

hepsor



2021 IV quarter and 12 months
consolidated unaudited interim
report

| | |
|-------------------------|---|
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| Reporting period: | 01 January 2021-31 December 2021 |
| Financial year: | 01 January 2021-31 December 2021 |
| Supervisory Board: | Andres Pärloja, Kristjan Mitt, Lauri Meidla |
| Management Board: | Henri Laks |
| Auditor: | Grant Thornton Baltic OÜ |

Hepsor AS (hereinafter referred to as “the Group” or “Hepsor”), a property development company based on Estonian capital, has operations in Estonia and Latvia. The Group entered Latvian market in 2017 and has been operating under the same consolidating group since 2019.

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Management Report

UNAUDITED REVENUES AND NET PROFIT FOR 2021



REVENUE AND NET PROFIT FORECAST FOR 2022



NEW ACQUIRED DEVELOPMENT PROJECTS (31 DEC 2020 vs 15 FEB 2022)

| | New development volume, m ² | New revenues, m€ | Included in consolidated revenues | Profit share |
|-------------------------------|--|------------------|-----------------------------------|--------------|
| Narva mnt 150, Tallinn | 14,434 | 29 | yes | 100% |
| Alvari 2, Paevälja 9, Tallinn | 5,889 | 14 | yes | 100% |
| Kadaka tee 197, Tallinn | 5,800 | 14 | yes | 50% |
| Ulbrokas 34, Riia | 8,373 | 14 | yes | 56% |
| Ranka Dambis 5, Riia | 2,127 | 5 | yes | 80% |
| Alvari 1, Tallinn | 2,844 | 8 | yes | 100% |
| Braila 23, Riia | 6,000 | 11 | yes | 40% |
| Ganibu Dambis 17a, Riia | 20,500 | 33 | yes | 80% |
| Tatari 6a, Tallinn | 3,499 | 16 | no | 0% |

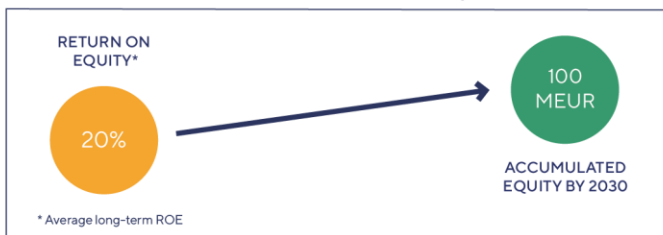
ASSUMPTIONS FOR 2022 FORECAST

| Project | Assumption |
|----------------------------|--|
| Strelnieku 4b | all apartments sold |
| Priisle Kodu | all apartments and commercial premises sold |
| Balozu 9 | all apartments sold |
| Paevälja Hoovimajad | I phase construction completed and all I phase apartments sold |
| P113 office building | Sold or revalued to fair value using DCF method |
| Meistri 14 office building | Sold or revalued to fair value using DCF method |
| Ulbrokas 30 stock-office | Sold or revalued to fair value using DCF method |

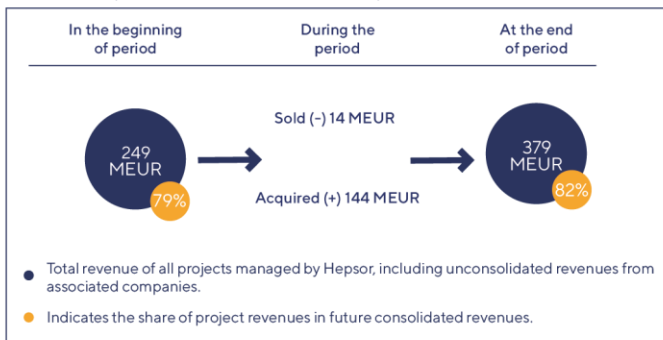
CHANGE IN PIPELINE (31 DEC 2020 vs 15 FEB 2022)



LONG-TERM OUTLOOK: PROFITABILITY AND EQUITY TARGETS



LONG-TERM OUTLOOK: REVENUE POTENTIAL OF DEVELOPMENT PROJECTS (31 DEC 2020 vs 15 FEB 2022)



DEVELOPMENT PROJECTS FOR SALE AND UNDER CONSTRUCTION (31 DEC 2020 vs 15 FEB 2022)

| RESIDENTIAL DEVELOPMENT PROJECTS FOR SALE | Total number of apartments | New sales | Apartments sold | Apartments sold % | Apartments available |
|---|----------------------------|------------|-----------------|-------------------|----------------------|
| Strelnieku 4b | 54 | 16 | 17 | 31% | 37 |
| Balozu 9 | 18 | 18 | 18 | 100% | 0 |
| Paevälja Hoovimajad | 96 | 65 | 65 | 68% | 31 |
| Priisle Kodu | 76 | 56 | 74 | 97% | 2 |
| Kuldigas Parks | 116 | 25 | 25 | 22% | 91 |
| Marupes Darzs | 92 | 18 | 18 | 20% | 74 |
| Total | 452 | 198 | 217 | 48% | 235 |

| COMMERCIAL DEVELOPMENT PROJECTS AVAILABLE | Total rentable area m ² | Occupancy m ² | Occupancy % | Vacancy m ² |
|---|------------------------------------|--------------------------|-------------|------------------------|
| Priisle 1a retail premises | 1,487 | 1,487 | 100% | 0 |
| Ulbrokas 30 stock-office | 3,645 | 3,645 | 100% | 0 |
| Büroo113 office building | 3,843 | 3,843 | 100% | 0 |
| Grüne office building | 3,597 | 1,931 | 54% | 1,666 |
| Total | 12,572 | 10,906 | 87% | 1,666 |

DEVELOPMENT PROJECTS UNDER CONSTRUCTION

| Started in 2021 | Total under construction | To be started within next 18 months |
|--|---|---|
| 212 apartments 3,645 m ² commercial area | 306 apartments 12,572 m ² commercial area | 383 apartments 16,250 m ² commercial area |

Hepsor AS consolidated sales revenue for the 2021 financial year amounted to 15 million euros and its net profit was 1.7 million euros (including 0.02 million euros loss attributable to the owners of the parent). We forecast a turnover of 28 million euros in 2022 and a profit of 3.3 million euros (including 3.1 million euros attributable to the owners of the parent).

The company's financial result in 2021 was lower than in 2020, mainly due to the cyclical nature of the business. The development cycle of projects lasts 24 to 36 months and sales revenue is only generated at the end of this cycle. Therefore, more projects may end in one year than in another, and in 2021 fewer than usual projects became ready for sale. The results of 2021 were also affected by the one-time cost of approximately 0.65 million euros related to the public offering of shares.

Due to the cyclical nature of the business, Hepsor may also in the future experience financial years with fluctuating financial results, despite of strong development portfolio and good profitability of the projects. The financial results may be weaker or stronger compared with the previous or subsequent financial year. Therefore, the management analyses the company's long-term financial results using three-year average financial data as a benchmark for neutralising the cyclical nature.

The average profit for 2019–2021 is 2.3 million euros (including 1.18 million euros attributable to the owners of the parent) and the average return on equity of 31% (with the return on equity owned by the owners of parent being 17%). Calculating the average based on two historical years and the current year (the financial results for 2020 and 2021 and projected financial results for 2022), the average profit is 2.96 million euros (including 1.88 million euros attributable to the owners of the parent), with the average return on equity owned by the owners of parent being 17%

The company has set a target of 100 million euros in equity by 2030. To this end, the average annual return on capital should be around 20%. When assessing the return on capital in the coming years, it should be borne in mind that the additional capital raised through the public offering at the end of 2021 will be invested in projects in the first half of 2022, and it will have an effect on the financial results in about 24 months (this calculation is also affected by the length of the development cycle).

In addition to the return on capital, we also constantly monitor the dynamics of our development portfolio, including whether and to what extent we are able to acquire new projects and how high the turnover potential of the projects is in the company's development portfolio. In this respect, there is reason to be satisfied with 2021. At the beginning of the year, we estimated the turnover potential of all outstanding projects at 249 million euros; however, by the end of the year this figure had risen to 379 million euros from which consolidated will be ca 82%. We acquired nine new development projects (five in Estonia and four in Latvia), adding almost 70,000 square metres of new development volume. At the same time, our portfolio is not concentrated into a few individual projects; instead, it is divided between a large number of projects in terms of location and purpose (residential v. commercial). While we had 19 different projects at the beginning of 2021, that number had grown to 26 by the end of the year. We consider the composition of our portfolio to be very good.

Green issues and environmentally-friendly engineering solutions have always been very close to our hearts. We have been developing our green office building brand since our first years of operation. Two new office buildings under this brand will be completed this year: Grüne Maja and Büroo 113. In the case of the latter, we can use green solutions (geothermal heating and cooling, rainwater use, energy-efficient architecture, excellent indoor climate, solar energy, etc.) for the first time in a city centre high-rise. Prospective tenants have had a keen interest in both of the projects, and we hope that both buildings will be fully leased in the course of 2022.

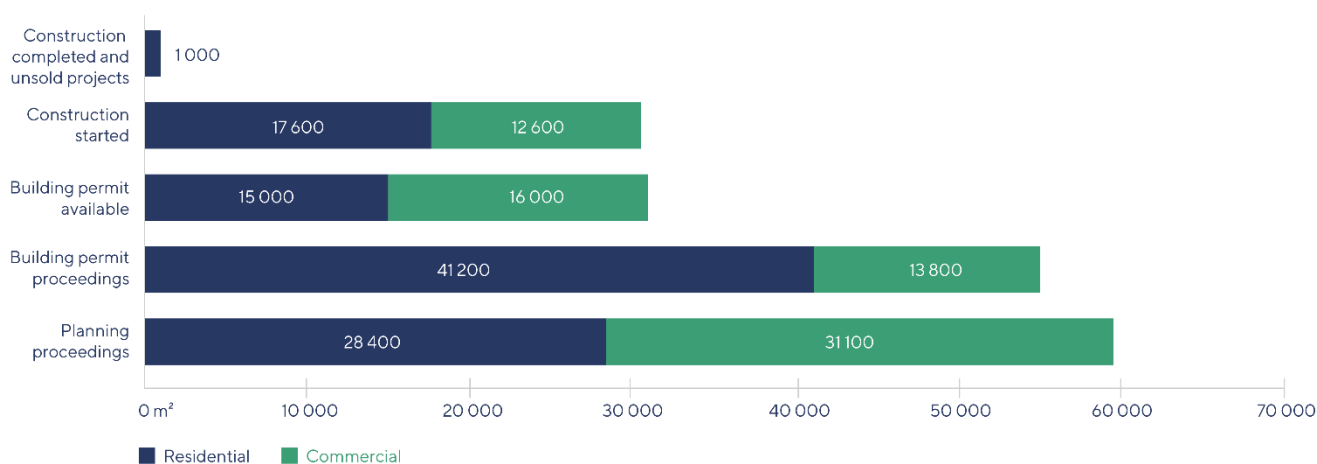
In conclusion, the management is satisfied with the 2021 financial year. A good foundation has been laid for our growth in the coming periods, we have a strong portfolio, our team is motivated and we have thousands of new shareholders on board.

Overview of Development Projects

As at 31 December 2021 the Group had 26 active projects in different development phases (31 December 2020: 19 projects) ja 177,000 sqm of sellable area (31 December 2020: 113,000 sqm).

In 2021 the Group acquired approximately 70,000 sqm of sellable area. Approximately 58% of the acquired area was residential (commercial: 42%) and 47% was located in Estonia (Latvia: 53%).

Distribution of development portfolio between different development phases as at 15 February 2022:



Distribution of development portfolio between countries and type as at 15 February 2022:



Residential development projects completed in 2021:

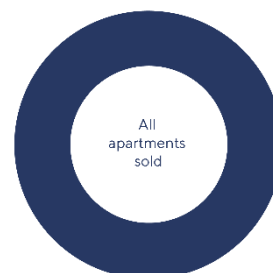


Project: Peetri Pargimajad
Hepsor Peetri OÜ

Address: Mõigu tee 11, Peetri, Rae county, Harjumaa

Apartments: 43

Project completed: 2021

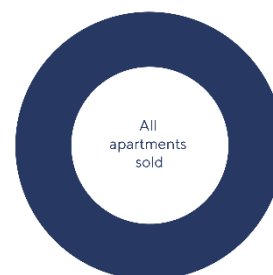


Project: Lauluväljaku Lilleaed I and II phase
Hepsor P26B OÜ

Address: Pirita road 26b, Tallinn

Apartments: 99

Project completed: 2020-2021



As at 31 December 2021 142 apartments in all above-mentioned projects were sold and projects were no longer recorded as development portfolio.

