



KODULAHE

Arco Vara AS
Interim report for the third quarter and nine
months of 2023
(unaudited)

 ARCO VARA

INTERIM REPORT FOR THE THIRD QUARTER AND NINE MONTHS OF 2023 (UNAUDITED)

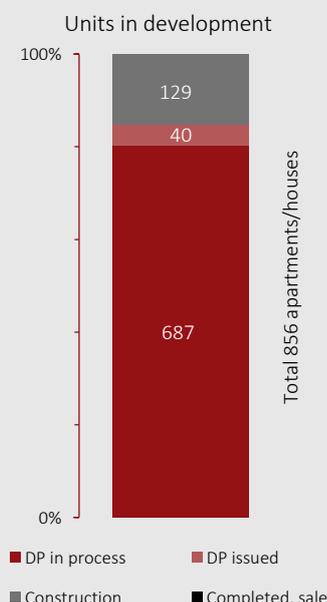
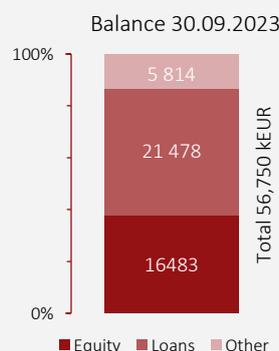
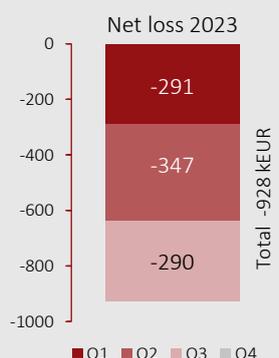
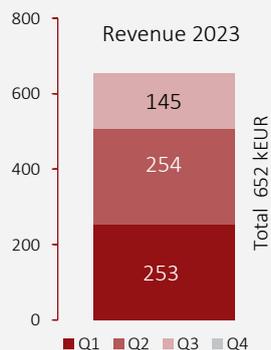
Company name	Arco Vara AS
Registry number	10261718
Address	Rotermanni tn 10, 10111 Tallinn, Republic of Estonia
Telephone	+372 614 4630
E-mail	info@arcovara.com
Corporate website	www.arcovara.com
Financial year	1 January 2023 – 31 December 2023
Reporting period	1 January 2023 – 30 September 2023
Supervisory board	Tarmo Sild, Steven Yaroslav Gorelik, Kert Keskaik, Hillar-Peeter Luitsalu, Allar Niinepuu
Chief executive	Miko-Ove Niinemäe
Auditor	PricewaterhouseCoopers AS

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Summer is traditionally the low season in the real estate market, but this year it did not apply to Arco Vara, as the third quarter showed. Although interest rates remain high, Arco Vara has been successful in pre-sales and the number of inquiries for our homes has been growing throughout the year. However, in today's market the million-dollar-question is how to convert a larger number of inquiries into sales.

In Kodulahe, we continued building and sales activities as planned, which enables us to start delivering homes in our Kodulahe Rannakalda development already by the time of the publication of the report. We have therefore adjusted the sales revenue and profit projections for 2023 according to the delivery schedule, when according to our assumptions, 65 clients receive a new home. Final sales of 48 units are planned for 2024.

Development of the Kodulahe area continues at Soodi 6, in the framework of which an architectural contest was held to give the quarter new value in the form of outdoor areas and exterior appearance. The contest was won by architectural bureau APEX whose solution for outdoor area connects the Stroomi beach area of the Kodulahe development with the light traffic area of the Paldiski road, focusing on the safety of road users and the compactness of the walkways.

In addition, construction activities continue in Botanica Lozen, where 3 private homes out of 16 have found a happy buyer. According to the building schedule, the handover of the homes should take place in the second half of 2024, including the start of the new building phase of 24 homes.

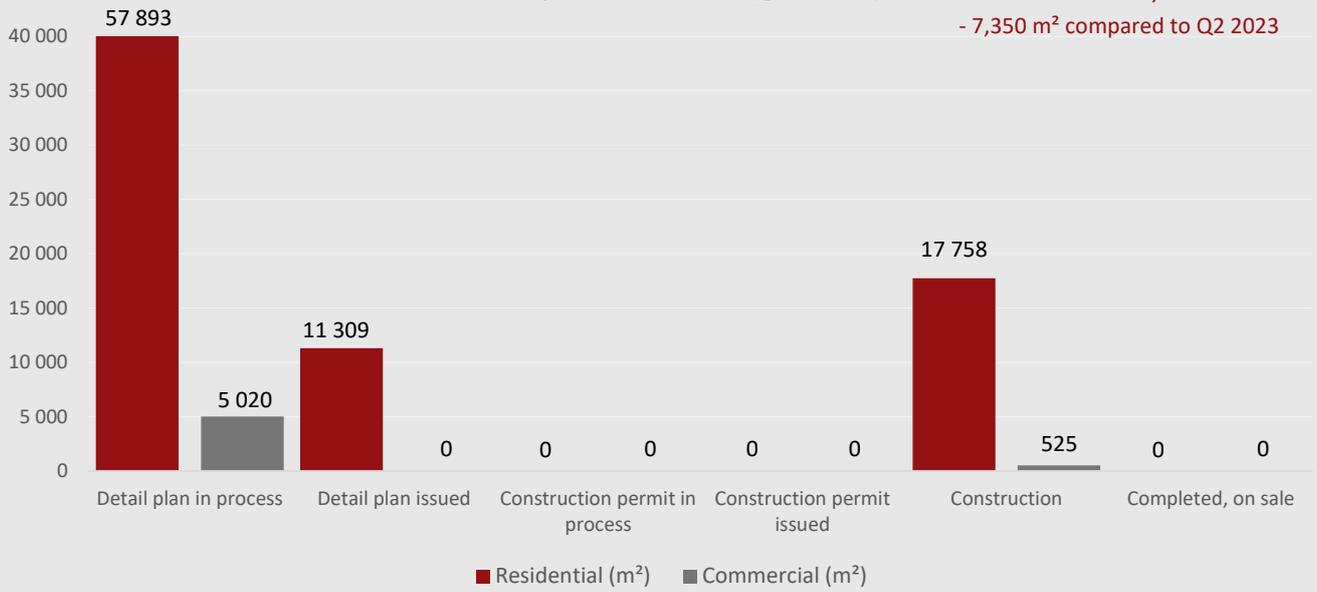
The building of the Kuldlehe boutique residence continues as planned, but it is still waiting for buyers. The unique homes, located on a quiet cul-de-sac, will be completed in the first half of 2024.

