AS Pro Kapital Grupp

CONSOLIDATED ANNUAL REPORT 2012

PROKAPITAL

AS PRO KAPITAL GRUPP

CONSOLIDATED ANNUAL REPORT 2012

Beginning of the financial year	1 January 2012
End of the financial year	31 December 2012
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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 (hereinafter as 'the Company' and / or 'Pro Kapital') 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, the Company 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.

The estimated value of the investments in Pro Kapital's current real estate portfolio is approximately 180.03 million euros: 64% residential developments, 24% commercial premises and 12% hotels (Newsec, July 2012).

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

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 Chief Executive Officer

The year 2012 has been historically important for the Company with the start of the trading of its shares on the secondary list of Tallinn Stock exchange on 23 November. This was a result of a long preparation work and has set the road for focusing to the launch of several large scale long-term projects.

The general market situation in Baltic capitals continued moderate recovery throughout the year maintaining 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 significantly 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.

Now AS Pro Kapital Grupp is 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 Tallinas Residential Quarter in Riga. In 2013, the Company expects to start with construction works and first revenue from the projects to occur in 2014.

Development projects

Alongside with the preparations for the listing the Company worked in 2012 intensively on 3 new development projects: Peterburi road shopping centre in Tallinn, first part of second stage in Tondi Quarter in Tallinn and Tallinas Residential Complex in Riga.

For Peterburi road shopping centre and 10 new buildings in Tondi Quarter the building licences were obtained. The Company further proceeded actively with the negotiations for the lease of the shopping centre premises, having signed among others the anchor tenant agreement with AS Selver. As well there were continued the works for obtaining the detail planning of Kalaranna residential development project.

The Company carried on preparation works for obtaining building license in Tallinas Residential Complex in Riga and continued the works for obtaining the detail planning of Kliversala residential development project.

In Vilnius the Company continued the projecting works for the second stage of the residential quarter "Saltiniu Namai" for obtaining the building license.

Sales and stock

Estonia

In Estonia, real estate market kept stable moderately upward trend in 2012, with both price levels 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 and Peterburi road shopping centre.

During the year, 10 apartments, 1 storage room, 11 parking places and one land plot were sold, producing total revenue of 823 thousand euros.

The remained sellable stock by the end of 2012 consisted in total of 10 apartments, 8 office premises and several parking spaces.

Hotel segment has continued its positive performance, showing gross operational profit growth of 25% due to decrease in operating costs in 2012 and plays significant part of operative cash flows. The occupancy rate of the hotel has been 71% in 2012 (2011: 73%), which is well above market average. Tallinn's hotel has produced 1 448 thousand euros of revenue. As the number of tourists is increasing, the Company plans to capitalise on the market growth in order to increase its revenue.

Maintenance segment in Tallinn is focusing on maintenance of residential properties and has earned 1 153 thousand euros of revenue in 2012.

Latvia

In Latvia, the Company is practically out of real estate stock and is focusing on office rent segment as well as development of Tallinas residential quarter project. Only one apartment was sold in 2012, producing revenue of 105 thousand euros, and 3 apartments remain in stock as at 31 December 2012.

Latvian subsidiary has prolonged its lease contract on centrally based World Trade Centre office building (Elizabetes str. 2, Riga). Rental revenue of Latvian companies amounted to 870 thousand euros in 2012.

PK Hotel Riga is continuing its stable performance and accounts for 59% of overall Latvian segment revenue. The occupancy rate of the hotel has increased to 78% in 2012 (2011: 71%). The average number of rooms available has decreased from 103 rooms in 2011 to 88 rooms in 2012, which is a positively influenced profitability measure. Revenue from Riga's hotel amounted to 1 567 thousand euros in 2012.

Lithuania

In Lithuania the Company is continuing with the sales of Saltiniu Namai residential complex. The remaining sellable stock by the end of 2012 consisted in total of 46 units (apartments, cottages and commercial premises). In addition, the Company is carrying on with planning works for the next developmental stage of the project.

During 2012 there were 33 apartments and 19 parking spaces sold, producing revenue of 6 419 thousand euros. As at 31 December 2012, there were 46 apartments and 103 parking spaces remaining in stock in Vilnius.

Germany

Bad Kreuznach based PK Park Hotel Kurhaus is undergoing cost restructuring in order to improve its overall operative performance, nevertheless showing positive net operation profit by the end of the year. The occupancy rate of the hotel has been 53% in 2012 (2011: 60%). The revenue from hotel's activities remained stable in 2012 and constituted 3 321 thousand euros.

In 2013 our focus is on finalizing the preparations for enabling the start of new development projects provided the positive market sentiment and raising respective required financing. We do not expect any increase in real estate sales activities in 2013 due to continuing lack for stock for sale. Rental activities are expected to stay on roughly similar level as compared to 2012, as new developmental projects will start producing sales and rental revenue in year 2014 at earliest. 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

29 April 2013

Management Report

Main Events and Key Figures in 2012

- Building licenses for Peterburi road shopping centre in Tallinn and Tallinn's Tondi residential quarter (10 buildings in total) obtained
- Projecting works for Peterburi road shopping centre, Tondi residential quarter in Tallinn and Tallinas residential quarter in Riga continued
- Change of hotel brand name to „PK Hotels" implemented in August 2012
- The trading of the Company's shares started on the secondary list of Tallinn Stock Exchange in November 2012. The public offering of the Company's new shares started in August 2012 had been cancelled later due to the lack of demand at acceptable price level.
- In April 2012 new independent members of Supervisory Council were elected by the shareholders.
- Ms Ruta Juzulenaite was appointed in April as a new CFO of the Company.

Financial Indicators, in thousands of euros

Consolidated Statement of Income

	2012	2011	Change
Revenue	16 078	17 449	-7.9%
Gross profit	3 328	1 042	219.4%
EBITDA *	-3 794	48 449	-107.8%
Operating result *	-4 613	47 858	-109.6%
Net result *	-5 866	50 102	-111.7%
Net result for shareholders	-5 869	28 120	-120.9%
EBITDA margin	-23.6%	277.7%	
Operating margin	-28.7%	274.3%	
Net margin	-36.5%	287.1%	
Net margin to shareholders	-36.5%	125.7%	
Earnings per share (EPS)	-0.11	0.41	-126.8%

* includes profit 54 057 thousand euros from sale of Kristiine Shopping Centre in Tallinn in 2011.

Consolidated Statement of Financial Position

	31.12.2012	31.12.2011	Change
Total Assets	100 262	113 472	-11.6%
Current Assets	52 096	64 688	-19.5%
Non-Current Assets	48 166	48 784	-1.3%
Total Liabilities	**34 135**	**41 414**	**-17.6%**
Current Liabilities	16 407	17 817	-7.9%
Non-Current Liabilities	17 728	23 597	-24.9%
Equity	**66 127**	**72 058**	**-8.2%**
Financial Ratios			
Equity ratio	66.0%	63.5%	
Debt to equity ratio	35.1%	29.8%	
Net debt to capital	25.4%	15.1%	
Debt to EBITDA ratio	-6.1	0.4	
Current Ratio	3.2	3.6	
Return to assets	-5.5%	35.7%	
Return to equity	-8.5%	75.1%	

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 / average equity * 100

Financial performance

AS Pro Kapital Grupp ended year 2012 with gross profit of 3 328 thousand euros (2011: 1 042 thousand euros). The annual gross profit figure was strongly influenced by the margins of real estate properties sold. The other factor contributing to significantly higher gross margin was the significance of hotel operations business line, contributing 39.4% of total Company's revenue in 2012 (2011: 20.0%).

The Company in 2012 focused on reviewing and maximising the effectiveness of its operating costs. Though significant savings were achieved on administrative and general costs, due to the listing on Tallinn Stock Exchange additional preparation costs in the amount of 1.1 million euros were incurred. The effect of reviewed cost strategy, however, should be obvious already in 2013.

In 2012, the Company provisioned 1 409 thousand euros for legal dispute in Holland. On March 2013 the dispute has been settled off court and the Company paid 1 000 thousand euros settlement fee, which will result in reversion of provision and other income of 409 thousand euros in the first quarter of 2013.

On May 2011, the Company sold Kristiine shopping centre in Tallinn, earning 54 057 thousand euros profit, recorded as other income, on the sale. In 2012, no such significant sales were recorded.

In 2012, there were no significant acquisitions or disposals of subsidiaries or other financial assets, therefore, finance incomes and costs are composed mainly of interest income and expenses (in 2011 finance income included profit from the disposal of Latvian subsidiary SIA PK Investments of 2 736 thousand euros and profit from disposal of 4% of AS Tallinna Moekombinaat ownership of 635 thousand euros).

Consolidated statement of cash flows

	2012	2011	Change
Cash flows from operating activities	2 405	-17 357	113.9%
Cash flows from investing activities	-1 051	87 563	-101.2%
Cash flows from financing activities	-9 284	-65 872	85.9%
Net change in cash and cash equivalents	**-7 930**	**4 334**	**-283.0%**

In 2012, the Company's net cash outflow was 7 930 million euros (2011: net inflow of 4 334 million euros). Cash flow from operations was positive of 2 405 thousand euros (2011: -17 357 thousand euros), which resulted from swift everyday activities, as major changes in operative cash flows in 2012 were produced by sales of inventories and provisions, that by their nature are non- monetary items.

Investing activities in 2012 have been modest, major investments of 1 025 thousand euros were made into development of investment properties, or Peterburi road shopping centre in Tallinn. Acquisitions of property plant and equipment made up modest amount of 73 thousand euros.

Financing activities in 2012 were in line with the planned schedule. Main cash outflows were repayment of loans according to the repayment schedule and interest payments. The Company raised additional 566 thousand euros of bank loans and repaid 3 204 thousand euros of bank loans in 2012. In 2013, the Company plans to refinance a portion of its bank debt.

Financing sources and policies

AS Pro Kapital Grupp follows 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.

During 2012 the Company has repaid 3.2 million euros of its bank loans.

Bank loans are predominantly of middle-term duration, maturing within one to three years. Repayment schedule is floating in dependence on sales volumes.

The Company has signed credit line agreements of 3 million euros with Swedbank and 12 million euros with its shareholder Svalbork Invest OÜ, to enhance its working capital flexibility. The Company is furthermore negotiating possible debt financing of new developmental projects.

The Company has 4 237 thousand euros of bank loans to be repaid in 2013. 7 695 thousand euros of bank loans is repayable within 2- 5 years (2014- 2017). The latter repayment schedule is floating and dependent on sales volumes.

As at 31 December 2012 the Company had 11 272 thousand euros convertible bonds (current portion: 3 261 thousand euros; long term portion: 8 011 thousand euros).

Strategy and objectives for 2013

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. The main areas of focus are prime residential and retail property segments in the capital cities of the Baltic States: Tallinn, Riga and Vilnius.

Real estate markets in the Baltic States are now at increasing pace recovering from the downturn that had hit the markets and development of existing land plots becomes crucial with the prices for real estate rising at the increasing pace.

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.

The Company will monitor its cost structure and enhance its effectiveness.

