

Explanatory notes to the financial statement of Herti JSC

For the period 01.01-31.12.2020

1. Important events, that took place in the period 01/01 – 31/12/2020

In the beginning of this year Herti started building a new compressed air station to 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 the year 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. For the first quarter of the year Herti was not affected by supply bottleneck or delivery failures.

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.

From September 1st, Herti joined the UNICEF campaign "Back to school" to support the parents in preparation for the new school year under the Pandemic situation.

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.

In spite of the difficult year Herti made some important investments to optimize the production process and save energy recourses. The Compressed air station started operation. The heat from the compressors is used

additionally for heating some of the production premises. Adiabatic cooling systems and gas heating were implemented in the whole factory.

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 could be a low liquidity ratio which could affect the Financial Report for 2020. 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- 31.12.2020, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	2 666
Herti UK	Sales of product	3 965
Herti France	Sales of product	6 826
Herti Germany	Sales of products	5 094
Herti US	Sales of products	613
TIHERT JSC	Services sales	80
Timshel OOD	Service sales	2
Raifen OOD	Service sales	10
TIHERT JSC	Purchase of spare parts	439
TIHERT JSC	Fixed assets manufacturing	766
TIHERT JSC	Maintaining services	35
Timshel OOD	Rent	78
Raifen OOD	Transport services received	894

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 fourth quarter of 2020 gives a fair and complete view of the financial position of the company and the risks it faces.

25 January 2021

Chief Executive Officer:

Zahari Zahariev

HERTI JSC**Income statement**

For the fourth quarter of 2020

In thousands of BGN

	31.12.2020	31.12.2019
Revenue	44 529	40 572
Other income	839	617
Carrying amount of materials and goods sold	-189	-56
Increase/(decrease) of inventories of finished goods and work in progress	-75	312
Capitalised expenses	0	0
Expenses for materials	-25 562	-24 143
Hired services	-3 381	-3 200
Depreciation and amortisation	-3 569	-2 962
Personnel expenses	-10 242	-9 277
Other operating expenses	-623	-723
Finance income	80	106
Finance expenses	-574	-461
Profit before tax	1 233	785
Income tax expense		-54
Profit for the period	1 233	731

HERTI JSC**Balance sheet**

As at 31 December 2020

In thousands of BGN

	31.12.2020	31.12.2019
Assets		
Property, plant and equipment	24 805	25 143
Intangible assets	53	135
Investments	389	389
Long term receivables	110	0
Total non-current assets	25 357	25 667
Related parties receivables	4 276	4 315
Inventories	6 552	5 985
Trade and other receivables	4 807	6 296
Cash and cash equivalents	2 838	1 327
Total current assets	18 473	17 923
Total assets	43 830	43 590
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	889	816
Retained earnings	4 940	3 800
Total Equity	17 872	16 659
Liabilities		
Interest bearing loans and finance lease	7 488	11 299
Deferred tax liabilities	893	893
Other non-current liabilities	337	287
Financing	1 403	1 607
Total non-current liabilities	10 121	14 086
Related party payables	517	371
Interest bearing loans and finance lease	9 290	5 975
Taxes payable	632	537
Trade and other payables	5 194	5 752
Financing	204	210
Total current liabilities	15 837	12 845
Total liabilities	25 958	26 931
Total equity and liabilities	43 830	43 590

HERTI JSC**Change in equity**

For the period ended 31 December 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						1233	1 233
Effect from deffered taxes					-20		-20
Other							
Balance at 31 December 2020	12 014	29	507	382	2976	1964	17 872

HERTI JSC**Cash flow**

For the fourth quarter of 2020

In thousands of BGN

	01.01-31.12.2020	01.01.-31.12.2019
Cash flows from operating activities		
Cash receipts from customers	48 398	42 977
Cash paid to suppliers	-33 975	-30 745
Net cash flow for salaries and wages of personnel	-9 836	-8 931
Income taxes paid /received(excluding profit tax)	1 132	761
Profit tax	-113	-42
Interest for short term credits and bank taxes paid	-92	-151
Effect of change of currency exchange rate on cash held	27	67
Other income/ payment from operative activities	132	2
Cash from operating activities	5 673	3 938
Cash flows from investing activities		
Acquisition of property, plant and equipment	-3 382	-2 470
Proceeds from non-current assets	0	0
Investment/ dividends in/from daughter companies	73	23
Other	-61	81
Cash from investing activities	-3 370	-2 366
Cash flows from financing activities		
Loans received	1 631	1 385
Repayment of borrowings	-2 128	-1 955
Payment of finance lease liabilities	0	-13
Interest for investment credits paid	-295	-326
Transactions costs		
Other financing activities		
Cash from financing activities	-792	-909
Net increase in cash and cash equivalents	1 511	663
Cash and cash equivalents at 1 January	1327	664
Cash and cash equivalents at the end of the period	2838	1327