

CONSOLIDATED SPECIAL- PURPOSE FINANCIAL STATEMENTS

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Consolidated special-purpose financial statements

Consolidated statement of financial position

in thousands of euros	Note	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Assets					
Current assets					
Cash and cash equivalents	2	4,207	2,667	5,701	2,319
Trade and other receivables	3	574	840	280	538
Current loan receivables	8	776	1,120	238	205
Inventories	4	22,903	31,499	21,623	22,391
Total current assets		28,460	36,126	27,842	25,453
Non-current assets					
Property, plant and equipment	5	492	666	168	110
Investments in associates	6	2	1	0	5
Non-current loan receivables	8	1,371	124	0	0
Other non-current receivables	9	108	70	0	0
Total non-current assets		1,973	861	168	115
Total assets		30,433	36,987	28,010	25,568
Liabilities and equity					
Current liabilities					
Loans and borrowings	10	4,038	10,405	6,075	8,316
Current lease liabilities	11	174	133	39	23
Prepayments from customers	12	769	2,347	11,362	1,782
Trade and other payables	12	3,082	3,423	3,024	3,395
Total current liabilities		8,063	16,308	20,500	13,516
Non-current liabilities					
Loans and borrowings	10	12,122	13,034	3,632	7,584
Non-current lease liabilities	11	267	430	47	54
Other non-current liabilities	13	402	493	624	2,385
Deferred income tax liability	23	60	0	305	31
Total non-current liabilities		12,851	13,957	4,608	10,054
Total liabilities		20,914	30,265	25,108	23,570
Equity					
Share capital	16	6	6	3	3
Share premium	16	3,211	3,211	0	0
Reserves	16	0	0	100	100
Retained earnings		6,302	3,505	2,799	1,895
Total equity		9,519	6,722	2,902	1,998
incl. total equity attributable to owners of the parent		9,454	6,886	2,878	1,882
incl. non-controlling interest	27	65	-164	24	116
Total liabilities and equity		30,433	36,987	28,010	25,568

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros	Note	2020	2019	2018
Revenue	17,25	38,771	19,535	32,068
Cost of sales (-)	18	-34,493	-17,447	-27,820
Gross profit		4,278	2,088	4,248
Marketing expenses (-)		-93	-52	-14
Administrative expenses (-)	19	-788	-785	-604
Other operating income		51	146	269
Other operating expenses (-)		-37	-99	-37
Operating profit of the year	25	3,411	1,298	3,862
Financial income		917	22	53
interest income	21	108	22	6
profit on the sale of a subsidiary	21	809	0	0
other financial income		0	0	47
Financial expenses (-)		-364	-295	-584
interest expenses (-)	22	-157	-248	-584
other financial expenses (-)	22	-207	-47	0
Profit before tax		3,964	1,025	3,331
Current income tax	23	-59	-2	-69
Deferred income tax	23	-60	305	-273
Net profit for the year		3,845	1,328	2,989
Attributable to owners of the parent		2,591	956	1,419
Non-controlling interest		1,254	372	1,570
Other comprehensive income (loss)				
Changes related to change of ownership	7	-14	-67	0
Disposal of subsidiaries	7	0	0	-83
Acquisition of a subsidiaries	7	0	15	-381
Change in value of embedded derivatives with minority shareholders	14	-1,022	-635	-1,483
Business combination between related parties	7	25	65	0
Other comprehensive income for the period		2,834	706	1,042
Attributable to owners of the parent		2,605	894	996
Non-controlling interest		229	-188	46
Earnings per share				
Basic (euros per share)	24	0.86	0.32	0.47
Diluted (euros per share)	24	0.86	0.32	0.47

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	Voluntary reserves	Retained earnings		
01.01.2018	3	0	100	1,779	116	1,998
Other comprehensive income for the period	0	0	0	996	46	1,042
Dividends paid	0	0	0	0	-138	-138
31.12.2018	3	0	100	2,775	24	2,902
Other comprehensive income for the period	0	0	0	894	-188	706
Issue of shares	3	3,211	0	0	0	3,214
Changes in reserves	0	0	-100	0	0	-100
31.12.2019	6	3,211	0	3,669	-164	6,722
Other comprehensive income for the period	0	0	0	2,605	229	2,834
Dividends declared	0	0	0	-37	0	-37
31.12.2020	6	3,211	0	6,237	65	9,519

Information on share capital, share premium, voluntary reserves and dividends are presented in notes 16 and 29 to these consolidated financial statements.

Consolidated statement of cash flows

in thousands of euros	Note	2020	2019	2018
Net cash flows from (to) operating activities				
Operating profit of the year		3,411	1,298	3,862
Adjustments for:				
Depreciation of property, plant and equipment	5	161	133	90
Loss from write off of property, plant and equipment	5	0	1	0
Loss from write off of goodwill	7	25	65	0
Income tax paid	26	-1	-1	-82
Changes in working capital:				
Change in trade receivables		253	-614	261
Change in inventories	26	9,603	-9,073	1,423
Change in liabilities and prepayments		-1,905	-8,055	5,656
Cash flows from (to) operating activities		11,547	-16,246	11,210
Net cash flows to investing activities				
Payments for property, plant and equipment	5	-3	-47	-63
Payments of for acquisition of subsidiaries	7	0	-509	-394
Payments of for acquisition of associates	6	0	-1	3
Proceeds from sale of subsidiaries	21	819	3	3
Net of cash from division effected by separation	7	0	-370	0
Proceeds from sale of associates	6	1	0	0
Interest received	26	83	6	4
Loans granted	8	-2,108	-2,632	-238
Loan repayments received	8	150	1,386	204
Cash flows to investing activities		-1,058	-2,164	-481
Net cash flows from (to) financing activities				
Loans raised	10	22,634	22,095	8,540
Loan repayments	10	-29,913	-8,363	-14,733
Interest paid	26	-1,328	-1,349	-852
Payments of finance lease principal	11	-7	-7	-7
Payments of right to use lease liabilities	11	-115	-101	-69
Receipts from contribution into share capital	16	0	3,214	0
Dividends paid	23,27	0	0	-138
Disbursement of reserve capital	16	0	-100	0
Other receipts from financing activities	22	-196	0	0
Cash flows from financing activities		-8925	15,389	-7,259
Net cash flow		1,564	-3,021	3,470
Cash and cash equivalents at beginning of year	2	2,667	5,701	2,319
Cash outflow from disposal of subsidiaries	7	-24	-13	-88
Increase / decrease in cash and cash equivalents		1,564	-3,021	3,470
Cash and cash equivalents at end of year	2	4,207	2,667	5,701

Notes to the consolidated financial statements

Note 1. Accounting policies

1.1. Basis of preparation of consolidated special-purpose financial statements

The consolidated special-purpose financial statements of Hepsor AS and its subsidiaries for the financial years ended 31 December 2020, 31 December 2019, 31 December 2018 were signed by the Management Board on 15, October 2021.

The Hepsor AS (hereinafter “the Group”) consolidated special-purpose financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed in the European Union (“IFRS (EU)”). The Group has consistently applied the accounting policies throughout all periods presented, unless stated otherwise.

The consolidated special-purpose financial statements have been prepared on a going concern basis.

The preparation of these consolidated special-purpose 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 are appropriate. The consolidated special-purpose financial statements are presented in euros and all values are rounded to the nearest thousand (€000), except when otherwise indicated.

1.2. Presentation of financial statements (IAS 1)

Financial statements provide a structured representation of a Group’s financial position and financial performance. The objective is to provide information about the Group’s consolidated financial position, consolidated financial performance and consolidated cash flows intended to support economic decisions of the users of these financial statements.

These special-purpose consolidated financial statements consist of consolidated statements of financial position as of 31 December 2020, 31 December 2019 and 31 December 2018, consolidated statement of comprehensive income, statement of changes in equity, consolidated statement of cash flows for the financial years then ended, and explanatory notes.

1.3. First time adoption of IFRS (IFRS 1)

The financial statements, for the financial year ended on 31 December 2020, are the first the Group has prepared in accordance with IFRS (EU) due to the special-purpose nature of these financial statements. Accordingly, the Group has prepared financial statements that comply with IFRS (EU), together with the comparative period financial statements for the years ended 31 December 2019, and 31 December 2018. The special-purpose consolidated financial statements are comprised of three financial years preceding the expected listing subject to the requirements by the Listing Rules of NASDAQ Tallinn.

For periods up to and including the year ended 31 December 2020, the Group prepared its statutory financial statements in accordance with Estonian Financial Reporting Standards (EFS). Estonian Financial Reporting Standard is a set of financial reporting requirements directed at the public and based on the internationally accepted accounting and reporting principles (IFRS (SME)).

These special-purpose consolidated financial statements have been compiled using the statutory financial statements adjusted for accounting policy and presentation differences required by IFRS (EU).

In preparing the special-purpose consolidated financial statements, the Group’s opening statement of financial position was prepared as at 1 January 2018, the Group’s transition date to IFRS (EU).

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

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

The Group selects and applies its accounting policies consistently for similar transactions, other events, and conditions, unless an IFRS (EU) specifically requires or permits categorisation of 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 recognized prospectively by including it in profit or loss in the period of the change, if the change affect that period only or the period of the change and future periods, if the change affects both.

The Group corrects material prior period errors retrospectively in the first set of consolidated financial statements 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.

In preparing the IFRS consolidated financial statements, the Group has adjusted amounts reported previously in financial statements prepared in accordance with EFS. An explanation of how the transition from EFS to IFRS affected the Group's financial position and results is set out in the following notes and accompanying tables.

A) Inventories

On transition to IFRS, the Group changed its accounting policy for the treatment of marketing expenses whereby amounts capitalised as the cost value of inventories in statutory financial statements, are expensed in the period in which they were incurred as per IAS 2:16.

Accordingly, upon conversion to IFRS (EU), the Group recorded an adjustment (debit of retained earnings and credit of inventories) of 252 thousand euros as at 01 January 2018 and 50 thousand euros as at 31 December 2020.

The transition reduced cost of sales by 221 thousand euros and marketing expenses by 36 thousand euros net, against retained earnings as of 31 December 2020.

B) Leases

Under EFS, a lease is classified as finance lease or an operating lease. Operating lease payments are recognized as an operating expense on a straight-line bases over the lease term. The lease agreements for offices in Latvia and Estonia were recognized as operating lease and expensed on a straight-line basis over the lease term. Under IFRS 16, the Group is required to recognize the lease as a right-to-use asset and a liability in its statement of financial position at amounts equal to the fair value of the leased asset or at the present value of the minimum lease payments, if lower.

Accordingly, the adjustment increased the Group's property, plant and equipment by 13 thousand euros as at 01 January 2018 and 395 thousand euros as at 31 December 2020. Current liabilities increased respectively 16 thousand euros and 135 thousand euros. The impact to non-current liabilities amounted to 0 euros as at 01 January 2018 and 267 thousand euros as at 31 December 2020.

