

HERTI JSC
CONSOLIDATED ANNUAL FINANCIAL REPORT,
AND
AUDITORS REPORT

31 December 2021.

SHUMEN

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as of December 31, 2021

	Notes	December 31, 2021 BGN'000	December 31, 2020 BGN'000
Non-current assets			
Property, plant and equipment	4	24 203	24 470
Intangible assets	5	41	53
Investments	6	124	111
Total non-current assets		24 368	24 634
Current assets			
Inventories	7	11 279	7 763
Trade and other receivables	8	11 346	7 797
Cash and bank balances	9	2 352	3 490
Total current assets		24 977	19 050
Total assets		49 345	43 684
Equity			
attributable to owners of the Company			
Share capital	10	12 014	12 014
Retained earnings		6 282	4 776
Total equity		18 296	16 790
Non-current liabilities			
Non-current bank borrowings	11	11 025	7 488
Government grants	12	1 221	1 403
Deferred tax liabilities	13	756	795
Other non-current liabilities	14	513	464
Total non-current liabilities		13 515	10 150
Current liabilities	15	17 534	16 744
Total liabilities		31 049	26 894
Total equity and liabilities		49 345	43 684

Chief Executive Officer: (signed)
Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

April 21, 2022

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2021

	<i>Notes</i>	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Revenue	16	56 083	46 361
Other income	17	1 914	613
Total revenue and other income		57 997	46 974
Raw materials and consumables used	18	35 639	25 659
Hired services	19	5 384	4 141
Employee benefits expense	20	12 337	11 853
Depreciation and amortisation expenses		3 708	3 698
Other expenses	21	298	635
Total operating expenses		57 366	45 986
Cost of goods sold		416	365
Changes of inventories of finished goods and work in progress		(1 712)	(1 241)
Total adjustments		(1 296)	(876)
Interest income/(expenses)	22	(304)	(329)
Share of profits of associates	23	15	4
Exchange rate gain/(loss)		216	(175)
Other finance costs		(75)	(78)
Total finance income/(costs)		(148)	(578)
Profit before tax		1 779	1 286
Tax benefit/(expense)	24	(207)	(152)
Profit for the year		1 572	1 134
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses), net of income tax		(70)	(18)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		4	2
Other comprehensive income for the year		(66)	(16)
Total comprehensive income for the year		1 506	1 118
Total comprehensive income attributable to:			
Owners of the Company		1 506	1 118
Earnings per share in BGN	25	0,13	0,09

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April 21, 2022

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2021

	Equity attributable to equity holders of the parent						Total
	Share capital	Share premium	Legal reserve	Additional reserve	Retained earnings	Profit/ (loss)	
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	
Balance at January 1, 2020	12 014	29	375	446	2 115	693	15 672
Transfer to retained earnings	-	-	-	-	693	(693)	-
Transfer to legal reserve	-	-	73	-	(73)	-	-
Total comprehensive income for the year	-	-	-	-	(16)	1 134	1 118
Balance at December 31, 2020	12 014	29	448	446	2 719	1 134	16 790
Transfer to retained earnings	-	-	-	-	1 134	(1 134)	-
Transfer to legal reserve	-	-	115	-	(115)	-	-
Total comprehensive income for the year	-	-	-	-	(66)	1 572	1 506
Balance at December 31, 2021	12 014	29	563	446	3 672	1 572	18 296

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CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2021

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Cash and cash equivalents at the beginning of the year	3 490	1 749
Cash from operating activities		
Receipts from customers and other debtors	61 929	53 446
Payments to suppliers and other creditors	(45 699)	(34 997)
Payments for salaries, social security and other	(12 345)	(11 461)
Refunded/(paid) taxes, net	(1 656)	(981)
Other cash flows from operating activities	(45)	119
Net cash from operating activities	2 184	6 126
Investing activities		
Purchases of property, plant and equipment	(3 393)	(3 494)
Net cash used in investing activities	(3 393)	(3 494)
Financing activities		
Proceeds from borrowings	2 163	1 631
Repayment of borrowings	(1 927)	(2 128)
Payment for leases	(62)	(60)
Interest and bank commissions paid	(218)	(361)
Net cash used in financing activities	(44)	(918)
Net (decrease)/increase in cash and cash equivalents	(1 253)	1 714
Effects of foreign exchange rate changes	115	27
Cash and cash equivalents at the end of the year	2 352	3 490

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Zahari Zahariev

Registered Auditor: (signed)

Chief Financial Officer: (signed)
Ivaylo Petrov

April 21, 2022

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021**

1. General information

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

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

The Group has a one-tier management system. At the date of preparation of these consolidated financial statements, the Group is managed by a Board of Directors consisting of five members and is represented by the Chief Executive Officer and the Chairman of the Board of Directors individually and jointly according to the size of the transactions specified in the Articles of Association of the Group. These consolidated annual financial statements have been approved by the Board of Directors for issue on April 21, 2022.

