

HERTI AD
Separate financial statements
For the year ended 31 December 2015
With independent Auditor's Report Thereon

Unofficial translation from original
Bulgarian
separate financial statements

Separate statement of financial position

In thousands of BGN

	Note	31 December 2015	31 December 2014
Assets			
Property, plant and equipment	15	20,026	19,314
Intangible assets	16	605	522
Investments in subsidiaries and associates	17	333	333
Other investments	17	3	3
Total non-current assets		20,967	20,172
Inventories	18	5,515	5,660
Related party receivables	28	3,526	2,667
Trade and other receivables	19	7,313	7,857
Cash and cash equivalents	20	303	224
Total current assets		16,657	16,408
Total assets		37,624	36,580
Equity			
Share capital	21	12,014	12,014
Share premium		29	29
Reserves		549	487
Retained earnings		1,326	927
Total equity		13,918	13,457
Liabilities			
Loans and borrowings	22	8,979	5,283
Deferred tax liabilities	23	846	860
Employee benefits	24	198	46
Government grants	26	2,328	1,156
Total non-current liabilities		12,351	7,345
Related party payables	28	212	322
Loans and borrowings	22	5,308	9,405
Government grants	26	386	170
Trade and other payables	25	5,449	5,881
Total current liabilities		11,355	15,778
Total liabilities		23,706	23,123
Total equity and liabilities		37,624	36,580

The notes on pages from 5 to 41 are an integral part of these financial statements.

Chief Executive Officer:

Zahari Zahariev

Chief Accountant

Violeta Yankova

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

Dobrina Kaloyanova
Manager

Tsvetelinka Koleva
Registered auditor

Separate statement of profit or loss and other comprehensive income

For the year ended 31 December	Note	2015	2014
<i>In thousands of BGN</i>			
Revenue	7	30,959	29,114
Other operating income	8	3,715	3,182
Net carrying amount of materials and goods sold		(2,216)	(2,564)
Increase (decrease) of finished goods and work in progress		140	747
Capitalized expenses		(4)	47
Expenses for materials	9	(20,781)	(19,465)
Hired services	10	(2,587)	(2,684)
Depreciation and amortization	15,16	(2,496)	(1,915)
Employee benefit expenses	11	(4,725)	(4,268)
Other operating expenses	12	(683)	(846)
Profit from operating activities		1,322	1,348
Finance costs		(750)	(801)
Finance income		56	121
Net finance costs	13	(694)	(680)
Profit before tax		628	668
Income tax income (expense)	14	(30)	(46)
Profit for the period		598	622
Other comprehensive income			
<i>Items that will never be reclassified to profit or loss:</i>			
Remeasurements of defined benefit liability		(152)	-
Related tax		15	-
Other comprehensive income for the year, net of tax		(137)	-
Total comprehensive income for the period		461	622
Earnings per share (in BGN)	29	0.050	0.052

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Separate statement of changes in equity

<i>In thousands of BGN</i>	Share Capital	Share premium	Legal reserves	Additional reserves	Retained earnings	Total
Balance at 1 January 2014	12,014	29	73	382	337	12,835
Total comprehensive income for the period						
Profit for the period	-	-	-	-	622	622
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	622	622
Transfer between reserves based on decision of the shareholders	-	-	32	-	(32)	-
Balance at 31 December 2014	12,014	29	105	382	927	13,457
Balance at 1 January 2015	12,014	29	105	382	927	13,457
Total comprehensive income for the period						
Profit for the period	-	-	-	-	598	598
Other comprehensive income	-	-	-	-	(137)	(137)
Total comprehensive income for the period	-	-	-	-	461	461
Transfer between reserves based on decision of the shareholders	-	-	62	-	(62)	-
Balance at 31 December 2015	12,014	29	167	382	1,326	13,918

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Separate statement of cash flows

