

Consolidated Management report of Herti JSC

For the period 01.01-30.06.2024

Introduction

The following report has been prepared, based on the first six months consolidated financial statements of Herti JSC as at 30 June 2024.

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 aluminum screw caps, plastic caps and composite closure for the spirits and wine industry and production of mineral waters and olive oils.

The shareholders of Herti as at 30.06.2024 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 company 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

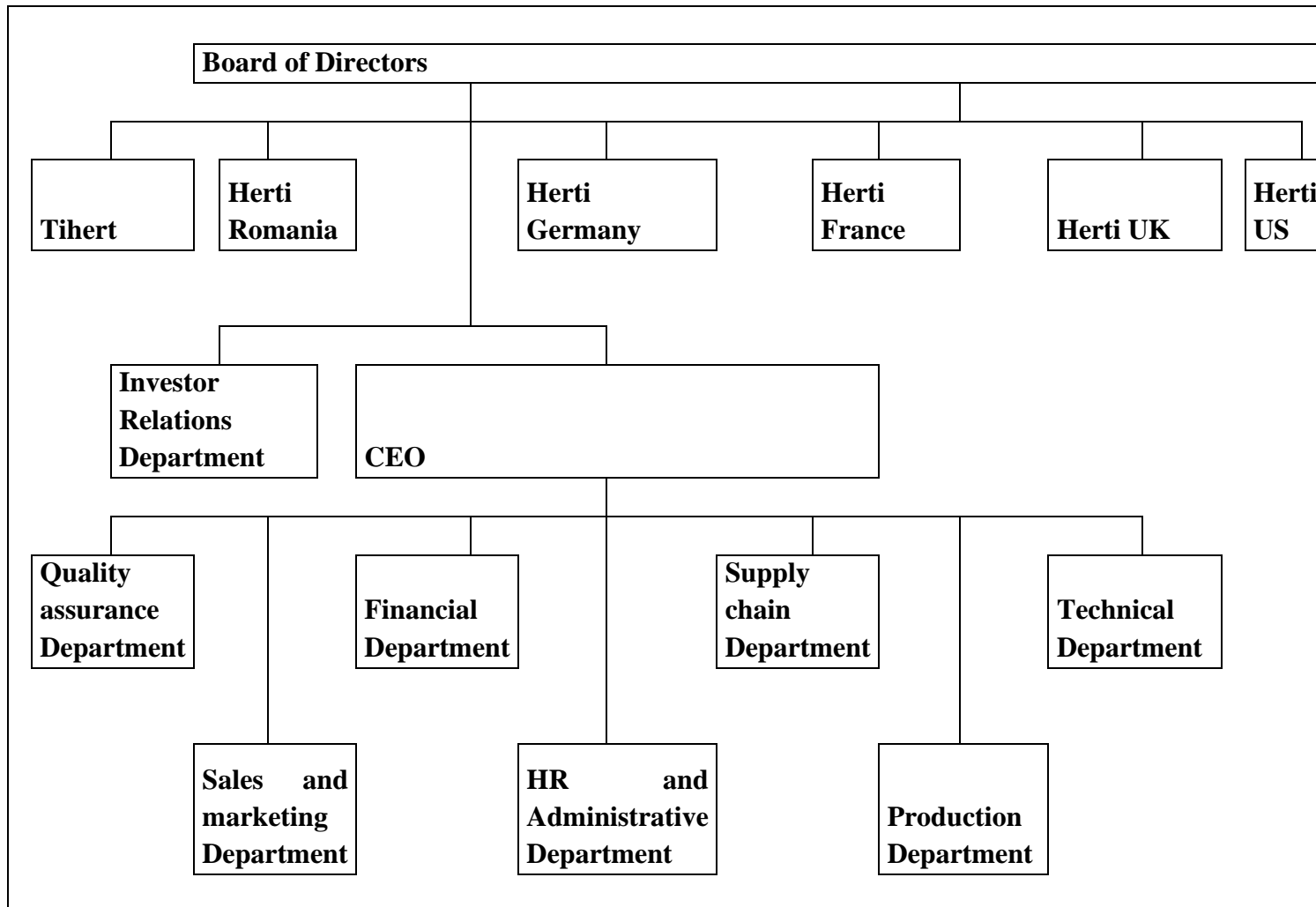
Svetoslav Stamenov- Member of the Board of directors

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 Company 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 2024, the group's products are sold in over 50 countries worldwide. The largest market of Herti JSC's products is Great Britain, and the next most important markets are France, Germany, Bulgaria and the rest of Europe, forming a total of about 89% of turnover.

