



# Arco Vara AS

INTERIM REPORT FOR THE  
III QUARTER AND NINE MONTHS OF 2019  
(UNAUDITED)

## INTERIM REPORT FOR THE THIRD QUARTER AND NINE MONTHS OF 2019

**(UNAUDITED)**

Company name: Arco Vara AS

Registry number: 10261718

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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 2019 – 31 December 2019

Reporting period: 1 January 2019 – 30 September 2019

Supervisory board: Hillar-Peeter Luitsalu, Rain Lõhmus, Allar Niinepuu,  
Kert Keskpaik, Steven Yaroslav Gorelik

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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## **DIRECTORS' REPORT FOR Q3 AND 9 MONTHS 2019**

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

Q3 was completed with Kodulahe construction works on schedule, Madrid Blvd rental property occupied with paying tenants and the construction of two Estonian developments with 80 apartments kicked off.

We continue to be in a seriously failure with Iztok Parkside, where end-solution by public authorities to resolve the streets land question has seemingly become an endless inching week by week. The end solution has not been achieved yet. The associated uncertainty on project sale timeline and damage to return on equity and cashflows is not proportionate to the end profit that we still expect to achieve. It is obvious that any promise on schedule by the management to the shareholders is not reliable under those circumstances. We simply do our best until the resolution.

As for Q4 results, Kodulahe will save the full year of Arco Vara. The deliveries of Kodulahe phase 2 apartments have started to take place and we can expect the year to end up with profitable Q4. The group is also in the process of further reducing its operating expenses by circa 10% per annum.

