

AS Pro Kapital Grupp

CONSOLIDATED ANNUAL REPORT 2013

PROKAPITAL



AS PRO KAPITAL GRUPP

CONSOLIDATED ANNUAL REPORT 2013

Beginning of the financial year	1 January 2013
End of the financial year	31 December 2013
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Fields of business activity	Activities of holding companies Purchase and sales of real estate Rent and operation of real estate Management of real estate Hotel operations
Auditor	AS Deloitte Audit Eesti

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Corporate Profile

AS Pro Kapital Grupp in brief

Established in 1994, AS Pro Kapital Grupp (the Company) is a leading Estonian real estate company with a focus on development, management and sale of modern large-scale retail and residential real estate in the capitals of Estonia, Latvia and Lithuania. The Company also owns and manages three hotels in Tallinn, Riga and Bad Kreuznach, Germany.

Since its establishment in 1994, Pro Kapital has completed 20 development projects with ca 180 000 square meters of total saleable area. The Company has been one of the first players on the Baltic markets and its projects have been milestones in the Baltic real estate market.

Pro Kapital's operating strategy is to develop prime residential and retail real estate in all three Baltic capitals. The Company adds value through the entire life cycle of the development process, taking a long-term approach. Pro Kapital follows a conservative policy in financing the projects – a high proportion of equity and low leverage compared to the industry average enables the Company to develop the most profitable sales and decrease the effect of real estate market fluctuations

Pro Kapital is managed by an experienced team of real estate professionals with more than 15 years of Baltic real estate development experience.

AS Pro Kapital Grupp is listed on the secondary list of Tallinn Stock Exchange since 23 November 2012.

On March 13, 2014, the shares of the Company started trading on Quotation Board of Frankfurt Stock Exchange (Frankfurter Wertpapierbörse).

Vision

Our vision is to be leading developer of prime quality residential and retail real estate in the capital cities of the Baltic States. Using our top expertise proven through the list of completed projects, we strive to offer our customers the highest quality products with the unique land bank locations in Tallinn, Riga and Vilnius and value added throughout the whole product development cycle.

Mission

Our mission is to develop, manage and sell prime residential and retail real estate in the capital cities of the Baltic States and create the best opportunities for improving living conditions for households and creating quality environment for successful development and growth of retail operators in the markets.

Statement of the Chairman of the Management Board

In 2013, the Company continued preparations for major construction works of of Tondi Residential Quarter, Peterburi road Shopping Centre, both in Tallinn, and Saltiniu Namai residential project in Vilnius. The Company continued its notation on Tallinn's Stock Exchange secondary list and shortly after the end of 2013, in March 2014 the Company listed its shares on the Quotation Board of Frankfurt Stock Exchange (Frankfurt Wertpapierbörse).

The general market situation in Baltic capitals continued moderate recovery throughout the year maintaining somewhat sluggish but stable upward trend that creates a solid base of request for the new products both in residential and retail segment. In Tallinn residential real estate prices have increased over 50% from their low point in 2009, while prices in Riga and Vilnius continue to recover, though at a slower pace. This still leaves all three markets a long way off their peaks and gives positive price growth outlooks for the Company's residential markets.

AS Pro Kapital Grupp is now at the start of another investment cycle. The Company makes major focus on development of Tondi Residential Quarter, Peterburi road Shopping Centre, both in Tallinn, and Saltiniu Namai in Vilnius. In 2013, the Company had very strong presale rates for Tondi Residential Quarter and Vilnius' Saltiniu Namai residential properties. The Company had found co-investors for its Tondi Residential Quarter and signed non binding agreement with investor to Peterburi road Shopping Centre project. In 2014, the Company will focus on construction works of new development projects.

In 2013, due to the intensive preparation of new developmental projects and lack of stock available for sale the Company made 2,6 mln loss, which was in line with Company's expectations.

Development projects

During 2013 the Company worked intensively on 4 development projects: Peterburi road shopping centre in Tallinn, first part of second stage in Tondi Quarter in Tallinn, Tallinnas Residential Complex in Riga and new residential building in Saltiniu Namai complex in Vilnius.

For Peterburi road shopping centre the Company proceeded actively with the negotiations for the lease of the shopping centre premises, concluding among others the agreements with operators for Cinema and Entertainment centre area. Presale activities were started in Tondi residential quarter in Tallinn and for a new residential building in Saltiniu Namai complex in Vilnius. For the latter the Company signed in December the construction agreement with UAB Merko Statyba in Vilnius, and on February 26, 2014 with AS Nordecon for construction of Tondi Residential Quarter.

The Company continued with preparation works for obtaining building license in Tallinnas Residential Complex and for obtaining the detail planning of Kliversala residential development project, both located in Riga. In Tallinn the works for obtaining the detail planning of Kalaranna residential development project were continued.

Sales and stock

Estonia

In Estonia, real estate market kept stable moderately upward trend in 2013, with both price levels, average transaction amount and transaction volumes increasing at a steady pace. The Company's sellable inventory base has decreased, however, and it continued to sell its last available inventories in Tondi and Ilmarise quarters. Real estate and rent segments in Estonia have entered to a developmental part of the business circle, main focus and efforts being put to new developments in Tondi Quarter. The Company has signed non-binding agreement with financial investor for development of Peterburi road shopping centre. The Company has succeeded in attracting co-investors in new stage of Tondi Quarter and Peterburi road shopping centre developmental projects.

During the year, 12 apartments, 2 storage rooms, 18 parking places and 2 business premises were sold, producing total revenue of 1 573 thousands of euros. The remaining sellable stock by the end of 2013 consisted in total of 11 apartments, 4 office premises, 58 parking spaces and several storage rooms.

Hotel segment continued its positive performance, and while overall revenue decreased by 4% as compared to 2012, gross operating margin grew by 3% during 2013. The occupancy rate of the hotel has been 66% in 2013 (2012: 71%), which is well above market average. Tallinn's hotel has produced

1 395 thousands of euros revenue. In 2014, moderate revenue growth is expected with continuing focus on operating margins.

Maintenance segment in Tallinn is focusing on maintenance of residential properties and has earned 1 161 thousand euros revenue in 2013.

Latvia

In Latvia, the Company is out of sellable real estate stock and has been focusing on office rent segment as well as development of Tallinna residential quarter project. During 2013, 5 apartments and 3 parking lots were sold, producing revenue of 500 thousand euros, and as of 31 December 2013 no apartments are left in stock for sale.

Rental revenue of Latvian companies amounted to 936 thousand euros in 2013. The preliminary sales agreement for Latvian subsidiary LLC Pasaules Tirdzniecības centrs has been signed on 12 December, 2013, according to which LLC Pasaules Tirdzniecības centrs is to be sold on 1 January, 2014. Sales price is subject to number of conditions specified in the sales agreement.

The ownership of Latvian subsidiary LLC Prokurs has been transferred from LLC Pasaules Tirdzniecības centrs to JSC Pro Kapital Latvia.

PK Hotel Riga continued its stable performance and accounts for 50% of overall Latvian segment revenue. The occupancy rate of the hotel remained 78 % in 2013, which is the same as last year (2012: 78%). Revenue from Riga's hotel amounted to 1 555 thousand euros in 2013 and gross operating margin increased by 21% as compared to year 2012.

Lithuania

In Lithuania the Company is continuing with the sales of Saltiniu Namai residential complex. The Company has very successfully started with presales for new residential building of Saltiniu Namai residential complex. At the end of 2013 construction agreement with UAB Merko Statyba and financing agreement with Swedbank were signed and construction works started in the beginning of 2014. The remaining sellable stock by the end of 2013 consisted in total of 17 apartments, 15 business premises, 8 cottages, 96 parking lots and 13 storage rooms.

During 2013 there were 6 apartments, 2 business premises, 1 cottage and 7 parking spaces sold, producing revenue of 1 938 thousand euros.

Germany

Bad Kreuznach based PK Park Hotel Kurhaus is undergoing restructuring of business processes in order to improve its overall operative performance. The occupancy rate of the hotel has been 49% in 2013 (2012: 53%). The revenue from hotel's activities in 2013 constituted 2 847 thousand euros, however gross margin has declined by 231 thousand euros due to predominantly fixed nature of costs and renovations made.

The first quarter of 2014 showed positive trend of increasing bookings and sales revenues and year 2014 is expected to bring improvements in Bad Kreuznach based PK Park Hotel Kurhaus results.

Our current focus is on starting of new development projects provided the positive market sentiment. We do not expect significant increase in real estate sales activities in 2014 due to continuing lack for stock for sale. Rental activities will experience a planned drop due to sale of Latvian subsidiary LLC Pasaules Tirdzniecības centrs, but it will also enable the Company to strengthen its focus on its main activity as real estate developer. New development projects will start producing sales and rental revenue in years 2015-2016. Hotel segment will focus on moderate increase on revenues and special focus on effectiveness and enhancing profitability. Maintenance segment will focus on increase in service standards and effectiveness in serving its customers.

Paolo Michelozzi

CEO

AS Pro Kapital Grupp

10 April 2014

Management Report

Main Events and Key Figures in 2013

- Agreements were concluded among others with operators for Cinema and Entertainment centre areas in the entertainment complex of the St. Peterburg street shopping centre.
- A settlement agreement was reached on March 18, 2013 in the dispute with Dutch company Aprisco B.V.
- Sari Aitokallio, member of Pro Kapital Grupp Council, resigned from duty as of March 31, 2013 based on her application due to time constraints and a possible conflict of interest in the future.
- Presales were started for new residential development in Tondi Quarter, Tallinn.
- The duration of loan agreements of Pro Kapital Eesti AS and AS Tondi Kvartal with Swedbank have been prolonged.
- Maturity of PKG1 convertible bonds in the total amount of 3 261 460 euros was prolonged by two years. New redemption date is August 13, 2015.
- Shortly after reporting period maturity of PKG 2 convertible bonds in the total amount of 1 070 451 euros was prolonged by two years. New redemption date is January 20, 2016.
- On April 5, 2013 shareholders meeting decided to conditionally increase the share capital of the Company by issuing up to 1 400 000 new shares. The offering of new shares of AS Pro Kapital Grupp took place from April 26, 2013 until May 10, 2013, during of which in total 921 153 shares were subscribed for gross proceeds of 1 658 075 euros. As a result, the share capital of Pro Kapital starting from May 15, 2013 is 10 821 315 euros.
- General meeting of shareholders, held on June 19, 2013, decided to appoint Ernesto Achille Preatoni as a member of the Council starting from July 5, 2013. Term in office of Emanuele Bozzone was prolonged and Pertti Huuskonen and Petri Olkinuora continue their service as PKG Council members. Since July 5, 2013 council members Renato Bullani and Giuseppe Prevosti term in office expired. The general meeting appointed AS Deloitte Audit Eesti the Company's auditor for the year 2013.
- On August 1, 2013 the Company issued 64 new unsecured non-convertible bonds with face value of 10 000 EUR each. Total amount of the bonds issued was 640 000 EUR, their duration is 5 years and they carry 5 % annual interest.
- On November 7, 2013 the Company issued 100 new unsecured non-convertible bonds with face value of 10 000 EUR. Total amount of the bonds emitted was 1 000 000 EUR, the bonds are unsecured, have duration of 3 years and annual interest of 5%.
- The agreement for development of roads and infrastructure of Tallinn's Kalaranna landplot was signed with Tallinn City Planning Office as a part of Kalaranna detailed planning process.
- Minority stake of 100 shares, or 0,00039% ownership share was purchased in AS Täismaja, subsidiary of AS Pro Kapital Eesti, on October 3, 2013, thus increasing AS Pro Kapital Eesti ownership in the subsidiary up to 100% with the aim to carry out the merger of AS Täismaja and AS Pro Kapital Eesti in 2014. On January 30, 2014, after the reporting period the subsidiaries of the Group AS Pro Kapital Eesti and AS Täismaja (former business name AS Kristiine Kaubanduskeskus) were merged with the purpose of simplifying the group structure. The last balance sheet date for AS Täismaja was January 1, 2014.
- On November 19, 2013 the Supervisory Council of the Group approved the liquidation of two companies registered in Latvian Republic, which belong to the concern of the Group, namely PK Latvia LLC and Prokurs LLC, due to the fact that both companies had in course of day to day economic activity sold all its premises and had no any other active economic activity.
- On December 5, 2013 the construction agreement was signed between PK Invest UAB, subsidiary of the Group, and UAB Merko Statyba for the construction of new residential building in Saltiniu Namai complex. The financing agreement with Swedbank for the same project was signed on November 28, 2013.
- On December 12, 2013 JSC Pro Kapital Latvia belonging 100% to the Group signed the agreement for selling its subsidiary company LLC Pasaules Tirdzniecibas centrs „Riga” (WTC

Riga). WTC Riga operated as management company for maintenance and administration of state owned WTC office building in Riga and the sale was motivated by the Group's strategy to focus on development of its own real estate projects.

- On January 30, 2014, after the reporting period the subsidiary company of the Group AS Tondi Kvartal concluded the contract for establishing a new company OÜ Marsi Elu with the aim to develop first phase of the second stage of Tondi residential complex in Tallinn and to create a legal platform for possible participation of co-investor in the project. On March 13, 2014 the minority shareholding equal to 35% of OÜ Marsi Elu was sold to a financial investor Combrimat Limited. The investor has to fulfill its obligations prior to transfer of the ownership of the shares.
- On February 5, 2014 the construction works of a new residential building were started in Vilnius, Saltiniu Namai residential complex by UAB Merko Statyba.
- On February 26, 2014 the Group company OÜ Marsi Elu and Nordecon AS concluded a contract for construction of residential apartment building to be located in Tondi Residential Quarter, Tallinn, with the price of the construction works of the first construction phase approximately three million euros.
- As of March 13, 2014 the Group shares are traded on the Quotation Board of Frankfurt Stock Exchange, part of the Open Market segment at Frankfurter Wertpapierbörse (the Frankfurt Stock Exchange). This enables investors around Europe to trade with AS Pro Kapital Grupp shares using the Xetra trading system which is one of the world's fastest and most efficient trading systems.
- On March 14, 2014 the extraordinary meeting of shareholders approved the main terms and conditions of issuance of the new shares of AS Pro Kapital Eesti's subsidiary AS Tallinna Moekombinaat in amount of 18 300 000 shares to be subscribed by a company Summer Solstice Limited. The purpose for attracting co-investor is development of Peterburi road 2 property in Tallinn into one of the leading shopping centres in Tallinn.

Financial Indicators, in thousands of euros

Consolidated Statement of Income

	2013	2012	Change
Revenue	12 287	16 078	-23.6%
Gross profit	3 088	3 328	-7.2%
EBITDA	465	-4 084	111.4%
Operating result	-1 695	-4 903	65.4%
Net result	-2 578	-6 179	58.3%
Net result for shareholders	-2 600	-6 182	57.9%
EBITDA margin	3.8%	-25.4%	
Operating margin	-13.8%	-30.5%	
Net margin	-21.0%	-38.4%	
Net margin to shareholders	-21.2%	-38.4%	
Earnings per share (EPS)	-0.05	-0.12	58.3%

Consolidated Statement of Financial Position

	31.12.2013	31.12.2012	Change
Total Assets	98 294	100 262	-2.0%
Current Assets	51 084	52 096	-1.9%
Non-Current Assets	47 210	48 166	-2.0%
Total Liabilities	33 599	34 514	-2.7%
Current Liabilities	14 600	16 786	-13.0%
Non-Current Liabilities	18 999	17 728	7.2%
Equity	64 695	65 748	-1.6%

Financial Ratios

Equity ratio	65.8%	65.6%
Debt to equity ratio	44.5%	41.7%
Net debt to capital	28.6%	28.9%
Debt to EBITDA ratio	61.9	-6.7
Current Ratio	3.5	3.1
Return to assets	-2.6%	-6.2%
Return to equity	-4.0%	-9.4%

Formulas used for calculating financial ratios

EBITDA margin, %	EBITDA / revenue*100
Operating margin, %	Operating result / revenue*100
Net margin, %	Net margin / revenue*100
Net margin to shareholders, %	Net result for shareholders / revenue * 100
Earnings per share	Net result/ average number of shares
Equity ratio, %	Equity / total assets * 100
Debt to equity ratio, %	Interest bearing liabilities / equity * 100
Net debt to capital, %	(Interest bearing liabilities - cash and cash equivalents) / (interest bearing liabilities - cash and cash equivalents + equity) * 100
Debt to EBITDA ratio	Interest bearing liabilities / EBITDA
Current ratio	Current assets / current liabilities
Return on assets, %	Net result / average total assets * 100
Return on equity, %	Net result for shareholders / average equity * 100

Financial performance

AS Pro Kapital Grupp ended year 2013 with gross profit of 3 088 thousand euros (2012: 3 328 thousand euros). Gross profit margin, however, increased to 25,1% (2012: 21,7%). The annual gross profit figure was strongly influenced by the increased margins of real estate properties sold and, to some extent, higher gross margin of rental segment.

Operating costs in 2013 constituted 4 783 thousand euros (2012: 8 231 thousand euros). The decrease of 3 158 thousand euros was due to the fact that operating costs for 2012 contained 1.1 mln euros worth IPO related costs, provision for legal costs in amount of 0.7 mln euros (Aprisco B.V. legal case, see also Note 30) and adjustments to fair value of investment properties were lower by 0.9 mln euros in 2013. Recurring operating costs decreased by 5% as a result of review of business processes and increased focus on cost effectiveness.

On March 2013 the legal dispute with Aprisco B.V. has been settled off court and the Company paid 1 000 thousand euros settlement fee, which will result in reversion of provision and financial income of 409 thousand euros in the first quarter of 2013.

In 2013, the Company acquired 0,00039% minority ownership in its Estonian subsidiary AS Täismaja, thus increasing its ownership to 100%.

Consolidated statement of cash flows

	2013	2012	Change
Cash flows from operating activities	-258	2 405	-110,7%
Cash flows from investing activities	-4	-1 051	99,6%
Cash flows from financing activities	2 314	-9 284	124,9%
Net change in cash and cash equivalents	2 052	-7 930	125,9%

In 2013, the Company's net cash inflow was 2 052 thousand euros (2012: net outflow of 7 930 thousand euros). Cash flow from operations was negative of 258 thousand euros (2012: positive of 2 406 thousand euros), which resulted from decrease in operating revenue.

Investing activities in 2013 have been minimal, major investments of 302 thousand euros were made into development of investment property, Peterburi road shopping centre in Tallinn. Acquisitions of property plant and equipment made up modest amount of 47 thousand euros. The Company sold business premises recorded under investment property and property, plant and equipment for the net proceeds of 318 thousand euros.

Financing activities in 2013 were in line with the planned schedule. The Company refinanced its bank loans in the amount of 8,2 mln euros, effectively prolonging the duration of the loans so that the repayments match its projected revenue flow in next coming years. The Company obtained additional bank financing in the amount of 2.9 mln EUR and as of the end of the year had unused bank loan limit in the amount of 1.1 mln euros. Main cash outflows were repayment of bank loans in the amount of 2.8 mln euros and interest payments for bonds and bank loans of 1.2 mln EUR.

In 2013 the Company issued 0.64 mln euros of non- convertible bonds with duration of 5 years and effective annual interest rate of 5% and 1.0 mln euros of non- convertible bonds with duration of 3 years and effective annual interest rate of 5%.

On May 15, 2013 the Company issued 921 153 new shares with the nominal value of 0.2 euro/share and purchase price of 1.8 euro/share, thus increasing its share capital by 184 231 euros and 1 473 845 euros to share premium. New share capital of the Company amounts to 10 821 315 euros.

Financing sources and policies

Pro Kapital Group pursues conservative financing policy, targeting for high ratio of equity in its projects, as compared to the industry standards. Company's goal is to use external financing in a manner to avoid interest and loan covenant related risk during low economic periods and to have sufficient additional external financing capacity in case attractive business opportunities occur. The Company seeks to maintain such long term debt levels that are in reasonable proportion to growth in operations and which preserve Company's credit standing.

The Company pays special attention to monitoring the level of its working capital and liquidity level.

During 2013 the Company has repaid 2.8 million euros of its bank loans, has raised additional 2.9 million euros of bank loans and refinanced 8.2 million euros of bank loans, thus shifting their repayment schedule to better match the projected cash flows of the Company.

Bank loans are predominantly of middle-term duration, maturing within one to three years. Repayment schedule is of mixed nature, consisting of mainly fixed payments and to some extent floating payments in dependence on sales volumes.

The Company has issued 1.64 million euros of non- convertible non-secured bonds. The duration of 1.0 million euros non-convertible non-secured bonds is 3 years and the annual interest rate is 5%. The duration of 0.64 million euros of non-convertible non-secured bonds is 5 years and the annual interest rate is 5%.

The Company has 1.87 million euros of bank loans to be repaid in 2014. 10.23 million euros of bank loans are repayable in 2015. The latter repayment schedule is of mixed nature, with predominantly fixed payments, but also partially floating dependent on sales volumes.

As at 31 December 2013 the Company had 11.27 million euros convertible bonds (current portion: 6.11 million euros; long term portion: 5.16 million euros) and 1.64 million of non-convertible non-secured bonds (all long term maturity).

Strategy and objectives for 2014

In line with the strategy set in 2011, Pro Kapital Grupp in the coming years will focus on its target market in the capitals of Baltic States and development of its existing property portfolio. Real estate markets in the Baltic States are now at stable increasing pace and thus the timing of the development of existing land plots becomes crucial together with the creation of product meeting the target market expectations.

The main areas of focus are prime residential and retail property segments in the capital cities of the Baltic States: Tallinn, Riga and Vilnius. Given its long-term view to the development of the target markets, the Company shall monitor and evaluate as well the options to widen and strengthen its property portfolio.

The Company will keep its traditionally conservative lending policy, therefore exposing its shareholders with significantly lower market risk than other real estate companies on the market. For development of new projects the Company will seek to attain attractive mix of financing through combining acceptable level of borrowings from financial institutions, expanding its investor base and attracting additional private equity.

Pro Kapital Grupp's main objectives for 2014:

- Focus on finalizing the preparations for enabling the start of the new development projects provided the positive market sentiment
- Maintaining conservative external debt levels
- Attraction of additional private equity and expansion of investor base.

