

hepsor



Paevälja Hoovimajad, Paevälja 11/Lageloo 7, Tallinn

2023 III quarter and nine
months consolidated unaudited
interim report

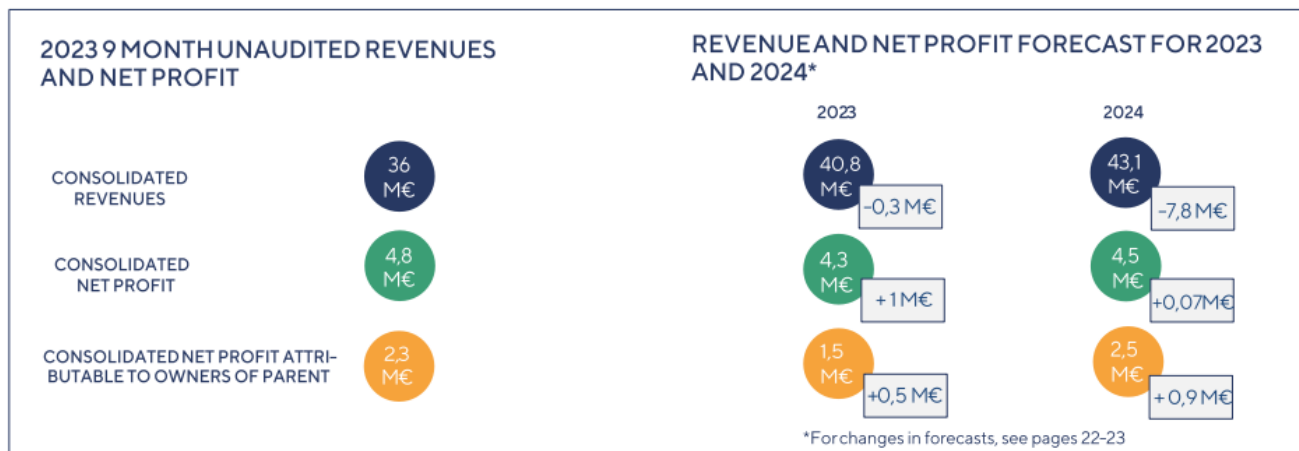
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|-------------------------|---|
| Corporate name: | Hepsor AS |
| Commercial Register No: | 12099216 |
| Address: | Järvevana tee 7b, 10112 Tallinn |
| E-mail: | info@hepsor.ee |
| Telephone: | +372 660 9009 |
| Website: | www.hepsor.ee |
| Reporting period: | 01 January 2023-30 September 2023 |
| Financial year: | 01 January 2023-31 December 2023 |
| Supervisory Board: | Andres Pärloja, Kristjan Mitt, Lauri Meidla |
| Management Board: | Henri Laks |
| Auditor: | Grant Thornton Baltic OÜ |

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

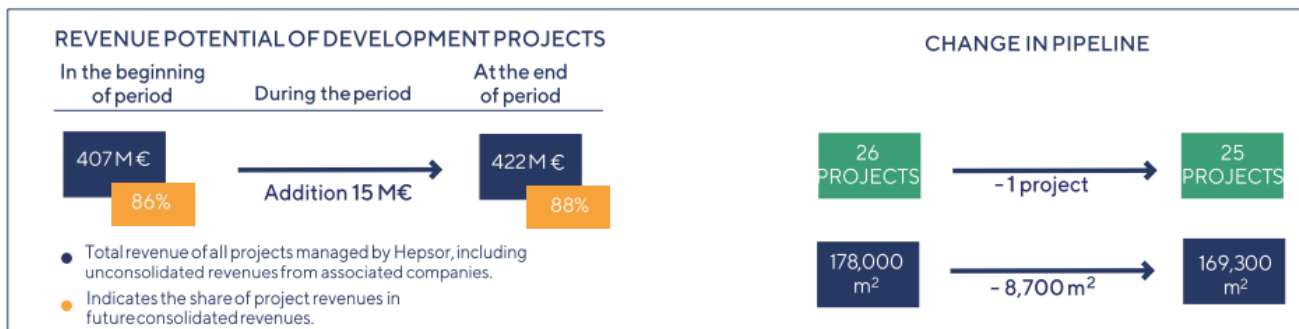
Contents

| | |
|--|----|
| Management Report | 4 |
| Overview of the Development Projects | 7 |
| Group Structure | 17 |
| Main Events | 18 |
| Operating Results | 19 |
| Adjusted Forecasts | 22 |
| Share and Shareholders..... | 24 |
| Consolidated Financial Statements | 26 |
| Consolidated statement of financial position..... | 26 |
| Consolidated statement of profit and loss and other comprehensive income | 27 |
| Consolidated statement of changes in equity | 28 |
| Consolidated statement of cash flows | 29 |
| Notes to the consolidated interim financial statement | 30 |
| Note 1. General information | 30 |
| Note 2. Inventories | 30 |
| Note 3. Trade and other receivables | 32 |
| Note 4. Loans granted | 32 |
| Note 5. Loans and borrowings..... | 33 |
| Note 6. Trade and other payables | 35 |
| Note 7. Other non-current liabilities | 35 |
| Note 8. Embedded derivatives | 36 |
| Note 9. Contingent liabilities | 36 |
| Note 10. Revenue | 37 |
| Note 11. Cost of sales | 37 |
| Note 12. Marketing expenses..... | 37 |
| Note 13. Administrative expenses..... | 37 |
| Note 14. Personnel expenses | 37 |
| Note 15. Financial income and expenses | 38 |
| Note 16. Information about line item in the consolidated statement of cash flows | 39 |
| Note 17. Subsidiaries | 39 |
| Note 18. Shares of associates..... | 40 |
| Note 19. Operating segments..... | 41 |
| Note 20. Related parties..... | 42 |
| Note 21. Events after the reporting period | 43 |
| Note 22. Risk management | 43 |
| Management Board's Confirmation | 46 |

Management Report



LONG TERM OUTLOOK (31.12.2022 VS 30.09.2023)



DEVELOPMENT PROJECTS FOR SALE AND UNDER CONSTRUCTION (30.09.2023)

| PROJECT | Total number of apartments | Apartments sold* | Apartments sold % | Apartments available |
|--|------------------------------------|--------------------------|-------------------|----------------------|
| Strelnieku 4b, Latvia | 54 | 40 | 74% | 14 |
| Paevälja Courtyard Houses | 96 | 83 | 85% | 13 |
| Kuldigas Parks, Latvia | 116 | 114 | 98% | 2 |
| Marupes Darzs, Latvia | 92 | 79 | 86% | 13 |
| Ojakalda Homes | 101 | 30 | 30% | 71 |
| Lilleküla Homes | 26 | 8 | 31% | 18 |
| Manufaktuuri 7 | 150 | 58 | 39% | 92 |
| Nameja Residence | 38 | 10 | 26% | 28 |
| Total | 673 | 422 | 63% | 251 |
| COMMERCIAL DEVELOPMENT PROJECTS IN PROCESS | Total rentable area m ² | Occupancy m ² | Occupancy % | |
| Büroo113 office building | 4,002 | 431 | 11% | |
| Grüne office building | 3,430 | 3,430 | 100% | |
| Manufaktuuri 7 | 453 | 0 | 0% | |
| Total | 7,885 | 3,861 | 49% | |

DEVELOPMENT PROJECTS UNDER CONSTRUCTION (30.09.2023)

| Started in 2022 | Total under construction | Started in 2023 |
|----------------------------------|------------------------------------|------------------------------------|
| 219 apartments | 315 apartments | 228 apartments |
| 0 m ² commercial area | 453 m ² commercial area | 453 m ² commercial area |

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

Dear shareholders of Hepsor



Hepsor's consolidated revenue for the first nine months of 2023 amounted to 36 million euros, with a net profit of 4.8 million euros (including a share of 2.3 million euros for the parent company's owners). The consolidated revenue for the third quarter of 2023 was 15.5 million euros, and the net profit was 1.2 million euros (including a share of 0.5 million euros for the parent company's owners).

The Group's management revised the financial forecasts presented in 2022 for the financial years 2023-2024. We are increasing the profit forecast. While the previous forecast projected a net profit of 1.1 million euros for the Group's owners, the updated forecast now estimates it to be slightly over 1.5 million euros. We were also able to raise the profit forecast for 2024. Considering the complex situation in the real estate sector and the economic environment in general, this is a good result.

Completed development projects

During the first nine months of 2023, a total of 240 new homes were handed over to customers (number of real rights contracts).

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

- The Paevälja courtyard house project started in 2022, and we constructed two apartment buildings with a total of 96 apartments. The first 40 apartments were handed over to buyers by the end of 2022. During the first nine months of 2023, we handed over 43 apartments to buyers. As of September 30, 2023, we have concluded real rights contracts for a total of 83 apartments (86%), and 13 apartments remain unsold.

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

- Under the Kuldigas Parks project, a total of 116 homes have been completed, and as of September 30, 2023, 114 real right contracts had been concluded for the sale of homes, and the homes had been handed over to new owners.
- Within the Mārupes Dārzs project, a total of 92 homes have been completed. As of September 30, 2023, 79 real right contracts had been concluded for the sale of homes, and these homes had already been handed over to buyers. In addition, by September 30, 8 contracts under law of obligations had been concluded.

Signing of real right contracts and the handover of homes in the Kuldigas Parks and Mārupes Dārzs projects will continue in the fourth quarter of 2023, and we anticipate that by the end of the year, all apartments in these two projects will be sold. Additionally, in the first nine months, four apartments were sold in Latvia in the Strēlnieku 4b development project completed in 2020 (including 3 apartments in the third quarter).

In the commercial real estate segment, we sold the Ulbrokas 30 property with the StokOfiss 30 office building in Riga developed by Hepsor, and properties on Tooma Street in Tallinn in the second quarter. In addition, by the end of the second quarter, the environmentally friendly Grüne Maja in Tallinn was completed, with the last spaces handed over to tenants by the end of the period. As of the end of the third quarter, the office building is 100% covered with lease agreements. Regarding the associate company Büroo 113, Hepsor had to terminate the lease unilaterally in early September due to a breach of the lease agreement by the tenants, resulting in the availability of approximately 3,500 m² of commercial space. Hepsor is already in negotiations with new tenants for the lease agreements. Interest in the vacant spaces in the building has proven to be greater than expected.

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

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



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

Development projects under construction and available for sale



In 2023, Hepsor has four residential development projects with a total of 315 apartments under construction – Ojakalda Homes (101 apartments), Manufaktuuri 7 (150 apartments and 453 m² of commercial space), Lilleküla Homes (26 apartments), and Nameja Residence (38 apartments). The completion of these projects is scheduled for 2024, and most of the revenue will also be recognized in 2024. However, as of September 30, 2023, contracts under law of obligations and written reservations have been made for a total of 106 apartments (34%) across these four projects. In the third quarter of 2023, the Annenhof development project started in Latvia with plans for 40 apartments. Pre-sales began in the same quarter, and construction is set to begin in the fourth quarter.

New projects

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

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

- In June 2023, together with Canadian partners, a property suitable for residential development was purchased at 3406-3434 Weston Road. To develop the property, Weston Limited Partnership was founded, in which, in addition to Hepsor and its Canadian partners, various Canadian and European investors also participate. The goal of the first phase of the acquired development project is to increase the construction volumes of the property from 27,000 m² to ca 53,000 m² and to obtain construction rights for the creation of two apartment buildings. The land valuation phase is expected to take 2-2.5 years, after which Weston Limited Partnership will be able to decide whether the additional value created by that point will be realized through the resale of the property or whether the project will move on to the construction phase.
- In September 2023, an assembly of 3 properties was acquired in downtown Toronto at 164-168 Isabella Street together with Canadian partners. Elysium Isabella Limited Partnership was founded to develop the property, with participation from Hepsor and its Canadian partners, as well as various Canadian and European investors. The goal of the first phase of the acquired development project is to assemble the 3 properties and apply and achieve zoning approvals to permit a residential hi-rise tower on a podium, with a projected Gross Floor Area of ca 42 000 sq. meters (450,000 sq. ft). The assembly and zoning are expected to take 2-2.5 years, after which the Elysium Isabella Limited Partnership will be able to decide whether the additional value created by that point will be realized through the resale of the property or whether the project will move on to the construction phase.

In Conclusion,

the Hepsor Group remains profitable despite the persistently challenging economic environment, security crises, and rising interest rates. Consequently, the overall activity in the real estate market, both in Tallinn and Riga, is still less than desired. However, it is noteworthy that the sales figures for several Hepsor development projects have been quite impressive during the first nine months of 2023. We are also pleased that, despite global geopolitical and economic headwinds, we have increased the forecast of net profit of 2023 compared to the previous projection.

Henri Laks

Member of the Management Board

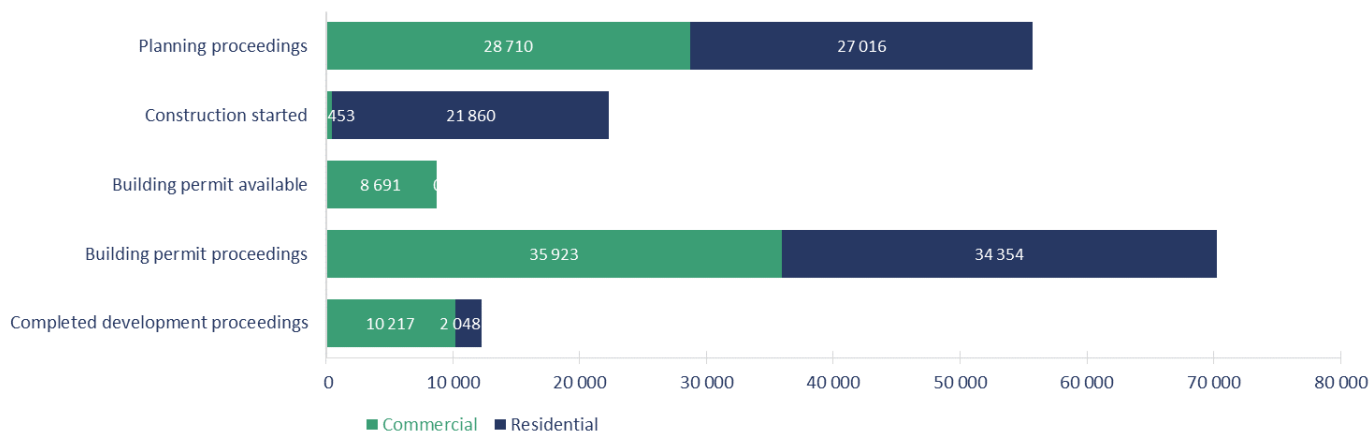
Overview of the Development Projects

As of 30 September 2023, the Group had 25 active projects in different development phases (30 September 2022: 27 projects) and 169,300 sqm of sellable area (30 September 2022: 180,000 sqm).

