

Arco Vara AS

INTERIM REPORT FOR THE IV QUARTER AND
TWELVE MONTHS OF 2021 (UNAUDITED)



INTERIM REPORT FOR THE FOURTH QUARTER AND TWELVE MONTHS OF 2021
(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)

Financial year: 1 January 2021 – 31 December 2021

Reporting period: 1 January 2021 – 31 December 2021

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

Chief executive: Miko-Ove Niinemäe

Auditor: KPMG Baltics OÜ

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DIRECTORS' REPORT FOR Q4 AND 12 MONTHS 2021

GROUP CEO'S REVIEW

Due to the cyclical nature of real estate development, Q4 of 2021 had a predictably low sales volume and the focus was on preparing new projects. Across 12 months, the current team of Arco Vara has raised the bar of ROE to the next level, but the objective of raising it to 20% still needs more work.

Out of the developments being built, all 72 homes of Kodulahe have found their owners and final sales will be formalised in Q2 of 2022. We have managed to stay on schedule in terms of both time and budget, meaning that expectations are also high for the next stage of Kodulahe - Rannakalda.

Pre-sales of Kodulahe Rannakalda have commenced at the time of publishing this report – over 1,000 people are listed as interested. Commencement of construction works at Rannakalda was somewhat delayed, since it was difficult to find a main contractor. The primary hindrance in concluding a building contract was uncertainty on the construction market. Arco Vara made use of the uncertainty as an opportunity to recruit its own construction team, so that Arco Vara would be able to be the master of its own time when going forward with future developments, ensuring that construction works can commence at pre-planned times.

At the end of 2021, we began the designing works for a boutique building at Lehiku tee 11, which continued developments under the name Kuldlehe. The Kuldlehe building will contain only five apartments, all of which include underground parking and storage spaces as part of the price. Construction is expected to begin in Q3 of 2022 and sales in Q2 of 2022.

The Bulgarian team has been designing the private homes of Botanica Lozen Residences, the first 3D photos of which are now also available at the website of the development. 54 residences are to be developed in three stages. Construction works of the first stage should commence in Q3 of 2022.

A usual challenge is the building at Madrid BLVD in Sofia, where two office premises out of nine are available at the time of publishing this report. Unoccupied net area is less than 900 m², but finding new tenants has turned out to be more time-consuming than initially hoped. There are no unoccupied trade premises at Madrid BLVD.

The objective of 2022 is to increase volumes and grow via new investments. The equity position of 2021 of Arco Vara was at an all-time high and we face 2022 with caution, but from a strong standpoint.

