hepsor

Manufaktuuri 7, Tallinn

2022 audited consolidated annual report

Corporate name:	Hepsor AS
Commercial Register No:	12099216
Address:	Järvevana tee 7b, 10112 Tallinn
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Telephone:	+372 660 9009
Website:	www.hepsor.ee
Reporting period:	01 January 2022-31 December 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.

Translation of the company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100082306/reports)

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Management Report

AUDITED REVENUES AND NET PROFIT FOR 2022

12.9 M€	1.3 M€	1.4 M€
CONSOLIDATED REVENUES	CONSOLIDATED NET PROFIT	CONSOLIDATED NET PROFIT ATTRIBUTABLE TO OWNERS OF PARENT

REVENUE AND NET PROFIT FORECAST FOR 2023

41.1 M€	3.3 M€	1.1 M€
CONSOLIDATED REVENUES	CONSOLIDATED NET PROFIT	CONSOLIDATED NET PROFIT ATTRIBUTABLE TO OWNERS OF PARENT

NEW ACQUIRED DEVELOPMENT PROJECTS (31.12.2021 VS 31.03.2023)

	New development volume, m²	New revenues, m€	Included in consolidated revenues	Profit share
Hepsor JG SIA, Riga	2,458	5.5	yes	80%
Hepsor Phoenix 4 OÜ, Tallinn	3,300	9.0	yes	50%
Hepsor N57 OÜ, Tallinn	1,482	6.0	yes	100%
Hepsor A1 OÜ, Tallinn	2,370	5.5	yes	100%

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.
Märupes Därzs	All 92 apartments sold.
Büroo 113	The Group earns financial income with the eguity method of accounting from associated company.

LONG TERM OUTLOOK (31.12.2021 VS 31.03.2023)

REVENUE POTENTIAL OF DEVELOPMENT PROJECTS

In the beginning of period	During the period	At the end of period
379 M€ (82%)	Sale (-) 25 M€ Addition (+) 47 M€	401 M€ (86%)

- Total revenue of all projects managed by Hepsor, including unconsolidated revenues from associated companies.
- Indicates the share of project revenues in future consolidated revenues.

CHANGE IN PIPELINE

26 PROJECTS	+ 3 projects - 3 projects	26 PROJECTS
177,000 m²	+ 10,000 m² - 11,000 m²	176,000 m²

DEVELOPMENT PROJECTS FOR SALE AND UNDER CONSTRUCTION (31.03.2023)

PROJECT	Total number of apartments	Apartments sold*	Apartments sold %	Apartments available
Strelnieku 4b, Latvia	54	36	67%	18
Paevälja Courtyard Houses	96	78	81%	18
Kuldigas Parks, Latvia	116	110	95%	6
Marupes Darzs, Latvia	92	78	85%	14
Ojakalda Homes	101	28	28%	73
Lilleküla Homes	26	6	23%	20
Nameja Rezidence	38	10	26%	28
Manufaktuuri 7	154	32	21%	122
Total	677	378	56%	299

COMMERCIAL DEVELOPMENT PROJECTS IN PROGRESS	Total rentable area m²	Occupancy m²	Occupancy m²
Ulbrokas 30 stock-office, Latvia	3,645	3,645	100%
Büroo113 office building	4,002	4,002	100%
Grüne office building	3,430	3,430	100%
Total	11,077	11,077	100%

DEVELOPMENT PROJECTS UNDER CONSTRUCTION

Started in 2022	Total under construction	To be started in 2023
219 apartments 0 m² commercial area	527 apartments 3,430 m² commercial area	288 apartments 15,827 m² commercial area

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

Dear shareholders of Hepsor

The consolidated audited revenues of Hepsor for the 2022 financial year amounted to 12.9 million euros and the net profit was 1.3 million euros (including net profit attributable to the owners of the parent of 1.4 million euros). This is a result worth being pleased with.

The Group's revenues and profitability are directly dependent on the project development cycle, 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.

Revenues
13
million euros

The recent years have been turbulent in the real estate sector. Demand for real estate has moved from uncertainty due to Covid-19 in 2020 to record high sales in late 2021. In the past year, the real estate market in Hepsor's home markets in Estonia and Latvia was affected by the Russo-Ukrainian war, skyrocketing energy prices and inflation, and rising interest costs. However, the decline in consumer confidence, which reached its historical low in the autumn of 2022, shows a moderate improvement trend since then.

Completed development projects

Delivered
161
new homes
in 2022

In 2022, the Group completed three residential and three commercial property projects. The sales revenue for the financial year has been mainly generated from the sale of completed residential development projects. As of the end of 2022, we have handed over 45 apartments to home buyers in Latvia, including 26 apartments in the 4b Strēlnieku, 18 apartments in the 9 Baložu and 1 apartment in the 24 Āgenskalna development projects, and 40 apartments in the Paevälja Hoovimajad development project in Estonia. The sale of 76 apartments and 1,487 sqm of commercial space in the Priisle Kodu development project is not reflected in the Group's sales revenue as the result of the project is recorded using equity method of accounting. In total, we handed over 161 new homes to home buyers in Estonia and Latvia in 2022.

In the first quarter of 2023, the Paevälja Hoovimajad development project of two apartment buildings with a total of 96 apartments was completed in Estonia. The first phase of the project with 48 apartments was completed at the end of 2022. As of 31 March 2023, we have concluded real right contracts for 74 apartments (77%) and contracts under the law of obligation for 3 apartments (3%).

At the end of the year, we handed over the Büroo113 commercial to a modern clinic using an innovative concept. This is the first time that 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 was completed at 30 Ulbrokas 3,645 sqm of which are fully covered with lease agreements.

Development projects under construction and available for sale

Under construction
527
new homes

Hepsor has six residential development projects under construction in Estonia and Latvia, with a total of 527 new apartments. As of 31 March 2023, there are three development projects under construction and available for sale in Riga, with a total of 246 apartments. Contracts under law of obligations and reservation agreements have been signed for 198 apartments (80%). There are also three development projects with a total of 281 new apartments under construction and available for sale in Tallinn. As of 31 March 2023, contracts under law of obligations and reservation agreements have been signed for 61 apartments (23%).

The commercial real estate development project, Grüne Maja is being completed in Tallinn following a green concept. The office building is fully covered with lease agreements while approximately 79% of the space is already in active use. The last tenants are expected to move to the new premises in Q2 2023 at the latest.

New development capacity added

Added
development:
171
apartments

In total, we added approximately 171 apartments to our development portfolio in 2022, including 40 in Riga and 131 in Tallinn. Approximately 60 new apartments will be built on the 12 Manufaktuuri property in the Manufaktuuri Quarter together with our long-term cooperation partner Tolaram Grupp. We started the construction of the Lilleküla Kodud development project with 26 apartments already in December 2022. Up to 45 new homes can be built on the properties purchased at 1a Alvari and 5 Alvari. In Latvia, a property was added on Jūrmala Gatve, where we are planning to build an energy class A three-storey residential building with 40 new homes.

Future prospects

In the third quarter of 2022, we adjusted the forecasts for the next three years taking into account the changes in the market. For 2023, we forecast the 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. The Group's sales for the first quarter of 2023 give us confidence that we meet the forecasts for 2023. Customers do not make quick purchase decisions, but there is still interest in our projects, which makes us moderately optimistic to continue with existing and new projects. We believe that the advantage of rather favourable construction prices should be used to facilitate development projects. When monitoring the interest level among Hepsor’s customers in new development projects, we feel that there is moderate space for a drop in the prices of new developments or for price negotiations initiated by customers.

Henri Laks

Member of the Management Board

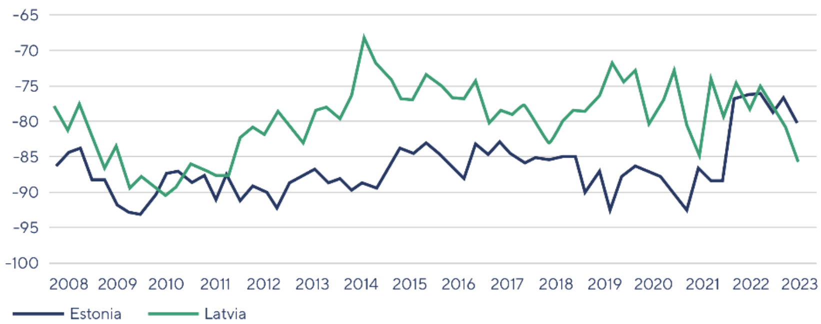
Kuldīgas Parks

Gregora iela 2a, Riga

Operating Environment

The economic environment. According to Statistics Estonia, the Estonian economy shrank by 1.1% in 2022 (2021: +8%) compared to the same period a year before. The shrinking economy was caused by the multiple crises triggered by the war in Ukraine, which provoked a temporary spike in energy prices and disrupted existing supply chains for several key raw materials, thus causing rapid price increases until new supply chains could be established as well as increasing consumer uncertainty. Over the year, prices grew by a total of 19.4%, with a significant part of the growth taking place in the first eight months, until August (+17.8%), and with the price increase stabilising in the second half of the year. The Bank of Estonia, the Estonian central bank, quoted the registered unemployment rate of 2022 as 5.6% (2021: 6.2%), and according to Statistics Estonia, the construction price index increased by 17.8% during the year as well (2021: 8.1%).

Consumer confidence to purchase or build a house



Source: Swedbank Research & Macrobond

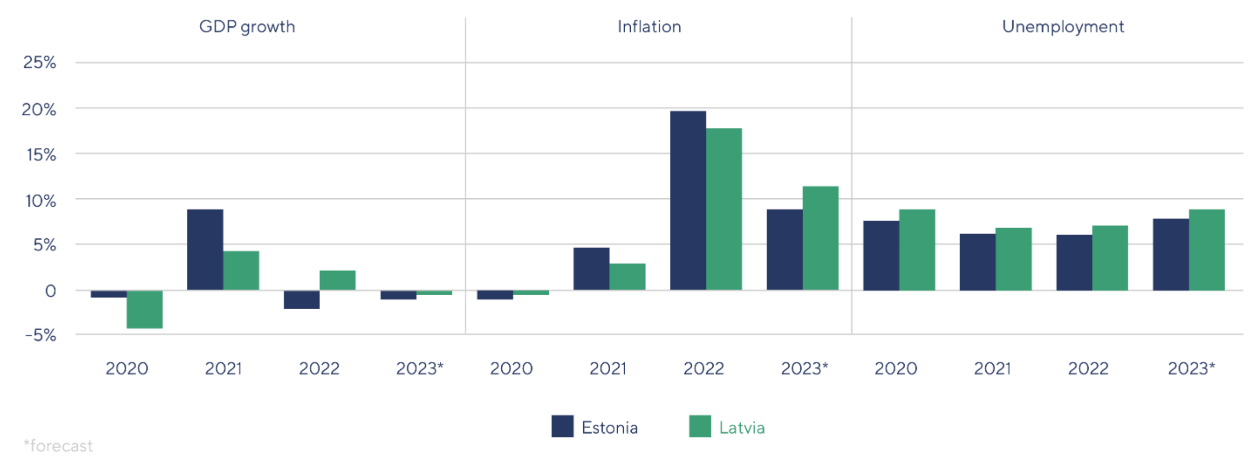
The Latvian economy was slightly more successful in withstanding the shocks of the war in Ukraine compared to Estonia. According to data provided by the Central Statistical Bureau of Latvia, the country's economy grew by 2.2% in 2022 (2021: 4.6%). The inflation rate in Latvia in 2022 was 17.3% (2021: 3.2%). The country's registered unemployment rate in 2022 was 6.9% (2021: 6.7%), whereas the construction price index increased by 19.7% (2021: 6.7%).

In their forecasts for 2023, both the Estonian and Latvian central banks expect a decrease in consumption due to the rapid price growth and the simultaneous decrease in company profitability. The price increase is expected to continue in 2023, given that high energy prices and the increase in the price of goods and services necessary for production have not yet fully reached the final consumer (especially in the food sector). The cooling of the economy in turn increases unemployment, and the statistics are even worse when Ukrainian war refugee data is added in.

The Bank of Estonia predicts a minor economic decline of 0.6% for 2023. The central bank anticipates a 9.0% increase in consumer prices and an 7.2% unemployment rate for 2023. The Bank of Latvia also forecasts an economic recession of 0.3%, an increase of 10.9% in consumer prices and an unemployment rate of 7.8% in 2023.

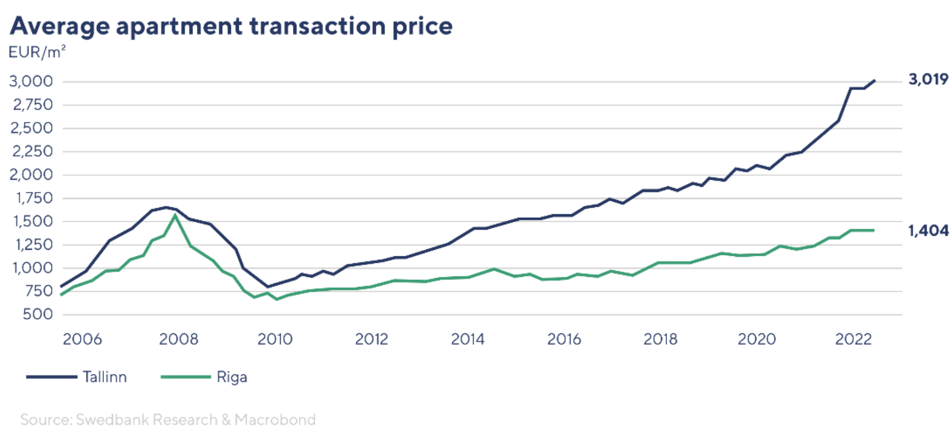
The Estonian central bank expects an average wage growth of 8.7% in 2023, while the Latvian central bank expects a growth of 9.2%. In 2022, the average gross salary in Estonia reached 1,685 euros, and in Latvia, 1,373 euros. The average gross salaries in the capitals of Tallinn and Riga were 1,881 euros and 1,535 euros, respectively. Despite rapid wage growth, real wages declined in both countries, reducing the availability of affordable housing. While 2023 is expected to bring a rise in real wages, recovery to the previous level will take place over a longer period.

Key indicators, Estonia and Latvia 2021-2023



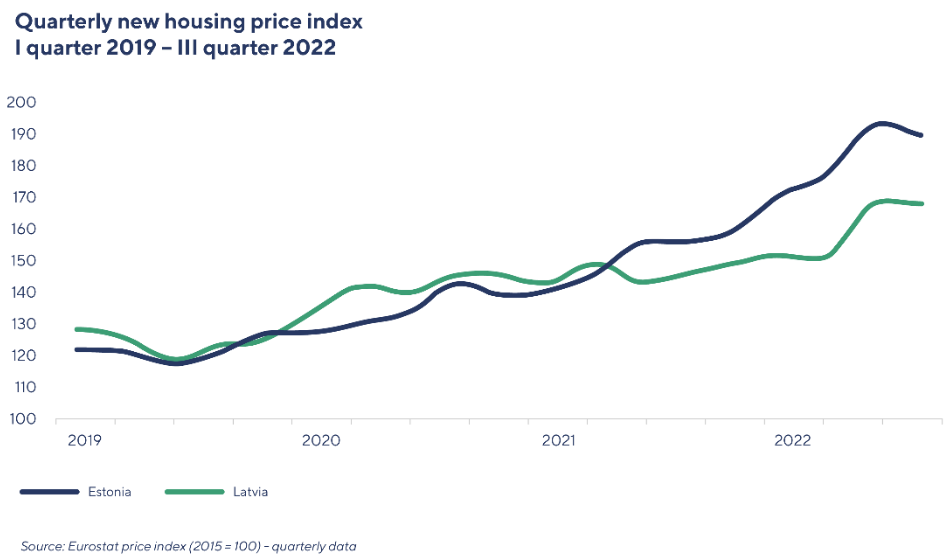
Financial markets expect the Euribor rates that began rising in 2022 will continue rising in 2023. High inflation rates and a stronger-than-forecasted real economy encourage the European Central Bank to continue raising base interest rates: at the time of writing this report, the expectation is to have three more base interest rate hikes in 2023, bringing the rates to 3.75%. A slight decrease in interest rates is predicted only in the last six months of 2024.

Residential real estate. Based on statistics from the Estonian Land Board, 9,652 apartment purchase and sale transactions were made in Tallinn in 2022, which is 11.5% less than the year before (2021: 10,902). The decrease in the number of transactions was expected, given that the statistics for 2021 were significantly affected by delayed transactions in 2020, which were cancelled or postponed due to COVID-19. By the end of 2022, the median price of real estate purchase and sale transactions rose to 3,152 euros per square metre, which is 26.7% higher than the year before (31 December 2021: 2,488 euros per square metre). The rising median price was shaped by the increase in construction prices, which significantly increased prices in the market of new developments, as well as the rising Euribor rates, and the general increase in the cost of living. This was coupled with changes in the structure of transactions – the uncertainty in consumer confidence caused by the war in Ukraine significantly reduced the number of secondary market transactions, with previously agreed new development market transactions, which are priced more highly than secondary market transactions, playing a key role in shaping the statistics. According to the Estonian real estate site KV.ee, as of 31 December 2022, the number of active offers in Tallinn increased to 3,852 units, which is 84% more than the year before (31 December 2021: 2,099).



In Tallinn's new development market, the rapid increase in sales prices continued until mid-2022, with prices stabilising in the third quarter. The expectation of a price drop, which dominated public opinion in the last quarter of 2022, has not materialised. As of 31 December 2022, the average price of a new development in Tallinn was 4,166 per square metre (31 December 2021: 3,492 euros per square metre), which is 19.2% higher than the year before. Similar to offers on the secondary market, the number of offers for new developments went up during the year, increasing to 2,228 units as of 31 December 2022

(31 December 2021: 1,340 units), which is still slightly below the long-term average of previous periods. Transaction activity on the new developments market scaled down significantly due to the drop in consumer confidence and the rise in Euribor rates in the last six months, and especially in the last quarter. Home buyers are likely waiting for the Euribor rates to stabilise before making their decision, and the expected short-term decrease in demand has prompted some developers to postpone the launch of new developments. The interaction between the two sides has resulted in the recovery of the usual supply volume of new developments, with oversupply no longer being an issue.



In Latvia, too, the rapid growth of construction costs in the residential real estate market caused rapid price increases in the market of new developments in 2022, with bid prices in the Riga region rising by 36% year-on-year to 2,750 euros per square metre. While the first three quarters of the year were active in both old and new development transactions, the activity took a hit in the fourth quarter when the market had to prepare for the upcoming heating season against the rising energy prices and Euribor rates, causing consumer confidence to plummet. As of 31 December 2022, the supply volume of new developments in Riga was approximately 4,130 units, an estimated 38% of which were covered by pre-sale contracts. A total of 2,239 purchase and sale transactions for new developments took place during the year, which is 10% more than the year before.

According to data from the Central Statistical Bureau of Latvia, the price index of residential real estate increased by a total of 15.7% in 2022, with the rise in the price index of new developments accounting for 29.4% of that increase. Similar to Estonia, the availability of real estate deteriorated significantly in Latvia, as the price of new developments grew considerably faster than gross salaries. While the rise in Euribor rates further contributed to the decrease in availability, the general availability of real estate in Riga continues to be very good.

Commercial real estate. The review is based on an analysis prepared by Newsec. In contrast to developed European countries, and the Nordic countries, transaction activity in the Baltic commercial real estate market remained high in 2022, keeping with the average level of previous periods, while capitalisation rates largely remained at the same level as the year before.

The Tallinn office market has continued to be actively developed in recent years: nearly 50,000 square metres of new office space was completed in 2022, and by the end of the year, the city had a total of 1,020,000 square metres of office space. The office segment has a vacancy rate of approximately 4.4%–8%, depending on the quality class. The demand for new office space continues to be high, specifically in the information technology, healthcare, and service sectors. Rent levels for offices are generally increasing across all quality classes.

The demand for warehouse and production real estate in Tallinn continues to be high, including the search for new large and stock office type buildings that meet customer needs. During 2022, approximately 34,000 square metres of warehouse and production real estate developments were completed in Tallinn and the surrounding areas. Due to demand, both rent levels and vacancy rates have remained unchanged (vacancy approx. 3.1%).

Only a limited amount of new supply entered the Riga office market in 2022, with high construction costs and supply chain disruptions causing the postponement of planned office projects. However, a significant number of new high-quality and energy-efficient class A and class B office spaces is expected to be completed in 2023.

At the end of 2022, the vacancy rate of the Riga office segment was 10.6% on average, which, while significantly lower than the year before (2021: 14.5%), is still the highest figure in the Baltic countries. In total, there are approximately 781,000 square metres of office space in Riga and, despite the high vacancy rates, another 118,000 square metres are currently under development. Interest in new energy-efficient spaces has grown, especially in light of higher energy prices. Rent prices remained stable in 2022, but 2023 should expect to see an increase in rent prices for office spaces located in premium areas.

A total of 1,390,000 square metres of warehouse and production space are on offer in Riga and the surrounding areas, and about 140,000 square metres of new warehouse and production space are being developed. Interest in such spaces continues to be high, especially in the transport, logistics, and 3PL sectors, which is why vacancy remains at the low level of 3.6%. As a result of demand and rising input prices, rent levels are rising.

Real estate market outlook. In 2023, both Estonian and Latvian real estate markets will be affected by price increases, the rising Euribor rates and the resulting low consumer confidence, and the low supply of new development projects. We expect the market to adjust and transaction activity to increase in the last six months of the year.

There is a significant link between unemployment and vacancy rates in the office space market. Since both Estonia and Latvia are forecast to experience a recession with growing unemployment rates in 2023, the demand for office spaces will most likely slightly decrease next year, and the vacancy will increase.

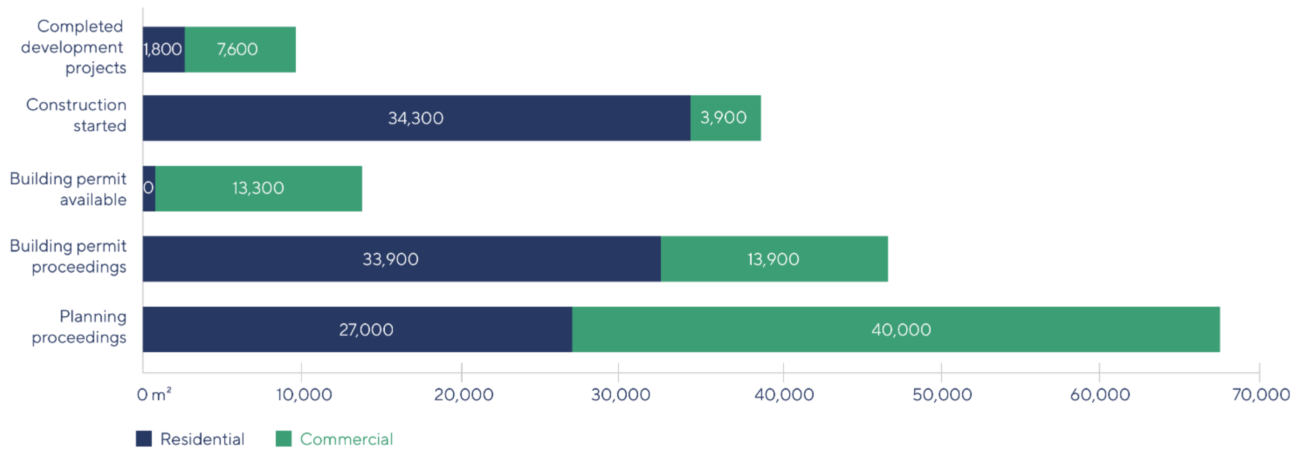
The energy efficiency of residential and commercial buildings has received little attention in previous periods. However, rising energy prices have significantly increased market expectations for energy efficiency, raising the awareness of both home buyers and commercial real estate market participants. Recently, most companies have sought to adopt energy-saving measures, from simple ones, such as adjusting lighting and upgrading energy equipment, to more comprehensive measures, such as hiring experts to measure energy consumption and offer recommendations for optimisation. Increasingly, companies are turning to alternative energy sources for additional efficiency. We expect this trend to continue in 2023, despite a drop in energy prices.

Overview of the Development Projects

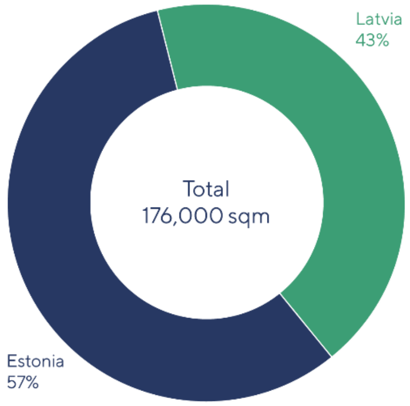
As of 31 December 2022, the Group had 26 active projects in different development phases (31 December 2021: 26 projects) and 176,000 sqm of sellable area (31 December 2021: 177,000 sqm).

