

Arco Vara AS

INTERIM REPORT FOR THE III QUARTER AND
NINE MONTHS OF 2021 (UNAUDITED)



ARCO VARA

INTERIM REPORT FOR THE THIRD QUARTER AND NINE MONTHS OF 2021
(UNAUDITED)

Company name: Arco Vara AS

Registry number: 10261718

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E-mail: info@arcovara.com

Corporate website: www.arcovara.com

Core activities: Real estate development (EMTAK 41201)
Renting and operating of real estate (EMTAK 6820)
Real estate management (EMTAK 6832)

Financial year: 1 January 2021 – 31 December 2021

Reporting period: 1 January 2021 – 30 September 2021

Supervisory board: Tarmo Sild, Steven Yaroslav Gorelik, Kert Keskpaik,
Hillar-Peeter Luitsalu, Allar Niinepuu

Chief executive: Miko-Ove Niinemäe

Auditor: KPMG Baltics OÜ

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DIRECTORS' REPORT FOR Q3 AND 9 MONTHS 2021

GROUP CEO'S REVIEW

The third quarter of 2021 brought exciting times in the history of Arco Vara: not a single apartment that wouldn't be pre-sold was left, the share price showed record highs and the new share issue was very successful. At the moment, Arco Vara is constructing Kodulahe Phase IV and Phase V houses in Merimetsa. Of the 72 apartments under construction, pre-sales of the last 5 vacant apartments were just completed in the third quarter. The group has thus guaranteed itself sales revenue of EUR 12 million from the Kodulahe project until 2022. Construction is on schedule and within budget.

We are currently tendering for the construction of the next phase of Kodulahe – Rannakalda - and we plan to start sales in a few weeks. The Rannakalda development consists of 3- and 4-storey apartment buildings with a total of 108 homes and 5 commercial spaces. What makes Rannakalda special is its location, which is as close to the sea as possible, with only the pedestrian walkway from Stroomi Beach to Rocca al Mare between the apartment buildings and the sea. For the first time, we are also working in this project with Enefit Volt, who within a pilot project is making it possible to install an electric car charging station in every parking space - a convenience that has not been possible before for technical reasons.

By the time the report is published, we are also able to share good news from Bulgaria. The design of Botanica Lozen is in full swing and we hope to start construction in spring 2022. The plan is to build a total of 54 detached houses in three phases, ranging in size from 270 to 350 m². There is a demand for spacious homes in Bulgaria and the location of Lozen, with its pristine natural surroundings, is perfect for this.

I am pleased that over the past year Arco Vara has seen a strong increase in interest from both clients and investors.

Arco Vara decided on 12 August to issue an additional 1,000,000 new shares at a price of EUR 2.25 per share. The issue was a success given that the volume of shares offered was oversubscribed 4.84 times! At the same time, a number of other share and bond issues were underway and the choice for investors to invest their money is growing. This confirms our earlier belief that people's appetite to invest is growing and that real estate development continues to be attractive – 6,116 new subscribers participated in the Arco Vara share subscription! The target of 1,000 new investors was therefore significantly exceeded - the number of Arco Vara shareholders has increased by nearly seven times in the last year.

For now, we can enjoy the success, but we have not forgotten to secure the back. Arco Vara's equity position is strong and we can look to the future with confidence to deliver volume and profitability growth to investors.

GENERAL INFORMATION

Activities of the group

Arco Vara AS and other entities of Arco Vara group (hereafter together 'the group') are engaged in real estate development and services related to real estate. The group considers Estonia and Bulgaria as its home markets.

The group develops complete living environments and commercial real estate. Fully developed housing solutions are sold to the end-consumer. In some cases, the group also develops commercial properties until they start to generate cash flow for two possible purposes: for the support of the group's cash flows or for resale. The group is currently holding completed commercial properties that generate rental income.

The group earns license income from the sale of the right to use the Arco Vara trademark to real estate agencies in Estonia, Latvia and Bulgaria.