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 2021 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, 2021 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, 2021
(continued)

2.2. Changes in accounting policies

Changes in IAS that have been in effect since January 1, 2021 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 2021 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 2021 and 2020 are presented in thousands of Bulgarian Lev (BGN) unless otherwise stated. Earnings per share are calculated and disclosed in BGN. Rounding of amounts is based on generally accepted requirements.

2.4. Fair value measurement

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)**2.5. Consolidation**

Consolidated financial statements of the Group include the separate financial statements of the Parent and the financial statements of the subsidiaries prepared as of December 31, 2021. 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, 2021 the Group`s direct or indirect interest in subsidiaries consolidated in these financial statements is as follows:

Name of subsidiary	31.12.2021 Proportion of ownership interest	31.12.2020 Proportion of ownership interest
Tihert – EAD	100	100
Herti UK	100	100
Herti France	100	100
Herti Germany	100	100
Herti US	100	100

2.7. Investments in associates

Associates are those entities over which the Group has significant influence but not control over the financial and operating activities. Associates are accounted for and presented in the consolidated financial statements using the equity method. The consolidated financial statements include the proportion of the Group consistent with its participation in the revenue and expenses of the associates as at the end of the reporting period. As of December 31, 2021 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, 2021 all subsidiaries are 100 % owned by the Group so, no non-controlling interest is presented in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

2.9. Comparative figures

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

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

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

2.10. Use of accounting estimates

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

2.11. Functional currency and presentation currency

Functional currency is the currency of the primary economic environment in which the Group operates and in which the Group primarily generates and expends cash. The functional currency of the Group is Bulgarian Lev (BGN) which is the national currency of Bulgaria, and has been pegged to the EURO at a fixed exchange rate of EUR 1: BGN 1.95583. The exchange rates of BGN to the other foreign currencies are determined by the Bulgarian National Bank (BNB) applying the exchange rate of EURO to the respective currency on the international markets. The foreign exchange rate differences arising upon the settlement of these monetary positions or at restatement of these positions at rates, different from those when initially recorded, are reported as financial income or financial expenses for the period in which they arise. The consolidated financial statements presentation currency of the Group is also BGN. The monetary positions denominated in foreign currency as of December 31, 2021 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, 2021	December 31, 2020
USD 1 = BGN 1.72685	USD 1 = BGN 1.59386
GBP 1 = BGN 2.32759	GBP 1 = BGN 2.17549

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

2.12. Financial risks management

The Group's activities expose it to a variety of financial risks. Market risk is the risk that the fair value of future cash flows of the financial instruments will fluctuate as a result of changes in market prices, including currency (foreign exchange) risk, interest rate risk, and other price risk. Credit risk is the risk that the financial instrument counterparties could cause each other financial losses should they fail to perform as contracted. Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due. The Board of Directors is responsible for identifying and managing the risks to which the Group is exposed. The Group's risk management policy is developed to identify and 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.

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 2021.

2.12.3. Price risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

2.12. Financial risks management (continued)

2.12.4. Credit risk

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

Trade receivables

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

Guarantees

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

2.12.5. Liquidity risk

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

2.12.6. Capital risk management

The policy of the management is to maintain a strong capital base so as to maintain the confidence of the owners and the market as a whole in order to provide the conditions for business development in the future. The aim of the Group is to maintain a balance between the higher returns that may be possible with higher levels of indebtedness and the benefits and security of a strong capital position. The Group's goal is to achieve a return of capital between 8% and 10%. In 2021, the return is 12.54 % (2020 – 9.44 %). 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 2021, the Group fulfills these requirements because its net assets amount to BGN 18,296 thousand and the amount of the registered capital is BGN 12,014 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

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

2.13.1. Property, plant and equipment

Property, plant and equipment are valued at cost comprising purchase price and any installation costs incurred, less accumulated depreciation and impairment. The Group has approved a threshold amounting to BGN 500 in determining an asset as property, plant and equipment. Subsequent expenditure on property, plant and equipment, which improves the condition of the asset beyond its originally assessed standard of performance or increases the future economic benefits which will flow to the enterprise, should be capitalized to the carrying amount of the asset. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred. The carrying amounts of property, plant and equipment are subject of a review for impairment when there are indications that the carrying amounts differ substantially from their recoverable amounts. If such indicators exist an asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An impairment loss is recognized immediately in profit or loss unless the asset is carried at revalued amount. Then impairment loss is charged as a revaluation decrease and is recognised in other comprehensive income. If the impairment loss exceeds the amount of the revaluation surplus, the difference is charged as a current expense in the consolidated statement of comprehensive income.

2.13.2. Intangible assets

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

2.13.3. Right-of-use assets

A lessee shall present in the consolidated statement of financial position, or disclose in the notes right-of-use assets separately from other assets. An exception is made for those assets that are leased for a period less than one year as well as for those with initial value up to BGN 10 thousand, which are not presented in the consolidated statement of financial position of the Group. The lease due is charged as a current expense for the period of their use. At the commencement date, a lessee shall measure the right-of-use asset at cost. In the consolidated statement of financial position as of December 31, 2021 right-of-use assets are valued at cost, less accumulated depreciation and any accumulated impairment losses. The depreciation policy for right-of-use assets is consistent with the normal depreciation policy for similar assets but also with regard to the relevant lease term. Interest is recognised in the consolidated statement of comprehensive income according to the repayment schedule.

