

Arco Vara AS

INTERIM REPORT FOR THE III QUARTER AND
NINE MONTHS OF 2021 (UNAUDITED)



ARCO VARA

INTERIM REPORT FOR THE THIRD QUARTER AND NINE MONTHS OF 2021
(UNAUDITED)

Company name: Arco Vara AS

Registry number: 10261718

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Corporate website: www.arcovara.com

Core activities: Real estate development (EMTAK 41201)
Renting and operating of real estate (EMTAK 6820)
Real estate management (EMTAK 6832)

Financial year: 1 January 2021 – 31 December 2021

Reporting period: 1 January 2021 – 30 September 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 Q3 AND 9 MONTHS 2021

GROUP CEO'S REVIEW

The third quarter of 2021 brought exciting times in the history of Arco Vara: not a single apartment that wouldn't be pre-sold was left, the share price showed record highs and the new share issue was very successful. At the moment, Arco Vara is constructing Kodulahe Phase IV and Phase V houses in Merimetsa. Of the 72 apartments under construction, pre-sales of the last 5 vacant apartments were just completed in the third quarter. The group has thus guaranteed itself sales revenue of EUR 12 million from the Kodulahe project until 2022. Construction is on schedule and within budget.

We are currently tendering for the construction of the next phase of Kodulahe – Rannakalda - and we plan to start sales in a few weeks. The Rannakalda development consists of 3- and 4-storey apartment buildings with a total of 108 homes and 5 commercial spaces. What makes Rannakalda special is its location, which is as close to the sea as possible, with only the pedestrian walkway from Stroomi Beach to Rocca al Mare between the apartment buildings and the sea. For the first time, we are also working in this project with Enefit Volt, who within a pilot project is making it possible to install an electric car charging station in every parking space - a convenience that has not been possible before for technical reasons.

By the time the report is published, we are also able to share good news from Bulgaria. The design of Botanica Lozen is in full swing and we hope to start construction in spring 2022. The plan is to build a total of 54 detached houses in three phases, ranging in size from 270 to 350 m². There is a demand for spacious homes in Bulgaria and the location of Lozen, with its pristine natural surroundings, is perfect for this.

I am pleased that over the past year Arco Vara has seen a strong increase in interest from both clients and investors.

Arco Vara decided on 12 August to issue an additional 1,000,000 new shares at a price of EUR 2.25 per share. The issue was a success given that the volume of shares offered was oversubscribed 4.84 times! At the same time, a number of other share and bond issues were underway and the choice for investors to invest their money is growing. This confirms our earlier belief that people's appetite to invest is growing and that real estate development continues to be attractive – 6,116 new subscribers participated in the Arco Vara share subscription! The target of 1,000 new investors was therefore significantly exceeded - the number of Arco Vara shareholders has increased by nearly seven times in the last year.

For now, we can enjoy the success, but we have not forgotten to secure the back. Arco Vara's equity position is strong and we can look to the future with confidence to deliver volume and profitability growth to 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.

