

Consolidated Management report of Herti JSC
For the period 01.01-30.06.2021

Introduction

The following report has been prepared, based on the first six months Consolidated financial statements of Herti JSC as at 30 June 2021.

I. General information and management.

Herti JSC 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 and composite closures for all kinds of bottles.

The shareholders of Herti as at 30.06.2021 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>34,355</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:

Alexander Yulianov – Chairman of the Board of directors

Zahari Zahariev – Chief Executive Officer;

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

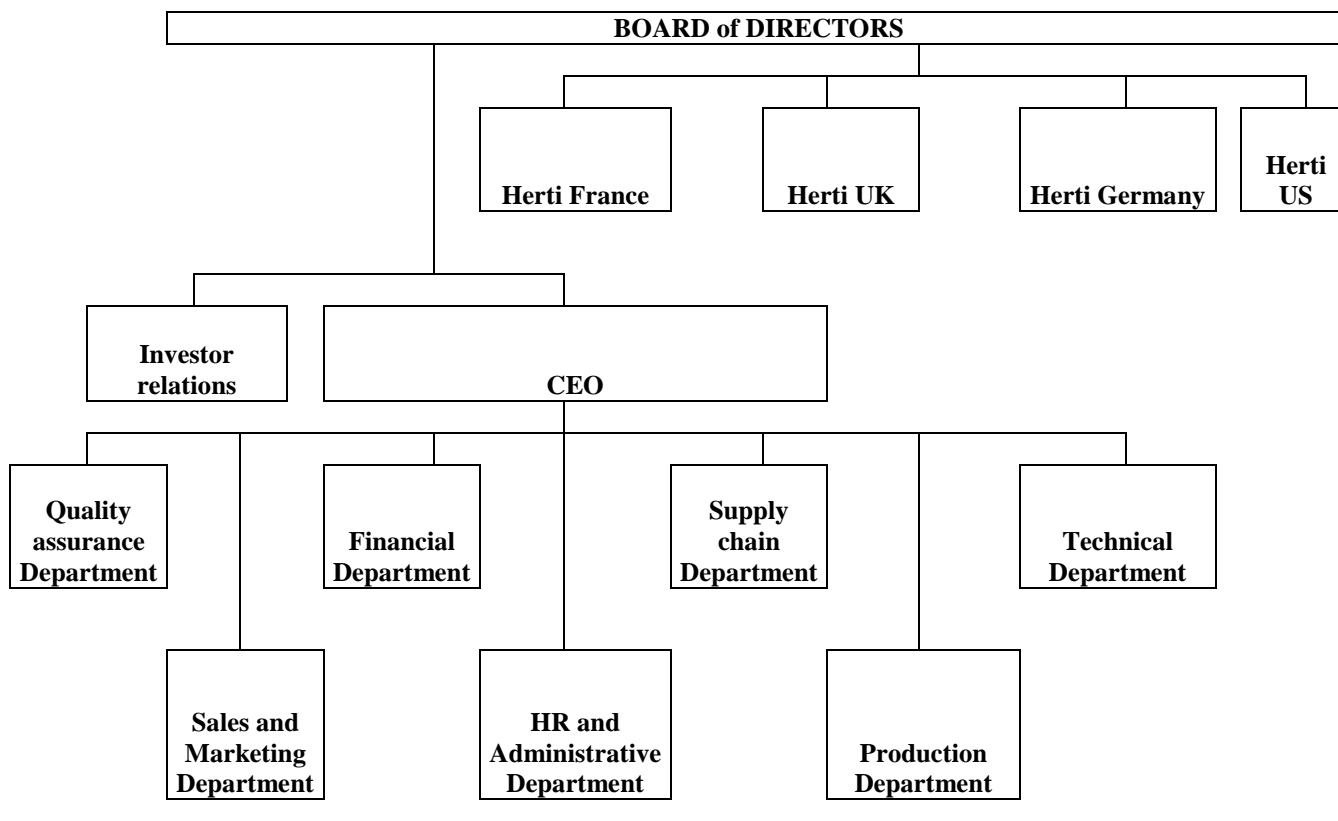
Svetoslav Stamenov- Member of the Board of directors

Maria Velinova – Member of the Board of directors

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

The group of Herti operates on the domestic and foreign markets. The trade mark Herti is well known in more than 50 countries worldwide. The biggest market for Herti is France, followed by the UK, Bulgaria, Germany, Russia, and other European countries – all these take 68% 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 524 thousands of BGN, while for the same period of 2020 it is 552 thousands of BGN. The company generated an operating profit (EBITDA) of 2 551 thousands of BGN.

