# HERTI AD
Separate financial statements
For the year ended 31 December 2013
With independent Auditor's Report Thereon

Unofficial translation from original
Bulgarian
separate financial statements

# Contents



**Independent auditors' report**

# Statement of financial position

| *In thousands of BGN* | ***Note*** | **31 December 2013** | **31 December 2012** |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | *15* | 17,063 | 14,546 |
| Intangible assets | *16* | 522 | 89 |
| Investments in subsidiaries and associates | *17* | 333 | 325 |
| Other investments | *17* | 3 | 3 |
| **Total non-current assets** | | 17,921 | 14,963 |
| Inventories | *18* | 4,901 | 4,892 |
| Related party receivables | *28* | 2,572 | 2,488 |
| Trade and other receivables | *19* | 9,026 | 7,266 |
| Cash and cash equivalents | *20* | 527 | 234 |
| **Total current assets** | | 17,026 | 14,880 |
| **Total assets** | | 34,947 | 29,843 |
| **Equity** | | | |
| Registered capital | *21* | 12,014 | 12,014 |
| Share premium | | 29 | 29 |
| Reserves | | 455 | 409 |
| Retained earnings | | 337 | 66 |
| **Total equity** | | 12,835 | 12,518 |
| **Liabilities** | | | |
| Loans and borrowings | *22* | 4,528 | 2,826 |
| Deferred tax liabilities | *23* | 859 | 836 |
| Employee benefits | *24* | 41 | 44 |
| Government grants | *26* | 1,499 | - |
| **Total non-current liabilities** | | 6,927 | 3,706 |
| Related parties payables | *28* | 463 | 591 |
| Loans and borrowings | *22* | 9,631 | 8,494 |
| Trade and other payables | *25* | 5,091 | 4,534 |
| **Total current liabilities** | | 15,185 | 13,619 |
| **Total liabilities** | | 22,112 | 17,325 |
| **Total equity and liabilities** | | 34,947 | 29,843 |

The notes on pages from 5 to 37 are an integral part of these financial statements.

Chairman of Board of Directors:

Alexander Yuliyanov

Chief Accountant

Violeta Yankova

In accordance with an Independent Auditors' Report:
KPMG Bulgaria OOD

Gilbert McCaul
*Manager*

Dobrina Kaloyanova
*Registered auditor*

# Statement of profit or loss and other comprehensive income

| For the year ended 31 December | *Note* | 2013 | 2012 |
|---|---|---|---|
| *In thousands of BGN* | | | |
| Revenue | *7* | 27,886 | 27,564 |
| Other operating income | *8* | 2,764 | 2,803 |
| Net carrying amount of materials and goods sold | | (2,472) | (1,171) |
| Increase (decrease) of finished goods and work in progress | | 114 | (105) |
| Capitalized expenses | | 219 | 124 |
| Expenses for materials | *9* | (19,136) | (19,718) |
| Hired services | *10* | (2,473) | (2,295) |
| Depreciation and amortization | *15,16* | (1,411) | (1,440) |
| Personnel expenses | *11* | (3,861) | (3,797) |
| Other operating expenses | *12* | (495) | (765) |
| **Profit from operating activities** | | 1,135 | 1,200 |
| Finance expenses | | (787) | (696) |
| Finance income | | - | 10 |
| **Net finance costs** | *13* | (787) | (686) |
| **Profit before tax** | | 348 | 514 |
| Income tax expense | *14* | (31) | (52) |
| **Profit for the period** | | 317 | 462 |
| **Other comprehensive income** | | - | - |
| **Total comprehensive income for the period** | | 317 | 462 |
| **Earnings per share (in BGN)** | *29* | 0.026 | 0.038 |

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# Statement of changes in equity

| *In thousands of BGN* | **Registered Capital** | **Share premium** | **Legal reserves** | **Additional reserves** | **Retained earnings** | **Total** |
|---|---|---|---|---|---|---|
| Balance at 1 January 2012 | 12,014 | 29 | 27 | 382 | (396) | 12,056 |
| **Total comprehensive income for the period** | | | | | | |
| Profit for the period | - | - | - | - | 462 | 462 |
| Other comprehensive income | - | - | - | - | - | - |
| **Total comprehensive income for the period** | - | - | | - | 462 | 462 |
| Balance at 31 December 2012 | 12,014 | 29 | 27 | 382 | 66 | 12,518 |
| | | | | | | |
| Balance at 1 January 2013 | 12,014 | 29 | 27 | 382 | 66 | 12,518 |
| **Total comprehensive income for the period** | | | | | | |
| Profit for the period | - | - | - | - | 317 | 317 |
| Other comprehensive income | - | - | - | - | - | - |
| **Total comprehensive income for the period** | - | - | - | - | 317 | 317 |
| Transfer between reserves based on decision of the owners | - | - | 46 | - | (46) | - |
| Balance at 31 December 2013 | 12,014 | 29 | 73 | 382 | 337 | 12,835 |

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# Statement of cash flows

**For the year ended 31 December**

| *In thousands of BGN* | *Note* | 2013 | 2012 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 30,684 | 31,212 |
| Cash paid to suppliers | | (25,719) | (26,582) |
| Net cash flow for salaries and wages of personnel | | (3,950) | (3,766) |
| Taxes paid/refunded indirect taxes | | 982 | 852 |
| **Net cash from operating activities** | | 1,997 | 1,716 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | 324 | 1 |
| Acquisition of property, plant and equipment | | (4,156) | (1,075) |
| Acquisition of investments in subsidiaries | | - | (49) |
| Proceeds from government grants | | 346 | - |
| **Net cash from investing activities** | | (3,486) | (1,123) |
| **Cash flows from financing activities** | | | |
| Loans and borrowings received | | 5,144 | 5,427 |
| Repayment of loans and borrowings | | (2,464) | (5,095) |
| Payment of finance lease liabilities | | (198) | (120) |
| Interest paid | | (603) | (586) |
| Transaction costs and other financial costs | | (124) | (117) |
| Other cash flows from financing activities | | 36 | (14) |
| **Net cash from financing activities** | | 1,791 | (505) |
| Net increase in cash and cash equivalents | | 302 | 88 |
| Cash and cash equivalents at 1 January | | 234 | 157 |
| Effect of exchange rate fluctuations on cash held | | (9) | (11) |
| **Cash and cash equivalents at 31 December** | *21* | 527 | 234 |

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# Notes to the separate financial statements

## 1. Reporting entity

Herti AD (the "Company") is a joint stock company domiciled in Bulgaria. The Company is registered in Bulgaria under court case No. 567/2007 of Shoumen District Court in compliance with the Commercial Law of Republic of Bulgaria.

