

 ARCOVARA

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Introduction¹

ARCO VARA AS OFFERING DOCUMENT

Public offering of shares of Arco Vara AS and admission to trading of the issued new shares on the main list of Nasdaq Tallinn stock exchange

This offering document has been prepared by Arco Vara AS (hereinafter Issuer or Arco Vara) a public limited liability company registered in Estonia under registry code 10261718 in connection with an offer of new shares to be issued (hereinafter Offer Share) and admittance of all new shares to trading on the main list of Nasdaq Tallinn stock exchange. The offering document may not be used for any other purpose without the prior consent of Arco Vara.

The public offering of the shares of the Issuer will take place only in Estonia, pursuant to Article 3(2)(b) of Regulation (EU) 2017/1129 of the European Parliament and of the Council (hereinafter Prospectus Regulation) and subsection 15(1) of the Securities Market Act, according to which it is not required to publish the prospectus of the public offering if the public offering of securities has a total value of up to 2,500,000 euros per all Contracting States in total during the one-year period of the offering of securities. The shares of the Issuer will not be offered to the public in any other jurisdiction.

Therefore, this offering document does not constitute a prospectus within the meaning of Prospectus Regulation and the Securities Market Act, which would be required to be published when securities are offered to the public or admitted to trading on a regulated market in accordance with the legislation referred to above.

During the offering, the Issuer will offer up to 1,000,000 (one million) Offer Shares which, in case of admission to trading, represent, over a period of 12 months, less than 20 % of the number of securities already admitted to trading on Baltic Main list of Nasdaq Tallinn stock exchange. Therefore and in accordance with article 1(5)(a) the obligation to publish a prospectus in case of admission to trading on a regulated market does not apply.

The offering is directed to retail and institutional investors in Estonia. The offering to institutional investors consists of an offer of an Offer Share to professional investors within the meaning of Article 2(e) of Prospectus Regulation.

Investing in the shares of Arco Vara involves certain risks. Potential investors should read through the entire offering document and get acquainted to the 'Risk Factors' section focusing on certain factors that should be considered before investing in the shares of Arco Vara. The contents of the offering document are not intended to be construed as legal, financial or tax advice. Each potential investor should consult their legal, financial or tax advisor.

¹ This document is a translation from Estonian language and in any discrepancy Estonian shall prevail.

Introductory information

Confirmation by the management board

To the best of the knowledge and belief of the management board, having taken reasonable care to ensure this, the information contained in this offering document is in accordance with the facts and there are no omissions or misstatements in the offering document that could distort the actual image of Arco Vara.



Miko-Ove Niinemäe
Arco Vara AS
CEO

Applicable Law

Estonian law applies to the offering document. Any potential disputes related to the offering shall be resolved in Harju county court (in Estonian: *Harju Maakohus*)

Indicative Figures

The numerical and quantitative values published in the offering document (e.g., monetary values, percentages, etc.) are provided with the accuracy that Arco Vara considers sufficient to present adequate and relevant information in this matter. Quantitative values are sometimes rounded to the nearest reasonable decimal point or integer in order to avoid excessive detail.

Introduction and plans of Arco Vara

Arco Vara is an international real estate group (hereinafter: the Group), with Estonia and Bulgaria as its main markets. The parent company Arco Vara was established in 1992 in Estonia and has been listed since 2007 on Nasdaq Baltic Main List.

The Group's core business is the development of integrated living environments and commercial real estate. In the case of residential developments, the completed properties are sold to the final consumer. In certain cases, the Group also develops commercial real estate, with the aim of creating a cash flow generating real estate object either for enhancement of its own cash flow generation or for resale. The Group already has completed commercial real estate properties from which it earns rental income. In addition, the Group generates license fee income from agreements with real estate agencies providing real estate brokerage and valuation services under its trademark in Estonia, Latvia and Bulgaria.

MISSION

Arco Vara's business has two main pillars: to be the safest and highest quality real estate developer for home buyers, so that every client is happy at the acquired living environment, and to provide the investor one of the best returns on the Baltic Stock Exchange, while offering quarterly dividend policy and growth of sales revenue of the company around 20% per annum.

Focus of the home buyer

Arco Vara was established with the home buyer in mind, who appreciates a well-planned living environ-

ment. The company develops integrated areas and provides homes, where families will be happy to come home to every night for years to come. The properties have been thought out down to the smallest detail and have low maintenance costs.

Arco Vara stands out from other real estate companies in several ways. Firstly, only Arco Vara communicates with its clients in a very personalised way and wants to meet their needs. Secondly, the company offers well-planned homes and developments that add value to the living environment. For Arco Vara, it is important to enhance the value of the area, not to maximise the construction volume.

Focus of the Investor

Arco Vara is meant for the investor who understands the potential of real estate development, as it offers 20% return on equity¹ and the opportunity to invest in real estate without having to buy it yourself. Compared to other listed companies, only Arco Vara pays quarterly dividends, spreads risk across two markets, and offers an affordable price per share that is suitable also for the small investor.

VISION

As a developer, we believe it is important to create areas that become like small, distinct neighbourhoods. These are the places where residents feel cared for by the surrounding environment - where traffic is calm and children can play safely in the courtyard. The homes are thoughtfully designed, have reasonable maintenance costs and are timeless.

¹ Indicated value is not guaranteed and past return does not guarantee the same return in the future. We recommend potential investors to read chapter "Risk Factors".

Plans for growth, future developments and goals

In 2020, Miko-Ove Niinemäe took the helm of Arco Vara and has set several new goals to grow the company. The plan is to increase development volumes in both Estonia and Bulgaria and enter new markets.

This year, customers have received the homes completed in phase III of the Kodulahe development, the Kodukalda development in Tartu and the Iztok Parkside development in Bulgaria. The sales revenue for the current year has thus so far exceeded EUR 11 million. Already this year we want to reach a profit margin of a minimum of 10% of sales revenue. Building on this we have set ourselves a target of generating approximately a profit of EUR 2 million.

In 2021, we plan to launch the construction of Kodulahe Rannakalda development and to “melt” the Bulgarian Botanica Lozen project. In addition, in the first half of the year we acquired two plots of land, for which we intend to initiate detailed plan process already this year.

In 2022, the IV and V stage of Kodulahe development will be completed. By the time of publishing the Offer Document, all the apartments there have already found an owner and therefore EUR 12 million in sales revenue has been secured.

From 2022 onwards, Arco Vara’s main goal is to grow its sales revenue by 20% per year.

We plan to complete the Rannakalda phase of the Kodulahe development mentioned above, and the first phase of the Botanica Lozen development in 2023. They are expected to generate sales revenues of EUR 29 million and EUR 6.5 million, respectively. Thus, upon completion of the processes already started, Arco Vara will reach sales revenue of over EUR 30 million in one year.

Between 2024 and 2027, we expect the main sales revenue to come from the Lake Harku development, where we will build approximately 400 new homes. In addition, we plan to expand the Kodulahe development on the already acquired Soodi 6 property, where around 80 new homes are planned to be built. We also intend to acquire more plots to increase revenue even more.

