



Arco Vara AS

INTERIM REPORT FOR THE II QUARTER
AND SIX MONTHS OF 2022
(UNAUDITED)

INTERIM REPORT FOR THE SECOND QUARTER AND SIX MONTHS OF 2022
(UNAUDITED)

Company name: Arco Vara AS

Registry number: 10261718

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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 2022 – 31 December 2022

Reporting period: 1 January 2022 – 30 June 2022

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

Chief executive: Miko-Ove Niinemäe

Auditor: PricewaterhouseCoopers AS

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DIRECTORS' REPORT FOR Q2 AND 6 MONTHS 2022

GROUP CEO'S REVIEW

In the second quarter, we reached the moment every real estate developer is waiting for once again, being able to commence the handover of completed homes to our clients in Kodulahe Kvartal, the sales revenue of 41 transactions in which is reflected in the numbers for the last quarter. As of the date of this report, 70 homes have been delivered to clients in the summer of 2022. The completion of stages IV and V of Kodulahe means that the development of the first area of the detailed plan of the Kodulahe Kvartal (Paldiski road 70c) is completed and we can state that the team of Arco Vara has made a powerful contribution to the development of this area.

The construction of Kodulahe Rannakalda continues in the hands of Arco Tarc, where the newly recruited staff has grown into a good team. Construction of Rannakalda continues on schedule and sales have also progressed at expected pace. Sales contracts have been concluded for approximately 35% of the apartments.

Our Bulgarian team has reached the point of applying for a construction permit for Botanica Lozen Residences. The goal for issuing the residence permit was the second quarter, but this goal was not met. However, a construction procurement has been carried out at the same time, three main contractors took part. At present, negotiations with construction companies are underway and works should begin in the third quarter.

At present, one office space is still available out of the premises in the Madrid BLVD office building and the 800 m² area of this space is a significant challenge considering the passive office market in Sofia. One possible opportunity is dividing the office space into smaller parts, but due to the specifics of the building, this division may turn out to be impractically expensive. Therefore, at present, the search for finding a new tenant for a single office space continues.

In terms of financial indicators, we are clearly below the ROE targets across the past 12 months, but on a positive note, we can observe the liquidity of the group and profit margins of the projects. Considering the increasing interest rates of the European Central Bank, we can breathe easy in regards to the development loan of Kodulahe, which has a fixed interest rate, meaning that an increase of interest rates will not influence the profitability of the project. In addition, in preparation for a potential crisis in autumn, we are in a secure position in regards to the overall debt of the group.

Looking ahead at activities in the third quarter of 2022, Arco Vara continues to monitor potential plots for development with the aim to acquire the next property for development.

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 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.