Segments

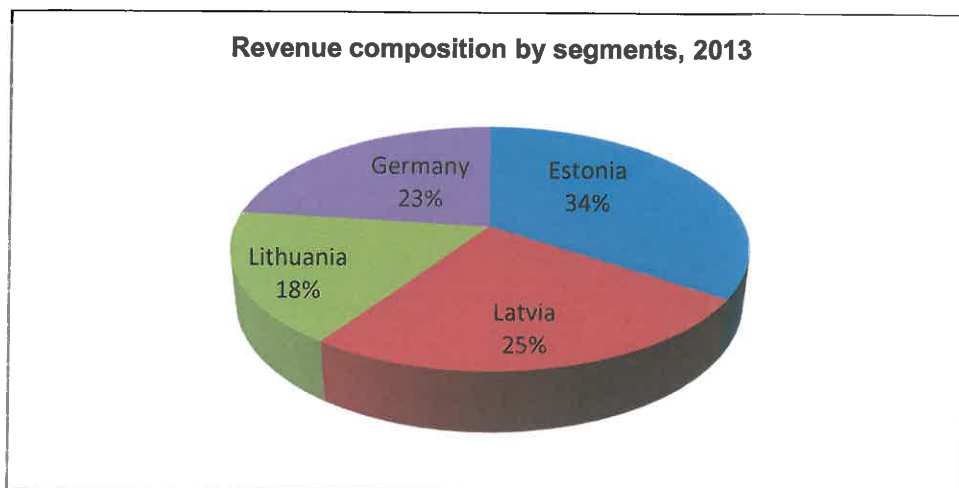
The Company's operations are spread across four geographical segments: Estonia, Latvia, Lithuania and Germany.

Key financial data of the segments, in thousands of euros

	Revenue			Operating result			Net result*		
	2013	2012	Change	2013	2012	Change	2013	2012	Change
Estonia	4 200	3 561	17.9%	-1 454	-4 665	68.8%	-2 392	-5 209	54.1%
Latvia	3 100	2 650	17.0%	-229	-999	77.1%	-269	-1 085	75.2%
Lithuania	2 140	6 546	-67.3%	106	786	-86.5%	-13	228	-105.7%
Germany	2 847	3 321	-14.3%	-118	-25	-372.0%	-120	-90	-33.3%

	Operating margin		Net margin	
	2013	2012	2013	2012
Estonia	-34.6%	-131.0%	-57.0%	-146.3%
Latvia	-7.4%	-37.7%	-8.7%	-40.9%
Lithuania	5.0%	12.0%	-0.6%	3.5%
Germany	-4.1%	-0.8%	-4.2%	-2.7%

* Net result includes non-controlling interests

Revenue- by geographical segments, %**Estonia**

The Company's operations in Estonia mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of premises in retail and office properties, and management of cash flow generating retail, office and hotel property.

The share of the Estonian segment as a percentage of total revenues of the Company during the reporting period amounted 34.2% compared to 22.1% of the comparable period last year.

Revenue from Estonia, in thousands of euros

	2013	2012	Change
Real Estate	1 573	823	91.1%
Rent	71	79	-10.1%
Hotels	1 395	1 448	-3.7%
Other	1 161	1 211	-4.1%

Revenues in real estate segment grew by 91.1% as in 2013 the Company sold out business premises in Ilmarise Quarter and Narva road 13 A centre in Tallinn. In 2013, in addition to sales of residential property, presales for new stage of Tondi Residential Quarter started. During 2013, 12 apartments, 2 storage rooms, 18 parking spaces and 2 business premises were sold and stock consisting of 11 apartments, 4 business premises, 58 parking spaces and some storage rooms was yet available for sale in Tallinn as at December 31, 2013.

Revenue in rent segment dropped by 10.1%, as the company was selling its last outstanding rental properties. Currently Company's rental activities are only occasional, renting out the stock available for sale.

Hotel business line showed slight 3,7% increase in revenues, but significantly higher gross profit margin as a result of continuous focus on effectiveness of operations. The occupancy rate for 2013 was 66,2%.

Other revenues of consisted mainly of maintenance services provided. The drop of 4,1% in the revenues resulted from decrease of non- recurring otherincome. The revenue of maintenance services has increased by modest 2,6%.

On October 3, 2013 the Company purchased 100 shares, or 0,00039% ownership of its Estonian subsidiary AS Täismaja, thus acquiring full ownership of the latter subsidiary. On January 30, 2014, AS Täismaja was merged with its mother company AS Pro Kapital Eesti.

New subsidiary of Estonian group OÜ Marsi Elu was established on January 31, 2014. The business area of the new subsidiary is real-estate development and the planned business activity is the development of the first phase of the second stage of Tondi residential area located in Tallinn. On

March 20, 2014 35% of OÜ Marsi Elu shares were sold to financial investor COMBRIMAT Limited. The investor has to fulfill its obligations prior to transfer of the ownership of the shares.

On March 14, 2014 the extraordinary meeting of shareholders approved the terms and conditions of issuance of new shares of AS Pro Kapital Eesti's subsidiary AS Tallinna Moekombinaat in amount of 18 300 000 shares to be subscribed by a company Summer Solstice Limited

On March 24, 2014 new subsidiary of Estonian group OÜ Vene 19 was established. The business area of the new subsidiary of AS Pro Kapital Eesti is maintenance and rent of own real-estate and the planned business activity is management of commercial premises located at Vene Street in Tallinn.

Latvia

The Company's operations in Latvia mainly consist of the development and sales of apartments in premium residential real estate properties, development and lease of office properties, and management of cash flow generating hotel property.

The share of the Latvian segment as a percentage of total revenues of the Company during the reporting period amounted 25.2% compared to 16.5% of the comparable period last year.

Revenue from Latvia, in thousands of euros

	2013	2012	Change
Real Estate	500	105	376.2%
Rent	936	870	7.6%
Hotels	1 555	1 567	-0.8%
Other	109	108	-0.9%

Real estate segment in Latvia is out of sellable stock. Last 5 apartments and 3 parking spaces were sold in 2013 and as at December 31, 2013, there are no residential properties left for sale.

In 2013 the Company continued rent of office premises in Elizabetes street 2 office building. Rental revenues increased by 7.6% in 2013. Latvian subsidiary LLC Pasaules Tirdzniecības centrs „Rīga” (WTC Riga), which dealt with office rentals, was sold on January 1, 2014.

Revenues of hotel business line decreased by 0.8% in 2013 due to smaller number of average rooms (the amount of available rooms has been decreased from 103 rooms to 88 rooms in year 2012). The operating margin, however, significantly increased in 2013 both as profitability margin and in absolute numbers. The occupancy ratio for the hotel has remained practically on the same level, 77.5% for 2013.

Maintenance business line makes a minor contribution to overall segment's revenue. The Company provides maintenance services to its tenants and therefore maintenance revenue is correlated to the rental area.

Liquidation process have been started for Latvian subsidiary PK Latvia, as the subsidiary is out of sellable stock and is effectively not continuing its operations.

Lithuania

The Company's operations in Lithuania mainly consist of the development and sales of apartments in premium residential real estate properties.

Revenue from Lithuania, in thousands of euros

	2013	2012	Change
Real Estate	1 938	6 419	-69.8%
Rent	104	72	44.4%
Other	98	55	78.2%

The share of the Lithuanian segment as a percentage of total revenues of the Company during the reporting period amounted 17.4% compared to 40.7% of the comparable period last year.

Real estate sales decreased by 69.8% in 2013 due to the bulk sale of 27 apartments and 13 parking spaces in the first quarter of 2012 to related party UAB Colosseum Real Estate Vilnius. In 2013, 6 apartments, 2 business premises, 7 parking spaces and 1 cottage were sold. As at 31 December 2013, there were still 17 flats, 8 cottages, 15 business premises, 13 storage rooms and 96 parking spaces in stock in Vilnius.

On February 2014, the Company started construction of the new stage of Vilnius Saltiniu Namai residential quarter and the results of presales activities for the new stage had been very positive, with the amount of presales prior to the start of construction being 74%.

The Company temporarily rents out some of the properties available for sale. In 2013, rental revenues increased by 44.4%, however, their share is still marginal in overall segment revenue structure.

The Company provides maintenance and other services to its sold and rented out apartments. In 2013, revenue from maintenance activities has grown by 78.2% and is expected to grow stably further on.

Germany

The Company's operations in Germany consist of the development and management of PK Parkhotel Kurhaus located in Bad Kreuznach, Germany.

Revenue from Germany, in thousands of euros

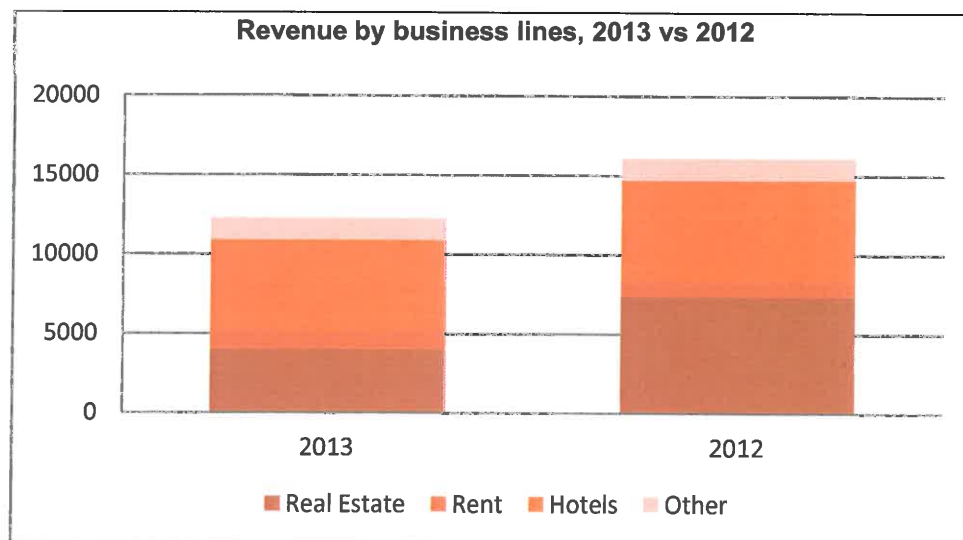
	2013	2012	Change
Hotels	2 847	3 321	-14.3%

The share of the German segment as a percentage of total revenues of the Company during the reporting period amounted 23.2% compared to 20.7% of the comparable period last year. The occupancy of PK Parkhotel Kurhaus hotel has dropped in 2013 and constituted 49.0% for the year.

In German segment, the Company is to focus on its cost structure and working out most effective solutions for serving its customers as well as looking for effective measures to increase its sales revenue.

Business lines

In addition to geographical segments, the Company also monitors its operations by business lines.



Revenue by business lines, in thousands of euros

	2013	2012	Change
Real Estate	4 011	7 347	-45.4%
Rent	1 111	1 021	8.8%
Hotels	5 797	6 336	-8.5%
Other	1 368	1 374	-0.4%

Revenue in real estate business line has decreased by 45.4%, which is natural development taking into account decreasing stock for sale base and single bulk sale carried out in 2012 in Lithuania in the amount of 4 535 thousand euros. Average price per m² sold in 2013 was 1 706 EUR/m² (2012: 2 102 EUR/m²). The drop in average price is due to the fact that more lower margin real estate properties, such as storage rooms, business premises etc., were sold in 2013. In 2013, 2 455 m² were sold (2012: 3 317 m²).

The Company is focusing on development of existing land plots, which, in its turn, will expand its sellable asset base. In 2014 the Company will actively continue with sales of current stock and presales of Tondi Residential Quarter in Tallinn and Saltiniu Namai Residential Complex in Vilnius.

Rental revenues increased by 8.8% in 2013, the main contributor for such increase being Latvian office rent segment. The company operating leasable office property for rent in Latvia was sold on January 1, 2014. In 2013, the Company was occasionally renting apartments from its sellable stock and performed office rent activities in Latvia. Rental segment is expected to grow significantly in 2016, when the Company plans to open and start managing Peterburi road shopping centre in Tallinn.

In 2013, the Company operated three hotels: PK Hotel Ilmarine hotel in Tallinn, PK Riga Hotel and PK Parkhotel Kurhaus in Bad Kreuznach, Germany. Revenues from hotel business line have decreased by 8.5% in 2013, and though revenues decreased in all three hotels, the main contributor for the drop was PK Parkhotel Kurhaus. Revenue decreased by 3.7% in Tallinn hotel and by 0.8% in Riga hotel in 2013 as compared to 2012. Bad Kreuznach hotel's revenue decreased by 14.3%, but it still contributed 48.7% of all revenue from hotel segment.

Occupancy rates, PK hotels, %

	2013	2012	Change
PK Ilmarine, Tallinn	66.2%	71.1%	-6.9%
PK Riga hotel	77.5%	78.3%	-1.0%
PK Parkhotel Kurhaus, Bad Kreuznach	49.0%	51.8%	-5.5%

Due to extensive cost focus carried out in 2012, drop in turnover was not accompanied by equivalent drop in profitability margins. In fact, despite lower turnover both PK Ilmarine Tallinn and PK Riga hotel had both significantly higher gross margins and absolute amount of gross margin in 2013. Overall gross margin for hotels was 38,2% (2012: 43,74%).

The Company is now focusing on inducing effective profitability and sales enhancement measures in Bad Kreuznach PK Parkhotel Kurhaus.

Maintenance business line is dependent on the rental spaces maintained by the Company. Space under maintenance as in 2013 grew slightly and reached 78 477 m² as at December 31, 2013 (31.12.2013: 77 426 m²). Overall profitability of maintenance services have also increased slightly.

Development projects

Project name	Type	Location	Ownership	Planned Volume	Classification
Peterburi road shopping centre	Retail	Tallinn	96%	GLA 55 000 m ²	Investment property
Ülemiste 5	Offices	Tallinn	100%	GLA 22 880 m ²	Investment property
Tondi Quarter	Residential	Tallinn	100%	NSA 83 462 m ² 71 280 m ² resid. 12 182 m ² comm.	Inventories
Kalaranna District	Residential	Tallinn	100%	NSA 33 013 m ² 27 600 m ² resid. 5 413 m ² comm.	Inventories
Tallinas Quarter	Residential	Riga	100%	NSA 18 845 m ² 17 650 m ² resid. 1 195 m ² comm	Inventories
Kliversala District	Residential	Riga	100%	NSA 49 920 m ² 31 650 m ² resid. 7 920 m ² comm 6 672 m ² hotel	Inventories
Zvaigznes Quarter	Residential	Riga	100%	NSA 17 949 m ² 11 277 m ² resid. 6 672 m ² comm	Inventories
Šaltinių Namai	Residential	Vilnius	100%	NSA 22 086 m ² 20 343 m ² resid. 2 713 m ² comm	Inventories

NSA – Net Sellable Area, GLA – Gross Leasable Area, resid.- residential, comm.- commercial

Status of the projects:

Peterburi road shopping centre
Ülemiste 5

Building licence obtained

Detail plan adopted. Project not started. New detail plan under consideration in collaboration with the city in connection with Rail Baltica terminal.

Tondi Quarter

Building license for the 2nd stage obtained, presale and construction works of the 1st building of the 2nd stage started

Kalaranna District

Detail plan approval in process

Tallinas Quarter

Projecting works in process in order to apply for the building licence. Sketch design approved by the city.

Kliversala District

New Master plan approved by the city. New Detail plan submitted.

Zvaigznes Quarter

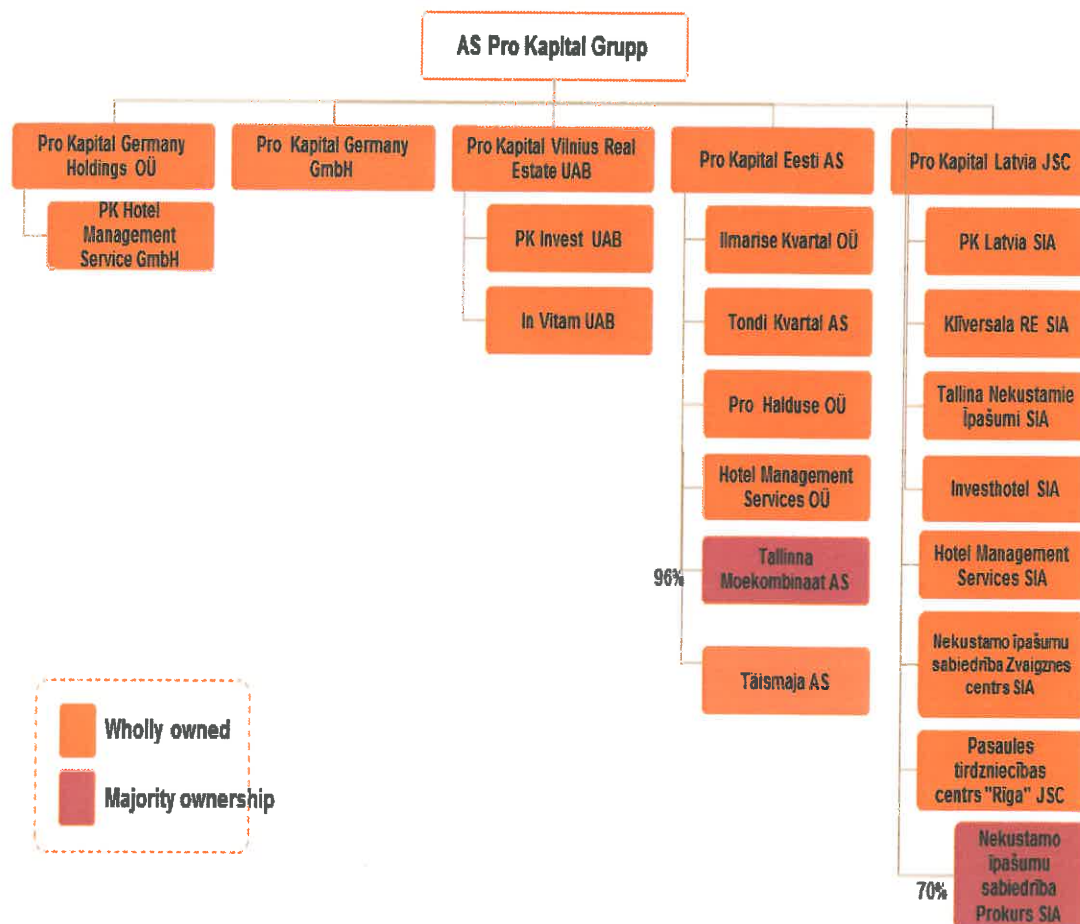
Building licence for reconstruction of the existing building issued

Šaltinių Namai

1st stage completed and available for sale with an exception of two more buildings that have received the building licence. Construction of one of the buildings has started. 2nd stage is being projected in order to apply for the building permit.

As at 31.12.2013

Group Structure



Shares and shareholders

As at December 31, 2013 AS Pro Kapital Grupp had total of 54 106 575 shares with the nominal value 0.2 euros. The registered share capital of the company is 10 821 315 euros. On May 15, 2013 921 153 new shares were issued and sold to investors for 1,8 euro/share, thus increasing share capital by 184 230,6 euros to 10 821 315 euros and allocating 1 473 844,8 euros to share premium.

As at December 31, 2013 there were 63 shareholders registered in the shareholders register. Many of the shareholders registered in the shareholders register are nominee companies, which represent many bigger and smaller non-resident investors.

Shareholders holding over 5% of the shares as of 31 December 2013:

		Number of shares	Participation in %
Shareholders			
1	Clearstream Banking Luxembourg S.A. Clients	12 105 443	22,37
2	Eurofiduciaria S.R.L.	7 303 977	13,50
3	Svalbork Invest OÜ	6 840 368	12,64
4	Sueno Latino AG	4 528 531	8,37
5	A.F.I. American Financial Investments Ltd.	4 376 204	8,09
6	Anndare Ltd.	3 289 468	6,08
7	UNICREDIT BANK AUSTRIA AG	2 987 801	5,52

Participation of Member of the Management Board and the Council Members as of 31.12.2013:

Name	Position	Number of shares	Participation in %	Number of converti- ble bonds
Paolo Vittorio Michelozzi	CEO	87 500	0,16%	0
Allan Remmelkoor	COO	0	0	0
Emanuele Bozzone	Chairman of the Council	0	0	22 224
Petri Olkinuora	Council Member	0	0	0
Pertti Huuskonen	Council Member	0	0	0
Ernesto Achilles Preatoni	Council Member	18 358 506*	33,93%	0

* In the above table the following Shares are considered as being controlled by Mr Preatoni because the Management Board believes that Mr Preatoni is able to control the use of voting rights by such persons: (a) OÜ Svalbork Invest, Estonian company controlled by Ms Evelyn Tihemets which holds 6 840 368 Shares representing 12,64% of the total shares of the Company, (b) Sueno Latino A.G., a Liechtenstein company controlled by Ms Evelyn Tihemets, which controls 4 528 531 Shares representing 8,37% of the total shares of the Company; (c) 2 507 508 Shares representing 4,63% of the total shares of the Company, which are held through a nominee account opened by Clearstream Banking Luxembourg and are held for the benefit of Ms Evelyn Tihemets; (d) 2 716 445 Shares representing 5,02% of the total shares of the Company held through a nominee account opened by Clearstream Banking Luxembourg for the benefit of Mr David Trausti Oddsson; (e) 612 872 Shares representing 1,13% of the total shares of the Company held by Katmandu Stiftung, a Liechtenstein company controlled by Mr Ernesto Preatoni; and (f) 1 152 782 Shares representing 2,13% of the total shares of the Company held by A.F.I. American Financial Investments Ltd, a Liechtenstein company for the benefit of Mr Ernesto Preatoni.

Earnings per share

Earnings per share for year 2013 were negative 0,05 euro/share (2012: -0,12 euro/share).

For the full year of 2013 the Company's shares were traded on the secondary list of Tallinn's stock exchange. The shares were trading at the price range of 2.09- 2.58 during the reporting period with the closing price of 2.24 euros/share on December 31, 2013. During the period, 537 thousands of the Company shares were traded, with their turnover amounting to 1.22 million euros.

The Company also monitors its net asset per share indicator. However, due to accounting policies used properties recorded under inventories are valued at cost, thus strongly understating assets recorded at the balance sheet. As of December 31, 2013 net assets per share using book values were 1,20 euros/share (31.12.2012: 1,24 euros/share). Net assets per share indicator used for internal purposes of the Company are adjusted by updating balance value of inventories to its fair value and as at December 31, 2013 were 2,43 euro/share (31.12.2012: 2,49 euro/share).

On 13 March 2014, the shares of the Company started trading on Quotation Board of Frankfurt Stock Exchange (Frankfurter Wertpapierbörse).