2.13.4. Investments in associates

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2021

(continued)

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

2.13.5. Inventories

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

2.13.6. Financial instruments

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

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

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

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

(a) Trade and other receivables

Trade and other receivables in BGN are valued at nominal value and those in foreign currency are revalued at the closing exchange rate of the Bulgarian National Bank as of December 31, 2020, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2021

(continued)

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

2.13.6. Financial instruments (continued)

(a) Trade and other receivables (continued)

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

(b) Cash and cash equivalents

Cash in BGN is stated at nominal value and cash in foreign currency is stated at the closing exchange rate of BNB as of December 31, 2021. 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, 2021.

(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, 2021.

2.13.7. Non-current assets held for sale

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

2.13.8. Share capital

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

2.13.9. Reserves

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2021

(continued)

2.13. Definition and valuation of the consolidated statement of financial position elements (continued)**2.13.10. Employee benefits****(a) Defined contribution plans**

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

(b) Annual paid leave

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

(c) Retirement benefits

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

2.14. Depreciation and amortization

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

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

Classes of assets	2021	2020
Buildings	25 - 30	25 - 30
Plant and equipment	2 - 30	2 - 30
Vehicles	5 - 15	5 - 15
Office equipment	5 - 20	5 - 20
Software	2 - 8	2 - 8
Patents and trademarks	6 - 20	6 - 20

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

2.15. Provisions

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

2.15. Provisions (continued)

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

2.16. Leases

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The right to control the use of an asset is determined when both of the following conditions are present and met:

- (a) the right to obtain substantially all of the economic benefits from use of the identified asset; and
- (b) the right to direct the use of the identified asset.

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

2.17. Revenue and expenses recognition

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

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

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

2.17.2. Costs to obtain and fulfil contracts

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

2.17. Revenue and expenses recognition (continued)

2.17.3. Income from government grants

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

2.17.4. Finance income/ (costs)

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

2.18. Earnings per share

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

2.19. Operating segments

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

2.20. Taxation

According to the Bulgarian tax legislation for 2021 the Group is subject to a corporate income tax, which is 10 % of the taxable profit (2020 – 10%). For 2022 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 be 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

2.21. Dividends

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

2.22. Related parties

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

3. Segment information

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

	European Union (excluding Bulgaria)		Bulgaria		Other		Group as a whole	
	2021	2020	2021	2020	2021	2020	2021	2020
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Revenue from external customers:								
Sales	35,577	34,266	5,205	4,928	15,301	7,167	56,083	46,361
Total income	35,577	34,266	5,205	4,928	15,301	7,167	56,083	46,361
Cost of sales	24,098	23,622	4,505	4,069	13,138	6,089	41,741	33,780
Gross profit	11,479	10,644	700	859	2,163	1,078	14,342	12,581
Unallocated revenue							1,894	403
Unallocated expenses							(14,309)	(11,120)
Profit before tax							1,927	1,864
Finance income/(costs)							(148)	(578)
Tax expenses							(207)	(152)
Profit for the year							1,572	1,134
Segment assets	6,425	5,165	938	927	3,584	3,527	10,947	9,619
Unallocated assets							38,398	34,065
Total assets							49,345	43,684
Unallocated liabilities							31,049	26,894
Total liabilities							31,049	26,894
Capital costs							3,551	3,569
Depreciation and amortisation expenses							3,708	3,698

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(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, 2020	11,272	35,026	356	2,035	48,689
Additions	327	3,291	46	2,773	6,437
Transferred	-	(81)	(5)	(3,166)	(3,252)
Balance at December 31, 2020	11,599	38,236	397	1,642	51,874
Additions	-	619	57	2,751	3,427
Transferred	379	1,295	-	(1,674)	-
Disposed	-	-	(9)	-	(9)
Balance at December 31, 2021	11,978	40,150	445	2,719	55,292
Accumulated depreciation:					
Balance at January 1, 2020	3,625	19,823	341	-	23,789
Charge for the year	381	3,190	44	-	3,615
Balance at December 31, 2020	4,006	23,013	385	-	27,404
Charge for the year	388	3,244	62	-	3,694
Eliminated on disposals	-	-	(9)	-	(9)
Balance at December 31, 2021	4,394	26,257	438	-	31,089
Carrying amount at December 31, 2021	7,584	13,893	7	2,719	24,203
Carrying amount at December 31, 2020	7,593	15,223	12	1,642	24,470

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, 2021 property, plant and equipment with carrying amount of BGN 15,453 thousand are mortgaged as collateral on bank borrowings received by the Group.