## 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.

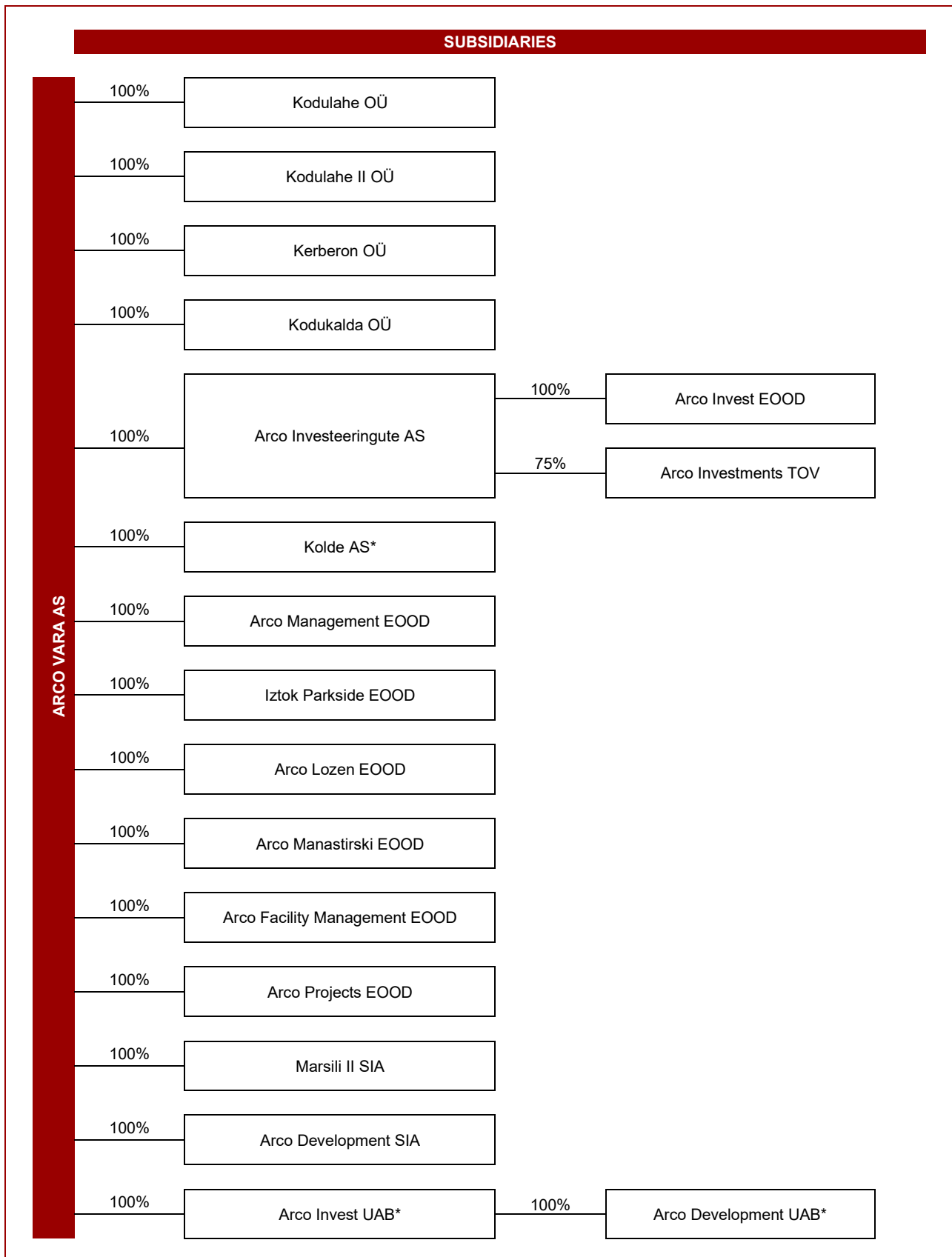
### Group structure

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

#### Significant subsidiaries as of 30 September 2019

Company name	Location	Share capital (nominal value)	Equity balance on 30 September 2019	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	28,762	2,669	100%
Iztok Parkside EOOD	Bulgaria	1,433	246	100%
Arco Lozen EOOD	Bulgaria	2,931	2,512	100%
Kodulahe OÜ	Estonia	3	1,738	100%

**Group structure as of 30 September 2019**



\* In liquidation

## KEY PERFORMANCE INDICATORS

- In Q3 2019, the group's revenue was 0.5 million euros, which is 62% less than the revenue of 1.3 million euros from continuing operations in Q3 2018. In Q3 2018, revenue together with the discontinued service segment was 2.1 million euros. In 9 months 2019, the group's revenue was 2.2 million euros, which is 27% less than the revenue of 3.0 million euros in 9 months 2018.
- In Q3 2019, the group's operating loss (=EBIT) was 64 thousand euros and net loss 174 thousand euros (in 9 months 2019: operating loss 118 thousand euros and net loss of 460 thousand euros). In Q3 2018, the group had operating profit of 167 thousand euros from continuing operations (191 thousand overall) and net profit of 42 thousand euros. In 9 months 2018, the group made operating profit of 100 thousand euros and net loss of 360 thousand euros.
- In Q3 2019, 2 apartments were sold in projects developed by the group (in 9 months 2019 12 apartments). In Q3 2018, 4 apartments and 2 commercial areas were sold (12 apartments, 2 commercial areas and 1 land plot in 9 months).
- In 9 months 2019, the group's debt burden (net loans) increased by 3.4 million euros up to the level of 19.1 million euros as of 30 September 2019. As of 30 September 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

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
<b>Revenue</b>				
Development	2,222	3,038	476	1,254
Service	0	2,298	0	868
Parent company	0	11	0	2
<b>Total revenue</b>	<b>2,222</b>	<b>5,347</b>	<b>476</b>	<b>2,124</b>
<b>Operating profit (EBIT)</b>				
Development	207	685	33	351
Service	0	-85	0	24
Parent company	-325	-585	-97	-184
<b>Total operating profit/loss (EBIT)</b>	<b>-118</b>	<b>15</b>	<b>-64</b>	<b>191</b>
Finance income and expense	-342	-375	-110	-149
<b>Net profit/loss</b>	<b>-460</b>	<b>-360</b>	<b>-174</b>	<b>42</b>
Cash flows from/used in operating activities	-3,365	-656	-1,285	-216
Cash flows used in investing activities	41	-3,351	-30	-39
Cash flows from/used in financing activities	1,896	4,246	937	993
<b>Net cash flows</b>	<b>-1,428</b>	<b>239</b>	<b>-378</b>	<b>738</b>
Cash and cash equivalents at the beginning of period	2,327	2,284	1,277	1,785
Cash and cash equivalents at the end of period	899	2,523	899	2,523
Total assets at the end of period	35,977	30,611		
Invested capital at the end of period	32,430	27,403		
Net loans at the end of period	19,080	11,779		
Equity at the end of period	12,451	13,101		



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

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Total 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Total 2018	Q1 2019	Q2 2019	Q3 2019	Total 2019
In millions of euros														
Revenue	1.6	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	<b>2.2</b>
Net profit/loss	-0.3	-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	<b>-0.5</b>

**Key ratios**

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
EPS (in euros)	-0.05	-0.04	-0.02	0.00
Diluted EPS (in euros)	-0.05	-0.04	-0.02	0.00
ROIC (rolling, four quarters)	-2.1%	1.4%		
ROE (rolling, four quarters)	-5.0%	3.0%		
ROA (rolling, four quarters)	-1.9%	1.3%		
Equity ratio	34.6%	42.8%		
Current ratio	1.17	2.62		
Quick ratio	0.08	0.49		
Financial leverage	2.89	2.34		
Average loan term (in years)	0.5	1.2		
Average annual interest rate of loans	4.7%	4.8%		
Number of staff, at period end	17	138		

