

Arco Vara AS

INTERIM REPORT FOR THE I QUARTER AND THREE
MONTHS OF 2021
(UNAUDITED)



INTERIM REPORT FOR THE FIRST QUARTER 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)
Real estate management (EMTAK 6832)

Financial year: 1 January 2021 – 31 December 2021

Reporting period: 1 January 2021 – 31 March 2021

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

Chief executive: Miko-Ove Niinemäe

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DIRECTORS' REPORT FOR Q1 2021

GROUP CEO'S REVIEW

For Arco Vara, the first quarter will be characterized by the phrase that the desire to increase development volumes does not have to be just a dream. We started the preparation of a detailed plan in Tallinn on approximately 75,000 square meters, of which 69,500 m² is located by Lake Harku and 5,500 m² in the Kodulahe area. More on both below.

In the first three months of 2021, Arco Vara earned a profit from completing the final sales of Iztok Parkside, Stage III of Kodulahe and Kodukalda. In the case of the first two in the list, all apartments have been sold by the time of submitting the report, 3 apartments are still available in Kodukalda development.

More Arco Vara brand licence fees were earned in the first quarter than had been expected, but rental income from the Madrid BLVD building in Bulgaria was almost 9% lower than planned - due to the ongoing Covid-19 restrictions and short-term vacancy on the retail space. Today, 100% occupancy has been reached again, which provides security for rental income for future periods.

Operating in Tallinn, we are unexpectedly in a time when the demand for residential real estate exceeds the supply, but at the same time the delivery times of construction materials have become longer and the prices of construction materials have risen. For Kodulahe IV and V, almost 75% of the apartments have already been covered with preliminary contracts, i.e. approximately 9 million euros in sales revenue for 2022. However, the successful construction process of Kodulahe stages IV and V may present a short-term challenge.

It may also be a challenge to start the construction of the VI stage of Kodulahe at the right time, as the building permit is expected in June 2021 and a favourable process would enable sales revenue of 24 million euros in 2023. In the first quarter of 2021, we started preparing new detailed plans in Tallinn, the first of which is located in Arco Vara's well-known Kodulahe area, at Soodi 6. According to the current comprehensive plan, we estimate the gross volume of the development to be 6,500 m² and expect sales revenue of 14 million euros in 2024.

The most long-term one of the new detailed plans, at Paldiski road 124b, covers an area of approximately 7 hectares, where we plan to develop more than 450 homes. The expected start of construction of the first stage of the project will be in 2023 and the completion of the entire project will be in 2027, and we currently estimate the sales revenue of the entire project to be at 70 million euros.

The Bulgarian real estate market is significantly calmer: it is affected by caution in difficult times of health care and national elections. The main tasks in Bulgaria are the successful management of the Madrid BLVD building and the start of the development of a new residential project already this year.

In summary, at the beginning of 2021, we have secured a significant development volume in Estonia for the next 5 years, but the goal is also to achieve regular and stable housing development also in Bulgaria.

