

Explanatory notes to the financial statement of Herti JSC

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 27th, Herti passed successfully the recertification audit under BRC standard achieving again the highest grade "A". The new certificate is valid till 25th 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 27th, 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 13th 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
Herti UK	Sales of product	900
Herti France	Sales of product	2 038
Herti Germany	Sales of products	1 678
Herti US	Sales of products	170
TIHERT JSC	Services sales	20
Timshel OOD	Service sales	1
Raifen OOD	Service sales	8
TIHERT JSC	Purchase of spare parts	124
TIHERT JSC	Fixed assets manufacturing	145
TIHERT JSC	Maintaining services	6
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 and the risks it faces.

23 April 2020

Chief Executive Officer:

Zahari Zahariev

HERTI JSC**Income statement**

For the first quarter of 2020

In thousands of BGN

	31.3.2020	31.3.2019
Revenue	12 475	9 874
Other income	109	112
Carrying amount of materials and goods sold	-13	-11
Increase/(decrease) of inventories of finished goods and work in progress	-584	70
Capitalised expenses	0	0
Expenses for materials	-7 716	-6 136
Hired services	-830	-793
Depreciation and amortisation	-743	-736
Personnel expenses	-2 218	-2 080
Other operating expenses	-89	-89
Finance income	79	60
Finance expenses	-136	-114
Profit before tax	334	157
Income tax expense		
Profit for the period	334	157

HERTI JSC**Balance sheet**

As at 31 March 2020

In thousands of BGN

	31.3.2020	31.12.2019
Assets		
Property, plant and equipment	25 289	25 143
Intangible assets	101	135
Investments	389	389
Long term receivables	0	0
Total non-current assets	25 779	25 667
Related parties receivables	5 044	4 315
Inventories	5 039	5 985
Trade and other receivables	7 571	6 296
Cash and cash equivalents	1 500	1 327
Total current assets	19 154	17 923
Total assets	44 933	43 590
Equity		
Issued capital	12 014	12 014
Premium of issued capital	29	29
Reserves	816	816
Retained earnings	4 134	3 800
Total Equity	16 993	16 659
Liabilities		
Interest bearing loans and finance lease	11 362	11 299
Deferred tax liabilities	893	893
Other non- current liabilities	287	287
Financing	1 550	1 607
Total non- current liabilities	14 092	14 086
Related party payables	405	371
Interest bearing loans and finance lease	6 038	5 975
Taxes payable	367	537
Trade and other payables	6 828	5 752
Financing	210	210
Total current liabilities	13 848	12 845
Total liabilities	27 940	26 931
Total equity and liabilities	44 933	43 590

HERTI JSC**Change in equity**

For the period ended 31 March 2020

In thousands of BGN

	Authorised Capital	Reserves	Additional Reserves	Premium of issued capital	Retained Earnings	Total
Balance at 1 January 2019	12 014	365	382	29	3171	15 961
Current net profit/loss	-				698	698
Transform of retained earnings- nondistributed						0
Other income		69			-69	0
Balance at 31 December 2019	12 014	434	382	29	3800	16 659
Balance at 1 January 2020	12 014	434	382	29	3800	16 659
Current net profit/loss	-		-		334	334
Retained earnings						
Effect from deffered taxes						0
Other changes/ reserves						0
Balance at 31 March 2020	12 014	434	382	29	4134	16 993

HERTI JSC**Cash flow**

For the first quarter of 2020

In thousands of BGN

	01.01-31.03.2020	01.01.-31.03.2019
Cash flows from operating activities		
Cash receipts from customers	11 242	8 428
Cash paid to suppliers	-8 090	-6 106
Net cash flow for salaries and wages of personnel	-2 423	-2 051
Income taxes paid /received(excluding profit tax)	168	123
Profit tax	-3	-4
Interest for short term credits and bank taxes paid	-24	-32
Effect of change of currency exchange rate on cash held	32	11
Cash from operating activities	902	369
Cash flows from investing activities		
Acquisition of property, plant and equipment	-799	-355
Proceeds from non-current assets	0	0
Investment in daughter companies	0	0
Other	19	0
Cash from investing activities	-780	-355
Cash flows from financing activities		
Loans received	620	0
Repayment of borrowings	-494	-502
Payment of finance lease liabilities	0	-13
Interest for investment credits paid	-75	-85
Transactions costs		
Other financing activities		
Cash from financing activities	51	-600
Net increase in cash and cash equivalents	173	-586
Cash and cash equivalents at 1 January	1327	664
Cash and cash equivalents at the end of the period	1500	78