For the year ended 31 December

In thousands of BGN

	<i>Note</i>	2015	2014
Cash flows from operating activities			
Cash receipts from customers		33,946	32,031
Cash paid to suppliers		(27,393)	(25,523)
Net cash flow for salaries and wages of personnel		(4,930)	(4,394)
Taxes paid/refunded indirect taxes		712	601
Net cash from operating activities		<u>2,335</u>	<u>2,715</u>
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		107	833
Acquisition of property, plant and equipment		(3,101)	(3,914)
Proceeds from government grants		1,767	1,201
Net cash used in investing activities		<u>(1,227)</u>	<u>(1,880)</u>
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		(346)	(387)
Interest paid		(593)	(611)
Transaction costs and other financial costs		(111)	(138)
Net cash used in financing activities		<u>(1,144)</u>	<u>(1,195)</u>
Net (decrease)/increase in cash and cash equivalents		(36)	(360)
Cash and cash equivalents at 1 January		224	527
Effect of exchange rate fluctuations on cash held		115	57
Cash and cash equivalents at 31 December	<i>20</i>	<u>303</u>	<u>224</u>

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

The separate financial statements were authorized for issue by the Board of Directors on 25 February 2016. The Company prepares also consolidated financial statements.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for the defined benefit obligation, which is reported at 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, unless stated otherwise.

(d) Use of estimates and judgements

Judgements

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company’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.

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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 – Inventory, measurement of the net realizable value
- Note 24 – Employee benefits, measurement of defined benefit obligations: key actuarial assumptions

2. Basis of preparation, continued

(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. Trends of the sales of the company in 2015 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 2016.

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. The Company 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. In the separate 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 or joint control, over the financial and operating policies. In the separate 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 following categories: loans and receivables.

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 and financial liabilities 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 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

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.
- patents and trade marks 15 years.

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 principle. 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 calculation is performed annually by a qualified actuary using the projected unit credit method. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability.

The discount rate is the yield at the reporting date on government securities issued and guaranteed by the Bulgarian Government with a ten-year maturity denominated in BGN, which is the currency in which the benefits are expected to be paid.

Re-measurements arising from defined benefit plans comprise actuarial gains and losses and are recognized in other comprehensive income. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

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

3. Significant accounting policies, continued

(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.

(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. The Company considers that the accruals for tax liabilities are adequate to all open fiscal years based on an evaluation of a number of factors, including the interpretation of tax laws and previous experience. 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) Net 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 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 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 entity does not expect the Amendments to have any impact on the 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 entity does not expect the Amendments to have a significant impact on the financial statements;
- 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 Entity;
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation: The entity 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 entity 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 entity 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 Company's accounting policies and disclosures require the measurement of fair value, for both financial and non-financial assets and liabilities.

The Company regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services is used to measure fair values, then the Company assesses the evidence obtained from third parties 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 Company uses market observable data as far as possible. Fair values are categorised into different level in a fair value hierarchy based on the inputs in the valuation techniques as follows:

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

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

The Company 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 note 27 – Financial instruments

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 64% of the Company's revenue for 2015 is attributable to sales transactions with ten clients (2014: 64%), and 80 % of the Company's revenue for 2015 is attributable to export transactions in (2014: 82%). 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 majority shareholder. As at 31 December 2015 Bulgarian banks have issued bank guarantees on behalf of Herti AD in favour 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 or leva
- export sales also are denominated mainly 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 2015 the return was positive – 4.3 % (2014: positive 4.6 %). In comparison the weighted average interest expense on interest-bearing borrowings was 4.1% (2014: 4.9%). 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.

In accordance with the provisions of art. 252 of the Commercial Act, the Company must maintain the value of its net assets above the value of its share capital. As at 31 December 2015 the Company is in compliance with these requirements, since its net assets are at the amount of BGN 13,918 thousand and the value of share capital is BGN 12,014 thousand.

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.