Pro Kapital Grupp's main objectives for 2013:

- 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
- Continuous monitoring of cost structure

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*		
	2012	2011	Change	2012	2011	Change	2012	2011	Change
Estonia	3 561	10 569	-66.3%	-4 375	51 501	-108.5%	-4 919	51 288	-109.6%
Latvia	2 650	3 038	-12.8%	-999	-3 916	74.5%	-1 085	-963	-12.7%
Lithuania	6 546	3 406	92.2%	786	-57	1278.9%	228	-553	141.2%
Germany**	3 321	436	661.7%	-25	330	-107.6%	-90	330	-127.3%

	Operating margin		Net margin	
	2012	2011	2012	2011
Estonia	-122.9%	487.3%	-138.1%	485.3%
Latvia	-37.7%	-128.9%	-40.9%	-31.7%
Lithuania	12.0%	-1.7%	3.5%	-16.2%
Germany**	-0.8%	75.7%	-2.7%	75.7%

* Net result includes non-controlling interests
** German hotel was acquired in November 2011 and therefore its results reported in the Company's consolidated financial statements for 2011 are only for November 2011 – December 2011 period.

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 properties.

The share of the Estonian segment as a percentage of total revenues of the Company during the reporting period amounted 22.1% compared to 60.6% of the comparable period last year, when major part of rental and maintenance revenue was produced by Kristiine Shopping Centre that was sold in May 2011. Operating and net results for 2011 also include profit from the sales of Kristiine Shopping centre of 54 057 thousand euros.

Revenue from Estonia, in thousands of euros

	2012	2011	Change
Real Estate	823	4 019	-79.5%
Rent	79	2 975	-97.3%
Hotels	1 448	1 375	5.3%
Maintenance	1 153	2 135	-46.0%
Other	58	65	-10.8%

Revenues in real estate segment dropped by 79.5% as the Company started 2012 with significantly lower stock available for sale base. During 2012, 10 apartments, 1 storage room, 11 parking spaces and land plot have been sold and stock consisting of 10 apartments, 8 office premises, and 63 parking spaces was yet available for sale in Tallinn as at 31 December 2012.

Most significant drop in revenue, 97.3%, however, took place in rental segment, as the company has sold its lion share of rental premises, Kristiine shopping centre. Currently Company's rental activities are only occasional, renting out the stock available for sale.

Hotel business line showed stable 5% increase in revenues and outstanding increase in gross profit margin by 25% due to reviewed and decreased operating costs.

Revenues of maintenance business line have dropped by 46%, reflecting decreased maintenance area after the sales of Kristiine shopping centre.

New auditor was appointed to one of Estonian daughter companies, AS Tallinna Moekombinaat (subsidiary for development of Peterburi road shopping centre), switching from local auditor to internationally attested AS Deloitte Audit Eesti.

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 properties.

The share of the Latvian segment as a percentage of total revenues of the Company during the reporting period amounted 16.5% compared to 17.4% of the comparable period last year.

Revenue from Latvia, in thousands of euros

	2012	2011	Change
Real Estate	105	470	-77.7%
Rent	870	729	19.3%
Hotels	1 567	1 685	-7.0%
Maintenance	73	70	4.3%
Other	35	84	-58.3%

Real estate segment in Latvia is practically out of sellable stock. Therefore, only 1 apartment was sold in 2012. As at 31 December 2012, 3 apartments remain in sellable stock.

With the low sellable stock base, the Company focuses on rental premises in Latvia. Rental revenues have increased by 19.3% in 2012. Majority of rental revenue is earned through rent of office premises in Elizabetes street 2 office building, to which company has lease rights. As at 31 December 2012, 5 085 m^2, or 93% of leasable office space, was rented out.

Revenues of hotel business line decreased by 7.0% in 2012 due to decrease of average rooms available by 15%, from 103 rooms in 2011 to 88 rooms in 2012. This, however, had positive effect on profitability of hotel operator. The occupancy ratio for the hotel has increased significantly, reaching high of 78.3% for 2012.

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

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

	2012	2011	Change
Real Estate	6 419	3 317	93.5%
Rent	72	47	53.2%
Maintenance	53	41	29.3%
Other	2	1	50.0%

The share of the Lithuanian segment as a percentage of total revenues of the Company during the reporting period amounted 40.7% compared to 19.5% of the comparable period last year.

Real estate sales grew by 93.5% in 2012. 33 apartments and 19 parking spaces were sold during the reporting year. There was a bulk sale of 27 apartments and 13 parking spaces in the first quarter of 2012 to related party UAB Colosseum Real Estate Vilnius. As at 31 December 2012, there were still 46 apartments and 103 parking spaces in stock in Vilnius.

The Company temporarily rents out properties available for sale. In 2012, rental revenues increased by 53.2%, however, their share is still marginal in overall segment revenue structure.

The Company provides maintenance services to its sold and rented out apartments. In 2012, revenue from maintenance activities has grown by 29.3% 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, which is one of Germany's most visited tourist areas.

Revenue from Germany, in thousands of euros

	2012	2011	Change
Hotels*	3 321	436	661.7%

* includes both hotel operator revenue and rental revenues from hotel building

The share of the German segment as a percentage of total revenues of the Company during the reporting period amounted 20.7% compared to 2.5% of the comparable period last year. The Company acquired German hotel and its operator on November 2011, therefore 2011 financial figures are since the moment of acquisition and do not reflect the segment's position within whole financial year. The occupancy of PK Parkhotel Kurhaus hotel has dropped somewhat during 2012 due to undergoing restructuring.

In German segment, the Company is to focus on its cost structure and working out most effective solutions for serving its customers.

Business lines

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

Revenue by business lines, in thousands of euros

	2012	2011	Change
Real Estate	7 347	7 795	-5.7%
Rent	1 021	3 751	-72.8%
Hotels	6 336	3 496	81.2%
Maintenance	1 279	2 246	-43.1%
Other	95	161	-41%

Revenue in real estate business line has decreased by 5.7%, which is natural development taking into account decreasing stock for sale base. Average price per m2 sold in 2012 was 2 102 EUR/m2 (2011: 1 927 EUR/m2). In 2012, 3 317 m2 were sold (2011: 2 929 m2).

The Company is focusing on development of existing land plots, which, in its turn, will expand its sellable asset base.

Rental revenues decreased sharply, by 72.8%, in 2012, predominantly due to sales of Kristiine shopping centre, which has drastically decreased the Company's rental asset base. In 2012, the Company was occasionally renting apartments from its sellable stock and had stable office rent activities in Latvia (5 085 m2 office rental space as at 31 December 2012).

In 2012, 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 increased by 81.2% in 2012 due to the fact that German hotel has been operating a full financial year within Pro Kapital Grupp (it was acquired in November 2011 and therefore 2011 revenue contains only revenue since the moment of the hotel's acquisition). Revenue grew by 5% in Tallinn hotel and decreased by 7% in Riga hotel in 2012 as compared to 2011. Bad Kreuznach hotel's revenue numbers are not comparable due to different revenue earning periods.

Occupancy rates, PK hotels, %

	2012	2011	Change
PK Ilmarine, Tallinn	71.1%	73.1%	-2.7%
PK Riga hotel	78.3%	70.5%	11.1%
PK Parkhotel Kurhaus, Bad Kreuznach	51.8%	59.8%	-13.4%

Hotels in 2012 underwent extensive restructuring. Operating costs were reviewed and restructured in a way that most effectively serves customer needs and enhances effectiveness of business processes. In Riga, average number of rooms available decreased from 103 in 2011 to 88 in 2012.

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

Maintenance business line is hugely dependent on the rental spaces maintained by the Company. The sales of Kristiine shopping centre in May, 2011 have greatly decreased the space under maintenance and therefore the revenues of maintenance segment dropped by 43.1% in 2011. Space under maintenance as at 31 December 2012 has grown by 7.4% during the reporting year, reaching 77 426 m2 as at 31 December 2012 (31.12.2011: 72 087 m2).

Development projects

Project name	Type	Location	Ownership	Planned Volume	Classification
Peterburi road shopping centre	Retail	Tallinn	96%	GLA 55 000 m²	Investment property
Ülemiste 5	Offices	Tallinn	100%	GLA 22 880 m²	Investment property
Tondi Quarter	Residential	Tallinn	100%	NSA 83 462 m² *71 280 m² resid.* *12 182 m² comm.*	Inventories
Kalaranna District	Residential	Tallinn	100%	NSA 33 013 m² *27 600 m² resid.* *5 413 m²comm.*	Inventories
Tallinas Quarter	Residential	Riga	100%	NSA 18 845 m² *17 650 m²resid.* *1 195 m²comm*	Inventories
Kliversala District	Residential	Riga	100%	NSA 49 920 m² *31 650 m²resid.* *7 920 m²comm* *6 672 m² hotel*	Inventories
Zvaigznes Quarter	Residential	Riga	100%	NSA 17 949 m² *11 277 m²resid.* *6 672 m²comm*	Inventories
Šaltinių Namai	Residential	Vilnius	100%	NSA 22 086 m² *20 343 m²resid.* *2 713 m²comm*	Inventories

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

Status of the projects:

Peterburi road shopping centre	Building licence obtained
Ülemiste 5	Detail plan adopted. Project not started
Tondi Quarter	Building license for the 2nd stage obtained
Kalaranna District	Detail plan approval in process
Tallinas Quarter	projecting works in process in order to apply for the building licence
Kliversala District	Detail plan approval in process
Zvaigznes Quarter	Building licence for reconstruction of the existing building issued
Šaltinių Namai	1st stage completed and on sale with an exception of two more buildings what have applied the building licence. 2nd stage is being projected in order to apply for the building

Group Structure

As at 31.12.2012

Shares and shareholders

As at 31 December 2012 AS Pro Kapital Grupp has issued in total 53 185 422 shares with the nominal value 0.2 euros. The registered share capital of the company is 10 637 084.40 euros. General shareholder meeting, held on 6 February 2013, allowed the increase of share capital up to 5.32 million euros within coming three years. On 5 April 2013, extraordinary meeting of shareholders passed the resolution to conditionally increase the Company's share capital by 280 thousand euros, emitting up to 1 400 000 pieces of new shares with nominal value of 0.2 euro and subscription price of 1.8 euro per share. The meeting also confirmed subscription rules to newly emitted shares.

By the shareholders decision of 13. April 2009 the share capital has been increased conditionally. By the 13 April 2012 shareholders decision the decision of the conditional share capital increase was amended and it was confirmed the share capital is increased conditionally by 805 151.60 euros in connection with possible conversion of the issued convertible bonds to the shares of the Company.

Due to the start of listing on the secondary list of Tallinn Stock Exchange the Company signed in November the market making agreement with AB Bankas Finasta.

As at 31 December 2012 there are 57 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 at 31 December 2012:

	Shareholders	Number of shares	Participation
1	Clearstream Banking Luxembourg S.A. Clients	11 823 668	22.23%
2	Svalbork Invest OÜ	6 840 738	12.86%
3	Eurofiduciaria S.r.L.	6 828 916	12.84%
4	Sueno Latino AG	4 528 531	8.51%
5	A.F.I. American Financial Investments Ltd.	4 362 835	8.20%
6	Anndare Ltd.	3 335 582	6.27%
7	UNICREDIT BANK AUSTRIA AG	3 178 201	5.98%

Participation of Member of the Management Board and the Council Members as of 31.12.2012:

Name	Position	Number of shares	Participation in %	Number of convertible bonds
Paolo Vittorio Michelozzi	CEO	0	0.00	0
Allan Remmelkoor	COO	0	0.00	0
Emanuele Bozzone	Chairman of the Council	0	0.00	22 224
Sari Aitokallio	Council Member	0	0.00	0
Petri Olkinuora	Council Member	0	0.00	0
Pertti Huuskonen	Council Member	0	0.00	0
Giuseppe Prevosti	Council Member	4 447 597*	8.36	0
Renato Lorenzo Bullani	Council Member	133 000	0.25	0

* Participation directly and through (a) UNICREDIT BANK AUSTRIA AG nominees account, (b) Zunis S.A and (c) wife Donatella Grigioni

Earnings per share

Earnings per share have dropped in fourth quarter by 0.02 euros to -0.11 EUR/share for 2012. Last year's earnings per share for the same period have been at high of 0.53 EUR/share profitable sales of Kristiine shopping centre and disposal of subsidiary SIA PK Investments in Latvia.

