



**Arco Vara AS**

INTERIM REPORT FOR THE II QUARTER AND  
SIX MONTHS OF 2021 (UNAUDITED)

**INTERIM REPORT FOR THE SECOND QUARTER AND SIX MONTHS OF 2021**  
**(UNAUDITED)**

Company name: Arco Vara AS

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Corporate website: [www.arcovara.com](http://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 – 30 June 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 Q2 AND 6 MONTHS 2021

### GROUP CEO'S REVIEW

Arco Vara has exceeded expectations during the first half of the year. The sales numbers of apartments indicate that all the completed homes have found an owner, and the projects under construction have also been successful: the feared construction material supply difficulties have been overcome and the construction of all buildings is on schedule.

The main sources of sales revenue in the second quarter are the last apartments in the Kodukalda and Iztok Parkside developments. Thus, all apartments in Tartu as well as in Sofia have been sold. Pre-sales are underway in the Kodulahe development in Tallinn, where only 4 apartments are available today; the project sales revenue in the amount of 12.2 million euros is expected in Q2 2022.

Taking a brief look into the future, in Q2 2021 the development team in Estonia has been designing Kodulahe Rannakalda phase. Beginning of public sales and construction permit are expected in September and the start of construction in Q4 this year. The Bulgarian team has made preparations for "melting" Botanica Lozen project, assessing the possibilities of developing the area only as private houses, for which there is significant growth of interest in the vicinity of Sofia.

Looking at Arco Vara's financial results, we have achieved one of our goals: to exceed 20% return on equity (ROE) per year. The rapid pre-sale provided an opportunity to optimize interest costs and thereby increase the profit margin of ongoing projects. The group has unused loan limits - a 60% equity to assets ratio is a temporary phenomenon; in the second half of the year, the volume of assets is expected to grow due to the expansion of Kodulahe constructions.

Arco Vara's desire to significantly increase its development volumes over the next five years has got off to a strong start. This has not gone unnoticed by the shareholders, the number of whom has almost doubled in 2021, which indicates the interest of private individuals to invest in real estate without buying real estate themselves. The issue of shares planned for September is also aimed at these investors.

