

hepsor



6 months consolidated
unaudited interim report,
2021

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Reporting period: 01.01.2021-30.06.2021

Auditor: Grant Thornton Baltic OÜ

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Commentary from management

Residential property market continued to grow during the first half of 2021 despite the still critical Covid-19 situation in the beginning of the year both in Estonia and Latvia, our home markets. The demand for new homes is continuing to grow and we have been able to offer an attractive residential portfolio to meet the strong demand in a competitive market situation.

In 2021 our core focus has been on preparing the new development projects for the next few years. As at 30 June 2021 we have 21 projects under development in different phases including 94,000 sqm of sellable residential property and 48,000 sqm of commercial space. For comparison, over the course of 10 years we have developed around 100,000 sqm of commercial and residential real estate.

Even though the global supply chain challenges have greatly impacted the prices of construction materials, the prices of residential property have increased even faster, driven mostly by strong demand. Therefore, the profitability of new development projects has not suffered.

Revenue generation of property development business depends on where in the development phase the company is with specific projects. Projects we start today will generate revenue only once they are completed in several years. Depending on the size and level of complexity the process can take between two and five years. In most cases the projects are completed somewhere in between the two. As a result, there may be periods when no projects are completed and other periods when several projects are completed at the same time. For us 2021 is a year when very few projects are completed. Therefore, the drop in revenues and profitability was due to less homes available for sale during the first half of 2021 compared to the same period a year ago. However, our pipeline remains strong and we expect the market demand for new homes to grow. During the second half of 2021 we will complete the second phase of Lauluväljaku Lilleaed with 64 homes. In 2022 we will add 172 new homes and complete two office buildings in Tallinn one of which is fully covered with rental agreements.

While we have been operating in Estonia for 11 years, we also look to expand our presence in Latvian market. We first entered the Latvian market in 2017 and have been operating there as a Group since 2019. Over the years we have delivered 100 new homes to customers in Riga area. Our first rental housing project with 50 apartments was completed in 2020. In 2021 we launched two new projects, which will provide another 134 new homes to the market in 2022 and 2023. In the third quarter this year we will also start the construction of a new stock-office type of commercial premises in Riga with expected completion in the fourth quarter of 2022. Majority of the leasable area is already covered with rental agreements.

Many of our development projects are based on innovative green engineering solutions, which are often unique in Estonia. We always try to be one step ahead of the market.

General information

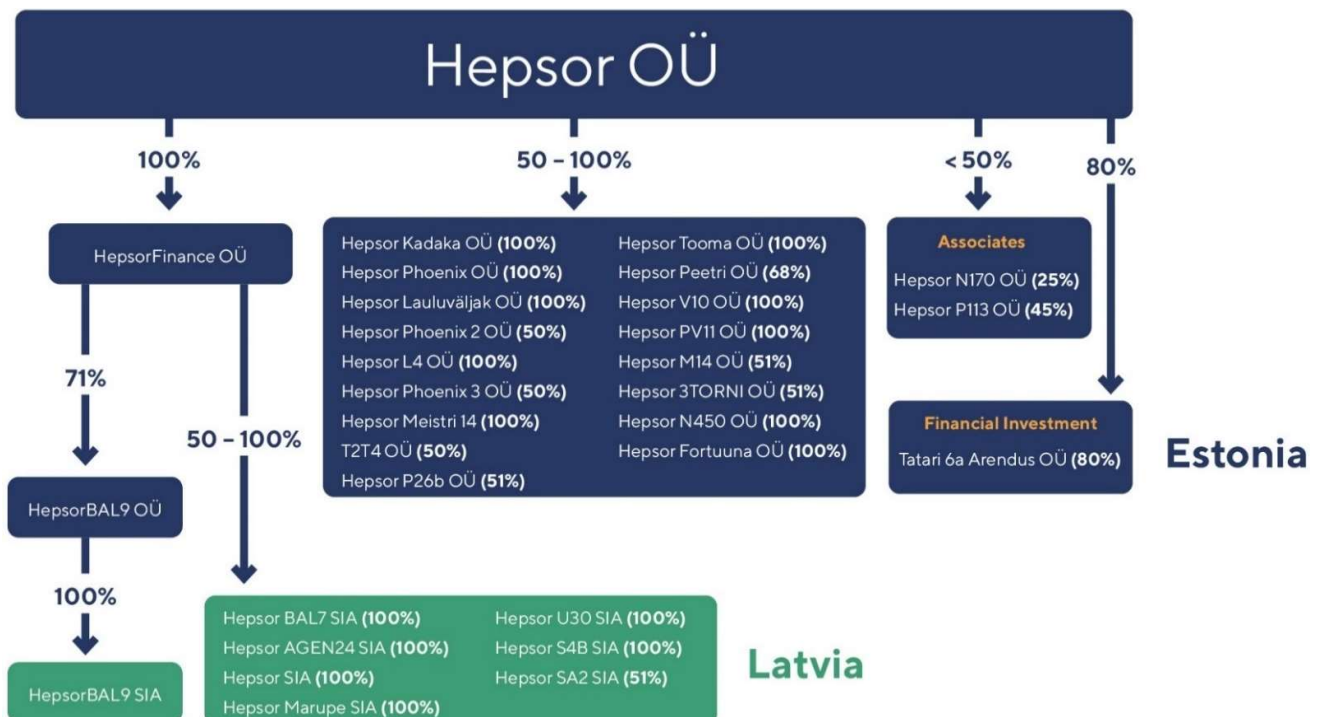
Hepsor AS (hereinafter referred to as “the Group” or “Hepsor”), a property development company based on Estonian capital, has operations in Estonia and Latvia. The Group entered Latvian market in 2017 and has been operating under the same consolidating group since 2019. Over the course of 10 years the Group has developed around 100,000 sqm of commercial and residential real estate and developed more than 1,300 homes.

Hepsor is among top 5 property developers in Estonia delivering some 200-300 new homes to customers every year. The Group actively promotes and executes green technologies and engineering solutions.

Group structure and changes to structure

As of 30 June 2021, the Group was comprised of parent company, 27 subsidiaries (30 June 2020: parent company and 29 subsidiaries) and 2 (30 June 2020: 1) associated companies.