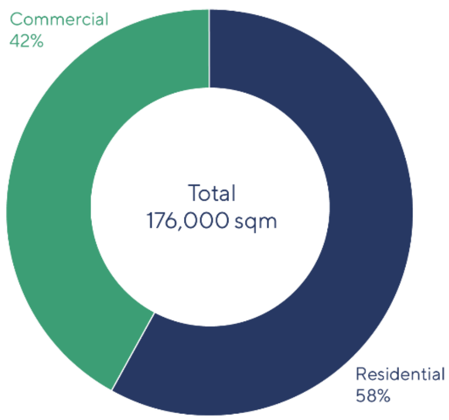
In 2022, the Group acquired approximately 10,000 sqm of sellable area of which 27% is in Latvia.

Distribution of development portfolio between different development phases (as of 31 March 2023):



Distribution of development portfolio between countries and type (as of 31 March 2023):





Development projects in Tallinn (as of 31 March 2023)

Planning proceedings

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

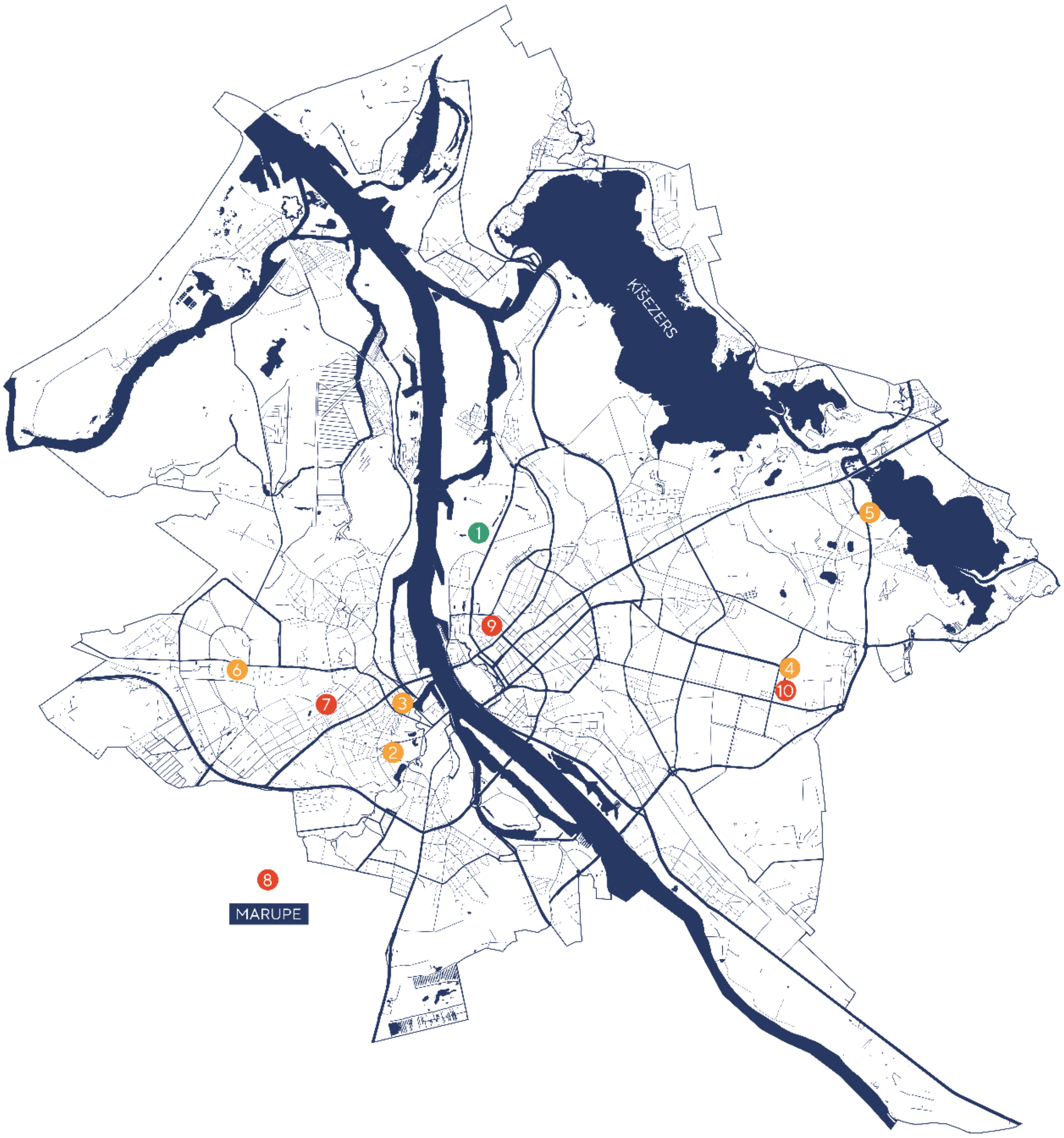
Building permit proceedings / available

6. Manufaktuuri 5
7. Tooma 2/Tooma 4
8. Lembitu 4

Under construction and/ or available for sale

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

Development projects in Riga (as of 31 March 2023)



Planning proceedings

1 Ganibu Dambis 17a

Building permit proceedings / available

2 Saules aleja 2a
3 Ranka Dambis 5
4 Ulbrokas 34
5 Braila 23
6 Jurmalas Gatve / Imanta 8. linija

Under construction / available for sale

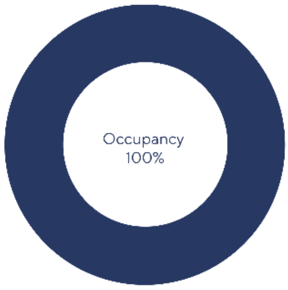
7 Gregora iela 2a
8 Liela 45, Marupe
9 Strēlnieku 4b
10 Ulbrokas 30

Completed development projects (as of 31 March 2023):

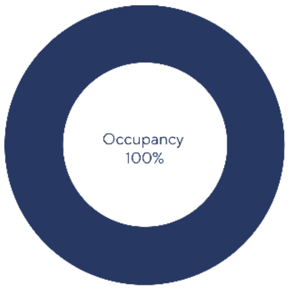
Project:	Strēlnieku 4b Hepsor S4B SIA
Address:	4b Strēlnieku St, Riga
Apartments:	54
Project completed:	2020
Website:	hepsor.lv/Strēlnieku4b

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

Project:	StockOffice U30 Hepsor U30 SIA
Address:	Ulbrokas 30, Riga
Leasable area:	3,645 m^2
Occupancy:	100%
Project completed:	Q3 2022
Website:	hepsor.lv/stokofissu30/en/



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

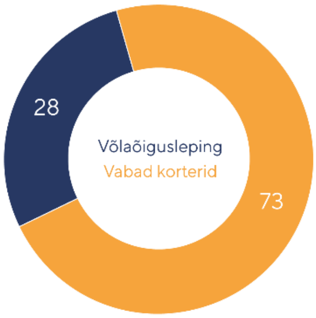


Residential development projects under construction (as of 31 March 2023):

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

Project: Ojakalda Kodud
Hepsor 3TORNI OÜ
Address: Paldiski mnt 227c, Tallinn
Apartments: 101
Start of construction: III kvartal 2022
Estimated completion: II kvartal 2024
Website: hepsor.ee/ojakalda



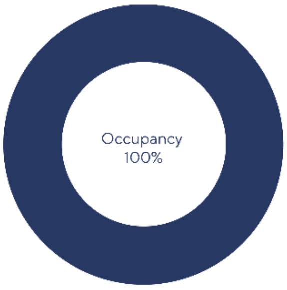
Project: Lilleküla Kodud
Hepsor N57 OÜ
Address: Nõmme tee 57, Tallinn
Apartments: 26
Est. start of construction: Q4 2022
Estimated completion: Q1 2024
Website hepsor.ee/lillekylakodud/en/

Project:	Manufaktuuri Quarter Hepsor Phoenix 2 OÜ
Address:	7 Manufaktuuri, Tallinn
Apartments:	154
Est. start of construction:	Q1 2023
Estimated completion:	Q4 2024
Website:	hepsor.ee/manufaktuur/m7/en/

Project:	Nameja Rezidence 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/

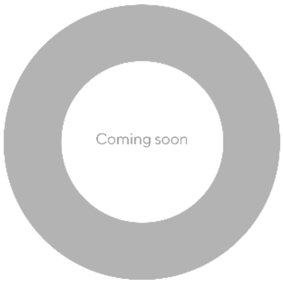
Commercial development projects under construction (as of 31 March 2023):

Project:	Grüne Büroo Hepsor M14 OÜ
Address:	14 Meistri, Tallinn
Leasable area:	3,430 m2
Start of construction:	Q4 2020
Estimated completion:	2022-Q2 2023
Website:	gryne.ee/en/

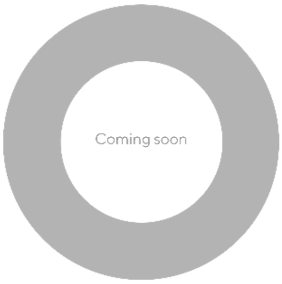


Development projects the construction of which starts in 2023 (as of 31 March 2023):

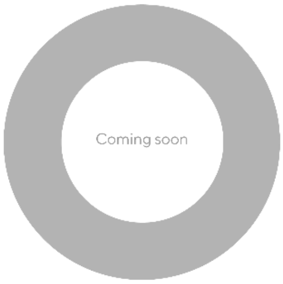
Project:	StockOffice U34 Hepsor U34 SIA
Address:	34 Ulbrokas, Riga
Leasable area:	8 526 m^2
Est. start of construction:	Q2 2023
Estimated completion:	2024



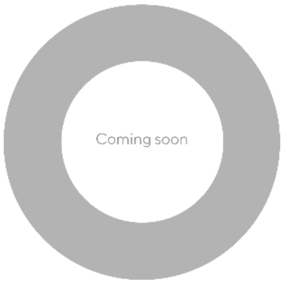
Project:	Hepsor JG SIA
Address:	Jurmalas Gatve/Imanta 8. linija, Riga
Apartments:	40
Est. start of construction:	Q4 2023
Estimated completion:	Q4 2024



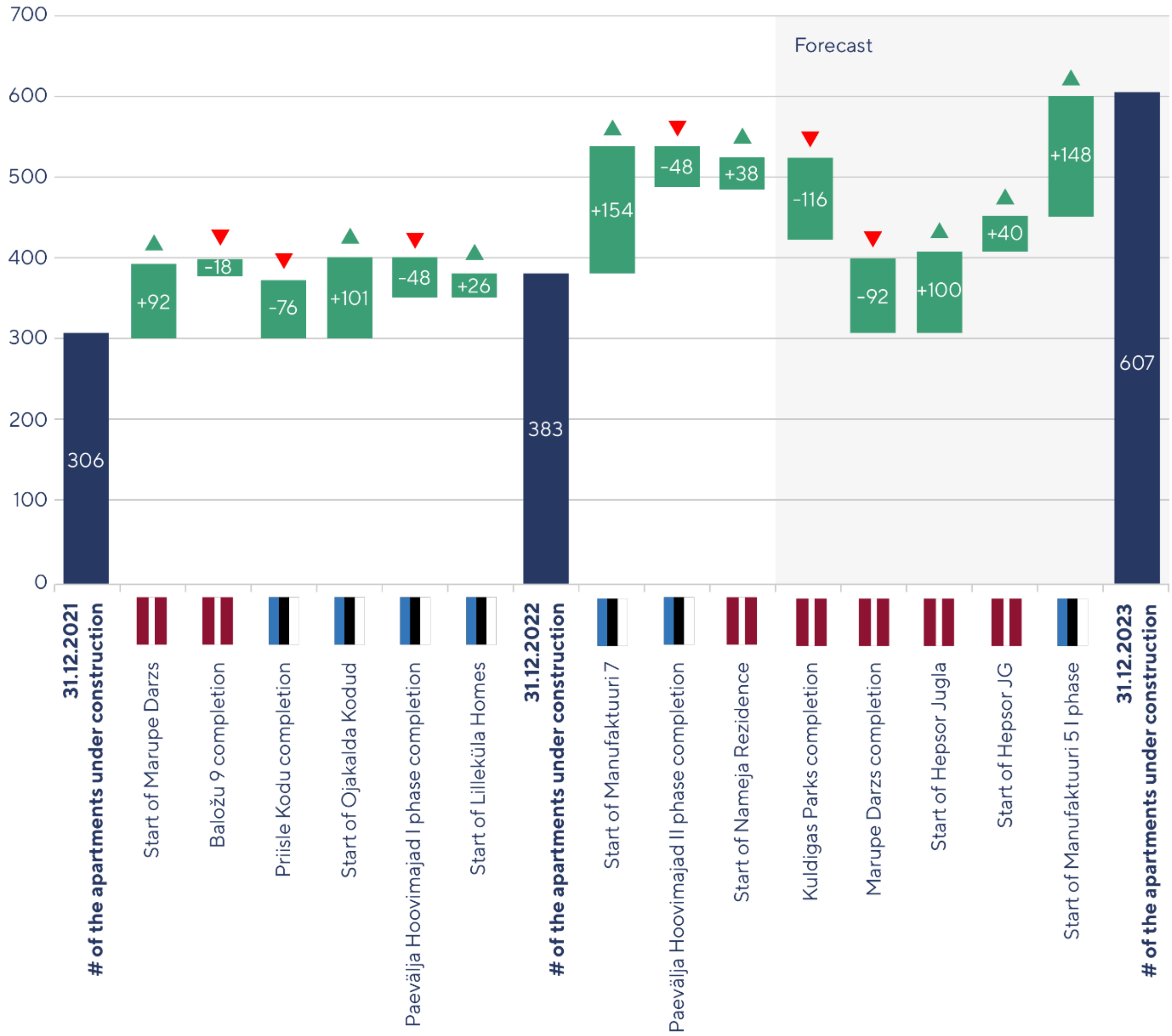
Project:	Hepsor Jugla SIA
Address:	23 Braila, Riga
Apartments:	100
Est. start of construction:	Q2 2023
Estimated completion:	Q3 2024



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:

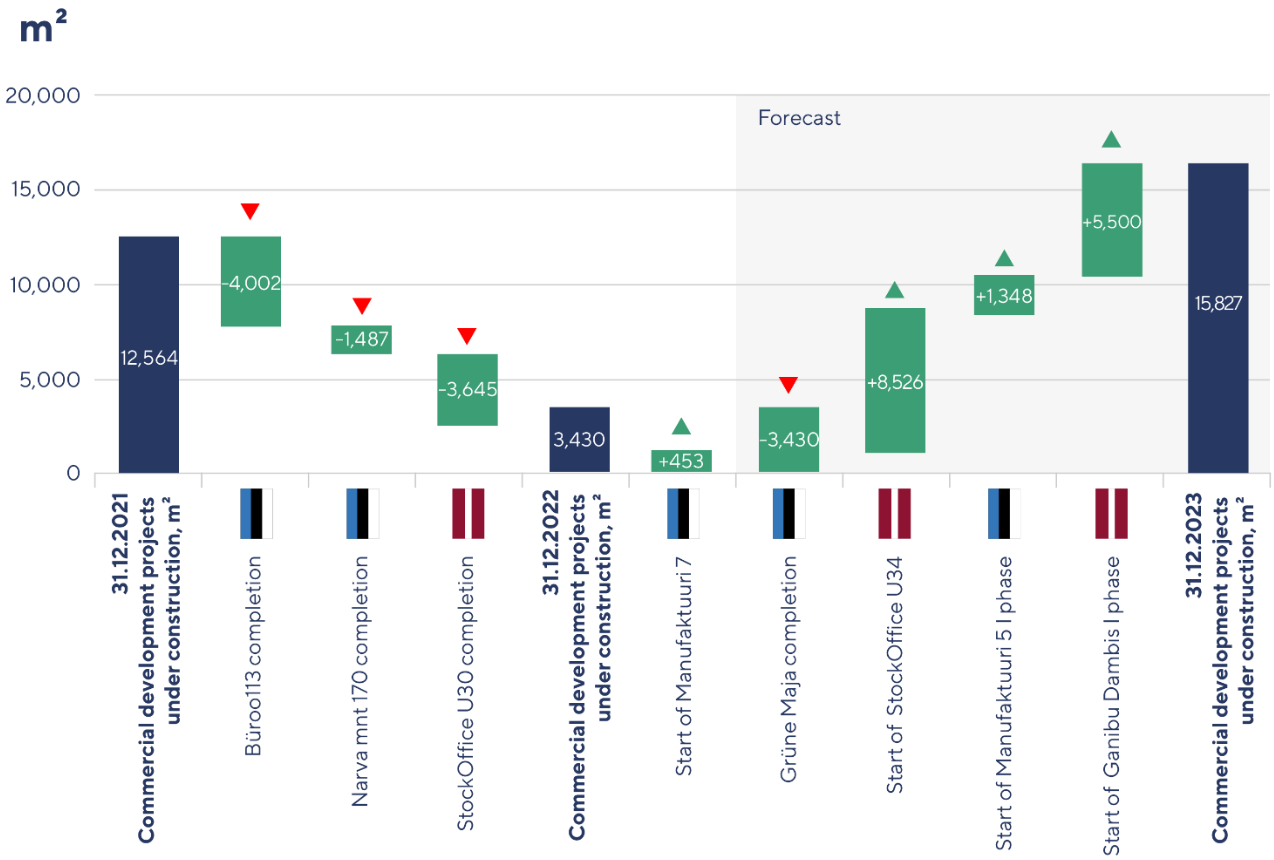


Residential development projects under construction and available for sale (as of 31 March 2023):

Project	Apartments	*Apartments*		*Apartments %*		Estimated completion
		*Sold**	*Available*	*Sold**	*Available*	
4b Strēlnieku, Latvia	54	*36*	*18*	*67%*	*33%*	2020
Paevälja Hoovimajad	96	*78*	*18*	*81%*	*19%*	I phase Q4 2022 II phase Q1 2023
Kuldigas Parks, Latvia	116	*110*	*6*	*95%*	*5%*	Q2 2023
Mārupes Dārzs, Latvia	92	*78*	*14*	*85%*	*15%*	Q2 2023
Ojakalda Kodud	101	*28*	*73*	*28%*	*72%*	Q2 2024
Lilleküla Kodud	26	*6*	*20*	*23%*	*77%*	Q1 2024
Manufaktuuri 7	154	*32*	*122*	*21%*	*79%*	Q4 2024
Nameja Rezidence, Latvia	38	*10*	*28*	*26%*	*74%*	Q2 2024
Total	**677**	***378***	***299***	***56%***	***44%***	

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

Commercial development projects under construction:



In 2023, the Group plans to start the development of two new commercial properties in Latvia (14,026 sqm) and the construction of Manufaktuuri 7 and the first phase in Manufaktuuri 5 commercial property development (1,801 sqm).

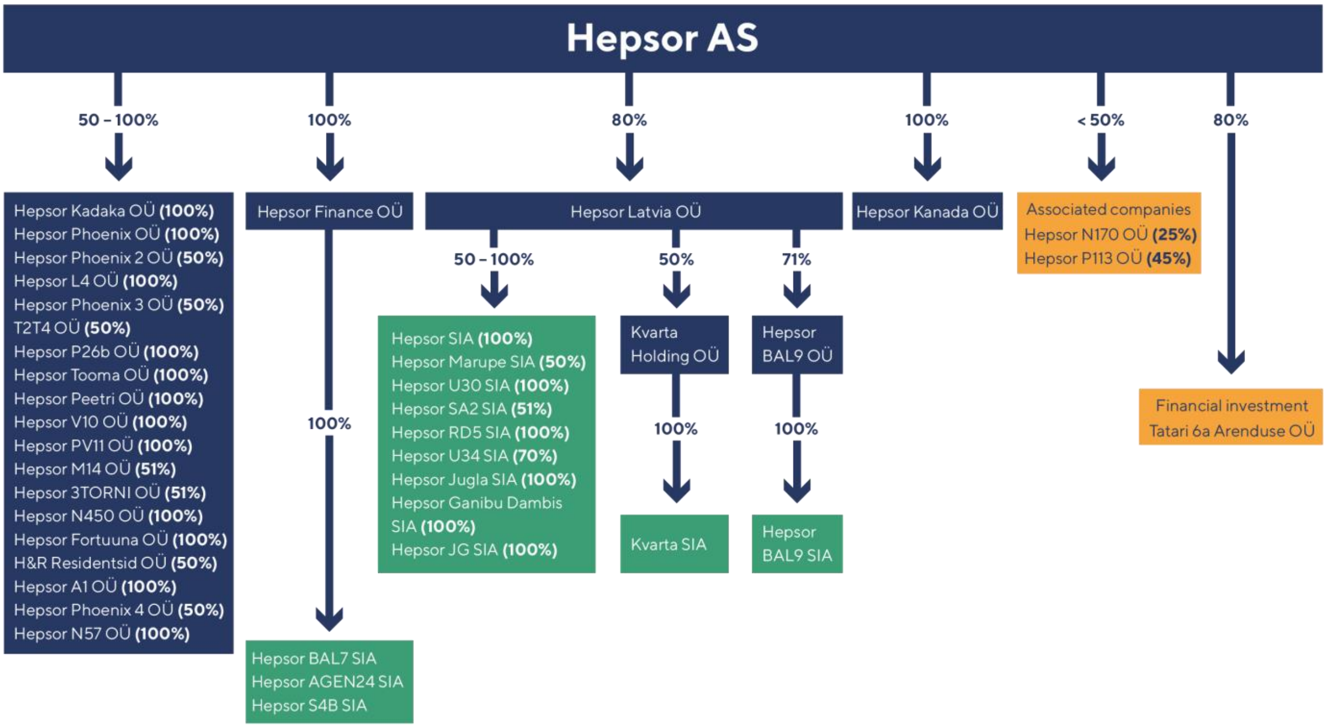
Occupancy of commercial development projects (as of 31 March 2022):

	Rentable area sqm	Occupancy sqm	Occupancy %
Ulbokras 30 *stock-office,* Latvia	3,645	3,645	100
Büroo113	4,002	4,002	100
Grüne Maja	3,430	3,430	100
Total	**11,077**	**11,077**	**100**

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 31 December 2022, the Group was comprised of parent company, 38 subsidiaries and 2 associated companies (31 December 2021: parent company, 30 subsidiaries, 2 associated companies). Tatari 6a Arenduse OÜ is reported as financial investment.



In 2022, the following changes took place in the structure of the Group:

- ✓ On 12 January 2022, Hepsor Latvia OÜ acquired a 50% shareholding in Kvarta Holding OÜ in accordance with an option agreement. Kvarta Holding OÜ owns a 100% shareholding in Kvarta SIA, which is developing Kuldigas Parks residential development project with 116 apartments in Riga at Gregora 2a.
- ✓ On 20 January 2022, Hepsor Latvia OÜ established Hepsor Ganibu Dambis SIA, a subsidiary that is developing a commercial property project in Riga.
- ✓ On 10 February 2022, Hepsor Latvia OÜ sold its 50% shareholding in Hepsor Marupe SIA to the co-owners in accordance with the shareholders' agreement. Hepsor Marupe SIA is developing a project with 92 apartments in Marupe, Latvia, near the Riga city boundary.
- ✓ In March 2022, Hepsor AS acquired a minority stake in Hepsor P26b OÜ and Hepsor Peetri OÜ increasing its stake in both companies to 100%. The development projects of these entities ended in 2021.
- ✓ On 8 July 2022, Hepsor Latvia OÜ established Hepsor JG SIA, a subsidiary that will develop a three-story A energy class residential building with 40 apartments at Jurmala Gatve street, Imanta district, Riga.
- ✓ On 24 August 2022, Hepsor AS established Hepsor Phoenix 4 OÜ, a subsidiary where the Group holds a 50% stake. Hepsor Phoenix 4 OÜ acquired a property in Manufaktuuri Quarter to develop approximately 60 new apartments with its long-term cooperation partner Tolaram Grupp.
- ✓ On 8 September 2022, Hepsor AS established Hepsor N57 OÜ to develop a residential building with 26 apartments on the property at Nõmme tee 57 in Tallinn.
- ✓ On 18 November 2022, Hepsor AS established a subsidiary Hepsor Kanada OÜ to start the process of establishing a subsidiary in Canada.

