

Arco Vara AS

Annual report 2022



CONSOLIDATED ANNUAL REPORT
(Translation of the Estonian original)

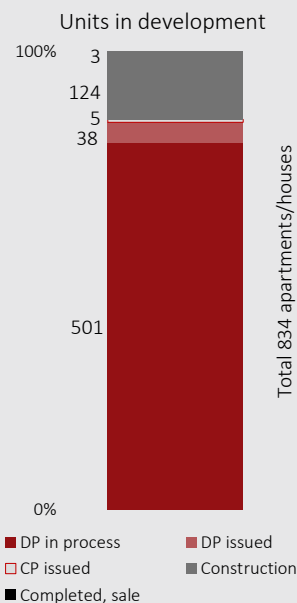
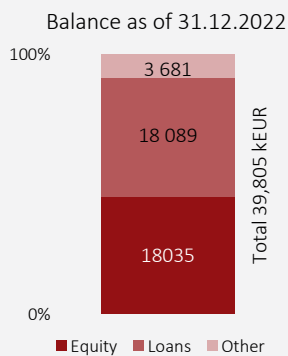
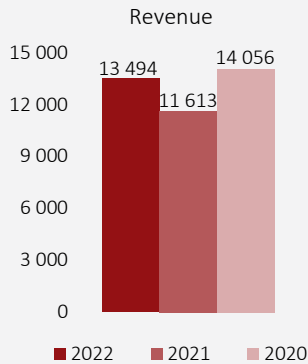
Company name	Arco Vara AS
Registry number	10261718
Address	Rotermanni tn 10, 10111 Tallinn, Republic of Estonia
Telephone	+372 614 4630
E-mail	info@arcovara.com
Corporate website	www.arcovara.com
Financial year	1 January 2022 – 31 December 2022
Supervisory board	Tarmo Sild, Steven Yaroslav Gorelik, Kert Keskaik, Hillar-Peeter Luitsalu, Allar Niinepuu
Chief executive	Miko-Ove Niinemäe
Auditor	PricewaterhouseCoopers Aktsiaselts

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Management Report

Group CEO's Review



The real estate market was clearly a rollercoaster this past year: the amount of capital being invested in real estate exceeded all expectations at the beginning of the year, the second half of the year was the clear opposite. And the volatility of construction prices fuelled the fire on top of everything else, which has settled down by now. Arco Vara did not remain untouched by these aspects.

In 2022, clients received 72 new homes in the Kodulahe Quarter in the Pagi 3 and 5 houses, where all apartments had been presold at the time of completing the buildings. The group had no products ready to be delivered in stock throughout 2022, illustrating what happened on the market in the first half of 2022. As at the end of Q3 of 2022, the Kodulahe Rannakalda development contained 11.0 million euros' worth of contracts of presale, but only 1.7 million euros' worth of contracts have been added in the half a year before publishing this report, a good example of the impact of increased interest rates starting in Q4 of 2022. However, the recovering number of inquiries and the increased number of applications for home loans in banks show positive signs, which also has the potential to be reflected in the presales of 2023 of Arco Vara.

The most important event in 2022 for us in Bulgaria was the decision to sell the office building of Madrid BLVD. As the group was not satisfied with the rental revenue of the building after several efforts, a contract of presale was concluded in Q4. The latest date for the transaction entering into force is in June 2023. The aim of Arco Vara is to direct the released 4.1 million euros into projects with a ROE of at least 20% per year.

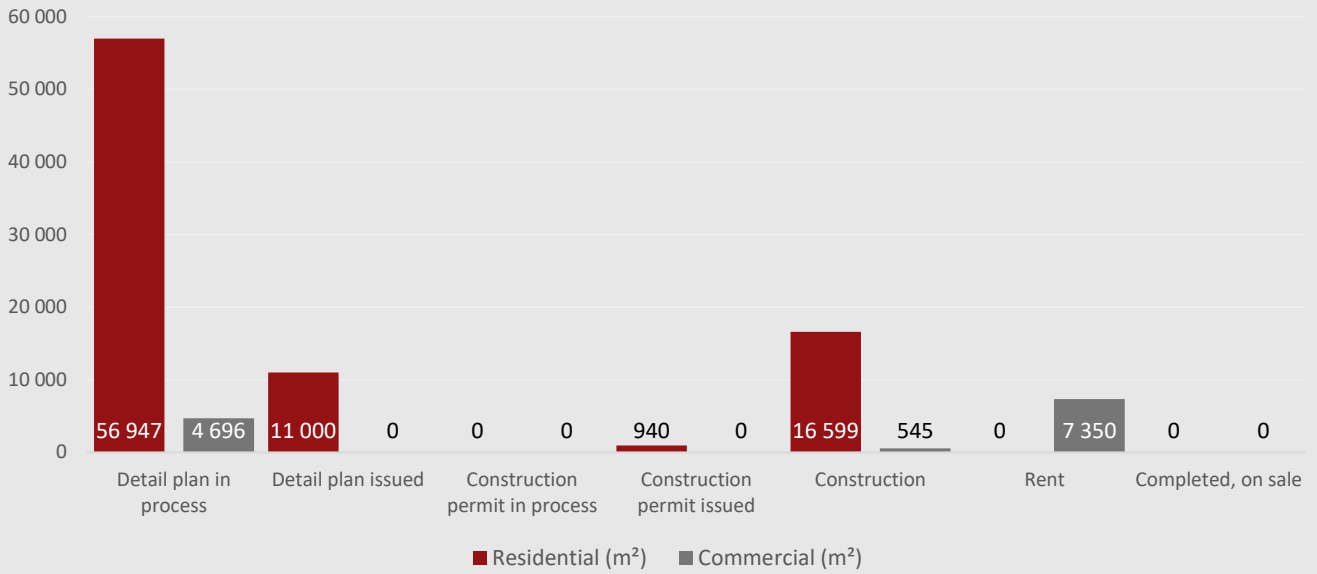
Last year, the Bulgarian team commenced the construction of the first stage of the Botanica Lozen Residences. The development of the first stage, consisting of 16 homes, is continuing as expected. One house has been presold as at the time of this report. A project is being drawn up for stages 2 and 3 of Botanica Lozen, for the construction permit of the next stage to be issued in Q3 of 2023.

As a deeper look into financial indicators, the high equity-to-asset ratio of recent years has given the group a good position for entering the slower period. At the end of 2022, we obtained a new plot in the Kodulahe Quarter. The team of Arco Vara also continues the development activities of all stages of Kodulahe, Botanica Lozen, and Arcojärve, with the aim to transfer 200 homes per year to clients.

The development and construction teams of Arco Vara face new challenges in 2023 which cannot be likened to those experienced in 2021 and 2022. The risks of war and healthcare are distant today, but their potential unexpected impact, unpredictable in scope, needs to be kept in mind all the same.

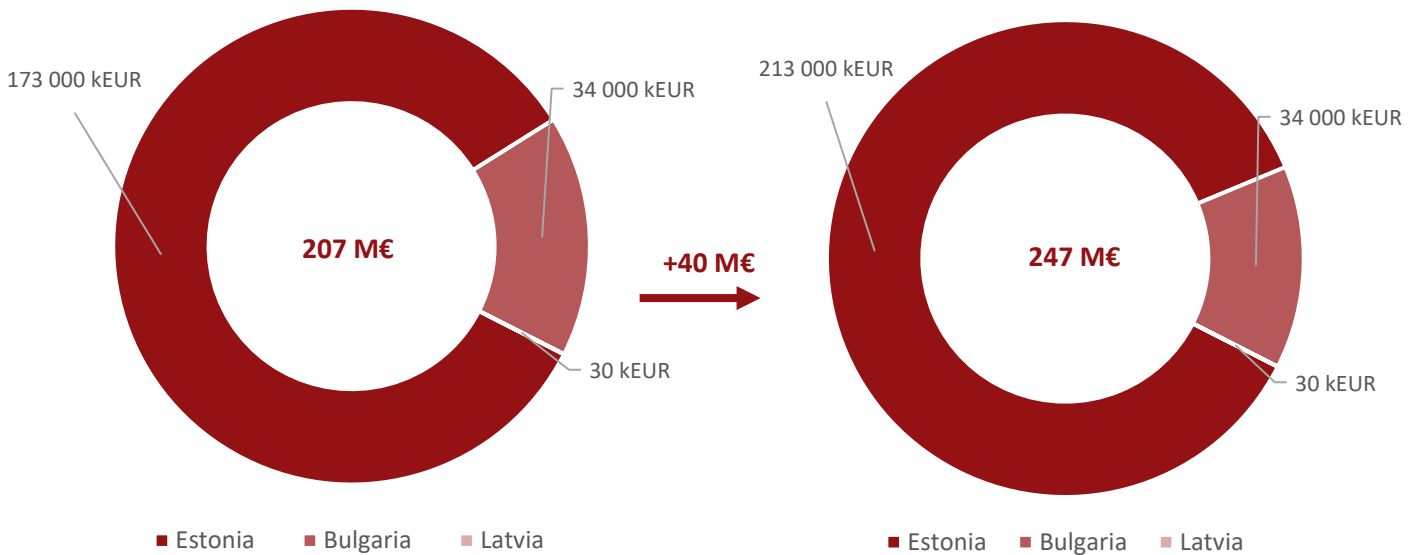
Development volumes (gross m²)