After the summer, markets have continued to get used to the changed economic environment. This includes the real estate market, as shown by lower than average transaction volume. However, Arco Vara's balance sheet and equity ratio remain very strong, and the rise in interest rates has not significantly affected our cash flow. Building on this, we will continue to sell and market homes as planned which should allow us to reach a profit of nearly EUR 3 million already this year.

Development volumes (gross m²)

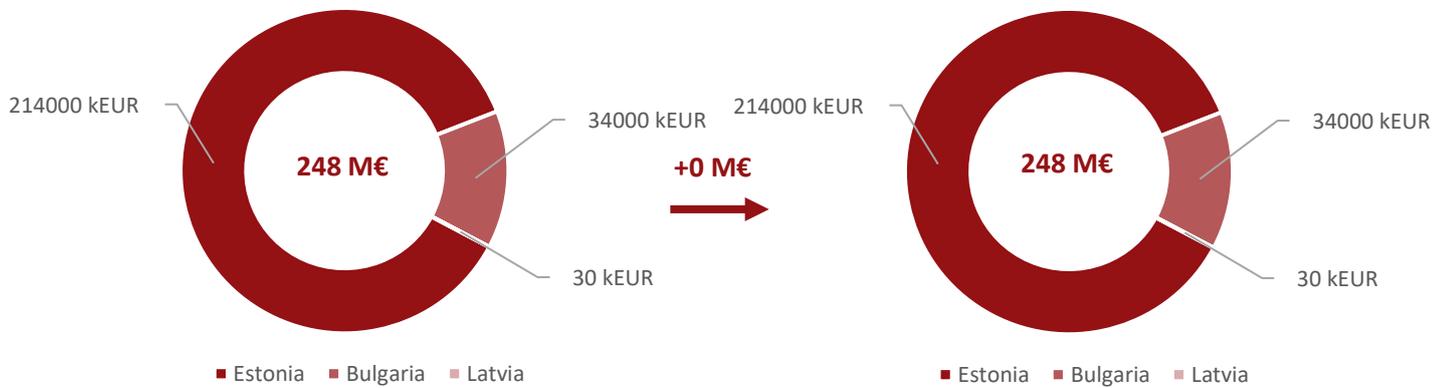
Total 92,505 m²

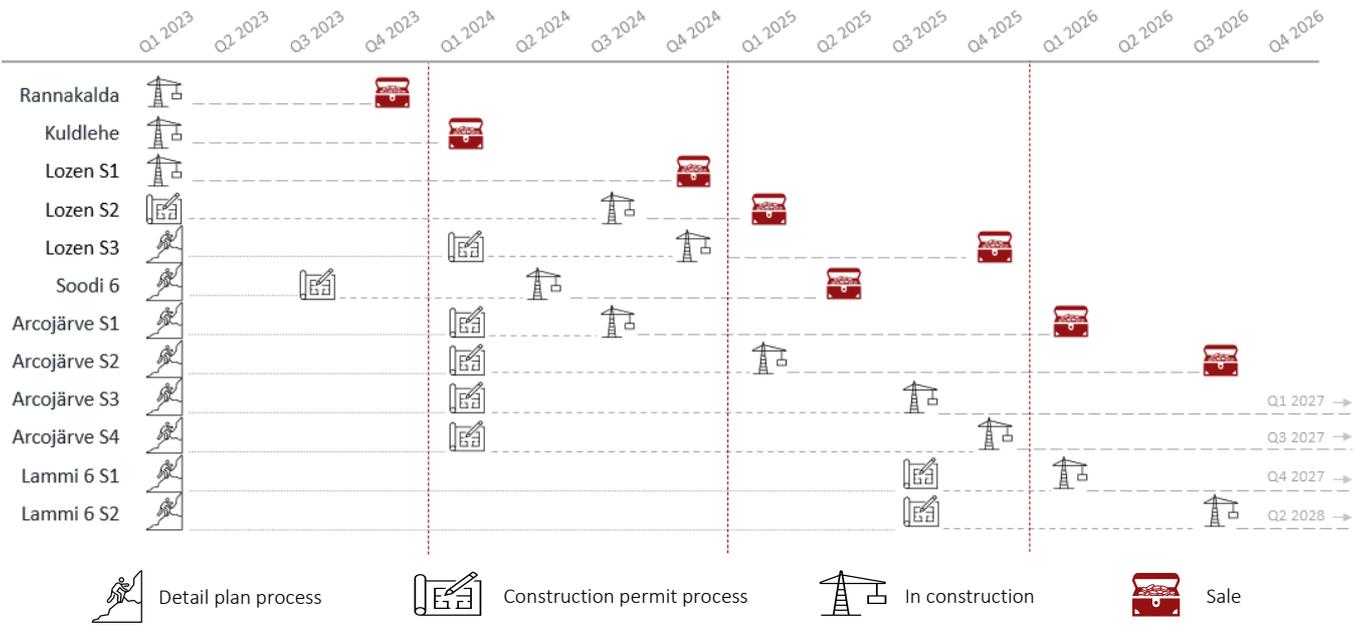
- 7,350 m² compared to Q2 2023



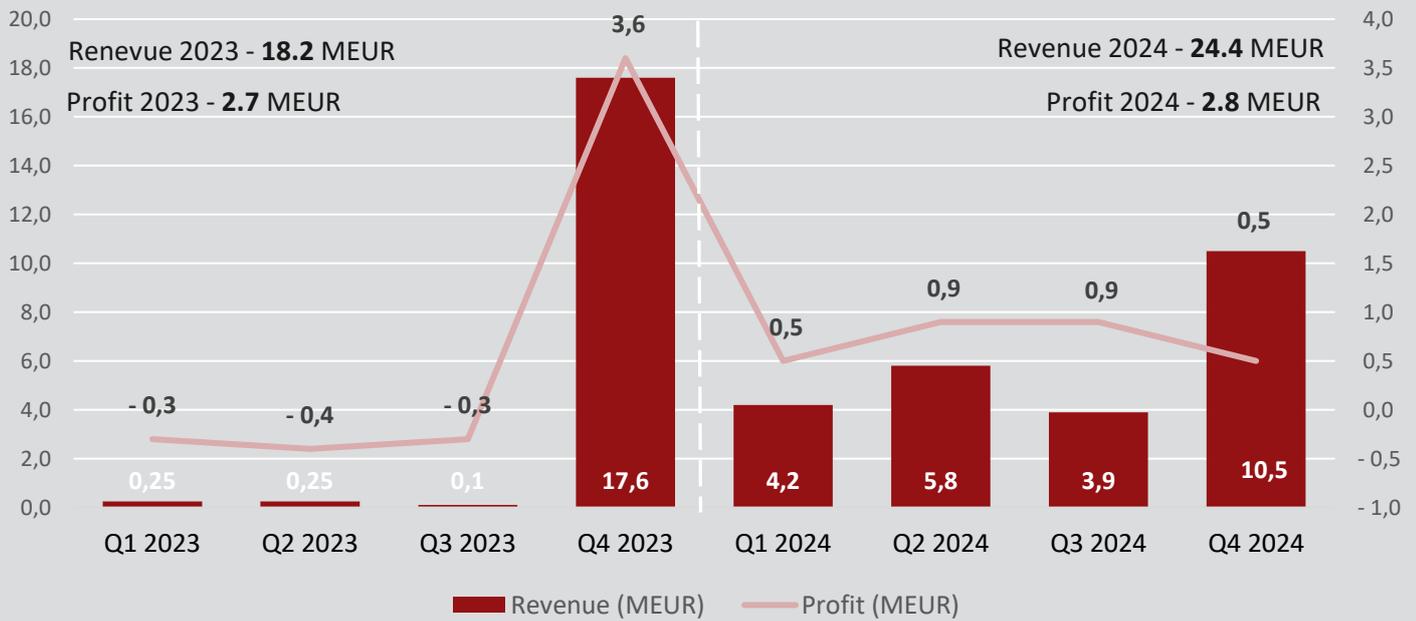
Potential revenue of development projects upon completion as of 30.06.2023

Potential revenue of development projects upon completion as of 30.09.2023





Arco Vara Group revenue and profit prognoses 2023-2024





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) available

8,888

No of units (above ground) available/ available

113/52



Project name

Stage 1 Botanica Lozen

Address

Lozen, near Sofia

Product main type

Houses

Project stage

Construction

Area of plot m2

20,190

GSA/GLA (above ground)

5,485

No of units (above ground)/ available

16/13



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

922

No of units (above ground) available/ available

