



## Arco Vara AS

INTERIM REPORT FOR THE I QUARTER AND THREE MONTHS OF 2020  
(UNAUDITED)



## **INTERIM REPORT FOR THE FIRST QUARTER OF 2020**

**(UNAUDITED)**

Company name: Arco Vara AS

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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 2020 – 31 December 2020

Reporting period: 1 January 2020 – 31 March 2020

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

Chief executive: Tarmo Sild

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## DIRECTORS' REPORT FOR Q1 2020

### GROUP CEO'S REVIEW

The satisfactory results of the first quarter do not give an idea of the duration and impacts of the forthcoming Ice Age.

In the first quarter, Arco Vara earned money from rental and management fees for the Madrid Blvd building and from license fees paid by real estate brokerage and appraisal companies, as well as the sale of some Madrid Blvd and Iztok Parkside apartments. The cost base also decreased during the quarter. First, as a result of the partial repayment of the bank loan for the Madrid Blvd building and the cut of the interest rate by the bank and secondly, salary costs for the following months were decreased, due to the occurred economic crisis.

The primary short-term challenge for the Group continues to be the realization of the already built and largely pre-sold Iztok Parkside project. The Bulgarian government's decision at Christmas to transfer small street properties to the city of Sofia is being implemented, where we are no longer surprised by the fact that bureaucracy has now taken four months instead of the initial one month to be completed. It is therefore expected that a few months will elapse before the usage license is obtained. The good news is that customers are still waiting for apartments and have not yet expressed a desire to withdraw from pre-sale transactions. As an additional risk, we have to consider the possibility that the customers' purchasing power or motivation to purchase will nonetheless decrease during the second quarter. It also means keeping more money in the treasury than necessary.

Other developments in the field of construction in Estonia proceeded according to plan, whereas pre-sales continuing at a satisfactory pace until the end of the quarter. In Kodulahe and Kodukalda, 40% of the total area is covered by pre-sale agreements and more than half a year remains until the end of construction activity.

In Sofia, we froze the development of the Botanica Lozen development project on an indefinite basis. We may need our released equity to make favorable purchases to replenish the land bank.

In anticipation of the developments ahead, we can bring out the following thoughts.

First, during the second and third quarters, the Estonian and Bulgarian economies will perform worse prior to the moment when the stability will be regained and we will do better again. It is conceivable that the economy in both countries will decrease by 10% of GDP on an annual basis, the vast majority of which will be borne by the private sector and the people who earn money from it. The amount of services provided by the public sector and investments are rather growing.

Secondly, in the residential real estate market, we expect the transaction activity to shrink by more than 25% compared to 2019 (in Estonia we expect less than 37,000 transactions in 2020), as lessens A. the psychological readiness of most people to spend money and B. the purchasing power of people making money in the private sector. The reduction in purchasing power is primarily caused by the decrease in income, not by the diminishing in the financing capacity of banks. The financing capacity of banks is increasing due to the intervention of the European Central Bank, but the price of loans offered to consumers of real estate is also rising. According to the signs seen so far, the average Estonian and Bulgarian apartment buyer will not benefit significantly from the intervention of the European Central Bank.

Third, we will reach the level of transaction activity in 2018-2019 (in Estonia: 49,000 changes of ownership entered in the land register per year and the estimated number of long-term lease transactions per year is approximately the same) in 2022 at the earliest. The remainder of 2020 can be considered a period of decline in terms of both the number of transactions and transaction prices. The decline in transaction activity is followed by decline in real estate prices, which has already begun in some segments of the real estate market. It should be noted, however, that well-capitalized companies are unlikely to lower prices.

For Arco Vara, the assumptions given mean that when selling Iztok Parkside dwellings, it must be decided whether it is more beneficial for us A. to start new developments, decreasing the cost price of the development (construction price), B. replenish the land bank, or C. to direct equity to repurchases of shares during the downtime or to distribute it as dividends. A complete Ice Age scenario cannot be ruled out, where the market is overstuffed by ready-made apartments where the company is unable to sell them to anyone, while there are no new development projects to strive for either. As a conclusion, we need to evaluate the situation on an ongoing basis with an opportunistic mindset. The good news is that Arco Vara's equity ratio to total assets is high and there is no need for coercive steps in the realization of property or start developments. Our current situations is significantly different from the previous crisis, which for Arco Vara only passed by the end of 2013.