GENERAL INFORMATION

Activities of the group

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

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

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

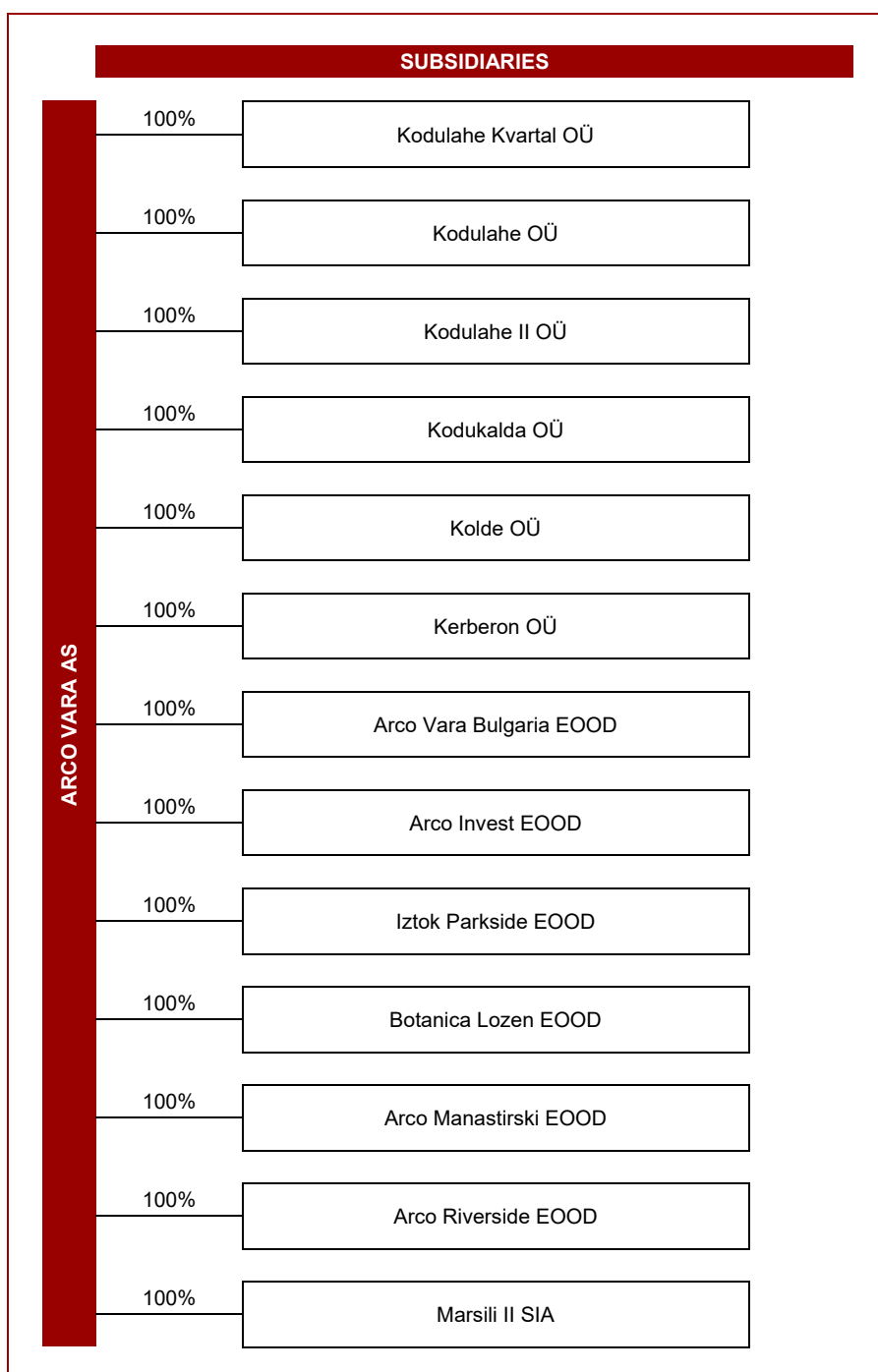
Group structure

As of 31 December 2021, the group consisted of 14 companies, which is 3 less than of 31 December 2020.

Significant subsidiaries as of 31 December 2021

Company name	Location	Share capital (nominal value)	Equity balance on 31 December 2021	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	3,265	100%
Botanica Lozen EOOD	Bulgaria	2,931	1,900	100%
Iztok Parkside EOOD	Bulgaria	1,433	2,220	100%
Kerberon OÜ	Estonia	5	1,906	100%
Kodukalda OÜ	Estonia	3	557	100%
Kodulahe OÜ	Estonia	3	3,476	100%
Kolde OÜ	Estonia	28	138	100%

Group structure as of 31 December 2021



KEY PERFORMANCE INDICATORS

- In Q4 2021, the group's revenue was 330 thousand euros, which is several times less than the revenue of 10,298 thousand euros in Q4 2020, which was related to the realization of the Iztok Parkside and Soodi 4 house in Kodulahe project in December 2020. In 12 months 2021, the group's revenue was 11,613 thousand euros, which is 17% less than the revenue of 14,056 thousand euros in 12 months 2020.
- In Q4 2021, the group's operating loss (=EBIT) was 155 thousand euros and net loss 354 thousand euros (in 12 months 2021: operating profit 2,569 thousand euros and net profit of 2,071 thousand euros). In Q4 2020, the group had operating profit of 1,400 thousand euros and net profit of 1,289 thousand euros. In 12 months 2020, the group made operating profit of 1,449 thousand euros and net profit of 1,012 thousand euros.
- In Q4 2021, final sales were made in garages and commercial space in Lahepea 9, but as the sale of real estate investments is recorded in the net amount as other operating income, the revenue from the sale of own real estate in the Q4 was only 37 thousand euros. In 12 months 2021 a total of 63 apartments and two commercial spaces were sold. In Q4 2020, 64 apartments were sold (81 apartments and a land plot in Latvia in 12 months).
- In the 12 months of 2021, the group's debt burden (net loans) increased by 485 thousand euros up to the level of 11,184 thousand euros as of 31 December 2021. As of 31 December 2021, the weighted average annual interest rate of interest-bearing liabilities was 5.2%. This is an increase of 0.4 percentage points compared to 31 December 2020.

