hepsor

Kuldigas Parks, Riga

2023 Audited Consolidated Annual Report

Corporate name:	Hepsor AS
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Reporting period:	01 January 2023-31 December 2023
Financial year:	01 January 2023-31 December 2023
Supervisory Board:	Andres Pärloja, Kristjan Mitt, Lauri Meidla
Management Board:	Henri Laks
Auditor:	Grant Thornton Baltic OÜ

Hepsor AS (hereinafter referred to as "the Group" or "Hepsor"), a property development company based on Estonian capital, has operations in Estonia and Latvia. The Group entered Latvian market in 2017 and has been operating under the same consolidating group since 2019. In the Canadian market, the Group started operations in 2023.

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

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Management Report

2023 AUDITED REVENUES AND NET PROFIT

41,1 M€	3,5 M€	1,2 M€
CONSOLIDATED REVENUES	CONSOLIDATED NET PROFIT	CONSOLIDATED NET PROFIT ATTRIBUTABLE TO OWNERS OF PARENT

REVENUE AND NET PROFIT FORECAST FOR 2024 (AS OF 30.09.2023)

43.1 M€	4,5 M€	2,5 M€
CONSOLIDATED REVENUES	CONSOLIDATED NET PROFIT	CONSOLIDATED NET PROFIT ATTRIBUTABLE TO OWNERS OF PARENT

LONG TERM OUTLOOK (31.12.2022 VS 31.12.2023)

REVENUE POTENTIAL OF DEVELOPMENT PROJECTS

In the beginning of period	During the period	At the end of period
407 M € (86%)	Addition of 42M€	449 M € (89%)

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

CHANGE IN PIPELINE

In the beginning of period	During the period	At the end of period
26 PROJECTS	+ 2 projects - 3 projects	25 PROJECTS
176 000 m²	+ 29,400m² - 33,600 m²	171 800 m²

ASSUMPTIONS FOR 2024 FORECAST

Project	Assumption
Manufaktuuri 7	120 real rights contracts will be concluded.
Paevälja Courtyard houses	5 real rights contracts will be concluded.
Lilleküla Homes	18 real rights contracts will be concluded.
Ojakalda Homes	50 real rights contracts will be concluded.
Strelnieku 4B	10 real rights contracts will be concluded.
Nameja Rezidence	25 real rights contracts will be concluded.
Marupes Darzs	The last apartment is being sold.
Ganibu Dambis	The Group earns rental income.
Büroo 113	Investment is reassessed to fair value.
Grüne office building	The Group earns rental income.

DEVELOPMENT PROJECTS FOR SALE AND UNDER CONSTRUCTION (31.12.2023)

PROJECT	Total number of apartments	Apartments sold*	Apartments sold %	Apartments available	Construction completed
Strelnieku 4b, Latvia	54	44	81%	10	2020
Paevälja Courtyard Houses	96	91	95%	5	2023
Kuldigas Parks, Latvia	116	116	100%	0	2023
Marupes Darzs, Latvia	92	91	99%	1	2023
Ojakalda Homes	101	58	57%	43	2024
Lilleküla Homes	26	8	31%	18	2023
Manufaktuuri 7	150	61	41%	89	2024
Nameja Rezidence	38	11	29%	27	2024
Annenhof Majas	40	5	13%	35	2025
Total	**713**	**485**	**68%**	**228**	

COMMERCIAL DEVELOPMENT PROJECTS IN PROCESS	Total rentable area m²	Occupancy m²	Occupancy %	Construction completed
Büroo113 office building	4,002	431	11%	2023
Grüne office building	3,430	3,430	100%	2023
Manufaktuuri 7	453	0	0%	2024
Total	**7,885**	**3,861**	**49%**	

DEVELOPMENT PROJECTS UNDER CONSTRUCTION (31.12.2023)

Started in 2023	Total under construction	To be started in 2024
329 apartments	329 apartments	254 apartments
453 m² commercial area	453 m² commercial area	10,206m² commercial area

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

Dear Hepsor Shareholders,

Revenues
41.1
million euros

Hepsor's 2023 consolidated revenue amounted to 41.1 million euros, with a net profit of 3.5 million euros (including a share of 1.2 million euros for the parent company's owners). Considering the slowed real estate market, this is quite a favourable outcome. During the comparative period, in 2022, Hepsor's consolidated audited revenue was 12.9 million euros, and net profit was 1.3 million euros (including a net profit of 1.4 million euros attributable to the parent company owners).

The Group's revenues and profitability are directly dependent on the development cycle of projects, which is approximately 24 to 36 months. Sales revenue is generated only at the end of the cycle. Calendar quarters vary in terms of the number of projects ending during the quarter, which is why both profits and sales revenue can differ significantly across quarters. Therefore, performance can be considerably weaker or stronger in some years and quarters than in others.

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

Completed Development Projects

During 2023, a total of 274 new homes were handed over to customers (number of real rights contracts).

Homes in Estonia were handed over to buyers in the following projects:

- The Paevälja courtyard house project started in 2022, and we constructed two apartment buildings with a total of 96 apartments. The first 40 apartments were handed over to buyers by the end of 2022. In 2023, we handed over 51 apartments to buyers. As of December 31, 2023, we have concluded real rights contracts for a total of 91 apartments (95%), and five apartments remain unsold.
- In the Lilleküla Homes project, there are a total of 26 apartments. The project was completed in the fourth quarter of 2023, and as of December 31, 2023, 8 apartments (31%) have been handed over to buyers, leaving 18 apartments unsold.

The handover of homes to buyers continued in Latvia in the following projects:

Delivered
274
new homes
in 2023

- Under the Kuldigas Parks project, a total of 116 homes have been completed. As of December 31, 2023, real right contracts had been concluded for all apartments with all homes handed over to new owners.
- Within the Mārupes Dārzs project, a total of 92 homes have been completed. As of December 31, 2023, one apartment was available, while real rights contracts had been concluded and homes handed over to buyers for the remaining 91 apartments.
- The development project at Strēlnieku 4b was completed in 2020, and in 2023, eight apartments were sold (including four in the fourth quarter). As of December 31, 2023, 44 apartments (81%) had been handed over to buyers, with ten apartments remaining vacant.

In the commercial real estate segment, we sold the Ulbrokas 30 property with the StokOfiss 30 office building in Riga developed by Hepsor, as well as properties on Tooma Street in Tallinn in the second quarter. In addition, by the end of the second quarter, the environmentally friendly Grüne Maja in Tallinn was completed, with the last spaces handed over to tenants by the end of the period. As of the end of 2023, the office building is 100% covered by lease agreements. Regarding the associate company Büroo 113, Hepsor had to terminate the lease unilaterally in early September due to a tenant's breach of the lease agreement, resulting in the availability of approximately 3,500 m2 of commercial space. In the context of Büroo 113, we have focused on negotiations with new tenants. Simultaneously, there is an ongoing legal dispute with the former tenant.

Due to differences in legislation, in Estonia, revenue from real estate sales is recognised upon the conclusion of the property rights agreement, while in Latvia, revenue from real estate sales is typically recognised after the entry in the Land Register and the transfer of possession, which may occur with a significant time delay after the conclusion of the property rights agreement.

Development Projects Under Construction and Available for Sale

Under construction

329

new homes

In 2023, Hepsor has four residential development projects with a total of 329 apartments under construction – Ojakalda Homes (101 apartments) and Manufaktuuri 7 (150 apartments and 453 m2 of commercial space) in Tallinn, and Nameja Residence (38 apartments) and Annenhof Majas (40 apartments) in Riga. The completion of these projects is scheduled for 2024, and most of the revenue will also be recognised in 2024. However, as of December 31, 2023, contracts under the law of obligations and written reservations have been made for a total of 135 apartments (41%) across these four projects.

New projects in Tallinn and Riga

In August 2023, Hepsor acquired new properties in Latvia by purchasing 50% of the shares of SIA "Riga Properties 4." SIA "Riga Properties 4" has entered into a purchase agreement for two properties in the Dreilini area near Riga with the goal of developing the properties incrementally into 40,000 square meters of commercial space. These properties are in an attractive location, where the IKEA store and SAGA shopping centre are already situated. In the planned development area, we aim to create a distinctive and environmentally conscious business complex comprising various function-based commercial spaces, including stock-office-type office buildings.

Hepsor AS's 50% subsidiary, Hepsor VT49 OÜ, acquired two properties in Rae Parish, Harju County, in November 2023. The purchased properties have detailed planning permission, allowing for the construction of a commercial building with 4,500 m2 of leasable space.

Hepsor in Canada

Hepsor began developing its Canadian business line in the spring of 2022 after the start of the war in Ukraine, with the aim of finding new growth opportunities and diversifying the geopolitical risks associated with the current home markets. Within two years, a network of cooperation was built in Canada, from legal and financial advisors to banks, market analysis, and brokerage companies.

As of the end of 2023, two investments have been made together with Canadian partners:

- In June 2023, with Canadian partners, a property suitable for residential development was purchased at 3406-3434 Weston Road. To develop the property, Weston Limited Partnership was founded, in which, in addition to Hepsor and its Canadian partners, various Canadian and European investors also participated. The goal of the first phase of the acquired development project is to increase the construction volumes of the property from 27,000 m^2 to approximately 53,000 m^2 and to obtain construction rights for the creation of two apartment buildings. The land valuation phase is expected to take 2-2.5 years, after which Weston Limited Partnership will be able to decide whether the additional value created by that point will be realised through the resale of the property or whether the project will move on to the construction phase.
- In September 2023, an assembly of three properties was acquired in downtown Toronto at 164-168 Isabella Street together with Canadian partners. Elysium Isbella Limited Partnership was founded to develop the property, with participation from Hepsor and its Canadian partners, as well as various Canadian and European investors. The goal of the first phase of the acquired development project is to assemble the three properties and apply and achieve zoning approvals to permit a residential hi-rise tower on a podium, with a projected Gross Floor Area of ca 42 000 sq. meters (450,000 sq. ft). The assembly and zoning are expected to take 2-2.5 years, after which the Elysium Isabella Limited Partnership will be able to decide whether the additional value created by that point will be realised through the resale of the property or whether the project will move on to the construction phase.

Conclusion and Outlook for 2024

Despite the persistently challenging economic environment and high prevailing interest rates, the Group remained profitable in 2023. Although overall market activity in both Tallinn and Riga was somewhat subdued, several of Hepsor's development projects saw impressive sales figures in 2023.

We are also pleased that despite global geopolitical and economic headwinds, the Hepsor team has performed admirably during times of greater complexity in all our home markets, maintaining the strength and sustainability of our company's foundation. Looking ahead, we aim for a greater contribution from the Canadian business line launched in 2023.

In the third quarter of 2023, we updated the forecast for 2024. For 2024, we forecast a revenue of 43.1 million euros, a net profit of 4.5 million euros, and a net profit attributable to the parent company owners of 2.5 million euros. Although customers are not making quick purchase decisions today, interest in our projects remains, and we continue to implement existing and new projects.

In 2024, we plan to commence construction and sales for at least three new projects. We will start two new projects in Latvia. These include the Ulbrokas 34 commercial building, offering approximately 9,000 m2 of leasable space, and the Zala Jugla project featuring 105 new homes. In Tallinn, within the Manufaktuuri Quarter, we envision the next phase of development and sales at Manufaktuuri 5. We will be transforming the former Baltic Cotton Spinning and Weaving Factory main building into an energy-efficient Class A building featuring unique high-ceilinged homes and commercial spaces with geothermal heating and cooling. Sales for this project have already begun in the first quarter of 2024.

At Hepsor, we remain moderately optimistic and view real estate as a long-term endeavour. We aim to launch and develop projects over market cycles while carefully analysing risks and opportunities.

Henri Laks
Member of the Management Board

Kuldīgas Parks

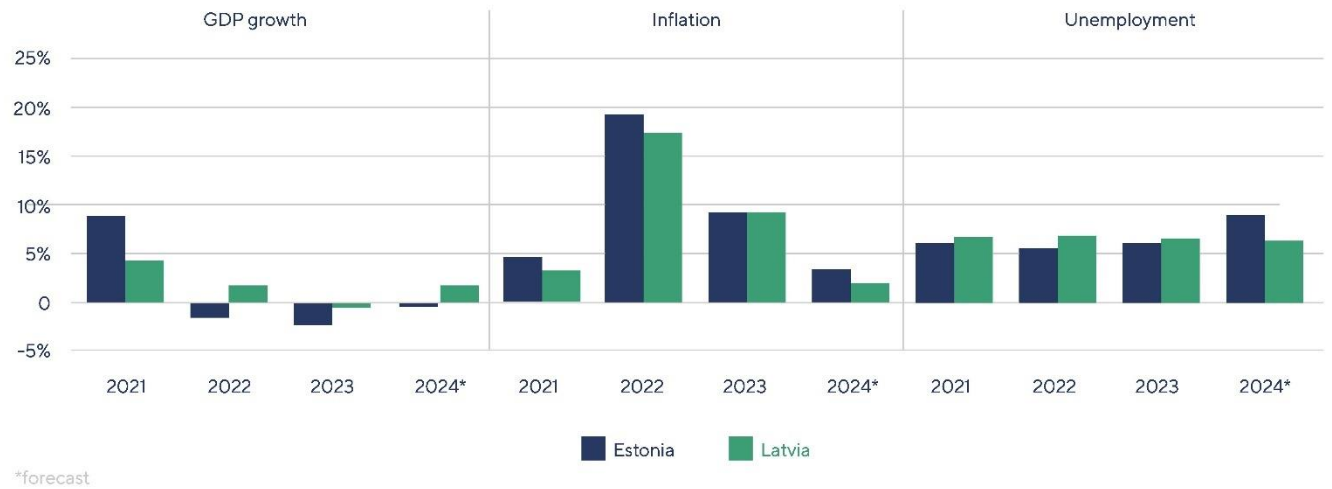
Gregora iela 2a, Riga

Operating Environment

ESTONIA AND LATVIA

Economic Environment. According to data from Statistics Estonia, Estonia experienced a broad-based economic downturn throughout 2023. Estonia's GDP fell by 3% in 2023 (compared to a decline of 1.3% in 2022). The economic downturn was caused by rapid inflation over the past two years (which affected all sectors), increasing interest costs, reduced exports, and the instability resulting from the Russia-Ukraine war. Prices rose by 9.2% over the year (compared to a growth of 19.4% in 2022). According to the data from the Bank of Estonia, the registered unemployment rate was 6.1% in 2023 (compared to 5.6% in 2022), and according to Statistics Estonia, the construction price index increased by 6.1% in 2023 (compared to the growth of 17.8% in 2022).

According to the data from Statistics Latvia, the Latvian economy declined by 0.3% in 2023 (compared to +2.2% in 2022). Although inflation was high in Latvia in 2023 at 9.1% (compared to 17.3% in 2022), it remained below the wage growth, which reached 11.9% (compared to 7.5% in 2022). The registered unemployment rate in Latvia was 6.5% in 2023 (compared to 6.9% in 2022). The construction price index increased by 17.1% (compared to 19.7% in 2022).



According to the economic forecast by the Bank of Estonia, the economic downturn in Estonia is expected to last longer than previously anticipated, with the economy contracting for the third consecutive year in 2024 (forecasted economic decline of 0.4%). The main reasons for the economic downturn in Estonia are the poor state of export markets and decreased competitiveness, as well as tax increases dampening domestic consumption. Some economic growth is expected only in 2025, but according to the forecast, Estonia is not expected to reach its pre-decline GDP level until 2026. Additionally, the Bank of Estonia predicts a 3.4% increase in consumer prices in 2024 and a continued rise in the unemployment rate to 9%.

On the other hand, the Latvian central bank forecasts an economic recovery for 2024 (forecasted economic growth of 2%), as inflation has slowed since the second half of 2023, with average wage growth exceeding inflation in 2023, and wages are expected to continue rising in 2024. The Latvian central bank predicts a 2% increase in consumer prices and a decrease in the unemployment rate to 6.3% in 2024.

The Bank of Estonia expects an average wage growth of 6.6% in 2024, while the Latvian central bank expects 8%. In 2023, the average gross salary in Estonia reached 1,832 euros, and in Latvia, it was 1,537 euros. The average gross salaries in the capital cities of Tallinn and Riga were 2,151 euros and 1,706 euros, respectively. The continued rapid wage growth was insufficient to offset the negative impact of high-interest rates and still high real estate prices, leading to a further decrease in the availability of residential real estate in 2023, reaching an expected low by the end of the year.

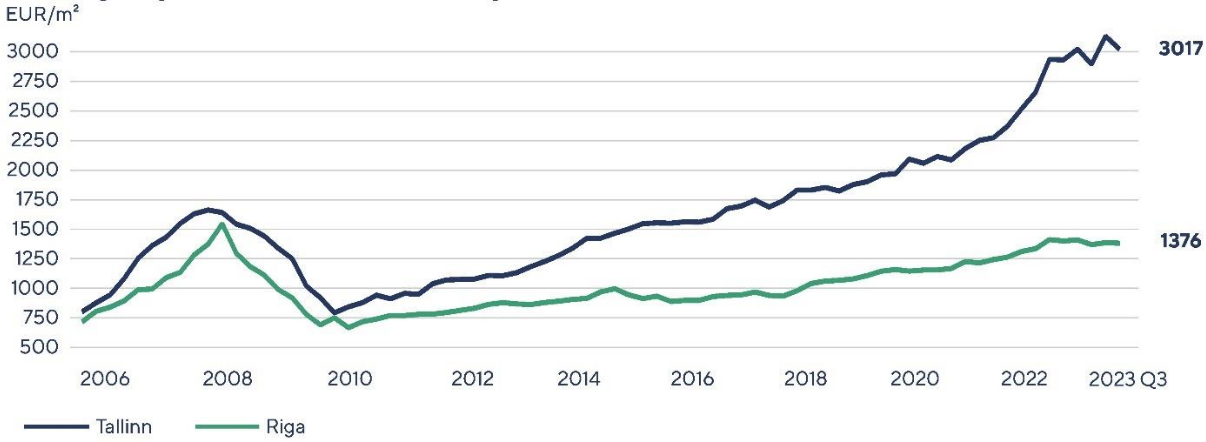
The rise in Euribor, which began in 2022, slowed down in the second half of 2023, and according to various forecasts, a slight decrease in Euribor is expected in 2024, which will improve the availability of housing.

Consumer confidence to purchase or build a house

Source: Swedbank Research & Macrobond

Residential Real Estate. According to statistics from the Estonian Land Board, there were 7,467 (2022: 8,717) apartment transactions in Tallinn in 2023, which is 14% less than the previous year. The decline in transaction volume is expected during an economic downturn. The main reason for the lower-than-long-term-average number of transactions is low consumer confidence, which has been weak and declining throughout the year. Consumer confidence was influenced by general economic uncertainty and uncertainty about labour market prospects, as well as the continued decline in purchasing power. Additionally, the market continues to be dominated by the expectation that property prices will significantly decrease. However, this expectation has not materialised on a large scale. Despite the decrease in the proportion of transactions for new developments in the overall volume, the median price of real estate transactions remained at a similar level as the previous year - in 2023, it was 2,062 euros/m2 (2022: 2,067 euros/m2).

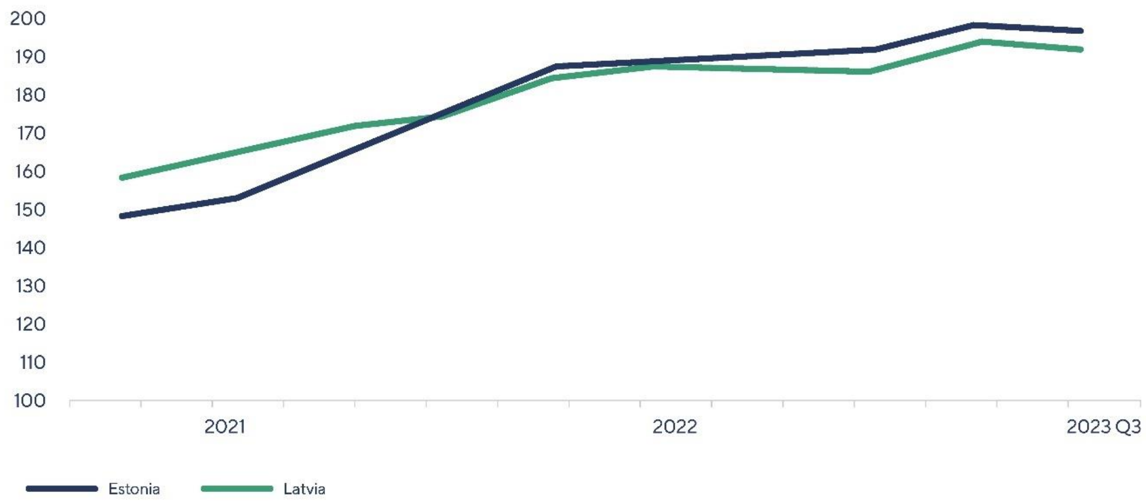
Average apartment transaction price



Source: Swedbank Research & Macrobond

According to the portal KV.ee, the number of active listings remains at the level achieved in 2022, which is still about 23% below the long-term average of active listings. As of December 31, 2023, the number of active listings in Tallinn decreased by 4.8% compared to the previous year, reaching 3,668 units (December 31, 2022: 3,852). In the Tallinn new developments market, prices remained largely unchanged. As of December 31, 2023, the average cost per square meter of new development in Tallinn was 4,238 euros (December 31, 2022: 4,166 euros/m2), representing a 1.7% increase from the previous year. Throughout the year, the upward trend in the number of listings initiated in 2022 continued - the number of listings for new developments increased to 2,708 units by December 31, 2023 (December 31, 2022: 2,228 units). Due to reduced demand and the completion of previously initiated projects, the inventory of completed but unsold apartments in new developments increased to 889 units by the end of 2023 (December 31, 2022: 267 units), providing customers with a wider selection and increasing competition among projects. The increased supply volume allows buyers to be more selective in their home purchase decisions and, if possible, delay their purchase decision in anticipation of stabilising the Euribor rate.

Quarterly new housing price index
II quarter 2021 – III quarter 2023



Source: Eurostat price index (2015 = 100) - quarterly data

According to an analysis compiled by Colliers, similar to Estonia, the rise in financing costs, the energy price crisis, and the overall increase in the cost of living continued to dampen transaction activity in the Riga new developments market in Latvia. In conditions of limited demand, developers offered discounts and package deals to reach transactions. Additionally, developers launched fewer new projects and did not rush to expand their land bank, thus expecting a smaller addition of new supply to the market by 2024. By the end of 2023, the remaining inventory of apartments in new developments for sale was 3,840 units, which is 7% smaller compared to the end of 2022. At the same time, the number of unsold but completed apartments increased by 50% compared to the previous year, reaching 1,780 units.

During the year, a total of 2,170 new development purchase-sale transactions were completed in the Riga region based on real estate contracts, which is only 5.2% less than the previous year and remains high due to pre-sale transactions agreed upon earlier. The dynamics of real estate transactions continued to see an increase in sales prices, driven by the ongoing rapid rise in construction costs in 2021-2022. The average price per real estate transaction was 2,530 euros/m2 (2022: 2,240 euros/m2), which is 12.9% higher than the previous year. In contrast, pre-sale prices have remained stable since the fall of 2022 at an average of 2,850 euros/m2.

According to the Latvian Central Statistical Bureau, the residential property price index rose by a total of 3.8% in 2023, with the price index for new developments increasing faster compared to secondary market transactions, totalling 6.6%. Unlike Tallinn, the availability of real estate in Riga remains very good.

Commercial Real Estate. The overview is based on an analysis prepared by Colliers. Investment volumes in both Estonia and Latvia remained below the usual level of around 300 million euros in 2023, as there continues to be a gap between the expectations of sellers and buyers regarding transaction prices. Capitalisation rates are on the rise, being 0.25-1.5% higher than the previous year.

The development of the Tallinn office market has been consistently active in recent years. As of the end of 2023, 877 thousand square meters of office space were completed in Tallinn, with approximately 51 thousand square meters of office space expected to be completed in 2024. The vacancy rate in the office segment averaged 10.3%, with a capitalisation rate of 6.79%. The vacancy rate increased over the year across all quality classes due to companies relocating from older premises to newer ones and several IT companies deciding to reduce personnel/activity levels. Companies are more critical of their space requirements than before and are willing to choose smaller spaces if possible, which may continue the trend of increasing vacancy rates. The presence of a strong anchor tenant is a key factor in launching new projects.

Demand for warehouse and manufacturing real estate in Tallinn remains high, including the search for new large and customer-specific *stock-office-type* buildings. Approximately 44 thousand square meters of warehouse and manufacturing real estate were completed in Tallinn and its surroundings during 2023. An additional 102 thousand square meters of warehouse and manufacturing real estate are expected to be added to the market during 2024-2025. Due to demand, rental levels have remained stable, with vacancy rates increasing slightly to 4.6%.

As of the end of 2023, there were approximately 649 thousand square meters of office space in Riga, with over 61 thousand square meters of new office space set to be completed in 2024. Demand for office space remains high, and previous concerns about vacancy rates in new office buildings have not materialised - occupancy rates in recently completed office buildings have remained above 80%. In 2024, six new office buildings are expected to be completed, with no significant increase in vacancy rates projected. Developers are hesitant to start new projects, as there has been significant office space development in recent years, and a considerable amount is still under construction. Additionally, construction costs have risen, and the uptake of office space has been slow. In Riga, the vacancy rate for office space rose to 20%, with a capitalisation rate of 6.5%. As a positive trend, tenants in new developments are willing to accept higher rents provided that overall costs remain the same. This is achievable through improved energy efficiency and ongoing hybrid work practices, allowing for the rental of spaces that are 20-30% smaller.