Net impact to consolidated statement of profit and loss and other comprehensive income for the financial year ended

31 December 2020 amounted to 10 thousand euros.

The journal entry includes credit adjustment of non-current lease liabilities and debit adjustment of property, plant and equipment and retained earnings.

C) Deferred income tax

The various transitional adjustments resulted in various temporary differences. According to Note 23 and accounting policies, the Group has to recognize the tax effects of such differences. The respective adjustment (credit deferred income tax liability and debit retained earnings) is 31 thousand euros as at 01 January 2018 and 60 thousand euros as at 31 December 2020.

D) Embedded derivatives

Under IFRS 9 the Group is required to separate embedded derivatives from host contract. The Group has signed agreements with minority shareholders of subsidiaries, which have embedded derivatives that are required to be separated.

As at 1 January 2018 the embedded derivatives amounted to 0 euros and as at 31 December 2020 to 511 thousand euros in the consolidated statement of financial position (credit trade and other payables and debit retained earnings).

The cost of embedded derivative for 2020 in consolidated statement of profit and loss and other comprehensive income amounted to 1,022 thousand euros.

E) Business combinations

Under EFS, goodwill is recognized at carrying amount taking into consideration accumulated amortization and any impairment losses.

Upon transition to IFRS, the Group needs to test goodwill acquired in business combinations for impairment annually (not amortized). The purchase analysis of acquisitions indicated that the income from the companies was lower than expected, therefore the goodwill recognized as a result of business combination between related parties was recorded in other comprehensive income in the amount of 25 thousand euros during the 2020 reporting period. There was no goodwill recognized as at 01 January 2018.

In addition to the adjustments arising from transition to IFRS the Group has made retrospectively number of corrections to the presented periods included in special-purpose consolidated financial statements including:

F) Reclassification of current interest receivable in the amount of 42 thousand euros to other non-current receivables as at 31 December 2020 to have presentation together with the source financial instrument.

G) Reclassification of current loans and borrowings to non-current loans and borrowings in the amount 0 euros as at 01 January 2018 and 1,220 thousand euros as at 31 December 2020.

H) Consolidation adjustment (debit inventories and credit retained earnings) in the amount of 840 thousand euros from elimination of an intra-group transaction as at 31 December 2020.

I) Reclassification of escrow account from cash and cash equivalents to trade and other receivables. Total adjustment amounted to 0 euros as at 01 January 2018 and 137 thousand euros as at 31 December 2020.

J) Reclassification of loan to other prepayments from customers in the amount of 2,207 thousand euros as at 01 January 2018.

K) Write-off of goodwill (debit to retained earnings and credit to intangible assets) in the amount of 79 thousand euros as at 01 January 2018.

L) Corrections in financial statements of Latvian subsidiary as at 31 December 2020 in the amount of 50 thousand euros (debit of prepayments from customers, other non-current liabilities and retained earnings and credit of trade and other receivables).

M) Implementation of effective interest rate instead of nominal interest rate as specified in the contracts. Total adjustment as at 01 January 2018 (debit to inventories (for capitalisation of borrowing costs) and credit to non-current loans and borrowings) amounted to 23 thousand euros. Total adjustment as at 31 December 2020 (debit to inventories and non-current loans and borrowings and credit to current loans and borrowings) amounted to 47 thousand euros, net.

N) Reclassification current interest payables of current trade and other payables to other non-current liabilities payables in the amount of 178 as at 01 January 2018 and 234 thousand euros as at 31 December 2020 to have presentation together with the source financial instrument.

The above-mentioned adjustments on transition to IFRS (EU) as well as prior period corrections have indirect or direct impact on the difference on the Group's profit for 2020 as well as retained earnings as stated in consolidated statement of financial position as at 01 January 2018 and for year ended 31 December 2020. Total adjustments amounted to 2,786 thousand euros as at 01 January 2018 and 3,594 thousand as at 31 December 2020.

Consolidated statement of financial position

in thousands of euros		IFRS (EU)			EFS		
		31.12.2020	31.12.2020	Remea- surement	01.01.2018	01.01.2018	Remea- surement
Assets							
Current assets							
Cash and cash equivalents	I	4,207	4,344	-137	2,319	2,319	0
Trade and other receivables	F, I, L	574	595	-21	538	538	0
Current loan receivables		776	776	0	205	205	0
Inventories	A, H, M	22,903	22,106	797	22,391	22,620	-229
Total current assets		28,460	27,821	639	25,453	25,682	-229
Non-current assets							
Property, plant and equipment	B	492	97	395	110	97	13
Intangible assets	K	0	0	0	0	79	-79
Investment in equity-accounted joint ventures		2	2	0	5	5	0
Non-current loans		1,371	1,371	0	0	0	0
Other non-current receivables	F, I	108	0	108	0	0	0
Total non-current assets		1,973	1,470	503	115	181	-66
Total assets		30,433	29,291	1,142	25,568	25,863	-295
Liabilities and equity							
Current liabilities							
Loans and borrowings	M, G	4,038	5,211	-1173	8,316	8,316	0
Current lease liabilities	B	174	39	135	23	7	16
Prepayments from customers	L	769	778	-9	1,782	1,782	0
Trade and other payables	D, N	3,082	2,805	277	3,395	3,572	-177
Total current liabilities		8,063	8,833	-770	13,516	13,677	-161
Non-current liabilities							
Loans and borrowings	J, M, G	12,122	10,943	1,179	7,584	9,768	-2,184
Non-current lease liabilities	B	267	0	267	54	54	0
Other non-current liabilities	N, J, L	402	176	226	2,385	0	2,385
Deferred income tax liability	C	60	0	60	31	0	31
Total non-current liabilities		12,851	11,119	1,732	10,054	9,822	232
Total liabilities		20,914	19,952	962	23,570	23,499	71
Equity							
Share capital		6	6	0	3	3	0
Share premium		3,211	3,211	0	0	0	0
Reserves		0	0	0	100	100	0
Retained earnings	A, B, C, D, H, K, L	6,302	6,121	181	1,895	2,261	-366
Total equity		9,519	9,338	181	1,998	2,364	-366
Total liabilities and equity incl. equity to owners of the parent		9,454	8,490	964	1,882	2,140	-258
Total liabilities and equity incl. non-controlling interest		65	848	-783	116	224	-108
Total liabilities and equity		30,433	29,290	1,143	25,568	25,863	-71

Consolidated statement of profit and loss and other comprehensive income

in thousands of euros		IFRS (EU)	EFS	Remea- surement
		2020	2020	
Revenue	B, L	38,771	38,761	10
Cost of sales (-)	A, B, H, L	-34,493	-35,452	959
Gross profit		4,278	3,309	969
Marketing expenses (-)	A	-93	-57	-36
Administrative expenses (-)	B, K, L	-788	-830	42
Other operating income	B, L	51	101	-50
Other operating expenses (-)	K, L	-37	-129	92
Profit from operations		3,411	2,394	1,017
Finance income		917	917	0
interest income		108	108	0
profit on the sale of a subsidiary		809	809	0
Finance expenses (-)		-364	-345	-19
interest expenses (-)	F	-157	-149	-8
other finance expenses (-)	B	-207	-196	-11
Profit before tax		3,964	2,966	998
Corporate income tax		-59	-59	0
Deferred income tax	C	-60	0	-60
Profit for the year	A, B, C, F, H, K, L, E	3,845	2,907	938
owners of the parent		2,591	1,744	847
non-controlling interest		1,254	1,162	92
Other comprehensive income (loss),				0
Embedded derivatives	D	-1,022	0	-1,022
Changes related to change of ownership		-14	0	-14
Acquisition of a business combination	E	25	0	25
Comprehensive income for the period		2,834	2,907	-73
owners of the parent		2,605	1,744	861
non-controlling interest		229	1,162	-933

1.5. Impact of new and revised but not yet effective standards

Classification of liabilities as current or non-current (amendments to IAS 1) - The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments clarify what is meant by a right to defer settlement; that a right to defer must exist at the end of the reporting period; that classification is unaffected by the likelihood that an entity will exercise its deferral right and that only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification. Effective for annual reporting periods beginning on or after 1 January 2023. Not yet endorsed for use in the EU.

Reference to the Conceptual Framework (amendments to IFRS 3) - The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. Effective for annual reporting periods beginning on or after 1 January 2022. Not yet endorsed for use in the EU.

Property, Plant and Equipment – Proceeds before Intended Use (amendments to IAS 16) - The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. Effective for annual reporting periods beginning on or after 1 January 2022. Not yet endorsed for use in the EU.

Onerous Contracts – Cost of Fulfilling a Contract (amendments to IAS 37) - The amendments specify that the “cost of fulfilling” a contract comprises the “costs that relate directly to the contract”. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). Effective for annual reporting periods beginning on or after 1 January 2022. Not yet endorsed for use in the EU.

Disclosure of Accounting Policies (amendments to IAS 1) - The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy. Examples of when an accounting policy is likely to be material are added. Effective for annual reporting periods beginning on or after 1 January 2023. Not yet endorsed for use in the EU.

Definition of Accounting Estimates (amendments to IAS 8) - The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not the correction of an error.

Annual Improvements to IFRS Standards 2018–2020 (An entity applies the amendment for annual reporting periods beginning on or after 1 January 2022. Not yet endorsed for use in the EU.):

IFRS 9 – Fees in the ‘10 per cent’ test for derecognition of financial liabilities. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

IFRS 16 – The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

1.6. 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.

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.

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

1.7. Business combinations (IFRS 3, IAS 36)

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

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

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements’ provisional amounts for the items for which the

accounting is incomplete. During the measurement period, the Group shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

1.8. Investments in joint ventures and associates (IAS 28)

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

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

Unrealised gains and losses on transactions between the Group and its associates are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

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.

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

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

The following estimated useful lives are applied:

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

Land and construction in progress are not depreciated.

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

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

1.10. Intangible assets (IAS 38)

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.

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

Goodwill

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

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

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

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

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

Cash and cash equivalents are cash at bank and on hand, high liquidity investments that are readily convertible into a known amount of cash for up to three months from the actual transaction date and which are subject to an insignificant risk of changes in market value.

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

The 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. Inventories (IAS 2, IAS 23, IFRS 9)

Inventories encompass finished real estate development projects when the permit for use has been granted and or work in progress real estate development projects.

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

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

1.13. Financial Instruments (IFRS 9)

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

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

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

Financial assets

The Group classifies its financial assets to be measured at fair value and at amortized cost. The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flow characteristics. According to the Group's business model the objective of financial assets is achieved by both collecting contractual cash flows and selling 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.

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

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

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

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

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

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

Interest income is recognized using the effective interest method for receivables measured subsequently at amortized cost. For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the 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 recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Financial liabilities

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

The Group's financial liabilities include trade and other payables, loans, and borrowings.

