Arco Vara AS
Annual Report 2021

Consolidated annual report

(Translation of the Estonian original)

ARCO VARA AS

Beginning of financial year:	1 January 2021
End of financial year:	31 December 2021
Registry number:	10261718
Address:	Rotermanni street 10 10111, Tallinn Republic of Estonia
Telephone:	+372 6 144 630
E-mail:	info@arcovara.com
Corporate website:	www.arcovara.com
Core activities:	Construction of residential and non-residential buildings (EMTAK 41201) Rental and operating of own or leased real estate (EMTAK 6820)
Supervisory board:	Tarmo Sild, Steven Yaroslav Gorelik, Kert Keskpaik, Hillar-Peeter Luitsalu, Allar Niinepuu
Management board:	Miko-Ove Niinemäe
Auditor:	KPMG Baltics OÜ

Company's consolidated financial statements in pdf-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (Link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100034653/reports)

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MANAGEMENT REPORT

Group CEO's overview

In the field of real estate that became volatile in 2021, Arco Vara's collective was able to secure more than 40,000 m^2 of new development volumes which will provide the Company with a solid foundation for the next five years. We also met the set targets with issuing new shares and ongoing project's sales volumes. In addition, in light of the war-related threats, Arco Vara has not suspended any development projects which means that we will continue to provide and build homes, seeing that there is less supply than demand, regardless of the military activity in Ukraine.

The most substantial change in the Arco Vara Group is the establishment of the construction company Arco Tarc of which team commenced the Kodulahe Rannakalda project in January this year. The main reason for the establishment of the construction company was the long-term foundation mentioned above, where we wish to be the managers of the time frame of our construction processes to achieve a successful development. The sale process on the Rannakalda area has started at the time of publishing the annual report and 30% of the total number of apartments have already been pre-sold or booked.

In Kodulahe Quarter, which is the largest on-sale project by Arco Vara, in 2021 it was possible to pre-sell 100% of homes at Pagi 3 and Pagi 5. The construction partner of the project has managed to secure important deliveries, thanks to which the completion of the buildings is on schedule and the delivery of the houses commences already within two months.

The main tasks of the Bulgarian team so far are the design of the Botanica Lozen Residences project and securing the rental yield of Madrid BLVD. Madrid BLVD as of today has a single office space of approximately 800 m^2 available for lease. The most important task in Bulgaria is to achieve 100% occupancy with the tenants of Madrid BLVD which is the main challenge in the cooled commercial space market. The Bulgarian team is also looking for new properties in order to create a lasting foundation for development in Sofia. As the commercial real estate rental market is not Arco Vara's core business, the Group is ready to sell the Madrid BLVD building and use the vacated equity to acquire new land upon reaching a suitable agreement.

The Botanica Lozen Residences project has attracted strong local interest, the materials of which can be found at www.botanicalozen.bg. The sale process started with making pre-reservations as plans to reach pre-sale agreements are after signing the construction contract in order to avoid selling houses at a loss. The start of construction is planned for the Q3 of this year.

Challenges in 2022 are the risk of construction price and inflation. The first of these we can control in the form of effective action by the Arco Tarc team which is chiefly affected by achieving favourable agreements with material suppliers. In order to mitigate the risk of inflation, we apply the right to slightly increase the sale price of real estate when reaching certain HICP values in the case of homes that have been sold long in advance.

The impact of the war in Ukraine on the construction materials and labour markets cannot be reliably predicted. For the first time in decades, the supply difficulty of materials is perceived as one of the developer's greatest entrepreneurial risks. We have purchased majority of steel in advance for our ongoing projects, and we also keep the prices and availability of other materials in focus.

Fighting macroeconomic impacts is the battlefield of 2022 of Arco Vara, where our motivated team sees new but exceedable challenges.

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General information

Since 2021, Arco Vara AS has a patent company and therefore Arco Vara AS is part of the OÜ ALARMO KAPITAL concern from 2021.

Arco Vara AS (hereafter 'the Company') and subsidiaries 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 main activity of the Group is the development of complete living environments and related commercial real estate. In the development of the living environment, the completed homes are sold to the final consumer. The focus of the group is on the development of residential real estate - new commercial real estate will only be developed if it is required by law as a prerequisite for the construction of residential immovables. From previous activities, the group owns commercial real estate assets that generate rental income

The Group itself no longer offers real estate brokerage and appraisal services, but in Estonia, Latvia and Bulgaria, these services continue to be provided under the trademarks of Arco Vara through license agreements, from which the Group earns license fees.

Vision and mission

Arco Vara's vision:

- We are the most people-oriented real estate company.
- We know real estate best.
- We offer homes with the best comfort of use.

Arco Vara's mission is to create high-quality real estate and well thought-through living environments.

Scope of consolidation

As of 31 December 2021, the Group consisted of 14 companies, which is three less than on 31 December 2020.

Significant subsidiaries as of 31 December 2021

Company name	Location	Share capital (nominal value)	Equity balance on 31 December 2021	The Group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	3,265	100%
Botanica Lozen EOOD	Bulgaria	2,931	1,900	100%
Iztok Parkside EOOD	Bulgaria	1,433	2,220	100%
Kerberon OÜ	Estonia	5	1,906	100%
Kodukalda OÜ	Estonia	3	557	100%
Kodulahe OÜ	Estonia	3	3,476	100%
Kolde OÜ	Estonia	28	138	100%

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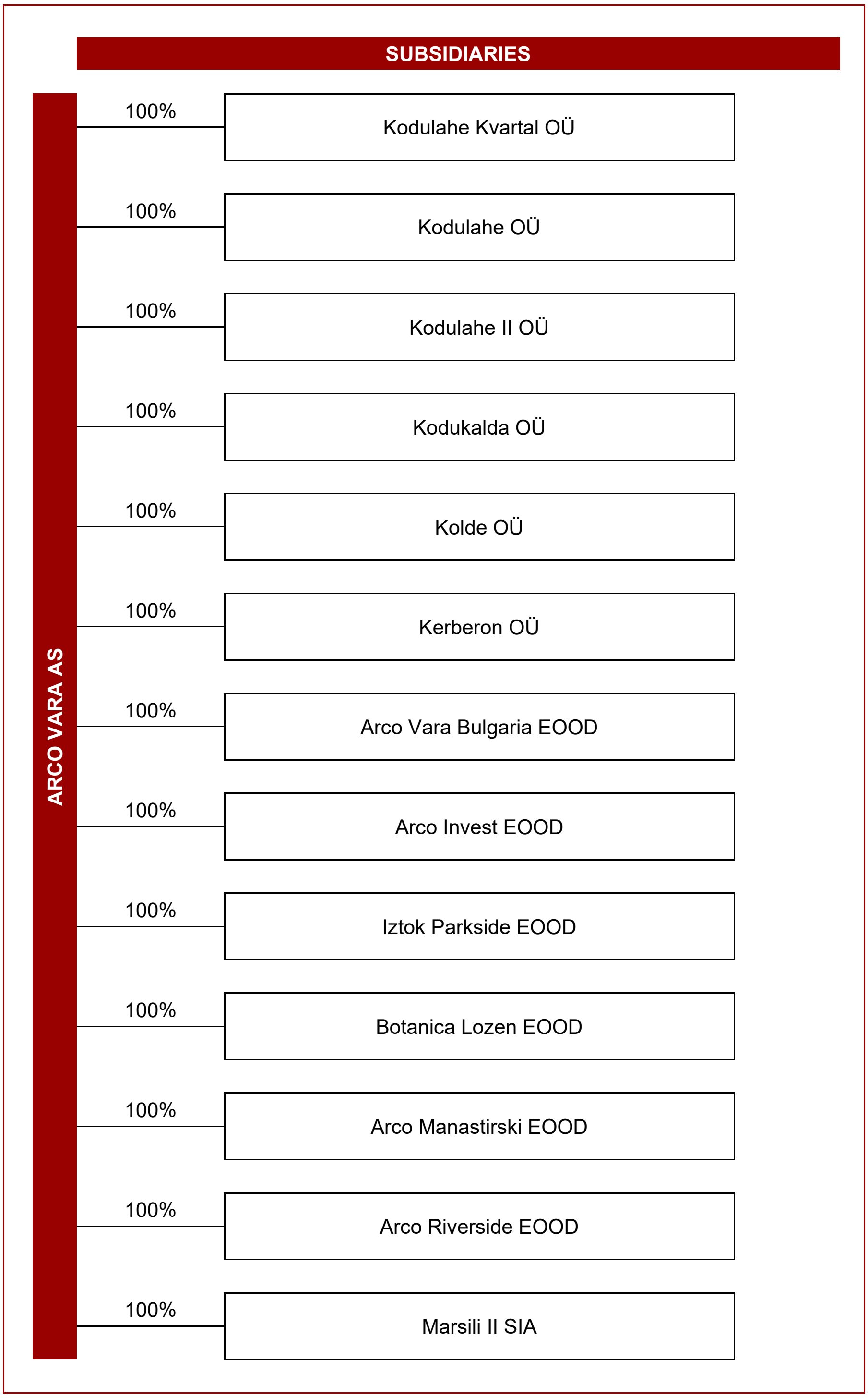
Group structure as of 31 December 2021



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Key performance indicators

- In 2021, the Group's revenue was 11,613 thousand euros, which is 17% less than the revenue of 14,056 thousand euros in 2020.
- In 2021, the Group's operating profit (=EBIT) was 2,569 thousand euros and net profit 2,071 thousand euros. In 2020, the Group made operating profit of 1,449 thousand and net profit of 1,012 thousand euros.
- In 2021, 63 apartments and two commercial spaces were sold in the development projects of the Group (in 2020: 81 apartments and one land plot in Latvia).
- In 2021, the Group's debt burden (net loans) increased by 822 euros up to the level of 9,321 thousand euros as of 31 December 2021. As of 31 December 2021, the weighted average annual interest rate of interest-bearing liabilities was 5.2%, which is 0.4% higher than on 31 December 2020.

Key financial indicators

	2021	2020
In thousands of euros		
Revenue	**11,613**	14,056
Operating profit (EBIT)	**2,569**	1,449
Finance income and expense	-390	-437
Profit before tax	**2,179**	1,012
Income tax	-108	0
Net profit	**2,071**	**1,012**
Cash flows from/used in operating activities	-2,720	-1,042
Cash flows used in investing activities	-5	-295
Cash flows from/used in financing activities	2,388	2,667
Net cash flows	**-337**	**1,330**
Cash and cash equivalents at beginning of period	2,200	870
Cash and cash equivalents at end of period	1,863	2,200
Total assets at the end of period	31,514	28,231
Invested capital at the end of period	29,146	24,923
Net loans at the end of period	9,321	8,499
Equity at the end of period	17,962	14,224

Revenue and net profit/loss from operations

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	**Total 2019**	Q1 2020	Q2 2020	Q3 2020	Q4 2020	**Total 2020**	Q1 2021	Q2 2021	Q3 2021	Q4 2021	**Total 2021**
In millions of euros															
Revenue	1.1	0.7	0.4	10.9	**13.1**	2.1	1.0	0.6	10.3	**14.0**	9.2	1.5	0.6	0.3	**11.6**
Net profit/loss	-0.1	-0.2	-0.2	0.9	**0.4**	0.0	-0.1	-0.2	1.3	**1.0**	1.7	0.5	0.2	-0.3	**2.1**

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Main ratios

As of 31 December	2021	2020
In thousands of euros		
Earnings per share, EPS (in euros)	0.22	0.11
Diluted earnings per share (in euros)	0.22	0.11
EBITDA per share (in euros)	0.28	0.17
ROIC (rolling, four quarters)	8.0%	3.8%
ROE (rolling, four quarters)	12.9%	7.6%
ROA (rolling, four quarters)	7.2%	3.4%
Equity ratio	57.0%	50.4%
Current ratio	2.54	2.73
Quick ratio	0.66	0.52
Financial leverage	1.75	1.98
Average loan term (in years)	2.0	2.5
Average annual interest rate of loans	5.2%	4.8%
Number of staff, end of period	13	11

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)
EBITDA per share = operating profit + depreciation and amortisation / weighted average number of ordinary shares outstanding during the period
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)
Gross profit margin = gross profit / revenue
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 11,613 thousand euros in 2021 (in 2020: 14,056 thousand euros), including revenue from the sale of properties in the Group's own development projects in the amount of 10,478 thousand euros (in 2020: 13,129 thousand euros).

Most of the other revenue consists of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 810 thousand euros in 2021 (in 2020: 614 thousand euros). In 2020, Covid-19 brought changes in the economic situation of tenants. By the time of publishing the present report, one office space was vacant, but all commercial spaces, together with parking places, were rented out. The free office space makes 11.7% of the rented office and retail area.

In 2020, construction finished in Merimetsa area in Stage III of Kodulahe project, a residential building with 50 apartments at Soodi 4. All apartments were sold in 2021 and the house has the usage permit.

The construction of buildings in Stages IV-V of Kodulahe is nearing completion. Two 36-apartment residential buildings at Pagi 3 and Pagi 5 in Merimetsa are under construction. Construction has progressed according to plan. The apartment buildings will reach the stage of final sales in summer 2022. All 72 apartments have been presold.

The construction of the Stage VI of Kodulahe project at Lammi 8 started in February 2022 by Arco Vara's own construction company Arco Tarc OÜ. The plan is to build a pavilion, 4 commercial areas and 108 apartments, out of which many have sea view. The apartment buildings will become ready in about 2 years after the construction begins. Apartment sales also commenced in February 2022. As at the date of publishing the annual report, 24 apartments out of the 108 had been presold. The company is limiting the number of apartments to be presold, in order to respond to the effects of inflation in the course of the development as necessary.

A subsidiary of Arco Vara, Aktsiaselts Kolde, signed an agreement for land acquisition beside Lake Harku, address Paldiski road 124b, Tallinn. More than 35,000 m2 of residential and commercial real estate (GBA) is planned for development. The expected development period is 6 years with the start of construction planned for 2023. The detailed planning is in process.

In Q2 2021, sales on the apartments of Oa street in Tartu ended, where 4 smaller apartment buildings with a total of 30 apartments were built under the Kodukalda project name. In 2021, Kodukalda houses also received a usage permit.

In Iztok Parkside project in Sofia, the majority of final sales of apartments started in December 2020, after receiving a usage permit. The last apartment was sold in April 2021. As the apartments were handed over a year later than promised due to

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bureaucratic obstacles, 2 clients want compensation in the total amount of 21 thousand euros. A provision has been prepared for the claim.

The last vision of the Botanica Lozen project foresees construction of 54 homes (houses) in three stages. The expected start time of construction is the autumn of 2022, when the construction of the first 16 buildings will start. Minimum construction period is 2 years.

As of 31 December 2021, 4 Marsili residential plots remained unsold in Latvia, one of which has found an owner as at the date of publishing the report. One plot was also sold in Latvia in 2020.

Summary table of Arco Vara's active projects as of 31 December 2021

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
Marsili residential plots	Marsili, near Riga	Residential plots	S5	6,153	-	4
Kodulahe, Stages 4-5	Pagi 3 and 5, Tallinn	Apartments	S4	7,383	4,774	72
Kodulahe, Rannakalda	Lammi 8, Tallinn	Apartments/ commercial spaces	S3	9,525	8,893	113
Kodulahe, Stage 7	Soodi 6, Tallinn	Apartments	S1	5,444	<6,500>	<75>
Harku lake development	Paldiski road 124b, Tallinn	Apartments	S2	69,506	<37,000>	<400>
Botanica Lozen	Lozen, near Sofia	Houses	S3	47,450	<16,000>	<54>

Note: Values presented between < > sign represent future target values for projects where the building rights or the design have not been finished 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 bank.

Description of stages
S1: Land plot acquired
S2: Building rights procedure
S3: Design and preparation works
S4: Construction
S5: Marketing and sales
S6: Property management and/or lease

People

As of 31 December 2021, 13 people worked for the Group (11 as of 31 December 2020). Employee remuneration expenses amounted to 699 thousand euros in 2021 (in 2020: 468 thousand euros).

The remuneration of the member of the management board / CEO of the Arco Vara AS including social security charges amounted to 297 thousand euros in 2021 (89 thousand euros in 2020). Remuneration for the members of the Group's supervisory board was 24 thousand euros in 2021 and 18 thousand euros in 2020.

The Management Board

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

Miko-Ove Niinemäe graduated from Tallinn University of Technology, Faculty of Engineering, M.Sc. in 2018.
Work experience: 2012-2017 project sales QLS Eesti OÜ; 2017-2019 project manager Kodulahe OÜ.
Miko-Ove Niinemäe is the 2015 and 2016 Estonian champion in the car rally class EMV3.
Miko-Ove Niinemäe is a member of the board of Ovecap OÜ.

The Supervisory Board

From April 30, 2020 to January 12, 2021, the Supervisory Board of Arco Vara AS consisted of Tarmo Sild (Chairman of the Supervisory Board), Kert Keskpaik, Hillar-Peeter Luitsalu, Allar Niinepuu, Rait Riim and Steven Yaroslav Gorelik. As of January 12, 2021, the Supervisory Board has 5 members: Tarmo Sild (Chairman of the Supervisory Board), Kert Keskpaik, Hillar-Peeter Luitsalu, Allar Niinepuu and Steven Yaroslav Gorelik.

Tarmo Sild

Tarmo Sild graduated from the University of Tartu, faculty of law B.A. in 1998, with further studies in University of Helsinki, faculty of law in 1997-1998 and in Vrije Universiteit Brussel: PILC, LL.M (cum laude) in 1999. Tarmo Sild was the CEO of Arco Vara AS from 2012 until 2020. Prior to joining Arco Vara, he was a sworn advocate and a member of the board of the law firm HETA from 1998 to 2003; from 2003 to 2012 a founder, sworn advocate, board member, advisor at the law firm LEXTAL; from 2008 a founder and member of the Management Board of AS IuteCredit Europe.

In addition, Tarmo Sild is also a member of the management board of the following companies and non-profit organizations outside Arco Vara group: Aia Tänav OÜ, OÜ Alarmo Kapital, OÜ Catsus, Eesti Kaugpüüdjate Liit, Eesti Porsche Klubi, AS IuteCredit Europe.

Steven Yaroslav Gorelik

Mr Gorelik has graduated from Columbia University and Carnegie Mellon University. He joined Firebird Private Equity Advisors LLC in 2005 and currently serves there as portfolio manager. Mr Gorelik also holds CFA (Chartered Financial

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Analyst) charter. Mr Gorelik is member of supervisory board of Farmsintez OAO (LIFE.MM) and Teliani Valley (WINE.GG), member of the management board of EPhaG AS.