Group structure as of 30 June 2021



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Main events

During the first six months of 2021 the Group has established one (30 June 2020: 3) new property development company, Hepsor Fortuuna OÜ, and acquired one property development project at Tatari 6a for developing a 70-unit apartment building with commercial space. The Group holds 80% of Tatari 6a Arenduse OÜ. According to the shareholder agreement the Group is committed to sell its stake to the minority shareholder before the completion of the project. Therefore, according to the management, the Group does not have control over Tatari 6a Arenduse OÜ.

In March 2021, the shareholders decided on the merger of Hepsor Finance OÜ and Hepsor Latvia Investments OÜ. The merger was registered in the Commercial Register on 30 March 2021. Both companies belong 100% to the Group, any financial consequence did not occur.

In April 2021, the shareholders decided on the division of Hepsor Finance OÜ to bring several Latvian development companies under a control of separate company. The division entry was made in the Commercial Register on 6 July 2021. Hepsor AS holds 80% of Hepsor Latvia OÜ. The assets and liabilities were transferred in accordance with the division agreement and there is no considerable effect to the Group cashflows.

In the beginning of 2021, the Group acquired a 49% stake in Hepsor Kadaka OÜ and 50% stake in Hepsor V10 increasing the holding in both companies to 100%.

During the first half of 2021 the Group completed two projects – Peetri Pargimajad with 43 homes and first phase of Lauluväljaku Lilleaed with 35 homes.

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Economic environment

The surge of Covid-19 in 2020 impacted the countries and industries all around the world. After years of economic growth Estonian GDP dropped 2.9% in 2020. Since then the Estonian economy has recovered from covid-19 related crisis with surprising speed despite the slower than expected vaccination rate. Different institutions are predicting 6-8% GDP growth for the year 2021. According to Statistics Estonia the economic growth reached 5.4% in Q1 2020 and 12.9% in Q2, year-on-year. The recovery is influenced by large pay-outs from the pension system which will start boosting the consumption from Q3 2021. Full year 2021 inflation rate could be over 3%, partly because of the low comparison rate in 2020. Unemployment rate was 6.8% in 2020 and is forecasted to decrease in the next years.

Latvia's economy shrank by 3.6% in 2020 and 1.3% in Q1 2021. The decline was followed by 11.1% in Q2 2021, year-on-year clearly indicating that the economy is recovering from Covid-19 related shock. Bank of Latvia is predicting a 5.4% GDP growth for the full year 2021. While inflation was 0.1% in 2020 the 2021 inflation expectation by Bank of Latvia is 2.8% due to increasing prices globally. Unemployment rate has improved, however there is high pressure on salaries increase (over 7% yearly).

Estonian real estate sector. First half of 2021 was very active for the residential real-estate market in Tallinn. Year-on-year the transactions increased by 35% mostly due to a drastic drop in the second quarter of 2020 resulting from the uncertainty caused by the spread of Covid-19 pandemic. Based on Estonian Land Board statistics the total number of sales and purchase transactions for apartments in H1 2021 was 5,265 in Tallinn (3,877 in 2020). The average price per sqm for apartments increased by 8% year-on-year. Demand is strong for different reasons, including stronger macroeconomic forecasts, improving unemployment rate, higher saving rate, expected pay-out from pension fund, continuing favourable financing conditions and stable interest rates, and a slight decrease in the number of new development projects.

Development in the Tallinn office market has been active in recent years and there is over 140,000 m² (16 projects) under construction as at first six months of 2021. Vacancy in office segment is ca 8-9% and rent levels have been stable with stable outlook. Demand is influenced by the increasing usage of home offices and tenants are looking for flexible solutions.

Industrial real estate development is also active including development of large new built-to-suit premises as well as new stock-office premises. Due to demand rental levels have remained unchanged and vacancy has slightly decreased. Industrial and warehouse premises' yields have decreased the most and have the potential to decrease further in light of favourable market conditions.

Latvian real estate sector. In 2020, ca 2,210 transactions with new and renovated apartments were made in the Riga region. The total number of residential real estate transactions was ca 9.5% lower compared to 2019, while the number of transactions for new apartments increased by 14% compared to year 2019. Average sqm price dropped by 1% compared to 2019, but average price of new development projects did not change year-on-year. The transaction activity in the Riga region recovered by the end of the year.

Vacancy rates in office premises are high in Riga where the market still continues to absorb new office space. Vacancy is expected to remain high during 2021 as a number of new office buildings will be coming to the market. Rent levels are slightly lower in Riga compared with Tallinn.

There was ca 120,000 m² of industrial real estate development projects under construction in H1 2021 in the Riga region, where the overall demand has been rather low since COVID-19 restrictions. Rent rate outlook is stable and average vacancy low in the market. However slight upward pressure on rent rates could be seen for new developments due to rising construction costs. Regardless of the above, the industrial and warehouse assets remain to be in the highest investor demand

