CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2019

	Notes	December 31, 2019 BGN'000	December 31, 2018 BGN'000
Non-current assets			
Property, plant and equipment	*4*	24 900	25 697
Intangible assets	*5*	135	262
Investments	*6*	115	133
Total non-current assets		**25 150**	**26 092**
Current assets			
Inventories	*7*	7 210	6 644
Trade and other receivables	*8*	9 919	8 999
Cash and bank balances	*9*	1 749	1 116
Total current assets		**18 878**	**16 759**
Total assets		**44 028**	**42 851**
Equity			
Share capital	*10*	12 014	12 014
Retained earnings		3 658	3 065
Total equity		**15 672**	**15 079**
Non-current liabilities			
Non-current bank borrowings	*11*	11 299	12 003
Government grants	*12*	1 607	1 816
Deferred tax liabilities	*13*	812	809
Other non-current liabilities	*14*	500	439
Total non-current liabilities		**14 218**	**15 067**
Current liabilities	*15*	**14 138**	**12 705**
Total liabilities		**28 356**	**27 772**
Total equity and liabilities		**44 028**	**42 851**

Chief Executive Officer: (signed)
Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

May 5, 2020

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2019

	Notes	**Year ended December 31, 2019 BGN'000**	**Year ended December 31, 2018 BGN'000**
Revenue	*16*	42 686	38 342
Other income	*17*	1 173	1 350
Total revenue and other income		**43 859**	**39 692**
Raw materials and consumables used	*18*	23 749	21 872
Hired services	*19*	3 926	3 714
Employee benefits expense	*20*	10 920	9 893
Depreciation and amortisation expenses		3 141	2 768
Loss allowance	*21*	-	6
Other expenses	*22*	802	558
Total operating expenses		**42 538**	**38 811**
Cost of goods sold		279	226
Changes of inventories of finished goods and work in progress		(135)	(593)
Total adjustments		**144**	**(367)**
Interest income/(expenses)	*23*	(395)	(459)
Share of profits of associates	*24*	10	25
Exchange rate gain/(loss)		81	(8)
Other finance costs		(84)	(102)
Total finance income/(costs)		**(388)**	**(544)**
Profit before tax		**789**	**704**
Tax benefit/(expense)	*25*	(96)	(82)
Profit for the year		**693**	**622**
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses), net of income tax		(104)	(8)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		4	(3)
Other comprehensive income for the year		**(100)**	**(11)**
Total comprehensive income for the year		**593**	**611**
Earnings per share in BGN	*26*	**0,06**	**0,05**

Chief Executive Officer: (signed)
Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

May 5, 2020

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2019

	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, 2018	**12 014**	**29**	**236**	**446**	**1 024**	**719**	**14 468**
Transfer to retained earnings	-	-	-	-	719	(719)	-
Transfer to legal reserve			70	-	(70)	-	-
Total comprehensive income for the year	-	-	-	-	(11)	622	**611**
Balance at December 31, 2018	**12 014**	**29**	**306**	**446**	**1 662**	**622**	**15 079**
Transfer to retained earnings	-	-	-	-	622	(622)	-
Transfer to legal reserve	-	-	69	-	(69)	-	-
Total comprehensive income for the year	-	-	-	-	(100)	693	**593**
Balance at December 31, 2019	**12 014**	**29**	**375**	**446**	**2 115**	**693**	**15 672**

Chief Executive Officer: (signed)
Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

May 5, 2020

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

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2019

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Cash and cash equivalents at the beginning of the year	**1 116**	**987**
Cash from operating activities		
Receipts from customers and other debtors	47 185	44 172
Payments to suppliers and other creditors	(31 262)	(28 674)
Payments for salaries, social security and other	(10 540)	(9 932)
Refunded/(paid) taxes, net	(1 312)	(1 209)
Other cash flows from operating activities	(25)	(20)
Net cash from operating activities	**4 046**	**4 337**
Investing activities		
Purchases of property, plant and equipment	(2 508)	(3 128)
Proceeds on disposal of property, plant and equipment	-	51
Other cash flows from investing activities	-	3
Net cash used in investing activities	**(2 508)**	**(3 074)**
Financing activities		
Proceeds from borrowings	1 385	1 735
Repayment of borrowings	(1 874)	(2 134)
Payment for leases	(71)	(225)
Interest and bank commisions paid	(412)	(521)
Net cash used in financing activities	**(972)**	**(1 145)**
Net increase in cash and cash equivalents	**566**	**118**
Effects of foreign exchange rate changes	**67**	**11**
Cash and cash equivalents at the end of the year	**1 749**	**1 116**

Chief Executive Officer: (signed)
Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

May 5, 2020

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019

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 May 5, 2020.

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 2019 is carried out in accordance with the Accountancy Act, which entered into force from January 1, 2016. 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, 2019 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, 2019
(continued)

2.2. Changes in accounting policies

As of January 1, 2019, the Group applied the requirements of IFRS 16 Leases for the first time. This new accounting standard introduces a single lessee accounting model whereby a lessee accounts for all operating and finance leases in the same way. IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 introduces a single accounting model for all leases but only for lessees. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. As a lessee, the Group is not a party to significant operating leases that exceed one year. Therefore, due to the nature of the Group's operations in terms of IFRS 16, and due to the limited use of operating leases, the amendments made did not result in significant changes in the accounting policies applied. This, in turn, did not require retrospective adjustments or additional disclosures in the present consolidated financial statements.

