



Arco Vara AS
INTERIM REPORT FOR THE IV QUARTER
AND TWELVE MONTHS OF 2020
(UNAUDITED)

INTERIM REPORT FOR THE FOURTH QUARTER AND TWELVE MONTHS OF 2020
(UNAUDITED)

Company name: Arco Vara AS

Registry number: 10261718

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

Telephone: +372 6 144 630

E-mail: info@arcovara.com

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 2020 – 31 December 2020

Reporting period: 1 January 2020 – 31 December 2020

Supervisory board: Tarmo Sild, Steven Yaroslav Gorelik, Kert Keskpaik,
Hillar-Peeter Luitsalu, Allar Niinepuu, Rait Riim

Chief executive: Miko-Ove Niinemäe

Auditor: KPMG Baltics OÜ

CONTENTS

DIRECTORS' REPORT FOR Q4 AND 12 MONTHS 2020	3
GROUP CEO'S REVIEW	3
GENERAL INFORMATION	4
Activities of the group.....	4
Group structure	4
KEY PERFORMANCE INDICATORS	6
Operating report.....	7
PEOPLE.....	8
Remuneration	8
Management board and supervisory board	8
DESCRIPTION OF MAIN RISKS.....	8
Strategic risk	8
Credit risk.....	9
Liquidity and interest rate risks	9
Currency risk.....	9
SHARES AND SHAREHOLDERS.....	9
Share price	9
Shareholder structure	11
CEO'S CONFIRMATION ON DIRECTORS' REPORT	12
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS.....	13
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	13
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	14
CONSOLIDATED STATEMENT OF CASH FLOWS	15
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	16
NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS.....	17
1. Significant accounting policies	17
2. Segment information.....	17
3. Revenue	18
4. Cost of sales	18
5. Marketing and distribution expenses.....	18
6. Administrative expenses	19
7. Financial income and expenses.....	19
8. Earnings per share.....	19
9. Receivables and prepayments.....	20
10. Inventories	20
11. Investment property	20
12. Interest bearing liabilities	21
13. Payables and deferred income	21
14. Related party disclosures.....	22
STATEMENT BY THE CEO / MEMBER OF THE MANAGEMENT BOARD.....	23

DIRECTORS' REPORT FOR Q4 AND 12 MONTHS 2020

GROUP CEO'S REVIEW

Arco Vara's fourth quarter of 2020 was largely spent on the realisation of pre-sales. There were no significant setbacks in the process of handing over nor final sales of the apartments, for which we had been prepared due to the ongoing uncertainty in the field of healthcare.

The fourth quarter of 2020 was also spent in a positive light in terms of project financing. The bonds issued by Arco Vara in December were oversubscribed and the terms of development loans have improved. The company's credibility with financial partners has increased.

We consider the issuance of authorisation of the use of Iztok Parkside, the timely completion of Tartu Kodukalda and the start of the construction of the next stage of the Kodulahe quarter to be important advances in the development area in the fourth quarter.

In the Kodulahe quarter, we started the construction of stage IV and V, where a total of 72 apartments have been designed. By the time of submitting the report, during the two-month sales period, 33 apartments have binding agreements. The fast pace of sales provides confidence that the offered real estate meets the expectations of our customers and increases our desire for further development of the Kodulahe region.

In the Kodulahe quarter, we also started to deliver the III stage homes to customers. Thanks to favourable construction conditions and the operative work of the project team, we handed over the keys of half of the homes two months earlier than expected, in December 2020. The delivery of the remaining apartments was carried out at the beginning of 2021.

The development of Tartu Kodukalda was completed according to plan, where 20 homes have been handed over by today, of which approximately 95% of the sales revenue remained in 2020.

Bulgaria's Iztok Parkside apartment buildings received the long-awaited usage permit, which enabled the sale of a total of 38 apartments by the end of 2020. The remaining sales revenue of the project is expected in the first quarter of 2021. At the time of submitting the report, there are only 3 apartments in the buildings without a pre-sale agreement.

The Madrid BLVD building has a tenant occupancy rate of around 95%, which fluctuates due to the persistent COVID-19 restrictions in Bulgaria. Due to local legislation, we have to take into account the temporary reduction of some rental payments, but due to the different functions of the building, the Arco Vara retail and office building is allowed to be open despite restrictions on other shopping centres.

We consider the fourth quarter of Arco Vara successful. We have been able to significantly increase the return on equity, which confirms the increase in the company's efficiency. Arco Vara's ongoing developments are also moving according to plan, which gives the company the confidence to start new developments in both Estonia and Bulgaria.

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.

