

Consolidated Management report of Herti JSC
For the period 01.01-30.06.2018

Introduction

The following report has been prepared, based on the first six months financial statements of the group as at 30 June 2018.

I. General information and management.

Herti JSC and its daughter companies, called here after “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, plastic caps and articles, printing and lacquering on metal sheets.

The shareholders of the group as at 30.06.2018 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
Other share-holders (persons)	34,355	0.29
Total:	12,013,797	100

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

Alexander 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

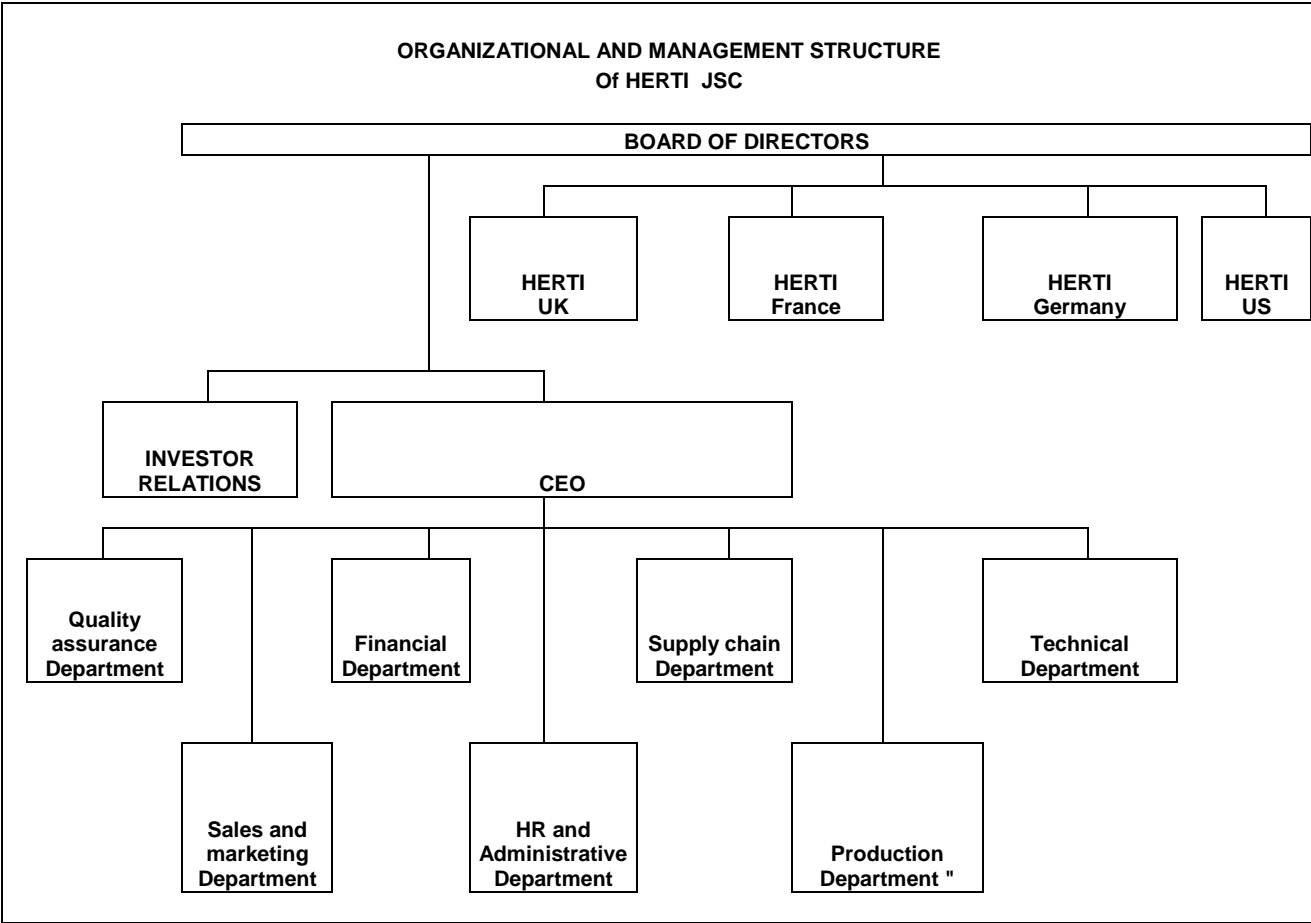
Maria Velinova – Member of the Board of directors

The Board of directors hasn't authorized a procurator or any other representative.

The Company and the group are 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.

II. Activity of the company



1. Market development

The company operates on the domestic and foreign markets. The trade mark Herti is well known in more than 50 countries worldwide. The biggest market for the group is France, followed by the UK, Bulgaria, Russia, Germany, and other European countries – all these take 77% of the turnover. In spite of the strong competition and the negative impact of the increasing raw material prices, the company keeps its market position and attracts new customers.

2. Financial data

The profit before taxes for the period covered by the report is 279 thousands of BGN, while for the same period of 2017 it is 463 thousands of BGN. The company generated an operating profit (EBITDA) of 1 895 thousands of BGN, while for the first six months of the previous year the operating profit amounted to 2 043 thousands BGN.

There is no specific increase in sales. The production of aluminum and composite closures is increased, while the plastic caps show decline.

Analysis of the costs for the first six months of 2018 shows increase both in variable and in fixed costs.

The price of the main material used is formed at the stock exchange and can not be influenced by the company. The steps taken by the Management for renewing the equipment and investing in new machines, helped to decrease the production costs. The management works actively for enlarging market share by launching new products. The budgeted costs are monitored constantly. The implemented ERP system gives detailed and up-to-date information and helps to take better decisions. The increased sales can stabilize the profits of the Company.

