HERTI - AD

CONSOLIDATED FINANCIAL STATEMENTS
AND
AUDITOR'S REPORT

December 31, 2023

SHUMEN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2023

	Notes	December 31, 2023 BGN'000	December 31, 2022 BGN'000
Non-current assets			
Property, plant and equipment	*4*	22 674	25 627
Intangible assets	*5*	69	125
Investments	*6*	3	3
Total non-current assets		**22 746**	**25 755**
Current assets			
Inventories	*7*	13 825	13 899
Trade and other receivables	*8*	9 209	13 629
Cash and bank balances	*9*	11 348	4 926
Total current assets		**34 382**	**32 454**
Total assets		**57 128**	**58 209**
Equity attributable to owners of the Company			
Share capital	*10*	12 014	12 014
Retained earnings		17 434	11 896
Total equity		**29 448**	**23 910**
Non-current liabilities			
Non-current bank borrowings	*11*	5 580	11 014
Government grants	*12*	1 893	1 246
Deferred tax liabilities	*13*	547	601
Retirement benefit obligation	*14*	571	661
Total non-current liabilities		**8 591**	**13 522**
Current liabilities	*15*	**19 089**	**20 777**
Total liabilities		**27 680**	**34 299**
Total equity and liabilities		**57 128**	**58 209**

Chief Executive Officer: (signed)
Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

April 15, 2024

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2023

	Notes	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Revenue	*16*	76 723	90 791
Other income	*17*	1 366	3 863
Total revenue and other income		**78 089**	**94 654**
Raw materials and consumables used	*18*	38 940	56 839
Hired services	*19*	6 656	7 827
Employee benefits expense	*20*	17 909	17 669
Depreciation and amortisation expenses		4 985	4 046
Other expenses	*21*	1 229	663
Total operating expenses		**69 719**	**87 044**
Cost of goods sold		17	564
Changes of inventories of finished goods and work in progress		413	-550
Total adjustments		**430**	**14**
Interest income/(expenses)	*22*	-609	-381
Exchange rate gain/(loss)		13	13
Other finance costs		-81	-78
Total finance income/(costs)		**(677)**	**(446)**
Profit before tax		**7 263**	**7 150**
Tax benefit/(expense)	*23*	(812)	(901)
Profit for the year		**6 451**	**6 249**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses), net of income tax		-	-69
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		-12	38
Other comprehensive income for the year		**(12)**	**(31)**
Total comprehensive income for the year		**6 439**	**6 218**
Total comprehensive income attributable to:			
Owners of the Company		6 439	6 218
Earnings per share in BGN	*24*	**0,54**	**0,52**

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Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

April 15, 2024

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2023

	Equity attributable to equity holders of the parent						
	Share capital	**Share premium**	**Legal reserve**	**Additional reserve**	**Retained earnings**	**Profit/ (loss)**	**Total**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Balance at January 1, 2022	**12 014**	**29**	**563**	**446**	**3 672**	**1 572**	**18 296**
Transfer to retained earnings	-	-	-	-	1 572	-1 572	**-**
Transfer to legal reserve	-	-	139	-	-139	**-**	**-**
Dividends distribution	-	-	-	-	-481	**-**	**-481**
Adjustment arising from change in interest in a subsid	-	-	-	-	-123	**-**	**-123**
Total comprehensive income for the year	-	-	-	-	-31	6 249	**6 218**
Balance at December 31, 2022	**12 014**	**29**	**702**	**446**	**4 470**	**6 249**	**23 910**
Transfer to retained earnings	-	-	-	-	6 249	-6 249	**-**
Transfer to legal reserve	-	-	521	-	-521	**-**	**-**
Dividends distribution	-	-	-	-	-901	**-**	**-901**
Total comprehensive income for the year	-	-	-	-	-12	6 451	**6 439**
Balance at December 31, 2023	**12 014**	**29**	**1 223**	**446**	**9 285**	**6 451**	**29 448**

Chief Executive Officer: (signed)
Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

April 15, 2024

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CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2023

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Cash and cash equivalents at the beginning of the year	**4 926**	**2 352**
Cash from operating activities		
Receipts from customers and other debtors	88 847	99 291
Payments to suppliers and other creditors	(53 607)	(73 005)
Payments for salaries, social security and other	(18 225)	(16 906)
Refunded/(paid) taxes, net	(5 777)	(3 076)
Other cash flows from operating activities	125	50
Net cash from operating activities	**11 363**	**6 354**
Investing activities		
Purchases of property, plant and equipment	(1 767)	(5 132)
Proceeds on disposal of property, plant and equipment	18	180
Loans and interest repaid	-	137
Proceeds from government grants	1 174	615
Acquisition of investment	-	(98)
Net cash used in investing activities	**(575)**	**(4 298)**
Financing activities		
Proceeds from borrowings	910	3 573
Repayment of borrowings	(3 780)	(2 228)
Payment for leases	-	(64)
Dividends paid	(901)	(481)
Interest and bank commisions paid	(641)	(437)
Net cash from/(used in) financing activities	**-4 412**	**363**
Net increase/(decrease) in cash and cash equivalents	**6 376**	**2 419**
Effects of foreign exchange rate changes	**46**	**155**
Cash and cash equivalents at the end of the year	**11 348**	**4 926**

Chief Executive Officer: (signed)
Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

April 15, 2024

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023

1. General information

These consolidated financial statements present the financial position, the financial performance and the cash flows of Herti – AD (the Parent) and its subsidiaries together further referred as the Group. The Parent is registered as a joint-stock company under company file No in the Shumen District Court and entered in the Commercial Register at the Registry Agency under Unified Identification Code 127631592. The seat and the address of management of the Group is Shumen, 38, Antim I Str.

Herti AD is a public company and its shares are traded on the unofficial market of the Bulgarian Stock Exchange. The main activity of the Group is related mainly with the production of aluminium closures, plastic closures and thermo contractible capsules for wine bottles, lacquering and lithography on metal sheets.

The Group has a one-tier management system. At the date of preparation of these consolidated financial statements, the Group is managed by a Board of Directors consisting of five members and is represented by the Chief Executive Officer and the Chairman of the Board of Directors individually and jointly according to the size of the transactions specified in the Articles of Association of the Group. These consolidated annual financial statements have been approved by the Board of Directors for issue on April 15, 2024.

2. Basis of preparation of the consolidated financial statements and accounting principles

2.1. Basis of preparation

The annual closing of accounts and preparation of annual financial statements for 2023 is carried out in accordance with the Accountancy Act, which entered into force from January 1, 2016. The Group's management has reviewed the latest amendments and additions that were made to the Accountancy Act as of December 31, 2023. Some of them come into force from the beginning of 2024, and the other from January 1, 2025, respectively. The management of the Group believes that they do not necessitate a change in the applied and consistently disclosed accounting policy as it is set out further on. Under that Act, companies in Bulgaria prepare their financial statements in accordance with National Accounting Standards, approved by the Council of Ministers (NAS). Some companies, exhaustively listed in the Accountancy Act, are required to prepare their financial statements in accordance with International Accounting Standards issued by the International Accounting Standards Board and adopted by the European Union (IAS). Companies that have adopted and apply IAS under the repealed Accountancy Act may continue with their application in the future or one-off return to applying NAS. The Group is a public entity and its shares are traded on a regulated market in a European Union Member State. Therefore, the present consolidated annual financial statements are prepared under IAS. These are the standards adopted in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of International Accounting Standards. As of December 31, 2023 IAS include the International Accounting Standards, the International Financial Reporting Standards (IFRS), Interpretations of the Standing Interpretations Committee and Interpretations of the International Financial Reporting Interpretations Committee, as well as subsequent amendments and future standards and interpretations. IAS and the Interpretations are reissued annually and after the formal approval of the European Union become applicable for the year, in which they are issued. Most of them are not yet applicable to the Group’s activity due to the specific and considerably more complex issues discussed. The Group has complied with all standards and interpretations that are applicable to its activities and that are officially approved by the European Union as of the date of preparation of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

2.2. Changes in accounting policies

Changes in IAS that have been in effect since January 1, 2023 did not have and are not expected to have an significant effect on the accounting policies applied to the consolidated annual financial statements prepared by the Group. Moreover, the management of the Group does not consider necessary to disclose in the consolidated annual financial statements the name of the International Accounting Standards and Interpretations that have been amended, whether formally approved by the European Union or not, related to their application in 2023 and in future periods, if they do not relate to or seriously affect its activity. Such disclosure of the names of Standards and Interpretations that do not apply and are not expected to apply to the Group’s activities, could lead to misunderstanding or mislead of the users of the information from the present consolidated financial statements.

2.3. Applicable measurement base

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain assets and/or liabilities to their fair value as of the end of the reporting period as far it is required by the relevant accounting standards and as far as this value can be reliably measured. All such deviations from the historical cost convention are disclosed in the further disclosure of accounting principles. All figures and disclosures for 2023 and 2022 are presented in thousands of Bulgarian Lev (BGN) unless otherwise stated. Earnings per share are calculated and disclosed in BGN. Rounding of amounts is based on generally accepted requirements.

2.4. Fair value measurement

Some accounting standards permit initial and subsequent measurement of certain assets and liabilities at their fair value. The accounting standards require fair value measurement of certain financial assets and liabilities at the end of the reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability at the measurement date. The fair value of a liability reflects the effect of non-performance risk. Where possible the Group measures the fair value of an asset or liability using quoted prices in active markets that the entity can access. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. When quoted prices in active markets are not available the Group applies valuation techniques that maximizes the relevant observable inputs and minimises unobservable inputs. The chosen valuation technique captures all factors that market participants would take into account when pricing the asset or liability. The fair value concept assumes that financial instruments which will be realized through the market. In most cases, however, especially regarding current trade receivables and payables as well as borrowings granted, the Group expects them to be realized or settled through their collection or payment at the due date. Therefore, such financial instruments are reported at their nominal value or amortized cost. The majority of financial assets and liabilities are current so, their fair value approximates their carrying amount. The management of the Group believes that under the existing circumstances the fair value of the financial instruments reported in the consolidated statement of financial position are most adequate and reliable for the purposes of financial reporting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

2.5. Consolidation

Consolidated financial statements of the Group include the separate financial statements of the Parent and the financial statements of the subsidiaries prepared as of December 31, 2023. All assets, liabilities, equity, income, expenses and cash flows of the companies within the Group are presented as those of a single economic entity. Subsidiaries are companies that are controlled by the Parent. Control is achieved where the Parent is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. When preparing consolidated financial statements, a uniform accounting policies for reporting like transactions and other events in similar circumstances is used by all companies within the Group. All mutual participations in equity as well as all significant inter-company transactions, balances and unrealized gains on transactions within the Group are eliminated in full. The results from the activities of the subsidiaries are included in the consolidated financial statements from the date the Parent gains control until the date when the Parent ceases to control the subsidiary. On acquisition of a subsidiary due to internal Group restructuring its net assets and financial results are included at the beginning of the earliest period presented in the consolidated financial statements.

2.6. Subsidiaries

As of December 31, 2023 the Group`s direct or indirect interest in subsidiaries consolidated in these financial statements is as follows:

Name of subsidiary	31.12.2023 Proportion of ownership interest	31.12.2022 Proportion of ownership interest
Tihert – EAD	100	100
Herti UK	100	100
Herti France	100	100
Herti Germany	100	100
Herti US	100	100
Herti Group International Romania	100	100

2.7. Investments in associates

Associates are those entities over which the Group has significant influence but not control over the financial and operating activities. Associates are accounted for and presented in the consolidated financial statements using the equity method. The consolidated financial statements include the proportion of the Group consistent with its participation in the revenue and expenses of the associates as at the end of the reporting period.

2.8. Non-controlling interest

Non-controlling interest is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly by the Parent. As of December 31, 2023 and 2022 all subsidiaries are 100 % owned by the Group so, no non-controlling interest is presented in these consolidated financial statements.

2.9. Comparative figures

According to the Bulgarian accounting legislation and the requirement of IAS, the reporting year ends as of December 31 and entities are obliged to present financial statements as of the same date together with comparative figures for the prior year. If the Group has retrospectively amended its accounting policy or has restated or reclassified certain items, it presents comparative figures for two prior periods in the consolidated statements of financial position and in the corresponding notes as follows:

a) as of the end of the prior reporting period;
b) as of the end of the earliest comparative reporting period.