Group structure

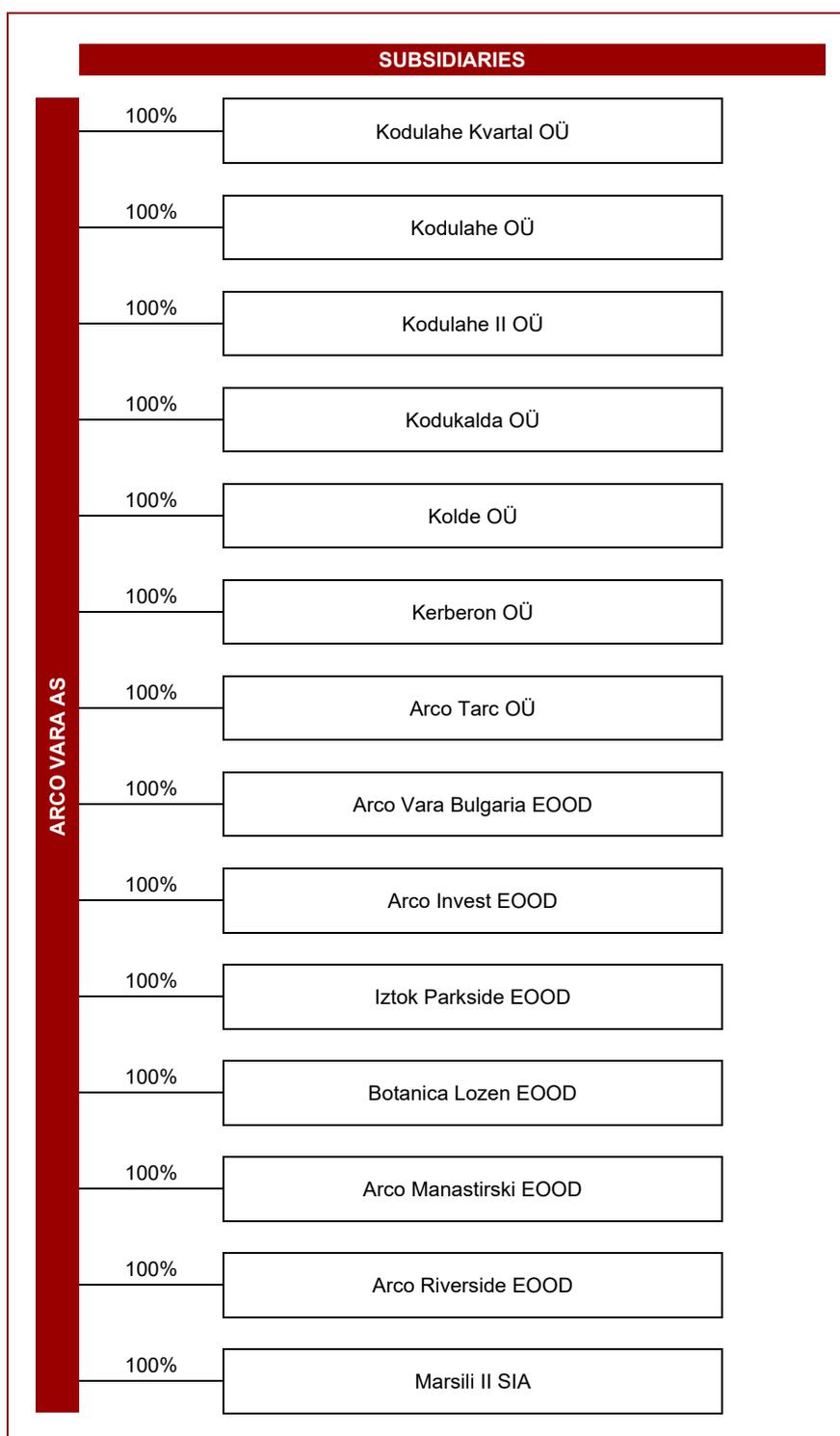
Since 2021, Arco Vara AS has a parent company and therefore Arco Vara AS is part of the OÜ Alarmo Kapital concern from 2021.

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

Significant subsidiaries as of 30 June 2022

Company name	Location	Share capital (nominal value)	Equity balance on 30 June 2022	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	3,400	100%
Arco Lozen EOOD	Bulgaria	2,931	1,750	100%
Kodulahe Kvartal OÜ	Bulgaria	140	737	100%
Kodulahe OÜ	Estonia	3	4,542	100%
Kerberon OÜ	Estonia	5	2,016	100%
Kolde OÜ	Estonia	28	117	100%

Group structure as of 30 June 2022



KEY PERFORMANCE INDICATORS

- In Q2 2022, the group's revenue was 7,633 thousand euros, which is 5 times more than the revenue of 1,504 thousand euros in Q2 2021. In 6 months 2022, the group's revenue was 7,935 thousand euros, which is 26% less than the revenue of 10,670 thousand euros in 6 months 2021.
- In Q2 2022, the group's operating profit (=EBIT) was 1,023 thousand euros and net profit 934 thousand euros (in 6 months 2022: operating profit 1,126 thousand euros and net profit of 950 thousand euros). In Q2 2021, the group had operating profit of 621 thousand euros and net profit of 523 thousand euros. In 6 months 2021, the group made operating profit of 2,430 thousand euros and net profit of 2,223 thousand euros.
- In Q2 2022, 41 apartments were sold in projects developed by the group (in 6 months 2022 41 apartments and a land plot in Latvia). In Q2 2021, 5 apartments and a commercial space were sold (63 apartments and a commercial space in 6 months).
- In the 6 months of 2022, the group's debt burden (net loans) decreased by 2,528 thousand euros down to the level of 6,793 thousand euros as of 30 June 2022. As of 30 June 2022, the weighted average annual interest rate of interest-bearing liabilities was 5.1%. This is a decrease of 0.1 percentage points compared to 31 December 2021.

