

**Consolidated Explanatory notes to the financial statement of Herti**  
**For the period 01.01-31.03.2020**

**1. Important events, that took place in the period 01/01 – 31/03/2020**

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 27<sup>th</sup>, Herti passed successfully the recertification audit under BRC standard achieving again the highest grade "A". The new certificate is valid till 25<sup>th</sup> 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 27<sup>th</sup>, 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 13<sup>th</sup> 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.

**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- 31.03.2020, the Company has realized the following transactions with related parties:

Related party	Transaction	Amount (in thousand BGN)
Herti Group International	Sales of product	746
IGM Holding	Reimbursed expenses	1
Timshel OOD	Rent	20
Raifen OOD	Transport services received	210

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

27 May 2020

**Chief Executive Officer:**

Zahari Zahariev

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

For the first quarter of 2020

*In thousands of BGN*

	31.3.2020	31.3.2019
Revenue	12 401	9 942
Other income	95	466
Carrying amount of materials and goods sold	-97	-93
Increase/(decrease) of inventories of finished goods and work in progress	203	504
Capitalised expenses		
Expenses for materials	-7 868	-6 585
Hired services	-796	-644
Depreciation and amortisation	-783	-771
Personnel expenses	-2 637	-2 474
Other operating expenses	-89	-98
Finance expenses	-138	-62
Share of profit/loss in associated companies	1	-7
<b>Profit before tax</b>	<b>292</b>	<b>178</b>
<b>Income tax expense/income/</b>		
<b>Profit /Loss for the period</b>	<b>292</b>	<b>178</b>
<b>Transitions of financial statements of foreign companies</b>		
<b>Revaluation of investments in foreign associates</b>		
<b>Total comprehensive income for the period</b>	<b>292</b>	<b>178</b>

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

As at 31 March 2020

*In thousands of BGN*

	31.3.2020	31.12.2019
<b>Assets</b>		
Property, plant and equipment	25 442	24 900
Intangible assets	101	135
Investments	116	116
Assets connected with deferred taxes		
<b>Total non-current assets</b>	<b>25 659</b>	<b>25 151</b>
Related parties receivables	756	781
Inventories	6 568	7 209
Trade and other receivables	10 962	9 138
Cash and cash equivalents	1 718	1 749
<b>Total current assets</b>	<b>20 004</b>	<b>18 877</b>
<b>Total assets</b>	<b>45 663</b>	<b>44 028</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	880	881
Retained earnings	2 965	2 748
<b>Total Equity</b>	<b>15 888</b>	<b>15 672</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	11 362	11 299
Deferred tax liabilities	893	812
Other ( earned income)	394	500
Financing	1 550	1 607
<b>Total non- current liabilities</b>	<b>14 199</b>	<b>14 218</b>
Related party payables	337	317
Interest bearing loans and finance lease	6 038	5 975
Trade and other payables	8 991	7 636
Financing	210	210
<b>Total current liabilities</b>	<b>15 576</b>	<b>14 138</b>
<b>Total liabilities</b>	<b>29 775</b>	<b>28 356</b>
<b>Total equity and liabilities</b>	<b>45 663</b>	<b>44 028</b>

**HERTI JSC****Change in equity - consolidated**

For the period ended 31 March 2020

*In thousands of BGN*

	<b>Authorised Capital</b>	<b>Premium of issued capital</b>	<b>Compulsory reserves</b>	<b>Other Reserves</b>	<b>Retained Earnings</b>	<b>Total</b>
Balance at 1 January 2020	12 014	29	499	382	2 748	15 672
Translations of financial statements of foreign companies						0
Revaluation of investments in associates			-1		4	3
Other transactions for the period					-79	-79
Deferred taxes effect						0
Current net profit/loss	-	-			292	292
Balance at 31 March 2020	<u>12 014</u>	<u>29</u>	<u>498</u>	<u>382</u>	<u>2 965</u>	<u>15 888</u>

**HERTI JSC**  
**consolidated Cash flow**  
For the first quarter of 2020  
*In thousands of BGN*

	31.3.2020	31.3.2019
<b>Cash flows from operating activities</b>		
Cash receipts from customers	13 276	13 184
Cash paid to suppliers	-9 502	-8 955
Net cash flow for salaries and wages of personnel	-3 013	-2 543
Other payments from operating activities	8	-69
Income taxes paid /received	-56	-1465
<b>Cash from operating activities</b>	<b>713</b>	<b>152</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-799	-357
Proceeds from non-current assets	19	0
Other proceeds/ payments from investment activities		
<b>Cash from investing activities</b>	<b>-780</b>	<b>-357</b>
<b>Cash flows from financing activities</b>		
Loans received	620	-502
Repayment of borrowings	-494	-13
Other financial payments/received		
Payment of finance lease liabilities	-15	-100
Interest paid	-75	0
Other financial payments	0	0
<b>Cash from financing activities</b>	<b>36</b>	<b>-615</b>
Net increase in cash and cash equivalents	-31	-820
Cash and cash equivalents at 1 January	1749	1116
Effect of change of currency exchange rate		
<b>Cash and cash equivalents at the end of the period</b>	<b>1 718</b>	<b>296</b>