Hence, the Management Board is optimistic about Arco Vara and pessimistic about what lies ahead in the economy.

## 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.

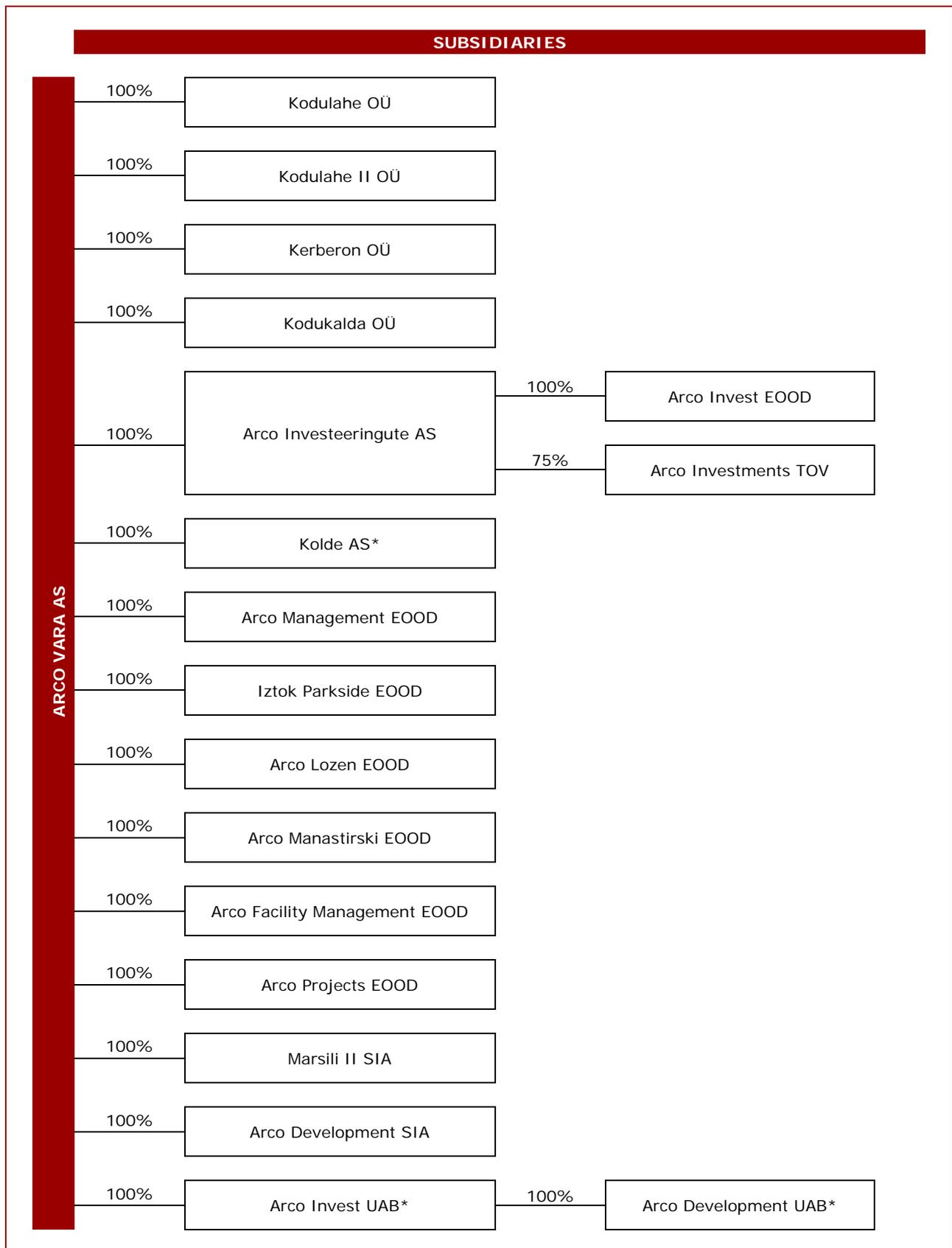
### Group structure

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

### Significant subsidiaries as of 31 March 2020

Company name	Location	Share capital (nominal value)	Equity balance on 31 March 2020	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	28,762	2,741	100%
Iztok Parkside EOOD	Bulgaria	1,433	263	100%
Arco Lozen EOOD	Bulgaria	2,931	2,316	100%
Kodulahe OÜ	Estonia	3	2,933	100%