Construction completed and development project not sold (as at 15 February 2022):



Project: Strelnieku 4b
Hepsor S4B SIA

Address: Strelnieku 4b, Riga

Apartments: 54

Project completed: 2020

Website: <https://hepsor.lv/strelnieku4b/>



Development projects recorded under construction completed and development project not sold included the share of unsold apartments of Strelnieku 4b apartment building in Riga that was completed in 2020 (37 apartments). Arising from Covid-19 related unstable economic environment the Group changed the concept of the apartment building to rental building in 2020 while continuing the sale of apartments. The aim of the Group is to sell all apartments in 2022.

Residential development projects the construction of which has started (as at 15 February 2022):



Project: Priisle Kodu
Hepsor N170 OÜ

Address: Priisle 1a, Tallinn

Apartments: 76

Start of construction: IV quarter 2020

Estimated completion: II quarter 2022

Website: <https://hepsor.ee/priislekodu/>



Project: Paevälja Hoovimajad
Hepsor PV11 OÜ

Address: Paevälja 11, Lageloo 7, Tallinn

Apartment: 96

Start of construction: IV quarter 2021

Estimated completion: IV quarter 2022

Website: <https://hepsor.ee/paevalja/>



Project: Baložu 9
Hepsor BAL9 SIA

Address: Baložu 9, Riia

Apartments: 18

Start of construction: IV quarter 2020

Estimated completion: I quarter 2022

Website: <https://hepsor.lv/balozu9/>



Project: Kuldigas Park
Kvarta SIA

Address: Gregora iela 2a, Riia

Apartments: 116

Start of construction: IV quarter 2021

Estimated completion: II quarter 2023

Website: <https://hepsor.lv/kuldigasparcs/>



Commercial development projects the construction of which has started (as at 15 February 2022):



Project: Büro 113
Hepsor P113 OÜ

Address: Pärnu mnt 113, Tallinn

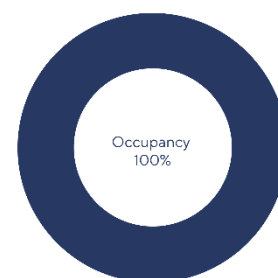
Leasable area: 3,843 m²

Occupancy: 100%

Start of construction: III quarter 2020

Estimated completion: II quarter 2022

Website: <https://byroo113.ee/>



Project: Grüne Büro
Hepsor M14 OÜ

Address: Meistri 14, Tallinn

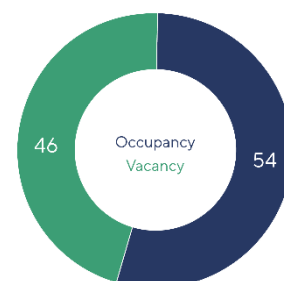
Leasable area: 3,597 m²

Occupancy: 54%

Start of construction: IV quarter 2020

Estimated completion: I-II quarter 2022

Website: <https://gryne.ee/>



Project: StockOffice U30
Hepsor U30 SIA

Address: Ulbrokas 30, Riga

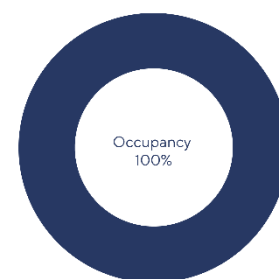
Leasable area: 3,645 m²

Occupancy: 100%

Start of construction: III quarter 2021

Estimated completion: IV quarter 2022

Website: <https://hepsor.lv/stokofissu30/>



Project: Priisle Kodu (retail area)
Hepsor N170 OÜ

Address: Priisle 1a, Tallinn

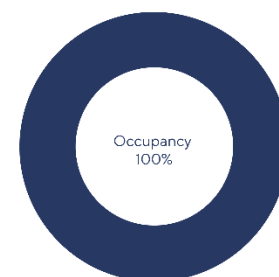
Leasable area: 1,487 m²

Occupancy: 100% Selver. Sales-purchase contract under law of obligations was signed in December 2021 with Lumipood OÜ

Start of construction: IV quarter 2020

Estimated completion: II quarter 2022

Website: <https://hepsor.ee/priislekodu/>



Development projects the construction of which starts in 2022 (as at 15 February 2022):



Project: Marupes Darzs
Hepsor Marupe SIA

Address: Liela 45, Marupe, Riga area

Apartments: 92

Est. start of construction: I quarter 2022

Estimated completion: II quarter 2023

Website: <https://hepsor.lv/marupesdarzs/>



Project: Ojakalda kodud
Hepsor 3TORNI OÜ

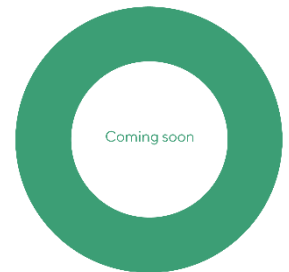
Address: Paldiski mnt 227c, Tallinn

Apartments: 101

Est. start of construction: I quarter 2022

Estimated completion: 2023

Website: <https://hepsor.ee/ojakalda/>



Project: Manufaktuuri quarter
Hepsor Phoenix 2 OÜ

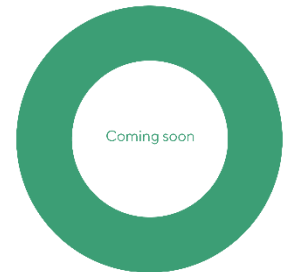
Address: Manufaktuuri 7, Tallinn

Apartments: 154

Est. start of construction: III quarter 2022

Estimated completion: 2024–2025

Website: <https://hepsor.ee/manufaktuur/m7/>



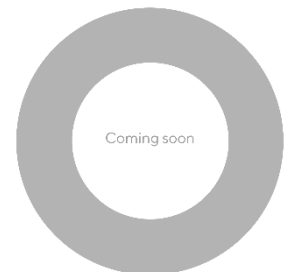
Project: Peterburi road business quarter
T2T4 OÜ

Address: Tooma 2/4, Tallinn

Leasable area: up to 10,000 m²

Est. start of construction: 2022–2023

Website: <https://hepsor.ee/project/peterburi-tee-arikvartal/>





** Picture shown is for illustration purpose*

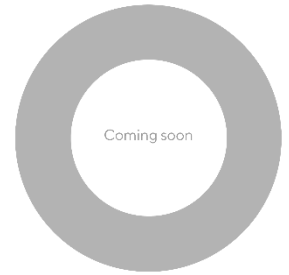
Project: Ranka Dambis
Hepsor RD5 SIA

Address: Ranka Dambis 5, Riga

Apartment #: 36

Est. start of construction: IV quarter 2022

Estimated completion: 2024



** Picture shown is for illustration purpose*

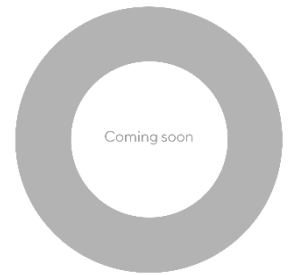
Project: StockOffice U34
Hepsor U34 SIA

Address: Ulbrokas 34, Riga

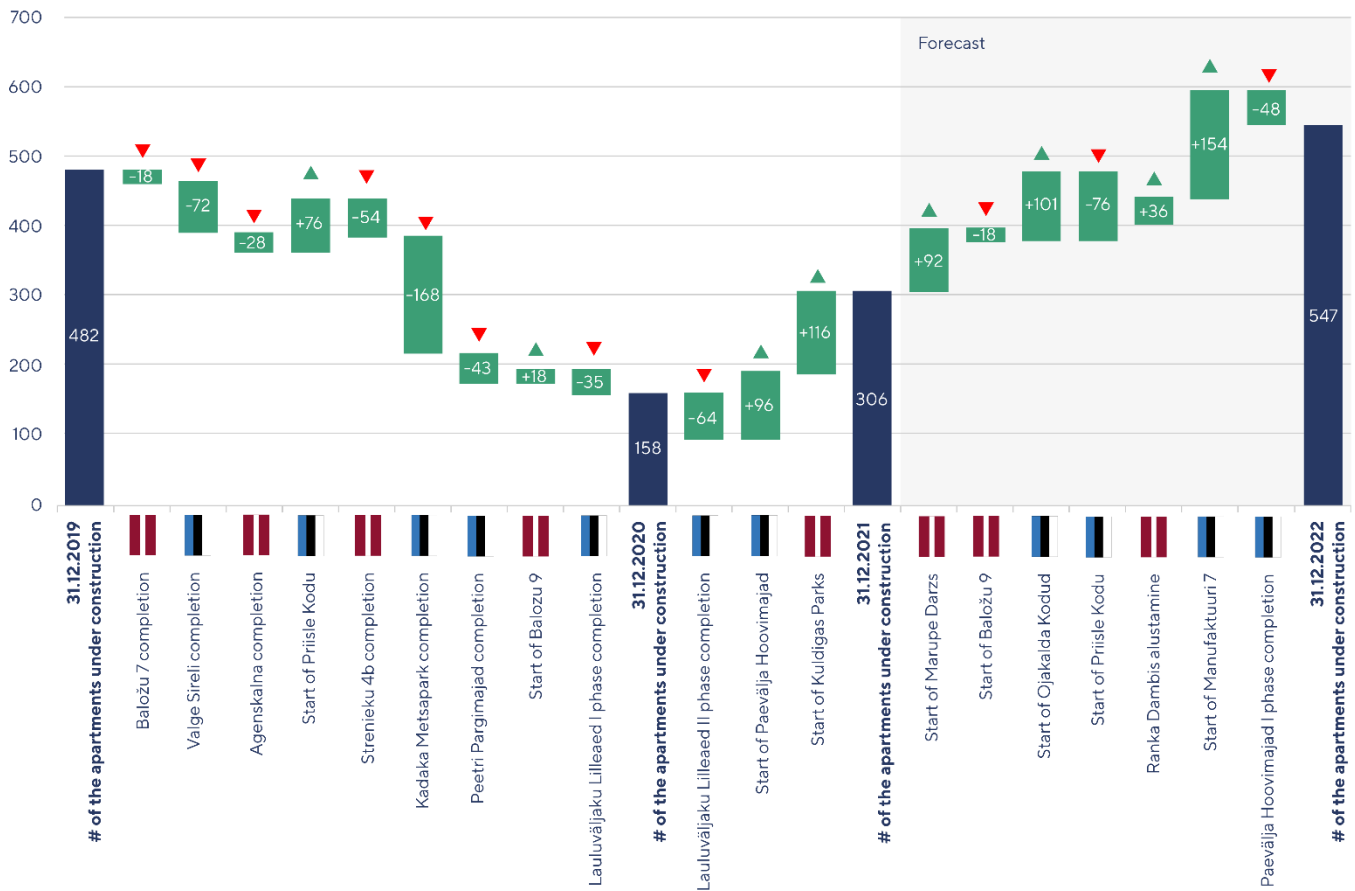
Leasable area: 8,373 m²

Est. start of construction: IV quarter 2022

Estimated completion: 2024



Under construction and completed apartments, 2020 – 2022:

