Arco Vara AS

Annual report 2023

CONSOLIDATED ANNUAL REPORT
(Translation of the Estonian original)

Company name	Arco Vara AS
Registry number	10261718
Address	Rotermanni st 10, 10111 Tallinn, Republic of Estonia
Telephone	+372 614 4630
E-mail	info@arcovara.com
Corporate website	www.arcovara.com
Financial year	1 January 2023 – 31 December 2023
Supervisory board	Tarmo Sild, Steven Yaroslav Gorelik, Kert Keskpaik, Hillar-Peeter Luitsalu, Allar Niinepuu
Chief executive	Miko-Ove Niinemäe
Auditor	PricewaterhouseCoopers Aktsiaselts

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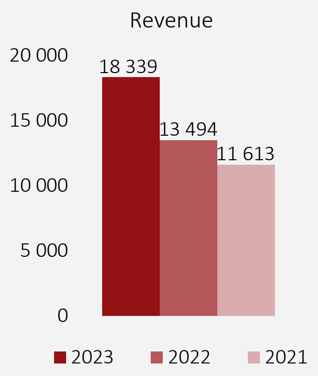
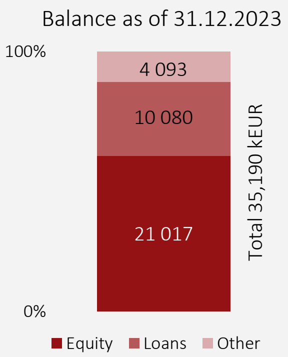
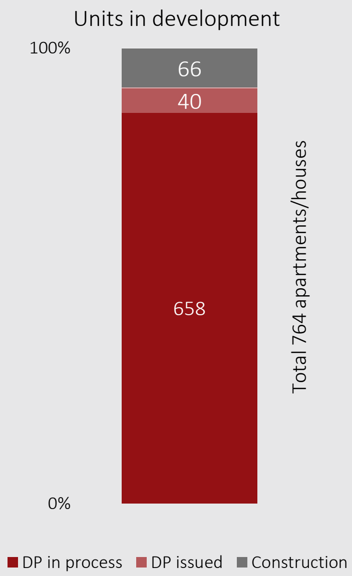
Management Report

Group CEO´s Review







While 2021 and 2022 were a sprint on the real estate market, last year marked the start of a marathon in the heat of Euribor. The base interest rates of the central bank have pushed both investors and consumers into a comfortable trot, waiting for the lowering of interest rates like a drinking station at a distance run to inject new energy into the economy.

At the same time, looking back shows us positive signs that also alleviate future business risks of Arco Vara. For example, we have come through an extremely volatile time for prices of materials, as indicated by the stabilised construction prices.

The completion of homes at Kodulahe Quarter was the peak of last year for us, as we delivered 66 new homes in the Rannakalda development. The success of the Rannakalda site was also tied to the stabilised construction costs, boosting the profits of the group to 3.6 million euros.

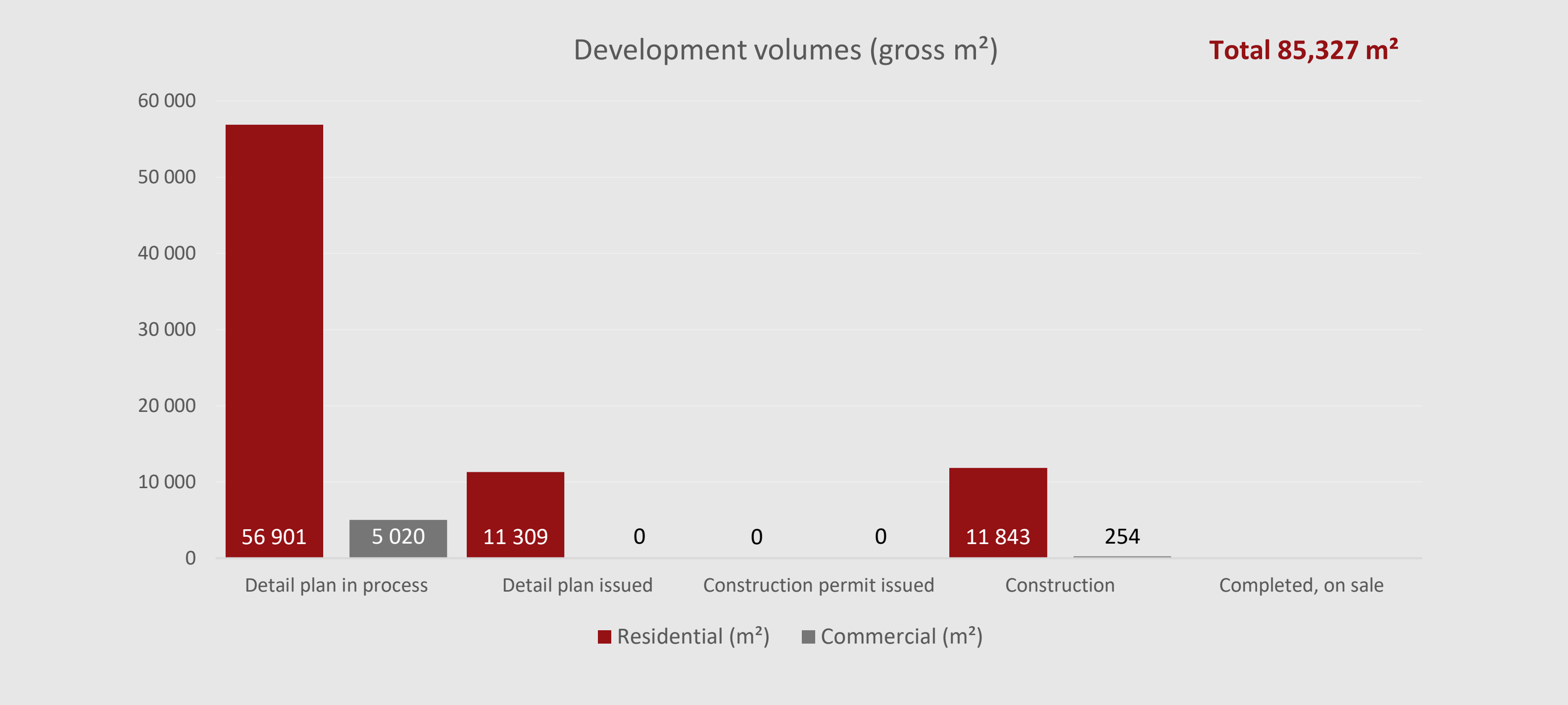
In addition to completing the homes, Arco Vara commenced the assessment of environmental impact, having conducted the initial lifetime analysis in the Kodulahe Rannakalda building to be used to improve the impact of future projects as early as in the designing stage. The results of the analysis are provided in more depth on page 19 of this report.

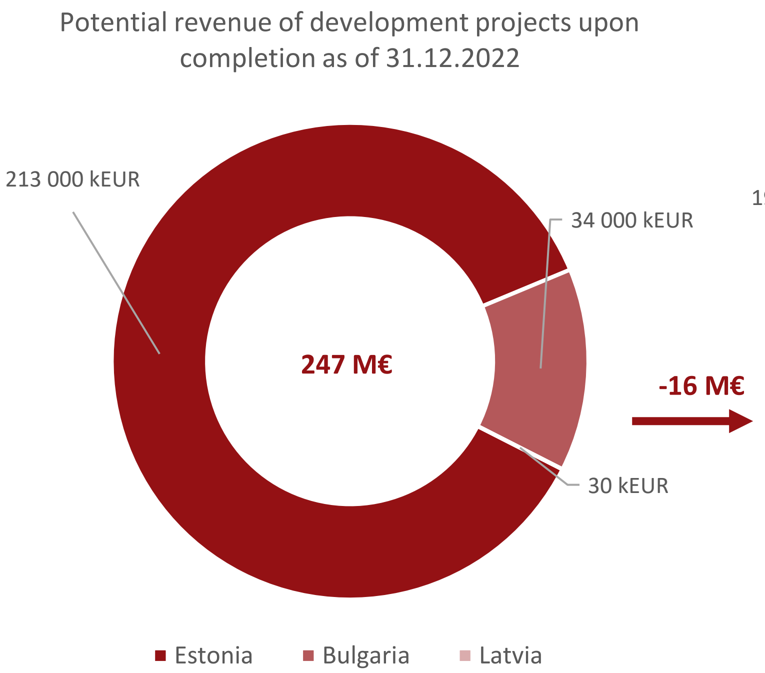
The largest factor in our Bulgarian activities last year was the sale of the Madrid Blvd building, which was successfully completed in Q2. The sale of the building was connected to the long-term strategy of focusing on developing residential real estate and reach the delivery of 200 homes every year.

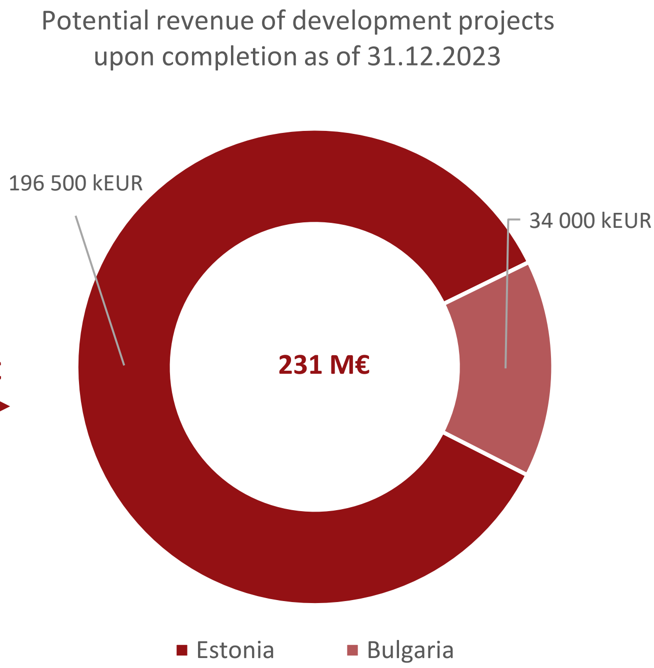
The Bulgarian construction activities continued as scheduled at Botanica Lozen. At the time of publishing this report, six of the 16 houses have been pre-sold, intended to be completed at the end of 2024. The next milestone in the Botanica Lozen development is issuing the stage II construction permit, which is planned to cover 24 residential buildings.

