

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

**For the period 01.01-31.12.2018**

### **1. Important events, that took place in the period 01/01 – 31/12/2018**

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.

At the end of October Herti finished the project for improving the labour conditions in the factory and it was approved by a special commission. At the end of November the partial financing for the project was paid by the Ministry of Labor and Social Policy.

### **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- 31.12.2018, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	2 676
Herti UK	Sales of product	3 729
Herti France	Sales of product	7 552
Herti Germany	Sales of products	2 967
Herti US	Sales of products	175
TIHERT JSC	Services sales	122
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
IGM Holding	Expenses	6
Herti UK	Transport and commission services	16
Herti France	Commissions	9
TIHERT JSC	Purchase of spare parts	316
TIHERT JSC	Fixed assets manufacturing	925
TIHERT JSC	Maintaining services	206
Timshel OOD	Rent	78
Raifen OOD	Transport services received	760

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

22 January 2019

**Chief Executive Officer:**

Zahari Zahariev

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

For the fourth quarter of 2018

*In thousands of BGN*

	<b>31.12.2018</b>	<b>31.12.2017</b>
Revenue	36 204	37 022
Other income	3 853	4 236
Carrying amount of materials and goods sold	-106	-585
Increase/(decrease) of inventories of finished goods and work in progress	-155	747
Capitalised expenses		
Expenses for materials	-24 260	-25 676
Hired services	-2 974	-3 035
Depreciation and amortisation	-2 647	-2 428
Personnel expenses	-8 181	-7 808
Other operating expenses	-469	-1 083
Finance income	11	0
Finance expenses	-541	-629
<b>Profit before tax</b>	<b>735</b>	<b>761</b>
<b>Income tax expense</b>		<b>-56</b>
<b>Profit for the period</b>	<b>735</b>	<b>705</b>

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

As at 31 December 2018

*In thousands of BGN*

	31.12.2018	31.12.2017
<b>Assets</b>		
Property, plant and equipment	25 635	25 268
Intangible assets	258	362
Investments	389	389
Long term receivables	112	17
<b>Total non-current assets</b>	<b>26 394</b>	<b>26 036</b>
Related parties receivables	3 555	3 718
Inventories	5 635	6 313
Trade and other receivables	6 333	6 548
Cash and cash equivalents	664	609
<b>Total current assets</b>	<b>16 187</b>	<b>17 188</b>
<b>Total assets</b>	<b>42 581</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	3 232	2 567
<b>Total Equity</b>	<b>16 022</b>	<b>15 287</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	12 003	12 838
Deferred tax liabilities	861	861
Other non-current liabilities	253	265
Financing	1 816	1 998
<b>Total non-current liabilities</b>	<b>14 933</b>	<b>15 962</b>
Related party payables	396	388
Interest bearing loans and finance lease	5 854	5 568
Taxes payable	400	437
Trade and other payables	4 730	5 343
Financing	246	239
<b>Total current liabilities</b>	<b>11 626</b>	<b>11 975</b>
<b>Total liabilities</b>	<b>26 559</b>	<b>27 937</b>
<b>Total equity and liabilities</b>	<b>42 581</b>	<b>43 224</b>

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

For the period ended 31 December 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	-		-			735	735
Retained earnings							0
Other changes/ reserves		70				-70	0
Balance at 31 December 2018	12 014	365	382	29	1862	1 370	16 022

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

For the fourth quarter of 2018

*In thousands of BGN*

	01.01-31.12.2018	01.01.-31.12.2017
<b>Cash flows from operating activities</b>		
Cash receipts from customers	40 369	40 845
Cash paid to suppliers	-28 737	-30 191
Net cash flow for salaries and wages of personnel	-8 221	-7 604
Income taxes paid /received(excluding profit tax)	764	1 191
Profit tax	-33	-47
Interest for short term credits and bank taxes paid	-145	-168
Effect of change of currency exchange rate on cash held	14	31
<b>Cash from operating activities</b>	<b>4 011</b>	<b>4 057</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-3 090	-6 010
Proceeds from non-current assets	61	0
Investment in daughter companies	11	-53
Loans given/received	3	-17
<b>Cash from investing activities</b>	<b>-3 015</b>	<b>-6 080</b>
<b>Cash flows from financing activities</b>		
Loans received	1 735	5 325
Repayment of borrowings	-2 134	-2 623
Payment of finance lease liabilities	-168	-229
Interest for investment credits paid	-374	-373
Transactions costs		
Other financing activities		
<b>Cash from financing activities</b>	<b>-941</b>	<b>2 100</b>
Net increase in cash and cash equivalents	55	77
Cash and cash equivalents at 1 January	609	532
<b>Cash and cash equivalents at the end of the period</b>	<b>664</b>	<b>609</b>