Kert Keskpaik

Mr Keskpaik graduated from the Tallinn Technical University with a degree in business administration in 2007. Mr Keskpaik is member of management board of OÜ K Vara and founder of OÜ A&K Vara. His companies have been active Tallinn Stock Exchange investors since 2000. In 2001, Mr Keskpaik founded a skating sports club Spordiklubi Albe Team where he serves as member of management board and has won multiple Estonian championships in speed skating and inline skating. Mr. Keskpaik is also member of management board of Mittetulundusühing Rulluisufestival, Uisuklubi Albe, Allokatsioon OÜ, Boost Yourself SPV1 OÜ, K24 Invest OÜ, Kolde Invest OÜ, Kusjuures OÜ, Lead Invest OÜ, Merimetsa Invest OÜ, One Eleven OÜ, Sporditurg OÜ, Silverticket SPV1 OÜ, Tagakarman OÜ and Tripalium OÜ and member of supervisory board of Arco Transport AS.

Hillar-Peeter Luitsalu

Mr Luitsalu graduated from the University of Tartu, faculty of law in 1994. In 1993, he joined Arco Vara and since then has been active in different management bodies of Arco Vara group companies. In 1999-2004, Mr Luitsalu was a member of Arco Vara management board. Since 2005, Mr Luitsalu has been member of Arco Vara supervisory board (since 2012, chairman of supervisory board).

Mr Luitsalu is a member of management board of the following companies and non-profit organizations outside Arco Vara group: OÜ HM Investeeringud, Loodusvarade Halduse Mittetulundusühing, Noah Villas OÜ, TIK Spordimaja OÜ and OÜ Silverpool. He is also a member of the council of the Tallinn English College Foundation.

Allar Niinepuu

Mr Niinepuu graduated from the Estonian Center of Maritime Education as shipmaster in 1992. After two years' work in Estonian Shipping Company, he established his first company AS Kavass, which was initially involved in shipping consumables business and thereafter acquired and operated local supermarkets in Tallinn. Mr Niinepuu has served as member of Supervisory Board of Arco Vara AS since 2013. He is also member of management board of OÜ Alarmo Kapital, GEST Invest Grupp OÜ and OÜ Kavass and chairman of supervisory board of AS IuteCredit Europe.

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 2021, in Tallinn and Sofia), (ii) monitors current demand and supply in its home markets and (iii) makes efforts to narrow the time between making initial investment and selling the final product – by signing presale agreements with clients, acquiring land without no or delayed equity investment, using different project financing options that don't involve equity.

Credit risk

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

Liquidity and interest rate risks

The base currency of all of the Group's bank loan agreements is euro and the base interest rate is 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. The Group's interest-bearing liabilities have increased by 485 thousand euros in 2021. On 31 December 2021, the Group's interest-bearing liabilities amounted to 11,184 thousand euros, out of which 6,043 thousand euros is due within the next 12 months (see also note 18). Group's cash and cash equivalents totalled 1,863 thousand euros as of 31 December 2021 (2,200 thousand euros as of on 31 December 2020). The Group's weighted average loan interest rate was 5.2% as of 31 December 2021. This is an increase by 0.4 percentage points compared to the end of year 2020. The reason for the increase in the average interest rate is the decrease in development loans with low interest rates in Bulgaria in 2021.

Currency risk

Purchase and sales contracts of provided services are mostly signed in local currencies: euros (EUR) or Bulgarian lev (BGN). Real estate sales are mostly nominated in euros, as a result of which the Group's assets and liabilities structure does not contain 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.

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Social responsibility

The main business of Arco Vara is real estate development.

The most important aspect is that real estate products developed by the Group will have an effect on the look and usage options of future cities. Therefore, we always consider, beside business aspects, a broader impact of our activities and expect to achieve maximum positive result in the following areas:

- detail planning and design of living environment (not only design of an individual building);
- architectural solution as a format that has the most long-term impact on people;
- room planning;
- technological shift, which means that each new development product will be a seedbed for some new technology; we do not make the same things over and over again;
- construction quality and optimization of operating costs, which means that our interest is to develop products with long-lasting value of use that will last from generation to generation.

Arco Vara pays special attention to the well-being of its employees and improvement of working conditions. We inspire and encourage our people to volunteer in charity projects. In our everyday work, we follow sustainability principles by using digital options – digital signature, digital archiving and intra-office data processing without physical data carriers.

Shares and shareholders

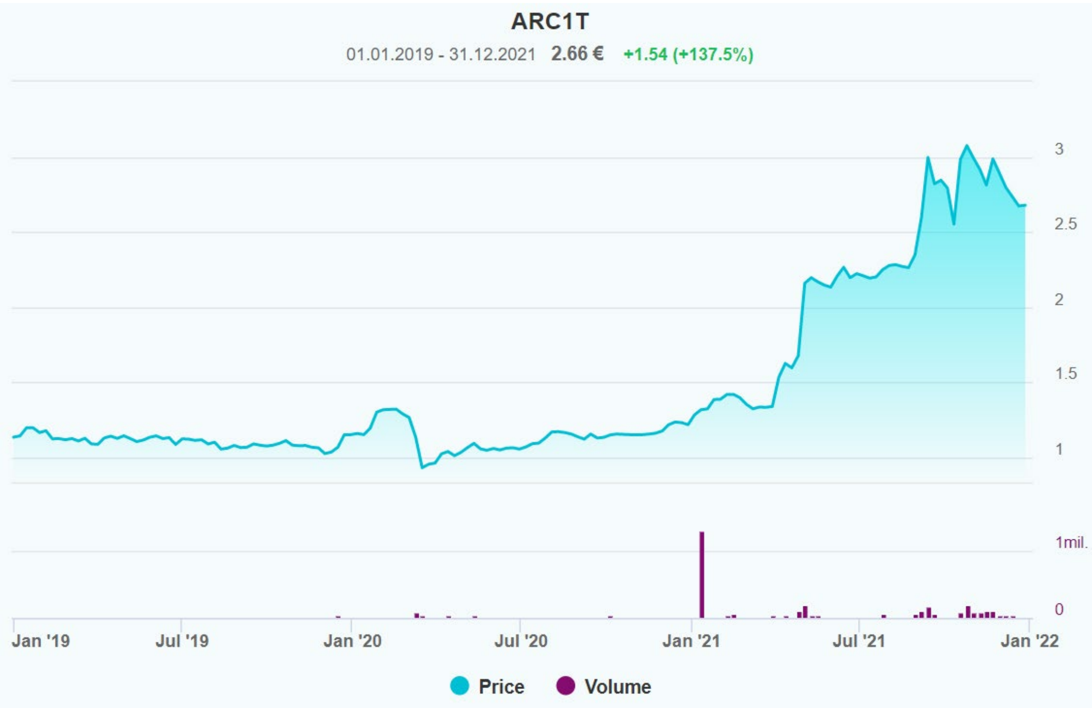
Share price

Arco Vara AS has issued a total of 10,388,367 ordinary shares with nominal value of 0.7 euros per share. The shares (ARC1T, ISIN EE3100034653) are freely traded on NASDAQ Tallinn stock exchange, including 1,000,000 shares of the 2021 issue which are tradable from 28 October 2021.

The share price closed at 2.66 euros on 31 December 2021; the closing price was 1.21 euros on 31 December 2020. During the period, the highest traded price per share was 3.30 euros and the lowest price 1.21 euros. As of 31 December 2021, market capitalization of shares amounted to 27,633 thousand euros and P/B (price to book value) ratio was 1.54 (31 December 2020: 10,888 thousand euros and 0.77, respectively). P/E (price to earnings) ratio of the share was 13.34 on 31 December 2021, 10.76 on 31 December 2020.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share during the last three years and 12 months of 2021.

Performance of Arco Vara's shares from 1 January 2019 until 31 December 2021



Source: https://nasdaqbaltic.com 4 of January 2022

On January 11, 2021, LHV Pensioninfond L transferred 869,587, LHV Pensionifond XL 365,619, LHV Pensionifond M 51,240 and LHV Täiendav Pensionifond 10,391, in total 1,296,837 shares of Arco Vara AS held by them to OÜ Alarmo Kapital. The transferred shares stood for 14.41% of total Arco Vara AS shares.

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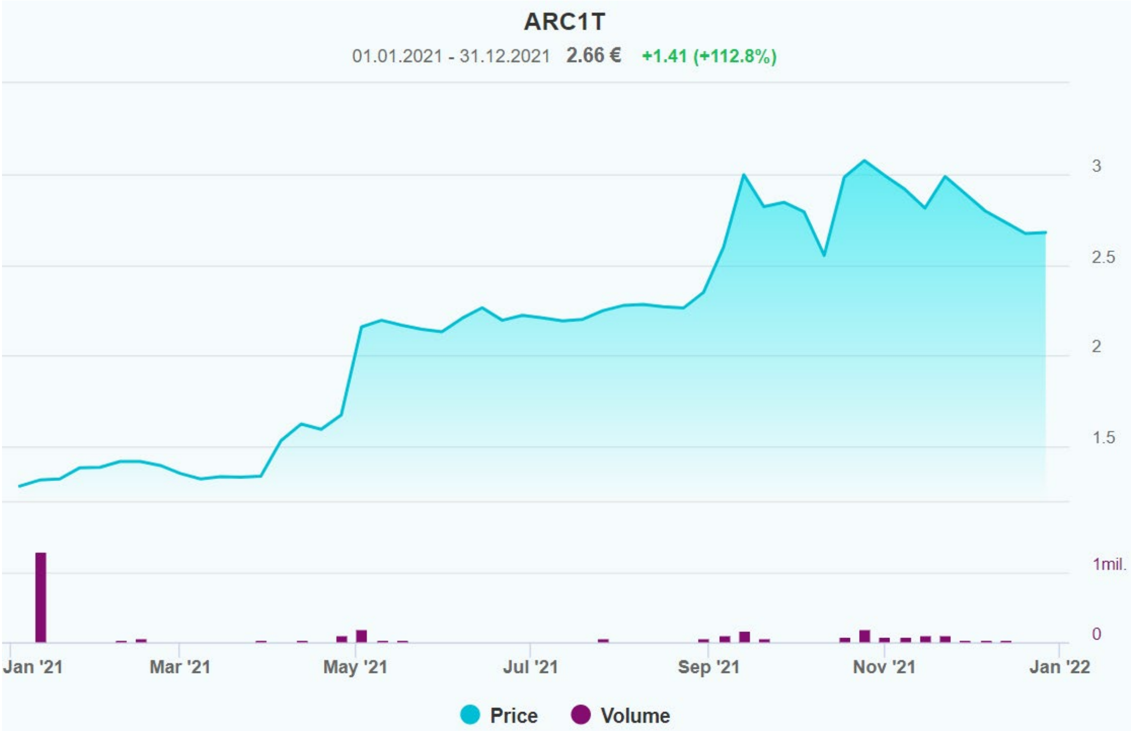
Performance of Arco Vara's shares in 2021



Source: https://nasdaqbaltic.com 4 January 2022

Changes in Arco Vara share price compared with the benchmark index OMX Tallinn in 2021

Source: https://nasdaqbaltic.com 4 January 2022

Index/equity	31 Dec 2021	31 Dec 2020	+/-%
-- OMX Tallinn GI	2,001.03	1,343.72	+48.92
-- ARC1T	2.66	1.21	+119.83

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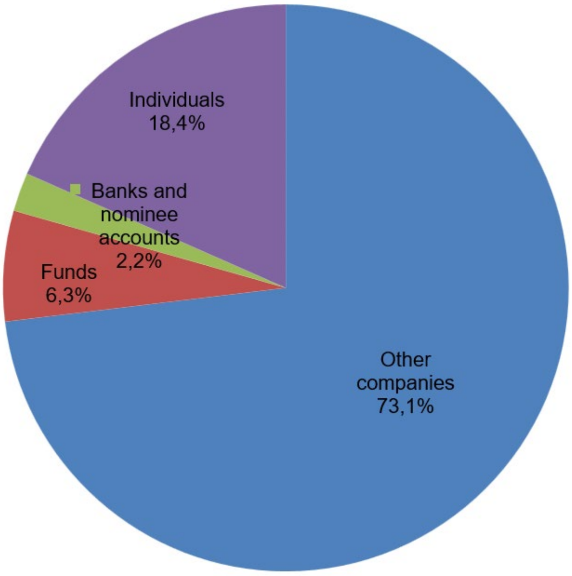
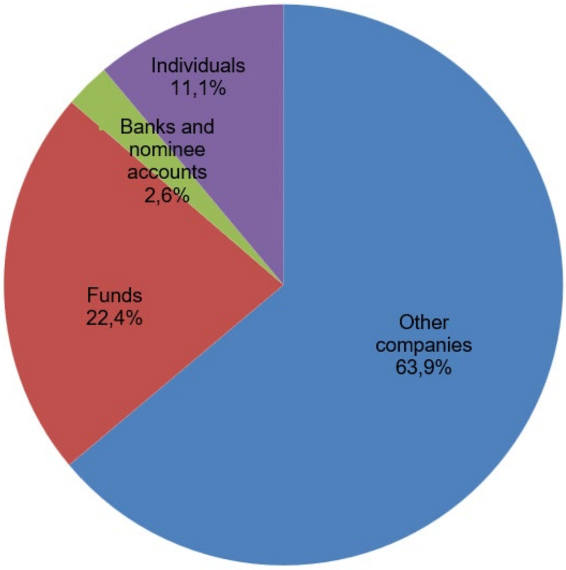
Structure of shareholders

As of 31 December 2021, Arco Vara AS had 9,163 shareholders (on 31 December 2020: 1,475), including 8,286 individuals as shareholders (on 31 December 2020: 1,311 individuals) who jointly owned 18.4% (on 31 December 2020: 11.1%) of the company. Complete shareholder structures are presented on the following diagrams:

Ownership structure as of 31 December 2021



Ownership structure as of 31 December 2020



Major shareholders on 31 December 2021

Name	No of shares	Share, %
Alarmo Kapital OÜ	6,338,531	61.0%
FIREBIRD REPUBLICS FUND LTD	337,529	3.2%
HM Investeeringud OÜ	330,505	3.2%
FIREBIRD AVRORA FUND, LTD.	180,559	1.7%
Marko Teimann	160,663	1.5%
K VARA OÜ	147,659	1.4%
FIREBIRD FUND L.P.	134,060	1.3%
Aia Tänav OÜ	113,000	1.1%
Olegs Radcenko	62,535	0.6%
Sander Karu	60,887	0.6%
Other shareholders	2,522,439	24.4%
Total	**10,388,367**	**100.0%**

Holdings of management and supervisory board members on 31 December 2021

Name	Position	No of shares	Share, %
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	chairman/member of supervisory board	6,338,531	61,0%
Tarmo Sild (Aia Tänav OÜ)	chairman of supervisory board	116,697	1.1%
Allar Niinepuu (OÜ Kavass)	member of supervisory board	10,000	0.1%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	member of supervisory board	369,259	3.6%
Kert Keskpaik (privately; through K Vara OÜ and One Eleven OÜ)	member of supervisory board	211,467	2.0%
Steven Yaroslav Gorelik[1]	member of supervisory board	0	-
Miko-Ove Niinemäe	member of management board	11,000	0.1%
Total		**7,056,954**	**67.9%**

[1] - 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 652,148 shares (total 6.2% interest).

According to the articles of association of Arco Vara AS, the shareholders have no restrictions for transferring or encumbering their shares.

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CORPORATE GOVERNANCE REPORT

The shares of Arco Vara AS (the “Company”) were listed in the main list of the Tallinn Stock Exchange on 21 June 2007. As a listed company, Arco Vara AS observes the laws and regulations that are effective in Estonia, the rules and recommendations of NASDAQ OMX Tallinn Stock Exchange, and its own core values.

Together with the annual report, the Company discloses its corporate governance report in which the Management confirms the Company’s compliance with the Corporate Governance Recommendations (“the CGR”). Any instances of non-compliance with the CGR are disclosed and the reasons for non-compliance are explained. The annual report has been prepared in accordance with the guidance of the CGR. The current corporate governance report is a separate section of the management report, which is part of the Company’s annual report.

General meeting

The Company’s highest governing body is the general meeting of its shareholders. The competence of the general meeting and the procedure for convening general meetings and passing resolutions are governed by the Company’s articles of association and the Commercial Code.

In 2021, one annual general meeting and one extraordinary general meeting took place. In addition, the general meeting adopted decisions on 10 September 2021 without calling a meeting.

<u>Annual general meeting</u>

Notice of the annual general meeting was given in the information system of the Tallinn Stock Exchange and on the Company’s website on 21 April 2021. The notice was published in the national daily newspaper *Eesti Päevaleht* on 22 April 2021. The notice included information on where materials concerning the general meeting had been made available and where shareholders could submit their questions. The information was published in Estonian and in English. The convened general meeting took place on 14 May 2021 from 9:30 a.m. until 9:45 a.m. in Tallinn at Maakri 19/1 conference room.

The proposals of the Supervisory Board were published in the notice of the annual general meeting. The agenda of the annual general meeting included the following:

- Approval of the annual report for 2020
- Distribution of profit and dividend payment
- Approval of dividend policy
- Increase of share capital.

The following decisions were adopted at the annual general meeting:

- To approve the annual report of Arco Vara AS for 2020.
- To transfer the net profit of the financial year in the amount of 1,012 thousand euros to retained earnings on 31.12.2020.
- To pay dividends to the shareholders 0.06 euros per share. 390,000 new shares to be issued will also be taken into account when paying the dividend. The dividend will be paid out in 4 instalments as follows:
    - 0.03 euros per share will be paid to the shareholders on 15 June 2021 by transfer to the shareholder's bank account. The list of shareholders entitled to respective dividends (record date) shall be fixed on 8 June 2021.
    - 0.01 euros per share will be paid to the shareholders on 15 September 2021 by transfer to the shareholder's bank account. The respective dividend record date is on 8 September 2021.
    - 0.01 euros per share will be paid to the shareholders on 15 December 2021 by transfer to the shareholder's bank account. The respective dividend record date is on 8 December 2021.
    - 0.01 euros per share will be paid to the shareholders on 15 March 2022 by transfer to the shareholder's bank account. The respective dividend record date is on 8 March 2022.
- To approve the dividend policy of Arco Vara AS until the end of 2023. As of the second quarter of 2021, a dividend of at least 0.01 euros per share will be paid to shareholders in each quarter and additional pay out based on audited net profit of the previous financial year.
- To increase the share capital of Arco Vara AS in accordance with the resolution of the general meeting of 10 May 2016 as follows:
    - To issue 390,000 new ordinary shares with a nominal value of 0.7 euros per share.
    - The issue price of one new share is 0.7 euros.
    - The new amount of the share capital is 6,571,856.90 euros.
    - According to the terms and conditions of the convertible bond, issued on the basis of the Management Board Member’s motivation scheme, the new shares are deemed to be subscribed and paid by Tarmo Sild.