**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 continues as a real estate developer.



**Consolidated profit and loss statements for continuing and discontinued operations**

	9 months 2019			9 months 2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
In thousands of euros						
Revenue from sale of own real estate	1,487	0	1,487	2,537	0	2,537
Revenue from rendering of services	735	0	735	512	2,298	2,810
<b>Total revenue</b>	<b>2,222</b>	<b>0</b>	<b>2,222</b>	<b>3,049</b>	<b>2,298</b>	<b>5,347</b>
Cost of sales	-1,641	0	-1 641	-2,102	-1,444	-3,546
<b>Gross profit</b>	<b>581</b>	<b>0</b>	<b>581</b>	<b>947</b>	<b>854</b>	<b>1,801</b>
Other income	91	0	91	133	20	153
Marketing and distribution expenses	-204	0	-204	-96	-298	-394
Administrative expenses	-538	0	-538	-837	-646	-1,483
Other expenses	-48	0	-48	-62	-15	-77
Gain on sale of subsidiaries	0	0	0	15	0	15
<b>Operating profit</b>	<b>-118</b>	<b>0</b>	<b>-118</b>	<b>100</b>	<b>-85</b>	<b>15</b>
Finance income and costs	-342	0	-342	-375	0	-375
<b>Profit before tax</b>	<b>-460</b>	<b>0</b>	<b>-460</b>	<b>-275</b>	<b>-85</b>	<b>-360</b>
<b>Net profit/loss for the period</b>	<b>-460</b>	<b>0</b>	<b>-460</b>	<b>-275</b>	<b>-85</b>	<b>-360</b>

**Operating report**

The revenue of the group totalled 476 thousand euros in Q3 2019 (in Q3 2018: 2,124 thousand euros, of which 1,256 thousand euros from continuing operations) and 2,222 thousand euros in 9 months 2019 (in 9 months 2018: 5,347 thousand euros, of which 3,049 thousand euros from continuing operations), including revenue from the sale of properties in the group's own development projects in the amount of 224 thousand euros in Q3 and 1,487 thousand euros in 9 months 2019 (2018: 1,045 thousand euros in Q3 and 2,537 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 186 thousand euros in Q3 2019 and 536 thousand euros in 9 months (2018: 167 thousand euros in Q3 and 419 thousand euros in 9 months). In Q3 2019, nearly all office and commercial spaces together with parking places were rented out.

In Q3 and 9 months 2019, the group had an operating loss of 64 thousand euros and 118 thousand euros, respectively. In 2018, the group had an operating profit from continuing operations of 167 thousand euros in Q3 and 100 thousand euros in 9 months.

In Q3 2019, construction works came close to an end in Stage II of Kodulahe project, a building with 68 apartments and 1 commercial space. The project is expected to be largely realized by the end of 2019. By the publishing date of the interim report, 16 apartments have been sold and 49 apartments presold.

In Q3, design works for Stages III-V of Kodulahe came close to an end and construction of Stage III was started. In Stage III, a residential building with 50 apartments will be constructed at Soodi 4 in Merimetsa district in Tallinn. Under favourable market conditions, the joint construction of Stages IV-V will be started in 2000. The apartment buildings will become ready for final sale in about 1,5 years after the start of construction. By the publishing date of the interim report, presale agreements for 4 apartments in the Stage II building have been concluded.

Q3 also marked the start of construction of 4 smaller apartment buildings with a total of 30 apartments on Oa street plots in Tartu under the project name of Kodukalda. The construction is scheduled to end in Q4 2020.

In Iztok Parkside project in Sofia, the final sale of apartments could not start in Q3 because the access road problem remained unsolved. By the publishing date of the interim report, presale agreements for 58 apartments have been concluded. Iztok project consists of three apartment buildings with 67 apartments.

In Madrid Blvd building, out of the apartments previously used for offering accommodation service, one remains unsold and two have been presold as of the date of this report.

In the Lozen project near Sofia in Bulgaria, design works have been completed and main contractor has been chosen for Stage 1. Construction permit is expected in Q1 2020. The project foresees construction of 179 homes (apartments and

houses), commercial spaces and a kindergarten. Under favourable market conditions, construction may start in Q1 2020, possibly divided into smaller sub-stages. Considering the nature of terrain on a mountain slope, minimum construction period is 2 years.

As of 30 September 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 September 2019

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	23
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5	-	514	4
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	S5	3,686	5,079	69
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	9,793	<9,300>	<123>
Kodukalda	Oa street, Tartu	Apartments	S4	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 September 2019, 17 people worked for the group (20 as of 31 December 2018). Employee remuneration expenses in 9 months 2019 amounted to 324 thousand euros, out of which 97 thousand euros in Q3 2019 (2018 same periods from continuing operations: 453 thousand euros and 159 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 69 thousand euros in 9 months 2019, out of which 21 thousand euros in Q3 2019 (in 9 months and Q3 2018: 80 thousand euros and 25 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 Kesksaik.

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 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 Q3 2019, the group's interest-bearing liabilities amounted to 20.0 million euros on 30 September 2019, out of which 17.3 million euros is due within next 12 months. The group's cash and cash equivalents totalled 0.9 million euros as of 30 September 2019 (31 December 2018 2.3 million). In 9 months 2019, interest payments on interest-bearing liabilities totalled 0.3 million euros, out of which 0.1 million in Q3 2019 (in 9 months 2018 also 0.3 million euros and in Q3 2018 0.1 million euros). The group's weighted average loan interest rate was 4.7% as of 30 September 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.