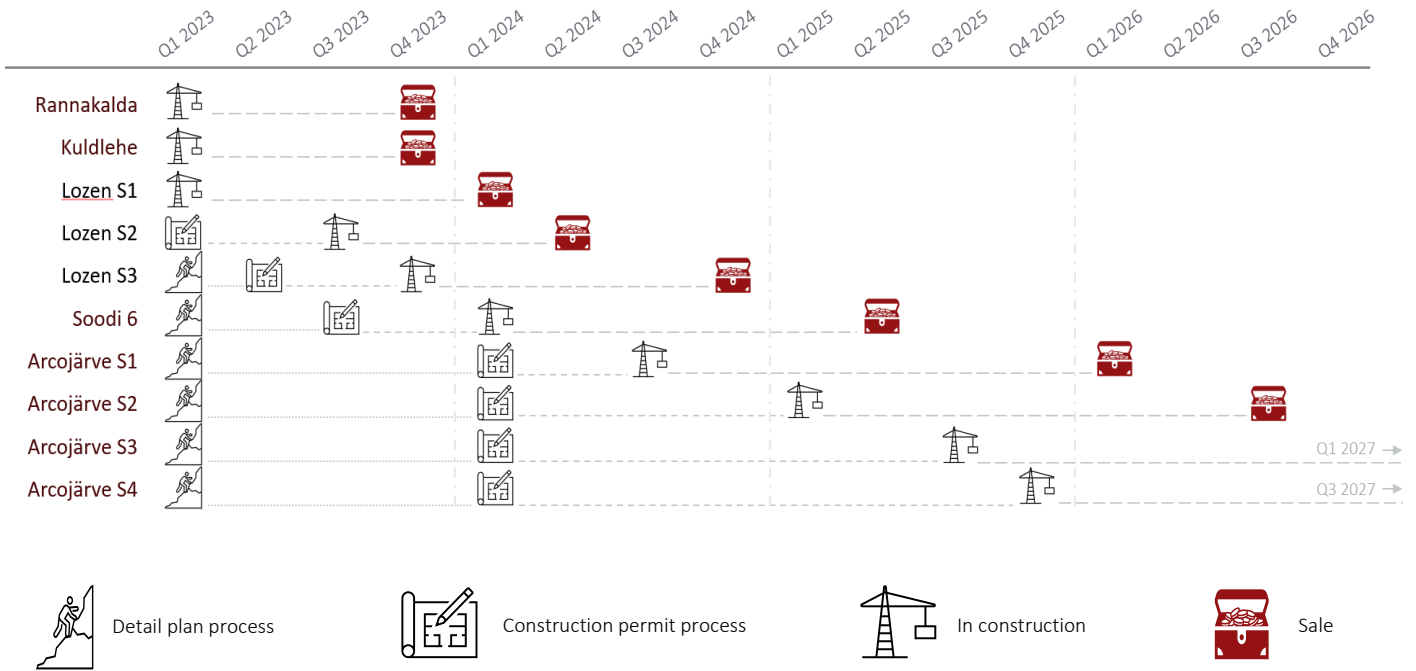
Total 98,077 m²



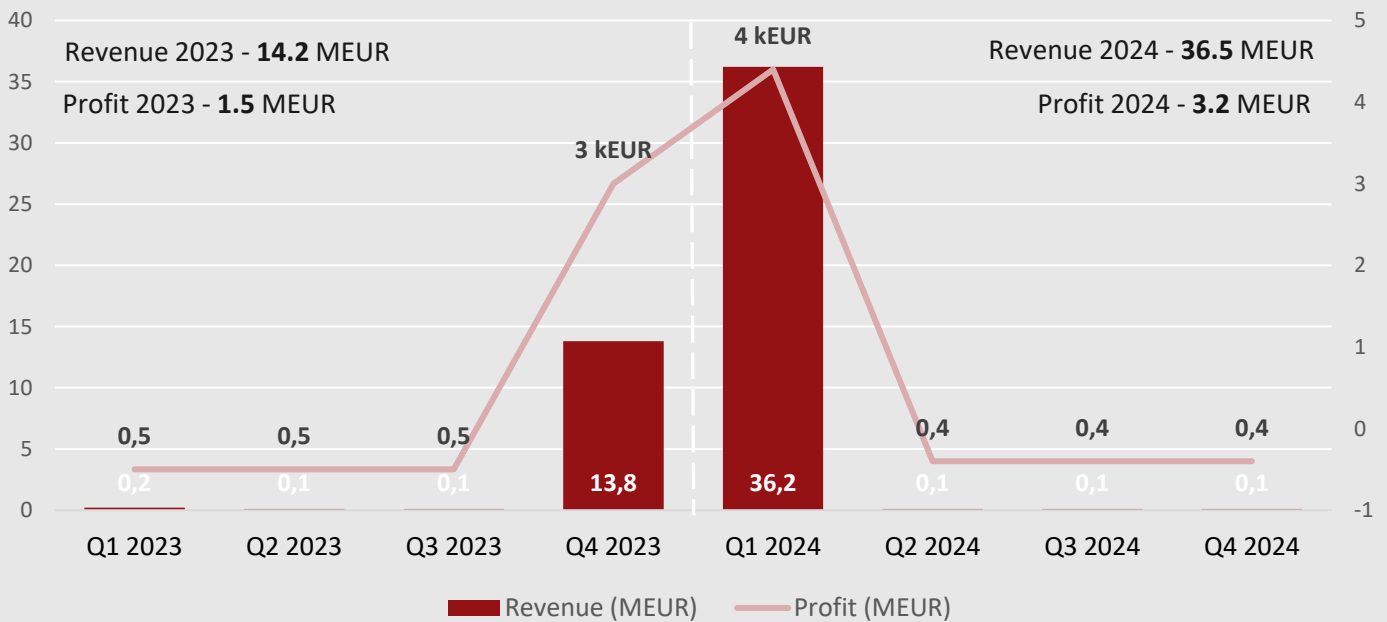
Potential revenue of development projects upon completion as of 31.12.2021

Potential revenue of development projects upon completion as of 31.12.2022





Arco Vara Group revenue and profit prognoses 2023-2024



Arco Vara's Active Projects as of 31.12.2022



Project name

Kodulahe Rannakalda

Address

Lammi 8, Tallinn

Product main type

Apartments, commercial spaces

Project stage

Construction

Area of plot m2

9,525

GSA/GLA (above ground) available

8,888

No of units (above ground) available

113



Project name

Stage 1 Botanica Lozen

Address

Lozen, near Sofia

Product main type

Houses

Project stage

Construction

Area of plot m2

47,450

GSA/GLA (above ground)

5,485

No of units (above ground)

16



Project name

Kuldlehe

Address

Lehiku road 11, Tallinn

Product main type

Apartments

Project stage

Construction

Area of plot m2

5,219

GSA/GLA (above ground) available

853

No of units (above ground) available

5



Project name

Stage 7 Kodulahe

Address

Soodi 6, Tallinn

Product main type

Apartments

Project stage

Detail plan in process

Area of plot m2

5,444

GSA/GLA (above ground)

<5,070>

No of units (above ground)

<75>



Project name

S2 and S3 Botanica Lozen

Address

Lozen, near Sofia

Product main type

Houses

Project stage

Detail plan issued

Area of plot m2

47,450

GSA/GLA (above ground)

<10,515>

No of units (above ground)

<40>



Project name

Arcojärve

Address

Paldiski road 124b, Tallinn

Product main type

Apartments

Project stage

Building rights procedure

Area of plot m2

69,506

GSA/GLA (above ground)

<26,750>

No of units (above ground)

<435>

Arco Vara's Active projects as of 31.12.2022



Project name

Stage 8 Kodulahe

Address

Lammi 6, Tallinn

Product main type

Apartments, commercial spaces

Project stage

Detail plan in process

Area of plot m2

14,553

GSA/GLA (above ground)

<11,000>

No of units (above ground)

<170>



Project name

Marsili plots

Address

Marsili, near Riga

Product main type

Residential plots

Project stage

Marketing and sale

Area of plots m2

4,700

GSA/GLA (above ground) available

-

No of units (above ground) available

3



Project name

Madrid BLVD*

Address

Madrid Blvd, Sofia

Product main type

Lease: Retail/Offices

Project stage

Facility management and/or lease

Area of plot m2

-

GSA/GLA (above ground)

7,350

No of units (above ground)

22

*A pre-sale agreement has been concluded for the building, sale is expected in Q2 2023.

Note: Values presented between < > sign represent future target values for projects which do not have a construction permit yet. The table does not reflect sellable or lettable volumes below grade including parking spaces and storages. The table does not give complete overview of the group's land reserves.

General Information

Activities of the group

Arco Vara AS and other entities of Arco Vara group (hereafter together 'the group') are engaged in real estate development and services related to real estate (EMTAK codes 41201, 6820, 6832). 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.

Arco Vara mission and vision

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.

Group structure

Since 2021, Arco Vara AS has a parent company and therefore Arco Vara AS is part of the OÜ Alarmo Kapital concern from 2021.

As of 31 December 2022, the group consisted of 18 companies, which is four more than of 31 December 2021.

Significant subsidiaries as of 31 December 2022

Company name	Location	Share capital (nominal value)	Equity balance on 31 December 2022	The group's interest
In thousands of euros				
Arco Invest EOOD	Bulgaria	31,762	3,026	100%
Botanica Lozen EOOD	Bulgaria	2,931	1,561	100%
Kodulahe Kvartal OÜ	Estonia	140	439	100%
Kodulahe OÜ	Estonia	3	5,410	100%
Kerberon OÜ	Estonia	5	2,006	100%
Kolde OÜ	Estonia	28	117	100%

3
countries

30
years of experience

2,700+
new homes

380,000+
developed m²

Arco Vara AS subsidiaries



Key Performance Indicators

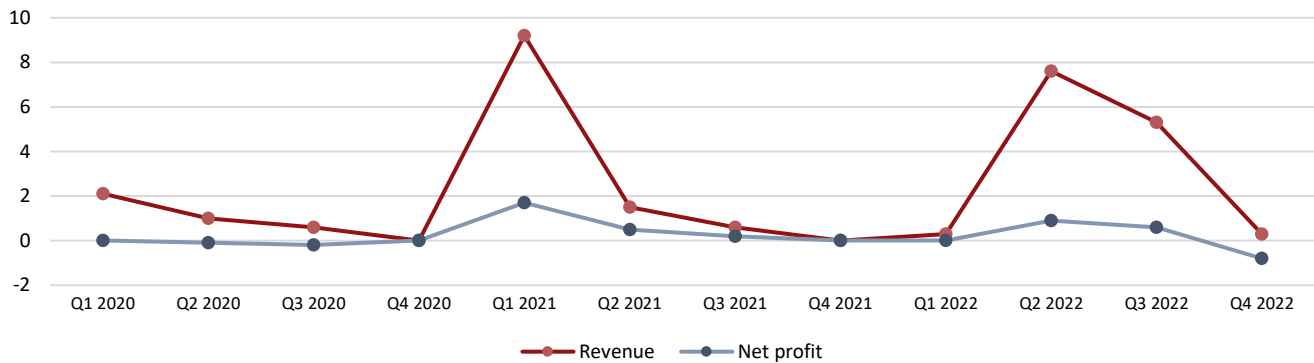
- The group's revenue was 13,494 thousand euros, which is 16% more than the revenue of 11,613 thousand euros in 2021.
- In 2022, the Group's operating profit (=EBIT) was 1,062 thousand euros and net profit 695 thousand euros. In 2021, the group made operating profit of 2,569 thousand euros and net profit of 2,071 thousand euros.
- In 2022, 72 apartments were sold in projects developed by the group and a land plot in Latvia. In 2021, 63 apartments and 2 commercial spaces.
- In 2022, the group's debt burden (net loans) increased by 5,341 thousand euros up to the level of 14,662 thousand euros as of 31 December 2022. As of 31 December 2022, the weighted average annual interest rate of interest-bearing liabilities was 5.8%. This is an increase of 0.6 percentage points compared to 31 December 2021.

Key financial indicators

	2022	2021
In thousands of euros		
Revenue	13,494	11,613
Operating profit (EBIT)	1,062	2,569
Finance expense	-367	-390
Income tax	0	-108
Net profit	695	2,071
Cash flows used in operating activities	-7,780	-2,717
Cash flows from/used in investing activities	645	-8
Cash flows from financing activities	8,699	2,388
Net cash flows	1,564	-337
Cash and cash equivalents at beginning of period	1,863	2,200
Cash and cash equivalents at end of period	3,427	1,863
Total assets at the end of period	39,805	31,514
Invested capital at the end of period	36,124	29,146
Net loans at the end of period	14,662	9,321
Equity at the end of period	18,035	17,962

Revenue and net profit/loss during last years

	Q1 2020	Q2 2020	Q3 2020	Q4 2020	Total 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Total 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Total 2022
In thousands of euros															
Revenue	2.1	1.0	0.6	10.3	14.0	9.2	1.5	0.6	0.3	11.6	0.3	7.6	5.3	0.3	13.5
Net profit/loss	0.0	-0.1	-0.2	1.3	1.0	1.7	0.5	0.2	-0.3	2.1	0.0	0.9	0.6	-0.8	0.7



Key Ratios

	2022	2021
Net profit ratio	5%	18%
EPS (in euros)	0.07	0.22
Diluted EPS (in euros)	0.07	0.22
EBITDA per share (in euros) (rolling, four quarters)	0.11	0.28
ROIC (rolling, four quarters)	2.3%	8.0%
ROE (rolling, four quarters)	3.8%	12.9%
ROA (rolling, four quarters)	2.1%	7.2%
Equity ratio	45.3%	57.0%
Current ratio	4.41	2.54
Quick ratio	1.89	0.66
Financial leverage	2.21	1.75
Average loan term (in years)	2.6	2.0
Average annual interest rate of loans	5.8%	5.2%
Number of staff, at period end	19	13

Formulas used:

Net profit ratio = net profit attributable to owners of the parent / revenue for the period

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)

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

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

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

Equity ratio = equity / total assets

Current ratio = current assets / current liabilities

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

Financial leverage = total assets / equity

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

Operating report

The revenue of the Group totaled 13,494 thousand euros in 2022 (in 2021: 11,613 thousand euros), including revenue from the sale of properties in the Group's own development projects in the amount of 12,426 thousand euros (in 2021: 10,478 thousand euros).

Most of the other revenue consists of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 756 thousand euros in 2022 (in 2021: 810 thousand euros). By the time of publishing the present report, 2 offices remain vacant, but all commercial spaces, together with parking places, were rented out. 9% of the office is in renovation.

