

Consolidated Management report of Herti JSC
For the period 01.01-30.06.2020

Introduction

The following report has been prepared, based on the first six months financial statements of Herti JSC as at 30 June 2020 and its daughter companies.

I. General information and management.

Herti JSC and its daughter companies referred to as the group 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 aluminum screw caps, plastic caps and articles, printing and lacquering on metal sheets.

The shareholders of Herti as at 30.06.2020 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)	34,355	0.29
Total:	12,013,797	100

The management of the group 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

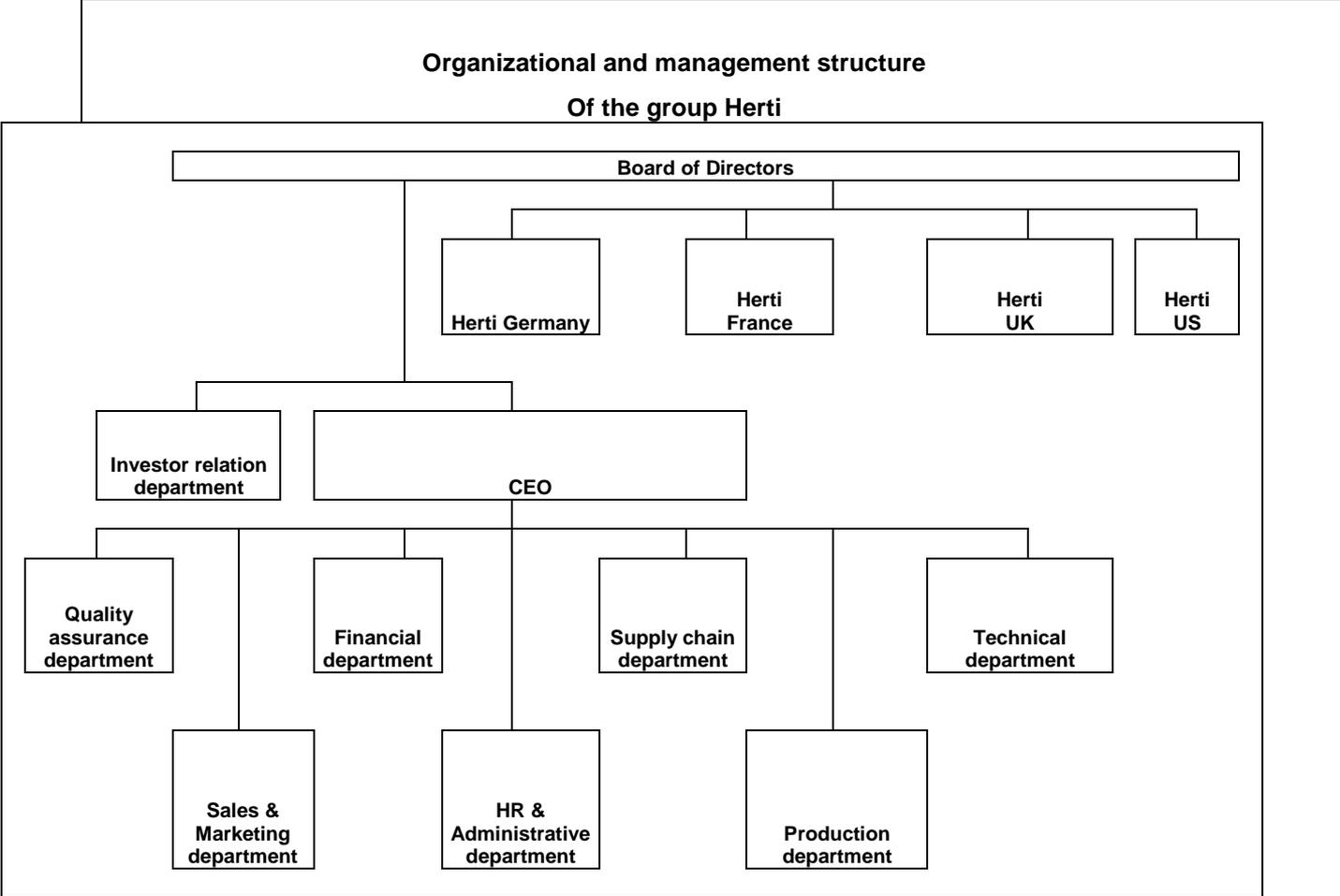
Svetoslav Stamenov- Member of the Board of directors

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, Germany, Bulgaria, Russia and other European countries – all these take 61% of the total 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 of the group before taxes for the period covered by the report is 552 thousands of BGN, while for the same period of 2019 it is 447 thousands of BGN. The generated an operating profit (EBITDA) of 2 636 thousands of BGN.

There is 20.6% increase in sales compared to the same period of 2019.

Analysis of the costs for the first six months of 2020 shows increase both in the fixed costs and lower 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 1.35, which is increased with 0.02 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.

3. Capital recourses and investments

During the period the group has invested more than 2 million BGN to increase capacity and to improve existing production equipment. The capital structure includes the issued capital, reserves and retained earnings. Its amount is 16 225 thousand BGN at June 30, 2020. The assets of the group grew with 1 497 thousand BGN to the amount of 45 525 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. 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. 532 people work in the company group and most of them passed trainings for adding skills to their qualification.

6. Risk management

Herti as a group 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.

Future development strategy

The group Herti plans to increase its sales during 2020. 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 the beginning of this year Herti started building a new compressed air station, which will optimize the energy and compressed air consumption and ensure smooth running of the production machines. The idea was started during the company's participation in the initiative "Young energy Europe" as part of the European project for protecting the environment.