Significant changes in the development portfolio in the three quarters of 2023

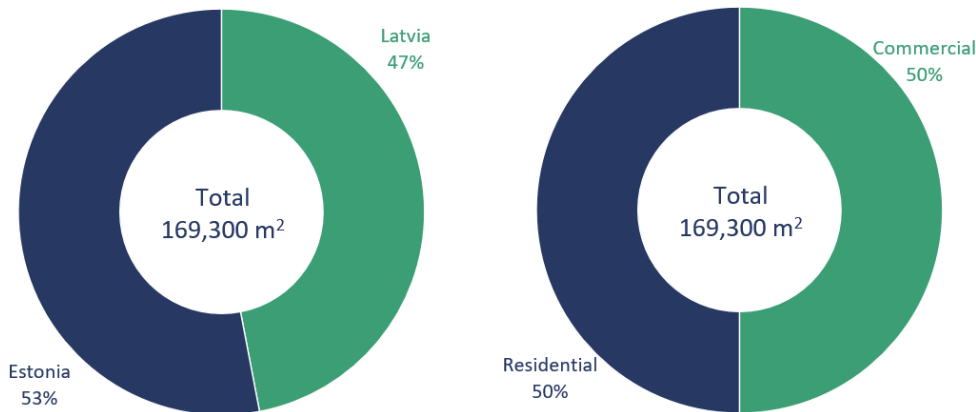
- A total of 14,200 m² of homes were handed over to clients in completed projects.
- In Tallinn, Lasnamäe, the properties located at Tooma 2, Tooma 4 and Tooma 6 were sold, with an estimated saleable area of 10,528 m².
- A stock-office type commercial building with 3,642 m² of leasable area was sold in Riga as part of the Hepsor U30 SIA shares sale transaction, which is located at Ulbrokas iela 30.
- In August, Hepsor Latvia OÜ made a capital contribution to Riga Properties 4 SIA, acquiring a 50% ownership stake in the company.
- In collaboration with Canadian partners, a residential development property was purchased in Toronto in June, located at 3406-3434 Weston Road.
- In collaboration with Canadian partners, three adjacent residential development properties were acquired in downtown Toronto at the address 164 – 168 Isabella Street.

Distribution of development portfolio between different development phases* (as of 30 September 2023):



*Excluding Canadian projects

Distribution of development portfolio between countries and type* (as of 30 September 2023):



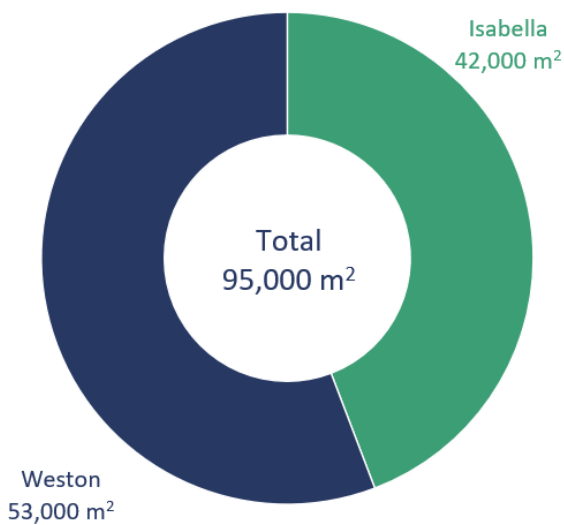
**Excluding Canadian projects*

Development projects in Canada (as of 30. September 2023):

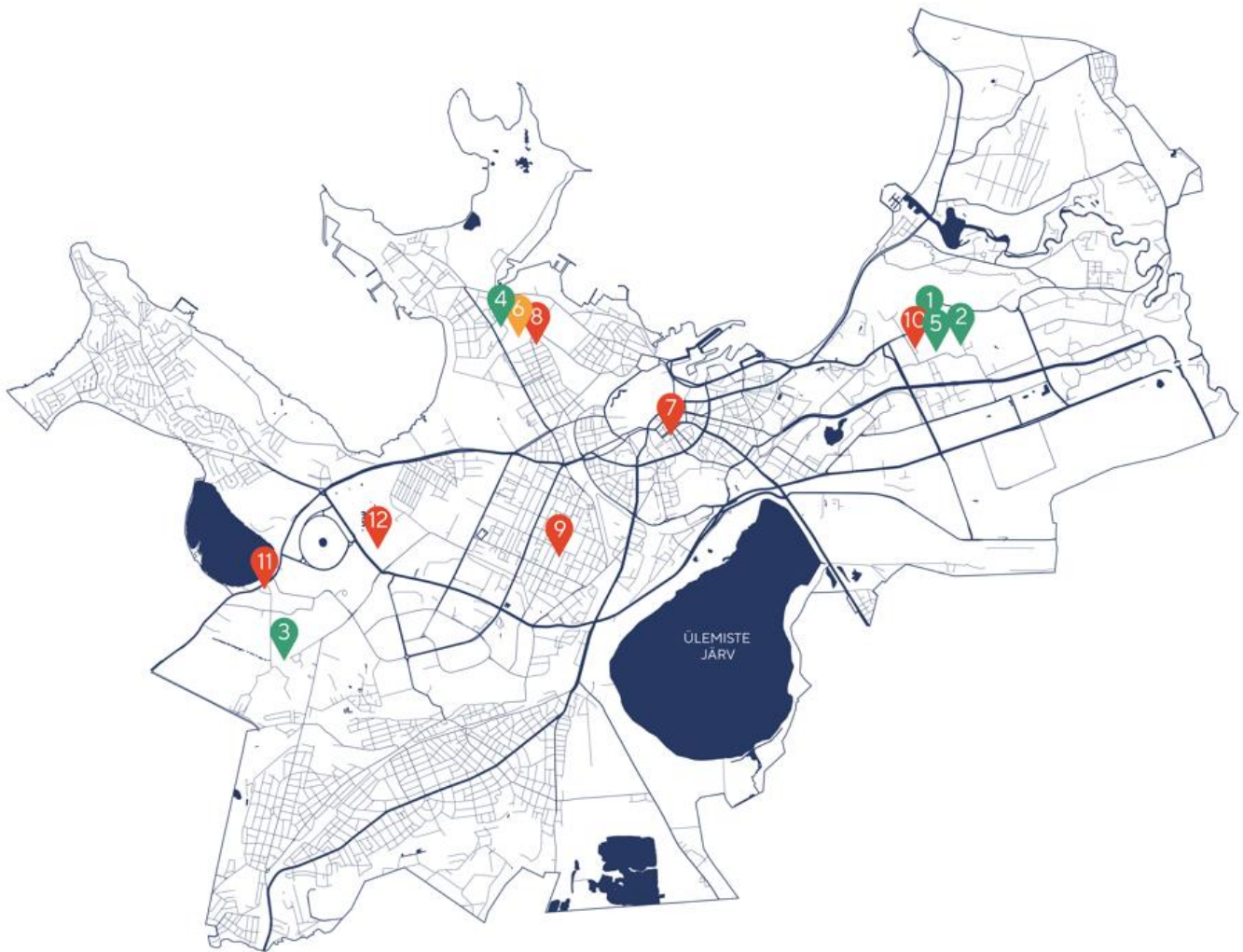
We are presenting Canadian projects separately, as Hepsor's participation in the initial Canadian projects is proportionally smaller than in the Estonian and Latvian projects, and the Canadian projects are reflected as financial investments. We are initially dealing with the land development process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

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

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



Development projects in Tallinn (as of 30 September 2023)



Planning proceedings

- 1 Narva mnt 150, 150a, 150b
- 2 Alvari 1
- 3 Kadaka tee 197
- 4 Manufaktuuri 12
- 5 Paevälja 5, 7, 9

Building permit proceedings / available

- 6 Manufaktuuri 5

Under construction and/or available for sale

- 7 Lembitu 4
- 8 Manufaktuuri 7
- 9 Nõmme tee 57
- 10 Paevälja 11
- 11 Paldiski mnt 227c
- 12 Meistri 14

Development projects in Riga (as of 30 September 2023)



Planning proceedings

- 1 Riga Properties 4

Building permit proceedings / available

- 2 Ganibu Dambis 17a
- 3 Saules aleja 2a
- 4 Ulbrokas 34
- 5 Braila 23
- 6 Jurmalas Gatve / Imanta 8. linija

Under construction and/or available for sale

- 7 Gregora iela 2a
- 8 Liela 45, Marupe
- 9 Strēlnieku 4b
- 10 Ranka Dambis 5

Completed development projects (as of 30 September 2023):



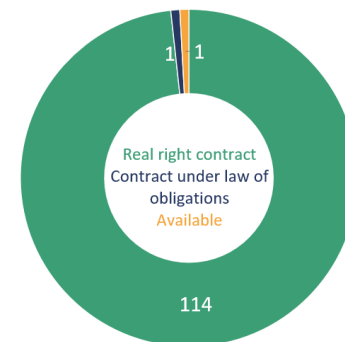
Project: Strēlnieku 4b
 Hepsor S4B SIA
 Address: 4b Strēlnieku St, Riga
 Apartments: 54
 Project completed: 2020
 Website: hepsor.lv/Strēlnieku4b



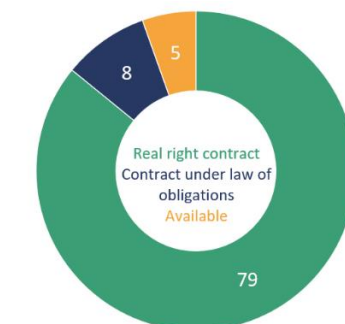
Project: Paevālja Hoovimajad
 Hepsor PV11 OÜ
 Address: 11 Paevālja, 7 Lageloo, Tallinn
 Apartments: 96
 Start of construction: Q4 2021
 Project completed: I phase Q4 2022
 II phase Q1 2023
 Website: hepsor.ee/paevalja/en



Project: Kuldigas Parks
 Kvarta SIA
 Address: 2a Gregora iela, Riga
 Apartments: 116
 Start of construction: Q4 2021
 Project completed: Q2 2023
 Website: hepsor.lv/kuldigasparks/en/

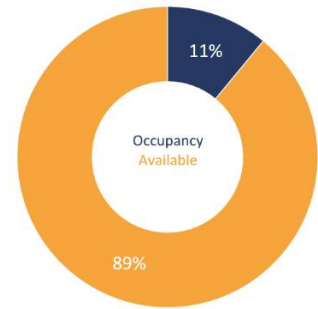


Project: Mārupes Dārzs
 Hepsor Mārupe SIA
 Address: 45 Liela, Mārupe, Riga area
 Apartments: 92
 Start of construction: Q2 2022
 Project completed: Q2 2023
 Website: hepsor.lv/Marupesdarzs/en/

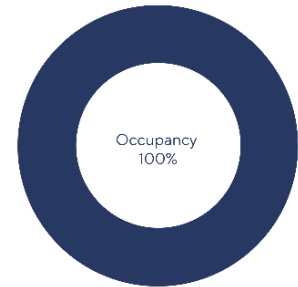




Project: Büro 113
 Hepsor P113 OÜ
Address: Pärnu mnt 113, Tallinn
Leasable area: 4,002 m²
Occupancy: 100%
Project completed: Q4 2022
Website: byroo113.ee/



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



Residential development projects under construction (as of 30 September 2023):