The Madrid building is in an ongoing sales process, which is expected to be completed in Q2 of 2023. There is no profit or loss from the sale of the building in 2023 because the discounts were recognized in 2022. The transaction is not reflected in the sales revenue, as it is the sale of a real estate investment. The deal is expected to free up 4.1 million euros worth of equity capital.

In 2022, the construction company Arco Tarc OÜ was established, which laid the foundation for a new business segment. The construction service is offered intra-group with a fixed profit margin of 4%.

The construction of the IV-V stage buildings in Kodulahe ended in 2022. Two residential buildings with 36 apartments were completed at Pagi 3 and Pagi 5. The income from the sale of buildings is reflected in the 2022 report, there are no unsold apartments.

The construction and sale of the Stage VI of Kodulahe project called Rannakalda at Lammi 8 started in February 2022 by Arco Vara's own construction company Arco Tarc OÜ. The construction includes a pavilion, 4 commercial areas and 108 apartments (in three separate buildings), out of which many have sea view. One of the apartment buildings will be ready at the end of 2023, the other houses at the beginning of 2024. As at the date of publishing the annual report, 45 units out of the 113 have been presold.

A subsidiary of Arco Vara, Aktsiaselts Kolde, in 2021 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 project is called Arcojärve. The expected development period is 6 years with the start of construction planned for 2024.

In the Pirita Kuldlehe project, it is planned to build an exclusive and high-quality cluster house with 5 homes in 2023. The construction of roads and communications has been completed. The house will be completed within a year. The sale of the project has started.

The Botanica Lozen project foresees construction of 54 homes (houses) in three stages. The construction and sale of the first 16 buildings has started. Minimum construction period for the whole project is 2 years.

As of 31 December 2022, and the date of this report, 3 Marsili residential plots remained unsold in Latvia.

People

Remuneration

As of 31 December 2022, 19 people worked for the group (13 as of 31 December 2021). Employee remuneration expenses in 2022 amounted to 677 thousand euros (2021: 699 thousand euros).

The remuneration of the member of the management board / CEO of the group's parent company including social security

charges amounted to 160 thousand euros in 2022 (in 2021: 297 thousand euros).

The members of the supervisory board of the group's parent company were remunerated by 24 thousand euros in 2022. The remuneration of the members of the supervisory board was 24 thousand euros in 2021 as well.

Management board and supervisory board



The management board of Arco Vara AS has one member. Since 30 April 2020, the member of the management board and chief executive officer of Arco Vara AS is Miko-Ove Niinemäe who has a mandate until 10 April 2026.

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.

Supervisory board

The supervisory board of Arco Vara AS has 5 members. Since 12 January 2021, the supervisory board consists of Tarmo Sild (the Chairman), Kert Kesksaik, Hillar-Peeter Luitsalu, Allar Niinepuu and Steven Yaroslav Gorelik. More information about the key persons in Arco Vara is available on the company's website www.arcovara.com.

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 luteCredit 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 luteCredit Europe.

Steven Yaroslav Gorelik



Steven Yaroslav Gorelik graduated from Columbia University and Carnegie Mellon University. He joined Firebird Private Equity Advisors LLC in 2005 and currently serves there as their head of research and portfolio manager. Mr Gorelik also holds CFA (Chartered Financial Analyst) charter.

Mr Gorelik is member of supervisory board of Baltijas Apdrošināšanas Nams (LV), Georgian beverages Holdings (GG), and a member of the management board of EPhaG AS (ES).

Kert Keskaik



Kert Keskaik graduated from the Tallinn Technical University with a degree in business administration in 2007. Mr Keskaik 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 Keskaik 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. Keskaik is also member of management board of Mittetulundusühing Rullisufestival, 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



Hillar-Peeter 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



Allar 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 luteCredit 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 the group's all loan agreements is euro, and although as of the date of the report, most of the loan obligations have a fixed interest rate, the base interest rate for the financing loan for the Tallinn Lammi 6 land is 6 months' EURIBOR. As a result, the group is partly exposed to developments on international capital markets. The group does not use hedging instruments to mitigate its long-term interest rate risk. In 2022, the group's interest-bearing liabilities amounted to 18,089 thousand euros on 31 December 2022, out of which 5,255 thousand euros is due within next 12 months. The group's interest-bearing liabilities have increased by 6,905 thousand euros in 2022. The group's cash and cash equivalents totaled 3,427 thousand euros as of 31 December 2022 (31 December 2021 1,863 thousand). In 2022, interest payments on interest-bearing liabilities totaled 367 thousand euros (in 2021: 390 thousand euros). The group's weighted average loan interest rate was 5.8% as of 31 December 2022. This is a increase by 0.6 percentage points compared to the end of year 2021. The reason for the increase in the average interest rate of loan obligations is taking on a new land loan with EURIBOR at the end of 2022.

Currency risk

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

Sustainability (ESG) principles

The main activity of Arco Vara is real estate development. Knowing that nearly 40% of global greenhouse gas emissions come from the construction and building sector, Arco Vara has begun to map its corporate activities in the ESG framework under the umbrella topics of Environmental, Social and Governance impacts. We believe that concerns related to global climate change should be reflected in every development we plan. Residential real estate has a long life and includes not only the house, but also the surrounding environment, infrastructure, and availability of services. In order to diminish the impacts of the sector on the environment and climate, all organizations and persons in the supply chain of Arco Vara need to work together.

As a result, we brought 15 topics of importance under the three umbrella topics of ESG – Environmental, Social and Governance – together with 33 sub-topics and activities which

have a significant environmental, social or financial impact for Arco Vara.

We involved stakeholders to determine the seven topmost central topics which the sustainability strategy of Arco Vara focuses on. These topics contain the most significant potential positive or negative impacts on the environment and the people, as well as the financial risks or opportunities for the company:

- Occupational health and safety
- Customer satisfaction
- Community and contribution to society
- Creating a strong work culture
- Corporate ethics
- Diversity and inclusivity
- Energy

Occupational health and safety

Every company's greatest asset is its employees. The daily management of the company involves the application of occupational safety measures to keep the work environment safe and free of accidents.

- The health, safety and wellbeing of employees is the most important thing for Arco Vara.
- We want to ensure a safe, inclusive and inspiring work environment for all our employees.
- Our employees are like family who grow together and develop novel sustainable solutions in both work life and personal career.
- Via various initiatives, regulations, trainings and adherence to work safety rules, we can ensure a fair and safe work environment for all our team members.

Customer satisfaction

The best and most immediate feedback to maintain our provision of high quality is the satisfaction of our clients. Our guiding motifs in customer satisfaction are:

- Our achievements and results are appreciated by the clients of Arco Vara.
- Arco Vara makes only promises it is able to keep.
- Adhering to the delivery time of Arco Vara is a matter of pride for the company and if necessary, extra steps are taken to ensure that the expectation of the client is met.
- Customer satisfaction gives us the certainty that we are operating fairly, develop and create living environments with added value.
- Ensuring quality of real estate requires consideration for the expectations, needs and demands of various interest groups.

The community and contributing to society

In order to turn a house into a home, we need to think farther at the stages of planning and design, on how changes in generations will be satisfied with the functionality and use of space and whether everyone's needs are met, including consideration for local animal and plant species to preserve natural diversity and multiplicity of species.

Creating a living environment and harmony with nature is the basis for everything for Arco Vara:

- The developments of Arco Vara take the natural ecosystem into account in the quarter being built, preserving the original plants which are necessary for pollinators who the preservation of natural diversity and the agriculture depend on.
- Arco Vara carries out dialogues with local communities and governments to find the best solutions for ensuring the expectations of everyone involved and for use and enjoyment of the living space.



The KPI is to keep the number of accidents at work at 0.

- Arco Vara supports its employees in participating in charity and, whenever possible, also contributes by giving back to the community, e.g., via donations.
- The public space adjacent to a building must provide experiences and a pleasing sight for children, the young, middle-aged and old alike, who need to be able to move around, play sports and rest in fresh air even in areas that have been built up.

Creating a strong corporate culture

Everyone's best contribution is directly reflected in our financial results, the motivation of our employees and maintenance of team spirit. A strong team spirit brings us to excellent results, because only together can we strive towards the goals we set.

- The motto of an employee of Arco Vara is "I work like the owner".
- Responsibility is one of the greatest expectations set to our employees at work. Our employees create new living environments and the durability and development of employees is very important for Arco Vara.
- We establish one-on-one conversations between the employee and supervisor, in order to increase the employee's motivation and competence.
- Good corporate governance and openness at work creates the synergy necessary for teamwork.
- The employees of Arco Vara may work with a flexible schedule, contributing to and creating opportunities for increasing their knowledge or combining work with private lives if necessary, which is especially important for parents and students.
- Various events are organized to maintain team spirit, increasing motivation as well as opening up new perspectives.

Corporate ethics

We create an environment where business is conducted honestly and ethically, with no space for corruption. All of our developments comply with state laws, from various environmental and building permits to taxation and reporting quarterly financial results as a publicly traded company.

- The corporate behavior of Arco Vara is honest and transparent.
- Honest payment behavior is guided by local regulations, terms of contract and invoices paid on time.
- We expect our partners to act responsibly.
- The marketing messages of Arco Vara are chosen strategically and highlight support for sustainable development.
- Arco Vara has zero tolerance for corruptive behavior, especially in regards to employee behavior and prevention of corruption.
- If any business partner of ours turns out to have behaved unethically, we are prepared to immediately terminate cooperation until issues are resolved.

In addition, it is important for Arco Vara that employee rights, including human rights are protected throughout our supply chain:

- The rights set in national labor law must be ensured for our employee, including our subcontractors and their employees, and these rights must be honored.
- We terminate cooperation if a partner/supplier turns out to be treating their employees improperly or inhumanly.
- Child labor is not abused, the youth may be used for simpler work within the scope of national labor law but the restrictions of the state must be strictly adhered to.

Diversity and inclusivity

Every employee is important at Arco Vara, with a specific goal and aim – working together brings the desired targeted results.

- Employees may not be discriminated against on the basis of nationality, skin color, language, origin, faith, political or other views, as well as proprietary and social status or other circumstances.
- Equal opportunities for development have been created for all employees of the company.
- The employees of Arco Vara and their personal specificities enrich the team.



The motto of an employee of Arco Vara is "I work like the owner".

- The working environment of Arco Vara is also accessible for people with restricted mobility.

Energy

We take natural sunlight into account during the design stage to ensure energy efficiency of a building. We seek innovative solutions and materials so that our buildings would have less of an impact on the environment and that we could stay in harmony with nature for longer. If the developments are far from the remote heating network and cannot be connected to it, then we add heating solutions based on alternative fuels such as geothermal heating. We also design the option to add solar panels to decrease dependency on power consumption in the main network. Energy efficient solutions are clearly also increasingly appreciated by our clients.

We prefer to use solutions which help promote energy efficiency, such as:

- during the designing stage, we aim for the lighting technology to be LED and to install solutions with light or motion sensors.
- We consider the most beneficial heating solutions based on location (cardinal directions, geographic location).
- If necessary, we add renewable energy sources such as solar panels and geothermal heating.

Arco Vara's contribution on the SDGs of the UN

Supporting sustainable development in the society is part of the nature of Arco Vara. Our business also aids in reaching global goals of sustainable development in Estonia and Bulgaria. We can impact the following sustainable development goals the most:



Arco Vara is developing 118 apartments with energy class A in 2023

Our greatest impact on the environment at Arco Vara is when designing our developments, where we can consider the material resources and energy needs required for the lifespan of the building in advance. Topics of nature preservation are taken into account when creating new projects as early as when buying land, where the natural habitats of the plot are assessed and later preserved as much as possible during development. As we are the developer, we need to pay increasing attention to the daily work of subcontractors. We want the safety of workers to be the number one priority for all of our partners. As common practice, it is mandatory to always introduce the safety rules of occupational health to the construction workers, and they are equipped with work clothes. A safe work environment also creates a good prerequisite for high-quality work.