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- For the shares, subscribed for in 2019, 273 000 euros have been paid on 17 April 2020 by OÜ Alarmo Kapital to whom Tarmo Sild transferred his right to obtain the shares.
- Existing shareholders will not acquire any rights in relation to the new shares to be issued, including the pre-emptive right to subscribe for the new shares in accordance with § 345 subsection 1 of the Commercial Code.

The meeting was chaired by Hannes Vallikivi. The meeting was attended by 7 shareholders whose votes represented 72.3% of total voting power. The meeting was conducted in Estonian and the chairman of the meeting made sure it was conducted smoothly. The meeting was also attended as a listener by the member of the Management Board of the Company Miko-Ove Niinemäe. Tarmo Sild, the chairman of the Supervisory Board, also participated in the general meeting. The auditor did not attend the meeting.

The voting was carried out by the representatives of ARS Corporate Services OÜ. The voting was organized electronically, with the help of voting devices handed out to the registered participants.

Extraordinary general meeting

Notice of the extraordinary general meeting was given in the information system of the Tallinn Stock Exchange and on the Company's website on 20 July 2021. The notice was published in the national daily newspaper *Eesti Päevaleht* on 21 July 2021. The notice included information on where materials concerning the general meeting had been made available and where shareholders could submit their questions. The information was published in Estonian and in English. The convened general meeting took place on 12 August 2021 from 10:00 a.m. until 10:05 a.m. in Tallinn at Maakri 19/1 conference room.

The proposals of the Supervisory Board were published in the notice of the extraordinary general meeting. The agenda of the extraordinary general meeting included the following:

- Increase of the share capital in relation to the public offering and admission to trading of shares on the main list of the Nasdaq Tallinn Stock Exchange.

The following decisions were adopted at the annual general meeting

- The Company shall issue 1,000,000 shares, each with a nominal value of EUR 0.70, resulting in a new share capital of EUR 700,000 (the valid amount of share capital before the share capital increase is EUR 6,571,856.90).
- The new shares will be paid for with cash contributions. The issue price of the new shares of the Company is EUR 2.25 for each share, of which EUR 0.70 is the nominal value of the share and EUR 1.55 is the share premium.
- The subscription and payment for the new shares shall take place in the period from 25 September 2021 at 10:00 until 15 October 2021 at 16:00 in accordance with the procedure specified in the offering document that will be published before the start of the offering period. The preferential subscription right of the Company's existing shareholders is excluded, the issue is directed to new retail investors who will be preferred in the allocation, however, existing shareholders may also participate in the offering. The shareholders authorise the Company's management board to determine and specify the final number and allocation of the shares among subscribers, taking into account the results of the offer and the terms of the offering of shares, as determined in the offering document.
- The offer of shares is deemed to be oversubscribed if there are more applications for subscription than for subscribing for 1,000,000 shares. In the case of oversubscription, the supervisory board of the Company decides on the distribution and cancellation of the oversubscribed shares.
- If less than 1,000,000 shares have been subscribed, the management board of the Company has the right to extend the subscription period or to cancel the shares that are not subscribed for within the subscription period.
- The issued shares entitle to receive a dividend starting from the end of the subscription period.
- The Company shall submit an application for the listing of all the Company's new shares to be issued and for the admission thereof to trading on the Nasdaq Main List and the shareholders authorise the supervisory board and management board of the Company to perform all acts and enter all contracts and agreements necessary to this end.

The meeting was chaired by CEO Miko-Ove Niinemäe. The meeting was attended by 7 shareholders whose votes represented 69.82% of total voting power. The meeting was conducted in Estonian and the chairman of the meeting made sure it was conducted smoothly. The meeting was also attended by the member of the Supervisory Board of the Company Kert Keskpaik. The auditor did not attend the meeting.

The voting was carried out by the representatives of ARS Corporate Services OÜ. The voting was organized electronically, with the help of voting devices handed out to the registered participants.

Resolution of shareholders adopted without calling a general meeting

Notice of adopting a resolution of shareholders without calling a general meeting was given in the information system of the Tallinn Stock Exchange and on the Company's website on 26 August 2021. The notice was published in the national daily newspaper *Postimees* on 27 August 2021. The notice included information on where materials concerning the resolutions had been made available and where shareholders could submit their questions. The information was published in Estonian and in English. Voting was open from 10 AM on 27 August 2021 until 10 AM on 10 September 2021 (GMT+3). The voting record of the uncalled general meeting was formalised at 10 AM on 10 September 2021 (GMT+3) with the voting results.

The proposals of the Supervisory Board were published in the notice of the extraordinary general meeting. The agenda of the resolution of shareholders included the following:

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- Extension of the public offering period of the Company's shares and consequent amendment of the resolution of the general meeting adopted on 12 August 2021.

With 69.19% of all votes represented by shares of the Company granted in favour of the resolution, the following resolution was adopted:

- The subscription and payment for the new shares will take place between 25 September 2021 at 10:00 and 15 October 2021 at 16:00 in accordance with the procedure specified in the offer document, which will be published before the start of the offer period.

Votes were recorded by the CEO Miko-Ove Niinemäe.

The resolutions, minutes and materials of all general meetings held in 2021 were made available on the Company's website. Information on the agenda items of all annual and extraordinary general meetings as well as questions submitted by the shareholders before the meetings and answers to those questions are available online at least until the information on the next general meeting is published on the Company's website.

Management Board

Since September 04, 2009, the company's management board has had one member at a time. As of April 30, 2020, the company's CEO and the only member of the Management Board is Miko-Ove Niinemäe.

Contract of service has been concluded with the member of the Management Board. The member of the Management Board is not concurrently a member of the Management Board or Supervisory Board of any other listed company.

The contract of service of a member of the management board, entered into with the member of the management board, specifies the rights, obligations and responsibilities of the member of the management board, and also regulates the payment of basic remuneration. The amount of remuneration was agreed taking into account the duties and activities of the member of the Management Board, the current state of business and future directions. According to the contract of service of the member of the Management Board, the amount of the termination payment of the members of the Management Board was up to five months' basic remuneration, if the member of the Management Board is recalled without good reason.

Read more about the CEO's rewarding system in the remuneration report.

Member of the Management Board, Miko-Ove Niinemäe, has informed the company about his activities as a controlling owner or member of the Management Board in the following business and non-profit associations that do not belong to the group:

- Ovecap OÜ.

Under the contract of service, the member of the Management Board has agreed not to breach the prohibition on competition. Holding certain ownership interests and being involved in the governing bodies of other companies does not constitute breach of the prohibition on competition.

Supervisory Board

The Supervisory Board is responsible for planning and organising the operation of the Company and overseeing the activities of the Management Board. Members of the Supervisory Board of the Company are elected by the general meeting.

Under the CGR, half of the members of the Supervisory Board of a listed company have to be independent. In the event of an odd number of members in the Supervisory Board, the number of independent members may be smaller by one. Company's Supervisory Board meets the CGR's requirement regarding independent members of the Supervisory Board. During the reporting periods Steven Yaroslav Gorelik and Kert Keskpaik were independent members of the Supervisory Board.

Since April 30, 2020, the composition of the Supervisory Board was the following: Tarmo Sild, Steven Yaroslav Gorelik, Kert Keskpaik, Hillar-Peeter Luitsalu, Allar Niinepuu and Rait Riim. Starting from February 2021, the members of the new supervisory board were Tarmo Sild, Steven Yaroslav Gorelik, Kert Keskpaik, Hillar-Peeter Luitsalu and Allar Niinepuu.

Members of the Supervisory Board elect the chairman of the Supervisory Board from among themselves. From April 30, 2020, the chairman of the supervisory board is Tarmo Sild.

Since 1 July 2013, the members of the Supervisory Board are paid remuneration in the amount of 500 euros (net amount) for each participated meeting but not more than 1000 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. The chairman of the supervisory board receives an additional 500 euros per month (net amount). Reasonable travel expenses made for participating in the board meetings are also compensated to the members of the supervisory board

In 2021, the Supervisory Board had 4 meetings, which were attended by all Supervisory Board members: Tarmo Sild, Hillar-Peeter Luitsalu, Kert Keskpaik, Allar Niinepuu and Steven Yaroslav Gorelik.

In addition to being members of the Supervisory Board, all members also perform the obligations of an Audit Committee.

The Supervisory Board did not approve any transactions between a member of the Management Board or his affiliated person or a related party and the Company in 2021 nor 2020. No such transactions took place during the year.

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Cooperation of the Management and Supervisory Boards

In line with the Company's articles of association and historical practice, the Management and Supervisory Board cooperate closely. The Management and the Supervisory Board hold joint meetings for discussing matters related to the Company's strategy and exchange information about the Company's strategic development on an ongoing basis. At the meetings, the member of the Management Board informs the Supervisory Board about any deviations from the Company's plans and objectives and the reasons for those deviations. During the period under review, the member of the Management Board attended all meetings of the Supervisory Board.

The members of the Supervisory Board do not take part in everyday management of the Company, but the manager updates the Supervisory Board on a regular basis on important issues regarding planning the operations of the Company and business activities. In addition, the Supervisory Board is able to turn to the manager at any time with additional questions and/or inquiries. In information exchange, all parties observe the rules approved by the Supervisory Board for keeping and disclosing inside information, making transactions with Company's shares and segregating the functions of the Management and Supervisory Board. It has become customary that at the meetings of the Supervisory Board, the manager provides the members of the Supervisory Board an overview of important issues and developments related to the Company.

Dividend policy

General meeting has the right to change the dividend policy. Pursuant to the dividend policy adopted at the general meeting of 14 May 2021, dividends are paid to shareholders starting from the 2nd quarter of 2021 in at least 0.01 euros per share on a quarterly basis and additional dividends are paid based on audited net profit of the previous financial year. This dividend policy remains valid until the end of 2023.

Disclosure of information

Since the Company's shares were listed on the Tallinn Stock Exchange, the Company has disclosed information in accordance with the rules of the Tallinn Stock Exchange, the laws of the Republic of Estonia, relevant EU regulations and the principle that all shareholders should be treated equally.

The Company discloses information in the information system of the Tallinn Stock Exchange and on its website at www.arcovara.com in Estonian and in English. On the website, the information intended for shareholders is in the "Investor Relations" menu. The Company discloses on its website all facts, forecasts and estimates that have been disclosed to financial analysts or other parties. Disclosed information includes inter alia information related to the general meetings and general information about the Company. General and more specific information about the Company can be found in different menus of the corporate website. The information is logically structured and easy to find.

On the website, the Company has posted its financial calendar in Estonian and in English until October 2022, i.e. until publishing the Q3 interim report for 2022.

The Company's website does not include information about shareholder agreements on concerted exercise of shareholder rights because the Company is not aware that such agreements have been concluded.

The Company has not organised presentations to investors and analysts directly before the release of a financial report and has never disclosed inside information or unreleased financial data at meetings with analysts or investors.

Financial reporting and auditing

The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. Quarterly financial statements are prepared in accordance with IAS 34 Interim Financial Reporting and are designed to be read in conjunction with the Company's most recent consolidated annual financial statements. Quarterly financial statements are not audited.

The annual consolidated financial statements of the Company are audited. Annual General Meeting of shareholders appoints the auditor for the next financial year. At the shareholders' meeting on 30 April 2020, KPMG Baltics OÜ was appointed as the Company's auditor for the next two financial years. While choosing the auditor, the Company considers the ratio of the auditing price and quality and also professionalism to be important. In addition, it is important for the Company that the auditor is familiar with the Group's two main home markets – therefore existence of a subsidiary office of the auditing company on these markets is a prerequisite.

For better risk assessment and risk management, the Group entities that have active financial activity prepare a budget for the next financial year. The Group's consolidated budget is approved by the Supervisory Board of the Company. Execution of and adherence to approved budgets is monitored by the Company's CFO.

The Company's CFO ensures the high quality of financial reporting. The consolidated financial statements are prepared using uniform group-wide cross-border financial accounting and reporting software. Consolidation procedures have largely been automated and are performed monthly. Monthly reports of different subsidiaries and separate units are prepared and presented to the managers of corresponding units.

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REMUNERATION REPORT

In 2021, a total of 297 thousand euros of pay together with social tax was calculated for the CEO of Arco Vara AS (in 2020: 89 thousand euros).

Remuneration is paid to the director on the basis of the board member's contract. Pursuant to the board member's employment contract of Miko-Ove Niinemäe who manages Arco Vara AS as of 30 April 2020, the council has established a fixed monthly payment of 4,500 euros (net amount).

Upon leaving work, the director is eligible for a severance compensation of 5 monthly salaries. The severance compensation reserve of 38 thousand euros is stated in full in expenses for 2021.

The objective of the reward system for the director is to motivate the director to expand the development activities of the company while ensuring the profitability of operations for investors. The reward system of the director, in force since 2021, consists of three parts:

1) 1% of audited net profit,
2) 0.25 x (m^2 (gross) of construction volume above ground established in the detailed plan of each new project + m^2 (gross) of construction volume above ground established in a construction permit obtained over the course of the financial year). The board member is also entitled separately to a reward upon establishment of each new detailed plan before acquiring a construction permit, in which case the calculation is based on 0,25 x m^2 (gross) of construction volume above ground established in the detailed plan of each new project;
3) 1.5% of the result of the following operation: difference between market capitalisations of the current and previous financial year + the amount of dividends paid in the financial year (jointly TSR). If the difference between the market capitalisation of the current financial year and the market capitalisation of the previous financial year is negative, i.e., market capitalisation has decreased since the year before, 1.5% is calculated from the amount of dividends paid on the current financial year. TSR is calculated based on the highest market capitalisation calculated for previous periods.

   The parties have established that market capitalisation for start of reward calculations is 12,204,877 euros (1.30 euros x 9,388,367 shares). The maximum price for a share for calculating market capitalisation in 2021 was also set as 2.50 euros. In addition, 2.50 euros is the base threshold for calculating rewards for 2022.

The reward conditions for board members described above are fixed in total expenses of the company and are not related.

The net profit reserve of 2021, amounting to a total of 20 thousand euros, is payable after this annual report is approved by the auditor in April 2022.

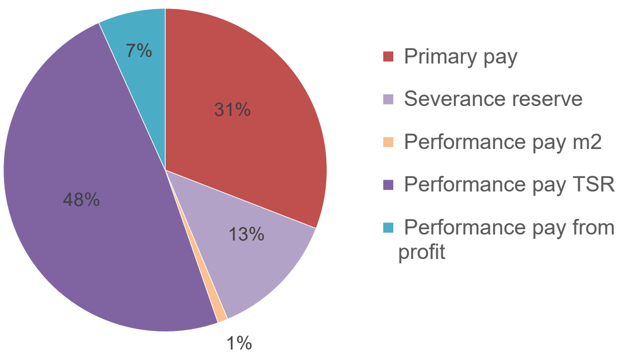
In 2021, the Rannakalda development received the construction permit and an additional remuneration of a total of 3 thousand euros was calculated and paid to the director.

According to the initial agreement, the reward system was to be valid until 31 December 2022. The director forwent the market capitalisation reward available for 2021, amounting to 70 thousand euros (total expenses of the company) on the condition that the currently existing reward system be extended to the end of the current term of office of the director, i.e., until 30 April 2023.

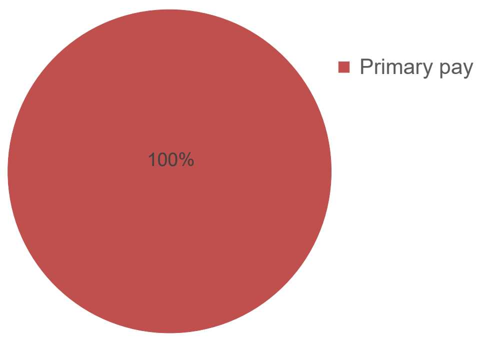
The Arco Vara share ARC1T closed at 2.66 euros at the end of 2021, which is higher than the maximum limit of 2.50 set for 2021 – the share price of 2.50 euros was used to calculate rewards. As of 31 December 2021, Arco Vara had issued 10,388,367 shares, therefore the market capitalisation of base data for the reward for 31 December 2021 was 25,970,917.50 euros.

Considering that 479 thousand euros of dividends were paid to shareholders in 2021, the reward for change in TSR for 2021 was calculated as 214 thousand euros. After an agreement on one-time decrease of the reward by 70 thousand, the reward for 2021 remained at 144 thousand euros, which is 85 thousand euros in net fees, which was paid to the director on the last day of the year.

Management remuneration proportions for 2021:



Management remuneration proportions for 2020:



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The development process of real estate lasts longer than a year, therefore the volume of work and results in the form of profit are not stated in the same year.

	2021	2020	2019	2018	2017
EUR thousand					
Director's pay (gross)	223	67	91	74	77
Average number of employees (without director)	11	13	18	139	125
Average pay for employees (gross)	43	31	23	4	16
Net profit	2,071	1,012	388	-544	785
Net profit per employee (with director)	173	72	21	-4	6

Since 2019, the Estonian and Bulgarian real estate companies were no longer part of the group, hence the large decrease in employees.

The changes are not stable since the profit for a development is stated as at the date of the real right contract for apartments, not on an ongoing basis during preliminary sales or the construction process.

The change in indicators compared to the year before is as follows:

	2021	2020	2019	2018	2017
Director's pay (gross)	233%	-26%	23%	-4%	-25%
Average number of employees (without director)	-15%	-26%	-87%	12%	-14%
Average pay for employees (gross)	40%	34%	439%	-74%	-13%
Net profit	105%	161%	-171%	-169%	-6%
Net profit per employee (with director)	139%	245%	-640%	-162%	9%

In 2017 – 2019, the director of the group was also remunerated via the options programme of the shares in addition to the primary pay, which did not generate direct expenses to the company as the director paid for the nominal values of shares. The option program does not apply to the current member of the Management Board.

The shareholders have not requested a vote at the general assembly on whether the actual remuneration of the leadership is in accordance with the remuneration principles determined by the general assembly. However, the remuneration system and any changes to it must be approved by the Supervisory Board, which also holds a majority shareholding in the shareholders. The manager has not received any remuneration without the approval of the Supervisory Board.