Project: Ojakalda Kodud
Hepsor 3TORNI OÜ

Address: Paldiski mnt 227c, Tallinn

Apartments: 101

Start of construction: Q3 2022

Estimated completion: Q2 2024

Website: hepsor.ee/ojakalda



Project: Lilleküla Kodud
Hepsor N57 OÜ

Address: Nõmme tee 57, Tallinn

Apartments: 26

Start of construction: Q4 2022

Estimated completion: Q1 2024

Website: hepsor.ee/lillekylakodud/en/



Project: Manufaktuuri Quarter
Hepsor Phoenix 2 OÜ

Address: 7 Manufaktuuri, Tallinn

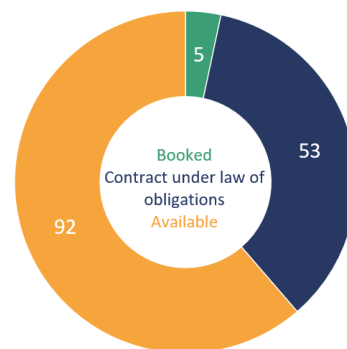
Apartments: 154

Leasable area: 453 m²

Start of construction: Q1 2023

Estimated completion: Q4 2024

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



Project: Nameja Rezidence
Hepsor RD5 SIA

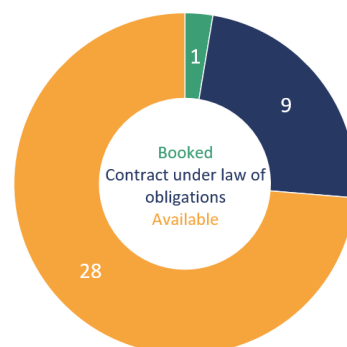
Address: 5 Ranka Dambis, Riga

Apartments: 38

Start of construction: Q1 2023

Estimated completion: Q2 2024

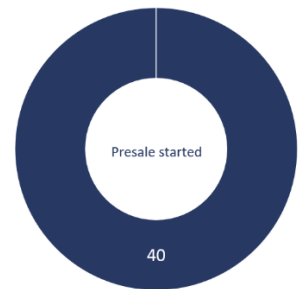
Website: hepsor.lv/namejarezidence/en/



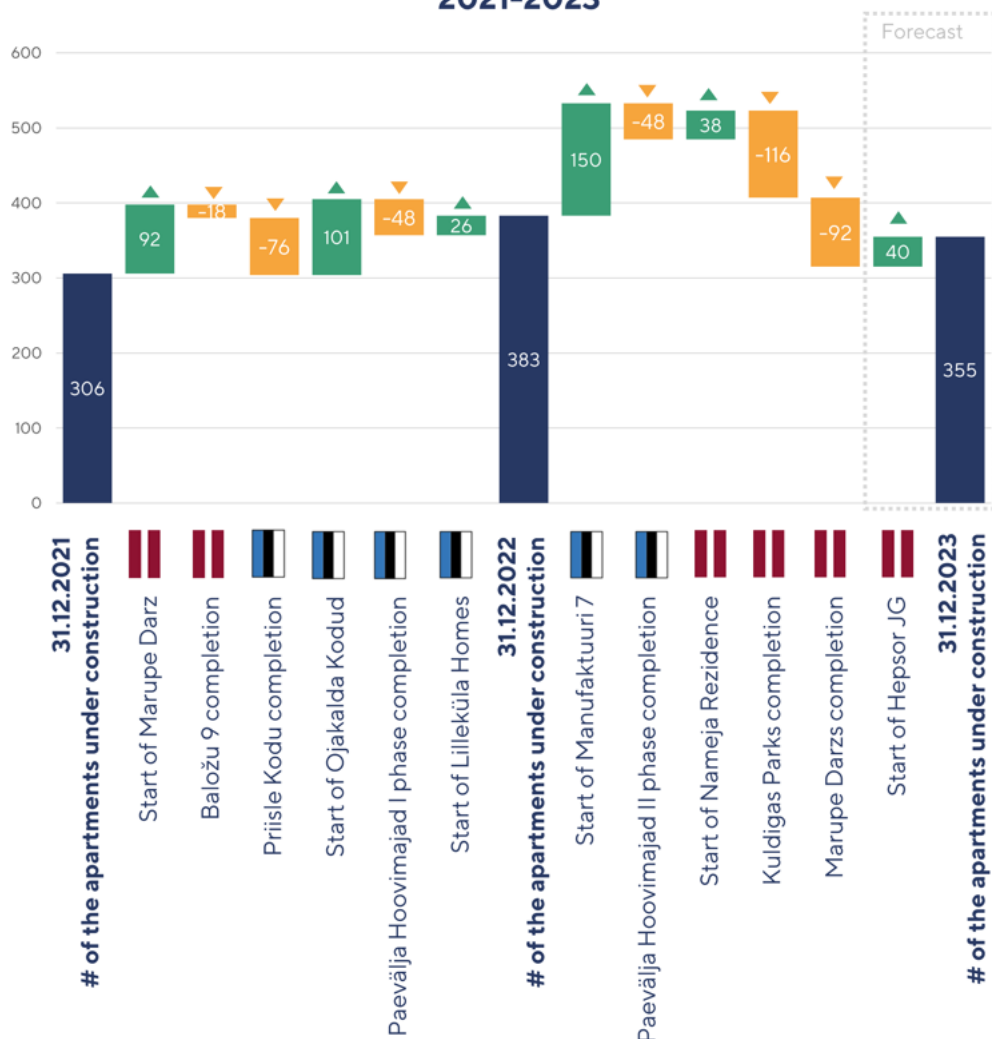
Development projects the construction of which starts in 2023 (as of 30 September 2023):



Project: Hepsor JG SIA
Address: Jurmalas Gatve/Imanta 8. linija, Riga
Apartments: 40
Est. start of construction: Q4 2023
Estimated completion: Q4 2024
Website: <https://hepsor.lv/annenhofmajas/>



Under construction and completed apartments, 2021-2023

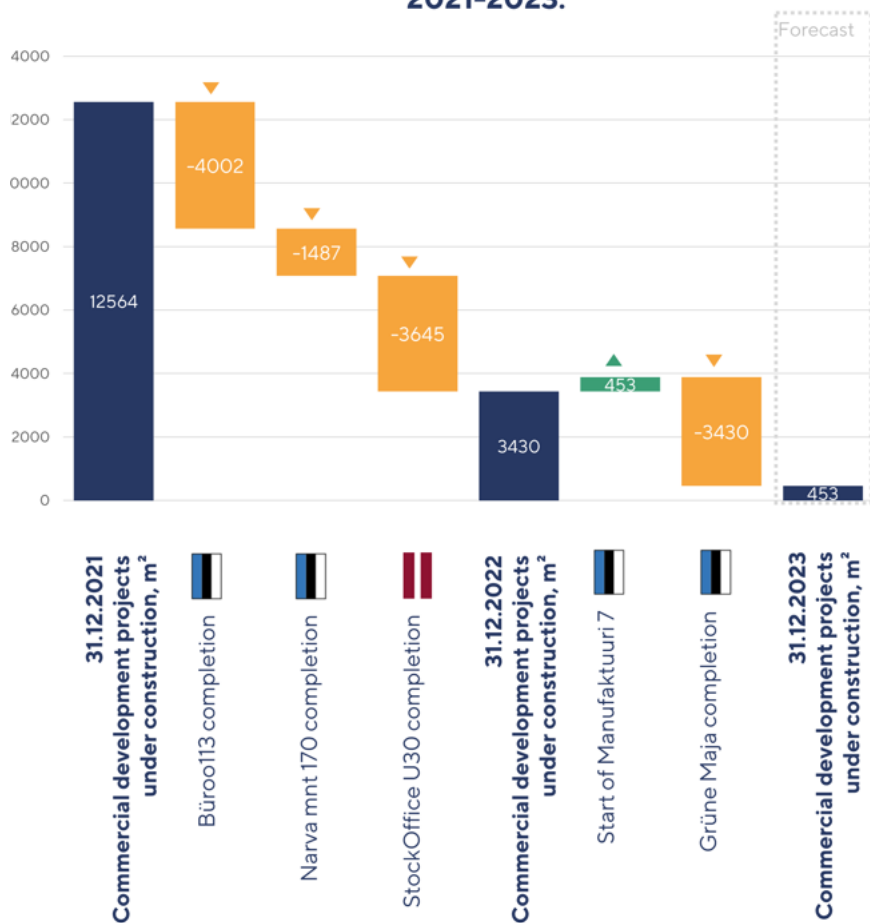


Residential development projects under construction and available for sale (as of 30 September 2023):

| Project | Status | Apartments | Apartments | | Apartments % | | Estimated completion |
|--------------------------|-----------------|------------|------------|------------|--------------|------------|-------------------------------------|
| | | | Sold* | Available | Sold* | Available | |
| 4b Strēlnieku, Latvia | Completed | 54 | 40 | 14 | 74% | 26% | 2020 |
| Paevälja Hoovimajad | Completed | 96 | 83 | 13 | 86% | 14% | I phase Q4 2022 II phase Q1 2023 |
| Kuldigas Parks, Latvia | Completed | 116 | 114 | 2 | 98% | 2% | Q2 2023 |
| Mārupes Dārzs, Latvia | Completed | 92 | 79 | 13 | 86% | 14% | Q2 2023 |
| Ojakalda Kodud | In construction | 101 | 30 | 71 | 30% | 70% | Q1 2024 |
| Lilleküla Kodud | In construction | 26 | 8 | 18 | 31% | 69% | Q4 2023 |
| Manufaktuuri 7 | In construction | 150 | 58 | 92 | 39% | 61% | Q3 2024 |
| Nameja Residence, Latvia | In construction | 38 | 10 | 28 | 26% | 74% | Q3 2024 |
| Total | | 673 | 422 | 251 | 63% | 37% | |

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

Commercial development projects under construction, 2021-2023:



The Group started the construction of Manufaktuuri 7 commercial premises (453 sqm) and in the second quarter the last leasable premises were handed over to Grüne Maja tenants. No new commercial spaces will be under construction in the last quarter of 2023.

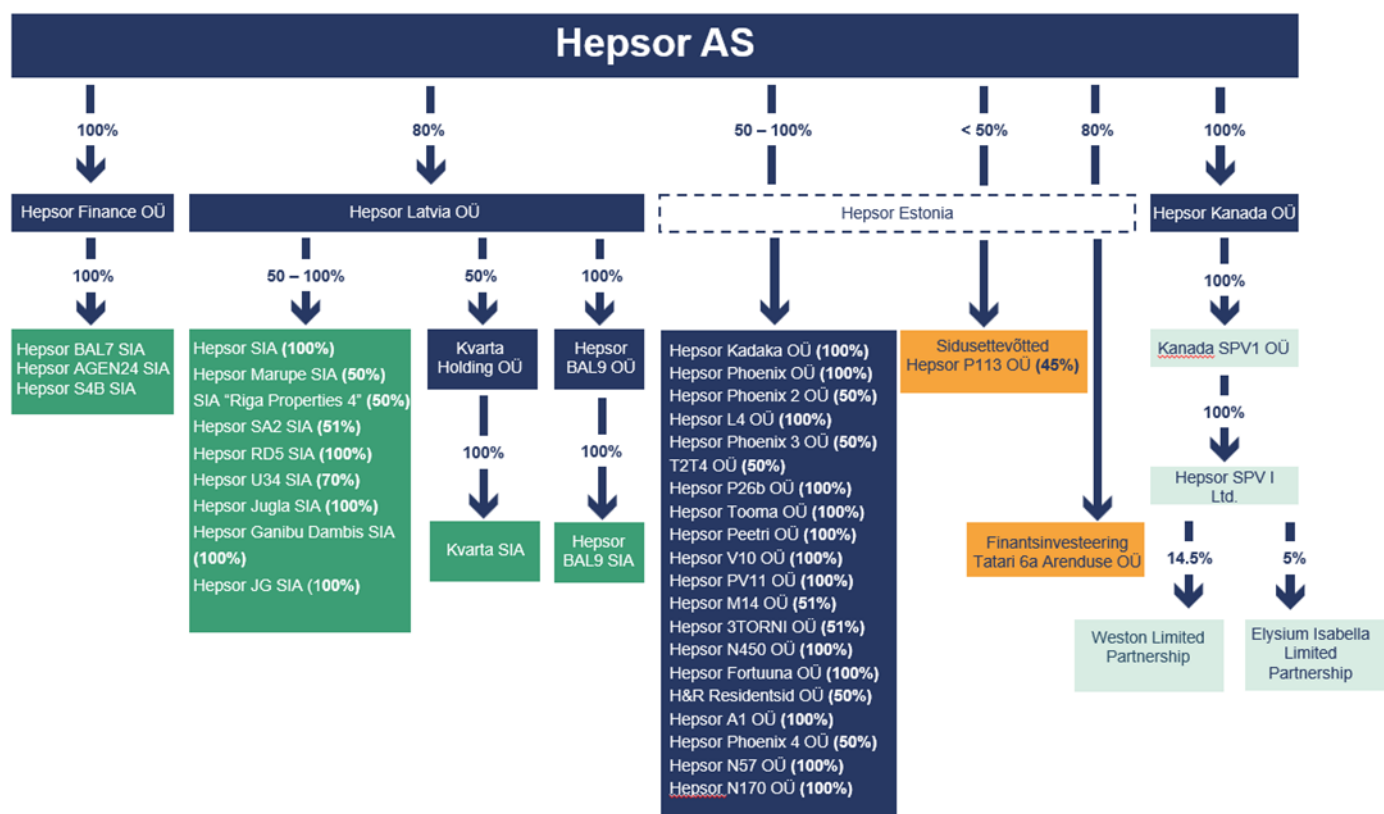
Occupancy of commercial development projects (as of 30 September 2023):

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

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

Group Structure

As of 30 September 2023, the Group was comprised of parent company, 41 subsidiaries and one associated company (30 September 2022: parent company, 37 subsidiaries, 2 associated companies). Tatari 6a Arenduse OÜ, Weston Limited Partnership and Elysium Isabella Limited Partnership is reported as financial investments.



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

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

Main Events

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

Operating Results

The Group's sales revenue in Q3 2023 was 15.5 million euros (Q3 2022: 1.7 million euros), of which 14.9 million euros (Q3 2022: 1.4 million euros) or 96.4% (Q3 2022: 86.2%) was earned in Latvia.

In nine months 2023, the Group's sales revenue was 36.0 million euros (9M 2022: 5.6 million euros), of which 25.5 million euros (9M 2022: 5.0 million euros) or 71.7% (9M 2022: 96.4%) was earned in Latvia.

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

In the first nine months of 2023 the Group sold a total of 240 apartments of which 43 apartments in Paevälja Hoovimajad development project, Paevälja 11, Tallinn and 197 apartments in Latvia, Riga in Kuldigas Parks development project, Gregora iela 2a 114 apartments were handed over to customers, in Mārupes Dārzs development project in Liela 45, 79 apartments were handed over to the customers and in Strelnieku 4b development project 4 apartments. In the second quarter, land plots at Tooma st 2, Tooma st 4 and Tooma st 6 were sold in Tallinn.

In addition to the sale of apartments, the Group also offers project management services and generates rental income from real estate. In the third quarter the total other sales revenue amounted to 392 thousand euros (Q3 2022: 317 thousand euros) or 2.5% (Q3 2022: 19.0%) of the Group's total sales revenue. In nine months, the Group earned other sales revenue in the amount of 1,275 thousand euros (9M 2022: 723 thousand euros), which was 3.5% (9M 2022: 12.7%) of the Group's total sales revenue.

Profitability

The gross profit of the third quarter of the Group was 2,033 thousand euros and the gross profit margin was 13.2% (Q3 2022: 320 thousand euros and 19.2%) and the gross profit for nine months was 6,824 thousand euros, the gross profit margin was 18.9% (9M 2022: 522 thousand euros and 9.3%). The gross profit was most affected by the higher number of sold apartments. The gross profit of development projects sold during the third quarter was 2,381 thousand euros (Q3 2022: 348 thousand euros) and gross profit margin was 15.8% (Q3 2022: 25.8%) and the gross profit of the sold development projects for nine months was 7,632 thousand euros (9M 2022: 634 thousand euros) and the gross profit margin was 22.0% (9M 2022: 12.9%).

The operating profit of the Group for the third quarter of 2023 was 1,585 thousand euros and the operating profit for nine months was 5,311 thousand euros (Q3 2022: operating loss 19 thousand euros and 9 months 2022: operating loss 519 thousand euros), the operating profit margin for the third quarter of the reporting year was 10.3% (Q3 2022: -1.1%) and the operating profit margin for nine months was 14.7% (9M 2022: -9.2%).

The net profit of the Group in the third quarter was 1,190 thousand euros (Q3 2022: 129 thousand euros), of which the profit of the owners of the parent company was 469 thousand euros (Q3 2022: 132 thousand euros) and the net profit of the minority interest was 721 thousand euros (Q3 2022: net loss 3 thousand euros). The net profit for the nine months of the reporting year was 4,778 thousand euros (9M 2022: net loss 129 thousand euros), of which the profit of the owners of the parent company was 2,272 thousand euros (9M 2022: net loss 141 thousand euros) and the net profit of the minority interest was 2,506 thousand euros (9M 2022: 12 thousand euros). The net profit margin was 7.7% in the third quarter of the reporting year and 13.3% in nine months (Q3 2022: 7.7% and 9M 2022: -2.3%). The profit margin of the owners of the parent company was 3.0% in the third quarter (Q3 2022: 7.9%) and 6.3% in nine months (9M 2022: -2.5%).

