

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 financial statements of Herti JSC as at 30 June 2022.

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, printing and lacquering on metal sheets.

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
Other share-holders (persons)	34,439	0.29
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;

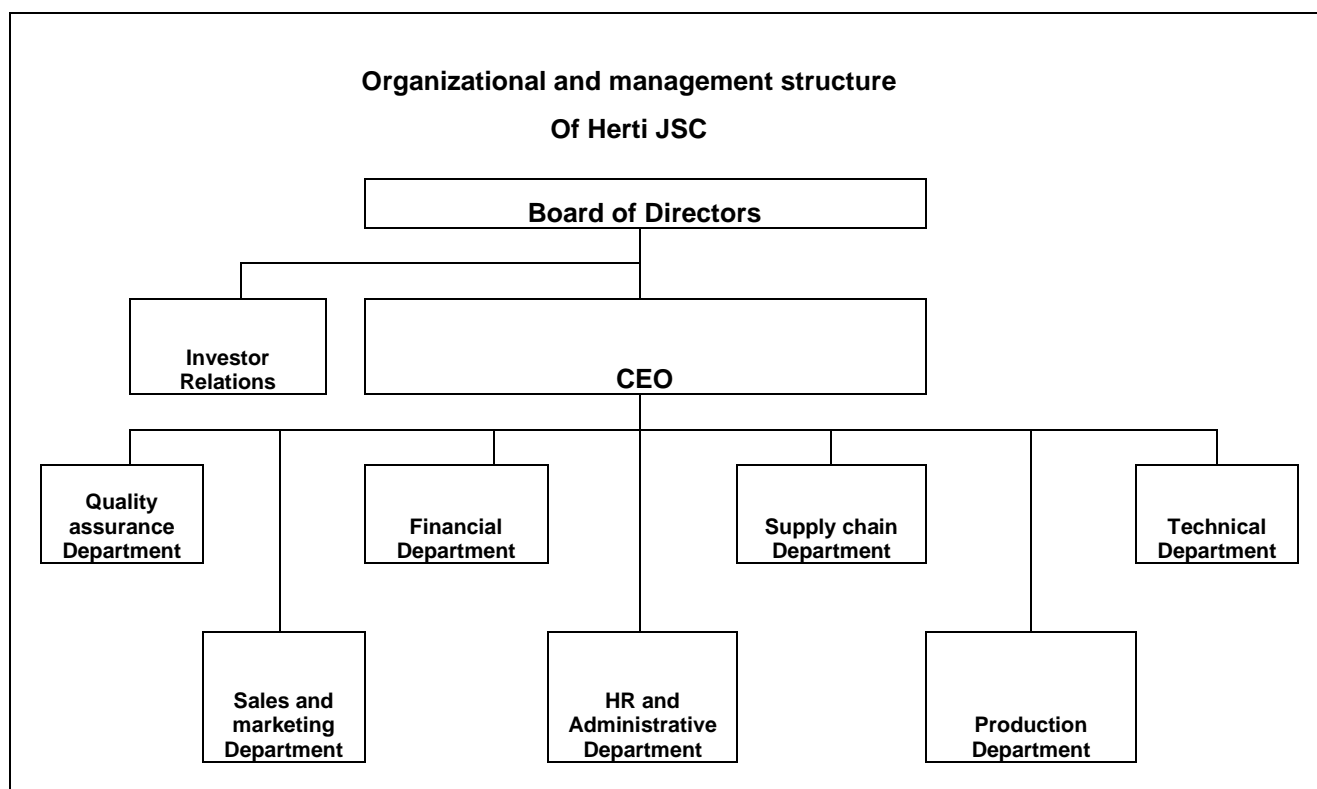
Dipl. Eng. Josef Mayer – Member of the Board of directors

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.



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 4 027 thousands of BGN, while for the same period of 2021 it is 411 thousands of BGN. The company generated an operating profit (EBITDA) of 6 025 thousands of BGN.

There is 89.76 % 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 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 1.518, which is increased with 0.045 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 0154 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 22 205 thousand BGN at June 30, 2022. The assets of the company grew with 7 720 thousand BGN to the amount of 56 672 thousand BGN. The indicators ROE and ROA are 34.435% and 6.322% respectively.

4. Research and Development activities

The Company is developing innovative methodologies, procedures and technological means for increasing the quality of the products and maintaining its sustainable competitive advantage. Regular trainings are organized for the staff.

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. 553 people work in the company as at 30.06.2022 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 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.

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

Herti experiences the impact of increased energy and transport costs which make the management of processes more complicated.

7. Future development strategy

Herti plans to increase its sales 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

During the first three months Herti continued to follow all precautionary measures against COVID 19 to protect our 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.