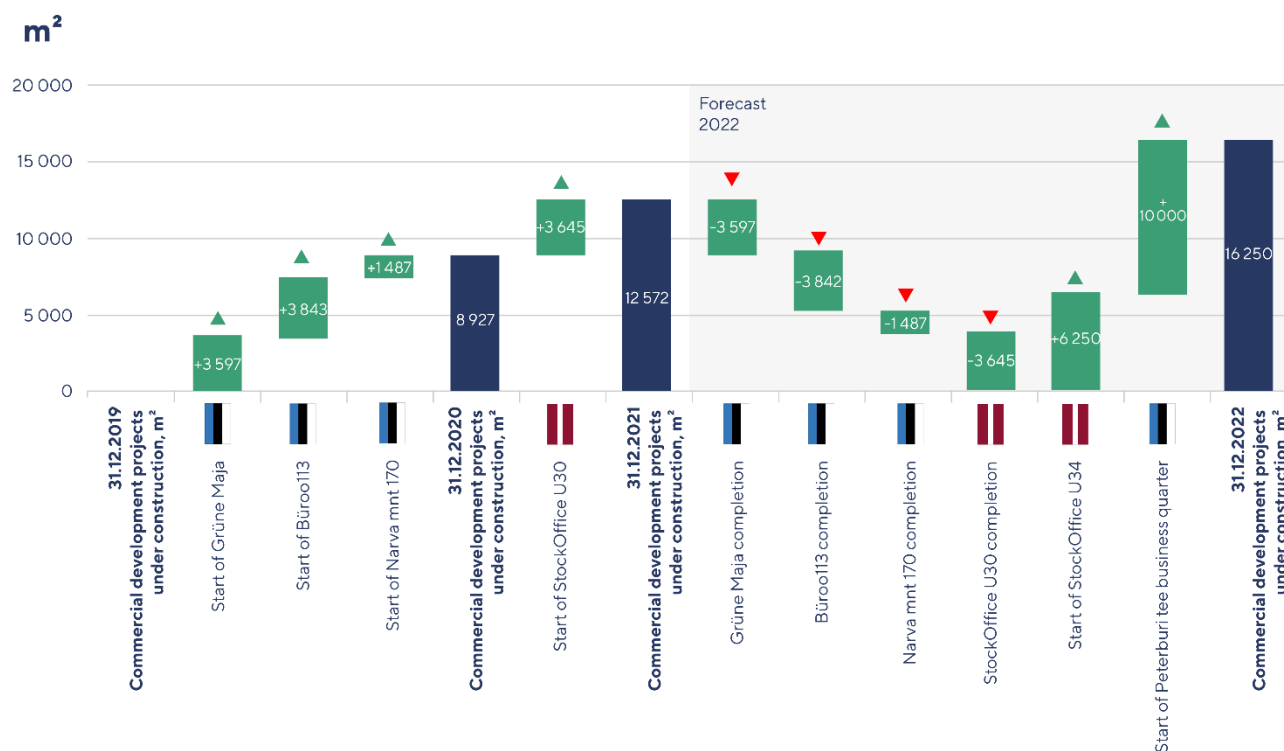


Residential development projects under construction and for sale:

| Project name | Number of apartments | Number of apartments sold* | Share of apartments sold % | Number of unsold apartments | Share of unsold apartments % |
|---------------------|----------------------|----------------------------|----------------------------|-----------------------------|------------------------------|
| Strenieku 4b | 54 | 17 | 31 | 37 | 69 |
| Priisle Kodu | 76 | 74 | 97 | 2 | 2 |
| Paevälja Hoovimajad | 96 | 65 | 68 | 31 | 31 |
| Baložu 9 | 18 | 18 | 100 | 0 | 0 |
| Kuldigas Park | 116 | 25 | 22 | 91 | 78 |
| Marupes Darzs | 92 | 18 | 20 | 74 | 80 |
| Total | 452 | 217 | 48 | 235 | 52 |

* Number of sold apartments includes paid bookings, contracts under law of obligation and real right contracts.

Commercial development projects under construction:



In 2020–2021, the Group started the development of four commercial properties (12,572 sq. m in total), all of which will be completed in 2022. In 2022, the Group will start developing stock-office commercial real estate in Riga at Ulbrokas 34.

Occupancy of commercial development projects under construction as at 15 February 2022:

| Project name | Rentable area sqm | Occupancy m² | Occupancy % | Vacancy m² | Vacancy % |
|-----------------------------|-------------------|---------------|-------------|--------------|-----------|
| Priisle 1a commercial space | 1,487 | 1,487 | 100 | 0 | 0 |
| Ulbrokas 30 stock-office | 3,645 | 3,645 | 100 | 0 | 0 |
| Büroo113 | 3,843 | 3,843 | 100 | 0 | 0 |
| Grünė Office | 3,597 | 1,931 | 54 | 1,666 | 46 |
| Total | 12,572 | 10,906 | 87 | 1,666 | 13 |

Main Events

New projects acquired in 2021:

| Name of SPV | Project address | Acquisition | Location | Development type | Profit share % | Planned sqm | Planned # of apartments |
|------------------------------------|-------------------------------|-------------|----------|---------------------------|----------------|---------------|-------------------------|
| Hepsor N450 OÜ | Narva mnt 150, Tallinn | IQ 2021 | Estonia | Residential | 100 | 14,434 | 218 |
| Hepsor Fortuuna OÜ | Alvari 2, Paevälja 9, Tallinn | IIIQ 2021 | Estonia | Residential | 100 | 5,889 | 98 |
| H&R Residentsid OÜ | Kadaka tee 197, Tallinn | IIIQ 2021 | Estonia | Residential | 100 | 5,800 | 100 |
| Hepsor U34 SIA | Ulbrokas 34, Riga | IIIQ 2021 | Latvia | Commercial | 56 | 8,373 | N/A |
| Hepsor RD5 SIA | Ranka Dambis 5, Riga | IIIQ 2021 | Latvia | Residential | 80 | 2,127 | 36 |
| Hepsor A1 OÜ | Alvari 1, Tallinn | IVQ 2021 | Estonia | Residential Commercial | 100 | 2,280 564 | 38 |
| Brofits SIA (Hepsor Jugla SIA SIA) | Braila 23, Riga | IVQ 2021 | Latvia | Residential | 40 | 6,000 | 96 |
| Hepsor U34 SIA | Ganibu Dambis 17a, Riga | IVQ 2021 | Latvia | Commercial | 80 | 20,500 | N/A |
| Tatari 6a Arenduse OÜ | Tatari 6a, Tallinn | IQ 2021 | Estonia | Residential | 0 | 3,499 | 70 |
| Total | | | | | | 69,466 | 656 |

Projects completed in 2021:

| Name of SPV | Project name | Completion | Location | Development type | Profit share % | Sellable area sqm* | # of apartments sold |
|------------------|-----------------------|------------|----------|------------------|----------------|--------------------|----------------------|
| Hepsor Peetri OÜ | Peetri Pargimajad | IIQ 2021 | Estonia | Residential | 68 | 3,260 | 43 |
| Hepsor P26B OÜ | Lauluväljaku Lilleaed | IVQ 2021 | Estonia | Residential | 33 | 6,180 | 99 |
| Total | | | | | | 9,440 | 142 |

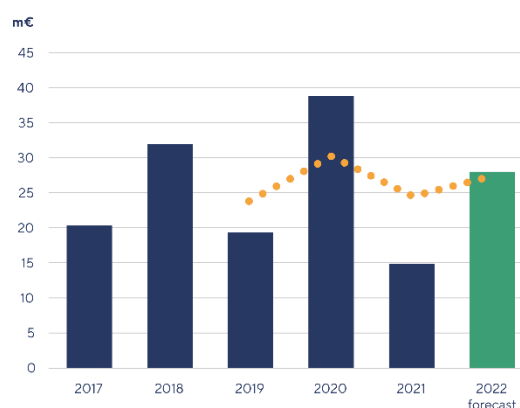
* Apartments sold in 2020-2021

At the general meeting of shareholders on 9 August 2021, it was decided to transform the private limited company (OÜ) into a public limited company (AS) and to increase the share capital of the company. The shareholders decided to increase the share capital to 3 million euros at the expense of the share premium and approved the articles of association of Hepsor AS.

Operating Results

The Group's sales revenue in 2021 was 15.0 million euros (compared with 38.8 million euros in 2020), of which 8.0 million euros was earned in the fourth quarter (15.2 million euros in the fourth quarter of 2020). Compared with the previous period, sales revenue in 2021 decreased by 61.4%. The decrease in revenue in 2021 was mainly due to the small number of completed projects, which resulted in fewer projects reaching the sales stage than in an average year.

Group revenues:



Revenue split by countries:

| Thousand euros | 12 months 2021 | 12 months 2020 | Change % | IV quarter 2021 | IV quarter 2020 | Change % |
|----------------|----------------|----------------|--------------|-----------------|-----------------|--------------|
| Estonia | 13,277 | 33,907 | -60.8 | 7,090 | 14,049 | -49.5 |
| Latvia | 1,684 | 4,864 | -65.4 | 925 | 1,109 | -16.6 |
| Total | 14,961 | 38,771 | -61.4 | 8,015 | 15,158 | -47.1 |

Profitability

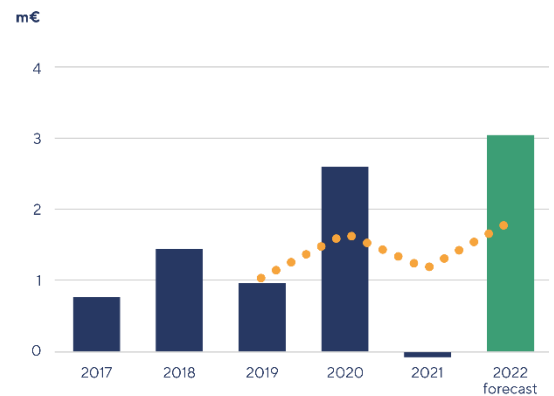
The Group's operating profit for 2021 amounted to 1.9 million euros (compared with 3.4 million euros in 2020). The operating margin was 12.6% (compared with 8.8% in 2020). The Group's net profit for the reporting year amounted to 1.7 million euros (compared with 3.8 million euros in 2020), of which the losses attributable to the owners of the parent amounted to 22 thousand euros (profit 2.6 million euros in 2020), while the profit to non-controlling interest was 1.8 million euros (1.3 million euros in 2020).

The Group's operating profit for the fourth quarter of 2021 was 1.5 million euros (compared with 1.6 million euros in the fourth quarter of 2020). The operating margin for the fourth quarter was 18.3% (compared with 10.9% in the fourth quarter of 2020). The increase in real estate market prices in 2021 compared with 2020 has increased both the operating profit of the sold development projects and the net profit margin. Net profit for the fourth quarter was 1.6 million euros (compared with 1.8 million euros in the fourth quarter of 2020) and the net profit margin was 19.4% (11.9% in 2020).

Although the margins of projects completed during the reporting period were higher than expected, the reporting year ended with a loss for the owners of the parent company. The main reasons are the following:

- ✓ Due to the cyclical nature of the projects, very few projects ended during the reporting year.
- ✓ The parent company's share in the projects completed in the reporting year was below average compared with the other projects developed by the parent company.
- ✓ Extraordinary expenses arising from the initial public offering of Hepsor AS shares in the amount of 205 thousand euros are included in the operating expenses for the reporting year. The total expenses incurred in relation to the listing and issuing of shares amounted to 650 thousand euros, of which 445 thousand euros have been reflected in the consolidated income statement.

Net profit attributable to the owners of parent:



Cash Flows

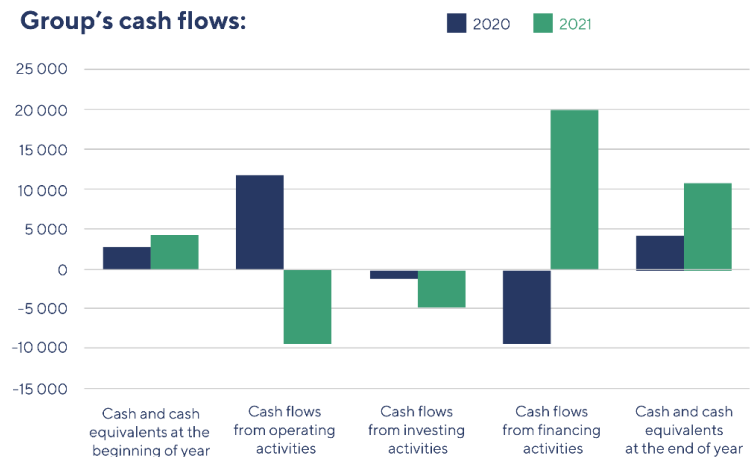
The Group's cash and cash equivalents amounted to 4.2 million euros at the beginning of the 2021 financial year (2020: 2.7 million euros) and to 10.9 million euros at the end of the financial year. The positive cash flow for the year was 6.7 million euros (2020: 1.6 million euros).

Cash flow from operating activities was negative at 9.3 million euros for the reporting year (2020: positive at 11.5 million euros). Cash flow from operating activities was mostly affected by the growth in the portfolio of development projects, due to the change in inventories the negative cash flow in 2021 was 12.8 million euros (2020: positive 9.6 million euros). In 2021, the Group acquired nine new development projects.

Cash flow from investments was negative at 4.2 million euros in 2021 (2020: negative at 1.1 million euros). The largest impact was from loans granted, the balance of which increased by 4.4 million euros (2020: 2.1 million euros).

Cash flow from financing activities was positive at 20.2 million euros (2020: negative at 8.9 million euros). Cash flows were mostly affected by the 10 million euros raised through the initial public offering, of which the net amount of 9.6 million euros has been reflected in the cash flow statement. In 2021, the Group received more loans than it repaid. The net amount of loans received in 2021 was 12.2 million euros (2020: negative 7.3 million euros).