Further plans and development

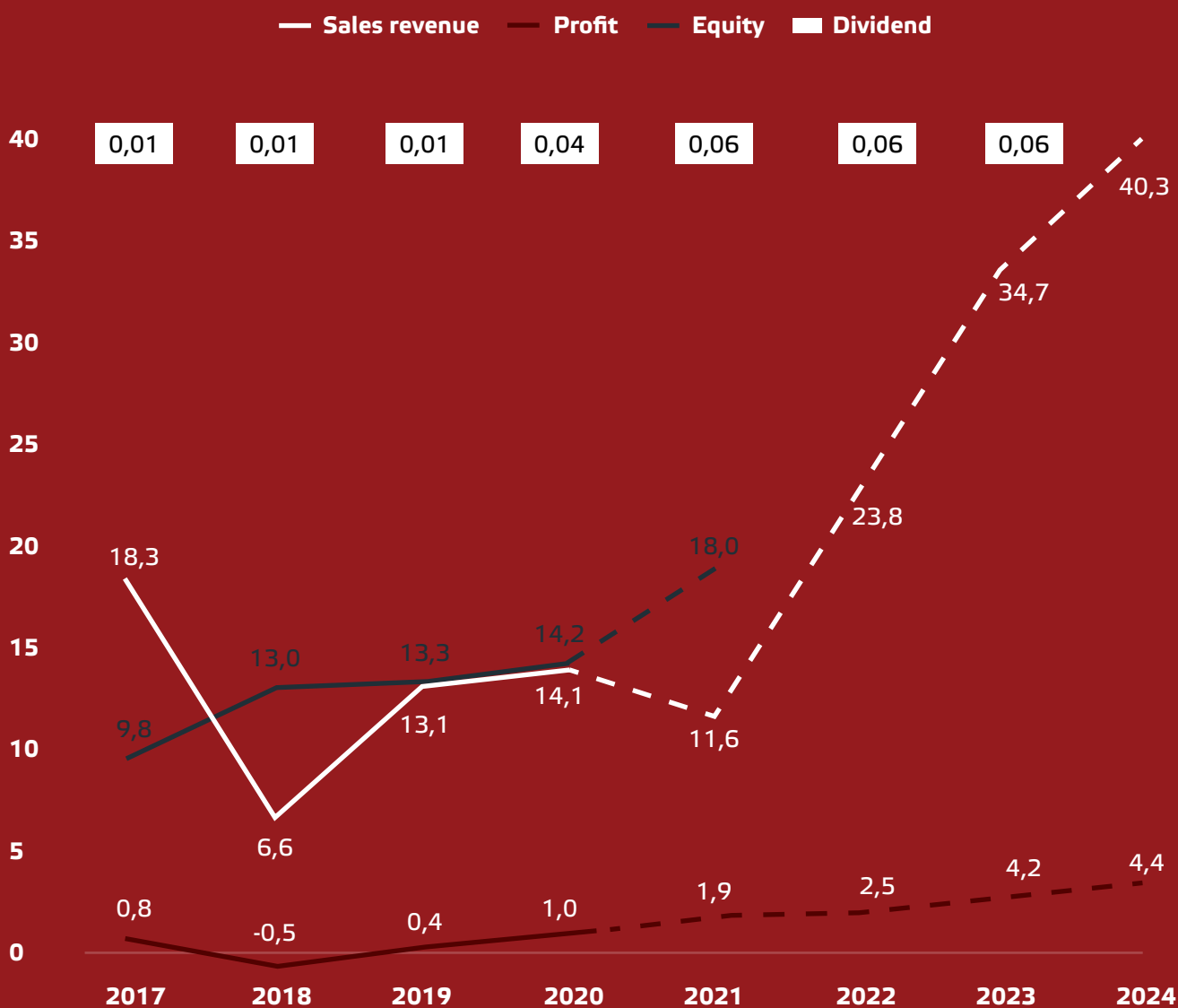
Goals for 2021

Revenue	EUR 12 million
Net profit	EUR 2 million
Start of construction	Kodulahe Rannakalda
Purchases	Land plot acquisition in Tallinn
Initiatives	Initiation of detailed plan of Paldiski mnt 124b Initiation of detailed plan of Soodi 6

Goals for the near future

In 2022	Start of expansion to a new market Start of construction of Botanica Lozen phase 1 and phase 2 Sales revenue more than EUR 15 million Increase of sales revenue by 20% yearly
In 2023	Sales revenue above EUR 30 million Adoption of the detailed plan for Soodi 6 Adoption of the detailed plan for Paldiski mnt 124b Start of construction of Botanica Lozen phase 3 Start of first construction on the new market
In 2024	Sales revenue above EUR 35 million Completing first homes at Paldiski mnt 124b Completing first homes at Soodi 6 New land plot acquisition in Bulgaria

Key financial indicators (in million EUR) ¹



¹ The figures up to Q1 2021 are historical, the figures from Q3 2021 onwards are projected.

Goals for 2022-2025

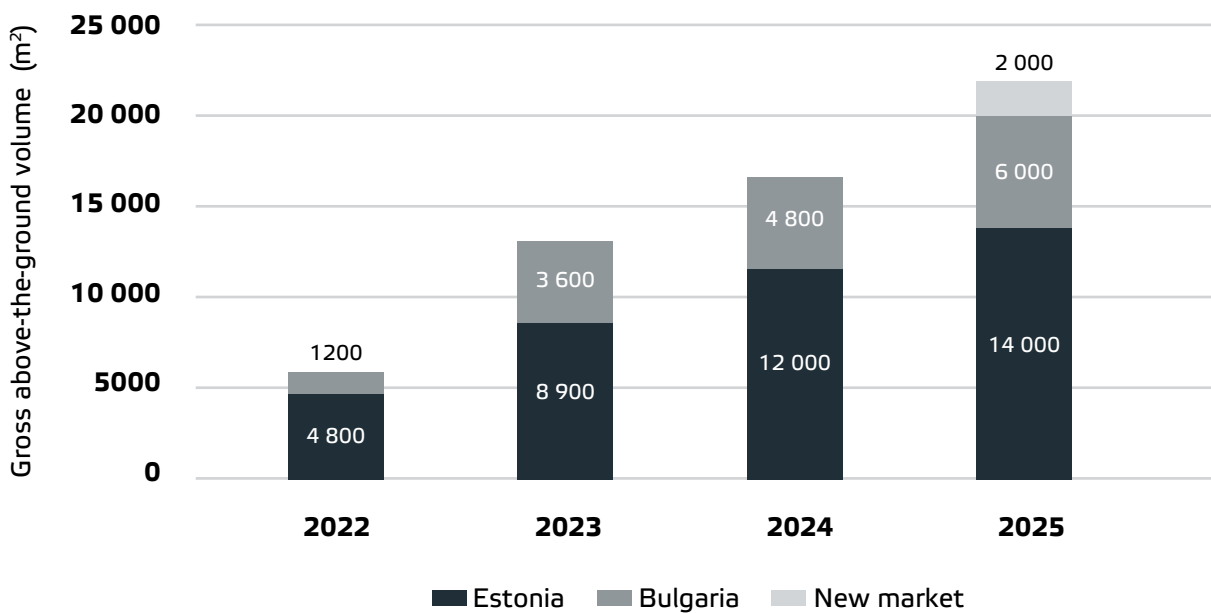
For investors

- » Projects' return on equity 20% per year
- » Sales revenue growth of at least 20% per year
- » Dividend of at least 6 cents per share
- » Entry into a third market