We also monitor the development of new construction materials and offer new generation finishing material, such as recycled materials to our clients, which should contribute to the implementation of a more sustainable consumer culture and has a smaller environmental footprint. The end user is frequently unaware of which product is better for the environment when selecting materials. We can see that consumers making environmentally friendly choices requires still educating the market and increasing awareness. As developers, we see that consumers cannot yet appreciate energy efficient solutions fairly and want to decide only based on price or design when buying a home. This is definitely an issue in the sector, requiring more work in increasing awareness at the market.

It is important for the houses we design and build at Arco Vara to be able to be handed down for generations and for the residential areas to offer emotions and recreational activities to people of all ages. During the designing stage, we combine the beauty of nature, functionality of the building, and access to essential services.

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. The share price closed at 1.792 euros on 31 December 2022; the closing price was 2.66 euros on 31 December 2021. During the period, the highest traded price per share was 2.77 euros and the lowest price 1.65 euros. Equity per share was 1.74 euros as of 31.12.2022, 1.73 as of 31.12.2021.

As of 31 December 2022, market capitalization of shares amounted to 18,616 thousand euros and P/B (price to book value) ratio was 1.03 (31 December 2021: 27,633 thousand euros and 1.54, respectively). P/E (price to earnings) ratio of the share was 26.79 on 31 December 2022, 13.34 on 31 December 2021.

The following charts reflect the movements in the price and daily turnover of Arco Vara’s share in 12 months 2022 and during the last three years.



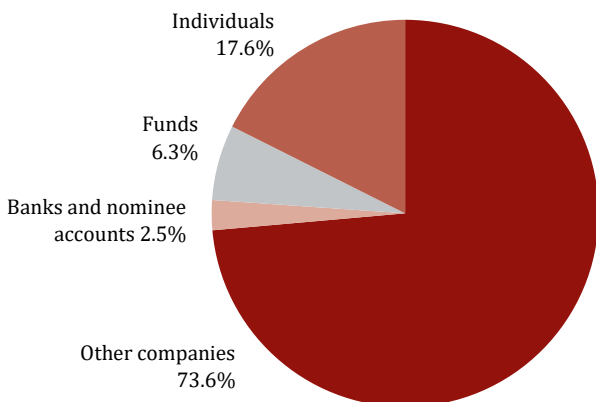
<https://nasdaqbaltic.com/statistics/en/instrument/EE3100034653/trading?date=2023-01-20>

Shareholder structure

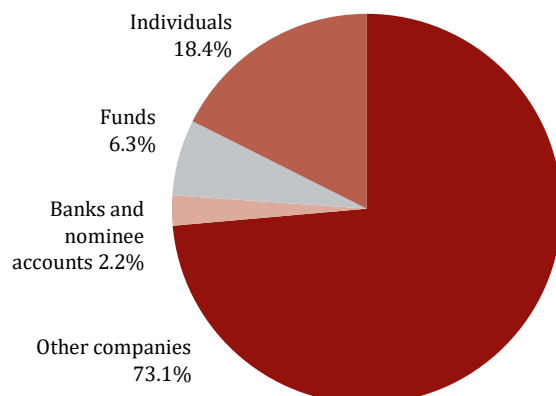
As of 31 December 2022, Arco Vara had 8,692 shareholders (on 31 December 2021 9,163), including 7,916 individuals as shareholders (on 31 December

2021: 8,286 individuals) who jointly owned 17.6% (on 31 December 2021: 18.4%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams.

Ownership structure as of 31 December 2022



Ownership structure as of 31 December 2021



Major shareholders on 31 December 2022

Name	No of shares	Share, %
Alarmo Kapital OÜ	6,438,531	62.0%
FIREBIRD REPUBLICS FUND LTD	337,057	3.2%
HM Investeeringud OÜ	230,505	2.2%
Marko Teimann	188,174	1.8%
FIREBIRD AVRORA FUND, LTD.	180,343	1.7%
Aia Tänav OÜ	160,960	1.5%
K VARA OÜ	150,901	1.5%
FIREBIRD FUND L.P.	133,948	1.3%
Rafiko OÜ	70,606	0.7%
SANDER KARU	68,609	0.7%
Other shareholders	2,428,733	23.4%
Total	10,388,367	100.0%

Holdings of management and supervisory board members on 31 December 2022

Name		No of shares	Share, %
Tarmo Sild and Allar Niinepuu (Alarmo Kapital OÜ)	Chairman/member of supervisory board	6,438,531	62.0%
Tarmo Sild (privately, related persons and Aia Tänav OÜ)	Chairman of supervisory board	169,829	1.6%
Allar Niinepuu (OÜ Kavass)	Member of supervisory board	10,000	0.1%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	Member of supervisory board	269,259	2.6%
Kert Keskaik (privately, K Vara OÜ, K24 Invest OÜ, Kolde Invest OÜ and One Eleven OÜ)	Member of supervisory board	204,958	2.0%
Steven Yaroslav Gorelik ¹	Member of supervisory board	0	-
Miko-Ove Niinemäe	Member of management board	15,000	0.1%
Total		7,107,577	68.4%

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 651,348 shares (total of 6.3% interest).

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 2022, one annual general meeting took place.

Annual general meeting

Notice of the annual general meeting was given in the information system of the Tallinn Stock Exchange and on the Company’s website on 20 April 2022. The notice was published in the national daily newspaper *Eesti Päevaleht* on 21 April 2022. 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 17 May 2022 from 10:05 a.m. until 10:26 a.m. in Tallinn at Rosen 9 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 2021
- Distribution of profit and dividend payment

- Approval of option program
- Appointment of Auditor
- Approval of Management Board remuneration policy

The following decisions were adopted at the annual general meeting:

- To approve the annual report of Arco Vara AS for 2021.
- To transfer the net profit of the financial year in the amount of 2,071 thousand euros to retained earnings on 31.12.2021.
- To pay dividends to the shareholders 0.06 euros per share.

The dividend will be paid out in 4 instalments as follows:

- 0.02 euros per share will be paid to the shareholders on 15 June 2022 by transfer to the shareholder’s bank account. The list of shareholders entitled to respective dividends (record date) shall be fixed on 8 June 2022.
- 0.01 euros per share will be paid to the shareholders on 15 September 2022 by transfer to the shareholder’s bank account. The respective dividend record date is on 8 September 2022.
- 0.02 euros per share will be paid to the shareholders on 15 December 2022 by transfer to the shareholder’s bank account. The respective dividend record date is on 8 December 2022.

- 0.01 euros per share will be paid to the shareholders on 15 March 2023 by transfer to the shareholder’s bank account. The respective dividend record date is on 8 March 2023.

- To approve the share option program in accordance with the conditions described in the materials of the Annual General Meeting made available to the shareholders.
- To elect an auditor for the next two years and appoint AS PricewaterhouseCoopers for this purpose. To pay the auditor a fee for auditing the economic activities of Arco Vara AS for the financial years 2022 and 2023 in accordance with the agreement to be entered into between Arco Vara AS and AS PricewaterhouseCoopers.
- To approve Arco Vara AS’ Management Board remuneration policy in accordance with the conditions of the Management Board’s remuneration policy among other materials of the Annual General Meeting made available to the shareholders.

The meeting was chaired by Miko-Ove Niinemäe. The meeting was attended by 15 shareholders whose votes represented 71.54% of total voting power. The meeting was conducted in

Estonian and the chairman of the meeting made sure it was conducted smoothly. Tarmo Sild, the chairman of the Supervisory Board, and Kert Keskpaik, a member of the

Supervisory Board, also participated in the general meeting. The auditor did not attend the meeting.

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

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 Kesksaik were independent members of the Supervisory Board.

Starting from February 2021, the members of the new supervisory board were Tarmo Sild, Steven Yaroslav Gorelik, Kert Kesksaik, 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.

Cooperation of the Management and Supervisory Board

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.

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.

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 2022, the Supervisory Board had 4 meetings, which were attended by all Supervisory Board members: Tarmo Sild, Hillar-Peeter Luitsalu, Kert Kesksaik, 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 2022 nor 2021. No such transactions took place during the year.

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.

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 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 17 May 2022, PricewaterhouseCoopers AS 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

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.

Remuneration report

In 2022, a total of 160 thousand euros of pay together with social tax was calculated for the CEO of Arco Vara AS (in 2021: 297 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). As of 19 April 2022, the council has established a

fixed monthly payment of 6,000 euros (net amount). Vacation payment is calculated based on the average pay of the last 6 months. 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 expenses for 2021 and 13 thousand euros in expenses for 2022.

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 (m² (gross) of construction volume above ground established in the detailed plan of each new project + m² (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 m² (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.

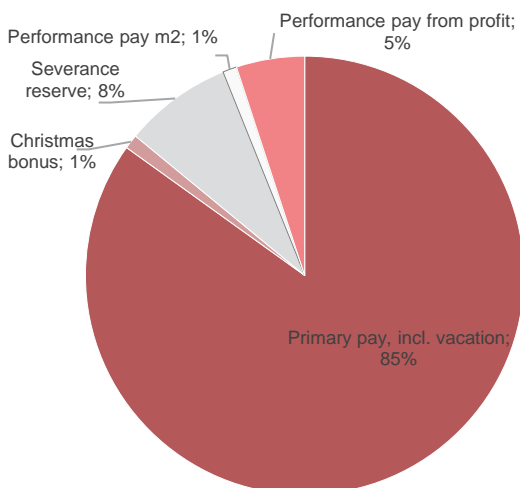
The parties have established that market capitalisation for start of reward calculations is 12,204,877 euros (1.30 euros x 9,388,367 shares). The maximum price for a share for calculating market capitalisation in 2021 was also set as 2.50 euros. The Arco Vara share ARC1T closed at 2.66 euros at the end 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.

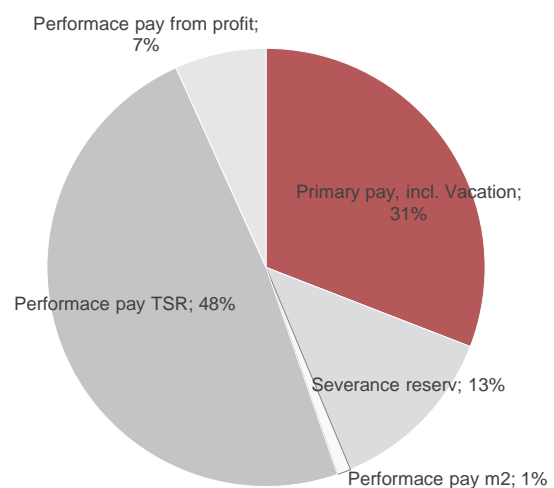
The reward conditions for board members described above are fixed in total expenses of the company and are not related. The net profit reserve of 2022, amounting to a total of 7 thousand euros, is payable after this annual report is approved by the auditor in April 2023. In 2022, the Lozen development received a construction permit, and a bonus of

1,000 euros was calculated and paid to the manager for the total cost. The manager was also paid a Christmas bonus with a total cost of 2 thousand euros. In 2021, the development of Rannakalda received a construction permit, and an additional cost of 3 thousand euros was calculated and paid to the manager.

Management remuneration proportions for 2022:



Management remuneration proportions for 2021:



From 01.05.2023, the manager's former reward system will be replaced by a new one:

- 1) The board member is entitled to receive a financial reward in the amount of 30,000 euros (net amount) according to the following conditions:
 - 1.1. 15,000 euros, if the powers of the Board member are valid on 31.12.2023;
 - 1.2. 15,000 euros, if the powers of the Board member are valid on 31.12.2024.

- 2) A member of the board is entitled to:
 - 2.1. 15,000 shares of the Company, if the powers of the Board member are valid on 31.12.2023;
 - 2.2. 15,000 shares of the Company, if the powers of the Board member are valid on 31.12.2024.