## 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.

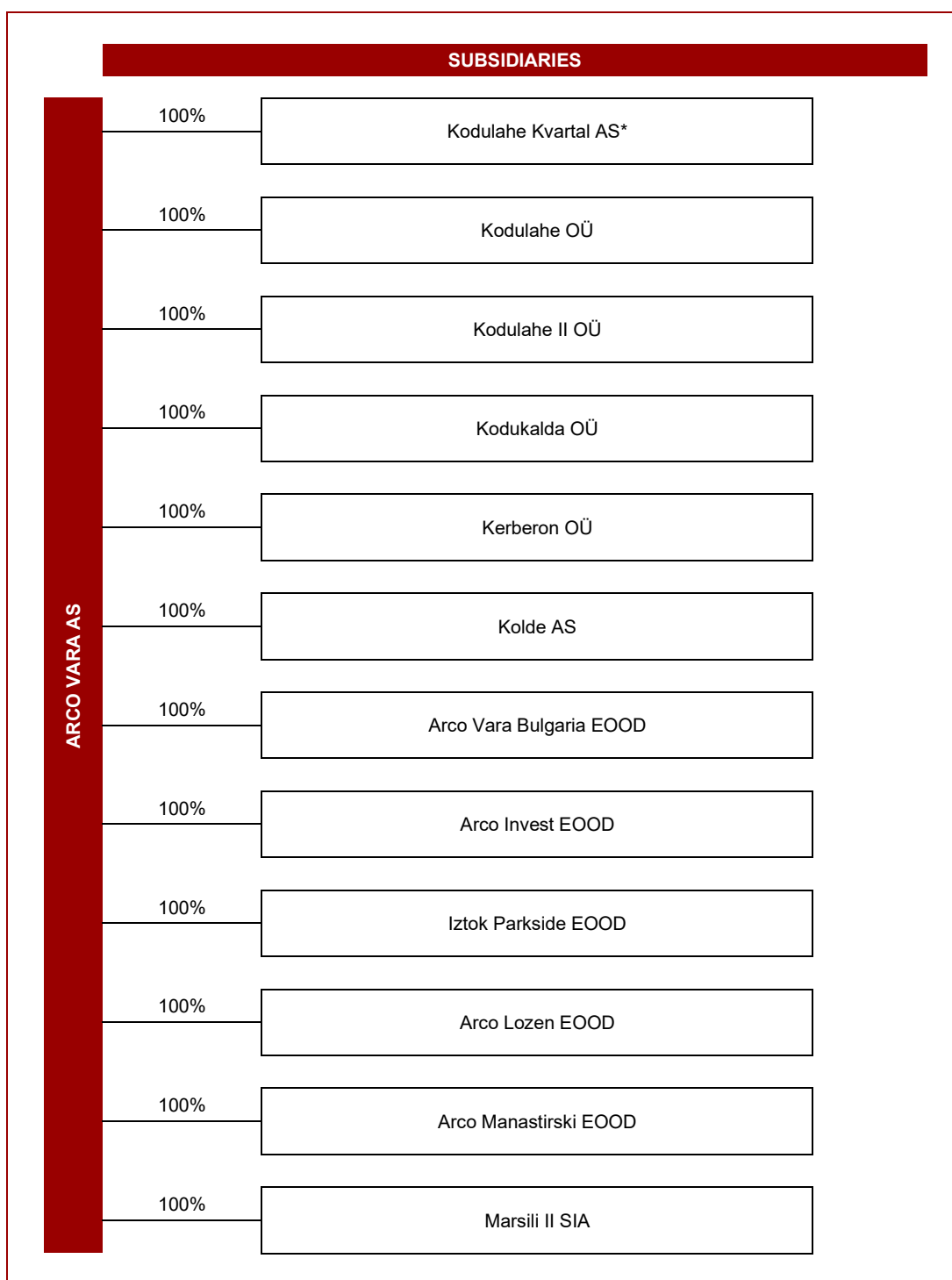
### Group structure

As of 30 June 2021, the group consisted of 13 companies, which is 4 less than of 31 December 2020.

### Significant subsidiaries as of 30 June 2021

Company name	Location	Share capital (nominal value)	Equity balance on 30 June 2021	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	2,845	100%
Iztok Parkside EOOD	Bulgaria	1,433	2,547	100%
Arco Lozen EOOD	Bulgaria	2,931	2,011	100%
Kodulahe Kvartal AS	Estonia	140	75	100%
Kodulahe OÜ	Estonia	3	3,270	100%
Kolde OÜ	Estonia	28	161	100%

## Group structure as of 30 June 2021



\* Previously called Arco Investeeringute AS

## KEY PERFORMANCE INDICATORS

- In Q2 2021, the group's revenue was 1,504 thousand euros, which is 58% more than the revenue of 951 thousand euros in Q2 2020. In 6 months 2021, the group's revenue was 10,670 thousand euros, which is 2.3 times more than the revenue of 3,189 thousand euros in 6 months 2020.
- In Q2 2021, the group's operating profit (=EBIT) was 621 thousand euros and net profit 523 thousand euros (in 6 months 2021: operating profit 2,430 thousand euros and net profit of 2,223 thousand euros). In Q2 2020, the group had operating profit of 42 thousand euros and net loss of 69 thousand euros. In 6 months 2020, the group made operating profit of 175 thousand euros and net loss of 49 thousand euros.
- In Q2 2021, 5 apartments and a commercial space were sold in projects developed by the group (in 6 months 2021 63 apartments and a commercial space). In Q2 2020, 5 apartments were sold (15 apartments in 6 months).
- In the 6 months of 2021, the group's debt burden (net loans) decreased by 765 thousand euros down to the level of 7,734 thousand euros as of 30 June 2021. As of 30 June 2021, the weighted average annual interest rate of interest-bearing liabilities was 5.1%. This is an increase of 0.3 percentage points compared to 31 December 2020.