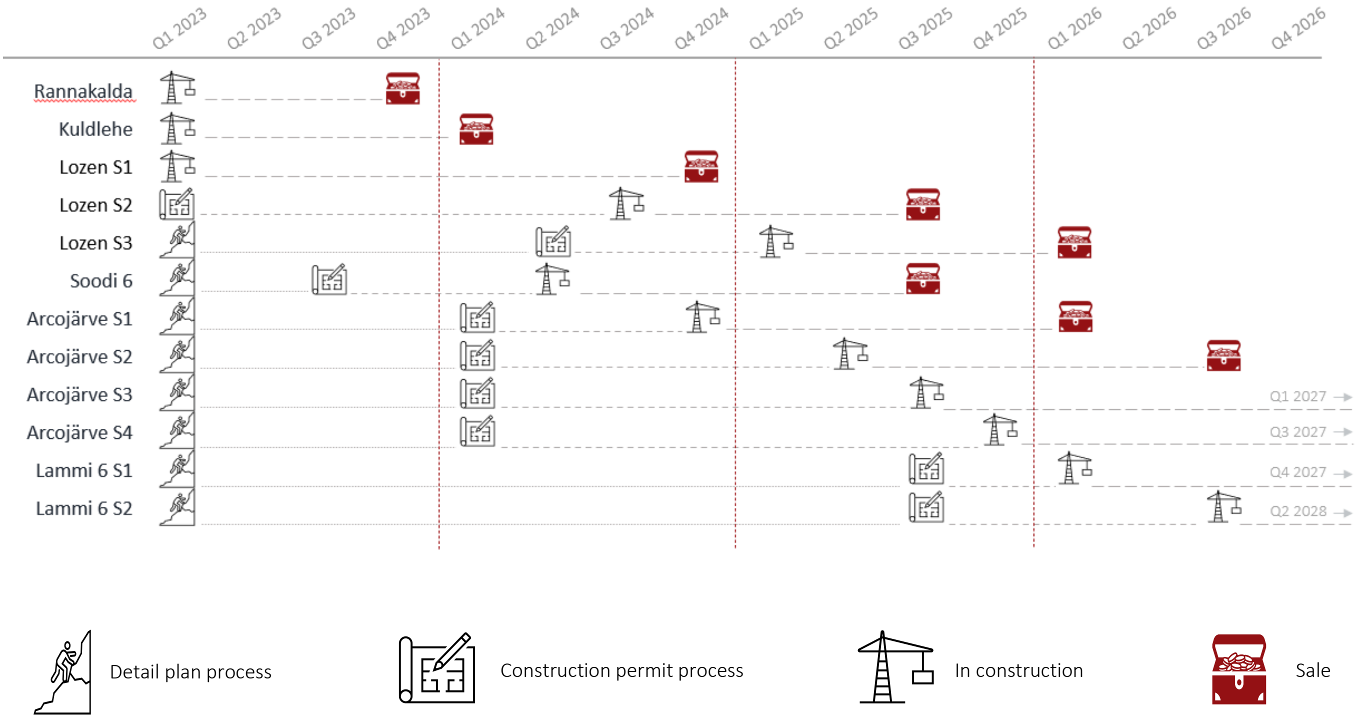
Looking at financial indicators, Arco Vara reached a new level of 20% ROE, which is one of the long-term goals of the company. Considering the delivery of homes, the volume of assets of the company decreased while the equity-to-asset ratio increased to nearly 60%, enhancing the security and capacity of the company to continue developments as planned despite the difficult times in the world of interest rates.

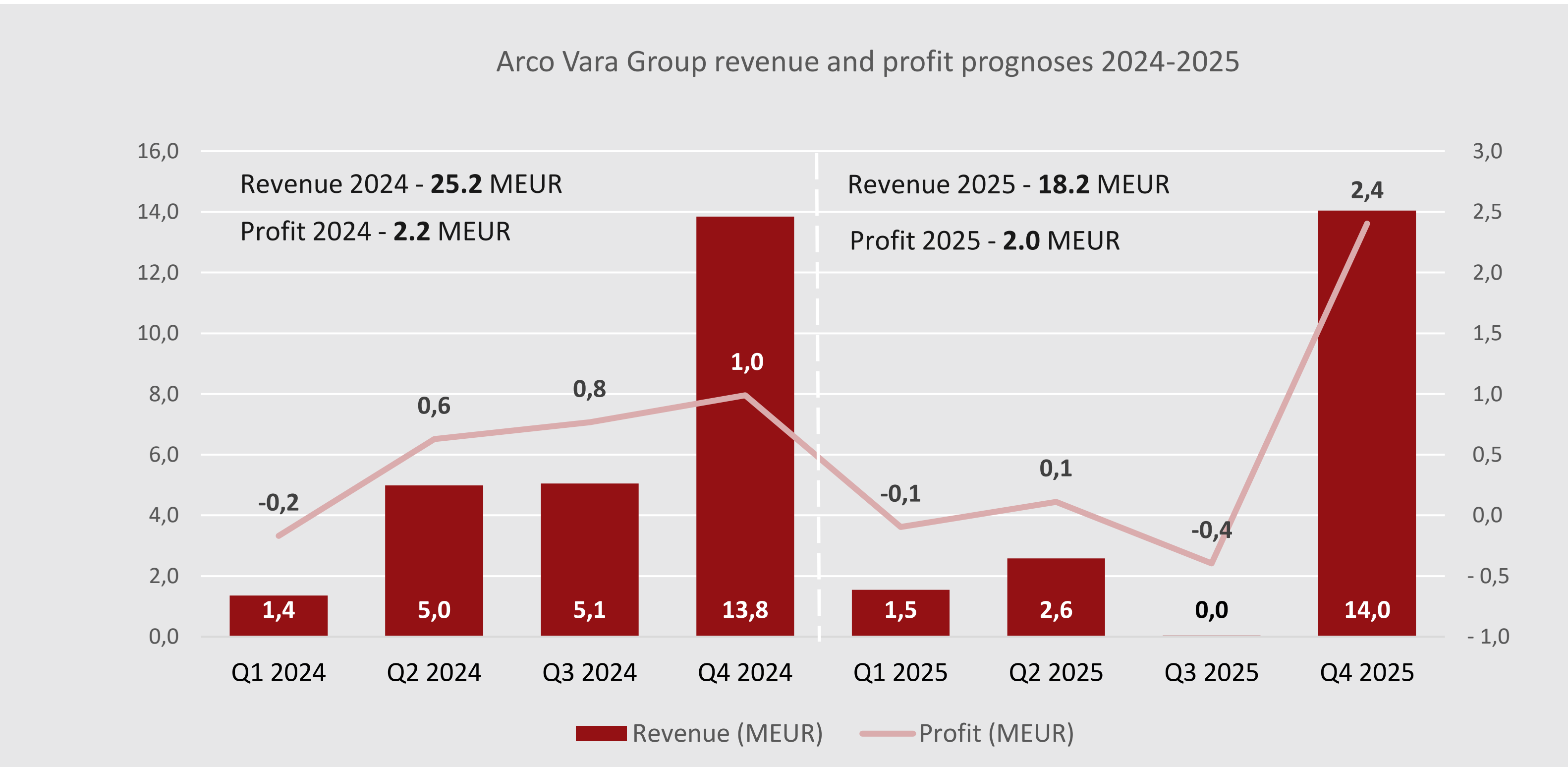
The period of tension continues in 2024 while the team of Arco Vara focuses on making new investments. We are in a period where the construction costs have stabilised but the stock of the company is decreasing and interest expenses remain high, creating opportunities for us to obtain new development volumes.


Development volumes (gross m²)
Total 85,327 m²
60 000
50 000
40 000
30 000
20 000
10 000
0
56 901
5 020
11 309
0
0
0
11 843
254
Detail plan in process
Detail plan issued
Construction permit issued
Construction
Completed, on sale
Residential (m²)
Commercial (m²)


Potential revenue of development projects upon completion as of 31.12.2022
213 000 kEUR
34 000 kEUR
247 M€
30 kEUR
Estonia
Bulgaria
Latvia
-16 M€


Potential revenue of development projects upon completion as of 31.12.2023
196 500 kEUR
34 000 kEUR
231 M€
Estonia
Bulgaria


Q1 2023
Q2 2023
Q3 2023
Q4 2023
Q1 2024
Q2 2024
Q3 2024
Q4 2024
Q1 2025
Q2 2025
Q3 2025
Q4 2025
Q1 2026
Q2 2026
Q3 2026
Q4 2026
Rannakalda
Kuldlehe
Lozen S1
Lozen S2
Lozen S3
Soodi 6
Arcojärve S1
Arcojärve S2
Arcojärve S3
Arcojärve S4
Lammi 6 S1
Lammi 6 S2
Q1 2027
Q3 2027
Q4 2027
Q2 2028
Detail plan process
Construction permit process
In construction
Sale


Arco Vara Group revenue and profit prognoses 2024-2025
Revenue 2024 - **25.2** MEUR
Profit 2024 - **2.2** MEUR
Revenue 2025 - **18.2** MEUR
Profit 2025 - **2.0** MEUR
16,0
14,0
12,0
10,0
8,0
6,0
4,0
2,0
0,0
3,0
2,5
2,0
1,5
1,0
0,5
0,0
- 0,5
- 1,0
-0,2
0,6
0,8
1,0
-0,1
0,1
-0,4
2,4
1,4
5,0
5,1
13,8
1,5
2,6
0,0
14,0
Q1 2024
Q2 2024
Q3 2024
Q4 2024
Q1 2025
Q2 2025
Q3 2025
Q4 2025
Revenue (MEUR)
Profit (MEUR)

Arco Vara´s Active Projects as of 31.12.2023

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
4,184

No of units (above ground) available
113/47

Project name

Stage 1 Botanica Lozen

Address
Lozen, near Sofia

Product main type
Houses

Project stage
Construction

Area of plot m2
20,190

GSA/GLA (above ground)
5,485

No of units (above ground)
16/11

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
922

No of units (above ground) available
5/5

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)
<4,491>

No of units (above ground)
<63>

Project name

S2 and S3 Botanica Lozen

Address
Lozen, near Sofia

Product main type
Houses

Project stage
Detail plan issued

Area of plot m2
27,260

GSA/GLA (above ground)
<11,309>

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)
<28,852>

No of units (above ground)
<441>

Arco Vara´s Active projects as of 31.12.2023

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)

<13,100>

No of units (above ground)

<187>

Project name

Padel venue

Address

Helme 18, Tallinn

Product main type

Sports hall

Project stage

Design in process

Area of plots m2

5,712

GSA/GLA (above ground) available

<1,928>

No of units (above ground) available

1/0

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). 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.

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

Arco Vara AS is part of the OÜ Alarmo Kapital concern.

As of 31 December 2023, the group consisted of 14 companies, which is four less than of 31 December 2022.

Significant subsidiaries as of 31 December 2023

Company name	Location	Share capital (nominal value)	Equity balance on 31 December 2023	The group's interest
In thousands of euros				
Botanica Lozen EOOD	Bulgaria	2,931	1,129	100%
Kodulahe Kvartal OÜ	Estonia	140	9,926	100%
Kerberon OÜ	Estonia	5	1,816	100%
Kolde OÜ	Estonia	28	756	100%

* In Q4 2023, Kodulahe Kvartal OÜ and Kodulahe OÜ merged.
** Marsili II SIA was liquidated on 16.01.2024.

