

Explanatory notes to the Consolidated Financial Statement of Herti JSC
For the period 01.01-31.12.2016

1. Important events, that took place in the period 01/01 – 31/2016

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.

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.

In August the building of a Water treatment plant was started and in September started the building of a new warehouse according to the investment program.

In September representatives of the management made some transactions with shares of the company on BSE.

In December representatives of the management made some transactions with shares of the company on BSE.

2. 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 for the company is the increasing price of raw materials due to the devaluation of the EUR against USD. Negative impact on the financial costs has the devaluation of the British pound. Possible unfavorable circumstances for Herti UK could arise as a result of the Brekzit. 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.

3. Information on the transactions between the Company and related parties

For the period 01.01- 31.12.2016, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	2 148

Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
IGM Holding	Technical services	1
IGM Holding	Purchasing of fixed assets	33
Timshel OOD	Rent	78
Raifen OOD	Transport services received	648

4. There are no new considerable and important receivables or payables arisen for the period.

5. Responsibility of the Management

The management confirms that the consolidated financial statement for the fourth quarter of 2016 gives a fair and complete view of the financial position of the company and the risks it faces.

27 February 2016

Chief Executive Officer:

Zahari Zahariev

HERTI JSC**Income statement**

For the fourth quarter of 2016

In thousands of BGN

	31.12.2016	31.12.2015
Revenue	35 371	33 037
Other income	3 398	3 098
Carrying amount of materials and goods sold	-2 458	-2 323
Increase/(decrease) of inventories of finished goods and work in progress	1 034	722
Capitalised expenses		
Expenses for materials	-21 185	-20 867
Hired services	-3 430	-3 193
Depreciation and amortisation	-2 312	-2 463
Personnel expenses	-7 409	-5 867
Other operating expenses	-1 349	-730
Finance expenses	-846	-707
Share of profit/loss in associated companies	2	-39
Profit before tax	816	668
Income tax expense/income/	-60	
Profit /Loss for the period	756	668
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	756	668

HERTI JSC**Balance sheet**

As at 31 December 2016

In thousands of BGN

	31.12.2016	31.12.2015
Assets		
Property, plant and equipment	21 683	19 946
Intangible assets	513	648
Investments	126	133
Total non-current assets	22 322	20 727
Related parties receivables	707	570
Inventories	6 666	5 966
Trade and other receivables	8 806	9 590
Cash and cash equivalents	747	513
Total current assets	16 926	16 639
Total assets	39 248	37 366
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	674	614
Retained earnings	1 039	321
Total Equity	13 756	12 978
Liabilities		
Interest bearing loans and finance lease	10 514	8 979
Deferred tax liabilities	801	790
Other (earned income)	246	213
Financing	2 237	2 328
Total non- current liabilities	13 798	12 310
Related party payables	157	195
Interest bearing loans and finance lease	5 417	5 308
Trade and other payables	5 881	6 189
Financing	239	386
Total current liabilities	11 694	12 078
Total liabilities	25 492	24 388
Total equity and liabilities	39 248	37 366

HERTI JSC**Change in equity**

For the period ended 31 December 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					25	25
Revaluation of investments in associates						0
Other transactions for the period			60		-63	-3
Current net profit/loss	-	-			756	756
Balance at 31 December 2016	12 014	29	228	446	1 039	13 756

HERTI JSC**Cash flow**

For the fourth quarter of 2016

In thousands of BGN

	31.12.2016	31.12.2015
Cash flows from operating activities		
Cash receipts from customers	39 698	44 453
Cash paid to suppliers	-28 619	-37 095
Net cash flow for salaries and wages of personnel	-7 430	-6 070
Other payments from operating activities	-314	120
Income taxes paid /received	-552	601
Cash from operating activities	2 783	2 009
Cash flows from investing activities		
Acquisition of property, plant and equipment	-3 933	-2 673
Proceeds from non-current assets	88	107
Other proceeds/ payments from investment activities	43	1 767
Cash from investing activities	-3 802	-799
Cash flows from financing activities		
Loans received	3 931	3 244
Repayment of borrowings	-2 034	-3 338
Other financial payments/received		
Payment of finance lease liabilities	-291	-361
Interest paid	-353	-704
Other financial payments		
Cash from financing activities	1 253	-1 159
Net increase in cash and cash equivalents	234	51
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	747	513