

Explanatory notes to the Consolidated 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 12th, 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 26th. No decision was taken for dividends.

Herti marked its 25th anniversary on June 29th 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 fulfilled the project for improving the health and safety working conditions in the factory. At the end of November the company received the financing from 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.

The main risk for the company is increasing the prices of aluminum and lowering the operating profit. 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. A potential risk may occur to Herti UK and the business there after hard Brexit.

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
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
IGM Holding	Expenses	6
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 consolidated 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.

26 February 2018

Chief Executive Officer:

Zahari Zahariev

HERTI JSC**Consolidated Income statement**

For the fourth quarter of 2018

In thousands of BGN

	31.12.2018	31.12.2017
Revenue	38 652	39 208
Other income	3 557	4 131
Carrying amount of materials and goods sold	-389	-3 015
Increase/(decrease) of inventories of finished goods and work in progress	344	2 925
Capitalised expenses		
Expenses for materials	-24 028	-25 521
Hired services	-3 623	-3 355
Depreciation and amortisation	-2 768	-2 521
Personnel expenses	-9 913	-9 331
Other operating expenses	-578	-1 101
Finance expenses	-554	-639
Share of profit/loss in associated companies	26	11
Profit before tax	726	792
Income tax expense/income/	-13	-65
Profit /Loss for the period	713	727
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	713	727

HERTI JSC
Consolidated Balance sheet

As at 31 December 2018

In thousands of BGN

	31.12.2018	31.12.2017
Assets		
Property, plant and equipment	25 696	25 421
Intangible assets	262	385
Investments	134	134
Total non-current assets	26 092	25 940
Related parties receivables	662	754
Inventories	6 509	7 047
Trade and other receivables	8 437	8 974
Cash and cash equivalents	1 116	987
Total current assets	16 724	17 762
Total assets	42 816	43 702
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	814	743
Retained earnings	2 310	1 682
Total Equity	15 167	14 468
Liabilities		
Interest bearing loans and finance lease	12 003	12 838
Deferred tax liabilities	787	786
Other (earned income)	446	523
Financing	1 816	1 998
Total non- current liabilities	15 052	16 145
Related party payables	254	222
Interest bearing loans and finance lease	5 854	5 568
Trade and other payables	6 243	7 060
Financing	246	239
Total current liabilities	12 597	13 089
Total liabilities	27 649	29 234
Total equity and liabilities	42 816	43 702

HERTI JSC**Change in equity - consolidated**

For the period ended 31 December 2018

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2017	12 014	29	292	382	1 024	13 741
Total recognised income and expenses	-	-			727	727
Revaluation of investments in associates						0
Translations of financial statements of foreign companies						0
Translations of reserves			69		-69	0
Balance at 31 December 2017	12 014	29	361	382	1 682	14 468
Balance at 1 January 2018	12 014	29	361	382	1 682	14 468
Translations of financial statements of foreign companies						0
Revaluation of investments in associates			-1		-13	-14
Other transactions for the period			72		-72	0
Current net profit/loss	-	-			713	713
Balance at 31 December 2018	12 014	29	432	382	2 310	15 167

HERTI JSC
consolidated Cash flow
For the fourth quarter of 2018
In thousands of BGN

	31.12.2018	31.12.2017
Cash flows from operating activities		
Cash receipts from customers	44 123	43 881
Cash paid to suppliers	-28 644	-29 911
Net cash flow for salaries and wages of personnel	-9 815	-9 036
Other payments from operating activities	-539	-164
Income taxes paid /received	-952	-532
Cash from operating activities	4 173	4 238
Cash flows from investing activities		
Acquisition of property, plant and equipment	-3 128	-6 077
Proceeds from non-current assets	51	
Other proceeds/ payments from investment activities	31	
Cash from investing activities	-3 046	-6 077
Cash flows from financing activities		
Loans received	1 735	5 325
Repayment of borrowings	-2 134	-2 623
Other financial payments/received		
Payment of finance lease liabilities	-225	-247
Interest paid	-374	-375
Other financial payments	0	0
Cash from financing activities	-998	2 080
Net increase in cash and cash equivalents	129	241
Cash and cash equivalents at 1 January	987	746
Effect of change of currency exchange rate		
Cash and cash equivalents at the end of the period	1 116	987