

Company Arco Vara AS  
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Attachments:

- AVG 2017 Q3 EST.pdf (<http://oam.fi.ee/en/download?id=3202>)
- AVG 2017 Q3 ENG.pdf (<http://oam.fi.ee/en/download?id=3203>)

Currency

Title Arco Vara AS unaudited consolidated interim report for the third quarter and 9 months of

## KEY PERFORMANCE INDICATORS

. In Q3 2017, the group's revenue was 7.7 million euros, which is 5.9 times higher compared to the revenue of 1.3 million euros in Q3 2016. In 9 months 2017, the group's revenue was 10.3 million euros, which is 22.6% higher compared to the revenue of 8.4 million euros in 9 months 2016. The revenue of the Development Division amounted to 7.0 million euros in Q3 2017 and 8.5 million euros in 9 months of 2017, and the revenue of the Service Division amounted to 0.8 million euros in Q3 and 2.2 million euros in 9 months of 2017.

. In Q3 2017, the group's operating profit (=EBIT) was 0.8 million euros and net profit 0.7 million euros. In 9 months of 2017, operating profit was 0.4 million euros and net profit 0.1 million euros. The operating profit of the Development Division amounted to 0.9 million euros in Q3 2017 as well as in 9 months 2017. The Service Division earned a small operating loss (less than 0.1 million euros) in Q3 2017.

. In Q3 2017, 59 apartments and 2 commercial spaces were sold in projects developed by the group (in 9 months of 2017: 60 apartments, 2 commercial spaces and 6 land plots). In 9 months of 2016, 75 apartments, 5 commercial spaces and 6 land plots were sold. In the first half of 2016, active sale was made in Manastirski project in Bulgaria; in Q3 2017, Kodulahe I stage apartments got ready for final sale.

. In the first 9 months of 2017, the group's debt burden (net loans) increased by 0.3 million euros up to the level of 13.7 million euros as of 30 September 2017. As of 30 September 2017, the weighted average annual interest rate of interest bearing liabilities was 5.3%, the same as on 31 December 2016.



## Main financial figures

	9 months 2017	9 months 2016	Q3 2017	Q3 2016
-----				
In millions of euros				
-----				
Revenue				
-----				
Development	8.5	6.4	7.0	0.6
-----				
Services	2.2	2.4	0.8	0.8
-----				
Eliminations	-0.4	-0.4	-0.1	-0.1
-----				
Total revenue	10.3	8.4	7.7	1.3
-----				
-----				
Operating profit (EBIT)				
-----				
Development	0.9	1.5	0.9	0.0
-----				
Services	-0.1	-0.1	0.0	0.0
-----				
Unallocated income and expenses	-0.4	-0.5	-0.1	-0.2
-----				
Eliminations	0.0	0.1	0.0	0.0
-----				
Total operating profit/loss (EBIT)	0.4	1.0	0.8	-0.2
-----				
-----				
Financial income and expenses	-0.3	-0.5	-0.1	-0.2
-----				
Net profit/loss	0.1	0.5	0.7	-0.4
-----				
-----				
Cash flows of operating activities	-2.3	2.6	0.7	-1.0
-----				
Cash flows of investing activities	-0.4	-2.0	0.0	-1.1
-----				
Cash flows of financing activities	3.0	-0.9	-0.3	1.6
-----				
Net cash flows	0.3	-0.3	0.4	-0.5
-----				
Cash and cash equivalents at beginning of period	0.8	0.7	0.7	0.9



Cash and cash equivalents at end of period	1.1	0.4	1.1	0.4
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Total assets, at period end	28.4	26.6
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Invested capital, at period end	23.9	22.7
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Net loans, at period end	13.7	12.3
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Equity, at period end	9.0	10.0
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#### Key ratios

	9 months 2017	9 months 2017	Q3 2017	Q3 2016
EPS (in euros)	0.01	0.08	0.11	-0.06
Diluted EPS (in euros)	0.01	0.07	0.10	-0.05
ROIC (rolling, four quarters)	-5.1%	0.3%		
ROE (rolling, four quarters)	-14.0%	0.6%		
ROA (rolling, four quarters)	-4.3%	0.3%		
Current ratio	0.88	3.22		
Quick ratio	0.10	0.20		
Financial leverage	3.16	2.67		
Average loan term (in years)	0.4	1.2		
Average annual interest rate of loans	5.3%	6.1%		
Number of staff, at period end	132	185		