Main financial figures

	12 months 2021	12 months 2020	Q4 2021	Q4 2020
EUR tuhandetes				
Revenue	11,613	14,056	330	10,298
Operating profit/ loss (EBIT)	2,569	1,449	-155	1,400
Finance income and expense	-390	-437	-91	-111
Profit (loss) before tax	2,179	1,012	-246	1,289
Income tax	-108	0	-108	0
Net profit/ loss	2,071	1,012	-354	1,289
Cash flows from/used in operating activities	-2,717	-1,042	-1,849	2,251
Cash flows used in investing activities	-8	-295	-3	-281
Cash flows from/used in financing activities	2,388	2,667	2,357	-388
Net cash flows	-337	1,330	505	1,582
Cash and cash equivalents at beginning of period	2,200	870	1,358	618
Cash and cash equivalents at end of period	1,863	2,200	1,863	2,200
Total assets at the end of period	31,514	28,231		
Invested capital at the end of period	29,146	24,923		
Net loans at the end of period	9,321	8,499		
Equity at the end of period	17,962	14,224		

	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
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
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

Key ratios

	12 months 2021	12 months 2020	Q4 2021	Q4 2020
EPS (in euros)	0.22	0.11	-0.03	0.14
Diluted EPS (in euros)	0.22	0.11	-0.03	0.14
EBITDA per share (in euros) (rolling, four quarters)	0.28	0.17		
ROIC (rolling, four quarters)	8.0%	3.8%		
ROE (rolling, four quarters)	12.9%	7.6%		
ROA (rolling, four quarters)	7.2%	3.4%		
Equity ratio	57.0%	50.4%		
Current ratio	2.54	2.73		
Quick ratio	0.66	0.52		
Financial leverage	1.75	1.98		
Average loan term (in years)	2.0	2.5		
Average annual interest rate of loans	5.2%	4.8%		
Number of staff, at period end	13	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 330 thousand euros in Q4 2021 (in Q4 2020: 10 298 thousand euros,) and 11,613 thousand euros in 12 months 2021 (in 12 months 2020: 14,056 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 37 thousand euros in Q4 and 10,478 thousand euros in 12 months 2021 (2020: 10,015 thousand euros in Q4 and 13,129 thousand euros in 12 months).

Most of the other revenue of the group consisted of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 202 thousand euros in Q4 2021 and 810 thousand euros in 12 months (2020: 211 thousand euros in Q4 and 699 thousand euros in 12 months). By the time of publishing the present report, two office spaces were vacant, but all commercial spaces, together with parking places, were rented out. The free office spaces make 11.7% of the rented office and retail area.

In Q4 2020, construction finished in Stage III of Kodulahe project, a residential building with 50 apartments at Soodi 4. All apartments were sold in 2021 and the house has the usage permit.

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

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 plan is to build a pavilion, 4 commercial areas and 108 apartments, out of which many have sea view. The apartment buildings will become ready in about 2 years after the construction begins.

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

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

In Iztok Parkside project in Sofia, the majority of final sales of apartments started in December 2020, after receiving a usage permit. The last apartment was sold in April 2021. As the apartments were handed over a year later than promised due to bureaucratic obstacles, 2 clients want compensation in the total amount of 21 thousand euros. A provision has been prepared for the claim.

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 31 December 2021, 4 Marsili residential plots were unsold in Latvia, of which 1 has found an owner as of the date of publication of the interim report.

Summary table of Arco Vara's active projects as of 31 December 2021

Project name	Address	Product main type	Stage	Area of plot(s) (m ²)	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S6	-	7,350	22
Marsili residential plots	Marsili, near Riga	Residential plots	S5	6,153	-	4
Kodulahe, Stages IV-V	Pagi 3 and 5, Tallinn	Apartments	S4	7,383	4,774	72
Kodulahe Rannakalda	Paldiski road 74, Tallinn	Apartments	S3	9,525	8,893	113
Kodulahe, Stage VII	Soodi 6, Tallinn	Apartments	S1	5,444	<6,500>	<75>
Harku lake development	Paldiski road 124b, Tallinn	Apartments	S2	69,506	<37,000>	<400>
Botanica Lozen	Lozen, near Sofia	Houses	S3	47,450	<16,000>	<54>