In Riga, demand for warehouse and manufacturing space continues to exceed supply, and new developments achieve full occupancy upon completion, resulting in a lack of vacancy in the segment by the end of 2023. In 2024, four warehouse and manufacturing projects are set to be completed, with slightly higher construction costs than previous projects, leading to a slight increase in rental rates.

Real Estate Market Outlook. Both the Estonian and Latvian real estate markets are expected to be influenced by continuing price growth, high Euribor rates, and the resulting decreased consumer confidence in 2024. A positive signal is the slowdown in Euribor growth in June 2023, stabilising at 3.861% by December 31, 2023. A significant Euribor decline is expected in 2024, especially in the second half, creating conditions for increased transaction activity in the new developments market.

In the office space market, there is a significant correlation between unemployment and vacancy rates. In Estonia, the continuation of the economic downturn, along with an increase in unemployment, is projected for 2024, suggesting a slight decrease in demand for office space and an increase in vacancy rates next year. In Latvia, economic growth is forecasted, along with a marginal decrease in unemployment, which could provide relief to the already high vacancy rates in the Baltic region.

In a challenging economic environment, cost-effectiveness becomes a more pressing concern for individuals as well as businesses, leading to increasing demands for energy efficiency in both residential and commercial buildings. Both homebuyers and commercial real estate stakeholders are becoming increasingly aware of this issue. In recent times, most companies have been trying to implement energy-saving measures, starting from simple steps like adjusting lighting and upgrading energy equipment to hiring experts to monitor energy consumption and suggest optimisations. To find additional efficiency, alternative energy sources are increasingly being adopted. Despite the expected decrease in energy prices, we anticipate this trend will continue in 2024.

CANADA

The Economic Environment. Canada's economy remains stable but faces several challenges, including global trade tensions and the lingering effects of the COVID-19 pandemic. In 2023, the gross domestic product grew moderately by 1.1% (compared to 3.8% in 2022), and the consumer price index rose by 3.4% compared to December 2023. However, the pace of economic growth is slower compared to pre-COVID-19 levels. Unemployment declined to 5.8%, indicating ongoing activity in the labour market and favourable employment conditions. Economic activity is constrained by the high benchmark interest rate set by the Bank of Canada, which stands at 5% (the Bank of Canada's target is to maintain inflation within a range of 1-3%). The Bank of Canada has indicated its intention to lower the interest rate in 2024 as forecasts suggest a moderation in inflation and higher interest rates dampen economic growth.

Real Estate Market. One of the most significant factors in assessing the outlook for the Toronto real estate market is the rapid population growth. Toronto's population is currently 2.9 million, and forecasts suggest it will grow to 3.5 million by 2030, supported by continued international immigration. This long-term population growth supports demand for real estate across all segments and contributes to price appreciation. 2023 was a turbulent year - there is a need for living space, but transaction activity decreased in the second half of 2023 due to high interest rates. Real estate prices have remained relatively stable, and experts predict growth in the near future, considering the city's ongoing growth and attractiveness to both local and international investors. With population growth in mind, measures are being implemented to increase population density and accelerate the renewal/expansion of the housing stock, creating a favourable economic environment for real estate development.

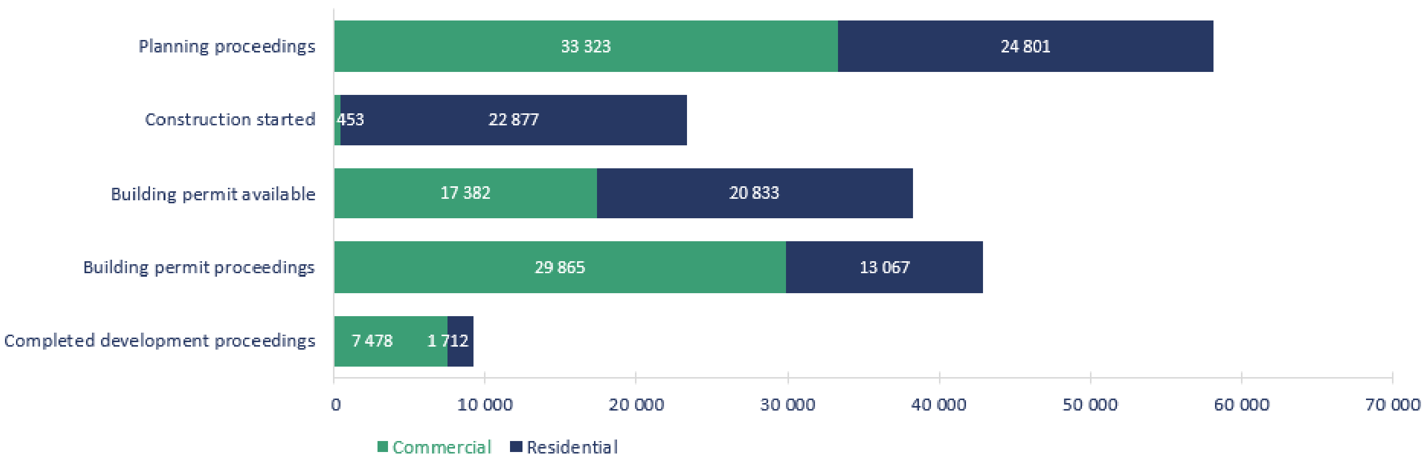
Overview of the Development Projects

As of 31 December 2023, the Group had 25 active projects in different development phases* (31 December 2022: 26 projects) and 171,800 sqm of sellable area (31 December 2022: 176,000 sqm).

Significant Changes in the Development Portfolio in 2023

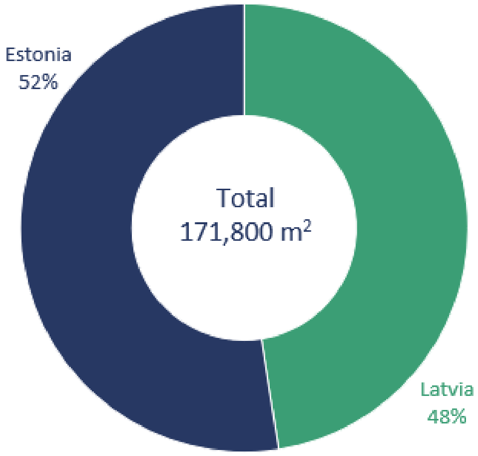
- ✓ A total of 15,500 m2 of homes were handed over to clients in completed projects.
- ✓ In Tallinn, Lasnamäe, the properties located at Tooma 2, Tooma 4 and Tooma 6 were sold, with an estimated saleable area of 10,500 m².
- ✓ A stock-office type commercial building located at Ulbrokas iela 30 with 3,642 m2 of leasable area was sold in Riga.
- ✓ In August, Hepsor Latvia OÜ made a capital contribution to Riga Properties 4 SIA, acquiring a 50% ownership stake in the company with the aim to develop approximately 40,000 square meters of commercial space.
- ✓ In collaboration with Canadian partners, a residential development property was purchased in Toronto in June, located at 3406-3434 Weston Road with the aim of increasing construction volumes from 27,000 square meters to approximately 53,000 square meters and obtaining building permits for the creation of two apartment buildings.
- ✓ In collaboration with Canadian partners, three adjacent residential development properties were acquired in downtown Toronto at 164 – 168 Isabella Street. The objective of the first phase of the development project is to merge three plots of land and plan a residential high-rise building on the newly formed property with a construction volume of approximately 42,000 square meters.
- ✓ In November, Hepsor AS, together with a partner, acquired two properties in Rae Parish for the development of a commercial building with approximately 4,500 square meters of leasable space.

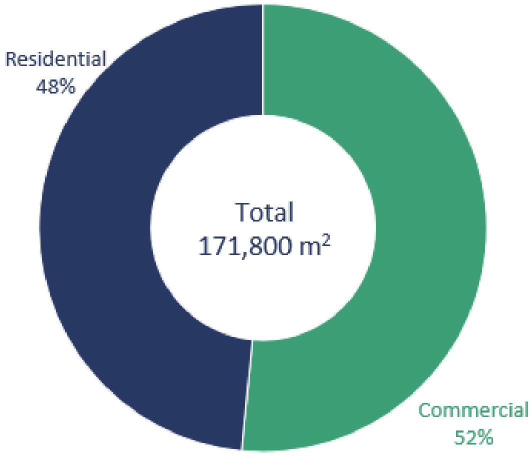
Distribution of development portfolio between different development phases* (as of 31 December 2023):



*Excluding Canadian projects

Distribution of the Development Portfolio Between Countries and Type* (as of 31 December 2023):





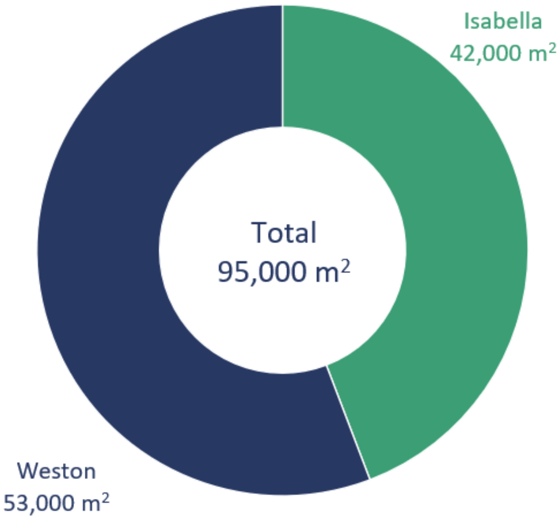
**Excluding Canadian projects*

Development Projects in Canada (as of 31 December 2023):

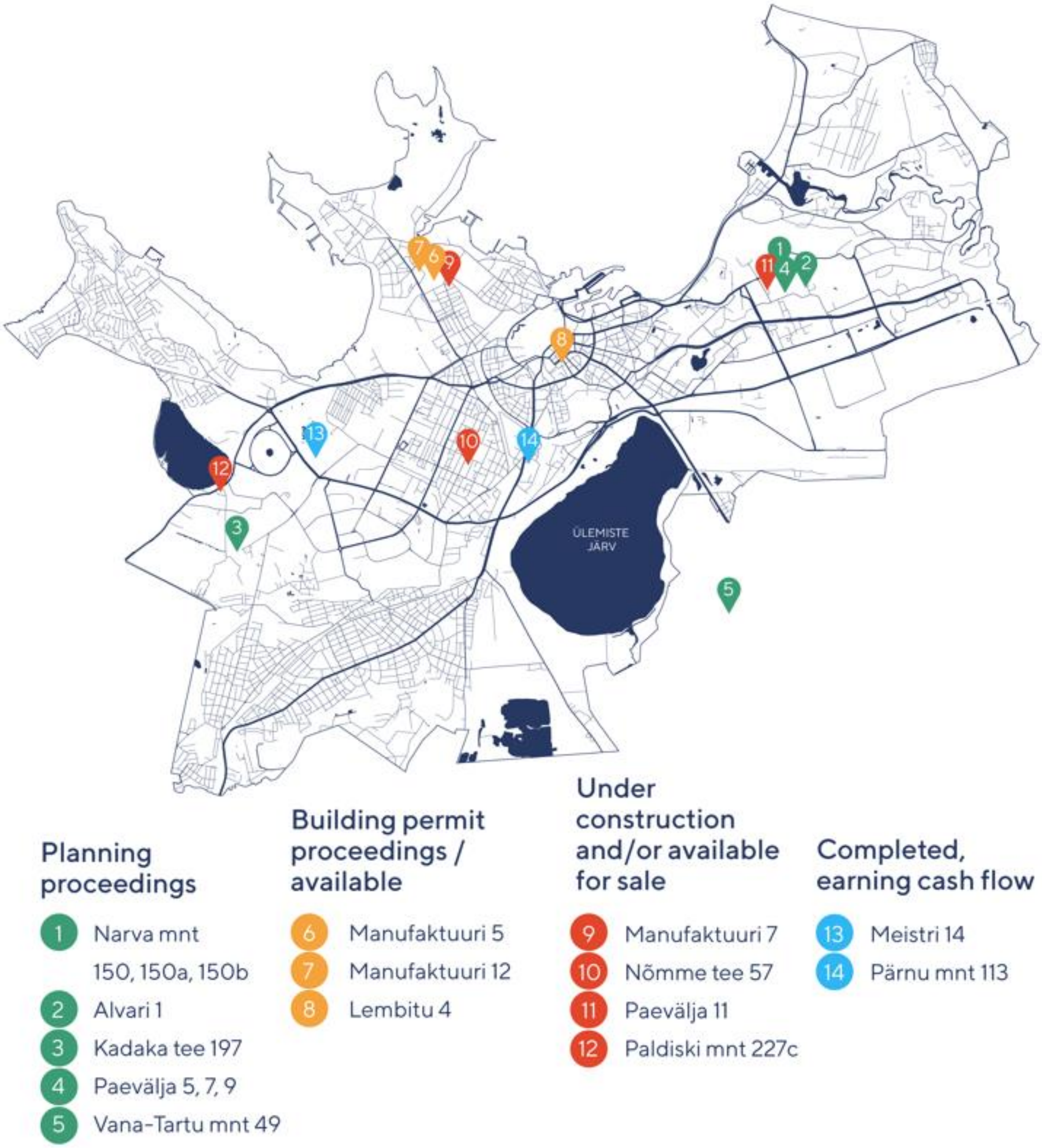
We are presenting Canadian projects separately, as Hepsor's participation in the initial Canadian projects is proportionally smaller than in the Estonian and Latvian projects, and the Canadian projects are reflected as financial investments. We are initially dealing with the land development process in Canada.

The goal of the first phase of the Weston Road project is to increase the construction volume of the property from 27,000 m² to approximately 53,000 m² and obtain the right to build two apartment buildings.

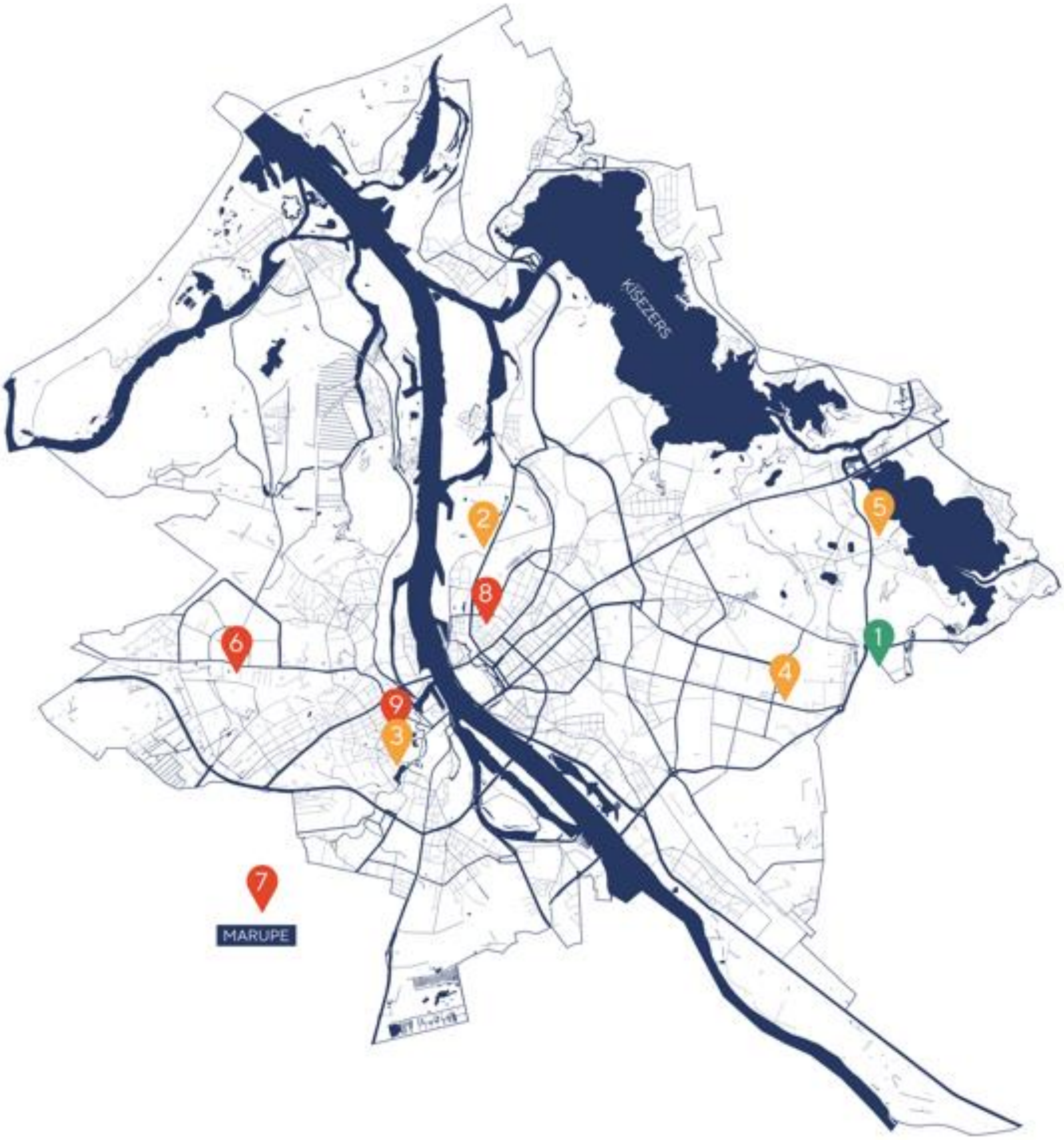
The goal of the first phase of the Isabella project is to merge three properties located at 164 - 168 Isabella Street in Toronto and plan a residential high-rise building on the newly formed property with a construction volume of approximately 42,000 m².



Development Projects in Tallinn (as of 31 December 2023)



Development Projects in Riga (as of 31 December 2023)



Planning proceedings

1 Riga Properties 4

Building permit proceedings / available

2 Ganibu Dambis 17a
3 Saules aleja 2a
4 Ulbrokas 34
5 Braila 23

Under construction and/ or available for sale

6 Jurmalas Gatve / Imanta 8. linija
7 Liela 45, Marupe
8 Strēlnieku 4b
9 Ranka Dambis 5

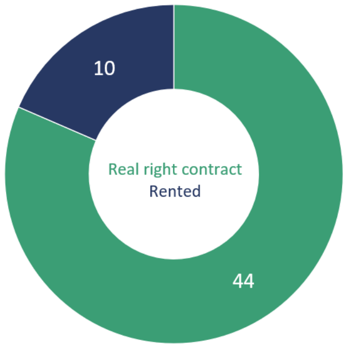
Projects in Toronto (as of 31 December 2023)

Land development projects

1. 3406-3434 Weston road, Toronto
2. 164 – 168 Isabella street, Toronto

Completed Development Projects (as of 31 December 2023):

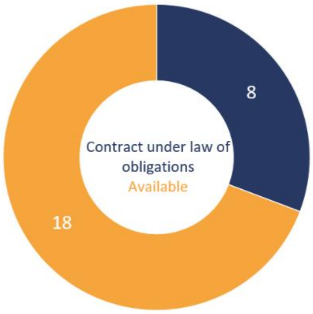
Project:	Strēlnieku 4b Hepsor S4B SIA
Address:	4b Strēlnieku St, Riga
Apartments:	54
Project completed:	2020
Website:	hepsor.lv/Strēlnieku4b



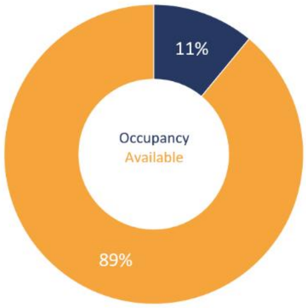
Project:	Paevälja Hoovimajad Hepsor PV11 OÜ
Address:	11 Paevälja, 7 Lageloo, Tallinn
Apartments:	96
Start of construction:	Q4 2021
Project completed:	I phase Q4 2022 II phase Q1 2023
Website:	hepsor.ee/paevalja/en

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

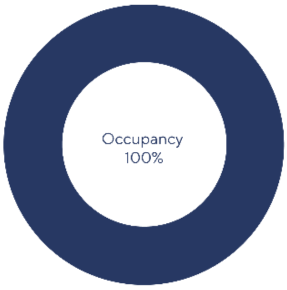
Project:	Lilleküla Kodud Hepsor N57 OÜ
Address:	Nõmme tee 57, Tallinn
Apartments:	26
Start of construction:	Q4 2022
Estimated completion:	Q4 2023
Website	hepsor.ee/lillekylakodud/en/



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



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



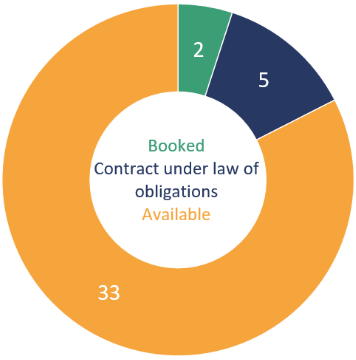
Residential Development Projects Under Construction (as of 31 December 2023):

Project:	Ojakalda Kodud Hepsor 3TORNI OÜ
Address:	Paldiski mnt 227c, Tallinn
Apartments:	101
Start of construction:	Q3 2022
Estimated completion:	Q2 2024
Website:	hepsor.ee/ojakalda

Project:	Manufaktuuri Quarter Hepsor Phoenix 2 OÜ
Address:	7 Manufaktuuri, Tallinn
Apartments:	150
Leasable area:	453 m^2
Start of construction:	Q1 2023
Estimated completion:	Q3 2024
Website:	hepsor.ee/manufaktuur/m7/en/

Project:	Nameja Rezidence Hepsor RD5 SIA
Address:	5 Ranka Dambis, Riga
Apartments:	38
Start of construction:	Q1 2023
Estimated completion:	Q3 2024
Website:	hepsor.lv/namejarezidence/en/

Project:	Hepsor JG SIA
Address:	Jurmalas Gatve/Imanta 8. linija, Riga
Apartments:	40
Est. start of construction:	Q4 2023
Estimated completion:	Q1 2025
Website:	hepsor.lv/annenhofmajas/



Development Projects Completed and Sold in 2023:

Project:	Kuldigas Parks Kvarta SIA
Address:	Gregora iela 2a, Riga
Apartments:	116
Start of construction:	Q4 2021
End of construction:	Q2 2023
Profit share:	40%

Project:	StockOffice 30 Hepsor U30 SIA
Address:	Ulbrokas 30, Riga
Leasable area:	3 642 m2
End of construction:	Q1 2023
Profit share:	56%

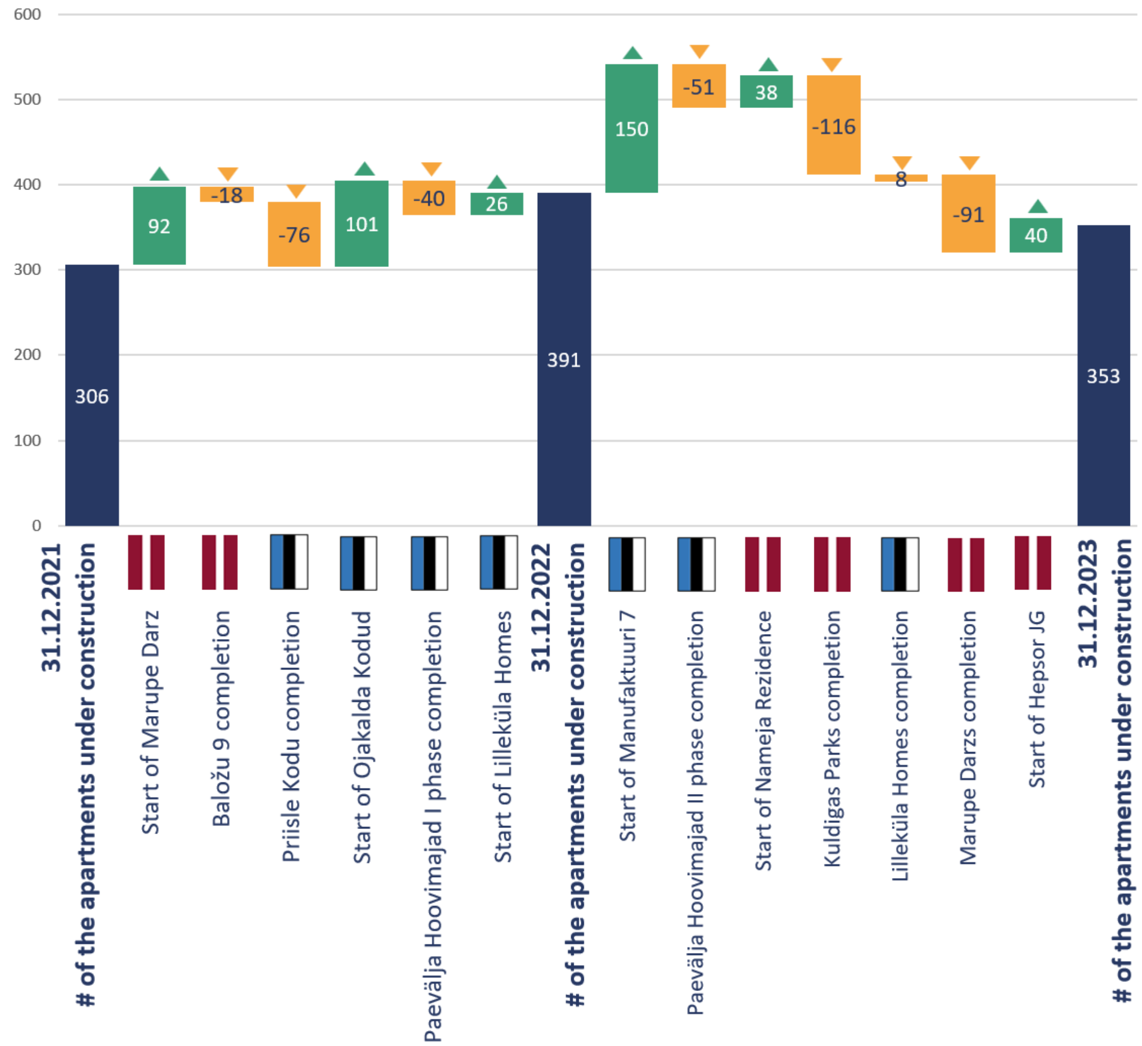
Development Projects the Construction of Which Starts in 2024 (as of 31 December 2023):

