

Arco Vara AS

INTERIM REPORT FOR THE II QUARTER
AND SIX MONTHS OF 2019
(UNAUDITED)

INTERIM REPORT FOR THE SECOND QUARTER AND SIX MONTHS OF 2019
(UNAUDITED)

Company name: Arco Vara AS
Registry number: 10261718
Address: Maakri 19/1, 10145 Tallinn, Republic of Estonia
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E-mail: info@arcovara.com
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 2019 – 31 December 2019
Reporting period: 1 January 2019 – 30 June 2019
Supervisory board: Hillar-Peeter Luutsalu, Rain Lõhmus, Allar Niinepuu,
Kert Kesksaik, Steven Yaroslav Gorelik
Chief executive: Tarmo Sild
Auditor: AS PricewaterhouseCoopers

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DIRECTORS' REPORT FOR Q2 AND 6 MONTHS 2019

GROUP CEO'S REVIEW

There is not much to be proud of in the results of the second quarter.

We are still stuck with Iztok Parkside where the construction is completed and more than 80% of the project is presold. The project's book value as stock is more than 7 million EUR and expected sales revenue is about 9 million EUR. The good news at the bad game is that the customers still wish to receive their apartments and have not started to back out from their presale contracts. Since the Bulgarian bureaucracy machinery has not yet resolved the question which public institution owns the access streets, the delivery of apartments, as well as earning the revenue and profit have been delayed. We need to continue patiently and resiliently to resolve the problem and appreciate every single step that brings us closer to the end solution.

In Kodulahe project, construction of the second apartment block is on schedule and more than 85% of the sellable apartment area has been presold. We expect sales revenue and profit in the fourth quarter. Commencement of construction of the third apartment block depends on reaching a satisfactory construction price.

In Lozen project, construction tender is going on and it is possible to commence construction in the fourth quarter provided that the construction price meets our expectations. Madrid Blvd occupancy rate is close to 100% and generates positive cashflow.

During 2019, the group will continue to seek an answer to two key questions: first, how to close the Iztok Parkside project as quickly and profitably as practically possible, and second, whether it is better to hold and push the real estate development projects further, or to seek alternative solutions in order to achieve at least 20% annual return on equity.

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.

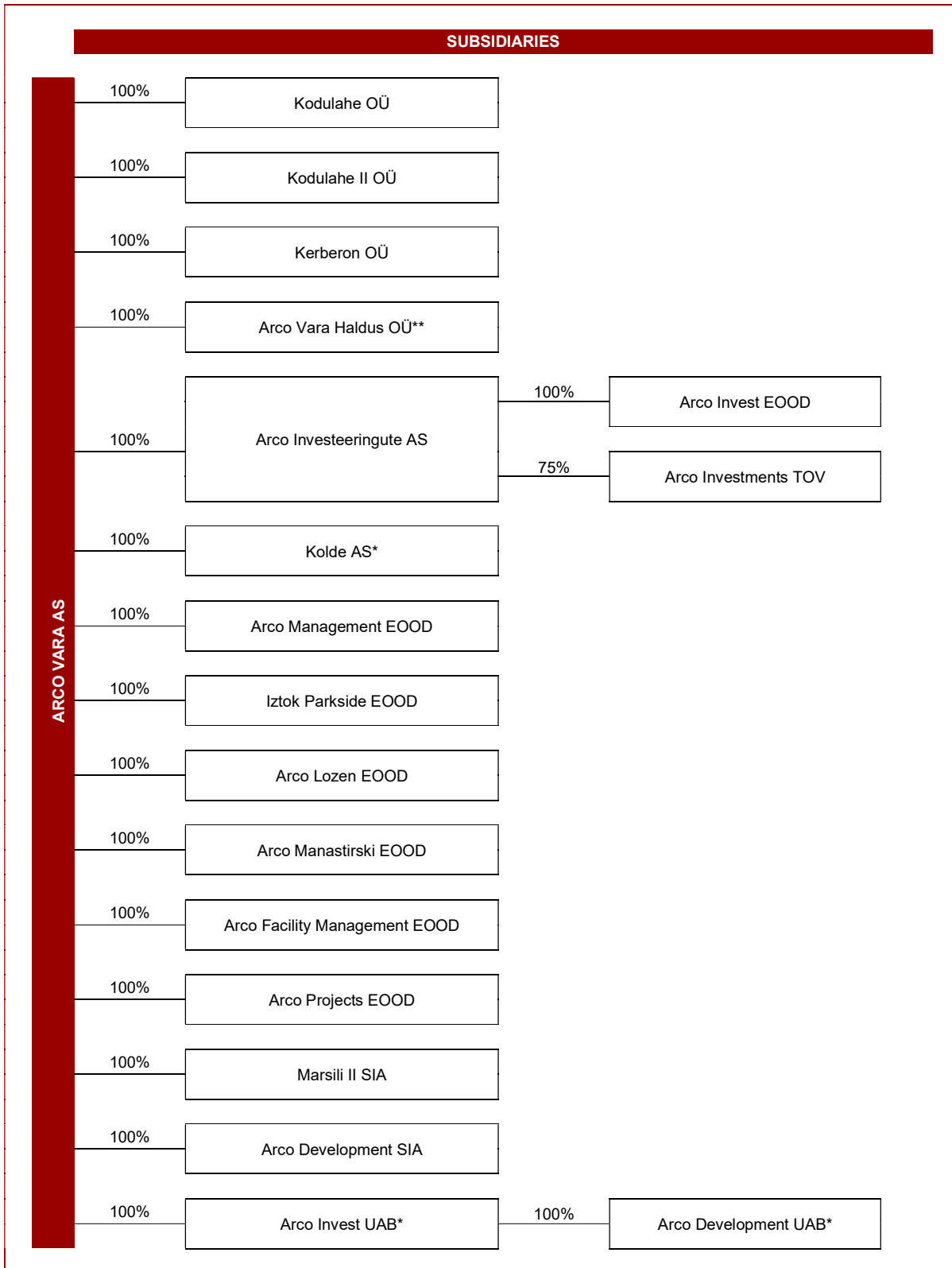
Group structure

As of 30 June 2019, the group consisted of 19 companies, which is the same as of 31 December 2018.

