



Arco Vara AS

INTERIM REPORT FOR THE II QUARTER AND SIX MONTHS OF 2020  
(UNAUDITED)

**INTERIM REPORT FOR THE SECOND QUARTER AND SIX MONTHS OF 2020**  
**(UNAUDITED)**

Company name: Arco Vara AS

Registry number: 10261718

Address: Maakri 19/1, 10145 Tallinn, Republic of Estonia

Telephone: +372 6 144 630

E-mail: [info@arcovara.com](mailto:info@arcovara.com)

Corporate website: [www.arcovara.com](http://www.arcovara.com)

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

Financial year: 1 January 2020 – 31 December 2020

Reporting period: 1 January 2020 – 30 June 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 Q2 AND 6 MONTHS 2020**

### **GROUP CEO'S REVIEW**

The results in the second quarter did not bring any positive surprises. Due to the continuing outbreak of Covid-19 at the beginning of the quarter, the pace of sales in the real estate sector was clearly slower compared to the previous few years. Nevertheless, all developments have been kept on schedule and work has never been stopped.

Approximately 50% of the apartments in the third building of the Kodulahe project have been pre-sold by the time the report is completed, the sales revenue of which is expected in the first quarter of 2021. The construction of the building is going according to the schedule. The preparation of the construction procurement for the IV and V buildings of the Kodulahe project is commencing - the starting time of construction depends on the achievement of the desired construction price.

In Tartu, Kodukalda 30 apartment development is under construction pursuant to the schedule and pre-sale contracts have been concluded for the sale of 13 apartments. Sales revenue is expected by the fourth quarter of 2020.

Iztok Parkside apartment buildings in Bulgaria have not received a permit for use, but the interest of clients is persistent, which is also confirmed by the fact that 85% of the apartments have been awarded pre-sale contracts. On the issues of the access roads that continue to be a problem, we consider it positive news that these streets have been entered into the ownership of the city of Sofia, making it possible this year to submit an application for authorisation to the necessary authorities. However, we must take into account that growing Covid-19 cases in Bulgaria may slow down the authorisation process.

In the Madrid BLVD building, leases with some companies were terminated as a result of the economic difficulties brought about by Covid-19, but the Bulgarian-based team again achieved occupancy with tenants by around 95%.

The main issues for the current year are: which development to channel capital into, to take advantage of fluctuating construction prices, to increase the return on equity and the desire to find ways to increment the funds of the land bank for future developments in Estonia.

The management board of Arco Vara has received confirmation during Q2 that today's situation is very different from the previous crisis, as confirmed by the increase in market activity in June and exceptionally active July. Therefore, the board's view on the developments in Estonia is optimistic, but given the state of health care, in Bulgaria it is conservative.