Other changes in IAS that have been in effect since January 1, 2019 did not have and are not expected to have an 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 2019 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 2019 and 2018 are presented in thousands of Bulgarian Lev (BGN) unless otherwise stated. Rounding of amounts is based on generally accepted requirements. Earnings per share are calculated and disclosed in BGN.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

2.4. Fair value measurement (continued)

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.

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, 2019. 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, 2019 the Group`s direct or indirect interest in subsidiaries consolidated in these financial statements is as follows:

Name of subsidiary	**31.12.2019 Proportion of ownership interest**	**31.12.2018 Proportion of ownership interest**
Tihert – EAD	100	100
Herti US	100	100
Herti France	100	100
Herti Germany	100	100
Herti US	100	100

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

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. As of December 31, 2019 the Group has significant influence in Herti Group International Romania. The proportion of ownership interest in the capital of this company is 49%.

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, 2019 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

2.11. Functional currency and presentation currency (continued)

The consolidated financial statements presentation currency of the Group is also BGN. The monetary positions denominated in foreign currency as of December 31, 2019 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, 2019	December 31, 2018
USD 1 = BGN 1.74099	USD 1 = BGN 1.70815
GBP 1 = BGN 2.29881	GBP 1 = BGN 2.18643

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 analyze 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

2.12. Financial risks management (continued)

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 analyzes 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 2019.

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.

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. As of December 31, 2019, some Bulgarian banks issued bank guarantees on behalf of Herti AD to third parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

2.12. Financial risks management (continued)

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 return of capital between 8% and 10%. In 2019, the return is 5.77 % (2018 – 5.18 %). 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 2019, the Group fulfills these requirements because its net assets amount to BGN 15,742 thousand and the amount of the registered capital is BGN 12,014 thousand.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

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

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, 2019 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

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

2.13.6. Financial instruments (continued)

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, 2019, 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. 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, 2019. 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, 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

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

2.13.6. Financial instruments (continued)

(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, 2019.

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.

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.

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

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	2019	2018
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. 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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

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 2019 the Group is subject to a corporate income tax, which is 10 % of the taxable profit (2018 – 10%). For 2020 the rate of corporate income tax is 10 %. 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. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

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.

	Russia		**European Union (excluding Bulgaria)**		**Bulgaria**		**Other**		**Group as a whole**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
	BGN'000	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**	**BGN'000**
Revenue from external customers:										
Sales	30,323	25,063	5,067	5,437	2,375	2,636	4,921	5,206	42,686	38,342
Total income	**30,323**	**25,063**	**5,067**	**5,437**	**2,375**	**2,636**	**4,921**	**5,206**	**42,686**	**38,342**
Cost of sales	22,666	20,601	4,232	4,683	2,205	2,417	3,355	4,225	32,458	31,926
Gross profit	**7,657**	**4,462**	**835**	**754**	**170**	**219**	**1,566**	**981**	**10,228**	**6,416**
Unallocated revenue									927	1,350
Unallocated expenses									(9,978)	(6,518)
Profit before tax									**1,177**	**1,248**
Finance income/(costs)									(388)	(544)
Tax expenses									(96)	(82)
Profit for the year									**693**	**622**
Segment assets	5,165	3,946	1,174	1,260	2,467	2,769	1,579	1,024	10,385	8,999
Unallocated assets									33,643	33,852
Total assets									**44,028**	**42,851**
Unallocated liabilities									28,356	27,772
Total liabilities									**28,356**	**27,772**
Capital costs									2,242	2,999
Depreciation and amortisation expenses									3,141	2,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(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, 2018	8,473	**29,582**	**562**	**5,075**	**43,692**
Additions	10	969	71	1,919	**2,969**
Transferred	2,789	3,015	180	(5,984)	**-**
Reclassified	-	489	(489)	-	**-**
Disposals	-	(97)	(1)	(78)	**(176)**
Balance at December 31, 2018	**11,272**	**33,958**	**323**	**932**	**46,485**
Additions	-	606	28	1,570	**2,204**
Transferred	-	462	5	(467)	-
Balance at December 31, 2019	**11,272**	**35,026**	**356**	**2,035**	**48,689**
Accumulated depreciation:					
Balance at January 1, 2018	2,947	15,058	266	-	**18,271**
Charge for the year	306	2,271	38	-	**2,615**
Eliminated on disposals	-	(97)	(1)	-	**(98)**
Balance at December 31, 2018	**3,253**	**17,232**	**303**	**-**	**20,788**
Charge for the year	372	2,591	38	-	**3,001**
Balance at December 31, 2019	**3,625**	**19,823**	**341**	-	**23,789**
Carrying amount at December 31, 2019	**7,647**	**15,203**	**15**	**2,035**	**24,900**
Carrying amount at December 31, 2018	**8,019**	**16,726**	**20**	**932**	**25,697**

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, 2019 property, plant and equipment with carrying amount of BGN 24,900 thousand are mortgaged as collateral on bank borrowings received by the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