Group's cash flows:



Key Ratios

| % | IV quarter 2021 | IV quarter 2020 | 2021 | 2020 |
|--|--------------------|--------------------|-------|-------|
| Gross profit margin | 23.8% | 12.3% | 20.4% | 10.5% |
| Operating profit margin | 18.3% | 10.9% | 12.6% | 8.8% |
| EBITDA margin | 18.8% | 11.2% | 13.6% | 9.2% |
| Net profit margin | 19.4% | 11.9% | 11.6% | 9.9% |
| General expense ratio | 5.8% | 1.5% | 8.4% | 1.9% |
| Equity ratio | 34.4% | 31.3% | 34.4% | 31.3% |
| Debt ratio | 51.6% | 54.5% | 51.6% | 54.5% |
| Current ratio | 5.3 | 3.5 | 5.3 | 3.5 |
| Return of equity (adjusted) | 18.0% | 47.2% | 18.0% | 47.2% |
| Return on equity attributable to the owners of the parent (adjusted) | 0% | 32% | 0% | 32% |
| Return on assets | 4.0% | 11.4% | 4.0% | 11.4% |

Gross profit margin = gross profit / revenue

Operating profit margin = operating profit / revenue

EBITDA margin = (operating profit + depreciation) / revenue

Net profit margin = net profit / revenue

General expense ratio = (marketing expenses + general and administrative expenses) / revenue

Equity ratio = shareholder's equity / total assets

Debt ratio = interest-bearing liabilities / total assets

Current ratio = current assets / current liabilities

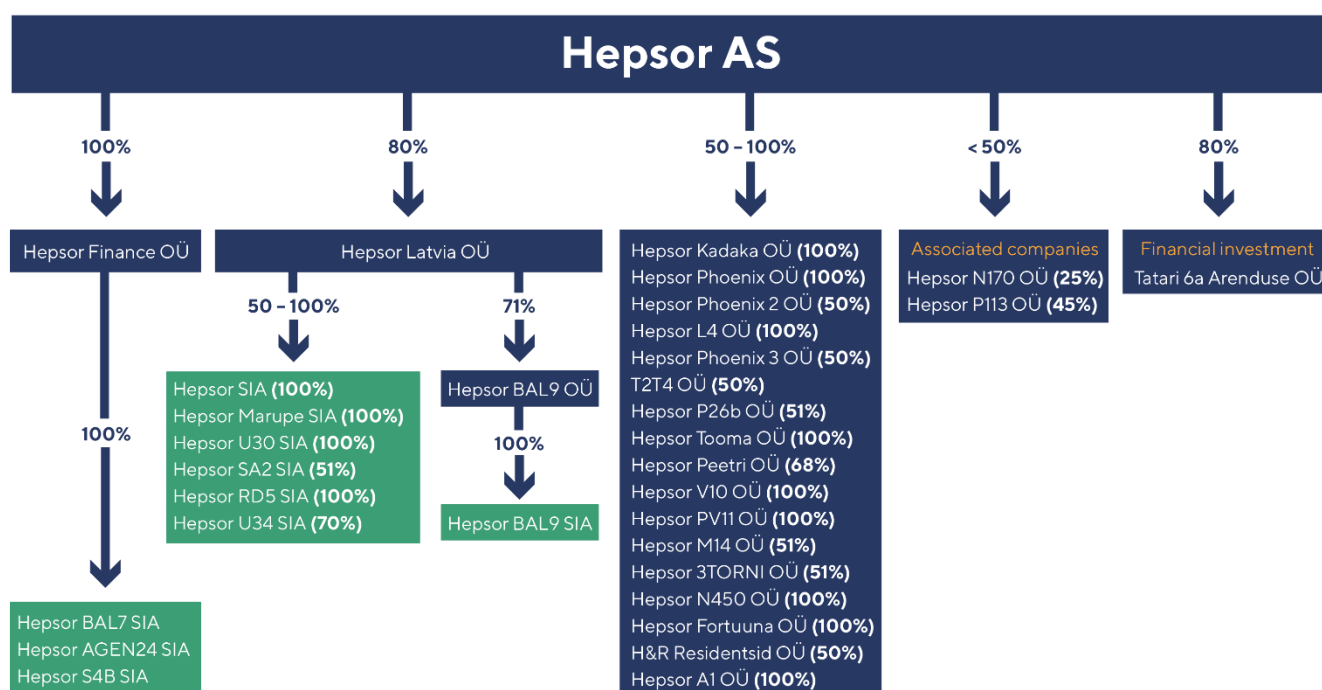
Return on equity (adjusted) = net profit of trailing 12 months / arithmetic average shareholder's equity (except for net capital raised through initial public offering)

Return on equity attributable to the owners of the parent (adjusted) = net profit of trailing 12 months attributable to owners of the parent / arithmetic average shareholder's equity attributable to owners of the parent (except for net capital raised through initial public offering)

Return on assets = net profit of trailing 12 months / average total assets

Group Structure

As of 31 December 2021, the Group was comprised of parent company, 30 subsidiaries and 2 associated companies (31 December 2020: parent company, 27 subsidiaries, 2 associated companies). Tatari 6a Arenduse OÜ is reported as financial investment.



In 2021, the following changes in organizational structure took place within the Group:

- ✓ Merger of Hepsor Finance OÜ and OÜ Hepsor Latvia Investments. The entry in the Commercial Register was made on 30 March 2021. Both companies are fully-owned subsidiaries of the Group and therefore have no substantive impact on the Group's financial position or cash flows. The merger was carried out in order to restructure the Group.
- ✓ The demerger of Hepsor Finance OÜ to bring five Latvian development companies under the control of Hepsor Latvia OÜ. The demerger entry was made in the Commercial Register on 6 July 2021. Hepsor AS owns 80% of Hepsor Latvia OÜ. Assets and liabilities were transferred in accordance with the demerger agreement.
- ✓ The merger of Meistri 14 OÜ and Hepsor Lauluväljak OÜ with Hepsor Finance OÜ in order to simplify the structure of the Group, as the companies no longer had active economic activities. The entry in the Commercial Register was made on 15 December 2021. The transaction has no significant impact on the Group's cash flows.
- ✓ Hepsor AS acquired a minority stake in Hepsor Kadaka OÜ and Hepsor V10 OÜ, becoming the 100% owner of both companies in connection with the completion of the development projects of both companies in 2020.

In 2021, the Group established 5 new real estate development companies:

- ✓ for the development of residential projects:
 - Hepsor Fortuuna OÜ (Estonia, 30 April, 2021), in which the Group has a 100% shareholding. Hepsor Fortuuna OÜ bought plots in Tallinn at Paevälja 9 and Alvari 2, where it is planned to build 2 apartment buildings with 98 apartments after the approval of the currently pending detailed plan.
 - H&R Residentsid OÜ (Estonia, 10 September, 2021), in which the Group holds a 50% shareholding. H&R Residentsid OÜ bought a plot with a pending detailed plan at Kadaka 197, in Tallinn, by way of a contract under the Law of Obligations. The number of apartments to be built will be determined during the planning process.
 - Hepsor A1 OÜ (Estonia, 2 November, 2021), in which the Group holds a 100% shareholding. Hepsor A1 OÜ bought a plot in Tallinn at Alvari 1, where a residential and commercial building with 38 apartments and commercial premises will be built after the approval of the currently pending detailed plan.
 - Hepsor RD5 SIA (Latvia, 9 August 2021), in which Hepsor Latvia OÜ holds a 100% shareholding. Hepsor RD5 SIA bought a property in the city of Riga at Ranka Dambis 5, where a residential building with 36 apartments will be built.
- ✓ for the development of business real estate:
 - Hepsor U34 SIA (Latvia, 3 September 2021), in which Hepsor Latvia OÜ holds a 70% shareholding. A stock-office type complex will be built on the property located at Ulbrokas 34 in Riga.

The Group made the following new financial investments in 2021:

- ✓ Tatari 6A Arenduse OÜ (Estonia, 19 February 2021). The Group is providing management services to the project. In order to ensure the quality and control of the management process, the Group will hold an 80% shareholding in the company during the development period, which will be transferred to the co-owner at the end of the development process. The Group has no profit share in the project.
- ✓ Brofits SIA (to be renamed Hepsor Jugla SIA) (Latvia, 15 December 2021). Hepsor Latvia OÜ signed a purchase agreement, through which it acquired 100% of the Latvian company Brofits SIA. As the Group's holding in the company was finalised at the beginning of 2022, the Group will not consolidate the company as of 31 December 2021 (consolidation will start from the first quarter of 2022).

At the beginning of 2022, the following structural changes have taken place in the Group:

- ✓ Hepsor Latvia OÜ acquired a 50% shareholding in Kvarta Holding OÜ in accordance with an option agreement (Estonia, 12 January 2022). The Group has already taken into account the exercise of the option in previous published forecasts. Kvarta Holding OÜ owns a 100% shareholding in Kvarta SIA, which is developing Kuldigas Parks residential development project with 116 apartments in Riga at Gregora 2a.
- ✓ Hepsor Latvia OÜ sold its 50% shareholding in Hepsor Marupe SIA to the co-owners (Latvia, 10 February 2022) in accordance with the shareholders' agreement. Hepsor Marupe SIA is developing a project with 92 apartments in Marupe, Latvia, near the Riga city boundary.
- ✓ Hepsor Latvia OÜ established a new subsidiary Hepsor Ganibu Dambis SIA, which will be developing commercial development project in Riga.

06

Employees

As of 31 December 2021, the Group employed 16 (31 December 2020: 14) people, including 9 in Estonia and 7 in Latvia. From January to December 2021, the total labour cost amounted to 703,000 euros (2020: 548,000 euros), of which 290,000 euros was in the fourth quarter (Q4 2020: 166,000 euros). The increase in labour costs was primarily due to higher number of employees and higher salary levels.

The Group's definition of labour costs includes payroll expenses (incl. basic salary, additional remuneration, holiday pay and performance pay), payroll taxes, special benefits and taxes calculated on special benefits.

Remuneration of the members of the Management Board and the Supervisory Board for the reporting period amounted to 178,000 euros (2021: 57,000 euros) including 83,000 in Q4 2021 (Q4 2020: 18,000).

Due to the decision of the Group's shareholders to transform the private limited company into a public limited company, the management structure of the Group also changed. As of 14 October 2021, the Management Board of the Group has one member. The term of office of the Member of the Management Board, Henri Laks, shall be five years. In addition to the position of the Member of the Management Board of Hepsor AS, Henri Laks also belongs to the management boards of all the Estonian subsidiaries and associated companies of the Group.

The Member of the Management Board of the Latvian company is Martti Krass, who is responsible for development projects in Latvia.

The Supervisory Board of the Group has three members. The mandate of the Supervisory Board is valid for three years from 1 November 2021. The work of the Supervisory Board is led by the Chairman of the Supervisory Board Andres Pärloja. The members of the Supervisory Board are Kristjan Mitt and Lauri Meidla.

More information about the Management Board and the Supervisory Board can be found on the Group's website www.hepsor.ee.

07

Share and Shareholders

The shares of Hepsor AS (HPR1T; ISIN EE3100082306) have been listed in the Main List of Nasdaq Tallinn Stock Exchange since 26 November 2021. The Group has issued 3,854,701 shares with nominal value of 1 euro.

During the course of initial public offering 19,621 investors subscribed for a total of 6,745,135 shares that exceeded the number of offered shares 8.7 times. As at 31 December 2021 Hepsor AS had 14,407 shareholders.