## 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.

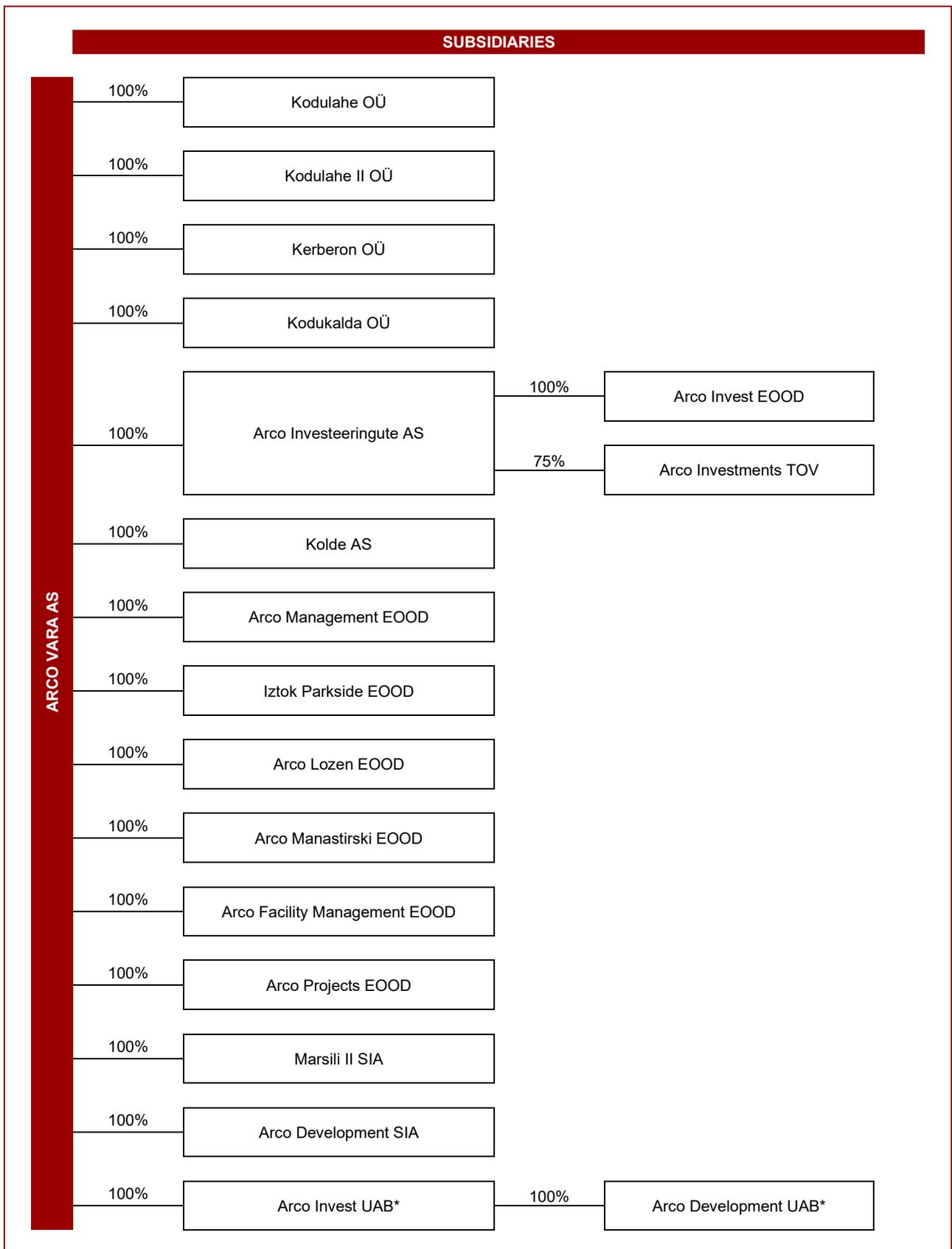
### Group structure

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

### Significant subsidiaries as of 30 June 2020

Company name	Location	Share capital (nominal value)	Equity balance on 30 June 2020	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	28,762	2,694	100%
Iztok Parkside EOOD	Bulgaria	1,433	347	100%
Arco Lozen EOOD	Bulgaria	2,931	2,287	100%
Kodulahe OÜ	Estonia	3	2,885	100%

Group structure as of 30 June 2020



\* In liquidation

## KEY PERFORMANCE INDICATORS

- In Q2 2020, the group's revenue was 951 thousand euros, which is 37% more than the revenue of 695 thousand euros in Q2 2019. In 6 months 2020, the group's revenue was 3,189 thousand euros, which is 83% more than the revenue of 1,746 thousand euros in 6 months 2019.
- In Q2 2020, the group's operating profit (=EBIT) was 42 thousand euros and net loss 69 thousand euros (in 6 months 2020: operating profit 175 thousand euros and net loss of 49 thousand euros). In Q2 2019, the group had operating loss of 59 thousand euros and net loss of 174 thousand euros. In 6 months 2019, the group made operating loss of 54 thousand euros and net loss of 286 thousand euros.
- In Q2 2020, 5 apartments were sold in projects developed by the group (in 6 months 2020 15 apartments). In Q2 2019, 3 apartments were sold (10 apartments in 6 months).
- In the 6 months of 2020, the group's debt burden (net loans) increased by 2,420 thousand euros up to the level of 13,870 thousand euros as of 30 June 2020. As of 30 June 2020, the weighted average annual interest rate of interest-bearing liabilities was 4.7%. This is an increase of 0.5 percentage points compared to 31 December 2019.