Regarding the rest of the elements of the consolidated financial statements and the corresponding notes, the comparative figures are presented only as of the end of the prior reporting period.

2.10. Use of accounting estimates

The preparation of the consolidated financial statements in conformity with IAS requires the management to apply some accounting assumptions and accounting estimates which affect the reported assets and liabilities, and the disclosure of contingent assets and liabilities as of the date of the preparation of the consolidated financial statements, as well as the reported amounts of income and expenses during the reporting period. All accounting estimates and assumptions are based on the best estimate performed by the management as at the date of the consolidated financial statements. The actual results may differ from the results presented in the accompanying consolidated financial statements.

2.11. Functional currency and presentation currency

Functional currency is the currency of the primary economic environment in which the Group operates and in which the Group primarily generates and expends cash. The functional currency of the Group is Bulgarian Lev (BGN) which is the national currency of Bulgaria, and has been pegged to the EURO at a fixed exchange rate of EUR 1: BGN 1.95583. The exchange rates of BGN to the other foreign currencies are determined by the Bulgarian National Bank (BNB) applying the exchange rate of EURO to the respective currency on the international markets. The foreign exchange rate differences arising upon the settlement of these monetary positions or at restatement of these positions at rates, different from those when initially recorded, are reported as financial income or financial expenses for the period in which they arise. The consolidated financial statements presentation currency of the Group is also BGN. The monetary positions denominated in foreign currency as of December 31, 2023 are stated in these consolidated financial statements as follows:

- Assets and liabilities are stated at the closing exchange rate of BGN to the respective functional currency as at the end of the reporting period;
- Income and expenses are recalculated applying the weighted average exchange rate of BGN to the respective functional currency for the period;
- All exchange rates differences resulting from the recalculations are reported as other comprehensive income for the period.

The closing exchange rate of the Bulgarian Lev to the main currencies with which the Group operates, at the end of the current and prior reporting periods is as follows:

December 31, 2023	December 31, 2022
USD 1 = BGN 1.76998	USD 1 = BGN 1.83371
GBP 1 = BGN 2.25054	GBP 1 = BGN 2.20517

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

2.12. Financial risks management

The Group's activities expose it to a variety of financial risks. Market risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate as a result of changes in market prices, including currency (foreign exchange) risk, interest rate risk, and other price risk. Credit risk is the risk that the financial instrument counterparties could cause each other financial losses should they fail to perform as contracted. Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due. The Board of Directors is responsible for identifying and managing the risks to which the Group is exposed. The Group's risk management policy is developed to identify and analyse the risks it faces, to establish limits for taking risks and controls, to monitor risks and to comply with established limits. These policies are subject to periodic review to reflect changes in market conditions and business activity. Through its standards and procedures for training and management, the Group aims to develop constructive control environment in which all employees understand their roles and obligations.

2.12.1. Foreign currency risk

The Group's activities are carried out mainly in Europe but it also has relationships with foreign suppliers and customers from America and other continents and therefore, it is currently exposed to a risk of exchange rate fluctuations as it sells or purchases goods and services denominated in USD and EURO. Major part of the transactions of the Group is denominated in EURO. Since the exchange rate of the Bulgarian Lev is pegged to the EURO, the Group is not exposed to a foreign currency risk. The Group is exposed to a risk associated with possible changes in the exchange rate of other foreign currencies with which it operates. Part of the risk is hedged naturally by synchronizing the incoming and outgoing cash flows denominated in foreign currency. The Group is using also other options, including foreign currency transactions with pre-fixed rates in order to minimize the foreign currency risk.

2.12.2. Interest risk

The financial instruments that potentially expose the Group to an interest rate risk are primarily bank borrowings and finance lease contracts. The Group uses bank borrowings and leases, whose interest rates are variable according to the general economic and financial conditions. As the negotiated interest rate of the most borrowings and leases is determined by a fixed margin over EURIBOR/Average Deposit Index, the Group is potentially exposed to a cash flow risk. The management performs periodic analyses of the macroeconomic environment and assesses the future interest rate risks for the Group. In the event of deterioration in the overall interest rates, the Group has the ability to use hedging instruments. The management of the Group does not believe that currently there are conditions for a substantial negative change in the agreed total cost of financing that would lead to additional financial risks in respect to borrowings and finance lease contracts as at 31 December 2023.

2.12.3. Price risk

The Group is exposed to price risk as it uses in its production process inventories whose prices are influenced by those on international markets. The Group does not hedge the risk of changes in commodity prices. The policy is to negotiate fixed prices with suppliers with predominant maturity up to half a year, thus avoiding the negative effect of possible increase in the price of raw materials during this period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

2.12. Financial risks management (continued)

2.12.4. Credit risk

Credit risk is the risk that the Group’s clients will not be able to pay the amounts of trade receivables due in full and in time. The financial assets of the Group are concentrated in two groups: cash and receivables. The Group’s funds and cash transactions are concentrated in commercial banks with strong liquidity, which limits the credit risk.

Trade receivables

Exposure to credit risk is the result of the individual characteristics of clients. This exposure may also depend on the risk of non-payment inherent in the industry or the domestic market in which the Group operates. The Group's credit policy provides for each new customer to be considered for creditworthiness before offering standard delivery and payment terms. The Group's policy includes providing a credit period according to the type of market, the size of the client, and whether the relationship with the client is long-lasting. Clients not eligible for creditworthiness may make purchases against a down payment. The Group does not require collateral in respect of trade and other receivables.

Guarantees

The policy of the Group is to provide financial guarantees only after prior approval by the majority shareholder.

2.12.5. Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties in fulfilling its obligations when they become due. In order to manage this risk, the management of the Group maintains an optimal level of fast liquid assets and an ability to utilize credit lines. The Group has no difficulty in servicing its current commercial and financial obligations within the agreed deadlines. The Group applies cost calculations based on activities for its products and services, helping to monitor cash flows and optimize return on investment. The Group makes financial planning to meet the expenses and current liabilities for a period of 30 days, including the servicing of financial obligations. The Group monitors the level of expected cash inflows from trade and other receivables together with the expected outflows to trade and other payables.

2.12.6. Capital risk management

The policy of the management is to maintain a strong capital base so as to maintain the confidence of the owners and the market as a whole in order to provide the conditions for business development in the future. The aim of the Group is to maintain a balance between the higher returns that may be possible with higher levels of indebtedness and the benefits and security of a strong capital position. The Group's goal is to achieve a sufficiently high return of capital. In 2023, the return is 21.91 % (2022 – 26.01 %). In order to prevent the increase of the loss and decrease of the capital, the management takes measures in the direction of optimization of the production process in order to improve the gross profitability. Efforts are also being made to reduce operating costs and above all costs of hired services and administrative management costs.

During the year there were no changes in the management of the Groups capital. In accordance with the provisions of Art. 252, para. 1, item 5 of the Commercial Act, the ‘Group should maintain the amount of its net assets above the amount of the registered capital. As at 31 December 2023, the Group fulfils these requirements because its net assets amount to BGN 29,448 thousand and the amount of the registered capital is BGN 12,014 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

2.13. Definition and valuation of the consolidated statement of financial position elements

2.13.1. Property, plant and equipment

Property, plant and equipment are valued at cost comprising purchase price and any installation costs incurred, less accumulated depreciation and impairment. The Group has approved a threshold amounting to BGN 500 in determining an asset as property, plant and equipment. Subsequent expenditure on property, plant and equipment, which improves the condition of the asset beyond its originally assessed standard of performance or increases the future economic benefits which will flow to the enterprise, should be capitalized to the carrying amount of the asset. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

The carrying amounts of property, plant and equipment are subject of a review for impairment when there are indications that the carrying amounts differ substantially from their recoverable amounts. If such indicators exist an asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An impairment loss is recognized immediately in profit or loss unless the asset is carried at revalued amount. Then impairment loss is charged as a revaluation decrease and is recognised in other comprehensive income. If the impairment loss exceeds the amount of the revaluation surplus, the difference is charged as a current expense in the consolidated statement of comprehensive income.

2.13.2. Intangible assets

Intangible assets are valued at cost comprising purchase price and any installation costs incurred, less accumulated amortisation and impairment. The carrying amount of intangible assets is subject of an annual review for impairment when there are indications that the carrying amounts differ substantially from their recoverable amount. Impairment losses are recognized in the consolidated statement of comprehensive income.

2.13.3. Right-of-use assets

A lessee shall present in the consolidated statement of financial position, or disclose in the notes right-of-use assets separately from other assets. An exception is made for those assets that are leased for a period less than one year as well as for those with initial value up to BGN 10 thousand, which are not presented in the consolidated statement of financial position of the Group. The lease due is charged as a current expense for the period of their use. At the commencement date, a lessee shall measure the right-of-use asset at cost. In the consolidated statement of financial position as of December 31, 2023 right-of-use assets are valued at cost, less accumulated depreciation and any accumulated impairment losses. The depreciation policy for right-of-use assets is consistent with the normal depreciation policy for similar assets but also with regard to the relevant lease term. Interest is recognised in the consolidated statement of comprehensive income according to the repayment schedule.

2.13.4. Investments in associates

These investments are recorded and presented in the consolidated annual financial statements using the equity method. Under this method the Group's share in the comprehensive income of the associate is consolidated so that the value of the investment corresponds to the Group's share in the associate's net assets as of December 31 of that year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

2.13. Definition and valuation of the consolidated statement of financial position elements (continued)

2.13.5. Inventories

Inventories are recorded at cost comprising purchase price and any purchase costs incurred. Upon consumption, the cost of inventories is calculated using the weighted average cost method. At the year - end inventories are valued at the lower of cost or net realizable value. The costs of conversion of inventories include costs directly related to the units of production. They also include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. When the costs of conversion of each product are not separately identifiable, they are allocated between the products on a rational and consistent basis.

2.13.6. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Group recognises a financial asset or a financial liability in its statement of financial position when, and only when, the Group becomes party to the contractual provisions of the instrument.

At initial recognition financial assets/ (liabilities) are designated at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Financial assets are derecognised when, and only when the contractual rights to the cash flows from the financial asset expire, or the Group transfers the financial asset and the transfer qualifies for derecognition. Financial liabilities are removed from the statement of financial position when, and only when, they are extinguished—ie when the obligation specified in the contract is discharged or cancelled or expires. For the purpose of subsequent measurement, the Group classifies financial assets and liabilities in the current and prior periods in the following categories:

- Debt instruments measured at amortized cost
- Debt instruments measured at fair value through other comprehensive income and reclassified to profit or loss
- Equity instruments measured at fair value through other comprehensive income without reclassification of profit or loss
- Financial assets measured at fair value through profit or loss.

Except for financial assets held for trading, all other financial instruments of the Group y are expected to be realised at maturity and cannot be traded. Therefore, the business model underlying the classification of the financial instruments of the Group limits them to the application of the following specific categories:

(a) Trade and other receivables

Trade and other receivables in BGN are valued at nominal value and those in foreign currency are revalued at the closing exchange rate of the Bulgarian National Bank as of December 31, 2023, less loss allowance. The Group recognises a loss allowance on trade receivables by applying the expected credit losses model. Management is assessing all objective evidence of collectability of amounts due since initial recognition until lifetime. Indicators for expected losses on trade receivables are financial difficulties of the debtor, probable debtor insolvency or non-fulfilment of the terms of the contract and payments delay from the maturity date. For the loss allowance on individual receivables, management applies rates that are determined on the basis of delay of payments over time.

2.13. Definition and valuation of the consolidated statement of financial position elements (continued)

2.13.6. Financial instruments (continued)

(a) Trade and other receivables (continued)

The loss allowance is presented in the consolidated statement of financial position as reduction in the value of receivables and allowances are presented in the consolidated statement of comprehensive income as expenses. If a receivable is non-collectable and there is an allowance accrued, the receivable is written-off by decrease of the respective allowance account. The reversal of the loss allowance on trade receivables is reported in the consolidated statement of comprehensive income as decrease in the item, in which the allowance was previously recorded. Recognised and reversed loss allowances are presented net and are disclosed in the notes to the consolidated financial statements.