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CHIEF EXECUTIVE OFFICER'S CONFIRMATION OF AND SIGNATURE TO THE MANAGEMENT REPORT

The member of the management board of Arco Vara AS declares and confirms that management report which consists of "Management report", "Corporate governance report" and "Remuneration report" is an integral part of the annual report and gives a true and fair view of the key events occurred in the reporting period and their impact on the financial statements, contains a description of key risks and uncertainties of the financial year and provides an overview of important transactions with the related parties.

April 6, 2022

/signed digitally/

Miko-Ove Niinemäe

Chief Executive Officer and Member of the Management Board of Arco Vara AS

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CONSOLIDATED FINANCIAL STATEMENTS

Consolidated statement of comprehensive income

	Note	**2021**	2020
In thousands of euros			
CONTINUING OPERATIONS			
Revenue from sale of own real estate		10,478	13,129
Revenue from rendering of services		1,135	927
Total revenue	6,7	**11,613**	**14,056**
Cost of sales	8	-8,578	-11,313
Gross profit		**3,035**	**2,743**
Other income	9	258	10
Marketing and distribution expenses	10	-200	-89
Administrative expenses	11	-1,106	-922
Other expenses	9	-76	-273
Gain of investment property	16	658	-20
Operating profit		**2,569**	**1,449**
Finance cost	12	-390	-437
Profit before tax		**2,179**	**1,012**
Income tax		-108	0
Net profit for the period		**2,071**	**1,012**
attributable to owners of the parent		2,071	1,012
Total comprehensive income for the period		**2,071**	**1,012**
attributable to owners of the parent		2,071	1,012
Earnings per share (in euros)	13		
- basic		**0.22**	**0.11**
- diluted		**0.22**	**0.11**

The notes presented on pages 24 to 55 form an integral part of the consolidated financial statements.

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Consolidated statement of financial position

	Note	31 December 2021	31 December 2020
In thousands of euros			
Cash and cash equivalents	21	1,863	2,200
Receivables and prepayments	14	3,701	1,344
Inventories	15	15,761	14,960
Total current assets		**21,325**	**18,504**
Receivables and prepayments	14	5	5
Investment property	16	9,943	9,564
Property, plant and equipment	17	154	22
Intangible assets	17	87	136
Total non-current assets		**10,189**	**9,727**
TOTAL ASSETS		**31,514**	**28,231**
Loans and borrowings	18	6,043	3,482
Payables and deferred income	19	2,368	3,308
Total current liabilities		**8,411**	**6,790**
Loans and borrowings	18	5,141	7,217
Total non-current liabilities		**5,141**	**7,217**
TOTAL LIABILITIES		**13,552**	**14,007**
Share capital	20	7,272	6,299
Unregistered share capital	13	0	273
Share premium	20	3,835	2,285
Statutory capital reserve	20	2,011	2,011
Retained earnings	23	4,844	3,356
Total equity attributable to owners of the parent		**17,962**	**14,224**
TOTAL EQUITY		**17,962**	**14,224**
TOTAL LIABILITIES AND EQUITY		**31,514**	**28,231**

The notes presented on pages 24 to 55 form an integral part of the consolidated financial statements.

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Consolidated statement of cash flows

	Note	2021	2020
In thousands of euros			
Cash receipts from customers		15,894	10,268
Cash paid to suppliers		-15,516	-10,960
Other taxes paid and recovered (net)		-2,898	44
Cash paid to employees		-426	-380
Other cash payments and receipts related to operating activities		229	-14
NET CASH FROM / USED IN OPERATING ACTIVITIES		**-2,717**	**-1,042**
Payments made on purchase of tangible and intangible assets		-9	-8
Payments made on purchase and improvement of investment property	16	0	-37
Other payments related to investing activities	26	1	-250
NET CASH FROM/USED IN INVESTING ACTIVITIES		**-8**	**-295**
Proceeds from loans received	18	3,944	7,849
Settlement of loans and borrowings	18	-2,741	-4,369
Interest paid		-585	-727
Dividends paid	23	-480	-360
Proceeds from share capital increase	13	2,250	273
Other payments related to financing activities		0	1
NET CASH FROM/USED IN FINANCING ACTIVITIES		**2,388**	**2,667**
NET CASH FLOW		**-337**	**1,330**
Cash and cash equivalents at beginning of period	21	2,200	870
Change in cash and cash equivalents		**-337**	**1,330**
Cash and cash equivalents at end of period	21	1,863	2,200

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Consolidated statement of changes in equity

	Equity attributable to owners of the parent						
	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 2019	**6,299**	**0**	**2,285**	**2,011**	**245**	**2,459**	**13,299**
Total comprehensive income for the period	0	0	0	0	0	1,012	1,012
Transactions with owners:	0	273	0	0	-245	-115	-87
Increase of share capital	*0*	*273*	*0*	*0*	*0*	*0*	*273*
Dividends paid	*0*	*0*	*0*	*0*	*0*	*-360*	*-360*
Formation of other reserves	*0*	*0*	*0*	*0*	*-245*	*245*	*0*
Balance as of 31 December 2020	**6,299**	**273**	**2,285**	**2,011**	**0**	**3,356**	**14,224**
Balance as of 31 December 2020	**6,299**	**273**	**2,285**	**2,011**	**0**	**3,356**	**14,224**
Total comprehensive income for the period	0	0	0	0	0	2,071	2,071
Transactions with owners:	973	-273	1,550	0	0	-583	1,667
Increase of share capital	*973*	*-273*	*1,550*	*0*	*0*	*0*	*2,250*
Dividends paid	*0*	*0*	*0*	*0*	*0*	*-583*	*-583*
Balance as of 31 December 2021	**7,272**	**0**	**3,835**	**2,011**	**0**	**4,844**	**17,962**

Further information on changes in share capital is provided in notes 13, 20 and 23.

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Notes to the Consolidated Financial Statements

1. General information

These consolidated financial statements of Arco Vara AS and its subsidiaries as of and for the year ended on 31 December 2021 were authorised for issue by the chief executive officer / member of the management board on 6 April 2022. Under the Commercial Code of the Republic of Estonia, the annual report prepared by the management board and approved by the supervisory board must be approved by the shareholders' general meeting. The consolidated financial statements are part of the annual report, which has to be approved by the shareholders, and they serve as a basis for adopting a resolution for distributing the profit. Shareholders may decide not to approve the annual report, which has been prepared by the management board and approved by the supervisory board, and may demand that a new annual report be prepared.

Arco Vara AS is a company incorporated and domiciled in Estonia whose registered office is at Rotermanni street 10 Tallinn. As of the end of 2021, 13 people provided services to the Group under the employment or authorization contract (31 December 2020: 11 people). In addition to Estonia, the Group has, through its subsidiaries, active operations also in Bulgaria.

The structure of the Group as of 31 December 2021 is presented in note 25.

2. Statement of compliance and basis of preparation

The consolidated financial statements of Arco Vara AS and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The consolidated financial statements have been presented and submitted for approval in conformity with the requirements of the Estonian Accounting Act and the Estonian Commercial Code.

The consolidated financial statements are presented in thousands of euros, unless indicated otherwise.

The consolidated financial statements have been prepared under the historical cost convention, unless explained otherwise in note 4 *Significant accounting policies*.

Use of accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS as adopted by the EU requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses, and the disclosure of contingent assets and contingent liabilities, based on the likelihood of respective events happening.

Although estimates and underlying assumptions are reviewed on an ongoing basis and they are based on historical experience and expectations of future events that are believed to be reasonable under the circumstances, actual results may differ from the estimates.

Information about management's critical judgements and estimates that have a material effect on the amounts reported in the financial statements is provided below.

<u>Classification of real estate</u>

Items of real estate (properties) are classified as inventories, investment properties or items of property, plant and equipment, both on initial recognition and on any subsequent reclassification, based on management's intentions regarding their further use. Realization of management's plans depends, among other factors, on resolutions adopted by other parties (e.g. changes in the designated purpose of the land, approval of detailed design plans, issue of construction permits, etc.).

Properties which are acquired for development and subsequent sale as living environments, single residential buildings or residential plots, and properties which are acquired for resale in the ordinary course of business, are classified as inventories.

Properties which are held to earn operating lease rentals or for capital appreciation, and properties which are held over an extended period for an undetermined future use, are classified as investment property.

Properties which are being developed for future use as commercial or business environments that will be leased out under operating leases, and commercial and business properties which are being extensively reconstructed or renovated, are also classified as investment properties.

Estimation uncertainty

The estimates made by management are based on historical experience and the information that has become available by the date the financial statements are authorised for issue. There is a risk that the estimates applied at the reporting date in respect of assets and liabilities and associated income and expenses need to be revised in the future. The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the consolidated financial statements are discussed below.

<u>Estimation of the net realisable value of inventories</u>

The Group has several items of real estate (properties) that have been classified as inventories. The net realizable values

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of all significant properties classified as inventories were measured as of 31 December 2021 and 31 December 2020 in order to determine whether:

1) the net realizable value of any item had decreased below its carrying amount;

2) any impairments recognized in prior periods needed to be reversed.

The net realizable values of the properties were measured using the following methods (depending on the asset usage):

- comparison method;
- residual value method;
- evaluation of contractual agreement for sale of an asset.

Valuation methods are described in more detail in notes 4 and 15.

Determination of the fair value of investment properties

On each reporting date, investment properties are measured at their fair values. In addition to management's estimates, where necessary, the fair value of investment properties is measured based on valuation reports issued by independent real estate appraisers. This means that in the case of significant investment properties, where necessary, parallel appraisals are commissioned from independent appraisers. In determining the fair value of its investment properties in 2021 as well as in 2021, the Group used selectively both internal and external experts. Fair value was mainly determined by using two basic techniques - income method and comparison method. Valuation methods are described in more detail in notes 4 and 16.

3. Changes in accounting policies and presentation of information

The consolidated financial statements are prepared in accordance with the principles of consistency and comparability, which means that the Group consistently applies the same accounting and presentation policies. Accounting policies and presentation are changed only when this is required by new or revised International Financial Reporting Standards (IFRS) as adopted by the EU and their interpretations, or when a new accounting policy or presentation practice represents the Group's financial position, financial performance and cash flows more adequately.

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as of and for the year ended 31 December 2020. A number of new standards (including IFRS 16 "Leases") did not have a material effect on the Group's financial statements as of 1 January 2021 (see note 4).

4. Significant accounting policies

New accounting pronouncements after 1 January 2022

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2021 and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

Business Combinations - Amendments to IFRS 3 (effective from annual reporting periods starting from 1 January 2022 or later; to be applied retrospectively)

The amendments to IFRS 3 update a reference in IFRS 3 to the 2018 Conceptual Framework for Financial Reporting instead of the 1989 Framework. At the same time, the amendments add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Provisions, Contingent Liabilities and Contingent Assets - Amendments to IAS 37 (effective from annual reporting periods starting from 1 January 2022 or later; to be applied retrospectively)

In determining costs of fulfilling a contract, the amendments require an entity to include all costs that relate directly to a contract. The amendments clarify that the cost of fulfilling a contract comprises both: the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

An entity must apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity will not restate comparative information. Instead, the entity will recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied, because in determining costs of fulfilling a contract the entity/group takes into account both incremental costs and other costs that relate directly to fulfilling contracts.

Presentation of Financial Statements - Amendments to IAS 1 (effective from annual reporting periods starting from 1 January 2023 or later; not endorsed by the EU yet)

The amendments clarify that the classification of liabilities as current or non-current is based solely on the entity's right to defer settlement at the end of the reporting period. The company's right to defer settlement for at least 12 months from the

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reporting date need not be unconditional but must have substance. The classification is not affected by management's intentions or expectations about whether and when the entity will exercise its right. The amendments also clarify the situations that are considered settlement of a liability.

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 1 *Presentation of Financial Statements* and IFRS Practice Statement 2 *Making Materiality Judgements* (effective for annual periods beginning on or after 1 January 2023; not endorsed by the EU yet)

The amendments to IAS 1 aim to help entities provide accounting policy disclosures that are more useful by:

- Requiring companies to disclose their material accounting policies rather than their significant accounting policies;
- Clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
- Clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The Board also amended IFRS Practice Statement 2 to include guidance and two additional examples on the application of materiality to accounting policy disclosures.
The amendments are consistent with the refined definition of material: "Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements".

The Group does not expect the amendments to have a material impact on its financial statements when initially applied.

Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (effective for annual periods beginning on or after 1 January 2023; not endorsed by the EU yet; to be applied prospectively)

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The Group does not expect the amendments to have a material impact on the Group as these amendments provide guidance in determining whether changes are to be treated as changes in estimates, changes in policies, or errors.

Other new or revised standards or interpretations which are not yet effective are not expected to have a material impact on the Group.

Business combinations and basis of consolidation

The consolidated financial statements comprise the financial statements of Arco Vara AS and its subsidiaries, combined line by line. The financial statements of all group entities coincide with the calendar year. The group entities use in all material respects uniform accounting policies and measurement bases. Where necessary, the accounting policies and measurement bases of group entities are adjusted for consolidation to ensure consistency with the policies adopted by the Group.

The subsidiaries are all entities that are controlled by the Group. The Group has control over an entity when it gets or has rights to the variable returns from its involvement with the entity and is able to use its power over the entity to affect the amount of the returns.

In preparing the consolidated financial statements, all transactions, balances and unrealized profits and losses arising from transactions between consolidated entities are eliminated in full. Unrealized losses are eliminated only to the extent that there is no evidence of impairment. Subsidiaries are consolidated from the date the control commences until the date the control ceases.

A non-controlling interest, i.e. the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, is separately presented in the consolidated statement of financial position (within equity) and the consolidated statement of comprehensive income.

Acquisitions of subsidiaries are accounted for using the acquisition method whereby the assets acquired and liabilities and contingent liabilities assumed ('net assets') are recognized and measured at their acquisition-date fair values. For each business combination, the Group decides whether to measure the non-controlling interests in the acquiree at either fair value or the non-controlling interests' proportionate share in the recognized amounts of the acquiree's identifiable net assets. If the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of the Group's previously held equity interest in the acquiree exceeds the Group's interest in the net of the acquisition-date amounts of identifiable assets acquired and the liabilities assumed, the difference is recognized as goodwill. When a bargain purchase is made and the fair value of the net assets acquired exceeds the above aggregate amount, the resulting gain is recognized in profit or loss immediately. Acquisition-related costs are recognized as expenses as incurred.

Transactions with non-controlling interests (changes in the Group's ownership interests in subsidiaries) that do not result in a loss of control over a subsidiary are accounted for as equity transactions. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity. Profits or losses arising from the sale of non-controlling interests are also recognized in equity.

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When the parent loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts and the carrying amount of any non-controlling interests in the former subsidiary. Any investment retained in the former subsidiary is subsequently accounted for as an investment in an associate or a joint venture or an investment in other financial assets, measured at its fair value at the date the control was lost. Any difference between the consideration received and the aggregate of the derecognized net assets and the investment recognized is recognized as profit or loss on the statement of comprehensive income in the period in which it arises.

In the parent company's separate financial statements, the investments in subsidiaries are accounted for at cost less accumulated impairment.

Segment reporting

Reportable segments are identified and segment information is reported on the same principle as the Group's structural units are grouped for internal accounting and reporting purposes (management accounting and budgeting). Segment reporting complies with internal reporting submitted to the Group's chief operating decision makers. The Group has identified the parent company's chief executive officer / member of the management board as its chief operating decision maker. The chief executive officer / member of the management board reviews the Group's operating results by business line, whereby an operating segment is a component of the Group that provides clearly distinguishable products or services and operates as an independent profit centre.

Segment revenue is revenue that a segment earns from sales to external customers or other segments of the Group. Segment expenses are expenses resulting from the operating activities of a segment that are directly attributable to the segment, including expenses from transactions with external suppliers and other segments of the Group. Segment expenses do not include finance costs and investment expenses, the Group's general administrative expenses and other expenses that arise at the Group level. The costs incurred at the Group level are allocated to a segment only if they relate to the segment's operating activities and they can be attributed to the segment on a reasonable basis.

Unrealized profits and losses which arise within the Group from transactions performed between its segments are not allocated to any segment but are reported as eliminations of inter-segment profits and losses. Unrealized profits and losses that arise from transactions between the Group's head office and the segments and which can be allocated to a segment on a reasonable basis are included in the segment's operating profit.

Segment assets are assets that are employed by a segment in its operating activities and that are directly attributable to the segment. Segment assets include, for example, current assets, investment properties, property, plant and equipment and intangible assets used in a segment's operating activities. Segment assets do not include assets used for the Group's general needs or ones which cannot be directly allocated to the segment.

Segment liabilities are liabilities that result from the operating activities of a segment and that are directly attributable to the segment. Segment liabilities include, for example, trade and other payables, accrued expenses, advances from customers, warranties provisions and other liabilities related to the segment's products and services. Segment liabilities include also loans and finance lease liabilities arisen from financing activities.

Unallocated items comprise revenue and expenses and assets and liabilities, which have not been allocated to any segment under the above principles.

Foreign currency transactions

All group entities prepare their financial statements in the currency of the primary economic environment in which they operate (their functional currency), i.e. in the local currency. The functional currency of the Company and Latvian and Estonian subsidiaries is the euro. The presentation currency of the consolidated financial statements is the euro. Foreign currency is any currency other than the functional currency. A transaction in foreign currency is recorded by applying the foreign exchange rate of the European Central Bank ruling at the date of the transaction. Monetary assets (cash, cash equivalents and receivables) and monetary liabilities (loans and borrowings, payables and other monetary liabilities) denominated in foreign currency at the reporting date are retranslated to euros at the exchange rates of the European Central Bank ruling at the reporting date. Foreign exchange gains and losses are recognized in finance income and finance costs respectively in the period in which they arise. A non-monetary item denominated in foreign currency that is measured in terms of historical cost is recorded using the exchange rate of the European Central Bank ruling at the date of the original transaction. A non-monetary item denominated in foreign currency that is measured at fair value is recorded in the functional currency using the exchange rate of the European Central Bank ruling at the date the fair value was determined.

When the functional currency of a subsidiary differs from the parent's functional currency, the financial statements of the subsidiary (in Bulgaria) are translated for consolidation purposes using the central exchange rate of the currency against the euro, which is why translation does not give rise to any significant exchange differences. Bulgaria has pegged its currency to the euro.

Revenue

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled to in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control of a good or service to a customer.

Revenue from sale of real estate

The Group develops and sells real estate (mostly apartments). Revenue is recognized when control over the property has been transferred to the customer. The properties have generally no alternative use for the Group due to contractual

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restrictions. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognized at a point in time when the legal title has passed to the customer.