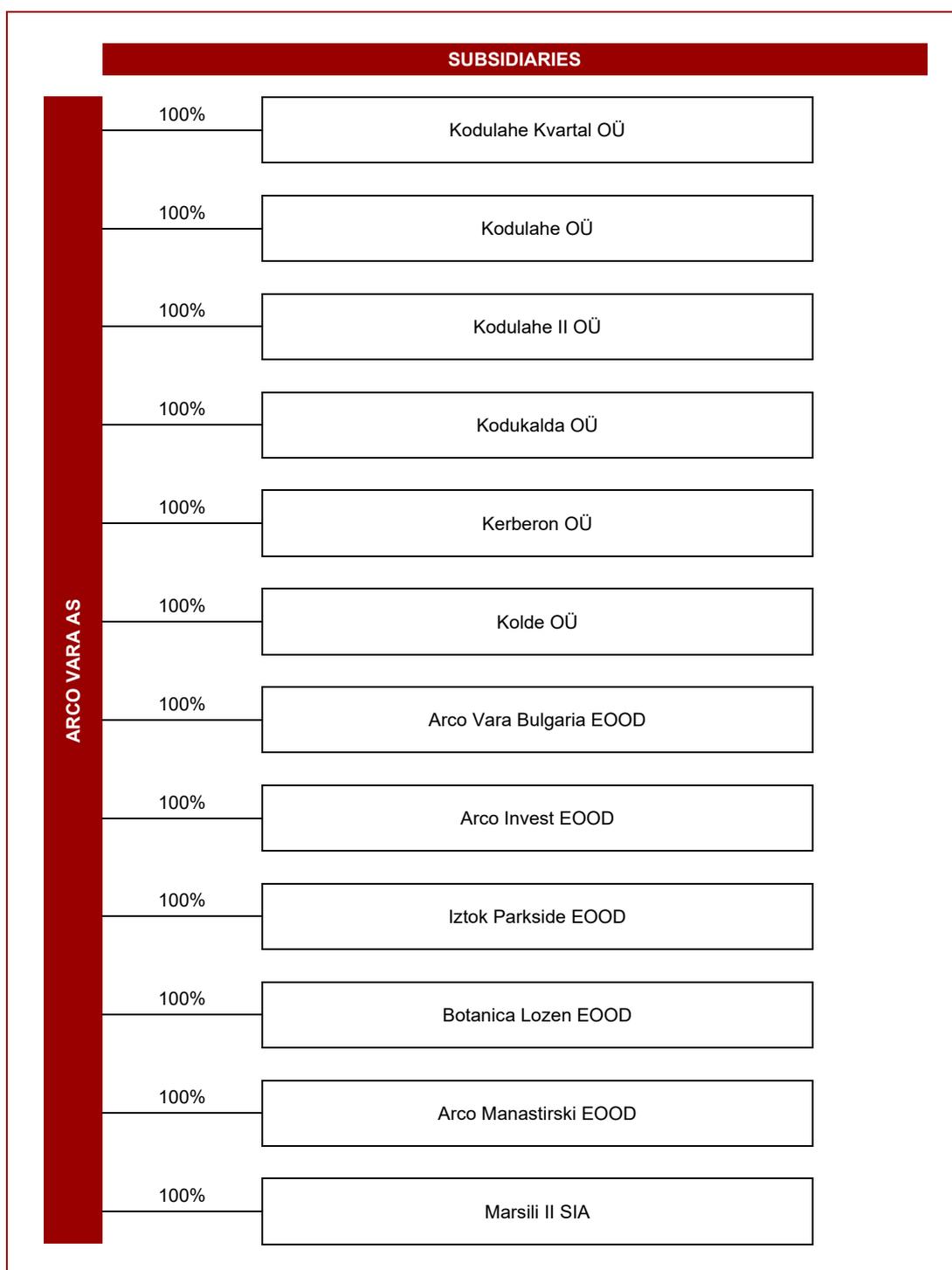
Group structure

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

Significant subsidiaries as of 30 September 2021

| Company name | Location | Share capital (nominal value) | Equity balance on 30 September 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% |
| Botanica Lozen EOOD | Bulgaria | 2,931 | 2,011 | 100% |
| Kodulahe Kvartal OÜ | Estonia | 140 | 75 | 100% |
| Kodulahe OÜ | Estonia | 3 | 3,270 | 100% |
| Kolde OÜ | Estonia | 28 | 161 | 100% |

Group structure as of 30 September 2021



KEY PERFORMANCE INDICATORS

- In Q3 2021, the group's revenue was 613 thousand euros, which is 8% more than the revenue of 569 thousand euros in Q3 2020. In 9 months 2021, the group's revenue was 11,283 thousand euros, which is 2 times more than the revenue of 3,758 thousand euros in 9 months 2020.
- In Q3 2021, the group's operating profit (=EBIT) was 336 thousand euros and net profit 202 thousand euros (in 9 months 2021: operating profit 2,724 thousand euros and net profit of 2,425 thousand euros). In Q3 2020, the group had operating loss of 126 thousand euros and net loss of 228 thousand euros. In 9 months 2020, the group made operating profit of 49 thousand euros and net loss of 277 thousand euros.
- In Q3 2021, final sales were made only in garages, but in 9 months a total of 63 apartments and a commercial space were also sold. In Q3 2020, 2 apartments were sold (17 apartments and a land plot in Latvia in 9 months).
- In the 9 months of 2021, the group's debt burden (net loans) increased by 973 thousand euros down to the level of 9,472 thousand euros as of 30 September 2021. As of 30 September 2021, the weighted average annual interest rate of interest-bearing liabilities was 5.2%. This is an increase of 0.4 percentage points compared to 31 December 2020.

Main financial figures

| | 9 months 2021 | 9 months 2020 | Q3 2021 | Q3 2020 |
|--|---------------|---------------|------------|-------------|
| EUR tuhandetes | | | | |
| Revenue | 11,283 | 3,758 | 613 | 569 |
| Operating profit/ loss (EBIT) | 2,724 | 49 | 294 | -126 |
| Finance income and expense | -299 | -326 | 92 | -102 |
| Net profit/ loss | 2,425 | -277 | 202 | -228 |
| Cash flows from/used in operating activities | -868 | -3,293 | -1,362 | -1,476 |
| Cash flows used in investing activities | -5 | -14 | -5 | 0 |
| Cash flows from/used in financing activities | 31 | 3 055 | 2,101 | 1,313 |
| Net cash flows | -842 | -252 | 734 | -163 |
| Cash and cash equivalents at beginning of period | 2,200 | 870 | 624 | 781 |
| Cash and cash equivalents at end of period | 1,358 | 618 | 1,358 | 618 |
| Total assets at the end of period | 29,640 | 32,442 | | |
| Invested capital at the end of period | 26,895 | 29,324 | | |
| Net loans at the end of period | 9,472 | 15,771 | | |
| Equity at the end of period | 16,065 | 12,935 | | |

| | Q1 2019 | Q2 2019 | Q3 2019 | Q4 2019 | Total 2019 | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | Total 2020 | I kv 2021 | II kv 2021 | III kv 2021 | Total 2021 |
|----------------------|---------|---------|---------|---------|-------------|---------|---------|---------|---------|-------------|-----------|------------|-------------|-------------|
| In millions of euros | | | | | | | | | | | | | | |
| Revenue | 1.1 | 0.7 | 0.4 | 10.9 | 13.1 | 2.1 | 1.0 | 0.6 | 10.3 | 14.0 | 9.2 | 1.5 | 0.6 | 11.3 |
| Net profit/loss | -0.1 | -0.2 | -0.2 | 0.9 | 0.4 | 0.0 | -0.1 | -0.2 | 1.3 | 1.0 | 1.7 | 0.5 | 0.2 | 2.4 |