Project:	Manufaktuuri Quarter Hepsor Phoenix 3 OÜ
Address:	5 Manufaktuuri, Tallinn
Apartments:	149
Leasable area:	1 515 m^2
Start of construction:	Q1 2024
Estimated completion:	Q3 2027
Webpage:	hepsor.ee/manufaktuurivabrik/en/

Project:	Zala Jugla Hepsor Jugla SIA
Address:	Braila Str 23, Riia
Apartments:	105
Start of construction:	Q3 2024
Estimated completion:	Q4 2025

Project:	StokOfiss 34 Hepsor U34 SIA
Address:	Ulbrokas 34, Riia
Leasable area:	8 691 m^2
Start of construction:	Q3 2024
Estimated completion:	Q4 2025
Webpage:	hepsor.lv/stokofissu34/en/

The change in the number of apartments completed and under construction 2022-2023

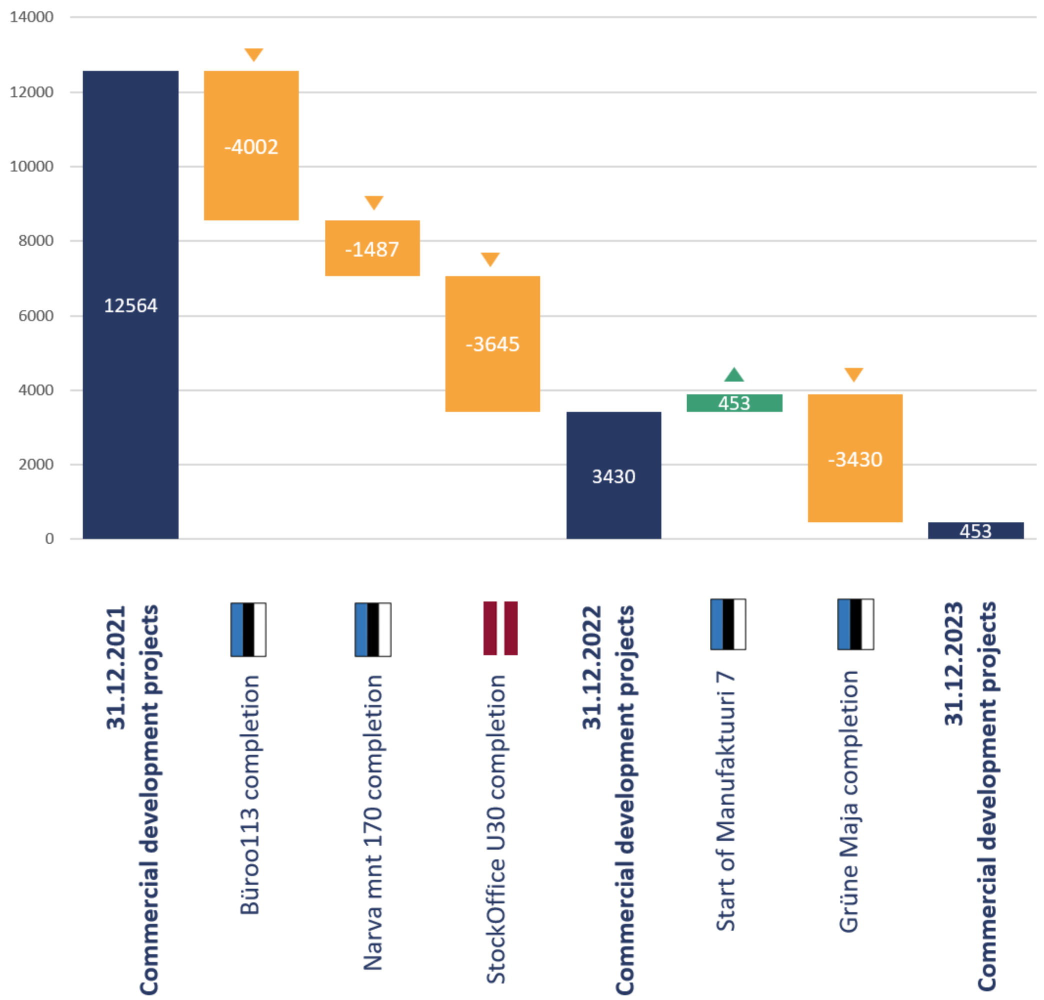


Residential development projects under construction and available for sale (as of 31 December 2023):

Project	Status	Apartments	*Apartments*		*Apartments %*		Completion
			*Sold**	*Available*	*Sold**	*Available*	
4b Strēlnieku, Latvia	Completed	54	*44*	*10*	*81%*	*19%*	2020
Paevälja Courtyard Houses	Completed	96	*91*	*5*	*95%*	*5%*	I phase Q4 2022 II phase Q1 2023
Kuldigas Parks, Latvia	Completed	116	116	0	100%	0	Q2 2023
Mārupes Dārzs, Latvia	Completed	92	91	1	99%	1%	Q2 2023
Lilleküla Homes	Completed	26	8	18	31%	69%	Q3 2023
Ojakalda Homes	In construction	101	58	43	57%	43%	Q2 2024
Manufaktuuri 7	In construction	150	61	89	41%	59%	Q3 2024
Nameja Rezidence, Latvia	In construction	38	11	27	29%	71%	Q3 2024
Annenhof Majas	In construction	40	5	35	13%	88%	Q1 2025
Total		**713**	**485**	**228**	**68%**	**32%**	

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

Commercial development projects under construction, 2022-2023:



The Group started the construction of Manufaktuuri 7 commercial premises (453 sqm), and in the second quarter, the last leasable premises were handed over to Grüne Maja tenants.

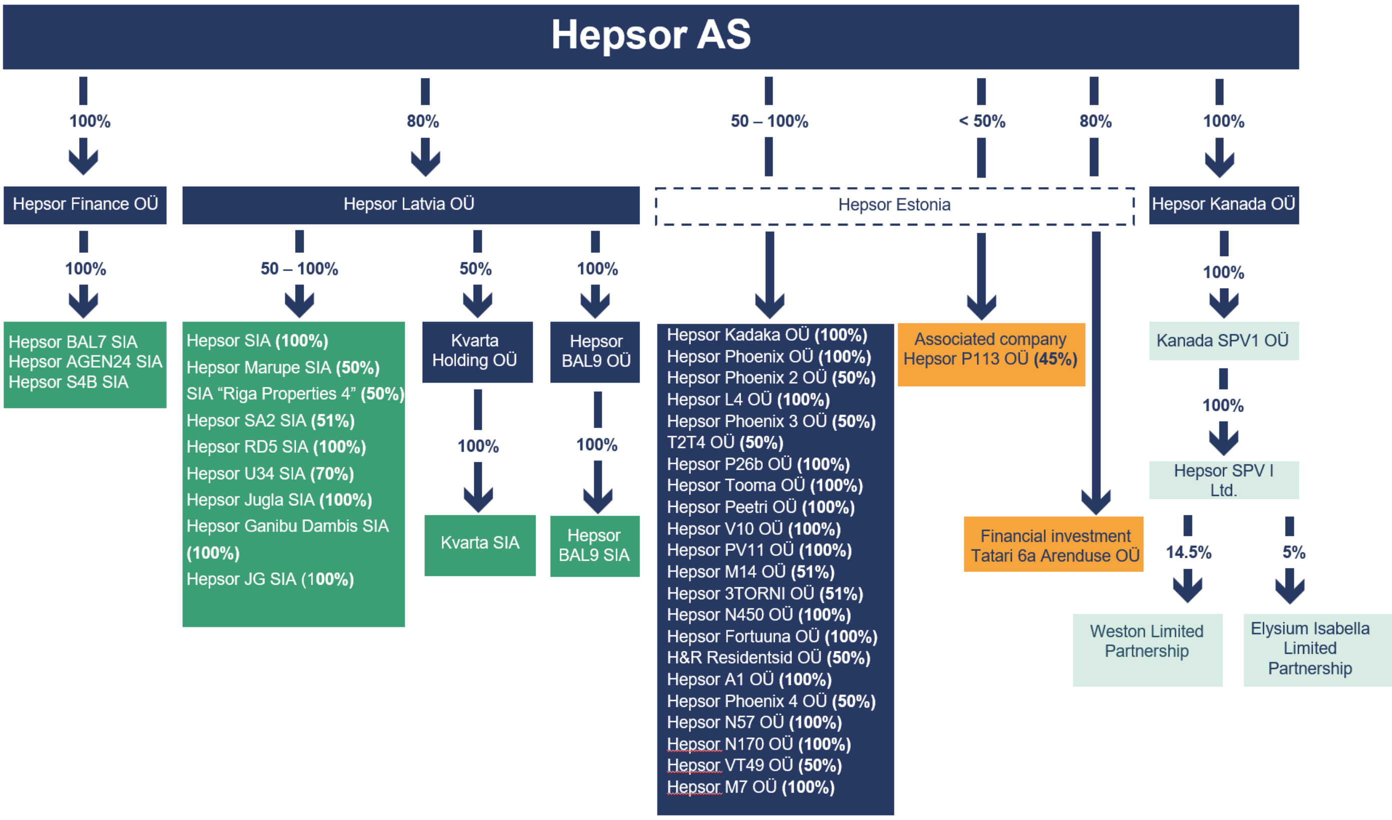
Occupancy of Commercial Development Projects (as of 31 December 2023):

Project name	Rentable area sqm	Occupancy sqm	Occupancy %
Büroo113	4,002	431	11%
Grüne Office	3,430	3,430	100%
Manufaktuuri 7	453	0	0%
Total	**7,885**	**3,861**	**49**

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

Group Structure

As of 31 December 2023, the Group was comprised of a parent company, 43 subsidiaries and one associated company (31 December 2022: parent company, 38 subsidiaries, 2 associated companies). Tatari 6a Arenduse OÜ, Weston Limited Partnership and Elysium Isabella Limited Partnership are reported as financial investments.



During the 2023 the following changes took place in the structure of the Group:

- ✓ On 23 January 2023, Hepsor Latvia OÜ acquired a 29% shareholding in Hepsor BAL9 OÜ bringing its shareholding in the subsidiary up to 100%. The share repurchase agreement was concluded in connection with the completion of the Balozu 9 residential development project in Riga.
- ✓ Hepsor Kanada OÜ established a subsidiary, Hepsor Kanada SPV 1 OÜ, in April. Hepsor Kanada SPV 1 OÜ, in turn, established a subsidiary in Canada, Hepsor SPV I Ltd.
- ✓ Hepsor Latvia OÜ, a subsidiary of Hepsor AS, sold the shares of Hepsor U30 SIA based on a sales contract signed on 10 May 2023.
- ✓ In August 2023, Hepsor AS acquired the minority shares, becoming the sole owner of Hepsor N170 OÜ.
- ✓ In August 2023, Hepsor Latvia OÜ acquired a 50% stake in the company SIA 'Riga Properties 4.'
- ✓ In June and September 2023, Hepsor's Canadian subsidiary, Hepsor SPV I Ltd, entered into partnership agreements for the development of the Weston and Isabella properties in Toronto.
- ✓ In October, Hepsor AS established a subsidiary, Hepsor VT49 OÜ, with a 50% ownership interest, which acquired two properties in Rae Parish on November 3, 2023.
- ✓ In December, Hepsor AS established a subsidiary, Hepsor M7 OÜ

Main Events

- ✓ Hepsor RD5 SIA, Hepsor AS group company, and Mitt&Perlebach SIA signed a construction agreement on 16 March 2023 for the construction of the Nameja Rezidence development project in Riga. The value of the construction agreement is approximately 4.6 million euros excluding VAT.
- ✓ Hepsor Phoenix 2 OÜ, Hepsor AS group company, and LHV Pank OÜ signed a 17.5 million loan agreement on 15 March 2023. The purpose of the three-year loan is to finance the construction of Manufaktuuri 7 development project.
- ✓ Hepsor Phoenix 2 OÜ, Hepsor AS group company, and Mitt&Perlebach OÜ signed a construction agreement on 8 March 2023 for the construction of the Manufaktuuri 7 development project in the Manufaktuuri Quarter in Tallinn. The value of the construction agreement is approximately 18.5 million euros excluding VAT.
- ✓ Hepsor Kanada OÜ established a subsidiary, Hepsor Kanada SPV 1 OÜ, in April. Hepsor Kanada SPV 1 OÜ, in turn, established a subsidiary in Canada, Hepsor SPV I Ltd.
- ✓ Hepsor Latvia OÜ's subsidiary Hepsor RD5 SIA and the Latvian branch of Bigbank AS signed a loan agreement in the amount of 4 million euros on 20 April 2023. The purpose of the three-year loan is to finance the construction of the Nameja Rezidence development project in Riga.
- ✓ Hepsor Latvia OÜ, a subsidiary of Hepsor AS, signed a share sales agreement to sell Hepsor U30 SIA shares to East Capital Real Estate IV real estate fund on 10 May 2023. Hepsor U30 SIA owns a property located at Ulbrokas iela 30 in Riga, on which is located a stock-office type commercial building with 3,642 m2 of rental space developed by Hepsor called StokOfiss U30.
- ✓ On 10 May 2023 T2T4 OÜ and Hepsor Tooma OÜ, which are part of the Hepsor AS group, entered into a real rights purchase and sales agreement for the sale of 44,959 m² properties located at Tooma 2, Tooma 4 and Tooma 6 in Lasnamäe, Tallinn of which 24,060 m2 was commercial land and the rest was public land.
- ✓ Hepsor's Canadian subsidiary, Hepsor SPV I Ltd, made its first investment in the Canadian real estate market in June, where, together with Canadian partners, a property suitable for residential development was purchased in Toronto, at 3406-3434 Weston Road.
- ✓ Hepsor AS subsidiary, Hepsor Latvia OÜ, signed a contract on August 25, 2023, to acquire a 50% stake in SIA 'Riga Properties 4.' SIA 'Riga Properties 4' has entered into purchase agreements for two properties near Riga, Latvia, with a total area of 74,314 square meters. Hepsor's partners in the development of these properties are Rīgas Īpašumu Fonds SIA and Venturecorp Property Holdings UAB.
- ✓ Hepsor AS's associate company, Hepsor P113 OÜ, with a 45% ownership stake, terminated its lease agreement with Novel Clinic Assets OÜ due to a significant breach of lease terms by the tenant. Hepsor is actively seeking new tenants for the vacated rental space (3,575 square meters).
- ✓ Hepsor AS's registered subsidiary in Canada, Hepsor SPV I Ltd, made its second investment in the Canadian real estate market on September 20, 2023. Together with Canadian partners, three adjacent properties suitable for residential development in downtown Toronto were purchased. A partnership named Elysium Isabella Limited Partnership was established to develop the property.
- ✓ Hepsor AS established a company, Hepsor VT49 OÜ, with a 50% ownership interest, which acquired two properties in Rae Parish in November. The purchased properties have detailed planning permission, allowing for the construction of a commercial building with 4,500 m² of leasable space.
- ✓ On November 9, Novel Clinic Assets OÜ filed a lawsuit with Harju County Court against Hepsor AS's affiliated company, Hepsor P113 OÜ, to restore the lease agreement for Pärnu mnt 113, demand compensation for the termination of the lease agreement, and reclaim the property left in the premises due to the termination. The objective of Hepsor and the other shareholders of Hepsor P113 OÜ is to seek an extrajudicial solution.
- ✓ Hepsor AS's group company, Hepsor JG SIA, and Mitt&Perlebach SIA signed a contract on November 20, 2023, for the construction of a development project named Annenhof Majas in Riga, located at Jurmalas Gatve 74. The construction contract is approximately worth 4.3 million euros, plus value-added tax.

Operating Results

Revenues

The Group’s sales revenue in 2023 was 41.1 million euros (2022: 12.9 million euros), of which 27.5 million euros (2022: 6.1 million euros) was generated in Latvia and 13.6 million euros in Estonia (2022: 6.8 million euros). Latvia accounted for 67% (2022: 47%) of total revenues.

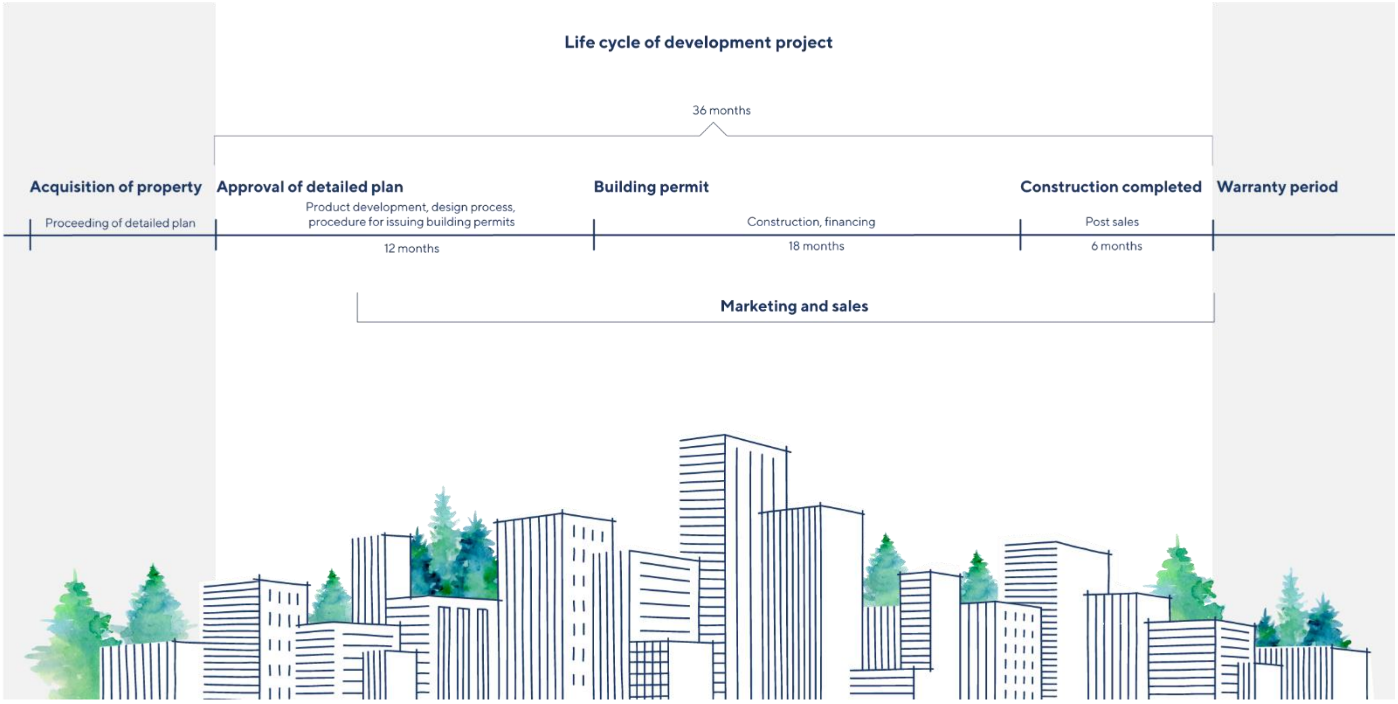
As of 31 December 2023, the Group had 34 apartments available for sale (31 December 2022: 26) including 10 apartments in the 4b Strēlnieku development project in Riga, 1 apartment in the Mārupes Dārzs development project in Marupe, 5 apartments in the Paevälja Hoovimajad development project and 18 apartments in the Lilleküla Kodud development project in Tallinn.

In 2023, the Group sold a total of 274 apartments (2022: 85 apartments) under real right contracts.

- ✓ Total of 215 apartments in Latvia including 8 apartments in the 4b Strēlnieku, 116 apartments in the Kuldigas Parks and 91 apartments in the Mārupes Dārzs development projects.
- ✓ Total of 59 apartments in Estonia including 51 apartments in the Paevälja Hoovimajad and 8 apartments in the Lilleküla Kodud development projects.

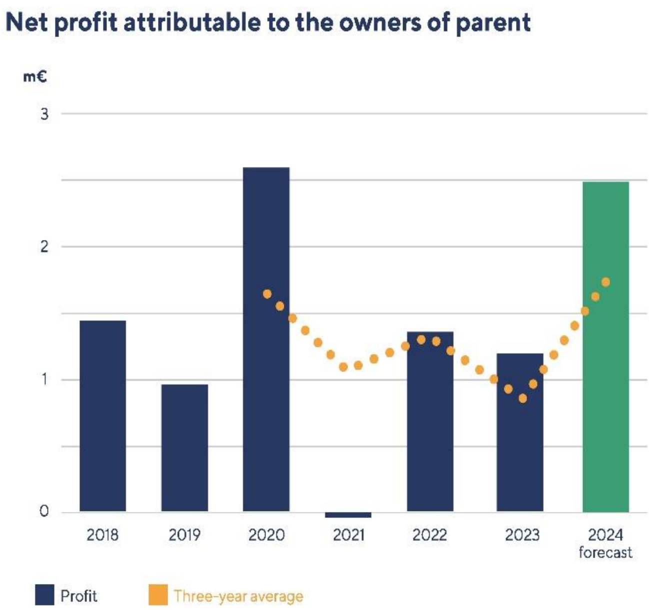
In addition to sale of apartments, the Group also executes project management services to subsidiaries and associated companies and generates rental income, from the temporary renting out of commercial premises of both completed buildings and projects under development. In total rental income amounted to 1,270 thousand euros, or 3.1% of the Group's total sales revenue in 2023 (2022: 771 thousand euros, or 6.0%). The increase in rental income was mainly generated from the renting out commercial premises in Grüne Maja (Tallinn) and Ganibu Dambis (Riga) commercial properties.

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



Profitability

In 2023, the Group's operating profit was 5.0 million euros (2022: 0.2 million euros). The Group's net profit for 2023 amounted to 3.5 million euros (2022: 1.3 million euros), of which the net profit attributable to the owners of the parent amounted to 1.2 million euros (2022: 1.4 million euros) and the net profit to non-controlling interest was 2.3 million euros (2022: net loss 0.1 million euros).



The gross profit margin of development projects sold during the reporting period was 20.3% (2022: 22.0%). The Group's gross profit margin was 17.2% (2022: 13.8%). The operating profit margin was 12.2% (2022: 1.8%). Operating profit has been affected the most by the following:

- ✓ In 2023, the operating expenses of the Group have increased to 3.0 (2022: 2.3) million euros, increasing by 32% (2022: 39%). Labor costs have increased the most, costs related to the marketing of development projects were 0.4 million euros (2022: 0.3 million euros), due to the general price increase, the costs of purchased services also increased, which in 2023 were 0.4 million euros (2022: 0.2 million euros).
- ✓ Labor costs increased by 29% (2022: 68%) in the reporting year, being 2 million euros (2022: 1.5 million euros). The increase is due to the changes in the composition of employees in 2023 as well as the increase in the general wage resulting from wage pressure.

The Group's net profit margin for 2023 was 8.5% (2022: 10.3%). The net profit margin attributable to the owners of the parent was 2.9% (2022: 10.8%).

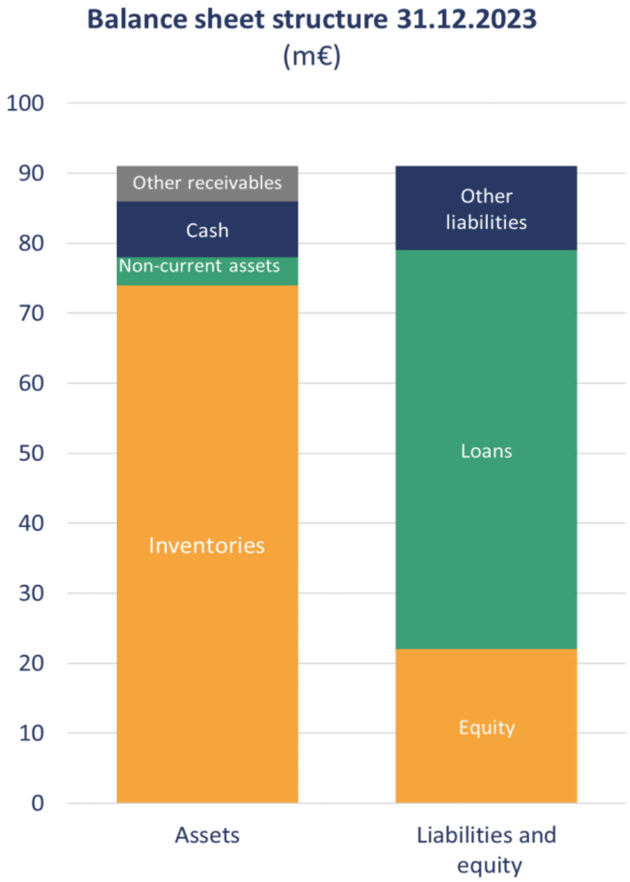
If 2022, the Group earned financial income of 1.1 million euros from the associated companies, Hepsor N170 OÜ and Hepsor P113 OÜ, using equity method of accounting then in 2023 Group received a financial expense of 0.6 million euros from Hepsor P113 OÜ. As of 31.12.2023, the fair value of the property of the Hepsor P113 OÜ was estimated at 9.4 million euros (31.12.2022: 13.1 million euros). The strong drop of the value was mainly caused by the premature termination of the lease contract with the anchor tenant in September 2023.