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

Description of stages

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

PEOPLE

Remuneration

As of 31 December 2021, 13 people worked for the group (11 as of 31 December 2020). Employee remuneration expenses in 12 months 2021 amounted to 699 thousand euros, out of which 336 thousand euros in Q4 2021 (2020 same periods: 468 thousand euros and 87 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 297 thousand euros in 12 months 2021, out of which 190 thousand euros in Q4 2021 (in 12 months and Q4 2020: 89 thousand euros and 22 thousand euros, respectively). The members of the supervisory board of the group's parent company were remunerated by 24 thousand euros in 12 months 2021, out of which 6 thousand euros in Q4. The remuneration of the members of the supervisory board was 18 thousand euros in 12 months 2020, out of which 7 thousand euros in Q4.

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.

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

DESCRIPTION OF MAIN RISKS

Strategic risk

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

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

Credit risk

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

Liquidity and interest rate risks

The base currency of the group's all loan agreements is euro and the base interest rate is 3 or 6 months' EURIBOR. As a result, the group is exposed to developments on international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In Q4 2021, the group's interest-bearing liabilities amounted to 11,184 thousand euros on 31 December 2021, out of which 6,043 thousand euros is due within next 12 months. The group's cash and cash equivalents totaled 1,863 thousand euros as of 31 December 2021 (31 December 2020 2,200 thousand). In Q4 2021, interest payments on interest-bearing liabilities totaled 91 thousand euros (in Q4 2020: 111 thousand euros). The group's weighted average loan interest rate was 5.2% as of 31 December 2021. This is an increase by 0.4 percentage points compared to the end of year 2020. The reason for the increase in the average interest rate is the decrease in development loans with low interest rates in Bulgaria in 2021.

Currency risk

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

SHARES AND SHAREHOLDERS

Share price

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

The share price closed at 2.66 euros on 31 December 2021; the closing price was 1.21 euros on 31 December 2020. During the period, the highest traded price per share was 3.30 euros and the lowest price 1.21 euros. As of 31 December 2021, market capitalization of shares amounted to 27,633 thousand euros and P/B (price to book value) ratio was 1.54 (31 December 2020: 10,888 thousand euros and 0.77, respectively). P/E (price to earnings) ratio of the share was 13.34 on 31 December 2021, 10.76 as on 31 December 2020.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 12 months 2021 and during the last three years.

Performance of Arco Vara's shares in 12 months 2021



Source: <https://nasdaqbaltic.com> 4 January 2022

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

Performance of Arco Vara’s shares from 1 January 2019 until 31 December 2021



Source: <https://nasdaqbaltic.com> 4 January 2022

Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 12 months 2021



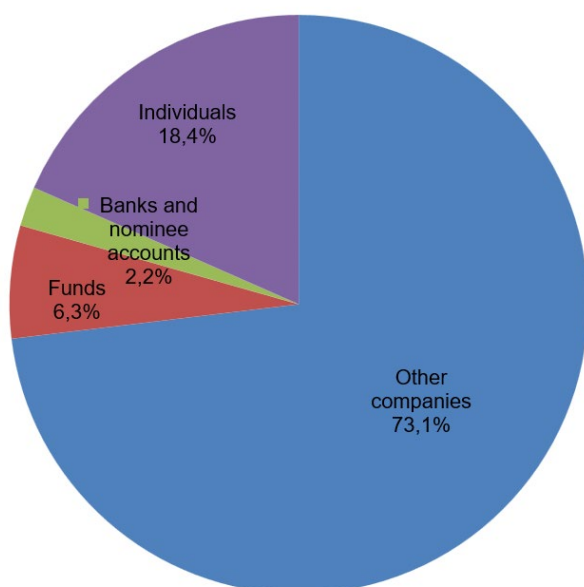
Source: <https://nasdaqbaltic.com> 4 January 2022

Index/equity	31 December 2020	31 December 2021	+/-%
OMX Tallinn_GI	1,343.72	2,001.03	+48.92
ARC1T – Arco Vara	1.21	2.66	+119.83