Hepsor AS shares held by the members of Management and Supervisory Boards and entities related to them:

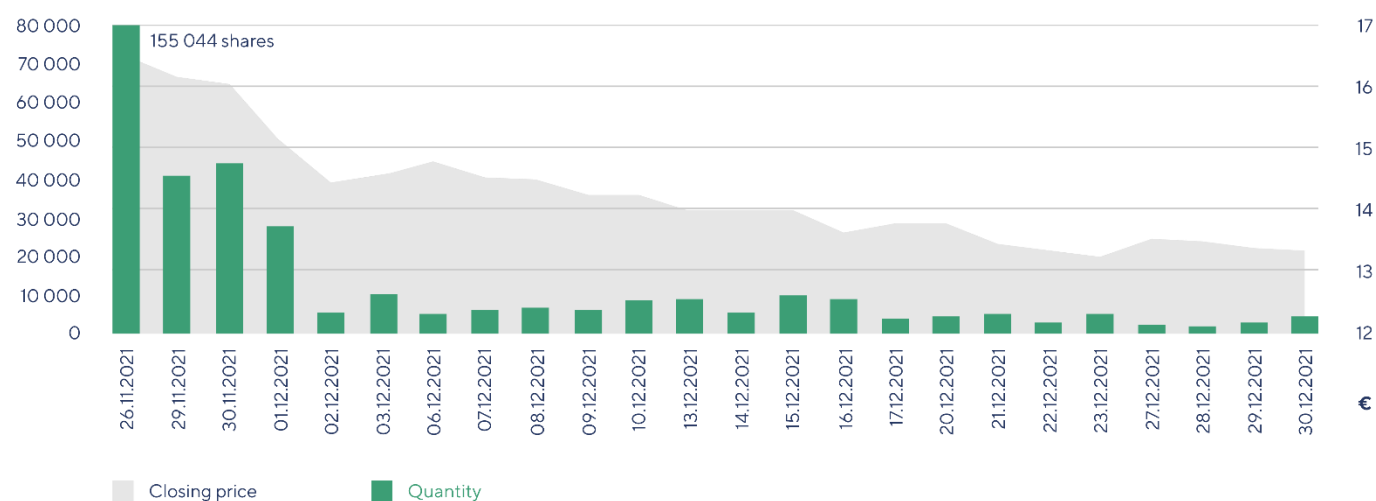
| Shareholder | Position | Number of shares | Shareholding % |
|----------------|-------------------------------|------------------|----------------|
| Henri Laks | Member of Management Board | 498,000 | 12.92 |
| Andres Pärloja | Chairman of Supervisory Board | 997,500 | 25.88 |
| Kristjan Mitt | Member of Supervisory Board | 997,500 | 25.88 |
| Lauri Meidla | Member of Supervisory Board | 507,000 | 13.15 |
| Total | - | 3,000,000 | 77.83 |

Shareholder structure by number of shares held as at 31 December 2021:

| Number of shares | Number of shareholders | % of shareholders | Number of shares | % of shares |
|------------------|------------------------|-------------------|------------------|----------------|
| 100 001-... | 5 | 0.03% | 3,000,000 | 77.83% |
| 10 001-100 000 | 7 | 0.05% | 157,446 | 4.08% |
| 1001 -10 000 | 57 | 0.40% | 211,533 | 4.03% |
| 101-1000 | 738 | 5.10% | 192,569 | 5.00% |
| 1-100 | 13,600 | 94.40% | 349,177 | 9.06% |
| Total | 14,407 | 100.00% | 3,854,701 | 100.00% |

Between 26 November 2021 and 31 December 2021, a total of 12,951 transactions were conducted with the shares of Hepsor AS with 380,508 shares in the total amount of 5.8 million euros. The opening price on 26 November 2021 was 16.5 euros, the highest price for the period was 17.4 euros and the closing price 13.5 euros. As at 31 December 2021 the market capitalization of Hepsor AS was 52 million euros and the Group's equity amounted to 19 million euros.

Trading volume and price range of Hepsor AS shares, 26 November - 31 December 2021:



Source: Nasdaq Baltic

In accordance with the Group's strategy, the earned profits will be reinvested in the implementation of new and existing projects. The Group's shareholders may decide to pay dividends or establish a long-term dividend policy in the future, if the Group does not have the opportunity to reinvest its profits in projects with a sufficient return on equity.

Management Board's Confirmation

The Management Board confirms that the unaudited interim report for IV quarter and 12 months 2021, which is comprised of the management report and the interim financial statements, provides a true and fair view of the Group's operations, financial position and results of operations and describe the significant risks and uncertainties the Group faces.

Henri Laks

Member of Management Board

Tallinn, 22 February 2022

Consolidated Financial Statements

Consolidated statement of financial position

| in thousands of euros | Note | 31.12.2021 | 31.12.2020 |
|---|------|---------------|---------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 10,889 | 4,207 |
| Trade and other receivables | 3 | 652 | 574 |
| Current loan receivables | 6 | 2,388 | 776 |
| Inventories | 2 | 37,237 | 22,903 |
| Total current assets | | 51,166 | 28,460 |
| Non-current assets | | | |
| Property, plant and equipment | | 229 | 492 |
| Financial investments | 4 | 402 | 0 |
| Investments in associates | 5 | 0 | 2 |
| Non-current loan receivables | 6 | 3,408 | 1,371 |
| Other non-current receivables | | 140 | 108 |
| Total non-current assets | | 4,179 | 1,973 |
| Total assets | | 55,345 | 30,433 |
| Liabilities and equity | | | |
| Current liabilities | | | |
| Loans and borrowings | 7 | 2,761 | 4,038 |
| Current lease liabilities | | 123 | 174 |
| Prepayments from customers | | 1,164 | 769 |
| Trade and other payables | 8 | 5,539 | 3,082 |
| Total current liabilities | | 9,587 | 8,063 |
| Non-current liabilities | | | |
| Loans and borrowings | 7 | 25,602 | 12,122 |
| Non-current lease liabilities | | 66 | 267 |
| Other non-current liabilities | 9 | 1,053 | 402 |
| Deferred income tax liability | 11 | 0 | 60 |
| Total non-current liabilities | | 26,721 | 12,851 |
| Total liabilities | | 36,308 | 20,914 |
| Equity | | | |
| Share capital | | 3,855 | 6 |
| Share premium | | 9,362 | 3,211 |
| Retained earnings | | 5,820 | 6,302 |
| Total equity | | 19,037 | 9,519 |
| incl. total equity attributable to owners of the parent | | 18,836 | 9,454 |
| incl. non-controlling interest | | 201 | 65 |
| Total liabilities and equity | | 55,345 | 30,433 |

Consolidated statement of profit and loss and other comprehensive income

| in thousands of euros | Note | Q4 2021 | Q4 2020 | 2021 | adjusted 2020 |
|--|-----------|--------------|--------------|--------------|------------------|
| Revenue | 13,18 | 8,015 | 15,158 | 14,961 | 38,771 |
| Cost of sales (-) | 1,14 | -6,111 | -13,299 | -11,902 | -34,687 |
| Gross profit | | 1,904 | 1,859 | 3,059 | 4,084 |
| Marketing expenses (-) | | -94 | -42 | -271 | -93 |
| Administrative expenses (-) | 1,15 | -363 | -158 | -942 | -594 |
| Other operating income | | 29 | 17 | 83 | 51 |
| Other operating expenses (-) | | -10 | -31 | -49 | -37 |
| Operating profit of the year | 18 | 1,466 | 1,645 | 1,880 | 3,411 |
| Financial income | | 174 | 141 | 321 | 917 |
| interest income | | 30 | 23 | 145 | 108 |
| profit on the sale of a subsidiary | | 0 | 118 | 0 | 809 |
| other financial income | | 144 | 0 | 176 | 0 |
| Financial expenses (-) | 16 | -194 | -30 | -512 | -364 |
| interest expenses (-) | | -157 | -18 | -434 | -157 |
| loss from associate (-) | 5 | 0 | 0 | -2 | 0 |
| other financial expenses (-) | | -37 | -12 | -76 | -207 |
| Profit before tax | | 1,446 | 1,756 | 1,689 | 3,964 |
| Current income tax | | 0 | -59 | -16 | -59 |
| Deferred income tax | 11 | 105 | 110 | 60 | -60 |
| Net profit for the year | | 1,551 | 1,807 | 1,733 | 3,845 |
| Attributable to owners of the parent | | 153 | 1,108 | -22 | 2,591 |
| Non-controlling interest | | 1,398 | 699 | 1,755 | 1,254 |
| Other comprehensive income (loss) | | | | | |
| Changes related to change of ownership | | 0 | 11 | 70 | -14 |
| Change in value of embedded derivatives with minority shareholders | 10 | -1,389 | -518 | -1,815 | -1,022 |
| Cost of issuing shares | | -445 | 0 | -445 | 0 |
| Business combination between related parties | | 0 | 0 | 0 | 25 |
| Other comprehensive income for the period | | -283 | 1,300 | -457 | 2,834 |
| Attributable to owners of the parent | | -292 | 1,107 | -467 | 2,605 |
| Non-controlling interest | | 9 | 193 | 10 | 229 |
| Earnings per share | | | | | |
| Basic (euros per share) | | 0.04 | 0.29 | -0.01 | 0.86 |
| Diluted (euros per share) | | 0.04 | 0.29 | -0.01 | 0.86 |

Consolidated statement of changes in equity

| in thousands of euros | Attributable to equity owners of the parent | | | Non-controlling interests | Total equity |
|---|---|---------------|-------------------|---------------------------|---------------|
| | Share capital | Share premium | Retained earnings | | |
| 31.12.2020 | 6 | 3,211 | 6,237 | 65 | 9,519 |
| Other comprehensive income for the period | 0 | 0 | -467 | 10 | -457 |
| Increase of share capital | 2,994 | -2,994 | 0 | 0 | 0 |
| Issue of shares | 855 | 9,145 | 0 | 0 | 10,000 |
| Dividends paid | 0 | 0 | -151 | -64 | -215 |
| Reserves | 0 | 0 | 0 | 190 | 190 |
| 31.12.2021 | 3,855 | 9,362 | 5,619 | 201 | 19,037 |
| 31.12.2019 | 6 | 3,211 | 3,669 | -164 | 6,722 |
| Other comprehensive income for the period | 0 | 0 | 2,605 | 229 | 2,834 |
| Dividends declared | 0 | 0 | -37 | 0 | -37 |
| 31.12.2020 | 6 | 3,211 | 6,237 | 65 | 9,519 |

In May 2021 Hepsor Peetri OÜ paid dividends to minority shareholders in the amount of 64 thousand euros.

In August 2021 Hepsor AS paid dividends to shareholders in the amount of 151 thousand euros.

Consolidated statement of cash flows

| in thousands of euros | Note | 2021 | 2020 |
|---|------|---------------|---------------|
| Net cash flows from (to) operating activities | | | |
| Operating profit of the year | | 1,880 | 3,411 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 157 | 161 |
| Loss from write off of goodwill | | 0 | 25 |
| Income tax paid | | -75 | -1 |
| Changes in working capital: | | | |
| Change in trade receivables | | 18 | 253 |
| Change in inventories | 2 | -12,816 | 9,603 |
| Change in liabilities and prepayments | | 1,511 | -1,905 |
| Cash flows from (to) operating activities | | -9,325 | 11,547 |
| Net cash flows to investing activities | | | |
| Payments for property, plant and equipment | | 0 | -3 |
| Payments of for acquisition of financial investment | 4 | -2 | 0 |
| Proceeds from sale of subsidiaries | | 0 | 819 |
| Proceeds from sale of associates | | 0 | 1 |
| Interest received | | 17 | 83 |
| Loans granted | 6 | -4,369 | -2,108 |
| Loan repayments received | 6 | 0 | 150 |
| Cash flows to investing activities | | 176 | 0 |
| Net cash flows from (to) financing activities | | -4,178 | -1,058 |
| Net cash flow from issuing shares | 1 | 9,555 | 0 |
| Loans raised | 7 | 22,682 | 22,634 |
| Loan repayments | 7 | -10,479 | -29,913 |
| Interest paid | 17 | -1,361 | -1,328 |
| Payments of finance lease principal | | -15 | -7 |
| Payments of right to use lease liabilities | | -129 | -115 |
| Dividends paid | | -252 | 0 |
| Non-controlling interest contributions to share capital | | 260 | 0 |
| Other receipts from financing activities | | -76 | -196 |
| Cash flows from financing activities | | 20,185 | -8,925 |
| Net cash flow | | 6,682 | 1,564 |
| Cash and cash equivalents at beginning of year | | 4,207 | 2,667 |
| Cash outflow from disposal of subsidiaries | | 0 | -24 |
| Increase / decrease in cash and cash equivalents | | 6,682 | -1,564 |
| Cash and cash equivalents at end of year | | 10,889 | 4,207 |

Notes to the consolidated interim financial statements

Note 1. General information

The Hepsor AS (hereinafter “the Group”) consolidated unaudited interim report for IV quarter and 12 months have been prepared in accordance with IAS 34 Interim Financial Reporting of International Financial Reporting Standards as endorsed in the European Union (“IFRS (EU)”). The Group has consistently applied the accounting policies throughout all periods presented, unless stated otherwise. The interim report for IV quarter and 12 months follow the same accounting principles and methods used in the 2020 audited consolidated special-purpose financial statements.

The current interim financial statements contain the audited financial results for 2020 and unaudited comparative figures for IV quarter 2020.

Total non-recurring costs from public offering and listing of Hepsor AS shares in 2021 amounted to 650 thousand euros, including listing existing shares in the amount of 205 thousand euros recorded as operating expenses and issuing new shares in the amount of 445 thousand euros recoded as comprehensive income. Net cash flow from share issue is 9,555 thousand euros.

The Group has not made any changes in their critical accounting estimates which may have impact on the consolidated unaudited interim financial statements for IV quarter and 12 months 2021.

The Group has not made any changes in the valuation techniques applied for fair value measurement in year 2021.

Change in presentation of information in the statement of comprehensive income

The comparative data for 2020 has been adjusted in the Group’s 2021 IV quarter and 12 months interim report. According to the management the change in presentation gives a fair overview of the Group’s financial results.