On 23 November 2012 the Company's shares started trading on the secondary list of Tallinn's stock exchange. The shares were trading at the price range of 2.01- 2.23 during the reporting quarter with the closing price of 2.15 EUR/share on 31 December 2012. During the period, 107 thousands of the Company shares were traded, with their turnover amounting to 0.23 million euros.

Trading price range and trading amounts of Pro Kapital Grupp shares, 23 November - 31 December 2012

Other events

Legal overview and developments

As of December 31, 2012, the Company had 5 pending court cases and 2 court cases where the Company was involved as the third party.

Potentially the most significant legal dispute is held with Dutch resident Aprisco B.V., with possible negative outcome up to 1.4 million euros. The Company has followed conservative approach and provisioned the whole amount. Meanwhile, court mortgage claim has been executed on basement premises located at Narva Road 13, their book value as of December 31, 2012 recorded at 40 thousand euros.

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 million euros and closed the court case described above.

People

At the end of 2012 the Company employed 127 people compared to 136 at the end of 2011.77 of them were engaged in hotel and property maintenance services (84 at the end of 2011). The total remuneration cost incurred during 2012 was 1.97 million euros compared to 2.23 million euros 2011 (included one-time premiums in amount of 0.56 million euros for successful sale of Kristiine Shopping Centre).

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

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 1 January 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 companies whose shares have been admitted to trading on a regulated market operating in Estonia (hereinafter 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 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

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

1.1.1. 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 AS Pro Kapital Grupp includes the e-mail address to which the shareholders can send questions. The Company 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 Company gives its responses to questions presented before holding the General Meeting and shall publishes the question and response on its website. During 2012 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.

1.1.2. Under the Articles of Association of AS Pro Kapital Grupp 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.

1.1.3. AS Pro Kapital Grupp facilitates the personal participation of shareholders at the General Meeting. When calling the shareholders' meeting a notice period is given. Before the listing of AS Pro Kapital Grupp shares general meeting was called by giving three week notice and extraordinary meeting was called by giving one week notice. Since the listing of the shares on NASDAQ OMX Tallinn Stock Exchange a notice of at least three 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 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 Company's website.
Before the listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company did not publish the notice of calling the shareholders' meeting on its website. The notice was published in daily national newspaper. The reason for not following the recommendation was that the "Corporate Governance Recommendations" are applicable to companies listed on the NASDAQ OMX Tallinn Stock Exchange. Before the listing of the shares the Company followed the common practise for not listed companies which was to publish the notice of calling the shareholders' meeting in daily national newspaper (for companies with more than 50 shareholders) or send the notice directly to each shareholder (for companies with less than 50 shareholders).
As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company is following the recommendation and is publishing the notice of calling the shareholders' meeting in daily national newspaper concurrently with making it available on the Company's website and the notice is also published via the NASDAQ OMX Tallinn Stock Exchange.
Shareholders of AS Pro Kapital Grupp are notified the 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 shall 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.
Before the listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company did not indicate specifically the reason for calling the meeting. Each notice had an agenda of the meeting with proposals by the Supervisory Council and Management Board as to each agenda topic. The reason for not following the recommendation was that the "Corporate Governance Recommendations" are applicable to companies listed on the NASDAQ OMX Tallinn Stock Exchange and before the recommendations were binding to AS Pro Kapital Grupp, the Company followed usual practice of the content of the notice for not listed companies.
As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company 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 Company's website.

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 stated above, AS Pro Kapital Grupp has not complied with the recommendation to state separately the reasons for calling the shareholders' meeting. Before the listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company did not indicate specifically the reason for calling the shareholders' meeting. Each notice had an agenda of the shareholders' meeting with proposals by the Supervisory Council and Management Board as to each agenda topic. Before the listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange materials connected to the agenda of the shareholders' meeting have been made available in the office of AS Pro Kapital Grupp.
As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company 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 Company's webpage 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.
As per the recommendation 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 2012 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 2012, AS Pro Kapital Grupp has not published any questions of the shareholders or replies to the shareholders on the website.
Before the listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company the information provided to shareholders has been in Estonian. As of listing the shares information provided to shareholders is in Estonian and English languages.

1.2.3. As per the recommendation 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 referred above AS Pro Kapital Grupp has not complied with the recommendation to publish the referred information on its website prior to the listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange. Such materials were made available to the shareholders at the office of the Company and such availability was always indicated in the notice of calling the meeting.
As of listing the shares 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 Company'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 Company shall publish the proposals on its website.
As of listing the shares AS Pro Kapital Grupp is following the recommendation. Before the listing of the shares the proposals regarding the agenda were stated in the notice of calling the meeting, but were not published on the website.

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.
During the year of 2012 AS Pro Kapital Grupp held two shareholders' meetings. The annual general meeting of the shareholders took place on 13 April 2012 and was held in English language and was translated into Italian language. The extraordinary shareholders' meeting took place on 14 August 2012 and was held in English. The reason for holding the meetings in English was the fact that most of the participating shareholders were foreigners.

As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company is following the recommendation and is holding the shareholders' meetings in Estonian, translated into English.
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. Allan Remmelkoor, the member of the Management Board of the Company was the chairman of both of the shareholders meetings held in 2012. The reason for not following the recommendation was that the "Corporate Governance Recommendations" are applicable to companies listed on the NASDAQ OMX Tallinn Stock Exchange.
As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company is following the recommendation.

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 two shareholders meetings in 2012. At least one member of the Management Board participated at both of the shareholders meetings. Chairman of the Supervisory Council Emanuele Bozzone participated at both of the shareholders' meetings.

Auditor did not participate at the General Meeting. The reason for not following the recommendation was that the "Corporate Governance Recommendations" are applicable to companies listed on the NASDAQ OMX Tallinn Stock Exchange. As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company is planning to follow the recommendation.
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 13 April 2012 shareholders' meeting three new council members were elected. Pertti Huuskonen, Petri Olkinuora and Sari Aitokallio as the candidates participated at the meeting.

1.3.3. As per the recommendation 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 topics 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 favouring personal and/or controlling shareholder's interests.
The Management Board is making 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; and
- 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. 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 groups' subsidiary 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. Allan Remmelkoor was until 18 June 2012 the Supervisory Council member of other Issuer AS Baltika.

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 Company, 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 the Management Board Member Paolo Michelozzi is determined by the Supervisory Council and agreed in the service contract concluded for three years with the Management Board Member. Remuneration of the Management Board Member Allan Remmelkoor is determined by the Management Board Member Paolo Michelozzi and approved by the Supervisory Councils of the Groups' 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 practise of non-disclosure is used by most of the NASDAQ OMX Tallinn Stock Exchange listed companies. AS Pro Kapital Grupp is publishing in the consolidated annual report of the Company the remuneration of the management and key personnel of the whole group, as an aggregate amount.

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 have been two transactions with Management Board members in 2012, which were approved by the Supervisory Council. A new service contract was approved and concluded with the Management Board member Mr. Paolo Michelozzi. An amendment to the car rental agreement concluded with Management Board member Allan Remmelkoor was approved by the Supervisory Council.

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 Company.
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 Chief Executive Officer and discusses the issues related to the Company's strategy, business activity and risk management.
The Chief Executive Officer 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, Sari Aitokallio and Pertti Huuskonen, all Supervisory Council's members of the Company.
AS Pro Kapital Grupp has not published the existence, duties, membership and position in the audit committee on its website as at the time of the formation of the audit committee AS Pro Kapital Grupp was not a listed Company. The Company plans to start following the recommendation during the financial year of 2013.

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 examines 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
Emanuele Bozzone	Swiss	1964	05.07.2010	Chairman	05.07.2013
Sari Aitokallio	Finnish	1960	13.04.2012	Member	31.03.2013*
Renato Lorenzo Bullani	Italian	1945	05.07.2010	Member	05.07.2013
Pertti Huuskonen	Finnish	1956	13.04.2012	Member	13.04.2015
Petri Olkinuora	Finnish	1957	13.04.2012	Member	13.04.2015
Giuseppe Prevosti	Italian	1946	05.07.2010	Member	05.07.2013

* 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.

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.

Ms Sari Aitokallio holds a Master of Laws (LLM) degree. Ms Aitokallio is a Senior Vice President in the field of finance and administration in Metso Automation Inc. (Business division of Metso Corporation, Finland). Previously she has also been a member of the Board of Directors of Arctia Shipping Oy (former Finstaship) (2006-2011), Kemira GrowHow Inc. (2004-2007) and Chief Financial Officer of Sponda Plc. (2002-2006). Additionally, Ms Aitokallio has been a member of the Board of Directors of SOS Children's Villages Finland until 2011. Currently she is a member of the Board of SOS Children's Villages Foundation Finland.

Mr Renato Lorenzo Bullani holds a federal qualification in economics, specialized in financing and accounting. Mr Bullani has a financing background. He has worked for Banca Popolare Svizzera of Chiasso. Currently Mr Bullani is the Chief Executive Officer of Fiduciaria Studio Renato Bullani. He is also a director of freight Company Rusconi & Cippà SA in Chiasso and a self-employed fiduciary accountant since 1972. Mr Bullani is also a partner and vice-chairman of Fiduciaria Mega S.A. (ChiassoLugano).

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-Insinöörit Oy (leading engineering Company in Finland) (since 2011), Tapiolan jalkapallostadion Oy (developer of the first closed roof football stadium and arena) (since 2012), Koja-Yhtiot Oy (industrial Company making ventilation machines for buildings and ships) (since 2004), Rapal Oy (software Company which developed Optimaze and Fore programmes) (since 2002), VRP Rakennuspalvelut Oy (small residential developer and construction Company in Finland) (since 2012) and Tampereen Keskusareena Oy (a

Company that will develop a grand ice hockey and event arena in Tampere, Finland) (since 2012). 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 Giuseppe Prevosti holds a diploma in land surveying. Since April 2012 Mr Prevosti is the chairman of the Board of Directors of Preca Brummel S.p.A, a market leader in Italy in the field of children's wear, which owns several successful brands popular over Europe in the children's wear category (BRUMS; BIMBUS; MEK; SUOMY etc.). During the period from 1981 to March 2010 he was the General Manager of Preca Brummel S.p.A.

