

Management report of Herti JSC
For the period 01.01-30.06.2021

Introduction

The following report has been prepared, based on the first six months financial statements of Herti JSC as at 30 June 2021.

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
<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;

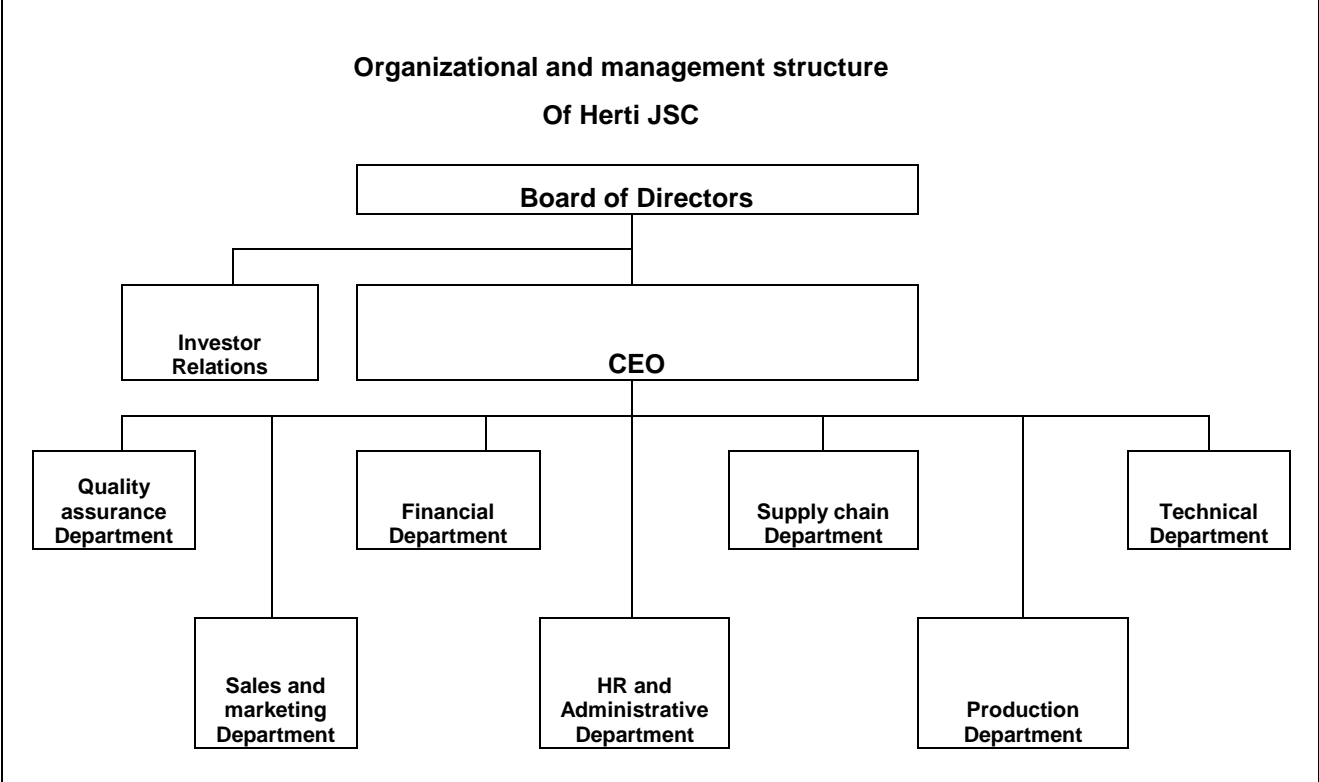
Dipl. Eng. Josef Mayer – Member of the Board of directors

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. 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 in more than 50 countries worldwide. The biggest market for Herti is France, followed by the UK, Bulgaria, Russia, Germany, and other European countries – all these take 68% 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 411 thousands of BGN, while for the same period of 2019 it is 533 thousands of BGN. The company generated an operating profit (EBITDA) of 2 373 thousands of BGN.

There is 3.97% decrease in sales compared to the same period of 2020 and it impacts all markets.