### Main financial figures

	6 months 2020		6 months 2019		Q2 2020		Q2 2019	
EUR tuhandetes								
<b>Revenue</b>	3,189	1,746	951	695				
<b>Operating profit/loss (EBIT)</b>	175	-54	42	-59				
Finance income and expense	-224	-232	-111	-115				
<b>Net profit/loss</b>	<b>-49</b>	<b>-286</b>	<b>-69</b>	<b>-174</b>				
Cash flows from/used in operating activities	-1,817	-2,080	-1,608	-1,352				
Cash flows used in investing activities	-14	71	0	-3				
Cash flows from/used in financing activities	1,742	959	1,208	988				
<b>Net cash flows</b>	<b>-89</b>	<b>-1,050</b>	<b>-400</b>	<b>-367</b>				
Cash and cash equivalents at beginning of period	870	2,327	1,181	1,644				
Cash and cash equivalents at end of period	781	1,277	781	1,277				
Total assets at the end of period	30,939	35,364						
Invested capital at the end of period	27,814	31,418						
Net loans at the end of period	13,870	17,426						
Equity at the end of period	13,163	12,715						

### Revenue and net profit/loss during last years

	Q2 2017	Q3 2017	Q4 2017	Total 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Total 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total 2019	Q1 2020	Q2 2020
In millions of euros																
Revenue	1.0	7.7	8.0	<b>18.3</b>	2.1	1.1	2.1	1.3	<b>6.6</b>	1.1	0.7	0.4	10.9	<b>13.1</b>	2.2	1.0
Net profit/loss	-0.3	0.7	0.8	<b>0.8</b>	-0.1	-0.3	0.1	-0.2	<b>-0.5</b>	-0.1	-0.2	-0.2	0.9	<b>0.4</b>	0.0	0.1

**Key ratios**

	6 months 2020	6 months 2019	Q2 2020	Q2 2019
EPS (in euros)	-0.01	-0.03	-0.01	-0.02
Diluted EPS (in euros)	-0.01	-0.03	-0.01	-0.02
ROIC (rolling, four quarters)	2.2%	-1.5%		
ROE (rolling, four quarters)	4.8%	-3.3%		
ROA (rolling, four quarters)	1.9%	-1.3%		
Equity ratio	42.5%	36.0%		
Current ratio	1.78	1.09		
Quick ratio	0.12	0.09		
Financial leverage	2.35	2.78		
Average loan term (in years)	2.5	1.0		
Average annual interest rate of loans	4.7%	4.7%		
Number of staff, at period end	14	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 951 thousand euros in Q2 2020 (in Q2 2019: 695 thousand euros,) and 3,189 thousand euros in 6 months 2020 (in 6 months 2019: 1,746 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 782 thousand euros in Q2 and 2,777 thousand euros in 6 months 2020 (2019: 440 thousand euros in Q2 and 1,263 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 148 thousand euros in Q2 2020 and 310 thousand euros in 6 months (2019: 178 thousand euros in Q2 and 350 thousand euros in 6 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 we see the opportunity that starting from the autumn 2020 all retail and office spaces with the accompanying parking spaces will be 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 Q2 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 is expected to be finalized by the Q1 2021. By the publishing date of the interim report, 26 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 Q2 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, 13 apartments have been presold.

In Iztok Parkside project in Sofia, the final sale of apartments started at the end of Q4 2019, but the main sales are planned to take place during 2020 after receiving an occupancy permit. By the publishing date of the interim report, presale agreements for 10 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.

As of 30 June 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 June 2020

Project name	Address	Product main type	Stage	Area of plot(s) (m <sup>2</sup> )	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S6	-	7,350	22
Iztok Parkside	Iztok, Sofia	Apartments	S5	2,470	5,267	50
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	S2	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 June 2020, 14 people worked for the group (17 as of 31 December 2019). Employee remuneration expenses in 6 months 2020 amounted to 253 thousand euros, out of which 85 thousand euros in Q2 2020 (2019 same periods: 227 thousand euros and 101 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 44 thousand euros in 6 months 2020, out of which 23 thousand euros in Q2 2020 (in 6 months and Q2 2019: 48 thousand euros and 24 thousand euros, respectively). The members of the supervisory board of the group's parent company were remunerated by 4 thousand euros (all in Q2 2020). The remuneration of the members of the supervisory board was 5 thousand euros in 6 months 2019, out of which 2 thousand euros in Q2 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](http://www.arcovara.com).