### Main financial figures

	6 months 2021	6 months 2020	Q2 2021	Q2 2020
EUR tuhandetes				
<b>Revenue</b>	10,670	3,189	1,504	951
<b>Operating profit (EBIT)</b>	2,430	175	621	42
Finance income and expense	-207	-224	-98	-111
<b>Net profit/loss</b>	<b>2,223</b>	<b>-49</b>	<b>523</b>	<b>-69</b>
Cash flows from/used in operating activities	494	-1,817	-5,511	-1,608
Cash flows used in investing activities	0	-14	0	0
Cash flows from/used in financing activities	-2,070	1,742	263	1,208
<b>Net cash flows</b>	<b>-1,576</b>	<b>-89</b>	<b>-5,248</b>	<b>-400</b>
Cash and cash equivalents at beginning of period	2,200	870	5,872	1,181
Cash and cash equivalents at end of period	624	781	624	781
Total assets at the end of period	26,901	30,939		
Invested capital at the end of period	24,523	27,814		
Net loans at the end of period	7,734	13,870		
Equity at the end of period	16,165	13,163		

### 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	Q2 2021
In millions of euros																	
Revenue	2.1	1.1	2.1	1.3	<b>6.6</b>	1.1	0.7	0.4	10.9	<b>13.1</b>	2.1	1.0	0.6	10.3	<b>14.0</b>	9.2	1.5
Net profit/loss	-0.1	-0.3	0.1	-0.2	<b>-0.5</b>	-0.1	-0.2	-0.2	0.9	<b>0.4</b>	0.0	-0.1	-0.2	1.3	<b>1.0</b>	1.7	0.5

**Key ratios**

	6 months 2021	6 months 2020	Q2 2021	Q2 2020
EPS (in euros)	0.24	-0.01	0.06	-0.01
Diluted EPS (in euros)	0.24	-0.01	0.06	-0.01
EBITDA per share (in euros) (rolling, four quarters)	0.42	0.14		
ROIC (rolling, four quarters)	12.6%	2.2%		
ROE (rolling, four quarters)	22.7%	4.8%		
ROA (rolling, four quarters)	11.2%	1.9%		
Equity ratio	60.1%	42.5%		
Current ratio	6.63	1.78		
Quick ratio	0.79	0.12		
Financial leverage	1.66	2.35		
Average loan term (in years)	2.7	2.5		
Average annual interest rate of loans	5.1%	4.7%		
Number of staff, at period end	11	14		

**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 1,504 thousand euros in Q2 2021 (in Q2 2020: 951 thousand euros,) and 10,670 thousand euros in 6 months 2021 (in 6 months 2020: 3,189 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 1,234 thousand euros in Q2 and 10,136 thousand euros in 6 months 2021 (2020: 782 thousand euros in Q2 and 2,777 thousand euros in 6 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 200 thousand euros in Q2 2021 and 394 thousand euros in 6 months (2020: 148 thousand euros in Q2 and 310 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.

One commercial space remains unsold in Stage II of Kodulahe project in Merimetsa district in Tallinn. 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. 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 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, 68 apartments of total 72 have been presold.

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, 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 m<sup>2</sup> 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 plan sketch competition of the project has ended, 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 Q2 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. 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 last view of the project foresees construction of 65 homes (houses). Minimum construction period is 2 years.

As of 30 June 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 30 June 2021

Project name	Address	Product main type	Stage	Area of plot(s) (m <sup>2</sup> )	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, Stage II	Lahepea 9, Tallinn	Commercial space	S5	3,686	266	1
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	8,891	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>	<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 2021, 11 people worked for the group (14 as of 31 December 2020). Employee remuneration expenses in 6 months 2021 amounted to 256 thousand euros, out of which 149 thousand euros in Q2 2021 (2020 same periods: 253 thousand euros and 84 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 84 thousand euros in 6 months 2021, out of which 61 thousand euros in Q2 2021 (in 6 months and Q2 2020: 44 thousand euros and 23 thousand euros, respectively). The members of the supervisory board of the group's parent company were remunerated by 12 thousand euros in 6 months 2021, out of which 8 thousand euros in Q2. The remuneration of the members of the supervisory board was 4 thousand euros in 6 months 2020 (all 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 Keskaik, Hillar-Peeter Luutsalu, 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](http://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 Q2 2021, the group's interest-bearing liabilities amounted to 8,358 thousand euros on 30 June 2021, out of which 305 thousand euros is due within next 12 months. The group's interest-bearing liabilities have decreased by 2,341 thousand euros in the 6 months of 2021. The group's cash and cash equivalents totaled 624 thousand euros as of 30 June 2021 (31 December 2020 2,200 thousand). In Q2 2021, interest payments on interest-bearing liabilities totaled 98 thousand euros (in Q2 2020: 111 thousand euros). The group's weighted average loan interest rate was 5.1% as of 30 June 2021. This is an increase by 0.3 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 9,388,367 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 2.25 euros on 30 June 2021; the closing price was 1.21 euros on 31 December 2020. During the period, the highest traded price per share was 2.3 euros and the lowest price 1.21 euros. As of 30 June 2021, market capitalization of shares amounted to 21,124 thousand euros and P/B (price to book value) ratio was 1.31 (31 December 2020: 10,888 thousand euros and 0.77, respectively). P/E (price to earnings) ratio of the share was 6.43 on 30 June 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 6 months 2021 and during the last three years.

