

hepsor



Ojakalda Kodud, Tallinn

2022 III quarter and nine
months consolidated unaudited
interim report

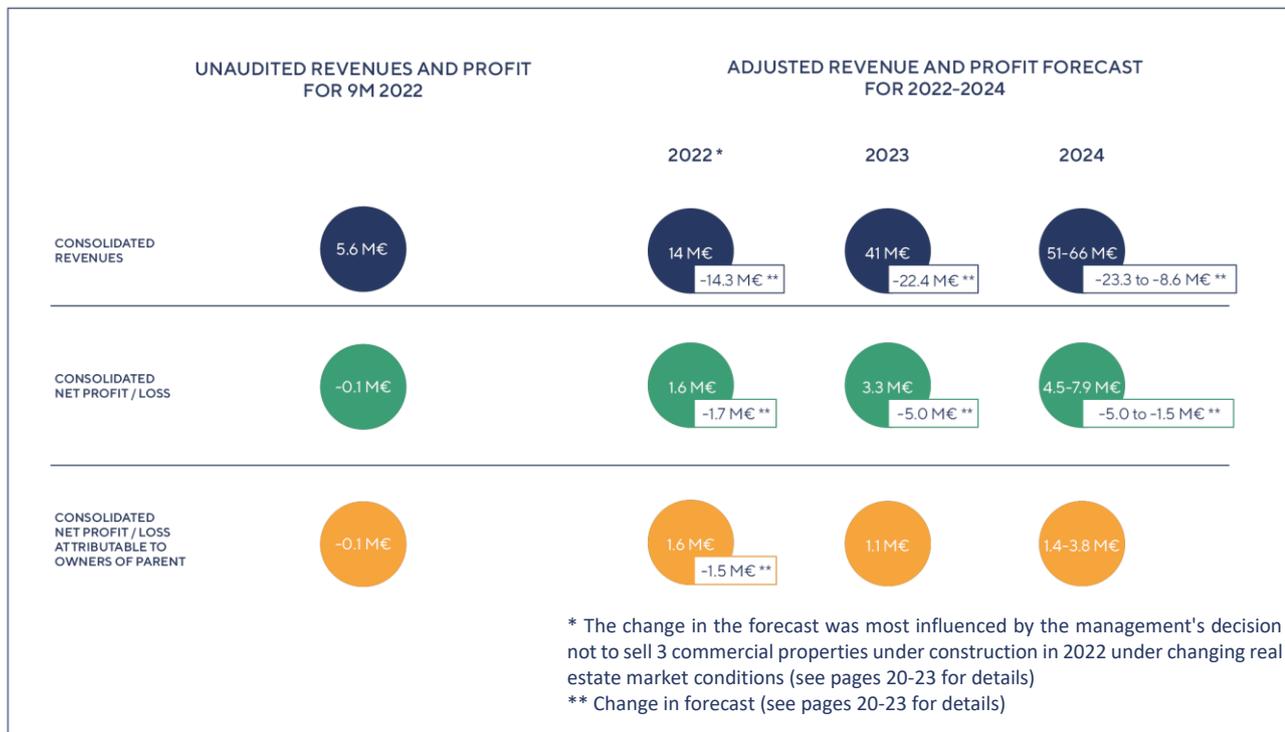
Corporate name:	Hepsor AS
Commercial Register No:	12099216
Address:	Järvevana tee 7b, 10112 Tallinn
E-mail:	info@hepsor.ee
Telephone:	+372 660 9009
Website:	www.hepsor.ee
Reporting period:	01 January 2022-30 September 2022
Financial year:	01 January 2022-31 December 2022
Supervisory Board:	Andres Pärloja, 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.

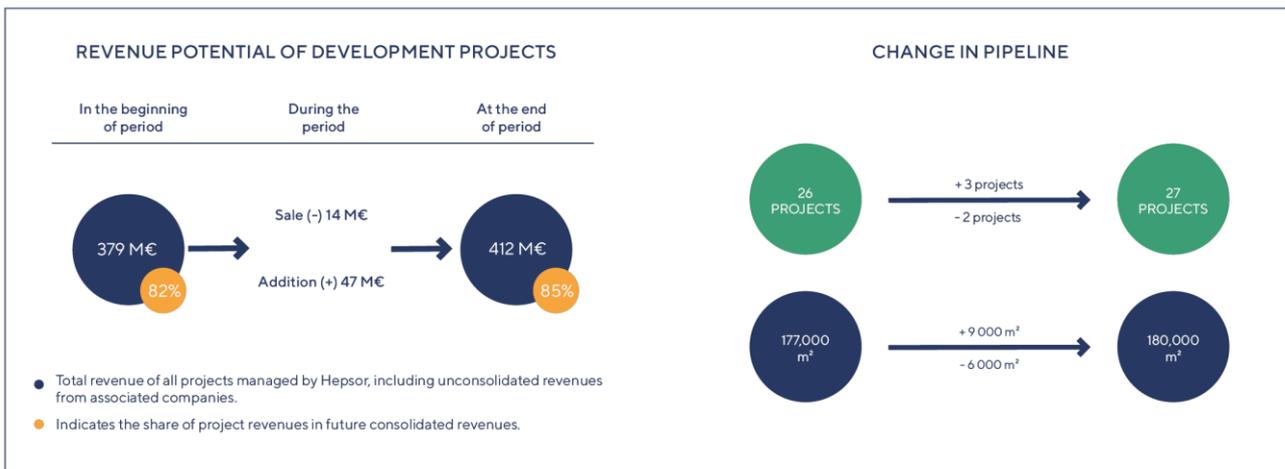
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Management Report



LONG TERM OUTLOOK (31 DEC 2021 VS 14 OCT 2022)



DEVELOPMENT PROJECTS FOR SALE AND UNDER CONSTRUCTION (31 DEC 2021 VS 14 OCT 2022)

RESIDENTIAL DEVELOPMENT PROJECTS FOR SALE	Total number of apartments	Apartments sold	Apartments sold 2022	Apartments sold %	Apartments available
Strelnieku 4b, Latvia	54	32	22	59%	22
Paevājļa Courtyard Houses	96	79	30	82%	17
Kuldīgas Parks, Latvia	116	78	65	67%	38
Mārupes Dārzs, Latvia	92	55	55	60%	37
Manufaktuuri 7	154	10	10	10%	144
Ojakalda Homes	101	10	10	6%	91
Total	613	264	192	43%	349

COMMERCIAL DEVELOPMENT PROJECTS IN PROGRESS	Total rentable area m ²	Occupancy m ²	Occupancy %
Priekšla retail premises	1,487	1,487	100%
Ulbroskas 30 stock-office	3,645	3,645	100%
Būroo113 office building	4,002	4,002	100%
Grūne office building	3,430	3,430	100%
Total	12,564	12,564	100%

DEVELOPMENT PROJECTS UNDER CONSTRUCTION		
Started in 2021	Total under construction	To be started in 2022
585 apartments 4,098 m ² commercial area	405 apartments 12,564 m ² commercial area	324 apartments 15,374 m ² commercial area

The consolidated sales revenue of Hepsor for the first nine months of 2022 amounted to 5.6 million euros (including 1.7 million euros in Q3 2022) and the net loss was 0.1 million euros (including a net profit of 0.1 million euros in Q3 2022).

The Group's revenues and profitability are directly dependent on the development cycle of projects, which is approximately 24 to 36 months. Sales revenue is only generated at the end of the cycle. Calendar quarters vary in terms of the number of projects ending during the quarter, which is why both profits and sales revenue can differ significantly across quarters. Therefore, performance can be considerably weaker or stronger in some years and quarters than in others. To assess the overall sustainability and economic results of a real estate development company, the portfolio of the company's development projects and three-year average financial results are better criteria for assessing the group's performance.

The sales revenue in the first nine months of this year was generated mainly from the sale of completed residential development projects. As of the end of third quarter, we have sold 39 apartments from completed projects in Latvia, including 20 apartments at 4b Strēlnieku St, 18 apartments at 9 Baložu St and 1 apartment at 24 Āgenskalna St. In the third quarter, we signed real right contracts for all 76 apartments in the Priisle Kodu development project. The Group owns a 25% stake in the Priisle Kodu development company Hepsor N170, and therefore project sales are not reflected in the consolidated sales revenue. The share in the profit from the Priisle Kodu development project will be reflected in the Group's results for the third and fourth quarters of 2022.

Hepsor has four residential development projects in Estonia and Latvia, with a total of 405 new apartments. As of 14 October 2022, contracts under the law of obligations and reservation agreements have been signed for 55 apartments (60%) in the Mārupes Dārzs development project (92 apartments) near Riga. In the Kuldīgas Parks (116 apartments) project in Riga, contracts have been signed for 78 apartments (67%). Both projects will be completed in 2023. In Estonia, we continue with the construction of the Paevälja Hoovimajad development project, which includes two apartment buildings with a total of 96 apartments. As of 14 October 2022, contracts under the law of obligations have been signed for 79 apartments (82%). The first phase of the project with 48 apartments will be completed by the end of this year, and the second phase in Q1 2023. In regard to new development projects, we started the construction of Ojakalda Kodud in the third quarter, where we will build 101 spacious new family apartments.

In addition to residential development projects already under construction and for sale, Hepsor plans to start constructing 218 new apartments in Q4 2022, including Lilleküla Kodud (26 apartments) and 7 Manufaktuuri St (154 apartments) in Tallinn, and Nameja Rezidence (38 apartments) in Riga.

Of commercial property developments, four projects have been completed or are about to be completed this year in Tallinn and Riga, all of which are fully covered by lease agreements. We built commercial premises on the business property at 1 Priisle St, which is now leased to the Selver supermarket (leased area approx. 1500 sq. m). The real right contract for selling the property is planned to be signed in the fourth quarter of this year. The green office building Grüne Maja is largely in active use, and the last tenants will move to the new premises in Q2 2023 at the latest. At the end of the year, we will hand over the Büroo113 commercial building, which is 100% covered by lease agreements, and the anchor tenant will be a modern clinic with an innovative concept. Büroo113 is the first building where green solutions (geothermal heating and cooling, rainwater use, energy-efficient architecture, excellent indoor climate, solar energy, etc.) have been applied in a city centre high-rise. In Riga, a stock office type commercial building will be completed at 30 Ulbrokas St in Q4 2022.

In total, the Group has added approximately 156 apartments to its development portfolio in the third quarter, including 40 in Riga and 116 in Tallinn. Approximately 45 new apartments will be built on the 12 Manufaktuuri St property in the Manufaktuuri Quarter together with our long-term cooperation partner Tolaram Grup. The Group plans to start the construction of 26 apartments in the Lilleküla Kodud development project already this year. Up to 45 apartments can be built on the properties purchased at 1a Alvari St and 5 Alvari St. In Latvia, a property was added at Jūrmalas Gatve, where an energy class A three-storey residential building with 40 apartments is planned to be built.

In the spring of 2020, Covid-19 and the subsequent lockdown affected the activity of the real estate market rather briefly, and the number of transactions and market activity recovered in a matter of a few calendar quarters. The impact on the Estonian real estate market of Russia's military invasion of Ukraine, which began on 24 February 2022, has also so far been modest.

Today, it is clear that the war in Europe, the accelerated energy crisis, strong inflation and the rise in interest rates do not allow for an objective assessment of the combined impact of all these factors on Hepsor's home markets and consumer confidence, or a prediction of when the activity of the real estate market might recover.

Due to changes in the economic cycle, the management of Hepsor considered it necessary to adjust the previously presented financial forecasts for 2022. During the forecasting process, we also adjusted the financial forecasts for 2023 and 2024, as the building permit procedure for a few major projects has extended significantly and the completion of the projects has been postponed from 2023 to 2024 and 2025. The assumptions for the forecasts for each year are described in more detail in the Adjusted Forecasts chapter.