Revenue from franchise agreements

The Group is selling licensing rights to its trademarks to real estate agencies in Estonia, Latvia and Bulgaria. Revenues are recognized in periods when services are provided. Revenues depend on the turnover of real estate agencies, which are reported on a monthly basis.

Revenue real estate leasing and other services

The Group rented commercial premises belonging to the Group. Revenue from the rendering of services is recognized in the period when the services are rendered and the income from the leased commercial premises is linear during the lease term.

Financing component

Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

Cash and cash equivalents and the statement of cash flows

Cash and cash equivalents comprise cash and short-term (with a term of up to 3 months from the date of acquisition) highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in market value. Such assets are cash, demand deposits and term deposits with a maturity of up to three months.

In the statement of cash flows, cash flows are presented using the direct method.

Financial assets

Classification

The Group classifies its financial assets in the following measurement categories:

- to be measured subsequently at fair value (either through other comprehensive income or through profit or loss)
- to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

Recognition and derecognition

Ordinary purchases and sales of financial assets are recognized on transaction date, when the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition, except for of financial assets carried at fair value through profit or loss statement. Transaction costs of financial assets carried at fair value through profit or loss statement are expensed in profit or loss statement.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing financial assets and on the cash flow characteristics of the asset. All Group's debt instruments are classified in amortised cost measurement category.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in financial income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss statement and presented in other income/expenses. Foreign exchange gains and losses and impairment losses are presented as separate line items in profit or loss statement.

Equity instruments

The Group records equity instruments at their fair value. If the Group has made an irreversible decision to record the fair value changes of equity instruments not held for trading purposes through other comprehensive income, then it is not possible upon derecognition of such equity instrument to reclassify changes and record them through profit and loss statement. Dividends received from such investments will continue to be recorded in the other income row of the profit or loss statement if the Group has received a right of dividends.

Profit or loss from equity instruments measured at fair value through profit or loss statement is recorded on the other income or loss row of the profit or loss statement. Devaluations (or reversals thereof) of equity instruments measured at fair value through other comprehensive income statement are not recorded separately from changes in fair value.

Impairment

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The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value with changes through profit and loss. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of expected credit losses reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The Group measures impairment as follows:

- receivables from purchasers in an amount equal to expected credit losses over lifetime;

- cash and cash equivalents the credit risk of which is assessed to be low during the reporting period (the management considers an investment-grade credit rating by at least one major credit rating agency to prove a low credit risk) in an amount equal to the expected credit losses over 12 months;

- for all other financial assets, the expected credit losses over 12 months if the credit risk (i.e. default risk over the life of the financial asset) has not increased significantly after initial recognition; if there is a significant increase in risk, the credit loss is measured at the amount of credit losses expected over the lifetime.

Inventories

The Group's inventories include mostly land and buildings that have been acquired or are being developed for housing developments. Finished goods and work in progress are initially recognized at their cost of conversion. The cost of conversion includes all direct and indirect production costs incurred in bringing the inventories to their present location and condition. Other inventories are initially recognized at cost, which includes all direct and indirect costs incurred in bringing the inventories to their present location and condition. Indirect costs that are included in the cost of items of real estate classified as inventories include borrowing costs incurred in financing the construction of the assets. Capitalisation of borrowing costs commences when borrowing costs and expenditures for development of inventories have been incurred and development activities have been undertaken. Borrowing costs are capitalised during the active development stage. Capitalisation of borrowing costs ceases when the asset is complete (usually when the building has been granted an authorisation for use) or its development has been suspended for an extended period.

The cost of inventories is assigned using the weighted average cost formula except when the cost of registered immovable properties and apartments treated as movable properties is assigned by specific identification of their individual costs.

In the statement of financial position, inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventory write-downs to net realisable value are recognized in the statement of comprehensive income in cost of sold real estate and services.

Investment property

Investment property is property (land or a building or both) held to earn rental income or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes. In addition, investment property includes properties, which are held over an extended period for an undetermined future use. Properties being constructed or developed for future use as investment properties (commercial buildings) and buildings treated as movable properties (commercial buildings under reconstruction and renovation) are carried as investment properties.

An investment property is measured initially at its cost. Directly attributable transaction costs are included in the initial measurement. Transaction costs that are directly attributable to acquisition include notary's fees, stamp duties, advisors' fees and other transaction costs without which the purchase transaction could probably not have been performed. After initial recognition, investment properties are measured using the fair value model. The fair value of investment property reflects market conditions at the reporting date.

In addition to estimates made by management, the fair value of investment property is determined, where necessary, on the basis of valuations performed by qualified independent appraisers. This means that in the case of significant investment properties valuation reports are also commissioned, if necessary, from independent real estate appraisers. Fair value is determined using the following methods:

- Income method (discounted cash flow analysis or income capitalisation). The income method is used to determine the value of investment properties that generate stable rental income and properties whose fair value, according to management's assessment, cannot be determined reliably under the comparison method (for example, inactive property market in the location of the property being valued, absence of comparable transactions or an extensive period between a comparable transaction and the date of valuation). In order to calculate the fair value of a property using income method the appraiser has to forecast the property's future rental income (including rental per 1 square metre and the occupancy rate) and operating expenses. Depending on the terms of the lease (whether and how easily the lease can be terminated by the lessee), the appraiser will base the projections on either the property's existing cash flows or the market's current average cash flows for similar properties. The present value of the future net cash flow is found by applying a discount rate, which best reflects the current market assessments of the time value of money and the risks specific to the asset. The discount rate is selected based on the market's average capital structure. Capitalization rate applied on using income capitalisation method is based on the investors' market average expected yield for the same type of assets.
- Comparison method. The comparison method is applied to properties that do not generate rental cash flow and are held for future development or capital appreciation. Under this method, the market value of a property is determined

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by reference to the price per square metre agreed in transactions performed with similar properties. As the transactions selected for comparison are practically never identical with the property being valued, their prices are adjusted to reflect differences in time, location, size and detailed design plan. Where necessary, another valuation technique is applied (e.g. the income method) if management believes that the latter can measure the fair value of the property more reliably.

- Residual value method. The method is applied to determine the value of a property that requires development or reconstruction in a situation where the comparison method cannot be applied due to the absence of a suitable basis for comparison. The method is applied on the assumption that the buyer is willing to pay for a property an amount equal to the value of the property after its development or reconstruction less its estimated development or reconstruction costs and a reasonable profit margin.
- Existence of a sales contract under the law of obligations (a presale contract). In the case of properties which at the reporting date have been sold based on a contract under the law of obligations but in respect of which the real right contract has not been signed (title has not transferred), fair value is determined by reference to the sales price of the property in the contract under the law of obligations. The sales price agreed in the contract under the law of obligations is used for determining the fair value of a property only when the group has reasonable assurance that the related real right contract will be concluded under the same terms and conditions (e.g. the buyer has made a substantial prepayment for the property by the reporting date or the real right contract is concluded after the reporting date but before the date management approves the financial statements for issue).

Gains and losses arising from changes in the fair value of investment property are recognized in the profit or loss on the period in which they arise (on a separate row within operating income/loss).

An investment property is derecognized on disposal or when the property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains and losses arising from the retirement or disposal of investment property are recognized in profit or loss of the period of retirement or disposal (in other income and other expenses respectively).

Transfers to and from investment property are made when there is a change in use. From the date of transfer, an asset is accounted for using the policies applied to the class of assets to which it has been transferred. For a transfer from investment property to inventories or property, plant and equipment, the property's deemed cost for subsequent accounting is its fair value at the date of transfer.

When an item of property, plant and equipment is transferred to investment property, any positive difference between the fair value and carrying amount of the property at the date of transfer is recognized in the revaluation reserve in equity. Any negative difference is recognized as an impairment loss. When a property is transferred from inventories to investment property, any difference between fair value and carrying amount is recognized in profit or loss, within other income or other expenses as appropriate.

According to the requirements set out in IFRS 13 the fair value measurement methods are the following:

- quoted prices (unadjusted) in an active market for identical assets (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset, directly or indirectly (Level 2);
- unobservable inputs for the asset (Level 3).

Fair value of the Group's investment property is measured using level 3 inputs. Additional information on used estimates is presented in note 16.

Property, plant and equipment

Assets are classified as items of property, plant and equipment when their useful life extends beyond one year.

An item of property, plant and equipment is initially recognized at cost. The cost of an item of property, plant and equipment comprises its purchase price and any costs directly attributable to its acquisition. The cost of items of real estate, which are carried as items of property, plant and equipment, includes borrowing costs incurred in financing their construction. For the principles of capitalising borrowing costs, see the policy *Inventories*.

After recognition, an item of property, plant and equipment is carried at cost less any accumulated depreciation and any accumulated impairment losses. If an item of property, plant and equipment consists of significant parts that have different useful lives, the parts are accounted for separately and assigned depreciation rates that correspond to their useful lives.

Subsequent expenditure on an item of property, plant and equipment (e.g. the costs of replacing a part of an item) is added to the carrying amount of the item, provided that it meets the following criteria: (a) it is probable that future economic benefits associated with the item will flow to the Group; and (b) the cost of the item can be measured reliably. The carrying amounts of the parts that are replaced are derecognized. All other subsequent expenditures related to items of property, plant and equipment are recognized as an expense in the period in which they are incurred.

Items of property, plant and equipment are depreciated on a straight-line basis. Each item of property, plant and equipment is assigned a depreciation rate that corresponds to its useful life. Asset classes are assigned the following annual depreciation rates:

• Buildings and structures	2–18%
• Plant and equipment	8–20%
• Other equipment and fixtures and tools	20–40%

Items of property, plant and equipment are depreciated until their residual value equals to their carrying amount. The residual value is the estimated amount that the Group would currently obtain from the disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

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Depreciation methods, depreciation rates and residual values are reviewed at least at each financial year-end.

The carrying amounts of items of property, plant and equipment are reviewed for impairment when there is evidence that the carrying amount of an asset may exceed its recoverable amount. Impairment testing is described in more detail below (see the policy *Impairment of property, plant and equipment and intangible assets*).

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains and losses arising from the derecognition of items of property, plant and equipment are recognized in profit or loss, within other income and other expenses respectively, in the period in which the item is derecognized.

Intangible assets

An intangible asset is recognized when it is controlled by the Group, future economic benefits from the asset are expected to flow to the Group and its cost can be measured reliably. Intangible assets comprise computer software that is not an integral part of the related hardware.

Intangible assets are initially measured at cost. Following initial recognition, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. Accumulated amortization is recognized within administrative expenses and reduction in value within other expenses in the statement of comprehensive income.

Intangible asset classes are assigned the following annual amortisation rates:

- Business software 20–33%

The Group's intangible assets comprise assets with finite useful lives only. Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives (generally three to five years). Amortisation expense is recognized in profit or loss for the period, in the expense category consistent with the function of the underlying asset. The amortisation periods and amortisation methods of intangible assets with a finite useful life are reviewed at each financial year-end. Changes in the expected useful life of an asset and the pattern in which the asset's future economic benefits are expected to be consumed are accounted for as changes in accounting estimates and are applied prospectively.

Impairment of property, plant and equipment and intangible assets

The Group assesses at each reporting date whether there is any indication that an item of property, plant and equipment or an intangible asset may be impaired. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset is the higher of the fair value of the asset or its cash-generating unit less costs to sell and value in use. In measuring value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped into the smallest identifiable groups that generate cash inflows that are largely independent of the cash inflows from other assets or asset groups (cash-generating units).

An impairment loss is recognized when the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount of that asset or cash-generating unit. Impairment losses are recognized in profit or loss in the period in which they are incurred. The impairment loss for a cash-generating unit is recognized by reducing the carrying amounts of the items of property, plant and equipment or intangible assets belonging to the unit *pro rata*.

An assessment is made at the end of each reporting period, whether there is any indication that the recoverable amount of the impaired asset has increased. If any such indication exists, an estimation about the recoverable amount of that asset is made. When the recoverable amount of that asset or cash-generating unit exceeds the carrying amount of an asset or a cash-generating unit, the prior impairment shall be reversed, and the carrying amount of the asset shall be increased. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognized for the asset in prior years.

Financial liabilities

Financial liabilities (trade and other payables, loans and borrowings and accrued expenses) are initially recognized at their fair value less any transaction costs directly attributable to their acquisition. After initial recognition, financial liabilities are measured at amortised cost using the effective interest rate method.

Interest expenses on financial liabilities are recognized in finance costs on an accrual basis except that interest expenses on financing the development of assets (real estate projects carried as inventories, investment properties, and items of property, plant and equipment) are capitalised and added to the carrying amount of the asset as borrowing costs.

A financial liability is classified as current when it is due to be settled within 12 months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for more than 12 months after the reporting date. Financial liabilities which are due to be settled within 12 months after reporting date are classified as current even if an agreement to refinance on a long-term basis is completed after the reporting date and before the financial statements are authorised for issue. When a contract is breached on or before the reporting date with the effect that the liability becomes payable on demand, the liability is also classified as current.

A financial liability is removed from the statement of financial position when it is discharged or cancelled or expires.

Employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus plans if the Group has

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a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Termination benefits are recognized as an expense when the Group is demonstrably committed, without a realistic possibility of withdrawal, to a detailed formal plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense when the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

Share-based payments

The share options granted to the Group's CEO/member of the management board and key employees are recognized as equity-settled consideration for services rendered to the Group. Owing to the complexity of determining the fair value of services received, the fair value of the services rendered by the CEO/member of the management board and key employees is measured by reference to the fair value of the equity instruments granted.

The cost of equity-settled share-based payment transactions is recognized as an expense with a corresponding increase in equity over the period in which the employee provided services until the date of vesting of equity instruments. At each balance sheet date, the Group recognizes expenses related to share-based payments based on an estimate of the number of equity instruments expected to vest. Any change in the cumulative remuneration expense from the date of the current reporting period is recognized in profit or loss for the period.

The grant of share options is conditional on the length of the employee's employment in the Group between the grant date of the options and the end of the vesting period. Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of the share options at the measurement date. Instead, vesting conditions are taken into account by adjusting the number of equity instruments included in the measurement of the transaction so that, ultimately, the amount recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that will eventually vest. Hence, on a cumulative basis, no amount is recognized for services received if the equity instruments granted do not vest because of the failure to satisfy a vesting condition, e.g. when the counterparty fails to complete a specified service period.

If the share options are exercised by the CEO/member of the management board or key employees, the Group will issue new shares, which will be redeemed by the CEO/member of the management board or key employees for 0.7 euros per share. The fair value of share options accumulated in equity will be transferred to retained earnings at the exercise date.

Provisions and contingent liabilities

A provision is recognized in the statement of financial position only when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Other possible commitments that may transform into obligations under certain circumstances (which have not yet occurred) are disclosed as contingent liabilities in the notes to the consolidated financial statements.

Present obligations arising from past events, which according to management's judgement will not realise or cannot be measured reliably are also disclosed as contingent liabilities.

Leases – Group as a lessee

Lessees will be required to recognize:

(a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and
(b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

Lease agreements are recognized as right-of-use assets and corresponding liabilities as of the date when leasable asset becomes available for use.

Lease liabilities are recognized at present value of lease payments. Right-of-use assets are recognized in the amount equal to lease liabilities, unless adjustments to rights-of-use assets are necessary. All lease payments are divided between liabilities and financial expenses. Financial expenses are recorded in the income statements of the lease period in a manner that produces a constant periodic discount rate on the remaining balance of the liability. Lease assets are depreciated on a straight-line basis over the period that is the shorter of its useful life or the lease period.

Lease liabilities include the present value of the following rental payments:

- fixed payments less any lease incentives
- variable lease payments that depend on an index or a rate (e.g. inflation, Euribor)
- payments by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

Lease payments are discounted using the interest rate implicit in the lease contract if that rate can be readily determined, or the Group's incremental borrowing rate. Incremental borrowing rate is the rate of interest that the lessee would have to pay to borrow the funds necessary to obtain similar assets in a similar economic environment and with similar terms.

A short-term lease is a lease that has a lease term of less than 12 months. Low-value assets include IT-equipment and smaller office equipment. In determining the lease term, management considers all relevant facts and circumstances that create an economic incentive to exercise the option to extend the lease, or not to exercise the option to terminate the lease. Periods covered by extension options (or periods after termination options) are added to the lease terms if it is reasonably certain that the lease will be extended (or not terminated). The management considers changes in facts and circumstances that are under management's control and affect the likelihood of using the options. For example, when the extension period

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of lease has changed (the Group has exercised an option that was earlier considered unlikely, or has not realised an option that was earlier considered unlikely).

According to the lease agreements, the Group's lease assets have no balance sheet value upon termination.

The Group has used the following practical exemptions allowed by the standard:

- leases of low value assets have been excluded
- initial direct costs of the measurement of right-of-use assets at the date of initial application have been excluded.

The Group leases different real estate assets. When adopting IFRS 16, the Group analysed lease obligations that had been earlier classified as operating leases under IAS 17 "Leases". Lease agreements in force as of 31.12.2021 contain termination options of less than 12 months, but involve extension options. Lease terms are agreed separately for each lease agreement and may include different terms.

In relation to changing the accounting policies, no leases were recorded as right-of-use assets in 2021 nor 2020 because the assets did not have a substantial value or a term of over 12 months.

Statutory capital reserve

According to the Estonian Commercial Code, the statutory capital reserve of a company has to amount to at least 10% of its share capital. Accordingly, the Group transfers at least 5% of its net profit for the year to the capital reserve until the required level has been achieved. The capital reserve may not be distributed as dividends but it may be used for covering accumulated losses if the latter cannot be covered with unrestricted equity, and for increasing share capital through a bonus issue.

Income tax

Income tax assets and liabilities and income tax expense and income comprise current and deferred items. Current tax is recognized as a short-term asset or liability and deferred tax is recognized as a long-term asset or liability.

Parent company and subsidiaries registered in Estonia

Under the Estonian Income Tax Act, in Estonia companies do not have to pay income tax on their earnings (profit for the year). Instead, income tax is levied on profit distributions (dividends). The amount of tax payable is calculated as 20/80 of the net amount of dividends distributed in Estonia. The income tax payable on a dividend distribution is recognized as the income tax expense of the period in which the dividends are declared. From 2019, tax rate of 14/86 can be applied to dividend payouts. This more favourable tax rate can be applied to the dividend payment, the size of which is the average dividend payment of up to three latest financial years, which have been taxed at a rate of 20/80. The average dividend payment for the three latest financial years is calculated starting from year 2019.

