



Arco Vara AS
INTERIM REPORT FOR THE
IV QUARTER AND TWELVE MONTHS
OF 2019 (UNAUDITED)

INTERIM REPORT FOR THE FOURTH QUARTER AND TWELVE MONTHS OF 2019

(UNAUDITED)

Company name: Arco Vara AS

Registry number: 10261718

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Corporate website: www.arcovara.com

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

Financial year: 1 January 2019 – 31 December 2019

Reporting period: 1 January 2019 – 31 December 2019

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

Chief executive: Tarmo Sild

Auditor: AS PricewaterhouseCoopers

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DIRECTORS' REPORT FOR Q4 AND 12 MONTHS 2019

GROUP CEO'S REVIEW

The Christmas of Arco Vara was green. The cash flow of the fourth quarter was enough to dampen the small numbers of the first nine months and make the whole year profitable. On the one hand, one ought to suffer through quite many news during the year that were carried by conservative realism, in other words, the drought of good news. Our development processes in Bulgaria Iztok Parkside project were not fast enough which led to unsold apartments in the value of more than 9 million euros, which in turn led to losses in the profit of the Group. On the other hand, the performance of the fourth quarter of Arco Vara is an example of what kind of positive emotions can a good property development bring to clients, the team and the shareholders of the company itself.

The development of Kodulahe will continue as planned in the pace of the construction as well as preselling. We do not intend to reduce the profit margin and, on the current presumptions, it is conceivable that we will start the construction of two succeeding apartment buildings still in this year. The first clients have started to buy apartments in the development project of Iztok, even though it is presumed after the decision of the Bulgarian government to dispossess the street lands to the city of Sofia, that it will take up to five more months before the certificate of occupancy for the building will be granted. The board has so far also been wrong when making presumptions. The beginning of construction of the new development project in Sofia, Lozen, is possible if it is supported by the sufficient interest of the clients. We would like to determine the interest of the clients during the first half of the year.

Ground-breaking is also the refinancing of the loan agreement with the reduction of interest rates for Madrid Blvd which was preceded by the selling of the last apartment. The outstanding amount of the bank loan for Madrid Blvd is under EUR 6 million and the building has started to operate as a full investee that is profitable for the owner. There are still the daily challenges to keep the occupancy rate of the building, the satisfaction of the lessees and the lease payment.

With this, the year 2019 is successfully concluded. The objectives of the year 2020 are to bring joy to the clients with the construction and sale of the development project of Oa Street in Tartu (1,967 m² GSA) at the end of the year and with the certificate of occupancy and sale of apartments of Iztok Parkside in Sofia (6,553 m² GSA) by the middle of the year. The results of the year should also be supported by the rental income from Madrid Blvd and licence fees. The results of 2021 and the following years will depend on the way Arco Vara realizes the third building of Kodulahe that is being constructed (3,406 m² GSA) and if Arco Vara starts building in Lozen, Sofia and the fourth and fifth building in Kodulahe during the year 2020.

The company is sufficiently capitalised to continue with the foregoing. It can also be said that the maximum has been undertaken with the equity in the amount of EUR 13 million in total. The board is therefore aware of the expectation of many shareholders about subsequently raising dividend rates in comparison to the dividends paid between 2014–2019.

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.