In reporting period, the Group earned non-recurring financial income of 1.0 million euros from the sale of subsidiary Hepsor U30 SIA, in 2022 from the assignment of the claim of the minority shareholder loan in the amount of 0.4 million euros.

The Group’s interest expenses increased 1.2 million euros year-on-year. The Group's financial expenses totalled 2.7 million euros (2022: 0.8 million euros).

Balance Sheet

Total assets of the Group amounted to 91.0 million euros as of 31 December 2023 (31 December 2022: 78.4 million euros), which is 16.1% higher (2022: 41.7%) than at the end of the previous financial year. Inventories accounted for 85.1% or 77.4 million euros of total assets (31 December 2022: 89.0% and 69.8 million euros). In the reporting period, the Group has purchased two new commercial development projects: in Latvia, Smaidu, Dreilini and in Estonia, Vana-Tartu Road 49 with which 28,113 m^2 commercial area were added to the development portfolio. In the second quarter of 2023, plots at Tooma st 2, Tooma st 4 and Tooma st 6 in Tallinn and commercial development project in Riga Ulbrokas 30 were sold, which reduced the development portfolio by 14,142 m^2. In the reporting period, the Group has sold 274 apartments with real rights contracts.



As of 31 December 2023, cash and cash equivalents accounted for 8.4% or 7.6 million euros of the total assets (31 December 2022: 4.8% and 3.8 million euros).

The Group's loan obligations totalled to 56.9 million euros or 62.5% of total assets as of 31 December 2023. As of 31 December 2022, the Group’s loan obligations amounted to 48.6 million euros or 62.0% of total assets.

The Group's equity increased by 9% over the year to 22.2 million euros. Equity attributable to the owners of the parent increased by 5.7% to EUR 21.0 million euros (2022: 19.9 million euros).

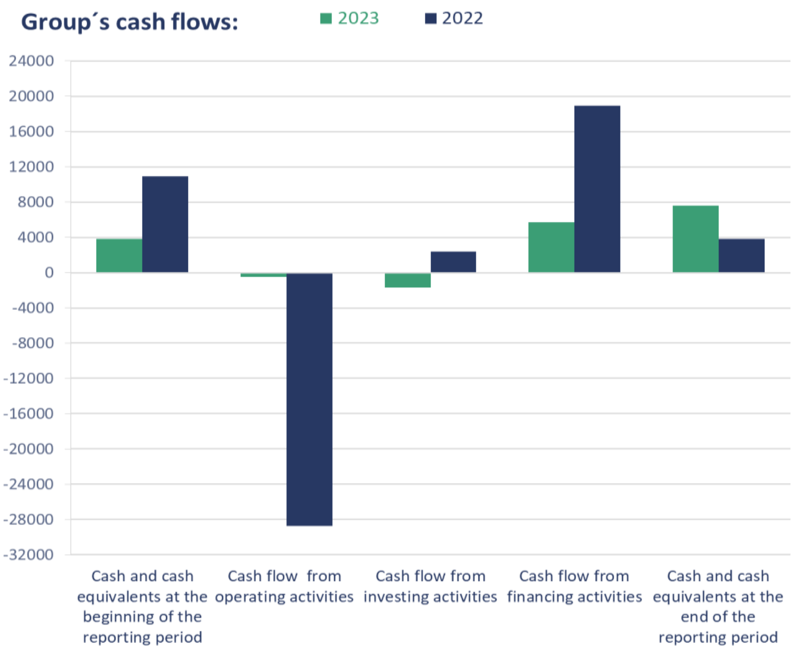
Cash Flows

The Group’s cash and cash equivalents amounted to 3.8 million euros at the beginning of 2023 (01.01.2022: 10.9 million euros) and to 7.6 million euros as of 31 December 2023 (31.12.2022: 3.8 million euros). The positive cash flow for the period was 3.9 million euros (2021: negative at 7.1 million euros).

Cash flow from operating activities for 2023 was negative at 0.5 million euros (2022: negative at 28.6 million euros). Cash flow from operating activities was mostly affected by the growth of operating income and inventory reduction due to the sale of several development projects. If in 2022 the cash flow was negative 30.9 million euros due to the change in inventories, then in 2023 it was negative 5.7 million euros.

Cash flow from investments was negative at 1.7 million euros as of 31 December 2023 (2022: positive of 2.4 million euros). The net cash flow from the sale of the subsidiary Hepsor U30 SIA was 0.6 million euros. The financial investments in the Weston Road and Elysium Isabella development projects in Canada was 2.0 million euros. In 2023, the Group granted loans in the total amount of 0.3 million euros. In the comparable period, the net cash flow of granted loans was 1.9 million euros.

Cash flow from financing activities was positive at 5.6 million euros (2022: 18.8 million euros). The net amount of loans received in 2023 was 9.5 million euros (2022: 20.2 million euros). In 2023, 3.9 million euros (2022: 1.2 million euros) in loan interest have been paid.



Key financials

in thousands of euros	2023	2022	2021	2020	2019
Revenue	41,135	12,870	14,961	38,771	19,535
Gross profit/-loss	7,068	1,774	3,059	4,084	2,088
EBITDA	5,227	383	2,037	3,572	1,431
Operating profit/-loss	5,034	235	1,880	3,411	1,298
Net profit/-loss	3,480	1,331	1,733	3,845	1,328
Incl net profit/-loss attributable to the owners of parent	*1,185*	*1,396*	*-22*	*2,591*	*956*
Comprehensive income/-loss	1,713	1,315	-12	2,834	706
Incl comprehensive profit/-loss attributable to the owners of parent	*1,127*	*1,033*	*46*	*2,605*	*894*
Total assets	91,001	78,368	55,345	30,433	36,987
Incl inventories	*77,439*	*69,760*	*37,237*	*22,903*	*31,499*
Total liabilities	68,840	58,045	36,308	20,914	30,265
Incl total loan commitments	*56,905*	*48,580*	*28,363*	*16,160*	*23,439*
Total equity	22,161	20,323	19,037	9,519	6,722
Incl equity attributable to the owners of parent	*20,993*	*19,866*	*18,904*	*9,454*	*6,886*
Earnings per share	0.31	0.36	-0.01	0.86	0.32

Key Ratios

	2023	2022	2021	2020	2019
Gross profit margin	17.2%	13.8%	20.4%	10.5%	10.7%
Operating profit margin	12.2%	1.8%	12.6%	8.8%	6.6%
EBITDA margin	12.7%	3.0%	13.6%	9.2%	7.3%
Net profit margin	8.5%	10.3%	11.6%	9.9%	6.8%
General expense ratio	5.0%	12.0%	8.1%	2.3%	4.3%
Equity ratio	24.4%	25.9%	34.4%	31.3%	18.2%
Debt ratio	62.6%	62.1%	51.3%	53.2%	63.5%
Current ratio	1.7	2.5	4.2	3.5	2.2
Return of equity	16.4%	6.8%	12.1%	47.3%	27.6%
Return on equity attributable to the owners of the	5.8%	7.2%	-0.2%	31.7%	19.6%
Return on assets	4.1%	2.0%	4.0%	11.4%	4.1%

Gross profit margin = gross profit / revenue
Operating profit margin = operating profit / revenue
EBITDA margin = (operating profit + depreciation) / revenue
Net profit margin = net profit / revenue
General expense ratio = (marketing expenses + general and administrative expenses) / revenue
Equity ratio = shareholder's equity / total assets
Debt ratio = interest-bearing liabilities / total assets
Current ratio = current assets / current liabilities
Return on equity = net profit of trailing 12 months / arithmetic average shareholder's equity
Return on equity attributable to the owners of the parent = net profit of trailing 12 months attributable to owners of the parent / arithmetic average shareholder's equity attributable to owners of the parent
Return on assets = net profit of trailing 12 months / average total assets

Employees

As of 31 December 2023, the Group employed 26 (31 December 2022: 25) people including the members of Management and Supervisory Boards. 13 of these people worked in Estonia (31 December 2022: 13) and 13 in Latvia (31 December 2022: 12).

Total labour cost for the reporting period amounted to 1,981 thousand euros (2022: 1,503 thousand euros). The increase in payroll costs for the reporting year was caused by both changes in the composition of employees and general wage increases.

Number of employees in 2023

26

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

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

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

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

The members of the Management Board and the Supervisory Board were paid for the reporting period gross fees in the amount of 363 thousand euros (2022: 325 thousand euros).

More information about the personnel expenses is available in Note 21.

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 a nominal value of 1 euro.

As of 31 December 2023, Hepsor AS had 10,527 shareholders.

Hepsor AS Shares Held by the Members of Management and Supervisory Boards and Entities Related to Them:

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

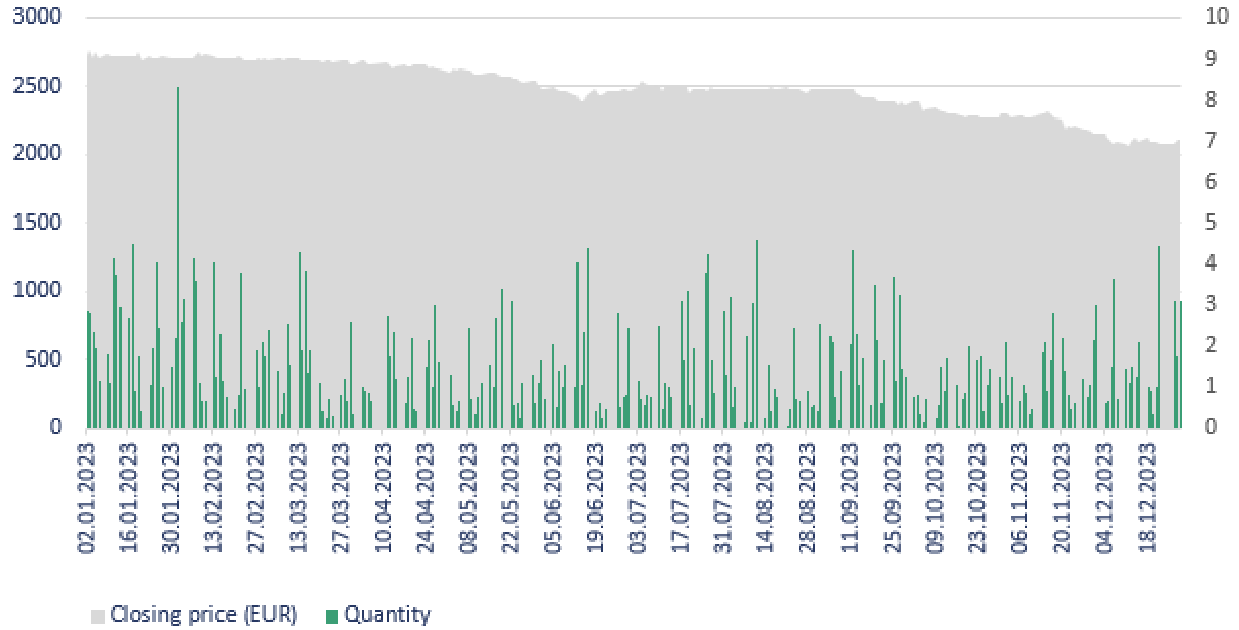
Shareholder Structure by Number of Shares Held as of 31 December 2023:

Number of shares	Number of shareholders	% of shareholders	Number of shares	% of shares
100 001-…	5	0,05%	3,000,000	77.83%
10 001-100 000	8	0,08%	244,484	6.34%
1001 -10 000	51	0,48%	145,816	3.78%
101-1000	805	7,65%	208,972	5.42%
1-100	9,658	91,75%	255,429	6.63%
Total	10,527	100,00%	3,854,701	100.00%

Between 1 January 2023 to 31 December 2023 a total of 7,442 transactions were conducted with the shares of Hepsor AS, during which 117,234 shares changed ownership for a total amount of 979,906 euros. The highest transaction price in the period was 9.23 euros and the lowest was 6.9 euros. The market capitalisation of Hepsor AS was 27.1 million euros as of 31 December 2023, and the equity of the Group amounted to 22.1 million euros.

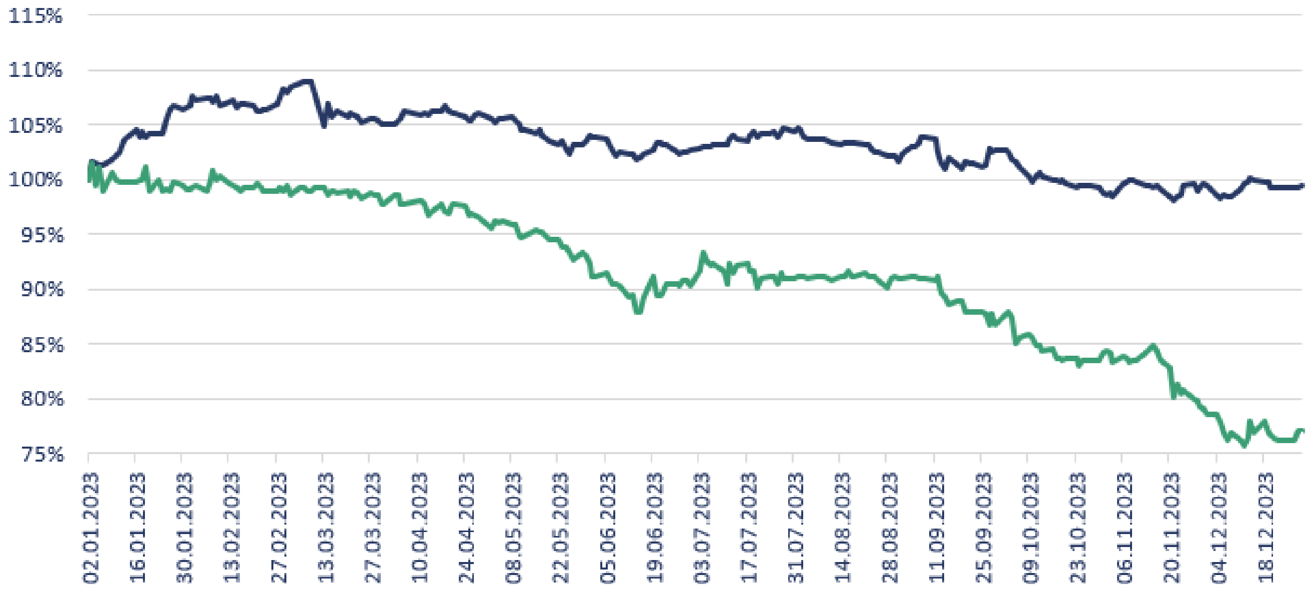
Market cap on 31 Dec. 2023
27.1
million euros

Trading Volume and Price Range of Hepsor AS Shares, 12 months (1 January 2023 - 31 December 2023):



Source: Nasdaq Baltic

Change in Hepsor Share Price in Comparison with the Benchmark OMX Tallinn Index, 12 months (1 January 2023 – 31 December 2023):



INDEX/EQUITY	OPENING VALUE	CLOSING VALUE	CHANGE
OMX Baltic_10	283.88	280.34	-1.25%
HPR1T - Hepsor	9.1	7.02	-22.86%

Source: Nasdaq Baltic

Ojakalda Kodud

Paldiski mnt 227c, Tallinn

Corporate Governance Report

In its business operations, Hepsor AS adopts the Corporate Governance Recommendations approved by the Estonian Financial Supervisory and Resolution Authority and Nasdaq Tallinn Stock Exchange. The following report describes the management principles of Hepsor AS in 2023 and compliance with Corporate Governance Recommendations. Companies can decide whether they adopt these recommendations as the basis of their management. The management practices of Hepsor AS are described below in accordance with the "comply or explain" principle.

General Meeting of Shareholders

Exercise of Shareholder Rights

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

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

Calling the General Meeting of Shareholders and Information to be Published

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

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

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

The Annual General Meeting of Shareholders of Hepsor AS for the financial year 2022 was held on 25 May 2023 in the conference centre of L'Embitu Hotel at Lembitu 12, Tallinn. The Annual General Meeting of Shareholders had a quorum as 27 shareholders with 3,039,656 votes were represented, i.e. more than half of the votes represented by Hepsor AS shares, including 4 shareholders who exercised the opportunity to vote before the meeting and who had 1,747 votes. The ordinary general meeting of shareholders of Hepsor Ltd. decided to approve the financial statements for the year 2022 and distribute the net profit for the financial year ended on December 31, 2022, amounting to 1,396 thousand euros as follows:

– transfer 385 thousand euros to the mandatory reserve capital account;

– transfer 1,011 thousand euros to retained earnings from previous periods.

The resolutions adopted by the Annual General Meeting of Shareholders were published in the information system of the Nasdaq Tallinn Stock Exchange and on the websites of the Estonian Financial Supervisory and Resolution Authority and the Group.

Management Board

Composition and Duties of the Management Board

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

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

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

The Management Board adheres to the lawful orders of the Supervisory Board. Transactions which are beyond the scope of everyday economic activities may only be concluded by the Management Board with the consent of the Supervisory Board. According to the Articles of Association, the Management Board may be comprised of up to three members and elected for a term of five years. The Management Board of the Group consists of one member. The contract as a member of the

Henri Laks
Member of the Management Board

Career:

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

Number of shares: 498,000 (12.92%)

Management Board has been signed with Henri Laks for a term of five years (until 14 October 2026). The member of the Group's Management Board may also be a member of the Management Boards of the Group's subsidiaries and associated companies.

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

Principles for the Remuneration of the Management Board

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

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

Conflicts of Interest

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

The Supervisory Board approves transactions which are significant to the Group and concluded between the Group and the member of the Management Board or another person connected with or close to them and determines the terms of such transactions. In 2023, no such transactions took place.

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

Supervisory Board

Composition and Duties of the Supervisory Board

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

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

Andres Pärloja
Chairman of
Supervisory Board

Career:

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

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

Kristjan Mitt
Member of
Supervisory Board

Career:

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

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

Lauri Meidla
Member of
Supervisory Board

Career:

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

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

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

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

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

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

In 2023, Supervisory Board convened 14 times during which 19 decisions were made. 14 of these decisions were signed by all Supervisory Board members. Decisions concerning granting of consent to the conclusion of a transaction between a person related to the said member of the Supervisory Board and the Group, were signed by an independent member of the Supervisory Board.

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

Principles of remuneration of the Supervisory Board

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

In 2023, the gross remuneration of members of the Supervisory Board of the Group amounted to 120 thousand euros.

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

Conflicts of Interest

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

The members of the Supervisory Board promptly inform the Chairman of the Supervisory Board and Management Board regarding any business offer related to the business activity of the Group made to them, a person close to them or an associate. In 2023, no such transactions took place.

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

Cooperation between the Management Board and the Supervisory Board

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

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

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

Disclosure of Information

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

Financial Reporting and Auditing

Financial Reporting

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

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

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

Election of the Auditor and Auditing

In 2021, the Group elected Grant Thornton Baltic OÜ as the auditor for the 2021-2026 financial years. Total remuneration for auditing financial reports for 2023 amounted to 63 thousand euros (plus VAT). The Group follows the principle of the rotation of auditors.

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

The auditor gave the Audit Committee formed by the Supervisory Board a written overview of the course of the audit of the Group in 2023, the observations made, and any other important topics discussed with the Management Board of the company.

Grüne Maja

Meistri 14, Tallinn

Remuneration Report

This remuneration report has been prepared in accordance with the remuneration principles of the Group’s Management Board member. The member of the Management Board is remunerated pursuant to the signed contract. The remuneration report discloses the remuneration and benefits paid to the member of the Management Board in the financial year 2023.

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

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

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

The Group's Management Board has one member. The member of the Management Board contract of Henri Laks was signed on October 14, 2021, and his powers are valid until October 13, 2026.

thousands of euros	2023	2022	2021	2020
Group’s total labour costs	1,981	1,530	908	605
incl. Basic remuneration of the member of the Management Board	*151*	*109*	*56*	*42*
Average number of employees	20.0	18.0	13.8	11.4
Group’s revenues	41,135	12,870	14,961	38,771
Group’s revenues per employee	2,057	715	1,084	3,400

Büroo113

Pärnu mnt 113, Tallinn

Sustainability Report

For the third consecutive year, we are submitting a separate report on responsible business conduct as part of the annual financial report, which is consolidated to the same extent as the financial statements. As we are subject to reporting obligations according to the European Corporate Sustainability Reporting Directive (CSRD) for the year 2025, we have begun taking steps since 2023 to report our sustainability activities in accordance with the standards included in the Directive (ESRS). We plan to submit a fully compliant report for the year 2025 in 2026. In the meantime, we are gradually adopting disclosure requirements and reporting in accordance with them.

In 2022, we mapped out our key areas of influence and opportunities to contribute to sustainable development in collaboration with external experts and identified the ESG (*environmental-social-governance*) focus areas that we will prioritise. The significant topics we aim to strategically manage at Hepsor are as follows:

- ✓ **Mitigating climate impact** through assessing the life cycle impact of developed buildings and reducing direct emissions associated with our operations.
- ✓ **Socially responsible development activities,** focusing on creating buildings with health-supportive indoor and outdoor environments that integrate well into urban spaces and contribute to cohesive communities.
- ✓ **Promoting a culture of honesty and transparency in business operations,** ensuring compliance with laws, fostering openness, and demanding ethical conduct from our partners.

Important but with smaller or more indirect impact sustainability themes that we also address include:

- ✓ **Workplace design**, including employee well-being and engagement, their development, health promotion, and equal treatment.
- ✓ **Support activities** and providing additional contributions to society.
- ✓ **Guiding clients** and collaborating for sustainable development.

We are also aware of other important environmental and social impact areas related to construction and real estate, such as our impact on biodiversity, water usage, adaptation to climate change, waste generation, building security, and accessibility, as well as the elitism of the real estate sector. These aspects are often linked to decisions made at the national level, and we address them in accordance with laws and standards. However, within our group, we do not strategically manage these issues. Nevertheless, we can indirectly contribute to them through our core focuses.

We will update our materiality mapping during 2024 in accordance with the requirements of the ESRS and the application guidance provided by the European Financial Reporting Advisory Group (EFRAG), taking into account the principle of double materiality. The responsibility for sustainability-related activities lies with the Board of Directors of Hepsor AS, while the coordination of day-to-day efforts is managed by the country managers of our Estonian and Latvian subsidiaries.

Environmental Impact

In the spring of 2021, the government approved the vision document "Long-Term View of Construction 2035," aiming to guide the collaboration between the public and private sectors towards sustainable development in the construction industry. The document envisions making construction decisions with a long-term perspective based on data and sustainability principles, thus creating a balance between ecological and economic aspects throughout the lifecycle of a building. One of the goals is to embrace the principles of a circular economy, ensuring that both the construction process and the resulting structures are environmental, energy-efficient, and sustainable.

We are aware that an environmentally friendly and sustainable mindset begins with selecting the right plot of land and continues as a process during planning and building design. The green transition is not just a buzzword for us. To ensure the use of the best environmentally friendly solutions and contribute to the long-term vision of the construction industry in Estonia and Latvia, each new development project includes a **green ideas innovation academy** composed of employees. The goal of this academy is to gather ideas and implement innovative practices. In the academy, we seek solutions for various design-related topics, including more environmentally friendly heating and cooling systems, building energy efficiency, reuse of construction materials, increasing the proportion of wood, and planning building functions that support an environmentally friendly lifestyle.

Climate

According to the Intergovernmental Panel on Climate Change (IPCC) report of 2021[1], the use and construction of buildings globally account for approximately 36% of energy consumption and about 37% of greenhouse gas emissions. Given our area of activity, we bear a great responsibility, but we also have the opportunity to manage climate impact both in our operations and throughout the value chain to contribute to the goals of the Paris Agreement and the corresponding objectives of the European Union.

In 2022, through the assessment of our significant impact points, we identified that we can primarily reduce the climate impact of our buildings by:

- ✓ Ensuring the energy efficiency of buildings;
- ✓ Implementing renewable energy solutions;
- ✓ Developing buildings with lower CO2 intensity, including preferring local and natural construction materials;
- ✓ Certifying office buildings according to LEED and BREEAM standards;
- ✓ Conducting climate change mitigating business activities in accordance with directives.

Our main focus in building design is reducing energy consumption during the operational phase, as this is where our potential impact is greatest. To a lesser extent, we can also contribute to climate change adaptation by considering weather resilience[2], transition risks, and market expectations in development projects.

We have consistently developed our office buildings with a green mindset, and since 2014, when the first conceptually designed office building was completed at Sõpruse pst 157, we have incorporated the following special solutions in our designed buildings, contributing to both climate change mitigation and adaptation:

- ✓ **Thermally Active Building Systems (TABS) in floor slabs,** which automatically regulate room temperature and heat distribution throughout the year. The system allows for the heating and cooling of spaces through a common piping system in the building slabs, eliminating the need for radiators and traditional air conditioners. In addition to lower heating and cooling costs, tenants benefit from a better and more stable indoor climate.
- ✓ **Geothermal heating and cooling system**, utilising natural renewable energy for heating in winter and cooling in summer. The system helps to keep heating and cooling costs lower than those of distant or gas heating and ensures reduced dependence on service providers.
- ✓ **Passive architectural designs** to prevent excessive solar heat gain during summer, enhancing user comfort and reducing the need for cooling and energy consumption.
- ✓ **Installation of solar panels on rooftops,** planned for all our developed commercial buildings since 2014 and, where possible, also for residential buildings.
- ✓ **Bicycle parking facilities** and electric vehicle charging stations, enabling tenants to make environmentally conscious transportation choices.