For clients

- » Homes that will be enjoyed for years
- » The most trusted real estate developer
- » Planned down to the smallest detail
- » Outstanding home environments

Goals presented as a graph



Offer and admission to trading of shares

General information about the offer

Arco Vara has one class of shares and shares of the same class are offered in the course of the public offer to be held. During the settlement of the offer, the Offer Shares bear a temporary ISIN code of EE380A034652 which will be changed into a permanent ISIN code of EE3100034653 after the entry concerning the increase of share capital has been made in the Commercial Register. A maximum of 1,000,000 shares will be issued in the course of the public offering. Provided that all the Offer Shares are subscribed by investors in the course of the offering, the registered share capital of Arco Vara will immediately after the issue of the new shares be

EUR 7,271,856.90 and the total number of shares of Arco Vara will be 10,388,367. The shares are freely transferrable.

Reasons for the offering and use of proceeds

The offering is arranged in order to carry out the projects mentioned in Chapter 5 of the offering document within the intended timeframe. The capital raised will be mainly used to finance the own financing part of the Kodulahe Rannakalda project and design and planning works for Harku lake and Soodi 6 development projects. With the additional capital, we will be able to strengthen the balance sheet which in turn will contribute to the goal of 20% revenue growth during the next 4 years.

The offering period

The offering period is a period during which investors entitled to participate in the offer can submit a subscription order for subscribing the Offer Shares. The offer period starts at 10:00 on 20 September 2021 and ends at 16:00 on 15 October 2021 local Estonian time (hereinafter the Offer Period).

The following time schedule presents the main dates related to the offering:

Offer Period: from 10:00 on 20 September 2021 to 16:00 on 15 October 2021

18 October 2021 - Determination and announcement of the offer results and the distribution of the Offer Shares (Distribution Date)

On or around 20 October 2021 - Transfer of the shares to the investors and payment for the shares (Settlement Date)

On or around 28 October 2021 - Start of trading with new shares on the Main list of Nasdaq Tallinn

Share price

The price of the Offer Shares is 2.25 euros per one share, of which 0.70 euros is the nominal value of the share and 1.55 euros is the premium.

SUBSCRIPTION AND DISTRIBUTION OF THE SHARES

The issue of Offer Shares is mainly targeted at Estonian retail investors. In addition to investors in Estonia (as specified in sub-chapter 'Right to participate in the offer'), Arco Vara reserves the right to also accept Subscription Orders received from investors in other European Union member states and take these into account in distribution provided that the investor holds a securities account within the Estonian settlement system of Nasdaq CSD or the Subscription Order is submitted via nominee account.

Arco Vara shall decide the distribution of the Offer Shares at its own discretion after the end of the Offer Period on 18 October 2021 at the latest. New investors will be preferred in the distribution of the offer shares, taking into account the distribution principles below.

The offering shall be considered over-subscribed if more than 1,000,000 Offer Shares are subscribed by the end of the Offer Period. In such case the amount of shares to be issued remains the same and Arco Vara decides the distribution of Offer Shares between the investors taking into account the following principles:

» In the first order each new investor not holding Arco Vara shares based on the list of shareholders as at the end of the business day of the Estonian settlement system of Nasdaq CSD on 19 September 2021 (hereinafter New Investors) shall be distributed the shares subscribed by them but not more than 100 shares. If more than 1,000,000 Offer Shares would be distributed to New Investors based on this principle, the Offer Shares will be distributed proportionally among them considering the number of shares subscribed. Any subscriptions above 100 shares by New

Investors will be distributed in accordance with distribution principles of the second and third order.

» In the second order, the Offer Shares will be distributed among all investors who have submitted subscription orders pursuant to the shares subscribed for by them, but no more than 5,000 shares. If there are not enough shares to distribute up to 5,000 shares among all investors who have submitted a subscription order, the Offer Shares will be distributed among the investors in the second order on a proportional basis, taking into account the number of shares subscribed for by them up to 5,000 shares and in the event of New Investors, deducting the shares already distributed to them in the manner described in the first order from the number of shares subscribed for.

» In the third order all remaining Offer Shares will be distributed proportionally among the investors who subscribed 5,001 or more Offer Shares.

If less than 1,000,000 shares have been subscribed, the management board of Arco Vara has the right to extend the subscription period or to cancel the shares not subscribed for within the subscription period.

The processing of Subscription Orders in the course of distribution does not depend on the company via which the Order is submitted. If an investor has submitted several Subscription Orders all individual Subscription Orders of one investor shall be joined into one.

The Offer Shares will be registered in the Estonian Register of Securities and transferred to the securities accounts of the investors on or about 20 October 2021 in accordance with the delivery-versus-payment procedure simultaneously with the transfer of

the subscription amount from the investor's account to the account of Arco Vara. During the settlement, the Offer Shares will bear a temporary ISIN code of EE380A034652 which will be changed into a permanent ISIN code of EE3100034653 presumably on or about 28 October 2021.

Right to participate in the offering

All retail and institutional investors in Estonia have the right to participate in the offering. The institutional offer is aimed at qualified investors in the meaning set forth in subsection 6(2) of the Securities Market Act. The retail offer comprises the offering of shares to all the natural and legal persons in Estonia. In order to subscribe in the offering the investor should have a securities account with the Nasdaq CSD Estonian settlement system. The securities account may be opened via any Nasdaq CSD account manager. A list of Nasdaq CSD account managers is available at <https://nasdaqcsd.com/list-of-account-operators/>.

An investor may submit a subscription order using a nominee account. In case of using a nominee account investor must authorise the owner of the nominee account to disclose investor's identity, personal or registry code and address to the account operating bank or a person nominated by the bank. Investors must make sure all information in the subscription order is correct, complete and readable. Incomplete, incorrect or unreadable subscription orders or subscription orders not filled in or submitted during the Offer Period or incompatible with the requirements set out herein may be rejected.