(b) Cash and cash equivalents

Cash in BGN is stated at nominal value and cash in foreign currency is stated at the closing exchange rate of BNB as of December 31, 2023. For cash flow purposes cash and cash equivalents include non-restricted cash at banks and in hand.

(c) Non-current liabilities

Non-current liabilities in BGN are valued at face value and those in foreign currency are valued at the closing exchange rate of the Bulgarian National Bank as of December 31, 2023.

(d) Current liabilities

Current liabilities in BGN are valued at face value and those in foreign currency are valued at the closing exchange rate of the Bulgarian National Bank as of December 31, 2023.

2.13.7. Non-current assets held for sale

The Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The Group measures a non-current asset classified as held for sale at the lower of its carrying amount and fair value less costs to sell.

2.13.8. Share capital

The subscribed share capital is represented by the amount of the actually paid shares. Share capital is entered in the Trade Register to the amount subscribed by the shareholders and it has to be fully paid within two years. Share capital registered as a contribution in kind is valued by the amount adopted by the General Assembly of Shareholders, which cannot be higher than the value of the contribution in kind determined by licensed appraisers specially appointed by court. Costs that are directly attributable to the issue of new shares or options through an initial public offering of organized stock market are presented as a deduction in equity net of tax, if such is stipulated.

2.13.9. Reserves

The reserves of the Group are formed by allocating its financial results for the period after corporate income tax. The reserves of the Group can be used only by decision of the General Meeting of Shareholders under the Commercial Act and the Articles of Association of the Parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

2.13. Definition and valuation of the consolidated statement of financial position elements (continued)

2.13.10. Employee benefits

(a) Defined contribution plans

The Government of the Republic of Bulgaria is responsible for the ensuring of the statutory minimum threshold of the pensions pursuant to defined contributions plans. The expenses of the Group for transferring of funds pursuant to the defined contributions plans are recognized in the consolidated statement of comprehensive income upon their occurrence.

(b) Annual paid leave

The Group recognizes as a payable the non-discounted amount of the estimated expenses for annual paid leave, expected to be paid to the employees for the past reported period.

(c) Retirement benefits

Pursuant to the requirements of the Labour Code, upon termination of the employment contract the employees are entitled to retirement benefits amounting to two gross monthly salaries when the overall length of service of the employee in the Group is less than 10 years, or six gross monthly salaries, when the overall length of service is more than consecutive 10 years. The Group records as an expense the discounted amount of the accrued retirement benefit obligations and an interest expense based on an estimation made by a licensed actuary.

2.14. Depreciation and amortization

The Group consistently applies the straight-line depreciation method. Depreciation is not charged on land and assets under construction before they are completed and put into operation. Right-of-use assets are depreciated for a period based on the shorter of their useful life and the period for which they are available for use.

The depreciation and amortization rates for the class of assets determined on the ground of their expected useful lives are as follows:

Classes of assets	**2023**	**2022**
Buildings	25 - 30	25 - 30
Plant and equipment	2 - 30	2 - 30
Vehicles	5 - 15	5 – 15
Office equipment	5 - 20	5 – 20
Software	2 - 8	2 - 8
Patents and trademarks	6 - 20	6 - 20

The management of the Group has determined depreciation rates for the classes of assets on the grounds of their expected useful lives. As of the year end the management of the Group performs a review of the expected useful lives and carrying amounts of the assets for indications for impairment and/or change of depreciation rates.

2.15. Provisions

Provisions are accrued in the consolidated statement of comprehensive income and recognized in the consolidated statement of financial position when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

2.15. Provisions (continued)

Provisions are discounted where the effect of the time value of money is material, using discount rate, which shall be pre-tax rate and shall reflect current market assessments of the time value of money and if appropriate, risks specific to the liability.

2.16. Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of an asset is determined when both of the following conditions are present and met:
(a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
(b) the right to direct the use of the identified asset.

All leases in which the Group is the lessee are recognised and presented under a single lessee accounting model. When the Group is the lessor, leases are recognised based on whether they meet the requirements for finance or operating leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

2.17. Revenue and expenses recognition

Revenue is measured based on the consideration to which the Group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. Revenue denominated in foreign currencies is translated into BGN at the rate of exchange ruling at the date of the accrual of the Bulgarian National Bank. Revenue and expenses are accrued when incurred, regardless of the date of the cash flow. Revenue and expenses recognition is based on the principal for matching costs and revenues according to the terms in the respective contract.

2.17.1. Revenue from sale of finished goods, goods for resale and rendering of services

Revenue from the sale of finished goods and goods for resale is recognized in the consolidated statement of comprehensive income when the customer obtains control. Control of an asset refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, the asset. Control includes the ability to prevent other entities from directing the use of, and obtaining the benefits from, an asset. For the contracts executed by the Group, the transfer of control usually occurs by transferring the finished goods and goods for resale or upon the occurrence of the agreed event, where the significant risks and rewards of ownership are transferred to the customer. Revenue from rendering of services is recognised in the consolidated statement of comprehensive income by reference to the stage of completion of the transaction at the end of the reporting period. The stage of completion of a transaction is determined by surveys of work performed. When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognised. In case of expected loss on the sale of real estate, it is accrued immediately in the consolidated statement of comprehensive income.

2.17.2. Costs to obtain and fulfil contracts

Such costs are recognized as an asset and amortised on a systematic basis if they meet the conditions specified in IFRS 15 Revenue from Contracts with Customers. Such costs are recognised as an expense when incurred if the amortisation period of the asset that the entity otherwise would have recognised is one year or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

2.17. Revenue and expenses recognition (continued)

2.17.3. Income from government grants

Government grants related to depreciable assets are recognized in the consolidated profit or loss over the periods and in proportions in which depreciation expense is recognized on those assets, acquired as a result of the grants after all conditions of the agreement are met. Government grants are recognized in in the consolidated profit or loss over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate.

2.17.4. Finance income/ (costs)

Interest income and expenses are accrued based on the current negotiated interest rate and the amount of the related receivable or payable. They are accrued directly in the consolidated statement of comprehensive income as incurred. Interest expenses on bank borrowings are calculated and recognised in the consolidated statement of comprehensive income using the effective interest method. Finance income and costs are presented net in the consolidated statement of comprehensive income.

2.18. Earnings per share

The Group presents basic and diluted earnings per share of its ordinary shares. Basic earnings per share are calculated by dividing profit or loss attributable to ordinary equity holders by the weighted average number of ordinary shares of the Parent outstanding during the period.

2.19. Operating segments

An operating segment is a component of the Group that relates to provision of related products or services (business segment) or provision of products or services within a particular economic environment (geographical segment). The Group presents its financial information in three main segments, which represent the geographic strategic directions of its activity. The results of the segments are estimated based on their profits and losses before taxes. For each strategic direction, the Board of Directors examines internal management reports, at least on a quarterly basis. Performance evaluation is based on segment revenue, and management considers that this is the most relevant indicator to measure its performance compared to other companies operating in these geographical segments.

2.20. Taxation

According to the Bulgarian tax legislation for 2023 the Group is subject to a corporate income tax, which is 10 % of the taxable profit (2022 – 10%). For 2024 the rate of corporate income tax is 10 %. For internationals and for the large groups of national companies for 2024 financial year in some cases an additional corporate income tax was introduced by tax law. According to the tax legislation the current taxation is based on the financial results of the companies’ individual accounts within the Group and no additional consolidation adjustments are required. This applies both to companies registered in the country and to those registered abroad. The Group accounts for deferred taxes on the basis of the balance sheet liability method. Deferred tax is provided for temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax shall be recognised as income or an expense and included in the consolidated profit or loss for the period, except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different period, outside profit or loss, either in other comprehensive income or directly in equity. Deferred tax assets and liabilities should are offset and the tax effect is measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

2.20. Taxation (continued)

The deferred tax liabilities should be recognized for all taxable temporary differences. The deferred tax assets should be recognized when it is probable that taxable profits will be available against which the deferred tax assets can be utilized.

2.21. Dividends

Dividends are reported as decrease in the net assets against a current liability to the shareholders in the period the dividends are approved for distribution.

2.22. Related parties

For the purposes of these consolidated financial statements, the shareholders, key management personnel, together with the close members of their families, including companies controlled by them are considered and referred to as related parties.

3. Segment information

The Group has three main segments described below, which represent the geographic strategic directions in its operations. Different directions are managed differently, as they require a specific marketing strategy.

	European Union (excl. Bulgaria)		Bulgaria		Other		Group as a whole	
	2023	2022	2023	2022	2023	2022	2023	2022
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Revenue from external customers:								
Sales	46,485	59,887	8,017	9,509	22,221	21,395	76,723	90,791
Total income	**46,485**	**59,887**	**8,017**	**9,509**	**22,221**	**21,395**	**76,723**	**90,791**
Cost of sales	35,066	49,964	6,291	8,129	16,250	17,428	57,607	75,521
Gross profit	**11,419**	**9,923**	**1,726**	**1,380**	**5,791**	**3,967**	**19,116**	**15,270**
Unallocated revenue							1,366	3,863
Unallocated expenses							(12,542)	(11,537)
Profit before tax							**7,940**	**7,596**
Finance income/(costs)							(677)	(446)
Tax expenses							(812)	(901)
Profit for the year							**6,451**	**6,249**
Segment assets	3,654	10,876	1,097	1,595	4,247	5,034	8,998	17,505
Unallocated assets							48,130	40,704
Total assets							**57,128**	**58,209**
Unallocated liabilities							27,680	34,299
Total liabilities							**27,680**	**34,299**
Capital costs							1,952	6,004
Depreciation and amortisation expenses							4,985	4,046

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

4. Property, plant and equipment

	Land and buildings BGN'000	Plant and equipment BGN'000	Other BGN'000	Assets under construction BGN'000	Total BGN'000
Cost:					
Balance at January 1, 2022	11,978	40,150	445	2,719	**55,292**
Additions	-	4,909	-	628	**5,537**
Transferred	98	2,143	58	(2,299)	**-**
Disposed	(7)	(1,661)	(116)	(17)	**(1,801)**
Balance at December 31, 2022	**12,069**	**45,541**	**387**	**1,031**	**59,028**
Additions	-	1,642	-	1,270	**2,912**
Transferred		1,390		(1,390)	**-**
Disposed		(898)		(95)	**(993)**
Balance at December 31, 2023	**12,069**	**47,675**	**387**	**816**	**60,947**
Accumulated depreciation:					
Balance at January 1, 2022	4,394	26,257	438	-	**31,089**
Charge for the year	393	3,637	1	-	**4,031**
Eliminated on disposals	-	(1,666)	(53)	-	**(1,719)**
Balance at December 31, 2022	**4,787**	**28,228**	**386**	**-**	**33,401**
Charge for the year	472	4,457	-	-	**4,929**
Eliminated on disposals	-	(57)	-	-	**(57)**
Balance at December 31, 2023	**5,259**	**32,628**	**386**	**-**	**38,273**
Carrying amount at December 31, 2023	**6,810**	**15,047**	**1**	**816**	**22,674**
Carrying amount at December 31, 2022	**7,282**	**17,313**	**1**	**1,031**	**25,627**

Assets under construction represent capitalized costs in the course of construction of property, plant and equipment, which after put into operation, are used in the activity of the Group.

As of December 31, 2023 property, plant and equipment with carrying amount of BGN 18,498 thousand are mortgaged as collateral on bank borrowings received by the Group.

5. Intangible assets

	Software BGN'000	Patents and trade marks BGN'000	Total BGN'000
Cost:			
Balance at January 1, 2022	828	337	**1,165**
Additions	99	**-**	**99**
Balance at December 31, 2022	**927**	**337**	**1,264**
Balance at December 31, 2023	**927**	**337**	**1,264**
Accumulated amortisation:			
Balance at January 1, 2022	824	300	**1,124**
Charge for the year	8	7	**15**
Balance at December 31, 2022	**832**	**307**	**1,139**
Charge for the year	50	6	**56**
Balance at December 31, 2023	**882**	**313**	**1,195**
Carrying amount at December 31, 2023	**45**	**24**	**69**
Carrying amount at December 31, 2022	**95**	**30**	**125**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

6. Investments

The Group has an investment in Ecopack AD amounting to BGN 3 thousand. Proportion of ownership interest in this Company is 5.6 %.