[1] https://www.ipcc.ch/assessment-report/ar6/
[2] *The process by which the resilience of infrastructure to adverse climate impacts is ensured according to national regulations and guidelines or internationally recognized standards.*

In the design of every building, whether commercial or residential, we also take into account specific natural risks in the area, and if necessary, assess climate-related risks, such as flood hazards when building near water bodies.

We have also designed an office building located in Estonia, where we operate on a daily basis and share the space with other companies, considering environmental conservation. The building is heated and cooled using geothermal energy, partial water supply is based on rainwater, solar panels are installed on the roof, and the building's energy management is regulated by a unique thermally active construction system (TABS).

In 2023, among other projects, we completed the leasing of office space in Grüne Maja[3], which was designed and built according to the principles of environmentally friendly construction, and Office 113[4], intended for medical companies. We also continued work on the development of the Manufactory Quarter[5], where we aim to blend the old with the new in renovations, utilising the most modern sustainable solutions available.

The Manufactory Factory located in the Manufactory Quarter is designed as an A-class energy building and will be the first residential building in Estonia to utilise a comprehensive ground cooling solution in addition to geothermal heating. Additionally, the renovation works are planned to maximise the use of materials collected during demolition, including silica bricks, in the development's interior solutions. The construction of the Manufactory Factory is projected to commence in the first half of 2024.

The Manufactory 7 buildings[6], part of the Manufactory Quarter project, are designed with similar solutions in mind and are scheduled to be completed in 2024.

In 2023, we continued our green building initiatives in our operations in Latvia, where we advanced with the development project of the StokOfiss U34[7] office building, among other projects. Additionally, we obtained a BREEAM (Building Research Establishment Environmental Assessment Method) certification for the building at the "very good" level (3/5), which demonstrates the comprehensive energy efficiency, environmental friendliness, and sustainability of the building at every stage of its planned lifecycle. We anticipate the construction of StokOfiss U34 to commence in the first half of 2024.

[3] https://gryne.ee/et/
[4] https://byroo113.ee/
[5] https://hepsor.ee/manufaktuurivabrik
[6] https://hepsor.ee/manufaktuur/m7/
[7] https://hepsor.lv/stokofissu34/en/

Energy Consumption and Office Operations CO2 Footprint

In 2023, we began monitoring our energy consumption, which corresponds to areas 1 and 2 in the CO2 footprint assessment methodology, referring to our office operations' direct costs. Monitoring energy consumption alongside greenhouse gas emissions provides an opportunity to identify key areas where we can contribute to reducing or optimising consumption.

Energy consumption and distribution of energy sources	**2023**
Coal and coal product-based fuel consumption (MWh)	0
Fuel consumption based on crude oil and petroleum products (MWh)	9.23*
Fuel consumption based on natural gas (MWh)	0
Fuel consumption from other fossil sources (MWh)	0
Consumption of purchased or acquired electricity, heat, steam, and cooling based on fossil sources (MWh)	7.84
Total fossil energy consumption (MWh)	**17.07**
The share of fossil sources in total energy consumption (%)	37.2
Consumption of energy from nuclear sources (MWh)	**0**
The share of nuclear energy in total energy consumption (%)	0
Fuel consumption from renewable sources (including biomass) (MWh)	0
Consumption of purchased or acquired electricity, steam, and cooling from renewable sources (MWh)	28.81
Consumption of renewable energy produced for uses other than fuel (MWh)	0
Total renewable energy consumption (MWh)	**28.81**
The share of renewable sources in total energy consumption (%)	62.8
Total energy consumption (MWh)	**45.88**

**When converting gasoline quantities from litres to megawatt-hours, we have used the Carbon Disclosure Project's guidelines and coefficients.*

In 2022 and 2023, in collaboration with external experts, we calculated our greenhouse gas (GHG) emissions or carbon footprint resulting from our activities, following the internationally recognised and widely used greenhouse gas accounting standard "GHG Protocol Corporate Accounting and Reporting Standard" for scopes 1, 2, and 3. In the calculation of the entire footprint, we considered seven commonly emitted greenhouse gases: CO_2, CH_4, N_2O, HFC-d, PFC-d, SF_6 and NF_3. The results are expressed in carbon dioxide equivalents (CO_2 eq), reflecting the different potentials of greenhouse gases to contribute to global warming. Since development activities constitute the predominant part of our CO_2 footprint, we treat the footprint of building development activities and office activities separately to better understand the greenhouse gas emissions attributable to Hepsor's operations.

Scope 1 covers direct greenhouse gas emissions from sources that are owned or controlled by us, following the principle of operational control. In this scope, we have accounted for the fuel consumption of our vehicles, which decreased in 2023 compared to 2022.

GHG emissions for impact area 1	**2022**	**2023**	**Change**
Total emissions (t CO_2 eq)	2.5	2.28	-10%

Scope 2 covers indirect greenhouse gas emissions resulting from purchased energy, such as electricity and heat. In this category, we have accounted for all the electricity and heat energy consumed by us. According to the ESRS, energy consumption-related GHG emissions should be reported using two calculation methods: location-based and market-based. The market-based method reflects the emissions associated with the company's choices in the electricity market. The location-based method represents the average emissions from electricity generation in a specific area, regardless of whether the electricity consumption is offset with

renewable energy certificates (as is done in our Latvian unit). The purpose of dual reporting according to standards is to ensure consistency and comparability in greenhouse gas reporting, as it helps to better highlight trends and changes in energy use. The results obtained with different methodologies are not added together. In 2023, our Scope 2 total emissions significantly decreased due to the adoption of a more efficient heating system in our Latvian office.

Greenhouse Gas (GHG) emissions for impact area 2	2022	2023	Change
Location-based total emissions (t CO_2 eq)	6.63	6.28	-6%
Market-based total emissions (t CO_2 eq)	7.17	5.61	-28%

Scope 3 includes indirect emissions generated throughout our value chain, which we analyse separately for office and development activities. In the office activities category, Scope 3 encompasses emissions from waste generation, employee commuting, including remote work, and energy consumption in leased spaces. To calculate employee commuting, we conducted a survey among employees, and we also considered the climate impact of remote work in the same category. The most significant reduction in emissions occurred in the purchased goods and services category. However, overall emissions in this scope increased, primarily due to emissions from employee commuting, waste, and subsequent stages of the value chain in the leased asset categories. The electricity and heat consumption of leased spaces increased by 50% compared to 2022, as two new office buildings were completed in 2023 and started being leased out. The largest contribution to the carbon footprint of leased spaces came from electricity consumption, mainly because fossil fuel-based grid electricity is predominantly used in rented spaces.

Significant GHG emissions in impact area 3 for office operations	2022	2023	Change
1. Purchased goods and services	12.5	7.96	-57%
3. Fuel and energy-related activities (not included in 1st or 2nd impact area)	1.2	1.82	34%
5. Waste generated during operations	0.7	1.85	62%
6. Business travel	52.1	49.2	-6%
7. Employee commuting to and from work, including remote work	7.58	20.51	63%
13. Leased assets in subsequent stages of the value chain Total emissions in impact area 3 for office operations (t CO2 eq)	355.9	713.58	50%
Total emissions in impact area 3 for office operations (t CO_2 eq)	430	795	46%

The total impact of our office activities. Our 2022 location-based CO_2 footprint for office activities across all scopes was 439 tons of CO_2 equivalent, while in 2023, it increased to 804 tons of CO_2 equivalent. The largest share in both years has been in Scope 3, where our leased spaces' electricity and heat consumption accounted for 89.77% of the entire category (2022: 83%).

Total emissions from office activities	2022	2023	Change
Location-based total emissions excluding development activities (t CO2 eq)	439	804	45%
Market-based total emissions excluding development activities (t CO2 eq)	433	803	46%

The CO2 Footprint of Development Activities

In the development activities sector, we considered the impact of construction projects initiated in 2022 and 2023, calculating the CO_2 footprint over the entire life cycle of the development project (expected lifespan of 50 years). Unlike the other measured categories in other impact areas, these calculations, therefore, do not reflect only the environmental impact of the reporting period.

For assessing the climate impact of buildings, we utilised the Estonian construction calculation methodology[8] developed by researchers at TalTech in collaboration with experts from the Finnish company One Click LCA, commissioned by the Ministry of Economic Affairs and Communications. The calculation method is based on the ISO 14040 standard, European standards for environmental sustainability assessment EN 15804 and EN 15978, the European Level(s) framework, and international best practices for assessing CO_2 footprints.

The calculation results in the total greenhouse gas (GHG) emissions over the building's lifespan (50 years), which includes emissions from construction materials and products, construction activities, use, and end-of-life disposal. The building's life cycle assessment consists of three stages (A, B, and C), which are further divided into modules (A1, A2, etc.).

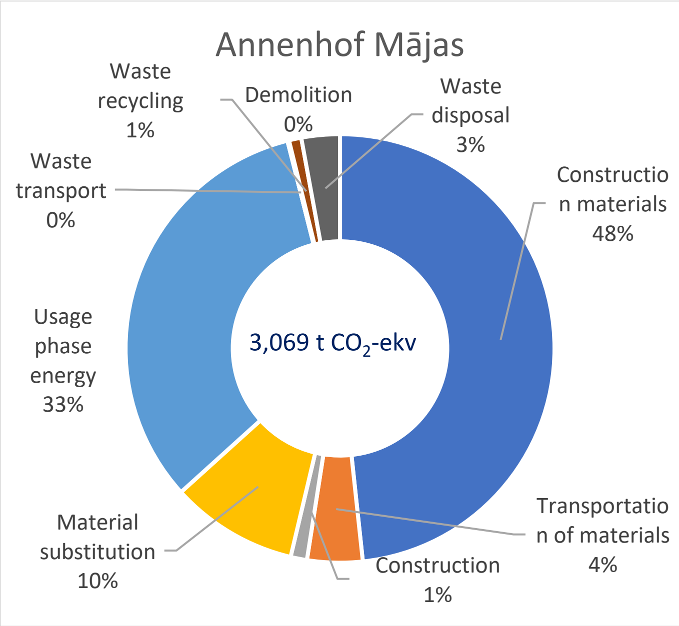
According to the Estonian methodology, the building's CO_2 footprint comprises the sum of results from modules A1–A5, B4, B6, and C1–C4. Module D is presented separately and is not included in the CO_2 footprint. Since the building's CO_2 footprint calculator relies on an Estonian-based database to find the impact of energy use in the Latvian building, we calculated a similar Latvian energy scenario based on Latvia's 2021 energy mix residuals using similar principles.

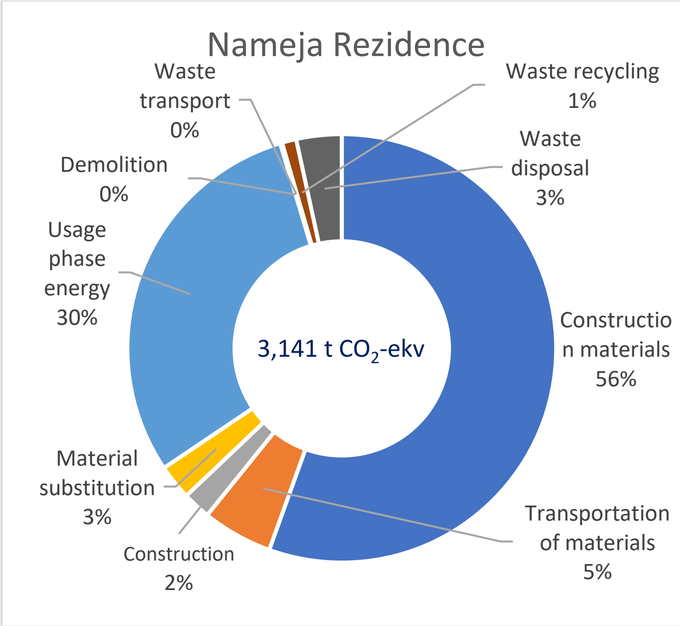
The total CO_2 footprint related to development activities falls under the scope of GHG Protocol's impact category 3 and was as follows in comparison between 2022 and 2023:

Significant GHG emissions in impact area 3 in the field of development activities	2022	2023	Change
2. Capital goods	16,864	29,700.4	43%
9. Transportation in subsequent stages of the value chain	1,394.5	617.7	-126%
10. Processing of sold products	383.8	1,199.2	68%
11. Use of sold products	28,309.1	37,964.7	25.4%
12. Handling of sold products at the end of their lifecycle Total greenhouse gas emissions in impact area 3 in the field of development activities (t CO_2 eq)	1,469.5	1,472	0.2%
Total emissions in impact area 3 in the field of development activities (t CO_2 eq)	48,421	70,954	32%

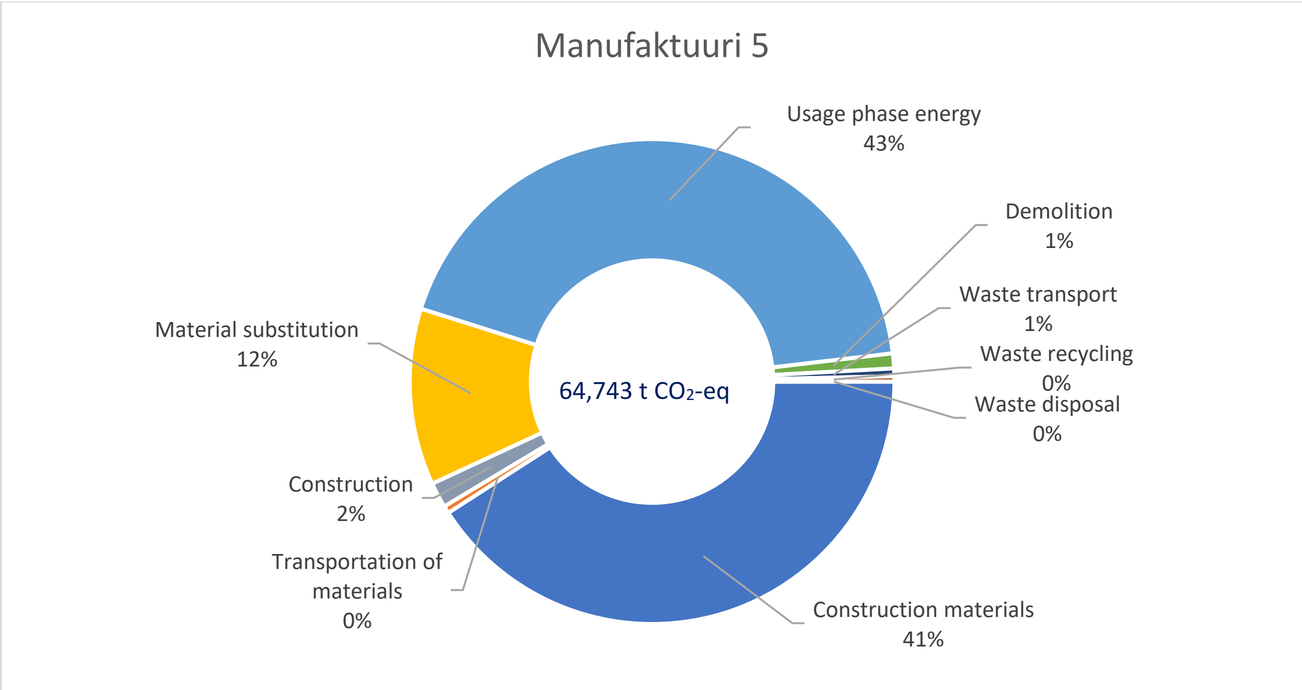
The emissions per building, however, vary slightly due to their specific nature. In 2023, we commenced the preparation of two buildings in Latvia – Annenhof Mājas (emission intensity 1.2 t CO_2-eq/m2) and Nameja Rezidence (emission intensity 1.4 t CO_2-eq/m2). The CO_2 footprint of the Latvian projects over the entire usage period is similar due to the location and nature of the work, with small differences arising from the choice of construction materials. The magnitudes remain similar compared to the construction started in Latvia in 2022 with Mārupes Dārzs (1.4 t CO_2-eq/m2).

[8] https://eehitus.ee/timeline-post/uuring-ehituse-susiniku-jalajalg/





In 2023, we initiated the renovation project for Manufaktuuri 5 (1.28 t CO_2-eq/m2) in the similarly named district in Tallinn.



As the use phase of energy consumption and the production stage of construction materials constitute the largest part of the building's CO_2 footprint overall, attention must be paid to building energy efficiency and alternative energy sources (such as installing solar panels) from the outset of the construction process, including during renovation. The more the market trend shifts towards the use of sustainable building materials, the more the share of climate impact during the construction phase decreases, and the importance of managing energy consumption during the building's lifecycle increases. While the final disposal or demolition of the building and the management of resulting waste may not be the most significant factors in terms of climate impact, the availability of construction materials during demolition and their redirection towards reuse or recycling are essential components of a circular economic model, towards which we plan to set metrics in the coming years.

Hepsor's Total CO2 Footprint

From Hepsor's perspective, the largest measured impact source of the total CO_2 footprint was in both years, the preparatory phase of construction projects (construction, use, and end-of-life treatment) throughout the projected life cycle, or category 3, development activities. This essentially constituted the entire footprint of our operations.

Total greenhouse gas emissions from office and development activities	2022	2023	Change
Location-based total emissions (in t CO_2 eq)	48,860	71,758	32%
Market-based total emissions (in t CO_2 eq)	48,853	71,757	32%

Sometimes, the total emissions may increase significantly, but compared to factors such as the number of employees or revenue, they might decrease. Therefore, we calculate our emissions intensity per location annually, considering both area and employee count, as well as revenue, to gain a more comprehensive understanding of our progress in reducing climate impact. Although in 2023, our emissions intensity per office space and per employee increased, it decreased per revenue, indicating that we have managed to slightly reduce our footprint relative to the value created.

Emissions intensity	2022	2023	Change
Office area	122 t CO_2-ekv/m^2 (400 m^2)	130 t CO_2-ekv/m^2 (552 m^2)	6%
Per employee	1,954 t CO_2-ekv/FTE (25 persons)	2,760 t CO_2-ekv/FTE (26 persons)	26%
Per revenue	3,788 t CO_2-ekv/MEUR (12.9 mln EUR)	1,742 t CO_2-ekv/MEUR (41.2 MEUR)	-117%

Other environmental impact

In addition to reducing the climate impact of buildings, we have the opportunity and responsibility to consider biodiversity conservation and resource use in development. We can primarily encourage this through tenant and end-user guidance and by creating opportunities, including extending the lifespan of buildings.

To preserve biodiversity and provide a better living environment for people, we aim to avoid tree felling in our development activities wherever possible. If tree removal is necessary, our goal is to replant the same number of trees that were cut down, even in Latvia where this is not mandatory. In addition to the positive impact on biodiversity, tree planting helps to adapt to climate change by naturally regulating the temperature of the site.

In 2023, the Grüne Maja, designed according to the principles of green living, was completed, featuring an exceptional green facade surrounding the building, where climbing plants grow. Over time, the building structure becomes a habitat for various insects and birds, thereby promoting biodiversity in the surrounding area and improving air quality.

Social Impact

In addition to being mindful of our environmental impact, we also recognise, monitor, and direct our social impact. This is important to us for several reasons. Based on the core objective of our business – to provide the best service to our customers – it is important for us to maintain good customer relationships and to be aware of the needs of our customers, partners, and associated communities. This requires finding and retaining the best employees, which we invest in on a daily basis.

Our Employees

Our team's fundamental basis is shared values, trust, and appreciation of each other's contributions. We support our employees' development daily by providing training opportunities, team-building activities, and an inspiring work environment. To strengthen collaboration between employees from both countries, we organise joint events alternating between Estonia and Latvia.

In 2023, we provided training for our team on investment and teamwork topics. Additionally, we organised tailored training sessions for employees based on their professional responsibilities in accounting, sales, and management fields. Next year, we plan to further develop ESG (Environmental, Social, and Governance) and digital skills. Moreover, we regularly conduct real estate market reviews to keep ourselves informed about developments in our industry.

Similarly, we conduct annual individual development discussions with all employees to gather feedback on management and employee expectations. During these discussions, training needs are identified, mutual feedback is exchanged, and expectations are managed.

Our work environment prioritises safety, and in 2023, there were no work-related accidents among our employees.

The number of employees in our group is provided in the following table:

Estonia	Estonia						Latvia					
Age	up to 30		31-50		Over 50		up to 30		31-50		Over 50	
Sex	W	M	W	M	W	M	W	M	W	M	W	M
Permanent Employees	0	0	5	4	0	0	0	1	6	4	1	1
Temporary Employees	0	2*	0	0	0	0	0	1	2	0	0	0

** Number of interns.*

To ensure that our employees receive fair compensation, we constantly monitor market trends, and for recruiting top management positions, we have partnered with executive search firms. The costs related to employee and executive compensation are detailed in the compensation report and Annex 21. The turnover rate in our group was 15% in 2023.

Customers and End Users

We aim to provide our customers with the best living environment possible. It's important that the buildings where people spend much of their time are comfortable and welcoming. We design spaces according to our customers' needs and take the initiative to engage with them from the beginning of projects. We value good architecture and construction craftsmanship and collaborate with the best architects and engineers to create unique buildings and urban spaces. Additionally, we consider the needs of public sector representatives and municipal authorities to ensure alignment with the city's needs and contribute to broader development plans.

The greatest positive impact we can have on the experience of our customers and end users comes through two main avenues:

- ✓ **Health-Promoting Indoor Environment,** taking into account the impacts of climate change. For instance, we utilise thermoactive slabs in our office buildings, ensuring better and more stable indoor climates through automated and uniform heating and cooling. Passive design features further enhance indoor comfort.
- ✓ **Integration with Surrounding Urban Spaces** and foster cohesive communities. We invest in creating high-quality outdoor spaces to provide pleasant areas for people to spend time around our buildings, promoting opportunities for healthy lifestyles.

In 2023, the focus was on designing high-quality urban spaces in the development of the Manufaktuuri quarter. This area, formerly an industrial zone, will see the construction of several new apartment buildings between 2024 and 2025, along with the renovation of the former Baltic Manufactory factory building and the creation of multifunctional green and recreational areas.

With this project, we aim to create a cosy and comprehensive living and business environment while preserving the unique character of the industrial area. We involved the community in the project at an early stage to identify the needs of customers and various interest groups in the developed area and buildings. For example, diverse event and rental spaces have already been established in the old buildings, allowing enthusiasts to experience the buildings and environment authentically.

In the development project of Paevälja Courtyard Houses, through which we aim to breathe new life into the abandoned urban area, we have also placed significant emphasis on ensuring social responsibility. We have paid special attention to the functionality of the courtyard area between the houses, where sports fields, children's playgrounds, green areas, and recreational spaces will be located. The first building of the development project was completed in 2022, and the second building in 2023.

Customer satisfaction is important to us even after the completion of development activities, which is why each building developed by us has a warranty period during which our partner ensures that any possible defects or shortcomings are addressed in accordance with the needs of the clients. Customers and community members can share complaints and feedback regarding other areas through our website.

Communities

Having operated successfully for over ten years, we aim to share our success with the broader community. In contributing to shaping the education path of the next generation, we offer a scholarship to a young engineer in Latvia.

Through donations, we support the foundation "Noored Olümpiale" (Youth for the Olympics) and the Estonian Parents' Association of Children with Cancer. "Noored Olümpiale" supports promising young athletes with scholarships and training. The Estonian Parents' Association of Children with Cancer strives to provide necessary support to all children with cancer and their families in Estonia to the best of their ability. Additionally, we have made donations to support groups in Ukraine and to war refugees.

We participate in the activities of the Estonian Association of Real Estate Companies, where we contribute to shaping a well-regulated and secure real estate market based on best practices. We engage in the development of legislative proposals and other regulations and represent the interests of the association in state and local government bodies.

Strelnieku 4b

Strelnieku 4b, Riga

Consolidated Annual Financial Statements

Consolidated Financial Statements

Consolidated statement of financial position

in thousands of euros	Note	31 Dec 2023	31 Dec 2022
Assets			
Current assets			
Cash and cash equivalents	2	7,604	3,754
Trade and other receivables	3	1,544	1,731
Current loan receivables	9	311	0
Inventories	4	77,439	69,760
Total current assets		**86,898**	**75,245**
Non-current assets			
Property, plant and equipment	5	162	232
Intangible assets	6	4	7
Financial investments	7	2,005	2
Investments in associates	23	0	1,086
Non-current loan receivables	9	1,729	1,766
Other non-current receivables	8	203	30
Total non-current assets		**4,103**	**3,123**
Total assets	**28**	**91,001**	**78,368**
Liabilities and equity			
Current liabilities			
Loans and borrowings	10	40,600	22,565
Current lease liabilities	11	40	46
Trade and other payables and prepayments	12	9,808	7,061
Total current liabilities		**50,448**	**29,672**
Non-current liabilities			
Loans and borrowings	10	16,305	26,015
Non-current lease liabilities	11	29	68
Other non-current liabilities	13	2,058	2,290
Total non-current liabilities		**18,392**	**28,373**
Total liabilities	**28**	**68,840**	**58,045**
Equity			
Share capital	15	3,855	3,855
Share premium	15	8,917	8,917
Reserves	15	385	0
Retained earnings		9,004	7,551
Total equity		**22,161**	**20,323**
incl. total equity attributable to owners of the parent		20,993	19,866
incl. non-controlling interest		1,168	457
Total liabilities and equity		**91,001**	**78,368**

The notes presented on pages 62 to 107 form an integral part of the consolidated financial statements.