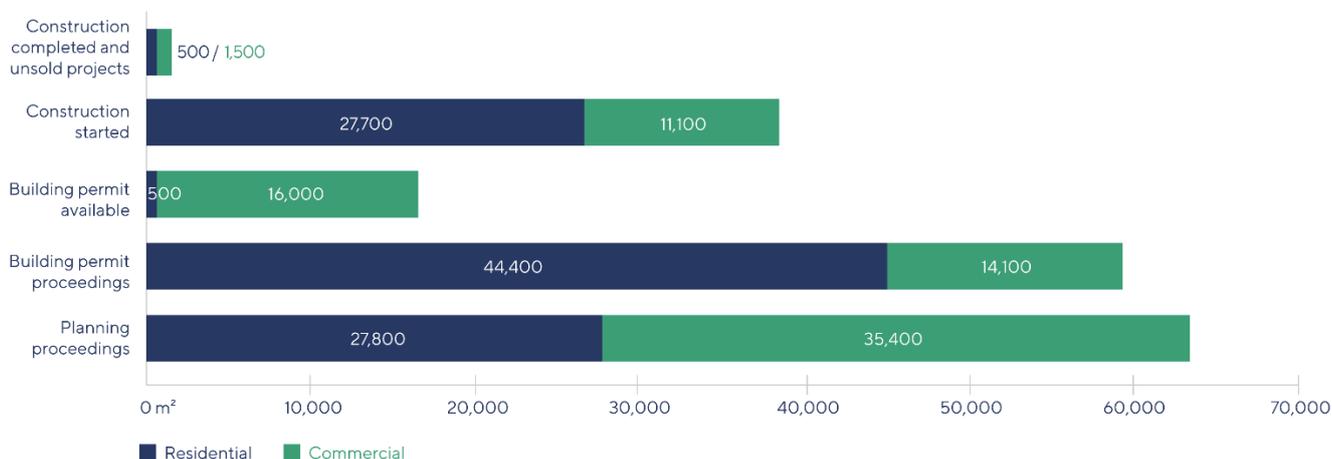
We are conservative in our forecasts, but at the same time we believe that difficult times and changing business cycles can bring new opportunities and interesting purchases to grow the development portfolio.

Overview of the Development Projects

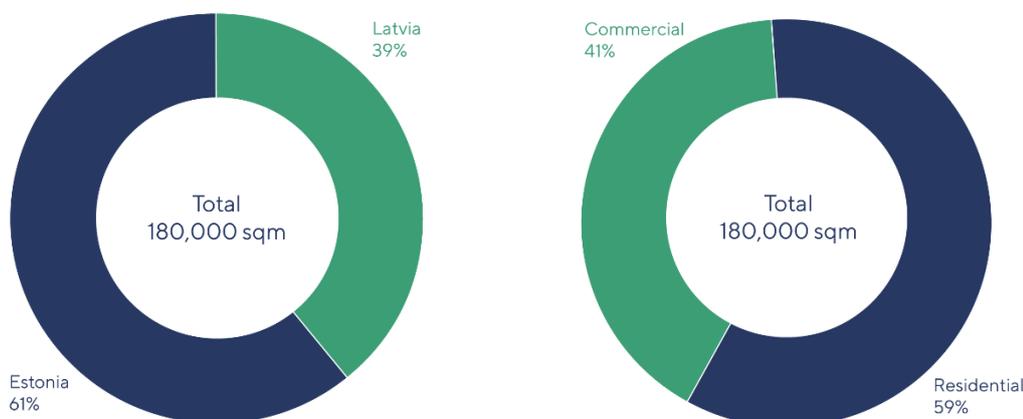
As of 30 September 2022, the Group had 27 active projects in different development phases (30 September 2021: 24 projects) and 180,000 sqm of sellable area (30 September 2021: 152,000 sqm).

During the reporting period, the Group sold the last apartment of 18-apartment in 9 Baložu St development project in Riga and last apartments in Priisle Kodu development project with 76 apartments. The Priisle Kodu development project belongs to the Group’s associated company and therefore the revenue from the sale of apartments is not recorded as part of the Group’s revenues.

Distribution of development portfolio between different development phases (as of 14 October 2022):



Distribution of development portfolio between countries and type (as of 14 October 2022):



Projects, where construction has been completed but not all apartments have been sold (as of 14 October 2022):



Project: Strēlnieku 4b
 Hepsor S4B SIA
 Address: 4b Strēlnieku St, Riga
 Apartments: 54
 Project completed: 2020
 Website: hepsor.lv/Strēlnieku4b



Residential development projects the construction of which has started (as of 14 October 2022):



Project: Paevälja Hoovimajad
 Hepsor PV11 OÜ
 Address: 11 Paevälja, 7 Lageloo, Tallinn
 Apartments: 96
 Start of construction: Q4 2021
 Estimated completion: I phase Q4 2022
 II phase Q1 2023
 Website: hepsor.ee/paevälja/en



Project: Kuldigas Parks
 Kvarta SIA
 Address: 2a Gregora iela, Riga
 Apartments: 116
 Start of construction: Q4 2021
 Estimated completion: Q2 2023
 Website: hepsor.lv/kuldigasparcs/en/



Project: Mārupes Dārzs
 Hepsor Mārupe SIA
 Address: 45 Liela, Mārupe, Riga area
 Apartments: 92
 Start of construction: Q2 2022
 Estimated completion: Q2 2023
 Website: hepsor.lv/Mārupesdarzs/en/





Project: Ojakalda Kodud
Hepsor 3TORNI OÜ

Address: 227c Paldiski road, Tallinn

Apartments: 101

Start of construction: Q3 2022

Estimated completion: Q2 2024

Website: hepsor.ee/ojakalda/en/



Commercial development projects the construction of which is completed or will be completed (as of 14 October 2022):



Project: Büroo 113
Hepsor P113 OÜ

Address: 113 Pärnu road, Tallinn

Leasable area: 4,002 m²

Occupancy: 100%

Start of construction: Q3 2020

Estimated completion: Q4 2022

Website: byroo113.ee



Project: Grüne Büroo
Hepsor M14 OÜ

Address: 14 Meistri, Tallinn

Leasable area: 3,430 m²

Occupancy: 100%

Start of construction: Q4 2020

Estimated completion: 2022-Q2 2023

Website: gryne.ee/en/



Project: StockOffice U30
Hepsor U30 SIA

Address: 30 Ulbrokas, Riga

Leasable area: 3,645 m²

Occupancy: 100%

Start of construction: Q3 2021

Estimated completion: Q3 2022

Website: hepsor.lv/stokofissu30/en/





Project: Priisle Kodu (retail area)
Hepsor N170 OÜ

Address: 1a Priisle, Tallinn

Leasable area: 1,487 m²

Occupancy: 100%

Project completed: Q3 2022

Website: hepsor.ee/priislekodu/en



Development projects the construction of which starts in 2022-2023 (as of 14 October 2022):



Project: Manufaktuuri Quarter
Hepsor Phoenix 2 OÜ

Address: 7 Manufaktuuri, Tallinn

Apartments: 154

Est. start of construction: Q4 2022

Estimated completion: 2024-2025

Website: hepsor.ee/manufaktuur/m7/en/



Project: Lilleküla Kodu
Hepsor N57 OÜ

Address: 57 Nõmme tee, Tallinn

Apartments: 26

Est. start of construction: Q4 2022

Estimated completion: Q1 2024

Website: hepsor.ee/project/lillekula-kodud/



Project: Nameja Residence
Hepsor RD5 SIA

Address: 5 Ranka Dambis, Riga

Apartments: 38

Est. start of construction: Q1 2023

Estimated completion: Q1 2024

Website: hepsor.lv/namejarezidence/en/



Project: StockOffice U34
Hepsor U34 SIA

Address: 34 Ulbrokas, Riga

Leasable area: 8 526 m²

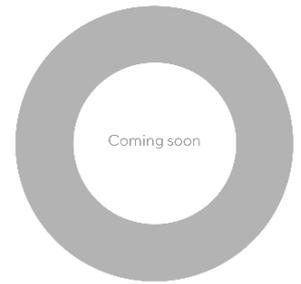
Est. start of construction: Q2 2023

Estimated completion: 2024

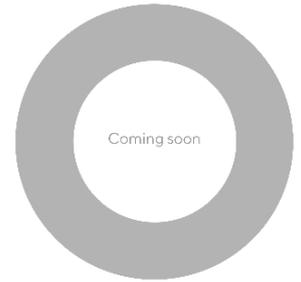




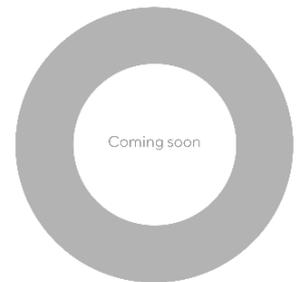
Project: Hepsor JG SIA
Address: Jurmalas Gatve/Imanta 8. linija, Riga
Apartments: 40
Est. start of construction: Q4 2023
Estimated completion: Q4 2024



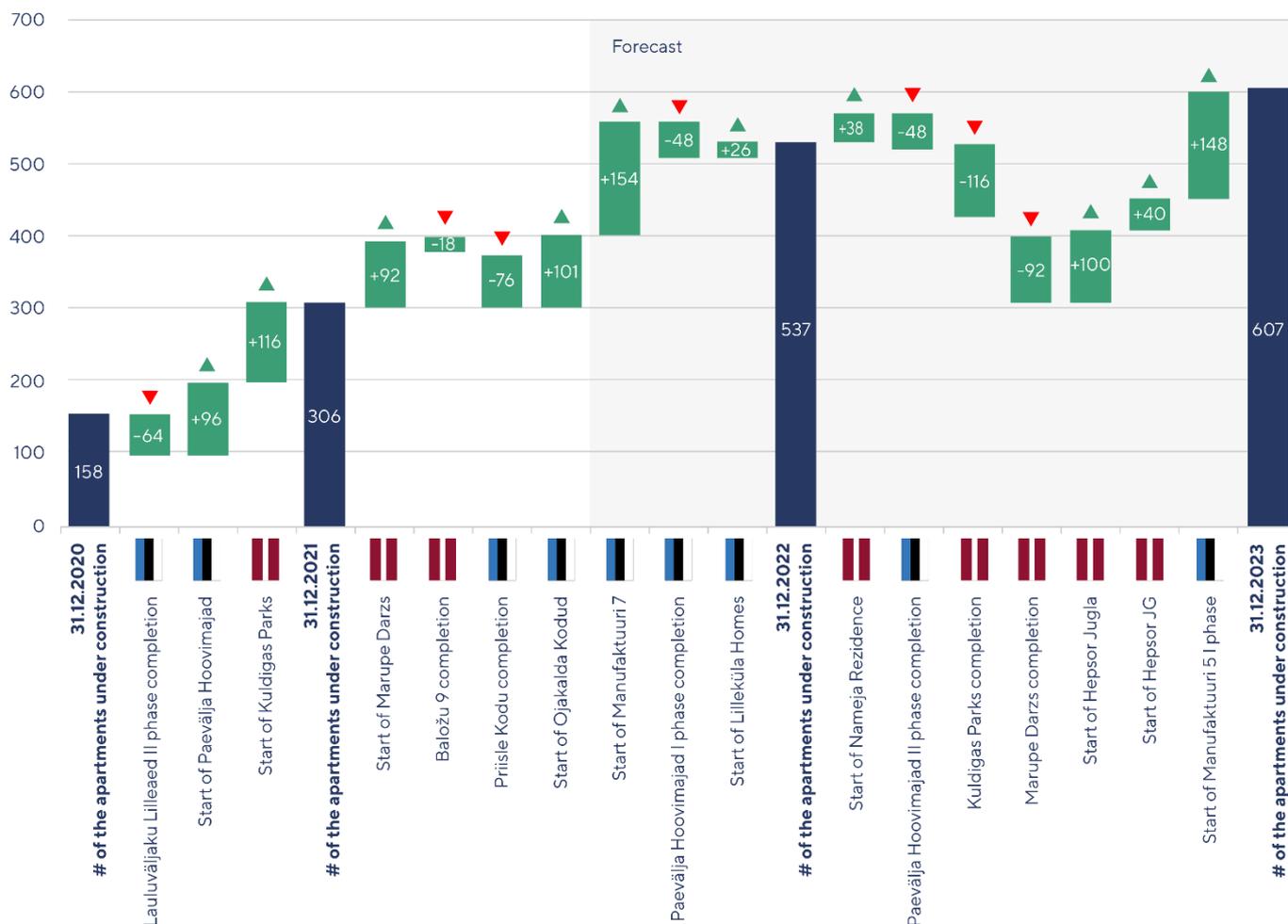
Project: Hepsor Jugla SIA
Address: 23 Braila, Riga
Apartments: 100
Est. start of construction: Q3 2023
Estimated completion: Q3 2024