5. Intangible assets

	Software BGN'000	Patents and trade marks BGN'000	Total BGN'000
Cost:			
Balance at January 1, 2020	825	337	1,162
Additions	1	-	1
Balance at December 31, 2020	826	337	1,163
Additions	2	-	2
Balance at December 31, 2021	828	337	1,165
Accumulated amortisation:			
Balance at January 1, 2020	780	247	1,027
Charge for the year	37	46	83
Balance at December 31, 2020	817	293	1,110
Charge for the year	7	7	14
Balance at December 31, 2021	824	300	1,124
Carrying amount at December 31, 2021	4	37	41
Carrying amount at December 31, 2020	9	44	53

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

6. Investments

	December 31, 2021 BGN'000	December 31, 2020 BGN'000
Investments accounted for using the equity method		
Herti Group International Romania	121	108
Total	121	108
Other investments		
Ecopack – AD	3	3
Total investments	124	111

As of December 31, 2021 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 %.

As of 31 December 2021 the Group's share of the assets, liabilities, net assets and results of Herti Group International Romania is as follows:

	December 31, 2021 BGN'000	December 31, 2020 BGN'000
Current assets	1,177	946
Total assets	1,177	946
Current liabilities	(931)	(726)
Total liabilities	(931)	(726)
Net assets	246	220
Investment of the Group – 49%	121	108

7. Inventories

	December 31, 2021 BGN'000	December 31, 2020 BGN'000
Raw materials	5,747	4,237
Finished goods	3,252	2,695
Work in progress	2,280	831
Total	11,279	7,763

As of December 31, 2021 inventories with a carrying amount of BGN 2,640 thousand serve as collateral for bank borrowings provided to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

8. Trade and other receivables

	December 31, 2021 BGN'000	December 31, 2020 BGN'000
Trade receivables	11,004	7,636
Loss allowance	<u>(57)</u>	<u>(64)</u>
Trade receivables, net	10,947	7,572
Tax refundable	189	101
Receivables on advances given	94	108
Litigations and writs	1	8
Other receivables	115	8
Total	<u>11,346</u>	<u>7,797</u>

9. Cash and bank balances

	December 31, 2021 BGN'000	December 31, 2020 BGN'000
Cash in foreign currency	2,124	3,292
Cash in BGN	<u>228</u>	<u>198</u>
Total	<u>2,352</u>	<u>3,490</u>

10. Share capital

As of December 31, 2021 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	<u>12,013,797</u>	<u>100</u>

11. Non-current bank borrowings

11.1. As at 31 December 2021, the Group has four long-term investment borrowings totaling BGN 6,340 thousand, including a long-term portion of BGN 4,485 thousand and a short-term portion of BGN 1,855 thousand. The deadline for repayment of the borrowings is in the period 2024 - 2029. The annual interest rate is determined by the reference interest rate, the one-month and six-month EURIBOR for the respective period, plus a certain mark-up. The borrowings are secured by movable property owned by the Group and a special pledge on receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2021

(continued)

11. Non-current bank borrowings (continued)

11.2. As of December 31, 2021, the Group has liabilities under a long-term investment loan financed under the GALP programme with the support of Innovation Norway in the amount of BGN 1,288 thousand, including a long-term portion of BGN 1,064 thousand and a short-term portion of 224 thousand. The deadline for repayment of the loan is 2028. The annual interest rate is determined by six-month EURIBOR for the respective period plus a certain mark-up. The loan is secured by movable property owned by the Group, a special pledge on receivables and financing.

11.3. As at 31 December 2021 the Group has outstanding liabilities under two bank overdrafts totaling BGN 5,476 thousand. The repayment terms of the borrowings are in 2023 and 2024. The annual interest rate of one of the overdrafts is determined by the one-month reference interest rate 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.

12. Government grants

12.1. In prior reporting periods the Group has concluded a contract with the Ministry of Economy and Energy for a grant under the Operational Program "Development of the Competitiveness of the Bulgarian Economy" 2007 - 2013. The project entitled "Investments for reducing the energy consumption in the production system of Herti AD" has a total amount of BGN 2,450 thousand and the maximum amount of the grant is BGN 1,225 thousand. In March 2014 after verification of the investments made, the amount of BGN 1,201 thousand was paid to the Group. In 2021 the income from government grants amounts to BGN 80 thousand and the project liability as of December 31, 2021 is BGN 505 thousand, with a short-term portion of BGN 80 thousand and a long-term portion of BGN 425 thousand.

12.2. In December 2013 the Group concluded a contract with the Ministry of Economy and Energy for a grant under the Operational Program "Development of the Competitiveness of the Bulgarian Economy 2007 - 2013 under the project "Implementing Innovation in Enterprises". The investment costs for the project amount to BGN 3,528 thousand and the grant amounts to BGN 1,768 thousand. The equipment was delivered in January 2015. All project documents were approved by the contracting authority - the Ministry of Economy and Energy and the grant was paid to the Group in June 2015. In 2021 income from government grants is BGN 117 thousand. The liability as of December 31, 2021 is BGN 855 thousand, of which a short-term portion amounting to BGN 117 thousand and long-term portion of BGN 738 thousand.

