

## **Consolidated Management report of Herti JSC**

### **For the period 01.01-30.06.2017**

#### **Introduction**

The following consolidated report has been prepared, based on the first six months financial statements of Herti JSC as at 30 June 2017.

#### **1. Current state and development of the Company.**

##### **■ General information and management.**

Herti JSC is a public company with one stage management system and headquarter situated in Shumen, Bulgaria. The company has been registered under the law suit № 567/2007 by Shumen district court according to the Bulgarian Commercial law.

**Address of the headquarters:** 38 Antim 1<sup>st</sup> Str., 9700 Shumen, Bulgaria

The management of the company is conducted by a Board of directors, consisted of five members.

Members of the Board of directors:

Alexander Yulianov – Chairman of the Board of directors

Zahari Zahariev – Chief Executive Officer;

Dipl. Eng. Josef Mayer – Member of the Board of directors

Svetoslav Stamenov- Member of the Board of directors

Maria Velinova – Member of the Board of directors

The Board of directors hasn't authorized a procurator or any other representative.

##### **■ Company's assets management**

The Company is represented separately by Zahari Zahariev – CEO and Alexander Yulianov – Chairman of the Board of directors for business transactions up to 15 000 (fifteen thousand) BGN. For transactions with amount over 15 000 BGN the Company is represented, as follows- by the Chairman of the Board of directors **together** with the Chief Executive Officer.

##### **■ The capital structure**

The registered capital of the Company consists of 12 013 797 ordinary, voting shares with nominal value of 1 BGN each.

<b>Main shareholders</b>	<b>Number of shares</b>	<b>Amount (in thousands)</b>
IGM Holding	3 997 316	3 997
Alexander Yulianov	3 991 420	3 991
Zahari Zahariev	3 030 622	3 031
Elena Zaharieva	960 000	960
Others	34 355	34

## **2. Financial result**

The net revenue of the group for the period is 21 053 thousands of BGN, while for the same period of 2016 it is 19 058 thousands of BGN which is a 10.47 % increase. The company generated an operating profit (EBITDA) of 2 035 thousands of BGN, while for the first six months of the previous year the operating profit amounted to 2 017 thousands BGN, which shows a 0.89% increase.

The price of the main material used is formed at the stock exchange and can not be influenced by the company. The steps taken by the Management for renewing the equipment and investing in new machines, helped to decrease the production costs.

## **3. Future development strategy**

The company has a good development potential. Every year it launches new products and regularly takes part in international trade shows to attract new clients. During the period the Company took part in Agrartrade in Germany, Unified Symposium in Sacramento, Vinaria 2017 in Plovdiv, ProWine in Germany. Special attention is paid to the wine industry to which Herti offers numerous closures under the trade mark "Vinstar".

## **4. Future investments**

In September 2016 Herti started the building of a new warehouse, a water treatment plant and administrative building. The whole amount of the investment is expected to be 1921 thousand BGN and will be finished in the second half of this year.

During the period, Herti signed an agreement with RBB for increasing the long term investment credit with 1 million EUR.

## **5. Research and Development activities**

The Company is developing innovative methodologies, procedures and technological means for increasing the quality of the products and maintaining its sustainable competitive advantage.

Conscious of the importance of immaterial capital for the development of any organization, the Company is developing a program for personnel professional education and driving them to a culture of involvement in the added value generated by the company. The 5S system was implemented in all departments of the Factory.

## **6. Important events, that took place in the period 01/01 – 30/06/2017**

In May Herti successfully passed the recertification audit for BRC/IOP, obtaining the higher grade "A".

In May Herti applied for Financing from the European funds a program for Improving the Energy Efficiency in the Company.

Following its policy for organic growth Herti established a new daughter company Herti US in California.

A General meeting of the shareholders was held on June, 27<sup>th</sup> where no decision for dividends was taken.

## 7. Risk reduction and Financial instruments

Having in mind the volatility of the prices of raw materials and the risk to the operating profit, the management works for increasing incomes and controls strictly the expenses and the cash flows and tries to optimize them.

The functional currency of the Company is BGN. Most of the deals on the external market are conducted in EURO, which minimizes the currency risk. The contracted terms with the clients and suppliers give the Company the possibility not to be dependent on financial instruments such as hedging.

### Information on the transactions between the Company and related parties

For the period 01.01- 30.06.2017, the Company has realized the following transactions with related parties:

**Tab. Transactions with related parties**

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	1 146
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
IGM Holding	Expenses	1
Timshel OOD	Rent	39
Raifen OOD	Transport services received	371

## 8. Post balance sheet events.

There were no important post balance sheet events.

## 9. Responsibility of the Management

The management confirms that the financial statement for the first six months of 2017 is prepared according to the International Financial Reporting Standards and gives a fair and complete view of the financial position of the company and the risks it faces.

