

Management report of Herti JSC

For the period 01.01-30.06.2019

Introduction

The following 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 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 30.06.2019 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;

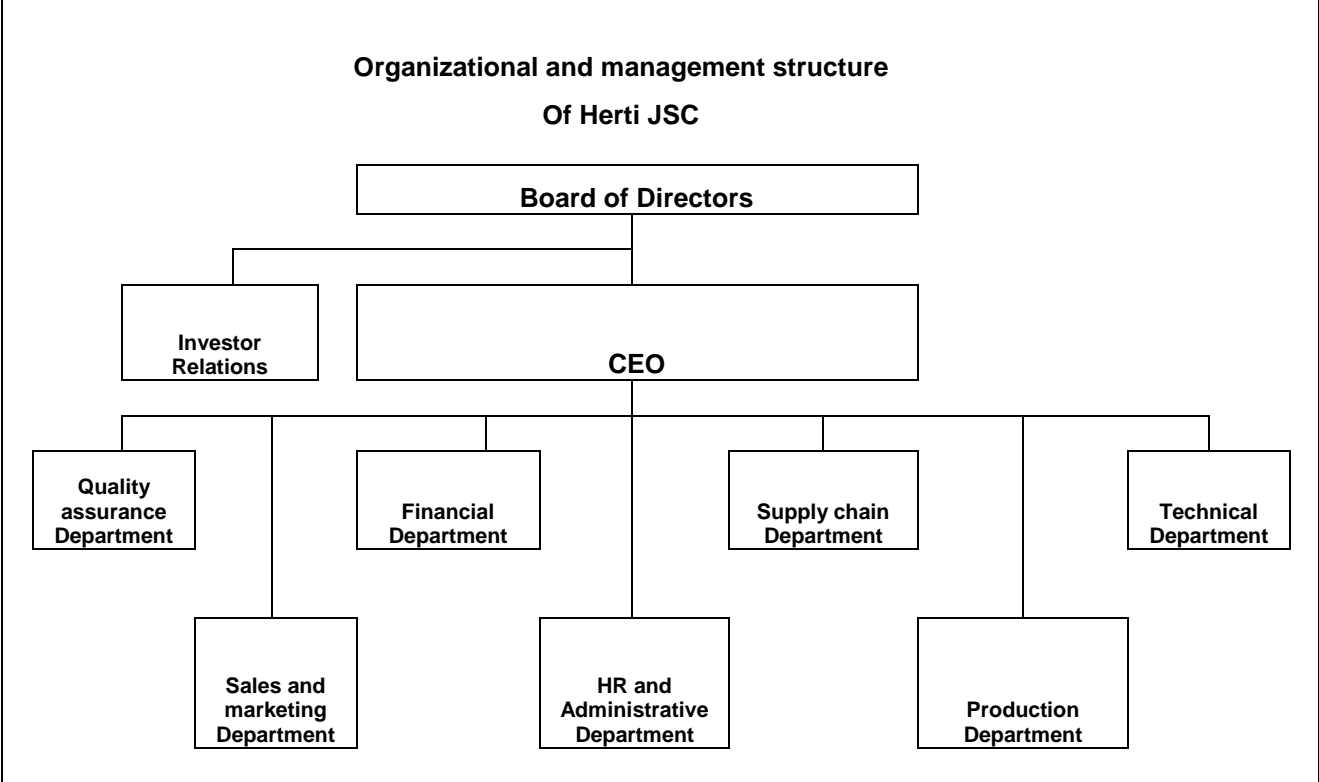
Dipl. Eng. Josef Mayer – Member of the Board of directors

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 335 thousands of BGN, while for the same period of 2018 it is 266 thousands of BGN. The company generated an operating profit (EBITDA) of 2 052 thousands of BGN, while for the first six months of the previous year the operating profit amounted to 1 819 thousands BGN.

There is 7.67% 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 1.36, which is decreased with 0.02 points, compared to 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 capital structure includes the issued capital, reserves and retained earnings. Its amount is 16 296 thousand BGN at June 30, 2019. The assets of the company grew to the amount of 43 397 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.

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. 439 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.