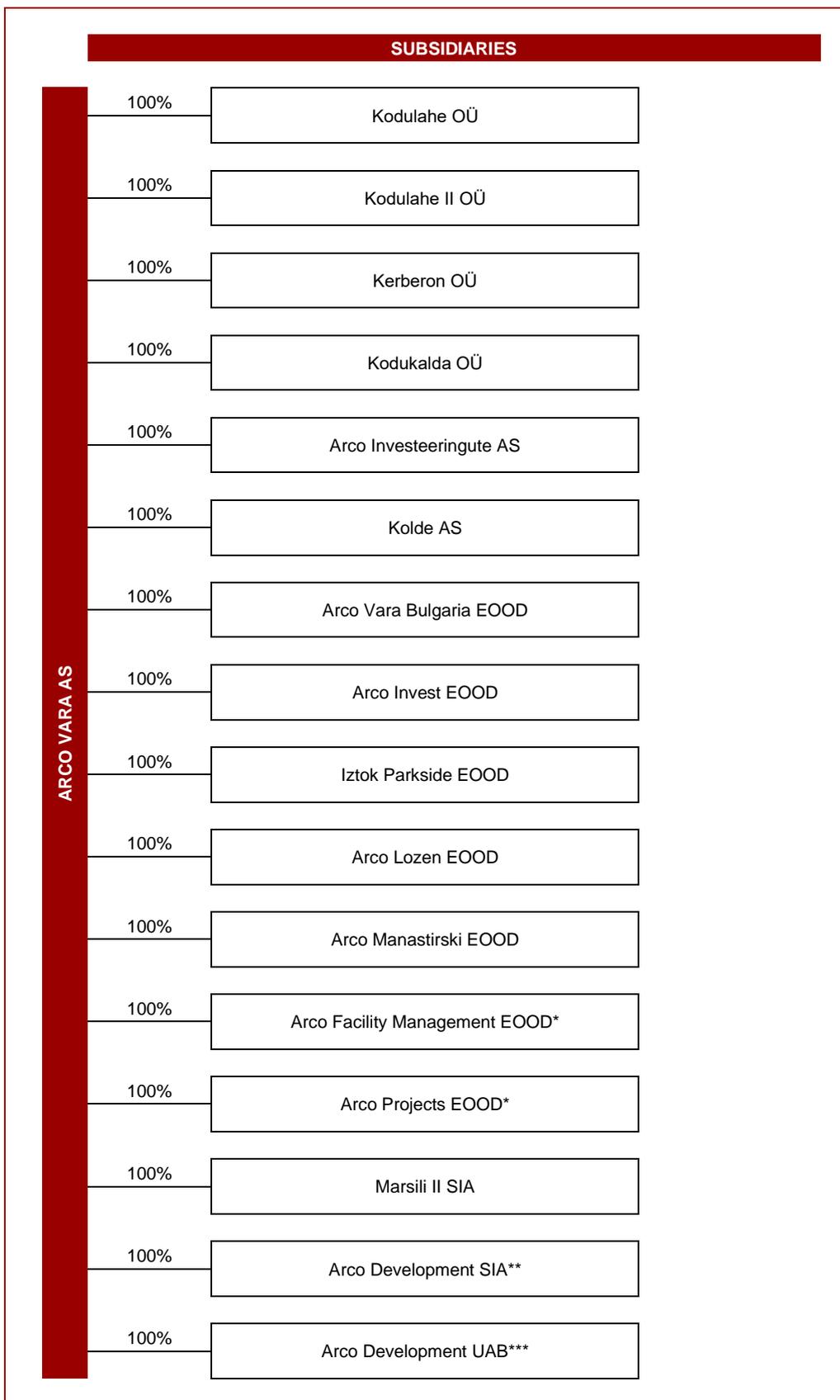
Group structure

As of 31 December 2020, the group consisted of 17 companies, which is two less than 31 December 2019.

Significant subsidiaries as of 31 December 2020

Company name	Location	Share capital (nominal value)	Equity balance on 31 December 2020	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	2,717	100%
Iztok Parkside EOOD	Bulgaria	1,433	1,132	100%
Arco Lozen EOOD	Bulgaria	2,931	2,146	100%
Kodukalda OÜ	Estonia	3	437	100%
Kodulahe OÜ	Estonia	3	3,090	100%

Group structure as of 31 December 2020



* In liquidation

** Liquidated 29.01.2021

*** Liquidated 21.01.2021

KEY PERFORMANCE INDICATORS

- In Q4 2020, the group's revenue was 10,298 thousand euros, which is 5% less than the revenue of 10,887 thousand euros in Q4 2019. In 12 months 2020, the group's revenue was 14,056 thousand euros, which is 7% more than the revenue of 13,109 thousand euros in 12 months 2019.
- In Q4 2020, the group's operating profit (=EBIT) was 1,400 thousand euros and net profit 1,289 thousand euros (in 12 months 2020: operating profit 1,449 thousand euros and net profit of 1,012 thousand euros). In Q4 2019, the group had operating profit of 1,068 thousand euros and net profit of 848 thousand euros. In 12 months 2019, the group made operating profit of 950 thousand euros and net profit of 388 thousand euros.
- In Q4 2020, 64 apartments were sold in projects developed by the group (in 12 months 2020 81 apartments and 1 land plot in Latvia). In Q4 2019, 70 apartments were sold (82 apartments in 12 months).
- In the 12 months of 2020, the group's debt burden (net loans) decreased by 2,951 thousand euros down to the level of 8,499 thousand euros as of 31 December 2020. As of 31 December 2020, the weighted average annual interest rate of interest-bearing liabilities was 4.8%. This is an increase of 0.6 percentage points compared to 31 December 2019.

