

## **Explanatory notes to the financial statement of Herti JSC** **For the period 01.01-30.09.2024**

### **1. Important events, that took place in the period 01/01 – 30/09/2024**

During the period the company has been working normally. The tendency for lower demand continues, but there are enough orders and positive signals.

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 29<sup>th</sup> 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.

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 CO<sub>2</sub>, 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 CO<sub>2</sub> 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.

At the beginning of September, on the territory of the production base in the town of Pliska, the construction of a new production building with a built-up area of 6 thousand square meters began.

## **2. Risk reduction and 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.

At the end of 2023, stabilization of the prices of the main raw materials for our products was observed. From the beginning of 2024 all aluminum suppliers adjusted prices downwards, which reflected in a decrease of direct production costs. Herti also took action to reduce selling prices to its customers.

At the end of the reporting period a trend of a slight increase in the prices of basic materials began, which will be reflected in the last quarter of 2024. Our expectations are that there will be a slight increase in prices.

The observed supply chain improvement at the end of 2023. which in turn improves the planning and forecasting of the supply of raw materials, was hampered by the outbreak of military conflict

in the Middle East. This led to disruptions in the supply chain, which in turn sent sea freight rates soaring. At the moment, deliveries are rhythmic, but the deadline has almost doubled. All this leads to an increase in production costs. The good liquidity of Herti, gives an opportunity to maintain larger stocks of raw materials and to avoid disruption of the production process, giving the possibility for Herti AD to normally fulfill the orders requested by customers.

The management monitors the situation on a daily basis and has identified certain stabilization measures to mitigate the negative financial impact.

### **3. Information on the transactions between the Company and related parties**

For the period 01.01- 30.09.2024, the Company has realized the following transactions with related parties:

| <b>Related party</b>      | <b>Transaction</b>                    | <b>Amount (in thousand BGN)</b> |
|---------------------------|---------------------------------------|---------------------------------|
| Herti Group International | Sales of product                      | 2 157                           |
| Herti UK                  | Sales of product                      | 10 919                          |
| Herti France              | Sales of product                      | 7 853                           |
| Herti Germany             | Sales of products                     | 6 062                           |
| Herti US                  | Sales of products                     | 789                             |
| TIHERT JSC                | Services sales                        | 80                              |
| Timshel OOD               | Service sales                         | 2                               |
| Raifen OOD                | Service sales                         | 2                               |
| TIHERT JSC                | Purchase of spare parts and materials | 3                               |
| Timshel OOD               | Rent                                  | 78                              |
| Raifen OOD                | Transport services received           | 714                             |
| IGM                       | Expenses                              | 55                              |

**4. There are no new considerable and important receivables or payables arisen for the period.**

### **5. Responsibility of the Management**

The management confirms that the Financial Statement for the first quarter of 2024 gives a fair and complete view of the financial position of the company and the risks it faces.

**Chief Executive Officer:**

18 October 2024

Zahari Zahariev

**HERTI JSC****Income statement**

For the third quarter of 2024

*In thousands of BGN*

|   | <b>30.9.2024</b> | <b>30.9.2023</b> |
|---|------------------|------------------|
| Revenue   | 52 581           | 57 515           |
| Other income (including financing)  | 675              | 778              |
| Carrying amount of materials and goods sold                               | -9               | -13              |
| Increase/(decrease) of inventories of finished goods and work in progress | 797              | 167              |
| Capitalised expenses  | 0                | 0                |
| Expenses for materials  | -27 218          | -31 400          |
| Hired services  | -4 017           | -3 965           |
| Depreciation and amortisation   | -3 616           | -3 696           |
| Personnel expenses  | -12 977          | -12 494          |
| Other operating expenses  | -297             | -661             |
| Finance income  | 658              | 80               |
| Finance expenses  | -304             | -500             |
| <b>Profit before tax</b>  | <b>6 273</b>     | <b>5 811</b>     |
| <b>Income tax expense</b>   |                  |                  |
| <b>Profit for the period</b>  | <b>6 273</b>     | <b>5 811</b>     |