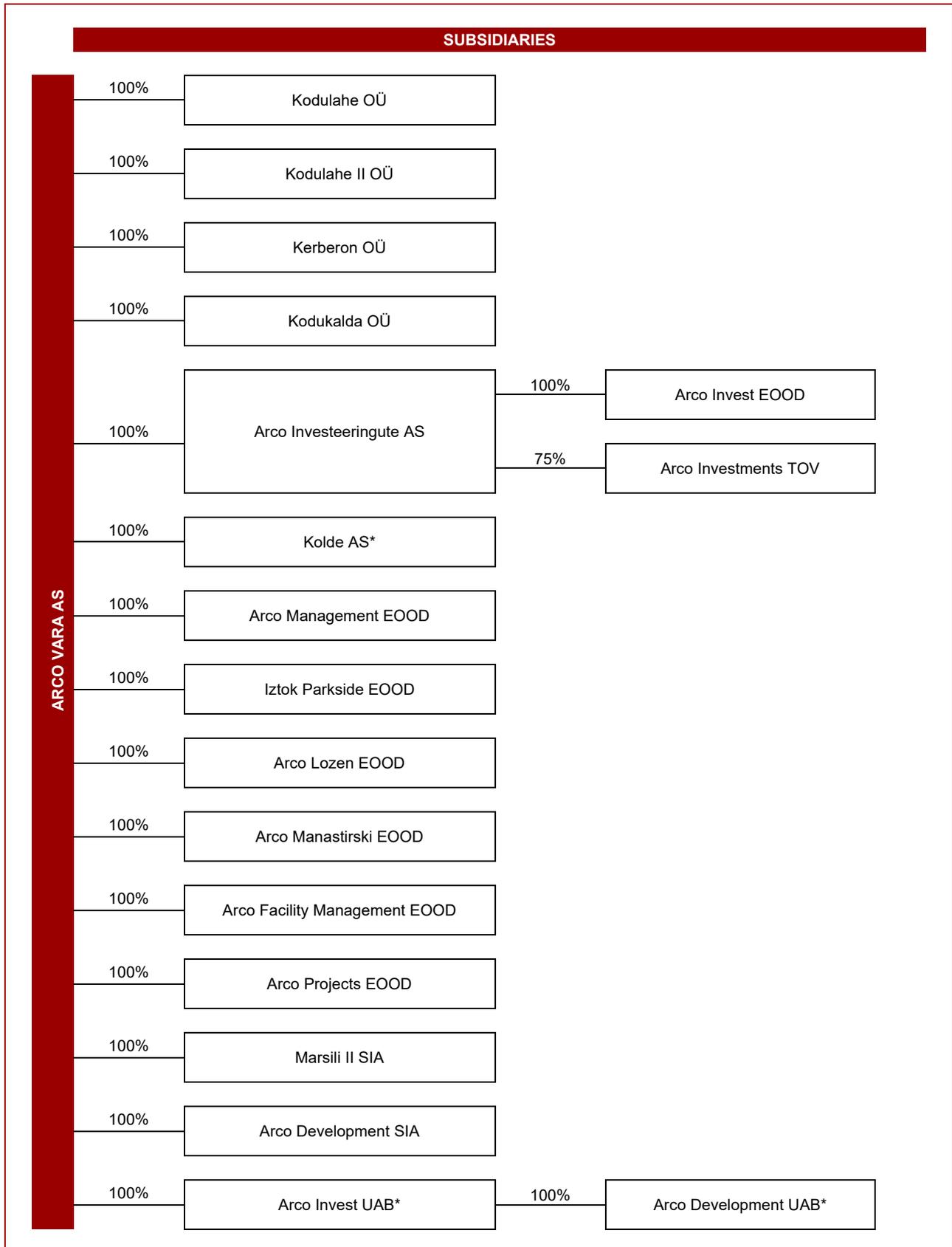
Group structure

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

Significant subsidiaries as of 31 December 2019

Company name	Location	Share capital (nominal value)	Equity balance on 31 December 2019	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	2,662	100%
Iztok Parkside EOOD	Bulgaria	1,433	158	100%
Arco Lozen EOOD	Bulgaria	2,931	2,392	100%
Kodulahe OÜ	Estonia	3	2,960	100%

Group structure as of 31 December 2019



* In liquidation

KEY PERFORMANCE INDICATORS

- In Q4 2019, the group's revenue was 10.9 million euros, which is 18.6 times more than the revenue of 0.6 million euros from continuing operations in Q4 2018. In Q4 2018, revenue together with the discontinued service segment was 1.3 million euros. In 12 months 2019, the group's revenue was 13.1 million euros, which is 3.6 times more than the revenue of 3.6 million euros in 12 months 2018. The group recognizes revenue from the sale of apartments at the date of conclusion of the right in notary, so fluctuations in revenue periodically mostly depend on the time of completion of the developed houses.
- In Q4 2019, the group's operating profit (=EBIT) was 1.068 thousand euros and net profit 848 thousand euros (in 12 months 2019: operating profit 950 thousand euros and net profit of 388 thousand euros). In Q4 2018, the group had operating profit of 1 thousand euros from continuing operations (loss of 75 thousand overall) and net loss of 107 thousand euros. In 12 months 2018, the group made operating profit of 101 thousand euros and net loss of 382 thousand euros from continuing operations.
- In Q4 2019, 70 apartments were sold in projects developed by the group (in 12 months 2019 82 apartments). In Q4 2018, 1 commercial area and 1 land plot were sold (12 apartments, 3 commercial areas and 2 land plots in 12 months).
- In 12 months 2019, the group's debt burden (net loans) decreased by 2.8 million euros down to the level of 11.5 million euros as of 31 December 2019. As of 31 December 2019, the weighted average annual interest rate of interest-bearing liabilities was 4.2%. This is a decrease of 0.8 percentage points compared to 31 December 2018.

