

Arco Vara AS

Interim report for the III quarter and
nine months of 2022
(unaudited)

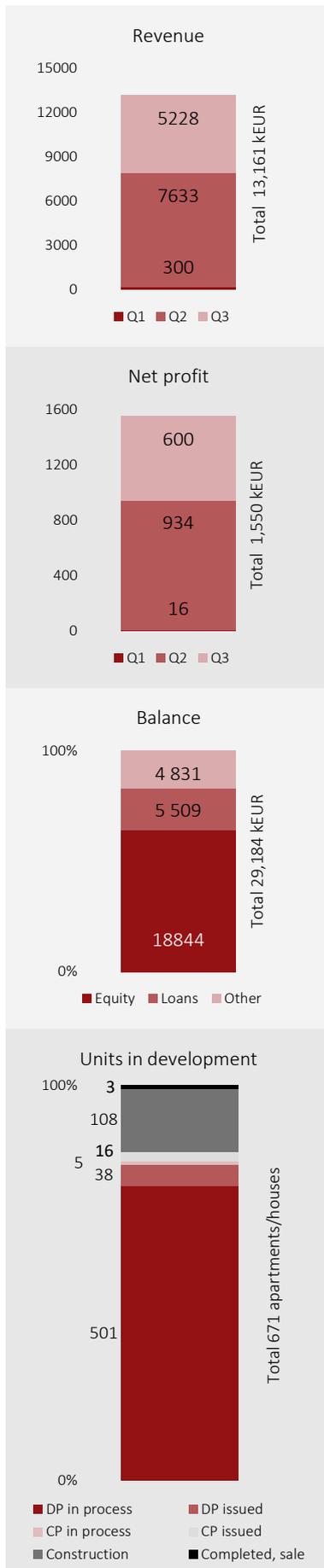
Company name	Arco Vara AS
Registry number	10261718
Address	Rotermanni tn 10, 10111 Tallinn, Republic of Estonia
Telephone	+372 614 4630
E-mail	info@arcovara.com
Corporate website	www.arcovara.com
Financial year	1 January 2022 – 31 December 2022
Reporting period	1 January 2022 – 30 September 2022
Supervisory board	Tarmo Sild, Steven Yaroslav Gorelik, Kert Keskpaiik, Hillar-Peeter Luitsalu, Allar Niinepuu
Chief executive	Miko-Ove Niinemäe
Auditor	PricewaterhouseCoopers AS

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The cooling of the real estate market in the third quarter did not cause panic in Arco Vara's developments. The planned final sales of the Kodulahe quarter were held as expected and there was no visible concern among customers who had bought a home from the pre-sale in 2021, which generated 5.2 million euros in sales revenue and 560,000 euros in net profit in the third quarter of 2022.

As in the whole real estate market, there has been a decrease in the number of inquiries also in the Rannakalda development, part of the Kodulahe project. As of the date of publication, no customers have withdrawn from their contracts, and approximately 35% of the building has been pre-sold. The Arco Tarc team continues with the construction of Kodulahe Rannakalda, and works are on schedule both in terms of construction speed and budget. To get a good overview of the pace of construction, there is a live broadcast on the following link: kodulahe.ee/hoone.

In the interim period, the expansion of the Kodulahe quarter has been confirmed. Detailed plan for the construction of up to 6,500 sqm was initiated on the Soodi 6 property, and Kodulahe OÜ won the Lammi 6 auction of state land, acquiring another approximately 1.5 hectares of land.