- 3) The board member is entitled to receive an additional up to 60,000 shares of the Company at a price of 0 euros. If the net profit for the financial years 2023 - 2025 is between ≥ 4 and < 8 million euros, the Board member is entitled to receive 10,000 to 60,000 shares of the Company depending on the exact amount of the net profit, with the calculation that 10,000 shares of the Company are guaranteed and each net profit 1 euros, which exceeds 4 million euros, gives an additional 0.0125 shares of the Company. The final number of shares is fixed to the nearest whole number (if the number of shares earned is not a whole number, the number of shares is rounded down).
Regardless of the size of the net profit, the maximum number of shares of the Company that a member of the Management Board is entitled to receive is 60,000 (includes the guaranteed 10,000 shares of the Company in the case of a net profit of EUR 4 million).
If the net profit of the financial years 2023 – 2025 is < 4 million euros in total, the member of the Management Board is not entitled to receive additional Company shares.

The annual reports of years 2023-2025 are used as a basis for all calculations of the Board member's bonus. Any tax obligations related to the Company's shares arising from

the bonus of a Board member shall be paid by the Board member, including in the event that the tax liability arises for the Company.

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.

	2022	2021	2020	2019	2018
EUR thousand					
Director's pay (gross)	120	223	67	91	74
Average number of employees (without director)	17	11	13	18	139
Average pay for employees (gross)	33	43	31	23	4
Net profit	695	2,071	1,012	388	-544
Net profit per employee (with director)	39	173	72	21	-4

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.

	2022	2021	2020	2019	2018
Director's pay (gross)	-46%	233%	-26%	23%	-4%
Average number of employees (without director)	55%	-15%	-26%	-87%	12%
Average pay for employees (gross)	-24%	40%	34%	439%	-74%
Net profit	-66%	105%	161%	-171%	-169%
Net profit per employee (with director)	-78%	139%	245%	-640%	-162%

CEO's Confirmation on Management Report

The CEO and member of the management board of Arco Vara AS confirms that the management report of Arco Vara ended on 31 December 2022 provides a true and fair view of business developments, financial performance and financial position of the group as well as a description of the main risks and uncertainties.

On 6 April 2023

/signed digitally/

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

Consolidated Statement of Comprehensive Income

	Note	2022	2021
<i>In thousands of euros</i>			
Revenue from sale of own real estate	7	12,426	10,478
Revenue from rendering of services	7	1,068	1,135
Total revenue	6,7	13,494	11,613
Cost of sales	8	-10,913	-8,578
Gross profit		2,581	3,035
Other income	9	67	258
Marketing and distribution expenses	10	-249	-200
Administrative expenses	11	-1,118	-1,106
Other expenses	9	-14	-76
Gain on revaluation of investment property	16	-205	658
Operating profit		1,062	2,569
Finance income and cost	12	-367	-390
Profit before tax		695	2,179
Income tax		0	-108
Net profit for the period		695	2,071
Total comprehensive income/loss for the period		695	2,071
Earnings per share (in euros)	13		
- basic		0.07	0.22
- diluted		0.07	0.22

Consolidated Statement of Financial Position

	Note	31.12.2022	31.12.2021
<i>In thousands of euros</i>			
Cash and cash equivalents		3,427	1,863
Receivables and prepayments	14	4,387	3,701
Inventories	15	22,511	15,761
Investment property for sale	16	9,050	0
Total current assets		39,375	21,325
Receivables and prepayments	14	18	5
Investment property	16	82	9,943
Property, plant and equipment	17	284	154
Intangible assets	17	46	87
Total non-current assets		430	10,189
TOTAL ASSETS		39,805	31,514
Loans and borrowings	18	5,255	6,043
Payables and deferred income	19	3,681	2,368
Total current liabilities		8,936	8,411
Loans and borrowings	18	12,834	5,141
Total non-current liabilities		12,834	5,141
TOTAL LIABILITIES		21,770	13,552
Share capital	20	7,272	7,272
Share premium		3,835	3,835
Statutory capital reserve		2,011	2,011
Retained earnings		4,917	4,844
Total equity attributable to owners of the parent		18,035	17,962
TOTAL EQUITY		18,035	17,962
TOTAL LIABILITIES AND EQUITY		39,805	31,514

Consolidated Statement of Cash Flows

	Note	2022	2021
<i>In thousands of euros</i>			
Cash receipts from customers		10,385	15,894
Cash paid to suppliers		-16,229	-15,516
Taxes paid and recovered (net)		-1,179	-2,898
Cash paid to employees		-515	-426
Other cash payments and receipts related to operating activities (net)		-242	229
NET CASH FROM/USED IN OPERATING ACTIVITIES		-7,780	-2,717
Payments made on purchase of tangible and intangible assets	17	-27	-9
Proceeds from sale of property, plant and equipment	17	2	0
Payments made on purchase and development of investment property	16	670	1
NET CASH FROM/USED IN INVESTING ACTIVITIES		645	-8
Proceeds from loans received	18	12,176	3,944
Settlement of loans and borrowings	18	-2,107	-2,741
Interest paid		-746	-585
Dividends paid	23	-624	-480
Proceeds from share capital increase	13	0	2,250
NET CASH FROM/USED IN FINANCING ACTIVITIES		8,699	2,388
NET CASH FLOW		1,564	-337
Cash and cash equivalents at the beginning of period	21	1,863	2,200
Change in cash and cash equivalents		1,564	-337
Cash and cash equivalents at the end of period	21	3,427	1,863

Consolidated Statement of Changes in Equity

	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Retained earnings	Total equity
<i>In thousands of euros</i>						
Balance as of 31 December 2020	6,299	273	2,285	2,011	3,356	14,224
Increase of share capital	973	-273	1,550	0	0	2,250
Dividends paid	0	0	0	0	-583	-583
Total comprehensive income for the period	0	0	0	0	2,071	2,071
Balance as of 31 December 2021	7,272	0	3,835	2,011	4,844	17,962
Balance as of 31 December 2021	7,272	0	3,835	2,011	4,844	17,962
Dividends paid	0	0	0	0	-622	-622
Total comprehensive income for the period	0	0	0	0	695	695
Balance as of 31 December 2022	7,272	0	3,835	2,011	4,917	18,035

Notes to the Condensed Financial Statements

1. Significant accounting policies

These consolidated financial statements of Arco Vara AS and its subsidiaries as of and for the year ended on 31 December 2022 were authorised for issue by the chief executive officer / member of the management board on 6 April 2023. 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 2022, 19 people provided services to the Group under the employment or authorization contract (31 December 2021: 13 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 2022 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.

Classification of real estate

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 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.

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.

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.

Estimation of the net realisable value of inventories

The Group has several items of real estate (properties) that have been classified as inventories. The net realizable values of all significant properties classified as inventories were measured as of 31 December 2022 and 31 December 2021 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 2022 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 2021. 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 2022 (see note 4).

4. Significant accounting policies

New accounting pronouncements after 1 January 2023

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2022 and have not been applied

in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

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 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.

Amendments to IAS 8 Classification of liabilities as current or non-current, deferral of effective date (effective for annual periods beginning on or after 1 January 2024; not endorsed by the EU yet; to be applied prospectively).

These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations

whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of

a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

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

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.

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

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-

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

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

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

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

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.

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.

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.

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.

depend on the turnover of real estate agencies, which are reported on a monthly basis.

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.

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

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),

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

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.

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

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.

Impairment

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.

Consequently, the Group does not adjust any of the transaction prices for the time value of money.

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.

- 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.

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.

Transaction costs of financial assets carried at fair value through profit or loss statement are expensed in profit or loss statement.

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.

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.

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

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

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

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.

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.

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 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

Investment properties held for sale

Investment properties are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at which is lower: balance-sheet value or fair value less costs to sell. An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less

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.

costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the investment property is recognised at the date of derecognition. Investment properties are not depreciated or amortised while they are classified as held for sale. Investment properties classified as held for sale are presented separately from the other assets in the balance sheet.

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

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:

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

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.

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.

- 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.

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

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

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 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

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.

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.

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.

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.

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

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.

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

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.

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 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.

As a result of the change in accounting principles, the operating lease of the head office was recorded as a right-of-use asset in 2021 and adjusted in 2022, when the head office moved.

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

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,

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

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

recognized as a short-term asset or liability and deferred tax is recognized as a long-term asset or liability.

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.

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.

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 26) 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.

5. Acquisition and sale of subsidiaries

Scope of consolidation

As of 31 December 2022, the Group consisted of 18 companies, which is four more than on 31 December 2021. In 2021, one company was established and four was liquidated. The structure of the Group is presented in note 25.

Establishment of subsidiaries in 2022

On 6 January 2022, the 100% subsidiary of the Group Arco Tarc OÜ was founded. The share capital of the subsidiary is 3 thousand euros, the equity capital was paid in cash. It is an Estonian construction company that offers construction main contractor services primarily to group companies.

Three subsidiaries of Arco Invest EOOD were established in Bulgaria: Office Cherkovna EOOD, Trade Center Cherkovna EOOD, Oborishte Premium Apartments EOOD. The purpose of creating these subsidiaries is to sell the Madrid commercial building in Sofia through different service lines.

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.

6. Segment information

The group analyzes operations in the construction and development segment. Geographical segments are also

separated: Estonia, Bulgaria, Latvia, including active segments are Estonia and Bulgaria.

External revenue by operating segment and by location of seller

Segment	Development		Construction		Parent company		Consolidated		
	2022	2021	2022	2021	2022	2021	2022	2021	
<i>In thousands of euros</i>									
Estonia	12,404	5,940	2	-	291	262	12,697	6,202	
Bulgaria	766	5,411	-	-	-	-	766	5,411	
Latvia	31	0	-	-	-	-	31	0	
Total revenue	13,201	11,351	2	0	291	262	13,494	11,613	

Revenue by operating segment

Segment	Development		Construction		Parent company		Eliminations		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
<i>In thousands of euros</i>										
External revenue	13,201	11,351	2	-	291	262	0	0	13,494	11,613
Revenue from other segments	0	0	8,364	-	646	600	-9,010	-600	0	0
Total revenue	13,201	11,351	8,366	0	937	862	-9,010	-600	13,494	11,613

External operating profit/loss by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021
<i>In thousands of euros</i>								
Estonia	1,781	1,025	-132	-	-350	-382	1,299	643
Bulgaria	-236	1,929	-	-	-	-	-236	1,929
Latvia	-1	-3	-	-	-	-	-1	-3
Total revenue	1,544	2,951	-132	0	-350	-382	1,062	2,569

External interest expense by operating segment and location

Segment	Development		Parent company		Consolidated	
	2022	2021	2022	2021	2022	2021
<i>In thousands of euros</i>						
Estonia	0	-45	-196	-165	-196	-210
Bulgaria	-171	-182	-	-	-171	-182
Total interest expense	-171	-227	-196	-165	-367	-392

For interest expense, see note 12.

External net profit (loss) by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021
<i>In thousands of euros</i>								
Estonia	1,782	981	-132	-	-546	-547	1,104	434
Bulgaria	-408	1,640	-	-	-	-	-408	1,640
Latvia	-1	-3	-	-	-	-	-1	-3
Total net profit (loss)	1,373	2,618	-132	0	-546	-547	695	2,071

External assets and liabilities by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	31.12.22	31.12.21	31.12.22	31.12.21	31.12.22	31.12.21	31.12.22	31.12.21
<i>In thousands of euros</i>								
Estonia	22,529	15,900	745	-	2,182	1,710	25,456	17,610
Bulgaria	14,250	13,778	-	-	-	-	14,250	13,778
Latvia	99	126	-	-	-	-	99	126
Total assets	36,878	29,804	745	-	2,182	1,710	39,805	31,514

Segment	Development		Construction		Parent company		Consolidated	
	31.12.22	31.12.21	31.12.22	31.12.21	31.12.22	31.12.21	31.12.22	31.12.21
<i>In thousands of euros</i>								
Estonia	12,100	5,415	1,203	-	2,794	2,550	16,097	7,965
Bulgaria	5,673	5,587	-	-	-	-	5,673	5,587
Total liabilities	17,773	11,002	1,203	-	2,794	2,550	21,770	13,552

Non-current assets by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	31.12.22	31.12.21	31.12.22	31.12.21	31.12.22	31.12.21	31.12.22	31.12.21
<i>In thousands of euros</i>								
Estonia	0	1	6	-	272	146	278	147
Bulgaria	6	7	-	-	-	-	6	7
Tangible assets	6	8	6	-	272	146	284	154
Estonia	0	0	0	-	14	48	14	48
Bulgaria	32	39	-	-	-	-	32	39
Intangible assets	32	39	0	-	14	48	46	87
Total non-current assets	38	47	6	-	286	194	330	241

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

Depreciation and amortisation by operating segment and location

Segment	Development		Construction		Parent company		Consolidated	
	31.12.22	31.12.21	31.12.22	31.12.21	31.12.22	31.12.21	31.12.22	31.12.21
<i>In thousands of euros</i>								
On 31 December	31.12.22	31.12.21	31.12.22	31.12.21	31.12.22	31.12.21	31.12.22	31.12.21
Estonia	0	0	-2	-	-57	-10	-59	-10
Bulgaria	-5	-5	-	-	-	-	-5	-5
Tangible assets	-5	-5	-2	-	-57	-10	-64	-15
Estonia	0	0	0	-	-34	-38	-34	-38
Bulgaria	-10	-11	-	-	-	-	-10	-11
Intangible assets	-10	-11	0	-	-34	-38	-44	-49
Total depreciation and amortisation	-15	-16	-2	-	-92	-48	-109	-64

For depreciation and amortisation, see note 17.