Main Events

- ✓ Hepsor U30 SIA signed a loan agreement with Bigbank AS Latvian affiliate on 14 January 2022 in the amount of 2.65 million euros to finance the construction of stock-office in Riga, Ulbrokas 30. Total leasable area of 3,645 sqm is fully covered with lease agreements.
- ✓ Kvarta SIA signed a 7.5 million euro loan agreement with Bigbank AS Latvian affiliate on 1 February 2022. The purpose of the three-year loan is to finance the construction of Kuldigas Parks project in Riga, Gregora 2a comprised of two buildings with 116 apartments.
- ✓ Hepsor Latvia OÜ, a subsidiary of Hepsor AS, signed a real right contract and acquired a property of 30,624 sqm in 17A Ganību Dambis, City of Riga on 13 June 2022. The contract under law of obligations was signed on 28 December 2021. The property has 13 buildings of different commercial functionality and approximately 70% of its total area of 11,564 sqm is covered by lease agreements. The price of the transaction was 3,6 million euros.
- ✓ Hepsor Mārupe SIA, a subsidiary of Hepsor AS in Latvia, signed 7-million-euro loan agreement with Bigbank AS Latvian affiliate on 17 June 2022. The purpose of the three-year loan is to finance the construction of development project in Mārupe, Riga area. The construction agreement for the construction of four buildings with 92 A energy class apartments was signed with SIA Mitt&Perlebach on 5 April 2022. The value of construction agreement is approximately 8.1 million euros excluding value added tax.
- ✓ 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 sqm.
- ✓ 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 sqm.
- ✓ 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 60 new apartments, developed together with the Tolaram Group, a long-term cooperation partner, will be built on the property.
- ✓ On 15 November 2022, Hepsor N170 OÜ, an associated company of Hepsor AS, and Priisle 1 OÜ signed a sale-purchase contract under law of obligations for the sale of approximately 1,500 sqm of commercial space at Priisle 1a, the real right contract of which was signed on 15 December 2021. The transaction cost is approximately 2.7 million euros.
- ✓ On 18 November 2022, Hepsors AS established a new subsidiary Hepros Kanda OÜ to start the process of establishing a subsidiary in Canada. The new entity will hold a share in the Canadian subsidiary. Operations at the Montreal headquarters will most likely be launched between March and April 2023. The objectives for the first nine months are to get to know the local market, build a network of partners and identify suitable niches for Hepsor. The first investments such as land acquisitions are expected to be made in the first half of 2024.
- ✓ Hepsor N57 OÜ, Hepsor AS group company, and Mitt&Perlebach OÜ signed a construction agreement for the construction of Lilleküla Kodud development project in Kristiine, a highly valued district in Tallinn, on 22 December 2022. The value of construction agreement is approximately 3.4 million euros excluding value added tax. Hepsor N57 OÜ acquired the property on 19 August 2022.

Events after the reporting period:

- 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 Rezidence 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.

Projects completed and sold in 2022:

Project:	Baložu 9 Hepsor BAL9 SIA
Address:	Baložu 9, Riga
Apartments:	18
Project completed:	Q2 2022
Profit share:	56%

Project:	Āgenskalna 24 Hepsor AGEN24 SIA
Address:	Āgenskalna 24, Riga
Apartments:	28
Project completed:	Q2 2022
Profit share:	100%

Project:	Priisle Kodu (commercial space) Hepsor N170 OÜ
Address:	Priisle 1a, Tallinn
Leasable area:	1,487 m^2
Project completed:	Q3 2022
Profit share:	25%

Project:	Priisle Kodu Hepsor N170 OÜ
Address:	Priisle 1a, Tallinn
Apartments:	76
Project completed:	Q3 2022
Profit share:	25%

New development potential acquired in 2022:

Name of SPV	Project address	Acquisition date	Location	Development type	Profit share %	Planned sqm	Planned # of apartments
Hepsor JG SIA	Jurmalas Gatve/Imanta 8. linija, Riga	Q3 2022	Latvia	Residential	80%	2,458	40
Hepsor Phoenix 4 OÜ	Manufaktuuri Quarter, Tallinn	Q3 2022	Estonia	Residential	50%	3,300	60
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						**9,610**	**171**

Operating results

Revenues

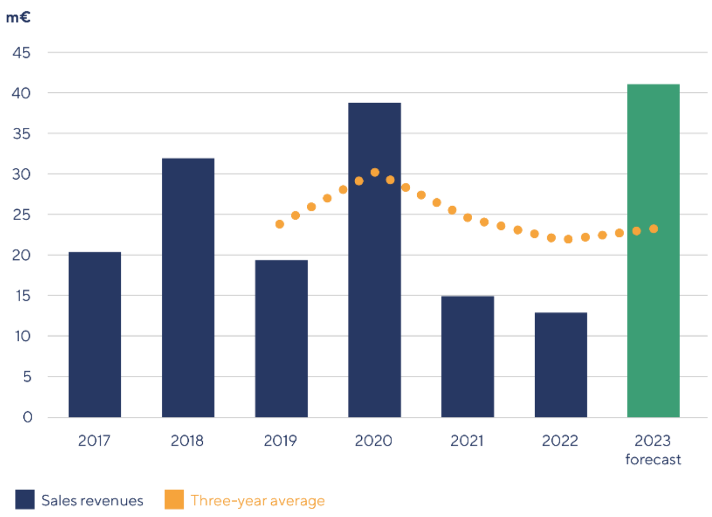
The Group's sales revenue in 2022 was 12.9 million euros (compared with 15.0 million euros in 2021), of which 6.1 million euros (2021: 1.7 million euros) was generated in Latvia and 6.8 million euros in Estonia (2021: 13.3 million euros). Latvia accounted for 47% (2021: 11%) of total revenues.

As of 31 December 2022, the Group had 26 apartments available for sale (31 December 2021: 45) including 18 apartments in 4b Strēlnieku development project in Riga and 8 apartments in Paevälja Hoovimajad development project in Tallinn.

In 2022, the Group sold a total of 85 apartments under real right contracts.

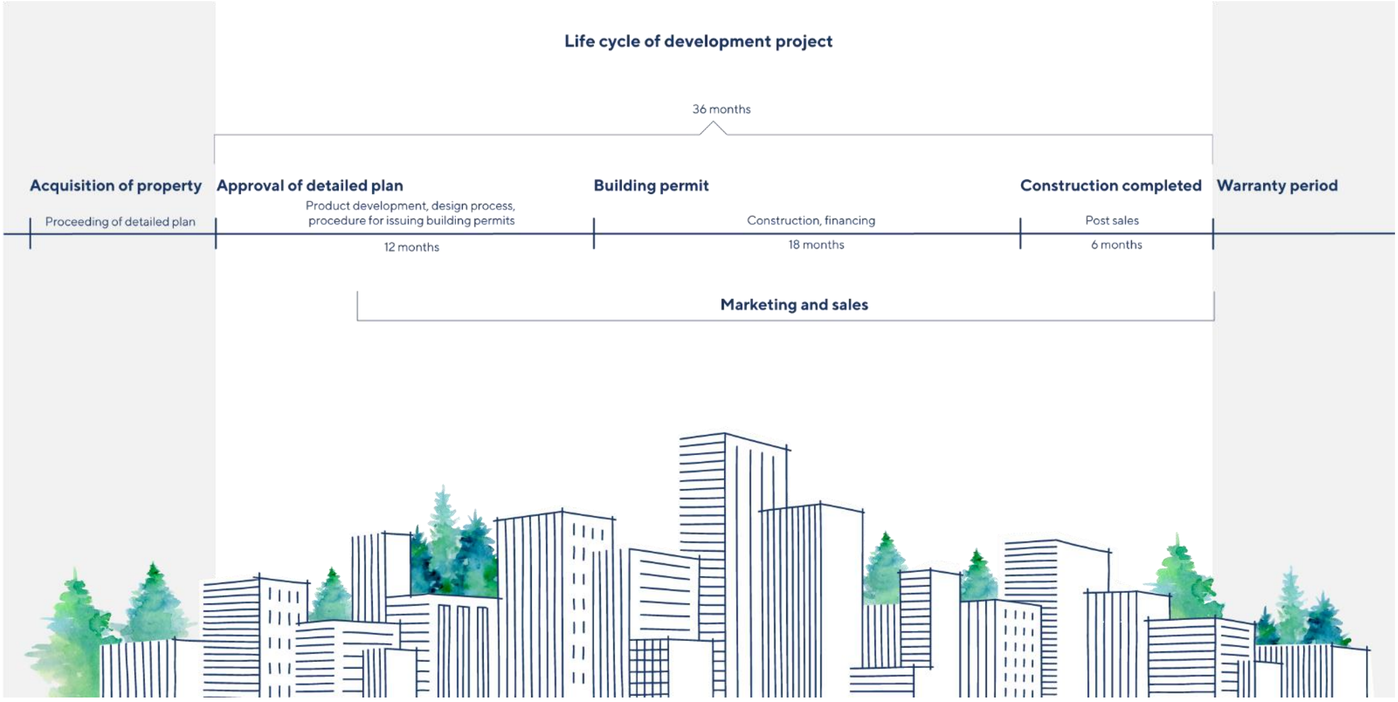
- ✓ Total of 45 apartments in Latvia including 26 apartments in 4b Strēlnieku, 18 apartments in 9 Baložu and 1 apartment in 24 Āgenskalna development project.
- ✓ Total of 40 apartments in Paevälja Hoovimajad development project.

Group revenues:



In addition to sale of apartments, the Group also executes project management services to subsidiaries and associated companies and generates rental income. In total, other sales revenue amounted to 916 thousand euros, or 7% of the Group's total sales revenue in 2022 (2021: 539 thousand euros, or 4%). The increase in rental income was mainly generated from the renting out commercial premises in Grüne Maja (Tallinn), StockOffice U30 (Riga) and Ganibu Dambis (Riga) commercial properties.

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.

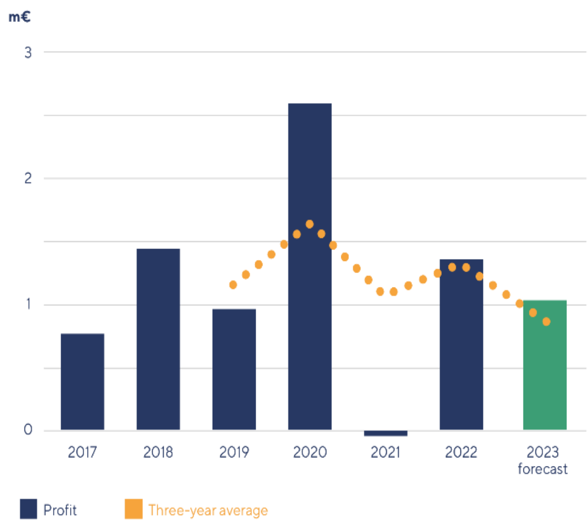


Profitability

In 2022, the Group's operating profit was 0.2 million euros (2021: 1.9 million euros). The Group's net profit for 2022 amounted to 1.3 million euros (2021: 1.7 million euros), of which the net profit attributable to the owners of the parent amounted to 1.4 million euros (2021: net loss of 22 thousand euros), while the net loss to non-controlling interest was 65 thousand euros (2021: net profit 1.8 million euros).

The gross profit margin of development projects sold during the reporting period was 22.0% (2021: 22.4%). The Group's gross profit margin was 13.8% (2021: 20.4%). The operating profit margin was 1.8% (2021: 12.6%). Operating profit has been affected the most by the following:

Net profit attributable to the owners of parent:



- ✓ The costs related to the activities in the kick-off phase of the development projects have increased the cost of goods and services sold. In recent years, the Group has acquired several properties with buildings that have been partially or fully rented out.
- ✓ The set up of the Group's sales team in Estonia in 2021 has increased the costs related to marketing and sales activities in 2022 in addition to labour costs.
- ✓ The general increase in labour costs is related to the changes in the Group's management structure in 2021, salary growth and hiring of new employees.

The Group's net profit margin for 2022 was 10.3% (2021: 11.6%). The net profit margin attributable to the owners of the parent was 10.8% (2021: -0.1%). In 2022, the Group earned financial income of 1.1 million euros from the associated companies, Hepsor N170 OÜ and Hepsor P113 OÜ, using equity method of accounting. In addition, the Group earned non-recurring financial income from the assignment of the claim of the minority shareholder loan in the amount of 0.4 million euros. Financial income increased by 1.6 million euros to 1.9 million euros year-on-year (2021: 0.3 million euros).

The Group's interest expenses increased 0.3 million euros year-on-year. The Group's financial expenses totalled 0.8 million euros (2021: 0.5 million euros).

Balance Sheet

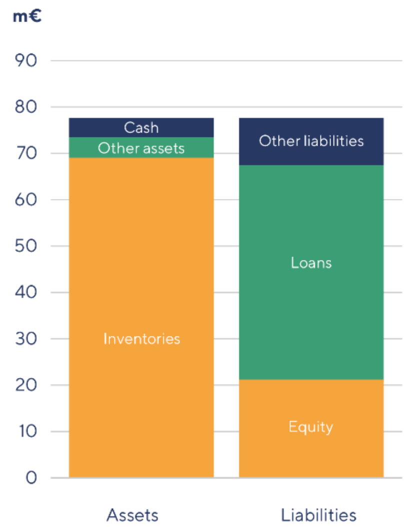
Total assets of the Group amounted to 78.4 million euros as of 31 December 2022 (31 December 2021: 55.3 million euros), which is 41.7% higher (2021: 81.9%) than at the end of the previous financial year. Inventories accounted for 89.0% or 69.8 million euros of total assets (31 December 2021: 67.3% and 37.2 million euros).

As of 31 December 2022, cash and cash equivalents accounted for 4.8% or 3.8 million euros of the total assets (31 December 2021: 19.7% and 10.9 million euros).

The Group's loan obligations totalled to 48.6 million euros or 61.9% of total assets as of 31 December 2022. As of 31 December 2021, the Group's loan obligations amounted to 28.4 million euros or 45.9% of total assets. The growth in loan obligations is mostly due to launching the construction of new development projects.

The Group's equity increased by 6.7% over the year to 20.3 million euros. Equity attributable to the owners of the parent increased by 5.3% to EUR 19.9 million. In November 2021, the Group raised 10 million euros by initial public offering of its shares thus increasing its equity by almost 100% to 18.9 million euros.

Balance sheet structure



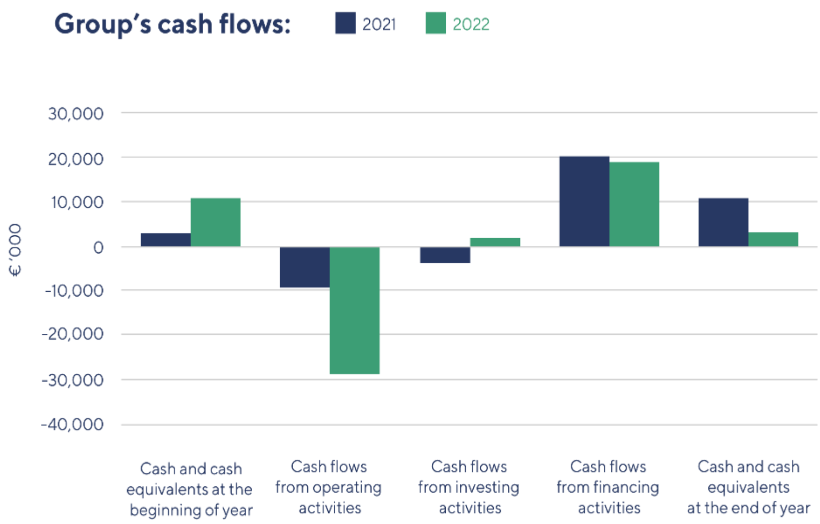
Cash Flows

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 3.8 million euros as of 31 December 2022. The negative cash flow for the period was 7.4 million euros (2021: positive at 6.7 million euros).

Cash flow from operating activities for 2022 was negative at 28.6 million euros (2021: negative at 9.4 million euros). Cash flow from operating activities was mostly affected by the growth in the portfolio of development projects, due to the increase in inventories the negative cash flow was 30.9 million euros as of 31 December 2022 (2021: 13.0 million euros).

Cash flow from investments was positive at 2.4 million euros as of 31 December 2022 (2021: negative of 4.3 million euros). The largest impact was from repayment of loans granted, the balance of which decreased by 2.0 million euros. In 2021, the group granted loans in the total amount of 4.4 million euros.

Cash flow from financing activities was positive at 18.8 million euros (2021: 20.4 million euros). In 2022, the Group received more loans than it repaid. The net amount of loans received in nine months 2022 was 20.2 million euros (2021: 11.9 million euros).



Key Financials

In tousands of euros	2022	2021	2020
Revenue	12,870	14,961	38,771
Gross profit/-loss	1,774	3,059	4,084
EBITDA	383	2,037	3,572
Operating profit/-loss	235	1,880	3,411
Net profit/-loss	1,331	1,733	3,845
Incl net profit/-loss attributable to the owners of parent	*1,396*	*-22*	*2,591*
Comprehensive income/-loss	1,315	-12	2,834
Incl comprehensive profit/-loss attributable to the owners of parent	*1,033*	*46*	*2,605*
Total assets	78,368	55,345	30,433
Incl inventories	*69,760*	*37,237*	*22,903*
Total liabilities	58,045	36,308	20,914
Incl total loan commitments	*48,580*	*28,363*	*16,160*
Total equity	20,323	19,037	9,519
Incl equity attributable to the owners of parent	*19,866*	*18,904*	*9,454*

Key Ratios

	2022	2021	2020
Gross profit margin	13.8%	20.4%	10.5%
Operating profit margin	1.8%	12.6%	8.8%
EBITDA margin	3.0%	13.6%	9.2%
Net profit margin	10.3%	11.6%	9.9%
General expense ratio	12.0%	8.1%	1.8%
Equity ratio	25.9%	34.4%	31.3%
Debt ratio	62.1%	51.6%	54.5%
Current ratio	2.5	4.2	3.5
Return of equity	6.8%	12.1%	47.3%
Return on equity attributable to the owners of the parent	7.2%	-0.2%	31.7%
Return on assets	2.0%	4.0%	11.4%

Gross profit margin = gross profit / revenue
Operating profit margin = operating profit / revenue
EBITDA margin = (operating profit + depreciation) / revenue
Net profit margin = net profit / revenue
General expense ratio = (marketing expenses + general and administrative expenses) / revenue
Equity ratio = shareholder’s equity / total assets
Debt ratio = interest-bearing liabilities / total assets
Current ratio = current assets / current liabilities
Return on equity = 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

Employees

As of 31 December 2022, the Group employed 25 (31 December 2021: 21) people including the members of Management and Supervisory Boards. 13 of these people worked in Estonia (31 December 2021: 13) and 12 in Latvia (31 December 2021: 8).

Number of employees in 2022

25

Total labour cost for the reporting period amounted to 1,530 thousand euros (2021: 908 thousand euros). The increase in labour costs was mostly due to higher number of employees and changes in management structure in 2021.

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 a member of the Management Board and the remuneration of a member of the Supervisory Board are also considered to be labour costs.

As of 14 October 2021, the Management Board of the Group has one member. The term of office of the member of the Management Board, Henri Laks, is five years. In addition to the position of the member of the Management Board of Hepsor AS, Henri Laks also belongs to the management boards of all the Estonian subsidiaries and associated companies of the Group.

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

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

The members of the Management Board and the Supervisory Board were paid for the reporting period gross fees in the amount of 325 thousand euros (2021: 120 thousand euros).

More information about the personnel expenses is available in Note 22.

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 31 December 2022, Hepsor AS had 11,628 (31 December 2021: 14,407) shareholders.

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

Shareholder	Position	Number of shares	Shareholding %
Henri Laks	Member of Management Board	498 000	12,92
Andres Pärloja	Chairman of Supervisory Board	997 500	25,88
Kristjan Mitt	Member of Supervisory Board	997 500	25,88
Lauri Meidla	Member of Supervisory Board	507 000	13,15
Total	-	**3 000 000**	**77,83**

Shareholder structure by number of shares held as of 31 December 2022:

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%
1,001-10,000	51	0.44%	154,142	4.00%
101-1,000	784	6.74%	202,167	5.24%
1-100	10,780	92.71%	283,566	7.36%
Total	**11,628**	**100.00%**	**3,854,701**	**100.00%**

Between 1 January 2022 and 31 December 2022, a total of 15,817 transactions were conducted with the shares of Hepsor AS with 297,239 shares in the total amount of 3.6 million euros. The highest price for the period was 14.4 euros and the lowest price 9.1 euros. The opening price was 13.5 euros and closing price 9.1 euros. As of 31 December 2022, the market capitalization of Hepsor AS was 35 million euros and the Group's equity amounted to 20 million euros.

Market cap at 31 Dec 2022

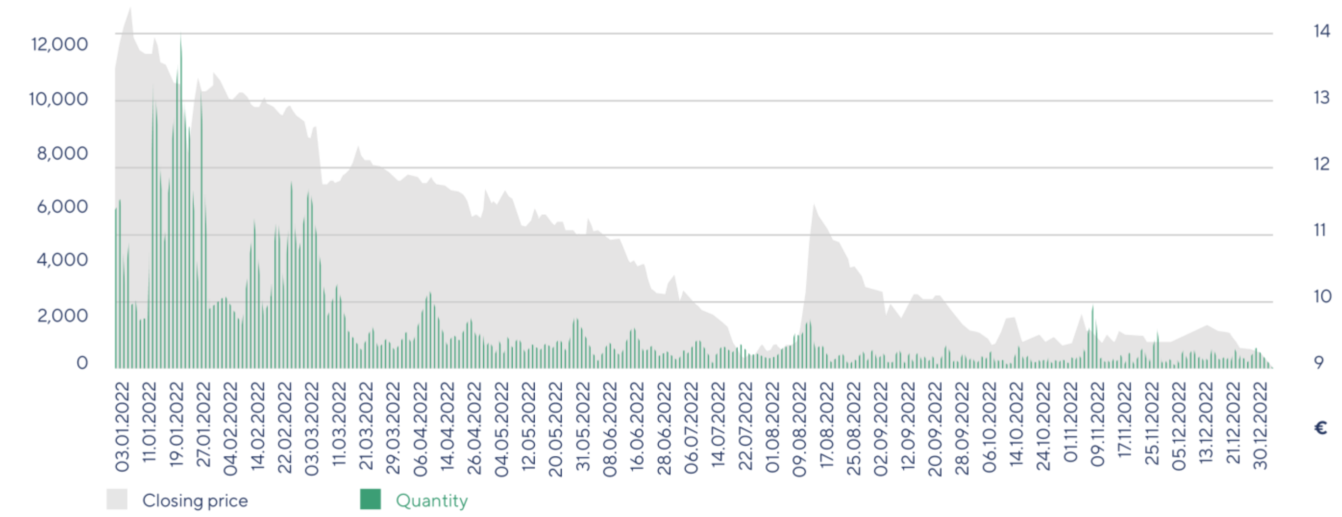
35

million euros

Shareholder structure	2022		2021	
	Number of shares	% of shareholders	Number of shares	% of shareholders
Institutions	127,748	3,3%	91,730	2.4%
Entities	1,282,209	33,3%	1,264,755	32.8%
Private individuals	2,444,744	63,4%	2,498,216	64.8%
	3,854,701	**100,00%**	**3,854,701**	**100.00%**

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, January - December 2022:



Source: Nasdaq Baltic

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

INDEX / EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX Tallinn_GI	2001.03	1766.73	-11.71
HPR1T - Hepsor	13.5	9.1	-32.59

Source: Nasdaq Baltic

Year	Opening price (euro)	Closing price (euro)	Lowest price (euro)	Market cap (million euros)	P/E ratio
2021	16.5	13.5	13.2	52	N/A
2022	13.5	9.1	9.1	35	25.3

Ojakalda Kodud

Paldiski mnt 227c, Tallinn

Corporate Governance Report

In its business operations, Hepsor AS adopts the set of Corporate Governance Recommendations approved by the Estonian Financial Supervisory and Resolution Authority and Nasdaq Tallinn Stock Exchange. The following report describes the management principles of Hepsor AS in 2022 and compliance with Corporate Governance Recommendations. Companies can decide whether they adopt these recommendations as the basis of their management. The management practices of Hepsor AS described below in accordance with the "comply or explain" principle.

General Meeting of Shareholders

Exercise of shareholder rights

Hepsor AS is a public limited company whose managing bodies are the General Meeting of Shareholders, Supervisory Board and Management Board. The General Meeting of Shareholders is the Group's highest managing body, the competence of which is based on legislation and the Articles of Association of the Group. Among other things the General Meeting of Shareholders is competent in amending the Articles of Association, electing and removing members of the Supervisory Board, electing an auditor and approving the annual report as well as other matters in the competence of the General Meeting of Shareholders on the basis of the Articles of Association and the law. The Annual General Meeting of Shareholders that approves the annual report no later than six months after the end of the financial year is held at least once a year.

Every shareholder is ensured the right to participate in the General Meeting, to speak at the general meeting on themes presented in the agenda, and to present reasoned questions and make proposals. A controlling shareholder refrains from unreasonably harming the rights of other shareholders, both at the General Meeting and upon organizing Hepsor's management and shall not abuse his position.

Calling the General Meeting of Shareholders and information to be published

Notice of calling the General Meeting is published through the information system of the Nasdaq Tallinn Stock Exchange. The notice is also published on the Hepsor website and in daily national newspapers at least three weeks before the General Meeting takes place.