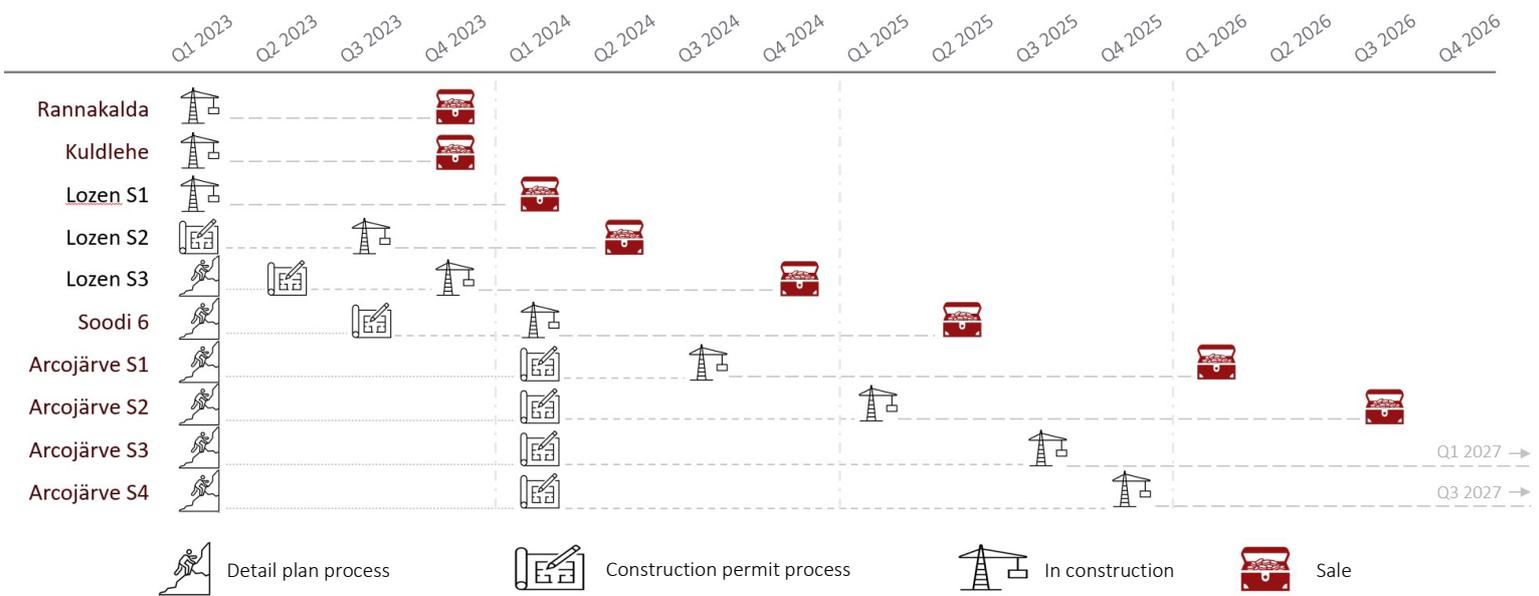
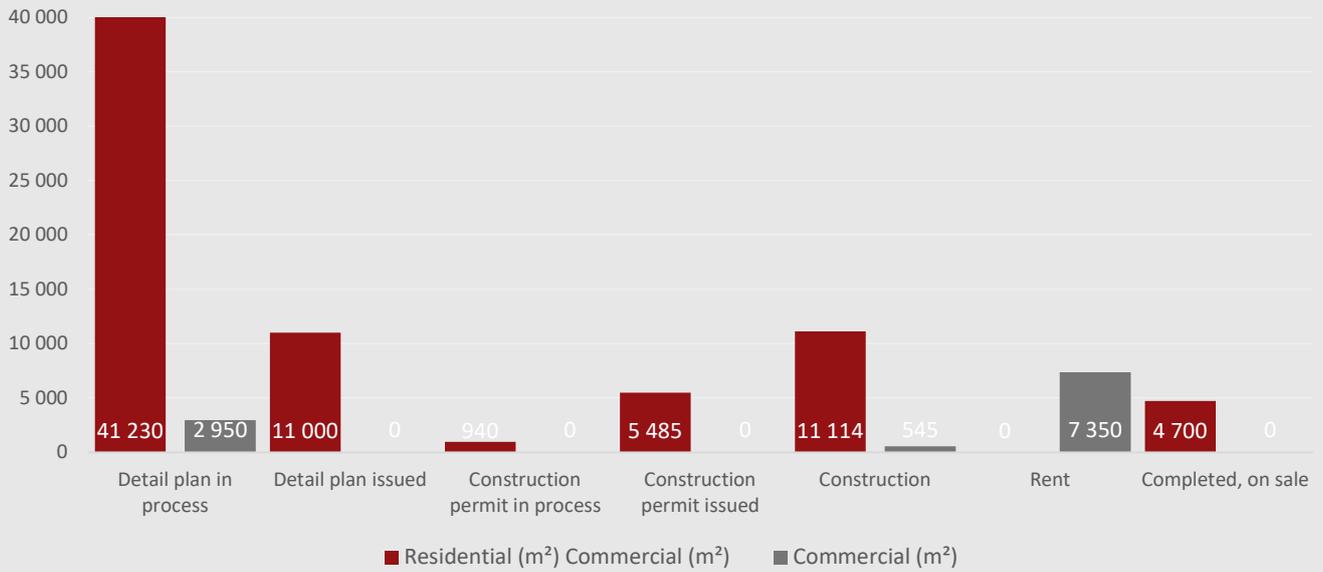
Botanica Lozen Residences development of private houses in Bulgaria reached the building permit in the third quarter and an agreement has been reached with the main contractor to start construction in November. Unfortunately, the goal of starting construction in the third quarter could not be met, but on the positive side, construction solutions were optimized to ensure a more efficient construction process both in terms of time and budget.

As for the commercial building Madrid BLVD in Sofia, 20 out of 22 spaces in the building were covered with leases at the time of the publication of this report. Two remaining spaces are office spaces, for which there is little interest in the Sofia market, according to statistics. The local team evaluated possible reductions in the volume of individual spaces by creating more leasable office units, but the possible solutions and the associated costs were not justified in today's market situation.

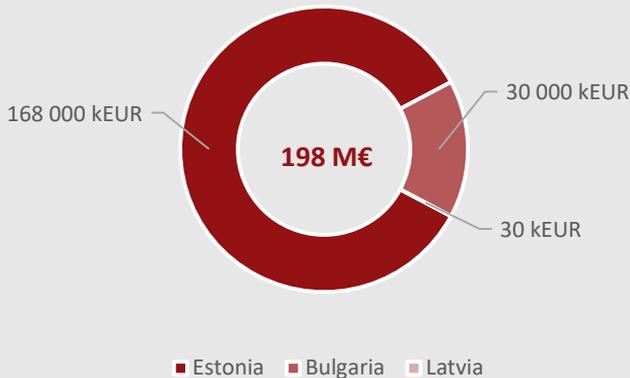
In today's economic environment, one can clearly see homebuyers' worries about the future, which is amplified by media coverage of possible dramatic scenarios. However, considering the long-term nature of real estate development, the Arco Vara team must continue to grow in order to reach the 2026 goal of developing at least 200 apartments every year.