## DESCRIPTION OF MAIN RISKS

### Strategic risk

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

For mitigating the risk, the group: (i) invests equity into different development projects in different markets (in 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 Q2 2020, the group's interest-bearing liabilities amounted to 14.7 million euros on 30 June 2020, out of which 8.0 million euros is due within next 12 months. The group's cash and cash equivalents totalled 0.8 million euros as of 30 June 2020 (31 December 2019 0.9 million). In Q2 2020, interest payments on interest-bearing liabilities totalled 0.2 million euros (in Q2 2019: 0.1 million euros). The group's weighted average loan interest rate was 4.7% as of 30 June 2020. This is an increase by 0.5 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 1.07 euros on 30 June 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 June 2020, market capitalization of shares amounted to 9,628 thousand euros and P/B (price to book value) ratio was 0.73 (31 December 2019: 10,258 thousand euros and 0.77, respectively). P/E (price to earnings) ratio of the share was 15.41 on 30 June 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 6 months 2020 and during the last three years.

### Performance of Arco Vara's shares in 6 months 2020



**Performance of Arco Vara’s shares from 1 July 2017 until 30 June 2020**



**Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 6 months 2020**

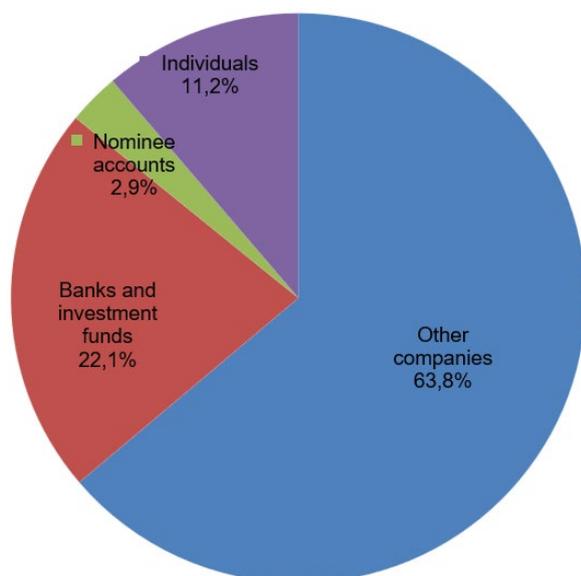


Index/equity	1 Jan 2020	30 June	+/-%
OMX Tallinn	1,279.70	1,219.97	-4.67
ARC1T – Arco Vara	1.12 EUR	1.07 EUR	-6.14

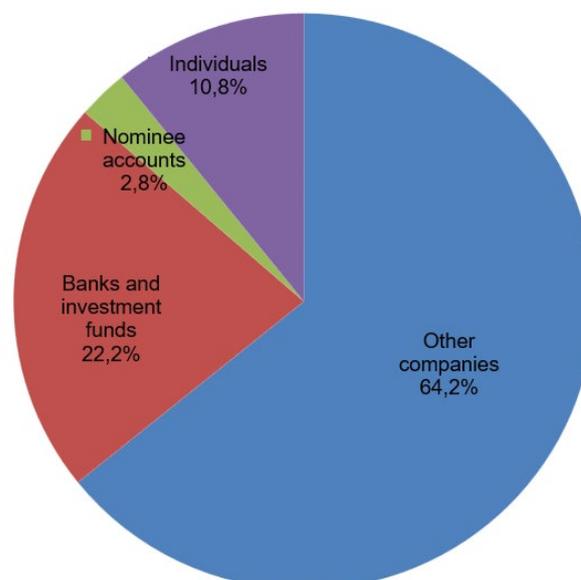
## Shareholder structure

As of 30 June 2020, Arco Vara had 1,438 shareholders (on 31 December 2019 also 1,315), including 1,267 individuals as shareholders (on 31 December 2019: 1,138 individuals) who jointly owned 11.2% (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 June 2020