Significant subsidiaries as of 30 June 2019

Company name	Location	Share capital (nominal value)	Equity balance on 30 June 2019	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	28,762	-270	100%
Iztok Parkside EOOD	Bulgaria	1,433	445	100%
Arco Lozen EOOD	Bulgaria	2,931	2,658	100%
Kodulahe OÜ	Estonia	3	1,889	100%

Group structure as of 30 June 2019



* In liquidation

** Arco Vara Haldus OÜ was renamed Kodukalda OÜ on July 18, 2019

KEY PERFORMANCE INDICATORS

- In Q2 2019, the group's revenue was 0.7 million euros, which is 106% more than the revenue of 0.3 million euros from continuing operations in Q2 2018. In Q2 2018, revenue together with the discontinued service segment was 1.1 million euros. In 6 months 2019, the group's revenue was 1.7 million euros, which is 3% less than the revenue of 1.8 million euros in 6 months 2018.
- In Q2 2019, the group's operating loss (=EBIT) was 59 thousand euros and net loss 174 thousand euros (in 6 months 2019: operating loss 54 thousand euros and net loss of 286 thousand euros). In Q2 2018, the group had operating loss of 159 thousand euros from continuing operations (239 thousand in overall) and net loss of 351 thousand euros. In 6 months 2018, the group made operating loss of 176 thousand euros and net loss of 402 thousand euros.
- In Q2 2019, 3 apartments were sold in projects developed by the group (in 6 months 2019 10 apartments). In Q2 2018, 1 apartment was sold (8 apartments and 1 land plot in 6 months).
- In the 6 months of 2019, the group's debt burden (net loans) increased by 1.7 million euros up to the level of 17.4 million euros as of 30 June 2019. As of 30 June 2019, the weighted average annual interest rate of interest-bearing liabilities was 4.7%. This is a decrease of 0.3 percentage points compared to 31 December 2018.

Main financial figures

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Revenue				
Development	1,746	1,784	695	336
Service	0	1,430	0	739
Parent company	0	9	0	1
Total revenue	1,746	3,223	695	1,076
Operating profit (EBIT)				
Development	174	334	52	29
Service	0	-108	0	-80
Parent company	-228	-402	-111	-188
Total operating profit/loss (EBIT)	-54	-176	-59	-239
Finance income and expense	-232	-226	-115	-112
Net profit/loss	-286	-402	-174	-351
Cash flows from/used in operating activities	-2,080	-440	-1,352	-406
Cash flows used in investing activities	71	-3,312	-3	-77
Cash flows from/used in financing activities	959	3,253	988	399
Net cash flows	-1,050	-499	-367	-84
Cash and cash equivalents at the beginning of period	2,327	2,284	1,644	1,869
Cash and cash equivalents at the end of period	1,277	1,785	1,277	1,785
Total assets at the end of period	35,364	28,096		
Invested capital at the end of period	31,418	25,458		
Net loans at the end of period	17,426	10,614		
Equity at the end of period	12,715	13,059		

Revenue and net profit/loss during last years (with discontinued operations until 2018)

	Q2 2016	Q3 2016	Q4 2016	Total 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Total 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Total 2018	Q1 2019	Q2 2019
In millions of euros																
Revenue	2.1	1.2	1.3	9.7	1.6	1.0	7.7	8.0	18.3	2.1	1.1	2.1	1.3	6.6	1.1	0.7
Net profit/loss	-0.2	-0.4	-1.3	-0.8	-0.3	-0.3	0.7	0.8	0.8	-0.1	-0.3	0.1	-0.2	-0.5	-0.1	-0.2

Key ratios

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
EPS (in euros)	-0.03	-0.05	-0.02	-0.04
Diluted EPS (in euros)	-0.03	-0.04	-0.02	-0.04
ROIC (rolling, four quarters)	-1.5%	4.1%		
ROE (rolling, four quarters)	-3.3%	9.6%		
ROA (rolling, four quarters)	-1.3%	3.7%		
Equity ratio	36.0%	38.8%		
Current ratio	1.09	4.19		
Quick ratio	0.09	0.67		
Financial leverage	2.78	2.15		
Average loan term (in years)	1.0	1.4		
Average annual interest rate of loans	4.7%	5.1%		
Number of staff, at period end	17	141		

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

Discontinued operations

Arco Vara AS sold its 100% holdings in its subsidiaries Arco Vara Kinnisvarabüroo AS (subsidiary registered in Estonia) and Arco Imoti EOOD (subsidiary registered in Bulgaria) to the management teams of these subsidiaries as of 31.12.2018. Arco Vara Kinnisvarabüroo AS and Arco Imoti EOOD continue to operate under Arco Vara trademarks and to use the databases and other intellectual property of Arco Vara under a 5-year license agreement.