Main financial figures

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Revenue				
Development	12,976	3,481	10,851	443
Service	0	2,997	0	699
Parent company	133	154	36	143
Total revenue	13,109	6,632	10,887	1,285
Operating profit (EBIT)				
Development	1,392	703	1,185	18
Service	0	-161	0	-76
Parent company	-442	-602	-117	-17
Total operating profit/loss (EBIT)	950	-60	1,068	-75
Finance income and expense	-562	-482	-220	-107
Net profit/loss	388	-544	848	-184
Cash flows from/used in operating activities	-1,498	-3,906	1,867	-2,931
Cash flows used in investing activities	-201	-3,027	-242	324
Cash flows from/used in financing activities	242	7,393	-1,654	2,828
Net cash flows	-1,457	460	-29	221
Cash and cash equivalents at the beginning of period	2,327	2,284	899	2,523
Decrease in cash and cash equivalents through sale of subsidiaries	0	-417	0	-417
Cash and cash equivalents at the end of period	870	2,327	870	2,327
Total assets at the end of period	28,754	33,515		
Invested capital at the end of period	25,619	30,343		
Net loans at the end of period	11,450	14,205		
Equity at the end of period	13,299	13,001		

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	Q4 2019	Total 2019
In millions of euros															
Revenue	1.6	1.0	7.7	8.0	18.3	2.1	1.1	2.1	1.3	6.6	1.1	0.7	0.4	10.9	13.1
Net profit/loss	-0.3	-0.3	0.7	0.8	0.8	-0.1	-0.3	0.1	-0.2	-0.5	-0.1	-0.2	-0.2	0.9	0.4

Key ratios

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
EPS (in euros)	0.04	-0.06	0.09	-0.02
Diluted EPS (in euros)	0.04	-0.06	0.09	-0.02
ROIC (rolling, four quarters)	1.3%	-2.1%		
ROE (rolling, four quarters)	3.0%	-4.4%		
ROA (rolling, four quarters)	1.2%	-1.9%		
Equity ratio	46.3%	38.8%		
Current ratio	1.80	1.25		
Quick ratio	0.15	0.19		
Financial leverage	2.16	2.58		
Average loan term (in years)	2.6	1.2		
Average annual interest rate of loans	4.2%	5.0%		
Number of staff, at period end	17	20		

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

	12 months 2019			12 months 2018		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
In thousands of euros						
Revenue from sale of own real estate	12,152	0	12,152	2,778	0	2,778
Revenue from rendering of services	957	0	957	857	2,997	3,854
Total revenue	13,109	0	13,109	3,635	2,997	6,632
Cost of sales	-11,295	0	-11,295	-2,446	-1,884	-4,330
Gross profit	1,814	0	1,814	1,189	1,113	2,302
Other income	137	0	137	135	108	243
Marketing and distribution expenses	-96	0	-96	-133	-412	-545
Administrative expenses	-777	0	-777	-1,224	-875	-2,099
Other expenses	-52	0	-52	-73	-95	-168
Loss on inventory write-down	-76	0	-76	-21	0	-21
Gain on sale of subsidiaries	0	0	0	228	0	228
Operating profit (loss)	950	0	950	101	-161	-60
Finance income and costs	-562	0	-562	-482	0	-482
Profit (loss) before tax	388	0	388	-381	-161	-542
Income tax	0	0	0	-1	-1	-2
Net profit/loss for the period	388	0	388	-382	-162	-544

Operating report

The revenue of the group totalled 10,887 thousand euros in Q4 2019 (in Q4 2018: 1,285 thousand euros, of which 586 thousand euros from continuing operations) and 13,109 thousand euros in 12 months 2019 (in 12 months 2018: 6,632 thousand euros, of which 3,635 thousand euros from continuing operations), including revenue from the sale of properties in the group's own development projects in the amount of 10,665 thousand euros in Q4 and 12,152 thousand euros in 12 months 2019 (2018: 241 thousand euros in Q4 and 2,778 thousand euros in 12 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 159 thousand euros in Q4 2019 and 696 thousand euros in 12 months (2018: 167 thousand euros in Q4 and 586 thousand euros in 12 months). In Q4 2019, nearly all office and commercial spaces together with parking places were rented out.

In Q4 and 12 months 2019, the group had an operating profit of 848 thousand euros and 388 thousand euros, respectively. In 2018, the group had an operating profit from continuing operations of 1 thousand euros in Q4 and 101 thousand euros in 12 months.

In Q4 2019, construction works finished in Stage II of Kodulahe project and keys were handed over for 65 apartment owners of total 68 apartments. By the publishing date of the interim report, 3 apartments and a commercial space have not been sold.

In Q4, construction of Kodulahe Stage III continued. 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 2020. 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 13 apartments in the Stage III building have been concluded.

In Q4 also continued 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. By the publishing time of the interim report, 6 apartments have been presold.

In Iztok Parkside project in Sofia, the final sale of apartments started at the end Q4 2019, but the main sales are planned 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 67 apartments.

In Madrid Blvd building, out of the apartments previously used for offering accommodation service, 2 remain presold as of the date of this report; there are no unsold apartments left.

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 Q2 2020, possibly divided into smaller stages. Considering the nature of terrain on a mountain slope, minimum construction period is 2 years.