By submitting a subscription order, investor:

- » confirms to have reviewed and understood the offering document and agrees to the terms and conditions of the offer described in the offering document;
- » confirms to be located in Estonia and/or not subject to the laws of another jurisdiction which would prohibit them from submitting the Subscription Order;
- » acknowledges that the submission of the Subscription Offer does not in itself give the right to acquire the Offer Shares or entail the conclusion of the contract of sales of the Offer Shares;
- » accepts that the number of the Offer Shares indicated in the Subscription Order is considered as the maximum number of the Offer Shares (Maximum Quantity) that the investor wishes to acquire and that the investor may receive fewer Offer Shares (but not more) than the Maximum Quantity;
- » undertakes to acquire the number of Offer Shares allocated to the investor and pay for these in accordance with these terms up to the Maximum Quantity;
- » confirms being aware of the investment risk related to investing in shares, which may turn out to be greater than the investor's knowledge and experience;
- » accepts and agrees that the Issuer has the right to obtain daily information with regard to Subscription Orders from the registrar of the Estonian Register of Securities (hereinafter the Registrar);
- » authorises the Registrar and the Issuer to process, transmit and exchange information about the identity of the investors and the content of the Subscription Order of the respective investors before, during and after the Offer Period;
- » gives the financial institution via which the Subscription Order is submitted and the Registrar, as applicable, a permission to correct the information contained in the Subscription Order, including (a) to specify the value date of the transaction; (b) to enter the number of securities in the transaction order, which is the

number of the Shares distributed to the investor, and the total transaction amount; (c) to correct or specify obvious mistakes or irregularities which the Subscription Order may contain.

An investor who wishes to subscribe the Offer Shares should contact the account manager who manages the investor's securities account in the Estonian Reg-

ister of Securities, and submit a Subscription Order for the purchase of the Offer Shares primarily in the form presented below. Investor may submit a Subscription Order using any method or form offered by their account manager (e.g., physically at the service office of the account manager, via the Internet or in another manner).

A Subscription Order must contain the following information:

Owner of securities account: [name of the investor]

Securities account: [number of the securities account of the investor]

Account manager: [investor's account manager]

Security: ARCO VARA SHARE additional 10

ISIN code: EE380A034652

Number of securities: [number of Offer Shares the investor wishes to subscribe]

Price (per one Offer Share): 2.25 euros

Transaction amount: [number of Offer Shares the investor wishes to subscribe multiplied by price per Offer Share]

Counterparty: Arco Vara AS

Securities account of counterparty: 99101908627

Account manager of counterparty: AS LHV Pank

Transaction value date: 20 October 2021

Transaction type: Purchase

Settlement method: Delivery versus payment

Submission of Subscription Orders

Subscription Orders can be submitted only for a whole number of shares. In order to subscribe the Offer Shares, the investor must hold a securities account in the Estonian Register of Securities. A securities account can be opened via every account manager of the Estonian Central Register of Securities. A complete and up-to-date table of the account managers of the Register of Securities is available at <https://nasdaqcsd.com/list-of-account-operators/>.

An investor who wishes to subscribe the Offer Shares should contact the account manager who manages the investor's securities account in the Estonian Register of Securities and submit a Subscription Order for subscribing the Offer Shares. Subscription Orders can be withdrawn and new orders can be submitted at any time during the Offer Period. If an investor submits several Subscription Orders during the Offer Period, the multiple Subscription Orders of that investor are aggregated into one order for distribution purposes.

By submitting a Subscription Order, the investor gives the institution that manages the cash account linked to the securities account a permission and order to immediately block the entire transaction amount on the cash account of the investor until the settlement of the shares or the release of monetary funds. The blocked transaction amount is equal to the multiple of the Offer Price and the number of the Offer Shares subscribed by the investor. If the shares cannot be paid for because the investor's cash account does not contain sufficient funds, the Subscription Order made via the securities account linked to the respective

cash account will not be accepted and the investor loses all their rights to the Offer Shares specified in the Subscription Order.

Admission to trading of the shares on the Main list of Nasdaq Tallinn stock exchange

Arco Vara intends to submit an application to the stock exchange to admit all new shares to be issued on Baltic Main list of Nasdaq Tallinn stock exchange. The trading with new shares is expected to begin on or about 28 October 2021.

Alteration and withdrawal of Subscription Order

Investors may alter their Subscription Order at any time until the end of the Offer Period. In order to alter a Subscription Order, the investor must contact the account manager via whom the respective Subscription Order was submitted. The alteration of the Subscription Order will come into effect from the moment at which the respective account manager alters the transaction order of the respective investor. Investors also have the right to withdraw their Subscription Order at any time until the end of the Offer Period. In order to cancel a Subscription Order, the investor must contact the account manager via whom the respective Subscription Order was submitted. The withdrawal of the Subscription Order will come into effect from the moment at which the account manager withdraws the transaction order of the respective investor.

Cancellation of the Offer

Arco Vara may partly or fully cancel and/or alter the terms and conditions and dates of the Offer without presenting any reasons at any time before the completion of the Offer. Information concerning the alteration of the terms and conditions of the Offer will be disclosed in a notice to be posted on the webpage of Arco Vara and as a stock exchange announcement through the information system of the exchange. The parties' rights and obligations related to the cancelled part of the Offer shall be considered ended from the publication of the relevant notice.

Arco Vara may extend the Offer Period at any time after the beginning of the Offer Period in Arco Vara has reason to believe that not extending the Offer Period may result to subscription of fewer shares than the objective established in the course of organising the Offer.

Arco Vara may also cancel (partly or fully) or suspend the Offer at any time after the beginning of the Offer Period and until the settlement of the offering is finalised, if Arco Vara holds that there is reason to believe that continuing the Offer is difficult or undesirable or has become difficult or undesirable (including if fewer shares are subscribed in the course of the Offer Period than the objective established in the course of organising the Offer). This shall not limit the right of Arco Vara to complete the Offer even if fewer shares than expected are subscribed in the course of the Offer

Return of monetary funds

If the Offer or a part thereof is cancelled in accordance with the previous section or the investor's Subscription Order is not accepted or the investor is distributed fewer shares than requested, then:

- » the monetary funds or a part thereof (in the amount exceeding the cost of the allocated shares) blocked on the investor's cash account shall be released or
- » the payments already made shall be returned to the investor.

Offer restrictions

The offering document has been prepared on the principle that the Offer Shares are only offered in Estonia and not in territories that require the publication of a prospectus or the registration of an offer document with any authorities.

Arco Vara business activities and future outlook

Arco Vara is a real estate company established in 1992, which started as a real estate brokerage firm in Tallinn. In 1994, the company started its real estate development in Estonia and this is Arco Vara's core business to the present day.

Activities of Arco Vara and the companies in its Group include real estate development and real estate services. The group's active markets are Estonia and Bulgaria.

The Group's core business is the development of integrated living environments and commercial real estate. In the case of residential developments, the completed properties are sold to the final consumer. In certain cases, the Group also develops commercial real estate, with the aim of creating a cash flow

generating real estate object, either for enhancement of its own cash flow or for resale. The Group already has completed commercial real estate properties from which it earns rental income.