Interest bearing loans and borrowings are recognized at 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 all fees and points paid or received that form an integral part of the effective interest rate, 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 derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Embedded derivatives

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

1.14. Provisions and contingent liabilities (IAS 37)

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

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

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

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 recognize contingent liabilities but the 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 are disclosed in the notes to the financial statements.

1.15. Leases (IFRS 16)

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

Group as a lessee

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

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

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

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

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

The lease liability is measured as follows: a) increasing the carrying amount to reflect interest on the lease liability; b) reducing the carrying amount to reflect the lease payments made; and c) remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

Group as a lessor

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

Rental income from operating leases is recognized on a straight-line basis over the lease term. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as lease income.

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

1.16. Revenue (IFRS 15)

The Group recognizes revenue from the following major sources:

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

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

Revenue from sale of real estate

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

The Group recognizes revenue in the amount of the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

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

Revenue from project management services

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

Rental income

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

Financial income

Financial income includes interest income that is recognized as it accrues using the effective interest rate method.

Dividend income

Dividend income is recognized when the right to receive payment is established.

1.17. Operating segments (IFRS 15, IFRS 8)

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

The Group reports separately information about the following operating segments:

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

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

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

1.18. Income tax (IAS 12)

Corporate income tax in Estonia

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

Corporate income tax in Latvia

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

Deferred income tax liability

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

1.19. Fair value measurement (IFRS 13)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. A fair value measurement of a non-financial asset considers a market participant's ability to generate economic benefits by

using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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 market prices in active markets for identical assets and liabilities.

Level (L) 2 - valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level (L) 3 - valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Level 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	31.12.2020			31.12.2019			31.12.2018			01.01.2018		
	Carrying value	Fair value	L	Carrying value	Fair value	L	Carrying value	Fair value	L	Carrying value	Fair value	L
Assets												
Current assets												
Cash and cash equivalents	4,207	4,207	1	2,667	2,667	1	5,701	5,701	1	2,319	2,319	1
Trade and other receivables	574	574	3	840	840	3	280	280	3	538	538	3
Current loan receivables	776	776	3	1,120	1,120	3	238	238	3	205	205	3
Inventories	22,903	26,359	3	31,499	34,072	3	21,623	23,782	3	22,391	24,848	3
Total current assets	28,460	31,916		36,126	38,699		27,842	30,001		25,453	27,910	
Non-current assets												
Property, plant and equipment	492	492	3	666	666	3	168	168	3	110	110	3
Investment in equity-accounted joint ventures	2	2	3	1	1	3	0	0	3	5	5	3
Non-current loans	1,371	1,371	3	124	124	3	0	0	3	0	0	3
Other non-current receivables	108	108	3	70	70	3	0	0	3	0	0	3
Total non-current assets	1,973	1,973		861	861		168	168		115	115	
Total assets	30,433	33,889		36,987	39,560		28,010	30,169		25,568	28,025	
Liabilities and equity												
Current liabilities												
Loans and borrowings	4,038	4,038	3	10,405	10,405	3	6,075	6,075	3	8,316	8,316	3
Current lease liabilities	174	174	3	133	133	3	39	39	3	23	23	3
Prepayments from customers	769	769	3	2,347	2,347	3	11,362	11,362	3	1,782	1,782	3
Trade and other payables	3,082	3,082	3	3,423	3,423	3	3,024	3,024	3	3,395	3,395	3
Total current liabilities	8,063	8,063		16,308	16,308		20,500	20,500		13,516	13,516	
Non-current liabilities												
Loans and borrowings	12,122	12,122	3	13,034	13,034	3	3,632	3,632	3	7,584	7,584	3
Non-current lease liabilities	267	267	3	430	430	3	47	47	3	54	54	3
Other non-current liabilities	402	402	3	493	493	3	624	624	3	2,385	2,385	3
Deferred income tax liability	60	60	3	0	0	3	305	305	3	31	31	3
Total non-current liabilities	12,851	12,851		13,957	13,957		4,608	4,608		10,054	10,054	
Total liabilities	20,914	20,914		30,265	30,265		25,108	25,108		23,570	23,570	

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 has been 1.66%. The impact on recoverability of receivables in short perspective and in consideration of expected lifetime losses is estimated as insignificant at each statement of financial position date.

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

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

According to the estimation of the Group, the carrying values of financial liabilities in the consolidated statement of financial position as at 31 December 2020, 31 December 2019 and 31 December 2018 do not vary significantly from their 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 such cash flows.

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

1.20. Employee benefits (IAS 19)

The Group operates only short-term employee benefits (expected to be settled wholly before twelve months after the end of the reporting period in which the employees render services) such as salaries, and social security contribution; paid annual leave and sick leave; and bonuses. There are no special benefits, share-based payments or share options granted for the Group employees during the reporting periods or subsequent to the last statement of financial position date 31.12.2020.

1.21. Related parties (IAS 24)

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

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

The following parties have been considered 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.

1.22. Earnings per share (IAS 33)

Basic earnings per share is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of shares outstanding during the year.

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

1.23. Events after the Reporting Period (IAS 10)

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are 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	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Cash at hand	2	2	2	2
Bank accounts	4,205	2,665	5,699	2,317
Total cash and cash equivalents	4,207	2,667	5,701	2,319

All cash and cash equivalents are in euros.

Note 3. Trade and other receivables

in thousands of euros	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Trade receivables	73	74	116	161
Allowance for doubtful receivables	0	0	-7	0
Net trade receivables	73	74	109	161
Prepayments				
Tax prepayment	329	305	168	375
Value added tax	329	305	168	375
Other prepayments for goods and services	48	239	0	1
Total prepayments	377	544	168	376
Other current receivables				
Interest receivables	2	14	3	1
Escrow account	122	0	0	0
Other current receivables	0	208	0	0
Other current receivables	124	222	3	1
Total trade receivables	574	840	280	538

Escrow account is in euros with term date in 2021.

Based on historical experience the management estimates that all receivables will be the collected in time.

Note 4. Inventories

in thousands of euros	Location	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Work in progress					
-Residential development Mõigu Road 11, Rae County	Estonia	2,061	1,338	856	820
-Commercial development Lembitu 4, Tallinn	Estonia	2,733	0	0	0
-Residential development Piritä Road 26b, Tallinn	Estonia	3,088	2,049	0	0
-Commercial development Tooma 2/Tooma 4 Tallinn	Estonia	1,088	1,014	716	656
-Residential and commercial development Manufaktuuri 5, Tallinn	Estonia	2,764	0	0	0
-Residential and commercial development Manufaktuuri 7, Tallinn	Estonia	1,673	0	0	0
-Residential development, Paevälja 11, Tallinn	Estonia	1,956	0	0	0
-Residential development Valge 10/10a, Tallinn	Estonia	0	8,058	1,947	0
-Commercial development Meistri 14, Tallinn	Estonia	1,145	800	588	504
-Residential development Kadaka Road 141, Ehitajate Road 91/91a Tallinn	Estonia	0	9,348	3,030	333
-Commercial development Pärnu Road 113, Tallinn	Estonia	0	1,570	220	0
-Commercial development Peterburi Road 98, Tallinn	Estonia	0	0	0	581
-Residential and commercial development Strelnieku 4b, Riga	Latvia	0	1,788	0	0
-Residential development Agenskana 24, Riga	Latvia	0	2,424	0	0
-Residential development Balozu street 9, Riga	Latvia	419	245	0	0
-Commercial development Ulbrokas 30, Riga	Latvia	471	413	0	0
-Residential development Saules alley 2, Riga	Latvia	1,043	0	0	0
-Residential development Manufaktuuri 14,16,18,20,22, Tallinn	Estonia	0	0	12,837	4,719
-Residential development Kadaka 141a, Tallinn	Estonia	0	485	353	0
-Residential development Mäe 2/2a/2b, Tallinn	Estonia	0	0	846	5,060
-Commercial development Järvevana 7b, Tallinn	Estonia	0	0	0	6,180
-Residential development Mooni 75, Tallinn	Estonia	0	0	0	2,267
-Residential development Roosaare Road, Rae County	Estonia	0	0	0	586
-Residential development Vana-Kalamaja 28, Tallinn					512
-other properties	Estonia	39	52	230	173
-other properties	Latvia	16	6	0	0
Total work in progress		18,496	29,590	21,623	22,391
Finished real estate development for sale					
-Residential development Agenskalna 24, Riga	Latvia	257	0	0	0
- Residential development Balozu street 7, Riga	Latvia	0	1,885	0	0
- Residential and commercial development Strelnieku 4b, Riga	Latvia	4,134	0	0	0
-Residential development Manufaktuuri 22, Tallinn (parking spaces)	Estonia	16	24	0	0
Total finished real estate development for sale		4,407	1,909	0	0
Total inventories		22,903	31,499	21,623	22,391

Inventories for which permit of use have been issued are recognized as finished real estate development for sale.

As of 31.12.2020, 4 (31.12.2019: 1, 31.12.2018: 0 and 01.01.2018: 0) development projects have been granted authorisation for use.

- As of 31.12.2020 there was one apartment of 28 available in Agenskalna street 24, Riga apartment building.
- As of 31.12.2019 there were 8 apartments of 18 available in Balozu street 7, Riga, apartment building. 31.12.2020 all sold.
- In Strelnieku street 4b, Riga project was completed in 2020 as an apartment building with 50 residential premises and 4 commercial premises.
- As of 31 December 2020, four parking spaces were still for sale in the parking garage at Manufaktuuri street 22, Tallinn.

Work in progress includes real estate under construction or development, including real estate that has been completed but do not have an authorisation for use.

As at 31.12.2020 changes in inventories as stated in cash flow statements have been adjusted by loan interest expense, which are capitalised in the amount of 1,007 (31.12.2019:803, 31.12.2018:655) thousand euros. Information about line items in the consolidated statement of cash flows are presented in note 26.