Main financial figures

	12 months 2020	12 months 2019	Q4 2020	Q4 2019
EUR tuhandetes				
Revenue	14,056	13,109	10,298	10,887
Operating profit (EBIT)	1,449	950	1,400	1,068
Finance income and expense	-437	-562	-111	-220
Net profit	1,012	388	1,289	848
Cash flows from/used in operating activities	-1,042	-1,517	2,251	1,848
Cash flows used in investing activities	-295	-201	-281	-242
Cash flows from/used in financing activities	2,667	261	-388	-1,635
Net cash flows	1,330	-1,457	1,582	-29
Cash and cash equivalents at beginning of period	870	2,327	618	899
Cash and cash equivalents at end of period	2,200	870	2,200	870
Total assets at the end of period	28,231	28,754		
Invested capital at the end of period	24,923	25,619		
Net loans at the end of period	8,499	11,450		
Equity at the end of period	14,224	13,299		

Revenue and net profit/loss during last years

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Total 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Total 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Total 2020
In millions of euros															
Revenue	2.1	1.1	2.1	1.3	6.6	1.1	0.7	0.4	10.9	13.1	2.1	1.0	0.6	10.3	14.0
Net profit/loss	-0.1	-0.3	0.1	-0.2	-0.5	-0.1	-0.2	-0.2	0.9	0.4	0.0	-0.1	-0.2	1.3	1.0

Key ratios

	12 months 2020	12 months 2019	Q4 2020	Q4 2019
EPS (in euros)	0.11	0.04	0.14	0.09
Diluted EPS (in euros)	0.11	0.04	0.14	0.09
ROIC (rolling, four quarters)	3.8%	1.3%		
ROE (rolling, four quarters)	7.6%	3.0%		
ROA (rolling, four quarters)	3.4%	1.2%		
Equity ratio	50.4%	46.3%		
Current ratio	2.73	1.80		
Quick ratio	0.52	0.15		
Financial leverage	1.98	2.16		
Average loan term (in years)	2.5	2.8		
Average annual interest rate of loans	4.8%	4.2%		
Number of staff, at period end	11	17		

Formulas used:

Earnings per share (EPS) = net profit attributable to owners of the parent / weighted average number of ordinary shares outstanding during the period

Diluted earnings per share (Diluted EPS) = net profit attributable to owners of the parent / (weighted average number of ordinary shares outstanding during the period + number of all potentially issued shares)

Invested capital = current + non-current interest-bearing loans and borrowings + equity (at the end of period)

Net loans = current + non-current interest-bearing loans and borrowings – cash and cash equivalents – short-term investments in securities (at the end of period)

Return on invested capital (ROIC) = net profit of last four quarters / average invested capital

Return on equity (ROE) = net profit of last four quarters / average equity

Return on assets (ROA) = net profit of last four quarters / average total assets

Equity ratio = equity / total assets

Current ratio = current assets / current liabilities

Quick ratio = (current assets - inventory) / current liabilities

Financial leverage = total assets / equity

Number of staff = number of people working for the group under employment or service contracts

Operating report

The revenue of the group totalled 10,298 thousand euros in Q4 2020 (in Q4 2019: 10,887 thousand euros) and 14,056 thousand euros in 12 months 2020 (in 12 months 2019: 13,109 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 10,015 thousand euros in Q4 and 13,129 thousand euros in 12 months 2020 (2019: 10,665 thousand euros in Q4 and 12,152 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 211 thousand euros in Q4 2020 and 699 thousand euros in 12 months (2019: 160 thousand euros in Q4 and 696 thousand euros in 12 months). The Q2 of 2020 and Covid-19 brought changes in the economic situation of tenants. Several tenants have been replaced during 2020, but surprisingly in a more favourable direction for Arco Vara, that is why at the moment 95% of retail and office spaces with the accompanying parking spaces are rented out.

In the II Stage of the Kodulahe quarter, which was completed at the end of 2019, commercial space remains unsold – the last apartment was sold in Q2 2020. In 2020, Lahepea 9 house received permit of use.

In Q4 2020, construction works ended in Stage III of Kodulahe quarter, where a building with 50 apartments was finished at Soodi 4 Merimetsa. By the publishing date of the interim report, 49 apartments have been sold and 1 presold.

In Q4 2020, the joint construction of Stages IV and V of Kodulahe started. Two 36-apartment residential buildings at Pagi 3 and Pagi 5 in Merimetsa are under construction. The apartment buildings will become ready for final sale in about 1,5 years. By the publishing date of the interim report, 16 apartments of total 72 have been presold and 17 booked for waiting for notary.

In Q4 2020, final sales of Oa street plots in Tartu started, where 4 smaller apartment buildings were constructed under the Kodukalda project name. By the publishing time of the interim report, 20 of the 30 apartments have been sold and 1 presold.

In Iztok Parkside project in Sofia, the majority of final sales of apartments started in December 2020, after receiving an occupancy permit. By the publishing date of the interim report, presale agreements for 3 apartments have not been concluded. Iztok project consists of three apartment buildings with a total of 67 apartments.