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

## 2. Basis of preparation

### (a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as endorsed by the European Union.

The financial statements were authorized for issue by the Board of Directors on 19.03.2014.

### (b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

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, unless stated otherwise.

### (d) Use of estimates and judgements

*Judgements*

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of 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 critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Note 15 – Property, plant and equipment, main assumptions for the expected useful life;
- Note 18 – Inventory, regarding an estimate of the net realizable value

### (e) Going concern

These financial statements are prepared on a going concern principle assuming that the Company is able to continue its operations in foreseeable future. Trend of the sales of the company in 2014 are favourable for increasing the margins and maximising the profit. The Management considers that the existing capital resources and financing sources (cash flows from sales and financing contracts) will be adequate to the liquidity needs during the next 2014.

## 3. Significant accounting policies

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

### (a) Investments in subsidiaries and associates

***(i) Investments in subsidiaries***

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In the individual financial statements of the Company, investments in subsidiaries are recognised at cost less accumulated impairment losses.

***(ii) Investments in associates***

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. In the individual financial statements of the Company, investments in associates are recognised at cost less accumulated impairment losses.

### (b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Company 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.

Effective 1 January 1999, the Bulgarian Lev (BGN) rate is fixed to the Euro (EUR). The applicable exchange rate is BGN 1.95583 / EUR 1.0.

### (c) Financial instruments

The Company classifies non-derivative financial assets into the loans and receivables category.

The Company classifies non-derivative financial liabilities into the other financial liabilities category

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

The Company initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets are recognised initially on the trade date.

The Company 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 Company is recognised as a separate asset or liability.

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

**3. Significant accounting policies, continued**

**(c) Financial instruments, continued**

***(i) Non-derivative financial assets and financial liabilities - recognition and derecognition, continued***

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company 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.

***(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.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

*Cash and cash equivalents*

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

***(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*

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity.

*Repurchase and reissue of ordinary shares (treasury shares)*

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is presented within share premium.

## 3. Significant accounting policies, continued

### (d) Property, plant and equipment

#### *(i) Recognition and measurement*

*Initial recognition*

Items of property, plant and equipment are measured initially at cost less accumulated depreciation and any accumulated impairment losses.

When 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.

#### *(ii) Subsequent measurement*

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

#### *(iii) Subsequent costs*

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

#### *(iv) Depreciation*

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 and is generally recognised in profit or loss. 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 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.

**3. Significant accounting policies, continued**

**(e) Intangible assets**

***(i) Intangible assets***

Intangible assets, acquired by the Company, which have finite useful lives, are measured at acquisition cost less accumulated amortisation and any accumulated impairment losses.

***(ii) Subsequent costs***

Subsequent expenditure is capitalised 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 recognised in profit or loss as incurred.

***(iii) Amortisation***

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives for the current and comparative periods are as follows:

- software 2 years.
- trade marks

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

**(f) Non-current assets held for sale**

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated to assets and liabilities on *pro rata* basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, investment property, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated

## 3. Significant accounting policies, continued

### (g) Leased assets

Assets held by the Company under leases which transfer to the Company substantially all 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 Company's statement of financial position.

### (h) Inventories

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

### (i) 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 Company on terms that the Company 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 Company considers a decline of 20 percent to be significant and a period of 9 months to be prolonged.

**3. Significant accounting policies, continued**

**(i) Impairment, continued**

***(i) Non-derivative financial assets, continued***

*Financial assets measured at amortised cost*

The Company considers evidence of impairment for these assets at both an individual asset and a collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet 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 Company 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 Company 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.

***(ii) Non-financial assets***

The carrying amounts of the Company's non-financial assets (other than investment property, inventories and deferred tax assets) are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Intangible assets that have indefinite useful lives or that are not yet available for use are tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are 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. 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.

**3. Significant accounting policies, continued**

**(i) Impairment, continued**

***(ii) Non-financial assets, continued***

Impairment losses are recognised in profit or loss for non-revalued assets. Impairment losses on a revalued asset is recognised in OCI to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset. Such an impairment loss on a revalued asset reduces the revaluation surplus for that asset. Impairment losses recognised in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a *pro rata* basis.

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.

**(j) Employee benefits**

***(i) Defined contribution plans***

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

***(ii) Defined benefit plans***

The Company's obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods and that amount is discounted.

The Company has obligation to pay certain amounts to each employee who retires with the Company in accordance with Art. 222, § 3 of the Labor Code in Bulgaria. 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 estimated amount of the obligation is disclosed to the financial statements 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 Company 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

***(k) 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.

**3. Significant accounting policies, continued**

**(l) Revenue**

***(i) Revenue from 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. For the major part of the Company's production sales, the transfer is usually made thorough delivering the goods to the buyer from the Company's premises.

***(ii) Services***

The Company recognizes revenue from rendering of services in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed based on surveys of work performed.

***(iii) Commissions***

If the Company acts in the capacity of an agent rather than as the principal in a transaction, the revenue recognised is the net amount of commission made by the Company.

**(m) Government grants**

The Company recognizes government grants initially as deferred income at fair value when there is reasonable assurance that they will be received and the Company 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 Company 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.

**(n) Leases**

***Determining whether an arrangement contains a lease***

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

At inception or upon reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company 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 Company's incremental borrowing rate.

**3. Significant accounting policies, continued**

**(n) Leases, continued**

***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 of the asset(s).

**(o) Finance income and finance costs**

The Company's finance income and finance costs include:

- interest income;
- interest expense;
- 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 Company's right to receive payment is established.

**(p) 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.

***(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.

**3. Significant accounting policies, continued**

**(p) Income tax, continued**

***(ii) Deferred tax, continued***

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.

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.

**(q) Earnings per share**

The Company 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 Company 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.

**(r) 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 Company's primary format for segment reporting is based on geographical segments. Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and Company's general expenses.

