

hepsor



2021 IV quarter and 12 months
consolidated unaudited interim
report

Corporate name:	Hepsor AS
Commercial Register No:	12099216
Address:	Järvevana tee 7b, 10112 Tallinn
E-mail:	info@hepsor.ee
Telephone:	+372 660 9009
Website:	www.hepsor.ee
Reporting period:	01 January 2021-31 December 2021
Financial year:	01 January 2021-31 December 2021
Supervisory Board:	Andres Pärloja, Kristjan Mitt, Lauri Meidla
Management Board:	Henri Laks
Auditor:	Grant Thornton Baltic OÜ

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

Contents

Management Report	4
Overview of Development Projects	6
Main Events	14
Operating Results	15
Group Structure	18
Employees	20
Share and Shareholders	20
Management Board's Confirmation	22
Consolidated Financial Statements	23
Notes to the consolidated interim financial statements	27
Note 1. General information	27
Note 2. Inventories	28
Note 3. Trade and other receivables	29
Note 4. Financial investments	29
Note 5. Shares of associates	30
Note 6. Loans granted	31
Note 7. Loans and borrowings	32
Note 8. Trade and other payables	34
Note 9. Other non-current liabilities	34
Note 10. Embedded derivatives	34
Note 11. Deferred Income tax	35
Note 12. Contingent liabilities	35
Note 13. Revenue	36
Note 14. Cost of sales	36
Note 15. Administrative expenses	37
Note 16. Financial expenses	37
Note 17. Information about line item in the consolidated statement of cash flows	37
Note 18. Operating segments	37
Note 19. Related parties	39
Note 20. Events after the reporting period	40
Note 21. Risk management	41

Management Report

UNAUDITED REVENUES AND NET PROFIT FOR 2021



REVENUE AND NET PROFIT FORECAST FOR 2022



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

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

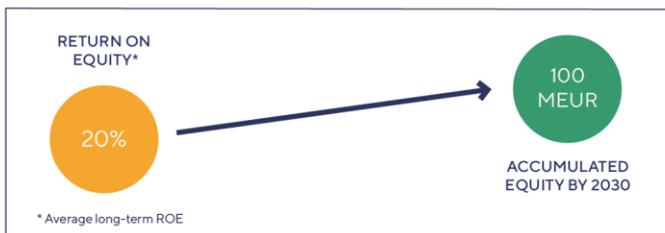
ASSUMPTIONS FOR 2022 FORECAST

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

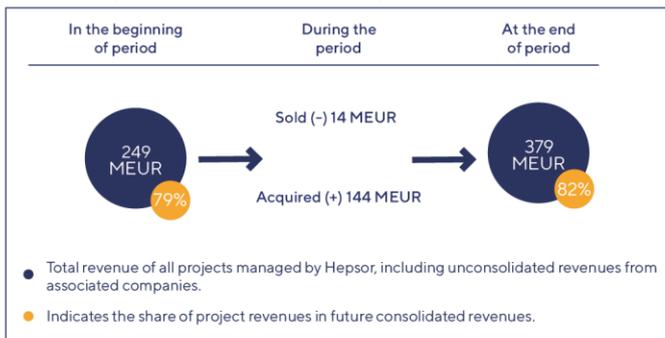
CHANGE IN PIPELINE (31 DEC 2020 vs 15 FEB 2022)