Project: Manufaktuuri 5
Hepsor Phoenix 3 OÜ
Address: 5 Manufaktuuri, Tallinn
Apartments: 148
Est. start of construction: Q3 2023
Estimated completion: 2025-2026



Under construction and completed apartments, 2021 – 2023:

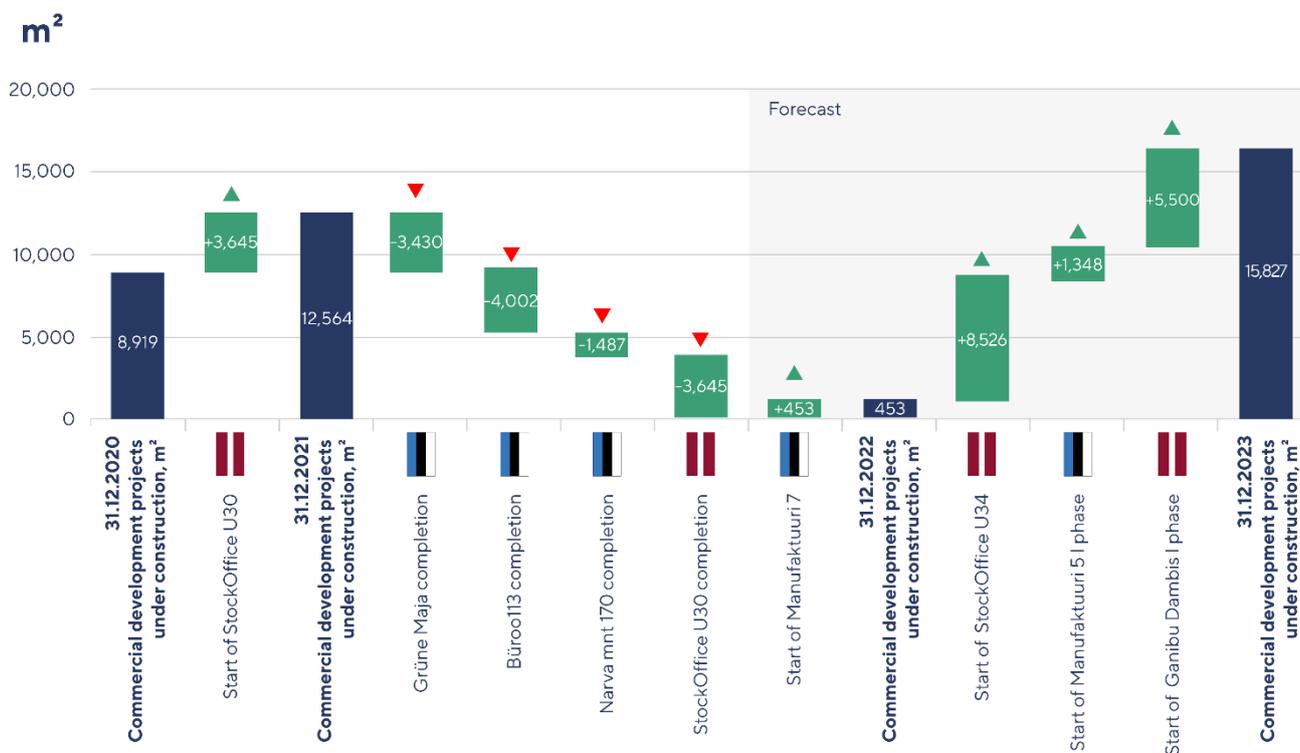


Residential development projects under construction and for sale (as of 14 October 2022):

Project name	Number of apartments	Number of apartments sold*	Share of apartments sold %	Number of unsold apartments	Share of unsold apartments %	Estimated completion
Strēlnieku 4b, Latvia	54	32	59	22	41	2020
Paevälja Hoovimajad	96	79	82	17	18	I phase Q4 2022 II phase Q1 2023
Kuldigas Park, Latvia	116	78	67	38	33	Q2 2023
Mārupes Dārzs, Latvia	92	55	60	37	40	Q2 2023
Manufaktuuri 7	154	10	10	144	94	2024
Ojakalda Kodud	101	10	6	91	90	Q2 2024
Total	613	264	43	349	57	

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

Commercial development projects under construction:



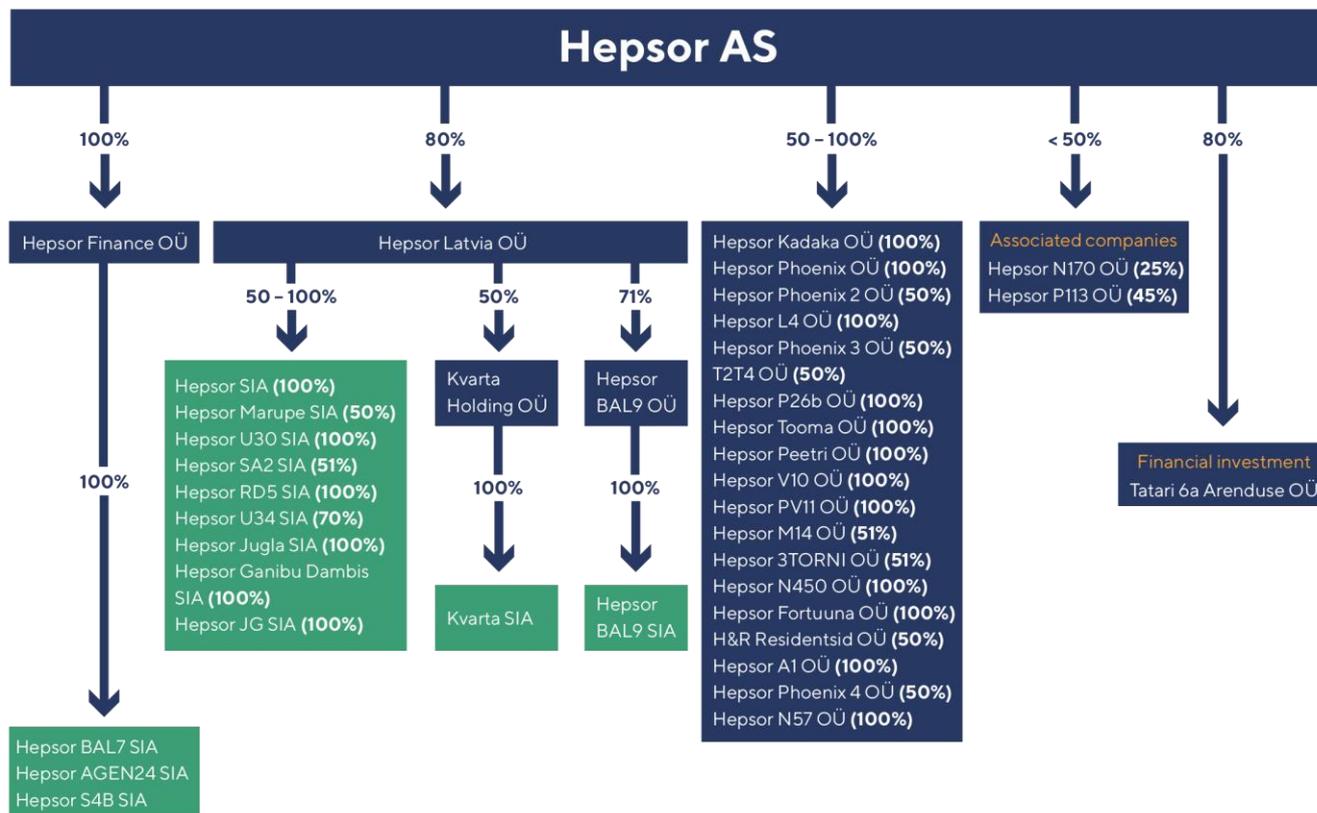
In 2020–2021, the Group started the development of four commercial properties (12,564 sqm in total), all of which will be completed in 2022–2023. In 2023, the Group plans to start the development of two new commercial properties in Latvia (14,026 sqm) and the construction of the first phase in Manufaktuuri 5 commercial property development (1,348 sqm).

Occupancy of commercial development projects (as of 14 October 2022):

Project name	Rentable area sqm	Occupancy sqm	Occupancy %
Priisle 1a retail space	1,487	1,487	100
Ulbokras 30 stock-office, Latvia	3,645	3,645	100
Büroo113	4,002	4,002	100
Grüne Office	3,430	3,430	100
Total	12,564	12,564	100

Group Structure

As of 30 September 2022, the Group was comprised of parent company, 37 subsidiaries and 2 associated companies (30 September 2021: parent company, 31 subsidiaries, 2 associated companies). Tatari 6a Arenduse OÜ is reported as financial investment.



In the third quarter 2022 the following subsidiaries were established:

- ✓ Hepsor Latvia OÜ established a new subsidiary, Hepsor JG SIA, which will develop a three-story A energy class residential building with 40 apartments at Jurmala Gatve street, Imanta district, Riga.
- ✓ Hepsor AS established a new subsidiary, Hepsor Phoenix 4 OÜ, where the Group holds a 50% stake. Hepsor Phoenix 4 OÜ acquired a property in Manufaktuuri Quarter to develop approximately 45 new apartments with its long-term cooperation partner Tolaram Grupp.
- ✓ Hepsor AS established Hepsor N57 OÜ to develop a residential building with 26 apartments on the property at Nõmme tee 57 in Tallinn.

Main Events

- ✓ Hepsor 3TORNI OÜ, Hepsor AS group company, signed the 13.9 million euro loan agreement with LHV Pank AS on 15 July 2022. The purpose of the three-year loan is to finance the construction of Ojakalda development project, a three-tower residential building on the border of Tallinn and Harku with 101 spacious family apartments. The construction agreement of approximately 14.1 million euros excluding value added tax was signed with Mitt & Perlebach OÜ on 25 August 2022.
- ✓ Hepsor A1 OÜ, a subsidiary of Hepsor AS, acquired two properties at Alvari 1a and Alvari 5, Tallinn on 2 August 2022. The acquired properties will be an addition to Hepsor's existing development area (Narva Road 150, 150a, 150b, Alvari 1, Lageloo 7, Paevälja avenue 5, 7, 9 and 11). Based on the undertaken planning proceedings, a commercial and residential building for a maximum of 45 apartments can be built on the property with approximate sellable area of 2,370 m².
- ✓ Hepsor N57 OÜ, a subsidiary of Hepsor AS, acquired a property at Nõmme tee 57, Tallinn on 19 August 2022. The construction of the development project located in peaceful and green Kristiine administrative district will begin already in the fourth quarter of 2022. The development project has 26 apartments of different sizes, from compact one-room apartments to spacious four-room apartments with large terraces.
- ✓ Hepsor JG SIA, a subsidiary of Hepsor AS, signed a sale-purchase agreement on 1 September 2022, for acquiring a property in Jurmala Gatve Street, Imanta district, Riga. The property will accommodate a three-storey A-energy class residential building with 40 apartments and sellable area of approximately 2,500 m².
- ✓ On 7 September 2022, a subsidiary of Hepsor AS signed the sale-purchase agreement for acquiring the Manufaktuuri 12 property in the Manufaktuuri Quarter, Tallinn. In total, approximately 45 new apartments, developed together with the Tolaram Group, a long-term cooperation partner, will be built on the property.