**3. Significant accounting policies, continued**

**(s) 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 2013, 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 EC:***

- IFRS 10 Consolidated Financial Statements shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. IFRS 10 introduces a single control model to determine whether an investee should be consolidated. The Company does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Company's control over its investees.
- IFRS 11 *Joint Arrangements*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect the new standard to have any impact on the financial statements, since the assessment of the joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.
- IFRS 12 *Disclosures of Interests in Other Entities*, shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect that the new Standard will have a material impact on the financial statements.
- IAS 27 *Separate Financial Statements* (2011) which supersedes IAS 27 (2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect that the new Standard will have a material impact on the financial statements.
- IAS 28 *Investments in Associates and Joint Ventures* (2011) which supersedes IAS 28(2008) shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect the amendments to Standard to have material impact on the financial statements since it does not have any investments in associates or joint ventures that will be impacted by the amendments.
- Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities shall be applied, at latest, as from the beginning of the first financial year starting on or after 1 January 2014. The Company does not expect the Amendments to have any impact on the financial statements since the Company does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.
- Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment Entities shall be applied for annual periods beginning on or after 1 January 2014. The Company does not expect the new standard to have any impact on the financial statements, since the parent company does not qualify as an investment entity.
- *Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets s*hall be applied for annual periods beginning on or after 1 January 2014. The Company does not expect that the new Standard will have a material impact on the financial statements.
- Amendments to IAS 39 – *Novation of Derivatives and Continuation of Hedge Accounting s*hall be applied for annual periods beginning on or after 1 January 2014. The entity does not expect the Amendment to have any impact on the financial statements, since the entity does not apply hedge accounting.

**3. Significant accounting policies, continued**

**(s) New standards and interpretations not yet adopted, continued**

***IASB/IFRIC documents not yet endorsed by EC:***

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

- IFRS 9 Financial Instruments (2009), additions to IFRS 9 (2010 and 2013) and Amendment to IFRS 9 and IFRS 7 Mandatory effective date and transitional disclosures (Effective date not yet determined; to be applied retrospectively. Earlier application is permitted.)
- Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (Effective for annual periods beginning on or after 1 July 2014. Earlier application is permitted. The amendments apply retrospectively).
- IFRIC 21 – Levies (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively. Earlier application is permitted).

## 4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

## 5. Financial risk management

The Company has exposure to the following risks from its use of financial instruments:
- credit risk
- liquidity risk
- market risk

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, 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 Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

## 5. Financial risk management, continued

The Company's Audit Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

### Credit risk

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

***Trade receivables***

The Company'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 Company operates.  Approximately 59% of the Company's revenue for 2013 is attributable to sales transactions with ten clients (2012: 65%), and 81 % of the Company's revenue for 2013 is attributable to export transactions in (2012: 84%). According to the Company's established credit policy each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery items and conditions are offered. The Company's policy includes granting of credit period in accordance with the market type, customer's size and whether the customer is long standing. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis. The Company does not require collateral in respect of trade and other receivables. The Company 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.

***Guarantees***

The Company's policy is to provide financial guarantees only upon a decision of the owner. At 31 December 2013 Bulgarian banks have issued bank guarantees as Herti AD's guarantors in favor of third parties (see note 30).

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company'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 Company's reputation.

The Company uses activity-based costing to cost its products and services, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Company 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 company also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables. In addition, the Company maintains lines of credits at amounts sufficient to ensure liquidity for its activities (see note 22).

## 5. Financial risk management, continued

### 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 Company'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 optimising the return.

***Currency risk***

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

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

***Interest rate risk***

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

### Capital management

The Management's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Management 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 Company's target is to achieve a return on capital of between 8 and 10 percent; in 2013 the return was positive - 2,6 % (2012: positive 3,8 %). In comparison the weighted average interest expense on interest-bearing borrowings was 4,90% (2012: 5,10%). To prevent loss increase and own equity decrease, the Management takes measures for optimization of production process aiming at gross profit margin. Also efforts are made for decrease of operational expenses and mostly those for hired services, administrative and management expenses.
During the year there were no changes in Company's capital management.
The Company is not subject to externally imposed capital requirements.

### Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.
The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Company standards for the management of operational risk.

Compliance with Company standards is supported by a programme of periodic reviews undertaken by the management. The results of the reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

## 6. Segment reporting

The Company has three main segments, as described below, which are the Company's strategic geographical divisions of company 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. Information regarding the results of each reportable segment is included below. 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 geographic segments.

| | Russia | | EU(excluding Bulgaria) | | Bulgaria | | Other | | Entity as a whole | |
|---|---|---|---|---|---|---|---|---|---|---|
| **In thousands of BGN** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| Revenue from external clients: | | | | | | | | | | |
| Sales | 6,061 | 5,212 | 13,080 | 14,373 | 4,078 | 3,748 | 4,667 | 4,231 | 27,886 | 27,564 |
| Other income – sale of waste | | - | 370 | 674 | 1,060 | 780 | | - | 1,430 | 1,454 |
| Total income | 6,061 | 5,212 | 13,450 | 15,047 | 5,138 | 4,528 | 4,667 | 4,231 | 29,316 | 29,018 |
| Segment result | 334 | 502 | 1,351 | 1,428 | 610 | 586 | 867 | 639 | 3,162 | 3,155 |
| Unallocated revenue | | | | | | | | | 1,334 | 1,349 |
| Unallocated expenses | | | | | | | | | (3,361) | (3,304) |
| Profit from operations | | | | | | | | | 1,135 | 1,200 |
| Net financial cost | | | | | | | | | (787) | (686) |
| Income tax expense | | | | | | | | | (31) | (52) |
| Profit for the period | | | | | | | | | 317 | 462 |
| Segment assets | 4,246 | 3,916 | 3,370 | 3,499 | 1,305 | 920 | 727 | 673 | 9,648 | 9,008 |
| Unallocated assets | | | | | | | | | 25,299 | 20,835 |
| Total assets | | | | | | | | | 34,947 | 29,843 |
| Unallocated liabilities | | | | | | | | | 22,112 | 17,325 |
| Total liabilities | | | | | | | | | 22,112 | 17,325 |
| Capital expenditures | | | | | | | | | 4,221 | 1,100 |
| Depreciation | | | | | | | | | 1,411 | 1,440 |