5/5



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)

<69>



Project name

S2 and S3 Botanica Lozen

Address

Lozen, near Sofia

Product main type

Houses

Project stage

Detail plan issued

Area of plot m2

27,260

GSA/GLA (above ground)

<11,309>

No of units (above ground)

<40>



Project name

Arcojärve

Address

Paldiski road 124b, Tallinn

Product main type

Apartments, commercial spaces

Project stage

Detail plan in process

Area of plot m2

69,506

GSA/GLA (above ground)

<29,300>

No of units (above ground)

<464>

Arco Vara's Active Projects as of 30.09.2023



Project name

Stage 8 Kodulahe

Address

Lammi 6, Tallinn

Product main type

Apartments, commercial spaces

Project stage

Detail plan in process

Area of plot m²

14,553

GSA/GLA (above ground)

<13,400>

No of units (above ground)

<187>

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 2023, the group consisted of 15 companies, which is three less than of 31 December 2022.

Significant subsidiaries as of 30 September 2023

Company name	Location	Share capital (nominal value)	Equity balance on 30 September 2023	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	3,108	100%
Botanica Lozen EOOD	Bulgaria	2,931	1,289	100%
Kodulahe Kvartal OÜ	Estonia	140	146	100%
Kodulahe OÜ	Estonia	3	5,528	100%
Kerberon OÜ	Estonia	5	1,881	100%
Kolde OÜ	Estonia	28	63	100%

