

# 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 26-28<sup>th</sup> 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 14<sup>th</sup>, 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 23<sup>rd</sup>, 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 23<sup>rd</sup>. 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
Herti UK	Sales of product	6 984
Herti France	Sales of product	7 031
Herti Germany	Sales of products	5 728
Herti US	Sales of products	975
TIHERT JSC	Services sales	71
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2

TIHERT JSC	Purchase of spare parts	242
TIHERT JSC	Fixed assets manufacturing	87
TIHERT JSC	Maintaining services, rent for machines	65
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 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.

26 of January 2022

**Chief Executive Officer:**

Zahari Zahariev

**HERTI JSC****Income statement**

For the fourth quarter of 2021

*In thousands of BGN*

	31.12.2021	31.12.2020
Revenue	54 369	44 529
Other income	787	839
Carrying amount of materials and goods sold	-287	-189
Increase/(decrease) of inventories of finished goods and work in progress	1 992	-75
Capitalised expenses	0	0
Expenses for materials	-35 287	-25 561
Hired services	-4 765	-3 382
Depreciation and amortisation	-3 586	-3 569
Personnel expenses	-11 134	-10 234
Other operating expenses	-413	-615
Finance income	208	80
Finance expenses	-368	-574
<b>Profit before tax</b>	<b>1 516</b>	<b>1 249</b>
<b>Income tax expense</b>		<b>-97</b>
<b>Profit for the period</b>	<b>1 516</b>	<b>1 152</b>

**HERTI JSC****Balance sheet**

As at 31 December 2021

*In thousands of BGN*

	31.12.2021	31.12.2020
<b>Assets</b>		
Property, plant and equipment	24 782	24 805
Intangible assets	41	53
Investments	389	389
Long term receivables	135	110
<b>Total non-current assets</b>	<b>25 347</b>	<b>25 357</b>
Related parties receivables	6 268	4 276
Inventories	9 979	6 552
Trade and other receivables	5 659	4 698
Cash and cash equivalents	1 792	2 838
<b>Total current assets</b>	<b>23 698</b>	<b>18 364</b>
<b>Total assets</b>	<b>49 045</b>	<b>43 721</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	889	889
Retained earnings	6 285	4 861
<b>Total Equity</b>	<b>19 217</b>	<b>17 793</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	11 025	7 488
Deferred tax liabilities	869	869
Other non- current liabilities	471	337
Financing	1 199	1 403
<b>Total non- current liabilities</b>	<b>13 564</b>	<b>10 097</b>
Related party payables	376	517
Interest bearing loans and finance lease	5 991	9 290
Taxes payable	492	629
Trade and other payables	9 201	5 191
Financing	204	204
<b>Total current liabilities</b>	<b>16 264</b>	<b>15 831</b>
<b>Total liabilities</b>	<b>29 828</b>	<b>25 928</b>
<b>Total equity and liabilities</b>	<b>49 045</b>	<b>43 721</b>

**HERTI JSC****Change in equity**

For the period ended 31 December 2021

*In thousands of BGN*

	<b>Authorised Capital</b>	<b>Premium of issued capital</b>	<b>Reserves</b>	<b>Additional Reserves</b>	<b>Retained Earnings</b>	<b>Profit/loss</b>	<b>Total</b>
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	3709	1152	17 793
Balance at 1 January 2021	12 014	29	507	382	3709	1152	17 793
Transform of retained earnings- nondistributed	-						0
Current net profit/loss						1516	1 516
Effect from deffered taxes					-92		-92
Other			115		-115		0
Balance at 31 December 2021	12 014	29	622	382	3502	2668	19 217

**HERTI JSC****Cash flow**

For the fourth quarter of 2021

*In thousands of BGN*

	01.01-31.12.2021	01.01.-31.12.2020
<b>Cash flows from operating activities</b>		
Cash receipts from customers	56 657	48 398
Cash paid to suppliers	-44 175	-33 975
Net cash flow for salaries and wages of personnel	-11 268	-9 836
Income taxes paid /received(excluding profit tax)	1 274	1 132
Profit tax	-103	-113
Interest for short term credits and bank taxes paid	-99	-92
Effect of change of currency exchange rate on cash held	115	27
Other income/ payment from operative activities	-37	132
<b>Cash from operating activities</b>	<b>2 364</b>	<b>5 673</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-3 364	-3 382
Proceeds from non-current assets	0	0
Investment/ dividends in/from daughter companies	0	73
Other	-26	-61
<b>Cash from investing activities</b>	<b>-3 390</b>	<b>-3 370</b>
<b>Cash flows from financing activities</b>		
Loans received	2 164	1 631
Repayment of borrowings	-1 927	-2 128
Payment of finance lease liabilities	0	0
Interest for investment credits paid	-257	-295
Transactions costs		
Other financing activities		
<b>Cash from financing activities</b>	<b>-20</b>	<b>-792</b>
Net increase in cash and cash equivalents	-1 046	1 511
Cash and cash equivalents at 1 January	2838	1327
<b>Cash and cash equivalents at the end of the period</b>	<b>1792</b>	<b>2838</b>