2
countries

30+
years of experience

2,800+
new homes

380,000+
developed m^2

Arco Vara AS subsidiaries

Kodulahe Kvartal OÜ*	100%
Kodulahe II OÜ	100%
Kodukalda OÜ	100%
Kolde OÜ	100%
Kerberon OÜ	100%
Arco Tarc OÜ	100%
Arco Vara Bulgaria EOOD	100%
Arco Invest EOOD	100%
Iztok Parkside EOOD	100%
Botanica Lozen EOOD	100%
Arco Manastirski EOOD	100%
Arco Riverside EOOD	100%
Marsili II SIA**	100%

Key Performance Indicators

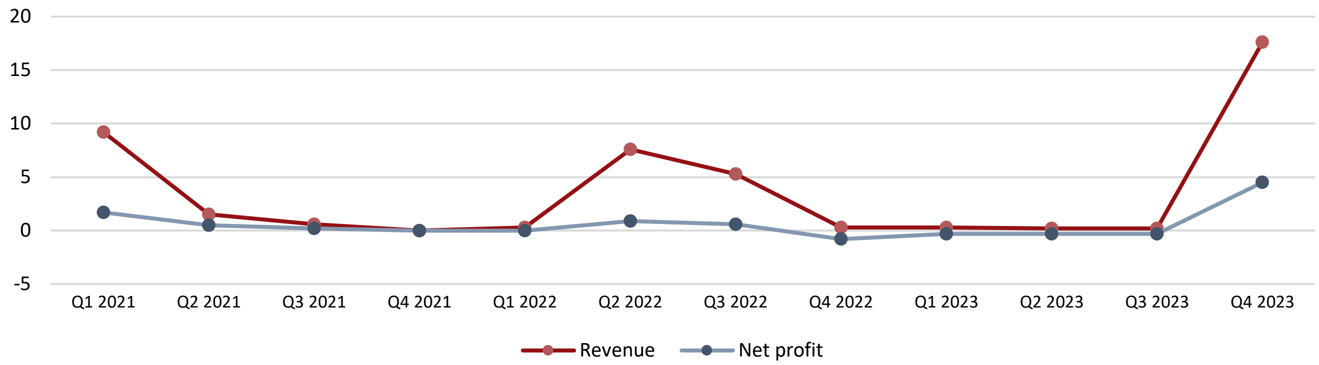
- The group's revenue was 18,339 thousand euros, which is 36% more than the revenue of 13,494 thousand euros in 2022.
- In 2023, the Group's operating profit (=EBIT) was 3,940 thousand euros and net profit 3,550 thousand euros. In 2022, the group made operating profit of 1,062 thousand euros and net profit of 695 thousand euros.
- In 2023, 66 apartments and 3 commercial spaces were sold in projects developed by the group in Estonia and three land plots in Latvia. In 2022, 72 apartments and a land plot in Latvia.
- In 2023, the group's debt burden (net loans) decreased by 6,054 thousand euros down to the level of 8,608 thousand euros as of 31 December 2022. As of 31 December 2023, the weighted average annual interest rate of interest-bearing liabilities was 8.2%. This is an increase of 2.4 percentage points compared to 31 December 2022.

Key financial indicators

	2023	2022
In thousands of euros		
Revenue	**18,339**	**13,494**
Operating profit (EBIT)	**3,940**	**1,062**
Finance expense	-390	-367
Net profit	**3,550**	**695**
Cash flows used in operating activities	-11,672	-7,780
Cash flows from/used in investing activities	8,891	645
Cash flows from financing activities	1,115	8,699
Net cash flows	**-1,666**	**1,564**
Cash and cash equivalents at beginning of period	3,427	1,863
Cash and cash equivalents at end of period	1,472	3,427
Total assets at the end of period	35,190	39,805
Invested capital at the end of period	31,097	36,124
Net loans at the end of period	8,608	14,662
Equity at the end of period	21,017	18,035

Revenue and net profit/loss during recent years

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	**Total 2021**	Q1 2022	Q2 2022	Q3 2022	Q4 2022	**Total 2022**	Q1 2023	Q2 2023	Q3 2023	Q4 2023	**Total 2023**
In thousands of euros															
Revenue	9.2	1.5	0.6	0.3	**11.6**	0.3	7.6	5.3	0.3	**13.5**	0.3	0.2	0.2	17.6	**18.3**
Net profit/loss	1.7	0.5	0.2	-0.3	**2.1**	0.0	0.9	0.6	-0.8	**0.7**	-0.3	-0.3	-0.3	4.5	**3.6**



Key Ratios

	2023	2022
Net profit ratio	19%	5%
EPS (in euros)	0.34	0.07
Diluted EPS (in euros)	0.34	0.07
EBITDA per share (in euros) (rolling, four quarters)	0.39	0.11
ROIC (rolling, four quarters)	9.5%	2.3%
ROE (rolling, four quarters)	19.7%	3.8%
ROA (rolling, four quarters)	8.2%	2.1%
Equity ratio	59.7%	45.3%
Current ratio	4.66	4.41
Quick ratio	0.97	1.89
Financial leverage	1.67	2.21
Average loan term (in years)	2.1	2.6
Average annual interest rate of loans	8.2%	5.8%
Number of staff, at period end	18	19

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 amortization / 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 18,339 thousand euros in 2023 (in 2022: 13,494 thousand euros), including revenue from the sale of properties in the Group's own development projects in the amount of 17,581 thousand euros (in 2022: 12,426 thousand euros).

Most of the other revenue consisted of rental income from commercial and office premises in Madrid Blvd building in Sofia, amounting to 371 thousand euros in the first half of 2023. The sale process of the Madrid building was completed in July 2023. There was no profit or loss from the sale of the building in 2023, because discounts were recognized in 2022. The transaction is not reflected in the sales revenue, as it was a sale of real estate investments that is reported in the net amount in other income. Equity capital worth 4.1 million euros was released from the transaction.

Arco Vara's own construction company Arco Tarc OÜ is the main contractor for the most premium stage of Kodulahe called Rannakalda. By the end of 2023, a pavilion, 4 commercial spaces and 108 apartments (in three separate apartment buildings), many of which have a sea view, were completed. As of the publication date of the annual report, 70 of the 113 plots have been sold.

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 m^2 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, a spacious and exclusive cluster housing with 5 homes was built in 2023. 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 - the private houses of the first stage will be completed by the end of 2024. By the date of publication of the annual report, 6 out of 16 houses have been pre-sold.

There were 3 Marsili residential plots in stock in Latvia on 31.12.2022, which were sold in 2023. As of the reporting date, there is no development activity in Latvia.

People

Remuneration

As of 31 December 2023, 18 people worked for the group (19 as of 31 December 2022). Employee remuneration expenses in 2023 amounted to 2,252 thousand euros (2022: 858 thousand euros). The labor costs also include the wages of the construction team, which are capitalized in the cost of the developments being built and which reach the costs through the cost price of the sold apartments.

The remuneration of the member of the management board / CEO of the group's parent company including social security charges amounted to 281 thousand euros in 2023 (in 2022: 160 thousand euros).

The members of the supervisory board of the group's parent company were remunerated by 14 thousand euros in 2023, by 24 thousand euros in 2022.

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

Steven Yaroslav Gorelik

Steven Yaroslav Gorelik Gorelik has 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 Keskpaik

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

Hillar-Peeter Luitsalu

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 and OÜ Kavass and chairman of supervisory board of AS IuteCredit Europe.

Description of main risks

Strategic risk

Most of the Group's equity is invested into real estate development. The Group is focused mainly on residential real estate development where development cycle lasts for years, starting from the acquisition of a land plot, moving on to detail planning, design and construction, and ending with the sale of end products to customers. The equity is invested mainly in the early phase of the cycle (purchase of land) on the assumption that there will be a demand for certain products in the future. Considering that the demand for development product is largely based on forecasts, the main risk for the Group is investing equity into a development product for which there is no or too little demand in the future.

To mitigate the risk, the Group: (i) invests equity into different development projects in different markets (in 2023, 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 2023, the group's interest-bearing liabilities amounted to 10,080 thousand euros on 31 December 2023, out of which 3,391 thousand euros is due within next 12 months. The group's interest-bearing liabilities have decreased by 8,009 thousand euros in 2023. The group's cash and cash equivalents totaled 1,472 thousand euros as of 31 December 2023 (31 December 2022 3,427 thousand). In 2023, 1,326 thousand euros of interest was paid on interest-bearing liabilities (746 thousand euros in 2022). The group's weighted average loan interest rate was 8.2% as of 31 December 2023. This is an increase by 2.4 percentage points compared to the end of year 2022. The reason for the increase in the average interest rate of loan obligations is expiration of the loan with a low interest rate due to the sale of the commercial building in Madrid in the summer of 2023.

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.

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

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 only makes 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.

- 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.

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

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 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 is developing 118 apartments with energy class A in 2023

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:

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.

Environmental impact assessment

The construction sector is widely known as a major contributor to pollution. In 2025, calculating the CO2 print of the building becomes mandatory when applying for a construction permit in Estonia, allowing for more environmentally friendly building moving forward. The development of Kodulahe Lammi 8 was completed at the end of 2023 and we elected to measure its carbon footprint on our own accord, in order to make choices with greater awareness for future construction sites.

Arco Vara
Carbon footprint of the Kodulahe development
16,085 tonnes CO_2-eq
31.4 kg CO_2-eq/m^2 per y
1.6 t CO_2-eq/m^2
Net area: 10,260.4 m^2

The method

The climate impact of the building was assessed using the Estonian calculation method for carbon footprint of construction works, developed by the scientists at TalTech in cooperation with the experts of the Finnish company One Click LCA as commissioned by the Ministry of Economic Affairs and Communications. The methodology also involves the Estonian database for construction materials supplemented by the data of materials provided by Arco Vara as necessary.

Definitions

Carbon footprint – the total amount of greenhouse gas emissions expressed in a quantitative manner (as measured in CO2 equivalent) generated as a result of the operations of a company/organisation or other entity. In this report it is also referred to as climate impact.

Greenhouse gases (GHG) – atmospheric gases that absorb heat radiation and cause the greenhouse effect. These are carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbon compounds (HFC), perfluorocarbon compounds (PFC), sulphur hexafluoride (SF6) and nitrogen trifluoride (NF3).

CO2 equivalent (CO2-eq) – the unit of measurement of carbon footprint which reflects the varying potential of greenhouse gases in causing global warming as expressed in CO2 equivalent.

Global warming potential (GWP) – indicates the number of times by which a given molecule of another greenhouse gas is stronger than a carbon dioxide molecule in terms of power of thermal energy absorption.

Specific emission factor – a ratio that expresses the amount of greenhouse gas emitted in a certain field of human activity per unit of impact (e.g., 0.173 kg of CO2-eq per one kilometre travelled by a diesel engine).

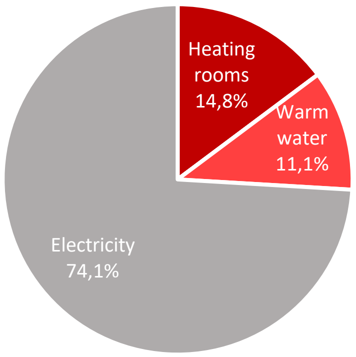
Carbon footprint of the building's lifetime

The period of use for Kodulahe is calculated as 50 years according to the Estonian method. During this time, 9,192 tonnes of CO2-equivalent of greenhouse gas emissions are generated from energy consumption. Energy consumption is usually the dominant component of the carbon footprint of a building, as the carbon content of Estonian network electricity is one of the highest in Europe.

