



Arco Vara AS

INTERIM REPORT FOR THE III QUARTER
AND NINE MONTHS OF 2020
(UNAUDITED)

INTERIM REPORT FOR THE THIRD QUARTER AND NINE MONTHS OF 2020
(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 2020 – 31 December 2020

Reporting period: 1 January 2020 – 30 September 2020

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

Chief executive: Miko-Ove Niinemäe

Auditor: KPMG Baltics OÜ

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DIRECTORS' REPORT FOR Q3 AND 9 MONTHS 2020

GROUP CEO'S REVIEW

We can consider the Q3 2020 positive. The sales recovery turned out to be faster than expected, which confirms that Arco Vara's developments meet the expectations of our clients. Construction work has also continued as planned on ongoing developments.

The most significant shift in the Q3 2020 may be considered the change of the Bulgarian manager as of 30 July. The main tasks of the new manager are to complete the usage permit's process for Iztok Parkside and to initiate the development of at least two new residential properties in the first half of 2021.

By the time of submitting the report, more than $\frac{3}{4}$ of the Kodulahe complex in Stage III had been pre-sold. The sales revenue is expected in the Q1 2021, but if favourable construction conditions continue, the start of the final sales in the Q4 2020 is not ruled out. In Stage IV and V of the Kodulahe apartments, negotiations are underway for the prime contracting, but the start of the construction depends on the achievement of the desired construction price.

We started designing the Stage VI of the Kodulahe complex (formerly Paldiski road 74), where the construction of approximately 120 apartments is planned. The completion date of the design process and the estimated start of the construction works is the Q4 2021.

In Tartu, the development of Kodukalda 30 apartments is in the phase of construction according to the schedule and presale contracts have been concluded for the sale of 16 apartments. The buildings are expected to be completed in December 2020. The sales revenue is expected by the Q4 2020.

Bulgaria Iztok Parkside apartment buildings have not received the expected permit for use. In the Q3, we re-launched the application process of the usage permit. Thus, we have reached the final stage of the development process, the result of which we are expecting in the first quarter of 2021. The interest of customers who have entered into a presale contract has continued up to this day.

The Madrid BLVD building offices were slightly refurbished to return to 100% tenant occupancy.

Due to the change of the Bulgarian manager, we are witnessing structural changes in the development team, which has boosted the motivation of the team. The Estonian development team has also obtained good results in managing the constraints related to the Covid-19 crisis. In conclusion, the Management Board of Arco Vara is optimistic about the realisation of ongoing developments, potentially resulting in an increase in sales and construction volumes in the coming years.

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.

From the beginning of 2019, 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.