12.3. 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 2021 the income from government grants is BGN 7 thousand. The liability as of December 31, 2021 is BGN 43 thousand, of which a short-term portion amounting to BGN 7 thousand and long-term portion of BGN 36 thousand.

12.4. In the prior reporting period, the Group signed a contract with the Working Conditions Fund for financing under the project "Improvement of the conditions in Tichert - EAD." The total amount of the project is BGN 129 thousand, and the grant is BGN 39 thousand. In 2021 the income from government grants is BGN 14 thousand. The liability as of December 31, 2021 is BGN 25 thousand, of which a short-term portion amounting to BGN 3 thousand and long-term portion of BGN 22 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

12. Government grants (continued)

12.5. During the current reporting period the Group has concluded a contract for financing with Innovation Norway under the GALP program. The maximum amount of funding is EUR 800 thousand (equivalent to BGN 1,565 thousand), and the target is the purchase of machinery and equipment in the amount of EUR 1,646 thousand (equivalent to BGN 3,219 thousand). As of December 31, 2021, the Group has not yet received funds from financing.

13. Deferred tax liabilities

As of December 31, 2021 the components of the deferred tax liabilities/(assets) are as follows:

	December 31, 2021 BGN'000	December 31, 2020 BGN'000
Effect of retirement benefits	(51)	(40)
Effect of unused paid leave	(36)	(33)
Effect of loss allowance	(6)	(6)
Effect of tax losses	(2)	(3)
Total deferred tax assets	(95)	(82)
Difference between the carrying amount and tax base of depreciable assets	851	877
Total deferred tax liabilities	851	877
Deferred tax liabilities, net	756	795

The movement of the deferred tax liabilities/(assets) in 2021 is as follows:

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Balance at the beginning of the year	795	812
Charge to profit or loss	46	17
Charge to other comprehensive income	(7)	(2)
Credit to profit or loss	(78)	(32)
Balance at the end of the year	756	795

14. Other non-current liabilities

	December 31, 2021 BGN'000	December 31, 2020 BGN'000
Retirement benefit obligation	513	401
Finance lease liabilities	-	63
Total	513	464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

14. Other non-current liabilities (continued)

14.1. Retirement benefit obligation

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Balance at the beginning of the year	401	375
Current service cost and interest cost	68	56
Benefits paid	(34)	(50)
Actuarial (gains)/losses	78	20
Total	513	401

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 2018 – 2020.
- (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 2021, the total amount of the liability amounts to BGN 63 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. As of December 31, 2021 the liability is entirely short-term and is accordingly presented in the group of current liabilities.

15. Current liabilities

	December 31, 2021 BGN'000	December 31, 2020 BGN'000
Trade payables	8,417	4,650
Bank borrowings	3,912	3,912
Current portion of non-current bank borrowings	2,079	5,378
Employees	1,009	1,048
Taxes	731	542
Advances from customers	683	281
Social security	402	506
Current portion of government grants	207	204
Current portion of finance lease liabilities	63	62
Other payables	31	161
Total	17,534	16,744

As of 31 December 2021 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 2022. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

15. Current liabilities (continued)

The movement of the unused paid leave is as follows:

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Balance at the beginning of the year	326	323
Accrued	858	783
Used-up and written-off	(825)	(780)
Balance at the end of the year	359	326

16. Revenue

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Revenue from sale of aluminium closures	41,378	34,695
Revenue from sale of composite closures	12,994	8,891
Revenue from sale of plastic closures	952	920
Revenue from sales of goods for resale	274	176
Revenue from sales of pourers	64	181
Other	421	1,498
Total	56,083	46,361

17. Other income

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Income from government grants	498	238
Gain/ (loss) on sale of materials	27	16
Other income	1,389	359
Total	1,914	613

Income from government grants in the amount of BGN 498 thousand represents financing related to investments in the amount of BGN 218 thousand, government grants under the programme for compensation of industrial electricity consumers in the amount of BGN 247 thousand and government grants under a measure to preserve employment, which gained publicity as "60/40" in the amount of BGN 33 thousand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

18. Raw materials and consumables used

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Raw materials	29,043	21,563
Electricity	2,236	1,289
Gas	823	476
Other	3,537	2,331
Total	35,639	25,659

19. Hired services

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Transport services	3,515	2,251
Repairs	451	291
Commissions	311	245
Rents	235	186
Insurance	70	75
Advertising and consulting services	69	119
Communications	68	57
Other hired services	665	917
Total	5,384	4,141

The remuneration of the auditors for the audit services provided to the Group for 2021 amounts to BGN 21 thousand. With the permission of the audit committee the auditors have also provided permitted by the European and national audit legislation service, which is different from the legal audit, in the amount of BGN 1 thousand.