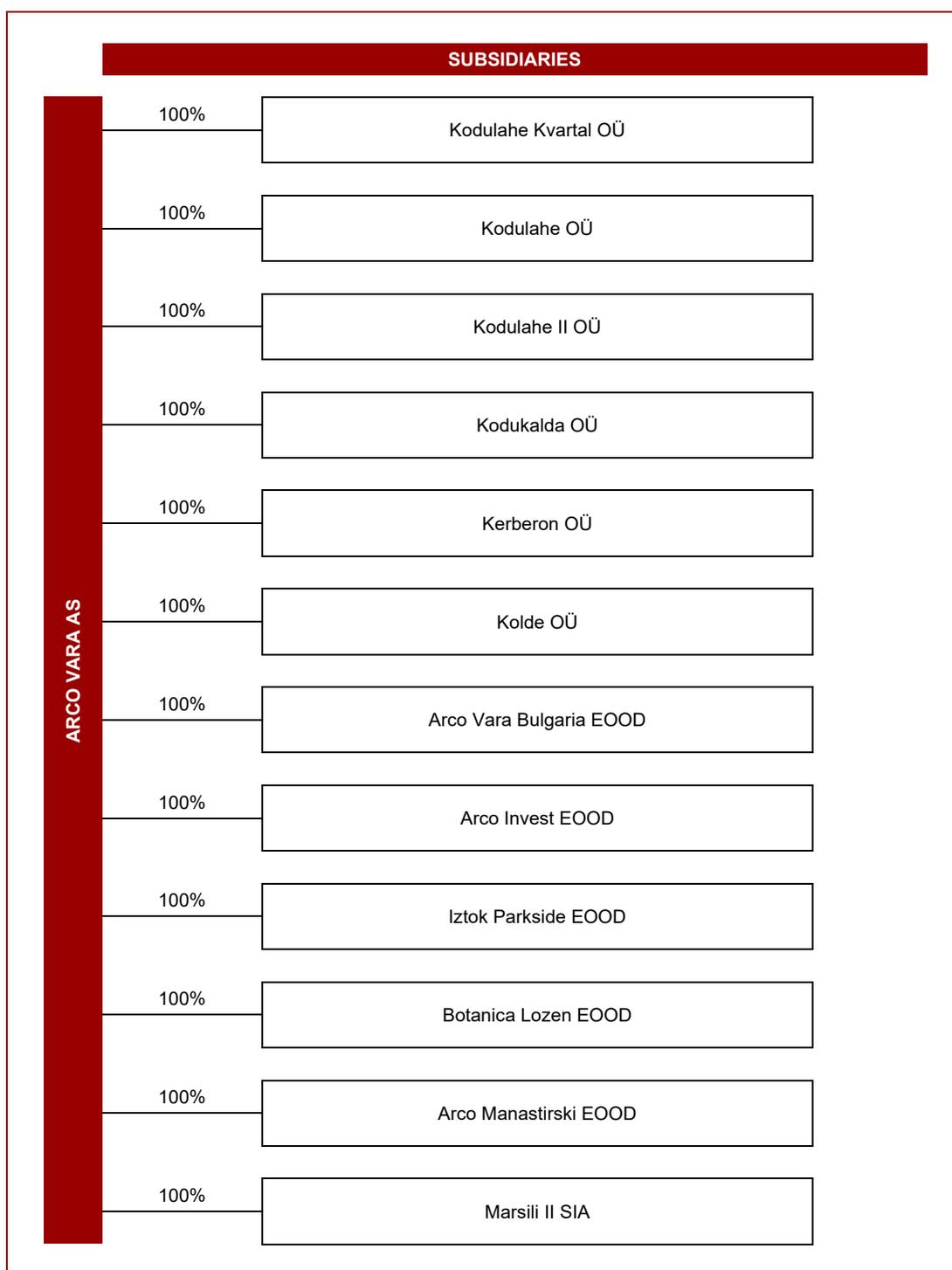
Group structure

As of 30 September 2021, the group consisted of 13 companies, which is 4 less than of 31 December 2020.

Significant subsidiaries as of 30 September 2021

Company name	Location	Share capital (nominal value)	Equity balance on 30 September 2021	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	2,845	100%
Iztok Parkside EOOD	Bulgaria	1,433	2,547	100%
Botanica Lozen EOOD	Bulgaria	2,931	2,011	100%
Kodulahe Kvartal OÜ	Estonia	140	75	100%
Kodulahe OÜ	Estonia	3	3,270	100%
Kolde OÜ	Estonia	28	161	100%

Group structure as of 30 September 2021



KEY PERFORMANCE INDICATORS

- In Q3 2021, the group's revenue was 613 thousand euros, which is 8% more than the revenue of 569 thousand euros in Q3 2020. In 9 months 2021, the group's revenue was 11,283 thousand euros, which is 2 times more than the revenue of 3,758 thousand euros in 9 months 2020.
- In Q3 2021, the group's operating profit (=EBIT) was 336 thousand euros and net profit 202 thousand euros (in 9 months 2021: operating profit 2,724 thousand euros and net profit of 2,425 thousand euros). In Q3 2020, the group had operating loss of 126 thousand euros and net loss of 228 thousand euros. In 9 months 2020, the group made operating profit of 49 thousand euros and net loss of 277 thousand euros.
- In Q3 2021, final sales were made only in garages, but in 9 months a total of 63 apartments and a commercial space were also sold. In Q3 2020, 2 apartments were sold (17 apartments and a land plot in Latvia in 9 months).
- In the 9 months of 2021, the group's debt burden (net loans) increased by 973 thousand euros down to the level of 9,472 thousand euros as of 30 September 2021. As of 30 September 2021, the weighted average annual interest rate of interest-bearing liabilities was 5.2%. This is an increase of 0.4 percentage points compared to 31 December 2020.

Main financial figures

	9 months 2021	9 months 2020	Q3 2021	Q3 2020
EUR tuhandetes				
Revenue	11,283	3,758	613	569
Operating profit/ loss (EBIT)	2,724	49	294	-126
Finance income and expense	-299	-326	92	-102
Net profit/ loss	2,425	-277	202	-228
Cash flows from/used in operating activities	-868	-3,293	-1,362	-1,476
Cash flows used in investing activities	-5	-14	-5	0
Cash flows from/used in financing activities	31	3 055	2,101	1,313
Net cash flows	-842	-252	734	-163
Cash and cash equivalents at beginning of period	2,200	870	624	781
Cash and cash equivalents at end of period	1,358	618	1,358	618
Total assets at the end of period	29,640	32,442		
Invested capital at the end of period	26,895	29,324		
Net loans at the end of period	9,472	15,771		
Equity at the end of period	16,065	12,935		

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Total 2020	I kv 2021	II kv 2021	III kv 2021	Total 2021
In millions of euros														
Revenue	1.1	0.7	0.4	10.9	13.1	2.1	1.0	0.6	10.3	14.0	9.2	1.5	0.6	11.3
Net profit/loss	-0.1	-0.2	-0.2	0.9	0.4	0.0	-0.1	-0.2	1.3	1.0	1.7	0.5	0.2	2.4