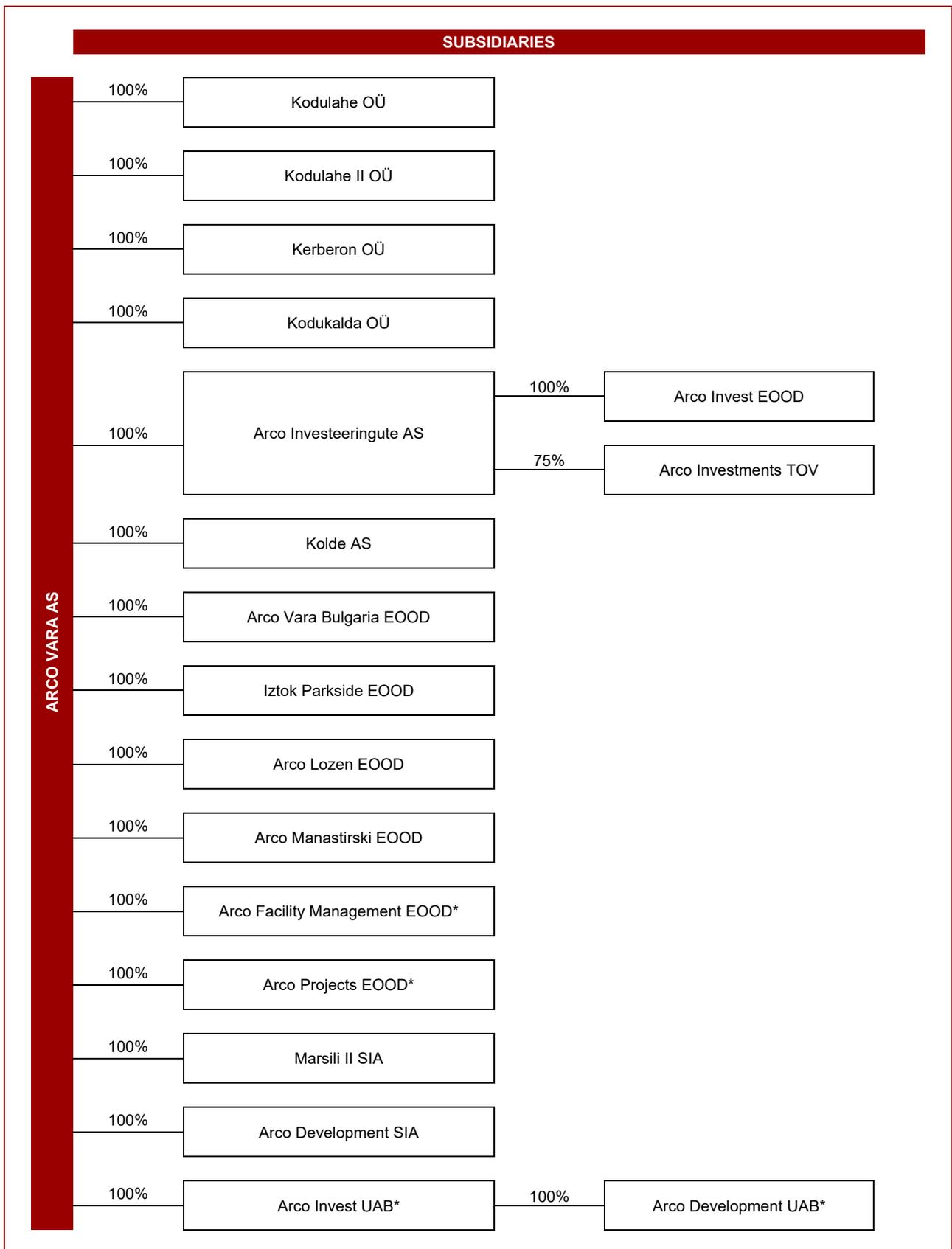
Group structure

As of 30 September 2020, the group consisted of 19 companies, which is the same as of 31 December 2019.

Significant subsidiaries as of 30 September 2020

Company name	Location	Share capital (nominal value)	Equity balance on 30 September 2020	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	2,691	100%
Iztok Parkside EOOD	Bulgaria	1,433	197	100%
Arco Lozen EOOD	Bulgaria	2,931	2,214	100%
Kodukalda OÜ	Estonia	3	92	100%
Kodulahe OÜ	Estonia	3	2,800	100%

Group structure as of 30 September 2020



* In liquidation

KEY PERFORMANCE INDICATORS

- In Q3 2020, the group's revenue was 569 thousand euros, which is 20% more than the revenue of 476 thousand euros in Q3 2019. In 9 months 2020, the group's revenue was 3,758 thousand euros, which is 69% more than the revenue of 2,222 thousand euros in 9 months 2019.
- In Q3 2020, the group's operating loss (=EBIT) was 126 thousand euros and net loss 228 thousand euros (in 9 months 2020: operating profit 49 thousand euros and net loss of 277 thousand euros). In Q3 2019, the group had operating loss of 64 thousand euros and net loss of 174 thousand euros. In 9 months 2019, the group made operating loss of 118 thousand euros and net loss of 460 thousand euros.
- In Q3 2020, 2 apartments were sold in projects developed by the group (in 9 months 2020 17 apartments). In Q3 2019, 2 apartments were sold (12 apartments in 9 months).
- In the 9 months of 2020, the group's debt burden (net loans) increased by 1,901 thousand euros up to the level of 15,771 thousand euros as of 30 September 2020. As of 30 September 2020, the weighted average annual interest rate of interest-bearing liabilities was 5.0%. This is an increase of 0.8 percentage points compared to 31 December 2019.