As of 31 December 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 31 December 2019

Project name	Address	Product main type	Stage	Area of plot(s) (m ²)	GSA / GLA (above grade) available or <future target>	No of units (above grade) available or <future target>
Madrid Blvd	Madrid Blvd, Sofia	Lease: Retail/Office	S6	-	7,350	23
Madrid Blvd	Madrid Blvd, Sofia	Apartments	S5	-	308	2
Iztok Parkside	Iztok, Sofia	Apartments	S5	2,470	6,553	64
Marsili residential plots	Marsili, near Riga	Residential plots	S5	6,153	-	4
Kodulahe, Stage II	Lahepea 9, Tallinn	Apartments	S5	3,686	632	4
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 December 2019, 17 people worked for the group (20 as of 31 December 2018). Employee remuneration expenses in 12 months 2019 amounted to 494 thousand euros, out of which 170 thousand euros in Q4 2019 (2018 same periods from continuing operations: 668 thousand euros and 215 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 129 thousand euros in 12 months 2019, out of which 60 thousand euros in Q4 2019 (in 12 months and Q4 2018: 106 thousand euros and 26 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 Luutsalu (the Chairman), Allar Niinepuu, Rain Lõhmus, Steven Yaroslav Gorelik and Kert Keskpaiik.

Additional information on key persons of Arco Vara is presented on company's corporate web page www.arcovara.com.

DESCRIPTION OF MAIN RISKS

Strategic risk

Most of the group's equity is invested into real estate development. The group is focused mainly on residential real estate development where development cycle lasts for years, starting from the acquisition of a land plot, moving on to detail planning, design and construction, and ending with the sale of end products to customers. The equity is invested mainly

in the early phase of the cycle (purchase of land) on the assumption that there will be a demand for certain products in the future. Considering that the demand for development product is largely based on forecasts, the main risk for the group is investing equity into a development product for which there is no or too little demand in the future.

For mitigating the risk, the group: (i) invests equity into different development projects in different markets (in 2019, in Sofia and Tallinn), (ii) monitors current demand and supply in its home markets and (iii) makes efforts to narrow the time gap between making initial investment and selling the final product – by signing pre-agreements with clients, acquiring land with no or little upfront equity investment etc.

Credit risk

The group considers credit risks to be substantially mitigated. The final sale of real estate development product takes place simultaneously with customer payment; therefore, customer debts do not arise. Also, cash and cash equivalents are not held in the same banking group.

Liquidity and interest rate risks

The base currency of the group's all loan agreements is euro and the base interest rate is 1, 3 or 6 months' EURIBOR. As a result, the group is exposed to developments on international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In Q4 2019, the group's interest-bearing liabilities amounted to 12.3 million euros on 31 December 2019, out of which 6.4 million euros is due within next 12 months. The group's cash and cash equivalents totalled 0.9 million euros as of 31 December 2019 (31 December 2018 2.3 million). In 12 months 2019, interest payments on interest-bearing liabilities totalled 0.6 million euros, out of which 0.2 million in Q4 2019 (in 12 months 2018 0.5 million euros and in Q4 2018 0.1 million euros). The group's weighted average loan interest rate was 4.2% as of 31 December 2019. This is a decrease by 0.8 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 and refinancing loan for Madrid building in Sofia in more favourable terms.

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 1.14 euros on 31 December 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 0.99 euros. As of 31 December 2019, market capitalization of shares amounted to 10,258 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 26.44 on 31 December 2019, negative on 31 December 2018.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 12 months 2019 and during the last three years.