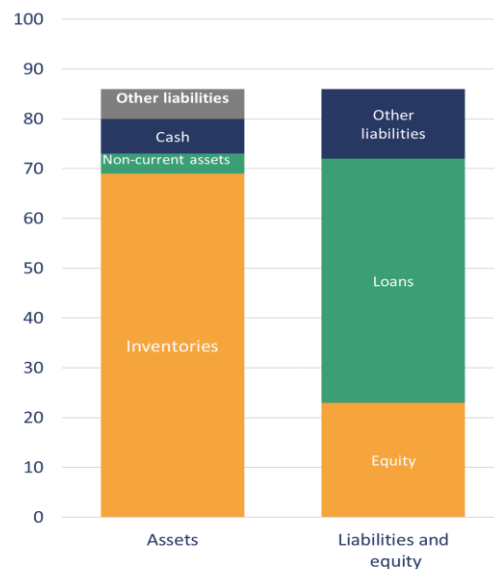
Balance Sheet

Total assets of the Group amounted to 85.8 million euros as of 30 September 2023 (30 September 2022: 74.3 million euros), which is 15.5% higher than at the end of the comparable period. Inventories made up 80.2% or 68.8 million euros of total assets (30 September 2022: 90.3% and 67.1 million euros). In the period from 01.10.2022 to 30.09.2023, the Group has purchased two new development projects: residential development project in Tallinn, Nõmme tee 57 and commercial development Smaidu, Dreilini, with which 26 new apartments and 23,500 m² commercial area were added to the development portfolio. In the second quarter of 2023, land plot at Tooma st 2, Tooma st 4 and Tooma st 6 in Tallinn and commercial development project in Riga Ulbrokas 30 were sold, which reduced the development portfolio by 14,170 m². In the period 01.10.2022-30.09.2023, the Group has sold 286 apartments with real rights contracts.

Cash and cash equivalents accounted for 8.2% or 7.1 million euros of the total assets as of 30 September 2023. As at 30 September 2022, cash and cash equivalents accounted for 4.2% or 3.1 million euros of total assets.

The Group's loan obligations totalled 49.0 million euros as at 30 September 2023, compared to 45.7 million euros as at 30 September 2022. The Group's equity increased by 21.9% over the year to 23.2 million euros. Equity attributable to the owners of the parent increased by 19,5% to 22.2 million euros.

Balance sheet structure 30.09.2023
(m€)



Cash Flows

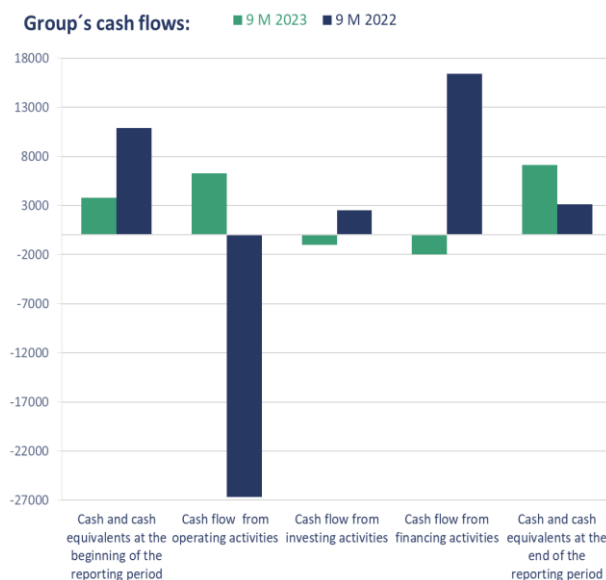
The Group's cash and cash equivalents amounted to 3.8 million euros at the beginning of 2023 (01.01.2022: 10.9 million euros) and to 7,1 million euros as at 30 September 2023 (30 September 2022: 3.1 million euros). The positive cash flow for the period was 3.3 million euros (9M 2022: negative 7.8 million euros).

Cash flow from operating activities for the first nine months of 2023 was positive at 6.3 million euros (9M 2022: negative 26.7 million euros). Cash flow from operating activities was mostly affected by the growth of operating profit and a decrease in inventories due to the sale of several development projects. Due to the change in inventories, the cash flow for the 9 months of 2023 was a positive 3.1 million euros. In the comparable period in 2022 inventories increased so the cash flow from changes in inventories was a negative 28.4 million euros.

Cash flow from investment activities was a negative 1.2 million euros in the first nine months of 2023 (9M 2022: positive 2.3 million euros). The net cash flow from the sale of the subsidiary Hepsor U30 SIA was 0.6 million euros. The financial investment in the Weston Road development project in Canada was 1.5 million euros. In the first nine months of the reporting year, the Group has granted loans of 0.3 million euros. In the comparable period, the net cash flow of granted loans was 1.9 million euros.

Cash flow from financing activities was negative at 2.0 million euros (9M 2022: positive 16.4 million euros). The net amount of loans received in nine months 2023 was 0.6 million euros (9M 2022: 17.4 million euros).

Group's cash flows:



Key financials

| in thousands of euros | Q3 2023 | Q3 2022 | Q3 2021 | 9M 2023 | 9M 2022 | 9M 2021 |
|--|---------|---------|---------|---------|---------|---------|
| Revenue | 15,458 | 1,668 | 3,072 | 36,048 | 5,622 | 6,946 |
| Gross profit/-loss | 2,033 | 320 | 571 | 6,824 | 522 | 1,155 |
| EBITDA | 1,632 | 16 | 272 | 5,452 | -414 | 534 |
| Operating profit/-loss | 1,585 | -19 | 236 | 5,311 | -519 | 416 |
| Net profit/-loss | 1,190 | 129 | 148 | 4,778 | -129 | 182 |
| Incl net profit/-loss attributable to the owners of parent | 469 | 132 | -91 | 2,272 | -141 | -175 |
| Comprehensive income/-loss | 1,002 | 160 | -177 | 2,871 | 24 | -174 |
| Incl comprehensive profit/-loss attributable to the owners of parent | 441 | 184 | -23 | 2,284 | -375 | -107 |

| in thousands of euros | 30.09.2023 | 30.09.2022 | 30.09.2021 |
|--|------------|------------|------------|
| Total assets | 85,797 | 74,300 | 41,456 |
| Incl inventories | 68,807 | 67,118 | 35,925 |
| Total liabilities | 62,603 | 55,268 | 32,136 |
| Incl total loan commitments | 48,966 | 45,767 | 26,385 |
| Total equity | 23,194 | 19,032 | 9,320 |
| Incl equity attributable to the owners of parent | 22,150 | 18,529 | 9,196 |

Key Ratios

| | Q3 2023 | Q3 2022 | Q3 2021 | 9M 2023 | 9M 2022 | 9M 2021 |
|-------------------------|---------|---------|---------|---------|---------|---------|
| Gross profit margin | 13.2% | 19.2% | 18.6% | 18.9% | 9.3% | 16.6% |
| Operating profit margin | 10.6% | -1.0% | 8.9% | 15.1% | -7.4% | 7.7% |
| EBITDA margin | 10.3% | -1.1% | 7.7% | 14.7% | -9.2% | 6.0% |
| Net profit margin | 7.7% | 7.7% | 4.8% | 13.3% | -2.3% | 2.6% |
| General expense ratio | 2.9% | 20.0% | 11.3% | 4.2% | 18.6% | 10.7% |

| | 30.09.2023 | 30.09.2022 | 30.09.2021 |
|---|------------|------------|------------|
| Equity ratio | 27.0% | 25.6% | 22.5% |
| Debt ratio | 57.2% | 61.7% | 64.6% |
| Current ratio | 6.2 | 2.5 | 4.6 |
| Return of equity | 29.5% | 12.5% | 22.6% |
| Return on equity attributable to the owners of the parent | 18.7% | -3.8% | 10.6% |
| Return on assets | 7.8% | 3.1% | 5.0% |

Gross profit margin = gross profit / revenue

Operating profit margin = operating profit / revenue

EBITDA margin = (operating profit + depreciation) / revenue

Net profit margin = net profit / revenue

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

Equity ratio = shareholder's equity / total assets

Debt ratio = interest-bearing liabilities / total assets

Current ratio = current assets / current liabilities

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

Return on equity attributable to the owners of the parent = net profit of trailing 12 months attributable to owners of the parent / arithmetic average shareholder's equity attributable to owners of the parent

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

Adjusted Forecasts

The Group's management has decided to change the previously published financial forecasts for the financial years 2023 to 2024.

The main reason for adjusting the forecast is:

- The development projects that have already ended in 2023 and those that will end in the 2023 and 2024 financial years ensure higher profitability, compared to the previous financial forecast.

Consolidated forecasts for the 2023:

| in thousands of euros | 2023 Previous forecast | 2023 Adjusted forecast | Change |
|---|---------------------------|---------------------------|--------|
| Revenues | 41,100 | 40,785 | -315 |
| Gross profit | 7,020 | 7,656 | 636 |
| Operating profit | 5,260 | 5,589 | 329 |
| Profit before taxes | 4,010 | 4,276 | 266 |
| Net profit | 3,306 | 4,276 | 970 |
| Net profit attributable to the owners of the parent | 1,056 | 1,546 | 490 |

Key assumptions for the adjusted forecast for the 2023 financial year:

| Project | Assumptions of the previous forecast | Assumptions of the adjusted forecast |
|--|--|---|
| Ulbrokas 30 stock-office | Sold during financial year 2023. | In 2023, stakes of Hepsor U30 SIA were sold, the Group earned financial income. |
| Paevälja Hoovimajad | 48 apartments will be sold during the financial year | 44 apartments will be sold during the financial year. |
| Strelnieku 4B | Last 20 apartments sold; rental income earned before the apartments are sold. | 8 apartments will be sold in 2023, the Group will earn rental income from unsold apartments. |
| Grüne Maja | Measured at fair value using DCF method. The Group earns rental income from the development project. | The Group earns rental income from the development project. The development project will be sold in 2024. |
| Ganibu Dambis | Rental income earned during the development of the project. | Rental income earned during the development of the project. |
| Kuldīgas Parks | All 116 apartments sold. | All 116 apartments sold. |
| Mārupes Dārzs | All 92 apartments sold. | All 92 apartments sold. |
| Büroo 113 | The Group earns financial income with the equity method of accounting from associated company. | The Group receives a financial loss from the recognition of an associate using the equity method. |
| Lilleküla Kodud | - | 8 apartments will be sold in 2023. |
| Land plots on Tooma 2/Tooma 4, Tallinn | - | In 2023, land plots at Tooma tn 2, Tooma tn 4 and Tooma tn 6 were sold in Tallinn |

The adjusted consolidated forecast for the 2024 financial year:

In the previous forecast, we made two forecasts for 2024, one more conservative and the other more optimistic.

The corrected forecast we do on the assumption that the pace of sales of new homes in Group's development projects, both in Tallinn and Riga, will remain at today's average monthly level, i.e. based on the corrected forecast, Hepsor does not expect a significant increase in market activity.

| in thousands of euros | 2024 previous forecast | 2024 previous optimistic forecast | 2024 adjusted forecast | Change compared to previous forecast | Change compared to the previous, more optimistic forecast |
|---|------------------------|-----------------------------------|------------------------|--------------------------------------|---|
| Revenues | 50,957 | 65,699 | 43,113 | -7,844 | -22,586 |
| Gross profit | 7,723 | 10,467 | 8,332 | 609 | -2,135 |
| Operating profit | 5,795 | 8,539 | 6,189 | 394 | -2,350 |
| Profit before taxes | 4,463 | 7,935 | 4,531 | 68 | -3,404 |
| Net profit | 4,463 | 7,935 | 4,531 | 68 | -3,404 |
| Net profit attributable to the owners of the parent | 1,594 | 3,766 | 2,478 | 884 | -1,288 |

Key assumptions for the adjusted forecast for the 2024 financial year:

| Project | Assumptions of the previous forecast | Assumptions of the previous optimistic forecast | Assumptions of the adjusted forecast |
|----------------------|--|---|---|
| Lilleküla Kodud | All 26 apartments will be sold. | All 26 apartments will be sold. | The last 18 apartments will be sold. |
| Manufaktuuri Kvartal | 92 apartments of total of 150 apartments will be sold. | 123 apartments of total of 150 apartments will be sold. | 120 apartments of total of 150 apartments will be sold. |
| Ojakalda Kodud | All 101 apartments sold. | All 101 apartments sold. | 50 apartments of total of 101 apartments will be sold. |
| Nameja Rezidence | All 38 apartments sold. | All 38 apartments sold. | 25 apartments of total of 38 apartments will be sold. |
| Grüne Maja | The Group earns rental income. | The Group earns rental income. The development project is sold in the end of 2024 financial year. | The Group earns rental income. The development project is sold in the end of 2024 financial year. |
| Büroo 113 | The Group earns financial income with the equity method of accounting from associated company. | The Group earns financial income with the equity method of accounting from associated company. The development project is sold in the end of 2024 financial year. | The Group earns financial income with the equity method of accounting from associated company. |
| Strelnieku 4B | - | - | The last 12 apartments will be sold. |

Share and Shareholders

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

As of 30 September 2023, Hepsor AS had 10,851 shareholders.