Main financial figures

	9 months 2020	9 months 2019	Q3 2020	Q3 2019
EUR tuhandetes				
Revenue	3,758	2,222	569	476
Operating profit/loss (EBIT)	49	-118	-126	-64
Finance income and expense	-326	-342	-102	-110
Net loss	-277	-460	-228	-174
Cash flows from/used in operating activities	-3,292	-3,365	-1,475	-1,285
Cash flows used in investing activities	-14	41	0	-30
Cash flows from/used in financing activities	3,054	1,896	1,312	937
Net cash flows	-252	-1,428	-163	-378
Cash and cash equivalents at beginning of period	870	2,327	781	1,277
Cash and cash equivalents at end of period	618	899	618	899
Total assets at the end of period	32,442	35,977		
Invested capital at the end of period	29,324	32,430		
Net loans at the end of period	15,771	19,080		
Equity at the end of period	12,935	12,451		

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	Total 2020
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	3.7
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	-0.3

Key ratios

	9 months 2020	9 months 2019	Q3 2020	Q3 2019
EPS (in euros)	-0.03	-0.05	-0.03	-0.02
Diluted EPS (in euros)	-0.03	-0.05	-0.02	-0.02
ROIC (rolling, four quarters)	2.0%	-2.1%		
ROE (rolling, four quarters)	4.4%	-5.0%		
ROA (rolling, four quarters)	1.8%	-1.9%		
Equity ratio	39.9%	34.6%		
Current ratio	1.64	1.17		
Quick ratio	0.07	0.08		
Financial leverage	2.51	2.89		
Average loan term (in years)	1.9	0.5		
Average annual interest rate of loans	5.0%	4.7%		
Number of staff, at period end	10	17		

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

Operating report

The revenue of the group totalled 569 thousand euros in Q3 2020 (in Q3 2019: 476 thousand euros,) and 3,758 thousand euros in 9 months 2020 (in 9 months 2019: 2,222 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 337 thousand euros in Q3 and 3,114 thousand euros in 9 months 2020 (2019: 224 thousand euros in Q3 and 1,487 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 178 thousand euros in Q3 2020 and 488 thousand euros in 9 months (2019: 186 thousand euros in Q3 and 536 thousand euros in 9 months). The Q2 of 2020 and Covid-19 brought changes in the economic situation of tenants. Several tenants have been replaced during the last months, but surprisingly in a more favourable direction for Arco Vara, that is why starting from the autumn 2020 all retail and office spaces with the accompanying parking spaces are rented out.

In the II Stage of the Kodulahe project, which was completed at the end of 2019, commercial space remains unsold – the last apartment was sold in Q2 2020. In 2020, Lahepea 9 house received permit of use.

In Q3 2020, construction works continued in Stage III of Kodulahe project, where a building with 50 apartments will be located at Soodi 4 Merimetsa. The project was expected to be finalized by the Q1 2021, but in continuing favourable construction conditions, the house can be finished by the end of 2020. By the publishing date of the interim report, 38 apartments have been presold.

Stages IV-V of Kodulahe have construction permits, design works are finished. The joint construction of Stages IV and V is scheduled to start latest in 2021. The apartment buildings will become ready for final sale in about 1,5 years after the construction begins.

In Q3 2020, construction works of Oa street plots in Tartu continued, where of 4 smaller apartment buildings are constructed under Kodukalda project name. The construction is scheduled to end in Q4 2020. By the publishing time of the interim report, 16 apartments have been presold.

In Iztok Parkside project in Sofia, the final sale of apartments continued in Q3 2020, but the main sales are planned to take place during Q1 2021 after receiving an occupancy permit. By the publishing date of the interim report, presale agreements for 9 apartments have not been concluded. Iztok project consists of three apartment buildings with a total of 67 apartments.

In the Lozen project near Sofia in Bulgaria, design works have been completed and construction tender is in process. As the development was designed as a premium class product, it has been decided to temporarily freeze the project and wait for the market to recover from Covid-19. Under favourable market conditions, construction may start in 2021, divided into smaller sub-stages. The project foresees construction of 179 homes (apartments and houses), commercial spaces and a kindergarten. Minimum construction period is 2 years.