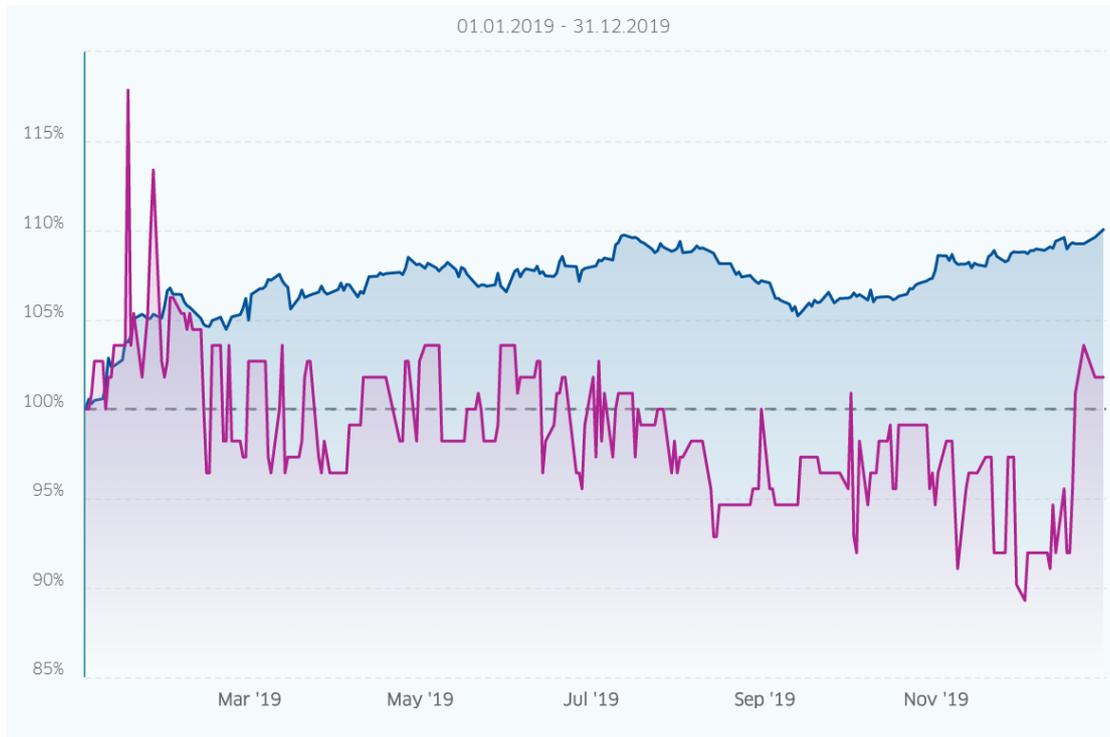
Performance of Arco Vara's shares in 12 months 2019



Performance of Arco Vara's shares from 1 January 2017 until 31 December 2019



Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 12 months 2019

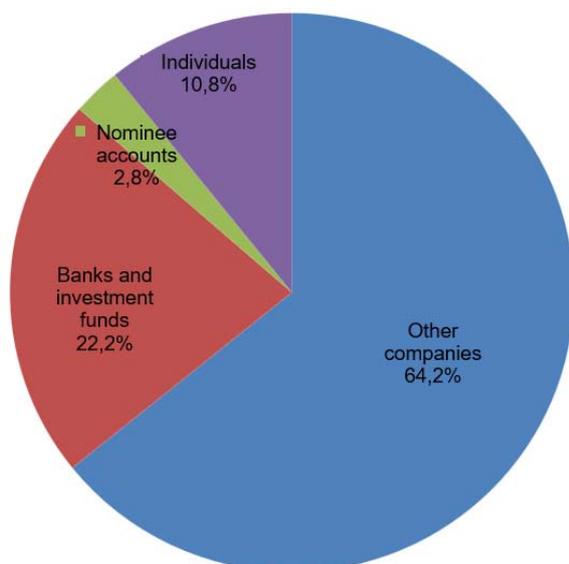


Index/equity	1 Jan 2019	31 Dec 2019	+/-%
—OMX Tallinn	1,162.86	1,279.7	10.05
—ARC1T	1.12 EUR	1.14 EUR	1.79

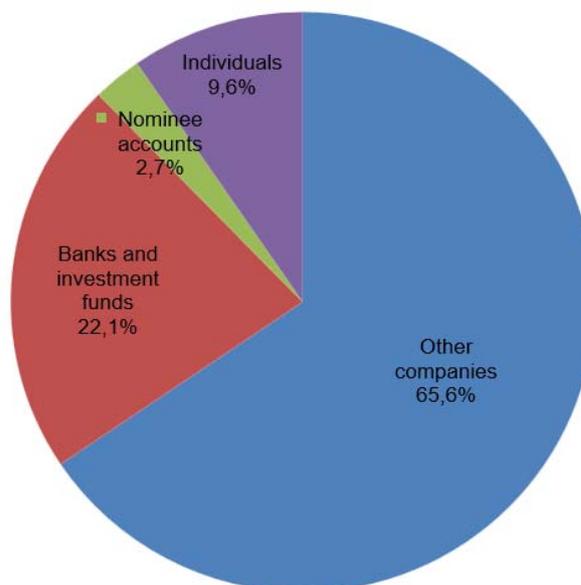
Shareholder structure

As of 31 December 2019, Arco Vara had 1,315 shareholders (on 31 December 2018, 1,352), including 1,138 individuals as shareholders (on 31 December 2018: 1,164 individuals) who jointly owned 10.8% (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 31 December 2019



Ownership structure as of 31 December 2018



Major shareholders on 31 December 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 Avroora Fund LTD	185,800	2.1%
Firebird Fund L.P.	150,522	1.7%
Other shareholders	2,009,671	22.2%
Total	8,998,367	100.0%

Holdings of management and supervisory board members on 31 December 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 ¹	member of supervisory board	0	-
Total		3,943,035	43.8%

