

hepsor



Ulbrokas 30, Riga

2023 II quarter and six 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 2023-30 June 2023
Financial year:	01 January 2023-31 December 2023
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, Latvia and Canada. The Group entered the Latvian market in 2017 and has been operating under the same consolidating group since 2019. The Group entered the Canadian market in 2023.

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Management Report

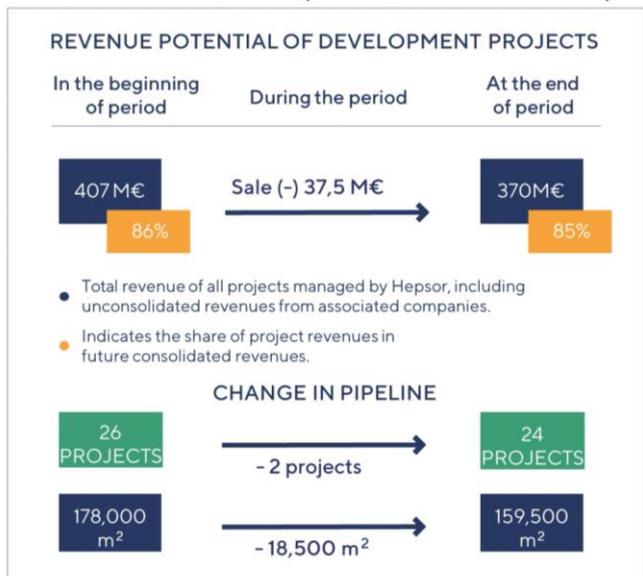
2023 6 MONTH UNAUDITED REVENUES AND NET PROFIT



REVENUE AND NET PROFIT FORECAST FOR 2023



LONG TERM OUTLOOK (31.12.2022 VS 30.06.2023)



ASSUMPTIONS FOR 2023 FORECAST

Project	Assumption
Ulbrokas 30 stock-office	Sold during financial year 2023
Paevälja Courtyard Houses	All 96 apartments sold
Strelnieku 4B	All 54 apartments sold
Grüne office building	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
Kuldigas Parks	All 116 apartments sold
Marupes Darzs	All 92 apartments sold
Büroo 113	The Group earns financial income with the equity method of accounting from associated company

DEVELOPMENT PROJECTS FOR SALE AND UNDER CONSTRUCTION (30.06.2023)

PROJECT	Total number of apartments	Apartments sold*	Apartments sold %	Apartments available
Strelnieku 4b, Latvia	54	37	69%	17
Paevälja Courtyard Houses	96	82	85%	14
Kuldigas Parks, Latvia	116	110	95%	6
Marupes Darzs, Latviai	92	81	88%	11
Ojakalda Homes	101	29	29%	72
Lilleküla Homes	26	9	35%	17
Manufaktuuri 7	154	39	25%	115
Nameja Rezidence	38	10	26%	28
Total	677	397	59%	280
COMMERCIAL DEVELOPMENT PROJECTS IN PROGRESS	Total rentable area m ²	Occupancy m ²	Occupancy %	
Büroo113 office building	4,002	4,002	100%	
Grüne office building	3,430	3,430	100%	
Manufaktuuri 7	453	0	0%	
Total	7,885	7,432	94%	

DEVELOPMENT PROJECTS UNDER CONSTRUCTION

Started in 2022	Under construction at 30.06.2023	To be started in 2023
219 apartments	319 apartments	332 apartments
0 m ² commercial area	453 m ² commercial area	8,979 m ² commercial area

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

Dear shareholders of Hepsor



Hepsor's consolidated sales revenue for the second quarter of 2023 amounted to 14.6 million euros and net profit was 3.5 million euros (incl. the share owned by the parent company was 1.6 million euros). The consolidated sales revenue for the first half of 2023 totaled 20.6 million euros and net profit 3.6 million euros (incl. the share owned by the parent company was 1.8 million euros).

The second quarter of 2023 did not bring any big surprises in the real estate sector. Positive developments include the stabilization of energy prices and inflation, which create the prerequisites for a recovery in demand in the real estate market. At the same time, the Euribor continued to rise, which has a direct impact on the monthly housing costs of households and home buyers and forces real estate purchasing decisions to take a conservative approach. The transaction activity of the Tallinn new development market increased slightly in the second quarter but remains below the previous long-term average. In Riga, transaction activity remains at the normal level.

In the commercial real estate market, transaction activity in the Baltics is also rather low. However, from Hepsor's perspective we can highlight a landmark transaction with which we sold a stock-office type commercial building with 3,642 m² of rental space called StokOfiss U30 to an experienced asset management company through the sale of parts of Hepsor U30 SIA in Riga, Latvia in the second quarter of 2023.

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 generated only 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.

The portfolio of the company's development projects and three-year average financial results are a better criteria for assessing the group's performance in order to assess the overall sustainability and economic results of a real estate development company.

Completed development projects

In the first half of 2023, a total of 195 real rights contracts were signed, based on which a total of 124 new homes were handed over to home buyers. The completion of the Mārupes Dārzs and Kuldigas Parks projects was only at the end of the second quarter and even though the real right contracts for 71 homes had been concluded, the homes had not yet been handed over to buyers at the end of the period and are therefore not reflected in the sales revenue for the period.



The handover of apartments in the Paevälja Hoovimajad project, which was completed in 2022, continued in the second quarter of 2023. Two apartment buildings were built as part of the project with 96 apartments, the first 40 of which were handed over to home buyers at the end of 2022. In the first quarter of 2023, we handed over an additional 34 apartments to home buyers on the basis of real right contracts and 8 apartments in the second quarter. As of June 30, 2023, we have signed real rights contracts for a total of 82 apartments (85%) and 14 apartments remain unsold.

In Latvia, the construction of two development projects was completed in the second quarter of 2023:

- A total of 116 homes will be completed as part of the Kuldigas Parks project. As of June 30, 2023, a total of 15 pre-sale contracts under the law of obligations and 95 real rights contracts for the sale of homes had been signed, of which 53 homes were handed over to home buyers by the end of the second quarter.
- A total of 92 homes will be completed as part of the Mārupes Dārzs project. As of June 30, 2023, a total of 24 pre-sale contracts under the law of obligations and 57 real rights contracts for the sale of homes had been concluded, of which 28 homes were handed over to home buyers by the end of the second quarter.

The signing of real rights contracts for the Kuldigas Parks and Mārupes Dārzs projects and the handover of homes will continue in the third quarter of 2023. In addition, one apartment was sold in Latvia in the Strēlnieku 4b development project, which completed in 2020.

The Grüne Maja commercial real estate development project was completed in Tallinn by the end of the second quarter, with the last premises of which were handed over to the tenants by the end of the period. The project follows a green concept and the office building is 100% covered with lease agreements.

In addition to the sale of Ulbrokas 30 commercial buildings already mentioned earlier, another long-term commercial real estate development project was successfully and profitably completed for Hepsor in Tallinn. The group sold the properties at Tooma St. 2, 4 and 6, with a total area of 44,959 m², of which 24,060 m² was commercial land and the rest was public land. The sold properties formed part of the Tooma Business Park on Peterburi tee in Tallinn where Hepsor Group built the necessary infrastructure for Tooma Business Park and over the years developed a complete business district, selling both land-plots as well as completed commercial buildings.

Development projects under construction and available for sale



Hepsor has four residential development projects under construction in Estonia and Latvia, with a total of 319 new apartments and 453 m² of commercial premises. After the completion of two projects in the first half-year, one development project remains under construction and for sale in Riga, in which a total of 38 homes will be completed, of which 10 apartments have been pre-sold under the law of obligations and reservation agreements (26%). In Tallinn, three development projects are under construction and for sale with a total of 281 new apartments and 453 m² of commercial premises, of which, as of June 30, 2023, the law of obligations and reservation agreements have been concluded for

77 apartments (27%).

Expansion into the Canadian market

Hepsor began developing its Canadian business line in the spring of 2022 after the start of the war in Ukraine with the aim of finding new growth opportunities and diversifying the geopolitical risks associated with the current home markets. Within a year, a network of cooperation has been built in Canada, from legal and financial advisors to banks, market analysis and brokerage companies. Work to enter the Canadian market culminated in the first investment in Toronto in the second quarter of 2023, where, together with Canadian partners, a property suitable for residential development was purchased at 3406-3434 Weston road. To develop the property, Weston Limited Partnership was founded, in which, in addition to Hepsor and its Canadian partners, various Canadian and European investors also participate. The goal of the first phase of the acquired development project is to increase the construction volumes of the property from 27,000 m² to ca 53,000 m² and to obtain construction rights for the creation of two apartment buildings. The land valuation phase is expected to take 2-2.5 years, after which Weston Limited Partnership will be able to decide whether the additional value created by that point will be realized through the resale of the property or whether the project will move on to the construction phase.

Significant events related to development projects in the first half-year of 2023

- ✓ We signed a loan agreement to finance the construction of 26 homes in the Lilleküla Kodud project. Construction started already in the fourth quarter of 2022.
- ✓ We started the construction of 154 homes in the Manufaktuuri 7 project in Tallinn and signed a loan agreement to finance the construction of the project.
- ✓ We started the construction of 38 homes in Riga in the Nameja Rezidence development project.
- ✓ We concluded the real rights purchase and sale agreement for the sale of the properties with a total area of 44,959 m² located at Tooma 2, Tooma 4 and Tooma St. 6 in Tallinn, Lasnamäe, of which 24,060 m² was commercial land and the rest was public land. The cost of the transaction was approximately 2.2 million euros.
- ✓ As part of the Hepsor U30 SIA parts sale transaction, we sold a stock-office type commercial building with 3,642 m² of rental space in Riga called StokOfiss U30 with a value of 5.2 million euros.
- ✓ Hepsor's Canadian subsidiary, Hepsor SPV I Ltd, made its first investment in the Canadian real estate market, where, together with Canadian partners, a property suitable for residential development was purchased in Toronto, at 3406-3434 Weston road.

Future prospects

We forecast a revenue of 41.3 million euros, net profit of 3.3 million euros and net profit attributable to the owners of the parent of 1.1 million euros in 2023. The Group's sales results for the first half of 2023 show that we are on track to meet our forecasts for 2023. Clients' transaction activity is recovering at a cautious pace and interest in our projects continues to exist, which is why we will continue to implement existing projects as well as start new projects in all home markets.