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 liquidity ratio for the period is 1.45, which is increased with 0.31 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 1041 thousand BGN of its long term loans.

3. Capital recourses and investments

From the beginning of this year Herti put into action the new CTP technology which removes an extra step from the process by eliminating the need for films used to transfer images to a printing plate. CTP reduces quality errors which often occur with films such as scratches and underexposure/overexposure. In addition it improves quality and reduces not only the time for production but also the costs of used films, related chemicals, transport and produces far less waste.

The new CTP technology will allow Herti to save more than 2 thousand liters of chemicals, will reduce the volume of courier shipments with 200 kg and the waste generated by films and plates with almost 4 tons. CTP eliminates the cost and management of film and its related processing chemistry, saving money and benefiting the environment

4. Research and Development activities

The R&D Department in the Company works to develop innovative methodologies, procedures and technological means for increasing the quality of the products and efficiency of using resources 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. 531 people work in the company and most of them passed trainings for adding skills to their qualification. Regular trainings are organized for the staff.

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 aluminum 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.

Herti experiences the impact of the global COVID-19 pandemic and faces all risks of the consequences of its spreading.

7. Future development strategy

Herti plans to increase its sales during 2021. 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.

III. Other important information

According to the current situation with the COVID pandemic worldwide, the management of Herti continues to follow all precautionary measures to protect our staff, as well as for ensuring uninterrupted service of our customers. The company responsible for the cleaning of the production premises uses special disinfectant to clean all handles and water taps minimum 3 times per sheet. Additionally to the usual standard thorough washing of hands all employees use many times special hand disinfectant from the devices installed in every production and working area. We have changed the organization of movement in the factory in a way that does not allow crossing the paths of different shifts and carry out full disinfection of the production and sanitary premises between the shifts. We have secured protective masks for all workers. Business trips and visits as well as regular operative meetings are cancelled and communication is made on-line. Part of the administration is working from home. Whenever possible, people use their own vehicles to go to work to avoid travelling with public transport.

All employees who have even mild symptoms are tested with PCR tests and stay at home. Nobody with a positive test can go back to work. All these measures are made to protect the staff and ensure the supply chain of products. We organized vaccination for our employees and more than 20% took their doses in special centers or at the production premises.

Due to decrease in sales in the beginning of the year Herti applied for the financial support by the Government 60/40 for one of these months and was approved.

Due to the restrictions of COVID 19 pandemic, the recertification procedure for BRC/IOP standard was held as a discussion to prolong the certificate for another 6 months. The on-site audit was conducted from 26-28th of July and Herti moved to the new version of the standard receiving again the highest A grade.

Since the beginning of this year Herti put into action a new CTP machine, which removes an extra step from the process by eliminating the need for films used to transfer images to a printing plate. CTP reduces quality errors which often occur with films such as scratches and underexposure/overexposure. In addition it improves quality and reduces not only the time for production but also the costs of used films, related chemicals, transport and produces far less waste.

Several more optimizations were made in the production process to put machines in a line which helps to shorten the production time and decrease costs.

For the first time the 2021 Unified&Grape Symposium was held virtual at the end of January. Herti took part in the event and intends to join other on-line trade shows. The virtual events cannot replace the live

ones, but still they give chance for the company to get publicity and present its products before potential and existing customers.

Herti embraced the idea of SOS children's settlements and supported financially young people from Central Bulgaria to start their self dependent life. This year again Herti is going to be a partner of UNICEF and support their cause Grow Cyber Survivor.

On June 14th, 2021 "Herti" AD received the approval of the project "GALP Greener ALuminum Cap (Implementation of green innovative production processes under Industry 4.0)" supported by the Norway Grants 2014-2021, in the frame of the Business Development, Innovation and SMEs, Bulgaria.