Because of the specific nature of the taxation system, deferred income tax liabilities and assets do not arise for companies registered in Estonia. The contingent tax liability reflecting the obligation that would arise on the distribution of retained earnings as dividends is not recognized in the statement of financial position. Maximum possible tax liability in case all retained earnings were distributed is disclosed in note 23.

Bulgarian subsidiaries

In Bulgaria, the profit earned by companies is subject to income tax. The tax rate in Bulgaria is 10% of taxable income. Taxable income is identified by adjusting profit before tax for the temporary and permanent differences permitted by the local tax laws.

In the case of foreign subsidiaries, deferred income tax assets and deferred income tax liabilities are recognized for all temporary differences between the carrying amounts and tax bases of assets and liabilities. A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Latvian subsidiaries

According to the new Income Tax Act, valid from 1 January 2018, the profits made after 2017 will be taxed only upon distribution at a rate of 20/80. As a result of the application of the new law, there will be no more differences between the taxable and book value of assets and liabilities and therefore deferred tax assets and liabilities are not recognized for Latvian subsidiaries. The Group did not have income tax assets and liabilities for Latvian companies.

Investments in subsidiaries and joint ventures in the parent company's unconsolidated primary financial statements presented in accordance with the Estonian Accounting Act

The parent company's unconsolidated primary financial statements (note 27) represent supplementary information that is presented in accordance with the requirements of the Estonian Accounting Act and they do not constitute separate financial statements as defined in IAS 27.

In the parent's unconsolidated primary financial statements, investments in subsidiaries are measured using the cost method whereby an investment is initially recognized at cost, i.e. at the fair value of the consideration paid for it on acquisition and after initial recognition it is carried at cost less any impairment losses.

Investments are tested for impairment by measuring their recoverable amounts whenever there is any indication of impairment. Impairment losses are recognized in the statement of comprehensive income in other expenses or in separate line if the amount is material.

Dividends received and receivable from subsidiaries are recognized as income when the right to receive payment has been established.

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5. Acquisition and sale of subsidiaries

Scope of consolidation

As of 31 December 2021, the Group consisted of 14 companies, which is three less than on 31 December 2020. In 2021, one company was established and four was liquidated. In 2020, one company was sold and one was liquidated. The structure of the Group is presented in note 25.

Establishment of subsidiaries in 2021

On 21 December 2021, the 100% subsidiary of the Group Arco Riverside EOOD was founded. The share capital of the subsidiary is 5 thousand euros, equity was paid in cash. The objective of the company is the next new development of residential real estate in Bulgaria.

Liquidation of subsidiaries in 2021

On 27 April 2021, the Group's subsidiary Arco Facility Management EOOD was erased from Bulgarian Commercial Register.
On 29 January 2021, the Group's subsidiary Arco Project EOOD was erased from Bulgarian Commercial Register.
On 29 January 2021, the Group's subsidiary Arco Development SIA was erased from Latvian Commercial Register.
On 21 January 2021, the Group's subsidiary Arco Development UAB was erased from Lithuanian Commercial Register.

Sale of subsidiaries in 2020

In 2020, the sale of Arco Investments TOV for 0 euros was recorded. In 2020, Arco Investments TOV had no liabilities nor assets.

Liquidation of subsidiaries in 2020

On 12 October 2020, the Group's subsidiary Arco Invest UAB was erased from Lithuanian Commercial Register.

6. Segment information

Group identifies geographical segments: Estonia, Bulgaria, Latvia, active segments are Estonia and Bulgaria.

External revenue by location

In thousands of euros	**2021**	2020
Estonia	6,202	7,610
Bulgaria	5,411	6,406
Latvia	0	40
Total revenue	**11,613**	**14,056**

External operating profit (loss) by location

In thousands of euros	**2021**	2020
Estonia	643	156
Bulgaria	1,929	1,263
Latvia	-3	30
Total revenue	**2,569**	**1,449**

External interest expense by location

In thousands of euros	**2021**	2020
Estonia	-210	-107
Bulgaria	-182	-319
Total revenue	**-392**	**-426**

For interest expense, see note 12.

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External net profit (loss) by location

	2021	2020
In thousands of euros		
Estonia	434	49
Bulgaria	1,640	933
Latvia	-3	30
Total revenue	**2,071**	**1,012**

External assets and liabilities by location

On 31 December	2021	2020
In thousands of euros		
Assets	**31,514**	**28,231**
Estonia	17,610	9,642
Bulgaria	13,778	18,462
Latvia	126	127
Liabilities	**13,552**	**14,007**
Estonia	7,965	4,938
Bulgaria	5,587	9,069

Non-current assets by location

On 31 December	2021	2020
In thousands of euros		
Total non-current assets	**241**	**158**
Property, plant and equipment	**154**	**22**
Estonia	147	6
Bulgaria	7	16
Intangible assets	**87**	**136**
Estonia	48	86
Bulgaria	39	50

For property, plant and equipment and intangible assets, see note 17.

Depreciation and amortisation by location

On 31 December	2021	2020
In thousands of euros		
Total depreciation and amortisation	**-64**	**-109**
Total depreciation	**-15**	**-14**
Estonia	-10	-3
Bulgaria	-5	-11
Total amortisation	**-49**	**-95**
Estonia	-38	-85
Bulgaria	-11	-10

For depreciation and amortisation, see note 17.

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Notes to the Consolidated Statements of Comprehensive Income

7. Revenue

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

	Estonia		Bulgaria		Latvia		Consolidated	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
In thousands of euros								
Sale of own real estate	5,902	7,414	4,576	5,675	0	40	10,478	13,129
Rental of real estate	8	5	723	614	0	0	731	619
Property management services	0	1	88	84	0	0	88	85
Franchise	178	137	61	35	23	12	262	184
Other revenue	29	6	25	33	0	0	54	39
Total revenue	**6,117**	**7,563**	**5,473**	**6,441**	**23**	**52**	**11,613**	**14,056**

8. Cost of sold real estate and services

	2021	2020
In thousands of euros		
Cost of real estate sold (note 15, 16)	-7,967	-10,405
Brokerage fees	-220	-276
VAT cost	0	-39
Property management costs	-249	-347
Personnel expenses (note 11)	-4	-15
Depreciation, amortisation and impairment losses (note 17)	-39	-84
Write-down of inventory (note 15)	0	-40
Other costs	-99	-107
Total cost of sold real estate and services	**-8,578**	**-11,313**

9. Other income and expenses

Other income

	2021	2020
In thousands of euros		
Court cases awarded	173	0
European Union subsidies	70	0
Miscellaneous income	15	10
Total other income	**258**	**10**

Other expenses

	2021	2020
In thousands of euros		
Write-down of inventory (note 15)	-6	0
Late payment interest and penalty charges	-55	-253
Miscellaneous expenses	-15	-20
Total other expenses	**-76**	**-273**

The group was obliged to buy out the Lozen Phase II land by December 2020, otherwise it would have had to pay a fine of EUR 1 million. An agreement was reached with the seller of the land to reduce the fine to 250 thousand euros, and this fee was also transferred in December 2020.

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10. Marketing and distribution expenses

	2021	2020
In thousands of euros		
Advertising expenses	-51	-39
Labour expenses	-37	0
Market research	-19	0
Other marketing and distribution expenses	-93	-50
Total marketing and distribution expenses	**-200**	**-89**

11. Administrative expenses

	2021	2020
In thousands of euros		
Personnel expenses	-658	-453
Office expenses	-86	-67
IT expenses	-33	-28
Services purchased	-261	-310
Depreciation and amortisation (note 17)	-25	-25
Legal service fees	-23	-22
Other expenses	-20	-17
Total administrative expenses	**-1,106**	**-922**

In 2021, employee remuneration expenses of the Group amounted to 699 thousand euros, out of which 658 thousand were administrative expenses, 4 thousand were cost of sold real estate and services (see note 8) and 37 thousand euros marketing and distribution expenses (see note 10). In 2020, employee remuneration expenses of the Group amounted to 468 thousand euros, out of which 453 thousand were administrative expenses and 15 thousand were cost of sold real estate and services (see note 8).

As of 31 December 2021, 9 persons worked with an employment contract, 2 with an authorisation agreement and 2 with a board member agreement (on 31 December 2020: 9, 1, 1, respectively).

12. Finance costs

	2021	2020
In thousands of euros		
Interest expense (note 6)	-392	-426
Other finance costs	2	-11
Total finance costs	**-390**	**-437**

Interest expense consists mainly of interest expense on loans taken for acquiring and building real estate projects. Interest expenses on loans taken for financing development projects in progress are 100% capitalised in inventory and real estate investments. In 2021, capitalised interest expenses amounted to 148 thousand euros and in 2020 to 280 thousand euros (see notes 15 and 16).

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13. Earnings per share

Basic earnings per share are calculated by dividing profit or loss 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 the effects of all dilutive potential ordinary shares.

At the extraordinary general meeting on 12 August 2021, the shareholders decided to issue 1,000,000 new shares at an issue price of 2.25 euros, of which 0.70 euros is the nominal value of the share and 1.55 euros is the share premium. The issue was a success. Trading in the new shares started on October 28, 2021.

	2021	2020
Weighted average number of ordinary shares outstanding during the period	9,426,888	8,998,367
Number of ordinary shares potentially to be issued (period end)	0	390,000
Net profit attributable to owners of the parent (in thousands of euros)	2,071	1,012
Earnings per share (in euros)	**0.22**	**0.11**
Diluted earnings per share (in euros)	**0.22**	**0.11**

According to the decision of the annual general meeting of Arco Vara AS, held on May 10, 2016, a convertible bond was issued with the nominal value of 1000 euros. The new convertible bond gave to the CEO of 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. Calculated fair value of the option provided to the CEO is 0.63 euros per share. The option value is recognized proportionally over 3 years as payroll expense in income statement and as an equity reserve. In 2019, 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 were registered on the 27 May 2021. See also note 24.

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Notes to the Consolidated Position of Financial Statement

14. Receivables and prepayments

Short-term receivables and prepayments

As of 31 December	2021	2020
In thousands of euros		
Receivables from customers	90	1,283
Miscellaneous receivables	6	12
Prepaid and recoverable taxes	145	19
Other accrued income	24	13
Prepayments	3,436	17
Total short-term receivables and prepayments	**3,701**	**1,344**

The balance of prepaid and recoverable taxes consists of VAT paid on construction of apartment buildings.

In 2021, the Group performed a prepayment of 3,352 thousand euros for the immovable at the Harku Lake. As of 31 December 2021, a prepayment of 72 thousand euros has been performed to the contracting authorities in the Botanica Lozen project.

The Group has off-balance contingent income tax assets in its Bulgarian subsidiaries. The contingent tax assets can be used against the entities' future income tax liabilities. The Group's management estimates that the realisation of these income tax assets is unlikely because the companies which have potential income tax assets will not earn significant profits in the future.

Long-term receivables

As of 31 December	2021	2020
In thousands of euros		
Deposit	5	5
Total long-term receivables and prepayments	**5**	**5**

Receivables from customers were discounted by 6 thousand euros in 2021. In 2020, no receivables from customers were written off. See note 9.

15. Inventories

As of 31 December	2021	2020
In thousands of euros		
Properties purchased and being developed for resale	15,754	14,943
Materials and finished goods	7	17
Total inventories	**15,761**	**14,960**

Properties purchased and being developed for resale

	2021	2020
In thousands of euros		
Balance at the beginning of period, 1 January	**14,943**	**15,779**
Properties purchased for development	5,102	0
Construction costs of apartment buildings	5,737	7,117
Capitalized borrowing costs	148	266
Inventory write-down (note 8)	0	-40
Other capitalized costs	1,113	474
Reclassification from/to investment property (note 16)	30	1,358
Cost of sold properties (note 8)	-7,967	-10,011
Reclassification to prepayments (note 14)	-3,352	0
Balance at the end of period, 31 December	**15,754**	**14,943**

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Inventories were not discounted in 2021. In 2020, the Group wrote down inventories in the amount of 40 thousand euros.

The Group's management estimates that the Group has inventories realisable during one year in carrying value of 7,841 thousand euros as of 31 December 2021. Inventories in carrying value of 7,484 thousand euros are realisable in a longer period than one year.

Projects under development, which are classified as inventories, have been measured for the purpose of establishing the need for, and amount of, a write-down using the comparison method, also taking into account their cost value. In 2021, the value of the Group's inventories was determined by internal experts. In 2020, the value of the Group's inventories was determined by internal experts by 91% and 9% by external experts. Estimates used in valuations are based on real market prices and the Group's recent experience with comparable assets. As of 31 December 2021, inventories in the total amount of 15,754 thousand euros did not require a write-down or reversal of write-down (as of 31 December 2020: 14,482 thousand euros).

For information on inventories pledged as loan collateral, see note 22.

As of 31 December	2021	2020
In thousands of euros		
Measured using the residual value method	15,754	14,581
Measured using the comparison method	7	379
Total inventories	**15,761**	**14,960**

16. Investment property

Investment properties comprise the following types of assets:

1) Commercial spaces earning rental income in Sofia and Viljandi (total carrying value of 9,417 thousand euros on 31 December 2021, 9,522 thousand euros on 31 December 2020);
2) Land plots that have a development potential but the future use of which is still uncertain (carrying value of 527 thousand euros on 31 December 2021, 42 thousand euros on 31 December 2020).

As of 31 December	2021	2020
In thousands of euros		
Land plots	527	42
Shops and offices	8,486	8,378
Garages and parking places	930	1,144
Total investment property	**9,943**	**9,564**

If it is decided to start developing the registered immovable property with development potential, the future use of which was not yet certain for the time being, instead of selling them, the property shall be reclassified to inventories. In 2021, such investment properties amounted to 30 thousand euros (2020: 1,358 thousand euros).

	2021	2020
In thousands of euros		
Balance at the beginning of period, 1 January	**9,564**	**11,051**
Net loss on changes in fair value	468	-20
Capitalised development costs	51	42
Capitalised borrowing costs	0	14
Reclassification from/to inventories (note 15)	-30	-1,358
Reclassification to property, plant and equipment (note 17)	0	229
Sale of real estate (note 8)	-110	-394
Balance at the end of period, 31 December	**9,943**	**9,564**

Profits from the sale of investment properties amounted to 190 thousand euros in 2021 – together with the profit from the change in fair value, the profit from investment properties amounted to 658 thousand euros in 2021 (2020: loss of 20 thousand). Landplot at Paldiski road 74, current address Lammi 8, in Kodulahe, was reclassified into inventories in 2020.

For information on pledged assets, see note 22.

Changes in fair value of investment property

Valuation of land

Land plots, which are classified as investment properties, have been valued using comparison method, i.e. specialists have estimated the price for which the assets could be realised within one year by reference to prevailing market prices. In 2021

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as well as in 2020, the values of all of the Group's investment properties were determined by internal and partly by external experts. The greatest increase in 2021 was at the Pärtlivälja plot in Laagri: a detailed plan was established in the area which increased the value of the plot by 515 thousand euros.

Valuation of commercial and office spaces

Commercial and office spaces of Madrid Blvd building in Sofia have been valued using income method. In 2021, the value of such assets increased by 71 thousand compared to the balance of 31 December 2020, but as 137 thousand euros of investments were made in buildings over 2021, real estate valuation resulted in an overall loss of 58 thousand euros (profit of one thousand euros in 2020). The value of the rentable garages and parking lots was valued down by 8 thousand euros in 2021, the value did not change in 2020.

In 2021, the fair value of investment property was increased in the total amount of 468 thousand euros and decreased in the total amount of 20 thousand euros in 2020.

On 31 December 2021, investment properties with carrying value of 2 thousand euros did not require value adjustment (as of 31 December 2020: 1,497 thousand euros).

As of 31 December	**2021**	2020
In thousands of euros		
Measured using the income method	9,337	9,462
Measured using comparison method	607	102
Total investment property	**9,943**	**9,564**

In 2021 as well as in 2020, the exit yield used for valuation of investment properties with the income capitalisation method was 8%, which could be considered as a conservative yield expectation in the current era of low interest rates. Monthly average rental income per m^2 from commercial and office areas was 9,5 euros in 2021 and 9,3 euros in 2020.

The sensitivity of the carrying amount of investment properties measured using the income capitalisation method to the key valuation assumptions applied was as follows:

- A change of 1% (+/-) in the forecasted net operating cash flows would increase or reduce the fair value of investment property by 94 thousand euros (in 2020: by 95 thousand euros).

  A change of 5% (+/-) in the forecasted net operating cash flows would increase or reduce the fair value of investment property by 468 thousand euros (in 2020: by 474 thousand euros).

- A decrease of 0.5% in the exit yields would increase the fair value of investment property by 624 thousand euros (in 2020: by 640 thousand euros) and an increase of 0.5% would reduce the fair value by 607 thousand euros (in 2020: by 548 thousand euros).

  A decrease of 1% in the exit yields would increase the fair value of investment property by 1,338 thousand euros (in 2020: by 1,363 thousand euros) and an increase of 1% would reduce the fair value by 1,040 thousand euros (in 2020: by 1,043 thousand euros).

Operating leases: the Group as a lessor

In 2021, the Group's rental income on investment properties (Madrid Blvd building in Sofia) amounted to 810 thousand euros (in 2020: 699 thousand euros). Rental income increased by 111 thousand euros because in 2020, we offered tenants discounts due to Covid-19, and during the period of tenant changes, there were rent-free months. By the publishing date of the annual report, two commercial spaces were not rented out, the rest were rented out.

Direct property management expenses totalled 188 thousand euros in 2021 (in 2020: 244 thousand euros) including expenses in the amount of 5 thousand euros (in 2020: 13 thousand euros) from properties from which the Group did not earn any income.

Future operating lease rentals receivable under non-cancellable contracts break down as follows:

As of 31 December	**2021**	2020
In thousands of euros		
Up to 1 year	600	751
2-5 years	1,320	1,897
Total	**1,920**	**2,648**

Lease contracts are considered non-cancellable if:

1) they have been concluded for a fixed term (with the expiration date in 2022 or later);
2) lessee has the right to cancel the contract with 3-6-month notice but only after arrival of fixed date in 2022 or later.