Key ratios

	9 months 2021	9 months 2020	Q3 2021	Q3 2020
EPS (in euros)	0.26	-0.03	0.02	-0.03
Diluted EPS (in euros)	0.24	-0.03	0.02	-0.02
EBITDA per share (in euros) (rolling, four quarters)	0.46	0.13		
ROIC (rolling, four quarters)	14.4%	2.0%		
ROE (rolling, four quarters)	24.7%	4.4%		
ROA (rolling, four quarters)	12.8%	1.8%		
Equity ratio	54.2%	39.9%		
Current ratio	2.98	1.64		
Quick ratio	0.31	0.07		
Financial leverage	1.85	2.51		
Average loan term (in years)	2.1	1.9		
Average annual interest rate of loans	5.2%	5.0%		
Number of staff, at period end	12	10		

Formulas used:

Earnings per share (EPS) = net profit attributable to owners of the parent / weighted average number of ordinary shares outstanding during the period

Diluted earnings per share (Diluted EPS) = net profit attributable to owners of the parent / (weighted average number of ordinary shares outstanding during the period + number of all potentially issued shares)

EBITDA per share = operating profit + depreciation and amortisation / weighted average number of ordinary shares outstanding during the period

Invested capital = current + non-current interest-bearing loans and borrowings + equity (at the end of period)

Net loans = current + non-current interest-bearing loans and borrowings – cash and cash equivalents – short-term investments in securities (at the end of period)

Return on invested capital (ROIC) = net profit of last four quarters / average invested capital

Return on equity (ROE) = net profit of last four quarters / average equity

Return on assets (ROA) = net profit of last four quarters / average total assets

Equity ratio = equity / total assets

Current ratio = current assets / current liabilities

Quick ratio = (current assets - inventory) / current liabilities

Financial leverage = total assets / equity

Number of staff = number of people working for the group under employment or service contracts

Operating report

The revenue of the group totalled 613 thousand euros in Q3 2021 (in Q3 2020: 569 thousand euros,) and 11,283 thousand euros in 9 months 2021 (in 9 months 2020: 3,758 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 305 thousand euros in Q3 and 10,441 thousand euros in 9 months 2021 (2020: 337 thousand euros in Q3 and 3,114 thousand euros in 9 months).

Most of the other revenue of the group consisted of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 214 thousand euros in Q3 2021 and 608 thousand euros in 9 months (2020: 178 thousand euros in Q3 and 488 thousand euros in 9 months). By the time of publishing the present report, one office space was vacant, but all commercial spaces, together with parking places, were rented out. The free office space makes 11% of the rented office and retail area.

One commercial space remains unsold in Stage II of Kodulahe project in Merimetsa district in Tallinn. The house received a usage permit in 2020.

In Q4 2020, construction finished in Stage III of Kodulahe project, a residential building with 50 apartments at Soodi 4. All apartments have been sold and the house has the usage permit.

At the end of 2020, the joint construction of Stages IV and V of Kodulahe started. Two 36-apartment residential buildings at Pagi 3 and Pagi 5 are under construction. The apartment buildings will become ready for final sale in the summer of 2022. All 72 apartments have been presold.

Stages VI of Kodulahe project is waiting for construction permit, design works are in process. The construction of the Stage VI is scheduled to start in year 2021. The plan is to build a pavilion, 4 commercial areas and 108 apartments, out of which many have sea view. The apartment buildings will become ready in about 2 years after the construction begins.

A subsidiary of Arco Vara, Aktsiaselts Kolde, signed an agreement for land acquisition beside Lake Harku, address Paldiski road 124b, Tallinn. More than 35,000 m² of residential and commercial real estate (GBA) is planned for development. The expected development period is 6 years with the start of construction planned for 2023. The detailed plan sketch competition of the project has ended, the detailed planning is in process.

In Q2 2021, sales on the apartments of Oa street in Tartu ended, where 4 smaller apartment buildings with a total of 30 apartments were built under the Kodukalda project name. In 2021, Kodukalda houses also received a usage permit.

In Iztok Parkside project in Sofia, the majority of final sales of apartments started in December 2020, after receiving a usage permit. By the publishing date of the interim report, all apartments have been sold. As the apartments were handed over a year later than promised due to bureaucratic obstacles, 2 clients want compensation in the total amount of 40 thousand euros. As these apartment owners want compensation for pain and suffering, but not to give up the apartments, the obligation to pay compensation is not realistic and no reserve has been formed for this purpose.

The last vision of the Botanica Lozen project foresees construction of 54 homes (houses). The expected start time of construction is the spring of 2022. Minimum construction period is 2 years.

As of 30 September 2021, and the date of this report, 4 Marsili residential plots remained unsold in Latvia.

Summary table of Arco Vara's active projects as of 30 September 2021

Project name	Address	Product main type	Stage	Area of plot(s) (m ²)	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S6	-	7,350	22
Marsili residential plots	Marsili, near Riga	Residential plots	S5	6,153	-	4
Kodulahe, Stage II	Lahepea 9, Tallinn	Commercial space	S5	3,686	266	1
Kodulahe, Stages IV-V	Pagi 3 and 5, Tallinn	Apartments	S4	7,383	4,774	72
Kodulahe Rannakalda	Paldiski road 74, Tallinn	Apartments	S3	9,525	8,891	113
Kodulahe, Stage VII	Soodi 6, Tallinn	Apartments	S1	5,444	<6,500>	<75>
Harku lake development	Paldiski road 124b, Tallinn	Apartments	S2	69,506	<37,000>	<400>
Botanica Lozen	Lozen, near Sofia	Houses	S3	47,450	<16,000>	<54>

Note: Values presented between < > sign represent future target values for projects which do not have a construction permit yet. The table does not reflect sellable or lettable volumes below grade including parking spaces and storages. The table does not give complete overview of the group's land reserves.