Trading price range and trading amounts of Pro Kapital Grupp shares, 1 January - 31 December 2013



Other events

Legal overview and developments

As of the end of the reporting period AS Pro Kapital Grupp and its subsidiaries had in total 4 pending court litigation disputes where the group company is either a plaintiff or the defendant. During the reporting period (year 2013) 3 litigation disputes were resolved and 2 new disputes were initiated.

On 13 March 2013 the Company signed the settlement with Aprisco B.V., according to which Pro Kapital Grupp paid out single settlement fee of 1,0 million euros and closed the court case. In 2012 the Company provisioned 1,4 mln euros for this court case. As a result of the settlement, on March legal provision was reversed, resulting in financial income of 409 thousand euros.

You can find more detailed information about the legal disputes in Note 31 of this report.

People

At the end of 2013 the Company employed 108 people compared to 127 at the end of 2012. 78 of them were engaged in hotel and property maintenance services (77 at the end of 2012). The total remuneration cost incurred during 2013 was 2,12 million euros compared to 2,26 million euros 2012.

Risks

Market risk and liquidity risk are of the most significant influence on the Company. While real estate market has demonstrated some significant fluctuations during last five years, due to its long- term orientation in business model the Company has successfully survived the turbulence. The Company is further pursuing long term strategic approach, enabling it to acquire properties for development when market is low and sell the developed properties at the peak of business circle, thus naturally capitalising on market opportunities and hedging market risk.

Liquidity risk is managed on ongoing basis, with increased focus on working capital dynamics and needs. Both careful roll-on basis cash planning, monitoring of development project cash flow and flexibility in everyday cash needs contribute to effective management of liquidity risk.

Asset risks are covered by effective insurance contracts.

Corporate Governance Recommendations Report

CORPORATE GOVERNANCE AND CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

Overview

Corporate governance constitutes a system of principles for the management of a Company. Such principles are regulated by law, the Articles of Association, the internal rules of a Company and since 01.01.2006, the companies listed on the NASDAQ OMX Tallinn Stock Exchange are recommended to follow the "Corporate Governance Recommendations" issued by the Financial Supervision Authority.

The principles described in these Corporate Governance Recommendations are recommended to be carried out by Issuers and each Issuer shall decide whether or not they will adopt these principles as a basis for organizing their management. Issuers shall describe, in accordance with the "Comply or Explain" principle, their management practices in a Corporate Governance Recommendations Report and confirm their compliance or not with the Corporate Governance Recommendations. If the Issuer does not comply with Corporate Governance Recommendations, it shall explain in the report the reasons for its non-compliance.

In general AS Pro Kapital Grupp (hereinafter referred to as AS Pro Kapital Grupp and/or the Company) complies with the Corporate Governance Recommendations except to some of them.

The Management Board gives the following overview of the management practices of AS Pro Kapital Grupp and confirms the compliance with the Corporate Governance Recommendations except to the extent of non-compliance as described and explained below.

I GENERAL MEETING OF SHAREHOLDERS

AS Pro Kapital Grupp is a public limited Company, the management bodies of which are the General Meeting of Shareholders, the Supervisory Council and the Management Board. The General Meeting of Shareholders is the highest directing body.

1.1. Exercise of shareholders rights

Every shareholder has right to participate in the general meeting, to speak in the general meeting on topics presented in the agenda, and to present reasoned questions and make proposals.

The exercise of shareholders' rights are ensured in a way that it is not hindered by unreasonable formalities or made inconvenient for shareholders in any other way.

The General Meeting is conducted at the location of the Company.

AS Pro Kapital Grupp enables shareholders to present questions on topics mentioned in the agenda including prior to the day of the General Meeting.

In the notice calling the General Meeting the AS Pro Kapital Grupp includes the e-mail address to which the shareholders can send questions.

Issuers shall guarantee a response to reasoned questions on the General Meeting during hearing of a corresponding subject or before the holding of the General Meeting giving shareholders enough time for examining the response. If possible, the Issuer shall give its responses to questions presented before holding the General Meeting and shall publish the question and response on its website.

During 2013 no questions were presented to the Company as to the topics of the agenda of the shareholders meetings.

AS Pro Kapital Grupp does not have a controlling shareholder as is defined in the Securities Market Act.

- 1.1.1. AS Pro Kapital Grupp Articles of Association do not allow to grant different types of shares with rights which would result in unequal treatment of shareholders in voting. There are one types of shares issued, giving all shareholders exactly same rights attached to the shares.
- 1.1.2. AS Pro Kapital Grupp facilitates the personal participation of shareholders at the General Meeting. When calling the shareholders meeting a notice period is given. A notice of at least 3 weeks is given for both general and extraordinary shareholders meetings. In the notice the exact place, date and time of the meeting are stated.

The representative of the AS Pro Kapital Grupp always participates in the General Meeting and is accessible to the shareholders during the holding of the General Meeting.

1.2. Calling of a General Meeting and information to be published

- 1.2.1. As per the recommendation the notice of calling the General Meeting should be sent to shareholders and/or published in daily national newspaper concurrently with making it available on the Issuer's website.

AS Pro Kapital Grupp is following the recommendation and is publishing the notice of calling the shareholders meeting in daily national newspaper and making it available on the AS Pro Kapital Grupp website and the notice is also published via the NASDAQ OMX Tallinn Stock Exchange.

Shareholders of AS Pro Kapital Grupp are notified of calling both an extraordinary shareholders meeting and general shareholders meeting immediately after the decision is made to call such meeting.

As per the recommendation the notice should indicate the reason for calling the meeting and who made the proposal to call it (e.g., Management Board, Supervisory Council, shareholders or auditor). Information concerning the meeting shall be immediately published on Issuer's website.

AS Pro Kapital Grupp is following the recommendation and is stating in the notice also a summarized reason for calling the shareholders meeting and the body who is calling the meeting. Information about the meeting is published on the website of the Company.

- 1.2.2. The Management Board and Supervisory Council are delivering all information available to them or essential information provided to them necessary for passing a resolution at the General Meeting to shareholders concurrently with the notice of calling the General Meeting.

As per the recommendation Issuers shall provide the reasons for calling the General Meeting and explanations for items included on the agenda, determining changes essential to shareholder (for instance changing the articles of association, issuance of additional shares or other securities associated with shares or extraordinary transactions the content of which is the sale of all or a majority of the assets or the Company or which are concluded with a person related to the Issuer).

AS Pro Kapital Grupp is following the recommendation and is stating in the notice also a summarized reason for calling the shareholders meeting. Materials related to the agenda are made available via the webpage of the Company concurrently with the notice of calling the General Meeting.

If the General Meeting is called by shareholders, the Supervisory Council or auditor or if an item has been entered on the agenda at the request of the Management Board or a shareholder, the bodies or persons requesting the calling of General Meeting or entering an item on the agenda shall provide their reasons and explanations.

The shareholders shall be permitted to examine information regarding questions shareholders have presented to the Issuer in connection with the holding of the General Meeting if this information is connected with an agenda item of the General Meeting. The Management Board or Supervisory Council has the right to withhold this information, if this is in

contravention of the Issuers interests. In such case, the Management Board and Supervisory Council shall justify the withholding of the information.

AS Pro Kapital Grupp has indicated in each notice of calling the shareholders meeting a contact email for the shareholders to contact in case they have any questions related to the meeting. During the year of 2013 only questions related to clarification of documentation needed to participate at the meeting were presented to the Company. As no questions connected to the agenda topics were presented during 2013, AS Pro Kapital Grupp has not published any questions of the shareholders or replies to the shareholders on the website.

Information provided to shareholders is in Estonian and English languages.

- 1.2.3. The Management Board shall publish on the Issuer's website the essential information connected with the agenda provided to it or otherwise available concurrently with compliance with the General Meeting calling requirements provided by law.

Depending on the General Meeting agenda the essential information shall be deemed the profit distribution proposal, draft articles of association together with an indication of the proposed amendments; essential conditions and agreements or draft contracts issuance of securities or other transactions connected with the Company (e.g., merger, sale of property etc.), information regarding candidates for Supervisory Council members or auditors etc.

Information shall be published concerning a Supervisory Council member candidates' participation in Supervisory Councils, Management Boards or the management of other companies.

AS Pro Kapital Grupp is following the recommendation and is publishing materials related to the meeting on the website of the Company.

- 1.2.4. Within a reasonable period of time prior to holding a General Meeting the Supervisory Council shall publish its proposed agenda items on the Issuer's website. If shareholders make substantive proposals to items on the agenda or proposals diverging from those of the Supervisory Council prior to the General Meeting the Issuer shall publish the proposals on its website.

AS Pro Kapital Grupp is following the recommendation.

1.3. Procedure of the General Meeting

- 1.3.1. The Chair of the General Meeting shall ensure that the General Meeting is conducted in a smooth manner, i.e. swift while considering the interests of all interested parties. The General Meeting shall be conducted in the Estonian language.

During the year of 2013 AS Pro Kapital Grupp held three shareholders meetings.

The annual general meeting of the shareholders took place on 19.06.2013 and was held in Estonian language translated into English.

The extraordinary shareholders meeting took place on 06.02.2013 and was held in Estonian language translated into English

The extraordinary shareholders meeting took place on 05.04.2013 and was held in Estonian language translated into English

AS Pro Kapital Grupp is following the recommendation and is holding the shareholders meetings in Estonian language, translated into English language.

As per the recommendation the Chairman of the Supervisory Council and members of the Management Board cannot be elected as Chair of the General Meeting.

AS Pro Kapital Grupp is following the recommendation. In all three meetings Head of Legal Department Ervin Nurmela was elected as the Chair of the meeting.

- 1.3.2. Members of the Management Board, the Chairman of the Supervisory Council and if possible, the members of the Supervisory Council and at least one of the auditors shall participate in the General Meeting.

AS Pro Kapital Grupp held three shareholders meetings in 2013.

All members of the Management Board participated in all the shareholders meetings.

Chairman of the Supervisory Council Emanuele Bozzone did not participate at the General Meeting due to other work related commitments.

Member of the Supervisory Council Petri Olkinoura participated at the General Meeting.

Auditor participated at the General Meeting.

Supervisory Council member candidates who have not formerly been a Supervisory Council member and candidates for auditor shall participate in the General Meeting.

At the 19.06.2013 General Meeting the new Member of the Supervisory Council Ernesto Achille Preatoni was elected and also the auditor was elected.

Auditor participated at the General Meeting. Supervisory Council member candidate Ernesto Achille Preatoni did not participate at the General Meeting due to other work related commitments.

- 1.3.3. Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.

AS Pro Kapital Grupp has not followed the recommendation and does not plan to follow the recommendation and making participation in the General Meeting possible by means of communication equipment (Internet). The reason for not following the recommendation is that there is no good and cost-efficient technical solution to verify the identities of foreign shareholders, who form the majority of AS Pro Kapital Grupp shareholders. Therefore allowing the participation of the shareholders by means of communication equipment poses legal risks to the Company, in verifying the list of participants of the shareholders meeting.

As per the recommendation the profit distribution has been considered in General Meeting as a separate agenda topic and a separate resolution has been passed regarding it.

II Management Board

2.1. Duties

- 2.1.1. The Management Board is making independent day-to-day decision without favoring personal and/or controlling shareholder's interests.

The Management Board is making the decisions based on the best interests of AS Pro Kapital Grupp and all shareholders and ensures the reasonable development of the Company according to goals and strategy set.

- 2.1.2. The Management Board is using its best efforts to ensure that the Company and all companies belonging to Pro Kapital group comply in their activities with current legislation in force.

- 2.1.3. The Management Board ensures that it undertakes proper risk management and internal audit controls in the activities of the Company and those proceeding from its activities.

To guarantee proper risk management and internal audit the Management Board:

- on reoccurring basis analyses the risks connected with the purpose of the activities and financial objectives of the Company;
- has prepared adequate internal control provisions;
- elaborated forms for drawing up financial reports and instructions for drawing up these reports;
- organized the system of control and reporting.

- 2.2. Composition and charge

- 2.2.1. The Management Board of AS Pro Kapital Grupp has two Management Board members and Paolo Michelozzi has been elected as the Chairman of the Management Board. Management Board Members are selected by the Supervisory Council of the Company based on their expertise in the sector the Company is operating in, in addition candidate's leadership and management experience is taken into account as well as their integrity and their commitment to the Company.

Name	Citizenship	Year of birth	Member since	Position	Current term expires	Number of shares of the Company
Paolo Vittorio Michelozzi	Italian	1961	22.11.2001	Chairman	31.07.2015	87 500
Allan Remmelkoor	Estonian	1971	30.05.2008	Member	16.05.2014	0



Mr Paolo Vittorio Michelozzi holds General Certificate of Education (building surveyor) from Collegio Arcivescovile, Saronno, Italy. Mr Michelozzi has been employed in the Company since 1994. Mr Michelozzi has an extensive experience of more than 30 years in different real estate development projects in Italy as well as other European countries. He was also a member of the management board of AS Domina Vacanze Holding, a company that was established in the course of the Division of the Company (2011-2012), CEO (2005-2008) and Chairman of the Board of Directors (2008-2012) of Domina Vacanze SpA, a company that was separated from the group in the course of the Division. Mr Michelozzi has also been the Chairman of the Board of Domina Hotel Group SpA (2008-2010), member of the supervisory council of Hypermarket AS (1997-2008) and the member of management board of SIA PK Investments (2003-2011). Since 2006 Mr. Michelozzi is the member of the management board of SIA PB11 (Latvia), a company owned by him.



Mr Allan Remmelkoor holds bachelor degree in small business administration from Tallinn Technical University. Mr. Remmelkoor has held executive positions in the Group since 1997. In addition to being a member of the management board of the Company and several other Group Companies Mr. Remmelkoor is a member of the management board of Hypermarket SIA and was a member of the management board of AS Domina Vacanze Holding, a company that was established in the course of the Division of the Company (until May 2012). He has also been a member of supervisory council of AS BALTIKA (2006-2012), a company listed in the Tallinn Stock Exchange, the managing director and a member of the management board of SIA PK Investments (2003-2011). In addition, Mr. Remmelkoor is a member of the management board of non-profit association MTÜ Spordiklubi SCHNELLI.

The Supervisory Council has established an area of responsibility for each member of the Management Board, defining the duties and powers of each board member. The principles for co-operation between members of the board have been established.

As per the recommendation the Chairman of the Supervisory Council shall conclude a contract of service with each member of the board for discharge of their functions.

AS Pro Kapital Grupp is following the recommendation only partially. Member of the Management Board Allan Remmelkoor does not have a service contract with AS Pro Kapital Grupp, but the Company's subgroup holding companies in Estonia and Latvia have concluded a service contracts with Allan Remmelkoor. Allan Remmelkoor is also the Management Board member of Estonian and Latvian subgroup holding companies.

- 2.2.2. As per the recommendation the member of the Management Board shall not be at the same time a member of more than two Management Boards of an Issuer and shall not be the Chairman of the Supervisory Council of another Issuer. A member of the Management Board can be the Chairman of the Supervisory Council in Company belonging to same group as the Issuer.

AS Pro Kapital Grupp Management Board members do not belong to Management Boards of any other Issuers.

- 2.2.3. As per the recommendation the bases for Management Board remuneration shall be clear and transparent. The Supervisory Council shall discuss and review regularly the bases for Management Board remuneration.

Upon determination of the Management Board remuneration, the Supervisory Council is guided by evaluation of the work of the Management Board members. Upon evaluation of the

work of the Management Board members, the Supervisory Council is taking into consideration the duties of each member of the Management Board, their activities, the activities of the entire Management Board, the economic condition of the Issuer, the actual state and future prediction and direction of the business in comparison with the same indicators of companies in the same economic sector.

Remuneration of members of the Management Board, including bonus schemes, shall be such that they motivate the member to act in the best interest of the Issuer and refrain from acting in their own or another person's interest.

Remuneration of Chairman of the Management Board Paolo Michelozzi is determined by the Supervisory Council and agreed in the service contract concluded for three years with the Chairman of the Management Board. Remuneration of the Management Board Member Allan Remmelkoo is determined by the Chairman of the Management Board and approved by the Supervisory Councils of the group's subsidiary holding companies in Estonia and Latvia.

- 2.2.4. As per the recommendation the use of long-term bonus systems (for example options, pension programs) shall be connected with the activities of the Management Board member and shall be based on explicit and comparable pre-determined factors. The factors, which are the basis for determining the bonus scheme shall not be changed retroactively.

Both Management Board Members have bonus systems agreed, which are based on explicit and pre-determined factors taking place.

- 2.2.5. As per the recommendation the bonus scheme of a Management Board member that is connected with the securities of the Issuer, as well as changes in such bonus schemes shall be approved at the General Meeting of the Issuer. The exercise date for share option shall be determined at the General Meeting of the Issuer.

When granting share options, the Issuer shall comply with the rules and regulations of the Tallinn Stock Exchange.

Management Board does not have a bonus scheme connected to the securities of AS Pro Kapital Grupp.

- 2.2.6. As per the recommendation severance packages of a Management Board member are connected with their prior work performance and shall not be payable if doing so would harm the interests of the Issuer.

Both Management Board members have severance packages agreed in their service contracts. Severance compensation is not payable in case the Management Board member is recalled due to the breach of its obligations.

- 2.2.7. As per the recommendation basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.

The Chairman of the Supervisory Council shall present the essential aspects of the Management Board remuneration and changes in it to the General Meeting. If the remuneration of some of the Management Board members has occurred on a different base, then the General Meeting shall be presented the differences together with the reasons therefore.

AS Pro Kapital Grupp is not following this recommendation. The Company is of opinion that disclosing the remuneration on individual basis for the Management Board would harm the interest of the Company, by allowing this sensitive information to be disclosed to the competitors of the Company. Same practice of non-disclosure is used by most of the NASDAQ OMX Tallinn Stock Exchange listed companies. AS Pro Kapital Grupp is publishing in the annual report of the Company the remuneration of the management and key personnel of the whole group, as an aggregate amount. The Chairman of the Management Board is in addition to his remuneration compensated accommodation costs in Tallinn.

2.3. Conflict of interests

- 2.3.1. Members of the Management Board avoid conflicts of interests in their activity. Member of the Management Board do not make decisions on the basis of their own interests or use business offers addressed to AS Pro Kapital Grupp in their own interests

As per the recommendation the members of the Management Board shall inform the Supervisory Council and other members of the Management Board regarding the existence of a conflict of interests before the conclusion of a contract of service and immediately upon

arising of it later. Members of the Management Board shall promptly inform other Management Board members and the Chairman of the Supervisory Council of any business offer related to business activity of the Company made to them, a person close to them or a person connected with them. Persons close to members of the Management Board include spouses, children who are minors and persons having shared a household with them for at least one year. Persons connected with members of the Management Board include civil law partnerships or legal persons managed or controlled by them or persons close to them as well as the civil law partnerships or legal persons whose management is significantly influenced by them or persons close to them or which is made for the benefit of them or persons close to them and which economic interests are to a significant extent similar with their economic interests or economic interests of persons close to them.

- 2.3.2. As per the Commercial Code the Supervisory Council has to approve the transactions between the Company and a member of its Management Board.

There was one transaction with Management Board members in 2013, which was approved by the Supervisory Council.

Company's subsidiary sold a flat in Tallinn to the Chairman of the Management Board Paolo Vittorio Michelozzi on market conditions.

- 2.3.3. A member of the Management Board are obliged strictly adhere to the prohibitions of competition prescribed by the Commercial Code (*Commercial Code § 312*) and are obliged to promptly inform the Supervisory Council of their intention to engage directly or indirectly in an enterprise in the same field of activity as the Issuer.

Members of the Management Board of AS Pro Kapital Grupp do not engage in other active duties alongside their duties as members of the Management Board.

- 2.3.4. As per the recommendation a member of the Management Board or employee of the Issuer shall not demand or take money or other benefits from third parties in connection with their work and shall not provide unlawful or ungrounded advantages to third parties in name of the Issuer.

According to the knowledge of members of the Management Board, which is based on the internal control procedures the Company, the Company is following the recommendation.

III SUPERVISORY COUNCIL

3.1. Duties

- 3.1.1. The duty of the Supervisory Council is to manage internal control of the Management Board activities. The Supervisory Council participates in making important decisions relating to the activities of the Company. The Supervisory Council acts independently and in the best interests of the Company and all shareholders.

- 3.1.2. The Supervisory Council determines and regularly reviews the Company's strategy, general plan of action, principles of risk management and annual budget. The Supervisory Council together with the Management Board ensures the long-term planning of the Company's activity.

The Supervisory Council has approved the risk management policy of the Company, which is implemented in the Company and all of its subsidiaries.

The Supervisory Council also approves the annual budget of the Company.

The Supervisory Council has actively discussed the progress of the development projects of the Company and the necessary financing to start with the development projects.

The Chairman of the Supervisory Council is in regular contact with the Chairman of Management Board and discusses the issues related to the Company's strategy, business activity and risk management.

The Chairman of the Management Board has the obligation to inform the Chairman of the Supervisory Council of any significant events, which may affect the Company's development and management. The Chairman of the Supervisory Council has to inform the Supervisory Council of it and call a meeting of the Supervisory Council if necessary.

- 3.1.3. The Supervisory Council regularly assesses the activities of the Management Board and its implementation of the Company's strategy, financial condition, risk management system, the lawfulness of the Management Board activities and whether essential information concerning the Company has been communicated to the Supervisory Council and the public as required.

Supervisory Council meets at least once per quarter, before publication of the Company's quarterly reports and reviews the report and the Management Board review of the activities performed during the quarter prior to the publication of the quarterly reports.

Supervisory Council has established the audit committee comprising of Emanuele Bozzone and Pertti Huuskonen, all Council members of the Company.

AS Pro Kapital Grupp has published the existence, duties, membership and position in the audit committee on its website.

Audit committee is an advisory body of AS Pro Kapital Grupp Council in matters involving accounting, auditing, risk management, internal control and audit, exercising of oversight and budget preparation and legality of the activities.

The function of an audit committee is to monitor and analyze:

- 1) processing of financial information;
- 2) efficiency of risk management and internal control;
- 3) the process of auditing of annual accounts and consolidated accounts;
- 4) independence of an audit firm and a sworn auditor representing an audit firm on the basis of law and compliance of the activities thereof with other requirements of Auditors Activities Act.