7. Inventories

	December 31, 2023 BGN'000	December 31, 2022 BGN'000
Raw materials	9,128	8,322
Finished goods	3,412	3,819
Work in progress	1,285	1,758
Total	**13,825**	**13,899**

As of December 31, 2023 inventories with a carrying amount of BGN 2,640 thousand serve as collateral for bank borrowings provided to the Group.

8. Trade and other receivables

	December 31, 2023 BGN'000	December 31, 2022 BGN'000
Trade receivables	9,488	13,217
Loss allowance	(490)	(1)
Trade receivables, net	8,998	13,216
Receivables on advances given	108	203
Tax refundable	68	192
Litigations and writs	-	1
Other receivables	35	17
Total	**9,209**	**13,629**

9. Cash and bank balances

	December 31, 2023 BGN'000	December 31, 2022 BGN'000
Cash in foreign currency	10,970	4,553
Cash in BGN	378	373
Total	**11,348**	**4,926**

10. Share capital

As of December 31, 2023 the share capital of the Group comprises 12,013,797 dematerialized ordinary, freely transferable shares with the right to one vote, each with a nominal value of 1 BGN. Initially, on January 25, 2008 Herti AD realized an initial public offering of 3 million ordinary shares at a nominal value of BGN 1 and an issue price determined by the book building method of 3.10 BGN. After the public offering, the registered capital was increased to BGN 12,013,797, distributed in 12,013,797 shares. The shareholders of the Group are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

10. Share capital (continued)

	Number of shares	Percentage
IGM Holding	3,997,316	33.3
Alexander Yulianov	3,991,420	33.2
Zahari Zahariev	3,030,622	25.2
Elena Zaharieva	960,000	8.0
Other individuals	34,439	0.3
Total	**12,013,797**	**100**

11. Non-current bank borrowings

11.1. As at 31 December 2023, the Group has five long-term investment borrowings totalling BGN 6,237 thousand, including a long-term portion of BGN 3,624 thousand and a short-term portion of BGN 2,613 thousand. The deadline for repayment of the borrowings is in the period 2024 - 2029. The annual interest rate is determined by the reference interest rate, the one-month and six-month EURIBOR for the respective period, plus a certain mark-up. The borrowings are secured by movable property owned by the Group and a special pledge on receivables.

11.2. As at 31 December 2023 the Group has outstanding liabilities under one bank overdrafts totalling BGN 1,956 thousand. The repayment term of the borrowing is in 2025. The annual interest rate of the overdraft is determined by the one-month reference interest rate for the respective period plus a certain mark-up. The borrowings is secured by property, plant and equipment owned by the Group and a special pledge on receivables.

12. Government grants

12.1. In prior reporting period the Group has concluded a contract with the Ministry of Economy and Energy for a grant under the Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013. The project entitled “Investments for reducing the energy consumption in the production system of Herti AD” has a total amount of BGN 2,450 thousand and the maximum amount of the grant is BGN 1,225 thousand. In March 2014 after verification of the investments made, the amount of BGN 1,201 thousand was paid to the Group. In 2023 the income from government grants amounts to BGN 80 thousand and the project liability as of December 31, 2023 is BGN 345 thousand, with a short-term portion of BGN 80 thousand and a long-term portion of BGN 265 thousand.

12.2. In December 2013 the Group concluded a contract with the Ministry of Economy and Energy for a grant under the Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007 - 2013 under the project "Implementing Innovation in Enterprises". The investment costs for the project amount to BGN 3,528 thousand and the grant amounts to BGN 1,768 thousand. The equipment was delivered in January 2015. All project documents were approved by the contracting authority - the Ministry of Economy and Energy and the grant was paid to the Group in June 2015. In 2023 income from government grants is BGN 117 thousand. The liability as of December 31, 2023 is BGN 620 thousand, of which a short-term portion amounting to BGN 118 thousand and long-term portion of BGN 502 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

12. Government grants (continued)

12.3. In prior reporting period the Group has signed a contract with Working Conditions Fund for financing under project “Improving the factors of the working environment, working process and work organization and reducing the health and safety risk for the workers in Herti AD at the production building in the town of Pliska". The total amount of the project is BGN 327 thousand and the government grant of BGN 98 thousand is received in 2018. In 2023 the income from government grants is BGN 7 thousand. The liability as of December 31, 2023 is BGN 29 thousand, of which a short-term portion amounting to BGN 6 thousand and long-term portion of BGN 23 thousand.

12.4. During the prior reporting period the Group has concluded a contract for financing with Innovation Norway under the GALP program. The maximum amount of funding is EUR 800 thousand (equivalent to BGN 1,565 thousand), and the target is the purchase of machinery and equipment in the amount of EUR 1,646 thousand (equivalent to BGN 3,219 thousand). In 2022, the Group has received financing to the amount of EUR 314 thousand (equivalent to BGN 615 thousand) and in January 2023 - the remainder of in the amount of EUR 486 thousand, equivalent to BGN 950 thousand. In 2023 the income from this grant is BGN 328 thousand. The liability as of December 31, 2023 is BGN 1,184 thousand, of which a short-term portion amounting to BGN 327 thousand and long-term portion of BGN 857 thousand.

12.5. In April 2023 the Group has concluded another contract for financing with Innovation Norway Fund for acquisition of machinery for producing of cups. The maximum amount of funding is EUR 200 thousand (equivalent to BGN 784 thousand). As of December 31, 2023 the Group has received EUR 117 thousand (equivalent to BGN 229 thousand), which are reported as non-current liabilities.

12.6. In prior reporting period, the Group signed a contract with the Working Conditions Fund for financing under the project "Improvement of the conditions in Tihert - EAD." The total amount of the project is BGN 129 thousand, and the grant is BGN 39 thousand. In 2023 the income from government grants is BGN 3 thousand. The liability as of December 31, 2023 is BGN 20 thousand, of which a short-term portion amounting to BGN 3 thousand and long-term portion of BGN 17 thousand.

13. Deferred tax liabilities

As of December 31, 2023 the components of the deferred tax liabilities/(assets) are as follows:

	December 31, 2023 BGN’000	**December 31, 2022 BGN’000**
Effect of retirement benefits	(57)	(66)
Effect of loss allowance	(49)	-
Effect of unused paid leave	(42)	(49)
Total deferred tax assets	**(148)**	**(115)**
Difference between the carrying amount and tax base of depreciable assets	695	716
Total deferred tax liabilities	**695**	**716**
Deferred tax liabilities, net	**547**	**601**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

13. Deferred tax liabilities (continued)

The movement of the deferred tax liabilities/(assets) in 2023 is as follows:

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Balance at the beginning of the year	601	756
Charge to profit or loss	72	64
Charge to other comprehensive income	(1)	(8)
Reversal to profit or loss	(125)	(211)
Balance at the end of the year	**547**	**601**

14. Retirement benefit obligation

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Balance at the beginning of the year	661	513
Current service cost and interest cost	80	78
Benefits paid	(171)	(7)
Actuarial (gains)/losses	1	77
Total	**571**	**661**

The demographic statistical assumptions used are based on the following:

(a) Degree of retirement and early retirement due to sickness.
(b) Mortality rate of the population of Bulgaria according to data from the National Statistical Institute for the period 2019 – 2021.
(c) Statistics from the National Centre for Health Information on disability and early retirement.

15. Current liabilities

	December 31, 2023 BGN'000	December 31, 2022 BGN'000
Bank borrowings	7,432	3,912
Trade payables	5,413	9,047
Current portion of non-current bank borrowings	2,613	3,570
Employees	1,204	1,345
Taxes	1,030	1,139
Current portion of government grants	534	536
Social security	446	594
Advances from customers	402	610
Other payables	15	24
Total	**19,089**	**20,777**

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as of December 31, 2023
(continued)

15. Current liabilities (continued)

As of 31 December 2023 the Group has outstanding payables under two short-term banks borrowing amounting to BGN 7,432 thousand. The term of repayment of the borrowings is in 2024. The annual interest rate is determined by one-month EURIBOR for the relevant period plus a certain mark-up. The borrowing is secured by movable property owned by the Group and a special pledge on receivables.

The Group accrues expenses for unused paid leave for employees and the related social securities in the consolidated statement of comprehensive income. The outstanding balance is presented in the consolidated statement of financial position in payables to employees and social security.

The movement of the unused paid leave is as follows:

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Balance at the beginning of the year	490	359
Accrued	1,898	1,244
Used-up and written-off	(1,976)	(1,113)
Balance at the end of the year	**412**	**490**

16. Revenue

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Revenue from sale of aluminium closures	57,755	67,930
Revenue from sale of composite closures	15,848	19,968
Revenue from sale of plastic closures	1,236	850
Revenue from sales of pourers	120	325
Revenue from sales of goods for resale	-	4
Other	1,764	1,714
Total	**76,723**	**90,791**

17. Other income

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Income from government grants	606	2,566
Quantity discounts	220	386
Gain on sale of materials	15	30
Gain on acquisition of a subsidiary	-	212
Gain on sale of property, plant and equipment	-	158
Other income	525	511
Total	**1,366**	**3,863**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

17. Other income (continued)

Income from government grants in the amount of BGN 606 thousand (2022: BGN 2,566 thousand) represent financing under the programme for compensation of industrial electricity consumers in the amount of BGN 71 thousand (2022: BGN 2,306 thousand) and government grants related to investments in the amount of BGN 207 thousand (2022: BGN 260 thousand).

In previous 2022 the Group reports gain on a profitable transaction as a result of the acquisition of 100 % of the share capital of the subsidiary Herti Group International Romania.

18. Raw materials and consumables used

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Raw materials	32,297	44,761
Electricity	1,843	5,212
Gas	1,089	2,018
Other	3,711	4,848
Total	**38,940**	**56,839**

19. Hired services

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Transport services	3,831	5,042
Commissions	364	301
Repairs	236	587
Rents	187	237
Advertising and consulting services	140	138
Insurance	95	79
Communications	91	89
Other hired services	1,712	1,354
Total	**6,656**	**7,827**

The remuneration of the auditors for the audit services provided to the Group for 2023 amounts to BGN 26 thousand. The auditors of the Group have not provided any services other than performing an independent financial audit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

20. Employee benefits expense

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Salaries	14,391	14,685
Social security	2,691	2,575
Food vouchers	952	207
Retirement benefits, net	(89)	71
Unused paid leave, net	(36)	131
Total	**17,909**	**17,669**

21. Other expenses

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Written-off receivables	509	24
Waste of assets	126	236
Business trips	73	57
Other expenses	521	346
Total	**1,229**	**663**

22. Interest income/(expenses)

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Interest expenses on borrowings and leases	(582)	(361)
Other interest expenses	(27)	(20)
Total	**(609)**	**(381)**

23. Tax benefit/(expense)

As of December 31, 2023 the reconciliation of the tax benefit/ (expense) is as follows:

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Profit before tax	7,263	7,150
Tax at the applicable tax rate	(726)	(715)
Tax effect of permanent differences	48	12
Tax effect of unrecognized tax assets from prior periods	-	11
Effect of consolidation adjustments	(134)	(209)
Tax benefit/(expense)	**(812)**	**(901)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

23. Tax benefit/(expense) (continued)

As of December 31, 2023 the components of the tax benefit/ (expense) are as follows:

	Year ended December 31, 2023 BGN'000	Year ended December 31, 2022 BGN'000
Current tax expense	(950)	(1,043)
Origination and reversal of temporary differences	54	155
Effect of consolidation adjustments	84	(13)
Tax benefit/(expense)	**(812)**	**(901)**

24. Earnings per share

Earnings per share are calculated by dividing the net profit for the year by the weighted average number of shares outstanding during the year. Where shares are issued but not fully paid, they are treated in the calculation as a fraction of a share to the extent that they are entitled to participate in dividends during the period.