Note 5. Property, plant and equipment

in thousands of euros	Right to used assets	Machinery and equipment	Other items	Pre-payments	Total
2020					
Cost at 31.12.2019	581	79	148	0	808
Accumulated depreciation at 31.12.2019 (note 18,19)	-64	-41	-37	0	-142
Carrying amount at 31.12.2019	517	38	111	0	666
Acquisition	0	0	3	0	3
Depreciation	-122	-11	-28	0	-161
Reclassification to inventories	0	0	-16	0	-16
Cost at 31.12.2020	581	79	135	0	795
Accumulated depreciation at 31.12.2020 (note 18,19)	-186	-52	-65	0	-303
Carrying amount at 31.12.2020	395	27	70	0	492
2019					
Cost at 31.12.2018	85	79	102	0	266
Accumulated depreciation at 31.12.2018 (note 19)	-58	-30	-10	0	-98
Carrying amount at 31.12.2018	27	49	92	0	168
Acquisition	585	0	2	0	587
Acquisition through business combinations	0	0	45	0	45
Depreciation	-95	-11	-27	0	-133
Write-offs	0	0	-1	0	-1
Termination of lease contracts	-89	0	0	0	-89
Write-off of accumulated depreciation from terminations of lease contracts	89	0	0	0	89
Cost at 31.12.2019	581	79	148	0	808
Accumulated depreciation at 31.12.2019 (note 18,19)	-64	-41	-37	0	-142
Carrying amount at 31.12.2019	517	38	111	0	666
2018					
Cost at 01.01.2018	68	79	8	31	186
Accumulated depreciation at 01.01.2018	-54	-19	-3	0	-76
Carrying amount at 01.01.2018	14	60	5	31	110
Acquisition	85	0	11	52	148
Depreciation	-72	-11	-7	0	-90
Termination of lease contracts	-68	0	0	0	-68
Write-off of accumulated depreciation from terminations of lease contracts	68	0	0	0	68
Reclassification	0	0	83	-83	0
Cost at 31.12.2018	85	79	102	0	266
Accumulated depreciation at 31.12.2018 (note 19)	-58	-30	-10	0	-98
Carrying amount at 31.12.2018	27	49	92	0	168

Right to used assets comprise office spaces in Tallinn, Estonia and Riga, Latvia. Rental agreement for office premises in Tallinn has term date 31.12.2023 and in Riga 30.10.2024. The Group subleases assets under operating leases to a related party. In 2020, the income from rent amounted to 19 (2019: 0, 2018: 0) thousand euros. The income from rent subleased under operating leases is recognized as periodic income under other operating income. Information on lease liabilities and payments are presented in note 11.

Group has one finance lease agreement for a vehicle with acquisition cost is 79 (31.12.2019:79, 31.12.2018:79 and 01.01.2018: 79) thousand euros, which is recognized under machinery and equipment.

Note 6. Shares of associates

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

	Ownership and voting rights %			
	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Hepsor P113 OÜ	45	-	-	-
Hepsor N170 OÜ	25	25	-	-
Sihi Arenduse OÜ	-	-	-	45

Financial information about associates

in thousands of euros	31.12.2020		31.12.2019	01.01.2018
	Hepsor P113 OÜ	Hepsor N170 OÜ	Hepsor N170 OÜ	Sihi Arenduse OÜ
Current assets				
Cash and cash equivalents	316	133	132	1
Trade receivables	53	5	6	9
Inventories	2,689	1,171	748	0
Total current assets	3,058	1,309	886	10
Total assets	3,058	1,309	886	10
Current liabilities				
Trade and other payables	326	357	84	0
Total current liabilities	326	357	84	0
Non-current liabilities				
Loans and borrowings	2,718	950	800	0
Other non-current liabilities	12	0	0	0
Total non-current liabilities	2,730	950	800	0
Total liabilities	3,056	1,307	884	0
Total equity	2	2	2	10
Total liabilities and equity	3,058	1,309	886	10

As of 31.12. 2020, 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 1,223 thousand euros as of 31 December 2020, 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 148 thousand euros as of 31 December 2020 (31.12.2019: 124, 31.12.2018:0 and 01.01.2018: 0).

Note 7. Shares in subsidiaries

	Ownership and voting rights %				Location	Operating area
	31.12.2020	31.12.2019	31.12.2018	01.01.2018		
Hepsor Finance OÜ	100	100	100	100	Estonia	Holding
Hepsor Lauluväljak OÜ	100	100	84	72	Estonia	Real estate development
Hepsor Tooma OÜ	100	100	100	100	Estonia	Real estate development
Hepsor Peterburi 98 OÜ	-	100	100	51	Estonia	Real estate development
Arenduspartner OÜ	-	100	50	50	Estonia	Holding
Hepsor Kadaka OÜ	51	51	51	100	Estonia	Real estate development
Hepsor Meistri 14 OÜ	100	50	50	50	Estonia	Real estate development
Hepsor Phoenix OÜ	100	50	50	50	Estonia	Real estate development
Hepsor Peetri OÜ	68	68	100	100	Estonia	Real estate development
Hepsor K141 OÜ	-	100	100	-	Estonia	Real estate development
Hepsor P113 OÜ	-	100	100	-	Estonia	Real estate development
Hepsor V10 OÜ	50	50	50	-	Estonia	Real estate development
Hepsor Latvia Investment OÜ	100	100	100	100	Estonia	Holding
Hepsor L4 OÜ	100	100	-	-	Estonia	Real estate development
Hepsor P26 OÜ	51	51	-	-	Estonia	Real estate development
T2T4 OÜ	50	50	-	-	Estonia	Real estate development
Hepsor Phoenix 2 OÜ	50	-	-	-	Estonia	Real estate development
Hepsor Phoenix 3 OÜ	50	-	-	-	Estonia	Real estate development
Hepsor PV 11 OÜ	100	-	-	-	Estonia	Real estate development
Hepsor M14 OÜ	51	-	-	-	Estonia	Real estate development
Hepsor 3Torni OÜ	51	-	-	-	Estonia	Real estate development
Hepsor N450 OÜ	100	-	-	-	Estonia	Real estate development
Hepsor Bal 9 OÜ	71	71	-	-	Estonia	Holding
Hepsor Bal9 SIA	71	71	-	-	Latvia	Real estate development
Hepsor Bal7 SIA	100	100	-	-	Latvia	Real estate development
Hepsor Agen24 SIA	100	100	-	-	Latvia	Real estate development
Hepsor SIA	100	100	-	-	Latvia	Holding
Hepsor Marupe SIA	100	100	-	-	Latvia	Real estate development
Hepsor U30 SIA	100	100	-	-	Latvia	Real estate development
Hepsor S4B SIA	100	100	-	-	Latvia	Real estate development
Hepsor SA2 SIA	51	-	-	-	Latvia	Real estate development
Järvevana 7b OÜ	-	-	51	51	Estonia	Real estate development
Hepsor K78D OÜ	-	-	50	50	Estonia	Real estate development
Pinered OÜ	-	-	-	52	Estonia	Real estate development
Hepsor Rae OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Niine OÜ	-	-	-	100	Estonia	Real estate development
Epitsenter OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Vuti OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Kalamaja OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Kalamaja 2 OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Lauluväljak 2 OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Rootsiküla OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Rootsiküla 2 OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Vanalinna OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Lembitu OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Tedre OÜ	-	-	-	100	Estonia	Real estate development
Hepsor Kuklase OÜ	-	-	-	100	Estonia	Real estate development

Changes in the Group's structure:

In order to simplify the Group's structure, as a common practice, the SPVs of the completed development projects are merged with Hepsor Finance OÜ, and their existence is ceased. Cessation information after merger is reflected and publicly available in the Commercial Register.

2018

In 2018 the following fully owned subsidiaries were merged: Hepsor Kalamaja OÜ, Hepsor Kalamaja 2 OÜ, Hepsor Kuklase OÜ, Hepsor Lauluvaljak 2 OÜ, Hepsor Lembitu OÜ, Hepsor Niine OÜ, Hepsor Rae OÜ, Hepsor Rootsiküla OÜ, Hepsor Rootsiküla 2 OÜ, Hepsor Tedre OÜ, Hepsor Vanalinna OÜ, Hepsor Vuti OÜ, Sihi Arendus OÜ, and Epitsenter OÜ. In the course of the merger Pealinna Ehituse OÜ (later Hepsor Latvia Investment OÜ) became a 100% subsidiary of Hepsor Finance OÜ. The merger did not have any financial impact to the consolidated level.

In 2018, Pinered OÜ (a subsidiary with minority interest) was sold to a third party with nominal value 1 thousand euros. Sale of the company caused 88 thousand euros of cash outflow from the Group from disposals of subsidiaries, which represents cash equivalents of the subsidiary disposed of as a result of the transaction. The other comprehensive income entry represents equity of Pinered OÜ.

In 2018, the Group acquired a 55% holding in the associated company Sihi Arenduse OÜ for 10 thousand euros and a 49% holding in the associated company at the time, Hepsor Peterburi 98 OÜ, for 378 thousand euros from third party. As a result of the latter, Hepsor Peterburi 98 OÜ became a fully owned subsidiary of the parent. The other comprehensive income entry represents equity of Peterburi 98 OÜ.

Changes in the Group's structure in 2018 and their impact to other comprehensive income and cash flows were the following:

in thousands of euros	Other comprehensive income		Cash flows	
	Owners of the parent	Non-controlling interest	Cash flow from investing activities	Cash outflow from disposal of subsidiaries
Disposal of subsidiaries				
Pinered OÜ	-42	-41	0	-88
Total	-42	-41	0	-88
Acquisition of subsidiaries / associates				
Hepsor Peterburi 98 OÜ	-379	0	-378	0
Sihi Arenduse OÜ	-2	0	-10	0
Total	-381	0	-388	0
Total	-423	-41	-388	-88

2019

In accordance with the division agreement concluded between the shareholders of subsidiary Järvevana 7B OÜ, the company was divided and then was merged with Hepsor Finance OÜ. As of 31.12.2019, Järvevana 7B OÜ is no longer part of the Hepsor AS Group. The division impacted the Group's cash flows in 2019. The cash outflow from the Group amounted to 1,434 thousand euros, and the cash inflow into the Group with the company being divided amounted to 1,064 thousand euros, net cash-flows were -370 thousand euros.

In 2019, the Group reassessed the development resolution to build a hostel at Kadaka tee 78d, Tallinn, which resulted in the sale of the development company Hepsor K78D OÜ. With regard to the subsidiary's disposal, the Group's net cash outflow amounted to 13 thousand euros.

In total, the Group's net cash outflow that resulted from the disposal of the subsidiary in 2019 amounted to 383 thousand euros.

The following subsidiaries were established in Estonia for new development projects: Hepsor Bal9 OÜ, Hepsor L4 OÜ (former Hepsor Favorte OÜ), Hepsor P26B OÜ, and T2T4 OÜ.

In 2019, three new subsidiaries, Hepsor Marupe SIA, Hepsor U30 SIA, and Hepsor S4B SIA were established for real estate development activities in the city of Riga, Latvia. On 30 June 2019, the Group acquired the additional real estate development companies in Latvia, namely Hepsor Bal9 SIA and Hepsor SIA, and the subsidiaries of Hepsor SIA, namely Hepsor Agen24 SIA and Hepsor Bal7 SIA. In 2019, the Group paid a total of 632 thousand euros, it has been adjusted with received cash from the acquisition in the sum of 123 thousand euros.