20. Employee benefits expense

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Salaries	10,010	9,752
Social security	1,826	1,750
Food vouchers	427	315
Retirement benefits	41	33
Unused paid leave, net	33	3
Total	12,337	11,853

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

21. Other expenses

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Waste of assets	88	192
Business trips	11	57
Written-off receivables	1	81
Loss allowance on receivables	-	64
Other expenses	198	241
Total	298	635

22. Interest income/(expenses)

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Interest expenses on borrowings and leases	(301)	(326)
Other interest expenses	(3)	(3)
Total	(304)	(329)

23. Share of profits of associates

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Net profit for the year, reported by the associate	30	8
Share of profits of associates - 49 %	15	4

24. Tax benefit/(expense)

As of December 31, 2021 the reconciliation of the tax benefit/ (expense) is as follows:

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Profit before tax	1,779	1,286
Tax at the applicable tax rate	(178)	(129)
Tax effect of permanent differences	13	19
Effect of consolidation adjustments	(42)	(42)
Tax benefit/(expense)	(207)	(152)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

24. Tax benefit/(expense) (continued)

As of December 31, 2021 the components of the tax benefit/ (expense) are as follows:

	Year ended December 31, 2021 BGN'000	Year ended December 31, 2020 BGN'000
Current tax expense	(238)	(169)
Origination and reversal of temporary differences	39	17
Effect of consolidation adjustments	(8)	-
Tax benefit/(expense)	(207)	(152)

25. 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, 2021	Year ended December 31, 2020
Profit for the year (BGN'000)	1,572	1,134
Weighted average number of shares (thousands of units)	12,014	12,014
Earnings per share in BGN	0.13	0.094

26. Financial instruments

Credit risk

The carrying amount of financial assets at 31 December 2021 includes:

	December 31, 2021 BGN'000	December 31, 2020 BGN'000
Trade and other receivables	10,947	7,572
Cash and cash equivalents	2,352	3,490
Litigations and writs	1	8
Other investments	3	3
Total	13,303	11,073

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, 2021 BGN'000	December 31, 2020 BGN'000
Domestic	5,693	2,930
European Union (excluding Bulgaria)	1,117	1,708
Russia	742	1,115
Other	3,395	1,819
Total	10,947	7,572

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

26. Financial instruments (continued)

Credit risk (continued)

Loss allowance on receivables

The aging of trade receivables of the Group as of December 31, 2021 is as follows:

	31.12.2021	31.12.2021	31.12.2020	31.12.2020
	Gross	Loss allowance	Gross	Loss allowance
	BGN'000	BGN'000	BGN'000	BGN'000
Not past due	8,710	-	4,595	-
Past due up to 30 days	956	-	785	-
Past due 31-360 days	1,207	-	1,581	-
Past due over 1 year	74	57	611	64
Total	10,947	57	7,572	64

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

Liquidity risk

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

December 31, 2021	Carrying amount	Agreed cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Secured long-term bank borrowings	7,628	7,955	1,021	1,216	2,368	3,350	-
Secured short-term bank borrowing	3,912	3,982	39	3,943	-	-	-
Bank overdraft	5,476	5,726	54	50	2,056	3,566	-
Trade payables	8,417	8,417	8,417	-	-	-	-
Total	25,433	26,080	9,531	5,209	4,424	6,916	-
December 31, 2020	Carrying amount	Agreed cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000	BGN'000
Secured long-term bank borrowings	7,390	7,835	1,114	899	1,670	4,008	144
Secured short-term bank borrowing	3,912	4,072	39	51	3,982	-	-
Finance lease	125	125	31	31	63	-	-
Bank overdraft	5,476	5,639	1,232	2,378	39	1,990	-
Trade payables	4,650	4,650	4,650	-	-	-	-
Total	21,553	22,321	7,066	3,359	5,754	5,998	144

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

26. Financial instruments (continued)

Foreign currency risk

The exposure of the Group to foreign currency risk is insignificant as 15% of sales for 2021 are realized on the domestic market in Bulgarian levs (in 2020 - 11%) and 72% of sales for 2021 are realized in Euro (in 2020 - 87%). Imports of materials and goods in 2020 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, 2021 BGN'000	December 31, 2020 BGN'000
Fixed interest rate instruments		
Financial assets	2,339	3,490
Total	2,339	3,490
Variable interest rate instruments		
Financial liabilities	(17,016)	(16,778)
Total	(17,016)	(16,778)

27. Related party transactions

As of December 31, 2021 transactions and outstanding balances with related parties are as follows:

27.1. Transactions with majority shareholders

Transactions during the year and the outstanding payables as of December 31, 2021 are stated out below:

Related party	Type of transaction	Turnover	Outstanding payables	Turnover	Outstanding payables
		2021 BGN'000	2021 BGN'000	2020 BGN'000	2020 BGN'000
IGM Holding	Purchases	1	-	2	-
Individuals	Purchases	-	-	-	24
Total			-		24

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

27. Related party transactions (continued)

27.2. Transactions with other related parties

Transactions during the year and the outstanding receivables as of December 31, 2021 are stated out below:

Related party	Type of transaction	Turnover	Outstanding receivables	Turnover	Outstanding receivables
		2021 BGN'000	2021 BGN'000	2020 BGN'000	2020 BGN'000
Herti Group International	Sales	3,330	829	2,666	630
Raifen - OOD	Sales	2	-	10	-
Timshel - OOD	Sales	2	-	2	-
Total			829		630

Transactions during the year and the outstanding payables as of December 31, 2021 are stated out below:

Related party	Type of transaction	Turnover	Outstanding payables	Turnover	Outstanding payables
		2021 BGN'000	2021 BGN'000	2020 BGN'000	2020 BGN'000
Timshel - OOD	Purchases	78	203	78	239
Raifen - OOD	Purchases	1,133	167	1,011	131
Total			370		370

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.