3
countries

30
years of experience

2,700+
new homes

380,000+
developed m²

Arco Vara AS subsidiaries



Key Performance Indicators

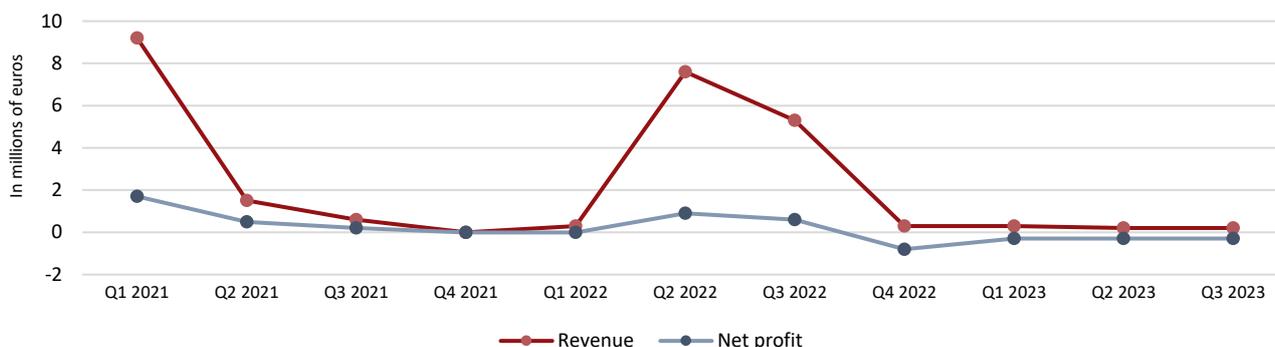
- In Q3 2023, the apartment buildings had not yet reached the stage of completion, therefore, looking at the content of the development work, the quarter is not comparable to the same period last year. The group's sales revenue for the Q3 2023 was 145 thousand euros, which is several times less than the sales revenue of the Q3 2022 of 5,232 thousand euros. In 9 months 2023, the group's revenue was 652 thousand euros, which is much less than the revenue of 13,167 thousand euros in 9 months 2022.
- In Q3 2023, the group's operating loss (=EBIT) was 221 thousand euros and net loss 290 thousand euros (in 9 months 2023: operating loss 654 thousand euros and net loss of 928 thousand euros). In Q3 2022, the group had operating profit of 659 thousand euros and net profit of 556 thousand euros. In 9 months 2022, the group made operating profit of 1,785 thousand euros and net profit of 1,506 thousand euros.
- In Q3 2023, no final sale contracts were signed (1 parking space was sold in 9 months). In Q3 2022, 31 apartments were sold in projects developed by the group (in 9 months 2022, 72 apartments and 1 land plot in Latvia).
- In the 9 months of 2023, the group's debt burden (net loans) increased by 3,388 thousand euros up to the level of 21,477 thousand euros as of 30 September 2023. As of 30 September 2023, the weighted average annual interest rate of interest-bearing liabilities was 6.2%. This is an increase of 0.4 percentage points compared to 31 December 2022.

Main financial figures

	9 months 2023	9 months 2022	Q3 2023	Q3 2022
In thousands of euros				
Revenue	652	13,167	145	5,232
Operating profit/ loss (EBIT)	-654	1,785	-221	659
Finance expense	-274	-279	-69	-103
Net profit/ loss	-928	1,506	-290	556
Cash flows used in operating activities	-13,101	-2,516	-3,965	-501
Cash flows from/used in investing activities	8,893	645	0	-1
Cash flows from/used in financing activities	1,986	1,645	-5,262	-410
Net cash flows	2,222	-226	-9,227	-912
Cash and cash equivalents at beginning of period	3,427	1,863	10,432	2,549
Cash and cash equivalents at end of period	916	1,637	916	1,637
Total assets at the end of period	43,775	29,184		
Invested capital at the end of period	37,961	26,017		
Net loans at the end of period	20,562	5,509		
Equity at the end of period	16,483	18,844		

Revenue and net profit/loss during last years

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Total 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Total 2022	Q1 2023	Q2 2023	Q3 2023	Total 2023
In millions of euros														
Revenue	9.2	1.5	0.6	0.3	11.6	0.3	7.6	5.3	0.3	13.5	0.3	0.2	0.2	0.7
Net profit/loss	1.7	0.5	0.2	-0.3	2.1	0.0	0.9	0.6	-0.8	0.7	-0.3	-0.3	-0.3	-0.9



Key Ratios

	9 months 2023	9 months 2022	Q3 2023	Q2 2022
Net profit (loss) ratio	-142%	11%	-200%	11%
EPS (in euros)	-0.09	0.14	-0.03	0.05
Diluted EPS (in euros)	-0.09	0.14	-0.03	0.05
EBITDA per share (in euros) (rolling, four quarters)	-0.12	0.17		
ROIC (rolling, four quarters)	-4.8%	4.1%		
ROE (rolling, four quarters)	-9.9%	6.5%		
ROA (rolling, four quarters)	-4.1%	3.7%		
Equity ratio	37.7%	64.6%		
Current ratio	6.63	3.65		
Quick ratio	1.05	1.20		
Financial leverage	2.66	1.55		
Average loan term (in years)	2.4	2.2		
Average annual interest rate of loans)	6.2%	5.0%		
Number of staff, at period end	17	19		

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

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

In the Q3 2023, apartment buildings had not yet entered into final sale contracts, therefore the group's sales revenue was 145 thousand euros (in Q3 2022, the sales revenue was 5,232 thousand euros).

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 371 thousand euros in 6 months (2022: 406 thousand euros in 6 months). The sale process of the Madrid building was completed in July 2023. There is no profit or loss from the sale of the building in 2023 because the discounts were recognized in 2022. The transaction is not reflected in the sales revenue, as it is the sale of a real estate investment. Equity capital worth 4.1 million euros was released from the transaction.

Arco Vara's own construction company Arco Tarc OÜ is the main contractor for the most premium stage of Kodulahe - Rannakalda. Under construction are a pavilion, 4 service areas and 108 apartments (in three separate apartment buildings), many of which have sea views. The apartment buildings will be ready in the Q4 2023. As at the date of publishing the interim report, 53 units out of the 113 have been presold and 8 sold.

A subsidiary of Arco Vara, Aktsiaselts Kolde, in 2021 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 project is called Arcojärve. In Q2 2023, the next land purchase prepayment of 1,626 thousand euros was paid, as of 30.09.2023, the total advance payment for the said land is 4,978 thousand euros. The start of the construction of the first stage is planned for 2024.