LONG-TERM OUTLOOK: PROFITABILITY AND EQUITY TARGETS



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



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

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

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

DEVELOPMENT PROJECTS UNDER CONSTRUCTION

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

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

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

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

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

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

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

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

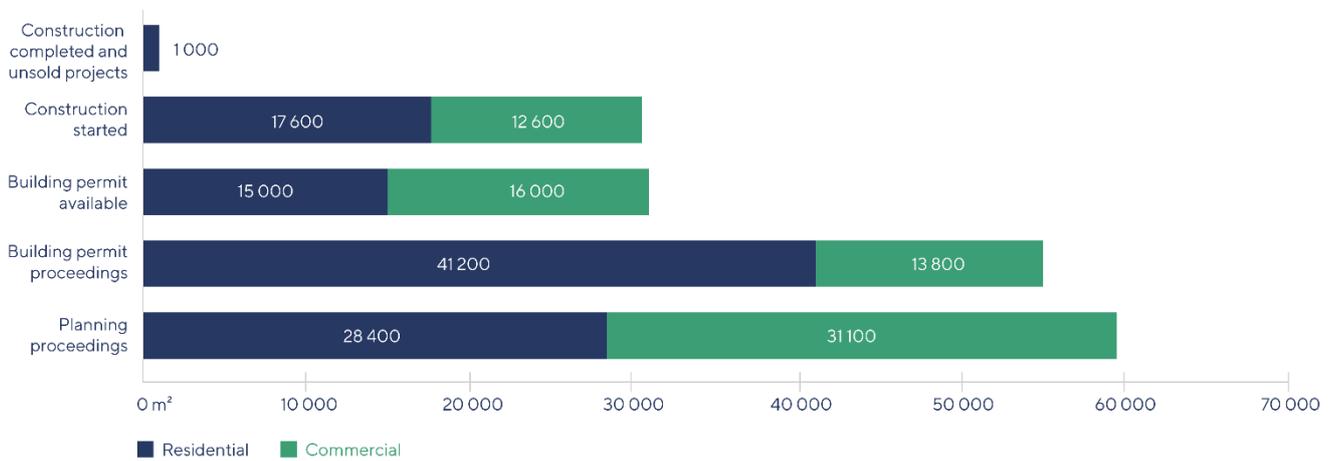
In conclusion, the management is satisfied with the 2021 financial year. A good foundation has been laid for our growth in the coming periods, we have a strong portfolio, our team is motivated and we have thousands of new shareholders on board.

Overview of Development Projects

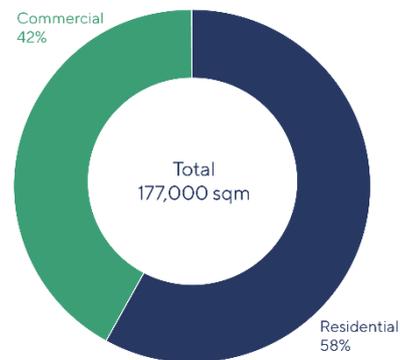
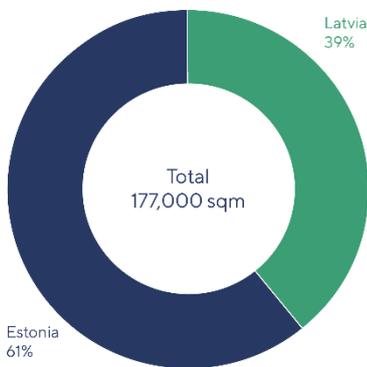
As at 31 December 2021 the Group had 26 active projects in different development phases (31 December 2020: 19 projects) ja 177,000 sqm of sellable area (31 December 2020: 113,000 sqm).

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

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



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



Residential development projects completed in 2021:



Project: Peetri Pargimajad
Hepsor Peetri OÜ

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

Apartments: 43

Project completed: 2021



Project: Lauluväljaku Lilleaed I and II phase
Hepsor P26B OÜ

Address: Pirita road 26b, Tallinn

Apartments: 99

Project completed: 2020-2021



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

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



Project: Strelnieku 4b
Hepsor S4B SIA

Address: Strelnieku 4b, Riga

Apartments: 54

Project completed: 2020

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



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

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



Project: Priisle Kodu
Hepsor N170 OÜ

Address: Priisle 1a, Tallinn

Apartments: 76

Start of construction: IV quarter 2020

Estimated completion: II quarter 2022

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



Project: Paevälja Hoovimajad
Hepsor PV11 OÜ

Address: Paevälja 11, Lageloo 7, Tallinn

Apartment: 96

Start of construction: IV quarter 2021

Estimated completion: IV quarter 2022

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



Project: Baložu 9
Hepsor BAL9 SIA

Address: Baložu 9, Riia

Apartments: 18

Start of construction: IV quarter 2020

Estimated completion: I quarter 2022

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



Project: Kuldigas Park
Kvarta SIA

Address: Gregora iela 2a, Riia

Apartments: 116

Start of construction: IV quarter 2021

Estimated completion: II quarter 2023

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



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



Project: Büro 113
Hepsor P113 OÜ

Address: Pärnu mnt 113, Tallinn

Leasable area: 3,843 m²

Occupancy: 100%

Start of construction: III quarter 2020

Estimated completion: II quarter 2022

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



Project: Grüne Büro
Hepsor M14 OÜ

Address: Meistri 14, Tallinn

Leasable area: 3,597 m²

Occupancy: 54%

Start of construction: IV quarter 2020

Estimated completion: I-II quarter 2022

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