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. As per the recommendation 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.
Ms Sari Aitokallio – is considered an independent Council member.
Mr Renato Lorenzo Bullani – is not considered independent member of the Council due to the fact that he is a member of the governing bodies of many different shareholders and has represented many different shareholders and has business relationships with many different shareholders.
Mr Pertti Huuskonen - is considered an independent Council member. Mr Pertti Huuskonen provided consultant services to the Company prior to being elected as Council member, but remuneration for such services was insignificant.
Mr Petri Olkinuora - is considered an independent Council member. Mr Petri Olkinuora provided consultant services to the Company prior to being elected as Council member, but remuneration for such services was insignificant.
Mr Giuseppe Prevosti - is considered an independent Council member. He holds a minority shareholding in the Company, which is less than 10%.

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. As per the recommendation 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).

The shareholders' meeting which took place on 13 April 2012 resolved to remunerate Council members Pertti Huuskonen, Petri Olkinuora and Sari Aitokallio each in amount of 25 thousand euros per year (gross). In addition a fee of 0.6 thousand euros (gross) shall be paid to the Council member for each attended meeting.
The shareholders' meeting which took place on 14 August 2012 resolved to remunerate Council members Renato Lorenzo Bullani and Giuseppe Prevosti each in amount of 25 thousand euros per year (gross). The same shareholders' meeting resolved to remunerate the Chairman of the Council Emanuele Bozzone in amount of 27.5 thousand euros per year (gross). In addition a fee of 0.6 thousand euros (gross) shall be paid to the Council member for each attended meeting. The same shareholders' meeting resolved to compensate all Council members their travel and accommodation expenses relating to participation in the Supervisory Council meeting and in the meetings of the committees. The same shareholders' meeting resolved to pay Supervisory Council's members Renato Lorenzo Bullani and Giuseppe Prevosti onetime fee of 10 thousand euros (net) and pay the Chairman of the Council Emanuele Bozzone onetime fee of 15 thousand euros (net). The onetime fee was paid due to the fact that Renato Lorenzo Bullani, Giuseppe Prevosti and Emanuele Bozzone did not receive any remuneration prior to the shareholders decision of 14 August 2012.
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 2012 in total 8 meetings of the Supervisory Council were held. None of the Council Members participated in less than half of the meetings.

3.3. Conflict of interests

3.3.1. As per the recommendation 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. As per the recommendation 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 2012.

3.3.3. As per the recommendation 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. As per the recommendation 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, organises 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 approves 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 immovable or registered movables the value whereof exceeds 300 thousand euros, and encumbrance of immovable or registered immovable (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 appoints and dismisses the Company's directors and person responsible for accounting (the executive management). The Management Board approves 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 separately calls attention to such changes in the business activities of the Company deviating from plans and purposes set formerly and indicates the reasons of such changes. The information is delivered promptly and covers 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 financial statements, the financial statements 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.
The Company did not publish in the beginning of the financial year of 2012 the investors calendar (disclosure dates of information subject to disclosure throughout a year including the annual report, interim reports and notice calling a general meeting) as the Company's shares were not listed on NASDAQ OMX Tallinn Stock Exchange. As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company is following the recommendation and is publishing the investors' 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.

Before AS Pro Kapital Grupp shares were listed on NASDAQ OMX Tallinn Stock Exchange the Company did not follow the recommendation. The reason for not following the recommendation was that the "Corporate Governance Recommendations" are applicable to companies listed on the NASDAQ OMX Tallinn Stock Exchange.
As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company 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.
Before AS Pro Kapital Grupp shares were listed on NASDAQ OMX Tallinn Stock Exchange the Company did not follow the recommendation. The consolidated annual report 2011 presented to the shareholders did not include the Corporate Governance Recommendations. The reason for not following the recommendation was that the "Corporate Governance

Recommendations" are applicable to companies listed on the NASDAQ OMX Tallinn Stock Exchange.
As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company is following the recommendation and is including in the consolidated 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 cannot 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, consolidated annual report).
According to the belief of the Management Board of AS Pro Kapital Grupp the recommendation is followed.
The Company has not had any meetings with analysts after the listing of the Company shares on NASDAQ OMX Tallinn Stock Exchange.

VI FINANCIAL REPORTING AND AUDIT

6.1. Reporting

6.1.1. As per the recommendations Issuers shall publish annually its **consolidated** annual report and within a fiscal year its interim reports. The Management Board shall draw up consolidated financial statements, which shall be audited by the auditor and the Supervisory Council. On meeting of the Supervisory Council, where the consolidated financial statements 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 consolidated annual report signed by members of the Management Board and the Supervisory Council for examination. Together with consolidated 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 of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company is following the recommendation.
Before the listing of the shares the auditor did not participate at the Council meeting where the consolidated financial statements were reviewed.

6.1.2. As per the recommendation the Issuer shall publish an annex of the consolidated financial statements 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 consolidated financial statements 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 of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company is following the recommendation.

6.2. Election of the Auditor and Auditing of the Consolidated Financial Statements

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 Company's 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 Company 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 Company during the preceding year or shall provide during the next year. Also the remuneration the Company 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.
Before the listing of the shares of AS Pro Kapital Grupp the Company did not follow the recommendation to inform the shareholders on information of the auditor candidate business connections. The Supervisory Council did also not 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 Company and its management body on other side. The Company did not describe the auditors work *inter alia* the services (including advisory services) that the auditor has provided to the Company during the preceding year or shall provide during the next year. Also the remuneration the Company has paid or shall pay to the auditor was not published.
During 2012 AS Deloitte Advisory has provided advisory services to AS Pro Kapital Grupp in relation to IPO readiness diagnostics and AS Deloitte Audit Eesti provided services to AS Pro Kapital Grupp in relation to compilation of the combined financial statements for periods of 2009, 2010 and 2011. The Company does not disclose the amount of the audit fee because its non-disclosure does not affect the reliability of the audit services provided by the auditor.
As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange AS Pro Kapital Grupp is intending to follow the recommendation in electing the auditor for the audit of the financial year of 2013.

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.

During 2012 before the listing of the shares AS Pro Kapital Grupp did not follow the recommendation. The reason for not following the recommendation was that the "Corporate Governance Recommendations" are applicable to companies listed on the NASDAQ OMX Tallinn Stock Exchange.
As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange, AS Pro Kapital Grupp intends to follow the recommendation in agreeing on the audit of the financial year of 2013, excluding the disclosure of the remuneration payable for auditing as the disclosure of such sensitive information would damage the competitive position of the audit firm.

6.2.3. As per the recommendation 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 the Company 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 Company 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.
In consolidated annual report 2011 presented to the shareholders for approval in the financial year of 2012, prior to the listing of the shares of the Company, the recommendation was not followed. The reason for not following the recommendation was that the "Corporate Governance Recommendations" are applicable to companies listed on the NASDAQ OMX Tallinn Stock Exchange.
As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company intends to follow the recommendation and the auditor shall prepare the memorandum on compliance with the Corporate Governance Recommendations.

6.2.5. As per the recommendation the General Meeting, Supervisory Council and Management Board shall enable auditor to carry out the auditing according to international auditing standards.
Consolidated financial statements of AS Pro Kapital Grupp 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 Company;
- 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.
While presenting the consolidated annual report 2011 to the Supervisory Council, prior to the listing of the shares of the Company, the recommendation was not followed. The reason for not following the recommendation was that the "Corporate Governance Recommendations" are applicable to companies listed on the NASDAQ OMX Tallinn Stock Exchange.
As of listing of AS Pro Kapital Grupp shares on NASDAQ OMX Tallinn Stock Exchange the Company intends to follow the recommendation and the auditor shall present an overview, analysis and opinion described above in writing to the Supervisory Council.

Management Declaration

The Management Board declares and confirms that according to their best knowledge, the year 2012 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 Member of the Management Board	_____	29 April 2013
Allan Remmelkoor	Chief Operating Officer Member of the Management Board	_____	29 April 2013

Consolidated Financial Statements

Consolidated Statement of Financial Position

in thousands of euros	Note	31.12.2012	31.12.2011
ASSETS			
Current Assets			
Cash and bank balances	8	707	8 637
Current receivables	9	3 198	2 865
Inventories	10	48 191	53 186
Total Current Assets		52 096	64 688
Non-Current Assets			
Non-current receivables		164	152
Deferred tax assets	26	464	370
Property, plant and equipment	11	21 161	21 863
Investment property	12	26 089	26 111
Intangible assets		288	288
Total Non-Current Assets		48 166	48 784
TOTAL ASSETS	6	**100 262**	**113 472**
LIABILITIES AND EQUITY			
Current Liabilities			
Current debt	13	11 692	14 002
Customer advances		652	838
Current payables	14	1 926	1 791
Taxes liabilities		102	95
Short-term provisions		2 035	1 091
Total Current Liabilities		**16 407**	**17 817**
Non-Current Liabilities			
Non-current debt	15	15 706	21 462
Non-current payables		33	0
Deferred tax liabilities	26	1 858	1 962
Long-term provisions		131	173
Total Non-Current Liabilities		17 728	23 597
Total Liabilities	6	**34 135**	**41 414**
Equity attributable to owners of the Company			
Share capital in nominal value	19	10 637	10 637
Revaluation surplus	19	11 330	11 330
Foreign currency differences		-1 064	-1 130
Retained earnings		49 624	21 504
Profit (loss) for the financial year		-5 952	28 120
Total equity attributable to owners of the Company		64 575	70 461
Non-controlling interests	20	1 552	1 597
Total equity		66 127	72 058
TOTAL LIABILITIES AND EQUITY		**100 262**	**113 472**

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

Signed for identification purposes:
AS Deloitte Audit Eesti

Consolidated Statement of Comprehensive Income

in thousands of euros	Note	2012	2011
Continuing operations			
Operating income			
Revenue	6, 21	16 078	17 449
Cost of sales	22	-12 750	-16 407
Gross profit		**3 328**	**1 042**
Marketing expenses	23	-531	-352
Administration expenses	23	-5 889	-5 657
Other operating income	24	411	54 280
Other operating expenses	24	-1 932	-1 455
Operating profit (loss)	6	**-4 613**	**47 858**
Finance income	25	48	4 770
Finance cost	25	-1 465	-2 877
Profit (loss) before tax		**-6 030**	**49 751**
Income tax	26	164	351
Profit (loss) for the year from continuing operations		**-5 866**	**50 102**
Discontinued operations			
Profit for the year from discontinued operations		0	6 046
Profit for the year		**- 5 866**	**56 148**
Attributable to:			
Owners of the Company		-5 869	28 120
Non-controlling interests		3	28 028
Other comprehensive income, net of income tax			
Gain on revaluation of property, plant and equipment		0	11 330
Exchange differences on translating foreign operations		-83	-62
Other comprehensive income for the year, net of income tax		-83	11 268
Total comprehensive income for the year		**-5 949**	**67 416**
Attributable to:			
Owners of the Company		-5 952	39 351
Non-controlling interests		3	28 065
Earnings per share			
From continuing and discontinued operations			
Basic (euros per share)	27	-0.11	0.53
Diluted (euros per share)	27	-0.11	0.53
From continuing operations			
Basic (euros per share)	27	-0.11	0.41
Diluted (euros per share)	27	-0.11	0.41

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

Signed for identification purposes:

AS Deloitte Audit Eesti

Consolidated Statement of Cash Flows

in thousands of euros	Note	2012	2011
Cash flows from operating activities			
Profit (loss) for the year		-5 866	56 148
Adjustments for:			
Depreciation and amortisation of non-current assets	13	819	580
Change in fair value of investment property	12	1 025	332
Gain on disposal of tangible assets held for sale		0	-54 057
Net gain / loss on disposal of ownership in subsidiary		0	-2 736
Net gain / loss from purchase of subsidiary		0	-137
Net gain / loss from discontinued operations		0	-6 589
Net gain/loss from disposal/write-off of non-current assets		2	4
Write-down of inventories		62	3 028
Finance income and costs from continuing operations		1 405	1 339
Finance income and costs from discontinued operations		0	244
Change in deferred tax assets and liabilities	26	-198	-376
Net foreign exchange gain / loss		83	-38
Other non-monetary changes (net amounts)		-1 026	366
Movements in working capital:			
Change in trade receivables and prepayments	9	-333	-15 854
Change in inventories	10	4 995	4 797
Change in liabilities and prepayments		535	-5 243
Change in provisions		902	835
Net cash generated by operating activities		**2 405**	**-17 357**
Cash flows from investing activities			
Payments for property, plant and equipment		-73	-1 322
Proceeds from disposal of property, plant and equipment		3	9
Proceeds from disposal of tangible assets held for sale		0	104 997
Payments for investment property	12	-1 025	0
Proceeds from disposal of investment property	12	25	0
Net cash outflow on acquisition of subsidiaries	7	-9	-22 825
Net cash inflow on disposal of subsidiaries		0	6 323
Net cash outflow on disposal and acquisition of subsidiaries (discontinued operations)		0	-7 261
Repayment of loans granted		0	1
Interest received		28	7 641
Net cash (used in) / generated by investing activities		**-1 051**	**87 563**
Cash flows from financing activities			
Proceeds from issue on convertible notes	18	0	3 062
Proceeds from borrowings		566	3 144
Repayment of borrowings		-8 417	-70 578
Interest paid		-1 433	-1 504
Investments made by non-controlling shareholders into subsidiaries (net amount)		0	4
Net cash used in financing activities		**-9 284**	**-65 872**
Net change in cash and cash equivalents		**-7 930**	**4 334**
Cash and cash equivalents at the beginning of the year	8	8 637	4 303
Cash and cash equivalents at the end of the year	8	707	8 637

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

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Consolidated Statement of Changes in Equity

in thousands of euros	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 2011	**33 992**	**45 089**	**2 938**	**0**	**-1 157**	**24 382**	**105 244**	**34 660**	**139 904**
Share capital conversion into EUR	-2 081	0	0	0	0	2 081	0	0	0
Net assets allocated during demerger	0	0	0	0	126	-74 867	-74 741	-5 011	-79 752
Decrease in share capital to cover the negative equity	-21 274	-45 089	-2 938	0	0	69 301	0	0	0
Increase of share capital in subsidiaries	0	0	0	0	0	0	0	4	4
Acquisition of holdings from non-controlling interests in subsidiary	0	0	0	0	0	607	607	- 56 279	-55 672
Change in non-controlling interest due to the sale of operating activities	0	0	0	0	0	0	0	158	158
Comprehensive profit for the year	0	0	0	11 330	-99	28 120	39 351	28 065	67 416
31 December 2011	**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	-5 869	-5 952	3	-5 949
31 December 2012	**10 637**	**0**	**0**	**11 330**	**-1 064**	**43 672**	**64 575**	**1 552**	**66 127**

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 the Company) for the financial year ended 31 December 2012 were signed by the Management Board at 29 April 2013.

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 consolidated annual report prepared and presented by the Management Board and require preparation of a new consolidated 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 2012, the main shareholders of the Company are the following:

Shareholder	Country of incorporation	Share of ownership 31.12.2012	31.12.2011
Clearstream Banking Luxembourg S.A	Luxembourg	22.23%	0.00%
Svalbork Invest OÜ	Estonia	12.86%	12.86%
Eurofiduciaria S.r.l.	Italy	12.84%	11.98%
Sueno Latino AG	Liechtenstein	8.51%	8.51%
A.F.I. American Financial Investments Ltd.	Liechtenstein	8.20%	9.57%
Anndare Ltd.	Ireland	6.27%	41.69%

The address of its registered office is disclosed in the introduction to the consolidated 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 consolidated financial statements

The following amendments to IFRSs have been applied in the current year and have affected the amounts reported in these financial statements.

Amendments to IFRSs affecting presentation and disclosure only

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:

- Amendments to IFRS 7 *Financial Instruments: Disclosures* – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011). The objective of the amendments is to improve the quality of the information reported about financial assets that have been „transferred" but are still, at least partially, recognised by the entity because they do not qualify for derecognition, because they qualify for derecognition, but with which the entity continues to have some involvement.

The adoption of the amendment to the existing standards has not led to any changes in the Company's accounting policies.

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2.2 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),
- IFRS 13 *Fair Value Measurement*, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013), IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.
- 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 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),
- 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 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 IAS 1 *Presentations of financial statements* – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods on or after 1 July 2012). The amendments require companies preparing financial statements in accordance with IFRSs to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements.
- 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). IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 *Investment Property*. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale.
- 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 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 various standards *Improvements to IFRSs (2012)* resulting from the annual improvements project of IFRS published on 17 May 2012 (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). The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (I) Repeated application of IFRS 1, (ii) Borrowing costs under IFRS 1, (iii) Clarification of the requirements for comparative information, (iv) Classification of servicing equipment, (v) Tax effect of distribution to holders of equity instruments, (vi) Interim financial reporting and segment information for total assets and liabilities.
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

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The Company has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

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

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at date of publication of financial statements:

- IFRS 9 *Financial Instruments* (effective for annual periods beginning on or after 1 January 2015),
- Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures* – Mandatory Effective Date and Transition Disclosures,
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosures of Interests in Other Entities* and IAS 27 *Separate Financial Statements* – Investments Entities (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.
At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. According to the Company's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39 *Financial Instruments: Recognition and Measurement* would no significant impact the financial statements, if applied as at the reporting period date.

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 certain 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 given in 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 acuiree (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 synergise 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 of 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, of the Central Banks of sub-group's country of incorporation. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date, of the 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 form 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	31.12.2012	2012 average	31.12.2011	2011 average
Latvian lats (LVL)	1.43328	1.43410	1.42959	1.41583
Lithuanian litas (LTL)	0.28962	0.28962	0.28962	0.28962

3.7 Cash and cash flows

Cash on the statement of financial position 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 measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss statement in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn form 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

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 recognized 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 of 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

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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 and 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 entirely, 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 it's entirely (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 of the Parent 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 Expenses

Cost 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 Changes in presentation of information

In previous reporting periods, land and real estate taxes were recognised as other operating expenses in the consolidated statement of comprehensive income. Due to the direct connection between the land and real estate taxes and the Company's business, these taxes are now recognised in the administration expenses in the consolidated statement of comprehensive income.

The comparative information of the previous financial year that is presented in the consolidated financial statements for 2012 has been changed to correspond to the new presentation. Thus, the following items have been adjusted in the financial statements: in the consolidated statement of comprehensive income, administration expenses have increased by 420 thousand euros; other operating expenses have decreased by the same amount.

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.

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 for more than 180 days are considered to be non-collectible and are fully written off.

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

At the end of reporting period 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 to 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. Receivable overdue for more than 180 days, are considered to be non-collectible and are fully written-off.

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
			31.12.2012	31.12.2011	
AS Pro Kapital Grupp	See Note 1	Estonia		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 Kvartal	AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate development
AS Täismaja	AS Pro Kapital Eesti	Estonia	99.99%	99.99%	Real estate development
AS Tondi Kvartal	AS Pro Kapital Eesti	Estonia	100.00%	100.00%	Real estate development
AS Pro Halduse (previously OÜ 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 (former Domina Management AS)	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
Domina Management UAB	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	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Real estate development
Klīversala 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	Pasaules tirdzniecības centrs "Rīga" SIA	Latvia	70.00%	70.00%	Real estate development
Hotel Management Services SIA (former Domina Management SIA)	Pro Kapital Latvia PJSC	Latvia	100.00%	100.00%	Hotel management
Pro Kapital Germany GmbH	AS Pro Kapital Grupp	Germany	100.00%	100.00%	Real estate development
OÜ Pro Kapital Germany Holdings	AS Pro Kapital Grupp	Estonia	100.00%	100.00%	Real estate development
PK Hotel Management Services GmbH (former Domina Tourismus GmbH)	OÜ Pro Kapital Germany Holdings	Germany	100.00%	100.00%	Hotel management

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Below are presented the financial figures of the Group companies, whereas the figures of the sub-groups' companies are presented in the currency of domicile of the sub-group, and the consolidated figures of sub-groups are presented in / converted into the currency domiciled of the Parent.

in thousands

Subsidiary	Currency	Cost at 31.12.2012	Cost at 31.12.2011	Revenue for 2012	Profit/loss for 2012	Net Assets at 31.12.2012	Net Assets at 31.12.2011
AS Pro Kapital Eesti (consolidated)	EUR	17 981	17 981	3 627	1 276	110 294	109 017
OÜ Ilmarise Kvartal	EUR	286	286	891	-3	2 528	2 531
AS Täismaja	EUR	65 862	65 853	0	5 688	121 026	115 338
AS Tondi Kvartal	EUR	4 364	4 364	34	-223	6 425	6 647
AS Pro Halduse	EUR	27	27	1 427	40	480	440
AS Tallinna Moekombinaat	EUR	12 345	12 345	0	-183	9 132	9 315
Hotel Management Services OÜ	EUR	520	520	1 455	-45	129	84
Pro Kapital Vilnius Real Estate UAB (consolidated)	EUR	2 375	2 375	6 547	228	-1 362	-1 590
PK Invest UAB	LTL	23 063	23 063	19 536	40	2 897	2 857
Domina Management UAB	LTL	148	148	230	16	173	157
Pro Kapital Latvia PJSC (consolidated)	EUR	10 188	10 188	2667	-1 094	12 755	13 893
PK Latvia SIA	LVL	134	134	3	-3	4	7
Klīversala RE SIA	LVL	6 901	6 901	20	-258	9 048	9 306
Tallina Nekustamie Īpašumi SIA	LVL	3 420	3 420	0	-117	406	-1 590
Nekustamo īpašumu sabiedrība Zvaigznes centrs SIA	LVL	1 200	1 200	10	-84	392	478
Investhotel SIA	LVL	700	700	430	160	1 372	1 216
Pasaules tirdzniecības centrs "Rīga" SIA	LVL	6 841	6 841	632	142	7 320	7 178
Nekustamo īpašumu sabiedrība Prokurs SIA	LVL	999	999	112	22	1 450	1 511
Hotel Management Services SIA	LVL	560	560	1 114	-56	161	217
Pro Kapital Germany GmbH	EUR	25	25	435	-94	4 962	5 056
OÜ Pro Kapital Germany Holding (consolidated)	EUR	3	3	0	0	141	137
PK Hotel Management Services GmbH	EUR	1	1	3 221	4	141	137

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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.

in thousands of euros	Estonia	Latvia	Lithuania	Germany	Total
2012					
Revenue	3 661	2 650	6 546	3 221	16 078
Other operating income	213	41	19	138	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	-4 919	-1 176	218	-153	**-6 030**
Income tax	0	91	10	63	164
Non-controlling interest	7	-10	0	0	-3
Net profit (loss) for the financial year attributable to equity holders of the parent	**-4 912**	**-1 095**	**228**	**-90**	**-5 869**
31.12.2012					
Assets	51 085	25 926	14 427	8 824	100 262
Liabilities	21 621	5 772	5 526	1 216	34 135
Acquisition of non-current assets	54	12	3	4	73
Depreciation and amortisation	-161	-255	-29	-374	-819
2011					
Revenue	10 569	3 038	3 406	436	17 449
Other operating income	54 087	146	0	47	54 280
Segment operating profit (loss)	51 501	-3 916	-57	330	47 858
Financial income and expense (net)	-213	2 626	-520	0	1 893
Profit (loss) before income tax					**49 751**
Income tax	0	-330	-24	3	-351
Non-controlling interest					28 171
Net profit (loss) for the financial year attributable to equity holders of the parent					**21 931**
31.12.2011					
Assets	59 413	26 544	18 403	9 112	113 472
Liabilities	25 919	6 047	8 050	1 398	41 414
Acquisition of non-current assets	354	17	1	0	372
Depreciation and amortisation	-194	-258	-19	-109	-580

In the first quarter of 2012, bulk sale of 27 apartments and 13 parking lots in Vilnius to UAB Colosseum Real Estate Vilnius, which is also related party to the Company, took place. The value of the sale was 4 535 thousand euros (see also Note 28).