5. Intangible assets

	Software BGN'000	Patents and trade marks BGN'000	Other intangible assets BGN'000	Total BGN'000
Cost:				
Balance at January 1, 2018	782	337	161	**1,529**
Additions	30	-	-	**30**
Disposals	-	-	(14)	**(29)**
Balance at December 31, 2018	**812**	**337**	**147**	**1,530**
Additions	13	-	-	**13**
Balance at December 31, 2019	**825**	**337**	**147**	**1,309**
Accumulated amortisation:				
Balance at January 1, 2018	584	150	160	**1,130**
Charge for the year	104	49	-	**153**
Eliminated on disposals	-	-	(13)	**(15)**
Balance at December 31, 2018	**688**	**199**	**147**	**1,268**
Charge for the year	92	48	-	**140**
Balance at December 31, 2019	**780**	**247**	**147**	**1,174**
Carrying amount at December 31, 2019	**45**	**90**	**-**	**135**
Carrying amount at December 31, 2018	**124**	**138**	**-**	**262**

Due to the insignificance of the goodwill as a result of business combinations in prior reporting periods, it is included in intangible assets.

6. Investments

	December 31, 2019 BGN'000	December 31, 2018 BGN'000
Investments accounted for using the equity method		
Herti Group International Romania	112	130
Total	**112**	**130**
Other investments		
Ecopack – AD	3	3
Total	**115**	**133**

As of December 31, 2019 the Group has a proportion of ownership interest in Herti Group International Romania amounting to 49 % so, this investment is accounted for using the equity method. The Group has an investment in Ecopack AD amounting to BGN 3 thousand. Proportion of ownership interest is 5.6 %.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

6. Investments (continued)

As of 31 December 2019, the Group's share of the assets, liabilities, net assets and results of Herti Group International Romania is as follows:

	December 31, 2019 BGN'000	December 31, 2018 BGN'000
Current assets	1,089	957
Total assets	**1,089**	**957**
Current liabilities	(860)	(692)
Total liabilities	**(860)**	**(692)**
Net assets	**229**	**265**
Investment of the Group	**112**	**130**

7. Inventories

	December 31, 2019 BGN'000	December 31, 2018 BGN'000
Raw materials	3,670	3,139
Finished goods	2,496	2,607
Work in progress	1,044	821
Goods for resale	-	77
Total	**7,210**	**6,644**

As of December 31, 2019 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, 2019 BGN'000	December 31, 2018 BGN'000
Trade receivables	9,585	8,819
Receivables on advances given	242	76
Tax receivables	72	76
Litigations and writs	13	13
Other receivables	7	15
Total	**9,919**	**8,999**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

9. Cash and bank balances

	December 31, 2019 BGN'000	December 31, 2018 BGN'000
Cash in foreign currency	1,533	920
Cash in BGN	216	196
Total	**1,749**	**1,116**

10. Share capital

As of December 31, 2019 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:

	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 2019, the Group has six long-term investment borrowings totaling BGN 7,886 thousand, including a long-term portion of BGN 5,823 thousand and a short-term portion of BGN 2,063 thousand. The deadline for repayment of the borrowings is in the period 2021 and 2026. The annual interest rate is determined by the one-month and six-month EURIBOR, increased by 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 2019, the Group has outstanding liabilities under two bank overdrafts totaling BGN 5,476 thousand. The repayment terms of the borrowings are in 2021 and 2023. The annual interest rate of one of the overdrafts is determined by the one-month EURIBOR for the respective period plus a certain mark-up, and the other - by the six –month EURIBOR for the period plus a mark-up. The borrowings are secured by property, plant and equipment owned by the Group and a special pledge on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

11. Non-current bank borrowings (continued)

12. Government grants

In prior reporting periods the Group has concluded two contracts 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 first project "Raising the Competitiveness of Herti AD through implementation of an integrated information system for business process management" has a maximum total amount of the project of BGN 634 thousand and a maximum grant amount of BGN 375 thousand. In 2019 income from government grants is BGN 42 thousand and the liability as of December 31, 2019 is current and amounts to BGN 6 thousand.

The second project “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 2019 income from government grants amounts to BGN 80 thousand and the project liability as of December 31, 2019 is BGN 665 thousand, with a short-term portion of BGN 80 thousand and a long-term portion of BGN 585 thousand.

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 2019 income from government grants is BGN 117 thousand. The liability as of December 31, 2019 is BGN 1,089 thousand, of which a short-term portion amounting to BGN 117 thousand and long-term portion of BGN 972 thousand.

In the 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 2019 the income from government grants is BGN 7 thousand. The liability as of December 31, 2019 is BGN 57 thousand, of which a short-term portion amounting to BGN 7 thousand and long-term portion of BGN 50 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

13. Deferred tax liabilities

As of December 31, 2019 the components of the deferred tax liabilities/(assets) are as follows:

	December 31, 2019 BGN'000	December 31, 2018 BGN'000
Effect of retirement benefits	(37)	(25)
Effect of unused paid leave	(32)	(16)
Effect of tax losses	(3)	(6)
Effect of loss allowance	-	(18)
Total deferred tax assets	**(72)**	**(65)**
Difference between the carrying amount and tax base of depreciable assets	884	874
Total deferred tax liabilities	**876**	**954**
Deferred tax liabilities, net	**812**	**809**

The movement of the deferred tax liabilities/(assets) in 2019 is as follows:

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Balance at the beginning of the year	809	786
Charge to profit or loss	65	45
Charge to other comprehensive income	4	1
Credit to profit or loss	(66)	(23)
Balance at the end of the year	**812**	**809**

14. Other non-current liabilities

	December 31, 2019 BGN'000	December 31, 2018 BGN'000
Retirement benefit obligation	375	254
Finance lease liabilities	125	185
Total	**500**	**439**

14.1. Retirement benefit obligation

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Balance at the beginning of the year	254	270
Current service cost and interest cost	44	24
Benefits paid	(39)	(50)
Actuarial (gains)/losses	116	10
Total	**375**	**254**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

14. Other non-current liabilities (continued)

14.1. Retirement benefit obligation (continued)

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 2016 – 2018
(c) Statistics from the National Centre for Health Information on disability and early retirement.

