HERTI AD
Consolidated Financial Statements
For the Year Ended 31 December 2015
With Auditor’s Report Thereon

Unofficial translation from original
Bulgarian
Consolidated Financial Statements

Contents

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Independent auditors' report

Consolidated statement of financial position

In thousands of BGN	*Note*	**31 December 2015**	**31 December 2014**
Assets			
Property, plant and equipment	*15*	19,946	19,039
Intangible assets	*16*	648	583
Equity-accounted investees	*17*	130	171
Other investments	*17*	3	3
Total non-current assets		20,727	19,796
Inventories	*18*	5,966	6,223
Related party receivables	*28*	570	442
Trade and other receivables	*19*	9,590	9,242
Cash and cash equivalents	*20*	513	462
Total current assets		16,639	16,369
Total assets		37,366	36,165
Equity			
Share capital	*21*	12,014	12,014
Share premium		29	29
Reserves		614	553
Retained earnings (Accumulated loss)		321	(91)
Total equity attributable to owners of the Company		12,978	12,505
Liabilities			
Loans and borrowings	*22*	8,979	5,283
Deferred tax liabilities	*23*	790	794
Employee benefits	*24*	213	60
Government grants	*26*	2,328	1,156
Total non-current liabilities		12,310	7,293
Related party payables	*28*	195	231
Loans and borrowings	*22*	5,308	9,420
Trade and other payables	*25*	6,182	6,534
Current corporate income tax payables		7	12
Government grants	*26*	386	170
Total current liabilities		12,078	16,367
Total liabilities		24,388	23,660
Total equity and liabilities		37,366	36,165

The notes on pages 7 to 43 are an integral part of these consolidated financial statements.

Chief Executive Officer:

Zahari Zahariev

Prepared by:

Ivaylo Petrov – Financial Director

In accordance with auditors' report:
KPMG Bulgaria OOD

Dobrina Kaloyanova
Authorised Representative

Tsvetelinka Koleva
Registered Auditor

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 December

In thousands of BGN	*Note*	**2015**	**2014**
Revenue	*6,7*	32,576	30,340
Other operating income	*8*	3,559	3,067
Carrying amount of materials sold		(2,323)	(2,545)
Increase of finished goods and work in progress		254	696
Capitalized expenses		468	321
Expenses for materials	*9*	(20,867)	(19,442)
Hired services	*10*	(3,193)	(3,151)
Depreciation and amortization	*15,16*	(2,463)	(1,914)
Employee benefit expenses	*11*	(5,867)	(5,335)
Other operating expenses	*12*	(730)	(884)
Profit from operating activities		1,414	1,153
Finance costs		(763)	(812)
Finance income		56	77
Net finance cost	*13*	(707)	(735)
Profit/ (loss) of equity-accounted investees (net of income tax)		(39)	1
Profit before income tax		668	419
Income tax expense	*14*	(27)	(26)
Profit for the year		641	393
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign operations – foreign currency translation differences		(16)	(16)
Remeasurements of defined benefit liability	*24*	(152)	-
Other comprehensive income for the year, net of tax		(168)	(16)
Total comprehensive income for the year		473	377
Earnings per share, net			
Basic earnings per share (in BGN)	*30*	0.053	0.033

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Consolidated statement of changes in equity

In thousands of BGN	**Share Capital**	**Share premium**	**Statutory Reserves**	**Additional Reserves**	**Retained earnings (accumulated loss)**	**Total Equity**
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
Balance at 1 January 2015	12,014	29	105	448	(91)	12,505
Total comprehensive income for the period						
Profit for the period	-	-	-	-	641	641
Other comprehensive income for the period	-	-	-	(2)	(166)	(168)
Total comprehensive income for the period	-	-	-	(2)	475	473
Transfer between reserves based on shareholders' decision	-	-	63	-	(63)	-
Balance at 31 December 2015	12,014	29	168	446	321	12,978

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Consolidated statement of cash flows