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Note 7. Acquisitions of / Change in Ownership in Subsidiary

in thousands of euros	**AS Täismaja**
Net assets at the date of acquisition	115 371
Share (%) as at 31 December 2011	**99.99176%**
Acquired	0.00784%
Share (%) as at 31 December 2012	**99.9996%**
Non-controlling interests	9
Acquisition cost	9
Paid in cash	9
Net cash outflow in acquisition	9
Profit in acquisition (equity)	0

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.

in thousands of euros	**31.12.2012**	**31.12.2011**
Cash at hand	48	63
Bank accounts	659	8 574
Total	**707**	**8 637**

Note 9. Current Receivables

in thousands of euros	**31.12.2012**	**31.12.2011**
Trade receivables	1 068	669
Receivables from related parties (Note 28)	492	516
Other receivables	1 400	1 358
Accrued income	37	55
Prepaid expenses	200	267
Total	**3 198**	**2 865**

In 2012, 186 thousand euros of trade receivables were written off (2011: 351 thousand euros). No allowances for credit losses were made as at 31 December 2012.

As at 31 December 2012, there were 294 thousand euros of current receivables overdue (31.12.2011: 321 thousand euros), of which 21 thousand euros were overdue by more than 360 days (31.12.2011: 131 thousand euros).

Note 10. Inventories

in thousands of euros	**31.12.2012**	**31.12.2011**
Property held for resale	12 908	17 947
WIP (property under construction)	35 184	35 107
Goods bought for resale	99	132
Total	**48 191**	**53 186**

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The cost of inventories recognised as an expense during the year in respect of continuing operations was 5 527 thousand euros (2011: 6 817 thousand euros).

The cost of inventories recognised as an expense includes 62 thousands euros (2011: 3 028 thousands euros) in respect of write-downs of inventory to net realisable value.

Inventories of 35 308 thousands euros (31 December 2011: 35 107 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 revalued 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 2012 and upon management judgement book values reflect fairly the value of Group's land and building assets and no additional revaluation adjustment is deemed necessary.

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

	Carrying amount		Revaluation value	
in thousands of euros	**31.12.2012**	**31.12.2011**	**31.12.2012**	**31.12.2011**
Pulkvieza Brieza 11, Riga	1 767	1 795	5 880	6 070
Põhja Avenue 21, 21a, 21b-1, Tallinn	3 517	3 602	5 975	6 100
Põhja Avenue 21c, Tallinn	192	198	268	268
Kurhausstrasse 28, Bad Kreuznach	2 430	3 793	8 063	8 280

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.

in thousands of euros	**31.12.2012**	**31.12.2011**
Land and buildings	20 449	21 069
Machinery and equipment	403	548
Other property, plant and equipment	279	246
Total	**21 161**	**21 863**

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in thousands of euros	Land and buildings	Machinery and equipment	Other property, plant and equipment	Prepayments	Total
Balance at 1 January 2011	**60 541**	**4 002**	**33 953**	**2 413**	**100 909**
Additional					
Acquired	0	12	925	298	1 235
Acquired in business combination	0	0	398	0	398
Disposals					
Sold	0	-6	-3	0	-9
Written off	0	-9	-213	0	-222
Related to disposal / demerger of subsidiaries	-46 817	-2 689	-32 880	-2 737	-85 123
Application of revalution model					
Fair value gain	12 878	0	0	0	12 878
Reversal of accumulated depreciation	-1 955	0	0	0	-1 955
Other changes:					
Reclassified to/from inventories	-2 807	0	0	0	-2 807
Reclassified to/from non- current assets held for sale	0	0	-14	0	-14
Foreign currency differences	57	14	223	26	320
Balance at 31 December 2011	**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
Other changes:					
Reclassified to/from inventories	0	0	45	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**

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in thousands of euros	Land and buildings	Machinery and equipment	Other property, plant and equipment	Total
Accumulated depreciation 01.01.2011	**8 424**	**1 728**	**9 469**	**19 621**
Additions:				
Depreciation charge for the period	415	108	49	572
Acquired in business combination	0	0	235	235
Disposals:				
Sold	0	-2	-2	-4
Written off	0	-9	-205	-214
Related to disposal / demerger of subsidiaries	-5 984	-1 055	-7 428	-14 467
Application of revaluation model:				
Reversal of accumulated depreciation	-1 955	0	0	-1 955
Other changes:				
Reclassified to / from inventories	-100	0	0	-100
Reclassified to / from investment property	0	0	-9	-9
Foreign currency differences	28	6	34	68
Accumulated depreciation 31.12.2011	**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**

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

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Note 12. Investment Property

in thousands of euros	Investment property held for increase in value	Investment property held for earning rentals	Total
Balance at 1 January 2011	**26 023**	**88**	**26 111**
Additions:			
Acquired	332	0	332
Changes in fair value:			
Loss from change in fair value of IP	-332	0	-332
Balance at 31 December 2011	**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**

The fair value of the Group's investment property at 31 December 2012 and 31 December 2011 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 is 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 31 December 2012 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 31 December 2012.

Fair value adjustment of 1 025 thousand euros comes from capitalized cost that were expensed at the year end as the fair value of investment property remained constant.

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

in thousands of euros	2012	2011
Rental income	35	6
Direct operating costs		
Maintenance	0	44
Other direct costs	72	0

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

in thousands of euros	31.12.2012	31.12.2011
Bank loans and overdrafts (Note 16)	4 237	4 402
Convertible notes (Note 18)	3 261	0
Payables to related parties (Note 28)	4 153	9 520
Other	41	80
Total	**11 692**	**14 002**

Note 14. Current Payables

in thousands of euros	31.12.2012	31.12.2011
Trade payables	1 031	724
Payables to related parties (Note 28)	1	0
Accrued expenses	894	1 063
Deferred income	0	4
Total	**1 926**	**1 791**

Note 15. Non-Current Debt

in thousands of euros	31.12.2012	31.12.2011
Bank loans and overdrafts (Note 16)	7 695	10 190
Convertible notes (Note 18)	8 011	11 272
Total	**15 706**	**21 462**

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Note 16. Bank Loans and Overdrafts

in thousands of euros

Borrower	Creditor	Contract currency	Loan balance at31.12.2011	Loan balance at 31.12.2012	Loan repayments			Interest rate	Maturity date	Collateral
					Within 1 year	2-5 years	Over 5 years			
Pro Kapital Eesti:										
AS Pro Kapital Eesti	AS Swedbank	EUR	2 141	1 731	1 731	0	0	2.0% + 6 month EURIBOR	01.11.2013	Note 17
AS Tondi Kvartal	AS Swedbank	EUR	605	605	605	0	0	2.5% + 6 month EURIBOR	16.07.2013	Note 17
AS Pro Kapital Eesti	AS Swedbank	EUR	0	566	566			1.95%+ 6 month EURIBOR	09.08.2013	Note 17
			2 746	**2 902**	**2 902**	**0**	**0**			
Pro Kapital Latvia:										
Investhotel SIA	AS Swedbank	EUR	4 623	4 284	325	3 959	0	3.0% + 3 month EURIBOR	01.05.2015	Note 17
			4 623	**4 284**	**325**	**3 959**	**0**			
Pro Kapital Vilnius:										
PK Invest UAB	AB Swedbank	EUR	7 200	4 736	1 000	3 736	0	2.4% + 6 month EURIBOR	07.12.2014	Note 17
			7 200	**4 736**	**1 000**	**3 736**	**0**			
Pro Kapital Germany Holdings:										
Domina Tourismus GmbH	Volksbank Bad Kreuznach	EUR	23	10	10	0	0	5.1%	30.09.2013	Entity's assets
			23	**10**	**10**	**0**	**0**			

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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 31.12.2012	Collateral description	Owner of collateral	Type of assets	Book value of collateral at 31.12.2012
AS Tondi Kvartal	AS Swedbank	605	Tondi street 51, Tallinn	AS Tondi Kvartal	Finished construction (inventories)	1,781
			Guarantee letter	AS Pro Kapital Grupp	Entity's assets	x
AS Pro Kapital Eesti	AS Swedbank	1 731	Põhja avenue. 21, 21a, 21b-1, Tallinn	AS Pro Kapital Eesti	Land and buildings	5 975
			Põhja avenue 21, 23 Tallinn	OÜ Ilmarise Kvartal	Finished construction (inventories)	761
AS Pro Kapital Eesti	AS Swedbank	566	Põhja avenue. 21, 21a, 21b-1, Tallinn	AS Pro Kapital Eesti	Land and buildings	5 975
			Põhja avenue 21, 23 Tallinn	OÜ Ilmarise Kvartal	Finished construction (inventories)	761
			Tondi street 51, Tallinn	AS Tondi Kvartal	Finished construction (inventories)	1 781
Investhotel SIA	AS Swedbank	4 314	Pulkveza Brieza Str. 11, Riga	Investhotel SIA	Land and buildings	5 929
				Investhotel SIA	Other assets	4 800
			Trijadibas street 5, Rīga	Kliversala RE SIA	Unfinished construction (inventories)	8 869
			Guarantee letter	AS Pro Kapital Grupp	Entity´s assets	x
PK Invest UAB	AB Swedbank	4 736	Aguonu str.10, Vilnius	PK Invest UAB	Finished construction (inventories)	11 900
			Guarantee letter	AS Pro Kapital Grupp	Entity´s assets	x
Total		**14 569**				

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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 Hotel Blijdorp B.V. to assure the rental liabilities to Serval S.r.l. related to the hotel, located in Rotterdam, rental agreement concluded between Serval S.r.l. and Hotel Blijdorp B.V. The guarantee letter is only to assure the rental payments in amount up to 2 300 thousand euros as at 31 December 2012. As at 12 March 2013 settlement between Aprisco B.V and Pro Kapital Grupp has taken plaCe and the guarantee has been deemed not valid by the settlement agreement.
- 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 8 002 thousand euros (5 681 thousand Latvian lats), as AS Swedbank (Latvia) has issued a guarantee letter in the same amount to VAS „Privatizācijas aģentūra" to assure the investment liabilities related to contract concluded between Klīversala RE SIA and VAS „Privatizācijas aģentūra" (31.12.2012). As at 31 December 2012 the unfulfilled investment obligation of Kliversala RE SIA was 7 382 thousand euros (5 188 thousand Latvian lats).
- To Swedbank AS (Latvia) in the amount of 4 314 thousand euros.
- Guarantee letter to Kristiine Keskus OÜ to secure (jointly with Pro Kapital Eesti AS) possible claims against Täismaja AS arising from a loan contract concluded between AS Pro Kapital Eesti and Täismaja AS on 9 March 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 2 May 2017.
- To AS Swedbank (Estonia) to assure loan liabilities of AS Tondi Kvartal, which amounted to 605 thousand euros as at 31 December 2012 (31.12.2011: 605 thousand euros).
- To Swedbank AB (Lithuania) to assure loan liabilities of UAB PK Invest in the amount of 4 736 thousand euros.

