

Consolidated Explanatory notes to the financial statement of Herti JSC

For the period 01.01-31.12.2021

1. Important events, that took place in the period 01/01 – 31/12/2021

According to the current situation with the COVID pandemic worldwide, the management of Herti continues to follow all precautionary measures to protect 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.

All employees who have even mild symptoms are tested with PCR tests and stay at home. Nobody with a positive test can go back to work. All these measures are made to protect the staff and ensure the supply chain of products. We organized vaccination for our employees and more than 20% took their doses in special centers or at the production premises.

Due to decrease in sales in the beginning of the year Herti applied for the financial support by the Government 60/40 for one of these months and was approved.

Due to the restrictions of COVID 19 pandemic, the recertification procedure for BRC/IOP standard was held as a discussion to prolong the certificate for another 6 months. The on-site audit was conducted from 26-28th of July and Herti moved to the new version of the standard receiving again the highest A grade.

Since the beginning of this year Herti put into action a new CTP machine, which removes an extra step from the process by eliminating the need for films used to transfer images to a printing plate. CTP reduces quality errors which often occur with films such as scratches and underexposure/overexposure. In addition it improves quality and reduces not only the time for production but also the cost for used films, related chemicals, transport and produces far less waste.

Several more optimizations were made in the production process to put machines in a line which helps to shorten the production time and decrease costs.

For the first time the 2021 Unified&Grape Symposium was held virtual at the end of January. Herti took part in the event and intends to join other on-line trade shows. The virtual events cannot replace the live ones, but still they give chance for the company to get publicity and present its products before potential and existing customers.

Herti embraced the idea of SOS children's settlements and supported financially young people from Central Bulgaria to start their self dependent life. This year again Herti is going to be a partner of UNICEF and support their cause Grow Cyber Survivor.

On June 14th, 2021 "Herti" AD received the approval of the project "GALP Greener ALuminum Cap (Implementation of green innovative production processes under Industry 4.0)" supported by the Norway Grants 2014-2021, in the frame of the Business Development, Innovation and SMEs, Bulgaria.

The project will be implemented in Pliska, Bulgaria in the next 18 months. The project budget is 1 703 540 Euro and the grant amount is 800 000 Euro, representing 46,96% of the eligible costs of the project.

On June 23rd, The Board of Directors decided to renew the revolving credit line from UBB and to take an investment credit from the same bank to finance the GALP project, which was approved and the contract with UBB was signed on July 12th.

A General Meeting of the Shareholders was held on June 23rd. No dividends will be paid.

At the end of June QUIMA executed the first social audit of Herti, which was ordered by a big French customer.

In September the company renewed and prolonged the short term loans from Raiffeisenbank and from Unicredit Bulbank with the same terms and conditions.

Also in September Herti supported for the second time the UNICEF campaign “Back to school” and took part in the initiative “Spare Small change” to support financially the Neonatology in the Shumen Hospital.

In December the company prepared and submitted the First Interim Report for the GALP project and also passed another Social Audit initiated by the company itself.

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.

From the beginning of 2021 Herti feels the increase of raw material prices and in the third quarter the price of aluminum was 60% higher. Other raw materials also had increased prices as well as the gas and energy costs and also the transport and Logistic expenses. There is a delay in the supply chain and we suffer from delayed materials and production equipment connected with new investments. Our customers overseas also suffer from delayed supply because of logistic problems. The price offers that we receive for aluminium are at a higher rate and lower quantities that can be guaranteed only until the end of the first quarter. This could lead to serious problems in the production flow process and is already arising difficulties for the budgeting for the next year. All these could lead to more measures for decreasing all other expenses. The management monitors strictly the situation on a daily basis and takes certain stabilizing measures to soften the negative impact of the corona virus crisis and let the company continue its functioning and serving clients in the best way possible. From the beginning of 2022 Herti will increase its sale prices to the customers and already informed them for this decision. Most of the clients accept the new prices but there is uncertainty if there will be enough raw materials at reasonable prices for the second quarter of 2022. The future business processes are difficult to predict and manage.