In the Lozen project near Sofia in Bulgaria, design works have been completed. As the development was designed as a premium class product, it has been decided to temporarily freeze the project and wait for the market to recover from Covid-19. Under favourable market conditions, construction may start in Q3 2021, divided into smaller sub-stages. The project foresees construction of 179 homes (apartments and houses), commercial spaces and a kindergarten. Minimum construction period is 2 years.

In Q3 2020 a land plot without accounting value was sold in Latvia. As of 31 December 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 December 2020

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	22
Iztok Parkside	Iztok, Sofia	Apartments	S5	2,470	3,045	29
Marsili residential plots	Marsili, near Riga	Residential plots	S5	6,153	-	4
Kodulahe, Stage II	Lahepea 9, Tallinn	Apartments	S5	3,686	380	1
Kodulahe, Stages III	Soodi 4, Tallinn	Apartments	S5	3,199	1,393	24
Kodulahe, Stages IV-V	Pagi 3 and 5, Tallinn	Apartments	S4	7,383	4,774	72
Paldiski road 74	Paldiski road 74, Tallinn	Apartments	S3	9,525	<9,000>	<123>
Kodukalda	Oa street, Tartu	Apartments	S5	4,146	955	11
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 2020, 11 people worked for the group (17 as of 31 December 2019). Employee remuneration expenses in 12 months 2020 amounted to 468 thousand euros, out of which 87 thousand euros in Q4 2020 (2019 same periods: 494 thousand euros and 170 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 89 thousand euros in 12 months 2020, out of which 22 thousand euros in Q4 2020 (in 12 months and Q4 2019: 121 thousand euros and 57 thousand euros, respectively). The members of the supervisory board of the group's parent company were remunerated by 18 thousand euros, out of which 7 thousand euros in Q4 2020. The remuneration of the members of the supervisory board was 8 thousand euros in 12 months 2019, out of which 3 thousand euros in Q4 2019.

Management board and supervisory board

The management board of Arco Vara AS has one member. Since 30 April 2020, the member of the management board and chief executive officer of Arco Vara AS is Miko-Ove Niinemäe who has a mandate until 30 April 2023.

From 30 April 2020 to 12.01.2021, the supervisory board of Arco Vara AS consisted of Tarmo Sild (the Chairman), Kert Keskskaik, Hillar-Peeter Luutsalu, Allar Niinepuu, Rait Riim and Steven Yaroslav Gorelik. As of 12.01.2021, the supervisory board has 5 members: Tarmo Sild (the Chairman), Kert Keskskaik, Hillar-Peeter Luutsalu, Allar Niinepuu and Steven Yaroslav Gorelik.

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 2020, in Sofia and Tallinn), (ii) monitors current demand and supply in its home markets and (iii) makes efforts to narrow the time gap between making initial investment and selling the final product – by signing pre-agreements with clients, acquiring land with no or little upfront equity investment etc.

Credit risk

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

Liquidity and interest rate risks

The base currency of the group's all loan agreements is euro and the base interest rate is 1, 3 or 6 months' EURIBOR. As a result, the group is exposed to developments on international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In Q4 2020, the group's interest-bearing liabilities amounted to 10.7 million euros on 31 December 2020, out of which 3.5 million euros is due within next 12 months. The group's cash and cash equivalents totalled 2.2 million euros as of 31 December 2020 (31 December 2019 0.9 million). In Q4 2020, interest payments on interest-bearing liabilities totalled 0.1 million euros (in Q4 2019: 0.2 million euros). The group's weighted average loan interest rate was 4.8% as of 31 December 2020. This is an increase by 0.6 percentage points compared to the end of year 2019. The reason for the increase is the new borrowings raised in 2020 for Estonian developments which bear an above-average interest rate.

Currency risk

Real estate sales are mostly nominated in euros, as a result of which the group's assets and liabilities structure does not involve a significant currency risk. The group is not protected against currency devaluations. Liquid assets are mostly held on demand or short-term deposits denominated in euros.

SHARES AND SHAREHOLDERS

Share price

Arco Vara AS has issued a total of 8,998,367 ordinary shares with nominal value of 0.7 euros per share. The shares are freely traded on NASDAQ Tallinn stock exchange. The share price closed at 1.21 euros on 31 December 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 December 2020, market capitalization of shares amounted to 10,888 thousand euros and P/B (price to book value) ratio was 0.77 (31 December 2019: 10,258 thousand euros and 0.77, respectively). P/E (price to earnings) ratio of the share was 10.76 on 31 December 2020, 26.44 as on 31 December 2019.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in during the last three years and 12 months 2020.