Development volumes (bruto m²)

Total 85,314 m²



Potentials revenue of development projects upon completion as of 30.06.2022



Potential revenue of development projects upon completion as of 30.09.2022



Arco Vara's Active Projects as of 30.09.2022



Project name

Madrid Blvd

Address

Madrid Blvd, Sofia

Product main type

Lease: Retail/Offices

Project stage

Facility management and/or lease

Area of plot m2

-

GSA/GLA (above ground)

7,350

No of units (above ground)

22



Project name

Botanica Lozen

Address

Lozen, near Sofia

Product main type

Houses

Project stage

Building right received

Area of plot m2

47,450

GSA/GLA (above ground)

<16,000>

No of units (above ground)

<54>



Project name

Harku lake development

Address

Paldiski road 124b, Tallinn

Product main type

Apartments

Project stage

Building rights procedure

Area of plot m2

69,506

GSA/GLA (above ground)

<28,860>

No of units (above ground)

<400>



Project name

Stage 4-5 Kodulahe

Address

Pagi 3 and 5, Tallinn

Product main type

Apartments

Project stage

Marketing and sale

Area of plot m2

7,383

GSA/GLA (above ground) available

0

No of units (above ground) available

0



Project name

Kodulahe Rannakalda

Address

Lammi 8, Tallinn

Product main type

Apartments, commercial spaces

Project stage

Construction

Area of plot m2

9,525

GSA/GLA (above ground)

8,888

No of units (above ground)

113



Project name

Stage 7 Kodulahe

Address

Soodi 6, Tallinn

Product main type

Apartments

Project stage

Detail plan in process

Area of plot m2

5,444

GSA/GLA (above ground)

<5,070>

No of units (above ground)

<75>

Arco Vara's Active Projects as of 30.09.2022



Project name

Kuldlehe

Address

Lehiku road 11, Tallinn

Product main type

Apartments

Project stage

Construction

Area of plot m2

5,219

GSA/GLA (above ground) available

853

No of units (above ground) available

5



Project name

Marsili plots

Address

Marsili, near Riga

Product main type

Residential plots

Project stage

Marketing and sale

Area of plots m2

4,700

GSA/GLA (above ground) available

-

No of units (above ground) available

3

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.

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 (EMTAK codes 41201, 6820, 6832). The group considers Estonia and Bulgaria as its home markets.

The main activity of the Group is the development of complete living environments and related commercial real estate. In the development of the living environment, the completed homes are sold to the final consumer. The focus of the group is on the development of residential real estate - new commercial real estate will only be developed if it is required by law as a prerequisite for the construction of residential immovables. From previous activities, the group owns commercial real estate assets that generate rental income.

The group itself no longer offers real estate brokerage and appraisal services, but in Estonia, Latvia and Bulgaria, these services continue to be provided under the trademarks of Arco Vara through license agreements, from which the group earns license fees.

Vision and mission

Arco Vara's vision:

- We are the most people-oriented real estate company.
- We know real estate best.
- We offer homes with the best comfort of use.

Arco Vara's mission is to create high-quality real estate and well thought-through living environments.

Group structure

Since 2021, Arco Vara AS has a parent company and therefore Arco Vara AS is part of the OÜ Alarmo Kapital concern from 2021.

As of 30 September 2022, the group consisted of 15 companies, which is one more than of 31 December 2021.

Significant subsidiaries as of 30 September 2022

Company name	Location	Share capital (nominal value)	Equity balance on 30 September 2022	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	3,452	100%
Arco Lozen EOOD	Bulgaria	2,931	1,664	100%
Kodulahe Kvartal OÜ	Estonia	140	528	100%
Kodulahe OÜ	Estonia	3	5,387	100%
Kerberon OÜ	Estonia	5	2,002	100%
Kolde OÜ	Estonia	28	117	100%

3
countries

30
years of experience

2,700+
new homes

380,000+
developed m²

Arco Vara AS subsidiaries

Kodulahe Kvartal OÜ	100%
Kodulahe OÜ	100%
Kodulahe II OÜ	100%
Kodukalda OÜ	100%
Kolde OÜ	100%
Kerberon OÜ	100%
Arco Tarc OÜ	100%
Arco Vara Bulgaria EOOD	100%
Arco Invest EOOD	100%
Iztok Parkside EOOD	100%
Botanica Lozen EOOD	100%
Arco Manastirski EOOD	100%
Arco Riverside EOOD	100%
Marsili II SIA	100%

Key Performance Indicators

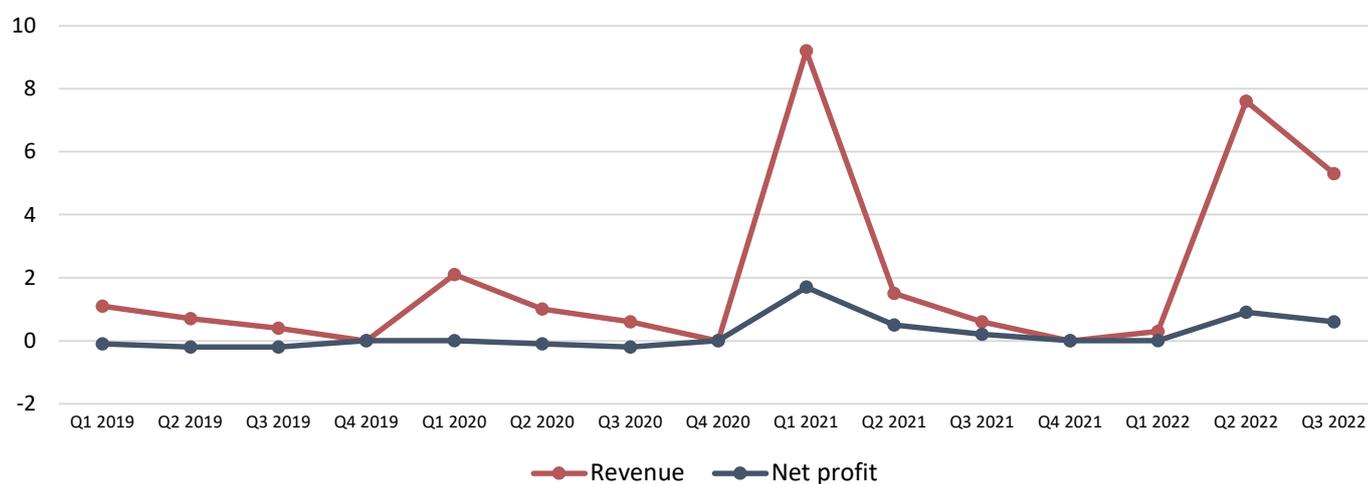
- In Q3 2022, the group's revenue was 5,232 thousand euros, which is 8,5 times more than the revenue of 613 thousand euros in Q3 2021. In 9 months 2022, the group's revenue was 13,167 thousand euros, which is 17% more than the revenue of 11,283 thousand euros in 9 months 2021.
- In Q3 2022, 31 apartments were sold in projects developed by the group (in 9 months 2022 72 apartments and a land plot in Latvia). In Q3 2021, only garages were sold (in addition, 63 apartments and a commercial space in 9 months).
- In Q3 2022, the group's operating profit (=EBIT) was 659 thousand euros and net profit 556 thousand euros (in 9 months 2022: operating profit 1,785 thousand euros and net profit of 1,506 thousand euros). In Q3 2021, the group had operating profit of 294 thousand euros and net profit of 202 thousand euros. In 9 months 2021, the group made operating profit of 2,724 thousand euros and net profit of 2,425 thousand euros.
- In the 9 months of 2022, the group's debt burden (net loans) decreased by 4,038 thousand euros down to the level of 7,146 thousand euros as of 30 September 2022. As of 30 September 2022, the weighted average annual interest rate of interest-bearing liabilities was 5.0%. This is a decrease of 0.2 percentage points compared to 31 December 2021.