Projects completed in 2022 (as of 14 October 2022):

Name of SPV	Project name	Completion	Location	Development type	Profit share %	Sellable area sqm*	# of apartments sold *
Hepsor BAL9 SIA	Baložu 9	Q3 2022	Latvia	Residential	56%	1,113	18
Hepsor AGEN24 SIA	Āgenskalna 24	Q2 2022	Latvia	Residential	100%	1,518	28
Total						2,631	46

* Apartments sold in 2020–2022

New development potential acquired in 2022 (as of 14 October 2022):

Name of SPV	Project address	Acquisition date	Location	Development type	Profit share %	Planned sqm	Planned # of apartments
Hepsor JG SIA	Imanta, Riga	Q3 2021	Latvia	Residential	80%	2,458	40
Hepsor Phoenix 4 OÜ	Manufaktuuri Quarter, Tallinn	Q3 2022	Estonia	Residential	50%	2,731	45
Hepsor N57 OÜ	Nõmme tee 57, Tallinn	Q3 2022	Estonia	Residential	100%	1,482	26
Hepsor A1 OÜ	Alvari 1, Tallinn Alvari 5, Tallinn	Q3 2022	Estonia	Residential	100%	2,370	45
Total						9,041	156

Employees

As of 30 September 2022, the Group employed 26 (30 September 2021: 16) people including members of Management and Supervisory Board, including 13 in Estonia (30 September 2021: 9) and 13 in Latvia (30 September 2021: 7).

Total labour cost for the reporting period amounted to 1,098 thousand euros (9M 2021: 535 thousand euros). Gross fees paid to the members of Management and Supervisory Boards during the reporting period amounted to 241 thousand euros (9M 2021: 48 thousand euros).

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. The remuneration of the members of the Management Board and the Supervisory Board are also considered to be labour costs.

Operating Results

The Group's sales revenue in Q3 2022 was 1.7 million euros (compared with 3.1 million euros in Q3 2021), of which 1.4 million euros (Q3 2021: 349 thousand euros) or 86% (Q3 2021: 11%) was earned from Latvia.

The Group's sales revenue in nine months 2022 was 5.6 million euros (9M 2021: 6.9 million euros) including 5.0 million euros (9M 2021: 758 thousand euros) from Latvia. Revenue from Latvian operations accounted for 90% of Group's revenue (9M 2021: 11%).

In Q3 2022 the Group had 4b Strēlnieku development project available for sale in Riga. In nine months 2022, the Group sold a total of 39 apartments including 20 apartments in 4b Strēlnieku, 18 apartments in 9 Baložu and 1 apartment in 24 Āgenskalna development project. As of 30 September 2022, the Group had 24 apartments available for sale in 4b Strēlnieku development project in Riga (31 December 2021: 45; 30 September 2021: 51).

In addition to sale of apartments, the Group also offers project management services and generates rental income. In total, other sales revenue amounted to 590 thousand euros, or 11% of the Group's total sales revenue in January-September 2022 (9M 2021: 395 thousand euros, or 6%). The increase in rental income was mainly generated from the renting out commercial premises in Grüne Maja (Tallinn) and Ganību Dambis (Riga) commercial properties.

Profitability

The Group's operating loss for Q3 2022 amounted to 19 thousand euros (Q3 2021: operating profit of 236 thousand euros). The Group's net profit for the Q3 2022 amounted to 129 thousand euros (Q3 2021: 148 thousand euros), of which the net profit attributable to the owners of the parent amounted to 132 thousand euros (Q3 2021: net loss of 91 thousand euros), while the net loss to non-controlling interest was 3 thousand euros (Q3 2021: net profit of 239 thousand euros).

In nine months 2022 the Group's operating loss was 519 thousand euros (9M 2021: net profit of 416 thousand euros). The Group's net profit for nine months 2022 amounted to 129 thousand euros (9M 2021: 182 thousand euros), of which the net loss attributable to the owners of the parent amounted to 141 thousand euros (9M 2021: 175 thousand euros), while the net profit to non-controlling interest was 12 thousand euros (9M 2021: 357 thousand euros).

During the reporting period the Group's operating expenses, primarily personnel expenses, have increased. The number of employees of the Group has increased by approximately 63% over the year (30 September 2022: 26 vs 30 September 2021: 16). The demand for expanded team has been driven by the Group's expansion and grow, as well as by the increase in the size and complexity of the projects in the active development phases.

The Group earned financial income of 209 thousand euros with equity method of accounting from Hepsor N170 O, the Group's associated company. Hepsor N170 OÜ sold 76 apartments in the Priisle Kodu development project in the third quarter.

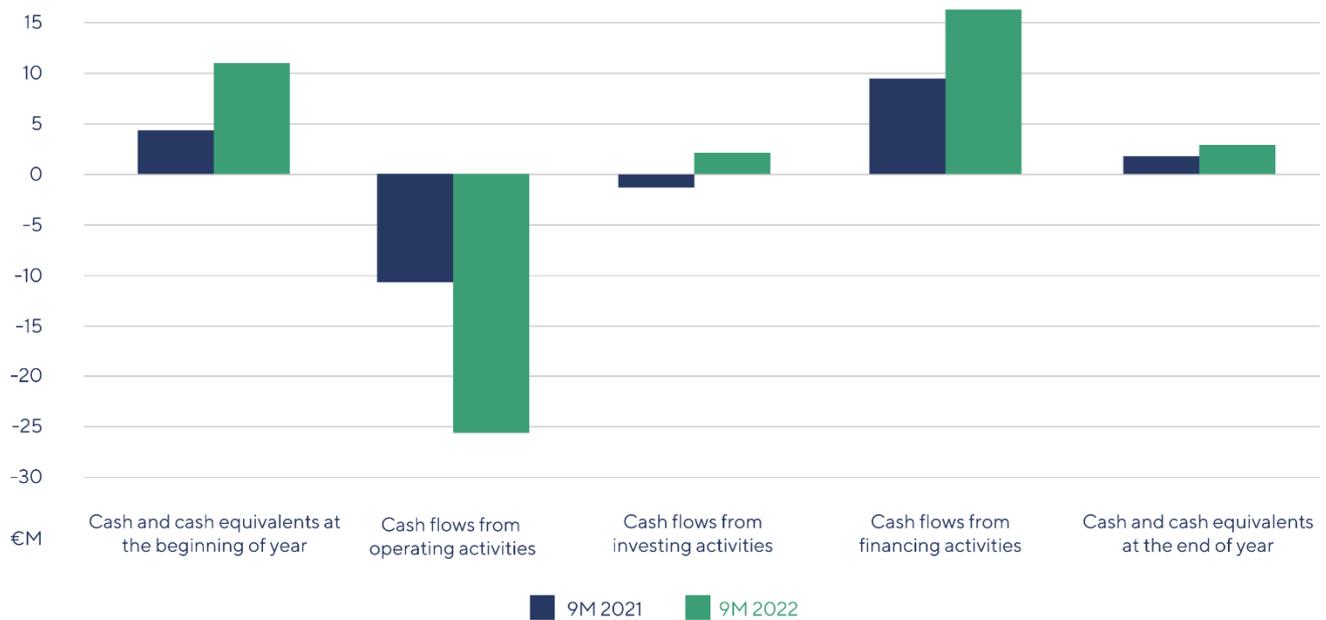
Cash Flows

The Group's cash and cash equivalents amounted to 10.9 million euros at the beginning of 2022 (2021: 4.2 million euros) and to 3.1 million euros as of 30 September 2022 (30 September 2021: 163 million euros). The negative cash flow for the period was 8.0 million euros (9M 2021: 2.6 million euros).

Cash flow from operating activities for nine months 2022 was negative at 26.7 million euros (9M 2021: 10.8 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 as of 30 September 2022 was 28.4million euros (9M 2021: 11.7 million euros).

Cash flow from investments was positive at 2.3 million euros as of 30 September 2022 (9M 2021: negative at 1.3 million euros). The largest impact was from repayment of loans granted, the balance of which decreased by 2.0 million euros (9M 2021: 0 euros).

Cash flow from financing activities was positive at 16.4 million euros (9M 2021: 9.5 million euros). In nine months 2022, the Group received more loans than it repaid. The net amount of loans received in nine months 2022 was 17,4 million euros (9M 2021: 10.3 million euros).



Key financials

in thousands of euros	Q3 2022	Q3 2021	Change	9M 2022	9M 2021	Change
Revenue	1,668	3,072	-46%	5,622	6,946	-19%
Gross profit/-loss	320	571	-44%	522	1,155	-55%
EBITDA	16	272	-94%	-414	534	-178%
Operating profit/-loss	-19	236	-108%	-519	416	-225%
Net profit/-loss	129	148	-13%	-129	182	-171%
Incl net profit/-loss attributable to the owners of parent	132	-91	245%	-141	-175	19%
Comprehensive income/-loss	160	-177	195%	24	-174	114%
Incl comprehensive profit/-loss attributable to the owners of parent	184	-23	900%	-375	-107	-250%
Total assets	74,300	51,166	45%	74,300	51,166	45%
Incl inventories	67,118	37,237	80%	67,118	37,237	80%
Total liabilities	55,268	36,308	52%	55,268	36,308	52%
Incl total loan commitments	45,767	26,448	73%	45,767	26,448	73%
Total equity	19,032	19,037	0%	19,032	19,037	0%
Incl equity attributable to the owners of parent	18,529	18,904	-2%	18,529	18,904	-2%

Key Ratios

	Q3 2022	Q3 2021	9M 2022	9M 2021
Gross profit margin	19.2%	18.6%	9.3%	16.6%
Operating profit margin	-1.1%	7.7%	-9.2%	6.0%
EBITDA margin	1.0%	8.9%	-7.4%	7.7%
Net profit margin	7.7%	4.8%	-2.3%	2.6%
General expense ratio	20.3%	11.3%	19.4%	11.4%
Equity ratio	25.6%	22.5%	25.6%	22.5%
Debt ratio	61.7%	64.6%	61.7%	64.6%
Current ratio	7.8	4.6	7.8	4.6
Return of equity	12.1%	22.2%	12.1%	22.2%
Return on equity attributable to the owners of the parent	-0.5%	14.6%	-0.5%	14.6%
Return on assets	3.0%	5.5%	3.0%	5.5%

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 = net profit of trailing 12 months / arithmetic average shareholder's equity

Return on equity attributable to the owners of the parent = net profit of trailing 12 months attributable to owners of the parent / arithmetic average shareholder's equity attributable to owners of the parent

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

Adjusted Forecasts

The Group's management has decided to change the previously published financial forecasts for the financial years 2022 to 2024.

The main reasons for adjusting the forecasts are the changes in the economic environment (cooling of the real estate market) and the extension of the deadlines for issuing building permits (problems in the national building register, delays due to the work overload of municipal officials).

Changes in the economic environment are manifested in the real estate market as significantly decreased transaction activity and pressure on margins. We forecast that transaction activity in the residential property market will not start to recover until the end of Q2 2023. Whether we will see the recovery of the transaction activity in the residential market in Q3 2023, and what the speed and extent of the recovery will be, depends on how hard the winter heating season affects household budgets (energy prices) and how the situation in Ukraine changes (affecting general consumer confidence).