Construction is underway in the Kuldlehe project. The plan is to build a spacious and exclusive cluster house with 5 homes in Pirita in 2023. The sale of the project has started.

The Botanica Lozen project foresees construction of 54 homes (houses) in three stages. Construction and sales of the first 16 buildings have begun – the private houses of the first phase will be completed by the end of 2024. By the date of publication of the quarterly report, 3 out of 16 houses have been pre-sold.

Remuneration

As of 30 September 2023, 17 people worked for the group (19 as of 31 December 2022). Employee remuneration expenses in 9 months 2023 amounted to 649 thousand euros, out of which 209 thousand euros in Q3 2023 (2022 same periods: 451 thousand euros and 152 thousand euros).

The employee remuneration expenses include remuneration of the member of the management board / CEO of the group's parent company together with social security charges amounted to 117 thousand euros in 9 months 2023, out of which 46 thousand euros in Q3 2023, (in 9 months and Q3 2022: 120 thousand euros and 32 thousand euros, respectively).

The members of the supervisory board of the group's parent company were remunerated by 11 thousand euros in 9 months 2022, out of which 3 thousand euros in Q3. The remuneration of the members of the supervisory board was 14 thousand euros in 9 months 2022, out of which 6 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 10 April 2026.

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.

More information about Arco Vara's key persons is available on the company's website www.arcovara.com.

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 2023, 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.

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.

Liquidity and interest rate risks

The base currency of the group's all loan agreements is euro, and most of the loan obligations have a fixed interest rate, except the base interest rate for the financing loan for the Tallinn Lammi 6 land is 6 months' EURIBOR. As a result, the group is partly exposed to developments on international capital markets. The group's interest-bearing liabilities amounted to 21,477 thousand euros on 30 September 2023, out of which 747 thousand euros is due within next 12 months. The group's interest-bearing liabilities have increased by 3,388 thousand euros in the 12 months of 2023. The increase was brought about by preplanned financing of going developments. The group's cash and cash equivalents totaled 916 thousand euros as of 30 September 2023 (31 December 2022 3,427 thousand).

In Q3 2023, interest payments on interest-bearing liabilities totaled 365 thousand euros (in Q3 2022: 173 thousand euros) – higher loan balance also means larger interest payments. The interest paid was partly capitalized, partly expensed. The group's weighted average loan interest rate was 6.2% as of 30 September 2023. This is a increase by 0.4 percentage points compared to the end of year 2022. The reason for the increase in the average interest rate of loan obligations is the termination of a loan with a low interest rate due to the sale of the commercial building in Madrid in the summer of 2023.

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 1.65 euros on 30 September 2023; the closing price was 1.792 euros on 31 December 2022. During the 9 month period, the highest traded price per share was 1,878 euros and the lowest price 1.58 euros. Equity per share was 1.74 euros as of 30.09.2023, also 1.74 as of 31.12.2022.

As of 30 September 2023, market capitalization of shares amounted to 17,141 thousand euros and P/B (price to book value) ratio was 1.04 (31 December 2022: 18,616 thousand euros and 1.03, respectively). P/E (price to earnings) ratio of the share was -9,86 on 30 September 2023, 26.79 as on 31 December 2022.

The following charts reflect the movements in the price and daily turnover of Arco Vara’s share in 9 months 2023 and during the last three years.

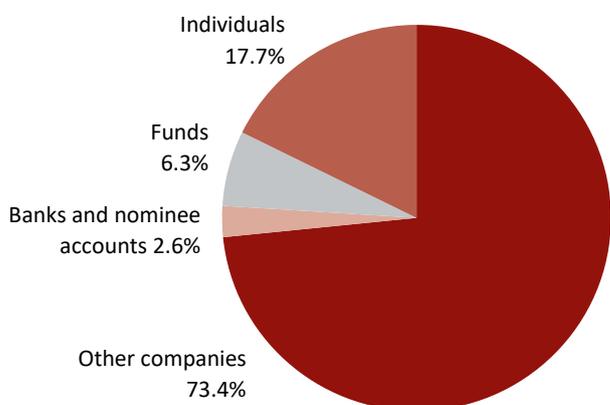


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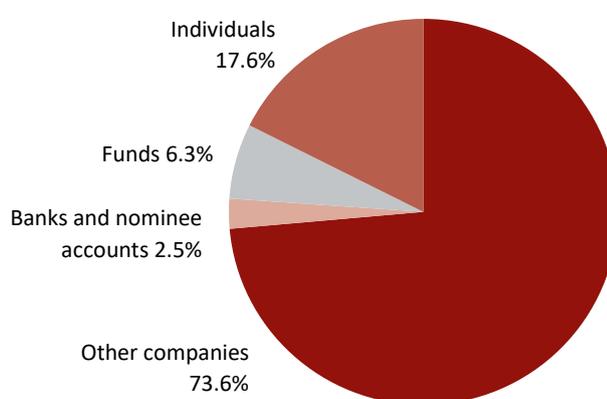
Shareholder structure

As of 30 September 2023, Arco Vara had 8,449 shareholders (on 31 December 2022 8,692), including 7,721 individuals as shareholders (on 31 December 2022: 7,916 individuals) who jointly owned 17.4% (on 31 December 2022: 17.6%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams.