In Q3 2020 a land plot without accounting value was sold in Latvia. As of 30 September 2020 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 2020

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	5,047	48
Marsili residential plots	Marsili, near Riga	Residential plots	S5	6,153	-	4
Kodulahe, Stage II	Lahepea 9, Tallinn	Apartments	S5	3,686	380	1
Kodulahe, Stages III	Soodi 4, Tallinn	Apartments	S4	3,199	3,406	50
Kodulahe, Stages IV-V	Pagi 3 and 5, Tallinn	Apartments	S3	7,383	4,774	72
Paldiski road 74	Paldiski road 74, Tallinn	Apartments	S3	9,525	<9,000>	<123>
Kodukalda	Oa street, Tartu	Apartments	S4	4,146	1,967	30
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 30 September 2020, 10 people worked for the group (17 as of 31 December 2019). Employee remuneration expenses in 9 months 2020 amounted to 381 thousand euros, out of which 128 thousand euros in Q3 2020 (2019 same periods: 324 thousand euros and 97 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 67 thousand euros in 9 months 2020, out of which 23 thousand euros in Q3 2020 (in 9 months and Q3 2019: 64 thousand euros and 21 thousand euros, respectively). The members of the supervisory board of the group's parent company were remunerated by 11 thousand euros, out of which 7 thousand euros in Q3 2020. The remuneration of the members of the supervisory board was 5 thousand euros in 9 months 2019, no remuneration in Q3 2019.

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 6 members. Since 30 April 2020, the supervisory board consists of Tarmo Sild (the Chairman), Kert Keskpaiik, Hillar-Peeter Luitsalu, Allar Niinepuu, Rait Riim 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 2020, 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 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 Q3 2020, the group's interest-bearing liabilities amounted to 16.4 million euros on 30 September 2020, out of which 10.7 million euros is due within next 12 months. The group's cash and cash equivalents totalled 0.6 million euros as of 30 September 2020 (31 December 2019 0.9 million). In Q3 2020, interest payments on interest-bearing liabilities totalled 0.1 million euros (in Q3 2019: also 0.1 million euros). The group's weighted average loan interest rate was 5.0% as of 30 September 2020. This is an increase by 0.8 percentage points compared to the end of year 2019. The reason for the increase is the new borrowings raised in 2020 for Estonian developments which bear an above-average interest rate.

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 are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.13 euros on 30 September 2020; the closing price was 1.14 euros on 31 December 2019. During the period, the highest traded price per share was 1.35 euros and the lowest price 0.84 euros. As of 30 September 2020, market capitalization of shares amounted to 10,168 thousand euros and P/B (price to book value) ratio was 0.51 (31 December 2019: 10,258 thousand euros and 0.77, respectively). P/E (price to earnings) ratio of the share was 17.81 on 30 September 2020, 26.44 as on 31 December 2019.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 9 months 2020 and during the last three years.

Performance of Arco Vara's shares in 9 months 2020



Source: <https://nasdaqbaltic.com> 1st of October 2020

Performance of Arco Vara’s shares from 1 October 2017 until 30 September 2020



Source: <https://nasdaqbaltic.com> 1st of October 2020

Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 9 months 2020



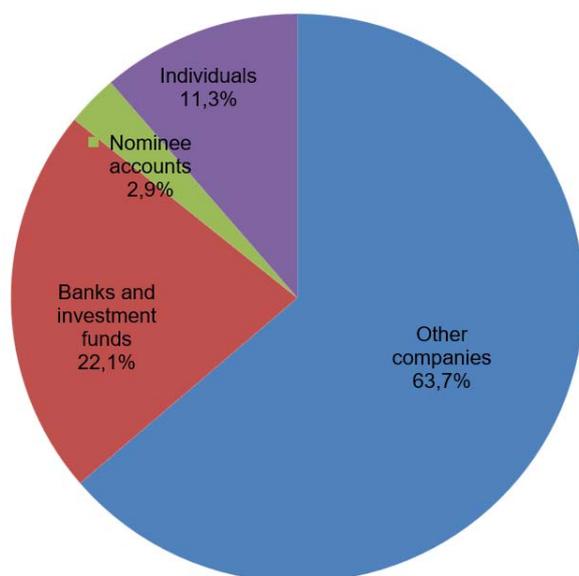
Source: <https://nasdaqbaltic.com> 1st of October 2020