Changes in presentation of comprehensive income statement is related to the development project management expenses.

| in thousands of euros | Original 2020 | Adjustment | Adjusted 2020 |
|------------------------------|--------------------------|-------------------|--------------------------|
| Cost of sales | 34,493 | +194 | 34,687 |
| Administrative expenses | 788 | -194 | 594 |

Note 2. Inventories

| in thousands of euros | | | | 31.12.2021 | | 31.12.2020 | |
|---|---------------------|----------|----------------------------|------------------|----------------|------------------|----------------|
| Address | Project company | Location | Segment | Acquisition cost | Project status | Acquisition cost | Project status |
| Work in progress | | | | | | | |
| Mõigu Road 11, Rae | Hepsor Peetri OÜ | Estonia | Residential | 0 | - | 2,061 | E |
| Pirita Road 26b, Tallinn | Hepsor P26B OÜ | Estonia | Residential | 13 | E | 3,088 | D |
| Paevälja 11, Tallinn | Hepsor PV11 OÜ | Estonia | Residential | 2,963 | D | 1,956 | B |
| Paldiski mnt 227C, Tallinn | Hepsor 3Torni OÜ | Estonia | Residential | 2,517 | C | 0 | - |
| Narva mnt 150, Tallinn | Hepsor N450 OÜ | Estonia | Residential/C ommercial | 3,582 | A | 0 | - |
| Manufaktuuri 5, Tallinn | Hepsor Phoenix 3 OÜ | Estonia | Residential/C ommercial | 3,268 | B | 2,764 | B |
| Manufaktuuri 7, Tallinn | Hepsor Phoenix 2 OÜ | Estonia | Residential/C ommercial | 2,303 | B | 1,673 | B |
| Tooma 2/Tooma 4 Tallinn | T2T4 OÜ | Estonia | Commercial | 1,159 | C | 1,088 | C |
| Lembitu 4, Tallinn | Hepsor L4 OÜ | Estonia | Commercial | 2,811 | C | 2,733 | C |
| Meistri 14, Tallinn | Hepsor M14 OÜ | Estonia | Commercial | 5,765 | D | 1,145 | D |
| Alvari 2/Paevälja 9, Tallinn | Hepsor Fortuuna OÜ | Estonia | Residential | 1,656 | A | 0 | - |
| Alaveri 1, Tallinn | Hepsor A1 OÜ | Estonia | Residential | 1,004 | A | 0 | - |
| Kadaka Road 197, Tallinn | H&R Residentsid OÜ | Estonia | Residential | 614 | A | 0 | - |
| Balozu street 9, Riga | Hepsor Bal9 SIA | Latvia | Residential | 1,770 | D | 419 | B |
| Saules alley 2, Riga | Hepsor SA2 SIA | Latvia | Residential | 957 | B | 1,043 | B |
| Liela 45, Marupe | Hepsor Marupe SIA | Latvia | Residential | 663 | C | 14 | B |
| Ranka Dambis 5, Riga | Hepsor RD5 SIA | Latvia | Residential | 354 | B | | |
| Ulbrokas 30, Riga | Hepsor U30 SIA | Latvia | Commercial | 1,485 | D | 471 | B |
| Ulbrokas 34, Riga | Hepsor U34 SIA | Latvia | Commercial | 1,019 | B | | |
| -other properties | | Estonia | | 21 | A | 39 | A |
| -other properties | | Latvia | | 0 | - | 2 | A |
| Total work in progress | | | | 33,926 | | 18,496 | |
| Finished real estate development | | | | | | | |
| Agenskalna 24, Riga | Hepsor Agen24 SIA | Latvia | Residential | 50 | E | 257 | E |
| Strelnieku 4b, Riga | Hepsor S4B SIA | Latvia | Residential | 3,245 | E | 4,134 | E |
| Manufaktuuri 22, Tallinn (parking spaces) | Hepsor Phoenix OÜ | Estonia | Residential | 16 | E | 16 | E |
| Total finished real estate development | | | | 3,311 | | 4,407 | |
| Total inventories | | | | 37,237 | | 22,903 | |

Project statuses are classified as following:

| in thousands of euros | 31.12.2021 | 31.12.2020 | Change % |
|--------------------------------|------------|------------|----------|
| A- planning proceedings | 6,877 | 41 | - |
| B- building permit proceedings | 7,901 | 8,340 | -5 |
| C-building permit available | 7,150 | 3,821 | 87 |
| D-construction started | 11,985 | 4,233 | 183 |
| E-construction ready for sale | 3,324 | 6,468 | -49 |
| Total inventories | 37,237 | 22,903 | 63 |

Inventories are accounted as ready for sale development projects once the project has been granted usage permit.

As at 31 December 2021 the Group had 45 (31 December 2020: 62) unsold apartments in Riga, including 1 apartment in Agenskana 24 development project and 44 apartments in Strelnieku 4 development project.

As at 31 December 2021 changes in inventories as stated in cash flow statements have been adjusted by loan interest expense, which are capitalised in the amount of 1,518 (31 December 2020: 1,007) thousand euros, of which in the fourth quarter 238 (Q4 2020: 219) thousand euros. Further information about financial expenses is provided in the Notes 16 and 17.

Note 3. Trade and other receivables

| In thousands of euros | 31.12.2021 | 31.12.2020 |
|--|------------|------------|
| Trade receivables | 86 | 73 |
| Allowance for doubtful receivables | -6 | 0 |
| Net trade receivables | 80 | 73 |
| Prepayments | | |
| Tax prepayment | 382 | 329 |
| Value added tax | 382 | 329 |
| Other prepayments for goods and services | 146 | 48 |
| Total prepayments | 528 | 377 |
| Other current receivables | | |
| Interest receivables | 33 | 2 |
| Escrow account | 0 | 122 |
| Other current receivables | 11 | 0 |
| Other current receivables | 44 | 124 |
| Total trade receivables | 652 | 574 |

Note 4. Financial investments

Tatari 6A Arenduse OÜ, where the Group holds 80% shareholding, is accounted as financial investment. The Group is providing management services to the project. In order to ensure the quality and control of the management process, the Group will hold an 80% shareholding in the company during the development period, which will be transferred to the co-owner at the end of the development process. The Group has no profit share in the project. The acquisition value of the financial investment is 2 thousand euros.

Hepsor Latvia OÜ signed a purchase agreement, through which it acquired 100% of the Latvian company Brofits SIA (to be renamed Hepsor Jugla SIA). As the Group's holding in the company was finalised at the beginning of 2022, the Group will not consolidate the company as of 31 December 2021 (consolidation will start from the first quarter of 2022).

Note 5. Shares of associates

At the end of reporting periods, the Group has ownership in the following associates:

| | Ownership and voting rights % | |
|----------------|-------------------------------|------------|
| | 31.12.2021 | 31.12.2020 |
| Hepsor P113 OÜ | 45 | 45 |
| Hepsor N170 OÜ | 25 | 25 |

Financial information about associates:

| In thousands of euros | 31.12.2021 | | 30.12.2020 | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | Hepsor P113 OÜ | Hepsor N170 OÜ | Hepsor P113 OÜ | Hepsor N170 OÜ |
| Current assets | | | | |
| Cash and cash equivalents | 218 | 373 | 316 | 133 |
| Trade receivables | 85 | 82 | 53 | 5 |
| Inventories | 6,991 | 6,591 | 2,689 | 1,171 |
| Total current assets | 7,294 | 7,046 | 3,058 | 1,309 |
| Total assets | 4,442 | 7,046 | 3,058 | 1,309 |
| Current liabilities | | | | |
| Loans and borrowings | 0 | 5,534 | 0 | 0 |
| Trade and other payables | 1,034 | 1,595 | 326 | 357 |
| Total current liabilities | 1,034 | 7,129 | 326 | 357 |
| Non-current liabilities | | | | |
| Loans and borrowings | 6,198 | 0 | 2,718 | 950 |
| Other non-current liabilities | 147 | 0 | 12 | 0 |
| Total non-current liabilities | 6,345 | 0 | 2,73 | 950 |
| Total liabilities | 7,379 | 7,129 | 3,056 | 1,307 |
| Total equity | -85 | -83 | 2 | 2 |
| Total liabilities and equity | 7,294 | 7,046 | 3,058 | 1,309 |

As of 31.12.2021, the Group had contractual commitment to finance:

Hepsor P113 OÜ office building development at Pärnu Road 113, Tallinn in the total amount of 3,149 thousand euros, of which the Group had fulfilled 2,308 thousand euros (31 December 2020: 1,223 thousand euros). The occupancy of office building is 100%. Construction will be completed in the second half of 2022.

The development of Hepsor N170 commercial and apartment building at Narva Road 170, Tallinn in the total amount of 340 thousand euros, of which the Group had fulfilled 279 thousand euros (31 December 2020: 148 thousand euros). The contract under law of obligation has been signed with Lumipood OÜ for the retail area, out of 76 apartments 4 have not been sold yet as at 31 December 2021.

Note 6. Loans granted

In December 2021, the shareholders of Hepsor P26b OÜ approved the resolution of division of the company, based on which Hepsor P26b OÜ transferred assets to minority shareholders in the amount of 2,080 thousand euros. Additional information is available in Note 10.

The loan to unrelated legal entities in the amount of 1,100 thousand euros has been granted to Kvarita Holding OÜ. In January 2022, Hepsor Latvia OÜ acquired a 50% stake in Kvarita Holding OÜ.

| in thousands of euros | Owner of non-controlling interest | Unrelated legal entities | Associates | Related legal entities | Total |
|---|-----------------------------------|--------------------------|--------------|------------------------|--------------|
| 2021 | | | | | |
| Loan balance as at 31.12.2020 | | | | | |
| - current portion | 720 | 56 | 0 | 0 | 776 |
| - non-current portion | 0 | 0 | 1,371 | 0 | 1,371 |
| Total loan balance as at 31.12.2020 | 720 | 56 | 1,371 | 0 | 2,147 |
| Loan granted | 2,109 | 1,044 | 1,216 | 0 | 4,369 |
| Division of subsidiary | -720 | 0 | 0 | 0 | -720 |
| Loan balance as at 31.12.2021 | 2,109 | 1,100 | 2,587 | 0 | 5,796 |
| - current portion | 2,109 | 0 | 279 | 0 | 2,388 |
| - non-current portion | 0 | 1,100 | 2,308 | 0 | 3,408 |
| contractual/effective interest rate per annum | 0-3% | 0% | 7% | 0 | |
| 2020 | | | | | |
| Loan balance as at 31.12.2019 | | | | | |
| - current portion | 1,055 | 65 | 0 | 0 | 1,120 |
| - non-current portion | 0 | 0 | 124 | 0 | 124 |
| Total loan balance as at 31.12.2019 | 1,055 | 65 | 124 | 0 | 1,244 |
| Loan granted | 720 | 121 | 1,247 | 20 | 2,108 |
| Division of subsidiary | -1,055 | 0 | 0 | 0 | -1,055 |
| Loan collected | 0 | -130 | 0 | -20 | -150 |
| Loan balance as at 31.12.2020 | 720 | 56 | 1,371 | 0 | 2,147 |
| -current portion | 720 | 56 | 0 | 0 | 776 |
| -non-current portion | 0 | 0 | 1,371 | 0 | 1,371 |
| Contractual/effective interest rate per annum | 0-3% | 0% | 7% | 12% | |

In September 2020, the shareholders of Hepsor V10 OÜ approved the resolution of division of the company, based on which Hepsor V10 transferred assets (loan receivable) to minority shareholder in the amount of 274 thousand euros. Additional information is available in the Note 10.

In December 2020, the shareholders of Hepsor Kadaka OÜ approved the resolution of division of the company, based on which Hepsor Kadaka OÜ transferred assets to minority shareholders in the amount of 448 thousand euros. Of this, 446 thousand euros as loan receivable. Additional information is available in the Note 10.

In November 2019, the shareholders of Hepsor Phoenix OÜ approved the resolution of division of the company, based on which Hepsor Phoenix OÜ transferred assets to minority shareholder in the amount of 1,077 thousand euros. Of this, 1,055 thousand euros as loan receivable.