Key ratios

| | 9 months 2021 | 9 months 2020 | Q3 2021 | Q3 2020 |
|--|---------------|---------------|---------|---------|
| EPS (in euros) | 0.26 | -0.03 | 0.02 | -0.03 |
| Diluted EPS (in euros) | 0.24 | -0.03 | 0.02 | -0.02 |
| EBITDA per share (in euros) (rolling, four quarters) | 0.46 | 0.13 | | |
| ROIC (rolling, four quarters) | 14.4% | 2.0% | | |
| ROE (rolling, four quarters) | 24.7% | 4.4% | | |
| ROA (rolling, four quarters) | 12.8% | 1.8% | | |
| Equity ratio | 54.2% | 39.9% | | |
| Current ratio | 2.98 | 1.64 | | |
| Quick ratio | 0.31 | 0.07 | | |
| Financial leverage | 1.85 | 2.51 | | |
| Average loan term (in years) | 2.1 | 1.9 | | |
| Average annual interest rate of loans | 5.2% | 5.0% | | |
| Number of staff, at period end | 12 | 10 | | |

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 613 thousand euros in Q3 2021 (in Q3 2020: 569 thousand euros,) and 11,283 thousand euros in 9 months 2021 (in 9 months 2020: 3,758 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 305 thousand euros in Q3 and 10,441 thousand euros in 9 months 2021 (2020: 337 thousand euros in Q3 and 3,114 thousand euros in 9 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 214 thousand euros in Q3 2021 and 608 thousand euros in 9 months (2020: 178 thousand euros in Q3 and 488 thousand euros in 9 months). By the time of publishing the present report, one office space was vacant, but all commercial spaces, together with parking places, were rented out. The free office space makes 11% of the rented office and retail area.

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. 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 the summer of 2022. All 72 apartments 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 m² of residential and commercial real estate (GBA) is planned for development. The expected development period is 6 years with the start of construction planned for 2023. The detailed 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 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. 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.

The last vision of the Botanica Lozen project foresees construction of 54 homes (houses). The expected start time of construction is the spring of 2022. Minimum construction period is 2 years.

As of 30 September 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 September 2021

| Project name | Address | Product main type | Stage | Area of plot(s) (m ²) | GSA / GLA (above grade) available or <future target> | No of units (above grade) available or <future target> |
|---------------------------|-----------------------------|----------------------|-------|-----------------------------------|--|--|
| Madrid Blvd | Madrid Blvd, Sofia | Lease: Retail/Office | S6 | - | 7,350 | 22 |
| Marsili residential plots | Marsili, near Riga | Residential plots | S5 | 6,153 | - | 4 |
| Kodulahe, 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> | <54> |

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

Description of stages

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

PEOPLE

Remuneration

As of 30 September 2021, 12 people worked for the group (11 as of 31 December 2020). Employee remuneration expenses in 9 months 2021 amounted to 363 thousand euros, out of which 107 thousand euros in Q3 2021 (2020 same periods: 381 thousand euros and 128 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 107 thousand euros in 9 months 2021, out of which 23 thousand euros in Q3 2021 (in 9 months and Q3 2020: 67 thousand euros and 23 thousand euros, respectively). The members of the supervisory board of the group's parent company were remunerated by 18 thousand euros in 9 months 2021, out of which 4 thousand euros in Q3. The remuneration of the members of the supervisory board was 11 thousand euros in 9 months 2020, out of which 7 thousand euros in Q3.

Management board and supervisory board

The management board of Arco Vara AS has one member. Since 30 April 2020, the member of the management board and chief executive officer of Arco Vara AS is Miko-Ove Niinemäe who has a mandate until 30 April 2023.

The supervisory board of Arco Vara AS has 5 members. Since 12 January 2021, the supervisory board consists of Tarmo Sild (the Chairman), Kert Keskaik, Hillar-Peeter Luitsalu, Allar Niinepuu and Steven Yaroslav Gorelik.