In addition, in autumn 2018, Arco Vara decided to start selling the 15 apartments in the Madrid Blvd building in Sofia, which had so far been kept for offering accommodation service. The activities of two group companies – Arco Projects EOOD (which had offered accommodation service with the apartments) and Arco Facility Management EOOD (which had offered facility management services in Madrid Blvd building) – has been discontinued.

In relation to these changes, the Service Division in Arco Vara group ceased to exist from 31.12.2018. The group will continue as a real estate developer.

Consolidated profit and loss statements for continuing and discontinued operations

	6 months 2019			6 months 2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
In thousands of euros						
Revenue from sale of own real estate	1,263	0	1,263	1,492	0	1,492
Revenue from rendering of services	483	0	483	301	1,430	1,731
Total revenue	1,746	0	1,746	1,793	1,430	3,223
Cost of sales	-1,287	0	-1,287	-1,224	-927	-2,151
Gross profit	459	0	459	569	503	1,072
Other income	91	0	91	41	16	57
Marketing and distribution expenses	-153	0	-153	-68	-195	-263
Administrative expenses	-424	0	-424	-576	-420	-996
Other expenses	-27	0	-27	-47	-14	-61
Gain on sale of subsidiaries	0	0	0	15	0	15
Operating profit	-54	0	-54	-66	-110	-176
Finance income and costs	-232	0	-232	-226	0	-226
Profit before tax	-286	0	-286	-292	-110	-402
Net profit/loss for the period	-286	0	-286	-292	-110	-402

Operating report

The revenue of the group totalled 695 thousand euros in Q2 2019 (in Q2 2018: 1,076 thousand euros, of which 337 thousand euros from continuing operations) and 1,746 thousand euros in 6 months 2019 (in 6 months 2018: 3,223 thousand euros, of which 1,793 thousand euros from continuing operations), including revenue from the sale of properties in the group's own development projects in the amount of 440 thousand euros in Q2 and 1,263 thousand euros in 6 months 2019 (2018: 182 thousand euros in Q2 and 1,492 thousand euros in 6 months).

Most of the other revenue of the group consisted of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 178 thousand euros in Q2 2019 and 350 thousand euros in 6 months (2018: 128 thousand euros in Q2 and 252 thousand euros in 6 months). In Q2 2019, all office and commercial spaces together with parking places were rented out.

In Q2 and 6 months 2019, the group had an operating loss of 59 thousand euros and 54 thousand euros, respectively. In 2018, the group had an operating loss from continuing operations of 157 thousand euros in Q2 and 66 thousand euros in 6 months.

In Q1 2019, construction works continued in Stage II of Kodulahe project, a building with 68 apartments and 1 commercial space. The project is expected to be finalized by the end of 2019. By the publishing date of the interim report, 62 apartments have been presold.

Design works for Stages III-V of Kodulahe continued in Q2 and have been largely finished by now. Under favourable market conditions, the construction of Stage III is scheduled to start in the autumn of 2019 and the joint construction of Stages IV-V in 2000. The apartment buildings will become ready for final sale in about 1,5 years after the construction begins.

In Q2, construction tender began for building 4 smaller apartment buildings on Oa street plots in Tartu under the project name of Kodukalda. The construction is scheduled to start in the early autumn of 2019.

In Iztok Parkside project in Sofia, construction has been completed. By the publishing date of the interim report, presale agreements for 56 apartments have been concluded. Iztok project consists of three apartment buildings with 67 apartments (7,070 square meters of apartments' sellable area).

In Madrid Blvd building, out of the 15 apartments previously used for offering accommodation service, 10 have been sold as of the date of this report.

In the Lozen project near Sofia in Bulgaria, design works have been completed and construction tender is in process. The project foresees construction of 179 homes (apartments and houses), commercial spaces and a kindergarten. Under

favourable market conditions, construction may start in the second half of 2019, possibly divided into smaller sub-stages. Considering the nature of terrain on a mountain slope, minimum construction period is 2 years.

As of 30 June 2019 and the date of this report, 4 Marsili residential plots remained unsold in Latvia.

Summary table of Arco Vara's active projects as of 30 June 2019

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	23
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5	-	670	6
Iztok Parkside	Iztok, Sofia	Apartments	S5	2,470	6,930	67
Marsili residential plots	Marsili, near Riga	Residential plots	S5	6,153	-	4
Kodulahe, Stage II	Lahepea 9, Tallinn	Apartments	S4	3,686	5,079	69
Kodulahe, Stages III	Soodi 4, Tallinn	Apartments	S3	3,199	3,406	50
Kodulahe, Stages IV-V	Pagi 3 and 5, Tallinn	Apartments	S3	7,379	4,774	72
Paldiski road 74	Paldiski road 74, Tallinn	Apartments	S2	9,525	<9,300>	<123>
Kodukalda	Oa street, Tartu	Apartments	S3	4,146	1,950	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 June 2019, 17 people worked for the group (20 as of 31 December 2018). Employee remuneration expenses in 6 months 2019 amounted to 227 thousand euros, out of which 101 thousand euros in Q2 2019 (2018 same periods from continuing operations: 294 thousand euros and 157 thousand euros).

The remuneration of the member of the management board / CEO, and the members of the supervisory board of the group's parent company including social security charges amounted to 48 thousand euros in 6 months 2019, out of which 24 thousand euros in Q2 2019 (in 6 months and Q2 2018: 54 thousand euros and 28 thousand euros, respectively).

Management board and supervisory board

The management board of Arco Vara AS has one member. Since 22 October 2012, the member of the management board and chief executive officer of Arco Vara AS has been Tarmo Sild who has a mandate until October 2021.