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

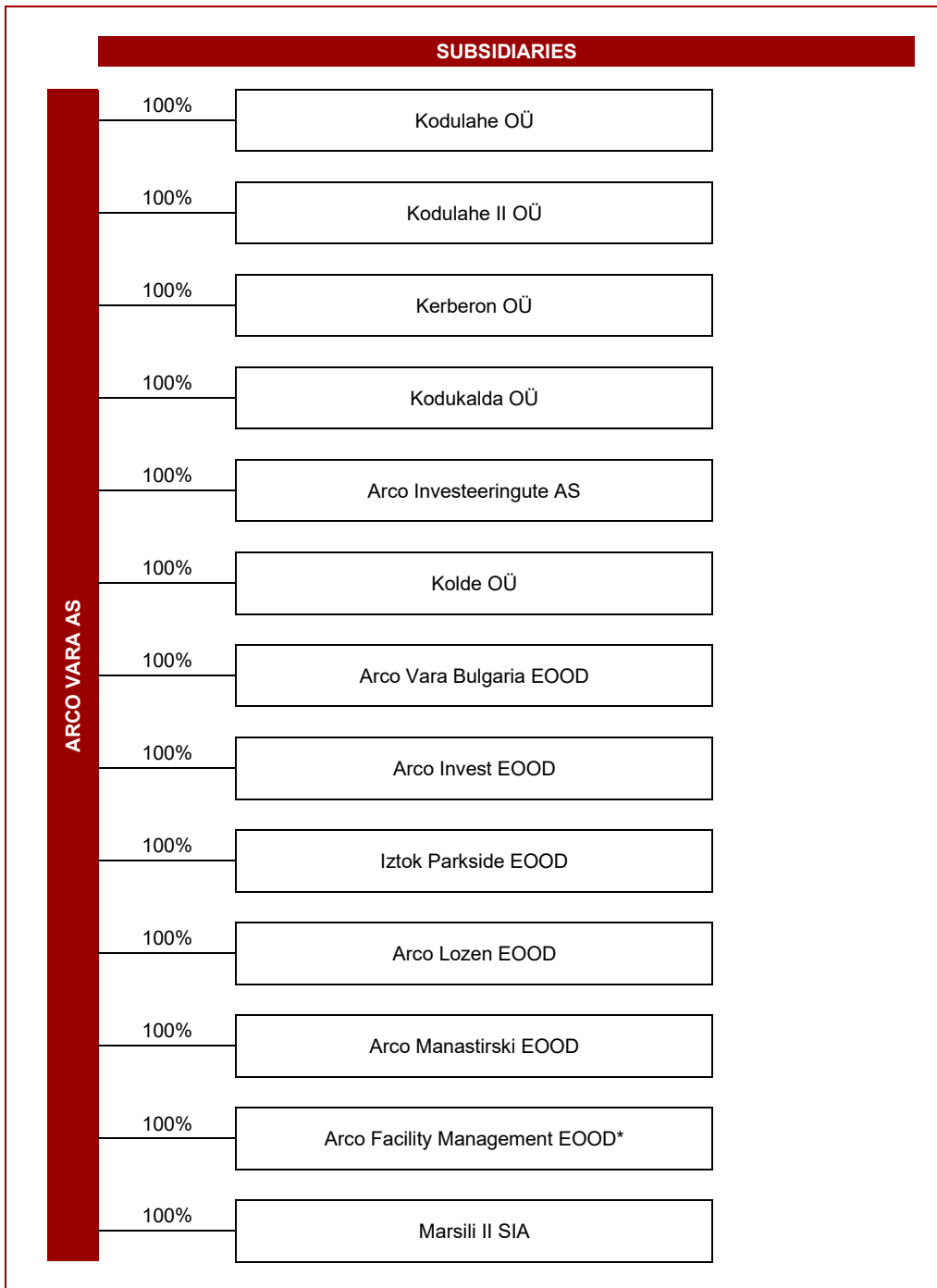
Group structure

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

Significant subsidiaries as of 31 March 2020

| Company name | Location | Share capital (nominal value) | Equity balance on 31 March 2021 | The group's interest |
|-------------------------|----------|-------------------------------|---------------------------------|----------------------|
| In thousands of euros | | | | |
| Arco Invest EOOD | Bulgaria | 28,762 | 2,779 | 100% |
| Iztok Parkside EOOD | Bulgaria | 1,433 | 2,450 | 100% |
| Arco Lozen EOOD | Bulgaria | 2,931 | 2,080 | 100% |
| Arco Investeeringute AS | Estonia | 140 | 76 | 100% |
| Kodukalda OÜ | Estonia | 3 | 509 | 100% |
| Kodulahe OÜ | Estonia | 3 | 3,432 | 100% |

Group structure as of 31 March 2021



- Liquidated on 27 April 2021

KEY PERFORMANCE INDICATORS

- In Q1 2021, the group's revenue was 9,166 thousand euros, which is 4.1 times higher than the revenue of 2,238 thousand euros in Q1 2020.
- In Q1 2021, the group's operating profit (=EBIT) was 1,809 thousand euros and net profit 1,700 thousand euros. In Q1 2020, the group had operating profit of 133 thousand euros and net profit of 20 thousand euros.
- In Q1 2021, 58 apartments were sold in projects developed by the group (in Q1 2020: 10 apartments).
- In the Q1 of 2021, the group's debt burden (net loans) decreased by 6,687 thousand euros down to the level of 1,812 thousand euros as of 31 March 2021. As of 31 March 2021, the weighted average annual interest rate of interest-bearing liabilities was 5.2%. This is an increase of 0.4% compared to 31 December 2020.