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

DESCRIPTION OF MAIN RISKS

Strategic risk

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

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

Credit risk

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

Liquidity and interest rate risks

The base currency of the group's all loan agreements is euro and the base interest rate is 3 or 6 months' EURIBOR. As a result, the group is exposed to developments on international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In Q3 2021, the group's interest-bearing liabilities amounted to 10,830 thousand euros on 30 September 2021, out of which 727 thousand euros is due within next 12 months. The group's cash and cash equivalents totaled 1,358 thousand euros as of 30 September 2021 (31 December 2020 2,200 thousand). In Q3 2021, interest payments on interest-bearing liabilities totaled 92 thousand euros (in Q3 2020: 102 thousand euros). The group's weighted average loan interest rate was 5.2% as of 30 September 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 10,388,367 ordinary shares with nominal value of 0.7 euros per share. The shares of Arco Vara (ARC1T, ISIN EE3100034653) are freely traded on NASDAQ Tallinn stock exchange, including 1,000,000 shares of the 2021 issue which are tradable from 28 October 2021.

The share price closed at 2.84 euros on 30 September 2021; the closing price was 1.21 euros on 31 December 2020. During the period, the highest traded price per share was 3.30 euros and the lowest price 1.21 euros. As of 30 September 2021, market capitalization of shares amounted to 26,663 thousand euros and P/B (price to book value) ratio was 1.66 (31 December 2020: 10,888 thousand euros and 0.77, respectively). P/E (price to earnings) ratio of the share was 7.18 on 30 September 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 9 months 2021 and during the last three years.

Performance of Arco Vara's shares in 9 months 2021



Source: <https://nasdaqbaltic.com> 6 October 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 October 2018 until 30 September 2021



Source: <https://nasdaqbaltic.com> 6 October 2021

Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 9 months 2021



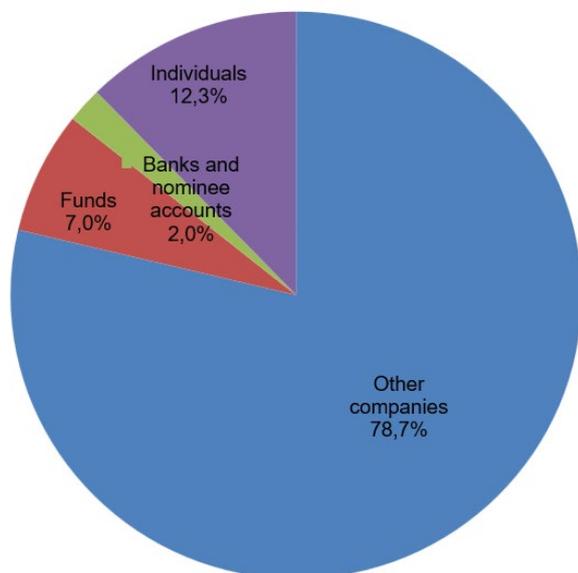
Source: <https://nasdaqbaltic.com> 6 October 2021

| Index/equity | 1 Jan 2021 | 30 September 2021 | +/-% |
|-------------------|------------|-------------------|---------|
| OMX Tallinn | 1,343.72 | 1,932.45 | +43.81 |
| ARC1T – Arco Vara | 1.21 | 2.84 | +134,71 |

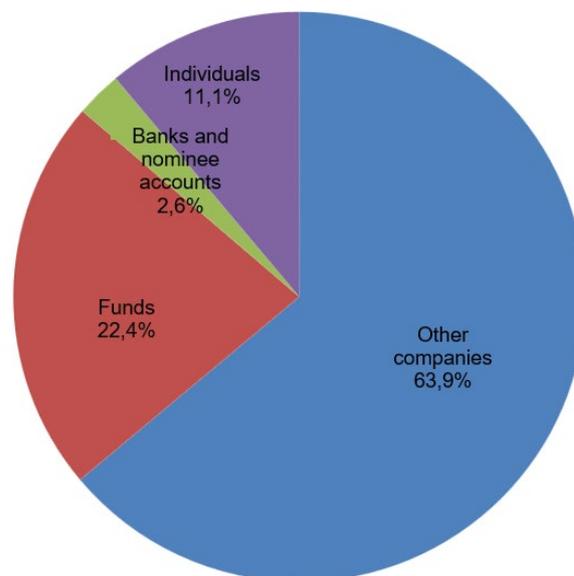
Shareholder structure

As of 30 September 2021, Arco Vara had 3,657 shareholders (on 31 December 2020 1,475), including 3,400 individuals as shareholders (on 31 December 2020: 1,311 individuals) who jointly owned 12.2% (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 30 September 2021



Ownership structure as of 31 December 2020



Major shareholders on 30 September 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. | 182,801 | 1.9% |
| Marko Teimann | 174,370 | 1.9% |
| K VARA OÜ | 147,271 | 1.6% |
| FIREBIRD FUND L.P. | 135,222 | 1.4% |
| Aia Tänav OÜ | 95,288 | 1.0% |
| Rafiko OÜ | 91,427 | 1.0% |
| Olegs Radcenko | 63,167 | 0.7% |
| Other shareholders | 1,487,357 | 15.9% |
| Total | 9,388,367 | 100.0% |

Holdings of management and supervisory board members on 30 September 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 | 95,288 | 1.0% |
| 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, through K Vara OÜ and One Eleven OÜ) | member of supervisory board | 210,756 | 2.2% |
| Steven Yaroslav Gorelik ¹ | member of supervisory board | 0 | - |
| Miko-Ove Niinemäe | member of management board | 10,222 | 0.1% |
| Total | | 7,029,056 | 74.8% |