The supervisory board of Arco Vara AS has 5 members. Since 10 February 2015, the supervisory board consists of Hillar-Peeter Luitsalu (the Chairman), Allar Niinepuu, Rain Lõhmus, Steven Yaroslav Gorelik and Kert Keskpaiik.

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 2019, 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 Q2 2019, the group's interest-bearing liabilities amounted to 18.7 million euros on 30 June 2019, out of which 17.3 million euros is due within next 12 months. The group's cash and cash equivalents totalled 1.3 million euros as of 30 June 2019 (31 December 2018 2.3 million). In Q2 2019, interest payments on interest-bearing liabilities totalled 0.2 million euros (in Q2 2018: 0.1 million euros). The group's weighted average loan interest rate was 4.7% as of 30 June 2019. This is a decrease by 0.3 percentage points compared to the end of year 2018. The reason for the decrease is the new borrowings raised in 2019 which bear a below-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.

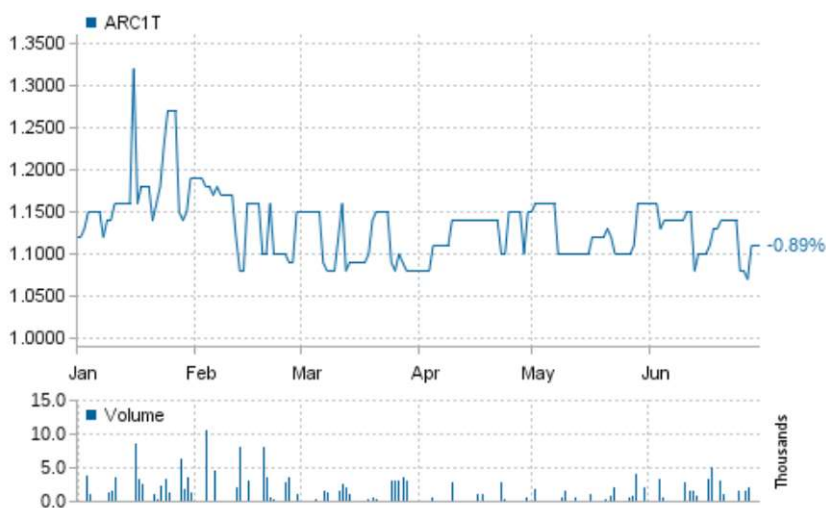
SHARES AND SHAREHOLDERS

Share price

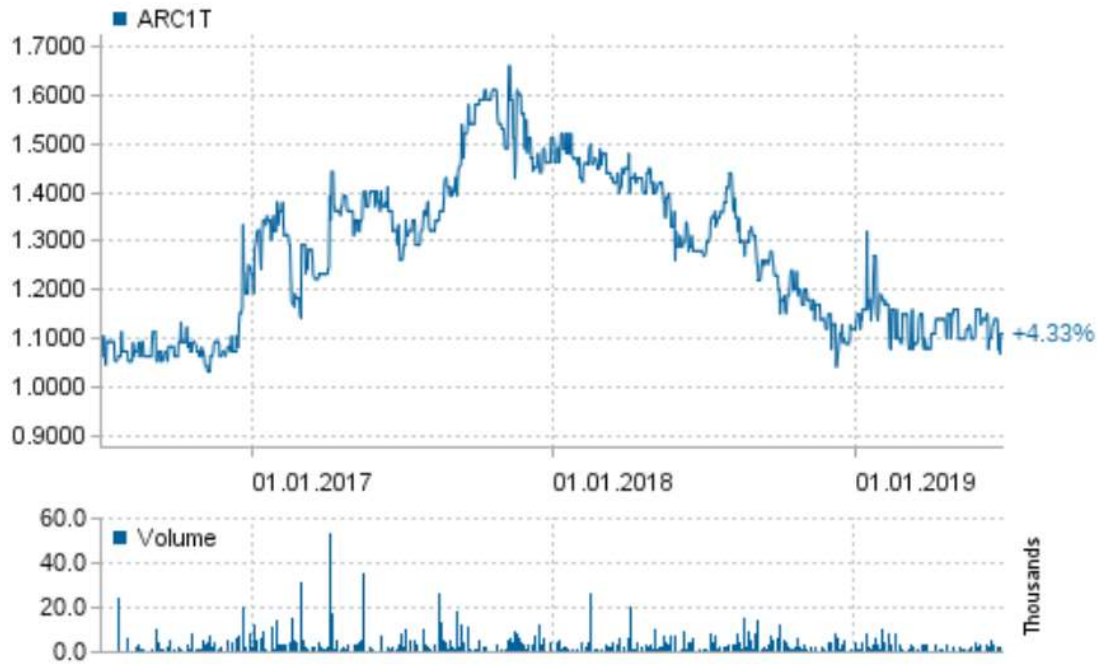
Arco Vara AS has issued a total of 8,998,367 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.11 euros on 30 June 2019; the closing price was 1.12 euros on 31 December 2018. During the period, the highest traded price per share was 1.32 euros and the lowest price 1.06 euros. As of 30 June 2019, market capitalization of shares amounted to 9,988 thousand euros and P/B (price to book value) ratio was 0.79 (31 December 2018: 10,078 thousand euros and 0.78, respectively). P/E (price to earnings) ratio of the share was negative on 30 June 2019 as well as on 31 December 2018.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 6 months 2019 and during the last three years.