Description of stages

- S1: Land plot acquired
- S2: Building rights procedure
- S3: Design and preparation works
- S4: Construction
- S5: Marketing and sale
- S6: Facility management and/or lease

PEOPLE

Remuneration

As of 30 September 2021, 12 people worked for the group (11 as of 31 December 2020). Employee remuneration expenses in 9 months 2021 amounted to 363 thousand euros, out of which 107 thousand euros in Q3 2021 (2020 same periods: 381 thousand euros and 128 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 107 thousand euros in 9 months 2021, out of which 23 thousand euros in Q3 2021 (in 9 months and Q3 2020: 67 thousand euros and 23 thousand euros, respectively). The members of the supervisory board of the group's parent company were remunerated by 18 thousand euros in 9 months 2021, out of which 4 thousand euros in Q3. The remuneration of the members of the supervisory board was 11 thousand euros in 9 months 2020, out of which 7 thousand euros in Q3.

Management board and supervisory board

The management board of Arco Vara AS has one member. Since 30 April 2020, the member of the management board and chief executive officer of Arco Vara AS is Miko-Ove Niinemäe who has a mandate until 30 April 2023.

The supervisory board of Arco Vara AS has 5 members. Since 12 January 2021, the supervisory board consists of Tarmo Sild (the Chairman), Kert Keskaik, Hillar-Peeter Luutsalu, Allar Niinepuu and Steven Yaroslav Gorelik.

Additional information on key persons of Arco Vara is presented on company's corporate web page www.arcovara.com.

DESCRIPTION OF MAIN RISKS

Strategic risk

Most of the group's equity is invested into real estate development. The group is focused mainly on residential real estate development where development cycle lasts for years, starting from the acquisition of a land plot, moving on to detail planning, design and construction, and ending with the sale of end products to customers. The equity is invested mainly in the early phase of the cycle (purchase of land) on the assumption that there will be a demand for certain products in the future. Considering that the demand for development product is largely based on forecasts, the main risk for the group is investing equity into a development product for which there is no or too little demand in the future.

For mitigating the risk, the group: (i) invests equity into different development projects in different markets (in 2021, in Sofia and Tallinn), (ii) monitors current demand and supply in its home markets and (iii) makes efforts to narrow the time gap between making initial investment and selling the final product – by signing pre-agreements with clients, acquiring land with no or little upfront equity investment etc.

Credit risk

The group considers credit risks to be substantially mitigated. The final sale of real estate development product takes place simultaneously with customer payment; therefore customer debts do not arise. Also, cash and cash equivalents are not held in the same banking group.

Liquidity and interest rate risks

The base currency of the group's all loan agreements is euro and the base interest rate is 3 or 6 months' EURIBOR. As a result, the group is exposed to developments on international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In Q3 2021, the group's interest-bearing liabilities amounted to 10,830 thousand euros on 30 September 2021, out of which 727 thousand euros is due within next 12 months. The group's cash and cash equivalents totaled 1,358 thousand euros as of 30 September 2021 (31 December 2020 2,200 thousand). In Q3 2021, interest payments on interest-bearing liabilities totaled 92 thousand euros (in Q3 2020: 102 thousand euros). The group's weighted average loan interest rate was 5.2% as of 30 September 2021. This is an increase by 0.4 percentage points compared to the end of year 2020. The reason for the increase in the average interest rate is the decrease in development loans with lower-than-average interest rates in 2021.

Currency risk

Real estate sales are mostly nominated in euros, as a result of which the group's assets and liabilities structure does not involve a significant currency risk. The group is not protected against currency devaluations. Liquid assets are mostly held on demand or short-term deposits denominated in euros.

SHARES AND SHAREHOLDERS

Share price

Arco Vara AS has issued a total of 10,388,367 ordinary shares with nominal value of 0.7 euros per share. The shares of Arco Vara (ARC1T, ISIN EE3100034653) are freely traded on NASDAQ Tallinn stock exchange, including 1,000,000 shares of the 2021 issue which are tradable from 28 October 2021.

The share price closed at 2.84 euros on 30 September 2021; the closing price was 1.21 euros on 31 December 2020. During the period, the highest traded price per share was 3.30 euros and the lowest price 1.21 euros. As of 30 September 2021, market capitalization of shares amounted to 26,663 thousand euros and P/B (price to book value) ratio was 1.66 (31 December 2020: 10,888 thousand euros and 0.77, respectively). P/E (price to earnings) ratio of the share was 7.18 on 30 September 2021, 10.76 as on 31 December 2020.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 9 months 2021 and during the last three years.

Performance of Arco Vara's shares in 9 months 2021



Source: <https://nasdaqbaltic.com> 6 October 2021

On January 11, 2021, LHV Pensionifond L transferred 869,587, LHV Pensionifond XL 365,619, LHV Pensionifond M 51,240 and LHV Täiendav Pensionifond 10,391, in total 1,296,837 shares of Arco Vara AS held by them to OÜ Alamo Kapital. The transferred shares stood for 14.41% of total Arco Vara AS shares.