Performance of Arco Vara's shares from 1 January 2018 until 31 December 2020



Source: <https://nasdaqbaltic.com> 2nd of January 2021

Performance of Arco Vara’s shares in 12 months 2020



Source: <https://nasdaqbaltic.com> 2nd of January 2021

Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 12 months 2020



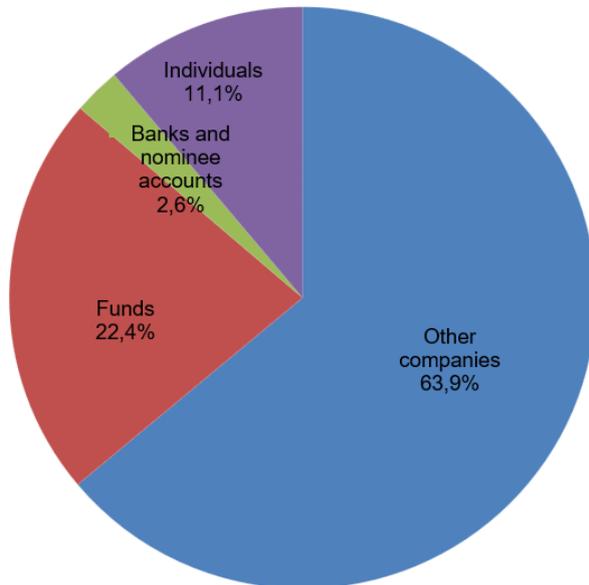
Source: <https://nasdaqbaltic.com> 2nd of January 2021

Index/equity	31 Dec 2019	31 Dec 2020	+/-%
OMX Tallinn	1,279.70	1,343.72	+5.00
ARC1T – Arco Vara	1.14 EUR	1.21 EUR	+6.14

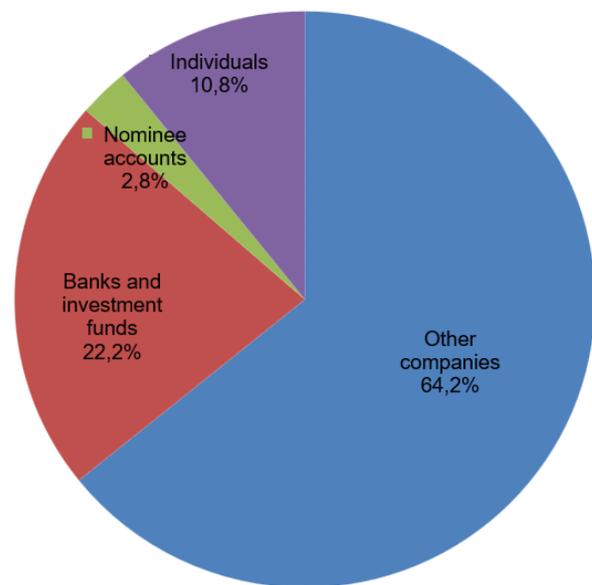
Shareholder structure

As of 31 December 2020, Arco Vara had 1,475 shareholders (on 31 December 2019 1,315), including 1,311 individuals as shareholders (on 31 December 2019: 1,138 individuals) who jointly owned 11.1% (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 December 2020



Ownership structure as of 31 December 2019



Major shareholders on 31 December 2020

Name	No of shares	Share, %
Alarmo Kapital OÜ	2,517,405	28.0%
LHV Pensionifond L	869,587	9.7%
AS Lõhmus Holdings	850,000	9.4%
Baltplast AS	837,498	9.3%
Gamma Holding Investment OÜ	580,369	6.4%
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%
Marko Teimann	162,439	1.8%
Other shareholders	1,942,717	21.5%
Total	8,998,367	100.0%

Holdings of management and supervisory board members on 31 December 2020

Name	Position	No of shares	Share, %
Tarmo Sild and Allar Niinepuu (OÜ Alarmo Kapital) ³	chairman/ member of supervisory board	2,517,405	28.0%
Tarmo Sild (Aia Tänav OÜ)	chairman of supervisory board	19,880	0.2%
Hillar-Peeter Luutsalu (HM Investeeringud OÜ, related persons)	member of supervisory board	369,259	4.1%
Kert Keskspaik (privately and through K Vara OÜ)	member of supervisory board	206,371	2.3%
Rait Riim ^{1,3}	member of supervisory board	0	-
Steven Yaroslav Gorelik ²	member of supervisory board	0	-
Miko-Ove Niinemäe	member of management board	722	-
Total		3,113,637	34.6%

¹ - Rait Riim is a real estate investment manager of LHV Pension Funds. LHV Pensionifond, LHV Pensionifond XL, LHV Pensionifond M and LHV Täiendav Pensionifond hold 1,296,837 shares (total 14.4% interest) of Arco Vara.

² - 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 7.7% interest).

³ - In January 2021, LHV Pension Funds, LHV Pensionifond, LHV Pensionifond XL, LHV Pensionifond M and LHV Täiendav Pensionifond sold their shares to OÜ Alarmo Kapital, who after the transaction held 3,814,242 of shares of Arco Vara (total 42.4% 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 2020 provides a true and fair view of business developments, financial performance and financial position of the group as well as a description of the main risks and uncertainties.