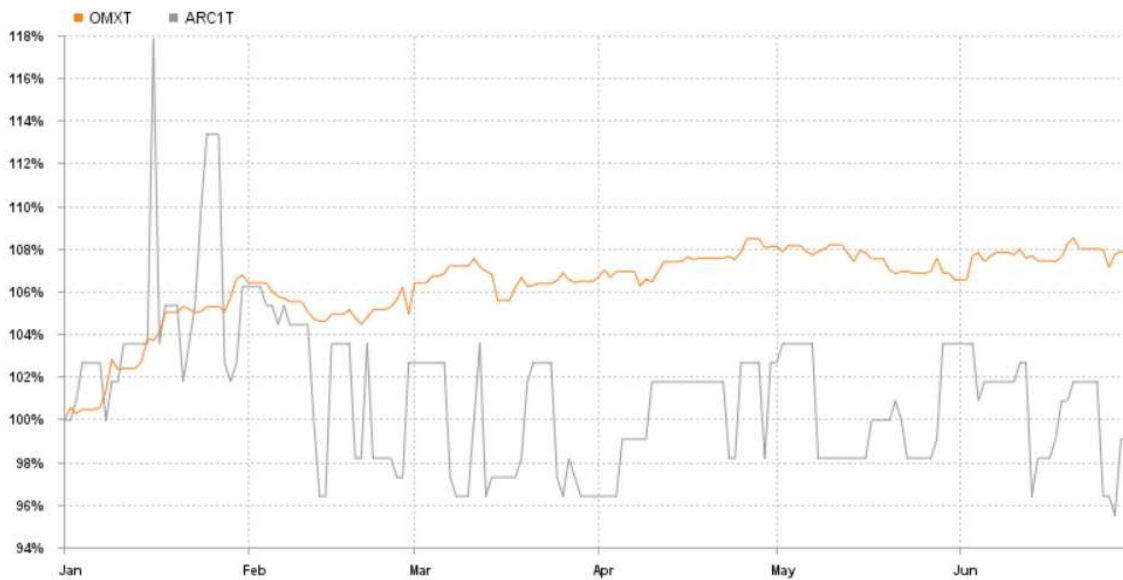
Performance of Arco Vara's shares in 6 months 2019



Performance of Arco Vara's shares from 1 July 2016 until 30 June 2019



Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 6 months 2019

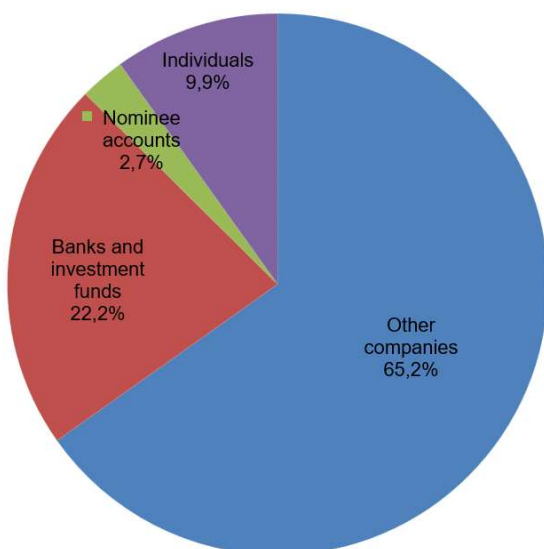


Index/equity	1 Jan 2019	30 June 2019	+/-%
—OMX Tallinn	1,162.86	1,254.55	7.88
—ARC1T	1.12 EUR	1.11 EUR	-0.89

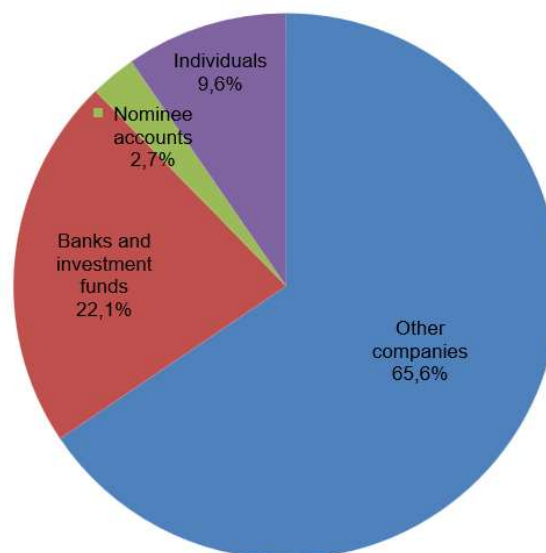
Shareholder structure

As of 30 June 2019, Arco Vara had 1,336 shareholders (on 31 December 2018 also 1,352), including 1,153 individuals as shareholders (on 31 December 2018: 1,164 individuals) who jointly owned 9.9% (on 31 December 2018: 9.6%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams.

Ownership structure as of 30 June 2019



Ownership structure as of 31 December 2018



Major shareholders on 30 June 2019

Name	No of shares	Share, %
Alarmo Kapital OÜ	2,517,405	28.0%
AS Lõhmus Holdings	850,000	9.4%
Baltplast AS	837,498	9.3%
LHV Pensionifond L	832,026	9.2%
Gamma Holding Investment OÜ	562,893	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%
Firebird Fund L.P.	150,522	1.7%
Other shareholders	2,009,671	22.2%
Total	8,998,367	100.0%

Holdings of management and supervisory board members on 30 June 2019

Name	Position	No of shares	Share, %
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	member of management board/ member of supervisory board	2,517,405	28.0%
Rain Lõhmus (AS Lõhmus Holdings)	member of supervisory board	850,000	9.4%
Hillar-Peeter Luutsalu (HM Investeeringud OÜ. related persons)	chairman of supervisory board	369,259	4.1%
Kert Kesksaik (privately and through K Vara OÜ)	member of supervisory board	206,371	2.3%
Steven Yaroslav Gorelik ¹	member of supervisory board	0	-
Total		3,943,035	43.8%

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 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 second quarter and 6 months ended on 30 June 2019 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.