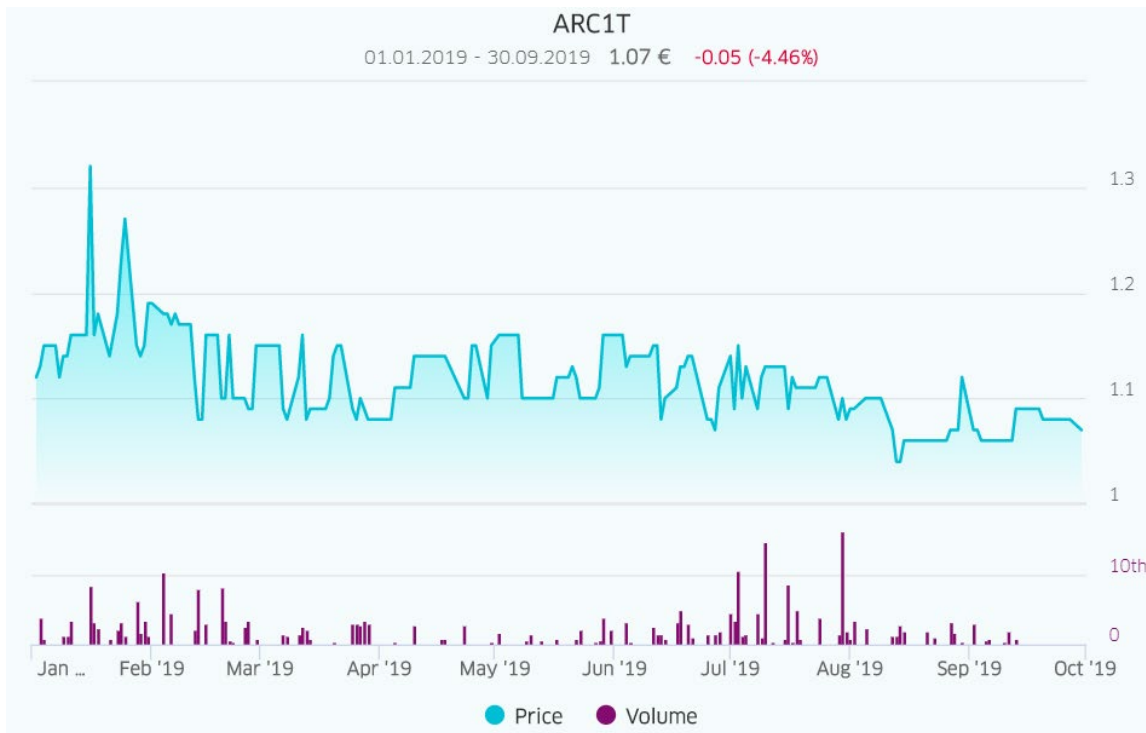
## **SHARES AND SHAREHOLDERS**

### **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 1.07 euros on 30 September 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 1.02 euros. As of 30 September 2019, market capitalization of shares amounted to 9,628 thousand euros and P/B (price to book value) ratio was 0.77 (31 December 2018: 10,078 thousand euros and 0.78, respectively). P/E (price to earnings) ratio of the share was negative on 30 September 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 9 months 2019 and during the last three years.

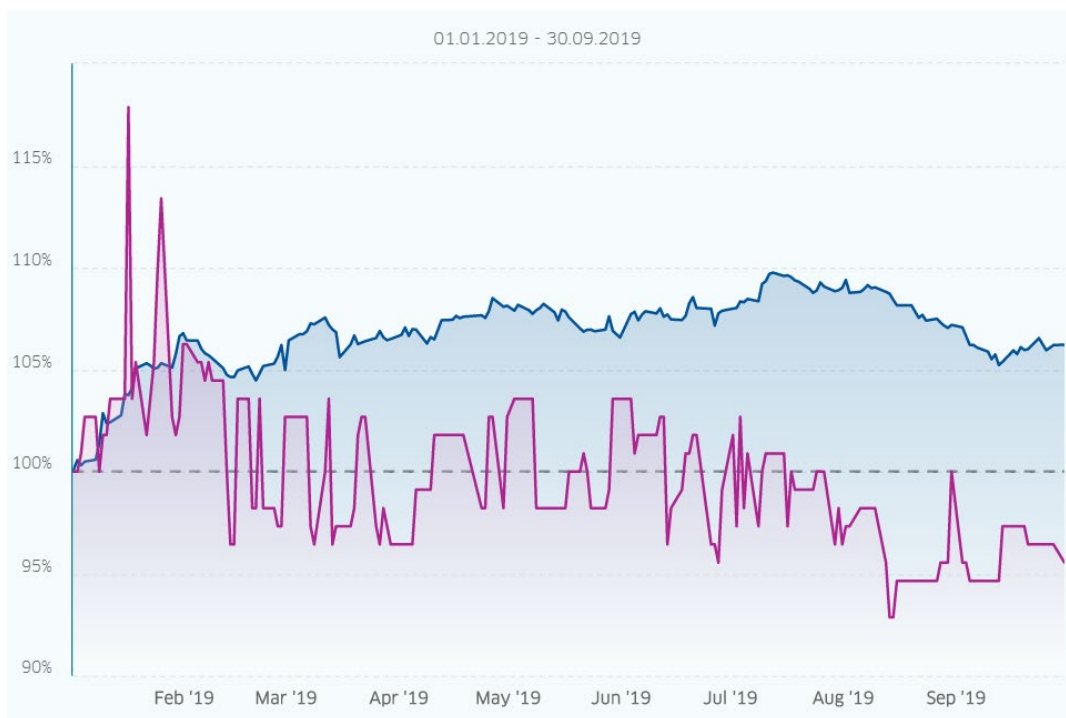
**Performance of Arco Vara's shares in 9 months 2019**



