

## Explanatory notes to the financial statement of Herti JSC

For the period 01.01-30.09.2017

### 1. Important events, that took place in the period 01/01 – 30/09/2017

In January Herti took part in the exhibition Unified Wine&Grape Symposium in Sacramento California for the first time.

Traditionally Herti exhibited its products at the international trade show Vinaria (Plovdiv) in February and at the world trade show Prowein in Germany in March.

The regular participations in different exhibitions acknowledge the trade mark HL and attracts new customers.

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

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

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.

In July Herti signed an investment loan contract with RBB for one million EUR for financing new production equipment.

An Extraordinary General Meeting of the shareholders was held on 21.09.2017 where a new Audit committee was elected.

### 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.

Having in mind the volatility of the prices of raw materials, specifically of the aluminium , 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- 30.09.2017, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	1 799

Herti UK	Sales of product	2 634
Herti France	Sales of product	5 396
Herti Germany	Sales of products	1 843
TIHERT JSC	Services sales	84
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
Herti UK	Transport and commission services	18
IGM Holding	Expenses	3
Timshel OOD	Rent	59
TIHERT JSC	Purchase of spare parts	304
TIHERT JSC	Fixed assets manufacturing	522
TIHERT JSC	Maintaining services	163
Raifen OOD	Transport services received	549

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 financial statement for the third quarter of 2017 gives a fair and complete view of the financial position of the company and the risks it faces.

24 October 2017

**Chief Executive Officer:**

Zahari Zahariev

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

For the third quarter of 2017

*In thousands of BGN*

	<b>30.9.2017</b>	<b>30.9.2016</b>
Revenue	27 919	25 484
Other income	3 104	2 573
Carrying amount of materials and goods sold	-231	-1 146
Increase/(decrease) of inventories of finished goods and work in progress	369	-109
Capitalised expenses		
Expenses for materials	-19 403	-16 110
Hired services	-2 296	-2 021
Depreciation and amortisation	-1 806	-1 674
Personnel expenses	-5 073	-4 642
Other operating expenses	-1 555	-1 107
Finance income	0	0
Finance expenses	-466	-700
<b>Profit before tax</b>	<b>562</b>	<b>548</b>
<b>Income tax expense</b>		
<b>Profit for the period</b>	<b>562</b>	<b>548</b>

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

As at 30 September 2017

*In thousands of BGN*

	30.9.2017	31.12.2016
<b>Assets</b>		
Property, plant and equipment	25 108	21 879
Intangible assets	389	480
Investments	389	336
Related parties receivables	17	
<b>Total non-current assets</b>	<b>25 903</b>	<b>22 695</b>
Related parties receivables	4 575	3 248
Inventories	6 126	5 829
Trade and other receivables	7 132	7 125
Cash and cash equivalents	376	532
<b>Total current assets</b>	<b>18 209</b>	<b>16 734</b>
<b>Total assets</b>	<b>44 112</b>	<b>39 429</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	677	609
Retained earnings	2 420	1 926
<b>Total Equity</b>	<b>15 140</b>	<b>14 578</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	12 924	10 514
Deferred tax liabilities	869	869
Other non-current liabilities	228	228
Financing	2 058	2 237
<b>Total non-current liabilities</b>	<b>16 079</b>	<b>13 848</b>
Related party payables	354	292
Interest bearing loans and finance lease	5 478	5 417
Taxes payable	96	121
Trade and other payables	6 726	4 934
Financing	239	239
<b>Total current liabilities</b>	<b>12 893</b>	<b>11 003</b>
<b>Total liabilities</b>	<b>28 972</b>	<b>24 851</b>
<b>Total equity and liabilities</b>	<b>44 112</b>	<b>39 429</b>

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

For the period ended 30 September 2017

*In thousands of BGN*

	<b>Authorised Capital</b>	<b>Reserves</b>	<b>Additional Reserves</b>	<b>Premium of issued capital</b>	<b>Retained Earnings</b>	<b>Total</b>
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	-		-		562	562
Retained earnings						0
Other changes/ reserves		68			-68	0
Balance at 30 September 2017	12 014	295	382	29	2 420	15 140

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

For the third quarter of 2017

*In thousands of BGN*

	01.01-30.09.2017	01.01.-30.09.2016
<b>Cash flows from operating activities</b>		
Cash receipts from customers	29 536	27 728
Cash paid to suppliers	-21 800	-21 303
Net cash flow for salaries and wages of personnel	-5 309	-4 354
Income taxes paid /received	670	495
Other income/payments	-106	-210
<b>Cash from operating activities</b>	<b>2 991</b>	<b>2 356</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-5 256	-2 729
Proceeds from non-current assets	0	88
Investment in daughter companies	-53	0
Dividends from investments		43
<b>Cash from investing activities</b>	<b>-5 309</b>	<b>-2 598</b>
<b>Cash flows from financing activities</b>		
Loans received	4 200	2 310
Repayment of borrowings	-1 567	-1 459
Payment of finance lease liabilities	-174	-212
Interest paid	-280	-276
Transactions costs		
Other financing activities	-17	
<b>Cash from financing activities</b>	<b>2 162</b>	<b>363</b>
Net increase in cash and cash equivalents	-156	121
Cash and cash equivalents at 1 January	532	303
Effect of change of currency exchange rate on cash held		
<b>Cash and cash equivalents at the end of the period</b>	<b>376</b>	<b>424</b>