Performance of Arco Vara’s shares from 1 October 2018 until 30 September 2021



Source: <https://nasdaqbaltic.com> 6 October 2021

Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 9 months 2021



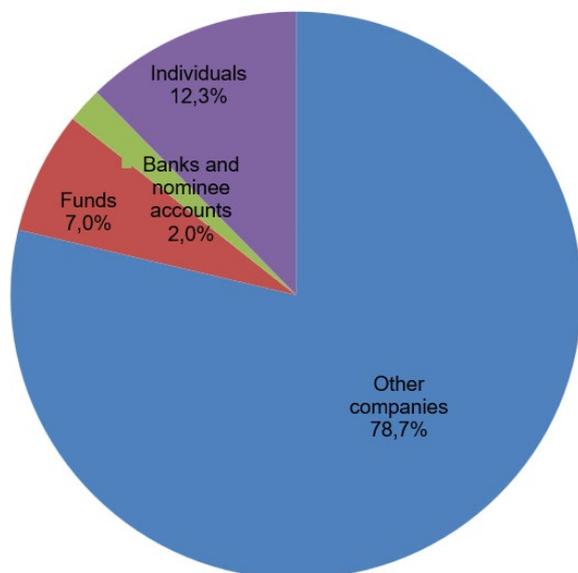
Source: <https://nasdaqbaltic.com> 6 October 2021

Index/equity	1 Jan 2021	30 September 2021	+/-%
OMX Tallinn	1,343.72	1,932.45	+43.81
ARC1T – Arco Vara	1.21	2.84	+134,71

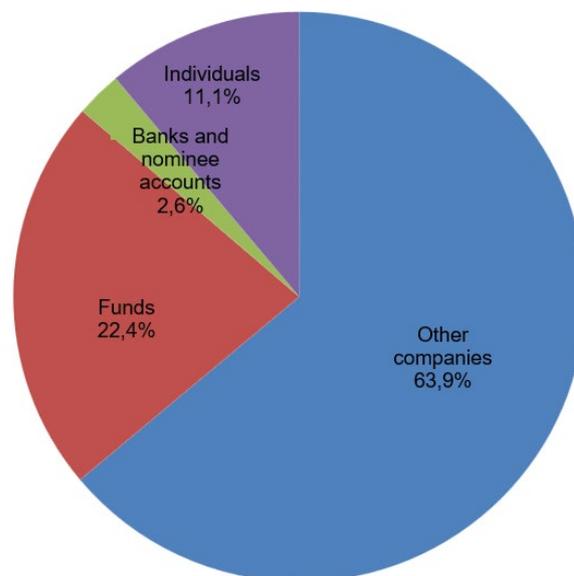
Shareholder structure

As of 30 September 2021, Arco Vara had 3,657 shareholders (on 31 December 2020 1,475), including 3,400 individuals as shareholders (on 31 December 2020: 1,311 individuals) who jointly owned 12.2% (on 31 December 2020: 11.1%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams.

Ownership structure as of 30 September 2021



Ownership structure as of 31 December 2020



Major shareholders on 30 September 2021

Name	No of shares	Share, %
Alarmo Kapital OÜ	6,338,531	67.5%
FIREBIRD REPUBLICS FUND LTD	342,428	3.6%
HM Investeeringud OÜ	330,505	3.5%
FIREBIRD AVRORA FUND, LTD.	182,801	1.9%
Marko Teimann	174,370	1.9%
K VARA OÜ	147,271	1.6%
FIREBIRD FUND L.P.	135,222	1.4%
Aia Tänav OÜ	95,288	1.0%
Rafiko OÜ	91,427	1.0%
Olegs Radcenko	63,167	0.7%
Other shareholders	1,487,357	15.9%
Total	9,388,367	100.0%

Holdings of management and supervisory board members on 30 September 2021

Name	Position	No of shares	Share, %
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	chairman/ member of supervisory board	6,338,531	67.5%
Tarmo Sild (Aia Tänav OÜ)	chairman of supervisory board	95,288	1.0%
Allar Niinepuu (OÜ Kavass)	member of supervisory board	5,000	0.1%
Hillar-Peeter Luutsalu (HM Investeeringud OÜ, related persons)	member of supervisory board	369,259	3.9%
Kert Kesksaik (privately, through K Vara OÜ and One Eleven OÜ)	member of supervisory board	210,756	2.2%
Steven Yaroslav Gorelik ¹	member of supervisory board	0	-
Miko-Ove Niinemäe	member of management board	10,222	0.1%
Total		7,029,056	74.8%

¹ - Steven Yaroslav Gorelik is active as fund manager in three investment funds holding interest in Arco Vara (Firebird Republics Fund Ltd, Firebird Avrora Fund Ltd and Firebird Fund L.P) of 660,451 shares (total of 7.0% interest).

CEO'S CONFIRMATION ON DIRECTORS' REPORT

The CEO and member of the management board of Arco Vara AS confirms that the directors' report of Arco Vara for the third quarter and 9 months ended on 30 September 2021 provides a true and fair view of business developments, financial performance and financial position of the group as well as a description of the main risks and uncertainties.