On January 27th, Herti passed successfully the recertification audit under BRC standard achieving again the highest grade "A". The new certificate is valid till 25th March 2021.

At the beginning of February Herti took part in two big trade fairs in the USA together with its daughter company in California. For a fourth time Herti took part in The Unified Wine&Grape Symposium from 4-6 of February at Cal Expo Sacramento. Just a week after the company participated in the Oregon wine symposium for the first time.

Unfortunately the planned international trade shows in March and all other scheduled till the end of September were cancelled due to the pandemic of COVID-19.

On February 27th, a Board of directors' meeting was held where the individual and consolidated financial reports for 2019 were approved. The meeting adopted the date and agenda for the regular shareholders meeting and gave a mandate to the CEO to prepare the necessary documents for enrolling for European financing of an innovative energy project.

Herti experiences the impact of the global COVID-19 pandemic and faces all risks of the consequences of its spreading. Since the first day of the announced State of emergency in the country on March 13th 2020 the management of Herti immediately took all precautionary measures and placed a contingency plan for 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.

The measures took from the Government in relation with the State of emergency which apply to all persons and companies, could possibly lead to decreased sales and income and as a sequence lack of cash flow till the end of 2020. The result may be a low liquidity ratio which can be seen in the Financial Report for 2020. The management is ready to implement certain stabilizing measures that can soften the negative impact of the corona virus crisis and let the company continue its functioning and serving clients in the best way possible.

On June 24th a General meeting of the shareholders was held. There was no decision for paying dividends. The General meeting elected an Audit Committee with a 3 year mandate and adopted a Working statute for the Audit committee.

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- 30.06.2020, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International Romania	Sales of products	1 232
IGM Holding	Expenses	2
Timshel OOD	Service sales	1
Raifen OOD	Service sales	9
Raifen OOD	Transport services received	455
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 263 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

The group 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 Consolidated Financial statement for the first six months of 2020 is prepared according to the International Financial Reporting Standards and gives a fair and complete view of the financial position of the group and the risks it faces.

25 August 2020

Chief Executive Officer :

Zahari Zahariev

HERTI JSC**Consolidated Income statement**

For the second quarter of 2020

In thousands of BGN

	30.6.2020	30.6.2019
Revenue	24 694	21 112
Other income	130	1 519
Carrying amount of materials and goods sold	-201	-119
Increase/(decrease) of inventories of finished goods and work in progress	32	462
Capitalised expenses		
Expenses for materials	-14 234	-13 335
Hired services	-1 507	-1 753
Depreciation and amortisation	-1 778	-1 574
Personnel expenses	-6 086	-5 184
Other operating expenses	-192	-435
Finance expenses	-306	-248
Share of profit/loss in associated companies	0	2
Profit before tax	552	447
Income tax expense/income/		
Profit /Loss for the period	552	447
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	552	447

HERTI JSC
Consolidated Balance sheet

As at 30 June 2020

In thousands of BGN

	30.6.2020	31.12.2019
Assets		
Property, plant and equipment	24 758	24 900
Intangible assets	83	135
Investments	109	116
Assets connected with deferred taxes		
Total non-current assets	24 950	25 151
Related parties receivables	633	781
Inventories	7 554	7 209
Trade and other receivables	9 654	9 138
Cash and cash equivalents	2 734	1 749
Total current assets	20 575	18 877
Total assets	45 525	44 028
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	954	881
Retained earnings	3 228	2 748
Total Equity	16 225	15 672
Liabilities		
Interest bearing loans and finance lease	11 332	11 299
Deferred tax liabilities	813	812
Other (earned income)	384	500
Financing	1 504	1 607
Total non- current liabilities	14 033	14 218
Related party payables	360	317
Interest bearing loans and finance lease	6 038	5 975
Trade and other payables	8 665	7 636
Financing	204	210
Total current liabilities	15 267	14 138
Total liabilities	29 300	28 356
Total equity and liabilities	45 525	44 028

HERTI JSC**Change in equity - consolidated**

For the period ended 30 June 2020

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2020	12 014	29	499	382	2 748	15 672
Translations of financial statements of foreign companies						0
Revaluation of investments in associates					1	1
Other transactions for the period			73		-73	0
Deffered taxes effect						0
Current net profit/loss	-	-			552	552
Balance at 30 June 2020	<u>12 014</u>	<u>29</u>	<u>572</u>	<u>382</u>	<u>3 228</u>	<u>16 225</u>

HERTI JSC
consolidated Cash flow
For the second quarter of 2020
In thousands of BGN

	30.6.2020	30.6.2019
Cash flows from operating activities		
Cash receipts from customers	26 674	21 261
Cash paid to suppliers	-17 636	-14 027
Net cash flow for salaries and wages of personnel	-5 757	-4 812
Other payments from operating activities	21	-110
Income taxes paid /received	-546	-1027
Cash from operating activities	2 756	1 285
Cash flows from investing activities		
Acquisition of property, plant and equipment	-1 730	-740
Proceeds from non-current assets	0	0
Other proceeds/ payments from investment activities	43	44
Cash from investing activities	-1 687	-696
Cash flows from financing activities		
Loans received	1 089	122
Repayment of borrowings	-993	-981
Other financial payments/received		
Payment of finance lease liabilities	-30	-42
Interest paid	-150	-162
Other financial payments	0	0
Cash from financing activities	-84	-1 063
Net increase in cash and cash equivalents	985	-474
Cash and cash equivalents at 1 January	1749	1116
Effect of change of currency exchange rate		
Cash and cash equivalents at the end of the period	2 734	642