Main financial figures

	6 months 2022		6 months 2021		Q2 2022		Q2 2021	
EUR tuhandetes								
Revenue	7,935	10,670	7,633	1,504				
Operating profit (EBIT)	1,126	2,430	1,023	621				
Finance income and expense	-176	-207	-89	-98				
Net profit	950	2,223	934	523				
Cash flows from/used in operating activities	-2,015	494	-638	-5,511				
Cash flows used in investing activities	646	0	-2	0				
Cash flows from/used in financing activities	2,055	-2,070	729	263				
Net cash flows	686	-1,576	89	-5,248				
Cash and cash equivalents at beginning of period	1,863	2,200	2,460	5,872				
Cash and cash equivalents at end of period	2,549	624	2,549	624				
Total assets at the end of period	32,464	26,901						
Invested capital at the end of period	27,630	24,523						
Net loans at the end of period	6,793	7,734						
Equity at the end of period	18,288	16,165						

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
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	0.3	11.6	0.3	7.6
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

Key ratios

	6 months 2022	6 months 2021	Q2 2022	Q2 2021
EPS (in euros)	0.09	0.24	0.09	0.06
Diluted EPS (in euros)	0.09	0.24	0.09	0.06
EBITDA per share (in euros) (rolling, four quarters)	0.13	0.42		
ROIC (rolling, four quarters)	2.9%	12.6%		
ROE (rolling, four quarters)	4.6%	22.7%		
ROA (rolling, four quarters)	2.6%	11.2%		
Equity ratio	56.3%	60.1%		
Current ratio	2.50	6.63		
Quick ratio	0.89	0.79		
Financial leverage	1.77	1.66		
Average loan term (in years)	1.8	2.7		
Average annual interest rate of loans	5.1%	5.1%		
Number of staff, at period end	18	11		

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 7,633 thousand euros in Q2 2022 (in Q2 2021: 1,504 thousand euros,) and 7,935 thousand euros in 6 months 2022 (in 6 months 2021: 10,670 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 7,346 thousand euros in Q2 and 7,377 thousand euros in 6 months 2022 (2021: 1,234 thousand euros in Q2 and 10,136 thousand euros in 6 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 202 thousand euros in Q2 2022 and 406 thousand euros in 6 months (2021: 200 thousand euros in Q2 and 394 thousand euros in 6 months). By the time of publishing the present report, all office and commercial spaces, together with parking places, were rented out.

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. 1 apartment became available in the process of formalizing final sales and it is for sale at the time of submitting the report.

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, 35 apartments out of the 108 had been presold. The company is limiting the number of apartments to be presold, in order to respond to the effects of inflation in the course of the development as necessary.

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 planning is in process.

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 second half 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 June 2022 and the date of this report, 3 Marsili residential plots remained unsold in Latvia.

Summary table of Arco Vara's active projects as of 30 June 2022

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	4,700	-	3
Kodulahe, Stages IV-V	Pagi 3 and 5, Tallinn	Apartments	S5	7,383	1,908	31
Kodulahe Rannakalda	Paldiski road 74, Tallinn	Apartments	S4	9,525	8,893	113
Kodulahe, Stage VII	Soodi 6, Tallinn	Apartments	S1	5,444	<6,500>	<75>
Kuldlehe	Lehiku tee 11, Tallinn	Apartments	S4	5,219	853	5
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>	<65>

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 June 2022, 18 people worked for the group (13 as of 31 December 2021). Employee remuneration expenses in 6 months 2022 amounted to 296 thousand euros, out of which 158 thousand euros in Q2 2022 (2021 same periods: 256 thousand euros and 149 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 88 thousand euros in 6 months 2022, out of which 59 thousand euros in Q2 2022, (in 6 months and Q2 2021: 84 thousand euros and 61 thousand euros, respectively), including an increase in the severance reserve of 10 thousand euros.

The members of the supervisory board of the group's parent company were remunerated by 8 thousand euros in 6 months 2022, out of which 6 thousand euros in Q2. The remuneration of the members of the supervisory board was 12 thousand euros in 6 months 2021, out of which 8 thousand euros in Q2.