Main financial figures

| | Q1 2021 | Q1 2020 |
|--|--------------|------------|
| In thousands of euros | | |
| Revenue | 9,166 | 2,238 |
| Operating profit (EBIT) | 1,809 | 133 |
| Finance income and expense | -109 | -113 |
| Net profit | 1,700 | 20 |
| Cash flows from/used in operating activities | 6,005 | -209 |
| Cash flows used in investing activities | 0 | -14 |
| Cash flows from/used in financing activities | -2,333 | 534 |
| Net cash flows | 3,672 | 311 |
| Cash and cash equivalents at beginning of period | 2,200 | 870 |
| Cash and cash equivalents at end of period | 5,872 | 1,181 |
| Total assets, at period end | 27,597 | 30,365 |
| Invested capital, at period end | 23,608 | 26,347 |
| Net loans, at period end | 1,812 | 11,847 |
| Equity, at period end | 15,924 | 13,319 |

Revenue and net profit/loss during last years

| | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Total 2018 | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Total 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Total 2020 | Q1 2021 |
|----------------------|---------|---------|---------|---------|------------|---------|---------|---------|---------|------------|---------|---------|---------|---------|------------|---------|
| In millions of euros | | | | | | | | | | | | | | | | |
| Revenue | 2.1 | 1.1 | 2.1 | 1.3 | 6.6 | 1.1 | 0.7 | 0.4 | 10.9 | 13.1 | 2.1 | 1.0 | 0.6 | 10.3 | 14.0 | 9.2 |
| Net profit/loss | -0.1 | -0.3 | 0.1 | -0.2 | -0.5 | -0.1 | -0.2 | -0.2 | 0.9 | 0.4 | 0.0 | -0.1 | -0.2 | 1.3 | 1.0 | 1.7 |

Key ratios

| | Q1 2021 | Q1 2020 |
|--|---------|---------|
| EPS (in euros) | 0.19 | 0.00 |
| Diluted EPS (in euros) | 0.18 | 0.00 |
| EBITDA per share (in euros) (rolling, four quarters) | 0.36 | 0.13 |
| ROIC (rolling, four quarters) | 10.2% | 1.8% |
| ROE (rolling, four quarters) | 19.3% | 4.0% |
| ROA (rolling, four quarters) | 9.0% | 1.6% |
| Equity ratio | 57.7% | 43.9% |
| Current ratio | 3.92 | 1.72 |
| Quick ratio | 1.44 | 0.22 |
| Financial leverage | 1.73 | 2.28 |
| Average loan term (in years) | 3.2 | 2.6 |
| Average annual interest rate of loans | 5.2% | 4.6% |
| Number of staff, at period end | 11 | 14 |
| Revenue per staff (in thousands of euros) | 833 | 160 |

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)
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 reduced to full-time equivalents
Revenue per staff = revenue for the period / number of people working for the group under employment or service contracts reduced to full-time equivalents

Operating report

The revenue of the group totalled 9,166 thousand euros in Q1 2021 (in Q1 2020: 2,238 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 8,902 thousand euros in Q1 2021 (in Q1 2020: 1,995 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 194 thousand euros in Q1 2021 (in Q1 2020: 182 thousand euros). By the time of publishing the present report, all office and commercial spaces, together with parking places, were rented out.

Commercial space remains unsold in Stage II of Kodulahe project. The house received a usage permit in 2020.

In Q4 2020, construction finished in Stage III of Kodulahe project, a residential building with 50 apartments at Soodi 4 in Merimetsa district in Tallinn. By the publishing date of the interim report, all apartments have been sold and the house has the usage permit.

At the end of 2020, the joint construction of Stages IV and V of Kodulahe started. Two 36-apartment residential buildings at Pagi 3 and Pagi 5 in Merimetsa are under construction. The apartment buildings will become ready for final sale in about 1,5 years. By the publishing date of the annual report, 52 apartments of total 72 have been presold and 13 booked.

Stages VI of Kodulahe project is waiting for construction permit, design works are in process. The construction of the Stage VI is scheduled to start in year 2021. The plan is to build a pavilion and 113 apartments, out of which many have sea view. The apartment buildings will become ready in about 2 years after the construction begins.

In Q4 2020, sale started of Oa street plots in Tartu, where of 4 smaller apartment buildings are built under Kodukalda project name. By the publishing time of the interim report, 27 apartments have been sold out of 30.

In Iztok Parkside project in Sofia, the majority of final sales of apartments started in December 2020, after receiving a usage permit. By the publishing date of the interim report, all apartments have been sold. Iztok project consisted of three apartment buildings with a total of 67 apartments. As the apartments were handed over a year later than promised due to bureaucratic obstacles, 2 clients want compensation in the total amount of 40 thousand euros. As these apartment owners want compensation for pain and suffering, but not to give up the apartments, the obligation to pay compensation is not realistic and no reserve has been formed for this purpose.