In thousands of BGN	Russia		EU(excluding Bulgaria)		Bulgaria		Other		Entity as a whole	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Revenue from external clients:										
Sales	3,872	5,593	16,241	14,192	4,934	4,104	5,912	5,225	30,959	29,114
Other income – sale of waste		-	32	77	1,614	1,313		-	1,646	1,390
Total income	3,872	5,593	16,273	14,269	6,548	5,417	5,912	5,225	32,605	30,504
Segment result	209	503	2,366	2,066	515	366	1,248	1,172	4,338	4,107
Unallocated revenue									2,069	1,792
Unallocated expenses									(5,085)	(4,551)
Profit from operations									1,322	1,348
Net financial cost									(694)	(680)
Income tax expense									(30)	(46)
Profit for the period									598	622
Segment assets	4,163	4,701	4,041	3,346	1,465	1,114	816	935	10,485	10,096
Unallocated assets									27,139	26,484
Total assets									37,624	36,580
Unallocated liabilities									23,706	23,123
Total liabilities									23,706	23,123
Capital expenditures									3,328	4,165
Depreciation									2,496	1,915

7. Revenue from sale of production and goods

In thousands of BGN

	2015	2014
Aluminium caps	24,077	22,173
Plastic caps	1,183	1,478
Composite caps	2,612	1,996
Proportioning devices	81	182
Goods for resale	2,270	2,565
Other	736	720
	30,959	29,114

8. Other operating income

In thousands of BGN

	Note	2015	2014
Proceeds from sale of aluminium waste		1,646	1,390
Proceeds from sales of materials		50	80
Transport services provided to clients		998	996
Discounts from suppliers		128	114
Proceeds from government grants	26	379	173
Gain on sale of property, plant and equipment		81	-
Other		433	429
		<u>3,715</u>	<u>3,182</u>
Proceeds from sale of property, plant and equipment		121	-
Carrying amount of sold property, plant and equipment		(40)	-
Gain on sale of non-current assets held for sale / property, plant and equipment		<u>81</u>	<u>-</u>

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	1,929	1,989
	<u>20,781</u>	<u>19,465</u>

10. Hired services

In thousands of BGN

	2015	2014
Transport	1,569	1,603
Services from repairs work and external subcontractors	168	220
Advertising and consulting services	177	136
Rents	167	182
Communication services	64	72
Commissions	61	66
Insurance	24	24
Other	357	381
	<u>2,587</u>	<u>2,684</u>

11. Employee benefit expenses

In thousands of BGN

	2015	2014
Wages and salaries	4,050	3,626
Social security contributions	674	598
Provision for unused paid leaves (net)	1	39
Provision for retirement benefits (net)	-	5
	<u>4,725</u>	<u>4,268</u>

Average number of employees as at 31 December 2015 is 425 (2014: 382).

12. Other operating expenses

In thousands of BGN

	2015	2014
Business trips	73	72
Scrap of finished goods	98	171
Food vouchers, medicines and antidote	281	263
Scrap of inventories	35	120
Impairment of receivables	-	38
Other	196	182
	683	846

13. Net finance costs

In thousands of BGN

	2015	2014
Dividend income	-	44
Net profit from foreign currency exchange	56	77
Finance income	56	121
Interest expense	(633)	(665)
Bank charges	(117)	(136)
Net loss from foreign currency exchange	-	-
Finance costs	(750)	(801)
Net finance costs	(694)	(680)

14. Income tax expense

Recognized in the Income statement

In thousands of BGN

Current tax expense

Current year

Deferred tax expense

Origination and reversal of temporary differences

Total income tax expense (income) in the income statement

	2015	2014
Current year	29	45
Origination and reversal of temporary differences	1	1
Total income tax expense (income) in the income statement	30	46

Reconciliation of effective tax rate

In thousands of BGN

	2015	2015	2014	2014
Profit (loss) before tax		628		668
Corporate income tax using the Company's domestic tax rate	10 %	63	10%	67
Non-deductible expenses	1.1%	7	0.2%	1
Tax exempt income	(6.3%)	(40)	(3.3%)	(22)
	4.8%	30	6.9%	46