Ownership structure as of 31 December 2019



### Major shareholders on 30 June 2020

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	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 Avroora Fund Ltd	185,800	2.1%
Marko Teimann	155,350	1.7%
Other shareholders	1,996,367	22.2%
<b>Total</b>	<b>8,998,367</b>	<b>100.0%</b>

### Holdings of management and supervisory board members on 30 June 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%
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%
Steven Yaroslav Gorelik <sup>1</sup>	member of supervisory board	0	-
Miko-Ove Niinemäe	member of management board	350	-
<b>Total</b>		<b>3,093,385</b>	<b>34.4%</b>

<sup>1</sup> - Steven Yaroslav Gorelik is active as fund manager in three investment funds holding interest in Arco Vara (Firebird Republics Fund Ltd, Firebird Avroora 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 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 30 July 2020

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	6 months 2020	6 months 2019	Q2 2020	Q2 2019
In thousands of euros					
Revenue from sale of own real estate		2,777	1,263	782	440
Revenue from rendering of services		412	483	169	255
<b>Total revenue</b>	2,3	<b>3,189</b>	<b>1,746</b>	<b>951</b>	<b>695</b>
Cost of sales	4	-2,541	-1,329	-714	-514
<b>Gross profit</b>		<b>648</b>	<b>417</b>	<b>237</b>	<b>181</b>
Other income		0	91	0	0
Marketing and distribution expenses	5	-57	-153	-15	-68
Administrative expenses	6	-415	-382	-179	-149
Other expenses		-1	-27	-1	-23
<b>Operating profit/loss</b>		<b>175</b>	<b>-54</b>	<b>42</b>	<b>-59</b>
Finance income and cost	7	-224	-232	-111	-115
<b>Loss before tax</b>		<b>-49</b>	<b>-286</b>	<b>-69</b>	<b>-174</b>
<b>Net loss for the period</b>		<b>-49</b>	<b>-286</b>	<b>-69</b>	<b>-174</b>
<b>Total comprehensive expense for the period</b>		<b>-49</b>	<b>-286</b>	<b>-69</b>	<b>-174</b>
<b>Earnings per share (in euros)</b>	8				
- basic		-0.01	-0.03	-0.01	-0.02
- diluted		-0.01	-0.03	-0.01	-0.02

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	30 June 2020	31 December 2019
In thousands of euros			
Cash and cash equivalents		781	870
Receivables and prepayments	9	545	544
Inventories	10	18,476	15,807
<b>Total current assets</b>		<b>19,802</b>	<b>17,221</b>
Investment property	11	10,696	11,051
Property, plant and equipment		257	265
Intangible assets		184	217
<b>Total non-current assets</b>		<b>11,137</b>	<b>11,533</b>
<b>TOTAL ASSETS</b>		<b>30,939</b>	<b>28,754</b>
Loans and borrowings	12	7,800	6,416
Payables and deferred income	13	3,303	3,135
<b>Total current liabilities</b>		<b>11,103</b>	<b>9,551</b>
Loans and borrowings	12	6,673	5,904
<b>Total non-current liabilities</b>		<b>6,673</b>	<b>5,904</b>
<b>TOTAL LIABILITIES</b>		<b>17,776</b>	<b>15,455</b>
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		2,295	2,459
<b>TOTAL EQUITY</b>		<b>13,163</b>	<b>13,299</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>30,939</b>	<b>28,754</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Note	6 months 2020	6 months 2019	Q2 2020	Q2 2019
In thousands of euros				
Cash receipts from customers	3,963	2,081	1,591	1,124
Cash paid to suppliers	-5,582	-4,568	-3,273	-2,629
Taxes paid and recovered (net)	2	579	160	213
Cash paid to employees	-206	-169	-90	-65
Other cash payments and receipts related to operating activities (net)	6	-3	4	5
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>	<b>-1,817</b>	<b>-2,080</b>	<b>-1,608</b>	<b>-1,352</b>
Payments made on purchase of tangible and intangible assets	0	-5	0	-5
Payments made on purchase and development of investment property 11	-14	0	0	0
Proceeds from sale of financial investments	0	69	0	0
Repayment of loans provided	0	7	0	2
<b>NET CASH FROM/USED IN INVESTING ACTIVITIES</b>	<b>-14</b>	<b>71</b>	<b>0</b>	<b>-3</b>
Proceeds from loans received 12	3,492	3,028	1,979	1,544
Settlement of loans and borrowings 12	-1,331	-1,694	-526	-357
Interest paid	-334	-373	-158	-198
Dividends paid	-360	0	-360	0
Proceeds from share capital increase	273	0	273	0
Other payments related to financing activities	2	-2	0	-1
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>	<b>1,742</b>	<b>959</b>	<b>1,208</b>	<b>988</b>
<b>NET CASH FLOW</b>	<b>-89</b>	<b>-1,050</b>	<b>-400</b>	<b>-367</b>
Cash and cash equivalents at the beginning of period	870	2,327	1,181	1,644
<b>Change in cash and cash equivalents</b>	<b>-89</b>	<b>-1,050</b>	<b>-400</b>	<b>-367</b>
Cash and cash equivalents at the end of period	781	1,277	781	1,277