An audit committee is required to make recommendations or proposals to AS Pro Kapital Grupp Council in the following issues:

- 1) appointment or removal of an audit firm;
- 2) appointment or removal of an internal auditor;
- 3) prevention or elimination of problems and inefficiencies in an organization;
- 4) compliance with legislation and the good practice of professional activities.

3.1.4. The Chairman of the Supervisory Council manages the work of the Supervisory Council

The Chairman of the Supervisory Council determines the agenda of the Supervisory Council meeting, chairs the meetings, monitors the efficiency of the Supervisory Council's work, organizes the transmission of information to the members of the Supervisory Council, ensures that the Supervisory Council has enough time to prepare for decisions and examine information and represents the Supervisory Council in communications with the Management Board.

3.2. Composition and charge

3.2.1. The members of the Supervisory Council are elected from persons having sufficient knowledge and experience for participation in the work of the Supervisory Council.

Information about the members of the Supervisory Council:

Name	Citizenship	Year of birth	Member since	Position	Current term expires	Number of shares of the Company
Emanuele Bozzone	Swiss	1964	05.07.2010	Chairman	05.07.2016	0
Pertti Huuskonen	Finnish	1956	13.04.2012	Member	13.04.2015	0
Petri Olkinuora	Finnish	1957	13.04.2012	Member	13.04.2015	0
Ernesto Achille Preatoni	Italian	1942	06.07.2013	Member	05.07.2016	18 358 506

Mr Emanuele Bozzone holds a degree in economics and trade. Mr Bozzone has a vast experience in finance. He has been a manager and independent consultant in the finance field since 1999. Mr Bozzone is a Swiss licensed fiduciary. From 2010 Mr Bozzone is a director, wealth manager and partner in Regis Invest SA in Lugano, Switzerland; from 2005 a sole director, founder and partner in EBTG e Associati SA (formerly named Bozzone E Associati SA) in Chiasso, Switzerland. Additionally, he is a sole director, founder and partner in EBCO Fiduciaria SA in Chiasso, Switzerland. Mr Bozzone is also holding a senior managing position in EBCO Trustees Sagl in Chiasso, Switzerland.

Mr Pertti Huuskonen holds M.Sc. (Eng.) and eMBA degrees. Mr Huuskonen has a vast experience in planning and preparation of acquisitions. Mr Huuskonen has *inter alia* considerable experience in developing modern service concepts in the field of real estate and executing business, in planning and leasing of commercial premises, land consolidation, property transaction and property development. Mr Huuskonen has been a member of the Board of Directors of Technopolis Plc. since 2008 (whereas he was the full-time Chairman of the Board of Directors of Technopolis Plc. during 2008–2011). Since 2011 he is holding several positions (including the Chief Executive Officer) in the investment and consulting Company Lunacon Oy (investments and consulting), which is a Company owned by Mr Huuskonen. He is also a member of the Board of Kaleva Oy, the largest media Company in North Finland, and the Chairman of the Board of LapTi-Invest Oy (day care & senior living facilities). Previously Mr Huuskonen has *inter alia* been the President and CEO of Technopolis Plc. (1985-2008), the chairman of the supervisory council of Technopolis Ülemiste AS (2010-2011), a member of the Board of Detection Technology Oy (2002-2007). Mr Huuskonen is also Academic Executive Advisor in Oulu Business School (since 2011) and the Honorary Consul of Sweden in Oulu Province, Finland (since 1997).

Mr Petri Olkinuora holds M.Sc. (construction engineering) and MBA degrees. Mr Olkinuora has a long and successful career as the CEO of Citycon Oyj (a Helsinki based listed property Company), vast experience in real estate, acquisition, finance and development. Mr Olkinuora is the Deputy Chairman of the Board of BPT Asset Management A/S (leading real estate asset manager around the

Baltic Sea area) (since 2011) and a member of the Board of A-Insinöör Oy (leading engineering Company in Finland) (since 2011), Tapiolan jalkapallostadion Oy (developer of the first closed roof football stadium and arena) (since 2012), Koja-Yhtiöt Oy (industrial Company making ventilation machines for buildings and ships) (since 2004), Rapal Oy (software Company which developed Optimaze and Fore programmes) (since 2002), Tampereen Keskusareena Oy (a Company that will develop a grand ice hockey and event arena in Tampere, Finland) (since 2012), Restamax Oyj (Finnish listed restaurant company, deputy chairman since 2013), Tamturbo Oy (turbine developer; board member since 2013) and Wiiste Oy (construction technology; board member since 2014). He is also a Supervisory Council member of Hartela-Yhtiöt Oy (a Finnish construction Company and developer, which, according to Mr Olkinuora, does not operate in the Baltic countries) (since 2013). Mr Olkinuora is also running his own investment business within Forbia Oy, which is providing advisory services in property and construction related companies (since 2011). During 2002 – 2011 Mr Olkinuora was the Chief Executive Officer of Citycon Oyj, a Helsinki based real estate Company active in Finland, Sweden and the Baltic States and a board member of several of its subsidiaries (real estate and holding companies). Mr Olkinuora has also, *inter alia*, served as the Deputy Chairman (2002-2003) and a Board Member (2007-2009) of the Board of Finnish Association for Building Owners RAKLI ry, member of the Board of European Public Real Estate Association EPRA (2006-2009) and a founding member of the Board of Finnish Green Building Association ry (2010-2012).

Mr. Ernesto Achille Preatoni started his career in 1967 as financial advisor; in 1971 he became President of Italian Financial Advisors, association created with the aim to direct saving towards targeted investments. During the 70's and 80's he began with the real estate business (at first in the U.S.A. and then in Italy) and specialized in the construction and sales of apartments and office buildings, thus becoming, in 1991, one of the most important entrepreneurs in this sector. In 1985, he directed his activity towards the banking sector and realized his first relevant financial operation, the Bi-Invest takeover. In 1987 he organized the takeover of Banca Popolare di Lecco and, successively, Credito Bergamasco. In 1988 Ernesto Preatoni founded Domina Vacanze, a company active in hotel joint-properties and time-sharing sector. Initially Domina counted 8 hotels in Italy and was active in the management and commercialization of hotels. In the 90' he mainly directed his activities towards two geographical regions, taking the development opportunities proposed by those markets, i.e. Egypt and Baltic Countries. As far as the first activity was concerned, he developed one of the greatest and worldwide well known resorts, the Coral Bay at Sharm El Sheikh, in the Sinai Peninsula, encouraging the tourist explosion of such a location, rendering him so visible that still nowadays he is considered in Italy as "The man who discovered Sharm". Regarding Baltic Countries, in 1994, he was the first to understand the great development chances. Since some years, he is concentrating his activity in Russia with a special care for Siberia, through important investments in residential building trade, shopping malls and hotels.

Upon the election of a member of the Supervisory Council, the nature of the Supervisory Council's and the Company's activities, the risks of conflict of interests and if necessary the age of the potential member are taken into account.

- 3.2.2. At least half of the members of the Supervisory Council of the Issuer shall be independent. If the Supervisory Council has an odd number of members, then there may be one independent member less than the number dependent members.

According to the belief of the Management Board of AS Pro Kapital Grupp the recommendation is followed.

Mr Emanuele Bozzone – the Chairman of the Supervisory Council is not considered independent member of the Council due to the formality of him being a Chairman of the Council of a subsidiary company AS Täismaja belonging to the group.

Mr Pertti Huuskonen - is considered an independent Council member.

Mr Petri Olkinuora - is considered an independent Council member.

Mr Ernesto Achille Preatoni - is not considered an independent Council member due to the fact that together with his family members he holds more than 10% of the shares of the Company.

- 3.2.3. As per the recommendation a member of the Supervisory Council and the Chairman of the Supervisory Council in particular shall ensure that they have enough time to perform the duties of a Supervisory Council member.

According to the belief of the Management Board of AS Pro Kapital Grupp the recommendation is followed.

- 3.2.4. As per the recommendation upon determination of the remuneration of members of the Supervisory Council, the General Meeting shall take into consideration the duties of the Supervisory Council and their scope and the economic situation of the Company. Based on the nature of the Chairman of the Supervisory Council's work, the related requirements of that work may be taken into consideration upon determination of remuneration amount. According to the belief of the Management Board of AS Pro Kapital Grupp the recommendation is followed.
- 3.2.5. The amount of remuneration of a member of the Supervisory Council shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits). Council members are paid 25 000 Euros per year (gross). Chairman of the Council is paid 27 500 Euros per year (gross). In addition a fee of 600 Euros (gross) is paid to the Council member for each attended meeting. Council members are reimbursed their travel and accommodation expenses relating to participation in the Council meetings and in the meetings of the committees. Supervisory Council members are not entitled to any compensation for termination.
- 3.2.6. As per the recommendation if a member of the Supervisory Council has attended less than half of the meetings of the Supervisory Council, this shall be indicated separately in the Corporate Governance Recommendations Report. During 2013 in total 12 meetings of the Supervisory Council were held. Composition of the Supervisory Council changed since 06.07.2013. Until 05.07.2013 there were 7 Supervisory Council meetings, Giuseppe Prevosti did not attend 5 meetings and Renato Bullani did not attend 4 meetings out of 7 Supervisory Council meetings. Since 06.07.2013 powers of Giuseppe Prevosti and Renato Bullani expired and new Supervisory Council member Ernesto Achille Preatoni was elected. All other Supervisory Council members attended over half of the meetings held in 2013 during their term in office.
- 3.3. Conflict of interests
- 3.3.1. Members of the Supervisory Council shall prevent conflict of interests from arising through their activities. Members of the Supervisory Council shall give preference to interests of the Company over their own or those of a third party upon his word as a member of the Supervisory Council. Members of the Supervisory Council shall not use business offers addressed to the Issuer for their personal interests. The Supervisory Council shall operate in the best interests of the Issuer and all shareholders. According to the belief of the Management Board of AS Pro Kapital Grupp the recommendation is followed.
- 3.3.2. A Supervisory Council member candidate shall inform other members of the Supervisory Council about the existence of conflict of interests before their election and immediately upon arising of it later. Members of the Supervisory Council shall promptly inform the Chairman of the Supervisory Council and Management Board regarding any business offer related to the business activity of the Issuer made to him, a person close to him or a person connected with him. All conflicts of interests that have arisen in preceding year shall be indicated in the Corporate Governance Recommendations Report along with their resolutions. The persons close to a member of the Supervisory Council are spouses, a minor child and a person having shared a household with them for at least one year. Persons connected with a member of the Supervisory Council are civil law partnerships or legal persons managed or controlled by them or persons close to them as well as the civil law partnerships or legal persons whose management is significantly influenced by them or person close to them or which is made for their benefit or the benefit of a person close to them and which economic interests are to a significant extent similar with their economic interests or the economic interests of a person close to them. According to the belief of the Management Board of AS Pro Kapital Grupp the recommendation is followed. No conflict of interest had occurred during the financial year of 2013.
- 3.3.3. A member of the Supervisory Council shall resign or be removed if their conflict of interests is of material and permanent nature. Council member Ms Sari Aitokallio announced on 21 January 2013 of her resignation from the Supervisory Council as of 31 March 2013. She explained that the resignation from the

Supervisory Council was due to time constraints and a possible conflict of interest in the future, emphasizing that no conflict of interests has not existed and will not exist during her term in the Supervisory Council.

- 3.3.4. A member of the Supervisory Council shall strictly adhere to the prohibition of competition prescribed by the Commercial Code (*Commercial Code* § 324) and shall promptly inform other members of Supervisory Council of their intention to engage in an enterprise in the same field of activity as the Company.

According to the belief of the Management Board of AS Pro Kapital Grupp the recommendation is followed.

IV CO-OPERATION OF MANAGEMENT BOARD AND SUPERVISORY COUNCIL

- 4.1. Management Board and Supervisory Council co-operate closely for the purpose of better protection of Company's interests.

The Management Board and Supervisory Council jointly develop plans and principles of activities and strategy of the Company.

The Management Board operates under strategic guidelines provided by the Supervisory Council and discusses its strategic management questions with the Supervisory Council regularly.

The Management Board and Supervisory Council division of tasks are regulated in the Articles of Association of the Company.

The Supervisory Council is a directing body of the Company which plans the activities of the Company, organizes the management of the Company and supervises the activities of the Management Board. The Supervisory Council shall notify the general meeting of shareholders of the results of supervision.

The Supervisory Council shall approve the budget of the Company

The Management Board needs the consent of the Supervisory Council for concluding transactions which are beyond the scope of everyday economic activities of the Company and, above all, for concluding transactions which bring about:

- the acquisition or termination of holdings in other companies; or
- the acquisition, transfer or dissolution of a business; or
- the transfer of immovables or registered movables the value whereof exceeds 300,000 Euros, and encumbrance of immovables or registered immovables (of any value); or
- the foundation or closure of foreign branches; or
- the making of investments exceeding a prescribed sum of expenditure for the current financial year; or
- the assumption of loans or debt obligations exceeding a prescribed sum for the current financial year (except intra-group loans); or
- the granting of loans or the guarantee of debt obligations (except intra-group loans) if this is beyond the scope of everyday economic activities.

The general meeting of shareholders may grant the Supervisory Council the right to increase share capital to the extent and pursuant to the procedure provided by the Commercial Code.

The Management Board is a directing body of the Company which represents and directs the Company. The Management Board shall, in directing the Company, act in compliance with the articles of association and lawful orders of the Supervisory Council

Each member of the Management Board may represent the Company alone in all legal acts.

The Management Board shall appoint and dismiss the Company's directors and person responsible for accounting (the executive management). The Management Board shall approve the scope of authority of such persons.

- 4.2. The Management Board and the Supervisory Council ensure that the mutual exchange of data shall be adequate and efficient.

The Management Board informs the Supervisory Council regularly of all material circumstances, which pertain to planning of the Company's activities, business activities, risks connected with its activities and management of those risks. The Management Board shall separately call attention to such changes in the business activities of the Company deviating

from plans and purposes set formerly and indicate the reasons of such changes. The information shall be delivered promptly and shall cover all material circumstances.

The Supervisory Council has specified the conditions for the delivery of information by the Management Board and its content. The Management Board sends data necessary for the Supervisory Council decision making, including the annual accounts, the annual accounts of the consolidation group and the auditor's report to the Supervisory Council in sufficient time before the Supervisory Council meeting.

- 4.3. The Members of the Management Board and Supervisory Council observe the rules of confidentiality upon organization of the mutual exchange of data ensuring above all the control over the transfer of price sensitive information.

The Management Board has ensured the observance of the rules of confidentiality by employees of the Company, who access such information. Management Board has established rules on handling the insider information, established the circle of permanent insiders and rules for submitting insiders declarations to the Company and appointed the person to handle the insiders register.

V PUBLICATION OF INFORMATION

- 5.1. The Company treats all shareholders equally and notifies all shareholders equally of material circumstances.

As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company uses NASDAQ OMX Tallinn Stock Exchange to communicate with the shareholders and uploads the information to the Company's website upon notification of shareholders and investors through the stock exchange.

- 5.2. The web site of the Company has the investors section and information is published both in Estonian and English languages.

AS Pro Kapital Grupp is following the recommendation and is publishing the investor's calendar through the stock exchange and its website.

- 5.3. As per the recommendation on the Issuers web site the following shall be accessible to the shareholders:

- report on Corporate Governance Recommendations
 - date, place, and agenda of the General Meeting and other information related to the General Meeting;
 - articles of association;
 - general strategy directions of the Issuer as approved by Supervisory Council;
 - membership of the Management Board and Supervisory Council;
 - information regarding the auditor;
 - annual report;
 - interim reports;
 - agreements between shareholders concerning concerted exercise of shareholders rights (if those are concluded and known to the Issuer);
 - other information, published on the basis of these Corporate Governance Recommendations
- AS Pro Kapital Grupp is following the recommendation and is publishing on its website the required information. As to the knowledge of the Company there are no agreements between shareholders concerning concerted exercise of shareholders rights.

- 5.4. As per the recommendation the Management Board and the Supervisory Council shall describe the management practices of the Issuer including their compliance with these Corporate Governance Recommendations in the annual report presented to General Meeting. If the management of the Issuer deviates from the management structure described in these Corporate Governance Recommendations the Management Board and Supervisory Council shall justify the deviation.

The Management Board and the Supervisory Council shall also describe in the report presented at the General Meeting any circumstances required under these Corporate Governance Recommendations.

AS Pro Kapital Grupp is following the recommendation and is including in the annual report the overview of compliance with the Corporate Governance Recommendations.

- 5.5. As per the recommendation if the Issuer notifies financial analysts or other persons of facts or estimates related to the Issuer, they shall also publish this information to shareholders the Issuer's website.

Inside information disclosed at the General Meeting in response to questions presented by shareholders or other means and which has not been formerly disclosed shall be published by the Issuer immediately after holding of the General Meeting.

The Company has not notified financial analysts of any estimates which have not been made public during the listing of the Company's shares or thereafter.

From time to time the Company discloses sensitive information to persons with whom the Company is holding business negotiations.

As per the Requirements for Issuers of NASDAQ OMX Tallinn Stock Exchange an Issuer does not need to disclose information about the progress of business negotiations. An Issuer may give such undisclosed information confidentially to persons with whom it is holding or intends to hold business negotiations. In such cases the Company always signs a non-disclosure confidentiality agreement and notifies the party to the negotiations of the fact that any inside information can't be used for insider trading. The Company registers such persons as temporary insiders in the insiders register.

- 5.6. As per the recommendation the Issuer shall organize the exchange of information with journalists and analyst after a careful consideration. The Issuer shall refrain from compromising the independence of the analyst or the Issuer's independence from analyst when communicating with analysts. The Issuer shall disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website.

The Issuer shall not arrange meetings with analysts and presentations organized for investors directly before dates of publishing a financial report (interim reports, annual report).

According to the belief of the Management Board of AS Pro Kapital Grupp the recommendation is followed.

VI FINANCIAL REPORTING AND AUDIT

6.1. Reporting

6.1.1. **As per the recommendations Issuers shall publish annually its annual report and within a fiscal year its interim reports.**

The Management Board shall draw up annual accounts, which shall be audited by the auditor and the Supervisory Council. On meeting of the Supervisory Council, where the annual account shall be reviewed the auditor of the Issuer shall participate upon invitation of the Supervisory Council. Members of the Management Board of the Issuer and other persons belonging to management shall leave the meeting during the auditor reports the most material conclusions of audit.

The shareholders shall be presented the annual report signed by members of the Management Board and the Supervisory Council for examination. Together with annual report, the Supervisory Council shall make available to shareholders the written report concerning the annual report specified in § 333 subsection 1 of Commercial Code.

AS Pro Kapital Grupp is following the recommendation.

- 6.1.2. As per the recommendation the Issuer shall publish an annex of the annual accounts including a list of companies not belonging to the Issuer's group, in which the holding of Issuer has significant importance to the Issuer. The Issuer shall disclose the business name, location, and size of the holding, area of activity, amount of share capital, and net profit or loss during the previous financial year of this Company.

There are no companies in which AS Pro Kapital Grupp has participation, which do not belong to AS Pro Kapital Grupp group of companies.

- 6.1.3. As per the recommendation the annexes to the annual accounts shall contain information regarding the connections of the Issuer with shareholders which are deemed to be connected persons pursuant to standards of international financial reporting provided for in sub section 17 (2) of the Accounting Act.

AS Pro Kapital Grupp is following the recommendation.

- 6.2. Election of the Auditor and Auditing of the Annual Accounts.

- 6.2.1. Together with Notice Calling the General Meeting the Supervisory Council shall make available to shareholders information on a candidate for auditor, including information on their business connections specified below. If there is a desire to appoint an auditor who has audited Issuers reports on previous financial year the Supervisory Council shall pass judgment on their work.

Before the Supervisory Council presents a candidate of auditor for election in a General meeting, the Supervisory Council shall require from a candidate for auditor an overview of what kind of connection pertaining to work, economic connection or other connection possibly affecting the independence of the auditor exists between the auditor, its management body and the auditors in charge on one side and the Issuer and its management body on other side.

The Supervisory Council shall describe in its evaluation report to judgment of the auditors work *inter alia* the services (including advisory services) that the auditor has provided to the Issuer during the preceding year or shall provide during the next year. Also the remuneration the Issuer has paid or shall pay to the auditor shall be published.

If the Supervisory Council makes a proposal to elect a new auditor it shall justify to the General Meeting its reasons for terminating the contract with previous auditor.

AS Pro Kapital Grupp is following the recommendation.

AS Deloitte Audit Eesti was elected as the auditor of the Company for the financial year of 2013. The fee payable to the auditor for the audit of the Company and its subsidiaries for the financial year of 2013 is in amount of 52 000 Euros (net of VAT).

- 6.2.2. As per the recommendation before entering a contract for auditing services with an auditor, the Management Board shall present the Supervisory Council with the draft contract for approval. In a contract to be concluded with an auditor, above all the auditor's functions, timetable and remuneration shall be agreed upon. The Issuer shall not conclude a contract, indicating that disclosure of remuneration payable for auditing is breach of contract.

Pursuant to the contract the auditor obliges to promptly inform the Chairman of the Supervisory Council of any danger to the independence or professionalism of their work that becomes evident during the course of their work, unless the danger is promptly eliminated.

Pursuant to the contract, the auditor shall oblige to promptly inform the Supervisory Council of any material circumstances that become known to them that may affect the work of the Supervisory Council and management of the Issuer.

The contract to be concluded with an auditor shall not in any manner hinder the auditor's evaluation of the Issuer's activities.

AS Pro Kapital Grupp is following the recommendation.

- 6.2.3. Upon organizing the rotation of auditors, the Issuer shall comply with guidelines of the Financial Supervision Authority from 24 September 2003, "Rotation of auditors of certain entities under state supervision."

As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange, AS Pro Kapital Grupp has followed the recommendation.

- 6.2.4. Pursuant to the contract the auditor obliges to disclose to the Supervisory Council and at the General Meeting the facts, which become evident to them during the course of exercising of a regular audit, indicating non-compliance with the Corporate Governance Recommendations by the Management Board or the Supervisory Council. The Auditor shall prepare a memorandum to the Issuer regarding these facts along with the auditor's report. The auditor shall not reflect in the memorandum the facts that the Management Board has explained in the Corporate Governance Recommendations Report.

AS Pro Kapital Grupp is following the recommendation.

- 6.2.5. The General Meeting, Supervisory Council and Management Board shall enable auditor to carry out the auditing according to international auditing standards.

AS Pro Kapital Grupp annual accounts are audited in accordance with international auditing standards.

