

INTERIM REPORT FOR THE FIRST QUARTER OF 2021
(UNAUDITED)

Company name: Arco Vara AS

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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.

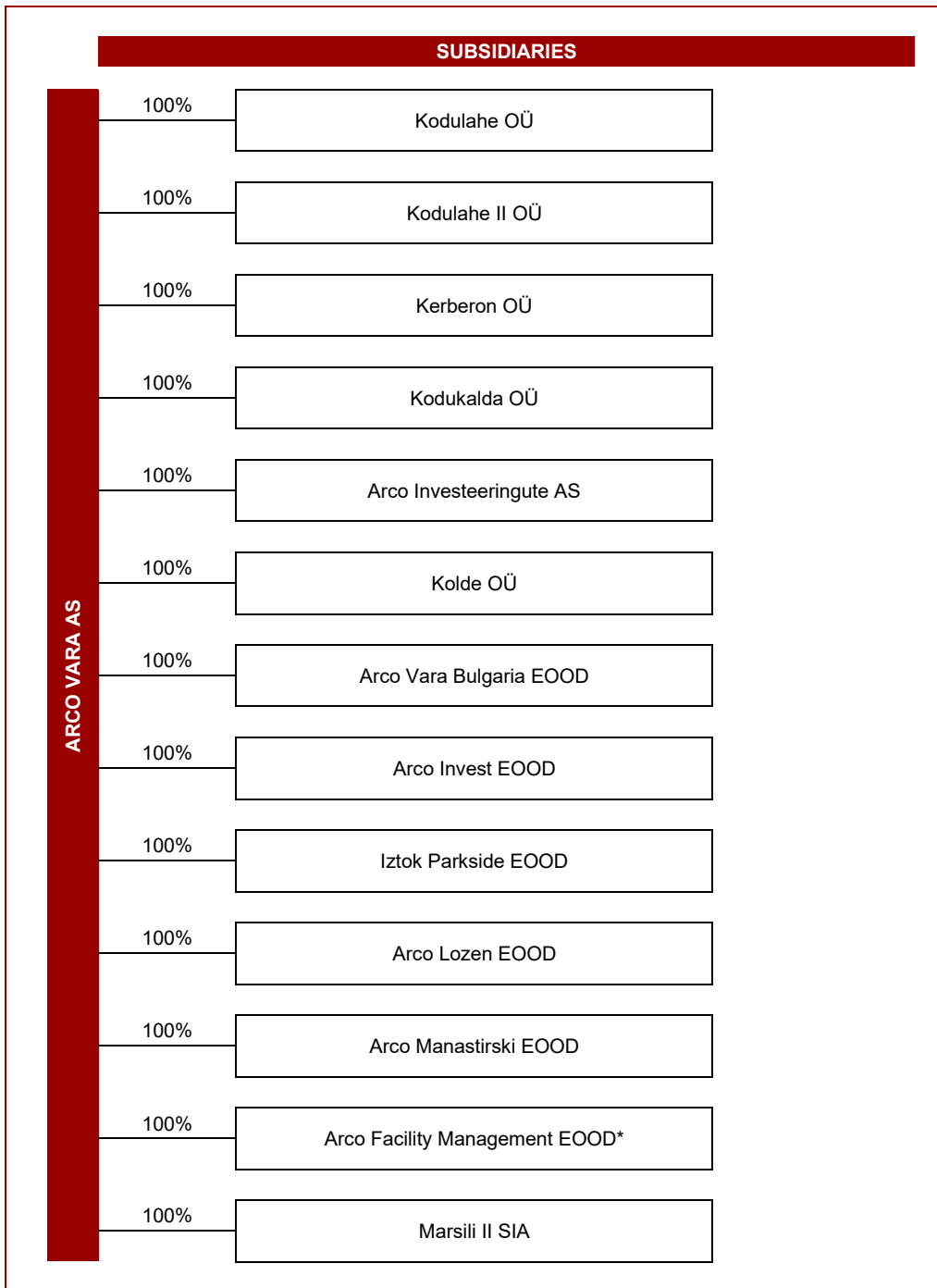
Group structure

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 Kesksaik, 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



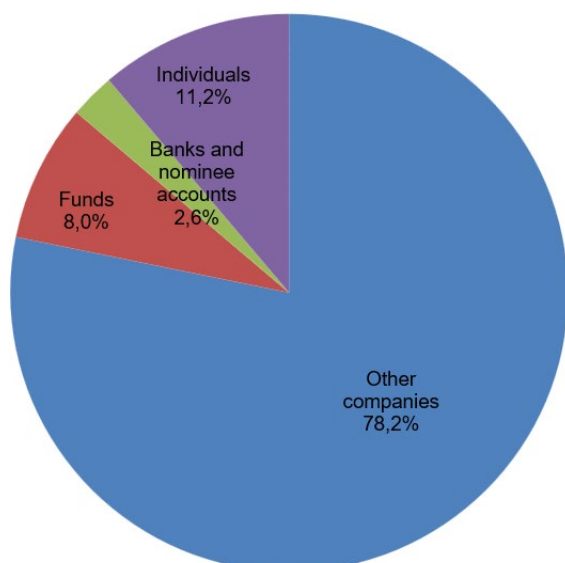
Source: <https://nasdaqbaltic.com> 14 April 2021

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

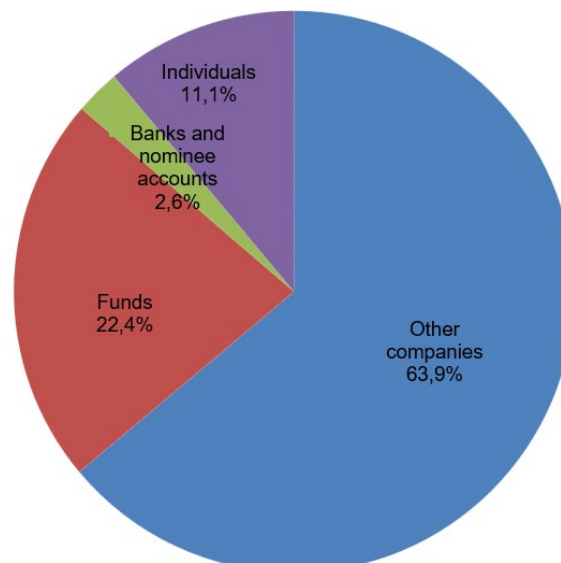
Shareholder structure

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