For the year ended 31 December

In thousands of BGN	*Note*	**2015**	**2014**
Cash flows from operating activities			
Cash receipts from customers		44,453	33,465
Cash paid to suppliers		(37,095)	(26,251)
Net cash flow for salaries and wages		(6,070)	(5,446)
Other payments for operating activities		3	(20)
Income tax paid		(36)	(28)
Indirect and property taxes (paid)/refunded, net		637	441
Cash flow from operating activities		1,892	2,161
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2,673)	(3,262)
Proceeds from sale of property, plant and equipment		107	833
Other cash flows from investing activities		1,767	1,201
Net cash used in investing activities		(799)	(1,228)
Cash flows from financing activities			
Loans and borrowings received		3,244	3,490
Repayment of loans and borrowings		(3,338)	(3,549)
Payment of finance lease liabilities		(361)	(453)
Interest paid		(704)	(749)
Net cash (used in)/from financing activities		(1,159)	(1,261)
Net (decrease)/increase in cash and cash equivalents		(66)	(328)
Cash and cash equivalents at 1 January		462	733
Effect of exchange rate fluctuations on cash held		117	57
Cash and cash equivalents at 31 December 2015	*20*	513	462

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Notes to the consolidated financial statements

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 Shumen 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 2015 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 include 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 following the legal requirements 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 25 February 2016.

(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 next financial year is included in the following notes:

- Note 15 – Property, plant and equipment, main assumptions for the expected useful life;
- Note 18 – Inventories, measurement of the net realizable value
- Note 24 – Employee benefits, measurement of defined benefit obligations: key actuarial assumptions
- 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 2016.

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 losses 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)

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 if they 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. Company'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 initially measured 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.

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 costs under the obligation of the Entities from the Group to pay 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 Group 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 2015, although they are not yet mandatory until a later period. These changes to IFRS have not been applied in preparing these financial statements. The Company 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)

- Amendments to IAS 27: Equity method in separate financial statements. Entities will have a choice to voluntarily apply equity method in their separate financial statements. The Group does not expect the Amendments to have any impact on the consolidated financial statements;
- Amendments to IAS 1: Disclosure initiative. It is clarified when non-significant information need not be disclosed and when significant information may not be omitted from the financial statements. The Group does not expect the Amendments to have a significant impact on the financial statements of the Group;
- Annual improvements to IFRSs 2012-2014 Cycle. The improvements introduce some non-significant amendments to a number of 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 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation: The Group does not expect the Amendments to have any impact on the financial statements since its currently used methods of depreciation and amortization will continue to be acceptable.
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations: The Group does not expect the Amendments to have any impact on the financial statements since there have been no acquisitions of interests in joint operations.
- Amendments to IAS 16 and IAS 41: Bearer Plants: The Group does not expect the Amendments to have any impact on the financial statements since the entity does not have any bearer plants.

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 assesses 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.

Notes to the consolidated financial statements

- 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.

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 72% of the Group’s revenue for the period is attributable to sales transactions within the European Union (2014: 66%), and 11% of the Group’s revenue for the period is generated in Russia (2014: 18%).

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 Group’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 4.9% (2014: 3.1%). 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 in the separate financial statements above the value of its share capital. As at 31 December 2015 the Company is in compliance with these requirements, since its net assets in its separate financial statements are at the amount of BGN 13,903 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	
In thousands of BGN	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Revenue from external clients:										
Sales	3,872	5,593	17,858	15,418	4,934	4,104	5,912	5,225	32,576	30,340
Other income – sale of waste	-	-	32	77	1,614	1,313	-	-	1,646	1,390
Revenue	3,872	5,593	17,890	15,495	6,548	5,417	5,912	5,225	34,222	31,730
Segment result	209	503	4,301	3,266	515	366	1,248	1,172	6,273	5,307
Unallocated revenue									1,913	1,677
Unallocated expenses									(6,772)	(5,831)
Profit from operations									1,414	1,153
Net financial cost									(707)	(735)
Profit (loss) of associates accounted on equity method									(39)	1
Income tax expense									(27)	(26)
Profit for the year									641	393
Segment assets	4,163	4,701	3,834	3,346	1,465	1,114	816	935	10,278	10,096
Unallocated assets									27,088	26,069
Total assets									37,366	36,165
Unallocated liabilities									24,388	23,660
Total liabilities									24,388	23,660
Capital expenditures									3,473	3,871
Depreciation									2,463	1,914

7. Revenue from sale of production

In thousands of BGN	**2015**	**2014**
Aluminium closures	25,657	23,437
Plastic closures	1,183	1,478
Composite closures	2,612	1,993
Goods for resale	81	2,565
Proportioning devices	2,307	182
Other	736	685
	32,576	30,340