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	Note	2023	2022
Revenue	17,28	41,135	12,870
Cost of sales (-)	18	-34,067	-11,096
Gross profit		**7,068**	**1,774**
Marketing expenses (-)	19	-576	-446
Administrative expenses (-)	20	-1,472	-1,095
Other operating income	22	166	70
Other operating expenses (-)	22	-152	-68
Operating profit of the year	**28**	**5,034**	**235**
Financial income	23	1,192	1,889
Financial expenses (-)	24	-2,746	-787
Profit before tax		**3,480**	**1,337**
Income tax	25	0	-6
Net profit for the year		**3,480**	**1,331**
Attributable to owners of the parent		1,185	1,396
Non-controlling interest		2,295	-65
Other comprehensive income (-loss)			
Changes related to change of ownership	29	286	-26
Change in value of embedded derivatives with minority shareholders	14	-2,053	10
Other comprehensive income (-loss) for the period		**-1,767**	**-16**
Attributable to owners of the parent		-58	-434
Non-controlling interest		-1,709	418
Comprehensive income (-loss) for the period		**1,713**	**1,315**
Attributable to owners of the parent		1,127	962
Non-controlling interest		586	353
Earnings per share			
Basic (euros per share)	26	0.31	0.36
Diluted (euros per share)	26	0.31	0.36

The notes presented on pages 62 to 107 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

in thousands of euros	Attributable to equity owners of the parent				Non-controlling interests	Total equity
	Share capital	Share premium	Reserves	Retained earnings		
Balance of 31 December 2021	**3,855**	**8,917**	**0**	**6,132**	**133**	**19,037**
Net profit/(-loss) for the year	0	0	0	1,396	-65	**1,331**
Other comprehensive income/ (-loss) for the period	0	0	0	-434	418	**-16**
Dividends paid	0	0	0	0	-29	**-29**
Balance of 31 December 2022	**3,855**	**8,917**	**0**	**7,094**	**457**	**20,323**
Net profit/(-loss) for the year	0	0	0	1,185	2,295	**3,480**
Other comprehensive income/ (-loss) for the period	0	0	0	-58	-1,709	**-1,767**
Reserves	0	0	385	-385	0	**0**
Voluntary reserve	0	0	0	0	125	**125**
Balance of 31 December 2023	**3,855**	**8,917**	**385**	**7,836**	**1,168**	**22,161**

Information on equity is presented in note 15.

The notes presented on pages 62 to 107 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows

in thousands of euros	Note	2023	2022
Net cash flows from (to) operating activities			
Operating profit of the year	**28**	**5,034**	**235**
Adjustments for:			
Depreciation of property, plant and equipment	5,6	193	148
Profit from the sale of property, plant and equipment	22	0	-18
Other adjustments		-200	22
Income tax paid	27	0	-6
Changes in working capital:			
Change in trade receivables		152	-1,112
Change in inventories	27	-5,676	-30,935
Change in liabilities and prepayments		-3	3,054
Cash flows from (to) operating activities		**-500**	**-28,612**
Net cash flows from (to) investing activities			
Payments for property, plant and equipment	5	-24	-100
Payments for intangible assets	6	-2	-8
Proceeds from sale of property, plant and equipment		0	25
Payments for financial investments	7	-1,985	0
Payments for acquisition of subsidiaries		-3	-400
Proceeds from sale of subsidiaries	29	595	135
Interest received	27	34	324
Loans granted	9	-311	-176
Loan repayments received	9	0	2,126
Other receipts from investing activities	23	0	460
Cash flows from (to) investing activities		**-1,696**	**2,386**
Net cash flows from (to) financing activities			
Loans raised	10	40,412	31,892
Loan repayments	10	-30,817	-11,672
Interest paid	27	-3,922	-1,150
Payments of finance lease principal	11	-9	-26
Payments of right to use lease liabilities	11	-130	-107
Dividends paid	15	0	-29
Non-controlling interest contributions to equity	29	161	0
Other receipts from financing activities		-15	-59
Cash flows from financing activities		**5,680**	**18,849**
Net cash flow		**3,484**	**-7,377**
Cash and cash equivalents at beginning of year	**2**	**3,754**	**10,889**
Cash flow in from acquisitions of subsidiaries		366	242
Increase / decrease in cash and cash equivalents		3,484	-7,377
Cash and cash equivalents at end of year	**2**	**7,604**	**3,754**

The notes presented on pages 62 to 107 form an integral part of the consolidated financial statements.

Notes to the consolidated interim financial statements

Note 1. Accounting policies

1.1. General information

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

The consolidated financial statements of the Group for 2023 were signed by a member of management Board of Hepsor AS on 18 April 2024.

In accordance with the requirements of the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board, which also includes the consolidated financial statements, is approved by the general meeting of shareholders. Shareholders have the right not to approve the annual report prepared by the Management Board and approved by the Supervisory Board and to request that a new report be prepared. The Annual General Meeting of Shareholders, one of the items on the agenda of which is the approval of the consolidated annual report of Hepsor AS for 2023, will be held on 23 May 2024.

1.2. Basis of preparation of consolidated financial statements

The Group’s consolidated annual financial statements have been prepared in conformity with International Financial Reporting Standards as endorsed by the European Union (“IFRS (EU”). The Group has consistently applied the accounting policies throughout all periods presented unless stated otherwise.

The consolidated annual financial statements for 2023 have been prepared on a going-concern basis.

The preparation of consolidated annual financial statements in conformity with IFRS (EU) requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions changed. The management of the Group believes the underlying assumptions in the preparation of consolidated annual financial statements for 2023 are appropriate.

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

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

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

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

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

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

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

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

1.4. Impact of new and revised standards and interpretations

The accounting principles applied in the preparation of this report are the same as those used in the Group's consolidated report for the financial year ended on 31 December 2022.

Impact of new standards and interpretations

In reporting periods starting on or after January 1, 2023, it became mandatory for the Group to:

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

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

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

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

The Group has taken the new requirements into account when preparing this annual report.

Revised standards effective on or after 1 January 2024

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual reporting periods beginning on or after 1 January 2024 and that have not been adopted by the Group ahead of effective date.

Amendments to IAS 1 „Presentation of Financial Statements“ (Non-Current Liabilities with Covenants);

Under existing IAS 1 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement for at least 12 months after the reporting date. The amendments, as issued in 2020, have removed the requirement for a right to be unconditional and instead require that a right to defer settlement must exist at the reporting date and have substance (the classification of liabilities is unaffected by management's intentions or expectations about whether the company will exercise its right to defer settlement or will choose to settle early). The amendments, as issued in 2022, further clarify that when the right to defer settlement is subject to a company complying with conditions (covenants) specified in a loan arrangement, only covenants with which the company must comply on or before the reporting date affect the classification of a liability as current or non-current. Covenants with which the company must comply after the reporting date do not affect a liability's classification at that date. However, the amendments require companies to disclose information about these future covenants to help users understand the risk that those liabilities could become repayable within 12 months after the reporting date.

The Group will analyse and disclose the impact of the said change after its implementation.

Amendments to IAS 7 „Statement of Cash Flows“ and IFRS 7 „ Financial Instruments: Disclosures Supplier Financial Arrangements “;

The amendments introduce additional disclosure requirements for a company to provide information about its supplier finance arrangements that would enable users (investors) to assess the effects of these arrangements on the company's liabilities and cash flows, and the company's exposure to liquidity risk. The amendments apply to supplier finance arrangements (also referred to as supply chain finance, payables finance or reverse factoring arrangements) that have all of the following characteristics:

- a finance provider (also referred to as the factor) pays amounts a company (the buyer) owes its suppliers;
- a company agrees to pay under the terms and conditions of the arrangements on the same date or at a later date than its suppliers are paid;
- the company is provided with extended payment terms or suppliers benefit from early payment terms, compared with the related invoice payment due date

However, the amendments do not apply to arrangements for financing receivables or inventory.

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

Amendments to IFRS 16 „Leases: Lease liability in a sale and leaseback“;

The amendments impact how a seller-lessee accounts for variable lease payments in a sale-and-leaseback transaction.

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

Amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates: Lack of exchangeability";

The amendments clarify the following: when a currency is exchangeable into another currency how a company estimates a spot rate when a currency lacks exchangeability. The amendments also include additional disclosure requirements to help users to assess the impact of using an estimated exchange rate on the financial statements The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

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

1.5. Consolidation (IFRS 10)

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

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

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

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

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

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

1.6. Business combinations (IFRS 3, IAS 36)

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

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

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

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

1.7. Investments in associates (IAS 28)

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

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

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

1.8. Joint ventures (IFRS 11)

In 2023, the Group invested in two joint ventures in Canada: Weston Limited Partnership and Elysium Isabella Limited Partnership. These joint ventures are accounted for using the equity method. Initially, the investment is recognised at cost in jointly controlled entities, which is then adjusted for changes in net assets that occurred after the acquisition in the jointly controlled entity. The Group's income statement includes the Group's share of the jointly controlled entity's profit or loss. Unrealised gains and losses from intra-group transactions are eliminated.

1.9. Property, plant and equipment (IAS 16)

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

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

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

The following estimated useful lives are applied:

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

Land and construction in progress are not depreciated.

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

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

1.10. Intangible assets (IAS 38, IAS 36)

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

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

The following estimated useful lives are applied:

- Licenses and software 2-5 years

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

Goodwill

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

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

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

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

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

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

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

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

1.12. Foreign currency

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

1.13. Inventories (IAS 2, IAS 23)

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

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

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

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

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

1.14. Financial instruments (IFRS 9, IAS 32)

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

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

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

An entity typically incurs various costs in issuing or acquiring its own equity instruments. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers and stamp duties. The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent that they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

Financial assets

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

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

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

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

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

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

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

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

Financial liabilities

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

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

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

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

Embedded derivatives

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

1.15. Provisions and contingent liabilities (IAS 37)

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

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

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

Contingent liabilities

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

1.16. Government grants (IAS 20)

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

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

1.17. Leases (IFRS 16)

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

Group as a lessee

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

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

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

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

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

The lease liability is measured as follows:

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

Group as a lessor

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

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

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

1.18. Revenue (IFRS 15)

The Group recognises revenue from the following major sources:

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

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

Revenues from sale of real estate

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

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

Revenue from project management services

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

Rental income

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

Revenue from other services

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

1.19. Operating segments (IFRS 15, IFRS 8)

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

The Group reports separate information about the following operating segments:

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

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

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

1.20. Income tax (IAS 12)

Corporate income tax in Estonia

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

Corporate income tax in Latvia

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

Corporate income tax in Canada

Foreign controlled corporations' resident in Canada are subject to Canadian corporate income tax on taxable income at a combined federal and provincial tax rate of 26.5%. Taxable income is calculated from the company's profit before income tax, adjusted in the income tax return by temporary and/or permanent adjustments under the Canadian Income Tax legislation. Dividends paid to foreign shareholders are subject to a treaty-reduced withholding tax rate of 5%.

Deferred income tax liability

Deferred income tax liability is recognised in respect to investments in subsidiaries, except if the Group can control the timing of the reversal of the taxable temporary differences and it is probable that the reversal will not occur in the foreseeable future. As the parent controls the payment of dividends, the sale or liquidation of an investment, and other transactions in subsidiaries, it can control the timing of the reversal of taxable temporary differences associated with these investments. Therefore, when the parent has determined that those profits will not be distributed in the foreseeable future, the parent does not recognise a deferred tax liability. If the parent company assesses that the dividend will be paid in the foreseeable future, the deferred income tax liability is measured to the extent of the planned dividend payment provided that, as at the reporting date, there are sufficient funds to pay the dividend and owner's equity on account of which to distribute profit in the foreseeable future.

1.21. Fair value measurement (IFRS 13)

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

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

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

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

Expected credit loss rate for current loan receivables, non-current loans and other non-current receivables is 0%, historical average of trade receivables as at 31 December 2023: 1.7% (31 December 2022: 3.0%). The impact on recoverability of receivables in a short perspective and in consideration of expected lifetime losses is estimated as insignificant at each statement of financial position date.

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

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

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

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

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

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

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

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

In thousands of euros	31.12.2023			31.12.2022		
	Carrying value	**Fair value**	**L**	**Carrying value**	**Fair value**	**L**
Assets						
Current assets						
Cash and cash equivalents	7,604	7,604	1	3,754	3,754	1
Trade and other receivables	1,544	1,544	3	1,731	1,731	3
Current loan receivables	311	311	3	0	0	3
Inventories	77,439	74,166	3	69,760	74,053	3
Total current assets	**86,898**	**83,625**		**75,245**	**79,538**	
Non-current assets						
Property, plant and equipment	162	162	3	232	232	3
Intangible assets	4	4	3	7	7	3
Financial investments	2,005	2,005	3	2	402	3
Investments in associated	0	0	3	1,086	1,086	3
Non-current loans	1,729	1,729	3	1,766	1,766	3
Other non-current receivables	203	203	3	30	30	3
Total non-current assets	**4,103**	**4,103**		**3,123**	**3,123**	
Total assets	**91,001**	**87,728**		**78,368**	**82,661**	
Liabilities and equity						
Current liabilities						
Loans and borrowings	40,600	40,600	3	22,565	22,565	3
Current lease liabilities	40	40	3	46	46	3
Prepayments from customers	2,620	2,620	3	3,054	3,054	3
Trade and other payables	7,188	7,188	3	4,007	4,007	3
Total current liabilities	**50,448**	**50,448**		**29,672**	**29,672**	
Non-current liabilities						
Loans and borrowings	16,305	16,305	3	26,015	26,015	3
Non-current lease liabilities	29	29	3	68	68	3
Other non-current liabilities	2,058	2,058	3	2,290	2,290	3
Total non-current liabilities	**18,392**	**18,392**		**28,373**	**28,373**	
Total liabilities	**68,840**	**68,840**		**58,045**	**58,045**	

1.22. Employee benefits (IAS 19)

The Group operates only short-term employee benefits (expected to be settled wholly before twelve months after the end of the reporting period in which the employees render services) such as salaries, and social security contribution; paid annual leave and sick leave; and bonuses. There are no special benefits, share-based payments or share options granted for the Group employees during the reporting periods or subsequent to the last statement of financial position dated 31 December 2023.

1.23. Related parties (IAS 24)

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

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

The Group considers key members of the management (supervisory and management board), their close relatives and entities under their control or significant influence as well as associated companies as related parties.

1.24. Earnings per share (IAS 33)

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

1.25. Events after the reporting period (IAS 10)

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

Notes to the consolidated financial statements

Note 2. Cash and cash equivalents

in thousands of euros	31.12.2023	31.12.2022
Bank accounts	7,604	3,754
Total cash and cash equivalents	**7,604**	**3,754**

Note 3. Trade and other receivables

in thousands of euros	31.12.2023	31.12.2022
Trade receivables	342	718
Allowance for doubtful receivables	0	-10
Net trade receivables	**342**	**708**
Prepayments		
Tax prepayments	**1,019**	**318**
Value added tax	1,019	317
Other taxes	0	1
Other prepayments for goods and services	110	279
Total prepayments	**1,129**	**597**
Other current receivables		
Interest receivables (Note 27)	6	1
Other current receivables	67	20
Escrow account	0	405
Total other current receivables	**73**	**426**
Total trade and other receivables	**1,544**	**1,731**

Note 4. Inventories

Inventories are accounted as ready for sale development projects once the project has been granted a usage permit. As of 31 December 2023, usage permits have been issued for the 4b Strēlnieku development projects in Riga, Liela 45 development project in Marupe and Meistri 14 development project in Tallinn.

As at 31 December 2023 the Group had 11 (31 December 2022: 26) unsold apartments, including 10 apartments in Riga, 4b Strēlnieku development project and 1 apartment in Liela 45 development project.

In addition, there are development projects ready for sale in Tallinn, Paevälja 11 and Nõmme tee 57 for which a usage permit has not been issued. As of 31 December 2023, in the Paevälja 11 project, there are 5 apartments and in the Nõmme tee 57, there are 18 apartments unsold with real right contracts.

As at 31 December 2023 changes in inventories as stated in cash flow statements have been adjusted by loan interest expense, which are capitalised in the amount of 2,738 thousand euros (31 December 2022: 1,842 thousand euros). Further information about paid interests is provided in the note 24.

Further information on inventories as collateral for bank loans is provided in Note10.

As of 31.12, the following development projects are reflected in inventories:

in thousands of euros				31.12.2023		31.12.2022	
Address	**Project company**	**Location**	**Segment**	**Carrying amount**	**Project status**	**Carrying amount**	**Project status**
Work in progress							
Paevälja 11, Tallinn	Hepsor PV11 OÜ	Estonia	Residential	598	E	909	E
Paevälja 11, Tallinn	Hepsor PV11 OÜ	Estonia	Residential	0	-	5,585	D
Paldiski mnt 227c, Tallinn	Hepsor 3Torni OÜ	Estonia	Residential	14,109	D	3,482	D
Narva mnt 150,150a,150b Tallinn	Hepsor N450 OÜ	Estonia	Residential/ Commercial	3,889	A	3,609	A
Manufaktuuri 5, Tallinn	Hepsor Phoenix 3 OÜ	Estonia	Residential/ Commercial	5,056	C	4,168	B
Manufaktuuri 7, Tallinn	Hepsor Phoenix 2 OÜ	Estonia	Residential/ Commercial	16,120	D	3,018	C
Tooma 2/Tooma 4 Tallinn	T2T4 OÜ	Estonia	Commercial	0	-	1,248	C
Lembitu 4, Tallinn	Hepsor L4 OÜ	Estonia	Commercial	3,153	C	2,954	C
Meistri 14, Tallinn	Hepsor M14 OÜ	Estonia	Commercial	0	-	3,193	D
Alvari 2/Paevälja 9, Tallinn	Hepsor Fortuuna OÜ	Estonia	Residential	1,657	A	1,657	A
Alvari 1, Tallinn	Hepsor A1 OÜ	Estonia	Residential	2,023	A	2,023	A
Kadaka tee 197, Tallinn	H&R Residentsid OÜ	Estonia	Residential	1,228	A	1,168	A
Manufaktuuri 12, Tallinn	Hepsor Phoenix 4 OÜ	Estonia	Residential	932	A	843	A
Nõmme tee 57, Tallinn	Hepsor N57 OÜ	Estonia	Residential	3,778	E	1,704	C
Vana-Tartu mnt 49, Tallinn	Hepsor VT49 OÜ	Estonia	Commercial	1,029	A		
Saules aleja 2, Riga	Hepsor SA2 SIA	Latvia	Residential	717	B	886	B
Liela 45, Marupe	Hepsor Marupe SIA	Latvia	Residential	0	-	7,766	D
Ranka Dambis 5, Riga	Hepsor RD5 SIA	Latvia	Residential	3,902	D	416	B
Ulbrokas 34, Riga	Hepsor U34 SIA	Latvia	Commercial	1,554	C	1,128	B
Braila 23, Riga	Hepsor Jugla SIA	Latvia	Residential	501	B	314	B
Gregora iela 2a, Riga	Hepsor Kvarta SIA	Latvia	Residential	0	-	10,125	D
Ganibu Dambis 17a, Riga	Hepsor Ganibu Dambis SIA	Latvia	Commercial	4,120	B	3,918	A
Jurmala Gatve, Riga	Hepsor JG SIA	Latvia	Residential	621	B	360	B
Smaidu, Dreilini	Riga Properties 4 SIA	Latvia	Commercial	4,046	A		
-other properties		Estonia		18	A	18	A
Total work in progress				**69,051**		**60,492**	
Finished real estate development							
Meistri 14, Tallinn	Hepsor Meistri 14 OÜ	Estonia	Commercial	7,667	E	4,026	E
Manufaktuuri 22, Tallinn (parkimiskohad)	Hepsor Phoenix OÜ	Estonia	Residential	16	E	16	E
Strēlnieku 4b, Riga	Hepsor S4B SIA	Latvia	Residential	603	E	1,106	E
Ulbrokas 30, Riga	Hepsor U30 SIA	Latvia	Commercial	0	E	4,120	E
Liela 45, Marupe	Hepsor Marupe SIA	Latvia	Residential	102	E		
Total finished real estate development				**8,388**		**9,268**	
Total inventories				**77,439**		**69,760**	

Project statuses are classified as follows:

in thousands of euros	31.12.2023	31.12.2022	Change %
A – planning proceedings	14,822	13,236	12
B – building permit proceedings	5,959	7,272	-18
C – building permit available / construction has not yet started	9,763	8,924	9
D – construction started / sale started	34,131	30,151	13
E – construction ready for sale	12,764	10,177	15
Total inventories	**77,439**	**69,760**	**11**

Note 5. Property, plant and equipment

in thousands of euros	Buildings and structures	Machinery and equipment	Other items	Total
2023				
Cost at 31.12.2022	246	58	153	457
Accumulated depreciation at 31.12.2022	-114	-2	-109	-225
Carrying amount at 31.12.2022	**132**	**56**	**44**	**232**
New lease contracts	94	0	0	**94**
Acquisition	10	0	14	**24**
Depreciation	-153	-12	-23	**-188**
Termination of lease contracts	-94	0	0	**-94**
Write-off of accumulated depreciation from terminations of lease contracts	94	0	0	**94**
Write-off of acquisition cost	0	0	-10	**-10**
Write-off of accumulated depreciation	0	0	10	**10**
Cost at 31.12.2023	256	58	157	**471**
Accumulated depreciation at 31.12.2023	-173	-14	-122	**-309**
Carrying amount at 31.12.2023	**83**	**44**	**35**	**162**
2022				
Cost at 31.12.2021	248	23	135	**406**
Accumulated depreciation at 31.12.2021	-79	-6	-92	**-177**
Carrying amount at 31.12.2021	**169**	**17**	**43**	**229**
New lease contracts	0	58	0	**58**
Acquisition	76	0	24	**100**
Depreciation	-113	-12	-23	**-148**
Termination of lease contracts	-78	0	0	**-78**
Write-off of accumulated depreciation from terminations of lease contracts	78	0	0	**78**
Write-off of acquisition cost	0	0	-6	**-6**
Write-off of accumulated depreciation	0	0	6	**6**
Acquisition cost of property, plant and equipment sold	0	-23	0	**-23**
Accumulated depreciation of property, plant and equipment sold	0	16	0	**16**
Cost at 31.12.2021	246	58	153	**457**
Accumulated depreciation at 31.12.2022	-114	-2	-109	**-225**
Carrying amount at 31.12.2022	**132**	**56**	**44**	**232**

The lease agreement of an office in Riga is recorded in the asset class of buildings and structures. The term of the lease agreement for the Riga office is October 2024. In Riga the Group subleases assets under operating leases to a related party. In 2023, the income from rent amounted to 29 thousand euros (2022: 20 thousand euros). The sublease of the operating lease is recorded in a simplified manner as other operating income and other operating expenses (note 22).

Note 6. Intangible assets

in thousands of euros	**Licenses and software**
2023	
Carrying amount at 31.12.2022	**7**
Acquisition	2
Depreciation	-5
Write-off of acquisition cost	-3
Write-off of accumulated depreciation	3
Cost at 31.12.2023	7
Accumulated depreciation at 31.12.2023	-3
Carrying amount at 31.12.2023	**4**
2022	
Carrying amount at 31.12.2021	**0**
Acquisition	8
Depreciation	-1
Cost at 31.12.2022	8
Accumulated depreciation at 31.12.2022	-1
Carrying amount at 31.12.2022	7

Note 7. Financial investments

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

In 2023, the Group invested in two joint ventures in Canada: Weston Limited Partnership and Elysium Isabella Limited Partnership. These joint ventures are accounted for using the equity method. As of December 31, 2023, the acquisition cost of the Weston Road project investment was 1,458 thousand euros, and the acquisition cost of the Elysium Isabella project investment was 527 thousand euros. Using the equity method, a financial income of 18 thousand euros was obtained from the Weston Road project (Note 23).

Note 8. Other non-current receivables

in thousands of euros	**31.12.2023**	**31.12.2022**
Interest receivables (Note 27)	154	30
Other non-current receivables	49	0
Total	**203**	**30**

Note 9. Loans granted

in thousands of euros	Owner of non-controlling interest	Unrelated legal entities	Related legal entities	Total
2023				
Loan balance as at 31.12.2022				
-non-current portion	0	0	1,766	**1,766**
Total loan balance as at 31.12.2022	**0**	**0**	**1,766**	**1,766**
Loan granted	311	0	0	**311**
Actual interest rate impact	0	0	-37	**-37**
Total loan balance as at 31.12.2023	**311**	**0**	**1,729**	**2,040**
-current portion	311	0	0	**311**
-non-current portion	0	0	1,729	**1,729**
contractual/effective interest rate per annum	3%	-	7%	
2022				
Loan balance as at 31.12.2021				
-current portion	2,109	0	279	**2,388**
-non-current portion	0	1,100	2,308	**3,408**
Total loan balance as at 31.12.2021	**2,109**	**1,100**	**2,587**	**5,796**
Loan granted	0	0	176	**176**
Loan collected	-29	-1,100	-997	**-2,126**
Division of subsidiary	-2,080	0	0	**-2,080**
Total loan balance as at 31.12.2022	**0**	**0**	**1,766**	**1,766**
-non-current portion	0	0	1,766	**1,766**
contractual/effective interest rate per annum	0-3%	0%	7%-12%	

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

In December 2021, the shareholders of Hepsor P26b OÜ approved the resolution of division of the company, based on which in 2022 Hepsor P26b OÜ transferred assets to minority shareholders in the amount of 2,098 thousand euros. Of this, 2,080 thousand euros as loan receivable. Additional information is available in Note 14.

