

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.

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 30.06.2020 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 |
| <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;

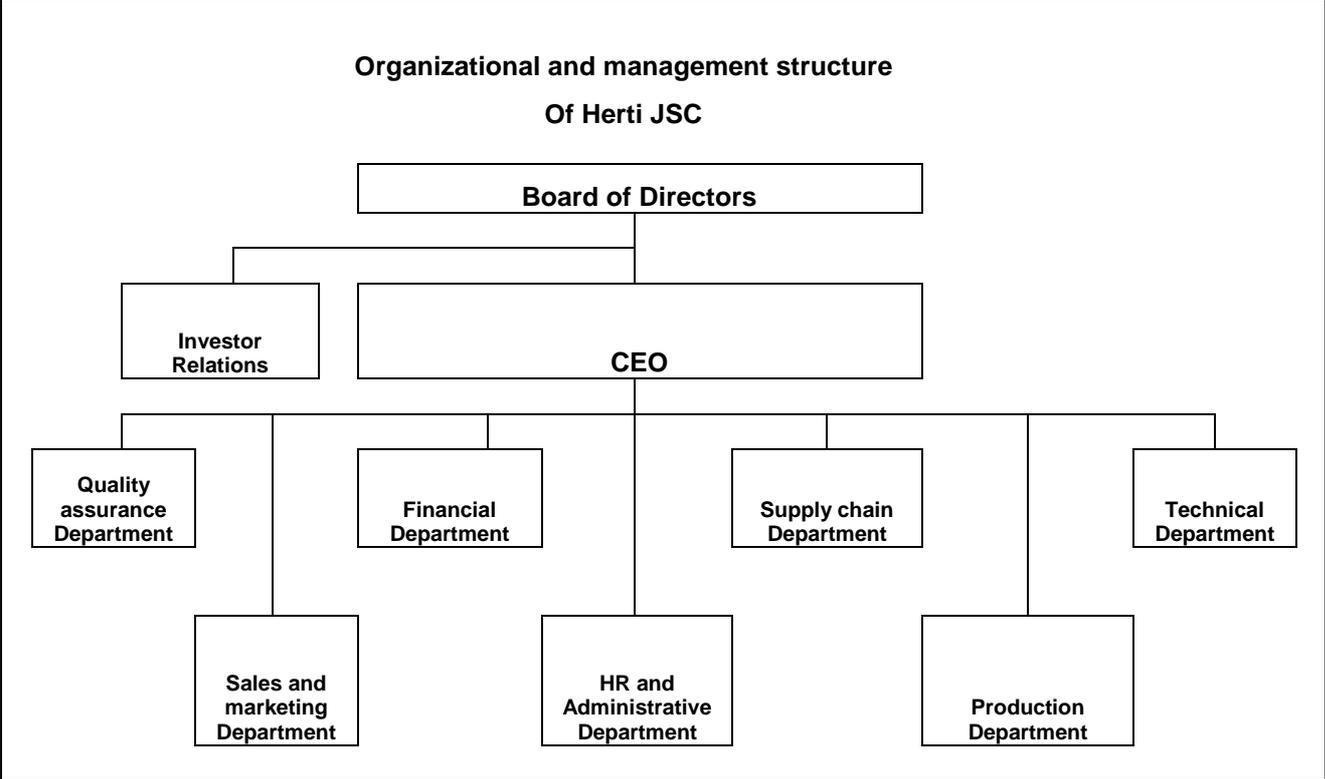
Dipl. Eng. Josef Mayer – Member of the Board of directors

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 533 thousands of BGN, while for the same period of 2019 it is 335 thousands of BGN. The company generated an operating profit (EBITDA) of 2 456 thousands of BGN.

There is 15.06% 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 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 1.398, which is increased with 0.003 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 508 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 17 192 thousand BGN at June 30, 2020. The assets of the company grew with 1 722 thousand BGN to the amount of 45 312 thousand BGN. The indicators ROE and ROA are 3.10% and 1.18% 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. 489 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. 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 taken 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 consequence 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.

7. Future development strategy

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.

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 |
| Herti UK | Sales of product | 1 726 |
| Herti France | Sales of product | 3 695 |
| Herti Germany | Sales of products | 2 865 |
| Herti US | Sales of products | 257 |
| IGM Holding | Expenses | 2 |
| TIHERT JSC | Sales | 40 |
| Timshel OOD | Service sales | 1 |
| Raifen OOD | Service sales | 9 |
| TIHERT JSC | Purchase of spare parts and services | 653 |
| 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 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 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.

XI. Responsibility of the Management

The management confirms that the 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 company and the risks it faces.