Miko-Ove Niinemäe
Chief Executive and Member of the Management Board of Arco Vara AS

On 28 October 2021

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	9 months 2021	9 months 2020	Q3 2021	Q3 2020
In thousands of euros					
Revenue from sale of own real estate		10,441	3,114	305	337
Revenue from rendering of services		842	644	308	232
Total revenue	2,3	11,283	3,758	613	569
Cost of sales	4	-8,455	-2,981	-277	-440
Gross profit		2,828	777	336	129
Other income		272	0	250	0
Marketing and distribution expenses	5	-109	-66	-44	-9
Administrative expenses	6	-631	-654	-230	-239
Other expenses		-58	-8	-18	-7
Gain on revaluation of investment property	11	422	0	0	0
Operating profit/ loss		2,724	49	294	-126
Finance income and cost	7	-299	-326	-92	-102
Profit/ loss before tax		2,425	-277	202	-228
Net profit/ loss for the period		2,425	-277	202	-228
Total comprehensive income/ expense for the period		2,425	-277	523	-228
Earnings per share (in euros)	8				
- basic		0.26	-0.03	0.02	-0.03
- diluted		0.24	-0.03	0.02	-0.02

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2021	31 December 2020
In thousands of euros			
Cash and cash equivalents		1,358	2,200
Receivables and prepayments	9	691	1,344
Inventories	10	17,417	14,960
Total current assets		19,466	18,504
Receivables and prepayments	9	5	5
Investment property	11	9,910	9,564
Property, plant and equipment	2	160	22
Intangible assets	2	99	136
Total non-current assets		10,174	9,727
TOTAL ASSETS		29,640	28,231
Loans and borrowings	12	727	3,482
Payables and deferred income	13	2,745	3,308
Total current liabilities		3,472	6,790
Loans and borrowings	12	10,103	7,217
Total non-current liabilities		10,103	7,217
TOTAL LIABILITIES		13,575	14,007
Share capital	8	6,572	6,299
Unregistered share capital	8	0	273
Share premium		2,285	2,285
Statutory capital reserve		2,011	2,011
Retained earnings		5,197	3,356
Total equity attributable to owners of the parent		16,065	14,224
TOTAL EQUITY		16,065	14,224
TOTAL LIABILITIES AND EQUITY		29,640	28,231

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	9 months 2021	9 months 2020	Q3 2021	Q3 2020
In thousands of euros				
Cash receipts from customers	14,926	5,207	877	1,244
Cash paid to suppliers	-12,706	-8,409	-2,433	-2,827
Taxes paid and recovered (net)	-3,106	212	28	210
Cash paid to employees	-225	-307	-72	-101
Other cash payments and receipts related to operating activities (net)	243	4	238	-2
NET CASH FROM/USED IN OPERATING ACTIVITIES	-868	-3,293	-1,362	-1,476
Payments made on purchase of tangible and intangible assets	-6	0	-6	0
Payments made on purchase and development of investment property 11	0	-14	0	0
Interest received	1	0	1	0
NET CASH FROM/USED IN INVESTING ACTIVITIES	-5	-14	-5	0
Proceeds from loans received 12	3,454	5,291	2,460	1,799
Settlement of loans and borrowings 12	-2,613	-1,656	-84	-325
Interest paid	-434	-495	-181	-161
Dividends paid	-376	-360	-94	0
Proceeds from share capital increase 8	0	273	0	0
Other payments related to financing activities	0	2	0	0
NET CASH FROM/USED IN FINANCING ACTIVITIES	31	3,055	2,101	1,313
NET CASH FLOW	-842	-252	734	-163
Cash and cash equivalents at the beginning of period	2,200	870	624	781
Change in cash and cash equivalents	-842	-252	734	-163
Cash and cash equivalents at the end of period	1,358	618	1,358	618

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total equity
In thousands of euros							
Balance as of 31 December 2019	6,299	0	2,285	2,011	245	2,459	13,299
Increase of share capital	0	273	0	0	0	0	273
Other reserves	0	0	0	0	-245	245	0
Dividends paid	0	0	0	0	0	-360	-360
Total comprehensive expense for the period	0	0	0	0	0	-277	-277
Balance as of 30 September 2020	6,299	273	2,285	2,011	0	2,067	12,935
Balance as of 31 December 2020	6,299	273	2,285	2,011	0	3,356	14,224
Increase of share capital	273	-273	0	0	0	0	0
Dividends paid	0	0	0	0	0	-583	-583
Total comprehensive income for the period	0	0	0	0	0	2,424	2,424
Balance as of 30 September 2021	6,572	0	2,285	2,011	0	5,197	16,065

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the third quarter and 9 months ended on 30 September 2021 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended on 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

All amounts in the financial statements are presented in thousands of euros unless indicated otherwise.

2. Segment information

Group identifies geographical segments: Estonia, Bulgaria, Latvia, active segments are Estonia and Bulgaria.

External revenue by location

	9 months 2021	9 months 2020	Q3 2021	Q3 2020
In thousands of euros				
Estonia	5,757	690	93	46
Bulgaria	5,526	3,028	520	483
Latvia	0	40	0	40
Total revenue	11,283	3,758	613	569

External operating profit (-loss) by location

	9 months 2021	9 months 2020	Q3 2021	Q3 2020
In thousands of euros				
Estonia	792	-280	-126	-91
Bulgaria	1,934	293	418	-74
Latvia	-2	36	2	39
Total operating profit/ loss	2,724	49	294	-126

External assets and liabilities by location

	30.09.2021	31.12.2020
In thousands of euros		
Assets	29,640	28,231
Estonia	15,522	9,642
Bulgaria	13,992	18,462
Latvia	126	127
Liabilities	13,575	14,007
Estonia	7,903	4,938
Bulgaria	5,672	9,069

Non-current assets by location

	30.09.2021	31.12.2020
In thousands of euros		
Total non-current assets	260	158
Tangible assets	160	22
Estonia	152	6
Bulgaria	8	16
Intangible assets	99	136
Estonia	58	86
Bulgaria	41	50