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 660,451 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 third quarter and 9 months ended on 30 September 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 28 October 2021

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | 9 months 2021 | 9 months 2020 | Q3 2021 | Q3 2020 |
|---|------|---------------|---------------|-------------|-------------|
| In thousands of euros | | | | | |
| Revenue from sale of own real estate | | 10,441 | 3,114 | 305 | 337 |
| Revenue from rendering of services | | 842 | 644 | 308 | 232 |
| Total revenue | 2,3 | 11,283 | 3,758 | 613 | 569 |
| Cost of sales | 4 | -8,455 | -2,981 | -277 | -440 |
| Gross profit | | 2,828 | 777 | 336 | 129 |
| Other income | | 272 | 0 | 250 | 0 |
| Marketing and distribution expenses | 5 | -109 | -66 | -44 | -9 |
| Administrative expenses | 6 | -631 | -654 | -230 | -239 |
| Other expenses | | -58 | -8 | -18 | -7 |
| Gain on revaluation of investment property | 11 | 422 | 0 | 0 | 0 |
| Operating profit/ loss | | 2,724 | 49 | 294 | -126 |
| Finance income and cost | 7 | -299 | -326 | -92 | -102 |
| Profit/ loss before tax | | 2,425 | -277 | 202 | -228 |
| Net profit/ loss for the period | | 2,425 | -277 | 202 | -228 |
| Total comprehensive income/ expense for the period | | 2,425 | -277 | 523 | -228 |
| Earnings per share (in euros) | 8 | | | | |
| - basic | | 0.26 | -0.03 | 0.02 | -0.03 |
| - diluted | | 0.24 | -0.03 | 0.02 | -0.02 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | 30 September 2021 | 31 December 2020 |
|--|------|-------------------|------------------|
| In thousands of euros | | | |
| Cash and cash equivalents | | 1,358 | 2,200 |
| Receivables and prepayments | 9 | 691 | 1,344 |
| Inventories | 10 | 17,417 | 14,960 |
| Total current assets | | 19,466 | 18,504 |
| Receivables and prepayments | 9 | 5 | 5 |
| Investment property | 11 | 9,910 | 9,564 |
| Property, plant and equipment | 2 | 160 | 22 |
| Intangible assets | 2 | 99 | 136 |
| Total non-current assets | | 10,174 | 9,727 |
| TOTAL ASSETS | | 29,640 | 28,231 |
| Loans and borrowings | 12 | 727 | 3,482 |
| Payables and deferred income | 13 | 2,745 | 3,308 |
| Total current liabilities | | 3,472 | 6,790 |
| Loans and borrowings | 12 | 10,103 | 7,217 |
| Total non-current liabilities | | 10,103 | 7,217 |
| TOTAL LIABILITIES | | 13,575 | 14,007 |
| 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 | | 5,197 | 3,356 |
| Total equity attributable to owners of the parent | | 16,065 | 14,224 |
| TOTAL EQUITY | | 16,065 | 14,224 |
| TOTAL LIABILITIES AND EQUITY | | 29,640 | 28,231 |

CONSOLIDATED STATEMENT OF CASH FLOWS

| Note | 9 months 2021 | 9 months 2020 | Q3 2021 | Q3 2020 |
|--|---------------|---------------|---------------|---------------|
| In thousands of euros | | | | |
| Cash receipts from customers | 14,926 | 5,207 | 877 | 1,244 |
| Cash paid to suppliers | -12,706 | -8,409 | -2,433 | -2,827 |
| Taxes paid and recovered (net) | -3,106 | 212 | 28 | 210 |
| Cash paid to employees | -225 | -307 | -72 | -101 |
| Other cash payments and receipts related to operating activities (net) | 243 | 4 | 238 | -2 |
| NET CASH FROM/USED IN OPERATING ACTIVITIES | -868 | -3,293 | -1,362 | -1,476 |
| Payments made on purchase of tangible and intangible assets | -6 | 0 | -6 | 0 |
| Payments made on purchase and development of investment property 11 | 0 | -14 | 0 | 0 |
| Interest received | 1 | 0 | 1 | 0 |
| NET CASH FROM/USED IN INVESTING ACTIVITIES | -5 | -14 | -5 | 0 |
| Proceeds from loans received 12 | 3,454 | 5,291 | 2,460 | 1,799 |
| Settlement of loans and borrowings 12 | -2,613 | -1,656 | -84 | -325 |
| Interest paid | -434 | -495 | -181 | -161 |
| Dividends paid | -376 | -360 | -94 | 0 |
| Proceeds from share capital increase 8 | 0 | 273 | 0 | 0 |
| Other payments related to financing activities | 0 | 2 | 0 | 0 |
| NET CASH FROM/USED IN FINANCING ACTIVITIES | 31 | 3,055 | 2,101 | 1,313 |
| NET CASH FLOW | -842 | -252 | 734 | -163 |
| Cash and cash equivalents at the beginning of period | 2,200 | 870 | 624 | 781 |
| Change in cash and cash equivalents | -842 | -252 | 734 | -163 |
| Cash and cash equivalents at the end of period | 1,358 | 618 | 1,358 | 618 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital | Unregistered share capital | Share premium | Statutory capital reserve | Other reserves | Retained earnings | Total equity |
|--|---------------|----------------------------|---------------|---------------------------|----------------|-------------------|---------------|
| In thousands of euros | | | | | | | |
| Balance as of 31 December 2019 | 6,299 | 0 | 2,285 | 2,011 | 245 | 2,459 | 13,299 |
| Increase of share capital | 0 | 273 | 0 | 0 | 0 | 0 | 273 |
| Other reserves | 0 | 0 | 0 | 0 | -245 | 245 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | -360 | -360 |
| Total comprehensive expense for the period | 0 | 0 | 0 | 0 | 0 | -277 | -277 |
| Balance as of 30 September 2020 | 6,299 | 273 | 2,285 | 2,011 | 0 | 2,067 | 12,935 |
| Balance as of 31 December 2020 | 6,299 | 273 | 2,285 | 2,011 | 0 | 3,356 | 14,224 |
| Increase of share capital | 273 | -273 | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 | -583 | -583 |
| Total comprehensive income for the period | 0 | 0 | 0 | 0 | 0 | 2,424 | 2,424 |
| Balance as of 30 September 2021 | 6,572 | 0 | 2,285 | 2,011 | 0 | 5,197 | 16,065 |