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

Note 10. Loans and borrowings

in thousands of euros	Bank loans	Unrelated legal entities	Related legal entities (Note 32)	Total
2023				
Loan balance as of 31.12.2022				
- current portion	17,040	3,352	2,173	**22,565**
- non-current portion	13,089	12,793	133	**26,015**
Total loan balance as of 31.12.2022	**30,129**	**16,145**	**2,306**	**48,580**
Received	30,335	8,988	1,089	**40,412**
Repaid	-24,310	-5,007	-1,500	**-30,817**
Reclassified as a Group loan	0	0	-512	**-512**
Actual interest rate impact	155	-607	0	**-452**
Compound interest rate	0	-306	0	**-306**
Loan balance as of 31.12.2022	**36,309**	**19,213**	**1,383**	**56,905**
- current portion	34,372	4,845	1,383	**40,600**
- non-current portion	1,937	14,368	0	**16,305**
Contractual interest rate per annum	*EU6+3.75%-8%; 5.5%*	*0-12%*	*12%*	
Effective interest rate per annum	*7.6%*	*5.4%-11.8%*	-	
2022				
Loan balance as of 31.12.2021				
- current portion	2,821	2,680	0	**5,501**
- non-current portion	8,130	12,901	1,831	**22,862**
Total loan balance as of 31.12.2021	**10,951**	**15,581**	**1,831**	**28,363**
Received	27,655	3,773	464	**31,892**
Repaid	-8,287	-3,316	-69	**-11,672**
Actual interest rate impact	-190	-247	75	**-362**
Compound interest rate	0	354	5	**359**
Loan balance as of 31.12.2022	**30,129**	**16,145**	**2,306**	**48,580**
- current portion	17,040	3,352	2,173	**22,565**
- non-current portion	13,089	12,793	133	**26,015**
Contractual interest rate per annum	*6M Euribor+3.75%-8%; 5.5%*	*0-12%*	*3%-12%*	
Effective interest rate per annum	*7.6%-12.3%*	*5.3%-12.2%*	*12.2%*	

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The adjustment in change in inventories in the cash flow statement of the reporting period arising from capitalising the actual interest rate impact on loans as part of the cost of the inventories amounted to 1,120 thousand euros (2022: 254 thousand euros) and the adjustment in the interest paid due to the effect of actual and compound interest amounted to 272 thousand euros (2022: 360 thousand euros).

Additional information on cash flows is provided in Note 27.

As of 31 December 2023, 87% (31 December 2022: 89%) of all loans granted to the Group have been received against the risk of development projects.

in thousands of euros	Bank loans	Unrelated legal entities	Related legal entities	Total
Balance as of 31.12.2023				
Loans for development projects	30,309	18,003	1,383	**49,695**
Loans to headquarters to finance development projects	6,000	1,210	0	**7,210**
Total	**36,309**	**19,213**	**1,383**	**56,905**
Balance as of 31.12.2022				
Loans for development projects	24,635	16,145	2,306	**43,086**
Loans to headquarters to finance development projects	5,494	0	0	**5,494**
Total	**30,129**	**16,145**	**2,306**	**48,580**

As of 31 December 2023, the Group had the following bank loans under the following conditions:

Lender	Country	Loan balance	Contract term	Loan limit	Interest per annum	Collateral	Cost value of the collateral (Note 4)	Guarantee given
LHV Pank AS	Estonia	4,784	2024	4,900	6M Euribor+3.75%	Mortgage - Meistri 14, Tallinn	7,667	-
LHV Pank AS	Estonia	1,300	2025	1,300	6M Euribor+8%	Mortgage - Lembitu 4, Tallinn	3,153	-
LHV Pank AS	Estonia	9,622	2025	13,900	6M Euribor+5.9%	Mortgage - Paldiski mnt 227c, Tallinn	14,109	-
LHV Pank AS	Estonia	1,508	2026	3,006	6M Euribor+6.5%	Mortgage- Nõmme tee 57, Tallinn	3,778	-
LHV Pank AS	Estonia	8,524	2026	17,500	6M Euribor+8%	Mortgage- Manufaktuuri 7 and Manufaktuuri 12, Tallinn	16,120	-
Coop Pank AS	Estonia	109	2025	1,504	6M Euribor+6%	Mortgage- Paevälja 11, Tallinn	598	150
Bigbank AS	Latvia	1,937	2025	2,000	6M Euribor+4.5%	Mortgage -Ganību dambis 17A Riia; Commercial pledge	4,120	-
Bigbank AS	Latvia	2,526	2026	4,000	6M Euribor+5.2%	Mortgage- Ranka Dambis 5, Riia	3,902	1,200
Bigbank AS	Latvia	0	2026	4,000	6M Euribor+5.2%	Mortgage- Jurmala Gatve 74, Riia	621	1,000

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

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

On March 12, 2024, the loan agreement deadline was extended for two years, and the loan limit was increased to 9 million euros.

Hepsor M14 OÜ did not comply with the condition stated in the LHV loan agreement, according to which the loan coverage ratio DSCR must be at least 1.2 for all interest-bearing liabilities starting from the II quarter of 2023. The loan was extended for three years in March 2024, and in the annex to the loan agreement, the bank confirmed that it is aware of the borrower's non-fulfillment of the DSCR condition in 2023 and has decided not to impose a one-time sanction for violations prior to the agreement to extend the loan agreement.

In addition to bank loans, a joint mortgage has been established as collateral for unrelated legal entities on behalf of Hepsor N450 OÜ in the amount of 2.1 million euros and Riga 4 Properties SIA in the amount of 2.75 million euros until the loan obligations are fulfilled.

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

As of 31 December 2022, the Group had the following bank loans under the following conditions:

Lender	Country	Loan balance	Contract term	Loan limit	Interest per annum	Collateral	Cost value of the collateral (Note 4)	Guarantee given
LHV Pank AS	Estonia	2,655	2023	8,605	6M Euribor+4.5%	Mortgage - Paevälja pst 11, Lageloo 3//5, Lageloo 7, Tallinn	6,495	-
LHV Pank AS	Estonia	4,483	2024	4,900	6M Euribor+3.75%	Mortgage - Meistri 14, Tallinn	7,220	-
LHV Pank AS	Estonia	1,254	2025	1,300	6M Euribor+8%	Mortgage - Lembitu 4, Tallinn	2,953	-
LHV Pank AS	Estonia	0	2025	13,900	6M Euribor+5.9%	Mortgage - Paldiski mnt 227c, Tallinn	3,477	-
Bigbank AS	Latvia	4,822	2025	7,000	5.5%	Mortgage-Liela 45, Mārupe	7,766	-
Bigbank AS	Latvia	828	2024	1,225	6M Euribor+4.5%	Commercial pledge; Mortgage-Strēlnieku 4b, Riga	1,106	-
Bigbank AS	Latvia	2,650	2024	2,650	5.5%	Mortgage - Ulbrokas 30, Riga, Commercial pledge	4,120	500
Bigbank AS	Latvia	5,958	2025	7,500	5.5%	Mortgage – Gregora 2a, Riga	10,125	423
Bigbank AS	Latvia	1,985	2025	2,000	6M Euribor+4.5%	Mortgage -Ganību dambis 17A, Riga; Commercial pledge	3,918	-

Note 11. Lease liabilities

in thousands of euros	Right to use lease liabilities	Finance lease liabilities	Total
2023			
Balance as at 31.12.2022			
- current portion	36	10	**46**
- non-current portion	30	38	**68**
Total lease liabilities balance as at 31.12.2022	**66**	**48**	**114**
New lease contracts	94	0	**94**
Repaid	-130	-9	**-139**
Total lease liabilities balance as at 31.12.2023	**30**	**39**	**69**
- current portion	30	10	**40**
- non-current portion	0	29	**29**
2022			
Balance as at 31.12.2021			
- current portion	112	11	**123**
- non-current portion	61	5	**66**
Total lease liabilities balance as at 31.12.2021	**173**	**16**	**189**
New lease contracts	0	58	**58**
Repaid	-107	-26	**-133**
Total lease liabilities balance as at 31.12.2022	**66**	**48**	**114**
- current portion	36	10	**46**
- non-current portion	30	38	**68**

Note 12. Trade and other payables and prepayments

in thousands of euros	31.12.2023	31.12.2022
Prepayment from customers	**2,620**	**3,054**
Trade payables	**2,961**	**1,906**
Tax payables		
Value added tax	503	910
Personal income tax	32	28
Social security tax	55	51
Other taxes	7	5
Total tax payables	**597**	**994**
Accrued expenses		
Payables to employees	116	109
Interest payables (Note 27)	1,020	552
Other accrued expenses	52	35
Total accrued expenses	**1,188**	**696**
Other current payables		
Embedded derivatives (Note 14)	2,061	8
Other payables	381	403
Total other current payables	**2,442**	**411**
Total trade and other payables	**9,808**	**7,061**

Advance payments received on the basis of contracts under law and obligations and apartments reservation contracts are recorded as a prepayment from customers.

Note 13. Other non-current liabilities

in thousands of euros	31.12.2023	31.12.2022
Interest payables (Note 27)	1,648	1,652
Other non-current payables	410	638
Total other non-current liabilities	**2,058**	**2,290**

Other non-current liabilities include the Group's commitment to finance the construction of a kindergarten for the city of Tallinn at the Manufaktuuri Quarter development project. The liability in the amount of 335 thousand euros is measured in present value (31.12.2022: 624 thousand euros) using a 5% discount rate (31.12.2022: 5%). As of 31 December 2023, the book value of the liability amounted to 363 thousand euros (31.12.2022: 566 thousand euros).

Note 14. Embedded derivatives

Liabilities assumed by the Group to minority shareholders in accordance with the concluded shareholders’ agreements are recognized recognised 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 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	31.12.2023	31.12.2022
Current liabilities arising from embedded derivatives balance as at 01.01	**8**	**2,115**
Settlements with shareholder loan arising from the division agreement:		
Residential development project in Pirita tee 26b, Tallinn (Note 9)	0	-2,080
Commercial development project in Tooma 2/Tooma 4, Tallinn	311	0
Residential development project in Gregora iela 2a, Riga	1,025	0
Residential development project in Liela 45, Marupe	725	0
Commercial development project in Meistri 14, Tallinn	-8	0
Dividends paid		
Residential development project Mõigu tee 11, Rae	0	-37
Total change in liabilities arising from embedded derivatives	**2,053**	**-2,117**
Change in the value of the embedded derivative of the non-controlling interest during the reporting year		
Commercial development project in Tooma 2/Tooma 4, Tallinn	-311	0
Residential development project in Gregora iela 2a, Riga	-1,025	0
Residential development project in Liela 45, Marupe	-725	0
Residential development project in Pirita tee26b, Tallinn	0	-17
Residential development project in Mõigu tee 11, Rae	0	35
Commercial development project in Meistri 14, Tallinn	8	-8
Total change in the value of embedded derivatives of the non-controlling interest for the reporting year	**-2 053**	**10**
Total current liabilities arising from embedded derivatives (Note 12)	**2 061**	**8**

In 2022, according to shareholders agreements the profit is shared with minority shareholders in the form as it is agreed in the agreement. Pursuant to the division agreement entered into between the shareholders of Hepsor P26b OÜ the loan granted by the Group to the shareholders was settled with the liability arising from embedded derivatives in the amount of 2,080 thousand euros.

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

Note 15. Equity

According to the articles of association of Hepsor AS, the minimum share capital of the company is 3 million euros, and the maximum share capital is 12 million euros. As of 31 December 2023, the share capital of Hepsor AS was 3,855 thousand euros (31.12.2022: 3,855 thousand euros). The company had 3,854,701 shares with a nominal value of 1 euro.

On November 8, 2021, the general meeting of shareholders decided to list the shares of Hepsor AS on the main list of the Nasdaq Tallinn Stock Exchange and to issue up to 854,701 shares at an offer price of 11.70 euros, of which 1 euro was the nominal value and 10.70 was the share premium. The share premium was adjusted by the expenses incurred from the issuance and listing of new shares. As of December 31, 2023, the share premium amounted to 8,917 thousand euros (as of December 31, 2022: 8,917 thousand euros).

According to the Estonian Commercial Code, companies are required to establish a mandatory reserve capital. Each financial year, the reserve capital must be increased by at least 1/20 of the net profit until the reserve capital reaches 1/10 of the share capital amount. At the shareholders' general meeting of Hepsor AS held on May 25, 2023, it was decided to allocate the mandatory reserve capital at 1/10 of the share capital, amounting to 385 thousand euros from the net profit of 2022.

In 2023, the shareholders of Hepsor M14 OÜ decided to establish a voluntary reserve. The minority shareholders of Hepsor M14 OÜ converted their interest claims into the voluntary reserve in the amount of 125 thousand euros.

In 2022 Hepsor Peetri OÜ paid dividends to minority shareholders in the amount of 29 thousand euros.

Note 16. Contingent liabilities

16.1. Contingent liabilities arising from embedded derivatives

In accordance with the shareholders agreements between the Group and minority shareholders of subsidiaries (SPV's), the Group has an obligation as of 31 December 2023 to pay 11,535 thousand euros (31 December 2022: 12,904 thousand euros) to the minority shareholders upon realisation of the business plan. The obligation amounts are estimations calculated based on current business plans for the development projects as of the 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 2023, the realisation time of contingent liabilities remains between 2023 and 2027.

16.2 Based on the investor agreement signed in December 2022 regarding the 4b Strēlnieku development project, the investor will be paid interest depending on how successful the project is upon its completion. In the opinion of the Group's management, there is certain uncertainty arising from the macroeconomic environment both in terms of the interest depending on the success of the project and the time when the payment obligation arises, therefore it is not possible to reliably determine the amount of the interest obligation. As of 31.12.2023, there are still 10 apartments unsold in the development project.

16.3. Group guarantees given

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

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

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

Note 17. Revenue

in thousands of euros	2023	2022
Revenue from sale of real estate	39,520	11,750
Revenue from project management services	88	145
Revenue from rent	1,270	771
Revenue from other services	257	204
Total	**41,135**	**12,870**

In 2023, 33,3 million euros (2022: 9,9 million euros) were earned, which is 84% (2022: 84%) of real estate sales from private clients. In 2023, 274 (2022: 85) apartments were sold, of which 215 in Latvia (2022: 45) and 59 in Estonia (2022: 40). In addition, in April, the plots of Tooma 2, Tooma 4 and Tooma 6 in Tallinn were sold to Kaamos SPV 1 OÜ, a company belonging to the Kaamos Group.

Revenue by geographical area:

in thousands of euros	2023	2022
Estonia	13,612	6,817
Latvia	27,523	6,053
Total	**41,135**	**12,870**

Revenue by operating segments:

in thousands of euros	2023	2022
Residential real estate	37,705	11,069
Commercial real estate	3,342	1,654
Headquarters	88	147
Total	**41,135**	**12,870**

Additional information on operating and geographical segments is provided in Note 28.

Note 18. Cost of sales

in thousands of euros	2023	2022
Cost of real estate sold	-31,493	-9,165
Personnel expenses (Note 21)	-1,006	-770
Interest expenses (Note 24)	-513	-218
Depreciation	-31	-32
Other costs	-1,024	-911
Total	**-34,067**	**-11,096**

Note 19. Marketing expenses

in thousands of euros	2023	2022
Personnel expenses (Note 21)	-128	-117
Depreciation	-46	0
Other marketing expenses	-402	-329
Total	**-576**	**-446**

Note 20. Administrative expenses

in thousands of euros	2023	2022
Personnel expenses (Note 21)	-847	-643
Depreciation	-117	-110
Travelling and transport expenses	-72	-49
Purchased service expenses	-360	-246
Office expenses	-11	-45
Other administrative expenses	-65	-2
Total	**-1,472**	**-1,095**

Note 21. Personnel expenses

in thousands of euros	2023	2022
Salaries	-1,455	-1,054
Social security and other payroll taxes	-526	-476
Total (Notes 18, 19, 20)	**-1,981**	**-1,530**

As of 31 December 2023, the Group, together with the members of the Management Board and the Supervisory Board, had 26 (31.12.2022: 25) employees, of which 13 in Estonia (31.12.2022: 13) and 13 in Latvia (31.12.2022: 12).

The average number of employees of the Group in 2023 was 20 (2021: 18), of which 9 were in Estonia (2022: 9) and 11 were in Latvia (2022: 9).

Gross fees paid to the members of Management and Supervisory Boards during the twelve months of 2023 amounted to 363 thousand euros (12M 2022: 325 thousand euros).

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

Note 22. Other operating income and expenses

Other operating income

in thousands of euros	2023	2022
Fines and compensations	9	4
Sublease income (Note 5)	29	20
Profit from the sale of property, plant and equipment	0	18
Other operating income	128	28
Total	**166**	**70**

Other operating expenses:

in thousands of euros	2023	2022
Loss from doubtful accounts receivable	-29	-4
Sublease expenses (Note 5)	-29	-20
Other operating expenses	-94	-44
Total	**-152**	**-68**

Note 23. Financial income

in thousands of euros	2023	2022
Interest income (Note 27)	163	183
Profit from associates of equity method	0	1,086
Profit from a financial investment of equity method (Note 7)	18	0
Profit from the sale of a subsidiary	980	0
Other financial income from financial investment	0	460
Financial income from discounting	2	160
Profit from exchange rate changes	29	0
Total	**1,192**	**1,889**

In 2023, the Group earned 980 thousand euros from the sale of the subsidiary Hepsor U30 SIA to the East Capital Real Estate IV real estate fund, of which 595 thousand euros from this sale of shares and the realised profit of the project was 385 thousand euros.

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

Note 24. Financial expenses

in thousands of euros	2023	2022
Interest expenses (Note 27)	-1,920	-717
Loss from associates of equity method (Note 31)	-567	0
Financial expenses from discounting	-146	-29
Loss from exchange rate changes	-98	0
Other financial expenses	-15	-41
Total	**-2,736**	**-787**

In 2023 borrowing costs in the amount of 2,738 thousand euros (2022: 1,842 thousand euros) have been capitalised as the cost of inventories (Note 4). Interest expenses of 513 thousand euros have been recognised in the cost of sales in 2023 (2022: 218 thousand euros) (Note 18).

The actual interest rate has been used for discounting long-term financial receivables and liabilities.

Note 25. Corporate income tax and deferred income tax

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

The Group's dividend policy considers the Group's growth ambition, capital need for development projects, financial position, liquidity ratios, and other factors. Based on the 2024 forecast, dividend payments are not expected as most of the Group's development projects are in the active pipeline and need further investments. The Group reinvests all expected profits to further support the Group's growth.

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

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

Note 26. Earnings per share

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

	2023	2022
Profit for the year attributable to owners of the parent (thousands of euros)	1,185	1,396
Weighted average number of ordinary shares (thousand pcs)	3,855	3,855
Basic earnings per share (euros)	0.31	0.36
Diluted earnings per share (euros)	0.31	0.36

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

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

in thousands of euros	**2023**	**2022**
Inventories		
Reclassification of cash flows from financing activities to operating activities (Note 4)	2,738	1,842
Decrease (-)/ increase (+) of change inventories balances (Note 4)	-7,679	-32,523
Realised profit from the sale of the subsidiary	385	0
Effective interest rate impact (Note 10)	-1,120	-254
Change in inventories	**-5,676**	**-30,935**
Interest paid		
Interest expense in statement of profit or loss and other comprehensive income (Note 24)	-1,920	-717
Reclassification of cash flows from financing activities to operating activities (Note 24)	-2,738	-1,842
Decrease (-)/ increase (+) of interest payables (Notes 12,13)	464	1,049
Compound interest rate impact (Note 10)	272	360
Interest paid	**-3,922**	**-1,150**
Interest received		
Interest income in statement of profit or loss and other comprehensive income (Note 23)	163	183
Decrease (+)/increase (-) (Notes 3,8)	-129	141
Interest received	**34**	**324**

Note 28. Operating segments

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

The Group reports separate information about the following operating segments:

- ✓ Residential real estate;
- ✓ Commercial real estate;
- ✓ Headquarters.

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

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

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**		
2023	**Estonia**	**Latvia**	**Canada**	**Estonia**	**Latvia**	**Estonia**	**Latvia**	**Total**
Revenue	10,733	26,972	0	2,792	550	87	1	**41,135**
incl. revenue from rent	109	80	0	551	530	0	0	**1,270**
Operating profit	1,974	4,692	-25	1,350	310	-2,103	-1,163	**5,035**
Assets	48,041	8,689	2,180	15,569	10,259	6,045	218	**91,001**
Liabilities	37,058	5,675	3	11,379	5,797	7,579	1,349	**68,840**

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

Additional information on sales revenue is provided in Note 17.

Note 29. Subsidiaries

	Ownership and voting rights %			
	31.12.2023	31.12.2022	Location	Segment
Hepsor Finance OÜ	100	100	Estonia	Headquarter
Hepsor Tooma OÜ	100	100	Estonia	Commercial development
Hepsor Kadaka OÜ	100	100	Estonia	Residential development
Hepsor Phoenix OÜ	100	100	Estonia	Residential development
Hepsor Peetri OÜ	100	100	Estonia	Residential development
Hepsor V10 OÜ	100	100	Estonia	Residential development
Hepsor Latvia OÜ	80	80	Estonia	Headquarter
Hepsor L4 OÜ	100	100	Estonia	Commercial development
Hepsor P26 OÜ	100	100	Estonia	Residential development
T2T4 OÜ	50	50	Estonia	Commercial development
Hepsor Phoenix 2 OÜ	50	50	Estonia	Residential/ Commercial development
Hepsor Phoenix 3 OÜ	50	50	Estonia	Residential/ Commercial development
Hepsor PV 11 OÜ	100	100	Estonia	Residential development
Hepsor M14 OÜ	51	51	Estonia	Commercial development
Hepsor 3Torni OÜ	51	51	Estonia	Residential development
Hepsor N450 OÜ	100	100	Estonia	Residential/ Commercial development
H&R Residentsid OÜ	50	50	Estonia	Residential development
Hepsor Fortuuna OÜ	100	100	Estonia	Residential development
Hepsor A1 OÜ	100	100	Estonia	Residential development
Hepsor Phoenix 4 OÜ	50	50	Estonia	Residential development
Hepsor N57 OÜ	100	100	Estonia	Residential development
Hepsor N170 OÜ	100	25	Estonia	Residential development
Hepsor VT49 OÜ	50	-	Estonia	Commercial development
Hepsor M7 OÜ	100	-	Estonia	Headquarter
Hepsor Kanada OÜ	100	100	Estonia	Headquarter
Kanada SPV1 OÜ	100	-	Estonia	Headquarter
Hepsor SPV Ltd	100	-	Canada	Residential development
Hepsor Kvarta Holding OÜ	40	40	Estonia	Headquarter
Hepsor Bal 9 OÜ	57	57	Estonia	Headquarter
Hepsor Bal 9 SIA	57	57	Latvia	Residential development
Hepsor Bal 7 SIA	100	100	Latvia	Residential development
Hepsor Agen24 SIA	100	100	Latvia	Residential development
Hepsor SIA	80	80	Latvia	Headquarter
Hepsor Marupe SIA	40	40	Latvia	Residential development
Hepsor U30 SIA	-	80	Latvia	Commercial development
Hepsor S4B SIA	100	100	Latvia	Residential/ Commercial development
Hepsor SA2 SIA	41	41	Latvia	Residential development
Hepsor RD 5 SIA	80	80	Latvia	Residential development
Hepsor U34 SIA	56	56	Latvia	Commercial development
Hepsor JG SIA	80	80	Latvia	Residential development
Hepsor Jugla SIA	80	80	Latvia	Residential development
Hepsor Ganibu Dambis SIA	80	80	Latvia	Commercial development
Kvarta SIA	40	40	Latvia	Residential development
Riga Properties 4 SIA	40	-	Latvia	Commercial development

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

In 2023, the following structural changes took place in the Group:

- ✓ On 23 January 2023, Hepsor Latvia OÜ acquired a 29% shareholding in Hepsor BAL9 OÜ, bringing its shareholding in the subsidiary up to 100%. The share repurchase agreement was concluded in connection with the completion of the Balozu 9 residential development project in Riga.
- ✓ Hepsor Kanada OÜ established a subsidiary, Hepsor Kanada SPV 1 OÜ, in April. Hepsor Kanada SPV 1 OÜ, in turn, established a subsidiary in Canada, Hepsor SPV I Ltd. In June and September 2023, Hepsor's Canadian subsidiary, Hepsor SPV I Ltd, entered into partnership agreements for the development of the Weston and Isabella properties in Toronto.
- ✓ Hepsor Latvia OÜ, a subsidiary of Hepsor AS, sold the shares of Hepsor U30 SIA based on a sales contract signed on 10 May 2023.
- ✓ In August 2023, Hepsor AS acquired the minority shares, becoming the sole owner of Hepsor N170 OÜ.
- ✓ In August 2023, Hepsor Latvia OÜ acquired a 50% stake in the company SIA 'Riga Properties 4.
- ✓ In October, Hepsor AS established a subsidiary, Hepsor VT49 OÜ, with a 50% ownership interest, which acquired two properties in Rae Parish on November 3, 2023.
- ✓ In December, Hepsor AS established a subsidiary, Hepsor M7 OÜ.
- ✓ In December 2023, Hepsor Latvia OÜ increased share capitals in Hepsor U34 SIA, Hepsor RD5 SIA, and Hepsor JG SIA by 354 thousand euros, of which 70 thousand euros belong to the minority shareholder of Hepsor Latvia OÜ. The minority shareholder of Hepsor U34 SIA increased the share capital by 36 thousand euros.