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Operating results

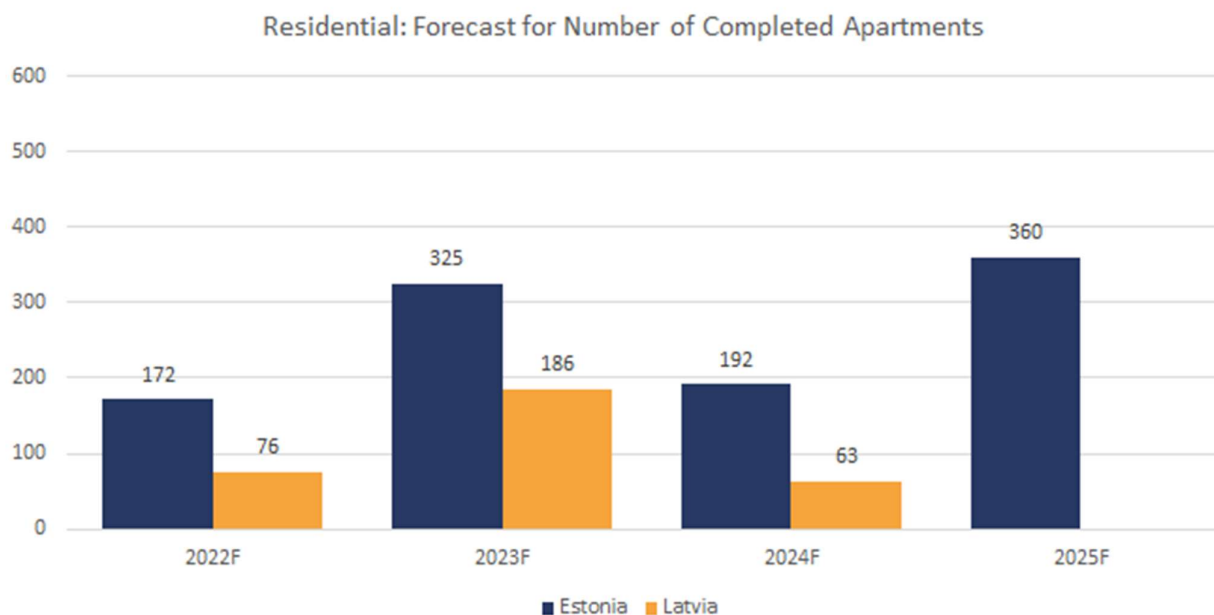
Revenues for January–June 2021 amounted to 3.9 million euros (January–June 2020: 17.2 million euros). Revenue generation of property development business depends on where in the development phase the company is with specific projects. Depending on the size and level of complexity the full development cycle of the projects can take between 2 and 5 years. The lower revenues were attributable to limited completed projects and therefore fewer homes were available for customers. During the first six months the Group sold its available stock of 18 homes (January–June 2020: 146). During the second half of the year the Group will add another 64 homes available for sale in Estonia. In 2020 the Group sold a total of 272 homes while in 2021 the total will amount to 84 homes in Estonia.

In Latvia the Group sold 2 homes during January–June 2021 (2020: 14). During the second half of the year the Group will add another 52 homes in Riga area as the apartments of the rental housing project will be available for sale due to the demand for new homes. Rent income in the amount of 106 thousand euros (2020: 0) in Latvia was gained from rental housing project. As of 30 June 2021, 90% of the rental housing was covered with contracts.

Revenue by region:

In thousands of euros	6M 2021	6M 2020	Change %
Estonia	3,465	15,719	-78.0
Latvia	409	1,489	-72.6
Total	3,874	17,208	-77.5

In 2021 the Group focused largely on preparation of new and completing existing development projects. As at 30 June 2021 total new and existing residential development projects amount to 1,490 new homes of which 1,113 will be in Estonia and 377 in Latvia. These new homes will be available for sale in 2022–2025 except for 64, which will be available already in 2021, and include also 146 homes developed by the Group’s associated companies and where the Group provides project management services.



Profitability

The operating profit of the Group for six months 2021 amounted to 178 thousand euros (January–June 2020: 1.3 million euros). The Group generates profit from sale of completed projects, ie. new homes available for sale to customers or developed projects available for rent. Therefore, the drop in profitability is directly attributable to lower revenues as only two of the ongoing projects is in completion phase in 2021. The operating profit margin decreased from 7.5% in 6 months 2020 to 4.6% in six months 2021 due to higher marketing and personnel expenses compared with revenues.

The Group’s net profit dropped from 1 million euros in six months 2020 to 34 thousand euros in six months 2021. Similarly to operating profit the Group’s net profit is impacted by lower revenue base.

Inventories

The Group's inventories are comprised of projects in progress. As at 30 June 2021 the inventories amounted to 33.1 million euros (30 June 2020: 31.8 million euros), ie. 21 projects in different phases of completion as at 30 June 2021.

Key ratios

%	6M 2021	6M 2020	2020
Gross profit margin	18.1	9.8	11.0
Operating profit margin	4.6	7.5	8.8
EBITDA margin	6.7	7.9	9.2
Net profit margin	0.9	5.8	9.9
General expense ratio	14.7	2.4	2.4
Equity ratio	25.1	20.2	31.3
Debt ratio	63.4	65.0	54.5
Current ratio	4.6	2.7	3.5
Return on equity	39.4	27.5	47.3
Return of assets	7.8	4.9	11.0

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

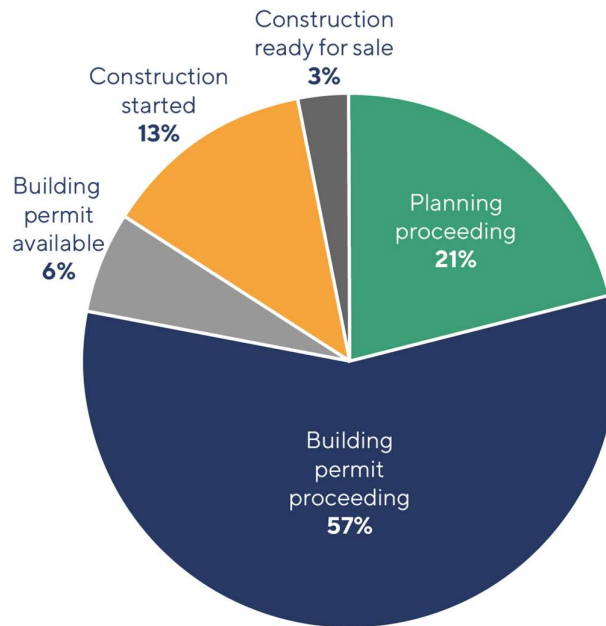
Return on equity = net profit of trailing 12 months / average shareholder's equity

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

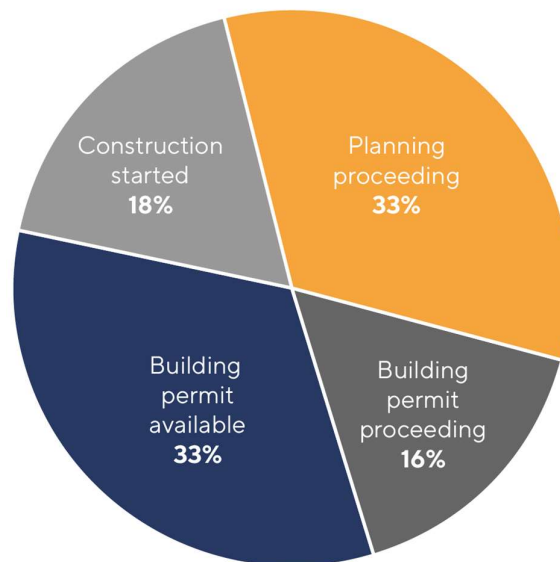
Overview of development projects

As at 30 June 2021 the Group managed 21 (30 June 2020: 20) active development projects.