**Chief Executive Officer :**

Zahari Zahariev

17 August 2017

**HERTI JSC****Income statement**

For the second quarter of 2017

*In thousands of BGN*

	<b>30.6.2017</b>	<b>30.6.2016</b>
Revenue	18 533	16 974
Other income	2 520	2 084
Carrying amount of materials and goods sold	-1 357	-1 326
Increase/(decrease) of inventories of finished goods and work in progress	2 086	650
Capitalised expenses		
Expenses for materials	-12 792	-10 586
Hired services	-1 794	-1 623
Depreciation and amortisation	-1 247	-1 125
Personnel expenses	-3 955	-3 303
Other operating expenses	-1 205	-853
Finance expenses	-333	-500
Share of profit/loss in associated companies	7	4
<b>Profit before tax</b>	<b>463</b>	<b>396</b>
<b>Income tax expense/income/</b>		
<b>Profit /Loss for the period</b>	<b>463</b>	<b>396</b>
<b>Transitions of financial statements of foreign companies</b>		
<b>Revaluation of investments in foreign associates</b>		
<b>Total comprehensive income for the period</b>	<b>463</b>	<b>396</b>
<b>Earnings per share</b>	<b>0.039</b>	<b>0.033</b>

**HERTI JSC****Balance sheet**

As at 30 June 2017

*In thousands of BGN*

	30.6.2017	31.12.2016
<b>Assets</b>		
Property, plant and equipment	22 249	21 686
Intangible assets	472	528
Investments	119	112
<b>Total non-current assets</b>	<b>22 840</b>	<b>22 326</b>
Related parties receivables	645	707
Inventories	6 669	6 644
Trade and other receivables	11 301	8 836
Cash and cash equivalents	542	746
<b>Total current assets</b>	<b>19 157</b>	<b>16 933</b>
<b>Total assets</b>	<b>41 997</b>	<b>39 259</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	744	674
Retained earnings	1 419	1 003
<b>Total Equity</b>	<b>14 206</b>	<b>13 720</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	10 721	10 514
Deferred tax liabilities	796	801
Other ( earned income)	233	259
Financing	2 118	2 237
<b>Total non- current liabilities</b>	<b>13 868</b>	<b>13 811</b>
Related party payables	204	159
Interest bearing loans and finance lease	5 415	5 417
Trade and other payables	8 065	5 913
Financing	239	239
<b>Total current liabilities</b>	<b>13 923</b>	<b>11 728</b>
<b>Total liabilities</b>	<b>27 791</b>	<b>25 539</b>
<b>Total equity and liabilities</b>	<b>41 997</b>	<b>39 259</b>

**HERTI JSC****Change in equity**

For the period ended 30 June 2017

*In thousands of BGN*

	<b>Authorised Capital</b>	<b>Premium of issued capital</b>	<b>Compulsory reserves</b>	<b>Other Reserves</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance at 1 January 2016	12 014	29	168	446	321	12 978
Total recognised income and expenses	-	-			763	763
Revaluation of investments in associates						0
Translations of financial statements of foreign companies						0
Translations of reserves			60		-60	0
Balance at 31 December 2016	12 014	29	228	446	1 024	13 741
Balance at 1 January 2017	12 014	29	228	446	1 024	13 741
Translations of financial statements of foreign companies			2			2
Revaluation of investments in associates						0
Other transactions for the period			68		-68	0
Current net profit/loss	-	-			463	463
Balance at 30 June 2017	12 014	29	298	446	1 419	14 206

**HERTI JSC****Cash flow**

For the second quarter of 2017

*In thousands of BGN*

	30.6.2017	30.6.2017
<b>Cash flows from operating activities</b>		
Cash receipts from customers	19 611	18 535
Cash paid to suppliers	-13 128	-14 037
Net cash flow for salaries and wages of personnel	-4 195	-3 382
Other payments from operating activities	-117	-196
Income taxes paid /received	-365	-63
<b>Cash from operating activities</b>	<b>1 806</b>	<b>857</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-2 010	-765
Proceeds from non-current assets		78
Other proceeds/ payments from investment activities		
<b>Cash from investing activities</b>	<b>-2 010</b>	<b>-687</b>
<b>Cash flows from financing activities</b>		
Loans received	1 122	1 339
Repayment of borrowings	-804	-1 049
Other financial payments/received		
Payment of finance lease liabilities	-135	-142
Interest paid	-184	-195
Other financial payments		
<b>Cash from financing activities</b>	<b>-1</b>	<b>-47</b>
Net increase in cash and cash equivalents	-204	123
Cash and cash equivalents at 1 January	746	513
Effect of change of currency exchange rate		
<b>Cash and cash equivalents at the end of the period</b>	<b>542</b>	<b>636</b>