Miko-Ove Niinemäe
Chief Executive and Member of the Management Board of Arco Vara AS

On 11 February 2021

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	12 months 2020	12 months 2019	Q4 2020	Q4 2019
In thousands of euros					
Revenue from sale of own real estate		13,129	12,152	10,015	10,665
Revenue from rendering of services		927	957	283	222
Total revenue	2,3	14,056	13,109	10,298	10,887
Cost of sales	4	-11,313	-11,295	-8,332	-9,654
Gross profit		2,743	1,814	1,966	1,233
Other income		10	137	10	46
Marketing and distribution expenses	5	-89	-96	-23	108
Administrative expenses	6	-922	-777	-268	-239
Other expenses		-273	-121	-265	-73
Loss on revaluation of investment property		-20	-7	-20	-7
Operating profit		1,449	950	1,400	1,068
Finance income and cost	7	-437	-562	-111	-220
Profit before tax		1,012	388	1,289	848
Net profit for the period		1,012	388	1,289	848
Total comprehensive income for the period		1,012	388	1,289	848
Earnings per share (in euros)	8				
- basic		0.11	0.04	0.14	0.09
- diluted		0.11	0.04	0.14	0.09

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31 December 2020	31 December 2019
In thousands of euros			
Cash and cash equivalents		2,200	870
Receivables and prepayments	9	1,344	544
Inventories	10	14,960	15,807
Total current assets		18,504	17,221
Receivables and prepayments	9	5	0
Investment property	11	9,564	11,051
Property, plant and equipment		22	265
Intangible assets		136	217
Total non-current assets		9,727	11,533
TOTAL ASSETS		28,231	28,754
Loans and borrowings	12	3,482	6,416
Payables and deferred income	13	3,308	3,135
Total current liabilities		6,790	9,551
Loans and borrowings	12	7,217	5,904
Total non-current liabilities		7,217	5,904
TOTAL LIABILITIES		14,007	15,455
Share capital		6,299	6,299
Unregistered share capital	14	273	0
Share premium		2,285	2,285
Statutory capital reserve		2,011	2,011
Other reserves	14	0	245
Retained earnings		3,356	2,459
TOTAL EQUITY		14,224	13,299
TOTAL LIABILITIES AND EQUITY		28,231	28,754

CONSOLIDATED STATEMENT OF CASH FLOWS

Note	12 months 2020	12 months 2019	Q4 2020	Q4 2019
In thousands of euros				
Cash receipts from customers	10,268	9,084	5,061	6,142
Returned prepayments	0	-876	0	-876
Cash paid to suppliers	-10,960	-8,936	-2,551	-2,169
Taxes paid and recovered (net)	44	-457	-168	-1,168
Cash paid to employees	-380	-328	-73	-85
Other cash payments and receipts related to operating activities (net)	-14	-4	-18	4
NET CASH FROM/USED IN OPERATING ACTIVITIES	-1,042	-1,517	2,251	1,848
Payments made on purchase of tangible and intangible assets	-8	-5	-8	0
Proceeds from sale of property, plant and equipment	0	28	0	28
Payments made on purchase and development of investment property	-37	-300	-23	-270
Proceeds from sale of financial investments	0	69	0	0
Repayment of loans provided	0	7	0	0
Other payments related to investing activities	-250	0	-250	0
NET CASH FROM/USED IN INVESTING ACTIVITIES	-295	-201	-281	-242
Proceeds from loans received	7,849	10,735	2,558	6,332
Settlement of loans and borrowings	-4,369	-9,418	-2,713	-7,617
Interest paid	-727	-886	-232	-274
Dividends paid	-360	-90	0	0
Proceeds from share capital increase	273	0	0	0
Other payments related to financing activities	1	-80	-1	-76
NET CASH FROM/USED IN FINANCING ACTIVITIES	2,667	261	-388	-1,635
NET CASH FLOW	1,330	-1,457	1,582	-29
Cash and cash equivalents at the beginning of period	870	2,327	618	899
Change in cash and cash equivalents	1,330	-1,457	1,582	-29
Cash and cash equivalents at the end of period	2,200	870	2,200	870

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total equity
In thousands of euros							
Balance as of 31 December 2018	6,299	0	2,285	2,011	245	2,161	13,001
Dividends paid	0	0	0	0	0	-90	-90
Total comprehensive income for the period	0	0	0	0	0	388	388
Balance as of 31 December 2019	6,299	0	2,285	2,011	245	2,459	13,299
Balance as of 31 December 2019	6,299	0	2,285	2,011	245	2,459	13,299
Increase of share capital	0	273	0	0	0	0	273
Dividends paid	0	0	0	0	0	-360	-360
Other reserves	0	0	0	0	-245	245	0
Total comprehensive income for the period	0	0	0	0	0	1,012	1,012
Balance as of 31 December 2020	6,299	273	2,285	2,011	0	3,356	14,224

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 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

	12 months 2020	12 months 2019	Q4 2020	Q4 2019
In thousands of euros				
Estonia	7,610	10,004	6,920	9,903
Bulgaria	6,406	3,105	3,378	984
Latvia	40	0	0	0
Total revenue	14,056	13,109	10,298	10,887

External operating profit (-loss) by location

	12 months 2020	12 months 2019	Q4 2020	Q4 2019
In thousands of euros				
Estonia	103	603	383	1,020
Bulgaria	1,310	355	1,017	49
Latvia	36	-8	0	-1
Total operating profit	1,449	950	1,400	1,068

External assets and liabilities by location

	31.12.2020	31.12.2019
In thousands of euros		
Assets	28,231	28,754
Estonia	9,642	8,082
Bulgaria	18,462	20,546
Latvia	127	126
Liabilities	14,007	15,455
Estonia	4,938	2,859
Bulgaria	9,069	12,596