Despite the high competitive markets and the increase in global commodity prices, as well as decrease in demand, the company 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 4 212 thousand of BGN, while for the same period of 2023 it is 5 722 thousand of BGN. The company generated an operating profit (EBITDA) of 6 790 thousand of BGN.

There is 15.83 % decrease in sales compared to the same period of 2023 and it impacts all markets.

Analysis of the costs for the first six months of 2024 shows increase fixed costs, but decrease in variable 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.

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.

The liquidity ratio for the period is 2.39, which is increased with 0.59 points, compared to the same period of 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 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 capital structure of the group includes the issued capital, reserves and retained earnings. Its amount is 32 155 thousand BGN at June 30, 2024. The assets of the company grew with 3 659 thousand BGN to the amount of 60 805 thousand BGN.

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 resources

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. 462 people work in the company as at 30.06.2024 and most of them passed trainings for adding skills to their qualification.

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 functional currency of the group 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. 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

At the end of April 2023, Herti received approval for the "GREENPRESS" project for the purchase of a sheet press and a die with the financial support of the Norwegian Financial Mechanism 2014-2021, in the frame of the "Business Development, Innovation and SMEs", Bulgaria. The introduction of innovative technologies aim to reduce the consumption of energy and the carbon emissions of the production of "Herti". The installed Automatic sheet feed press and Pressure cutting machine have a total value of 401,100.00 euros, and the grant represents 49.86% of the eligible costs of the project. The activities of the project are in line with the Environmental Protection Policy of the company, as well as with the goals of introducing more green production models. The project was completed in February 2024, and the final report was submitted. The grant for financing in the amount of 200,000 euros was received in March 2024.

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

A Board of Directors meeting was held on 29th of February, where the board members approved the individual audited financial report of the company for 2023. The Board of Directors decided to convene a regular general meeting of shareholders on 27.06.2024 and set the agenda. A decision was made to extend the term of the revolving credit line in DSK Bank by 12 months.

The leading wine and spirits trade fair ProWein took place from March 10 to 12 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 April 16, 2024, a workshop organized by the Norwegian Financial Mechanism took place at the Millennium Sofia Hotel, in which Herti took part.

The seminar provided an opportunity to exchange good practices, challenges and lessons learned from the implementation of the Program for Business Development, Innovation and SMEs in Bulgaria. Also included were sessions on the fundamental principles of applying AI to business activities, ESG reporting (environmental, social, governance), stress management, and hands-on communication and publicity training.

Herti has two projects, implemented with the support of the Norwegian Financial Mechanism 2014-2021 within the framework of the "Business Development, Innovations and SMEs in Bulgaria" program. The total value of the grant being 1 million euros.

On 06/03/24, Herti was recertified with the highest A+ level of the BRC/IOP version 6 standard after successfully passing an unannounced audit. Herti applies the requirements of the Global Standard for Packaging and Packaging Materials since 2010. The BRC standard is a guarantee for the hygiene and safety of Herti products.

This year, Herty joined a different and interesting initiative on the occasion of Children's Day - June 1. In the city garden of Shumen, a Science, Technology and Arts Fair was organized with workshops on interests, in which children of our employees participated.

Herty also supported the Assembly of Talented Children, held on 16.06.24 in the town of Pliska.

On 27.06.2024, a Board of Directors' meeting and the General Meeting of Shareholders of Herti was held. The Board of Directors decided to apply for an investment loan from Unicredit Bulbank up to BGN 11 million for the construction of a new production building. A new Environmental Policy and Supplier Conduct Rules were also adopted. The general meeting of shareholders decided to distribute a dividend from the profit for 2023.

At the beginning of July, the periodic Survey of the energy efficiency of Herti's industrial system was carried out by an independent external organization. The achieved results of introduced measures to increase energy efficiency for the period 2019-2023 were reported, as well as measures and goals for the next 4 years were identified.

As a result of the investments made for the past 4 years, a reduction in the used primary energy has been achieved, as the saving is 5160, 937 MWh for 2023 compared to 2019. The emissions saved in 2023 compared to 2019 are 1017.62 tons of CO₂, and the energy consumption per unit output is reduced from 0.0052 kWh/ pc. at 0.0045 kWh/ pc.