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 Keskpaiik, Hillar-Peeter Luitsalu, 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 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 Q2 2022, the group's interest-bearing liabilities amounted to 9,342 thousand euros on 30 June 2022, out of which 4,226 thousand euros is due within next 12 months. The group's interest-bearing liabilities have decreased by 1,842 thousand euros in the 6 months of 2022. The group's cash and cash equivalents totaled 2,549 thousand euros as of 30 June 2022 (31 December 2021 1,863 thousand). In Q2 2022, interest payments on interest-bearing liabilities totaled 89 thousand euros (in Q2 2021: 98 thousand euros). The group's weighted average loan interest rate was 5.1% as of 30 June 2022. This is a decrease by 0.1 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.

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 (ARC1T, ISIN EE3100034653) are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.95 euros on 30 June 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 1.79 euros. Equity per share was 1,76 euros as of 30.06.2022, 1.73 also as of 31.12.2021.

As of 30 June 2022, market capitalization of shares amounted to 20,257 thousand euros and P/B (price to book value) ratio was 1.11 (31 December 2021: 27,633 thousand euros and 1.54, respectively). P/E (price to earnings) ratio of the share was 25.29 on 30 June 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 6 months 2022 and during the last three years.

Performance of Arco Vara's shares in 6 months 2022



Source: <https://nasdaqbaltic.com/statistics/en/instrument/EE3100034653/trading> 20.07.2022

Performance of Arco Vara’s shares from 1 July 2019 until 30 June 2022



Source: <https://nasdaqbaltic.com/statistics/en/instrument/EE3100034653/trading> 20.07.2022

Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 6 months 2022



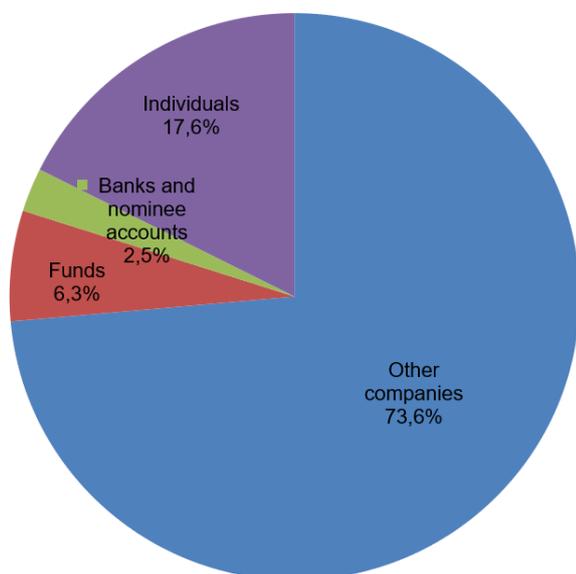
Source: <https://nasdaqbaltic.com/statistics/en/charts> 20.07.2022

Index/equity	1 Jan 2022	30 June 2022	+/-%
OMX Tallinn	2,001.03	1,789.65	-10.56
ARC1T – Arco Vara	2.66 EUR	1.95 EUR	-26.69

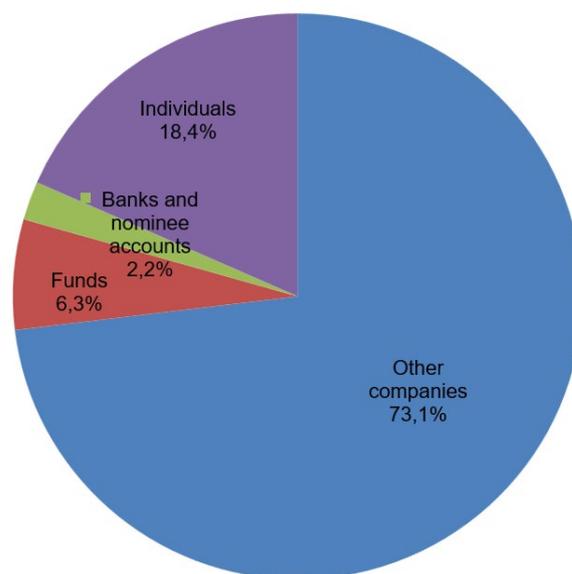
Shareholder structure

As of 30 June 2022, Arco Vara had 8,815 shareholders (on 31 December 2021 9,163), including 8,009 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 June 2022