14.2. Lease liabilities

The Group has an obligation under finance leases for the acquisition of machinery, equipment and vehicles. As of 31 December 2019, the total amount of the liability amounts to BGN 185 thousand, including a long-term portion of BGN 125 thousand. The annual interest rate on the finance leases is equal to the three-month EURIBOR plus a fixed margin. The deadline for repayment of the liabilities is 2022.

15. Current liabilities

	December 31, 2019 BGN'000	December 31, 2018 BGN'000
Trade payables	5,006	4,885
Bank borrowings	3,912	3,912
Current portion of non-current bank borrowings	2,063	1,929
Advances from customers	906	288
Employees	772	561
Social security	445	335
Taxes	414	394
Current portion of government grants	210	246
Current portion of finance lease liabilities	60	59
Other payables	352	96
Total	**14,138**	**12,705**

As of 31 December 2019 the Group has outstanding payables under a short-term bank borrowing amounting to BGN 3,912 thousand. The term of repayment of the borrowing is in 2020. 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, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Balance at the beginning of the year	151	153
Accrued	722	119
Used-up and written-off	(550)	(121)
Balance at the end of the year	**323**	**151**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

16. Revenue

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Revenue from sale of aluminium closures	33,096	29,641
Revenue from sale of composite closures	5,562	5,288
Revenue from sale of plastic closures	1,035	877
Revenue from sales of pourers	58	402
Revenue from sales of goods for resale	51	254
Other	2,884	1,880
Total	**42,686**	**38,342**

17. Other income

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Income from government grants	246	273
Gain/ (loss) on sale of materials	9	22
Transport services	-	50
Other income	918	1,005
Total	**1,173**	**1,350**

18. Raw materials and consumables used

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Raw materials	20,219	18,328
Electricity	1,137	978
Gas	601	509
Other	1,792	2,057
Total	**23,749**	**21,872**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

19. Hired services

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Transport services	2,740	2,223
Repairs	405	412
Rents	148	185
Advertising and consulting services	143	116
Commissions	114	95
Communications	94	58
Insurance	58	52
Other hired services	669	573
Total	**3,926**	**3,714**

The remuneration of the auditors for the audit services provided to the Group for 2019 amounts to BGN 21 thousand. The auditors of the Group have not provided additional consulting services other than independent financial audit.

20. Employee benefits expense

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Salaries	8,776	8,155
Social security	1,628	1,449
Food vouchers	300	267
Retirement benefits	172	24
Unused paid leave, net	44	(2)
Total	**10,920**	**9,893**

21. Loss allowance

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Loss allowance on trade receivables		6
Write-down of materials		-
Written-off receivables		-
Total		**6**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

22. Other expenses

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Waste of assets	415	42
Business trips	135	135
Other expenses	252	381
Total	**802**	**558**

23. Interest income/(expenses)

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Interest expenses on borrowings and leases	388	459
Other interest expenses	7	-
Total	**395**	**459**

24. Share of profits of associates

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Net profit for the year, reported by the associate	21	51
Share of current year profit of the associate in %	49	49
Share of profits of associates	**10**	**25**

25. Tax benefit/(expense)

As of December 31, 2019 the reconciliation of the tax benefit/ (expense) is as follows:

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Profit before tax	789	704
Tax at the applicable tax rate	(79)	(70)
Tax effect of permanent differences	22	22
Effect of consolidation adjustments	(39)	(34)
Tax benefit/(expense)	**(96)**	**(82)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

25. Tax benefit/(expense) (continued)

As of December 31, 2019 the components of the tax benefit/ (expense) are as follows:

	Year ended December 31, 2019 BGN’000	Year ended December 31, 2018 BGN’000
Current tax expense	(81)	(59)
Origination and reversal of temporary differences	(3)	(23)
Effect of consolidation adjustments	(12)	-
Tax benefit/(expense)	**(96)**	**(82)**

26. 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, 2019	Year ended December 31, 2018
Profit for the year (BGN’000)	693	622
Weighted average number of shares (thousands of units)	12,014	12,014
Earnings per share in BGN	**0.058**	**0.05**

27. Financial instruments

Credit risk

The carrying amount of financial assets at 31 December 2019 includes:

	December 31, 2019 BGN’000	December 31, 2018 BGN’000
Trade and other receivables	9,585	8,819
Cash and cash equivalents	1,749	1,082
Litigations and writs	13	13
Other investments	3	3
Total	**11,350**	**9,917**

27. Financial instruments (continued)

Credit risk (continued)

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, 2019 BGN'000	December 31, 2018 BGN'000
Domestic	4,269	3,187
European Union (excluding Bulgaria)	2,467	2,769
Russia	1,264	1,402
Other	1,585	1,461
Total	**9,585**	**8,819**

