

Consolidated Management report of Herti JSC
For the period 01.01-30.06.2023

Introduction

The following report has been prepared, based on the first six months consolidated financial statements of Herti JSC as at 30 June 2023.

I. General information and management.

Herti JSC – the mother company and its daughter companies together referred as the group 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 company manufactures aluminium screw caps, composite caps, plastic caps and articles, printing and lacquering on metal sheets.

The shareholders of Herti as at 30.06.2023 are:

Name	Number of shares	Percentage
IGM Holding GmbH	3,997,316	33.27
Alexander Yulianov	3, 991,420	33.22
Zahari Zahariev	3,030,622	25.23
Elena Zaharieva	960,000	7.99
<u>Other share-holders (persons)</u>	<u>34,439</u>	<u>0.29</u>
Total:	12,013,797	100

The management of the group is conducted by a Board of directors, consisted of five members:

Aleksandar Yulianov – Chairman of the Board of directors

Zahari Zahariev – Chief Executive Officer;

Dipl. Eng. Josef Mayer – Member of the Board of directors

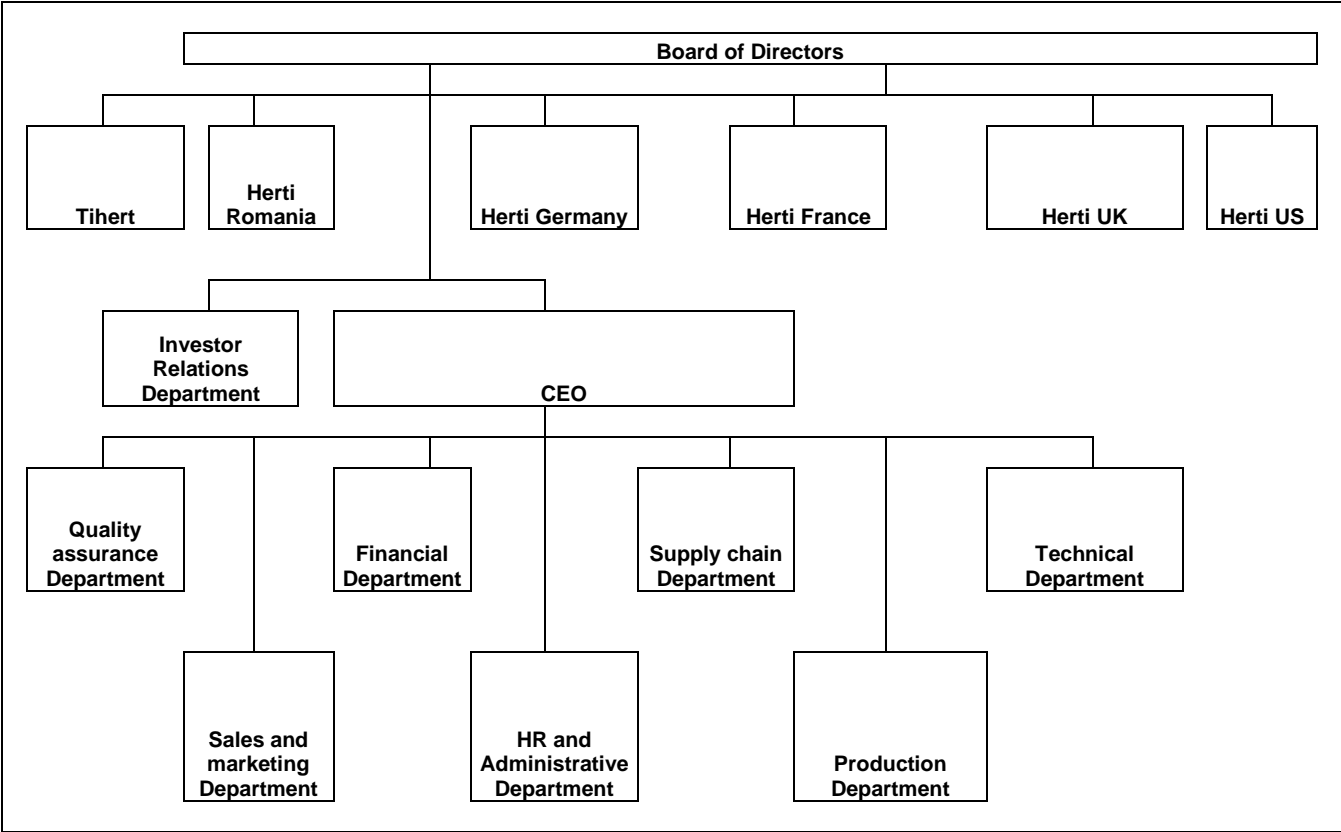
Svetoslav Stamenov- Member of the Board of directors

Maria Velinova – Member of the Board of directors

The Board of directors hasn't authorized a procurator or any other representative. Elena Zaharieva is the Director Investor Relations.