Tarmo Sild
Chief Executive and Member of the Management Board of Arco Vara AS
On 8 August 2019

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros					
CONTINUING OPERATIONS					
Revenue from sale of own real estate		1,263	1,492	440	182
Revenue from rendering of services		483	301	255	155
Total revenue	3,4	1,746	1,793	695	337
Cost of sales	5	-1,329	-1,224	-514	-208
Gross profit		417	569	181	129
Other income		91	41	0	36
Marketing and distribution expenses	6	-153	-68	-68	-25
Administrative expenses	7	-382	-576	-149	-260
Other expenses		-27	-47	-23	-37
Gain on sale of subsidiaries		0	15	0	0
Operating profit/loss		-54	-66	-59	-157
Finance income and cost	8	-232	-226	-115	-112
Net profit/loss from continuing operations		-286	-292	-174	-269
Net profit/loss from discontinued operations	2	0	-110	0	-82
Net profit/loss for the period		-286	-402	-174	-351
Total comprehensive income/expense for the period		-286	-402	-174	-351
Earnings per share from continuing operations (in euros)					
- basic		-0.03	-0.03	-0.02	-0.03
- diluted		-0.03	-0.03	-0.02	-0.03
Earnings per share (in euros)					
- basic	9	-0.03	-0.05	-0.02	-0.04
- diluted		-0.03	-0.04	-0.02	-0.04

Because the Service Division was discontinued within the group from 31.12.2018, the continuing and discontinuing operations are separated in the statement of comprehensive income, as foreseen by IFRS.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 June 2019	31 December 2018
In thousands of euros			
Cash and cash equivalents		1,277	2,327
Investments		0	69
Receivables and prepayments	10	698	739
Inventories	11	21,286	17,482
Total current assets		23,261	20,617
Receivables and prepayments	10	20	25
Investment property	12	11,462	12,344
Property, plant and equipment		388	267
Intangible assets		233	262
Total non-current assets		12,103	12,898
TOTAL ASSETS		35,364	33,515
Loans and borrowings	13	16,575	12,547
Payables and deferred income	14	4,671	3,982
Total current liabilities		21,246	16,529
Loans and borrowings	13	1,403	3,985
Total non-current liabilities		1,403	3,985
TOTAL LIABILITIES		22,649	20,514
Share capital		6,299	6,299
Share premium		2,285	2,285
Statutory capital reserve		2,011	2,011
Other reserves	9	245	245
Retained earnings		1,875	2,161
TOTAL EQUITY		12,715	13,001
TOTAL LIABILITIES AND EQUITY		35,364	33,515

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Cash receipts from customers	2,081	5,407	1,124	2,461
Cash paid to suppliers	-4,568	-4,895	-2,629	-2,255
Taxes paid and recovered (net)	579	-355	213	-276
Cash paid to employees	-169	-574	-65	-326
Other cash payments and receipts related to operating activities (net)	-3	-23	5	-10
NET CASH FROM/USED IN OPERATING ACTIVITIES	-2,080	-440	-1,352	-406
Payments made on purchase of tangible and intangible assets	-5	-72	-5	-46
Payments made on purchase and development of investment property	0	-340	0	-38
Proceeds from sale of subsidiaries	0	41	0	0
Payments made on purchase of subsidiaries	0	-2,939	0	0
Loans provided	69	0	0	0
Repayment of loans provided	7	0	2	0
Other cash payments and receipts related to investing activities	0	-2	0	7
NET CASH FROM/USED IN INVESTING ACTIVITIES	71	-3,312	-3	-77
Proceeds from loans received	3,028	1,454	1,544	791
Settlement of loans and borrowings	-1,694	-1,227	-357	-175
Interest paid	-373	-290	-198	-120
Dividends paid	0	-90	0	-90
Proceeds from share capital increase	0	3,737	0	0
Other payments related to financing activities	-2	-331	-1	-7
NET CASH FROM/USED IN FINANCING ACTIVITIES	959	3,253	988	399
NET CASH FLOW	-1 050	-499	-367	-84
Cash and cash equivalents at the beginning of period	2,327	2,284	1,644	1,869
Change in cash and cash equivalents	-1,050	-499	-367	-84
Cash and cash equivalents at the end of period	1,277	1,785	1,277	1,785

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total equity
In thousands of euros						
Balance as of 31 December 2017	4,555	292	2,011	134	2,795	9,787
Total comprehensive income for the period	0	0	0	0	-402	-402
Increase of share capital	1,744	1,993	0	0	0	3,737
Dividends paid	0	0	0	0	-90	-90
Sale of subsidiary	0	0	0	0	27	27
Balance as of 30 June 2018	6,299	2,285	2,011	134	2,330	13,059
Balance as of 31 December 2018	6,299	2,285	2,011	245	2,161	13,001
Total comprehensive income for the period	0	0	0	0	-286	-286
Balance as of 30 June 2019	6,299	2,285	2,011	245	1,875	12,715

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the second quarter and 6 months ended on 30 June 2019 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 2018, 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. Discontinued operations

On 31 of December 2018, Arco Vara AS sold its two real estate agencies to the managements of these companies. In addition, 15 apartments are gradually being sold in the Madrid Blvd Building in Sofia, which were earlier used for providing accommodation services. Based on the above, the entire former service segment has been classified as discontinued in this report.