Note 18. Convertible Notes

in thousands of euros	**31.12.2012**	**31.12.2011**
Current debt (Note 13)	3 261	0
Non-current debt (Note 15)	8 011	11 272
Total	**11 272**	**11 272**

On 3 April 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 24 April 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 9 July 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 can 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. The possibility is optional and is not binding.

Registration date of notes issued	**13.08.2009**	**20.01.2010**	**10.08.2010**	**16.08.2010**	**29.11.2010**	**25.05.2011**
Issuance currency	EUR	_EUR	EUR	EUR	EUR	EUR
Issue price of note	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR	2.80 EUR
Note return per annum (% from issue price	7%	7%	7%	7%	7%	7%
Note interest payment frequency	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year	Twice a year
Latest date for the repurchase of notes	13.08.2013	20.01.2014	10.08.2014	16.08.2014	29.11.2014	25.05.2015
Latest date for the exchange of notes to shares	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012	31.12.2012
Discount rate (%)	7%	7%	7%	7%	7%	7%

(Pcs.)	**31.12.2012**	**31.12.2011**
Number of convertible notes at the beginning of period	4 025 758	3 345 374
Number of convertible notes issued	0	680 384
Number of repurchased notes	0	0
Number of convertible notes at the end of period	4 025 758	4 025 758

in thousands of euros	**2012**	**2011**
Value of convertible notes at the beginning of period	11 272	9 366
Principal of convertible notes issued	0	1 906
Principal of convertible notes transferred through separation	0	0
Repurchased notes in repurchase price	0	0
Principal of the notes issued at the end of the period	11 272	11 272
Current portion of liabilities at the end of the reporting period	**3 261**	**-**
Non-current portion of liabilities at the end of the reporting period	**8 011**	**11 272**

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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 2012, the share capital in the amount of 10 637 thousand euros (2011: 10 637 thousand euros) consists of 53 185 422 (2011: 53 185 422) ordinary shares at a nominal value of 0.2 euros (2011: 0.2 euros) per share. All shares have been paid for in full.

According to the articles of association effective on 31 December 2012, the minimum share capital amounts to 6 000 thousands euros, whereas maximum share capital amounts to 24 000 thousands euros.

Due to euro introduction in Republic of Estonia on 01 January 2011 and the requirements of the Commercial Code, the nominal value of a share must be rounded to one decimal. Therefore, on 30 June 2011 the shareholders meeting decided to decrease the share capital by reduction of the nominal value of shares. The decrease in share capital down to 31 911 thousands euros (53 185 422 shares at 0.6 euros per share) was registered in Commercial Registry on 8 August 2011.

On 16 September 2011, shareholders resolved further to decrease the share capital by 21 274 thousand euros down to 10 637 thousand euros by decreasing the nominal value of a share from 0.6 euros to 0.2 euros. As a part of this change, share premium in the amount of 45 089 thousand euros and accumulated statutory legal reserve in the amount of 2 938 thousand euros was released to retained earnings.

On 6 February 2013 the general meeting of Group's shareholders allowed to increase share capital of the Company by up to 5.32 million euros within next 3 years.

On 4 April 2013 the general meeting of Group's shareholders decided on the increase of share capital by 288 thousands euros, by emitting 1.4 million pieces of new shares with the nominal value of 0.2 euros, to be offered at 1.8 euro value.

As described in Note 18 to these consolidated financial statements, AS Pro Kapital Grupp has issued convertible notes. 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 2012 amounted nil (no profit earned in 2012), it has been released against retained earnings based on the shareholders resolution of 16 September 2011.

Revaluation surplus in the amount of 11 330 thousand euros results from 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

in thousands of euros	31.12.2012	31.12.2011
Arising from Pro Kapital Estonia sub-group	933	949
Arising from Pro Kapital Latvia sub -group	619	648
Total	**1 552**	**1 597**

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Note 21. Revenue

in thousands of euros	2012	2011
Revenue from sale of real estate	7 347	7 490
Rental revenue	1 021	4 138
Hotel operating revenue	6 336	4 719
Other services	1 374	1 102
Total	**16 078**	**17 449**

Note 22. Cost of Sales

in thousands of euros	2012	2011
Cost of real estate sold	6 059	9 685
Cost of providing rental services	858	1 928
Cost of hotel operations	3 568	4 333
Cost of other services	2 265	461
Total	**12 750**	**16 407**

in thousands of euros	2012	2011
Personnel expenses	1 329	736
Depreciation charge	739	510
Impairment of tangible and intangible assets	66	1
Inventory write-offs (Note 10)	62	3 028
Other	10 932	12 132
Total	**12 750**	**16 407**

Note 23. Marketing and Administration Expenses

Marketing expenses

in thousands of euros	2012	2011
Personnel expenses	106	38
Other	425	314
Total	**531**	**352**

Administration expenses

in thousands of euros	2012	2011
Personnel expenses	2 354	2 399
Depreciation charge	433	62
Amortisation charge	8	7
Gain on bargain purchase	0	-137
Land/real estate taxes (Note 1)	486	420
Other	2 608	2 906
Total	**5 889**	**5 657**

In 2012, average number of employees was 131 (2011: 118) and total remuneration cost incurred during 2012 was 1.97 million euros compared to 2.23 million euros in 2011 (included one-time premiums in amounts of 0.56 million euros for successful sale of Kristiine Shopping Centre).

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Note 24. Other Income and Other Expenses

Other income

in thousands of euros	2012	2011
Fines collected	23	21
Gain from sales of property, plant and equipment	0	4
Gain from sales of non-current assets classified as held for sale	0	54 057
Release of allowance for bad debt	212	7
Other	176	191
Total	**411**	**54 280**

Other expenses

in thousands of euros	2012	2011
Fines paid	27	18
Loss from sales of property, plant and equipment	2	0
Loss from sales of intangible assets	1	0
Write-off of property, plant and equipment	1	0
Fair value measurement of investment property	1 025	332
Provisions recognised	841	700
Allowance for bad debt	0	349
Other	35	56
Total	**1 932**	**1 455**

For 2012, the Group reported 1 025 thousand euros fair value adjustment on investment property, which amounts to additions to investment property made in 2012 and then adjusted to expenses in order to maintain fair value of investment property stated in the valuation reports (see Note 12).

Note 25. Finance Income and Cost

Finance income

in thousands of euros	2012	2011
Interest income	28	1 514
Income arising from transactions with participations in subsidiaries	0	2 736
Gain from foreign currency translation	1	520
Other	19	0
Total	**48**	**4 770**

Finance cost

in thousands of euros	2012	2011
Interest expenses	1 433	2 853
Interest expense of convertible notes (Note 18)	792	1 174
Interest expense of loans and overdrafts	641	1 433
Interest expenses initially capitalized PP&E	0	246
Loss from foreign currency translation	15	0
Other	17	24
Total	**1 465**	**2 877**

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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	2012	2011
Estonia	21%	21%
Latvia	15%	15%
Lithuania	15%	15%
Germany	15%	15%

Income tax expense as at 31 December 2012

in thousands of euros	Estonia	Latvia	Lithuania	Germany	Total
Profit (loss) before taxation (unconsolidated)	-4 919	-1 176	218	-153	-6 030
Income tax, statutory rate	0	14	37	0	51
Non-deductible expenses	0	57	10	0	67
Non-taxable income and tax incentive	0	-82	-4	0	-86
Tax loss utilized	0	-95	-38	-63	-196
Total income tax expense	**0**	**91**	**10**	**63**	**164**

in thousands of euros	31.12.2012	31.12.2011
Profit (loss) before income tax (consolidated)	-6 030	49 751
Estimated income tax respective to the tax rates	-86	129
Adjustments to estimated income tax:		
Non-deductible expenses (+)	81	152
Non-taxable income and tax incentive	-67	-924
Tax loss utilised	69	-20
Reversal loss carry forward (+)	35	686
Income tax expense	**32**	**23**
Effective tax rate	0.5%	0.05%
Deferred income tax expense (details as follows)	0	0
Deferred income tax returns (details as follows)	-196	-374
Effect on income statement	**-164**	**-351**
Income tax paid	**0**	**0**

Deferred income tax asset and liability (net) movements:

in thousands of euros	Accelerated tax depreciation	Revaluation of fixed assets	Deferred tax losses	Total
31 December 2011	**126**	**1 836**	**-370**	**1 592**
Effect on income statement:	32	0	-196	-164
Income tax expense of the reporting period	32	0	0	32
Income tax reclaims of the reporting period	0	0	-196	-196
Impact on equity	0	-34	0	-34
31 December 2012	**158**	[illegible]	[illegible]	[illegible]

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Deferred income tax balances

in thousands of euros	31.12.2012	31.12.2011
Deferred income tax liability (+)	1 858	1 962
Deferred income tax assets (-)	-464	-370
Total	**1 394**	**1 592**

Contingent corporate income tax

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

in thousands of euros	31.12.2012	31.12.2011
Group's retained earnings	43 672	49 624
Statutory tax rate applicable	21%	21%
Contingent CIT obligation	**9 171**	**10 421**

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 2012 and 31 December 2011.

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 2011: 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:

In period 01.01.2012 - 31.12.2012 (53 185 422 x 12/12) = 53 185 422
In period 01.01.2011 - 31.12.2011 (53 185 422 x 12/12) = 53 185 422

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

2012 (5 868 604)/ 53 185 422 = -0.11
2011 28 120 154 / 53 185 422 = 0.53

The convertible notes issued did not have a dilutive effect on earnings in 2012 and 2011, 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.

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

in thousands of euros	2012	2011
Owners holding significant influence		
Interest income	16	148
Received interest (-)	0	-764
Issued loans	475	477
Repaid loans issued (-)	0	-5 222
Granted claims	19 927	23 412
Acquisition of shares	0	42 811
Interest expense	153	945
Paid interest (-)	0	-764
Issued convertible bonds	0	3 062
Members of the Management Board and Council		
Salaries	851	1 155
Other related parties		
Goods and services sold	4 703	5
Disposal of real estate	4 640	2 615

There were no transactions other than remuneration paid to members of Management Board and Supervisory Council in 2012. Transactions with related parties specified were carried out with the Company's shareholders.

Receivables from related parties

in thousands of euros	31.12.2012	31.12.2011
Significant owners and owner related companies		
Current receivables from related parties	492	516
Total	**492**	**516**

Payables to related parties

in thousands of euros	31.12.2012	31.12.2011
Significant owners and owner related companies		
Convertible notes (including interests)	11 272	9 265
Payables to related parties	4 153	9 520
Total	**15 425**	**18 785**

Holdings in the Parent

in thousands of euros	31.12.2012	31.12.2011
Significant owners and owner related companies	**8.36%**	**8.61%**

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.