Henri Laks

Member of the Management Board

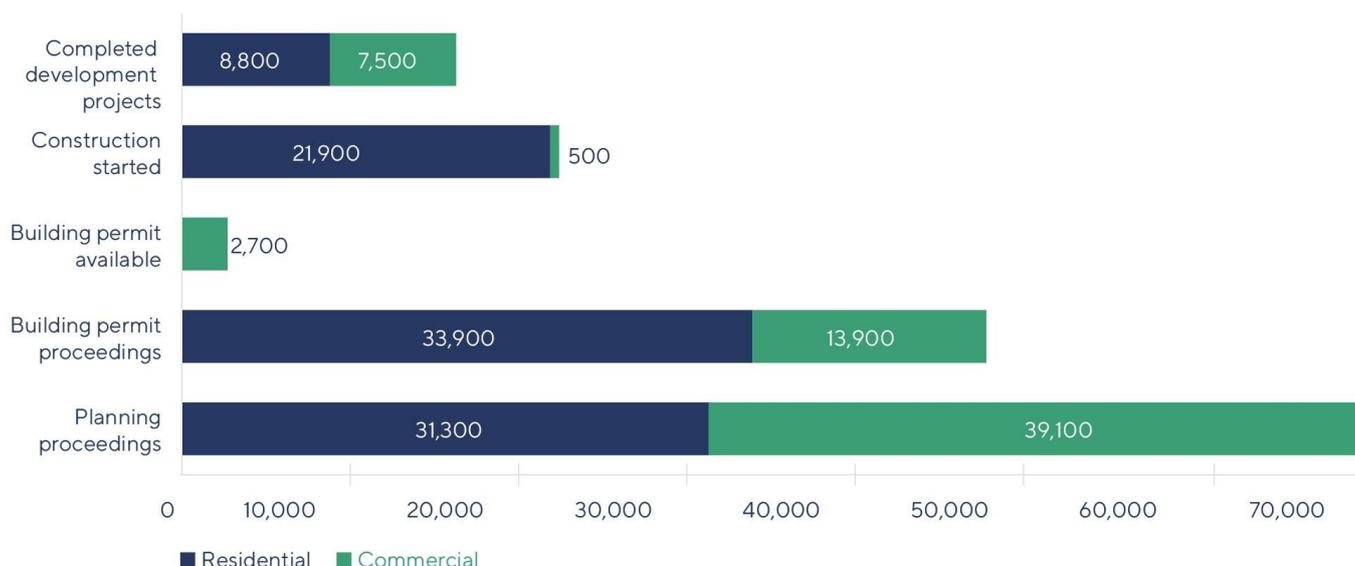
Overview of the Development Projects

As of 30 June 2023, the Group had 24 active projects in different development phases (30 June 2022: 25 projects) and 159,500 sqm of sellable area (30 June 2022: 175,000 sqm).

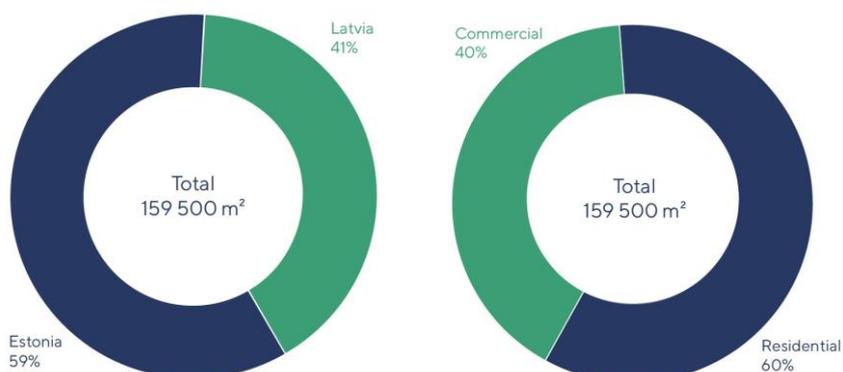
Significant changes in the development portfolio in the first half of 2023

- A total of 7,400 m² of homes were handed over to clients in completed projects.
- In Tallinn, Lasnamäe, the properties located at Tooma 2, Tooma 4 and Tooma 6 were sold, with an estimated saleable area of 10,528 m².
- A stock-office type commercial building with 3,642 m² of leasable area was sold in Riga as part of the Hepsor U30 SIA shares sale transaction, which is located at Ulbrokas iela 30.

Distribution of development portfolio between different development phases (as of 30 June 2023):



Distribution of development portfolio between countries and type (as of 30 June 2023):



Development projects in Tallinn (as of 30 June 2023)



Planning proceedings

- 1 Narva mnt 150, 150a, 150b
- 2 Alvari 2
- 3 Kadaka tee 197
- 4 Manufaktuuri 12
- 5 Paevälja 5, 7, 9

Building permit proceedings / available

- 6 Manufaktuuri 5
- 7 Lembitu 4

Under construction and/or available for sale

- 8 Manufaktuuri 7
- 9 Nõmme tee 57
- 10 Paevälja 11
- 11 Paldiski mnt 227c
- 12 Meistri 14

Development projects in Riga (as of 30 June 2023)



Planning proceedings

1 Ganību Dambis 17a

Building permit proceedings / available

2 Saules aleja 2a

3 Ulbrokas 34

4 Braila 23

5 Jurmalas Gatve / Imanta 8. līnija

Under construction and/or available for sale

6 Gregora iela 2a

7 Liela 45, Marupe

8 Strēlnieku 4b

9 Ranka Dambis 5

Completed development projects (as of 30 June 2023):



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



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



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



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





Project: Büro 113
Hepsor P113 OÜ
Address: Pärnu mnt 113, Tallinn
Leasable area: 4,002 m²
Occupancy: 100%
Project completed: Q4 2022
Website: byroo113.ee/



Project: Grüne Büro
Hepsor M14 OÜ
Address: 14 Meistri, Tallinn
Leasable area: 3,430 m²
Start of construction: Q4 2020
Project completed: Q2 2023
Website: gryne.ee/en/



Residential development projects under construction (as of 30 June 2023):



Project: Ojakalda Kodud
Hepsor 3TORNI OÜ

Address: Paldiski mnt 227c, Tallinn

Apartments: 101

Start of construction: Q3 2022

Estimated completion: Q2 2024

Website: hepsor.ee/ojakalda



Project: Lilleküla Kodud
Hepsor N57 OÜ

Address: Nõmme tee 57, Tallinn

Apartments: 26

Start of construction: Q4 2022

Estimated completion: Q1 2024

Website: hepsor.ee/lillekylakodud/en/



Project: Manufaktuuri Quarter
Hepsor Phoenix 2 OÜ

Address: 7 Manufaktuuri, Tallinn

Apartments: 154

Leasable area: 453 m²

Start of construction: Q1 2023

Estimated completion: Q4 2024

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



Project: Nameja Residence
Hepsor RD5 SIA

Address: 5 Ranka Dambis, Riga

Apartments: 38

Start of construction: Q1 2023

Estimated completion: Q2 2024

Website: hepsor.lv/namejarezidence/en/



Development projects the construction of which starts in 2023 (as of 30 June 2023):



Project: StockOffice U34
Hepsor U34 SIA

Address: 34 Ulbrokas, Riga

Leasable area: 8 526 m²

Est. start of construction: Q3 2023

Estimated completion: 2024



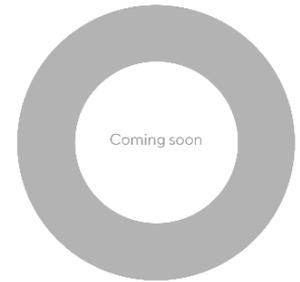
Project: Hepsor JG SIA

Address: Jurmalas Gatve/Imanta 8. linija, Riga

Apartments: 40

Est. start of construction: Q4 2023

Estimated completion: Q4 2024



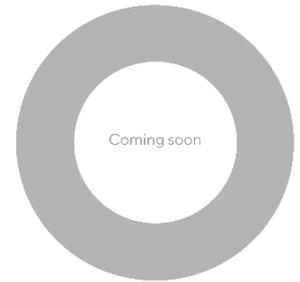
Project: Hepsor Jugla SIA

Address: 23 Braila, Riga

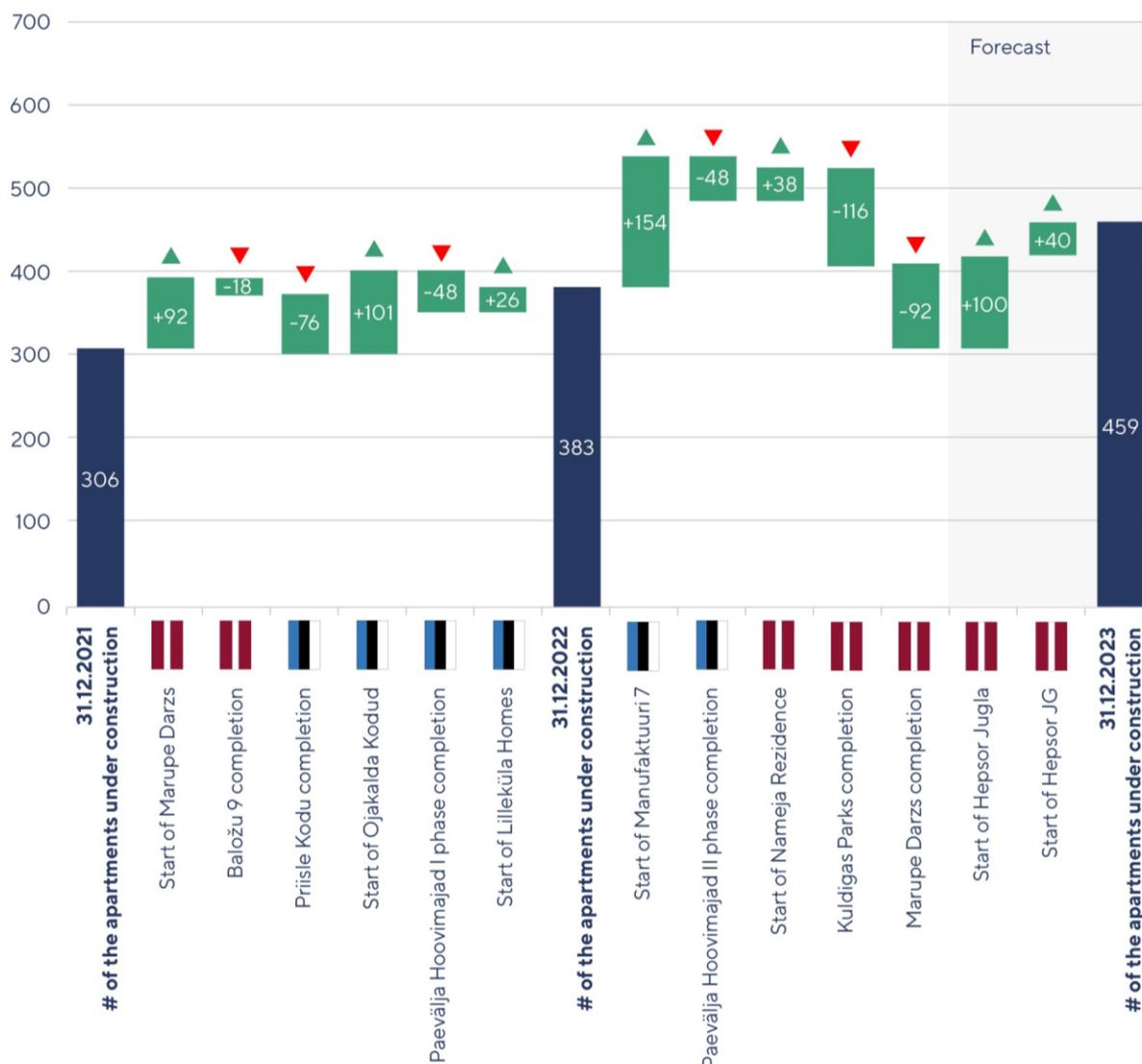
Apartments: 100

Est. start of construction: Q3 2023

Estimated completion: Q3 2024



Under construction and completed apartments, 2021 – 2023:

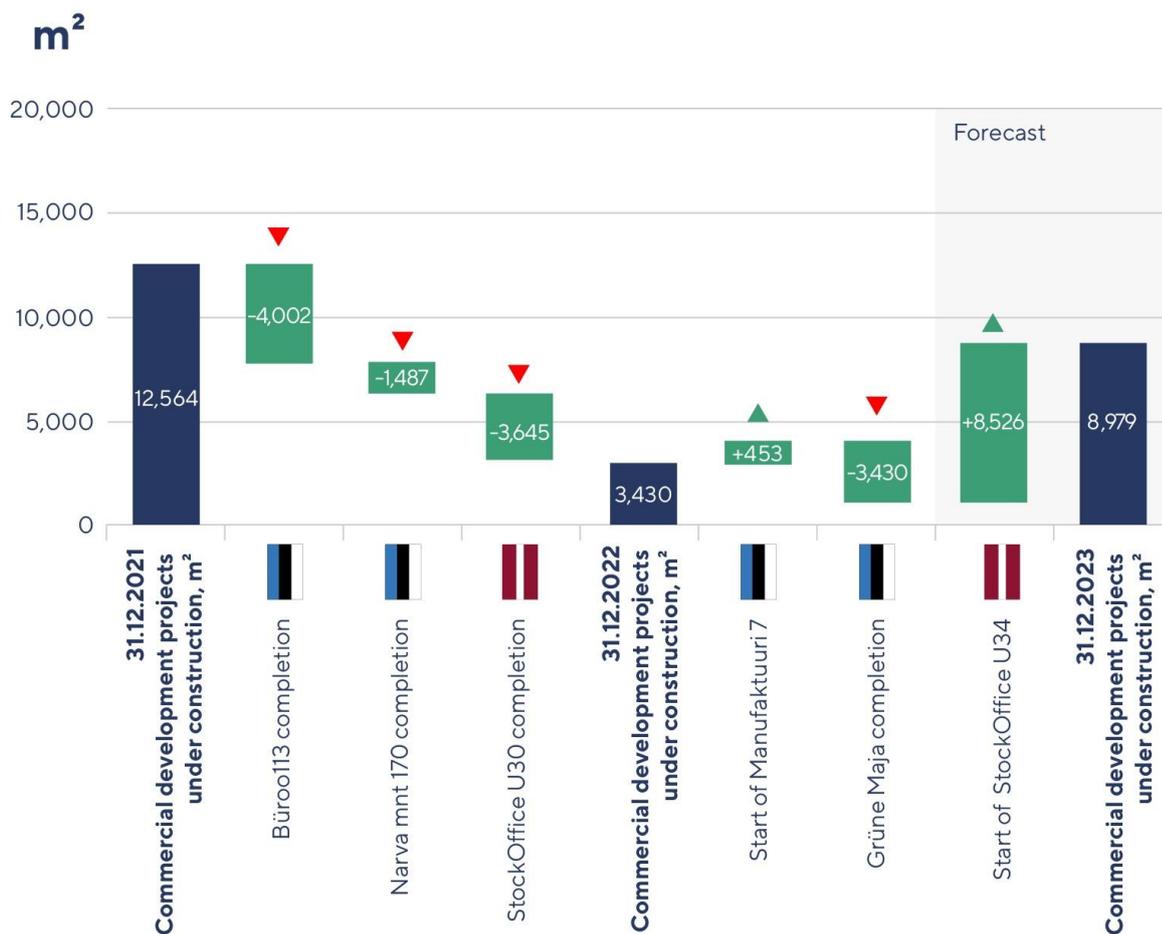


Residential development projects under construction and available for sale (as of 30 June 2023):

Project	Status	Apartments	Apartments		Apartments %		Estimated completion
			Sold*	Available	Sold*	Available	
4b Strēlnieku, Latvia	Completed	54	37	17	69%	31%	2020
Paevājia Hoovimajad	Completed	96	82	14	85%	15%	I phase Q4 2022 II phase Q1 2023
Kuldigas Parks, Latvia	Completed	116	110	6	95%	5%	Q2 2023
Mārupes Dārzs, Latvia	Completed	92	81	11	88%	12%	Q2 2023
Ojakalda Kodud	In construction	101	29	72	29%	71%	Q2 2024
Lilleküla Kodud	In construction	26	9	17	35%	65%	Q1 2024
Manufaktuuri 7	In construction	154	39	115	25%	75%	Q4 2024
Nameja Rezidence, Latvia	In construction	38	10	28	26%	74%	Q2 2024
Total		677	397	280	59%	41%	

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

Commercial development projects under construction:



The Group started the construction of Manufaktuuri 7 commercial premises (453 sqm) and in the second quarter the last leasable premises were handed over to Grüne Maja tenants. Furthermore, the group plans to start the construction of StockOffice 34 in Latvia with 8,526 sqm in 2023.

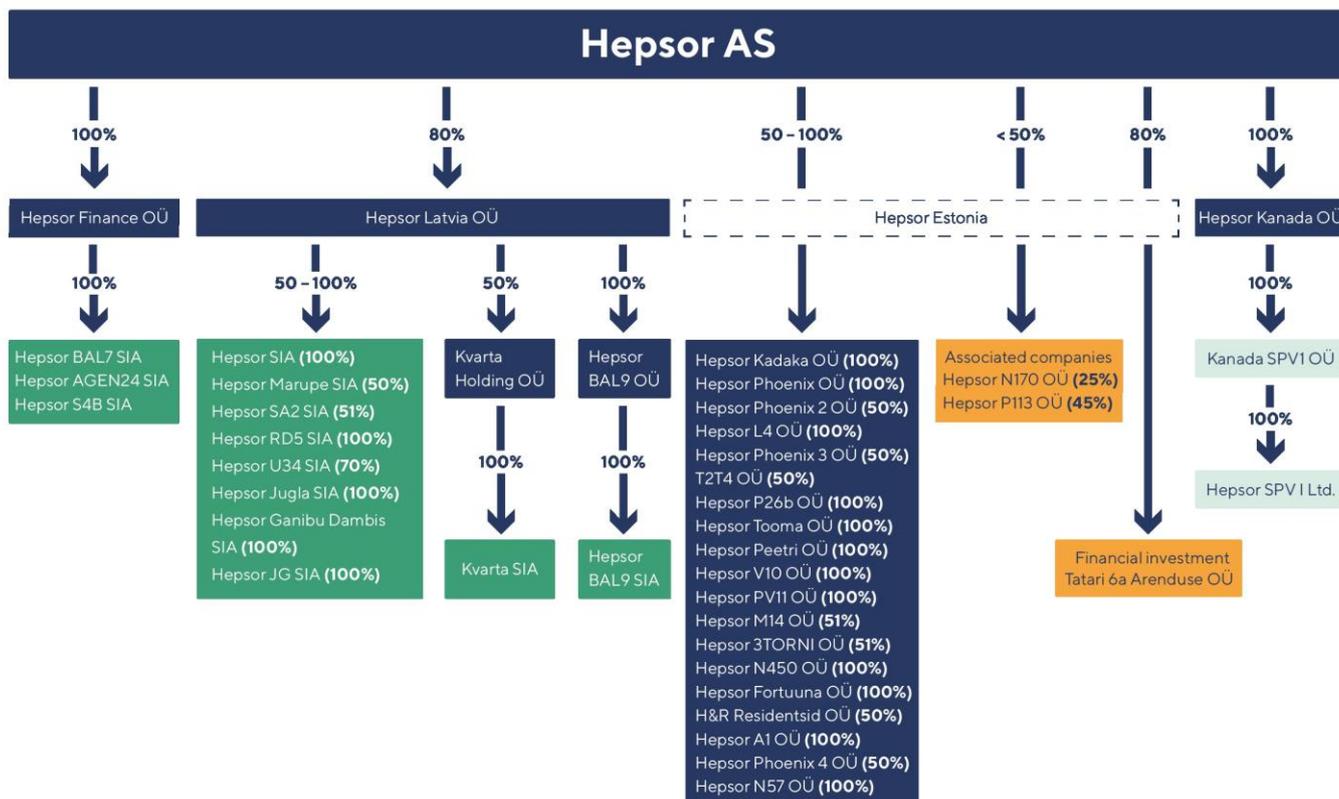
Occupancy of commercial development projects (as of 30 June 2023):

Project name	Rentable area sqm	Occupancy sqm	Occupancy %
Büroo113	4,002	4,002	100
Grüne Office	3,430	3,430	100
Manufaktuuri 7	453	0	0
Total	7,885	7,432	94

In addition to the new commercial and office buildings developed by the Group, the Group rents out commercial premises in Riga and Tallinn located on properties that are in the development phase for the construction of new buildings.

Group Structure

As of 30 June 2023, the Group was comprised of parent company, 39 subsidiaries and 2 associated companies (30 June 2022: parent company, 34 subsidiaries, 2 associated companies). Tatari 6a Arenduse OÜ is reported as financial investment.



In the first half year of 2023 the following changes took place in the structure of the Group:

- ✓ On 23 January 2023, Hepsor Latvia OÜ acquired a 29% shareholding in Hepsor BAL9 OÜ bringing its shareholding in the subsidiary up to 100%. The share repurchase agreement was concluded in connection with the completion of the Baložu 9 residential development project in Riga.
- ✓ Hepsor Kanada OÜ established a subsidiary Hepsor Kanada SPV 1 OÜ in April. Hepsor Kanada SPV 1 OÜ in turn established a subsidiary in Canada, Hepsor SPV I Ltd.
- ✓ Hepsor Latvia OÜ, a subsidiary of Hepsor AS, sold the shares of Hepsor U30 SIA on the basis of a sales contract signed on 10 May 2023.

