

Management report of Herti JSC

For the period 01.01-30.06.2017

Introduction

The following 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 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 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.

Main shareholders	Number of shares	Amount (in thousands)
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 for the period covered by the report is 20 475 thousands of BGN, while for the same period of 2016 it is 18 357 thousands of BGN which is an 11.54 % increase. The Company registers profit of 374 thousands of BGN, which is 7.78% more compared to 347 thousands BGN profit for the same period of 2016. The company generated an operating profit (EBITDA) of 1 906 thousands of BGN, while for the first six months of the previous year the operating profit amounted to 1 944 thousands BGN, which shows a 1.99% decrease.

The financial indicators in table 1 show rising both of variable and fixed expenses, but they are compensated by the increased turnover.

Tab. 1 Net sales and Structure of the operating expenses

	30.06.2017	30.06.2016	Variation	
			Value	Percentage
1. Net revenue	20 475	18 357	2 118	11,54
2. Expenses for materials	(12 700)	(10 415)	(2 285)	(21,94)
3. Hired services	(1 554)	(1 370)	(184)	13,43
4. Depreciation	(1 206)	(1 104)	(102)	(9,24)
5. Personal expenses	(3 275)	(2 716)	(559)	20,58
6. Other expenses	(838)	(1 046)	208	19,89

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. The variable and fixed costs are increased. The management works actively for enlarging market share by launching new products. The budgeted costs are monitored constantly. The implemented ERP system gives detailed and up-to-date information and helps to take better decisions. The increased sales can stabilize the profits of the Company.

3. 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, 27th where no decision for dividends was taken.

4. 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.

5. Financial indicators

The liquidity ratio for the period is 1.42 which is decreased, compared to the previous year, due to investments made with own recourses. The ratio is good for an industrial company having in mind the production cycle and the specific industry the company operates in. We should also have in mind that through the period the company has paid back 804 thousand BGN of its long term loans.

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

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
Herti UK	Sales of product	1 603
Herti France	Sales of product	3 621
Herti Germany	Sales of products	1 086
TIHERT JSC	Services sales	57
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
Herti UK	Transport and commission services	11
Herti France	Expenses	2
Herti Germany	Purchasing of fixed assets	3
IGM Holding	Expenses	1
Timshel OOD	Rent	39
TIHERT JSC	Purchase of spare parts	209
TIHERT JSC	Fixed assets manufacturing	409
TIHERT JSC	Maintaining services	106
Raifen OOD	Transport services received	369

6. 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”.

7. 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.

8. 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.

9. Post balance sheet events.

There were no important post balance sheet events.

10. 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.

11. Corporate social responsibility

Herti follows the principles of the National code for Corporative governance. The principles of transparency and free loyal competition are adopted in the ethical code of the company. Herti is a socially responsible company and supports cultural and sport events in the regions in which it operates.

12. 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.

26 July 2017

Chief Executive Officer :

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2017

In thousands of BGN

	30.6.2017	30.6.2016
Revenue	18 484	16 759
Other income	1 991	1 598
Carrying amount of materials and goods sold	-202	-866
Increase/(decrease) of inventories of finished goods and work in progress	330	-212
Capitalised expenses	-1	-1
Expenses for materials	-12 700	-10 415
Hired services	-1 554	-1 370
Depreciation and amortisation	-1 206	-1 104
Personnel expenses	-3 275	-2 716
Other operating expenses	-1 167	-833
Finance income	0	0
Finance expenses	-326	-493
Profit before tax	374	347
Income tax expense		
Profit for the period	374	347

HERTI JSC**Balance sheet**

As at 30 June 2017

In thousands of BGN

	30.6.2017	31.12.2016
Assets		
Property, plant and equipment	22 535	21 879
Intangible assets	422	480
Investments	389	336
Total non-current assets	23 346	22 695
Related parties receivables	3 910	3 248
Inventories	6 109	5 829
Trade and other receivables	8 270	7 125
Cash and cash equivalents	351	532
Total current assets	18 640	16 734
Total assets	41 986	39 429
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	677	609
Retained earnings	2 232	1 926
Total Equity	14 952	14 578
Liabilities		
Interest bearing loans and finance lease	10 721	10 514
Deferred tax liabilities	869	869
Other non-current liabilities	228	228
Financing	2 118	2 237
Total non-current liabilities	13 936	13 848
Related party payables	323	292
Interest bearing loans and finance lease	5 415	5 417
Taxes payable		121
Trade and other payables	7 121	4 934
Financing	239	239
Total current liabilities	13 098	11 003
Total liabilities	27 034	24 851
Total equity and liabilities	41 986	39 429

HERTI JSC**Change in equity**

For the period ended 30 June 2017

In thousands of BGN

	Authorised Capital	Reserves	Additional Reserves	Premium of issued capital	Retained Earnings	Total
Balance at 1 January 2016	12 014	167	382	29	1 311	13 903
Current net profit/loss	-				678	678
Transform of liabilities to reserves		60			-63	-3
Other income						
Balance at 31 December 2016	12 014	227	382	29	1 926	14 578
Balance at 1 January 2017	12 014	227	382	29	1 926	14 578
Current net profit/loss	-		-		374	374
Retained earnings						0
Other changes/ reserves		68			-68	0
Balance at 30 June 2017	12 014	295	382	29	2 232	14 952

HERTI JSC**Cash flow**

For the second quarter of 2017

In thousands of BGN

	01.01-30.06.2017	01.01.-30.06.2016
Cash flows from operating activities		
Cash receipts from customers	18 628	17 585
Cash paid to suppliers	-13 539	-13 613
Net cash flow for salaries and wages of personnel	-3 492	-2 848
Income taxes paid /received	318	295
Cash from operating activities	1 915	1 419
Cash flows from investing activities		
Acquisition of property, plant and equipment	-1 994	-1 180
Proceeds from non-current assets	0	78
Investment in daughter companies	-53	0
Cash from investing activities	-2 047	-1 102
Cash flows from financing activities		
Loans received	1 122	1 339
Repayment of borrowings	-804	-1 049
Payment of finance lease liabilities	-123	-142
Interest paid	-218	-253
Transactions costs	-43	-49
Other financing activities		
Cash from financing activities	-66	-154
Net increase in cash and cash equivalents	-198	163
Cash and cash equivalents at 1 January	532	303
Effect of change of currency exchange rate on cash held	17	-17
Cash and cash equivalents at the end of the period	351	449