Residential portfolio



Commercial portfolio



The Group completed the following projects during the six months of 2021:

Peetri Pargimajad project in Harju county, Rae parish, Mõigu Road 11. Out of the 43 homes 25 were sold already in 2020 and 18 during the first half of 2021.



Lauluväljaku Lilleaed phase I project in Tallinn, Pirita Road 26b. Out of the 35 homes 33 were sold already in 2020 and remaining 2 homes during the first half of 2021.

As at 30 June 2021 a rental housing project for 52 apartments and commercial space in Riga, Latvia at Strelnieku 4b and 1 home at Agenskalna 24 were available for sale.

The Group continued with the development of following residential projects:**Lauluväljaku Lilleaed**

During the second half of 2021 phase II of 64 homes will be completed at Pirita Road 26b. Out of 64 homes 62 were pre-booked as at 30 June 2021.

Priisle Kodu

The 11-story apartment building for 72 homes at Priisle 1, Tallinn is expected to be completed in the second quarter 2022. As at 30 June 2021 63 homes have been pre-booked. The commercial space of 1,500 sqm is leased to Selver, one of the largest Estonian supermarket chains.

Paevälja Hoovimajad

In the fourth quarter 2022 two apartment buildings for 96 homes will be completed at Paevälja 11 and Lageloo 7, Tallinn. As at 30 June 2021 29 homes have been pre-booked.

Manufactory Quarter

The group started with the development of one of its largest residential projects at Manufaktuuri 7, Tallinn in 2020. The project includes two apartment buildings for 154 homes and 2,460 sqm of commercial space. The construction is expected to start in the third quarter of 2022. In addition, the Group renovates the existing facilities of Baltic Manufactory and adds another 236 homes and 5,540 sqm of commercial space once completed.

**Balozu 9**

In Latvia the Group started with the construction of 18-apartment building in Riga Balozu 9 in the beginning of 2021. The construction is expected to be completed by the beginning of 2022. As at 30 June 2021 16 homes were pre-booked.

Kuldigas Park

The construction of two apartment buildings for 116 homes in total will start at Kuldigas 45, Riga in the third quarter 2021. The sale of these homes is expected in 2023.

The following commercial projects were continued in 2021:**Office building P113**

The green office building at Pärnu Road 113, Tallinn with total leasable area of 3,843 sqm will be completed in the second quarter 2022 and is already fully covered with lease agreements.

**Grüne Office**

The office building at Meistri 14, Tallinn with total leasable area of 3,642 sqm will be completed in the end of 2021

Business quarter at Peterburi Road

Office and warehouse storage property development project at Tooma 2/4, Tallinn has been granted a construction permit. The size of the developed property can be up to 10,000 sqm and the construction could be completed in 2022/2023 depending on when the terms would be agreed with a potential tenant.

StockOffice U30

Construction of stock-office at Ulbrokas 30, Riga will start in the second half of 2021 and is expected to be completed by fourth quarter 2022. Out of 3,645 sqm 72% of leasable area is covered with lease agreements.

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Personnel

As of 30 June 2021, the Group employed 16 (30 June 2020: 14, 31 December 2020: 14) employees.

	30.06.2021	30.06.2020	31.12.2020
Estonia	9	8	9
Latvia	7	6	5
Total	16	14	14

Total personnel expenses for January – June 2021 amounted to 342 thousand euros (30 June 2020: 292 thousand euros), an increase of 17% year-on-year.

As of 30 June 2021, no member of the management bodies and employees have been issued share options.

07

Share and shareholders

The transformation of Hepsor OÜ into AS (limited liability company) has been decided by the owners. Based on new Articles of Association of Hepsor AS the obligatory reserve will be 300 thousand euros (1/10 of share capital).

The shareholders of Hepsor AS are the following Estonian private individuals:

Ownership and voting rights %			
	30.06.2021	30.06.2020	31.12.2020
Andres Pärloja	33.25	32.25	32.25
Kristjan Mitt	33.25	32.25	32.25
Henri Laks	16.6	15.6	15.6
Lauri Meidla	16.9	19.9	19.9

The Group does not have a fixed dividend policy or a fixed pay-out ratio from the annual profits. However, the shareholders of the Group may decide to pay dividends or fix a longer-term dividend policy in the future should the Group not be able to reinvest its annual profits with a sufficient return on equity from the underlying business activities.

In January 2021, Hepsor AS paid out 37 thousand euros as dividends for the first time during the operations. Additionally, Hepsor AS is intending to pay out another 151 thousand euros in dividends. The payment represents dividends received from subsidiaries but not paid. Income tax expense will not occur as tax credit could be used for the dividend tax.

08

Risk management

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

Strategic risk

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

Business risk

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

Market risks

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

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

The interest rates of investor loans are fixed. Investor loans come with the clause that if the real estate development project closes with the profit the excess profit is distributed between the parties.

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

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

For undrawn 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.

Credit risk

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

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

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

Liquidity risk

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

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

Covid-19

The impact of the coronavirus COVID-19 is being felt by all businesses around the world. Therefore, the continuing spread of the coronavirus COVID-19 may have an adverse long-term impact on markets where the Group operates. The velocity of change coming out of the pandemic is generating new forms of financial and operational risks arising from inflation, capacity constraints, and supply-chain disruptions. The extent of the adverse impact of the pandemic on the global economy and markets is currently subject to great uncertainty and will depend, in part, on the length and severity of the measures taken to limit the spread of the virus and, in part, on the size and effectiveness of the compensating measures taken by governments.

