

Second Quarter Consolidated management report of Herti JSC

For the period 01.01-30.06.2016

Introduction

The following report has been prepared, based on the second quarter financial statements of Herti JSC as at 30 June 2016.

1. Current state and development of the Company.

■ General information and management.

Herti JSC is a public limited 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 1st 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 Georgieva 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 by the Chief Executive Officer, **together** with the Chairman of the Board of directors.

■ The capital structure

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

Main shareholders	Number of shares	Amount (in thousands)
IGM Holding	4 072 400	4 073
Alexander Yulianov	3 953 920	3 954
Zahari Zahariev	2 993 122	2 993

Elena Zaharieva	960 000	960
Others	34 355	34

2. Financial result

The net revenue for the period covered by the report is 18 939 thousands of BGN, while for the same period of 2015 it is 17 419 thousands of BGN and shows 8.73% growth. The EBITDA (earnings before interest, taxes, depreciation and amortization) has increased with 0.95% and is now 2 017 thousand BGN.

The financial result of the Company is improving due to controlling costs and steady prices of raw materials. The constant work for optimizing the processes in the Company and controlling the expenses lead to stabilizing financial indicators. The variable costs stay stable. The investments made in 2014 and 2015 influence the cost price and the profit.

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, Vinaria 2016 in Plovdiv, ProWine in Germany, ProdExpo in Russia and London Wine Fair in the UK. Special attention is paid to the wine industry to which Herti offers numerous closures under the trade mark “Vinstar”.

4. 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.

5. Important events, that took place in the period 01/01 – 30/06/2016

In January Herti successfully passed the recertification audit for ISO 9001-2008

In March Herti successfully passed the recertification audit for BRC/IOP.

Observing the rules of those standards and currently updating the certificates give confidence and trust to our existing customers and helps to attract new clients.

In April Herti signed a contract with RBB for a long term credit for 2 million EUR for financing the investment program of the company that aims to increase capacity and shorten the delivery terms for production. Until this moment the administrative procedures are still running.

In June Herti applied for financing from the EU under the de minimis funding for Improving the working conditions in the factory.

A General meeting of the shareholders was held on June, 28th where no decision for dividends was taken.

6. Post balance sheet events.

Herti started to build a waste water treatment plant.

7. Board of directors remunerations and reacquired owned shares.

As at the date of the following report, the Company didn't reacquire any of its own shares as specified under article 187 of the Bulgarian Commercial law.

The amount total remuneration for the members of the Board of directors for the second quarter of 2016 is 169 000 BGN.

8. Subsidiaries and associated companies as at 30.06.2016

Company	Herti JSC share in the company	Headquarters
TIHERT JSC	100%	Shumen - Bulgaria
Herti UK	100%	Great-Britain
Herti France	100%	France
Herti Germany	100%	Germany
Herti Group International	49%	Romania

9. Risk reduction and Financial instruments

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.

The main risk is increasing the price of raw materials, and the Management takes steps to minimize this risk.

Information on the transactions between the Company and related parties

For the period 01.01- 30.06.2016, the Company has realized the following transactions with related parties:

Tab. 2 Transactions with related parties

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	1 047
IGM Holding	Expenses	4
Timshel OOD	Rent	39
Timshel OOD	Service rendered	1
Raifen OOD	Purchase of transport services	369
Raifen OOD	Sales of services	1

10. Responsibility of the Management

The management confirms that the consolidated financial statement for the second quarter of 2016 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.

29 August 2016

CEO:

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2016

In thousands of BGN

	30.6.2016	30.6.2015
Revenue	16 974	15 870
Other income	2 084	1 734
Carrying amount of materials and goods sold	-1 326	-940
Increase/(decrease) of inventories of finished goods and work in progress	650	426
Capitalised expenses		
Expenses for materials	-10 586	-10 508
Hired services	-1 623	-1 566
Depreciation and amortisation	-1 125	-1 256
Personnel expenses	-3 303	-2 727
Other operating expenses	-853	-291
Finance expenses	-500	-286
Share of profit/loss in associated companies	4	-33
Profit before tax	396	423
Income tax expense/income/		
Profit /Loss for the period	396	423
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	396	423
Earnings per share	0.033	0.035

HERTI JSC**Balance sheet**

As at 30 June 2016

In thousands of BGN

	30.6.2016	31.12.2015
Assets		
Property, plant and equipment	20 054	19 946
Intangible assets	575	648
Investments	136	133
Total non-current assets	20 765	20 727
Related parties receivables	675	570
Inventories	6 583	5 966
Trade and other receivables	9 828	9 590
Cash and cash equivalents	636	513
Total current assets	17 722	16 639
Total assets	38 487	37 366
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	614	614
Retained earnings	727	321
Total Equity	13 384	12 978
Liabilities		
Interest bearing loans and finance lease	9 055	8 979
Deferred tax liabilities	795	790
Other (earned income)	198	213
Financing	2 357	2 328
Total non- current liabilities	12 405	12 310
Related party payables	146	195
Interest bearing loans and finance lease	5 396	5 308
Trade and other payables	6 917	6 189
Financing	239	386
Total current liabilities	12 698	12 078
Total liabilities	25 103	24 388
Total equity and liabilities	38 487	37 366

HERTI JSC**Change in equity**

For the period ended 30 June 2016

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2015	12 014	29	105	448	-91	12 505
Total recognised income and expenses	-	-			641	641
Revaluation of investments in associates						0
Translations of financial statements of foreign companies				-2	-166	-168
Translations of reserves			63		-63	0
Balance at 31 December 2015	12 014	29	168	446	321	12 978
Balance at 1 January 2016	12 014	29	168	446	321	12 978
Translations of financial statements of foreign companies						0
Revaluation of investments in associates						0
Other transactions for the period					10	10
Current net profit/loss	-	-			396	396
Balance at 30 June 2016	12 014	29	168	446	727	13 384

HERTI JSC**Cash flow**

For the second quarter of 2016

In thousands of BGN

	30.6.2016	30.6.2015
Cash flows from operating activities		
Cash receipts from customers	18 535	17 287
Cash paid to suppliers	-14 037	-14 016
Net cash flow for salaries and wages of personnel	-3 382	-2 872
Other payments from operating activities	-196	-7
Income taxes paid /received	-63	187
Cash from operating activities	857	579
Cash flows from investing activities		
Acquisition of property, plant and equipment	-765	-2 624
Proceeds from non-current assets	78	91
Other proceeds/ payments from investment activities		1 767
Cash from investing activities	-687	-766
Cash flows from financing activities		
Loans received	1 339	3 072
Repayment of borrowings	-1 049	-2 645
Other financial payments/received		
Payment of finance lease liabilities	-142	-197
Interest paid	-195	-264
Other financial payments		
Cash from financing activities	-47	-34
Net increase in cash and cash equivalents	123	-221
Cash and cash equivalents at 1 January	513	462
Effect of change of currency exchange rate		
Cash and cash equivalents at the end of the period	636	241