Botanica Lozen project was designed as a premium class product, it has been decided to temporarily freeze the project until market will recover from Covid-19. The project foresees construction of 179 homes (apartments and houses), commercial spaces and a kindergarten. Minimum expected construction period is 2 years.

As of 31 March 2021 and the date of this report, 4 Marsili residential plots remained unsold in Latvia.

Summary table of Arco Vara's active projects as of 31 March 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 |
| Iztok Parkside | Iztok, Sofia | Apartments | S5 | 2,470 | 75 | 1 |
| Marsili residential plots | Marsili, near Riga | Residential plots | S5 | 6,153 | - | 4 |
| Kodulahe, Stage II | Lahepea 9, Tallinn | Commercial space | S5 | 3,686 | 380 | 1 |
| Kodulahe, Stages IV-V | Pagi 3 and 5, Tallinn | Apartments | S4 | 7,383 | 4,774 | 72 |
| Kodulahe, Stages VI | Paldiski road 74, Tallinn | Apartments | S3 | 9,525 | 8,880 | 113 |
| Kodukalda | Oa street, Tartu | Apartments | S5 | 4,146 | 370 | 4 |
| Harku lake development | Paldiski road 124b, Tallinn | Apartments, houses | S2 | 69,506 | <38,000> | <470> |
| Botanica Lozen, Stage I | Lozen, near Sofia | Apartments, houses | S3 | 47,450 | <25,200> | <179> |

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 March 2021, 11 people worked for the group (also 11 as of 31 December 2020). Employee remuneration expenses in Q1 2021 amounted to 107 thousand euros (in Q1 2020: 168 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 23 thousand euros in Q1 2021 (in Q1 2020: also 21 thousand euros). The members of the supervisory board of the group's parent company were remunerated by 4 thousand euros in Q1 2021 (in Q1 2020: not remuneration).

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 has been 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 all of the group's loan agreements is euro and the base interest rate is 1, 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 Q1 2021, the group's interest-bearing liabilities decreased by 3,015 thousand euros and amounted to 7,684 thousand euros on 31 March 2021, out of which 553 thousand euros is due within next 12 months. The group's cash and cash equivalents totalled 5,872 thousand euros as of 31 March 2021 (31 December 2020 2,020 thousand euros). In Q1 2021, interest payments on interest-bearing liabilities totalled 109 thousand euros (in Q1 2020: 113 thousand euros). The group's weighted average loan interest rate was 5.2% as of 31 March 2021. This is an increase by 0.4 percentage points compared to the end of year 2020. The reason for the increase in the average interest rate is the decrease in development loans with lower-than-average interest rates in 2021.

Currency risk

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

SHARES AND SHAREHOLDERS

Share price

Arco Vara AS has issued a total of 8,998,367 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 1.33 euros on 31 March 2021; the closing price was 1.21 euros on 31 December 2020. During the period, the highest traded price per share was 1.58 euros and the lowest price 1.21 euros. Equity per share was 1.77 euros as of 31.03.2021, 1.58 as of 31.12.2020.

As of 31 March 2021, market capitalization of shares amounted to 11,968 thousand euros and P/B (price to book value) ratio was 0.75 (31 December 2020: 10,888 thousand euros and 0.77, respectively). P/E (price to earnings) ratio of the share was 4.45 on 31 March 2021, 10.76 on 31 December 2020.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 3 months 2021 and during the last three years.

Performance of Arco Vara's shares in Q1 2021



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

Performance of Arco Vara’s shares from 1 April 2018 until 31 March 2021



Source: <https://nasdaqbaltic.com> 14 April 2021

Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in Q1 2021



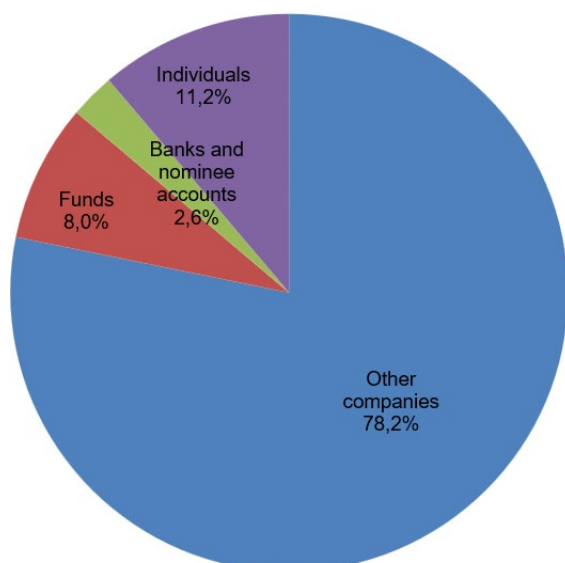
Source: <https://nasdaqbaltic.com> 14 April 2021

| Index/equity | 1 Jan 2021 | 31 March 2021 | +/-% |
|-------------------|------------|---------------|--------|
| OMX Tallinn | 1,343.72 | 1,501.15 | +11.72 |
| ARC1T – Arco Vara | 1.21 | 1.33 | +9.92 |