6.2.6. Upon introducing the findings of the audit to the Supervisory Council, the Auditor shall present *inter alia*:

- an overview of the progress of the audit, co-operation with employees subject to the internal audit and the Management Board as well as important issues discussed with the Management Board and proposals which were not accepted by the Management Board on drawing up the annual report;
- an overview of the independence of the auditor and the absence of conflict of interests during the audit;
- an analysis of changes in shareholders' equity and circumstances not entered in the report subject to disclosure, yet having significant importance upon the understanding of the financial condition and performance of the Issuer;
- their own opinion regarding one-off items, accounting policy used in book-keeping concerning them and the effect of it;
- his or her own opinion regarding financial forecasts made and the quality of the budget.

The Auditor shall present an overview, analysis and opinion described above in writing to the Supervisory Council.

AS Pro Kapital Grupp is following the recommendation.

VII Human Resource Policy

7.1. The aim of the Company's human resource policy is to ensure the implementation of the strategic goals of the Company by all employees and ensuring the reputation of valued employer. Company uses both internal and external hiring processes, but persons already working for the Company are preferred for filling the vacant positions. Human resource policy regulates the management techniques and practices, group communication and fundamental work principles.

Training and the remuneration policy support the learning organization with the aim to remain competitive as an employer.

Company's human resource policy is constantly evolving.

VIII Dividend Policy

8.1. The Company has historically been financing its operations mainly from retained earnings. Hence there have been limited dividend payments in the past. For the year 1998 dividends in amount of EUR 345,123 were paid and for 2004 dividends in amount of EUR 2,039,501 were paid.

8.2. The Company cannot assure that dividends will be paid in the future or if dividends are paid, how much they will amount to. The declaration and payment by the Company of any future dividends and the amount will depend on the Company's results of operations, financial condition, cash requirements, future prospects, profits available for distribution and other factors deemed by the Management to be relevant at the time. Moreover, the Management merely makes a proposal for the amount of dividends to be distributed. The Supervisory Board has the right to amend such proposal and the proposal is ultimately to be approved by the General Meeting of Shareholders.

Management Declaration

The Management Board declares and confirms that according to their best knowledge, the year 2013 consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by European Union, present a correct and fair view of consolidated assets, liabilities, financial situation and loss or profit of AS Pro Kapital Grupp and the undertakings involved in the consolidation as a whole, and the management report gives a true and fair view of the development and results of the business activities and financial status of AS Pro Kapital Grupp and the undertakings involved in the consolidation as a whole and contains a description of the main risks and doubts.

Paolo Michelozzi Chief Executive Officer
Chairman of the Management Board

10 April 2014

Allan Remmelkoor Chief Operating Officer
Member of the Management Board

10 April 2014

Consolidated Financial Statements

Consolidated Statement of Financial Position

<i>in thousands of euros</i>	Note	31.12.2013	31.12.2012
ASSETS			
Current Assets			
Cash and bank balances	8	2 759	707
Current receivables	9	2 738	3 198
Inventories	10	45 587	48 191
Total Current Assets		51 084	52 096
Non-Current Assets			
Non-current receivables		168	164
Deferred tax assets	26	540	464
Property, plant and equipment	11	20 221	21 161
Investment property	12	26 001	26 089
Intangible assets		280	288
Total Non-Current Assets		47 210	48 166
TOTAL ASSETS	6	98 294	100 262
LIABILITIES AND EQUITY			
Current Liabilities			
Current debt	13	11 730	11 692
Customer advances		501	652
Current payables	14	2 133	2 305
Taxes liabilities		189	102
Short-term provisions		47	2 035
Total Current Liabilities		14 600	16 786
Non-Current Liabilities			
Non-current debt	15	17 040	15 706
Non-current payables		54	33
Deferred tax liabilities	26	1 758	1 858
Long-term provisions		147	131
Total Non-Current Liabilities		18 999	17 728
Total Liabilities	6	33 599	34 514
Equity attributable to owners of the Company			
Share capital in nominal value	19	10 821	10 637
Share premium	19	1 474	0
Statutory reserve	19	1 064	0
Revaluation surplus	19	11 330	11 330
Foreign currency differences		-1 277	-1 213
Retained earnings		42 378	49 624
Profit (loss) for the financial year		-2 600	-6 182
Total equity attributable to owners of the Company		63 190	64 196
Non-controlling interests	20	1 505	1 552
Total equity		64 695	65 748
TOTAL LIABILITIES AND EQUITY		98 294	100 262

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statement of Comprehensive Income

<i>in thousands of euros</i>	Note	2013	2012
Continuing operations			
Operating income			
Revenue	6, 21	12 287	16 078
Cost of sales	22	-9 199	-12 750
Gross profit		3 088	3 328
Marketing expenses	23	-420	-531
Administration expenses	23	-4 606	-6 179
Other operating income	24	410	411
Other operating expenses	24	-167	-1 932
Operating profit (loss)	6	-1 695	-4 903
Finance income	25	447	48
Finance cost	25	-1 414	-1 465
Profit (loss) before tax		-2 662	-6 320
Income tax	26	84	141
Profit (loss) for the year from continuing operations		-2 578	-6 179
Profit (loss) for the year		- 2 578	- 6 179
Attributable to:			
Owners of the Company		-2 600	-6 182
Non-controlling interests		22	3
Other comprehensive income, net of income tax			
Exchange differences on translating foreign operations		-64	-83
Other comprehensive income for the year, net of income tax		-64	-83
Total comprehensive income for the year		-2 642	-6 262
Attributable to:			
Owners of the Company		-2 664	-6 265
Non-controlling interests		22	3
Earnings per share			
From continuing and discontinued operations			
Basic (euros per share)	27	-0,05	-0,12
Diluted (euros per share)	27	-0,05	-0,12
From continuing operations			
Basic (euros per share)	27	-0,05	-0,12
Diluted (euros per share)	27	-0,05	-0,12

The accompanying notes are an integral part of these consolidated financial statements.

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Consolidated Statement of Cash Flows

<i>in thousands of euros</i>	Note	2013	2012
Cash flows from operating activities			
Profit (loss) for the year		-2 578	-6 179
Adjustments for:			
Depreciation and amortisation of non-current assets	11	794	819
Change in fair value of investment property	12	85	1 025
Net gain/loss from disposal/write-off of non-current assets		-4	2
Write-down of inventories		0	62
Finance income and costs		1 329	1 405
Change in deferred tax assets and liabilities	26	-176	-198
Net foreign exchange loss		64	83
Other non-monetary changes (net amounts)		-738	-1 003
Movements in working capital:			
Change in trade receivables and prepayments	9	460	-333
Change in inventories	10	2 604	4 995
Change in liabilities and prepayments		-126	825
Change in provisions		-1 972	902
Net cash used in operating activities		-258	2 405
Cash flows from investing activities			
Payments for property, plant and equipment		-47	-73
Proceeds from disposal of property, plant and equipment		10	3
Payments for investment property	12	-302	-1 025
Proceeds from disposal of investment property	12	318	25
Net cash outflow on acquisition of subsidiaries	7	0	-9
Interest received		17	28
Net cash used in investing activities		-4	-1 051
Cash flows from financing activities			
Proceeds from increase of share capital	19	1 658	0
Proceeds from issue on convertible notes	18	1 640	0
Proceeds from borrowings		2 930	566
Repayment of borrowings		-2 757	-8 417
Interest paid		-1 157	-1 433
Net cash generated by financing activities		2 314	-9 284
Net change in cash and cash equivalents		2 052	-7 930
Cash and cash equivalents at the beginning of the year	8	707	8 637
Cash and cash equivalents at the end of the year	8	2 759	707

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Consolidated Statement of Changes in Equity

<i>in thousands of euros</i>	Share capital	Share premium	Statutory reserve	Properties revaluation reserve	Foreign currency translation reserve	Retained earnings	Attributable to equity owners of the parent	Non-controlling interests	Total equity
1 January 2012	10 637	0	0	11 330	-1 130	49 624	70 461	1 597	72 058
Acquisitions of holdings from non-controlling interests and other changes in subsidiaries	0	0	0	0	0	0	0	-48	-48
Comprehensive loss for the year	0	0	0	0	-83	-6 182	-6 265	3	-6 262
31 December 2012	10 637	0	0	11 330	-1 213	43 442	64 196	1 552	65 748
Increase of share capital, 15.05.2013	184	1 474	0	0	0	0	1 658	0	1 658
Allocation to statutory reserve	0	0	1 064	0	0	-1 064	0	0	0
Acquisitions of holdings from non-controlling and other changes in subsidiaries	0	0	0	0	0	0	0	-69	-69
Comprehensive loss for the year	0	0	0	0	-64	-2 600	-2 664	22	-2 642
31 December 2013	10 821	1 474	1 064	11 330	-1 277	39 778	63 190	1 505	64 695

The accompanying notes are an integral part of these consolidated financial statements.

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Notes to the Consolidated Financial Statements

Note 1. General Information

The consolidated financial statements of AS Pro Kapital Grupp (hereinafter the Parent) and its subsidiaries (hereinafter the Group or Company) for the financial year ended 31 December 2013 were signed by the Management Board at 10 April 2014.

Pursuant to the Commercial Code of the Republic of Estonia, the annual report prepared by the Management Board and approved by the Supervisory Board and which also includes the consolidated financial statements shall be approved at the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and presented by the Management Board and require preparation of a new annual report.

AS Pro Kapital Grupp is a corporation incorporated in the Republic of Estonia and it operates in Estonia, Latvia, Lithuania and Germany.

From 23 November 2012, the shares of AS Pro Kapital Grupp are listed on NASDAQ OMX Tallinn Stock Exchange secondary list. As at 31 December 2013, the main shareholders of the Company are the following:

Shareholder	Country of incorporation	Share of ownership	
		31.12.2013	31.12.2012
Clearstream Banking Luxembourg S.A	Luxembourg	22,37%	22.23%
Eurofiduciaria S.r.l.	Italy	13,50%	12.84%
Svalbork Invest OÜ	Estonia	12,64%	12.86%
Sueno Latino AG	Liechtenstein	8,37%	8.51%
A.F.I. American Financial Investments Ltd.	Liechtenstein	8,09%	8.20%
Anndare Ltd.	Ireland	6,08%	6.27%

The addresses of its registered office and principal place of business are disclosed in the introduction to the annual report. The principal activities of the Company and its subsidiaries (the Group) are described in Note 5.

Note 2. Application of New and Revised International Financial Reporting Standards (IFRSs)

2.1 Amendments to IFRSs affecting amounts reported in the financial statements

Accounting policies applied in the year 2013 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

Standards and Interpretations effective in the current period.

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Government Loans, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),

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- **Amendments to IFRS 7 “Financial Instruments: Disclosures”** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 “Presentation of financial statements”** – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 “Income Taxes”** – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 “Employee Benefits”** – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards “Improvements to IFRSs (cycle 2009-2011)”** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”**, adopted by EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards has not led to any material changes in the Group’s accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards revisions and interpretations adopted by the EU were in issue but not yet effective:

- **IFRS 10 “Consolidated Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 “Joint Arrangements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 “Disclosures of Interests in Other Entities”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) “Separate Financial Statements”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) “Investments in Associates and Joint Ventures”**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosures of Interests in Other Entities”** – Transition Guidance, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 “Consolidated Financial Statements”, IFRS 12 “Disclosures of Interests in Other Entities” and IAS 27 (revised in 2011) “Separate Financial Statements”** – Investment Entities, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 “Financial instruments: presentation”** – Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 “Impairment of assets”** - Recoverable Amount Disclosures for Non-Financial Assets, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 “Financial Instruments: Recognition and Measurement”** – Novation of Derivatives and Continuation of Hedge Accounting, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The Company anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

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Note 3. Significant Accounting Policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted in European Union, and in accordance with Estonian Accounting Act.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for property, plant and equipment, investment properties and financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration at the moment of exchange for assets.

The principal accounting policies are set out below.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operational policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, income and expenses are eliminated in full on consolidation.

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Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 and IAS 19 respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments

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against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

3.5 Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.4 above) less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss disposal.

3.6 Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions, quoted by European Central Bank. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date, quoted by European Central Banks of sub-group's country of incorporation. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

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- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into euros using exchange rates prevailing at the end of each reporting period, of European Central Bank of the country of incorporation of the consolidating company. Income and expense items are retranslated at the average exchange rates for the period, unless exchange rate fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used.. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operations and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income and accumulated in equity.

The main foreign currencies and relevant exchange rates according to European Central Bank as applied in preparing the consolidated financial statements are as follows:

(in euros)	31.12.2013	2013 average	31.12.2012	2012 average
Latvian lats (LVL)	1.42287	1.42552	1.43328	1.43410
Lithuanian litas (LTL)	0.28962	0.28962	0.28962	0.28962

3.7 Cash and cash flows

Cash on the balance sheet and statement of cash flows comprises cash on hand, bank accounts, and short-term bank deposits (with time term less than three months).

Cash flows from operating activities are presented using the indirect method, according to which the net profit (loss) for the financial year is adjusted by the effect of transactions of a non-monetary nature, net changes in assets and liabilities related to business operations, and items of income and expense (profits and losses) associated with financing and investing activities. Cash flows from investing and financing activities are reported based on direct method, presenting gross receipts and disbursements of the accounting period.

3.8 Inventories

Inventories are stated at the lower of cost and net realisable value. Inventory items that are individually distinguishable an individual measurement of cost value and cost of sales is applied. For inventory items that are not individually distinguishable, the weighted average cost method is used. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3.9 Property, plant and equipment

Land and buildings held for supply of services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated

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impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is recognised in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The annual depreciation rates for groups of property, plant and equipment are as follows:

- Buildings in use 2 to 5% per annum;
- Machinery and equipment 8 to 20% per annum;
- Other fixtures 20 to 50% per annum.

3.10 Investment property

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes).

Land and buildings, which are planned to be held for a longer period of time and which have different possibilities to be used are reported also as investment property. In case of change in the usage purpose of the investment property, the asset is reclassified and since the reclassification date the accounting principles of the new group are applied.

Investment properties are initially recognised at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, based on the market price determined annually by independent appraisers, based on the prices of recent transactions involving similar items (adjusting the estimate for the differences) or using the discounted cash flow method. Changes in fair value are recorded under the income statement items "Other operating expenses/other operating income". No depreciation is calculated on investment property recognised at fair value.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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3.11 Intangible assets (excluding goodwill)

Intangible assets include purchased franchises, patents, licenses, trademarks, usage rights and goodwill.

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The amortisation rate for intangible assets are 20% per annum, excluded the usage rights and intangible assets with indefinite useful lives. Usage rights are amortised on a straight-line basis and the maximum length of the amortisation period is the period where the asset is being used. Intangible assets with indefinite useful lives that are acquired separately are carried at costs less accumulated impairment losses.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

3.12 Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there are any indications that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease (see Note 3.9 above).

When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase (see Note 3.9 above).

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3.13 Investments in subsidiaries (in Parent company's unconsolidated financial statements)

Investments in subsidiaries that are not held for sale are recognised in the unconsolidated financial statements of the Parent company at cost.

3.14 Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transactions costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.15 Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designed as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss is signed for identification purposes:

incorporates any dividend or interest earned on the financial asset and is included in the 'other gain and losses' line item.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment loss.

Available-for-sale financial assets (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables; (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

AFS financial assets that are traded in an active market are stated at fair value at the end of each reporting period. Also AFS equity instruments that are not traded in an active market are stated at fair value at the end of each reporting period, only if, the management considers that fair value can be reliably measured. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of AFS financial assets are recognized in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is classified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment. For all other financial assets, objective evidence of impairment could include:

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- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When trade receivables are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it

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no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

3.16 Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Compound instruments

The component parts of compound instruments (convertible notes) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument. The Company is issued convertible bonds that are convertible into shares at bondholder's request. The Company is classified those convertible bonds as financial liability.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. Transaction costs that relate to the issue of the convertible notes are included in the carrying amount of the liability, and amortised over the lives of the convertible notes using the effective interest method. Interest expense from convertible bonds is recorded in the income statement for the reporting period based on actual interest rates.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. All the Company's financial liabilities belong to the category 'other financial liabilities'.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other current and non-current payables) are subsequently measured at amortised cost using the effective interest method. The amortised cost of current financial liabilities normally equals their nominal value; therefore, current financial liabilities are stated in the statement of financial position at their redemption value.

The effective interest method is method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums and discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

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Financial liabilities are classified as current when they are due to be settled no more than twelve months after the reporting period; or the Company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Borrowings that are due no more than twelve months after the reporting period, but which are refinanced after the reporting period as non-current, are recognised as current ones. Also, borrowings are classified as current if the lender had a contractual right at the reporting period to demand immediate repayment of the borrowing due to the breach of conditions set forth in the agreement.

Borrowing costs directly attributable to the acquisition, construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.17 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of reporting period, taking into account the risks and uncertainties surrounding the obligation. Provision is discounted to its present value when the effect of the time value of money is material.

3.18 Contingent liabilities

Pledges and other commitments, which at certain conditions may turn into liabilities in the future, are disclosed in the Notes of the consolidated financial statements as contingent liabilities.

3.19 Statutory reserve

Statutory legal reserve is recorded based on the requirements of the Estonian Commercial Code and is comprised of the provisions made from the net profit. The annual provision must be at least 1/20 of the approved net profit of the financial year until the statutory legal reserve equals at least 1/10 of share capital amount.

3.20 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Net sales

Net sales of the Group consists of revenues from the sale of real estate based on the real right agreements confirmed by the notary, rental income as well as revenues earned from management, administration services and hotel management services.

Revenue from sales is recorded on the accrual basis, when significant risks have been transferred to the buyer, and the sales income and costs incurred in respect of the transaction can be measured reliably.

Rental income

The Group's policy for recognition of revenue from operating leases is described in Note 3.22 below.

Other income

Income, which is not related to the core operations of the Group entities, is recorded as other income.

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Dividend and interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3.21 ExpensesCost of sales

Cost of sales includes the costs of bringing real estate objects realized during the reporting period and recorded in the net sales to a marketable condition. Real estate rental, development and management expenses, and costs related to hotel management services are also recorded in income statement under "Cost of sales".

Marketing expenses

Marketing expenses include selling expenses, i.e. advertising, agency fees and other marketing expenses.

Administration expenses

Administrative expenses include personnel and office management expenses, research and development expenses, and depreciation and amortization charges.

Other expenses

Expenses, which are not related to the core operations of the Group entities, are recorded as other expenses.

Finance cost

Direct interest costs of acquiring properties constructed over long periods of time are capitalized until the property is taken into use. Other interest and financing costs are recorded on the accrual basis as financial expenses of the reporting period.

3.22 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are initially recognized as an assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic

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benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3.23 Taxation

Estonia

According to the Estonian Income Tax Act the accrued profit of a resident legal entity is not subject to corporate income tax, instead the tax is due on the distribution of dividends. Income tax should be calculated also on other payments made from equity that are exceeding the monetary or non-monetary contributions made to the equity. The tax rate applicable is 21/79 from the taxable amount.

As a result of such taxation principles, the notion of "tax base of assets and liabilities" has lost its economic meaning and deferred income tax and assets cannot be calculated in accordance with IAS 12 "Income Taxes". Contingent income tax liability from the retained earnings, which could otherwise be distributed as dividends, is not recorded in the Statement of Financial Position. Income tax expense to be incurred at the payment of dividends is recognized in the income statement as expense at announcement of dividends or any other distribution of equity.

Other subsidiaries

Profit earned by subsidiaries of the Group is imposed to income tax according to the tax rate stipulated by the legislation of domicile countries. Deferred income tax liability is accounted from all relevant temporary differences between the tax bases of assets and liabilities and their book value. Deferred income tax assets, which are mainly caused by the tax losses carried to future periods, are recognized in the statement of financial position only, when it is likely that it will be realized through the taxable profit earned in the future. Deferred tax assets and liabilities are offset when there is a legally enforceable right in the Group subsidiaries' countries of incorporation to set off current tax assets against current tax liabilities. For calculation of the deferred income tax assets and liabilities, generally the income tax rate applicable on the balance sheet date is used.

3.24 Segment reporting

According to IFRS 8 *Operating Segments*, segment reporting is applicable to operating segments whose results are regularly reviewed by the parent to make business-related decisions. The primary decisions are made on country basis. Operating segments are components of the entity for which it is possible to obtain discrete financial information to make decisions about resources to be allocated to the segment and assess its performance. Primary criteria for monitoring of operating segments are the following: Revenue from third parties, EBIT, net profit earned and total assets.

3.25 Subsequent events

Consolidated financial statements include impact of significant events that are related with the events of previous periods that affect the valuation of assets and liabilities and occurred between the end of the reporting period and the date that the financial statements are finalized by the management board of the Parent.

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Events after the reporting period that do not affect the valuation of assets and liabilities but have a significant effect on the result of the following financial year, are disclosed in the notes to the consolidated financial statement.

3.26 Correction to equity classification due to error

There was correction made to equity as of 31.12.2012 due to mathematical error.

<i>in thousands of euros</i>	Share capital	Properties revaluation reserve	Foreign currency translation reserve	Retained earnings	Attributable to equity owners of the parent	Non-controlling interests	Total equity
31 December 2012	10 637	11 330	-1 064	43 672	64 575	1 552	66 127
Adjustment	0	0	-149	-230	-379	0	-379
31 December 2012, adjusted	10 637	11 330	-1 213	43 442	64 196	1 552	65 748

There was correction made to administration expenses for 2012 due to approval of bonus payable to the management of the Company after the annual accounts for 2012 were approved.

The following correction was made (in thousands euros):

Administrative expenses, 2012	5 889
Adjustment	290
Administrative expenses, 2012 after adjustment	6 179
Current payables, 2012	1 926
Adjustment	290
Current payables 2012, after adjustment	2 216

Note 4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4.1 Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimation (see Note 4.2 below), that the management have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

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Classification of real estate

Decision of real estate classification to inventory, investment property or property, plant and equipment is done based on management's intention over the future use of the object. Property is recognized as inventory, if the objective of purchase is connected with development of environment, it is sale or resale during ordinary course of business. Objects recognized as investment property if purchase objective is gaining profit from rent or rise of market value. Also objects recognized as investment property if it is intended to keep them for long time and which have several purposes of use.

Property used for rendering services or for administrative purposes and with useful life of over one year is considered to be property, plant and equipment.

Collection risk of receivables

For material financial assets, potential decrease in value is evaluated separately. Receivables overdue are evaluated on case- by- case basis in respect to their collectability.