¹ - Steven Yaroslav Gorelik is active as fund manager in three investment funds holding interest in Arco Vara (Firebird Republics Fund Ltd. Firebird 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 fourth quarter and 12 months ended on 31 December 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 13 February 2020

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros					
CONTINUING OPERATIONS					
Revenue from sale of own real estate		12,152	2,778	10,665	241
Revenue from rendering of services		957	857	222	345
Total revenue	3,4	13,109	3,635	10,887	586
Cost of sales	5	-11,295	-2,446	-9,654	-344
Gross profit		1,814	1,189	1,233	242
Other income		137	135	46	2
Marketing and distribution expenses	6	-96	-133	108	-37
Administrative expenses	7	-777	-1,224	-239	-387
Other expenses		-52	-73	-4	-11
Loss on inventory write-down		-76	-21	-76	-21
Gain on sale of subsidiaries		0	228	0	213
Operating profit/loss		950	101	1,068	1
Finance income and cost	8	-562	-482	-220	-107
Profit/loss before tax		388	-381	848	-106
Income tax		0	-1	0	-1
Net profit/loss from continuing operations		388	-382	848	-107
Net profit/loss from discontinued operations	2	0	-162	0	-77
Net profit/loss for the period		388	-544	848	-184
Total comprehensive income/expense for the period		388	-544	848	-184
Earnings per share from continuing operations (in euros)					
- basic		0.04	-0.04	0.09	-0.01
- diluted		0.04	-0.04	0.09	-0.01
Earnings per share (in euros)					
- basic	9	0.04	-0.06	0.09	-0.02
- diluted		0.04	-0.06	0.09	-0.02

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	31 December 2019	31 December 2018
In thousands of euros			
Cash and cash equivalents		870	2,327
Investments		0	69
Receivables and prepayments	10	544	739
Inventories	11	15,807	17,482
Total current assets		17,221	20,617
Receivables and prepayments	10	0	25
Investment property	12	11,051	12,344
Property, plant and equipment		265	267
Intangible assets		217	262
Total non-current assets		11,533	12,898
TOTAL ASSETS		28,754	33,515
Loans and borrowings	13	6,416	12,547
Payables and deferred income	14	3,135	3,982
Total current liabilities		9,551	16,529
Loans and borrowings	13	5,904	3,985
Total non-current liabilities		5,904	3,985
TOTAL LIABILITIES		15,455	20,514
Share capital		6,299	6,299
Share premium		2,285	2,285
Statutory capital reserve		2,011	2,011
Other reserves	9	245	245
Retained earnings		2,459	2,161
TOTAL EQUITY		13,299	13,001
TOTAL LIABILITIES AND EQUITY		28,754	33,515

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Cash receipts from customers	9,084	10,993	6,142	1,838
Returned prepayments	-876	-318	-876	0
Cash paid to suppliers	-8,936	-13,036	-2,169	-4,692
Taxes paid and recovered (net)	-457	-333	-1,168	206
Cash paid to employees	-328	-1,177	-85	-277
Other cash payments and receipts related to operating activities (net)	-4	-35	4	-6
NET CASH FROM/USED IN OPERATING ACTIVITIES	-1,517	-3,906	1,848	-2,931
Payments made on purchase of tangible and intangible assets	-5	-114	0	-15
Proceeds from sale of tangible assets	28	0	28	0
Payments made on purchase and development of investment property	-300	-584	-270	-240
Proceeds from sale of subsidiaries	0	632	0	591
Payments made on purchase of subsidiaries	0	-2,939	0	0
Loans provided	69	0	0	0
Repayment of loans provided	7	-12	0	-12
Other cash payments and receipts related to investing activities	0	-10	0	0
NET CASH FROM/USED IN INVESTING ACTIVITIES	-201	-3,027	-242	324
Proceeds from loans received	13	10,735	6,332	3,808
Settlement of loans and borrowings	13	-9,418	-7,617	-640
Interest paid		-886	-274	-340
Dividends paid		-90	0	0
Proceeds from share capital increase		0	0	0
Other payments related to financing activities		-80	-76	0
NET CASH FROM/USED IN FINANCING ACTIVITIES	261	7,393	-1,635	2,828
NET CASH FLOW	-1,457	460	-29	221
Cash and cash equivalents at the beginning of period		2,327	899	2,523
Change in cash and cash equivalents		-1,457	-29	221
Decrease in cash and cash equivalents through sale of subsidiaries		0	0	-417
Cash and cash equivalents at the end of period		870	870	2,327

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total equity
In thousands of euros						
Balance as of 31 December 2017	4,555	292	2,011	134	2,795	9,787
Total comprehensive income for the period	0	0	0	0	-544	-544
Increase of share capital	1,744	1,993	0	0	0	3,737
Dividends paid	0	0	0	0	-90	-90
Formation of other reserves	0	0	0	111	0	111
Balance as of 31 December 2018	6,299	2,285	2,011	245	2,161	13,001
Balance as of 31 December 2018	6,299	2,285	2,011	245	2,161	13,001
Total comprehensive income for the period	0	0	0	0	388	388
Dividends paid	0	0	0	0	-90	-90
Balance as of 31 December 2019	6,299	2,285	2,011	245	2,459	13,299