Notes to the Consolidated Statements of Comprehensive Income

7. Revenue

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

Segment	Estonia		Bulgaria		Latvia		Consolidated	
	2022	2021	2022	2021	2022	2021	2022	2021
<i>In thousands of euros</i>								
Sale of own real estate	12,395	5,902	0	4,576	31	0	12,426	10,478
Rental of real estate	6	8	682	723	0	0	688	731
Property management	2	0	74	88	0	0	76	88
Franchise	190	178	63	61	39	23	292	262
Other revenue	3	29	9	25	0	0	12	54
Total revenue	12,596	6,117	828	5,473	70	23	13,494	11,613

8. Cost of sold real estate and services

	2022	2021
<i>In thousands of euros</i>		
Cost of real estate sold (note 15)	-10,474	-7,967
Brokerage fees	-46	-220
Property management costs	-312	-249
Personnel expenses (note 11)	-12	-4
Depreciation, amortisation and impairment losses (note 17)	-34	-39
Other costs	-35	-99
Total cost of sold real estate and services	-10,913	-8,578

9. Other income and expenses

Other income

	2022	2021
<i>In thousands of euros</i>		
Court cases awarded	47	173
European Union subsidies	0	70
Miscellaneous income	20	15
Total other income	67	258

Other expenses

	2022	2021
<i>In thousands of euros</i>		
Write-down of inventory (note 14)	0	-6
Late payment interest and penalty charges	0	-55
Write-off of fixed assets	-4	0
Miscellaneous expenses	-10	-15
Total other expenses	-14	-76

10. Marketing and distribution expenses

	2022	2021
<i>In thousands of euros</i>		
Advertising expenses	-79	-51
Personnel expenses (note 11)	-39	-37
Market research	-3	-19
Other marketing and distribution expenses	-128	-93
Total marketing and distribution expenses	-249	-200

11. Administrative expenses

	2022	2021
<i>In thousands of euros</i>		
Personnel expenses	-626	-658
Office expenses	-38	-86
IT expenses	-92	-33
Services purchased	-210	-261
Depreciation, amortization and impairment losses	-74	-25
Legal service fees	-38	-23
Other expenses	-40	-20
Total administrative expenses	-1,118	-1,106

In 2022, employee remuneration expenses of the Group amounted to 677 thousand euros, out of which 626 thousand were administrative expenses, 12 thousand were cost of sold real estate and services (see note 8) and 39 thousand euros marketing and distribution expenses (see note 10). In 2021, employee remuneration expenses of the Group amounted to 699 thousand euros, out of which 658 thousand were administrative expenses and 4 thousand

were cost of sold real estate and services (see note 8) and 37 thousand euros marketing and distribution expenses (see note 10).

As of 31 December 2022, 14 persons worked for the group with an employment contract, 2 with an authorisation agreement and 3 with a board member agreement (on 31 December 2021: 9, 2, 2, respectively).

12. Financial expenses

	2022	2021
<i>In thousands of euros</i>		
Interest expenses (note 6)	-367	-392
Other financial costs	0	2
Total financial costs	-367	-390

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 2022, capitalised interest expenses amounted to 381 thousand euros and in 2021 to 148 thousand euros (see notes 15).

13. Earnings per share

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

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.

	2022	2021
Weighted average number of ordinary shares outstanding during the period	10,388,367	9,426,888
Number of ordinary shares potentially to be issued (at period end)	63,000	0
Net profit (in thousands of euros)	695	2,071
Earnings per share (in euros)	0.07	0.22
Diluted earnings per share (in euros)	0.07	0.22

Based on the decision of the general meeting of Arco Vara AS on 17.05.2022, a total of 63,000 shares will be issued to three senior employees over three years, in case of the average ROE from Q3 2022 to the Q2 2025 is greater than

12%. As of 31.12.2022, the ROE assumption has not been met, therefore the reserve has not been formed for the options program.

Notes to the Consolidated Position of Financial Statement

14. Receivables and prepayments

Short-term receivables and prepayments

	31 December 2022	31 December 2021
<i>In thousands of euros</i>		
Receivables from customers	122	90
Miscellaneous receivables	12	6
Prepaid and recoverable taxes	594	145
Other accrued income	25	24
Prepayments	3,634	3,436
Total short-term receivables and prepayments	4,387	3,701

Long-term receivables and prepayments

	31 December 2022	31 December 2021
<i>In thousands of euros</i>		
Deposits	18	5
Total long-term receivables and prepayments	18	5

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.

In 2022, no receivables from customers were written off. In 2021, receivables from customers were discounted by 6 thousand euros. See note 9.

15. Inventories

As of 31 December	2022	2021
<i>In thousands of euros</i>		
Properties purchased and being developed for resale	22,474	15,754
Materials and finished goods	37	7
Total inventories	22,511	15,761

Properties purchased and being developed for resale

	2022	2021
<i>In thousands of euros</i>		
Balance at the beginning of period, 1 January	15,754	14,943
Properties purchased for development	5,288	5,102
Construction costs of apartment buildings	10,109	5,737
Capitalized borrowing costs	381	148
Other capitalized costs	1,475	1,113
Cost of sold properties (note 8)	-10,474	-7,967
Reclassification to/from investment property (note 16)	-59	30
Reclassification to prepayments	0	-3,352
Balance at the end of period, 31 December	22,474	15,754

Inventories were not discounted in 2022 and 2021.

The Group's management estimates that the Group has inventories realisable during one year in carrying value of 10,212 thousand euros as of 31 December 2022. Inventories in carrying value of 12,262 thousand euros are realisable in a longer period than one year.

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

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 2022, the value of the Group's inventories was determined by internal experts by 68% and 32% by external experts. In 2021, the value of the Group's inventories was determined by internal experts. Estimates used in valuations are based on real market prices and the Group's recent experience with comparable assets. In 2022 and 2021 inventories did not require a write-down or reversal of write-down.

As of 31 December	2022	2021
<i>In thousands of euros</i>		
Measured using the residual value method	22,474	15,754
Measured using the comparison method	37	7
Total inventories	22,511	15,761

The inventory discount sensitivity test showed that if the management overestimates the net realizable value of the inventory by 5%, still no additional discount would be necessary as of 31.12.2022 nor 31.12.2021.

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 9,130 thousand euros on 31 December 2022; 9,417 thousand euros on 31 December 2021);
- 2) Land plots that have a development potential but the future use of which is still uncertain (carrying value of 2 thousand euros on 31 December 2022; 527 thousand euros on 31 December 2021).

As of 31 December	2022	2021
<i>In thousands of euros</i>		
Land plots	2	527
Shops and offices	80	8,486
Garages and parking places	0	930
Total investment property	82	9,943

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. There were no such investments properties in 2022, but in 2021 amounted to 30 thousand euros.

Investment properties in non-current assets

	2022	2021
<i>In thousands of euros</i>		
Balance at the beginning of period, 1 January	9,943	9,564
Net loss on changes in fair value	-350	468
Capitalised development costs	5	51
Reclassification from/to inventories (note 15)	59	-30
Reclassification to investment properties held for sale	-9,050	0
Sale of real estate	-525	-110
Balance at the end of period, 31 December	82	9,943

Investment properties in current assets

	2022	2021
<i>In thousands of euros</i>		
Balance at the beginning of period, 1 January	0	0
Reclassification from investment properties	9,050	0
Balance at the end of period, 31 December	9,050	0

Profits from the sale of investment properties amounted to 145 thousand euros in 2022 (in 2021 190 thousand euros) – together with the loss of 350 thousand euros from the change in fair value, the loss from investment properties amounted to 205 thousand euros in 2022 (2021: profit of 658 thousand). In 2022, the parking spaces for sale in the commercial building in Madrid were classified from

inventory to real estate investments (59 thousand euros), after which the entire commercial building in Madrid was classified as pending sale as real estate investment. The properties located on Voolu street in Tartu were classified as stock in 2021 (30 thousand euros).

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 2022 the values of all of the Group's investment

Valuation of commercial and office spaces

Commercial and office spaces of Madrid Blvd building in Sofia have been valued using comparison method in 2022, in 2021 income method. In 2021, the value of such assets increased by 71 thousand compared to the balance of 31

In 2022, the fair value of investment property was decreased in the total amount of 350 thousand euros and increased in the total amount of 468 thousand euros in 2021.

As of 31 December	2022	2021
<i>In thousands of euros</i>		
Measured using the income method	0	9,337
Measured using comparison method	9,132	607
Total investment property	9,132	9,943

In 2022, a pre-sale agreement was signed for the sale of a commercial building in Madrid, as a result of which the management estimates that the sale of the building in 2023 is likely and has therefore classified the property as an asset for sale. After deducting the fees to be paid in 2023, the net realizable value of the building on 31.12.2022 was 9,050 thousand euros.

In 2021, 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 m² from commercial and office areas was 9,7 euros in 2021.

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

Operating leases: the Group as a lessor

In 2022, the Group's rental income on investment properties (Madrid Blvd building in Sofia) amounted to 746 thousand euros (in 2021: 810 thousand euros). Rental income decreased by 54 thousand euros during the year, as the vacancy in the building was higher in 2022 than in 2021. As of the date of preparation of this annual report, 9% of the commercial space has been left vacant due to a

properties were determined by internal experts, in 2021 partly 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.

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. The value of the rentable garages and parking lots was valued down by 8 thousand euros in 2021.

On 31 December 2022, investment properties with carrying value of 82 thousand euros did not require value adjustment (as of 31 December 2021: 2 thousand euros).

- 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.

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.

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

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

pre-sale agreement, the other spaces have been rented out.

Direct property management expenses totaled 274 thousand euros in 2022 (in 2021: 188 thousand euros) including expenses in the amount of 5 thousand euros (in 2021: 5 thousand euros) from properties from which the Group did not earn any income.

17. Property, plant and equipment and intangible assets

Property, plant and equipment

	Land and buildings	Office equipment	Total property, plant and equipment
<i>In thousands of euros</i>			
Carrying amount on 31 December 2020	0	22	22
<i>Of which cost</i>	0	170	170
<i>Of which accumulated depreciation</i>	0	-148	-148
Additions	0	9	9
Sale of PPE	0	-2	-2
Capitalization of rent	140	0	140
Depreciation for the year (note 6)	-7	-8	-15
Carrying amount on 31 December 2021	133	21	154
<i>Of which cost</i>	140	167	307
<i>Of which accumulated depreciation</i>	-7	-146	-153
Capitalization of rent	286	0	286
Decapitalization of rent	-126	0	-126
Additions	0	40	40
Sale of PPE	0	-2	-2
Write-off	0	-4	-4
Depreciation for the year (note 6)	-50	-14	-64
Carrying amount on 31 December 2022	243	41	284
<i>Of which cost</i>	286	196	482
<i>Of which accumulated depreciation</i>	-43	-155	-200

In 2022, amortisation of tangible assets is recorded in general administrative expenses in the amount of 64 thousand euros (see note 11), in 2021 in the cost of real estate and services sold 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). As of 31.12.2022, the cost of property, plant and equipment that was fully amortized but still in use was 2 thousand euros (on 31 December 2021: 2 thousand euros as well).