The Group may have overdue receivables that are not provided for. Such receivables are assessed by the management of the Group on individual basis and found them to be collectable.

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4.2 Key sources of estimation uncertainty

The following are the key assumption concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimation of net realisation value of inventories

According to the Group principles, inventories are stated on the balance sheet at the lower of cost or net realizable value, depending on which is lower. The management should decide upon net realization value if indication occurs that inventory value might be fallen below cost price. In this is the case inventories are written down to their net realization value.

Real estate that have been acquired and developed for sale is presented on the balance sheet as inventories. In assigning value to such assets, management takes in account market sale transactions of similar type of assets made close to the balance sheet date. Additionally for assigning the value there were used professional valuations made by property specialists. If actual sale prices of real estate objects were below the balance sheet value the assets were written down to their net realization value. In assigning the value to property purchased for development purpose, the Group has used professional valuation reports concluded by certified real estate appraisers.

Fair value of investment property

As of balance sheet date the property investments are valued at their fair value. In determination of the fair value estimations of management were used, and if needed opinion of independent certified real estate appraisers. In determination of the fair value two methods are used: discounted cash flow method and comparative transaction price method. Discounted cash flow method is used for assigning fair value of real estate objects with stable rental income.

Recoverable value of property, plant and equipment

At the end of each reporting period, the management reviews the carrying amounts of its assets to determine whether there are any indications that the assets may be impaired. In determining the recoverable value of an asset, the impairment test is carried out during what the recoverable value is identified. The recoverable value of the asset is the higher of the present value of the future cash flows from the asset or the fair value of the asset less costs to sell.

Useful life of property, plant and equipment

In determining useful life of property, plant and equipment, taken into account the Group business conditions and volumes, previous experience in relevant field and future plans. According to management estimation useful life for buildings is 20-50 years. Useful life for machinery and equipment 5 to 12,5 years depending on the purpose of use and for other equipment 2 to 5 years.

Collection risk of receivables

For material financial assets, potential decrease in value is evaluated separately. Receivables overdue are evaluated on case- by- case basis in respect to their collectability.

The Group may have overdue receivables that are not provided for. Such receivables are assessed by the management of the Group on individual bases and found them to be collectable.

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Note 5. Entities Belonging to the Consolidation Group

Name of the Entity	Shareholders	Country of incorporation and operation	Proportion of ownership interest and voting power held by the Group		Principal activity
			31.12.2013	31.12.2012	
AS Pro Kapital Grupp	See Note 1	Estonia	See Note 1	See Note 1	Holding activities, parent company
AS Pro Kapital Eesti	AS Pro Kapital Grupp	Estonia	100.00%	100.00%	Real estate development
OÜ Ilmarise Kvarital	AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate development
AS Täismaja	AS Pro Kapital Eesti	Estonia	100.00%	99.99%	Real estate development
AS Tondi Kvarital	AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate development
OÜ pro Halduse (former AS Pro Halduse)	AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate management
AS Tallinna Moekombinaat	AS Pro Kapital Eesti	Estonia	96.00%	96.00%	Real estate development
Hotel Management Services OÜ	AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Hotel management
Pro Kapital Vilnius Real Estate UAB	AS Pro Kapital Grupp	Lithuania	100.00%	100.00%	Real estate development
PK Invest UAB	Pro Kapital Vilnius Real Estate UAB	Lithuania	100.00%	100.00%	Real estate development
In Vitam UAB (previously UAB Domina Management)	Pro Kapital Vilnius Real Estate UAB	Lithuania	100.00%	100.00%	Real estate management
Pro Kapital Latvia PJSC	AS Pro Kapital Grupp	Latvia	100.00%	100.00%	Real estate development
PK Latvia SIA (under liquidation)	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Kliversala RE SIA	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Tallina Nekustamie Īpašumi SIA	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Investhotel SIA	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Pasaules tirdzniecības centrs "Rīga" SIA	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Nekustamo īpašumu sabiedrība Prokurs SIA (under liquidation)	Pro Kapital Latvia PJSC	Latvia	70.00%	70.00%	Real estate development
Hotel Management Services SIA	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Hotel management
OÜ Pro Kapital Germany Holdings	AS Pro Kapital Grupp	Estonia	100.00%	100.00%	Real estate development
Pro Kapital Germany GmbH	AS Pro Kapital Grupp	Germany	100.00%	100.00%	Real estate development
PK Hotel Management Services GmbH	OÜ Pro Kapital Germany Holdings	Germany	100.00%	100.00%	Hotel management

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Below are presented the (consolidated) financial figures of the Group companies, whereas the figures of the sub-group are presented in the currency of domicile of the sub-group and converted into the currency domiciled of the Parent. Revenue figures include intergroup transactions.

in thousands of euros

Subsidiary	Currency	Cost at 31.12.2013	Cost at 31.12.2012	Revenue for 2013	Profit/loss for 2013	Net Assets at 31.12.2013	Net Assets at 31.12.2012
AS Pro Kapital Eesti	EUR	17 981	17 981	705	(1 293)	110 044	111 337
OÜ Ilmarise Kvarital	EUR	286	286	559	259	2 787	2 528
AS Täismaja	EUR	65 853	65 852	0	5 614	126 640	121 026
AS Tondi Kvarital	EUR	4 364	4 364	739	(224)	6 201	6 425
OÜ Pro Halduse	EUR	27	27	1 465	46	526	480
AS Tallinna Moekombinaat	EUR	12 345	12 345	0	12 541	21 673	9 132
Hotel Management Services OÜ	EUR	520	520	1 394	54	183	129
Pro Kapital Vilnius Real Estate UAB	LTL	688	688	8	(251)	2 509	2 760
PK Invest UAB	LTL	6 679	6 679	2 062	(205)	634	839
In Vitam UAB	LTL	43	43	85	8	58	50
Pro Kapital Latvia PJSC	LVL	10 188	10 188	145	163	8 007	7 844
PK Latvia SIA	LVL	188	188	211	107	113	6
Kliversala RE SIA	LVL	9 725	9 725	34	(193)	12 681	12 874
Tallina Nekustamie Īpašumi SIA	LVL	4 889	4 889	1	(142)	436	578
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	LVL	1 716	1 716	15	(98)	460	558
Investhotel SIA	LV	987	987	611	450	2 402	1 952
Pasaules tirdzniecības centrs "Rīga" SIA	LVL	9 641	9 641	973	310	2 007	10 416
Nekustamo īpašumu sabiedrība Prokurs SIA	LVL	1 408	1 408	334	97	2 128	2 063
Hotel Management Services SIA	LVL	801	801	1 588	87	316	229
OÜ Pro Kapital Germany Holding	EUR	2	2	0	0	141	141
Pro Kapital Germany GmbH	EUR	25	25	436	(106)	4 856	4 962
PK Hotel Management Services GmbH	EUR	1	1	2 848	(198)	(57)	141

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Note 6. Segment Reporting

Group companies consolidated segment information derived from geographical intercompany segment reporting is presented below.

Segment result, assets and liabilities are presented on line items associated directly with particular segment and are sufficiently motivated.

The business activity of the Company is exercised in Estonia, Latvia, Lithuania and Germany.

<i>in thousands of euros</i>	Estonia	Latvia	Lithuania	Germany	Total
2013					
Revenue	4 200	3 100	2 140	2 847	12 287
Other operating income	172	41	2	195	410
Segment operating profit (loss)	-1 454	-229	106	-118	-1 695
Financial income and expense (net)	-721	-119	-125	-2	-967
Profit (loss) before income tax	-2 176	-348	-18	-120	-2 662
Income tax	0	79	5	0	84
Non-controlling interest	-7	29	0	0	22
Net profit (loss) for the financial year attributable to equity holders of the parent	-2 169	-298	-13	-120	-2 600
Assets	50 674	25 590	13 805	8 225	98 294
Liabilities	22 904	5 184	4 376	1 135	33 599
Acquisition of non-current assets	11	25	2	9	47
Depreciation and amortisation	-175	-202	-25	-384	-786
2012					
Revenue	3 561	2 650	6 546	3 321	16 078
Other operating income	226	41	19	125	411
Segment operating profit (loss)	-4 375	-999	786	-25	-4 613
Financial income and expense (net)	-544	-177	-568	-128	-1 417
Profit (loss) before income tax	-5 068	-1 176	218	-153	-6 179
Income tax	0	91	10	40	141
Non-controlling interest	7	-10	0	0	-3
Net profit (loss) for the financial year attributable to equity holders of the parent	-5 202	-1 095	228	-113	-6 182
Assets	51 085	25 926	14 427	8 824	100 262
Liabilities	22 000	5 772	5 526	1 216	34 514
Acquisition of non-current assets	54	12	3	4	73
Depreciation and amortisation	-161	-255	-29	-374	-819

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Note 7. Acquisitions of / Change in Ownership in Subsidiary

<i>in euros</i>	AS Täismaja
Net assets at the date of acquisition	
Share (%) as at 31 December 2012	99.9996%
Acquired	0.0004%
Share (%) as at 31 December 2013	100.0000%

Acquisition cost	
Paid in cash	497
Net cash flow in acquisition	497
Loss in acquisition (equity)	57

Note 8. Cash and Cash Equivalents

Cash and cash equivalents recorded in the statement of financial position and statement of cash flows, comprise cash at hand and bank deposits as of the end of each reporting period. Foreign currency accounts have been retranslated into euro at the European Central Bank currency exchange rates prevailing on the reporting period date.

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Cash at hand	40	48
Bank accounts	2 719	659
Total	2 759	707

Note 9. Current Receivables

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Trade receivables	586	1 068
Receivables from related parties (Note 28)	501	492
Other receivables	1 378	1 400
Accrued income	9	37
Prepaid expenses	264	201
Total	2 738	3 198

In 2013, 18 thousand euros of trade receivables were written off (2012: 186 thousand euros). Allowance of 3 thousand euros for credit losses was booked as at 31 December 2013 (no allowances for credit losses were made in 2012).

As at 31 December 2013, there were 98 thousand euros of current receivables overdue (31.12.2012: 294 thousand euros), of which 7 thousand euros were overdue by more than 360 days (31.12.2012: 21 thousand euros).

Note 10. Inventories

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Property held for resale	10 222	12 908
WIP (property under construction)	35 293	35 184
Goods bought for resale	72	99
Total	45 587	48 191

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The cost of inventories recognised as an expense during the year in respect of continuing operations was 3 047 thousand euros (2012: 5 527 thousand euros).

The cost of inventories recognised as an expense includes 4 thousands euros (2012: 62 thousands euros) in respect of write-downs of inventory to net realisable value.

Inventories of 4 831 thousands euros (31 December 2012: 35 308 thousands euros) are expected to be recovered after more than twelve month.

Note 11. Property, Plant and Equipment

As at 31 December 2012 Group's land and buildings were valued into their fair value based on the valuation of independent expert. The valuation, which confirms to International Valuation Standards, was performed by independent real estate appraiser Newsec Valuation and was determined by using market transactions method and partially with reference to discounted cash flow method.

The valuation results do not significantly exceed book values of land and buildings as of 31 December, 2013 and upon management judgement book values reflect fairly the value of Group's land and building assets and, given no significant changes in real estate market in the countries the Company is operating, no additional revaluation adjustment is deemed necessary.

Based on independent appraiser's valuation, following fair value adjustments were performed as of December 31, 2011 (in thousands of euros):

<i>in thousands of euros</i>	Carrying amount		Revaluation value	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Pulkvieza Brieza 11, Riga	1 747	1 767	5 788	5 880
Põhja Avenue 21, 21a, 21b-1, Tallinn	3 336	3 517	5 850	5 975
Põhja Avenue 21c, Tallinn	186	192	218	268
Kurhausstrasse 28, Bad Kreuznach	1 931	2 430	7 827	8 063
TOTAL	7 200	7 906	19 683	20 186

Revaluation reserve (accounted for under equity) in the amount of 11 330 thousands euros was formed to account for revaluation differences (see Note 19). There are no restrictions on distribution on revaluation reserve.

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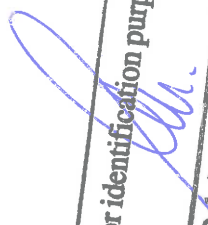
<i>in thousands of euros</i>	Land and buildings	Machinery and equipments	Other property, plant and equipments	Prepayments	Total
Balance at 1 January 2012	21 897	1 324	2 389	0	25 610
Additions:					
Acquired	0	19	51	3	73
Disposals:					
Sold	0	-17	0	0	-17
Written off	0	-43	-73	-3	-119
Reclassified to/from inventories		0	15	0	45
Reclassified within PPE classes	0	-65	65	0	0
Balance at 31 December 2012	21 897	1 218	2 447	0	25 592
Additions:					
Acquired	0	10	24	13	47
Disposals:					
Sold	-229	-8	-4	0	-241
Written off	0	-9	-56	-13	-78
Balance at 31 December 2013	21 668	1 211	2 441	0	25 320

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<i>in thousands of euros</i>	Land and buildings	Machinery and equipments	Other property, plant and equipments	Total
Accumulated depreciation 01.01.2012	828	776	2 143	3 747
Additions:				
Depreciation charge for the period	620	150	41	811
Disposals:				
Sold	0	-12	0	-12
Written off	0	-42	-73	-115
Other changes:				
Reclassified within property, plant and equipment	0	-57	57	0
Accumulated depreciation 31.12.2012	1 448	815	2 168	4 431
Additions:				
Depreciation charge for the period	608	102	76	786
Disposals:				
Sold	-71	-8	-4	-83
Written off	0	-9	-56	-65
Accumulated depreciation 31.12.2013	1 985	900	2 184	5 069
Acquisition cost, 31.12.2012	21 897	1 248	2 447	25 592
Accumulated depreciation	<u>1 448</u>	<u>815</u>	<u>2 168</u>	<u>4 431</u>
Book value, 31.12.2012	20 449	433	279	21 161
Acquisition cost, 31.12.2013	21 668	1 211	2 411	25 290
Accumulated depreciation	<u>1 985</u>	<u>900</u>	<u>2 184</u>	<u>5 069</u>
Book value, 31.12.2013	19 683	311	227	20 221

Information about property, plant and equipment pledged collaterals are disclosed in Note 17 to these consolidated financial statements.

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According to IFRS 13 classification, property, plant and equipment owned by the Group are classified as belonging to Level 3 value hierarchy. The valuation of such properties is based on inputs that are not observable and significant to the overall fair value measurement. The valuation of the Group's investment properties was made using market method and partially relying discounted cash flows method.

Main unobservable inputs being used in residual value model were operative revenue and required rate of returns. Those are also the main factors, contributing to the sensitivity of the value of those properties. While operative revenue is highly dependent on the development of tourism sector, required rate of return is partially influenced by company's own lending activities and financing mix.

Main unobservable inputs used were:

- Occupancy- estimated taking into account overall development of tourism sector in the areas the Company's properties are located. The level of operative revenues is a mix of average price charged for the room (hotels) and occupancy. The latter two factors are, however, strongly interrelated, allowing the Company swift and timely corrections to the fluctuation of operative revenue. Occupancy estimate is 65%.
- Required rate of return is the rate of return Company's shareholders expect to earn from the above listed properties. Estimated rate of return is 11,8%.

The following table illustrates possible changes to fair value of investment property given changes in main unobservable inputs (in thousands euros):

	Occupancy rate, %		Required rate of return, %	
	+5%	-5%	+5%	-5%
2013	+320	-320	+740	-710
2012	+307	-307	+725	-700

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Note 12. Investment Property

	Investment properties held for increase in value	Investment properties held for earning rentals	Total
Balance at 1 January 2012	26 023	88	26 111
Additions:			
Acquired	1 025	0	1 025
Disposals:			
Written off	-22	0	-22
Changes in fair value:			
Loss from change in fair value of IP	-1 025	0	-1 025
Balance at 31 December 2012	26 001	88	26 089
Additions:			
Acquired	85	0	85
Disposals:			
Sold	0	-88	-88
Written off	0	0	0
Changes in fair value:			
Loss from change in fair value of IP	-85	0	-85
Balance at 31 December 2013	26 001	0	26 001

The fair value of the Group's investment property at December 31, 2013 and December 31, 2012 has been arrived at on the basis of a valuation carried out on the respective dates by Newsec Valuations EE, independent valuers not related to the Group. Newsec Valuations EE are members of the Institute of Valuers of a Land, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation arrived at by reference to recent market transactions and arms' length method. In few appropriate instances discounted cash flow method was used due to low number of comparable market transactions.

As at December 31, 2013 the appraiser determined no significant changes in the value of investment properties, consequently, the management of the Group decided to state the value of investment properties unchanged since December 31, 2012.

The Company applies threshold, according to which the value of the properties remains unchanged if the value determined by independent real estate upraser is not higher than 3% of the recorded book value and not lower than 1,5% lower than the recorded book value of the properties.

Fair value adjustment of 85 thousand euros comes from capitalized cost that were expensed on "other operating expense" line at the year end as the fair value of investment property remained constant (monetary expenditure amounted to 302 thousand euros, 217 thousand of euros of which have been provisioned for in earlier reporting periods).

Investment property held for earning rentals was sold in 2013.

According to IFRS 13 classification, investment properties owned by the Group are classified as belonging to Level 3 value hierarchy. The valuation of such properties is based on inputs that are not observable and significant to the overall fair value measurement. The valuation of the Group's investment properties was made using residual valuation approach. Sales comparison method has not been employed due to the lack of reasonable comparable transactions with large scale of development land in the market in recent time.

Main unobservable inputs being used in residual value model were construction costs, rent rates and exit yield. Those are also the main factors, contributing to the sensitivity of the value of investment properties and are highly influenced by the overall market sentiments and market situation.

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Main unobservable inputs used were:

- Construction costs per square meter – the estimate is based on comparative costs for the period 2011- 2013, taking into account location, planning and nature of property; the estimate used is 628 EUR/m²;
- Rent income per square meter - the estimate is based on comparative rent prices for the similar properties for the period of 2011-2013, incorporating constant yearly growth rate of 3%; 16,5 EUR/m² for shopping centre rentals and 11 EUR/m² for office rentals;
- Exit yield- the estimate is based on comparative data of similar market transactions. The yield, assuming exit after 6 year period of operating the property, is estimated to be 7% for shopping centre property and 7,5% for office properties.

The following table illustrates possible changes to fair value of investment property given changes in main unobservable inputs (in thousands euros):

	Construction costs/m2		Rent price/m2		Exit yield	
	+5%	-5%	+5%	-5%	+0,35pp	-0,35pp
2013	+1 400	-1 400	+6 285	-6 270	+5 250	-4 765
2012	+1 400	-1 400	+6 285	-6 270	+5 250	-4 765

Investment properties of the Company according to management judgement are employed in the highest and best use.

The rental income and the corresponding direct expenses from the described investment property were the following:

<i>in thousands of euros</i>	2013	2012
Rental income	0	35
Direct operating costs		
Maintenance	0	0
Other direct costs	70	72

Information about investment property pledged as collaterals is disclosed in Note 17 to these consolidated financial statements.

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Note 13. Current Debt

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Bank loans and overdrafts (Note 16)	1 872	4 237
Convertible bonds (Note 18)	6 105	3 261
Payables to related parties (Note 28)	3 753	4 153
Other	0	41
Total	11 730	11 692

Note 14. Current Payables

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Trade payables	804	1 031
Payables to related parties (Note 28)	1	1
Accrued expenses	1 328	1 273
Total	2 133	2 305

Note 15. Non-Current Debt

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Bank loans and overdrafts (Note 16)	10 233	7 695
Convertible bonds (Note 18)	5 167	8 011
Non- convertible bonds	1 640	0
Total	17 040	15 706



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Note 16. Bank Loans and Overdrafts

in thousands of euros						
Borrower	Creditor	Contract currency	Loan balance at 31.12.2012	Loan balance at 31.12.2013	Loan repayments	Maturity date
					Within 1 year	Over 5 years
Pro Kapital Eesti:						
AS Pro Kapital Eesti	AS Swedbank	EUR	1 731	1 647	101	1 546
AS Tondi Kvartal	AS Swedbank	EUR	605	446	446	0
AS Pro Kapital Eesti	AS Swedbank	EUR	566	2 436	165	2 271
			2 902	4 529	712	3 817
Pro Kapital Latvia:						
Investhotel SIA	AS Swedbank	EUR	4 284	3 952	345	3 607
			4 284	3 952	345	3 607
Pro Kapital Vilnius:						
PK Invest UAB	AB Swedbank	EUR	4 736	3 624	815	2 809
			4 736	3 624	815	2 809
Pro Kapital Germany Holdings:						
	Volksbank					
Domina Tourismus GmbH	Bad Kreuznach	EUR	10	0	0	0
			10	0	0	0

As of 31 December 2013, PK Invest UAB had 1 100 thousand EUR of unused long-term loan limit, with interest rate of 3,85% + 6 month EURIBOR and repayment deadline of 28.11.2017.

