materials	33	92
Other income	783	760
Total	**4,801**	**3,378**

18. Raw materials and consumables used

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Raw materials	21,717	17,225
Electricity	1,068	982
Gas	423	424
Other	2,313	2,145
Total	**25,521**	**20,776**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

19. Hired services

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Transport services	1,893	2,062
Repairs	302	163
Advertising and consulting services	209	275
Rents	148	166
Insurance	94	75
Communications	79	66
Commissions	34	149
Other hired services	596	502
Total	**3,355**	**3,458**

The remuneration of the auditors for the audit services provided to the Group for 2017 amounts to BGN 21 thousand. The auditors of the Group have not provided additional consulting services other than independent financial audit

20. Employee benefits expense

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Salaries	7,562	6,280
Social security	1,350	1,090
Food vouchers	374	356
Retirement benefits	25	25
Unused paid leave, net	20	19
Total	**9,331**	**7,770**

21. Impairment losses

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Impairment loss on trade receivables	537	213
Impairment loss on materials	8	-
Written-off receivables	5	265
Total	**550**	**478**

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(continued)

22. Other expenses

	Year ended December 31, 2017 BGN’000	Year ended December 31, 2016 BGN’000
Waste of assets	289	101
Business trips	101	180
Other expenses	161	197
Total	**551**	**478**

23. Interest income/(expenses)

	Year ended December 31, 2017 BGN’000	Year ended December 31, 2016 BGN’000
Interest expenses on loans and leases	463	525
Other interest expenses	4	4
Total	**467**	**529**

24. Share of profits of associates

	Year ended December 31, 2017 BGN’000	Year ended December 31, 2016 BGN’000
Net profit for the year, reported by the associate	22	3
Share of current year profit of the associate in %	49	49
Share of profits of associates	**11**	**2**

25. Tax income/(expenses)

As of December 31, 2017 the reconciliation of the tax income/ (expenses) is as follows:

	Year ended December 31, 2017 BGN’000	Year ended December 31, 2016 BGN’000
Accounting profit before tax	792	822
Tax expense at the applicable tax rate	(79)	(82)
Tax effect of permanent differences	20	5
Effect of non-recognized tax assets from prior periods	16	18
Effect of consolidation adjustments	(30)	-
Tax income/(expenses)	**(73)**	**(59)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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25. Tax income/(expenses) (continued)

As of December 31, 2017 the components of the tax income/ (expenses) are as follows:

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Current tax expense	(67)	(53)
Tax effect of temporary tax differences	10	(6)
Effect of consolidation adjustments	(16)	-
Tax income/(expenses)	**(73)**	**(59)**

26. Earnings per share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year. Where shares are issued but not fully paid, they are treated in the calculation as a fraction of a share to the extent that they are entitled to participate in dividends during the period.

	Year ended December 31, 2017	Year ended December 31, 2016
Profit for the year (BGN'000)	719	763
Weighted average number of shares (thousands of units)	12,014	12,014
Earnings per share in BGN	**0.06**	**0.06**

27. Financial instruments

Credit risk

The carrying amount of financial assets at 31 December 2017 includes:

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Trade and other receivables	9,469	8,969
Cash and cash equivalents	971	734
Litigations and writs	2	2
Other investments	3	3
Total	**10,445**	**9,708**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

27. Financial instruments (continued)

Credit risk (continued)

The maximum credit exposure of the Group as of the date of the consolidated financial statements for trade receivables less allowance for doubtful debts by geographical regions is:

	December 31, 2017 BGN'000	December 31, 2016 BGN'000
Domestic	703	899
European Union (excluding Bulgaria)	4,477	3,690
Russia	3,184	3,511
Other	1,105	869
Total	**9,469**	**8,969**

Impairment losses on receivables

The aging of trade receivables, other receivables and receivables from related parties of the Group as of December 31, 2017 is as follows:

	31.12.2017 Gross BGN'000	31.12.2017 Impairment BGN'000	31.12.2016 Gross BGN'000	31.12.2016 Impairment BGN'000
Not past due	4,181	-	3,373	-
Past due up to 30 days	1,535	-	1,530	-
Past due 31-360 days	3,075	-	2,870	-
Past due over 1 year	1,507	864	1,523	327
Total	**10,298**	**864**	**9,296**	**327**

Movement of allowance for doubtful debts in 2017 is as follows:

	Year ended December 31, 2017 BGN'000	Year ended December 31, 2016 BGN'000
Balance at the beginning of the year	327	114
Impairment losses recognised on receivables	537	213
Balance at the end of the year	**864**	**327**

As a result of the credit risk analysis, the Group believes that no further impairment of the past due trade and other receivables other than that disclosed above is necessary.

