

**Consolidated Management report of Herti JSC**  
**For the period 01.01-30.06.2019**

**Introduction**

The following Consolidated report has been prepared, based on the first six months financial statements of Herti JSC as at 30 June 2019.

**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 1<sup>st</sup> 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 30.06.2019 are:

<b>Name</b>	<b>Number of shares</b>	<b>Percentage</b>
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)	34,355	0.29
<b>Total:</b>	<b>12,013,797</b>	<b>100</b>

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;

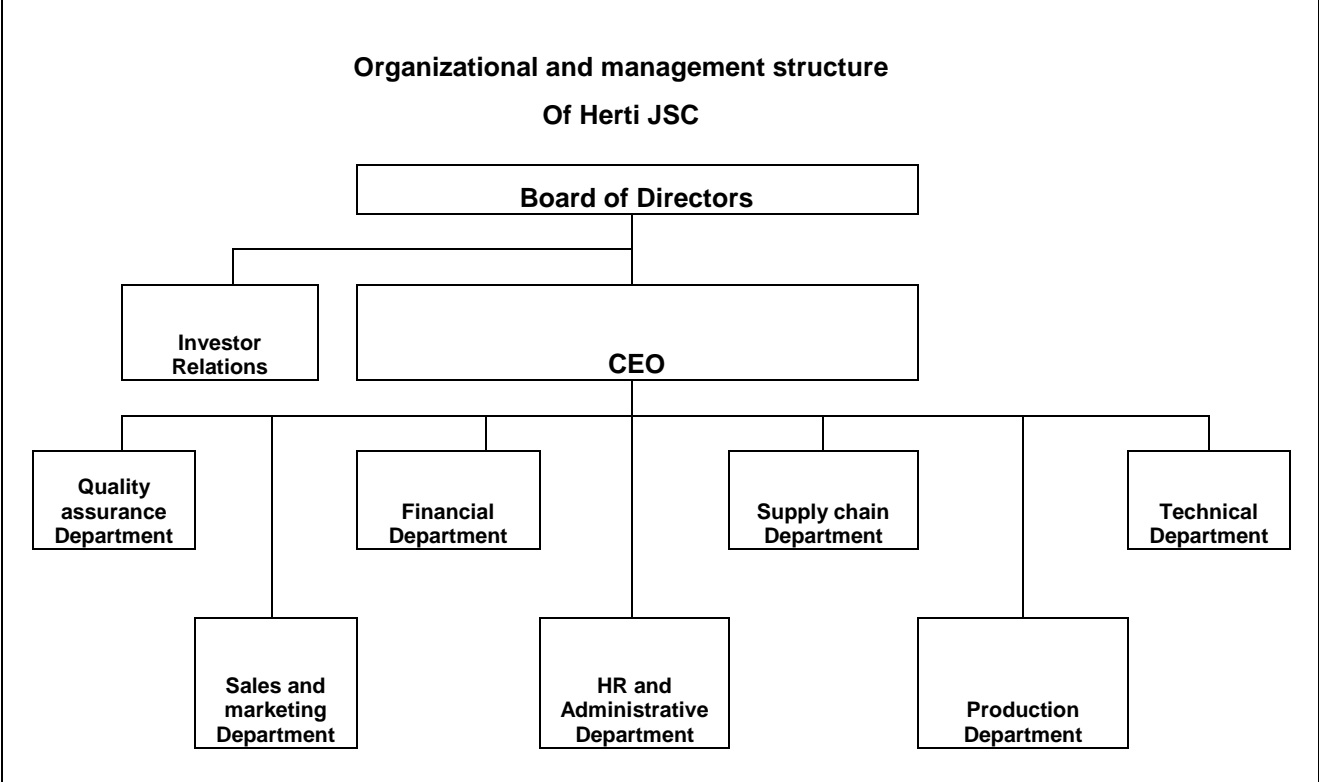
Dipl. Eng. Josef Mayer – Member of the Board of directors

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 447 thousands of BGN, while for the same period of 2018 it is 279 thousands of BGN. The company generated an operating profit (EBITDA) of 2 269 thousands of BGN, while for the first six months of the previous year the operating profit amounted to 1 895 thousands BGN.

There is 11% increase in sales compared to the same period of 2018.

Analysis of the costs for the first six months of 2019 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 1.32 and stays the same as at the end 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 981 thousand BGN of its long term loans.

### **3. Capital recourses and investments**

The Company and the group has invested 0, million BGN for the sixth months of 2019 for enlarging and improving the machinery and the buildings.

### **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. 461 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 2019. 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**

In March Herti successfully passed the recertification audit for BRC/IOP, obtaining the higher grade "A".

In March Herti took part in the Career days in Varna and Ruse.

For the period Herti attended several trade shows: Unified Wine&Grape Symposium in Sacramento, Vinaria in Plovdiv and Prowein in Dusseldorf. Herti sponsored the event “Wine&Gourme” which took place in May in the town of Plovdiv.