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total equity
In thousands of euros							
<b>Balance as of 31 December 2018</b>	<b>6,299</b>	<b>0</b>	<b>2,285</b>	<b>2,011</b>	<b>245</b>	<b>2,161</b>	<b>13,001</b>
Total comprehensive income for the period	0	0	0	0	0	-286	-286
<b>Balance as of 30 June 2019</b>	<b>6,299</b>	<b>0</b>	<b>2,285</b>	<b>2,011</b>	<b>245</b>	<b>1,875</b>	<b>12,715</b>
<b>Balance as of 31 December 2019</b>	<b>6,299</b>	<b>0</b>	<b>2,285</b>	<b>2,011</b>	<b>245</b>	<b>2,459</b>	<b>13,299</b>
Increase of share capital	0	273	0	0	0	0	273
Dividends paid	0	0	0	0	0	-360	-360
Other reserves	0	0	0	0	-245	245	0
Total comprehensive income for the period	0	0	0	0	0	-49	-49
<b>Balance as of 30 June 2020</b>	<b>6,299</b>	<b>273</b>	<b>2,285</b>	<b>2,011</b>	<b>0</b>	<b>2,295</b>	<b>13,163</b>

## 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 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

	6 months 2020	6 months 2019	Q2 2020	Q2 2019
In thousands of euros				
Estonia	644	69	210	43
Bulgaria	2,545	1,677	741	652
<b>Total revenue</b>	<b>3,189</b>	<b>1,746</b>	<b>951</b>	<b>695</b>

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

	6 months 2020	6 months 2019	Q2 2020	Q2 2019
In thousands of euros				
Estonia	-189	-180	-115	-146
Bulgaria	367	133	159	89
Latvia	-3	-7	-2	-2
<b>Total operating loss</b>	<b>175</b>	<b>-54</b>	<b>42</b>	<b>-59</b>

#### External assets and liabilities by location

	30.06.2020	31.12.2019
In thousands of euros		
<b>Assets</b>	<b>30,939</b>	<b>28,754</b>
Estonia	11,733	8,082
Bulgaria	19,080	20,546
Latvia	126	126
<b>Liabilities</b>	<b>17,776</b>	<b>15,455</b>
Estonia	6,858	2,859
Bulgaria	10,918	12,596

#### Non-current assets by location

	30.06.2020	31.12.2019
In thousands of euros		
<b>Total non-current assets</b>	<b>441</b>	<b>482</b>
<b>Tangible assets</b>	<b>257</b>	<b>265</b>
Estonia	6	9
Bulgaria	251	256
<b>Intangible assets</b>	<b>184</b>	<b>217</b>
Estonia	128	171
Bulgaria	56	46