Main financial figures

	9 months 2022	9 months 2021	Q3 2022	Q3 2021
In thousands of euros				
Revenue	13,167	11,283	5,232	613
Operating profit (EBIT)	1,785	2,724	659	294
Finance income and expense	-279	-299	-103	-92
Net profit	1,506	2,425	556	202
Cash flows from/used in operating activities	-2,516	-868	-501	-1,362
Cash flows used in investing activities	645	-5	-1	-5
Cash flows from/used in financing activities	1,645	31	-410	2,101
Net cash flows	-226	-842	-912	734
Cash and cash equivalents at beginning of period	1,863	2,200	2,549	624
Cash and cash equivalents at end of period	1,637	1,358	1,637	1,358
Total assets at the end of period	29,184	29,640		
Invested capital at the end of period	26,017	26,895		
Net loans at the end of period	5,509	9,472		
Equity at the end of period	18,844	16,065		

Revenue and net profit/loss during last years

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Total 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Total 2021	Q1 2022	Q2 2022	Q3 2022
In thousands 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	0.3	11.6	0.3	7.6	5.3
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	-0.3	2.1	0.0	0.9	0.6



Key Ratios

	9 months 2022	9 months 2021	Q3 2022	Q3 2021
Net profit ratio	11%	21%	11%	33%
EPS (in euros)	0.14	0.26	0.05	0.02
Diluted EPS (in euros)	0.14	0.24	0,05	0.02
EBITDA per share (in euros) (rolling, four quarters)	0.17	0.46		
ROIC (rolling, four quarters)	4.1%	14.4%		
ROE (rolling, four quarters)	6.5%	24.7%		
ROA (rolling, four quarters)	3.7%	12.8%		
Equity ratio	64.6%	54.2%		
Current ratio	3.65	2.98		
Quick ratio	1.20	0.31		
Financial leverage	1.55	1.85		
Average loan term (in years)	2.2	2.1		
Average annual interest rate of loans)	5.0%	5.2%		
Number of staff, at period end	19	12		

Formulas used:

Net profit ratio = net profit attributable to owners of the parent / revenue for the period

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 5,232 thousand euros in Q3 2022 (in Q3 2021: 613 thousand euros,) and 13,167 thousand euros in 9 months 2022 (in 9 months 2021: 11,283 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 4,960 thousand euros in Q3 and 12,337 thousand euros in 9 months 2022 (2021: 305 thousand euros in Q3 and 10,441 thousand euros in 9 months).

Most of the other revenue of the group consisted of rental and property management services income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 189 thousand euros in Q3 2022 and 595 thousand euros in 9 months (2021: 214 thousand euros in Q3 and 608 thousand euros in 9 months). By the time of publishing the present report, 2 offices remain vacant, but all commercial spaces, together with parking places, were rented out. The free office spaces make 13.3% of the rented office and retail area.

In Q1 2022, the construction company Arco Tarc OÜ was established, which laid the foundation for a new business segment. In 2022, the service will be offered only intra-group with a fixed profit margin of 4%.

The construction of the IV-V stage buildings in Kodulahe was completed in the second quarter of 2022. Two residential buildings with 36 apartments were completed at Pagi 3 and Pagi 5. In the Q2 2022, the final sale was finalized for 41 apartments, the rest of the customers were met at the notary at the beginning of July. By the time of publishing the present report, the house is fully sold.

The construction of the Stage VI of Kodulahe project at Lammi 8 started in February 2022 by Arco Vara's own construction company Arco Tarc OÜ. The construction includes 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. Apartment sales also commenced in February 2022. As at the date of publishing the annual report, 42 units out of the 113 had been presold.

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. By the time of publishing the present report, the detailed planning has been started.

The plan is to build a cluster house with 5 homes Pirita Kuldlehe project. Road construction is underway. The construction of the house is planned to start in the end of 2022, and the house will be completed within a year. The sale of the project has not started.

The last vision of the Botanica Lozen project foresees construction of 54 homes (houses) in three stages. The expected start time of construction is the autumn of 2022, when the construction of the first 16 buildings will start. Minimum construction period is 2 years.