## 7. Revenue from sale of production and goods

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Aluminium caps | 20,982 | 22,084 |
| Plastic caps | 2,163 | 2,038 |
| Composite caps | 2,123 | 2,131 |
| Proportioning devices | 126 | 70 |
| Goods for resale | 2,354 | 1,066 |
| Other | 138 | 175 |
| | 27,886 | 27,564 |

## 8. Other operating income

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Income from sale of aluminum waste | 1 ,430 | 1,454 |
| Income from sales of materials | 181 | 139 |
| Profit from sale of property, plant and equipment | - | 25 |
| Transport services provided to clients | 774 | 747 |
| Discounts from suppliers | 116 | 99 |
| Proceeds from grants | 48 | - |
| Other | 215 | 339 |
| | 2,764 | 2,803 |

| | | |
|---|---|---|
| Revenue from sale of property, plant and equipment | 339 | 153 |
| Carrying amount of sold property, plant and equipment | (339) | (128) |
| Profit from sale of property, plant and equipment | - | 25 |

## 9. Expenses for materials

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Aluminium | 9,495 | 10,138 |
| Polish | 2,504 | 2,467 |
| Polythene HDPE; LDPE | 2,114 | 1,983 |
| Packing | 2,044 | 2,234 |
| Electricity | 831 | 779 |
| Methane | 537 | 572 |
| Other | 1,611 | 1,545 |
| | 19,136 | 19,718 |

## 10. Hired services

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Transport | 1,467 | 1,526 |
| Services from repairs work and external subcontractors | 184 | 171 |
| Advertising and consulting services | 193 | 108 |
| Rents | 149 | 125 |
| Communication services | 61 | 52 |
| Commissions | 55 | 75 |
| Insurance | 21 | 26 |
| Other | 343 | 212 |
| | 2,473 | 2,295 |

## 11. Employee benefit expenses

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Wages and salaries | 3,296 | 3,258 |
| Social security contributions | 544 | 525 |
| Freelance contracts | 25 | 3 |
| Provision for unused paid vacations (net) | (1) | (9) |
| Provision for retirement benefits (net) | (3) | 20 |
| | 3,861 | 3,797 |

Average number of employees as at 31.12.2013 is 366 (2012: 363).

## 12. Other operating expenses

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Business trips | 58 | 79 |
| Scrap of finished goods | 10 | 160 |
| Food vouchers, medicines and antidote | 249 | 222 |
| Other | 178 | 304 |
| | 495 | 765 |

## 13. Net finance expense

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Net profit from foreign currency exchange | - | 10 |
| Finance income | - | 10 |
| | | |
| Interest expense | (623) | (601) |
| Bank charges | (127) | (95) |
| Net loss from foreign currency exchange | (37) | - |
| Finance costs | (787) | (696) |
| | | |
| Net finance expense | (787) | (686) |

## 14. Income tax expense

**Recognized in the Income statement**

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| **Current tax expense** | | |
| Current year | 8 | - |
| | | |
| **Deferred tax expense** | | |
| Origination and reversal of temporary differences | 23 | 52 |
| Total income tax expense (income) in the income statement | 31 | 52 |

**Reconciliation of effective tax rate**

| *In thousands of BGN* | **2013** | **2013** | **2012** | **2012** |
|---|---|---|---|---|
| Profit (loss) before tax | | 348 | | 514 |
| Income tax using the Company's domestic tax rate | 10% | 35 | 10% | 51 |
| Non-deductible expenses | 0.3% | 1 | 0.2% | 1 |
| Tax exempt income | (1.4%) | (5) | - | - |
| | 8.9 % | 31 | 10.2% | 52 |

## 15. Property, plant and equipment

| *In thousands of BGN* | Land and buildings | Plant and equipment | Fixtures and fittings | Expense for acquisition of PPE | Total |
|---|---|---|---|---|---|
| ***Cost*** | | | | | |
| Balance at 1 January 2012 | 8,091 | 13,717 | 189 | 369 | 22,366 |
| Additions | 13 | 456 | 5 | 626 | 1,100 |
| Transfers | 8 | 138 | - | (146) | - |
| Disposals | - | (181) | (34) | (126) | (341) |
| Balance at 31 December 2012 | 8,112 | 14,130 | 160 | 723 | 23,125 |
| Balance at 1 January 2013 | 8,112 | 14,130 | 160 | 723 | 23,125 |
| Additions | 17 | 495 | 9 | 3,700 | 4,221 |
| Transfers | 250 | 2,994 | 1 | (3,245) | - |
| Disposals | - | - | - | (340) | (340) |
| Balance at 31 December 2013 | 8,379 | 17,619 | 170 | 838 | 27,006 |
| ***Depreciation and impairment losses*** | | | | | |
| Balance at 1 January 2012 | 1,328 | 5,878 | 138 | - | 7,344 |
| Depreciation charge for the year | 262 | 1,161 | 11 | - | 1,434 |
| Disposals | - | (165) | (34) | - | (199) |
| Balance at 31 December 2012 | 1,590 | 6,874 | 115 | - | 8,579 |
| Balance at 1 January 2013 | 1,590 | 6,874 | 115 | - | 8,579 |
| Depreciation charge for the year | 263 | 1,090 | 11 | - | 1,364 |
| Disposals | - | - | - | - | - |
| Balance at 31 December 2013 | 1,853 | 7,964 | 126 | - | 9,943 |
| ***Carrying amount*** | | | | | |
| At 1 January 2012 | 6,763 | 7,839 | 51 | 369 | 15,022 |
| At 31 December 2012 | 6,522 | 7,256 | 45 | 723 | 14,546 |
| At 1 January 2013 | 6,522 | 7,256 | 45 | 723 | 14,546 |
| At 31 December 2013 | 6,526 | 9,655 | 44 | 838 | 17,063 |

### *Plant and machinery under finance lease*

The Company leases production equipment under a finance lease agreement. At 31 December 2013, the carrying amount of leased plant and machinery is BGN 664 thousand (2012: BGN 361thousand). The leased equipment secures lease obligations.