Loss allowance on receivables

The aging of trade receivables, other receivables and receivables from related parties of the Group as of December 31, 2019 is as follows:

	31.12.2019 Gross BGN'000	31.12.2019 Loss allowance BGN'000	31.12.2018 Gross BGN'000	31.12.2018 Loss allowance BGN'000
Not past due	6,295	-	5,432	-
Past due up to 30 days	725	-	587	-
Past due 31-360 days	2,453	-	2,657	-
Past due over 1 year	112	-	143	-
Total	**9,585**	**-**	**8,819**	**-**

Movements in loss allowance in 2019 are as follows:

	Year ended December 31, 2019 BGN'000	Year ended December 31, 2018 BGN'000
Balance at the beginning of the year	-	864
Net remeasurement of loss allowance		-
Amounts written off	-	(864)
Balance at the end of the year	**-**	**-**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

27. Financial instruments (continued)

Liquidity risk

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

December 31, 2019	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	7,886	8,628	1,072	1,171	1,817	3,266	1,302
Secured short-term bank borrowing	3,912	3,982	39	3,943	-	-	-
Finance lease	185	185	31	29	125	-	-
Bank overdraft	5,476	5,752	58	55	3,609	2,030	-
Trade payables	4,934	4,934	4,934				
Total	**22,393**	**23,481**	**6,134**	**5,198**	**5,551**	**5,296**	**1,302**

December 31, 2018	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	8,456	9,089	1,090	1,034	1,964	3,094	1,907
Secured short-term bank borrowing	3,912	4,001	49	3,952	-	-	-
Finance lease	244	261	35	33	64	129	-
Bank overdraft	5,476	5,780	64	61	2,077	3,578	-
Trade payables	4,885	4,885	4,885	-	-	-	-
Total	**22,973**	**24,016**	**6,123**	**5,080**	**4,105**	**6,801**	**1,907**

Foreign currency risk

The exposure of the Group to foreign currency risk is insignificant as 12% of sales for 2019 are realized on the domestic market in Bulgarian levs (in 2018 - 19%) and 87% of sales for 2019 are realized in Euro (in 2018 - 71%). Imports of materials and goods in 2019 are almost entirely carried out in Euro. The loans denominated in foreign currency are granted in Euro and in BGN.

Interest rate risk

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

	December 31, 2019 BGN'000	December 31, 2018 BGN'000
Fixed interest rate instruments		
Financial assets	1,357	1,082
Financial liabilities	(185)	(244)
Total	**1,172**	**838**
Variable interest rate instruments		
Financial liabilities	(17,274)	(17,844)
Total	**(17,274)**	**(17,844)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

28. Related party transactions

As of December 31, 2019 transactions and outstanding balances with related parties are as follows:

28.1. Transactions with majority shareholders

Transactions during the year and the outstanding payables as of December 31, 2019 are stated out below:

Related party	Type of transaction	Turnover 2019 BGN'000	Outstanding payables 2019 BGN'000	Turnover 2018 BGN'000	Outstanding payables 2018 BGN'000
IGM Holding	Purchases	3	-	6	-
Individuals	Purchases	-	24	-	24
Total			**24**		**24**

28.2. Transactions with other related parties

Transactions during the year and the outstanding receivables as of December 31, 2019 are stated out below:

Related party	Type of transaction	Turnover 2019 BGN'000	Outstanding receivables 2019 BGN'000	Turnover 2018 BGN'000	Outstanding receivables 8 BGN'000
Herti Group International	Sales	2,677	746	2,676	623
Raifen - OOD	Sales	2	35	2	-
Timshel - OOD	Sales	2	-	2	-
Total			**781**		**623**

Transactions during the year and the outstanding payables as of December 31, 2019 are stated out below:

Related party	Type of transaction	Turnover 2019 BGN'000	Outstanding payables 2019 BGN'000	Turnover 2018 BGN'000	Outstanding payables 2018 BGN'000
Timshel - OOD	Purchases	78	223	78	210
Raifen - OOD	Purchases	932	70	830	33
Total			**293**		**243**

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2019
(continued)

28. Related party transactions (continued)

28.3. Remuneration of key management personnel

The remuneration of the members of the Board of Directors of the Group for 2019 amounts to BGN 587 thousand (2018: BGN 563 thousand).

29. Reclassifications made in the comparative figures in the statement of comprehensive income

In 2019 the management of the Group decided to reclassify certain items of the statement of comprehensive income for the prior 2018 for more accurate disclosure of the effects from the underlying business operations. For this reason the relevant items for the prior reporting period were also reclassified as follows:

Items of the statement of comprehensive income	**31.12.2018** Before reclassification BGN'000	**Reclassification** BGN'000	**31.12.2018** After reclassification BGN'000
Revenue	37,256	1,086	38,342
Other income	4,576	(1,086)	-
		(2,140)	1,350
Raw materials and consumables used	(24,012)	2,140	(21,872)
Reconciliation of reclassifications	**17,820**	**-**	**17,820**

30. Events after the reporting period

In relation to the need to prevent and control the distribution of the coronavirus decease (COVID-19) in the country, effective from the evening of March 13, 2020, a state of emergency is declared in Bulgaria. Measures taken by government that are mandatory for execution by all individuals and companies could lead to a decrease in revenue as well as decrease and delay in cash flows generated by the Group in 2020. As a consequence, deterioration in the solvency and liquidity of the Group can be expected, which will be reflected in the annual financial statements as of December 31, 2020. Management has introduced certain stabilization measures and expects that their application will mitigate the negative financial consequences to the extent that they will not have a significant negative impact on the future viability and the ability of the Group to continue as a going concern.