Analysis of the costs for the first six months of 2021 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 1.478, which is increased with 0.318 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 904 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 18 204 thousand BGN at June 30, 2021. The assets of the company grew with 1220 thousand BGN to the amount of 44 941 thousand BGN. The indicators ROE and ROA are 2.389% and 0.915% 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. 520 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 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 the global COVID-19 pandemic and faces all risks of the consequences of its spreading.

7. Future development strategy

Herti plans to increase its sales during 2021. 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

The first 3 months of this year show decrease in sales compared to the same periods of last year. Herti applied for the financial support by the Government 60/40 for one of these months and was approved.

Due to the restrictions of COVID 19 pandemic, the recertification procedure for BRC/IOP standard was held as a discussion to prolong the certificate for another 6 months. According to the situation after that period an on-line or on-site audit will be conducted.

Since the beginning of this year Herti put into action a new CTP machine, which removes an extra step from the process by eliminating the need for films used to transfer images to a printing plate. CTP reduces quality errors which often occur with films such as scratches and underexposure/overexposure. In addition it improves quality and reduces not only the time for production but also the costs of used films, related chemicals, transport and produces far less waste.

Several more optimizations were made in the production process to put machines in a line which helps to shorten the production time and decrease costs.

For the first time the 2021 Unified&Grape Symposium was held virtual at the end of January. Herti took part in the event and intends to join other on-line trade shows. The virtual events cannot replace the live ones, but still they give chance for the company to get publicity and present its products before potential and existing customers.

Since January Herti started a campaign for organizing and financing the process of donating convalescent plasma for treating patients with Corona Virus disease in the Hospital of Shumen.

Herti embraced the idea of SOS children's settlements and supported financially young people from Central Bulgaria to start their self dependent life. This year again Herti is going to be a partner of UNICEF and support their cause Grow Cyber Survivor.

On June 14th, 2021 "Herti" AD received the approval of the project "GALP Greener ALuminum Cap (Implementation of green innovative production processes under Industry 4.0)" supported by the Norway Grants 2014-2021, in the frame of the Business Development, Innovation and SMEs, Bulgaria.

The project will be implemented in Pliska, Bulgaria in the next 18 months. The project budget is 1 703 540 Euro and the grant amount is 800 000 Euro, representing 46,96% of the eligible costs of the project.

On June 23rd, The Board of Directors decided to renew the revolving credit line from UBB and to take an investment credit from the same bank to finance the GALP project, which was approved and the contract with UBB was signed on July 12th.

According to the current situation with the COVID pandemic worldwide, the management of Herti continues to follow all precautionary measures to protect our staff, as well as for ensuring uninterrupted service of our customers. The company responsible for the cleaning of the production premises should use special disinfectant to clean all handles and water taps minimum 3 times per sheet. Additionally to the usual standard thorough washing of hands all employees should use many times special hand disinfectant from the devices installed in every production and working area. We have changed the organization of movement in the factory in a way that does not allow crossing the paths of different shifts and carry out full disinfection of the production and sanitary premises between the shifts. We have secured protective masks for all workers. Business trips and visits as well

as regular operative meetings are cancelled and communication is made on-line. Part of the administration is working from home. Whenever possible, people use their own vehicles to go to work to avoid travelling with public transport.

From the middle of October some additional precautionary measures were taken to answer the increased COVID 19 cases in the country and in the factory. All employees who have even mild symptoms are tested with PCR tests and stay at home. Nobody with a positive test can go back to work. All these measures are made to protect the staff and ensure the supply chain of products.

A General Meeting of the Shareholders was held on June 23rd. No dividends will be paid.

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- 30.06.2021, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International Romania	Sales of products	1 473
Herti UK	Sales of product	2 882
Herti France	Sales of product	3 359
Herti Germany	Sales of products	2 232
Herti US	Sales of products	472
IGM Holding	Expenses	2
TIHERT JSC	Sales	35
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
TIHERT JSC	Purchase of spare parts and services	318
Raifen OOD	Transport services received	494
Timshel OOD	Rent	39

VIII. Information concerning article 247 from the Trade Law

The total remuneration of the Board of directors' members for the period is 225 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 2021 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.

