

hepsor



Baložu 9, Riga

2022 I quarter consolidated unaudited interim report

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Reporting period:	01 January 2022-31 March 2022
Financial year:	01 January 2022-31 December 2022
Supervisory Board:	Andres Pärloja, Kristjan Mitt, Lauri Meidla
Management Board:	Henri Laks
Auditor:	Grant Thornton Baltic OÜ

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

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Management Report

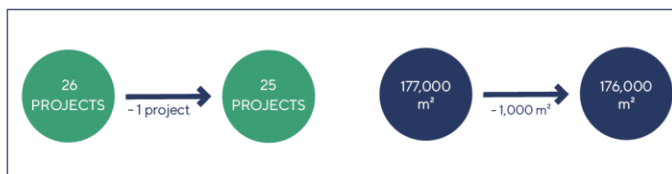
UNAUDITED REVENUES AND NET PROFIT FOR 2022 I QUARTER



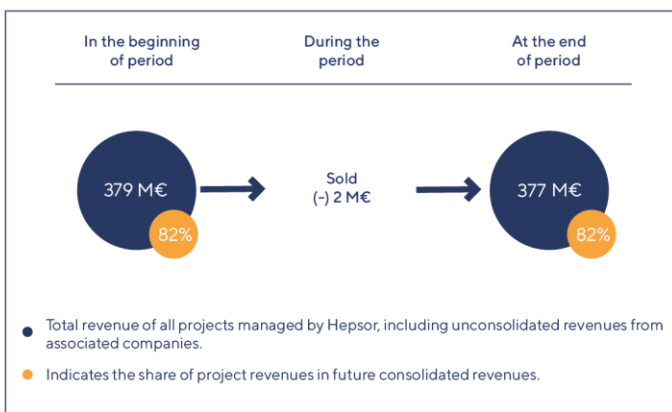
REVENUE AND NET PROFIT FORECAST FOR 2022



CHANGE IN PIPELINE (31 DEC 2021 vs 03 MAY 2022)



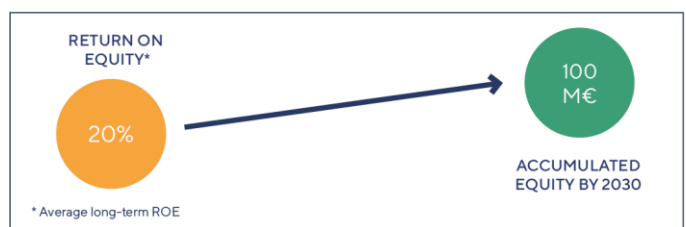
LONG-TERM OUTLOOK: REVENUE POTENTIAL OF DEVELOPMENT PROJECTS (31 DEC 2021 vs 03 MAY 2022)



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
Büroo113 office building	Sold or revalued to fair value using DCF method
Grüne office building	Sold or revalued to fair value using DCF method
Ulbroskas 30 stock-office	Sold or revalued to fair value using DCF method

LONG-TERM OUTLOOK: PROFITABILITY AND EQUITY TARGETS



DEVELOPMENT PROJECTS FOR SALE AND UNDER CONSTRUCTION (31 DEC 2021 vs 03 MAY 2022)

RESIDENTIAL DEVELOPMENT PROJECTS FOR SALE	Total number of apartments	Apartments sold	Apartments sold 2022	Apartments sold %	Apartments available
Strelnieku 4b	54	19	6	35%	35
Balozu 9	18	18	0	100%	0
Paevälja Hoovimajad	96	75	26	78%	21
Priisle Kodu	76	76	4	100%	0
Kuldigas Parks	116	40	27	34%	76
Marupes Darzs	92	38	38	41%	54
Total	452	266	101	59%	186

COMMERCIAL DEVELOPMENT PROJECTS AVAILABLE	Total rentable area m²	Occupancy m²	Occupancy %	Vacancy m²
Priisle 1a retail premises	1,487	1,487	100%	0
Ulbroskas 30 stock-office	3,645	3,645	100%	0
Büroo113 office building	3,843	3,843	100%	0
Grüne office building	3,597	2,059	57%	1,538
Total	12,572	11,034	88%	1,538

DEVELOPMENT PROJECTS UNDER CONSTRUCTION

Started in 2021	Total under construction	To be started in 2022
212 apartments 3,645 m² commercial area	306 apartments 12,572 m² commercial area	383 apartments 16,250 m² commercial area

Consolidated revenues of Hepsor for Q1 2022 amounted to 1.3 million euros and net profit to 0.02 million euros (including 0.005 million euros attributable to the owners of the parent company). The Group's revenues and profitability are directly dependent on the development cycle of projects, which lasts approximately 24 to 36 months. Sales revenue is only generated at the end of this cycle. Therefore, more projects may end in one quarter than in another and quarters may differ significantly in terms of revenue. In completed development projects, we sold 8 apartments at Strelnieku 4b, Riga in Q1 2022.

The management of Hepsor still forecasts a turnover of 28 million euros in 2022 and profit of 3.3 million euros (including 3.1 million euros attributable to the owners of the parent company) despite the war in Ukraine that was launched in February 2022 and its impact on the global economy.

At the beginning of 2022, the development project at Baložu 9 (18 apartments) was completed in Riga. All the homes in this project had found new owner even before the construction was completed. This year, Priisle Kodu (76 apartments plus commercial space) and the first stage of Paevälja Hoovimajad (48 apartments) will be completed in Tallinn. The sales revenue of these projects will be reflected in the financial results of the following quarters of 2022.

Three commercial development projects will be completed in Tallinn and Riga this year. The first tenants have moved into Grüne Maja, an office building following the green thinking concept. The construction of the Büroo 113 office building, which has already reached 100% occupancy, will be completed by the end of 2022. The latter is the first time that we use green solutions (geothermal heating and cooling, rainwater use, energy-efficient architecture, excellent indoor climate, solar energy, etc.) in a city centre high-rise. In 2022, a stock-office commercial development project will be completed at Ulbrokas 30, Riga, which has also reached 100% occupancy.

In May 2022, we sold the last apartment in the Agenskalna 24 development project in Riga. Therefore, the number of development projects in the portfolio dropped to 25. The apartments sold in 2022 reduced the potential turnover to 377 million euros.

Despite the complicated construction market due to the war in Ukraine, supply chain challenges and rising prices, we signed an 8.1 million euro construction contract for the construction of four apartment buildings with 92 apartments in Marupe, near Riga. As of May 2022, a total of 38 booking agreements and contracts under the law of obligations have been sold in the Marupe development project. The project will be completed in 2023. The sale and construction of Hepsor's second largest residential development project, Kuldigas Parks (116 apartments) in Riga, is also proceeding according to plan and 34% of the apartments have been sold. The project will be completed in 2023.

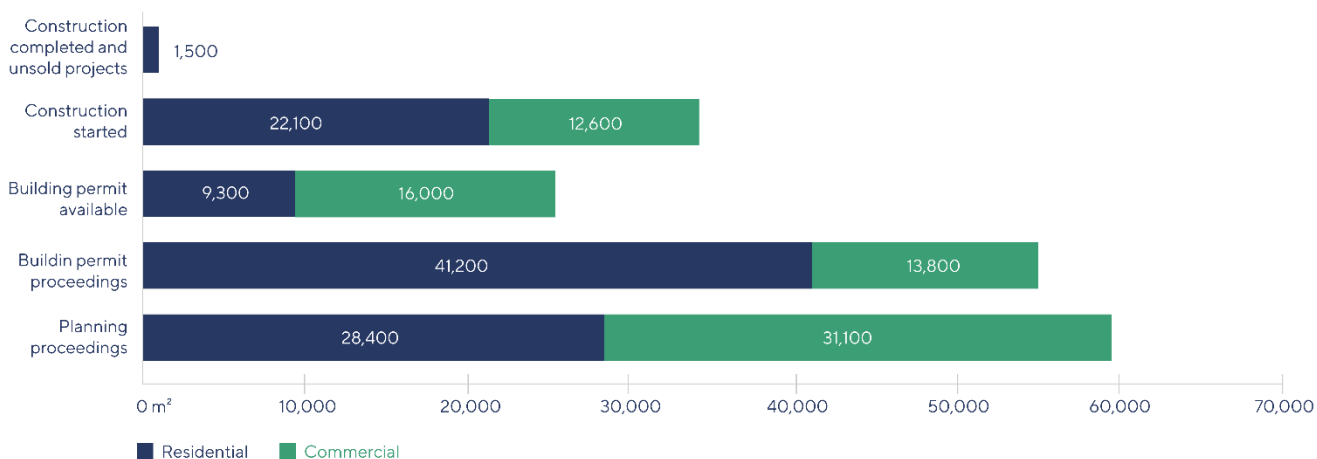
In Estonia, we will start the construction and sale of homes at Ojakalda and Manufaktuuri 7 in 2022. The two projects have a total of 255 homes. In addition to the construction of the Marupe development project, which has already started in Riga this year, we also plan to start the construction of the Ranka Dambis residential development project in Riga (36 apartments). In 2022, a total of 383 apartments are planned to be built in Tallinn and Riga, including 128 in Riga.