**Performance of Arco Vara's shares from 1 October 2016 until 30 September 2019**



### Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 9 months 2019

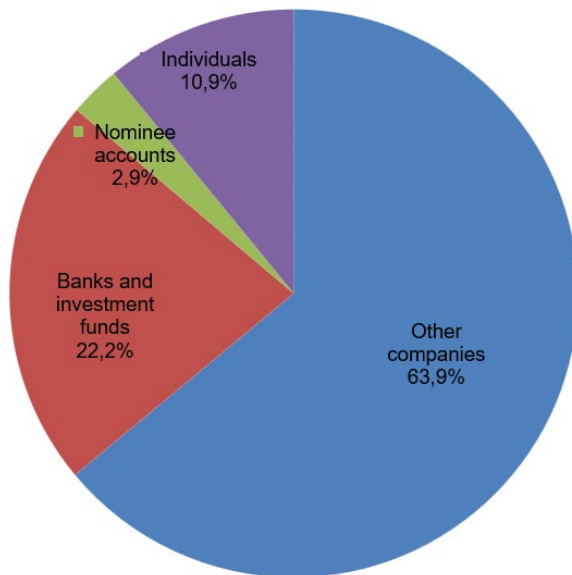


Index/equity	1 Jan 2019	30 Sept 2019	+/-%
—OMX Tallinn	1,162.86	1,235.22	6.22
—ARC1T	1.12 EUR	1.07 EUR	-4.46

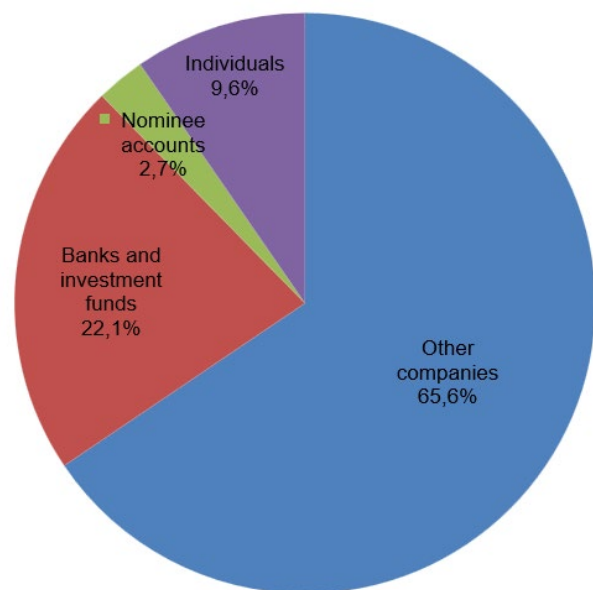
## Shareholder structure

As of 30 September 2019, Arco Vara had 1,326 shareholders (on 31 December 2018, also 1,352), including 1,148 individuals as shareholders (on 31 December 2018: 1,164 individuals) who jointly owned 10.9% (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 September 2019



Ownership structure as of 31 December 2018



## Major shareholders on 30 September 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%
<b>Total</b>	<b>8,998,367</b>	<b>100.0%</b>

## Holdings of management and supervisory board members on 30 September 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 Luitsalu (HM Investeeringud OÜ. related persons)	chairman of supervisory board	369,259	4.1%
Kert Keskaik (privately and through K Vara OÜ)	member of supervisory board	206,371	2.3%
Steven Yaroslav Gorelik <sup>1</sup>	member of supervisory board	0	-
<b>Total</b>		<b>3,943,035</b>	<b>43.8%</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 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 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 7 November 2019



## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Note	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
<b>CONTINUING OPERATIONS</b>				
Revenue from sale of own real estate	1,487	2,537	224	1,045
Revenue from rendering of services	735	512	252	211
<b>Total revenue</b>	<b>2,222</b>	<b>3,049</b>	<b>476</b>	<b>1,256</b>
Cost of sales	-1,641	-2,102	-312	-878
<b>Gross profit</b>	<b>581</b>	<b>947</b>	<b>164</b>	<b>378</b>
Other income	91	133	0	92
Marketing and distribution expenses	-204	-96	-51	-28
Administrative expenses	-538	-837	-156	-260
Other expenses	-48	-62	-21	-15
Gain on sale of subsidiaries	0	15	0	0
<b>Operating profit/loss</b>	<b>-118</b>	<b>100</b>	<b>-64</b>	<b>167</b>
Finance income and cost	-342	-375	-110	-150
<b>Net profit/loss from continuing operations</b>	<b>-460</b>	<b>-275</b>	<b>-174</b>	<b>17</b>
Net profit/loss from discontinued operations	0	-85	0	25
<b>Net profit/loss for the period</b>	<b>-460</b>	<b>-360</b>	<b>-174</b>	<b>42</b>
<b>Total comprehensive income/expense for the period</b>	<b>-460</b>	<b>-360</b>	<b>-174</b>	<b>42</b>
<b>Earnings per share from continuing operations (in euros)</b>				
- basic	-0.05	-0.03	-0.02	0.00
- diluted	-0.05	-0.03	-0.02	0.00
<b>Earnings per share (in euros)</b>				
- basic	-0.05	-0.04	-0.02	0.00
- diluted	-0.05	-0.04	-0.02	0.00

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 September 2019	31 December 2018
In thousands of euros			
Cash and cash equivalents		899	2 327
Investments		0	69
Receivables and prepayments	10	775	739
Inventories	11	22,806	17,482
<b>Total current assets</b>		<b>24,480</b>	<b>20,617</b>
Receivables and prepayments	10	20	25
Investment property	12	10,874	12,344
Property, plant and equipment		373	267
Intangible assets		230	262
<b>Total non-current assets</b>		<b>11,497</b>	<b>12,898</b>
<b>TOTAL ASSETS</b>		<b>35,977</b>	<b>33,515</b>
Loans and borrowings	13	16,615	12,547
Payables and deferred income	14	4,272	3,982
<b>Total current liabilities</b>		<b>20,887</b>	<b>16,529</b>
Loans and borrowings	13	2,639	3,985
<b>Total non-current liabilities</b>		<b>2,639</b>	<b>3,985</b>
<b>TOTAL LIABILITIES</b>		<b>23,526</b>	<b>20,514</b>
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		1,611	2,161
<b>TOTAL EQUITY</b>		<b>12,451</b>	<b>13,001</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>35,977</b>	<b>33,515</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Note	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros					
Cash receipts from customers		2,942	9,155	861	3,748
Cash paid to suppliers		-6,767	-8,343	-2,199	-3,448
Taxes paid and recovered (net)		711	-539	132	-184
Cash paid to employees		-243	-900	-74	-326
Other cash payments and receipts related to operating activities (net)		-8	-29	-5	-6
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>		<b>-3,365</b>	<b>-656</b>	<b>-1,285</b>	<b>-216</b>
Payments made on purchase of tangible and intangible assets		-5	-99	0	-27
Payments made on purchase and development of investment property		-30	-344	-30	-4
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	0	0
Other cash payments and receipts related to investing activities		0	-10	0	-8
<b>NET CASH FROM/USED IN INVESTING ACTIVITIES</b>		<b>41</b>	<b>-3,351</b>	<b>-30</b>	<b>-39</b>
Proceeds from loans received	13	4,403	2,796	1,375	1,342
Settlement of loans and borrowings	13	-1,801	-1,434	-107	-207
Interest paid		-612	-390	-239	-100
Dividends paid		-90	-90	-90	0
Proceeds from share capital increase		0	3,737	0	0
Other payments related to financing activities		-4	-373	-2	-42
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>		<b>1,896</b>	<b>4,246</b>	<b>937</b>	<b>993</b>
<b>NET CASH FLOW</b>		<b>-1,428</b>	<b>239</b>	<b>-378</b>	<b>738</b>
Cash and cash equivalents at the beginning of period		2,327	2,284	1,277	1,785
<b>Change in cash and cash equivalents</b>		<b>-1,428</b>	<b>239</b>	<b>-378</b>	<b>738</b>
Cash and cash equivalents at the end of period		899	2,523	899	2,523

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total equity
In thousands of euros						
<b>Balance as of 31 December 2017</b>	<b>4,555</b>	<b>292</b>	<b>2,011</b>	<b>134</b>	<b>2,795</b>	<b>9,787</b>
Total comprehensive income for the period	0	0	0	0	-360	-360
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
<b>Balance as of 30 September 2018</b>	<b>6,299</b>	<b>2,285</b>	<b>2,011</b>	<b>134</b>	<b>2,372</b>	<b>13,101</b>
<b>Balance as of 31 December 2018</b>	<b>6,299</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	-460	-460
Dividends paid	0	0	0	0	-90	-90
<b>Balance as of 30 September 2019</b>	<b>6,299</b>	<b>2,285</b>	<b>2,011</b>	<b>245</b>	<b>1,611</b>	<b>12,451</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 third quarter and 9 months ended on 30 September 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