Main Events

- ✓ Hepsor RD5 SIA, Hepsor AS group company, and Mitt&Perlebach SIA signed a construction agreement on 16 March 2023 for the construction of the Nameja Residence development project in Riga. The value of the construction agreement is approximately 4.6 million euros excluding VAT.
- ✓ Hepsor Phoenix 2 OÜ, Hepsor AS group company, and LHV Pank OÜ signed 17.5 million loan agreement on 15 March 2023. The purpose of the three-year loan is to finance the construction of Manufaktuuri 7 development project.
- ✓ Hepsor Phoenix 2 OÜ, Hepsor AS group company, and Mitt&Perlebach OÜ signed a construction agreement on 8 March 2023 for the construction of the Manufaktuuri 7 development project in the Manufaktuuri Quarter in Tallinn. The value of the construction agreement is approximately 18.5 million euros excluding VAT.
- ✓ Hepsor Kanada OÜ established a subsidiary Hepsor Kanada SPV 1 OÜ in April. Hepsor Kanada SPV 1 OÜ in turn established a subsidiary in Canada, Hepsor SPV I Ltd.
- ✓ Hepsor Latvia OÜ's subsidiary Hepsor RD5 SIA and the Latvian branch of Bigbank AS signed a loan agreement in the amount of 4 million euros on 20 April 2023. The purpose of the three-year loan is to finance the construction of the Nameja Residence development project in Riga.
- ✓ Hepsor Latvia OÜ, a subsidiary of Hepsor AS, signed a share sales agreement Hepsor U30 SIA shares to East Capital Real Estate IV real estate fund on 10 May 2023. Hepsor U30 SIA owns a property located at Ulbrokas iela 30 in Riga, on which is located a stock-office type commercial building with 3,642 m² of rental space developed by Hepsor called StokOfiss U30.
- ✓ On 10 May 2023 T2T4 OÜ and Hepsor Tooma OÜ, which are part of the Hepsor AS group, entered into a real rights purchase and sales agreement for the sale of 44,959 m² properties located at Tooma 2, Tooma 4 and Tooma 6 in Lasnamäe, Lasnamäe, of which 24,060 m² was commercial land and the rest was public land.
- ✓ Hepsor's Canadian subsidiary, Hepsor SPV I Ltd, made its first investment in the Canadian real estate market in June, where, together with Canadian partners, a property suitable for residential development was purchased in Toronto, at 3406-3434 Weston road.

Operating Results

The Group's sales revenue in Q2 2023 was 14.6 million euros (Q2 2022: 2.7 million euros), of which 10.4 million euros (Q2 2022: 2.5 million euros) or 71.7% (Q2 2022: 93.7%) was earned in Latvia.

In six months 2023, the Group's sales revenue was 20.6 million euros (6M 2022: 4.0 million euros), of which 10.6 million euros (6M 2022: 3.6 million euros) or 51% (6M 2022: 91%) was earned in Latvia.

Large fluctuations in sales revenue are relatively common in real estate development business. The development cycle of the Group's real estate projects lasts approximately 36 months. In year-on-year comparisons, sales revenues and profits may fluctuate depending on the period between the completion of the construction of the development project and the sale of the completed apartments.

In Q2 2023 the Group sold a total of 90 apartments of which 8 apartments in Paevälja Hoovimajad development project, Paevälja 11, Tallinn and 82 apartments in Latvia, Riga in Kuldigas Parks development project, Gregora iela 2a 53 apartments were handed over to customers, in Mārupes Dārzs development project in Liela 45, 28 apartments were handed over to the customers and in Strelnieku 4b development project 1 apartment. In the second quarter, land plots at Tooma st 2, Tooma st 4 and Tooma st 6 were sold in Tallinn.

In addition to the sale of apartments, the Group also offers project management services and generates rental income from real estate. In the second quarter the total other sales revenue amounted to 462 thousand euros (Q2 2022: 213 thousand euros) or 3.2% (Q2 2022: 7.9%) of the Group's total sales revenue. In six months the Group earned other sales revenue in the amount of 883 thousand euros (6M 2022: 406 thousand euros), which was 4.2% (6M 2022: 10.2%) of the Group's total sales revenue.

Profitability

The gross profit of the second quarter of the Group was 3,856 thousand euros and the gross profit margin was 26.4% (Q2 2022: 96 thousand euros and 3.6%) and the gross profit for six months was 4,791 thousand euros, the gross profit margin was 23.3% (6M 2022: 202 thousand euros and 5.1%). The gross profit was most affected by the higher number of sold apartments and the higher profitability of the development projects sold. The gross profit of development projects sold during the second quarter was 4,091 thousand euros (Q2 2022: 201 thousand euros) and gross profit margin was 28.9% (Q2 2022: 8.1%) and the gross profit of the sold development projects for six months was 5,251 thousand euros (6M 2022: 286 thousand euros) and the gross profit margin was 26.6% (6M 2022: 8.1%).

The operating profit of the Group for the second quarter of 2023 was 3,212 thousand euros and the operating profit for six months was 3,726 thousand euros (Q2 2022: operating loss 186 thousand euros and 6 months 2022: operating loss 500 thousand euros), the operating profit margin for the second quarter of the reporting year was 22.0% (Q2 2022: -6.9%) and the operating profit margin for six months was 18.1% (6M 2022: -12.7%).

The net profit of the Group in the second quarter was 3,449 thousand euros (Q2 2022: net loss 280 thousand euros), of which the profit of the owners of the parent company was 1,563 thousand euros (Q2 2022: net loss 278 thousand euros) and the net profit of the minority interest was 1,886 thousand euros (Q2 2022: net loss 2 thousand euros). The net profit for the six months of the reporting year was 3,588 thousand euros (6M 2022: net loss 258 thousand euros), of which the profit of the owners of the parent company was 1,803 thousand euros (6M 2022: net loss 273 thousand euros) and the net profit of the minority interest was 1,785 thousand euros (6M 2022: 15 thousand euros). The net profit margin was 23.6% in the second quarter of the reporting year and 17.4% in six months (Q2 2022: -10.4% and 6M 2022: -6.5%). The profit margin of the owners of the parent company was 10.7% in the second quarter (Q2 2022: -10.4%) and 8.8% in six months (6M 2022: 6.9%).

Balance Sheet

Total assets of the Group amounted to 83.3 million euros as of 30 June 2023 (30 June 2022: 64.3 million euros), which is 29.5% higher than at the end of the comparable period. Inventories made up 82.6% or 68.8 million euros of total assets (30 June 2022: 87.3% and 56.1 million euros). In the period from 01.04.2022 to 30.06.2023, the Group has purchased four new landplots: residential development projects in Tallinn, Nõmme tee 57 and Manufaktuuri 12 and in Riga, Jurmala Gatve/Imata 8 and commercial development Ganibu Dambis 17, with which 111 new apartments and 21,260 m² commercial area were added to the development portfolio. In the second quarter of 2023, land plot at Tooma st 2, Tooma st 4 and Tooma st 6 in Tallinn and commercial development project in Riga Ulbrokas 30 were sold, which reduced the development portfolio by 14,170 m².

Cash and cash equivalents accounted for 10.0% or 8.3 million euros of the total assets as of 30 June 2023. As at 30 June 2022, cash and cash equivalents accounted for 6.8% or 4.4 million euros of total assets.

The Group's loan obligations totaled 46.2 million euros as at 30 June 2023, compared to 37.1 million euros as at 30 June 2022. The Group's equity increased by 17.6% over the year to 22.2 million euros. Equity attributable to the owners of the parent increased by 18,3% to 21.7 million euros.

Balance sheet structure 30.06.2023
m€

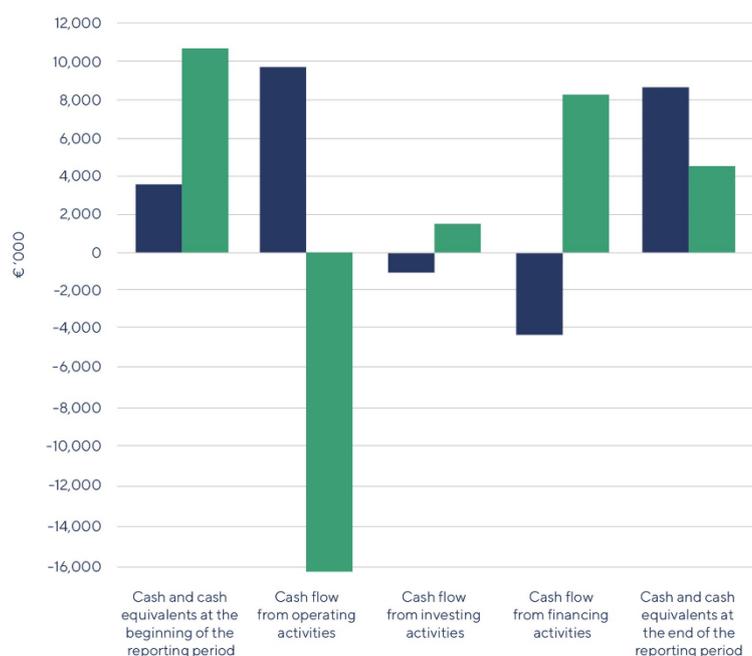


Cash Flows

The Group's cash and cash equivalents amounted to 3.8 million euros at the beginning of 2023 (01.01.2022: 10.9 million euros) and to 8,3 million euros as at 30 June 2023 (30 June 2022: 4.3 million euros). The positive cash flow for the period was 4.5 million euros (6M 2022: negative 6.6 million euros).

Cash flow from operating activities for the first six months of 2023 was positive at 10.0 million euros (6M 2022: negative 16.1 million euros). Cash flow from operating activities was mostly affected by the growth of operating profit and a decrease in inventories due to the sale of several development projects. Due to the change in inventories, the cash flow for the 6 months of 2023 was a positive 2.6 million euros. In the comparable period in 2022 inventories increased so the cash flow from changes in inventories was a negative 18.0 million euros.

Group's cash flows: ■ 6M 2023 ■ 6M 2022



Cash flow from investment activities was a negative 1.2 million euros in the first six months of 2023 (6M 2022: positive 1.2 million euros). The net cash flow from the sale of the subsidiary Hepsor U30 SIA was 0.6 million euros. In the first six months of the reporting year, the Group has granted loans of 1.8 million euros, of which 1.5 million euros were for the purchase of a land plot in Canada. In the comparable period, loan repayments of 1.3 million euros were returned to the Group.

Cash flow from financing activities was negative at 4.2 million euros (6M 2022: positive 8.1 million euros). In the first six months of 2023, the Group has repaid more loans than received. The net amount of loans received in six months 2023 was -2.4 million euros (6M 2022: positive 8.8 million euros).