Notes to the consolidated financial statements

8. Other operating income

In thousands of BGN	***Note***	**2015**	**2014**
Income from sale of aluminium waste		1,646	1,390
Income from sales of materials		57	84
Transport services provided to clients		576	722
Gain from sale of property, plant and equipment	*8a*	81	-
Discounts from suppliers		128	114
Proceeds from government grants	*26*	379	173
Other		692	584
		3,559	3,067

(a) Gain from sale of property, plant and equipment

	2015	**2014**
Proceeds from sale of property, plant and equipment	121	-
Carrying amount of property, plant and equipment sold	(40)	-
Gain on sale of property, plant and equipment	81	-

9. Expenses for materials

In thousands of BGN	**2015**	**2014**
Aluminium	11,017	9,763
Polish	2,254	2,229
Polythene HDPE; LDPE	1,918	2,020
Packing	2,316	2,147
Electricity	836	734
Methane	511	583
Other	2,015	1,966
	20,867	19,442

10. Hired services

In thousands of BGN	**2015**	**2014**
Transport	1,794	1,759
External subcontractors	156	138
Advertising and consulting services	294	267
Rents	229	244
Communication services	78	83
Insurance	39	31
Commissions	96	66
Other	507	563
	3,193	3,151

11. Employee benefit expenses

In thousands of BGN	**2015**	**2014**
Wages and salaries	4,998	4,506
Social security contributions	867	780
Accruals for unused paid vacations (net)	1	43
Accruals for retirement benefits (net)	1	6
	5,867	5,335

Average number of employees at 31 December 2015 is 477 (2014: 433).

Notes to the consolidated financial statements

12. Other operating expenses

In thousands of BGN	2015	2014
Business trips	78	75
Scrap of finished goods	98	171
Food vouchers and medicines	314	290
Other	240	348
	730	884

13. Net finance expense

Recognised in profit or loss

In thousands of BGN	2015	2014
Net profit from foreign currency exchange	56	77
Finance income	56	77
Interest costs on financial liabilities measured at amortized cost	(637)	(671)
Bank charges	(125)	(141)
Other interest costs	(1)	-
Finance costs	(763)	(812)
Net finance costs recognised in profit or loss	(707)	(735)

14. Income tax expense (benefit)

Tax recognized in profit or loss

In thousands of BGN	*Note*	2015	2014
Current tax expense			
Current year tax expense		31	45
Deferred tax expense (benefit)			
Origination and reversal of temporary differences	*23*	(4)	(19)
Total income tax expense		27	26

Reconciliation of effective tax rate

In thousands of BGN	2015	2015	2014	2014
Profit before tax		668		419
Income tax using the Company’s domestic tax rate	10%	67	10%	42
Non-deductible expenses	1.05%	7	0.2%	1
Tax exempt income	(7.19%)	(48)	(5.25%)	(22)
Current losses, for which no deferred tax assets were recognized	0.15%	1	1.19%	5
	4.04%	27	6.21%	26

Notes to the consolidated financial statements

15. Property, plant and equipment

In thousands of BGN	Land and buildings	Plant and equipment	Fixtures and fittings and vehicles	Expenses for acquisition of PPE	Total
Cost					
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	8,379	19,431	224	2,922	30,956
Balance at 1 January 2015	8,379	19,431	224	2,922	30,956
Additions	11	510	18	2,693	3,232
Transfers	-	4,673	54	(4,727)	-
Disposals	-	(322)	-	-	(322)
Effect of movements in exchange rates	-	9	-	-	9
Balance at 31 December 2015	8,390	24,301	296	888	33,875
Depreciation and impairment losses					
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	2,126	9,610	181	-	11,917
Balance at 1 January 2015	2,126	9,610	181	-	11,917
Depreciation for the year	274	1,994	16	-	2,284
Disposals	-	(281)	-	-	(281)
Effect of movements in exchange rates	-	9	-	-	9
Balance at 31 December 2015	2,400	11,332	197	-	13,929
Carrying amount					
At 1 January 2014	6,526	9,452	55	1,030	17,063
At 31 December 2014	6,253	9,821	43	2,922	19,039
At 1 January 2015	6,253	9,821	43	2,922	19,039
At 31 December 2015	5,990	12,969	99	888	19,946

Plant and machinery under finance lease

The Group acquired production equipment under a finance lease agreement. At 31 December 2015, the carrying amount of leased plant and machinery is BGN 1,293 thousands (2014: BGN 1,745 thousands). The leased equipment secures lease obligations.