Chief Executive Officer: (signed)
Zahari Zahariev

Chief Financial Officer: (signed)
Ivaylo Petrov

May 5, 2020
Shumen

****

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

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, 2019, 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 from page 2 to page 34.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2019, 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 the International Standards of Independence) 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

During our audit of the consolidated financial statements of the Group, we have identified no key issues that should be included in our audit report.

Material Uncertainty Related to Going Concern

In Note 30 Events after the reporting period to the accompanying financial statements the management of the Group has made the following disclosures: "*In relation to the need to prevent and control the distribution of the coronavirus decease (COVID-19) in the country, effective from the evening of March 13, 2020, a state of emergency is declared in Bulgaria. Measures taken by government that are mandatory for execution by all individuals and companies could lead to a decrease in revenue as well as decrease and delay in cash flows generated by the Group in 2020. As a consequence, deterioration in the solvency and liquidity of the Group can be expected, which will be reflected in the annual financial statements as of December 31, 2020. Management has introduced certain stabilization* *measures and expects that their application will mitigate the negative financial consequences to the extent that they will not have a significant negative impact on the future viability and the ability of the Group to continue as a going concern*." Our opinion in not modified in respect of this matter.

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

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.

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 non-financial statement for the financial year for which the consolidated financial statements have been prepared is provided and prepared in accordance with the requirements of Chapter Seven of the Accountancy Act.

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.

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

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 28 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 2019, 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.

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 2019, 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.

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, 2019 of Herti – AD by the general meeting of shareholders held on June 5, 2019 for a period of one year.
- ✓ The audit of these financial statements for the year ending on December 31, 2019 of the company and its economic Group represents the second total uninterrupted statutory audit engagement for that entity carried out by us.
- ✓ 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

May 11, 2020
Varna

****

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

38 "Antim I" Str. 9700 Shumen, Bulgaria, Fax: +35954 800019, Phone: +35954 802 869, +35954 823 011
office@herti.bg, sales@herti.bg;

HL

DECLARATION OF APPLICATION
OF
THE NATIONAL CODE FOR CORPORATIVE MANAGEMENT'S RULES AND NORMS

HERTI JSC. (the Company) observes the Code for Corporative Management, approved by the Deputy Chairman of the Financial Supervision Commission. HERI JSC. considers a corporate management to be good, if the relations between the shareholders, the Company management, partners, counteragents personnel and other interest parties are loyal and balanced.

1. HERTI JSC. has an one-tier management structure. The Board of Directors (BD) consists of five (5) people, as two of them are independent. The members of the Board of Directors have equal rights and obligations, notwithstanding of the mutual internal distribution of their functions (listed in the management contracts and / or the work rules) and the rights for management and representation, granted to some of them.

1.1. The Board of Directors manages the Company independently and with responsibility in line with the vision and strategic objectives set, protecting the rights of the shareholders and treating all of them equally.

1.2. The Board of Directors manages and controls the Company development strategy, and efficiently and reasonably manages its resources.

1.3. The Board of Directors has a developed system for internal audit and control over the risk, and regularly receive information.

1.4. The Board of Directors guarantees environment for efficient control over the Executive Directors, implemented by the shareholders and the state regulation bodies.

1.5. The Board of Directors is in charge for the reliable function of the financial-information system of the Company, aided by the Informational Technologies Department of the Company and contracts with external Companies.

1.6. The Board of Directors develops budget strategy and business plan and controls them with reports, presented on their meetings.

1.7. The Board of Directors maintains the required level of the shareholders' awareness through the Investors Relationship Section, given on the Company electronic site.

1.8. The members of the Board of Directors observe the common principles of integrity and management, and professional competence throughout their mandate. The Board of Directors has adopted an Ethics Code, observed by all Employees of the Company.

1.9. The Board of Directors reports its activity in front of the General meeting of the Shareholders.

The Chairman of the BD is not an independent member, as it is one of the main shareholders and he/she is elected unanimously by the Board of Directors, also an elective body. There are no restrictive terms and conditions in the Company Statute and, therefore, the Board of Directors' members may take management positions, but they are obliged to inform the Company, if they participate in the management of competitive Companies.

2. The General Meeting of the Shareholders (GMS) elects the new members of the Board of Directors, except the situations, when a member is in objective incapacity to fulfill his / her obligations or if he /she resigns or if he / she needs to be replaced; discharge from office any members of the Board of Directors at the end of their mandate; re-elects acting members of the Board; discharge Board members earlier, when needed; elects new members of the Board of Directors, when a member is in objective incapacity to implement her / his obligations or when he / she resigns and there is a necessity for replacement; determines the remunerations and the bonuses of the members of the Board of Directors, as well the time period, for which they are due and the rights to acquire Company shares and obligations.

3. A requirement for appropriate knowledge and experience in different areas shall apply when electing members for the Board of Directors, in line with the adopted Diversity Program, in order to achieve effective Company management. The newly-elected members shall be introduced to the Company's structure, strategy and objectives.