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Significant accounting policies

The unaudited condensed consolidated interim financial statements of Arco Vara AS for the fourth quarter and 12 months ended on 31 December 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

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Revenue from rendering of services	0	2,997	0	867
Total revenue	0	2,997	0	867
Cost of sales	0	-1,884	0	-516
Gross profit	0	1,113	0	351
Other income	0	108	0	88
Marketing and distribution expenses	0	-412	0	-114
Administrative expenses	0	-875	0	-229
Other expenses	0	-89	0	-74
Loss on revaluation of investment property	0	-6	0	-6
Operating profit/loss	0	-161	0	-76
Income tax	0	-1	0	-1
Net loss from discontinued operations	0	-162	0	-77

Consolidated cash flows of discontinued operations

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Cash from/used in operating activities	0	64	0	-84
Cash from/used in investing activities	0	-24	0	-7
Net cashflows of discontinued operations	0	40	0	-91

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

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Estonia	10,004	2,858	9,903	345
Bulgaria	3,105	687	984	200
Latvia	0	90	0	41
Total revenue	13,109	3,635	10,887	586

External operating profit by location

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Estonia	603	-91	1,020	-69
Bulgaria	355	201	49	70
Latvia	-8	-9	-1	0
Total operating loss	950	101	1,068	1

External assets and liabilities by location

	31.12.2019	31.12.2018
In thousands of euros		
Assets	28,810	33,515
Estonia	8,138	11,213
Bulgaria	20,546	22,174
Latvia	126	128
Liabilities	15,511	20,514
Estonia	2,915	5,940
Bulgaria	12,596	14,574

4. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	12M 2019	12M 2018	12M 2019	12M 2018	12M 2019	12M 2018	12M 2019	12M 2018
In thousands of euros								
Sale of own real estate	9,865	2,688	2,287	0	0	90	12,152	2,778
Rental of real estate	5	12	696	586	0	0	701	598
Property management services	0	4	88	81	0	0	88	85
Franchise	74	0	34	0	20	12	128	12
Other revenue	5	0	35	162	0	0	40	162
Total revenue	9,949	2,704	3,140	829	20	102	13,109	3,635

	Estonia		Bulgaria		Latvia		Consolidated	
	Q4 2019	Q4 2018	Q4 2019	Q4 2018	Q4 2019	Q4 2018	Q4 2019	Q4 2018
In thousands of euros								
Sale of own real estate	9,865	200	800	0	0	41	10,665	241
Rental of real estate	2	3	159	167	0	0	161	170
Property management services	0	-1	16	23	0	0	16	22
Franchise	22	0	9	0	3	1	34	1
Other revenue	2	0	9	152	0	0	11	152
Total revenue	9,891	202	993	342	3	42	10,887	586

5. Cost of sales

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Cost of real estate sold (note 11, 12)	-10,296	-2,071	-9,134	-230
Brokerage fees	-347	0	-347	0
VAT cost	-161	0	-34	0
Personnel expenses	-342	-292	-84	-93
Property management costs	-33	-28	-11	-12
Depreciation, amortisation and impairment losses	-85	0	-22	0
Other costs	-31	-55	-22	-9
Total cost of sales	-11,295	-2,446	-9,654	-344

6. Marketing and distribution expenses

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Advertising expenses	-47	-67	-24	-21
Brokerage fees	0	-10	161	-4
Other marketing and distribution expenses	-49	-56	-29	-12
Total marketing and distribution expenses	-96	-133	108	-37

7. Administrative expenses

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Personnel expenses	-461	-640	-159	-203
Office expenses	-63	-96	-16	-27
IT expenses	-42	-110	-7	-21
Services purchased	-125	-182	-52	-79
Depreciation, amortization and impairment losses	-30	-115	11	-40
Legal service fees	-28	-48	-6	-8
Other expenses	-28	-33	-10	-9
Total administrative expenses	-777	-1,224	-239	-387

8. Financial income and expenses

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Interest expenses	-454	-433	-139	-106
Other financial income and costs	-108	-49	-81	-1
Total financial income and costs	-562	-482	-220	-107

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.