The Group's Management Board determines the agenda of the General Meeting of Shareholders and prepares the draft of the resolution in respect to each item on the agenda to be voted on at the General Meeting of Shareholders. If a General Meeting of Shareholders is called by the shareholders, the Supervisory Board or an auditor, they prepare a draft of the resolution of each item on the agenda and submit this to the Management Board. Shareholders whose shares represent at least one-twentieth of the share capital may submit the Group a draft of the resolution in respect to each item on the agenda to be voted on at the General Meeting of Shareholders. The agenda of the General Meeting of Shareholders, proposals by the Management Board and Supervisory Board, draft of the resolution in respect to each item on the agenda and other relevant materials will be published on the Group's website prior to the General Meeting of Shareholders.

The Group notifies shareholders regarding the calling of an extraordinary General Meeting immediately after deciding to call the Extraordinary Meeting. The notice indicates the reason for calling the Extraordinary Meeting and who made the proposal to call it (e.g., management board, supervisory board, shareholders or auditor). Information concerning the Extraordinary Meeting is immediately published on the Group's website.

The Annual General Meeting of Shareholders of Hepsor AS for the financial year 2021 was held on 25 May 2022 in the conference centre of L'Embitu Hotel at Lembitu 12, Tallinn. The Annual General Meeting of Shareholder had a quorum as 34 shareholders with 3,064,876 votes were represented, i.e. more than half of the votes represented by Hepsor AS shares, including 4 shareholders who exercised the opportunity to vote before the meeting and who had 1,950 votes, i.e. 0.05% of all votes represented by Hepsor AS shares. The Annual General Meeting of Shareholders of Hepsor AS approved the 2021 annual report and adopted the resolution to cover the net loss for the financial year ended on 31 December 2021 in the amount of 22 thousand euros on the account of retained earnings of the previous periods. The resolutions adopted by the Annual General Meeting of Shareholders were published in the information system of the Nasdaq Tallinn Stock Exchange and on the websites of the Finantsinspektsioon and the Group.

Management Board

Composition and duties of the Management Board

The Management Board is a governing body that represents and directs the Group on a daily basis. The Management Board makes decisions based on the best interests of the Group and all shareholders and it is obliged to ensure the sustainable development of the Group in accordance with set goals and strategy. The Management Board uses its best efforts to ensure that the Group and all Group companies shall comply in their activities with current legislation.

The Management Board ensures that it undertakes proper risk management and internal audit controls based on the Group's business operations. To guarantee proper risk management and internal audit the Management Board:

- ✓ analyses risks connected with the purpose of the activities and financial objectives of the Group (incl. environmental, competitive and legal risks);
- ✓ prepares adequate internal control provisions;
- ✓ elaborates forms for drawing up financial reports and instructions for drawing up these reports; and
- ✓ organizes the system of control and reporting.

The Management Board adheres to the lawful orders of the Supervisory Board. Transactions which are beyond the scope of everyday economic activities may only be concluded by the Management Board with the consent of the Supervisory Board. According to Articles of Association, the Management Board may be comprised of up to three members and elected for a term of five years. The Management Board of the Group consists of one member. The contract as of a member of Management Board has been signed with Henri Laks for a term of five years (until 14 October 2026). The member of the Group's Management Board may also be the member of the Management Boards of the Group's subsidiaries and associated companies.

Henri Laks
Member of the Management Board

Career:

2021 – ...	Hepsor AS, member of Management Board
2013 – 2021	Hepsor OÜ, member of Management Board
Member of Management Boards of subsidiaries since 2011.	
2009 – 2012	Tallinna Ülikool, Manager of Development Project
2006 – 2009	Kapitel AS, Manager of Development Project
2004 – 2006	Kapitel AS, Engineer of Development Project
Beginning of term: 14 October 2021	
End of term: 13 October 2026	

Number of shares: 498,000 (12.92%)

The Group does not follow the recommendation in clause 2.2.1 of the Corporate Governance Code that the Management Board should have more than one member considering the number of employees the Group employs. The Group's extended management also includes the CFO and the member of Management Board of the Group's Latvian entities. Significant decisions are made in cooperation with the Supervisory Board.

Principles for the remuneration of the Management Board

Upon determination of the Management Board remuneration, the Supervisory Board is guided by evaluations of the work of the member of the Management Board. In evaluating of the work of the member of the Management Board, the Supervisory Board takes into consideration the duties and activities of the member of the Management Board, the Group's economic condition, the actual state and future predictions and direction of the business in comparison with the same indicators for companies in the same economic sector. The remuneration of the Management Board, including bonus schemes, is such that they motivate the member to act in the best interests of the Group and refrain from acting in their own or another person's interests. The remuneration and principles of remuneration are specified in the contract with the member of the Management Board.

The member of the Management Board is paid a monthly fixed remuneration as agreed in the contract and performance pay for meeting the objectives of the financial year. Performance pay is not paid when such objectives have not been met. Severance packages for of a Management Board member are connected with their prior work performance and are not payable if doing so would harm the interests of the Group.

Conflicts of interest

The member of the Management Board avoids conflicts of interests in their activity. The member of the Management Board does not make decisions on the basis of their own interests or use business offers addressed to the Group in their own interests. The member of the Management Board informs the Supervisory Board regarding the existence of a conflict of interests before the conclusion of a contract of service and immediately is such conflict arises. The member of the Management Board promptly informs the Chairman of the Supervisory Board of any business offer related to the business activity of the Group made to them, a relative, acquaintance or associate.

The Supervisory Board approves transactions which are significant to the Group and concluded between the Group and the member of the Management Board or another person connected with or close to them and determines the terms of such transactions. In 2021, no such transactions took place.

The member of the Management Board may engage in other duties alongside their duties as member of the Management Board only on approval by the Supervisory Board.

Supervisory board

Composition and duties of the Supervisory Board

The duty of the Supervisory Board is the regular supervision of the activities of the Management Board and making important decisions relating to the activities of the Group. The Supervisory Board acts independently and in the best interests of the Group and all shareholders.

According to the Articles of Association, the Supervisory Board may be comprised of three to five members and the members of the Supervisory Board are elected for the term of three years. The chairman, who organizes the activities of the Supervisory Board, is elected from among the members of the Supervisory Board. The members of the Supervisory Board are elected and removed by the General Meeting of Shareholders. The members of the Supervisory Board are elected from persons having sufficient knowledge and experience to participate in the work of the Supervisory Board.

Andres Pärloja
Chairman of Supervisory Board

Career:

2021 – ...	Hepsor AS, Chairman of Supervisory Board
2011 – 2021	Hepsor OÜ, member of Management Board
2010 – ...	Mitt & Perlebach OÜ, member of Management Board
2006 – ...	StoryRent OOD, Bulgaria, member of Supervisory Board
2007 – 2010	Koger & Partnerid AS, Koger Kinnisvara OÜ, CEO
2006 – 2011	Euroclean OOD, Bulgaria, member of Supervisory Board
2005 – 2007	Koger & Partnerid OOD, Bulgaria, CEO
2004 – 2005	Parex Pank Eesti, member of Management Board

Number of shares owned: 997,000 (25.88%)

Kristjan Mitt
Member of Supervisory Board

Career:

2021 – ...	Hepsor AS, member of Supervisory Board
2011 – 2021	Hepsor OÜ, member of Management Board
2010 – ...	Mitt & Perlebach OÜ, member of Management Board
2008 – 2011	Koger & Partnerid SIA, Latvia, CEO
2004 – 2007	Koger & Partnerid AS, Project Manager, Site Manager

Number of shares owned: 997,000 (25.88%)

Lauri Meidla
Member of Supervisory Board

Career:

2021 – ...	Hepsor AS, member of Supervisory Board
2020 – ...	Saunum Group AS, member of Supervisory Board
2017 – ...	Inclusion OÜ, member of Supervisory Board

Number of shares owned: 507,000 (13.15%)

The Supervisory Board decides on and regularly assesses the Group's strategy, general action plan, risk management principles and annual budget.

Supervisory Board regularly assesses the activities of the Management Board in implementing the Group's strategy, financial condition, risk management system, the lawfulness of the Management Board activities and whether essential information concerning the Issuer has been communicated to the Supervisory Board and the public as required.

The Chairman of the Supervisory Board determines the agenda of the Supervisory Board meeting, chairs meetings, monitors the efficiency of the Supervisory Board's work, organizes the transmission of information to the members of the Supervisory Board, ensures that the Supervisory Board has enough time to prepare for decisions and examines information and represents the Supervisory Board in communications with the Management Board.

The Supervisory Board has formed an Audit Committee, whose task is to advise the Supervisory Board regarding the Group's financial reporting and accounting, auditing, risk management, internal controls and budgeting. The Audit Committee has two members whose work is not remunerated.

In 2022, Supervisory Board convened 25 times during which 34 decisions were made of these 20 decisions were signed by all Supervisory Board members. Decisions concerning granting of consent to the conclusion of a transaction between a person related to the said member of the Supervisory Board and the Group, were signed by an independent member of the Supervisory Board.

Hepsor AS does not follow the recommendation in clause 3.2.2. of the Corporate Governance Recommendations that at least half of the Supervisory Board members are independent. The Group ensures independence by Supervisory Board members refraining from voting at Supervisory Board meetings that decide the granting of consent to the conclusion of a transaction between a person related to the said member of the Supervisory Board and the Group.

Principles of remuneration of the Supervisory Board

In determining the remuneration of members of the Supervisory Board, the General Meeting takes into consideration the duties of the Supervisory Board and their scope and the economic situation of the Group. In determining the remuneration, the specific work done by the Chairman of the Supervisory Board can be considered.

In 2022, gross remuneration of members of Supervisory Board of the Group amounted to 120 thousand euros.

Name	Position	Beginning of term of office	End of term of office	Gross remuneration	# of Hepsor shares held
Andres Pärloja	Chairman of Supervisory Board	1 November 2021	30 October 2024	4,500€ / month	997,500
Kristjan Mitt	Member of Supervisory Board	1 November 2021	30 October 2024	4,500€ / month	997,500
Lauri Meidla	Member of Supervisory Board	1 November 2021	30 October 2024	1,000€ / month	507,000

Conflicts of interest

The members of the Supervisory Board prevent conflicts of interests from arising through their activities. Members of the Supervisory Board give preference to the interests of the Group over their own or those of a third party. Members of the Supervisory Board do not use business offers addressed to the Group for their personal gain. The Supervisory Board operates in the best interests of the Group and all shareholders.

The members of the Supervisory Board promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Group made to them, a person close to them or an associate. In 2022, no such transactions took place.

The members of the Supervisory Board strictly adhere the requirements of the prohibition of competition as provided for in the Commercial Code (§ 324) and immediately notifies other members of the Supervisory Board of their intention to engage in entrepreneurship in the same field as the Group.

Cooperation between the Management Board and the Supervisory Board

The Management Board and the Supervisory Board closely collaborate to achieve the better protection of the interests of the Group. The Management Board and the Supervisory Board jointly participate in the development of the operational objectives and strategy of the Group.

In making management decisions, the Management Board is guided by the strategic instructions supplied by the Supervisory Board and discusses strategic management related issues with the Supervisory Board regularly, usually on a weekly basis.

The Management Board regularly notifies the Supervisory Board of any important circumstances concerning the planning and business activities of the Group, activity-based risks, and the management of such risks. The Management Board separately calls attention to such changes in the Group's business activities that deviate from set plans and purposes and indicates the reasons for such changes. The information is delivered promptly and covers all material circumstances.

Disclosure of information

The Group treats all shareholders equally and notifies all shareholders of important circumstances equally. The Group mainly uses the information system of the Nasdaq Baltic Stock Exchange as well as the investor section on its own website. Disclosed information is available in Estonian and in English.

Financial reporting and auditing

Financial reporting

Each year, the Group publishes the consolidated audited annual reports and quarterly interim reports consolidated during the financial year. The Management Board prepares the annual accounts, which are audited by the auditor and approved by the Supervisory Board.

The annual report is approved by the member of the Management Board and presented to the shareholders.

The Group discloses transactions with related parties in note 32, which is an integral part of the consolidated financial statements.

Election of the auditor and auditing

In 2021, the Group elected Grant Thornton Baltic OÜ as the auditor for 2021-2026 financial years. Total remuneration for auditing financial reports for 2022 amounted to 73 thousand euros. The Group follows the principle of the rotation of auditors.

Together with the notice of convening the General Meeting of Shareholders, the Supervisory Board makes available to the shareholders the assessment of the auditor's activities with regard to the assurance services provided during the previous financial year. The assessment includes the types of services provided and the fees paid to the auditor.

The auditor gave the Audit Committee formed by the Supervisory Board a written overview of the course of the audit of the Group in 2022, the observations made and any other important topics that were discussed with the Management Board of the company.

Grüne Maja

Meistri 14, Tallinn

Remuneration Report

This remuneration report has been prepared in accordance with the remuneration principles of the Group's Management Board member. The member of the Management Board is remunerated pursuant to the signed contract. The remuneration report discloses the remuneration and benefits paid to the member of the Management Board in the financial year 2022.

The principles of remuneration of the Management Board are based on the long-term strategic objectives of the Group, taking into account the financial results of the Group and the interests of investors and creditors. The purpose of the remuneration policy is to support the achievement of the Group's long-term strategic goals by recruiting and retaining qualified and results-oriented members of the Management Board.

The remuneration of the Management Board is comprised of the following:

- ✓ basic remuneration - the purpose of a basic remuneration is to provide the member of the Management Board with a basic income that corresponds to their experience and qualifications, as well as to the scope, complexity and responsibilities of the duties of the position. The basic remuneration is generally reviewed once a year.
- ✓ performance pay – the performance pay depends on the achievement of objectives set for the member of the Management Board and the Group for the respective financial year. The achievement of objectives is assessed by the Supervisory Board of the Group after the end of the respective financial year. The calculation of performance fee is based on the financial year. The remuneration decision is made by the Supervisory Board of the Group.

The remuneration report is prepared for the first time and submitted to the shareholders for approval at the General Meeting of the Shareholders.

thousands of euros	**2022**	**2021**	**2020**
Group's total labour costs	1,529	908	605
incl. Basic remuneration of the member of the Management Baard	*109*	*56*	*42*
Average number of employees	18.0	13.8	11.4
Group's revenues	12,870	14,961	38,771
Group's revenues per employee	715	1,084	3,400

Büroo113

Pärnu mnt 113, Tallinn

Sustainability Report

The contribution of the construction and real estate industry to the green transition

The European Union has set an objective of achieving a climate-neutral and environmentally friendly economy by 2050. One of the main goals of the Paris climate agreement is to keep global warming below 2°C compared to pre-industrial levels and to continue efforts to limit global warming to below 1.5°C. The European Union wants to reduce greenhouse gas emissions by 55% by 2030. To that end, the Fit for 55 package has been launched, which includes several major legal amendments concerning various branches of the economy.

With the EU's goals in mind, Estonia has drawn up a long-term national strategy entitled "Estonia 2035",[1] aiming to increase the share of renewable energy to at least 55% of the final energy consumption by 2035 and to reduce the net emission of greenhouse gases to 8 million tonnes of CO_2 equivalent (in 2019, the emission was 14 million tonnes of CO_2 equivalent). In order for Estonia to reach these goals, all sectors must actively contribute to addressing climate problems.

In the spring of 2021, the Estonian government approved the "Long-Term View on Construction 2035",[2] a vision of where the construction sector should reach. The document stipulates that construction decisions shall be made on a long-term basis, based on data and economically, by creating a balance between ecological and economic aspects throughout the life cycle of the building. One of the goals is to apply the principles of the circular economy, so that the construction process and the building are environmentally friendly, energy-saving and sustainable.

According to a 2021 report by the Intergovernmental Panel on Climate Change (IPCC),[3] the use and construction of housing accounts for approximately 36% of energy consumption and approximately 37% of greenhouse gases globally. According to the Government Office's review of the implementation of the UN Sustainable Development Agenda 2030 in Estonia,[4] Estonia's average energy use per square metre of housing is higher than other EU Member States. Therefore, the state also contributes significantly to the reconstruction of the building stock, considering that 75% of buildings are inefficient in terms of energy use. For this purpose, a renovation marathon (the LIFE IP BuildEST project) and long-term strategy for building renovations have been prepared and launched in Estonia,[5] according to which all homes and workplaces in Estonia should be renovated for efficiency by the year 2050. The goal is to completely renovate the energy efficiency class C buildings built in Estonia before 2000.

The Group's opportunity and plan for sustainable development

Hepsor has always been guided by a green philosophy in its operations and, therefore, considers it vital to manage its environmental, social, and governance (ESG) risks. Sustainability is a major concern for the Group, especially because of the desire to reduce the negative effects of operations on the natural environment and people, insofar as this is possible in real estate development.

In 2022, Hepsor involved external experts in mapping the points of greatest impact and the prospects for contributing to the sustainable development of society. The exercise provided an overview of the sustainability risks, future regulations, major

[1] https://www.valitsus.ee/strateegia-eesti-2035-arengukavad-ja-planeering/strateegia/materjalid
[2] https://www.mkm.ee/en/construction-and-residential-sector/construction/long-term-view-construction
[3] https://www.ipcc.ch/assessment-report/ar6/
[4] https://www.terveilm.ee/leht/wp-content/uploads/2017/08/Ulevaade-URO-tegevskava-2030-elluviimistes-Eestis.pdf
[5] https://www.ekyl.ee/wp-content/uploads/Hoonete-rekonstrueerimise-pikaajaline-strateegia-l%c3%b5ppraport_2020-06-02.pdf

impacts, and sustainable development goals concerning the field of construction and real estate. The primary focuses of sustainable development were also established, which Hepsor will focus on in the future and which the Group wants to manage strategically:

- ✓ Mitigation of climate impact – through the impact of the life cycle of the buildings being developed and reducing the emissions directly resulting from operations, including the use of innovative technologies and green solutions (e.g. geothermal heating);
- ✓ Socially responsible development activities – development of buildings with a healthy indoor climate and outdoor areas that fit into the urban environment and contribute to the creation of cohesive communities;
- ✓ Integrity and a transparent business culture – ensuring law-abiding, open, and ethical business operations and demanding the same of business partners.

Important but less direct sustainability topics also addressed:

- ✓ Designing the working environment (the well-being and engagement of employees, their development, health, and equal treatment);
- ✓ Charity and making an additional social contribution;
- ✓ Customer guidance and cooperation for sustainable development.

In addition to the above, the field of construction and real estate has other important environmental and social aspects, such as impacts on biodiversity, water and energy use, adaptation to climate change, waste generation, the security and accessibility of buildings, and the elitism of the real estate sector. These topics are addressed at the level of legal and standard requirements, as they are largely related to decisions made at the national level (for example, energy use, waste generation and the reduction of water use, which are also related to mitigating climate change). Hepsor can make its contribution to dealing with the above impacts through its activities in the Estonian Real Estate Association, in which Hepsor is a member.

Although Hepsor has consistently focused on green thinking in its development activities, we paid significantly more attention to measuring our carbon footprint and, accordingly, to mitigating the climate impact of our operations in 2022. In the past financial year, we worked with consultants to analyse Hepsor's carbon footprint and assessed the impact of the organisation's direct activities as well as the life cycle impact of the buildings to be constructed in the course of the four development projects started in 2022. The calculations made provide input to the Group for even better environmental impact management and more environmentally conscious development activities.

This is the first step in measuring the Group's sustainability goals, and the Group continues to elaborate its sustainability goals, metrics, and activities. As a listed company, it is important for Hepsor to ensure transparency in these matters through high-quality reporting.

Sustainability and mitigation of climate impact

<u>The Group's carbon footprint</u>

In 2022, greenhouse gas emissions from Hepsor's operations were calculated in accordance with the internationally recognised and most commonly used greenhouse gas reporting standard, the GHG Protocol Corporate Accounting and Reporting Standard. The standard divides the greenhouse gas emissions associated with an organisation's activities into three areas of impact, or scopes. Hepsor's carbon footprint measured in 2022 includes the following categories:

Scope 1. Direct emissions from sources owned or controlled by the organisation.

- ✓ Vehicle fuels

Scope 2. Indirect emissions resulting from purchased energy.

- ✓ Purchased electricity and thermal energy

Scope 3. All other indirect emissions that occur in the organisation's value chain.

- ✓ The CO_2 footprint associated with buildings in development projects. All real estate development projects in the Group's development portfolio create a CO_2 footprint, of which in 2022 Hepsor only measured the entire life-cycle CO_2 footprint of development projects that were in the construction preparation phase and/or went into construction during the reporting year. The useful life of buildings under development was assumed to be 50 years.
- ✓ energy consumption of leased areas
- ✓ business travel
- ✓ purchased products and services (office supplies, water)
- ✓ employees' travel to work, home office
- ✓ indirect impacts of scopes 1–2
- ✓ waste

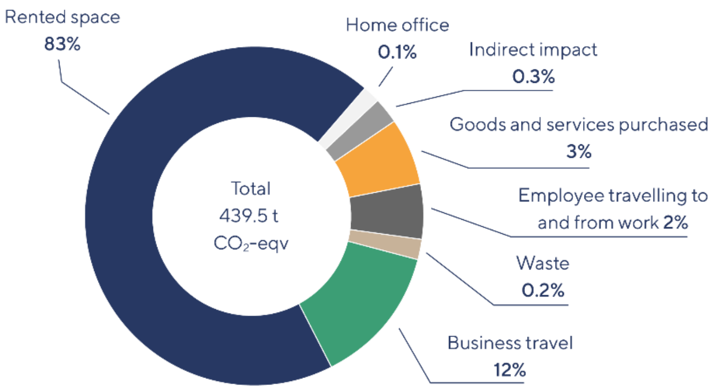
The calculation of the carbon footprint includes Hepsor's offices in Estonia and Latvia, the consumption of electricity and heat energy at premises rented out by Hepsor, and the construction of development projects started in 2022. The carbon footprint of the development projects was calculated considering the entire life span of the development project (expected useful life of 50 years) and, unlike the rest of the measured carbon footprint categories, it therefore does not reflect the environmental impact of only 2022.

	CO_2 footprint from development activities		CO_2 footprint from operations	
Scope	**t CO_2eq**	**Relative share**	**t CO_2eq**	**Relative share**
Scope 1	0	0%	2.5	0.57%
Scope 2	0	0%	7.2	1.64%
Scope 3	48,420.9	100%	429.8	97.79%
Total	**48,420.9**	**100%**	**439.5**	**100.00%**

Hepsor's total carbon footprint measured in 2022 was 48,860 tonnes of CO_2 equivalent. The largest measured impact in 2022 was the carbon footprint (48,420.9 tonnes of CO_2 equivalent) estimated over the entire life span resulting from the development activities (construction, use, and final disposal) of projects that were in construction preparation phase in 2022 (i.e. construction started shortly after), which essentially accounted for Hepsor's entire footprint. Consequently, in this report, the carbon footprints of building development and the Hepsor operations are separated in order to better observe the greenhouse gas emissions resulting from Hepsor's operations.

Carbon footprint from Hepsor's operations

The 2022 carbon footprint from Hepsor's operations was 439.5 tonnes of CO_2 equivalent (exclusive of development activities). Scopes 1 and 2 account for 0.57% and 1.64% of the footprint, respectively. Scope 3 has the largest share, with the electricity and heat energy consumption of the premises rented out by Hepsor accounting for 83% of the carbon footprint of office operations, and business travel accounting for 12%. The rest of scope 3 categories accounted for a total of 5.7% of Hepsor's entire carbon footprint.

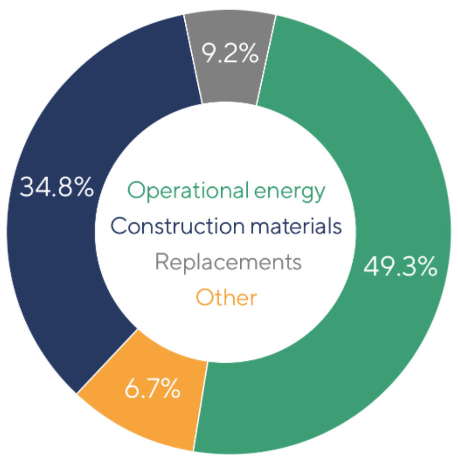


Carbon footprint of buildings

In 2022, Hepsor measured the carbon footprint of the buildings it developed so as to map the main impact points and thereby set data-based longer-term goals for reducing the climate impact. To assess the climate impact of buildings, Hepsor used the calculation methodology of the carbon footprint of construction works in Estonia, which was developed by TalTech researchers in cooperation with experts from the Finnish company One Click LCA at the request of the Ministry of Economic Affairs and Communications[6].

The calculation method is based on the ISO 14040 standard, the European sustainability assessment standards EN 15804 and EN 15978, the European Level(s) framework, and international best practices for carbon footprint assessment. The result of the calculation shows the total greenhouse gas emissions for the life cycle of the building (e.g. 50 years), which includes emissions resulting from building materials and products, construction, use, and final disposal.