Note 7. Loans and borrowings

Substantial part of interest expenses are interest expenses on financing the development projects. Interest costs which are related with property development projects are 100% capitalised and added to the inventories acquisition costs. During the reporting period the Group has capitalized borrowing costs in the amount of 1,518 thousand euros (31 December 2020: 1,007 thousand euros).

| in thousands of euros | Bank loans | Unrelated legal entities and individuals | Related legal entities | Total |
|--------------------------------------|--------------------|--|------------------------|---------------|
| 2021 | | | | |
| Balance as at 31.12.2020 | | | | |
| - current loan payable | 1,308 | 2,230 | 500 | 4,038 |
| - non-current loan payable | 3,397 | 8,585 | 140 | 12,122 |
| Total loan balance as at 31.12.2020 | 4,705 | 10,815 | 640 | 16,160 |
| Received | 14,053 | 6,938 | 1,691 | 22,682 |
| Repaid | -7,807 | -2,172 | -500 | -10,479 |
| Loan balance as at 31.12.2021 | 10,951 | 15,581 | 1,831 | 28,363 |
| - current loan payable | 981 | 1,780 | 0 | 2,761 |
| - non-current loan payable | 9,971 | 13,301 | 1831 | 25,602 |
| Contractual interest rate per annum | EU6+5,85%-8%; 8,2% | 0-12% | 3%-12% | |
| Effective interest rate per annum | 4,7%-10,7% | 0-12,2% | 12%-13,4% | |
| 2020 | | | | |
| Loan balance as at 31.12.2019 | | | | |
| - current loan payable | 7,559 | 2,446 | 400 | 10,405 |
| - non-current loan payable | 4,178 | 6,326 | 2,530 | 13,034 |
| Total loan balance as at 31.12.2019 | 11,737 | 8,772 | 2,930 | 23,439 |
| Received | 14,754 | 6,640 | 1,240 | 22,634 |
| Repaid | -21,786 | -4,597 | -3,530 | -29,913 |
| Loan balance as at 31.12.2020 | 4,705 | 10,815 | 640 | 16,160 |
| - current loan payable | 1,308 | 2,230 | 500 | 4,038 |
| - non-current loan payable | 3,397 | 8,585 | 140 | 12,122 |
| Contractual interest rate per annum | EU6+5%-6%; 8,2% | 0-24% | 3%-12% | |
| Effective interest rate per annum | 6,8%-11% | 0-24% | 3%-12% | |

Hepsor AS signed a three-year loan agreement with LHV Pank for the amount of 4 million euros in March 2021. The shares of Hepsor AS and Hepsor Finance OÜ were pledged as guarantee on the loan. The loan agreement states two financial covenants that are measured quarterly:

- a) LHV Pank loan and equity ratio of maximum 55%,
- b) Group's investments to Estonian entities and LHV Pank loan ratio must be at least 1.5x at any given moment.

As at 31 December 2021, 86% (31.12.2020: 97%) of all loans granted to the Group have been received against the risk of development projects.

| in thousands of euros | Bank loans | Unrelated legal entities and individuals | Related legal entities | Total |
|---|---------------|--|------------------------|---------------|
| Balance as at 31.12.2021 | | | | |
| Loans for development projects | 6,925 | 15,581 | 1,831 | 24,337 |
| Loans to headquarters to finance development projects | 4,026 | 0 | 0 | 4,026 |
| Total | 10,951 | 15,581 | 1,831 | 28,363 |
| Balance as at 31.12.2020 | | | | |
| Loans for development projects | 4,705 | 10,815 | 140 | 15,660 |
| Loans to headquarters to finance development projects | 0 | 0 | 500 | 500 |
| Total | 4,705 | 10,815 | 640 | 16,160 |

As at 31 December 2021, the Group had the following bank loans under the following conditions:

| Lender | Country | Loan balance | Contract term | Loan limit | Interest annum | per | Collateral | Cost value of the collateral |
|-------------|---------|--------------|---------------|------------|----------------|-----|---|------------------------------|
| LHV Pank AS | Estonia | 1,285 | 2022 | 1,300 | EU6+8% | | Mortgage - Lembitu tn. 4, Tallinn | 2,811 |
| LHV Pank AS | Estonia | 562 | 2023 | 8,605 | EU6 +4,5% | | Mortgage - Paevälja pst 11, Lageloo tn 3 // 5, Lageloo tn 7 | 2,965 |
| LHV Pank AS | Estonia | 2,375 | 2024 | 3,115 | EU6+4,75% | | Mortgage - Meistri 14 | 5,765 |
| Bigbank AS | Latvia | 982 | 2023 | 1,150 | 6% | | Mortgage - Baložu 9, Riia, | 1,770 |
| Bigbank AS | Latvia | 1,687 | 2024 | 2,500 | EU6 + 4,5% | | Commercial pledge; Mortgage - Strelnieku tn. 4b, Riga | 3,245 |

As at 31 December 2020, the Group had the following bank loans under the following conditions:

| Lender | Country | Loan balance | Contract term | Loan limit | Interest annum | per | Collateral | Cost value of the collateral | Group guarantee given |
|-------------|---------|--------------|---------------|------------|----------------|-----|--|------------------------------|-----------------------|
| Swedbank AS | Estonia | 460 | 2021 | 3,800 | EU6+5.85% | | Mortgage - Mõigu tee 11, Rae vald | 2,061 | 1,900 |
| LHV Pank AS | Estonia | 847 | 2022 | 3,237 | EU6 +6% | | Mortgage - Pirita tee 26b, Tallinn | 3,088 | - |
| LHV Pank AS | Estonia | 1,285 | 2022 | 1,300 | EU6+8% | | Mortgage - Lembitu tn. 4, Tallinn | 2,733 | - |
| Bigbank AS | Latvia | 2,113 | 2024 | 2,500 | 8.20% | | Commercial pledge; Mortgage- Strelnieku tn. 4b, Riga | 4,147 | 1,000 |

Note 8. Trade and other payables

| in thousands of euros | 31.12.2021 | 31.12.2020 |
|---------------------------------------|--------------|--------------|
| Trade payables | 1,506 | 831 |
| Taxes payable | | |
| Value added tax | 254 | 743 |
| Corporate income tax | 0 | 58 |
| Personal income tax | 18 | 11 |
| Social security tax | 33 | 20 |
| Other taxes | 5 | 3 |
| Total taxes payable | 310 | 835 |
| Accrued expenses | | |
| Payables to employees | 72 | 76 |
| Interest payable | 135 | 174 |
| Other accrued expenses | 29 | 83 |
| Total accrued expenses | 236 | 333 |
| Other current payables | | |
| Dividend payables | 0 | 37 |
| Embedded derivatives (Note 10) | 2,115 | 1,022 |
| Other payables | 1,372 | 24 |
| Total other current payables | 3,487 | 1,083 |
| Total trade and other payables | 5,539 | 3,082 |

Note 9. Other non-current liabilities

| in thousands of euros | 31.12.2021 | 31.12.2020 |
|--|--------------|------------|
| Non-current interest payables | 1,020 | 390 |
| Other non-current payables | 33 | 12 |
| Total other non-current liabilities | 1,053 | 402 |

Note 10. Embedded derivatives

Liabilities assumed by the Group to minority shareholders in accordance with the concluded shareholders' agreements are recognized as embedded derivatives. According to shareholders agreements the profit is shared with minority shareholders in the form as it is agreed in the agreement. As of the end of the reporting periods, upon partial or full realisation of the business plan of the development project, the Group had liabilities arising from embedded derivatives with regard to the following projects:

| in thousands of euros | 31.12.2021 | 31.12.2020 |
|--|--------------|--------------|
| Current liabilities arising from embedded derivatives | | |
| Residential development Kadaka Road 141, Ehitajate 91/91a Road Tallinn | 0 | 448 |
| Residential development Pirita Road 26b, Tallinn | 2,080 | 253 |
| Residential development Mõigu Road 11, Rae parish | 35 | 47 |
| Residential development Valge street 10/10a, Tallinn | 0 | 274 |
| Total | 2,115 | 1,022 |

During the financial year change in embedded derivatives of minority shareholders amounted to 1,815 thousand euros including increase from Pirita 26b development projects of 1,827 thousand euros and decrease of 12 thousand euros from Mõigu road 11.

In December 2021, the shareholders of Hepsor P26b OÜ approved the resolution of division of the company, based on which Hepsor P26b OÜ transferred assets to minority shareholder in the amount of 2,080 thousand euros. Additional information is available in the Note 6.

In December 2020, the shareholders of Hepsor Kadaka OÜ approved the resolution of division of the company, based on which Hepsor Kadaka transferred assets to minority shareholder in the amount of 448 thousand euros. The division was registered in the Commercial Register on 14 March 2021. In September 2020, the shareholders of Hepsor V10 OÜ approved the resolution of division of the company, based on which Hepsor V10 transferred assets to minority shareholder in the amount of 274 thousand euros. The division was registered in the Commercial Register on 4 February 2021. The obligations arising from embedded derivatives was offset by a loans claim granted to minority shareholders. Additional information of granted loans is provided in Note 6.

Note 11. Deferred Income tax

The deferred income tax liability is provided by the Group on the profit or loss earned from subsidiaries that have a minority holding, and the distribution of profits has not been agreed in the shareholders' agreement. If the parent company assesses that the dividend will be paid in the foreseeable future, the deferred income tax liability is measured to the extent of the planned dividend payment provided that as at the reporting date. The deferred income tax liability is reduced if the distribution of the profit from the development project has been agreed between the shareholders.

| in thousands of euros | 31.12.2021 | 31.12.2020 |
|---|------------|------------|
| Balance at 01.01 | 60 | 0 |
| Deferred income tax expense | -60 | 60 |
| Balance at the end of reporting period | 0 | 60 |

Note 12. Contingent liabilities

12.1 Contingent liabilities arising from embedded derivatives

In accordance with the shareholders agreements between the Group and minority shareholders of subsidiaries (SPV's), the Group has an obligation as at 31 December 2021 to pay 7,501 thousand euros (31 December 2020: 5,662 thousand euros) to the minority shareholders upon realisation of the business plan. The obligations amounts are estimations calculated based on current business plans of the development projects as of statement of financial position dates. Contingent liabilities are estimated before the full realisation of the development projects at each reporting date. As of 31 December 2021, the realisation time of contingent liabilities remains between 2022 and 2025 (31 December 2020: 2021-2024).

12.2 Contingent obligation from financing the construction of city daycare center

The Group holds contingent obligation to finance the construction of daycare center for city of Tallinn as part of the development of Manufaktuuri quarter. The potential financing obligation is 375 thousand euros. As at the end of the financial year the Group and the city of Tallinn had not agreed on the financing conditions.

12.3 Litigations

Proceedings have been instituted against Hepsor Phoenix 3 OÜ to Harju Country Court disputing the procurement of demolition works. The claim amounts to approximately 150 thousand euros. Based on the current evidences, the management considers the satisfaction of the claim unlikely.

12.4 Group guarantees given

As of 31 December 2021, the Group has not issued financial guarantees for bank loans (31 December 2020: 2,900 thousand euros), additional information on the terms of bank loans is provided in the Note 8.

Note 13. Revenue

| in thousands of euros | Q4 2021 | Q4 2020 | 2021 | 2020 |
|--|--------------|---------------|---------------|---------------|
| Revenue from sale of real estate | 7,840 | 15,027 | 14,347 | 38,475 |
| Revenue from project management services | 68 | 64 | 227 | 213 |
| Revenue from rent | 82 | 62 | 312 | 66 |
| Revenue from other services | 24 | 5 | 75 | 17 |
| Total | 8,015 | 15,158 | 14,961 | 38,771 |

Additional information on sales revenue is provided in Note 18.

Note 14. Cost of sales

| in thousands of euros | Q4 2021 | Q4 2020 | 2021 | adjusted 2020 |
|-----------------------------|--------------|---------------|---------------|------------------|
| Cost of real estate sold | 5,706 | 12,953 | 11,137 | 33,929 |
| Personnel expenses (Note 1) | 136 | 105 | 444 | 399 |
| Interest expenses (Note 16) | 234 | 219 | 257 | 290 |
| Depreciation | 6 | 14 | 32 | 34 |
| Other costs | 29 | 8 | 32 | 35 |
| Total | 6,111 | 13,299 | 11,902 | 34,687 |

Note 15. Administrative expenses

| in thousands of euros | Q4 2021 | Q4 2020 | 2021 | adjusted 2020 |
|----------------------------------|------------|------------|------------|------------------|
| Personnel expenses (Note 1) | 190 | 79 | 383 | 206 |
| Depreciation | 33 | 32 | 125 | 127 |
| Impairment of goodwill | 0 | 0 | 0 | 25 |
| Traveling and transport expenses | 7 | 12 | 40 | 55 |
| Purchased service expenses | 115 | 5 | 347 | 60 |
| Office expenses | 9 | 21 | 18 | 49 |
| Other administrative expenses | 9 | 9 | 29 | 72 |
| Total | 363 | 158 | 942 | 594 |

Note 16. Financial expenses

| in thousands of euros | Q4 2021 | Q4 2020 | 2021 | 2020 |
|---------------------------------------|------------|------------|------------|------------|
| Interest expenses | 157 | 19 | 434 | 157 |
| Loss from associates of equity method | 0 | 0 | 2 | 0 |
| Financial expenses from discounting | 14 | 11 | 14 | 11 |
| Other financial expenses | 23 | 0 | 62 | 0 |
| Loss from sale of shares of associate | 0 | 0 | 0 | 196 |
| Total | 194 | 30 | 512 | 364 |

In 2021 borrowing costs in the amount of 1,518 thousand euros (2020: 1,007 thousand euros) have been capitalised as the cost of inventories, of which 238 thousand euros in the fourth quarter (Q4 2020: 219 thousand euros) (Note 2). Interest expenses of 257 thousand euros (2020: 290 thousand euros) have been recognized in the cost of sales in 2021, of which 234 thousand euros in the fourth quarter (Q4 2020: 219 thousand euros) (Note 14).