The liquidity ratio for the period is 1.32, which is decreased with 4 points, compared to the previous year. The ratio is good for an industrial company having in mind the production cycle and the specific industry the company operates in. We should also have in mind that through the period the company has paid back 807 thousand BGN of its long term loans.

3. Capital recourses and investments

During 2017 and the first six months of 2018, the group has made investments for more than 4 million BGN in new buildings and machines and renewing the existing ones. The investments were financed by the realized profit of the group, bank loans and financial lease.

4. Research and Development activities

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

Conscious of the importance of immaterial capital for the development of any organization, the Company is developing a program for personnel professional education and driving them to a culture of involvement in the added value generated by the company. 451 people work in the company and most of them passed trainings for adding skills to their qualification.

6. Risk management

Herti experiences different risks and has a system to manage them.

One of the main risks is the volatility of the prices of raw materials and its impact on the operating profit. The management of Herti contracts fixed prices for the aluminium for a period up to 6 months to reduce the negative effect of prices during that period.

The functional currency of the Company is BGN. Herti operates in more than 50 different countries. Most of the deals on the external market are conducted in EURO, but there is a currency risk for the markets in the UK and the USA, where the sales are in GBP and US dollars.

Another risk is the great competition in the industry which can force the company to reduce prices.

7. Future development strategy

Herti plans to increase its sales during 2018. The strategy includes different marketing activities to keep its market share in Bulgaria and Europe and to increase the sales overseas. The strategy also includes new investments for increasing capacity, enlarging production portfolio and reducing cost price. Every year Herti launches new products and regularly takes part in international trade shows to attract new clients.

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.

III. Other important information

On June 26, 2018 a General meeting of the shareholders was held. No decision for paying dividends was taken.

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 company has no registered branches.

VII. Information concerning article 247 from the Trade Law

The total remuneration of the Board of directors' members for the period is 241 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.

VIII. 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.

IX. Corporate social responsibility

Herti follows the principles of the National code for Corporate governance. The principles of transparency and free loyal competition are adopted in the Code of Ethics of the company. Herti is a socially responsible company and supports cultural and sport events in the regions in which it operates.

X. Responsibility of the Management

The management confirms that the consolidated financial statement for the first six months of 2018 is prepared according to the International Financial Reporting Standards and gives a fair and complete view of the financial position of the group and the risks it faces.

30 August 2018

Chief Executive Officer :

Zahari Zahariev

HERTI JSC**Consolidated Income statement**

For the second quarter of 2018

In thousands of BGN

	30.6.2018	30.6.2017
Revenue	18 714	19 037
Other income	1 720	2 016
Carrying amount of materials and goods sold	-1 651	-1 357
Increase/(decrease) of inventories of finished goods and work in progress	2 370	2 086
Capitalised expenses		
Expenses for materials	-12 260	-12 792
Hired services	-1 780	-1 794
Depreciation and amortisation	-1 334	-1 247
Personnel expenses	-4 737	-3 955
Other operating expenses	-509	-1 205
Finance expenses	-271	-333
Share of profit/loss in associated companies	17	7
Profit before tax	279	463
Income tax expense/income/		
Profit /Loss for the period	279	463
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	279	463

HERTI JSC
Consolidated Balance sheet

As at 30 June 2018

In thousands of BGN

	30.6.2018	31.12.2017
Assets		
Property, plant and equipment	25 999	25 421
Intangible assets	309	385
Investments	125	134
Total non-current assets	26 433	25 940
Related parties receivables	930	754
Inventories	6 055	7 047
Trade and other receivables	9 603	8 974
Cash and cash equivalents	475	987
Total current assets	17 063	17 762
Total assets	43 496	43 702
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	742	743
Retained earnings	1 955	1 682
Total Equity	14 740	14 468
Liabilities		
Interest bearing loans and finance lease	12 673	12 838
Deferred tax liabilities	786	786
Other (earned income)	479	523
Financing	1 878	1 998
Total non- current liabilities	15 816	16 145
Related party payables	236	222
Interest bearing loans and finance lease	5 889	5 568
Trade and other payables	6 576	7 060
Financing	239	239
Total current liabilities	12 940	13 089
Total liabilities	28 756	29 234
Total equity and liabilities	43 496	43 702

HERTI JSC**Change in equity - consolidated**

For the period ended 30 June 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					279	279
Revaluation of investments in associates			-1		-6	-7
Other transactions for the period						0
Current net profit/loss	-	-				0
Balance at 30 June 2018	12 014	29	360	382	1 955	14 740

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

	30.6.2018	30.6.2017
Cash flows from operating activities		
Cash receipts from customers	21 252	19 611
Cash paid to suppliers	-14 416	-13 128
Net cash flow for salaries and wages of personnel	-4 904	-4 195
Other payments from operating activities	-68	-72
Income taxes paid /received	-197	-409
Cash from operating activities	1 667	1 807
Cash flows from investing activities		
Acquisition of property, plant and equipment	-2 072	-2 010
Proceeds from non-current assets		
Other proceeds/ payments from investment activities	-23	
Cash from investing activities	-2 095	-2 010
Cash flows from financing activities		
Loans received	1 214	1 122
Repayment of borrowings	-984	-804
Other financial payments/received		
Payment of finance lease liabilities	-118	-135
Interest paid	-196	-184
Other financial payments	0	
Cash from financing activities	-84	-1
Net increase in cash and cash equivalents	-512	-204
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	475	542