Property, plant and equipment with a carrying amount of BGN 12,185 thousand serve as a collateral for the bank loans of the Company (see note 22)

## 16. Intangible assets

| *In thousands of BGN* | Software | Patents and trademarks | Development costs | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at 1 January 2012 | 75 | 93 | 97 | 265 |
| Additions | 1 | - | - | 1 |
| Disposals | - | - | (1) | (1) |
| Balance at 31 December 2012 | 76 | 93 | 96 | 265 |
| Balance at 1 January 2013 | 76 | 93 | 96 | 265 |
| Additions | 475 | 5 | - | 480 |
| Disposals | - | - | (96) | (96) |
| Balance at 31 December 2013 | 551 | 98 | - | 649 |
| ***Amortisation and impairment losses*** | | | | |
| Balance at 1 January 2012 | 74 | - | 97 | 171 |
| Amortisation for the year | - | 6 | - | 6 |
| Written-off amortisation during the period | - | - | (1) | (1) |
| Balance at 31 December 2012 | 74 | 6 | 96 | 176 |
| Balance at 1 January 2013 | 74 | 6 | 96 | 176 |
| Amortisation for the year | 41 | 6 | - | 47 |
| Written-off amortisation during the period | - | - | (96) | (96) |
| Balance at 31 December 2013 | 115 | 12 | - | 127 |
| ***Carrying amount*** | | | | |
| As at 1 January 2012 | 1 | 93 | - | 94 |
| As at 31 December 2012 | 2 | 87 | - | 89 |
| As at 1 January 2013 | 2 | 87 | - | 89 |
| As at 31 December 2013 | 436 | 86 | - | 522 |

## 17. Investments

The Company has the following investments:

| | Country | Ownership in shares | | Ownership in thousands of BGN | |
|---|---|---|---|---|---|
| | | **31.12.2013** | **2012** | **31.12.2013** | **2012** |
| **Subsidiaries and associates** | | | | | |
| Herti Group International | Romania | 49% | 49% | 1 | 1 |
| Herti France | France | 100% | 100% | 82 | 82 |
| Herti UK | UK | 100% | 100% | 16 | 16 |
| Herti Germany | Germany | 100% | 100% | 57 | 49 |
| Tihert EAD | Bulgaria | 100% | 100% | 177 | 177 |
| | | | | 333 | 325 |
| **Other investments** | | | | | |
| Ecopack AD | Bulgaria | 5,6% | 5,6% | 3 | 3 |
| | | | | 3 | 3 |

## 18. Inventories

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Raw materials and consumables | 2,595 | 2,369 |
| Work in progress | 444 | 362 |
| Finished goods | 1,318 | 1,297 |
| Materials in transit | 391 | 706 |
| Goods | 153 | 158 |
| | 4,901 | 4,892 |

## 19.Trade and other receivables

| *In thousands of BGN* | ***Note*** | **2013** | **2012** |
|---|---|---|---|
| Trade receivables | | 7,078 | 6,475 |
| Advances given | | 473 | 454 |
| Tax receivables | | 147 | 163 |
| Personnel receivables | | 3 | 8 |
| Litigations and claims | | 124 | 121 |
| Government grants receivables | *26* | 1,201 | - |
| Other | | - | 45 |
| | | 9,026 | 7,266 |

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

## 20. Cash and cash equivalents

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Cash in hand | 2 | 3 |
| Bank balances | 518 | 231 |
| Cash equivalents | 7 | - |
| Cash and cash equivalents in the statement of cash flows | 527 | 234 |

## 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 1 BGN and price of 3.10 BGN, calculated by the bookbuilding method.

At 31 December 2013 Herti AD's registered share capital amounts BGN 12,013,797, comprising of 12,013,797 shares. The owners of the Company are as follows:

| | **Number of shares** | | **Thousands of BGN** | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| IGM Holding | 4,072,400 | 4,072,400 | 4,073 | 4,073 |
| Alexander Blagoev Yuliyanov | 3,953,920 | 3,953,920 | 3,954 | 3,954 |
| Zahari Ganev Zahariev | 2,993,122 | 2,993,422 | 2,993 | 2,993 |
| Elena Petkova Zaharieva | 960,000 | 960,000 | 960 | 960 |
| Individuals | 34,355 | 33,055 | 34 | 34 |
| | 12,013,797 | 12,013,797 | 12,014 | 12,014 |

| | **Ordinary shares** | |
|---|---|---|
| *In thousands of BGN* | **2013** | **2012** |
| On issue at 1 January | 12,014 | 12,014 |
| Issued for cash | - | - |
| On issue at 31 December – fully paid | 12,014 | 12,014 |

## 22. Loans and borrowings

This note provides information about the contractual terms of the Company's loans and borrowings.

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| **Long-term liabilities** | | |
| Secured bank loans | 4,295 | 2,705 |
| Finance lease liabilities | 233 | 121 |
| | 4,528 | 2,826 |
| **Short-term liabilities** | | |
| Current portion of secured long-term bank loans | 9,503 | 8,410 |
| Current portion of finance lease liabilities | 128 | 84 |
| | 9,631 | 8,494 |

## 22. Loans and borrowings, continued

The bank loans are secured with items of property, plant and equipment with a carrying amount of BGN 12,185 thousand, inventories with carrying amount of BGN 1,467 thousand (EUR 750 thousand) and trade receivables amounting to BGN 3,057 thousand (EUR 1,563 thousand).

***Terms and debt repayment schedule***

| *In thousands of BGN* | | | | **31 December 2013** | | **31 December 2012** | |
|---|---|---|---|---|---|---|---|
| | **Currency** | **Nominal interest** | **Year of maturity** | **Nominal** | **Carrying amount** | **Nominal** | **Carrying amount** |
| Secured long-term investment loan | Euro | 3M Euribor + margin | 2020 | 2,447 | 2,447 | - | - |
| Secured long-term investment loan | Euro | 1M Euribor + margin | 2018 | 2,458 | 2,458 | 3,056 | 3,056 |
| Secured long-term investment loan | Euro | 6M Euribor + margin | 2017 | 369 | 369 | 380 | 380 |
| Secured short-term loan | Euro | 1M Euribor + margin | 2014 | 3,912 | 3,912 | 3,912 | 3,912 |
| Secured short-term loan | Euro | 1M Euribor + margin | 2016 | 247 | 247 | 247 | 247 |
| Secured short-term loan | Euro | 6M Euribor + margin | 2015 | 367 | 367 | - | - |
| Bank overdraft | Euro | 1M Euribor + margin | 2015 | 1,173 | 1,173 | 587 | 587 |
| Bank overdraft | Euro | 6M Euribor + margin | 2014 | 2,825 | 2,825 | 2,933 | 2,933 |
| Finance lease liabilities | Euro | 3M Euribor + margin | 2015 | 118 | 118 | 183 | 183 |
| Finance lease liabilities | Euro | 3M Euribor + margin | 2014 | 3 | 3 | 22 | 22 |
| Finance lease liabilities | Euro | 3M Euribor + margin | 2018 | 240 | 240 | - | - |
| | | | | 14,159 | 14,159 | 11,320 | 11,320 |

The value of the margin for the loans stated above is no greater than 5.52 percentage points per year.