	Year ended December 31, 2023	Year ended December 31, 2022
Profit for the year (BGN'000)	6,451	6,249
Weighted average number of shares (thousands of units)	12,014	12,014
Earnings per share in BGN	**0.54**	**0.52**

25. Financial instruments

Credit risk

The carrying amount of financial assets at 31 December 2023 includes:

	December 31, 2023 BGN'000	December 31, 2022 BGN'000
Cash and cash equivalents	11,348	4,926
Trade and other receivables	8,998	13,216
Litigations and writs	-	1
Other investments	3	3
Total	**20,349**	**18,146**

The maximum credit exposure of the Group as of the date of the consolidated financial statements for trade receivables less loss allowance by geographical regions is:

	December 31, 2023 BGN'000	December 31, 2022 BGN'000
European Union (excluding Bulgaria)	3,654	7,571
Domestic	1,097	1,218
Other	4,247	4,427
Total	**8,998**	**13,216**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

25. Financial instruments (continued)

Loss allowance on receivables

The aging of trade receivables of the Group as of December 31, 2023 is as follows:

	31.12.2023 Gross BGN'000	31.12.2023 Loss allowance BGN'000	31.12.2022 Gross BGN'000	31.12.2022 Loss allowance BGN'000
Not past due	6,979	-	11,078	-
Past due up to 30 days	1,473	-	1,388	-
Past due 31-360 days	193	-	636	-
Past due over 1 year	353	490	114	1
Total	**8,998**	**490**	**13,216**	**1**

As a result of the credit risk analysis, the Group believes that no further loss allowance of the past due trade and other receivables.

Liquidity risk

The contractual maturities of financial liabilities, including estimated interest payments, are presented below, excluding the effect of contracted offsetting commitments:

December 31, 2023	Carrying amount BGN'000	Agreed cash flows BGN'000	6 months or less BGN'000	6-12 months BGN'000	1-2 years BGN'000	2-5 years BGN'000	More than 5 years BGN'000
Secured long-term bank borrowings	6,229	6,820	1,521	1,399	2,278	1,622	
Secured short-term bank borrowing	8	9	9	-	-	-	
Bank overdraft	9,388	9,922	1,452	6,415	2,055	-	
Trade payables	5,413	5,413	5,413	-	-	-	
Total	**21,038**	**22.164**	**8,395**	**7,814**	**4,333**	**1,622**	

December 31, 2022	Carrying amount BGN'000	Agreed cash flows BGN'000	6 months or less BGN'000	6-12 months BGN'000	1-2 years BGN'000	2-5 years BGN'000	More than 5 years BGN'000
Secured long-term bank borrowings	9,108	9,818	2,459	1,432	2,580	3,108	239
Secured short-term bank borrowing	3,912	4,037	-	4,037	-	-	-
Bank overdraft	5,476	5,959	120	117	3,701	2,021	-
Trade payables	9,047	9,047	9,047	-	-	-	-
Total	**27,543**	**28,861**	**11,626**	**5,586**	**6,281**	**5,129**	**239**

Foreign currency risk

The exposure of the Group to foreign currency risk is insignificant as 13 % of sales for 2023 are realized on the domestic market in Bulgarian levs (in 2022 - 10%) and 70 % of sales for 2023 are realized in Euro (in 2022 - 67%). Imports of materials and goods in 2023 are almost entirely carried out in Euro. The loans denominated in foreign currency are granted in Euro and in BGN.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

25. Financial instruments (continued)

Interest rate risk

The table below includes the carrying amount of financial instruments by type of interest rate:

	December 31, 2023 BGN'000	December 31, 2022 BGN'000
Fixed interest rate instruments		
Financial assets	11,343	4,919
Total	**11,343**	**4,919**
Variable interest rate instruments		
Financial liabilities	(15,625)	(18,496)
Total	**(15,625)**	**(18,496)**

26. Related party transactions

As of December 31, 2023 transactions and outstanding balances with related parties are as follows:

26.1. Transactions with majority shareholders

Transactions during the year and the outstanding payables as of December 31, 2023 are stated out below:

Related party	Type of transaction	Turnover 2023 BGN'000	Outstanding payables 2023 BGN'000	Turnover 2022 BGN'000	Outstanding payables 2022 BGN'000
IGM Holding	Purchases	6	-	3	-
Total			**-**		**-**

26.2. Transactions with other related parties

Transactions during the year and the outstanding receivables as of December 31, 2023 are stated out below:

Related party	Type of transaction	Turnover 2023 BGN'000	Outstanding receivables 2023 BGN'000	Turnover 2022 BGN'000	Outstanding receivables 2022 BGN'000
Raifen – OOD	Sales	2	-	2	-
Timshel – OOD	Sales	2	-	2	-
Total					**-**

Transactions during the year and the outstanding payables as of December 31, 2023 are stated out below:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2023
(continued)

26. Related party transactions (continued)

26.2. Transactions with other related parties (continued)

Related party	Type of transaction	Turnover 2023 BGN'000	Outstanding payables 2023 BGN'000	Turnover 2022 BGN'000	Outstanding payables 2022 BGN'000
Timshel – OOD	Purchases	104	39	134	129
Raifen – OOD	Purchases	1,109	101	1,272	39
Total			**140**		**164**

All outstanding receivables and payables to related parties are current. There are no unusual terms or conditions associated with these transactions or variances from the market prices.

26.3. Remuneration of key management personnel

The remuneration of the members of the Board of Directors of the Group for 2023 amounts to BGN 825 thousand (2022: BGN 624 thousand).

27. Commitments and contingent liabilities

During the year a Bulgarian commercial bank issued a bank guarantees on behalf of the Group in favour of Varna - Customs Bureau to the total amount of BGN 1,000 thousand. The collateral has a term expiring at April 30, 2024.

28. Events after the end of reporting period

In March, 2024 the Group received the rest of the financing from Innovation Norway under the GALP program amounting to EURO 83 thousand, equivalent to BGN 162 thousand.

Chief Executive Officer: (signed)
Zahari Zahariev

Chief Financial Officer: (signed)
Ivaylo Petrov

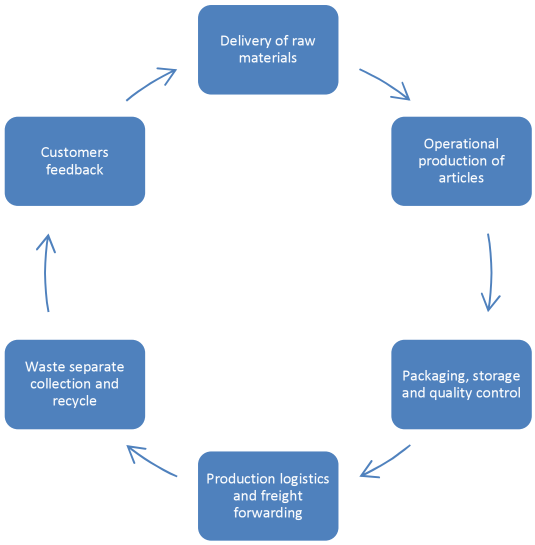
April 15, 2024
Shumen

****

Unofficial translation of the original in Bulgarian.
In case of any divergences the Bulgarian version is prevailing

NON-FINANCIAL DECLARATION

HERTI is a joint stock company, operating in the field of the packaging industry. The Company has 30 years of experience in the production of aluminum, plastic and composite bottle caps, used for the manufacturing process of spirits, wine, mineral water and soft drinks, olive oil, food supplements and medications.
The business model of the group and the way the Company adds value is presented in the following graph:



The sustainable development is an important issue for all responsible businesses. It is particularly applicable to the packaging industry, because more and more products are being sold in a package. Selling our products on 6 continents and in more than 60 countries worldwide, the Companies in the group fully realize its responsibility for the production effects and the importance of its mission: **- To satisfy its customers and partners needs to the highest possible degree by providing high quality products and solutions, as they serve as a presentation of the Company on the worldwide market. Achievement of sustainable development and constant growth of the Company.**

The management of Herti and all companies in the group support the principles of responsible and ecologically sustainable business in favor not only for the business and the society, but also beneficial for the social, economic and ecological development and promoting the quality of life as a whole. Herti JSC. is led by the principles of the UN Global Agreement and understands the Corporate Social Responsibility as a system for management of the relations between shareholders, investors, corporate managements and other interested parties. We are aiming at sustainable development of the organization, the resources, the people and the society as a whole.
We provide publicity and transparency in management, we protect the rights of all shareholders and we treat them equally. Our main principles are reasonable and affective management of the group resources as well as risk control and their influence onto the environment.

We are convinced that we shall develop a stable company in favor of its Employees, shareholders and society as a whole by observing responsible and ethical business practices in the supply chain, maintaining safe and healthy working conditions, protecting the environment and supporting public and social projects. This shall aid us to keep a stable Company in favor of Employees, shareholders and society as a whole.

The group invests means, time and efforts in the areas of safe and qualitative products, production energy efficiency, introduction of innovative products, processes and business models, healthy, hygiene and safe working conditions, gender equality, quality in education, establishment of strategic partnerships, support for the local communities.

Company goals	Global goals	Key indicators
Guarantee of continuous quality of the products		Quality Management System
Satisfied clients and partners		Questionnaires on customers satisfaction, management transparency, disclosure of information
Well-trained and satisfied Employees		Placing yearly targets and assessment, number of trained Employees, safe working conditions
Introduction of innovative products, technologies, processes and business models		Energy and production efficiency, saved resources, separate collection of wastes, recycling
Knowledge storage and management		Efficiency of new knowledge. Applying knowledge in practice. Knowledge keeping and sharing.
Growth in profitability and continuous development		Financial indexes
Effective usage of resources and development of personnel skills		Personnel movement and structure, trainings, carrier development
Support of local communities		Donations and sponsorships, joint projects, investments in environment protection
Keeping beneficial partnerships		Meetings, participation in events, forums, informational letters

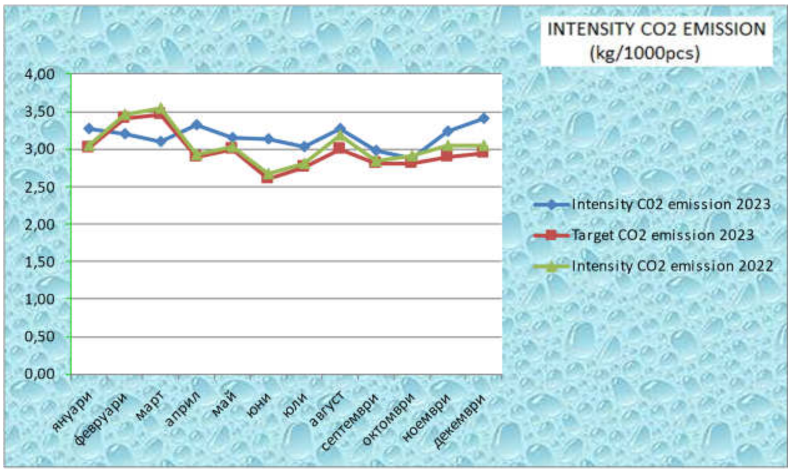
Herti monitors and reports the effect of its ecological, social and management parameters, by analyzing and assessing both the risks of the companies in the group and the their impact on those factors.

1. Ecology and environment protection

The group aims to fulfill its economic activity in line with the ecological targets, set in Regulation (EU) 2020/852 as (the Company) continuously invests in new technologies, promoting energy efficiency. The Company management understands the importance of the environment protection and pays special attention to the efficient raw materials usage, pollution prevention and control, as well as switching to a circular economy. As a shareholder and work partner of Ecopack JSC., the Company strictly observes all principles for protection and recovery of the environment in its operation. Giving priority to the sustainable development the Company makes efforts to be active and interested corporate unit, realizing the responsibility we have in front of future generations.

Herti has a developed and applied Policy for Environment Protection and a Program for Waste Management. An Energy Audit is implemented every four years by an external specialized organization and all recommendations given are implemented in stages, depending on their importance and particular need. They are also included in the Company investment plan. The last energy audit took place in 2020. The Company regularly follows the pollution levels and the waste gases emission in the atmospheric air, as well as the quarterly indexes of the waste waters, treated in the treatment plant.