Changes in Group structure in 2023 and impact on comprehensive income and cash flows:

in thousands of euros	Other comprehensive income		Cash flow	
	Comprehensive income attributable to owners of the parent	Comprehensive income attributable to non-controlling interest	Net cash flow from the sale of subsidiary	Cashflow in from acquisitions of subsidiaries
Changes related to the change of ownership				
Hepsor Bal 9 OÜ	-11	11	-	-
Hepsor Bal 9 SIA	-3	3	-	-
Hepsor U30 SIA	54	14	595	-
Hepsor U34 SIA	-17	53	-	-
Hepsor RD5 SIA	-30	30	-	-
Hepsor JG SIA	-23	23	-	-
Riga 4 Properties SIA	-35	210	-	330
Hepsor N170 OÜ	7	0	-	36
Total	**-58**	**344**	**595**	**366**

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

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

Note 30. Non-controlling interest

As of 31 December 2023, the Group had 22 (31.12.2022: 21) companies with non-controlling holdings.

	Non-controlling interest and voting rights at %		*Project statuses			
Company	**31.12.2023**	**31.12.2022**	**31.12.2023**	**31.12.2022**	**Location**	**Segment**
Hepsor Bal 9 OÜ	43	43	-	-	Estonia	Headquarter
Hepsor Bal9 SIA	43	43	-	-	Latvia	Residential development
Hepsor T2T4 OÜ	50	50	-	C	Estonia	Commercial development
Hepsor Phoenix 2 OÜ	50	50	D	C	Estonia	Residential development
Hepsor Phoenix 3 OÜ	50	50	C	B	Estonia	Residential development
Hepsor M14 OÜ	49	49	E	E, D	Estonia	Commercial development
Hepsor 3 Torni OÜ	49	49	D	D	Estonia	Residential development
Hepsor SA2 SIA	59	59	B	B	Latvia	Residential development
Hepsor Latvia OÜ	20	20	-	-	Estonia	Headquarter
H&R Residentsid OÜ	50	50	A	A	Estonia	Residential development
Hepsor U34 SIA	44	44	C	B	Latvia	Commercial development
Hepsor RD5 SIA	20	20	D	B	Latvia	Residential development
Hepsor U30 SIA	-	20	-	E	Latvia	Commercial development
Hepsor SIA	20	20	-	-	Latvia	Headquarter
Hepsor Marupe SIA	60	60	E	D	Latvia	Residential development
Hepsor Phoenix 4 OÜ	50	50	A	A	Estonia	Residential development
Hepsor JG SIA	20	20	B	B	Latvia	Residential development
Hepsor Jugla SIA	20	20	B	B	Latvia	Residential development
Hepsor Ganibu Dambis SIA	20	20	B	A	Latvia	Commercial development
Kvarta Holding OÜ	60	60	-	-	Estonia	Headquarter
Kvarta SIA	60	60	-	D	Latvia	Residential development
Hepsor VT49 OÜ	50	-	A	-	Estonia	Commercial development
Riga Properties 4 SIA	60	-	A	-	Latvia	Commercial development

*Project statuses are classified as follows:

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

Financial information for subsidiaries with non-controlling interest:

in thousands of euros	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Net profit for the year	Comprehensive income (-loss)
Company	**Balance as of 31.12.2023**					**2023**	
Hepsor Bal 9 OÜ	7	3	0	0	10	20	20
Hepsor Bal9 SIA	47	0	7	0	40	-18	-18
Hepsor T2T4 OÜ	635	0	311	0	324	634	315
Hepsor Phoenix 2 OÜ	17,671	0	17,745	63	-137	-163	-163
Hepsor Phoenix 3 OÜ	5,550	0	99	5,383	68	4	4
Hepsor M14 OÜ	8,018	43	8,511	74	-523	-845	-837
Hepsor 3Torni OÜ	14,466	0	11,310	3,226	-70	-51	-51
Hepsor SA2 SIA	729	0	1	753	-25	0	0
Hepsor Latvia OÜ	970	6,102	404	5,344	1,324	278	278
H&R Residentsid OÜ	1,371	0	0	1,368	3	0	0
Hepsor U34 SIA	1,829	0	18	1,517	294	-24	-24
Hepsor RD5 SIA	4,213	0	4,081	0	132	-73	-73
Hepsor SIA	304	1,162	1,692	0	-226	-59	-59
Hepsor Marupe SIA	1,763	0	42	0	1,721	1,503	778
Hepsor Phoenix 4 OÜ	1,115	0	55	1,050	10	8	8
Hepsor JG SIA	814	0	185	465	164	-36	-36
Hepsor Jugla SIA	940	0	4	616	320	-24	-24
Hepsor Ganibu Dambis SIA	4,722	0	88	4,010	624	118	118
Kvarta Holding OÜ	0	0	0	0	0	0	0
Kvarta SIA	2,095	0	49	0	2,046	2,783	1,758
Hepsor VT49 OÜ	1,075	0	0	1,073	2	0	0
Riga Properties 4 SIA	4,361	0	28	3,984	349	0	0

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

Note 31. Associates

In August 2023, Hepsor AS acquired the majority stake in Hepsor N170 OÜ, becoming 100% owner of the company. The entry in the Commercial register was made on 21.08.2023.

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

	Ownership and voting rights %	
	31.12.2023	**31.12.2022**
Hepsor P113 OÜ	45	45
Hepsor N170 OÜ	-	25

Financial information about associates:

in thousands of euros	**31.12.2023**	**31.12.2022**	
	Hepsor P113 OÜ	**Hepsor P113 OÜ**	**Hepsor N170 OÜ**
Current assets			
Cash and cash equivalents	193	919	2
Trade and other receivables	52	94	103
Current loan receivables	0	0	1,536
Inventories	0	0	160
Total current assets	**245**	**1,013**	**1,801**
Non-current assets			
Investment property	9,400	13,100	0
Trade and other receivables	0	297	0
Total non-current assets	**9,400**	**13,397**	**0**
Total assets	**9,645**	**14,410**	**1,801**
Current liabilities			
Loans and borrowings	8,260	158	0
Trade and other payables	44	286	2
Total current liabilities	**8,304**	**444**	**2**
Non-current liabilities			
Loans and borrowings	3,708	12,165	0
Other non-current liabilities	373	228	0
Total non-current liabilities	**4,081**	**12,393**	**0**
Total liabilities	**12,513**	**12,837**	**2**
Total equity	**-2,868**	**1,573**	**1,799**
Total liabilities and equity	**9,645**	**14,410**	**1,801**

The construction of commercial property development project by Hepsor P113 OÜ in Tallinn, Pärnu mnt 113 was completed in the fourth quarter of 2022. As of 31 December 2022, the building was reclassified as an investment property. The investment property is recorded at fair value. The fair value measurement was conducted by Colliers International Advisors OÜ using the discounted cash flow method, the best method for income-generating investment property. The valuation is based on existing cash flows or cash flows based on market averages, the investment yield and the appropriate discount rate, which takes into account the average expected yield of similar assets, taking into account the property's location, technical condition, risk levels of tenants, etc. The valuation as at the end of 2023 was based on 7.7% yield (31.12.2022: 6.3%) and 8.9% discount rate

(2022: 7.7%). As of 31.12.2023, the fair value of the property was estimated at 9.4 million euros (31.12.2022: 13.1 million euros). The strong drop in the value was mainly caused by the premature termination of the lease contract with the anchor tenant, Novel Clinic Assets OÜ, in September 2023. Hepsor P113 OÜ has submitted a claim for damages amounting to approximately 3 million euros against the tenant. On November 9, Novel Clinic Assets OÜ filed a lawsuit with Harju County Court against Hepsor AS's affiliated company, Hepsor P113 OÜ, to restore the lease agreement for Pärnu mnt 113, demand compensation for the termination of the lease agreement, and reclaim the property left in the premises due to the termination. According to Hepsor P113 OÜ's lawyer, the claims made by the plaintiff are unfounded, as the plaintiff has caused harm to itself, and Hepsor P113 OÜ has applied to the court to dismiss the review of the claims. The objective of Hepsor and the other shareholders of Hepsor P113 OÜ is to seek an extrajudicial solution.

During the reporting period, the Group received loss from associate company, Hepsor P113 OÜ, by the equity method in the amount of 567 thousand euros (Note 24). Hepsor AS has granted a loan in the amount of 1.8 million euros to the associate company Hepsor P113 OÜ, as of 31.12.2023 the granted loan receivable has not been discounted, as owners of company does not plan and is not obliged to sell the real estate investment at the assessment value.

Note 32. Related parties

The Group considers key members of the management (supervisory and management board), their close relatives and entities under their control or significant influence as well as associated companies as related parties.

Purchases and sales of goods and services

in thousands of euros	**2023**	**2022**
Sales of goods and services		
Associated companies	56	115
Key members of the management and all companies directly or indirectly owned by them	357	159
Total sales of goods and services	**413**	**274**
Purchases of goods and services		
Associated companies	0	46
Key members of the management and all companies directly or indirectly owned by them	34,090	25,707
incl. construction service	*33,831*	*25,467*
Interest income earned		
Associated companies		
Interest earned	124	166
Interest received	0	313
Key members of the management and all companies directly or indirectly owned by them		
Interest earned	0	3
Interest received	0	3
Interest expenses incurred		
Associated companies		
Accrued interest	9	2
Key members of the management and all companies directly or indirectly owned by them		
Accrued interest	179	229
Interest paid	268	132

Balances and transactions with related parties

in thousands of euros	31.12.2023	31.12.2022
Receivables		
Loans granted (Note 9)		
Associated companies		
Opening balance 01.01	1766	2,587
Loan granted	0	0
Repaid	0	-821
Effective interest rate impact	-37	0
Balance at the end of the period	1,729	1,766
Key members of the management and all companies directly or indirectly		
Opening balance 01.01	0	0
Loan granted	0	176
Repaid	0	-176
Balance at the end of the period	0	0
Trade and other receivables		
Key members of the management and all companies directly or indirectly	156	208
Associated companies	1	0
Interest receivables		
Associated companies	159	36
Payables		
Prepayments from customers		
Management and all companies directly or indirectly owned by	560	0
Loans and borrowings (Note 10)		
Associated companies		
Opening balance 01.01	423	0
Received	89	464
Repaid	0	-41
Reclassified as a Group loan	-512	0
Balance at the end of the period	0	423
Key members of the management and all companies directly or indirectly		
Opening balance 01.01	1,883	1,831
Received	1,000	0
Effective interest rate impact	0	80
Repaid	-1,500	-28
Balance at the end of the period	1,383	1,883
Trade payables		
Key members of the management and all companies directly or indirectly	2,960	1,762
Interest payables		
Associated companies	0	2
Key members of the management and all companies directly or indirectly	68	167

Note 33. Events after the reporting period

Hepsor AS extended the bank loan received from LHV Pank AS in the amount of 6 million euros. The new loan term is until March 12, 2026, with a new loan limit of 9 million euros.

Hepsor M14 OÜ extended the bank loan received from LHV Pank AS in the amount of 4.7 million euros. The new loan term is until March 25, 2027.

Note 34. Risk management

Risk management is part of the Group's strategic planning and decision-making process. The Group is exposed to a number of risks and uncertainties related to, among other factors, the business and financial risks. The materialisation of any such risks could have a material adverse effect on the Group's business, financial condition, results of operations and 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 a negative impact on the Group's business, they can also create new business opportunities. The Group carefully selects the new development projects and monitors the market trends in order to adjust its strategy when significant changes occur.

Market risk

Market risk is the risk arising from changes in the markets to which the Group is exposed. The main market risks are price risk and interest rate risk. The Group is exposed to price risk resulting from a decrease in the market values of the group's real estate development projects or a price increase due to a change in input prices. There can be no guarantee that the Group will be able to sell its development projects in future with prices that are similar to or higher than the expected market value of these projects. The Group cannot ensure it is able to sell its development projects with expected prices could have an unfavourable impact on the Group's statement of financial position and may have a material adverse effect on the Group's business, financial condition, prospects and results of operations and execution of its strategy. For mitigating the market risk, the management of the Group constantly monitors the changes and situation in the market when making development decisions.

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

The interest rates of investor loans are usually fixed, i.e., they 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 a 0% floor clause as protection against a negative Euribor, meaning that in case of a negative Euribor, the Euribor is equalised 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 the European Central Bank. In 2023, the 6-month Euribor increased by 1.13%, and in 2022, the 6-month Euribor increased by 2.69%.

in thousands of euros	**31.12.2023**	**31.12.2022**
Financial liabilities with fixed interest rate	20,596	18,451
incl. bank loan liabilities with fixed interest rate	0	13,430
Bank loan liabilities with floating interest rate	36,309	16,699
Total	**56,905**	**48,580**

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

Interest rate sensitivity

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

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

in thousands of euros	**31.12.2023**	**31.12.2022**
Increase by 50 basis points	116	70

Credit risk

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

In order to minimise credit risk, the Group is only dealing with creditworthy counterparties and deposits cash in banks well-recognised banks in Estonia, Latvia and Canada. 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 the real estate development business, and upon the sale of the completed property, the Group enters into a notarised agreement with the buyer. Since most of the transactions are ensured either with money deposited in the notary's deposit account or a bank loan, the Group is not exposed to material credit risk from trade receivables.

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

in thousands of euros	**2023**	**2022**
Cash and cash equivalents	7,604	3,754
Trade and other receivables	458	728
Interest receivables	160	31
Escrow account	0	405
Current loan receivables	311	0
Non-current loan receivables	1,766	1,766
Total	**10,299**	**6,684**

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

in thousands of euros	**2023**	**2022**
Current	145	666
Up to 2 months past due date	76	22
2-4 months past due date	10	4
More than 4 months past due date	111	16
Total	**342**	**708**

As at 31 March 2024, the completion date of current report, trade receivables in the amount of 117 thousand euros (31.03.2023: 73 thousand euros) were past the due date as at 31 December 2023.

Liquidity risk

The Group's liquidity represents its ability to settle its liabilities to creditors on time. 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, analysing different financing options on an ongoing basis and negotiating with financing parties over the course of financing.

Group's financial liabilities by maturity date:

in thousands of euros	up to 6 months	up to 12 months	1-5 years	Total
31.12.2023				
Loan and lease liabilities	12,563	28,077	16,334	**56,974**
Trade payable	2,961	0	0	**2,961**
Other liabilities	1,068	3,159	2,058	**6,285**

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

Capital risk

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

The Group uses the debt-to-equity ratio to monitor capital structure. The debt-to-equity ratio is calculated as the ratio of net debt to total capital. The Group also monitors the ratio of equity and balance sheet volume.

The management considers the Group's capital structure optimal.

in thousands of euros	2023	2022
Interest-bearing loan liabilities	56,944	48,628
Cash and bank accounts	7,604	3,754
Net debt (interest-bearing loan liabilities - cash and bank accounts)	**49,340**	**44,874**
Total equity attributable to owners of the parent	20,993	19,866
Total of net debt and equity (net debt + total equity attributable to owners of the parent)	**70,333**	**64,740**
Debt-equity ratio (net debt / net debt and total equity attributable to owners of the parent)	70%	69%
Total assets	91,001	78,368
Equity to total assets (equity / total assets)	23%	25%

Currency risk

The Group's activities are mainly carried out in the currency of the economic environment of the companies - in Estonia and Latvia in euros (EUR) and in Canada in Canadian dollars (CAD). The Group's currency risk arises from the translation of the functional currency of the Canadian subsidiary into the Group's functional and presentation currency. In order to mitigate currency risks, the Group concludes as many contracts as possible in euros. The majority of intra-group transactions are carried out in euros. The growth of business in Canada leads to the Group's exposure to currency risks. The net loss from exchange rate changes for the twelve months of 2023 was 69 thousand euros. As of 31.12.2023, the Group is not significantly exposed to currency risks, and therefore, the Group has not used instruments to hedge currency risks.

Geopolitical risk

Russia's military invasion and attack on Ukraine's independence, which began on 24 February 2022, is affecting businesses around the world, and the length, impact and outcome of the ongoing military conflict remain unclear. The initial effects of the war have partially subsided – commodity prices have stabilised as a result of the development of new supply chains, and energy prices and inflation are also returning to previous levels; however, as a negative effect, economic growth has slowed down, and we expect the monetary policy tightening by central banks to continue for a longer period. Although the economic environment is stabilising, there is still the risk of an escalation of a military conflict, which can have a wide impact on the Group's daily activities if the risk materialises.

Note 35. Primary financial statements of the parent company

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

Statement of financial position

in thousands of euros	31.12.2023	31.12.2022
Assets		
Current assets		
Cash and cash equivalents	84	156
Trade and other receivables	618	257
Current loan receivables	4,082	2,900
Inventories	15	15
Total current assets	**4,799**	**3,328**
Non-current assets		
Property, plant and equipment	59	72
Investments in subsidiaries	2,225	1,636
Financial investments	2	2
Investments in associates	0	1,086
Non-current loan receivables	10,392	12,742
Other non-current receivables	1,963	1,204
Total non-current assets	**14,641**	**16,742**
Total assets	**19,440**	**20,070**
Liabilities and equity		
Current liabilities		
Loans and borrowings	6,000	0
Current lease liabilities	10	9
Trade and other payables	118	86
Total current liabilities	**6,128**	**95**
Non-current liabilities		
Loans and borrowings	0	5,494
Non-current lease liabilities	29	38
Total non-current liabilities	**29**	**5,532**
Total liabilities	**6,157**	**5,627**
Equity		
Share capital	3,855	3,855
Share premium	8,917	8,917
Reserves	385	0
Retained earnings	126	1,671
Total equity	**13,283**	**14,443**
Total liabilities and equity	**19,440**	**20,070**

Statement of profit and loss and other comprehensive income

in thousands of euros	**2023**	**2022**
Revenue	30	35
Cost of sales (-)	0	-86
Gross profit	**30**	**-51**
Marketing expenses (-)	-24	-24
Administrative expenses (-)	-723	-553
Other operating income	24	43
Other operating expenses	-5	-2
Operating profit of the year	**-699**	**-587**
Financial income	**1,139**	**2,556**
interest income	1,035	1,305
Profit from associates of equity method	0	1,086
other financial income	104	165
Financial expenses (-)	**-1,601**	**-628**
interest expenses (-)	-775	-492
loss from associate (-)	-567	0
other financial expenses (-)	-259	-136
Profit before tax	**-1,160**	**1,341**
Net profit for the year	**-1,160**	**1,341**
Other comprehensive income for the period	**-1,160**	**1,341**

Statement of changes in equity

in thousands of euros	Share capital	Share premium	Reserves	Retained earnings	Total
Balance at 31.12.2021	**3,855**	**8,917**	**0**	**330**	**13,102**
Net profit/(-loss) for the year	0	0	0	1,341	**1,341**
Balance at 31.12.2022	**3,855**	**8,917**	**0**	**1,671**	**14,443**
Net profit/(-loss) for the year	0	0	0	-1,160	**-1,160**
Reserves			385	-385	**0**
Balance at 31.12.2023	**3,855**	**8,917**	**385**	**126**	**13,283**

Adjusted unconsolidated equity

in thousands of euros	31.12.2023	31.12.2022
Parent company's unconsolidated equity	13,283	14,443
Carrying amount of investments in subsidiaries and associates in the parent company's unconsolidated statement of financial position (-)	-2,225	-2,722
Value of investments in subsidiaries and associates under the equity method (+)	11,673	8,145
Parent company's adjusted unconsolidated equity	22,731	19,866

Statement of cash flows

in thousands of euros	2023	2022
Net cash flows from (to) operating activities		
Operating profit of the year	**-699**	**-587**
Adjustments for:		
Depreciation of property, plant and equipment	27	29
Profit from sale of property, plant and equipment	0	-18
Other adjustments	0	-1
Changes in working capital:		
Change in trade receivables	-32	-23
Change in inventories	0	5
Change in liabilities and prepayments	21	-13
Cash flows from (to) operating activities	**-683**	**-608**
Net cash flows to investing activities		
Payments for property, plant and equipment	-14	0
Payments of for acquisition of subsidiaries	-7	-7
Proceeds from sale of property, plant and equipment	0	25
Interest received	179	404
Loans granted	-2,067	-8,562
Loan repayments received	2,932	4,672
Other proceeds from investing activities	0	40
Other payments for investing activities	-63	0
Cash flows to investing activities	**960**	**-3,428**
Net cash flows from (to) financing activities		
Loans raised	425	1,575
Loan repayments	0	0
Interest paid	-765	-461
Payments of finance lease principal	-9	-26
Other receipts from financing activities	0	-6
Cash flows from financing activities	**-349**	**1,082**
Net cash flow	**-72**	**-2,954**
Cash and cash equivalents at beginning of year	**156**	**3,110**
Increase / decrease in cash and cash equivalents	-72	-2,954
Cash and cash equivalents at end of year	**84**	**156**

Management Board's Confirmation of the Consolidated Annual Report

The Management Board confirms that the audited consolidated annual report for 2023, which is comprised of the Management Report, Corporate Governance Report, Remuneration Report and Sustainability Report as set out on pages 4 to 55, provides a true and fair view of the Group's operations, financial position and results of operations and describe the significant risks and uncertainties the Group faces.

The Management Board confirms that according to their best knowledge, the audited consolidated annual accounts for 2023 as set out on pages 58 to 107 present a correct and fair view of the financial position, profit and loss and other comprehensive income and cash flows of Hepsor AS. The consolidated annual accounts are prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Hepsor AS Group is going concern.

The consolidated annual report of Hepsor AS for 2023 will be submitted for approval to the General Meeting of Shareholders in May 2024.

Henri Laks
Member of the Management Board
/ sign digitally /
Tallinn, 18 April 2024

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)

To the Shareholders of Hepsor AS

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Hepsor AS and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2023, and the consolidated comprehensive income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRSs).

Basis for Opinion

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

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

Independence

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

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

Audit scope

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

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

Accordingly, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following subsidiaries and associated companies within the Group: Hepsor AS (the Group's parent entity), Hepsor Finance OÜ, Hepsor Phoenix 2 OÜ, Hepsor PV11 OÜ, Hepsor Latvia OÜ, Hepsor M14 OÜ, Hepsor 3 Torni OÜ and Hepsor P113 OÜ We performed review of the financial information for the following subsidiaries within the Group: Hepsor SPV1 OÜ, Hepsor L4 OÜ, Hepsor Marupe SIA, Hepsor Phoenix 3 OÜ, Hepsor A1 OÜ, Hepsor N57 OÜ, Hepsor RD5 SIA, Hepsor U34 SIA, Hepsor Kvarta SIA, Hepsor Ganibu Dambis SIA, Riga Properties 4 SIA and Hepsor N450 OÜ.

Grant Thornton Baltic Audit SIA performed specific review procedures over significant balances and transactions based on the instructions received from us for the following component subsidiary: Hepsor S4B SIA We communicated frequently with the component auditor and reviewed the procedures performed and documentation to the extent we deemed necessary.

At the Group level we tested the consolidation process and performed separate analytical procedures over the components not covered by the above procedures to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements. Information describing the structure of the Group is included on page 26 of the consolidated financial statements.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Accounting of invnetory As at 31.12.2023, the Group has recognized the inventories in total of 77 439 thousand euros. We focused on inventories, as its forms 85% of the Group's total assets. Additional information is provided in consolidated financial statements Note 1 "Summary of significant accounting policies" and Note 4 "Inventories". Inventories consists of work in progress of real estate development projects and finished real estate development projects. As described in Note 1.13 in the consolidated financial statements, inventories are stated at the lower of cost and net realizable value. Acquisition cost consists of direct costs and their overheads without which inventories would not be in existing locations or condition. Borrowing costs directly attributable to the acquisition and construction of the real estate development projects form part of the cost of that asset.	**While conducting the audit procedures, we performed, among other things, the following** We assessed the principles for recognizing inventories and made sure that the method complies with the requirements of IFRS. We assessed the net realizable value of inventories by making inquiries to the Group, used project cash flow projections, and made sure that after the balance sheet date the apartments were not sold with a loss. In conclusion, we have determined that the accounting principles used for recognizing inventories are in accordance with the requirements of IFRS. The data and assumptions used are reasonable and in line with the actual results of the past period and the expected prospects. In our opinion, the disclosures about inventories in Note 4 to the consolidated financial statements are relevant and in accordance with IFRS requirements.

Other Information, including the Management Report

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

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

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

Grant Thornton

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

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

● the Management report has been prepared in accordance with the requirements of the Accounting Act;

● the Remuneration Report has been prepared in accordance with Article 135^3 of the Securities Market Act.

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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

We have been engaged based on our agreement by the Management Board of the Parent Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of Hepsor AS for the year ended December 31, 2023 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

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

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

Responsibility of the Management Board and Those Charged with Governance

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

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

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

Our responsibility

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

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

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

Quality control requirements

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

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

Summary of the work performed

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

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

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

Conclusion

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

Designate the auditor

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

Compliance with the report to the Audit Committee

Our audit opinion presented in this report is in accordance with the supplementary report prepared for the Audit Committee on April 18, 2024. We confirm that our audit opinion is in line with the additional report submitted to the Group audit committee and we have not provided the prohibited non-audit services to the Group referred to in Article 5 (1) of Regulation (EU) No 537/2014. We were independent from the audited entity.

April 18, 2024

Mart Nõmper
Sworn Auditor 499
Grant Thornton Baltic OÜ
License number 3
Pärnu mnt 22, 10141 Tallinn

Profit allocation proposal

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

in thousands of euros	**31.12.2023**
Retained earnings for prior periods as at 31 December 2022	7,143
Net profit for 2023	1,185
Total distributable profit as at 31 December 2023	8,328

Henri Laks
Member of Management Board
/ signed digitally/
Tallinn, 18 April 2024