The basic premise of Hepsor's adjusted forecast is that the transaction activity of the residential property market in both Estonia and Latvia will reach a level similar to late 2021 in the second half of 2024.

At the moment, Hepsor does not predict the pace of the recovery of transaction activity in the commercial property market, but assumes that completed commercial buildings will be rented out and kept on the developer's balance sheet until the market allows them to be sold at attractive price levels.

Adjusted forecast for the 2022 financial year

The financial forecast for the current financial year has changed the most due to the following circumstances.

- ✓ Hepsor's management decided not to sell any of the three commercial buildings under construction (Büroo113, Grüne Maja, 30 Ulbrokas St) in 2022 financial year. We will only consider selling these commercial buildings if there is an attractive offer. The buildings to be completed are all fully covered by lease contracts, Hepsor considers the quality of the signed leases to be very good, the buildings were built based on a sound future-oriented concept (green houses) and the developer sees no reason to sell the houses in a down market phase. We prefer to earn rental income and sell the houses when the market recovers. This decision will significantly affect the sales and profitability figures for 2022.
- ✓ Since the transaction activity of the residential market has decreased, we do not expect to sell all the apartments at 4b Strelnieku in Riga by the end of the year. At the same time, all the unsold apartments in this project are rented and earning rental income. This decision has some impact on the sales and profitability figures for 2022.
- ✓ The assumption behind the new forecast for 2022 is that real right contracts can be signed for 48 apartments in the Paevälja Hoovimajad project by the end of the year (i.e. 50% of the total sales volume of the project). As most of the real right contracts will be signed in December, it is equally possible that their eventual number will be higher or lower than forecast (79 apartments are sold by contracts under the law of obligations). If real right contracts cannot be signed in December for all the apartments mentioned in the forecast, the sales revenue from these apartments will move forward by a few weeks to January 2023.

New adjusted forecast for the 2022 financial year compared to previous forecast and the actual results for the 2021 financial year:

in thousands of euros	2021 Actual	2022 Previous forecast	2022 Adjusted forecast	Change compared to previous forecast	Change compared to 2021
Revenues	14,961	28,000	13,700	-14,300	-1,261
Gross profit	3,059	2,420	2,207	-213	-852
Operating profit	1,880	2,110	715	-2,825	-1,165
Profit before taxes	1,689	3,300	1,590	-1,710	-99
Net profit	1,733	3,300	1,584	-1,716	-149
Net profit attributable to the owners of the parent	-22	3,100	1,580	-1,520	1,602

Key assumptions for the adjusted forecast for the 2022 financial year:

Project	Assumption to adjusted forecast	Assumptions to previous forecast
Strelnieku 4b	34 apartments from 54 apartments sold by the end of 2022.	All 54 apartments sold by the end of 2022 financial year.
Priisle Kodu	All apartments and commercial space sold by the end of 2022 financial year.	All apartments and commercial space sold by the end of 2022 financial year.
Balozu 9	All apartments sold by the end of 2022 financial year.	All apartments sold by the end of 2022 financial year.
Paevälja Hoovimajad	48 apartments of 96 sold by the end of 2022 financial year.	48 apartments of 96 sold by the end of 2022 financial year.
Büroo 113	Measured at fair value using DCF method. The Group earns financial income with the equity method of accounting from associated company.	Sold or measured at fair value using DCF method. The Group earns financial income with the equity method of accounting from associated company.
Grüne Maja	The last commercial space is handed over to the tenant in Q2 2023. Measurement at fair value will therefore be conducted in 2023.	Sold or measured at fair value using DCF method.
Ulbrokas 30 stock-office	Active negotiations on the potential sale of the development project are underway. It is therefore possible that the sales-purchase transaction will be completed in 2022. However, according to the adjusted forecast, the sale of the project will take place in 2023.	Sold or measured at fair value using DCF method.

Consolidated forecasts for the 2023 and 2024 financial years

The main reason for the adjustment of the forecasts for 2023 and 2024, in addition to the slowed real estate market, is the fact that the building permit procedure for major development projects has taken significantly longer than previously expected. Since the start of construction has shifted, the completion of the buildings and the generation of related sales income has also move forward in time.

We have conservatively assumed that the recovery of transaction activity in the residential market will not be fast (recovery will take place in the second half of 2024), and this in turn will negatively affect the sales periods of our apartments and also profitability (pressure on margins).

Since there is a lot of uncertainty at the moment, we have made forecasts for 2024 in two versions:

a) adjusted forecast (rather conservative) and

b) optimistic forecast (in case the market recovers faster than we currently assume).

The adjusted consolidated forecast for the 2023 financial year:

in thousands of euros	2023 Previous forecast	2023 Adjusted forecast	Change
Revenues	63,500	41,100	-22,400
Gross profit	9,710	7,020	-2,690
Operating profit	8,700	5,260	-3,440
Profit before taxes	8,300	4,010	-4,290
Net profit	8,300	3,306	-4,994
Net profit attributable to the owners of the parent	-	1,056	-

Key assumptions for the adjusted forecast for the 2023 financial year:

Project	Assumption
Ulbrokas 30 stock-office	Sold during financial year 2023.
Paevälja Hoovimajad	Last 48 apartments of total of 96 apartments sold during the financial year.
Strelnieku 4B	Last 20 apartments sold; rental income earned before the apartments are sold.
Grüne Maja	Measured at fair value using DCF method. The Group earns rental income from the development project.
Ganibu Dambis	Rental income earned during the development of the project.
Kuldīgas Parks	All 116 apartments sold.
Mārupes Dārzs	All 92 apartments sold.
Büroo 113	The Group earns financial income with the equity method of accounting from associated company.

The adjusted consolidated forecast for the 2024 financial year:

in thousands of euros	2024 previous forecast	2024 Adjusted forecast (A)	2024 More optimistic forecast (B)	Change compared to previous forecast	Change of more optimistic forecast compared to previous forecast
Revenues	74,300	50,957	65,699	-23,343	-8,601
Gross profit	10,440	7,723	10,467	-2,717	27
Operating profit	9,350	5,795	8,539	-3,555	-811
Profit before taxes	9,450	4,463	7,935	-4,987	-1,515
Net profit	9,450	4,463	7,935	-4,987	-1,515
Net profit attributable to the owners of the parent	-	1,594	3,766	-	-

The Group has made two forecasts for the 2024 financial year. The key assumptions of the adjusted forecast (A) and the more optimistic forecast (B) are presented in the table below.

Key assumptions for the adjusted forecast for the 2024 financial year:

Project	Adjusted forecast (A)	Optimistic forecast (B)
Lilleküla Kodud	All 26 apartments sold.	All 26 apartments sold.
Manufaktuuri Quarter	92 apartments of total of 154 apartments sold.	123 apartments of total of 154 apartments sold.
Ojakalda Kodud	All 101 apartments sold.	All 101 apartments sold.
Nameja Residence	All 36 apartments sold.	All 36 apartments sold.
Grüne Maja	The Group earns rental income.	The Group earns rental income. The development project is sold in the end of 2024 financial year.
Büroo 113	The Group earns financial income with the equity method of accounting from associated company.	The Group earns financial income with the equity method of accounting from associated company. The development project is sold in the end of 2024 financial year.

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.

As of 30 September 2022, Hepsor AS had 11,816 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

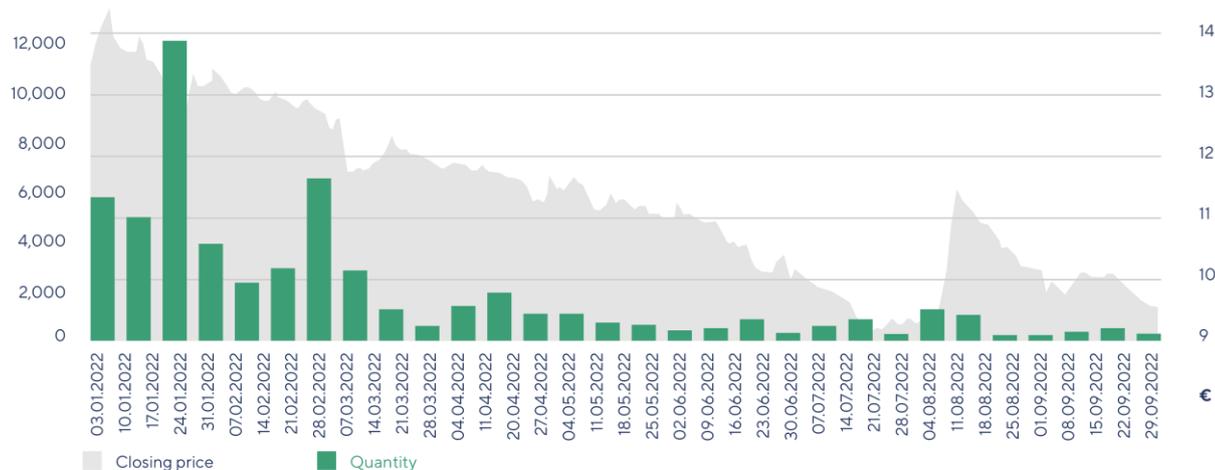
Shareholder structure by number of shares held as of 30 September 2021:

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
100 001-...	5	0.04%	3,000,000	77.83%
10 001-100 000	8	0.07%	214,826	5.57%
1001 -10 000	53	0.45%	153,808	3.99%
101-1000	761	6.44%	200,378	5.20%
1-100	10,989	93.00%	285,689	7.41%
Total	11,816	100.00%	3,854,701	100.00%

Between 1 January 2022 and 30 September 2022, a total of 13,800 transactions were conducted with the shares of Hepsor AS with 273,308 shares in the total amount of 3.4 million euros. The highest price for the period was 14.4 euros and the lowest price 9.33 euros. The opening price was 10.12 euros and closing price 9.54 euros. As of 30 September 2021, the market capitalization of Hepsor AS was 36.8 million euros and the Group's equity amounted to 19 million euros.

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.