As of 30 September 2022 and the date of this report, 3 Marsili residential plots remained unsold in Latvia.

Remuneration

As of 30 September 2022, 19 people worked for the group (13 as of 31 December 2021). Employee remuneration expenses in 9 months 2022 amounted to 451 thousand euros, out of which 152 thousand euros in Q3 2022 (2021 same periods: 363 thousand euros and 107 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 120 thousand euros in 9 months 2022, out of which 32 thousand euros in Q3 2022, (in 9 months and Q3 2021: 107 thousand euros and 23 thousand euros, respectively).

The members of the supervisory board of the group's parent company were remunerated by 14 thousand euros in 9 months 2022, out of which 6 thousand euros in Q3. The remuneration of the members of the supervisory board was 18 thousand euros in 9 months 2021, out of which 4 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 Luitsalu, Allar Niinepuu and Steven Yaroslav Gorelik.

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 2022, 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 although as of the date of the report, most of the loan obligations have a fixed interest rate, the base interest rate for the financing loan for the Madrid building is 3 months' EURIBOR. As a result, the group is partly exposed to developments on international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In Q3 2022, the group's interest-bearing liabilities amounted to 7,146 thousand euros on 30 September 2022, out of which 2,117 thousand euros is due within next 12 months. The group's interest-bearing liabilities have decreased by 4,038 thousand euros in the 9 months of 2022. The group's cash and cash equivalents totaled 1,637 thousand euros as of 30 September 2022 (31 December 2021 1,863 thousand). In Q3 2022, interest payments on interest-bearing liabilities totaled 103 thousand euros (in Q3 2021: 92 thousand euros). The group's weighted average loan interest rate was 5.0% as of 30 September 2022. This is a decrease by 0.2 percentage points compared to the end of year 2021. The reason for the decrease in the average interest rate is the decrease in development loans with higher-than-average interest rates in 2022.

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.

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 (ARC1T, ISIN EE3100034653) are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.70 euros on 30 September 2022; the closing price was 2.66 euros on 31 December 2021. During the period, the highest traded price per share was 2.77 euros and the lowest price 1.68 euros. Equity per share was 2.18 euros as of 30.09.2022, 1.73 also as of 31.12.2021.

As of 30 September 2022, market capitalization of shares amounted to 17,660 thousand euros and P/B (price to book value) ratio was 0.78 (31 December 2021: 27,633 thousand euros and 1.54, respectively). P/E (price to earnings) ratio of the share was 15.33 on 30 September 2022, 13.34 as on 31 December 2021.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 9 months 2022 and during the last three years.

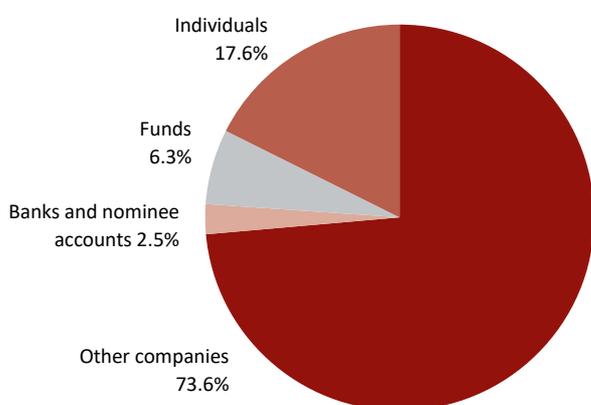


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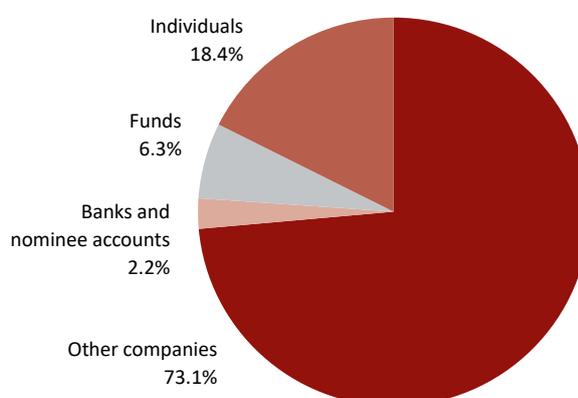
Shareholder structure

As of 30 September 2022, Arco Vara had 8,739 shareholders (on 31 December 2021 9,163), including 7,945 individuals as shareholders (on 31 December 2021: 8,286 individuals) who jointly owned 17.6% (on 31 December 2021: 18.4%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams.

Ownership structure as of 30 September 2022



Ownership structure as of 31 December 2021



Major shareholders on 30 September 2022

Name	No of shares	Share, %
Alarmo Kapital OÜ	6,438,531	62.0%
FIREBIRD REPUBLICS FUND LTD	337,057	3.2%
HM Investeeringud OÜ	230,505	2.2%
Marko Teimann	185,521	1.8%
FIREBIRD AVRORA FUND, LTD.	180,343	1.7%
Aia Tänav OÜ	160,960	1.5%
K VARA OÜ	150,901	1.5%
FIREBIRD FUND L.P.	133,948	1.3%
Rafiko OÜ	69,981	0.7%
SANDER KARU	67,564	0.7%
Other shareholders	2,433,056	23.4%
Total	10,388,367	100.0%

