

Management report of Herti JSC

For the period 01.01-30.06.2023

Introduction

The following report has been prepared, based on the first six months financial statements of Herti JSC as at 30 June 2023.

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 30.06.2023 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 Yulianov – Chairman of the Board of directors

Zahari Zahariev – Chief Executive Officer;

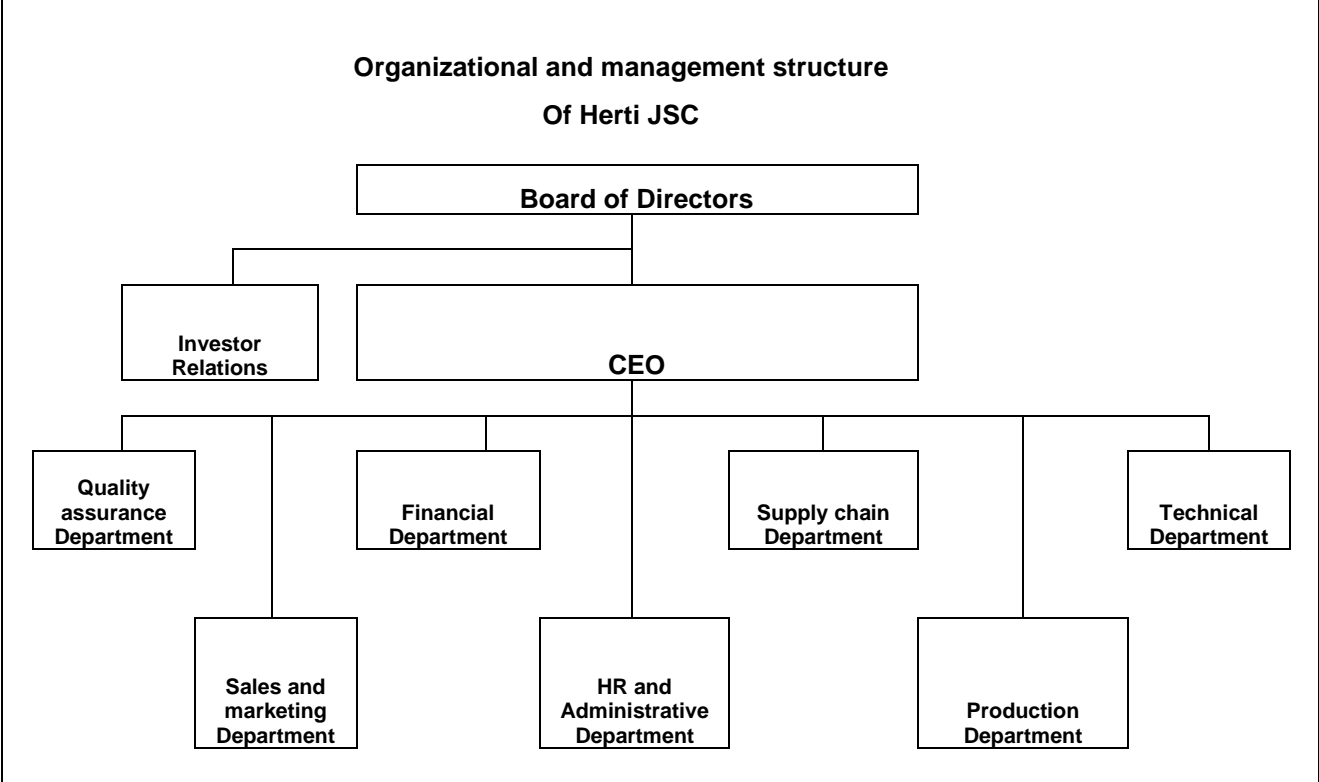
Dipl. Eng. Josef Mayer – Member of the Board of directors

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.



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 2023, 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, as well as possible 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 5 069 thousand of BGN, while for the same period of 2022 it is 4 027 thousand of BGN. The company generated an operating profit (EBITDA) of 7 834 thousand of BGN.

There is 2.7 % decrease in sales compared to the same period of 2022 and it impacts all markets.