Property, plant and equipment (PPE) with carrying amount of BGN 14,619 thousand serve as collateral for bank loans of the Company (see Note 22).

Notes to the consolidated financial statements

16. Intangible assets

In thousands of BGN	**Software**	**Patents and licenses**	**Other**	**Goodwill**	**Total**
Cost					
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
Balance at 1 January 2015	720	98	163	234	1,215
Additions	2	239	-	-	241
Transfers	-	-	-	-	-
Effect of movements in exchange rates	-	-	-	17	17
Disposals	-	-	-	-	-
Balance at 31 December 2015	722	337	163	251	1,473
Amortisation and impairment losses					
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
Balance at 1 January 2015	273	18	121	220	632
Amortisation for the year	127	34	18	-	179
Effect of movements in exchange rates	-	-	(3)	17	14
Written-off amortisation	-	-	-	-	-
Balance at 31 December 2015	400	52	136	237	825
Carrying amount					
As at 1 January 2014	442	86	54	14	596
As at 31 December 2014	447	80	42	14	583
As at 1 January 2015	447	80	42	14	583
As at 31 December 2015	322	285	27	14	648

Notes to the consolidated financial statements

17. Investments

The Group has the following investments:

		Ownership in shares		Ownership in thousands of BGN	
Equity accounted investees	**Country**	**2015**	**2014**	**2015**	**2014**
Herti Group International	Romania	49%	49%	130	171
				130	171
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	Ownership	Non-current assets	Current assets	Total assets	Non-current liabilities	Current liabilities	Total liabilities	Revenues	Expenses	Profit (Loss)
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
2015										
Herti Group International	49%	-	831	831	-	569	569	2,126	2,206	(80)
		-	831	831	-	569	569	2,126	2,206	(80)

18. Inventories

In thousands of BGN	**2015**	**2014**
Raw materials and consumables	2,778	2,867
Work in progress	1,071	1,106
Finished goods	1,797	1,754
Materials in transit	238	306
Goods	82	190
	5,966	6,223

19. Trade and other receivables

In thousands of BGN	**2015**	**2014**
Trade receivables	9,174	8,777
Advances given	310	87
Tax receivables	90	276
Personnel receivables	5	3
Litigation and claims	2	67
Other receivables	9	32
	9,590	9,242

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	**2015**	**2014**
Cash in hand	7	2
Bank balances	494	460
Cash equivalents	12	-
Cash and cash equivalents in the statement of cash flows	513	462

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 3 million ordinary shares with nominal value of BGN 1 and price of BGN 3.10, calculated by the bookbuilding method.

As at 31 December 2015, 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**	
	2015		**2014**		**2015**	**2014**
	Number of shares	*%*	*Number of shares*	*%*		
IGM Holding	4,072,400	33.9	4,072,400	33.9	4,073	4,073
Alexander Blagoev Yuliyanov	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
	12,013,797	100	12,013,797	100	12,014	12,014

	Ordinary shares	
	2015	**2014**
On issue at 1 January	12,014	12,014
Issued for cash	-	-
On issue at the end of the reporting period – fully paid	12,014	12,014

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.

In thousands of BGN	**2015**	**2014**
Non-current liabilities		
Secured bank loans and overdrafts	8,589	4,638
Finance lease liabilities	390	645
	8,979	5,283
Current liabilities		
Current portion of secured bank loans and overdrafts	5,054	9,100
Current portion of finance lease liabilities	254	320
	5,308	9,420
	14,287	14,703

Bank loans are secured over items of property, plant and equipment of the Company with a carrying amount of BGN 14,619 thousand, inventories with carrying amount of BGN 1,467 thousand (EUR 750 thousand) and trade and other receivables with carrying amount of BGN 4,594 thousand (EUR 1,548 thousand).

Loan covenants

The Group has a secured bank loan with a carrying amount of BGN 3,912 thousand at 31 December 2015 that is repayable in 2016. The loan contains a debt covenant stating that the group is obliged to redirect certain amount if its cash flows on bank account with the lender, in proportion to the loan outstanding. The compliance with the covenant is monitored at each quarter. In case on non-compliance the bank has a right to increase the interest rate of the loan by 2% for the next quarter.