Non-current assets by location

	31.12.2020	31.12.2019
In thousands of euros		
Total non-current assets	158	482
Tangible assets	22	265
Estonia	6	9
Bulgaria	16	256
Intangible assets	136	217
Estonia	86	171
Bulgaria	50	46

3. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	12M 2020	12M 2019	12M 2020	12M 2019	12M 2020	12M 2019	12M 2020	12M 2019
In thousands of euros								
Sale of own real estate	7,414	9,865	5,675	2,287	40	0	13,129	12,152
Rental of real estate	5	5	614	696	0	0	619	701
Property management services	1	0	84	88	0	0	85	88
Franchise	137	74	35	34	12	20	184	128
Other revenue	6	5	33	35	0	0	39	40
Total revenue	7,563	9,949	6,441	3,140	52	20	14,056	13,109

	Estonia		Bulgaria		Latvia		Consolidated	
	Q4 2020	Q4 2019	Q4 2020	Q4 2019	Q4 2020	Q4 2019	Q4 2020	Q4 2019
In thousands of euros								
Sale of own real estate	6,856	9,865	3,159	800	0	0	10,015	10,665
Rental of real estate	1	2	186	159	0	0	187	161
Property management services	0	0	24	16	0	0	24	16
Franchise	45	22	13	9	5	3	63	34
Other revenue	-1	2	10	9	0	0	9	11
Total revenue	6,901	9,891	3,392	993	5	3	10,298	10,887

4. Cost of sales

	12 months 2020		12 months 2019		Q4 2020		Q4 2019	
	In thousands of euros							
Cost of real estate sold (note 10, 11)		-10,405		-10,296		-7,964		-9,134
Brokerage fees		-276		-347		-136		-347
VAT cost		-39		-161		0		-34
Property management costs		-347		-342		-85		-84
Personnel expenses		-15		-33		0		-11
Depreciation, amortisation and impairment losses		-84		-85		-28		-22
Inventory write-down		-40		0		-40		0
Other costs		-107		-31		-79		-22
Total cost of sales		-11,313		-11,295		-8,332		-9,654

5. Marketing and distribution expenses

	12 months 2020		12 months 2019		Q3 2020		Q3 2019	
	In thousands of euros							
Advertising expenses		-39		-47		-10		-24
Brokerage fees		0		0		0		161
Other marketing and distribution expenses		-50		-49		-13		-29
Total marketing and distribution expenses		-89		-96		-23		108

6. Administrative expenses

	12 months 2020	12 months 2019	Q4 2020	Q4 2019
In thousands of euros				
Personnel expenses	-453	-461	-87	-159
Office expenses	-67	-63	-14	-16
IT expenses	-28	-42	-7	-7
Services purchased	-310	-125	-146	-52
Depreciation, amortization and impairment losses	-25	-30	-5	11
Legal service fees	-22	-28	0	-6
Other expenses	-17	-28	-9	-10
Total administrative expenses	-922	-777	-268	-239

7. Financial income and expenses

	12 months 2020	12 months 2019	Q4 2020	Q 2019
In thousands of euros				
Interest expenses	-426	-454	-110	-139
Other financial income and costs	-11	-108	-1	-81
Total financial income and costs	-437	-562	-111	-220

8. Earnings per share

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

According to the decision of the annual general meeting of Arco Vara AS, held on 10 May 2016, a convertible bond was issued with the nominal value of 1,000 euros. The convertible bond gave to the CEO of the group's parent company the right to subscribe to up to 390 thousand ordinary shares of Arco Vara AS for 0.7 euros per share during the year 2019. The CEO used his right in full amount. The change of the CEO on 30 April 2020 does not reduce the right of the former CEO to use the subscribed bonds. See also note 14.

	12 months 2020	12 months 2019	Q4 2020	Q4 2019
In thousands of euros				
Weighted average number of ordinary shares outstanding during the period	8,998,367	8,998,367	8,998,367	8,998,367
Number of ordinary shares potentially to be issued (at period end)	390,000	390,000	390,000	390,000
Net profit (in thousands of euros)	1,012	388	1,289	848
Earnings per share (in euros)	0.11	0.04	0.14	0.09
Diluted earnings per share (in euros)	0.11	0.04	0.14	0.09

9. Receivables and prepayments

Short-term receivables and prepayments

	31 December 2020	31 December 2019
In thousands of euros		
Receivables from customers	1,283	204
Miscellaneous receivables	12	12
Prepaid and recoverable taxes	19	226
Other accrued income	13	18
Prepayments	17	84
Total short-term receivables and prepayments	1,344	544

Long-term receivables and prepayments

	31 December 2020	31 December 2019
In thousands of euros		
Deposit	5	0
Total long-term receivables and prepayments	5	0

10. Inventories

	31 December 2020	31 December 2019
In thousands of euros		
Properties purchased and being developed for resale	14,943	15,779
Materials and finished goods	17	28
Total inventories	14,960	15,807