The Group is represented separately by Alexander Yulianov – Chairman of the Board of Directors and Zahari Zahariev – CEO 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.

**Organizational and management structure
Of the group**



II. Activity of the company

1. Market development

The group Herti operates on the domestic and foreign markets. The trade mark Herti is well known worldwide. The perfect message and meaning included in the brand have an advantage over our competitors. The main subject of activity is the production of:

- Aluminium caps;
- Plastic caps;
- Composite caps;
- Non-refillable pourers.

During the first 6 months of 2023, the group's products are sold in over 50 countries worldwide. The largest market of Herti JSC's products is France, and the next most important markets are Great Britain, Bulgaria, Germany and the rest of Europe, forming a total of about 69% of turnover.

Despite the deepening economic crisis, the volatility of raw material prices and the possible decrease in consumption, the group expects to maintain its position in the markets in which it operates.

2. Financial data

The profit of the group before taxes for the period covered by the report is 5 722 thousand of BGN, while for the same period of 2022 it is 4 147 thousand of BGN. The group generated an operating profit (EBITDA) of 8 471 thousand of BGN.

There is 1.86 % decrease in sales compared to the same period of 2022 and it impacts all markets.

Analyzing the income and expenses for the reporting period of 2023, it is evident that the group realizes an increase in fixed expenses, but a decrease in variable expenses. The main part of the materials for production are at stock exchange prices, which Herti AD cannot influence. The steps taken to renew the technological equipment, lead to a reduction in production costs in the reporting period. All this leads to an increase in profits. Budget expenditures are constantly monitored and controlled. With the introduction of the ERP system, we have the opportunity for more timely and accurate information for making adequate management decisions.

During the past period, the group did not run into liquidity difficulties, all liabilities were paid when they fell due. The policy of maintaining liquidity and the ability to meet all obligations will continue and the company does not anticipate any problems in this area.

Total liquidity expressed as a ratio of the sum of inventories, short-term receivables and financial assets of the company to its current liabilities during the reporting period was 2.45 (vs. 1.56 for the same period in 2022), which is an improvement of the indicator by 0.89. At present, the total liquidity ratio is good for an industrial company. We should evaluate the obtained results as growth of working capital, taking into account the duration of the production cycle, the speed of turnover and the specificity of the activities carried out by the company.

3. Capital recourses and investments

The company's equity capital, which includes fixed capital, revaluation reserve, other reserves and accumulated profits, is BGN 28,763 thousand as of June 30, 2023. The amount of assets since the

beginning of the period has increased by BGN 2,729 thousand to BGN 60,938 thousand .as of June 30, 2023.

4. Research and Development activities

A special R&D unit, part of the Technical Department is functioning in the structure of the group. Its priority tasks are to optimize the products, processes and production organization in order to implement new ecological materials, to save energy and other resources create innovative decisions and reach sustainable results. The strategy of the group is developing innovative methodologies, procedures and technological means for increasing the quality of the products and maintaining its sustainable competitive advantage.

5. Human recourses

Herti AD continues the process of long-term investment in its human resources in 2023. The total number of personnel as of June 30, 2023 is 578 people (in 2022 – 571 people).

Training is the most important element in the company's effort to constantly improve the performance and achievements of each and every employee. Almost all of them were included in education and training programs for additional qualification in the relevant professional field.

6. Risk management

The Group is exposed to risks related to changes in the prices of the main raw materials and aluminum in particular, as it uses material stocks in its production process, the prices of which are influenced by those on the international markets and on the London Metal Exchange. The policy in this area consists in negotiating fixed prices with the suppliers with a prevailing term of up to half a year, in order to avoid the negative effect of the possible increase in the price of raw materials during this period. Also, price volatility, as well as rising energy and transport costs, complicate process management.

The Group works with clients in more than 50 countries worldwide and is therefore subject to risks associated with cross-border operations and in particular risks from the fluctuation of exchange rates and risks of payment delays by our counterparties from certain countries. The main currency risk is related to the British pound and the US dollar. If necessary, HERTI uses hedging instruments in the management of currency risk. In addition, HERTI owns assets and liabilities to manage liquidity and cash flows in its day-to-day operations.

The market for the group's products is highly competitive and a large amplitude of final prices is observed, especially in the presence of markets in economic stagnation or markets with an attitude of

changes in consumer demand. HERTI faces strong competitors (especially from Europe) with huge resources. In response to the increasing competition in the sector, HERTI and many other manufacturers may be forced to increase their efficiency by reducing the cost price, including the cost of raw materials.

7. Future development strategy

The strategy for achieving the planned volumes includes the preservation of the achieved market shares in Bulgaria and other countries in Europe. Commercial activity in certain regions will be supported with various activities, tailored to the potential of individual countries and the return that the company expects with a short- and medium-term plan.