The Group has a secured bank overdraft with a carrying amount of BGN 3,493 thousand at 31 December 2015 that is repayable in 2018. The overdraft contains a debt covenant stating that the group is obliged to redirect certain amount if its cash flows on bank account with the lender, in proportion to the total loans outstanding. The compliance with the covenant is monitored at each quarter. In case on non-compliance the bank has a right to increase the interest rate of the overdraft by 1% for the next quarter.

As at 31 December 2015 and subsequently to the date of preparation of the consolidated financial statements the bank did not increase the interest rate. On the basis of the covenant and its forecasts, Management believes that the risk of the covenant being breached is low.

Notes to the consolidated financial statements

22. Loans and borrowings, continued

(a) Terms and debt repayment schedule

In thousands of BGN	Currency	Nominal interest	Payable to	31 December 2015 Nominal	31 December 2015 Carrying amount	31 December 2014 Nominal	31 December 2014 Carrying amount
Secured long-term investment loan	EUR	3M EURIBOR + margin	2020	1,065	1,065	1,280	1,280
Secured long-term investment loan	EUR	1M EURIBOR + margin	2018	1,257	1,257	1,857	1,857
Secured long-term investment loan	EUR	6M EURIBOR + margin	2019	408	408	678	678
Secured long-term investment loan	BGN	3M SOFIBOR + margin	2021	1,926	1,926	1,618	1,618
Secured short-term loan	EUR	1M EURIBOR + margin	2016	3,912	3,912	3,912	3,912
Secured short-term loan	EUR	1M EURIBOR + margin	2018	409	409	316	316
Bank overdraft	EUR	1M EURIBOR + margin	2018	1,173	1,173	1,173	1,173
Bank overdraft	EUR	6M EURIBOR + margin	2019	3,493	3,493	2,904	2,904
Finance lease liabilities	EUR	3M EURIBOR + margin	2015	-	-	67	67
Finance lease liabilities	EUR	3M EURIBOR + margin	2018	125	125	182	182
Finance lease liabilities	EUR	3M EURIBOR + margin	2019	473	473	626	626
Finance lease liabilities	EUR	3M EURIBOR + margin	2017	46	46	90	90
				14,287	14,287	14,703	14,703

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

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
In thousands of BGN	**2015**	**2015**	**2015**	**2014**	**2014**	**2014**
Less than one year	280	26	254	360	40	320
Between one and five years	410	20	390	689	44	645
	690	46	644	1,049	84	965

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

Notes to the consolidated financial statements

23. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of BGN	Assets 2015	Assets 2014	Liabilities 2015	Liabilities 2014	Net 2015	Net 2014
Property, plant and equipment	-	-	819	823	819	823
Employee benefits	(18)	(18)	-	-	(18)	(18)
Trade and other receivables	(11)	(11)	-	-	(11)	(11)
Tax (assets)/ liabilities	(29)	(29)	819	823	790	794
Set off of tax	29	29	(29)	(29)	-	-
Tax (assets)/ liabilities, net	-	-	790	794	790	794

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

In thousands of BGN	Balance 1 January 2015	Recognized in profit or loss	Recognized directly other comprehensive income	Balance 31 December 2015
Property, plant and equipment	823	(4)	-	819
Employee benefits	(18)	-	-	(18)
Trade and other receivables	(11)	-	-	(11)
	794	(4)	-	790

In thousands of BGN	Balance 1 January 2014	Recognized in profit or loss	Recognized directly other comprehensive income	Balance 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

Unrecognised deferred tax assets

In thousands of BGN	2015	2014
Tax effect from temporary differences related to:		
Tax loss carry-forwards	35	40
Fixed assets	5	12
	40	52

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

Notes to the consolidated financial statements

24. Employee benefits

In thousands of BGN	**2015**	**2014**
Retirement benefits provision	213	60
	213	60

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 defined benefit plan (obligation for compensation upon retirement) is an unfunded plan.