4. The remuneration of the BD members shall be determined by the GMS in line with the adopted Company Remuneration Policy.

5. The mandate of the Board of Directors' members is five /5/ years with a difference of one year between each of members.

6. The Board of Directors activity shall be supported by an Audit Committee, consisting of three independent members and experts. The Audit Committee shall be elected by General Meeting of the Shareholders. The Company activity shall be also aided by an Operative council, where all Operative Directors participate.

7. All separate deals shall be discussed during the meetings of the BD, if a potential risk of conflict of interest exists.

8.The Board of Directors has adopted Rules for Risk Management in order to establish, manage, observe and assess the significant risks, that my affect the Company activity and for which a plan for extra situation needs to be drawn up. The Internal Control System includes preparation of analysis of the financial situation and risks, related to the Company activity, based on the six month and the annual financial report. The analysis shall be first prepared by the Audit Committee and then discussed with the Company management.

There is an ERP informational system introduced in the company that is used for processes' documentation and report (SAP, system). The system gives different levels of access to the Employees and also control to the Managers in order to implement the internal control. There are different specialized software products, installed on computers, that may be used with user applications and passwords, which give different levels of access. The internet access is restricted in all risk areas and there are access rules to different applications and resources, related to the business management systems. The access levels are clearly and accurately defined. Regular personnel trainings take place on topics like financial theory and practice as well as information technologies and security. The Commercial Director and the Controlling Department fulfills control over the compliance with the acceptancy procedures and confirmation of client orders. The access to the price lists is restricted. Regular checks of the imposed materials are done, as per expense norms and production in the SAP program, through the means of automatic controllers.

The Company financial risk is related also to the possibility of worsening the collection rate of receivables, which would lead to disturbances in the monetary flows. The control over the receivables collection is fulfilled by the traders, who work directly with the clients and follow the time limits and the amount. They prepare plans for incoming and outgoing monetary flows and their fulfillment is controlled by the financial department on monthly basis. Inventory of accounts with written confirmation of the clients' liabilities is done regularly, but obligatory - at the end of the year. We apply advance payments and letters of credit for new clients. Research on their financial stability should be done.

The rights of the shareholders is protected by HERTI JSC. Management by:

1. Guarantee that all shareholders are treated equally.

2. Guarantee of the required level of awareness of the shareholders through the means of the Company website.

3. Transparency and publicity in the Company processes, by revealing data to regulation bodies and publicity.

4. Providing option for the shareholders to participate in the General meeting, by providing relevant information for the agenda as well as available materials on the web site of the Company.

5. Achieving sustainable development and continuous growth of the Company, creating responsibility and respect to the Company reputation and property.

In line with the legal requirements, HERTI JSC. has developed a system for disclosure of correct, full, on time and understandable information, through the means of:

1. Providing the required regular and internal data to the Financial Supervision Commission, the Bulgarian Stock Exchange, the Central Depository and the investment community within the legally established time limits and by publishing Company news by the media.

2. Providing sufficient information to the shareholders related to their rights. Providing control and audit to the Company reports and compliance with the requirements of the Law on Public Offering of Securities.

3. Publishing information on the web site of the Company for easy access to it.

The Company management shall maintain efficient relations with all interested parties in line with the transparency and business moral principles. The Company takes into consideration the interest of shareholders, suppliers, clients, Employees, creditors, non-governmental organizations and others and identifies them on degree, scope of influence and relation to the Company development. There are detailed rules and policies for protection of their interest, set in the Ethical Code of the Company. When solving different issues, the Company always requires the opinion of the Interested Parties. The successful and transparent Company management and the constructive decisions are guaranteed by the adopted Diversity Program regarding the administrative and management bodies. Main criteria, applicable for election of management personnel shall be the competency, education level, experience in different scopes of the Economy and Social life, but not age, sex, social status or religion. The personal initiative is stimulated, as well as Individual development. Efforts towards the Employees' motivation are made.

In accordance of Art. 10, Para 1, items „в", "г", „е", „з" and „и" (c, d, f, h and i), the main shareholders shall inform the Company and the Competent authorities in cases of acquisition or disposal with its shares, that would lead to significant direct or indirect shareholder participations. As of the present moment the Company shares are traded on the non-official security market of the Bulgarian Stock Exchange – AD. There are no restrictions on security transfer, as shareholders with special control rights.

Chief Executive Director
Zahari Zahariev

28th February 2020
the town of Shumen

H E R T I JSC

38 'Antim I' Str. 9700 Shumen, Bulgaria, Fax: +35954 800019, Phone: +35954 802 869,+35954 823 011
office@herti.bg, sales@herti.bg;

NON-FINANCIAL DECLARATION

1. Ecology and environment protection

Herti JSC. continuously invests in new technologies, promoting the energy efficiency. The Company management understands the importance of the environment protection and pays special attention to the efficient raw materials usage. As shareholder and work partner of Ecopack JSC., the Company strictly observes all principles for protection and recovery of the environment. The Company applies measures for:

- separate collection, minimization, recovery and recycling of production and household waste;
- providing suitable training for the personnel on issues, related to the environment protection and pollution prevention;
- we responsibly fulfill the imperative requirements of Ordinance No 137 of the Ministry Council and the Ordinance for Packages and Packages' Wastes;
- all waste gases emissions in the atmospheric air from immovable emission sources are subject of measurement, as per the running legislation;
- an energy audit is made by an external certified organization periodically on every 3 years.