Project: StockOffice U30
Hepsor U30 SIA

Address: Ulbrokas 30, Riga

Leasable area: 3,645 m²

Occupancy: 100%

Start of construction: III quarter 2021

Estimated completion: IV quarter 2022

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



Project: Priisle Kodu (retail area)
Hepsor N170 OÜ

Address: Priisle 1a, Tallinn

Leasable area: 1,487 m²

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

Start of construction: IV quarter 2020

Estimated completion: II quarter 2022

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



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



Project: Marupes Darzs
Hepsor Marupe SIA

Address: Liela 45, Marupe, Riga area

Apartments: 92

Est. start of construction: I quarter 2022

Estimated completion: II quarter 2023

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



Project: Ojakalda kodud
Hepsor 3TORNI OÜ

Address: Paldiski mnt 227c, Tallinn

Apartments: 101

Est. start of construction: I quarter 2022

Estimated completion: 2023

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



Project: Manufaktuuri quarter
Hepsor Phoenix 2 OÜ

Address: Manufaktuuri 7, Tallinn

Apartments: 154

Est. start of construction: III quarter 2022

Estimated completion: 2024–2025

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



Project: Peterburi road business quarter
T2T4 OÜ

Address: Tooma 2/4, Tallinn

Leasable area: up to 10,000 m²

Est. start of construction: 2022–2023

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





** Picture shown is for illustration purpose*

Project: Ranka Dambis
Hepsor RD5 SIA

Address: Ranka Dambis 5, Riga

Apartment #: 36

Est. start of construction: IV quarter 2022

Estimated completion: 2024



** Picture shown is for illustration purpose*

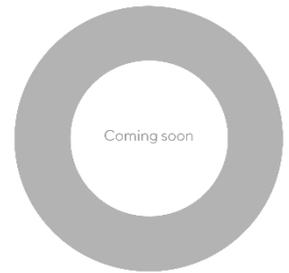
Project: StockOffice U34
Hepsor U34 SIA

Address: Ulbrokas 34, Riga

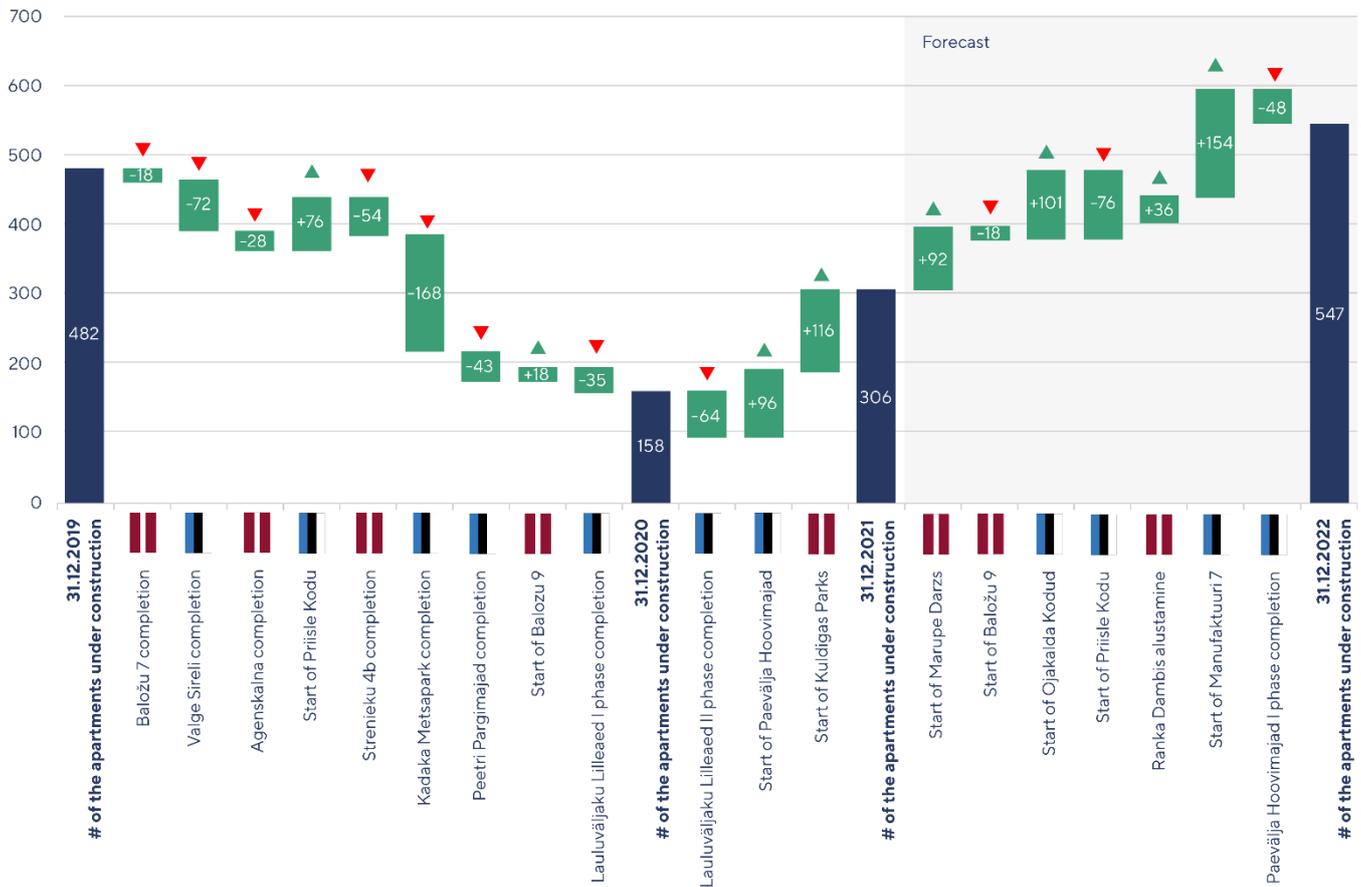
Leasable area: 8,373 m²

Est. start of construction: IV quarter 2022

Estimated completion: 2024



Under construction and completed apartments, 2020 – 2022:

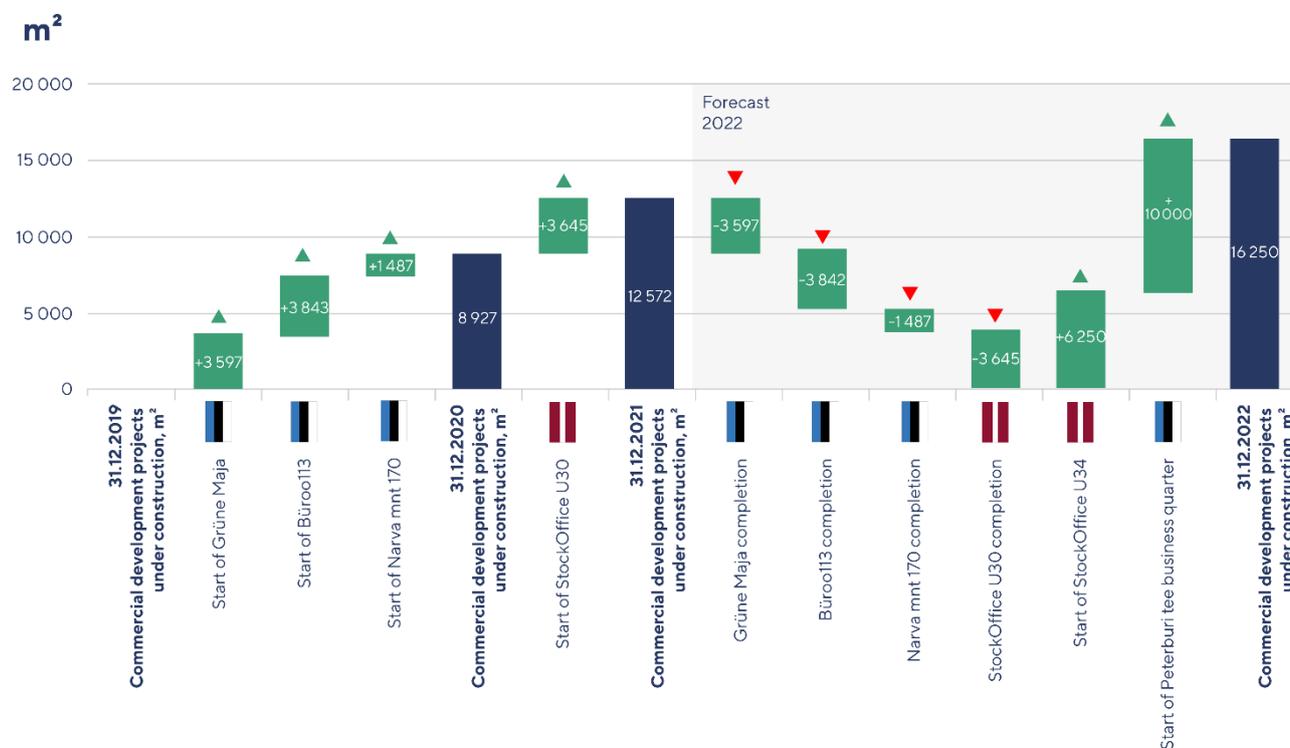


Residential development projects under construction and for sale:

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

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

Commercial development projects under construction:



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

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

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

Main Events

New projects acquired in 2021:

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

Projects completed in 2021:

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

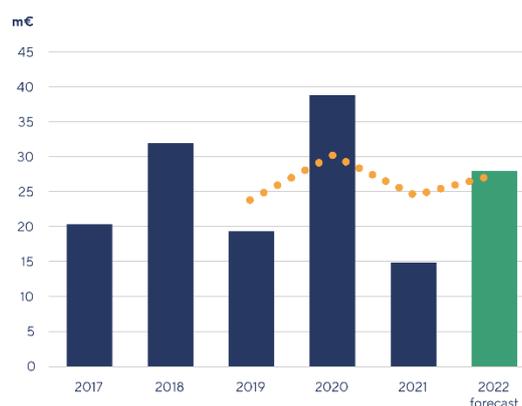
* Apartments sold in 2020-2021

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

Operating Results

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

Group revenues:



Revenue split by countries:

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

Profitability

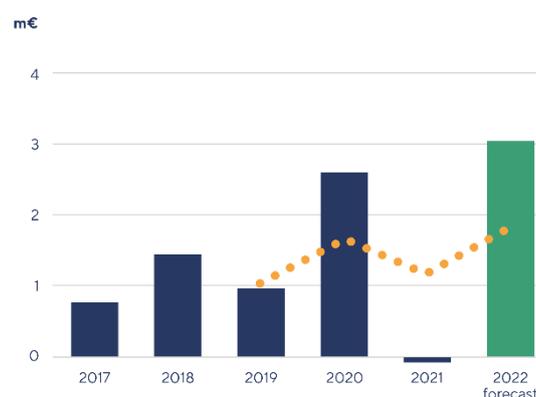
The Group's operating profit for 2021 amounted to 1.9 million euros (compared with 3.4 million euros in 2020). The operating margin was 12.6% (compared with 8.8% in 2020). The Group's net profit for the reporting year amounted to 1.7 million euros (compared with 3.8 million euros in 2020), of which the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

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

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

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

Net profit attributable to the owners of parent:



Cash Flows

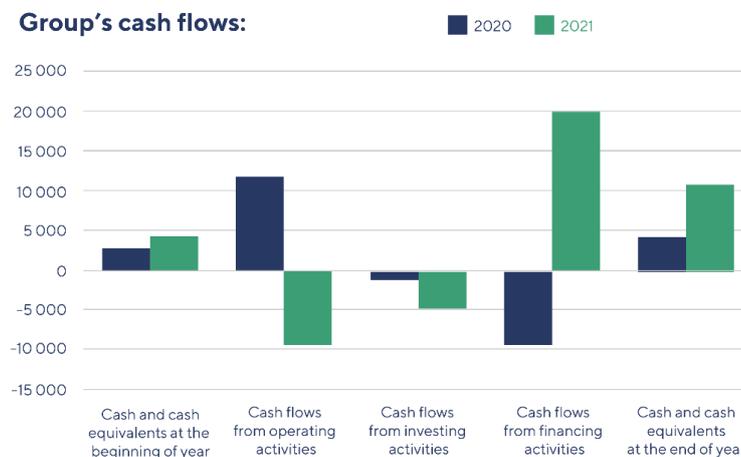
The Group's cash and cash equivalents amounted to 4.2 million euros at the beginning of the 2021 financial year (2020: 2.7 million euros) and to 10.9 million euros at the end of the financial year. The positive cash flow for the year was 6.7 million euros (2020: 1.6 million euros).