Ownership structure as of 31 December 2021



Major shareholders on 30 June 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%
FIREBIRD AVRORA FUND, LTD.	180,343	1.7%
Marko Teimann	172,123	1.7%
Aia Tänav OÜ	155,000	1.5%
K VARA OÜ	150,703	1.5%
FIREBIRD FUND L.P.	133,948	1.3%
Rafiko OÜ	67,207	0.6%
SANDER KARU	60,887	0.6%
Other shareholders	2,462,063	23.7%
Total	10,388,367	100.0%

Holdings of management and supervisory board members on 30 June 2022

Name	Position	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	161,571	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 board	269,259	2.6%
Kert Kesipaik (privately, through K Vara OÜ and One Eleven OÜ)	member of supervisory board	205,657	2.0%
Steven Yaroslav Gorelik ¹	member of supervisory board	0	-
Miko-Ove Niinemäe	member of management board	14,000	0.1%
Total		7,099,018	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 second quarter and 6 months ended on 30 June 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 28 July 2022

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6 months 2022	6 months 2021	Q2 2022	Q2 2021
In thousands of euros					
Revenue from sale of own real estate		7,377	10,136	7,346	1,234
Revenue from rendering of services		558	534	287	270
Total revenue	2,3	7,935	10,670	7,633	1,504
Cost of sales	4	-6,383	-8,178	-6,274	-1,059
Gross profit		1,552	2,492	1,359	445
Other income		202	22	8	12
Marketing and distribution expenses	5	-108	-65	-64	-30
Administrative expenses	6	-513	-401	-274	-217
Other expenses		-7	-40	-6	-11
Gain on revaluation of investment property	11	0	422	0	422
Operating profit		1,126	2,430	1,023	621
Finance income and cost	7	-176	-207	-89	-98
Profit before tax		950	2,223	934	523
Net profit for the period		950	2,223	934	523
Total comprehensive income for the period		950	2,223	934	523
Earnings per share (in euros)	8				
- basic		0.09	0.24	0.09	0.06
- diluted		0.09	0.24	0.09	0.06

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2022	31 December 2021
In thousands of euros			
Cash and cash equivalents		2,549	1,863
Receivables and prepayments	9	5,535	3,701
Inventories	10	14,546	15,761
Total current assets		22,630	21,325
Receivables and prepayments	9	22	5
Investment property	11	9,422	9,943
Property, plant and equipment	2	324	154
Intangible assets	2	66	87
Total non-current assets		9,834	10,189
TOTAL ASSETS		32,464	31,514
Loans and borrowings	12	4,226	6,043
Payables and deferred income	13	4,834	2,368
Total current liabilities		9,060	8,411
Loans and borrowings	12	5,116	5,141
Total non-current liabilities		5,116	5,141
TOTAL LIABILITIES		14,176	13,552
Share capital	8	7,272	7,272
Share premium		3,835	3,835
Statutory capital reserve		2,011	2,011
Retained earnings		5,170	4,844
Total equity attributable to owners of the parent		18,288	17,962
TOTAL EQUITY		18,288	17,962
TOTAL LIABILITIES AND EQUITY		32,464	31,514

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	6 months 2022	6 months 2021	Q2 2022	Q2 2021
In thousands of euros				
Cash receipts from customers	4,096	14,049	2,748	2,564
Cash paid to suppliers	-6,197	-10,273	-3,312	-7,536
Taxes paid and recovered (net)	308	-3,134	29	-474
Cash paid to employees	-197	-153	-125	-73
Other cash payments and receipts related to operating activities (net)	-25	5	22	8
NET CASH FROM/USED IN OPERATING ACTIVITIES	-2,015	494	-638	-5,511
Payments made on purchase of tangible and intangible assets	-26	0	-2	0
Proceeds from sale of property, plant and equipment	2	0	0	0
Payments made on purchase and development of investment property 11	670	0	0	0
NET CASH FROM/USED IN INVESTING ACTIVITIES	646	0	-2	0
Proceeds from loans received 12	4,246	994	2,591	994
Settlement of loans and borrowings 12	-1,501	-2,529	-1,428	-366
Interest paid	-378	-253	-226	-83
Dividends paid	-312	-282	-208	-282
NET CASH FROM/USED IN FINANCING ACTIVITIES	2,055	-2,070	729	263
NET CASH FLOW	686	-1,576	89	-5,248
Cash and cash equivalents at the beginning of period	1,863	2,200	2,460	5,872
Change in cash and cash equivalents	686	-1,576	89	-5,248
Cash and cash equivalents at the end of period	2,549	624	2,549	624