27.3. Remuneration of key management personnel

The remuneration of the members of the Board of Directors of the Group for 2021 amounts to BGN 543 thousand (2020: BGN 578 thousand).

28. Events after the reporting period

At the end of February 2022, a military conflict broke out between Russia and Ukraine. As a result, normal trade relations with these two countries have been severely disrupted. The United States, as well as many countries in Europe and the world, has imposed a number of economic sanctions on Russia. All these events, as well as the restrictive economic and financial measures imposed, could lead to changes in the prices of energy and many other goods and services. This, in turn, may adversely affect the growth of the global and European economy, as well as adversely affect the Group's operations in subsequent reporting periods. The Group's management analyses and monitors the situation and is in the process of considering certain protective and stabilization measures. Their implementation is expected to mitigate the negative financial consequences of the military conflict to the extent that they do not have a significant negative impact on the future viability and the Group's ability to continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
as of December 31, 2021
(continued)

29. Other disclosures

In connection to the need to limit and control the spread of coronavirus (COVID-19) in the country and the current anti-epidemic measures, the management of Herti continues to apply all necessary precautions to preserve the health and lives of its employees and partners and to organize the production process in an emergency situation in order to prevent the cease of the production process, disruption of the supply chain and the supply of customers with the products they need for their production. An organization for cleaning and disinfection of surfaces, door handles and faucets three times a day has been established. Disinfectants are placed in all workplaces for the employees, who are periodically instructed to observe the increased hygienic requirements. Additional time for cleaning and disinfection is provided between shifts. An organization of travel has been established in which employees from the shifts that come to work and that go away do not meet. Masks are provided to all workers. Business trips as well as daily and weekly operational meetings have been suspended. Communications are carried-out online. Some of the employees from the administrative department work from home. Incoming drivers and couriers are required to disinfect and use masks. They do not enter the work premises. The employees who communicate with them wear masks and gloves. Vacations are organized on a flow schedule in order to reduce the gathering of people. Some employees use personal transport to get to the production premises in Pliska in order to reduce the number of people using the company bus. Actions have been taken to test all employees who show symptoms and recovered employees are admitted to work only after a negative PCR test, in order to prevent the uncontrolled spread of the disease and to ensure maximally the production process and processing the customer orders. During the period, an organization was established for vaccination of a list of our employees in vaccination centres and on site at the plant. Just over 20% of the Group's employees have been vaccinated.

Chief Executive Officer: (signed)
Zahari Zahariev

Chief Financial Officer: (signed)
Ivaylo Petrov

April 21, 2022
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, 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Accounting Standards as adopted by the European Union (IASs).

Basis for Opinion

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

Emphasis of Matter

We draw attention to the following two disclosures made by management in the notes to these consolidated financial statements:

a) Note 28. Events after the reporting period: *“At the end of February 2022, a military conflict broke out between Russia and Ukraine. As a result, normal trade relations with these two countries have been severely disrupted. The United States, as well as many countries in Europe and the world, has imposed a number of economic sanctions on Russia. All these events, as well as the restrictive economic and financial measures imposed, could lead to changes in the prices of energy and many other goods and services. This, in turn, may adversely affect the growth of the global and European economy, as well as adversely affect the Group's operations in subsequent reporting periods. The Groups management analyses and monitors the situation and is in the process of considering certain protective and stabilization measures. Their implementation is expected to mitigate the negative financial consequences of the military conflict to the extent that they do not have a significant negative*

impact on the future viability and the 'Group's ability to continue as a going concern.' Our opinion is not modified in respect of this matter.

b) Note 29. Other disclosures: *“In connection to the need to limit and control the spread of coronavirus (COVID-19) in the country and the current anti-epidemic measures, the management of Herti continues to apply all necessary precautions to preserve the health and lives of its employees and partners and to organize the production process in an emergency situation in order to prevent the cease of the production process, disruption of the supply chain and the supply of customers with the products they need for their production. An organization for cleaning and disinfection of surfaces, door handles and faucets three times a day has been established. Disinfectants are placed in all workplaces for the employees, who are periodically instructed to observe the increased hygienic requirements. Additional time for cleaning and disinfection is provided between shifts. An organization of travel has been established in which employees from the shifts that come to work and that go away do not meet. Masks are provided to all workers. Business trips as well as daily and weekly operational meetings have been suspended. Communications are carried-out online. Some of the employees from the administrative department work from home. Incoming drivers and couriers are required to disinfect and use masks. They do not enter the work premises. The employees who communicate with them wear masks and gloves. Vacations are organized on a flow schedule in order to reduce the gathering of people. Some employees use personal transport to get to the production premises in Pliska in order to reduce the number of people using the company bus. Actions have been taken to test all employees who show symptoms and recovered employees are admitted to work only after a negative PCR test, in order to prevent the uncontrolled spread of the disease and to ensure maximally the production process and processing the customer orders. During the period, an organization was established for vaccination of a list of our employees in vaccination centres and on site at the plant. Just over 20% of the Group's employees have been vaccinated.”* Our opinion is not modified in respect of this matter.