27 July 2020

Chief Executive Officer :

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2020

In thousands of BGN

| | 30.6.2020 | 30.6.2019 |
|---|------------|------------|
| Revenue | 23 553 | 20 470 |
| Other income | 335 | 296 |
| Carrying amount of materials and goods sold | -54 | -39 |
| Increase/(decrease) of inventories of finished goods and work in progress | -263 | -14 |
| Capitalised expenses | 0 | 0 |
| Expenses for materials | -14 086 | -12 266 |
| Hired services | -1 581 | -1 632 |
| Depreciation and amortisation | -1 702 | -1 480 |
| Personnel expenses | -5 301 | -4 397 |
| Other operating expenses | -147 | -389 |
| Finance income | 80 | 23 |
| Finance expenses | -301 | -237 |
| Profit before tax | 533 | 335 |
| Income tax expense | | |
| Profit for the period | 533 | 335 |

HERTI JSC**Balance sheet**

As at 30 June 2020

In thousands of BGN

| | 30.6.2020 | 31.12.2019 |
|--|---------------|---------------|
| Assets | | |
| Property, plant and equipment | 25 120 | 25 143 |
| Intangible assets | 83 | 135 |
| Investments | 389 | 389 |
| Long term receivables | 0 | 0 |
| Total non-current assets | 25 592 | 25 667 |
| Related parties receivables | 4 346 | 4 315 |
| Inventories | 6 315 | 5 985 |
| Trade and other receivables | 6 817 | 6 296 |
| Cash and cash equivalents | 2 242 | 1 327 |
| Total current assets | 19 720 | 17 923 |
| Total assets | 45 312 | 43 590 |
| Equity | | |
| Issued capital | 12 014 | 12 014 |
| Premium of issued capital | 29 | 29 |
| Reserves | 889 | 816 |
| Retained earnings | 4 260 | 3 800 |
| Total Equity | 17 192 | 16 659 |
| Liabilities | | |
| Interest bearing loans and finance lease | 11 332 | 11 299 |
| Deferred tax liabilities | 893 | 893 |
| Other non- current liabilities | 287 | 287 |
| Financing | 1 504 | 1 607 |
| Total non- current liabilities | 14 016 | 14 086 |
| Related party payables | 425 | 371 |
| Interest bearing loans and finance lease | 6 038 | 5 975 |
| Taxes payable | 476 | 537 |
| Trade and other payables | 6 961 | 5 752 |
| Financing | 204 | 210 |
| Total current liabilities | 14 104 | 12 845 |
| Total liabilities | 28 120 | 26 931 |
| Total equity and liabilities | 45 312 | 43 590 |

HERTI JSC**Change in equity**

For the period ended 30 June 2020

In thousands of BGN

| | Authorised Capital | Premium of issued capital | Reserves | Additional Reserves | Retained Earnings | Profit/loss | Total |
|---|-------------------------------|--------------------------------------|-----------------|--------------------------------|------------------------------|--------------------|--------------|
| Balance at 1 January 2019 | 12 014 | 29 | 365 | 382 | 2489 | 682 | 15 961 |
| Transform of retained earnings- nondistributed | - | | 69 | | 613 | -682 | 0 |
| Current net profit/loss | | | | | | | 0 |
| Other | | | | | -33 | 731 | 698 |
| Balance at 31 December 2019 | 12 014 | 29 | 434 | 382 | 3069 | 731 | 16 659 |
| 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 | | | | | | 533 | 533 |
| Effect from deffered taxes | | | | | | | 0 |
| Other | | | | | | | |
| Balance at 30 June 2020 | 12 014 | 29 | 507 | 382 | 3727 | 533 | 17 192 |

HERTI JSC**Cash flow**

For the second quarter of 2020

In thousands of BGN

| | 01.01-30.06.2020 | 01.01.-30.06.2019 |
|---|------------------|-------------------|
| Cash flows from operating activities | | |
| Cash receipts from customers | 24 118 | 19 657 |
| Cash paid to suppliers | -17 234 | -14 405 |
| Net cash flow for salaries and wages of personnel | -4 745 | -4 084 |
| Income taxes paid /received(excluding profit tax) | 508 | 289 |
| Profit tax | -15 | -16 |
| Interest for short term credits and bank taxes paid | -48 | -70 |
| Effect of change of currency exchange rate on cash held | 27 | 25 |
| Other income/ payment from operative activities | 43 | |
| Cash from operating activities | 2 654 | 1 396 |
| Cash flows from investing activities | | |
| Acquisition of property, plant and equipment | -1 728 | -712 |
| Proceeds from non-current assets | 0 | 0 |
| Investment/ dividends in/from daughter companies | 0 | 23 |
| Other | 43 | 44 |
| Cash from investing activities | -1 685 | -645 |
| Cash flows from financing activities | | |
| Loans received | 1 089 | 122 |
| Repayment of borrowings | -993 | -981 |
| Payment of finance lease liabilities | 0 | -13 |
| Interest for investment credits paid | -150 | -162 |
| Transactions costs | | |
| Other financing activities | | |
| Cash from financing activities | -54 | -1 034 |
| Net increase in cash and cash equivalents | 915 | -283 |
| Cash and cash equivalents at 1 January | 1327 | 664 |
| Cash and cash equivalents at the end of the period | 2242 | 381 |