Note 17. Information about line item in the consolidated statement of cash flows

| in thousands of euros | 31.12.2021 | 31.12.2020 |
|--|---------------|---------------|
| Interest paid | | |
| Interest expense in statement of profit or loss and other comprehensive income | -434 | -157 |
| Reclassification of cash flows from operating activities to financing activities | | |
| <i>Change in inventories (Notes 2,16)</i> | -1,518 | -1,007 |
| Decrease (-)/ increase (+) of interest payables | 591 | -164 |
| Interest paid total | -1,361 | -1,328 |

Note 18. Operating segments

A segment is a distinguishable component of the Group, which generates revenues and incurs expenditures. The segment reporting is presented in respect of operating and geographical segments.

The Group reports separately information about the following operating segments:

- residential real estate;
- commercial real estate;
- headquarters

Revenues generated by headquarters are gained from provision of project management services. All personnel expenses are accounted in headquarters.

Geographical segments refer to the location of the real estate. The Group operates in Estonia and Latvia.

Revenue by geographical area

| in thousands of euros | Q4 2021 | Q4 2020 | 2021 | 2020 |
|-----------------------|---------|---------|--------|--------|
| Estonia | 7,090 | 14,049 | 13,277 | 33,907 |
| Latvia | 925 | 1,109 | 1,684 | 4,864 |
| Total | 8,015 | 15,158 | 14,961 | 38,771 |

Additional information on sales revenue is provided in Note 13.

Segment reporting is presented on the basis of consolidated indicators, where all transactions between the Group's companies have been eliminated.

| in thousands of euros | Residential development | | Commercial development | | Headquarters | | Total | |
|-------------------------|-------------------------|---------|------------------------|---------|--------------|---------|-------|--------|
| | Q4 2021 | Estonia | Latvia | Estonia | Latvia | Estonia | | Latvia |
| Revenue | | 6,911 | 467 | 130 | 439 | 49 | 19 | 8,015 |
| incl. revenue from rent | | 7 | 49 | 21 | 5 | 0 | 0 | 82 |
| Operating profit | | 1,973 | 86 | 0 | -13 | -438 | -142 | 1,466 |
| Assets | | 22,859 | 6,707 | 10,640 | 3,515 | 8,827 | 2,797 | 55,345 |
| Liabilities | | 16,853 | 3,893 | 6,693 | 1,735 | 4,991 | 2,143 | 36,308 |

| in thousands of euros | Residential development | | Commercial development | | Headquarters | | Total | |
|-------------------------|-------------------------|---------|------------------------|---------|--------------|---------|-------|--------|
| | Q4 2020 | Estonia | Latvia | Estonia | Latvia | Estonia | | Latvia |
| Revenue | | 13,986 | 954 | 14 | 137 | 49 | 18 | 15,158 |
| incl. revenue from rent | | 0 | 44 | 13 | 5 | 0 | 0 | 62 |
| Operating profit | | 1,822 | 8 | 112 | 0 | -232 | -65 | 1,645 |
| Assets | | 13,729 | 5,540 | 6,014 | 1,293 | 3,760 | 97 | 30,433 |
| Liabilities | | 10,581 | 2,942 | 4,068 | 424 | 2,717 | 182 | 20,914 |

| in thousands of euros | Residential development | | Commercial development | | Headquarters | | Total | |
|-------------------------|-------------------------|---------|------------------------|---------|--------------|---------|-------|--------|
| | 2021 | Estonia | Latvia | Estonia | Latvia | Estonia | | Latvia |
| Revenue | | 12,893 | 1,192 | 181 | 462 | 204 | 29 | 14,961 |
| incl. revenue from rent | | 15 | 209 | 61 | 27 | 0 | 0 | 312 |
| Operating profit | | 3,200 | 219 | -5 | 23 | -1,104 | -453 | 1,880 |
| Assets | | 22,859 | 6,707 | 10,640 | 3,515 | 8,827 | 2,797 | 55,345 |
| Liabilities | | 16,853 | 3,893 | 6,693 | 1,735 | 4,991 | 2,143 | 36,308 |

| In thousands of euros | Residential development | | Commercial development | | Headquarters | | Total | |
|-------------------------|-------------------------|---------|------------------------|---------|--------------|---------|-------|--------|
| | 2020 | Estonia | Latvia | Estonia | Latvia | Estonia | | Latvia |
| Revenue | | 33,668 | 4,693 | 48 | 137 | 191 | 34 | 38,771 |
| incl. revenue from rent | | 0 | 44 | 17 | 5 | 0 | 0 | 66 |
| Operating profit | | 3,728 | 252 | 377 | 6 | -615 | -337 | 3,411 |
| Assets | | 13,729 | 5,540 | 6,014 | 1,293 | 3,760 | 97 | 30,433 |
| Liabilities | | 10,581 | 2,942 | 4,068 | 424 | 2,717 | 182 | 20,914 |

Note 19. Related parties

The Group considers following parties as related parties:

- key members of the management (supervisory and management board), their close relatives and entities under their control or significant influence;

Purchases and sales of goods and services

| in thousands of euros | Q4 2021 | Q4 2020 | 2021 | 2020 |
|--|------------|------------|------------|------------|
| Sales of goods and services | | | | |
| Associated companies | 40 | 40 | 160 | 160 |
| Key members of the management and all companies directly or indirectly owned by them | 28 | 19 | 65 | 173 |
| Total sales of goods and services | 68 | 59 | 225 | 333 |
| Purchases of goods and services | | | | |
| Key members of the management and all companies directly or indirectly owned by them | 3,373 | 2,058 | 11,349 | 17,526 |
| incl. construction service | 3,337 | 1,983 | 11,160 | 14,629 |
| Interest income earned | | | | |
| Associated companies | 45 | 22 | 141 | 37 |
| Interest earned | | | | |
| Key members of the management and all companies directly or indirectly owned by them | 0 | 0 | 0 | 1 |
| Interest earned | 0 | 0 | 0 | 6 |
| Interest received | | | | |
| Interest expenses incurred | | | | |
| Key members of the management and all companies directly or indirectly owned by them | 59 | 5 | 136 | 154 |
| Accrued interest | 21 | 1 | 49 | 204 |
| Interest paid | 40 | 40 | 160 | 160 |

Balances and loan transactions with related parties

| In thousands of euros | 31.12.2021 | 31.12.2020 |
|--|------------|------------|
| Receivables | | |
| Loans granted (Note 6) | | |
| Associated companies | | |
| Opening balance | 1,371 | 124 |
| Loan granted | 1,216 | 1,247 |
| Balance at the end of period | 2,587 | 1,371 |
| Trade and other receivables | | |
| Associated companies | 0 | 2 |
| Key members of the management and all companies directly or indirectly owned by them | 12 | 4 |
| Interest receivables | | |
| Associated companies | 169 | 42 |
| Payables | | |
| Loans and borrowings (Note 7) | | |
| Key members of the management and all companies directly or indirectly owned by them | | |
| Opening balance | 640 | 2,930 |
| Loans received | 1,691 | 1,240 |
| Loans repaid | -500 | -3,530 |
| Balance at the end of period | 1,831 | 640 |
| Trade payables | | |
| Key members of the management and all companies directly or indirectly owned by them | 1,126 | 770 |
| Interest payables | | |
| Key members of the management and all companies directly or indirectly owned by them | 70 | 2 |

Note 20. Events after the reporting period

- ✓ Subject to options agreement signed in 2021 Hepsor Latvia OÜ acquired on 12 January 2022 50% shareholding in Kvarita Holding OÜ. Kvarita Holding is a 100% shareholder of Kvarita SIA development company which develops Kuldigas Parks project with 116 apartments in Riga, Gregora 2a.
- ✓ On 14 January 2022 Hepsor U30 SIA and Latvian affiliate of Bigbank AS signed a 2.65 million loan agreement to finance the construction of stock-office in Riga, Ulbrokas 30.
- ✓ In 2022, Hepsor Latvia OÜ established Hepsor Ganibu Dambis SIA, a subsidiary to develop commercial development project in Riga, Ganibu Dambis 17a.
- ✓ On 01 February 2022 Kvarita SIA and Latvian affiliate of Bigbank AS signed a loan agreement in the amount of 7.5 million euros to finance the construction of apartment building in Riga Gregora 2a.
- ✓ On 10 February 2022 50% shareholding was sold in Hepsor Marupe SIA-.
- ✓ In January 2022 the shareholders of Hepsor Peetri OÜ decided to pay minority shareholders dividends in the amount of 29 thousand euros.

Note 21. Risk management

Risk management is part of the Group's strategic planning and decision-making process. The Group is exposed to a number of risks and uncertainties related to, among other factors, the business and financial risks. The materialisation of any such risks could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects. The Group's risk management process is based on the premise that the Group's success depends on constant monitoring, accurate assessment, and effective management of risks. The Group's management monitors the management of these risks.

Strategic risk

The Group's strategic risks are risks that can significantly impact the execution of its business strategies and ability to achieve the objectives. Such risks are impacted by changes in market demand and microeconomic developments. While the risks can have negative impact on the Group's business, they can also create new business opportunities. The Group carefully selects the new development projects and monitors the market trends in order to adjust its strategy when significant changes occur.

Business risk

Business risks include operational and commercial risks, which can have negative impact on financial performance or reputation of the Group. The examples of such risks include the inability of the Group to find suitable land plots and real estate projects and inability of Group's contractors to perform in accordance with agreed terms. In managing such risks the Group is conducting in-depth due diligence and implementing mitigation actions and controls.

Market risks

The Group is exposed to price risk resulting from decline in the market values of the Group's real estate development projects. There can be no guarantee that the Group will be able to sell its development projects in future with prices that are similar or higher than the expected market value of these projects. The inability of the Group to sell with expected prices could have an unfavourable impact of the Group's statement of financial position and may have a material adverse effect on the Group's business, financial condition, prospects and results of operations and execution of its strategy. At present it is not possible to assess the extent of any such potential changes.

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group actively uses external and internal borrowings to finance its real estate development projects in Estonia and Latvia. A project's external financing is either in the form of a bank loan or investor loan from minority interest holders denominated in Euro. The interest rates of investor loans are fixed (meaning not floating).

Management constantly monitors the Group's exposure to interest rate risk. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

The Group's bank loans have both fixed and floating interest rates based on Euribor. Bank loans have 0% floor clause as protection against negative Euribor meaning that in case of negative Euribor, Euribor is equalized to zero and the margin of such loans does not decrease.

For undrawn bank loans the Group is charged commitment fee, which is based on the average balance of the undistributed loan amount thus having direct impact on the effective interest rate of the Group.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations towards the Group under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk such as trade receivables from rental property and from its financing activities, including deposits with banks and other financial instruments.

In order to minimise credit risk, the Group is only dealing with creditworthy counterparties and deposits cash in banks well-recognized banks in Estonia and Latvia. The Group uses publicly available financial information and its own trading records to rate its major customers.

The Group is in real estate development business and upon sale of completed property the Group enters into notarized agreement with the buyer. Since most of the transactions are ensured either with money deposited in the notary's deposit account or a bank loan, the Group is not exposed to material credit risk from trade receivables.

Liquidity risk

The Group's liquidity represents its ability to settle its liabilities to creditors on time. A careful management of liquidity and refinancing risks implies maintaining the availability of funding through an adequate amount of committed credit facilities. Due to the nature of the Group's business activities, the Group actively uses external and internal funds to ensure that resources are available to cover capital needs.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. Refinancing risk is managed by monitoring the liquidity position, analysing different financing options on an ongoing basis and negotiating with financing parties throughout the financing period.

Covid-19

The impact of the COVID-19 is being felt by all businesses around the world. Therefore, the continuing spread of the COVID-19 may have an adverse long-term impact on markets where the Group operates. The velocity of change coming out of the pandemic is generating new forms of financial and operational risks arising from inflation, capacity constraints, and supply-chain disruptions.