The Group has 13 companies. Six of the subsidiaries are engaged in residential real estate development in Tallinn and Tartu. In Bulgaria, the Group has three companies active in the development of residential real estate, and two companies that lease commercial real estate and offer services for its management. In addition, the Group has one subsidiary, which owns residential properties in Latvia. The Group generates royalty income from the sales of the right to use the Arco Vara trademark to real estate brokerage offices in Estonia, Latvia and Bulgaria.

ARCO VARA AS subsidiaries (100%)

Kodulahe Kvartal OÜ	Kodulahe OÜ	Kodulahe II OÜ
Kodukalda OÜ	Kerberon OÜ	Kolde OÜ
Arco Vara Bulgaaria EOOD	Arco Invest EOOD	Iztok Parkside EOOD
Botanica Lozen EOOD	Arco Manastirski EOOD	Marsili II SIA

CURRENT PROJECTS

KODULAHE

Kodulahe Quarter | 5 residential buildings | 315 apartments and 7 commercial units | Development duration 2016-2022

Kodulahe quarter is a new development surrounded by sea and forest, located in the Merimetsa area of Stroomi beach. The environment here encourages people to get out and about: walk along the beach, run in the forest, have a picnic in the park or cycle on the cycle paths.

The first three buildings of the development have been completed and the apartments have been sold. Phase IV and Phase V of the development, which will be completed in the second half of 2022, are currently under construction, and also the apartments there have already found owners.

Kodulahe Rannakalda | 2 residential buildings | 108 apartments and 5 commercial units | Development duration 2020-2023

Building permit for Kodulahe Phase VI (Lammi 8) is expected to be granted already in Q3 2021 and construction is also expected to start in 2021. The plan is to build a commercial pavilion, four service areas and 108 apartments, many of which will have a sea view. Public sales is scheduled to start in the third quarter of this year and the buildings are expected to be completed at the end of 2023. This development is the most seafront property in the Kodulahe quarter.

Kodulahe Soodi 6 | 2 residential buildings | Approximately 80 apartments | Development duration 2021-2024

The Soodi 6 property is located at the side of the Kodulahe quarter. Detailed planning of the plot is planned to be initiated in 2021. Construction and public sale are planned to start in 2023.



Kodulahe quarter

Stages	Location	Gross construction volume, m ²	Total nr of residential units	Investment volume	Sales forecast (million EUR)	Status
I	Lahepea 7	15,061	125	14	16	Completed
II	Lahepea 9	7,966	68	10	11	Sales and marketing
III	Soodi 4	6,400	50	7	8	Completed
IV & V	Pagi 3&5	9,600	72	10	12	Under construction
VI	Lammi 8	16,897	108	29	29	Application for a building permit
VII	Soodi 6	9,500	80	12	14	Preparation of detailed plan



KODULAHE

BOTANICA LOZEN RESIDENCES

Botanica Lozen Residences | Approximately 60 private homes | Development period 2021-2024

Up to 60 mid-class private residences are planned to be built in the immediate vicinity of the city of Sofia, Bulgaria.

Previously, apartment blocks were planned to be built there, but during the COVID-19 outbreak, the demand for detached houses increased significantly, which led to a change in the development plan. The new plans are expected to be presented in December 2021 and construction will start in the first half of 2022.

Botanica Lozen

Type	Private houses
Land area (m ²)	47,450
Gross building area (m ²)	16,000
Homes	60
Development period	2018 - ...
Investment amount (mEUR)	19
Status	Planning and preparatory work



HARKU JÄRVE

Harku järve (Lake Harku) | 21 residential buildings and 1 beach building | Approximately 400 homes | Development period 2021-2026

The Group acquired the property at Paldiski mnt 124b in February 2021. Detailed plan is currently being prepared, which will be initiated already this year. The jury of the competition for the development of the area, organised in July, included representatives of Arco Vara, Tallinn City Planning Authority and the Environmental and Municipal Administration. According to the winning design by Kuu Architects, there will be private houses and apartment blocks, as well as a few commercial units in the area. In addition, the coastal area by Lake Harku will be cleaned up during the development and a new beach promenade with a new beach building are planned.

Harku Järve

Type	Apartments and commercial units
Land area (m²)	69,506
GBA (m²)	37,000
Homes	400
Development period	2021-2026
Investment amount (mEUR)	62
Status	Building Rights Procedure



MADRID BLVD COMMERCIAL AND RESIDENTIAL BUILDING

Madrid BLVD | 7,500 m² of rentable commercial space | 90 homes | Development duration 2007-....

Between 2007 and 2010, Arco Vara built a commercial and residential building in the centre of Sofia. With two floors underground and nine above the ground, the building houses a parking garage, apartments, a shopping centre and offices. All the apartments have been sold. However, the Group itself rents out around 7,500 m² of retail and office space. There are no vacant commercial spaces currently available in the building.



REFERENCES

KODUKALDA QUARTER



Kodukalda | 4 residential buildings | 30 homes | Development duration 2016-2020

The Kodukalda quarter, consisting of four houses, was completed at the end of 2020 on the Emajõgi riverside part of Supilinn, which is rich in diverse architecture and full of nature. The complex consists of two three-storey apartment buildings with a pitched roof and two two-storey funk-style apartment buildings. There are 30 apartments in the quarter, including 1-2-bedroom units ideal for students, as well as 3-4 room family apartments, where it's great to grow up together and to create memories.

In addition to the area's communal recreational tracks and leisure areas, the Kodukalda Quarter features a barbecue area for residents and two playgrounds for the youngest family members. There are cycle paths between all four buildings, as well as convenient access to both the Emajõgi promenade and Oa Street.



IZTOK PARKSIDE

Iztok Parkside | 3 residential buildings | 67 homes | Development duration 2015-2021

Iztok Parkside is a residential development close to Sofia city centre for middle-income families. Innovative building materials and the best quality in Bulgaria were the key features of the development. This differentiated it both in the cityscape and in the sales process. As many will know, the development did not go off without a hitch, but these have now been overcome and the happy clients have occupied all the apartments.

Iztok Parkside

Type	Apartments
Land area (m ²)	2,470
GBA (m ²)	6,930
Homes	67
Development period	2016-2020
Investment amount (mEUR)	8



IZTOK PARKSIDE



MANASTIRSKI LIVADI

Manastirski Livadi | 3 residential buildings | 273 homes and 27 commercial units | Development duration 2011-2016

The largest development in Bulgaria in the history of Arco Vara is located in the southern part of Sofia. Manastirski Livadi turned out to be popular with Sofia's residents, as affordable homes were available in the vicinity of a number of important centres, restaurants and a hospital. In addition, the development is located in close proximity to Sofia's major ring road, which allows families to reach almost anywhere in Sofia within a reasonable time.