Index/equity	1 Jan 2020	30 Sept 2020	+/-%
OMX Tallinn	1,279.70	1,156.86	-9.60
ARC1T – Arco Vara	1.12 EUR	1.13 EUR	-0.88

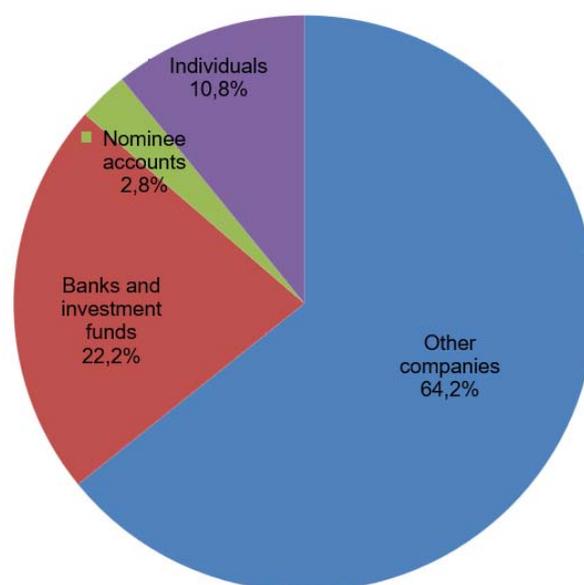
Shareholder structure

As of 30 September 2020, Arco Vara had 1,466 shareholders (on 31 December 2019 1,315), including 1,300 individuals as shareholders (on 31 December 2019: 1,138 individuals) who jointly owned 11.3% (on 31 December 2019: 10.8%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams.

Ownership structure as of 30 September 2020



Ownership structure as of 31 December 2019



Major shareholders on 30 September 2020

Name	No of shares	Share, %
Alarmo Kapital OÜ	2,517,405	28.0%
LHV Pensionifond L	869,587	9.7%
AS Lõhmus Holdings	850,000	9.4%
Baltplast AS	837,498	9.3%
Gamma Holding Investment OÜ	571,369	6.3%
LHV Pensionifond XL	365,619	4.1%
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	159,800	1.8%
Other shareholders	1,954,356	21.6%
Total	8,998,367	100.0%

Holdings of management and supervisory board members on 30 September 2020

Name	Position	No of shares	Share, %
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	chairman/ member of supervisory board	2,517,405	28.0%
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 Kesksaik (privately and through K Vara OÜ)	member of supervisory board	206,371	2.3%
Rait Riim ¹	member of supervisory board	0	-
Steven Yaroslav Gorelik ²	member of supervisory board	0	-
Miko-Ove Niinemäe	member of management board	627	-
Total		3,118,148	34.7%

¹ - Rait Riim is a real estate investment manager of LHV Pension Funds. LHV Pensionifond, LHV Pensionifond XL, LHV Pensionifond M and LHV Täiendav Pensionifond hold 1,296,837 shares (total 14.4% interest) of Arco Vara.

² - 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 third quarter and 9 months ended on 30 September 2020 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 October 2020

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	9 months 2020	9 months 2019	Q3 2020	Q3 2019
In thousands of euros					
Revenue from sale of own real estate		3,114	1,487	337	224
Revenue from rendering of services		644	735	232	252
Total revenue	2,3	3,758	2,222	569	476
Cost of sales	4	-2,981	-1,641	-440	-312
Gross profit		777	581	129	164
Other income		0	91	0	0
Marketing and distribution expenses	5	-66	-204	-9	-51
Administrative expenses	6	-654	-538	-239	-156
Other expenses		-8	-48	-7	-21
Operating profit/loss		49	-118	-126	-64
Finance income and cost	7	-326	-342	-102	-110
Loss before tax		-277	-460	-228	-174
Net loss for the period		-277	-460	-228	-174
Total comprehensive expense for the period		-277	-460	-228	-174
Earnings per share (in euros)	8				
- basic		-0.03	-0.05	-0.03	-0.02
- diluted		-0.03	-0.05	-0.02	-0.02