Consolidated profit and loss statement for discontinued operations

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Revenue from rendering of services	0	1,430	0	739
Total revenue	0	1,430	0	739
Cost of sales	0	-927	0	-497
Gross profit	0	503	0	242
Other income	0	16	0	8
Marketing and distribution expenses	0	-195	0	-102
Administrative expenses	0	-420	0	-219
Other expenses	0	-14	0	-11
Operating profit/loss	0	-110	0	-82
Net loss from discontinued operations	0	-110	0	-82

Consolidated cash flows of discontinued operations

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Cash from/used in operating activities	0	65	0	1
Cash from/used in investing activities	0	-4	0	5
Net cashflows of discontinued operations	0	61	0	6

3. Segment information

The group had the following reportable operating segments until the end of 2018:

- Development - development of residential and commercial real estate environments, as well as making investments for rental income;
- Service - real estate services: real estate brokerage, valuation and accommodation.

After discontinuing the Service Division, only geographical segments remain in the group: Estonia, Bulgaria, Latvia.

External revenue by location

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Estonia	69	1,271	43	1
Bulgaria	1,677	282	652	145
Latvia	0	240	0	191
Total revenue	1,746	1,793	695	337

External operating profit by location

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Estonia	-180	-55	-146	-188
Bulgaria	133	-2	89	32
Latvia	-7	-9	-2	-1
Total operating loss	-54	-66	-59	-157

External assets and liabilities by location

	30.06.2019	31.12.2018
In thousands of euros		
Assets	35,364	33,515
Estonia	14,375	11,213
Bulgaria	20,861	22,174
Latvia	128	128
Liabilities	22,649	20,514
Estonia	9,566	5,940
Bulgaria	13,083	14,574

4. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	6M 2019	6M 2018	6M 2019	6M 2018	6M 2019	6M 2018	6M 2019	6M 2018
In thousands of euros								
Sale of own real estate	0	1,443	1,263	0	0	49	1,252	1,492
Rental of real estate	2	5	351	253	0	0	353	258
Property management services	0	5	48	29	0	0	59	34
Franchise	33	0	16	0	15	1	64	1
Other revenue	2	8	16	0	0	0	18	8
Total revenue	37	1,461	1,694	282	15	50	1,746	1,793

	Estonia		Bulgaria		Latvia		Consolidated	
	Q2 2019	Q2 2018	Q2 2019	Q2 2018	Q2 2019	Q2 2018	Q2 2019	Q2 2018
In thousands of euros								
Sale of own real estate	0	182	440	0	0	0	429	182
Rental of real estate	1	4	179	128	0	0	180	132
Property management services	0	5	24	17	0	0	35	22
Franchise	19	0	8	0	12	1	39	1
Other revenue	2	0	10	0	0	0	12	0
Total revenue	22	191	661	145	12	1	695	337

5. Cost of sales

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Cost of real estate sold (note 11)	-989	-1,029	-343	-102
Personnel expenses	-15	-7	-6	-7
Property management costs	-168	-148	-87	-75
Depreciation, amortisation and impairment losses	-42	0	-42	0
Other costs	-115	-40	-36	-24
Total cost of sales	-1,329	-1,224	-514	-208

6. Marketing and distribution expenses

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Advertising expenses	-16	-36	-11	-12
Brokerage fees	-130	-5	-51	0
Other marketing and distribution expenses	-7	-27	-6	-13
Total marketing and distribution expenses	-153	-68	-68	-25

7. Administrative expenses

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Personnel expenses	-212	-287	-95	-150
Office expenses	-39	-49	-22	-18
IT expenses	-25	-59	-10	-29
Services purchased	-51	-78	-21	-21
Depreciation, amortization and impairment losses	-24	-49	7	-25
Legal service fees	-19	-39	-6	-10
Vehicle expenses	-4	-9	-1	-5
Other expenses	-8	-6	-1	-2
Total administrative expenses	-382	-576	-149	-260

8. Financial income and expenses

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Interest expenses	-215	-220	-107	-107
Other financial income and costs	-17	-6	-8	-5
Total financial income and costs	-232	-226	-115	-112

9. 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. Calculations for the number of shares for 2018 take into account that 2,491,355 new shares issued during the latest share offering were registered in the Commercial Register on 29 January 2018.

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 30 May 2017, twelve convertible bonds were issued with the nominal value of 500 euros each. The convertible bonds allow key employees of the group to subscribe to the total of up to 200 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2020 if the employees still work at the company at the time and if the net profit for years 2017-2019 combined is at least 5.5 million euros.

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 will give 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. An equity reserve in the amount of 245 thousand euros has been formed for the option associated with the bond. See also note 15.

	6 months 2019	6 months 2018	Q2 2019	Q2 2018
In thousands of euros				
Weighted average number of ordinary shares outstanding during the period	8,998,367	8,612,964	8,998,367	8,998,367
Number of ordinary shares potentially to be issued (at period end)	590,000	590,000	590,000	590,000
Net profit/loss (in thousands of euros)	-286	-402	-174	-351
Earnings per share (in euros)	-0.03	-0.05	-0.02	-0.04
Diluted earnings per share (in euros)	-0.03	-0.04	-0.02	-0.04

10. Receivables and prepayments

Short-term receivables and prepayments

	30 June 2019	31 December 2018
In thousands of euros		
Trade receivables		
Receivables from customers	90	91
Total trade receivables	90	91
Other receivables		
Loans provided	0	1
Miscellaneous receivables	12	6
Total other receivables	12	7
Accrued income		
Prepaid and recoverable taxes	227	335
Other accrued income	19	17
Total accrued income	246	352
Prepayments	350	289
Total short-term receivables and prepayments	698	739