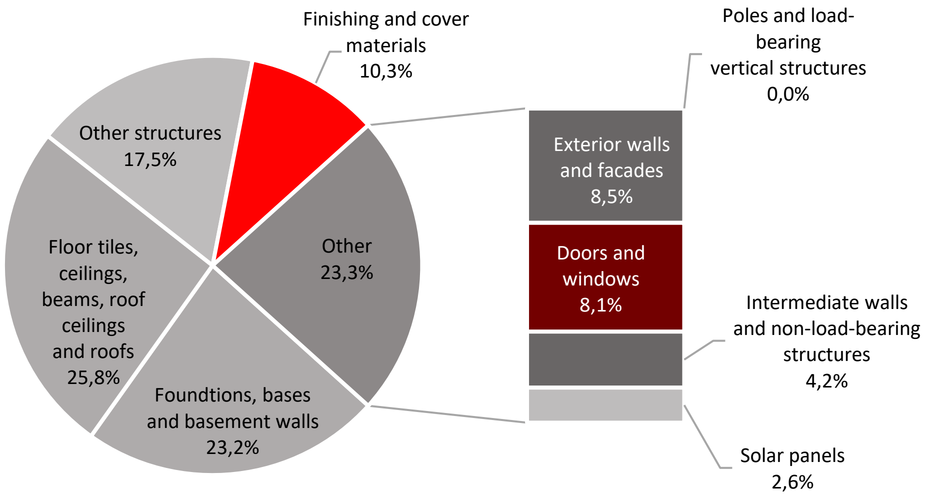
The rooms are heated via remote heating, which is generally one of the most optimal forms of heating. Central cooling is not intended for the building, therefore having no impact on use.

The climate impact for warm water is caused by the energy needs for heating water.

Carbon footprint of the building's lifetime



Carbon footprint of material production



Climate impact of the Kodulahe Rannakalda development

	Life cycle stage of the building	Climate impact, t CO_2-eq	Proportion, %
A1-A3	Construction materials	5,328	33.1
A4	Transport of materials to site	476	3.0
A5	Construction	176	1.1
B4	Replacement of materials	365	2.3
B6	Energy during use	9,192	57.1
C1	Demolition	102	0.6
C2	Transport of waste	13	0.1
C3	Recycling	103	0.6
C4	Depositing	330	2.0
	Total	**16,085**	**100.0**

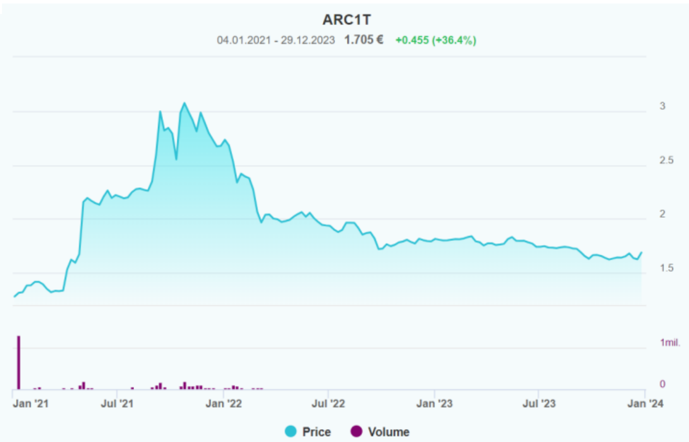
Shares and shareholders

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 1.705 euros on 31 December 2023; the closing price was 1.792 euros on 31 December 2022. During the period, the highest traded price per share was 1.878 euros and the lowest price 1.58 euros. Equity per share was 2.02 euros as of 31.12.2023, 1.74 as of 31.12.2022.

As of 31 December 2023, market capitalization of shares amounted to 17,712 thousand euros and P/B (price to book value) ratio was 0.84 (31 December 2022: 18,616 thousand euros and 1.03, respectively). P/E (price to earnings) ratio of the share was 4.99 on 31 December 2023, 26.79 on 31 December 2022.

The following charts reflect the movements in the price and daily turnover of Arco Vara's share in 2023 and during the last three years.

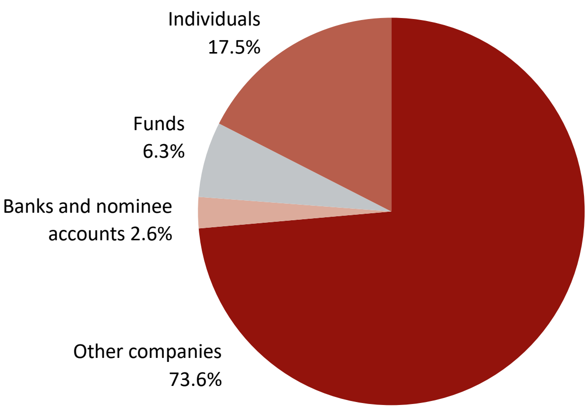


https://nasdaqbaltic.com/statistics/en/instrument/EE3100034653/trading 15.01.2024

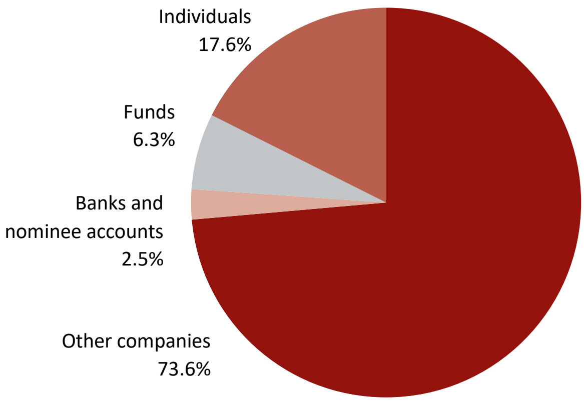
Shareholder structure

As of 31 December 2023, Arco Vara had 8,316 shareholders (on 31 December 2022 8,692), including 7,596 individuals as shareholders (on 31 December 2022: 7,916 individuals) who jointly owned 17.5% (on 31 December 2022: 17.6%) out of all Arco Vara shares. Complete shareholder structures are presented on the following diagrams.

Ownership structure as of 31 December 2023



Ownership structure as of 31 December 2022



Major shareholders on 31 December 2023

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%
Aia Tänav OÜ	221,000	2.1%
Marko Teimann	192,119	1.8%
FIREBIRD AVRORA FUND, LTD.	180,343	1.7%
K VARA OÜ	153,119	1.5%
FIREBIRD FUND L.P.	133,948	1.3%
Sander Karu	110,875	1.1%
Citibank (London) / OP Custody Ltd	56,952	0.5%
Other shareholders	2,333,918	22.6%
Total	**10,388,367**	**100.0%**

Holdings of management and supervisory board members on 31 December 2023

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	233,869	2.3%
Allar Niinepuu (OÜ Kavass)	Member of supervisory board	23,700	0.2%
Hillar-Peeter Luitsalu (HM Investeeringud OÜ, related persons)	Member of supervisory board	269,259	2.6%
Kert Keskpaik (privately, K Vara OÜ, K24 Invest OÜ, Kolde Invest OÜ and One Eleven OÜ)	Member of supervisory board	207,173	2.0%
Steven Yaroslav Gorelik [1]	Member of supervisory board	0	-
Miko-Ove Niinemäe	Member of management board	19,000	0.2%
Total		**7,191,522**	**69.3%**

[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 2023, 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 2023. The notice was published in the national daily newspaper *Eesti Päevaleht* on 21 April 2023. 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 2023 from 17:05 a.m. until 17:30 a.m. in Tallinn at Telliskivi 60a/4 rooms.

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 2022
- Distribution of profit and dividend payment
- Approval of option program
- 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 2022.
- To transfer the net profit of the financial year in the amount of 695 thousand euros to retained earnings on 31.12.2022.
- To pay dividends to the shareholders 0.06 euros per share. The dividend will be paid out in 4 installments as follows:
    - 0.02 euros per share will be paid to the shareholders on 15 June 2023 by transfer to the shareholder's bank account. The list of shareholders entitled to respective dividends (record date) shall be fixed on 8 June 2023.
    - 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 2023.
    - 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 2023.
    - 0.01 euros per share will be paid to the shareholders on 15 March 2024 by transfer to the shareholder's bank account. The respective dividend record date is on 8 March 2024.
- 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 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 27 shareholders whose votes represented 72.61% 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 of the termination payment of the members of the Management Board was up to four 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, Wallow System OÜ.

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

Supervisory Board

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

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

Starting from February 2021, the members of the new supervisory board were Tarmo Sild, Steven Yaroslav Gorelik, Kert Keskpaik, Hillar-Peeter Luitsalu and Allar Niinepuu.

Members of the Supervisory Board elect the chairman of the Supervisory Board from among themselves. From April 30, 2020, the chairman of the supervisory board is Tarmo Sild. 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). Reasonable travel expenses made for participating in the board meetings are also compensated to the members of the supervisory board.

In 2023, the Supervisory Board had 2 meetings, which were attended by all Supervisory Board members: Tarmo Sild, Hillar-Peeter Luitsalu, Kert Keskpaik, Allar Niinepuu and Steven Yaroslav Gorelik.

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

In the financial years 2023 and 2022, no transaction that differed from market conditions took place between a member of the management board, a person close to him or a person related to him and the company, which should be separately approved by the Supervisory Board.

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. 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 2024, i.e. until publishing the Q3 interim report for 2024.

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

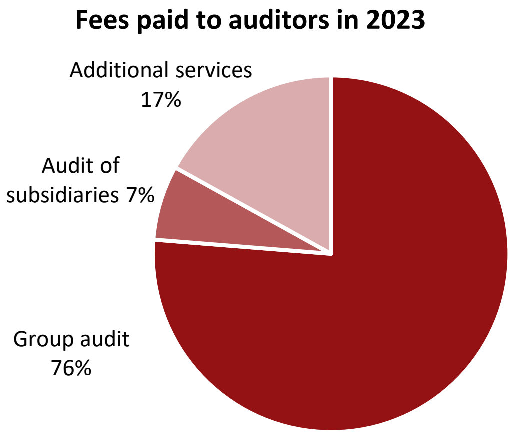
The Company has not organised presentations to investors and analysts directly before the release of a financial report and has never disclosed inside information or unreleased financial data at meetings with analysts or investors.

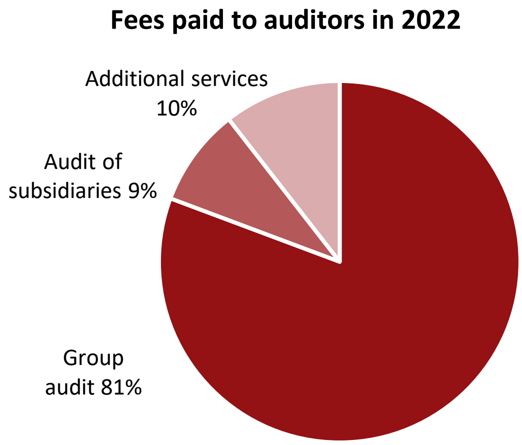
Financial reporting and auditing

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

The annual consolidated financial statements of the Company are audited. Annual General Meeting of shareholders appoints the auditor for the next financial year. At the shareholders' meeting on 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 2023, the Group's auditor, PricewaterhouseCoopers AS, was paid 45 thousand euros for auditing the consolidated report and 4 thousand euros for auditing subsidiaries. In 2023, an ESG strategy consulting service worth 10 thousand euros was purchased from other auditing companies. In 2022, PricewaterhouseCoopers AS was paid 23 thousand euros for auditing the consolidated report, in addition, services related to the ESEF report worth 6 thousand euros were ordered. In 2022, the previous Group auditor, KPMG Baltics OÜ, was paid 23 thousand euros for the 2021 consolidated Group report and 5 thousand euros for auditing subsidiaries.





