

Management report of Herti JSC
For the period 01.01-30.06.2018

Introduction

The following report has been prepared, based on the first six months financial statements of Herti JSC as at 30 June 2018.

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 30.06.2018 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;

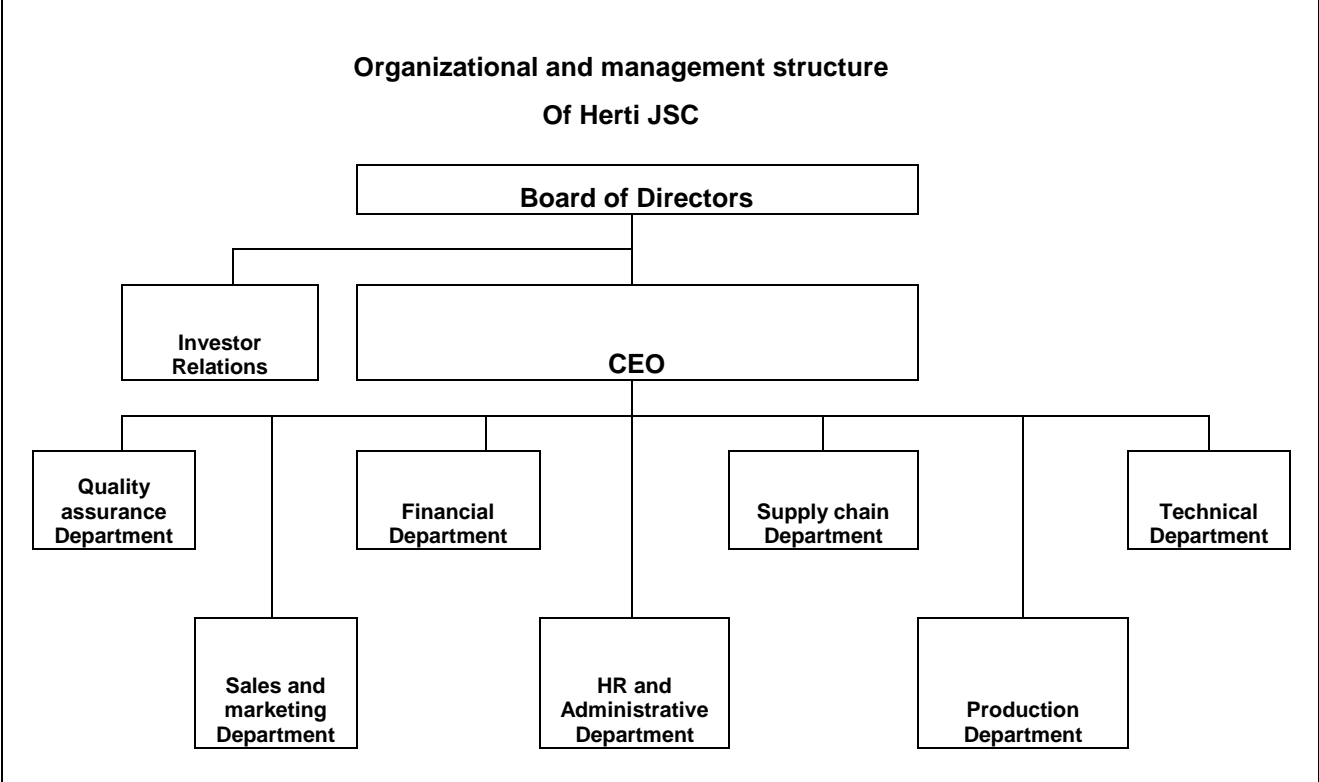
Dipl. Eng. Josef Mayer – Member of the Board of directors

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.

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 in more than 50 countries worldwide. The biggest market for Herti is France, followed by the UK, Bulgaria, Russia, Germany, Romania and other European countries – all these take 77% 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 266 thousands of BGN, while for the same period of 2017 it is 374 thousands of BGN. The company generated an operating profit (EBITDA) of 1 819 thousands of BGN, while for the first six months of the previous year the operating profit amounted to 1 906 thousands BGN.

There is no specific increase in sales. The production of aluminum and composite closures is increased, while the plastic caps show decline.

Indicator	thousand pieces 06.2018	thousand pieces 06.2017	change in quantity	percentage change
Aluminium caps	500 591	498 988	1 603	0.32

Plastic caps	43 664	59 337	-15 673	-24.41
Composite closures	47 719	42 747	4 972	11.63

Analysis of the costs for the first six months of 2018 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 increased sales can stabilize the profits of the Company.

The liquidity ratio for the period is 1.36, which is decreased with 8 points, compared to 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 807 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 15 553 thousand BGN at June 30, 2018. The assets of the company grew to the amount of 43 685 thousand BGN.

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.

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. 474 people work in the company 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 aluminium 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

Herti plans to increase its sales during 2018. 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.