Changes in the Group's structure in 2019 and their impact to other comprehensive income and cash-flows are the following:

in thousands of euros	Other comprehensive income		Cash flows	
	Owners of the parent	Non-controlling interest	Payments of for acquisition of subsidiaries	Cash outflow from disposal of subsidiaries
Acquisition of subsidiaries				
Arenduspartner OÜ	15	0	0	0
Total	15	0	0	0
Changes related to change of ownership				
Järvevana 7B OÜ	-21	0	0	0
Hepsor K78d OÜ	0	0	0	-13
Hepsor SIA	-15	0	-509	0
Hepsor Bal 7 SIA	-19	0	0	0
Hepsor Agen 24 SIA	-8	0	0	0
Hepsor Bal 9 SIA	-74	70	0	0
Hepsor Lauluväljak OÜ	-5	5	0	0
Total	-142	75	-509	-13
Total	-127	75	-509	-13

At the time of the acquisition of the companies on 30 June 2019 and 30 April 2020, the purchase analysis of the companies was carried out as follows:

in thousands of euros	30.06.2019				30.04.2020
	Hepsor SIA	Hepsor Bal 7 SIA	Hepsor Agen 24 SIA	Hepsor Bal 9 SIA	Hepsor SA2 SIA
Cash and cash equivalents	48	191	12	1	3
Trade and other receivables	603	22	27	205	19
Trade and other receivables to Group companies	-540	0	0	0	0
Inventories		1,200	1,335	19	1,035
Property, plant and equipment	6				
Trade and other payables	32	139	208	2	2
Loan and borrowings	640	1,108	1,172	223	1,078
Loan and borrowings from Group companies	-640	-1,108	-676	-223	-130
Net assets	85	1,274	670	223	107
Acquisition cost	660	1,143	288	226	132
Goodwill	575	-131	-382	3	25

Acquisition cost includes loans granted by Group companies before the acquisition. As the income from the companies was lower than expected, the goodwill recognized as a result of business combination between related parties, was expensed as general administrative expenses in the amount of 65 thousand euros during the 2019 reporting period and 25 thousand euros during the 2020 reporting period. The goodwill recognized as a result of business combination between related parties was recorded in other comprehensive income. The acquisition of the companies did not involve contingent liabilities. If the acquisition of the business combination had taken place at the beginning of 2019 the Group net profit of the year would have been 25 thousand euros smaller in 2019. If the acquisition of the business combination had taken place at the beginning of 2020 there would have been no impact for the Group net profit of the year.

2020

In 2020, the shares of fully owned subsidiary Hepsor K141 OÜ and a 55% holding in Hepsor P113 OÜ were sold to third party, making Hepsor P113 OÜ an associated company (note 6) and Hepsor K141 OÜ fully disposed.

In 2020, the Group acquired a 51% holding in the company engaged in the residential real estate development, Hepsor SA2 SIA, in Latvia with acquisition cost 132 thousand euros (including loan granted) from related party. Hepsor Peterburi 98 OÜ and Arenduspartner OÜ, which had completed their real estate development activities, were merged with Hepsor Finance OÜ.

The following subsidiaries were established in Estonia for new real estate development projects: Hepsor Phoenix 2 OÜ, Hepsor Phoenix 3 OÜ, Hepsor PV 11 OÜ, Hepsor M14 OÜ, Hepsor 3Torni OÜ, and Hepsor N450 OÜ.

Changes in the Group's structure in 2020 and their impact to other comprehensive income

in thousands of euros	Owners of the parent	Non-controlling interest
Changes related to change of ownership		
Hepsor P113 OÜ	8	0
Hepsor Meistri 14 OÜ	-5	5
Hepsor SA2 SIA	-13	-9
Total	-10	-4

Note 8. Loans granted

in thousands of euros	Owner of non-controlling interest	Unrelated legal entities	Associates	Related legal entities	Related individual	Total
2020						
Loan balance 31.12.2019	1,055	65	124	0	0	1,244
Loan granted	720	121	1,247	20	0	2,108
Division of subsidiary	-1,055	0	0	0	0	-1,055
Loan collected	0	-130	0	-20	0	-150
Loan balance 31.12.2020	720	56	1,371	0	0	2,147
-current portion	720	56	0	0	0	776
-non-current portion	0	0	1,371	0	0	1,371
contractual interest rate/ effective interest rate per annum	0-3%	0%	7%	12%		
2019						
Loan balance 31.12.2018	0	238	0	0	0	238
Loan granted	1,055	191	124	1,260	0	2,630
Reclassification to Group loan granted	0	-238	0	0	0	-238
Loan collected	0	-126	0	-1,260	0	-1,386
Loan balance 31.12.2019	1,055	65	124	0	0	1,244
-current portion	1,055	65	0	0	0	1,120
-non-current portion	0	0	124	0	0	124
contractual interest rate/ effective interest rate per annum	2.50%	0%	7%	0-2.5%		
2018						
Loan balance 01.01.2018	0	171	0	0	34	205
Loan granted	0	238	0	0	0	238
Loan collected	0	-171	0	0	-34	-205
Loan balance 31.12.2018	0	238	0	0	0	238
-current portion	0	238	0	0	0	238
-non-current portion	0	0	0	0	0	0
contractual interest rate/effective interest rate per annum	N/A	2.50%	N/A	N/A	0%	

In 2019, with the acquisition of Hepsor SIA, the loan granted to Hepsor SIA in the amount of 238 thousand euros was classified as an intra-group loan.

Long-term loans to associated companies will be repaid after the end of the project development activities in 2022.

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

Effective interest rate of loans granted does not differ from contractual interest rate as these loan agreements do not include one-time costs, for example loan contract fee, mortgage agreement costs etc.

Granted loans to not have additional securities or collaterals.

Note 9. Non-current other receivables

in thousands of euros	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Non-current interest receivables	42	5	0	0
Escrow account	66	65	0	0
Total	108	70	0	0

Escrow account is in euros with assumed term date in 2022.

Note 10. Loans and borrowings

in thousands of euros	Bank loans	Unrelated legal entities and individuals	Related legal entities	Total
2020				
Balance at 31.12.2019	11,737	8,772	2,930	23,439
Received	14,754	6,640	1,240	22,634
Repaid	-21,786	-4,597	-3,530	-29,913
Loan balance as at 31.12.2020	4,705	10,815	640	16,160
- current loan payable	1,308	2,230	500	4,038
- non-current loan payable	3,397	8,585	140	12,122
contractual interest rate per annum	EU6+5.85%-8%; 8.2%	0-24%	3-12%	
effective interest rate per annum	6.8%-11%	0-24%	3-12%	
2019				
Balance at 31.12.2018	0	6,707	3,000	9,707
Received	11,737	6,728	3,630	22,095
Repaid	0	-4,663	-3,700	-8,363
Loan balance as at 31.12.2019	11,737	8,772	2,930	23,439
- current loan payable	7,559	2,446	400	10,405
- non-current loan payable	4,178	6,326	2,530	13,034
contractual interest rate per annum	EU6+5%-6%; 8.2%	0-15%	12%	
effective interest rate per annum	6.12%-10.27%	0-15%	12%	
2018				
Balance at 01.01.2018	7,054	5,211	3,635	15,900
Received	3,968	3,177	1,395	8,540
Repaid	-11,022	-1,681	-2,030	-14,733
Loan balance as 31.12.2018	0	6,707	3,000	9,707
- current loan payable	0	3,425	2,650	6,075
- non-current loan payable	0	3,282	350	3,632
contractual interest rate per annum	EU6+2.75%-5%	0-15%	12%	
effective interest rate per annum	8.43%-9.38%	0-15%	12%	

Substantial part of interest expenses are interest expenses of financing the development projects. Interest costs which are related with property development projects are 100% capitalised and added to the inventories acquisition costs. Capitalised interests amounted as of 31.12.2020 1,007 (31.12.2019: 803; 31.12.2018: 655 and 01.01.2018: 1,288) thousand euros.

Information on terms of bank loans and loan collaterals and pledged assets are presented in note 30.

Note 11. Lease liabilities

in thousands of euros	Right to use lease liabilities	Finance lease liabilities	Total
2020			
Balance 31.12.2019	516	47	563
Increase	0	0	0
Repaid	-115	-7	-122
Lease liabilities balance 31.12.2020	401	40	441
- current portion	134	40	174
- non-current portion	267	0	267
2019			
Balance 31.12.2018	32	54	86
Increase	585	0	585
Repaid	-101	-7	-108
Lease liabilities balance 31.12.2019	516	47	563
- current portion	126	7	133
- non-current portion	390	40	430
2018			
Balance 01.01.2018	16	61	77
Increase	85	0	85
Repaid	-69	-7	-76
Lease liabilities 31.12.2018	32	54	86
- current loan portion	32	7	39
- non-current loan portion	0	47	47

Under the terms of the finance lease, a consumer vehicle has been leased, with an interest rate of 6month Euribor + 2%, the agreement includes 0% Euribor floor clause. The agreement expired on 15 May 2021, at which the vehicle financial lease agreement was prolonged for two years. The interest expense on the finance lease was one thousand euros per year in all reporting periods.

Note 12. Prepayments, trade and other payables

in thousands of euros	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Prepayments	769	2,347	11,362	1,782
Trade and other payables				
Trade payables	831	1,944	969	2,569
Taxes payable				
Value added tax	743	48	57	267
Corporate income tax (note 23)	58	0	0	13
Personal income tax	11	10	6	3
Social security tax	20	20	11	6
Other taxes	3	3	2	2
Total taxes payable	835	81	76	291
Accrued expenses				
Payables to employees	76	69	40	21
Interest payable	174	247	795	461
Other accrued expenses	83	10	96	53
Total accrued expenses	333	326	931	535
Other current payables				
Dividend payables (note 16)	37	0	0	0
Embedded derivatives (note 14)	1,022	1,065	1,042	0
Other payables	24	7	6	0
Total other current payables	1,083	1,072	1,048	0
Total trade and other payables	3,082	3,423	3,024	3,395

The amounts made from bookings of apartments and payments after the conclusion of contracts under the law of obligations are recognized as advances from clients. As of 31 December 2018, the advance payment made by Lumi Capital Residential Real Estate OÜ for the rental buildings at Manufaktuuri street 14 and 16, Tallinn. The Group developed two rental houses with a total of 127 apartments for Lumi Kodud OÜ, and these were handed over the buyer in May 2019.

Note 13. Other non-current liabilities

in thousands of euros	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Prepayments from customers	0	0	0	2,207
Non-current interest payable	390	481	231	178
Other non-current payables	12	12	0	0
Embedded derivatives (note 14)	0	0	393	0
Total other non-current liabilities	402	493	624	2,385

As of 01.01.2018, the advance payment by Lumi Capital Residential Real Estate OÜ for the rental buildings at Manufaktuuri street 14 and 16, Tallinn, has been recognized as advances from clients.

