

## **Explanatory notes to the financial statement of Herti JSC**

**For the period 01.01-30.09.2018**

### **1. Important events, that took place in the period 01/01 – 30/09/2018**

On January 12<sup>th</sup>, 2018, Herti signed a contract with the Ministry of Labor and Social Policy and its fund “Labor conditions” to realize a project for improving the health and safety working conditions in the factory.

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

In March Herti took part in the Carrer days in Varna and Ruse and in the Career forum in London.

For the period herti attended several trade shows: Unified Wine&Grape Symposium in Sacramento, Vinaria in Plovdiv and Prowein in Dusseldorf.

A General meeting of the shareholders was held on June 26<sup>th</sup>. No decision was taken for dividends.

Herti marked its 25<sup>th</sup> anniversary on June 29<sup>th</sup> with several events attended by all employees and by domestic and foreign partners.

In September Herti passed its ISO recertification and will implement the rules of ISO 9001-2015. The certificate is issued by SGS and is valid till September 2021.

Herti started to operate a new warehouse at the production site in Pliska. The building, covering 2 500 sq.m., has four loading platforms. It is equipped with two wrapping machines, a reach truck and forklift trucks. The bar code readers and the software allow easy navigation and quick service. Beside the new warehouse the company invested in a water treatment plant. Herti is conscious of the environment and pays special attention to the effective use of natural recourses.

### **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 aluminum, 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- 30.09.2018, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	2 101
Herti UK	Sales of product	2 698
Herti France	Sales of product	6 303
Herti Germany	Sales of products	2 139
TIHERT JSC	Services sales	92
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
IGM Holding	Expenses	5
Herti UK	Transport and commission services	16
TIHERT JSC	Purchase of spare parts	217
TIHERT JSC	Fixed assets manufacturing	530
TIHERT JSC	Maintaining services	161
Timshel OOD	Rent	58
Raifen OOD	Transport services received	593

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 2018 gives a fair and complete view of the financial position of the company and the risks it faces.

18 October 2018

**Chief Executive Officer:**

Zahari Zahariev

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

For the third quarter of 2018

*In thousands of BGN*

	30.9.2018	30.9.2017
Revenue	27 570	27 919
Other income	2 862	3 104
Carrying amount of materials and goods sold	-76	-231
Increase/(decrease) of inventories of finished goods and work in progress	-87	369
Capitalised expenses		
Expenses for materials	-18 641	-19 403
Hired services	-2 117	-2 296
Depreciation and amortisation	-1 937	-1 806
Personnel expenses	-5 854	-5 073
Other operating expenses	-860	-1 555
Finance income	19	0
Finance expenses	-404	-466
<b>Profit before tax</b>	<b>475</b>	<b>562</b>
<b>Income tax expense</b>		
<b>Profit for the period</b>	<b>475</b>	<b>562</b>

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

As at 30 September 2018

*In thousands of BGN*

	30.9.2018	31.12.2017
<b>Assets</b>		
Property, plant and equipment	25 809	25 268
Intangible assets	263	362
Investments	389	389
Long term receivables	98	17
<b>Total non-current assets</b>	<b>26 559</b>	<b>26 036</b>
Related parties receivables	4 132	3 718
Inventories	5 607	6 313
Trade and other receivables	6 646	6 548
Cash and cash equivalents	340	609
<b>Total current assets</b>	<b>16 725</b>	<b>17 188</b>
<b>Total assets</b>	<b>43 284</b>	<b>43 224</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	747	677
Retained earnings	2 972	2 567
<b>Total Equity</b>	<b>15 762</b>	<b>15 287</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	12 325	12 838
Deferred tax liabilities	861	861
Other non-current liabilities	253	265
Financing	1 819	1 998
<b>Total non-current liabilities</b>	<b>15 258</b>	<b>15 962</b>
Related party payables	343	388
Interest bearing loans and finance lease	5 737	5 568
Taxes payable	447	437
Trade and other payables	5 498	5 343
Financing	239	239
<b>Total current liabilities</b>	<b>12 264</b>	<b>11 975</b>
<b>Total liabilities</b>	<b>27 522</b>	<b>27 937</b>
<b>Total equity and liabilities</b>	<b>43 284</b>	<b>43 224</b>

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

For the period ended 30 September 2018

*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>Profit/Loss</b>	<b>Total</b>
Balance at 1 January 2017	12 014	227	382	29	1248	678	14 578
Current net profit/loss	-						0
Transform of retained earnings- nondistributed		68			610	-678	0
Other income					4	705	709
Balance at 31 December 2017	12 014	295	382	29	1862	705	15 287
Balance at 1 January 2018	12 014	295	382	29	1862	705	15 287
Current net profit/loss	-		-			475	475
Retained earnings							0
Other changes/ reserves		70				-70	0
Balance at 30 September 2018	12 014	365	382	29	1862	1 110	15 762

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

For the third quarter of 2018

*In thousands of BGN*

	01.01-30.09.2018	01.01.-30.09.2017
<b>Cash flows from operating activities</b>		
Cash receipts from customers	30 280	29 536
Cash paid to suppliers	-21 580	-21 800
Net cash flow for salaries and wages of personnel	-6 019	-5 309
Income taxes paid /received(excluding profit tax)	512	695
Profit tax	-27	-25
Interest for short term credits and bank taxes paid	-110	-118
Effect of change of currency exchange rate on cash held	5	12
<b>Cash from operating activities</b>	<b>3 061</b>	<b>2 991</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-2 619	-5 256
Proceeds from non-current assets	10	0
Investment in daughter companies	11	-53
Loans given/received	-82	
<b>Cash from investing activities</b>	<b>-2 680</b>	<b>-5 309</b>
<b>Cash flows from financing activities</b>		
Loans received	1 333	4 200
Repayment of borrowings	-1 565	-1 567
Payment of finance lease liabilities	-130	-174
Interest for investment credits paid	-288	-280
Transactions costs		
Other financing activities		
<b>Cash from financing activities</b>	<b>-650</b>	<b>2 179</b>
Net increase in cash and cash equivalents	-269	-156
Cash and cash equivalents at 1 January	609	532
<b>Cash and cash equivalents at the end of the period</b>	<b>340</b>	<b>376</b>