

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)
Herti Group International	Sales of product	2 039
Herti UK	Sales of product	2 704
Herti France	Sales of product	5 472
Herti Germany	Sales of products	4 110
Herti US	Sales of products	349
TIHERT JSC	Services sales	60
Timshel OOD	Service sales	2
Raifen OOD	Service sales	9
TIHERT JSC	Purchase of spare parts	350
TIHERT JSC	Fixed assets manufacturing	708
TIHERT JSC	Maintaining services	24
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 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.

30 October 2020

Chief Executive Officer:

Zahari Zahariev

HERTI JSC**Income statement**

For the third quarter of 2020

In thousands of BGN

	30.9.2020	30.9.2019
Revenue	34 897	32 237
Other income	159	184
Carrying amount of materials and goods sold	-146	-52
Increase/(decrease) of inventories of finished goods and work in progress	146	172
Capitalised expenses	0	0
Expenses for materials	-20 126	-19 734
Hired services	-2 477	-2 400
Depreciation and amortisation	-2 637	-2 222
Personnel expenses	-8 286	-6 749
Other operating expenses	-339	-596
Finance income	80	71
Finance expenses	-447	-347
Profit before tax	824	564
Income tax expense		
Profit for the period	824	564

HERTI JSC**Balance sheet**

As at 30 September 2020

In thousands of BGN

	30.9.2020	31.12.2019
Assets		
Property, plant and equipment	25 078	25 143
Intangible assets	66	135
Investments	389	389
Long term receivables	0	0
Total non-current assets	25 533	25 667
Related parties receivables	4 569	4 315
Inventories	6 495	5 985
Trade and other receivables	6 260	6 296
Cash and cash equivalents	2 702	1 327
Total current assets	20 026	17 923
Total assets	45 559	43 590
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	889	816
Retained earnings	4 551	3 800
Total Equity	17 483	16 659
Liabilities		
Interest bearing loans and finance lease	11 324	11 299
Deferred tax liabilities	893	893
Other non-current liabilities	287	287
Financing	1 454	1 607
Total non-current liabilities	13 958	14 086
Related party payables	598	371
Interest bearing loans and finance lease	5 936	5 975
Taxes payable	592	537
Trade and other payables	6 788	5 752
Financing	204	210
Total current liabilities	14 118	12 845
Total liabilities	28 076	26 931
Total equity and liabilities	45 559	43 590

HERTI JSC**Change in equity**

For the period ended 30 September 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		-73		0
Current net profit/loss						824	824
Effect from deffered taxes							0
Other							
Balance at 30 September 2020	12 014	29	507	382	2996	1555	17 483

HERTI JSC**Cash flow**

For the third quarter of 2020

In thousands of BGN

	01.01-30.09.2020	01.01.-30.09.2019
Cash flows from operating activities		
Cash receipts from customers	36 536	31 935
Cash paid to suppliers	-26 022	-22 797
Net cash flow for salaries and wages of personnel	-7 050	-6 293
Income taxes paid /received(excluding profit tax)	692	491
Profit tax	-21	-22
Interest for short term credits and bank taxes paid	-71	-104
Effect of change of currency exchange rate on cash held	23	22
Other income/ payment from operative activities	43	
Cash from operating activities	4 130	3 232
Cash flows from investing activities		
Acquisition of property, plant and equipment	-2 646	-997
Proceeds from non-current assets	0	0
Investment/ dividends in/from daughter companies	73	23
Other	46	44
Cash from investing activities	-2 527	-930
Cash flows from financing activities		
Loans received	1 508	145
Repayment of borrowings	-1 522	-1 471
Payment of finance lease liabilities	0	-13
Interest for investment credits paid	-214	-260
Transactions costs		
Other financing activities		
Cash from financing activities	-228	-1 599
Net increase in cash and cash equivalents	1 375	703
Cash and cash equivalents at 1 January	1327	664
Cash and cash equivalents at the end of the period	2702	1367