15. Property, plant and equipment

<i>In thousands of BGN</i>	Land and buildings	Plant and equipment	Fixtures and fittings	Expense for acquisition of PPE	Total
Cost					
Balance at 1 January 2014	8,379	17,619	170	838	27,006
Additions	-	666	4	3,484	4,154
Transfers	-	1,388	-	(1,497)	(109)
Disposals	-	-	-	-	-
Balance at 31 December 2014	<u>8,379</u>	<u>19,673</u>	<u>174</u>	<u>2,825</u>	<u>31,051</u>
Balance at 1 January 2015	8,379	19,673	174	2,825	31,051
Additions	11	528	15	2,537	3,091
Transfers	-	4,770	53	(4,823)	-
Disposals	-	(321)	-	-	(321)
Balance at 31 December 2015	<u>8,390</u>	<u>24,650</u>	<u>242</u>	<u>539</u>	<u>33,821</u>
Depreciation and impairment losses					
Balance at 1 January 2014	1,853	7,964	126	-	9,943
Depreciation charge for the year	273	1,508	13	-	1,794
Disposals	-	-	-	-	-
Balance at 31 December 2014	<u>2,126</u>	<u>9,472</u>	<u>139</u>	<u>-</u>	<u>11,737</u>
Balance at 1 January 2015	2,126	9,472	139	-	11,737
Depreciation charge for the year	274	2,052	13	-	2,339
Disposals	-	(281)	-	-	(281)
Balance at 31 December 2015	<u>2,400</u>	<u>11,243</u>	<u>152</u>	<u>-</u>	<u>13,795</u>
Carrying amount					
At 1 January 2014	6,526	9,655	44	838	17,063
At 31 December 2014	<u>6,253</u>	<u>10,201</u>	<u>35</u>	<u>2,825</u>	<u>19,314</u>
At 1 January 2015	6,253	10,201	35	2,825	19,314
At 31 December 2015	<u>5,990</u>	<u>13,407</u>	<u>90</u>	<u>539</u>	<u>20,026</u>

Plant and machinery under finance lease

The Company has acquired production equipment under a finance lease agreement. At 31 December 2015, the carrying amount of leased plant and machinery is BGN 1,178 thousand (2014: BGN 1,600 thousand). The leased equipment secures lease obligations.

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

16. Intangible assets

<i>In thousands of BGN</i>	Software	Patents and trademarks	Development costs	Total
Cost				
Balance at 1 January 2014	551	98	-	649
Additions	12	-	-	12
Transfers	109	-	-	109
Balance at 31 December 2014	672	98	-	770
Balance at 1 January 2015	672	98	-	770
Additions	1	239	-	240
Balance at 31 December 2015	673	337	-	1,010
Amortisation and impairment losses				
Balance at 1 January 2014	115	12	-	127
Amortisation for the year	115	12	-	127
Balance at 31 December 2014	230	18	-	248
Balance at 1 January 2015	230	18	-	248
Amortisation for the year	123	34	-	157
Balance at 31 December 2015	353	52	-	405
Carrying amount				
As at 1 January 2014	436	86	-	522
As at 31 December 2014	442	80	-	522
As at 1 January 2015	442	80	-	522
As at 31 December 2015	320	285	-	605

17. Investments

The Company has the following investments:

	Country	Ownership in shares		Ownership in thousands of BGN	
		31.12.2015	2014	31.12.2015	2014
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	57
Tihert EAD	Bulgaria	100%	100%	177	177
				333	333
Other investments					
Ecopack AD	Bulgaria	5.6%	5.6%	3	3
				3	3

18. Inventories

In thousands of BGN

	2015	2014
Raw materials and consumables	2,606	2,675
Work in progress	959	1,009
Finished goods	1,630	1,480
Materials in transit	238	306
Goods	82	190
	5,515	5,660

19. Trade and other receivables

In thousands of BGN

	2015	2014
Trade receivables	6,959	7,429
Advances given	257	82
Tax receivables	90	276
Personnel receivables	5	3
Litigation and claims	2	67
	7,313	7,857

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

	2015	2014
Cash in hand	6	1
Bank balances	285	223
Cash equivalents	12	-
Cash and cash equivalents in the statement of cash flows	303	224

21. Capital and reserves

Share capital

At 31 December 2007 Herti AD's registered share capital amounted to BGN 12 million divided into 12 million ordinary shares.

On 25 January 2008 Herti AD realized initial public offering of 3 million ordinary shares with nominal value BGN 1 each and issue price determined by the bookbuilding method amounting to BGN 3.10. After the public offering the share capital was increased to BGN 12,013,797 divided into 12,013,797 shares.