The project will be implemented in Pliska, Bulgaria in the next 18 months. The project budget is 1 703 540 Euro and the grant amount is 800 000 Euro, representing 46,96% of the eligible costs of the project.

On June 23rd, The Board of Directors decided to renew the revolving credit line from UBB and to take an investment credit from the same bank to finance the GALP project, which was approved and the contract with UBB was signed on July 12th.

A General Meeting of the Shareholders was held on June 23rd. No dividends will be paid.

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- 30.06.2021, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International Romania	Sales of products	1 473
IGM Holding	Expenses	1
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
Raifen OOD	Transport services received	494
Timshel OOD	Rent	39

VIII. Information concerning article 247 from the Trade Law

The total remuneration of the Board of directors' members for the period is 263 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 Corporate 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 2021 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.

25 August 2021

Chief Executive Officer :

Zahari Zahariev

HERTI JSC
Consolidated Income statement

For the second quarter of 2021

In thousands of BGN

	30.6.2021	30.6.2020
Revenue	24 021	24 526
Other income	266	298
Carrying amount of materials and goods sold	-143	-201
Increase/(decrease) of inventories of finished goods and work in progress	-117	32
Capitalised expenses		
Expenses for materials	-13 329	-14 234
Hired services	-2 078	-1 507
Depreciation and amortisation	-1 841	-1 778
Personnel expenses	-5 953	-6 086
Other operating expenses	-222	-192
Finance expenses	-81	-306
Share of profit/loss in associated companies	1	0
Profit before tax	524	552
Income tax expense/income/		
Profit /Loss for the period	524	552
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	524	552

HERTI JSC
Consolidated Balance sheet

As at 30 June 2021

In thousands of BGN

	30.6.2021	31.12.2020
Assets		
Property, plant and equipment	23 243	24 470
Intangible assets	49	53
Investments	110	111
Assets connected with deferred taxes		
Total non-current assets	23 402	24 634
Related parties receivables	811	630
Inventories	8 495	7 763
Trade and other receivables	9 194	7 167
Cash and cash equivalents	3 025	3 490
Total current assets	21 525	19 050
Total assets	44 927	43 684
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	1 069	955
Retained earnings	4 212	3 792
Total Equity	17 324	16 790
Liabilities		
Interest bearing loans and finance lease	10 278	7 488
Deferred tax liabilities	795	795
Other (earned income)	423	464
Financing	1 340	1 403
Total non- current liabilities	12 836	10 150
Related party payables	299	394
Interest bearing loans and finance lease	5 558	9 290
Trade and other payables	8 706	6 856
Financing	204	204
Total current liabilities	14 767	16 744
Total liabilities	27 603	26 894
Total equity and liabilities	44 927	43 684

HERTI JSC**Change in equity - consolidated**

For the period ended 30 June 2021

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2021	12 014	29	573	382	3 792	16 790
Translations of financial statements of foreign companies						0
Revaluation of investments in associates			-1		11	10
Other transactions for the period			115		-115	0
Deffered taxes effect						0
Current net profit/loss	-	-			524	524
Balance at 30 June 2021	12 014	29	687	382	4 212	17 324

HERTI JSC
consolidated Cash flow
For the second quarter of 2021
In thousands of BGN

	30.6.2021	30.6.2020
Cash flows from operating activities		
Cash receipts from customers	25 842	26 674
Cash paid to suppliers	-17 571	-17 636
Net cash flow for salaries and wages of personnel	-6 121	-5 757
Other payments from operating activities	40	21
Income taxes paid /received	-816	-546
Cash from operating activities	1 374	2 756
Cash flows from investing activities		
Acquisition of property, plant and equipment	-781	-1 730
Proceeds from non-current assets	0	0
Other proceeds/ payments from investment activities	0	43
Cash from investing activities	-781	-1 687
Cash flows from financing activities		
Loans received	98	1 089
Repayment of borrowings	-1 041	-993
Other financial payments/received		
Payment of finance lease liabilities	-31	-30
Interest paid	-123	-150
Other financial payments	39	0
Cash from financing activities	-1 058	-84
Net increase in cash and cash equivalents	-465	985
Cash and cash equivalents at 1 January	3490	1749
Effect of change of currency exchange rate		
Cash and cash equivalents at the end of the period	3 025	2734