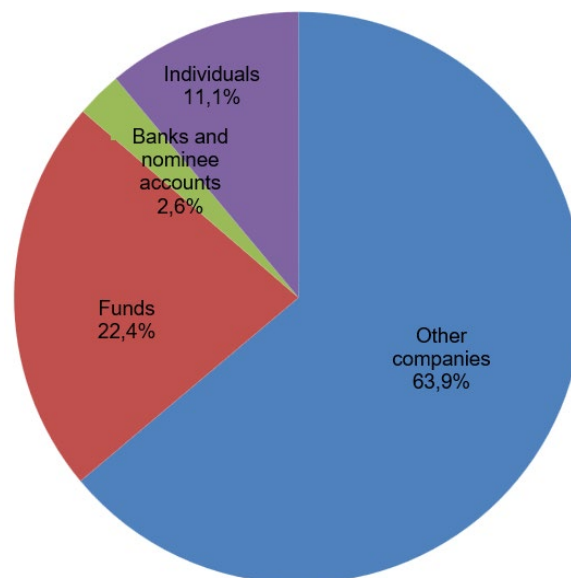
Shareholder structure

As of 31 December 2021, Arco Vara had 9,136 shareholders (on 31 December 2020 1,475), including 8,286 individuals as shareholders (on 31 December 2020: 1,311 individuals) who jointly owned 18.4% (on 31 December 2020: 11.1%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams.

Ownership structure as of 31 December 2021



Ownership structure as of 31 December 2020



Major shareholders on 31 December 2021

Name	No of shares	Share, %
Alarmo Kapital OÜ	6,338,531	61.0%
FIREBIRD REPUBLICS FUND LTD	337,529	3.2%
HM Investeeringud OÜ	330,505	3.2%
FIREBIRD AVRORA FUND, LTD.	180,559	1.7%
Marko Teimann	160,663	1.5%
K VARA OÜ	147,659	1.4%
FIREBIRD FUND L.P.	134,060	1.3%
Aia Tänav OÜ	113,000	1.1%
Olegs Radcenko	62,535	0.6%
Sander Karu	60,887	0.6%
Other shareholders	2,522,439	24.4%
Total	10,388,367	100.0%

Holdings of management and supervisory board members on 31 December 2021

Name	Position	No of shares	Share, %
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	chairman/ member of supervisory board	6,338,531	61.0%
Tarmo Sild (Aia Tänav OÜ)	chairman of supervisory board	116,697	1.1%
Allar Niinepuu (OÜ Kavass)	member of supervisory board	10,000	0.1%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	member of supervisory board	369,259	3.6%
Kert Keskaik (privately, through K Vara OÜ and One Eleven OÜ)	member of supervisory board	211,467	2.0%
Steven Yaroslav Gorelik ¹	member of supervisory board	0	-
Miko-Ove Niinemäe	member of management board	11,000	0.1%
Total		7,056,954	67.9%

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 652,148 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 fourth quarter and 12 months ended on 31 December 2021 provides a true and fair view of business developments, financial performance and financial position of the group as well as a description of the main risks and uncertainties.



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

On 17 February 2022

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	12 months 2021	12 months 2020	Q4 2021	Q4 2020
In thousands of euros					
Revenue from sale of own real estate		10,478	13,129	37	10,015
Revenue from rendering of services		1,135	927	293	283
Total revenue	2,3	11,613	14,056	330	10,298
Cost of sales	4	-8,578	-11,313	-123	-8,332
Gross profit		3,035	2,743	207	1,966
Other income		277	10	5	10
Marketing and distribution expenses	5	-200	-89	-91	-23
Administrative expenses	6	-1,106	-922	-475	-268
Other expenses		-95	-273	-37	-265
Gain on investment property	11	658	-20	236	-20
Operating profit/ loss		2,569	1,449	-155	1,400
Finance income and cost	7	-390	-437	-91	-111
Profit/ loss before tax		2,179	1,012	-246	1,289
Income tax		-108	0	-108	0
Net profit/ loss for the period		2,071	1,012	-354	1,289
Total comprehensive income/ expense for the period		2,071	1,012	-354	1,289
Earnings per share (in euros)	8				
- basic		0.22	0.11	-0.03	0.14
- diluted		0.22	0.11	-0.03	0.14