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

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

Shareholder structure by number of shares held as of 30 September 2023:

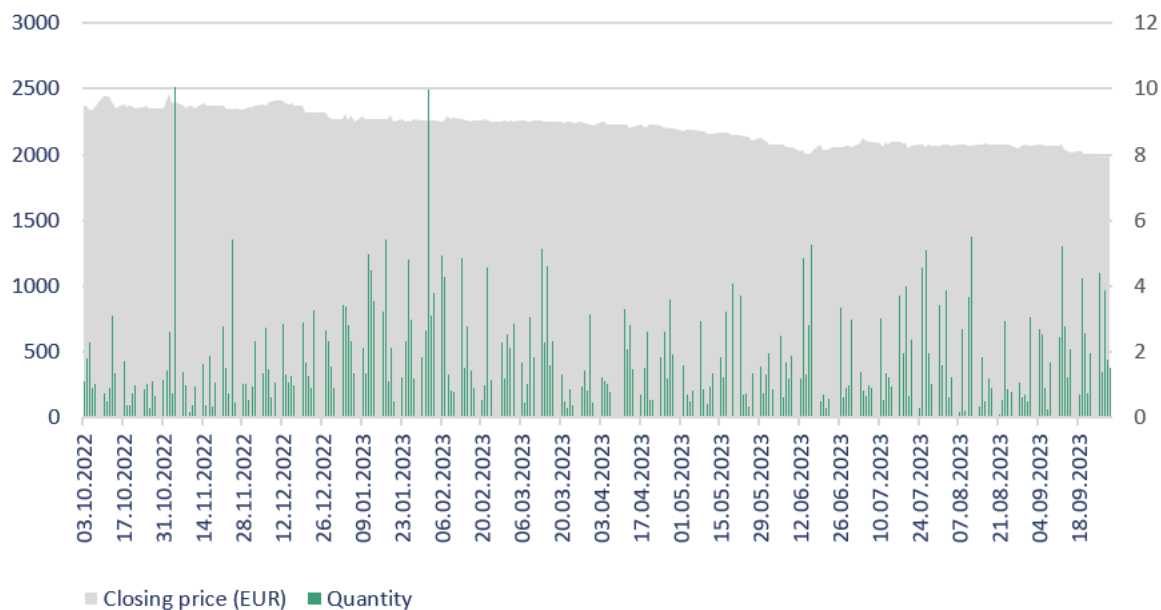
| Number of shares | Number of shareholders | % of shareholders | Number of shares | % of shares |
|------------------|------------------------|-------------------|------------------|----------------|
| 100 001-... | 5 | 0.05% | 3,000,000 | 77.83% |
| 10 001-100 000 | 7 | 0.06% | 228,235 | 5.92% |
| 1001 -10 000 | 53 | 0.49% | 152,429 | 3.95% |
| 101-1000 | 816 | 7.52% | 210,195 | 5.45% |
| 1-100 | 9,970 | 91.88% | 263,842 | 6.84% |
| Total | 10,851 | 100.00% | 3,854,701 | 100.00% |

Between 1 January 2023 to 30 September 2023 a total of 5,641 transactions were conducted with the shares of Hepsor AS with 92,804 in the total amount of 801,077 euros. The highest transaction price in the period was 9.23 euros and the lowest was 7.9 euros. The market capitalization of Hepsor AS was 30.5 million euros as of 30 September 2023, and the equity of the Group amounted to 23.2 million euros.

Market cap on
30 Sept. 2023

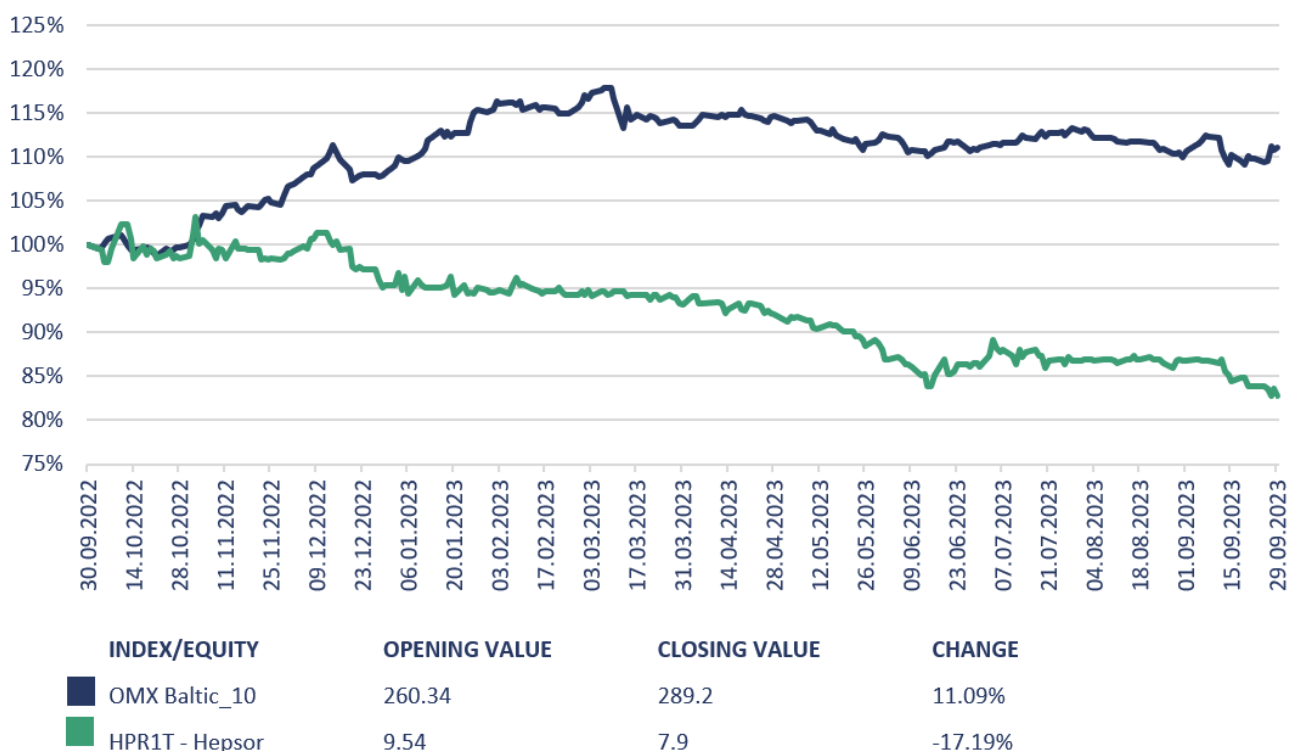
30.5
million euros

Trading volume and price range of Hepsor AS shares, 12 months (1 October 2022 - 30 September 2023):



Source: Nasdaq Baltic

Change in Hepsor share price in comparison with the benchmark OMX Tallinn index, 12 months (1 October 2022 – 30 September 2023):



Source: Nasdaq Baltic

Consolidated Financial Statements

Consolidated statement of financial position

| in thousands of euros | Note | 30 September 2023 | 31 December 2022 | 30 September 2022 |
|---|------|-------------------|------------------|-------------------|
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | | 7,083 | 3,754 | 3,110 |
| Trade and other receivables | 3 | 5,578 | 1,731 | 1,596 |
| Current loan receivables | 4 | 311 | 0 | 100 |
| Inventories | 2 | 68,807 | 69,760 | 67,118 |
| Total current assets | | 81,779 | 75,245 | 71,924 |
| Non-current assets | | | | |
| Property, plant and equipment | | 193 | 232 | 230 |
| Intangible assets | | 5 | 7 | 2 |
| Financial investments | 4 | 1,504 | 2 | 2 |
| Investments in associates | 18 | 384 | 1,086 | 209 |
| Non-current loan receivables | 4 | 1,766 | 1,766 | 1,766 |
| Other non-current receivables | | 166 | 30 | 167 |
| Total non-current assets | | 4,018 | 3,123 | 2,376 |
| Total assets | 19 | 85,797 | 78,368 | 74,300 |
| Liabilities and equity | | | | |
| Current liabilities | | | | |
| Loans and borrowings | 5 | 2,270 | 22,565 | 2,445 |
| Current lease liabilities | | 26 | 46 | 33 |
| Prepayments from customers | | 2,227 | 3,054 | 3,497 |
| Trade and other payables | 6 | 8,683 | 4,007 | 3,213 |
| Total current liabilities | | 13,206 | 29,672 | 9,188 |
| Non-current liabilities | | | | |
| Loans and borrowings | 5 | 46,696 | 26,015 | 43,322 |
| Non-current lease liabilities | | 68 | 68 | 66 |
| Other non-current liabilities | 7 | 2,633 | 2,290 | 2,692 |
| Total non-current liabilities | | 49,397 | 28,373 | 46,080 |
| Total liabilities | 19 | 62,603 | 58,045 | 55,268 |
| Equity | | | | |
| Share capital | | 3,855 | 3,855 | 3,855 |
| Share premium | | 8,917 | 8,917 | 8,917 |
| Reserve capital | | 385 | 0 | 0 |
| Retained earnings | | 10,037 | 7,551 | 6,260 |
| Total equity | | 23,194 | 20,323 | 19,032 |
| incl. total equity attributable to owners of the parent | | 22,150 | 19,866 | 18,529 |
| incl. non-controlling interest | | 1,044 | 457 | 503 |
| Total liabilities and equity | | 85,797 | 78,368 | 74,300 |

Consolidated statement of profit and loss and other comprehensive income

| in thousands of euros | Note | 9M 2023 | 9M 2022 | Q3 2023 | Q3 2022 |
|--|-----------|---------------|-------------|--------------|------------|
| Revenue | 10,19 | 36,048 | 5,622 | 15,458 | 1,668 |
| Cost of sales (-) | 11 | -29,224 | -5,100 | -13,425 | -1,348 |
| Gross profit | | 6,824 | 522 | 2,033 | 320 |
| Marketing expenses (-) | 12 | -399 | -279 | -131 | -106 |
| Administrative expenses (-) | 13 | -1,110 | -764 | -323 | -227 |
| Other operating income | | 112 | 47 | 30 | 0 |
| Other operating expenses (-) | | -116 | -45 | -24 | -6 |
| Operating profit (-loss) of the year | 19 | 5,311 | -519 | 1,585 | -19 |
| Financial income | 15.1 | 1,129 | 849 | 83 | 282 |
| Financial expenses (-) | 15.2 | -1,662 | -454 | -478 | -142 |
| Profit before tax | | 4,778 | -124 | 1,190 | 121 |
| Current income tax(-) | | 0 | -5 | 0 | 0 |
| Deferred income tax | | 0 | 0 | 0 | 8 |
| Net profit for the year | | 4,778 | -129 | 1,190 | 129 |
| Attributable to owners of the parent | | 2,272 | -141 | 469 | 132 |
| Non-controlling interest | | 2,506 | 12 | 721 | -3 |
| Other comprehensive income (-loss) | | | | | |
| Changes related to change of ownership | 17 | 250 | 135 | 182 | 0 |
| Change in value of embedded derivatives with minority shareholders | 8 | -2,157 | 18 | -370 | 31 |
| Other comprehensive income (-loss) for the period | | -1,907 | 153 | -188 | 31 |
| Attributable to owners of the parent | | 12 | -234 | -28 | 52 |
| Non-controlling interest | | -1,919 | 387 | -160 | -21 |
| Comprehensive income (-loss) for the period | | 2,871 | 24 | 1,002 | 160 |
| Attributable to owners of the parent | | 2,284 | -375 | 441 | 184 |
| Non-controlling interest | | 587 | 399 | 561 | -24 |
| Earnings per share | | | | | |
| Basic (euros per share) | | 0.59 | -0.04 | 0.12 | 0.03 |
| Diluted (euros per share) | | 0.59 | -0.04 | 0.12 | 0.03 |

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 | Reserve capital | Retained earnings | | |
| Balance of 31 December 2021 | 3,855 | 8,917 | 0 | 6,132 | 133 | 19,037 |
| 2022 | | | | | | |
| Net profit/(-loss) for the year | 0 | 0 | 0 | -141 | 12 | -129 |
| Other comprehensive income/(-loss) for the period | 0 | 0 | 0 | -234 | 387 | 153 |
| Dividends paid | 0 | 0 | 0 | 0 | -29 | -29 |
| Balance of 30 September 2022 | 3,855 | 8,917 | 0 | 5,757 | 503 | 19,032 |
| 01 October – 31 December 2022 | | | | | | |
| Net profit/(-loss) for the year | 0 | 0 | 0 | 1,537 | -77 | 1,460 |
| Other comprehensive income/(-loss) for the period | 0 | 0 | 0 | -200 | 31 | -169 |
| Balance of 31 December 2022 | 3,855 | 8,917 | 0 | 7,094 | 457 | 20,323 |
| 2023 | | | | | | |
| Net profit/(-loss) for the year | 0 | 0 | 0 | 2,272 | 2,506 | 4,778 |
| Other comprehensive income/(-loss) for the period | 0 | 0 | 0 | 12 | -1,919 | -1,907 |
| Reserve capital | 0 | 0 | 385 | -385 | 0 | 0 |
| Balance of 30 September 2023 | 3,855 | 8,917 | 385 | 8,993 | 1,044 | 23,194 |

Consolidated statement of cash flows

| in thousands of euros | Note | 9M 2023 | 9M 2022 |
|---|-----------|---------------|----------------|
| Net cash flows from (to) operating activities | | | |
| Operating profit/(-loss) of the year | 19 | 5,311 | -519 |
| Adjustments for: | | | |
| Depreciation of property, plant and equipment | | 141 | 105 |
| Other adjustments | | 25 | 37 |
| Income tax paid | | 0 | -5 |
| Changes in working capital: | | | |
| Change in trade receivables | | -3,887 | -984 |
| Change in inventories | 16 | 3,117 | -28,403 |
| Change in liabilities and prepayments | | 1,566 | 3,094 |
| Cash flows from (to) operating activities | | 6,273 | -26,675 |
| Net cash flows to investing activities | | | |
| Payments for property, plant and equipment | | -17 | -111 |
| Payments for intangible assets | | -2 | 0 |
| Payments of for acquisition of subsidiaries | | -3 | -400 |
| Payments of for acquisition of financial investment | 4 | -1,502 | 0 |
| Proceeds from sale of subsidiaries | 17 | 595 | 135 |
| Interest received | | 24 | 317 |
| Loans granted | 4 | -311 | -176 |
| Loan repayments received | 4 | 0 | 2,026 |
| Other receipts from investing activities | | 0 | 460 |
| Cash flows to investing activities | | -1,216 | 2,251 |
| Net cash flows from (to) financing activities | | | |
| Loans raised | 5 | 26,064 | 22,367 |
| Loan repayments | 5 | -25,435 | -4,963 |
| Interest paid | 16 | -2,467 | -824 |
| Payments of finance lease principal | | -7 | -8 |
| Payments of right to use lease liabilities | | -94 | -81 |
| Dividends paid | | 0 | -29 |
| Payments of for division of a subsidiary | | 0 | -18 |
| Other receipts from financing activities | | -15 | -41 |
| Cash flows from financing activities | | -1,954 | 16,403 |
| Net cash flow | | 3,103 | -8,021 |
| Cash and cash equivalents at beginning of year | | 3,754 | 10,889 |
| Cashflow in from acquisitions of subsidiaries | 17 | 226 | 242 |
| Increase / decrease in cash and cash equivalents | | 3,103 | -8,021 |
| Cash and cash equivalents at end of year | | 7,083 | 4,361 |

Notes to the consolidated interim financial statement

Note 1. General information

The Hepsor AS (hereinafter “the Group”) consolidated unaudited interim report for 2023 Q3 and 9 months have been prepared in accordance with IAS 34 Interim Financial Reporting of International Financial Reporting Standards as endorsed in the European Union (“IFRS (EU)”). The Group has consistently applied the accounting policies throughout all periods presented, unless stated otherwise. The interim report for 2023 Q3 and nine months follow the same accounting principles and methods used in the 2022 audited consolidated financial statements. The current interim financial statements contain the audited financial results for 31.12.2022 and unaudited comparative figures for 2022 Q3 and 9 months.