The medium-term development strategy also includes the launch of new investment projects that will increase production capacity, expand and supplement the range of products, as well as contribute to reducing the cost of the manufactured range.

III. Other important information

The year started very good with enough production orders and working organization. At the end of 2022 and the beginning of 2023 several new machines were put into production. On December 11th, Herti presented the GALP project for the innovative printing technology Printalab Led at a special informative event. The final report was sent on December 15th to the Norwegian Financial Mechanism. The second transfer with the final payment of the financing at the amount of 485 800 EUR was received by Herti on January 18th, 2023 and the sum was used to partially pay back of the investment loan to UBB bank.

At the end of January, Herti participated in the largest exhibition for wine and winemaking in the United States - Unified Symposium in Sacramento.

From 14th till 17th of February the company took part in the largest trade show for food and drinks in Norway UMAMI ARENA. Herti was part of the Bulgarian booth together with a delegation of 10 companies. The event was organized and sponsored by the Norwegian Bulgarian Business Group. Herti made a presentation at a special workshop attended by the Bulgarian Ambassador in Norway and the representatives of the Norwegian Financial Mechanism.

A Board of Directors meeting was held on 28th of February, where the board members approved the individual audited financial report of the company for 2022. The Board took a decision to participate with a project for building a Solar panel system in the factory in Pliska for financing by the European Recovery Funds. The Board of Directors decided to convene a regular general meeting of shareholders on 28.06.2023 and set the agenda. A decision was made to increase the limit for bank guarantees in Unicredit Bulbank to one million BGN and to extend the term of the revolving credit line in DSK Bank by 12 months starting from 08.03.2023.

The leading wine and spirits trade fair ProWein took place from March 19 to 21 in Düsseldorf, where Herti was one of the exhibitors on a joint stand with Closures group and presented its full range of products for both the alcohol and wine industries.

On 04/07/2023, the German-Bulgarian Chamber of Commerce held a special event dedicated to 5 years since the start of the Young Energy Europe (YEE) project in Bulgaria, at which the best teams, projects, mentors and companies were awarded. Herti received honors in all four categories through his Scout Team and Team Mentor for Most Active Company, Best Mentor and Interactive Project.

Herti becomes a partner and supports the project Fast Heroes 112 initiated by the "HEART TO HEART FOR BULGARIA" foundation. FAST HEROES 112 is a health education program where children ages 6 to 9 and their families will be taught how to recognize the symptoms of a stroke and how to act properly in an emergency if a loved one is at risk.

At the end of April, Herti received approval for another winning project funded by the Norwegian Financial Mechanism - Greenpress - for the purchase of a sheet press and die, which will lead to a reduction in energy costs and technological waste, as well as an increase in capacity. The contract with the Norwegian Financial Mechanism was signed on 19/05/2023. The project is worth 401,100 euros and will be completed by the end of April 2024.

On the occasion of Herti's 30th anniversary, the company launched a social project-initiative for the restoration of the sports field in the town of Pliska. The project is worth 45 thousand euros and will be completed in about 2 months. The project is financially supported by the company's partners.

In connection with Children's Day and the upcoming Herti holiday, an open day for the children of Herti was organized on June 3rd. For the second time, all our workers were given the opportunity to show their children the factory, how caps are made and what they work on. The winners of the organized drawing competition on the theme "Mom / dads work in Herti" were honored and awarded.

On June 27 and 29, the 30th anniversary of the company was celebrated with customers, suppliers and partners, as well as with all the company's employees.

On 28.06.2023, a regular general meeting of the shareholders of Herti AD was held. At it, a new auditor for 2023 was elected - the company "Svrakov and Milev" OOD, and a decision was made to distribute a dividend.

In July, the construction works on the restoration of the sports field in the town of Pliska started, according to the announced social project of Herti AD.

A BRC/IOP re-certification audit was held from 17th to 19th July and passed successfully.

IV. Post balance sheet events.

There were no important post balance sheet events.

V. Information about buying back own shares.

At the date of preparing this report the company has not bought its own shares meant by article 187 from the Trade Law.

VI. The group has no registered branches.

VII. Information on the transactions between the Company and related parties

For the period 01.01- 30.06.2023, the Company has realized the following transactions with major shareholders in thousand BGN:

IGM Holding purchases - 2

Dividends paid to shareholders- 901

Transactions with other related parties:

Related party	Transaction	Amount (in thousand BGN)
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
Raifen OOD	Transport services received	595
Timshel OOD	Rent	52

VIII. Information concerning article 247 from the Trade Law

The total remuneration of the Board of directors' members for the period is 406 thousand BGN.

During the period covered by the report no one of the Board members has bought or sold company shares.

All Board members have rights according to the Trade law. There are no preferences or restriction of their rights in the Company Bylaws.