### Performance of Arco Vara's shares in 6 months 2021



On January 11, 2021, LHV Pensionifond L transferred 869,587, LHV Pensionifond XL 365,619, LHV Pensionifond M 51,240 and LHV Tüendav 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 July 2018 until 30 June 2021**



**Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 6 months 2021**

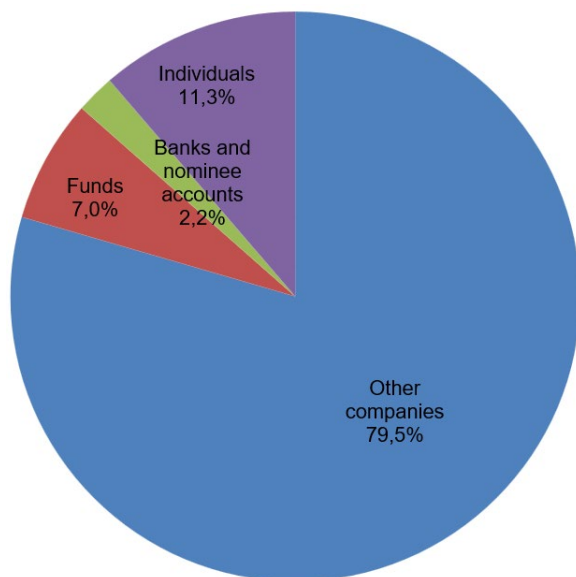


Index/equity	1 Jan 2021	30 June 2021	+/-%
OMX Tallinn	1,343.72	1,656.33	+23.26
ARC1T – Arco Vara	1.21 EUR	2.25 EUR	+85.95

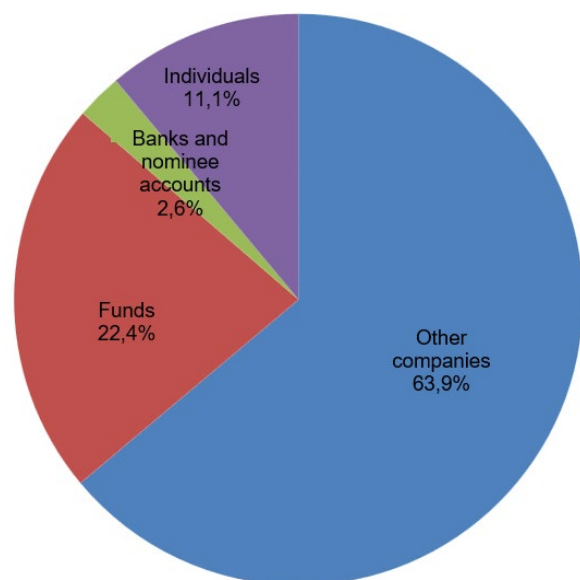
## Shareholder structure

As of 30 June 2021, Arco Vara had 2,558 shareholders (on 31 December 2020 1,475), including 2,336 individuals as shareholders (on 31 December 2020: 1,311 individuals) who jointly owned 11.3% (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 30 June 2021



Ownership structure as of 31 December 2020



## Major shareholders on 30 June 2021

Name	No of shares	Share, %
Alarmo Kapital OÜ	6,338,531	67.5%
FIREBIRD REPUBLICS FUND LTD	342,428	3.6%
HM Investeeringud OÜ	330,505	3.5%
FIREBIRD AVRORA FUND, LTD.	183,001	1.9%
Marko Teimann	174,370	1.9%
K VARA OÜ	147,271	1.6%
FIREBIRD FUND L.P.	135,222	1.4%
Rafiko OÜ	133,645	1.4%
Gamma Holding Investment OÜ	84,000	0.9%
Olegs Radcenko	63,167	0.7%
Other shareholders	1,456,227	15.6%
<b>Total</b>	<b>9,388,367</b>	<b>100.0%</b>