Ownership structure as of 30 September 2023



Ownership structure as of 31 December 2022



Major shareholders on 30 September 2023

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%
Aia Tänav OÜ	201,000	1.9%
Marko Teimann	192,119	1.8%
FIREBIRD AVRORA FUND, LTD.	180,343	1.7%
K VARA OÜ	150,901	1.5%
FIREBIRD FUND L.P.	133,948	1.3%
Sander Karu	110,875	1.1%
Citibank (London) / OP Custody Ltd	56,952	0.5%
Other shareholders	2,356,136	22.8%
Total	10,388,367	100.0%

Holdings of management and supervisory board members on 30 September 2023

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	209,869	1.9%
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 Keskaik (privately, K Vara OÜ, K24 Invest OÜ, Kolde Invest OÜ and One Eleven OÜ)	Member of supervisory	204,955	2.0%
Steven Yaroslav Gorelik ¹	Member of supervisory	0	-
Miko-Ove Niinemäe	Member of management board	19,000	0.2%
Total		7,151,614	68.8%

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 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 2023 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 26 October 2023

Condensed Consolidated Interim Financial Statements



Consolidated Statement of Comprehensive Income

	Note	9 months 2023	9 months 2022	Q3 2023	Q3 2022
<i>In thousands of euros</i>					
Revenue from sale of own real estate		14	12,377	7	4,960
Revenue from rendering of services		638	830	138	272
Total revenue	2,3	652	13,167	145	5,232
Cost of sales	4	-209	-10,665	-18	-4,282
Gross profit		443	2,502	127	950
Other income		106	209	30	7
Marketing and distribution expenses	5	-268	-153	-91	-45
Administrative expenses	6	-924	-764	-278	-251
Other expenses		-11	-9	-9	-2
Operating profit/ loss		-654	1,785	-221	659
Finance income and cost	7	-274	-279	-69	-103
Profit/loss before tax		-928	1,506	-290	556
Net profit/ loss for the period		-928	1,506	-290	556
Total comprehensive income/loss for the period		-928	1,506	-290	556
Earnings per share (in euros)	8				
- basic		-0.09	0.14	-0.03	0.05
- diluted		-0.09	0.14	-0.03	0.05

Consolidated Statement of Financial Position

	Note	30 September 2023	31 December 2022
<i>In thousands of euros</i>			
Cash and cash equivalents		916	3,427
Receivables and prepayments	9	5,972	4,387
Inventories	10	36,600	22,511
Investment property for sale	11	0	9,050
Total current assets		43,488	39,375
Receivables and prepayments	9	18	18
Investment property	11	2	82
Property, plant and equipment	2	239	284
Intangible assets	2	28	46
Total non-current assets		287	430
TOTAL ASSETS		43,775	39,805
Loans and borrowings	12	745	5,255
Payables and deferred income	13	5,814	3,681
Total current liabilities		6,561	8,936
Loans and borrowings	12	20,731	12,834
Total non-current liabilities		20,731	12,834
TOTAL LIABILITIES		27,292	21,770
Share capital	8	7,272	7,272
Share premium		3,835	3,835
Statutory capital reserve		2,011	2,011
Retained earnings		3,365	4,917
Total equity attributable to owners of the parent		16,483	18,035
TOTAL EQUITY		16,483	18,035
TOTAL LIABILITIES AND EQUITY		43,755	39,805

Consolidated Statement of Cash Flows

Note	9 months 2023	9 months 2022	Q3 2023	Q3 2022
In thousands of euros				
Cash receipts from customers	2,679	9,164	750	5,068
Cash paid to suppliers	-17,275	-9,590	-5,119	-3,393
Taxes paid and recovered (net)	1,958	-1,512	580	-1,820
Cash paid to employees	-535	-336	-197	-139
Other cash payments and receipts related to operating activities (net)	72	-242	21	-217
NET CASH FROM/USED IN OPERATING ACTIVITIES	-13,101	-2,516	-3,965	-501
Payments made on purchase of tangible and intangible assets	-1	-27	0	-1
Proceeds from sale of property, plant and equipment	0	2	0	0
Payments made on purchase and development of investment property	8,894	670	0	0
NET CASH FROM/USED IN INVESTING ACTIVITIES	8,893	645	0	-1
Proceeds from loans received	12	9,527	4,246	1,123
Settlement of loans and borrowings	12	-6,138	-1,635	-5,917
Interest paid	-983	-550	-365	-173
Dividends paid	-416	-416	-104	-104
Proceeds from share capital increase	-4	0	1	0
NET CASH FROM/USED IN FINANCING ACTIVITIES	1,986	1,645	-5,262	-410
NET CASH FLOW	-2,222	-226	-9,227	-912
Cash and cash equivalents at the beginning of period	3,427	1,863	10,432	2,549
Change in cash and cash equivalents	-2 222	-226	-9,227	-912
Decrease in cash and cash equivalents through sale of subsidiaries	-289	0	-289	0
Cash and cash equivalents at the end of period	916	1,637	916	1,637

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory capital reserve	Retained earnings	Total equity
<i>In thousands of euros</i>					
Balance as of 31 December 2021	7,272	3,835	2,011	4,844	17,962
Dividends paid	0	0	0	-624	-624
Total comprehensive income for the period	0	0	0	1,506	1,506
Balance as of 30 September 2022	7,272	3,835	2,011	5,726	18,844
Balance as of 31 December 2022	7,272	3,835	2,011	4,917	18,035
Dividends paid	0	0	0	-624	-624
Total comprehensive income for the period	0	0	0	-928	-928
Balance as of 30 September 2023	7,272	3,835	2,011	3,365	16,483

Notes to the Condensed Interim Financial Statements

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the second quarter and 9 months ended on 30 September 2023 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 2022, 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

From 2023, the group identifies segments based on two combined characteristics: field of activity and geographical region. The three main segments are Bulgarian development, Estonian development and

Estonian construction. At the time of publicing present report, the commercial building Madrid in Sofia is in the final stages of sales, which is why it is not presented as a separate segment.