16 July 2021

Chief Executive Officer :

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2021

In thousands of BGN

	30.6.2021	30.6.2020
Revenue	22 678	23 553
Other income	260	335
Carrying amount of materials and goods sold	-128	-54
Increase/(decrease) of inventories of finished goods and work in progress	99	-263
Capitalised expenses	0	0
Expenses for materials	-13 129	-14 086
Hired services	-1 987	-1 581
Depreciation and amortisation	-1 784	-1 702
Personnel expenses	-5 305	-5 301
Other operating expenses	-220	-147
Finance income	105	80
Finance expenses	-178	-301
Profit before tax	411	533
Income tax expense		
Profit for the period	411	533

HERTI JSC**Balance sheet**

As at 31 March 2021

In thousands of BGN

	30.6.2021	31.12.2020
Assets		
Property, plant and equipment	23 750	24 805
Intangible assets	49	53
Investments	389	389
Long term receivables	135	110
Total non-current assets	24 323	25 357
Related parties receivables	5 910	4 276
Inventories	7 032	6 552
Trade and other receivables	5 258	4 698
Cash and cash equivalents	2 418	2 838
Total current assets	20 618	18 364
Total assets	44 941	43 721
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	1 004	889
Retained earnings	5 157	4 861
Total Equity	18 204	17 793
Liabilities		
Interest bearing loans and finance lease	10 278	7 488
Deferred tax liabilities	869	869
Other non-current liabilities	337	337
Financing	1 301	1 403
Total non-current liabilities	12 785	10 097
Related party payables	348	517
Interest bearing loans and finance lease	5 558	9 290
Taxes payable	455	629
Trade and other payables	7 387	5 191
Financing	204	204
Total current liabilities	13 952	15 831
Total liabilities	26 737	25 928
Total equity and liabilities	44 941	43 721

HERTI JSC**Change in equity**

For the period ended 30 June 2021

In thousands of BGN

	Authorised Capital	Premium of issued capital	Reserves	Additional Reserves	Retained Earnings	Profit/loss	Total
Balance at 1 January 2020	12 014	29	434	382	3069	731	16 659
Transform of retained earnings- nondistributed	-		73		658	-731	0
Current net profit/loss					-18	1152	1 134
Other							0
Balance at 31 December 2020	12 014	29	507	382	3709	1152	17 793
Balance at 1 January 2021	12 014	29	507	382	3709	1152	17 793
Transform of retained earnings- nondistributed	-					411	411
Current net profit/loss							0
Effect from deffered taxes							0
Other			115		-115		0
Balance at 30 June 2021	12 014	29	622	382	3594	1563	18 204

HERTI JSC**Cash flow**

For the first quarter of 2021

In thousands of BGN

	01.01-30.06.2021	01.01.-30.06.2020
Cash flows from operating activities		
Cash receipts from customers	23 078	24 118
Cash paid to suppliers	-16 650	-17 234
Net cash flow for salaries and wages of personnel	-5 388	-4 745
Income taxes paid /received(excluding profit tax)	383	508
Profit tax	-20	-15
Interest for short term credits and bank taxes paid	-49	-48
Effect of change of currency exchange rate on cash held	66	27
Other income/ payment from operative activities	33	43
Cash from operating activities	1 453	2 654
Cash flows from investing activities		
Acquisition of property, plant and equipment	-781	-1 728
Proceeds from non-current assets	0	0
Investment/ dividends in/from daughter companies	0	0
Other	-26	43
Cash from investing activities	-807	-1 685
Cash flows from financing activities		
Loans received	98	1 089
Repayment of borrowings	-1 041	-993
Payment of finance lease liabilities	0	0
Interest for investment credits paid	-123	-150
Transactions costs		
Other financing activities		
Cash from financing activities	-1 066	-54
Net increase in cash and cash equivalents	-420	915
Cash and cash equivalents at 1 January	2838	1327
Cash and cash equivalents at the end of the period	2418	2242