There are no members of the Board with unlimited responsibility who holds more than 25% from the capital of another company.

During the period no contacts were signed under article 240b from the Trade Law.

IX. 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.

X. Corporate social responsibility

Herti follows the principles of the National code for Corporative 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.

XI. Responsibility of the Management

According to Bulgarian legislation, the management should prepare a financial report on the activity for each period, which gives a true and fair view for the financial position at the end of the reporting period, for the financial results of the activity and for the cash flows, in accordance with the applicable accounting framework. For the purposes of reporting under Bulgarian accounting legislation, the company applies the International Financial Reporting Standards (IFRS) applicable in the European Union.

This responsibility includes: developing, implementing and maintaining a system of internal control related to the preparation and fair presentation of financial statements that are free from material inaccuracies, deviations and inconsistencies, whether due to fraud or error; selection and application of appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Management confirms that it has acted in accordance with its responsibilities, and that the financial statement has been prepared in full compliance with the International Financial Reporting Standards applicable in the European Union. The management also confirms that, in preparing this financial statement for the activity, it has truthfully and honestly presented the development and results of the enterprise's activity for the past period, as well as its condition and the main risks it faces.

Chief Executive Officer :

Zahari Zahariev

07 August 2023

HERTI JSC**Consolidated Income statement**

For the second quarter of 2023

In thousands of BGN

	30.6.2023	30.6.2022
Revenue	43 683	44 562
Other income	735	1 051
Carrying amount of materials and goods sold	-94	-101
Increase/(decrease) of inventories of finished goods and work in progress	-431	1 054
Capitalised expenses		
Expenses for materials	-22 685	-28 223
Hired services	-2 999	-3 554
Depreciation and amortisation	-2 454	-1 899
Personnel expenses	-9 239	-8 010
Other operating expenses	-566	-267
Finance expenses	-228	-51
Share of profit/loss in associated companies	0	34
Profit before tax	5 722	4 596
Income tax expense/income/		-449
Profit /Loss for the period	5 722	4 147
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	5 722	4 147

HERTI JSC
Consolidated Balance sheet

As at 30 June 2023

In thousands of BGN

	30.6.2023	31.12.2022
Assets		
Property, plant and equipment	24 534	25 627
Intangible assets	97	125
Investments	3	3
Assets connected with deferred taxes	0	12
Total non-current assets	24 634	25 767
Related parties receivables	3	0
Inventories	14 923	13 899
Trade and other receivables	13 279	13 629
Cash and cash equivalents	8 099	4 926
Total current assets	36 304	32 454
Total assets	60 938	58 221
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	1 737	1 216
Retained earnings	14 983	10 651
Total Equity	28 763	23 910
Liabilities		
Interest bearing loans and finance lease	14 178	11 014
Deferred tax liabilities	601	613
Other (earned income)	661	661
Financing	1 930	1 246
Total non- current liabilities	17 370	13 534
Related party payables	1 089	168
Interest bearing loans and finance lease	2 713	7 482
Trade and other payables	10 469	12 591
Financing	534	536
Total current liabilities	14 805	20 777
Total liabilities	32 175	34 311
Total equity and liabilities	60 938	58 221

HERTI JSC**Change in equity - consolidated**

For the period ended 30 June 2023

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2023	12 014	29	834	382	10 651	23 910
Translations of financial statements of foreign companies					32	32
Revaluation of investments in associates						0
Other transactions for the period			521		-521	0
Dividends paid					-901	-901
Current net profit/loss	-	-			5722	5722
Effect from differred tax liabilities						0
Balance at 30 June 2023	12 014	29	1355	382	14 983	28 763

HERTI JSC**consolidated Cash flow**

For the second quarter of 2023

In thousands of BGN

	30.6.2023	30.6.2022
Cash flows from operating activities		
Cash receipts from customers	49 680	46 459
Cash paid to suppliers	-32 031	-34 211
Net cash flow for salaries and wages of personnel	-9 312	-7 452
Other payments from operating activities	-3028	-1795
Income taxes paid /received	145	-14
Cash from operating activities	5 454	2 987
Cash flows from investing activities		
Acquisition of property, plant and equipment	-1 357	-2 048
Proceeds from non-current assets	18	0
Other proceeds/ payments from investment activities	945	615
Cash from investing activities	-394	-1 433
Cash flows from financing activities		
Loans received	790	1 275
Repayment of borrowings	-2 395	-1 015
Other financial payments/received		
Payment of finance lease liabilities	0	-32
Interest paid	-282	-130
Other financial payments, dividends		
Cash from financing activities	-1 887	98
Net increase in cash and cash equivalents	3 173	1 652
Cash and cash equivalents at 1 January	4926	2352
Effect of change of currency exchange rate		
Cash and cash equivalents at the end of the period	8 099	4004