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
Revenue from rendering of services	0	2,298	0	867
<b>Total revenue</b>	<b>0</b>	<b>2,298</b>	<b>0</b>	<b>867</b>
Cost of sales	0	-1,444	0	-516
<b>Gross profit</b>	<b>0</b>	<b>854</b>	<b>0</b>	<b>351</b>
Other income	0	20	0	5
Marketing and distribution expenses	0	-298	0	-103
Administrative expenses	0	-646	0	-226
Other expenses	0	-15	0	-2
<b>Operating profit/loss</b>	<b>0</b>	<b>-85</b>	<b>0</b>	<b>25</b>
<b>Net loss from discontinued operations</b>	<b>0</b>	<b>-85</b>	<b>0</b>	<b>-82</b>

#### Consolidated cash flows of discontinued operations

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
Cash from/used in operating activities	0	148	0	83
Cash from/used in investing activities	0	-17	0	-14
<b>Net cashflows of discontinued operations</b>	<b>0</b>	<b>131</b>	<b>0</b>	<b>69</b>

### 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

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
Estonia	101	2,513	32	1,051
Bulgaria	2,121	487	444	205
Latvia	0	49	0	0
<b>Total revenue</b>	<b>2,222</b>	<b>3,049</b>	<b>476</b>	<b>1,256</b>

#### External operating profit by location

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
Estonia	-417	-22	-237	33
Bulgaria	306	131	173	134
Latvia	-7	-9	0	0
<b>Total operating loss</b>	<b>-118</b>	<b>100</b>	<b>-64</b>	<b>167</b>

#### External assets and liabilities by location

	30.09.2019	31.12.2018
In thousands of euros		
<b>Assets</b>	<b>35,977</b>	<b>33,515</b>
Estonia	14,930	11,213
Bulgaria	20,920	22,174
Latvia	127	128
<b>Liabilities</b>	<b>23,526</b>	<b>20,514</b>
Estonia	10,464	5,940
Bulgaria	13,062	14,574

### 4. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018
In thousands of euros								
Sale of own real estate	0	2,488	1,487	0	0	49	1,487	2,537
Rental of real estate	3	9	537	419	0	0	540	428
Property management services	0	5	72	58	0	0	72	63
Franchise	52	0	25	0	17	11	94	11
Other revenue	3	0	26	10	0	0	29	10
<b>Total revenue</b>	<b>58</b>	<b>2,502</b>	<b>2,147</b>	<b>487</b>	<b>17</b>	<b>60</b>	<b>2,222</b>	<b>3,049</b>

	Estonia		Bulgaria		Latvia		Consolidated	
	Q3 2019	Q3 2018	Q3 2019	Q3 2018	Q3 2019	Q3 2018	Q3 2019	Q3 2018
In thousands of euros								
Sale of own real estate	0	1,045	224	0	0	0	224	1,045
Rental of real estate	1	4	186	166	0	0	187	170
Property management services	0	0	24	29	0	0	24	29
Franchise	19	0	9	0	2	2	30	2
Other revenue	1	0	10	10	0	0	11	10
<b>Total revenue</b>	<b>21</b>	<b>1,049</b>	<b>453</b>	<b>205</b>	<b>2</b>	<b>2</b>	<b>476</b>	<b>1,256</b>

## 5. Cost of sales

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
Cost of real estate sold (note 11, 12)	-1,162	-1,841	-172	-813
Personnel expenses	-22	-16	-7	-9
Property management costs	-258	-199	-90	-51
Depreciation, amortisation and impairment losses	-63	-1	-21	-1
Other costs	-136	-45	-22	-4
<b>Total cost of sales</b>	<b>-1,641</b>	<b>-2,102</b>	<b>-312</b>	<b>-878</b>

## 6. Marketing and distribution expenses

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
Advertising expenses	-23	-46	-6	-10
Brokerage fees	-161	-6	-31	-1
Other marketing and distribution expenses	-20	-44	-14	-17
<b>Total marketing and distribution expenses</b>	<b>-204</b>	<b>-96</b>	<b>-51</b>	<b>-28</b>

## 7. Administrative expenses

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
Personnel expenses	-302	-437	-90	-150
Office expenses	-47	-69	-8	-20
IT expenses	-35	-89	-9	-30
Services purchased	-73	-103	-23	-24
Depreciation, amortization and impairment losses	-41	-75	-17	-26
Legal service fees	-22	-40	-3	-1
Vehicle expenses	-5	-13	0	-4
Other expenses	-13	-11	-6	-5
<b>Total administrative expenses</b>	<b>-538</b>	<b>-837</b>	<b>-156</b>	<b>-260</b>

## 8. Financial income and expenses

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
Interest expenses	-315	-327	-100	-107
Other financial income and costs	-27	-48	-10	-43
<b>Total financial income and costs</b>	<b>-342</b>	<b>-375</b>	<b>-110</b>	<b>-150</b>



## 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.

	9 months 2019	9 months 2018	Q3 2019	Q3 2018
In thousands of euros				
Weighted average number of ordinary shares outstanding during the period	8,998,367	8,742,843	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)	-460	-360	-174	42
<b>Earnings per share (in euros)</b>	<b>-0.05</b>	-0.04	<b>-0.02</b>	0.00
<b>Diluted earnings per share (in euros)</b>	<b>-0.05</b>	-0.04	<b>-0.02</b>	0.00