Key Audit Matters

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

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

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

We have performed an engagement to obtain reasonable of assurance regarding the compliance of the electronic format of the consolidated financial statements of Herti AD for the year ending 31 December 2021, attached in the electronic file "8945006H9L8C62G7SH45-20211231-BG-CON.zip", with the requirements of Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109 / EC of the European Parliament and of the Council through regulatory technical standards to define the single electronic reporting format ("ESEF Regulation"). Our opinion is only regarding the electronic format of the consolidated financial statements, and does not comprise other information included in the annual consolidated financial report under Art. 100n, para. 5 of the POSA.

Subject Description and Applicable Criteria

The management has prepared an electronic format of the consolidated financial statements of the Group for the year ended 31 December 2021 under the ESEF Regulation in order to comply with the requirements of the POSA. The rules for the preparation of consolidated financial statements in this electronic format are set out in the ESEF Regulation and in our opinion they have the characteristics of appropriate criteria to obtain reasonable assurance.

Responsibilities of Management and Those Charged with Governance

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

the process of preparing the Group's annual consolidated financial statements, including the implementation of the ESEF Regulation.

Auditor's Responsibilities

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

Quality control requirements

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

Summary of work performed

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

- ✓ Obtained an understanding of the internal control and the processes related to the implementation of the ESEF Regulation regarding the consolidated financial statements of the Group and including the preparation of the consolidated financial statements of the Group in XHTML format and its tagging in machine-readable language (iXBRL).
- ✓ Verified whether the attached XHTML format is valid.
- ✓ Verified that the human-readable part of the electronic format of the consolidated financial statements corresponds to the audited consolidated financial statements.
- ✓ Assessed the completeness of the tagging in the consolidated financial statements of the Group using machine-readable language (iXBRL) in accordance with the requirements of the ESEF Regulation.

- ✓ Assessed the appropriateness of the iXBRL tagging selected from the basic taxonomy, as well as the creation of an extended taxonomy element in accordance with the ESEF Regulation where there is no appropriate element in the basic taxonomy.
- ✓ Assessed the appropriateness of the correlation of the elements of the extended taxonomy in accordance with the ESEF Regulation.

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

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

In our opinion, based on our procedures, the electronic format of the consolidated financial statements of the Group for the year ended 31 December 2021, on which consolidated financial statements above, we have expressed an unmodified audit opinion contained in the attached electronic file "8945006H9L8C62G7SH45-20211231-BG-CON.zip", has been prepared in all significant aspects in accordance with the requirements of the ESEF Regulation.

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

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

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

Based on the procedures performed, our opinion is that:

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

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

Based on the procedures performed and the knowledge and understanding obtained of entity's activities and its environment, in our opinion, the description of the main characteristics of entity's

internal control and risk management systems relevant to the financial reporting process, which is part of the consolidated management report (as a component of the content of the corporate governance statement) and the information under Art. 10 paragraph 1(c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on Takeover Bids, is not materially misstated.

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

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

The information about related-party transactions is disclosed in Note 27 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 2021, in all material respects, in accordance with the requirements of IAS 24 Related Party Disclosures. The results of our audit procedures on related-party transactions were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not with the purpose of expressing a separate opinion on related-party transactions.

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

Our responsibilities for the audit of the consolidated financial statements as a whole, described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report include an evaluation as to whether the consolidated financial statements represent the significant transactions and events in a manner that achieves fair presentation. Based on the audit procedures performed by us on the significant transactions underlying the consolidated financial statements for the year ending on 31 December 2021, no facts, circumstances or other information have come to our attention based on which to conclude that there are material misrepresentations or misdisclosures in accordance with the relevant requirements of IASs as adopted by the European Union. The results of our audit procedures on Group's transactions and events significant for the consolidated financial statements were addressed by us in the context of forming our opinion on the consolidated financial statements as a whole and not with the purpose of expressing a separate opinion on those significant transactions.

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

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

- ✓ Svrvakov & Milev – OOD was appointed as a statutory auditor of the separate and consolidated financial statements for the year ending on December 31, 2021 of Herti – AD by the general meeting of shareholders held on June 22, 2021 for a period of one year.
- ✓ The audit of these financial statements for the year ending on December 31, 2021 of the company and its economic Group represents the fifth 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

April 21, 2022
Varna

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