Measures and investments for the next few years in the amount of BGN 6 million have been identified, the implementation of which is expected to achieve annual energy savings in the amount of 1048.65 MWh and saved emissions in the amount of 235.6 tons of CO₂ per year.

In connection with the set goals for reducing energy costs and using green energy, from 01.07.2024 Herti concluded a contract for the supply of 100% green energy from solar, wind and water plants, for which it will receive a guarantee of origin from the Agency for sustainable energy development.

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 on the transactions between the Company and related parties

For the period 01.01- 30.06.2024, the Company has realized the following transactions with major shareholders in thousand BGN:

IGM Holding purchases - 1

Dividends paid to shareholders- 1 466

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	479
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 452 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 consolidated 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 consolidated 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.

22 August 2024

Chief Executive Officer:

Zahari Zahariev

HERTI JSC
Consolidated Income statement

For the second quarter of 2024

In thousands of BGN

	30.6.2024	30.6.2023
Revenue	36 823	43 676
Other income	537	742
Carrying amount of materials and goods sold	-222	-94
Increase/(decrease) of inventories of finished goods and work in progress	981	-431
Capitalised expenses		
Expenses for materials	-18 488	-22 685
Hired services	-3 291	-2 999
Depreciation and amortisation	-2 410	-2 454
Personnel expenses	-9 372	-9 239
Other operating expenses	-237	-566
Finance expenses	-109	-228
Share of profit/loss in associated companies	-8	32
Profit before tax	4 204	5 754
Income tax expense/income/	-31	
Profit /Loss for the period	4 173	5 754
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	4 173	5 754

HERTI JSC
Consolidated Balance sheet

As at 30 June 2024

In thousands of BGN

	30.6.2024	31.12.2023
Assets		
Property, plant and equipment	21 600	22 674
Intangible assets	41	69
Investments	3	3
Assets connected with deferred taxes		
Total non-current assets	21 644	22 746
Related parties receivables	2	0
Inventories	12 955	13 825
Trade and other receivables	12 295	9 209
Cash and cash equivalents	13 909	11 348
Total current assets	39 161	34 382
Total assets	60 805	57 128
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	1 769	1 737
Retained earnings	18 343	15 668
Total Equity	32 155	29 448
Liabilities		
Interest bearing loans and finance lease	9 429	5 580
Deferred tax liabilities	565	565
Other (earned income)	553	571
Financing	1 695	1 893
Total non- current liabilities	12 242	8 609
Related party payables	1 583	140
Interest bearing loans and finance lease	4 233	10 045
Trade and other payables	9 993	8 370
Financing	599	534
Total current liabilities	16 408	19 089
Total liabilities	28 650	27 698
Total equity and liabilities	60 805	57 146

HERTI JSC**Change in equity - consolidated**

For the period ended 30 June 2024

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2024	12 014	29	1355	382	15 668	29 448
Translations of financial statements of foreign companies			-1		-7	-8
Revaluation of investments in associates						0
Other transactions for the period			33		-33	0
Dividends paid					-1 466	-1 466
Current net profit/loss	-	-			4181	4181
Effect from differred tax liabilities						0
Balance at 30 June 2024	12 014	29	1387	382	18 343	32 155

HERTI JSC**consolidated Cash flow**

For the second quarter of 2024

In thousands of BGN

	30.6.2024	30.6.2023
Cash flows from operating activities		
Cash receipts from customers	37 088	49 680
Cash paid to suppliers	-19 459	-32 031
Net cash flow for salaries and wages of personnel	-9 079	-9 312
Other payments from operating activities	-1836	-1681
Income taxes paid /received	-866	-1202
Cash from operating activities	5 848	5 454
Cash flows from investing activities		
Acquisition of property, plant and equipment	-1 271	-1 357
Proceeds from non-current assets	0	18
Other proceeds/ payments from investment activities	162	945
Cash from investing activities	-1 109	-394
Cash flows from financing activities		
Loans received	6 339	790
Repayment of borrowings	-8 302	-2 395
Other financial payments/received		
Payment of finance lease liabilities	0	0
Interest paid	-215	-282
Other financial payments, dividends	0	0
Cash from financing activities	-2 178	-1 887
Net increase in cash and cash equivalents	2 561	3 173
Cash and cash equivalents at 1 January	11348	4926
Effect of change of currency exchange rate		
Cash and cash equivalents at the end of the period	13 909	8099