At 31 December 2015 Herti AD's registered share capital amounts BGN 12,013,797 divided into 12,013,797 shares. The shareholders of the Company are as follows:

	Number of shares		Thousands of BGN	
	2015	2014	2015	2014
IGM Holding	4,072,400	4,072,400	4,073	4,073
Alexander Blagoev Yuliyarov	3,953,920	3,953,920	3,954	3,954
Zahari Ganey Zahariev	2,993,122	2,993,122	2,993	2,993
Elena Petkova Zaharieva	960,000	960,000	960	960
Other individuals	34,355	34,355	34	34
	12,013,797	12,013,797	12,014	12,014

21. Capital and reserves, continued

<i>In thousands of BGN</i>	Ordinary shares	
	2015	2014
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.

<i>In thousands of BGN</i>	2015	2014
Long-term liabilities		
Secured bank loans and overdrafts	8,589	4,638
Finance lease liabilities	390	645
	8,979	5,283
Short-term liabilities		
Current portion of secured long-term bank loans and overdrafts	5,054	9,100
Current portion of finance lease liabilities	254	305
	5,308	9,405
Total loans and borrowings	14,287	14,688

The bank loans are secured with items of property, plant and equipment with a carrying amount of BGN 14,619 thousand, inventories with carrying amount of BGN 1,467 thousand (EUR 750 thousand) and trade receivables amounting to BGN 3,028 thousand (EUR 1,548 thousand).

(a) Loan covenant

The Company 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 company 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 Company 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 company 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 separate 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.

22. Loans and borrowings, continued

Terms and debt repayment schedule

In thousands of BGN

	Currency	Nominal interest	Year of maturity	31 December 2015		31 December 2014	
				Nominal	Carrying amount	Nominal	Carrying amount
Secured long-term investment loan	Euro	3M Euribor + margin	2020	1,065	1,065	1,280	1,280
Secured long-term investment loan	Euro	1M Euribor + margin	2018	1,257	1,257	1,857	1,857
Secured long-term investment loan	Euro	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	Euro	1M Euribor + margin	2016	3,912	3,912	3,912	3,912
Secured long-term loan	Euro	1M Euribor + margin	2018	409	409	316	316
Bank overdraft	Euro	1M Euribor + margin	2018	1,173	1,173	1,173	1,173
Bank overdraft	Euro	6M Euribor + margin	2019	3,493	3,493	2,904	2,904
Finance lease liabilities	Euro	3M Euribor + margin	2015	-	-	52	52
Finance lease liabilities	Euro	3M Euribor + margin	2018	125	125	182	182
Finance lease liabilities	Euro	3M Euribor + margin	2019	473	473	626	626
Finance lease liabilities	Euro	3M Euribor + margin	2017	46	46	90	90
				14,287	14,287	14,688	14,688

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:

In thousands of BGN	Future	Interest	Present value	Future	Interest	Present value
	Minimum lease payments		of minimum lease payments	Minimum lease payments		of minimum lease payments
	2015	2015	2015	2014	2014	2014
Less than one year	279	25	254	345	40	305
Between one and five years	409	19	390	689	44	645
	688	44	644	1,034	84	950

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	
	2015	2014	2015	2014	2015	2014
<i>In thousands of BGN</i>						
Property, plant and equipment	-	-	887	886	887	886
Employee benefits	(30)	(15)	-	-	(30)	(15)
Trade and other receivables	(11)	(11)	-	-	(11)	(11)
Tax (assets) liabilities	(41)	(26)	887	886	846	860
Set off of tax	41	26	(41)	(26)	-	-
Net tax (assets) liabilities	-	-	846	860	846	860

Movement in temporary differences during the year

	Balance	Recognized	Recognized	Balance
	1 Jan 2015	in the Income	directly in	31 Dec 2015
		statement	equity	
<i>In thousands of BGN</i>				
Property, plant and equipment	886	1	-	887
Employee benefits	(15)	-	(15)	(30)
Trade and other receivables	(11)	-	-	(11)
	860	1	(15)	846