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2021	31 December 2020
In thousands of euros			
Cash and cash equivalents		1,863	2,200
Receivables and prepayments	9	3,701	1,344
Inventories	10	15,761	14,960
Total current assets		21,325	18,504
Receivables and prepayments	9	5	5
Investment property	11	9,943	9,564
Property, plant and equipment	2	154	22
Intangible assets	2	87	136
Total non-current assets		10,189	9,727
TOTAL ASSETS		31,514	28,231
Loans and borrowings	12	6,043	3,482
Payables and deferred income	13	2,368	3,308
Total current liabilities		8,411	6,790
Loans and borrowings	12	5,141	7,217
Total non-current liabilities		5,141	7,217
TOTAL LIABILITIES		13,552	14,007
Share capital	8	7,272	6,299
Unregistered share capital	8	0	273
Share premium		3,835	2,285
Statutory capital reserve		2,011	2,011
Retained earnings		4,844	3,356
Total equity attributable to owners of the parent		17,962	14,224
TOTAL EQUITY		17,962	14,224
TOTAL LIABILITIES AND EQUITY		31,514	28,231

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	12 months 2021	12 months 2020	Q4 2021	Q4 2020
In thousands of euros				
Cash receipts from customers	15,894	10,268	968	5,061
Cash paid to suppliers	-15,516	-10,960	-2,810	-2,551
Taxes paid and recovered (net)	-2,898	44	208	-168
Cash paid to employees	-426	-380	-201	-73
Other cash payments and receipts related to operating activities (net)	229	-14	-14	-18
NET CASH FROM/USED IN OPERATING ACTIVITIES	-2,717	-1,042	-1,849	2,251
Payments made on purchase of tangible and intangible assets	-9	-8	-3	-8
Payments made on purchase and development of investment property	0	-37	0	-23
Interest received	1	-250	0	-250
NET CASH FROM/USED IN INVESTING ACTIVITIES	-8	-295	-3	-281
Proceeds from loans received	12	3,944	7,849	490
Settlement of loans and borrowings	12	-2,741	-4,369	-128
Interest paid		-585	-727	-151
Dividends paid		-480	-360	-104
Proceeds from share capital increase	8	2,250	273	2,250
Other payments related to financing activities		0	1	0
NET CASH FROM/USED IN FINANCING ACTIVITIES	2,388	2,667	2,357	-388
NET CASH FLOW	-337	1,330	505	1,582
Cash and cash equivalents at the beginning of period	2,200	870	1,358	618
Change in cash and cash equivalents	-337	1,330	505	1,582
Cash and cash equivalents at the end of period	1,863	2,200	1,863	2,200

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total equity
In thousands of euros							
Balance as of 31 December 2019	6,299	0	2,285	2,011	245	2,459	13,299
Increase of share capital	0	273	0	0	0	0	273
Other reserves	0	0	0	0	-245	245	0
Dividends paid	0	0	0	0	0	-360	-360
Total comprehensive expense for the period	0	0	0	0	0	1,012	1,012
Balance as of 31 December 2020	6,299	273	2,285	2,011	0	3,356	14,224
Balance as of 31 December 2020	6,299	273	2,285	2,011	0	3,356	14,224
Increase of share capital	973	-273	1,550	0	0	0	2,250
Dividends paid	0	0	0	0	0	-583	-583
Total comprehensive income for the period	0	0	0	0	0	2,071	2,071
Balance as of 31 December 2021	7,273	0	3,835	2,011	0	4,844	17,962

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the fourth quarter and 12 months ended on 31 December 2021 have been prepared in accordance with IAS 34 *Interim Financial Reporting*. The condensed consolidated interim financial statements should be read in conjunction with the audited consolidated annual financial statements for the year ended on 31 December 2020, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

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

2. Segment information

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

External revenue by location

	12 months 2021	12 months 2020	Q4 2021	Q4 2020
In thousands of euros				
Estonia	6,202	7,610	445	6,920
Bulgaria	5,411	6,406	-115	3,378
Latvia	0	40	0	0
Total revenue	11,613	14,056	330	10,298

External operating profit (-loss) by location

	12 months 2021	12 months 2020	Q4 2021	Q4 2020
In thousands of euros				
Estonia	643	103	-149	383
Bulgaria	1,929	1,310	-5	1,017
Latvia	-3	36	-1	0
Total operating profit/ loss	2,569	1,449	-155	1,400

External assets and liabilities by location

	31.12.2021	31.12.2020
In thousands of euros		
Assets	31,514	28,231
Estonia	17,610	9,642
Bulgaria	13,778	18,462
Latvia	126	127
Liabilities	13,552	14,007
Estonia	7,965	4,938
Bulgaria	5,587	9,069