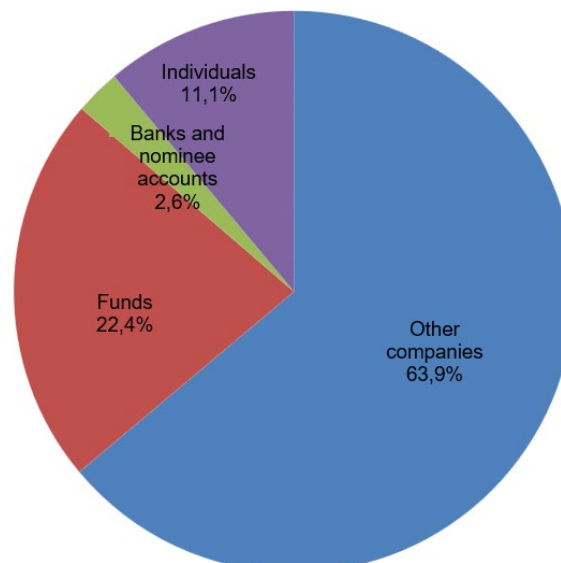
Shareholder structure

As of 31 March 2021, Arco Vara had 1,644 shareholders (on 31 December 2020 1,475), including 1,481 individuals as shareholders (on 31 December 2020: 1,311 individuals) who jointly owned 11.2% (on 31 December 2020: 11.1%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams:

Ownership structure as of 31 March 2021



Ownership structure as of 31 December 2020



Major shareholders on 31 March 2021

| Name | No of shares | Share, % |
|-----------------------------|------------------|---------------|
| Alarmo Kapital OÜ | 4,664,242 | 51.8% |
| Baltplast AS | 837,498 | 9.3% |
| Gamma Holding Investment OÜ | 550,000 | 6.1% |
| Firebird Republics Fund LTD | 356,428 | 4.0% |
| HM Investeeringud OÜ | 330,505 | 3.7% |
| Firebird Avrora Fund LTD | 185,800 | 2.1% |
| Marko Teimann | 174,370 | 1.9% |
| Firebird Fund L.P. | 150,522 | 1.7% |
| K Vara OÜ | 147,271 | 1.6% |
| Rafiko OÜ | 143,063 | 1.6% |
| Other shareholders | 1,458,668 | 16.2% |
| Total | 8,998,367 | 100.0% |


Holdings of management and supervisory board members on 31 March 2021

| Name | Position | No of shares | Share, % |
|--|---|------------------|--------------|
| Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ) | chairman of supervisory board/ member of supervisory board | 4,664,242 | 51.8% |
| Tarmo Sild (Aia Tänav OÜ) | chairman of supervisory board | 19,880 | 0.2% |
| Hillar-Peeter Luutsalu (HM Investeeringud OÜ, related persons) | member of supervisory board | 369,259 | 4.1% |
| Kert Keskaik (privately and through K Vara OÜ) | member of supervisory board | 206,371 | 2.3% |
| Steven Yaroslav Gorelik ¹ | member of supervisory board | 0 | - |
| Miko-Ove Niinemäe | member of management board | 722 | 0.0% |
| Total | | 5,260,474 | 58.4% |

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 692.750 shares (total of 7.7% 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 first quarter ended on 31 March 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 29 April 2021