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17. Property, plant and equipment and intangible assets

Property, plant and equipment

In thousands of euros	Land and buildings	Office equipment	Total property, plant and equipment
Carrying amount on 31 December 2019	**231**	**34**	**265**
Of which cost	*234*	*203*	*437*
Of which accumulated depreciation	*-3*	*-169*	*-172*
Reclassification to investment property (note 16)	-229	0	-229
Depreciation for the year (note 6)	-2	-12	-14
Carrying amount on 31 December 2020	**0**	**22**	**22**
Of which cost	*0*	*170*	*170*
Of which accumulated depreciation	*0*	*-148*	*-148*
Capitalization of rent	140	0	140
Additions	0	9	9
Sale of PPE	0	-2	-2
Depreciation for the year (note 6)	-7	-8	-15
Carrying amount on 31 December 2021	**133**	**21**	**154**
Of which cost	*140*	*167*	*307*
Of which accumulated depreciation	*-7*	*-146*	*-153*

Amortisation of tangible assets is recorded in the cost of real estate and services sold in 2021 in the amount of one thousand euros (see note 8) and in general administrative expenses in the amount of 14 thousand euros (see note 11); in 2020 14 thousand euros in general administrative expenses (see note 11).

As of 31.12.2021, the cost of property, plant and equipment that was fully amortized but still in use was two thousand euros (on 31 December 2020: 6 thousand euros).

Intangible assets

In thousands of euros	Total intangible assets
Carrying amount on 31 December 2019	**217**
Of which cost	*552*
Of which accumulated amortisation	*-335*
Purchases and software development	14
Amortisation for the year (note 6)	-95
Carrying amount on 31 December 2020	**136**
Of which cost	*522*
Of which accumulated amortisation	*-386*
Purchases and software development	0
Amortisation for the year (note 6)	-49
Carrying amount on 31 December 2021	**87**
Of which cost	*522*
Of which accumulated amortisation	*-435*

Amortisation of intangible assets is recorded in the cost of real estate and services sold in 2021 in the amount of 38 thousand euros (see note 8) and in general administrative expenses in the amount of 11 thousand euros (see note 11); in 2020 84 thousand and 10 thousand euros, respectively.

Intangible assets of the Group consist mainly of Arco Vara business software AVIS in the total amount of 407 thousand euros. There were no software developments for AVIS in 2021 nor 2020.

As of 31.12.2021, the cost of intangible assets that was fully amortized but still in use was 257 thousand euros (on 31 December 2020 also 257 thousand euros). For pledged assets, see note 22.

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18. Interest bearing liabilities

The overview of changes in net loans is as follows:

In thousands of euros	Cash and cash equivalents	Bank loans	Bonds	Other loans	Total
Net loans 31 Dec 2019	**870**	**-10,993**	**-1,327**	**0**	**-11,450**
Annual change	1,330	2,344	-453	-270	2,951
Net loans 31 Dec 2020	**2,200**	**-8,649**	**-1,780**	**-270**	**-8,499**
Annual change	-337	-231	0	-254	-822
Net loans 31 Dec 2021	**1,863**	**-8,880**	**-1,780**	**-524**	**-9,321**

The Group's management estimates that carrying amounts of the Group's loans and borrowings do not significantly differ from their fair value. The Group's major interest bearing liabilities are mostly related to Euribor and therefore reflect adequately the situation of current market interest rates. Information on assets pledged as loan collateral is presented in note 22.

Interest bearing liabilities comprise the following items:

	As of 31 December 2021			As of 31 December 2020		
In thousands of euros	**Total**	*of which current portion*	*of which non-current portion*	**Total**	*of which current portion*	*of which non-current portion*
Bank loans	8,880	3,844	5,036	8,649	3,212	5,437
Bonds	1,780	1,780	0	1,780	0	1,780
Capital lease	133	28	105	0	0	0
Other loans	391	391	0	270	270	0
Total interest bearing liabilities	**11,184**	**6,043**	**5,141**	**10,699**	**3,482**	**7,217**

In 2021, the Group settled loans and borrowings in the amount of 2,741 thousand euros (in 2020: 4,369 thousand euros) and raised new loans and borrowings in the amount of 3,944 thousand euros (in 2020: 7,849 thousand euros). Lease for the new office was capitalised for 140 thousand euros in 2021. 852 thousand euros of the settled loans were paid by customers directly to the bank (in 2020: 5,101 thousand euros).

<u>Changes in loans and borrowings in 2021</u>

In 2021, the following major loan obligations were settled:
- 391 thousand euros of Madrid Blvd project's bank loan principal;
- 1,864 thousand euros of bank loan for financing construction of apartment building in Iztok Parkside project;
- 407 thousand euros of Kodulahe project III Stage bank loan principal, 191 thousand euros without cash transactions through Kodulahe's bank account;
- 661 thousand euros of Kodukalda project bank loan principal, all without cash transactions through Kodulahe's bank account;
- 270 thousand euros of other loans.

In 2021, the group raised the following new liabilities:
- 3,554 thousand euros of bank loan for financing construction of apartment buildings in Kodulahe project Stages IV and V;
- 140 thousand euros of capitalizing of rent;
- 390 thousand euros of other loans of Arco Vara.

<u>Changes in loans and borrowings in 2020</u>

In 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 Kodulahe project III Stage bank loan principal, all without cash transactions through Kodulahe's bank account;
- 1,607 thousand euros of Kodukalda project bank loan principal, out of which 1,455 thousand without cash transactions through Kodukalda's bank account;
- 1,148 thousand euros of Arco Vara convertible bonds.

In 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;
- 1,601 thousand euros of Arco Vara convertible bonds;
- 270 thousand euros of other loans of Arco Vara.

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Amounts, interest rates and maturity dates of interest-bearing liabilities

Description of the liability	Maturity date (month/year)	Liability amount, in thousands of euros 31 Dec 2021	31 Dec 2020	Interest rate, % 31 Dec 2021	31 Dec 2020	Type of interest rate
Bank loan, development	10/2024	5,326	5,717	3.4	3.4	3M Euribor
Bank loan, development	12/2022	3,554	0	5.6	-	6M Euribor
Bank loan, development	6/2021	0	1,864	-	2.5	1M Euribor
Bank loan, development	9/2021	0	661	-	7.4	Fixed
Bank loan, development	10/2021	0	407	-	5.4	6M Euribor
Bonds, development	12/2022	1,780	1,780	10.0	10.0	Fixed
Capital lease	8/2026	133	-	2.5	-	Fixed
Other loan, settlements	5/2022	391	-	5.0	-	Fixed
Other loan, settlements	11/2021	0	270	-	10.0	Fixed
Total		**11,184**	**10,699**			

On 31 December 2021, the weighted average interest rate of interest-bearing liabilities was 5.2% (31 December 2020: 4.8%).

19. Payables and deferred income

Short-term payables and deferred income

As of 31 December	2021	2020
In thousands of euros		
Trade payables	**673**	**811**
Miscellaneous payables	**10**	**76**
Taxes payable		
Value added tax	24	1,431
Corporate income tax	32	1
Social security tax	9	14
Personal income tax	6	17
Garbage tax	2	23
Total taxes payable	**73**	**1,486**
Accrued expenses		
Payables to employees	102	17
Interest payable	7	44
Payable dividends	104	0
Other accrued expenses	2	100
Total accrued expenses	**215**	**161**
Deferred income		
Prepayments received on sale of real estate	1,268	631
Guarantee deposits	91	102
Other deferred income	38	41
Total deferred income	**1,397**	**774**
Total short-term payables and deferred income	**2,368**	**3,308**

As of 31 December 2021, the balance of prepayments received on sale of real estate included prepayments collected on presale of apartments of Kodulahe OÜ of 1,268 thousand euros. As of 31 December 2020, the balance of prepayments received on sale of real estate included prepayments collected on presale of apartments of Iztok Parkside projects in the amounts of 330 thousand euros, Kodulahe 3. stage of 230 thousand euros and 4.-5. stage of 55 thousand euros and Kodukalda of 16 thousand euros.

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20. Share capital

As of 31 December	2021	2020
Number of issued shares fully paid up	10,388,367	8,998,367
Share capital (in thousands of euros)	7,272	6,299
Share premium (in thousands of euros)	3,835	2,285
Statutory capital reserve (in thousands of euros)	2,011	2,011

The articles of association of Arco Vara AS set out the size of the company's share capital or the minimum and maximum amount of its capital. In accordance with its articles of association, the company's minimum and maximum authorised share capital amount to 2,500 thousand euros and 10,000 thousand euros, respectively. The company has issued registered ordinary shares of one class. The par value of a share is 70 cents and each share carries one vote. A share provides the holder with the right to participate in the company's general meetings, allocation of the company's profit, and distribution of remaining assets on dissolution of the company as well as with other rights provided by law and the company's articles of association.

Under the Commercial Code of the Republic of Estonia, every year a limited liability company has to transfer to the capital reserve at least 5% of its profit for the year until the capital reserve amounts to at least 10% of its share capital. The statutory capital reserve of the Company is in compliance with the regulatory requirement, amounting to 28% of share capital as of 31 December 2021.

21. Financial instruments and financial risk management

The Group's activities expose it to various financial risks: credit risk, liquidity risk and market risk.

The Group's overall risk management programme is based on the assumption that the financial markets are unpredictable and appropriate measures have to be adopted to minimise potential adverse impacts on the Group's financial activities. The Group has not used derivative financial instruments to hedge certain risk exposures in recent years.

The Group's risk management process is based on the premise that the Group's success depends on constant monitoring, accurate assessment and effective management of risks. Centralised financial risk management is the responsibility of the Group's financial team. The main objective of financial risk management is to prevent any damage or financial loss that could jeopardise the Group's equity and ability to continue operating as a going concern. The Group designs and implements risk management policies and activities that are aimed at identifying and evaluating risks and spreading risks across time, activities and geographical areas. Risk management policies and activities are implemented by the managers of group entities.

In managing its financial risks, the Group's main focus is on monitoring the risk exposures of the Development segment because a majority of the Group's liquidity and interest rate risks are concentrated in the Development segment in Estonia and Bulgaria.

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss to the Group by failing to discharge an obligation. The Group's credit risk exposures result from cash placed in bank deposits, and trade and other receivables.

Cash and cash equivalents comprise cash on hand and demand deposit accounts in commercial banks as follows:

As of 31 December	2021	2020
In thousands of euros		
Cash on hand and demand deposits	1,863	2,200
Total cash and cash equivalents	**1,863**	**2,200**

At the end of year 2021, out of the Group's cash and cash equivalents balance, 253 thousand euros (31 December 2020: 168 thousand euros) was in accounts with a designated purpose limited to the cash flows of specific projects (mostly receipts from customers, direct project development costs and loan and interest payments to banks). For pledged assets, see note 22.

The Group's cash and cash equivalents are held at different banks, which reduces credit risk associated with deposits. Credit ratings of two banks holding almost all of the Group's cash deposits as of 31 December 2021, are presented in the following table.

Bank or banking group	Bank's share of the Group's cash balance	Standard & Poor's	Moody's
Raiffeisenbank Bulgaria	19.67%	A-	Baa1
LHV Pank AS	80.18%	Not rated	Baa3
Cash in other banks and petty cash	0.15%	-	-

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Credit risk is managed mainly by making sure that there are no major concentrations of credit risk. Group entities prevent and minimize credit risk by monitoring and managing customers' settlement behaviour daily so that appropriate measures could be applied on a timely basis. In addition, sales and construction activities are partly financed with customer prepayments and in real estate transactions, where the counterparty is often financed by a credit institution, the Group cooperates with banks. Consequently, the Group considers the total risk arising from customer insolvency to be, in all material respects, mitigated.

Other financial assets – trade and other receivables – are also exposed to credit risk. The Group has receivables that are past due but have not been provided for in the amount of 349 thousand euros as of 31 December 2021. Management has estimated the value of such receivables on an individual basis and has determined that the items are recoverable. In addition, due to the nature of the Group's sales, where receivables from sale and lease of own properties are generally collected within a very short period of time, the write-down of receivables based on the principles described above is insignificant during reporting periods.

All financial assets exposed to credit risk are recorded at amortized cost.

The total amount of financial assets exposed to credit risk was 2,212 thousand euros as of 31 December 2021 (31 December 2020: 3,544 thousand euros).

Financial assets by maturity

	on 31 December 2021			
By maturity	< 3 months	3-12 months	1-2 years	Total
In thousands of euros				
Cash and cash equivalents	1,863	0	0	1,863
Trade and other receivables (note 14)	349	0	3,352	3,701
Total	**2,212**	**0**	**3,352**	**5,564**

	on 31 December 2020			
By maturity	< 3 months	3-12 months	1-2 years	Total
In thousands of euros				
Cash and cash equivalents	2,200	0	0	2,200
Trade and other receivables (note 14)	1,344	0	0	1,344
Total	**3,544**	**0**	**0**	**3,544**

Liquidity risk

Liquidity risk is the risk that a potential change in its financial position will cause the Group to encounter difficulty in meeting its financial liabilities in a due and timely manner, or that the Group will be unable to realise its assets at market price and within the desired timeframe. Above all, the Group's liquidity is affected by the following factors:

- group entities' ability to generate independent positive net operating cash flows and the volatility of those cash flows;
- mismatch in the maturities of assets and liabilities and flexibility in changing them;
- marketability of long-term assets;
- volume and pace of real estate development activities;
- financing structure.

Short-term liquidity management is based mainly on group entities' continuously monitored monthly cash flow forecasts. The purpose of short-term liquidity management is to guarantee the availability of a sufficient amount of highly liquid funds (i.e. cash and cash equivalents and highly liquid investments in financial instruments). The main tool for short-term liquidity management both in Estonia and in group entities outside Estonia is intra-group borrowing from the parent company.

Long-term liquidity is primarily influenced by investment decisions. The Group observes the principle that group entities' total net cash inflow from operating and investing activities has to cover the Group's total cash outflows from financing activities. Accordingly, the purpose of long-term liquidity management is to ensure sufficient liquidity of the real estate portfolio (investment properties portfolio), to match the timing of cash flows from investing and financing activities, and to use the optimal financing structure. Long-term projects are monitored to ensure that the timing and amounts of investing cash flows do not differ significantly from the timing and amounts of financing cash flows.

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Maturity structure of financial liabilities

By maturity	< 3 months	3-12 months	1-5 years	Total
				on 31 December 2021
In thousands of euros				
Interest-bearing liabilities	79	5,964	5,141	11,184
Interest payable	146	423	500	1,069
Other financial liabilities (trade payables, accrued expenses, excluding liabilities to employees)	862	0	0	862
Total	**1,087**	**6,387**	**5,641**	**13,115**

By maturity	< 3 months	3-12 months	1-5 years	Total
				on 31 December 2020
In thousands of euros				
Interest-bearing liabilities	477	3,005	7,217	10,699
Interest payable	126	308	860	1,294
Other financial liabilities (trade payables, accrued expenses, excluding liabilities to employees)	2,473	0	0	2,473
Total	**3,076**	**3,313**	**8,077**	**14,466**

Based on the maturities of liabilities included in the Group's loan portfolio, as of 31 December 2021, the average weighted maturity of the Group's loans and borrowings was 2.0 years (as of 31 December 2020: 2.5 years). For more information on loans and borrowings see also note 18.

The Group's management estimates that the carrying amount of the Group's financial liabilities does not differ significantly from their fair value.

Refinancing risk is managed by monitoring the liquidity position on a daily basis, analysing different financing options on an ongoing basis and involving partner banks from different countries already in the initial stage of the process.

Market risk

Interest rate risk

Interest rate risk is the risk that a rise in market interest rates will increase interest expense to an extent that will have a significant impact on the Group's performance. The Group's exposure to interest rate risk results from:

- use of loans and borrowings with a floating interest rate;
- refinancing liabilities on the arrival of their due dates;
- raising new loans for realising an investment plan in a situation where the volatility of financial markets is increasing and the economic environment is changing.

The Group's bonds and other borrowings have a fixed interest rate and are independent of changes in the money market. The Group's long-term loans and borrowings are linked to 3-month or 6-month Euribor. Therefore, the Group is exposed to developments in the international financial markets. Interest rate risk is managed, among other things, by monitoring movements in the money market interest rate curve, which reflects the market participants' expectations of market interest rates and allows estimating a trend for euro-denominated interest rates. During 2021, Euribor interest rates have been negative. Therefore, there is practically no Euribor component in the Group's loans as of 31 December 2021 and also as of 31 December 2020.

The sensitivity analysis of the Group's profit before tax, which was conducted based on the balance of loans and borrowings as of 31 December 2021, indicated that a 1 percentage point change (increase or decrease) in interest rates of floating rate loans would have affected (increased or reduced) profit before tax by 112 thousand euros (on 31 December 2020: 107 thousand euros).

In managing its short-term interest rate risks, the Group regularly compares potential losses from changes in interest rates against corresponding risk hedging expenses. To date, no financial instruments have been used to hedge short-term interest rate risks because according to management's assessment hedging expenses would exceed potential losses from changes in interest rates.

The interest rate of liabilities with a fixed interest rate does not differ significantly from the current market interest rates.

Currency risk

Because the only significant currency for the Group beside euro – Bulgarian lev – is pegged to euro, the main currency risk is the risk of devaluation of Bulgarian lev. Currency risk is mitigated also by conducting most of transactions and signing all major agreements, including loan contracts in euros. In view of the above, the Group's management considers currency risk to be insignificant.

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Fair value of financial instruments

Management estimates that the carrying amount of the Group's financial assets and liabilities does not significantly differ from their fair value.

Trade receivables and payables are short-term and therefore the management estimates that their carrying amount is close to their fair value. Most of the Group's long-term borrowings are based on floating interest rates, which change according to the market interest rate. According to the management's opinion, the Group's risk margins have not significantly changed compared to the time when the loans were received and the Group's interest rates on borrowings correspond to market conditions. Based on the above, the management estimates that the fair values of long-term payables and receivables are an approximation of their carrying amount. To determine the fair value, a discounted cash flow analysis has been used, by discounting contractual future cash flows with current market interest rates that are available to the Group for using similar financial instruments.

Fair value of financial instruments is level 3.

Capital management

The Commercial Code of the Republic of Estonia sets forth the following requirements to the share capital of companies registered in Estonia:

• the minimum share capital of a limited liability company defined as *aktsiaselts* has to amount to at least 25 thousand euros;

• the net assets of a limited liability company defined as *aktsiaselts* have to amount to at least half of its share capital but not less than 25 thousand euros.

The size of the share capital or the minimum and maximum capital of a limited liability company have to be set out in the company's articles of association whereby minimum capital has to amount to at least one quarter of maximum capital. As of 31 December 2021, the share capital of Arco Vara AS consists of 10,388,367 ordinary shares (with nominal value of 70 eurocents per share) and has been fully paid in. According to the effective articles of association of Arco Vara AS, share capital may be increased or reduced within the range of 2,500 thousand to 10,000 thousand euros without changing the articles of association. As of 31 December 2021, the share capital of Arco Vara AS was 7,272 thousand euros and net assets were 17,962 thousand euros. Thus, the Group's share capital and net assets (equity) were in accordance with the regulatory requirements of the Republic of Estonia.