The production and the other waste is stored in specially designated sites in line with the applicable regulative requirements. The waste is given to licensed companies for recycle, recovery and disposal. A report on the introduced and / or imposed packages is prepared each month and once a year, consisting of type of material, for which a monthly fee is paid to Ecopack JSC., as Herti JSC. has contractual relations for package waste disposal. The measurements of the waste gases in the air as well as the emissions in the waste waters are within the required norms. In 2017 a treatment station for household wastewater was constructed on own expenses. All requirements for permission for discharge are met. Following an energy audit, the Company changed to solid fuel and gas methane. Gradual restructuring of the gas heating equipment is initiated. Four small local heating gas boilers were mounted in the administrative building, a warehouse and two production units. This shall lead to optimization of the gas consumption and more effective premise heating.

A measurement was fulfilled as well as analysis of the production supply with compressed air. A project for optimization of the compression station and system was drawn up and was presented at the European initiative "Young energy scouts", organized in Bulgaria by the German-Bulgarian Trade Council. The project was ready in December and the construction began in late January 2020. In May 2019 a new adiabate cooling system was implemented in 4 production halls that are much more efficient than the standard air conditioning and have 10 times less energy consumption.

2. Personnel

The average number of the Herti JSC. Employees is 467 people. More detailed information on the Company personnel is provided in the table below:

Indicator	Number	Rel. share in %
Number of Employees as of 31.12.2019	467	100
Higher education	97	21
Secondary education	321	69
Primary education	49	10
Employees up to 30 г.	75	16
Employees from 31 to 40	94	20
Employees from 41 to 50	162	35
Employees from 51 to 60	122	26
Employees above 60	14	3
Women	190	41
Men	277	59

The training programs, available to the Company Employees, focus on promotion of their competences, qualification and carrier development. Trainings on Healthy and Safe Labour Conditions take place regularly. Employees, working under specific, dangerous or harmful conditions, receive personal protection means and benefits. The responsibility of the management for the health and well being of the workers has good traditions. Different trainings are organized each year according to the specific needs of qualification. The yearly training plan is prepared on the basis of the principle for Learning through the whole life. The aim is every working place to have reasonable quantity of qualified people, which leads to manufacturing high quality products and satisfied customers. More than 80% of the planned trainings for 2019 have been held as for example the training on the LEAN method and the training for Protocol and style.

A Commission on Labour Conditions is functioning in the Company and its work is related to the healthy and safe labour conditions. It participate in discussions on issues related to the labour conditions as a whole, the labour remunerations and the structural changes. Herti JSC. observes compliance with the running labour legislation in its full volume, concerning labour remunerations, leaves, overtime etc. Providing and maintaining a health and safe working environment is very important for the quality of life and the well being not only for Herti’s employees, but for the surrounding communities as well.

Herti JSC is a socially responsible commercial company, with care for the people, working there and for the environment as well. The company participates on yearly bases as a grantor in all significant events and initiatives, both on the territory of the factory, but also on the territory of the towns, from where our personnel come from. The main efforts and activities are focused on creating beneficial environment in the municipality and the settlement, where the Company functions. We are not indifferent to the needs of the education, culture, health care and environment.

Herti JSC. implements its industrial activity as a responsible community member, that respects the running legislation of our country, but also of other countries, related to our business interests. The Company carefully manages the social effect of its business activities and puts efforts for the community prosperity as a whole.

The management puts efforts to improve the knowledge and the culture of our employees and partners in the field of healthy and safe working conditions. The frequent trainings, communications and periodical medical exams are in the basis of creating high level prevention for the workers health and for the safe working conditions.

The social responsibility of the company is directed to such fields as education, culture, religion and social life in the region. Herti is engaged with a long term project for the travel safety of children and takes part in the project: Put a safety belt at the rear seat of the car. The project addresses children from all primary schools in the Municipality and the region of Shumen. Herti pays attention to the children of its workers by organizing open days to show them the working places of their parents.

3. Human Rights

Herti JSC. declares its respect to human rights. The Company has adopted and follows an Ethics Code, where the equal rights of all employees, partners and counteragents are set. The Diversity Principle for all structure levels is respected in the Company. Herti JSC. is a member of SEDEX, international non-governmental organization, providing information for the ethical relations in the supply chain and the representation of the Companies within the area of observance of the labour legislation, the healthy and safe labour conditions, environment protection and business ethics. SEDEX fulfills social audit of its Company-members and facilitate the information exchange between them in order to promote continuous improvement and development of the labour environment and the rights of the workers and employees.

4. Corruption counteraction

Herti JSC. creates relationships, based on moral values, aiming at reputation of honest, competent and professional partner. It defends and encourages the competition, The trust bonds with our shareholders, business partners and publicity are of great importance. We encourage all kinds of counteraction to corruption and personal benefits. Main principle of Herti JSC. is to restrain from any types of “mutual agreements” and whatsoever illegal actions, aiming at gaining some benefits. The ethical business relations are regulated in the Ehtics Code and the Company Program for Corporative Management.

Chief Executive Director
Zahari Zahariev

28th February 2020
the town of Shumen