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

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

Remuneration report

In 2023, a total of 281 thousand euros of pay together with social tax was calculated for the CEO of Arco Vara AS (in 2022: 160 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 the council has established a fixed monthly payment of 9,000 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 4 monthly salaries.

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 2023, consists of three parts:

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.

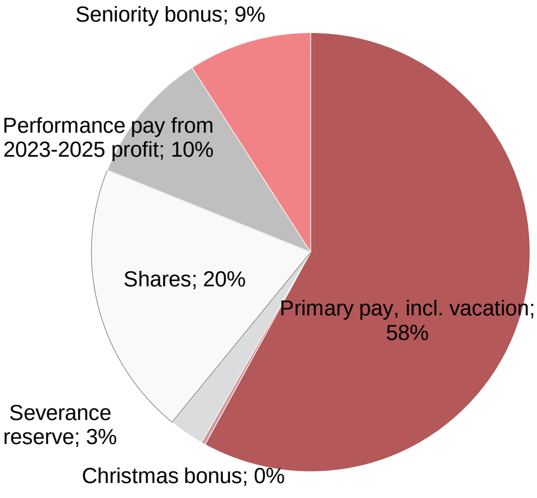
2) A member of the board is entitled to:
   2.1. 15,000 shares of the Company, if the powers of the Board member are valid on 31.12.2023;
   2.2. 15,000 shares of the Company, if the powers of the Board member are valid on 31.12.2024.

3) The board member is entitled to receive in addition 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.

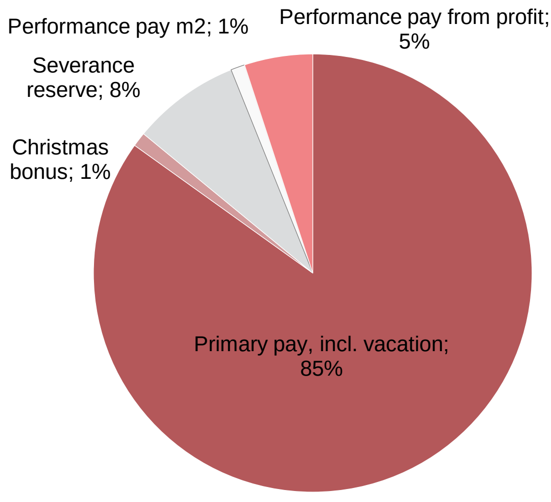
4) The board member is entitled to an additional bonus of up to 60,000 euros (net).
   If the total net profit for the financial years of 2023-2025 is ≥ 4 million euros, then the board member is entitled to receive a bonus of 10,000 to 60,000 euros depending on the specific amount of net profit, wherein 10,000 euros are guaranteed and each 1 euro of net profit exceeding 4 million euros grants an additional 0.0125 euros. The final amount is rounded to 1 euro (the usual rounding rules apply).
   Regardless of the amount of net profit, the maximum amount that the board member is entitled to receive is 60,000 euros (including the 10,000 euros guaranteed in case of a net profit of 4 million euros).
   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 bonus.

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 the event that the tax liability arises for the Company.

Management remuneration proportions for 2023:



Management remuneration proportions for 2022:



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.

	2023	2022	2021	2020	2019
EUR thousand					
Director's pay (gross)	232	120	223	67	91
Average number of employees (without director)	18	17	11	13	18
Average pay for employees (gross)	84	33	43	31	23
Net profit	3,550	695	2,071	1,012	388
Net profit per employee (with director)	187	39	173	72	21

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.

	2023	2022	2021	2020	2019
Director's pay (gross)	93%	-46%	233%	-26%	23%
Average number of employees (without director)	6%	55%	-15%	-26%	-87%
Average pay for employees (gross)	156%	-24%	40%	34%	439%
Net profit	411%	-66%	105%	161%	-171%
Net profit per employee (with director)	384%	-78%	139%	245%	-640%

CEO's Confirmation of the 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 2023 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 3 April 2024

/signed digitally/

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

Consolidated Financial Statements

Consolidated Statement of Comprehensive Income

	Note	2023	2022
In thousands of euros			
Revenue from sale of own real estate	7	17,581	12,426
Revenue from rendering of services	7	758	1,068
Total revenue	6,7	**18,339**	**13,494**
Cost of sales	8	-12,740	-10,913
Gross profit		**5,599**	**2,581**
Other income	9	107	67
Marketing and distribution expenses	10	-387	-249
Administrative expenses	11	-1,387	-1,118
Other expenses	9	-20	-14
Gain on revaluation of investment property	16	28	-205
Operating profit		**3,940**	**1,062**
Finance income and cost	12	-390	-367
Profit before tax		**3,550**	**695**
Net profit for the period		**3,550**	**695**
Total comprehensive income for the period		**3,550**	**695**
Earnings per share (in euros)	13		
- basic		**0.34**	**0.07**
- diluted		**0.34**	**0.07**

Consolidated Statement of Financial Position

	Note	31.12.2023	31.12.2022
In thousands of euros			
Cash and cash equivalents		1,472	3,427
Receivables and prepayments	14,21	5,798	4,387
Inventories	15	27,637	22,511
Investment property for sale	16	0	9,050
Total current assets		**34,907**	**39,375**
Receivables and prepayments	14	18	18
Investment property	16	20	82
Property. plant and equipment	17	221	284
Intangible assets	17	24	46
Total non-current assets		**283**	**430**
TOTAL ASSETS		**35,190**	**39,805**
Loans and borrowings	18	3,391	5,255
Payables and deferred income	19	4,013	3,681
Provisions		80	0
Total current liabilities		**7,484**	**8,936**
Loans and borrowings	18	6,689	12,834
Total non-current liabilities		**6,689**	**12,834**
TOTAL LIABILITIES		**14,173**	**21,770**
Share capital	20	7,272	7,272
Share premium		3,835	3,835
Statutory capital reserve		2,011	2,011
Other reserves		56	0
Retained earnings		7,843	4,917
Total equity attributable to owners of the parent		**21,017**	**18,035**
TOTAL EQUITY		**21,017**	**18,035**
TOTAL LIABILITIES AND EQUITY		**35,190**	**39,805**

Consolidated Statement of Cash Flows

	Note	2023	2022
In thousands of euros			
Cash receipts from customers		9,662	10,385
Cash paid to suppliers		-21,316	-16,229
Taxes paid and recovered (net)		733	-1,179
Cash paid to employees		-820	-515
Other cash payments and receipts related to operating activities (net)		69	-242
NET CASH FROM/USED IN OPERATING ACTIVITIES		**-11,672**	**-7,780**
Payments made on purchase of tangible and intangible assets	17	-3	-27
Proceeds from sale of property, plant and equipment	17	0	2
Payments made on purchase and development of investment property	16	8,894	670
NET CASH FROM/USED IN INVESTING ACTIVITIES		**8,891**	**645**
Proceeds from loans received	18	14,095	12,176
Settlement of loans and borrowings	18	-11,026	-2,107
Interest paid		-1,326	-746
Dividends paid	23	-624	-624
Other payments related to financing activities	13	-4	0
NET CASH FROM/USED IN FINANCING ACTIVITIES		**1,115**	**8,699**
NET CASH FLOW		**-1,666**	**1,564**
Cash and cash equivalents at the beginning of period	21	3,427	1,863
Change in cash and cash equivalents		**-1,666**	**1,564**
Decrease in cash and cash equivalents through sale of subsidiaries		-289	**0**
Cash and cash equivalents at the end of period	21	1,472	3,427

Consolidated Statement of Changes in Equity

	Share capital	Share premium	Statutory capital reserve	Other reserve	Retained earnings	**Total equity**
In thousands of euros						
Balance as of 31 December 2021	**7,272**	**3,835**	**2,011**	**0**	**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**	**3,835**	**2,011**	**0**	**4,917**	**18,035**
Balance as of 31 December 2022	**7,272**	**3,835**	**2,011**	**0**	**4,917**	**18,035**
Dividends paid	0	0	0	0	-624	**-624**
Formation of equity reserve	0	0	0	56	0	**56**
Total comprehensive income for the period	0	0	0	0	3,550	**3,550**
Balance as of 31 December 2023	**7,272**	**3,835**	**2,011**	**56**	**7,843**	**21,017**

For additional information on share capital and other equity items, see note 20.

Notes to the Consolidated Financial Statements

1. General information

These consolidated financial statements of Arco Vara AS and its subsidiaries as of and for the year ended on 31 December 2023 were authorised for issue by the chief executive officer / member of the management board on 3 April 2024. 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 2023, 18 people provided services to the Group under the employment or authorization contract (31 December 2022: 19 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 2023 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.

Estimation uncertainty

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

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

The Group has several items of real estate (properties) that have been classified as inventories. The net realizable values of all significant properties classified as inventories were measured as of 31 December 2023 and 31 December 2022 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.

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 2022. 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 2023 (see note 4).

4. Significant accounting policies

New accounting pronouncements after 1 January 2024

The following new standards, interpretations and amendments are not yet effective for the annual reporting period ended 31 December 2023 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 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.

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.

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.

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

Segment reporting

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

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

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

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

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

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

Foreign currency transactions

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

Revenue

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

Revenue from sale of real estate

The Group develops and sells real estate (mostly apartments). Revenue is recognized when control over the property has been transferred to the customer. The properties have generally no alternative use for the Group due to contractual restrictions. However, an enforceable right to payment does not arise until legal title has passed to the customer. Therefore, revenue is recognized at a point in time when the legal title has passed to the customer.

Revenue from franchise agreements

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

Revenue real estate leasing and other services

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

Financing component

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

Cash and cash equivalents and the statement of cash flows

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

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

Financial assets

Classification

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

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

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

Recognition and derecognition

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

Measurement

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

Debt instruments

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

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

Equity instruments

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

Impairment

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

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

The Group measures impairment as follows:

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

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

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

Inventories

The Group's inventories include mostly land and buildings that have been acquired or are being developed for housing developments. Finished goods and work in progress are initially recognized at their cost of conversion.

The cost of conversion includes all direct and indirect production costs incurred in bringing the inventories to their present location and condition. Other inventories are initially recognized at cost, which includes all direct and indirect costs incurred in bringing the inventories to their present location and condition. Indirect costs that are included in the cost of items of real estate classified as inventories include borrowing costs incurred in financing the construction of the assets.

Capitalization 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 capitalized during the active development stage. Capitalization of borrowing costs ceases when the asset is complete (usually when the building has been granted an authorisation for use) or its development has been suspended for an extended period.

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

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

Investment 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 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 amortized 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

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%

Intangible assets

The Group's intangible assets comprise assets with finite useful lives only. Intangible asset classes are assigned the following annual amortization rates:

- Business software 20–33%

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 amortized 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 capitalized and added to the carrying amount of the asset as borrowing costs.

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

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

Share-based payments

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

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

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

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

Provisions and contingent liabilities

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

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

Income tax

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

<u>Parent company and subsidiaries registered in Estonia</u>

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

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

Bulgarian subsidiaries

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

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

Latvian subsidiaries

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

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

The parent company's unconsolidated primary financial statements (note 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 2023, the Group consisted of 14 companies, which is four less than on 31 December 2022. In 2023, 3 subsidiaries were sold and Kodulahe OÜ and Kodulahe Kvartal OÜ were combined under name Kodulahe Kvartal OÜ. In 2022, four subsidiaries were established. The structure of the Group is presented in note 25.