Key financials

in thousands of euros	Q2 2023	Q2 2022	Q2 2021	6M 2023	6M 2022	6M 2021
Revenue	14,615	2,682	985	20,590	3,954	3,874
Gross profit/-loss	3,856	96	159	4,791	202	584
EBITDA	3,258	-151	-43	3,820	-430	260
Operating profit/-loss	3,212	-186	-81	3,726	-500	178
Net profit/-loss	3,449	-280	-139	3,588	-258	34
Incl net profit/-loss attributable to the owners of parent	1,563	-278	-134	1,803	-273	-84
Comprehensive income/-loss	1,722	-311	-80	1,869	-136	3
Incl comprehensive profit/-loss attributable to the owners of parent	1,617	-478	-134	1,843	-559	-84
Total assets	83,284	64,297	37,734	83,284	64,297	37,734
Incl inventories	68,776	56,128	33,084	68,776	56,128	33,084
Total liabilities	61,092	45,425	28,276	61,092	45,425	28,276
Incl total loan commitments	46,200	37,113	23,562	46,200	37,113	23,562
Total equity	22,192	18,872	9,458	22,192	18,872	9,458
Incl equity attributable to the owners of parent	21,709	18,345	9,370	21,709	18,345	9,370

Key Ratios

	Q2 2023	Q2 2022	Q2 2021	6M 2023	6M 2022	6M 2021
Gross profit margin	26.4%	3.6%	16.1%	23.3%	5.1%	15.1%
Operating profit margin	22.0%	-6.9%	-8.2%	18.1%	-12.7%	4.6%
EBITDA margin	22.3%	-5.6%	-4.4%	18.6%	18.0%	6.7%
Net profit margin	23.6%	-10.1%	-14.1%	17.4%	-6.2%	0.9%
General expense ratio	4.4%	10.7%	26.7%	5.1%	18.0%	11.6%
Equity ratio	26.6%	29.4%	25.1%	26.6%	29.4%	25.1%
Debt ratio	55.6%	57.9%	63.4%	55.6%	57.9%	63.4%
Current ratio	3.4	6.8	4.6	3.4	6.8	4.6
Return of equity	25.2%	10.2%	32.3%	25.2%	10.2%	32.3%
Return on equity attributable to the owners of the	17.3%	-1.5%	24.5%	17.3%	-1.5%	24.5%
Return on assets	7.0%	2.8%	7.9%	7.0%	2.8%	7.9%

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

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 June 2023, Hepsor AS had 11,261 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

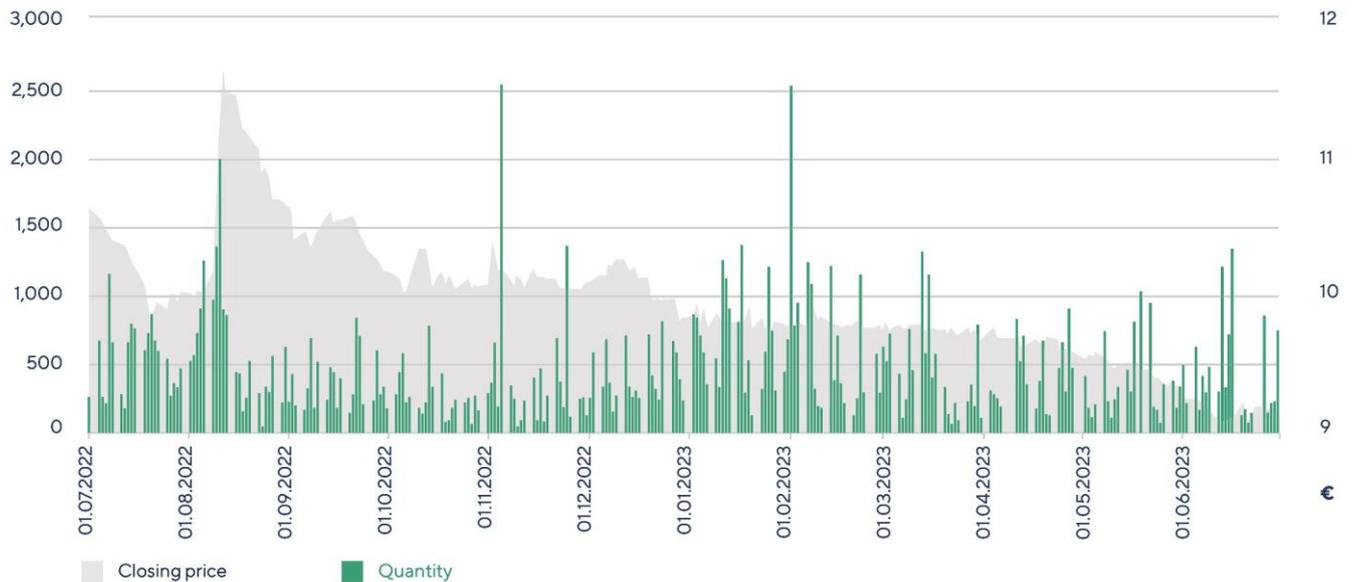
Shareholder structure by number of shares held as of 30 June 2023:

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%	215,626	5.59%
1001 -10 000	53	0.47%	152,684	3.96%
101-1000	819	7.27%	213,480	5.54%
1-100	10,376	92.15%	272,911	7.08%
Total	11,261	100.00%	3,854,701	100.00%

Between 1 January 2023 to 30 June 2023 a total of 3,971 transactions were conducted with the shares of Hepsor AS with 62,534 in the total amount of 552,376 euros. The highest transaction price in the period was 9.3 euros and the lowest was 7.94 euros. The market capitalization of Hepsor AS was 32 million euros as of 30 June 2023, and the equity of the Group amounted to 22.2 million euros.

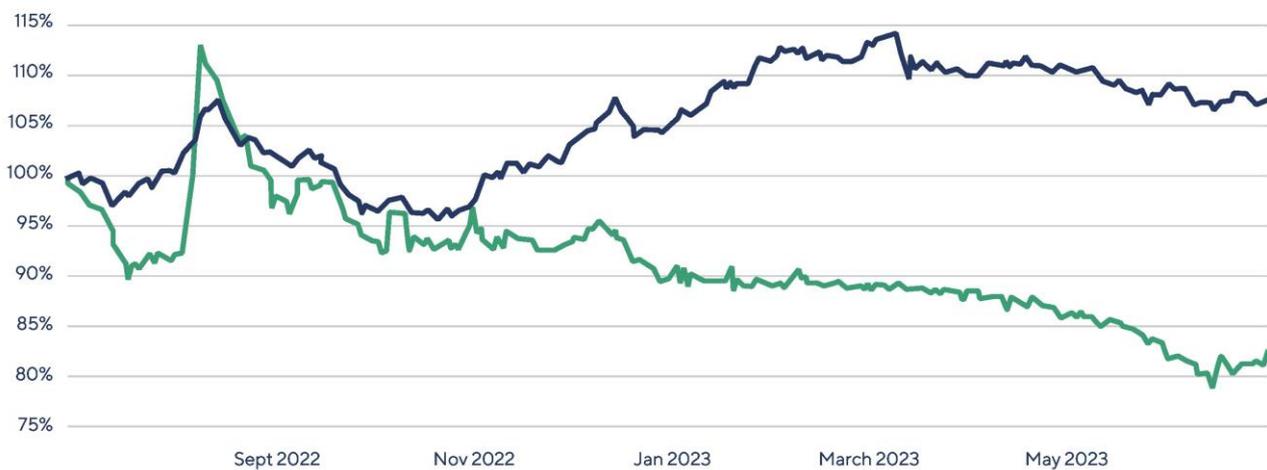


Trading volume and price range of Hepsor AS shares, 12 months (1 July 2022 - 30 June 2023):



Source: Nasdaq Baltic

Change in Hepsor share price in comparison with the benchmark OMX Tallinn index, 12 months (1 July 2022 – 30 June 2023):



INDEX / EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX Baltic_10	268.79	289.11	+7.56
HPR1T - Hepsor	10.14	8.34	-17.75

Source: Nasdaq Baltic

Consolidated Financial Statements

Consolidated statement of financial position

in thousands of euros	Note	30 June 2023	31 December 2022	30 June 2022
Assets				
Current assets				
Cash and cash equivalents		8,304	3,754	4,361
Trade and other receivables	3	1,372	1,731	576
Current loan receivables	4	311	0	279
Inventories	2	68,776	69,760	56,128
Total current assets		78,763	75,245	61,344
Non-current assets				
Property, plant and equipment		233	232	260
Intangible assets		5	7	3
Financial investments		2	2	2
Investments in associates	18	912	1,086	0
Non-current loan receivables	4	3,233	1,766	2,308
Other non-current receivables		136	30	380
Total non-current assets		4,521	3,123	2,953
Total assets	19	83,284	78,368	64,297
Liabilities and equity				
Current liabilities				
Loans and borrowings	5	11,056	22,565	2,472
Current lease liabilities		64	46	64
Prepayments from customers		3,748	3,054	2,453
Trade and other payables	6	8,570	4,007	3,959
Deferred income tax liability		0	0	8
Total current liabilities		23,438	29,672	8,956
Non-current liabilities				
Loans and borrowings	5	35,144	26,015	34,641
Non-current lease liabilities		68	68	66
Other non-current liabilities	7	2,442	2,290	1,762
Total non-current liabilities		37,654	28,373	36,469
Total liabilities	19	61,092	58,045	45,425
Equity				
Share capital		3,855	3,855	3,855
Share premium		8,917	8,917	8,917
Reserve capital		385	0	0
Retained earnings		9,035	7,551	6,100
Total equity		22,192	20,323	18,872
incl. total equity attributable to owners of the parent		21,709	19,866	18,345
incl. non-controlling interest		483	457	527
Total liabilities and equity		83,284	78,368	64,297

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	Note	6M 2023	6M 2022	Q2 2023	Q2 2022
Revenue	10,19	20,590	3,954	14,615	2,682
Cost of sales (-)	11	-15,799	-3,752	-10,759	-2,586
Gross profit		4,791	202	3,856	96
Marketing expenses (-)	12	-268	-173	-197	-78
Administrative expenses (-)	13	-787	-537	-440	-209
Other operating income		82	47	62	37
Other operating expenses (-)		-92	-39	-69	-32
Operating profit (-loss) of the year	19	3,726	-500	3,212	-186
Financial income	15.1	1,046	567	996	58
Financial expenses (-)	15.2	-1,184	-312	-759	-144
Profit before tax		3,588	-245	3,449	-272
Current income tax(-)		0	-5	0	0
Deferred income tax		0	-8	0	-8
Net profit for the year		3,588	-258	3,449	-280
Attributable to owners of the parent		1,803	-273	1,563	-278
Non-controlling interest		1,785	15	1,886	-2
Other comprehensive income (-loss)					
Changes related to change of ownership	17	68	135	68	0
Change in value of embedded derivatives with minority shareholders	8	-1,787	-13	-1,795	-31
Other comprehensive income (-loss) for the period		-1,719	122	-1,727	-31
Attributable to owners of the parent		40	-286	54	-200
Non-controlling interest		-1,759	408	-1,781	169
Comprehensive income (-loss) for the period		1,869	-136	1,722	-311
Attributable to owners of the parent		1,843	-559	1,617	-478
Non-controlling interest		26	423	105	167
Earnings per share					
Basic (euros per share)		0.47	-0.07	0.41	-0.07
Diluted (euros per share)		0.47	-0.07	0.41	-0.07

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	Reserve capital	Retained earnings		
Balance of 31 December 2021	3,855	8,917	0	6,132	133	19,037
2022						
Net profit/(-loss) for the year	0	0	0	-273	15	-258
Other comprehensive income/(-loss) for the period	0	0	0	-286	408	122
Dividends paid	0	0	0	0	-29	-29
Balance of 30 June 2022	3,855	8,917	0	5,573	527	18,872
01 July – 31 December 2022						
Net profit/(-loss) for the year	0	0	0	1,669	-80	1,589
Other comprehensive income/(-loss) for the period	0	0	0	-148	10	-138
Balance of 31 December 2022	3,855	8,917	0	7,094	457	20,323
2023						
Net profit/(-loss) for the year	0	0	0	1,803	1,785	3,588
Other comprehensive income/(-loss) for the period	0	0	0	40	-1,759	-1,719
Reserve capital	0	0	385	-385	0	0
Balance of 30 June 2023	3,855	8,917	385	8,552	483	22,192