Note 14. Embedded derivatives

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

in thousands of euros	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Current liabilities arising from embedded derivatives				
Commercial development Järvevana 7b, Tallinn	0	0	1,042	0
Residential development Manufaktuuri 14,16,18,20,22, Tallinn	0	1,065	0	0
Residential development Kadaka Road 141, Ehitajate Road 91/91a Tallinn	448	0	0	0
Residential development Pirita Road 26b, Tallinn	253	0	0	0
Residential development Mõigu Road 11, Rae parish	47	0	0	0
Residential development Valge street 10/10a, Tallinn	274	0	0	0
Total	1,022	1,065	1,042	0
Non-current liabilities arising from embedded derivatives				
Residential development Manufaktuuri 14,16,18,20,22, Tallinn	0	0	393	0
Total	0	0	393	0

Note 15. Contingent liabilities

15.1 Contingent income tax liability

in thousands of euros	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Retained earnings attributable to owners of the parent	6,237	3,669	2,775	587
Income tax rate in Estonia	25%	25%	25%	25%
Maximum possible dividend payment	4,990	2,935	2,220	470
Contingent income tax liability	1,247	734	555	117
Adjustments for income tax liability				
Income tax from dividends declared(+)	59	0	69	0
Total actual income tax liability	1,306	734	624	117
Actual income tax rate	26%	25%	28%	25%

The contingent income tax liability is calculated based on the maximum tax rate of 20/80 calculated from net dividend payment amount, effective from 1 January 2015.

The calculation of the maximum possible dividend payment and income tax liability has taken into account that net dividends and the income tax expense related to their potential payment do not exceed retained earnings attributable to owners of the parent company at the end of the respective reporting period.

Group can pay out dividends which are distributing subsidiary's retained earnings earlier without additional income tax expense as of 31.12.2020: 188 (31.12.2019: 188; 31.12.2018: 50 and 01.01.2018: 50) thousand euros. In 2018-2020, the Group has not used the tax relief which are offered by law.

15.2. Group guarantees given

As of 31 December 2020, the Group has issued financial guarantees for bank loans in the total amount of 2,900 (31.12.2019: 2,997, 31.12.2018: 0, 01.01.2018: 0) thousand euros. Additional terms and conditions for bank loans are provided in (note 30). By the time of the report the Group has not issued any financial guarantees.

15.3 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 31.12.2020 to pay 5,662 (31.12.2019: 2,449, 31.12.2018: 1,966 and 01.01.2018: 616) 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 16. Equity

In accordance with the Articles of Association of Hepsor AS, which was decided as of 09.08.2021 the company's minimum share capital is 3 million euros and maximum share capital 12 million euros. All shares of the company have the same or different nominal value, and the shares with equal nominal values give the owners equal rights. There are no preference shares or share options issued to owners.

It has been decided by the owners on 09.08.2021, based on new Articles of Association of Hepsor AS, that the obligatory statutory reserve will be 300 thousand euros (1/10 of share capital).

In accordance with the Articles of Association of Hepsor OÜ, valid until 14 October 2021, the company did not have an obligatory reserve. A voluntary reserve may be formed based on a shareholders' resolution. In 2017, a voluntary reserve in the amount of 100 thousand euros was formed based on the shareholders' contributions to support the company's growth. In 2018 after the successful realisation of Järvevana 7b development project the reserve was paid back to the owners.

In order to support the company's growth, in 2019 the owners made a monetary contribution 3,214 thousand euros to the company's equity, of which 3,5 thousand euros was to increase share capital and 3,211 thousand euros represented share premium.

	Ownership and voting rights %			
	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Andres Pärloja	32.25	32.25	40.0	40.0
Kristjan Mitt	32.25	32.25	40.0	40.0
Henri Laks	15.6	15.6	20.0	20.0
Lauri Meidla	19.9	19.9	-	-

In 2019 Lauri Meidla entered among the shareholders of Hepsor AS as financial investor.

Transactions with related parties are presented in note 28.

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

Note 17. Revenue

in thousands of euros	2020	2019	2018
Revenue from sale of real estate	38,475	19,436	31,548
Revenue from project management services	213	93	2
Revenue from rent	66	5	518
Revenue from other services	17	1	0
Total	38,771	19,535	32,068

In 2020, a total of 90% real estate was sold to private clients.

In 2019, the share of the private clients amounted to 45% and 55% were corporates, with the largest client being Lumi Kodud OÜ to whom the Group developed two rental buildings at Manufaktuuri 14 and 16 in the city of Tallinn.

In 2018, the share of the private clients amounted to 51% and the largest corporate client was J7B OÜ to whom the Group developed the office building at Järvevana Road 7b, Tallinn.

Revenue by geographical area

in thousands of euros	2020	2019	2018
Estonia	33,907	19,530	32,068
Latvia	4,864	5	0
Total	38,771	19,535	32,068

In 2020, the first three real estate developments in the city of Riga, Latvia, were completed. Two apartment buildings at Agenskalna 24 and Balozu street 7 and a rental building at Strelnieku 4B.

Note 18. Cost of sales

in thousands of euros	2020	2019	2018
Cost of real estate sold	34,219	17,330	27,820
Personnel expenses (note 20)	205	116	0
Depreciation (note 5)	34	1	0
Other costs	35	0	0
Total	34,493	17,447	27,820

Note 19. Administrative expenses

in thousands of euros	2020	2019	2018
Personnel expenses (note 20)	400	369	289
Depreciation (note 5)	127	130	91
Impairment of goodwill (note 7)	25	65	0
Traveling and transport expenses	55	46	41
Purchased service expenses	60	87	96
Office expenses	49	48	31
Other administrative expenses	72	40	56
Total	788	785	604

Note 20. Personnel expenses

Personnel expenses are allocated to cost of sales and administrative expenses. As of 31 December 2020, the Group employed 14 (31.12.2019 :12 and 31.12.2018: 6) employees.

in thousands of euros	2020	2019	2018
Salaries	466	368	214
Social security and other payroll taxes	139	117	75
Total	605	485	289

There are no special employee benefits, share-based payments or share options granted for the Group employees that includes key personnel. Key personnel includes Management Board Members, Chief Financial Officer and Chief Accountant.

Note 21. Financial income

in thousands of euros	2020	2019	2018
Interest income	108	22	6
Proceeds from sales of subsidiary	691	0	0
Other financial income from subsidiary	118	0	0
Financial income from discounting	0	0	47
Total	917	22	53

In 2020, Group earned financial income from the sale of the shares of Hepsor K141 OÜ and Hepsor Meistri 14 OÜ claim transfer of the minority shareholder in the total sum of 809 thousand euros.

Note 22. Financial expenses

in thousands of euros	2020	2019	2018
Interest expenses	157	248	584
Financial expenses from discounting	11	47	0
Loss from sale of shares of associate	196	0	0
Total	364	295	584

As at 31.12.2020 changes in interest paid as stated in cash flow statements have been adjusted by loan interest expense, which are capitalised to inventories in the amount of 1,007 (31.12.2019:803; 31.12.2018:655) thousand euros. Information about line items in the consolidated statement of cash flows are presented in note 26.

Note 23. 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. In 2018, Arenduspartner OÜ paid dividends in the total amount of 276 thousand euros, of which 138 thousand euros to minority shareholders, and current income tax expense was 69 thousand euros. After 2018, the Group has not collected dividends from its subsidiaries. In 2020, dividends to minority shareholders of Hepsor Kadaka OÜ have been calculated in the amount of 211 thousand euros, with income tax expense amounting to 59 thousand euros. The decision to treat shareholders differently was made by the shareholders in line with articles of association as of 24.03.2021 (note 29). In 2020, the Group's shareholders decided to pay dividends in the amount of 37 thousand euros. Dividends were paid out in January 2021. Any income tax expense on dividend payment did not occur because tax credit was used for the dividend tax paid when distributing subsidiary's retained earnings earlier. The dividend payments were made at the expense of the income taxed dividend received from the subsidiary.

Group Dividend Policy considers Group's growth ambition, capital need for development projects, financial situation, liquidity outlook of the Group and other factors. Based on the forecast for 2021 and 2022 results the dividend payments are not expected to begin as Group development projects in the active pipeline need investments.

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	2020	2019	2018
Current income tax expense	59	2	69
Deferred income tax expense	60	0	305
Deferred income tax expense reduction (-)	0	-305	-32
Total	119	-303	342

Note 24. Earnings per share

The transformation of Hepsor OÜ into a public limited company after the last balance sheet date 31 December 2020 resulted share capital of 3 million euros and a nominal value of 1 euro per share.

Number of shares of Hepsor AS: 3,000,000 (EUR) /1 (EUR)= 3,000,000 shares.

in thousands of euros	2020	2019	2018
Profit for the year attributable to owners of the parent	2,591	956	1,419
Number of ordinary shares (thousand pcs)	3,000	3,000	3,000
Basic earnings per share	0.86	0.32	0.47
Diluted earnings per share	0.86	0.32	0.47

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

Share capital is increased to 3,000 thousand euros after the reporting period. After the reporting period the number of shares are changed significantly, calculation for earnings per share is made retroactively using the future number of shares (Note 29).

Note 25. Operating segments

Segment reporting is presented on the basis of consolidated indicators, where all transactions between the Group's companies have been eliminated. Since 2019, the Group is also operating in Latvia, and mainly in the city of Riga.

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

in thousands of euros	Residential development		Commercial development		Holding companies		Total
	Estonia	Latvia	Estonia	Latvia	Estonia	Latvia	
2019							
Revenue	17,834	0	1,607	0	89	5	19,535
incl. rental income	0	0	5	0	0	0	5
Operating profit	1,456	796	-59	-2	-729	-164	1,298
Assets at 31.12.2019	22,655	6,765	4,522	827	1,959	259	36,987
Liabilities at 31.12.2019	20,995	2,422	1,358	66	5,150	274	30,265

in thousands of euros	Residential development		Commercial development		Holding companies		Total
	Estonia	Latvia	Estonia	Latvia	Estonia	Latvia	
2018							
Revenue	16,883	0	15,183	0	2	0	32,068
incl. rental income	22	0	496	0	0	0	518
Operating profit	831	0	3,718	0	-687	0	3,862
Assets at 31.12.2018	21,704	0	5,709	0	597	0	28,01
Liabilities at 31.12.2018	17,962	0	3,309	0	3,837	0	25,108

Note 26. Information about line items in the consolidated statement of cash flows

in thousands of euros	2020	2019	2018
Inventories (Note 4)			
Reclassification of cash flows from operating activities to financing activities	1,007	803	655
Decrease (-)/ increase (+) of change inventories balances	8,596	-9,876	768
Change in inventories	9,603	-9,073	1,423
Corporate income tax			
Income tax expense in statement of profit or loss and other comprehensive income	-59	-1	-69
Decrease (-)/ increase (+) of corporate income tax liability	58	0	-13
Corporate income tax paid	-1	-1	-82
Interest paid (Note 21)			
Interest expense in statement of profit or loss and other comprehensive income	-157	-248	-584
Reclassification of cash flows from operating activities to financing activities	-1,007	-803	-655
Decrease (-)/ increase (+) of interest payables	-164	-298	387
Interest paid	-1,328	-1,349	-852
Interest received			
Interest income in statement of profit or loss and other comprehensive income	108	22	6
Decrease (-)/ increase (+) of interest receivables	-25	-16	-2
Interest received	83	6	4

Note 27. Non-controlling interest

As of 31 December 2020, the Group had 12 (31.12.2019: 9 and 31.12.2018: 8) companies which also had non-controlling holding. The Group also considers a company in which the Group has a 50% holding but to which the

Group provides the project management services for the development of real estate as a company being controlled.