The carbon emissions for 1,000 produced closures have been reduced from 3.17 kg in 2023 to 3.03 kg in 2023. The insignificant growth is due to the decreased annual quantities of caps production. The total quantity of consumed energy is 14 253.63 MWh, where electricity is 6 559.19 MWh and gas methane – 7 694.44 MWh.



Number of caps, produced with one unit of energy

The Company does not use any water for its production activity. The only water consumption is related to hygiene and drinking needs. The production premises are located in a sensitive area. A quarterly monitoring is done of the quality of the estuarine waters by the treatment plant for waste water.

WATER QUALITY – POINT 1 – EXIT OF A TREATMENT PLANT FOR WASTE WATER
Test protocol No 902/12.12.2023 and No 903/12.12.2023 of Water Testing Laboratory of "V i K Shumen" OOD / Water and Sewerage Shumen Llc.

№	*Index*	*Test result (mg/dm^3)*	*Individual emission restrictions (mg/dm^3)*	*Compliance YES/ NO*	*Corrective actions*
1.	Active reaction pH	7,83±0,08	6,0-8,5	Yes	Not needed
2.	Undissolved substances mg./dm3	22,8±2	50	Yes	Not needed
3.	Organic daily load$_5$	22,5±0,9	25	Yes	Not needed
4.	Chemical oxygen demand	82±3	125	Yes	Not needed
5.	Petroleum products	<0,3	10	Yes	Not needed
6.	Total nitrogen	41±2	15	No	Measures for elimination of the pollution
7.	Total phosphorus (as P)	4,41±0,06	2	No	Measures for elimination of the pollution

The Company aims to reach the emission restrictions for the indicators of nitrogen and phosphorus and therefore measures are taken for the design of an additional installation for waste waters chemical treatment.

More than 85 % of the turnover and 75 % of the capital expenses are related to ecologically sustainable economic activities. In 2023, the Development Department of the Technical Directorate was working in various directions for over 20 constructive projects on machines and tools to achieve optimization of production organization and reduction of technological waste, as well as energy saving. New machines and tools were put into operation.

In the beginning of June 2023 Herti JSC. started the implementation of the GREENPRESS project (to be realized with the financial aid of the Norwegian Financial mechanism 2014 – 2021 within the “Development of business, innovations and small and medium enterprises in Bulgaria” Program). The project shall be implemented throughout the next 12 months in the town of Pliska, Bulgaria. The amount of the whole project is 401 100 Euro, as the funding to the amount of 200 000 Euro, provided by the Norwegian Financial mechanism represents 49.86 % of the admissible expenses for the project and the remaining amount of 201 100 Euro shall be secured by Herti.
The main purpose of the GREENPRESS project is to additionally extend the green initiatives, started with the GALP project. As a result, the project shall decrease the energy consumption. The total costs for energy (electricity and gas) for the production of 1000 caps shall be with 18.2 % lower. This would decrease the CO_2 emissions with 22 % for the first year and even more for the years to follow.

An important aspect for the achievement of a sustainable circular economy is the waste collection and recovery and the repeated usage of the recycled materials.
The Company applies measures for:

- separate collection, minimization, recovery and recycling of production and household wastes;
- providing suitable training for the personnel on issues related to environment protection and pollution prevention;
- responsible implementation of the imperative requirements of Decree No 137 of the Council of Ministries for packages and packages wastes;
- in accordance with the running legislation the emissions of waste gases in the atmosphere shall be measured from stationary emission sources.

The production and other wastes shall be stored on a specially designated landings, in line with the regulatory requirements. The wastes shall be transferred to licensed companies for recycling, recovery and disposal. Each month and once a year a report shall be drawn on the incoming and / or placed on the market packages as per material, for which a monthly installment is paid to Ecopack JSC., on the grounds of a contract for disposal of waste from packages, signed between the parties.

Both baling presses for aluminum waste are working on their fullest capacity and therefore secure the timely baling and transfer of the aluminum waste to specialized companies, to recycle and melt it and then they send it back through production through their chain of deliveries. The aluminum completely preserves its qualities during the recycling process and the process itself uses 95 % less energy than its initial production. The used aluminum closures are being collected and recycled through different recycle schemes in Europe as their percent is calculated to approximately 45 %.

Waste code	Waste type	Generated in 2023	Transferred for recycling in 2023	Transferred for destruction/ disposal in 2023	Transferred for deposition in 2023
12.01.03.	Non-ferrous metals - Aluminum	961,016	973,860		
12.01.05.	Plastics	76,6259	73,41206		2,383
15.01.01.	Paper	34,652	33,792		0,860

15.01.02.	Plastic packaging	11,000	10,725		
12.01.01.	Ferrous metals	11,024	11,024		
13.02.05.*	Motor oils	0,480	0,480		
13.01.10.*	Hydraulic oils	1,960	2,360		
15.02.02.*	Towels contaminated with hazardous substances	35,890		35,945	
08.01.11.*	Paints and varnishes	11,505	9,372	0,656	
15.01.10.*	Barrels contaminated with wastewater	24,239		24,336	
14.06.03.*	Other organic solvents	0,020	0,060		
16.06.01.*	Lead accumulator batteries	0,127		0,127	
20.01.21.*	Luminiscent lamps	0,03952		0,03952	
19.08.05.	Sludge from waste water treatment	0	0	0	0
15.02.03.	Absorbents, clothing	0	0	0	0
12.01.99.	Wastes, not mentioned elsewhere	0	0	0	0
12.01.09*	Machine emulsions and solutions, not containing halogen elements	0	0	0	0

In the beginning of November 2023. Herti was successfully certified as per ISO 14001:2005. The standard determines the requirements of the system for environment management, that will be used by Herti for improvement of its ecological indicators.

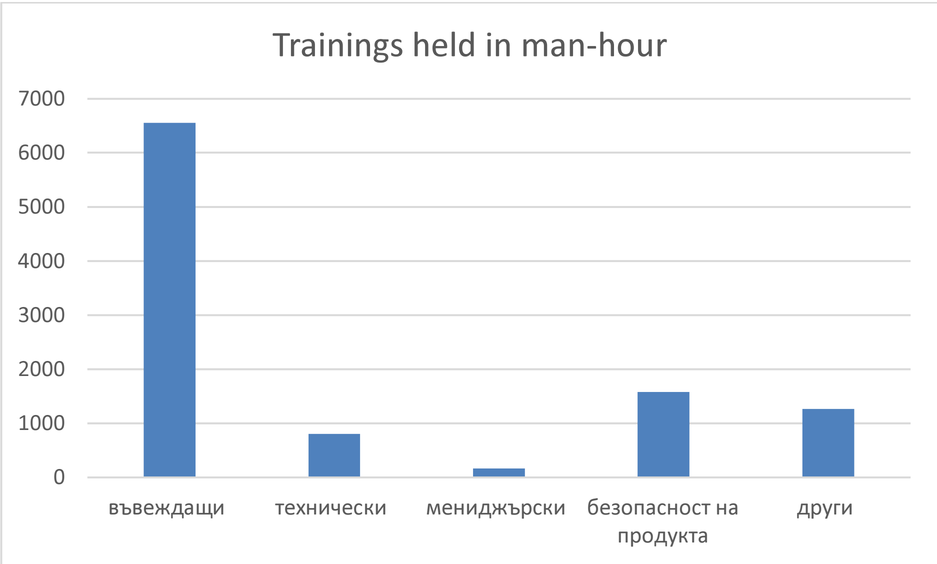
2. Social responsibility
Personnel and working conditions

The group observes and applies developed Policy for Human Resources, Internal Rules for Operation and Internal Rules for Healthy and Safe Working Conditions.

In accordance with Herti`s Risk Management Rules and the risks identified and assessed therein, staff turnover is one of the important risks, which necessitates its monitoring, control and quick response. The turnover is monitored and controlled on a period not longer than three months. Every quarter, an analysis of the movement of personnel is prepared, from which turnover is also reported, as well as its type: which are the categories of personnel that leave and why. For year 2023 the human turnover percent is 28 %, 12 % of them had left work on their own will and the remaining 16 % are discharged from the Employer.

Periodically, a risk assessment and analysis of the health status of the staff is performed by a specialized Company and a risk minimization program is applied. Regular inspection, marking and ensuring the reliability of all equipment is done. We provide appropriate work clothing and protective equipment and control its use during work. Tests and trainings for the serviceability of the fire-fighting system are made annually. A register of occupational accidents is kept – there is 1 accident, registered in 2023, that lead to temporary lack of working capacity.

All workers undergo an initial and regular safety instructions. Picture materials are placed with signs for all dangerous area. Safety instructions are held for all external visitors. All external companies, acting on the territory of the factory are informed and instructed to follow the safe labour procedures.



Introductory Technical Management Product safety others

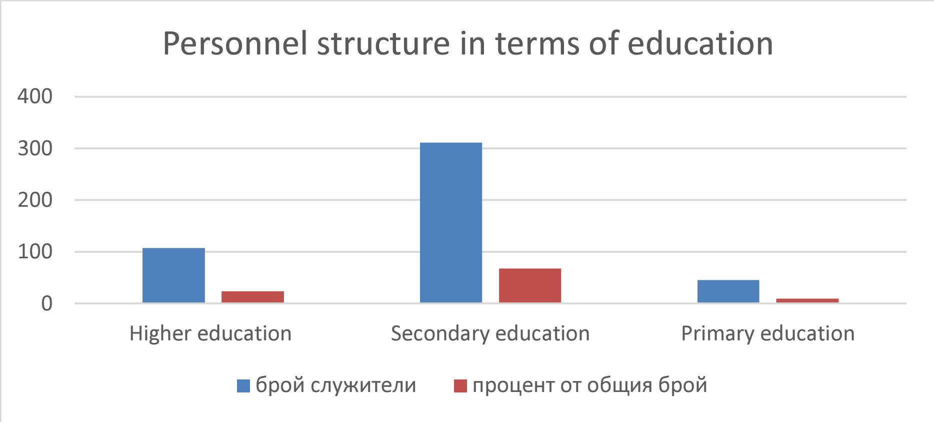
Herti JSC. management sets some good trends through their responsible attitude on problems concerning the staff qualification and health. Various trainings take place in Herti and all companies in the group every year, based on the particular needs. The purpose is to provide sufficiently qualified personnel for every position, which would lead to promotion of the production quality and enhancement of the satisfaction level of our clients and partners. Observing the life-long learning principle, the Company prepares an annual analysis of the training needs and based on it the Company prepares an Annual Training Plan.

The activities in training and development have a few targets, focused at improvement of the operation process and the organization itself:

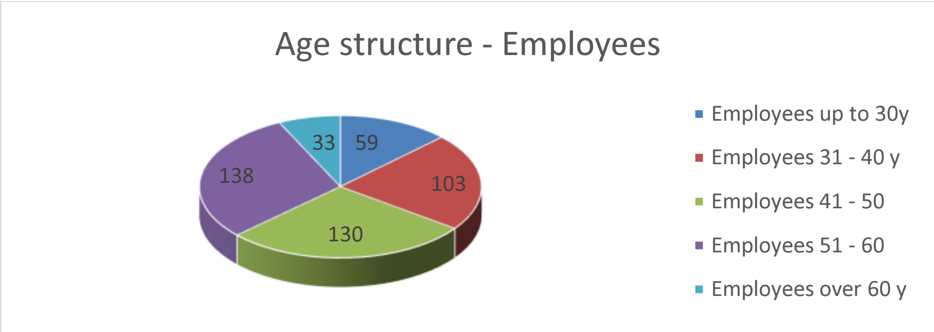
- Acquiring new and promoting already existing skills and knowledge, development of the workers and employees potential in line with the Company operation requirements and priorities.
- Preparing the personnel to cope better with changes and unforeseen circumstances (often those training activities lead to a change).
- Providing an opportunity for a competitive advantage.

The Company management is constantly engaged with creation and perfection of the labor conditions in the company and the personnel development, in order to provide an atmosphere of mutual respect and affiliation to the Company.