## GROUP CEO'S REVIEW

Right actions bring a result. Arco Vara's mission is to exceed people's expectations in real estate business. We want to be the most people-oriented company. In the 3rd quarter, we already did quite well in this. We helped over 2000 people with our brokerage and appraisal services in Estonia and Bulgaria and sold about half of the apartments and commercial spaces of Kodulahe I stage. Feedback from clients has been mainly positive and that gives us a boost for increasing our volumes and developing ourselves.

In Q3, we moved from making a loss (-0,6m EUR in 6M) to becoming profitable. We earned over 20% more money with our services than in the previous year. As a group, we also anticipate a positive 4th quarter, by the end of which over 90% of Kodulahe I stage should be sold. Full sell-out is not planned or essential, considering that after such sell-out our stock will be empty again. Other positive developments are that construction is going on in the Iztok project in Sofia, out of which 1/3 has been presold, and that construction of Kodulahe II stage (ca 68 apartments) should commence in Q1 and construction of Oa street development in Tartu (ca 40 apartments) in Q2 of 2018. In Q1 2018, we should be able to acquire two new development land plots, one in Tallinn and another one in Sofia.

In Madrid Blvd building, rental income has increased and cash flows after loan interest payments have become positive. Although finding good tenants into the building has proved to be more time-consuming than we initially expected, we believe that the rental income of the building will increase in the future. We plan to extend the existing bank loan by year-end.

We will continue to develop our skills and processes. In Q3 and Q4, we will harvest the crops of the work already done. The first half of 2018 will be modest again in terms of revenue, although better than H1 of 2017. We will start making substantial revenue and profit again at the end of 2018, when the cranes of today's projects will finish their work and the final sales of apartments will start.

## SERVICE DIVISION

In Q3 2017, revenue of the Service Division amounted to 780 thousand euros (Q3 2016: 806 thousand euros), which included intra-group revenue of 115 thousand euros (Q3 2016: 76 thousand euros). In 9 months 2017, the revenue decreased by 10.9% to 2,142 thousand euros, compared to the revenue of 2,404 thousand euros in 9 months 2016.

In 9 months of 2017, revenue of the Service Division from main services (real estate brokerage and valuation services) decreased by 13% compared to 9 months of 2016. The main reason is that the revenue in the amount of 694 thousand euros from the Latvian agency (which was sold in Q4 2016) was included in the



group revenue in 9 months of 2016. As the table below demonstrates, sales revenues of both Estonian and Bulgarian real estate agencies have actually increased significantly.

Revenue of real estate agencies from brokerage and valuation

	9 months 2017	9 months 2016	Change, %	Q3 2017	Q3 2016	Change, %
-----						
In thousands of euros						
Estonia	1,325	1,036	28%	484	381	27%
-----						
Bulgaria	560	444	26%	206	115	79%
-----						
Latvia	-	694	-	-	226	-
-----						
Total	1,885	2,174	-13%	690	722	-4%
-----						

In Q3 and 9 months 2017, Estonian agency had net loss of 4 thousand euros and 112 thousand euros, respectively (in 2016: net loss of 33 thousand euros in Q3 and 152 thousand euros in 9 months). Bulgarian agency earned net profit of 12 thousand euros in Q3 2017 and 53 thousand euros in 9 months 2017. (2016: net profit of 15 thousand euros in Q3 and net loss of 17 thousand euros in 9 months).

In addition to brokerage and valuation services, the Service Division also provides real estate management and accommodation services in Bulgaria. The revenue from real estate management was 92 thousand euros in 9 months 2017, 78 thousand euros of which was intra-group revenue (9 months 2016: 87 thousand and 75 thousand euros, respectively). Revenue from accommodation services amounted to 135 thousand euros in 9 months 2017, of which 49 thousand euros was made in Q3 (2016: 104 thousand euros in 9 months and 40 thousand euros in Q3).

On 30 September 2017, the number of staff in the Service Division was 118 (on 31.12.2016: 97).