Herti was one of the main partners and organizer of the social campaign “Put your safety belt at the back seat of the car”. The project aims to educate children 7-10 years old and show them the importance of using safety belts in the car. The project was praised like a social innovation by the Ministry of labor and social politics.

On 5<sup>th</sup> of June a General meeting of the shareholders took place. No dividends were 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 concerning article 247 from the Trade Law**

The total remuneration of the Board of directors’ members for the period is 254 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 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.

#### **X. Responsibility of the Management**

The management confirms that the Consolidated financial statement for the first six months of 2019 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.

28 July 2019

**Chief Executive Officer :**

Zahari Zahariev

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

For the second quarter of 2019

*In thousands of BGN*

	30.6.2019	30.6.2018
Revenue	21 112	18 714
Other income	1 519	1 720
Carrying amount of materials and goods sold	-119	-1 651
Increase/(decrease) of inventories of finished goods and work in progress	462	2 370
Capitalised expenses		
Expenses for materials	-13 335	-12 260
Hired services	-1 753	-1 780
Depreciation and amortisation	-1 574	-1 334
Personnel expenses	-5 184	-4 737
Other operating expenses	-435	-509
Finance expenses	-248	-271
Share of profit/loss in associated companies	2	17
<b>Profit before tax</b>	<b>447</b>	<b>279</b>
<b>Income tax expense/income/</b>		
<b>Profit /Loss for the period</b>	<b>447</b>	<b>279</b>
<b>Transitions of financial statements of foreign companies</b>		
<b>Revaluation of investments in foreign associates</b>		
<b>Total comprehensive income for the period</b>	<b>447</b>	<b>279</b>

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

As at 30 June 2019

*In thousands of BGN*

	30.6.2019	31.12.2018
<b>Assets</b>		
Property, plant and equipment	24 863	25 697
Intangible assets	196	262
Investments	109	133
<b>Total non-current assets</b>	<b>25 168</b>	<b>26 092</b>
Related parties receivables	809	623
Inventories	6 184	6 644
Trade and other receivables	10 849	8 376
Cash and cash equivalents	642	1 116
<b>Total current assets</b>	<b>18 484</b>	<b>16 759</b>
<b>Total assets</b>	<b>43 652</b>	<b>42 851</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	882	814
Retained earnings	2 597	2 222
<b>Total Equity</b>	<b>15 522</b>	<b>15 079</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	11 154	12 003
Deferred tax liabilities	808	809
Other ( earned income)	405	437
Financing	1 693	1 816
<b>Total non- current liabilities</b>	<b>14 060</b>	<b>15 065</b>
Related party payables	335	267
Interest bearing loans and finance lease	5 832	5 854
Trade and other payables	7 657	6 340
Financing	246	246
<b>Total current liabilities</b>	<b>14 070</b>	<b>12 707</b>
<b>Total liabilities</b>	<b>28 130</b>	<b>27 772</b>
<b>Total equity and liabilities</b>	<b>43 652</b>	<b>42 851</b>

**HERTI JSC****Change in equity - consolidated**

For the period ended 30 June 2019

*In thousands of BGN*

	<b>Authorised Capital</b>	<b>Premium of issued capital</b>	<b>Compulsory reserves</b>	<b>Other Reserves</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance at 1 January 2019	12 014	29	432	382	2 222	15 079
Translations of financial statements of foreign companies						0
Revaluation of investments in associates			-1		-3	-4
Other transactions for the period			69		-69	0
Current net profit/loss	-	-			447	447
Balance at 30 June 2019	12 014	29	500	382	2 597	15 522



**HERTI JSC**  
**consolidated Cash flow**  
For the second quarter of 2019  
*In thousands of BGN*

	30.6.2019	30.6.2018
<b>Cash flows from operating activities</b>		
Cash receipts from customers	21 261	21 252
Cash paid to suppliers	-14 027	-14 416
Net cash flow for salaries and wages of personnel	-4 812	-4 904
Other payments from operating activities	-110	-197
Income taxes paid /received	-1027	-68
<b>Cash from operating activities</b>	<b>1 285</b>	<b>1 667</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-740	-2 072
Proceeds from non-current assets		
Other proceeds/ payments from investment activities	44	-23
<b>Cash from investing activities</b>	<b>-696</b>	<b>-2 095</b>
<b>Cash flows from financing activities</b>		
Loans received	122	1 214
Repayment of borrowings	-981	-984
Other financial payments/received		
Payment of finance lease liabilities	-42	-118
Interest paid	-162	-196
Other financial payments	0	0
<b>Cash from financing activities</b>	<b>-1 063</b>	<b>-84</b>
Net increase in cash and cash equivalents	-474	-512
Cash and cash equivalents at 1 January	1116	987
Effect of change of currency exchange rate		
<b>Cash and cash equivalents at the end of the period</b>	<b>642</b>	<b>475</b>