

## **Explanatory notes to the financial statement of Herti JSC** **For the period 01.01-31.12.2022**

### **1. Important events, that took place in the period 01/01 – 31/12/2022**

Herti continued to follow all precautionary measures against COVID 19 to protect our staff, as well as for ensuring uninterrupted service of our customers. Most of the communications were made on-line. Part of the administration was working from home. Whenever possible, people used their own vehicles to go to work to avoid travelling with public transport. Since the beginning of April all employees returned for work in the office and workers in Pliska started to use the free Business Transport instead their vehicles. Wearing masks in the working areas is recommended and nobody with a positive test can go back to work.

From the beginning of January Herti signed an agreement with Financial Market Service Ltd to meet the legal obligations for information disclosure through the information platform X3 News. X3 News also allows publication of other non-regulated information, advertisements, PR messages, etc.

At the end of December, the first interim report on the GALP project was submitted to the Norwegian Financial Mechanism. The first tranche of the financing in the amount of EUR 314,290 was received on February 28, 2022.

At the end of January, Herti participated in the largest exhibition for wine and winemaking in the United States - Unified Symposium in Sacramento. The exhibition was held live after a two-year break.

A Board of Directors meeting was held in February. A decision was made to apply for an investment loan from DSK Bank in the amount of EUR 800,000 for the purchase of new rolling and lining machines and a rotary press. The agenda and the date for convening a regular General Meeting of Shareholders were also determined.

This year Herti will support again UNICEF by joining the Benefactor Company program.

After two year interruption due to COVID crisis the international Trade fair Prowein was held live in Dusseldorf from 15 to 17 of May 2022. Herti had a booth and presented its full production range.

At the end of June the Board of Directors of Herti decided to increase the limit for bank guarantees and custom clearance in Unicredit Bulbank from 200 to 600 thousand BGN due to the increased prices and quantities of raw materials and aluminum.

A General meeting of the shareholders was held on June 28<sup>th</sup> where a decision for payment of dividends for 2021 was taken. The payment of dividends started on 22.08.2022 through UBB. In July Herti passed the annual recertification for the BRC/IOP standard with the highest degree "A".

In August the final payment for the equipment for the GALP project was made and till the end of the same month the machines were delivered. At the end of September the equipment was assembled and tested. During October the training of employees was completed and the Industry.4 part of the project was implemented by the partners together with Herti's experts. On December 11<sup>th</sup>, Herti presented the equipment and the project at a special informative event. The final report was send on December 15<sup>th</sup> to the Norwegian Financial Mechanism. The second transfer with the final payment of the financing at the amount of 485 800 EUR was received by Herti on January 18<sup>th</sup>, 2023 and the sum was used to partially pay back of the investment loan to UBB bank.

In September Herti participated in two international trade shows: Drinktec 2022 in Munich, Germany and ADI 2022 in Saint Loius USA.

On October 26th, at the International Mavrud Day, the Sales Director of Herti France, Mrs Valentina Dimova, presented the theme "Bottling and aging of red wines sealed with aluminum screw caps". The International Mavrud day is an annual event, initiated by the Bulgarian

Association of Wine Professionals to promote Bulgarian wine and wine tourism among foreign and local consumers.

At the beginning of November Herti joined the campaign “A safety belt for children at the back seat of the car”. The campaign aims to educate small pupils about the safe way of travelling by car.

From 15<sup>th</sup> to 18<sup>th</sup> of November Herti presented its product portfolio at the international trade show SIMEI in Milan, Italy and at the end of November took part in another international wine fair SITEVI in Bordeaux, France.

## 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. The prices for aluminium were negotiated for the first quarter and were higher than the last quarter of 2021 and in lower quantities. At the end of march new higher prices for the aluminium were agreed for the second quarter of 2022 and we expect to have more stability in the second half of the year. At this moment we have the necessary quantities of materials to ensure the production program of the company.

Price adjustments to customers have also been made. In connection with the war in Ukraine and the sanctions imposed by the EU against Russia, it is possible that gas supplies will be disrupted. The management is working on an option for an alternative supply of propane butane, so as not to disrupt the production process. The management monitors the situation on a daily basis and has identified certain stabilization measures, through the implementation of which it expects the negative financial consequences to be mitigated to the extent that they do not have a significant negative impact on future viability and the company's ability to continue operations.

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

For the period 01.01- 31.12.2022, the Company has realized the following transactions with related parties:

<b>Related party</b>	<b>Transaction</b>	<b>Amount (in thousand BGN)</b>
Herti Group International	Sales of product	4 377
Herti UK	Sales of product	9 186
Herti France	Sales of product	13 140
Herti Germany	Sales of products	10 450
Herti US	Sales of products	1 463
TIHERT JSC	Services sales	144
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
TIHERT JSC	Purchase of spare parts and materials	618
Timshel OOD	Rent	104

Raifen OOD	Transport services received	1 272
IGM	Expenses	3

**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 2022 gives a fair and complete view of the financial position of the company and the risks it faces.