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

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

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

Group's cash flows:



Key Ratios

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

Gross profit margin = gross profit / revenue

Operating profit margin = operating profit / revenue

EBITDA margin = (operating profit + depreciation) / revenue

Net profit margin = net profit / revenue

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

Equity ratio = shareholder's equity / total assets

Debt ratio = interest-bearing liabilities / total assets

Current ratio = current assets / current liabilities

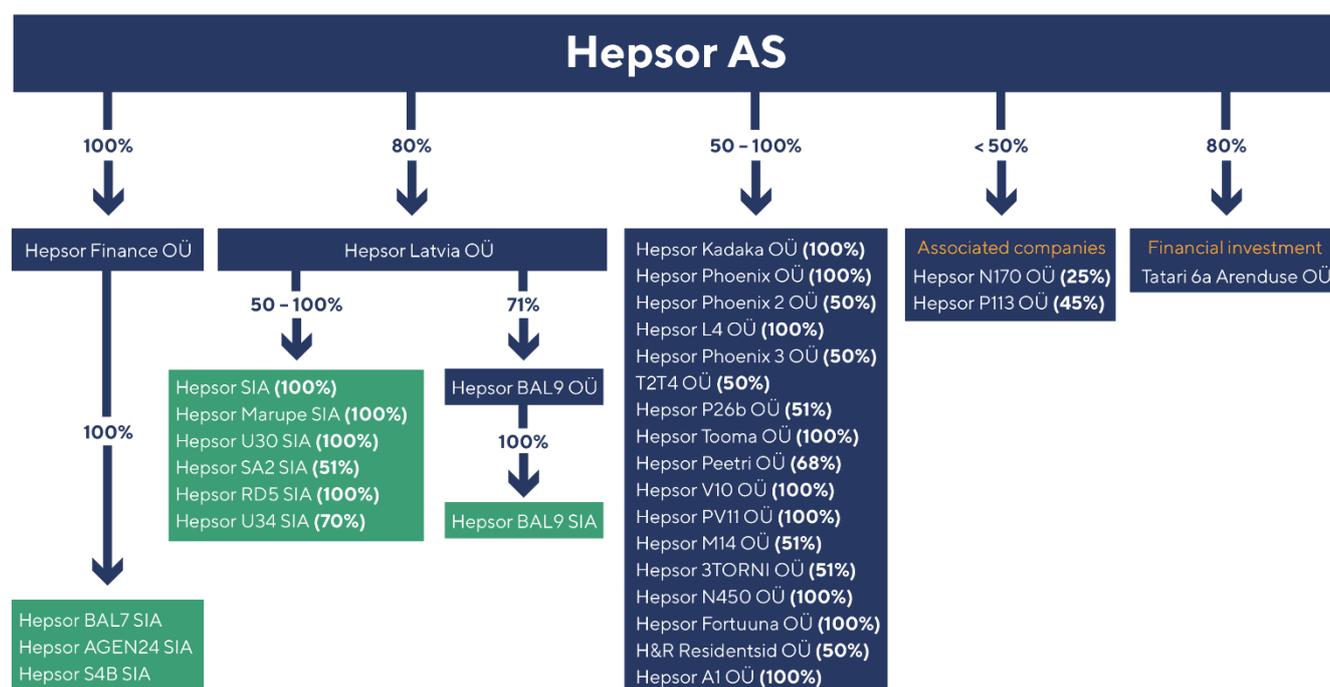
Return on equity (adjusted) = net profit of trailing 12 months / arithmetic average shareholder's equity (except for net capital raised through initial public offering)

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

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

Group Structure

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



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

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

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

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

The Group made the following new financial investments in 2021:

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

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

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

06

Employees

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

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

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

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

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

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

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

07

Share and Shareholders

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

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

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

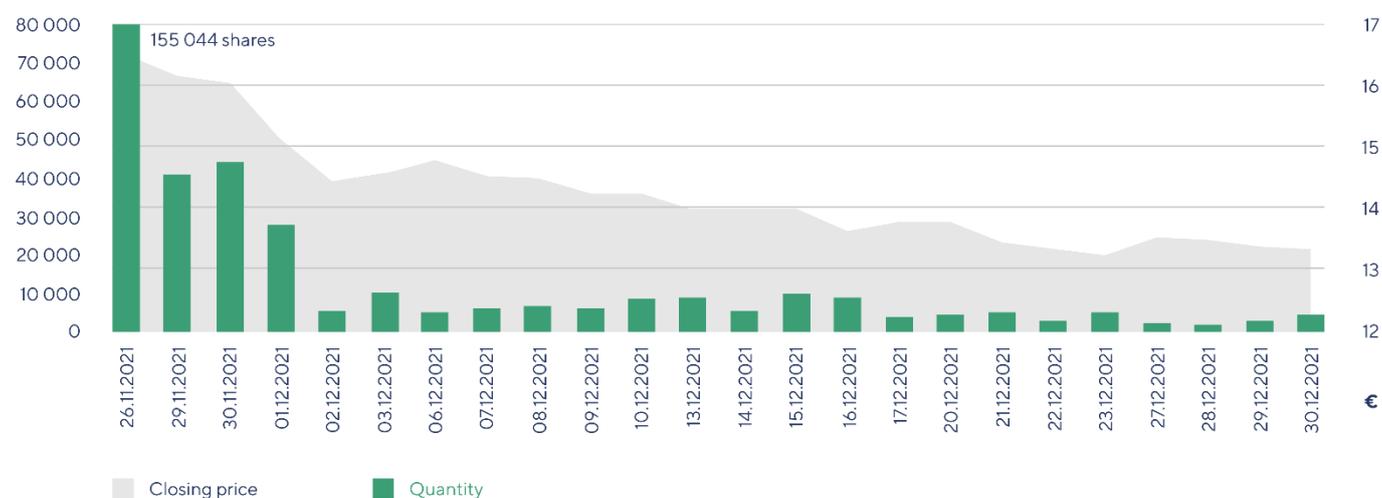
Shareholder	Position	Number of shares	Shareholding %
Henri Laks	Member of Management Board	498,000	12.92
Andres Pärloja	Chairman of Supervisory Board	997,500	25.88
Kristjan Mitt	Member of Supervisory Board	997,500	25.88
Lauri Meidla	Member of Supervisory Board	507,000	13.15
Total	-	3,000,000	77.83

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

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

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

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



Source: Nasdaq Baltic

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

Management Board's Confirmation

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

Henri Laks

Member of Management Board

Tallinn, 22 February 2022

Consolidated Financial Statements

Consolidated statement of financial position

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

Consolidated statement of profit and loss and other comprehensive income

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

Consolidated statement of changes in equity

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

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

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

Consolidated statement of cash flows

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

Notes to the consolidated interim financial statements

Note 1. General information

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

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

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

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

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

Change in presentation of information in the statement of comprehensive income

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

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

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

Note 2. Inventories

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

Project statuses are classified as following:

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

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

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

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

Note 3. Trade and other receivables

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

Note 4. Financial investments

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

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

Note 5. Shares of associates

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

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

Financial information about associates:

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

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

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

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

Note 6. Loans granted

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

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

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

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

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

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

Note 7. Loans and borrowings

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

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

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

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

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

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

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

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

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

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

Note 8. Trade and other payables

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

Note 9. Other non-current liabilities

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

Note 10. Embedded derivatives

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

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

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

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

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

Note 11. Deferred Income tax

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

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

Note 12. Contingent liabilities

12.1 Contingent liabilities arising from embedded derivatives

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

12.2 Contingent obligation from financing the construction of city daycare center

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

12.3 Litigations

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

12.4 Group guarantees given

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

Note 13. Revenue

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

Additional information on sales revenue is provided in Note 18.

Note 14. Cost of sales

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

Note 15. Administrative expenses

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

Note 16. Financial expenses

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

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

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

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

Note 18. Operating segments

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

The Group reports separately information about the following operating segments:

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

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

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

Revenue by geographical area

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

Additional information on sales revenue is provided in Note 13.

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

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

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

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

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

Note 19. Related parties

The Group considers following parties as related parties:

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

Purchases and sales of goods and services

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

Balances and loan transactions with related parties

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

Note 20. Events after the reporting period

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

Note 21. Risk management

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

Strategic risk

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

Business risk

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

Market risks

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

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

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

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

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

Credit risk

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

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

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

Liquidity risk

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

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

Covid-19

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