Sale of subsidiaries in 2023

On 30.06.2023, three subsidiaries of Arco Invest EOOD were sold in Bulgaria: Office Cherkovna EOOD, Trade Center Cherkovna EOOD, Oborishte Premium Apartments EOOD. The purpose of creating these subsidiaries in 2022 was the sale of the Madrid commercial building in Sofia through various service lines, and this transaction was completed in 2023.

Merge of subsidiaries in 2023

On November 30, 2023, the merger of Kodulahe OÜ and Kodulahe Kvartal OÜ took effect, Kodulahe OÜ was deleted. Both companies were involved in the development of homes in the Kodulahe Kvartal area, and their merger reduces the Group's administrative burden.

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.

6. Segment information

From 2023, the group identifies segments based on two combined characteristics: field of activity and geographical region. The three main segments are Bulgarian development, Estonian development and Estonian construction. Other activities include franchise fee, the sale of Latvian lands and the proceeds and profits of the Madrid Blvd commercial building sold in 2023.

External revenue, interest and profit/loss by segment

Segment	Bulgarian development		Estonian development		Estonian construction		Other		Consolidated	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
In thousands of euros										
Revenue	0	0	17,612	12,404	6	2	721	1,088	**18,339**	13,494
Amortization	-11	-10	0	0	-3	-2	-80	-96	**-94**	-108
Operating profit/ loss	-1,003	-256	5,337	1,781	-246	-132	-148	-331	**3,940**	1,062
Interest	-7	-1	-50	0	3	0	-336	-366	**-390**	-367
Net profit/ loss	-1,010	-257	5,287	1,781	-243	-132	-484	-697	**3,550**	695

Fore revenue, see note 7. For interest expense, see note 12.

Revenue by segment

Segment	Bulgarian development		Estonian development		Estonian construction		Other		Eliminations		Consolidated	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
In thousands of euros												
External revenue	0	0	17,612	12,404	6	2	721	1,088	-	-	18,339	13,494
Revenue from other segments	284	235	2	0	11,968	8,362	768	678	-13,022	-9,275	0	0
Total revenue	**284**	**235**	**17,614**	**12,404**	**11,974**	**8,364**	**1,489**	**1,766**	**-13,022**	**-9,275**	**18,339**	**13,494**

External assets and liabilities by segment

Segment	Bulgarian development		Estonian development		Estonian construction		Other		Consolidated	
	31.12.23	31.12.22	**31.12.23**	31.12.22	**31.12.23**	31.12.22	**31.12.23**	31.12.22	**31.12.23**	31.12.22
In thousands of euros										
Assets	6,503	4,490	27,298	22,529	62	745	1,327	12,041	**35,190**	39,805
Including property, plant and equipment	7	6	0	0	4	6	210	272	**221**	**284**
Including intangible assets	22	32	0	0	0	0	2	14	**24**	46
Liabilities	662	47	8,477	12,099	1,299	1,203	3,735	8,421	**14,173**	21,770

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

Notes to the Consolidated Statement of Comprehensive Income

7. Revenue

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

Segment	Estonia		Bulgaria		Latvia		Consolidated	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022
In thousands of euros								
Sale of own real estate	17,488	12,395	0	0	93	31	17,581	12,426
Rental of real estate	1	6	336	682	0	0	337	688
Property management	0	2	35	74	0	0	35	76
Franchise	174	190	48	63	30	39	252	292
Other revenue	128	3	6	9	0	0	134	12
Total revenue	**17,791**	**12,596**	**425**	**828**	**123**	**70**	**18,339**	**13,494**

8. Cost of sold real estate and services

	2023	2022
In thousands of euros		
Cost of real estate sold (note 15)	-11,880	-10,474
Brokerage fees	-57	-46
Property management costs	-200	-312
Personnel expenses (note 11)	-7	-12
Inventory write-down (note 15)	-528	0
Depreciation, amortization and impairment losses (note 17)	-13	-34
Other costs	-55	-35
Total cost of sold real estate and services	**-12,740**	**-10,913**

9. Other income

Other income

	2023	2022
In thousands of euros		
Court cases awarded	0	47
Received compensations	64	0
Miscellaneous income	43	20
Total other income	**107**	**67**

10. Marketing and distribution expenses

	2023	2022
In thousands of euros		
Advertising expenses	-174	-79
Personnel expenses (note 11)	-73	-39
Market research	-9	-3
Other marketing and distribution expenses	-131	-128
Total marketing and distribution expenses	**-387**	**-249**

11. Administrative expenses

	2023	2022
In thousands of euros		
Personnel expenses	-937	-626
Office expenses	-85	-38
IT expenses	-44	-92
Services purchased	-145	-210
Depreciation. amortization and impairment losses	-83	-74
Legal service fees	-28	-38
Other expenses	-65	-40
Total administrative expenses	**-1,387**	**-1,118**

In 2023, employee remuneration expenses of the Group amounted to 2,252 thousand euros, out of which 937 thousand were administrative expenses, 7 thousand were cost of sold real estate and services (see note 8), 73 thousand euros marketing and distribution expenses (see note 10) and 1,235 thousand euros were capitalized into the cost of inventories during the year. In 2022, employee remuneration expenses of the Group amounted to 858 thousand euros, out of which 626 thousand were administrative expenses and 12 thousand were cost of sold real estate and services (see note 8), 39 thousand euros marketing and distribution expenses (see note 10) and 181 thousand euros were capitalized into the cost of inventories during the year.

As of 31 December 2023, 15 persons worked for the group with an employment contract and 3 with a board member agreement (on 31 December 2022: 14 with an employment contract, 2 with an authorization agreement, 3 with a board member agreement).

12. Financial expenses

	2023	2022
In thousands of euros		
Interest expenses (note 6)	-390	-367
Total financial costs	**-390**	**-367**

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% capitalized in inventory and real estate investments. In 2023, capitalized interest expenses amounted to 924 thousand euros and in 2022 to 381 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.

	2023	2022
Weighted average number of ordinary shares outstanding during the period	10,388,367	10,388,367
Number of ordinary shares potentially to be issued (at period end)	60,350	63,000
Net profit (in thousands of euros)	3,550	695
Earnings per share (in euros)	0.34	0.07
Diluted earnings per share (in euros)	0.34	0.07

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%.
By the decision of the general meeting on 17.05.2023, the company's COO owns 8,750 shares per year, if the total average ROE from the first quarter of 2023 to the fourth quarter of 2025 is greater than 12%.
According to 31.12.2023, the ROE assumption cannot be fulfilled, therefore no reserve has been formed for the option programs based on the fulfillment of the assumptions. If the ROE requirement is still met, as of 31.12.2023, 29,750 shares have been earned on the basis of the option program.

On the basis of the CEO's bonus program, which came into effect in 2023, he is entitled to 15,000 shares per year based on seniority. The option program also provides for additional shares depending on the total profit for 2023-2025, which is estimated to be 15,600 shares for 2023. The accounting reserve has been prepared on the basis of the grant date 17.05.2023 share price, which is why a reserve of 56 thousand euros has been formed in equity for the options.

Notes to the Consolidated Statement of Financial Position

14. Receivables and prepayments

Short-term receivables and prepayments

	31 December 2023	31 December 2022
In thousands of euros		
Receivables from customers	301	122
Miscellaneous receivables	6	12
Prepaid and recoverable taxes	274	594
Other accrued income	4	25
Prepayments	5,213	3,634
Total short-term receivables and prepayments	**5,798**	**4,387**

Long-term receivables and prepayments

	31 December 2023	31 December 2022
In thousands of euros		
Deposits	18	18
Total long-term receivables and prepayments	**18**	**18**

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

Group has performed a prepayment of 4,977 thousand euros for the immovable at the Harku Lake. As of 31 December 2023, a prepayment of 153 thousand euros has been performed to the contracting authorities in the Botanica Lozen project.

In 2023 or 2022, no receivables from customers were written off. There were no invoices more than 30 days past due on the balance sheet days.

15. Inventories

As of 31 December	2023	2022
In thousands of euros		
Properties under construction	17,199	10,212
Properties in the construction permit process	2,182	3,635
Properties in the detailed planning process	8,256	8,627
Materials and finished goods	0	37
Total inventories	**27,637**	**22,511**

Properties purchased and being developed for resale

	2023	2022
In thousands of euros		
Balance at the beginning of period, 1 January	**22,474**	**15,754**
Properties purchased for development	0	5,288
Construction costs of apartment buildings	15,727	10,109
Capitalized borrowing costs	924	381
Inventory write-down (note 8)	-528	0
Other capitalized costs	890	1,475
Cost of sold properties (note 8)	-11,850	-10,474
Reclassification to/from investment property (note 16)	0	-59
Balance at the end of period, 31 December	**27,637**	**22,474**

In 2023, the Botanica Lozen development was discounted by 528 thousand euros to its net realizable value. Inventories were not discounted in 2022.

The Group's management estimates that the Group has inventories realisable during one year in carrying value of 17,200 thousand euros as of 31 December 2023. Inventories in carrying value of 10,437 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 2023, the value of the Group's inventories was determined by internal experts by 89% and 11% by external experts. In 2022, the value of the Group's inventories was determined by internal experts by 68% and 32% by external experts. Estimates used in valuations are based on real market prices and the Group's recent experience with comparable assets.

As of 31 December	2023	2022
In thousands of euros		
Measured using the residual value method	23,900	22,474
Measured using the comparison method	3,737	37
Total inventories	**27,637**	**22,511**

The inventory discount sensitivity test showed that if the management overestimates the net realizable value of the inventory by 5%, it would be necessary to make an additional discount as of 31.12.2023 in Kuldlehe and Botanica Lozen totaling 520 thousand euros. No additional discount was necessary as of 31.12.2022.

16. Investment property

Investment properties comprise the following types of assets:

1) Commercial spaces earning rental income in Sofia and Viljandi (31.12.2023 were no these kinds of assets; total carrying value of 9,130 thousand euros on 31 December 2022);
2) Land plots that have a development potential but the future use of which is still uncertain (carrying value of 20 thousand euros on 31 December 2023; 2 thousand euros on 31 December 2022). 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.

As of 31 December	**2023**	2022
In thousands of euros		
Land plots	20	2
Shops and offices	0	80
Total investment property	**20**	**82**

Investment properties in non-current assets

	2023	2022
In thousands of euros		
Balance at the beginning of period, 1 January	**82**	**9,943**
Net profit/loss on changes in fair value	18	-350
Capitalized development costs	0	5
Reclassification from/to inventories (note 15)	0	59
Reclassification to investment properties held for sale	0	-9,050
Sale of real estate	-80	-525
Balance at the end of period, 31 December	**20**	**82**

Investment properties in current assets

	2023	2022
In thousands of euros		
Balance at the beginning of period, 1 January	**9,050**	**0**
Sale of investment property	-9,050	0
Reclassification from investment properties	0	9,050
Balance at the end of period, 31 December	**0**	**9,050**

Profits from the sale of investment properties amounted to 10 thousand euros in 2023 (in 2022 145 thousand euros) – together with the profit of 18 thousand euros from the change in fair value, the profit from investment properties amounted to 28 thousand euros in 2023 (2022: loss of 205 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 Madrid Blvd building was classified as investment property for sale. In 2023, the sale of the commercial building Madrid was completed.
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 2023, the values of all of the Group's investment properties were determined partly by internal and partly by external experts, in 2022, by internal external experts.