Non-current assets by location

	31.12.2021	31.12.2020
In thousands of euros		
Total non-current assets	241	158
Tangible assets	154	22
Estonia	147	6
Bulgaria	7	16
Intangible assets	87	136
Estonia	48	86
Bulgaria	39	50

3. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	12M 2021	12M 2020	12M 2021	12M 2020	12M 2021	12M 2020	12M 2021	12M 2020
In thousands of euros								
Sale of own real estate	5,902	7,414	4,576	5,675	0	40	10,478	13,129
Rental of real estate	8	5	723	614	0	0	731	619
Property management services	0	1	88	84	0	0	88	85
Franchise	178	137	61	35	23	12	262	184
Other revenue	29	6	25	33	0	0	54	39
Total revenue	6,117	7,563	5,473	6,441	23	52	11,613	14,056

	Estonia		Bulgaria		Latvia		Consolidated	
	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020	Q4 2021	Q4 2020
In thousands of euros								
Sale of own real estate	359	6,856	-322	3,159	0	0	37	10,015
Rental of real estate	2	1	181	186	0	0	183	187
Property management services	0	0	21	24	0	0	21	24
Franchise	45	45	21	13	6	5	72	63
Other revenue	12	-1	5	10	0	0	17	9
Total revenue	418	6,901	-94	3,392	6	5	330	10,298

4. Cost of sales

	12 months 2021		12 months 2020		Q4 2021		Q4 2020	
	In thousands of euros							
Cost of real estate sold (note 10, 11)		-7,967		-10,405		-25		-7,964
Brokerage fees		-220		-276		0		-136
VAT cost		0		-39		0		0
Property management costs		-249		-347		-68		-85
Personnel expenses		-4		-15		-4		0
Depreciation, amortization and impairment losses		-39		-84		-9		-28
Inventory write-down		0		-40		0		-40
Other costs		-99		-107		-17		-79
Total cost of sales		-8,578		-11,313		-123		-8,332

5. Marketing and distribution expenses

	12 months 2021		12 months 2020		Q4 2021		Q4 2020	
	In thousands of euros							
Advertising expenses		-51		-39		-2		-10
Personnel expenses		-37		0		-37		0
Market research		-19		0		-19		0
Other marketing and distribution expenses		-93		-50		-33		-13
Total marketing and distribution expenses		-200		-89		-91		-23

6. Administrative expenses

	12 months 2021	12 months 2020	Q4 2021	Q4 2020
In thousands of euros				
Personnel expenses	-658	-453	-295	-87
Office expenses	-86	-67	-9	-14
IT expenses	-33	-28	-9	-7
Services purchased	-261	-310	-131	-146
Depreciation, amortization and impairment losses	-25	-25	-12	-5
Legal service fees	-23	-22	-11	0
Other expenses	-20	-17	-8	-9
Total administrative expenses	-1,106	-922	-475	-268

7. Financial income and expenses

	12 months 2021	12 months 2020	Q4 2021	Q4 2020
In thousands of euros				
Interest expenses	-392	-426	-89	-110
Other financial income and costs	2	-11	-2	-1
Total financial income and costs	-390	-437	-91	-111

8. Earnings per share

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

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

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

	12 months 2021	12 months 2020	Q4 2021	Q4 2020
In thousands of euros				
Weighted average number of ordinary shares outstanding during the period	9,426,888	8,998,367	10,160,106	8,998,367
Number of ordinary shares potentially to be issued (at period end)	0	390,000	0	390,000
Net profit/ loss (in thousands of euros)	2,071	1,012	-354	1,289
Earnings per share (in euros)	0.22	0.11	-0.03	0.14
Diluted earnings per share (in euros)	0.22	0.11	-0.03	0.14

9. Receivables and prepayments

Short-term receivables and prepayments

	31 December 2021	31 December 2020
In thousands of euros		
Receivables from customers	90	1,283
Miscellaneous receivables	6	12
Prepaid and recoverable taxes	145	19
Other accrued income	24	13
Prepayments	3,436	17
Total short-term receivables and prepayments	3,701	1,344

Long-term receivables and prepayments

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

10. Inventories

	31 December 2021	31 December 2020
In thousands of euros		
Properties purchased and being developed for resale	15,754	14,943
Materials and finished goods	7	17
Total inventories	15,761	14,960