As of the date of this report, the market for new developments is still active both in Riga and Tallinn, and interest in new homes and commercial premises is still high. At the same time, it is currently difficult to assess the impact of rapid inflation, the European Central Bank's monetary policy, rising energy prices and the Ukrainian refugee crisis on the economy and consumer behavior in the near future.

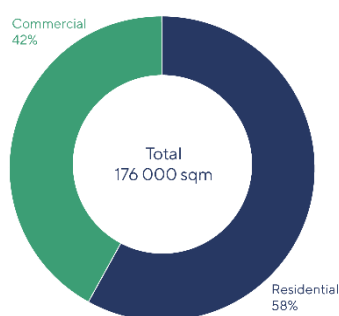
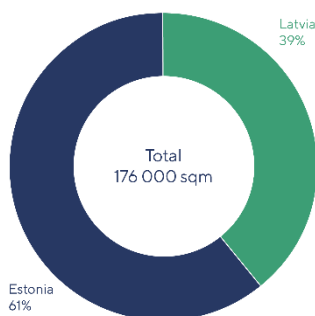
Overview of Development Projects

As at 31 March 2022 the Group had 26 active projects in different development phases (31 March 2021: 21 projects) ja 177,000 sqm of sellable area (31 March 2021: 131,000 sqm).

Distribution of development portfolio between different development phases as at 3 May 2022:



Distribution of development portfolio between countries and type as at 3 May 2022:



Construction completed and development project not sold (as at 3 May 2022):



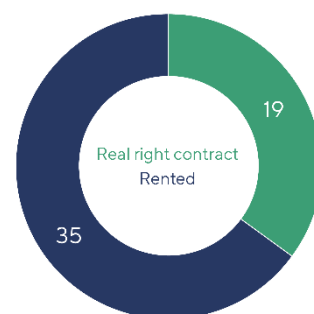
Project: Strelnieku 4b
Hepsor S4B SIA

Address: Strelnieku 4b, Riga

Apartments: 54

Project completed: 2020

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





Project: Baložu 9
Hepsor BAL9 SIA

Address: Baložu 9, Riga

Apartments: 18

Project completed: I quarter 2022

Website: hepsor.lv/balozu9



Development projects recorded under construction completed and not sold included the share of unsold apartments of Strelnieku 4b apartment building in Riga that was completed in 2020 (35 apartments) and the apartments of Baložu 9 for which the real right contracts have not yet been signed (9 apartments). The aim of the Group is to sell all apartments in 2022.

Residential development projects the construction of which has started (as at 3 May 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: hepsor.ee/priislekodu/?lang=en



Project: Paevälja Hoovimajad
Hepsor PV11 OÜ

Address: Paevälja 11, Lageloo 7, Tallinn

Apartment: 96

Start of construction: IV quarter 2021

Estimated completion: I phase IV quarter 2022
II phase beginning of 2023

Website: hepsor.ee/paevalja/en



Project: Kuldigas Park
Kvarta SIA

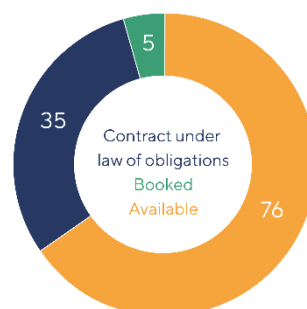
Address: Gregora iela 2a, Riga

Apartments: 116

Start of construction: IV quarter 2021

Estimated completion: II quarter 2023

Website: hepsor.lv/kuldigasparcs/en/



Commercial development projects the construction of which has started (as at 3 May 2022):



Project: Büroo 113
Hepsor P113 OÜ

Address: Pärnu mnt 113, Tallinn

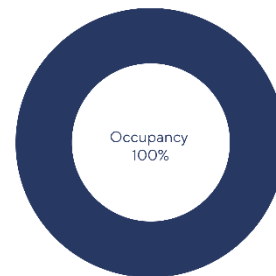
Leasable area: 3,843 m²

Occupancy: 100%

Start of construction: III quarter 2020

Estimated completion: IV quarter 2022

Website: byroo113.ee



Project: Grüne Büroo
Hepsor M14 OÜ

Address: Meistri 14, Tallinn

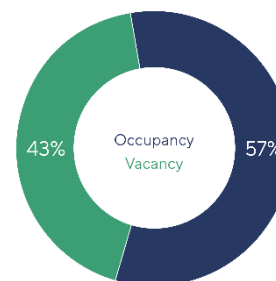
Leasable area: 3,597 m²

Occupancy: 54%

Start of construction: IV quarter 2020

Estimated completion: I-IV quarter 2022

Website: gryne.ee/en/



Project: StockOffice U30
Hepsor U30 SIA

Address: Ulbrokas 30, Riga

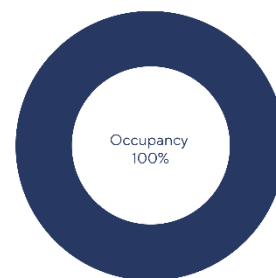
Leasable area: 3,645 m²

Occupancy: 100%

Start of construction: III quarter 2021

Estimated completion: III quarter 2022

Website: hepsor.lv/stokofissu30/en/



Project: Priisle Kodu (retail area)
Hepsor N170 OÜ

Address: Priisle 1a, Tallinn

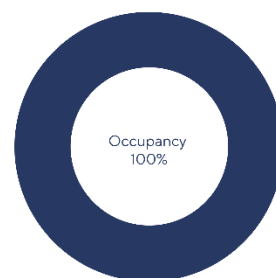
Leasable area: 1,487 m²

Occupancy: 100%

Start of construction: IV quarter 2020

Estimated completion: II quarter 2022

Website: hepsor.ee/priislekodu/?lang=en



Development projects the construction of which starts in 2022 (as at 3 May 2022):



Project: Marupes Darzs
Hepsor Marupe SIA

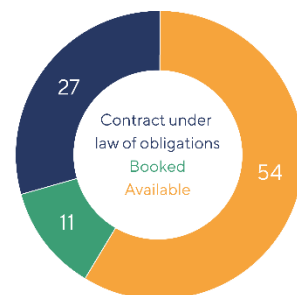
Address: Liela 45, Marupe, Riga area

Apartments: 92

Est. start of construction: II quarter 2022

Estimated completion: II quarter 2023

Website: hepsor.lv/marupesdarzs/en/



Project: Ojakalda kodud
Hepsor 3TORNI OÜ

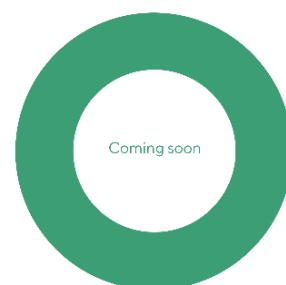
Address: Paldiski mnt 227c, Tallinn

Apartments: 101

Est. start of construction: II quarter 2022

Estimated completion: 2023

Website: hepsor.ee/ojakalda/en/



Project: Manufaktuuri quarter
Hepsor Phoenix 2 OÜ

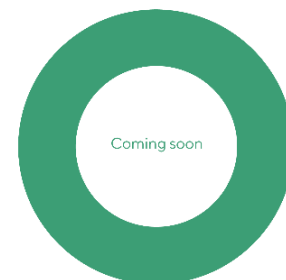
Address: Manufaktuuri 7, Tallinn

Apartments: 154

Est. start of construction: III quarter 2022

Estimated completion: 2024–2025

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



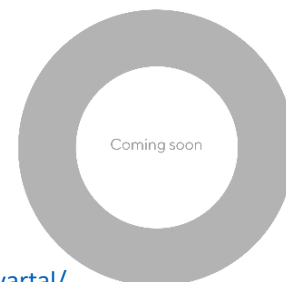
Project: Peterburi road business quarter
T2T4 OÜ