Analysis of the costs for the first six months of 2023 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 1.88, which is increased with 0.36 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 2 395 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 27 932 thousand BGN at June 30, 2023. The assets of the company grew with 2 027 thousand BGN to the amount of 58 598 thousand BGN. The indicators ROE and ROA are 42.19% and 8.65% 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. 555 people work in the company as at 30.06.2023 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

The year started very good with enough production orders and working organization. At the end of 2022 and the beginning of 2023 several new machines were put into production. On December 11th, Herti presented the GALP project for the innovative printing technology Printalab Led at a special informative event. The final report was sent on December 15th to the Norwegian Financial Mechanism. The second transfer with the final payment of the financing at the amount of 485 800 EUR was received by Herti on January 18th, 2023 and the sum was used to partially pay back of the investment loan to UBB bank.

At the end of January, Herti participated in the largest exhibition for wine and winemaking in the United States - Unified Symposium in Sacramento.

From 14th till 17th of February the company took part in the largest trade show for food and drinks in Norway UMAMI ARENA. Herti was part of the Bulgarian booth together with a delegation of 10 companies. The event was organized and sponsored by the Norwegian Bulgarian Business Group. Herti made a presentation at a special workshop attended by the Bulgarian Ambassador in Norway and the representatives of the Norwegian Financial Mechanism.

A Board of Directors meeting was held on 28th of February, where the board members approved the individual audited financial report of the company for 2022. The Board took a decision to participate with a project for building a Solar panel system in the factory in Pliska for financing by the European Recovery Funds. The Board of Directors decided to convene a regular general meeting of shareholders on 28.06.2023 and set the agenda. A decision was made to increase the limit for bank guarantees in Unicredit Bulbank to one million BGN and to extend the term of the revolving credit line in DSK Bank by 12 months starting from 08.03.2023.

The leading wine and spirits trade fair ProWein took place from March 19 to 21 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 04/07/2023, the German-Bulgarian Chamber of Commerce held a special event dedicated to 5 years since the start of the Young Energy Europe (YEE) project in Bulgaria, at which the best teams, projects, mentors and companies were awarded. Herty received honors in all four categories through his Scout Team and Team Mentor for Most Active Company, Best Mentor and Interactive Project.

Herty becomes a partner and supports the project Fast Heroes 112 initiated by the "HEART TO HEART FOR BULGARIA" foundation. FAST HEROES 112 is a health education program where children ages 6 to 9 and their families will be taught how to recognize the symptoms of a stroke and how to act properly in an emergency if a loved one is at risk.

At the end of April, Herti received approval for another winning project funded by the Norwegian Financial Mechanism - Greenpress - for the purchase of a sheet press and die,

which will lead to a reduction in energy costs and technological waste, as well as an increase in capacity. The contract with the Norwegian Financial Mechanism was signed on 19/05/2023. The project is worth 401,100 euros and will be completed by the end of April 2024.

On the occasion of Herti's 30th anniversary, the company launched a social project-initiative for the restoration of the sports field in the town of Pliska. The project is worth 45 thousand euros and will be completed in about 2 months. The project is financially supported by the company's partners.

In connection with Children's Day and the upcoming Herti holiday, an open day for the children of Herti was organized on June 3rd. For the second time, all our workers were given the opportunity to show their children the factory, how caps are made and what they work on. The winners of the organized drawing competition on the theme "Mom / dads work in Herti" were honored and awarded.

On June 27 and 29, the 30th anniversary of the company was celebrated with customers, suppliers and partners, as well as with all the company's employees.

On 28.06.2023, a regular general meeting of the shareholders of Herti AD was held. At it, a new auditor for 2023 was elected - the company "Svrakov and Milev" OOD, and a decision was made to distribute a dividend.