Properties purchased and being developed for resale

	2020	2019
In thousands of euros		
Balance at the beginning of period, 1 January	15,779	17,467
Construction costs of apartment buildings	7,117	4,994
Capitalized borrowing costs	266	276
Inventory write-down	-40	-73
Other capitalized costs	474	1,655
Reclassification from investment property (note 11)	1,358	468
Cost of sold properties (note 4)	-10,011	-9,008
Balance at the end of period, 31 December	14,943	15,779

11. Investment property

	2020	2019
In thousands of euros		
Balance at the beginning of period, 1 January	11,051	12,344
Net loss on changes in fair value	-20	-8
Capitalized development costs	42	76
Capitalized borrowing costs	14	95
Reclassification to inventory (note 10)	-1,358	-468
Reclassification to property, plant and equipment	229	0
Sale of investment property (note 4)	-394	-1,288
Purchase of land plots	0	300
Balance at the end of period, 31 December	9,564	11,051

12. Interest bearing liabilities

	As of 31 December, 2020			As of 31 December, 2019		
	Total	of which current portion	of which non-current portion	Total	of which current portion	of which non-current portion
In thousands of euros						
Bank loans	8,649	3,212	5,437	10,993	5,089	5,904
Bonds	1,780	0	1,780	1,327	1,327	0
Other loans	270	270	0	0	0	0
Total	10,699	3,482	7,217	12,320	6,416	5,904

In 12 months 2020, the group settled loans in the amount of 9,470 thousand euros (in 12 months 2019: 14,958 thousand euros) through cash transactions and raised new loans in the amount of 7,849 thousand euros (in 12 months 2019: 10,746 thousand euros). 5,101 thousand euros of the settled bank loans were paid by customers directly to the bank.

In 12 months 2020, the following major loan obligations were settled:

- 283 thousand euros of Madrid Blvd project's bank loan principal;
- 2,786 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 3,646 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stage III;
- 1,607 thousand euros of bank loan for financing construction of apartment building in Kodukalda project;
- 1,148 thousand euros of Arco Vara convertible bonds.

In 12 months 2020, the group raised the following new liabilities:

- 3,884 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stage III;
- 2,094 thousand euros of bank loan for financing construction of apartment building in Kodukalda project;
- 270 thousand euros of loans from private companies and individuals;
- 1,601 thousand euros of Arco Vara convertible bonds.

13. Payables and deferred income

Short-term payables and deferred income

	31 December 2020	31 December 2019
In thousands of euros		
Trade payables	811	590
Miscellaneous payables	76	142
Taxes payable		
Value added tax	1,431	415
Corporate income tax	1	1
Social security tax	14	14
Personal income tax	17	8
Land tax	1	0
Garbage tax	22	0
Total taxes payable	1,486	438
Accrued expenses		
Payables to employees	17	82
Interest payable	44	41
Other accrued expenses	100	345
Total accrued expenses	161	468
Deferred income		
Prepayments received on sale of real estate	631	1,412
Guarantee deposits	102	61
Prepaid revenue	41	24
Total deferred income	774	1,497
Total short-term payables and deferred income	3,308	3,135

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

	12 months 2020	12 months 2019
In thousands of euros		
Companies that have a significant interest in the group's parent company		
Services purchased	58	29
Bonds	273	0
Proceeds from sale of property, plant and equipment	0	28
Other related parties		
Services sold	1	3

Balances with related parties

	31 December 2020	31 December 2019
In thousands of euros		
Other related parties		
Receivables from customers	0	1
Bonds issued	0	1

In 12 months 2020, the remuneration provided to the CEO / member of the management board, including social security charges, amounted to 89 thousand euros, out of which 22 thousand euros in Q4 (in 12 months and Q4 2019: 121 thousand euros and 57 thousand euros respectively).

The remuneration provided to the CEO / member of the management board is based on his service contract. As of 30 April 2020, a fixed monthly fee has been set by a resolution of the Supervisory Board on the basis of the service contract of Miko-Ove Niinemäe, the member of the Management Board of Arco Vara AS. The CEO's bonus system will be discussed in 2021.

The remuneration provided to the members of the supervisory board of the group's parent company during the 12 months in 2020 was 18 thousand euros, out of which 7 thousand in Q4 (in 12 months 2019 8 thousand euros, out of which 3 thousand in Q4 2019).

The members of the supervisory board will receive 500 euros (net amount) for every meeting where they have participated, but not more than 1,000 euros (net amount) per month. The payment of the remuneration is dependent on the signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating on the board meetings are also compensated to the members of the supervisory board. The chairman of the supervisory board receives additional 500 euros per month (net amount).

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

An equity reserve in the amount of 245 thousand euros that was formed for the option associated with the bond was used in Q2 2020, when 273 thousand euros cash was transferred to Arco Vara for the option. The added 390,000 shares are still awaiting registration. See also note 8.

STATEMENT BY THE CEO / MEMBER OF THE MANAGEMENT BOARD

The CEO / member of the management board of Arco Vara AS has prepared Arco Vara AS's condensed consolidated interim financial statements for the fourth quarter and 12 months ended on 31 December 2020.

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and they give a true and fair view of the financial position, financial performance and cash flows of Arco Vara AS. Arco Vara AS is a going concern.



Miko-Ove Niinemäe
Chief Executive and Member of the Management Board of Arco Vara AS

On 11 February 2021