Arco Vara financial review

Consolidated statement of comprehensive income

**6 months
2021**
**6 months
2020**

In thousands of euros		
Revenue from sale of own real estate	10,136	2,777
Revenue from rendering of services	534	412
Total revenue	10,670	3,189
Cost of sales	-8,178	-2,541
Gross profit	2,492	648
Other income	22	0
Marketing and distribution expenses	-65	-57
Administrative expenses	-401	-415
Gain on revaluation of investment property	422	0
Other expenses	-40	-1
Operating profit	2,430	175
Finance income and costs	-207	-224
Profit/ loss before tax	2,223	-49
Net profit/loss for the period	2,223	-49
Total comprehensive income/expense for the period	2,223	-49
Earnings per share (in euros)		
- basic	0.24	-0.01
- diluted	0.24	-0.01
Earnings per share (in euros)		
Weighted average number of ordinary shares outstanding during the period	9,073,781	8,998,367
Number of ordinary shares potentially to be issued (at period end)	0	390,000
Net profit/loss attributable to owners of the parent (in thousands of euros)	2,223	-49
Earnings per share (in euros)	0.24	-0.01
Diluted earnings per share (in euros)	0.24	-0.01

Consolidated statement of financial position

30 June 2021

31 December 2020

In thousands of euros		
Cash and cash equivalents	624	2,200
Receivables and prepayments	506	1,344
Inventories	15,667	14,960
Total current assets	16,797	18,504
Receivables and prepayments	5	5
Investment property	9,972	9,564
Property, plant and equipment	15	22
Intangible assets	112	136
Total non-current assets	10,104	9,727
TOTAL ASSETS	26,901	28,231
Loans and borrowings	305	3,482
Payables and deferred income	2,378	3,308
Total current liabilities	2,683	6,790
Share capital	6,572	6,299
Unregistered share capital	0	273
Share premium	2,285	2,285
Statutory capital reserve	2,011	2,011
Retained earnings	5,297	3,356
Total equity attributable to owners of the parent	16,165	14,224
TOTAL EQUITY	16,165	14,224
TOTAL LIABILITIES AND EQUITY	26,901	28,231

Shareholders' rights (rights attached to shares and dividend policy)

Rights attached to shares

Shareholders have the right to:

- » buy, sell, pledge or otherwise dispose of the shares;
- » in the event that Arco Vara decides to distribute its profits, to receive a share of Arco Vara's cash flows on terms and conditions, agreed at the General Meeting of Shareholders, and in proportion to the number of shares held by the shareholder;
- » attend to and vote at the general meeting of shareholders in accordance with the the number of votes laid down in the Arco Vara Articles of Association.
- » submit nominations for members of the Supervisory Board of Arco Vara to be put to the vote at the General Meeting;
- » decide on the increase and reduction of the share capital;
- » take part in the decision making on other matters entrusted to the competence of the General Meeting by the applicable laws and regulations.

Arco Vara plans to apply for all new shares to be admitted to trading on the main list of Nasdaq Tallinn stock exchange. Trading of the new shares is expected to start on the main list of Nasdaq Tallinn at the latest on or around 28 October 2021.

Dividend policy

Arco Vara's General Meeting adopted a resolution in 2021 to pay a dividend of a minimum of 1 cent per share each quarter until the end of 2023. The additional dividend amount will be paid out based on the audited net profit for the previous financial year.

Business model, main markets and management of the company

Arco Vara Group employs 12 people in Estonia and Bulgaria, whose task is to develop real estate from a deserted plot of land to a turnkey project and to manage the cash-flow of properties. Arco Vara does not engage in general construction contracting or subcontracting. The parent company of the Group has its office in Tallinn and the Bulgarian office is based in Sofia. Arco Vara has a full participation in 12 subsidiaries with different development areas in Estonia, Latvia and Bulgaria.

The Group's core business is the development of integrated residential and commercial real estate. In the case of residential developments, the completed properties are sold to the end-user. In certain cases, the Group also develops commercial real estate with the aim of creating cash-generating properties either for its own cash flow enhancement or for resale. The Group has already completed commercial properties from which rental income is generated. The Arco Vara Group generates royalty income from the sale of the right to use the Arco Vara trademark to real estate brokerage offices in Estonia, Latvia and Bulgaria.

Arco Vara's business has two main objectives: to create homes that exceed customer expectations, and to grow company value beyond the expectations of its shareholders.

To achieve these goals, we aim to sell more than 200 homes a year in unique locations already within three years.

Management structure

In accordance with Estonian law, Arco Vara's management is structured as a two-tier system. The Management Board, which is authorised by law and the Articles of Association to represent Arco Vara, is responsible for the day-to-day management of Arco Vara's operations. As at the date of this Offer Document, the Management Board of Arco Vara is composed of one member. The Supervisory Board of Arco Vara is responsible for strategic planning and for monitoring of the activities of the Management Board. As of the date of this Offer Document, Arco Vara's Supervisory Board has five members. The highest governing body of Arco Vara is the General Meeting of Shareholders.



Management Board

Arco Vara's Management Board is composed of one member - Miko-Ove Niinemäe, who was born in 1993. He graduated from Tallinn University of Technology, majoring in product development and manufacturing engineering (BSc) and holds a degree (MSc) in product development. Miko-Ove Niinemäe joined the company in 2017 as a project engineer. In 2020 he started work as Arco Vara's CEO and member of the Management Board. At the time of publishing the offer document, the manager owns 10,222 shares in Arco Vara.

Supervisory Board

At the time of the preparation of the Offer Document, Arco Vara's five-member Supervisory Board includes Tarmo Sild, Allar Niinepuu, Hillar-Peeter Luitsalu, Kert Keskaik and Steven Yaroslav Gorelik.

Tarmo Sild | Chairman of the Supervisory Board

Mr. Sild was the CEO of Arco Vara from 2012-2020. Prior to joining Arco Vara, he was a sworn attorney from 1998-2003 and a member of the Management Board of HETA law firm; in 2003-2012 a founder of the law firm LEXTAL, sworn attorney, a member of the Management Board and an advisor; since 2008 a founder and a member of the Management Board of AS luteCredit Europe. Ownes by related companies 6,421,819 Arco Vara shares (07.09.2021).

Allar Niinepuu | Member of the Supervisory Board

Mr. Niinepuu graduated from the Estonian Maritime Education Centre in 1992 as a shipmaster. Having worked for two years in Eesti Merelaevandus, Mr. Niinepuu founded his first company, AS Kavass, which initially supplied ships and later acquired and operated supermarkets in Tallinn. Mr Niinepuu has served as a member of the Supervisory Board of Arco Vara since 2013. Ownes by related companies 6,343,531 Arco Vara shares (07.09.2021).

Hillar-Peeter Luitsalu | Member of the Supervisory Board

Mr. Luitsalu graduated from the Faculty of Law of the University of Tartu in 1994. In 1993 he joined

Arco Vara and since then he has been active in the governing bodies of Arco Vara Group's companies. From 1999 to 2004 Mr. Luitsalu was a member of the Management Board of Arco Vara and from 2005 he has been a member of the Supervisory Board of Arco Vara (Chairman of the Supervisory Board from 2012 to 2020). Owned by related parties 369,259 shares of Arco Vara (07.09.2021).