Group structure as of 31 March 2020



\* In liquidation

## KEY PERFORMANCE INDICATORS

- In Q1 2020, the group's revenue was 2,238 thousand euros, which is 2.1 times higher than the revenue of 1,051 thousand euros from continuing operations in Q1 2019.
- In Q1 2020, the group's operating profit (=EBIT) was 133 thousand euros and net profit 20 thousand euros. In Q1 2019, the group had operating profit of 5 thousand euros and net loss of 112 thousand euros.
- In Q1 2020, 10 apartments were sold in projects developed by the group (in Q1 2019: 7 apartments).
- In the Q1 of 2020, the group's debt burden (net loans) increased by 397 thousand euros up to the level of 11,847 thousand euros as of 31 March 2020. As of 31 March 2020, the weighted average annual interest rate of interest-bearing liabilities was 4.6%. This is an increase of 0.4% compared to 31 December 2019.

## Main financial figures

	Q1 2020	Q1 2019
In thousands of euros		
<b>Revenue</b>	2,238	1,051
<b>Operating profit (EBIT)</b>	133	5
Finance income and expense	-113	-117
<b>Net profit/loss</b>	<b>20</b>	<b>-112</b>
Cash flows from/used in operating activities	-210	-728
Cash flows used in investing activities	-13	74
Cash flows from/used in financing activities	534	-29
<b>Net cash flows</b>	<b>311</b>	<b>-683</b>
Cash and cash equivalents at beginning of period	870	2,284
Cash and cash equivalents at end of period	1,181	1,869
Total assets, at period end	30,365	33,681
Invested capital, at period end	26,347	30,399
Net loans, at period end	11,847	15,866
Equity, at period end	13,319	12,889

## Revenue and net profit/loss during last years

	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	Q4 2019	Total 2019	Q1 2020
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	10.9	<b>13.1</b>	2.2
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	0.9	<b>0.4</b>	0.0

## Key ratios

	Q1 2020	Q1 2019
EPS (in euros)	0.00	-0.01
Diluted EPS (in euros)	0.00	-0.01
ROIC (rolling, four quarters)	1.8%	-2.2%
ROE (rolling, four quarters)	4.0%	-4.6%
ROA (rolling, four quarters)	1.6%	-2.0%
Equity ratio	43.9%	38.3%
Current ratio	1.72	1.27
Quick ratio	0.22	0.13
Financial leverage	2.28	2.61
Average loan term (in years)	2.6	1.0
Average annual interest rate of loans	4.6%	4.8%
Number of staff, at period end	14	16

### 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 totaled 2,238 thousand euros in Q1 2020 (in Q1 2019: 2,238 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 1,995 thousand euros in Q1 2020 (in Q1 2019: 823 thousand euros).

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 162 thousand euros in Q1 2020 (in Q1 2019: 172 thousand euros). In Q1 2020, one office space was vacant, all commercial spaces together with parking places were rented out.

One apartment and commercial space remain unsold in Stage II of Kodulahe project which was finished at the end of 2019. By the publishing date of the present report, the house already has received an occupation permit.

In Q1 2020, construction works continued for Stage III of Kodulahe project, a residential building with 50 apartments at Soodi 4 in Merimetsa district in Tallinn. The project is expected to be finalized by the Q1 of 2021. Under continuing favourable construction conditions, the construction of Stage III may be finished in Q4 2020. By the publishing date of the interim report, 21 apartments have been presold.

Stages IV-V of Kodulahe project have construction permit, design works have finished. The joint construction of the Stage IV-V is scheduled to start in year 2021. The apartment buildings will become ready for final sale in about 1,5 after the construction begins.

In Q1 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, 12 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 9 apartments have not been concluded. Iztok project consists of three apartment buildings with a total of 67 apartments.

By the date of this report, design works of Botanica Lozen project near Sofia in Bulgaria have been essentially completed. The project foresees construction of 179 homes (apartments and houses), commercial spaces and a kindergarten. Under favourable market conditions, construction may start in the Q3 of 2020, possibly divided into smaller sub-stages. Considering the nature of terrain on a mountain slope, minimum construction period is 2 years.