Movement in the present value of the defined benefit obligations

In thousands of BGN	.	**2015**	**2014**
Defined benefit obligations at 1 January		60	54
Benefits paid by the plan		-	-
Current service costs		1	6
Remeasurements (actuarial gains/losses)		152	-
Defined benefit obligations at 31 December		213	60

Expense recognised in profit or loss

In thousands of BGN	*Note*	**2015**	**2014**
Current service costs	*11*	1	6
		1	6

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2015	**2014**
Discount rate at 31 December	3%	5%
Future salary increases	0.5%	-

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the liabilities in the defined benefit plans are as follows:

	2015	**2014**
Longevity at age 65 for current pensioners		
Males	14.16	14.16
Females	17.63	17.63

Notes to the consolidated financial statements

24. Employee benefits, continued

Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the mortality assumptions set out above. The following table summarises how the impact of the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by one percent.

	Defined benefit obligation	
Effect in thousands of BGN	**Increase**	**Decrease**
Discount rate (1% movement)	(21)	26
Future salary growth (1% movement)	26	(9)
Future mortality (1% movement)	(2)	2

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

25. Trade and other payables

In thousands of BGN	**2015**	**2014**
Trade payables	4,815	5,238
Advances received	389	416
Tax payables	136	242
Payables to personnel	364	331
Social security payables	379	184
Other payables	99	123
	6,182	6,534

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

26. Government grants

In 2012 Herti AD 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. In 2015 proceeds from grants at the amount of BGN 69 thousand (2014: BGN 73 thousand) have been recognized, and accordingly as at 31 December 2015 the liability is at the amount of BGN 172 thousand, from which current liability at the amount of BGN 66 thousand and non-current liability at the amount of BGN 106 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 March 2014, after a verification of the investments made, the amount of BGN 1,201 thousand was transferred to the Company. In 2015 proceeds from grants at the amount of BGN 100 thousand (2014: BGN 100 thousand) have been recognized, and accordingly as at 31 December 2015 the liability is at the amount of BGN 984 thousand. Current liabilities: BGN 100 thousand and non-current liabilities: BGN 884 thousand.

In December 2013 Herti AD entered into an agreement with the Ministry of Economy and Energy for financial grant under Operational programme "Development of the Competitiveness of the Bulgarian Economy" for the period 2007-2013 under project "Implementation of innovations in enterprises". The investment costs on the project amount to BGN 3,528 thousand and the grant amounts to BGN 1,768 thousand. The equipment is delivered in January 2015. All project documentation was approved by the Contracting authority – the Ministry of Economy and Energy, and the grant was paid to the Company in June 2015. In 2015 proceeds from grants at the amount of BGN 210 thousand have been recognized, and accordingly as at 31 December 2015 the liability is at the amount of BGN 1,558 thousand, from which current liabilities: BGN 220 thousand and non-current liabilities: BGN 1,338 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:

In thousands of BGN	*Note*	**2015**	**2014**
Trade and other receivables	*19*	9,183	8,809
Related party trade receivables	*28*	570	442
Litigation and claims	*19*	2	67
Cash and cash equivalents	*20*	494	460
Investments	*17*	3	3
		10,252	9,781

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:

In thousands of BGN	**2015**	**2014**
Domestic	932	777
European Union (excluding Bulgaria)	3,842	2,838
Russia	4,163	4,701
Other	816	935
	9,753	9,251

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

In thousands of BGN	**2015**	**2015**	**2015**	**2014**	**2014**	**2014**
	Gross	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
Not past due	3,538	-	3,538	2,925	-	2,925
Between 0-30 days	1,432	-	1,432	2,369	-	2,369
Between 31-360 days	3,319	-	3,319	3,010	-	3,010
Overdue more than one year	1,578	(114)	1,464	1,061	(114)	947
	9,867	(114)	9,753	9,365	(114)	9,251

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

In thousands of BGN	**2015**	**2014**
Impairment at 1 January	114	76
Impairment for the year	-	38
Impairment reversed during the period	-	-
Total in the income statement	-	38
Written-off receivables	-	-
Impairment at 31 December	114	114

The Management 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 Management 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 2015 *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	5,065	5,578	679	643	1,178	2,942	136
Secured short-term bank loan	3,912	4,051	80	3,971	-	-	-
Bank overdraft	4,666	5,147	100	87	184	4,776	-
Finance lease	644	690	141	139	229	181	-
Trade and other payables	4,914	4,914	4,914	-	-	-	-
Related party payables	195	195	195	-	-	-	-
	19,396	20,575	6,109	4,840	1,591	7,899	136

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	21,149	9,588	5,601	2,972	2,449	539

Foreign currency risk

Exposure to foreign currency risk
The Group’s exposure to foreign currency risk is insignificant because 19% of the sales for 2015 (2014: 17%) are realized on local market in Bulgarian leva and 68% of the sales for 2015 are realized in Euro (2014: 72%).