3. Revenue

External revenue by the type of goods and services and by client location

	Estonia		Bulgaria		Latvia		Consolidated	
	9M 2021	9M 2020	9M 2021	9M 2020	9M 2021	9M 2020	9M 2021	9M 2020
In thousands of euros								
Sale of own real estate	5,543	558	4,898	2,516	0	40	10,441	3,114
Rental of real estate	6	4	542	428	0	0	548	432
Property management services	0	1	67	60	0	0	67	61
Franchise	133	92	40	22	17	7	190	121
Other revenue	17	7	20	23	0	0	37	30
Total revenue	5,699	662	5,567	3,049	17	47	11,283	3,758

	Estonia		Bulgaria		Latvia		Consolidated	
	Q3 2021	Q3 2020	Q3 2021	Q3 2020	Q3 2021	Q3 2020	Q3 2021	Q3 2020
In thousands of euros								
Sale of own real estate	9	0	296	297	0	40	305	337
Rental of real estate	1	1	192	156	0	0	193	157
Property management services	-5	0	23	21	0	0	18	21
Franchise	45	37	17	7	6	2	68	46
Other revenue	15	1	14	7	0	0	29	8
Total revenue	65	39	542	488	6	42	613	569

4. Cost of sales

	9 months 2021		9 months 2020		Q3 2021		Q3 2020	
	In thousands of euros							
Cost of real estate sold (note 10, 11)		-7,942		-2,441		-167		-247
Brokerage fees		-220		-140		-15		-67
VAT cost		0		-39		0		-1
Property management costs		-181		-262		-54		-104
Personnel expenses		0		-15		0		-5
Depreciation, amortisation and impairment losses		-29		-56		-10		-14
Other costs		-83		-28		-31		-2
Total cost of sales		-8,455		-2,981		-277		-440

5. Marketing and distribution expenses

	9 months 2021		9 months 2020		Q3 2021		Q3 2020	
	In thousands of euros							
Advertising expenses		-49		-29		-5		-3
Other marketing and distribution expenses		-60		-37		-39		-6
Total marketing and distribution expenses		-109		-66		-44		-9

6. Administrative expenses

	9 months 2021	9 months 2020	Q3 2021	Q3 2020
In thousands of euros				
Personnel expenses	-363	-366	-107	-123
Office expenses	-77	-53	-32	-13
IT expenses	-24	-21	-10	-7
Services purchased	-130	-164	-65	-75
Depreciation, amortization and impairment losses	-13	-20	-5	-6
Legal service fees	-12	-22	-8	-12
Other expenses	-12	-8	-3	-3
Total administrative expenses	-631	-654	-230	-239

7. Financial income and expenses

	9 months 2021	9 months 2020	Q3 2021	Q3 2020
In thousands of euros				
Interest expenses	-303	-316	-90	-102
Other financial income and costs	4	-10	-2	0
Total financial income and costs	-299	-326	-92	-102

8. Earnings per share

Basic earnings per share are calculated by dividing profit or loss for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by taking into account all potentially issued shares.

At the extraordinary general meeting on 12 August 2021, the shareholders decided to issue 1,000,000 new shares at an issue price of 2.25 euros, of which 0.70 euros is the nominal value of the share and 1.55 euros is the share premium. The issue was successful. Trading for the new shares started on 28 October 2021.

According to the decision of the annual general meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond gave to the CEO of the group's parent company the right to subscribe to up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. The CEO used his right in full amount. An equity reserve in the amount of 245 thousand euros that was formed for the option associated with the bond was used in Q2 2020, when 273 thousand euros cash was transferred to Arco Vara for the option. The added 390,000 shares were registration on the 27 May 2021. See also note 14.

	9 months 2021	9 months 2020	Q3 2021	Q3 2020
In thousands of euros				
Weighted average number of ordinary shares outstanding during the period	9,179,796	8,998,367	9,388,367	8,998,367
Number of ordinary shares potentially to be issued (at period end)	1,000,000	390,000	1,000,000	390,000
Net profit/ loss (in thousands of euros)	2,425	-277	202	-228
Earnings per share (in euros)	0.26	-0.03	0.02	-0.03
Diluted earnings per share (in euros)	0.24	-0.03	0.02	-0.02

9. Receivables and prepayments

Short-term receivables and prepayments

	30 September 2021	31 December 2020
In thousands of euros		
Receivables from customers	177	1,283
Miscellaneous receivables	6	12
Prepaid and recoverable taxes	387	19
Other accrued income	13	13
Prepayments	108	17
Total short-term receivables and prepayments	691	1,344

Long-term receivables and prepayments

	30 September 2021	31 December 2020
In thousands of euros		
Deposits	5	5
Total long-term receivables and prepayments	5	5

10. Inventories

	30 September 2021	31 December 2020
In thousands of euros		
Properties purchased and being developed for resale	17,406	14,943
Materials and finished goods	11	17
Total inventories	17,417	14,960

Properties purchased and being developed for resale

	2021	2020
In thousands of euros		
Balance at the beginning of period, 1 January	14,943	15,779
Properties purchased for development	5,102	0
Construction costs of apartment buildings	4,177	6,227
Capitalized borrowing costs	85	111
Other capitalized costs	868	228
Reclassification from investment property (note 11)	0	1,358
Cost of sold properties (note 4)	-7,769	-2,032
Balance at the end of period, 30 September	17,406	21,671