External revenue by operating segment and by location of seller

Segment	Bulgarian development		Estonian development		Estonian construction		Other		Eliminations		Consolidated	
	9m 2023	9m 2022	9m 2023	9m 2022	9m 2023	9m 2022	9m 2023	9m 2022	9m 2023	9m 2022	9m 2023	9m 2022
<i>In thousands of euros</i>												
External revenue	0	0	14	12,310	4	0	634	857	-	-	652	13,167
Revenue from other segments	163	163	2	0	10,347	4,206	557	215	-11,069	-4,870	0	0
Total revenue	163	163	16	12,310	10,351	4,206	1,191	1,358	-11,069	-4,870	652	13,167

Segment	Bulgarian development		Estonian development		Estonian construction		Other		Eliminations		Consolidated	
	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022
<i>In thousands of euros</i>												
External revenue	0	0	4	4,961	1	0	140	271	-	-	145	5,232
Revenue from other segments	48	71	1	0	3,630	2,529	171	286	-3,850	-2,886	0	0
Total revenue	48	71	5	4,961	3,631	2,529	311	557	-3,850	-2,886	145	5,232

External revenue and profit by segment

Segment	Bulgarian development		Estonian development		Estonian construction		Other		Consolidated	
	9m 2023	9m 2022	9m 2023	9m 2022	9m 2023	9m 2022	9m 2023	9m 2022	9m 2023	9m 2022
<i>In thousands of euros</i>										
Revenue	0	0	14	12,310	4	0	634	857	652	13,167
Operating profit/ loss	-316	-175	-233	1,861	-169	-72	64	171	-654	1,785
Net profit/ loss	-322	-176	-232	1,861	-167	-72	-207	-107	-928	1,506

Segment	Bulgarian development		Estonian development		Estonian construction		Other		Consolidated	
	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022
<i>In thousands of euros</i>										
Revenue	0	0	4	4,961	1	0	140	271	145	5,232
Operating profit/ loss	-127	-44	-51	392	-51	236	8	75	-221	659
Net profit/ loss	-128	-52	-50	349	-49	236	-63	23	-290	556

External assets and liabilities by segment

Segment	Bulgarian development		Estonian development		Estonian construction		Other		Consolidated	
	30 September 2023	31 December 2022	30 September 2023	31 December 2022	30 September 2023	31 December 2022	30 September 2023	31 December 2022	30 September 2023	31 December 2022
<i>In thousands of euros</i>										
Assets	7,390	4,490	35,371	22,529	236	745	778	12,041	43,775	39,805
Including PPE and intangible assets	32	33	7	0	0	6	228	291	267	330
Liabilities	818	47	21,137	12,099	1,785	1,203	3,552	8,421	27,292	21,770

3. Revenue

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

Segment	Estonia		Bulgaria		Latvia		Consolidated	
	9 months 2023	9 months 2022						
<i>In thousands of euros</i>								
Sale of own real estate	14	12,306	0	0	0	31	14	12,337
Rental of real estate	1	4	336	536	0	0	337	540
Property management services	0	0	35	59	0	0	35	59
Franchise	131	148	32	45	23	31	186	224
Other revenue	74	0	6	7	0	0	80	7
Total revenue	220	12,458	409	647	23	62	652	13,167

Segment	Estonia		Bulgaria		Latvia		Consolidated	
	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022	Q3 2023	Q3 2022
<i>In thousands of euros</i>								
Sale of own real estate	7	4,960	0	0	0	0	7	4,960
Rental of real estate	0	1	0	172	0	0	0	173
Property management services	0	0	0	18	0	0	0	18
Franchise	44	49	15	14	8	16	67	79
Other revenue	71	0	0	2	0	0	71	2
Total revenue	122	5,010	15	206	8	16	145	5,232

4. Cost of sales

	9 months 2023	9 months 2022	Q3 2023	Q3 2022
<i>In thousands of euros</i>				
Cost of real estate sold (note 10)	-9	-10,385	-4	-4,198
Brokerage fees	-11	-44	-6	-13
Property management costs	-142	-173	0	-57
Personnel expenses	-7	-9	0	-3
Depreciation, amortization and impairment losses	-11	-24	-1	-5
Other costs	-29	-30	-7	-6
Total cost of sales	-209	-10,665	-18	-4,282

5. Marketing and distribution expenses

	9 months 2023	9 months 2022	Q3 2023	Q3 2022
<i>In thousands of euros</i>				
Advertising expenses	-118	-41	-44	-4
Personnel expenses	-52	-30	-21	-15
Other marketing and distribution expenses	-98	-82	-26	-26
Total marketing and distribution expenses	-268	-153	-91	-45

6. Administrative expenses

	9 months 2023	9 months 2022	Q3 2023	Q3 2022
<i>In thousands of euros</i>				
Personnel expenses	-590	-439	-194	-161
Office expenses	-60	-69	-19	-17
IT expenses	-32	-28	-11	-10
Services purchased	-105	-144	-23	-33
Depreciation, amortization and impairment losses	-60	-52	-20	-20
Legal service fees	-18	-21	-1	-6
Other expenses	-59	-11	-10	-4
Total administrative expenses	-924	-764	-278	-251

7. Financial expenses

	9 months 2023	9 months 2022	Q3 2023	Q3 2022
<i>In thousands of euros</i>				
Interest expenses	-273	-279	-73	-103
Other financial costs	-1	0	4	0
Total financial costs	-274	-279	-69	-103

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 2023	9 months 2022	Q3 2023	Q3 2022
Weighted average number of ordinary shares outstanding during the period	10,388,367	10,388,367	10,388,367	10,388,367
Number of ordinary shares potentially to be issued (at period end)	171,750	63,000	171,750	63,000
Net profit/ loss (in thousands of euros)	-928	1,506	-290	556
Earnings per share (in euros)	-0,09	0,14	-0.03	0.05
Diluted earnings per share (in euros)	-0,09	0,14	-0.03	0.05

Based on the decision of the general meeting of Arco Vara AS on 17.05.2022 and 17.05.2023, a total of 81,750 shares will be issued to four senior employees over three years, in case of the average ROE from Q3 2022 to the Q2 2025 is greater than

12%. As of 30.09.2023, the ROE assumption has not been met, therefore the reserve has not been formed for the options program.