## 10. Receivables and prepayments

### Short-term receivables and prepayments

	30 September 2019	31 December 2018
In thousands of euros		
<b>Trade receivables</b>		
Receivables from customers	149	91
<b>Total trade receivables</b>	<b>149</b>	<b>91</b>
<b>Other receivables</b>		
Loans provided	0	1
Miscellaneous receivables	12	6
<b>Total other receivables</b>	<b>12</b>	<b>7</b>
<b>Accrued income</b>		
Prepaid and recoverable taxes	210	335
Other accrued income	15	17
<b>Total accrued income</b>	<b>225</b>	<b>352</b>
Prepayments	389	289
<b>Total short-term receivables and prepayments</b>	<b>775</b>	<b>739</b>

### Long-term receivables and prepayments

	30 September 2019	31 December 2018
In thousands of euros		
Loans provided	0	5
Prepayments	20	20
<b>Total long-term receivables and prepayments</b>	<b>20</b>	<b>25</b>

**11. Inventories**

	30 September 2019	31 December 2018
In thousands of euros		
Properties purchased and being developed for resale	22,790	17,467
Materials and finished goods	16	15
<b>Total inventories</b>	<b>22,806</b>	<b>17,482</b>

**Properties purchased and being developed for resale**

	2019	2018
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>17,467</b>	<b>8,963</b>
Properties purchased for development	0	2,936
Construction costs of apartment buildings	3,675	3,831
Capitalized borrowing costs	206	130
Other capitalized costs	974	451
Reclassification from investment property (note 12)	468	0
Cost of sold properties (note 5)	0	-1,841
<b>Balance at the end of period, 30 September</b>	<b>22,790</b>	<b>14,470</b>

**12. Investment property**

	2019	2018
In thousands of euros		
<b>Balance at the beginning of period, 1 January</b>	<b>12,344</b>	<b>11,299</b>
Capitalized development costs	89	70
Capitalized borrowing costs	71	49
Reclassification to inventories (note 11)	-468	0
Sale of investment property (note 5)	-1,162	0
Purchase of land plots	0	304
<b>Balance at the end of period, 30 September</b>	<b>10,874</b>	<b>11,722</b>

**13. Interest bearing liabilities**

	As of 30 September, 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	17,280	16,036	1,244	14,653	11,995	2,658
Bonds	1,327	1	1,326	1,329	2	1,327
Finance lease liabilities	97	28	69	0	0	0
Other loans	550	550	0	550	550	0
<b>Total loans and borrowings</b>	<b>19,254</b>	<b>16,615</b>	<b>2,639</b>	<b>16,532</b>	<b>12,547</b>	<b>3,985</b>
Prepayments	725	725	0	810	810	0
<b>Total</b>	<b>19,979</b>	<b>17,340</b>	<b>2,639</b>	<b>17,342</b>	<b>13,357</b>	<b>3,985</b>

In 9 months 2019, the group settled loans in the amount of 1,801 thousand euros (in 9 months 2018: 1,434 thousand euros) through cash transactions and raised new loans in the amount of 4,403 thousand euros (in 9 months 2018: 2,796 thousand euros). In addition to loan liabilities, there was a non-cash lease capitalization.

In 9 months 2019, the following major loan obligations were settled:

- 1,641 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;
- 12 thousand euros of capitalized lease;
- 2 thousand euros of Arco Vara convertible bonds.

In 9 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;
- 4,342 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 September 2019	31 December 2018
In thousands of euros		
<b>Trade payables</b>	<b>176</b>	<b>761</b>
<b>Miscellaneous payables</b>	<b>14</b>	<b>0</b>
<b>Taxes payable</b>		
Value added tax	121	12
Corporate income tax	1	4
Social security tax	37	19
Personal income tax	21	11
Other taxes	9	2
<b>Total taxes payable</b>	<b>189</b>	<b>48</b>
<b>Accrued expenses</b>		
Payables to employees	43	54
Interest payable	86	31
Other accrued expenses	355	470
<b>Total accrued expenses</b>	<b>484</b>	<b>555</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	3,294	2,502
Guarantee deposits	86	73
Other prepaid revenue	29	43
<b>Total deferred income</b>	<b>3,409</b>	<b>2,618</b>
<b>Total short-term payables and deferred income</b>	<b>4,272</b>	<b>3,982</b>

## 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

	9 months 2019	9 months 2018
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Services purchased	37	18
<b>Other related parties</b>		
Services sold	3	1

**Balances with related parties**

	30 September 2019	31 December 2018
In thousands of euros		
<b>Other related parties</b>		
Bonds issued	1	1

In 9 months 2019, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 64 thousand euros, out of which 21 thousand euros in Q3 (in 9 months and Q3 2018: 74 thousand euros and 23 thousand euros respectively).

The remuneration provided to the members of the supervisory board of the group's parent company during the first 9 months in 2019 was 5 thousand euros, there was no remuneration in Q3 (in 9 months 2018: 3 thousand euros, no remuneration in Q3).

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 third quarter and 9 months ended on 30 September 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 7 November 2019