

# Explanatory notes to the Consolidated 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 26-28<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 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 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.

## 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)
Timshel OOD	Service sales	2
Raifen OOD	Service sales	2
Timshel OOD	Rent	58
Raifen OOD	Transport services received	801
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 Consolidated 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.

**Chief Executive Officer:**

24 of November 2021

Zahari Zahariev

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

For the third quarter of 2021

*In thousands of BGN*

	30.9.2021	30.9.2020
Revenue	41 085	36 470
Other income	414	532
Carrying amount of materials and goods sold	-99	-190
Increase/(decrease) of inventories of finished goods and work in progress	148	133
Capitalised expenses		
Expenses for materials	-24 398	-20 382
Hired services	-3 790	-2 549
Depreciation and amortisation	-2 778	-2 742
Personnel expenses	-9 060	-9 467
Other operating expenses	-279	-356
Finance expenses	-147	-454
Share of profit/loss in associated companies	3	-1
<b>Profit before tax</b>	<b>1 099</b>	<b>994</b>
<b>Income tax expense/income/</b>		
<b>Profit /Loss for the period</b>	<b>1 099</b>	<b>994</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>1 099</b>	<b>994</b>

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

As at 30 June 2021

*In thousands of BGN*

	30.9.2021	31.12.2020
<b>Assets</b>		
Property, plant and equipment	24 405	24 470
Intangible assets	45	53
Investments	197	111
Assets connected with deferred taxes		
<b>Total non-current assets</b>	<b>24 647</b>	<b>24 634</b>
Related parties receivables	888	630
Inventories	9 909	7 763
Trade and other receivables	11 916	7 167
Cash and cash equivalents	2 358	3 490
<b>Total current assets</b>	<b>25 071</b>	<b>19 050</b>
<b>Total assets</b>	<b>49 718</b>	<b>43 684</b>
<b>Equity</b>		
Issued capital	12 014	12 014
Raising of capital	29	29
Reserves	1 069	955
Retained earnings	4 773	3 792
<b>Total Equity</b>	<b>17 885</b>	<b>16 790</b>
<b>Liabilities</b>		
Interest bearing loans and finance lease	11 384	7 488
Deferred tax liabilities	795	795
Other ( earned income)	407	464
Financing	1 275	1 403
<b>Total non- current liabilities</b>	<b>13 861</b>	<b>10 150</b>
Related party payables	377	394
Interest bearing loans and finance lease	5 775	9 290
Trade and other payables	11 616	6 856
Financing	204	204
<b>Total current liabilities</b>	<b>17 972</b>	<b>16 744</b>
<b>Total liabilities</b>	<b>31 833</b>	<b>26 894</b>
<b>Total equity and liabilities</b>	<b>49 718</b>	<b>43 684</b>

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

For the period ended 30 September 2021

*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 2021	12 014	29	573	382	3 792	16 790
Translations of financial statements of foreign companies						0
Revaluation of investments in associates			-1		-3	-4
Other transactions for the period			115		-115	0
Deffered taxes effect						0
Current net profit/loss	-	-			1099	1099
Balance at 30 September 2021	12 014	29	687	382	4 773	17 885

**HERTI JSC**  
**consolidated Cash flow**  
For the third quarter of 2021  
*In thousands of BGN*

	30.9.2021	30.9.2020
<b>Cash flows from operating activities</b>		
Cash receipts from customers	40 078	39 403
Cash paid to suppliers	-28 765	-25 880
Net cash flow for salaries and wages of personnel	-8 932	-8 319
Other payments from operating activities	-59	6
Income taxes paid /received	-901	-844
<b>Cash from operating activities</b>	<b>1 421</b>	<b>4 366</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	-2 733	-2 653
Proceeds from non-current assets	0	0
Other proceeds/ payments from investment activities	0	0
<b>Cash from investing activities</b>	<b>-2 733</b>	<b>-2 653</b>
<b>Cash flows from financing activities</b>		
Loans received	1 847	1 508
Repayment of borrowings	-1 467	-1 522
Other financial payments/received		
Payment of finance lease liabilities	-46	-45
Interest paid	-193	-214
Other financial payments	39	0
<b>Cash from financing activities</b>	<b>180</b>	<b>-273</b>
Net increase in cash and cash equivalents	-1 132	1440
Cash and cash equivalents at 1 January	3490	1749
Effect of change of currency exchange rate		
<b>Cash and cash equivalents at the end of the period</b>	<b>2 358</b>	<b>3189</b>