The Group has not made any changes in their critical accounting estimates which may have impact on the consolidated unaudited interim financial statements for 2023 Q3 and nine months.

The Group has not made any changes in the valuation techniques applied for fair value measurement in 2023.

In 2023, the Group established a subsidiary in Canada, foreign currency transactions are recorded based on the foreign currency exchange rates of the European Central Bank prevailing at the dates of the transactions. Monetary financial assets and liabilities denominated in foreign currencies at the statement date are translated into euros based on the foreign currency exchange rates of the European Central Bank prevailing at the balance sheet date. Exchange rate differences from translation are reported in the income statement of the reporting period. The functional currency of subsidiaries located abroad is the currency of their business environment; therefore the financial statements of such subsidiaries are translated into euros for consolidation purposes; the asset and liability items are translated using the foreign exchange rates of the European Central Bank prevailing at the balance sheet date, income and expenses using the weighted average foreign exchange rates for the year and other changes in equity using the foreign exchange rates at the date at which they arose. Exchange rate differences arising from translation are reported in the equity.

Note 2. Inventories

Inventories are accounted as ready for sale development projects once the project has been granted usage permit. As at 30 September 2023, building permits has been issued to Gregora iela 2a and Strēlnieku 4b development projects in Riga, Liela 45 development project in Marupe and to Meistri 14 development project in Tallinn.

As of 30 September 2023, in ready for sale development projects the Group had 29 (31 December 2022: 26; 30 September 2022: 24) apartments which had not been handover to customers. 14 apartments in Strēlnieku 4b, 13 apartments in Liela 45 and 2 apartments in Gregora iela 2a development projects.

In addition, a development project are ready for sale in Tallinn, Paevälja 11 for which a usage permit has not been issued. In Paevälja 11 project, as of 30 September 2023, there are 13 apartments unsold with real right contracts.

As of 30 September 2023, the changes in inventories as stated in cash flow statements have been adjusted by loan interest expense. The capitalized loan interest amounted to 1,779 thousand euros (31 December 2022: 1,842 thousand euros; 30 September 2022: 1,478 thousand euros). Further information is provided in Note 16.

Project statuses are classified as following:

| in thousands of euros | 30 September 2023 | 31 December 2022 | 30 September 2022 |
|---|--------------------------|-------------------------|--------------------------|
| A – planning proceedings | 9,820 | 13,236 | 13,489 |
| B – building permit proceedings | 10,803 | 7,272 | 9,539 |
| C – building permit available /construction not yet started | 4,547 | 8,924 | 8,590 |
| D – construction started / sale started | 31,720 | 30,151 | 29,780 |
| E – construction ready for sale | 11,917 | 10,177 | 5,720 |
| Total inventories | 68,807 | 69,760 | 67,118 |

The following development projects are stated as inventories:

| in thousands of euros | | | | 30 September 2023 | | 31 December 2022 | | 30 September 2022 | |
|---|--------------------------|----------|----------------------------|-------------------|----------------|------------------|----------------|-------------------|----------------|
| Address | Project company | Location | Segment | Acquisition cost | Project status | Acquisition cost | Project status | Acquisition cost | Project status |
| Work in progress | | | | | | | | | |
| Paevälja 11, Tallinn | Hepsor PV11 OÜ | Estonia | Residential | 1,718 | E | 909 | E | 0 | - |
| Paevälja 11, Tallinn | Hepsor PV11 OÜ | Estonia | Residential | 0 | - | 5,585 | D | 8,877 | D |
| Paldiski mnt 227C, Tallinn | Hepsor 3Torni OÜ | Estonia | Residential | 12,309 | D | 3,482 | D | 2,984 | C |
| Narva mnt 150, Tallinn | Hepsor N450 OÜ | Estonia | Residential/ Commercial | 3,726 | A | 3,609 | A | 3,637 | A |
| Manufaktuuri 5, Tallinn | Hepsor Phoenix 3 OÜ | Estonia | Residential/ Commercial | 4,905 | B | 4,168 | B | 4,033 | B |
| Manufaktuuri 7, Tallinn | Hepsor Phoenix 2 OÜ | Estonia | Residential/ Commercial | 11,989 | D | 3,018 | C | 2,755 | B |
| Tooma 2/Tooma 4 Tallinn | T2T4 OÜ | Estonia | Commercial | 0 | - | 1,248 | C | 1,211 | C |
| Lembitu 4, Tallinn | Hepsor L4 OÜ | Estonia | Commercial | 3,056 | C | 2,954 | C | 2,890 | C |
| Meistri 14, Tallinn | Hepsor M14 OÜ | Estonia | Commercial | 0 | - | 3,193 | D | 7,181 | D |
| Alvari 2, Paevälja 9, Tallinn | Hepsor Fortuuna OÜ | Estonia | Residential | 1,657 | A | 1,657 | A | 1,657 | A |
| Alvari 1, Tallinn | Hepsor A1 OÜ | Estonia | Residential | 2,022 | A | 2,023 | A | 2,023 | A |
| Kadaka Road 197, Tallinn | H&R Residentsid OÜ | Estonia | Residential | 1,223 | A | 1,168 | A | 1,153 | A |
| Manufaktuuri 12, Tallinn | Hepsor Phoenix 4 OÜ | Estonia | Residential | 922 | A | 843 | A | 812 | A |
| Nõmme tee 57, Tallinn | Hepsor N57 OÜ | Estonia | Residential | 4,595 | D | 1,704 | C | 1,505 | C |
| Saules alley 2, Riga | Hepsor SA2 SIA | Latvia | Residential | 890 | B | 886 | B | 965 | B |
| Liela 45, Mārupe | Hepsor Mārupe SIA | Latvia | Residential | 0 | - | 7,766 | D | 5,539 | D |
| Ranka Dambis 5, Riga | Hepsor RD5 SIA | Latvia | Residential | 2,827 | D | 416 | B | 393 | B |
| Ulbrokas 30, Riga | Hepsor U30 SIA | Latvia | Commercial | 0 | - | 0 | - | 4,069 | E |
| Ulbrokas 34, Riga | Hepsor U34 SIA | Latvia | Commercial | 1,491 | C | 1,128 | B | 1,109 | B |
| Braila 23, Riga | Hepsor Jugla SIA | Latvia | Residential | 496 | B | 314 | B | 284 | B |
| Gregora iela 2a, Riga | Hepsor Kvarta SIA | Latvia | Residential | 0 | - | 10,125 | D | 8,183 | D |
| Ganību Dambis 17a, Riga | Hepsor Ganību Dambis SIA | Latvia | Commercial | 4,047 | B | 3,918 | A | 3,855 | A |
| Jurmala Gatve, Riia | Hepsor JG SIA | Latvia | Residential | 465 | B | 360 | B | 329 | A |
| Smaidu, Dreilini | Riga Properties 4 SIA | Latvia | Commercial | 252 | A | 0 | - | 0 | - |
| -other properties | | Estonia | | 18 | A | 18 | A | 23 | A |
| Total work in progress | | | | 58,608 | | 60,492 | | 65,467 | |
| Ready for sale real estate development | | | | | | | | | |
| Manufaktuuri 22, Tallinn (parking spaces) | Hepsor Phoenix OÜ | Estonia | Residential | 16 | E | 16 | E | 16 | E |
| Meistri 14, Tallinn | Hepsor Meistri 14 OÜ | Estonia | Commercial | 7,637 | E | 4,026 | E | 0 | - |
| Strēlnieku 4b, Riga | Hepsor S4B SIA | Latvia | Residential | 884 | E | 1,106 | E | 1,635 | E |
| Ulbrokas 30, Riga | Hepsor U30 SIA | Latvia | Commercial | 0 | - | 4,120 | E | 0 | - |
| Gregora iela 2a, Riga | Hepsor Kvarta SIA | Latvia | Residential | 308 | E | 0 | - | 0 | - |
| Liela 45, Mārupe | Hepsor Mārupe SIA | Latvia | Residential | 1,354 | E | 0 | - | 0 | - |
| Balozu 9, Riga | Hepsor Bal 9 SIA | Latvia | Residential | 0 | - | 0 | - | 0 | E |
| Total ready for sale real estate development | | | | 10,199 | | 9,268 | | 1,651 | |
| Total inventories | | | | 68,807 | | 69,760 | | 67,118 | |

Note 3. Trade and other receivables

| in thousands of euros | 30 September 2023 | 31 December 2022 | 30 September 2022 |
|--|-------------------|------------------|-------------------|
| Trade receivables | | | |
| Trade receivables | 1,480 | 718 | 174 |
| Allowance for doubtful receivables | -1 | -10 | -12 |
| Net trade receivables | 1,479 | 708 | 162 |
| Prepayments | | | |
| Tax prepayment | | | |
| Value added tax | 3,526 | 317 | 418 |
| Other taxes | 13 | 1 | 15 |
| Other prepayments for goods and services | 500 | 279 | 996 |
| Total prepayments | 4,039 | 597 | 1,429 |
| Other current receivables | | | |
| Interest receivables | 3 | 1 | 1 |
| Other current receivables | 57 | 20 | 4 |
| Escrow account | 0 | 405 | 0 |
| Other current receivables | 60 | 426 | 5 |
| Total trade receivables | 5,578 | 1,731 | 1,596 |

Note 4. Loans granted

The loan granted in the second quarter of 2023 to the Weston Road partnership in the amount of 1,467 thousand euros has been reclassified as a financial investment. As of 30.09.2023, the acquisition cost of the financial investment is 1,502 thousand euros.

| in thousands of euros | Owner of non-controlling interest | Unrelated legal entities | Related legal entities (Note 20) | Total |
|--|-----------------------------------|--------------------------|----------------------------------|--------------|
| 2023 | | | | |
| Loan balance as of 31 December 2022 | 0 | 0 | 1,766 | 1,766 |
| Loan granted | 311 | 1,467 | 0 | 1,778 |
| Reclassification as a financial investment | 0 | -1,467 | 0 | -1,467 |
| Loan balance as of 30 September 2023 | 311 | 0 | 1,766 | 2,077 |
| - current portion | 311 | 0 | 0 | 311 |
| - non-current portion | 0 | 0 | 1,766 | 1,766 |
| <i>contractual/effective interest rate per annum</i> | 3% | 0% | 7% | |
| 2022 | | | | |
| Loan balance as of 31 December 2022 | 2,109 | 1,100 | 2,587 | 5,796 |
| Loan granted | 0 | 0 | 176 | 176 |
| Loan collected | -29 | -1,100 | -897 | -2,026 |
| Division of subsidiary | -2,080 | 0 | 0 | -2,080 |
| Loan balance as of 30 September 2022 | 0 | 0 | 1,866 | 1,866 |
| - current portion | 0 | 0 | 100 | 100 |
| - non-current portion | 0 | 0 | 1,766 | 1,766 |
| Loan balance as of 01 October 2022 | 0 | 0 | 1,866 | 1,866 |
| Loan collected | 0 | 0 | -100 | -100 |
| Loan balance as of 31 December 2022 | 0 | 0 | 1,766 | 1,766 |
| - non-current portion | 0 | 0 | 1,766 | 1,766 |
| <i>contractual/effective interest rate per annum</i> | | | 7%-12% | |

Note 5. Loans and borrowings

| in thousands of euros | Bank loans | Unrelated legal entities | Related legal entities (Note 20) | Total |
|---|--|--------------------------|----------------------------------|---------------|
| 2023 | | | | |
| Loan balance as of 31 December 2022 | 30,129 | 16,145 | 2,306 | 48,580 |
| Received | 20,731 | 4,244 | 1,089 | 26,064 |
| Repaid | -21,171 | -2,764 | -1,500 | -25,435 |
| Reclassification as a Group loan | 0 | 0 | -512 | -512 |
| Effective interest rate impact | 0 | -3 | 0 | -3 |
| Compound interest rate impact (Note 16) | 0 | 272 | 0 | 272 |
| Loan balance as of 30 September 2023 | 29,689 | 17,894 | 1,383 | 48,966 |
| - current loan payable | 400 | 620 | 1,250 | 2,270 |
| - non-current loan payable | 29,289 | 17,274 | 133 | 46,696 |
| <i>Contractual interest rate per annum</i> | <i>6M Euribor+3.75%-8%; 5.5%</i> | <i>0-12%</i> | <i>3%-12%</i> | |
| 2022 | | | | |
| Loan balance as of 31 December 2021 | 10,951 | 15,581 | 1,831 | 28,363 |
| Received | 18,639 | 3,728 | 0 | 22,367 |
| Repaid | -2,811 | -2,152 | 0 | -4,828 |
| Total loan balance as of 30 September 2022 | 26,779 | 17,157 | 1,831 | 45,767 |
| - current loan payable | 1,220 | 1,225 | 0 | 2,445 |
| - non-current loan payable | 25,559 | 15,932 | 1,831 | 43,322 |
| Total loan balance as of 01 October 2022 | 26,779 | 17,157 | 1,831 | 45,767 |
| Received | 9,016 | 45 | 464 | 9,525 |
| Repaid | -5,476 | -1,164 | -69 | -6,709 |
| Effective interest rate impact | -190 | -247 | 75 | -362 |
| Compound interest rate | 0 | 354 | 5 | 359 |
| Total loan balance as of 31 December 2022 | 30,129 | 16,145 | 2,306 | 48,580 |
| - current loan payable | 17,040 | 3,352 | 2,173 | 22,565 |
| - non-current loan payable | 13,089 | 12,793 | 133 | 26,015 |
| <i>Contractual interest rate per annum</i> | <i>6M Euribor +3.75% -8%; 5.5%</i> | <i>0-12%</i> | <i>12%</i> | |
| <i>Effective interest rate per annum</i> | <i>7.6%-12.3%</i> | <i>5.3%-12.2%</i> | <i>12.2%</i> | |

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

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

In addition to bank loans, Hepsor N450 OÜ has a joint mortgage in the amount of 2.1 million euros as a loan collateral until the loan obligation to unrelated legal entity has been fulfilled.