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | Q1 2021 | Q1 2020 |
|--|------|--------------|--------------|
| In thousands of euros | | | |
| Revenue from sale of own real estate | | 8,902 | 1,995 |
| Revenue from rendering of services | | 264 | 243 |
| Total revenue | 2,3 | 9,166 | 2,238 |
| Cost of sales | 4 | -7,119 | -1 827 |
| Gross profit | | 2,047 | 411 |
| Other income | | 10 | 0 |
| Marketing and distribution expenses | 5 | -35 | -42 |
| Administrative expenses | 6 | -184 | -236 |
| Other expenses | | -29 | 0 |
| Operating profit | | 1,809 | 133 |
| Finance income and cost | 7 | -109 | -113 |
| Profit before tax | | 1,700 | 20 |
| Net profit for the period | | 1,700 | 20 |
| <i>attributable to owners of the parent</i> | | 1,700 | 20 |
| Total comprehensive income for the period | | 1,700 | 20 |
| <i>attributable to owners of the parent</i> | | 1,700 | 20 |
| Earnings per share (in euros) | 8 | | |
| - basic | | 0.19 | 0.00 |
| - diluted | | 0.18 | 0.00 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 31 March 2021 | 31 December 2020 |
|--------------------------------------|------|---------------|------------------|
| In thousands of euros | | | |
| Cash and cash equivalents | | 5,872 | 2,200 |
| Receivables and prepayments | 9 | 679 | 1,344 |
| Inventories | 10 | 11,248 | 14,960 |
| Total current assets | | 17,799 | 18,504 |
| Receivables and prepayments | 9 | 104 | 5 |
| Investment property | 11 | 9,550 | 9,564 |
| Property, plant and equipment | | 20 | 22 |
| Intangible assets | | 124 | 136 |
| Total non-current assets | | 9,798 | 9,727 |
| TOTAL ASSETS | | 27,597 | 28,231 |
| Loans and borrowings | 12 | 553 | 3,482 |
| Payables and deferred income | 13 | 3,989 | 3,308 |
| Total current liabilities | | 4,542 | 6,790 |
| Loans and borrowings | 12 | 7,131 | 7,217 |
| Total non-current liabilities | | 7,131 | 7,217 |
| TOTAL LIABILITIES | | 11,673 | 14,007 |
| Share capital | | 6,299 | 6,299 |
| Unregistered share capital | 8 | 273 | 273 |
| Share premium | | 2,285 | 2,285 |
| Statutory capital reserve | | 2,011 | 2,011 |
| Retained earnings | | 5,056 | 3,356 |
| TOTAL EQUITY | | 15,924 | 14,224 |
| TOTAL LIABILITIES AND EQUITY | | 27,597 | 28,231 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| Note | Q1 2021 | Q1 2020 |
|--|---------------|-------------|
| In thousands of euros | | |
| Cash receipts from customers | 11,485 | 2,372 |
| Cash paid to suppliers | -2,737 | -2,309 |
| Taxes paid and recovered (net) | -2,660 | -158 |
| Cash paid to employees | -80 | -116 |
| Other cash payments and receipts related to operating activities (net) | -3 | 2 |
| NET CASH FROM/USED IN OPERATING ACTIVITIES | 6,005 | -209 |
| Proceeds from sale of financial investment | 0 | -14 |
| NET CASH FROM/USED IN INVESTING ACTIVITIES | 0 | -14 |
| Proceeds from loans received | 0 | 1,513 |
| Settlement of loans and borrowings | -2,163 | -805 |
| Interest paid | -170 | -176 |
| Other payments related to financing activities | 0 | 2 |
| NET CASH FROM/USED IN FINANCING ACTIVITIES | -2,333 | 534 |
| NET CASH FLOW | 3,672 | 311 |
| Cash and cash equivalents at the beginning of period | 2,200 | 870 |
| Change in cash and cash equivalents | 3,672 | 311 |
| Cash and cash equivalents at the end of period | 5,872 | 1,181 |

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 |
| Total comprehensive income for the period | 0 | 0 | 0 | 0 | 0 | 20 | 20 |
| Balance as of 31 March 2020 | 6,299 | 0 | 2,285 | 2,011 | 245 | 2,479 | 13,319 |
| Balance as of 31 December 2020 | 6,299 | 273 | 2,285 | 2,011 | 0 | 3,356 | 14,224 |
| Total comprehensive income for the period | 0 | 0 | 0 | 0 | 0 | 1,700 | 1,700 |
| Balance as of 31 March 2021 | 6,299 | 273 | 2,285 | 2,011 | 0 | 5,056 | 15,924 |

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the first quarter ended on 31 March 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

| | Q1 2021 | Q1 2020 |
|-----------------------|--------------|--------------|
| In thousands of euros | | |
| Estonia | 4,647 | 434 |
| Bulgaria | 4,519 | 1,804 |
| Total revenue | 9,166 | 2,238 |

External operating profit by location

| | Q1 2021 | Q1 2020 |
|-----------------------|--------------|------------|
| In thousands of euros | | |
| Estonia | 517 | -74 |
| Bulgaria | 1,296 | 208 |
| Latvia | -4 | -1 |
| Total revenue | 1,809 | 133 |