9. Receivables and prepayments

Short-term receivables and prepayments

	30 September 2023	31 December 2022
<i>In thousands of euros</i>		
Receivables from customers	40	122
Miscellaneous receivables	6	12
Prepaid and recoverable taxes	570	594
Other accrued income	4	25
Prepayments	5,352	3,634
Total short-term receivables and prepayments	5,972	4,387

Long-term receivables and prepayments

	30 September 2023	31 December 2022
<i>In thousands of euros</i>		
Deposits	18	18
Total long-term receivables and prepayments	18	18

10. Inventories

	30 September 2023	31 December 2022
<i>In thousands of euros</i>		
Properties purchased and being developed for resale	36,600	22,474
Materials and finished goods	0	37
Total inventories	36,600	22,511

Properties purchased and being developed for resale

	2023	2022
<i>In thousands of euros</i>		
Balance at the beginning of period, 1 January	22,474	15,754
Construction costs of apartment buildings	12,803	6,055
Capitalized borrowing costs	701	272
Other capitalized costs	631	1,209
Cost of sold properties (note 4)	-9	-10,344
Balance at the end of period, 30 September	36,600	12,946

11. Investment property

	2023	2022
<i>In thousands of euros</i>		
Balance at the beginning of period, 1 January	82	9,943
Capitalized development costs	0	4
Sale of investment property	-80	-525
Balance at the end of period, 30 September	2	9,422

In 2023, the commercial building Madrid Blvd in Bulgaria was sold. It was recognised as an investment property for sale in the balance sheet on 31.12.2022 in the amount of 9,050 thousand euros.

12. Interest bearing liabilities

	As of 30 September, 2023			As of 31 December, 2022		
	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	18,530	60	18,470	15,567	5,037	10,530
Bonds	2,120	0	2,120	2,120	0	2,120
Capital lease	200	59	141	242	58	184
Other loans	628	628	0	160	160	0
Total	21,478	747	20,731	18,089	5,255	12,834

In 9 months 2023, the group settled loans in the amount of 6,138 thousand euros (in 9 months 2022: 1,635 thousand euros) through cash transactions and raised new loans in the amount of 9,527 thousand euros (in 9 months 2022: 4,246 thousand euros). 6,383 thousand euros of the settled loan was paid by customers directly to the creditor bank in 2022; these are not shown in the group cash flow statement.

In 9 months 2023, the following major loan obligations were settled:

- 5,036 thousand euros of Madrid Blvd project's bank loan principal;
- 49 thousand euros of bank loan for financing land of Kodulahe project Stage VIII;
- 1,000 thousand euros short term credit from related company;
- 10 thousand euros loan from private investors;
- 43 thousand euros of capitalized office rent.

In 9 months 2023, the group raised the following new liabilities:

- 8,049 thousand euros of bank loan for financing construction of apartment buildings in Kodulahe project Stage VI;
- 478 thousand euros loan from private investors;
- 1,000 thousand euros short term credit from related company.

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.

13. Payables and deferred income

Short-term payables and deferred income

	30 September 2023	31 December 2022
<i>In thousands of euros</i>		
Trade payables	1,197	1,162
Miscellaneous payables	0	11
Taxes payable		
Value added tax	55	53
Social security tax	128	25
Personal income tax	75	17
Other taxes	7	3
Total taxes payable	265	98
Accrued expenses		
Payables to employees	129	102
Interest payable	0	9
Dividend payable	312	104
Other accrued expenses	1,416	261
Total accrued expenses	1,857	476
Deferred income		
Prepayments received on sale of real estate	2,495	1,824
Guarantee deposits	0	75
Prepaid revenue	0	35
Total deferred income	2,495	1,934
Total short-term payables and deferred income	5,814	3,681

14. Related party disclosure

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

- Parent company OÜ Alarmo Kapital and companies under the control of the chief executive officer and the members of the supervisory board of Arco Vara AS that have a significant interest in the group;
- 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 2023	9 months 2022
<i>In thousands of euros</i>		
Other related parties		
Services purchased	25	28
Paid interest	16	0

Balances with related parties

	30 September 2023	31 December 2022
<i>In thousands of euros</i>		
Other related parties		
Prepayments	277	277

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 2022 also 277 thousand).

In 9 months 2023, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 117 thousand euros, out of which 46 thousand euros in Q3 (in 9 months and Q3 2022: 120 thousand euros and 32 thousand euros).

The remuneration provided to the members of the supervisory board of the group's parent company during the first 9 months in 2023 was 11 thousand euros, out of which 3 thousand in Q3 2023 (in 9 months and Q3 2022: 14 thousand euros and 6 thousand euros).

The remuneration provided to the CEO / member of the management board is based on his contract of service. A fixed monthly fee of 9000 (net) 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. A severance pay of 4 months' salary is provided for the CEO.

The CEO's bonus system consists of three parts:

1. seniority bonus 15,000 euros (net) and 15,000 shares per year;
2. if 2023-2025 annual profit in total exceeds 4 million euros, an additional profit-dependent bonus of 10,000 to 60,000 euros (net) and 10,000 to 60,000 shares,
3. additional 100,000 shares if, as of 31.12.2025, the balance sheet exceeds 100 million euros and the equity exceeds 35 million euros, and 2023-2025. annual profit 10 million euros.

The members of the supervisory board will receive 500 euros (net amount) for every meeting where they have participated, but not more than 1,000 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 2023.

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 26 October 2023