

Consolidated Explanatory notes to the financial statement of Herti JSC

For the period 01.01-30.09.2020

1. Important events, that took place in the period 01/01 – 30/09/2020

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.

In order to protect the life and health of Bulgarian citizens from the threat of COVID-19 in the whole world, the Government announced a State of emergency in the whole country from 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. Till the end of March Herti is not affected by supply bottleneck or delivery failures and operates in full capacity managing all logistic challenges.

A general Meeting of the shareholders was held on June 24th, where it was decided no dividends to be paid. A new Audit Committee with a new statute was elected for a 3 year period.

During the period there were two months with significant decrease in sales compared to the same periods of last year. Herti applied for the financial support by the Government 60/40 for those two months and was approved. The financial grant was received in two parts- the last one in October.

2. Risk reduction and 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.

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.

3. Information on the transactions between the Company and related parties

For the period 01.01- 30.09.2020, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Sales		
Herti Group International	Sales of product	2 039
Timshel OOD	Service sales	2
Raifen OOD	Service sales	9
Purchases		
IGM Holding	Expenses	2
Timshel OOD	Rent	58
Raifen OOD	Transport services received	688

4. There are no new considerable and important receivables or payables arisen for the period.

5. Responsibility of the Management

The management confirms that the Consolidated financial statement for the third quarter of 2020 gives a fair and complete view of the financial position of the company and the risks it faces.

18 November 2020

Chief Executive Officer:

Zahari Zahariev

HERTI JSC**Consolidated Income statement**

For the third quarter of 2020

In thousands of BGN

	30.9.2020	30.9.2019
Revenue	36 470	32 024
Other income	532	2 506
Carrying amount of materials and goods sold	-190	-122
Increase/(decrease) of inventories of finished goods and work in progress	133	404
Capitalised expenses		
Expenses for materials	-20 382	-19 989
Hired services	-2 549	-2 953
Depreciation and amortisation	-2 742	-2 360
Personnel expenses	-9 467	-7 939
Other operating expenses	-356	-646
Finance expenses	-454	-313
Share of profit/loss in associated companies	-1	5
Profit before tax	994	617
Income tax expense/income/		
Profit /Loss for the period	994	617
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	994	617

HERTI JSC**Consolidated Balance sheet**

As at 30 September 2020

In thousands of BGN

	30.9.2020	31.12.2019
Assets		
Property, plant and equipment	24 690	24 900
Intangible assets	66	135
Investments	106	116
Assets connected with deferred taxes	1	
Total non-current assets	24 863	25 151
Related parties receivables	873	781
Inventories	7 565	7 209
Trade and other receivables	9 262	9 138
Cash and cash equivalents	3 189	1 749
Total current assets	20 889	18 877
Total assets	45 752	44 028
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	953	881
Retained earnings	3 684	2 748
Total Equity	16 680	15 672
Liabilities		
Interest bearing loans and finance lease	11 324	11 299
Deferred tax liabilities	813	812
Other (earned income)	368	500
Financing	1 454	1 607
Total non- current liabilities	13 959	14 218
Related party payables	378	317
Interest bearing loans and finance lease	5 936	5 975
Trade and other payables	8 595	7 636
Financing	204	210
Total current liabilities	15 113	14 138
Total liabilities	29 072	28 356
Total equity and liabilities	45 752	44 028

HERTI JSC**Change in equity - consolidated**

For the period ended 30 September 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		15	14
Other transactions for the period			73		-73	0
Deffered taxes effect						0
Current net profit/loss	-	-			994	994
Balance at 30 September 2020	12 014	29	571	382	3 684	16 680

HERTI JSC**consolidated Cash flow**

For the third quarter of 2020

In thousands of BGN

	30.9.2020	30.9.2019
Cash flows from operating activities		
Cash receipts from customers	39 403	34 358
Cash paid to suppliers	-25 880	-22 662
Net cash flow for salaries and wages of personnel	-8 319	-7 454
Other payments from operating activities	6	-96
Income taxes paid /received	-844	-1116
Cash from operating activities	4 366	3 030
Cash flows from investing activities		
Acquisition of property, plant and equipment	-2 653	-1 029
Proceeds from non-current assets	0	0
Other proceeds/ payments from investment activities	0	44
Cash from investing activities	-2 653	-985
Cash flows from financing activities		
Loans received	1 508	145
Repayment of borrowings	-1 522	-1 471
Other financial payments/received		
Payment of finance lease liabilities	-45	-57
Interest paid	-214	-260
Other financial payments	0	0
Cash from financing activities	-273	-1 643
Net increase in cash and cash equivalents	1 440	402
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	3 189	1518