As of 31 March 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 31 March 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	5,630	54
Marsili residential plots	Marsili, near Riga	Residential plots	S5	6,153	-	4
Kodulahe, Stage II	Lahepea 9, Tallinn	Apartments	S5	3,686	458	2
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	1,967	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 31 March 2020, 14 people worked for the group (17 as of 31 December 2019). Employee remuneration expenses in Q1 2020 amounted to 168 thousand euros (in Q1 2019: 126 thousand euros). Remunerations for Q1 2020 include final payments and success bonuses for 2 employees who left.

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 21 thousand euros in Q1 2020 (in Q1 2019: also 21 thousand euros). The members of the supervisory board of the group's parent company were not remunerated in Q1 2020 (in Q1 2019: 3 thousand euros).

### 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 Luutsalu (the Chairman), Allar Niinepuu, Rain Lõhmus, Steven Yaroslav Gorelik and Kert Keskaik.

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 all of the group's 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 Q1 2020, the group's interest-bearing liabilities increased by 708 thousand euros and amounted to 13,028 thousand euros on 31 March 2020, out of which 7,124 thousand euros is due within next 12 months. The group's cash and cash equivalents totalled 1,181 thousand euros as of 31 March 2020 (31 December 2019 870 thousand euros). In Q1 2020, interest payments on interest-bearing liabilities totalled 113 thousand euros (in Q1 2019: 117 thousand euros). The group's weighted average loan interest rate was 4.6% as of 31 March 2020. This is an increase by 0.4 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 0.965 euros on 31 March 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 31 March 2020, market capitalization of shares amounted to 8,663 thousand euros and P/B (price to book value) ratio was 0.65 (31 December 2019: 10,258 thousand euros and 0.77, respectively). P/E (price to earnings) ratio of the share was 16.7 on 31 March 2020, 26.44 on 31 December 2019.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 3 months 2020 and during the last three years.

### Performance of Arco Vara's shares in Q1 2020



**Performance of Arco Vara’s shares from 1 April 2017 until 31 March 2020**



**Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in Q1 2020**

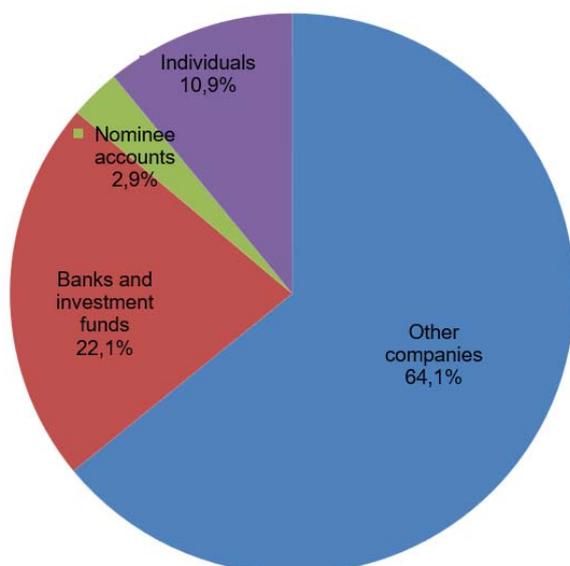


Index/equity	1 Jan 2020	31 March	+/-%
OMX Tallinn	1,279.70	1,013.54	-20.80
ARC1T – Arco Vara	1.12 EUR	1.08 EUR	-15.35

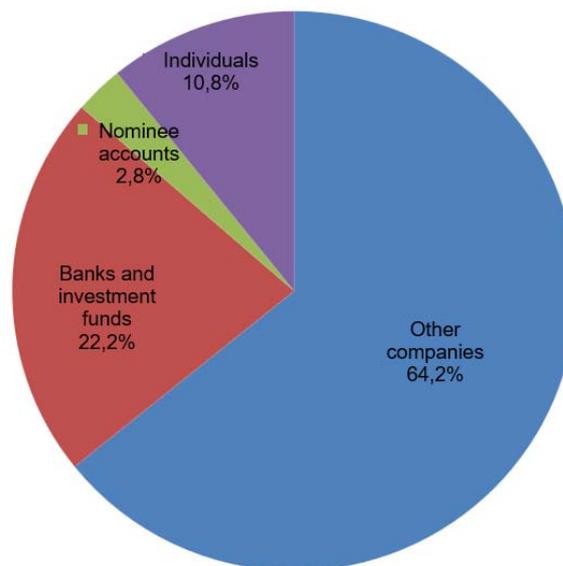
## Shareholder structure

As of 31 March 2020, Arco Vara had 1,385 shareholders (on 31 December 2019 also 1,315), including 1,215 individuals as shareholders (on 31 December 2019: 1,138 individuals) who jointly owned 10.9% (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 31 March 2020