Address: Tooma 2/4, Tallinn

Leasable area: up to 10,000 m²

Est. start of construction: 2022–2023

Website: hepsor.ee/en/project/peterburi-tee-arikvartal/



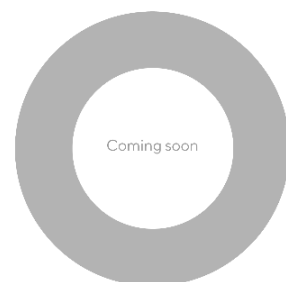
Project: Ranka Dambis
Hepsor RD5 SIA

Address: Ranka Dambis 5, Riga

Apartment #: 36

Est. start of construction: IV quarter 2022

Estimated completion: 2024



* Picture shown is for illustration purpose



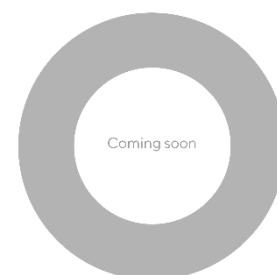
Project: StockOffice U34
Hepsor U34 SIA

Address: Ulbrokas 34, Riga

Leasable area: 8,373 m²

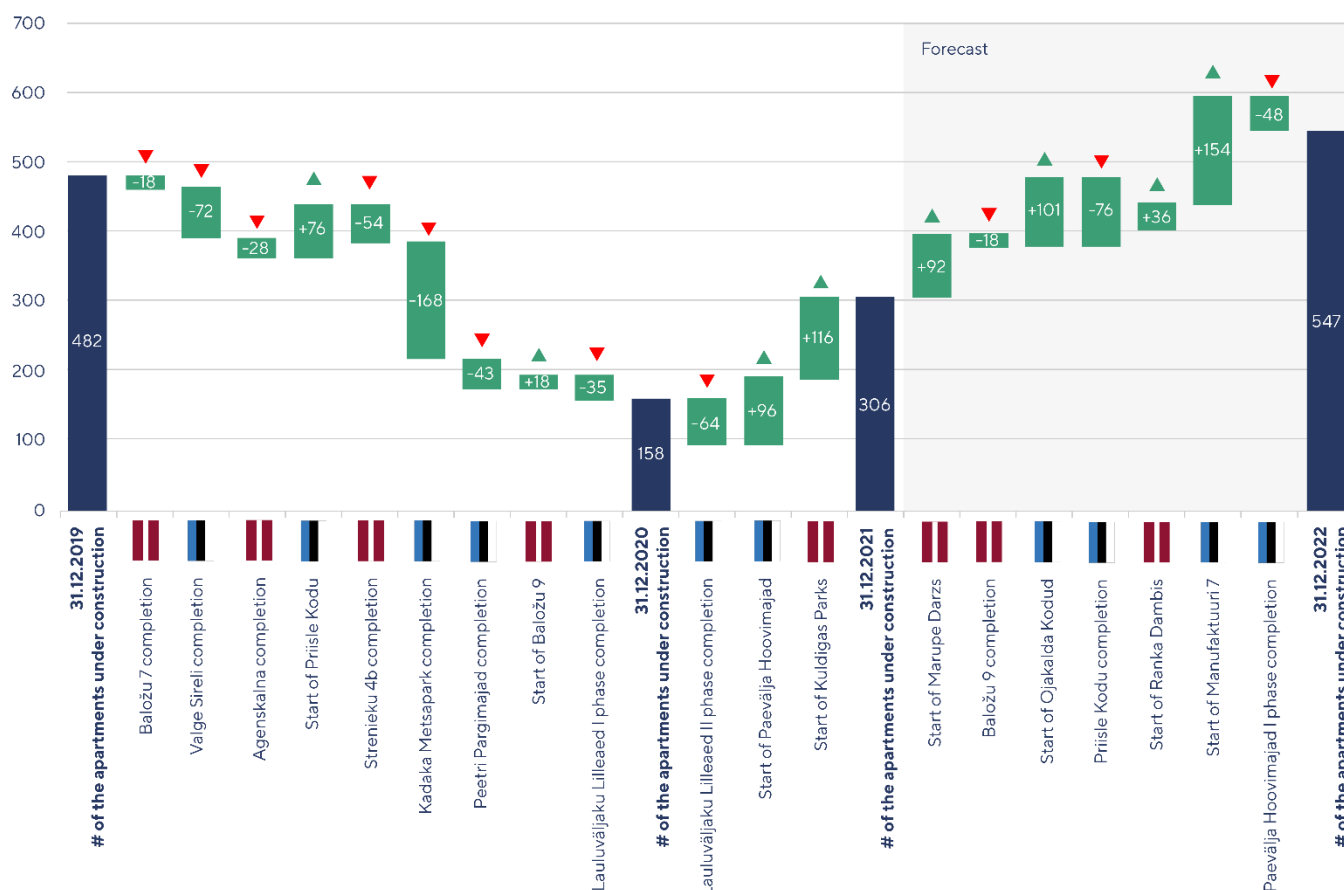
Est. start of construction: IV quarter 2022

Estimated completion: 2024



* Picture shown is for illustration purpose

Under construction and completed apartments, 2020 – 2022:

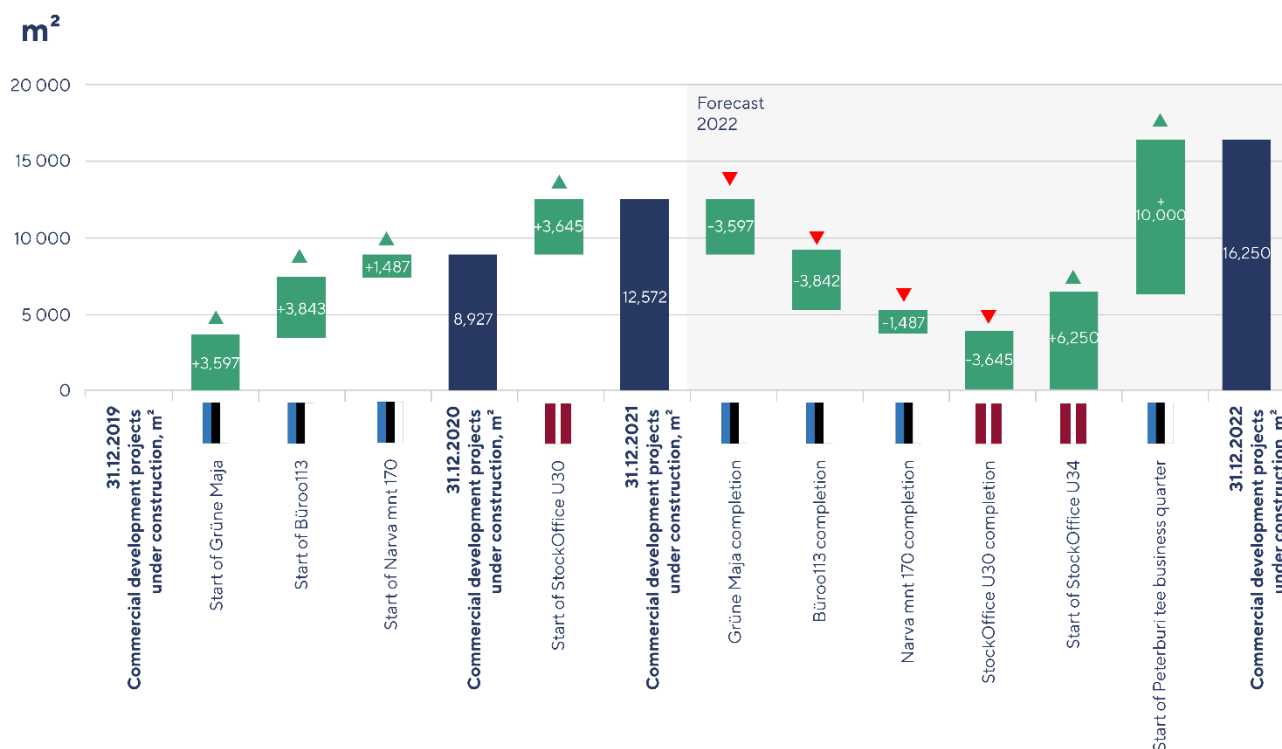


Residential development projects under construction and for sale:

Project name	Number of apartments	Number of apartments sold*	Share of apartments sold %	Number of unsold apartments	Share of unsold apartments %
Strenieku 4b	54	19	35	35	65
Priisle Kodu	76	76	100	0	0
Paevāja Hoovimajad	96	75	78	21	22
Baložu 9	18	18	100	0	0
Kuldigas Park	116	40	34	76	66
Marupes Darzs	92	38	41	54	59
Total	452	266	59	186	41

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

Commercial development projects under construction:



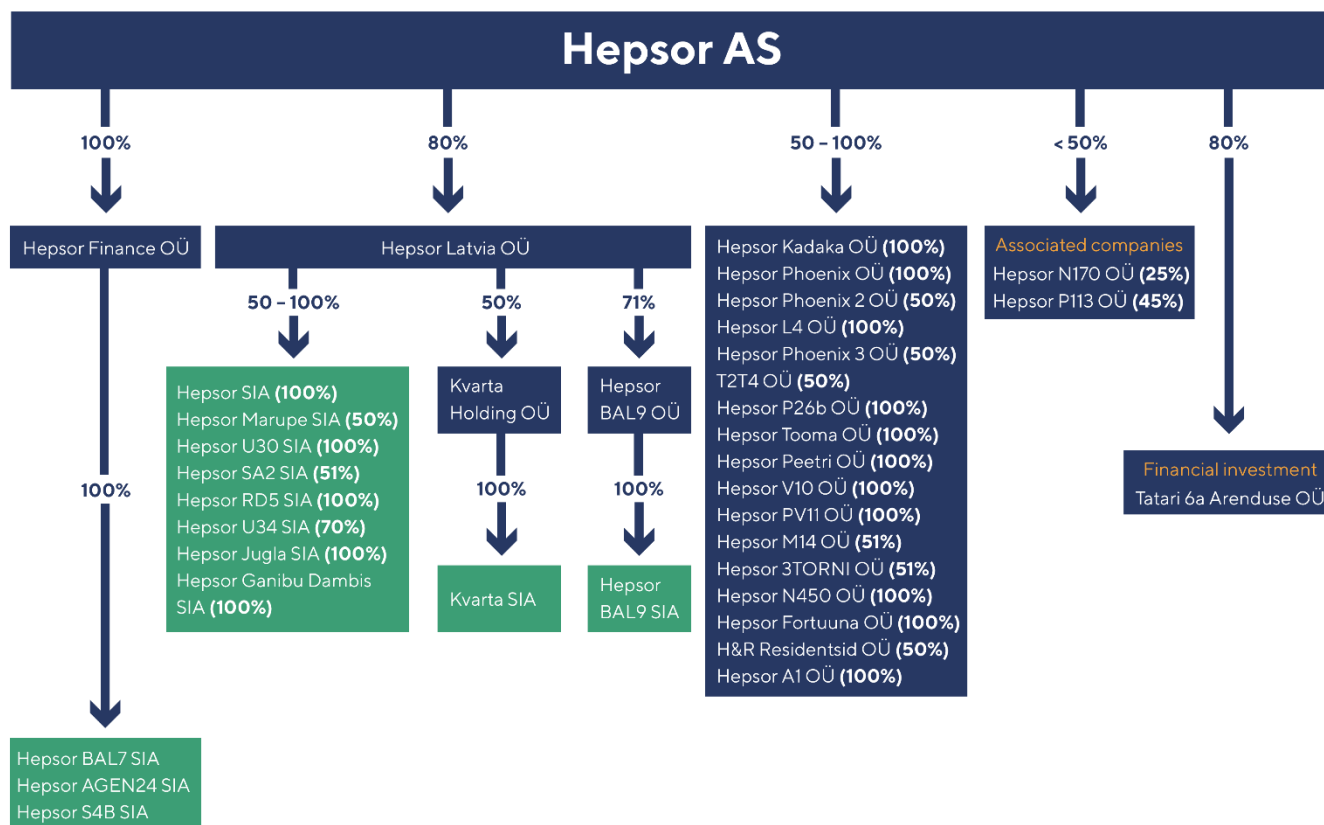
In 2020–2021, the Group started the development of four commercial properties (12,572 sqm in total), all of which will be completed in 2022. In 2022, the Group will start developing stock-office commercial real estate in Riga at Ulbokras 34.

Occupancy of commercial development projects under construction as at 3 May 2022:

Project name	Rentable area sqm	Occupancy m²	Occupancy %	Vacancy m²	Vacancy %
Priisle 1a retail space	1,487	1,487	100	0	0
Ulbokras 30 stock-office	3,645	3,645	100	0	0
Büro113	3,843	3,843	100	0	0
Grüne Office	3,597	2,059	57	1,538	43
Total	12,572	11,034	88	1,538	12

Group Structure

As of 31 March 2022, the Group was comprised of parent company, 34 subsidiaries and 2 associated companies (31 March 2021: parent company, 26 subsidiaries, 2 associated companies). Tatari 6a Arenduse OÜ is reported as financial investment.



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

- ✓ Hepsor Latvia OÜ acquired a 50% shareholding in Kvara 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. Kvara Holding OÜ owns a 100% shareholding in Kvara 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 AS acquired a minority stake in Hepsor P26b OÜ and Hepsor Peetri OÜ (March 2022) increasing its stake in both companies to 100%. The development projects of these entities ended in 2021.

Main Events

- ✓ Hepsor U30 SIA signed a loan agreement with Bigbank AS Latvian affiliate on 14 January 2022 for the amount of 2.65 million euros. The purpose of the loan is to finance the construction of stock-office in Riga, Ulbrokas 30. Total leasable area of 3,645 sqm is fully covered with lease agreements. The expected completion of construction is in third quarter 2022.
- ✓ Kvara 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. The construction of two buildings with 116 apartments began in the third quarter 2021 and is expected to be completed in the second quarter of 2023.
- ✓ Hepsor Marupe SIA and SIA Mitt&Perlebach signed a construction agreement for the construction of Marupe Darzs development project in Marupe, Riga area, on 5 April 2022. The value of construction agreement is approximately 8.3 million euros excluding value added tax.

Employees

As of 31 March 2022, the Group employed 23 (31 March 2021: 15) people, including 13 in Estonia and 10 in Latvia.

Total labour cost for the reporting period amounted to 369 thousand euros (Q1 2021: 164 thousand euros). Gross fees paid to the members of Management and Supervisory Boards during the reporting period amounted to 69 thousand euros (Q1 2021: 12 thousand euros).

The Group's definition of labour costs includes payroll expenses (incl. basic salary, additional remuneration, holiday pay and performance pay), payroll taxes, special benefits and taxes calculated on special benefits. The remuneration of the members of the Management Board and the Supervisory Board are also considered to be labour costs.

Operating Results

The Group's sales revenue in Q1 2022 was 1.3 million euros (compared with 2.9 million euros in Q1 2021), of which 1.1 million euros (Q1 2021: 0.3 million euros) or 86% (Q1 2021: 12%) was earned from Latvia.

Compared with the same quarter year earlier, sales revenue in Q1 2022 decreased by 56%. The decrease in revenue in Q1 2022 was mainly due to a smaller number of completed projects, which resulted in fewer projects available for sale.

In Q1 2022, the Group sold a total of 8 apartments in Latvia, Strelnieku 4b. A year earlier, 3 apartments were sold in Latvia and 16 in Estonia. In addition to the sale of apartments, the Group also offers project management services and generates rental income from real estate. In total, other sales revenue amounted to 158 thousand euros, or 12% of the Group's total sales revenue.

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

The Group's operating loss for Q1 2022 amounted to 314 thousand euros (compared with operating profit of 259 thousand euros in Q1 2021). The Group's net profit for the reporting period amounted to 22 thousand euros (compared with 173 thousand euros in Q1 2021), of which the profit attributable to the owners of the parent amounted to 5 thousand euros (50 thousand euros in Q1 2021), while the profit to non-controlling interest was 17 thousand euros (123 thousand euros in Q1 2021).

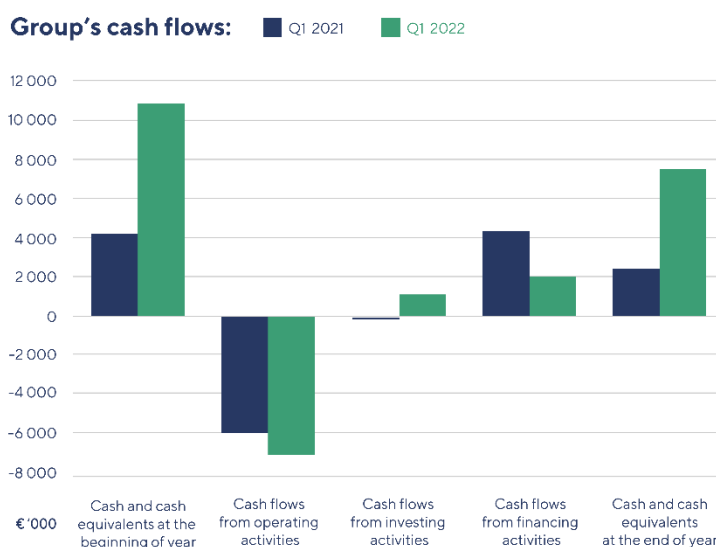
The increase in operating expenses and change in the structure of sales revenue had the most impact on the Group's operating profit. Compared to 95% in 2021, the Group's revenues from the sale of real estate dropped to 85% in Q1 2022. The share of rental income in sales revenue increased therefore decreasing profit margins.