In addition to meeting regulatory requirements, the net assets of some of the Group's subsidiaries have to meet the loan covenants agreed with credit institutions; otherwise, the bank may apply higher interest rates to existing loans. These covenants refer to legal requirements in respect to the capital of a company and are limited to the obligation of obtaining the credit institution's written consent for changing the debtor's capital. As of 31 December 2021 and 31 December 2020, the equity was positive in all group companies with bank loans.

The total capital of Arco Vara AS is the sum of its short- and long-term interest bearing loans and borrowings less cash and cash equivalents. On 31 December 2021, total capital amounted to 27,283 thousand euros (on 31 December 2020: 22,723 thousand euros).

The guiding principle in capital management is to safeguard the Group's reliability and sustainable development. The Group finances its operations with both debt and equity capital. Property development is very capital intensive. Therefore, investment projects are financed on the assumption that, as a rule, equity financing should amount to at least 30% of the total cost of the investment.

In designing the optimal financing structure and identifying and evaluating risks, the Group monitors its equity to assets ratio. On 31 December 2021, equity accounted for 57.0% (on 31 December 2020: 50.4%) of total assets.

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Other Information

22. Assets pledged as collateral

The Group has secured its loans and borrowings by providing the following collateral:

As of 31 December	2021	2020
In thousands of euros		
Cash and cash equivalents	253	168
Receivables [1]	39	1,268
Inventories	7,667	9,237
Investment property	9,337	9,462
Total carrying value of assets pledged as collateral	**15,296**	**20,135**

[1] - Pledged receivables must be collected to bank accounts with limited usage.

23. Contingent liabilities

Contingent income tax liability

As of 31 December 2021, the Group's retained earnings amounted to 4,844 thousand euros (on 31 December 2020: 3,356 thousand euros). Usually, income tax of 20/80 of net dividend paid is imposed on the profit distributed as dividends, but dividends from Bulgarian subsidiaries can be paid out to Arco Vara shareholders without additional tax. In 2021 and in 2020, this opportunity was used when paying out dividends to shareholders in the amount of 480 and 360 thousand euros accordingly (0.05 or 0.04 euros per share) without income tax obligation.

As of 31.12.2021, Arco Vara could pay dividends in the amount of 935 thousand euros without income tax obligation. Upon the payment of all retained earnings in 2022, income tax liability would be 782 thousand euros and the amount to be paid out to shareholders would total 3,127 thousand euros.

Conditional obligations in relation to the purchase of land adjacent to Harku Lake

Aktsiaselts Kolde, a subsidiary of Arco Vara, concluded a contract for purchasing land on the shores of Harku Lake at Paldiski road 124b, Tallinn and paid 3,353 thousand euros. Over 30,000 m^2 of residential and business real estate (gross building area) is intended to be developed. In relation to this, the subsidiary of Arco Vara assumed the obligation to also pay additional 3,252 thousand euros for the purchase of land by Harku Lake in 2023 if the building rights permitted in the new detailed plan remain over 30,000 m^2 GBA (gross building area). The board assesses GBA of 30,000 m^2 to be realistic and payment of the price for purchasing land is intended.

24. Related party disclosures

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

1) Parent company OÜ Alarmo Kapital and companies under the control of the chief executive officer and the members of the supervisory board of Arco Vara AS that have a significant interest in the Group;

2) other related parties – the chief executive officer and the members of the supervisory board of Arco Vara AS and companies under the control of these persons (excluding companies that have a significant interest in the Group.

Balances with related parties

As of 31 December	2021	2020
In thousands of euros		
Other related parties		
Receivables from customers	148	0

The CEO and a member of the supervisory board intend to buy apartments in the Kodulahe house being developed, having therefore made prepayments for a total of 148 thousand euros.

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Transactions with related parties

In thousands of euros	2021	2020
Companies that have a significant interest in the Group		
Services purchased	67	58
Redemption of bonds	0	273
Other related parties		
Services sold	0	1

Remuneration of key management personnel

The key management personnel are the member of the management board / CEO of Arco Vara AS and members of the supervisory board. In 2021, the remuneration of the CEO, including social security charges amounted to 297 thousand euros (89 thousand euros in 2020). Remuneration of the members of the Group's supervisory board was 24 thousand euros in 2021 and 18 thousand in 2020.

The remuneration provided to the CEO / member of the management board is based on his contract of service. As of 30 April 2020, a fixed monthly fee has been set by a resolution of the Supervisory Board on the basis of the contract of service of Miko-Ove Niinemäe, the member of the Management Board of Arco Vara AS. A severance compensation of 5 monthly wages is payable to the CEO upon leaving. The severance reserve is stated in full in expenses of 2021. Read more about the rewarding system of the CEO in the remuneration report.

The members of the supervisory board will receive 500 euros (net amount) for every meeting where they have participated, but not more than 1000 euros (net amount) per month. The payment of the remuneration is dependent on signing of the minutes of the meetings of the supervisory board. Reasonable travel expenses made for participating in the board meetings are also compensated to the members of the supervisory board. The chairman of the supervisory board receives an 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 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 were registered on 27 May 2021. See also note 13.

In 2021 and 2020, all transactions with related parties have been conducted on market conditions and no receivables from related parties were impaired.

25. Structure of Arco Vara group

		Group's ownership interest	
Group	Domicile	**On 31 December 2021**	On 31 December 2020
%			
Development segment			
Subsidiaries			
Kerberon OÜ	Estonia	100	100
Kolde OÜ	Estonia	100	100
Kodulahe OÜ	Estonia	100	100
Kodulahe Kvartal OÜ	Estonia	100	100
Kodukalda OÜ	Estonia	100	100
Kodulahe II OÜ	Estonia	100	100
Arco Vara Bulgaria EOOD	Bulgaria	100	100
Iztok Parkside EOOD	Bulgaria	100	100
Botanica Lozen EOOD	Bulgaria	100	100
Arco Invest EOOD	Bulgaria	100	100
Arco Manastirski EOOD	Bulgaria	100	100
Arco Riverside EOOD	Bulgaria	100	100
Marsili II SIA	Latvia	100	100

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26. Events after reporting date

Founding a construction company

In January 2022, Arco Vara AS founded a 100% subsidiary Arco Tarc OÜ, which started dealing in main contracting for building the developments of the Arco Vara group. The need for own building company arose from increased construction volumes and the schedule of developments of Arco Vara, which had generated clear long-term construction volumes. This also means that the group will form a construction segment as at 2022.

Sale of the Immovable of Pärtlivälja

In January 2022, the Pärtlivälja land plot in Saue was sold. In 2022, the sales transaction generated a profit of 3 thousand euros.

War in Ukraine

The war that started in Ukraine in February 2022 affected the availability of steel for construction and increased its price. In the budget of Kodulahe stage IV or Rannakalda, of which construction started in 2022, meant an increase of 100 thousand euros. The steel has been ordered by the date of publication of the report and the construction of the Rannakalda can be continued as planned.

The extent to which the cost of construction will be impacted by the reduction of the cheaper workforce from Ukraine is difficult to estimate, as the construction of the Rannakalda will last for 2 years. It is estimated that this amount is not so large that the company should change its plans regarding the project.

Other projects to be launched or under construction in 2022 are not significantly influenced by the war in Ukraine, pursuant to the information available at the time of the report.

Sale of the Madrid building in Sofia

The group is planning to sell the Madrid Boulevard commercial building in Sofia. Renting and handling of commercial buildings is not the group's main activity. The own capital released is planned to be reinvested in new land purchases of residential real estate.

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27. Parent company's unconsolidated primary financial statements

In accordance with the Accounting Act of Estonia, unconsolidated primary financial statements of consolidating unit (parent company) have been disclosed in the notes of the consolidated annual report. The parent company's primary reports are prepared using the same accounting principles and estimation basis used in consolidated financial statements, excluding subsidiaries, which are accounted for in parent company's unconsolidated primary financial statements using cost method.

UNCONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2021	2020
In thousands of euros		
Revenue from rendering of services	**862**	**695**
Cost of sales	-41	-85
Gross profit	**821**	**610**
Other income	70	0
Marketing and distribution expenses	-84	0
Administrative expenses	-796	-434
Other expenses	0	-259
Operating profit/loss	**11**	**-83**
Gain on investments in subsidiaries	-1	-68
Interest income	1,030	821
Interest expense	-442	-277
Total finance income and costs	**587**	**476**
Net profit for the year	**598**	**393**
Total comprehensive income for the year	**598**	**393**

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UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December	2021	2020
In thousands of euros		
Cash and cash equivalents	1,424	62
Receivables and prepayments	412	3,783
Total current assets	**1,836**	**3,845**
Investments into subsidiaries	11,042	10,044
Receivables and prepayments	9,973	3,845
Property, plant, and equipment	146	6
Intangible assets	48	87
Total non-current assets	**21,209**	**13,982**
TOTAL ASSETS	**23,045**	**17,827**
Loans and borrowings	4,508	1,437
Payables and prepayments	823	463
Total current liabilities	**5,331**	**1,900**
Loans and borrowings	3,057	3,535
Total non-current liabilities	**3,057**	**3,535**
TOTAL LIABILITIES	**8,388**	**5,435**
Share capital	7,272	6,299
Unregistered share capital	0	273
Share premium	3,835	2,285
Statutory capital reserve	2,011	2,011
Retained earnings	1,539	1,524
Total equity	**14,657**	**12,392**
TOTAL LIABILITIES AND EQUITY	**23,045**	**17,827**

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UNCONSOLIDATED STATEMENT OF CASH FLOWS (direct method)

	2021	2020
In thousands of euros		
Cash receipts from customers	1,720	883
Cash paid to suppliers	-465	-326
Taxes paid and recovered (net)	677	1,174
Cash paid to employees	-220	-137
Other payments and receipts related to operating activities (net)	13	9
NET CASH FROM/USED IN OPERATING ACTIVITIES	**1,725**	**1,603**
Paid on acquisition of tangible and intangible assets	-9	0
Proceeds from sale of tangible assets	-8	0
Loans provided	-10,025	-2,908
Repayment of loans provided	5,000	614
Interest received	547	118
Other payments related to investing activities	9	-250
NET CASH FROM/USED IN INVESTING ACTIVITIES	**-4,486**	**-2,426**
Proceeds of loans received	3,545	2,101
Settlement of loans and borrowings	-998	-1,282
Proceeds from share capital issue	2,250	273
Dividends paid	-479	-360
Interest paid	-195	-164
NET CASH FROM FINANCING ACTIVITIES	**4,123**	**568**
NET CASH FLOW	**1,362**	**-255**
Cash and cash equivalents at beginning of year	**62**	**317**
Change in cash and cash equivalents	1,362	-255
Cash and cash equivalents at end of year	**1,424**	**62**

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UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total
In thousands of euros							
Balance on 31 December 2019	**6,299**	**0**	**2,285**	**2,011**	**245**	**1,246**	**12,086**
Profit distribution	0	0	0	0	0	-360	-360
Increase of share capital	0	273	0	0	0	0	273
Other reserves	0	0	0	0	-245	245	0
Net profit for the year	0	0	0	0	0	393	393
Balance on 31 December 2020	**6,299**	**273**	**2,285**	**2,011**	**0**	**1,524**	**12,392**
Profit distribution	0	0	0	0	0	-583	-583
Increase of share capital	973	-273	1,550	0	0	0	2,250
Net profit for the year	0	0	0	0	0	598	598
Balance on 31 December 2021	**7,272**	**0**	**3,835**	**2,011**	**0**	**1,539**	**14,657**

Adjusted unconsolidated equity

As of 31 December	**2021**	**2020**
In thousands of euros		
Parent company's unconsolidated equity	**14,657**	**12,392**
Carrying amount of investments in subsidiaries in the parent company's unconsolidated statement of financial position (-)	-11,042	-10,044
Value of investments in subsidiaries under the equity method (+)	14,347	11,876
Parent company's adjusted unconsolidated equity	**17,962**	**14,224**

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STATEMENT BY THE MANAGEMENT BOARD

The member of the management board of Arco Vara AS declares and confirms that according to his best knowledge, the annual accounts for year 2021 are prepared according to the Financial Reporting Standards (IFRS) as adopted by the EU, present a true and fair view of the assets, liabilities, financial situation and profit or loss of Arco Vara AS and the Group as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of Arco Vara AS and the Group as a whole, and contains a description of the main risks and uncertainties.

The member of the management board of Arco Vara AS also declares that Arco Vara group is a going concern.

April 6, 2022

/signed digitally/

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

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KPMG

Independent auditors' report

To the Shareholders of Arco Vara AS

(Translation of the Estonian original)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Arco Vara AS and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair value of investment properties	
Refer to Note 2 "Statement of compliance and basis of preparation", 4 "Summary of significant accounting policies", and Note 16 "Investment properties"	
The key audit matter	**How the matter was addressed in our audit**
As at 31 December 2021, the carrying amount of the group's investment property was 9.94 million euros. 9.42 million euros of the investment property balance, is a building in Bulgaria, Sofia, which is made up of office and	In this area, we conducted, among others, the following audit procedures: • Assessed the model used for measuring the fair values of the Group's investment properties against the requirements of relevant financial

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commercial spaces together with parking spaces. The fair value of the investment property in Bulgaria was determined by the management. using income approach. The valuation technique uses various observable and unobservable inputs such as maximum rentable area, vacancy by property, net rent charge per square meter and capitalisation rates. Reasonableness of the valuation is evaluated by comparison with market data for comparable transactions. For the purposes of the valuation the management takes into account existing property-specific information, such as current tenancy agreements. However, other inputs are based on future forecasts and assumptions, such as estimated future rental rates, vacancy trends and capitalisation rates. The valuation of the group's office and commercial premises and parking spaces in Bulgaria is inherently subjective due to, among other factors, the individual nature, historic performance and the location of property. The results of valuation are sensitive to changes in the inputs used in the valuation model. Due to the magnitude and related estimation uncertainty, valuation of office and commercial premises and parking spaces in Bulgaria, the audit of investment property requires significant time and resources. Due to the above mentioned facts, the valuation of investment property in Bulgaria is considered a key audit matter.	reporting standards, and against those applied by other appraisers for similar properties, • Assessed the reasonableness of the key valuation inputs applied in the model. On a sample basis, we performed detailed testing of the inputs used in the valuation model. For inputs based on existing contracts and regulations (including total rentable space, existing rent charge per square meter, property taxes, etc.) we reconciled them to the underlying contracts and property-specific information. • For inputs based on forecasts and assumptions we assessed their reasonableness by comparing them with historical property-specific data and available market information (including market rents, vacancy and yields) obtained from the reports of independent real estate advisory companies active in Bulgaria. • We also read the disclosures provided in respect of fair values of investment properties, including sensitivity analysis, to assess the compliance of the disclosures with IFRS (EU). We recalculated sensitivity analysis on key assumptions, such as changes in rental prices and capitalisation rates.

Other Information

Management is responsible for the other information. The other information comprises the information included in the management report, the corporate governance report and the remuneration report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, our responsibility is to state whether the information presented in the management report has been prepared in accordance with the

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applicable legal and regulatory requirements. With respect to the remuneration report, our responsibility also includes considering whether the remuneration report has been prepared in accordance with the requirements of Article 135^3 of the Securities Market Act.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard and we state that the information presented in the management report is materially consistent with the consolidated financial statements and in accordance with the applicable legal and regulatory requirements.

In our opinion, the remuneration report has been prepared in accordance with the requirements of Article 135^3 of the Securities Market Act.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (Estonia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists

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related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Report on Compliance with the Requirements for iXBRL tagging of Consolidated Financial Statements included within the European Single Electronic Format Regulatory Technical Standard (ESEF RTS)

We have undertaken a reasonable assurance engagement on the iXBRL tagging of the consolidated financial statements included in the digital files Arco_Vara-2021-12-31-et.zip prepared by Arco Vara AS.

Responsibilities of Management for the Digital Files Prepared in Compliance with the ESEF RTS

Management is responsible for preparing digital files that comply with the ESEF RTS. This responsibility includes:

– the selection and application of appropriate iXBRL tags using judgement where necessary;

– ensuring consistency between digitised information and the consolidated financial statements presented in human-readable format; and

– the design, implementation and maintenance of internal control relevant to the application of the ESEF RTS.

Auditors' Responsibilities

Our responsibility is to express an opinion on whether the electronic tagging of the consolidated financial statements complies in all material respects with the ESEF RTS based on the evidence we have obtained.

We apply the provisions of the International Standard on Quality Control (Estonia) 1 and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (Estonia) (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) issued by the International Auditing and Assurance Standards Board.

A reasonable assurance engagement in accordance with ISAE 3000 (Revised) involves performing procedures to obtain evidence about compliance with the ESEF RTS. The nature, timing and extent of procedures selected depend on the practitioner's judgment, including the assessment of the risks of material departures from the requirements set out in the ESEF RTS, whether due to fraud or error. A reasonable assurance engagement includes:

– obtaining an understanding of the tagging and the ESEF RTS, including of internal control over the tagging process relevant to the engagement;

– reconciling the tagged data with the audited consolidated financial statements of the Group dated 31 December 2021;

– evaluating the completeness of the tagging of the consolidated financial statements;

– evaluating the appropriateness of the Group's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;

– evaluating the use of anchoring in relation to the extension elements.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements included in the annual report of Arco Vara AS identified as Arco_Vara-2021-12-31-et.zip for the year ended 31 December 2021 are tagged, in all material respects, in compliance with the ESEF RTS.

Other Requirements of the Auditors' Report in Accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council

We were appointed by those charged with governance on 30 April 2020 to audit the consolidated financial statements of Arco Vara AS for the year ended 31 December 2020-31 December 2021. Our total uninterrupted period of engagement is 2 years, covering the periods ending 31 December 2020 to 31 December 2021.

We confirm that:

– our audit opinion is consistent with the additional report presented to the Audit Committee of the Group;

– we have not provided to the Group the prohibited non-audit services (NASs) referred to in Article 5(1) of EU Regulation (EU) No 537/2014. We also remained independent of the audited entity in conducting the audit.

Tallinn, 6 April 2022

/signed digitally/

Indrek Alliksaar

Certified Public Accountant,
Licence No 446

/signed digitally/

Andres Soosalu

Certified Public Accountant,
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This version of our auditors' report is a copy from the original, which was prepared in xhtml format and presented to Nasdaq Tallinn together with the original version of the consolidated financial statements. All possible care has been taken to ensure that the copy is an accurate representation of the original, excluding xbrl tagging. However, in all matters of interpretation of information, views or opinions, the original version of our report takes precedence over this copy.