## Holdings of management and supervisory board members on 30 June 2021

Name	Position	No of shares	Share, %
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	chairman/ member of supervisory board	6,338,531	67.5%
Tarmo Sild (Aia Tänav OÜ)	chairman of supervisory board	40,480	0.4%
Allar Niinepuu (OÜ Kavass)	member of supervisory board	5,000	0.1%
Hillar-Peeter Luutsalu (HM Investeeringud OÜ, related persons)	member of supervisory board	369,259	3.9%
Kert Kesksaik (privately and through K Vara OÜ)	member of supervisory board	206,371	2.2%
Steven Yaroslav Gorelik <sup>1</sup>	member of supervisory board	0	-
Miko-Ove Niinemäe	member of management board	10,222	0.1%
<b>Total</b>		<b>6,969,863</b>	<b>74.2%</b>

<sup>1</sup> - 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 7.0% 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 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 July 2021

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6 months 2021	6 months 2020	Q2 2021	Q2 2020
In thousands of euros					
Revenue from sale of own real estate		10,136	2,777	1,234	782
Revenue from rendering of services		534	412	270	169
<b>Total revenue</b>	2,3	<b>10,670</b>	<b>3,189</b>	<b>1,504</b>	<b>951</b>
Cost of sales	4	-8,178	-2,541	-1,059	-714
<b>Gross profit</b>		<b>2,492</b>	<b>648</b>	<b>445</b>	<b>237</b>
Other income		22	0	12	0
Marketing and distribution expenses	5	-65	-57	-30	-15
Administrative expenses	6	-401	-415	-217	-179
Other expenses		-40	-1	-11	-1
Gain on revaluation of investment property	11	422	0	422	0
<b>Operating profit</b>		<b>2,430</b>	<b>175</b>	<b>621</b>	<b>42</b>
Finance income and cost	7	-207	-224	-98	-111
<b>Profit/ loss before tax</b>		<b>2,223</b>	<b>-49</b>	<b>523</b>	<b>-69</b>
<b>Net profit/ loss for the period</b>		<b>2,223</b>	<b>-49</b>	<b>523</b>	<b>-69</b>
<b>Total comprehensive income/ expense for the period</b>		<b>2,223</b>	<b>-49</b>	<b>523</b>	<b>-69</b>
<b>Earnings per share (in euros)</b>	8				
- basic		<b>0.24</b>	-0.01	<b>0.06</b>	-0.01
- diluted		<b>0.24</b>	-0.01	<b>0.06</b>	-0.01