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 September 2020	31 December 2019
In thousands of euros			
Cash and cash equivalents		618	870
Receivables and prepayments	9	368	544
Inventories	10	21,680	15,807
Total current assets		22,666	17,221
Receivables and prepayments	9	5	0
Investment property	11	9,351	11,051
Property, plant and equipment		253	265
Intangible assets		167	217
Total non-current assets		9,776	11,533
TOTAL ASSETS		32,442	28,754
Loans and borrowings	12	10,298	6,416
Payables and deferred income	13	3,562	3,135
Total current liabilities		13,860	9,551
Loans and borrowings	12	5,647	5,904
Total non-current liabilities		5,647	5,904
TOTAL LIABILITIES		19,507	15,455
Share capital		6,299	6,299
Unregistered share capital	8	273	0
Share premium		2,285	2,285
Statutory capital reserve		2,011	2,011
Other reserves	8	0	245
Retained earnings		2,067	2,459
TOTAL EQUITY		12,935	13,299
TOTAL LIABILITIES AND EQUITY		32,442	28,754

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	9 months 2020	9 months 2019	Q3 2020	Q3 2019
In thousands of euros				
Cash receipts from customers	5,207	2,942	1,244	861
Cash paid to suppliers	-8,409	-6,767	-2,827	-2,199
Taxes paid and recovered (net)	212	711	210	132
Cash paid to employees	-307	-243	-101	-74
Other cash payments and receipts related to operating activities (net)	4	-8	-2	-5
NET CASH FROM/USED IN OPERATING ACTIVITIES	-3,293	-3,365	-1,476	-1,285
Payments made on purchase of tangible and intangible assets	0	-5	0	0
Payments made on purchase and development of investment property 11	-14	-30	0	-30
Proceeds from sale of financial investments	0	69	0	0
Repayment of loans provided	0	7	0	0
NET CASH FROM/USED IN INVESTING ACTIVITIES	-14	41	0	-30
Proceeds from loans received 12	5,291	4,403	1,799	1,375
Settlement of loans and borrowings 12	-1,656	-1,801	-325	-107
Interest paid	-495	-612	-161	-239
Dividends paid	-360	-90	0	-90
Proceeds from share capital increase	273	0	0	0
Other payments related to financing activities	2	-4	0	-2
NET CASH FROM/USED IN FINANCING ACTIVITIES	3,055	1,896	1,313	937
NET CASH FLOW	-252	-1,428	-163	-378
Cash and cash equivalents at the beginning of period	870	2,327	781	1,277
Change in cash and cash equivalents	-252	-1,428	-163	-378
Cash and cash equivalents at the end of period	618	899	618	899

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 2018	6,299	0	2,285	2,011	245	2,161	13,001
Dividends paid	0	0	0	0	0	-90	-90
Total comprehensive income for the period	0	0	0	0	0	-460	-460
Balance as of 30 September 2019	6,299	0	2,285	2,011	245	1,611	12,451
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
Dividends paid	0	0	0	0	0	-360	-360
Other reserves	0	0	0	0	-245	245	0
Total comprehensive income 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

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 2020 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 2019, 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 2020	9 months 2019	Q3 2020	Q3 2019
In thousands of euros				
Estonia	690	101	46	32
Bulgaria	3,028	2,121	483	444
Latvia	40	0	40	0
Total revenue	3,758	2,222	569	476

External operating profit (-loss) by location

	9 months 2020	9 months 2019	Q3 2020	Q3 2019
In thousands of euros				
Estonia	-280	-417	-91	-237
Bulgaria	293	306	-74	173
Latvia	36	-7	39	0
Total operating loss	49	-118	-126	-64

External assets and liabilities by location

	30.09.2020	31.12.2019
In thousands of euros		
Assets	32,442	28,754
Estonia	13,488	8,082
Bulgaria	18,827	20,546
Latvia	127	126
Liabilities	19,507	15,455
Estonia	8,877	2,859
Bulgaria	10,630	12,596