Cash Flows

The Group's cash and cash equivalents amounted to 10.9 million euros at the beginning of the Q1 2022 (Q1 2021: 4.2 million euros) and to 7.4 million euros at the end of the Q1 2022 (Q1 2021: 2.4 million euros). The negative cash flow for the period was 3.7 million euros (Q1 2021: 1.8 million euros).

Cash flow from operating activities for Q1 2022 was negative at 6.9 million euros (Q1 2021: 5.9 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 Q1 2022 was 7.4 million euros (Q1 2021: 5.9 million euros).

Cash flow from investments was positive at 1.1 million euros in Q1 2022 (Q1 2021: 0.2 million euros). The largest impact was from repayment of loans granted, the balance of which decreased by 1.1 million euros (Q1 2021: 0 euros).



Cash flow from financing activities was positive at 2.1 million euros (Q1 2021: 4.4 million euros). In Q1 2022, the Group received more loans than it repaid. The net amount of loans received in Q1 2022 was 2.3 million euros (Q1 2021: 4.7 million euros).

Key Ratios

%	I quarter 2022	I quarter 2021
Gross profit margin	8.3%	14.7%
Operating profit margin	-24.7%	9.0%
EBITDA margin	-21.9%	10.5%
Net profit margin	1.7%	6.0%
General expense ratio	33.8%	6.4%
Equity ratio	33.8%	27.7%
Debt ratio	54.3%	61.3%
Current ratio	5.8	5.3
Return of equity (adjusted)	16.5%	34.5%
Return on equity attributable to the owners of the parent (adjusted)	-1%	25%
Return on assets	3.5%	8.9%

Gross profit margin = gross profit / revenue

Operating profit margin = operating profit / revenue

EBITDA margin = (operating profit + depreciation) / revenue

Net profit margin = net profit / revenue

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

Equity ratio = shareholder's equity / total assets

Debt ratio = interest-bearing liabilities / total assets

Current ratio = current assets / current liabilities

Return on equity (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

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 at 31 March 2022 Hepsor AS had 12,710 shareholders.

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

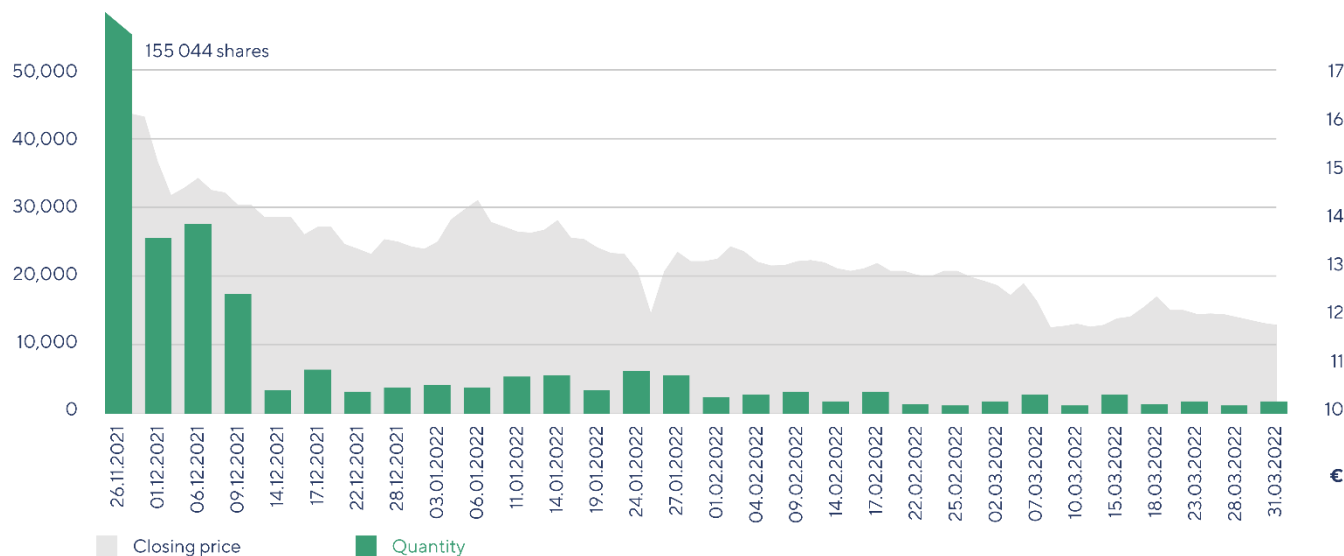
Shareholder	Position	Number of shares	Shareholding %
Henri Laks	Member of Management Board	498,000	12.92
Andres Pärloja	Chairman of Supervisory Board	997,500	25.88
Kristjan Mitt	Member of Supervisory Board	997,500	25.88
Lauri Meidla	Member of Supervisory Board	507,000	13.15
Total	-	3,000,000	77.83

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

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
100 001-...	5	0.04%	3,000,000	77.83%
10 001-100 000	8	0.06%	210,626	5.46%
1001 -10 000	53	0.42%	145,892	3.78%
101-1000	739	5.81%	194,814	5.05%
1-100	11,905	93.67%	303,369	7.87%
Total	12,710	100.00%	3,854,701	100.00%

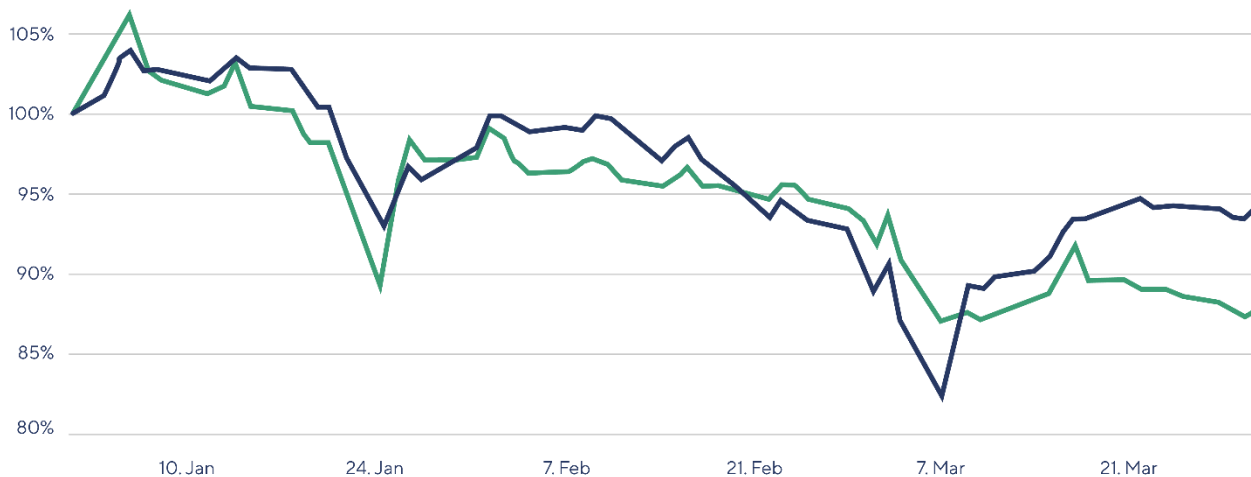
Between 1 January 2022 and 31 March 2022, a total of 7,785 transactions were conducted with the shares of Hepsor AS with 195,932 shares in the total amount of 2.5 million euros. The highest price for the period was 14.2 euros and the lowest price 11.7 euros. As at 31 March 2021 the market capitalization of Hepsor AS was 46 million euros and the Group's equity amounted to 19 million euros.

Trading volume and price range of Hepsor AS shares, 26 November - 31 March 2022:



Source: Nasdaq Baltic

Change in Hepsor share price in comparison with the benchmark OMX Tallinn index in Q1 2022:



INDEX / EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE %
OMX Tallinn_GI	2,001.03	1,890.35	-5.53
HPR1T - Hepsor	13.5	11.85	-12.22

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.