Consolidated statement of cash flows

in thousands of euros	Note	6M 2023	6M 2022
Net cash flows from (to) operating activities			
Operating profit/(-loss) of the year	19	3,726	-500
Adjustments for:			
Depreciation of property, plant and equipment		94	70
Other adjustments		0	-5
Income tax paid		0	-5
Changes in working capital:			
Change in trade receivables		341	85
Change in inventories	16	2,571	-17,904
Change in liabilities and prepayments		3,253	2,111
Cash flows from (to) operating activities		9,985	-16,148
Net cash flows to investing activities			
Payments for property, plant and equipment		-13	-104
Payments for intangible assets		-1	0
Payments of for acquisition of subsidiaries		-1	-400
Proceeds from sale of subsidiaries	17	574	135
Interest received		30	17
Loans granted	4	-1,778	-176
Loan repayments received	4	0	1,305
Other receipts from investing activities		0	460
Cash flows to investing activities		-1,189	1,237
Net cash flows from (to) financing activities			
Loans raised	5	15,018	12,722
Loan repayments	5	-17,395	-3,972
Interest paid	16	-1,791	-469
Payments of finance lease principal		-4	-5
Payments of right to use lease liabilities		-59	-54
Dividends paid		0	-29
Payments of for division of a subsidiary		0	-18
Other receipts from financing activities		-15	-34
Cash flows from financing activities		-4,246	8,141
Net cash flow		4,550	-6,770
Cash and cash equivalents at beginning of year		3,754	10,889
Cashflow in from acquisitions of subsidiaries		0	242
Increase / decrease in cash and cash equivalents		4,550	-6,770
Cash and cash equivalents at end of year		8,304	4,361

Notes to the consolidated interim financial statement

Note 1. General information

The Hepsor AS (hereinafter “the Group”) consolidated unaudited interim report for 2023 Q2 and 6 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 2023 Q2 and six months follow the same accounting principles and methods used in the 2022 audited consolidated financial statements. The current interim financial statements contain the audited financial results for 31.12.2022 and unaudited comparative figures for 2022 Q2 and 6 months.

The Group has not made any changes in their critical accounting estimates which may have impact on the consolidated unaudited interim financial statements for 2023 Q2 and 6 months.

The Group has not made any changes in the valuation techniques applied for fair value measurement in 2023.

In 2023, the group established a subsidiary in Canada, foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the dates of the transactions. Monetary financial assets and liabilities denominated in foreign currencies at the statement date are translated into euros based on the foreign currency exchange rates of the European Central Bank prevailing at the balance sheet date. Exchange rate differences from translation are reported in the income statement of the reporting period. The functional currency of subsidiaries located abroad is the currency of their business environment; therefore the financial statements of such subsidiaries are translated into euros for consolidation purposes; the asset and liability items are translated using the foreign exchange rates of the European Central Bank prevailing at the balance sheet date, income and expenses using the weighted average foreign exchange rates for the year and other changes in equity using the foreign exchange rates at the date at which they arose. Exchange rate differences arising from translation are reported in the equity.

Note 2. Inventories

Inventories are accounted as ready for sale development projects once the project has been granted usage permit. As at 30 June 2023, building permits has been issued to Gregora iela 2a and Strēlnieku 4b development projects in Riga, Liela 45 development project in Marupe and a partial building permit has been issued to 14 Meistri development project.

As of 30 June 2023, in ready for sale development projects the Group had 144 (31 December 2022: 26; 30 June 2022: 36) apartments which had not been handover to customers. 17 apartments in Strēlnieku 4b, 64 apartments in Liela 45 and 63 apartments in Gregora iela 2a development projects.

In addition, a development projects are ready for sale in Tallinn, Paevälja 11 and Meistri 14 for which a usage permit has not been issued. In Paevälja 11 project, as of 30 June 2023, there are 14 apartments unsold with real right contracts.

As of 30 June 2023, the changes in inventories as stated in cash flow statements have been adjusted by loan interest expense. The capitalized loan interest amounted to 1,202 thousand euros (31 December 2022: 1,842 thousand euros; 30 June 2022: 987 thousand euros). Further information is provided in Note 16.

Project statuses are classified as following:

in thousands of euros	30 June 2023	31 December 2022	30 June 2022
A – planning proceedings	13,486	13,236	11,233
B – building permit proceedings	7,700	7,272	8,749
C – building permit available /construction not yet started	3,015	8,924	6,868
D – construction started / sale started	20,292	30,151	26,745
E – construction ready for sale	24,283	10,177	2,533
Total inventories	68,776	69,760	56,128

The following development projects are stated as inventories:

in thousands of euros				30 June 2023		31 December 2022		30 June 2022	
Address	Project company	Location	Segment	Acquisition cost	Project status	Acquisition cost	Project status	Acquisition cost	Project status
Work in progress									
Paevälja 11, Tallinn	Hepsor PV11 OÜ	Estonia	Residential	1,897	E	909	E	0	-
Paevälja 11, Tallinn	Hepsor PV11 OÜ	Estonia	Residential	0	-	5,585	D	7,529	D
Paldiski mnt 227C, Tallinn	Hepsor 3Torni OÜ	Estonia	Residential	8,514	D	3,482	D	2,811	C
Narva mnt 150, Tallinn	Hepsor N450 OÜ	Estonia	Residential/ Commercial	3,683	A	3,609	A	3 620	A
Manufaktuuri 5, Tallinn	Hepsor Phoenix 3 OÜ	Estonia	Residential/ Commercial	4,656	B	4,168	B	3 566	B
Manufaktuuri 7, Tallinn	Hepsor Phoenix 2 OÜ	Estonia	Residential/ Commercial	6,804	D	3,018	C	2 497	B
Tooma 2/Tooma 4 Tallinn	T2T4 OÜ	Estonia	Commercial	0	-	1,248	C	1 196	C
Lembitu 4, Tallinn	Hepsor L4 OÜ	Estonia	Commercial	3,015	C	2,954	C	2 861	C
Meistri 14, Tallinn	Hepsor M14 OÜ	Estonia	Commercial	3,589	E	3,193	D	6 593	D
Alvari 2, Paevälja 9, Tallinn	Hepsor Fortuuna OÜ	Estonia	Residential	1,657	A	1,657	A	1 659	A
Alvari 1, Tallinn	Hepsor A1 OÜ	Estonia	Residential	2,022	A	2,023	A	1 006	A
Kadaka Road 197, Tallinn	H&R Residentsid OÜ	Estonia	Residential	1,205	A	1,168	A	1 137	A
Manufaktuuri 12, Tallinn	Hepsor Phoenix 4 OÜ	Estonia	Residential	891	A	843	A	0	-
Nõmme tee 57, Tallinn	Hepsor N57 OÜ	Estonia	Residential	3,438	D	1,704	C	0	-
Saules alley 2, Riga	Hepsor SA2 SIA	Latvia	Residential	890	B	886	B	961	B
Liela 45, Mārupe	Hepsor Mārupe SIA	Latvia	Residential	0	-	7,766	D	2 681	D
Ranka Dambis 5, Riga	Hepsor RD5 SIA	Latvia	Residential	1,536	D	416	B	383	B
Ulbrokas 30, Riga	Hepsor U30 SIA	Latvia	Commercial	0	-	0	-	3 330	D
Ulbrokas 34, Riga	Hepsor U34 SIA	Latvia	Commercial	1,313	B	1,128	B	1 094	B
Braila 23, Riga	Hepsor Jugla SIA	Latvia	Residential	405	B	314	B	248	B
Gregora iela 2a, Riga	Hepsor Kvarta SIA	Latvia	Residential	0	-	10,125	D	6 612	D
Ganību Dambis 17a, Riga	Hepsor Ganību Dambis SIA	Latvia	Commercial	4,010	A	3,918	A	3 787	A
Jurmala Gatve, Riia	Hepsor JG SIA	Latvia	Residential	436	B	360	B	0	-
-other properties		Estonia		18	A	18	A	24	A
Total work in progress				49,979		60,492		53,595	
Ready for sale real estate development									
Manufaktuuri 22, Tallinn (parking spaces)	Hepsor Phoenix OÜ	Estonia	Residential	16	E	16	E	16	E
Meistri 14, Tallinn	Hepsor Meistri 14 OÜ	Estonia	Commercial	4,026	E	4,026	E	0	-
Strēlnieku 4b, Riga	Hepsor S4B SIA	Latvia	Residential	1,049	E	1,106	E	2,433	E
Ulbrokas 30, Riga	Hepsor U30 SIA	Latvia	Commercial	0	E	4,120	E	0	-
Gregora iela 2a, Riga	Hepsor Kvarta SIA	Latvia	Residential	6,889	E	0	-	0	-
Liela 45, Mārupe	Hepsor Mārupe SIA	Latvia	Residential	6,817	E	0		0	-
Balozu 9, Riga	Hepsor Bal 9 SIA	Latvia	Residential	0	-	0	-	84	E
Total ready for sale real estate development				18,797		9,268		2,533	
Total inventories				68,776		69,760		56,128	

Note 3. Trade and other receivables

in thousands of euros	30 June 2023	31 December 2022	30 June 2022
Trade receivables			
Trade receivables	392	718	104
Allowance for doubtful receivables	-10	-10	-6
Net trade receivables	382	708	98
Prepayments			
Tax prepayment			
Value added tax	709	317	247
Other taxes	1	1	23
Other prepayments for goods and services	217	279	149
Total prepayments	927	597	419
Other current receivables			
Interest receivables	1	1	42
Other current receivables	62	20	17
Escrow account	0	405	0
Other current receivables	63	426	59
Total trade receivables	1,372	1,731	576

Note 4. Loans granted

in thousands of euros	Owner of non-controlling interest	Unrelated legal entities	Related legal entities (Note 20)	Total
2023				
Loan balance as of 31 December 2022	0	0	1,766	1,766
Loan granted	311	1,467	0	1,778
Loan balance as of 30 June 2023	311	1,467	1,766	3,544
- current portion	311	0	0	311
- non-current portion	0	1,467	1,766	3,233
<i>contractual/effective interest rate per annum</i>	3%	12%	7%	
2022				
Loan balance as of 31 December 2022	2,109	1,100	2,587	5,796
Loan granted	0	0	176	176
Loan collected	-29	-1,100	-176	-1,305
Division of subsidiary	-2,080	0	0	-2,080
Loan balance as of 30 June 2022	0	0	2,587	2,587
- current portion	0	0	279	279
- non-current portion	0	0	2,308	2,308
Loan balance as of 01 April 2022	0	0	2,587	2,587
Loan collected	0	0	-821	-821
Loan balance as of 31 December 2022	0	0	1,766	1,766
- non-current portion	0	0	1,766	1,766
<i>contractual/effective interest rate per annum</i>			7%-12%	