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- 30.06.2023, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International Romania	Sales of products	1 274
Herti UK	Sales of product	5 561
Herti France	Sales of product	6 897
Herti Germany	Sales of products	5 251

Herti US	Sales of products	460
IGM Holding	Expenses	2
TIHERT JSC	Sales	55
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
Raifen OOD	Transport services received	577
Timshel OOD	Rent	52
Shareholders	Dividends	901

VIII. Information concerning article 247 from the Trade Law

The total remuneration of the Board of directors' members for the period is 357 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 Corporative 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 2023 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 2023

Chief Executive Officer :

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2023

In thousands of BGN

	30.6.2023	30.6.2022
Revenue	41 669	42 813
Other income (including financing)	604	1 017
Carrying amount of materials and goods sold	-10	-13
Increase/(decrease) of inventories of finished goods and work in progress	-516	655
Capitalised expenses	0	0
Expenses for materials	-22 323	-27 801
Hired services	-2 645	-3 099
Depreciation and amortisation	-2 473	-1 847
Personnel expenses	-8 402	-7 389
Other operating expenses	-563	-268
Finance income	63	144
Finance expenses	-335	-185
Profit before tax	5 069	4 027
Income tax expense		-444
Profit for the period	5 069	3 583

HERTI JSC**Balance sheet**

As at 30 June 2023

In thousands of BGN

	30.6.2023	31.12.2022
Assets		
Property, plant and equipment	25 601	26 688
Intangible assets	97	125
Investments	486	486
Total non-current assets	26 184	27 299
Related parties receivables	6 614	6 430
Inventories	12 874	12 293
Trade and other receivables	6 129	6 444
Cash and cash equivalents	6 797	4 105
Total current assets	32 414	29 272
Total assets	58 598	56 571
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	1 664	1 143
Retained earnings	14 225	10 578
Total Equity	27 932	23 764
Liabilities		
Interest bearing loans and finance lease	14 178	11 014
Deferred tax liabilities	698	698
Other non- current liabilities	618	618
Financing	1 911	1 227
Total non- current liabilities	17 405	13 557
Related party payables	1 084	170
Interest bearing loans and finance lease	2 713	7 482
Taxes payable	601	906
Trade and other payables	8 330	10 159
Financing	533	533
Total current liabilities	13 261	19 250
Total liabilities	30 666	32 807
Total equity and liabilities	58 598	56 571

HERTI JSC**Change in equity**

For the period ended 30 June 2023

In thousands of BGN

	Authorised Capital	Premium of issued capital	Reserves	Additional Reserves	Retained Earnings	Total
Balance at 1 January 2022	12 014	29	761	382	10578	23 764
Transform of retained earnings- nondistributed	-					0
Current net profit/loss						0
Other						0
Balance at 31 December 2022	12 014	29	761	382	10578	23 764
Balance at 1 January 2023	12 014	29	761	382	10578	23 764
Transform of retained earnings- nondistributed	-			521	-521	0
Dividends paid					-901	-901
Current net profit/loss					5069	5 069
Effect from deffered taxes						0
Other						0
Balance at 30 June 2023	12 014	29	761	903	14225	27 932

HERTI JSC**Cash flow**

For the second quarter of 2023

In thousands of BGN

	01.01-30.06.2023	01.01.-30.06.2022
Cash flows from operating activities		
Cash receipts from customers	44 258	42 456
Cash paid to suppliers	-30 828	-33 179
Net cash flow for salaries and wages of personnel	-8 568	-6 949
Income taxes paid /received(excluding profit tax)	308	389
Profit tax	-368	-106
Interest for short term credits and bank taxes paid	-61	-57
Effect of change of currency exchange rate on cash held	48	45
Other income/ payment from operative activities	169	0
Cash from operating activities	4 958	2 599
Cash flows from investing activities		
Acquisition of property, plant and equipment	-1 342	-2 043
Proceeds from non-current assets	18	0
Investment/ dividends in/from daughter companies	0	10
Other	945	615
Cash from investing activities	-379	-1 418
Cash flows from financing activities		
Loans received	790	1 275
Repayment of borrowings	-2 395	-1 015
Payment of finance lease liabilities	0	0
Interest for investment credits paid	-282	-130
Transactions costs		
Other financing activities - dividends paid	0	
Cash from financing activities	-1 887	130
Net increase in cash and cash equivalents	2 692	1 311
Cash and cash equivalents at 1 January	4105	1792
Cash and cash equivalents at the end of the period	6797	3103