Kert Keskaik | Member of the Supervisory Board

Mr. Keskaik graduated from Tallinn University of Technology in 2007 in Business Administration. Mr. Keskaik is a member of the Management Board of OÜ K Vara and a founder of OÜ A&K Vara. Companies related to him have been active investors in Tallinn Stock Exchange since 2000. In 2001 Mr. Keskaik founded the skaters' sports club Albe Team, where he serves as a member of the Management Board. He has won several Estonian championships in speed and roller skating. Owns, directly or through affiliated companies, 210,756 Arco Vara shares (07.09.2021).

Steven Yaroslav Gorelik | Member of the Supervisory Board

Mr. Gorelik is a graduate of Columbia University and Carnegie Mellon University. In 2005 he joined Firebird Private Equity Advisors LLC and is currently a portfolio manager there. Mr. Gorelik holds a CFA (Chartered Financial Analyst) license. Is a fund manager in investment funds holding 660,451 shares of Arco Vara (07.09.2021).

Declaration by the Management Board

To the knowledge of the Management Board of Arco Vara, no member of the Management Board, no member of the Supervisory Board and no key employee has been convicted or sentenced for fraud or swindling in the last five years. To the best of the Management Board's knowledge, no member of the Management Board or the Supervisory Board or any key employee has, during the previous five years, at the time of the initiating of bankruptcy, reorganisation or winding-up proceedings, been the member of the management body of any legal person.

The Management Board of Arco Vara also confirms that Arco Vara does not have any pending or, as far as the Management Board is aware, threatening legal or arbitration proceedings, which may have or have had a material effect on the financial position or profitability of Arco Vara. There have also no such proceedings been pending during the previous 12 months. No bankruptcy petitions have been filed against Arco Vara and no bankruptcy proceedings have been initiated.

Table of shareholders

There are about 3000 shareholders.

Name	Nr of shares	Shareholding, %
Alarmo Kapital OÜ	6,338,531	67.5%
FIREBIRD REPUBLICS FUND LTD	342,428	3.6%
HM Investeeringud OÜ	330,505	3.5%
FIREBIRD AVRORA FUND, LTD.	183,001	1.9%
Marko Teimann	174,370	1.9%
K VARA OÜ	147,271	1.6%
FIREBIRD FUND L.P.	135,222	1.4%
Rafiko OÜ	133,645	1.4%
Gamma Holding Investment OÜ	84,000	0.9%
Olegs Radcenko	63,167	0.7%
Other shareholders	1,456,227	15.6%
TOTAL	9,388,367	100%

Table as of 30.06.2021

General Meeting of Shareholders

The General Meeting of Shareholders is the highest governing body of Arco Vara.

Shareholders have the right to participate in the general management of the company through the General Meeting of Shareholders, where they can exercise their rights in making certain decisions on important corporate matters, such as, for example amendment of the articles of association, increase and reduction of the share capital, the issue of convertible bonds, the election and removal of members of the Supervisory Board and the auditor, approval of the annual accounts and the distribution of shares, the dissolution of the company, mergers, divisions or reorganisation and deciding on other matters prescribed by law or by the Arco Vara Articles of Association.

No share option plan

The manager has a bonus scheme linked to the increase in company's market capitalisation, profits and the adoption of detailed plans and building permits.

The bonus scheme does not include share options.

Risk factors

THE MAIN RISKS SPECIFIC TO THE GROUP OR THE SECTOR

Business risks

A competitive market. The property development market is intense in competition. Barriers to entry are relatively low. Strong competition may lead to over-supply and lead to price depression. Price is the determinant factor on the market, although consumers also pay attention to quality and past performance. However, in the current market situation, demand for real estate is high, which is reducing the risk of price falls.

Limited number of projects. Real estate investment are capital- and time-intensive, and the whole development cycle usually takes several years. The Group can be involved in only a limited number of projects at a time, which increases the risks and makes liquidity management more complex.

The cyclical nature of real estate development and price volatility. Real estate development is cyclical by its nature and the profitability of the sector fluctuates over time. The sector is sensitive to changes in the general macroeconomic environment

and is characterised by highly flexible demand. This is a problem for developers, as investment decisions are made years before the actual sales.

Dependence on the availability of consumer credit and consumer preferences. Demand for Group's development projects is influenced by consumer preferences and demographics. The majority of sales transactions are dependent on the availability of bank financing, which may change over time.

Dependence on cash flows of subsidiaries. The Group itself does not generate any significant income and is

dependent cash flows from its subsidiaries to fulfil its debt obligations and to cover its expenses. Such cash flows may be restricted by financing agreements and legal considerations.

Dependence on construction contractors. The Group does not engage in construction itself but depends on third party subcontractors to design and construct its projects. The Group is therefore affected by the change in construction prices and the Group may be liable to its customers if contractors fail to meet deadlines or quality requirements.

Dependence on key employees. The success of the Group depends on committed and talented key employees and their loyalty to the Group. Operating in a highly competitive environment, the companies of the Group have to continuously strive to attract new talented employees to their ranks and to motivate the existing employees and the management.

Governance risk. The Management Board of the Group consists of only one member, on whose management the whole Group depends. At the same time several business processes are managed by other key personnel.

Seasonality. Real estate transactions, especially in the residential real estate sector, tend to fluctuate seasonally, with activity being higher in autumn and spring. The challenge is therefore how to match project schedules (and Group cash flows) with seasonal demand.

Dependence on discretionary decisions by public authorities. Property development depends to a large

extent on planning and permission procedures, which to a certain extent are discretionary decisions. Delays or adverse decisions in such procedures can slow down or halt development projects or lead to budget overruns.

Civil liability. The Group shall be liable to its customers and its cooperation partners. If legal proceedings are brought against the Group for actual or alleged infringements, such proceedings may (irrespective of the final outcome) damage the Group's reputation and may lead to financial losses.

Environmental liability. As a property developer, the Group may be liable for pollution found on its properties or for pollution that exceeds legal standards.

Financial risks

Liquidity risk. It is difficult to manage the Group's liquidity because real estate projects are capital-intensive and take a long time to be completed. If the project is still under development, it generates negative cash flows. Delays or planning errors can lead to receipt of revenue after the payment deadline of the financing provided for the project has passed.

Financing risk. The Group operates in a capital-intensive industry and therefore relies on external financing. Existing financing arrangements may limit further borrowing and hinder growth.

Interest rate risk. Most of the Group's loans have variable interest rates, particularly those based on EURIBOR. The base rates may rise at any time from the current historically low levels, which would lead to a rise in the Group's financing costs. The Group does not use derivatives to hedge interest rate risk.

Risks associated with financing agreements. Financial contracts entered into by the Group contain terms, conditions, restrictions and liabilities specific

The group may be liable for pollution even if it did not contribute to it. In addition, claims related to environmental problems may reduce demand for the Group's projects.