As of 30 September 2023, 88% (31 December 2022: 89%; 30 September 2022: 88%) of all loans granted to the Group have been received against the risk of development projects.

| in thousands of euros | Bank loans | Unrelated legal entities | Related legal entities | Total |
|---|---------------|--------------------------|------------------------|---------------|
| Balance as of 30 September 2023 | | | | |
| Loans for development projects | 23,770 | 17,894 | 1,383 | 43,047 |
| Loans to headquarters to finance development projects | 5,919 | 0 | 0 | 5,919 |
| Total | 29,689 | 17,894 | 1,383 | 48,966 |
| Balance as of 31 December 2022 | | | | |
| Loans for development projects | 24,635 | 16,145 | 2,306 | 43,086 |
| Loans to headquarters to finance development projects | 5,494 | 0 | 0 | 5,494 |
| Total | 30,129 | 16,145 | 2,306 | 48,580 |
| Balance as of 30 September 2022 | | | | |
| Loans for development projects | 21,178 | 17,157 | 1,831 | 40,166 |
| Loans to headquarters to finance development projects | 5,601 | 0 | 0 | 5,601 |
| Total | 26,779 | 17,157 | 1,831 | 45,767 |

As of 30 September 2023, the Group had the following bank loans under the following conditions:

| Lender | Country | Loan balance | Contract term | Loan limit | Interest per annum | Collateral | Cost value of the collateral | Guarantee given |
|-------------|---------|--------------|---------------|------------|--------------------|---|------------------------------|-----------------|
| LHV Pank AS | Estonia | 4,794 | 2024 | 4,900 | 6M Euribor+3.75% | Mortgage - Meistri 14, Tallinn | 7,637 | - |
| LHV Pank AS | Estonia | 1,254 | 2025 | 1,300 | 6M Euribor+8% | Mortgage - Lembitu 4, Tallinn | 3,056 | - |
| LHV Pank AS | Estonia | 6,360 | 2025 | 13,900 | 6M Euribor+5.9% | Mortgage - Paldiski mnt 227c, Tallinn | 12,309 | - |
| LHV Pank AS | Estonia | 2,612 | 2026 | 3,006 | 6M Euribor+6.5% | Mortgage- Nõmme tee 57, Tallinn | 4,594 | - |
| LHV Pank AS | Estonia | 3,462 | 2026 | 17,500 | 6M Euribor+8% | Mortgage- Manufaktuuri 7 and Manufaktuuri 12, Tallinn | 11,988 | - |
| Coop Pank | Estonia | 1,285 | 2025 | 1,504 | 6M Euribor+6% | Mortgage- Paevälja 11, Tallinn | 1,897 | 150 |
| Bigbank AS | Latvia | 362 | 2024 | 1,225 | 6M Euribor+4.5% | Commercial pledge; Mortgage- Strēlnieku 4b, Riga | 884 | - |
| Bigbank AS | Latvia | 1,961 | 2025 | 2,000 | 6M Euribor+4.5% | Mortgage - Ganību dambis 17A Riga; Commercial pledge | 4,047 | - |
| Bigbank AS | Latvia | 1,680 | 2026 | 4,000 | 6M Euribor+5,2% | Mortgage- Ranka Dambis 5, Riga | 2,827 | 1,200 |

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

| Lender | Country | Loan balance | Contract term | Loan limit | Interest per annum | Collateral | Cost value of the collateral | Guarantee given |
|-------------|---------|--------------|---------------|------------|--------------------|--|------------------------------|-----------------|
| LHV Pank | Estonia | 2,655 | 2023 | 8,605 | 6M Euribor + 4.5% | Mortgage - Paevälja pst 11, Lageloo 3//5, Lageloo 7, Tallinn | 6,495 | - |
| LHV Pank AS | Estonia | 4,483 | 2024 | 4,900 | 6M Euribor + 3.75% | Mortgage - Meistri 14, Tallinn | 7,220 | - |
| LHV Pank AS | Estonia | 1254 | 2025 | 1,300 | 6M Euribor + 8% | Mortgage - Lembitu 4, Tallinn | 2,953 | - |
| LHV Pank AS | Estonia | 0 | 2025 | 13,900 | 6M Eurobor+5.9% | Mortgage-Paldiski mnt 227C, Tallinn | 3,477 | - |
| Bigbank AS | Latvia | 5,687 | 2025 | 7,000 | 5.5% | Mortgage – Liela 45, Mārupe, Riga | 7,766 | - |
| Bigbank AS | Latvia | 828 | 2024 | 1,225 | 6M Euribor + 4.5% | Commercial pledge; Mortgage - Strēlnieku 4b, Riga | 1,106 | - |
| Bigbank AS | Latvia | 2,650 | 2024 | 2,650 | 5.5% | Mortgage - Ulbrokas 30, Riga, Commercial pledge | 4,120 | 500 |
| Bigbank AS | Latvia | 5,957 | 2025 | 7,500 | 5.5% | Mortgage - Gregora 2a, Riga | 10,125 | 423 |
| Bigbank AS | Latvia | 1,985 | 2025 | 2,000 | 6M Euribor+4.5% | Mortgage – Ganību Dambis 17a, Riga, Commercial pledge | 3,918 | - |

As of 30 September 2022, the Group had the following bank loans under the following conditions:

| Lender | Country | Loan balance | Contract term | Loan limit | Interest per annum | Collateral | Cost value of the collateral | Guarantee given |
|-------------|---------|--------------|---------------|------------|--------------------|--|------------------------------|-----------------|
| LHV Pank | Estonia | 6,120 | 2023 | 8,605 | 6M Euribor + 4.5% | Mortgage - Paevälja pst 11, Lageloo 3//5, Lageloo 7, Tallinn | 8,877 | - |
| LHV Pank AS | Estonia | 3,167 | 2024 | 4,900 | 6M Euribor + 4.75% | Mortgage - Meistri 14, Tallinn | 7,181 | - |
| LHV Pank AS | Estonia | 1,225 | 2022 | 1,300 | 6M Euribor + 8% | Mortgage - Lembitu tn. 4, Tallinn | 2,890 | - |
| LHV Pank AS | Estonia | 0 | 2025 | 13,900 | 6M Euribor+5.9% | Mortgage - Paldiski mnt 227c, Tallinn | 2,984 | - |
| Bigbank AS | Latvia | 1,141 | 2024 | 1,225 | 6M Euribor + 4.5% | Commercial pledge; Mortgage - Strelnieku tn. 4b, Riga | 1,634 | - |
| Bigbank AS | Latvia | 2,206 | 2025 | 7,000 | 5.5% | Mortgage - Liela 45, Marupe | 5,539 | - |
| Bigbank AS | Latvia | 2,598 | 2024 | 2,650 | 5.5% | Mortgage - Ulbrokas 30, Riga, Commercial pledge | 4,068 | 500 |
| Bigbank AS | Latvia | 4,721 | 2025 | 7,500 | 5.5% | Mortgage - Gregora 2a, Riga | 8,183 | 423 |
| Bigbank AS | Latvia | 0 | 2025 | 2,000 | 6M Euribor+4.5% | Mortgage - Ganību dambis 17A, Riga, Commercial pledge | 3,854 | |

Note 6. Trade and other payables

| in thousands of euros | 30 September 2023 | 31 December 2022 | 30 September 2022 |
|---------------------------------------|-------------------|------------------|-------------------|
| Trade payables | 3,443 | 1,906 | 1,800 |
| Taxes payable | | | |
| Value added tax | 2,155 | 910 | 59 |
| Personal income tax | 19 | 28 | 18 |
| Social security tax | 34 | 51 | 32 |
| Other taxes | 29 | 5 | 26 |
| Total taxes payable | 2,237 | 994 | 135 |
| Accrued expenses | | | |
| Payables to employees | 83 | 109 | 69 |
| Interest payable (Note 16) | 677 | 552 | 191 |
| Other accrued expenses | 37 | 35 | 34 |
| Total accrued expenses | 797 | 696 | 294 |
| Other current payables | | | |
| Embedded derivatives (Note 8) | 2,165 | 8 | 0 |
| Other payables | 41 | 403 | 984 |
| Total other current payables | 2,206 | 411 | 984 |
| Total trade and other payables | 8,683 | 4,007 | 3,213 |

Note 7. Other non-current liabilities

| in thousands of euros | 30 September 2023 | 31 December 2022 | 30 September 2022 |
|--|-------------------|------------------|-------------------|
| Non-current interest payables (Note 16) | 1,995 | 1,652 | 2,031 |
| Other non-current payables | 638 | 638 | 661 |
| Total other non-current liabilities | 2,633 | 2,290 | 2,692 |

Note 8. Embedded derivatives

Liabilities assumed by the Group to minority shareholders in accordance with the concluded shareholders' agreements are recognized as embedded derivatives. According to shareholders agreements the profit is shared with minority shareholders in the form as it is agreed in the agreement.

As of 30.09.2023, the Group had liabilities on the following development projects:

| in thousands of euros | 30 September 2023 | 31 December 2022 |
|---|-------------------|------------------|
| Liabilities arising from embedded derivatives (Note 6) | | |
| Commercial development project in Tooma 2/Tooma 4, Tallinn | 311 | 0 |
| Residential development project in Gregora iela 2a, Riga | 1,190 | 0 |
| Residential development project in Liela 45, Marupe | 664 | 0 |
| Commercial development project in Meistri 14, Tallinn | 0 | 8 |
| Total | 2,165 | 8 |

In 2023, the liability was reduced by 8 thousand euros through the other comprehensive income.

Note 9. Contingent liabilities

9.1 Contingent liabilities arising from embedded derivatives

In accordance with the shareholders agreements between the Group and minority shareholders of subsidiaries (SPV's), the Group has an obligation as of 30 September 2023 to pay 13,667 thousand euros (31 December 2022: 12,904 thousand euros; 30 September 2022: 13,246 thousand euros) to the minority shareholders upon realization of the business plan. The obligations amounts are estimations calculated based on current business plans of the development projects as of statement of financial position dates. Contingent liabilities are estimated before the full realization of the development projects at each reporting date. As of 30 September 2023, the realization time of contingent liabilities remains between 2023 and 2027.

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

9.3 Group guarantees given

Additional information on the guarantees is provided in Note 5.

Note 10. Revenue

| in thousands of euros | 9M 2023 | 9M 2022 | Q3 2023 | Q3 2022 |
|--|---------------|--------------|---------------|--------------|
| Revenue from sale of real estate | 34,773 | 4,899 | 15,066 | 1,351 |
| Revenue from project management services | 73 | 137 | 17 | 42 |
| Revenue from rent | 981 | 448 | 295 | 211 |
| Revenue from other services | 221 | 138 | 80 | 64 |
| Total | 36,048 | 5,622 | 15,458 | 1,668 |

Additional information on sales revenue is provided in Note 19.

Note 11. Cost of sales

| in thousands of euros | 9M 2023 | 9M 2022 | Q3 2023 | Q3 2022 |
|-------------------------------|----------------|---------------|----------------|---------------|
| Cost of real estate sold | -27,141 | -4,265 | -12,685 | -1,003 |
| Personnel expenses (Note 14) | -760 | -551 | -256 | -199 |
| Interest expenses (Note 15.2) | -459 | -16 | -242 | 0 |
| Depreciation | -24 | -24 | -8 | -8 |
| Other costs | -840 | -244 | -234 | -138 |
| Total | -29,224 | -5,100 | -13,425 | -1,348 |

Note 12. Marketing expenses

| in thousands of euros | 9M 2023 | 9M 2022 | Q3 2023 | Q3 2022 |
|------------------------------|-------------|-------------|-------------|-------------|
| Personnel expenses (Note 14) | -89 | -82 | -31 | -29 |
| Depreciation | -35 | 0 | -12 | 0 |
| Other marketing expenses | -275 | -197 | -88 | -77 |
| Total | -399 | -279 | -131 | -106 |

Note 13. Administrative expenses

| in thousands of euros | 9M 2023 | 9M 2022 | Q3 2023 | Q3 2022 |
|----------------------------------|---------------|-------------|-------------|-------------|
| Personnel expenses | -609 | -456 | -196 | -150 |
| Depreciation | -83 | -81 | -28 | -27 |
| Traveling and transport expenses | -66 | -35 | -19 | -6 |
| Purchased service expenses | -283 | -166 | -41 | -44 |
| Office expenses | -9 | -24 | -2 | 0 |
| Other expenses | -60 | -2 | -37 | 0 |
| Total | -1,110 | -764 | -323 | -227 |

Note 14. Personnel expenses

| in thousands of euros | 9M 2023 | 9M 2022 | Q3 2023 | Q3 2022 |
|---|---------------|---------------|-------------|-------------|
| Salaries | -1,050 | -804 | -333 | -272 |
| Social security and other payroll taxes | -408 | -285 | -150 | -106 |
| Total (Notes 11, 12, 13) | -1,458 | -1,089 | -483 | -378 |

As of 30 September 2023, the Group employed 27 (30 September 2022: 26) people, including the members of Management and Supervisory Boards. 13 of these people worked in Estonia (30 September 2022: 13) and 14 in Latvia (30 September 2022: 13).

Gross fees paid to the members of Management and Supervisory Boards during the nine months of 2023 amounted to 271 thousand euros (9M 2022: 241 thousand euros).

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

Note 15. Financial income and expenses

15.1 Financial income

| in thousands of euros | 9M 2023 | 9M 2022 | Q3 2023 | Q3 2022 |
|---|--------------|------------|-----------|------------|
| Interest incomes | 120 | 148 | 33 | 41 |
| Incomes from the sale of subsidiaries | 980 | 0 | 21 | 0 |
| Profit from associates of equity method | 0 | 209 | 0 | 209 |
| Profit from exchange rate changes | 29 | 0 | 29 | 0 |
| Other financial incomes | 0 | 460 | 0 | 0 |
| Financial income from discounting | 0 | 32 | 0 | 32 |
| Total | 1,129 | 849 | 83 | 282 |

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

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

15.2 Financial expenses

| in thousands of euros | 9M 2023 | 9M 2022 | Q3 2023 | Q3 2022 |
|---|---------------|-------------|-------------|-------------|
| Interest expenses | -1,428 | -413 | -469 | -136 |
| Loss from associates of equity method (Note 18) | -183 | 0 | -9 | 0 |
| Loss from exchange rate changes | -36 | 0 | 0 | 0 |
| Other financial expenses | -15 | -41 | 0 | -6 |
| Total | -1,662 | -454 | -478 | -142 |

In 2023 borrowing costs in the amount of 1,779 thousand euros (9M 2022: 1,478 thousand euros) have been capitalized as the cost of inventories. Interest expenses of 459 thousand euros have been recognized in the cost of sales in 2023 (9M 2022: 16 thousand euros). (Note 11).