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Retained earnings	Total equity
In thousands of euros						
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	-282	-282
Total comprehensive income for the period	0	0	0	0	2,223	2,223
Balance as of 30 June 2021	6,572	0	2,285	2,011	5,297	16,165
Balance as of 31 December 2021	7,272	0	3,835	2,011	4,844	17,962
Increase of share capital	0	0	0	0	0	0
Dividends paid	0	0	0	0	-624	-624
Total comprehensive income for the period	0	0	0	0	950	950
Balance as of 30 June 2022	7,272	0	3,835	2,011	5,170	18,288

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 6 months ended on 30 June 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	
	Q2 2022	Q2 2021	Q2 2022	Q2 2021	Q2 2022	Q2 2021	Q2 2022	Q2 2021
In thousands of euros								
Estonia	7,349	5,542	0	-	145	122	7,494	5,664
Bulgaria	410	5,006	-	-	-	-	410	5,006
Latvia	31	0	-	-	-	-	31	0
Total revenue	7,790	10,548	0	0	145	122	7,935	10,670

Segment	Development		Construction		Parent company		Consolidated	
	6 months 2022	6 months 2021	6 months 2022	6 months 2021	6 months 2022	6 months 2021	6 months 2022	6 months 2021
In thousands of euros								
Estonia	7,348	953	0	-	81	64	7,429	1,017
Bulgaria	204	487	-	-	-	-	204	487
Latvia	0	0	-	-	-	-	0	0
Total revenue	7,552	1,440	0	0	81	64	7,633	1,504

Revenue by operating segment

Segment	Development		Construction		Parent company		Eliminations		Consolidated	
	Q2 2022	Q2 2021	Q2 2022	Q2 2021	Q2 2022	Q2 2021	Q2 2022	Q2 2021	Q2 2022	Q2 2021
In thousands of euros										
External revenue	7,790	10,548	0	-	145	122	0	0	7,935	10,670
Revenue from other segments	0	0	1,677	-	210	414	-1,887	-414	0	0
Total revenue	7,790	10,548	1,677	0	355	536	-1,887	-414	7,935	10,670

Segment	Development		Construction		Parent company		Eliminations		Consolidated	
	6 months 2022	6 months 2021	6 months 2022	6 months 2021	6 months 2022	6 months 2021	6 months 2022	6 months 2021	6 months 2022	6 months 2021
In thousands of euros										
External revenue	7,552	1,440	0	-	81	64	0	0	7,633	1,504
Revenue from other segments	0	0	1,403	-	120	210	-1,523	-210	0	0
Total revenue	7,552	1,440	1,403	0	201	274	-1,523	-210	7,633	1,504

External operating profit by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	Q2 2022	Q2 2021	Q2 2022	Q2 2021	Q2 2022	Q2 2021	Q2 2022	Q2 2021
In thousands of euros								
Estonia	1,465	829	-308	-	-196	89	961	918
Bulgaria	165	1,516	-	-	-	-	165	1,516
Latvia	0	-4	-	-	-	-	0	-4
Total revenue	1,630	2,341	-308	0	-196	89	1,126	2,430

Segment	Development		Construction		Parent company		Consolidated	
	6 months 2022	6 months 2021	6 months 2022	6 months 2021	6 months 2022	6 months 2021	6 months 2022	6 months 2021
In thousands of euros								
Estonia	1,381	324	-287	-	-146	77	948	401
Bulgaria	77	220	-	-	-	-	77	220
Latvia	-2	0	-	-	-	-	-2	0
Total revenue	1,456	544	-287	0	-146	77	1 023	621

External assets and liabilities by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021	30 June 2022	31 December 2021	30 June 2022	31 December 2021
In thousands of euros								
Estonia	16,873	15,900	30	-	1,090	1,710	17,993	17,610
Bulgaria	14,371	13,778	-	-	-	-	14,371	13,778
Latvia	100	126	-	-	-	-	100	126
Total assets	31,344	29,804	30	-	1,090	1,710	32,464	31,514