Changes in law and policy. The Group is guided by the laws governing planning, licensing, permits and construction processes. These laws are complex and may change quickly due to the relatively short history of the legal system.

Tax regulations. Like other laws, also tax regulations (and their interpretations) often change in the Group's target markets, and can be affected by short-term political needs.

to such contracts, including cross-liability provisions. Failure by the Group to comply with the terms of one of the financing agreements may have a knock-on effect on all of the Group's financial liabilities.

Credit risk. Although the Group does not normally sell real estate on credit, in rare cases the Group may be exposed to customer credit risk until full payment of the amounts due. These risks are difficult to assess.

Currency risk. A portion of the Group's revenues are in Bulgarian lev-s, while the reporting currency (and the currency of the loans) is euro. As the exchange rate of the lev is pegged to the euro, there is only a theoretical risk.

Tax risks associated with intra-group transactions. Group companies trade with each other, which is normally associated with tax risks, e.g. because of transfer pricing issues. While care is taken to ensure compliance, there is always a degree of subjectivity, which may lead to the risk of an unfavourable tax ruling.

Main risks inherent to shares

Cancellation of the offer. The Group will make every effort to ensure that the offer is successful, but cannot guarantee the success of the offer nor that investors will receive the shares subscribed by them. In addition, the Group has the right to cancel the offer even if it is successful.

Share price and limited liquidity of shares. Although the every effort is made to ensure that the Group's shares will be accepted for trading on Nasdaq Tallinn stock exchange, the Group cannot guarantee this. In addition, the Estonian market has limited liquidity and shareholders may not be able to sell their shares at the desired price or to sell them at all.

Dissolution of the shareholding. If the Group's share capital is increased in the future and new Group's shares are issued, the holding of each shareholder in the Group may be diluted. New capital increases are likely, particularly due to the capital-intensive nature of the Group's business.

Tax risks. The negative changes in the tax regime applicable to transactions with the shares or the receipt of dividend may increase the tax burden on shareholders and thus have an adverse impact on the return on the investment in the Group's shares.

Lack of appropriate market analysis. Lack of certainty that the Group will be subject to a consistent appropriate market analysis (or any at all). Negative or incomplete third party analyses will likely have a negative impact on the market price and liquidity of the Group's shares.

The Estonian taxation

This chapter provides an overview of the taxation system applicable to Arco Vara and its shareholders, including the taxation of dividends and capital gains, applicable to paid dividends and issued shares. The summary presented below is not in any way exhaustive and not intended as professional advice to anyone.

Corporate income tax

The corporate income taxation system currently applicable in Estonia differs from the ordinary corporate income taxation model by taking the point of income taxation of companies from the moment of income being earned to the moment of income being distributed. Income tax is therefore charged in Estonia only on distributed profits, while reinvested profits are not taxed until their distribution.

Corporate income tax is charged on the distribution of profit, such as dividends, payments exceeding equity contributions upon the share capital being reduced or own shares being bought back, as well as indirect profit distributions, such as fringe benefits, gifts, donations and entertainment expenses, and costs and payments not related to the business activities of the company. All the aforementioned profit distributions are subject to income tax at the rate of 20/80 (25% of the net amount of the profit distribution), i.e., 20% of the gross amount of the distribution. The aforementioned corporate income tax on distributed profit is payable only at the company level, whereas the company itself is responsible for the calculation, declaration and payment of the relevant corporate income tax.

The corporate income tax imposed on distributed profit is not a withheld tax in the meaning of international conventions for avoidance of double taxation, but an income tax payable on operating profit. The corporate income tax is therefore not subject to the rules of withheld income tax established for dividends in fiscal treaties.

An exemption applies to regular dividends and other profit distributions which are subject to a corporate income tax rate of 14/86 or 14% of the gross amount of the profit distribution. A regular profit distribution or a regular part of a profit distribution is one that is equal to the average amount of the taxed profit distribution made in the preceding three years. If regular profit distributions are made to a legal person, no additional income tax is withheld on such profit distributions in Estonia. However, if regular profit distributions are made to a natural person (both residents and nonresidents), additional income tax of 7% is withheld on it (which may be reduced by an applicable fiscal treaty).

Payments made in the course of reducing the share capital or re-buying shares are taxable at the company level only when such payments exceed the monetary and non-monetary contributions previously made in the company by shareholders. For a non-resident shareholder, payments from equity capital are subject to income tax in the part that exceeds the acquisition cost, but fiscal treaties usually restrict such taxation and allow Estonia to only apply the tax in situations where the company making payments from equity capital is an Estonian real estate company.

Taxation of dividends

As a rule, dividend payments made by Estonian resident companies are exempt from income tax at the level of the recipient of the dividend payments in Estonia, regardless of the legal status of the recipient (legal person or private person) and their place of residence or location. Income tax is therefore generally not withheld on dividends, as all the payments made as dividends are taxed at the level of the company with corporate income tax as described above. Non-resident shareholders who receive dividends from a company may have the obligation to pay income tax on the received dividends pursuant to the laws of their country of location.

As an exception, shareholders who are natural persons have the obligation to pay income tax upon receiving regular dividends and other taxable profit distributions. The tax rate is then 7% and can be reduced by an applicable fiscal treaty at the level of the non-resident shareholder. This is a withheld income tax and therefore the company that distributes the dividends is obligated to withhold, declare and pay the tax to the state.

The above also applied in a situation where regular dividends are paid on via different companies and the last link receiving the dividends is a natural person. On-paid dividends are generally exempt from income tax. Above all, income tax is not charged on dividend payment, if the underlying revenue comes from dividends which an Estonian resident company has received from a company that is a resident taxpayer in an EEA country or in Switzerland (except off-shore), provided that the Estonian company held at least 10% of the votes or shares in the subsidiary as at the moment of receiving the dividends.

Gains from the sale or exchange of shares

The gains received by Estonian tax residents who are natural persons upon selling or exchanging shares is subject to taxation with income tax at the rate of 20%. As all of the revenue of resident legal persons, including capital gains, are taxed only upon distribution, the capital gains earned by resident legal persons are not taxed at the time of being earned, but only upon distributing profit from it. Upon receiving gains from the transfer of assets, tax is charged on the difference between the sales price and the acquisition cost of shares, less documented costs related to the sales of the shares.

Gains from an exchange of shares is the difference between the market price of the received assets and the acquisition cost of the exchanged shares, whereas documented costs directly related to the sales or exchange of the shares can be deducted from the gains of shareholders.

Estonian resident private persons and non-residents have to pay income tax (at the rate of 20%) on gains received from the receipt of payments or liquidation revenue in the course of the share capital being reduced or shares being re-bought. The taxable gains are calculated as the difference between the received payment and the respective holding (which has been reduced, redeemed or liquidated), while the part of the gains that has already been taxed at the level of the company is exempt from taxation. In the case of nonresidents, a fiscal treaty may restrict the aforementioned taxation only in the case of payments made by an Estonian real estate company.

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