Intangible assets

	Total intangible assets
<i>In thousands of euros</i>	
Carrying amount on 31 December 2020	136
<i>Of which cost</i>	522
<i>Of which accumulated amortisation</i>	-386
Purchases and software development	0
Amortisation for the year (note 6)	-49
Carrying amount on 31 December 2021	87
<i>Of which cost</i>	522
<i>Of which accumulated amortisation</i>	-435
Purchases and software development	3
Amortisation for the year (note 6)	-44
Carrying amount on 31 December 2022	46
<i>Of which cost</i>	525
<i>Of which accumulated amortisation</i>	-479

Amortisation of intangible assets is recorded in the cost of real estate and services sold in 2022 in the amount of 34 thousand euros (see note 8) and in general administrative

expenses in the amount of 10 thousand euros (see note 11); in 2021 38 thousand and 11 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 2022 nor 2021.

As of 31.12.2022, the cost of intangible assets that was fully amortized but still in use was 366 thousand euros (on 31 December 2021: 257 thousand euros).

For pledged assets, see note 2.

18. Interest bearing liabilities

The overview of changes in net loans is as follows:

	Cash and cash equivalents	Bank loans	Bonds	Other loans	Total
<i>In thousands of euros</i>					
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
Annual change	1,564	-6,686	-340	121	-5,341
Net loans 31 Dec 2022	3,427	-15,566	-2,120	-403	-14,662

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, 2022			As of 31 December, 2021		
	Total	of which current portion	of which non-current portion	Total	of which current portion	of which non-current portion
<i>In thousands of euros</i>						
Bank loans	15,567	5,037	10,530	8,880	3,844	5,036
Bonds	2,120	0	2,120	1,780	1,780	0
Capital lease	242	58	184	133	28	105
Other loans	160	160	0	391	391	0
Total	18,089	5,255	12,834	11,184	6,043	5,141

In 2022, the group settled loans in the amount of 2,107 thousand euros (in 2021: 2,741 thousand euros) through cash transactions and raised new loans in the amount of 12,176 thousand euros (in 2021: 3,944 thousand euros).

6,383 thousand euros of the settled loans were paid by customers directly to the bank in 2022, 852 thousand euros in 2021; these are not shown in the group cash flow statement.

In 2022, the following major loan obligations were settled:

- 290 thousand euros of Madrid Blvd project's bank loan principal;
- 7,800 thousand euros of bank loan for financing construction of apartment building in Kodulahe project Stages 4 and 5, out of which 6,383 thousand directly by customers;
- 400 thousand euros Arco Vara bonds.

In 2022, the group raised the following new liabilities:

- 4,246 thousand euros of bank loan for financing construction of apartment buildings in Kodulahe project Stage 4 and 5;
- 7,030 thousand euros of bank loan for financing construction of apartment buildings in Kodulahe project Stage 6 called Rannakalda;
- 3,500 thousand euros of bank loan for financing land in Kodulahe project Stage 8;
- 139 thousand euros of capitalized office rent;
- Arco Vara bonds 900 thousand euros.

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;
- 661 thousand euros of Kodukalda project bank loan principal, all directly by customers;
- 407 thousand euros of Kodulahe 3 project bank loan principal, out of which 191 thousand directly by customers;
- 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 Stage 4 and 5;
- 140 thousand euros of capitalized office rent;
- 390 thousand euros of other loans.

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

Description of the liability	Maturity date (month/year)	Liability amount, in thousands of euros		Interest rate, %		Type of interest rate
		31 Dec 2022	31 Dec 2021	31 Dec 2022	31 Dec 2021	
Bank loan, development	10/2024	5,036	5,326	3.4	3.4	Fixed
Bank loan, development	4/2025	7,030	0	5.0	-	Fixed
Bank loan, development	12/2022	0	3,554	-	5.6	6M Euribor
Bank loan, land acquisition	11/2027	3,500	0	8.3	-	6M Euribor
Bonds, development	12/2024	2,120	0	10.0	-	Fixed
Bonds, development	12/2022	0	1,780	10.0	10.0	Fixed
Capital lease	8/2026	243	133	2.5	2.5	Fixed
Other loan, settlements	12/2023	160	0	10.0	-	Fixed
Other loan, settlements	5/2022	0	391	-	5.0	Fixed
Total		18,089	11,184			

On 31 December 2022, the weighted average interest rate of interest-bearing liabilities was 5.8% (31 December 2021: 5.2%).

19. Payables and deferred income

Short-term payables and deferred income

	31 December 2022	31 December 2021
<i>In thousands of euros</i>		
Trade payables	1,162	673
Miscellaneous payables	11	10
Taxes payable		
Value added tax	53	24
Corporate income tax	0	32
Social security tax	25	9
Personal income tax	17	6
Other taxes	3	2
Total taxes payable	98	73
Accrued expenses		
Payables to employees	102	102
Interest payable	9	7
Dividend payable	104	104
Other accrued expenses	261	2
Total accrued expenses	476	215
Deferred income		
Prepayments received on sale of real estate	1,824	1,268
Guarantee deposits	75	91
Prepaid revenue	35	38
Total deferred income	1,934	1,397
Total short-term payables and deferred income	3,681	2,368

As of 31 December 2022, the balance of prepayments received on sale of real estate included prepayments collected on presale of apartments of Kodulahe Kvartal OÜ of 1,365 thousand euros, 455 thousand euros in advance for the sale of the Madrid building and 4 thousand euros in

advance for the pre-sale of the Botanica Lozen villas. 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.

20. Share capital

As of 31 December	2022	2021
Number of issued shares fully paid up	10,388,367	10,388,367
Share capital (in thousands of euros)	7,272	7,272
Share premium (in thousands of euros)	3,835	3,835
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 2022.

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	2022	2021
<i>In thousands of euros</i>		
Cash on hand and demand deposits	3,427	1,863
Total cash and cash equivalents	3,427	1,863

At the end of year 2022, out of the Group's cash and cash equivalents balance, 224 thousand euros (31 December 2021: 253 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 2022, are presented in the following table.

Bank or banking group	Bank's share of the Group's cash balance	Standard & Poor's	Moody's
KBC	19.33%	A-	Baa1
LHV Pank AS	62.24%	Not rated	Baa3
Coop Pank AS	18.72%	Not rated	Baa2
Cash in other banks and petty cash	0.16%	-	-

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 1,035 thousand euros as of 31 December 2022. 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 4,462 thousand euros as of 31 December 2022 (31 December 2021: 2,212 thousand euros).

Financial assets by maturity

By maturity	on 31 December 2022			
	< 3 months	3-12 months	1-2 years	Total
<i>In thousands of euros</i>				
Cash and cash equivalents	3,427	0	0	3,427
Trade and other receivables (note 14)	1,035	0	0	1,035
Total	4,462	0	0	4,462

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

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.

Maturity structure of financial liabilities

By maturity	
<i>In thousands of euros</i>	
Interest-bearing liabilities	
Interest payable	
Other financial liabilities (trade payables, accrued expenses, excluding liabilities to employees)	
Total	

on 31 December 2022			
< 3 months	3-12 months	1-5 years	Total
15	5,240	12,834	18,089
262	785	1,531	2,578
1,636	0	0	1,636
1,913	6,025	14,365	22,303

By maturity	
<i>In thousands of euros</i>	
Interest-bearing liabilities	
Interest payable	
Other financial liabilities (trade payables, accrued expenses, excluding liabilities to employees)	
Total	

on 31 December 2021			
< 3 months	3-12 months	1-5 years	Total
79	5,964	5,141	11,184
146	423	500	1,069
862	0	0	862
1,087	6,387	5,641	13,115

Based on the maturities of liabilities included in the Group's loan portfolio, as of 31 December 2022, the average weighted maturity of the Group's loans and borrowings was 2.6 years (as of 31 December 2021: 2.0 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.

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 6-month Euribor. Therefore, the Group is exposed to developments in the international financial markets. Interest rate risk is managed, among other things, by

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.

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 were negative. In 2022, Euribor started to rise at a fast pace. The group's land loan with the Euribor component was taken out in the final months of 2022, which is why there was almost no Euribor component in the group's loans in 2021 and 2022. However, this must be taken into account in 2023, especially for loans taken in the future.

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 2022, 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 35 thousand euros (on 31 December 2021: 112 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

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

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

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 2022, 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 2022, the share capital of Arco Vara AS was 7,272 thousand euros and net assets were 18,035 thousand euros. Thus, the Group's share capital and net assets (equity) were in accordance with the regulatory requirements of the Republic of Estonia.

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.

signing all major agreements, including loan contracts in euros. In view of the above, the Group's management considers currency risk to be insignificant.

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.

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 2022 and 31 December 2021, 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 2022, total capital amounted to 32,697 thousand euros (on 31 December 2021: 27,283 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 2022, equity accounted for 45.3% (on 31 December 2021: 57.0%) of total assets.

Other information

22. Assets pledged as collateral

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

As of 31 December	2022	2021
<i>In thousands of euros</i>		
Cash and cash equivalents	224	253
Receivables ¹	98	39
Inventories	17,390	7,667
Investment property	9,050	9,337
Total carrying value of assets pledged as collateral	26,762	17,296

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

23. Contingent liabilities

Contingent income tax liability

As of 31 December 2022, the Group's retained earnings amounted to 4,917 thousand euros (on 31 December 2021: 4,844 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 2022 and in 2021, this opportunity was used when paying out dividends to shareholders in the amount of 624 and

480 thousand euros accordingly (0.06 or 0.05 euros per share) without income tax obligation.

As of 31.12.2022, Arco Vara could pay dividends in the amount of 1,101 thousand euros without income tax obligation. Upon the payment of all retained earnings in 2023, income tax liability would be 763 thousand euros and the amount to be paid out to shareholders would total 4,154 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 3,352 thousand euros. Over 30,000 m² 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 m² GBA (gross building area). The board assesses GBA of 30,000 m² 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	2022	2021
<i>In thousands of euros</i>		
Other related parties		
Receivables from customers	277	148

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 277 thousand euros (148 thousand euros as of 31.12.2021).

Transactions with related parties

	2022	2021
<i>In thousands of euros</i>		
Companies that have a significant interest in the Group		
Services purchased	0	25
Other related parties		
Services purchased	86	42

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 2022, the remuneration of the CEO, including social security charges amounted to 160 thousand euros (297 thousand euros in 2021). Remuneration of the members of the Group's supervisory board was 24 thousand euros in 2022, as well in 2021 (24 thousand).

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. Upon leaving work, the director is eligible for a severance compensation of 5 monthly salaries. Read more about the manager's reward system 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).

