

Explanatory notes to the financial statement of Herti JSC

For the period 01.01-31.03.2021

1. Important events, that took place in the period 01/01 – 31/03/2021

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.

From the middle of October some additional precautionary measures were taken to answer the increased COVID 19 cases in the country and in the factory. 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.

The first 3 months of this year show decrease in sales compared to the same periods of last 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. According to the situation after that period an on-line or on-site audit will be conducted.

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 costs of 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.

Since January Herti started a campaign for organizing and financing the process of donating recoverscent plasma for treating patients with Corona Virus disease in the Hospital of Shumen.

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 causes.

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. Since January most of the raw materials have increased prices which may lead to other measures for decreasing expenditure. The management is implemented 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.

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

For the period 01.01- 31.03.2021, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	712
Herti UK	Sales of product	1 310
Herti France	Sales of product	1 745
Herti Germany	Sales of products	1 195
Herti US	Sales of products	239
TIHERT JSC	Services sales	20
Timshel OOD	Service sales	1
Raifen OOD	Service sales	1
TIHERT JSC	Purchase of spare parts	167
TIHERT JSC	Fixed assets manufacturing	87
TIHERT JSC	Maintaining services	15
Timshel OOD	Rent	20
Raifen OOD	Transport services received	266

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 Financial Statement for the first quarter of 2021 gives a fair and complete view of the financial position of the company and the risks it faces.

21 April 2021

Chief Executive Officer:
Zahari Zahariev

HERTI JSC**Income statement**

For the first quarter of 2021

In thousands of BGN

	31.3.2021	31.3.2020
Revenue	10 998	12 475
Other income	118	109
Carrying amount of materials and goods sold	-41	-13
Increase/(decrease) of inventories of finished goods and work in progress	41	-584
Capitalised expenses	0	0
Expenses for materials	-6 282	-7 716
Hired services	-957	-830
Depreciation and amortisation	-895	-743
Personnel expenses	-2 679	-2 218
Other operating expenses	-71	-89
Finance income	131	79
Finance expenses	-90	-136
Profit before tax	273	334
Income tax expense		
Profit for the period	273	334

HERTI JSC**Balance sheet**

As at 31 March 2021

In thousands of BGN

	31.3.2021	31.12.2020
Assets		
Property, plant and equipment	24 348	24 805
Intangible assets	52	53
Investments	389	389
Long term receivables	135	110
Total non-current assets	24 924	25 357
Related parties receivables	5 228	4 276
Inventories	6 386	6 552
Trade and other receivables	5 121	4 698
Cash and cash equivalents	3 230	2 838
Total current assets	19 965	18 364
Total assets	44 889	43 721
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	889	889
Retained earnings	5 134	4 861
Total Equity	18 066	17 793
Liabilities		
Interest bearing loans and finance lease	7 159	7 488
Deferred tax liabilities	869	869
Other non- current liabilities	337	337
Financing	1 352	1 403
Total non- current liabilities	9 717	10 097
Related party payables	613	517
Interest bearing loans and finance lease	9 143	9 290
Taxes payable	570	629
Trade and other payables	6 576	5 191
Financing	204	204
Total current liabilities	17 106	15 831
Total liabilities	26 823	25 928
Total equity and liabilities	44 889	43 721

HERTI JSC**Change in equity**

For the period ended 31 March 2021

In thousands of BGN

	Authorised Capital	Premium of issued capital	Reserves	Additional Reserves	Retained Earnings	Profit/loss	Total
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					-18	1152	1 134
Other							0
Balance at 31 December 2020	12 014	29	507	382	4861	1152	17 793
Balance at 1 January 2021	12 014	29	507	382	4861	1152	17 793
Transform of retained earnings- nondistributed	-					273	273
Current net profit/loss							0
Effect from deffered taxes							0
Other							
Balance at 31 March 2021	12 014	29	507	382	4861	1425	18 066

HERTI JSC**Cash flow**

For the first quarter of 2021

In thousands of BGN

	01.01-31.03.2021	01.01.-31.03.2020
Cash flows from operating activities		
Cash receipts from customers	10 846	11 242
Cash paid to suppliers	-7 077	-8 090
Net cash flow for salaries and wages of personnel	-2 583	-2 423
Income taxes paid /received(excluding profit tax)	162	168
Profit tax	0	-3
Interest for short term credits and bank taxes paid	-25	-24
Effect of change of currency exchange rate on cash held	39	32
Other income/ payment from operative activities	39	
Cash from operating activities	1 401	902
Cash flows from investing activities		
Acquisition of property, plant and equipment	-445	-799
Proceeds from non-current assets	0	0
Investment/ dividends in/from daughter companies	0	0
Other	-26	19
Cash from investing activities	-471	-780
Cash flows from financing activities		
Loans received	98	620
Repayment of borrowings	-574	-494
Payment of finance lease liabilities	0	0
Interest for investment credits paid	-62	-75
Transactions costs		
Other financing activities		
Cash from financing activities	-538	51
Net increase in cash and cash equivalents	392	173
Cash and cash equivalents at 1 January	2838	1327
Cash and cash equivalents at the end of the period	3230	1500