

Consolidated Management report of Herti JSC
For the period 01.01-30.06.2022

Introduction

The following report has been prepared, based on the first six months consolidated financial statements of Herti JSC as at 30 June 2022.

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 30.06.2022 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 Yuliyarov – Chairman of the Board of directors

Zahari Zahariev – Chief Executive Officer;

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

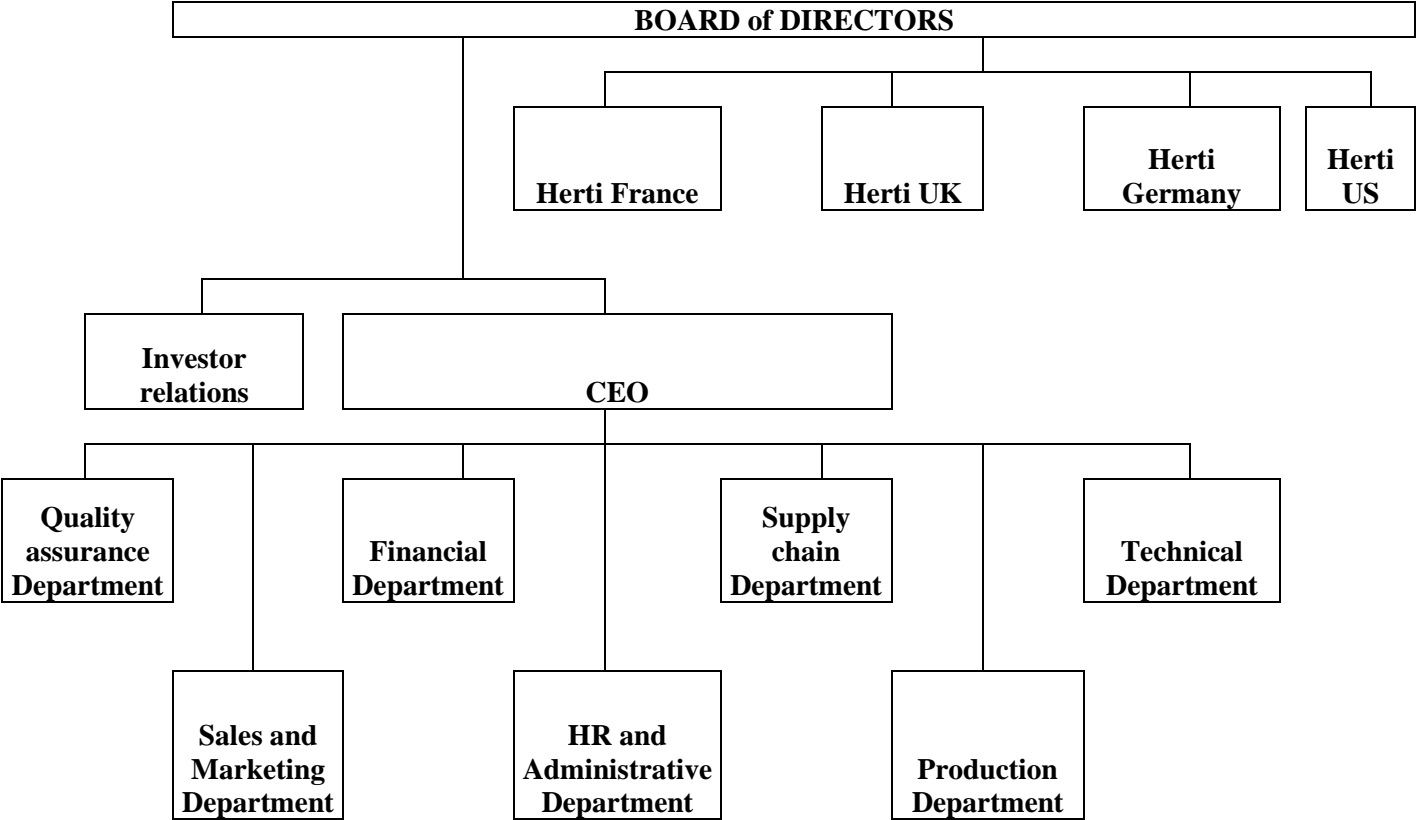
Svetoslav Stamenov- Member of the Board of directors