11. Investment property

	2021	2020
In thousands of euros		
Balance at the beginning of period, 1 January	9,564	11,051
Net gain on changes in fair value	422	0
Capitalized development costs	6	38
Capitalized borrowing costs	0	14
Reclassification to inventories (note 10)	0	-1,358
Sale of investment property (note 4)	-82	-394
Balance at the end of period, 30 September	9,910	9,351

12. Interest bearing liabilities

	As of 30 September, 2021			As of 31 December, 2020		
	Total	of which current portion	of which non-current portion	Total	of which current portion	of which non-current portion
In thousands of euros						
Bank loans	8,499	288	8,211	8,649	3,212	5,437
Bonds	1,780	0	1,780	1,780	0	1,780
Other loans	551	439	112	270	270	0
Total	10,830	727	10,103	10,699	3,482	7,217

In 9 months 2021, the group settled loans in the amount of 2,613 thousand euros (in 9 months 2020: 1,656 thousand euros) through cash transactions and raised new loans in the amount of 3,454 thousand euros (in 9 months 2020: 5,291 thousand euros). The lease of the new office was capitalized in Q3 2021 in the amount of 140 thousand euros. 852 thousand euros of the settled loans were paid by customers directly to the bank in 2021.

In 9 months 2021, the following major loan obligations were settled:

- 283 thousand euros of Madrid Blvd project's bank loan principal;
- 1,864 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 661 thousand euros of Kodukalda construction's bank loan principal, all directly by customers;
- 407 thousand euros of Kodulahe III construction's bank loan principal, out of which 191 thousand directly by customers;
- 250 thousand euros of other loans.

In 9 months 2021, the group raised the following new liabilities:

- 3,064 thousand euros of bank loan for financing construction of apartment buildings in Kodulahe project Stage IV and V;
- 140 thousand euros of capitalization of rent;
- 390 thousand euros of other loans.

In 9 months 2020, the following major loan obligations were settled:

- 80 thousand euros of Madrid Blvd project's bank loan principal;
- 1,574 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 2 thousand euros of Arco Vara convertible bonds.

In 9 months 2020, the group raised the following new liabilities:

- 35 thousand euros of bank credit loan;
- 1,888 thousand euros of bank loan for financing construction of apartment building in Kodukalda project;
- 3,368 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stage III.

13. Payables and deferred income

Short-term payables and deferred income

	30 September 2021	31 December 2020
In thousands of euros		
Trade payables	830	811
Miscellaneous payables	18	76
Taxes payable		
Value added tax	85	1,431
Social security tax	29	14
Personal income tax	18	17
Land tax	7	0
Garbage tax	3	23
Other taxes	4	1
Total taxes payable	146	1,486
Accrued expenses		
Payables to employees	59	17
Interest payable	7	44
Unpaid dividend	208	0
Other accrued expenses	2	100
Total accrued expenses	276	161

	30.09.2021	31.12.2020
In thousands of euros		
Deferred income		
Prepayments received on sale of real estate	1,347	631
Guarantee deposits	91	102
Prepaid revenue	37	41
Total deferred income	1,475	774
Total short-term payables and deferred income	2,745	3,308

14. Related party disclosures

The group has conducted transactions or has balances with the following related parties:

- 1) companies under the control of the chief executive and the members of the supervisory board of Arco Vara AS that have a significant interest in the group's parent company;
- 2) other related parties: the CEO and the members of the supervisory board of Arco Vara AS and companies under their control (excluding companies that have a significant interest in the group's parent company).

Transactions with related parties

	9 months 2021	9 months 2020
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Services purchased	24	35
Bonds	0	273
Other related parties		
Services sold	33	1

In 9 months 2021, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 107 thousand euros, out of which 23 thousand euros in Q3 (in 9 months and Q3 2020: 67 thousand euros and 23 thousand euros respectively).

The remuneration provided to the members of the supervisory board of the group's parent company during the first 9 months in 2021 was 18 thousand euros, out of which 4 thousand in Q3 2021 (in 9 months and Q3 2020: 11 thousand euros and 7 thousand euros respectively).

The remuneration provided to the CEO / member of the management board is based on his contract of service. As of 30 April 2020, a fixed monthly fee has been set by a resolution of the Supervisory Board on the basis of the contract of service of Miko-Ove Niinemäe, the member of the Management Board of Arco Vara AS. From 1 May 2021, a severance pay of 5 months' salary is provided for the CEO. The severance pay reserve is reflected in the expense of the second quarter of 2021. The CEO's bonus system, which is in force since 2021, consists of three parts:

- 1) 1% of the audited net profit,
- 2) a bonus for the establishment of detailed plans or receiving usage permits for new projects,
- 3) a bonus in the event of an increase in the market capitalization of the enterprise.

The purpose of the CEO bonus system is to motivate the CEO to expand the company's development activities, while ensuring profitability for investors'.

The members of the supervisory board will receive 500 euros (net amount) for every meeting where they have participated, but not more than 1000 euros (net amount) per month. The payment of the remuneration is dependent on signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating in the board meetings are also compensated to the members of the supervisory board. The chairman of the supervisory board receives an additional 500 euros per month (net amount).

According to the decision of the annual general shareholders' meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond gave to the CEO of the group's parent company the right to subscribe for additional 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. The CEO used his right in full amount. The added 390,000 shares were registered on the 27 of May 2021. See also note 8.

STATEMENT BY THE CEO / MEMBER OF THE MANAGEMENT BOARD

The CEO / member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the third quarter and 9 months ended on 30 September 2021.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and they give a true and fair view of the financial position, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.



Miko-Ove Niinemäe
Chief Executive and Member of the Management Board of Arco Vara AS

On 28 October 2021