09

Management Board's confirmation

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

Henri Laks

Member of the Management Board

Tallinn, 20 October 2021

Consolidated Financial Statements

Consolidated statement of financial position

in thousands of euros	Note	30.06.2021	30.06.2020	31.12.2020
Assets				
Current assets				
Cash and cash equivalents		1,277	2,362	4,207
Trade and other receivables	3	636	1,099	574
Current loan receivables	5	256	60	776
Inventories	2	33,084	31,800	22,903
Total current assets		35,253	35,321	28,460
Non-current assets				
Property, plant and equipment		410	575	492
Investments in associates	4	0	1	2
Financial investment		2	0	0
Non-current loan receivables	5	1,970	148	1,371
Other non-current receivables		99	76	108
Total non-current assets		2,481	800	1,973
Total assets		37,734	36,121	30,433
Liabilities and equity				
Current liabilities				
Loans and borrowings	6	4,393	7,800	4,038
Current lease liabilities		72	66	174
Prepayments from customers		1,238	2,300	769
Trade and other payables	7	1,967	2,583	3,082
Deferred income tax liability	10	0	154	0
Total current liabilities		7,670	12,903	8,063
Non-current liabilities				
Loans and borrowings	6	19,169	15,173	12,122
Non-current lease liabilities		284	429	267
Other non-current liabilities	8	1,080	321	402
Deferred income tax liability	10	73	0	60
Total non-current liabilities		20,606	15,923	12,851
Total liabilities		28,276	28,826	20,914
Equity				
Share capital		6	6	6
Share premium		3,211	3,211	3,211
Retained earnings		6,241	4,078	6,302
Total equity		9,458	7,295	9,519
incl. total equity attributable to owners of the parent		9,370	7,353	9,454
incl. non-controlling interest		88	-58	65
Total liabilities and equity		37,734	36,121	30,433

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	Note	6M 2021	6M 2020	12M 2020
Revenue	12,16	3,874	17,208	38,771
Cost of sales (-)	13	-3,171	-15,528	-34,493
Gross profit		703	1,680	4,278
Marketing expenses (-)		-100	-40	-93
Administrative expenses (-)	14	-417	-372	-788
Other operating income		43	28	51
Other operating expenses (-)		-51	-5	-37
Operating profit of the year	16	178	1,291	3,411
Financial income		76	15	917
interest income		55	15	108
profit on the sale of a subsidiary		0	0	809
other financial income		21	0	0
Financial expenses (-)	15	-191	-149	-364
interest expenses (-)		-170	-149	-157
loss from associate (-)	4	-2	0	0
other financial expenses (-)		-19	0	-207
Profit before tax		63	1,157	3,964
Current income tax		-16	0	-59
Deferred income tax	10	-13	-154	-60
Net profit for the year		34	1,003	3,845
Attributable to owners of the parent		-84	461	2,591
Non-controlling interest		118	542	1,254
Other comprehensive income (loss)				
Changes related to change of ownership		0	-26	-14
Disposal of subsidiaries		0	0	0
Acquisition of a subsidiaries		0	0	0
Change in value of embedded derivatives with minority shareholders		-31	-429	-1,022
Business combination between related parties		0	25	25
Other comprehensive income for the period		3	573	2,834
Attributable to owners of the parent		-84	467	2,605
Non-controlling interest		87	106	229
Earnings per share				
Basic (euros per share)		-0.02	0.16	0.86
Diluted (euros per share)		-0.02	0.16	0.86

Consolidated statement of changes in equity

in thousands of euros	Attributable to equity owners of the parent			Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings		
31.12.2020	6	3,211	6,237	65	9,519
Other comprehensive income for the period	0	0	-84	87	3
Dividends paid	0	0	0	-64	-64
30.06.2021	6	3,211	6,153	88	9,458
31.12.2019	6	3,211	3,669	-164	6,722
Other comprehensive income for the period	0	0	467	106	573
30.06.2020	6	3,211	4,136	-58	7,295

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

Consolidated statement of cash flows

in thousands of euros	Note	6M 2021	6M 2020	2020
Net cash flows from (to) operating activities				
Operating profit of the year		178	1,291	3,411
Adjustments for:				
Depreciation of property, plant and equipment		82	75	161
Loss from write off of goodwill		0	25	25
Income tax paid		-75	-1	-1
Changes in working capital:				
Change in trade receivables		1	-278	253
Change in inventories	2	-9,340	456	9,603
Change in liabilities and prepayments		286	-655	-1,905
Cash flows from (to) operating activities		-8,868	913	11,547
Net cash flows to investing activities				
Payments for property, plant and equipment		0	0	-3
Payments of for acquisition of financial investment		-2	0	0
Proceeds from sale of subsidiaries		0	0	819
Proceeds from sale of associates		0	0	1
Interest received		22	17	83
Loans granted	5	-799	-149	-2,108
Loan repayments received	5	0	130	150
Cash flows to investing activities		-779	-2	-1,058
Net cash flows from (to) financing activities				
Loans raised	6	11,530	14,094	22,634
Loan repayments	6	-4,128	-14,560	-29,913
Interest paid	15	-478	-682	-1,328
Payments of finance lease principal		-19	-3	-7
Payments of right to use lease liabilities		-67	-65	-115
Dividends paid		-102	0	0
Other receipts from financing activities		-19	0	-196
Cash flows from financing activities		6,717	-1,216	-8,925
Net cash flow		-2,930	-305	1,564
Cash and cash equivalents at beginning of year		4,207	2,667	2,667
Cash outflow from disposal of subsidiaries		0	0	-24
Increase / decrease in cash and cash equivalents		-2,930	-305	1,564
Cash and cash equivalents at end of year		1,277	2,362	4,207

Notes to the consolidated interim financial statements

Note 1. General information

The Hepsor AS (hereinafter "the Group") consolidated interim financial statements for 6 months 2021 have been prepared in accordance with IAS 34 *Interim Financial Reporting* of International Financial Reporting Standards as endorsed in the European Union ("IFRS (EU)"). The Group has consistently applied the accounting policies throughout all periods presented, unless stated otherwise. The interim financial statements follow the same accounting principles and methods used in the 2020 audited financial statements. The current interim financial statements contain the audited financial results for 2020 and unaudited comparative figures for 6 months 2020.

The Group has not made any changes in their critical accounting estimates which may have impact on the consolidated unaudited interim financial statements for 6 months 2021.

The Group has not made any changes in the valuation techniques applied for fair value measurement in six months to 30 June 2021.