On January 12th, 2018, Herti signed a contract with the Ministry of Labor and Social Policy and its fund "Labor conditions" to realize a project for improving the health and safety working conditions in the factory. In March Herti successfully passed the recertification audit for BRC/IOP, obtaining the higher grade "A". In March Herti took part in the Carrer days in Varna and Ruse and in the Career forum in London. For the period Herti attended several trade shows: Unified Wine&Grape Symposium in Sacramento, Vinaria in Plovdiv and Prowein in Dusseldorf.

On June 26, 2018 a General meeting of the shareholders was held. No decision for paying dividends was taken.

III. Other important information

Herti owns 100% from its daughter companies in Bulgaria, the UK, France and Germany and 49% from a company in Romania. In 2017 Herti registered a daughter company in the USA where it also owns 100% of the capital.

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 concerning article 247 from the Trade Law

The total remuneration of the Board of directors' members for the period is 207 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.

VIII. 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.

IX. 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.

X. Responsibility of the Management

The management confirms that the financial statement for the first six months of 2018 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 July 2018

Chief Executive Officer :

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2018

In thousands of BGN

	30.6.2018	30.6.2017
Revenue	18 325	18 484
Other income	1 965	1 991
Carrying amount of materials and goods sold	-66	-202
Increase/(decrease) of inventories of finished goods and work in progress	-284	330
Capitalised expenses	-6	-1
Expenses for materials	-12 195	-12 700
Hired services	-1 509	-1 554
Depreciation and amortisation	-1 284	-1 206
Personnel expenses	-3 932	-3 275
Other operating expenses	-490	-1 167
Finance income	0	0
Finance expenses	-258	-326
Profit before tax	266	374
Income tax expense		
Profit for the period	266	374

HERTI JSC**Balance sheet**

As at 30 June 2018

In thousands of BGN

	30.6.2018	31.12.2017
Assets		
Property, plant and equipment	26 043	25 268
Intangible assets	297	362
Investments	389	389
Long term receivables	56	17
Total non-current assets	26 785	26 036
Related parties receivables	4 438	3 718
Inventories	5 500	6 313
Trade and other receivables	6 510	6 548
Cash and cash equivalents	252	609
Total current assets	16 700	17 188
Total assets	43 485	43 224
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	747	677
Retained earnings	2 763	2 567
Total Equity	15 553	15 287
Liabilities		
Interest bearing loans and finance lease	12 673	12 838
Deferred tax liabilities	861	861
Other non-current liabilities	253	265
Financing	1 878	1 998
Total non-current liabilities	15 665	15 962
Related party payables	358	388
Interest bearing loans and finance lease	5 889	5 568
Taxes payable	358	437
Trade and other payables	5 423	5 343
Financing	239	239
Total current liabilities	12 267	11 975
Total liabilities	27 932	27 937
Total equity and liabilities	43 485	43 224

HERTI JSC**Change in equity**

For the period ended 30 June 2018

In thousands of BGN

	Authorised Capital	Reserves	Additional Reserves	Premium of issued capital	Retained Earnings	Profit/Loss	Total
Balance at 1 January 2017	12 014	227	382	29	1248	678	14 578
Current net profit/loss	-						0
Transform of retained earnings- nondistributed		68			610	-678	0
Other income					4	705	709
Balance at 31 December 2017	12 014	295	382	29	1862	705	15 287
Balance at 1 January 2018	12 014	295	382	29	1862	705	15 287
Current net profit/loss	-		-			266	266
Retained earnings		70			635	-705	0
Other changes/ reserves							0
Balance at 30 June 2018	12 014	365	382	29	2497	266	15 553

HERTI JSC**Cash flow**

For the second quarter of 2018

In thousands of BGN

	01.01-30.06.2018	01.01.-30.06.2017
Cash flows from operating activities		
Cash receipts from customers	19 826	18 628
Cash paid to suppliers	-14 173	-13 539
Net cash flow for salaries and wages of personnel	-4 110	-3 492
Income taxes paid /received(excluding profit tax)	331	337
Profit tax	-21	-19
Interest for short term credits and bank taxes paid	-73	-79
Effect of change of currency exchange rate on cash held	9	17
Cash from operating activities	1 789	1 853
Cash flows from investing activities		
Acquisition of property, plant and equipment	-2 062	-1 994
Proceeds from non-current assets	10	0
Investment in daughter companies		-53
Loans given/received	-40	
Cash from investing activities	-2 092	-2 047
Cash flows from financing activities		
Loans received	1 214	1 122
Repayment of borrowings	-984	-804
Payment of finance lease liabilities	-90	-123
Interest for investment credits paid	-194	-182
Transactions costs		
Other financing activities		
Cash from financing activities	-54	13
Net increase in cash and cash equivalents	-357	-181
Cash and cash equivalents at 1 January	609	532
Cash and cash equivalents at the end of the period	252	351