**Finance lease liabilities**
Finance lease liabilities are payable as follows:

| | **Future Minimum lease payments** | **Interest** | **Present value of minimum lease payments** | **Future Minimum lease payments** | **Interest** | **Present value of minimum lease payments** |
|---|---|---|---|---|---|---|
| *In thousands of BGN* | **2013** | **2013** | **2013** | **2012** | **2012** | **2012** |
| Less than one year | 143 | 15 | 128 | 93 | 9 | 84 |
| Between one and five years | 249 | 16 | 233 | 127 | 6 | 121 |
| | 392 | 31 | 361 | 220 | 15 | 205 |

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

## 23. Deferred tax assets and liabilities

**Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| *In thousands of BGN* | **2013** | **2012** | **2013** | **2012** | **2013** | **2012** |
| Property, plant and equipment | - | - | 877 | 890 | 877 | 890 |
| Employee benefits | (10) | (11) | - | - | (10) | (11) |
| Trade and other receivables | (8) | (15) | - | - | (8) | (15) |
| Tax loss carry-forwards | - | (28) | - | - | - | (28) |
| Tax (assets) liabilities | (18) | (54) | 877 | 890 | 859 | 836 |
| Set off of tax | 18 | 54 | (18) | (54) | - | - |
| Net tax (assets) liabilities | - | - | 859 | 836 | 859 | 836 |

**Movement in temporary differences during the year**

| *In thousands of BGN* | **Balance 1 Jan 2013** | **Recognized in the Income statement** | **Recognized directly in equity** | **Balance 31 Dec 2013** |
|---|---|---|---|---|
| Property, plant and equipment | 890 | (13) | - | 877 |
| Employee benefits | (11) | 1 | - | (10) |
| Trade and other receivables | (15) | 7 | - | (8) |
| Tax loss carry-forwards | (28) | 28 | - | - |
| | 836 | 23 | - | 859 |

| *In thousands of BGN* | **Balance 1 Jan 2012** | **Recognized in the Income statement** | **Recognized directly in equity** | **Balance 31 Dec 2012** |
|---|---|---|---|---|
| Property, plant and equipment | 940 | (50) | - | 890 |
| Employee benefits | (10) | (1) | - | (11) |
| Trade and other receivables | - | (15) | - | (15) |
| Tax loss carry-forwards | (146) | 118 | - | (28) |
| | 784 | 52 | - | 836 |

## 24. Employee benefits

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Retirement benefits provision | 41 | 44 |
| | 41 | 44 |

## 25. Trade and other payables

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Trade payables | 4,186 | 3,947 |
| Advances received | 517 | 240 |
| Tax payables | 41 | 36 |
| Payables to personnel | 245 | 205 |
| Social security payables | 90 | 81 |
| Other payables | 12 | 25 |
| | 5,091 | 4,534 |

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

## 26. Government grants

In 2012 the Company entered into two agreements with the Ministry of Economy and Energy for financial grant under the Operational programme “Development of the Competitiveness of the Bulgarian Economy” for the period 2007-2013. The first project “Enhancing the competitiveness of Herti AD through the implementation of an integrated information system for business process management” has a total amount of the project of up to BGN 634 thousand and a total amount of the grant of up to BGN 375 thousand. At the end of 2013, after an inspection by the Ministry of Economy and Energy of the reports, presented by the Company, the amount of BGN 346 thousand, representing the part of the financial grant for the project, was transferred to the Company. In 2013 proceeds from grants at the amount of BGN 48 thousand have been recognized, and accordingly as at 31 December the liability is at the amount of BGN 298 thousand.

The second project “Investments for reducing the energy consumption in the production system of Herti AD” has a total amount of BGN 2,450 thousand, and an amount of the grant of up to BGN 1,225 thousand. In December 2013 the Company has presented the Ministry a report with the performed actions, as well as a request for payment of the grant as per the signed agreement, and has recognized a receivable due at the amount of BGN 1,201 thousand. In March 2014, after a verification of the investments made, the amount of BGN 1,201 thousand was paid to the Company.

## 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* | **2013** | **2012** |
|---|---|---|---|
| Trade and other receivables | *19* | 8,279 | 6,520 |
| Related party trade receivables | *28* | 2,572 | 2,488 |
| Cash and cash equivalents | *20* | 518 | 231 |
| Other investments | *17* | 3 | 3 |
| | | 11,372 | 9,242 |

In 2013 Bulgarian banks have issued bank guarantees as Herti AD’s guarantors in favour of third parties (see note 30).

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

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Domestic | 2,508 | 920 |
| European Union (excluding Bulgaria) | 3,370 | 3,499 |
| Russia | 4,246 | 3,916 |
| Other | 727 | 673 |
| | 10,851 | 9,008 |

**Impairment losses**

The aging of trade receivables, other receivables and related party receivables at the reporting date was as follows:

| *In thousands of BGN* | **2013 Gross** | **2013 Impairment** | **2012 Gross** | **2012 Impairment** |
|---|---|---|---|---|
| Not past due | 5,363 | - | 3,779 | - |
| Past due 0-30 days | 1,862 | - | 1,618 | - |
| Past due 31-360 days | 3,038 | - | 3,605 | 76 |
| More than one year | 664 | 76 | 160 | 78 |
| | 10,927 | 76 | 9,162 | 154 |

**27. Financial instruments, continued**

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Balance at 1 January | 154 | - |
| Impairment for the year | - | 186 |
| Impairment reversed during the year | - | - |
| Total in the income statement | - | 186 |
| Written-off receivables | (78) | (32) |
| Impairment at 31 December | 76 | 154 |

The Company 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 Company's analysis of customer credit risk, the Company believes that, except as indicated above, no impairment allowance is necessary in respect of trade receivables not past due.