Long-term receivables and prepayments

	30 June 2019	31 December 2018
In thousands of euros		
Loans provided	0	5
Prepayments	20	20
Total long-term receivables and prepayments	20	25

11. Inventories

	30 June 2019	31 December 2018
In thousands of euros		
Properties purchased and being developed for resale	21,276	17,467
Materials and finished goods	10	15
Total inventories	21,286	17,482

Properties purchased and being developed for resale

	2019	2018
In thousands of euros		
Balance at the beginning of period, 1 January	17,467	8,963
Properties purchased for development	0	2,936
Construction costs of apartment buildings	3,215	1,622
Capitalized borrowing costs	120	75
Other capitalized costs	474	296
Cost of sold properties (note 5)	0	-1,029
Balance at the end of period, 30 June	21,276	12,863

12. Investment property

	2019	2018
In thousands of euros		
Balance at the beginning of period, 1 January	12,344	11,299
Capitalized development costs	59	49
Capitalized borrowing costs	48	33
Sale of investment property (note 5)	-989	0
Purchase of land plots	0	304
Balance at the end of period, 30 June	11,462	11,685

13. Interest bearing liabilities

	As of 30 June, 2019			As of 31 December, 2018		
	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	15,997	15,997	0	14,653	11,995	2,658
Bonds	1,327	0	1,327	1,329	2	1,327
Finance lease liabilities	104	28	76	0	0	0
Other loans	550	550	0	550	550	0
Total loans and borrowings	17,978	16,575	1,403	16,532	12,547	3,985
Prepayments	725	725	0	810	810	0
Total	18,703	17,300	1,403	17,342	13,357	3,985

In 6 months 2019, the group settled loans in the amount of 1,694 thousand euros (in 6 months 2018: 1,227 thousand euros) through cash transactions and raised new loans in the amount of 3,028 thousand euros (in 6 months 2018: 1,454 thousand euros). In addition to loan liabilities, there was a non-cash lease capitalization.

In 6 months 2019, the following major loan obligations were settled:

- 1,537 thousand euros of Madrid Blvd project's bank loan principal;
- 146 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 9 thousand euros of capitalized lease;
- 2 thousand euros of Arco Vara convertible bonds.

In 6 months 2019, the group raised the following new liabilities:

- 113 thousand euros of capitalization of premises' lease;
- 61 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 2,967 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stage II.

14. Payables and deferred income

Short-term payables and deferred income

	30 June 2019	31 December 2018
In thousands of euros		
Trade payables	908	761
Miscellaneous payables	45	0
Taxes payable		
Value added tax	71	12
Corporate income tax	0	4
Social security tax	25	19
Personal income tax	14	11
Other taxes	5	2
Total taxes payable	115	48
Accrued expenses		
Payables to employees	46	54
Interest payable	76	31
Other accrued expenses	346	470
Total accrued expenses	468	555
Deferred income		
Prepayments received on sale of real estate	3,026	2,545
Guarantee deposits	109	73
Total deferred income	3,135	2,618
Total short-term payables and deferred income	4,671	3,982

15. Related party disclosures

The group has conducted transactions or has balances with the following related parties:

- 1) companies under the control of the chief executive and the members of the supervisory board of Arco Vara AS that have a significant interest in the group's parent company;
- 2) other related parties: the CEO and the members of the supervisory board of Arco Vara AS and companies under their control (excluding companies that have a significant interest in the group's parent company).

Transactions with related parties

	6 months 2019	6 months 2018
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Services purchased	19	18
Other related parties		
Services sold	0	1

Balances with related parties

	30 June 2019	31 December 2018
In thousands of euros		
Other related parties		
Bonds issued	1	1

In 6 months 2019, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 43 thousand euros, out of which 21 thousand euros in Q2 (in 6 months and Q2 2018: 51 thousand euros and 25 thousand euros respectively).

The remuneration provided to the members of the supervisory board of the group's parent company during the first 6 months in 2019 was 5 thousand euros, out of which in Q2 2019 3 thousand euros (in Q2 2018: 3 thousand euros, no remuneration in Q1).

The remuneration provided to the CEO / member of the management board is based on his service contract. The termination benefits agreed with Tarmo Sild, who was appointed the CEO / member of the management board of Arco Vara AS in October 2012, amount to up to five months' base remuneration. The mandate of the CEO was extended by 3 years (until October 2021) on the supervisory board meeting held in October 2018. The basis for the remuneration provided to the members of the supervisory board was changed in July 2013 and was slightly amended in February 2015. According to the resolutions of the general meeting of Arco Vara AS, 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 group's key management personnel have not been granted or received any other remuneration or benefits (bonuses, termination benefits, etc) in the reporting period.

According to the decision of the annual general meeting of Arco Vara AS, held on 30 May 2017, twelve convertible bonds were issued with the nominal value of 500 euros each. The convertible bonds will give to the key employees of the group the right to subscribe to the total of up to 200 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2020 if the employees still work at the company at the time and if the net profit for years 2017-2019 combined is at least 5.5 million euros. The Black-Scholes model was used to calculate the fair value of the key employee option, according to which no equity reserve has been formed.

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 will give 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. An equity reserve in the amount of 245 thousand euros has been formed for the option associated with the bond. See also note 9.

STATEMENT BY THE CEO / MEMBER OF THE MANAGEMENT BOARD

The CEO / member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the second quarter and 6 months ended on 30 June 2019.

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.



Tarmo Sild
Chief Executive and Member of the Management Board of Arco Vara AS

On 8 August 2019