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Note 17. Collaterals and Pledged Assets

Debt disclosed in Note 16 to these consolidated financial statements is pledged with the following properties:

in thousands of euros

Name of the pledge	Name of the beneficiary	Obligation at 31.12.2013	Collateral description	Owner of collateral	Type of assets	Book value of collateral at 31.12.2013
AS Tondi Kvartal	AS Swedbank	446	Tondi street 51, Tallinn	AS Tondi Kvartal	Finished construction (inventories)	1 340
			Guarantee letter	AS Pro Kapital Grupp	Entity's assets	X
AS Pro Kapital Eesti	AS Swedbank	1 647	Põhja avenue. 21, 21a, 21b-1, Tallinn	AS Pro Kapital Eesti	Land and buildings	5 787
			Põhja avenue 21, 23 Tallinn	OÜ Ilmarise Kvartal	Finished construction (inventories)	547
AS Pro Kapital Eesti	AS Swedbank	2 436	Põhja avenue. 21, 21a, 21b-1, Tallinn	AS Pro Kapital Eesti	Land and buildings	5 787
			Põhja avenue 21, 23 Tallinn	OÜ Ilmarise Kvartal	Finished construction (inventories)	547
			Tondi street 51, Tallinn	AS Tondi Kvartal	Finished construction (inventories)	1 340
Investhotel SIA	AS Swedbank	3 952	Pulkveza Brieza Str. 11, Riga	Investhotel SIA	Land and buildings	5 788
			Trijadibas street 5, Riga	Investhotel SIA	Other assets	4 851
				Kliversala RE SIA	Unfinished construction (inventories)	8 869
PK Invest UAB	AB Swedbank	3 624	Guarantee letter	AS Pro Kapital Grupp	Entity's assets	X
			Aguonu str.10, Vilnius	PK Invest UAB	Finished construction (inventories)	8 160
					Entity's assets	381
					Unfinished construction (inventories)	3 887
Total		12 105	Guarantee letter	AS Pro Kapital Grupp	Entity's assets	X

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In addition to guarantee letters related to loans of the Group, AS Pro Kapital Grupp has issued guarantee letters as follows:

- To Swedbank AS (Latvia) to assure the potential liability of Klīversala RE SIA, an entity belonging to Pro Kapital Latvia subsidiary group, in the amount of 7 382 thousand euros (5 188 thousand Latvian lats), as AS Swedbank (Latvia) has issued a guarantee letter in the amount of 8 869 thousand euros to VAS „Privatizācijas aģentūra” to assure the investment liabilities related to contract concluded between Klīversala RE SIA and VAS „Privatizācijas aģentūra” (31.12.2013). As at December 31, 2012 the unfulfilled investment obligation of Klīversala RE SIA was 8 002 thousand euros (5 681 thousand Latvian lats).
- To Swedbank AS (Latvia) in the amount of 3 952 thousand euros.
- Guarantee letter to Kristiine Keskus OÜ to secure (jointly with Pro Kapital Eesti AS) possible claims against Tāismaja AS arising from a loan contract concluded between AS Pro Kapital Eesti and Tāismaja AS on March 9, 2004. The guarantee letter is limited to the maximum amount of potential claim. The guarantee is effective for 72 months from concluding the sales-purchase agreement, i.e. until May 2, 2017.
- To AS Swedbank (Estonia) to assure loan liabilities of AS Tondi Kvartal, which amounted to 446 thousand euros as at December 31, 2013 (31.12.2012: 605 thousand euros).
- To Swedbank AB (Lithuania) to assure loan liabilities of UAB PK Invest in the amount of 3 624 thousand euros.

Note 18. Convertible and non- convertible bonds

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Current convertible debt (Note 13)	5 035	3 261
Non-current convertible debt (Note 15)	6 237	8 011
Non- current non- convertible debt (Note 15)	1 640	0
Total	12 912	11 272

On April 3, 2009, AS Pro Kapital Grupp shareholders' extraordinary meeting decided to issue up to 10 000 000 convertible notes of the Parent in nominal value of 0.6 euro per convertible note, and increase conditionally the Parent's share capital by up to 10 000 000 shares in nominal value of 0.6 euro per share in order to exchange convertible notes for shares of the Parent. Management of the Parent had the right to offer the above mentioned number of convertible notes under several subscription periods. The offers of notes were carried out so that offers were neither jointly nor separately deemed as public offering of securities under the terms of the directive 2003/71/EC and applicable laws. The issue price of convertible note in each separate subscription period was determined by management of the Parent not to be less than 4.0 euro per convertible note. Convertible notes were offered for subscription in the quantity that was limited to the minimum total sum payable based on the issue price 50 thousand euros. The interest rate of convertible note was 7% per annum from its issuance price. On April 24, 2009 the conditional increase of the Parent's share capital was registered in the Commercial Register.

In accordance with the decision of extraordinary meeting of shareholders of AS Pro Kapital Grupp on 13 April 2009, the Parent's management offered for subscription 1 500 000 convertible notes on 27 April 2010 (third subscription period), 900 000 convertible notes on July 9, 2010 (fourth subscription period), 700 000 convertible notes on 15 September, 2010 (fifth subscription period) and 600 000 convertible notes on 3 December, 2010 (sixth subscription period), with an issue price of 4.5 euro per convertible bond.

In the third subscription period 840 184 convertible notes were subscribed, for which the Parent received 3 781 thousand euros in the reporting period. On 10 August, 2010, the issued convertible notes were registered in the Estonian Central Register of Securities.

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In the fourth subscription period 536 012 convertible notes were subscribed, for which the Parent received 2 412 thousand euros in the reporting period. On 16 September, 2010, the issued convertible notes were registered in the Estonian Central Register of Securities.

In the fifth subscription period 422 067 convertible notes were subscribed, for which the Parent received 1 899 thousand euros in the reporting period. On 29 November, 2010, the issued convertible notes were registered in the Estonian Central Register of Securities.

In the sixth subscription period 569 273 convertible notes were subscribed, for which the Parent received 2 562 thousand euros at the beginning of 2011. On 8 March, 2011, the issued convertible notes were registered in the Estonian Central Register of Securities.

The issuance of convertible notes of AS Pro Kapital Grupp in 1999 was redeemed in accordance with the terms of issue, for the issue price, on 20 January, 2010. Redemption fees were paid to the owners in cash because the owners did not exercise the right to exchange the convertible notes for the Parent share 1:1.

According to the terms of the emission convertible notes of AS Pro Kapital Grupp issued during the period 2009-2010 could be converted to shares of the Parent until 31 December, 2012 with the exchange rate one convertible note per share.

On 6 February, 2013 AS Pro Kapital Grupp shareholders' general meeting decided to offer the possibility to the holders of convertible notes to prolong their convertible note redemption/conversion deadline by two more years and bondholders accepted the offer. The duration of PKG 1 and PKG 2 bonds, in the amounts of 3 261 460 euros and 1 070 451 euros, respectively, has been prolonged by 2 years to 13 August, 2015 and 20 January, 2016, respectively.

On August 1, 2013 the Group issued 64 new unsecured non-convertible bonds with face value of 10 000 EUR each. Total amount of the bonds issued was 640 000 EUR, their duration is 5 years and they carry 5 % annual interest.

On 7 November, 2013 the Company issued 100 new unsecured non-convertible bonds with face value of 10 000 EUR. Total amount of the bonds emitted is 1 000 000 EUR, the bonds are unsecured, have duration of 3 years and annual interest of 5%.

Registrati on date of bonds issued	13.08.2009	20.01.2010	10.08.2010	16.08.2010	29.11.2010	25.05.2011	01.08.2013	07.11.2013
Amount, thousand euro	3 261	1 070	2 353	1 501	1 182	1 905	640	1 000
Issuance currency	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Issue price of bond	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	10 000 EUR	10 000 EUR
Bond return per annum (%) from issue price	7%	7%	7%	7%	7%	7%	5%	5%
Bond interest payment frequency	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year
Latest date for the repurchas e of bonds	13.08.2015	20.01.2016	10.08.2014	16.08.2014	29.11.2014	25.05.2015	01.08.2018	07.11.2016
Latest date for the exchange of bonds to shares	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	X	X
Discount r	7%	7%	7%	7%	7%	7%	5%	5%

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(Pcs.)

	31.12.2013	31.12.2012
Number of convertible bonds at the beginning of period	4 025 758	4 025 758
Number of convertible bonds issued	0	0
Number of repurchased bonds	0	0
Number of convertible bonds at the end of period	4 025 758	4 025 758

in thousands of euros

	2013	2012
Value of convertible bonds at the beginning of period	11 272	11 272
Principal of convertible bonds issued	0	0
Repurchased bonds in repurchase price	0	0
Principal of the bonds issued at the end of the period	11 272	11 272
Current portion of liabilities at the end of the reporting period	6 105	3 261
Non-current portion of liabilities at the end of the reporting period	5 167	8 011

(Pcs.)

	31.12.2013	31.12.2012
Number of non-convertible bonds at the beginning of period	0	0
Number of non-convertible bonds issued	164	0
Number of repurchased bonds	0	0
Number of non-convertible bonds at the end of period	164	0

in thousands of euros

	2013	2012
Value of non-convertible bonds at the beginning of period	0	0
Principal of non-convertible bonds issued	1 640	0
Repurchased bonds in repurchase price	0	0
Principal of the bonds issued at the end of the period	1 640	0
Current portion of liabilities at the end of the reporting period	0	0
Non-current portion of liabilities at the end of the reporting period	1 640	0

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Note 19. Share Capital and Reserves

Share capital

Owners of AS Pro Kapital Grupp ordinary shares have the right to receive dividends, in case these are announced, and to participate in voting at general shareholders' meetings of the entity with one vote per share. The Entity has not issued any preference shares.

As of 31 December 2013, the share capital in the amount of 10 821 thousand euros (2012: 10 637 thousand euros) consists of 54 106 575 (2012: 53 185 422) ordinary shares at a nominal value of 0.2 euros (2012: 0.2 euros) per share. All shares have been paid for in full.

According to the articles of association effective on 31 December, 2013, the minimum share capital amounts to 6 000 thousands euros, whereas maximum share capital amounts to 24 000 thousands euros.

On 15 May, 2013 the share capital of the Company was increased by issuing 921 153 new shares for the gross proceeds of 1 658 075 euros, thus increasing share capital to 10 821 315 euros. 1 473 845 euros were allocated to share premium.

On 19 June, 2013 general meeting of Group's shareholders decided to transfer 1 063 708 euros to statutory reserve.

As described in Note 18 to these consolidated financial statements, AS Pro Kapital Grupp has issued convertible and non- convertible bonds. The owners of the convertible notes have not exercised their option to convert the notes into shares of the Group.

Reserves

Statutory legal reserve of the Parent is recorded based on the requirements of the Estonian Commercial Code § 336 and is comprised of the provisions made from the net profit. The statutory legal reserve as of 31 December, 2013 amounted 1 063 708 euros (2012: 0 euros).

Revaluation surplus in the amount of 11 330 thousand euros results from first time adoption revaluation model to property, plant and equipment (specifically land and buildings) under IAS 16 "Property, Plant and Equipment" in 2011. In accordance with IAS 8.17, revaluation model is implemented prospectively and revaluation surplus is recognized in other comprehensive income.

Note 20. Non-Controlling Interest

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Arising from Pro Kapital Estonia sub-group	867	933
Arising from Pro Kapital Latvia sub-group	638	619
Total	1 505	1 552

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Note 21. Revenue

<i>in thousands of euros</i>	2013	2012
Revenue from sale of real estate	4 011	7 347
Rental revenue	1 111	1 021
Hotel operating revenue	5 797	6 336
Other services	1 368	1 374
Total	12 287	16 078

Note 22. Cost of Sales

<i>in thousands of euros</i>	2013	2012
Cost of real estate sold	2 942	6 059
Cost of providing rental services	861	858
Cost of hotel operations	3 580	3 568
Cost of other services	1 816	2 265
Total	9 199	12 750

<i>in thousands of euros</i>	2013	2012
Personnel expenses	1 145	1 329
Depreciation charge	699	739
Impairment of tangible and intangible assets	0	66
Inventory write-offs (Note 10)	4	62
Other	7 351	10 554
Total	9 199	12 750

Note 23. Marketing and Administration Expenses**Marketing expenses**

<i>in thousands of euros</i>	2013	2012
Personnel expenses	112	106
Other	308	425
Total	420	531

Administration expenses

<i>in thousands of euros</i>	2013	2012
Personnel expenses	2 176	2 644
Depreciation charge	87	433
Amortisation charge	8	8
Land/real estate taxes	446	486
Other	1 889	2 608
Total	4 606	6 179

In 2013, average number of employees was 118 (2012: 131) and total remuneration cost incurred during 2013 was 2,12 million euros compared to 2,26 million euros in 2012.

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Note 24. Other Income and Other Expenses**Other income**

<i>in thousands of euros</i>	2013	2012
Fines collected	5	23
Gain from sales of property, plant and equipment	144	0
Release of allowance for bad debt	80	212
Other	181	176
Total	410	411

Other expenses

<i>in thousands of euros</i>	2013	2012
Fines paid	5	27
Loss from sales of property, plant and equipment	6	2
Loss from sales of intangible assets	0	1
Write-off of property, plant and equipment	0	1
Fair value adjustment of investment property	85	1 025
Provisions recognised	0	841
Allowance for bad debt	21	0
Other	50	35
Total	167	1 932

For 2013, the Group reported 85 thousand euros fair value adjustment on investment property, which consists of 302 thousand euros worth additions to investment property made in 2013 and then adjusted to expenses in order to maintain fair value of investment property stated in the valuation reports (see Note 12), and adjustment of long-term provision made for construction liabilities in the amount of 217 thousand euros.

Note 25. Finance Income and Cost**Finance income**

<i>in thousands of euros</i>	2013	2012
Interest income	37	28
Gain from foreign currency translation	1	1
Other	409	19
Total	447	48

Finance cost

<i>in thousands of euros</i>	2013	2012
Interest expenses:	1 366	1 433
<i>Interest expense of convertible notes</i>	790	792
<i>Interest expense of loans and overdrafts</i>	576	641
Loss from foreign currency translation	6	15
Other	42	17
Total	1 414	1 465

Other financial income for 2013 contains 409 thousand euros income arising from the reversal of provision formed for the court case with Aprisco B.V. The parties have reached mutual agreement in March 2013, according to which the Company paid the settlement fee of 1,0 mln euros for the counterparty and closed the court case.

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Note 26. Income Tax

According to the Estonian Income Tax Act, the accrued profit of a resident legal entity is not subject to corporate income tax; instead the tax is due on the distribution of dividends. Due to the difference in the income tax concept, the term "taxation base of assets and liabilities" has no economic meaning, and therefore deferred income tax liabilities and assets cannot be accounted for in accordance with IAS 12 "Income Taxes".

Statutory corporate income tax (on earnings) rates

	2013	2012
Estonia*	21%	21%
Latvia	15%	15%
Lithuania	15%	15%
Germany	15%	15%

*in case of distribution of profits

Income tax expense as at 31 December 2013

<i>In thousands of euros</i>	Estonia	Latvia	Lithuania	Germany	Total
Profit before taxation (unconsolidated)	-2 174	771	-440	-819	-2 662
Income tax, statutory rate	0	116	-66	0	50
Non-deductible expenses	0	36	49	0	85
Non-taxable income tax incentive	0	-195	0	0	-195
Tax loss utilized	0	-121	-7	0	-128
Reversals	0	188	32	0	220
Total income tax expense	0	24	8	0	32

in thousands of euros

	31.12.2013	31.12.2012
Profit (loss) before income tax (consolidated)	-2 662	-6 030
Estimated income tax respective to the tax rates	-73	-86
Adjustments to estimated income tax:		
Non-deductible expenses (+)	85	81
Non-taxable income and tax incentive	0	-32
Tax loss utilised	-96	69
Reversal loss carry forward (+)	0	0
Income tax expense	-84	32
Effective tax rate	N/A	0.5%
Deferred income tax expense (details as follows)	0	0
Deferred income tax returns (details as follows)	0	-173
Effect on income statement	-84	-141
Income tax paid	0	0

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Deferred income tax asset and liability (net) movements:

<i>in thousands of euros</i>	Accelerated tax depreciation	Revaluation of fixed assets	Deferred tax losses	Total
31 December 2012	158	1 802	-566	1 394
Effect on income statement:				
Income tax expense of the reporting period	1	0	0	1
Income tax reclaims of the reporting period	-13	-90	-74	-177
Impact on equity				
31 December 2013	146	1 712	-640	1 218

Deferred income tax balances

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Deferred income tax liability (+)	1 758	1 858
Deferred income tax assets (-)	-540	-464
Total, net	1 218	1 394

Contingent corporate income tax

The Group's retained earnings and maximum possible amount of corporate income tax (CIT) obligation were as follows:

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Group's retained earnings	42 668	43 672
Estonian tax rate applicable	21%	21%
Contingent CIT obligation	8 960	9 171

The calculation of maximum possible income tax liability is based on the assumption that the sum of distributable net dividends and the income tax expense which occurs on distribution of dividends cannot exceed total retained earnings as at 31 December 2013 and 31 December 2012.

The Parent has potential opportunity (in case of retained earnings) to pay dividends that are not taxable with income tax in amount of 44 647 thousand euros because the Parent has received dividends from its subsidiary Pro Kapital Latvia PJSC, which is the resident and taxable person in the Republic of Latvia. The maximum related possible income tax free amount that could be considered as contingent asset and could be paid as net dividends is 11 868 thousand euros (31 December 2012: 11 868 thousand euros).

Note 27. Earnings per Share

Earnings per share are calculated by dividing the net profit (loss) for the period with the weighted average number of shares in the period:

	(53 185 422 x 134/365)+
In period 01.01.2013 - 31.12.2013	(54 106 575 x 231/365) = 53 495 398
In period 01.01.2012 - 31.12.2012	(53 185 422 x 12/12) = 53 185 422

Indicative net profit (loss) per share in euros attributable to the owners of the Company:

2013	(2 578 203)/53 495 398 = -0,05
2012	(6 182 304)/ 53 185 422 = -0,12

The convertible notes issued did not have a dilutive effect on earnings in 2013 and 2012, and therefore they have not been included in the calculation of the diluted net profit (loss) per share and the diluted profit (loss) per share equals the net profit (loss) per share indicator.

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Note 28. Transactions and Balances with Related Parties

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note. Details of transactions between the Group and other related parties are disclosed below.

Transactions with related parties are considered to be transactions with the higher level of Parent within the Group, shareholders, the members of the Supervisory Council and the Management Board (defined as "key management"), their intermediate families and the companies in which they hold control or have significant influence.



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Transactions with Related Parties

<i>in thousands of euros</i>	2013	2012
Owners holding significant influence		
Interest income	19	16
Issued loans	475	475
Granted claims	16 106	19 927
Interest expense	199	153
Members of the Management Board and Council		
Salaries	879	851
Other related parties		
Goods and services sold	27	4 703
Disposal of real estate	330	4 640

During the reporting period, the Company sold apartment to the Chairman of the Management Board. The transaction was executed at market price.

Other transactions with related parties specified were carried out with the Company's shareholders.

Receivables from related parties

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Significant owners and owner related companies		
Current receivables from related parties	501	492
Total	501	492

Receivables from related parties amount includes 26 thousand euros of interest receivable.

Payables to related parties

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Significant owners and owner related companies		
Payables to related parties	4 105	4 153
Total	4 105	4 153

Payables to related parties includes 352 thousand euros of interest payable.

Holdings in the Parent

<i>in thousands of euros</i>	31.12.2013	31.12.2012
Significant owners and owner related companies	34,09%	8,36%

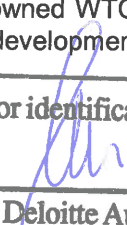
The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties. The Group has provided loans to related parties at rates comparable to the average commercial rate of interest. The loans to related parties are not collateralised.

Note 29. Subsequent Events

On 12 December, 2013 JSC Pro Kapital Latvia belonging 100% to the Group signed the agreement for selling its subsidiary company LLC Pasaules Tirdzniecibas centrs „Riga“ (WTC Riga). WTC Riga operated as management company for maintenance and administration of state owned WTC office building in Riga and the sale was motivated by the Group's strategy to focus on development of its own real estate projects. The subsidiary was sold on 1 January, 2014.

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Shortly after reporting period maturity of PKG 2 convertible bonds in the total amount of 1 070 451 euros was prolonged by two years. New redemption date is 20 January, 2016.

On 30 January, 2014, after the reporting period the subsidiaries of the Group AS Pro Kapital Eesti and AS Täismaja (former business name AS Kristiine Kaubanduskeskus) were merged with the purpose of simplifying the group structure. The last balance sheet date for AS Täismaja was 1 January, 2014.

On 30 January, 2014, the subsidiary company of the Group AS Tondi Kvartal concluded the contract for establishing a new company OÜ Marsi Elu with the aim to develop first phase of the second stage of Tondi residential complex in Tallinn and to create a legal platform for possible participation of co-investor in the project. On 13 March, 2014 the minority shareholding equal to 35% of OÜ Marsi Elu was sold to a financial investor Combrimat Limited. The investor has to fulfill its obligations prior to transfer of the ownership of the shares.

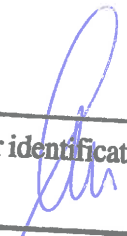
On 5 February, 2014 the construction works of a new residential building were started in Vilnius, Saltiniu Namai residential complex by UAB Merko Statyba.

On 26 February, 2014 the Group company OÜ Marsi Elu and Nordecon AS concluded a contract for construction of residential apartment building to be located in Tondi Residential Quarter, Tallinn, with the price of the construction works of the first construction phase approximately three million euros.

On 13 March, 2014 the Group shares are traded on the Quotation Board of Frankfurt Stock Exchange, part of the Open Market segment at Frankfurter Wertpapierbörse (the Frankfurt Stock Exchange). This enables investors around Europe to trade with AS Pro Kapital Grupp shares using the Xetra trading system which is one of the world's fastest and most efficient trading systems.

On 14 March, 2014 the extraordinary meeting of shareholders approved the main terms and conditions of issuance of the new shares of AS Pro Kapital Eesti's subsidiary AS Tallinna Moekombinaat in amount of 18 300 000 shares to be subscribed by a company Summer Solstice Limited. The purpose for attracting co-investor is development of Peterburi road 2 property in Tallinn into one of the leading shopping centres in Tallinn.

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Note 30. Risk Management

The business of the Group involves business risk and several financial risks: market risk (interest and currency risk), credit risk and liquidity risk, it is aimed to minimize the negative impact of these risks to the Group's financial results with the risk management. The main purpose of the risk management is to assure the retention of Group's equity and to carry Group activities as a going concern.

The Group does not have any held-to-maturity investments, financial assets at fair value through profit or loss and available-for-sale financial assets. The Group does not have any derivatives either. All financial liabilities of the Group belong to category 'other financial liabilities at amortised cost'.

Business risk

The business risk of the Group depends on the development of the real estate markets in the Baltic States and Germany.

The global financial crisis and the accompanying economic crisis in the recent years have been affecting negatively development of the real estate as well as tourism sector. Although at the end of 2009 the global economy showed some signs of economic growth, the positive impact of the real estate development sector is usually occurs with a delay.

Significant risk which would occur with the crisis, the decrease of the substantial purchasing capability of the permanent residence, the increase of the interest rates for mortgage loans and other factors which could decrease the demand for real estate and hotel services and have a negative impact to the Group operating activities, decreasing the sales and rent income as well the gain from development activities, property management services and operating hotels. Changes in financial markets could reduce the Group's business opportunities to involve foreign capital to finance business and to refinance existing financial liabilities.

Following instruments are exposed to market risk (in thousands euros) as at 31 December 2013:

	Carrying amount	Allocation by due dates	
		Within 1 year	2-5 years
Investment property	26 001	0	26 001
Property, plant and equipment	20 221	0	20 221
Inventories (assets held for sale)	45 587	4 831	40 756
Financial debt	28 770	11 730	17 040

In 2013, those items had no change in fair value and therefore no effect on income.
Interest expense on financial debt was 1 366 thousands euros.