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Note 29. 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 2012:

	Carrying amount	Allocation by due dates	
		Within 1 year	2-5 years
Investment property	26 089	0	26 089
Property, plant and equipment	21 161	0	21 161
Inventories (assets held for sale)	48 191	3 121	45 070
Financial debt	27 357	11 692	15 665

In 2012, those items had no change in fair value and therefore no effect on income. Interest expense on financial debt was 1 433 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 2012, the breakdown of interest- bearing financial debt was as follows:

	31.12.2012	31.12.2011
Fixed rate liabilities	15 436	20 872
Variable rate liabilities (1-12 months)	4 226	4 402
Variable rate liabilities(12+ months)	7 695	10 190

The management does not expect significant changes in base interest rates as those have shown stability and interest rates remain low. Assuming 100 bp rises in EURIBOR, there would be no change in position of liabilities and interest expense would increase by 117 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 fulfill 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 current liabilities and current assets. As at 31 December 2012 the working capital of the Group's is positive and the current assets exceeded current liabilities by 3.2 times (as of 31.December 201` by 3.6 times).

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

		Repayment of liabilities			Repayment of liabilities	
	31.12.2012	Within 1 year	2-5 years	31.12.2011	Within 1 year	2-5 years
Bank loans	11 932	4 237	7 695	14 592	4 402	10 190
Other loans	4 153	4 153	0	9 600	0	9 600
Convertible notes	11 272	3 261	8 011	11 272	0	11 272
Trade payables	1 105	1 105	0	724	724	0
Other debt	1 926	1 926	0	2 249	2 249	0
Total	**30 388**	**14 682**	**15 706**	**38 437**	**16 975**	**21 462**

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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.

	31.12.2012	31.12.2011
Equity to total assets	66.0%	63.5%
Debt to total assets	34.0%	31.3%
Long term debt level	17.7%	18.9%

Pro Kapital Group persues 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 31 December 2012 and 31 December 2011

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Note 30. Lawsuits

Parent company

As at 31 December 2012 AS Pro Kapital Grupp had two pending court cases. Both court cases have been settled after the end of the reporting period.

On 27 May 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 assures 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 4 August 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 has not fulfilled the rental obligations to Aprisco B.V, therefore Aprisco B.V claims the payments according to the guarantee letter from AS Pro Kapital Grupp.

Aprisco B.V. has filed alternative claims to the court. Firstly, Aprisco B.V. claims the payment of caused loss in the amount of 2 300 thousand euros or in the amount stated by the court. As an alternative claim, Aprisco B.V. claims overdue rental payments in the amount of 904 thousand euros with accumulated interest for default or in the amount of 504 thousand euros with accumulated interest for default. On 31 August 2011 Aprisco B.V. changed its claim and claims the payment of caused loss in the amount of 2 300 thousand euros with accumulated interest for default, or in the amount stated by the court. As an alternative claim, Aprisco B.V claims overdue rental payments in the amount of 1 776 thousand euros and accumulated interest for default or in the amount of 1 409 thousand euros and accumulated interest for default.

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

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

The dispute was settled on 13 March 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 thousand euros by AS Pro Kapital Grupp. The settlement agreement was signed and the settlement amount of 1 000 thousand euros was paid by AS Pro Kapital Grupp. The amount is final; 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.

The settlement shall have a positive impact on the income statement in the amount of 409 thousand euros in Q1 as a provision in the amount of 1 409 thousand euros was formed in connection with the dispute as of 30 June.2012. The only and final payment to Aprisco amounted to 1 000 thousand euros.

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

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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 4 July 2012. On 27 August 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 808 thousands 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 13 March 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 at 31 December 2012 the parent company of Pro Kapital Estonia sub-group and its subsidiaries did not have any court cases. AS Täismaja is involved in one law suit as a third party.

Pro Kapital Latvia sub-group

As at 31 December 2012 the Pro Kapital Latvia sub-group had one pending court case and one court case in which the sub-group's subsidiary is involved as third party. After the end of the reporting period one court case reached a final decision, also one additional court case was initiated.

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 thousand Latvian lats smaller (approx. 86 thousand euros). The Company disputed the decision. The Administrative District Court left the claim unsatisfied. The company appealed, but on 28 September 2012 the Administrative Regional Court decided to reject the appeal. The Company submitted the cassation to the Supreme Court of Republic of Latvia. On 11 March 2013 the Supreme Court decided not to initiate the cassation proceeding and the decision of the Administrative Regional Court came into force, leaving the Tax Board decision in force.

Italian citizen Mr Antonio Sugaroni Ziemelu has started litigation against maintenance company (not belonging to Group companies) claiming personal damages in amount of 5 thousand Latvian lats 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 is involved in the proceeding as a third party (not defendant).

On 30 July 2012 the Property department of Riga's City Council issued a decision according to which buildings belonging to SIA "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 14 February 2013 appealed against the decision to the Administrative District Court asking for revocation of the decision. Proceeding is pending.

Pro Kapital Vilnius sub-group

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

UAB "Natalex" has filed a claim in the amount of 166 thousand Lithuanian litas (approx. 48 thousand 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 set-off with the penalty against UAB "Natalex". In April 2012 the court rejected UAB "Natalex" claim. UAB "Natalex" has appealed court decision.

In February 2012, UAB "Gatvių statyba" submitted the claim to the Vilnius district court requesting for 197 thousand Lithuanian litas (approx. 57 thousand 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 are ongoing.

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In 2012 PK Invest UAB has won the appeal court case against "Apskaitos ir Mokesciu sistemos" and will keep the deposit of 60 thousand Lithuanian litas (17 thousand euros) and litigation cost of 7 thousand Lithuanian litas (2 thousand euros) will be covered to PK Invest.

PK Hotel Management Services GmbH

As at 31 December 2012 PK Hotel Management Services GmbH (former Domina Tourismus GmbH) did not have any legal disputes.

During the reporting period it had five pending labour court cases, four of which were connected to the termination of the cleaning department of the hotel.

During the reporting period the Company won four labour court cases initiated by the former employees of the cleaning department and the conclusion of the court was that the termination of the employment contracts in those cases was according to law.

During the reporting period the Company also settled a labour court case with sales-manager of the hotel. Settlement was mutually beneficial.

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Note 31. 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

in thousands of euros	31.12.2012	31.12.2011
ASSETS		
Current Assets		
Cash and bank balances	58	419
Current receivables	5 364	3 162
Total Current Assets	5 422	3 581
Non-Current Assets		
Investments in subsidiaries	28 196	28 196
Non-current receivables from the Group entities	61 869	59 340
Property, plant and equipment	1	0
Total Non-Current Assets	90 066	87 536
TOTAL ASSETS	**95 488**	**91 117**
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	3 261	0
Current payables	12 978	3 732
Taxes payable	3	0
Short-term provisions	1 409	700
Total Current Liabilities	17 651	4 432
Non-Current Liabilities		
Long-term debt	8 011	11 272
Non-current payables to the Group entities	105 460	104 824
Long-term provisions	0	36
Total Non-Current Liabilities	113 471	116 132
Total Liabilities	**131 122**	**120 564**
Equity		
Share capital in nominal value	10 637	10 637
Retained earnings		
Accumulated profit losses	-40 084	-31 200
Loss for the financial year	-6 187	-8 884
Total equity	-35 634	-29 447
TOTAL LIABILITIES AND EQUITY	**95 488**	**91 117**

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Statement of Income

in thousands of euros	2012	2011
Operating income		
Revenue	268	554
Cost of sales	0	0
Gross profit	**268**	**554**
Marketing expenses	-218	-7
Administration expenses	-2 138	-2 227
Other expenses	-725	-700
Operating loss	**-2 813**	**-2 380**
Finance income and cost		
Finance income / cost from investments in subsidiaries	0	-55
Interest expense	-6 292	-5 203
Impairment loss from financial investments	0	-4 038
Other finance income and cost	2 918	2 792
Loss before income tax	**-6 187**	**-8 884**
Loss for the financial year	**-6 187**	**-8 884**

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Statement of Cash Flows

in thousands of euros	2011	2011
OPERATING ACTIVITIES		
Loss for the financial year	-6 187	-4 846
Adjustments:		
Depreciation of property, plant and equipment	1	1
Interest income and expense (net)	3 374	1 142
Change in receivables and prepayments	52	10
Change in investments	-49	-648
Changes in liabilities and prepayments	716	-2 564
Cash flow used in operating activities	**-2 093**	**-4 881**
INVESTING ACTIVITIES		
Additions to property, plant and equipment	-1	0
Additions to intangible assets	-8	0
Increase of share capital or acquisition of subsidiaries	0	-3
Separation of subsidiaries (demerger)	0	-3 198
Loans granted	0	-35 302
Repayments of loans granted	7 187	6 808
Interest received	489	511
Cash flows used in investing activities	**7 667**	**-31 184**
FINANCING ACTIVITIES		
Loans raised	630	41 494
Repayments of loans raised	-5 520	-3 365
Interest paid	-1 045	-1 870
Cash flows from financing activities	**-5 935**	**36 259**
Net change in cash	**--361**	**194**
Cash at the beginning of the year	**419**	**225**
Cash at the end of the year	**58**	**419**

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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 2010	**33 992**	**45 089**	**2 938**	**42 171**	**-1 992**	**122 198**
Decrease in equity	-2 081	0	0	2 081	0	0
Decrease in equity	-21 274	-45 089	-2 938	69 301	0	0
Transferred due to demerger	0	0	0	-142 761	0	-142 761
Allocation of net loss	0	0	0	-1 992	1 992	0
Result of the financial year	0	0	0	0	-8 884	-8 884
Balance as at 31 December 2011	**10 637**	**0**	**0**	**-31 200**	**-8 884**	**-29 447**
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	128 104
Adjusted unconsolidated equity 31 December 2011	**X**	**X**	**X**	**X**	**X**	**70 461**
Allocation of net loss	**0**	**0**	**0**	**-8 884**	**8 884**	0
Result of the financial year	**0**	**0**	**0**	**0**	**-6 187**	-6 187
Balance as at 31 December 2012	**10 637**	**0**	**0**	**-40 084**	**-6 187**	**-35 634**
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**	**65 937**

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Signatures of the Management Board and Supervisory Council to the Consolidated Annual Report 2012

The Management Board of AS Pro Kapital Grupp has prepared the management report, the consolidated financial statements and the loss allocation proposal for 2012.

Paolo Michelozzi	Member of the Management Board		29 April 2013
Allan Remmelkoor	Member of the Management Board		29 April 2013

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		29 April 2013
Pertti Huuskonen	Member of the Supervisory Council		29 April 2013
Petri Olkinuora	Member of the Supervisory Council		29 April 2013
Giuseppe Prevosti	Member of the Supervisory Council		29 April 2013
Renato Lorenzo Bullani	Member of the Supevisory Council		29 April 2013

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INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholders of AS Pro Kapital Grupp:

We have audited the accompanying consolidated financial statements (pages 35 to 84) of AS Pro Kapital Grupp (hereafter also "the Group"), which comprise the statement of financial position as at 31 December 2012, 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 2012, 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.

29 April 2013

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 2012 in the amount of 5 866 thousand euros to be cover by retained earnings.