Ownership structure as of 31 December 2019



## Major shareholders on 31 March 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	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 31 March 2020

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 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 first quarter ended on 31 March 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.



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

On 30 April 2020

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Q1 2020	Q1 2019
In thousands of euros			
<b>CONTINUING OPERATIONS</b>			
Revenue from sale of own real estate		1,995	823
Revenue from rendering of services		243	228
<b>Total revenue</b>	2,3	<b>2,238</b>	<b>1,051</b>
Cost of sales	4	-1,827	-815
<b>Gross profit</b>		<b>411</b>	<b>236</b>
Other income		0	91
Marketing and distribution expenses	5	-42	-85
Administrative expenses	6	-236	-233
Other expenses		0	-4
<b>Operating profit/loss</b>		<b>133</b>	<b>5</b>
Finance income and cost	7	-113	-117
<b>Profit/loss before tax</b>		<b>20</b>	<b>-112</b>
<b>Net profit/loss for the period</b>		<b>20</b>	<b>-112</b>
<b>Total comprehensive income/expense for the period</b>		<b>20</b>	<b>-112</b>
<b>Earnings per share (in euros)</b>	8		
- basic		<b>0.00</b>	-0.01
- diluted		<b>0.00</b>	-0.01

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

	Note	31 March 2020	31 December 2019
In thousands of euros			
Cash and cash equivalents		1,181	870
Receivables and prepayments	9	1,272	544
Inventories	10	16,757	15,807
<b>Total current assets</b>		<b>19,210</b>	<b>17,221</b>
Investment property	11	10,689	11,051
Property, plant and equipment		259	265
Intangible assets		207	217
<b>Total non-current assets</b>		<b>11,155</b>	<b>11,533</b>
<b>TOTAL ASSETS</b>		<b>30,365</b>	<b>28,754</b>
Loans and borrowings	12	7,124	6,416
Payables and deferred income	13	4,018	3,135
<b>Total current liabilities</b>		<b>11,142</b>	<b>9,551</b>
Loans and borrowings	12	5,904	5,904
<b>Total non-current liabilities</b>		<b>5,904</b>	<b>5,904</b>
<b>TOTAL LIABILITIES</b>		<b>17,064</b>	<b>15,455</b>
Share capital		6,299	6,299
Share premium		2,285	2,285
Statutory capital reserve		2,011	2,011
Other reserves	8	245	245
Retained earnings		2,479	2,459
<b>TOTAL EQUITY</b>		<b>13,319</b>	<b>13,299</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>30,365</b>	<b>28,754</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

Note	Q1 2020	Q1 2019
In thousands of euros		
Cash receipts from customers	2,372	957
Cash paid to suppliers	-2,309	-1,939
Taxes paid and recovered (net)	-158	366
Cash paid to employees	-116	-104
Other cash payments and receipts related to operating activities (net)	2	-8
<b>NET CASH FROM/USED IN OPERATING ACTIVITIES</b>	<b>-209</b>	<b>-728</b>
Payments made on purchase and development of investment property	-14	0
Proceeds from sale of financial investments	0	69
Repayment of loans provided	0	5
<b>NET CASH FROM/USED IN INVESTING ACTIVITIES</b>	<b>-14</b>	<b>74</b>
Proceeds from loans received	-1,513	1,484
Settlement of loans and borrowings	-805	-1,337
Interest paid	-176	-175
Other payments related to financing activities	2	-1
<b>NET CASH FROM/USED IN FINANCING ACTIVITIES</b>	<b>534</b>	<b>-29</b>
<b>NET CASH FLOW</b>	<b>311</b>	<b>-683</b>
Cash and cash equivalents at the beginning of period	870	2,327
<b>Change in cash and cash equivalents</b>	<b>311</b>	<b>-683</b>
Cash and cash equivalents at the end of period	1,181	1,644