	12 months 2019	12 months 2018	Q4 2019	Q4 2018
In thousands of euros				
Weighted average number of ordinary shares outstanding during the period	8,998,367	8,807,249	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)	388	-544	848	-184
Earnings per share (in euros)	0.04	-0.06	0.09	-0.02
Diluted earnings per share (in euros)	0.04	-0.06	0.09	-0.02

10. Receivables and prepayments

Short-term receivables and prepayments

	31 December 2019	31 December 2018
In thousands of euros		
Trade receivables		
Receivables from customers	204	91
Total trade receivables	204	91
Other receivables		
Loans provided	0	1
Miscellaneous receivables	12	6
Total other receivables	12	7
Accrued income		
Prepaid and recoverable taxes	226	335
Other accrued income	18	17
Total accrued income	244	352
Prepayments	84	289
Total short-term receivables and prepayments	544	739

Long-term receivables and prepayments

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

11. Inventories

	31 December 2019	31 December 2018
In thousands of euros		
Properties purchased and being developed for resale	15,779	17,467
Materials and finished goods	28	15
Total inventories	15,807	17,482

Properties purchased and being developed for resale

	2019	2018
In thousands of euros		
Balance at the beginning of period, 1 January	17,467	8,963
Properties purchased for development	0	2,943
Construction costs of apartment buildings	4,994	6,665
Capitalized borrowing costs	276	211
Inventory write-down	-73	-21
Other capitalized costs	1,781	777
Reclassification from investment property (note 12)	468	0
Cost of sold properties (note 5)	-9,134	-2,071
Balance at the end of period, 31 December	15,779	17,467

12. Investment property

	2019	2018
In thousands of euros		
Balance at the beginning of period, 1 January	12,344	11,299
Net profit/loss on changes in fair value	-8	8
Capitalized development costs	76	89
Capitalized borrowing costs	95	66
Reclassification to inventories (note 11)	-468	0
Reclassification to property, plant and equipment	0	378
Sale of investment property (note 5)	-1,288	0
Purchase of land plots	300	504
Balance at the end of period, 31 December	11,051	12,344

13. Interest bearing liabilities

	As of 31 December, 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	10,993	5,089	5,904	14,653	11,995	2,658
Bonds	1,327	1,327	0	1,329	2	1,327
Other loans	0	0	0	550	550	0
Total loans and borrowings	12,320	6,416	5,904	16,532	12,547	3,985
Prepayments	0	0	0	810	810	0
Total	12,320	6,416	5,904	17,342	13,357	3,985

In 12 months 2019, the group settled loans in the amount of 9,418 thousand euros (in 12 months 2018: 2,075 thousand euros) through cash transactions and raised new loans in the amount of 10,735 thousand euros (in 12 months 2018: 6,604 thousand euros).

In 12 months 2019, the following major loan obligations were settled:

- 5,912 thousand euros of Kodulahe project II Stage bank loan principal, out of which 372 thousand by cash transaction through Kodulahe's bank account;

- 7,960 thousand euros of Madrid Blvd project's bank loan principal;
- 534 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 2 thousand euros of Arco Vara convertible bonds;
- 550 thousand euros of other loans of Arco Vara.

In 12 months 2019, the group raised the following new liabilities:

- 6,000 thousand euros of bank loan for refinancing apartment building in Madrid project;
- 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;
- 169 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stage III;
- 174 thousand euros of bank loan for financing construction of apartment building in Kodukalda.

14. Payables and deferred income

Short-term payables and deferred income

	31 December 2019	31 December 2018
In thousands of euros		
Trade payables	590	761
Miscellaneous payables	142	0
Taxes payable		
Value added tax	415	12
Corporate income tax	1	4
Social security tax	14	19
Personal income tax	8	11
Other taxes	0	2
Total taxes payable	438	48
Accrued expenses		
Payables to employees	82	54
Interest payable	41	31
Other accrued expenses	345	470
Total accrued expenses	468	555
Deferred income		
Prepayments received on sale of real estate	1,412	2,502
Guarantee deposits	61	73
Other prepaid revenue	24	43
Total deferred income	1,497	2,618
Total short-term payables and deferred income	3,135	3,982

15. Related party disclosures

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

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

Transactions with related parties

	12 months 2019	12 months 2018
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Share capital contribution	0	2,624
Services purchased	29	21
Sold property, plant and equipment	28	12
Other related parties		
Services sold	3	1

Balances with related parties

	31 December 2019	31 December 2018
In thousands of euros		
Other related parties		
Receivables from customers	1	0
Bonds issued	1	1

In 12 months 2019, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 121 thousand euros, out of which 57 thousand euros in Q4 (in 12 months and Q4 2018: 98 thousand euros and 24 thousand euros respectively).

The remuneration provided to the members of the supervisory board of the group's parent company during the first 12 months in 2019 was 8 thousand euros, out of which 3 thousand euros in Q4 (in 12 months and Q4 2018: 8 thousand euros and 5 thousand euros respectively).

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. In Q4 2019, a termination provision of 36 thousand euros was reserved. 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 fourth quarter and 12 months ended on 31 December 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 13 February 2020