Segment	Development		Construction		Parent company		Consolidated	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021	30 June 2022	31 December 2021	30 June 2022	31 December 2021
In thousands of euros								
Estonia	5,864	5,415	239	-	2,673	2,550	8,776	7,965
Bulgaria	5,400	5,587	-	-	-	-	5,400	5,587
Latvia	0	0	-	-	-	-	0	0
Total liabilities	11,264	11,002	239	-	2,673	2,550	14,176	13,552

Non-current assets by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	30 June 2022	31 December 2021	30 June 2022	31 December 2021	30 June 2022	31 December 2021	30 June 2022	31 December 2021
In thousands of euros								
Estonia	0	1	7	-	309	146	316	147
Bulgaria	8	7	-	-	-	-	8	7
Tangible assets	8	8	7	-	309	146	324	154
Estonia	0	0	0	-	29	48	29	48
Bulgaria	37	39	-	-	-	-	37	39
Intangible assets	37	39	0	-	29	48	66	87
Total non-current assets	45	47	7	-	338	194	390	241

3. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	6 months 2022	6 months 2021						
In thousands of euros								
Sale of own real estate	7,346	5,534	0	4,602	31	0	7,377	10,136
Rental of real estate	3	5	364	350	0	0	367	355
Property management services	0	5	41	44	0	0	41	49
Franchise	99	88	31	23	15	11	145	122
Other revenue	0	2	5	6	0	0	5	8
Total revenue	7,448	5,634	441	5,025	46	11	7,935	10,670

	Estonia		Bulgaria		Latvia		Consolidated	
	Q2 2022	Q2 2021	Q2 2022	Q2 2021	Q2 2022	Q2 2021	Q2 2022	Q2 2021
In thousands of euros								
Sale of own real estate	7,346	951	0	283	0	0	7,346	1,234
Rental of real estate	2	1	182	177	0	0	184	178
Property management services	0	5	20	23	0	0	20	28
Franchise	49	44	21	14	11	6	81	64
Other revenue	0	0	2	0	0	0	2	0
Total revenue	7,397	1,001	225	497	11	6	7,633	1,504

4. Cost of sales

	6 months 2022	6 months 2021	Q2 2022	Q2 2021
In thousands of euros				
Cost of real estate sold (note 10)	-6,187	-7,775	-6,160	-955
Brokerage fees	-31	-205	-31	-44
Property management costs	-116	-127	-56	-45
Personnel expenses	-6	0	2	0
Depreciation, amortization and impairment losses	-19	-19	-10	-9
Other costs	-24	-52	-19	-6
Total cost of sales	-6,383	-8,178	-6,274	-1,059

5. Marketing and distribution expenses

	6 months 2022	6 months 2021	Q2 2022	Q2 2021
In thousands of euros				
Advertising expenses	-37	-44	-32	-12
Personnel expenses	-15	0	1	0
Market research	-1	0	-1	0
Other marketing and distribution expenses	-55	-21	-32	-18
Total marketing and distribution expenses	-108	-65	-64	-30

6. Administrative expenses

	6 months 2022	6 months 2021	Q2 2022	Q2 2021
In thousands of euros				
Personnel expenses	-278	-256	-163	-149
Office expenses	-52	-45	-16	-12
IT expenses	-18	-14	-9	-7
Services purchased	-111	-65	-52	-31
Depreciation, amortization and impairment losses	-32	-8	-20	-4
Legal service fees	-15	-4	-10	-6
Other expenses	-7	-9	-4	-8
Total administrative expenses	-513	-401	-274	-217

7. Financial income and expenses

	6 months 2022	6 months 2021	Q2 2022	Q2 2021
In thousands of euros				
Interest expenses	-176	-213	-89	-99
Other financial income and costs	0	6	0	1
Total financial income and costs	-176	-207	-89	-98

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.