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the third quarter and 9 months ended on 30 September 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

| | 9 months 2021 | 9 months 2020 | Q3 2021 | Q3 2020 |
|-----------------------|---------------|---------------|------------|------------|
| In thousands of euros | | | | |
| Estonia | 5,757 | 690 | 93 | 46 |
| Bulgaria | 5,526 | 3,028 | 520 | 483 |
| Latvia | 0 | 40 | 0 | 40 |
| Total revenue | 11,283 | 3,758 | 613 | 569 |

External operating profit (-loss) by location

| | 9 months 2021 | 9 months 2020 | Q3 2021 | Q3 2020 |
|-------------------------------------|---------------|---------------|------------|-------------|
| In thousands of euros | | | | |
| Estonia | 792 | -280 | -126 | -91 |
| Bulgaria | 1,934 | 293 | 418 | -74 |
| Latvia | -2 | 36 | 2 | 39 |
| Total operating profit/ loss | 2,724 | 49 | 294 | -126 |

External assets and liabilities by location

| | 30.09.2021 | 31.12.2020 |
|-----------------------|---------------|---------------|
| In thousands of euros | | |
| Assets | 29,640 | 28,231 |
| Estonia | 15,522 | 9,642 |
| Bulgaria | 13,992 | 18,462 |
| Latvia | 126 | 127 |
| Liabilities | 13,575 | 14,007 |
| Estonia | 7,903 | 4,938 |
| Bulgaria | 5,672 | 9,069 |

Non-current assets by location

| | 30.09.2021 | 31.12.2020 |
|---------------------------------|------------|------------|
| In thousands of euros | | |
| Total non-current assets | 260 | 158 |
| Tangible assets | 160 | 22 |
| Estonia | 152 | 6 |
| Bulgaria | 8 | 16 |
| Intangible assets | 99 | 136 |
| Estonia | 58 | 86 |
| Bulgaria | 41 | 50 |

3. Revenue

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

| | Estonia | | Bulgaria | | Latvia | | Consolidated | |
|------------------------------|--------------|------------|--------------|--------------|-----------|-----------|---------------|--------------|
| | 9M 2021 | 9M 2020 | 9M 2021 | 9M 2020 | 9M 2021 | 9M 2020 | 9M 2021 | 9M 2020 |
| In thousands of euros | | | | | | | | |
| Sale of own real estate | 5,543 | 558 | 4,898 | 2,516 | 0 | 40 | 10,441 | 3,114 |
| Rental of real estate | 6 | 4 | 542 | 428 | 0 | 0 | 548 | 432 |
| Property management services | 0 | 1 | 67 | 60 | 0 | 0 | 67 | 61 |
| Franchise | 133 | 92 | 40 | 22 | 17 | 7 | 190 | 121 |
| Other revenue | 17 | 7 | 20 | 23 | 0 | 0 | 37 | 30 |
| Total revenue | 5,699 | 662 | 5,567 | 3,049 | 17 | 47 | 11,283 | 3,758 |

| | Estonia | | Bulgaria | | Latvia | | Consolidated | |
|------------------------------|-----------|-----------|------------|------------|----------|-----------|--------------|------------|
| | Q3 2021 | Q3 2020 | Q3 2021 | Q3 2020 | Q3 2021 | Q3 2020 | Q3 2021 | Q3 2020 |
| In thousands of euros | | | | | | | | |
| Sale of own real estate | 9 | 0 | 296 | 297 | 0 | 40 | 305 | 337 |
| Rental of real estate | 1 | 1 | 192 | 156 | 0 | 0 | 193 | 157 |
| Property management services | -5 | 0 | 23 | 21 | 0 | 0 | 18 | 21 |
| Franchise | 45 | 37 | 17 | 7 | 6 | 2 | 68 | 46 |
| Other revenue | 15 | 1 | 14 | 7 | 0 | 0 | 29 | 8 |
| Total revenue | 65 | 39 | 542 | 488 | 6 | 42 | 613 | 569 |