Note 2. Inventories

in thousands of euros			30.06.2021		30.06.2020		31.12.2020	
	Location	Segment	Acquisition cost	Project status	Acquisition cost	Project status	Acquisition cost	Project status
Work in progress								
Mõigu Road 11, Rae	Estonia	Residential	0	-	3,378	D	2,061	E
Pirita Road 26b, Tallinn	Estonia	Residential	5,711	D	4,326	D	3,088	D
Paevälja 11, Tallinn	Estonia	Residential	1,984	B	0	-	1,956	A
Valge 10/10a, Tallinn	Estonia	Residential	0	-	465	E	0	-
Kadaka Road 141, Ehitajate Road 91/91a, Tallinn	Estonia	Residential	0	-	7,455	D	0	-
Paldiski mnt 227c, Tallinn	Estonia	Residential	2,368	C	0	-	0	-
Narva mnt 150, Tallinn	Estonia	Residential/ commercial	3,586	A	0	-	0	-
Manufaktuuri 5, Tallinn	Estonia	Residential/ commercial	3,040	B	2,684	A	2,764	A
Manufaktuuri 7, Tallinn	Estonia	Residential/ commercial	2,057	B	1,493	A	1,673	A
Tooma 2/Tooma 4 Tallinn	Estonia	Commercial	1,123	C	1,052	C	1,088	C
Lembitu 4, Tallinn	Estonia	Commercial	2,826	C	0	-	2,733	C
Meistri 14, Tallinn	Estonia	Commercial	3,293	D	860	B	1,145	D
Pärnu Road 113, Tallinn	Estonia	Commercial	0	-	1,822	A	0	-
Agenskana 24, Riga	Latvia	Residential	0	-	2,152	E	0	-
Balozu 7, Riga	Latvia	Residential	0	-	1,047	E	0	-
Balozu street 9, Riga	Latvia	Residential	821	D	275	A	419	B
Saules alley 2, Riga	Latvia	Residential	1,045	B	1,028	A	1,043	A
Liela 45, Marupe	Latvia	Residential	510	B	13	A	14	A
Strelnieku 4b, Riga	Latvia	Residential/ commercial	0	-	3,217	D	0	-
Ulbrokas 30, Riga	Latvia	Commercial	524	B	450	A	471	A
-other properties	Estonia		22	-	61	-	39	-
-other properties	Latvia		2	-	2	-	2	-
Total work in progress			28,912		31,780		18,496	
Finished real estate development								
Agenskalna 24, Riga	Latvia	Residential	112	E	0	-	257	E
Strelnieku 4b, Riga	Latvia	Residential	4,044	E	0	-	4,134	E
Manufaktuuri 22, Tallinn (parking spaces)	Estonia	Residential	16	E	20	E	16	E
Total finished real estate development			4,172		20		4,407	
Total inventories			33,084		31,800		22,903	

Project statuses are classified as following:

in thousands of euros	30.06.2021	30.06.2020	31.12.2020
A- planning proceedings	3,610	7,828	7,962
B- building permit proceedings	9,160	860	419
C-building permit available	6,317	1,052	3,821
D-construction started	9,825	18,376	6,294
E-construction ready for sale	4,172	3,684	4,407
Total inventories	33,084	31,800	22,903

As at 30.06.2021, 1 apartment at Agenskana street development project and 52 apartments at Strelnieku street development project were available for sale.

In 2020, the Group sold its 55% stake in Hepsor P113 OÜ, company developing Pärnu Road 113 project. Hepsor P113 is accounted as an associated company using equity method starting from third quarter 2020.

As at 30 June 2021 changes in inventories as stated in cash flow statements have been adjusted by loan interest expense, which are capitalised in the amount of 840 thousand euros (30 June 2020: 756 thousand euros; 31 December 2020: 1,007 thousand euros). Further information about financial expenses is provided in Note 15.

Note 3. Trade and other receivables

in thousands of euros	30.06.2021	30.06.2020	31.12.2020
Trade receivables	66	669	73
Allowance for doubtful receivables	-4	0	0
Net trade receivables	62	669	73
Prepayments			
Tax prepayment	268	192	329
Value added tax	268	192	329
Other prepayments for goods and services	179	231	48
Total prepayments	447	423	377
Other current receivables			
Interest receivables	0	7	2
Escrow account	0	0	122
Other current receivables	127	0	0
Other current receivables	127	7	124
Total trade receivables	636	1,099	574

Note 4. Shares of associates

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

	Ownership and voting rights %		
	30.06.2021	30.06.2020	31.12.2020
Hepsor P113 OÜ	45	-	45
Hepsor N170 OÜ	25	25	25

In August 2020 the Group sold 55% stake in its subsidiary Hepsor P113 OÜ.

Financial information about associates

in thousands of euros	30.06.2021		30.06.2020	30.12.2020	
	Hepsor P113 OÜ	Hepsor N170 OÜ	Hepsor N170 OÜ	Hepsor P113 OÜ	Hepsor N170 OÜ
Current assets					
Cash and cash equivalents	78	203	120	316	133
Trade receivables	74	29	10	53	5
Inventories	4,290	2,576	942	2,689	1,171
Total current assets	4,442	2,808	1,072	3,058	1,309
Total assets	4,442	2,808	2,144	3,058	1,309
Current liabilities					
Trade and other payables	619	1,098	120	326	357
Total current liabilities	619	1,098	120	326	357
Non-current liabilities					
Loans and borrowings	3,867	1,779	950	2,718	950
Other non-current liabilities	12	0	0	12	0
Total non-current liabilities	3,879	1,779	950	2,73	950
Total liabilities	4,498	2,877	1,070	3,056	1,307
Total equity	-56	-69	2	2	2
Total liabilities and equity	4,442	2,808	1,072	3,058	1,309

As of 30.06.2021, the Group had contractual commitment to finance Hepsor P113 OÜ office building development at Pärnu Road 113, Tallinn in the total amount of 3,149 thousand euros, of which the Group had fulfilled 1,740 thousand euros (30 June 2020: -, 31 December 2020: 1,223 thousand euros), and the development of Hepsor N170 commercial and apartment building at Narva Road 170, Tallinn in the total amount of 340 thousand euros, of which the Group had fulfilled 227 thousand euros (30 June 2020: 148 thousand euros, 31 December 2020: 148 thousand euros).