Trading volume and price range of Hepsor AS shares, 3 January 2022 - 30 September 2022:



Source: Nasdaq Baltic

Change in Hepsor share price in comparison with the benchmark OMX Tallinn index in January-September 2022:



INDEX / EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX Tallinn_GI	2001.03	1682.08	-15.94
HPR1T - Hepsor	13.5	9.5	-29.63

Source: Nasdaq Baltic

Consolidated Financial Statements

Consolidated statement of financial position

in thousands of euros	Note	30 September 2022	31 Dec 2021	30 September 2021
Assets				
Current assets				
Cash and cash equivalents		3,110	10,889	1,571
Trade and other receivables	3	1,596	652	710
Current loan receivables	4	100	2,388	29
Inventories	2	67,118	37,237	35,925
Total current assets		71,924	51,166	38,235
Non-current assets				
Property, plant and equipment		230	229	373
Intangible assets		2	0	0
Financial investments		2	402	2
Investments in associates	13.1	209	0	0
Non-current loan receivables	4	1,766	3,408	2,706
Other non-current receivables		167	140	140
Total non-current assets		2,376	4,179	3,221
Total assets	17	74,300	55,345	41,456
Liabilities and equity				
Current liabilities				
Loans and borrowings	5	2,445	5,501	4,256
Current lease liabilities		33	123	36
Prepayments from customers		3,497	1,164	1,974
Trade and other payables	6	3,213	5,539	1,917
Deferred income tax liability	9	0	0	105
Total current liabilities		9,188	12,327	8,288
Non-current liabilities				
Loans and borrowings	5	43,322	22,862	22,192
Non-current lease liabilities		66	66	284
Other non-current liabilities	7	2,692	1,053	1,372
Total non-current liabilities		46,080	23,981	23,848
Total liabilities	17	55,268	36,308	32,136
Equity				
Share capital		3,855	3,855	6
Share premium		8,917	8,917	3,211
Retained earnings		6,260	6,265	6,103
Total equity		19,032	19,037	9,320
incl. total equity attributable to owners of the parent		18,529	18,904	9,196
incl. non-controlling interest		503	133	124
Total liabilities and equity		74,300	55,345	41,456

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	Note	9M 2022	9M 2021	Q3 2022	Q3 2021
Revenue	10,17	5,622	6,946	1,668	3,072
Cost of sales (-)	11	-5,100	-5,791	-1,348	-2,501
Gross profit		522	1,155	320	571
Marketing expenses (-)		-279	-177	-106	-77
Administrative expenses (-)	12	-764	-569	-227	-271
Other operating income		47	56	0	13
Other operating expenses (-)		-45	-49	-6	0
Operating profit (-loss) of the year	17	-519	416	-19	236
Financial income	13.1	849	146	282	71
Financial expenses (-)	13.2	-454	-319	-142	-127
Profit before tax		-124	243	121	180
Current income tax		-5	-16	0	0
Deferred income tax	9	0	-45	8	-32
Net profit for the year		-129	182	129	148
Attributable to owners of the parent		-141	-175	132	-91
Non-controlling interest		12	357	-3	239
Other comprehensive income (-loss)					
Changes related to change of ownership	15	135	70	0	70
Change in value of embedded derivatives with minority shareholders		18	-426	31	-395
Other comprehensive income (-loss) for the period		153	-356	31	-325
Attributable to owners of the parent	15	-234	68	52	68
Non-controlling interest		387	-424	-21	-393
Comprehensive income (-loss) for the period		24	-174	160	-177
Attributable to owners of the parent		-375	-107	184	-23
Non-controlling interest		399	-67	-24	-154
Earnings per share					
Basic (euros per share)		-0.07	-0.05	-0.04	-0.02
Diluted (euros per share)		-0.07	-0.05	-0.04	-0.02

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		
Balance of 01 January 2021	6	3,211	6,237	65	9,519
Net profit for the year	0	0	-175	357	182
Other comprehensive income/ (-loss) for the period	0	0	68	-424	-356
Dividends paid	0	0	-151	-64	215
Voluntary reserve	0	0	0	190	190
Balance of 30 September 2021	6	3,211	5,979	124	9,320
Balance of 01 January 2022	3,855	8,917	6,132	133	19,037
Net profit for the year	0	0	-141	12	-129
Other comprehensive income/ (-loss) for the period	0	0	-234	387	153
Dividends paid	0	0	0	-29	-29
Balance of 30 September 2022	3,855	8,917	5,757	503	19,032

Consolidated statement of cash flows

in thousands of euros	Note	9M 2022	9M 2021
Net cash flows from (to) operating activities			
Operating profit/(-loss) of the year	17	-519	416
Adjustments for:			
Depreciation of property, plant and equipment		105	118
Other adjustments		37	0
Income tax paid		-5	-75
Changes in working capital:			
Change in trade receivables		-984	-73
Change in inventories	2	-28,403	-11,741
Change in liabilities and prepayments		3,094	515
Cash flows from (to) operating activities		-26,675	-10,840
Net cash flows to investing activities			
Payments for property, plant and equipment		-111	0
Payments of for acquisition of subsidiaries	15	-400	-2
Proceeds from sale of subsidiaries	15	135	0
Interest received		317	17
Loans granted	4	-176	-1,308
Loan repayments received	4	2,026	0
Other receipts from investing activities	13	460	32
Cash flows to investing activities		2,251	-1,261
Net cash flows from (to) financing activities			
Loans raised	5	22,367	16,986
Loan repayments	5	-4,963	-6,698
Interest paid	14	-824	-677
Payments of finance lease principal		-8	-12
Payments of right to use lease liabilities		-81	-102
Dividends paid		-29	-252
Non-controlling interest contributions to equity		0	260
Other receipts from financing activities		-59	-40
Cash flows from financing activities		16,403	9,465
Net cash flow		-8,024	-2,636
Cash and cash equivalents at beginning of year		10,889	4,207
Cashflow in from acquisitions of subsidiaries		242	0
Increase / decrease in cash and cash equivalents		-8,021	-2,636
Cash and cash equivalents at end of year		3,110	1,571

Notes to the consolidated interim financial statements

Note 1. General information

The Hepsor AS (hereinafter “the Group”) consolidated unaudited interim report for Q3 and nine months 2022 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 Q3 and nine months 2022 follow the same accounting principles and methods used in the 2021 audited consolidated financial statements. The current interim financial statements contain the audited financial results for 2021 and unaudited comparative figures for Q3 and nine months 2021.

The Group has not made any changes in their critical accounting estimates which may have impact on the consolidated unaudited interim financial statements for Q3 and nine months 2022.

The Group has not made any changes in the valuation techniques applied for fair value measurement in 2022.

Note 2. Inventories

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

As of 30 September 2022, the Group had 24 (31 December 2021: 45; 30 September 2021: 50) unsold apartments in Riga, in 4b Strēlnieku development project.

As of 30 September 2022, the changes in inventories as stated in cash flow statements have been adjusted by loan interest expense. The capitalized loan interest amounted to 1,478 thousand euros (30 September 2021: 1,280 thousand euros). Further information about interest expenses is provided in Note 13.2.

Project statuses are classified as following:

in thousands of euros	30 Sept 2022	31 Dec 2021	30 Sept 2021
A – planning proceedings	13,489	6,877	5,493
B – building permit proceedings	9,539	7,901	9,741
C – building permit available /construction not yet started	8,590	7,150	6,442
D – construction started / sale started	29,780	11,985	10,339
E – construction ready for sale	5,720	3,324	3,910
Total inventories	67,118	37,237	35,925

The following development projects are stated as inventories:

in thousands of euros				30 Sept 2022		31 Dec 2021		30 Sept 2021	
Address	Project company	Location	Segment	Acquisition cost	Project status	Acquisition cost	Project status	Acquisition cost	Project status
Work in progress									
Pirita Road 26b, Tallinn	Hepsor P26B OÜ	Estonia	Residential	0	-	13	E	4,561	D
Paevälja 11/Lageloo 7, Tallinn	Hepsor PV11 OÜ	Estonia	Residential	8,877	D	2,965	D	2,105	B
Paldiski mnt 227C, Tallinn	Hepsor 3Torni OÜ	Estonia	Residential	2,984	C	2,517	C	2,446	C
Narva mnt 150, Narva mnt 150a, Narva mnt 150b, Tallinn	Hepsor N450 OÜ	Estonia	Residential/Commercial	3,637	A	3,582	A	3,603	A
Manufaktuuri 5, Tallinn	Hepsor Phoenix 3 OÜ	Estonia	Residential/Commercial	4,033	B	3,268	B	3,150	B
Manufaktuuri 7, Tallinn	Hepsor Phoenix 2 OÜ	Estonia	Residential/Commercial	2,755	B	2,303	B	2,194	B
Tooma 2, Tooma 4 Tallinn	T2T4 OÜ	Estonia	Commercial	1,211	C	1,159	C	1,144	C
Lembitu 4, Tallinn	Hepsor L4 OÜ	Estonia	Commercial	2,890	C	2,811	C	2,852	C
Meistri 14, Tallinn	Hepsor M14 OÜ	Estonia	Commercial	7,181	D	5,765	D	4,553	D
Alvari 2, Paevälja 9, Tallinn	Hepsor Fortuuna OÜ	Estonia	Residential	1,657	A	1,656	A	1,656	A
Alvari 1, Tallinn	Hepsor A1 OÜ	Estonia	Residential	2,023	A	1,004	A	0	-
Kadaka Road 197, Tallinn	H&R Residentsid OÜ	Estonia	Residential	1,153	A	614	A	207	A
Manufaktuuri 12, Tallinn	Hepsor Phoenix 4 OÜ	Estonia	Residential	812	A	0	-	0	-
Nõmme tee 57, Tallinn	Hepsor N57 OÜ	Estonia	Residential	1,505	C				
Baložu 9, Riga	Hepsor Bal9 SIA	Latvia	Residential	0	-	1,770	D	1,225	D
Saules alley 2, Riga	Hepsor SA2 SIA	Latvia	Residential	965	B	957	B	1,045	B
Liela 45, Mārupe	Hepsor Mārupe SIA	Latvia	Residential	5,539	D	663	C	556	B
Ranka Dambis 5, Riga	Hepsor RD5 SIA	Latvia	Residential	393	B	354	B	0	-
Ulbrokas 30, Riga	Hepsor U30 SIA	Latvia	Commercial	4,069	E	1,485	D	691	B
Ulbrokas 34, Riga	Hepsor U34 SIA	Latvia	Commercial	1 109	B	1,019	B	0	-
Braila 23, Riga	Hepsor Jugla SIA	Latvia	Residential	284	B	0	-	0	-
Gregora iela 2a, Riga	Hepsor Kvarta SIA	Latvia	Residential	8,183	D	0	-	0	-
Ganību Dambis 17a, Riga	Hepsor Ganību Dambis SIA	Latvia	Commercial	3,855	A	0	-	0	-
Jurmala Gatve, Riia	Hepsor JG SIA	Latvia	Residential	329	A				
-other properties		Estonia		23	A	21	A	22	A
-other properties		Latvia		0	-	0	-	5	A
Total work in progress				65,467		33,926		32,015	
Finished real estate development									
Āgenskalna 24, Riga	Hepsor Agen24 SIA	Latvia	Residential	0	-	50	E	50	E
Strēlnieku 4b, Riga	Hepsor S4B SIA	Latvia	Residential	1,635	E	3,245	E	3,844	E
Manufaktuuri 22, Tallinn (parking spaces)	Hepsor Phoenix OÜ	Estonia	Residential	16	E	16	E	16	E
Total finished real estate development				1,651		3,311		3 910	
Total inventories				67,118		37,237		35,925	

Note 3. Trade and other receivables

In thousands of euros	30 Sept 2022	31 Dec 2021	30 Sept 2021
Trade receivables			
Trade receivables	174	86	69
Allowance for doubtful receivables	-12	-6	-6
Net trade receivables	162	80	63
Prepayments			
Tax prepayment			
Value added tax	418	382	184
Other taxes	15	0	0
Other prepayments for goods and services	996	146	188
Total prepayments	1,429	528	372
Other current receivables			
Interest receivables	1	33	0
Escrow account	0	0	42
Other current receivables	4	11	233
Other current receivables	5	44	275
Total trade receivables	1,596	652	710

Note 4. 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 2,098 thousand euros. Of this, 2,080 thousand euros as loan receivable. Additional information is available in Note 8.

In thousands of euros	Owner of non-controlling interest	Unrelated legal entities	Associates	Related legal entities	Total
2022					
Loan balance as of 01 January 2022	2,109	1,100	2,587	0	5,796
Loan granted	0	0	0	176	176
Loan collected	-29	-1,100	-721	-176	-2,026
Division of subsidiary	-2,080	0	0	0	-2,080
Loan balance as of 30 Sept 2022	0	0	1,866	0	1,866
- current portion	0	0	100	0	100
- non-current portion	0	0	1,766	0	1,766
contractual/effective interest rate per annum	0-3%	0%	7%	12%	
2021					
Loan balance as of 01 January 2021	720	56	1,371	0	2,147
Loan granted	29	230	1,049	0	1,308
Division of subsidiary	-720	0	0	0	-720
Loan balance as of 30 Sept 2021	29	286	2,420	0	2,735
- current portion	29	0	0	0	29
- non-current portion	0	286	2,420	0	2,706
Loan balance as of 01 Oct 2021	29	286	2,420	0	2,735
Loan granted	2,080	814	617	0	3,061
Loan balance as of 31 December 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%		

In 2020, the shareholders of Hepsor V10 OÜ and Hepsor Kadaka OÜ approved the resolution of division of the companies, based on which Hepsor V10 transferred assets (loan receivable) to minority shareholder in the amount of 274 thousand euros and Hepsor Kadaka OÜ in the amount of 448 thousand euros including 446 as loan receivable. The division took place in Q1 2021.