Holdings of management and supervisory board members on 30 September 2022

Name		No of shares	Share, %
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	Chairman/member of supervisory board	6,438,531	62.0%
Tarmo Sild (privately, related persons and Aia Tänav OÜ)	Chairman of supervisory board	168,329	1.6%
Allar Niinepuu (OÜ Kavass)	Member of supervisory board	10,000	0.1%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	Member of supervisory	269,259	2.6%
Kert Kesksaik (privately, K Vara OÜ, K24 Invest OÜ, Kolde Invest OÜ and One Eleven OÜ)	Member of supervisory	211,614	2.0%
Steven Yaroslav Gorelik ¹	Member of supervisory	0	-
Miko-Ove Niinemäe	Member of management board	14,700	0.1%
Total		7,112,433	68.4%

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 651,348 shares (total of 6.3% 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 2022 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 27 October 2022

Condensed Consolidated Interim Financial Statements



Consolidated Statement of Comprehensive Income

	Note	9 months 2022	9 months 2021	Q3 2022	Q3 2021
<i>In thousands of euros</i>					
Revenue from sale of own real estate		12,337	10,441	4,960	305
Revenue from rendering of services		830	842	272	308
Total revenue	2,3	13,167	11,283	5,232	613
Cost of sales	4	-10,665	-8,455	-4,282	-277
Gross profit		2,502	2,828	950	950
Other income		209	272	7	250
Marketing and distribution expenses	5	-153	-109	-45	-44
Administrative expenses	6	-764	-631	-251	-230
Other expenses		-9	-58	-2	-18
Gain on revaluation of investment property	11	0	422	0	0
Operating profit		1,785	2,724	659	294
Finance income and cost	7	-279	-299	-103	-92
Profit before tax		1,506	2,425	556	202
Net profit for the period		1,506	2,425	556	202
Total comprehensive income for the period		1,506	2,425	556	202
Earnings per share (in euros)	8				
- basic		0.14	0.26	0.05	0.02
- diluted		0.14	0.24	0.05	0.02

Consolidated Statement of Financial Position

	Note	30 September 2022	31 December 2021
<i>In thousands of euros</i>			
Cash and cash equivalents		1,637	1,863
Receivables and prepayments	9	4,752	3,701
Inventories	10	12,983	15,761
Total current assets		19,372	21,325
Receivables and prepayments	9	22	5
Investment property	11	9,422	9,943
Property, plant and equipment	2	310	154
Intangible assets	2	58	87
Total non-current assets		9,812	10,189
TOTAL ASSETS		29,184	31,514
Loans and borrowings	12	2,117	6,043
Payables and deferred income	13	3,194	2,368
Total current liabilities		5,311	8,411
Loans and borrowings	12	5,029	5,141
Total non-current liabilities		5,029	5,141
TOTAL LIABILITIES		10,340	13,552
Share capital	8	7,272	7,272
Share premium		3,835	3,835
Statutory capital reserve		2,011	2,011
Retained earnings		5,726	4,844
Total equity attributable to owners of the parent		18,844	17,962
TOTAL EQUITY		18,844	17,962
TOTAL LIABILITIES AND EQUITY		29,184	31,514

Consolidated Statement of Cash Flows

Note	9 months 2022		9 months 2021		Q3 2022		Q3 2021	
In thousands of euros								
Cash receipts from customers		9,164	14,926		5,068	877		
Cash paid to suppliers		-9,590	-12,706		-3,393	-2,433		
Taxes paid and recovered (net)		-1,512	-3,106		-1,820	28		
Cash paid to employees		-336	-225		-139	-72		
Other cash payments and receipts related to operating activities (net)		-242	243		-217	238		
NET CASH FROM/USED IN OPERATING ACTIVITIES		-2,516	-868		-501	-1,362		
Payments made on purchase of tangible and intangible assets		-27	-6		-1	-6		
Proceeds from sale of property, plant and equipment		2	0		0	0		
Payments made on purchase and development of investment property		670	1		0	1		
NET CASH FROM/USED IN INVESTING ACTIVITIES		645	-5		-1	-5		
Proceeds from loans received	12	4,246	3,454		0	2,460		
Settlement of loans and borrowings	12	-1,635	-2,613		-133	-84		
Interest paid		-550	-434		-173	-181		
Dividends paid		-416	-376		-104	-94		
NET CASH FROM/USED IN FINANCING ACTIVITIES		1,645	31		-410	2,101		
NET CASH FLOW		-226	-842		-912	734		
Cash and cash equivalents at the beginning of period		1,863	2,200		2,549	624		
Change in cash and cash equivalents		-226	-842		-912	734		
Cash and cash equivalents at the end of period		1,637	1,358		1,637	1,358		

Consolidated Statement of Changes in Equity

	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Retained earnings	Total equity
<i>In thousands of euros</i>						
Balance as of 31 December 2020	6,299	273	2,285	2,011	3,356	14,224
Increase of share capital	273	-273	0	0	0	0
Dividends paid	0	0	0	0	-583	-583
Total comprehensive income for the period	0	0	0	0	2,424	2,424
Balance as of 30 September 2021	6,572	0	2,285	2,011	5,197	16,065
Balance as of 31 December 2021	7,272	0	3,835	2,011	4,844	17,962
Dividends paid	0	0	0	0	-624	-624
Total comprehensive income for the period	0	0	0	0	1,506	1,506
Balance as of 30 September 2022	7,272	0	3,835	2,011	5,726	18,844

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 2022 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 2021, 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

The group analyzes operations in the construction and development segment. Also, geographical segments are

identified: Estonia, Bulgaria, Latvia, active segments are Estonia and Bulgaria.