Note 5. Loans granted

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

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

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

in thousands of euros	Owner of non-controlling interest	Unrelated legal entities	Associates	Related legal entities	Total
2021					
Loan balance as at 31.12.2020					
- current portion	720	56	0	0	776
- non-current portion	0	0	1,371	0	1,371
Total loan balance as at 31.12.2020	720	56	1,371	0	2,147
Loan granted	29	171	599	0	799
Division of subsidiary	-720	0	0	0	-720
Loan balance as at 30.06.2021	29	227	1,970	0	2,226
-current portion	29	227	0	0	256
-non-current portion	0	0	1,970	0	1,970
contractual interest rate per annum	0%	0%	7%	0	
2020					
Loan balance as at 31.12.2019					
current portion	1,055	65	0	0	1,120
non-current portion	0	0	124	0	124
Total loan balance as at 31.12.2019	1,055	65	124	0	1,244
Loan granted	40	65	24	20	149
Division of subsidiary	-1,055	0	0	0	-1,055
Loan collected	0	-130	0	0	-130
Loan balance as at 30.06.2020	40	0	148	20	208
-current portion	40	0	0	20	60
-non-current portion	0	0	148	0	148
contractual interest rate per annum	0-3%	0%	7%	12%	

Note 6. Loans and borrowings

in thousands of euros	Bank loans	Unrelated legal entities and individuals	Related legal entities	Total
2021				
Balance as at 31.12.2020				
- current loan payable	1,308	2,230	500	4,038
- non-current loan payable	3,397	8,585	140	12,122
Total loan balance as at 31.12.2020	4,705	10,815	640	16,160
Received	6,430	5,100	0	11,530
Repaid	-2,754	-1,374	0	-4,128
Loan balance as at 30.06.2021	8,381	14,541	640	23,562
- current loan payable	3,222	671	500	4,393
- non-current loan payable	5,159	13,870	140	19,169
contractual interest rate per annum	EU6+5.85%-8%; 8.2%	0-24%	3-12%	
2020				
Loan balance as at 31.12.2019				
- current loan payable	7,559	2,446	400	10,405
- non-current loan payable	4,178	6,326	2,530	13,034
Total loan balance as at 31.12.2019	11,737	8,772	2,930	23,439
Received	8,253	5,241	600	14,094
Repaid	-10,543	-2,142	-1,875	-14,560
Loan balance as at 30.06.2020	9,447	11,871	1,655	22,973
- current loan payable	4,322	1,878	1,600	7,800
- non-current loan payable	5,125	9,948	100	15,173
contractual interest rate per annum	EU6+5%-6%; 8.2%	0-15%	12%	

Substantial part of interest expenses are interest expenses on financing the development projects. Interest costs which are related with property development projects are 100% capitalised and added to the inventories acquisition costs. During the reporting period the Group has capitalized borrowing costs in the amount of 840 thousand euros (at 30 June 2020: 756 thousand euros, 31 December 2020: 1,007 thousand euros).

The shareholders of Hepsor AS decided to pledge the shares of Hepsor AS as a collateral for a loan received from LHV Pank AS with the total limit of 4,000 thousand euros with term date in three years. Financial covenants in this agreement are loan and equity ratio, measured quarterly.

Note 7. Trade and other payables

in thousands of euros	30.06.2021	30.06.2020	31.12.2020
Trade payables	1,376	981	831
Taxes payable			
Value added tax	62	318	743
Corporate income tax	0	0	58
Personal income tax	6	6	11
Social security tax	12	15	20
Other taxes	20	8	3
Total taxes payable	100	347	835
Accrued expenses			
Payables to employees	81	64	76
Interest payable	28	643	174
Other accrued expenses	30	22	83
Total accrued expenses	139	729	333
Other current payables			
Dividend payables	0	0	37
Embedded derivatives (note 9)	332	429	1,022
Other payables	20	97	24
Total other current payables	352	526	1,083
Total trade and other payables	1,967	2,583	3,082

Note 8. Other non-current liabilities

in thousands of euros	30.06.2020	30.06.2020	31.12.2020
Non-current interest payables	1,068	308	390
Other non-current payables	12	12	12
Total other non-current liabilities	1,080	320	402

Note 9. Embedded derivatives

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

in thousands of euros	30.06.2021	30.06.2020	31.12.2020
Current liabilities arising from embedded derivatives			
Residential development Kadaka Road 141, Ehitajate 91/91a Road Tallinn	0	155	448
Residential development Pirita Road 26b, Tallinn	295	0	253
Residential development Mõigu Road 11, Rae parish	37	0	47
Residential development Valge street 10/10a, Tallinn	0	274	274
Total	332	429	1,022

In September 2020, the shareholders of Hepsor V10 OÜ approved the resolution of division of the company, based on which Hepsor V10 transferred assets to minority shareholder in the amount of 274 thousand euros.

In December 2020, the shareholders of Hepsor Kadaka OÜ approved the resolution of division of the company, based on which Hepsor Kadaka transferred assets to minority shareholder in the amount of 448 thousand euros.

Note 10. Deferred Income tax

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

in thousands of euros	30.06.2021	30.06.2020	31.12.2020
Balance at 01.01	60	0	0
Deferred income tax expense	13	154	60
Balance at the end of reporting period	73	154	60
- current deferred income tax liability	0	154	0
- non-current deferred income tax liability	73	0	60

Note 11. Contingent liabilities

11.1. Group guarantees given

As of 30 June 2020, the Group has not issued financial guarantees for bank loans (30 June 2020: 4,897 thousand euros; 31 December 2020: 2,900 thousand euros).

11.2 Contingent liabilities arising from embedded derivatives

In accordance with the shareholders' agreements between the Group and minority shareholders of subsidiaries (SPV's), the Group has an obligation as of 30 June 2021 to pay 5,622 thousand euros (30 June 2020: 2,782 thousand euros; 31. December 2020: 5,662 thousand euros) to the minority shareholders upon realisation of the business plan. The obligations amounts are estimations calculated based on current business plans of the development projects as of statement of financial position dates. Contingent liabilities are estimated before the full realisation of the development projects at each reporting date. As of 31 December 2020, the realisation time of contingent liabilities remains between 2021 and 2024.