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	30 June 2021	31 December 2020
In thousands of euros			
Cash and cash equivalents		624	2,200
Receivables and prepayments	9	506	1,344
Inventories	10	15,667	14,960
<b>Total current assets</b>		<b>16,797</b>	<b>18,504</b>
Receivables and prepayments	9	5	5
Investment property	11	9,972	9,564
Property, plant and equipment	2	15	22
Intangible assets	2	112	136
<b>Total non-current assets</b>		<b>10,104</b>	<b>9,727</b>
<b>TOTAL ASSETS</b>		<b>26,901</b>	<b>28,231</b>
Loans and borrowings	12	305	3,482
Payables and deferred income	13	2,378	3,308
<b>Total current liabilities</b>		<b>2,683</b>	<b>6,790</b>
Loans and borrowings	12	8,053	7,217
<b>Total non-current liabilities</b>		<b>8,053</b>	<b>7,217</b>
<b>TOTAL LIABILITIES</b>		<b>10,736</b>	<b>14,007</b>
Share capital	8	6,572	6,299
Unregistered share capital	8	0	273
Share premium		2,285	2,285
Statutory capital reserve		2,011	2,011
Retained earnings		5,297	3,356
<b>Total equity attributable to owners of the parent</b>		<b>16,165</b>	<b>14,224</b>
<b>TOTAL EQUITY</b>		<b>16,165</b>	<b>14,224</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>26,901</b>	<b>28,231</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	6 months 2021	6 months 2020	Q2 2021	Q2 2020
In thousands of euros					
Cash receipts from customers		14,049	3,963	2,564	1,591
Cash paid to suppliers		-10,273	-5,582	-7,536	-3,273
Taxes paid and recovered (net)		-3,134	2	-474	160
Cash paid to employees		-153	-206	-73	-90
Other cash payments and receipts related to operating activities (net)		5	6	8	4
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>		<b>494</b>	<b>-1,817</b>	<b>-5,511</b>	<b>-1,608</b>
Payments made on purchase and development of investment property	11	0	-14	0	0
<b>NET CASH FROM/USED IN INVESTING ACTIVITIES</b>		<b>0</b>	<b>-14</b>	<b>0</b>	<b>0</b>
Proceeds from loans received	12	994	3,492	994	1,979
Settlement of loans and borrowings	12	-2,529	-1,331	-366	-526
Interest paid		-253	-334	-83	-158
Dividends paid		-282	-360	-282	-360
Proceeds from share capital increase	8	0	273	0	273
Other payments related to financing activities		0	2	0	0
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>		<b>-2,070</b>	<b>1,742</b>	<b>263</b>	<b>1,208</b>
<b>NET CASH FLOW</b>		<b>-1,576</b>	<b>-89</b>	<b>-5,248</b>	<b>-400</b>
Cash and cash equivalents at the beginning of period		2,200	870	5,872	1,181
<b>Change in cash and cash equivalents</b>		<b>-1,576</b>	<b>-89</b>	<b>-5,248</b>	<b>-400</b>
Cash and cash equivalents at the end of period		624	781	624	781



**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							
<b>Balance as of 31 December 2019</b>	<b>6,299</b>	<b>0</b>	<b>2,285</b>	<b>2,011</b>	<b>245</b>	<b>2,459</b>	<b>13,299</b>
Increase of share capital	0	273	0	0	0	0	273
Dividends paid	0	0	0	0	0	-360	-360
Other reserves	0	0	0	0	-245	245	0
Total comprehensive expense for the period	0	0	0	0	0	-49	-49
<b>Balance as of 30 June 2020</b>	<b>6,299</b>	<b>273</b>	<b>2,285</b>	<b>2,011</b>	<b>0</b>	<b>2,295</b>	<b>13,163</b>
<b>Balance as of 31 December 2020</b>	<b>6,299</b>	<b>273</b>	<b>2,285</b>	<b>2,011</b>	<b>0</b>	<b>3,356</b>	<b>14,224</b>
Increase of share capital	273	-273	0	0	0	0	0
Dividends paid	0	0	0	0	0	-282	-282
Total comprehensive income for the period	0	0	0	0	0	2,223	2,223
<b>Balance as of 30 June 2021</b>	<b>6,572</b>	<b>0</b>	<b>2,285</b>	<b>2,011</b>	<b>0</b>	<b>5,297</b>	<b>16,165</b>

## 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 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

	6 months 2021	6 months 2020	Q2 2021	Q2 2020
In thousands of euros				
Estonia	5,664	644	1,017	210
Bulgaria	5,006	2,545	487	741
<b>Total revenue</b>	<b>10,670</b>	<b>3,189</b>	<b>1,504</b>	<b>951</b>

#### External operating profit (-loss) by location

	6 months 2021	6 months 2020	Q2 2021	Q2 2020
In thousands of euros				
Estonia	918	-189	401	-115
Bulgaria	1,516	367	220	159
Latvia	-4	-3	0	-2
<b>Total operating loss</b>	<b>2,430</b>	<b>175</b>	<b>621</b>	<b>42</b>

#### External assets and liabilities by location

	30.06.2021	31.12.2020
In thousands of euros		
<b>Assets</b>	<b>26,901</b>	<b>28,231</b>
Estonia	12,800	9,642
Bulgaria	13,975	18,462
Latvia	126	127
<b>Liabilities</b>	<b>10,736</b>	<b>14,007</b>
Estonia	4,861	4,938
Bulgaria	5,875	9,069

#### Non-current assets by location

	30.06.2021	31.12.2020
In thousands of euros		
<b>Total non-current assets</b>	<b>127</b>	<b>158</b>
<b>Tangible assets</b>	<b>15</b>	<b>22</b>
Estonia	6	6
Bulgaria	9	16
<b>Intangible assets</b>	<b>112</b>	<b>136</b>
Estonia	68	86
Bulgaria	44	50