The average number of Herti JSC. Employees for year 2023 is 526 people, where 42 % are women and 58 % - men. The sex ratio in the management positions is similar: 41 % women and 59 – men, and with the high management this rate is 50: 50. The graphs below show the Company personnel data in details:



Number of employees Percent out of the total number



A Committee and a Group in Labor Conditions is functioning in the Company participating in discussions on healthy and safe labor conditions. The representatives of the workers and Employees in the Committee and the Group in Labor Conditions are also representatives of the workers and Employees as per Art. 7 and Art. 7a of the Labor Code for the purposes of participation in the Company management. They act as representatives to inform and consult the workers and Employees and participate in any discussions of issues such as occupational conditions as a whole, labor remunerations, structural changes and others, as all of them are entitled to any financial information.

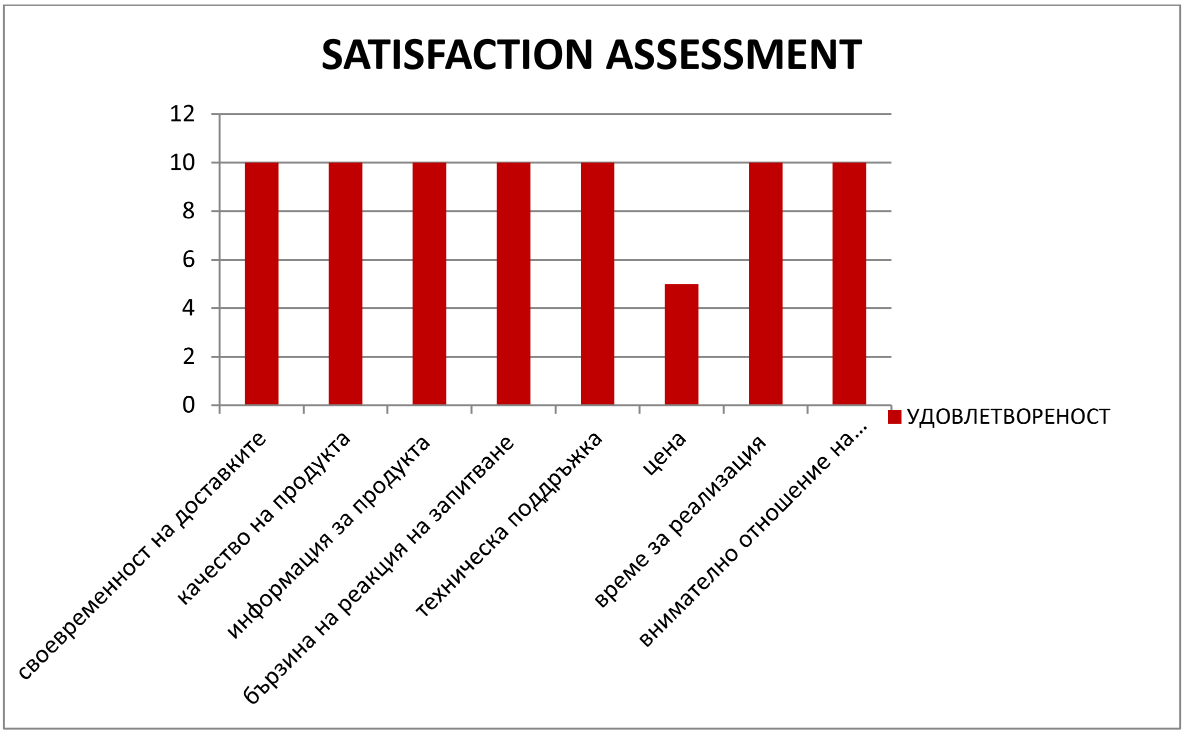
Herti JSC. observes the running labor legislation in its full volume, concerning any issues such as labor remunerations, leaves, extra working hours etc. Providing and maintenance of a healthy and safe working environment is of significant importance for the quality of life and welfare of our employees and local communities. We make significant efforts to improve the knowledge and culture of our Employees and sub-contractors in the area of healthy and safe labor conditions. The frequent trainings and control over the observance of the healthy and safe working conditions serve as a ground for our high level of prevention in the area of health and safety at work.

In the beginning of November 2023, Herti successfully passed a certification as per ISO 45001:2018, that shall help Herti to achieve the results planned by the use of its management system for Healthy and Safe Occupational Conditions.

3.Ethical management of the supply chain

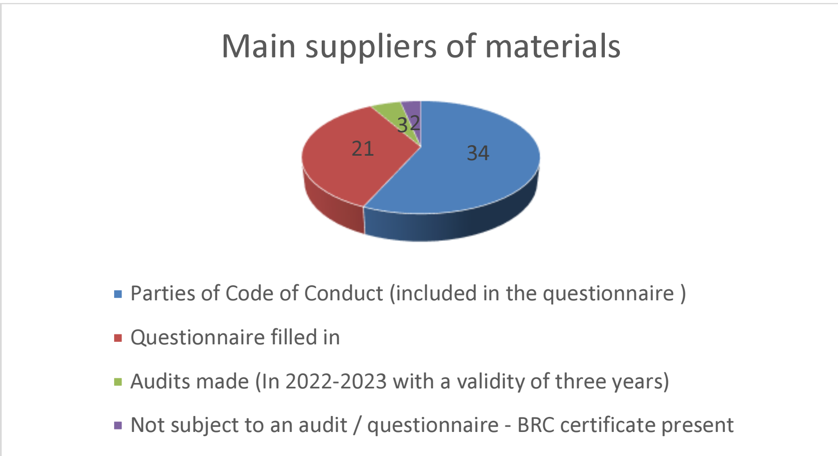
The main purpose of Herti's group management is to establish a high professional ethics, based on norms and values, contributing for the achievement of significant interests, combining and coordinating the interests of all interested parties. We do encourage the application of ethical business practices and establishing honest and trusted business relations and we also observe all main principles for market behavior. Herti is a correct business partner, Employer and public figure.
Herti – JSC declares respect for human rights. The company has adopted and complies with the Code of Ethics, in which equal rights of all employees, partners and contractors are enshrined. The company respect the principle of diversity for all levels in the structure. The following policies are approved and applied: Policy against the Forced Labor, Policy against Child Labor and Policy against Work Place Discrimination.
Herti – JSC is a member of the international non-governmental organizations SEDEX and EcoVadis, which provide information on the ethical relationship in the supply chain and evaluate the performance of companies in the field of compliance with labor legislation, health and safety working conditions, environmental protection and business ethics. SEDEX and EcoVadis conduct a social audit of member companies and facilitate the exchange of information between them in order to constantly improve and development working conditions and workers‘ rights. In 2021 Herti JSC. undergoes two social audits – one required by a client and one – initiated by the Company. The audit, done by QUIMA, reported a very good result for Herti. The social audit report shall be uploaded in the SEDEX system and shared with all clients. Such an audit takes place at least once every three years.

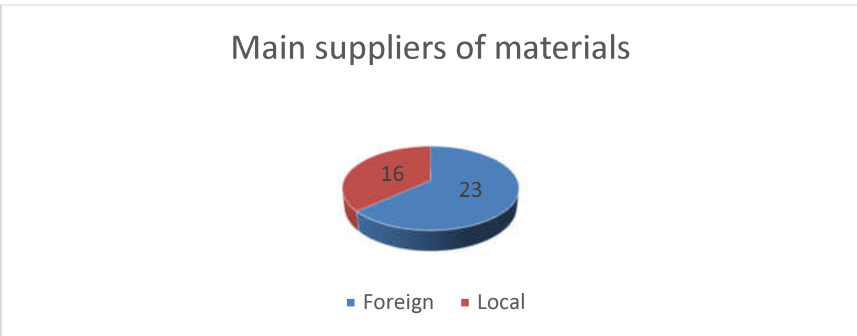
We do observe the client satisfaction index on annual bases. This is done through the means of a questionnaire and it serves as one of the important criteria for the management. In 2023 an increase of the price importance is observed in comparison with 2022 and it is manifested through the product quality as those two indicators are with a large difference in comparison with the others (twice as important). Increase in the clients' satisfaction from the quality of the product and the realization time is also observed. All of this leads to growth of the general satisfaction of the clients up to 89.80 % in comparison with 78.57 % last year.



On time deliveries	Quality of the Product	Information about the product	Prompt reaction to an inquiry	Technical support	Price	Realization time	Attentive attitude of our employees

Herti – JSC adheres to good business practices throughout the supply chain, it applies the standards of the Ethical Trade Initiative (ETI) and encourages its suppliers to adhere to ethical rules of conduct. Herti has 39 main suppliers of raw sources and materials, distributed as follows:





Our high standards, our responsibility for sustainable development of society and the principles of integrity in work serve as a base of the adopted Code of Ethics of the Company.

Herti has adopted and adheres to a Diversity Policy as the main criterion when selecting management staff is competence, education and the experience in various spheres of economic and social life, and not age, gender, social status or religion. Personal initiative is stimulated, the individuality is developed and work is done to increase the motivation of the staff. 50 % of the top management positions in the company are held by women.

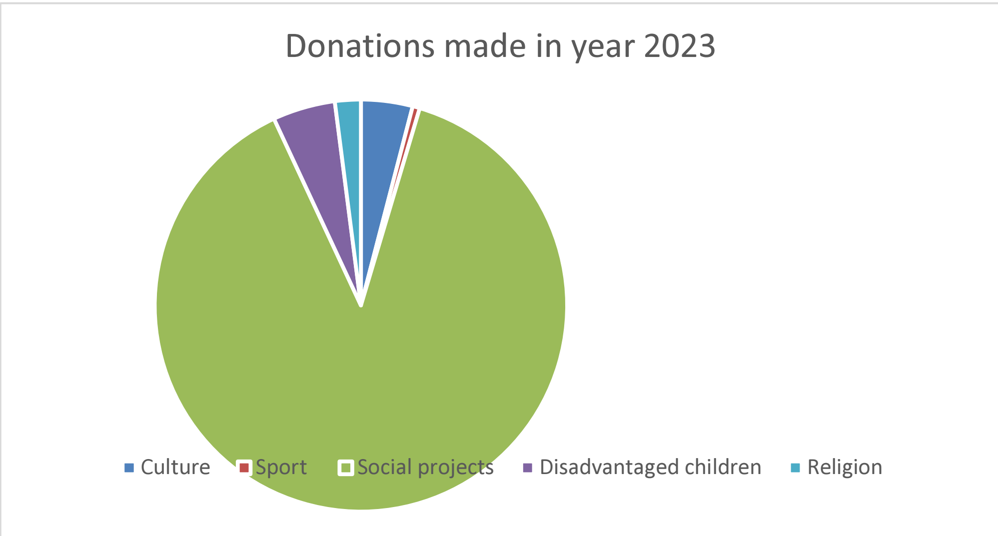
Herti – JSC is a socially responsible company with care for the Employees and the social environment. Every year the company is involved as a grantor in all significant events and initiatives, held on the territory of our factory and on the territory of the towns, from which it recruits staff. The main efforts and activities are focused on creating a favorable environment in the municipality and the settlement, where the company operates. We do not remain indifferent to the needs of education, culture, healthcare, and environment.

Herti- JSC carries out its business activity as a responsible member of the society, and complies with the applicable law, as in our country, as well as the countries in which it develops business relations. The company carefully manages the social impact of its business activities and works for the prosperity of society in general.

To commemorate its 30th anniversary Herti started a social project for the recovery and modernization of the only sport facility in Pliska in order for the children to do sports in a protected environment. The project was initiated in the beginning of July and the playground was officially opened on 11th October 2023. The investment is to the total value of 100 000 BGN and shall be financially supported by partners of the Company.

The social responsibility of the Company is focused in areas like education, culture, religion and social life of the community and in the region. In 2023 Herti the Bulgarian Christmas Initiative and the Because Foundation. Herti become a main partner and supports the Fast Heroes 112 project, initiated by Heart to Heart for Bulgaria Foundation.
Fast Heroes 112 is an educational initiative for children from 6 to 9 years old and their families aimed to raise awareness for the stroke symptoms and how to act in case of emergency, if a relative is in danger.

In 2023 Herti donated close to 90 thousand leva, distributed in the following directions:



The long-term good relations with partners, clients and completion enhance the society trust in the Company.

4. Responsible management

The sustainable development is a priority of the group management, following and promoting the good management practices and applying all new requirements.