External assets and liabilities by location

| | 31 March 2021 | 31 December 2020 |
|-----------------------|---------------|------------------|
| In thousands of euros | | |
| Assets | 27,597 | 28,231 |
| Estonia | 13,247 | 9,642 |
| Bulgaria | 14,224 | 18,462 |
| Latvia | 126 | 127 |
| Liabilities | 11,673 | 14,007 |
| Estonia | 5,464 | 4,938 |
| Bulgaria | 6,209 | 9,069 |

Non-current assets by location

| | 31 March 2021 | 31 December 2020 |
|---------------------------------|---------------|------------------|
| In thousands of euros | | |
| Total non-current assets | 144 | 158 |
| Tangible assets | 20 | 22 |
| Estonia | 6 | 6 |
| Bulgaria | 14 | 16 |
| Intangible assets | 124 | 136 |
| Estonia | 77 | 86 |
| Bulgaria | 47 | 50 |

3. Revenue

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

| | Estonia | | Bulgaria | | Latvia | | Consolidated | |
|------------------------------|--------------|------------|--------------|--------------|----------|----------|--------------|--------------|
| | Q1 2021 | Q1 2020 | Q1 2021 | Q1 2020 | Q1 2021 | Q1 2020 | Q1 2021 | Q1 2020 |
| In thousands of euros | | | | | | | | |
| Sale of own real estate | 4,583 | 382 | 4,319 | 1,613 | 0 | 0 | 8,902 | 1,995 |
| Rental of real estate | 4 | 1 | 173 | 162 | 0 | 0 | 177 | 163 |
| Property management services | 0 | 0 | 21 | 21 | 0 | 0 | 21 | 21 |
| Franchise | 44 | 33 | 9 | 8 | 5 | 4 | 58 | 45 |
| Other revenue | 2 | 5 | 6 | 9 | 0 | 0 | 8 | 14 |
| Total revenue | 4,633 | 421 | 4,528 | 1,813 | 5 | 4 | 9,166 | 2,238 |

4. Cost of sales

| | Q1 2021 | Q1 2020 |
|--|---------------|---------------|
| In thousands of euros | | |
| Cost of real estate sold (note 10, 11) | -6,820 | -1,640 |
| Brokerage fees | -161 | -45 |
| VAT cost | 0 | -38 |
| Property management costs | -82 | -71 |
| Personnel expenses | 0 | -8 |
| Depreciation, amortization and impairment losses | -10 | -21 |
| Other costs | -46 | -4 |
| Total cost of sales | -7,119 | -1,827 |

5. Marketing and distribution expenses

| | Q1 2021 | Q1 2020 |
|--|------------|------------|
| In thousands of euros | | |
| Advertising expenses | -32 | -16 |
| Other marketing and distribution expenses | -3 | -26 |
| Total marketing and distribution expenses | -35 | -42 |

6. Administrative expenses

| | Q1 2021 | Q1 2020 |
|--|-------------|-------------|
| In thousands of euros | | |
| Personnel expenses | -107 | -160 |
| Office expenses | -33 | -22 |
| IT expenses | -7 | -8 |
| Services purchased | -34 | -32 |
| Depreciation, amortization and impairment losses | -4 | -8 |
| Legal service fees | 2 | -4 |
| Other expenses | -1 | -2 |
| Total administrative expenses | -184 | -236 |

7. Financial income and expenses

| | Q1 2021 | Q1 2020 |
|---|-------------|-------------|
| In thousands of euros | | |
| Interest expenses | -114 | -108 |
| Other financial income and costs | 5 | -5 |
| Total financial income and costs | -109 | -113 |

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.

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 are still awaiting registration. See also note 14.

| | Q1 2021 | Q1 2020 |
|--|-------------|-----------|
| Weighted average number of ordinary shares outstanding during the period | 8,998,367 | 8,998,367 |
| Number of ordinary shares potentially to be issued (at period end) | 390,000 | 390,000 |
| Net profit (in thousands of euros) | 1,700 | 20 |
| Earnings per share (in euros) | 0.19 | 0.00 |
| Diluted earnings per share (in euros) | 0.18 | 0.00 |

9. Receivables and prepayments

Short-term receivables and prepayments

| | 31 March 2021 | 31 December 2020 |
|---|---------------|------------------|
| In thousands of euros | | |
| Receivables from customers | 220 | 1,283 |
| Miscellaneous receivables | 7 | 12 |
| Prepaid and recoverable taxes | 353 | 19 |
| Other accrued income | 13 | 13 |
| Prepayments | 86 | 17 |
| Total short-term receivables and prepayments | 679 | 1,344 |