	Balance	Recognized	Recognized	Balance
	1 Jan 2014	in the Income	directly in	31 Dec 2014
		statement	equity	
<i>In thousands of BGN</i>				
Property, plant and equipment	877	9	-	886
Employee benefits	(10)	(5)	-	(15)
Trade and other receivables	(8)	(3)	-	(11)
	859	1	-	860

24. Employee benefits

In thousands of BGN

Obligation for compensation upon retirement

	2015	2014
	198	46
	198	46

The estimated amount of the obligation as at each reporting date and the expenses for retirement compensations recognised in profit or loss are based on an actuarial report. The principal actuarial assumptions at the reporting date include a discount rate of 3% as at 31 December 2015 (31 December 2014: 5 %) and future salary increase of 0.5% annually (2014: 0%).

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	46	41
Benefits paid by the plan	(22)	(41)
Current service costs	22	46
Remeasurements (actuarial gains/losses)	152	-
Defined benefit obligations at 31 December	198	46

24. Employee benefits, continued

Expense recognised in profit or loss

In thousands of BGN

	2015	2014
Current service costs	22	46
	22	46

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

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.

<i>Effect in thousands of BGN</i>	Defined benefit obligation	
	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	4,631	5,046
Advances received	288	342
Tax payables	77	80
Payables to personnel	296	262
Social security payables	151	140
Other payables	6	11
	5,449	5,881

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. 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 paid 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 liability - BGN 100 thousand and non-current liability - 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 liability - BGN 220 thousand and non-current liability - BGN 1,338 thousand.

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

	<i>Note</i>	2015	2014
Trade and other receivables	19	6,959	7,429
Related party trade receivables	28	3,526	2,667
Litigation and claims	19	2	67
Cash and cash equivalents	20	285	223
Other investments	17	3	3
		10,775	10,389

27. Financial instruments, continued

In 2015 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

	2015	2014
Domestic	1,465	1,114
European Union (excluding Bulgaria)	4,041	3,346
Russia	4,163	4,701
Other	816	935
	10,485	10,096

Impairment losses

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

In thousands of BGN

	2015 Gross	2015 Impairment	2014 Gross	2014 Impairment
Not past due	4,329	-	3,886	-
Past due 0-30 days	1,402	-	2,286	-
Past due 31-360 days	3,294	-	2,981	-
More than one year	1,574	114	1,057	114
	10,599	114	10,210	114

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

In thousands of BGN

	2015	2014
Balance at 1 January	114	76
Impairment for the year	-	38
Impairment reversed during the year	-	-
Total in the income statement	-	38
Written-off receivables	-	-
Impairment at 31 December	114	114

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.

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 <i>In thousands of BGN</i>	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	-	-	-
Finance lease	644	690	141	139	229	181	-
Bank overdraft	4,666	5,147	100	87	184	4,776	-
Trade and other payables	4,637	4,637	4,637	-	-	-	-
Related party payables	212	212	212	-	-	-	-
	19,136	20,315	5,849	4,840	1,591	7,899	136

31 December 2014

<i>In thousands of BGN</i>	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	5,928	715	1,448	1,186	2,040	539
Secured short-term bank loan	3,912	4,038	84	3,954	-	-	-
Short-term bank loans	316	334	7	7	320	-	-
Finance lease	950	1,034	181	164	280	409	-
Bank overdraft	4,078	4,209	2,994	28	1,187	-	-
Trade and other payables	5,057	5,057	5,057	-	-	-	-
Related party payables	322	322	322	-	-	-	-
	20,067	20,922	9,360	5,601	2,973	2,449	539

Foreign currency risk

Exposure to foreign currency risk

The Company's exposure to foreign currency risk is insignificant because 20 % of the sales in 2015 are realized on local markets in Bulgarian leva (2014: 20%); and 66% of the sales in 2015 are realized in Euro (2014: 68 %).

The import of materials and goods in 2015 is realized completely in Euro. Loans, denominated in foreign currency, are granted in Euro and Bulgarian leva.