27. Financial instruments (continued)

Liquidity risk

The contractual maturities of financial liabilities, including estimated interest payments, are presented below, excluding the effect of contracted offsetting commitments:

December 31, 2017	**Carrying amount BGN'000**	**Agreed cash flows BGN'000**	**6 months or less BGN'000**	**6-12 months BGN'000**	**1-2 years BGN'000**	**2-5 years BGN'000**	**More than 5 years BGN'000**
Secured long-term bank loans	8,911	10,079	847	967	1,809	3,635	2,821
Secured short-term bank loan	3,912	4,005	49	3,956	-	-	-
Finance lease	473	212	222	142	205	-	-
Bank overdraft	5,420	5,949	72	69	142	5,666	-
Trade payables	5,517	5,517	5,517	-	-	-	-
Total	**24,233**	**25,762**	**6,707**	**5,134**	**2,156**	**9,301**	**2,821**

December 31, 2016	**Carrying amount BGN'000**	**Agreed cash flows BGN'000**	**6 months or less BGN'000**	**6-12 months BGN'000**	**1-2 years BGN'000**	**2-5 years BGN'000**	**More than 5 years BGN'000**
Secured long-term bank loans	6,606	9,068	763	743	1,997	3,495	2,070
Secured short-term bank loan	3,912	4,033	68	3,965	-	-	-
Finance lease	408	427	130	116	168	13	-
Bank overdraft	5,023	5,286	69	464	4,753	-	-
Trade payables	4,597	4,597	4,597	-	-	-	-
Total	**20,546**	**23,411**	**5,627**	**5,288**	**6,918**	**3,508**	**2,070**

Foreign currency risk

The exposure of the Group to foreign currency risk is insignificant as 18% of sales for 2017 are realized on the domestic market in Bulgarian levs (in 2016 - 16%) and 79% of sales for 2017 are realized in Euro (in 2016 - 67%). Imports of materials and goods in 2017 are almost entirely carried out in Euro. The loans denominated in foreign currency are granted in Euro and in BGN.

Interest rate risk

The table below includes the carrying amount of financial instruments by type of interest rate:

	December 31, 2017 BGN'000	**December 31, 2016 BGN'000**
Fixed interest rate instruments		
Financial assets	971	734
Financial liabilities	(473)	(408)
Total	**498**	**326**
Variable interest rate instruments		
Financial liabilities	(18,243)	(15,541)
Total	**(18,243)**	**(15,541)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

28. Related party transactions

As of December 31, 2017 transactions and outstanding balances with related parties are as follows:

28.1. Transactions with majority shareholders

Transactions during the year and the outstanding payables as of December 31, 2017 are stated out below:

Related party	Type of transaction	Turnover 2017	Outstanding payables 2017	Turnover 2016	Outstanding payables 2016
		BGN'000	BGN'000	BGN'000	BGN'000
IGM Holding	Purchases	4	-	40	-
Individuals	Purchases	-	21	-	21
Total			**21**		**21**

28.2. Transactions with other related parties

Transactions during the year and the outstanding receivables as of December 31, 2017 are stated out below:

Related party	Type of transaction	Turnover 2017	Outstanding receivables 2017	Turnover 2016	Outstanding receivables 2016
		BGN'000	BGN'000	BGN'000	BGN'000
Herti Group International	Sales	2,526	752	2,148	690
Raifen - OOD	Sales	2	2	2	17
Timshel - OOD	Sales	2	-	2	-
Total			**754**		**707**

Transactions during the year and the outstanding payables as of December 31, 2017 are stated out below:

Related party	Type of transaction	Turnover 2017	Outstanding payables 2017	Turnover 2016	Outstanding payables 2016
		BGN'000	BGN'000	BGN'000	BGN'000
Timshel - OOD	Purchases	78	175	78	10
Raifen - OOD	Purchases	787	26	712	135
Total			**201**		**145**

All outstanding receivables and payables to related parties are current. There are no unusual terms or conditions associated with these transactions or variances from the market prices.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2017
(continued)

28. Related party transactions (continued)

28.3. Remuneration of key management personnel

The remuneration of the members of the Board of Directors of the Group for 2017 amounts to BGN 542 thousand (2016: BGN 583 thousand).