**Chief Executive Officer:**

Zahari Zahariev

30 January 2023

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

For the fourth quarter of 2022

*In thousands of BGN*

	<b>31.12.2022</b>	<b>31.12.2021</b>
Revenue	86 506	54 369
Other income (including financing)	3 503	868
Carrying amount of materials and goods sold	-42	-287
Increase/(decrease) of inventories of finished goods and work in progress	77	1 991
Capitalised expenses	0	0
Expenses for materials	-56 174	-35 311
Hired services	-6 888	-4 878
Depreciation and amortisation	-3 962	-3 586
Personnel expenses	-16 285	-11 175
Other operating expenses	-530	-300
Finance income	28	208
Finance expenses	-448	-366
<b>Profit before tax</b>	<b>5 785</b>	<b>1 533</b>
<b>Income tax expense</b>		<b>-140</b>
<b>Profit for the period</b>	<b>5 785</b>	<b>1 393</b>

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

As at 31 December 2022

*In thousands of BGN*

	31.12.2022	31.12.2021
<b>Assets</b>		
Property, plant and equipment	26 688	24 782
Intangible assets	125	41
Investments	486	389
Long term receivables		
<b>Total non-current assets</b>	<b>27 299</b>	<b>25 212</b>
Related parties receivables	6 430	6 405
Inventories	12 293	9 979
Trade and other receivables	6 914	5 564
Cash and cash equivalents	4 105	1 792
<b>Total current assets</b>	<b>29 742</b>	<b>23 740</b>
<b>Total assets</b>	<b>57 041</b>	<b>48 952</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	1 143	1 004
Retained earnings	11 142	6 056
<b>Total Equity</b>	<b>24 328</b>	<b>19 103</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	11 014	11 025
Deferred tax liabilities	828	828
Other non- current liabilities	618	471
Financing	1 227	1 199
<b>Total non- current liabilities</b>	<b>13 687</b>	<b>13 523</b>
Related party payables	170	376
Interest bearing loans and finance lease	7 482	5 991
Taxes payable	692	576
Trade and other payables	10 149	9 179
Financing	533	204
<b>Total current liabilities</b>	<b>19 026</b>	<b>16 326</b>
<b>Total liabilities</b>	<b>32 713</b>	<b>29 849</b>
<b>Total equity and liabilities</b>	<b>57 041</b>	<b>48 952</b>

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

For the period ended 31 December 2022

*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 2021	12 014	29	507	382	3709	1152	17 793
Transform of retained earnings- nondistributed	-		115		1037	-1152	0
Current net profit/loss					-83	1393	1 310
Other							0
Balance at 31 December 2021	12 014	29	622	382	4663	1393	19 103
Balance at 1 January 2022	12 014	29	622	382	4663	1393	19 103
Transform of retained earnings- nondistributed	-						0
Dividends paid					-481		-481
Current net profit/loss						5785	5 785
Effect from deffered taxes					-79		-79
Other			139		-139		0
Balance at 31 December 2022	12 014	29	761	382	3964	7178	24 328

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

For the fourth quarter of 2022

*In thousands of BGN*

	01.01-31.12.2022	01.01.-31.12.2021
<b>Cash flows from operating activities</b>		
Cash receipts from customers	91 539	56 657
Cash paid to suppliers	-71 355	-44 175
Net cash flow for salaries and wages of personnel	-15 726	-11 268
Income taxes paid /received(excluding profit tax)	2 283	1 274
Profit tax	-546	-103
Interest for short term credits and bank taxes paid	-120	-99
Effect of change of currency exchange rate on cash held	160	115
Other income/ payment from operative activities	93	-37
<b>Cash from operating activities</b>	<b>6 328</b>	<b>2 364</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-5 547	-3 365
Proceeds from non-current assets	180	0
Investment/ dividends in/from daughter companies	10	0
Other	653	-25
<b>Cash from investing activities</b>	<b>-4 704</b>	<b>-3 390</b>
<b>Cash flows from financing activities</b>		
Loans received	3 708	2 164
Repayment of borrowings	-2 228	-1 927
Payment of finance lease liabilities	0	0
Interest for investment credits paid	-310	-257
Transactions costs		
Other financing activities - dividends paid	-481	
<b>Cash from financing activities</b>	<b>689</b>	<b>-20</b>
Net increase in cash and cash equivalents	2 313	-1 046
Cash and cash equivalents at 1 January	1792	2838
<b>Cash and cash equivalents at the end of the period</b>	<b>4105</b>	<b>1792</b>