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

For the period 01.01- 31.12.2021, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	3 330
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
Timshel OOD	Rent	78
Raifen OOD	Transport services received	1 096
IGM Holding	expenses	1

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 fourth quarter of 2021 gives a fair and complete view of the financial position of the company and the risks it faces.

25 of February 2022

Chief Executive Officer:

Zahari Zahariev

HERTI JSC
Consolidated Income statement

For the fourth quarter of 2021

In thousands of BGN

	31.12.2021	31.12.2020
Revenue	58 876	46 361
Other income	887	613
Carrying amount of materials and goods sold	-416	-365
Increase/(decrease) of inventories of finished goods and work in progress	33	1 241
Capitalised expenses		
Expenses for materials	-35 779	-25 659
Hired services	-5 240	-4 141
Depreciation and amortisation	-3 704	-3 701
Personnel expenses	-12 314	-11 853
Other operating expenses	-415	-632
Finance expenses	-166	-582
Share of profit/loss in associated companies	15	4
Profit before tax	1 777	1 286
Income tax expense/income/	-40	-152
Profit /Loss for the period	1 737	1 134
Transitions of financial statements of foreign companies		
Revaluation of investments in foreign associates		
Total comprehensive income for the period	1 737	1 134

HERTI JSC
Consolidated Balance sheet

As at 31 December 2021

In thousands of BGN

	31.12.2021	31.12.2020
Assets		
Property, plant and equipment	24 133	24 470
Intangible assets	41	53
Investments	209	111
Assets connected with deferred taxes		
Total non-current assets	24 383	24 634
Related parties receivables	829	630
Inventories	11 240	7 763
Trade and other receivables	10 598	7 167
Cash and cash equivalents	2 353	3 490
Total current assets	25 020	19 050
Total assets	49 403	43 684
Equity		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	1 069	955
Retained earnings	5 338	3 792
Total Equity	18 450	16 790
Liabilities		
Interest bearing loans and finance lease	11 025	7 488
Deferred tax liabilities	795	795
Other (earned income)	541	464
Financing	1 224	1 403
Total non- current liabilities	13 585	10 150
Related party payables	366	394
Interest bearing loans and finance lease	5 991	9 290
Trade and other payables	10 807	6 856
Financing	204	204
Total current liabilities	17 368	16 744
Total liabilities	30 953	26 894
Total equity and liabilities	49 403	43 684

HERTI JSC**Change in equity - consolidated**

For the period ended 31 December 2021

In thousands of BGN

	Authorised Capital	Premium of issued capital	Compulsory reserves	Other Reserves	Retained Earnings	Total
Balance at 1 January 2021	12 014	29	573	382	3 792	16 790
Translations of financial statements of foreign companies						0
Revaluation of investments in associates			-1			-1
Other transactions for the period			115		-115	0
Deffered taxes effect					-76	-76
Current net profit/loss	-	-			1737	1737
Balance at 31 December 2021	12 014	29	687	382	5 338	18 450

HERTI JSC
consolidated Cash flow
For the fourth quarter of 2021
In thousands of BGN

	31.12.2021	31.12.2021
Cash flows from operating activities		
Cash receipts from customers	61 749	53 442
Cash paid to suppliers	-45 262	-34 997
Net cash flow for salaries and wages of personnel	-12 336	-11 461
Other payments from operating activities	-45	56
Income taxes paid /received	-1652	-981
Cash from operating activities	2 454	6 059
Cash flows from investing activities		
Acquisition of property, plant and equipment	-3 364	-3 494
Proceeds from non-current assets	0	0
Other proceeds/ payments from investment activities	0	0
Cash from investing activities	-3 364	-3 494
Cash flows from financing activities		
Loans received	2 164	1 631
Repayment of borrowings	-1 927	-2 128
Other financial payments/received		
Payment of finance lease liabilities	-46	-60
Interest paid	-257	-295
Other financial payments	39	28
Cash from financing activities	-27	-824
Net increase in cash and cash equivalents	-937	1741
Cash and cash equivalents at 1 January	3490	1749
Effect of change of currency exchange rate		
Cash and cash equivalents at the end of the period	2 553	3490