### 3. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	6M 2021	6M 2020	6M 2021	6M 2020	6M 2021	6M 2020	6M 2021	6M 2020
In thousands of euros								
Sale of own real estate	5,534	558	4,602	2,219	0	0	10,136	2,777
Rental of real estate	5	3	350	272	0	0	355	275
Property management services	5	1	44	39	0	0	49	40
Franchise	88	55	23	15	11	5	122	75
Other revenue	2	6	6	16	0	0	8	22
<b>Total revenue</b>	<b>5,634</b>	<b>623</b>	<b>5,025</b>	<b>2,561</b>	<b>11</b>	<b>5</b>	<b>10,670</b>	<b>3,189</b>

	Estonia		Bulgaria		Latvia		Consolidated	
	Q2 2021	Q2 2020	Q2 2021	Q2 2020	Q2 2021	Q2 2020	Q2 2021	Q2 2020
In thousands of euros								
Sale of own real estate	951	176	283	606	0	0	1,234	782
Rental of real estate	1	2	177	110	0	0	178	112
Property management services	5	1	23	18	0	0	28	19
Franchise	44	22	14	7	6	1	64	30
Other revenue	0	1	0	7	0	0	0	8
<b>Total revenue</b>	<b>1,001</b>	<b>202</b>	<b>497</b>	<b>748</b>	<b>6</b>	<b>1</b>	<b>1,504</b>	<b>951</b>

### 4. Cost of sales

	6 months 2021		6 months 2020		Q2 2021		Q2 2020	
	In thousands of euros							
Cost of real estate sold (note 10, 11)	-7,775	-2,194	-955	-554	-44	-28	0	0
Brokerage fees	-205	-73	-45	-87	0	-2	-9	-21
VAT cost	0	-38	-6	-22	-1,059	-714		
Property management costs	-127	-158						
Personnel expenses	0	-10						
Depreciation, amortisation and impairment losses	-19	-42						
Other costs	-52	-26						
<b>Total cost of sales</b>	<b>-8,178</b>	<b>-2,541</b>						

### 5. Marketing and distribution expenses

	6 months 2021		6 months 2020		Q2 2021		Q2 2020	
	In thousands of euros							
Advertising expenses	-44	-26	-12	-10	-18	-5		
Other marketing and distribution expenses	-21	-31	-30	-15				
<b>Total marketing and distribution expenses</b>	<b>-65</b>	<b>-57</b>						

## 6. Administrative expenses

	6 months 2021	6 months 2020	Q2 2021	Q2 2020
In thousands of euros				
Personnel expenses	-256	-243	-149	-83
Office expenses	-45	-40	-12	-18
IT expenses	-14	-14	-7	-6
Services purchased	-65	-89	-31	-57
Depreciation, amortization and impairment losses	-8	-14	-4	-6
Legal service fees	-4	-10	-6	-6
Other expenses	-9	-5	-8	-3
<b>Total administrative expenses</b>	<b>-401</b>	<b>-415</b>	<b>-217</b>	<b>-179</b>

## 7. Financial income and expenses

	6 months 2021	6 months 2020	Q2 2021	Q2 2020
In thousands of euros				
Interest expenses	-213	-214	-99	-106
Other financial income and costs	6	-10	1	-5
<b>Total financial income and costs</b>	<b>-207</b>	<b>-224</b>	<b>-98</b>	<b>-111</b>

## 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 were registration on the 27 of May 2021. See also note 14.

	6 months 2021	6 months 2020	Q2 2021	Q2 2020
In thousands of euros				
Weighted average number of ordinary shares outstanding during the period	9,073,781	8,998,367	9,148,367	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)	2,223	-49	523	-69
<b>Earnings per share (in euros)</b>	<b>0.24</b>	<b>-0.01</b>	<b>0.06</b>	<b>-0.01</b>
<b>Diluted earnings per share (in euros)</b>	<b>0.24</b>	<b>-0.01</b>	<b>0.06</b>	<b>-0.01</b>