**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 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	-112	-112
<b>Balance as of 31 March 2019</b>	<b>6,299</b>	<b>2,285</b>	<b>2,011</b>	<b>245</b>	<b>2,049</b>	<b>12,889</b>
<b>Balance as of 31 December 2019</b>	<b>6,299</b>	<b>2,285</b>	<b>2,011</b>	<b>245</b>	<b>2,459</b>	<b>13,299</b>
Total comprehensive income for the period	0	0	0	0	20	20
<b>Balance as of 31 March 2020</b>	<b>6,299</b>	<b>2,285</b>	<b>2,011</b>	<b>245</b>	<b>2,479</b>	<b>13,319</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 first quarter ended on 31 March 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

	Q1 2020	Q1 2019
In thousands of euros		
Estonia	434	26
Bulgaria	1,804	1,025
<b>Total revenue</b>	<b>2,238</b>	<b>1,051</b>

#### External operating profit by location

	Q1 2020	Q1 2019
In thousands of euros		
Estonia	-74	-34
Bulgaria	208	44
Latvia	-1	-5
<b>Total revenue</b>	<b>133</b>	<b>5</b>

#### External assets and liabilities by location

	31.03.2020	31.12.2019
In thousands of euros		
<b>Assets</b>	<b>30,365</b>	<b>28,754</b>
Estonia	10,505	8,082
Bulgaria	19,732	20,546
Latvia	128	126
<b>Liabilities</b>	<b>17,046</b>	<b>15,455</b>
Estonia	5,512	2,859
Bulgaria	11,534	12,596

#### Non-current assets by location

	31.03.2020	31.12.2019
In thousands of euros		
<b>Total non-current assets</b>	<b>466</b>	<b>482</b>
<b>Tangible assets</b>	<b>259</b>	<b>265</b>
Estonia	7	9
Bulgaria	252	256
<b>Intangible assets</b>	<b>207</b>	<b>217</b>
Estonia	149	171
Bulgaria	58	46

### 3. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	Q1 2020	Q1 2019	Q1 2020	Q1 2019	Q1 2020	Q1 2019	Q1 2020	Q1 2019
In thousands of euros								
Sale of own real estate	382	0	1,613	823	0	0	1,995	823
Rental of real estate	1	1	162	172	0	0	163	173
Property management services	0	0	21	24	0	0	21	24
Franchise	33	14	8	8	4	3	45	25
Other revenue	5	0	0	6	0	0	14	6
<b>Total revenue</b>	<b>421</b>	<b>15</b>	<b>1,813</b>	<b>1,033</b>	<b>4</b>	<b>3</b>	<b>2,238</b>	<b>1,051</b>

### 4. Cost of sales

	Q1 2020	Q1 2019
In thousands of euros		
Cost of real estate sold (note 10, 11)	-1,640	-647
Brokerage fees	-45	0
VAT cost	-38	0
Property management costs	-71	-81
Personnel expenses	-8	-9
Depreciation, amortization and impairment losses	-21	0
Other costs	-4	-78
<b>Total cost of sales</b>	<b>-1,827</b>	<b>-815</b>

### 5. Marketing and distribution expenses

	Q1 2020	Q1 2019
In thousands of euros		
Advertising expenses	-16	-5
Brokerage fees	0	-79
Other marketing and distribution expenses	-26	-1
<b>Total marketing and distribution expenses</b>	<b>-42</b>	<b>-85</b>

### 6. Administrative expenses

	Q1 2020	Q1 2019
In thousands of euros		
Personnel expenses	-160	-117
Office expenses	-22	-17
IT expenses	-8	-14
Services purchased	-32	-29
Depreciation, amortization and impairment losses	-8	-32
Legal service fees	-4	-14
Vehicle expenses	0	-3
Other expenses	-2	-7
<b>Total administrative expenses</b>	<b>-236</b>	<b>-233</b>

## 7. Financial income and expenses

	Q1 2020	Q1 2019
In thousands of euros		
Interest expenses	-108	-108
Other financial income and costs	-5	-9
<b>Total financial income and costs</b>	<b>-113</b>	<b>-117</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 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. The CEO used his right in full amount. An equity reserve in the amount of 245 thousand euros has been formed for the option associated with the bond. See also note 14.