In 2022 and 2021, 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	Domicile	Group's ownership interest	
		On 31 December 2022	On 31 December 2021
%			
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
Office Cherkovna EOOD	Bulgaria	100	0
Trade Center Cherkovna EOOD	Bulgaria	100	0
Oborishte Premium Apartments EOOD	Bulgaria	100	0
Arco Manastirski EOOD	Bulgaria	100	100
Arco Riverside EOOD	Bulgaria	100	100
Marsili II SIA	Latvia	100	100
Construction segment			
Subsidiary			
Arco Tarc OÜ	Estonia	100	0

26. 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

	2022	2021
<i>In thousands of euros</i>		
Revenue from rendering of services	958	862
Cost of sales	-41	-41
Gross profit	917	821
Other income	31	70
Marketing and distribution expenses	-136	-84
Administrative expenses	-738	-796
Other expenses	-6	0
Operating profit	68	11
Loss on investments in subsidiaries	-362	-1
Dividend income	789	0
Interest income	1,317	1,030
Interest expense	-491	-442
Total finance income and costs	1,253	587
Net profit for the year	1,321	598
Total comprehensive income for the year	1,321	598

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December	2022	2021
<i>In thousands of euros</i>		
Cash and cash equivalents	1,497	1,424
Receivables and prepayments	1,474	412
Total current assets	2,971	1,836
Investments into subsidiaries	9,249	11,042
Receivables and prepayments	9,645	9,973
Property, plant, and equipment	272	146
Intangible assets	14	48
Total non-current assets	19,180	21,209
TOTAL ASSETS	22,151	23,045
Loans and borrowings	1,271	4,508
Payables and prepayments	316	823
Total current liabilities	1,587	5,331
Loans and borrowings	5,209	3,057
Total non-current liabilities	5,209	3,057
TOTAL LIABILITIES	6,796	8,388
Share capital	7,272	7,272
Share premium	3,835	3,835
Statutory capital reserve	2,011	2,011
Retained earnings	2,237	1,539
Total equity	15,355	14,657
TOTAL LIABILITIES AND EQUITY	22,151	23,045

UNCONSOLIDATED STATEMENT OF CASH FLOWS
(direct method)

	2022	2021
<i>In thousands of euros</i>		
Cash receipts from customers	611	1,720
Cash paid to suppliers	-591	-465
Taxes paid and recovered (net)	-470	677
Cash paid to employees	-225	-220
Other payments and receipts related to operating activities (net)	0	13
NET CASH FROM/USED IN OPERATING ACTIVITIES	-675	1,725
Payments made on acquisition of tangible and intangible assets	-27	-9
Proceeds from sale of tangible assets	2	0
Payments made on establishing a subsidiaries	0	-8
Loans provided	-4,197	-10,025
Repayment of loans provided	5,709	5,000
Interest received	14	547
Other payments related to investing activities	0	9
NET CASH FROM/USED IN INVESTING ACTIVITIES	1,501	-4,486
Proceeds of loans received	5,516	3,545
Settlement of loans and borrowings	-5,359	-998
Proceeds from share capital issue	0	2,250
Dividends paid	-623	-479
Interest paid	-287	-195
NET CASH FROM FINANCING ACTIVITIES	-753	4,123
NET CASH FLOW	73	1,362
Cash and cash equivalents at beginning of year	1,424	62
Change in cash and cash equivalents	73	1,362
Cash and cash equivalents at end of year	1,497	1,424

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Unregistered share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings
<i>In thousands of euros</i>						
Balance on 31 December 2020	6,299	273	2,285	2,011	1,524	12,392
Dividends	0	0	0	0	-583	-583
Increase of share capital	973	-273	1,550	0	0	2,250
Net profit for the year	0	0	0	0	598	598
Balance on 31 December 2021	7,272	0	3,835	2,011	1,539	14,657
Dividends	0	0	0	0	-623	-623
Net profit for the year	0	0	0	0	1,321	1,321
Balance on 31 December 2022	7,272	0	3,835	2,011	2,237	15,355

Adjusted unconsolidated equity

As of 31 December	2022	2021
<i>In thousands of euros</i>		
Parent company's unconsolidated equity	15,355	14,657
Carrying amount of investments in subsidiaries in the parent company's unconsolidated statement of financial position (-)	-9,249	-11,042
Value of investments in subsidiaries under the equity method (+)	11,929	14,347
Parent company's adjusted unconsolidated equity	18,035	17,962

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 2022 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, 2023

/signed digitally/

Miko-Ove Niinemäe

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



Independent auditor's report

To the Shareholders of Arco Vara AS

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Arco Vara AS (the "Company") and its subsidiaries (together – the "Group") as at 31 December 2022, and the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee dated 6 April 2023.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2022;
- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

During the period from 1 January 2022 to 31 December 2022 we have not provided any non-audit services to the Company and its parent and subsidiaries.

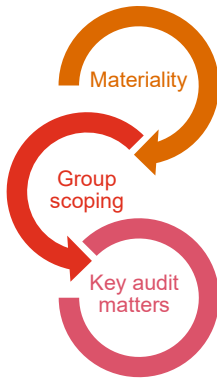
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Our audit approach

Overview



- Overall Group audit materiality is EUR 266 thousand, which represents 1% of the average of Group's total assets and revenues.
- The Group audit team audited 96% of Group's consolidated assets and 99% of Group's consolidated revenues.
- Valuation of office and commercial spaces in Bulgaria, classified as investment property held for sale.
- Valuation of inventory relating to property development.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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 the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group audit materiality EUR 266 thousand.

How we determined it 1% of the average of Group's total assets as of the reporting date and Group's 2022 total revenues.

Rationale for the materiality benchmark applied We have applied this benchmark, as the value of the Group's assets (consisting mainly of inventories and investment properties) and sales revenue are key performance indicators monitored both internally and externally. Furthermore, we did not consider profit before tax to be suitable as it fluctuates significantly over the years depending on when development projects are sold.

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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.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of office and commercial spaces in Bulgaria as investment property held for sale (refer to Note 2 “Statement of compliance and basis of preparation”, Note 4 “Significant accounting policies” and Note 16 “Investment properties”).</i></p> <p>As at 31 December 2022 the carrying amount Group’s investment property portfolio consisted of office and commercial spaces in Bulgaria amounted to 9 million euros.</p> <p>Investment property held for sale is recognized at the lower of fair value less cost to sale or carrying value at the time of the classification.</p> <p>Office and commercial spaces in Bulgaria were valued at fair value less costs to sale based on the presale agreement signed before the balance sheet date.</p>	<p>We read the presale agreement to assess the management estimate in classifying the investment property in Bulgaria as an asset held for sale (recorded under current assets) in the light of IFRS requirements.</p> <p>We read the presale agreement and assessed the conditions therein to evaluate the probability of the sale happening with the price indicated in the agreement.</p> <p>We reviewed the reclassification of Bulgarian investment properties into current assets and the disclosure as investment properties held for sale.</p> <p>We didn’t notice any significant misstatements in estimates made and disclosed information.</p>
<p><i>Valuation of inventory relating to property development (refer to Note “Statement of compliance and basis of preparation”, Note 4 “Significant accounting policies” and Note 15 “Inventories”).</i></p> <p>As at 31 December 2022 the Group’s statement of financial position includes inventory in the amount of 22,5 million euros.</p> <p>Inventories are carried at the lower of cost and net realisable value.</p> <p>With property prices, especially those of residential property, following the economic cycle and exhibiting substantial fluctuation over time, net realisable value of the inventory of finished and unfinished apartments and property for resale needs to be carefully monitored against the carrying amount. Should the net realisable value of a property fall below its carrying amount, a write-down to net realisable value is necessary. Determining the net realisable value of property requires estimates of the expected selling price and may require estimates of the cost to complete the development of the property.</p>	<p>We assessed the management’s expertise to perform valuation of property. The management is experienced in property valuation and the outcomes of completed development projects have usually met the profitability estimates.</p> <p>We performed testing of the inputs used in the valuation model. Our work targeted individual properties on our assessment of the risk, based on the location, carrying amount and any specific conditions related to a property. For inputs based on estimates, which include unit costs applicable for completing the construction and sales price, we assessed the reasonableness of the inputs by comparing them with historical data from completed projects and available market information such as construction price indexes. Where possible, we compared the estimated sales prices with comparable market transactions and with the prices agreed in a promissory sales contracts.</p> <p>It was evident from our work that sufficient attention had been paid to each property’s individual characteristics including their</p>

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Due to the magnitude and related estimation uncertainty, valuation of inventory of finished and unfinished apartments and land to be developed for sale is considered a key audit.

construction quality, geographic location and relevant legal or contractual obligations.

We also assessed the appropriateness of disclosures provided in respect of net realisable value of inventory, including sensitivity analysis.

How we tailored our Group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises a number of subsidiaries that mostly operate in the Baltics and Bulgaria (refer to Note 25). Based on our risk and materiality assessments, we determined which entities were required to be audited at full scope, taking into account the relative significance of each entity to the Group as a whole and in relation to each material line item in the consolidated financial statements.

For Arco Vara AS, Kodulahe Kvartal OÜ, Kodulahe OÜ, Kolde OÜ, Arco Tarc OÜ and Arco Invest EOOD full scope audits were performed by the Group audit team. In respect of remaining entities we performed full scope audit procedures on selected balances and transactions, relating primarily to valuation of inventories.

Reporting on other information including the Management report

The Management Board is responsible for the other information. The other information comprises Group's Management Report, Corporate Governance Report, Remuneration Report, CEO's Confirmation on Management Report (but does not include the consolidated financial statements and our auditor's report thereon).

Our opinion on the consolidated financial statements does not cover the other information, including the Management report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act of the Republic of Estonia. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

In accordance with the Securities Market Act of the Republic of Estonia with respect to the Remuneration Report, our responsibility is to consider whether the Remuneration Report includes the information in accordance with the requirements of Article 135³ (3) of the Securities Market Act of the Republic of Estonia.

Based on the work undertaken in the course of our audit, in our opinion:

- the information given in the Management report for the financial year for which the consolidated financial statements are prepared is consistent, in all material respects, with the consolidated financial statements; and
- the Management report has been prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia; and
- the Remuneration Report has been prepared in accordance with Article 135³ (3) of the Securities Market Act of the Republic of Estonia.

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In addition, in light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the Management report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board 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 the Management Board 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, the Management Board 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 the Management Board 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.

Auditor's 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 auditor's 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 ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the 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 ISAs, 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 the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists 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, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- 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 to 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 auditor's 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 the compliance of the presentation of consolidated financial statements with the requirements of the European Single Electronic Format ("ESEF")

We have been engaged based our agreement by the Management Board of the Company to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the presentation of the consolidated financial statements of Arco Vara AS for the year ended 31 December 2022 (the "Presentation of the Consolidated Financial Statements").

Description of a subject matter and applicable criteria

The Presentation of the Consolidated Financial Statements has been applied by the Management Board of the Company to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Presentation of the Consolidated Financial Statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Presentation of the Consolidated Financial Statements and, in our view, constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibility of the Management Board and those charged with governance

The Management Board of the Company is responsible for the Presentation of the Consolidated Financial Statements that complies with the requirements of the ESEF Regulation.

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This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Presentation of the Consolidated Financial Statements which is free from material non-compliance with the requirements of the ESEF Regulation.

Those charged with governance are responsible for overseeing the financial reporting process, which should also be understood as the preparation of consolidated financial statements in accordance with the format resulting from the ESEF Regulation.

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

We conducted our engagement in accordance with the International Standard on Assurance Engagements (Estonia) 3000 (revised) "Assurance Engagements other than Audits and Reviews of Historical Financial Information" (ISAE (EE) 3000 (revised)). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements.

Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance with ISAE (EE) 3000 (revised) will always detect the existing material misstatement (significant non-compliance with the requirements).

Quality control requirements

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

We comply with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Presentation of the Consolidated Financial Statements complies, in all material aspects, with the applicable requirements and such compliance is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Electronic Reporting Format of the Consolidated Financial Statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL markup language according to the requirements of the implementation of electronic format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified; and
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

Translation note:

This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

This independent auditor's report (translation of the Estonian original) should only be used with the original document submitted in machine-readable .xhtml format that is submitted to the Tallinn Stock Exchange (Link: <https://nasdaqbaltic.com/statistics/en/instrument/EE3100034653/reports>).



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

Conclusion

In our opinion, based on the procedures performed, the Presentation of the Consolidated Financial Statements complies, in all material respects, with the ESEF Regulation.

Appointment and period of our audit engagement

We were first appointed as auditors of Arco Vara AS, as a public interest entity, on 17 May 2022 for the financial year ended 31 December 2022. In accordance with the Auditors Activities Act of the Republic of Estonia and the Regulation (EU) No 537/2014, our appointment as the auditor of Arco Vara AS can be extended for up to the financial year ending 31 December 2042.

AS PricewaterhouseCoopers

/digitally signed/

Janno Hermanson
Certified auditor in charge, auditor's certificate no. 570

/digitally signed/

Kristiina Veermäe
Auditor's certificate no. 596

6 April 2023
Tallinn, Estonia

Translation note:

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