Note 5. Loans and borrowings

in thousands of euros	Bank loans	Unrelated legal entities and individuals	Related legal entities	Total
2022				
Loan balance as of 01 January 2022	10,951	15,581	1,831	28,363
Received	18,639	3,728	0	22,367
Repaid	-2,811	-2,152	0	-4,828
Loan balance as of 30 Sept 2022	26,779	17,157	1,831	45,767
- current loan payable	1,220	1,225	0	2,445
- non-current loan payable	25,559	15,932	1,831	43,322
Contractual interest rate per annum	6M Euribor+3.75%-8%; 8.2%	0-12%	3%-12%	
2021				
Loan balance as of 01 January 2021	4,705	10,815	640	16,160
Received	10,031	5,205	1,750	16,986
Repaid	-5,324	-1,374	0	-6,698
Total loan balance as of 30 Sept 2021	9,412	14,646	2,390	26,448
- current loan payable	1,986	1,770	500	4,256
- non-current loan payable	7,426	12,876	1,890	22,192
Loan balance as of 01 Oct 2021	9,412	14,646	2,390	26,448
Received	4,022	1,733	0	5,755
Change due to the internal interest rate	0	0	-59	-59
Repaid	-2,483	-798	-500	-3,781
Total loan balance as of 31 December 2021	10,951	15,581	1,831	28,363
- current loan payable	2,821	2,680	0	5,501
- non-current loan payable	8,130	12,901	1,831	22,862
Contractual interest rate per annum	6M Euribor +5.85% -8%; 8.2%	0-12%	12%	
Effective interest rate per annum	4.7%-10.7%	0-12.2%	12%-13.44%	

In March 2021, Hepsor AS signed a three-year 4-million-euro loan agreement with LHV Pank. In July the parties signed an addendum to the loan agreement increasing the loan amount by 2 million euros to 6 million euros. The shares of Hepsor AS held by the members of Management and Supervisory Board of the Group and the shares of Hepsor Finance OÜ were pledged as collateral to secure the loan. The loan agreement states two financial covenants that are measured quarterly:

- a) LHV Pank loan and equity ratio of maximum 55%,
- b) the ratio of loan commitment taken by the consolidation group to the total assets, cash and cash equivalents and investments to property developments of the consolidation group is a maximum of 70% (seventy percent)

As of 30 September 2022, 88% (31 December 2021: 86%, 30 September 2021: 94%) 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 of 30 Sept 2022				
Loans for development projects	21,178	17,157	1,831	40,166
Loans to headquarters to finance development projects	5,601	0	0	5,601
Total	26,779	17,157	1,831	45,767
Balance as of 31 December 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 of 30 Sept 2021				
Loans for development projects	8,287	14,646	1,890	24,823
Loans to headquarters to finance development projects	1,125	0	500	1,625
Total	9,412	14,646	2,390	26,448

As of 30 September 2022, the Group had the following bank loans under the following conditions:

Lender	Country	Loan balance	Contract term	Loan limit	Interest per annum	Collateral	Cost value of the collateral	Guarantee given
LHV Pank	Estonia	6,120	2023	8,605	6M Euribor + 4.5%	Mortgage - Paevälja pst 11, Lageloo 3//5, Lageloo 7, Tallinn	8,877	-
LHV Pank AS	Estonia	3,167	2024	4,900	6M Euribor + 3.75%	Mortgage - Meistri 14, Tallinn	7,181	-
LHV Pank AS	Estonia	1,225	2025	1,300	6M Euribor + 8%	Mortgage - Lembitu 4, Tallinn	2,890	-
LHV Pank AS	Estonia	0	2025	13,900	6M Eurobor+5,9%	Mortgage-Paldiski mnt 227C, Tallinn	2,984	-
Bigbank AS	Latvia	2,206	2025	7,000	5.5%	Mortgage – Liela 45, Mārupe, Riga	5,539	-
Bigbank AS	Latvia	1,141	2024	1,225	6M Euribor + 4.5%	Commercial pledge; Mortgage - Strēlnieku 4b, Riga	1,634	-
Bigbank AS	Latvia	2,598	2024	2,650	5.5%	Mortgage - Ulbrokas 30, Riga, Commercial pledge	4,068	500
Bigbank AS	Latvia	4,721	2025	7,500	5.5%	Mortgage - Gregora 2a, Riga	8,183	423
Bigbank AS	Latvia	0	2025	2,000	6M Euribor+4,5%	Mortgage – Ganību Dambis 17a, Riga, Commercial pledge	3,854	-

In addition to bank loans, Hepsor N450 OÜ has a joint mortgage in the amount of 3.5 million euros as a loan collateral until the loan obligation to unrelated legal entity has been fulfilled.

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

Lender	Country	Loan balance	Contract term	Loan limit	Interest per annum	Collateral	Cost value of the collateral
LHV Pank AS	Estonia	1,225	2022	1,300	6M Euribor + 8%	Mortgage - Lembitu 4, Tallinn	2,811
LHV Pank AS	Estonia	562	2023	8,605	6M Euribor + 4,5%	Mortgage - Paevälja 11, Lageloo 3 // 5, Lageloo 7; Tallinn	2,965
LHV Pank AS	Estonia	2,375	2024	3,115	6M Euribor + 4,75%	Mortgage - Meistri 14, Tallinn	5,765
Bigbank AS	Latvia	982	2023	1,150	6%	Mortgage - Baložu 9, Riga	1,770
Bigbank AS	Latvia	1,687	2024	2,500	6M Euribor + 4,5%	Commercial pledge; Mortgage - Strēlnieku 4b, Riga	3,245

As of 30 September 2021, the Group had the following bank loans under the following conditions:

Lender	Country	Loan balance	Contract term	Loan limit	Interest per annum	Collateral	Cost value of the collateral
LHV Pank AS	Estonia	1,300	2022	1,300	6M Euribor + 8%	Mortgage - Lembitu 4, Tallinn	2,826
LHV Pank AS	Estonia	1,986	2023	8,034	6M Euribor + 6%	Mortgage – Pirta tee 26B, Tallinn	4,561
LHV Pank AS	Estonia	1,153	2024	3,115	6M Euribor + 4,75%	Mortgage – Meistri 14, Tallinn	4,553
Bigbank AS	Latvia	560	2023	1,150	6%	Mortgage - Baložu 9, Riga	1,225
Bigbank AS	Latvia	2,289	2024	2,500	6M Euribor + 4,5%	Commercial pledge; Mortgage - Strēlnieku 4b, Riga	3,844

Note 6. Trade and other payables

In thousands of euros	30 Sept 2022	31 Dec 2021	30 Sept 2021
Trade payables	1,800	1,506	896
Taxes payable			
Value added tax	59	254	48
Personal income tax	18	18	9
Social security tax	32	33	16
Other taxes	26	5	20
Total taxes payable	135	310	93
Accrued expenses			
Payables to employees	69	72	70
Interest payable	191	135	84
Other accrued expenses	34	29	33
Total accrued expenses	294	236	187
Other current payables			
Embedded derivatives (Note 8)	0	2,115	726
Other payables	984	1,372	15
Total other current payables	984	3,487	741
Total trade and other payables	3,213	5,539	1,917

Note 7. Other non-current liabilities

In thousands of euros	30 Sept 2022	31 Dec 2021	30 Sept 2021
Non-current interest payables	2,031	1,020	1,360
Other non-current payables	661	33	12
Total other non-current liabilities	2,692	1,053	1,372

Other non-current liabilities include the Group's commitment to finance the construction of kindergarten for the city of Tallinn at the Manufaktuuri Quarter development project. The liability in the amount of 624 thousand euros is measured in present value using 5% discount rate. As of 30 September 2022, the book value of the liability amounted to 566 thousand euros.

Note 8. 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 at the end of the reporting period the Group had no liabilities arising from embedded derivatives.

in thousands of euros	30 Sept 2022	31 Dec 2021	30 Sept 2021
Current liabilities arising from embedded derivatives			
Residential development Baložu 9, Riga	0	0	0
Residential development Pirita 26b, Tallinn	0	2,080	689
Residential development Mõigu 11, Rae parish	0	35	37
Total	0	2,115	726

Note 9. 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.

As at the end of the reporting period the Group had no deferred income tax liability.

in thousands of euros	30 Sept 2022	31 Dec 2021	30 Sept 2021
Balance at 01.01	0	60	60
Deferred income tax expense	0	-60	45
Balance at the end of reporting period	0	0	105

Note 10. Revenue

in thousands of euros	9M 2022	9M 2021	Q3 2022	Q3 2021
Revenue from sale of real estate	4,899	6,506	1,351	2,909
Revenue from project management services	137	159	42	56
Revenue from rent	448	230	211	83
Revenue from other services	138	51	64	24
Total	5,622	6,946	1,668	3,072

Additional information on sales revenue is provided in Note 17.

Note 11. Cost of sales

in thousands of euros	9M 2022	9M 2021	Q3 2022	Q3 2021
Cost of real estate sold	-4,265	-5,431	-1,003	-2,404
Personnel expenses	-551	-308	-199	-95
Interest expenses	-16	-23	0	0
Depreciation	-24	-26	-8	-2
Other costs	-244	-3	-138	0
Total	5,100	-5,791	-1,348	-2,501

Note 12. Administrative expenses

in thousands of euros	9M 2022	9M 2021	Q3 2022	Q3 2021
Personnel expenses	-456	-193	-150	-85
Depreciation	-81	-92	-27	-29
Traveling and transport expenses	-35	-23	-6	-10
Purchased service expenses	-166	-232	-44	-144
Office expenses	-24	-9	0	-3
Total	-2	-20	0	0
	-764	-569	-227	-271

Note 13. Financial income and expenses

13.1 Financial income

in thousands of euros	9M 2022	9M 2021	Q3 2022	Q3 2021
Interest incomes	148	114	41	60
Other financial incomes	460	32	0	11
Profit from associates of equity method	209	0	209	0
Financial income from discounting	32	0	32	0
Total	849	146	282	71

In first quarter 2022, the Group earned non-recurring financial income from waiver of minority shareholder's loan liability in the amount of 437 thousand euros.

13.2 Financial expenses

in thousands of euros	9M 2022	9M 2021	Q3 2022	Q3 2021
Interest expenses	-413	-277	-136	-107
Loss from associates of equity method	0	-2	0	0
Other financial expenses	-41	-40	-6	-20
Total	-454	-319	-142	-127

In 2022 borrowing costs in the amount of 1,478 thousand euros (9M 2021: 1,280 thousand euros) have been capitalized as the cost of inventories (Note 2). Interest expenses of 16 thousand euros have been recognized in the cost of sales in nine months of 2022 (9M 2021: 23 thousand euros) (Note 11).

Note 14. Information about line item in the consolidated statement of cash flows

in thousands of euros	30 Sept 2022	30 Sept 2021
Interest paid		
Interest expense in statement of profit or loss and other comprehensive income	-413	-277
Reclassification of cash flows from operating activities to financing activities (Note 2)	-1,478	-1,280
Decrease (-)/ increase (+) of interest payables	1,067	880
Interest paid total	-824	-677

Note 15. Subsidiaries

In January 2022, Hepsor Latvia OÜ acquired a 50% shareholding in Kvarita Holding OÜ in accordance with an option agreement and 100% in Hepsor Jugla SIA (former Brofits SIA). Kvarita Holding OÜ owns a 100% shareholding in Kvarita SIA, which is developing Kuldigas Parks residential development project with 116 apartments in Riga at Gregora 2a. Hepsor Jugla SIA owns a property at Braila 23, Riga for the development of residential project with up to 100 apartments.