Non-current assets by location

	30.09.2020	31.12.2019
In thousands of euros		
Total non-current assets	421	482
Tangible assets	254	265
Estonia	7	9
Bulgaria	247	256
Intangible assets	167	217
Estonia	114	171
Bulgaria	53	46

3. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	9M 2020	9M 2019	9M 2020	9M 2019	9M 2020	9M 2019	9M 2020	9M 2019
In thousands of euros								
Sale of own real estate	558	0	2,516	1,487	40	0	3,114	1,487
Rental of real estate	4	3	428	537	0	0	432	540
Property management services	1	0	60	72	0	0	61	72
Franchise	92	52	22	25	7	17	121	94
Other revenue	7	3	23	26	0	0	30	29
Total revenue	662	58	3,049	2,147	47	17	3,758	2,222

	Estonia		Bulgaria		Latvia		Consolidated	
	Q3 2020	Q3 2019	Q3 2020	Q3 2019	Q3 2020	Q3 2019	Q3 2020	Q3 2019
In thousands of euros								
Sale of own real estate	0	0	297	224	40	0	337	224
Rental of real estate	1	1	156	186	0	0	157	187
Property management services	0	0	21	24	0	0	21	24
Franchise	37	19	7	9	2	2	46	30
Other revenue	1	1	7	10	0	0	8	11
Total revenue	39	21	488	453	42	2	569	476

4. Cost of sales

	9 months 2020		9 months 2019		Q3 2020		Q3 2019	
	In thousands of euros							
Cost of real estate sold (note 10, 11)	-2,441	-1,162	-247	-172	-140	-67	-20	-90
Brokerage fees	-39	-127	-15	-22	-56	-14	-21	-2
VAT cost	-262	-258	-104	-90	-28	-9	-2,981	-1,641
Property management costs	-140	0	-67	0	-440	-312		
Personnel expenses	-15	-22	-5	-7				
Depreciation, amortisation and impairment losses	-56	-63	-14	-21				
Other costs	-28	-9	-2	-2				
Total cost of sales	-2,981	-1,641	-440	-312				

5. Marketing and distribution expenses

	9 months 2020		9 months 2019		Q3 2020		Q3 2019	
	In thousands of euros							
Advertising expenses	-29	-23	-3	-6	-37	-20	-66	-204
Brokerage fees	0	-161	0	-31	-9	-51		
Other marketing and distribution expenses	-37	-20	-6	-14				
Total marketing and distribution expenses	-66	-204	-9	-51				

6. Administrative expenses

	9 months 2020	9 months 2019	Q3 2020	Q3 2019
In thousands of euros				
Personnel expenses	-366	-302	-123	-90
Office expenses	-53	-47	-13	-8
IT expenses	-21	-35	-7	-9
Services purchased	-164	-73	-75	-23
Depreciation, amortization and impairment losses	-20	-41	-6	-17
Legal service fees	-22	-22	-12	-3
Vehicle expenses	-2	-5	-1	0
Other expenses	-6	-13	-2	-6
Total administrative expenses	-654	-538	-239	-156

7. Financial income and expenses

	9 months 2020	9 months 2019	Q3 2020	Q3 2019
In thousands of euros				
Interest expenses	-316	-315	-102	-100
Other financial income and costs	-10	-27	0	-10
Total financial income and costs	-326	-342	-102	-110

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. The change of the CEO on 30 April 2020 does not reduce the right of the former CEO to use the subscribed bonds. See also note 14.