Long-term receivables and prepayments

| | 31 March 2021 | 31 December 2020 |
|---|---------------|------------------|
| In thousands of euros | | |
| Prepayments | 104 | 5 |
| Total short-term receivables and prepayments | 104 | 5 |

10. Inventories

| | 31 March 2021 | 31 December 2020 |
|---|---------------|------------------|
| In thousands of euros | | |
| Properties purchased and being developed for resale | 11,228 | 14,943 |
| Materials and finished goods | 20 | 17 |
| Total inventories | 11,248 | 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 |
| Land plots purchased for development | 1,751 | 1 |
| Construction costs of apartment buildings | 994 | 2,123 |
| Capitalized borrowing costs | 9 | 27 |
| Other capitalized costs | 337 | 70 |
| Cost of sold properties (note 4) | -6,806 | -1,257 |
| Balance at the end of period, 31 March | 11,228 | 16,742 |

11. Investment property

| | 2021 | 2020 |
|--|--------------|---------------|
| In thousands of euros | | |
| Balance at the beginning of period, 1 January | 9,564 | 11,051 |
| Capitalized development costs | 0 | 14 |
| Capitalized borrowing costs | 0 | 7 |
| Sale of investment property (note 4) | -14 | -383 |
| Balance at the end of period, 31 March | 9,550 | 10,689 |

12. Interest bearing liabilities

| | As of 31 March, 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 | 5,634 | 283 | 5,351 | 8,649 | 3,212 | 5,437 |
| Bonds | 1,780 | 0 | 1,780 | 1,780 | 0 | 1,780 |
| Other loans | 270 | 270 | 0 | 270 | 270 | 0 |
| Total | 7,684 | 553 | 7,131 | 10,699 | 3,482 | 7,217 |

In Q1 2021, the group settled loans in the amount of 3,015 thousand euros (in Q1 2020: 805 thousand euros) and did not raise new loans (in Q1 2020: 1,513 thousand euros). 852 thousand euros of the settled loans were paid by customers directly to the bank in 2021.

In 3 months 2021, the following major loan obligations were settled:

- 83 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.

In 3 months 2020, the following major loan obligations were settled:

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

In 3 months 2020, the group raised the following new liabilities:

- 833 thousand euros of bank loan for financing construction of apartment building in Kodukalda project;
- 680 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stage III.

13. Payables and deferred income

Short-term payables and deferred income

| | 31 March 2021 | 31 December 2020 |
|--|---------------|------------------|
| In thousands of euros | | |
| Trade payables | 2,298 | 811 |
| Miscellaneous payables | 40 | 76 |
| Taxes payable | | |
| Value added tax | 656 | 1,431 |
| Social security tax | 19 | 14 |
| Personal income tax | 17 | 17 |
| Land tax | 9 | 0 |
| Garbage tax | 26 | 23 |
| Other taxes | 2 | 1 |
| Total taxes payable | 729 | 1,486 |
| Accrued expenses | | |
| Payables to employees | 15 | 17 |
| Interest payable | 7 | 44 |
| Other accrued expenses | 26 | 100 |
| Total accrued expenses | 48 | 161 |
| Deferred income | | |
| Prepayments received on sale of real estate | 739 | 631 |
| Guarantee deposits | 106 | 102 |
| Prepaid revenue | 29 | 41 |
| Total deferred income | 874 | 774 |
| Total short-term payables and deferred income | 3,989 | 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

| | Q1 2021 | Q1 2020 |
|---|---------|---------|
| In thousands of euros | | |
| Companies that have a significant interest in the group's parent company | | |
| Services purchased | 10 | 22 |
| Other related parties | | |
| Services sold | 0 | 1 |

In Q1 2021, the remuneration provided to the CEO / member of the management board was 23 thousand euros, including social security charges; the remuneration provided to the members of the supervisory board of the group's parent company was 4 thousand euros (in Q1 2020: 21 thousand euros to the CEO, no remuneration to the members of the supervisory board).

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 CEO's bonus system, which is in force since 2021, consists of three parts:

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

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

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

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

STATEMENT BY THE CEO / MEMBER OF THE MANAGEMENT BOARD

The CEO / member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the first quarter ended on 31 March 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.

A handwritten signature in blue ink, consisting of several loops and a long horizontal stroke extending to the right.

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

On 29 April 2021