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 Herti JSC**



II. Activity of the company

1. Market development

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 2022, the company'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 and the increase in global commodity prices that began in early 2021, the company expects to maintain its position in the markets in which it operates and to maintain its market shares and turnover in 2022.

2. Financial data

The profit before taxes for the period covered by the report is 4 596 thousand of BGN, while for the same period of 2021 it is 524 thousand of BGN. The group generated an operating profit (EBITDA) of 6 649 thousand of BGN.

There is 87.81 % increase in sales compared to the same period of 2021 and it impacts all markets.

Analysis of the costs for the first six months of 2022 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 management works actively for enlarging market share. The implemented ERP system gives detailed and up-to-date information and helps to take better decisions.

The liquidity ratio for the period is 1.504, which is increased with 0.054 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 also have in mind that through the period the company has paid back 1 015 thousand BGN of its long-term loans.

3. Capital recourses and investments

The capital structure includes the issued capital, reserves and retained earnings. Its amount is 21 951 thousand BGN at June 30, 2022. The assets of the company grew with 8 662 thousand BGN to the amount of 58 007 thousand BGN. The indicators ROE and ROA are 18.89% and 7.15% respectively.

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. 566 people work in the group as at 30.06.2022 and most of them passed trainings for adding skills to their qualification.

6. Risk management

The group of 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 aluminum for a period up to 6 months to reduce the negative effect of prices during that period. The volatility and increasing of prices not only for the aluminium, but also for the energy and the transport costs complicate the management process.

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 the sales of the group during 2022. 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.

III. Other important information

There is a considerable increase in sales compared to last year.

During the first three months Herti continued to follow all precautionary measures against COVID 19 to protect the staff, as well as for ensuring uninterrupted service of our customers. Most of the communications were made on-line. Part of the administration was working from home. Whenever possible, people used their own vehicles to go to work to avoid travelling with public transport. Since the beginning of April all employees returned for work in the office and workers in Pliska started to use the free Business Transport instead their vehicles. Wearing masks in the working areas is recommended and nobody with a positive test can go back to work.

At the end of February a war between Russia and Ukraine started and influenced all markets and normal business transactions. The negative impact on prices of energy and raw materials and disruption in logistic due to the war and the EU and world sanctions against Russia cause big stress to the markets. The management of the group monitors and analyses the situation and implements stabilizing measures.

From the beginning of January Herti signed an agreement with Financial Market Service Ltd to meet the legal obligations for information disclosure through the information platform X3 News. X3 News also allows publication of other non-regulated information, advertisements, PR messages, etc.

At the end of December, the first interim report on the GALP project was submitted to the Norwegian Financial Mechanism. The first tranche of the financing in the amount of EUR 314,290 was received on February 28, 2022.

At the end of January, Herti participated in the largest exhibition for wine and winemaking in the United States - Unified Symposium in Sacramento. The exhibition was held live after a two-year break. In May Herti attended the world's most important for the wine and spirits market exhibition ProWein 2022 in Düsseldorf.

This year Herti will support again UNICEF by joining the Benefactor Company program.

A General meeting of the shareholders was held on June 28th where a decision for payment of dividends for 2021 was taken.

In July Herti passed successfully the recertification by the BRC/IOP standard gaining for another year the highest grade "A" in the "High Hygiene" category. Herti applies the regulations of the Global standard for Packaging and Packaging Materials since 2010. The BRC standard is a guarantee for the hygiene and safety of Herti's products.