Consolidated Financial Statements

Consolidated statement of financial position

in thousands of euros	Note	31.03.2022	31.12.2021	31.03.2021
Assets				
Current assets				
Cash and cash equivalents		7,440	10,889	2,406
Trade and other receivables	3	946	652	861
Current loan receivables	6	455	2,388	126
Inventories	2	45,128	37,237	29,235
Total current assets		53,969	51,166	32,628
Non-current assets				
Property, plant and equipment		209	229	448
Intangible assets		3	0	0
Financial investments		2	402	0
Investments in associates		0	0	2
Non-current loan receivables	6	2,308	3,408	1,540
Other non-current receivables		340	140	67
Total non-current assets		2,862	4,179	2,057
Total assets	18	56,831	55,345	34,685
Liabilities and equity				
Current liabilities				
Loans and borrowings	7	3,833	5,501	3,075
Current lease liabilities		92	123	138
Prepayments from customers		1,856	1,164	1,031
Trade and other payables	8	3,537	5,539	1,919
Total current liabilities		9,318	12,327	6,163
Non-current liabilities				
Loans and borrowings	7	26,854	22,862	17,791
Non-current lease liabilities		66	66	267
Other non-current liabilities	9	1,410	1,053	791
Deferred income tax liability	11	0	0	71
Total non-current liabilities		28,330	23,981	18,920
Total liabilities	18	37,648	36,308	25,083
Equity				
Share capital		3,855	3,855	6
Share premium		8,917	8,917	3,211
Retained earnings		6,411	6,265	6,385
Total equity		19,183	19,037	9,602
incl. total equity attributable to owners of the parent		18,823	18,904	9,504
incl. non-controlling interest		360	133	98
Total liabilities and equity		56,831	55,345	34,685

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	Note	Q1 2022	Q1 2021
Revenue	13,18	1,272	2,889
Cost of sales (-)	14	-1,166	-2,464
Gross profit		106	425
Marketing expenses (-)		-95	-48
Administrative expenses (-)	15	-328	-125
Other operating income		10	20
Other operating expenses (-)		-7	-13
Operating profit (-loss) of the year	18	-314	259
Financial income	16	509	34
interest income		60	24
other financial income		449	10
Financial expenses (-)	16	-168	-109
interest expenses (-)		-133	-87
loss from associate (-)		0	-2
other financial expenses (-)		-35	-20
Profit before tax		27	184
Current income tax	10	-5	0
Deferred income tax	11	0	-11
Net profit for the year		22	173
Attributable to owners of the parent		5	50
Non-controlling interest		17	123
Other comprehensive income (-loss)			
Changes related to change of ownership	4	135	0
Change in value of embedded derivatives with minority shareholders	10	18	-90
Other comprehensive income (-loss) for the period		153	-90
Attributable to owners of the parent		-86	0
Non-controlling interest		239	-90
Comprehensive income (-loss) for the period		175	83
Attributable to owners of the parent		-81	50
Non-controlling interest		256	33
Earnings per share			
Basic (euros per share)		0.00	0.01
Diluted (euros per share)		0.00	0.01

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 at 01 January 2021	6	3,211	6,237	65	9,519
Net profit for the year	0	0	50	123	173
Other comprehensive income/(-loss) for the period	0	0	0	-90	-90
Balance at 31 March 2021	6	3,211	6,287	98	9,602
Balance at 01 January 2022	3,855	8,917	6,132	133	19,037
Net profit for the year	0	0	5	17	22
Other comprehensive income/(-loss) for the period	0	0	-86	239	153
Dividends paid	0	0	0	-29	-29
Balance at 31 March 2022	3,855	8,917	6,051	360	19,183

Consolidated statement of cash flows

in thousands of euros	Note	Q1 2022	Q1 2021
Net cash flows from (to) operating activities			
Operating profit/(-loss) of the year	18	-314	259
Adjustments for:			
Depreciation of property, plant and equipment		35	44
Other adjustments		-5	0
Income tax paid	10	-5	-59
Changes in working capital:			
Change in trade receivables		-290	-225
Change in inventories	2	-7,428	-5,898
Change in liabilities and prepayments		1,113	-45
Cash flows from (to) operating activities		-6,894	-5,924
Net cash flows to investing activities			
Payments for property, plant and equipment		-18	0
Payments of for acquisition of subsidiaries	4	-400	0
Proceeds from sale of subsidiaries	4	135	0
Interest received		17	1
Loans granted	6	-176	-239
Loan repayments received	6	1,129	0
Other receipts from investing activities	16	449	10
Cash flows to investing activities		1,136	-228
Net cash flows from (to) financing activities			
Loans raised	7	4,803	8,677
Loan repayments	7	-2,478	-3,971
Interest paid	17	-146	-263
Payments of finance lease principal		-3	-2
Payments of right to use lease liabilities		-27	-33
Dividends paid		-29	-37
Fees paid on division of subsidiaries	10	-18	0
Other receipts from financing activities	16	-35	-20
Cash flows from financing activities		2,067	4,351
Net cash flow		-3,691	-1,801
Cash and cash equivalents at beginning of year		10,889	4,207
Cashflow in from acquisitions of subsidiaries		242	0
Increase / decrease in cash and cash equivalents		-3,691	-1,801
Cash and cash equivalents at end of year		7,440	2,406

Notes to the consolidated interim financial statements

Note 1. General information

The Hepsor AS (hereinafter “the Group”) consolidated unaudited interim report for Q1 2022 have been prepared in accordance with IAS 34 Interim Financial Reporting of International Financial Reporting Standards as endorsed in the European Union (“IFRS (EU)”). The Group has consistently applied the accounting policies throughout all periods presented, unless stated otherwise. The interim report for Q1 2022 follows the same accounting principles and methods used in the 2021 audited consolidated financial statements. The current interim financial statements contain the audited financial results for 2021 and unaudited comparative figures for Q1 2021.

The Group has not made any changes in their critical accounting estimates which may have impact on the consolidated unaudited interim financial statements for Q1 2022.

The Group has not made any changes in the valuation techniques applied for fair value measurement in Q1 2022.

Note 2. Inventories

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

As at 31 March 2022 the Group had 55 (31 December 2021: 45; 31 March 2021: 53) unsold apartments in Riga, including 1 apartment in Agenskana 24 development project, 36 apartments in Strelnieku 4b development project and 18 apartments in Balozu 9 development project. In Balozu 9 development project all 18 apartments have been sold under the law of obligation.

As at 31 March 2022 the changes in inventories as stated in cash flow statements have been adjusted by loan interest expense. The capitalized loan interest amounted to 464 thousand euros (31 December 2021: 1,518 thousand euros; 31 March 2021: 434 thousand euros). Further information about financial expenses is provided in Note 17.

Project statuses are classified as following:

in thousands of euros	31.03.2022	31.12.2021	31.03.2021
A – planning proceedings	6,908	6,877	3,581
B – building permit proceedings	8,475	7,901	8,249
C – building permit available /construction not yet started	7,564	7,150	6,197
D – construction started / sale started	17,654	11,985	6,536
E – construction ready for sale	4,527	3,324	4,672
Total inventories	45,128	37,237	29,235

The following development projects are stated as inventories:

in thousands of euros				31.03.2022		31.12.2021		31.03.2021	
Address	Project company	Location	Segment	Acquisition cost	Project status	Acquisition cost	Project status	Acquisition cost	Project status
Work in progress									
Mõigu Road 11, Rae	Hepsor Peetri OÜ	Estonia	Residential	0	-	0	-	500	E
Pirita Road 26b, Tallinn	Hepsor P26B OÜ	Estonia	Residential	0	-	13	E	4,101	D
Paevälja 11, Tallinn	Hepsor PV11 OÜ	Estonia	Residential	5,055	D	2,963	D	1,975	B
Paldiski mnt 227C, Tallinn	Hepsor 3Torni OÜ	Estonia	Residential	2,680	C	2,517	C	2,294	C
Narva mnt 150, Tallinn	Hepsor N450 OÜ	Estonia	Residential/ Commercial	3,599	A	3,582	A	3,560	A
Manufaktuuri 5, Tallinn	Hepsor Phoenix 3 OÜ	Estonia	Residential/ Commercial	3,441	B	3,268	B	2,932	B
Manufaktuuri 7, Tallinn	Hepsor Phoenix 2 OÜ	Estonia	Residential/ Commercial	2,433	B	2,303	B	1,752	B
Tooma 2/Tooma 4 Tallinn	T2T4 OÜ	Estonia	Commercial	1,180	C	1,159	C	1,103	C
Lembitu 4, Tallinn	Hepsor L4 OÜ	Estonia	Commercial	2,835	C	2,811	C	2,800	C
Meistri 14, Tallinn	Hepsor M14 OÜ	Estonia	Commercial	6,090	D	5,765	D	1,905	D
Alvari 2/Paevälja 9, Tallinn	Hepsor Fortuuna OÜ	Estonia	Residential	1,659	A	1,656	A	0	-
Alaveri 1, Tallinn	Hepsor A1 OÜ	Estonia	Residential	1,006	A	1,004	A	0	-
Kadaka Road 197, Tallinn	H&R Residentsid OÜ	Estonia	Residential	623	A	614	A	0	-
Balozu street 9, Riga	Hepsor Bal9 SIA	Latvia	Residential	0	-	1,770	D	530	D
Saules alley 2, Riga	Hepsor SA2 SIA	Latvia	Residential	961	B	957	B	1,044	B
Liela 45, Marupe	Hepsor Marupe SIA	Latvia	Residential	869	C	663	C	35	B
Ranka Dambis 5, Riga	Hepsor RD5 SIA	Latvia	Residential	357	B	354	B		
Ulbrokas 30, Riga	Hepsor U30 SIA	Latvia	Commercial	2,072	D	1,485	D	511	B
Ulbrokas 34, Riga	Hepsor U34 SIA	Latvia	Commercial	1,037	B	1,019	B		
Braila 23, Riga	Hepsor Jugla SIA	Latvia	Residential	246	B	0	-	0	-
Gregora iela 2a, Riga	Hepsor Kvarta SIA	Latvia	Residential	4,437	D				
-other properties		Estonia		21	A	21	A	19	A
-other properties		Latvia		0	A	0	-	2	A
Total work in progress				40,601		33,926		25,063	
Finished real estate development									
Agenskalna 24, Riga	Hepsor Agen24 SIA	Latvia	Residential	50	E	50	E	112	E
Strelnieku 4b, Riga	Hepsor S4B SIA	Latvia	Residential	2,549	E	3,245	E	4,044	E
Manufaktuuri 22, Tallinn (parking spaces)	Hepsor Phoenix OÜ	Estonia	Residential	16	E	16	E	16	E
Balozu 9, Riga	Hepsor Bal9 SIA	Latvia	Residential	1,912	E	0	-	0	-
Total finished real estate development				4,527		3,311		4,172	
Total inventories				45,128		37,237		29,235	