	Q1 2020	Q1 2019
Weighted average number of ordinary shares outstanding during the period	8,998,367	8,998,367
Number of ordinary shares potentially to be issued (at period end)	390,000	590,000
Net profit/loss (in thousands of euros)	20	-112
<b>Earnings per share (in euros)</b>	<b>0.00</b>	<b>-0.01</b>
<b>Diluted earnings per share (in euros)</b>	<b>0.00</b>	<b>-0.01</b>

## 9. Receivables and prepayments

### Short-term receivables and prepayments

	31 March 2020	31 December 2019
In thousands of euros		
<b>Trade receivables</b>		
Receivables from customers	503	204
<b>Total trade receivables</b>	<b>503</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	672	226
Other accrued income	10	18
<b>Total accrued income</b>	<b>682</b>	<b>244</b>
Prepayments	75	84
<b>Total short-term receivables and prepayments</b>	<b>1,272</b>	<b>544</b>

## 10. Inventories

	31 March 2020	31 December 2019
In thousands of euros		
Properties purchased and being developed for resale	16,742	15,779
Materials and finished goods	15	28
<b>Total inventories</b>	<b>16,757</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	2,123	1,478
Capitalized borrowing costs	27	43
Other capitalized costs	70	137
Cost of sold properties (note 4)	-1,257	0
<b>Balance at the end of period, 31 March</b>	<b>16,742</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	0
Capitalized borrowing costs	7	23
Sale of investment property (note 4)	-383	-646
<b>Balance at the end of period, 31 March</b>	<b>10,689</b>	<b>11,721</b>

## 12. Interest bearing liabilities

	As of 31 March, 2020			As of 31 March, 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	11,702	5,798	5,904	10,993	5,089	5,904
Bonds	1,326	1,326	0	1,327	1,327	0
<b>Total</b>	<b>13,028</b>	<b>7,124</b>	<b>5,904</b>	<b>12,320</b>	<b>6,416</b>	<b>5,904</b>

In Q1 2020, the group settled loans in the amount of 805 thousand euros (in Q1 2019: 1,337 thousand euros) through cash transactions and raised new loans in the amount of 1,513 thousand euros (in Q1 2019: 1,484 thousand euros).

In 3 months 2020, the following major loan obligations were settled:

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

In 3 months 2020, the group raised the following new liabilities:

- 833 thousand euros of bank loan for financing construction of apartment building in Kodukalda project;
- 680 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

	31 March 2020	31 December 2019
In thousands of euros		
<b>Trade payables</b>	<b>1,308</b>	<b>590</b>
<b>Miscellaneous payables</b>	<b>141</b>	<b>142</b>
<b>Taxes payable</b>		
Value added tax	645	415
Social security tax	18	14
Personal income tax	10	8
Land tax	7	0
Other taxes	21	1
<b>Total taxes payable</b>	<b>701</b>	<b>438</b>
<b>Accrued expenses</b>		
Payables to employees	88	82
Interest payable	12	41
Other accrued expenses	339	345
<b>Total accrued expenses</b>	<b>439</b>	<b>468</b>
<b>Deferred income</b>		
Prepayments received on sale of real estate	1,375	1,412
Guarantee deposits	51	61
Prepaid revenue	3	24
<b>Total deferred income</b>	<b>1,429</b>	<b>1,497</b>
<b>Total short-term payables and deferred income</b>	<b>4,018</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

	Q1 2020	Q1 2019
In thousands of euros		
<b>Companies that have a significant interest in the group's parent company</b>		
Services purchased	22	15
<b>Other related parties</b>		
Services sold	1	0

#### Balances with related parties

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

In Q1 2020, the remuneration provided to the CEO / member of the management board was 21 thousand euros, including social security charges, the members of the supervisory board of the group's parent company were not remunerated (in Q1 2019: 21 thousand euros to the CEO, 3 thousand to the members of the supervisory board).

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 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 has been formed for the option associated with the bond. 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 first quarter ended on 31 March 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.



Tarmo Sild  
Chief Executive and Member of the Management Board of Arco Vara AS  
On 30 April 2020