

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 financial statements of Herti JSC as at 30 June 2024.

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 aluminum screw caps, plastic caps and articles, printing and lacquering on metal sheets.

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 Yuliyarov – Chairman of the Board of directors

Zahari Zahariev – Chief Executive Officer;

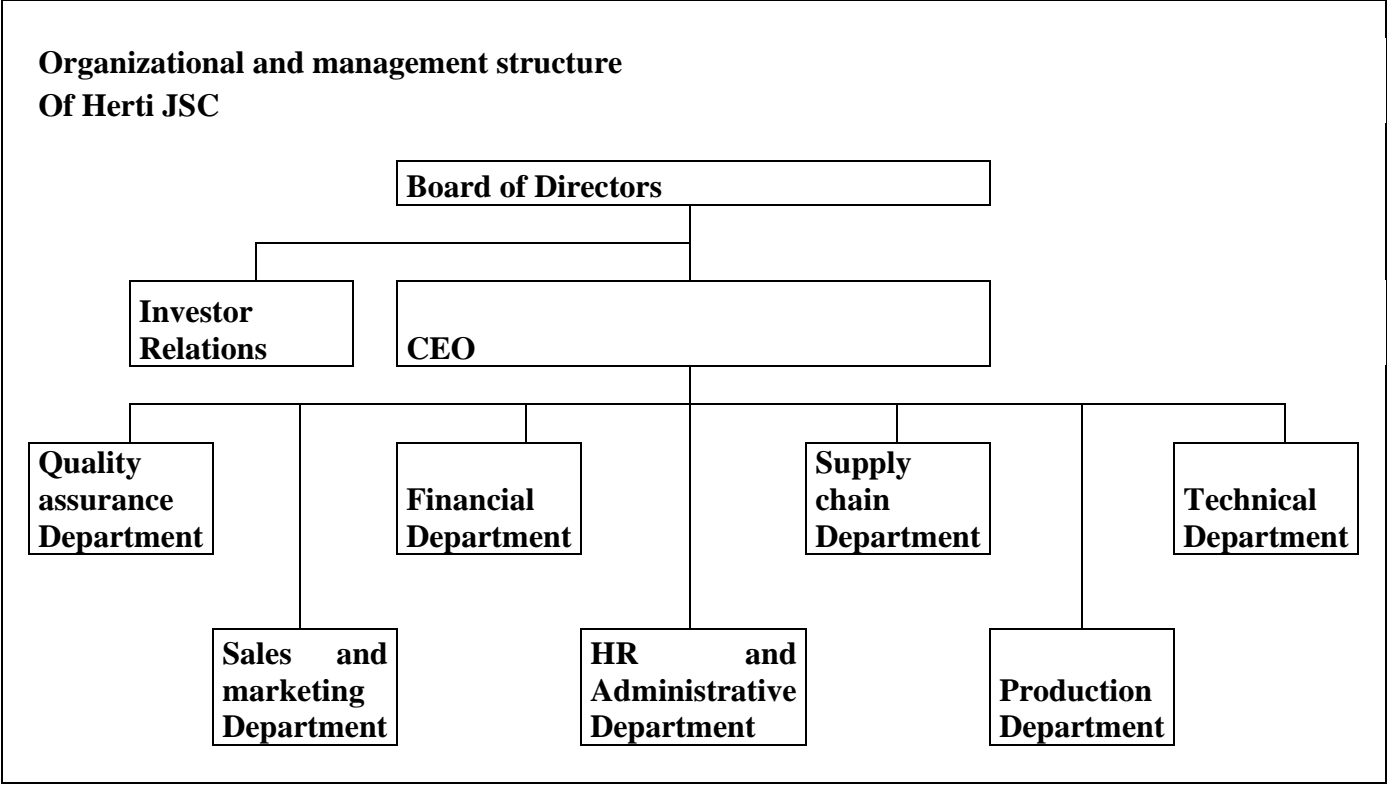
Dipl. Eng. Josef Mayer – Member of the Board of directors

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 2024, the company'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 before taxes for the period covered by the report is 4 448 thousand of BGN, while for the same period of 2023 it is 5 069 thousand of BGN. The company generated an operating profit (EBITDA) of 7 019 thousand of BGN.

There is 16.6 % 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.

The liquidity ratio for the period is 2.35, which is increased with 0.47 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 2 826 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 31 214 thousand BGN at June 30, 2024. The assets of the company grew with 3 844 thousand BGN to the amount of 58 468 thousand BGN. The indicators ROE and ROA are 14.25% and 7.60% 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. 446 people work in the company as at 30.06.2024 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.