Note 3. Trade and other receivables

In thousands of euros	31.03.2022	31.12.2021	31.03.2021
Trade receivables			
Trade receivables	63	86	104
Allowance for doubtful receivables	-6	-6	0
Net trade receivables	57	80	104
Prepayments			
Tax prepayment			
Value added tax	455	382	164
Other prepayments for goods and services	388	146	55
Total prepayments	843	528	219
Other current receivables			
Interest receivables	36	33	0
Escrow account	0	0	0
Other current receivables	10	11	538
Other current receivables	46	44	538
Total trade receivables	946	652	861

Note 4. Subsidiaries

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

Purchase price allocation as at 31.12.2021:

In thousands of euros	Hepsor Jugla SIA	Kvartha 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 Kvartha Holding OÜ includes loan issued by Hepsor Latvia OÜ in the amount of 1,100 thousand euros.

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

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

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 in ownership			
Hepsor P26B OÜ	-85	85	-
Hepsor Peetri OÜ	-10	10	-
Hepsor Marupe SIA	9	-9	135
Total	-86	86	135

Note 5. Shares of associates

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

	Ownership and voting rights %		
	31.03.2022	31.12.2021	31.03.2021
Hepsor P113 OÜ	45	45	45
Hepsor N170 OÜ	25	25	25

Financial information about associates:

In thousands of euros	31.03.2022		31.12.2021	
	Hepsor P113 OÜ	Hepsor N170 OÜ	Hepsor P113 OÜ	Hepsor N170 OÜ
Current assets				
Cash and cash equivalents	25	420	218	373
Trade receivables	11	10	85	82
Inventories	8,120	8,269	6,991	6,591
Total current assets	8,156	8,699	7,294	7,046
Total assets	8,156	8,699	4,442	7,046
Current liabilities				
Loans and borrowings	5,127	6,889	0	5,534
Trade and other payables	1,172	1,893	1,034	1,595
Total current liabilities	6,299	8,782	1,034	7,129
Non-current liabilities				
Loans and borrowings	1,795	0	6,198	0
Other non-current liabilities	149	0	147	0
Total non-current liabilities	1,944	0	6,345	0
Total liabilities	8,243	8,782	7,379	7,129
Total equity	-87	-83	-85	-83
Total liabilities and equity	8,156	8,699	7,294	7,046

As of 31.03.2022, the Group had contractual commitment to finance:

- ✓ Hepsor P113 OÜ office building development at Pärnu Road 113, Tallinn in the total amount of 3,149 thousand euros, of which the Group had fulfilled 2,308 thousand euros (31 March 2021: 1,358 thousand euros). The office building has reached 100% occupancy rate. Construction will be completed in the second half of 2022.
- ✓ The development of Hepsor N170 commercial and residential building at Narva Road 170, Tallinn in the total amount of 340 thousand euros, of which the Group has already financed in the amount of 279 thousand euros (31 March 2021: 182 thousand euros). The contract under law of obligation has been signed with Lumipood OÜ for the retail area. As at 31 March 2022 a total of 72 apartments of 76 have been sold under law of obligation.

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 2,098 thousand euros. Of this, 2,080 thousand euros as loan receivable. Additional information is available in Note 10.

In thousands of euros	Owner of non-controlling interest	Unrelated legal entities	Associates	Related legal entities	Total
2022					
Loan balance as at 01.01.2022	2,109	1,100	2,587	0	5,796
Loan granted	0	0	0	176	176
Loan collected	-29	-1,100	0	0	-1,129
Division of subsidiary	-2,080	0	0	0	-2,080
Loan balance as at 31.03.2022	0	0	2,587	176	2,763
- current portion	0	0	279	176	455
- non-current portion	0	0	2,308		2,308
contractual/effective interest rate per annum	0-3%	0%	7%	12%	
2021					
Loan balance as at 01.01.2021	720	56	1,371	0	2,147
Loan granted	0	70	169	0	239
Division of subsidiary	-720	0	0	0	-720
Loan balance as at 31.03.2021	0	126	1,540	0	1,666
- current portion	0	126	0	0	126
- non-current portion	0	0	1,540	0	1,540
Loan balance as at 01.04.2021	0	126	1,540	0	1,666
Loan granted	2,109	974	1,047	0	4,130
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%		

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

Note 7. Loans and borrowings

in thousands of euros	Bank loans	Unrelated legal entities and individuals	Related legal entities	Total
2022				
Loan balance as at 01.01.2022	10,951	15,581	1,831	28,363
Received	2,844	1,959	0	4,803
Repaid	-607	-1,872	0	-2,479
Loan balance as at 31.03.2022	13,188	15,668	1,831	30,687
- current loan payable	2,393	1,440	0	3,833
- non-current loan payable	10,795	14,228	1831	26,854
Contractual interest rate per annum	EU6+5.85%-8%; 8.2%	0-12%	3%-12%	
2021				
Loan balance as at 01.01.2021	4,705	10,815	640	16,160
Received	3,602	5,075	0	8,677
Repaid	-2,692	-1,279	0	-3,971
Total loan balance as at 31.03.2021	5,615	14,611	640	20,866
- current loan payable	1,833	742	500	3,075
- non-current loan payable	3,782	13,869	140	17,791
Loan balance as at 01.04.2021	5,615	14,611	640	20,866
Received	10,451	1,863	1691	14,005
Repaid	-5,115	-893	-500	-6,508
Total loan balance as at 31.12.2021	10,951	15,581	1,831	28,363
- current loan payable	2,821	2,680	0	5,501
- non-current loan payable	8,130	12,901	1,831	22,862
Contractual interest rate per annum	EU6+5.85%-8%; 8.2%	0-12%	12%	
Effective interest rate per annum	4.7%-10.7%	0-12.2%	12%-13.44%	

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 March 2022, 87% (31 December 2021: 86%, 31 March 2021: 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 31.03.2022				
Loans for development projects	9,162	15,668	1,831	26,661
Loans to headquarters to finance development projects	4,026	0	0	4,026
Total	13,188	15,668	1,831	30,687
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 31.03.2021				
Loans for development projects	5,615	14,611	140	20,366
Loans to headquarters to finance development projects		0	500	500
Total	5,615	15,581	640	20,866

As at 31 March 2022, the Group had the following bank loans under the following conditions:

Lender	Country	Loan balance	Contract term	Loan limit	Interest per annum	Collateral	Cost value of the collateral	Guarantee given
LHV Pank	Estonia	815	2023	8,605	6M Euribor + 4.5%	Mortgage - Paevälja pst 11, Lageloo 3//5, Lageloo 7, Tallinn	5,055	-
LHV Pank AS	Estonia	2,735	2024	3,115	6M Euribor + 4.75%	Mortgage - Meistri 14, Tallinn	6,090	-
LHV Pank AS	Estonia	1,225	2022	1,300	6M Euribor + 8%	Mortgage - Lembitu tn. 4, Tallinn	2,835	-
Bigbank AS	Latvia	1,101	2024	2,500	6M Euribor + 4.5%	Commercial pledge; Mortgage - Strelnieku tn. 4b, Riga	2,549	-
Bigbank AS	Latvia	1,142	2023	1,150	6%	Mortgage - Baložu 9, Riga	1,912	-
Bigbank AS	Latvia	1,023	2024	2,650	5.5%	Mortgage - Ulbrokas 30, Riga, Commercial pledge	2,072	500
Bigbank AS	Latvia	1,123	2025	7,500	5.5%	Mortgage - Gregora 2a, Riga	4,437	423