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.

A Board of Directors meeting was held in February. A decision was made to apply for an investment loan from DSK Bank in the amount of EUR 800,000 for the purchase of new rolling and lining machines and a rotary press. The agenda and the date for convening a regular General Meeting of Shareholders were also determined.

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.

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- 30.06.2022, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International Romania	Sales of products	2 223
Herti UK	Sales of product	4 936
Herti France	Sales of product	6 865
Herti Germany	Sales of products	4 927
Herti US	Sales of products	446
IGM Holding	Expenses	1
TIHERT JSC	Sales	78
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 229 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 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.

20 July 2022

Chief Executive Officer :

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2022

In thousands of BGN

	30.6.2022	30.6.2021
Revenue	42 813	22 678
Other income	3 565	1 635
Carrying amount of materials and goods sold	-13	-128
Increase/(decrease) of inventories of finished goods and work in progress	655	99
Capitalised expenses	0	0
Expenses for materials	-30 349	-14 504
Hired services	-3 099	-2 042
Depreciation and amortisation	-1 847	-1 784
Personnel expenses	-7 389	-5 305
Other operating expenses	-268	-165
Finance income	144	105
Finance expenses	-185	-178
Profit before tax	4 027	411
Income tax expense	-444	-57
Profit for the period	3 583	354

HERTI JSC**Balance sheet**

As at 30 June 2022

In thousands of BGN

	30.6.2022	31.12.2021
Assets		
Property, plant and equipment	25 050	24 782
Intangible assets	35	41
Investments	389	389
Long term receivables		
Total non-current assets	25 474	25 212
Related parties receivables	8 273	6 405
Inventories	11 624	9 979
Trade and other receivables	8 198	5 564
Cash and cash equivalents	3 103	1 792
Total current assets	31 198	23 740
Total assets	56 672	48 952
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	1 143	1 004
Retained earnings	9 019	6 056
Total Equity	22 205	19 103
Liabilities		
Interest bearing loans and finance lease	10 710	11 025
Deferred tax liabilities	828	828
Other non- current liabilities	471	471
Financing	1 711	1 199
Total non- current liabilities	13 720	13 523
Related party payables	680	376
Interest bearing loans and finance lease	6 565	5 991
Taxes payable	1 086	576
Trade and other payables	12 212	9 179
Financing	204	204
Total current liabilities	20 747	16 326
Total liabilities	34 467	29 849
Total equity and liabilities	56 672	48 952

HERTI JSC**Change in equity**

For the period ended 30 June 2022

In thousands of BGN

	Authorised Capital	Premium of issued capital	Reserves	Additional Reserves	Retained Earnings	Profit/loss	Total
Balance at 1 January 2021	12 014	29	507	382	3709	1152	17 793
Transform of retained earnings- nondistributed	-		115		1037	-1152	0
Current net profit/loss					-83	1393	1 310
Other							0
Balance at 31 December 2021	12 014	29	622	382	4663	1393	19 103
Balance at 1 January 2022	12 014	29	622	382	4663	1393	19 103
Transform of retained earnings- nondistributed	-						0
Dividends paid					-481		-481
Current net profit/loss						3583	3 583
Effect from deffered taxes							0
Other			139		-139		0
Balance at 30 June 2022	12 014	29	761	382	4043	4976	22 205

HERTI JSC**Cash flow**

For the second quarter of 2022

In thousands of BGN

	01.01-30.06.2022	01.01.-30.06.2021
Cash flows from operating activities		
Cash receipts from customers	42 456	23 078
Cash paid to suppliers	-33 179	-16 650
Net cash flow for salaries and wages of personnel	-6 949	-5 388
Income taxes paid /received(excluding profit tax)	389	383
Profit tax	-106	-20
Interest for short term credits and bank taxes paid	-57	-49
Effect of change of currency exchange rate on cash held	45	66
Other income/ payment from operative activities	0	33
Cash from operating activities	2 599	1 453
Cash flows from investing activities		
Acquisition of property, plant and equipment	-2 043	-781
Proceeds from non-current assets	0	0
Investment/ dividends in/from daughter companies	10	0
Other	615	-26
Cash from investing activities	-1 418	-807
Cash flows from financing activities		
Loans received	1 275	98
Repayment of borrowings	-1 015	-1 041
Payment of finance lease liabilities	0	0
Interest for investment credits paid	-130	-123
Transactions costs		
Other financing activities		
Cash from financing activities	130	-1 066
Net increase in cash and cash equivalents	1 311	-420
Cash and cash equivalents at 1 January	1792	2838
Cash and cash equivalents at the end of the period	3103	2418