The Group's Management believes it is not possible to reliably assess the effects of the ongoing economic crisis, however the management believes that all necessary measurement have been adopted to provide a sustainable development.

Interest risk

Main interest risk rises from long-term liabilities of the Group. In general the interest rates of loans raised by the entities belonging to Group are fixed through Euribor plus a risk margin. Interest risk appears from Euribor and the volatility of the average market interest rates which affect the Group's interest expenses. Minimum amount of financial instruments is used to diversify the interest risk. According to Group's management estimate the expenses related to interest diversification (fixed interest rate) are exceeding the possible losses from the change of interest rate. The estimate based on the Group's financing strategy in the short-term.

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As at 31 December 2013, the breakdown of interest- bearing financial debt was as follows:

	31.12.2013	31.12.2012
Fixed rate liabilities	16 665	15 425
Variable rate liabilities (1-12 months)	1 872	4 226
Variable rate liabilities(12+ months)	10 233	7 695

The management does not expect significant changes in base interest rates as those have shown stability and interest rates remain low. Assuming 100 bp rise in EURIBOR, there would be no change in position of liabilities and interest expense would increase by 121 thousand euros.

Currency risk

Entities belonging to the Group perform transactions in currency applicable in the resident country, currency risk arises in case of exchange currency transactions, which are performed with currencies not related to euro. To ground the currency risk, all the relevant contracts in the Group are signed in Euro or in currencies related to euro. Thus the main currency risk is related with devaluation of currencies related to euro, against which the Group is not protected.

Due to the fact that Group's liabilities are predominantly in euro and majority of Group's income comes from euro based contracts, the Group's management estimates the currency risk to be insignificant.

Credit risk

The Credit risk expresses potential loss that occurs, when customers do not fulfil their contractual obligations to the Group. For mitigating the credit risk the payment discipline of the customers is consistently followed.

In general the sales of real estate are financed with clients' prepayments. In case of sales of the real estate under the instalment, the creditworthiness of each client is analysed separately. The ownership of the sales object belongs to the Group entities until the client has settled all debt. It may sometimes happen that the ownership is transferred to the buyer but a mortgage is set in favour of the Group entity.

Liquidity risk

Liquidity risk expresses the potential risk that if the Group's financial condition will change, the Group's ability to settle its liabilities on time will degrade. The Group constantly monitors proportion of short-term liabilities and current assets. As of December 31, 2013 the working capital of the Group's is positive and the current assets exceeded short-term liabilities by 3.9 times (as of December 31, 2012 by 3.2 times).

Financial liabilities of the Group by due dates (in thousands of euros):

	31.12.2013	Repayment of liabilities		31.12.2012	Repayment of liabilities	
		Within 1 year	2-5 years		Within 1 year	2-5 years
Bank loans	12 105	1 872	10 233	11 932	4 237	7 695
Other loans	3 753	3 753	0	4 153	4 153	0
Convertible bonds	11 272	6 105	5 167	11 272	3 261	8 011
Non-convertible bonds	1 640	0	1 640	0	0	0
Trade payables	2 133	2 133	0	1 105	1 105	0
Other debt	201	0	201	1 926	1 926	0
Total	31 104	13 863	17 241	30 388	14 682	15 706

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Fair value

Based on the estimates of the Group's management, book value of the financial assets and liabilities does not differ significantly from their fair value, due to accounting policies used in Group.

Fair value of interest bearing receivables and liabilities is not considered to be significantly different from their book value, because the interest rates fixed by the contracts underlying the corresponding receivables and liabilities do not significantly differ from the effective market interest rates.

Capital risk management

The purpose of capital risk management is to provide the Group's sustainability and to ensure profit for the shareholders through optimal structure of capital. The Group uses debt and equity instruments for financing business activities and it monitors percentage of equity to total assets in designing its financial structure and in assessment of risk.

	31.12.2013	31.12.2012
Equity to total assets	65,8%	65.6%
Debt to total assets	34,2%	34.4%
Long term debt level	19,3%	17.7%

Pro Kapital Group pursues conservative financing policy, targeting for high ratio of equity in its projects, as compared to the industry standards. Company's goal is to use external financing so as to avoid interest and loan covenant related risk during low economic periods and to have sufficient additional external financing capacity in case attractive business opportunities occur. The Company seeks to maintain such long term debt levels that are in reasonable proportion to growth in operations and which preserve Company's credit standing.

Long term financing is planned and obtained on project- by- project basis. Prior to application for external finance company constructs budget for the project in question, performs sensitivity analysis. When applying for external financing, company carefully considers the effect such additional financing may have on its debt/equity ratio, gearing ratio and NPV of the project. Additional borrowing conditions in face of loan/financial covenants, as well as interest rate risks are taken into consideration. If any special conditions are set in external financing agreement (rental income, ratio of rented/vacant space, etc.), the company seeks to meet them yet before the agreement is signed. Generally, the Group's policy is to finance its assets and operating requirements in the currency of the country/currency zone concerned, in order to create a natural hedge and avoid any currency risk.

Long term partners are preferred for external financing, given their offers are most favourable for the company. Long term loans are to be approved by the Company's council prior to the assumption of loan obligations. Short term overdrafts may be used to smooth out the seasonality of company's business and to maintain cash balances that are adequate for operating levels. Short term financing partners are usually those through whom everyday banking operations of the company are carried out.

Estonian Commercial Code §301 establish a restriction to the level of mandatory equity level: total equity shall not be less than ½ of registered share capital. Under the Estonian Accounting Act such a compliance assessment is made based on the *adjusted unconsolidated* equity of the Parent. The adjusted unconsolidated equity equals unconsolidated equity of the parent less book values of investments into subsidiaries measured at cost less impairment plus the amount of investments into subsidiaries measured under the equity method of accounting. As disclosed in Note 32 to these consolidated financial statements, the Company has been in compliance with such an equity restriction as at December 31, 2013 and December 31, 2012.

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Note 31. Lawsuits

Ultimate parent company

	As of 31.12.2013	As of 31.12.2012
Pending disputes:	0	2
Resolved disputes:	2	0
New disputes:	0	0

As of December 31, 2012 AS Pro Kapital Grupp as the ultimate parent company had 2 pending court cases.

Both court cases have been settled during the reporting period.

As of December 31, 2013 AS Pro Kapital Grupp as the ultimate parent company did not have any pending court cases.

Resolved disputes:

1. On May 27, 2010 Aprisco B.V filed a case to Rotterdam court against AS Pro Kapital Grupp related to the guarantee letter with what AS Pro Kapital Grupp assured the rental liabilities of the Serval S.r.l (former Domina Hotel Group Spa, a former group company) arising from the rental agreement of the Rotterdam hotel, concluded on 04.08.2006 between Serval S.r.l and Hotel Blijdorp B.V.

In 2007 Aprisco B.V acquired the hotel that was managed by subsidiary of Serval S.r.l and the rental agreement with Serval S.r.l was transferred to Aprisco B.V. Serval S.r.l did not fulfill the rental obligations to Aprisco B.V, therefore Aprisco B.V claimed the payments according to the guarantee letter from AS Pro Kapital Grupp.

Aprisco filed alternative claims to the court. Firstly, Aprisco B.V claimed the payment of caused loss in the amount of 2 300 000 Euros or in the amount stated by the court. As an alternative claim, Aprisco B.V claimed overdue rental payments in the amount of 904 000 Euros with accumulated interest for default or in the amount of 504 000 Euros with accumulated interest for default. On 31.08.2011 Aprisco B.V changed its claim and claimed the payment of caused loss in the amount of 2 300 000 Euros with accumulated interest for default, or in the amount stated by the court. As an alternative claim, Aprisco B.V claimed overdue rental payments in the amount of 1 776 000 Euros and accumulated interest for default or in the amount of 1 409 000 Euros and accumulated interest for default.

On July 4, 2012 Rotterdam City Court made a decision and awarded Aprisco B.V claim in the amount of 1 409 265,2 EUR to be paid, the sum to be increased by default interest. AS Pro Kapital Grupp appealed the decision on September 11, 2012.

Nevertheless, to keep in line with the Company's conservative policies, the provision was formed for the maximum amount of the claim 1 409 000 Euros as of June 30, 2012 so the potential negative outcome of the dispute would not have a significant impact on AS Pro Kapital Grupp income statement.

The dispute was settled on March 13, 2013 by signing the settlement agreement between AS Pro Kapital Grupp and Aprisco B.V.

The condition precedents of the settlement agreement was signing the settlement agreement by both parties and timely and full payment of the lump sum of 1 000 000 Euro by Pro Kapital. The settlement agreement was signed and the settlement amount of 1 000 000 Euro was paid by AS Pro Kapital Grupp. The amount is final and the parties shall have no additional claims against each other (including legal fees). With the settlement agreement the parties agreed to terminate all litigation connected to the dispute.

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The settlement had a positive impact on the income statement of the reporting period in the amount of 409 000 Euro as a provision in the amount of 1 409 000 Euro was formed in connection with the dispute as of June 30, 2012. The only and final payment to Aprisco amounted to 1 000 000 Euro.

2. On August 6, 2012 Aprisco B.V filed the application to the Harju County Court for the recognition and enforcement of the Rotterdam City Court decision of July 4, 2012. AS Pro Kapital Grupp rejected the application of Aprisco B.V. as the Rotterdam City Court decision of July 4, 2012 had been appealed and the decision was not in force and final, thus couldn't be deemed enforceable in Republic of Estonia in the opinion of AS Pro Kapital Grupp. On January 17, 2013 Harju County court decided to suspend the proceeding until the Rotterdam City Court decision is final. Aprisco B.V. appealed the Harju County court decision of suspending the proceedings.

Aprisco B.V also applied for the court mortgage to be set on AS Pro Kapital Grupp real-estate assets located at Narva road 13a to secure their claim arising from the Rotterdam City Court decision of July 4, 2012. On August 27, 2012 Harju County Court made the ruling in regards to the application to secure the claim of Aprisco B.V. The court set the court mortgage in total of 807 514,56 Euros on Narva road 13a real-estate properties belonging to AS Pro Kapital Grupp.

The referred dispute was settled with the settlement agreement signed on March 13, 2013 which has been referred above. With the settlement agreement the parties agreed to terminate all litigation connected to the dispute.

Pro Kapital Estonia sub-group

	As of 31.12.2013	As of 31.12.2012
Pending disputes:	0	0
Resolved disputes:	0	0
New disputes:	0	0

As of December 31, 2012 the parent company of Pro Kapital Estonia sub-group and its subsidiaries did not have any pending court cases. Sub-group subsidiary AS Täismaja was involved in one court case as a third party.

As of December 31, 2013 the parent company of Pro Kapital Estonia sub-group and its subsidiaries did not have any pending court cases. Sub-group subsidiary AS Täismaja was involved in one court case as a third party.

Pro Kapital Latvia sub-group

	As of 31.12.2013	As of 31.12.2012
Pending disputes:	0	1
Resolved disputes:	1	0
New disputes:	2	0

As of December 31, 2012 Pro Kapital Latvia sub-group had one pending court case.

One case has been settled, two new cases were initiated and Latvian sub-group subsidiary was withdrawn by the court from the third party procedural status of one court case during the reporting period.

As of December 31, 2013 Pro Kapital Latvia sub-group had 2 pending court cases.

Involvement in the proceeding as a third party:

Italian citizen Mr. Antonio Sugaroni Ziemelu started litigation against maintenance company (not belonging to Pro Kapital group of companies) claiming personal damages in amount of 4 945,09 Latvian latts on the basis that he was walking through the street near the building at Pulkveza Brieza 11, Riga and was injured by the snow and ice falling from the roof of the building. Group company LLC Hotel Management Services was involved in the proceeding as a third party (not defendant). On April 23, 2013 the court decided to withdraw the procedural status of LLC Hotel Management Services as a third party. LLC Hotel Management Services is not involved in the respective court case anymore.

Resolved disputes:

During August – October 2007 the Tax Board audited the VAT accounting of Pro Kapital Latvia PJSC for the period from January 2005 to December 2006. As a result the Tax Board found that the company's loss should be 60 000 Latvian latts smaller (approx. 86 000 Euros). The Company disputed the decision. The Administrative District Court left the claim unsatisfied. The company appealed, but on September 28, 2012 the Administrative Regional Court decided to reject the appeal. The Company submitted the cassation to the Supreme Court of Republic of Latvia. On March 11, 2013 the Supreme Court decided not to hear the appeal in cassation and the decision of the Administrative Regional Court came into force, leaving the Tax Board decision in force.

Disputes initiated during the reporting period and as of December 31, 2013 pending:

1. On July 30, 2012 the Property department of Riga's City Council issued a decision according to which buildings belonging to LLC "Nekustamo īpašumu sabiedrība "Zvaigznes centrs"" at 193 Brīvības Street, in Riga are classified as degrading the environment and endangering the security of people. On the basis of this decision the company would have to pay an increased real estate tax. The company appealed against the mentioned decision to the chairman of the Riga City Council, however the chairman decided to reject the claim. The company has on February 14, 2013 appealed against the decision to the Administrative District Court asking for revocation of the decision. The proceedings are currently pending.
2. On 02.08.2013 the Property department of Riga's City Council issued a decision according to which buildings belonging to LLC „TALLINA NEKUSTAMIE ĪPAŠUMI” at 5/7 Tallinas Street, in Riga are classified as degrading the environment and endangering the security of people. On the basis of this decision the company would have to pay an increased real estate tax. The Company appealed against the mentioned decision to the chairman of the Riga City Council, however the chairman decided (on 04.11.2013) to reject the claim. The Company has on December 18, 2013 appealed against the decision of the chairman of Riga City Council to the Administrative District Court asking for revocation of the decision. The proceedings are currently pending.

Pro Kapital Vilnius sub-group

	As of 31.12.2013	As of 31.12.2012
Pending disputes:	2	2
Resolved disputes:	0	0
New disputes:	0	0

As of December 31, 2012 the entities of Pro Kapital Vilnius sub-group had two pending court cases.

As of December 31, 2013 the entities of Pro Kapital Vilnius sub-group had the same two pending court cases.

Pending disputes:

1. UAB "Natalex" has filed a claim in the amount of 166 000 Lithuanian Litas (approx. 48 000 Euros), plus interest ⁶% for return of the prepayment under an apartment sale contract. Group company PK Invest UAB found that UAB "Natalex" had breached the contract and the prepayment has been

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set-off with the penalty against UAB "Natalex". In April 2012 the court rejected UAB "Natalex" claim. UAB "Natalex" appealed the court decision. Court of Appeal of Lithuania dismissed the appeal of UAB "Natalex" on October 9, 2013 and did not amend the judgment of the Court of First Instance. Claim of UAB "Natalex" filed against PK Invest UAB was left unsatisfied. Aforementioned judgment has not entered into force as UAB "Natalex" has submitted a cassation to the Supreme Court.

2. On February 2012, UAB "Gatvių statyba" submitted the claim to the Vilnius district court requesting for 197 000 Lithuanian litas (approx. 57 000 Euros), plus 8,06 % interest, for the performed works in Saltiniu Namai. Group company PK INVEST UAB did not agree with the claim because the works were performed unduly and the deficiencies were recorded by the parties in writing. The case was heard at Vilnius district court. The claim of the contractor and the counter-claim of PK INVEST UAB had been upheld partially. PK INVEST UAB has filed an appeal on the basis that the court refused to lower the price of the works that were performed partially and with deficiencies. Appeal proceeding is ongoing.

Pro Kapital German sub-group

	As of 31.12.2013	As of 31.12.2012
Pending disputes:	0	0
Resolved disputes:	0	0
New disputes:	0	0

As of December 31, 2012 Pro Kapital German sub-group entities did not have any pending court cases.

As of December 31, 2013 Pro Kapital German sub-group entities did not have any pending court cases.

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Note 32. Supplementary Disclosures on the Parent

The financial information of the parent comprises separate primary statements of the parent (statement of financial position, statement of income, statement of cash flows and statement of changes in equity), the disclosure of which is required by the Estonian Accounting Act. The primary financial statements of the parent have been prepared using the same accounting methods and measurement bases as those used for the preparation of the consolidated financial statements, except for subsidiaries which are reported at cost in the separate primary financial statements of the parent.

Statement of Financial Position

<i>in thousands of euros</i>	31.12.2013	31.12.2012
ASSETS		
Current Assets		
Cash and bank balances	506	58
Current receivables	7 584	5 364
Total Current Assets	8 090	5 422
Non-Current Assets		
Investments in subsidiaries	28 196	28 196
Non-current receivables from the Group entities	63 717	61 862
Property, plant and equipment	0	1
Intangible assets	5	7
Total Non-Current Assets	91 918	90 066
TOTAL ASSETS	100 008	95 488
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	5 035	3 261
Current payables	18 392	13 268
Taxes payable	40	3
Short-term provisions	0	1 409
Total Current Liabilities	23 467	17 941
Non-Current Liabilities		
Long-term debt	7 877	8 011
Non-current payables to the Group entities	105 394	105 460
Other long term payables	9	0
Total Non-Current Liabilities	113 280	113 471
Total Liabilities	136 747	131 412
Equity		
Share capital in nominal value	10 821	10 637
Share premium	1 474	0
Reserves	1 064	0
Retained earnings (accumulated losses)	-50 098	-46 561
Total equity	-36 739	-35 924
TOTAL LIABILITIES AND EQUITY	100 008	95 488

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Statement of Income

<i>in thousands of euros</i>	2013	2012
Operating income		
Revenue	552	268
Cost of sales	-207	0
Gross profit	345	268
Marketing expenses	-52	-218
Administration expenses	-1 411	-2 428
Other income	9	0
Other expenses	-34	-725
Operating loss	-1 143	-3 103
Finance income and cost		
Interest income	3 371 ✓	0
Interest expense	-6 332	-6 292
Other finance income and cost	-30	2 918
Loss for the financial year	-4 134	-6 477

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Statement of Cash Flows

(thousand euros)	2013	2012
OPERATING ACTIVITIES		
Profit (loss) for the financial year	-4 134	-6 477
Adjustments:		
Depreciation of tangible assets	2	1
Gain/loss on disposal of PPE	1	0
Interest income and expense (net)	2 961	3 374
Non- monetary transactions	-2 172	0
Change in receivables and prepayments	-2 220	52
Change in other receivables	-1 775	0
Change in investments	0	-49
Changes in liabilities and prepayments	5 276	1 006
Cash flow used in operating activities	-2 061	-2 093
INVESTING ACTIVITIES		
Additions to property, plant and equipment	0	-1
Additions to intangible assets	0	-8
Repayments of loans granted	0	7 187
Interest received	0	489
Cash flows used in investing activities	0	7 667
FINANCING ACTIVITIES		
Share capital raised	184	0
Share premium raised	1 474	0
Bonds	1 640	0
Loans raised	0	630
Repayments of loans raised	0	-5 520
Interest paid	-789	-1 045
Cash flows from financing activities	2 509	-5 935
Net change in cash	448	-361
Cash at the beginning of the year	58	419
Cash at the end of the year	506	58

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Statement of Changes in Equity

(in thousands of euros)	Share capital	Share premium	Reserves	Retained earnings	Profit (loss) for the year	Total
Balance as at 31 December 2011	10 637	0	0	-31 200	-8 884	-29 447
Allocation of net loss	0	0	0	-8 884	8 884	0
Result of the financial year	0	0	0	0	-6 477	-6 477
Balance as at 31 December 2012	10 637	0	0	-40 084	-6 477	-35 924
Cost of subsidiaries shares	X	X	X	X	X	-28 196
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	129 767
Adjusted unconsolidated equity 31 December 2012	X	X	X	X	X	65 647
Increase in share capital, 15.05.2013	184	1 474	0	0	0	1 658
Allocation to reserves	0	0	1 064	-1 064	0	0
Allocation of net loss	0	0	0	-6 477	6 477	0
Result of the financial year	0	0	0	0	-4 134	-4 134
Balance as at 31 December 2013	10 821	1 474	1 064	-45 964	-4 134	-36 739
Cost of subsidiaries shares	X	X	X	X	X	-28 196
Book value of the shares in subsidiaries calculated on equity method	X	X	X	X	X	128 192
Adjusted unconsolidated equity 31 December 2013	X	X	X	X	X	63 257

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Signatures of the Management Board and Supervisory Council to the Consolidated Annual Report 2013

The Management Board of AS Pro Kapital Grupp has prepared the management report, the consolidated financial statements and the loss allocation proposal for 2013.

Paolo Michelozzi Chairman of the Management Board  10 April 2014

Allan Remmelkoor Member of the Management Board  10 April 2014

The Supervisory Council has reviewed the Consolidated Annual Report which consists of the management report and the consolidated financial statements prepared by the Management Board, and which also includes the auditor's report and the loss allocation proposal, and approved it for presentation at the General Meeting of Shareholders.

Emanuele Bozzone Chairman of the Supervisory Council _____ 10 April 2014

Pertti Huuskonen Member of the Supervisory Council _____ 10 April 2014

Petri Oikinuora Member of the Supervisory Council _____ 10 April 2014

Ernesto Achilles Preatoni Member of the Supervisory Council _____ 10 April 2014

INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of AS Pro Kapital Grupp:

We have audited the accompanying consolidated financial statements (pages 37 to 93) of AS Pro Kapital Grupp (hereafter also "the Group"), which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board of the parent company of the Group is responsible for the preparation and fair presentation of these financial statements in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted in the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Certified Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (Estonia). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

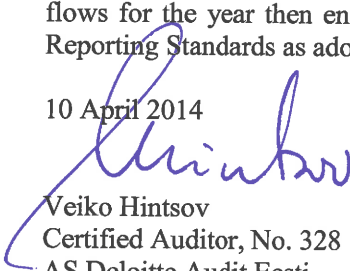
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Board, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Pro Kapital Grupp as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with Estonian Accounting Act and International Financial Reporting Standards as adopted in the European Union.

10 April 2014



Veiko Hintsov
Certified Auditor, No. 328
AS Deloitte Audit Eesti
Licence No. 27

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Member of Deloitte Touche Tohmatsu Limited

Proposal for Loss Allocation

The Management Board of AS Pro Kapital Grupp proposes the net loss for the year ended at 31 December 2013 in the amount of 2 600 thousand euros to be covered by retained earnings.