**HERTI JSC****Balance sheet**

As at 30 September 2024

*In thousands of BGN*

|  | 30.9.2024     | 31.12.2023    |
|--|---------------|---------------|
| <b>Assets</b>                            |               |               |
| Property, plant and equipment            | 22 702        | 23 714        |
| Intangible assets                        | 27            | 69            |
| Investments                              | 486           | 486           |
| <b>Total non-current assets</b>          | <b>23 215</b> | <b>24 269</b> |
| Related parties receivables              | 6 556         | 4 996         |
| Inventories                              | 10 444        | 12 069        |
| Trade and other receivables              | 4 460         | 3 362         |
| Cash and cash equivalents                | 12 073        | 9 928         |
| <b>Total current assets</b>              | <b>33 533</b> | <b>30 355</b> |
| <b>Total assets</b>                      | <b>56 748</b> | <b>54 624</b> |
| <b>Equity</b>                            |               |               |
| Issued capital                           | 12 014        | 12 014        |
| Premium of issued capital                | 29            | 29            |
| Reserves                                 | 1 664         | 1 664         |
| Retained earnings                        | 19 332        | 14 525        |
| <b>Total Equity</b>                      | <b>33 039</b> | <b>28 232</b> |
| <b>Liabilities</b>                       |               |               |
| Interest bearing loans and finance lease | 6 553         | 5 580         |
| Deferred tax liabilities                 | 565           | 565           |
| Other non-current liabilities            | 527           | 527           |
| Financing                                | 1 528         | 1 876         |
| <b>Total non-current liabilities</b>     | <b>9 173</b>  | <b>8 548</b>  |
| Related party payables                   | 128           | 136           |
| Interest bearing loans and finance lease | 5 092         | 10 045        |
| Taxes payable                            | 620           | 745           |
| Trade and other payables                 | 8 100         | 6 387         |
| Financing                                | 596           | 531           |
| <b>Total current liabilities</b>         | <b>14 536</b> | <b>17 844</b> |
| <b>Total liabilities</b>                 | <b>23 709</b> | <b>26 392</b> |
| <b>Total equity and liabilities</b>      | <b>56 748</b> | <b>54 624</b> |

**HERTI JSC****Change in equity**

For the period ended 30 September 2024

*In thousands of BGN*

|   | <b>Authorised<br/>Capital</b> | <b>Premium of<br/>issued capital</b> | <b>Reserves</b> | <b>Additional<br/>Reserves</b> | <b>Retained<br/>Earnings</b> | <b>Total</b> |
|---|-------------------------------|--------------------------------------|-----------------|--------------------------------|------------------------------|--------------|
| Balance at 1 January 2023                         | 12 014                        | 29                                   | 761             | 382                            | 10578                        | 23 764       |
| Transform of retained earnings-<br>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-<br>nondistributed | -                             |                                      |                 |                                |                              | 0            |
| Dividends paid                                    |                               |                                      |                 |                                | -1466                        | -1466        |
| Current net profit/loss                           |                               |                                      |                 |                                | 6273                         | 6 273        |
| Effect from deffered taxes                        |                               |                                      |                 |                                |                              | 0            |
| Other   |                               |                                      |                 |                                |                              | 0            |
| Balance at 30 September 2024                      | 12 014                        | 29                                   | 1282            | 382                            | 19332                        | 33 039       |

**HERTI JSC****Cash flow**

For the third quarter of 2024

*In thousands of BGN*

|   | 01.01-30.09.2024 | 01.01.-30.09.2023 |
|---|------------------|-------------------|
| <b>Cash flows from operating activities</b>               |                  |                   |
| Cash receipts from customers                              | 53 962           | 63 045            |
| Cash paid to suppliers                                    | -30 341          | -41 778           |
| Net cash flow for salaries and wages of personnel         | -12 670          | -12 643           |
| Income taxes paid /received(excluding profit tax)         | -711             | 422               |
| Profit tax  | -451             | -443              |
| Interest for short term credits and bank taxes paid       | -31              | -83               |
| Effect of change of currency exchange rate on cash held   | 78               | 73                |
| Other income/ payment from operative activities           | -18              | 174               |
| <b>Cash from operating activities</b>                     | <b>9 818</b>     | <b>8 767</b>      |
| <b>Cash flows from investing activities</b>               |                  |                   |
| Acquisition of property, plant and equipment              | -2 742           | -1 464            |
| Proceeds from non-current assets                          | 4                | 18                |
| Investment/ dividends in/from daughter companies          | 587              | 0                 |
| Other   | 162              | 945               |
| <b>Cash from investing activities</b>                     | <b>-1 989</b>    | <b>-501</b>       |
| <b>Cash flows from financing activities</b>               |                  |                   |
| Loans received  | 6 339            | 790               |
| Repayment of borrowings                                   | -10 319          | -3 096            |
| Payment of finance lease liabilities                      | 0                | 0                 |
| Interest for investment credits paid                      | -287             | -415              |
| Transactions costs  |                  |                   |
| Other financing activities - dividends paid               | -1417            | -901              |
| <b>Cash from financing activities</b>                     | <b>-5 684</b>    | <b>-3 622</b>     |
| Net increase in cash and cash equivalents                 | 2 145            | 4 644             |
| Cash and cash equivalents at 1 January                    | 9928             | 4105              |
| <b>Cash and cash equivalents at the end of the period</b> | <b>12073</b>     | <b>8749</b>       |