Note 16. Information about line item in the consolidated statement of cash flows

| in thousands of euros | 30 September 2023 | 30 September 2022 |
|---|-------------------|-------------------|
| Inventories | | |
| Reclassification of cash flows from operating activities to financing activities (Note 2) | 1,779 | 1,478 |
| Decrease (-)/ increase (+) of change inventories balances (Note 2) | 953 | -29,881 |
| Realized profit from the sale of the subsidiary | 385 | 0 |
| Change in inventories | 3,117 | -28,403 |
| Interest paid | | |
| Interest expense in statement of profit or loss and other comprehensive income | -1,428 | -413 |
| Reclassification of cash flows from operating activities to financing activities (Note 2) | -1,779 | -1,478 |
| Decrease (-)/ increase (+) of interest payables (Notes 6,7) | 468 | 1,067 |
| Compound interest rate impact (Note 5) | 272 | 0 |
| Interest paid total | -2,467 | -824 |

Note 17. Subsidiaries

In January 2023 the Group acquired a minority stake in Hepsor Bal 9 OÜ, as a result of the transaction, Hepsor Latvia OÜ became the 100% owner of the company.

In May 10, 2023, Hepsor Latvia OÜ signed a sales agreement for shares of Hepsor U30 SIA with the real estate fund East Capital Real Estate IV. The debt-free value of the company agreed upon in the transaction is 5.2 million euros, from which the company's debt obligations, including bank loans and owner loans, are to be deducted.

In August 2023, Hepsor AS acquired a minority stake in Hepsor N170 OÜ, as a result of the transaction, Hepsor Latvia OÜ became the 100% owner of the company.

In August, Hepsor Latvia OÜ paid a share capital contribution to the share capital of Riga Properties 4 SIA, receiving a 50% stake in the company.

Changes in Group structure in 2023 and impact on comprehensive income and cash flow are following:

| in thousands of euros | Other comprehensive income | | Cash flow | |
|-----------------------|---|---|---------------------------------------|---|
| | Comprehensive income attributable to owners of the parent | Comprehensive income attributable to non-controlling interest | Net cash flow from sale of subsidiary | Cashflow in from acquisitions of subsidiaries |
| Hepsor Bal 9 OÜ | -11 | 11 | 0 | 0 |
| Hepsor Bal 9 SIA | -3 | 3 | 0 | 0 |
| Hepsor U30 SIA | 54 | 14 | 595 | 0 |
| Riga 4 Properties SIA | -35 | 210 | 0 | 190 |
| Hepsor N170 OÜ | 7 | 0 | 0 | 36 |
| Total | 12 | 238 | 595 | 226 |

Note 18. Shares of associates

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

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

| | Ownership and voting rights % | | |
|----------------|-------------------------------|------------------|-------------------|
| | 30 September 2023 | 31 December 2022 | 30 September 2022 |
| Hepsor P113 OÜ | 45 | 45 | 45 |
| Hepsor N170 OÜ | - | 25 | 25 |

Financial information about associates:

| in thousands of euros | 30 September 2023 | 31 December 2022 | | 30 September 2022 | |
|--------------------------------------|-------------------|------------------|----------------|-------------------|----------------|
| | Hepsor P113 OÜ | Hepsor P113 OÜ | Hepsor N170 OÜ | Hepsor P113 OÜ | Hepsor N170 OÜ |
| Current assets | | | | | |
| Cash and cash equivalents | 475 | 919 | 2 | 635 | 345 |
| Trade and other receivables | 4 | 94 | 103 | 23 | 3 |
| Current loan receivables | 0 | 0 | 1,536 | 0 | 0 |
| Inventories | 0 | 0 | 160 | 11,875 | 1,512 |
| Total current assets | 479 | 1,013 | 1,801 | 12,533 | 1,860 |
| Non-current assets | | | | | |
| Investment property | 13,100 | 13,100 | 0 | 0 | 0 |
| Trade and other receivables | 0 | 297 | 0 | 0 | 0 |
| Total non-current assets | 13,100 | 13,397 | 0 | 0 | 0 |
| Total assets | 13,579 | 14,410 | 1,801 | 12,533 | 1,860 |
| Current liabilities | | | | | |
| Loans and borrowings | 51 | 158 | 0 | 3,924 | 650 |
| Trade and other payables | 5 | 286 | 2 | 1,417 | 387 |
| Total current liabilities | 56 | 444 | 2 | 5,341 | 1,037 |
| Non-current liabilities | | | | | |
| Loans and borrowings | 12,165 | 12,165 | 0 | 7,120 | 0 |
| Other non-current liabilities | 293 | 228 | 0 | 151 | 0 |
| Total non-current liabilities | 12,458 | 12,393 | 0 | 7,271 | 0 |
| Total liabilities | 12,514 | 12,837 | 2 | 12,612 | 1,037 |
| Total equity | 1,065 | 1,573 | 1,799 | -79 | 823 |
| Total liabilities and equity | 13,579 | 14,410 | 1,801 | 12,533 | 1,860 |

The construction of commercial property development project by Hepsor P113 OÜ in Tallinn, Pärnu road 113 was completed in the fourth quarter of 2022. As of 31 December 2022, the building was reclassified as an investment property. The investment property is recorded at fair value.

During the reporting period, the Group received loss from associate company, Hepsor P113 OÜ, by the equity method in the amount of 183 thousand euros (Note 15.2). In the statement of financial position as of 30 September, investment in associates is 384 thousand euros.

Note 19. Operating segments

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

The Group reports separately information about the following operating segments:

- ✓ residential real estate;
- ✓ commercial real estate;
- ✓ headquarters.

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

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

Revenue by geographical area:

| in thousands of euros | 9M 2023 | 9M 2022 | Q3 2023 | Q3 2022 |
|-----------------------|---------------|--------------|---------------|--------------|
| Estonia | 10,548 | 576 | 558 | 231 |
| Latvia | 25,500 | 5,046 | 14,900 | 1,437 |
| Total | 36,048 | 5,622 | 15,458 | 1,668 |

Additional information on sales revenue is provided in Note 10.

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

| in thousands of euros | Residential development | | | Commercial development | | Headquarters | | Total |
|-------------------------|-------------------------|--------|--------|------------------------|--------|--------------|--------|---------------|
| | Estonia | Latvia | Canada | Estonia | Latvia | Estonia | Latvia | |
| 9M 2023 | | | | | | | | |
| Revenue | 7,866 | 25,044 | 0 | 2,610 | 455 | 72 | 1 | 36,048 |
| incl. revenue from rent | 82 | 64 | 0 | 400 | 435 | 0 | 0 | 981 |
| Operating profit/-loss | 1,548 | 4,700 | -8 | 1,199 | 262 | -1,551 | -839 | 5,311 |
| Assets | 44,613 | 12,322 | 2,241 | 14,150 | 7,602 | 4,710 | 159 | 85,797 |
| Liabilities | 34,167 | 7,712 | 2 | 10,224 | 3,302 | 6,167 | 1,029 | 62,603 |

| in thousands of euros | Residential development | | | Commercial development | | Headquarters | | Total |
|-------------------------|-------------------------|--------|--|------------------------|--------|--------------|--------|---------------|
| | Estonia | Latvia | | Estonia | Latvia | Estonia | Latvia | |
| 9M 2022 | | | | | | | | |
| Revenue | 80 | 4,297 | | 355 | 748 | 141 | 1 | 5,622 |
| incl. revenue from rent | 0 | 108 | | 252 | 88 | 0 | 0 | 448 |
| Operating profit/-loss | -19 | 837 | | 49 | 206 | -1,011 | -581 | -519 |
| Assets | 30,311 | 19,080 | | 11,398 | 9,709 | 3,347 | 455 | 74,300 |
| Liabilities | 21,924 | 13,179 | | 7,727 | 3,127 | 6,508 | 2,803 | 55,268 |

| in thousands of euros | Residential development | | | Commercial development | | Headquarters | | Total |
|-------------------------|-------------------------|--------|--------|------------------------|--------|--------------|--------|---------------|
| | Estonia | Latvia | Canada | Estonia | Latvia | Estonia | Latvia | |
| Q3 2023 | | | | | | | | |
| Revenue | 366 | 14,803 | 0 | 176 | 96 | 16 | 1 | 15,458 |
| incl. revenue from rent | 29 | 20 | 0 | 150 | 96 | 0 | 0 | 295 |
| Operating profit/-loss | -55 | 2,165 | -1 | 160 | 60 | -464 | -280 | 1,585 |
| Assets | 44,613 | 12,322 | 2,241 | 14,150 | 7,602 | 4,710 | 159 | 85,797 |
| Liabilities | 34,167 | 7,712 | 2 | 10,224 | 3,302 | 6,167 | 1,029 | 62,603 |

| in thousands of euros | Residential development | | Commercial development | | Headquarters | | Total | |
|-------------------------|-------------------------|---------|------------------------|---------|--------------|---------|-------|---------------|
| | Q3 2022 | Estonia | Latvia | Estonia | Latvia | Estonia | | Latvia |
| Revenue | | 21 | 852 | 164 | 584 | 46 | 1 | 1,668 |
| incl. revenue from rent | | 0 | 31 | 106 | 74 | 0 | 0 | 211 |
| Operating profit/-loss | | 18 | 227 | 16 | 251 | -325 | -206 | -19 |
| Assets | | 30,311 | 19,080 | 11,398 | 9,709 | 3,347 | 455 | 74,300 |
| Liabilities | | 21,924 | 13,179 | 7,727 | 3,127 | 6,508 | 2,803 | 55,268 |

Note 20. Related parties

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

Balances and loan transactions with related parties:

| In thousands of euros | 30 September 2023 | 31 December 2022 | 30 September 2022 |
|--|-------------------|------------------|-------------------|
| Receivables | | | |
| Loans granted (Note 4) | | | |
| Associated companies | | | |
| Opening balance 01. January | 1,766 | 2,587 | 2,587 |
| Loans granted | 0 | 0 | 0 |
| Loans repaid | 0 | -821 | -721 |
| Balance at the end of period | 1,766 | 1,766 | 1,866 |
| Management and all companies directly or indirectly owned by | | | |
| Loans granted | 0 | 176 | 176 |
| Loan collected | 0 | -176 | -176 |
| Trade and other receivables | | | |
| Management and all companies directly or indirectly owned by | 176 | 208 | 31 |
| Associated companies | 2 | 0 | 0 |
| Interest receivables | | | |
| Associated companies | 128 | 36 | 5 |
| Management and all companies directly or indirectly owned by | 0 | 0 | 0 |
| Payables | | | |
| Prepayments from customers | | | |
| Management and all companies directly or indirectly owned by | 560 | 0 | 0 |
| Loans and borrowings (Note 5) | | | |
| Associated companies | | | |
| Opening balance as at 01. January | 423 | 0 | 0 |
| Loans received | 89 | 464 | 0 |
| Loans repaid | 0 | -41 | 0 |
| Reclassified as a Group loan | -512 | | |
| Balance at the end of period | 0 | 423 | 0 |
| Management and all companies directly or indirectly owned by | | | |
| Opening balance as at 01. January | 1,883 | 1,831 | 1,831 |
| Loans received | 1,000 | 80 | 0 |
| Loans repaid | -1,500 | -28 | 0 |
| Balance at the end of period | 1,383 | 1,883 | 1,831 |
| Trade payables | | | |
| Management and all companies directly or indirectly owned by | 3,372 | 1,762 | 759 |
| Interest payables | | | |
| Associated companies | 0 | 2 | 0 |
| Management and all companies directly or indirectly owned by | 58 | 167 | 154 |

Purchases and sales of goods and services:

| in thousands of euros | 9M 2023 | 9M 2022 | Q3 2023 | Q3 2022 |
|---|------------|------------|-----------|-----------|
| Sales of goods and services | | | | |
| Associated companies | 47 | 114 | 9 | 34 |
| Management and all companies directly or indirectly owned by them | 161 | 58 | 62 | 24 |
| Total sales of goods and services | 208 | 172 | 71 | 58 |
| Purchases of goods and services | | | | |
| Management and all companies directly or indirectly owned by them | 26,034 | 19,027 | 10,449 | 6,650 |
| <i>incl. construction service</i> | 25,441 | 18,899 | 9,966 | 6,607 |
| Interest income earned | | | | |
| Associated companies | | | | |
| Interest earned | 92 | 134 | 31 | 44 |
| Interest received | 0 | 311 | 0 | 311 |
| Management and all companies directly or indirectly owned by them | | | | |
| Interest earned | 0 | 3 | 0 | 0 |
| Interest received | 0 | 3 | 0 | 3 |
| Total interest income earned | 92 | 137 | 31 | 44 |
| Interest expenses incurred | | | | |
| Associated companies | | | | |
| Accrued interest | 9 | 0 | 2 | 0 |
| Management and all companies directly or indirectly owned by them | | | | |
| Accrued interest | 141 | 171 | 44 | 58 |
| Interest paid | 250 | 87 | 19 | 26 |

Note 21. Events after the reporting period

In October 2023, Hepsor AS established a subsidiary company Hepsor VT49 OÜ with a 50% stake.

Note 22. Risk management

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

Strategic risk

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

Market risk

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

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

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

The Group's bank loans have both fixed and floating interest rates based on Euribor. The management constantly monitors the Group's exposure to interest rate risk which arises from upward movement in Euribor for loans with floating interest rates.

Credit risk

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

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

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

Liquidity risk

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

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

Capital risk

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

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

Currency risk

The Group's activities are mainly carried out in the currency of the economic environment of the companies - in Estonia and Latvia in euros (EUR) and in Canada, in Canadian dollars (CAD). The Group's currency risk arises from the translation of the functional currency of the Canadian subsidiary into the Group's functional and presentation currency. In order to mitigate currency risks, the Group concludes as many contracts as possible in euros. The majority of intra-group transactions are carried out in euros. The growth of business in Canada leads to the Group's exposure to currency risks. The net loss from exchange rate changes for the nine months of 2023 was 7 thousand euros. As of 30.09.2023, the Group is not significantly exposed to currency risks, and therefore the Group has not used instruments to hedge currency risks.

Geopolitical risk

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

Management Board's Confirmation

The Management Board confirms that the unaudited interim report for III quarter and nine months of 2023, which is comprised of the management report and the interim financial statements, provides a true and fair view of the Group's operations, financial position and results of operations, and describes the significant risks and uncertainties the Group faces.

Henri Laks

Member of Management Board

Tallinn, 31 October 2023