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

As at 31 December 2020, 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 11, Lageloo 3 // 5, Lageloo 7	2,965
LHV Pank AS	Estonia	2,375	2024	3,115	6M Euribor + 4,75%	Mortgage - Meistri 14	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 - Strelnieku 4b, Riga	3,245

Note 8. Trade and other payables

In thousands of euros	31.03.2022	31.12.2021	31.03.2021
Trade payables	2,065	1,506	1,170
Taxes payable			
Value added tax	77	254	147
Personal income tax	18	18	6
Social security tax	29	33	10
Other taxes	28	5	22
Total taxes payable	152	310	185
Accrued expenses			
Payables to employees	68	72	67
Interest payable	238	135	44
Other accrued expenses	32	29	33
Total accrued expenses	338	236	144
Other current payables			
Embedded derivatives (Note 10)	0	2,115	390
Other payables	982	1,372	30
Total other current payables	982	3,487	420
Total trade and other payables	3,537	5,539	1,919

Note 9. Other non-current liabilities

In thousands of euros	31.03.2022	31.12.2021	31.03.2021
Non-current interest payables	1,368	1,020	778
Other non-current payables	42	33	13
Total other non-current liabilities	1,410	1,053	791

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 realization of the business plan of the development project. 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 18 thousand euros was recognized in other comprehensive income for 2022. More information on loans is provided in Note 6.

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 5 thousand euros was calculated and paid.

As at the end of the reporting period the Group had no liabilities arising from embedded derivatives. In comparative periods the Group had liabilities arising from embedded derivatives with regards to the following projects:

in thousands of euros	31.12.2021	31.03.2021
Current liabilities arising from embedded derivatives		
Residential development Pirita 26b, Tallinn	2,080	274
Residential development Mõigu 11, Rae parish	35	116
Total	2,115	390

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.

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

in thousands of euros	31.12.2021	31.03.2021
Balance at 01.01	60	60
Deferred income tax expense	-60	11
Balance at the end of reporting period	0	71

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 March 2022 to pay 8,992 thousand euros (31 March 2021: 5,662 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 March 2021, the realization time of contingent liabilities remains between 2022 and 2025.

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 the city of Tallinn as part of the development of Manufaktuuri quarter. The potential financing obligation is 390 thousand euros.

12.4 Group guarantees given

Additional information on the guarantees is provided in Note 7.

Note 13. Revenue

in thousands of euros	Q1 2022	Q1 2021
Revenue from sale of real estate	1,079	2,758
Revenue from project management services	47	50
Revenue from rent	111	76
Revenue from other services	35	5
Total	1,272	2,889

Additional information on sales revenue is provided in Note 18.

Note 14. Cost of sales

in thousands of euros	Q1 2022	Q1 2021
Cost of real estate sold	994	2,322
Personnel expenses	121	90
Interest expenses	0	23
Depreciation	8	18
Other costs	43	11
Total	1,166	2,464

Note 15. Administrative expenses

in thousands of euros	Q1 2022	Q1 2021
Personnel expenses	222	62
Depreciation	27	32
Traveling and transport expenses	14	9
Purchased service expenses	55	16
Office expenses	10	6
Total	328	125

Note 16. Financial income and expenses

16.1 Financial income

in thousands of euros	Q1 2022	Q1 2021
Interest incomes	60	24
Other financial expenses	449	10
Total	509	34

In Q1 2022, the Group earned non-recurring financial income from waiver of minority shareholder's loan liability in the amount of 437 thousand euros.

16.2 Financial expenses

in thousands of euros	Q1 2022	Q1 2022
Interest expenses	133	87
Loss from associates of equity method	0	2
Other financial expenses	35	20
Total	168	109

In 2022 borrowing costs in the amount of 464 thousand euros (Q1 2021: 434 thousand euros) have been capitalized as the cost of inventories. No interest expense has been recognized in costs of goods sold in Q1 2022 (IQ 2021: 23 thousand euros).

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

in thousands of euros	Q1 2022	Q1 2021
Interest paid		
Interest expense in statement of profit or loss and other comprehensive income	-133	-87
Reclassification of cash flows from operating activities to financing activities		
<i>Change in inventories (Notes 2)</i>	-464	-434
Decrease (-)/ increase (+) of interest payables	451	258
Interest paid total	-146	-263

Note 18. Operating segments

The segment reporting is presented in respect of operating and geographical segments.

The Group reports separately information about the following operating segments:

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

Headquarters are generating revenue from provision of project management services. All personnel expenses are accounted in headquarters.

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

Revenue by geographical area:

in thousands of euros	Q1 2022	Q1 2021
Estonia	175	2,541
Latvia	1,097	348
Total	1,272	2,889

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 companies have been eliminated.

in thousands of euros	Residential development		Commercial development		Headquarters		Total	
	Q1 2022	Estonia	Latvia	Estonia	Latvia	Estonia		Latvia
Revenue		53	943	75	154	47	0	1,272
incl. revenue from rent		0	38	69	4	0	0	111
Operating profit		-23	211	22	27	-360	-191	-314
Assets		22,982	12,125	10,873	4,112	6,246	493	56,831
Liabilities		15,513	4,770	6,892	4,091	4,970	1,412	37,648

in thousands of euros	Residential development		Commercial development		Headquarters		Total	
	Q1 2021	Estonia	Latvia	Estonia	Latvia	Estonia		Latvia
Revenue		2,477	339	14	7	50	2	2,889
incl. revenue from rent		0	55	14	7	0	0	76
Operating profit		504	46	-3	8	-200	-96	259
Assets		18,345	6,438	6,177	563	2,931	232	34,685
Liabilities		14,119	3,650	4,263	44	2,573	434	25,083

Note 19. Related parties

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

Purchases and sales of goods and services:

in thousands of euros	Q1 2022	Q1 2021
Sales of goods and services		
Associated companies	40	40
Key members of the management and all companies directly or indirectly owned by them	19	10
Total sales of goods and services	59	50
Purchases of goods and services		
Key members of the management and all companies directly or indirectly owned by them	5,499	2,083
incl. construction service	5,460	2,049
Interest income earned		
Associated companies		
Interest earned	45	25
Key members of the management and all companies directly or indirectly owned by them		
Interest earned	2	0
Interest expenses incurred		
Key members of the management and all companies directly or indirectly owned by them		
Accrued interest	57	8
Interest paid	35	4

Balances and loan transactions with related parties:

In thousands of euros	31.03.2022	31.12.2021	31.03.2021
Receivables			
Loans granted (Note 6)			
Associated companies			
Opening balance	2,587	1,371	1,371
Loans granted	0	1,216	169
Balance at the end of period	2,587	2,587	1,540
Management and all companies directly or indirectly owned by them			
Loans granted	176	0	0
Trade and other receivables			
Management and all companies directly or indirectly owned by them	2	12	2
Interest receivables			
Associated companies	228	169	67
Management and all companies directly or indirectly owned by them	2	0	0
Payables			
Loans and borrowings (Note 7)			
Management and all companies directly or indirectly owned by them			
Opening balance as at 01.01	1,831	640	640
Loans received	0	1,691	0
Loans repaid	0	-500	0
Balance at the end of period	1,831	1,831	640
Trade payables			
Management and all companies directly or indirectly owned by them	1,882	1,126	1,043
Interest payables			
Management and all companies directly or indirectly owned by them	92	70	5

Note 20. Risk management

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

Strategic risk

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

Market risk

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

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group actively uses external and internal borrowings to finance its real estate development projects in Estonia and Latvia. A project's external financing is either in the form of a bank loan or investor loan from minority interest holders denominated in Euro.

The interest rates of investor loans are usually fixed, ie interest rates are not floating and do not depend on Euribor.

The Group's bank loans have both fixed and floating interest rates based on Euribor. 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.

Credit risk

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

In order to minimize credit risk, the Group is only dealing with creditworthy counterparties and deposits cash in banks well-recognized banks in Estonia and Latvia. If such rating is not available, the Group uses other publicly available financial information and its own trading records to rate its major customers.

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

Liquidity risk

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

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The Group mitigates refinancing risk by monitoring liquidity positions, analyzing different financing options on an ongoing basis and negotiating with financing parties over the course of financing.

Covid-19 risk

The impact of the coronavirus COVID-19 is being felt by all businesses around the world. Therefore, the continuing spread of the coronavirus 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.

Capital risk

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

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

Management Board's Confirmation

The Management Board confirms that the unaudited interim report for Q1 2022, which is comprised of the management report and the interim financial statements, provides a true and fair view of the Group's operations, financial position and results of operations, and describe the significant risks and uncertainties the Group faces.

Henri Laks
Member of Management Board
Tallinn, 10 May 2022