4. Cost of sales

| | 9 months 2021 | | 9 months 2020 | | Q3 2021 | | Q3 2020 | |
|--|-----------------------|---------------|---------------|---------------|---------|-------------|---------|-------------|
| | In thousands of euros | | | | | | | |
| Cost of real estate sold (note 10, 11) | | -7,942 | | -2,441 | | -167 | | -247 |
| Brokerage fees | | -220 | | -140 | | -15 | | -67 |
| VAT cost | | 0 | | -39 | | 0 | | -1 |
| Property management costs | | -181 | | -262 | | -54 | | -104 |
| Personnel expenses | | 0 | | -15 | | 0 | | -5 |
| Depreciation, amortisation and impairment losses | | -29 | | -56 | | -10 | | -14 |
| Other costs | | -83 | | -28 | | -31 | | -2 |
| Total cost of sales | | -8,455 | | -2,981 | | -277 | | -440 |

5. Marketing and distribution expenses

| | 9 months 2021 | | 9 months 2020 | | Q3 2021 | | Q3 2020 | |
|--|-----------------------|-------------|---------------|------------|---------|------------|---------|-----------|
| | In thousands of euros | | | | | | | |
| Advertising expenses | | -49 | | -29 | | -5 | | -3 |
| Other marketing and distribution expenses | | -60 | | -37 | | -39 | | -6 |
| Total marketing and distribution expenses | | -109 | | -66 | | -44 | | -9 |

6. Administrative expenses

| | 9 months 2021 | 9 months 2020 | Q3 2021 | Q3 2020 |
|--|---------------|---------------|-------------|-------------|
| In thousands of euros | | | | |
| Personnel expenses | -363 | -366 | -107 | -123 |
| Office expenses | -77 | -53 | -32 | -13 |
| IT expenses | -24 | -21 | -10 | -7 |
| Services purchased | -130 | -164 | -65 | -75 |
| Depreciation, amortization and impairment losses | -13 | -20 | -5 | -6 |
| Legal service fees | -12 | -22 | -8 | -12 |
| Other expenses | -12 | -8 | -3 | -3 |
| Total administrative expenses | -631 | -654 | -230 | -239 |

7. Financial income and expenses

| | 9 months 2021 | 9 months 2020 | Q3 2021 | Q3 2020 |
|---|---------------|---------------|------------|-------------|
| In thousands of euros | | | | |
| Interest expenses | -303 | -316 | -90 | -102 |
| Other financial income and costs | 4 | -10 | -2 | 0 |
| Total financial income and costs | -299 | -326 | -92 | -102 |

8. Earnings per share

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

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

According to the decision of the annual general meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond gave to the CEO of the group's parent company the right to subscribe to up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. The CEO used his right in full amount. An equity reserve in the amount of 245 thousand euros that was formed for the option associated with the bond was used in Q2 2020, when 273 thousand euros cash was transferred to Arco Vara for the option. The added 390,000 shares were registration on the 27 May 2021. See also note 14.

| | 9 months 2021 | 9 months 2020 | Q3 2021 | Q3 2020 |
|--|---------------|---------------|-------------|-----------|
| In thousands of euros | | | | |
| Weighted average number of ordinary shares outstanding during the period | 9,179,796 | 8,998,367 | 9,388,367 | 8,998,367 |
| Number of ordinary shares potentially to be issued (at period end) | 1,000,000 | 390,000 | 1,000,000 | 390,000 |
| Net profit/ loss (in thousands of euros) | 2,425 | -277 | 202 | -228 |
| Earnings per share (in euros) | 0.26 | -0.03 | 0.02 | -0.03 |
| Diluted earnings per share (in euros) | 0.24 | -0.03 | 0.02 | -0.02 |

9. Receivables and prepayments

Short-term receivables and prepayments

| | 30 September 2021 | 31 December 2020 |
|---|-------------------|------------------|
| In thousands of euros | | |
| Receivables from customers | 177 | 1,283 |
| Miscellaneous receivables | 6 | 12 |
| Prepaid and recoverable taxes | 387 | 19 |
| Other accrued income | 13 | 13 |
| Prepayments | 108 | 17 |
| Total short-term receivables and prepayments | 691 | 1,344 |

Long-term receivables and prepayments

| | 30 September 2021 | 31 December 2020 |
|--|-------------------|------------------|
| In thousands of euros | | |
| Deposits | 5 | 5 |
| Total long-term receivables and prepayments | 5 | 5 |

10. Inventories

| | 30 September 2021 | 31 December 2020 |
|---|-------------------|------------------|
| In thousands of euros | | |
| Properties purchased and being developed for resale | 17,406 | 14,943 |
| Materials and finished goods | 11 | 17 |
| Total inventories | 17,417 | 14,960 |