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- 30.06.2019, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International Romania	Sales of products	1 265
Herti UK	Sales of product	1 719
Herti France	Sales of product	4 688
Herti Germany	Sales of products	1 965
IGM Holding	Expenses	2
TIHERT JSC	Sales	32
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
TIHERT JSC	Purchase of spare parts and services	525
Raifen OOD	Transport services received	430
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 216 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 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.

22 July 2019

Chief Executive Officer :

Zahari Zahariev

HERTI JSC**Income statement**

For the second quarter of 2019

In thousands of BGN

	30.6.2019	30.6.2018
Revenue	19 819	18 325
Other income	1 889	1 965
Carrying amount of materials and goods sold	-39	-66
Increase/(decrease) of inventories of finished goods and work in progress	-14	-290
Capitalised expenses	0	0
Expenses for materials	-13 208	-12 195
Hired services	-1 632	-1 509
Depreciation and amortisation	-1 480	-1 284
Personnel expenses	-4 397	-3 932
Other operating expenses	-389	-490
Finance income	23	11
Finance expenses	-237	-269
Profit before tax	335	266
Income tax expense		
Profit for the period	335	266

HERTI JSC**Balance sheet**

As at 30 June 2019

In thousands of BGN

	30.6.2019	31.12.2018
Assets		
Property, plant and equipment	24 875	25 636
Intangible assets	196	258
Investments	389	389
Long term receivables	73	112
Total non-current assets	25 533	26 395
Related parties receivables	4 817	3 555
Inventories	5 281	5 713
Trade and other receivables	7 385	6 298
Cash and cash equivalents	381	664
Total current assets	17 864	16 230
Total assets	43 397	42 625
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	816	747
Retained earnings	3 437	3 171
Total Equity	16 296	15 961
Liabilities		
Interest bearing loans and finance lease	11 154	12 003
Deferred tax liabilities	883	883
Other non-current liabilities	244	244
Financing	1 693	1 816
Total non-current liabilities	13 974	14 946
Related party payables	395	396
Interest bearing loans and finance lease	5 832	5 854
Taxes payable	362	405
Trade and other payables	6 292	4 817
Financing	246	246
Total current liabilities	13 127	11 718
Total liabilities	27 101	26 664
Total equity and liabilities	43 397	42 625

HERTI JSC**Change in equity**

For the period ended 30 June 2019

In thousands of BGN

	Authorised Capital	Reserves	Additional Reserves	Premium of issued capital	Retained Earnings	Total
Balance at 1 January 2018	12 014	295	382	29	2567	15 287
Current net profit/loss	-				682	682
Transform of retained earnings- nondistributed					-8	-8
Other income		70			-70	0
Balance at 31 December 2018	12 014	365	382	29	3171	15 961
Balance at 1 January 2019	12 014	365	382	29	3171	15 961
Current net profit/loss	-		-		157	157
Retained earnings						
Other changes/ reserves						0
Balance at 30 June 2019	12 014	365	382	29	3328	16 118

HERTI JSC**Cash flow**

For the second quarter of 2019

In thousands of BGN

	01.01-30.06.2019	01.01.-30.06.2018
Cash flows from operating activities		
Cash receipts from customers	19 657	19 826
Cash paid to suppliers	-14 405	-14 173
Net cash flow for salaries and wages of personnel	-4 084	-4 110
Income taxes paid /received(excluding profit tax)	289	331
Profit tax	-16	-21
Interest for short term credits and bank taxes paid	-70	-73
Effect of change of currency exchange rate on cash held	25	9
Cash from operating activities	1 396	1 789
Cash flows from investing activities		
Acquisition of property, plant and equipment	-712	-2 062
Proceeds from non-current assets	0	10
Investment in daughter companies	23	0
Loans given/received	44	-40
Cash from investing activities	-645	-2 092
Cash flows from financing activities		
Loans received	122	1 214
Repayment of borrowings	-981	-984
Payment of finance lease liabilities	-13	-90
Interest for investment credits paid	-162	-194
Transactions costs		
Other financing activities		
Cash from financing activities	-1 034	-54
Net increase in cash and cash equivalents	-283	-357
Cash and cash equivalents at 1 January	664	609
Cash and cash equivalents at the end of the period	381	252