In 2022, Hepsor started the preparation of construction of four new apartment building projects: Mārupes Dārzs in Latvia and 7 Manufaktuuri, Lilleküla Homes, and Ojakalda Homes in Estonia. The average carbon footprint of the life cycle of these buildings was 1.64 tonnes of CO_2 equivalent per square metre.



Of the life cycle, the energy during the use of the buildings accounted for an average of 59%, and the production phase of building materials accounted for an average of 34%. Consequently, it is important to pay attention to the building's energy efficiency and alternative energy sources (e.g., solar panel installation) from the very beginning of the construction process. The more the market trend moves towards the use of sustainable building materials, the more the relative share of the climate impact from construction decreases, and the importance of energy consumption management during the building's lifetime increases. The final disposal of the building, i.e., demolition and disposal of the generated waste, is not the most significant in the context of the climate impact, but the availability of building materials during demolition and their reuse or recycling is an important part of the circular economy model, towards which the Group plans to set its targets in the following years.

[6] https://eehitus.ee/timeline-post/study-carbon-footprint-construction/

Developing buildings with a green mindset

Green thinking starts during the selection of a suitable plot and continues throughout the planning and architectural design phases. To ensure the use of the best environment-friendly solutions at Hepsor, a "green ideas innovation academy" consisting of employees is usually involved in the new development project, so as to find and implement innovative practices through idea harvesting. At the green ideas innovation academy, solutions are sought for various design-related issues, such as:

- ✓ increasing the building's energy efficiency;
- ✓ using more sustainable heating and cooling systems;
- ✓ planning systems that reduce water consumption;
- ✓ increasing the reuse of building materials;
- ✓ increasing the use of wood as a building material;
- ✓ planning building functions that support a sustainable lifestyle (for example, car chargers and bicycle parks).

In 2022, the academy developed an innovative geothermal heating and cooling solution for the 5 Manufaktuuri factory building in the Manufaktuuri Quarter, which has not been used in the development of apartment buildings in Estonia before. The academy also focused on finding solutions for the green stock office building development project at 34 Ulbrokas, Riga, Latvia, to be completed in 2024. The Manufactory Quarter is one of the Group's largest and longest-term development projects, where, among other things, it is planned to reuse the materials obtained during the demolition as much as possible. In total, approximately 30 thousand silicate bricks have already been collected, which will be used in the interior design of the 5 Manufaktuuri factory building. The new apartment buildings will receive part of their energy from the solar panels installed on the buildings, and it is planned to use geothermal energy for heating and cooling the factory building at 5 Manufaktuuri.

Hepsor develops commercial buildings based on a Green Building Concept, where the following special solutions are applied:

- ✓ Room temperature and thermal energy distribution with automatically regulated thermo-active ceilings. The system allows rooms to be heated and cooled through a single piping system in the ceilings, which is why there are no radiators or traditional air conditioners in the buildings. Apart from lower heating and cooling costs, tenants will have a better and more stable indoor climate.
- ✓ A geothermal system that uses natural renewable energy for heating in winter and cooling in summer. The system helps keep heating and cooling costs lower than district or gas heating costs and ensures less dependence on service providers.
- ✓ Energy-efficient architectural solutions prevent excessive solar heat from reaching rooms in summer and, thus, reduce the need for cooling.
- ✓ Solar panels installed on roofs.
- ✓ Rainwater harvesting systems. Using rainwater in toilets and for watering plants helps significantly reduce water consumption.
- ✓ Bicycle parks and charging facilities for electric vehicles help tenants make more environmentally conscious transport choices.

In 2014, Hepsor completed Estonia's first office building designed according to the principles of green thinking, at 157 Sõpruse, Tallinn and, since then, the concept of green thinking has been applied in all the office buildings developed by Hepsor.

In 2022, Büroo113 was completed, which is the first high-rise green building in Estonia. Grüne Maja, designed according to the same principles, will be completed in 2023. In addition to the other special solutions mentioned, the latter stands out for an extraordinary green facade of climbing plants around the building. Over time, the facade will become a habitat for insects and birds and promote biodiversity in the surrounding area. Thermo-active ceilings are used in commercial buildings, which ensure a better and more stable indoor climate through automatic and uniform heating and cooling.

Socially responsible development activities

Hepsor's goal is to offer its customers the best environment, and it is important for the Group to know that people will feel good in a building where they spend a large part of their time. Also, development activities take into account the best room solutions and the surrounding environment to ensure that the buildings fit into the urban space. Hepsor contributes to the creation of high-quality outdoor areas, so people can enjoy spending time around the buildings and have opportunities for a healthy lifestyle. The Hepsor team values good architecture and construction mastery and, therefore, we collaborate with the best architects and engineers to create distinctive buildings that enrich the urban space. The Group also works with public sector representatives and municipalities to ensure consistency with the city's needs and to contribute to broader development plans to enable cohesive communities.

A good example of high-quality urban space design is the development of the Manufactory Quarter. It is an old industrial area where several new apartment buildings will be completed, the former Baltic Manufactory industrial building will be renovated, and multifunctional green and recreational areas will be established in 2024 and 2025. The project aims to create a cosy and complete living and business environment, while preserving the unique character of the industrial area. The community has been involved in the development project from an early stage to map the needs of customers and various interest groups as regards the area and the buildings under development. For example, various venues and rental premises have already been built in the old buildings so that those interested can use the buildings and their environment in their authentic form.

In cooperation with the Estonian Centre for Architecture, tours presenting the history and future of the factory are held in the premises of the historic Baltic Manufactory and in the surrounding area. A sidewalk through the block has been built to connect Manufaktuuri and Kopli Street for the convenience of the local residents. In addition, last year, a cafe was built in the old guardhouse at the end of Kopli Street, next to the dignified old apple orchards, in order to improve the appeal of the quarter. Despite the construction activities planned for the quarter, the plan is to keep the entire area open to those interested and to continue holding events and renting rooms.

The aspect of social responsibility is also emphasised in the Paevälja Courtyard buildings. Special attention has been paid to the functionality of the courtyard between the buildings, where there will be sports grounds, children's playgrounds, green areas and recreation areas. The formerly abandoned urban area is being given a new sense of purpose. The first building of the development project was completed in 2022 and the second building will be ready in 2023.

Charity

Hepsor has been operating successfully for over 11 years. One way to share our success is to give back to society. In previous years, we have supported the Youth to Olympics Foundation and the Estonian Association of Parents of Children with Cancer. On 24 February 2022, the world was shocked by the invasion of Russian troops into the territory of the independent state of Ukraine. Like many other companies and individuals, we considered our contribution to the independence of Ukraine to be particularly important in the past financial year and sponsored the activities of the non-profit organisation Slava Ukraini. We also helped the Food Bank organise the food aid donated by the European Union for those in need in Estonia. The Group also actively participates in the daily activities of the Estonian Real Estate Association.

Employee appreciation

The Group's team works together, based on our shared values, trust, and appreciation of each other's contribution. The Group contributes to the development of our employees on a daily basis by providing need-based training opportunities, joint activities, and an inspiring working environment. Annual individual development interviews are conducted with employees to receive feedback on management and employee expectations and to map training needs. Employee feedback is shown in that most people who have joined the Group so far remain committed, and there is essentially no labour turnover. To strengthen cooperation between employees in the two countries, the Group organises joint events in Estonia and Latvia.

Stock-office Ulbrokas 30

Ulbrokas 30, Riga

Consolidated Annual Financial Statements

Consolidated Financial Statements

Consolidated statement of financial position

in thousands of euros	Note	31 Dec 2022	31 Dec 2021
Assets			
Current assets			
Cash and cash equivalents	2	3,754	10,889
Trade and other receivables	3	1,731	652
Current loan receivables	9	0	2,388
Inventories	4	69,760	37,237
Total current assets		**75,245**	**51,166**
Non-current assets			
Property, plant and equipment	5	232	229
Intangible assets	6	7	0
Financial investments	7	2	402
Investments in associates	23	1,086	0
Non-current loan receivables	9	1,766	3,408
Other non-current receivables	8	30	140
Total non-current assets		**3,123**	**4,179**
Total assets	**30**	**78,368**	**55,345**
Liabilities and equity			
Current liabilities			
Loans and borrowings	10	22,565	5,501
Current lease liabilities	11	46	123
Trade and other payables and prepayments	12	7,061	6,703
Total current liabilities		**29,672**	**12,327**
Non-current liabilities			
Loans and borrowings	10	26,015	22,862
Non-current lease liabilities	11	68	66
Other non-current liabilities	13	2,290	1,053
Total non-current liabilities		**28,373**	**23,981**
Total liabilities	**30**	**58,045**	**36,308**
Equity			
Share capital	15	3,855	3,855
Share premium	15	8,917	8,917
Retained earnings		7,551	6,265
Total equity		**20,323**	**19,037**
incl. total equity attributable to owners of the parent		**19,866**	**18,904**
incl. non-controlling interest		**457**	**133**
Total liabilities and equity		**78,368**	**55,345**

The notes presented on pages 56 to 99 form an integral part of the consolidated financial statements.

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	Note	2022	2021
Revenue	17,30	12,870	14,961
Cost of sales (-)	18	-11,096	-11,902
Gross profit		**1,774**	**3,059**
Marketing expenses (-)	19	-446	-271
Administrative expenses (-)	20	-1,095	-942
Other operating income	22	70	83
Other operating expenses (-)	22	-68	-49
Operating profit of the year	**30**	**235**	**1,880**
Financial income	23	1,889	321
Financial expenses (-)	24	-787	-512
Profit before tax		**1,337**	**1,689**
Current income tax	25	-6	-16
Deferred income tax	25	0	60
Net profit for the year		**1,331**	**1,733**
Attributable to owners of the parent		1,396	-22
Non-controlling interest		-65	1,755
Other comprehensive income (-loss)			
Changes related to change of ownership	29	-26	70
Change in value of embedded derivatives with minority shareholders	14	10	-1,815
Other comprehensive income (-loss) for the period		**-16**	**-1,745**
Attributable to owners of the parent		-434	68
Non-controlling interest		418	-1,813
Comprehensive income (-loss) for the period		**1,315**	**-12**
Attributable to owners of the parent		962	46
Non-controlling interest		353	-58
Earnings per share			
Basic (euros per share)	26	0.36	-0.01
Diluted (euros per share)	26	0.36	-0.01

The notes presented on pages 56 to 99 form an integral part of the consolidated financial statements.

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 31 December 2020	**6**	**3,211**	**6,237**	**65**	**9,519**
Net profit/(-loss) for the year	0	0	-22	1,755	**1,733**
Other comprehensive income/ (-loss) for the period	0	0	68	-1,813	**-1,745**
Increase of share capital	2,994	-2,994	0	0	**0**
Issue of shares (less costs related to share issue)	855	8,700	0	0	**9,555**
Dividends paid	0	0	-151	-64	**-215**
Voluntary reserve	0	0	0	190	**190**
Balance of 31 December 2021	**3,855**	**8,917**	**6,132**	**133**	**19,037**
Net profit/(-loss) for the year	0	0	1,396	-65	**1,331**
Other comprehensive income/ (-loss) for the period	0	0	-434	418	**-16**
Dividends paid	0	0	0	-29	**-29**
Balance of 31 December 2022	**3,855**	**8,917**	**7,094**	**457**	**20,323**

Information on equity is presented in note 15.

The notes presented on pages 56 to 99 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows

in thousands of euros	Note	2022	Adjusted 2021
Net cash flows from (to) operating activities			
Operating profit of the year	30	**235**	**1,880**
Adjustments for:			
Depreciation of property, plant and equipment	5	148	157
Profit from the sale of property, plant and equipment	22	-18	0
Other adjustments		22	119
Income tax paid	27	-6	-74
Changes in working capital:			
Change in trade receivables		-1,112	18
Change in inventories	27	-30,935	-13,045
Change in liabilities and prepayments		3,054	1,510
Cash flows from (to) operating activities		**-28,612**	**-9,435**
Net cash flows from (to) investing activities			
Payments for property, plant and equipment	5	-100	0
Payments for intangible assets	6	-8	0
Proceeds from sale of property, plant and equipment	5	25	0
Payments for financial investments	7	0	-2
Payments for acquisition of subsidiaries	7	-400	0
Proceeds from sale of subsidiaries	29	135	0
Interest received	27	324	17
Loans granted	9	-176	-4,369
Loan repayments received	9	2,126	0
Other receipts from investing activities	23	460	43
Cash flows from (to) investing activities		**2,386**	**-4,311**
Net cash flows from (to) financing activities			
Net cash flow from issuing shares	15	0	9,555
Loans raised	10	31,892	22,313
Loan repayments	10	-11,672	-10,391
Interest paid	27	-1,150	-851
Payments of finance lease principal	11	-26	-15
Payments of right to use lease liabilities	11	-107	-129
Dividends paid	15	-29	-252
Non-controlling interest contributions to equity	29	0	260
Other receipts from financing activities		-59	-62
Cash flows from financing activities		**18,849**	**20,428**
Net cash flow		**-7,377**	**6,682**
Cash and cash equivalents at beginning of year	2	**10,889**	**4,207**
Cashflow in from acquisitions of subsidiaries		242	0
Increase / decrease in cash and cash equivalents		-7,377	6,682
Cash and cash equivalents at end of year	2	**3,754**	**10,889**

Additional information on the 2021 adjustments is provided in Note 1.3.

The notes presented on pages 56 to 99 form an integral part of the consolidated financial statements.

Notes to the consolidated interim financial statements

Note 1. Accounting policies

1.1. General information

Hepsor AS (hereinafter referred to as the “Group” or “Hepsor”), a real estate development company based on Estonian capital, operates in Estonia and Latvia.

The consolidated financial statements of the Group for 2022 were signed by the member of management Board of Hepsor AS on 28 April 2023.

In accordance with the requirements of the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board, which also includes the consolidated financial statements, is approved by the general meeting of shareholders. Shareholders have the right not to approve the annual report prepared by the Management Board and approved by the Supervisory Board and to request that a new report is prepared. The Annual General Meeting of Shareholders, one of the items on the agenda of which is the approval of the consolidated annual report of Hepsor AS for 2022, will be held on 25 May 2023.

1.2. Basis of preparation of consolidated financial statements

The Group’s consolidated annual financial statements have been prepared in conformity 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 consolidated annual financial statements for 2022 have been prepared on a going concern basis.

The preparation of consolidated annual financial statements in conformity with IFRS (EU) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. The management of the Group believes the underlying assumptions in the preparation of consolidated annual financial statements for 2022 are appropriate.

These consolidated annual financial statements consist of consolidated statements of financial position, consolidated statement of comprehensive income, statement of changes in equity, consolidated statement of cash flows, and explanatory notes.

The consolidated annual financial statements are presented in euros and all values are rounded to the nearest thousand (€000), except when otherwise indicated.

1.3. Accounting policies, changes in accounting estimates and errors (IAS 8)

When an IFRS (EU) specifically applies to a transaction, other event, or condition, the accounting policy or policies applied to that item shall be determined by applying the IFRS (EU). In the absence of an IFRS (EU) that specifically applies to a transaction, other event or condition, management shall use its judgement in developing and applying an accounting policy that results in information that is relevant to the economic decision-making needs of users and reliable.

The Group selects and applies its accounting policies consistently for similar transactions, other events, and conditions, unless an IFRS (EU) specifically requires or permits categorization of items for which different policies may be appropriate. In an IFRS (EU) requires or permits such categorization, an appropriate accounting policy shall be selected and applied consistently to each category.

The Group changes an accounting policy only if the change is required by IFRS (EU) or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events, or conditions on the entity’s consolidated financial position, consolidated financial performance or consolidated cash flows. When a change in accounting policy is applied retrospectively the Group adjusts the opening balance of each affected component of equity for the earliest prior period presented and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied.

The effect of a change in an accounting estimate shall be recognized prospectively by including it in profit or loss in the period of the change, if the change affect that period only or the period of the change and future periods, if the change affects both.

The Group corrects material prior period errors retrospectively in the first set of consolidated financial statements authorized for issue at their discovery by restating the comparative amounts for the prior period(s) presented in which the error occurred; or if the error occurred before the earliest prior period presented, restating the consolidated opening balances of assets, liabilities and equity for the earliest prior period presented.

The Group corrects the comparative data of the number of shares for 2021 in note 26 "Profit per share" of the 2022 annual report. More information in Note 26.

in thousands of pieces	Initial 2021	Change	Adjusted 2021
Weighted average number of ordinary shares	3,855	-731	3,124

The Group amends the reference of „The accounting policies applied in the preparation of these financial statements are the same as those used by the Group as of 31 December in the consolidated financial statements for the year ended 31 December 2020, except as described below.“ as stated in note 1.5 „ Accounting policies, changes in accounting estimates and errors“ in the Annual Report for 2021:. The correct reference would have been to the special purpose financial statements not the consolidated annual report. For periods up to and including the year ended 31 December 2020, the Group prepared its statutory financial statements in accordance with Estonian Financial Reporting Standards (EFS). The Group prepared financial statements in accordance with IFRS 1 for the first time for consolidated special purpose financial report for the periods from 1 January 2018-31 December 2018, 1 January 2019-31 December 2019 and 1 January 2020-31 December2020.The special purpose financial report is available at Hepsor's website https://hepsor.ee/wp-content/uploads/2021/11/Hepsor-IFRS-2018-2020-audited.pdf and the Website of Finantsinspektsioon https://www.fi.ee/sites/default/files/2021-11/hepsor_ifrs_2018-2020_audited.pdf. When preparing the Group's consolidated special purpose financial statements, the opening statement of the Group's financial position was prepared as of 1 January 2018, which is also considered the date of the Group's transition to IFRS (EU).

The Group has adjusted the consolidated cash flow statement for 2021 in the annual report for 2022as follows:

In thousands of euros	Initial 2021	Change	Adjusted 2021
Changes in inventories	-12,816	-229	-13,045
Cash flows from operating activities	**-9,206**	**-229**	**-9,435**
Loans raised	22,682	-369	22,313
Loan repayments	-10,479	88	-10,391
Interest paid	-1,361	510	-851
Cash flows from financing activities	**20,199**	**229**	**20,428**

1.4. Impact of new and revised standards and interpretations

The accounting principles applied in the preparation of this report are the same as those used in the Group's consolidated report for the financial year ended on 31 December 2021, except for the cases described below.

Revised standards effective on or after 1 January 2023

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual reporting periods beginning on or after 1 January 2023 and that have not been adopted by the Group ahead of effective date.

Amendments to IAS 1 „Presentation of Financial Statements“ and IFRS Practise Statement 2 „Making Materiality Judgments“- amendments aim to help entities provide accounting policy disclosures that are more useful by:

- requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The Board of IFRS also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.

The amendments are consistent with the refined definition of material: “Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements”.

Effective for annual reporting periods beginning on or after 1 January 2023. The EU has approved the changes.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 1 „Presentation of Financial Statements“ (classification of liabilities as current and non-current) – amendments are aimed to promote consistency in applying the requirements by helping the companies determine whether liabilities and other liabilities with uncertain settlement dates should be classified as current (to be settled within 12 months) or non-current. The amendments clarify what is meant by the right to defer settlement; that a right to deferral must exist at the end of the reporting period; that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if the embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

Effective for annual reporting periods beginning on or after 1 January 2023. The EU has approved the changes.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 8 „Accounting Policies, Changes in accounting Estimates and Errors“ – amendments introduce a new definition for accounting estimates. According to the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities should develop accounting estimates when the accounting policies require the measurement of items in the financial statements that are subject to measurement uncertainty. The amendments clarify that a change in an accounting estimate resulting from new information or new developments is not a correction of an error. Effective for annual reporting periods beginning on or after 1 January 2023. The EU has approved the changes.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 12 „Income Taxes“ - The amendments clarify the accounting for deferred tax on transactions that involve recognising both an asset and a liability with a single tax treatment related to both. The amendments narrow the scope of the initial recognition exemption (IRE) so that it does not apply to transactions that give rise to equal and offsetting temporary differences. As a result, companies will need to recognise a deferred tax asset and a deferred tax liability for temporary differences arising on initial recognition of a lease and a decommissioning provision. Effective for annual reporting periods beginning on or after 1 January 2023. The EU has approved the changes.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IFRS 16 „Leases“ – amendments impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments. The amendments confirm the following:

- On initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction.
- After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

A seller-lessee may adopt different approaches that satisfy the new requirements on subsequent measurement. Effective for annual reporting periods beginning on or after 1 January 2024. Not yet endorsed for use in the EU.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Changes in standards

Annual Improvements to IFRS Standards 2018–2020 (the Group will apply the amendment for annual periods beginning on or after 1 January 2022). Not yet endorsed for use in the EU.

IFRS 9 - Amendments clarify which fees to consider when assessing whether or not the terms of a converted debt Instrument have changed - only fees paid or received between the borrower and the lender (including payments made or received by the borrower or lender on behalf of another party).

IFRS 16 - Amendment removes illustrative example 13 due to confusion it creates both for the lessee and the lessor regarding the recognition of improvements to leased assets.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Other new standards, amendments to standards and interpretations that are not yet effective are not expected to have a significant impact on the Group's financial statements.

1.5. Consolidation (IFRS 10)

The Group's financial statements consolidate those of the parent entity and all its subsidiaries as of 31 December. All subsidiaries have a reporting date of 31 December. Consolidation of a subsidiary begins when the parent entity obtains control over the subsidiary and ceases when the parent entity loses control over the subsidiary.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and could affect those returns through its power over the entity. Subsidiaries where the Group holds 50% ownership interest are consolidated based on, the assessment of the Management of the Group that the Group effectively controls the subsidiary by virtue of managing the real estate development projects and/or through a shareholder agreement.

All transactions and balances between Group entities are eliminated on consolidation, including unrealized gains and losses on transactions between Group entities. Amounts reported in the statutory financial statements of subsidiaries have been adjusted, where necessary, to ensure consistency with the accounting policies adopted by the Group.

The Group prepares consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances.

The Group presents non-controlling interests in the consolidated statement of financial position within equity, separately from the equity of the owners of the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the reporting period is recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

1.6. Business combinations (IFRS 3, IAS 36)

The Group uses the acquisition method of accounting to account for business combinations where the Group has obtained control over a subsidiary or merged the net assets of one or more businesses into the Group. Cost of acquisition is calculated as the sum of the acquisition date fair values of assets transferred. Acquisition-related costs that Group incurs in a business combination are expensed as incurred.

As of the acquisition date, the Group recognizes the identifiable assets acquired, and the liabilities assumed at their fair values.

The Group applies adjusted purchase method when acquiring business combinations under common control by recognizing the assets and liabilities of the acquiree or business on the acquirer's statement of financial position at the carrying amount. The difference between the cost of acquisition and the carrying amount of the acquired net assets shall be recognized as an increase or decrease of the equity of the acquirer.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements' provisional amounts for the items for which the accounting is incomplete. The measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognized for a business combination. During the measurement period, the acquirer shall recognize adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in financial statements as needed, including making any change in depreciation, amortization or other income effects recognized in completing the initial accounting. After the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error.

1.7. Investments in associates (IAS 28)

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Investments in associates are accounted for using the equity method. The initial recognition of the investment in associate is recognized at cost. The carrying amount of the investment in associates are increased or decreased to recognize the Group's share of the profit or loss and other comprehensive income of associates, adjusted where necessary to ensure consistency with the accounting policies of the Group.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale.

1.8. Property, plant and equipment (IAS 16)

Property, plant, and equipment are assets used for production, provision of services or administrative purposes over a period of more than one year.

Items of property, plant and equipment are recognized at an acquisition cost less any accumulated depreciation and impairment losses, if any. Acquisition cost consists of the purchase price and other costs directly attributable to the acquisition that are necessary for bringing the asset to its working condition and location. When an item of property, plant and equipment consists of separately identifiable components that have different useful lives, these components are accounted as separate assets and separate depreciation rates are assigned to them according to the useful lives of the components. Items of property, plant and equipment leased under the lease terms are accounted for similarly to purchased property, plant and equipment.

Depreciation is recognized as an expense on a straight-line basis over the estimated useful life of an item of property, plant and equipment and its identifiable components.

The following estimated useful lives are applied:

- Buildings and structures 2–33 years
- Plant and equipment 5–10 years
- Other equipment and fixtures 3-5 years
- Vehicles 5-7 years

Land and construction in progress are not depreciated.

The Group use uniform depreciation rates in all Group companies. The estimated useful lives, residual values and depreciation methods are reviewed annually. The effect of the changes is reflected in the reporting period and in subsequent periods.

Items of property, plant and equipment are derecognized on disposal or when no future economic benefits are expected from the continued use or disposal of the asset. Gains or losses arising from derecognition of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

1.9. Intangible assets (IAS 38, IAS 36)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. The useful lives of intangible assets are assessed as either finite or indefinite.