**Liquidity risk**

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

| **31 December 2013**<br>*In thousands of BGN* | **Book value** | **Agreed cash flows** | **6 months or less** | **6-12 months** | **1-2 years** | **2-5 years** | **More than 5 years** |
|---|---|---|---|---|---|---|---|
| Secured long-term bank loans | 6,447 | 7,166 | 1,841 | 601 | 1,168 | 3,182 | 374 |
| Secured short-term bank loan | 4,279 | 4,447 | 424 | 4,023 | - | - | - |
| Short-term bank loans | 247 | 287 | 9 | 9 | 18 | 251 | - |
| Finance lease | 361 | 393 | 73 | 69 | 119 | 132 | - |
| Bank overdraft | 2,825 | 3,008 | 3,008 | - | - | - | - |
| Trade and other payables | 4,198 | 4,198 | 4,198 | - | - | - | - |
| Other related party payables | 463 | 463 | 463 | - | - | - | - |
| | 18,820 | 19,962 | 10,016 | 4,702 | 1,305 | 3,565 | 374 |

| **31 December 2012**<br>*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 | 3,436 | 3,901 | 460 | 439 | 861 | 2,083 | 58 |
| Secured short-term bank loan | 3,912 | 4,072 | 94 | 3,978 | - | - | - |
| Short-term bank loans | 247 | 261 | 5 | 6 | 250 | - | - |
| Finance lease | 205 | 220 | 47 | 46 | 74 | 53 | - |
| Bank overdraft | 3,520 | 3,632 | 3,021 | 14 | 597 | - | - |
| Trade and other payables | 3,972 | 3,972 | 3,972 | - | - | - | - |
| Other related party payables | 591 | 591 | 591 | - | - | - | - |
| | 15,883 | 16,649 | 8,190 | 4,483 | 1,782 | 2,136 | 58 |

## 27. Financial instruments, continued

**Foreign currency risk**

**Exposure to foreign currency risk**

The Company's exposure to foreign currency risk is insignificant because 19 % of the sales for 2013 are realized on local markets in Bulgarian leva (2012: 16%); and 74% of the sales for 2013 are realized in Euro (2012: 69 %).

The import of goods in 2013 and 2012 is realized completely in Euro. Loans, denominated in foreign currency, are granted in Euro.

**Sensitivity analysis**

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

| | BGN | EUR | USD | GBP | BGN | EUR | USD | GBP |
|---|---|---|---|---|---|---|---|---|
| | 31 December 2013 | | | | 31 December 2012 | | | |
| Trade and other receivables | 2,059 | 6,073 | - | 147 | 597 | 5,753 | - | 170 |
| Related party receivables | 447 | 999 | - | 1,126 | 316 | 1,123 | - | 1,049 |
| Cash and cash equivalents | 394 | 124 | - | - | 38 | 94 | 1 | 101 |
| Trade and other payables | (1,496) | (2,537) | (165) | - | (1,315) | (2,497) | (160) | - |
| Related party payables | (234) | (229) | - | - | (215) | (376) | - | - |
| Finance lease | - | (361) | - | - | - | (205) | - | - |
| Bank loans | - | (13,798) | | | - | (11,115) | - | - |
| Net exposure | 1,170 | (9,729) | (165) | 1,273 | (579) | (7,223) | (159) | 1,320 |

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

| | Average rate | | Rate at the balance sheet date | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| (USD) | 1,47362 | 1,52314 | 1,41902 | 1,48360 |
| (GBP) | 2,30321 | 2,41275 | 2,33839 | 2,39406 |

Increase of the GBP with 10% against the BGN at 31 December would have increased equity and profit or decreased loss with BGN 127 thousands (2012: BGN 132 thousands). Increase with 10% of the USD against the BGN at 31 December would have decreased equity and profit or increased loss with 17 thousand (2012: BGN 16 thousand). The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

**Interest rate risk**

The book values of financial instruments according to the type of interest rate are as follows:

| *In thousands of BGN* | 2013 | 2012 |
|---|---|---|
| ***Fixed rate instruments*** | | |
| Financial assets | 518 | 231 |
| Financial liabilities | (361) | (205) |
| | 157 | 26 |
| ***Variable rate instruments*** | | |
| Financial assets | | |
| Financial liabilities | (13,798) | (11,115) |
| | (13,798) | (11,115) |

## 27. Financial instruments, continued

### Interest rate risk, continued

### Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Company does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect the income statement.

### Cash flow sensitivity analysis for variable rate instruments

A change of 1% in interest rates at 31 December would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2012.

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

| *In thousands of BGN* | **Effects of change in the income statement** | | **Effects of change in equity** | |
|---|---|---|---|---|
| | **1% increase** | **1% decrease** | **1% increase** | **1% decrease** |
| **31 December 2013** | | | | |
| Variable rate instruments | (138) | 138 | - | - |
| Cash flow sensitivity (net) | (138) | 138 | - | - |
| **31 December 2012** | | | | |
| Variable rate instruments | (111) | 111 | - | - |
| Cash flow sensitivity (net) | (111) | 111 | - | - |

### Fair values versus carrying amounts

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

**31 December 2013**

| *In thousands of BGN* | ***Note.*** | **Loans and receivables** | **Other financial liabilities** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Financial assets not measured at fair value** | | | | | | | | |
| Trade and other receivables | *19* | 8,279 | - | 8,279 | - | - | - | - |
| Related parties receivables | | 2,572 | | 2,572 | - | - | - | - |
| Cash and cash equivalents | *20* | 527 | - | 527 | - | - | - | - |
| Other investments | *17* | 3 | - | 3 | - | - | - | - |
| | | 11,381 | - | 11,381 | - | - | - | - |
| **Financial liabilities not measured at fair value** | | | | | | | | - |
| Bank overdraft | *22* | - | (2,825) | (2,825) | - | - | - | - |
| Secured bank loans | *22* | - | (10,973) | (10,973) | - | - | - | - |
| Finance lease liabilities | *22* | - | (361) | (361) | - | - | - | - |
| Trade and other payables | *25* | - | (4,198) | (4,198) | - | - | - | - |
| Related parties payables | *28* | - | (463) | (463) | - | - | - | - |
| | | - | (18,820) | (18,820) | - | - | - | - |