Properties purchased and being developed for resale

| | 2021 | 2020 |
|--|---------------|---------------|
| In thousands of euros | | |
| Balance at the beginning of period, 1 January | 14,943 | 15,779 |
| Properties purchased for development | 5,102 | 0 |
| Construction costs of apartment buildings | 4,177 | 6,227 |
| Capitalized borrowing costs | 85 | 111 |
| Other capitalized costs | 868 | 228 |
| Reclassification from investment property (note 11) | 0 | 1,358 |
| Cost of sold properties (note 4) | -7,769 | -2,032 |
| Balance at the end of period, 30 September | 17,406 | 21,671 |

11. Investment property

| | 2021 | 2020 |
|--|--------------|---------------|
| In thousands of euros | | |
| Balance at the beginning of period, 1 January | 9,564 | 11,051 |
| Net gain on changes in fair value | 422 | 0 |
| Capitalized development costs | 6 | 38 |
| Capitalized borrowing costs | 0 | 14 |
| Reclassification to inventories (note 10) | 0 | -1,358 |
| Sale of investment property (note 4) | -82 | -394 |
| Balance at the end of period, 30 September | 9,910 | 9,351 |

12. Interest bearing liabilities

| | As of 30 September, 2021 | | | As of 31 December, 2020 | | |
|-----------------------|--------------------------|--------------------------|------------------------------|-------------------------|--------------------------|------------------------------|
| | Total | of which current portion | of which non-current portion | Total | of which current portion | of which non-current portion |
| In thousands of euros | | | | | | |
| Bank loans | 8,499 | 288 | 8,211 | 8,649 | 3,212 | 5,437 |
| Bonds | 1,780 | 0 | 1,780 | 1,780 | 0 | 1,780 |
| Other loans | 551 | 439 | 112 | 270 | 270 | 0 |
| Total | 10,830 | 727 | 10,103 | 10,699 | 3,482 | 7,217 |

In 9 months 2021, the group settled loans in the amount of 2,613 thousand euros (in 9 months 2020: 1,656 thousand euros) through cash transactions and raised new loans in the amount of 3,454 thousand euros (in 9 months 2020: 5,291 thousand euros). The lease of the new office was capitalized in Q3 2021 in the amount of 140 thousand euros. 852 thousand euros of the settled loans were paid by customers directly to the bank in 2021.

In 9 months 2021, the following major loan obligations were settled:

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

In 9 months 2021, the group raised the following new liabilities:

- 3,064 thousand euros of bank loan for financing construction of apartment buildings in Kodulahe project Stage IV and V;
- 140 thousand euros of capitalization of rent;
- 390 thousand euros of other loans.

In 9 months 2020, the following major loan obligations were settled:

- 80 thousand euros of Madrid Blvd project's bank loan principal;
- 1,574 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 2 thousand euros of Arco Vara convertible bonds.

In 9 months 2020, the group raised the following new liabilities:

- 35 thousand euros of bank credit loan;
- 1,888 thousand euros of bank loan for financing construction of apartment building in Kodukalda project;
- 3,368 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 September 2021 | 31 December 2020 |
|-------------------------------|-------------------|------------------|
| In thousands of euros | | |
| Trade payables | 830 | 811 |
| Miscellaneous payables | 18 | 76 |
| Taxes payable | | |
| Value added tax | 85 | 1,431 |
| Social security tax | 29 | 14 |
| Personal income tax | 18 | 17 |
| Land tax | 7 | 0 |
| Garbage tax | 3 | 23 |
| Other taxes | 4 | 1 |
| Total taxes payable | 146 | 1,486 |
| Accrued expenses | | |
| Payables to employees | 59 | 17 |
| Interest payable | 7 | 44 |
| Unpaid dividend | 208 | 0 |
| Other accrued expenses | 2 | 100 |
| Total accrued expenses | 276 | 161 |

| | 30.09.2021 | 31.12.2020 |
|--|--------------|--------------|
| In thousands of euros | | |
| Deferred income | | |
| Prepayments received on sale of real estate | 1,347 | 631 |
| Guarantee deposits | 91 | 102 |
| Prepaid revenue | 37 | 41 |
| Total deferred income | 1,475 | 774 |
| Total short-term payables and deferred income | 2,745 | 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

| | 9 months 2021 | 9 months 2020 |
|---|---------------|---------------|
| In thousands of euros | | |
| Companies that have a significant interest in the group's parent company | | |
| Services purchased | 24 | 35 |
| Bonds | 0 | 273 |
| Other related parties | | |
| Services sold | 33 | 1 |

In 9 months 2021, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 107 thousand euros, out of which 23 thousand euros in Q3 (in 9 months and Q3 2020: 67 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 9 months in 2021 was 18 thousand euros, out of which 4 thousand in Q3 2021 (in 9 months and Q3 2020: 11 thousand euros and 7 thousand euros respectively).

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

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

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

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

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 third quarter and 9 months ended on 30 September 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 28 October 2021