

Management report of Herti JSC

For the period 01.01-30.06.2016

Introduction

The following report has been prepared, based on the first six months 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 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	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 18357 thousands of BGN, while for the same period of 2015 it is 16 752 thousands of BGN which is a 9.58 % increase. At the same time the Company registers profit of 347 thousands of BGN, which is 6.05% less compared to 368 thousands BGN profit for the same period of 2015. The company generated an operating profit (EBITDA) of 1 944 thousands of BGN, while for the first six months of the previous year the operating profit amounted to 1 874 thousands BGN, which shows a 3.74% increase.

The increased net profit is due to the increase in sales. 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

	30.06.2016	30.06.2015	Variation	
			Value	Percentage
1. Net revenue	18 357	16 752	1 605	9.58%
2. Expenses for materials	(10 415)	(10 379)	36	0.35%
3. Hired services	(1 370)	(1 294)	76	5.87%
4. Depreciation	(1 104)	(1 225)	(121)	(10.96%)
5. Personal expenses	(2 319)	(1 855)	464	25.01%
6. Other expenses	(1 912)	(1 040)	872	83.85%

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 personal expenses are increased because of hiring new people for the new machines and shifts and because of the higher minimal wage from 01.01.2016. 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. The liquidity ratio for the period is 1.48 which is increased with 1 points compared to last quarter of the previous year. 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 601 thousand BGN of its long term loans.

In January Herti signed an agreement for a short term credit.

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 Moscow and London Wine Fair in London. 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.

There were no important post balance sheet events.

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 period is 132 000 BGN.

8. Subsidiaries and associated companies as at 30.06.2016

Daughter 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
Shareholders	Share in Herti JSC	Headquarters
IGM Holding	33.90 %	Austria
Companies under common control		

Timshel Ltd
Rifen Ltd

Bulgaria
Bulgaria

9. 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
Herti UK	Sales of product	1 735
Herti France	Sales of product	3 070
Herti Germany	Sales of products	465
TIHERT JSC	Services sales	61
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
Herti UK	Transport and commission services	11
Herti France	Expenses	1
Herti Germany	Purchasing of fixed assets	3
IGM Holding	Expenses	4
Timshel OOD	Rent	39
TIHERT JSC	Purchase of spare parts	151
TIHERT JSC	Fixed assets manufacturing	266
TIHERT JSC	Maintaining services	67
Raifen OOD	Transport services received	369

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.

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. Negative impact on the financial costs has the devaluation of the British pound. Possible unfavourable circumstances for Herti UK could arise as a result of the Breakzit.

11. Corporate social responsibility

Herti follows the principles of the National code for Corporate 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 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.

25 July 2016

Chief Executive Officer :

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2016

In thousands of BGN

	30.6.2016	30.6.2015
Revenue	16 759	14 972
Other income	1 598	1 780
Carrying amount of materials and goods sold	-866	-941
Increase/(decrease) of inventories of finished goods and work in progress	-212	178
Capitalised expenses	-1	-4
Expenses for materials	-10 415	-10 379
Hired services	-1 370	-1 294
Depreciation and amortisation	-1 104	-1 225
Personnel expenses	-2 716	-2 165
Other operating expenses	-833	-273
Finance income	0	115
Finance expenses	-493	-396
Profit before tax	347	368
Income tax expense		
Profit for the period	347	368

HERTI JSC**Balance sheet**

As at 30 June 2016

In thousands of BGN

	30.6.2016	31.12.2015
Assets		
Property, plant and equipment	20 203	20 026
Intangible assets	543	605
Investments	336	336
Total non-current assets	21 082	20 967
Related parties receivables	3 729	3 526
Inventories	5 649	5 515
Trade and other receivables	7 858	7 313
Cash and cash equivalents	449	303
Total current assets	17 685	16 657
Total assets	38 767	37 624
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	609	549
Retained earnings	1 598	1 311
Total Equity	14 250	13 903
Liabilities		
Interest bearing loans and finance lease	9 055	8 979
Deferred tax liabilities	861	861
Other non-current liabilities	198	198
Financing	2 357	2 328
Total non-current liabilities	12 471	12 366
Related party payables	250	212
Interest bearing loans and finance lease	5 396	5 308
Taxes payable		5
Trade and other payables	6 161	5 444
Financing	239	386
Total current liabilities	12 046	11 355
Total liabilities	24 517	23 721
Total equity and liabilities	38 767	37 624

HERTI JSC**Change in equity**

For the period ended 30 June 2016

In thousands of BGN

	Authorised Capital	Reserves	Additional Reserves	Premium of issued capital	Retained Earnings	Total
Balance at 1 January 2015	12 014	105	382	29	927	13 457
Current net profit/loss	-				598	598
Transform of liabilities to reserves		62			-62	0
Other income					-152	-152
Balance at 31 December 2015	12 014	167	382	29	1 311	13 903
Balance at 1 January 2016	12 014	167	382	29	1 311	13 903
Current net profit/loss	-		-			0
Retained earnings					347	347
Other changes/ reserves		60			-60	0
Balance at 30 June 2016	12 014	227	382	29	1 598	14 250

HERTI JSC**Cash flow**

For the second quarter of 2016

In thousands of BGN

	01.01-30.06.2016	01.01.-30.06.2015
Cash flows from operating activities		
Cash receipts from customers	17 585	16 151
Cash paid to suppliers	-13 613	-13 432
Net cash flow for salaries and wages of personnel	-2 848	-2 310
Income taxes paid /received	295	445
Cash from operating activities	1 419	854
Cash flows from investing activities		
Acquisition of property, plant and equipment	-1 180	-2 768
Proceeds from non-current assets	78	91
Investment in daughter companies	0	0
Cash receipts from financing	0	1 767
Cash from investing activities	-1 102	-910
Cash flows from financing activities		
Loans received	1 339	3 072
Repayment of borrowings	-1 049	-2 645
Payment of finance lease liabilities	-142	-182
Interest paid	-253	-314
Transactions costs	-49	-66
Other financing activities		
Cash from financing activities	-154	-135
Net increase in cash and cash equivalents	163	-191
Cash and cash equivalents at 1 January	303	224
Effect of change of currency exchange rate on cash held	-17	93
Cash and cash equivalents at the end of the period	449	126