**31 December 2012**

| *In thousands of BGN* | *Note.* | Loans and receivables | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|---|---|---|---|
| **Financial assets not measured at fair value** | | | | | - | - | - | - |
| Trade and other receivables | *19* | 6,520 | - | 6,520 | - | - | - | - |
| Related parties receivables | | 2,488 | - | 2,488 | - | - | - | - |
| Cash and cash equivalents | *20* | 234 | - | 234 | - | - | - | - |
| Other investments | *17* | 3 | - | 3 | - | - | - | - |
| | | 9,245 | - | 9,245 | - | - | - | - |
| **Financial liabilities not measured at fair value** | | | | | | | | |
| Bank overdraft | *22* | - | (3,520) | (3,520) | - | - | - | - |
| Secured bank loans | *22* | - | (7,595) | (7,595) | - | - | - | - |
| Finance lease liabilities | *22* | - | (205) | (205) | - | - | - | - |
| Trade and other payables | *25* | - | (3,972) | (3,972) | - | - | - | - |
| Related parties payables | *28* | - | (591) | (591) | - | - | - | - |
| | | - | (15,883) | (15,883) | - | - | - | - |

## 28. Related parties

### Identity of related parties

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

| | Country | Ownership 2013 | Ownership 2012 |
|---|---|---|---|
| **Subsidiaries and associates** | | | |
| Herti Group International | Romania | 49% | 49% |
| Herti France | France | 100% | 100% |
| Herti UK | UK | 100% | 100% |
| Herti Germany | Germany | 100% | 100% |
| Tihert | Bulgaria | 100% | 100% |
| **Shareholders/Partners** | | | |
| IGM Holding | Austria | 33,90% | 33,90% |
| **Companies under common control** | | | |
| Timshel OOD | Bulgaria | - | - |
| Raifen OOD | Bulgaria | - | - |

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

During fourth quarter of 2012 the Board of Directors has decided to establish 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.

## 28. Related parties

### Related parties receivables

***Short-term receivables from related parties***

***Short-term trade receivables from related parties***

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| Herti Group International | 284 | 514 |
| Herti France | 597 | 609 |
| Herti UK | 1,126 | 1,049 |
| Herti Germany | 118 | - |
| Tihert EAD | 445 | 290 |
| Raifen OOD | 2 | 26 |
| Timshel OOD | - | - |
| ***Short-term receivables from related parties*** | 2,572 | 2,488 |

### Related parties payables

***Short-term trade payables to related parties***

| *In thousands of BGN* | **2013** | **2012** |
|---|---|---|
| IGM Holding – trade payables | 229 | 366 |
| Herti France | - | 10 |
| Timshel OOD | 57 | 43 |
| Raifen OOD | 24 | 2 |
| Tihert EAD | 132 | 149 |
| Josef Mayer | 6 | 6 |
| Alexander Yuliyanov | 6 | 6 |
| Zahari Zahariev | 6 | 6 |
| Svetoslav Stamenov | 3 | 3 |
| **Short-term payables to related parties** | 463 | 591 |

### Transactions with related parties

During the period 01.01 -31.12.2013 the Company has realized the following transactions with related parties:

**Sales**

| *In thousands of BGN* | **Type of transaction** | **Amount** |
|---|---|---|
| Herti Group International | Sold production | 1,674 |
| Herti UK | Sale of production | 3,016 |
| Herti France | Sale of production | 3,384 |
| Herti Germany | Sale of production | 147 |
| Tihert EAD | Sale of services, reinvoiced expenses | 137 |
| Timshel | Sale of services | 3 |
| Reifen | Sale of services | 3 |

## 28. Related parties, continued

**Purchases**

| | | |
|---|---|---|
| IGM Holding | Purchase of materials | 608 |
| IGM Holding | Purchase of fixed assets | 54 |
| Herti UK | Transport and commission services | 69 |
| Herti Group Romania | Purchase of materials | 7 |
| Tihert EAD | Spare parts purchase | 407 |
| Tihert EAD | Received services | 170 |
| Tihert EAD | Manufacture of fixed assets | 313 |
| Timshel | Rental expenses | 78 |
| Reifen | Transport services received | 726 |
| Members of Board of Directors | Fees paid | 15 |

**Transactions with key management personnel**

The key management personnel compensations are as follows:

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

| *In thousands of BGN* | 2013 | 2012 |
|---|---|---|
| Executive Directors and Board of Directors | 288 | 312 |
| | 288 | 312 |

During the period 01.01.-31.12.2012, the Company has realised the following transactions with related parties:

**Sales**

| *In thousands of BGN* | Type of transaction | Amount |
|---|---|---|
| Herti Group International | Sold production | 1,860 |
| Herti UK | Sale of production | 3,389 |
| Herti France | Sale of production | 2,964 |
| IGM Holding | Transferred receivable under cession agreement | 303 |
| Tihert EAD | Sale of services, reinvoiced expenses | 187 |
| Timshel | Sale of services | 2 |
| Reifen | Sale of services | 2 |

**Purchases**

| | | |
|---|---|---|
| IGM Holding | Purchase of materials | 1,334 |
| Herti UK | Transport and commission services | 82 |
| Herti Group Romania | Purchase of materials | 4 |
| Tihert EAD | Spare parts purchase | 389 |
| Tihert EAD | Received services | 140 |
| Tihert EAD | Manufacture of fixed assets | 353 |
| Tihert EAD | Purchase of goods | 68 |
| Timshel | Rental expenses | 78 |
| Reifen | Transport services received | 729 |
| Herti France | Interests and penalties | 30 |
| Herti France | Returned products | 26 |
| Members of Board of Directors | Fees paid | 15 |

### 29. Earnings per share

Earnings per share at 31 December 2013 is calculated on the basis of net profit of ordinary shareholders of the Company amounting BGN 317 thousand (2012: profit of BGN 462 thousand) by the weighted average number of ordinary shares outstanding during the period ending 31 December 2013 – 12,013,797 (2012: 12,013,797 ordinary shares).

### 30. Contingencies

In 2013 Bulgarian banks as guarantors of Herti AD have issued, under bank loan agreement securing bank guarantees, a loan amounting to BGN 247 thousand (2012: BGN 247 thousand). The bank guarantees have not been demanded as at 31 December 2013. The bank loan is secured with assets as part of the pledge of company assets for bank loans.

### 31. Engagements for acquisition of property, plant and equipment

The Company has signed an agreement for acquisition of property, plant and equipment at the amount of BGN 1,063 thousand (2012: BGN 1,085 thousand).

### 32. Subsequent events

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