In 2018-2020 the Group has the following subsidiaries with non-controlling interest:

	Non-Controlling interest and voting rights at				Location	Operating area
	31.12.2020	31.12.2019	31.12.2018	01.01.2018		
Hepsor Bal 9 OÜ	29	29	-	-	Estonia	Holding
Hepsor Bal 9 SIA	29	29	-	-	Latvia	Residential real estate development
Hepsor Kadaka OÜ	49	49	49	-	Estonia	Residential real estate development
Hepsor Peetri OÜ	32	32	-	-	Estonia	Residential real estate development
Hepsor V10 OÜ	50	50	50	-	Estonia	Residential real estate development
Hepsor T2T4 OÜ	50	50	-	-	Estonia	Commercial real estate development
Hepsor P26B OÜ	49	49	-	-	Estonia	Residential real estate development
Hepsor Phoenix 2 OÜ	50	-	-	-	Estonia	Residential real estate development
Hepsor Phoenix 3 OÜ	50	-	-	-	Estonia	Residential real estate development
Hepsor M14 OÜ	49	-	-	-	Estonia	Commercial real estate development
Hepsor 3Torni OÜ	49	-	-	-	Estonia	Residential real estate development
Hepsor SA2 SIA	49	-	-	-	Latvia	Residential real estate development
Hepsor Meistri 14 OÜ	-	50	50	50	Estonia	Commercial real estate development
Hepsor Phoenix OÜ	-	50	50	50	Estonia	Residential real estate development
Hepsor Lauluväljak OÜ	-	-	16	28	Estonia	Residential real estate development
Järvevana 7B OÜ	-	-	49	49	Estonia	Commercial real estate development
Arenduspartner OÜ	-	-	50	50	Estonia	Holding
Hepsor K78D OÜ	-	-	50	50	Estonia	Commercial real estate development
Hepsor Peterburi 98 OÜ	-	-	-	49	Estonia	Commercial real estate development
Pinered OÜ	-	-	-	48	Estonia	Residential real estate development

Financial information for subsidiaries with non-controlling interest

	*Project status	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Net profit for the year	Comprehensive income(-loss)
in thousands of euros								
31.12.2020							2020	
Hepsor Bal 9 OÜ	-	29	468	58	466	-27	-16	-16
Hepsor Bal 9 SIA	B	658	0	197	228	233	-1	-1
Hepsor Kadaka OÜ	D	1,119	0	513	0	606	1,169	1,221
Hepsor Peetri OÜ	C	2,712	0	2,692	0	20	64	17
Hepsor V10 OÜ	D	734	0	274	0	460	820	546
Hepsor T2T4 OÜ	A	1,166	0	72	1,092	2	0	0
Hepsor P26B OÜ	C	3,927	0	3,642	0	285	535	282
Hepsor Phoenix 2 OÜ	A	1,732	0	26	1,707	-1	-3	-3
Hepsor Phoenix 3 OÜ	A	2,801	0	2	2,798	1	0	0
Hepsor M14 OÜ	A	2,214	0	397	1,826	-9	-12	-12
Hepsor 3Torni OÜ	A	36	0	1	33	2	0	0
Hepsor SA2 SIA	A	1,055	0	1	1,077	-23	0	0

In 2020, dividends in the amount of 211 thousand euros were calculated for the Hepsor Kadaka OÜ minority holding.

in thousands of euros	*Project status	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Net profit for the year	Comprehensive income(-loss)
31.12.2019						2019		
	Hepsor Bal 9 OÜ	-	3	308	3	319	-11	-14
	Hepsor Bal 9 SIA	A	312	0	11	68	233	-4
	Hepsor Kadaka OÜ	B	10,21	0	4,781	5,543	-116	-118
	Hepsor Peetri OÜ	B	2,052	0	539	1,511	2	0
	Hepsor V10 OÜ	B	8,57	0	8,656	0	-86	0
	Hepsor T2T4 OÜ	A	1,032	0	10	1,02	2	0
	Hepsor P26B OÜ	B	2,148	0	20	2,126	2	0
	Hepsor Meistri 14 OÜ	A	899	0	89	819	-9	-11
	Hepsor Phoenix OÜ	D	1,899	0	1,065	12	822	967

in thousands of euros	*Project status	Current assets	Non-current assets	Current liabilities	Non-current liabilities	Equity	Net profit for the year	Comprehensive income(-loss)
31.12.2018						2018		
	Hepsor Kadaka OÜ	B	3,252	0	222	3,028	2	0
	Hepsor V10 OÜ	B	2,028	0	55	1,971	2	0
	Hepsor Meistri 14 OÜ	A	634	0	71	561	2	0
	Hepsor Phoenix OÜ	D	14,93	0	14,04	394	491	979
	Hepsor Lauluväljak OÜ	D	1,075	0	1,091	0	-16	7
	Järvevana 7B OÜ	D	3,931	0	2,844	0	1,087	2,214
	Arenduspartner OÜ	-	314	0	318	0	-4	-12
	Hepsor K78D OÜ	A	247	0	245	0	2	0

In 2018, Arenduspartner OÜ paid dividends in the total amount of 276 thousand euros, of which 138 thousand euros to minority holding.

Project statuses are classified as following:

- A- in the preparation phase
- B- under the construction phase
- C- partly sold
- D- sold out

Note 28. 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;

Hepsor AS belongs to Estonian private individuals, information for company owners and transactions to share capital and equity are presented in Note 16.

Balances and loan transactions with related parties

in thousands of euros	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Receivables				
Loans granted (note 8)				
Associated companies				
Opening balance	124	0	0	0
Loan granted	1,247	124	0	0
Loan collected	0	0	0	0
Balance at 31.12	1,371	124	0	0
Shareholders and all companies directly or indirectly owned by them				
Opening balance	0	0	34	0
Loan granted	0	0	0	34
Loan collected	0	0	-34	0
Balance at 31.12	0	0	0	0
Trade and other receivables				
Associated companies	2	0	0	9
Shareholders and all companies directly or indirectly owned by them	4	119	27	8
Interest receivables				
Associated companies	42	5	0	0
Payables				
Loans and borrowings (note 10)				
Shareholders and all companies directly or indirectly owned by them				
Opening balance	2,930	3,000	3,635	4,181
Loans received	1,240	3,630	1,395	660
Loans repaid	-3,530	-3,700	-2,030	-1,206
Balance at 31.12	640	2,930	3,000	3,635
Trade payables				
Shareholders and all companies directly or indirectly owned by them	770	1,148	737	2,119
Interest payables				
Shareholders and all companies directly or indirectly owned by them	2	64	35	40

Purchases and sales of goods and services

in thousands of euros		2020	2019	2018
Sales of goods and services				
Associated companies		160	20	0
Shareholders and all companies directly or indirectly owned by them		173	121	286
Total sales of goods and services		333	141	286
Purchases of goods and services				
Shareholders and all companies directly or indirectly owned by them		17,526	17,131	19,543
Interest income earned				
Associated companies				
	Interest earned	37	5	0
	Interest received	0	0	0
Shareholders and all companies directly or indirectly owned by them				
	Interest earned	1	5	0
	Interest received	6	0	0
Interest expenses incurred				
Shareholders and all companies directly or indirectly owned by them				
	Accrued interest	154	243	402
	Interest paid	204	214	407

In 2020, the remuneration to a member of the Management Board was paid 42 (2019: 45 and 2018: 45) thousand euros. There are no special benefits, share-based payments or share options granted for the member of Management Board.

Note 29. Events after the reporting period

- On August 9th, 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.
- In January 2021, Hepsor AS paid out dividends in the amount of 37 thousand euros (note 23).
- 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 three years. Financial covenants in this agreement is loan and equity ratio, measured quarterly.
- 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 2021, new development companies Tatari 6A Arenduse OÜ and Hepsor Fortuuna OÜ have been established. 20% shares of Tatari 6A Arenduse OÜ were sold to minority holding with nominal value..
- Hepsor AS acquired a 50% holding in Hepsor V10 OÜ for 1 thousand euros. This resulted in becoming 100% holder of the subsidiary.
- Hepsor AS re-acquired a 49% holding in Hepsor Kadaka OÜ for 1 thousand euros. Development project was successfully completed in 2020 and after the dividend payments and division of the company Hepsor became 100% holder of the subsidiary
- In April 2021, the shareholders decided on the division of Hepsor Finance OÜ to bring the Latvian development companies under a 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, no considerable effect to the Group cashflows.
- On 18.08.2021 the owners of Hepsor AS decided to pay dividends in the sum of 151 thousand euros. Income tax expense will not occur as tax credit could be used for the dividend tax (note 23).
- On 09.08.2021 the Group has established one new SPV in Latvia Hepsor RD5 SIA for residential development.
- On 03.09.2021 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.

- 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.

Note 30. Risk management

Due to its activities, the Group is exposed to financial risks such as market risk (including price risk and interest rate risk), credit risk and liquidity risk. Financial risk is the risk that liquidity is insufficient, and the risk of reduced profitability due to a lack of capital or that the price of capital increases. Financial risks usually relate to the following financial instruments: trade receivables, cash and cash equivalents, trade and other payables and borrowings. 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.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk embodies the potential for both losses and gains and includes price risk and interest rate risk.

Price risk

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.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's interest-bearing liabilities to the extent they are exposed to general and specific market movements.

Numerous general economic factors cause interest rates to fluctuate. In addition, interest rates are sensitive to international economic and political conditions, the situation in the financial markets and inflation rates. Interest rates on real estate backed loans are also affected by changes in real estate values and overall liquidity in the real estate debt and equity markets.

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.

The Group finances the following real estate development phases:

- Land acquisition loans
- Real estate development loans provided until completion of construction and obtaining of the usage permit (usually for a term of about two years).
- For rental properties once the property is completed, leased, and meets all ongoing covenants, the construction financing is refinanced with an investment loan repayable gradually with rental income or fully upon sale of the property.

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.

in thousands of euros	31.12.2020	31.12.2019	31.12.2018	01.01.2018
Fixed rate financial liabilities	13,568	11,901	9,707	13,549
incl. fixed rate bank loan liabilities	2,113	199	0	0
Floating rate bank loan liabilities	2,592	11,538	0	2,351
Total	16,160	23,439	9,707	15,900

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 particular 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 2020 would increase by 35 (2019: EUR 18, 2018: 36) thousand euros.

in thousands of euros	31.12.2020	31.12.2019	31.12.2018
Increase by 50 basis points	35	18	36

Credit risk

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

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

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

As at 31.12 the following financial assets were exposed to credit risk:

in thousands of euros	2020	2019	2018	01.01.2018
Cash and cash equivalents	4,207	2,667	5,701	2,319
Trade and other receivables	117	301	112	162
Non-current interest receivables	42	5	0	0
Escrow account	122	0	0	0
Current loan receivables	776	1,120	238	204
Non-current loan receivables	1,371	124	0	0
Total	6,635	4,217	6,051	2,685

By the time of completion of the report, all short-term loan receivables had been collected.