Note 5. Loans and borrowings

in thousands of euros	Bank loans	Unrelated legal entities	Related legal entities (Note 20)	Total
2023				
Loan balance as of 31 December 2022	30,129	16,145	2,306	48,580
Received	12,105	1,862	1,051	15,018
Repaid	-15,061	-834	-1,500	-17,395
Effective interest rate impact	0	-3	0	-3
Loan balance as of 30 June 2023	27,173	17,170	1,857	46,200
- current loan payable	6,279	3,053	1,724	11,056
- non-current loan payable	20,894	14,117	133	35,144
<i>Contractual interest rate per annum</i>	<i>6M Euribor+3.75%-8%; 5.5%</i>	<i>0-12%</i>	<i>3%-12%</i>	
2022				
Loan balance as of 31 December 2021	10,951	15,581	1,831	28,363
Received	10,003	2,719	0	12,722
Repaid	-1,907	-2,065	0	-3,972
Total loan balance as of 30 June 2022	19,047	16,235	1,831	37,113
- current loan payable	1,225	1,247	0	2,472
- non-current loan payable	17,822	14,988	1,831	34,641
Total loan balance as of 01 July 2022	19,047	16,235	1,831	37,113
Received	17,652	1,054	464	19,170
Repaid	-6,380	-1,251	-69	-7,700
Effective interest rate impact	-190	-247	75	-362
Compound interest rate	0	354	5	359
Total loan balance as of 31 December 2022	30,129	16,145	2,306	48,580
- current loan payable	17,040	3,352	2,173	22,565
- non-current loan payable	13,089	12,793	133	26,015
<i>Contractual interest rate per annum</i>	<i>6M Euribor +3.75%-8%; 5.5%</i>	<i>0-12%</i>	<i>12%</i>	
<i>Effective interest rate per annum</i>	<i>7.6%-12.3%</i>	<i>5.3%-12.2%</i>	<i>12,2%</i>	

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)

In addition to bank loans, Hepsor N450 OÜ has a joint mortgage in the amount of 2.1 million euros as a loan collateral until the loan obligation to unrelated legal entity has been fulfilled.

As of 30 June 2023, 86% (31 December 2022: 89%; 30 June 2022: 89%) 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	Related legal entities	Total
Balance as of 30 June 2023				
Loans for development projects	21,254	17,170	1,383	39,807
Loans to headquarters to finance development projects	5,919	0	474	6,393
Total	27,173	17,170	1,857	46,200
Balance as of 31 December 2022				
Loans for development projects	24,635	16,145	2,306	43,086
Loans to headquarters to finance development projects	5,494	0	0	5,494
Total	30,129	16,145	2,306	48,580
Balance as of 30 June 2022				
Loans for development projects	15,021	16,235	1,831	33,087
Loans to headquarters to finance development projects	4,026	0	0	4,026
Total	19,047	16,235	1,831	37,113

As of 30 June 2023, 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 AS	Estonia	4,822	2024	4,900	6M Euribor+3.75%	Mortgage - Meistri 14, Tallinn	7,615	-
LHV Pank AS	Estonia	1,254	2025	1,300	6M Euribor+8%	Mortgage - Lembitu 4, Tallinn	3,015	-
LHV Pank AS	Estonia	3,114	2025	13,900	6M Euribor+5.9%	Mortgage - Paldiski mnt 227c, Tallinn	8,514	-
LHV Pank AS	Estonia	1,519	2026	3,006	6M Euribor+6.5%	Mortgage- Nõmme tee 57, Tallinn	3,438	-
LHV Pank AS	Estonia	0	2026	17,500	6M Euribor+8%	Mortgage- Manufaktuuri 7 and Manufaktuuri 12, Tallinn	7,695	-
Coop Pank	Estonia	1,504	2025	1,504	6M Euribor+6%	Mortgage- Paevälja 11, Tallinn	1,897	150
Bigbank AS	Latvia	3,885	2025	7,000	5.5%	Mortgage-Liela 45, Mārupe	6,817	-
Bigbank AS	Latvia	578	2024	1,225	6M Euribor+4.5%	Commercial pledge; Mortgage- Strēlnieku 4b, Riga	1,049	-
Bigbank AS	Latvia	1,745	2025	7,500	5.5%	Mortgage – Gregora 2a, Riga	6,889	423
Bigbank AS	Latvia	1,973	2025	2,000	6M Euribor+4.5%	Mortgage -Ganību dambis 17A Riga; Commercial pledge	4,010	-
Bigbank AS	Latvia	853	2026	4,000	6M Euribor+5,2%	Mortgage- Ranka Dambis 5, Riga	1,536	1,200

As of 31 December 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	2,655	2023	8,605	6M Euribor + 4.5%	Mortgage - Paevälja pst 11, Lageloo 3//5, Lageloo 7, Tallinn	6,495	-
LHV Pank AS	Estonia	4,483	2024	4,900	6M Euribor + 3.75%	Mortgage - Meistri 14, Tallinn	7,220	-
LHV Pank AS	Estonia	1254	2025	1,300	6M Euribor + 8%	Mortgage - Lembitu 4, Tallinn	2,953	-
LHV Pank AS	Estonia	0	2025	13,900	6M Eurobor+5.9%	Mortgage-Paldiski mnt 227C, Tallinn	3,477	-
Bigbank AS	Latvia	5,687	2025	7,000	5.5%	Mortgage – Liela 45, Mārupe, Riga	7,766	-
Bigbank AS	Latvia	828	2024	1,225	6M Euribor + 4.5%	Commercial pledge; Mortgage - Strēlnieku 4b, Riga	1,106	-
Bigbank AS	Latvia	2,650	2024	2,650	5.5%	Mortgage - Ulbrokas 30, Riga, Commercial pledge	4,120	500
Bigbank AS	Latvia	5,957	2025	7,500	5.5%	Mortgage - Gregora 2a, Riga	10,125	423
Bigbank AS	Latvia	1,985	2025	2,000	6M Euribor+4.5%	Mortgage – Ganibu Dambis 17a, Riga, Commercial pledge	3,918	-

As of 30 June 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	4,596	2023	8,605	6M Euribor + 4.5%	Mortgage - Paevälja pst 11, Lageloo 3//5, Lageloo 7, Tallinn	5,055	-
LHV Pank AS	Estonia	3,030	2024	3,115	6M Euribor + 4.75%	Mortgage - Meistri 14, Tallinn	6,090	-
LHV Pank AS	Estonia	1,225	2022	1,300	6M Euribor + 8%	Mortgage - Lembitu tn. 4, Tallinn	2,835	-
Bigbank AS	Latvia	1,011	2024	2,500	6M Euribor + 4.5%	Commercial pledge; Mortgage - Strelnieku tn. 4b, Riga	2,433	-
Bigbank AS	Latvia	0	2025	7,000	5.5%	Mortgage – Liela 45, Marupe	2,681	-
Bigbank AS	Latvia	1,905	2024	2,650	5.5%	Mortgage - Ulbrokas 30, Riga, Commercial pledge	3,330	500
Bigbank AS	Latvia	3,254	2025	7,500	5.5%	Mortgage - Gregora 2a, Riga	6,612	423

Note 6. Trade and other payables

in thousands of euros	30 June 2023	31 December 2022	30 June 2022
Trade payables	2,906	1,906	2,023
Taxes payable			
Value added tax	2,833	910	439
Personal income tax	37	28	18
Social security tax	65	51	32
Other taxes	5	5	30
Total taxes payable	2,940	994	519
Accrued expenses			
Payables to employees	81	109	71
Interest payable	770	552	271
Other accrued expenses	36	35	35
Total accrued expenses	887	696	377
Other current payables			
Embedded derivatives (Note 8)	1,795	8	31
Other payables	42	403	1,009
Total other current payables	1,837	411	1,040
Total trade and other payables	8,570	4,007	3,959

Note 7. Other non-current liabilities

in thousands of euros	30 June 2023	31 December 2022	30 June 2022
Non-current interest payables	1,804	1,652	1,679
Other non-current payables	638	638	83
Total other non-current liabilities	2,442	2,290	1,762

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 of 30.06.2023, the Group had liabilities on the following development projects:

in thousands of euros	30 June 2023	31 December 2022	30 June 2022
Liabilities arising from embedded derivatives (Note 6)			
Commercial development project in Tooma 2/Tooma 4, Tallinn	311	0	0
Residential development project in Gregora iela 2a, Riga	1,090	0	0
Residential development project in Liela 45, Marupe	394	0	0
Commercial development project in Meistri 14, Tallinn	0	8	0
Residential development project in Baložu 9, Riga	0	0	31
Total	1,795	8	31

In 2023, the liability was reduced by 8 thousand euros through the other comprehensive income.

Note 9. Contingent liabilities

9.1 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 June 2023 to pay 10,791 thousand euros (31 December 2022: 12,904 thousand euros; 30 June 2022: 9,334 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 June 2023, the realization time of contingent liabilities remains between 2023 and 2027.

9.2 Based on the investor agreement signed in December regarding the 4b Strēlnieku development project, the investor will be paid interest depending on how successful the project is upon its completion. In the opinion of the Group's management, there is certain uncertainty arising from the macroeconomic environment both in terms of the interest depending on the success of the project and the time when the payment obligation arises, therefore it is not possible to reliably determine the amount of the interest obligation.

9.3 Group guarantees given

Additional information on the guarantees is provided in Note 5.

Note 10. Revenue

in thousands of euros	6M 2023	6M 2022	Q2 2023	Q2 2022
Revenue from sale of real estate	19,707	3,548	14,153	2,469
Revenue from project management services	56	95	48	48
Revenue from rent	686	237	331	126
Revenue from other services	141	74	83	36
Total	20,590	3,954	14,615	2,682

Additional information on sales revenue is provided in Note 19.

Note 11. Cost of sales

in thousands of euros	6M 2023	6M 2022	Q2 2023	Q2 2022
Cost of real estate sold	-14,456	-3,262	-10,062	-2,268
Personnel expenses (Note 14)	-504	-352	-285	-231
Interest expenses (Note 15.2)	-217	-16	-147	-16
Depreciation	-16	-16	-8	-8
Other costs	-606	-106	-257	-63
Total	-15,799	-3,752	-10,759	-2,586

Note 12. Marketing expenses

in thousands of euros	6M 2023	6M 2022	Q2 2023	Q2 2022
Personnel expenses (Note 14)	-58	-53	-30	-27
Depreciation	-23	0	-12	0
Other marketing expenses	-187	-120	-155	-51
Total	-268	-173	-197	-78

Note 13. Administrative expenses

in thousands of euros	6M 2023	6M 2022	Q2 2023	Q2 2022
Personnel expenses	-413	-306	-225	-84
Depreciation	-55	-54	-28	-27
Traveling and transport expenses	-47	-29	-29	-15
Purchased service expenses	-242	-122	-133	-67
Office expenses	-7	-24	-2	-14
Other expenses	-23	-2	-23	-2
Total	-787	-537	-440	-209

Note 14. Personnel expenses

in thousands of euros	6M 2023	6M 2022	Q2 2023	Q2 2022
Salaries	-717	-532	-395	-254
Social security and other payroll taxes	-258	-179	-145	-88
Total (Notes 11, 12, 13)	-975	-711	-540	-342

As of 30 June 2023, the Group employed 26 (30 June 2022: 23) people, including the members of Management and Supervisory Boards. 14 of these people worked in Estonia (30 June 2022: 13) and 12 in Latvia (30 June 2022: 10).