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

	BGN	EUR	USD	GBP	BGN	EUR	USD	GBP
	31 December 2015				31 December 2014			
Trade and other receivables	860	5,916	-	183	736	6,549	-	144
Litigation and claims	2	-	-	-	67	-	-	-
Related party receivables	605	1,682	-	1,239	378	1,358	-	931
Cash and cash equivalents	23	260	1	1	29	194	-	-
Trade and other payables	(1,814)	(2,647)	(160)	(16)	(1,836)	(3,130)	(91)	-
Related party payables	(212)	-	-	-	(275)	(47)	-	-
Finance lease	-	(644)	-	-	-	(950)	-	-
Bank loans	(1,926)	(11,717)	-	-	(1,618)	(12,120)	-	-
Net exposure	(2,462)	(7,150)	(159)	1,407	(2,519)	(8,146)	(91)	1,075

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	1,60841
GBP	2,69672	2,42721	2,65021	2,50010

Increase of the GBP with 10% against the BGN at 31 December would increase equity and profit or decrease loss with BGN 141 thousands (2014: BGN 107 thousands). Increase with 10% of the USD against the BGN at 31 December would decrease equity and profit or increase loss with 16 thousand (2014: BGN 9 thousand). The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2014.

Interest rate risk

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

In thousands of BGN

Fixed rate instruments

Financial assets

Financial liabilities

Variable rate instruments

Financial liabilities

	2015	2014
Financial assets	285	223
Financial liabilities	(644)	(950)
	(359)	(727)
Financial liabilities	(13,643)	(13,738)
	(13,643)	(13,738)

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 profit and loss.

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 2014.

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 2015				
Variable rate instruments	(136)	136	-	-
Cash flow sensitivity (net)	(136)	136	-	-
31 December 2014				
Variable rate instruments	(137)	137	-	-
Cash flow sensitivity (net)	(137)	137	-	-

27. Financial instruments, continued

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 2015

<i>In thousands of BGN</i>	<i>Note</i>	Other		Total	Level 1	Level 2	Level 3	Total
		Loans and receivables	financial liabilities					
Financial assets not measured at fair value								
Trade and other receivables	19	6,959		6,959	-	-	-	-
Litigation and claims	19	2		2				
Related party receivables	28	3,526		3,526	-	-	-	-
Cash and cash equivalents	20	291		291	-	-	-	-
Other investments	17	3		3	-	-	-	-
		10,781		10,781	-	-	-	-
Financial liabilities not measured at fair value								
Bank overdraft	22	-	(4,666)	(4,666)	-	-	-	-
Secured bank loans	22	-	(8,977)	(8,977)	-	-	-	-
Finance lease liabilities	22	-	(644)	(644)	-	-	-	-
Trade and other payables	25	-	(4,637)	(4,637)	-	-	-	-
Related party payables	28	-	(212)	(212)	-	-	-	-
		-	(19,136)	(19,136)	-	-	-	-

31 December 2014

<i>In thousands of BGN</i>	<i>Note</i>	Other		Total	Level 1	Level 2	Level 3	Total
		Loans and receivables	financial liabilities					
Financial assets not measured at fair value								
Trade and other receivables	19	7,429		7,429	-	-	-	-
Litigation and claims	19	67		67				
Related party receivables	28	2,667		2,667	-	-	-	-
Cash and cash equivalents	20	224		224	-	-	-	-
Other investments	17	3		3	-	-	-	-
		10,390		10,390	-	-	-	-
Financial liabilities not measured at fair value								
Bank overdraft	22	-	(2,904)	(2,904)	-	-	-	-
Secured bank loans	22	-	(10,834)	(10,834)	-	-	-	-
Finance lease liabilities	22	-	(950)	(950)	-	-	-	-
Trade and other payables	25	-	(5,057)	(5,057)	-	-	-	-
Related party payables	28	-	(322)	(322)	-	-	-	-
		-	(20,067)	(20,067)	-	-	-	-

28. Related parties

Identity of related parties

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

	Country	Ownership	
		2015	2014
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.