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- 30.06.2022, the Company has realized the following transactions with major shareholders in thousand BGN:

IGM Holding purchases - 1

Dividends paid to shareholders- 464

Transactions with other related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International Romania	Sales of products	2 223
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
Raifen OOD	Transport services received	594
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 273 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

The management confirms that the consolidated financial statement for the first six months of 2022 is prepared according to the International Financial Reporting Standards and gives a fair and complete view of the financial position of the company and the risks it faces.

22 August 2022

Chief Executive Officer :

Zahari Zahariev

HERTI JSC
Consolidated Income statement

For the second quarter of 2022

In thousands of BGN

	30.6.2022	30.6.2021
Revenue	44 562	24 021
Other income	1 051	266
Carrying amount of materials and goods sold	-101	-143
Increase/(decrease) of inventories of finished goods and work in progress	1 054	-117
Capitalised expenses		
Expenses for materials	-28 223	-13 329
Hired services	-3 554	-2 078
Depreciation and amortisation	-1 899	-1 841
Personnel expenses	-8 010	-5 953
Other operating expenses	-267	-222
Finance expenses	-51	-81
Share of profit/loss in associated companies	34	1
Profit before tax	4 596	524
Income tax expense/income/	-449	
Profit /Loss for the period	4 147	524
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	4 147	524

HERTI JSC
Consolidated Balance sheet

As at 30 June 2022

In thousands of BGN

	30.6.2022	31.12.2021
Assets		
Property, plant and equipment	24 212	24 203
Intangible assets	35	41
Investments	146	124
Assets connected with deferred taxes		
Total non-current assets	24 393	24 368
Related parties receivables	1 090	829
Inventories	13 376	11 279
Trade and other receivables	15 144	10 517
Cash and cash equivalents	4 004	2 352
Total current assets	33 614	24 977
Total assets	58 007	49 345
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	1 208	1 069
Retained earnings	8 700	5 184
Total Equity	21 951	18 296
Liabilities		
Interest bearing loans and finance lease	10 710	11 025
Deferred tax liabilities	756	756
Other (earned income)	513	513
Financing	1 731	1 221
Total non- current liabilities	13 710	13 515
Related party payables	669	370
Interest bearing loans and finance lease	6 565	5 991
Trade and other payables	14 905	10 969
Financing	207	204
Total current liabilities	22 346	17 534
Total liabilities	36 056	31 049
Total equity and liabilities	58 007	49 345

HERTI JSC**Change in equity - consolidated**

For the period ended 30 June 2022

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2022	12 014	29	563	446	5 244	18 296
Translations of financial statements of foreign companies						0
Revaluation of investments in associates						0
Other transactions for the period			139		-139	0
Dividends paid					-481	-481
Current net profit/loss	-	-			4136	4136
Balance at 30 June 2022	12 014	29	702	446	8 760	21 951

HERTI JSC
consolidated Cash flow
For the second quarter of 2022
In thousands of BGN

	30.6.2022	30.6.2021
Cash flows from operating activities		
Cash receipts from customers	46 459	25 842
Cash paid to suppliers	-34 211	-17 571
Net cash flow for salaries and wages of personnel	-7 452	-6 121
Other payments from operating activities	-14	40
Income taxes paid /received	-1795	-816
Cash from operating activities	2 987	1 374
Cash flows from investing activities		
Acquisition of property, plant and equipment	-2 048	-781
Proceeds from non-current assets	0	0
Other proceeds/ payments from investment activities	615	0
Cash from investing activities	-1 433	-781
Cash flows from financing activities		
Loans received	1 275	98
Repayment of borrowings	-1 015	-1 041
Other financial payments/received		
Payment of finance lease liabilities	-32	-31
Interest paid	-130	-84
Other financial payments		
Cash from financing activities	98	-1 058
Net increase in cash and cash equivalents	1 652	-465
Cash and cash equivalents at 1 January	2352	3490
Effect of change of currency exchange rate		
Cash and cash equivalents at the end of the period	4 004	3025