Herti complies as appropriate the Code for Corporate Management, approved by the Deputy Chairman of the Financial Supervision Commission and annually lists important information on its application with the Annual Activity Report.

The Company has adopted and observes an Ethical Code, Rules for Behavior of Suppliers, Human Resources Policy, Policy for Discrimination at the Work Place, Policy against Forced and Children Labor as well as Anti-corruption Policy. All policies are subject of review and approval of the Board of Directors.

Herti JSC. builds relationships based on moral values, striving to build a reputation as an honest, competent and professional partner. Competition is protected and encouraged, feelings of trust are built amongst shareholders, business partners and society. The Company encourages the fight against all forms of corruption and personal gain. The main principle in the business is Herti JSC. not to enter and participate in any way in "mutual agreements" and any illegal actions to obtain benefits. Our business relations are regulated by the Code of Ethics, in the Program for Company Corporate Management and the Rules for Suppliers Behavior. We regularly hold trainings for the personnel directly involved with external partners.

The management of the group does not tolerate any form of bribery or corruption and agrees to refrain from any actions and behavior that could be perceived as active or passive bribery. The company does not tolerate corruption and similar behavior on the part of its personnel, suppliers, business partners and state or municipal authorities and in general on the part of all those with whom it has business relations. The employees of Herti JSC and the daughter companies undertake to promote this policy and to inform third parties that corruption and related phenomena are unacceptable to the company, setting an adequate example with their behavior.

Herti has a developed policy for personal data protection in connection with the GDPR requirements and its application, and also a Whistleblower Protection Policy.

All policies are with public access on the website of the Company: www.herti.bg

Chief Executive Director
Zahari Zahariev

15th April 2024
The town of Shumen

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Herti – AD
Shumen

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Herti - AD and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Accounting Standards as adopted by the European Union (IASs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) (including International Independence Standards) together with the ethical requirements of the Independent Financial Audit Act (IFAA) that are relevant to our audit of the financial statements in Bulgaria, and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IFAA and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. During our audit of the consolidated financial statements of the Group, we have identified no significant key issues that should be included in our audit report.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2022 were audited by another registered auditor. An unmodified auditor's report was issued on April 24, 2023.

Information Other than the Consolidated Financial Statements and Auditor's Report Thereon

Management is responsible for the other information. The other information comprises a consolidated management report, a corporate governance statement and a non-financial statement. These three documents are prepared by management in accordance with Chapter Seven of the Accountancy Act, but do not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon, unless and to the extent explicitly specified in our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IASs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Independent Financial Audit Act and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ✓ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- ✓ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- ✓ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ✓ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ✓ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ✓ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. Reporting on compliance of the electronic format of the consolidated financial statements included in the annual consolidated financial report under Art. 100n, para. 5 of the Public Offering of Securities Act (POSA) with the requirements of the European Single Electronic Format (ESEF) Regulation

We have performed an engagement to obtain reasonable of assurance regarding the compliance of the electronic format of the consolidated financial statements of Herti AD for the year ending 31 December 2023, attached in the electronic file „8945006H9L8C62G7SH45-20231231-BG-CON“, with the requirements of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109 / EC of the European Parliament and of the Council through regulatory technical standards to define the single electronic reporting format ("ESEF Regulation"). Our opinion is only regarding the electronic format of the consolidated financial statements, and does not comprise other information included in the annual consolidated financial report under Art. 100n, para. 5 of the POSA.

Subject Description and Applicable Criteria

The management has prepared an electronic format of the consolidated financial statements of the Group for the year ended 31 December 2023 under the ESEF Regulation in order to comply with the requirements of the POSA. The rules for the preparation of consolidated financial statements in this electronic format are set out in the ESEF Regulation and in our opinion they have the characteristics of appropriate criteria to obtain reasonable assurance.

Responsibilities of Management and Those Charged with Governance

The management of the Group is responsible for the application of the requirements of the ESEF Regulation when preparing the electronic format of the consolidated financial statements in XHTML. These responsibilities include the selection and application of appropriate iXBRL tagging using the taxonomy of the ESEF Regulation, as well as the introduction and implementation of such internal control system as management considers necessary to prepare the electronic format of the Group's annual consolidated financial statements, which does not contain significant inconsistencies with the requirements of the ESEF Regulation. Those charged with governance are responsible for supervising the process of preparing the Group's annual consolidated financial statements, including the implementation of the ESEF Regulation.

Auditor's Responsibilities

Our objectives are to obtain reasonable assurance about whether the electronic format of the consolidated financial statements is in conformity with the requirements of the ESEF Regulation. For this purpose, we have complied with the "*Professional Organization's Guidelines on the Audit Opinion in relation to the Application of the European Single Electronic Format (ESEF) for the Financial Statements of Companies whose Securities are Admitted to Trading on a Regulated Market in the European Union (EU)"* of the of the professional organization of the registered auditors in Bulgaria – the Institute of Certified Public Accountants (ICPA) and we have performed an engagement to obtain reasonable assurance in accordance with ISAE 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (ISAE 3000 (Revised)). This standard requires to comply with ethical requirements, design and perform appropriate procedures to obtain reasonable assurance whether the electronic format of the consolidated financial statements of the Group has been prepared in all material respects in accordance with the applicable criteria set out above. The nature, timing and extent of the procedures depend on our professional judgment, including the assessment of the risk of significant non-compliance with the requirements of the ESEF Regulation, whether due to fraud or error. Reasonable level of assurance is high level of assurance, but there is no guarantee that an engagement performed in accordance with ISAE 3000 (Revised) will always identify a significant non-compliance, if such exists.

Quality control requirements

We apply the requirements of the International Standard on Quality Control (ISQC) 1 and, accordingly, maintain a comprehensive quality control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards and the applicable legal and regulatory requirements for registered auditors in Bulgaria. We meet the ethical and independence requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code), adopted by ICPA through the Independent Financial Audit Act.

Summary of work performed

The purpose of the procedures designed and performed was to obtain reasonable assurance about whether the electronic format of the consolidated financial statements has been prepared, in all material respects in accordance with the requirements of the ESEF Regulation. As part of the assessment of the compliance with the requirements of the ESEF Regulation regarding the electronic (XHTML) format for reporting of the Group's consolidated financial statements, we maintained professional skepticism and used professional judgment. We also:

- ✓ Obtained an understanding of the internal control and the processes related to the implementation of the ESEF Regulation regarding the consolidated financial statements of the Group and including the preparation of the consolidated financial statements of the Group in XHTML format and its tagging in machine-readable language (iXBRL).
- ✓ Verified whether the attached XHTML format is valid.
- ✓ Verified that the human-readable part of the electronic format of the consolidated financial statements corresponds to the audited consolidated financial statements.
- ✓ Assessed the completeness of the tagging in the consolidated financial statements of the Group using machine-readable language (iXBRL) in accordance with the requirements of the ESEF Regulation.
- ✓ Assessed the appropriateness of the iXBRL tagging selected from the basic taxonomy, as well as the creation of an extended taxonomy element in accordance with the ESEF Regulation where there is no appropriate element in the basic taxonomy.
- ✓ Assessed the appropriateness of the correlation of the elements of the extended taxonomy in accordance with the ESEF Regulation.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on the compliance of the electronic format of the consolidated financial statements with the requirements of the ESEF Regulation

In our opinion, based on our procedures, the electronic format of the consolidated financial statements of the Group for the year ended 31 December 2023, on which consolidated financial statements above, we have expressed an unmodified audit opinion contained in the attached electronic file „8945006H9L8C62G7SH45-20231231-BG-CON", has been prepared in all significant aspects in accordance with the requirements of the ESEF Regulation.

2. Additional Matters to be Reported under the Accountancy Act and the Public Offering of Securities Act

In addition to our responsibilities and reporting in accordance with ISAs, described above in the Information Other than the Consolidated Financial Statements and Auditor's Report Thereon section, in relation to the consolidated management report and the corporate governance statement, we have also performed the procedures added to those required under ISAs in accordance with the Guidelines of the professional organization of certified public accountants and registered auditors in Bulgaria, i.e. the Institute of Certified Public Accountants, approved by its Management Board. These procedures concern verifying the existence and verifying the form and content of this other information to assist us in forming an opinion about whether the other information includes the disclosures and reporting provided for in Chapter Seven of the Accountancy Act applicable in Bulgaria and in the Public Offering of Securities Act (Art. 100m, paragraph 10 of the POSA in conjunction with Art. 100m, paragraph 8(3) and (4) of the POSA) applicable in Bulgaria.

2.1. Opinion in connection with Art. 37, paragraph 6 of the Accountancy Act

Based on the procedures performed, our opinion is that:
a) The information included in the consolidated management report for the financial year for which the consolidated financial statements have been prepared is consistent with those consolidated financial statements.
b) The consolidated management report has been prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and of Art. 100(m), paragraph 7 of the Public Offering of Securities Act.
c) The corporate governance statement for the financial year for which the consolidated financial statements have been prepared presents the information required under Chapter Seven of the Accountancy Act and Art. 100 (m), paragraph 8 of the Public Offering of Securities Act.
d) The presented non-financial statement is prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

2.2. Opinion in connection with Art. 100(m), paragraph 10 in conjunction with Art. 100 m, paragraph 8(3) and (4) of the Public Offering of Securities Act

Based on the procedures performed and the knowledge and understanding obtained of entity's activities and its environment, in our opinion, the description of the main characteristics of entity's internal control and risk management systems relevant to the financial reporting process, which is part of the consolidated management report (as a component of the content of the corporate governance statement) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, is not materially misstated.

3. Additional Reporting on the Audit of the Consolidated Financial Statements in connection with Art. 100(m), paragraph 4(3) of the Public Offering of Securities Act

a) Statement in connection with Art. 100(m), paragraph 4(3)(b) of the Public Offering of Securities Act

The information about related-party transactions is disclosed in Note 26 to the consolidated financial statements. Based on the audit procedures performed by us on related-party transactions as part of our audit of the consolidated financial statements as a whole, no facts, circumstances or other information have come to our attention based on which to conclude that the related-party transactions have not been disclosed in the accompanying consolidated financial statements for the year ending on 31 December 2023, in all material respects, in accordance with the requirements of IAS 24 Related Party Disclosures. The results of our audit procedures on related-party transactions were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not with the purpose of expressing a separate opinion on related-party transactions.

b) Statement in connection with Art. 100(m), paragraph 4(3)(c) of the Public Offering of Securities Act

Our responsibilities for the audit of the consolidated financial statements as a whole, described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report include an evaluation as to whether the consolidated financial statements represent the significant transactions and events in a manner that achieves fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the consolidated financial statements for the year ending on 31 December 2023, no facts, circumstances or other information have come to our attention based on which to conclude that there are material misrepresentations or misdisclosures in accordance with the relevant requirements of IASs as adopted by the European Union. The results of our audit procedures on Group's transactions and events significant for the consolidated financial statements were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not with the purpose of expressing a separate opinion on those significant transactions.

4. Reporting in accordance with Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we hereby additionally report the information stated below.

- ✓ Svrakov & Milev – OOD was appointed as a statutory auditor of the separate and consolidated financial statements for the year ending on December 31, 2023 of Herti – AD by the general meeting of shareholders held on June 28, 2023 for a period of one year.
- ✓ The audit of these financial statements for the year ending on December 31, 2023 of the Company and its economic Group represents the first uninterrupted statutory audit engagement for that entity and its group carried out by us after a gap of one year.
- ✓ We hereby confirm that the audit opinion expressed by us is consistent with the additional report, provided to Group's audit committee, in compliance with the requirements of Art. 60 of the Independent Financial Audit Act.
- ✓ We hereby confirm that we have not provided the prohibited non-audit services referred to in Art. 64 of the Independent Financial Audit Act.
- ✓ We hereby confirm that in conducting the audit we have remained independent of the Group.

Nikolay Kolev (signed)
Registered Auditor

Anton Svrakov (signed)
Managing Partner
Svrakov&Milev OOD
Varna
7, Sava Radulov Str.

April 15, 2024
Varna

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Unofficial translation of the original in Bulgarian.
In case of any divergences the Bulgarian version is prevailing.