### 3. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	6M 2020	6M 2019	6M 2020	6M 2019	6M 2020	6M 2019	6M 2020	6M 2019
In thousands of euros								
Sale of own real estate	558	0	2,219	1,263	0	0	2,777	1,263
Rental of real estate	3	2	272	351	0	0	275	353
Property management services	1	0	39	48	0	0	40	48
Franchise	55	33	15	16	5	15	75	64
Other revenue	6	2	16	16	0	0	22	18
<b>Total revenue</b>	<b>623</b>	<b>37</b>	<b>2,561</b>	<b>1,694</b>	<b>5</b>	<b>15</b>	<b>3,189</b>	<b>1,746</b>

	Estonia		Bulgaria		Latvia		Consolidated	
	Q2 2020	Q2 2019	Q2 2020	Q2 2019	Q2 2020	Q2 2019	Q2 2020	Q2 2019
In thousands of euros								
Sale of own real estate	176	0	606	440	0	0	782	440
Rental of real estate	2	1	110	179	0	0	112	180
Property management services	1	0	18	24	0	0	19	24
Franchise	22	19	7	8	1	12	30	39
Other revenue	1	2	7	10	0	0	8	12
<b>Total revenue</b>	<b>202</b>	<b>22</b>	<b>748</b>	<b>661</b>	<b>1</b>	<b>12</b>	<b>951</b>	<b>695</b>

### 4. Cost of sales

	6 months 2020		6 months 2019		Q2 2020		Q2 2019	
	In thousands of euros							
Cost of real estate sold (note 10, 11)		-2,194		-989		-554		-342
Brokerage fees		-73		0		-28		0
VAT cost		-38		-107		0		-35
Property management costs		-158		-168		-87		-87
Personnel expenses		-10		-15		-2		-6
Depreciation, amortisation and impairment losses		-42		-42		-21		-42
Other costs		-26		-8		-22		-2
<b>Total cost of sales</b>		<b>-2,541</b>		<b>-1,329</b>		<b>-714</b>		<b>-514</b>

### 5. Marketing and distribution expenses

	6 months 2020		6 months 2019		Q2 2020		Q2 2019	
	In thousands of euros							
Advertising expenses		-26		-16		-10		-11
Brokerage fees		0		-130		0		-51
Other marketing and distribution expenses		-31		-7		-5		-6
<b>Total marketing and distribution expenses</b>		<b>-57</b>		<b>-153</b>		<b>-15</b>		<b>-68</b>

## 6. Administrative expenses

	6 months 2020	6 months 2019	Q2 2020	Q2 2019
In thousands of euros				
Personnel expenses	-243	-212	-83	-95
Office expenses	-40	-39	-18	-22
IT expenses	-14	-25	-6	-10
Services purchased	-89	-51	-57	-21
Depreciation, amortization and impairment losses	-14	-24	-6	7
Legal service fees	-10	-19	-6	-6
Vehicle expenses	-1	-4	-1	-1
Other expenses	-4	-8	-2	-1
<b>Total administrative expenses</b>	<b>-415</b>	<b>-382</b>	<b>-179</b>	<b>-149</b>

## 7. Financial income and expenses

	6 months 2020	6 months 2019	Q2 2020	Q2 2019
In thousands of euros				
Interest expenses	-214	-215	-106	-107
Other financial income and costs	-10	-17	-5	-8
<b>Total financial income and costs</b>	<b>-224</b>	<b>-232</b>	<b>-111</b>	<b>-115</b>

## 8. Earnings per share

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

According to the decision of the annual general meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond gave to the CEO of the group's parent company the right to subscribe to up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. The CEO used his right in full amount. 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.