Chief Executive Officer: (signed)
Zahari Zahariev

Chief Financial Officer: (signed)
Ivaylo Petrov

April 24, 2018
Shumen

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Unofficial translation of the original in Bulgarian.
In case of any divergences the Bulgarian version is prevailing

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Herti – AD
Shumen

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Herti - AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies from page 2 to page 34.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Accounting Standards as adopted by the European Union (IASs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Opinion* paragraph above, we have identified the following key audit matter to be communicated in our report.

Key Audit Matter: Impairment loss on past due trade receivables

The consolidated statement of financial position of the Group as of December 31, 2016 included past due trade receivables. Sufficient impairment losses have not been charged regarding these receivables in order to represent the loss inflicted to the Group as a result of their incollectability. This has led to a qualified audit opinion on the consolidated financial statements as of December 31, 2016.

How this key audit matter was addressed in our audit:

In 2017 the management of the Group determined and accrued additional allowances for doubtful debts on past due trade receivables to a total amount of BGN 537 thousand. Thus, the allowance for doubtful debts on trade receivables as of December 31, 2017 amounts to a total of BGN 864 thousand, which reflects the losses inflicted to the Group as a result of incollectability.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2016 were audited by another registered auditor. A qualified auditor's report was issued on April 27, 2017 regarding the insufficient impairment losses on past due trade receivables.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises a consolidated management report, a corporate governance statement and a non-financial statement. These three documents are prepared by management in accordance with Chapter Seven of the Accountancy Act, but do not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IASs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Independent Financial Audit Act and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ✓ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ✓ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ✓ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ✓ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ✓ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ✓ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the Information Other than the Consolidated Financial Statements and Auditor's Report Thereon section, in relation to the consolidated management report and the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organization of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants, approved by its Management Board. These procedures concern verifying the existence and verifying the form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.

Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:
a) The information included in the consolidated management report for the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.
c) The corporate governance statement for the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.
d) The non-financial statement for the financial year for which the consolidated financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100 m, paragraph 8(3) and (4) of the Public Offering of Securities Act

Based on the procedures performed and the knowledge and understanding obtained of entity's activities and its environment, in our opinion, the description of the main characteristics of entity's internal control and risk management systems relevant to the financial reporting process, which is part of the consolidated management report (as a component of the content of the corporate governance statement) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, is not materially misstated.

Additional Reporting on the Audit of the Consolidated Financial Statements in connection with Art. 100(m), paragraph 4(3) of the Public Offering of Securities Act

Statement in connection with Art. 100(m), paragraph 4(3)(b) of the Public Offering of Securities Act

The information about related-party transactions is disclosed in Note 28 to the consolidated financial statements. Based on the audit procedures performed by us on related-party transactions as part of our audit of the consolidated financial statements as a whole, no facts, circumstances or other information have come to our attention based on which to conclude that the related-party transactions have not been disclosed in the accompanying consolidated financial statements for the year ending on 31 December 2017, in all material respects, in accordance with the requirements of IAS 24 Related Party Disclosures. The results of our audit procedures on related-party transactions were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not with the purpose of expressing a separate opinion on related-party transactions.

Statement in connection with Art. 100(m), paragraph 4(3)(c) of the Public Offering of Securities Act

Our responsibilities for the audit of the consolidated financial statements as a whole, described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report include an evaluation as to whether the consolidated financial statements represent the significant transactions and events in a manner that achieves fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the consolidated financial statements for the year ending on 31 December 2017, no facts, circumstances or other information have come to our attention based on which to conclude that there are material misrepresentations or misdisclosures in accordance with the relevant requirements of IASs as adopted by the European Union. The results of our audit procedures on Group's transactions and events significant for the consolidated financial statements were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not with the purpose of expressing a separate opinion on those significant transactions.

Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- ✓ Svrakov & Milev – OOD was appointed as a statutory auditor of the separate and consolidated financial statements for the year ending on December 31, 2017 of Herti – AD by the general meeting of shareholders held on June 27, 2017 for a period of one year.
- ✓ The audit of these financial statements for the year ending on December 31, 2017 of the company and its economic group represents the first total uninterrupted statutory audit engagement for that entity carried out by us.
- ✓ We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Group's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- ✓ We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- ✓ We hereby confirm that in conducting the audit we have remained independent of the Group.

Nikolay Kolev (signed)
Registered Auditor

Anton Svrakov (signed)
Managing Partner

April 24, 2018
Varna

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Unofficial translation of the original in Bulgarian.
In case of any divergences the Bulgarian version is prevailing