Properties purchased and being developed for resale

	2021	2020
In thousands of euros		
Balance at the beginning of period, 1 January	14,943	15,779
Properties purchased for development	5,102	0
Construction costs of apartment buildings	5,737	7,117
Capitalized borrowing costs	148	266
Inventory write-down	0	-40
Other capitalized costs	1,113	474
Reclassification from investment property (note 11)	30	1,358
Cost of sold properties (note 4)	-7,967	-10,011
Reclassification to prepayments	-3,352	0
Balance at the end of period, 31 December	15,754	14,943

11. Investment property

	2021	2020
In thousands of euros		
Balance at the beginning of period, 1 January	9,564	11,051
Net gain on changes in fair value	468	-20
Capitalized development costs	51	42
Capitalized borrowing costs	0	14
Reclassification to inventories (note 10)	-30	-1,358
Reclassification from property, plant and equipment	0	229
Sale of investment property (note 4)	-110	-394
Balance at the end of period, 31 December	9,943	9,564

12. Interest bearing liabilities

	As of 31 December, 2021			As of 31 December, 2020		
	Total	of which current portion	of which non-current portion	Total	of which current portion	of which non-current portion
In thousands of euros						
Bank loans	8,880	3,844	5,036	8,649	3,212	5,437
Bonds	1,780	1,780	0	1,780	0	1,780
Capitalized lease	133	28	105	0	0	0
Other loans	391	391	0	270	270	0
Total	11,184	6,043	5,141	10,699	3,482	7,217

In 12 months 2021, the group settled loans in the amount of 2,741 thousand euros (in 12 months 2020: 4,369 thousand euros) through cash transactions and raised new loans in the amount of 3,944 thousand euros (in 12 months 2020: 7,849 thousand euros). The lease of the new office was capitalized in Q3 2021 in the amount of 140 thousand euros. 852 thousand euros of the settled loans were paid by customers directly to the bank in 2021.

In 12 months 2021, the following major loan obligations were settled:

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

In 12 months 2021, the group raised the following new liabilities:

- 3,554 thousand euros of bank loan for financing construction of apartment buildings in Kodulahe project Stage IV and V;
- 140 thousand euros of capitalization of rent;
- 390 thousand euros of other loans.

In 12 months 2020, the following major loan obligations were settled:

- 3,646 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stage III;
- 1,607 thousand euros of bank loan for financing construction of apartment building in Kodukalda project;
- 283 thousand euros of Madrid Blvd project's bank loan principal;
- 2,786 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 1,148 thousand euros of Arco Vara convertible bonds.

In 12 months 2020, the group raised the following new liabilities:

- 3,884 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stage III;
- 2,094 thousand euros of bank loan for financing construction of apartment building in Kodukalda project;
- 1,601 thousand euros of Arco Vara convertible bonds;
- 270 thousand euros of loans from private companies and individuals.

13. Payables and deferred income

Short-term payables and deferred income

	31 December 2021	31 December 2020
In thousands of euros		
Trade payables	673	811
Miscellaneous payables	10	76
Taxes payable		
Value added tax	24	1,431
Income tax	32	1
Social security tax	9	14
Personal income tax	6	17
Garbage tax	2	23
Total taxes payable	73	1,486

	31 December 2021	31 December 2020
In thousands of euros		
Accrued expenses		
Payables to employees	102	17
Interest payable	7	44
Unpaid dividend	104	0
Other accrued expenses	2	100
Total accrued expenses	215	161
Deferred income		
Prepayments received on sale of real estate	1,268	631
Guarantee deposits	91	102
Prepaid revenue	38	41
Total deferred income	1,397	774
Total short-term payables and deferred income	2,368	3,308

14. Related party disclosures

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

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

Transactions with related parties

	12 months 2021	12 months 2020
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Services purchased	67	35
Bonds	0	273
Other related parties		
Services sold	0	1

In 12 months 2021, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 297 thousand euros, out of which 190 thousand euros in Q4 (in 12 months and Q4 2020: 89 thousand euros and 22 thousand euros respectively).

The remuneration provided to the members of the supervisory board of the group's parent company during the 12 months in 2021 was 24 thousand euros, out of which 6 thousand in Q4 2021 (in 12 months and Q4 2020: 18 thousand euros and 7 thousand euros respectively).

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

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

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

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

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 fourth quarter and 12 months ended on 31 December 2021.

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



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

On 17 February 2022