	6 months 2020	6 months 2019	Q2 2020	Q2 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	590,000	590,000
Net profit/loss (in thousands of euros)	-49	-286	-69	-174
<b>Earnings per share (in euros)</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.01</b>	<b>-0.02</b>
<b>Diluted earnings per share (in euros)</b>	<b>-0.01</b>	<b>-0.03</b>	<b>-0.01</b>	<b>-0.02</b>

## 9. Receivables and prepayments

### Short-term receivables and prepayments

	30 June 2020	31 December 2019
In thousands of euros		
<b>Trade receivables</b>		
Receivables from customers	260	204
<b>Total trade receivables</b>	<b>260</b>	<b>204</b>
<b>Other receivables</b>		
Miscellaneous receivables	12	12
<b>Total other receivables</b>	<b>12</b>	<b>12</b>
<b>Accrued income</b>		
Prepaid and recoverable taxes	215	226
Other accrued income	9	18
<b>Total accrued income</b>	<b>224</b>	<b>244</b>
Prepayments	49	84
<b>Total short-term receivables and prepayments</b>	<b>545</b>	<b>544</b>

## 10. Inventories

	30 June 2020	31 December 2019
In thousands of euros		
Properties purchased and being developed for resale	18,469	15,779
Materials and finished goods	7	28
<b>Total inventories</b>	<b>18,476</b>	<b>15,807</b>

### Properties purchased and being developed for resale

	2020	2019
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>15,779</b>	<b>17,467</b>
Construction costs of apartment buildings	4,291	1,478
Capitalized borrowing costs	71	43
Other capitalized costs	139	137
Cost of sold properties (note 4)	-1,811	0
<b>Balance at the end of period, 30 June</b>	<b>18,469</b>	<b>19,125</b>

## 11. Investment property

	2020	2019
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>11,051</b>	<b>12,344</b>
Capitalized development costs	14	59
Capitalized borrowing costs	14	48
Sale of investment property (note 4)	-383	-989
<b>Balance at the end of period, 30 June</b>	<b>10,696</b>	<b>11,462</b>

## 12. Interest bearing liabilities

	As of 30 June, 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	13,147	6,474	6,673	10,993	5,089	5,904
Bonds	1,326	1,326	0	1,327	1,327	0
<b>Total loans and borrowings</b>	<b>14,473</b>	<b>7,800</b>	<b>6,673</b>	<b>12,320</b>	<b>6,416</b>	<b>5,904</b>
Account payable	178	178	0	0	0	0
<b>Total</b>	<b>14,651</b>	<b>7,978</b>	<b>6,673</b>	<b>12,320</b>	<b>6,416</b>	<b>5,904</b>

In 6 months 2020, the group settled loans in the amount of 1,331 thousand euros (in 6 months 2019: 1,694 thousand euros) through cash transactions and raised new loans in the amount of 3,492 thousand euros (in 6 months 2019: 3,028 thousand euros).

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

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

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

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

## 13. Payables and deferred income

### Short-term payables and deferred income

	30 June 2020	31 December 2019
In thousands of euros		
<b>Trade payables</b>	<b>1,214</b>	<b>590</b>
<b>Miscellaneous payables</b>	<b>0</b>	<b>142</b>
<b>Taxes payable</b>		
Value added tax	95	415
Corporate income tax	1	1
Social security tax	12	14
Personal income tax	6	8
Land tax	15	0
Garbage tax	36	0
<b>Total taxes payable</b>	<b>165</b>	<b>438</b>
<b>Accrued expenses</b>		
Payables to employees	38	82
Interest payable	29	41
Other accrued expenses	386	345
<b>Total accrued expenses</b>	<b>453</b>	<b>468</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	1,380	1,412
Guarantee deposits	66	61
Prepaid revenue	25	24
<b>Total deferred income</b>	<b>1,471</b>	<b>1,497</b>
<b>Total short-term payables and deferred income</b>	<b>3,303</b>	<b>3,135</b>

## 14. Related party disclosures

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

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

### Transactions with related parties

	6 months 2020	6 months 2019
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Services purchased	29	19
Bonds	273	0
<b>Other related parties</b>		
Services sold	1	0

### Balances with related parties

	30 June 2020	31 December 2019
In thousands of euros		
<b>Other related parties</b>		
Bonds issued	1	1

In 6 months 2020, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 44 thousand euros, out of which 23 thousand euros in Q2 (in 6 months and Q2 2019: 43 thousand euros and 21 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 2020 was 4 thousand euros, all out of it in Q2 2020 (in 6 months and Q2 2019: 5 thousand euros and 3 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 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 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 second quarter and 6 months ended on 30 June 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 30 July 2020