Depreciation is recognized as an expense on a straight-line basis over the estimated useful life of an item of property, plant and equipment and its identifiable components.

The following estimated useful lives are applied:

- Licenses and software 2-5 years

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income for the period.

Goodwill

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is more than the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all the assets acquired and all the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in statement of comprehensive income for the period.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

1.10. Cash and cash equivalents, cash flows (IAS 7)

Cash and cash equivalents are cash at bank and on hand, short-term extremely high liquidity investments (up to three months) that are readily convertible into a known amount of cash and which are subject to an insignificant risk of changes in value.

Restricted cash and cash equivalent balances are those which meet the definition of cash and cash equivalents but are not available for use by the group. The Group has a requirement, as part of its business operations, to set aside cash by way of deposit into an escrow account. Such escrow accounts are classified in cash flow statement as change in receivables from operating activities.

The statement of cash flows reports cash flows during the period classified by operating, investing and financing activities. The Group reports cash flows from operating activities using the indirect method whereby operating profit or loss is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.

1.11. Inventories (IAS 2, IAS 23)

In inventories, development projects are recorded under development projects ready for sale from the moment the project has been granted a use permit, otherwise development projects under development are recorded under development projects in progress.

Inventories are stated at the lower of cost and net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. If inventory items are not clearly distinguishable from each other, then the weighted average cost method is used. Net realizable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Borrowing costs related to real estate development projects are included in the cost of inventories. The Group capitalizes borrowing costs that are directly attributable to the real estate development projects and ceases to capitalize when real estate development project is ready for sale but not later than the real estate development project has been granted a permit for use. Interest expenses that are related to real estate maintenance or usage are not capitalized but expensed in the period when they occur. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Completed real estate inventories are sold either in units or as a whole. Revenue from the sale is recognized as income from sale of real estate.

All the Group's development projects are recorded as inventories, even if the Group earns rental income before the full or partial sale of the development project. The Group aims to develop the acquired properties and sell the developed projects.

1.12. Financial instruments (IFRS 9, IAS 32)

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets and financial liabilities are recognized in the Group’s statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value, except for trade receivables that do not have a significant financing component which are measured at transaction price. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

An entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. The Group raised 10 million euros in 2021 by listing its shares in Nasdaq Tallinn stock exchange. The transaction costs of share issue are accounted for as a deduction from equity.

Financial assets

At initial recognition, the Group measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset. After initial recognition, the Group measures a financial asset in amortized cost, fair value through other comprehensive income, or fair value through profit or loss.

Purchase and sale of financial asset is recognized using settlement date accounting. Settlement date is the date that an asset is delivered to or by the Group.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. On derecognition the Group recognizes the difference between the carrying amount and consideration received as profit or loss. Transaction costs of financial assets carried at fair value plus or minus are expensed in profit or loss. Subsequent measurement of debt instruments depends on the group’s business model for managing the asset and the cash flow characteristics of the asset.

Group measures its debt instruments at amortized cost. The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance.

The Group recognizes loss allowance for expected credit losses on loan instruments, lease receivables, trade receivables, contract assets and financial guarantee contracts. Expected credit loss is based on the difference between all contractual cash flows that are due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the at an approximation of original effective interest rate. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Group always recognizes lifetime expected credit losses for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions, and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Group recognizes lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. Lifetime expected credit losses represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. At the same time, 12-month expected credit losses represent the portion of lifetime expected credit losses that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Interest income is recognized using the effective interest method for receivables measured subsequently at amortized cost. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Financial liabilities

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans, and borrowings. Interest bearing loans and borrowings are recognized at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Embedded derivatives

When the Group enters SPV agreement with a business partner, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances, and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts. A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through comprehensive income.

1.13. Provisions and contingent liabilities (IAS 37)

Provisions are recognized when the Group has a present obligation (legal or constructive) because of a past event it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received.

Contingent liabilities

Contingent liabilities are those liabilities the realization of which is less probable than non-realization or the amount of which cannot be measured sufficiently reliably. The Group does not recognize contingent liabilities but discloses brief description of the nature of the contingent liability and, where practicable an estimate of its financial effect; an indication of the uncertainties relating to the amount or timing of any outflow; and the possibility of any reimbursement unless the possibility of any outflow in settlement is remote.

1.14. Government grants (IAS 20)

Grants related to assets are government grants whose primary condition is that an entity qualifying for them should purchase, construct or otherwise acquire long-term assets. Grants related to income are government grants other than those related to assets. Grants related to operating expenses are government grants that are not government grants related to assets.

Government grants shall be recognized in profit or loss on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. A government grant that becomes receivable as compensation for expenses or losses already incurred shall be recognized in profit or loss of the period in which it becomes receivable.

1.15. Leases (IFRS 16)

The Group assesses at contract inception whether a contract is, or contains, a lease. Lease is a contract that conveys the right to control the use of an identified asset for a period in exchange for consideration.

Group as a lessee

The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for leases which are both short-term and of low value.

The right-of-use asset is measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-to-use assets includes the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date (less any lease incentives received), any initial direct costs incurred by the Group; and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. Lease payments are discounted using the interest rate implicit in the lease or, alternatively, the lessee’s incremental borrowing rate. The incremental borrowing rate is the interest rate that the group would have to pay to borrow the funds necessary to obtain a similar asset.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate.

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is measured as follows:

- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Group as a lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognized on a straight-line basis over the lease term. Gains from the expected disposal of assets shall not be taken into account in measuring a provision. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as lease income.

The Group enters into short-term lease agreements as a lessor with respect to some of its real estate development properties in Latvia until the property is sold. Such real estate property is continuously recognized as inventories because being held for sale in the ordinary course of business.

1.16. Revenue (IFRS 15)

The Group recognizes revenue from the following major source:

- revenue from sale of real estate;
- revenue from project management services;
- rental income;
- revenue from other services.

The Group recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Group recognizes revenue when it transfers control of a product or service to a customer.

Revenues from sale of real estate

Revenue from the sale of goods purchased and finished goods, including real estate developed by the Group, is recognized when control of the goods has been substantially transferred to the buyer, it is probable that economic benefits associated with the transaction will flow to the group, the costs incurred or to be incurred in respect of the transaction including potential returns can be measured reliably, the group retains no continuing involvement with the goods, and the amount of the revenue can be measured reliably. The sale is considered completed upon signing the real right contract with the buyer.

The Group recognizes revenue in the amount of the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer.

Revenue from project management services

Project management income includes revenues from project management services the Group provides to external partners and associated companies. Project management income is recognized in the accounting period when the service is rendered.

Rental income

Rental income includes revenues from renting Group’s residential and commercial property. Rental income from operating leases is recognized on a straight-line basis over the lease term.

Revenue from other services

Revenue from other services includes revenues from services provided by the Group other than project management or rental income and income from sale of good other than development projects.

1.17. Operating segments (IFRS 15, IFRS 8)

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

The Group reports separately information about the following operating segments:

- residential real estate;

- commercial real estate;
- headquarters

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

The operating results are regularly reviewed by the Group’s Management Board to monitor the performance of the various segments in terms of sales revenue and operating profit (loss). Segment profit represents the segment’s external sales and operating profit (loss).

1.18. Income tax (IAS 12)

Corporate income tax in Estonia

According to the Income Tax Act entered into force in Estonia at 1 January 2000, it is not the company's profits that are taxed but net dividends paid. Income tax is paid on dividends, fringe benefits, gifts, donations, costs of reception of guests, non-business payments and transfer price adjustments. The effective income tax rate is 20/80 on net dividends paid out. Starting from 2019, it is possible to apply a more favourable tax rate on dividend payments (14/86). The more favourable tax rate can be applied to a dividend distribution that amounts to up to three preceding years’ average dividend distribution that has been taxed at 20/80 rate.

Corporate income tax in Latvia

From 1 January 2018, profits earned after 2017 will be taxed at a rate of 20/80. The transitional rules of the Income Tax Act allow for a reduction in the profit payable on dividends if the company has unused tax losses or certain provisions as of 31 December 2017. As a result of the implementation of the Income Tax Act effective from 2018, there are no longer differences between the tax accounting and carrying amounts of assets and liabilities in Latvia, and therefore deferred income tax assets and liabilities to Latvian subsidiaries are not recognized.

Deferred income tax liability

Deferred income tax liability is recognized in respect to investments in subsidiaries, except for if the Group can control the timing of the reversal of the taxable temporary differences and it is probable that the reversal will not occur in the foreseeable future. As the parent controls the payment of dividends, the sale or liquidation of an investment, and other transactions in subsidiaries it can control the timing of the reversal of taxable temporary differences associated with these investments. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future the parent does not recognize a deferred tax liability. 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, there are sufficient funds to pay the dividend and owner’s equity on account of which to distribute profit in foreseeable future.

1.19. Fair value measurement (IFRS 13)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. The Group measures its financial instruments at fair value at each statement of financial position date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or in the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available.

Cash and cash equivalents include deposits in local commercial banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Due to their short-term nature, the carrying amounts approximate the fair value of cash and cash equivalents.

Expected credit loss rate for current loan receivables, non-current loans and other non-current receivables is 0%, historical average of trade receivables as at 31 December 2022: 3.0% (31 December 2021: 2.6%). The impact on recoverability of receivables in short perspective and in consideration of expected lifetime losses is estimated as insignificant at each statement of financial position date.

Inventories are stated at the lower of cost and net realizable value in the statement of financial position. Fair value is evaluated based on net realization value with 15% discount to cover any risks and setback before the development is completed and properties sold (hair-cut). The applied percentage is based on the management's estimate made based on their professional expertise in the field of operations.

Property, plant and equipment fair value is assumed to be equal to carrying value as its estimated useful lives, residual values and depreciation methods are reviewed annually.

According to the estimation of the Group, the carrying values of financial liabilities in the consolidated statement of financial position as at 31 December 2022 does not vary significantly from the fair value since they are measured at net cash flows discounted at the effective interest rate that considers all additional direct costs of lending, as well as timing of settling of such financial obligations.

Part of the Group's long-term borrowings have a floating interest rate (includes 6 months Euribor). Based on the estimation of the management, the Group's financial outlook and market risks have not materially changed since the loans were obtained and the interest rates on the Group's debt are on the market conditions.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level (L) 1 - quoted (unadjusted) market prices in active markets for identical assets and liabilities.

Level (L) 2 - fair value is estimated using market information and valuation is based on observable inputs.

Level (L) 3 - fair value is estimated using the discounted cash flow valuation technique and the valuation is based on non-observable inputs.

In thousands of euros	**31.12.2022**			**31.12.2021**		
	Carrying value	**Fair value**	**L**	**Carrying value**	**Fair value**	**L**
Assets						
Current assets						
Cash and cash equivalents	3,754	3,754	1	10,889	10,889	1
Trade and other receivables	1,731	1,731	3	652	652	3
Current loan receivables	0	0	3	2,388	2,388	3
Inventories	69,760	74,053	3	37,237	38,789	3
Total current assets	**75,245**	**79,538**		**51,166**	**52,718**	
Non-current assets						
Property, plant and equipment	232	232	3	229	229	3
Intangible assets	7	7	3	0	0	3
Financial investments	2	402	3	402	402	3
Investments in associated	1,086	1,086	3	0	0	3
Non-current loans	1,766	1,766	3	3,408	3,408	3
Other non-current receivables	30	30	3	140	140	3
Total non-current assets	**3,123**	**3,123**		**4,179**	**4,179**	
Total assets	**78,368**	**82,661**		**55,345**	**56,897**	
Liabilities and equity						
Current liabilities						
Loans and borrowings	22,565	22,565	3	5,501	5,501	3
Current lease liabilities	46	46	3	123	123	3
Prepayments from customers	3,054	3,054	3	1,164	1,164	3
Trade and other payables	4,007	4,007	3	5,539	5,539	3
Total current liabilities	**29,672**	**29,672**		**12,327**	**12,327**	
Non-current liabilities						
Loans and borrowings	26,015	26,015	3	22,862	22,862	3
Non-current lease liabilities	68	68	3	66	66	3
Other non-current liabilities	2,290	2,290	3	1,053	1,053	3
Total non-current liabilities	**28,373**	**28,373**		**23,981**	**23,981**	
Total liabilities	**58,045**	**58,045**		**36,308**	**36,308**	

1.20. Employee benefits (IAS 19)

The Group operates only short-term employee benefits (expected to be settled wholly before twelve months after the end of the reporting period in which the employees render services) such as salaries, and social security contribution; paid annual leave and sick leave; and bonuses. There are no special benefits, share-based payments or share options granted for the Group employees during the reporting periods or subsequent to the last statement of financial position date 31 December 2022.

1.21. Related parties (IAS 24)

A related party is a person or entity that is related to the entity that is preparing its financial statements. A related party transaction is a transfer of resources, services, or obligations between a reporting entity and a related party, regardless of whether a price is charged. Such transactions could have an effect on the profit or loss and financial position of the Group. For this reason, knowledge of the Group's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of its operations by users of financial statements, including assessments of the risks and opportunities facing the Group.

Relationships between a parent and its subsidiaries are disclosed irrespective of whether there have been transactions between them. The Group discloses the related party relationship when control exists, irrespective of whether there have been transactions between the 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 well as associated companies as related parties.

1.22. Earnings per share (IAS 33)

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year. Diluted earnings per share is calculated by dividing the profit attributable to equity holders of the parent (after adjusting for interest on the convertible preference shares) by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares.

1.23. Events after the reporting period (IAS 10)

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. Events after the reporting period are those that provide evidence of conditions that existed at the end of the reporting period (adjusting events after the reporting period) and those that are indicative of conditions that arose after the reporting period (non-adjusting events after the reporting period).

Notes to the consolidated financial statements

Note 2. Cash and cash equivalents

in thousands of euros	31.12.2022	31.12.2021
Bank accounts	3,754	10,889
Total cash and cash equivalents	**3,754**	**10,889**

All cash and cash equivalents are in euros.

Note 3. Trade and other receivables

in thousands of euros	31.12.2022	31.12.2021
Trade receivables	718	86
Allowance for doubtful receivables (Note 22)	-10	-6
Net trade receivables	**708**	**80**
Prepayments		
Tax prepayments	**318**	**382**
Value added tax	317	382
Other taxes	1	0
Other prepayments for goods and services	279	146
Total prepayments	**597**	**528**
Other current receivables		
Interest receivables (Note 27)	1	33
Other current receivables	20	11
Escrow account	405	0
Total other current receivables	**426**	**44**
Total trade and other receivables	**1,731**	**652**

Note 4. Inventories

Inventories are accounted as ready for sale development projects once the project has been granted usage permit. As of 31 December 2022, usage permits have been issued for the 30 Ulbrokas, 4b Strēlnieku development projects in Riga, and a partial usage permit has been issued for the Meister 14 development project in Tallinn.

As at 31 December 2022 the Group had 26 (31 December 2021: 45) unsold apartments, including 8 apartments in Tallinn, Paevälja 11 development project 8 and 18 apartmets in Riga, 4b Strēlnieku development project.

As at 31 December 2022 changes in inventories as stated in cash flow statements have been adjusted by loan interest expense, which are capitalised in the amount of 1,842 thousand euros (31 December 2021: 1,518 thousand euros). Further information about paid interests is provided in the note 24.

in thousands of euros				31.12.2022		31.12.2021	
Work in progress							
Address	**Project company**	**Location**	**Segment**	**Acquisition cost**	**Project status**	**Acquisition cost**	**Project status**
Pirita Road 26b, Tallinn	Hepsor P26B OÜ	Estonia	Residential	0	-	13	E
Paevälja 11, Tallinn	Hepsor PV11 OÜ	Estonia	Residential	909	E	0	-
Paevälja 11, Tallinn	Hepsor PV11 OÜ	Estonia	Residential	5,585	D	2,965	D
Paldiski mnt 227c, Tallinn	Hepsor 3Torni OÜ	Estonia	Residential	3,482	D	2,517	C
Narva mnt 150,150a,150b Tallinn	Hepsor N450 OÜ	Estonia	Residential/ Commercial	3,609	A	3,582	A
Manufaktuuri 5, Tallinn	Hepsor Phoenix 3 OÜ	Estonia	Residential/ Commercial	4,168	B	3,268	B
Manufaktuuri 7, Tallinn	Hepsor Phoenix 2 OÜ	Estonia	Residential/ Commercial	3,018	C	2,303	B
Tooma 2/Tooma 4 Tallinn	T2T4 OÜ	Estonia	Commercial	1,248	C	1,159	C
Lembitu 4, Tallinn	Hepsor L4 OÜ	Estonia	Commercial	2,954	C	2,811	C
Meistri 14, Tallinn	Hepsor M14 OÜ	Estonia	Commercial	3,193	D	5,765	D
Alvari 2/Paevälja 9, Tallinn	Hepsor Fortuuna OÜ	Estonia	Residential	1,657	A	1,656	A
Alvari 1, Tallinn	Hepsor A1 OÜ	Estonia	Residential	2,023	A	1,004	A
Kadaka Road 197, Tallinn	H&R Residentsid OÜ	Estonia	Residential	1,168	A	614	A
Manufaktuuri 12, Tallinn	Hepsor Phoenix 4 OÜ	Estonia	Residential	843	A	0	-
Nõmme Road 57, Tallinn	Hepsor N57 OÜ	Estonia	Residential	1,704	C	0	-
Balozu 9, Riga	Hepsor Bal9 SIA	Latvia	Residential	0	-	1,770	D
Saules aleja 2, Riga	Hepsor SA2 SIA	Latvia	Residential	886	B	957	B
Liela 45, Marupe	Hepsor Marupe SIA	Latvia	Residential	7,766	D	663	C
Ranka Dambis 5, Riga	Hepsor RD5 SIA	Latvia	Residential	416	B	354	B
Ulbrokas 30, Riga	Hepsor U30 SIA	Latvia	Commercial	0	-	1,485	D
Ulbrokas 34, Riga	Hepsor U34 SIA	Latvia	Commercial	1,128	B	1,019	B
Braila 23, Riga	Hepsor Jugla SIA	Latvia	Residential	314	B	0	-
Gregora iela 2a, Riga	Hepsor Kvarta SIA	Latvia	Residential	10,125	D	0	-
Ganibu Dambis 17a, Riga	Hepsor Ganibu Dambis SIA	Latvia	Commercial	3,918	A	0	-
Jurmala Gatve, Riga	Hepsor JG SIA	Latvia	Residential	360	B	0	-
-other properties		Estonia		18	A	21	A
Total work in progress				**60,492**		**33,926**	
Finished real estate development							
Meistri 14, Tallinn	Hepsor Meistri 14 OÜ	Estonia	Commercial	4,026	E	0	-
Manufaktuuri 22, Tallinn (parkimiskohad)	Hepsor Phoenix OÜ	Estonia	Residential	16	E	16	E
Āgenskalna 24, Riga	Hepsor Agen24 SIA	Latvia	Residential	0	-	50	E
Strēlnieku 4b, Riga	Hepsor S4B SIA	Latvia	Residential	1,106	E	3,245	E
Ulbrokas 30, Riga	Hepsor U30 SIA	Latvia	Commercial	4,120	E	0	-
Total finished real estate development				**9,268**		**3,311**	
Total inventories				**69,760**		**37,237**	

Project statuses are classified as following:

in thousands of euros	31.12.2022	31.12.2021	Change %
A – planning proceedings	13,236	6,877	92
B – building permit proceedings	7,272	7,901	-8
C – building permit available / construction has not yet started	8,924	7,150	25
D – construction started / sale started	30,151	11,985	152
E – construction ready for sale	10,177	3,324	206
Total inventories	**69,760**	**37,237**	**87**

Note 5. Property, plant and equipment

in thousands of euros	Buildings and structures	Machinery and equipment	Other items	Total
2022				
Cost at 31.12.2021	248	23	135	**406**
Accumulated depreciation at 31.12.2021	-79	-6	-92	**-177**
Carrying amount at 31.12.2021	**169**	**17**	**43**	**229**
New lease contracts	0	58	0	**58**
Acquisition	76	0	24	**100**
Depreciation	-113	-12	-23	**-148**
Termination of lease contracts	-78	0	0	**-78**
Write-off of accumulated depreciation from terminations of lease contracts	78	0	0	**78**
Write-off of acquisition cost	0	0	-6	**-6**
Write-off of accumulated depreciation	0	0	6	**6**
Acquisition cost of property, plant and equipment sold	0	-23	0	**-23**
Accumulated depreciation of property, plant and equipment sold	0	16	0	**16**
Cost at 31.12.2022	246	58	153	**457**
Accumulated depreciation at 31.12.2022	-114	-2	-109	**-225**
Carrying amount at 31.12.2022	**132**	**56**	**44**	**232**
2021				
Cost at 31.12.2020	581	79	135	**795**
Accumulated depreciation at 31.12.2020	-186	-52	-65	**-303**
Carrying amount at 31.12.2020	**395**	**27**	**70**	**492**
New lease contracts	78	0	0	**78**
Depreciation	-120	-10	-27	**-157**
Termination of lease contracts	-411	-56	0	**-467**
Write-off of accumulated depreciation from terminations of lease contracts	227	56	0	**283**
Cost at 31.12.2021	248	23	135	**406**
Accumulated depreciation at 31.12.2021	-79	-6	-92	**-177**
Carrying amount at 31.12.2021	**169**	**17**	**43**	**229**

The lease agreement of an office in Riga is recorded in the asset class of buildings and structures. The term of the lease agreement for the Riga office is 2024. In Riga the Group subleases assets under operating leases to a related party. In 2022, the income from rent amounted to 20 thousand euros (2021: 19 thousand euros). Sublease of the operating lease is recorded in a simplified manner as other operating income and other operating expenses (note 22).

In 2022, the Group bought a car with a lease agreement. The asset is recorded in the machinery and equipment asset class.

Information on lease liabilities and payments are presented in note 11.

In 2022, 25 thousand euros were received from the sale of machines and equipment.

Note 6. Intangible assets

in thousands of euros	Licenses and software
Carrying amount at 31.12.2021	**0**
Acquisition	8
Depreciation	-1
Cost at 31.12.2022	8
Accumulated depreciation at 31.12.2022	-1
Carrying amount at 31.12.2022	7

Note 7. Financial investments

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

Hepsor Latvia OÜ signed a sales-purchase agreement on 15 December 2021 to acquire 100% of Latvian company Hepsor Jugla SIA (previously Brofits SIA).The acquisition cost was 400 thousand euros. The holding was not consolidated since the Group lacked sufficient control over Hepsor Julga SIA as stated by the management of the Group and the transaction was formalized only in the beginning of 2022, then as of 31 December 2021, the purchase of the company is recorded as a financial investment, and from January 2022, Hepsor Jugla SIA belongs to the Hepsor AS consolidation group.

Note 8. Other non-current receivables

in thousands of euros	31.12.2022	31.12.2021
Interest receivables (Note 27)	30	140
Total	**30**	**140**

Note 9. Loans granted

in thousands of euros	Owner of non-controlling interest	Unrelated legal entities	Associates	Related legal entities	Total
2022					
Loan balance as at 31.12.2021					
-current portion	2,109	0	279	0	**2,388**
-non-current portion	0	1,100	2,308	0	**3,408**
Total loan balance as at 31.12.2021	**2,109**	**1,100**	**2,587**	**0**	**5,796**
Loan granted	0	0	0	176	**176**
Loan collected	-29	-1,100	-821	-176	**-2,126**
Division of subsidiary	-2,080	0	0	0	**-2,080**
Total loan balance as at 31.12.2022	**0**	**0**	**1,766**	**0**	1,766
-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 at 31.12.2020					
-current portion	720	56	0	0	**776**
-non-current portion	0	0	1,371	0	**1,371**
Total loan balance as at 31.12.2020	**720**	**56**	**1,371**	**0**	**2,147**
Loan granted	2,109	1,044	1,216	0	**4,369**
Division of subsidiary	-720	0	0	0	**-720**
Total loan balance as at 31.12.2021	**2,109**	**1,100**	**2,587**	**0**	**5,796**
-current portion	2,109	0	279	0	**2,388**
-non-current portion	0	1,100	2,308	0	**3,408**
contractual/effective interest rate per annum	0-3%	0%	7%	0	

The loan granted in 2021 to unrelated legal entities in the amount of 1,100 thousand euros was a loan to Kvarta Holding OÜ, in January 2022 Hepsor Latvia OÜ acquired a 50% shareholding in Kvarta Holding OÜ. As a result of the acquisition, Kvarta Holding OÜ became a subsidiary of Hepsor Latvia OÜ.

In December 2021, the shareholders of Hepsor P26b OÜ approved the resolution of division of the company, based on which in 2022 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 14.

Additional information on transactions with related legal entities is provided in Note 32.