As of 31 December, the ageing of trade receivables was the following:

in thousands of euros	2020	2019	2018	01.01.2018
Due date	16	31	82	39
Less than 2 months past due	47	35	26	79
Past due 2-4 months	1	4	1	24
More than 4 months past due	9	4	0	19
Total	73	74	109	161

By the time of completion of the report, a total of 13 thousand euros of trade receivables of 31 December 2020 were yet to be collected.

Liquidity risk

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

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The amounts included in the following table for financial guarantee contracts are the maximum amount the Group could be forced to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee. Based on expectations at the end of the reporting period, the Group considers that it is unlikely that such amounts will be payable under the arrangement. 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.

The contractual maturity is based on the earliest date on which the Group may be required to pay.

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

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

As at 31 December 2019, the Group had the following bank loans:

Lender	Country	Loan balance	Contract term	Loan limit	Interest per annum	Collateral	Cost value of the collateral	Group guarantee given
LHV Pank AS	Estonia	2,436	2020	2,890	euribor+5.75%	Mortgage- Kadaka Road 141, Ehitajate Road 91/91a, Tallinn	9,348	-
LHV Pank AS	Estonia	5,123	2020	5,650	euribor+6%	Mortgage- Valge st. 10/10e, Tallinn	8,058	-
LHV Pank AS	Estonia	2,274	2021	3,000	euribor+6%	Mortgage- Kadaka Road 141, Ehitajate Road 91/91a, Tallinn	9,348	-
Citadele bank	Latvia	837	2021	1,132	6m euribor+5%	Mortgage-Agenskalna st.24, Riga	2,424	1,132
Citadele Bank	Latvia	868	2021	865	6m euribor+5%	Mortgage- Baložu st.7, Riga	1,893	865
Bigbank AS	Latvia	199	2021	2,250	8.20%	Commercial pledge; Mortgage- Streilnieiku st. 4, Riga	1,787	1,000

As at 31 December 2018, the Group had the following bank loans:

Lender	Country	Loan balance	Contract term	Loan limit	Interest per annum	Collateral	Cost value of the collateral	Group guarantee given
SEB Pank					6m	Mortgage-Järvevana Road		
AS	Estonia	2,954	2022	4,700	euribor+2.75%	7b/7g/7h, Tallinn	6,180	-
LHV pank						Mortgage-Mäe 2/2a/2b,		
AS	Estonia	2,643	2019	4,320	euribor+4.95%	Tallinn	5,060	-
LHV pank						Mortgage- Mooni 75, Tallinn		
AS	Estonia	1,457	2019	1,500	euribor+5%		2,267	-

Group subsidiaries were in line with financial covenants agreed in the loan agreements as of 31.12.2020, 31.12.2019, 31.12.2018 and 01.01.2018. Information on loans and borrowings are presented on note 10.

Capital Management

Hepsor AS considers borrowings and total equity as capital. As of 31 December 2020, the total equity attributable to equity owners of the parent was 21,848 (2019: 28,221, 2018: 6,970) thousand euros.

The Group finances its operations with both debt and equity capital. For designing the optimal financing structure and evaluating the risks, the Group monitors its equity to assets ratio. As at 31.12.2020 equity was 31.1% (31.12.2019: 18.6%, 31.12.2018: 10.3%, 01.01.2018: 7.4%) of total assets.

The Group's net debt at 31.12.2020 was 12,394 (31.12.2019: 21,335, 31.12.2018: 4,092, 01.01.2018: 13,658) thousand euros.

The net assets of some of the Group's subsidiaries have to meet the loan covenants agreed with credit institutions. Group companies were in line with agreed covenants in loan agreements as of 31.12.2020, 31.12.2019, 31.12.2018 and 01.01.2018.

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 Group may suffer from the following adverse financial impacts due to coronavirus COVID-19:

- the Group's access to financing, increase in cost of financing and the resulting impact on the Group's financial performance;
- growing unemployment and limited access to bank financing by potential customers, which would lead to a decreased demand for new property developments;

disruptions in construction and reduced sales can have implications on the Group's working capital and could lead to a breach of a debt covenant resulting in the liability becoming current;

supply-chain disruptions leading to delays in ready to sell new property developments and therefore having adverse impact on servicing Group's loan obligations.

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.

The effects of coronavirus COVID-19 on the Group's financial results have remained modest.

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01 November 2021

To the Management Board of Hepsor AS
Independent Auditor's Report on the consolidated special-purpose financial statements

Our opinion

In our opinion, the consolidated special-purpose financial statements included in the Prospectus present fairly, for the purpose of the Prospectus, in all material respects, the consolidated financial position of Hepsor AS and its subsidiaries (together as the "Group") as of 31 December 2020, 31 December 2019 and 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as adopted in the European Union.

What we have audited

The Group's consolidated special-purpose financial statements included in the Prospectus (the "consolidated special-purpose financial statements") comprise:

- the consolidated statements of financial position as at 31 December 2020, 31 December 2019 and 31 December 2018;
- the consolidated statements of profit or loss and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

The consolidated special-purpose financial statements have been prepared by Hepsor AS for inclusion in the Prospectus, in accordance with the Annex 1 item 18.1 to the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019 supplementing Regulation (EU) 2017/1129 of the European Parliament and of the Council as regards the format, content, scrutiny and approval of the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Commission Regulation (EC) No 809/2004 (hereinafter called “Delegated Regulation 2019/980”).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (EE). Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the consolidated special-purpose 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 Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (including Independence Standards) (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group, if any, 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 § 59¹ of the Auditors Activities Act of the Republic of Estonia.

Our audit approach

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated special-purpose financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated special-purpose financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to impact the economic decisions of users taken based on the consolidated special-purpose financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated special-purpose financial statements as whole.

Overall group materiality	396 thousand Euros
How we determined it	10% of profit before CIT for financial year ended on 31 December 2020
Rationale for the materiality benchmark applied	<ul style="list-style-type: none"> • We applied profit before corporate income tax as this is commonly applied benchmark balance for audits of entities that are listed or being listed in stock exchange. The benchmark balance is adequately indicative of producing the periodical results of financial performance to be accumulated in net assets of the group representing financial interests of current and potential shareholders of the group. • We chose 10%, which is consistent with quantitative materiality thresholds used for this benchmark.

Key audit matters

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

Key audit matters	How our audit addressed the key audit matters
<p>Valuation of inventories</p> <p>(Disclosure in the consolidated special-purpose financial statements is made in Note 1 Accounting Policies subsection 1.12 Inventories for description of recognition and measurement principles and subsection 1.19 for fair value, Note 4 Inventories, Note 30 Risk Management.)</p> <p>Inventories encompass finished real estate development projects when the permit for use has been granted and or work in progress real estate development projects.</p> <p>As of 31 December 2020, the balance of inventories amounts to 22,903 thousand euros (31.12.2019: 31,499 thousand; 31.12.2018: 21,623 thousand) comprising residential and commercial properties that are either finished or are in progress.</p> <p>Inventories are stated at the lower of cost and net realisable value.</p> <p>With property prices, especially those of residential property, following the economic cycle and exhibiting substantial fluctuation over time, net realisable value of the inventory of finished and unfinished apartments and property for resale needs to be carefully monitored against the carrying amount. Should the net realisable value of a property fall below its carrying amount, a write-down to net realisable value is necessary. Determining the net realisable value of property requires estimates of the expected selling price and may require estimates of the cost to complete the development of the property.</p> <p>Due to the magnitude and related estimation uncertainty, valuation of inventory of finished and unfinished properties is considered a key audit matter.</p>	<p>We assessed the management’s expertise to perform valuation of property. The management is experienced in property valuation and the outcomes of completed development projects have usually met the profitability estimates.</p> <p>We evaluated the model prepared by the management for determining the net realisable value and identifying any necessary write-down.</p> <p>We performed testing of the inputs used in the valuation model. Our work targeted individual properties on our assessment of the risk, based on the location, carrying amount and any specific conditions related to a property. For inputs based on estimates, we assessed the reasonableness of the inputs by comparing them with historical data from completed projects and available market information. Where available, we compared the estimated sales prices with comparable market transactions. It was evident from our work that sufficient attention had been paid to each property’s individual characteristics including their realisability, geographic location and relevant legal or contractual obligations.</p> <p>We also assessed the appropriateness of disclosures provided in respect of net realisable value of inventory, including their fair value.</p>

How we tailored our 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 special-purpose financial statements as whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In order to achieve this objective, based on the size and risk characteristics, we performed a full scope audit of the financial information for the following entities within the Group. At the Group level we tested the consolidation process and performed additional analytical procedures over the components in scope to confirm our conclusion that no material misstatements exist that may affect the consolidated special-purpose financial statements. Information describing the structure of the Group is included in Note 7 Shares in subsidiaries of the consolidated special-purpose financial statements.

Responsibilities of the Management Board and those charged with governance for the consolidated special-purpose financial statements

The Management Board of Hepsor AS is responsible for the preparation and fair presentation of the consolidated special-purpose financial statements in accordance with International Financial Reporting Standards as adopted in the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated special-purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated special-purpose financial statements, the Management Board 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 the Management Board 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 special-purpose financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated special-purpose financial statements as whole are free from material misstatement, whether due to fraud or error, and to issue, for the purposes of the Prospectus, 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 International Standards on Auditing

(EE) 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 special-purpose financial statements.

As part of an audit in accordance with International Standards on Auditing (EE), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated special-purpose 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 the Management Board.
- Conclude on the appropriateness of the Management Board'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 special-purpose 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 special-purpose financial statements, including the disclosures, and whether the consolidated special-purpose 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 special-purpose 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, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated special-purpose 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.

Declaration

For the purpose of Annex 1 item 1.2 to the Delegated Regulation 2019/980, we accept responsibility for this auditor's report, constituting a part of the Prospectus, and declare that we have applied due diligence in order to ensure that the information contained in the auditor's report is, to our best knowledge, true, fair and consistent with the actual state, and that nothing was omitted that might affect its significance. This declaration has been included in this Prospectus in accordance with the requirements of Annex 1 item 1.2 to the Delegated Regulation 2019/980.

Report on other legal and regulatory requirements

Appointment and period of our audit engagement

We were first appointed as auditors of Hepsor AS on 17 December 2019 for the financial year ended 31 December 2019. The total period of our uninterrupted engagement appointment for Hepsor AS is two (2) years.

Yours sincerely,

/signed digitally/

Mart Nõmper

Certified Auditor No. 499

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