

Explanatory notes to the financial statement of Herti JSC

For the period 01.01-30.09.2021

1. Important events, that took place in the period 01/01 – 30/09/2021

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 26-28th 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 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.

Herti embraced the idea of SOS children's settlements and supported financially young people from Cnetral 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 14th, 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 23rd, 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 23rd. 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.

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. Beside the extremely high prices there is also a problem with delivering all necessary quantities of aluminum from our suppliers. They cannot fulfill their full engagement till the end of this year and are not able to guarantee all necessary volumes for our production program for 2022. 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.

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

For the period 01.01- 30.09.2021, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	2 421
Herti UK	Sales of product	4 929
Herti France	Sales of product	5 156
Herti Germany	Sales of products	3 899
Herti US	Sales of products	631
TIHERT JSC	Services sales	52
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
TIHERT JSC	Purchase of spare parts	250
TIHERT JSC	Fixed assets manufacturing	76

TIHERT JSC	Maintaining services	17
Timshel OOD	Rent	58
Raifen OOD	Transport services received	801

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 2021 gives a fair and complete view of the financial position of the company and the risks it faces.

25 of October 2021

Chief Executive Officer:

Zahari Zahariev

HERTI JSC**Income statement**

For the third quarter of 2021

In thousands of BGN

	30.9.2021	30.9.2020
Revenue	38 604	34 575
Other income	365	481
Carrying amount of materials and goods sold	-263	-146
Increase/(decrease) of inventories of finished goods and work in progress	976	146
Capitalised expenses	0	0
Expenses for materials	-24 083	-20 126
Hired services	-3 457	-2 477
Depreciation and amortisation	-2 689	-2 637
Personnel expenses	-8 224	-8 286
Other operating expenses	-277	-339
Finance income	130	80
Finance expenses	-277	-447
Profit before tax	805	824
Income tax expense		
Profit for the period	805	824

HERTI JSC**Balance sheet**

As at 30 September 2021

In thousands of BGN

	30.9.2021	31.12.2020
Assets		
Property, plant and equipment	24 917	24 805
Intangible assets	45	53
Investments	389	389
Long term receivables	135	110
Total non-current assets	25 486	25 357
Related parties receivables	6 299	4 276
Inventories	8 564	6 552
Trade and other receivables	7 112	4 698
Cash and cash equivalents	1 494	2 838
Total current assets	23 469	18 364
Total assets	48 955	43 721
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	889	889
Retained earnings	5 666	4 861
Total Equity	18 598	17 793
Liabilities		
Interest bearing loans and finance lease	11 384	7 488
Deferred tax liabilities	869	869
Other non- current liabilities	337	337
Financing	1 250	1 403
Total non- current liabilities	13 840	10 097
Related party payables	387	517
Interest bearing loans and finance lease	5 775	9 290
Taxes payable	137	629
Trade and other payables	10 014	5 191
Financing	204	204
Total current liabilities	16 517	15 831
Total liabilities	30 357	25 928
Total equity and liabilities	48 955	43 721

HERTI JSC**Change in equity**

For the period ended 30 September 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	3709	1152	17 793
Balance at 1 January 2021	12 014	29	507	382	3709	1152	17 793
Transform of retained earnings- nondistributed	-					805	805
Current net profit/loss							0
Effect from deffered taxes							0
Other			115		-115		0
Balance at 30 SeptemberJ 2021	12 014	29	622	382	3594	1957	18 598

HERTI JSC**Cash flow**

For the third quarter of 2021

In thousands of BGN

	01.01-30.09.2021	01.01.-30.09.2020
Cash flows from operating activities		
Cash receipts from customers	37 709	36 536
Cash paid to suppliers	-29 073	-26 022
Net cash flow for salaries and wages of personnel	-7 981	-7 050
Income taxes paid /received(excluding profit tax)	651	692
Profit tax	-26	-21
Interest for short term credits and bank taxes paid	-75	-71
Effect of change of currency exchange rate on cash held	83	23
Other income/ payment from operative activities	-60	43
Cash from operating activities	1 228	4 130
Cash flows from investing activities		
Acquisition of property, plant and equipment	-2 733	-2 646
Proceeds from non-current assets	0	0
Investment/ dividends in/from daughter companies	0	73
Other	-26	46
Cash from investing activities	-2 759	-2 527
Cash flows from financing activities		
Loans received	1 847	1 508
Repayment of borrowings	-1 467	-1 522
Payment of finance lease liabilities	0	0
Interest for investment credits paid	-193	-214
Transactions costs		
Other financing activities		
Cash from financing activities	187	-228
Net increase in cash and cash equivalents	-1 344	1 375
Cash and cash equivalents at 1 January	2838	1327
Cash and cash equivalents at the end of the period	1494	2702