Note 10. Loans and borrowings

in thousands of euros	Bank loans	Unrelated legal entities	Related legal entities	Total
2022				
Loan balance as of 31.12.2021				
- current portion	2,821	2,680	0	**5,501**
- non-current portion	8,130	12,901	1,831	**22,862**
Total loan balance as of 31.12.2021	**10,951**	**15,581**	**1,831**	**28,363**
Received	27,655	3,773	464	31,892
Repaid	-8,287	-3,316	-69	-11,672
Actual interest rate impact	-190	-247	75	**-362**
Compound interest rate	0	354	5	**359**
Loan balance as of 31.12.2022	**30,129**	**16,145**	**2,306**	**48,580**
- current portion	17,040	3,352	2,173	22,565
- non-current portion	13,089	12,793	133	26,015
Contractual interest rate per annum	*6M Euribor+3.75%-8%; 5.5%*	*0-12%*	*3%-12%*	
Effective interest rate per annum	*7.6%-12.3%*	*5.3%-12.2%*	*12.2%*	
2021				
Loan balance as of 31.12.2020				
- current portion	1,308	2,230	500	**4,038**
- non-current portion	3,397	8,585	140	**12,122**
Total loan balance as of 31.12.2020	**4,705**	**10,815**	**640**	**16,160**
Received	14,008	6,555	1,750	**22,682**
Repaid	-7,807	-2,084	-500	**-10,479**
Actual interest rate impact	45	-172	-75	**-202**
Compound interest rate	0	467	16	**483**
Loan balance as of 31.12.2021	**10,951**	**15,581**	**1,831**	**28,363**
- current portion	2,821	2,680	0	**5,501**
- non-current portion	8,130	12,901	1,831	**22,862**
Contractual interest rate per annum	*EU6+5.85%-8%; 8.2%*	*0-12%*	*3%-12%*	
Effective interest rate per annum	*6.8%-11%*	*0-24%*	*3%-12%*	

Additional information on transactions with related legal entities is provided in Note 32.

The adjustment in change in inventories in the cash flow statement of the reporting period arising from capitalizing the actual interest rate impact on loans as part of the cost of the inventories amounted to 254 thousand euros (2021: 229 thousand euros) and the adjustment in the interest paid due to the effect of actual and compound interest amounted to 360 thousand euros (2021: 510 thousand euros). Additional information on cash flows is provided in Appendix 27.

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 31 December 2022, 89% (31 December 2021: 86%) 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 31.12.2022				
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 31.12.2021				
Loans for development projects	6,925	15,581	1,831	**24,337**
Loans to headquarters to finance development projects	4,026	0	0	**4,026**
Total	**10,951**	**15,581**	**1,831**	**28,363**

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 AS	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	1,254	2025	1,300	6M Euribor+8%	Mortgage - Lembitu 4, Tallinn	2,953	-
LHV Pank AS	Estonia	0	2025	13,900	6M Euribor+5.9%	Mortgage - Paldiski mnt 227c, Tallinn	3,477	-
Bigbank AS	Latvia	4,822	2025	7,000	5.5%	Mortgage-Liela 45, Mārupe	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	5,958	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 -Ganību dambis 17A, Riga; Commercial pledge	3,918	-

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	1,285	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 pst 11, Lageloo tn 3 // 5, Lageloo tn 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

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.

Additional information on other guarantees given by the group is provided in Note 16.

Note 11. Lease liabilities

in thousands of euros	Right to use lease	Finance lease liabilities	Total
2022			
Balance as at 31.12.2021			
- current portion	112	11	**123**
- non-current portion	61	5	**66**
Total lease liabilities balance as at 31.12.2021	**173**	**16**	**189**
New lease contracts	0	58	**58**
Repaid	-107	-26	**-133**
Total lease liabilities balance as at 31.12.2022	**66**	**48**	**114**
- current portion	36	10	**46**
- non-current portion	30	38	**68**
2021			
Balance as at 31.12.2020			
- current portion	134	40	**174**
- non-current portion	267	0	**267**
Total lease liabilities balance as at 31.12.2020	**401**	**40**	**441**
New lease contracts	78	0	**78**
Repaid	-129	-15	**-144**
Termination of lease contracts	-177	-9	**-186**
Total lease liabilities balance as at 31.12.2021	**173**	**16**	**189**
- current portion	112	11	**123**
- non-current portion	61	5	**66**

Additional information on assets under finance and right to use leases is provided in Note 5.

Note 12. Trade and other payables and prepayments

in thousands of euros	31.12.2022	31.12.2021
Prepayments from customers	**3,054**	**1,164**
Trade payables	**1,906**	**1,506**
Tax payables		
Value added tax	910	254
Personal income tax	28	18
Social security tax	51	33
Other taxes	5	5
Total tax payables	**994**	**310**
Accrued expenses		
Payables to employees	109	72
Interest payables (Note 27)	552	135
Other accrued expenses	35	29
Total accrued expenses	**696**	**236**
Other current payables		
Embedded derivatives (Note 14)	8	2,115
Other payables	403	1,372
Total other current payables	**411**	**3,487**
Total trade and other payables	**7,061**	**6,703**

Customer prepayments for apartments under contract under law of obligations and reservation agreements for apartments are recorded as customer prepayments.

Note 13. Other non-current liabilities

in thousands of euros	31.12.2022	31.12.2021
Interest payables (Note 27)	1,652	1,020
Other non-current payables	638	33
Total other non-current liabilities	**2,290**	**1,053**

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 31 December 2022, the book value of the liability amounted to 566 thousand euros.

Note 14. Embedded derivatives

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

in thousands of euros	31.12.2022	31.12.2021
Current liabilities arising from embedded derivatives balance as at 01.01	**2,115**	**1,022**
Settlements with shareholder loan arising from the division agreement:		
Residential development project in Pirita Road 26b, Tallinn (Note 9)	-2,080	0
Residential development project in Kadaka Road 141, Ehitajate Road 91/91a, Tallinn	0	-448
Residential development project in Valge 10/10a	0	-274
Dividends paid		
Residential development project Mõigu Road 11, Rae	-37	0
Total change in liabilities arising from embedded derivatives	**-2,117**	**-722**
Change in the value of the embedded derivative of the non-controlling interest during the reporting year		
Residential development project in Pirita Road 26b, Tallinn	-17	-1,827
Residential development project in Mõigu Road 11, Rae	35	12
Commercial development project in Meistri 14, Tallinn	-8	**0**
Total change in the value of embedded derivatives of the non-controlling interest for the reporting year	**10**	**-1,815**
Total current liabilities arising from embedded derivatives (Note 12)	**8**	**2,115**

According to shareholders agreements the profit is shared with minority shareholders in the form as it is agreed in the agreement. Pursuant to the division agreement entered into between the shareholders of Hepsor P26b OÜ the loan granted by the Group to the shareholders was settled with the liability arising from embedded derivatives in the amount of 2,080 thousand euros. The related expense in the amount of 17 thousand euros was recognized in other comprehensive income for 2022.

Subject to the resolution of the shareholders of Hepsor Peetri OÜ, the dividends in the amount of 29 thousand euros were paid to the minority shareholder, from which income tax of 6 thousand euros was calculated and paid.

Note 15. Equity

According to the articles of association of Hepsor AS, the minimum share capital of the company is 3 million euros and the maximum share capital is 12 million euros. As of 31 December 2022, the share capital of Hepsor AS was 3,855 thousand euros (31.12.2021: 3,855 thousand euros).

At the general meeting of shareholders on 9 August 2021, it was decided to transform the private limited company (OÜ) into a public limited company (AS) and to increase the share capital of the company. The shareholders decided to increase the share capital to 3 million euros at the expense of the share premium. After the share capital increase, the company had 3 million shares with a nominal value of 1 euro.

On November 8, 2021, the general meeting of shareholders decided to list the shares of Hepsor AS on the main list of the Nasdaq Tallinn Stock Exchange and to issue up to 854,701 shares at an offer price of 11.70 euros, of which 1 euro was the nominal value and 10.70 was the share premium. The Group's shares were listed on the main list of the Nasdaq Tallinn Stock Exchange on November 26, 2021. Additional information on the number of shares is provided in the Note 26.

10 million euros were raised from investors through the issue and listing of shares. Expenses related to the issue and listing of shares amounted to 650 thousand euros, of which expenses related to the listing of existing shares in the amount of 205 thousand euros have been recognized through profit attributable to owners of the parent company and expenses related to the issue and listing of new shares amounted to 445 thousand euros through comprehensive income. Net cash flow from issuing shares was 9,555 thousand euros.

In 2022 Hepsor Peetri OÜ paid dividends to minority shareholders in the amount of 29 thousand euros (2021: 64 thousand euros).

In January and August 2021 Hepsor AS paid dividends to shareholders in the amount of 188 thousand euros.

Note 16. Contingent liabilities

16.1. 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 31 December 2022 to pay 12,904 thousand euros (31 December 2021: 7,501 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 31 December 2022, the realization time of contingent liabilities remains between 2023 and 2027.

16.2 Based on the investor agreement signed in December, 2022 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.

16.3. Group guarantees given

Additional information on the guarantees given is provided in Note 10.

The Group is obliged to provide warranty services during the warranty period. The Group has outsourced the provision of warranty period services for general repairs of defects of real estate developed to contracted construction service partners.

Notes to the Consolidated statement of profit and loss and other comprehensive income

Note 17. Revenue

in thousands of euros	2022	2021
Revenue from sale of real estate	11,750	14,347
Revenue from project management services	145	227
Revenue from rent	771	312
Revenue from other services	204	75
Total	**12,870**	**14,961**

In 2022, 9,878 thousand euros (2021: 12,769 thousand euros) were earned, which is 84% (2021: 89%) of real estate sales from private clients.

In 2022, 85 (2021: 94) apartments were sold, of which 45 in Latvia (2021: 11) and 40 in Estonia (2021: 83).

Revenue by geographical area:

in thousands of euros	2022	2021
Estonia	6,817	13,278
Latvia	6,053	1,683
Total	**12,870**	**14,961**

Revenue by operating segments:

in thousands of euros	2022	2021
Residential real estate	11,069	14,085
Commercial real estate	1,654	643
Headquarters	147	233
Total	**12,870**	**14,961**

Additional information on operating and geographical segments is provided in the Note 30.

Note 18. Cost of sales

in thousands of euros	2022	2021
Cost of real estate sold	-9,165	-11,137
Personnel expenses (Note 21)	-770	-444
Interest expenses (Note 24)	-218	-257
Depreciation	-32	-32
Other costs	-911	-32
Total	**-11,096**	**-11,902**

Note 19. Marketing expenses

in thousands of euros	2022	2021
Personnel expenses (Note 21)	-117	-81
Other marketing expenses	-329	-190
Total	**-446**	**-271**

Note 20. Administrative expenses

in thousands of euros	2022	2021
Personnel expenses (Note 21)	-643	-383
Depreciation	-110	-125
Traveling and transport expenses	-49	-40
Purchased service expenses	-246	-347
Office expenses	-45	-18
Other administrative expenses	-2	-29
Total	**-1,095**	**-942**

Note 21. Personnel expenses

in thousands of euros	2022	2021
Salaries	-1,054	-680
Social security and other payroll taxes	-476	-228
Total (Notes 18, 19, 20)	**-1,530**	**-908**

As of 31 December 2022, the Group, together with the members of the Management Board and the Supervisory Board, had 25 (31.12.2021: 21) employees, of which 13 in Estonia (31.12.2021: 13) and 12 in Latvia (31.12.2021: 8).

The average number of employees of the Group in 2022 was 18 (2021: 13.8), of which 9 in Estonia (2021: 7.8) and 9 in Latvia (2021: 6).

No special benefits, share-based payments or share options have been granted to the Group's employees, including key personnel. Key personnel include members of the Management Board and Supervisory Board of Hepsor AS and members of the Management Board of Hepsor Latvia OÜ.

Note 22. Other operating income and expenses

Other operating income

in thousands of euros	2022	2021
Fines and compensations	4	16
Income from government grants	0	21
Income from sale of passthrough services (Note 5)	20	19
Profit from the sale of property, plant and equipment	18	0
Other operating income	28	27
Total	**70**	**83**

Other operating expenses:

in thousands of euros	2022	2021
Fines and compensations	-2	-17
Cost of assigning the contractual claim	-3	-8
Loss on doubtful accounts receivable (Note 3)	-4	-6
Sublease expenses (Note 5)	-20	-18
Other operating expenses	-39	0
Total	**-68**	**-49**

Note 23. Financial income

in thousands of euros	2022	2021
Interest income (Note 27)	183	145
Profit from associates of equity method	1,086	0
Other financial income from financial investment	460	43
Financial income from discounting	160	133
Total	**1,889**	**321**

In 2022, the Group earned non-recurring financial income from waiver of minority shareholder's loan liability in the amount of 437 thousand euros. During the financial year, the Group earned profit of 566 thousand euros from Hepsor P113 OÜ and 520 thousand euros from Hepsor N170 OÜ, its associated companies, by using equity method of accounting.

Note 24. Financial expenses

in thousands of euros	2022	2021
Interest expenses (Note 27)	-717	-434
Loss from associates of equity method	0	-2
Financial expenses from discounting	-29	-14
Other financial expenses	-41	-62
Total	**-787**	**-512**

In 2022 borrowing costs in the amount of 1,842 thousand euros 2021: 1,518 thousand euros) have been capitalized as the cost of inventories (Note 4). Interest expenses of 218 thousand euros have been recognized in the cost of sales in 2022 (2021: 257 thousand euros) (Note 18).

The interest rate used for discounting long-term financial receivables and liabilities is 5% per annum, which, according to the management, is the average interest rate that the Group should pay when borrowing.

Note 25. Corporate income tax and deferred income tax

Historically the Group has financed its development activity mainly from retained earnings and dividend payments have been made in minor amounts.

Group's dividend policy considers Group's growth ambition, capital need for development projects, financial position, liquidity ratios of the Group and other factors. Based on the 2023 forecast the dividend payments are not expected as most of the Group's development projects are in the active pipeline and need further investments. The Group reinvests all expected profits to further support the Group's growth.

The Group's deferred income tax liability is based on the profit or loss from subsidiaries with minority holding, and where the distribution of profit 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 as at the reporting date. The deferred income tax liability is reduced if the distribution of profit from the development project has been agreed between the shareholders.

In April 2021 the shareholders of Hepsor Peetri OÜ decided to pay out dividends to the minority holders in the amount of 64 thousand euros. Income tax expense on dividends paid amounted to 16 thousand euros and in 2022 in the amount of 29 thousand euros, income tax expense on dividends paid amounted to 6 thousand euros.

in thousands of euros	**2022**	**2021**
Current income tax expense (Note 27)	**-6**	**+16**
Deferred income tax		
Deferred income tax balance as at 01.01	0	60
Deferred income tax expense reduction (-)	0	-60
Deferred income tax balance as at 31.12	**0**	**0**
Total income tax and deferred tax expense	**-6**	**-16**

Note 26. Earnings per share

The number of shares of Hepsor AS: 3,854,701 (EUR) * 1 (EUR) nominal value = 3,854,701 shares.

	2022	**2021 adjusted**
Profit for the year attributable to owners of the parent (thousands of euros)	1,396	-22
Weighted average number of ordinary shares (thousand pcs) (Note 1.3)	3,855	3,124
Basic earnings per share (euros)	0.36	-0.01
Diluted earnings per share (euros)	0.36	-0.01

On October 14, 2021, during the transformation of Hepsor private limited company (OÜ) into a public limited company (AS), the company's share capital became 3 million euros, the nominal value of which was 1 euro per share. The company's share capital was increased at the expense of the share premium. The number of Hepsor AS shares was after the transformation: share capital 3,000,000 (EUR)/1 (EUR) nominal value = 3,000,000 shares.
On November 8, 2021, the general meeting of shareholders decided to list the shares of Hepsor AS on the main list of the Nasdaq Tallinn Stock Exchange and to issue up to 854,701 shares at an offer price of 11.70 euros, of which 1 euro was the nominal value and 10.70 was the share premium. The average number of ordinary shares in 2021 was 3,124,107 shares. Additional information on share capital is provided in the Note 15.

Earnings per share is calculated when profit for the year attributable to owners of the parent is divided by number of shares.

Note 27. Information about line items in the consolidated statement of cash flows

in thousands of euros	2022	2021
Inventories		
Reclassification of cash flows from financing activities to operating activities (Note 4)	1,842	1,518
Decrease (-)/ increase (+) of change inventories balances (Note 4)	-32,523	-14,334
Actual interest rate impact	-254	-229
Change in inventories	**-30,935**	**-13,045**
Corporate income tax		
Income tax expense in statement of profit or loss and other comprehensive income (Note 25)	-6	-16
Decrease (-)/ increase (+) of corporate income tax liability	0	-58
Corporate income tax paid	**-6**	**-74**
Interest paid		
Interest expense in statement of profit or loss and other comprehensive income (Note 24)	-717	-434
Reclassification of cash flows from financing activities to operating activities (Note 24)	-1,842	-1,518
Decrease (-)/ increase (+) of interest payables (Notes 12,13)	1,049	591
Actual and compound interest rate impact	360	510
Interest paid	**-1,150**	**-851**
Interest received		
Interest income in statement of profit or loss and other comprehensive income (Note 23)	183	145
Decrease (+)/increase (-) (Notes 3,8)	141	-128
Interest received	**324**	**17**

Note 28. Shares of associates

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

	Ownership and voting rights %	
	31.12.2022	31.12.2021
Hepsor P113 OÜ	45	45
Hepsor N170 OÜ	25	25

Financial information about associates:

in thousands of euros	31.12.2022		31.12.2021	
	Hepsor P113 OÜ	Hepsor N170 OÜ	Hepsor P113 OÜ	Hepsor N170 OÜ
Current assets				
Cash and cash equivalents	919	2	218	373
Trade and other receivables	94	103	85	82
Current loan receivables	0	1,536	0	0
Inventories	0	160	6,991	6,591
Total current assets	**1,013**	**1,801**	**7,294**	**7,046**
Non-current assets				
Investment property	13,100	0	0	0
Trade and other receivables	297	0	0	0
Total non-current assets	**13,397**	**0**	**0**	**0**
Total assets	**14,410**	**1,801**	**7,294**	**7,046**
Current liabilities				
Loans and borrowings	158	0	0	5,534
Trade and other payables	286	2	1,034	1,595
Total current liabilities	**444**	**2**	**1,034**	**7,129**
Non-current liabilities				
Loans and borrowings	12,165	0	6,198	0
Other non-current liabilities	228	0	147	0
Total non-current liabilities	**12,393**	**0**	**6,345**	**0**
Total liabilities	**12,837**	**2**	**7,379**	**7,129**
Total equity	**1,573**	**1,799**	**-85**	**-83**
Total liabilities and equity	**14,410**	**1,801**	**7,294**	**7,046**

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. The fair value measurement was conducted by Colliers International Advisors OÜ using the discounted cash flow method, the best method for income generating investment property. The valuation is based on existing cash flows or cash flows based on market averages, the investment yield and the appropriate discount rate, which takes into account the average expected yield of similar assets, taking into account the property's location, technical condition, risk levels of tenants, etc. The valuation as at the end of 2022 was based on 6.3% yield and 7.7% discount rate.

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.

Note 29. Subsidiaries

	Ownership and voting rights %			
	31.12.2022	31.12.2021	Location	Segment
Hepsor Finance OÜ	100	100	Estonia	Headquarter
Hepsor Tooma OÜ	100	100	Estonia	Commercial development
Hepsor Kadaka OÜ	100	100	Estonia	Residential development
Hepsor Phoenix OÜ	100	100	Estonia	Residential development
Hepsor Peetri OÜ	100	68	Estonia	Residential development
Hepsor V10 OÜ	100	100	Estonia	Residential development
Hepsor Latvia OÜ	80	80	Estonia	Headquarter
Hepsor L4 OÜ	100	100	Estonia	Commercial development
Hepsor P26 OÜ	100	51	Estonia	Residential development
T2T4 OÜ	50	50	Estonia	Commercial development
Hepsor Phoenix 2 OÜ	50	50	Estonia	Residential/ Commercial development
Hepsor Phoenix 3 OÜ	50	50	Estonia	Residential/ Commercial development
Hepsor PV 11 OÜ	100	100	Estonia	Residential development
Hepsor M14 OÜ	51	51	Estonia	Commercial development
Hepsor 3Torni OÜ	51	51	Estonia	Residential development
Hepsor N450 OÜ	100	100	Estonia	Residential/ Commercial development
H&R Residentsid OÜ	50	50	Estonia	Residential development
Hepsor Fortuuna OÜ	100	100	Estonia	Residential development
Hepsor A1 OÜ	100	100	Estonia	Residential development
Hepsor Phoenix 4 OÜ	50	-	Estonia	Residential development
Hepsor N57 OÜ	100	-	Estonia	Residential development
Hepsor Kanada OÜ	100	-	Estonia	Headquarter
Hepsor Kvarta Holding OÜ	40	-	Estonia	Headquarter
Hepsor Bal 9 OÜ	57	57	Estonia	Headquarter
Hepsor Bal 9 SIA	57	57	Latvia	Residential development
Hepsor Bal 7 SIA	100	100	Latvia	Residential development
Hepsor Agen24 SIA	100	100	Latvia	Residential development
Hepsor SIA	80	80	Latvia	Headquarter
Hepsor Marupe SIA	40	80	Latvia	Residential development
Hepsor U30 SIA	80	80	Latvia	Commercial development
Hepsor S4B SIA	100	100	Latvia	Residential/ Commercial development
Hepsor SA2 SIA	41	41	Latvia	Residential development
Hepsor RD 5 SIA	80	80	Latvia	Residential development
Hepsor U34 SIA	56	56	Latvia	Commercial development
Hepsor JG SIA	80	-	Latvia	Residential development
Hepsor Jugla SIA	80	-	Latvia	Residential development
Hepsor Ganibu Dambis SIA	80	-	Latvia	Commercial development
Kvarta SIA	40	-	Latvia	Residential development

Subsidiaries where the Group holds 50% ownership interest are consolidated based on, the assessment of the Management of the Group that the Group effectively controls the subsidiary by virtue of managing the real estate development projects and/or through a shareholder agreement.

In 2022, the following changes took place in the structure of the Group:

- ✓ In February 2022, Hepsor Latvia OÜ sold its 50% shareholding in Hepsor Marupe SIA to the co-owners in accordance with the shareholders' agreement. Hepsor Marupe SIA is developing a project with 92 apartments in Marupe, Latvia, near the Riga city boundary.
- ✓ In March 2022, Hepsor AS acquired a minority stake in Hepsor P26b OÜ and Hepsor Peetri OÜ increasing its stake in both companies to 100%. The development projects of these entities ended in 2021.
- ✓ In January 2022, Hepsor Latvia OÜ acquired a 50% shareholding in Kvarta Holding OÜ in accordance with an option agreement. Kvarta Holding OÜ owns a 100% shareholding in Kvarta SIA, which is developing Kuldigas Parks residential development project with 116 apartments in Riga at Gregora 2a.
- ✓ In January Hepsor Latvia OÜ acquired a 100% shareholding in Hepsor Jugla SIA-s (former business name Brofits SIA). Hepsor Jugla SIA is developing residential development with 100 apartments in Riga at Braila 23.

Purchase price allocation as of 31 December 2021:

in thousands of euros	**Hepsor Jugla SIA**	**Kvarta 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 Kvarta 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 established 5 new real estate development companies in 2022:

- ✓ On 20 January 2022, Hepsor Latvia OÜ established Hepsor Ganibu Dambis SIA, a subsidiary that is developing a commercial property project in Riga.
- ✓ On 8 July 2022, Hepsor Latvia OÜ established Hepsor JG SIA, a subsidiary that will develop a three-story A energy class residential building with 40 apartments at Jurmala Gatve street, Imanta district, Riga.
- ✓ On 24 August 2022, Hepsor AS established Hepsor Phoenix 4 OÜ, a subsidiary where the Group holds a 50% stake. Hepsor Phoenix 4 OÜ acquired a property in Manufaktuuri Quarter to develop approximately 60 new apartments with its long-term cooperation partner Tolaram Grupp.
- ✓ On 8 September 2022, Hepsor AS established Hepsor N57 OÜ to develop a residential building with 26 apartments on the property at Nõmme tee 57 in Tallinn.
- ✓ On 18 November 2022, Hepsor AS established a subsidiary Hepsor Kanada OÜ to start the process of establishing a subsidiary in Canada.