The import of materials in 2015 and 2014 is realized mainly in Euro and Bulgarian Lev.

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:

In thousands of	EUR	USD	GBP	EUR	USD	GBP
	31 December 2015			**31 December 2014**		
Trade and other receivables	7,002	0	1,272	7,294	-	742
Related party receivables	549	0	(1)	438	-	-
Cash and cash equivalents	429	1	30	343	-	74
Trade and other payables	(2,759)	(160)	(143)	(3,259)	(91)	(90)
Related party payables	-	-	-	(47)	-	-
Finance lease	(644)	-	-	(965)	-	-
Bank loans	(11,717)	-	-	(12,120)	-	-
Net exposure	(7,140)	(159)	1,158	(8,316)	(91)	726

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

	Average rate		**Rate at the balance sheet date**	
	2015	**2014**	**2015**	**2014**
USD	1,76441	1,47437	1,79007	1,47437
GBP	2,69672	2,42721	2,65021	2,42721

Interest rate risk

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

In thousands of BGN	**2015**	**2014**
Fixed rate instruments		
Financial assets	494	460
Financial liabilities	(644)	(965)
	(150)	(505)
Variable rate instruments		
Financial assets	-	-
Financial liabilities	(13,643)	(13,738)
	(13,643)	(13,738)

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 0.25% 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 2014.

Effect from change of 0.25% in interest rate for variable rate instruments:

In thousands of BGN	Effects of change in the income statement		Effects of change in equity	
	0.25% increase	0.25% decrease	0.25% increase	0.25% decrease
31 December 2015				
Variable rate instruments	(35.5)	35.5	-	-
Cash flow sensitivity (net)	(35.5)	35.5	-	-
31 December 2014				
Variable rate instruments	(36.75)	36.75	-	-
Cash flow sensitivity (net)	(36.75)	36.75	-	-

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 2015	Ownership 2014
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

Short-term related party receivables

In thousands of BGN	2015	2014
Herti Group International	505	393
Herti Group International - dividends	44	44
Raifen OOD	21	5
	570	442

Short-term related party payables

In thousands of BGN	2015	2014
IGM Holding – trade payables	-	47
Raifen OOD	8	32
Timshel OOD	127	92
Josef Mayer	6	6
Alexander Yuliyanov	45	45
Zahari Zahariev	6	6
Svetoslav Stamenov	3	3
	195	231

Transactions with related parties

During 2015 the Group have realised the following transactions with related parties:

Sales

In thousands of BGN	Type of transaction	Transaction value	
		2015	2014
Herti Group International	Sale of production	1,776	1,808
Timshel OOD	Sale of services	2	2
Raifen OOD	Sale of services	3	3

Purchases

In thousands of BGN	Type of transaction	Transaction value	
		2015	2014
IGM Holding	Purchase of materials	-	-
IGM Holding	Other purchases	2	7
IGM Holding	Purchase of fixed assets	127	89
Herti Group International	Purchase of materials	15	21
Timshel OOD	Rental expenses	78	78
Raifen OOD	Transport services received	977	995
Members of Board of Directors	Fees paid	15	15

Transactions with key management personnel

The total remuneration is included in "Employee benefit expenses" (see note 11):

In thousands of BGN	2015	2014
Managers and Board of Directors	499	482
	499	482

Notes to the consolidated financial statements

29. Group entities

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

Significant subsidiaries

	Country	**Ownership**	
In thousands of BGN		**2015**	**2014**
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 2015 is calculated on the basis of net profit of ordinary shareholders – for 2014 profit amounting to BGN 641 thousand (for 2014: profit amounting to BGN 393 thousand) by the weighted average number of ordinary shares outstanding during the period – 12,013,797. Earnings per share in 2015 are BGN 0.053 (2014: BGN 0.033).

31. Commitments

As at 31 December 2015 the Group has signed an agreements for acquisition of property, plant and equipment at the amount of BGN 645 thousand (2014: BGN 4,262 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.