7. Future development strategy

The strategy includes different marketing activities to keep the market share of the company 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

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, Herti 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.

Herti 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.

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 related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti UK	Sales of products	7 080
Herti France	Sales of product	4 940
Herti US	Sales of product	490
Herti Romania	Sales of products	1 493
Herti Germany	Sales of products	4 148
IGM Holding	Expenses	1
TIHERT JSC	Sales	55
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
Raifen OOD	Transport services received	479
Timshel OOD	Rent	52
Shareholders	Dividends	1 466

VIII. Information concerning article 247 from the Trade Law

The total remuneration of the Board of directors' members for the period is 411 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 2024 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 July 2024

Chief Executive Officer:

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2024

In thousands of BGN

	30.6.2024	30.6.2023
Revenue	34 750	41 669
Other income (including financing)	461	604
Carrying amount of materials and goods sold	-5	-10
Increase/(decrease) of inventories of finished goods and work in progress	688	-516
Capitalised expenses	0	0
Expenses for materials	-18 192	-22 323
Hired services	-2 552	-2 645
Depreciation and amortisation	-2 405	-2 473
Personnel expenses	-8 548	-8 402
Other operating expenses	-235	-563
Finance income	716	63
Finance expenses	-230	-335
Profit before tax	4 448	5 069
Income tax expense		
Profit for the period	4 448	5 069

HERTI JSC**Balance sheet**

As at 30 June 2024

In thousands of BGN

	30.6.2024	31.12.2023
Assets		
Property, plant and equipment	22 545	23 714
Intangible assets	41	69
Investments	486	486
Total non-current assets	23 072	24 269
Related parties receivables	6 660	4 996
Inventories	10 602	12 069
Trade and other receivables	5 354	3 362
Cash and cash equivalents	12 780	9 928
Total current assets	35 396	30 355
Total assets	58 468	54 624
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	1 664	1 664
Retained earnings	17 507	14 525
Total Equity	31 214	28 232
Liabilities		
Interest bearing loans and finance lease	9 429	5 580
Deferred tax liabilities	565	565
Other non-current liabilities	527	527
Financing	1 680	1 876
Total non-current liabilities	12 201	8 548
Related party payables	1 580	136
Interest bearing loans and finance lease	4 233	10 045
Taxes payable	591	745
Trade and other payables	8 053	6 387
Financing	596	531
Total current liabilities	15 053	17 844
Total liabilities	27 254	26 392
Total equity and liabilities	58 468	54 624

HERTI JSC**Change in equity**

For the period ended 30 June 2024

In thousands of BGN

	Authorised Capital	Premium of issued capital	Reserves	Additional Reserves	Retained Earnings	Total
Balance at 1 January 2023	12 014	29	761	382	10578	23 764
Transform of retained earnings- nondistributed	-		521		-521	0
Current net profit/loss					5369	5 369
Other / dividends paid					-901	-901
Balance at 31 December 2023	12 014	29	1282	382	14525	28 232
Balance at 1 January 2024	12 014	29	1282	382	14525	28 232
Transform of retained earnings- nondistributed	-					0
Dividends paid					-1466	-1466
Current net profit/loss					4448	4 448
Effect from deffered taxes						0
Other						0
Balance at 30 June 2024	12 014	29	1282	382	17507	31 214

HERTI JSC**Cash flow**

For the second quarter of 2024

In thousands of BGN

	01.01.-30.06.2024	01.01.-30.06.2023
Cash flows from operating activities		
Cash receipts from customers	33 920	44 258
Cash paid to suppliers	-20 001	-30 828
Net cash flow for salaries and wages of personnel	-8 369	-8 568
Income taxes paid /received(excluding profit tax)	358	308
Profit tax	-376	-368
Interest for short term credits and bank taxes paid	-39	-61
Effect of change of currency exchange rate on cash held	51	48
Other income/ payment from operative activities	2	169
Cash from operating activities	5 546	4 958
Cash flows from investing activities		
Acquisition of property, plant and equipment	-1 265	-1 342
Proceeds from non-current assets	0	18
Investment/ dividends in/from daughter companies	587	0
Other	162	945
Cash from investing activities	-516	-379
Cash flows from financing activities		
Loans received	6 339	790
Repayment of borrowings	-8 302	-2 395
Payment of finance lease liabilities	0	0
Interest for investment credits paid	-215	-282
Transactions costs		
Other financing activities - dividends paid	0	
Cash from financing activities	-2 178	-1 887
Net increase in cash and cash equivalents	2 852	2 692
Cash and cash equivalents at 1 January	9928	4105
Cash and cash equivalents at the end of the period	12780	6797