#### DEVELOPMENT DIVISION

The revenue of the Development Division totalled 7,042 thousand euros in Q3 2017 (in Q3 2016: 586 thousand euros) and 8,511 thousand euros in 9 months 2017 (in 9 months 2016: 6,401 thousand euros), including revenue from the sale of properties in the group's own development projects in the amount of 6,627 thousand euros in Q3 and 6,875 thousand euros in 9 months (2016: 367 thousand euros in Q3 and 6,043 thousand euros in 9 months). In Q3, the construction of apartments of the first stage apartment building (with 125 apartments and 5 commercial spaces) in the group's largest development project Kodulahe came



close to an end, and final sales started. By the publishing date of the interim report, sale agreements for 107 apartments and two commercial spaces, plus 4 presale agreements have been concluded.

Most of the other revenue of the Development Division consists of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 148 thousand euros in Q3 2017 and 360 thousand euros in 9 months 2017 (2016: 89 thousand euros in Q3 and 252 thousand euros in 9 months). By the publishing date of the interim report, last two office spaces remain vacant. The group expects to rent out all vacant spaces during Q4 2017.

In Q3 and 9 months 2017, the Development Division had operating profit of 894 thousand euros and 851 thousand euros, respectively. In 2016, the Development Division earned operating profit of 33 thousand euros in Q3 and 1,524 thousand euros in 9 months. In early 2016, most of sale agreements in the last stage of Manastirski project in Sofia were concluded (the construction of apartment building was finished in December 2015).

In Q3 2017, one apartment was sold and another one presold in Madrid Blvd complex in Sofia. By the end of the quarter, 1 apartment remained unsold. Additional 15 apartments are furnished and are being rented out as accommodation service. Unsold parking places are also being rented out.

In Q3 2017, preparatory works in the second stage of Kodulahe project continued, where a building with ca 70 apartments and commercial spaces is planned. Preparatory works also continued for Oa street properties in Tartu, where 4 smaller apartment buildings are planned. Both of these projects are expected to be finalised by mid-2019.

In Q3 2017, the delay that had emerged in early 2017 in the development of Iztok Parkside project in Sofia ended. Construction permit was received in September and construction started in October. By the publication date of interim report, presale agreements for 23 apartments have been signed. Iztok project consists of three apartment buildings with 68 apartments (7,070 square meters of apartments' sellable area).

As of 30 September 2017, 6 Marsili residential plots remained unsold in Latvia. During 2017, four plots have been sold in the project. Additionally, the sale of Baltezers-3 project (68 undeveloped land plots as a whole) was finished in January.

As of 30 September 2017, 5 people were employed in the Development Division, the same number as at the end of 2016.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS  
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME



	Note	9 months 2017	9 months 2016	Q3 2017	Q3 2016
-----					
In thousands of euros					
-----					
Revenue from sale of own real estate		8,063	6,043	6,877	461
-----					
Revenue from rendering of services		2,228	2,395	806	826
-----					
Total revenue	2, 3	10,291	8,438	7,683	1,287
-----					
-----					
Cost of sales	4	-8,273	-5,554	-6,340	-862
-----					
Gross profit		2,018	2,884	1,343	425
-----					
-----					
Other income		54	35	35	7
-----					
Marketing and distribution expenses	5	-347	-418	-131	-138
-----					
Administrative expenses	6	-1,225	-1,519	-401	-498
-----					
Other expenses		-43	-29	-19	-11
-----					
Gain on sale of subsidiaries		0	1	0	0
-----					
Operating profit/loss		457	954	827	-215
-----					
-----					
Finance income and costs	7	-384	-459	-112	-163
-----					
Net profit/loss		73	495	715	-378
-----					
-----					
Net profit/loss for the period		73	495	715	-378
-----					
attributable to owners of the parent	8	73	500	715	-373
-----					
attributable to non-controlling		0	-5	0	-5
-----					