Short-term receivables from related parties

In thousands of BGN

	2015	2014
Herti Group International	505	393
Herti Group International - dividends	44	44
Herti France	827	725
Herti UK	1,240	930
Herti Germany	306	196
Tihert EAD	583	374
Raifen OOD	21	5
Timshel OOD	-	-
Short-term receivables from related parties	3,526	2,667

None of the receivables is secured.

Related party payables

Short-term trade payables to related parties

In thousands of BGN

	2015	2014
IGM Holding – trade payables	-	47
Timshel OOD	127	92
Raifen OOD	1	21
Tihert EAD	63	141
Josef Mayer	6	6
Alexander Yuliyarov	6	6
Zahari Zahariev	6	6
Svetoslav Stamenov	3	3
Short-term payables to related parties	212	322

28. Related parties, continued

Transactions with related parties

During the period 01.01 -31.12.2015 the Company has realized the following transactions with related parties:

Sales

<i>In thousands of BGN</i>	Type of transaction	2015
Herti Group International	Sale of production	1,776
Herti UK	Sale of production	3,497
Herti France	Sale of production	4,581
Herti Germany	Sale of production	838
Tihert EAD	Sale of services, invoiced expenses	196
Tihert EAD	Sale of fixed assets	62
Timshel OOD	Sale of services	2
Raifen OOD	Sale of services	3

Purchases

<i>In thousands of BGN</i>	Type of transaction	2015
IGM Holding	Purchase of fixed assets	127
IGM Holding	Technical services received	1
Herti UK	Transport and commission services	35
Herti Germany	Commission services	1
Herti Group International	Purchase of goods	15
Tihert EAD	Spare parts purchase	361
Tihert EAD	Received services	140
Tihert EAD	Manufacture of fixed assets	409
Timshel OOD	Rental expenses	78
Raifen OOD	Transport services received	736
Members of Board of Directors	Fees paid	15

Other related party transactions

<i>In thousands of BGN</i>	Type of transaction	2015
IGM Holding	Other expenses	1
Herti France	Other expenses	19
Herti UK	Other expenses	2

Transactions with key management personnel

The key management personnel compensations are as follows:

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

<i>In thousands of BGN</i>	2015	2014
Executive Directors and Board of Directors	277	281
	<u>277</u>	<u>281</u>

28. Related parties, continued

Transactions with related parties

During the period 01.01 -31.12.2014 the Company has realized the following transactions with related parties:

Sales

<i>In thousands of BGN</i>	Type of transaction	2014
Herti Group International	Sale of production	1,808
Herti UK	Sale of production	2,814
Herti France	Sale of production	3,956
Herti Germany	Sale of production	457
Tihert EAD	Sale of services, invoiced expenses	213
Timshel OOD	Sale of services	2
Raifen OOD	Sale of services	3

Purchases

<i>In thousands of BGN</i>	Type of transaction	2014
IGM Holding	Purchase of fixed assets	89
Herti UK	Transport and commission services	61
Herti Germany	Commission services	4
Herti Group International	Purchase of goods	21
Tihert EAD	Spare parts purchase	382
Tihert EAD	Received services	174
Tihert EAD	Manufacture of fixed assets	681
Timshel OOD	Rental expenses	78
Raifen OOD	Transport services received	770
Members of Board of Directors	Fees paid	15

Other related party transactions

<i>In thousands of BGN</i>	Type of transaction	2014
IGM Holding	Other expenses	7
Herti France	Other expenses	3
Herti UK	Other expenses	2

29. Earnings per share

Earnings per share at 31 December 2015 is calculated on the basis of net profit of ordinary shareholders of the Company amounting BGN 598 thousand (2014: profit of BGN 622 thousand) by the weighted average number of ordinary shares outstanding during the period ending 31 December 2015 – 12,013,797 (2014: 12,013,797 ordinary shares).

30. Contingencies

As at 31 December 2015 Bulgarian banks have issued as guarantors of Herti AD under bank loan agreement, which provides for the issuing of bank guarantees, a loan amounting to BGN 409 thousand (2014: BGN 316 thousand). Bank guarantees from this loan have not been issued as at 31 December 2015. The bank loan is secured with assets as part of the pledge of company assets for bank loans.

31. Commitments

The Company has signed an agreement 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 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.