Purchase price allocation as of 31 December 2021:

In thousands of euros	Hepsor Jugla SIA	Kvarita Holding OÜ (consolidated)
Assets		
Cash and cash equivalents	0	290
Trade receivables and prepayments	0	315
Inventories	240	3,108
Total assets	240	3,713
Liabilities		
Trade and other payables	1	639
Loans and borrowings	161	3,074
Loans and borrowings to Group company	-161	-1,100
Total liabilities	1	2,613
Net assets	239	1,100
Acquisition cost	239	1,100
Goodwill	0	0

The acquisition cost of Kvarita Holding OÜ includes loan issued by Hepsor Latvia OÜ in the amount of 1,100 thousand euros.

The purchase price of shareholding in Hepsor Jugla SIA amounted to 239 thousand euros plus loan receivable in the amount of 161 thousand euros.

The Group sold its 50% stake in Hepsor Mārupe SIA in February 2022 and acquired a minority stake in Hepsor P26b OÜ and Hepsor Peetri OÜ (March 2022) increasing its stake in both companies to 100%.

In April 2022, Hepsor Latvia OÜ increased the share capital of Hepsor SIA to 500 thousand euros of which 100 thousand euros is held by the minority shareholder of Hepsor Latvia OÜ. Hepsor Latvia OÜ also invested 580 thousand euros as equity to its subsidiaries Hepsor Ganību Dambis SIA and Hepsor JG SIA of which 116 thousand euros is held by the minority shareholder of Hepsor Latvia OÜ.

Changes in Group structure in 2022 and impact on comprehensive income and cash flows:

in thousands of euros	Other comprehensive income		Cash flows from
	Comprehensive income attributable to owners of the parent	Comprehensive income attributable to non-controlling interest	Proceeds from sale of subsidiaries
Changes in ownership			
Hepsor P26B OÜ	-85	85	-
Hepsor Peetri OÜ	-10	10	-
Hepsor Mārupe SIA	9	126	135
Hepsor Ganību Dambis SIA	-100	100	-
Hepsor SIA	-100	100	-
Hepsor Bal 9 SIA	68	-68	-
Hepsor JG SIA	-16	16	-
Total	-234	369	135

Note 16. Shares of associates

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

	Ownership and voting rights %		
	30 Sept 2022	31 Dec 2021	30 Sept 2021
Hepsor P113 OÜ	45	45	45
Hepsor N170 OÜ	25	25	25

Financial information about associates:

In thousands of euros	30 Sept 2022		31 Dec 2021		30 Sept 2021	
	Hepsor P113 OÜ	Hepsor N170 OÜ	Hepsor P113 OÜ	Hepsor N170 OÜ	Hepsor P113 OÜ	Hepsor N170 OÜ
Current assets						
Cash and cash equivalents	635	345	218	373	438	131
Trade receivables	23	3	85	82	145	125
Inventories	11,875	1,512	6,991	6,591	5,710	4,466
Total current assets	12,533	1,860	7,294	7,046	6,293	4,722
Total assets	12,533	1,860	7,294	7,046	6,293	4,722
Current liabilities						
Loans and borrowings	3,924	650	0	5,534	0	0
Trade and other payables	1,417	387	1,034	1,595	1,564	1,637
Total current liabilities	5,341	1,037	1,034	7,129	1,564	1,637
Non-current liabilities						
Loans and borrowings	7,120	0	6,198	0	4,868	3,160
Other non-current liabilities	151	0	147	0	12	0
Total non-current liabilities	7,271	0	6,345	0	4,880	3,160
Total liabilities	12,612	1,037	7,379	7,129	6,444	4,797
Total equity	-79	823	-85	-83	-,151	-75
Total liabilities and equity	12,533	1,860	7,294	7,046	6,293	4,722

As of 30 September 2022, 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 1,766 thousand euros (31 December 2021: 2,308 and 30 September 2021: 1,740 thousand euros). The office building has reached 100% occupancy rate. Construction will be completed in the second half of 2022.
- ✓ The development of Hepsor N170 OÜ commercial and residential building at Narva Road 170, Tallinn in the total amount of 340 thousand euros, of which the Group has already financed in the amount of 100 thousand euros (31 December 2021: 279 and 30 September 2021: 230 thousand euros). The contract under law of obligation has been signed with Priisle 1 OÜ (previously Lumipood OÜ) for the retail area. As of 30 September 2022 a total 76 apartments have been sold under real right contracts.

Note 17. Operating segments

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.

Headquarters are generating revenue 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	9M 2022	9M 2021	Q3 2022	Q3 2021
Estonia	576	6,188	231	2,723
Latvia	5,046	758	1,437	349
Total	5,622	6,946	1,668	3,072

Additional information on sales revenue is provided in Note 10.

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

in thousands of euros	Residential development		Commercial development		Headquarters		Total
	Q3 2022	Estonia	Latvia	Estonia	Latvia	Estonia	
Revenue	21	852	164	584	46	1	1,668
incl. revenue from rent	0	31	106	74	0	0	211
Operating profit/-loss	18	227	16	251	-325	-206	-19
Assets	30,311	19,080	11,398	9,709	3,347	455	74,300
Liabilities	21,924	13,179	7,727	3,127	6,508	2,803	55,268

in thousands of euros	Residential development		Commercial development		Headquarters		Total
	Q3 2021	Estonia	Latvia	Estonia	Latvia	Estonia	
Revenue	2,659	335	12	10	52	4	3,072
incl. revenue from rent	8	54	12	9	0	0	83
Operating profit/-loss	540	70	6	24	-275	-129	236
Assets	20,827	6,245	8,964	1,800	3,378	241	41,456
Liabilities	17,333	3,526	5,595	492	3,884	1,306	32,136

in thousands of euros	Residential development		Commercial development		Headquarters		Total
	9M 2022	Estonia	Latvia	Estonia	Latvia	Estonia	
Revenue	80	4,297	355	748	141	1	5,622
incl. revenue from rent	0	108	252	88	0	0	448
Operating profit/-loss	-19	837	49	206	-1,011	-581	-519
Assets	30,311	19,080	11,398	9,709	3,347	455	74,300
Liabilities	21,924	13,179	7,727	3,127	6,508	2,803	55,268

in thousands of euros	Residential development		Commercial development		Headquarters		Total	
	9M 2021	Estonia	Latvia	Estonia	Latvia	Estonia		Latvia
Revenue		5,982	725	51	23	155	10	6,946
incl. revenue from rent		8	160	40	22	0	0	230
Operating profit/-loss		1,227	133	-5	36	-664	-311	416
Assets		20,827	6,245	8,964	1,800	3,378	241	41,456
Liabilities		17,333	3,526	5,595	492	3,884	1,306	32,136

Note 18. Related parties

The Group considers key members of the management (Supervisory and Management Board), their close relatives and entities under their control or significant influence as related parties.

Purchases and sales of goods and services:

in thousands of euros	9M 2022	9M 2021	Q3 2022	Q3 2021
Sales of goods and services				
Associated companies	114	120	34	40
Management and all companies directly or indirectly owned by them	58	37	24	12
Total sales of goods and services	172	157	58	52
Purchases of goods and services				
Management and all companies directly or indirectly owned by them	19,027	7,976	6,650	2,559
incl. construction service	18,899	7,823	6,607	2,479
Interest income earned				
Associated companies				
Interest earned	134	96	44	40
Interest received	311	0	311	0
Management and all companies directly or indirectly owned by them				
Interest earned	3	0	0	0
Interest received	3	0	3	0
Interest expenses incurred				
Management and all companies directly or indirectly owned by them				
Accrued interest	171	77	58	60
Interest paid	87	18	26	10

Balances and loan transactions with related parties:

In thousands of euros	30 Sept 2022	31 Dec 2021	30 Sept 2021
Receivables			
Loans granted (Note 4)			
Associated companies			
Opening balance 01. January	2,587	1,371	1,371
Loans granted	0	1,216	1,049
Loans repaid	-721	0	0
Balance at the end of period	1,866	2,587	2,420
Management and all companies directly or indirectly owned by them			
Opening balance	0	0	0
Loans granted	176	0	0
Loan collected	-176	0	0
Balance at the end of period	0	0	0
Trade and other receivables			
Associated companies	0	0	0
Management and all companies directly or indirectly owned by them	31	12	3
Interest receivables			
Associated companies	5	169	138
Management and all companies directly or indirectly owned by them	0	0	0
Payables			
Loans and borrowings (Note 5)			
Management and all companies directly or indirectly owned by them			
Opening balance as at 01. January	1,831	640	640
Loans received	0	1,691	1,750
Loans repaid	0	-500	0
Balance at the end of period	1,831	1,831	2,390
Trade payables			
Management and all companies directly or indirectly owned by them	759	1,126	989
Interest payables			
Management and all companies directly or indirectly owned by them	154	70	47

Note 19. Contingent liabilities

19.1 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 of 30 September 2022 to pay 13,246 thousand euros (31 December 2021: 7,501 thousand euros; 30 September 2021: 7,107 thousand euros) to the minority shareholders upon realization 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 realization of the development projects at each reporting date. As of 30 September 2022, the realization time of contingent liabilities remains between 2022 and 2027.

19.2 Group guarantees given

Additional information on the guarantees is provided in Note 5.

Note 20. 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 political environment and market demand as well as 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.

Market risk

The Group is exposed to price risk resulting from decline in the market values of the Group's real estate development projects or increase in input prices. 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 Group cannot ensure it is able to sell its development projects with expected prices could have an unfavourable impact on 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 usually fixed, ie interest rates are not floating and do not depend on Euribor.

The Group's bank loans have both fixed and floating interest rates based on Euribor. The management constantly monitors the Group's exposure to interest rate risk which arises from upward movement in Euribor for loans with floating interest rates.

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 from its operating activities such as trade receivables from rental property and from its financing activities, including deposits with banks and other financial instruments.

In order to minimize credit risk, the Group is only dealing with creditworthy counterparties and deposits cash in banks well-recognized banks in Estonia and Latvia. If such rating is not available, the Group uses other 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 timely resources are always 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. The Group mitigates refinancing risk by monitoring liquidity positions, analyzing different financing options on an ongoing basis and negotiating with financing parties over the course of financing.

Capital risk

The core purpose of the Group's capital risk management is to ensure the most optimal capital structure to support the sustainability of the Group's business operations and shareholders' interests.

The Group uses the debt-to-equity ratio to monitor capital structure. The debt-to-equity ratio is calculated as the ratio of net debt to total capital. The management considers the Group's capital structure optimal.

Geopolitical risk

Russia's military invasion and attack on Ukraine's independence, which began on 24 February 2022, is affecting businesses around the world. Although the length, impact and outcome of the ongoing military conflict remain unclear, the effects of the sanctions and restrictions imposed against Russia are clearly felt, including the volatility of commodity prices and the availability of commodities, the rapid increase in energy prices, the increase in global inflation, the monetary policy of central banks, the deterioration of financing conditions and the cooling of the global economy.

Despite the fact that the Group does not have direct contact with the war zone and sanctioned suppliers, all the previously mentioned factors affect the daily activities of the Group. Despite the uncertainty caused by global uncertainty, the Group's management closely monitors geopolitical developments when making development decisions.

Management Board's Confirmation

The Management Board confirms that the unaudited interim report for third quarter and nine months of 2022, 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 describes the significant risks and uncertainties the Group faces.

Henri Laks

Member of Management Board

Tallinn, 28 October 2022