interests				
<hr/>				
Total comprehensive income/expense for the period	73	495	715	-378
<hr/>				
attributable to owners of the parent	73	500	715	-378
<hr/>				
attributable to non-controlling interests	0	-5	0	0
<hr/>				
<hr/>				
Earnings per share (in euros)	8			
<hr/>				
- basic	0.01	0.08	0.11	-0.06
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- diluted	0.01	0.07	0.10	-0.05
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#### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	30 Sept 2017	31 December 2016
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In thousands of euros			
<hr/>			
Cash and cash equivalents		1,158	845
<hr/>			
Receivables and prepayments	9	691	470
<hr/>			
Inventories	10	14,349	14,593
<hr/>			
Total current assets		16,198	15,908
<hr/>			
<hr/>			
Receivables and prepayments	9	11	11
<hr/>			
Investments		23	0
<hr/>			
Investment property	11	11,177	10,835
<hr/>			
Property, plant and equipment		701	718
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Intangible assets		276	248
Total non-current assets		12,188	11,812
TOTAL ASSETS		28,386	27,720
Loans and borrowings	12	12,993	9,372
Payables and deferred income	13	5,299	4,369
Provisions		44	108
Total current liabilities		18,336	13,849
Loans and borrowings	12	1,057	4,886
Total non-current liabilities		1,057	4,886
TOTAL LIABILITIES		19,393	18,735
Share capital		4,555	4,555
Additional paid-in capital		292	292
Statutory capital reserve		2,011	2,011
Other reserves	8	52	52
Retained earnings		2,083	2,075
Total equity attributable to owners of the parent		8,993	8,985
Equity attributable to non-controlling interests		0	0
TOTAL EQUITY		8,993	8,985
TOTAL LIABILITIES AND EQUITY		28,386	27,720



CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	9 months 2017	9 months 2016	Q3 2017	Q3 2016
-----					
In thousands of euros					
		-----		-----	
Cash receipts from customers		7,436	12,282	3,795	2,647
-----					
Cash paid to suppliers		-8,130	-7,133	-1,859	-2,948
-----					
Other taxes paid and recovered (net)		-548	-1,627	-650	-478
-----					
Cash paid to employees		-703	-894	-243	-258
-----					
Other cash payments and receipts related to operating activities (net)		-278	-73	-290	-11
-----					
NET CASH FROM/USED IN OPERATING ACTIVITIES		-2,223	2,555	753	-1,048
-----					
Payments made on purchase of tangible and intangible assets		-74	-81	-26	-7
-----					
Payments made on purchase and development of investment property	11	-346	0	-15	0
-----					
Proceeds from sale of a subsidiary		0	1	0	0
-----					
Payments made on purchase of a subsidiary		0	-1,890	0	-1,050
-----					
Loans provided		-7	0	0	0
-----					
Repayment of loans provided		2	0	2	0
-----					
Other receipts related to investing activities		23	0	23	0
-----					
Other payments related to investing activities		-23	-3	-15	0
-----					
NET CASH USED IN INVESTING ACTIVITIES		-425	-1,973	-31	-1,057
-----					
Proceeds from loans received	12	5,202	3,285	1,026	2,214



Settlement of loans and borrowings	12	-1,456	-3,378	-1,117	-380
Interest paid		-616	-621	-165	-230
Dividends paid		-65	-61	0	0
Other payments related to financing activities		-104	-138	-60	-10
NET CASH FROM/USED IN FINANCING ACTIVITIES		2,961	-913	-316	1,594

NET CASH FLOW		313	-331	406	-511
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Cash and cash equivalents at beginning of period		845	745	752	925
Increase in cash and cash equivalents		313	-331	406	-511
Cash and cash equivalents at the end of period		1,158	414	1,158	414

#### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Equity attributable to owners of the parent						Non-controlling interests	Total equity
Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total		
In thousands of euros							
Balance as of 31	4,282	292	2,011	298	2,656	9,539	91 9,630



December  
2015

Dividends paid	0	0	0	0	-61	-61	0	-61
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Change in non-controlling interest	0	0	0	0	0	0	-77	-77
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Total comprehensive income for the period	0	0	0	0	500	500	-5	495
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Balance as at 30 September 2016	4,282	292	2,011	298	3,095	9,978	9	9,987
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Balance as of 31 December 2016	4,555	292	2,011	52	2,075	8,985	0	8,985
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Dividends paid	0	0	0	0	-65	-65	0	-65
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Total comprehensive income for the period	0	0	0	0	73	73	0	73
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Balance as of 30 September 2017	4,555	292	2,011	52	2,083	8,993	0	8,993
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