Note 12. Revenue

in thousands of euros	6 M 2021	6 M 2020	2020
Revenue from sale of real estate	3,597	17,174	38,475
Revenue from project management services	103	29	213
Revenue from rent	147	0	66
Revenue from other services	27	5	17
Total	3,874	17,208	38,771

Note 13. Cost of sales

in thousands of euros	6 M 2021	6 M 2020	2020
Cost of real estate sold	3,044	15,363	34,219
Personnel expenses	94	131	205
Depreciation	24	14	34
Other costs	9	20	35
Total	3,171	15,528	34,493

Note 14. Administrative expenses

in thousands of euros	6M 2021	6M 2020	2020
Personnel expenses	227	161	400
Depreciation	63	63	127
Impairment of goodwill	0	25	25
Traveling and transport expenses	13	17	55
Purchased service expenses	77	47	60
Office expenses	17	27	49
Other administrative expenses	20	32	72
Total	417	372	788

Note 15. Financial expenses

in thousands of euros	6 M 2021	6 M 2020	2020
Interest expenses	170	149	157
Loss from associates of equity method (note)	2	0	0
Financial expenses from discounting	0	0	11
Other financial expenses	19	0	0
Loss from sale of shares of associate	0	0	196
Total	191	149	364

During the first six months of 2021 borrowing costs in the amount of 840 thousand euros (6M 2020: 756 thousand euros; 2020: 1,007 thousand euros) have been capitalised as the cost of inventories.

Information about line item in the consolidated statement of cash flows

in thousands of euros	30.06.2021	30.06.2020	31.12.2020
Interest paid			
Interest expense in statement of profit or loss and other comprehensive income	-170	-149	-157
Reclassification of cash flows from operating activities to financing activities	-840	-756	-1,007
Decrease (-)/ increase (+) of interest payables	532	223	-164
Interest paid	-478	-682	-1,328

Note 16. Operating segments

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

The Group reports separately information about the following operating segments:

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

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

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

Revenue by geographical area

in thousands of euros	6M 2021	6M 2020	2020
Estonia	3,465	15,719	33,907
Latvia	409	1,489	4,864
Total	3,874	17,208	38,771

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

in thousands of euros	Residential development		Commercial development		Headquarters		Total
	Estonia	Latvia	Estonia	Latvia	Estonia	Latvia	
6M 2021							
Revenue	3,323	390	39	13	103	6	3,874
incl. revenue from rent	0	106	28	13	0	0	147
Operating profit	687	63	-11	12	-391	-182	178
Assets	20,147	5,962	9,298	1,438	671	218	37,734
Incl non-current assets	251	0	1,818	0	288	124	2,481
Liabilities	16,325	3,331	3,844	513	4,085	178	28,276

in thousands of euros	Residential development		Commercial development		Headquarters		Total
	Estonia	Latvia	Estonia	Latvia	Estonia	Latvia	
6M 2020							
Revenue	15,678	1,488	13	0	28	1	17,208
incl. revenue from rent	0	0	0	0	0	0	0
Operating profit	1,683	146	3	0	-341	-200	1,291
Assets	22,526	7,944	3,759	1,098	579	215	36,121
incl non-current assets	158	65	0	0	407	170	800
Liabilities	19,342	3,299	1,402	312	4,261	210	28,826

Note 17. Related parties

The Group considers following parties as related parties:

- key members of the management (supervisory and management board), their close relatives and entities under their control or significant influence;
- shareholders, their family members and all companies and associates directly or indirectly owned by them.

Balances and loan transactions with related parties

in thousands of euros	30.06.2021	30.06.2020	31.12.2020
Receivables			
Loans granted (note 5)			
Associated companies			
Opening balance	1371	124	124
Loan granted	599	24	1,247
Balance at the end of period	1,970	148	1,371
Shareholders and all companies directly or indirectly owned by them			
Loan granted	0	20	0
Balance at the end of period	0	20	0
Trade and other receivables			
Associated companies	12	0	2
Shareholders and all companies directly or indirectly owned by them	1	7	4
Interest receivables			
Associated companies	99	10	42
Payables			
Loans and borrowings (note 6)			
Shareholders and all companies directly or indirectly owned by them			
Opening balance	640	2,930	2,930
Loans received	0	600	1,240
Loans repaid	0	-1,875	-3,530
Balance at the end of period	640	1,655	640
Trade payables			
Shareholders and all companies directly or indirectly owned by them	1,331	907	770
Interest payables			
Shareholders and all companies directly or indirectly owned by them	12	101	2

Purchases and sales of goods and services

in thousands of euros	6M 2021	6M 2020	12M 2020
Sales of goods and services			
Associated companies	80	19	160
Shareholders and all companies directly or indirectly owned by them	25	25	173
Total sales of goods and services	105	44	333
Purchases of goods and services			
Shareholders and all companies directly or indirectly owned by them	5,417	9,139	17,526
Interest income earned			
Associated companies			
Interest earned	56	4	37
Shareholders and all companies directly or indirectly owned by them			
Interest earned	0	1	1
Interest received	0	0	6
Interest expenses incurred			
Shareholders and all companies directly or indirectly owned by them			
Accrued interest	17	135	154
Interest paid	8	83	204

In six months 2021, the remuneration to a member of the Management Board was paid 21 thousand euros (6M 2020: 21 thousand euros and 12M 2020: 42 thousand euros). There are no special benefits, share-based payments or share options granted for the member of Management Board.

Note 18. Events after the reporting period

- On 9 August 2021, the General Meeting of Shareholders decided to increase the share capital of the company and transform the private limited company (OÜ) into a public limited company (AS). Share capital was decided to increase to 3,000 thousand euros at the expense of share premium (note 16). The Articles of Association of Hepsor AS were approved on 14 October 2021.
- On 18 August 2021, the owners of Hepsor AS decided to pay dividends in the amount of 151 thousand euros. Income tax expense will not occur as tax credit could be used for the dividend tax.
- On 09 August 2021, the Group has established one new SPV in Latvia, Hepsor RD5 SIA, for residential development.
- On 03 September 2021, the Group has established one new SPV in Latvia, Hepsor U34 SIA, for development of Stock-Offices. Group company Hepsor Latvia OÜ owns 70 % of shares.
- In September 2021 the Group has established one new property development company H&R Residentsid OÜ. The sale-purchase agreement on property at Kadaka Road 197, Tallinn with no detail plan was signed under the law of obligation.