## 9. Receivables and prepayments

### Short-term receivables and prepayments

	30 June 2021	31 December 2020
In thousands of euros		
Receivables from customers	179	1,283
Miscellaneous receivables	6	12
Prepaid and recoverable taxes	197	19
Other accrued income	13	13
Prepayments	111	17
<b>Total short-term receivables and prepayments</b>	<b>506</b>	<b>1,344</b>

**Long-term receivables and prepayments**

	31 June 2021	31 December 2020
In thousands of euros		
Deposits	5	5
<b>Total long-term receivables and prepayments</b>	<b>5</b>	<b>5</b>

**10. Inventories**

	30 June 2021	31 December 2020
In thousands of euros		
Properties purchased and being developed for resale	15,657	14,943
Materials and finished goods	10	17
<b>Total inventories</b>	<b>15,667</b>	<b>14,960</b>

**Properties purchased and being developed for resale**

	2021	2020
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>14,943</b>	<b>15,779</b>
Properties purchased for development	5,102	0
Construction costs of apartment buildings	2,653	4,291
Capitalized borrowing costs	40	71
Other capitalized costs	680	139
Cost of sold properties (note 4)	-7,761	-1,811
<b>Balance at the end of period, 30 June</b>	<b>15,657</b>	<b>18,469</b>

**11. Investment property**

	2021	2020
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>9,564</b>	<b>11,051</b>
Net gain on changes in fair value	422	0
Capitalized development costs	0	14
Capitalized borrowing costs	0	14
Sale of investment property (note 4)	-14	-383
<b>Balance at the end of period, 30 June</b>	<b>9,972</b>	<b>10,696</b>

**12. Interest bearing liabilities**

	As of 30 June, 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	6,558	285	6,273	8,649	3,212	5,437
Bonds	1,780	0	1,780	1,780	0	1,780
Other loans	20	20	0	270	270	0
<b>Total</b>	<b>8,358</b>	<b>305</b>	<b>8,053</b>	<b>10,699</b>	<b>3,482</b>	<b>7,217</b>

In 6 months 2021, the group settled loans in the amount of 3,335 thousand euros (in 6 months 2020: 1,331 thousand euros) through cash transactions and raised new loans in the amount of 994 thousand euros (in 6 months 2020: 3,492 thousand euros). 852 thousand euros of the settled loans were paid by customers directly to the bank in 2021.

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.

In 6 months 2020, the following major loan obligations were settled:

- 68 thousand euros of Madrid Blvd project's bank loan principal;
- 1,262 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 1 thousand euros of Arco Vara convertible bonds.

In 6 months 2020, the group raised the following new liabilities:

- 1,383 thousand euros of bank loan for financing construction of apartment building in Kodukalda project;
- 2,109 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

	30 June 2021	31 December 2020
In thousands of euros		
<b>Trade payables</b>	<b>765</b>	<b>811</b>
<b>Miscellaneous payables</b>	<b>0</b>	<b>76</b>
<b>Taxes payable</b>		
Value added tax	47	1,431
Social security tax	18	14
Personal income tax	12	17
Land tax	15	0
Garbage tax	34	23
Other taxes	3	1
<b>Total taxes payable</b>	<b>129</b>	<b>1,486</b>
<b>Accrued expenses</b>		
Payables to employees	52	17
Interest payable	7	44
Other accrued expenses	22	100
<b>Total accrued expenses</b>	<b>81</b>	<b>161</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	1,261	631
Guarantee deposits	105	102
Prepaid revenue	37	41
<b>Total deferred income</b>	<b>1,403</b>	<b>774</b>
<b>Total short-term payables and deferred income</b>	<b>2,378</b>	<b>3,308</b>

## 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 2021	6 months 2020
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Services purchased	46	29
Bonds	0	273
<b>Other related parties</b>		
Services sold	0	1

In 6 months 2021, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 84 thousand euros, out of which 61 thousand euros in Q2 (in 6 months and Q2 2020: 44 thousand euros and 23 thousand euros respectively).

The remuneration provided to the members of the supervisory board of the group's parent company during the first 6 months in 2021 was 12 thousand euros, out of which 8 thousand in Q2 2021 (in 6 months and Q2 2020: 4 thousand euros - all in Q2 2020).

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).

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. The added 390,000 shares were registered on the 27 of May 2021. 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 second quarter and 6 months ended on 30 June 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 29 July 2021