	6 months 2022	6 months 2021	Q2 2022	Q2 2021
In thousands of euros				
Weighted average number of ordinary shares outstanding during the period	10,388,367	9,073,781	10,388,367	9,148,367
Number of ordinary shares potentially to be issued (at period end)	63,000	0	63,000	0
Net profit (in thousands of euros)	950	2,223	934	523
Earnings per share (in euros)	0.09	0.24	0.09	0.06
Diluted earnings per share (in euros)	0.09	0.24	0.09	0.06

9. Receivables and prepayments

Short-term receivables and prepayments

	30 June 2022	31 December 2021
In thousands of euros		
Receivables from customers	1,475	90
Miscellaneous receivables	6	6
Prepaid and recoverable taxes	565	145
Other accrued income	26	24
Prepayments	3,463	3,436
Total short-term receivables and prepayments	5,535	3,701

Long-term receivables and prepayments

	30 June 2022	31 December 2021
In thousands of euros		
Deposits	22	5
Total long-term receivables and prepayments	22	5

10. Inventories

	30 June 2022	31 December 2021
In thousands of euros		
Properties purchased and being developed for resale	14,509	15,754
Materials and finished goods	37	7
Total inventories	14,546	15,761

Properties purchased and being developed for resale

	2022	2021
In thousands of euros		
Balance at the beginning of period, 1 January	15,754	14,943
Properties purchased for development	0	5,102
Construction costs of apartment buildings	3,718	2,653
Capitalized borrowing costs	201	40
Other capitalized costs	1,023	680
Cost of sold properties (note 4)	-6,187	-7,761
Balance at the end of period, 30 June	14,509	15,657

11. Investment property

	2022	2021
In thousands of euros		
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	0
Sale of investment property	-525	-14
Balance at the end of period, 30 June	9,422	9,972

12. Interest bearing liabilities

	As of 30 June, 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
In thousands of euros						
Bank loans	6,899	2,011	4,888	8,880	3,844	5,036
Bonds	1,780	1,780	0	1,780	1,780	0
Capital lease	272	44	228	133	28	105
Other loans	391	391	0	391	391	0
Total	9,342	4,226	5,116	11,184	6,043	5,141

In 6 months 2022, the group settled loans in the amount of 1,501 thousand euros (in 6 months 2021: 3,335 thousand euros) through cash transactions and raised new loans in the amount of 4,246 thousand euros (in 6 months 2021: 994 thousand euros). 4,726 thousand euros of the settled loans were paid by customers directly to the bank in 2022, 852 thousand euros in 2021.

In 6 months 2022, the following major loan obligations were settled:

- 145 thousand euros of Madrid Blvd project's bank loan principal;
- 6,082 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stages IV&V, out of which 4,726 thousand directly by customers.

In 6 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 6 months 2021, the following major loan obligations were settled:

- 153 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 6 months 2021, the group raised the following new liabilities:

- 994 thousand euros of bank loan for financing construction of apartment buildings in Kodulahe project Stage IV and V.

13. Payables and deferred income

Short-term payables and deferred income

	30 June 2022	31 December 2021
In thousands of euros		
Trade payables	503	673
Miscellaneous payables	11	10
Taxes payable		
Value added tax	1,598	24
Social security tax	1	32
Personal income tax	67	9
Land tax	38	6
Other taxes	12	2
Total taxes payable	1,716	73
Accrued expenses		
Payables to employees	110	102
Interest payable	7	7
Dividend payable	416	104
Other accrued expenses	274	2
Total accrued expenses	807	215
Deferred income		
Prepayments received on sale of real estate	1,671	1,268
Guarantee deposits	89	91
Prepaid revenue	37	38
Total deferred income	1,797	1,397
Total short-term payables and deferred income	4,834	2,368

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

	6 months 2022	6 months 2021
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Services purchased	0	46
Other related parties		
Services sold	9	0

Balances with related parties

	30 June 2022	31 December 2021
EUR tuhandetes		
Other related parties		
Receivables from customers	277	0
Prepayments received	375	148

The CEO and members of the supervisory board intend to buy apartments in the Kodulahe Quarter, therefore, account receivables against them are 277 thousand euros and the prepayments made by them are 375 thousand euros (on 31 December 2021 prepayments 148 thousand).

In 6 months 2022, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 88 thousand euros, out of which 59 thousand euros in Q2 (in 6 months and Q2 2021: 84 thousand euros and 61 thousand euros).

The remuneration provided to the members of the supervisory board of the group's parent company during the first 6 months in 2022 was 8 thousand euros, out of which 6 thousand in Q2 2021 (in 6 months and Q2 2021: 12 thousand euros and 8 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 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).

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 second quarter and 6 months ended on 30 June 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 28 July 2022