Valuation of commercial and office spaces

Commercial and office spaces of Madrid Blvd building in Sofia were valued using comparison method in 2022. In 2023, there was a sales contract for the building, the value of the property was determined based on this. In 2022, the fair value of investment property was decreased in the total amount of 350 thousand euros. As of 31.12.2023, the group no longer had trade and office spaces.

As of 31 December	**2023**	**2022**
In thousands of euros		
Measured using comparison method	20	9,132
Total investment property	**20**	**9,132**

In 2022, a pre-sale agreement was signed for the sale of the Madrid Blvd commercial building, as a result of which the building was classified as investment property for sale. The net realizable value of the building in the statement of financial position on 31.12.2022 was 9,050 thousand euros, and the building was sold at this price on 30.06.2023 as well.

Operating leases: the Group as a lessor

In 2023, the Group's rental income on investment properties (Madrid Blvd building in Sofia) amounted to 371 thousand euros (in 2022: 746 thousand euros). The building was sold on 30.06.2023, which is why the income for 2023 was lower.

Direct property management expenses totaled 82 thousand euros in 2023 (in 2022: 274 thousand euros), including expenses in the amount of 3 thousand euros (in 2022: 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
In thousands of euros			
Carrying amount on 31 December 2021	**133**	**21**	**154**
Of which cost	*140*	*167*	*307*
Of which accumulated depreciation	*-7*	*-146*	*-153*
Additions	0	40	40
Sale of PPE	0	-2	-2
Write-off	0	-4	-4
Capitalization of rent	286	0	286
Decapitalization of rent	-126	0	-126
Depreciation for the year (note 6)	-50	-14	-64
Carrying amount on 31 December 2022	**243**	**41**	**284**
Of which cost	*286*	*196*	*482*
Of which accumulated depreciation	*-43*	*-155*	*-198*
Additions	0	9	9
Depreciation for the year (note 6)	-58	-14	-72
Carrying amount on 31 December 2023	**185**	**36**	**221**
Of which cost	*286*	*200*	*486*
Of which accumulated depreciation	*-101*	*-164*	*-265*

In 2023, amortization of tangible assets is recorded 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 72 thousand euros (see note 11), in 2022 and in general administrative expenses 64 thousand euros (see note 11). As of 31.12.2023, there is no property, plant and equipment that was fully amortized but still in use (on 31 December 2022: 2 thousand euros).

Intangible assets

	Total intangible assets
In thousands of euros	
Carrying amount on 31 December 2021	**87**
Of which cost	*522*
Of which accumulated amortization	*-435*
Purchases and software development	3
Amortization for the year (note 6)	-44
Carrying amount on 31 December 2022	**46**
Of which cost	*525*
Of which accumulated amortization	*-479*
Amortization for the year (note 6)	-22
Carrying amount on 31 December 2023	**24**
Of which cost	*488*
Of which accumulated amortization	*-464*

Amortization of intangible assets is recorded in the cost of real estate and services sold in 2023 in the amount of 12 thousand euros (see note 8) and in general administrative expenses in the amount of 10 thousand euros (see note 11); in 2022 34 thousand and 10 thousand euros, respectively. Intangible assets of the Group consist mainly of Arco Vara business software AVIS in the total amount of 407 thousand euros. There were no software developments for AVIS in 2023 nor 2022.

As of 31.12.2023, the cost of intangible assets that were fully amortized but still in use was 412 thousand euros (on 31 December 2022: 366 thousand euros).

18. Interest bearing liabilities

The overview of changes in net loans is as follows:

In thousands of euros	Cash and cash equivalents	Bank loans	Bonds	Other loans	Total
Net loans 31 Dec 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**
Annual change	-1,955	8,942	0	-933	6,054
Net loans 31 Dec 2023	**1,472**	**-6,624**	**-2,120**	**-1,336**	**8,608**

The Group's management estimates that carrying amounts of the Group's loans and borrowings do not significantly differ from their fair value. Information on assets pledged as loan collateral is presented in note 22.

Interest bearing liabilities comprise the following items:

	As of 31 December, 2023			As of 31 December, 2022		
	Total	of which current portion	of which non-current portion	**Total**	of which current portion	of which non-current portion
In thousands of euros						
Bank loans	6,624	61	6,563	15,567	5,037	10,530
Bonds	2,120	2,120	0	2,120	0	2,120
Lease obligation	184	58	126	242	58	184
Other loans	1,152	1,152	0	160	160	0
Total	**10,080**	**3,391**	**6,689**	**18,089**	**5,255**	**12,834**

In 2023, the group settled loans in the amount of 11,026 thousand euros (in 2022: 2,107 thousand euros) through cash transactions and raised new loans in the amount of 14,095 thousand euros (in 2022: 12,176 thousand euros). 10,597 thousand euros of the settled loans were paid by customers directly to the bank in 2023, 6,383 thousand euros in 2022. Also, 478 thousand worth of small loans were settled with receivables for the sale of apartments from a private investors. In addition, a loan was taken in 2022 to finance the land of Kodulahe VIII stage. These amounts are not reflected in the group cash flow statement.

In 2023, the following major loan obligations were settled:

- 5,036 thousand euros of Madrid Blvd project's bank loan principal;
- 15,388 thousand euros of bank loan for financing construction of apartment building in Kodulahe Rannakalda, out of which 10,597 thousand directly by customers;
- 64 thousand euros of bank loan for financing land of Kodulahe project Stage VIII;
- 1,000 thousand euros short term credit from related company;
- 558 thousand euros loan from private investor, out of which 478 thousand settled with receivables;
- 58 thousand euros of capitalized office rent.

In 2023, the group raised the following new liabilities:

- 11,545 thousand euros of bank loan for financing construction of apartment buildings in Kodulahe Rannakalda;
- 1,550 thousand euros loan from private investors;
- 1,000 thousand euros short term credit from related company.

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.

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

	Maturity date (month/year)	Liability amount, in thousands of euros		Interest rate, %		
Description of the liability		**31 Dec 2023**	31 Dec 2022	**31 Dec 2023**	31 Dec 2022	Type of interest rate
Bank loan, development	10/2024	0	5,037	-	3.4	Fixed
Bank loan, development	4/2025	3,188	7,030	5.0	5.0	Fixed
Bank loan, land acquisition	11/2027	3,436	3,500	9,6	8.3	6M Euribor
Bonds, development	12/2024	2,120	2,120	10,0	10.0	Fixed
Lease obligation	8/2026	184	242	2,5	2.5	Fixed
Other loan, settlements	12/2024	1,152	160	10.0	10.0	Fixed
Total		**10,080**	**18,089**			

On 31 December 2023, the weighted average interest rate of interest-bearing liabilities was 8.2% (31 December 2022: 5.8%).

19. Payables and deferred income

Short-term payables and deferred income

	31 December 2023	31 December 2022
In thousands of euros		
Trade payables	**740**	**1,162**
Miscellaneous payables	**0**	**11**
Taxes payable		
Value added tax	1,270	53
Social security tax	46	25
Personal income tax	33	17
Other taxes	2	3
Total taxes payable	**1,351**	**98**
Accrued expenses		
Payables to employees	1,048	102
Interest payable	0	9
Dividend payable	104	104
Other accrued expenses	215	261
Total accrued expenses	**1,367**	**476**
Deferred income		
Prepayments received on sale of real estate	555	1,824
Guarantee deposits	0	75
Prepaid revenue	0	35
Total deferred income	**555**	**1,934**
Total short-term payables and deferred income	**4,013**	**3,681**

As of 31 December 2023, the prepayments received on sale of real estate included prepayments collected on presale of apartments of Botanica Lozen villas of 555 thousand euros. 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 villa.

On 31.12.2023, the VAT payable is higher than usual, because the turnover of the final sales of Rannakalda apartments in December 2023 was 6,292 thousand euros.

On 31.12.2023, payables to employees include intra-group success fees for completed developments of 800 thousand euros.

20. Share capital

As of 31 December	2023	2022
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 2023.

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	2023	2022
In thousands of euros		
Cash on hand and demand deposits	1,472	3,427
Total cash and cash equivalents	**1,472**	**3,427**

At the end of year 2022, out of the Group's cash and cash equivalents balance, 224 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 three banks holding almost all of the Group's cash deposits as of 31 December 2023, 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	7.38%	A-	Baa1
LHV Pank AS	79.42%	Not rated	Baa3
Coop Pank AS	13.16%	Not rated	Baa2
Cash in other banks and petty cash	0.04%	-	-

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 547 thousand euros as of 31 December 2023. Management has estimated the value of such receivables on an individual basis and has determined that the items are recoverable. In addition, due to the nature of the Group's sales, where receivables from sale and lease of own properties are generally collected within a very short period of time, the write-down of receivables based on the principles described above is insignificant during reporting periods.

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

The total amount of financial assets exposed to credit risk was 2,019 thousand euros as of 31 December 2023 (31 December 2022: 3,868 thousand euros).

Financial assets by maturity

	on 31 December 2023			
By maturity	< 3 months	3-12 months	1-2 years	Total
In thousands of euros				
Cash and cash equivalents	1,427	0	0	1,472
Trade and other receivables (note 14)	547	0	0	547
Total	**2,019**	**0**	**0**	**2,019**

	on 31 December 2022			
By maturity	< 3 months	3-12 months	1-2 years	Total
In thousands of euros				
Cash and cash equivalents	3,427	0	0	3,427
Trade and other receivables (note 14)	441	0	0	441
Total	**3,868**	**0**	**0**	**3,868**

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

	on 31 December 2023			
By maturity	< 3 months	3-12 months	1-5 years	Total
In thousands of euros				
Interest-bearing liabilities	30	3,361	6,689	10,080
Interest payable	206	247	943	1,396
Other financial liabilities (trade payables, accrued expenses, excluding liabilities to employees)	2,410	0	0	2,410
Total	**2,646**	**3,608**	**7,632**	**13,886**

	on 31 December 2022			
By maturity	< 3 months	3-12 months	1-5 years	Total
In thousands of euros				
Interest-bearing liabilities	15	5,240	12,834	18,089
Interest payable	262	785	1,531	2,578
Other financial liabilities (trade payables, accrued expenses, excluding liabilities to employees)	1,636	0	0	1,636
Total	**1,913**	**6,025**	**14,365**	**22,303**

Based on the maturities of liabilities included in the Group's loan portfolio, as of 31 December 2023, the average weighted maturity of the Group's loans and borrowings was 2.08 years (as of 31 December 2022: 2.6 years). For more information on loans and borrowings see also note 18.

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

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

Market risk

Interest rate risk

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

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

The Group's bonds and other borrowings have a fixed interest rate and are independent of changes in the money market. The Group's long-term loans and borrowings are linked to 6-month Euribor. Therefore, the Group is exposed to developments in the international financial markets. Interest rate risk is managed, among other things, by monitoring movements in the money market interest rate curve, which reflects the market participants' expectations of market interest rates and allows estimating a trend for euro-denominated interest rates. During 2021, Euribor interest rates 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 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 2023, 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 34 thousand euros (on 31 December 2022: 35 thousand euros).