External revenue by operating segment and by location of seller

Segment	Development		Construction		Parent company		Consolidated	
	9 months 2022	9 months 2021						
<i>In thousands of euros</i>								
Estonia	12,310	5,567	0	-	224	190	12,534	5,757
Bulgaria	602	5,526	-	-	-	-	602	5,526
Latvia	31	0	-	-	-	-	31	0
Total revenue	12,943	11,093	0	0	224	190	13,167	11,283

Segment	Development		Construction		Parent company		Consolidated	
	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021
<i>In thousands of euros</i>								
Estonia	4,961	25	0	-	79	68	5,040	93
Bulgaria	192	520	-	-	-	-	192	520
Total revenue	5,153	545	0	0	79	68	5,232	613

Revenue by operating segment

Segment	Development		Construction		Parent company		Eliminations		Consolidated	
	9 months 2022	9 months 2021								
<i>In thousands of euros</i>										
External revenue	12,943	11,093	0	-	224	190	0	0	13,167	11,283,
Revenue from other segments	0	0	4,206	-	493	459	-4,699	-459	0	0,
Total revenue	12,943	11,093	4,206	0	717	649	-4,699	-459	13,167	11,283

Segment	Development		Construction		Parent company		Eliminations		Consolidated	
	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021
<i>In thousands of euros</i>										
External revenue	5,153	545	0	-	79	68	0	0	5,232	613,
Revenue from other segments	0	0	2,529	-	283	45	-2,812	-45	0	0,
Total revenue	5,153	545	2,529	0	362	113	-2,812	-45	5,232	613

External operating profit by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	9 months 2022	9 months 2021						
<i>In thousands of euros</i>								
Estonia	1,860	859	-72	-	-206	-67	1,582	792
Bulgaria	203	1,934	-	-	-	-	203	1,934
Latvia	0	-2	-	-	-	-	0	-2
Total revenue	2,063	2,791	-72	0	-179	-67	1,785	2,724

Segment	Development		Construction		Parent company		Consolidated	
	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021
<i>In thousands of euros</i>								
Estonia	395	30	236	-	-10	-156	621	-126
Bulgaria	38	418	-	-	-	-	38	418
Latvia	0	2	-	-	-	-	0	2
Total revenue	433	450	236	0	-10	-156	659	294

External assets and liabilities by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	9 months 2022	9 months 2021						
<i>In thousands of euros</i>								
Estonia	12,888	15,900	546	-	1,492	1,710	14,926	17,610
Bulgaria	14,158	13,778	-	-	-	-	14,158	13,778
Latvia	100	126	-	-	-	-	100	126
Total assets	27,146	29,804	546	-	1,492	1,710	29,184	31,514

Segment	Development		Construction		Parent company		Consolidated	
	30 September 2022	31 December 2021						
<i>In thousands of euros</i>								
Estonia	1,571	5,415	866	-	2,601	2,550	5,038	7,965
Bulgaria	5,302	5,587	-	-	-	-	5,302	5,587
Total liabilities	6,873	11,002	866	-	2,601	2,550	10,340	13,552

Non-current assets by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	30 September 2022	31 December 2021						
<i>In thousands of euros</i>								
Estonia	0	1	8	-	295	146	303	147
Bulgaria	7	7	-	-	-	-	7	7
Tangible assets	7	8	8	-	295	146	310	154
Estonia	0	0	0	-	24	48	24	48
Bulgaria	34	39	-	-	-	-	34	39
Intangible assets	34	39	0	-	24	48	58	87
Total non-current assets	41	47	8	-	319	194	368	241

3. Revenue

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

Segment	Estonia		Bulgaria		Latvia		Consolidated	
	9 months 2022	9 months 2021						
<i>In thousands of euros</i>								
Sale of own real estate	12,306	5,543	0	4,898	31	0	12,337	10,441
Rental of real estate	4	6	536	542	0	0	540	548
Property management services	0	0	59	67	0	0	59	67
Franchise	148	133	45	40	31	17	224	190
Other revenue	0	17	7	20	0	0	7	37
Total revenue	12,458	5,699	647	5,567	62	17	13,167	11,283

Segment	Estonia		Bulgaria		Latvia		Consolidated	
	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021	Q3 2022	Q3 2021
<i>In thousands of euros</i>								
Sale of own real estate	4,960	9	0	296	0	0	4,960	305
Rental of real estate	1	1	172	192	0	0	173	193
Property management services	0	-5	18	23	0	0	18	18
Franchise	49	45	14	17	16	6	79	68
Other revenue	0	15	2	14	0	0	2	29
Total revenue	5,010	65	206	542	16	6	5,232	613

4. Cost of sales

	9 months 2022	9 months 2021	Q3 2022	Q3 2021
<i>In thousands of euros</i>				
Cost of real estate sold (note 10)	-10,385	-7,942	-4,198	-167
Brokerage fees	-44	-220	-13	-15
Property management costs	-173	-181	-57	-54
Personnel expenses	-9	0	-3	0
Depreciation, amortization and impairment losses	-24	-29	-5	-10
Other costs	-30	-83	-6	-31
Total cost of sales	-10,665	-8,455	-4,282	-277

5. Marketing and distribution expenses

	9 months 2022	9 months 2021	Q3 2022	Q3 2021
<i>In thousands of euros</i>				
Advertising expenses	-41	-49	-4	-5
Personnel expenses	-30	0	-15	0
Market research	-1	0	0	0
Other marketing and distribution expenses	-81	-60	-26	-39
Total marketing and distribution expenses	-153	-109	-45	-44

6. Administrative expenses

	9 months 2022	9 months 2021	Q3 2022	Q3 2021
<i>In thousands of euros</i>				
Personnel expenses	-439	-363	-161	-107
Office expenses	-69	-77	-17	-32
IT expenses	-28	-24	-10	-10
Services purchased	-144	-130	-33	-65
Depreciation, amortization and impairment losses	-52	-13	-20	-5
Legal service fees	-21	-12	-6	-8
Other expenses	-11	-12	-4	-3
Total administrative expenses	-764	-631	-251	-230

7. Financial income and expenses

	9 months 2022	9 months 2021	Q3 2022	Q3 2021
<i>In thousands of euros</i>				
Interest expenses	-279	-303	-103	-90
Other financial income and costs	0	4	0	-2
Total financial income and costs	-279	-299	-103	-92

8. Earnings per share

Basic earnings per share are calculated by dividing profit 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.