Gross fees paid to the members of Management and Supervisory Boards during the first half of 2023 amounted to 190 thousand euros (6M 2022: 150 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.

Note 15. Financial income and expenses

15.1 Financial income

in thousands of euros	6M 2023	6M 2022	Q2 2023	Q2 2022
Interest incomes	87	107	37	47
Incomes from the sale of subsidiaries	959	0	959	0
Other financial incomes	0	460	0	11
Total	1,046	567	996	58

In the second quarter of 2023, the Group earned 959 thousand euros from the sale of the subsidiary Hepsor U30 SIA to the East Capital Real Estate IV real estate fund, of which 574 thousand euros from this sale of shares and the realized profit was 385 thousand euros.

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.

15.2 Financial expenses

in thousands of euros	6M 2023	6M 2022	Q2 2023	Q2 2022
Interest expenses	-959	-277	-648	-144
Loss from associates of equity method (Note 18)	-174	0	-60	0
Loss from exchange rate changes	-36	0	-36	0
Other financial expenses	-15	-35	-15	0
Total	- 1,184	-312	-759	-144

In 2023 borrowing costs in the amount of 1 202 thousand euros (6M 2022: 987 thousand euros) have been capitalized as the cost of inventories. Interest expenses of 217 thousand euros have been recognized in the cost of sales in 2023 (6M 2022: 16 thousand euros). (Note 11).

Note 16. Information about line item in the consolidated statement of cash flows

in thousands of euros	30 June 2023	30 June 2022
Inventories		
Reclassification of cash flows from operating activities to financing activities (Note 2)	1,202	987
Decrease (-)/ increase (+) of change inventories balances (Note 2)	984	-18,891
Realized profit from the sale of the subsidiary	385	0
Change in inventories	2,571	-17,904
Interest paid		
Interest expense in statement of profit or loss and other comprehensive income	-959	-277
Reclassification of cash flows from operating activities to financing activities (Note 2)	-1,202	-987
Decrease (-)/ increase (+) of interest payables	370	795
Interest paid total	-1,791	-469

Note 17. Subsidiaries

In January 2023 the Group acquired a minority stake in Hepsor Bal 9 OÜ, as a result of the transaction, Hepsor Latvia OÜ became the 100% owner of the company.

In May 10, 2023, Hepsor Latvia OÜ signed a sales agreement for shares of Hepsor U30 SIA with the real estate fund East Capital Real Estate IV. The debt-free value of the company agreed upon in the transaction is 5.2 million euros, from which the company's debt obligations, including bank loans and owner loans, are to be deducted.

Changes in Group structure in 2023 and impact on comprehensive income and cash flow are following:

in thousands of euros	Other comprehensive income		Cash flow
	Comprehensive income attributable to owners of the parent	Comprehensive income attributable to non-controlling interest	Net cash flow from sale of subsidiary
Hepsor Bal 9 OÜ	-11	11	0
Hepsor Bal 9 SIA	-3	3	0
Hepsor U30 SIA	54	14	574
Total	40	28	574

Note 18. Shares of associates

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

	Ownership and voting rights %		
	30 June 2023	31 December 2022	30 June 2022
Hepsor P113 OÜ	45	45	45
Hepsor N170 OÜ	25	25	25

Financial information about associates:

in thousands of euros	30 June 2023		31 December 2022		30 June 2022	
	Hepsor P113 OÜ	Hepsor N170 OÜ	Hepsor P113 OÜ	Hepsor N170 OÜ	Hepsor P113 OÜ	Hepsor N170 OÜ
Current assets						
Cash and cash equivalents	257	11	919	2	372	337
Trade and other receivables	83	11	94	103	91	156
Current loan receivables	0	1,611	0	1,536	0	0
Inventories	0	160	0	160	9,690	9,402
Total current assets	340	1,793	1,013	1,801	10,153	9,895
Non-current assets						
Investment property	13,100	0	13,100	0	0	0
Trade and other receivables	297	0	297	0	0	0
Total non-current assets	13,397	0	13,397	0	0	0
Total assets	13,737	1,793	14,410	1,801	10,153	9,895
Current liabilities						
Loans and borrowings	82	0	158	0	5,128	8,420
Trade and other payables	253	0	286	2	1,662	1,577
Total current liabilities	335	0	444	2	6,790	9,997
Non-current liabilities						
Loans and borrowings	12,165	0	12,165	0	3,255	0
Other non-current liabilities	365	0	228	0	151	0
Total non-current liabilities	12,530	0	12,393	0	3,406	0
Total liabilities	12,865	0	12,837	2	10,196	9,997
Total equity	872	1,793	1,573	1,799	-43	-102
Total liabilities and equity	13,737	1,793	14,410	1,801	10,153	9,895

The construction of commercial property development project by Hepsor P113 OÜ in Tallinn, Pärnu road 113 was completed in the fourth quarter of 2022. The occupancy of the office building is 100%. As of 31 December 2022, the building was reclassified as an investment property. The investment property is recorded at fair value.

As of 31 December 2022, all 76 apartments and commercial space of 1,488 sqm in the project of an apartment building with commercial space in Tallinn, Narva mnt 170 developed by Hepsor N170 OÜ have been sold under real right contracts.

During the reporting period, the Group received loss from associate company, Hepsor P113 OÜ, by the equity method in the amount of 174 thousand euros (Note 15.2). In the statement of financial position as of 30 June, investments in associates are as follows: Hepsor P113 OÜ 392 thousand euros and Hepsor N170 OÜ 520 thousand euros.

Note 19. 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, Latvia and Canada.

Revenue by geographical area:

in thousands of euros	6M 2023	6M 2022	Q2 2023	Q2 2022
Estonia	9,990	345	4,228	170
Latvia	10,600	3,609	10,387	2,512
Total	20,590	3,954	14,615	2,682

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
	Estonia	Latvia	Estonia	Latvia	Canada	Estonia	Latvia	
6M 2023								
Revenue	7,500	10,241	2,434	359	0	56	0	20,590
incl. revenue from rent	53	44	250	339	0	0	0	686
Operating profit/-loss	1,603	2,535	1,039	202	-7	-1,087	-559	3,726
Assets	36,488	21,268	13,747	5,704	2,218	3,664	195	83,284
Liabilities	24,208	14,986	9,887	2,570	6	6,695	2,740	61,092

in thousands of euros	Residential development		Commercial development		Headquarters		Total
	Estonia	Latvia	Estonia	Latvia	Estonia	Latvia	
6M 2022							
Revenue	59	3,445	191	164	95	0	3,954
incl. revenue from rent	0	77	146	14	0	0	237
Operating profit/-loss	-37	610	33	-45	-686	-375	-500
Assets	25,274	14,963	10,961	8,604	4,149	346	64,297
Liabilities	19,189	8,205	7,456	2,791	4,964	2,820	45,425

in thousands of euros	Residential development		Commercial development			Headquarters		Total	
	Q2 2023	Estonia	Latvia	Estonia	Latvia	Canada	Estonia		Latvia
Revenue		1,929	10,218	2,251	169	0	48	0	14,615
incl. revenue from rent		36	21	125	149	0	0	0	331
Operating profit/-loss		500	2,564	1,011	-8	-7	-547	-301	3,212
Assets		36,488	21,268	13,747	5,704	2,218	3,664	195	83,284
Liabilities		24,208	14,986	9,887	2,570	6	6,695	2,740	61,092

in thousands of euros	Residential development		Commercial development		Headquarters		Total	
	Q2 2022	Estonia	Latvia	Estonia	Latvia	Estonia		Latvia
Revenue		6	2,502	116	10	48	0	2,682
incl. revenue from rent		0	39	77	10	0	0	126
Operating profit/-loss		-14	399	11	-72	-326	-184	-186
Assets		25,274	14,963	10,961	8,604	4,149	346	64,297
Liabilities		19,189	8,205	7,456	2,791	4,964	2,820	45,425

Note 20. 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	6M 2023	6M 2022	Q2 2023	Q2 2022
Sales of goods and services				
Associated companies	38	80	38	40
Management and all companies directly or indirectly owned by them	99	34	31	15
Total sales of goods and services	137	144	69	55
Purchases of goods and services				
Management and all companies directly or indirectly owned by them	15,585	12,377	8,913	6,878
<i>incl. construction service</i>	<i>15,475</i>	<i>12,292</i>	<i>8,848</i>	<i>6,832</i>
Interest income earned				
Associated companies	61	90	31	45
Management and all companies directly or indirectly owned by them	0	3	0	1
Total interest income earned	61		31	46
Interest expenses incurred				
Associated companies				
Accrued interest	7	0	4	0
Management and all companies directly or indirectly owned by them				
Accrued interest	97	113	41	56
Interest paid	231	61	13	26

Balances and loan transactions with related parties:

In thousands of euros	30 June 2023	31 December 2022	30 June 2022
Receivables			
Loans granted (Note 4)			
Associated companies			
Opening balance 01. January	1,766	2,587	2,587
Loans granted	0	0	0
Loans repaid	0	-821	0
Balance at the end of period	1,776	1,766	2,587
Management and all companies directly or indirectly owned by			
Loans granted	0	176	176
Loan collected	0	-176	-176
Trade and other receivables			
Management and all companies directly or indirectly owned by	158	208	3
Interest receivables			
Associated companies	92	36	273
Management and all companies directly or indirectly owned by	0	0	3
Payables			
Prepayments from customers			
Management and all companies directly or indirectly owned by	560	0	0
Loans and borrowings (Note 5)			
Associated companies			
Opening balance as at 01. January	423	0	0
Loans received	51	464	0
Loans repaid	0	-41	0
Balance at the end of period	474	423	0
Management and all companies directly or indirectly owned by			
Opening balance as at 01. January	1,883	1,831	1,831
Loans received	1,000	80	0
Loans repaid	-1,500	-28	0
Balance at the end of period	1,383	1,883	1,831
Trade payables			
Management and all companies directly or indirectly owned by	3,361	1,762	1,624
Interest payables			
Associated companies	9	2	0
Management and all companies directly or indirectly owned by	33	167	122

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 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 and the length, impact and outcome of the ongoing military conflict remain unclear. The initial effects of the war have partially subsided – commodity prices have stabilized as a result of the development of new supply chains, energy prices and inflation are also returning to previous levels however, as a negative effect, economic growth has slowed down, and we expect the monetary policy tightened by central banks to continue for a longer period. Although the economic environment is stabilizing, there is still the risk of an escalation of a military conflict, which can have a wide impact on the Group daily activities if the risk materializes.

Management Board's Confirmation

The Management Board confirms that the unaudited interim report for II quarter and six months of 2023, 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, 26 July 2023