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

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

Currency risk

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

Fair value of financial instruments

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

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

Fair value of financial instruments is level 3.

Capital management

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

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

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

The size of the share capital or the minimum and maximum capital of a limited liability company have to be set out in the company's articles of association whereby minimum capital has to amount to at least one quarter of maximum capital. As of 31 December 2023, 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 2023, the share capital of Arco Vara AS was 7,272 thousand euros and net assets were 21,017 thousand euros. Thus, the Group's share capital and net assets (equity) were in accordance with the regulatory requirements of the Republic of Estonia.

In addition to meeting regulatory requirements, the net assets of some of the Group's subsidiaries have to meet the loan covenants agreed with credit institutions; otherwise, the bank may apply higher interest rates to existing loans. These covenants refer to legal requirements in respect to the capital of a company and are limited to the obligation of obtaining the credit institution's written consent for changing the debtor's capital. As of 31 December 2023 and 31 December 2022, 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 2023, total capital amounted to 29,625 thousand euros (on 31 December 2022: 32,697 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 2023, equity accounted for 59.7% (on 31 December 2022: 45.3%) 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	2023	2022
In thousands of euros		
Cash and cash equivalents	0	224
Receivables [1]	0	98
Inventories	18,114	17,390
Investment property	0	9,050
Total carrying value of assets pledged as collateral	**18,114**	**26,762**

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

23. Contingent liabilities

Contingent income tax liability

As of 31 December 2023, the Group's retained earnings amounted to 7,843 thousand euros (on 31 December 2022: 4,917 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 2023 and in 2022, this opportunity was used when paying out dividends to shareholders in the amount of 624 euros (0.06 euros per share) without income tax obligation.

As of 31.12.2023, Arco Vara could pay dividends in the amount of 478 thousand euros without income tax obligation. Upon the payment of all retained earnings in 2024, income tax liability would be 1,473 thousand euros and the amount to be paid out to shareholders would total 6,370 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 4,977 thousand euros. Over 30,000 m^2 of residential and business real estate (gross building area) is intended to be developed. In relation to this, the subsidiary of Arco Vara assumed the obligation to also pay additional 1,627 thousand euros for the purchase of land by Harku Lake within three months from the establishment of the detailed plan for the property by the Tallinn City Government, but no later than 30.04.2026.

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	2023	2022
In thousands of euros		
Other related parties		
Receivables from customers	0	277

The CEO and a member of the supervisory board bought apartments in the Kodulahe Quarter, having therefore made prepayments for a total of 277 thousand euros as of 31.12.2022.

Transactions with related parties

	2023	2022
In thousands of euros		
Other related parties		
Sold apartments	1,919	0
Services purchased	36	86
Interest paid	16	0

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 2023, the remuneration of the CEO, including social security charges amounted to 281 thousand euros (160 thousand euros in 2022). Remuneration of the members of the Group's supervisory board was 14 thousand euros in 2023 and 24 thousand in 2022.

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 4 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 2023 and 2022, 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 2023	On 31 December 2022
%			
Development segment			
Subsidiaries			
Kerberon OÜ	Estonia	100	100
Kolde OÜ	Estonia	100	100
Kodulahe OÜ*	Estonia	0	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	0	100
Trade Center Cherkovna EOOD	Bulgaria	0	100
Oborishte Premium Apartments EOOD	Bulgaria	0	100
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	100

* In Q4 2023, Kodulahe Kvartal OÜ and Kodulahe OÜ merged.
** Marsili II SIA was liquidated on 16.01.2024.

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

	2023	2022
In thousands of euros		
Revenue from rendering of services	**1,017**	**958**
Cost of sales	-17	-41
Gross profit	**1,000**	**917**
Other income	0	31
Marketing and distribution expenses	-143	-136
Administrative expenses	-941	-738
Other expenses	-5	-6
Operating profit	**-89**	**68**
Loss on investments in subsidiaries	-962	-362
Dividend income	0	789
Interest income	1,579	1,317
Interest expense	-528	-491
Total finance income and costs	**0**	**1,253**
Net profit for the year	**0**	**1,321**
Total comprehensive income for the year	**0**	**1,321**

UNCONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 December	2023	2022
In thousands of euros		
Cash and cash equivalents	1,011	1,497
Receivables and prepayments	799	1,474
Total current assets	**1,810**	**2,971**
Investments into subsidiaries	9,509	9,249
Receivables and prepayments	13,651	9,645
Property, plant, and equipment	210	272
Intangible assets	2	14
Total non-current assets	**23,372**	**19,180**
TOTAL ASSETS	**25,182**	**22,151**
Loans and borrowings	3,330	1,271
Payables and prepayments	1,749	316
Total current liabilities	**5,079**	**1,587**
Loans and borrowings	5,316	5,209
Total non-current liabilities	**5,316**	**5,209**
TOTAL LIABILITIES	**10,395**	**6,796**
Share capital	7,272	7,272
Share premium	3,835	3,835
Statutory capital reserve	2,011	2,011
Other reserves	56	0
Retained earnings	1,613	2,237
Total equity	**14,787**	**15,355**
TOTAL LIABILITIES AND EQUITY	**25,182**	**22,151**

UNCONSOLIDATED STATEMENT OF CASH FLOWS (direct method)

	2023	2022
In thousands of euros		
Cash receipts from customers	421	611
Cash paid to suppliers	-488	-591
Taxes paid and recovered (net)	3,565	-470
Cash paid to employees	-308	-225
Other payments and receipts related to operating activities (net)	4	0
NET CASH FROM/USED IN OPERATING ACTIVITIES	**3,194**	**-675**
Payments made on acquisition of tangible and intangible assets	-2	-27
Proceeds from sale of tangible assets	0	2
Loans provided	-9,368	-4,197
Repayment of loans provided	2,090	5,709
Interest received	9	14
Other receipts related to investing activities	90	0
NET CASH FROM/USED IN INVESTING ACTIVITIES	**-7,181**	**1,501**
Proceeds of loans received	5,948	5,516
Settlement of loans and borrowings	-1,570	-5,359
Dividends paid	-623	-623
Interest paid	-254	-287
NET CASH FROM FINANCING ACTIVITIES	**3,501**	**-753**
NET CASH FLOW	**-486**	**73**
Cash and cash equivalents at beginning of year	**1,497**	**1,424**
Change in cash and cash equivalents	-486	73
Cash and cash equivalents at end of year	**1,011**	**1,497**

UNCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory capital reserve	Other reserves	Retained earnings	Total
In thousands of euros						
Balance on 31 December 2021	**7,272**	**3,835**	**2,011**	**0**	**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**	**3,835**	**2,011**	**0**	**2,237**	**15,355**
Dividends	0	0	0	0	-624	-624
Formation of equity reserve	0	0	0	56	0	56
Balance on 31 December 2023	**7,272**	**3,835**	**2,011**	**56**	**1,613**	**14,787**

Adjusted unconsolidated equity

As of 31 December	**2023**	**2022**
In thousands of euros		
Parent company's unconsolidated equity	**14,787**	**15,355**
Carrying amount of investments in subsidiaries in the parent company's unconsolidated statement of financial position (-)	-9,509	-9,249
Value of investments in subsidiaries under the equity method (+)	15,739	11,929
Parent company's adjusted unconsolidated equity	**21,017**	**18,035**

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 2023 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.

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

April 3, 2024

/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 qualified opinion

In our opinion, except for the possible effects of the matter described in the Basis for qualified opinion section of our report, 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 2023, 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 3 April 2024.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of comprehensive income for the year ended 31 December 2023;
- the consolidated statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information and other explanatory information.

Basis for qualified opinion

As of 31 December 2023, the Group has recognized a residential development project under inventories of the consolidated statement of financial position with the cost of EUR 3,018 thousand. The Group has obtained a valuation report from an external expert, which through comparable transactions, reached a market value which is higher than the value reflected in the consolidated statement of financial position. During the reporting year and after the period end no apartments in the mentioned project have been booked or sold, and the Group has reduced the sales prices of these apartments to close to or below their cost. International Accounting Standard IAS 2 "Inventories" stipulates that inventories shall be measured at the lower of cost and net realisable value. The sales process has not yielded results at current prices and the number of new apartment sales transactions in the real estate market has decreased. The sale period and financial result of the apartments are difficult to predict and the market value stated through comparable transactions may not give a reliable indication of the net realisable value of the development project. As a result, the audit procedures performed by us did not allow us to assess with sufficient reliability whether and by how much the Group's net profit for the reporting period, inventories and retained earnings as of 31 December 2023 are overstated.

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 qualified opinion.

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.

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Independence

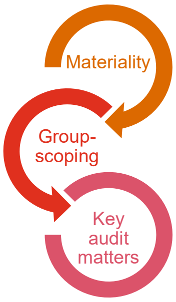
We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance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

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Company and its subsidiaries are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § 59^{1} of the Auditors Activities Act of the Republic of Estonia.

During the period from 1 January 2023 to 31 December 2023 we have provided training to the Company and its subsidiaries.

Our audit approach

Overview



- Overall Group audit materiality is EUR 267 thousand, which represents 1% of the average of Group's total assets and revenues.
- The Group audit team audited 98% of Group's consolidated assets and 98% of Group's consolidated revenues.
- 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 judgement, 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.

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Overall Group audit materiality	EUR 267 thousand.
How we determined it	1% of the average of Group's total assets as of the reporting date and Group's 2023 total revenues.
Rationale for the materiality benchmark applied	We have applied this benchmark, as the value of the Group's assets 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 and overall cycles of the real estate market.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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
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". As at 31 December 2023 the Group's statement of financial position includes inventory in the amount of 27.6 million euros. Inventories are carried at the lower of cost and net realisable value. 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. 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 matter.	Where property was valued by the management, we assessed the management's expertise to perform valuation of property. Where property was valued by an external expert, we assessed the expertise of the experts to perform the valuations. We performed testing of the inputs used in the valuation model. Our work targeted individual properties in 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 to 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 promissory sales contracts. We also assessed the appropriateness of disclosures provided in respect of net realisable value of inventory, including sensitivity analysis.

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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 of subsidiaries that mostly operate in Estonia and Bulgaria (refer to Note 25). Based on our risk and materiality assessments, we have 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, Arcojärve OÜ (former Kolde OÜ), Arco Tarc OÜ full scope audits were performed by the Group audit team. For Kerberon OÜ a review was performed by the Group audit team. In respect of remaining entities we have performed full scope audit procedures on the 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 135^3 (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 135^3 (3) of the Securities Market Act of the Republic of Estonia.

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.

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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.
- 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 2023 (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) 2018/815 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.

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 management requirements and professional ethics

We apply International Standard on Quality Management (Estonia) 1 (revised)], which requires the firm to design, implement and operate a system of quality management including policies or 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.

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.

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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 2041.

AS PricewaterhouseCoopers

Janno Hermanson Certified auditor in charge, auditor’s certificate no. 570	Kristiina Veermäe Auditor’s certificate no. 596

3 April 2024
Tallinn, Estonia

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