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

in thousands of euros	Other comprehensive income		Cash flows from investing activities
	Comprehensive income attributable to owners of the parent	Comprehensive income attributable to non-controlling interest	Proceeds from sale of subsidiaries
Changes related to the change of ownership			
Hepsor P26B OÜ	-85	85	-
Hepsor Peetri OÜ	-10	10	-
Hepsor Mārupe SIA	-18	153	135
Hepsor Ganibu Dambis SIA	-100	100	-
Hepsor SIA	-100	100	-
Hepsor Bal 9 SIA	68	-68	-
Hepsor JG SIA	-16	16	-
Hepsor U34 SIA	-28	28	
Hepsor RD5 SIA	-16	16	
Hepsor Jugla SIA	-129	-32	-
Total	**-434**	**408**	**135**

Changes in Group structure in 2021 and impact on comprehensive income and cash flows:

in thousands of euros	Cash flows from financing activities		Cash flows from financing activities	
	Owners of the parent	Non-controlling interest	Non-controlling interest contributions to share capital	Reserves
Contributions to equity				
Hepsor Latvia OÜ	0	10	10	190
Hepsor U34 SIA	0	60	60	0
Changes related to the change of ownership				
Hepsor Kadaka OÜ	66	-66	-	-
Hepsor Phoenix OÜ	-125	125	-	-
Hepsor V10 OÜ	90	-90	-	-
Hepsor Bal 9 OÜ	4	-4	-	-
Hepsor Bal 9 SIA	1	-1	-	-
Hepsor SA2 SIA	3	-3	-	-
Hepsor Marupe SIA	1	-1	-	-
Hepsor U30 SIA	1	-1	-	-
Hepsor SIA	27	-27	-	-
Total	**68**	**2**	**70**	**190**

Note 30. 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.

Revenues generated by headquarters are gained from the 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.

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

in thousands of euros	**Residential development**		**Commercial development**		**Headquarters**		**Total**
2022	**Estonia**	**Latvia**	**Estonia**	**Latvia**	**Estonia**	**Latvia**	
Revenue	6,064	5,005	608	1,046	145	2	**12,870**
incl. revenue from rent	0	129	391	251	0	0	**771**
Operating profit	1,274	864	251	284	-1,594	-844	**235**
Assets	26,975	21,994	13,816	9,748	5,547	288	**78,368**
Liabilities	17,813	16,154	9,627	5,397	6,218	2,836	**58,045**

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

Note 31. Non-controlling interest

As of 31 December 2022, the Group had 21 (31.12.2021: 17) companies with non-controlling holding.

Company	Non-controlling interest and voting rights at %		Location	Segment
	31.12.2022	31.12.2021		
Hepsor Bal 9 OÜ	43	43	Estonia	Headquarter
Hepsor Bal9 SIA	43	43	Latvia	Residential development
Hepsor Peetri OÜ	-	32	Estonia	Residential development
Hepsor T2T4 OÜ	50	50	Estonia	Commercial development
Hepsor P26B OÜ	-	49	Estonia	Residential development
Hepsor Phoenix 2 OÜ	50	50	Estonia	Residential development
Hepsor Phoenix 3 OÜ	50	50	Estonia	Residential development
Hepsor M14 OÜ	49	49	Estonia	Commercial development
Hepsor 3 Torni OÜ	49	49	Estonia	Residential development
Hepsor SA2 SIA	59	59	Latvia	Residential development
Hepsor Latvia OÜ	20	20	Estonia	Headquarter
H&R Residentsid OÜ	50	50	Estonia	Residential development
Hepsor U34 SIA	44	44	Latvia	Commercial development
Hepsor RD5 SIA	20	20	Latvia	Residential development
Hepsor U30 SIA	20	20	Latvia	Commercial development
Hepsor SIA	20	20	Latvia	Headquarter
Hepsor Marupe SIA	60	20	Latvia	Residential development
Hepsor Phoenix 4 OÜ	50	-	Estonia	Residential development
Hepsor JG SIA	20	-	Latvia	Residential development
Hepsor Jugla SIA	20	-	Latvia	Residential development
Hepsor Ganibu Dambis SIA	20	-	Latvia	Commercial development
Kvarta Holding OÜ	60	-	Estonia	Headquarter
Kvarta SIA	60	-	Latvia	Residential development

Financial information for subsidiaries with non-controlling interest:

in thousands of euros	*Project status	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Net profit for the year	Comprehensive income (-loss)
Company	**Balance as of 31.12.2022**						**2022**	
Hepsor Bal 9 OÜ	-	156	3	169	0	-10	3	3
Hepsor Bal9 SIA	-	59	0	2	0	57	105	105
Hepsor T2T4 OÜ	C	1,458	0	0	1,449	9	-4	-4
Hepsor Phoenix 2 OÜ	C	3,424	0	50	3,348	26	29	29
Hepsor Phoenix 3 OÜ	B	4,429	0	18	4,346	65	-6	-6
Hepsor M14 OÜ	E, D	8,053	0	219	7,879	-45	32	24
Hepsor 3Torni OÜ	D	4,274	0	477	3,815	-18	-17	-17
Hepsor SA2 SIA	B	898	0	2	920	-24	-2	-2
Hepsor Latvia OÜ	-	4,314	5,775	1,031	8,012	1,046	94	94
H&R Residentsid OÜ	A	1,235	0	0	1,232	3	0	0
Hepsor U34 SIA	B	1,310	0	2	1,110	198	-2	-2
Hepsor RD5 SIA	B	591	0	20	516	55	-25	-25
Hepsor U30 SIA	E	4,633	0	4,350	0	283	31	31
Hepsor SIA	-	71	6	243	0	-166	-316	-316
Hepsor Marupe SIA	D	8,578	0	8,361	0	217	-30	-30
Hepsor Phoenix 4 OÜ	A	893	0	12	879	2	0	0
Hepsor JG SIA	B	417	0	0	337	80	0	0
Hepsor Jugla SIA	B	691	0	26	346	344	-2	-2
Hepsor Ganibu Dambis SIA	A	4,283	0	78	3,699	506	6	6
Kvarta Holding OÜ	-	3,175	0	3,175	0	0	0	0
Kvarta SIA	D	9,685	0	10,421	0	-736	-45	-45

in thousands of euros	*Project status	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Net profit for the year	Comprehensive income (-loss)
Company	**Balance as of 31.12.2021**						**2021**	
Hepsor Bal 9 OÜ	-	530	240	783	0	-13	14	14
Hepsor Bal9 SIA	D	2,067	0	1,878	0	189	-44	-44
Hepsor Peetri OÜ	-	232	0	35	0	197	228	240
Hepsor T2T4 OÜ	C	1,300	0	0	1,286	14	11	11
Hepsor P26B OÜ	E	3,558	0	2,454	0	1,104	2,646	819
Hepsor Phoenix 2 OÜ	B	2,518	0	20	2,501	-3	-3	-3
Hepsor Phoenix 3 OÜ	B	3,399	0	33	3,296	70	69	69
Hepsor M14 OÜ	D	6,585	0	267	6,387	-69	-60	-60
Hepsor 3Torni OÜ	C	2,858	0	3	2,857	-2	-4	-4
Hepsor SA2 SIA	B	967	0	0	990	-23	0	0
Hepsor Latvia OÜ	-	2,165	4,338	1,386	4,165	952	-48	-48
H&R Residentsid OÜ	A	626	0	0	623	3	0	0
Hepsor U34 SIA	B	1,242	0	278	764	200	0,	0
Hepsor RD5 SIA	B	405	0	0	325	80	0	0
Hepsor U30 SIA	D	1,830	0	355	1,224	251	-44	-44
Hepsor SIA	-	131	10	472	0	-331	-213	-213
Hepsor Marupe SIA	C	771	0	35	489	247	-17	-17

In 2022, Hepsor Peetri OÜ paid out dividends in the amount of 29 thousand euros (2021: 64 thousand euros) to the non-controlling interest.

Project statuses are classified as following:

A – planning proceedings
B – building permit proceedings
C – building permit available / construction has not yet started
D – construction started / sale started
E – construction ready for sale

Note 32. 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 well as associated companies as related parties.

Balances and transactions with related parties

in thousands of euros	31.12.2022	31.12.2021
Receivables		
Loans granted (Note 9)		
Associated companies		
Opening balance 01.01	2,587	1,371
Loan granted	0	1,216
Repaid	-821	0
Balance at the end of period	1,766	2,587
Key members of the management and all companies directly or indirectly		
Opening balance 01.01	0	0
Loan granted	176	0
Repaid	-176	0
Balance at the end of period	0	0
Trade and other receivables		
Key members of the management and all companies directly or indirectly	208	12
Interest receivables		
Associated companies	36	169
Payables		
Loans and borrowings (Note 10)		
Associated companies		
Opening balance 01.01	0	0
Received	464	0
Repaid	-41	0
Balance at the end of period	423	0
Key members of the management and all companies directly or indirectly		
Opening balance 01.01	1,831	640
Received	80	1,691
Repaid	-28	-500
Balance at the end of period	1,883	1,831
Trade payables		
Key members of the management and all companies directly or indirectly	1,762	1,126
Interest payables		
Associated companies	2	0
Key members of the management and all companies directly or indirectly	167	70

Purchases and sales of goods and services

in thousands of euros	2022	2021
Sales of goods and services		
Associated companies	115	160
Key members of the management and all companies directly or indirectly owned by them	159	65
Total sales of goods and services	**274**	**225**
Purchases of goods and services		
Associated companies	46	0
Key members of the management and all companies directly or indirectly owned by them	25,707	11,349
incl. construction service	*25,467*	*11,160*
Interest income earned		
Associated companies		
Interest earned	166	141
Interest received	313	0
Key members of the management and all companies directly or indirectly owned by them		
Interest earned	3	0
Interest received	3	0
Interest expenses incurred		
Associated companies		
Accrued interest	2	0
Interest paid	0	0
Key members of the management and all companies directly or indirectly owned by them		
Accrued interest	229	136
Interest paid	132	68

Note 33. Events after the reporting period

- ✓ In January 2023, Hepsor AS bought a minority stake in its subsidiary Hepsor Bal9 OÜ thus increasing its stake to 100%.
- ✓ Hepsor N57 OÜ, a subsidiary of Hepsor AS, signed a loan agreement with LHV Pank in the amount of 3.06 million euros to finance the construction of the Lilleküla Kodud development project. The loan repayment deadline is in 2026.
- ✓ In January 2023, based on the decision of the Tallinn District Court, the lawsuit filed against Hepsor Phoenix 3 OÜ, where the procurement of demolition works was disputed, was not satisfied.
- ✓ 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 Rezidence 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.

Note 34. 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

Market risk is the risk arising from changes in the markets to which the Group is exposed. The main market risks are price risk and interest rate risk. The Group is exposed to price risk resulting from a decrease in the market values of the group's real estate development projects or a price increase due to a change 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. For mitigating the market risk, the management of the Group constantly monitors the changes and situation in the market when making development decisions.

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, investor loan or loan from minority interest holders.

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. Bank loans have 0% floor clause as protection against negative Euribor meaning that in case of negative Euribor, Euribor is equalized to zero and the margin of such loans does not decrease. The management constantly monitors the Group's exposure to interest rate risk which arises from loans with floating interest rates. Such risk is mainly related to the potential upward movement in Euribor as already warned by European Central Bank. In 2022, the 6-month Euribor has increased by 2.69%, in 2021, the 6-month Euribor was negative.

in thousands of euros	**31.12.2022**	**31.12.2021**
Financial liabilities with fixed interest rate	18,451	18,393
incl. bank loan liabilities with fixed interest rate	13,430	981
Bank loan liabilities with floating interest rate	16,699	9,970
Total	**48,580**	**28,363**

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

Interest rate sensitivity

Increases in interest rates could adversely affect the Group's ability to cover interest costs from current cash-flows. The impact to the Group's profit would appear on the realisation year of each specific project.

If Euribor had been 50 basis points higher and all other variables were held constant, the Group's cash-flow need to cover interest costs for the year ended 31 December would increase as follows:

in thousands of euros	**31.12.2022**	**31.12.2021**
Increase by 50 basis points	70	34

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 minimise 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.

As at 31 December the following financial assets were exposed to credit risk:

in thousands of euros	**2022**	**2021**
Cash and cash equivalents	3,754	10,889
Trade and other receivables	728	91
Interest receivables	31	173
Escrow account	405	0
Current loan receivables	0	2,388
Non-current loan receivables	1,766	3,408
Total	**6,684**	**16,949**

As at 31 December the aging of trade receivables was as follows:

in thousands of euros	**2022**	**2021**
Current	666	46
Up to 2 months past due date	22	16
2-4 months past due date	4	10
More than 4 months past due date	16	8
Total	**708**	**80**

As at 31 March 2023, the completion date of current report, trade receivables in the amount of 73 thousand euros (31.03.2022: 31 thousand euros) were past the due date as at 31 December 2022.

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.

Group's financial liabilities by maturity date:

in thousands of euros	up to 6 months	up to 12 months	1-5 years	Total
31.12.2022				
Loan and lease liabilities	8,043	14,569	26,083	**48,694**
Trade payable	1,906	0	0	**1,906**
Other liabilities	1,996	105	2,290	**4,391**

in thousands of euros	up to 6 months	up to 12 months	1-5 years	Total
31.12.2021				
Loan and lease liabilities	2,758	2,866	22,928	**28,552**
Trade payable	1,506	0	0	**1,506**
Other liabilities	3,091	942	1,053	**5,086**

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 finances its operations with both debt and equity capital.

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 Group also monitors the ratio of equity and balance sheet volume.

The management considers the Group's capital structure optimal.

in thousands of euros	2022	2021
Interest-bearing loan liabilities	48,628	28,379
Cash and bank accounts	3,754	10,889
Net debt (interest-bearing loan liabilities - cash and bank accounts)	**44,874**	**17,490**
Total equity attributable to owners of the parent	19,866	18,904
Total of net debt and equity (net debt + total equity attributable to owners of the parent)	**64,740**	**36,394**
Debt-equity ratio (net debt / net debt and total equity attributable to owners of the parent)	69%	48%
Total assets	78,368	55,345
Equity to total assets (equity / total assets)	25%	34%

Note 35. Primary financial statements of the parent company

Pursuant to the Estonian Accounting Act, the information on the unconsolidated main financial statements of the consolidating entity is disclosed in the notes to the consolidated financial statements. The main financial statements of the parent company have been prepared using the same accounting and valuation principles as used in the preparation of the consolidated financial statements, except for subsidiaries, which are accounted for in the parent company's separate unconsolidated financial statements using the acquisition method.

Statement of financial position

in thousands of euros	**31.12.2022**	**31.12.2021**
Assets		
Current assets		
Cash and cash equivalents	156	3,110
Trade and other receivables	257	82
Current loan receivables	2,900	3,079
Inventories	15	20
Total current assets	**3,328**	**6,291**
Non-current assets		
Property, plant and equipment	72	50
Investments in subsidiaries	1,636	1,629
Financial investments	2	2
Investments in associates	1,086	0
Non-current loan receivables	12,742	8,641
Other non-current receivables	1,204	598
Total non-current assets	**16,742**	**10,920**
Total assets	**20,070**	**17,211**
Liabilities and equity		
Current liabilities		
Current lease liabilities	9	11
Trade and other payables	86	67
Total current liabilities	**95**	**78**
Non-current liabilities		
Loans and borrowings	5,494	4,026
Non-current lease liabilities	38	5
Total non-current liabilities	**5,532**	**4,031**
Total liabilities	**5,627**	**4,109**
Equity		
Share capital	3,855	3,855
Share premium	8,917	8,917
Retained earnings	1,671	330
Total equity	**14,443**	**13,102**
Total liabilities and equity	**20,070**	**17,211**

Statement of profit and loss and other comprehensive income

in thousands of euros	2022	2021
Revenue	35	25
Cost of sales (-)	-86	-91
Gross profit	**-51**	**-66**
Marketing expenses (-)	-24	-40
Administrative expenses (-)	-553	-359
Other operating income	43	31
Other operating expenses	-2	0
Operating profit of the year	**-587**	**-434**
Financial income	**2,556**	**825**
interest income	1,305	760
profit on the sale of a subsidiary	1,086	0
other financial income	165	65
Financial expenses (-)	**-628**	**-405**
interest expenses (-)	-492	-315
loss from associate (-)	0	-2
other financial expenses (-)	-136	-88
Profit before tax	**1,341**	**-14**
Deferred income tax	0	60
Net profit for the year	**1,341**	**46**
Other comprehensive income for the period	**1,341**	**46**

Statement of changes in equity

in thousands of euros	Share capital	Share premium	Retained earnings	Total
Balance at 31.12.2020	**6**	**3,211**	**435**	**3,652**
Other comprehensive income for the period	0	0	46	**46**
Increase of share capital	2,994	-2,994	0	**0**
Issue of shares	855	8,700	0	**9,555**
Dividends paid	0	0	-151	**-151**
Balance at 31.12.2021	**3,855**	**8,917**	**330**	**13,102**
Other comprehensive income for the period	0	0	1,341	**1,341**
Balance at 31.12.2022	**3,855**	**8,917**	**1,671**	**14,443**

Adjusted unconsolidated equity

in thousands of euros	31.12.2021	31.12.2020
Parent company's unconsolidated equity	14,443	13,102
Carrying amount of investments in subsidiaries and associates in the parent company's unconsolidated statement of financial position (-)	-2,722	-1,629
Value of investments in subsidiaries and associates under the equity method (+)	8,145	7,431
Parent company's adjusted unconsolidated equity	19,866	18,904

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

On November 8, 2021, the general meeting of shareholders decided to list the shares of Hepsor AS on the main list of the Nasdaq Tallinn Stock Exchange and to issue up to 854,701 shares at an offer price of 11.70 euros, of which 1 euro was the nominal value and 10.70 was the share premium. The Group's shares were listed on the main list of the Nasdaq Tallinn Stock Exchange on November 26, 2021.

Statement of cash flows

in thousands of euros	2022	2021
Net cash flows from (to) operating activities		
Operating profit of the year	**-587**	**-434**
Adjustments for:		
Depreciation of property, plant and equipment	29	30
Profit from sale of property, plant and equipment	-18	0
Other adjustments	-1	-97
Changes in working capital:		
Change in trade receivables	-23	-13
Change in inventories	5	0
Change in liabilities and prepayments	-13	-194
Cash flows from (to) operating activities	**-608**	**-708**
Net cash flows to investing activities		
Payments of for acquisition of subsidiaries	-7	-7
Payments of for acquisition of financial investment	0	-2
Proceeds from sale of property, plant and equipment	25	0
Interest received	404	523
Loans granted	-8,562	-9,760
Loan repayments received	4,672	2,765
Other proceeds from investing activities	40	64
Cash flows to investing activities	**-3,428**	**-6,417**
Net cash flows from (to) financing activities		
Net cash flow from issuing shares	0	9,555
Loans raised	1,575	4,885
Loan repayments	0	-4,723
Interest paid	-461	-315
Payments of finance lease principal	-26	-15
Dividends paid	0	-188
Other receipts from financing activities	-6	0
Cash flows from financing activities	**1,082**	**9,199**
Net cash flow	**-2,954**	**2,074**
Cash and cash equivalents at beginning of year	**3,110**	**1,036**
Increase / decrease in cash and cash equivalents	**-2,954**	**2,074**
Cash and cash equivalents at end of year	**156**	**3,110**

Management Board's confirmation of the consolidated annual report

The Management Board confirms that the audited consolidated annual report for 2022, which is comprised of the Management Report, Corporate Governance Report, Remuneration Report and Sustainability Report as set out on pages 4 to 49, provides a true and fair view of the Group's operations, financial position and results of operations and describe the significant risks and uncertainties the Group faces.

The Management Board confirms that according to their best knowledge, the audited consolidated annual accounts for 2022 as set out on pages 52 to 99 present a correct and fair view of the financial position, profit and loss and other comprehensive income and cash flows of Hepsor AS. The consolidated annual accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Hepsor AS Group is going concern.

The consolidated annual report of Hepsor AS for 2022 will be submitted for approval to the General Meeting of Shareholders in May 2023.

Henri Laks
Member of the Management Board
/ sign digitally /
Tallinn, 28 April 2023

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INDEPENDENT AUDITOR’S REPORT

(Translation of the Estonian original)

To the Shareholders of Hepsor AS

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Hepsor AS and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2022, and the consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia) (ISA (EE)s). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^1 of the Auditors Activities Act of the Republic of Estonia.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Based on our risk and materiality assessments, we determined which components need to be fully audited, considering the relative impact of each component's size on the Group and how all material items in the consolidated financial statements are covered.

Accordingly, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following subsidiaries and associated companies within the Group: Hepsor AS (the Group's parent entity), Hepsor Finance OÜ, Hepsor Latvia OÜ, Hepsor M14 OÜ, Hepsor PV11 OÜ, Hepsor P113 OÜ ja Hepsor N170 OÜ ning ülevaatuse ja täiendavad protseduurid põhjendatud kindlustunde saavutamiseks järgmiste tütarettevõtete osas: Hepsor L4 OÜ, Kvarta Holding OÜ, Hepsor Phoenix 2 OÜ, Hepsor Phoenix 3 OÜ, Hepsor 3 Torni OÜ and Hepsor N450 OÜ.

Grant Thornton Baltic Audit SIA performed specific audit procedures over significant balances and transactions based on the instructions received from us for the following component subsidiaries: Hepsor Marupe SIA, Hepsor BAL9 SIA, Hepsor S4B SIA, Hepsor SA2 SIA, Hepsor U34 SIA, Hepsor U30 SIA, Kvarta SIA, Hepsor Jugla SIA and Hepsor Ganibu Dambis SIA. We communicated frequently with the component auditor and reviewed the procedures performed and documentation to the extent we deemed necessary.

At the Group level we tested the consolidation process and performed separate analytical procedures over the components not covered by the above procedures to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements. Information describing the structure of the Group is included on page 21 of the consolidated financial statements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accounting of inventory	**While conducting the audit procedures, we performed, among other things, the following**
As at 31.12.2022, the Group has recognized the inventories in total of 69 760 thousand euros. We focused on inventories, as its forms 89% of the Group's total assets. Additional information is provided in consolidated financial statements Note 1 “Summary of significant accounting policies” and Note 4 “Inventories”.	We assessed the principles for recognizing inventories and made sure that the method complies with the requirements of IFRS. We assessed the net realizable value of inventories by making inquiries to the Group, used project cash flow projections, and made sure that after the balance sheet date the apartments were not sold with a loss. In conclusion, we have determined that the accounting principles used for recognizing

Inventories consists of work in progress of real estate development projects and finished real estate development projects.

As described in Note 1.11 in the consolidated financial statements, inventories are stated at the lower of cost and net realizable value. Acquisition cost consists of direct costs and their overheads without which inventories would not be in existing locations or condition. Borrowing costs directly attributable to the acquisition and construction of the real estate development projects form part of the cost of that asset.

inventories are in accordance with the requirements of IFRS. The data and assumptions used are reasonable and in line with the actual results of the past period and the expected prospects.

In our opinion, the disclosures about inventories in Note 4 to the consolidated financial statements are relevant and in accordance with IFRS requirements.

Other Information, including the Management Report

Management is responsible for the other information. The other information comprises description of the Group, the Management report, the Profit Allocation proposal and the Remuneration Report (but does not include the consolidated financial statements and our auditor's report thereon). Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the Management report, we also performed the procedures required by the Auditors Activities Act. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act.

In accordance with the Securities Market Act with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135^3 of the Securities Market Act.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and

- the Management report has been prepared in accordance with the requirements of the Accounting Act;
- the Remuneration Report has been prepared in accordance with Article 135[3] of the Securities Market Act.

In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

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

Management is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

As part of an audit in accordance with ISA (EE)s, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

Report on the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged based on our agreement by the Management Board of the Parent Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of Hepsor AS for the year ended December 31, 2022 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Parent Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of December 17, 2018, supplementing Directive 2004/109/EC of the European Parliament and of the Council with regards to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and Those Charged with Governance

The Management Board of the Parent Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the financial reporting process, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements 3000(R) - 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (ISAE 3000(R)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE 3000(R) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

We apply the provisions of the International Standard on Quality Management (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group’s' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Designate the auditor

We were first appointed as auditors of Hepsor AS, as a public interest entity, for the financial year ended December 31, 2021, representing the total period of our uninterrupted engagement appointment for Hepsor AS, as a public interest entity, of two years.

Compliance with the report to the Audit Committee

Our audit opinion presented in this report is in accordance with the supplementary report prepared for the Audit Committee on April 19, 2023. We confirm that our audit opinion is in line with the additional report submitted to the Group audit committee and we have not provided the prohibited non-audit services to the Group referred to in Article 5 (1) of Regulation (EU) No 537/2014. We were independent from the audited entity.

April 28, 2023

/Digitally signed/

Mart Nõmper

Sworn Auditor 499

Grant Thornton Baltic OÜ

License number 3

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Profit allocation proposal

Retained earnings attributable to the owner of the parent of the Group:

in thousands of euros	31.12.2022
Retained earnings for prior periods as at 31 December 2021	6,132
Net profit for 2022	1,396
Formation of mandatory reserve capital	-385
Total distributable profit as at 31 December 2022	7,143

Henri Laks

Member of Management Board

/ signed digitally/

Tallinn, 28 April 2023