	9 months 2020	9 months 2019	Q3 2020	Q3 2019
In thousands of euros				
Weighted average number of ordinary shares outstanding during the period	8,998,367	8,998,367	8,998,367	8,998,367
Number of ordinary shares potentially to be issued (at period end)	390,000	590,000	390,000	590,000
Net profit/loss (in thousands of euros)	-277	-460	-228	-174
Earnings per share (in euros)	-0.03	-0.05	-0.03	-0.02
Diluted earnings per share (in euros)	-0.03	-0.05	-0.03	-0.02

9. Receivables and prepayments

Short-term receivables and prepayments

	30 September 2020	31 December 2019
In thousands of euros		
Receivables from customers	133	204
Miscellaneous receivables	12	12
Prepaid and recoverable taxes	156	226
Other accrued income	46	18
Prepayments	21	84
Total short-term receivables and prepayments	368	544

Long-term receivables and prepayments

	30 September 2020	31 December 2019
In thousands of euros		
Deposit	5	0
Total long-term receivables and prepayments	5	0

10. Inventories

	30 September 2020	31 December 2019
In thousands of euros		
Properties purchased and being developed for resale	21,671	15,779
Materials and finished goods	9	28
Total inventories	21,671	15,807

Properties purchased and being developed for resale

	2020	2019
In thousands of euros		
Balance at the beginning of period, 1 January	15,779	17,467
Construction costs of apartment buildings	6,227	3,675
Capitalized borrowing costs	111	206
Other capitalized costs	228	974
Reclassification from investment property (note 11)	1,358	468
Cost of sold properties (note 4)	-2,032	0
Balance at the end of period, 30 September	21,671	22,790

11. Investment property

	2020	2019
In thousands of euros		
Balance at the beginning of period, 1 January	11,051	12,344
Capitalized development costs	38	89
Capitalized borrowing costs	14	71
Reclassification to inventory (note 10)	-1,358	-468
Sale of investment property (note 4)	-394	-1,162
Balance at the end of period, 30 September	9,351	10,874

12. Interest bearing liabilities

	As of 30 September, 2020			As of 31 December, 2019		
	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	14,620	8,973	5,647	10,993	5,089	5,904
Bonds	1,325	1,325	0	1,327	1,327	0
Total loans and borrowings	15,945	10,298	5,647	12,320	6,416	5,904
Account payable	444	444	0	0	0	0
Total	16,389	10,742	5,647	12,320	6,416	5,904

In 9 months 2020, the group settled loans in the amount of 1,656 thousand euros (in 9 months 2019: 1,801 thousand euros) through cash transactions and raised new loans in the amount of 5,291 thousand euros (in 9 months 2019: 4,403 thousand euros).

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 2020	31 December 2019
In thousands of euros		
Trade payables	1,288	590
Miscellaneous payables	120	142
Taxes payable		
Value added tax	18	415
Corporate income tax	1	1
Social security tax	27	14
Personal income tax	17	8
Land tax	14	0
Garbage tax	35	0
Total taxes payable	112	438
Accrued expenses		
Payables to employees	32	82
Interest payable	49	41
Other accrued expenses	235	345
Total accrued expenses	315	468
Deferred income		
Prepayments received on sale of real estate	1,575	1,412
Guarantee deposits	107	61
Prepaid revenue	45	24
Total deferred income	1,727	1,497
Total short-term payables and deferred income	3,562	3,135

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 2020	9 months 2019
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Services purchased	35	19
Bonds	273	0
Other related parties		
Services sold	1	0

Balances with related parties

	30 September 2020	31 December 2019
In thousands of euros		
Other related parties		
Bonds issued	0	1

In 9 months 2020, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 67 thousand euros, out of which 23 thousand euros in Q3 (in 9 months and Q3 2019: 64 thousand euros and 21 thousand euros respectively).

The remuneration provided to the CEO / member of the management board is based on his service contract. As of 30 April 2020, a fixed monthly fee has been set by a resolution of the Supervisory Board on the basis of the service contract of Miko-Ove Niinemäe, the member of the Management Board of Arco Vara AS. The CEO's bonus system will be discussed in 2021.

The remuneration provided to the members of the supervisory board of the group's parent company during the first 9 months in 2020 was 11 thousand euros, out of which 7 thousand in Q3 (in 9 months 2019 5 thousand euros, no remuneration in Q3 2019).

The members of the supervisory board will receive 500 euros (net amount) for every meeting where they have participated, but not more than 1,000 euros (net amount) per month. The payment of the remuneration is dependent on the signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating on the board meetings are also compensated to the members of the supervisory board. The chairman of the supervisory board receives 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 third quarter and 9 months ended on 30 September 2020.

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 October 2020