	9 months 2022	9 months 2021	Q3 2022	Q3 2021
Weighted average number of ordinary shares outstanding during the period	10,388,367	9,179,796	10,388,367	9,388,367
Number of ordinary shares potentially to be issued (at period end)	63,000	1,000,000	63,000	1,000,000
Net profit (in thousands of euros)	1,533	2,425	583	202
Earnings per share (in euros)	0.14	0.26	0.05	0.02
Diluted earnings per share (in euros)	0.14	0.24	0.05	0.02

9. Receivables and prepayments

Short-term receivables and prepayments

	30 September 2022	31 December 2021
<i>In thousands of euros</i>		
Receivables from customers	91	90
Miscellaneous receivables	6	6
Prepaid and recoverable taxes	663	145
Other accrued income	20	24
Prepayments	3,972	3,436
Total short-term receivables and prepayments	4,752	3,701

Long-term receivables and prepayments

	30 September 2022	31 December 2021
<i>In thousands of euros</i>		
Deposits	22	5
Total long-term receivables and prepayments	22	5

10. Inventories

	30 September 2022	31 December 2021
<i>In thousands of euros</i>		
Properties purchased and being developed for resale	12,946	15,754
Materials and finished goods	37	7
Total inventories	12,983	15,761

Properties purchased and being developed for resale

	2022	2021
<i>In thousands of euros</i>		
Balance at the beginning of period, 1 January	15,754	14,943
Properties purchased for development	0	5,102
Construction costs of apartment buildings	6,055	4,177
Capitalized borrowing costs	272	85
Other capitalized costs	1,209	868
Cost of sold properties (note 4)	-10,344	-7,769
Balance at the end of period, 30 September	12,946	17,406

11. Investment property

	2022	2021
<i>In thousands of euros</i>		
Balance at the beginning of period, 1 January	9,943	9,564
Net gain on changes in fair value	0	422
Capitalized development costs	4	6
Sale of investment property	-525	-82
Balance at the end of period, 30 September	9,422	9,910

12. Interest bearing liabilities

	As of 30 September, 2022			As of 31 December, 2021		
	Total	of which current portion	of which non-current portion	Total	of which current portion	of which non-current portion
<i>In thousands of euros</i>						
Bank loans	5,109	293	4,816	8,880	3,844	5,036
Bonds	1,780	1,780	0	1,780	1,780	0
Capital lease	257	44	213	133	28	105
Other loans	0	0	0	391	391	0
Total	7,146	2,117	5,029	11,184	6,043	5,141

In 9 months 2022, the group settled loans in the amount of 1,635 thousand euros (in 9 months 2021: 2,613 thousand euros) through cash transactions and raised new loans in the amount of 4,246 thousand euros (in 9 months 2021: 3,454 thousand euros). 6,383 thousand euros of the settled loans were paid by customers directly to the bank in 2022, 852 thousand euros in 2021; these are not shown in the group cash flow statement.

In 9 months 2022, the following major loan obligations were settled:

- 218 thousand euros of Madrid Blvd project's bank loan principal;
- 7,800 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stages IV&V, out of which 6,383 thousand directly by customers.

In 9 months 2022, the group raised the following new liabilities:

- 4,246 thousand euros of bank loan for financing construction of apartment buildings in Kodulahe project Stage IV and V;
- 139 thousand euros of capitalized office rent.

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 project bank loan principal, all directly by customers;
- 407 thousand euros of Kodulahe III project 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 capitalized office rent;
- 390 thousand euros of other loans.

13. Payables and deferred income

Short-term payables and deferred income

	30 September 2022	31 December 2021
<i>In thousands of euros</i>		
Trade payables	967	673
Miscellaneous payables	11	10
Taxes payable		
Value added tax	272	24
Social security tax	1	32
Personal income tax	93	9
Land tax	55	6
Other taxes	17	2
Total taxes payable	438	73
Accrued expenses		
Payables to employees	113	102
Interest payable	7	7
Dividend payable	312	104
Other accrued expenses	115	2
Total accrued expenses	547	215
Deferred income		
Prepayments received on sale of real estate	1,126	1,268
Guarantee deposits	69	91
Prepaid revenue	36	38
Total deferred income	1,231	1,397
Total short-term payables and deferred income	3,194	2,368

14. Related party disclosure

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

- 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;
- 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 2022	9 months 2021
<i>In thousands of euros</i>		
Companies that have a significant interest in the group's parent company		
Services purchased	0	24
Other related parties		
Services purchased	28	33

Members of the supervisory board intend to buy apartments in the Kodulahe Quarter, therefore, prepayments made by them are 277 thousand euros (on 31 December 2021 prepayments 148 thousand).

In 9 months 2022, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 120 thousand euros, out of which 32 thousand euros in Q3 (in 9 months and Q3 2021: 107 thousand euros and 23 thousand euros).

The remuneration provided to the members of the supervisory board of the group's parent company during the first 9 months in 2022 was 14 thousand euros, out of which 6 thousand in Q3 2022 (in 9 months and Q3 2021: 18 thousand euros and 4 thousand euros).

The remuneration provided to the CEO / member of the management board is based on his contract of service. 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

Balances with related parties

	30 September 2022	31 December 2021
<i>In thousands of euros</i>		
Other related parties		
Services sold	277	148

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. 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).

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 2022.

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 27 October 2022